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annual report
2004-05

A 3D coordinate system is depicted with three axes. The vertical axis points upwards, the horizontal axis points to the right, and the diagonal axis points towards the bottom-left. Each axis is represented by a thick black line with a white checkered pattern and ends in a black arrowhead.

growth paradigms

ETHANOL NEWS

Senate Panel Passes Larger Ethanol Mandate, California Waiver

2005-05-25 16:46 (New York) By Jay Newton-Small

May 25 (Bloomberg) - The U.S. Senate panel drafting energy legislation approved a mandate that states use 8 billion gallons of ethanol per year in gasoline by 2012, a 60 percent increase from the amount in the House version of the bill.

Chinese Province Orders Higher Usage of Ethanol Fuel

(Update2) 2004-11-02 04:03 (New York) By Rob Delaney and Koh Chin Ling

Nov. 2 (Bloomberg) - China has expanded mandatory usage of ethanol-blended fuel to stem a rising crude oil import bill and to reduce air pollution and boost rural incomes. The move may curb China's corn exports, analysts said.

New Study Finds Ethanol Cost-effective for U.S. Motorists

The American Coalition for Ethanol (ACE) recently announced that preliminary findings of a pilot study have confirmed that the use of ethanol fuel blends enables more miles to be traveled for less money. According to ACE, the research, which compared the fuel economy, cost per mile and driveability of several different blends of ethanol, finds that unleaded gasoline blended with 10 percent ethanol, or E10, offers mileage nearly identical to that of straight

Oilcos set to ink pact for ethanol supply

27 May 2005 (Hindustan Times). India

Public Sector Oil marketing Companies will soon sign a memorandum of understanding with Indian Sugar Mills Association for sustained supply of ethanol for ethanol blended petrol programme in ten States and four union territories from July. The Oil marketing Companies have invited a tender for sourcing indigenous....

South Africa Corn Growers Plan 2.45 Bln-Rand Ethanol Project

By Stewart Bailey and Antony Sguazzin

GrainSA, which represents most of South Africa's commercial corn farmers, plans to ask members to swap grain for shares in a 2.45 billion-rand (\$426 million) project to build seven plants to convert corn into ethanol to drain stockpiles, now at their highest in at least five years. "This is our chance to finance ourselves," Johann Hoffman, the chairman of GrainSA's ethanol study group, said at an annual growers' congress in Bothaville, 225 kilometers (140 miles) south west of Johannesburg. "We can use corn as the primary method."

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COMPANY INFORMATION

Board of Directors

Pramod Chaudhari - Chairman
Shashank Inamdar - Joint Managing Director
Ajit Lele - Joint Managing Director
Berjis Desai
Rakesh Jhunjhunwala
Dr. R. V. Chaudhari
Sivaramakrishnan Iyer
Venkatachala Datar

Company Secretary

Deepak Mogal

Registered Office

"PRAJ HOUSE",

Bavdhan, Pune 411 021

R & D Centre

Matrix - The Innovation Center

"PRAJ HOUSE",

Bavdhan, Pune 411 021

Manufacturing Facility

S. No. 748, Sanaswadi, Pune 412 207

Export Oriented Unit

Gat No. 105, Taluka Khed, Dist. Pune,

Alandi Markal Road, Dhanori, Pune 412 105

Auditors

B. K. Khare & Co.

Chartered Accountants,
706/708, Sharda Chambers,
New Marine Lines,
Mumbai 400 020

Internal Auditors

G. D. Apte & Co.

Chartered Accountants,
Dream Presidency,
1202/17E, Shivajinagar,
Off Apte Road,
Pune 411 004

Bankers

Bank of Maharashtra
State Bank of India
ABN Amro Bank N. V.
Canara Bank

Solicitors

J. Sagar Associates
Vakils house,
18, Sprott Road, Ballard Estate,
Mumbai 400 001

CHAIRMAN'S STATEMENT

Growth Paradigms

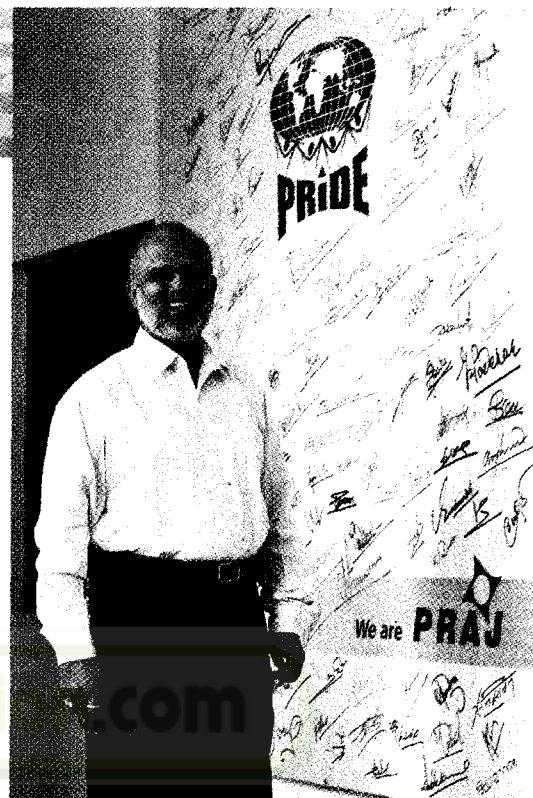
1. One that serves as a pattern or model.
2. A set of assumptions, concepts, values, and practices that constitute a way of viewing reality for the community that shares them, especially in an intellectual discipline.

Accelerated growth in a changing globalized market requires re-visiting and re-evaluating each paradigm and even shifting the paradigms in order to enhance competitiveness. At Praj, we have done just that. Dynamically evaluating each context and applying new set of rules to them has seen us attaining a higher growth rate in the past three years. How we evaluate and implement the paradigms to our business hereon will determine the future rate of success.

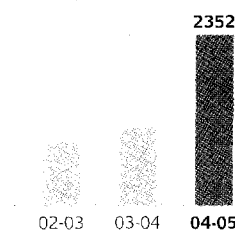
Attaining critical size

Extending our markets beyond the current regions and successfully entering into new markets may require us to attain critical size. Growing our top-line is one way of doing this. We have made a beginning. In the last three years we have achieved remarkable growth in turnover with the topline doubling in past one year itself.

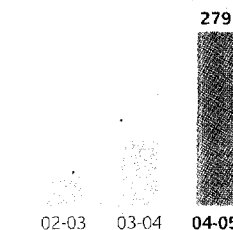
We set a new performance yard-stick and new benchmarks for ourselves. While doing so, we maintained our profitability inspite of increase in raw material prices as also appreciation of rupee.



Turnover Growth
in Rs. mln

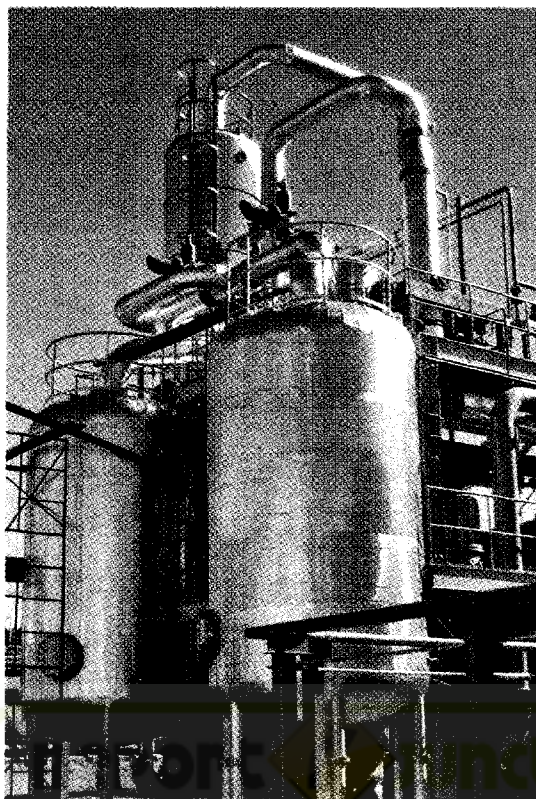


PBT Growth
in Rs. mln



Upscaling Capabilities

Another growth paradigm is related to capabilities. We upscaled in the shortest time in response to opportunities. Higher turnover meant larger work outlay along with more effective application of funds. We rose to the challenge and delivered. We handled more than double the number of projects, we handled more than twice the fabrication quantum,



the engineering and purchase activities also scaled up. But, it is our demonstration of handling larger capacity projects which is the true measure of scaling up. Just to give you some idea - we successfully commissioned a large capacity fuel ethanol plant while simultaneously engineering and supplying equipment for a number of plants overseas of higher capacities, including its related logistics.

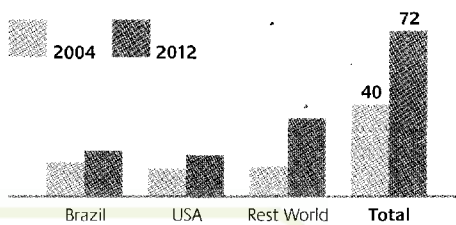
Pursuing Newer Geographies

Business from the international markets has been encouraging. We have clients from newer territories entrusting us with their projects. We are spreading our wings. We have really crossed the Rubicon. Newer territories do not daunt us, instead they act as inspiration to better ourselves. Every new geography means applying our capabilities to the hilt. It keeps us

on our toes. It also brings down our dependence on any one region.

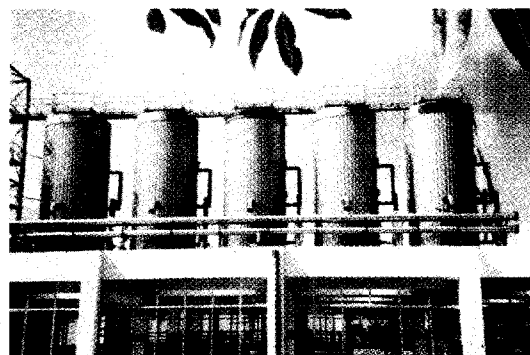
Production of fuel ethanol has grown more than 25%. A large part of this growth is from USA and from Brazil. While USA and Brazil will continue to register growth, the next phase of growth is likely to come from the developing countries with agri based economies and from those which have ratified Kyoto Protocol as in EU.

Regional perspective of fuel ethanol consumption in bin. ltrs.



Our pursuit of growth is not unilateral. Our Domestic business has been equally good and we have been able to maintain good market share in this region too.

With the announcement of fuel ethanol programme being rejuvenated, we expect the domestic region to be as vibrant as the international region: A good sugarcane season is ahead of us. This should give us the necessary raw material security. We have already seen that ethanol is truly very profitable for sugar



Praj Industries

mills with as much as 20% of the profit accruing on account of ethanol. In the potable alcohol segment also, we can see the signs of consolidation, which essentially means building production capacities.

In the brewery segment, we have become a dominant player. With consolidation in the brewery segment and the imminent growth due to entry of newer players, we expect the market to expand further.

Attracting New Customers

Over and above the repeat customer business of more than one-third on an average, we also acquired new customers. This is certainly a good sign. Existing customers demonstrate the ability of a Company to deliver high level of after sales service as well as being a testimony to the technology of the Company. New customers increase the market size and build higher level of competitiveness. I am glad to say that we have met the needs of both these customer segments successfully.

Feedstock Security

We had predicted that grain will become a strong contender to molasses for alcohol production in India. And, when the time came for distilleries to shift to grain as feedstock, Praj was ready with solutions and experience of working across a wide spectrum of grains like sorghum, rice, corn or wheat.



It is not just the generic knowledge of grain/starch based raw materials, but also the understanding of characteristic of each grain variety available in the local market which is critical to the process. Matrix, the R & D Center at Praj has done extensive testing of various raw materials from different parts of the world and built a data bank of its characteristics. Matrix has also worked with different enzymes to understand the reaction kinetics.

In the future too, we see new growth paradigms emerging. Growth can only occur if we change our way of looking at situations and the way in which we ourselves change situations.

We will seek out newer ways of growing. Be it extending our services and supply model to add turnkey services. Be it forming alliances in the international market to further our reach and our service levels. Be it organic or inorganic, growth is something we are committed to. At the core of the growth will be our domain knowledge and innovation.

A blue print for strategic imperatives and related preparedness is underway. Praj has engaged the services of experts to validate aspects related to newer markets and internal operations with a view to enhancing competitiveness. The strategy will always be guided by value growth – growth which creates greater value for our customers, associates and our shareholders.

Pramod Chaudhari
Chairman

DIRECTOR'S REPORT

To The Members of Praj Industries Limited,

Your Directors are pleased to present the 19th Annual Report and the Audited Statements of Accounts for the year ended 31st March, 2005, together with the notice of Annual General Meeting.

Performance

In the year under review, your Company has recorded a total income of Rs. 2383 million (previous year Rs. 1087 million) This represents an increase of over 119% when compared to the previous financial year. Profit Before Tax also increased from Rs. 108 million in FY 2003-04 to Rs. 279 million in FY 2004-05. This improved performance is attributable to growth strategies adopted by the management.

	(Rs. in million)	
	2004-05	2003-04
Turnover	2352	1065
Other Income	31	21
Total Income	2383	1087
Total Expenses	2104	979
PBT	279	108
PAT	218	81

Operations

The note on operations of the Company is included in Management Discussion & Analysis.

Dividend

Your Company has declared two Interim Dividends. The Company has paid first Interim Dividend of Rs. 3.60 per share (36%) on the equity shares in the month of November 2004. The Second Interim

Dividend of Rs. 7.20 per share (72%) on the Equity Shares has been declared in the month of April 2005 and disbursed in the month of May 2005. Thus the total dividend paid / provided for in the year is Rs. 10.80 per share (108%) on the equity share capital. Your Directors are of the opinion that these two dividends in total should be treated as final dividend for the year 2004 - 2005.

Bonus Shares

Your Directors have recommended Bonus Shares in the ratio of one share for every one paid up share held by way of capitalization of reserves, subject to approval of members.

Sub-division of Shares

Your Directors have recommended sub-division of shares. Accordingly, the existing share of Rs. 10/- will get converted into five shares of Rs. 2/-, subject to approval of members.

Corporate Business

a) Listing Fees :

Since SEBI has stipulated electronic filing of Annual Report, Corporate Governance Report, Financial Results, Shareholding Pattern etc. on its website www.sebidifar.nic.in, statements of your Company can be accessed at this website.

b) The Company's shares are listed on National Stock Exchange of India Ltd. and The Stock Exchange Mumbai. The Annual Listing Fees for 2005-2006 have been paid to both the Stock Exchanges.

c) Registrar & Transfer Agents :

Your Company has appointed Intime Spectrum Registry Ltd., C - 13, Pannalal Silk Mills Compound, L. B. S. Marg, Bhandup (West), Mumbai 400 07 as Registrar & Transfer Agents.

d) Electronic Shareholding & Trading :

As on 31st May, 2005, 99.13% of the Company's equity was in electronic mode. SEBI has directed the trading of the Company's script in electronic mode only, w.e.f. 15th March, 2000.

e) Subsidiary Company :

Pacecon Engineering Projects Ltd. (PEPL), and Praj Far East Pte Ltd. (PFE) are subsidiaries of your Company. Further, your Company has promoted a 100% subsidiary called Yaan eSites Ltd. (YES) during the year under review. YES will provide software and IT enabled solutions to the process industry beginning with the Ethanol sector.

As required under section 212 of the Companies Act, 1956, the accounts for the year ended 31st March, 2005 of the subsidiary companies are attached herewith together with statement under that section. Pursuant to Accounting Standard No. 21 the consolidated results of your Company after incorporating the results of its subsidiaries viz. PEPL, YES and PFE are enclosed.

Accounts

In conformity with the mandatory accounting standards, the significant accounting policies have been included in Schedule 19 (Item 1) of the accounts.

Particulars of Employees

During the year under review, there were no employees drawing remuneration in excess of the

limits specified under section 217 (2A) of the Companies Act, 1956.

Energy Conservation, Technology Absorption, Adaptation, Innovation :**a) Conservation of Energy :**

The operations of your Company are not energy intensive as the operations are limited to machining, metal working and finishing of a variety of equipment.

b) Technology Absorption, Adaptation, Innovation :

This is covered in Management Discussion & Analysis while discussing R & D activities of the Company.

Foreign Exchange Earnings & Outgo

Particulars regarding foreign exchange earnings are presented in Schedule 19 (Item 19) and outgo are presented in Schedule 19 (Item 17 & 18) of the Audited Accounts. Your Company has retained its status as a net forex earner.

Directors

Mr. V. A. Datar retires by rotation in terms of Article 82 of the Articles of Association of the Company and being eligible offers himself for re-appointment.

Mr. Berjis Desai retires by rotation in terms of Article 82 of the Articles of Association of the Company and being eligible offers himself for re-appointment.

Mr. Diwakar Nimkar resigned from the Board after retirement from active service of subsidiary company Pacecon Engineering Projects Limited. The Board wishes to place on record its appreciation for the contributions made by him during his tenure.

Directors Responsibility Statement

In accordance with the requirements of Section 217(2AA) of the Companies Act, 1956, the Board of Directors confirm that :

In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

The accounting policies which have been selected have been applied consistently and judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2004-05 and of the profit of the Company for that period;

Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

The annual accounts have been prepared on a going concern basis.

Corporate Governance

Your Company conforms to the norms of Corporate Governance as envisaged in the Companies Act, 1956 and in the Listing Agreement with the Stock Exchanges. A report on Corporate Governance, along with the certificate of compliance from the Auditors (attached separately), forms part of this report.

Auditors

a) Internal Auditors

The Internal Auditors, M/s G. D. Apte & Co., Chartered Accountants, Pune have conducted the audits periodically and submitted reports which have been considered while finalising the accounts of the Company by Statutory Auditors and Audit Committee.

b) Statutory Auditors

The Auditors, M/s B. K. Khare & Co., Chartered Accountants, 706/708, Sharda Chambers, New Marine Lines, Mumbai 400 020 retire at the conclusion of the 18th Annual General Meeting. They are eligible for re-appointment and have expressed their willingness to continue as Auditors, if re-appointed.

Acknowledgements

Your Directors wish to place on record their appreciation towards all associates including Customers, Collaborators, Government Agencies, Financial Institutions, Bankers, Suppliers, Shareholders, Employees and others who have reposed their confidence in the Company.

For and on behalf of the Board of Directors

PRAMOD CHAUDHARI
Chairman

Place : Mumbai

Date : 17th June, 2005


MANAGEMENT DISCUSSION & ANALYSIS

Management Discussion & Analysis

Overall Review

The Year 2004-05 was interesting in more ways than one for PRAJ.

and in the last year we saw many countries take the bold step of promoting renewable fuels policy. On one hand we saw countries in Latin America and the EU itself confirming their plans to go ahead with fuel ethanol, we also saw countries like India which had taken the bold step forward, re-evaluate its policy in light of the sugarcane crop failure in the country. It is moments like these that call for a holistic policy on renewable energy sources and the recent move to re-introduce lifting of ethanol for blending in petrol by the Indian Government is indeed a sign of its commitment to this.



Domestic
45%

Export
55%

Whilst on one side Praj was keenly establishing its leadership in ethanol plants & equipment overseas, the domestic market also kept pace. Growth in one market was not at the cost of the other. This gives an indication that we have gained the equitability (stable plank) that we desire for launching our growth plans.

Another interesting fact was that Praj gained newer customers while growing the confidence of existing customers as is evident in the higher repeat business. This augurs well for our ambitions of growing our market share in a growing market space.

In brewery plant & equipment business too, we consolidated our position by clinching Greenfield and Brownfield orders.

Overall, we saw our business volumes grow as also the profits!

Operating Environment & Performance

During the year, we saw an unprecedented rise in price of commodities like oil and steel. This obviously affected every aspect of economic activity across the world.

Oil is a double-edged sword as far as Praj's business is concerned. Whilst on one side it promotes alternative renewable fuels which act as a positive lever for ethanol plant & equipment business, on the other side it creates inflationary pressures that can curtail investment. Oil prices like these cause nations to evaluate their vulnerability to such phenomenon



Resources

Growth requires different level of skills and re-sourcing.

To address a higher volume of exports business, we established an EOU facility which augmented the current manufacturing capacity of over 2000 tonnes of fabricated equipment.

As part of our growth initiatives we have added one more location to our international network. The Sharjah office addresses clients in North Africa and Middle East. This region has already begun contributing to the order book.

Outsourcing will continue in order to derive flexibility.

Information Technology will play more and more vital role in Praj's globalized business. Praj is evaluating