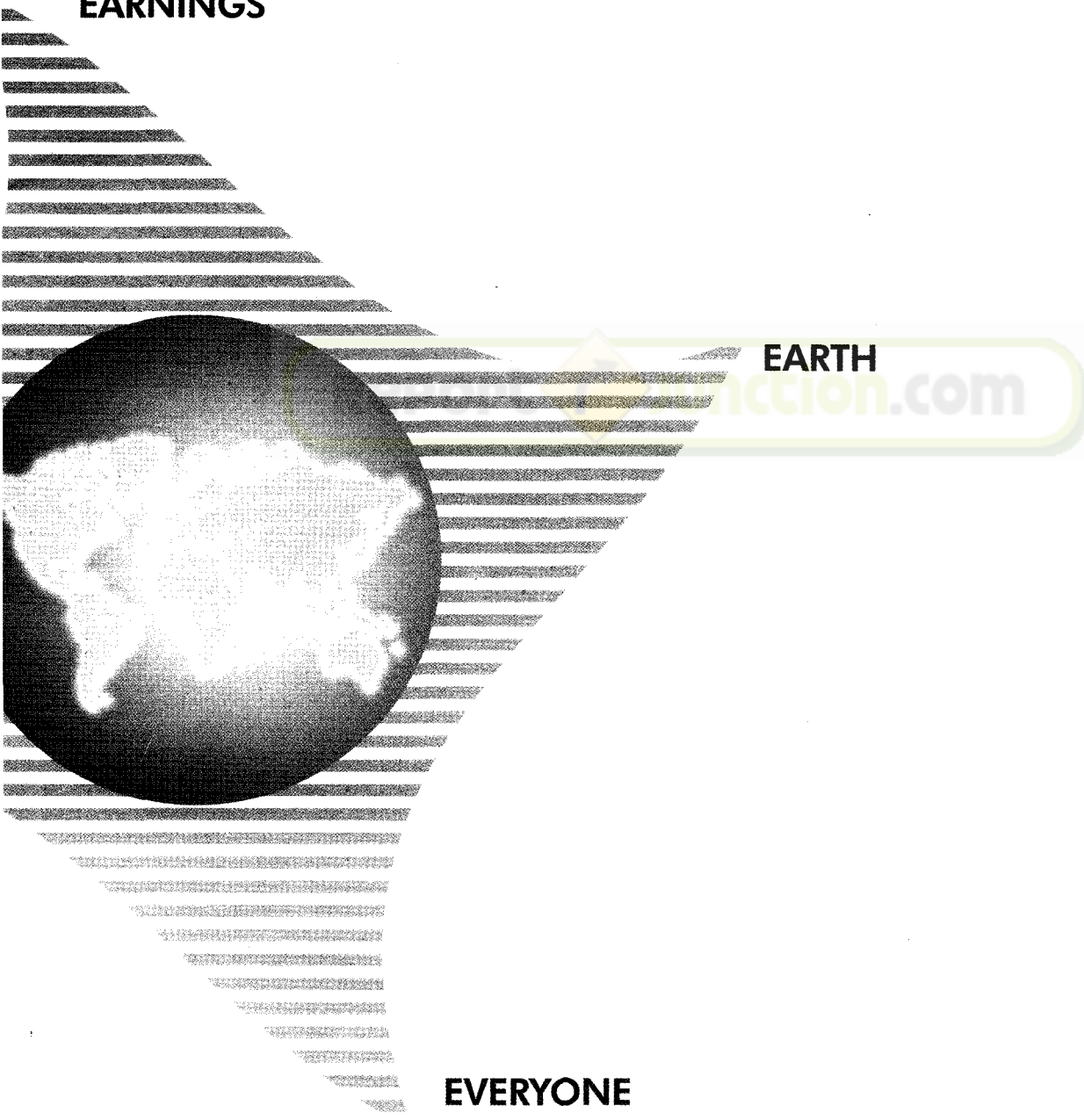


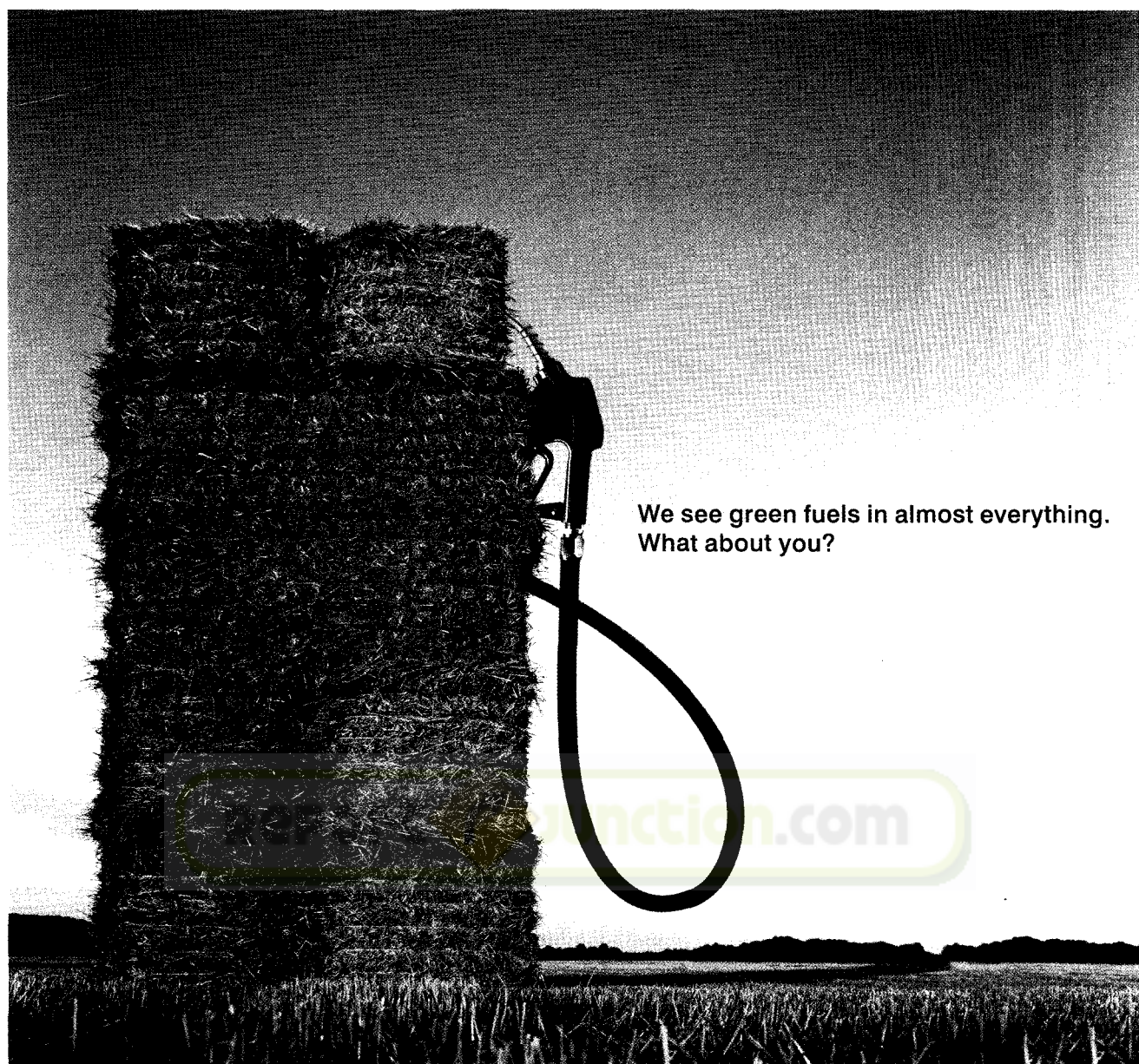


21st annual report 2006-2007

EARNINGS



EVOLVE



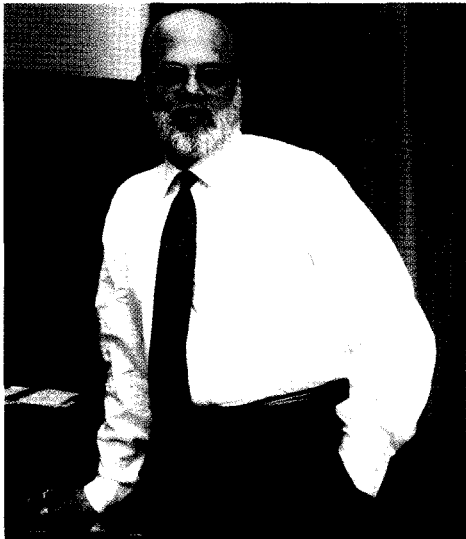
Only a passionate mind with vision can quickly relate a haystack to green fuels like ethanol. All these years, when the rest of the world was busy consuming rapidly depleting fuels, engineers at Praj were working on ideas to create ethanol - a renewable, alternate fuel. Call it visionary, proactive or pure foresight.

For like-minded individuals at Praj, it's always been passion for green fuels. A passion for a greener earth. Today, we're not just a leading ethanol technology company, but a global player at that. With clients in over 35 countries across 5 continents. Today, Praj is perhaps the world's single largest supplier of ethanol technology, plant and equipment. With cutting-edge expertise to virtually convert anything into useful ethanol. Be it cane-molasses, cane juice, sugar-beet, corn, wheat, sorghum, tapioca, or future energy crops like corn stover, straw, bagasse or rice husk to say the least. But what drives us ultimately, is our passion for green fuels. And considering the fact that you're still reading this, you too share the same passion. In which case, together we will create a better tomorrow.

Company Information

Board of Directors	: Pramod Chaudhari, Executive Chairman Shashank Inamdar, Managing Director Venkatachala Datar Berjis Desai Sivaramakrishnan Iyer Rakesh Jhunjunwala Anil Joshi Parimal Chaudhari Daljit Mirchandani (w.e.f. 18/04/2007)
Company Secretary	: Deepak Mogal
Auditors	: B. K. Khare & Co.
Internal Auditors	: G. D. Apte & Co.
Bankers	: a) Bank of Maharashtra b) State Bank of India c) ABN Amro Bank N. V. d) HSBC Ltd.
Solicitors	: J. Sagar Associates Vakils house, Ballard Estate, Mumbai 400 001.
Registered Office	: "PRAJ HOUSE", Bavdhan, Pune 411 021.
R & D Centre	: Matrix - The Innovation Center Village Urwade, Tal. Mulshi, Dist. Pune 412 108.
Manufacturing Facility	: a) Sanaswadi, Pune 412 207, Maharashtra. b) Rabale, Navi Mumbai 400 701, Maharashtra. c) EOU: Dhanori, Pune 412 105, Maharashtra. d) Kandla SEZ: Gandhidham, Kutch 370 230, Gujarat.

Chairman's Note



Evolve - The Fourth Dimension

"Every thing that has ever happened in human history, has happened because of us-mankind. All the triumphs and all the tragedies, all the wars and all the famines, all the major advances....its (the earth) our only home. And that is what is at stake, our ability to live on planet Earth, to have a future as a civilization. It is our time to rise again to secure our future." Al Gore in An Inconvenient Truth.

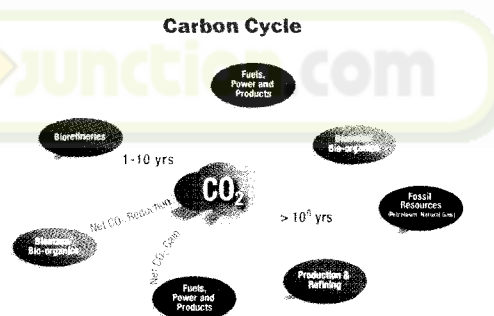
In the evolution of our planet, climate change has become the toughest challenge to overcome. It is time we take serious note and work urgently towards a solution.

In the past one year, I have come across countless articles, films and other journalistic work which keeps warning us of the effects of climate change.

There are as many who spurn these arguments. But truth is, we are already seeing the signs right next to us and there is no time to argue. We need to act now.



I am no expert on this topic, but I would like to think that in a small way, our Company Praj, is making a difference. In fact, you too are making a difference. Because, bioethanol and biodiesel are



part of the solution which will help us overcome the challenges of global warming. Your confidence in our efforts to promote biofuels suggests that you have already taken the step towards adopting this cause. We hope you continue, inspite of the detractors, to expand your green goals.

Why has climate change become so prominent in all our discussions? Why now? How does it affect us? What is at stake?

It is when we experience magnitude of the disaster, closer to our homes, is when we wake up to the effects of this phenomenon. At least, I would like to think that we have woken up and perhaps we will now act in a more balanced and sustainable manner to curtail the effects of greenhouse gas syndrome.

At Praj, we have been examining our operations in the context of the *Five Elements* of nature, which give us life. In Indian Vedas (Books of Knowledge) they are referred to as the 'Panchmahabhoota' ('Panch' for five and 'Mahabhoota' for forces) These elements are Air, Earth, Fire, Water and Sky (Universe).

In fact, these are the very elements which become imbalanced due to global warming. These are also the very elements which form the core of our business.

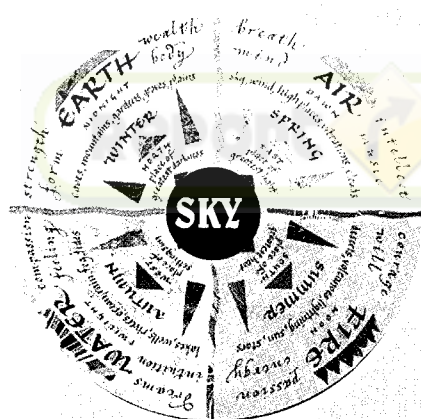
For example, Air is one of the pivotal points in our context. Biofuels help mitigate air-pollution. Studies after studies have proven the ability of

have undertaken, the thought behind every action always leads us to finding solutions for mitigating environment degradation.

The starting point of our journey is ethanol which we are now extending to include biodiesel technology solutions, thus increasing the play in the biofuels arena.

Ethanol has found worldwide acceptance as an eco-friendly fuel. It is interesting to note that ethanol is being made mandatory inspite of the debates on fuel vs. food, in many developed as well as developing countries. In a manner of speaking, ethanol is out of this debate and moving in a direction which will make it more immune to such discussions. How? The tipping point is cellulosic ethanol which will expand the feedstock for ethanol production thereby driving greater prosperity for farming communities. This will, in turn, create greater job opportunities and growth in rural economy.

Cellulosic ethanol is made from agricultural waste like switchgrass, bagasse, straw, wood chips etc. which contain cellulose, a complex carbohydrate. The process of cellulose to ethanol production is near commercialization. The challenge is in



biofuels in bringing down levels of noxious gases and in balancing the carbon cycle.

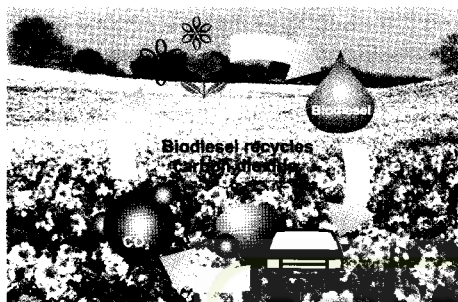
But, providing solutions for process plants also imposes a responsibility upon us - the responsibility to use lesser resources while increasing the yields, thereby driving efficiency. We do so in the water and wastewater management systems we provide and in driving down energy consumption of process plants supplied by us.

As corporate citizens too, we have been looking at our social responsibility projects from the point of view of environment. Be it education (which is the starting point) or the Nalla Park project we



improving the efficiency levels where the cost of production will be even lower than the present raw materials in use. Substantial R & D work is already under way and Praj is pursuing this technology with speed. It is just a matter of time before a full-fledged plant is installed.

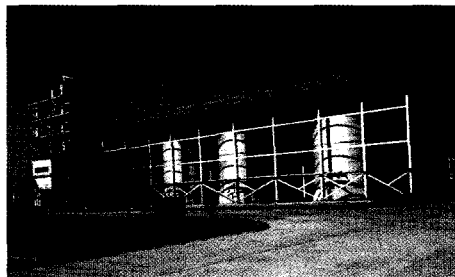
Now, a little about Biodiesel. Biodiesel is made from non-edible oil seeds or waste oil. This could be Jatropa, Karanja or waste oil from restaurants, etc. Typically, the oil is extracted from the seeds and passed through a process wherein it can be converted into biodiesel. Biodiesel can be blended with ordinary diesel in any proportion or it can be used 100% as fuel. A study has concluded that biodiesel emits 78% less CO₂ into atmosphere.



Praj has developed the biodiesel technology in house. Our competitive strength will lie in serving an existing client base, many of who will look at expanding into this space. Also, we have expertise in handling different agri-based raw materials which serve as an added strength.

EU, Brazil and USA are the large markets for biofuels. We already have a presence in EU and USA and further, we will be expanding into Brazil. We have announced our intentions of establishing a base through acquisition route. Our presence in Brazil will provide us with a firm traction in South America. Brazil is also at an interesting stage in its ethanol story and as technology providers we feel that Praj can play an important role.

As shared earlier, our presence in EU is going to be strengthened with the proposed JV with Aker Kvaerner. With a 60% holding, Praj will provide management guidance to the JV. We expect the JV to enhance marketshare and build on the customer confidence we have already gained through our earlier work with Companies like

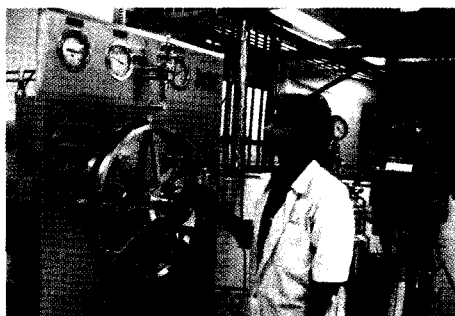


British Sugar, Biowanze (Suedzucker Group) and Danisco.

Meanwhile, our existing strong holds in India and in South East Asia continue to provide us with the stability and the firm grounding. We continue to be the dominant force in these growing markets.

We are ready to take on newer challenges. We have set this year on course with sizeable orders on hand. This, by no means, is the end. It is just the beginning of our onward journey towards Rs. 1000 crores mark and beyond.

In doing so, we will not lose our ability to extend maximum benefit to our customers. We have



made our organization more fleet-footed and flexible so that every customer derives value from his association with us. In fact, every customer should derive 'value plus' from us and that is how this industry will go forward.

The 'value plus' is from the innovations we introduce. In fact, our aim is to radically change the pace of innovations. We are investing in a world class R & D facility, very close to our

Engineering Centre and Corporate Office in Pune. The facility will churn out cutting edge solutions for application of industrial biotech to vexing problems in environment and energy. The R & D centre will be fully operational before the year end. Meanwhile, developmental work goes on at the existing facility.

It is my privilege to be associated with a field that will define, albeit in a small way, how our planet will survive the onslaught of global warming. Me and my colleagues will make every effort to work towards our goals which go beyond numbers, the goal to sustain life on our planet.



To demonstrate our commitment to this goal, we have adopted a visual symbol, 'The Sustainability Metrics' which will guide us.

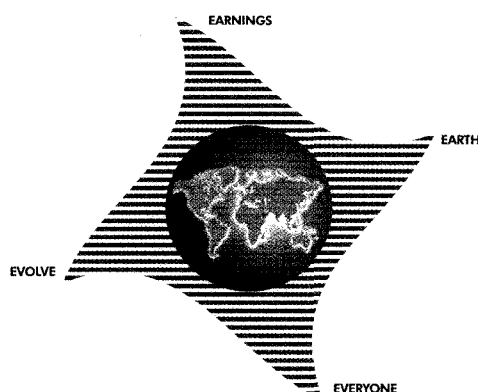
In our journey so far, our growth model has been more or less organic. Here on, we will not only intensify organic growth but also seek inorganic growth avenues to express our leadership in biofuels. We are working towards a clear and undisputed leadership in ethanol technology. We will aim to increase the share of the business as well as the market. We will seize every opportunity to demonstrate our technological prowess.

On a broader scale, it implies how we as an enterprise and as individuals can work towards balancing out the fall-outs of evolution of our life on this planet. We aim to be an enabling force in this fight for survival by offering superior, value creating technologies for sustainable growth.

Praj - enabling sustainable growth through green technologies.

Pramod Chaudhari
Executive Chairman

April, 2007



The Sustainability Metrics

The Sustainability Metrics represents interconnectedness of four elements of our performance. The four elements being Earth (planet), Everyone (people), Earnings (profit) and Evolve (change). The fourth dimension 'Evolve', represents the process of change. Change, in turn, is the function of acceleration and time.

This green quadrant is a symbol of our commitment to deliver on our promises.

Director's Report

To The Members of Praj Industries Limited,

Your Directors are pleased to present the 21st Annual Report and the Audited Statements of Accounts for the year ended 31st March, 2007, together with the notice of Annual General Meeting.

Financial Performance

In the year under review, your Company has recorded a total income of Rs. 6,164 million (previous year Rs. 2,700 million). This represents an increase of over 128% when compared to the previous financial year. Profit Before Tax also increased from Rs. 325 million in FY 2005-06 to Rs. 1,104 million in FY 2006-07. There is a decided upward mobility in the key performance parameters. The Quantum Growth Strategy employed by the management has resulted into this performance level in the very first year. In addition, the management has shown great flexibility in seizing opportunities in new (overseas) markets where larger capacity plant orders have resulted into better realization per transaction. The composition of orders in terms of technology and services has also been significant.

	(Rs. in million)	
	2006-07	2005-06
Turnover	6,075	2,675
Other Income	89	25
Total Income	6,164	2,700
Total Expenses	5,060	2,375
PBT	1,104	325
PAT	865	244

Dividend

Your Company has been consistently paying dividend over the last four financial years. The Company has paid first Interim Dividend of Rs. 0.90 per share (45%) in the month of November, 2006. The Second Interim Dividend of Rs. 1.80 per share (90%) has been paid in the month of March, 2007. Thus the total dividend paid for the year is Rs. 2.70 per share (135%). Your Directors are of the opinion that these two dividends in total should be treated as final dividend for the year 2006-2007.

Increase in Authorised Share Capital

Your Directors have proposed to increase existing Authorised Share Capital of the Company from Rs. 270,000,000/- (Rupees Two Hundred

Seventy Million Only) divided into 135,000,000 (One Hundred Thirty Five Million Only) Equity Shares of Rs. 2/- (Rupees Two Only) each to Rs. 900,000,000/- (Rupees Nine Hundred Million only) divided into 450,000,000 (Four Hundred Fifty Million) Equity Shares of Rs. 2/- (Rupees Two Only) each ranking parri-passu in all respects with existing equity shares of the Company.

Transfer to Reserves

Your Company has proposed to transfer Rs. 87.50 Million to the General Reserve out of the amount available for appropriations. An amount of Rs. 799.20 Million is proposed to be retained in the Profit and Loss Account.

Bonus Shares

Your Directors have recommended Bonus Shares in the ratio of one equity share for each equity share held by way of capitalization of Share Premium, subject to approval of the members. A resolution for capitalization of reserves and issuing bonus shares is proposed in the ensuing Annual General Meeting for the approval by the members.

Increase in Paid up Share Capital

As reported in the last Annual Report your Company has allotted Equity Shares to specified overseas investors in the month of May 2006 in accordance with SEBI Guidelines for Preferential Issue 2000, as amended from time to time. The number of shares allotted under Preferential Issue are 2,433,375.

During the year your Company has allotted 354,171 shares on exercise of options under the Employee Stock Option Plan 2005.

Consequent to this the Issued, Subscribed and Paid-up Share Capital of your Company increased from 81,112,520 shares to 83,900,066 shares as of March 31, 2007.

Warrants :

During the year under review your Company has placed 7,300,125 convertible warrants with overseas Investor, Directors and Promoters on preferential basis under the applicable SEBI Guidelines. These investors have paid upfront 10% of the amount in the month of May 2006 and the remaining 90% amount is to be paid within 18 months.

Proceeds of Preferential Issue

As reported in the last annual report your Company has issued shares and warrants on preferential basis to specified overseas investors and promoters and directors. Your Company has mobilized total funds to the extent of Rs. 380 Million during the year. Out of this, Rs. 317 Million is deployed towards expansion of R & D, other manufacturing facilities and acquisition of US based Company. The balance of Rs. 63 Million is invested in liquid mutual funds and banks.

Acquisitions

In September 2006, your Company acquired C. J. Schneider Engineering Co. Inc, based in Omaha, Nebraska, USA.

During the year under review your Company has invested in a Thai Company, Praj Far East Co. Ltd.

Assignment

During the year the erstwhile subsidiary of the company Process IT LLC USA, which was engaged in development and marketing of IT enabled client information system and related engineering package for ethanol industry, is dissolved. As per the understanding with the other stakeholders, the IPR relating to the software system mentioned above have been assigned to PRAJ for the value of Rs 20.12 Million.

Credit Rating

Your Company is pleased to inform you that ICRA has reaffirmed the rating of "A1+" signifying highest credit quality to short term debt of your Company.

Subsidiaries :

Pacecon Engineering Projects Ltd. (PEPL), Praj Far East Pte Ltd. (PFE), Yaane Sites Ltd. (YES) and C. J. Schneider Engineering Co. Inc (CJS) are subsidiaries of your Company

Particulars required as per Section 212 of the Companies Act, 1956 :

Your Company has received approval from the Department of Company Affairs, Ministry of Finance, New Delhi vide their letter No. 47/33/2007 CL - III dt. 4/4/2007 granting an exemption from attaching the audited accounts of the subsidiaries to the Annual Accounts of your Company, for the financial year ended 31st March,

2007. As per the terms of the letter, a statement containing brief financial details of the Company's subsidiaries for the year ended 31st March, 2007 is included in the annual report. The annual account of these subsidiaries and the related detailed information will be made available to any member of the Company / its subsidiaries seeking such information at any point of time and are also available for inspection by any member of the Company / its subsidiaries at the registered office of the Company.

Corporate Governance

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, Management Discussion and Analysis Report (Annexure 2), Corporate Governance Report and Auditors Certificate on Corporate Governance (Annexure 3) are annexed to this report.

Directors

Mr. Daljit Mirchandani was appointed as Additional Director with effect from 18th April, 2007. He holds office upto the date of the ensuing Annual General Meeting. He is eligible for appointment.

Ms. Parimal Chaudhari was appointed as Additional Director with effect from 21st July, 2006. She holds office upto the date of the ensuing Annual General Meeting. She is eligible for 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. V. A. Datar retires by rotation in terms of Article 82 of the Articles of Association of the Company and is not seeking re-appointment. During his tenure over the past 15 years, Mr. Datar has provided active guidance and expertise. His experience and wisdom have been invaluable assets to the Company. The Board wishes to place on record its appreciation for the contributions made by him in the Company's progress.

Dr. R. V. Chaudhari resigned from the Board w.e.f. 26th March, 2007 on account of new overseas assignment accepted by him. The Board wishes to place on record its appreciation for the contributions made by him during his tenure.

Auditors

The Auditors, M/s B. K. Khare & Co., Chartered Accountants, have completed almost a decade as Statutory and Tax Auditors of your Company. In light of the very rapid expansion of your Company's operations and the resulting challenge to manage the same, your Board felt that the expertise of M/s B. K. Khare & Co. be utilized for strengthening internal systems and processes of the Company by appointing them as Internal Auditors of your Company. M/s B. K. Khare & Co. shall continue to be Tax Auditors of your Company. Accordingly, your Board recommends that M/s BSR & Co., Mumbai be appointed as the Company's new Statutory Auditors. Hence the resolution at Item No. 4 of the notice of Annual General Meeting is recommended for your approval.

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 2006-07 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.

Employee Stock Option Plan

In order to attract and retain the best talents, your Company has Employee Stock Option Plan (ESOP) to recognize and reward performance. The information to be disclosed as per SEBI

(Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 is annexed to this Report (Annexure 1).

Your Company currently has two plans in operation for rewarding the employees, namely, ESOP I and ESOP II.

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 18 (Item 21) and outgo are presented in Schedule 18 (Item 19, 20 & 22) of the Audited Accounts. Your Company has retained its status as a net forex earner.

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

Executive Chairman

Place : Pune

Date : 27/04/2007