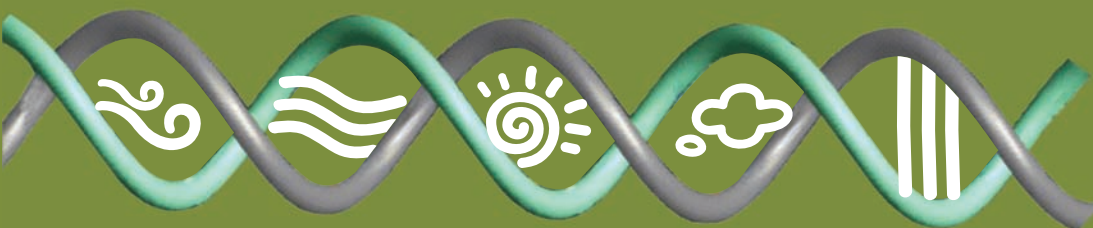


Annual Report 2009-10



Stronger Alignment with Sustainability



Vision

We aim to be the most preferred organization for all stakeholders through environment friendly, sustainable solutions that can make the world a better place.

Mission

- Develop and deliver cost-effective, safe, clean and reliable solutions that will maximize prosperity of our customers.
- Promote and nurture a culture of innovation, intrapreneurship and diversity that realizes the potential of each individual.
- Be a socially responsible corporate citizen.
- Create wealth for our stakeholders.

Values

- Integrity
- Intrapreneurship
- Innovation
- Respect

Contents

1

Company Information

2

Chairman's Statement

4

From the Desk of CEO &
Managing Director

5

Directors' Report

7

Management Discussion
& Analysis

11

Sustainability Report

14

Report on
Corporate Governance

29

Praj at a Glance

30

Auditors' Report

34

Balance Sheet

35

Profit & Loss Account

36

Cash Flow Statement

38

Notes to Accounts

45

Consolidated Accounts

68

Notice

Company Information

PRAJ INDUSTRIES LIMITED

| | | |
|--------------------------|---|---|
| Board of Directors | : | Executive Directors : Pramod Chaudhari, Executive Chairman Shashank Inamdar, CEO & MD |
| | | Non-Executive Directors : Anil Joshi Berjis Desai Kishor Chaukar Parimal Chaudhari Rajiv Maliwal Sivaramakrishnan Iyer Utpal Sheth |
| Company Secretary | : | Deepak Mogal |
| Auditors | : | B.K. Khare & Co. |
| Internal Auditors | : | Khare Deshmukh & Company |
| Bankers | : | Bank of Maharashtra State Bank of India Royal Bank of Scotland (Formerly ABN Amro Bank N.V.) HSBC Ltd. |
| Solicitors | : | J. Sagar Associates, Mumbai |
| Registered Office | : | "PRAJ HOUSE", Bavdhan, Pune 411 021. India |
| R & D Center | : | Praj Matrix – The Innovation Center Gat No. 402, 403, 1098, Village Urwade, Tal. Mulshi, Dist. Pune. India |
| Manufacturing Facilities | : | S.No. 748, Sanaswadi, Pune 412 207. India Gat No. 745, Sanaswadi, Pune 412 207. India |
| Export Oriented Unit | : | Gat No. 105, Alandi Markal Road, Dhanori, Taluka Khed, Dist. Pune 412 105. India Kandla SEZ, Gandhidham, Kutch 370 230, Gujarat. India |
| Presence in | : | India, Thailand, The Netherlands, USA, Brazil & UAE. |

Chairman's Statement



Aligning with Sustainability

Aligning with sustainability does not merely come from offering technology. It also comes from holistically driving the agenda. We have spelt this out in our **Sustainability Metrics** wherein the three **Es** – **E**veryone (People), **E**arth (Planet), **E**arnings (Profit) together drive the fourth dimension **E**volve (change) which in turn leads to growth. I can proudly say that we are one of early ones to adopt the **Four E** concept for understanding the interplay of these factors on the performance of the Company.*

Aligning with Sustainability demands us to draw a road map. The directions are set through **Innovation, Entrepreneurship and Education**. We are already addressing each of these facets at Praj. In some, we may have scored high and in some we have a distance to cover. But, the attempt has been to balance each one so that we can preserve the core and create a 'built-to-last' organization.

Our core in terms of innovation remains robust. This is borne out by the progress made on the Cellulose-to-Ethanol program being carried out at **Praj Matrix – The Innovation Center**. In a matter of one year, we have achieved significant milestones and are exploring scale up. This is documented in the Management Discussion and Analysis. Our Evaporation followed by Incineration system for wastewater treatment in distilleries is another testimony to our commitment to innovation. We will continue to work with this spirit.

Our entrepreneurial spirit is alive and thriving. Our entry into water and wastewater systems gives credence to this fact. Environment has been the steering thought, so it was very natural for us to venture into water and wastewater treatment, another dimension of cleantechology.

(* Annual Report 2006-07)



We will continually explore new avenues of business which will provide high growth potential. We are presently working on programs through Praj Matrix in biochemicals and biomaterials which will deliver high value products. In biochemicals, we have already made a start with bioconsumables for fermentation industry where we are expanding geographically. This will also provide us with annuity business. As part of the sustainability agenda, we have always been focused upon basic elements of life addressing water, air, earth, fire and ether.

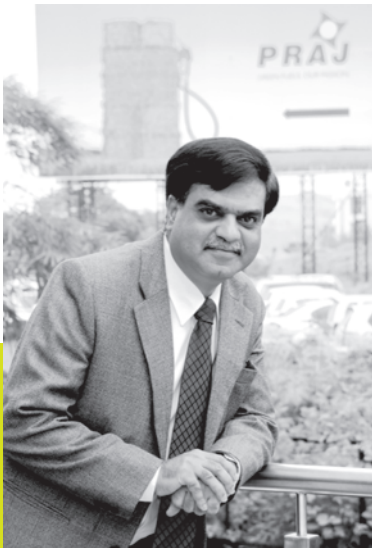
We believe in sustainability of business and performance. It is a challenging task to ensure course correction, especially against adverse economic conditions. Despite some slowdown in the growth trajectory, we continue to work towards sustaining shareholders' interest. I believe that our core business will regain momentum and we shall soon be back on track.

Lastly, *Alignment with Sustainability* is not all about business and commerce. We have also designed our Sustainability Agenda to include CSR activities, activities related to Health, Safety and Environment and our Human Resources policies.

Alignment with Sustainability is all about business and beyond business.

Pramod Chaudhari
Executive Chairman

Pune, May 2010



From the Desk of CEO & Managing Director

Looking Forward & Onwards

The FY 2009-10 was a year where your Company demonstrated resilience which saw it safeguarding the interest of the Company and its shareholders in the aftermath to a rather unprecedented economic turmoil. The situation continues to be dynamic and unpredictable as some of the recent events show.

During the year we made every attempt to be in step with the times. We have tightened our belt on commercial and financial practices. You will observe that we have brought down the debtors days and reigned in the inventory levels. We have observed that the Company has benefited significantly through use of techniques and methods aimed at improving operational efficiency. We continue to employ new techniques towards this end.

At the same time, we have kept an eye on our growth objectives. We used this period to re-evaluate our growth strategy. Our strategy for growth is a blend of increase in current business reach, moving into adjacent spaces, exploring new and diverse opportunities. We have enhanced our scope in current businesses by extending into auxiliary areas, thereby helping clients reduce investment risk. We are fully prepared to take on such assignments and are already pitching for the same.

We have moved into adjacent spaces like water & wastewater treatment systems and customized engineering and manufacturing where we offer equipment for industrial processes. We are actively pursuing business opportunities in these areas.

New ideas and diverse opportunities are continually being scanned. We hope to give shape to some of these ideas in the coming year.

As a knowledge driven Company, quality of human capital is critical. While we had made investment into human resources by way of addition to talent pool in the past, we have also been focusing on enhancing the productivity of the same through various initiatives including stronger performance driven systems and talent development programs. The ReInvent program launched in the Company aims at empowerment, intrapreneurship and institutionalisation. We will continue to build a strong team for a strong brand equity.

Our foremost agenda for the coming year will be to consolidate our position in our current businesses while leveraging our global brand for new business lines, thereby ensuring the interest of all stakeholders.

Shashank Inamdar

Pune, May 2010

Directors' Report

To The Members of Praj Industries Limited,

Your Directors are pleased to present the 24th Annual Report and the Audited Statements of Accounts for the year ended 31st March, 2010, together with the notice of the Annual General Meeting.

Financial Results

In the year under review, your Company has recorded a total income of Rs. 6447 million (previous year Rs. 7957 million). While the total income decreased by 19%, Profit before Tax decreased by 23% to Rs. 1231 million (previous year Rs. 1608 million). The performance was impacted by adverse global market conditions, against which your Company's performance can be considered modest.

(Rs. in million)

| | 2009-10 | 2008-09 |
|----------------|---------|---------|
| Turnover | 6023 | 7719 |
| Other Income | 424 | 238 |
| Total Income | 6447 | 7957 |
| Total Expenses | 5216 | 6349 |
| PBT | 1231 | 1608 |
| PAT | 1139 | 1298 |

Dividend

The Board of Directors had declared an Interim Dividend of Rs. 1.44 per share on Face Value of Rs. 2/- per share (72 %) for the financial year 2009 – 2010. The Board has decided not to recommend any further dividend for the Financial Year 2009-2010.

Credit Rating

- CRISIL has reaffirmed "P1+" rating to Company's short term banking facilities which signifies that the degree of safety regarding timely payment of instruments is very strong.
- CRISIL has also upgraded its rating of the Company's long-term bank facilities to 'AA/Stable' from 'AA-/Stable'. The "AA" rating signifies high safety with regard to timely payment of long-term financial obligations.

Subsidiaries

Pacecon Engineering Projects Ltd. (PEPL), BioEnergy Europa B. V., Netherlands, Praj Jaragua Bioenergia S.A., Brazil and Praj Far East Co. Ltd., Thailand are subsidiaries of your Company and are operating in their respective areas.

During the year under review, your Company divested its shareholding in Praj Schneider Inc., USA. Consequently, it ceases to be a subsidiary of your Company. This decision was taken keeping in mind the need to re-structure its business in North and

South America. This led the Company to incorporate a new wholly owned subsidiary in Texas, Houston called Praj Americas Inc.

Your Company has applied to the Central Government for exemption from attaching the audited accounts of the subsidiaries to the Annual Accounts of your Company, for the financial year ended 31st March, 2010. The said application is under process and final approval letter is awaited. A statement containing brief financial details of the Company's subsidiaries for the year ended 31st March, 2010 is included in the annual report. The annual accounts of these subsidiaries will be made available for inspection to members of the Company / its subsidiaries upon request 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 1), Sustainability Report (Annexure 2) and Report on Corporate Governance and Compliance Certificate on Corporate Governance (Annexure 3) are annexed to this report.

Directors

During the year under review, Mr. Rajiv Maliwal has been appointed as Additional Director with effect from 14th August, 2009. He holds office upto the date of the ensuing Annual General Meeting. He is eligible for appointment as Director. Mr. Daljit Mirchandani retired at the 23rd Annual General Meeting held on 9th July, 2009.

Mr. Berjis Desai and Mr. Kishor Chaukar retire by rotation in terms of Article 83 of the Articles of Association of the Company and being eligible offer themselves for re-appointment.

Auditors

a) Internal Auditors

The Internal Auditors, M/s. Khare Deshmukh & Co., Chartered Accountants, Pune, (Formerly known as M/s. Khare & Bhide) have conducted the internal audits periodically and submitted their reports to Audit Committee. Their reports have been reviewed by Audit Committee and Statutory Auditors.

b) Statutory Auditors

The Statutory Auditors, M/s. B. K. Khare & Co., Chartered Accountants, Mumbai, hold office until the conclusion of the ensuing Annual General Meeting. The Company has received a letter from them to the effect that their re-appointment, if made, would be within the prescribed limits under Section 224 (1B) of the Companies Act, 1956.

Directors' Responsibility Statement

In accordance with the requirements of Section 217(2AA) of the Companies Act, 1956, the Board of Directors states 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 selected have been applied consistently and judgements 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 2009-10 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

- During the year, your Company allotted 1,307,410 equity shares on exercise of options under the Employee Stock Option Plan 2005 Grant I & II. Consequent to the above, the Issued, Subscribed and Paid – up Equity Share Capital of your Company increased from 183,431,082 equity shares (Rs. 366.862 million) to 184,738,492 equity shares (Rs. 369.477 million) as of March 31, 2010.
- During the year, the Company has issued Grant III of Options under the Employee Stock Option Plan 2005 aggregating 3,029,626 options to its eligible employees at the rate of Rs. 81.75 per option.
- 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 4).

Particulars of Employees

The statement of particulars required pursuant to section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) (Amendment) Rules, 2002, forms a part of this Report. However, as permitted by the Companies Act, 1956, the Report and Accounts are being sent to Members and other entitled persons excluding the above statement. Those interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office and the same will be sent by post. The statement is also available for inspection at the Registered Office, during working hours upto the date of the Annual General Meeting.

Energy Conservation, Technology Absorption, Adaptation, Innovation

The technology, plant & equipment offered by your Company adopts sustainability criterion in terms of energy, water, environment, safety and social dimensions.

Towards this end, your Company carries out R & D for systems that will enhance sustainability.

The Company specifically focusses on innovation and has set up a facility called Praj Matrix – The Innovation Center, which is currently engaged in development of cellulosic ethanol program.

Your Company has taken an initiative to enhance its commitment to sustainable practices. A Sustainability Report is separately enclosed. Towards these initiatives, the Annual Report for the year ended 31st March, 2010 contains only those details that are statutorily required to be published in the Annual Report along with Abridged Standalone Financial Statements prepared in compliance with the provisions of Section 219 of the Companies Act, 1956. The complete and full set of Annual Report is made available on the Company's web-site at www.praj.net in the Investor's Lounge Section. The same is also available for inspection at the Registered Office during working hours upto the date of the Meeting. Any member interested in obtaining a copy of the full Annual Report may write to the Company Secretary or email us at investorsfeedback@praj.net

Foreign Exchange Earnings & Outgo

| | Rs. in millions | |
|----------|-----------------|------------|
| | 31/03/2010 | 31/03/2009 |
| Earnings | 2676 | 3553 |
| Outgo | 762 | 1018 |
| NFE | 1914 | 2535 |

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

Shashank Inamdar
CEO & MD

Sivaramakrishnan Iyer
Director

PLACE : PUNE
DATE : 29TH MAY, 2010

Annexure 1

Management Discussion & Analysis

Overall Review

The real impact of the global meltdown on the capital goods industry became more pronounced during the FY 2009-10, as investments came under pressure and many project sponsors re-evaluated their priorities. During this period, it was considered that the Company should act with prudence and bide its time for revival of the global economy. It was felt that we should not lose the edge that we have created for ourselves, in terms of the market and technology.

While India continues to lead the turnaround, we see signs of revival in some of our international markets. In some markets the wait could be longer. We will keep evaluating the markets constantly and intensify our efforts as markets revive.

Financial Review

Your Company recorded performance in line with the prevailing market trends. Inspite of the challenging environment, your Company continues to post high double digit margin at 20%. Although a drop over the previous fiscal, the performance can be termed as satisfactory, against the backdrop of external climate. The Company has a strong cash position which it plans to deploy towards growth initiatives.

Operating Environment & Opportunities

Market conditions continue to be challenging. Biofuels is a relatively new business paradigm. Improved economic conditions will likely see resumption of biofuels investments. The bioethanol industry saw 17% increase in production with existing capacities coming on line, even in the USA, on the back of improved crush margins. The share of ethanol in global gasoline fuel use increased from 3.7% to 5.4% in the Year 2009.

Strategic Focus - Second Generation Field Demo Plant

Praj Matrix – The Innovation Center, the R & D facility of Praj, began pilot scale trials on second generation, lignocellulosic ethanol plant over a year ago. The pilot plant, with a capacity of 2 metric tons/day feedstock (dry basis), involves a thousand fold scale up. The program involves working with feedstocks like bagasse, corn cobs and wood chips. Within this period, the pilot plant has made significant headway. Key milestones include:

- Optimization of Fractionation of streams (C5, C6 and Lignin)
- Novel approach to enzymatic hydrolysis process
- Proprietary C5 mutant micro-organism and C6 micro-organism
- Validation of Energy and Effluent Management System

A patent for the process has been filed.



It is now time to optimize and scale up these findings to the next level. The Board of your Company has taken a decision to invest into a field demo plant. Various models of this investment are under exploration. The field demo plant will provide vital data towards commercialization.

Market Dynamics

Alcohol/Ethanol Industry Review

Of the total revenues of the Company, revenues from India usually constitute between 50 and 60%. And, 40-50% of total business comes from offerings for bioethanol production. While new capacities in USA are presently on hold, USA presents the largest opportunity for advanced biofuels at 21 bln gallons per annum till 2022. First generation will continue to come on line in EU, Latin America and South East Asia where mandates have been announced but are yet to take effect in terms of capacity building. Feedstock prices, which were earlier on the upswing, are also well under control. Starch sources are seeing good supply position as also adequate capacity for sugar production, which is yet another source of comfort. Sugar prices having come off, will lead to increased capacity addition for ethanol production mainly in countries which are producing ethanol directly from sugarcane.

India is still predominantly a beverage alcohol market with a YOY growth of 12-15%. The Group of Ministers formed to advise the Government on Fuel Ethanol policy have recommended a purchase price of ethanol, which upon implementation should spur further interest in augmenting ethanol capacities.

Your Company has also gained the distinction of becoming the largest cassava based ethanol plant supplier in the South East Asia region.

Beer Industry Review

Brewery Plant & Equipment business is a steady stream. Beer Plants account for 10-12% of our revenue mix. Almost 60% of India's beer flows from plants supplied by us.

Praj has undertaken steps to enhance its revenue streams from brewery business and is now pitching for business in overseas markets. We expect encouraging results in the ensuing years.

Biodiesel Industry Roundup

The market for biodiesel has been subdued due to high feedstock prices which in turn have impacted the Biodiesel Plants business of your Company. Meanwhile, your Company focused on creating significant differentiators for its biodiesel offering. A demo plant has been installed at Praj-Matrix to study contemporary technologies for biodiesel production.

Feedstock continues to be a major challenge as also excess capacity in some regions. The Company has been working with non-food crops, including *Jatropha* and *Safflower* (non-edible variety) through its agri-division.

Biochemicals Solution

The biochemicals solutions group supplies bionutrients, additives and catalysts that act as performance enhancers. Praj supplies a range of nutrients to the fermentation industry like distilleries and breweries which is consumed in the course of production. Praj is currently expanding this range to address processes outside the distillery and brewery line. This business is seen as adding annuity revenues. Currently, this segment constitutes a small proportion of total revenues.

Awards, Certifications & Recognition

Your Company's work continues to be appreciated. We have recently recieved the *Emerging Enterprise Award in Cleantech* by Cleantech Forum, a worldwide organization engaged in bringing cleantech sector on the same platform.

We have also received award for Export Performance for the year 2008-09 from Engineering Export Promotion Council (EEPC) who has given us the Top Exports Award - (Medium Enterprise) Gold Trophy. We have received the gold trophy second year in a row. An award for export performance has been received from The Ministry of Industry, Government of Maharashtra.

