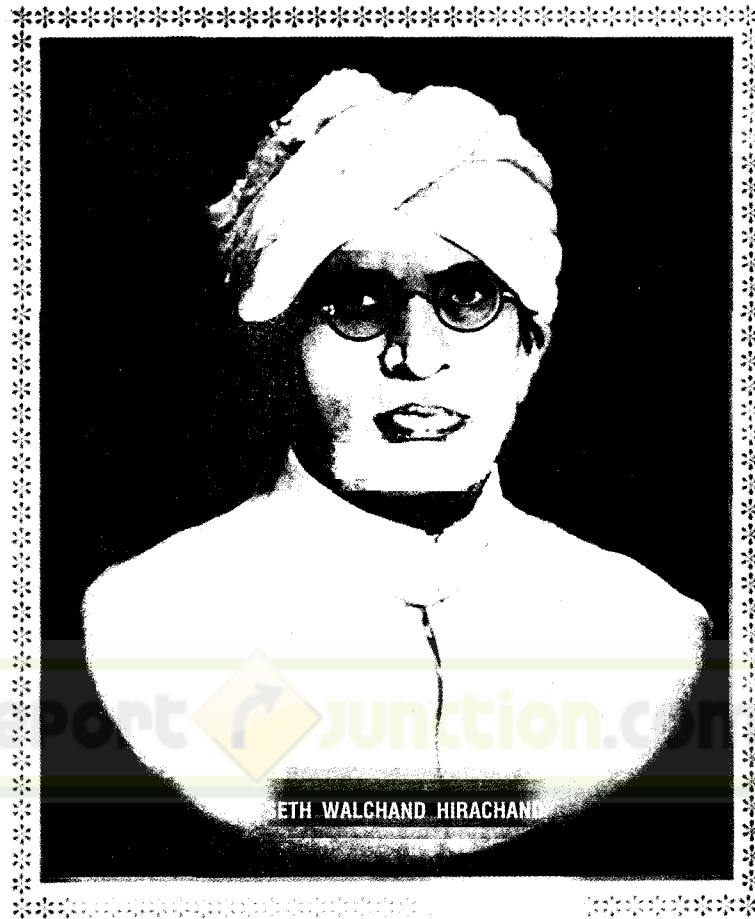




98th ANNUAL REPORT 2005-2006

**OUR BUSINESSMAN OF THE MILLENNIUM
and
FOUNDER OF WALCHAND GROUP**



(23-11-1882 to 8-4-1953)

“His life was truly a triumph of persistence over adversity”

Sardar Vallabhbhai Patel

**“निराशा पर आशा, अविश्वास पर विश्वास और दुर्भाग्य पर सौभाग्य की
विजय के प्रतीक.”**

सरदार वल्लभभाई पटेल

BOARD OF DIRECTORS



CHAKOR L. DOSHI
Chairman



P. K. BASU



R. M. PANDE



DILIP J. THAKKAR



A. U. RIJHSINGHANI



ARATI H. VISSANJI



J. L. DESHMUKH
Managing Director

OPERATING MANAGEMENT TEAM

PRESIDENTS

Mr. Chirag C. Doshi
Mr. S. S. Gangavati (SP & MR)
Mr. U. K. Limaye (Foundry Divn.)
Mr. G. S. Prakash (BG-III)
Mr. J. N. Nandurkar (HR & E)
Mr. V. M. Parthasarthy (SPD)
Mr. V. D. Vaingankar (M&TS)
Mr. Apurba Chakravarty (Walchand Projects Group)

HEAD

Dr. C. Janakiram, Head (Oil & Gas Divn.)

COMPANY SECRETARY

Mr. R. B. Jobanputra

REGISTERED OFFICE

WALCHANDNAGAR INDUSTRIES LTD.
3, Walchand Terraces
Tardeo Road, Mumbai - 400 034
Tel No. 24939498

REGISTRAR & SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd.
C-13, Pannalal Silk Mills Compound, L.B.S. Marg,
Bhandup (W), Mumbai - 400 078
Tel. : (022) 25963838
Fax : (022) 25946969 • E-Mail : isrl@intimespectrum.com

VICE PRESIDENTS

Mr. M. H. Purwat (Finance)
Mr. V. G. Ratnaparkhi (Mfg.)
Mr. P. K. Mahadevan (Materials)
Dr. R. K. Tiwari (R&D, PM & QA)
Mr. B. L. Pandey (EPC Proj.)

GENERAL MANAGERS

Mr. A. G. Pradhan (Special Assignments)
Mr. P. Suryanarayan (Proj.-GEP)
Mr. J. D. Jadhav (Foundry Divn.)
Mr. A. B. Kamalapur (Tiwac)
Mr. P. D. Mandavekar (Engg - C & MP)
Mr. P. C. Bhagwat (Mktg. - CMT)
Mr. P. M. Ghodke (Mktg. - BLR)
Mr. S. K. Gulati (Mktg. - MP)
Mr. V. S. Pore (Materials)
Mr. D. V. Vairagkar (Planning)
Mr. S. S. Mahabaleshwarkar (Engg.)
Mr. S. V. Shahade (Prod. - SPD)
Mr. V. S. Galgali (WDS)
Mr. S. K. Dasgupta (Mktg. - Gear)
Mr. A. D. Abhyankar (E&S-C & MP)
Mr. P. K. Gunje (Engg.-BG-III)
Mr. G. M. Nadkarni (Finance)
Mr. P. D. Ganorkar (Mktg - SPD)
Mr. A. R. Chavan (E&S)
Mr. A. G. Dani (Instru.)
Mr. V. S. Petkar (HR & ER)
Mr. T. D. Lal (Corp. Finance)
Mr. D. P. Sudame (Business Development -
Walchand Infotech)

MARKETING DIVISION

Walchand House
15/1/B-2, G. A. Kulkarni Path,
Kothrud, Pune - 411 038

FACTORIES

Walchandnagar, Dist. Pune,
Maharashtra
Satara Road, Dist. Satara,
Maharashtra
Attikola, Dharwad, Karnataka

AUDITORS

M/s. K. S. Aiyar & Co.

PRINCIPAL BANKERS

State Bank of India
Bank of India
ING Vysya Bank



CHAIRMAN'S STATEMENT

Dear Members,



It is my pleasure to welcome you all to this 98th Annual General Meeting of the Company.

The turnover achieved during the year was Rs. 358.41 Crores as compared to Rs. 252.80 Crores in the previous year registering a growth of 41.8%. Exports increased from Rs. 30 Crores to Rs. 61 Crores. All the major businesses of the Company reported improved performance and hence customers have shown confidence in us which has also resulted in record order booking of Rs. 1000 Crores as on 01.10.2006 which include orders for critical equipments for Space Program, Defence, Nuclear Power, Steam

Generating Plants (boilers), Cement Plants, Gear Boxes, Mineral Processing, Sugar Machinery and Centrifugals.

The Company has initiated actions to enhance our capabilities by procurement of certain Machine Tools and recruiting critical skills to meet the increased demand. The Company is focusing on timely completion of projects by creating strong project execution teams. A tradition of engineering excellence supported by meticulous execution will take our Company to newer heights.

With your continued support and devotion of our operating team, we are confident of further improvements in Company's performance in the current year.

Chakor L. Doshi
Chairman

NOTICE

Notice is hereby given that the 98th Annual General Meeting of members of Walchandnagar Industries Ltd. will be held as scheduled below:

Day : Wednesday
Date : 24th January, 2007
Time : 3.30 p.m.
Place : Walchand Hirachand Hall,
Indian Merchants' Chambers Building,
Churchgate, Mumbai 400 020.

The Agenda for the meeting will be as under:

Ordinary Business:

1. To receive, consider and adopt Audited Balance Sheet of the Company as at 30th September, 2006 and Profit & Loss Account for the year ended as on that date together with the Reports of Directors and Auditors thereon.
2. To declare dividend on Equity Shares for the year ended 30th September, 2006.
3. To appoint a Director in place of Dr. P. K. Basu, who retires by rotation and being eligible, offers himself for reappointment.
4. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution as required under Section 224 of the Companies Act, 1956, for appointment of Auditors:

"RESOLVED THAT M/s. K. S. Aiyar & Co., Chartered Accountants, Mumbai, be and are hereby appointed as Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting on a remuneration of Rs. 4,00,000/- (Rupees Four Lakhs only) and they be paid, in addition, service tax, out of pocket and/or travelling expenses they may incur while carrying out their duties as such auditors."

Special Business:

5. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"Resolved that Mr. A. U. Rijhsinghani whose term of Office as an Additional Director pursuant to Section 260 of the Companies Act, 1956 expires at this Annual General Meeting and in respect of whom the Company

has received a Notice under Section 257 of the Companies Act, 1956 proposing his candidature for the office of a Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation.

6. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"Resolved that Smt. Arati H. Vissanji whose term of Office as an Additional Director pursuant to Section 260 of the Companies Act, 1956 expires at this Annual General Meeting and in respect of whom the Company has received a Notice under Section 257 of the Companies Act, 1956 proposing her candidature for the office of a Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation.

7. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"Resolved that Mr. R. M. Pande whose term of Office as an Additional Director pursuant to Section 260 of the Companies Act, 1956 expires at this Annual General Meeting and in respect of whom the Company has received a Notice under Section 257 of the Companies Act, 1956 proposing his candidature for the office of a Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation.

By order of the Board

R. B. Jobanputra
Company Secretary

Registered Office:
3, Walchand Terraces
Tardeo Road
Mumbai 400 034

Date: 23rd November, 2006.

NOTES:

- (a) An Explanatory Statement under Section 173(2) of the Companies Act, 1956 in respect of items of special business at Sr. No. 5, 6 & 7 mentioned above is annexed hereto.
- (b) **A member entitled to attend and vote at the meeting is also entitled to appoint a proxy to attend and vote on a poll instead of himself/herself and such proxy need not be a member of the Company. Proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before the time for holding this Annual General Meeting.**



- (c) The Register of Members and Share Transfer Books of the Company will remain closed from 18th January 2007 to 24th January, 2007. (both days inclusive).
- (d) The Dividend, if declared at the meeting, will be paid within the stipulated period, to those members whose names appear on the Company's Register as on 24th January, 2007. In respect of Shares held in Electronic Form, the dividend will be paid to the beneficial owners as per details furnished by the Depositories for this purpose at the end of business hours on 17th January, 2007.
- (e) Members who hold shares in physical form are requested to notify immediately change in their addresses, if any, to the Company's Registrar and Share Transfer Agents, M/s. Intime Spectrum Registry Ltd., specifying Registered Folio Number and other relevant details. Members, who hold shares in Electronic Form are requested to notify change in their addresses to Depository Participants with whom they are maintaining their Beneficial Owner Account.
- (f) Members who have not encashed their dividend warrants for the financial years ended 30th September 1999 and thereafter may immediately approach the Company for revalidation of unclaimed warrants as the amount of dividend remaining unpaid for a period of 7 years shall be transferred to Investors Education & Protection Fund as per provisions of Section 205A of the Companies Act, 1956. It may also be noted that once the unclaimed dividend is transferred to the Central Government as above, no claim shall lie with the Company in respect thereof.
- (g) Members, who hold shares in De-materialised form, are requested to bring their Client ID and DP ID Numbers for easy identification of attendance at the meeting.
- (h) Members are requested to get the Shares transferred in joint names, if shares are held in a single name to avoid the inconvenience and also to send nomination form (available on request), if not sent earlier.
- (i) Members are requested to bring the copies of the Annual Report at the time of attending Annual General Meeting.
- (j) Members/Proxy Holders are requested to produce at the entrance of the hall admission slips forwarded to them duly completed and signed, in accordance with the specimen signature registered with the Company for admission to the Meeting Hall.
- (k) Dr. P. K. Basu, Director of the Company retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment. Brief resume of Dr. P. K. Basu, the details of his qualifications and experience, and names of the Companies in which he holds Directorships and Memberships/ Chairmanships of Board Committees, as stipulated under Clause 49 of the Listing Agreement with Stock Exchange are provided in the Report on Corporate Governance forming part of Annual Report. The Board of Directors recommends his re-appointment.
- (l) Information on shareholding of Non-Executive Directors proposed to be appointed/reappointed as under:
None of the Directors proposed to be appointed/reappointed hold any shares in the Company.

EXPLANATORY STATEMENT UNDER SECTION 173 OF THE COMPANIES ACT, 1956**Item No. 5**

The Board of Directors appointed Mr. A. U. Rijhsinghani, Ex-Managing Director of the Company as an Additional Director w.e.f. 24-04-2006. Pursuant to the provisions of Section 260 of the Companies Act, 1956 read with Article 133 of Articles of Association of the Company, Mr. A. U. Rijhsinghani holds the office only upto the date of this Annual General Meeting. Notice as required under Section 257 of the Companies Act, 1956 together with deposit of Rs. 500/- has been received from a Member proposing his candidature for the office of a Director of the Company, Mr. A. U. Rijhsinghani is eligible for appointment as a Director of the Company.

A brief resume of Mr. A. U. Rijhsinghani, the details of his qualifications and experience and names of the Companies in which he holds directorships and memberships/ chairmanships of Board Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges are provided in Report on Corporate Governance forming part of the Annual Report.

Considering the vast knowledge and experience of Mr. A. U. Rijhsinghani, the Board of Directors considers it desirable that the Company should continue to avail the benefit of his services as a Director of the Company, and accordingly recommends the resolution as set out in Item No. 5 of the Notice for his appointment as a Director liable to retire by rotation for the approval of the shareholders.

None of the Directors except Mr. A. U. Rijhsinghani is concerned/interested in the Resolution.

Item No. 6

The Board of Directors appointed Smt. Arati H. Vissanji, an eminent lawyer and tax expert as an Additional Director w.e.f. 31-07-2006. Pursuant to the provisions of Section 260 of the Companies Act, 1956 read with Article 133 of Articles of Association of the Company, Smt. Arati H. Vissanji holds the office only upto the date of this Annual General Meeting. Notice as required under Section 257 of the Companies Act, 1956 together with deposit of Rs. 500/- has been received from a Member proposing his candidature for the office of a Director of the Company. Smt. Arati H. Vissanji is eligible for appointment as a Director of the Company.

A brief resume of Smt. Arati H. Vissanji, details of her qualifications and experience and names of the Companies in which she holds directorships and memberships/ chairmanships of Board Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges are provided in Report on Corporate Governance forming part of the Annual Report.

Considering the knowledge and experience of Smt. Arati H. Vissanji, the Board of Directors is of the opinion that it would be in the interest of the Company to appoint her as a Director of the Company, and accordingly recommends the resolution as set out in Item No. 6 of the Notice for her appointment as a Director liable to retire by rotation for the approval of the shareholders.

None of the Directors except Smt. Arati H. Vissanji is concerned/interested in the Resolution.

Item No. 7

The Board of Directors appointed Mr. R. M. Pande, a Retd. Executive Director of LIC, as an Additional Director w.e.f. 23-11-2006, after he resigned as a Director as desired by LIC at whose request he was originally appointed as a Director liable to retire by rotation. Pursuant to the provisions of Section 260 of the Companies Act, 1956 read with Article 133 of The Articles of Association of the Company, Mr. R. M. Pande holds the office only upto the date of this Annual General Meeting. Notice as required under Section 257 of the Companies Act, 1956 together with deposit of Rs. 500/- has been received from a Member proposing his candidature for the office of a Director of the Company, Mr. R. M. Pande is eligible for appointment as a Director of the Company.

A brief resume of Mr. R. M. Pande, details of his qualifications and experience and names of the Companies in which he holds directorships and memberships/chairmanships of Board Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges are provided in Report on Corporate Governance forming part of the Annual Report.

Considering the knowledge and experience of Mr. R. M. Pande, the Board of Directors is of the opinion that it would be in the interest of the Company to appoint him as a Director of the Company, and accordingly recommends the resolution as set out in Item No. 7 of the Notice for his appointment as a Director liable to retire by rotation for the approval of the shareholders.

None of the Directors except Mr. R. M. Pande is concerned/interested in the Resolution.

By order of the Board

R. B. Jobanputra
Company Secretary

Registered Office:
3, Walchand Terraces
Tardeo Road
Mumbai 400 034
Date: 23rd November, 2006.



DIRECTORS' REPORT

To:
The Members of
Walchandnagar Industries Limited.

Your Directors have pleasure in presenting the Ninety Eighth Annual Report with Audited Statement of Accounts for the year ended 30th September, 2006.

1. PERFORMANCE FOR THE YEAR IN RETROSPECT:

	30.09.2006 Rs. in Lakhs	30.9.2005 Rs. in Lakhs
Income:	36,001.30	26,146.89
Profit before Depreciation and Interest	2,733.75	1,570.28
Less: – Interest	225.82	175.81
– Depreciation	378.15	289.62
Profit before Taxation	2,129.78	1,104.85
Less: Provision for Taxation	800.35	332.46
Profit after Tax	1,329.43	772.39
– Surplus brought forward from the previous year	1,205.55	588.02
– Transferred from Foreign Project Reserve	—	25.16
	2,534.98	1,385.57
Appropriations:		
– General Reserve	132.94	77.24
– Proposed Dividend	135.20	90.14
– Income Tax on Proposed Dividend	18.96	12.64
Surplus carried to Balance Sheet	2,247.88	1,205.55

The turnover achieved during the year was Rs. 358.41 Crores as compared to Rs. 252.80 Crores in the previous year registering a growth of 41.8%.

The profit before tax was at Rs. 2130 Lakhs as against Rs. 1,105 Lakhs and profit after tax was Rs. 1,329 Lakhs as against Rs. 772 Lakhs of previous financial year.

2. CURRENT YEAR:

The order book position as at 1.10.2006 was at Rs. 1,000 Crores compared to Rs. 450 Crores as at 1.10.2005. The order book position is very good and the Company is confident to improve the performance as compared to previous year.

The Company has also received orders for EPC projects in the field of Mineral Processing. With improved market conditions, the Company is having good orders for sugar plants, cement plants, steam generating plants and gear boxes. The order

book position for Space, Defence & Nuclear continues to be good. Thrust is being given for on time completion of all projects by effective project management.

3. EXPORTS:

The foreign exchange earnings for the year were Rs. 6,102 Lakhs as against Rs. 3,004 Lakhs in the previous year. The export orders on hand as on 1.10.2006 are at Rs. 7,747 Lakhs, compared to Rs. 6,359 Lakhs as at 1.10.2005. During the year, the Company has executed major portion of export order for 1000 TPD Cement Plant for Zambezi Portland Cement Ltd., Zambia. The Company has booked export orders worth Rs. 6,482 Lakhs from Konkola Copper Mines PLC, Zambia and Kuwait Cement Company, Kuwait.

4. DIVIDEND:

Your Directors are pleased to recommend Dividend for the financial year 2005-2006 on Equity Shares of Rs. 10/- each at Rs. 4.50 per share equivalent to 45% (30% in the previous year) aggregating to Rs. 135.20 Lakhs.

5. MANAGEMENT DISCUSSION & ANALYSIS:

5.1 Overview:

During the year ended 30th September, 2006, the Company has significantly improved the turnover for sugar machinery, steam generating plants, cement plants, planetary gear boxes and also for Space, Defence & Nuclear.

For on time completion of projects emphasis is given for creating strong project execution teams and enhancing manufacturing capabilities.

5.2 Segment Analysis and Review:

5.2.1 Heavy Engineering Product Segment:

The segment achieved turnover of Rs. 31,891 Lakhs (Previous Year Rs. 22,168 Lakhs) accounting for 88.2% of Company's revenue. The turnover increased by 43.9% as compared to the previous year. The Division has achieved Profit Before Tax of Rs. 2,526 Lakhs as compared to Rs. 1,317 Lakhs in the previous year.

During the year, the Company achieved highest turnover for sugar machinery, steam generating plants and cement machinery and gear boxes as compared to achievement in earlier years. All the major businesses of the Company reported improved performance during 2005-2006. The Company has achieved major milestone for installation and aggregation of critical defence equipments at site.

Outlook:

Improved Indian Economy has certainly had a favourable impact on engineering industry and in particular to our Company. We expect further growth in sales and profit as compared to the previous year 2005-06.

The orders on hand for execution for sugar machinery, centrifugals, steam generating plants, cement plants, gear boxes and critical equipments for Space, Defence, Nuclear Power are very good and besides Company will be executing turnkey projects for Mineral Processing with overseas technical tie up.

Major thrust is being given for achieving operational excellence through following initiatives:

1. Customer satisfaction
2. Engineering excellence
3. Profitable growth
4. Supply base management
5. Manufacturing excellence
6. Financial discipline
7. Organizational development

To meet the increased demand the capacity enhancement programme is in progress by procuring critical machines and up-gradation of existing equipments.

5.2.2 Foundry & Machine Shop:

This segment has achieved revenue of Rs. 3,650 Lakhs as against Rs. 2,732 Lakhs in the previous year. The sales and PBT have improved as compared to the previous year, due to better demand for foundry business.

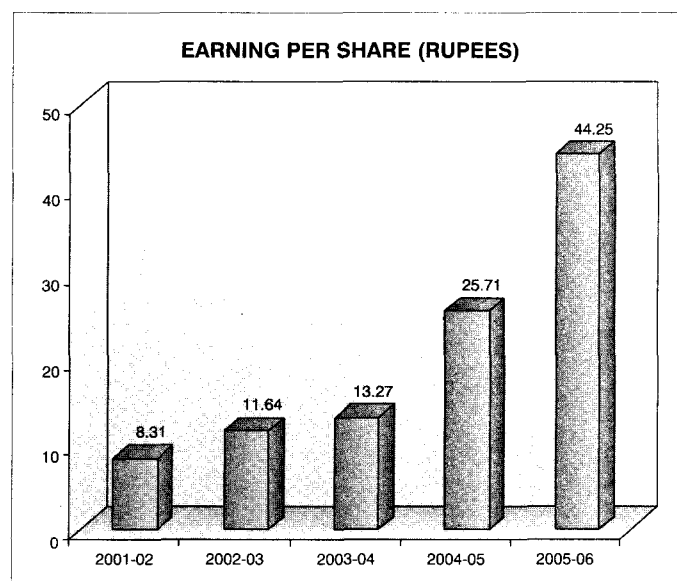
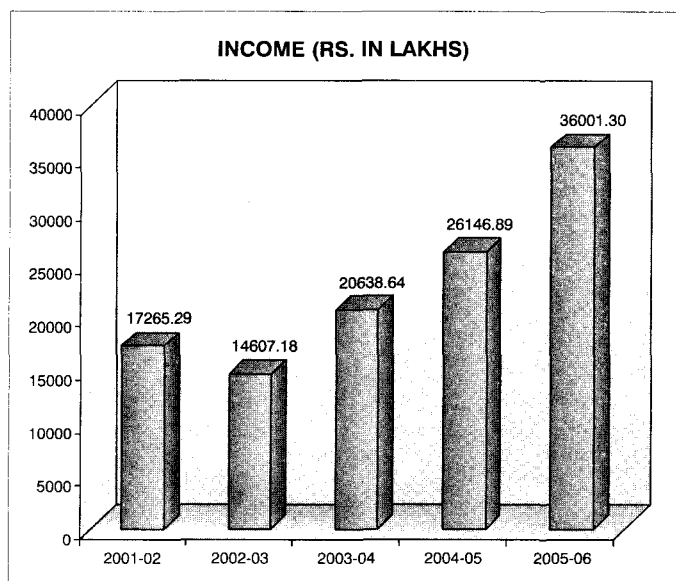
The profitability, however, could not be improved to the extent of increase in sales, due to increase in power cost as the operations of new medium frequency furnaces took more time for stabilization.

Outlook:

During the year modernization and upgradation of foundry has been completed and the division is able to manufacture CI & SGI castings of large dimensions. For improving the profitability, thrust is given for optimization of power consumption and control on rejections by adopting improved foundry practices. Considering current business environment, we expect to improve the sales as compared to previous year.

5.2.3 Other Segments:

These include (i) the unit at Dharwad for manufacturing Pressure and Temperature Gauges and Sector Mechanisms (ii) Walchand Infotech Services Division (iii) Hospitality business.





The total revenue from these segments was Rs. 631 Lakhs for the year 2005-2006 as against Rs. 625 Lakhs for the year 2004-2005.

The turnover and profitability of unit at Dharwad has improved significantly as compared to previous year due to better market demand and improvement in production efficiency.

The performance of the Walchand Infotech Services Division could not be improved as compared to previous year, as various software packages are in developmental stage. The services of executives of the division are being utilized for implementation of ERP system at Heavy Engineering Division.

The turnover of Hospitality Division did not improve during the year.

Outlook:

Performance of the unit at Dharwad is expected to improve further considering the increased demand for its products. Company has prepared a plan for augmentation of its facilities to meet increased demand.

In respect of Infotech Division, the thrust will be given on development of software packages and marketing of the same. The services of the Division will continue to be utilized for ERP implementation at Heavy Engineering Division.

The management is exploring alternative avenues and opportunities for improvement of Hospitality Division.

5.3 Risk Management:

The Heavy Engineering Segment continues to be the major business segment of the Company registering 88.2% of the Company's sales during the year. The segment has its typical risk characteristics inherent in project business.

The Company has its systems and procedures for managing the project business risks and mitigating the same.

Some of the key risks that Company manages through its risk management frame work are:

(a) Project Management:

The Company is executing large and medium size projects for various clients. The profitable growth depends on management of inherent risks in project business. The penalty for delayed delivery and shortfall in performance has a bearing on profitability. Delayed recovery of retentions create a pressure on management of working capital.

To mitigate these risks, the Company has given thrust on strong project management with built in control system for accurate

