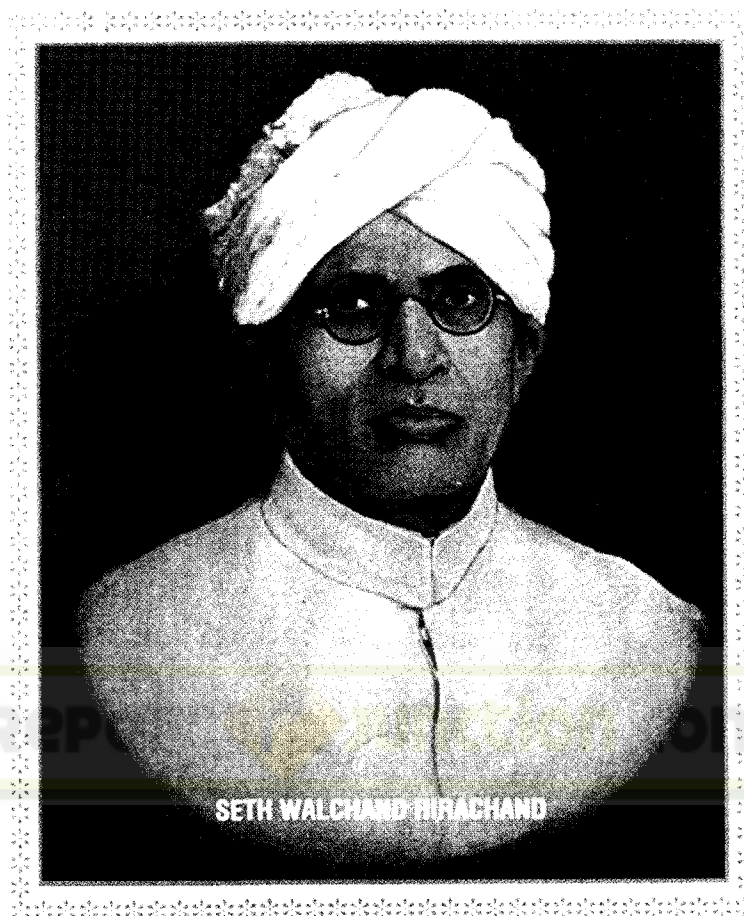




97th ANNUAL REPORT 2004-2005

**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



CHAKOR L. DOSHI
Chairman



P. K. BASU



SHARAYU DAFTARY



R. M. PANDE



DILIP J. THAKKAR



A. U. RIJHSINGHANI
Managing Director



J. L. DESHMUKH
Managing Director

Mr. Chirag C. Doshi
Mr. S. S. Gangavati (BG-I)
Mr. T. S. Sakethan (BG-II)
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 (PSQA)
Mr. Apurba Chakravarty (Walchand Projects Group)

Mr. M. H. Purwat (Finance)
Mr. V. G. Ratnaparkhi (GEP)
Mr. P. K. Mahadevan (Materials)
Mr. A. K. Sood (Gear)
Dr. R. K. Tiwari (R&D, PM & QA)

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. Ghodake (Mktg. - BLR)
Mr. S. K. Gulati (Mktg. - MP)
Mr. V. S. Pore (Materials)
Mr. D. V. Vairagkar (Planning - BLR)

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. D. P. Sudame (Business Development - Walchand Infotech)

Mr. R. J. Pardeshi
G.M. (MS) & Company Secretary

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

Intime Spectrum Registry Ltd.
C-13, Pannalal Silk Mills Compound, L.B.S. Marg,
Bhandup (W), Mumbai - 400 078
Tel : (022) 55555454
Fax : (022) 55555353

Walchand House
15/1/B-2, Kothrud
Pune - 411 038

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

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

M/s. Kanga & Co.

Bank of India
Syndicate Bank
State Bank of India
Oriental Bank of Commerce
ING Vysya Bank



Dear Members,

It is my pleasure to welcome you all to this 97th Annual General Meeting of the Company.

The Company achieved a new high in sales for the year under report and the profitability was maintained despite abnormal rise in cost of Steel Materials, Castings & Forgings during the first six months of the year. The order book position of the Company at Rs. 450 Crores as on 1-10-2005 is quite satisfactory.

The Company is focusing and concentrating on improving profitability through productivity enhancement, cost controls and execution of projects without time overruns. The efforts are also continuing towards increase in market share through supreme product quality and best customer service. Customer focus at all levels will continue to be the guiding principle of our business.

The Company, in the recent past, has successfully executed some E.P.C. (Engineering Procurement and Construction) type of contracts under its existing Divisions and the results have been encouraging. The Company has now created a Separate Division named 'Walchand Projects Group' to avail of the growing opportunities in this type of business.

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

A handwritten signature in black ink, appearing to read 'Chakor L. Doshi'.

Chakor L. Doshi
Chairman

NOTICE

Notice is hereby given that the 97th Annual General Meeting of Walchandnagar Industries Ltd. will be held as scheduled below :

Day : Monday
Date : 16th January, 2006
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, 2005 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, 2005.
3. To appoint a Director in place of Mr. Dilip J Thakkar, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Chakor L. Doshi, who retires by rotation and being eligible, offers himself for reappointment.
5. 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.3,50,000/- (Rupees Three lakhs fifty thousand 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

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

"RESOLVED that in supersession of the Resolution passed at the Seventy Sixth Annual General Meeting held on 30th July, 1984 the consent of the Company under Section 293(1)(d) of the Companies Act, 1956, be and is hereby given to the Board of Directors of the Company to borrow for the purpose of the Company from time to time from State Bank of India / State Bank of India Consortium or any other Consortium of Banks or Financial Institutions or Fund or any other bodies as may be approved later on by the Board of Directors of the Company any sum or sums of moneys together with the moneys already borrowed by the Company (apart from temporary loans obtained or to be obtained from the Company's Bankers in the ordinary course of business) which may exceed the aggregate for the time being of the paid-up capital of the Company and its free reserves, that is to say reserves not set apart for any specific purpose, provided that the maximum amount of moneys so borrowed by the Board shall not at any time exceed the limit of Rs. 400 Crores"

"RESOLVED FURTHER that the Company hereby accords its consent to the Board of Directors of the Company under Section 293(1)(a) of the Companies Act, 1956, to mortgage and/or to charge in any manner all or any of the immovable and/or movable properties including outstanding monies, receivables, claims, bills, documents, contracts, engagements, securities, investments and rights of the Company, both present and future, or the whole or substantially the whole of the undertaking or undertakings of the Company for securing any loan obtained or as may be obtained from such Bank or Consortium of Banks or Financial Institutions, or Fund or any other bodies together with interest, costs, charges, expenses and any other money payable by the Company on such terms and conditions as the Board of Director deem fit in the interest of the Company."

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



"RESOLVED that pursuant to the provisions of Section 314 and all other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to Mr.Chakor L. Doshi, the Chairman of the Company and a relative of Smt. Sharayu Daftary, Director, to continue to provide professional services as Advisor / Consultant to the Company for an additional period of 2 years from 1st May, 2006 to 30th April, 2008 on payment of Rs.35,000/- per day of Consultancy as a Consultancy Fee plus expenses on travelling, lodging and boarding & reimbursement of incidental and out of pocket expenses, reimbursement of Service Tax, as applicable and permitted foreign exchange allowance and expenses in case of any assignments abroad.

RESOLVED further that the Board of Directors of the Company be and is hereby authorised to extend the period of consultancy for an additional period of two years on the terms and conditions as the Board of Directors deem it fit in the interest of the Company."

By order of the Board

R.J.Pardeshi

General Manager (MS) & Company Secretary

Registered Office :

3, Walchand Terraces,
Tardeo Road,
Mumbai 400 034.

Date : 19th November, 2005

NOTES :

- a) A member entitled to attend and vote is also entitled to appoint a proxy to attend and vote 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.
- b) The Register of Members and Share Transfer Books of the Company will remain closed from 10th January, 2006 to 16th January, 2006 (both days inclusive).

- c) The Dividend, if declared, will be payable within the stipulated period to those members whose names appear on the Company's Register as on 16th January, 2006. 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 9th January, 2006.
- d) 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.
- e) Members who have not encashed their dividend warrants for the financial year ended 30th September, 1998 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 in respect thereof.
- f) 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.
- g) 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.
- h) Members are requested to bring the copies of the Annual Report at the time of attending Annual General Meeting.
- i) 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.

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956**ITEM NO : 6**

At 76th Annual General Meeting of the Company held on 30th July 1984, the shareholders of the Company had by a resolution empowered the Board of Directors to borrow money for the purpose of the Company under Section 293(1)(d) of Companies Act, 1956 upto a limit of Rs. 75 Crores. For the reason stated below, it is desirable to increase the limit of such borrowing to Rs. 400 Crores.

The turnover of the Company has been growing during last few years. The trend is likely to continue in future. The Company has undertaken modernization / upgradation and expansion of manufacturing facilities at Walchandnagar Works and Foundry Division, Satara. The Company has been in talks with various banks for obtaining funds to meet its additional working capital requirements and also to finance capital expenditure programme at competitive terms and conditions.

In the scheme of financing of modernization / upgradation and raising long term resources, the company would be required to mortgage or charge the entire or part of movable and / or immovable properties of the company, both present and future in favour of State Bank of India / State Bank of India Consortium or any other Consortium of Banks or Financial Institution(s), or Fund or any other bodies. Since the creation of mortgage or charge by the Company on its movable and / or immovable properties as aforesaid in favour of any Bank or Consortium of Banks or Financial Institution(s), or Fund or any other bodies may be construed / considered to be disposal of the company's properties, it is necessary for the members to pass the resolution under Section 293(1)(a) of the Companies Act, 1956 for creation of mortgage or charge.

None of the Directors of the Company is interested in the above Resolution.

ITEM NO : 7

Mr.Chakor L.Doshi, the Chairman of the Company was appointed as an Advisor / Consultant with effect from 1st May, 2002 on Retainership and Consultancy basis for a period of 2 years by the Board and the same was approved by the Company in the Annual General Meeting held on 26th April, 2003. The Central Government has already expressed the opinion under Section 309 (1) of the

Companies Act, 1956 stating that Mr. Chakor L. Doshi has the requisite qualifications for functioning as Advisor / Consultant of the Company. The period was subsequently extended by the Board of Directors for two years that is upto to 30th April, 2006 on payment of Rs. 25,000/- per day as consultancy fee and other expenses and the same was ratified by the Shareholders at the Annual General Meeting held on 10th February, 2004. Considering the benefit the Company has drawn from his advice on Corporate matters relating to Company's business including Finance, Marketing, Organization Structure, Industrial Relations, New Projects, Corporate Planning, Exports, Foreign Collaborations, etc, the Board has recommended extension of the period of Consultancy Agreement for a further period of 2 years with effect from 1st May, 2006 on payment Rs.35,000/- per day of consultancy as Consultancy Fee plus expenses on travelling, lodging and boarding & reimbursement of incidental and out of pocket expenses, reimbursement of Service Tax, as applicable and permitted foreign exchange allowance and expenses in case of any assignments abroad. It is also further recommended that the Board be authorised to extend the agreement for an additional period of two years after 1st May, 2008 if it is beneficial to the Company on terms as the Board of Directors deem fit.

Mr. Chakor L. Doshi is related to Smt.Sharayu Daftary, Director of the Company. The Board therefore recommends passing the Special Resolution as set out in Item No. 7 of the accompanying Notice. None of the Directors except Mr.Chakor L. Doshi and Smt. Sharayu Daftary as his sister is concerned/interested in the Resolution.

By order of the Board

R.J.Pardeshi

General Manager (MS) & Company Secretary

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

Date : 19th November, 2005



DIRECTORS' REPORT

To:
The Members of
Walchandnagar Industries Limited.

Your directors have pleasure in presenting the Ninety Seventh Annual Report with Audited Statement of Accounts for the year ended 30th September 2005.

1. PERFORMANCE FOR THE YEAR IN RETROSPECT :

	30.09.2005 Rs.in Lakhs	30.09.2004 Rs.in Lakhs
Income:	27822.35	21780.27
Profit before Depreciation and Interest	1570.28	904.02
Less : - Interest	175.81	83.13
- Depreciation	289.62	266.75
Profit before Tax	1104.85	554.14
Less: Provision for Taxation	332.46	155.42
Profit after Tax	772.39	398.72
- Surplus brought forward from the previous year	588.02	489.97
- Transferred from Foreign Project Reserve	25.16	83.08
	1385.57	971.77
Appropriations:		
- General Reserve	77.24	39.85
- Contingency Reserve	—	250.48
- Proposed Dividend	90.14	82.62
- Income Tax on Proposed Dividend	12.64	10.80
Surplus carried to Balance Sheet	1205.55	588.02

The turnover achieved during the year was Rs.269.55 Crores as compared to Rs.216.18 Crores in the previous year registering growth of 24.7%.

The profit before tax at Rs.1105 lakhs (Previous Year Rs.554 lakhs) includes income of Rs.253 lakhs received as interest on refund of Income Tax. During this year also profit margin of the Company was affected by abnormal increase in cost of steel materials, castings and forgings, during the first six months of the year under review.

2. CURRENT YEAR:

The order book position as on 1.10.2005 was at Rs.450 Crores, compared to Rs.348 Crores as on 1.10.2004. With good order book position the Company is reasonably confident of improvement in its performance over that of the previous year.

The Company is planning a special thrust to enhance its market share in the fields of Space, Defence, Nuclear and Co-Generation Power Plants, to take advantage of its core strength and growing opportunities in these areas.

The Company is also focusing on Engineering, Procurement & Construction (EPC) type of projects and has created a separate

Project Division to execute such projects. In order to be able to meet the growing requirement of manufacture of sophisticated equipments the Company has taken action for modernisation and upgradation of existing critical machines and addition of new machines.

3. EXPORTS:

The foreign exchange earnings for the year were Rs.3004 Lakhs as against Rs. 758 Lakhs in the previous year. The export orders on hand as on 1.10.2005 are at Rs.6359 Lakhs, compared to Rs.2107 lakhs as at 1.10.2004. The Company has booked export order for supply of 1000 TPD cement plant for Zambesi Portland Cement Ltd., Zambia at the price of Rs.5836 lakhs. The Company is actively participating in export enquiries for Cement and Sugar Machinery.

4. DIVIDEND:

Your Directors are pleased to recommend Dividend for the financial year 2004-2005 on Equity Shares of Rs.10/- each at Rs. 3.00 per share equivalent to 30% (27.5% in the previous year) aggregating to Rs. 90.14 lakhs.

5. MANAGEMENT DISCUSSION & ANALYSIS:

5.1 Overview:

During the year ended 30th September, 2005, the Company significantly improved its market share in Steam Generating Plants, Gear Boxes and critical equipments for Space and Defence.

Timely delivery and adherence to the stringent quality standards continued to be the main focus of the Company.

5.2 Segment Analysis and Review:

5.2.1 Heavy Engineering Product Segment:

The segment achieved turnover of Rs.23432 Lakhs (Previous Year Rs.18714 lakhs) accounting for 86.93% of Company's revenue. The turnover increased by 25.2% as compared to the previous year. Eventhough the profit also improved as compared to the previous year, the increase was not commensurate with increase in turnover as the margins were affected due to abnormal rise in steel prices during the first six months of the year.

During the year, Spherical Reactors for Numaligarh Refinery project using 65mm thick low Alloy material involving critical welding process were manufactured for the first time in the Country by the Company. Certain critical components for Defence Application were also manufactured for the first time in India during this period. Company also completed an important EPC project for Nuclear Power Corporation.

97TH ANNUAL REPORT

The overall order book position is reasonably good for all the products except the Sugar Machinery. However, with changing market trends it is hoped that for Sugar Machinery the Company will be able to book some Indignous/Export orders in the near future.

Outlook:

Based on the order book position reasonable growth in turnover and profit in this segment as compared to the previous year 2004-2005 is expected. Upgradation of machines and concentration on productivity enhancement will further improve performance of the division. The orders on hand for Space, Defence, Nuclear Power, Boilers, Gear Boxes & Cement Machinery are comfortable and the Company is also participating in EPC Contracts for prestigious Defence Projects.

The focus and concentration is being given for improving profitability through productivity enhancement in all areas of operations, cost control and timely executing of projects without cost overruns. Customer focus at all levels will continue to be the guiding principle of our Company.

5.2.2 Foundry & Machine Shop:

This segment has achieved revenue of Rs.3081 Lakhs as against Rs.2539 Lakhs in the previous year. Both the sales and PBT have improved as compared to the previous year, due to continued increase in demand for CI & SGI Castings.

Outlook:

The modernization and upgradation of Foundry is in progress and is expected to be completed by December, 2005. On completion of the modernization, the division will be able to manufacture CI & SGI castings of larger dimensions, with better value addition and profitability.

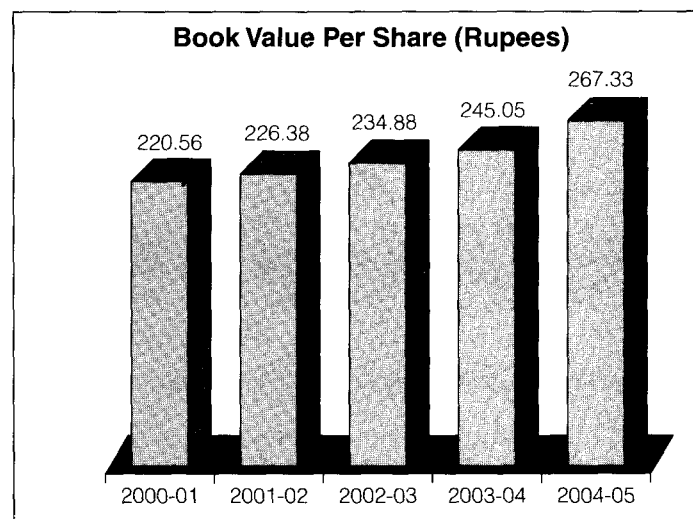
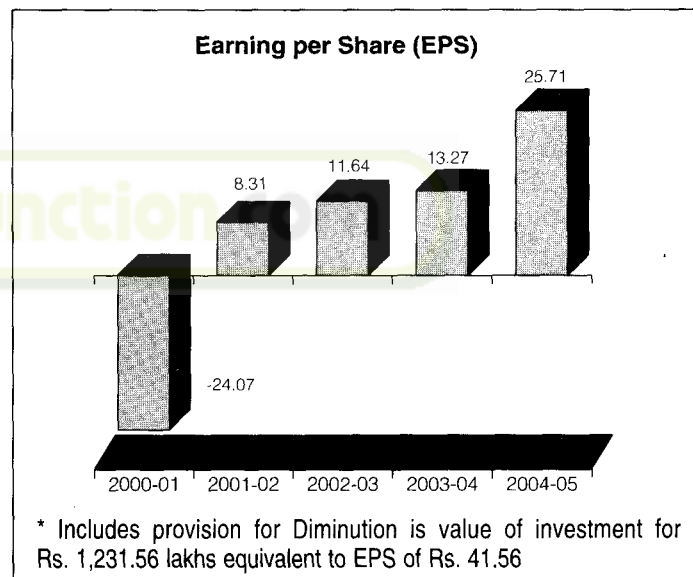
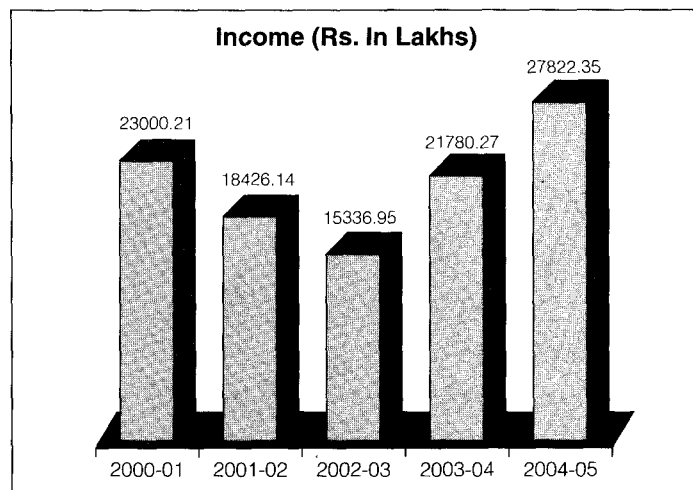
5.2.3 Other Segments:

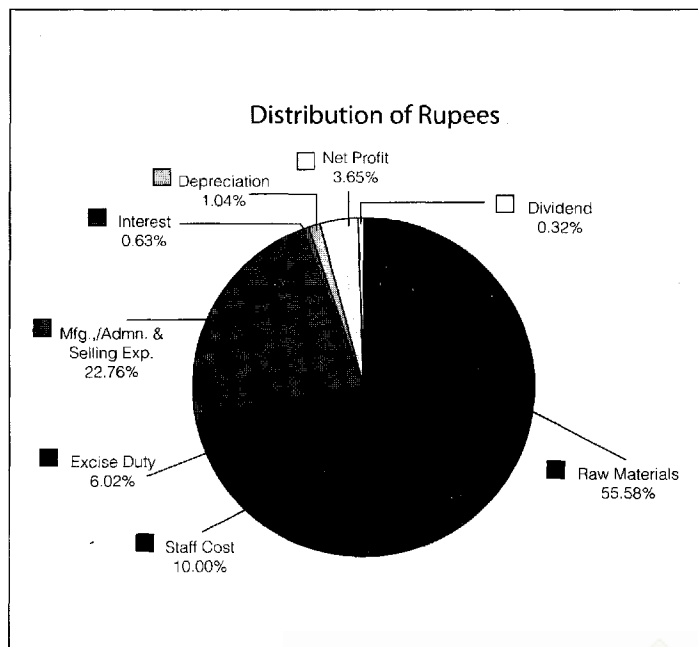
These include (i) the unit at Dharwad for manufacturing Pressure & Temperature Gauges and Sector Mechanisms (ii) Walchand Infotech Services Division (iii) Hospitality business.

The total revenue from these segments was Rs.686 Lakhs for the year 2004-2005 as against Rs.543 Lakhs for the year 2003-2004.

The unit at Dharwad improved its performance significantly both in turnover and profitability as compared to the pervious year due to good marketing effort and overall improvement in productivity.

The performance of the Infotech Services Division did not improve as the orders could not be booked for its product





'Ex-scheduler'. The work of incorporating additional features for this product as per customers' requirement is in progress. In the meantime services of the executives of the division are being utilized, to the extent possible, for computerization and implementation of Computerized Systems in Heavy Engineering Division.

The performance of Hospitality Division has improved as compared to previous year, due to measures undertaken for controlling wastages and reduction in fixed costs.

Outlook:

Performance of the unit at Dharwad is expected to further improve as its products have found wider acceptance in the market. The unit has planned to improve its facilities to meet the increased demand for Pressure Gauges and Sector Mechanisms.

As regards Infotech unit, thrust will be given for marketing its products by strengthening the marketing function. The unit will continue to support Heavy Engineering Division in implementing computerized systems.

The Hospitality Division is expected to further improve its performance by improving turnover and continuing efforts on controlling costs.

5.3 Internal Control Systems:

The Company has introduced adequate risk management and control system, commensurate with the scale and nature of its operations. Broadly these internal control procedures ensure the following :

- i) Efficient, effective use and protection of Company's resources.
- ii) Compliance with stipulated policies, procedures, statutes, accounting records and adequacy of internal control system and procedures.
- iii) Each business division is responsible for preparation of its budget, which is reviewed vis-à-vis the actual performance on monthly basis and corrective actions, wherever needed, are taken to ensure compliance. Considering the size and nature of operations of the Company, the overall control systems are adequate to meet the requirements.

These control systems are periodically reviewed and updated on an ongoing basis. The Company is having in-house Internal Audit Department for reviewing the internal control systems regularly.

5.4 Human Resources:

Human Resources are the most valuable assets of this Company which is engaged in design and manufacturing of high tech heavy engineering equipments and executing projects. The continuous development, training and recognizing as well as rewarding talent has been the corner stone of H.R. policy of the Company. Emphasis on goal setting and team working are encouraged. The culture of accountability, responsibility and delegation of powers has been incorporated for performance optimization.

6. FINANCE & ACCOUNTS:

6.1 Fixed Deposits:

The fixed deposits received from the shareholders and the public as on 30th September, 2005, were Rs.616.43 Lakhs. No deposits were due for repayment or have remained unpaid as on 30th September, 2005.

6.2 Income Tax Assessments:

The Company's Income Tax and Wealth Tax Assessments are completed up to the Assessment Year 2002-2003. Assessment for the year 2003-2004 is in progress. Various appeals before Appellate Authorities are being pursued.

6.3 Auditors' Report:

Observations made by the Auditors in 4 (vi) of their report are suitably clarified under Note No. D-4 (iv)-C forming part of the Accounts.