



LOKESH MACHINES LIMITED

RED HERRING PROSPECTUS

Please read Section 60B of the Companies Act, 1956

Dated March 27, 2006

100% Book Building Issue

(The Company was incorporated as a "Public Limited Company" vide Registration No: 01-4319 on December 17th, 1983 in Hyderabad under the Companies Act, 1956 and obtained certificate for commencement of business on February 9th, 1984)

REGISTERED OFFICE: B-29, EEIE Stage-II, Balanagar, Hyderabad- 500 037. Andhra Pradesh, India

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WORKS : Temple Road, Bonthapalli, Narsapur Mandal, Medak District, Andhra Pradesh, B-25 & 36, EEIE, Stage II, Balanagar, Hyderabad, Andhra Pradesh
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PUBLIC ISSUE OF 30,00,000 EQUITY SHARES OF RS. 10/- EACH FOR CASH AT A PRICE OF RS. [•] PER EQUITY SHARE AGGREGATING RS. [•] LAKHS BY LOKESH MACHINES LIMITED ("THE COMPANY" OR "ISSUER") (HEREINAFTER REFERRED TO AS THE "ISSUE"). THE ISSUE WOULD CONSTITUTE 25.47% OF THE FULLY DILUTED POST ISSUE PAID UP CAPITAL OF THE COMPANY.

PRICE BAND: Rs.130/- to Rs.140/- PER EQUITY SHARE OF FACE VALUE OF RS.10/-

THE FACE VALUE OF THE EQUITY SHARES IS RS.10/- EACH. THE OFFER PRICE IS 13 TIMES THE FACE VALUE AT THE LOWER END OF THE PRICE BAND AND 14 TIMES THE FACE VALUE AT THE HIGHER END OF THE PRICE BAND

In case of revision in the Price Band, the Bidding/Issue Period will be extended for three additional days after such revision, subject to the Bidding/ Issue Period not exceeding 10 working days. Any revision of Price Band and the revised Bid/Issue Period, if applicable will be widely disseminated by notification to The National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited, Mumbai (BSE) where the Equity Shares of the Company are proposed to be listed and whose online IPO systems will be available for bidding, by issuing a press release, and also by indicating the change on the website of the Book Running Lead Managers and the terminals of the Syndicate.

The issue is being made through the 100% book building process wherein atleast 50% of the Issue shall be allocated to Qualified Institutional Buyers ("QIBs") on a proportionate basis out of which 5% shall be available for allocation on a proportionate basis to Mutual Funds only. The remaining shall be available for allocation on a proportionate basis to QIBs and Mutual Funds, subject to valid bids received from them at or above the issue price. Further, not less than 15% of the Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the net Issue shall be available for allocation on a proportionate basis to Retail Bidders, subject to valid bids being received at or above the issue price.

RISK IN RELATION TO THE FIRST ISSUE

This being the first Issue of Lokesh Machines Limited, there has been no formal market for the Shares of the Company. The face value of the shares is Rs.10/- per share and the Issue Price is [•] times of the face value. The Floor Price is 13 times and the Cap Price is 14 times of the face value. The Issue Price/price band (determined by the Company in consultation with the Book Running Lead Managers ("BRLMs") on the basis of assessment of market demand for the Equity Shares by way of book building) should not be taken to be indicative of the market price of the equity shares after the shares are listed. No assurance can be given regarding an active or sustained trading in the shares of the Company nor regarding the price at which the equity shares will be traded after listing.

GENERAL RISKS

Investments in equity and equity related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Company and the Issue including the risks involved. The securities have not been recommended or approved by Securities and Exchange Board of India ("SEBI") nor does SEBI guarantee the accuracy or adequacy of this Red Herring Prospectus.

Specific attention of the investors shall be invited to the summarized and detailed statement of risk factors beginning on Page No. vi of this Red Herring Prospectus.

THE COMPANY HAS NOT OPTED FOR IPO GRADING

ISSUER'S ABSOLUTE RESPONSIBILITY

The Company, having made all reasonable inquiries, accepts responsibility for and confirms that this Red Herring Prospectus contains all information with regard to the Company and the Issue, which is material in the context of the Issue, that the information contained in the Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Red Herring Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The Equity Shares are proposed to be listed on The National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Ltd.(BSE) being the Designated Stock Exchange. The in-principle approvals of the Stock Exchanges for listing Equity Shares have been received pursuant to letter nos. NSE/ LIST/20553-B dated February 24, 2006 and List/Smg/SM/2006 dated February 10, 2006, respectively.

BOOK RUNNING LEAD MANAGER



Karvy Investor Services Limited

"Karvy House" 46, Avenue 4, Street No.1, Banjara Hills,
Hyderabad - 500 034, Andhra Pradesh, India

Tel.No.: 91 040-23312454/23374714, Fax No. : 91 040 23374714

E-mail : mbd@karvy.com; website:www.karvy.com

REGISTRAR TO THE ISSUE



Karvy Computershare Private Limited

"Karvy House" 46, Avenue 4, Street No.1, Banjara Hills,
Hyderabad - 500 034, Andhra Pradesh, India

Tel.No.+91 40-23431570/23420828 (14 Lines),

Fax No. : +91 40 23431551/23420814

E-mail : mailmanager@karvy.com; Website: www.karvy.com

ISSUE PROGRAMME

BID/ISSUE OPEN ON : 7th April, 2006

BID/ISSUE CLOSING ON : 13th April, 2006



TABLE OF CONTENTS

SECTION I DEFINITIONS AND ABBREVIATIONS	PAGE NOS.
1. ABBREVIATIONS	i
2. ISSUE RELATED TERMS	i
3. COMPANY RELATED TERMS / CONVENTIONAL/GENERAL TERMS	iii
SECTION II RISK FACTORS	
1. FORWARD-LOOKING STATEMENTS & MARKET	vi
2. RISK FACTORS	vi
SECTION III INTRODUCTION	
1. SUMMARY	1
2. GENERAL INFORMATION	6
3. CAPITAL STRUCTURE OF THE COMPANY	12
4. OBJECTS OF THE ISSUE	22
5. APPRAISAL	34
6. SCHEDULE OF IMPLEMENTATION	34
7. PROPOSED DEPLOYMENT OF FUNDS	35
8. INTERIM USE OF FUNDS	35
9. TERMS OF THE PRESENT ISSUE	35
10. BASIS FOR ISSUE PRICE	36
11. TAX BENEFITS	37
SECTION IV ABOUT THE ISSUER	
1. INDUSTRY OVERVIEW	42
2. BUSINESS OVERVIEW	46
3. HISTORY AND CORPORATE STRUCTURE	59
4. THE MANAGEMENT	62
5. PROMOTERS	71
6. DIVIDEND POLICY	73
SECTION V FINANCIAL STATEMENTS	
1. FINANCIAL INFORMATION	74
2. FINANCIAL INFORMATION OF GROUP COMPANIES	108
3. CHANGES IN THE ACCOUNTING POLICIES	110
4. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION	110
SECTION VI LEGAL AND OTHER INFORMATION	
1. OUTSTANDING LITIGATIONS AND MATERIAL DEVELOPMENTS	115
2. GOVERNMENT APPROVALS/ LICENSING ARRANGEMENTS	117
SECTION VII OTHER REGULATORY AND STATUTORY DISCLOSURES	119
SECTION VIII ISSUE INFORMATION	
1. TERMS OF THE ISSUE	125
2. ISSUE PROCEDURE	128
SECTION IX DESCRIPTION OF EQUITY SHARES AND TERMS OF THE ARTICLES OF ASSOCIATION	150
SECTION X OTHER INFORMATION	
1. MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION	169
2. DECLARATION	171



SECTION I DEFINITIONS AND ABBREVIATIONS

I. DEFINITIONS / ABBREVIATIONS

1. ABBREVIATIONS

Term	Description
The “Company” or “our Company” or “Lokesh” or “Lokesh Machines Limited” or “we” or “our” or “us” or “LML”	Unless the context otherwise requires refers to Lokesh Machines Limited, a company incorporated under the Companies Act

2. ISSUE RELATED TERMS

Term	Description
Allotment	Issue of Equity Shares pursuant to the Issue to the successful Bidders as the context requires.
Allottee	The successful Bidder to whom the Equity Shares are being/have been issued
Banker(s) to the Issue	ICICI Bank Ltd., UTI Bank Ltd., The Hongkong & Shanghai Banking Corporation Ltd. and Standard Chartered Bank.
Bid	An indication to make an offer during the Bidding Period by a prospective investor to subscribe to our Equity Shares at a price within the Price Band, including all revisions and modifications thereto.
Bid Amount	The highest value of the optional Bids indicated in the Bid cum Application Form.
Bid Closing Date /Issue Closing Date	The date after which the Syndicate will not accept any Bids for the Issue, which shall be the date notified in an English national newspaper, a Hindi national newspaper and Telugu newspaper.
Bid Opening Date/Issue Opening Date	The date on which the Syndicate shall start accepting Bids for the Issue, which shall be the date notified in an English national newspaper, a Hindi national newspaper and Telugu newspaper.
Bid cum Application Form	The form in terms of which the Bidder shall make an offer to subscribe to the Equity Shares of our Company and which will be considered as the application for issue of the Equity Shares pursuant to the terms of this Red Herring Prospectus.
Bidder	Any prospective investor who makes a Bid pursuant to the terms of this Red Herring Prospectus and the Bid cum Application Form.
Bidding Period / Issue Period	The period between the Bid Opening Date/Issue Opening Date and the Bid Closing Date/Issue Closing Date inclusive of both days and during which prospective Bidders can submit their Bids.
Book Building Process	Book building route as provided under Chapter XI of the SEBI Guidelines, in terms of which the Issue is made.
BRLMs/Book Running Lead Managers	Book Running Lead Managers to the Issue, in this case being Karvy Investor Services Limited and UTI Securities Limited.
CAN/Confirmation of Allocation Note	Means the note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares after discovery of the Issue Price in accordance with the Book Building Process.
Cap Price	The higher end of the Price Band, above which the Issue Price will not be finalised and above which no Bids will be accepted.
Cut-off Price	Any price within the Price Band finalised by the Company in consultation with the BRLMs. A Bid submitted at Cut-off Price is a valid Bid at all price levels within the Price Band.
Designated Date	The date on which funds are transferred from the Escrow Account(s) to the Issue Account after the Prospectus is filed with the RoC, following which the Board shall allot Equity Shares to successful Bidders.



Designated Stock Exchange	Bombay Stock Exchange Limited, Mumbai
Red Herring Prospectus	This Red Herring Prospectus which does not have complete particulars on the price at which the Equity Shares are offered and size of the Issue.
Equity Shares	Equity shares of our Company of Rs. 10 each unless otherwise specified in the context thereof.
Escrow Account	Account opened with an Escrow Collection Bank(s) and in whose favour the Bidder will issue cheques or drafts in respect of the Bid Amount.
Escrow Agreement	Agreement entered into amongst the Company, the Registrar, the Escrow Collection Bank(s) and the BRLMs for collection of the Bid Amounts and for remitting refunds, if any, of the amounts collected, to the Bidders.
Escrow Collection Bank(s)	The banks, which are clearing members and registered with SEBI as Banker(s) to the Issue, at which the Escrow Account will be opened.
First Bidder	The Bidder whose name appears first in the Bid cum Application Form or Revision Form.
Floor Price	The lower end of the Price Band, below which the Issue Price will not be finalised and below which no Bids will be accepted.
IPO	Initial Public Offering.
Issue Size	Public issue of 30,00,000 Equity Shares at the Issue Price pursuant to the Red Herring Prospectus and the Prospectus.
Issue Account	Account opened with the Banker(s) to the Issue to receive monies from the Escrow Accounts for the Issue on the Designated Date.
Issue Price	The final price at which Equity Shares will be allotted in terms of the Prospectus, as determined by the Company in consultation with the BRLMs, on the Pricing Date.
Margin Amount	The amount paid by the Bidder at the time of submission of his/her Bid, which may range between 10% to 100% of the Bid Amount.
Net Offer to the Public	30,00,000 Equity Shares of Rs.10/- each.
Non-Institutional Bidders	All Bidders that are not QIBs or Retail Individual Bidders and who have Bid for Equity Shares for an amount more than Rs.1,00,000.
Non-Institutional Portion	The portion of the Issue being 4,50,000 Equity Shares of Rs. 10 each available for allocation to Non Institutional Bidders.
Pay-in-Period	(i) With respect to Bidders whose Margin Amount is 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending until the Bid Closing Date, and (ii) with respect to Bidders whose Margin Amount is less than 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending up to the date specified in the CAN.
Price Band	The price band with a minimum price (Floor Price) of Rs. 130/- and the maximum price (Cap Price) of Rs. 140/-, including any revisions thereof.
Pricing Date	The date on which the Company in consultation with the BRLMs finalizes the Issue Price.
Promoter Group Companies	Unless the context otherwise requires, refers to those companies mentioned in the section titled “Financial Information of the Group Companies” on page no. 108 of this Red Herring Prospectus.
Promoters	Mr. M. Lokeshwar Rao, Mr. B Kishore Babu, Mr. M Srinivas, Mr. M Srikrishna, Mrs M Kanaka Durga and Mrs C Sirekha
Prospectus	The Prospectus, filed with the RoC containing, inter alia, the Issue Price that is determined at the end of the Book Building Process, the size of the Issue and certain other information.



QIB Portion	The portion of the Issue to public and up to 15,00,000 Equity Shares of Rs.10 each at the Issue Price, available for allocation to QIBs.
Qualified Institutional Buyers or QIBs	Public financial institutions as defined in Section 4A of the Companies Act, FIIs, scheduled commercial banks, mutual funds registered with SEBI, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI, state industrial development corporations, insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with a minimum corpus of Rs. 250 million pension funds with a minimum corpus of Rs. 250 million, and multilateral and bilateral development financial institutions.
Registrar /Registrar to the Issue	Registrar to the Issue, in this case being Karvy Computershare Private Limited
Retail Individual Bidders	Individual Bidders (including HUFs) who have Bid for Equity Shares for an amount less than or equal to Rs. 1,00,000, in any of the bidding options in the Issue.
Retail Portion	The portion of the Net Issue to the public and being a minimum of 10,50,000 Equity Shares of Rs.10 each available for allocation to Retail Individual Bidder(s).
Revision Form	The form used by the Bidders to modify the quantity of Equity Shares or the Bid Price in any of their Bid cum Application Forms or any previous Revision Form(s).
RHP or Red Herring Prospectus	Means the document issued in accordance with the SEBI Guidelines, which does not have complete particulars on the price at which the Equity Shares are offered and the size of the Issue. The Red Herring Prospectus which will be filed with the RoC at least 3 days before the Bid Opening Date and will become a Prospectus after filing with the RoC after pricing and allocation.
SCRR	Securities Contracts (Regulation) Rules, 1957, as amended.
Stock Exchanges	BSE and NSE.
Syndicate	The BRLMs and the Syndicate Members.
Syndicate Agreement	The agreement to be entered into between the Company and the Syndicate, in relation to the collection of Bids in this Issue.
Syndicate Member	Karvy Stock Broking Limited
TRS or Transaction Registration Slip	The slip or document issued by the Syndicate Members to the Bidder as proof of registration of the Bid.
Underwriters	The BRLMs and the Syndicate Members.
Underwriting Agreement	The agreement among the members of the Syndicate and the Company to be entered into on or after the Pricing Date.

3. COMPANY AND INDUSTRY TERMS

Term	Description
Auditors	The statutory auditors of the Company, Delloitte Haskins and Sells
Board of Directors/Board	The Board of Directors of the Company or a committee constituted thereof.
CAGR	Compounded Annual Growth Rate
CNC	Computerised Numerical Control
Director(s)	Director(s) of Lokesh Machines Limited, unless otherwise specified.
GPM	General Purpose Machines
HMC	Horizontal Machining Centre



MNC	Multinational Companies/Corporations
OEM	Original Equipment Manufacturer
OD	Overdraft
PC Cum FUBD	Packing Credit and Foreign Usance Bill Discounting facility
P&M	Plant and Machinery.
Registered Office	The registered office of the Company being B-29, EEIE Stage -II, Balanagar, Hyderabad - 500 037
SPM	Special Purpose Machines
TPA	Tonnes per Annum
TPD	Tonnes per day
TPM	Total Productive Maintenance
VMC	Vertical Machining Centre
WCDL	Working Capital Demand Loan
SWOT	Strengths, Weaknesses, Opportunities and Threats

CONVENTIONAL/GENERAL TERMS

Term	Description
AGM	Annual General Meeting
Articles/ Articles of Association	The Articles of Association of Lokesh Machines Limited
AS	Accounting Standards as issued by the Institute of Chartered Accountants of India.
BSE	Bombay Stock Exchange Limited, Mumbai.
CAGR	Compounded Annual Growth Rate.
CDSL	Central Depository Services (India) Limited.
Companies Act	The Companies Act, 1956, as amended from time to time.
Depositories Act	The Depositories Act, 1996, as amended from time to time.
Depository	A body corporate registered under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time.
Depository Participant	A depository participant as defined under the Depositories Act.
EGM	Extraordinary General Meeting.
EPS	Earnings per share.
FCNR Account	Foreign Currency Non Resident Account
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time, and the regulations framed there-under.
FII	Foreign Institutional Investor (as defined under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000) registered with SEBI under applicable laws in India.
Financial Year /fiscal year/FY/ fiscal	Period of twelve months ended March 31 of that particular year, unless otherwise stated.
FIPB	Foreign Investment Promotion Board.
Government/ GOI	The Government of India
HUF	Hindu Undivided Family.



I.T. Act	The Income Tax Act, 1961, as amended from time to time.
Indian GAAP	Generally accepted accounting principles in India.
Memorandum/Memorandum of Association	The Memorandum of Association of Lokesh Machines Limited.
MNC	Multi National Company
NAV	Net Asset Value.
NI Act	Negotiable Instruments Act
Non Residents	Non-Resident is a Person resident outside India, as defined under FEMA and who is a citizen of India or a Person of Indian Origin under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.
NRE Account	Non Resident External Account
NRI/Non-Resident Indian	Non-Resident Indian, is a Person resident outside India, who is a citizen of India or a Person of Indian origin and shall have the same meaning as ascribed to such term in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Limited.
NSE	National Stock Exchange of India Limited
OCB/ Overseas Corporate Body	A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs, including overseas trusts in which not less than 60% of beneficial interest is irrevocably held by NRIs directly or indirectly as defined under Foreign Exchange Management (Deposit) Regulations, 2000. OCBs are not allowed to invest in this Issue.
P/E Ratio	Price/Earnings Ratio
PAN	Permanent Account Number.
Person/Persons	Any individual, sole proprietorship, unincorporated association, unincorporated organization, body corporate, corporation, company, partnership, limited liability company, joint venture, or trust or any other entity or organization validly constituted and/or incorporated in the jurisdiction in which it exists and operates, as the context requires.
PIO/ Person of Indian Origin	Shall have the same meaning as is ascribed to such term in the Foreign Exchange Management (Investment in Firm or Proprietary Concern in India) Regulations, 2000.
RBI	The Reserve Bank of India.
Reserve Bank of India Act/RBI Act	The Reserve Bank of India Act, 1934, as amended from time to time.
RoC	The Registrar of Companies, Andhra Pradesh, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad - 500 195
SEBI	The Securities and Exchange Board of India constituted under the SEBI Act, 1992.
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended, including instructions and clarifications issued by SEBI from time to time.
SEBI Takeover Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997, as amended from time to time.



SECTION II - RISK FACTORS

1. FORWARD-LOOKING STATEMENTS, CERTAIN CONVENTIONS & MARKET DATA

Statements included in this Red Herring Prospectus which contain words or phrases such as “will”, “aim”, “will likely result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions, are “forward-looking statements”.

Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with the Company’s expectations in respect of, but not limited to,

- The Company’s ability to successfully implement its strategy, growth and expansion plans,
- Any disruptive change in technology
- General economic and political conditions in India which have an impact on the business activities of the Company
- The monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally.
- Potential mergers, acquisitions or restructurings or changes in competition in the industry.

For further discussion of factors that could cause the Company’s actual results to differ, see the section entitled “Risk Factors” beginning on page no. vi of this Red Herring Prospectus. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. The Company, the members of the Syndicate and their respective affiliates do not have any obligation to, and do not intend to, update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Company and the BRLMs will ensure that investors are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

Unless stated otherwise, the financial data in this Red Herring Prospectus is derived from the Company’s financial statements prepared in accordance with Indian GAAP and included in this Red Herring Prospectus. The current fiscal year has commenced on April 1, 2005 and ends on March 31, 2006. In this Red Herring Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding-off. There are significant differences between Indian GAAP and U.S. GAAP; accordingly, the degree to which the Indian GAAP financial statements included in this Red Herring Prospectus will provide meaningful information is entirely dependent on the reader’s level of familiarity with Indian accounting practices. Any reliance by Persons not familiar with Indian accounting practices on the financial disclosures presented in this Red Herring Prospectus should accordingly be limited. The Company has not attempted to explain those differences or quantify their impact on the financial data included herein, and the Company urges you to consult your own advisors regarding such differences and their impact on the financial data.

Market data used throughout this Red Herring Prospectus has been obtained from industry publications and internal Company reports. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. The information obtained from internal Company reports and contained in this Prospectus has been obtained from sources believed to be reliable, but their accuracy and completeness and underlying assumptions are not guaranteed and their reliability cannot be assured. Although, the Company believes that the market data used in this Red Herring Prospectus is reliable, it has not been independently verified. Similarly, internal Company reports and data, while believed to be reliable, have not been verified by any independent source.

2. Risk Factors

Investors should consider carefully the following risk factors, together with the other information contained in this Red Herring Prospectus, before they decide to invest in the Company’s Equity Shares. If any of the following risks actually occur, the Company’s business, financial condition and results of operations could suffer, the trading price of the Company’s Equity Shares could decline and investors may lose all or part of their Investment.

Unless otherwise stated in the relevant risk factors set forth below, the Company is not in a position to specify or quantify the financial or other implications of any of the risks mentioned herein.

Materiality

The Risk factors have been determined on the basis of their materiality. The following factors have been considered for determining the materiality:

- Some events may not be material individually but may be found material collectively.
- Some events may have material impact qualitatively instead of quantitatively.
- Some events may not be material at present but may be having material impacts in future.

The risk factors are as envisaged by the management along with the proposals to address the risk if any. Wherever possible, the financial impact of the risk factors has been quantified.

A. INTERNAL TO THE COMPANY

1. The Company is promoted by first generation entrepreneurs and the investments will be subjected to all consequential risk associated with such ventures.

The Company was promoted by the first generation entrepreneurs 20 years back. The Company's business was the brainchild of these entrepreneurs and the sourcing of solutions provided by the company was the result of their efforts and understanding.

2. The revenues of the Company are highly dependent on a limited number of clients

The contribution of the top five major customers to the total sales of the Company during the financial year 2004-05 and for the first seven month ended 31st October 2005 in the year 2005-06 is as follows:-

Name	% of Contribution in total sales	
	2004-05	Upto October 31, 2005
Mahindra & Mahindra Limited	39.94	34.15
Bharat Forge Limited	4.32	6.17
Ashok Leyland Ltd, Hos	5.58	4.44
Everest Kanto Cylinder	—	4.26
S C Machinery and Services Company Limited, Japan	5.67	—

The loss of business from any one of the major customers may adversely affect the revenues and profits of the Company.

3. Significant dependence on one buyer

One of the objects of the issue is to set up a facility for machining and supply of cylinder block and cylinder heads for commercial vehicles. The facility will be used exclusively for production of cylinder blocks and cylinder heads for Ashok Leyland Limited for the first three years, renewable thereafter every year, as per arrangements with the said Company. The revenues and profitability of the Company is dependent upon the performance of this arrangement. The Company is also exposed to the risk of significant bargaining power of Ashok Leyland Limited at the time of renewal.

4. The Company is dependent on external suppliers for key materials and components.

The company is dependent on external suppliers for most of the machinery/components. The failure of its suppliers to deliver these materials or components in the necessary quantities or to adhere to delivery schedules or specified quality standards/technical specifications, could adversely affect its business and its ability to deliver on time and at the desired level of quality giving rise to contractual penalties or liability, for failure to perform contracts, and a loss of customers and damage Company's reputation, any of which could materially adversely affect its results of operations.

Also, qualifying alternative suppliers that can meet the Company's technical and quality standards, and who can supply these materials in necessary quantities, would entail substantial cost and could cause delays in deliveries of the Company's products. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

Further, if the costs of these materials were to rise due to factors such as rises in input and commodity prices or shortages in supply, and the Company is not able to recover these costs through cost saving measures elsewhere or by increasing the prices of its products, its results of operations could be adversely affected. As such, should cost of materials rise, the



Company can provide no assurance that it will be able to pass on any additional costs to its customers, and accordingly its results of operations could suffer. Finally, as the Company often purchases in advance materials based on its estimate of customer demand for an upcoming period, in the event prices for these materials subsequently decline there can be no assurance that the Company will be able to price its solutions based on the material costs it actually incurred, which would make its solutions uncompetitive compared to those of competitors who have not locked in their material supplies.

5 Any increase in prices of raw materials will raise Company's manufacturing costs and could affect its profitability.

The Company's basic raw materials are mild steel, hydraulics and bearings which constitute around 60% of its overall cost. Prices of mild steel are subject to volatility for various reasons including international supply shortages. Any abrupt or large-scale escalation in the prices of the raw materials can adversely affect the profits, in case the Company is unable to pass them on to its customers. Besides, continued shortage of domestic/imported raw materials/machinery may adversely affect the Company's growth prospects.

6 The Company is heavily dependent upon the growth prospects of the Industries, which consume its products. Any slowdown in the rate of growth of these industries would seriously impact its own growth prospects and there may be a decline in profits.

7 The Company's business is dependent on its manufacturing facilities. The loss of or shutdown of operations at any of its manufacturing facilities may have a material adverse effect on its business, financial condition and results of operations

The Company's principal manufacturing facilities at Bonthapally, Medchal and Balanagar are subject to operating risks, such as the breakdown of failure of equipment, power supply or processes, performance below expected levels of output or efficiency, obsolescence, labour disputes, strikes lock-outs continued availability of services of the external contractors, earthquakes and other natural disasters, industrial accidents and the need to comply with the directives of relevant government authorities. The occurrence of these risks could significantly affect the Company's operating results. The Company carries out planned shutdown of plants for maintenance.

Although the Company takes precautions to minimize the risk of any significant operational problems at its facilities, its business, financial condition and results of operations may be adversely affected by any disruption of operations at its facilities, including due to any of the factors mentioned above.

8 MLR Motors Private Limited and Matrix Equipment Private Limited, group Companies of the Company have incurred losses in some of the previous years. For further details please refer to the section "Financials of Group Companies" appearing on page no.108 of this Red Herring Prospectus.

9 Dependence on Key Management Team

The Company has a team of professionals who are responsible for the day-to-day operations. It may lose the key management team to the competitors. If one or more members of the management team are unable or unwilling to continue with the Company, it may find it difficult to replace such people and the business may be adversely affected.

10 The proposed expansion project is mainly funded by the Public Issue. Any delay in raising the funds from IPO may have an adverse impact on the future performance of the Company.

Delays in raising funds are likely to have an impact in the growth plans of the company in the short run due to delayed deployment of funds. If this happens, it is likely that the company may have to renegotiate with some of the suppliers and in some cases even settle for alternate suppliers for key equipment. Such processes can delay the project thereby affecting the future performance of the company. The performance projections are prepared based on timely raising of funds and hence the delay in IPO can affect future performance of the company.

11 The Company has not made any definitive arrangements for the procurement of some of the equipment/machinery/ fixed assets for the project, which may cause delay in implementation of the project.

The process of placing orders on the suppliers for supply of some of the equipment has been held up pending final negotiations. Due to the delay in finalization of negotiations, the delivery of the equipment/materials may get delayed which in turn may cause further delay in project implementation. By not finalizing terms with some of the vendors, the company may also be faced with situation of seeking new vendors/suppliers where negotiations and discussions need to be started afresh. As a result, the project implementation may be significantly affected in terms of delays.

12. The Company has significant planned capital expenditures; its capital expenditure plans may not yield the benefits intended. The capital expenditure mentioned in the Objects of the Issue has not been appraised by any bank or financial institution.

The Company operations require significant capital expenditure to be utilized for the purpose of setting up new manufacturing facilities and upgradation of its existing manufacturing facilities. For more details on the Company's planned expenditure please refer to the section entitled "Objects of the Issue" on page no.22 of this Red Herring Prospectus. The figures in the capital expenditure plans are based on management estimates and have not been appraised by any bank, financial institution or other independent organisation. In addition, the Company's capital expenditure plans are subject to a number of variables, including possible cost overruns; receipt of critical governmental approvals; availability of financing on acceptable terms; and changes in management's views of the desirability of current plans, among others. There can be no assurance that any capacity addition or improvement at its facilities will be completed as planned or on schedule or that the Company will achieve its planned capacity, operational efficiency or product base, or its targeted return on investment. In view of the reasons stated above, the Company cannot assure that it will be able to execute its capital expenditure plans as contemplated. If the Company experiences significant delays or mishaps in the implementation of its capital expenditure plans or if there are significant cost overruns, then the overall benefit of such plans to its revenues and profitability may decline.

13. The Company has a huge labour force, most of it is on the contract basis.

The Company, a player in machine tool manufacturing industry, is labour intensive, and is constrained by the labour laws in India which limit the flexibility on downsizing the workforce. The Company manages a large portion of the workforce through labour contractors. This system helps the company to tune its manpower requirement in line to the actual requirement.

14. The Statutory Auditor of the Company have made the following qualifying statements:

(i) In their report dated 13th March 2006

- (a) No adjustment has been done in respect of audit qualification for the year 2000-01 regarding determination and valuation of raw materials and work-in-progress and for the year 2001-02 regarding determination and valuation of raw materials as the effect on accounts could not be quantified.
- (b) In respect of audit qualification for the year 2002-03 regarding inclusion under Loans and Advances of Rs.54 lacs paid to the investors on partial redemption of 12% Optionally Convertible Cumulative Preference Shares and no transfer of profits to Capital Redemption Reserve, the relevant accounts were adjusted.

(ii) In their report for the financial year 31st March 2005

- (a) There have been delays in deposit of Provident Fund, Employees State Insurance, Income Tax and Sales Tax with appropriate authorities.
- (b) The company has defaulted in repayment of dues to banks as under:

Category	Total Amount involved (Rs. In lakhs)	Period of default
Loan from Banks	Rs.433.81	22 days to 88 days

15. Contingent liability against the Company

As on October 31, 2005 the contingent liability outstanding against the company is as follows:

(Rs. in Lakhs)

Sl.No.	Particulars	31.10.05
(a)	Letters of Credit	628.48
(b)	Bank Guarantees	264.81
	Total	893.29

16. Pending Litigation/ Proceedings

The following is the case filed by the Company against the New India Assurance Co. Ltd., Hyderabad.

The company has imported a double column Plano milling machine from Germany under EPCG Licence during the year 2001. The equipment was damaged at the Chennai port while unloading. The company had covered the machine under marine insurance policy to the destination at Hyderabad with New India Assurance Company. In spite of the insurance surveyor's report in favour of settlement of the claim the insurance company repudiated the claim, the Company has filed a complaint before the National Consumer Disputes Redressal Commission, New Delhi (OP29 of 2004). The amount claimed by the Company is Rs.2,08,36,791/-. The matter is posted for hearing.

For details, please refer to chapter "Outstanding Litigations and Material Developments" on page no. 115 of this Red Herring Prospectus.

17. Outstanding litigation against group companies

A Writ Petition (No.5231 of 2004) was filed by a Group Company - MLR Motors Private Limited challenging the action of State Government of Andhra Pradesh in not granting the eligibility Certificate for Sales Tax Incentives, applicable to Pipeline Industries, and raising a demand note for Rs.11,34,110/- on alleged sales tax arrears. This petition was dismissed by the Andhra Pradesh High Court, relying on the Affidavit filed on behalf of the Government that Eligibility Certificate was cancelled after servicing Showcause notice, which was not responded to. Subsequently, the Government issued a distraint order on the property of the Company claiming arrear sales tax dues.

Since the Company replied to the Showcause notice within the deadline, the cancellation of the Eligibility Certificate and the issue of the Distraint Order was challenged by yet another Writ Petition (No.16564 of 2004). The Andhra Pradesh High Court stayed the operation of the distraint order while granting leave to the Commissioner of Industries to pass a fresh order after considering the reply of the Company to the Showcause Notice.

18. Restrictive/Negative covenants in the agreement with State Bank of Hyderabad, State Bank of Indore and Industrial Development Bank of India

The loan agreements for credit facilities dated 17th March, 2004 and 13th June 2005 entered into with State Bank of Hyderabad for Credit facility of Rs.750 lakhs and Rs. 250 lakhs respectively; loan agreement dated 21st July 2004 with the State Bank of Indore for term loan of Rs.1000 lakhs and loan agreement dated 19th July 2001 entered into with Industrial Development Bank of India of Rs.750 lakhs contain restrictive/negative covenants which affect the interest of Equity shareholders.

For detailed restrictive/negative covenants please refer to the section, "Notes to the Capital Structure" starting on page no. 12 of this Red Herring Prospectus.

19. The Company's inability to manage growth may lead to loss of opportunities and may hamper the Company's future growth plans

The Company's net profit grew at a rate of 452.07% in FY in 2005 over FY 2004, which is substantially more than the growth it has experienced in the preceding years. While the Company has been able to successfully execute its business strategy in the past, the same may not hold true in future. The Company may be subject to growth related risks including capacity constraints and pressure on internal systems and controls. Its inability to deal with this growth could have material adverse impact on its business, operations and prospects. In order to manage its current operations and any future growth effectively, the company has to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate, manage and retain its employees. There can be no assurance that it will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support to support the Company's operations so that it will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. Any failure on Company's part to scale up its infrastructure and management to meet the challenges of rapid growth could cause disruptions to its business and could be detrimental to its long-term business prospects.

The products manufactured by the Company find application in industries such as automobile, auto ancillaries and engineering. The growth rate in these industries is crucial for Company's growth. The major demand for its products arises primarily due to maintenance requirement of these user industries. While recently all these industries are witnessing robust growth, any downward trend in any of these industries can affect company's turnover and profitability.



20. The Promoters/Directors of the company may derive benefits out of their direct or indirect interest in the company and be able to influence the outcome of actions requiring shareholder approval.

The promoters may be deemed to be interested to the extent of shares held by them, their friends or relatives, and benefits arriving from their holding/directorship in the Company. The promoters are interested in the transaction entered into between the Company and the ventures where the Promoters are interested either as a promoter, director, partner, and proprietor or otherwise. For details, please refer page no. 105 of the Red Herring Prospectus. Further, after the issue is completed, the aforementioned persons will have the ability to influence the outcome of actions requiring the approval of shareholders. The interests of the promoters may conflict with the interest of the other investors, and investors may not agree with the way in which the promoters exercise their voting rights and powers. This could delay, defer or prevent a change in control of the Company, impede a merger, consolidation, take-over or other business combination involving the Company, discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company. The promoters are in position to influence all decisions at the shareholders' meeting.

21. Any delay in the commencement of operations scheduled as per the proposed expansion plan may affect the profitability of the Company.

The Company has embarked on new projects with an investment of approximately Rs.(●) lakhs. Timely commencement of commercial operations of proposed project will have a critical bearing on its financial performance. Any delay in completion may adversely affect the results of its operations and may affect the market price of the Equity Shares.

22. The Company may face potential liabilities or claims by customers in the future

The Company may face the risk of legal proceedings and claims being brought against the Company or its customers for any defects in the products sold to them for which the warranties were issued. This may result in liabilities and/or financial claims against the company as well as loss of business and reputation.

23. Any future equity offerings or issue of options under employee stock option scheme may lead to dilution of the investors' shareholding in the Company..

Purchasers of Equity Shares in this Issue may experience dilution of investors' shareholding to the extent the Company makes future equity offerings and to the extent additional options are issued under a future employee stock option scheme.

24. Challenges facing the Machine Tools Industry

- a) Import of cheap and reconditioned machine tools
- b) Increasing price sensitivity of the users leading to lower price realization
- c) Perceived lack of quality leading results to lower price realization for Indian Machine Tools

25. The Company's product designs / brand name / logo are not protected by Intellectual Property Rights. Any misuse of the same may result in loss of business for the Company.

The Company's design blue prints / brand name / logo are not protected by intellectual property rights. It will have no legal recourse against any unauthorized use of the same. Further, the Company has not applied for registration of any of its trademarks, which may lead to unauthorized use of its trademarks, by persons including its competitors. Any misuse on account of these may result in dilution of brand value and loss of business for the Company.

26. Agreement of sale entered into with Mr M Srikrishna and Mrs. C Sirekha, Promoters of the Company

- a) The Company has entered into an agreement with Mr M Srikrishna and Mrs. C Sirekha on 28th November 2005 for purchase of land admeasuring an area of 3 acres and 14 guntas and 1 acre 26 guntas bearing Survey No.16 situated at Shahzdiguda, Medchal mandal, R R District for a total consideration of Rs.37.68 lakhs and Rs.15.12 lakhs respectively. The Company has already taken possession of the land. The sale deed is yet to be registered.

B. EXTERNAL RISK FACTORS

1. Competition from unorganized Sector.

The company may face competition from other established companies and new entrants into the industry; which may affect the profitability of the company.

2. Changes in Laws

Changes if any in the Government policies, Laws, governing business policies in general taxation laws, etc., may affect the profitability of the Company.



3. Economic downturn may affect operating performance

In case of an economic downturn caused by political instability, acts of violence, terrorist attack or any other reason whatsoever, the company may not be in a position to attract maximum value for the content provided by it and hence this may affect the operating performance.

4. High Rate of Obsolescence

Rate of obsolescence of the technology and equipments used in the Industry is very high.

5. The prices of Equity Shares may fluctuate after this issue

The prices of the Equity Shares may fluctuate after the issue as a result of several factors, including volatility in the Indian and Global securities market; the Company's results of operations and performance; performance of the Company's competitors, performance of the Industry in which the Company is operating as a whole; adverse media reports on the Company or the Industry in which the Company is operating in; changes in the estimates of the Company's performance or recommendations by financial analysts; significant developments in India's economic liberalization and deregulation policies. There can be no assurance that an active trading market for the Equity Shares will develop or be sustained after this issue, or that the prices at which the Equity Shares are initially traded will correspond to the prices at which the Equity Shares will trade in the market subsequent to this issue.

6. Any changes in taxation policies by the government may cause the business of the Company to suffer:

Statutory taxes and other levies may affect the margins in the event of company's inability to pass on such expense to its customers. Any increase in any of these taxes or levies, or the imposition of new taxes and levies in the future, may have a material adverse impact on the Company's business, results of operations and financial condition.

7. A slowdown in economic growth in India could cause Company's business to suffer

The Indian economy has shown sustained growth over the last few years, on June 30, 2005 estimates of GDP released by the Central Statistical Organization (CSO) has placed the GDP growth at 6.9% during 2004-05: GDP grew by 8.5% in fiscal 2004, 4.0% in fiscal 2003 and 5.8% in fiscal 2002. Industrial growth is estimated to be 8.3% in 2004-05; it was 6.6% in fiscal 2004 compared with 6.2% in fiscal 2003 and 3.5% in fiscal 2002. Any slow down in Indian economy could adversely affect the spending capacity of the Company's customers and could adversely affect the financial performance.

8. Natural calamities could have a negative impact on the Indian economy and cause Company's business to suffer.

India has experienced natural calamities such as earthquakes, a tsunami, floods and drought in the past few years. The extent and severity of these natural disasters determines their impact on the Indian economy. For example, as a result of drought conditions in the country during fiscal 2003, the agricultural sector recorded a negative growth of 5.2%. The erratic progress of the monsoon in 2004 has also adversely affected sowing operations for certain crops. Further prolonged spells of below normal rainfall or other natural calamities could have a negative impact on the Indian economy, adversely affecting the Company's business and the price of the Company's Equity shares.

Notes:

1. Investors are advised to refer to the para on "Basis for Issue Price" on Page No. 36 before making any investment in this Issue
2. Investors may note that in case of oversubscription, allotment shall be on proportionate basis and will be finalized in consultation with the Designated Stock Exchange. If the Issue is oversubscribed, the Designated Stock Exchange along with the concerned Post Issue Book Running Lead Manager and Registrar to the Issue shall be responsible to ensure that the basis of allotment is finalized in a fair and proper manner.
3. The book value per share as on October 31, 2005 is Rs.27.49
4. The net worth of the Company as per the Financial Accounts of the Company as on October 31, 2005 is Rs.2412.88 lakhs.
5. Public issue of 30,00,000 equity shares of face value of Rs.10/- each per share at a price of Rs. [●] for cash at a premium aggregating Rs. [●] lakhs (hereinafter referred to as "the issue") and the issue would constitute 25.47% of the fully diluted post issue paid-up capital of the company.



6. The Issue is being made through a 100% book building process wherein upto 50% of the net issue to public will be allocated on a proportionate basis to Qualified Institutional Buyers (“QIBs”) out of which, 5% shall be available for allocation on a proportionate basis to Mutual Funds. The remaining shall be available for allocation on proportionate basis to QIBs and Mutual Funds, subject to valid bids being received from them at or above the Issue Price. Further, not less than 15% of the Net Offer will be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net Offer will be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Offer Price.
7. Investors may note that in case of over-subscription in the issue allotment shall be on proportionate basis. For more information, see (Basis of allotment) beginning on page no. 144 of this Red Herring Prospectus.
8. The average cost of acquisition of Equity Shares of the Promoters is as follows:

Name of the Promoter	Average Cost of Acquisition (in Rs.)
Mr. M Lokeshwara Rao	26.44
Mr. B Kishore Babu	25.35
Mr. M Srinivas	23.36
Mr. M. Srikrishna	23.36
Mrs. C Sirekha	22.05
Mrs. M Kanaka Durga	21.31

9. The promoters/directors/key management personnel of the Company have no interest other than reimbursement of expenses incurred or normal remuneration or benefits arising out of the shareholding in the company or out of any business relation with any of the ventures in which they are interested.
10. The Promoter Group/directors of the Company have not purchased and or sold/financed any shares of the Company during the past six months other than as disclosed in the Notes to the Capital Structure starting on page no. 12.
11. The investors may contact the BRLMs or the Compliance Officer for any complaint/clarification/information pertaining to the Issue, who will be obliged to attend to the same.
12. No loans and advances have been made to any person(s) / Companies in which the Director(s) of the Company are interested.
13. Trading in Equity Shares of the Company for all the investors shall be in Dematerialized form only.
14. For related party transactions and transactions with significant shareholders, please refer to the section entitled, “Related Party Transactions” on page no. 105 of this Red Herring Prospectus.
15. None of the other ventures of the promoters have business interest / other interest in the Issuer Company.



SECTION III - INTRODUCTION

1. Summary

You should read the following summary with the Risk factors included from page no. vi for more detailed information about the Company and its financial statements included in this Red Herring Prospectus.

(I) INDUSTRY SCENARIO AND COMPANY'S BUSINESS

Indian Machine Tools Industry - An Overview

The machine tools industry is considered to be the mother of all manufacturing based industrial segments. It manufactures machine tools which form the crucial building blocks for machine and components manufacturing. This is evident from the fact that the growth of the manufacturing sector reflects itself in the growth of the machine tools industry in India.

Indian machine tools industry is an invisible player in the global machine tools manufacturing with its contribution of less than 1 percent of the global manufacturing worth \$45 billion. This industry has been known to be protected one which was open to adopting innovation or production of machine tools conforming to global standards. The liberalization of Indian economy set in process in 1991 presented an opportunity for foreign machine tools manufacturers to enter Indian market. Indigenous manufacturers found it difficult to compete with the foreign companies owing to the serious deficiencies in product quality. Some of the companies even resorted to import of machine tools and becoming mere traders. This paved the way for significant imports into the country. The demand for user segments for accuracy and growing complexity of applications provided a motivating drive for development and changing trends in the indigenous industry.

The Indian machine tool industry manufactures a range of products such as metal cutting and metal forming machine tools, falling under the conventional and computer numerically controlled (CNC) types. Apart from these types, Special Purpose Machine (SPM) is also an integral part of this industry.

The Indian machine tool industry consists of about 450 manufacturing units, of which 150 units are in the organized sector. Ten major Indian companies contribute to almost 70 percent of production.

The Indian Machine Tool industry is now recognized as a provider of low-cost high quality lean manufacturing solutions. The industry is now seen as a partner in the user industries efforts to enhance productivity as well as improve competitiveness.

The industry resiliently supports all its users to enhance productivity as well as improve competitiveness, for the betterment of the final customer. Being an integral sector, growth of the machine tool industry has an immense bearing on the entire economy, especially India's manufacturing industry. This industry is even more crucial for development of the country's strategic segments such as Defence, railways, space, and atomic energy. World over too, industrialized-advanced countries have created market niches on the back of a well-developed and supportive machine tool sector.

Manufacturing Range

The Indian machine tool industry manufactures almost the complete range of metal-cutting and metal-forming machine tools. Customized in nature, the products from the Indian basket comprise conventional machine tools as well as computer numerically controlled (CNC) machines. There are other variants offered by Indian manufacturers too, including special purpose machines, robotics, handling systems, and TPM-friendly machines. Efforts within the industry are now on to better the features of CNC machines, and provide further value additions at lower and lower costs, to meet specific requirements of users. Based on the perception of the current trends, and emerging demands, CNC segment will be the driver of growth for the machine tool industry in India.

(Source: Report of Frost and Sullivan Growth Consulting prepared for Indian Machine Tool Manufacturers Association)

Business Overview of the Company

Mr. M Lokeswara Rao, who had a steady job as a shop-floor executive in HMT Ltd. started his proprietary concern to carry out job works for the same company. Soon afterwards, - as a first generation technocrat entrepreneur, he promoted Lokesh Machines Ltd., which had a modest beginning carrying out some machining and conversion operations for the components and machine tools of HMT Ltd. .

Over the past 21 years the company has made a steady progress by constantly upgrading its capabilities and enhancing the range and depth of activities. From handling job works, the company graduated to manufacture of Special Purpose Machines, which was the mainstay of its operations during the first few years. The first few years of the company's existence also was the pre-liberalisation era, with limited scope of growth for machine tool manufacturers in the private sector.



The post liberalization era witnessed the entry of a number of new players in the engineering industry in general and automobile sector in particular. This resulted in an enhanced demand for Special Purpose Machines as well as CNCs. While this meant opening up of opportunities for machine and machine tool manufacturers, there was general tendency among auto majors to import their requirements for Special Purpose Machines from established companies abroad, rather than try out local manufacturers.

In spite of the prevailing atmosphere, the company persisted with its efforts at innovation and product development. The recognition of the technical capabilities of the company received a major boost in the year 1995-96, when the company was able to conclude an agreement with Mahindra & Mahindra Limited for machining of their Cylinder Blocks. The Company was also able to bag orders for Special Purpose Machines from other Auto majors like Escorts, Ashok Leyland, Bajaj Auto etc.

Another feature of the growth of the automobile sector was the increasing tendency of introduction of new models of vehicles by the manufacturers and acceptance of outsourcing as an option for auto majors. This brought about a greater demand for the more versatile CNC machines. In tune with the prevailing changes, the company also started according greater focus to the CNC Machines and General Purpose Machines (GPMs) and auto components.

The current operations of the Company can be categorised into the following major segments:

Product Range	Customer/End use Profile
CNC Lathes	Automobile Tier I Suppliers Automobile Tier II Suppliers Engineering Workshops Ceiling Fan Manufacturers Compressor Component Manufacturers Textile machinery components
Vertical Machining Centres	Automobile Tier I Suppliers Automobile Tier II Suppliers Die and Mould Manufacturers Injection Mould Manufacturers Compressor Manufacturers
Horizontal Machining Centres	Auto OEMs Automobile Tier I Manufacturers Automobile Tier II Manufacturers Engine Manufacturers Transmission Manufacturers
Special Purpose Machines	Auto OEMs Compressor Manufacturers Mass Production Industries.
Auto Components	Auto OEMs

In addition to the above segments in the domestic market, in the recent past, the company has also been able to make forays into the export market, and has been able to bag and execute export orders to Italy, Germany and Japan.



THE ISSUE

Equity Shares offered	
Fresh Issue or Net Offer to the Public	30,00,000 Equity Shares
Of which:	
Qualified Institutional Buyers portion	Upto 15,00,000 Equity Shares, constituting 50% of Net Offer to the Public (allotment on a proportionate basis)
Of which:	
Reservation for Mutual Funds	Up to 75,000 Equity Shares (allocation on a Proportionate basis) Constituting 5% of QIB Portion
Balance for all QIBs including Mutual Funds	At least 14,25,000 Equity Shares (allotment on a proportionate basis)
Non Institutional portion	At least 4,50,000 Equity Shares (allocation on a proportionate basis) constituting 15% of Net Offer to the Public
Retail portion	At least 10,50,000 Equity Shares (allocation on a proportionate basis) constituting 35% of Net Offer to Public
Equity Shares outstanding prior to the Issue	87,77,400 Equity Shares
Equity Shares outstanding after the Issue	1,17,77,400 Equity Shares
Objects of the Issue	
Use of Proceeds of the Issue	For information, please refer to the section titled “Objects of the Issue” on page 22 of this Red Herring Prospectus
Corporate Information	The Company was incorporated as a “Public Limited Company” vide Registration No: 01-4319 on December 17th, 1983 in Hyderabad under the Companies Act, 1956 and obtained certificate for commencement of business on February 9th, 1984 and the Registered Office is situated at B-29, EEIE Stage-II, Balanagar, Hyderabad- 500 037. Andhra Pradesh, India Tel No : +91 40 23079310/ 23079313 Fax No: +91 40 23078274. Contact Person: Mr. D.Subrahmanya Sarma, Company Secretary E-mail id: info@lokeshmachines.com



SUMMARY FINANCIALS, OPERATING AND OTHER DATA

The following table sets forth the selected historical information of Lokesh Machines Limited derived from its audited consolidated statements for the fiscal years ended March 31, 2001, 2002, 2003, 2004, 2005 and for seven months period from April 1, 2005 to October 31, 2005, all prepared in accordance with India GAAP, the Companies Act, and SEBI Guidelines and described in the Auditor's Report of Deloitte Haskins & Sells, Chartered Accountants, included in the section titled "Financial Statements" on page no. 74 of this Red Herring Prospectus and should be read in conjunction with those financial statements and notes thereon.

SUMMARY STATEMENT OF PROFIT AND LOSS ACCOUNT, AS RESTATED

(Rs. in lakhs)

Particulars	Period ended October 31, 2005	Year ended March 31				
		2005	2004	2003	2002	2001
Income						
Sales						
Of Products manufactured by the Company	5092.53	7483.26	4670.96	4087.47	3051.78	2445.99
Less: Excise Duty	1074.10	1496.98	953.72	454.78	366.84	245.94
Net Sales	4018.43	5986.28	3717.24	3632.69	2684.94	2200.05
Other Income	35.51	48.90	35.93	21.64	21.47	6.46
Increase / (decrease) in inventories	35.43	886.61	54.09	140.76	19.95	274.54
Total Income	4089.37	6921.79	3807.26	3795.09	2726.36	2481.05
Expenditure						
Materials consumed	2060.62	3655.02	1851.32	1721.92	1183.79	1046.41
Staff Costs	389.00	606.37	417.97	393.54	345.57	302.36
Other manufacturing expenses	311.36	600.30	412.01	483.46	265.94	363.20
Administrative, selling and distribution expenses	419.80	430.44	384.84	251.25	189.31	255.15
Interest	316.54	505.68	506.19	477.52	394.02	295.96
Depreciation	194.58	329.37	249.12	243.94	244.94	184.77
Miscellaneous expenditure written off	6.21	10.64	10.64	10.64	1.49	1.49
	3698.11	6137.82	3832.09	3582.27	2625.06	2449.34
Less: Captive consumption	-	-	226.50	-	-	-
Total Expenditure	3698.11	6137.82	3605.59	3582.27	2625.06	2449.34
Net Profit before tax	391.26	783.97	201.67	212.82	101.30	31.71
Tax expense - Current tax	199.47	207.97	16.00	94.83	8.00	5.00
Tax expense - Deferred tax	(50.87)	53.52	91.03	81.92	-	-
Fringe Benefit Tax	7.04	-	-	-	-	-
Net Profit after tax (A)	235.62	522.48	94.64	36.07	93.30	26.71
Impact of material adjustments for restatement in corresponding years (net of tax) (B)	143.58	45.00	(54.11)	63.44	(93.40)	(8.70)
Net Profit after adjustments (A) + (B)	379.20	567.48	40.53	99.51	(0.10)	18.01



SUMMARY STATEMENT OF ASSETS AND LIABILITIES, AS RESTATED

(Rs. In lakhs)

Particulars	As at October 31, 2005	As at March 31				
		2005	2004	2003	2002	2001
A. Fixed Assets						
Gross block	5253.97	5237.13	5090.64	3957.70	3698.67	3631.82
Less: Depreciation	1948.92	1754.35	1431.88	1188.42	944.48	699.54
Net Block	3305.05	3482.78	3658.76	2769.28	2754.19	2932.28
Capital Work-in-Progress	311.48	315.88	48.76	838.31	874.66	228.02
TOTAL	3616.53	3798.66	3707.52	3607.59	3628.85	3160.30
B. Investments	-	-	-	-	-	-
C. Current assets, loans and advances						
Inventories	2482.22	2378.91	1423.86	1359.30	1211.99	1171.06
Receivables	1937.83	1470.70	1048.43	966.50	1217.48	808.27
Cash and bank balances	254.11	136.30	117.07	116.86	112.10	92.98
Loans and advances	378.06	322.71	407.18	409.92	551.74	301.38
TOTAL	5052.22	4308.62	2996.54	2852.58	3093.31	2373.69
D. Total assets (A + B + C)	8668.75	8107.28	6704.06	6460.17	6722.16	5533.99
E. Liabilities and provisions						
Loan funds						
Secured loans	3845.45	3745.65	3298.62	3031.85	3010.84	2064.36
Unsecured loans	155.56	144.76	230.38	249.89	310.98	361.99
TOTAL	4001.01	3890.41	3529.00	3281.74	3321.82	2426.35
F. Deferred Tax Liability	440.58	427.99	361.31	317.21	254.00	201.64
G. Current liabilities and provisions						
Current liabilities	1565.84	1422.72	1115.85	1081.56	1298.71	1170.96
Provisions	248.44	332.48	81.58	91.34	135.01	144.70
TOTAL	1814.28	1755.20	1197.43	1172.90	1433.72	1315.66
H. Total Liabilities and provisions (E + F + G)	6255.87	6073.60	5087.74	4771.85	5009.54	3943.65
I. Net worth (D - H)	2412.88	2033.68	1616.32	1688.32	1712.62	1590.34
Represented by						
Shareholders funds						
Share capital	877.74	877.74	877.74	973.74	1027.74	962.24
Reserves and surplus	1535.14	1155.94	738.58	714.58	684.88	628.10
Total	2412.88	2033.68	1616.32	1688.32	1712.62	1590.34



2. GENERAL INFORMATION

Registered office & Works

Lokesh Machines Limited, Registered Office: B-29, EEIE, Stage II, Balanagar, Hyderabad-500 037, Andhra Pradesh, India Telephone: +91 40 23079310 to 23079313 Fax: +91 40 23078450 Web site: www.lokeshmachines.com Registration No:01-4319 of 1983-84

Works: 1. Temple Road, Bonthapally, Narsapur Mandal, Medak District, Andhra Pradesh, India Tel: +91-8458-274145/275392

2. Ravalkol Village, Medchal Mandal, Ranga Reddy District, Andhra Pradesh, Tel: 91-8418-309308, 395590

3. B-25 & 36, EEIE, Stage II, Balanagar, Hyderabad, Andhra Pradesh

4. Plot No.41, IDA, Balanagar, Hyderabad, Andhra Pradesh

The Company is registered with Registrar of Companies, Andhra Pradesh, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad - 500 195 with the Registration No: 01-4319

BOARD OF DIRECTORS

The company is currently managed by Board of Directors comprising of 10 directors. The day-to-day affairs of the company are being managed by Mr. M Lokeswara Rao, Managing Director. The Board of Directors comprises of the following:

Name	Designation	Status
Mr Mullapudi Lokeswara Rao	Managing Director	Executive Director
Mr K Krishna Swamy	Director (Technical)	Executive Director
Mr B Kishore Babu	Executive Director	Executive Director
Mr M Srinivas	Director (Auto Components)	Executive Director
Mr M Srikrishna	Director (CNC Machines Division)	Executive Director
Mr B R Mahesh	Director	Independent Non-Executive Director
Mr V Shankar	Nominee Director of IDBI	Independent Non-Executive Director
Dr. Y. Satyanarayana	Director	Independent Non-Executive Director
Mr. R Mohan Reddy	Director	Independent Non-Executive Director
Mr. Y Venkata Rao	Director	Non- Executive Director

For further details in relation to the Board and Directors see the caption “The Management” on page no. 62 of this Red Herring Prospectus.

Brief Details of Managing Director and other Whole-time Directors

Mr Mullapudi Lokeswara Rao

He is a technocrat with 40 years vast experience in the machine tool industry and promoted LML. He has started his career with KCP Limited in 1965 and after a brief period joined Hindustan Machine Tools Limited (HMT) in 1966. Mr. Rao worked for a decade at HMT, wherein he has gained experience in the machine tool industry which prompted him to start LML. Mr.Rao with his managerial abilities built up a strong team and created good facilities.

Mr B Kishore Babu

He has 26 years vast experience in the field of Machine Tool Industry. He has started his carrier in HMT as Trainee Engineer and presently is the Executive Director of Lokesh Machines Limited. He is also the operational head for all the divisions. He has worked in various departments right from shop floor, designs, planning, production, assembly, Purchase and application engineering for the past 20 years and he has also been trained in various countries.

Mr M Srinivas

Has experience in the field of manufacturing and mechanical engineering and has been with Lokesh Machines Limited



for the past 12 years having joined immediately on completion of M S in Industrial Engineering (Manufacturing) at New Jersey Institute of Technology, New Jersey, USA. Underwent training initially in the Designs and Manufacture of Special Purpose Machines. Presently he is heading the Auto Components Division of the Company.

Mr M Srikrishna

He has 9 years experience in the field of Mechanical Engineering and has been with Lokesh Machines Limited for the past 9 years since completion of Bachelor of Engineering at Osmania University and has undergone training initially in the designs and manufacture of General Purpose Machines. He is presently heading the Computerised Numerical Control (CNC) Machines Division of Lokesh Machines Limited.

Mr K Krishna Swamy

He has 41 years of vast experience in designing. He started his career with HMT during 1964 and after a long stint in all its divisions, became the Chief Engineer in-charge of its design department during 1978 to 1983. Mr. Krishna Swamy, during his stay at HMT had received training under experts in the Design field including Cross Company Inc., USA, the then collaborator of HMT. He has designed a number of machines notable among them being Rotary Indexing Machines, Linear Transfer Machines, Line Boring Machines etc. based on deep knowledge in designing machines that suit the requirements of customers. Mr. Krishna Swamy has been associating with LML and is presently Technical Director and has contributed significantly to the growth of LML.

For details of other directors please refer to the section, “ The Management “ on page no. 62 of this Red Herring Prospectus.

COMPANY SECRETARY CUM COMPLIANCE OFFICER	REGISTRAR TO THE ISSUE
Mr.D. Subrahmanya Sarma Company Secretary Lokesh Machines Limited B-29, EEIE Stage II, Balanagar Hyderabad 500 037 Andhra Pradesh India Tel: 91- 40- 23079310 to 23079313 Fax: 91- 40- 23078274 / 23078450 E-mail: info@lokeshmachines.com Website: www.lokeshmachines.com Investors can contact the Compliance Officer in case of any pre-offer or post-issue related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary account, refund orders, etc.	Karvy Computershare Private Limited “Karvy House” 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034 Andhra Pradesh, India Tel.No. : +91 40 23431570/23420828 (14 Lines) Fax No. : +91 40 23431551/23420814 E-mail : mailmanager@karvy.com SEBI Regn.No. INR/000000221 Contact person: Mr. Murali Krishna
BOOK RUNNING LEAD MANAGERS (BRLMs)	
Karvy Investor Services Limited “Karvy House”, 46 Avenue 4, Street No. 1 Banjara Hills. Hyderabad - 500 034 Andhra Pradesh, India Tel: 91- 40- 2337 4714 / 2332 0251 Fax: 91- 40- 23374714 E-mail: mbd@karvy.com Website: www.karvy.com SEBI Regn No. INM000008365 Contact Person: Mr. M P Naidu	UTI Securities Limited Dheeraj Arma, Ist Floor, Anant Kanekar Marg, Station Road, Bandra (E), Mumbai - 400 051 Tel.No.:+91 22 5551 5999/5551 5806 Fax No.:+91 22 5502 3194 E-mail : lokesh@utisel.com SEBI Regn.No. INM000007458 Contact Person: Mr. K Srinivas



LEGAL ADVISOR TO THE ISSUE	AUDITORS
M/s. V.S.RAJU AND ASSOCIATES Advocates & Advisors 106, Dhanunjaya Towers Main Road, Banjara Hills, Hyderabad- 500034 Tel: 91- 40- 2339 7154; 5566 8807 Fax: 91- 40- 2339 8807 Contact Person: Mr V S Raju E-mail: mail@vsraju.com Website: www.vsraju.com	M/s. Delloitte Haskins & Sells Chartered Accountants Coromandel House, 1-2-10, Sardar Patel Road, Secunderabad - 500 003 Contact Person: Mr M S N Murthy Tel: 91- 40- 27845241 Fax: 91- 40- 27843606 E-mail: msnmurthy@deloitte.com
BANKERS TO THE COMPANY	
STATE BANK OF HYDERABAD Industrial Finance Branch, “TOPAZ” Building, Amrutha Hills, Punjagutta, Hyderabad - 500 082. Ph No: 040 - 2340 8128, 2973, 2297, 2101,2183. Contact Person: Mr Sastry Fax No: 040 - 2340 3162, 8068. E-mail: sbhifbhyd@hd2.vsnl.net.in	PUNJAB NATIONAL BANK 6-1-73, Saifabad Branch, Saeed Plaza, Lakdi-ka-pool, Hyderabad - 500 004. Ph No: 040 - 2323 2034 Fax no: 040 - 2324 0406. Contact Person: Mr Vijay Kumar E-mail:pnbsaifa@hd2.dot.net.in
STATE BANK OF INDORE Post Bag No. 29, 4-1-971,974, Abids Road, Hyderabad - 500 001. Ph No: 040 - 2475 4603/4898. Fax No: 040 - 2476 0548 Contact Person: Mr N Sri Hari E-mail: sbn3233@sbindore.co.in	
BANKERS TO THE ISSUE	
ICICI Bank Limited Capital Markets Division 30, Mumbai Samachar Marg, Mumbai-400 001 Tel : 91-22-22655285 Fax : 91-22-22611138	UTI Bank Limited 6-3-879/B, Greenlands, Begumpet Road, Hyderabad-500 016 Tel:91-40-23405182 Fax: 91-40-23407184
Standard Chartered Bank 270, D N Road, Fort, Mumbai - 400 001 Tel : 91-22-22683965 Fax: 91-22-22096069	Hongkong & Shanghai Banking Corporation Ltd 52/60, Mahatma Gandhi Road, Mumbai - 400 001 Tel:91-22-22681673 Fax:91-22-22734388

BROKERS TO THE ISSUE

All members of the recognized Stock Exchanges would be eligible to act as Brokers to the Issue.

SYNDICATE MEMBERS

Karvy Stock Broking Limited

“Karvy House”, 46, Avenue 4,
Street No.1, Banjara Hills,
Hyderabad - 500 034
Tel :91-40-23374714
Fax : 91-40-23311968
Email:vincent@karvy.com
website : www. karvy.com
Contact Person : Mr. Vincent



Statement of Inter-Se Allocation of Responsibility

The responsibilities and co-ordination for various activities in this Issue are as under:

Sl. No.	Activities	Responsibility	Co-ordinator
01	Capital structuring with the relative components and formalities such as type of instruments, etc.	Karvy	Karvy
02	Due diligence of the company's operations / management / business plans / legal etc.	Karvy	Karvy
03	Drafting & Design of Offer Document and of statutory advertisement including memorandum containing salient features of the Prospectus. The designed Lead Managers shall ensure compliance with stipulated requirements and completion of prescribed formalities with Stock Exchange, Registrar of Companies and SEBI	Karvy	Karvy
04	Drafting and approval of Issue and statutory publicity material, etc.	Karvy	Karvy
05	Drafting and approval of all corporate advertisement, brochure and other publicity material	Karvy	Karvy
06	Appointment of Registrar, Bankers and Ad agency	Karvy	Karvy
07	Appointment of Printer	Karvy	Karvy
08	Marketing of the Issue, which will cover inter alia, Formulating- marketing strategies, preparation of publicity budget Finalize Media & PR strategy Finalizing centers for holding conferences for brokers, etc. Finalize collection centers Follow-up on distribution of publicity and Issue material including form, prospectus and deciding on the quantum of the Issue material arrangements for selection of: (i) ad-media, (ii) centres of holding conferences of brokers, investors etc. (iii) bankers to issue, (iv) collection centres (v) brokers to issue and (vi) underwriters and the underwriting arrangement.	Karvy & UTI Sec	Karvy
09	Finalizing the list of QIBs. Divisions of QIBs for one to one meetings, road show related activities and order procurement	Karvy & UTI Sec	Karvy
10	Finalizing of Pricing & Allocation	Karvy & UTI Sec	Karvy
11	Post bidding activities including management of Escrow Accounts, co-ordination with Registrar and Banks, Refund to Bidders, etc.	UTI Sec	UTI Sec
12	The Post Issue activities of the Issue will involve essential follow up steps, which must include finalisation of basis of allotment / weeding out of multiple applications finalization of listing of instruments and dispatch of certificates and refunds, with the various agencies connected with the work such as Registrars to the Issue, Bankers to the Issue and the bank handling refund business. Lead Managers shall be responsible for ensuring that these agencies fulfill their functions and enable them to discharge this responsibility through suitable agreements with the issuer company.	UTI Sec	UTI Sec

Credit Rating

As this is an issue of Equity Shares there is no credit rating for this Issue.

Trustees

As this is an issue of Equity Shares, the appointment of Trustees is not required.



Monitoring Agency**State Bank of Hyderabad**

Industrial Finance Branch,
“TOPAZ” Building, Amrutha Hills,
Punjagutta, Hyderabad - 500 082.
Ph No: 040 - 2340 8128, 2973, 2297, 2101, 2183.
Contact Person: Mr Sastry
Fax No: 040 - 2340 3162, 8068.
E-mail: sbhifbhyd@hd2.vsnl.net.in

BOOK BUILDING PROCESS

Book Building refers to the collection of Bids from investors, which is based on the Price Band, in the Red Herring Prospectus. The Issue Price is finalized after the Bid/Issue Closing Date. The principal parties involved in the Book Building Process are:

1. The Company;
2. Book Running Lead Managers;
3. Syndicate Members who are intermediaries registered with SEBI or registered as brokers with the Stock Exchange(s) and eligible to act as underwriters. Syndicate Members are appointed by the BRLMs.

The SEBI Guidelines have permitted a issue of securities to the public through the 100% Book Building Process wherein upto 50% of the Net Issue to the Public shall be allotted to Qualified Institutional Buyers on a proportionate basis out of which 5% shall be available for allocation on a proportionate basis to Mutual Funds only. The remaining shall be available for allotment on a proportionate basis to QIBs and Mutual Funds, subject to valid bids being received from them at or above the Issue Price. Further, not less than 15% of the Net Issue to the public would be allocated to Non-Institutional Bidders and not less than 35% of the Net issue to the public would be allocated to Retail Individual Bidders on a proportionate basis, subject to valid bids being received from them at or above the Issue Price.

The process of Book Building under SEBI Guidelines is relatively new and investors are advised to make their own judgment about investment through this process prior to making a Bid or Application in the Issue. Pursuant to recent amendments to SEBI Guidelines, QIB bidders are not allowed to withdraw their Bid(s) after the Bid/Issue Closing Date.

Please see the section entitled “Terms of the Issue” on page no. 125 of this Red Herring Prospectus for more details.

Steps to be taken by the Bidders for bidding:

- Check eligibility for bidding, see the section titled “Issue Procedure-Who Can Bid?” on page no. 129 of this Red Herring Prospectus;
- Ensure that the Bidder has a demat account; and
- Ensure that the Bid cum Application Form is duly completed as per instructions given in this Red Herring Prospectus and in the Bid cum Application Form.

Underwriting Agreement

After the determination of the Issue Price and allocation of Equity Shares but prior to filing of the Prospectus with RoC, the Company will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be offered through the Issue. It is proposed that pursuant to the terms of the Underwriting Agreement, the BRLMs shall be responsible for bringing in the amount devolved in the event that the Syndicate Members do not fulfill their underwriting obligations.

The Underwriters have indicated their intention to underwrite the following number of Equity Shares:



(This portion has been intentionally left blank and will be filled in before filing of the Prospectus with the RoC)

(Rs. in lakhs)

Name and Address of the Underwriters	Indicated Number of Equity Shares to be Underwritten	Amount Underwritten
Karvy Investor Services Limited Karvy House, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034	14,99,900	[•]
UTI Securities Limited Dheeraj Arma, Ist Floor, Anant Kanekar Marg, Station Road, Bandra (E), Mumbai - 400 051	15,00,000	[•]
Karvy Stock Broking Limited Karvy House, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034	100	[•]

The above mentioned amount is indicative underwriting and this would be finalized after pricing and actual allocation. The above Underwriting Agreement is dated [•], 2006.

In the opinion of the Board of Directors (based on a certificate given by the Underwriters), the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act or registered as brokers with the stock exchange (s).

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. Notwithstanding the above table, the Underwriters shall be responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default in payment, the respective Underwriter, in addition to other obligations to be defined in the Underwriting Agreement, will also be required to procure/subscribe to the extent of the defaulted amount.

DISCLAIMER:

It must be specifically understood that the Central/State Government or RBI does not take any responsibility for financial soundness or correctness of the statements made by the Company.



3. CAPITAL STRUCTURE OF THE COMPANY

Particulars	Nominal value (Rs.)	Aggregate value (Rs.)
A. Authorised Capital 1,25,00,000 Equity Shares of Rs. 10 each	12,50,00,000	
B. Issued, Subscribed and Paid-Up Capital before the Issue 87,77,400 Equity Shares of Rs. 10 each	8,77,74,000	
C. Present Issue in terms of this Red Herring Prospectus 30,00,000 Equity Share of Rs. 10 each fully paid up	3,00,00,000	[●]
E. Post Issue paid up Equity Share Capital 1,17,77,400 Equity Shares of Rs. 10 each	11,77,74,000	[●]
F. Share Premium Account Before the Issue After the Issue		7,96,81,000 [●]

DETAILS IN INCREASE IN AUTHORISED CAPITAL

(In Rs.)

Sr.No	Particulars of Increase	Date of Shareholders' Approval
1	40,00,000 to 50,00,000	06/12/86
2	50,00,000 to 70, 00,000	20/04/91
3	70,00,000 to 1,25,00,000	28/11/94
4	1,25,00,000 to 2,25,00,000	28/07/95
5	2,25,00,000 to 7,00,00,000	07/11/95
6	7,00,00,000 to 10,00,00,000	26/09/98
7	10,00,00,000 to 12,00,00,000	05/07/99
8	12,00,00,000 to 12,50,00,000	15/11/05

NOTES TO CAPITAL STRUCTURE

1. Capital History of the Company.

Details of the share capital history of the Company is as follows:

Date on which Equity Shares allotted / Made fully paid up	Number of Equity shares	Face value (Rs.)	Issue Price (Rs.)	Consi-deration	Cumulative No of Shares	% of post issue capital	Cummu-lative share	Nature of Allotment
17-02-1983	350	10	10	3,500	350	0.02	3,500	Subscription to Memorandum
12-07-1984	59,650	10	10	5,96,500	60,000	0.51	6,00,000	Promoters & Associates
18-10-1984	24,150	10	10	2,41,500	84,150	0.21	8,41,500	Promoters & Associates
26-03-1985	1,16,200	10	10	11,62,000	2,00,350	0.99	20,03,500	Promoters & Associates including APIDC Ltd.
21-05-1985	98,450	10	10	9,84,500	2,98,800	0.83	29,88,000	Promoters & Associates



Date on which Equity Shares allotted / Made fully paid up	Number of Equity shares	Face value (Rs.)	Issue Price (Rs.)	Consideration	Cumulative No of Shares	% of post issue capital	Cumulative share	Nature of Allotment
11-02-1987	20,000	10	10	2,00,000	3,18,800	0.17	31,88,000	Promoters & Associates
29-03-1988	1,02,000	10	10	10,20,000	4,20,800	0.87	42,08,000	Promoters & Associates
29-09-1992	1,64,000	10	10	16,40,000	5,84,800	1.39	58,48,000	Promoters & Associates
28-11-1994	4,70,515	10	10	47,05,150	10,55,315	4.00	1,05,53,150	Promoters & Associates
28-10-1995	10,26,985	10	10	1,02,69,850	20,82,300	8.72	2,08,23,000	Promoters & Associates
05-04-1996	4,500	10	10	45,000	20,86,800	0.04	2,08,68,000	Promoters & Associates
09-05-1996	6,25,000	10	20	1,25,00,000	27,11,800	5.31	3,33,68,000	GVFL
12-12-1996	8,03,200	10	20	1,60,64,000	35,15,000	6.82	4,94,32,000	Promoters & Associates
24-03-1997	1,42,300	10	20	28,46,000	36,57,300	1.21	5,22,78,000	Promoters & Associates
24-03-1997	7,50,000	10	20	1,50,00,000	44,07,300	6.37	6,72,78,000	TDICI
29-04-1997	17,00,600	10	20	3,40,12,000	61,07,900	14.44	10,12,90,000	Nandi Investments Ltd.
04-12-1997	39,500	10	20	7,90,000	61,47,400	0.33	10,20,80,000	Promoters & Associates
04-12-1997	75,000	10	20	15,00,000	62,22,400	0.64	10,35,80,000	GVFL
23-12-1999	8,37,363	10	25	2,09,34,075	70,59,763	7.11	12,45,14,075	Promoters & Associates
30-04-2000	2,60,060	10	25	65,01,500	73,19,823	2.21	13,10,15,575	Promoters & Associates
30-04-2000	3,00,000	10	25	75,00,000	76,19,823	2.55	13,85,15,575	GVFL
29-06-2000	5,02,577	10	25	1,25,64,425	81,22,400	4.27	15,10,80,000	Promoters & Associates
29-06-2001	6,55,000	10	25	1,63,75,000	87,77,400	5.56	16,74,55,000	Promoters & Associates
	87,77,400							

Note:

The Company had issued 15,00,000 Optionally Convertible Cumulative Preference Shares of Rs. 10/- each on July 5, 1999 to Nandi Investments Limited which were redeemed on January 22, 2004 at par.

B. Promoters Contribution and Lock-in:

Name	Date of Allotment/ Acquisition	Consideration	No. of Shares (Rs.)	Face Value (Rs.)	Issue Price (Rs.)	% of Post Issue capital	Lock in Period
Mr. M. Lokeswara Rao	17.12.83	500	50	10	10	Negligible	1 Year
	12.07.84	2,49,500	24,950	10	10	0.212	3 Years
	21.05.85	3,120	312	10	10	0.003	1 Year
	26.06.87	500	50	10	10	Negligible	1 Year
	12.12.96	10,93,000	1,09,300	10	20	0.928	3 Years
	23.12.99	4,24,000	21,200	10	20	0.180	3 Years
	23.12.99	1,26,000	6,300	10	20	0.053	3 Years
	29.06.00	1,12,500	4,500	10	25	0.038	3 Years
	29.06.01	28,43,875	1,13,755	10	25	0.966	3 Years
	31.12.03	13,00,000	50,000	10	26	0.425	3 Years



Name	Date of Allotment/ Acquisition	Consi- deration	No. of Shares (Rs.)	Face Value (Rs.)	Issue Price (Rs.)	% of Post Issue capital	Lock in Period
	29.06.05	92,97,400	3,20,700	10	29	2.723	1 Year
	29.06.05	1,06,87,500	3,75,000	10	28.5	3.184	1 Year
	05.09.05	7,77,500	31,100	10	25	0.264	1 Year
	30.11.05	3,00,000	12,000	10	25	0.102	1 Year
	30.11.05	7,00,000	28,000	10	25	0.238	1 Year
			10,97,217			9.316	
(A)							
Mr.B. Kishore Babu	02.09.97	1,26,440	6,322	10	20	0.054	1 Year
	04.12.97	2,58,000	12,900	10	20	0.109	1 Year
	05.07.99	90,000	4,500	10	20	0.038	1 Year
	23.12.99	21,20,000	84,800	10	25	0.720	3 Years
	30.04.00	2,39,600	9,584	10	25	0.081	3 Years
	29.06.00	11,92,300	47,692	10	25	0.405	3 Years
	29.06.01	12,77,225	51,089	10	25	0.434	3 Years
	31.12.03	13,00,000	50,000	10	26	0.425	3 Years
	30.03.05	1,00,000	4,000	10	25	0.034	1 Year
	30.03.05	25,000	1,000	10	25	0.008	1 Year
	30.03.05	2,50,000	10,000	10	25	0.085	1 Year
	30.03.05	17,20,400	78,200	10	22	0.664	1 Year
	30.03.05	37,79,600	1,71,800	10	22	1.459	1 Year
	05.09.05	79,98,200	2,75,800	10	29	2.342	1 Year
(B)			8,07,687			6.858	
Mr. M. Srinivas	30-09-89	500	50	10	10	Negligible	1 Year
	30-09-89	19,000	1,900	10	10	0.016	1 Year
	28-10-95	11,50,000	1,15,000	10	10	0.976	3 Years
	12.12.96	55,440	2,772	10	20	0.024	3 Years
	24-03-97	10,00,000	50,000	10	20	0.425	3 Years
	05-07-99	7,80,000	39,000	10	20	0.331	3 Years
	05-07-99	20,000	1,000	10	20	0.008	1 Year
	23-12-99	18,45,400	73,816	10	25	0.627	3 Years
	30-04-00	25,47,250	1,01,890	10	25	0.865	3 Years
	29-06-00	11,74,250	46,970	10	25	0.399	3 Years
	29-06-01	10,38,200	41,528	10	25	0.353	3 Years
	29-06-01	13,79,500	55,180	10	25	0.468	3 Years
	05-08-03	1,25,000	5,000	10	25	0.042	3 Years
	31-12-03	13,00,000	50,000	10	26	0.425	3 Years
	29.06.05	55,00,000	2,50,000	10	22	2.123	1 Year
	05.09.05	79,98,200	2,75,800	10	29	2.342	1 Year
(C)			11,09,906			9.424	



Name	Date of Allotment/ Acquisition	Consi- deration	No. of Shares (Rs.)	Face Value (Rs.)	Issue Price (Rs.)	% of Post Issue capital	Lock in Period
Mr. M.Srikrishna	28-10-95	11,50,000	1,15,000	10	10	0.976	3 Years
	24.03.97	1,27,220	12,722	10	10	0.108	3 Years
	12-04-97	20,000	1,000	10	20	0.008	1 Year
	12-04-97	20,000	1,000	10	20	0.008	1 Year
	12-04-97	20,000	1,000	10	20	0.008	1 Year
	12-04-97	40,000	2,000	10	20	0.017	1 Year
	12-04-97	10,000	500	10	20	0.004	1 Year
	04.12.97	2,10,000	10,500	10	20	0.089	3 Years
	23-12-99	19,94,250	79,770	10	25	0.677	3 Years
	30-04-00	24,77,250	99,090	10	25	0.841	3 Years
	29-06-00	5,28,500	21,140	10	25	0.179	3 Years
	29-06-01	21,57,725	86,309	10	25	0.733	3 Years
	05-08-03	1,00,000	4,000	10	25	0.034	3 Years
	31-12-03	10,37,920	39,920	10	26	0.340	3 Years
	31-12-03	2,62,080	10,080	10	26	0.086	3 Years
	30.03.05	13,00,000	50,000	10	26	0.425	1 Year
	30.03.05	13,00,000	50,000	10	26	0.425	1 Year
	29.06.05	55,00,000	2,50,000	10	22	2.123	1 Year
	05.09.05	80,01,100	2,75,900	10	29	2.343	1 Year
(D)			11,09,931			9.424	
Mrs. M Kanaka Durga	28.11.94	3,09,600	30,960	10	10	0.263	1 year
	28.10.95	10,00,000	1,00,000	10	10	0.849	3 years
	12.12.96	2,48,000	12,400	10	20	0.105	3 years
	07.05.99	72,000	3,600	10	20	0.031	3 years
	23.12.99	12,42,400	49,696	10	25	0.422	3 years
	30.04.00	1,66,000	6,640	10	25	0.056	3 years
	29.06.00	15,91,600	63,664	10	25	0.541	3 years
	29.06.01	10,91,450	43,658	10	25	0.371	3 years
	31.12.03	13,00,000	50,000	10	26	0.424	3 years
	05.09.05	24,99,800	86,200	10	29	0.732	1 year
(E)			4,46,818			3.794	
Mrs. C Sreekha	29.06.90	6,40,000	64,000	10	10	0.543	1 year
	28.11.94	5,00,000	50,000	10	10	0.424	1 year
	28.10.95	12,14,740	1,21,474	10	10	1.031	1 year
	12.12.96	20,00,000	1,00,000	10	20	0.849	3 years
	24.03.97	2,00,000	10,000	10	20	0.085	3 years
	23.12.99	4,83,625	19,345	10	25	0.164	3 years
	30.04.00	4,00,000	16,000	10	25	0.136	3 years
	29.06.00	41,16,375	1,64,655	10	25	1.398	3 years
	29.06.01	22,89,775	91,591	10	25	0.778	3 years
	30.03.05	3,75,000	15,000	10	25	0.127	1 year
	29.06.05	20,33,925	81,357	10	25	0.691	1 year
	05.09.05	80,01,100	2,75,900	10	29	2.343	1 year
(F)			10,09,322			8.569	
TOTAL (A)+(B)+(C)+(D)+(E)+(F)			55,80,881			47.39	



The lock-in period for above mentioned shares will commence from the date of allotment of the shares in the present public issue.

Written consent have been obtained from the persons whose shares form part of promoters contribution and are subject to lock in period.

In terms of the SEBI guidelines, 20% of the post issue capital, held by promoters will be locked-in for 3 years and the balance entire pre-issue holding i.e. 64,13,294 equity shares will be locked-in for 1 year.

Promoters

- (i) Shares held by the persons other than the promoters, prior to Initial Public Offering, which are subject to lock-in as per clause 4.14.1 of SEBI Guidelines, may be transferred to any other person, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 as amended as applicable.
- (ii) Shares held by the promoter(s) which are locked in as per the relevant provisions of Chapter IV of the SEBI Guidelines may be transferred to and amongst promoter/promoter group or to a new promoter or persons in control of the Issuer Company, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 as amended as applicable.
- (iii) We confirm that the Promoter contribution does not consist of:
 - a) Shares acquired for consideration other than cash and revaluation of assets or capitalization of intangible assets or bonus shares out of revaluation reserves or reserves without accrual of cash resources.
 - b) Securities issued during the preceding one year, at a price lower than the price at which equity shares are being offered to public.
 - c) Private placement made by solicitation of subscription from unrelated persons either directly or through any intermediary.
 - d) Shares for which specific written consent has not been obtained from the respective shareholders for inclusion of their subscription in the minimum promoters contribution subject to lock-in.
 - e) Shares issued to promoters on conversion of partnership firms into limited company.
 - f) Shares with a contribution less than Rs.25,000/- per application from each individual and contribution less than Rs.1,00,000/- from firms and companies.

1. Buyback and Standby Agreements

Neither the Company nor the Directors nor the Promoters nor the Promoters Group Companies, their respective Directors, the BRLMs have entered into any buyback and/or standby arrangements for the purchase of Equity shares from any person.

- 2. **Over-subscription** - an oversubscription to the extent of 10% of the net offer to public can be retained for the purpose of rounding off to nearest integer while finalizing the basis of allotment.
- 3. In this issue, in case of over-subscription in all categories, upto 50% of the issue shall be allocated on proportionate basis to Qualified Institutional Buyers out of which 5% shall be available for allocation on a proportionate basis to mutual funds. The remainder shall be available for allotment on a proportionate basis to QIBs and mutual funds. Not less than 15% of the issue shall be available for allocation on a proportionate basis to Non Institutional Bidders and not less than 35% of the Issue shall be available for allocation on proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. Under-subscription, if any in the Employee reservation category would be met with spill over from the net offer to the public category at the sole discretion of the Company in consultation with the BRLMs. Undersubscription, if any, in the non-institutional bidders and retail bidders category would be met with spillover from other categories at the sole discretion of the Company in consultation with BRLMs.

4. Pre-Issue and Post-Issue Shareholding Pattern

Pre-Issue and Post-Issue shareholding pattern of the Company assuming full subscription of the present issue is given below:

Sl.No.	Category	Pre-issue share holding		Post-issue share holding	
		No. of shares	% Holding	No. of shares	% Holding
A	Promoter's holding				
1.	Promoters				
	- Indian Promoters	55,80,881	63.58	55,80,881	47.39
	-Foreign Promoters	—	—	—	—
2.	Person's acting in concert	—	—	—	—
	Promoters Group				
3	Relatives & friends of Promoters	23,30,197	26.55	[●]	[●]
I	Sub - Total (1+2+3)	79,11,078	90.13	[●]	[●]
B	Non-Promoters Holding				
	Institutional Investors	—	—	—	—
A	Mutual funds and UTI	—	—	—	—
B	Banks, Financial Institutions, Insurance companies (Central/ State Govt. Insititutions/ Non-Government Institutions)	—	—	—	—
C	FII's	—	—	—	—
II	Sub - Total (A+B+C)	—	—	[●]	[●]
	Others				
A	Private Corporate Bodies	8,66,322	9.87	[●]	[●]
B	Indian public	—	—	[●]	[●]
C	NRIs/OCBs	—	—	[●]	[●]
D	Any other (Please specify)	—	—	[●]	[●]
III	Sub -Total (A+B+C+D+E)	8,66,322	—	[●]	[●]
	Grand Total (I+II+III)	87,77,400	100.00	1,17,77,400	100.00

5. Top Ten Shareholders:

Ten largest shareholders two years prior to date of filing of the Red Herring Prospectus with ROC are as follows:

Sl.No	NAME OF THE SHARE HOLDER	NO. OF SHARES HELD
1	Nandi Investments Ltd. (IVCM)	17,00,600
2	M.Lokeswara Rao	9,08,949
3	M.Srinivas	7,85,234
4	Unit Trust of India	7,50,000
5	M.Srikrishna	7,05,709
6	Gujarat Venture Finance Ltd.	7,00,000
7	C.Sirekha	6,91,591
8	B. Kishore Babu	4,35,765
9	M.Kanaka Durga	3,79,658
10	M.Vijaya Lakshmi	2,69,177



Ten largest shareholders 10 days prior to date of filing of this Red Herring Prospectus with ROC are as follows:

Sl.No	NAME OF THE SHARE HOLDER	NO. OF SHARES HELD
1	M.Srikrishna	11,09,931
2	M.Srinivas	11,09,906
3	M.Lokeswara Rao	10,97,217
4	C.Sirekha	10,09,322
5	B.Kishore Babu	8,07,687
6	Eden Realty Pvt Ltd	6,97,888
7	Mangala Shrimal & Prakash Chandra Shrimal	4,99,940
8	M.Kanaka Durga	4,46,818
9	M.Vijaya Lakshmi	4,23,577
10	Him Realty Pvt Ltd	1,68,434

Ten largest shareholders as on the date of filing of this Red Herring Prospectus ROC are as follows:

Sl.No	NAME OF THE SHARE HOLDER	NO. OF SHARES HELD
1	M.Srikrishna	11,09,931
2	M.Srinivas	11,09,906
3	M.Lokeswara Rao	10,97,217
4	C.Sirekha	10,09,322
5	B.Kishore Babu	8,07,687
6	Eden Realty Pvt Ltd	6,97,888
7	Mangala Shrimal & Prakash Chandra Shrimal	4,99,940
8	M.Kanaka Durga	4,46,818
9	M.Vijaya Lakshmi	4,23,577
10	Him Realty Pvt Ltd	1,68,434

8. The aggregate shareholding of the promoter group is 79,11,098 equity shares. The details of the shares sold / purchased by the promoters / promoter group during the last six months are as under:

Mr M Lokeswara Rao

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Purchase	3,00,000	Rs.25/-	30/11/2005
Equity	Purchase	7,00,000	Rs.25/-	30/11/2005
Equity	Sale	5,78,532	Rs.90/-	08/12/2005

Mr M Srinivas

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	69,210	Rs.60/-	08/12/2005
Equity	Sale	1,31,918	Rs.90/-	08/12/2005

**Mr M Srikrishna**

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	96,698	Rs.60/-	08/12/2005
Equity	Sale	1,25,000	Rs.90/-	08/12/2005

Mr B Kishore Babu

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	75,200	Rs.90/-	08/12/2005
Equity	Sale	93,678	Rs.60/-	08/12/2005

Mrs M Kanaka Durga

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	19,040	Rs.90/-	08/12/2005

Mrs C Sirekha

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	54,526	Rs.60/-	08/12/2005

Promoter Group**Mrs M Vijaya Lakshmi**

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	12,000	Rs.90/-	13/03/2006
Equity	Sale	6,000	Rs.100/-	13/03/2006

Mr M Radha Krishna

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	32,000	Rs.60/-	08/12/2005

Mr. M Koteswara Rao

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	21,150	Rs.90/-	13/03/2006

Mrs. B Vijayalakshmi

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	14,950	Rs.90/-	13/03/2006



Mrs. A Kusuma

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	2,000	Rs.90/-	13/03/2006

Mr. A Giridhar

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	2,000	Rs.90/-	13/03/2006

Mr. A Naga Bhanu Prakash

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	2,000	Rs.90/-	13/03/2006

Mr. A Sridhar

Nature of the Security	Nature of the transaction	Quantity	Transaction price per share	Transaction date
Equity	Sale	2,000	Rs.90/-	13/03/2006

9. No shares have been allotted on firm basis or through private placement in the last two years nor has the Company bought back its equity shares in the last six months.
10. There are no outstanding warrants, options or rights to convert debentures or other instruments into equity shares as on date.
11. The Company does not currently have any Employee Stock Option Plan.
12. The Company has not issued any shares for consideration other than cash (other than by way of capitalization of reserves) or out of revaluation of reserves.
13. The equity shares held by the promoters, which are locked-in, may be transferred to and amongst other promoter/promoter group or to a new promoter or persons in control of the company, subject to continuation of lock-in in the hands of the transferees for the remaining period and compliance of SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997 as amended as applicable. Promoters may pledge their equity shares with banks or financial institutions as additional security for loan whenever availed by them.
14. We have not issued any equity shares out of revaluation reserves.
15. The Company has not taken any "bridge loan" from any bank which would be repaid out of the issue proceeds for any purpose whatsoever or for the proposed project.
16. There would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or in any other manner during the period commencing from submission of the draft Red Herring Prospectus with SEBI until the equity shares offered through hereby have been listed.
17. The company presently does not have any intention or proposal to alter its capital structure for a period of six months commencing from the date of opening of the Issue, by way of split/consolidation of the Equity Shares or further issue of Equity Shares (including issue of securities convertible into exchangeable, directly or indirectly into Equity Shares) whether on a preferential basis or otherwise. However, during such period or at a later date, the Company may issue Equity Shares or securities linked to equity shares to finance an acquisition, merger or joint venture by the Company or as consideration for such acquisition, merger or joint venture, or for regulatory compliance or such other scheme of arrangement if an opportunity of such nature is determined by the Board to be in the interest of the Company.
18. There shall be only one denomination of the Equity Shares of the Company, unless otherwise permitted by law. The Company shall comply with disclosure and accounting norms as may be specified by SEBI from time to time.



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19. A Bidder cannot make a Bid for more than the number of Equity Shares offered in this Issue, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.
 20. Securities offered through this issue shall be made fully paid up or may be forfeited within 12 months from the date of allotments of securities in the manner specified in clause 8.6.2 of the SEBI (DIP) Guidelines.
 21. As on the date of filing of this Red Herring Prospectus, the total number of equity shareholders is 83.
 22. The following are the restrictive covenants contained in agreements entered into with banks/financial institutions for availing term loans.
 - i) The Company shall not undertake the following without the written consent of the Bank (State Bank of Hyderabad) during the subsistence of the liability to the Bank
 - a. change in any way alter the capital structure
 - b. effect any scheme of amalgamation or reconstitution
 - c. implement a new scheme of expansion or take up an allied line of business or manufacture
 - d. declare a dividend or distribute profits after deduction of taxes, except where the instalments of principal and interest payable to the bank in respect of the aforesaid credit facilities are being paid regularly and there are no irregularities and whatsoever in respect of any of the aforesaid credit facilities.
 - e. enlarge the scope of the other manufacturing/trading activities, if any, undertaken at the time of the application and notified to the bank as such
 - f. withdraw or allow to be withdrawn any moneys brought in by the promoters and directors or relatives and friends of the promoters or directors of the company
 - g. invest any funds by way of deposits or loans or in share capital of any other concern (including subsidiaries) so long as money is due to the bank, the Borrower will, however, be free to deposit funds by way of security, with third parties in the normal course of business or if required for the business.
 - ii) As per the agreement entered into with State Bank of Indore, the Company shall not undertake or permit any merger, consolidation, reorganization, scheme of arrangement or compromise with its creditors or shareholders or affect any scheme of amalgamation or reconstruction unless the bank agrees otherwise.
 - iii) As per the agreement entered into with Industrial Development Bank of India, the Company shall not - (i) Appoint an audit sub-committee of the Board. It shall also agree to constitute such other committees of the Board as may be required by lender for close monitoring of different aspects of its operations. Lender nominee, as and when appointed, would be a member of such committees. (ii) not undertake any new project or expansion of the existing project or make any investment or take assets on lease without prior approval of Lender during the currency of the loan from IDBI.
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4. OBJECTS OF THE ISSUE

The Object of the Issue is to raise funds required for

- Setting up the facility for machining and supply of Cylinder Blocks and Cylinder Heads for commercial vehicles.
- Modernisation Project for upgradation of the existing facilities for manufacture of Machines and Machine Tools;
- To meet Working Capital needs of the company, and
- To meet the expenses of the issue.

Funds requirement

Particulars	Amount (Rs. In lakhs)
Setting up the facility for machining and supply of Cylinder Blocks and Cylinder Heads for commercial vehicles.	2098.50
Modernisation Project for upgradation of the existing facilities for manufacture of Machines and Machine Tools.	1829.26
Additional Working Capital Margin	773.32
Issue management expenses	[•]
Total cost of the activities	[•]

Details of Project Cost

I Setting up of the facility for machining and supply of Cylinder Blocks and Cylinder Heads for commercial vehicles

At present, the Company has a facility for machining and supply of 1,20,000 each of Cylinder Blocks and Cylinder Heads per annum, which is being utilized for supplies to Mahindra and Mahindra Limited. The company is now setting up an additional facility for machining and supply of 40,000 each of cylinder blocks and cylinder heads per annum. The entire facility will be utilized for machining and supplying of cylinder blocks and cylinder heads for Ashok Leyland Limited with effect from February 1, 2006, in terms of an agreement valid for a period of 3 years renewable every year.

The detailed project cost is as under: (Rs. lakhs)

Sl. No.	Particulars	Amount
1	Land and Site Development	204.25
2	Civil Works	560.08
3	Plant and Machinery	1162.00
4	Miscellaneous Fixed Assets	172.17
	Total	2098.50

1. LAND & SITE DEVELOPMENT:

(Rs. Lakhs)

S.No	Particulars	Total Cost	Status
1	Cost of land (4.4 Acres of Land @ Rs. 12 lakhs per acre in Survey No. 16, at Village shahzadiguda, Medchal Mandal, RR Dist)	52.80	Land identified and Agreements of sale entered with the sellers (Promoters of the Company namely Mr. M.Srikrishna & Mrs. C.Srirekha), However the land possession is taken from the owners and the necessary works commenced.
2	Cost of land (Including Cost of Registration situated at Plot No 15 & 17, E.E.I.E. Balanagar, Hyderabad- 37 admeasuring 2285.22 square yards)	142.00	Land acquired from Central Excise & customs authorities through auction
2	Cost of Leveling and development (@Rs.1.25 Lakhs per Acre for bush clearance, soil filling, Leveling)	5.50	Leveling work commenced and 90% of the work completed
3	Cost of laying Internal roads	2.15	
4	Main Gate	0.50	
5	Registration Charges	1.30	
	Total	204.25	

2. CIVIL WORKS:

a) At Medchal:

(Rs. Lakhs)

S.No	Particulars	Area/ Qty.	Rate/ Unit (Rs.)	Cost	Total	Remarks
1.	Pre Engineered Building a. Basic Cost b. Erection	7500 sq. mt.	-	143.76	143.76	Pre Engineered contract dated 27/09/2005 awarded in favour of Kirby Building Systems India Ltd
2.	a. Construction of Brick wall incl. material 170 mt x 3mt HT b. Plastering	231 Cumt 2006 Sqmt	1500 /Cumt 130/ Sqmt	3.46 2.61	6.07	Quotation dated 02/12/ 2005 obtained from Prime Constructions, Hyderabad
3.	Construction of compound wall a. Construction of wall 4" b. Plastering both sides with sponge finish c. Providing RCC at 4'	1020 Sqmt 2080 Sqmt 3 Cumt	300/Sqmt 100/Sqmt 3000/ Cumt	3.06 2.08 0.09	5.23	-do-
4.	VDF Flooring a. Material b. Labour	7500 Sqmt 7500 Sqmt	336/Sqmt 113/Sqmt	25.20 8.48	33.68	-do-
5.	PU Flooring	500 Sqmt	645/Sqmt	3.23	3.23	-do-
6.	Steel Windows	60	2000	1.20	1.20	-do-
7.	Aluminum Windows	60	3600	2.16	2.16	-do-
8.	Canopy including erection	76 Sqmt	3400	2.58	2.58	-do-
9.	Rolling Shutters	6	65000	3.90	3.90	
10.	Construction of cable trence incl. Cost of Steel.	340 Rmt	430/Rmt	1.46	1.46	
11.	Construction of Cable trench slabs	100 Cumt	1900/ Cumt	1.90	1.90	
12.	Electrification includes APSEB Power Deposit, Power Cables, Power Lines to machines, PCB, Main Switches along with laying and commissioning cables for lighting and etc			64.36	64.36	Quotation dated 21/06/ 2005 from M/s. Vidyut Systems
	Total:				269.53	



b) At Plot No.15 & 17, EEIE, Balanagar:

(Rs. Lakhs)

S.No	Particulars	Qty.	Unit Rate (Rs.)	Cost	Total	Remarks
1.	Excavation of soil for foundation	515 Cumt	510/Cumt	2.63	2.63	Quotation dated 02/12/2005 obtained from Prime Constructions, Hyderabad
2	Construction of CRS wall below plinth 128 m x 1 m x 0.6 m	175 Cumt	2200/Cumt	3.85	3.85	-do-
3.	Construction of Columns and beams including cost of steel and brick walls	3066 Cu,mt	3715/Cumt	113.90	113.90	-do-
4.	Construction of Super Structure floors and Slabs, false ceiling	4232 Sqmt	2800/Sqmt	118.50	118.50	-do-
5.	Electrification includes APSEB Power Deposit, Power Cables, Power Lines to machines, PCB, Main Switches along with laying and commissioning cables for lighting and etc	LUMPSUM		32.00	32.00	-do-
6.	Sanitary works, carpentry etc	LUMPSUM		9.52	9.52	-do-
7.	White washing and painting	1200 Sqmt	485/Sqmt	5.82	5.82	-do-
8.	Construction of Cable trench	120 Rmt	430/Rmt	0.52	0.52	-do-
9.	Construction of Trench Covers	45 Cumt	1900/Cumt	0.86	0.86	-do-
10.	Rolling Shutters	3 Nos	65000	1.95	1.95	-do-
11.	Steel windows, Aluminum doors with glass	50 Nos	2000	1.00	1.00	-do-
	Total				290.55	

3. PLANT & MACHINERY

(Rs. lakhs)

S.No	Particulars	Basic Cost	Taxes and Duties	Trans- portation	Total	Supplier	Status
a) For CYLINDER BLOCK							
1.	Vertical Machining Center for Rough mill bearing cap with 5 rad. Relief bore for liner bores	30.09	4.91	0.00	35.00	LML	Quotation dated 01/08/2005 Machine manufacturing commenced
2.	2 way Drilling Machine for Drill long oil gallery Holes on both end faces	60.18	9.82	0.00	70.00	LML	Quotation dated 01/08/2005
3.	Vertical machining Center VML 1200 - 06(BT 40 Spindle) for Drill Ø 10 6 No's in between tappet holes. Drill, Sport face, Ream Dipstic holes, Ø8 Dowels on head face and Drill, Holemill, Ream Ø17 WP holes.	38.69	6.31	0.00	45.00	LML	Quotation dated 01/08/2005



S.No	Particulars	Basic Cost	Taxes and Duties	Transportation	Total	Supplier	Status
4.	Horizontal Machining Centre for for Machining various holes on OC face	107.46	17.54	0.00	125.00	LML	Quotation dated 01/08/2005
5.	Horizontal Machining Center for Machining various holes on IP face	107.46	17.54	0.00	125.00	LML	Quotation dated 01/08/2005
6.	Verticle Multi Spindle Drilling Machine for Drill straight water holeson head face. (12 No's)	21.49	3.51	0.00	25.00	LML	Quotation dated 01/08/2005
7.	3 way Angular Drilling Machine for Ø4.3 angular water holes on head (420), Drill Ø16 angular hole on front end (440).	20.63	3.37	0.00	24.00	LML	Quotation dated 01/08/2005
8.	3 Way Angular Drilling Machine for Drill 4mm Angular Water Holes in between barrel holesin between barrel bores on head face Drill on Ang. Hole on idle bore.	22.35	3.65	0.00	26.00	LML	Quotation dated 01/08/2005
9.	Two way inclined multi drilling Machine for drill 6 No's Ø8 oil holes on crank half round bores. (250 30' inclined). Drill Ø 18 st. holes on sump face.	17.19	2.81	0.00	20.00	LML	Quotation dated 01/08/2005
10.	3 Stn. Linear indexing Machine for Dril 1 no.Ø 8 oil hole on crank half round bore. Drill Ø 18 mm inclined hole C.B. spot face & Tap TGT - 1-1/2" Hole.	38.69	6.31	0.00	45.00	LML	Quotation dated 01/08/2005
11.	Vertical Machining Center VML 1200-07 (BT 50 Spindle) Drill & Tap 5 holes on Sump face. Mill & Drill & Tap UPCN Pockets. Drill and tap 1 hole for E3 model.	38.69	6.31	0.00	45.00	LML	Quotation dated 01/08/2005
12.	Horizontal Machining Center (New) R. Bore Op bore. Op dowel etc on FE, R Bore cam C'Bore, Openout Og hole for TG etc on RE.	107.46	17.54	0.00	125.00	LML	Quotation dated 01/08/2005
13	Finish Mill & Broaching Machine (Similar to LM 330) for Finishing Mill bearing cap seat face & Broach brg. Cap width.	85.97	14.03	0.00	100.00	LML	Quotation dated 01/08/2005
14.	Special Washing Machine to clean all apped holes with specific jets	30.95	5.05	0.00	36.00	LML	Quotation dated 01/08/2005
	Sub- Total	727.30	118.70		846.00		



S.No	Particulars	Basic Cost	Taxes and Duties	Transportation	Total	Supplier	Status
b) For CYLINDER HEAD							
15.	Vertical Machining Center for Drill 6 No's Ø 10 holes, holemill and ream Ø11.2 dowel holes. Core Drill, Chamfer, Rear Wpholes. Drill straight water holes & lub. Hole.	30.09	4.91	0.00	35.00	LML	Quotation dated 01/08/2005
16	Vertical Machining Center R'Bore EX. Valve port, C'Bore Ex. Valve guide inside hole. Drill for Ø8G7 Holes, R'Bore & C'Bore Ex. Valve seat & inlet Valve seat, hole mill & ream Ø13.4 X 25 deep dowel holes	30.09	4.91	0.00	35.00	LML	Quotation dated 01/08/2005
17	Vertical Machining Center Drill & Holemill 12 No's valve guide holes on rocker face and Spot face spring seat	30.09	4.91	0.00	35.00	LML	Quotation dated 01/08/2005
18	General washing Machine	13.76	2.24	0.00	16.00	LML	Quotation dated 01/08/2005
19	Vertical Machining Center Drill & tap M 8 x 1.25 - 14 holes on inlet Mainfol and Drill & ream welch plug holes on inlet manifold.	30.09	4.91	0.00	35.00	LML	Quotation dated 01/08/2005
20	Vertical Machining Center Core drill, chamfer & ream WP holes 6+6 on rocker face, chamfer 1x15" on valve guide holes	30.09	4.91	0.00	35.00	LML	Quotation dated 01/08/2005
21	Vertical Maching Center for Drill & tap (8+7) M8x1.25 fixing holes, spot face Ø22 bottom and chamfer bolt holes on Rocker face.	30.09	4.91	0.00	35.00	LML	Quotation dated 01/08/2005
22	LML Special Purpose Machine for Drill, C bore, Ream & tap - GLOW Plug Holes at compound Ang of (450 -620)	51.58	8.42	0.00	60.00	LML	Quotation dated 01/08/2005
23	Special Washing Machine To clean all tapped holes with specific jets.	25.79	4.21	0.00	30.00	LML	Quotation dated 01/08/2005
	Sub-Total	271.67	44.33		316.00		

4. MISCELLANEOUS FIXED ASSETS:

Sl. No	Particulars	Basic cost	Taxes and duties	Freight	Insurance	Total Cost	Remarks
1.	Crane for Machine Division at Bonthapally Inclusive of erection charges and taxes thereon.	20.53	4.20	0.50	0.06	25.29	Quotation dated 25/07/2005 from Electromech Engineers, Pune
2.	Crane for Machine Division at Balanagar Inclusive of erection charges and taxes thereon.	21.53	4.40	0.50	0.06	26.50	Quotation dated 25/07/2005 from Electromech Engineers, Pune
3	4 Nos of Ingersollrand Screw Air Compressors Model MLD 75 Delivering 484 cfm at a discharge pressure of 7.5 kg/cm ²	34.00 (4 Nos)	7.13	1.70	0.10	42.93	Quotation dated 18/07/2005 of Ingersollrand, Secunderabad
4	2 Nos of 304 KW /380 KVA Diesel Generating Set incorporating: "CUMMINS" Engine Model NTA 14 G3 Developing 450 BHP at 1500 RPM under NTP Conditions as per BS: 5514 complete with Standard Accessories.	34.40 (2 Nos)	5.62	1.00	0.21	41.23	Quotation dated 21/07/2005 of Powerica Limited, Secunderabad
5	3 Nos of Refrigerated type dryer & filters for compressed air line (500 cfm @ 7 kg / cm ² pressure	14.83 (3 Nos incl. packing chgs)	2.52	1.50	0.05	18.90	Quotation dated 05/08/2005 of Ultrafilter (India) Ltd, Secunderabad
6	2 Nos of Voltas Diesel Operated Forklift DVX 20 FC BC HVM with Hydro static power steering system	14.00 (2 Nos)	2.28	1.00	0.04	17.32	Quotation dated 23/07/2005 from Voltas Limited, Secunderabad
	Total	139.29	26.15	6.20	0.52	172.17	

II Modernisation and Technology Upgradation

To augment and upgrade the capacities and capabilities of the equipment currently available, the company intends importing state of the art Mother Machines. This will enhance the competence of the company to manufacture with machines of greater versatility and effectiveness. The total outlay for the modernization and technology upgradation plans is estimated to be Rs.1829.26 lakhs.

The Company has already awarded the contracts for part of the civil and electrical works required for the proposed modernisation and placed orders for importing some machines from Japan that have already been dispatched from Japan.

The detailed project cost is as under:

(Rs. lakhs)

Sl. No.	Particulars	Amount
1	Civil Works	141.28
2	Plant and Machinery	1687.98
	Total	1829.26



The following is the detailed break-up of the required activities for the proposed modernization and upgradation.

A) MACHINES DIVISION:

1. CIVIL WORKS:

a) at Bonthapally :

(Rs. in Lakhs)

S.No	Particulars	Qty.	Unit Rate	Cost	Total	Remarks
1.	Pre Engineered Building					Pre Engineered contract dated 04/05/2005 awarded in favour of Metco Roof (P) Ltd.
	a. Basic Cost	1050 sqmt	3436/sqmt	36.08		
	b. Erection	1050 sqmt	397/sqmt	4.16	40.24	
2.	a. Construction of Brick wall incl. material 170 mt x 3mt HT	117 Cumt	1500/Cumt	1.75		Quotation dated 02/12/2005 obtained from Prime Constructions, Hyderabad
	b. Plastering	1530 Sqmt	130/Sqmt	1.99	3.74	
3.	VDF Flooring					-do-
	a. Material	1050 Sqmt	336/Sqmt	3.52		
	b. Labour	1050 Sqmt	113/Sqmt	1.19	4.71	
4.	PU Flooring	1050 Sqmt	645/Sqmt	6.77	6.77	-do-
5.	Steel Windows	20	2000	0.40	0.40	-do-
6.	Aluminum Windows	20	3600	0.72	0.72	-do-
7.	Canopy including erection	38 Sqmt	3400	1.45	1.45	-do-
8.	Rolling Shutters	4	56000	2.24	2.24	-do-
9.	Foundation Bolts					-do-
	a. Basic Price	96	1515	1.45		
	b. Fixing	96	100	0.10	1.55	
10.	Construction of cable trench incl. Cost of Steel.	155 Rmt	430/Rmt	0.67	0.67	-do-
11.	Construction of Cable trench slabs	3.23Cumt	1900/Cumt	0.06	0.06	-do-
12.	Construction of Staff Room 3 nos	13.7m x 4.6m	1500/Cumt	0.50	0.50	-do-
13.	Electrification includes APSEB Power Deposit, Power Cables, Power Lines to machines, PCB, Main Switches along with laying and commissioning cables for lighting and etc			25.00	25.00	Quotation dated 21/06/2005 from M/s. Vidyut Systems
	Total:				88.05	



b) at Plot No. 41, Balanagar:

(Rs. in Lakhs)

S.No	Particulars	Qty.	Unit Rate	Cost	Total	Remarks
1	VDF Flooring	1452 Sqmt	449/Sqmt	6.52	6.52	Quotation dated 02/12/2005 obtained from Prime Constructions, Hyderabad
2	PU Flooring	1452 Sqmt	645/Sqmt	9.36	9.36	-do-
3	Windows	2	5000	0.10	0.10	-do-
4	Rolling Shutters	2	0.225	0.45	0.45	-do-
5	Toilets and Plumbing		LUMPSUM		0.30	-do-
6	Elevation Cost		LUMPSUM		6.00	-do-
7	Electrification includes APSEB Power Deposit, Power Cables, Power Lines to machines, PCB, Main Switches along with laying and commissioning cables for lighting and etc		LUMPSUM		25.00	-do-
8	Dome		LUMPSUM		0.50	-do-
9	Interior Cost		LUMPSUM		5.00	-do-
	Total				53.23	

2. PLANT & MACHINERY (Imported Mother Machines):

(Rs. in Lakhs)

S.No	Particulars	Basic Cost	Duties & taxes	Freight & Insurance	Transportation	Total	Remarks
1.	Mitsui Seiki Horizontal Machining Center Model HU 63A (357.143 lakhs JPY converted @ Rs.0.3818/JPY)	136.36	56.89	28.81	0.85	222.90	Purchase Order dated 30/12/2004 placed on Mitsui Seiki Kogyo Co Ltd, Japan
2.	Mitsui Seiki Horizontal Machining Center Model FH 550R (304.762 lakhs JPY converted @ Rs.0.3818/JPY)	117.87	48.54	24.58	0.85	190.34	Purchase Order dated 30/12/2004 placed on Mitsui Seiki Kogyo Co Ltd, Japan
3.	Brother Brand Vertical CNC Tapping Center Model TC- 32 B QT equipped with all standard Accessories, CNC - B00 Controller and electrical suitable for 415V/3-phase/50 Hz.A.C (12.75 million JPY Converted at Rs.0.3818/JPY)	48.65	20.30	10.28	0.75	79.97	Quotation dated 18/01/2004 from Yamazen Corporation India Branch



S.No	Particulars	Basic Cost	Duties & taxes	Freight & Insurance	Transportation	Total	Remarks
4.	OKUMA Verticle Machining Center Model MD - 56 VA with OSP - E100M Controller (16.10 million JPY Converted at Rs.0.3818/JPY)	61.47	25.64	12.99	0.75	100.85	Quotation dated 10/12/2004 from MMK Co Ltd (Indian Agent)
5.	OKUMA CNC Lathe with M-Turret, Y- Axis, LB300MY-C x 980 with OSP P 200L Controller (15 million JPY Converted at Rs.0.3818/JPY)	57.27	23.89	12.10	0.75	94.01	Quotation dated 10/12/2004 from MMK Co Ltd (Indian Agent)
6.	OKUMA Double Column Machining Center Model MCR - A5C 25 x 40E with OSP E 100 M (80 million JPY Converted at Rs.0.3818/JPY)	305.44	127.43	64.52	2.5	499.89	Quotation dated 10/12/2004 from MMK Co Ltd (Indian Agent)
7.	STRUDER CNC Universal Cylindrical Grinding Machine Model S 40 CNC (5.29lacCHF converted @ Rs.34.9371 /CHF)	184.78	77.09	39.03	1.75	302.65	Quotation dated 06/05/2004 of Infin Machine Tools Private Limited
8.	Carl Zeiss, 3D CNC Coordinate Measuring Machining Model Accura 5 with Vast Gold Probe Head (2.24 lac Euros converted at Rs.53.9441/Euro)	120.68	50.35	25.49	0.85	197.37	Quotation dated 29/11/2005 of Empire Industries Ltd, Secunderabad
		1032.52	430.13	217.80	9.05	1687.98	

Notes:

- The Company is not intending to acquire any second hand machinery.
- The Company has already placed orders for plant and machinery worth Rs.1180 lakhs as on December 31, 2005.



III Working Capital Margin

The company is presently enjoying working capital facilities with State Bank of Hyderabad, State Bank of Indore and Punjab National Bank to the tune of Rs.2000 lakhs. The summarized position of utilization as at 31st March 2005 and 31st October 2005 is as under:

Rs. In Lakhs		
Description	As at March 31'2005	As at Oct 31'2005
Current Asset Built Up		
Inventories	2378.91	2482.22
Receivables	1480.44	1937.84
Other Current Assets	633.38	632.17
	4492.73	5052.23
Current Liabilities		
Sundry Creditors & Provisions	1709.57	1781.08
Net Working capital	2783.16	3271.15
Bank Borrowing	2147.92	2327.98
Internal Sources	635.24	943.17

In the envisaged project, an amount of Rs.773.32 lakhs is being estimated as the additional Margin Money requirements for future working capital borrowings. The growth in the operations necessitates the company to infuse additional margins in to Current assets, which would enable it to access the required working capital support from the Banks. In addition the nature of industry is such that the working capital cycle is very long and it requires long term funds for meeting working capital needs.

The Working Capital Requirement has been calculated on the basis of additional working capital required over a period of next two years. Inventories, Receivables and Advances have been taken at various levels, which is in consonance with industry practice and past trends.

(Rs. Lakhs)		
	2006-07	2007-08
A. Total Current Asset	5689.21	6572.99
B. Other current liabilities other than bank borrowings	2158.64	2069.10
C. Working Capital Gap (A-B)	3530.57	4503.89
D. Bank Borrowings	2300.00	2500.00
E. Net working capital (C-D)	1230.57	2003.89
Additional working capital requirement (Rs.2003.89 lakhs - Rs. 1230.57 lakhs)		773.32

Assumptions underlying the projections:

- Inventories have been assumed at 3 months holding
- Receivables have been assumed at 2 months sales
- Creditors have been assumed at 1.5 months purchases

All the above projections are based on the management's estimate and have not been appraised by any bank.



The present working capital limits are as under:

(Rs. Lakhs)

S.No.	Name of the Institution / Bank	Type of Loan	Amount of Loan Sanctioned
WC Limits-Fund based			
1	State Bank of Hyderabad	CC/WCDL	790
2	State Bank of Indore	CC/WCDL	710
3	Punjab National Bank	CC/WCDL	500
4	State Bank of Hyderabad	Stand by line of Credit	120
5	Punjab National Bank	Adhoc	100
	Sub Total-A		2220
W C Limits - Non Fund Based			
6	State Bank of Hyderabad	BG, LC (210+230)	440
7	State Bank of Indore	LC	140
8	Punjab National Bank	BG, LC (120+130)	250
	Sub Total-B		830

Note: All the above limits are secured.

IV Issue Management expenses

The expenses for this Issue includes underwriting and management fees, selling commission, distribution expenses, legal fees, fees to advisors, stationery costs, advertising expenses and listing fees payable to the Stock Exchanges, among others. The total expenses for this Issue are estimated at Rs. [●] lakhs being, which will be paid by the Company.

Sr. No.	Particulars	Amount Rs. Lakhs
1	Book Running Lead Managers fees	[●]
2	Registrar to the Issue	[●]
3	Advisors to the Issue	[●]
4	Offer Stationery	[●]
5	Advertising Expenses	[●]
6	Brokerage and selling Commission	[●]
7	Legal Fees	[●]
8	Other Expenses (incl. Filing Fees, Listing Fees, Depository Charges, etc.)	[●]
9	Contingencies	[●]
	Total	[●]

Means of Finance:

Particulars	Amount (Rs. in lakhs)
Public Issue	[●]
Internal accruals*	[●]
Term loan from State Bank of Indore	775.00
Total	[●]

*Please refer to point No.2 of the Notes to Means of Finance on page no. 34 of this Red Herring Prospectus.

Notes:

1. The Company has received sanction of term loan of Rs.775 lakhs from State Bank of Indore vide letter dated 27/07/2005 on the following terms and conditions:

(a)

i	Limit	Corporate Loan Rs.775.00 lakhs	
ii	Security	Primary:	
		Exclusive first charge over all the fixed assets and moveable machineries related to the Ashok Leyland Project, estimated net block as at 31/03/2006 - Rs.20.42 crores	
		Collateral:	
		Second charge over following properties the first charge for which is with working capital blanks	
		Property details	Value
		Factory, Land and Building at B-36 belonging to Lokesh Machines Limited	97.88
		Mr M Lokeswara Rao, U/s No.10-15, Area Ac 8.07 gts at Ravalkole Village, R R District	16.55*
		Mr B Kishore Babu U/s 117 Ac 7.28 gts at Ravalkole village	15.40
		Mrs C Sirekha U/s No.16 Ac 8.33 gts at Ravalkole village	17.65
		Mr M Lokeswara Rao U/s No.486-88 96a Ac 4.16 gts at Ravalkole village	9.00
		Mrs K Kanaka Durga U/s No.723 Ac.4.00 gts at Ravalkole	4.00
		Smt M Vijayalaxmi U/s No.725/c Ac2.87 gts at Ravalkole	2.87
		B S Ramachandra Rao U/s.No.724/c Ac 2.70 gts at Ravalkole	2.70
		Total	166.05
		# Value as per valuation report dated 22.3.02	
		* Value for properties at Sl.No.1 to 7 as per valuation report dated 12.04.2002	
		b) Second charge over the current assets ranking pari passu with other term lenders	
		c) Guarantee : Personal Guarantee of the following promoters/guarantors-	
		Name	Networth
		Mr M Lokeswara Rao	49.08
		Mr B Kishore Babu	76.40
		Mr M Koteswara Rao	12.32
		Mrs M Sirekha	21.66
		Mrs M Kanaka Durga	11.00
		Mrs M Vijayalakshmi	53.70
		Mr B S Ramachandra Rao	4.56
		Total	228.72
iii	Interest	Interest shall be applied @ 1.75% below BPLR presently 10.75% pa effective 9.00% pa Interest shall be payable monthly immediately as and when applied in the account.	
Iv	Repayment schedule	The Term Loan will be paid in 36 monthly instalments of Rs.21.50 lakhs each commencing from 10th April 2007 with the last instalment being of Rs.22.50 lakhs. Interest to be paid as and when applied in the account.	
v	Period of Loan	45 months	
vi	Penal Interest	Maximum 2% p.a. over and above the normal rate	



Of the above loan, the company has already received part disbursement.

2. Majority of the requirement of the funds is proposed to be funded through IPO. In case of shortfall, if any, the same shall be met out of internal accruals and unsecured loans from promoters. Excess money, if any, will be utilized for general corporate purposes. The project has not been appraised by external agencies and as such all the fund requirements are based on management estimate.
3. No part of the issue proceeds will be paid as consideration to promoters, directors, key managerial personnel, associate or group companies except for the acquisition of land from Mr. M Srikrishna and Mrs. C Sirekha for a total consideration of Rs. 52.80 lakhs, (Rs. 37.68 lakhs-71.36% consideration payable to Mr. M. Srikrishna and Rs. 15.12 lakhs -28.64% consideration payable to Mrs. C. Sirekha) of which the company has already paid an advance of the Rs. 12.26 lakhs (Rs. 10.00 lakhs - 18.94% has been paid to Mr. M. Srikrishna and Rs. 1.26 lakhs -2.39% has been paid to Mrs. C. Sirekha) which constitutes 21.22% of the total consideration and repayment of the amounts advanced by the Promoters as interest free unsecured loans, which were utilized for implementation of the present project.

Further, the Company is not proposing to buy any second hand machinery.

Out of the total project cost (*) % would be used to create tangible assets which would be financed out of the proceeds of the issue.

5. APPRAISAL

The Project has not been appraised by any agency.

6. SCHEDULE OF IMPLEMENTATION

AUTO COMPONENT PROJECT

Activity	Commencement	Date of Completion	Present status as on December 31, 2005
Acquisition of Land	November '05	November 2005	Taken possession & registration pending
Development of Land	Oct '05	Dec '05	95% completed
Civil Works, (Factory Bldg, Auxiliary Bldg.)	Dec '05	May '06	Commenced
Erection of Equipment	May '06	June '06	Yet to commence
Trial Runs	June '06	July '06	
Commercial Production	August,06		

MACHINES PROJECT

Activity	Commencement	Date of Completion	Present status as on December 31, 2005
Civil Works, (Factory Bldg, Auxiliary Bldg.)	Jan '05	May '06	Commenced
Plant & Machinery	September 2005	December 2006	Commenced
Trial Runs	January 2006		Part of the machinery is delivered and installed and trial runs were undertaken
Commercial Production	December 2006		

Expenditure already incurred on the objects of the Issue

Funds Deployed upto February 28, 2006

The Company has incurred an expenditure of Rs.499.58 lakhs as on February 28, 2006 on the proposed Project. The funds deployment in the project and its means of finance has been certified by M/s Delloitte Haskins & Sells, Chartered Accountants, the Statutory Auditors of the Company vide their Certificate dated March 13, 2006, the details of which are as follows:


Expenditure:
(Rs. Lakhs)

Particulars	Amount	Total
Buildings and Civil Works		
- Machines Division	21.77	
- Auto Components Division	14.38	
		36.15
Land Advances - Auto Components Division		136.76
Plant and Machinery - Machine Division		311.82
Consultancy Charges		
Expenses incurred for the proposed Public Offer		14.85
Grand Total		499.58

Means of Finance

The above amount has been spent by the Company out of funds brought in by the promoters and internal accruals.

Note :

In addition to the above, the Company has availed disbursement of Rs.5,14,53,830/- from State Bank of Indore which was utilised for manufacturing machines to be installed for machining and supply of Cylinder Blocks and Cylinder Heads for commercial vehicles, for Ashok Leyland Limited. This amount has been included in the work in progress. The amount spent on on manufacturing these machines would be shown as funds deployed for the project only after manufacturing of the machines is complete and appropriate invoices are raised by the Company on the project.

Shortfall of Funds

Any shortfalls in meeting the project cost will be met through further internal accruals and unsecured loans from Promoters.

No part of the Issue proceeds will be paid as consideration to the Promoters, directors, key managerial personnel, associate or group Companies.

7. PROPOSED DEPLOYMENT OF FUNDS:
(Rs. In Lakhs)

S.No	Activity	Cost of the Activity	Mar'06	Apr'06 to Dec'06
	Auto Component Division			
1.	Land & Site Development	204.25	67.49	—
2.	Civil Works	560.08	100.00	445.70
3.	Plant & Machinery	1162.00	225.00	937.00
4.	Miscellaneous Fixed Assets	172.17	50.00	122.17
	Machine Division			
1	Civil Works	141.28	19.52	100.00
2	Plant and Machinery	1687.98	355.65	1020.51
	Others			
1	Working Capital Requirement	773.32	—	773.32
2.	Issue Management Expenses	(*)	(*)	(*)
	Total	(*)	(*)	(*)

8. INTERIM USE OF FUNDS

As per the proposed implementation schedule, the time gap between expected receipt of the proceeds of the issue and the deployment of funds would not be more than eight months. The Company intends to invest the unutilized funds in short term deposits with scheduled commercial banks in order to earn interest.

9. TERMS OF THE PRESENT ISSUE

The Equity Shares being offered are subject to the provisions of the Companies Act, the Memorandum and Articles of the Company, the terms of this Red Herring Prospectus, Bid-cum-Application Form, the Revision Form, the Confirmation of Allocation Note ("CAN") and other terms and conditions as may be incorporated in the Allotment Advice, and other



documents/certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, Government of India, Stock Exchanges, RBI, ROC and / or other authorities, as in force on the date of the Issue and to the extent applicable.

10. BASIS FOR ISSUE PRICE

The Issue Price will be determined by the BRLMs in consultation with the Company, on the basis of assessment of market demand for the Equity Shares, by way of Book Building Process.

Qualitative factors

- Existing profit making Company
- The Company has strong client base that includes Mahindra & Mahindra, Ashok Leyland Limited, Bharat Forge, Tata Motors among others.
- The promoters of the Company are qualified, well versed, have wide experience in this area of business.
- There also exist potential and opportunities for the Company to tap the emerging machine tool components markets in countries outside India.

Quantitative factors

a) Earnings per share

Financial year	EPS (Rs.)	Weightage
31st March 2003	1.13	1
31st March, 2004	0.46	2
31st March, 2005	6.47	3
Weighted average EPS	3.58	

Note: Net Profit after adjustments attributable to equity shareholders divided by weighted average number of equity shares outstanding at the end of the year.

b) Price/Earning Ratio (P/E Ratio) in relation to Issue price of Rs. [•]

Based on the results of Financial Year 2005, adjusted EPS of Rs.6.47 on equity share of face value of Rs.10/-each.

c) Return on Networth

Financial year	RONW %	Weightage
31st March 2003	5.89	1
31st March, 2004	2.5	2
31st March, 2005	27.90	3
Weighted average RONW	15.77	

Note: Net Profit after adjustments as restated divided by equity shareholders' funds at the end of the period/year.

d) Minimum return on total net worth needed after the Issue to maintain EPS (as on March 31, 2005) at Rs.[•]

e) Net Asset Value per share*

As at 31st March, 2005	23.17
As at 31st October, 2005	27.49
Issue Price	[•]
After Issue at Issue Price of Rs.[•]	[•]

Note: Net worth at the end of the year divided by the weighted average number of equity shares at the end of the period / year

f) The face value of equity shares of LML is Rs.10/- and the Issue price is [•] times of the face value.

The issue price of Rs.[•] will be determined by the Company in consultation with the BRLMs, on the basis of assessment of market demand for the equity shares by way of book building and is justified on the basis of the above factors.



Comparison of accounting ratios of the Company with industry average and accounting ratios of peer group for Financial Year 2005.

Strictly, the Company cannot be compared with the other listed companies, as the company doesn't have apparent competitor in the segment, in which it is operating. However, the following companies have some elements of the business, therefore, a comparison with these companies could be relevant to a negligible extent:

Company	Year/Period ended	EPS (Rs.)	P/E	BV (Rs.)
Avery India	March 2005	2.80	24.30	33.10
Batliboi	March 2005	5.40	25.30	17.90
Gei Hamon Industries	March 2005	1.70	29.50	19.20
Pitti Laminations	March 2005	6.30	18.00	28.70
Shanti Gears	March 2005	2.40	21.10	9.00
Stewarts & Lloyds	March 2005	12.00	20.80	47.50

Industry Average

P/E Ratio

Highest : 120.20

Lowest : 2.70

Average : 23.40

(Source: Capital Market Vol. XXI/10, March 13-26, 2006)

BRLMs believe that the Issue Price of Rs. [•] is justified in view of the above qualitative and quantitative parameters. See the section titled "Risk Factors" on page no. vi of this Red Herring Prospectus and the financials of the Company including important profitability and return ratios, as set out in the Auditors Report on page no.74 of this Red Herring Prospectus to have a more informed view.

11. TAX BENEFITS

Statement of Possible Tax Benefits available to the Company and its Shareholders.

I hereby report that the enclosed statement states the possible tax benefits available to the Company and to the shareholders of the Company under the current Tax Laws presently in force in India. Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant provisions of the statute. Hence, the ability of the Company or its shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which based on business imperatives the Company faces in the future, the Company may or may not choose to fulfill.

The benefits discussed in the enclosed statement are not exhaustive. This statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws and the fact that the Company will not distinguish between the shares offered for subscription and the share offered for sale by the Selling shareholders, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue.

I do not express any opinion or provide any assurance as to whether:

- the Company or its shareholders will continue to obtain these benefits in future; or
- the conditions prescribed for availing the benefits have been / would be met with.

The contents of the enclosed statement are based on information, explanations and representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company.

For R.V.Chalam

Chartered Accountant

Sd/-

(R.V.Chalam)

Proprietor

M.No.21423

Place : Hyderabad

Date : 19/12/2005



STATEMENT OF POSSIBLE BENEFITS AVAILABLE TO THE COMPANY AND ITS SHAREHOLDERS

The tax benefits listed below are the possible benefits available under the current tax laws in India. Several of these benefits are dependent on the Company or its Shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence the ability of the Company or its Shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which based on business imperatives it faces in the future, it may not choose to fulfill.

The following tax benefits shall be available to the Company and the prospective shareholders under Direct Tax.

1. To the Company - Under the Income-tax Act, 1961 (the Act)

- 1.1 There is no additional benefit arising to the Company under The Income-Tax Act, 1961, by proposed Initial Public Offer of Equity Shares to the public and institutions in India.

2. To the Members of the Company - Under the Income Tax Act

2.1 Resident Members

- a) Under Section 10(34) of the Act, income earned by way of dividend from domestic company referred to in Section 115-O of the Act is exempt from income-tax in the hands of the shareholders.
- b) Under Section 10(38) of the Act, long term capital gain arising to the shareholder from transfer of a long term capital asset being an equity share in the company or unit of an equity oriented mutual fund (i.e. capital asset held for the period of twelve months or more) entered into in a recognized stock exchange in India and being such a transaction, which is chargeable to Securities Transaction Tax, shall be exempt from tax.
- c) In terms of Section 88 E of the Act, the securities transaction tax paid by the shareholder in respect of the taxable securities transactions entered into in the course of the business would be eligible for rebate from the amount of income-tax on the income chargeable under the head 'Profits and Gains under Business or Profession' arising from taxable securities transactions.
- d) As per the provisions of Section 10(23D) of the Act, all mutual funds set up by public sector banks, public financial institutions or mutual funds registered under the Securities and Exchange Board of India (SEBI) or authorized by the Reserve Bank Of India are eligible for exemption from income-tax, subject to the conditions specified therein, on their entire income including income from investment in the shares of the company.
- e) Under Section 54EC of the Act, capital gain arising from transfer of long term capital assets (other than those exempt u/s 10(38)) shall be exempt from tax, subject to the conditions and to the extent specified therein, if the capital gain is invested within a period of six months from the date of transfer in the bonds issued by -
 - (i) National Bank for Agriculture and Rural Development established under Section 3 of the National Bank for Agriculture and Rural Development Act, 1981;
 - (ii) National Highways Authority of India constituted under Section 3 of National Highways Authority of India Act, 1988;
 - (iii) Rural Electrification Corporation Limited, a company formed and registered under the Companies Act, 1956;
 - (iv) National Housing Bank established under Section 3(1) of the National Housing Bank Act, 1987; and
 - (v) Small Industries Development Bank of India established under Section 3(1) of the Small Industries Development Bank of India Act, 1989.

If only part of the capital gain is so reinvested, the exemption shall be proportionately reduced. However, the amount so exempted shall be chargeable to tax subsequently, if the new bonds are transferred or converted into money within three years from the date of their acquisition.

- f) Under Section 54ED of the Act, capital gain arising from transfer of long term capital assets, being listed securities or units (other than those exempt u/s 10(38)), shall be exempt from tax, subject to the conditions and to the extent specified therein, if the capital gain is invested in public issue of equity shares issued by an Indian Public Company within a period of six months from the date of such transfer. If only a part of the capital gain is so reinvested, the exemption shall be proportionately reduced however the amount so exempted shall be chargeable to tax subsequently if the new equity shares transferred or converted into money within one year from the date of third acquisition.

- g) Under section 54F of the Act, where in the case of an individual or HUF capital gain arise from transfer of long term assets (other than a residential house and those exempt u/s 10(38)) then such capital gain, subject to the conditions and to the extent specified therein, will be exempt if the net sales consideration from such transfer is utilized for purchase of residential house property within a period of one year before or two year after the due date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.
- h) Under Section 111 A of the Act, capital gains arising from transfer of short term capital assets, being an equity share in a company or unit of an equity oriented mutual fund, which is subject to securities transaction tax will be taxable under the Act @ 10% (plus applicable surcharge and educational cess).
- i) Under Section 112 of the Act and other relevant provisions of the Act, long term capital gains (not covered under Section 10(38) of the Act) arising on transfer of shares in the Company, if shares are held for a period exceeding 12 months, shall be taxed at a rate of 20% (plus applicable surcharge and educational cess on income-tax) after indexation as provided in the second proviso to Section 48 or at 10% (plus applicable surcharge and educational cess on income-tax (without indexation), at the option of the Shareholders.

2.2 Non Resident Indians/Members other than Foreign Institutional Investors and Foreign Venture Capital Investors

- a) By virtue of Section 10(34) of the Act, income earned by way of dividend income from a domestic company referred to in Section 115-O of the Act, is exempt from tax in the hands of the recipients.
- b) Taxation of Income from investment and Long Term Capital Gains on its transfer
 - j) A non-resident Indian, i.e. an individual being a citizen of India or person of Indian origin has an option to be governed by the special provisions contained in Chapter XIIA of the Act, i.e. "Special Provisions Relating to certain incomes of Non-Residents".
 - ii) Under Section 115E of the Act, where shares in the company are subscribed for in convertible Foreign Exchange by a non-resident Indian, capital gains arising to the non resident on transfer of shares held for a period exceeding 12 months shall (in cases not covered under Section 10(38) of the Act) be concessional tax at a flat rate of 10% (plus applicable surcharge and educational cess on Income-tax) without indexation benefit but with protection against foreign exchange fluctuation under the first proviso to Section 48 of the Act
 - iii) Under provisions of section 115F of the Act, long term capital gains (not covered under section 10(38) of the Act) arising to a non-resident Indian from the transfer of shares of the company subscribed to in convertible Foreign Exchange shall be exempt from income tax in the net consideration is reinvested in specified assets within six months of the date of transfer. In only part of the net consideration is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.

2.3 Return of Income not to be filed in certain cases

Under provisions of Section 115-G of the Act, it shall not be necessary for a non-resident Indian to furnish his return of income if his only source of income is investment income or long term capital gains or both arising out of assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible at source has been deducted therefrom.

2.4 Other Provisions of the Act

- a) Under Section 115-I of the Act, a non resident Indian may elect not to be governed by the provisions of Chapter XII-A of the Act for any assessment year by furnishing his return of income under section 139 of the Act declaring therein that the provisions of the Chapter shall not apply to him for that assessment year and if he does so the provisions of this Chapter shall not apply to him. In such a case the tax on investment income and long term capital gains would be computed as per normal provisions of the Act.
- b) Under the first proviso to section 48 of the Act, in case of a non resident, in computing the capital gains arising from transfer of shares of the company acquired in convertible foreign exchange (as per exchange control regulations), protection is provided from fluctuations in the value of rupee in terms of foreign currency in which the original investment was made. Cost indexation benefits will not be available in such a case.

- c) Under Section 54EC of the Act, capital gain arising from transfer of long term capital assets (other than those exempt u/s 10(38)) shall be exempt from tax, subject to the conditions and to the extent specified therein, if the capital gain are invested within a period of six months from the date of transfer in the bonds issued by-
 - i) National Bank for Agriculture and Rural Development established under Section 3 of the National Bank for Agriculture and Rural Development Act, 1981;
 - ii) National Highways Authority of India constituted under Section 3 of National Highways Authority of India Act, 1998;
 - iii) Rural Electrification Corporation Limited, a company formed and registered under the Companies Act, 1956;
 - iv) National Housing Bank established under Section 3(1) of the National Housing Bank Act, 1987; and
 - v) Small Industries Development Bank of India established under Section 3(1) of the Small Industries Development Bank of India Act, 1989.

If only part of the capital gain is so reinvested, the exemption shall be proportionately reduced. However, the amount so exempted shall be chargeable to tax subsequently, if the new bonds are transferred or converted into money within three years from the date of their acquisition.
- d) Under Section 54ED of the Act, capital gain arising from transfer of long term capital assets, being listed securities or units (other than those exempt u/s 10(38)), shall be exempt from tax, subject to the conditions and to the extent specified therein, if the capital gain is invested in public issue of equity shares issue by of an Indian Public Company within a period of six months from the date of such transfer. If only a part of the capital gain is so reinvested, the exemption shall be proportionately reduced. However, the amount so exempted shall be chargeable to tax subsequently, if the new equity shares are transferred or converted into money within one year from the date of their acquisition.
- e) Under Section 54F of the Act, where in the case of an individual of HUF capital gain arise from transfer of long term assets (other than a residential house and those exempt u/s 10(38)) then such capital gain, subject to the conditions and to the extent specified therein, will be exempt if the net sales consideration from such transfer is utilized for purchases of residential house property within a period of one year before or two year after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.
- f) Under Section 111A of the Act, capital gain arising from transfer of short term capital assets, being an equity share in a company or unit of an equity oriented mutual fund, which is subject to securities transaction tax will be taxable under the Act @ 10% (plus applicable surcharge and educational cess).
- g) Under Section 112 of the Act and other relevant provisions of the Act, long term capital gains (not covered under Section 10(38) of the Act) arising on transfer of shares in the Company, if shares are held for a period exceeding 12 months, shall be taxed at a rate of 20% (plus applicable surcharge and educational cess on income-tax) after indexation as provided in the second proviso to Section 48 or at 10% (plus applicable surcharge and educational cess on income-tax) (without indexation), at the option of the Shareholders.

2.5 Foreign Institutional Investors (FIIs)

- a) By virtue of Section 10(34) of the Act, income earned by way of dividend income from another domestic company referred to in Section 115-O of the Act, are exempt from tax in the hands of the institutional investor.
- b) Under Section 115AD capital gain arising on transfer of short capital assets, being shares and debentures in a company, are taxed as follows:
 - i) Short term capital gain on transfer of shares/debentures entered in a recognized stock exchange which is subject to securities transaction tax shall be taxed @ 10% (plus applicable surcharge and educational cess); and
 - ii) Short term capital gains on transfer of shares/debentures other than those mentioned above would be taxable @ 30% (plus applicable surcharge and educational cess)
- c) Under Section 115AD capital gain arising on transfer of long term capital assets, being shares and debentures in a company, are taxed @ 10% (plus applicable surcharge and educational cess). Such capital gains would be computed without giving effect to the first and second proviso to section 48. In other words, the benefit of indexation, direct or indirect, as mentioned under the two provisos would not be allowed while computing the capital gains.

- d) Under Section 54EC of the Act, capital gain arising from transfer of long term capital assets (other than those exempt u/s 10(38)) shall be exempt from tax, subject to the consideration and to the extent specified therein, in the capital gain are invested within a period of six months from the date of transfer in bonds issued by -
- National Bank of Agriculture and Rural Development established Section 3 of the National Bank of the Agriculture and Rural Development Act, 1981;
 - National Highways Authority of India constituted under Section National Bank for Agriculture and Rural Development established under 3 of the National Highways Authority of India Act, 1988;
 - Rural Electrification Corporation Limited a Company formed and registered under the Companies Act, 1956;
 - National Housing Bank established under Section 3 (1) of the National Housing Bank Act, 1987; and
 - Small Industries Development Bank Of India established under Section 3(1) of the Small Industries Development Bank Of India Act, 1989.

If the only part of the capital gain is so reinvested, the exemption shall be proportionately reduced. However, the amount so exempted shall be chargeable to tax subsequently, if the new bonds are transferred or converted into money within three years from the date of their acquisition.

- e) Under Section 54ED of the Act, capital gain arising from transfer of long term capital assets, being listed securities or units (other than those exempt u/s 10(38)), shall be exempt from tax, subject to the considerations and to the extent specified therein, if the capital gain is invested in public issue of equity shares issue by of an Indian Public Company within a period of six months from the date of such transfer. If only a part of the capital gain is so reinvested, the exemption shall be proportionately reduced. However, the amount so exempted shall be chargeable to tax subsequently, if the new equity shares are transferred or converted into money within one year from the date of their acquisition.

2.6 Venture Capital Companies / Funds

As per the provisions of section 10(23FB) of the Act, income of

- * Venture capital company which has been granted a certificate of registration under the Securities and Exchange Board of India Act, 1992 and notified as such in the Official Gazette; and
- * Venture Capital Fund, operating under a registered trust deed or a venture capital scheme made by Unit Trust of India, which has been granted a certificate of registration under the Securities and Exchange Board of India act, 1992 and notified as such in the Official Gazette set up for raising funds for investment in a Venture Capital Undertaking is exempt from income tax.

2.7 Infrastructure Capital Companies/Funds or Co-operative Bank

As per the provisions of Section 10(23G) of the Act, income by way of dividends, interest or long term capital gains of

- * Infrastructure Capital Company;
- * Infrastructure Capital Fund; and
- * Co-operative Bank

From investment made in share or long term finance in undertaking specified therein shall be exempt from tax. However, such income earned by an Infrastructure Capital Company shall not be exempt for the purpose of computing tax on book profits u/s 115JB of the Act.

3. Wealth Tax Act, 1957

Shares in a company held by a shareholder will not be treated as an asset within the meaning of Section 2(ea) of Wealth-Tax Act, 1957; hence, wealth tax is not leviable on shares held in a company.

Notes

- All the above benefits are as per the current tax law and will be available only to the sole /first named holder in case the shares are held by joint holders.
- In respect of non-residents, taxability of capital gains mentioned above shall be further subject to any benefit available under the Double Taxation Avoidance Agreement, if any between India and the Company in which the non-resident has fiscal domicile.
- In view of the individual nature of tax consequence, each investor is advised to consult his/her own tax adviser with respect to specific tax consequences of his/her participation in the scheme.

SECTION IV - ABOUT THE ISSUER

1. INDUSTRY OVERVIEW

Indian Machine Tools Industry - An Overview

The machine tools industry is considered to be a primary segment of the manufacturing industry.. Machine tools form the crucial building blocks for machine and components manufacturing. This is evident from the fact that the growth of the manufacturing sector reflects itself in the growth of the machine tools industry in India.

The Indian machine tool industry consists of about 450 manufacturing units, of which 150 units are in the organized sector. Ten major Indian companies contribute to almost 70 percent of production. The industry contributes to less than 1 percent of the \$45 billion global production. It manufactures a range of products such as metal cutting and metal forming machine tools, falling under the conventional and computer numerically controlled (CNC) types. Apart from these, Special Purpose Machine (SPM) is also an integral part of this industry.

The Indian Machine Tool industry is now recognized as a provider of low-cost high quality lean manufacturing solutions. The industry is seen as a partner in the user industries efforts to enhance productivity as well as improve competitiveness. Hitherto, this industry has been known to be the protected one which was open to adopting innovation or production of machine tools conforming to global standards. The liberalization of Indian economy set in process in 1991 presented an opportunity for foreign machine tools manufacturers to enter Indian market. Indigenous manufacturers found it difficult to compete with the foreign companies owing to the serious deficiencies in product quality. Some of the companies even resorted to import of machine tools and becoming mere traders. This paved the way for significant imports into the country. Subsequently, the demand from the user segments for accuracy coupled with the growing complexity of applications provided a motivating drive for development and changing trends in the indigenous industry.

The industry resiliently supports all its users to enhance productivity as well as improve competitiveness, for the betterment of the final customer. Being an integral sector, growth of the machine tool industry has an immense bearing on the entire economy, especially India's manufacturing industry. This industry is even more crucial for development of the country's strategic segments such as Defence, railways, space, and atomic energy. Even globally, industrialized-advanced countries have created market niches on the back of a well-developed and supportive machine tool sector.

Following are the details of the production of Metalworking Machine Tools in India :- (Rs. In Millions)

Particulars	2002-2003		2003-2004		2004-2005	
	Quantity	Value (Rs.)	Quantity	Value (Rs.)	Quantity	Value (Rs.)
Metal-Forming						
CNC	166	246.000	346	302.770	370	528.898
Conventional	422	508.000	458	536.450	256	860.767
Total Metal - Forming	588	754.000	804	839.220	626	1389.665
Metal - Cutting						
CNC	1756	3608.000	2534	5230.600	3512	7387.600
Conventional	1570	1125.000	3291	1898.100	2698	2113.110
Total Metal Cutting	3326	4733.000	5825	7128.700	6210	9500.710

(Source: Annual Report for the Financial Year 2004-05 of Indian Machine Tool Manufacturers' Association)

CNC LATHES

The market for CNC lathes, which is a volume intensive in nature, is dominated by indigenous manufacturers. The presence of foreign manufacturers is limited to high functionality driven applications .

Market Forecasts

The total market for CNC lathes in India in 2004 was 3178 units with corresponding revenues of Rs.4632.54 million. This market is expected to grow to 7590 units and Rs.10759.87 million by the year 2007. The following chart illustrates the growth of the CNC Lathes (≤ 200 mm) market in the last 3 years and also the expected growth till 2007. The CAGR during the forecast period is estimated to be 33.70% for the units and 32.40% for the revenues.

S.No	Year	Units (Nos)	Rs (Million)
1	2002	1278	1763.37
2	2003	2225	3308.59
3	2004	3178	4632.54
4	2005	4062	6007.54
5	2006	5416	8002.79
6	2007	7590	10759.87

Source: Study by Frost and Sullivan

HORIZONTAL MACHINING CENTERS (HMC)

Automotive manufacturing and auto components are the primary segments driving the growth of HMC. The introduction of newer models to meet the growing competition in the automotive market, results in investment in HMC.

Market Forecasts

The market for HMC was 363 units in 2004. The market revenues during the same period were Rs.2390.1 million. This market is expected to grow to 728 units and Rs.5279.56 million by 2007. A CAGR of 26.1% in units and 30.2% in revenues is expected to effect this growth by 2007.

S.No	Year	Units (Nos)	Rs (Millions)
1	2002	111	685.53
2	2003	142	924.08
3	2004	363	2390.61
4	2005	450	3097.76
5	2006	572	4068.46
6	2007	728	5279.56

Source: Study by Frost and Sullivan

VERTICAL MACHINING CENTERS (VMC)

VMC is heavily dependent on the growth of the 2-wheeler, 4-wheeler and component manufacturing segments. The decline in the growth rate of the 2-wheeler market in India has definitely left its impact on the VMC market growth. Nevertheless, this market continues to be the biggest contributor to the VMC market revenues.

The intensifying competition in the 2-wheeler market has led the manufacturers to introduce newer models with regularity. This has sustained the demand for VMC as new models and components create demand for VMC in its manufacturing.

Market Forecasts

The total market for VMC in 2004 was 1863 units which correspond to revenues of Rs.4381.8 million. The market is growing at a CAGR of 28.3% in unit shipments and at 31% in revenues. This is expected to take the market to 3938 by 2007 with revenues of Rs.9853.22 million.

S.No	Year	Units (Nos)	Rs (Million)
1	2002	676	1581.60
2	2003	1110	2636.02
3	2004	1863	4381.80
4	2005	2375	5707.59
5	2006	3032	7439.88
6	2007	3938	9853.32

Source: Study by Frost and Sullivan

SPECIAL PURPOSE MACHINES (SPM)

SPM market is heavily dependent on the auto components industry for its survival. The growth of this industry driven by the exports has propelled the SPM market. The export of high volume components to OEMs abroad has the most significant growth factor for SPM.

Market Forecasts

The market for SPM was 399 units in 2004 with revenues of Rs.5250.8 million. This market is estimated to be growing at a CAGR of 11.8% to touch 557 units by 2007. The CAGR for revenues during the same period is expected to be 19.4% resulting in Rs.8926.5 million.

S.No	Year	Units (Nos)	Rs (Million)
1	2002	198	4320.40
2	2003	237	4194.90
3	2004	399	5250.80
4	2005	449	6406.80
5	2006	501	7729.80
6	2007	557	8926.50

Source: Study by Frost and Sullivan

END USERS SEGMENTS

Automotive Sector: An Overview

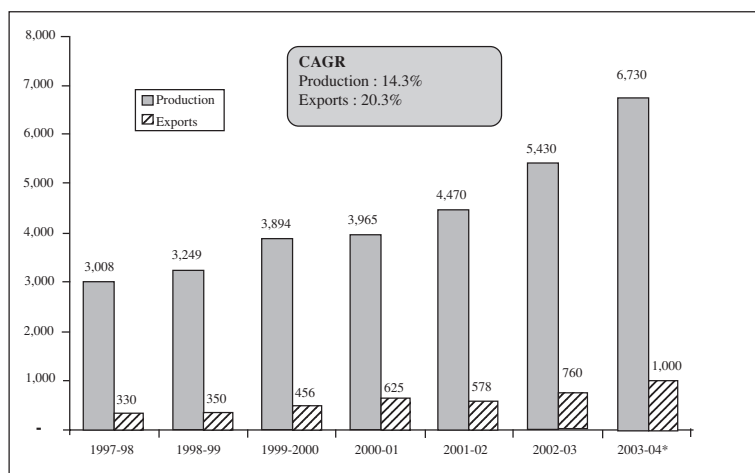
The Indian automotive industry, comprising of automotive and auto component manufacturers, is worth Rs.244 billion in revenues and is currently registering a growth rate which is above 20% per annum.

The industry production is more than 7 million vehicles per annum making it the second largest 2-wheeler and tractor manufacturer and fifth position in the commercial vehicle manufacturing. The passenger car market is growing at an impressive rate and has grown to become the fourth largest car market in the Asian region.

Indian auto components have increased acceptance with the automotive manufacturers abroad. Low cost of manufacturing along with high engineering capabilities has been the cornerstone of its success. Increasing global competition drive automakers to seek skilled manpower and low cost manufacturing asylums like India to set up outsourcing hubs. Thus components exports have risen significantly in the recent years making it one of the sunrise industries in India. As the export markets are being tapped, manufacturers are scaling up their manufacturing capabilities to meet the growing demand. Existing manufacturing units are being modernized through higher automation.

Faster time to market, quality and manufacturing efficiency continue to be the drivers for automation in the manufacturing setups.

The domestic production of the Indian auto component industry is detailed in the chart below:



In 2004, the domestic production was to the tune of \$6730 million while the export component out of this was \$1000 million. The production climbed from \$3008 million in 1997 to touch the present level thus registering a CAGR of 14.3%. During the same period, exports grew at a CAGR of 20.3% thus indicating the immense potential for exports.

Frost & Sullivan had conducted a study on the Indian auto component industry's exports potential. The revenue forecasts were made by taking into consideration the growth factors and the industry's capability to compete in the foreign markets. The exports are expected to reach \$2570 million by the end of 2009 thus growing at a CAGR of 21.5% during the forecast period. The same has been presented in the table below:

The Revenue Forecasts of Exports of auto components from India for the period FY1999-FY2009 is as under :-

Year	Revenues (\$ million)	Revenue Growth Rate (%)
FY1999	350	
FY2000	435	24.29%
FY2001	625	43.68%
FY2002	578	(7.52%)
FY2003	800	38.41%
FY2004	1100	37.50%
FY2005	1440	30.91%
FY2006	1730	20.14%
FY2007	1960	13.29%
FY2008	2250	14.80%
FY2009	2570	14.22%

Compound Annual Growth Rate (FY03-FY09) : 21.5%

Source : Source: Study by Frost and Sullivan. All figures are rounded; the base year is FY03

Investment in the Indian auto component industry

Sensing the immense potential in exports and domestic market, the auto components manufacturers are investing in new facilities and up-gradation of their production units. Starting 1997 and till 2003, the investment has grown at a CAGR of 9.5%.

The investment in the Indian component industry grew from Rs.1813 million to touch Rs.3100 million in 2003-04. This impressive surge in the investment is measured at a CAGR of 9.5% and denoted the growing confidence in the capability of Indian auto component industry.

Application areas for machine tools in the auto industry

Machine tools are the key to auto and component manufacturing finding usage in a variety of application areas. The major and common application areas for machine tools are listed below:

Type	Category	Application Area
CNC Lathes	<=200mm	Turning or Boring of Engine Components - RX Gears, RX Hunbs Crankshaft, Camshaft, Trans Axle Lay Shaft
	>200mm	Machining of cylindrical blocks, cylindrical heads, crankshaft, trans axle housing, Camline, Cylinder line, Drilling, boring, reaming, tapping and milling of engine parts
HMC	<= pallet size >400 pallet size	Drilling, Reaming, Tapping, Boring, Milling of components like Cylindrical Block, Cylindrical Head, Crankshaft, Trans axle Housing,
UMC	<=400 cube size >400 cube size	Camshafts, Cylindrical line, Conrodine
Cylindrical Grinding	<=200mm >200mm	Grinding of Gear Shaft, Crankshaft, Pistons, Camshaft
SPM		The applications are non-standard and are tooled up for respective applications

General Engineering Sector: An Overview

Indian industry's position as a source of engineering is well known. The growth of economy has resulted in the heightened activity in the engineering sector. The changing lifestyles and growing needs have created the demand for newer and better products. The brief highlights of the sector are as under:

- The machinery production in India is worth Rs.20.8 billion
- The size of the boiler industry is estimated at Rs.23 billion
- The growth of the power industry had a positive impact on the turbines manufacturing. The steam/ hydro turbines segment production was worth Rs.7 billion
- Electrical generators production value was estimated to Rs.1.2 billion
- Consumer durables industry has been growing impressively driven by heightened economic activity. The industry size of various consumer durables are:
- Washing Machines: 1.4 million units
- Air-conditioners: 1.22 million units
- Refrigerators: 4 million units
- Audio systems: 6.3 million
- TV: 11.75 million

The growth of this sector has a direct bearing on the machine tools consumption. Machine tools industry has been benefited by the growth of this sector in the recent years. Many engineered products manufacturers are increasing the level of indigenization thus requiring more machine tools. Moreover the mushrooming of smaller manufacturers has increased the off-take of machine tools.

(Source: A study by Frost and Sullivan)

2. BUSINESS OVERVIEW

Lokesh Machines Ltd is a Public Limited Company engaged in the design, development and manufacture of custom built Special Purpose Machines and General Purpose CNC Machines.

The Company was promoted by Mr. M Lokeshwara Rao in 1984. Mr. M Lokeshwara Rao, who had a steady job as a shop-floor executive in HMT Ltd. started his proprietary concern to carry out job works for the same company. Soon afterwards, - as a first generation technocrat entrepreneur, he promoted Lokesh Machines Ltd., which had a modest beginning carrying out some machining and conversion operations for the components and machine tools of HMT Ltd. .

Over the past 21 years the company has made a steady progress by constantly upgrading its capabilities and enhancing the range and depth of activities. From handling job works, the company graduated to manufacture of Special Purpose Machines, which was the mainstay of its operations during the first few years. The first few years of the company's existence also was the pre-liberalisation era, with limited scope of growth for machine tool manufacturers in the private sector.

The post liberalization era witnessed the entry of a number of new players in the engineering industry in general and automobile sector in particular. This resulted in an enhanced demand for Special Purpose Machines as well as CNCs. While this meant opening up of opportunities for machine and machine tool manufacturers, there was general tendency among auto majors to import their requirements for Special Purpose Machines from established companies abroad, rather than try out local manufacturers.

In spite of the prevailing atmosphere, the company persisted with its efforts at innovation and product development. The recognition of the technical capabilities of the company received a major boost in the year 1995-96, when the company was able to conclude an agreement with Mahindra & Mahindra Limited for machining of their Cylinder Blocks. The Company was also able bag orders for Special Purpose Machines from other Auto majors like Escorts, Ashok Leyland, Bajaj Auto etc.

Another feature of the growth of the automobile sector was the increasing tendency of introduction of new models of vehicles by the manufacturers and acceptance of outsourcing as an option for auto majors.. This brought about a greater demand for the more versatile CNC machines. In tune with the prevailing changes, the company also started according greater focus to the CNC Machines and General Purpose Machines (GPMs) and auto components.



Products

Over a period the Company developed various range of SPMs including Single and Multi Spindle Machines, Shuttle Type, Way Type, Linear and Rotary Indexing Machines, Linear Transfer lines. Besides achieving break through in SPMs, The Company has also designed and developed the following GPMs and expanded the capacity to manufacture GPMs, keeping in view the present requirements of the market:

- CNC Turning Centre
- CNC Ram Type Milling & Boring Machine
- Horizontal Boring and Milling Machine
- Horizontal Machining Centre (In technical association with Grob GmbH, Germany)
- Vertical Machining Centre

In the segment of Auto Components, the Company has been concentrating on manufacturing / machining auto components to original equipment manufacturers. Typically these components require investment and are geared to replace in-house manufacture of these components by auto majors. In this segment the Company has been supplying Cylinder Blocks and Cylinder Heads to OEMs like Mahindra & Mahindra Limited for their Tractor, Jeep and Scorpio divisions.

The current operations of the Company can be categorised into the following major segments:

Product Range	Customer/End use Profile
CNC Lathes	Automobile Tier I Suppliers Automobile Tier II Suppliers Engineering Workshops Ceiling Fan Manufacturers Compressor Component Manufacturers Textile machinery components
Vertical Machine Centres	Automobile Tier I Suppliers Automobile Tier II Suppliers Die and Mould Manufacturers Injection Mould Manufacturers Compressor Manufacturers
Horizontal Machining Centres	Auto OEMs Automobile Tier I Manufacturers Automobile Tier II Manufacturers Engine Manufacturers Transmission Manufacturers
Special Purpose Machines	Auto OEMs Compressor Manufacturers Mass Production Industries.
Auto Components	Auto OEMs

In addition to the above segments in the domestic market, the company has also been able to make forays into the export market, and has been able to bag and execute export orders to Italy, Germany and Japan.

SWOT ANALYSIS

Strengths

Effective Leadership

The top management of the company at the Board level combines hands-on experience and relevant technical qualification, providing effective leadership in operations.

Technical manpower

The company has over 100 engineers on its rolls. They are ably supported by a skilled and experienced work-force at the supervisory and shop-floor levels.

Sustained alliances for Critical components

The Company has been able to build up long term arrangements with customers like Mahindra & Mahindra and Ashok Leyland for machining & supply of critical components .

Prestigious Client Base

The company has an impressive list of customers consisting of Ashok Leyland, Bajaj Auto Limited, Escorts, Maruti Udyog, Honda, Kinetic, Mahindra & Mahindra, Hindustan Motors, Tecumseh India among others.

Research & Development

Innovation and Product Development is a major strength. The Company has a full fledged design department with more than 50 experienced engineers in the fields of Mechanical, Electrical & Electronics, Hydraulics & Pneumatic designs.

Weaknesses

First Generation Entrepreneur

The Company is promoted by a first generation entrepreneur, with concomitant limitations in terms of expertise and experience in managing industrial enterprises.

Long Manufacturing Cycles.

The lead time from commencement to completion of manufacture is relatively long, resulting in long waiting period between receipt of order and realization of sale proceeds, and blockage of working capital.

Dependence on imports for key components

The Company has to depend on imports for key components of CNC Machines - like electronic control panels.

Opportunities

Growth in Capital Goods Industry

The present and projected growth in the Capital Goods Industry gives rise to increased demands for machines and machine tools.

Fast paced development of Automobile Industry

Unlike the past, there is a tendency for introduction of new models automobiles frequently. This gives rise to greater demand for more versatile CNC machines.

Quest of overseas customers for relatively low cost but quality products

There is an increased accent amongst overseas buyers on economy without compromising on quality of products. This constitutes a good opportunity, since the company has the reputation of coming out with quality products, while deriving benefits of relatively low personnel costs prevailing in India.

Threats

Import of cheap and Reconditioned Machines by Indian users

The opening up of the economy has given rise to import of cheap and reconditioned machines by Indian users

Perceived lack of Quality

The general perception of Indian machines being of inferior quality in terms of precision and performance is a threat.



Possible entry of Global Players

The opening up of the economy also throws the doors open for global players in the industry to set up units in India.

Manufacturing Process - Machines

The manufacturing process for the machines is briefly described below:

Production Plan & Design:

This is the primary stage of the manufacturing process. Depending upon the specifications of the machine to be manufactured, the design of the machine is prepared in case of Special Purpose Machines. This design is verified and confirmed in consultation with the user(customer). As per the designs, the entire machine may also be divided into various components. A Bill of Materials is then prepared, listing out the various materials required for manufacture of the components and the machine. A schedule of processes which the materials have to undergo, is prepared. At this stage, a decision is also taken as to the component, if any, which are to be sub-contracted, based on techno-economic evaluation.

Procurement of Materials:

The materials required for manufacture of the machinery is procured from among the approved suppliers of the company. Materials received are then subjected to rigorous inspection to verify whether they conform to specifications as per the Bill of Materials. The approved material is then issued to the shop-floor.

Processing of Material:

The materials then undergo various processes of fabrication and machining, in accordance with the design.

In process Inspection:

During the various stages of manufacture described above, the materials are subjected to In-process Inspection on various parameters to identify deviations from the specifications, if any, during the process and to take corrective action wherever needed.

Calibration of Test Instruments:

The gauges and measuring instruments are calibrated periodically to ensure they are as per pre-set standards.

Final Inspection:

The components are then subjected to final inspection before passing them for assembly

Assembly

The components produced in house, along with the components bought out or sub-contracted are then assembled to produce the machinery.

Testing and Trials:

The machines are then subjected to Testing and Trials to ensure that they satisfy the specified parameters of performance. The trials are conducted internally as well as in the presence of the customer to fully satisfy the user's expectations.

Despatch:

On successful completion of test run and trials, the machines are then dispatched to the customer's works.

Commissioning of Machine:

On receipt of the machine at customer works, necessary supervision of its erection and commissioning is carried out by the company's service personnel. Further, necessary orientation /training of customer's operators is imparted by the company's service personnel.

Manufacturing Process - Auto Components

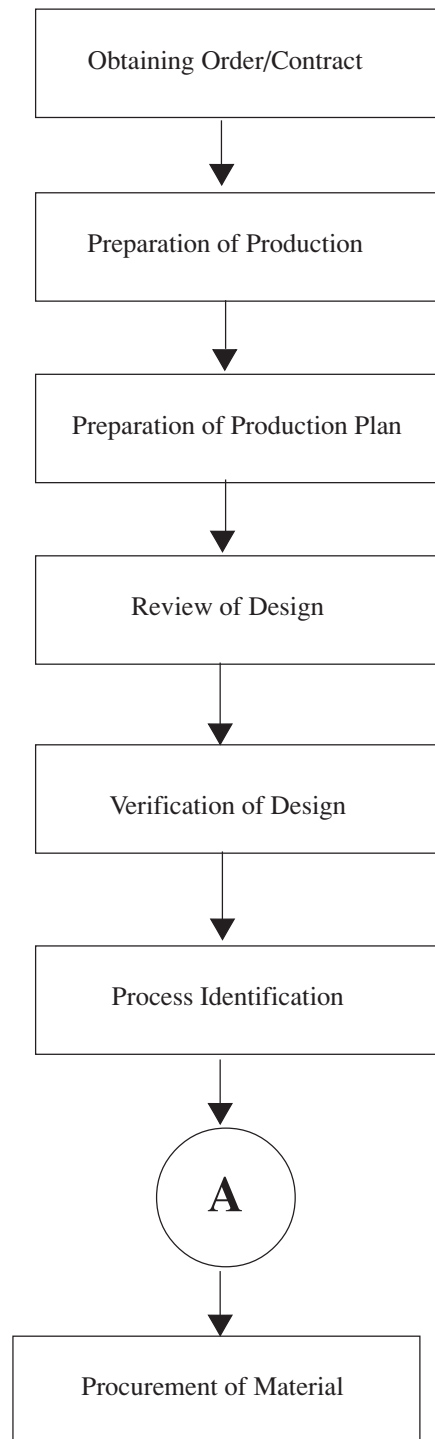
The manufacture of auto components consists mainly of machining of the raw Cylinder Blocks/Cylinder Heads supplied by the customers.

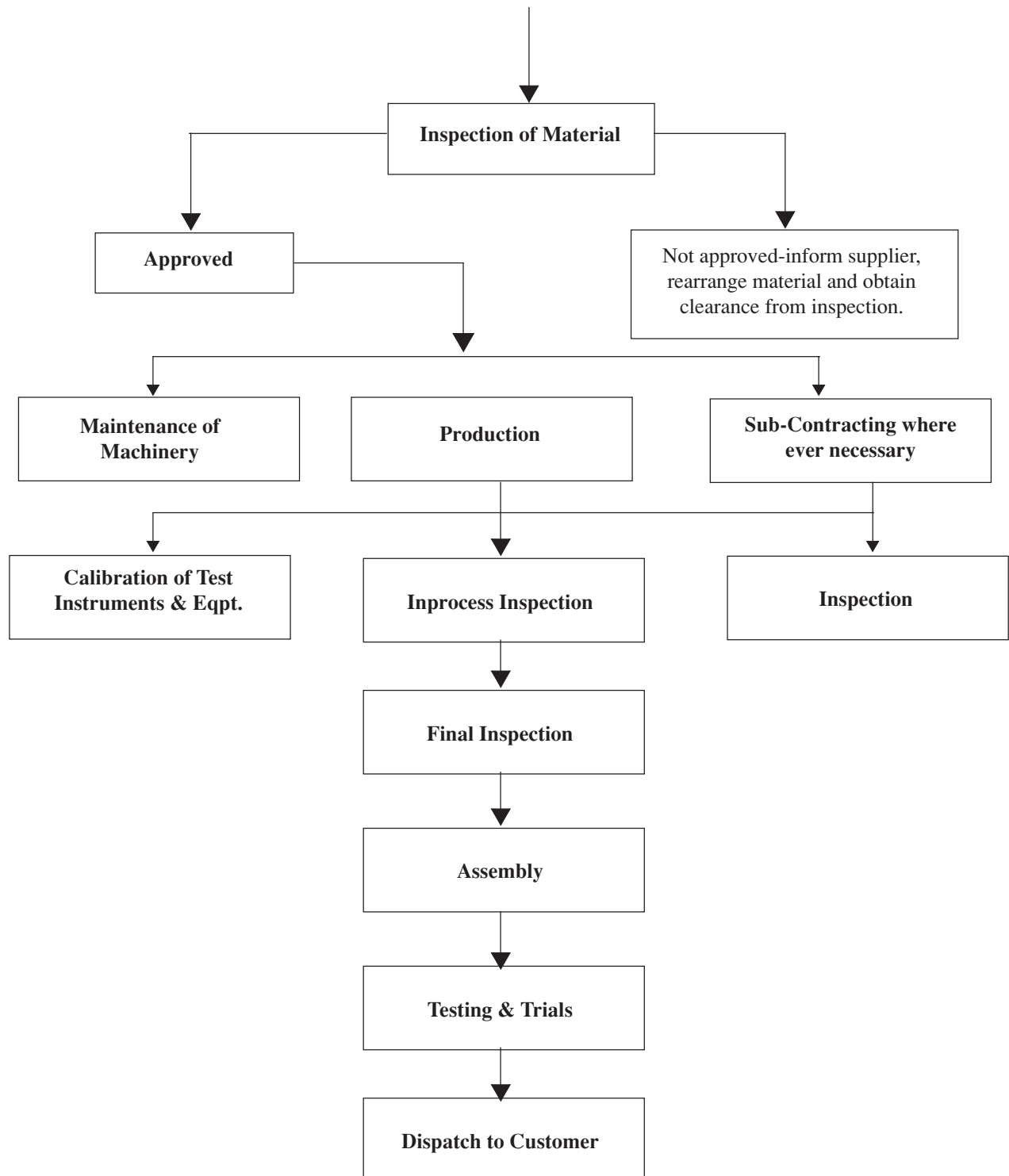
These raw Cylinder Blocks and Cylinder Heads are received at the factory of the Company, and is inspected for any manifest defects before processing.

The raw Cylinder Blocks are then subjected to several operations of machining such as milling, drilling, lapping, on the Special Purpose and General Purpose machines of the company.

In course of the machining, the materials are subjected to rigorous inspection during the process to ensure that the quality of the machining conforms to the pre-set quality standards. Whenever deviations are detected, necessary corrective action is taken.

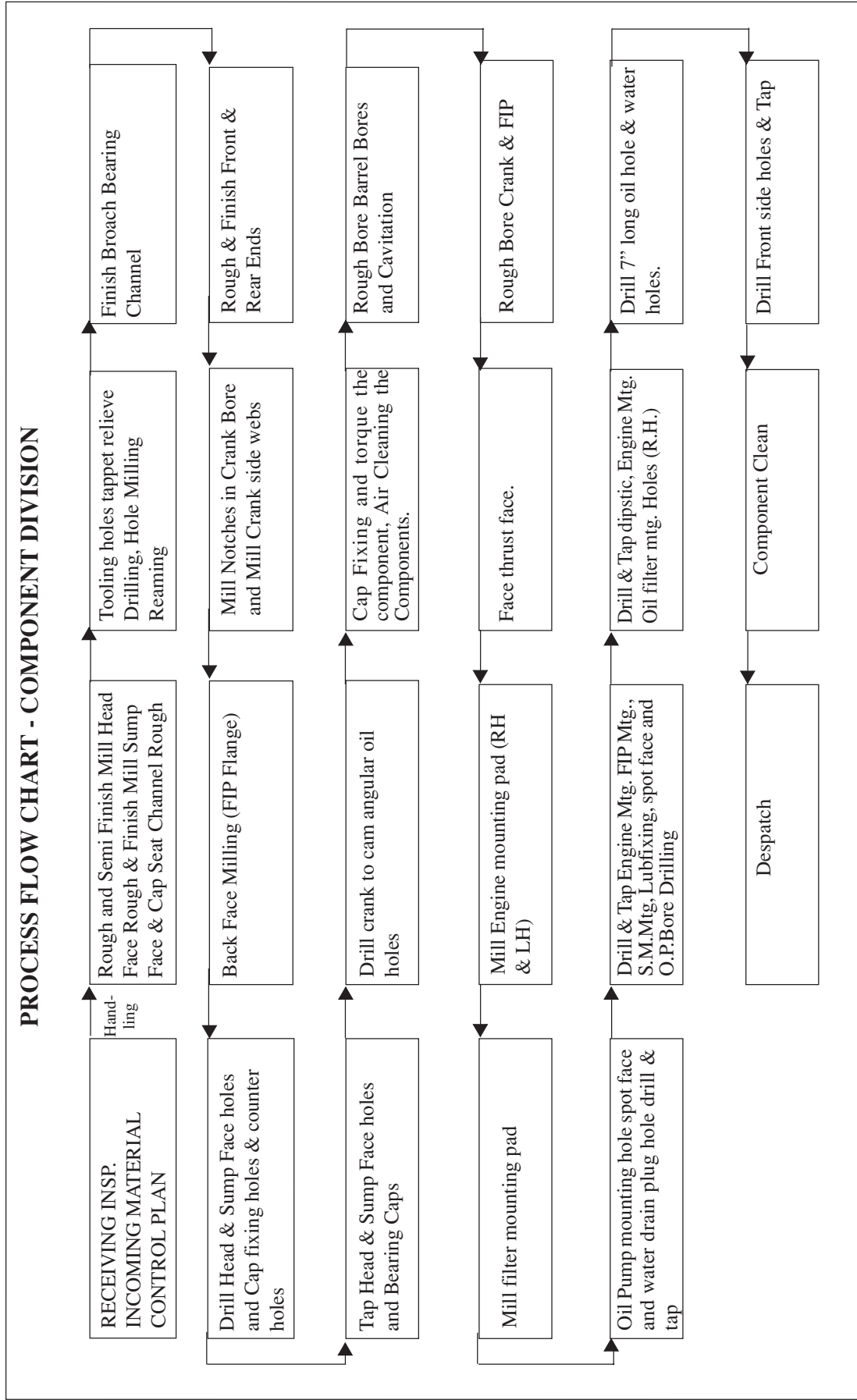
On the completion of the machining process, the component is dispatched to the customer after a final round of inspection and quality check.





LOKESH MACHINES LIMITED - HYDERABAD

The Component Division comprises three dedicated lines supplying semi Finished Crank Cases to M/s, Mahindra & Mahindra. The Typical Process Flor is as follows.





Technology

The basic Technology for the manufacturing process has been mainly developed in-house, arising out of the experience and skills of the promoters. This has been supplemented by in-house R&D efforts. Wherever possible, the Company has been entering into tie-ups with its overseas customers, who provide technology by way of designs drawings and other technical inputs. In the process of executing the orders, the Company has been able to absorb the technology provided by the overseas suppliers, and indigenize the products.

Manufacturing facilities

The Company now has manufacturing facilities at five locations as detailed below:

Location	Activity
Temple Road, Bonthapally Narsapur Mandalam Medak District - 502 313 Andhra Pradesh	Manufacture of components for CNC Machines and Special Purpose Machines (SPM). Assembly of SPMs
B-25 EEIE, Stage II Balanagar, Hyderabad Andhra Pradesh.	Assembly of CNC Machines.
B-36 EEIE, Stage II Balanagar, Hyderabad Andhra Pradesh.	Manufacture of Auto Components (Cylinder Blocks) .
Ravalkol Village Medchal Mandal Rangareddy Dist Andhra Pradesh	Manufacture of Auto Components (Cylinder Blocks) .
Plot No.41 IDA Balanagar Hyderabad Andhra Pradesh	Mother Machines to cater to the needs of all the locations.

COMPETITION

The competition for the company's product comes mainly in the segments of SPMs and CNCs. A brief outline of the competition is given below:

In the SPM market, the main competition from the domestic players comes from HMT Ltd., Bharat Fritz Werner Ltd. and Widma Ltd., all from Bangalore. In addition to the above domestic companies, overseas players like Heller and Burkhardt & Weber of Germany also provide competition in the domestic market.

In CNC segment, Ace Designers Ltd, Batliboi Ltd., Ace Machinery Systems, Lakshmi Machine Works and Jyoti Machineries constitute the main competition from the domestic market from the organized sector.

In the Auto Components Sector, operations of the Company in the segment is based on bilateral long terms contracts with auto OEMs, hence no competition is envisaged.

Collaboration

The Company has not entered into any collaboration agreements for marketing of its products/services.

R & D Activities

Innovation and product development has always been a feature in the company over the years. However, a focused attention has been given to the in-house R & D Activity since 2002, when a separate R & D Division was established. The R & D Division is operating under the overall supervision of a Director, and is headed by a Vice President. Such focused attention to R & D Activities brought about some impressive results. The highlights of some of the products developed are briefly described below:



1. Universal Milling Machine (2002)

The Company successfully developed a Universal Milling Machine, which was hitherto being totally imported to the country. The machine was developed as per the specifications of FPT, Italy to whom the company exported 42 machines, for a value of Rs.580 lakhs.

2. VML 500 (High Speed Vertical Machining Centre) (2004)

The company has been able to successfully develop this machine, whose unique features include a spindle speed of 18,000 rpm and Rapid Traverse of 60 mtrs/minute. This also has capability of tool change time of less than one second, Only Japanese manufacturers hitherto manufactured this machine. The success of the company in developing this product is likely to result in substantial import substitution. The company has already exported this product to Japan and Italy, and has achieved acceptance of the markets.

This machine is effective in processing aluminum components, and is likely to find increasing usage in the two-wheeler market. Initial orders have been received from Hero Honda group of companies.

3. Fast 200 Milling Machine (2005)

After more than 18 months of sustained R & D activity, the company developed the Fast 200 Milling Machine. The company was the first to manufacture this machine in India.

The unique feature of this machine is that the component being machined is stationary, while the tool moves on axes. Thus the weight of the component machined does not adversely impact the performance of the machine.

The company has exported about 2 machines[MSOffice2] to Fagima, Italy, valued at about Rs.37 lakhs.

The company has also started making inroads into the domestic market for this product, and has orders from Bharat Forge. This type of the machine has hitherto been fully imported from Europe and Japan.

4. TL 20 Export Model (2005)

This machine, developed by the company has the features of improved spindle speed - 3,000 to 4,500 rpm, and increased Traverse Rate of 20 to 30 mtrs per minute.

The company has been able to export over 20 machines to Germany and Italy, valued at about Rs.2.5 crores.

5. Special Purpose Machines

- i. The Company has successfully developed a Special Purpose Machine(SPM) for Everest Canto, the leading manufacturer of oxygen cylinders in India. This automated the process of mouth turning and boring of the oxygen cylinders, resulting in continuous operations of the machine, leading to greater productivity.
- ii. The company successfully developed a flexible machine for carrying out multiple processes in one operation for manufacture of front axle beam. Till this machine was developed, different machines were used to carry out different processes. The development and supply of this machine to Bharat Forge Ltd., resulted not only in import substitution, but also improved the productivity by achieving substantial reduction in handling time.

Quality

The Company believes in maintaining high standard of quality for all its products and services with a focus on Quality, Innovation, Productivity and Customised Products and Services. The Components Division has QS-9000 : 1998 (based on and including ISO 9002:1994). This certificate has been awarded by RW TUV Systems GmbH, Germany. The Machines Division received an ISO 9001:2000/DIN EN ISO 9001 : 2000 / JIS Z 9901:2000.

The Company also has received the recommendation for TS-16949:2002 certification for Quality Management System for machining of Automotive Components. The recommendation was made by RWTUV, Germany.

HUMAN RESOURCES

The Company recruits people from the Industry depending on its requirement. The Company also engages labour on contract basis for doing non-routine type of work as and when required. The Company has maintained good relationship with the employees. There is easy availability of labour around the towns and cities where the factories of the Company exist and the Company does not foresee any problem in hiring more manpower.



The HR Policy is built around the core values and beliefs of:

- Trust and faith;
- Flexibility;
- Open culture;
- Development of employees being the prime responsibility at the company level; and
- Concern for individuals

The Company's initiatives, policies and procedures, evolved through a consultative process with its employees, have helped create a non-hierarchical, flexible and informal work environment. The Company believes that development of people is the prime responsibility of an organization. To create this environment, the Company has formulated a number of unique policies to develop individual potential. The key elements of the HR Policy are:

Recruitment

The Company's aim is to attract the best available talent and effectively deploy the resources to meet the business requirements. The recruitment sources targeted by the Company include a mix of campus recruitments, referenced applications and recruitment through advertisements and placement agencies.

Training and development:

All new recruits are inducted through a structured training programme involving technical training by a qualified HR Team and technical team in soft skills. Executive development courses are held for staff with supervisory responsibilities. Managerial employees undergo training for management, development and project management skills. Senior managers are also sponsored for advanced management development programmes in leading training institutions in India.

Employee evaluation

The Company utilize the employee evaluation as a tool for managing performance planning and motivating, evaluating and enhancing the performance of the employees to achieve the goals. Performance management seeks to establish and maintain an environment that supports the business processes and ensures that employee performance is evaluated against the achievement of objectives aligned to the goals.

Retention

The Company endeavour to provide the employees with a challenging work environment aimed at developing their individual potential and providing multiple opportunities for growth and fulfillment.

RAW MATERIALS

The main raw material of the company is mild steel and alloy steel which is sourced locally from distributors and dealers of reputed manufacturers. In addition, bought out parts/components like ball screws, bearings, Linear Motion Guideways, and electronic items and control panels also form the raw materials of the company. These are being sourced from local Distributors/ Agents of overseas manufacturers whenever required.

POWER

The Company has the following connected load of power from Transmission Corporation of Andhra Pradesh Limited at various Units.

SI No	Unit	Connected load	Standby arrangement
1	At Medchal	250KVA	200KVA + 250KVA (450KVA DG Sets)
2	At Bonthapally	130KVA	160KVA DG Set
3	At Balanagar (B-36)	100KVA	160KVA DG Set
4	At Balanagar (B-25)	100KVA	60KVA DG Set

WATER

Water is required for horticulture and human consumption which is available in plenty.



Environmental factors

The process of machining and assembling of the machines does not involve discharge of any hazardous solid waste, water and air pollution. The Company is complying with the Pollution Control Guidelines for its machining and assembling units.

Business Strategy

From an organization founded by an entrepreneur with skills and vision, but no high technical qualifications, the Founder of LML was not content to evolve into a family concern with technically qualified second generation, geared to take on further challenges and responsibilities. While preparing the next generation for this task, the importance of building up a team with emphasis on excellence was always a part of the business strategy of LML. A result oriented and focused team of over 100 engineers has been the outcome of the vision of the founder of LML.

Over the past 21 years the company has been able to establish its credentials as an innovative and quality driven manufacturer of machines and auto components. The past strategy of the company in forging alliances and concluding stable contracts with the auto majors helped in overcoming the challenge of recession, and even achieving growth.

During the period of upswing after recession, the company has been able achieve a growth rate surpassing the average growth of the Indian machine tool industry over the past few years.

The business strategy of the company is to consolidate and further build on the successes already achieved by it. The business strategy of the company is to bestow a conscious focus on in house R&D, innovation and adherence to high quality product to negate the general perception that the Indian Machine & Machine Tool Industry is suitable only for the lower end, low precision operations. The company aims to establish that its products keep abreast of the highest standards in terms of quality, performance and cost.

The business strategy of the company is also aimed at forging meaningful alliances with organizations abroad with a strong technology base. The Company is looking to complementing its existing strength of over 2 decades of manufacturing experience with the developed technology of its alliance partners, to acquire a cutting competitive edge in the global market.

In short, the business strategy of the company consists of

- Availing the widening opportunities for growth arising out of domestic and international environment.
- Strengthening the bonds with auto majors, and establishing long term relationships to ensure sustained business;
- Establishing the company's status as a prime and preferred destination for outsourcing of components for auto manufacturers;
- Achieving greater penetration in the export market through participation in domestic and international trade fairs and having marketing tie ups with local companies in Europe;
- Further strengthening the dealer network for the CNC machines; and
- Giving greater thrust to R & D activities and development of more versatile and efficient processes and products.

Marketing and Selling Strategy:

The company follows a multi pronged marketing strategy to suit the needs of different segments

For the CNC machines and GPM Segment, the company has established a strong dealer network throughout the country. The efforts of the dealers of the company are supplemented by the techno -marketing team of the company.

The company plans to provide an effective support to the marketing efforts of the dealer network through a sales-service backup at different locations to foster better accessibility of the customers and dealers to the company's personnel and better appreciation of the market trends.

For the Auto Component Segment, the strategy of the company is to build on the stable relationships already established with its long term customers, and maintain ongoing interaction to have a better understanding of their needs and responding to their requirement. The Company's strategy is to identify the requirements of auto manufacturers for supply of critical auto-components needing high technical skills. The overall strategy is to carve out a niche as an outsourcing destination for critical components hitherto produced in house by the Auto majors. This will act a springboard for establishing sustained long term relationships with other auto majors.

For the export market, the company's strategy is to tap the export market by forging alliances with existing organizations with strong marketing networks, and also through overseas marketing agents.



The above marketing efforts will be supplemented by participation in international and domestic trade fairs, and also special campaigns through print and electronic media.

Future Prospects:

The momentum of growth already achieved by the company is expected to be maintained by the company in the foreseeable future. The management has reason to be optimistic about the future prospects of the company in view of the following contributing factors:

The company has already established its credentials as a dependable source of supply of quality high precision machines, having supplied over 500 Special Purpose Machines to auto industry leaders like Ashok Leyland, Tata Motors, Maruti, Bajaj Auto, Bajaj Tempo, TELCO, Escorts, Mahindra & Mahindra, John Deere, Kinetic Engineering, Hindustan Motors, Honda Motors, Japan.

The company is assured of sustained revenues by the ongoing agreements for machining and supply of vital components like Cylinder Blocks and Cylinder Heads to major customers like Ashok Leyland and Mahindra & Mahindra.

With the strengthening of the dealer net work and after service support provided to the dealers, the performance of sales of CNC machines in the domestic market is also expected to improve considerably.

The efforts made by the company in promoting exports have started yielding results. In addition to the export turnover of 25 machines during the year 2005-06 valued at approximately Euro 375,000, the company has confirmed export orders for 42 machines for the financial year 2006-07, valued at approximately Euro 630,000.

Considering all the above factors, the company is expecting robust all round growth in its performance in the coming years.

Order bookings

The Company's current aggregate order booking condition as on February 28, 2006 is around Rs.3118 lakhs, comprising of the following major customers:

Ashok Leyland Limited, Mahindra & Mahindra Limited, Cummins India Limited, Bajaj Tempo Limited, Everest Canto Cylinders Limited, Kirloskar Oil Engines Limited etc.,

Property

As on date the Company owns the following properties in the form of land and buildings.

DETAILS OF LAND :

S.NO	LOCATION	AREA	VALUE AS PER BOOKS (Rs. In lakhs)	REMARKS
1.	B-36, EEIE, Stage II Balanagar, Hyderabad Andhra Pradesh - 500 037	1196 Sq.Yd	22.28	Company owned
2.	B-25, & B-27, EEIE, Stage II Balanagar, Hyderabad Andhra Pradesh - 500 037	2130.94 Sq.Yd	13.46	Company owned
3.	Plot No.41 IDA Balanagar Hyderabad - 500 037	Ac 2.23 gts	249.28	Company owned
4.	Bonthapally Village, Jinnaram Mandal, Narsapur TQ, Medak District - 502 313 Andhra Pradesh	Ac. 5.72 gts	1.52	Company owned
5.	Ravalkol Village Medchal Mandal Rangareddy Dist Andhra Pradesh	Ac 3.00 gts	19.31	Company owned
	TOTAL		305.87	



DETAILS OF BUILDINGS :

S.NO	LOCATION	AREA OF CONSTRUCTION	VALUE AS PER BOOKS (Rs. In lakhs)	REMARKS
1.	B-36, EEIE, Stage II Balanagar, Hyderabad Andhra Pradesh - 500 037	8810 sft	27.75	Company owned
2.	B-25, EEIE, Stage II Balanagar, Hyderabad Andhra Pradesh - 500 037	11041 sft	120.63	Company owned
3.	Plot No.41, IDA Balanagar Hyderabad - 500 037	33000 sft	196.02	Company owned
4.	Bonthapally Village, Jinnaram Mandal, Narsapur TQ, Medak District - 502 313 Andhra Pradesh	25000 sft	121.17	Company owned
5.	Ravalkol Village, Medchal Mandal Rangareddy Dist, Andhra Pradesh	43794 sft	122.07	Company owned
	TOTAL		587.66	

Purchase of Property

The Company has acquired land from Mr. M.Srikrishna who is a promoter director and Mrs. C. Sirekha who is the daughter of Mr.M.Lokeswara Rao, Promoter -Managing Director and sister of Mr. M. Srinivas and Mr. M.Srikrishna , promoter - directors . For the details of the terms of acquisition please refer the paragraph mentioned under the head “Related Party Transactions” on page no.105.

Insurance

S.No.	Policy No.	Description of the Asset	Sum Insured Rs in lakh	Period	
1	0625000938	Stock	200.00	20-06-05	19-06-06
	0600015298	Stock	900.00	30-01-06	30-01-07
	0658000424	Fixed Assets	689.50	13-01-06	12-01-07
	06000120333	Stock	1500.00	28-4-05	27-04-06
2	640736602	Keyman Insurance	50.00		
3	2005/8068	Mahindra LCV	3.60	17-11-05	16-11-06
4	0100044792	Benz Car	16.80	04-04-05	03-04-06
5	04/03975	Tata Sumo	1.00	30-10-05	29-10-06
6	052000/31/05/01/00001356	Tempo Trax	1.10	12-02-06	11-02-07
7	0800017189	Open Transit	100.00	29-06-05	28-06-06
8	0600014123	Fixed Assets	1712.00	10-01-06	09-01-07
9	2005/8300	Matador Van	0.69	20-11-05	19-11-06
10	00011834	Honda City car	7.46	8-12-05	07-12-06
11	722/100	Tractor	3.46	04-11-05	03-11-06
12	52000/31/269	Tempo Trax	3.40	21-05-05	20-05-06
13	0100221896	Pal Peugeot car	1.50	22-06-05	21-06-06
14	0100287438	Maruti Esteem	1.57	20-01-06	19-01-07
15	1801-13609	Accent Car	4.89	13-01-06	12-01-07

Key Industrial Regulations & Policies

Apart from the regulations applicable to all industries, there are no special industry -specific regulations applicable to the company.



3. HISTORY AND CORPORATE STRUCTURE

Lokesh Machines Limited was incorporated as a public limited Company on December 17, 1983 and commercial production started from 1986.

The Company was promoted by Mr. M Lokeswara Rao, who started this company after gaining significant insights into the nuances of machine and machine tool manufacturing during his stint of over 16 years as a shop-floor executive of HMT Ltd.

Initially commencing business with a modest capital, and doing some job works for HMT Ltd, the company was nurtured carefully by the Promoter to the present stage, achieving a turnover of Rs. 75.32 crores in the year ended 31st March 2005.

Over a period, the Company developed a wide range of SPMs, and built up a reputation for the quality of its products and after sales service. The Company has on date built over 500 Special Purpose Machines for Companies like Ashok Leyland, Bajaj Auto, Bajaj Tempo, TATA MOTORS, Escorts, Mahindra & Mahindra, John Deere, Kinetic Engineering, Hindustan Motors, Honda Motor Cycles and Scooters, Bharat Forge, Rane Engine valves etc.

LML achieved a significant breakthrough by winning a prestigious turnkey order from M/s John Deere, Pune for their green field tractor project for supply of total manufacturing line for cylinder blocks, against stiff competition.

LML has also bagged a prestigious export order from M/s FPT Industrie Spa of Italy, for supply of Milling and Boring machines and successfully supplied over 35 machines and made its presence in the European markets. This order was a stepping-stone for the company in fulfilling its strategic initiative of becoming an exporter of machine tool products from India. Recently LML has also supplied about 8 Machines to Honda Motor cycles and scooters, Japan for their Indian requirement. LML had developed machines and supplying to HOWA, Japan under a long term contract and to Italy and the turnover from exports during the year 2004-05 was Rs.598 lakhs.

The Company also entered the Auto Component Segment by setting up dedicated lines of Machines for manufacture and supply of Cylinder Blocks for Mahindra & Mahindra Limited (M&M) for their Tractor, Jeep and Scorpio divisions.

The Company obtained ISO 9001-2000 Certification for its machine division.

MAJOR EVENTS IN THE HISTORY OF THE COMPANY

Period/Time	Particulars
1983-84	* Incorporation of the Company * Certificate of Commencement of Business
1988-89	* Entry into auto market Order received from Bajaj Auto. * Company achieves landmark of Rs. 1 crore turnover.
1994-95	* Turnover exceeds Rs. 5 crores for the first time * Formation of Auto Component Division.
1995-96	* Contract signed with Mahindra & Mahindra for machining Cylinder Blocks (1st line) * Bagged orders from Ashok Leyland and Escorts for SPMs * Investment in the shares of the company by Gujarat Venture Finance Ltd.
1996-97	* Crossed landmark of Rs. 10 crore turnover.
1997-98	* Formation of CNC Division. * Bagged orders for CNC Lathes from Bharat Forge
1998-99	* Formation of countrywide Dealer Network for CNC Division * Turnkey Contract signed with L & T John Deere Ltd. for Total Cylinder Block Semi automatic line supply



Period/Time	Particulars
1999-2000	<ul style="list-style-type: none"> * Crossed the landmark of Rs. 20 crores turnover * Bagged and executed the first export order
2000-01	<ul style="list-style-type: none"> * Signed contract for machining 2nd and 3rd machining line for Mahindra & Mahindra Cylinder Blocks
2002-03	<ul style="list-style-type: none"> * Best Exporter Award from Dr Sir M Visveswaraiah Industrial Awards in the year 2001
2003-04	<ul style="list-style-type: none"> * Japanese Auto major Honda Motors placed order with the Company for supply of CNC Machines to its Indian company. * Tie up with Howa Machine Corporation Japan for manufacture of High Speed Vertical Machining Centre for re-export. * Rs. 50 crore turnover achieved. * Certification for ISO 9001-2000 received for Machine Tool Division and QS - 9000 for Auto Components Division
2004-05	<ul style="list-style-type: none"> * Export of 2 machines to AVM Angelini, Italy * Doubled capacity for supply of cylinder blocks to Mahindra & Mahindra. * Export orders bagged for 25 machines valued at 375,000 Euro
2005-06	<ul style="list-style-type: none"> * Bagged confirmed export orders for 42 machines valued at 630,000 Euro * Contract finalized with M/s Wenig-Wemas for export of lathes and VMCs to Europe * Recommendation obtained for TS-16949:2002 certification for Quality Management System for machining of Automotive Components.

MAIN OBJECTS OF THE COMPANY

The main and other objects of the Company as stated in the Memorandum of Association are:

1. To design , engineer, develop , procure, import, export, deal in, market, distribute,manufacture, the entire range of special purpose machines, machine tools, like bedtype,knee type, piano, planning,milling machines, lathe machines, drilling machines, surface, cylindrical, slide way grinding machines, boring, jig boring machines, gears,gear boxes and machining centres,hydraulic and mechanical presses including their accessories of all kinds for various industries with or without computer numerical controls, on its own or in collaboration with others.
2. To carry on the business of mechanical,metallurgical, chemical, automobile,electrical engineers, electrician and manufacturers of all kinds mechanical, chemical, metallurgical,electrical machinery,apparatus for any purpose whatsoever and to manufacture, deal, sell, supply in the said equipment.
3. To buy,sell,distribute,manufacture,import,export, act as indenting agents let on hire, alter and deal in machinery, components , parts, accessories and fittings of all kinds for mechanical , chemical, metallurgical, electrical and electronic computerized machinery, equipment or plants.
4. To carry on the business of machinists, turners, millwrights, founders wire-drawers, tubemakers, metallurgical galvanizes, jappanners, annealers, enamellers, electroplaters, painters and packaging case makers.

The Main objects and objects incidental to the main objects permit the Company to undertake the present and proposed activities.



Changes in Memorandum of Association and Articles of Association since incorporation

Date of Shareholder Approval	Changes
December 6, 1986	The Authorised Share Capital of the Company was increased from Rs. 40,00,000 comprising of 4,00,000 Equity Shares of Rs.10/- each to Rs. 50,00,000 comprising of 5,00,000 Equity Shares of Rs.10/- each.
April 20, 1991	The Authorised Share Capital of the Company was increased from Rs. 50,00,000 comprising of 5,00,000 Equity Shares of Rs.10/- each to Rs. 70,00,000 comprising of 7,00,000 Equity Shares of Rs.10/- each.
November 28, 1994	The Authorised Share Capital of the Company was increased from Rs. 70,00,000 comprising of 7,00,000 Equity Shares of Rs.10/- each to Rs. 1,25,00,000 comprising of 12,50,000 Equity Shares of Rs.10/- each.
July 28, 1995	The Authorised Share Capital of the Company was increased from Rs. 1,25,00,000 comprising of 12,50,000 Equity Shares of Rs.10/- each to Rs. 2,25,00,000 comprising of 22,50,000 Equity Shares of Rs.10/- each.
November 7, 1995	The Authorised Share Capital of the Company was increased from Rs. 2,25,00,000 comprising of 22,50,000 Equity Shares of Rs.10/- each to Rs. 7,00,00,000 comprising of 70,00,000 Equity Shares of Rs.10/- each.
March 6, 1996 January 21, 1997	Amendment of Article No.16, 19, 21, 22 and 23 Amendment of Article No.1, 5, 14(2), 38, 66(1), 70, 73, 74(1), 74(5), 90, 97, 105, 111, 122(1), 123(1), 123(2), and insertion of new article 41A, 60A, 110A, 142A, 156A, 156B,
September 26, 1998	The Authorised Share Capital of the Company was increased from Rs. 7,00,00,000 comprising of 70,00,000 Equity Shares of Rs.10/- each to Rs. 10,00,00,000 comprising of 1,00,00,000 Equity Shares of Rs.10/- each.
July 05, 1999	The Authorised Share Capital of the Company was increased from Rs. 10,00,00,000 comprising of 1,00,00,000 Equity Shares of Rs.10/- each to Rs. 12,00,00,000 comprising of 1,20,00,000 Equity Shares of Rs.10/- each.
November 15, 2005	The Authorised Share Capital of the Company was increased from Rs. 12,00,00,000 comprising of 1,20,00,000 Equity Shares of Rs.10/- each to Rs. 12,50,00,000 comprising of 1,25,00,000 Equity Shares of Rs.10/- each. Amendment of Article No.4,5,19,30,31,32,33,34,38,41,42 and 61 Insertion of Articles, 5A, 14 and 56A. Deletion of Article No.110A and 142A

Subsidiaries of the Company

The Company does not have any subsidiary.

Shareholders/Financial Agreement:

The Company does not have any shareholder agreement

Strategic Partners:

The Company does not have any Strategic Partner.

Other agreements:

Agreement of sale entered into with Mr M Srikrishna

The Company has entered into an agreement with Mr M Srikrishna on 28th November 2005 for purchase of land admeasuring an area of 3 acres and 14 guntas bearing Survey No.16 situated at Shahzdiguda, Medchal mandal, R R District for a total consideration of Rs.37.68 lakhs. The Company has already taken possession of the land. The sale deed is yet to be registered. (Also refer page no.34 of this Prospectus).

Agreement of sale entered into with Mrs C Sirekha

The Company has entered into an agreement with Mrs C Sirekha on 28th November 2005 for purchase of land admeasuring an area of 1 acres and 26 guntas bearing Survey No.16 situated at Shahzdiguda, Medchal mandal, R R District for a total consideration of Rs.15.12 lakhs. The Company has already taken possession of the land. The sale deed is yet to be registered. (Also refer page no.34 of this Prospectus)

Financial partners

The Company does not have any financial partners.

4. THE MANAGEMENT

Board of Directors

The the Board of Directors comprises of the following members.

Name, Designation, Father's Name, Age, Experience, Address, Qualification and Occupation	Date of Appointment In the Company and tenure of Office	Other Directorships
Mr Mullapudi Lokeswara Rao Managing Director S/o Mr M Appa Rao 60 Years 40 Years B-5, Madhura Nagar, Hyderabad- 500 038 L.M.E Industrialist	Date of Appointment: 01.10.2005 Tenure upto: 30.09.2010	MLR Motors Private Limited
Mr B Kishore Babu Executive Director S/o Mr B S Ramachandra Rao 49 Years 26 Years 8-3-167/D-68, Kalyan Nagar Vengala Rao Nagar, Hyderabad- 500 038 Bachelor of Engineering Business	Date of Appointment: 01.10.2005 Tenure upto: 30.09.2010	MLR Motors Private Limited
Mr M Srinivas Director (Auto Components) S/o Mr M Lokeswara Rao 37 Years 12 Years B-5, Madhura Nagar, Hyderabad- 500 038 M.S in Manufacturing & BE(Mechanical) Business	Date of Appointment: 01.10.2005 Tenure upto: AGM 2008	MLR Motors Private Limited
Mr M Srikrishna Director (CNC Machines Division) S/o Mr M Lokeswara Rao 34 Years 9 Years B-5, Madhura Nagar, Hyderabad- 500 038 Bachelor of Engineering Business	Date of Appointment: 01.10.2005 Tenure upto: AGM 2008	Matrix Equipments (P) Ltd
Mr K Krishna Swamy Director (Technical) S/o Mr K Srinivasa Bhat 65 Years 41 Years Raghavendra Extn: Tirthahalli Shimoga (Dist) Karnataka Bachelor of Technology (Mechanical) Corporate Executive	Date of Appointment: 29.06.2005 Tenure upto: AGM 2008	Nil

Mr B R Mahesh Independent Non-Executive Director S/o Mr B S Ratnam 52 Years 29 Years House No. 6-3-788/36&37A, Durga Nagar Colony Ameerpet, Hyderabad- 500 016 B.Com,LL,B,F.C.A, M.IC.A Chartered Accountant	Date of Appointment: 26.10.1992 Tenure upto: AGM 2007	Nil
Mr V Shankar Independent Non-Executive Director (Nominee of IDBI) S/o Mr V Veera Babu 43 Years 21 Years A-102, Usha Enclave, Srinagar Colony Extn,Navodaya Colony,Yellareddyguda, Hyderabad- 500 073 B.Sc(Hon's),PGDFM,MDBA Service	Date of Appointment: 29.06.2005 Tenure upto: Not applicable	Nil
Dr. Y. Satyanarayana Additional Director S/o Mr Y Siddayya 66 Years 40 Years B 4 Stone Valley Apartments, Road No. 4, Banjara Hills Hyderabad 500 034 Consultant	Date of Appointment: 08.12.2005 Tenure upto: AGM 2006	Nil
Mr. R Mohan Reddy Additional Director S/o Mr R Sai Reddy 66 Years 40 Years Vijay Villa, P-247 Kalyan Nagar Hyderabad 500 038 Retd. Government Official	Date of Appointment: 04.01.2006 Tenure upto: AGM 2006	Nelcast Ltd., Director
Mr. Y Venkata Rao Additional Director S/o Mr Y Anka Rao 41 years 15 years 504, Bhavya Santhi Nivas Anand Nagar Colony Khairatabad Hyderabad 500 004 Chartered Accountant	Date of Appointment: 04.01.2006 Tenure upto: AGM 2006	Nil

Brief Profile of Non-Executive Directors

Mr B R Mahesh

Has considerable experience in Practice and three decades of standing in the Profession. Worked as Partner & Associate of M/s Sastri & Shah, Chartered Accountants, Madras and Hyderabad for a period of 12 years from 1976 to 1988. Presently Senior Partner of M/s. Mahesh, Virender & Sriram, Chartered Accountants, Hyderabad, since 1988. Involved in handling Internal and Statutory Audits of various Public & Private Sector Organizations. Rendered Management Consultancy and Systems designing for clients. Handled Company Law Matters Public Issues & acted as Voluntary Liquidators. Handled various levels of tax representation matters and Tax Audits. Handled Project Finance and Funds Structuring for clients. Handled Arbitration Proceedings and general professional advisory matters. Legal drafting of Documents including Foreign Collaboration Agreements. Handled a number of foreign assignments and widely travelled.

Mr V Shankar

Employed in IDBI since 1984. Worked in Project Finance Department-Accounts at Head Office, Mumbai during 1992 and 1996. Since then he worked in several capacities as Manager and Asst.General Manager in Domestic Resources Department in IDBI's Southern Zonal Office, Chennai, at HO (Mumbai) and at Hyderabad. At present he is posted in the IDBI's office at Hyderabad as Assistant General Manager.

Dr. Y. Satyanarayana

A mechanical engineer from Osmania University, and a Ph.D from Poona University, Dr. Y Satyanarayana had a distinguished career in APSRTC. From a Trainee Engineer in 1960, he grew to the position of Executive Director of Andhra Pradesh State Road Transport Corporation (APSRTC). After his retirement from APSRTC, Dr. Satyanarayana is at present an Advisor on Energy, Environment, Urban Governance and Infrastructure in Administrative Staff College of India, Hyderabad.

Apart from having published over 30 papers in renowned management journals, he has also published four widely acclaimed books on transportation & management. He has been a recipient of a number of prestigious awards including "Best Engineer of the Year" Award of Federation of Andhra Pradesh Chamber of Commerce and Industry (FAPCCI) in 1984.

Mr. R Mohan Reddy

A Mechanical Engineer and a management graduate from Osmania University, Mr. Mohan Reddy has a wide experience as a business executive, having served several public sector undertakings like BHEL and APIDC in senior managerial positions. He was managing Director of Allwyn Watches Ltd. from 1995 to 1997. After retirement from APIDC, he has been on the Board of Nelcast Ltd as an independent professional director.

Mr. Y Venkata Rao

A Chartered Accountant and finance professional for over 15 years, Mr. Y Venkata Rao has been a financial consultant for several companies. He has also been associated with several consultancy assignments with the company in the areas of finance and accounts.

Relationship among the Directors

Three of the Promoter Directors are related to each other. Mr. M Srinivas and Mr. M Srikrishna are the sons of Mr. M Lokeshwara Rao, Managing Director. Apart from the above, none of the other directors are related to one another.

Further, Mrs. C Sreirekha, promoter of the Company is the daughter of Mr. M Lokeshwara Rao and Mrs. M Kanaka Durga, promoter of the Company is the wife of Mr. M Srinivas.

Details of Borrowing Powers

The Company at its Annual General Meeting held on September 30, 2004, passed a resolution authorizing the Board of Directors pursuant to the provisions of section 293(1)(d) for borrowing any sum or sums of money from time to time notwithstanding that the monies to be borrowed together with monies already borrowed by the Company (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) will or may exceed the aggregate of the paid-up capital of the company and its free reserves, that is to say reserves not set apart for any specific purposes, provided however, the total amount so borrowed shall not exceed Rs. 50 Crores (Rupees Fifty Crores Only).



Remuneration payable to Managing Director and Whole-time Directors

Name	Mullapudi Lokeswara Rao
Designation	Managing Director
Period	5 years w.e.f. 01/10/2005
Remuneration	<p>(a) Salary Rs.2,00,000/- per month</p> <p>(b) Commission: 1% of the Net Profits calculated in terms of Section 198, 349 and 350 of the Companies Act, 1956, so however that the aggregate of the remuneration paid to all the directors including the commission shall not exceed the ceilings prescribed in Section 309 of the Companies Act, 1956.</p> <p>(c) Perquisites as follows:</p> <p>Provident Fund: Company's contribution to the provident fund and Super Annuation Fund to the extent the same are not taxable under the Income Tax Act.</p> <p>Gratuity: Gratuity of half month's salary for each completed year of service, subject to the ceilings as may be prescribed by the Income Tax Act from time to time.</p> <p>Encashment of leave at the end of the tenure.</p>

Name	B Kishore Babu
Designation	Executive Director
Period	5 years w.e.f. 01/10/2005
Remuneration	<p>(a) Salary Rs.1,25,000/- per month</p> <p>(b) Perquisites as follows:</p> <p>Provident Fund: Company's contribution to the provident fund and Super Annuation Fund to the extent the same are not taxable under the Income Tax Act.</p> <p>Gratuity: Gratuity of half month's salary for each completed year of service, subject to the ceilings as may be prescribed by the Income Tax Act from time to time.</p> <p>Encashment of leave at the end of the tenure.</p>

Name	Mullapudi Srinivas
Designation	Director (Auto Component)
Period	5 years w.e.f. 01/10/2005
Remuneration	<p>(a) Salary Rs.1,25,000/- per month</p> <p>(b) Perquisites as follows:</p> <p>Provident Fund: Company's contribution to the provident fund and Super Annuation Fund to the extent the same are not taxable under the Income Tax Act.</p> <p>Gratuity: Gratuity of half month's salary for each completed year of service, subject to the ceilings as may be prescribed by the Income Tax Act from time to time.</p> <p>Encashment of leave at the end of the tenure.</p>



Name	Mullapudi Srikrishna
Designation	Director (CNC Machine Division)
Period	5 years w.e.f. 01/10/2005
Remuneration	<p>(a) Salary Rs.1,25,000/- per month</p> <p>(b) Perquisites as follows:</p> <p>Provident Fund: Company's contribution to the provident fund and Super Annuation Fund to the extent the same are not taxable under the Income Tax Act.</p> <p>Gratuity: Gratuity of half month's salary for each completed year of service, subject to the ceilings as may be prescribed by the Income Tax Act from time to time.</p> <p>Encashment of leave at the end of the tenure.</p>

Name	K Krishna Swamy
Designation	Whole time Director
Period	5 years w.e.f. 29/06/2005
Remuneration	<p>(a) Salary Rs.30,000/- per month</p> <p>(b) Perquisites of Rs.5,000/- per month</p>

Corporate Governance

The Company had complied with the requirements pertaining to Corporate Governance as stated in the SEBI circular dated October 29, 2004.

A brief description of the compliance is as follows:

- 50% of the Board of Directors of the Company consists of non executive directors.
- The company does not have an executive chairman. The number of independent directors is more than one-third of the total strength of the Board.
- The Company has constituted various committees of the Board as required under Clause 49 of the listing agreement, as detailed below:

Compensation of Non -Executive Directors

At the Meeting of the Board of Directors held on 9th January, 2006, it was resolved that the compensation of non executive directors shall be fixed in accordance with the approvals obtained under Clause 49

Code of Conduct

At the Meeting held on 9th January, 2006, the Board of Directors adopted the Code of Conduct for Directors and senior management personnel of the company.

The statement of allegiance to the Code has been obtained from all the senior management personnel and functional heads, and the Code has been posted on the website of the Company.

Audit Committee:

The Audit Committee was reconstituted on 8th December 2005.

At present the Audit Committee consists of three members, all of them being independent Directors. The Committee comprises of three Members namely Mr.B.R. Mahesh, as its Chairman, Dr. Y.Satyanarayana and Mr. V. Shankar as its Members.

At the meeting held on 9th January, 2006, the Board of Directors redfined the powers, as well the role of the Audit Committee, which are in accordance with the provisions of Clause 49 of the Listing Agreement.



Shareholder/ Investor Grievance Redressal Committee

The Shareholder/ Investor Grievance Redressal Committee was reconstituted on January 9, 2006. The Committee comprises 3 Members namely Mr. R Mohan Reddy, as its Chairman and Mr. Y Venkata Rao and Mr. M. Srinivas as its Members. The Committee is formed for the purpose of complying with the guidelines on Corporate Governance, monitor the Complaints given by the shareholders, and Redressal thereof.

Compliance Officer

The Board has designated Mr. B Subrahmanya Sarma , Company Secretary as the Compliance Officer.

Remuneration Committee

The Remuneration Committee was reconstituted on December 8th 2005. The Committee comprises 3 Members namely Dr. Y.Satyanarayana as its Chairman and Mr. V. Shankar and Mr. B.R. Mahesh as its Members. The Committee is formed for the purpose for reviewing the remuneration of the Directors.

Other compliances.

1. At its meeting held on January 9, 2006, the Board of Directors also resolved that the company will comply with all the requirements relating to Corporate Governance as mandated by Clause 49 of the Listing agreement.
2. The Company has paid all dues towards Sales Tax, Tax deducted at source, tax collected at source, Provident Fund, ESI and Professional Tax (refer to Notes to Accounts for the year 2004-05 Annual Report).
3. In respect of job works with MLR Motors Pvt. Ltd., MLR Motors Pvt. Ltd. has obtained the approval under section 297 of Companies Act, 1956 from the Central Government vide letter No. 2/AP/0401/2005 dated 04-04-2005.

Shares held by Directors

Sl.No	Name	No.of Shares held
1.	Mr. M.Lokeswara Rao	10,97,217
2.	Mr. B.Kishore Babu	8,07,687
3.	Mr. K.Krishna Swamy	25,000
4.	Mr. B.R.Mahesh	1,250
5.	Mr. V.Shankar	Nil
6.	Mr. M.Srinivas	11,09,906
7.	Mr. M.Srikrishna	11,09,931
8.	Dr. Y Satyanarayana	Nil
9.	Mr. R Mohan Reddy	Nil
10.	Mr. Y Venkata Rao	18,600

Interest of Directors (other than Promoter directors)

The Company has acquired land from Mr. M.Srikrishna who is a promoter director and Mrs. C. Sirekha, Promoter of the Company.

Except as stated as above and to the extent of their remuneration as mentioned on page no. 105 of this Red Herring Prospectus, and their shareholding of companies they represent, the Directors, other than the Promoters who are also Directors, do not have any other interest in the Company

All Directors may be deemed to be interested in the contracts, agreements/arrangements entered into or to be entered into by the Company with any company in which they hold Directorships or any partnership firm in which they are partners as declared in their respective declarations.

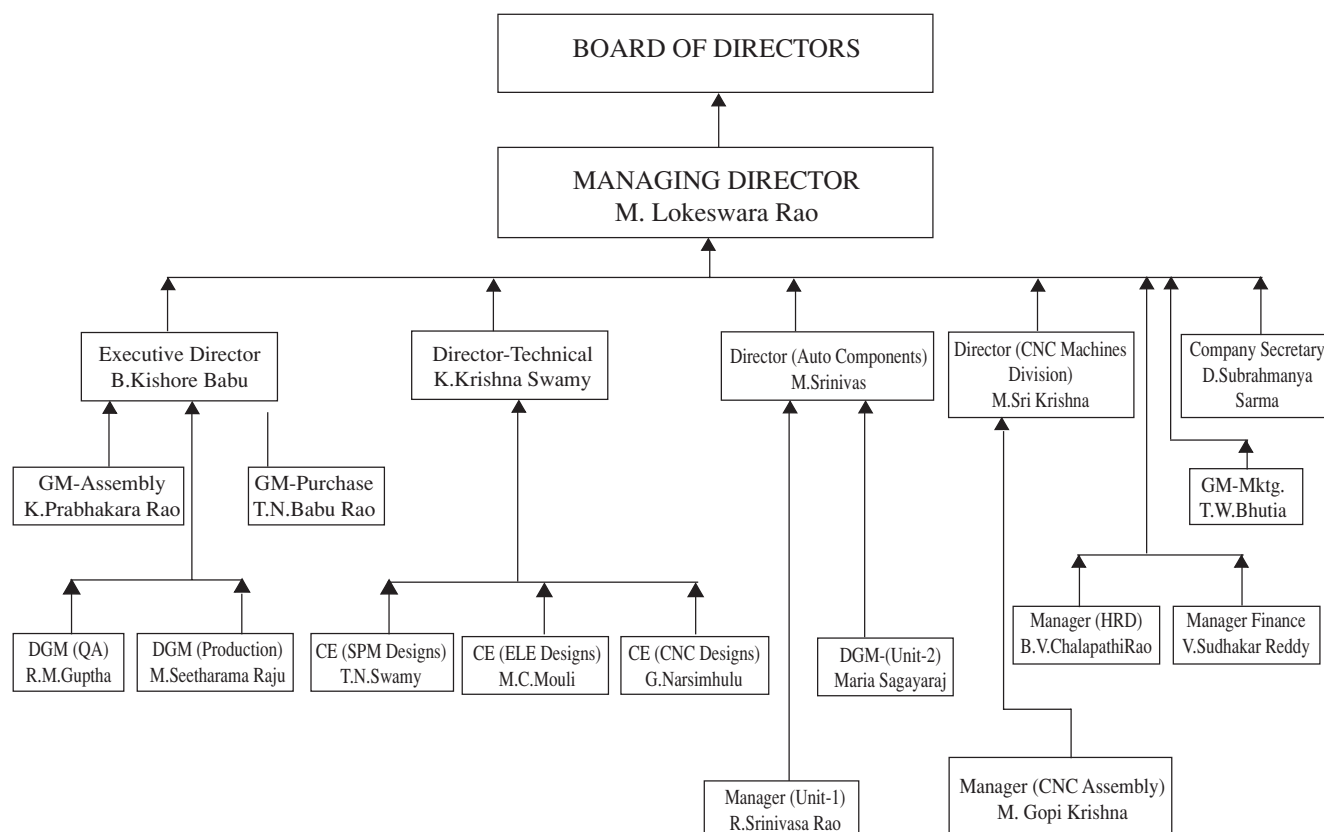
Except as stated otherwise, in this Red Herring Prospectus, the Company has not entered into any contract, agreements or arrangements during the preceding two years from the date of the Red Herring Prospectus in which the directors are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them.

Changes in Board of Directors

The following changes have taken place during the last three years.

Sl.No	Name	Date of change	Particulars	Reasons
1.	Iyer Ramdas Ramakrishnan	23-03-2004	Appointment	Nomination by IDBI
2.	Iyer Ramdas Ramakrishnan	29-06-2005	Resignation	Withdrawal of Nomination by IDBI
3.	V.Shankar	29-06-2005	Appointment	Nomination by IDBI
4.	M.Srinivas	01-10-2005	Appointment	Inducted as Wholetime Director
5.	M.Srikrishna	01-10-2005	Appointment	Inducted as Wholetime Director
6.	Vishnu R.Varshney	30.11.2005	Resignation	GVFL Nominee resigned on transfer of the shares to promoters from GVFL(Gujarat Venture Fund Ltd)
7.	Dr. Y. Satyanarayana	08.12.2005	Appointment	Induction of Independent Director as per Corporate Governance Code
8.	Mr. R Mohan Reddy	04.01.2006	Appointment	Induction of Independent Director as per Corporate Governance Code
9.	Mr. Y Venkata Rao	04.01.2006	Appointment	Induction of non-executive director as per Corporate Governance Code

Management Organisation Structure of LML



Key Managerial Personnel

The details of key managerial personnel are as follows:

S. No	Name	Designation & Functional area	Qualification	Functional Responsibility	Experience (Years)	Gross Remuneration per annum (Rs. In lakhs)	Date of Appointment	Details of Previous Employment
1	V.Sudhakar Reddy	Finance Manager	B.Com F.CA	Chief of Finance & Accounts & Treasury operations	10 Years	2.40	01-01-1999	Worked as Associate in Karvy & Co - Chartered Accountants
2	T.W.Bhutia	G.M. Marketing	B.E	In-charge of Marketing operations	28 Years	6.00	07-09-1986	Worked as Engineer-Sales at HMT Limited.
3	T N Babu Rao	GM Purchases	B.E.	In-Charge of Purchase	34 Years	4.50	28-11-2005	Worked as GM (Commercial) with Bakelite Hylam
4	T.N.Swamy	Chief Engineer S.P.M (Designs)	L.M.E	In-Charge of SPM (Designs) and development of new products	42 Years	3.12	01-07-1993	Worked as Dy.Chief Engineer (Designs) with H.M.T Limited
5	M C Mouli	Chief Engineer (Electrical Designs)	M.Tech.	In-Charge of Electrical Designs	31 Years	2.44	25-05-1986	Worked as Senior Technical Officer with ECIL
6	Maria Sagayaraj	DGM (Operations Unit II)	BS Engg	In-charge of Auto Component Production	22 Years	5.40	14-10-2005	Worked as Manager - Manufacturing Rane TRW Steering Systems Limited
7	B.V. Chalapathi Rao	Manager H.R.D	M.A (I R P M)	In-charge of HR and Personnel activities	19 Years	1.47	03-08-2002	Worked as Deputy Manager with Bhagyanagar Metals Ltd - Uppal
8	R.M. Guptha	D.G.M (Q.A)	L.M.E	In-Charge of Quality Control activities	38 Years	1.68	01-07-1997	Worked as Manager (Inspection) with H.M.T Limited
9	R.Srinivasa Rao	Manager-Components	B.Tech	In-Charge of Component production division	13 Years	1.38	15-03-1996	Worked as an Engineer with I.T.I Limited, Balanagar.
10	M.Gopi Krishna	Manager - CNC Assembly	B.E	In-charge of CNC machines assembly	9 Years	1.46	02-03-1997	NIL.
11	D. Subrahmanya Sarma	Company Secretary	M.Com, FCS	In-charge of Secretarial Department	24 Years	0.90	01-12-2005	Practising Company Secretary
12	K.Prabhakara Rao	G.M Assembly	B.E, M.BA.	In-charge of SPM Assembly Division	42 Years	3.48	01-03-1995	Managing Partner - Kopmann Machines
13	M.Seetha Rama Raju	Dy.Genera Manager Production	L.M.E	In-charge of production - Machines Division	33 Years	2.22	01-12-1996	Worked as an Assistant General Manager with HMT Limited-Hyderabad
14	G. Narasimhulu	Chief Engineer CNC Designs	B.Tech	In-charge of CNC Designs	37 Years	3.00	09-07-2003	Worked as Joint General Manager (Inspection) with HMT Limited.



The persons mentioned above are in the employment of the Company as permanent employees.

Shareholding of Key Managerial Personnel in the Company

The following Key Managerial Personnel hold Equity Shares of the Company in their personal capacity as at the date of this Red Herring Prospectus. Except the following no other key managerial personnel hold shares in the Company.

Sl.No.	Name	No.of Shares held
1	T.W.Bhutia	10,000
2	V.Sudhakar Reddy	11,000
3	T.N.Swamy	5,000

Employees

The employee strength as on 31st December 2005 is 389:

Category	No. of Employees			Total
	Balanagar	Bonthapally	Medchal	
Senior Management	07	06	03	16
Executive	12	06	02	20
Supervisory	32	29	18	79
Shop Floor Operators	47	68	13	128
Sub-ordinate work force	50	65	31	146
Total	148	174	67	389

Bonus or Profit Sharing Plan for Key Managerial Personnel

There is no bonus or profit sharing plan for Key Managerial Employees.

The key managerial personnel of the Company do not have any interest in the Company other than to the extent of the remuneration or benefits to which they are entitled to as per their terms of appointment and reimbursement of expenses incurred by them during the ordinary course of business, and to the extent of their shareholding in the Company.

Except as stated otherwise in this Red Herring Prospectus, the company has not entered into any contract, agreement or arrangement during the preceding 2 years from the date of this Red Herring Prospectus in which the key managerial personnel are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them.

Changes in Key Managerial Employees during the last three years

There have been no changes in key managerial personnel during the last three year excepting the appointments made by the Company as mentioned in the table for key managerial personnel.

Disclosure Regarding Employee stock Option Plan

No stock options have been issued, vested or exercised by the key managerial personnel, since the Company has not instituted any such plan till date. However, the Company may institute a stock option plan to reward its employees at a later date.

Payment of benefit to the Officers of the Company

There is no payment of benefit given to the Officers of the Company other than the Salary.

5. PROMOTERS

Mr Mullapudi Lokeswara Rao



Bank Account	SB105598 Indian Bank, Koti Main Branch, Hyderabad
Voter ID	NA
Driving Licence	NA
PAN No	ADYPM4755H
Passport No.	E4958751

He is a technocrat with 36 years vast experience in the machine tool industry, promoted LML. He has started his career with KCP Limited in 1965 and after a brief period joined Hindustan Machine Tools Limited (HMT) in 1966. While working at HMT for almost a decade Mr. Rao has obtained a methodical understanding and insight of the machine tool industry. The insights into the machine tool industry supplemented with the entrepreneurial abilities prompted Mr. Rao to start LML. Mr. Rao with his sheer hard work coupled with managerial abilities built up a strong team and created good facilities.

Mr B Kishore Babu



Bank Account	SB397200 0100012322 with Punjab National Bank, Saifabad, Hyderabad
Voter ID	NA
Driving Licence	DLFAP009298802002
PAN No	ABDPB6621J
Passport No.	F5540571

He has 23 years vast experience. His career started in HMT as trainee Engineer and presently Executive Director of the company. He is the operational head for all the divisions. He has joined in LML in the year 1985 and has worked in the various departments right from shop floor, designs, planning, production, assembly, Purchase and application engineering and he has also been trained in various countries. He is now in charge of entire operations of the company.

Mr M Srinivas



Bank Account	SB105812, Indian Bank, Koti Main Branch, Hyderabad
Voter ID	NA
Driving Licence	6834/RRD/1993
PAN No	ACIPM2614C
Passport No.	Z132679

He has 10 years experience. He is a Director (Auto Components), has been with LML for the past 10 years since completion of his M.S. in Industrial Engineering at New Jersey Institute of Technology, New Jersey, USA. He has undergone training initially in the designs and manufacture of SPMs.

Mr M Srikrishna



Bank Account	SB397200-01-00002312, Punjab National Bank, Saifabad, Hyderabad
Voter ID	N.A
Driving Licence	N.A
PAN No	ABKPM2769H
Passport No.	F5543625

He has 9 years experience in the field of Mechanical Engineering and has been with Lokesh Machines Limited for the past 9 years since completion of Bachelor of Engineering at Osmania University and has undergone training initially in the designs and manufacture of General Purpose Machines. He is presently heading the Computerised Numerical Control (CNC) Machines Division of Lokesh Machines Limited.

Mrs. M Kanaka Durga



Bank Account	SB397200-01-00002303 - Punjab National Bank, Saifabad Branch, Hyderabad
Voter ID	N A
Driving Licence	N A
PAN No	ADNPM3958R
Passport No.	A4577132

Mrs. M Kanaka Durga (Wife of Mr. M Srinivas) aged 36 years is a graduate in Arts from Osmania University. She is a housewife.

Mrs. C Sreirekha



Bank Account	SB 107453 - Indian Bank, Main Branch, Koti, Hyderabad
Voter ID	N A
Driving Licence	N A
PAN No	N A
Passport No.	301112442

Mrs. C Sreirekha (wife of Mr. C Ravi Kumar) aged 36 years is a graduate in Computers from Osmania University and MS (Computers) from New Jersey, USA. She is currently employed as a software engineer in USA.

The Company confirms that the Permanent Account Number, Bank Account Number and Passport Number of the Promoters has been submitted to the BSE and NSE at the time of filing the Draft Red Herring Prospectus with them.

Pending litigations against Promoters / Other ventures of promoters

- There are no pending litigations/disputes/overdues/defaults to the financial institutions/Banks and instances of non-payment of statutory dues by the promoters and the companies/firms promoted by the Company.
- There are no pending litigations, disputes, defaults etc., in respect of companies to which the promoters were associated in the past but are no longer associated.
- There are no litigations against the promoters or directors involving violation of statutory regulations or a criminal case. There are no pending proceedings initiated for economic offences against the Directors, the promoters, companies and firms promoted by the promoters.
- They have no outstanding litigations, disputes pertaining to matters likely to affect operations and finances of the Company including disputed tax liabilities, prosecution under any enactment in respect of Schedule XIII of the Companies Act, 1956.

Common Pursuits

There are no common pursuits among the Company and its promoters /Goup/Associate Companies.

Payment of Benefit to the Promoters of the Company

No payment of benefit has been paid or given to the Company's Promoters since the incorporation of the Company nor is intended to be paid or given to any promoter of the Company except the normal remuneration and /or reimbursement for services as Directors of the Company or otherwise in accordance with law.



Related Party Transactions

Please refer to “Related Party Disclosures” as mentioned under Annexure XII of the Auditors Report given on page no. 105 in this Red Herring Prospectus.

Nature and extent of the interest of the promoters of the Company

The Company has acquired land from Mr. M.Srikrishna who is a promoter director and Mrs. C. Sirekha, Promoter of the Company.

All the Promoters of the Company shall be deemed to be interested to the extent of shares held by them and/or their and relatives which may be allotted to them out of the present issue and are deemed to be interested to the extent of remuneration and perquisites being drawn by them from the Company.

Currency of Presentation

In this Red Herring Prospectus all references to “Rupees” or “Rs.” Are legal currency of India and reference to “\$” or “Dollar” are legal currency of United States of America, Euro is the legal currency of the European Union.

6. Dividend Policy

The policy of the Company relating to dividends is to ensure that the shareholders get a reasonable return on investments, while conserving resources generated by the profits for further expansion and growth. The Company shall always strive to maintain a balance between maintaining a flow of returns to the shareholders and enhancing shareholders’ wealth.

Details of dividend declared by the Company for the last five years are as under

Financial Year	Rate of dividend
1994-1995	15%
1995-1996	15%
1996-1997	15%
1997-1998	10%
1998-1999	10%
1999-2000	10%
2000-2001	2%
2001-2002	2.5%
2002-2003	5%
2003-2004	-
2004-2005	15%
2006 (Interim Dividend)	10%



SECTION V: FINANCIAL STATEMENTS

Financial Information

The Board of Directors
Lokesh Machines Limited
Hyderabad

Dear Sirs,

We have examined the financial information of Lokesh Machines Limited, as attached to this report and initialled by us for identification.

The said financial information has been prepared in accordance with the requirements of paragraph B(1) of Part II of Schedule II to the Companies Act, 1956 (the 'Act') and the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (as amended vide Circular no.17 dated November 11, 2005) (the "guidelines") issued by the Securities and Exchange Board of India ("SEBI") on January 19, 2000 in pursuance to section 11 of the Securities and Exchange Board of India Act, 1992, and related clarifications; and in accordance with instructions dated December 1, 2005, received from the company requesting us to carry out work in connection with the Offer Document being issued by the company in connection with its public issue of Equity shares (referred to as "the issue"). The financial information has been prepared by the Company and approved by the Board of Directors of the Company.

A. Financial information as per audited financial statements

We have examined:

- a) the attached "Summary Statement of Profits and Losses, as restated" of the Company for the financial period ended October 31, 2005 and years ended March 31 of 2005, 2004, 2003, 2002 and 2001 enclosed in Annexure I; and
- b) the attached "Summary Statement of Assets and liabilities, as restated" as at the said dates enclosed as Annexure II to this report, together referred to as 'Summary Statements'.

The Summary Statements have been extracted from the financial statements of the respective period/years audited by us and adopted by the Board of Directors/ Members for the respective period/years.

Based on our examination of these summary statements, we state that:

- * The restated profits have been arrived at after making such adjustments and regrouping which in our opinion are appropriate in the period/years to which they relate, as shown in Annexure III to this report.
- * The summary statements of the Company have been restated with retrospective effect to reflect the significant accounting policies being adopted by the company as at October 31, 2005 as given in the Annexure IV to this report.
- * There were no extra-ordinary items that need to be disclosed separately in the summary statements.

B. Other Financial Information

We have examined the following financial information relating to the Company proposed to be included in the Offer Document, as approved by the Board of Directors and annexed to this report:

- a) Statement of Cash Flows in respect of period ended October 31, 2005 and years ended March 31 of 2005, 2004, 2003, 2002 and 2001 as given in Annexure V to this report.
- b) Summary of accounting ratios based on adjusted profits relating to earnings per share, net asset value and return on net worth as given in Annexure VI to this report.
- c) Details of Secured Loans and Unsecured Loans as at October 31, 2005 and March 31, 2005 as given in Annexure VII to this report.
- d) Statement of Age-wise analysis of Receivables as at October 31, 2005 and March 31, 2005 as given in Annexure VIII to this report.
- e) Details of Loans and Advances as at October 31, 2005 and March 31, 2005 as given in Annexure IX to this report.



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- f) Capitalisation statement of the Company as at October 31, 2005 and March 31, 2005 as given in Annexure X to this report.
 - g) Statement of tax shelter as given in Annexure XI to this report.
 - h) Details of related party transactions given in Annexure XII to this report.
 - i) Details of contingent liabilities as given in Annexure XIII to this report.
 - j) Statement of Dividend paid by the Company in respect of years ended March 31 of 2005, 2004, 2003, 2002 and 2001 given in Annexure XIV to this report.
 - k) Statement of Other Income given in Annexure XV to this report.
 - l) Statement of details of Reserves and Surplus given in Annexure XVI to this report.

In our opinion the financial information of the Company, attached to this report as mentioned in Paragraphs A and B above, read with respective significant accounting policies and notes as given in Annexure IV to this report, and after making adjustments and regrouping as considered appropriate, has been prepared in accordance with Part II of Schedule II of the Act and the Guidelines issued by SEBI.

The Company financial information takes into consideration the observations made by SEBI in terms of its communication dated February 28, 2006 to the Lead Manager of the Lokesh Machines Limited.

This report supersedes and cancels our earlier report dated December 05, 2005 issued to the Board of Directors of Lokesh Machines Limited.

This report is intended solely for your information and for inclusion in the Offering Memorandum in connection with proposed Public issue of the company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For Deloitte Haskins & Sells
Chartered Accountants

P.R.Ramesh
Partner
Membership No. 70928

Hyderabad, March 13, 2006

SUMMARY STATEMENT OF ASSETS AND LIABILITIES, AS RESTATED

The Profit and Loss Statements of the Company for five financial years ended March 31 of 2001 to 2005 and for the period ended October 31, 2005 read with significant accounting policies, notes on accounts and the notes to adjusted accounts are set out below.

(Rs. lakhs)

Particulars	Period ended October 31, 2005	Year ended March 31				
		2005	2004	2003	2002	2001
Income						
Sales						
Of Products manufactured by the Company	5092.53	7483.26	4670.96	4087.47	3051.78	2445.99
Less: Excise Duty	1074.10	1496.98	953.72	454.78	366.84	245.94
Net Sales	4018.43	5986.28	3717.24	3632.69	2684.94	2200.05
Other Income	35.51	48.90	35.93	21.64	21.47	6.46
Increase / (decrease) in inventories	35.43	886.61	54.09	140.76	19.95	274.54
Total Income	4089.37	6921.79	3807.26	3795.09	2726.36	2481.05
Expenditure						
Materials consumed	2060.62	3655.02	1851.32	1721.92	1183.79	1046.41
Staff Costs	389.00	606.37	417.97	393.54	345.57	302.36
Other manufacturing expenses	311.36	600.30	412.01	483.46	265.94	363.20
Administrative, selling and distribution expenses	419.80	430.44	384.84	251.25	189.31	255.15
Interest	316.54	505.68	506.19	477.52	394.02	295.96
Depreciation	194.58	329.37	249.12	243.94	244.94	184.77
Miscellaneous expenditure written off	6.21	10.64	10.64	10.64	1.49	1.49
	3698.11	6137.82	3832.09	3582.27	2625.06	2449.34
Less: Captive consumption	-	-	226.50	-	-	-
Total Expenditure	3698.11	6137.82	3605.59	3582.27	2625.06	2449.34
Net Profit before tax	391.26	783.97	201.67	212.82	101.30	31.71
Tax expense - Current tax	199.47	207.97	16.00	94.83	8.00	5.00
Tax expense - Deferred tax	(50.87)	53.52	91.03	81.92	-	-
Fringe Benefit Tax	7.04	-	-	-	-	-
Net Profit after tax (A)	235.62	522.48	94.64	36.07	93.30	26.71
Impact of material adjustments for restatement in corresponding years (net of tax) (B)	143.58	45.00	(54.11)	63.44	(93.40)	(8.70)
Net Profit after adjustments (A) + (B)	379.20	567.48	40.53	99.51	(0.10)	18.01

The accompanying statement of adjustments to Audited Profit and Loss Account (Annexure III) and Significant Accounting Policies and Notes on Accounts (Annexure IV) are an integral part of this statement.

SUMMARY STATEMENT OF ASSETS AND LIABILITIES, AS RESTATED

Assets and Liabilities of the Company at the end of each financial period/year regrouped wherever necessary and read with significant accounting policies, notes on accounts and the notes to adjusted accounts are set out below. **Rs. in lakhs**

Particulars	As at October 31, 2005	As at March 31				
		2005	2004	2003	2002	2001
A. Fixed Assets						
Gross block	5253.97	5237.13	5090.64	3957.70	3698.67	3631.82
Less: Depreciation	1948.92	1754.35	1431.88	1188.42	944.48	699.54
Net Block	3305.05	3482.78	3658.76	2769.28	2754.19	2932.28
Capital Work-in-Progress	311.48	315.88	48.76	838.31	874.66	228.02
TOTAL	3616.53	3798.66	3707.52	3607.59	3628.85	3160.30
B. Investments	-	-	-	-	-	-
C. Current assets, loans and advances						
Inventories	2482.22	2378.91	1423.86	1359.30	1211.99	1171.06
Receivables	1937.83	1470.70	1048.43	966.50	1217.48	808.27
Cash and bank balances	254.11	136.30	117.07	116.86	112.10	92.98
Loans and advances	378.06	322.71	407.18	409.92	551.74	301.38
TOTAL	5052.22	4308.62	2996.54	2852.58	3093.31	2373.69
D. Total assets (A + B + C)	8668.75	8107.28	6704.06	6460.17	6722.16	5533.99
E. Liabilities and provisions						
Loan funds						
Secured loans	3845.45	3745.65	3298.62	3031.85	3010.84	2064.36
Unsecured loans	155.56	144.76	230.38	249.89	310.98	361.99
TOTAL	4001.01	3890.41	3529.00	3281.74	3321.82	2426.35
F. Deferred Tax Liability	440.58	427.99	361.31	317.21	254.00	201.64
G. Current liabilities and provisions						
Current liabilities	1565.84	1422.72	1115.85	1081.56	1298.71	1170.96
Provisions	248.44	332.48	81.58	91.34	135.01	144.70
TOTAL	1814.28	1755.20	1197.43	1172.90	1433.72	1315.66
H. Total Liabilities and provisions (E + F + G)	6255.87	6073.60	5087.74	4771.85	5009.54	3943.65
I. Net worth (D - H)	2412.88	2033.68	1616.32	1688.32	1712.62	1590.34
Represented by Shareholders funds						
Share capital	877.74	877.74	877.74	973.74	1027.74	962.24
Reserves and surplus	1535.14	1155.94	738.58	714.58	684.88	628.10
Total	2412.88	2033.68	1616.32	1688.32	1712.62	1590.34

The accompanying Statement of Adjustments to Audited Profit and Loss Account (Annexure III) and Significant Accounting Policies and Notes on Accounts (Annexure IV) are an integral part of this statement

NOTES TO ADJUSTED ACCOUNTS

STATEMENT OF ADJUSTMENTS TO AUDITED PROFIT AND LOSS ACCOUNTS

Rs. in lakhs

Particulars	Period ended October 31, 2005	Year ended March 31				
		2005	2004	2003	2002	2001
Profit for the year / period	235.62	522.48	94.64	36.07	93.30	26.71
Add / (Less) adjustment for						
a) Provision for tax of earlier years	18.42	20.99	-	78.03	-	-
b) Excess/(short) provision for income tax	-	(18.42)	-	-	(0.07)	2.31
c) Provision for doubtful debts	9.74	29.76	12.88	(14.59)	(14.91)	(21.98)
d) Provision for doubtful claims	156.56	-	(156.56)	-	-	-
e) Write offs	22.10	7.65	41.90	16.34	(37.48)	25.50
f) Expenses relating to earlier years	-	16.31	(10.76)	3.44	(4.71)	(4.28)
g) Interest and damages on delayed remittance of provident fund dues	-	-	18.77	6.17	(0.66)	(10.93)
h) Changes in Accounting policies relating to						
Loose tools written off	-	-	-	-	-	5.61
Deferred Tax	-	-	-	-	(56.07)	(4.03)
Deferred revenue expenditure	6.21	10.64	10.64	(35.12)	1.49	(5.96)
Total Adjustments	213.03	66.93	(83.13)	54.27	(112.41)	(13.76)
Of the above						
Adjustments to Profit before tax	194.61	64.36	(83.13)	(23.76)	(56.27)	(12.04)
Effect of above on current tax	(5.99)	(8.77)	(17.91)	(9.54)	15.30	(6.29)
Effect of above on deferred tax	(63.46)	(13.16)	46.93	18.71	3.71	11.35
Adjustments to Current tax expense	18.42	2.57	-	78.03	(0.07)	2.31
Adjustments to Deferred tax expense	-	-	-	-	(56.07)	(4.03)
Total Adjustments (net of tax)	143.58	45.00	(54.11)	63.44	(93.40)	(8.70)
Adjusted Profit after tax	379.20	567.48	40.53	99.51	(0.10)	18.01


STATEMENT OF ADJUSTMENTS TO AUDITED ASSETS AND LIABILITIES
Rs. in lakhs

Particulars	Period ended October 31, 2005	Year ended March 31				
		2005	2004	2003	2002	2001
1) Share Capital	-	-	-	(54.00)	-	-
2) Reserves and Surplus	(41.22)	(184.80)	(229.80)	(175.69)	(508.19)	(414.79)
3) Current Liabilities	-	-	16.31	24.32	33.93	28.56
4) Provisions	33.20	45.63	39.43	21.52	90.01	105.24
5) Deferred tax liability	(4.08)	(67.54)	(80.70)	(33.77)	254.00	201.64
6) Fixed Assets - Gross Block	-	(53.25)	(53.25)	(53.25)	(53.25)	(53.25)
7) Fixed Assets - Depreciation	-	(48.96)	(48.96)	(48.96)	(48.96)	(48.96)
8) Capital Work-in-Progress	-	-	-	(43.69)	(43.69)	-
9) Miscellaneous Expenditure	(12.10)	(18.31)	(28.95)	(39.59)	(4.47)	(5.96)
10) Receivables	-	(9.74)	(39.76)	(52.64)	(57.79)	(45.81)
11) Loans and Advances	-	(174.37)	(181.76)	(77.41)	(20.01)	(23.29)

Figures in brackets represent decrease in the respective item compared to the audited accounts

Treatment of various items adjusted in the re-stated accounts
1) Provision for tax of earlier years and Excess/(short) provision for income tax

Excess or short provision of taxes relating to earlier years have been adjusted to the year to which they relate.

2) Provision for doubtful debts

These items were adjusted in the year in which the receivables have arisen instead of the year in which the receivables were considered as doubtful.

3) Write offs

This adjustment comprises bad debts written off, deposits written off, fixed assets written off, capitalised interest charged off and others. These items were adjusted based on the year in which the receivables have arisen / deposits paid / fixed assets purchased / interest incurred as the case may be.

4) Expenses relating to earlier years

These represent adjustments in respect of prior period items being material charges or credits which arise in a particular period as a result of errors or omission in the preparation of financial statements of one or more prior periods and/or material adjustments. These have been adjusted to the year to which they pertain.

5) Interest and damages on delayed remittance of provident fund dues

These were adjusted to the years in which there were delays in remittance of provident fund dues on which interest and damages were levied.

6) Change in accounting policies

The effect of the change in accounting policies due to introduction of new Accounting Standards has been furnished below:

- Accounting Standard - 15, "Accounting for Retirement Benefits in the Financial Statements of Employers" - Leave Encashment

In the financial year 2003-04, the Company, for the first time, made a provision for leave liability on an estimated basis. This was a subject matter of qualification in the Auditors' Report on the accounts for the years 2002-03, 2001-02 and 2000-01. No adjustment has been done in the said years as the effect could not be ascertained.

b) Accounting Standard - 22 (AS 22), “Accounting for taxes on Income” - Deferred Tax

The said standard issued by the Institute Of Chartered Accountants of India (ICAI) is mandatory in respect of accounting periods commencing on or after April 1, 2002. The Company adopted AS 22 for the first time from in preparing its financial statements for the accounting year commencing on April 1, 2002. Accordingly, for the purpose of this statement, the deferred tax asset / liability has been included in the respective years of origination with a corresponding effect to the statement of profits as restated.

In accordance with the transitional provisions of AS 22, the Company recognised a net deferred tax liability aggregating to Rs.269.06 lakhs that accumulated prior to the adoption of this standard as at March 31, 2002. The net deferred tax expense on timing differences which has been recomputed at Rs.4.03 lakhs for the year ended March 31, 2000 and Rs.56.07 lakhs for the year ended March 31, 2001 have been adjusted in the re-stated accounts.

c) Accounting Standard - 26, “Intangible Assets” - Deferred Revenue Expenditure

The said standard issued by the Institute Of Chartered Accountants of India (ICAI) is mandatory in respect of accounting periods commencing on or after April 1, 2003. Pursuant to the announcement of the Institute of Chartered Accountants of India regarding applicability of AS 26 to intangible items, the Company changed the Accounting Policy to charge off the expenses incurred on intangible items in the year in which they were incurred.

Intangible items incurred prior to the date of applicability of the standard were continued to be amortised as per the earlier accounting policy. These are adjusted in the restated accounts according to the changed accounting policy.

d) Valuation of Loose tools

Untill the financial year 2000-01, 50% of value of the tools issued was expensed off and the balance in the succeeding year. From the financial year 2001-02 onwards loose tools have been expensed on issue. Accordingly, profit for the year 2000-01 was adjusted to ensure application of uniform accounting policy over the years/period disclosed in the Statement of Profits and Losses.

7) Audit Qualifications

- a) No adjustment has been done in respect of audit qualification for the year 2000-01 regarding determination and valuation of raw materials and work-in-progress and for the year 2001-02 regarding determination and valuation of raw materials as the effect on accounts could not be quantified.
- b) In respect of audit qualification for the year 2002-03 regarding inclusion under Loans and Advances of Rs.54 lakhs paid to the investors on partial redemption of 12% Optionally Convertible Cumulative Preference Shares and no transfer of profits to Capital Redemption Reserve, the relevant accounts were adjusted.

8) Exceptional and non-recurring items

- a) The Company has derived profit on sale of fixed assets of Rs.0.22 lakhs and Rs.0.18 lakhs for the years 2004-05 and 2003-04 respectively.
- b) Charge to Profit and Loss Account on account of amortisation of exhibition and other expenditure aggregated to Rs.9.15 lakhs each for the years 2002-03, 2003-04, 2004-05 and Rs.5.34 lakhs for the period ended October 31, 2005.
- c) Charge to Profit and Loss Account on account of provision for doubtful claims aggregated to Rs.156.56 lakhs for the period ended October 31, 2005.

SIGNIFICANT ACCOUNTING POLICIES**1) Basis of Accounting**

The financial statements of the Company are prepared under the historical cost convention on an accrual basis and in accordance with the generally accepted accounting principles and Accounting Standards issued by the Institute of Chartered Accountants of India.

2) Fixed Assets and Depreciation

- (a) Fixed assets are stated at the values at which they are acquired, less accumulated depreciation. The value at which fixed assets are acquired includes all related expenses up to the date of putting them to use.
- (b) CENVAT Credit availed on acquisition of fixed assets is reduced from the cost of the concerned assets.
- (c) Depreciation has been charged on Straight Line Method on Buildings and Plant & Machinery and on the remaining assets depreciation has been provided on written down value method at rates specified in Schedule XIV of the Companies Act, 1956.

3) Inventories

- (a) The stock of Raw Materials, Components and Consumable Stores are valued at first in first out basis (FIFO).
- (b) Material in transit is valued at cost.
- (c) Finished goods and Work-in-progress are being valued at lower of cost or net realizable value.

4) Sales

Sales are accounted for on despatch of goods to the customers that usually coincides with the transfer of risk and rewards and are net of sales returns.

5) Foreign Currency Transactions

Transactions denominated in foreign currencies are normally recorded at the exchange rate prevailing at the time of transaction.

Monetary items denominated in foreign currencies at the year end not covered by forward exchange contracts are translated at year end rates and the difference is charged to the Profit and Loss Account and those covered by forward exchange contracts are translated at the forward contract rate and the proportionate difference between the forward rate and exchange rate on the date of transaction is charged to the Profit and Loss Account over the life of the contract, except in case of liabilities incurred for acquiring fixed assets from outside India.

6) Retirement Benefits

All the Employees of the Company are entitled to retirement benefits of Provident Fund and Gratuity.

- (a) Contribution to Gratuity is made on the basis of demand raised by L.I.C. and charged to profit and loss account.
- (b) Provident fund Contribution to P.F. is accounted on accrual basis with corresponding payment to statutory authorities.
- (c) Leave encashment on retirement is provided on estimated basis.

7) Deferred Revenue Expenditure

Exhibition expenditure incurred in the financial year 2002-03 has been recognized as deferred revenue expenditure and being written off over a period of 5 years.

8) Deferred Tax

Deferred Tax is accounted for by computing the tax effect of timing differences that arise during the year and reverse in subsequent periods.

9) Leases

Assets acquired under finance leases on or after April 1, 2001 are recognised at the lower of the fair value of the leased assets at inception and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term at a constant periodic rate of interest on the remaining balance of the liability.

B) NOTES ON ACCOUNTS

FINANCIAL YEAR 2000-01

1. Contingent Liabilities not provided for on account of:

	(Rupees in lakhs)	
	2000-01	1999-00
a) Letters of Credit	185.39	133.71
b) Bank Guarantees	208.66	215.95

- c) The Income Tax Department raised an additional demand for the Assessment Year 1997-98 for Rs 18.25 lakhs. The company has filed an appeal before Appeal-I, in respect of the above order.

2. Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs. 597.00 lakhs (Previous Year-Rs. 672.07 lakhs).

3. Secured Loans

- (a) Term loans from ICICI Ltd. and IDBI are secured by equitable mortgage of Land & Buildings and Hypothecation of all movables (except book debts) including movable machinery, machinery spares, tools and accessories, both present and future. These loans are further guaranteed by the Managing Director and Executive Director in their personal capacity.
- (b) Open Cash Credit from State Bank of Hyderabad and Punjab National Bank are secured by Hypothecation of Stock & Receivables and Second Charge on Land, Buildings and Machinery and personal guarantee of the Managing Director, the Executive Director, and some shareholders.
- (c) Secured Loans from City Corp CMFL are secured by Hypothecation of Vehicles and personal guarantee of the Managing Director.

4. (a) The Company is in the process of implementing maintenance of stock records for raw materials showing receipts, issues and closing stocks in quantity and value. The inventory has been determined based on physical inventory at the year end.

- (b) Work-in-Progress has been valued based on percentage of completion of work to the total estimated cost of the machines. The Company is in the process of establishing systems to arrive at the cost of material and overheads of work at various stages. Hence the details of arriving at percentage of completion with regard to materials used and allocable overheads have not been documented. These have been arrived on an estimated basis having regard to the past experience.

5. The Company has been advised that its rules relating to Leave Encashment by employees on separation are not covered by the requirements of Accounting Standard - 15 'Accounting for Retirement Benefits in the Financial Statements of Employers' issued by the Institute of Chartered Accountants of India and consequently no provision has been made in the Accounts for such benefits.

6. Current Liabilities and Provisions includes under other liabilities, statutory dues aggregating to Rs.49.35 lakhs payable towards Tax Deducted at Source, Provident Fund, ESI and Professional Tax that are overdue. No Provision has been made in the books for interest/penalties for the above overdue amounts as the Company is confident that interest/penalties would be waived by the authorities as the Company has subsequently paid the dues.

7. **Particulars of Directors Remuneration:**

(Rupees in lakhs)

	2000-01	1999-00
(a) Salary	8.30	7.56
(b) Commission to Managing Director	0.00	0.90
(c) Provident Fund	0.14	0.14
(d) Other benefits	0.63	0.34
(e) Directors fees	0.01	0.03
Total	9.08	8.97

(Note: No commission would be paid to the Managing Director since the overall profits are insufficient to pay commission as per Section 198 and 309 of the Companies Act, 1956, for the year 2000-01)



Computation of Net Profit under Section 349 of the Companies Act, 1956

(Rupees in lakhs)

	2000-01	1999-00
Profit as per Profit and Loss Account	31.71	206.22
Add: Book Depreciation	184.76	145.87
Directors Remuneration	9.08	8.97
	225.55	361.05
Less: Depreciation as per Sec 350	298.12	271.23
Profit U/S.349	(72.57)	89.83
Commission @ 1%	0.00	0.90

8. Annual Capacities (As certified by the Management)

(No. of Machines)

	2000-01	1999-00
Installed Capacity	250	50

9. Details of Production, Turnover and Stock of Finished Goods

(Machines in Nos.)

Op. Stock Nos.	Production Nos.	Sales		Closing Stock	
		Nos.	Rs. lakhs	Nos.	Rs. lakhs
2	77	69	1665.71	10	425.05

(Rupees in Lakhs)

Sales	2000-01		1999 -00	
	Qty	Value	Qty	Value
SPM	14	598.79	17	1170.19
GPM (Indigenous)	41	889.50	23	505.69
GPM (Exports)	14	177.41	02	24.48
	69	1665.70	42	1700.36

10. Details of Raw Materials & Others Consumed:

(Rs. in lakhs)

	2000-01	1999-00
Raw Material	248.64	229.85
Stores & Components	797.77	722.87

Note: The quantitative details of Raw Materials and Stores & Spares are not given as they consist of various types, which are not practicable to give.



11. Value of Imported & Indigenous Raw Material consumed and their percentage of Consumption.(Rupees in lakhs)

Particulars	Raw Materials		Stores & Components	
	2000-01	1999-00	2000-01	1999-00
Imported (% of Total)	-	-	161.66 (20.26%)	98.40 (13.61%)
Indigenous (% of Total)	248.64 (100%)	229.85 (100%)	636.11 (79.74%)	624.47 (86.39%)
Total	248.64 (100%)	229.85 (100%)	797.77 (100%)	722.87 (100%)

12. Expenditure in Foreign Currency during the financial year.

- On account of travel Rs.10.41 lakhs (Previous year: Rs.13.37 lakhs)
- On account of Technical Know-how (Net of TDS): Rs. Nil (Previous year-Rs.48.90 lakhs)
- On account of Capital Goods: Rs.0.74 lakhs (Previous year: Rs.56.74 lakhs)

13. CIF Value of Imports of Stores, Spares & Components is of Rs.135.48 lakhs (Previous Year- Rs.105.21 lakhs).

14. Sundry Creditors includes Rs.22.06 lakhs (Previous year-Rs.42.54 lakhs) due to SSI units whose outstanding balance exceeds Rs.1 lakh for more than 30 days as on date of balance sheet as listed below:

	(Rs. in lakhs)
1 Essar Tooling Systems	1.05
2 Metal Treat	1.10
3 Metal Treat Enterprises	1.33
4 Sekhar Engineering Works	3.24

- In view of the revised guidance note issued by the Institute of Chartered Accountants of India, effective from accounting period starting on or after 1st April. 1999, which requires that provision should be made for Excise Duty liability in respect of the Finished Goods, the Company has provided liability for excise duty aggregating to Rs.56.41 lakhs payable on goods held at the year end therefore included the same in the valuation of inventories at the year end. This has no effect on the Profits for the year.
- OCC Preference shares as at 31st March 2001 aggregating to 15,00,000 shares of Rs.10 each. Premium on redemption of these shares have not been provided in the books of account, as these shares are convertible at the option of the investor.
- Previous year's figures have been regrouped / reclassified wherever considered necessary to confirm to this year's classification.

FINANCIAL YEAR 2001-02

1. Contingent Liabilities not provided for on account of: (Rupees in lakhs)

	2000-01	2000- 01
a) Letters of Credit	240.53	185.39
b) Bank Guarantees	187.64	208.66
c) Income Tax	24.76	18.25

- Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs.632.02 lakhs (Previous Year-Rs. 597.00 lakhs).

3. Secured Loans

- a) Term loans from ICICI Ltd. and IDBI are secured by equitable mortgage of Land & Buildings and Hypothecation of all movables (except book debts) including movable machinery, machinery spares, tools and accessories, both present and future. These loans are further guaranteed by the Managing Director and Executive Director in their personal capacity.
 - b) Open Cash Credit from State Bank of Hyderabad and Punjab National Bank are secured by Hypothecation of Stock & Receivables and Second Charge on Land, Buildings and Machinery and personal guarantee of the Managing Director, the Executive Director, and some shareholders.
 - c) Secured Loans from Kotak Mahindra Primus Limited are secured by Hypothecation of Vehicles, and personal guarantee of the Managing Director.
4. The Company is in the process of implementing maintenance of stock records for raw materials showing receipts, issues and closing stocks in quantity and value. The inventory has been determined based on physical inventory at the year end.
 5. The Company has been advised that its rules relating to Leave Encashment by employees on separation are not covered by the requirements of Accounting Standard - 15 'Accounting for Retirement Benefits in the Financial Statements of Employers' issued by the Institute of Chartered Accountants of India and consequently no provision has been made in the Accounts for such benefits.
 6. Current Liabilities and Provisions includes under other liabilities, statutory dues aggregating to Rs.66.23 lakhs payable towards Tax Deducted at Source, Provident Fund, ESI and Professional Tax that are overdue.
 7. Particulars of Directors Remuneration:

	(Rupees in lakhs)	
	2001-02	2000-01
(a) Salary	10.47	8.30
(b) Commission to Managing Director	—	—
(c) Provident Fund	0.19	0.14
(d) Other benefits	2.03	0.63
(e) Directors fees	0.03	0.01
Total	12.72	9.08

(Note : No commission would be paid to the Managing Director since the overall profits are insufficient to pay commission as per Section 198 and 309 of the Companies Act, 1956, for the year 2001-02)

Computation of Net Profit under Section 349 of the Companies Act, 1956

	(Rupees in lakhs)	
	2001-02	2000-01
Profit as per Profit and Loss Account	101.31	31.71
Add: Book Depreciation	—	184.76
Less : Directors Remuneration	12.72	9.08
	88.59	225.55
Less: Depreciation as per Sec 350	—	298.12
Profit U/S.349	88.59	(72.57)
Commission @ 1%	0	0

8. Annual Capacities (As certified by the Management)

(No. of Machines)

	2001-02	2000-01
Installed Capacity	250	250

9. **Details of Production, Turnover and Stock of Finished Goods**

(Machines in Nos.)

Op. Stock Nos.	Production Nos.	Sales		Closing Stock	
		Nos.	Rs. lakhs	Nos.	Rs. Lakhs
10	95	87	2181.25	18	350.26

(Rupees in lakhs)

Sales	2001-02		2000-01	
	Qty	Value	Qty	Value
SPM	30	1228.67	14	598.79
GPM (Indigenous)	53	889.30	41	889.50
GPM (Exports)	4	63.28	14	177.41
	87	2181.25	69	1665.70

10. **Details of Raw Materials & Others Consumed:** (Rupees in lakhs)

	2001-02	2000-01
Raw Material	207.72	248.64
Stores & Components	976.07	797.77

Note: The quantitative details of Raw Materials and Stores & Spares are not given as they consist of various types, which are not practicable to give.

11. **Value of Imported & Indigenous Raw Material consumed and their percentage of Consumption.** (Rs. in lakhs)

Particulars	Raw Materials		Stores & Components	
	2001-02	2000-01	2001-02	2000-01
Imported	-	-	100.00	161.66
(% of Total)			(10.25%)	(20.26%)
Indigenous	207.72	248.64	876.08	636.11
(% of Total)	(100%)	(100%)	(89.75%)	(79.74%)
Total	207.72	248.64	976.08	797.77
	(100%)	(100%)	(100%)	(100%)

12. **Expenditure in Foreign Currency during the Financial year.**

- On account of travel Rs.11.31 lakhs (Previous year: Rs.10.41 lakhs)
- On account of Capital Goods: Rs.9.19 lakhs (Previous year: Rs.0.74 lakhs)

13. **CIF Value of Imports of Stores, Spares & Components is of Rs.105.60 lakhs (Previous Year-Rs.135.48 lakhs).**

14. **Sundry Creditors includes Rs 11.68 lakhs (Previous year-Rs.22.06 lakhs) due to SSI units, whose outstanding balance for more than 30 days as on date of balance sheet is as follows :**

Alprint Industries, A.M.Infotech, Armatech Associates, Arjuna Enterprises, Ashok Hema Engineers, Bhagya Tools Sharpners, Bharati Fire Engineers, B.I. Enterprise, Carb Tools, Care Tronics, Corrocoat Industries, Dhanalakshmi Industrial Needs, Diamel Systems, Durga Engg.& Fabrication Works, Elmeca Works, General Hardware & Industrial Suppliers, Hind Electricals, Hindustan Paper Products, Hindustan Steels, Inteltec, Jai Jagannath Enterprises, Jas Daimond Tools, Kousthuba Udyog, Kedia Industries, Kisan Electrical & Hardwares, Lakshmi Agencies, Magnus Engineering, Mahaveer Steel & Tubes, Maheswari Power Dirves, Manikanta Industries, Moondra & Sons, National Springings & Engg.Company, New Age Enterprises, New Horizon Industries, New Techno Enterprises, Pavan Traders, Pavithra Industries, Quality



Tools Centre, Ronak Agencies, Satyanarayana Saw Mill, Seal Jet Seals, Shanthi Trading Corporation, Sreeji Traders, S.K.Traders, Sonalkar Precession, Sri Satya Prabha Enterprises, Sri Vijay Enterprises, Star Engineering Company, Steel House, Techni Associates, Texonic Instruments, Triveni Enterprises, Universal Trading Corporation, Vako Seals, Victoria Enterprises, Vijay Air Control, Vikas Metals, Viswakarma Industries, VKR Enterprises, Vision Hydraulics.

15. In view of the revised guidance note issued by the Institute of Chartered Accountants of India, effective from accounting period starting on or after 1st April. 1999, which requires that provision should be made for Excise Duty liability in respect of the Finished Goods, the Company has provided liability for excise duty aggregating to Rs.48.84 lakhs payable on goods held at the year end therefore included the same in the valuation of inventories at the year end. This has no effect on the Profits for the year.
16. OCC Preference shares as at 31st March 2002 aggregating to 15,00,000 shares of Rs.10 each. Premium on redemption of these shares have not been provided in the books of account, as these shares are convertible at the option of the investor.
17. Previous year's figures have been regrouped / reclassified wherever considered necessary to confirm to this year's classification.

FINANCIAL YEAR 2002-03

1. Contingent Liabilities not provided for on account of: (Rupees in lakhs)

	2002-03	2001- 02
a) Letters of Credit	247.93	240.53
b) Bank Guarantees	155.02	187.64
c) Income Tax	—	24.76
d) Provident Fund	18.77	—

2. Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs.649.07 lakhs (Previous Year-Rs.632.02 lakhs).
3. Secured and Unsecured Loans
 - (a) Term loans from ICICI Bank and IDBI Bank are secured by equitable mortgage of Land & Buildings, Plant & Machinery and Hypothecation of all movables (except book debts) including movable machinery, machinery spares, tools and accessories, both present and future. The Managing Director and Executive Director further guarantee these loans in their personal capacity. Term loan from Punjab National Bank is secured by hypothecation of the vehicle and personal guarantee of the Managing Director.
 - (b) Open Cash Credit from State Bank of Hyderabad and Punjab National Bank are secured by Hypothecation of Stock & Receivables and Second Charge on Land, Buildings and Machinery and personal guarantee of the Managing Director, the Executive Director, and some shareholders.
 - (c) Finance leases from Kotak Mahindra Primus Limited, GE Country wide consumer financial services & Punjab National Bank, Saifabad branch, Hyderabad are secured by hypothecation of Vehicles, and personal guarantee of the Managing Director.
4. Pursuant to the adoption of Accounting Standard - 22 'Accounting for Taxes on Income', the Company has recorded the cumulative net deferred tax liability of Rs.269.06 lakhs upto March 31, 2002 as a reduction from the "General Reserve" and "Surplus in Profit and Loss Account" of the company. Further, the Company has recognised a deferred tax liability of Rs.81.92 lakhs for the year ended March 31, 2003 as a charge to the Profit and Loss Account

Particulars	Deferred Tax Liability / (Asset) as at 01.04.2002	Current Year Charge / (Credit)	Deferred Tax Liability / (Asset) as at 31.03.2003
A) Deferred Tax Liabilities			
(a) Difference between book and tax depreciation	360.90	33.85	394.75
(b) Deferred Revenue Expenditure	1.64	12.56	14.20
Total (A)	362.54	46.41	408.95
B) Deferred Tax Assets			
(a) Unabsorbed Depreciation c/f	(81.34)	33.31	(48.03)
(b) Others	(12.14)	2.20	(9.94)
Total (B)	(93.48)	35.51	(57.97)
Net Total (A+B)	269.06	81.92	350.98

5. The Company has been advised that its rules relating to Leave Encashment by employees on separation are not covered by the requirements of Accounting Standard - 15 'Accounting for Retirement Benefits in the Financial Statements of Employers' issued by the Institute of Chartered Accountants of India and consequently no provision has been made in the Accounts for such benefits.
6. Current Liabilities and Provisions includes under other liabilities, statutory dues aggregating to Rs.40.72 lakhs (Previous year Rs.66.23 lakhs) payable towards Tax Deducted at Source, Provident Fund, ESI and Professional Tax that are overdue.

7. **Particulars of Directors Remuneration:**

(Rupees in Lakhs)

	2002-03	2001-02
(a) Salary	12.72	10.47
(b) Commission	2.31	—
(c) Provident Fund	0.19	0.19
(d) Other benefits	2.79	2.03
(e) Directors fees	0.01	0.03
Total	18.02	12.72

Computation of Net Profit under Section 349 of the Companies Act, 1956

(Rupees in Lakhs)

	2002-03	2001-02
Profit as per Profit and Loss Account	212.82	101.31
Add : Directors Remuneration	18.02	12.72
Profit U/S.349	230.85	114.02
Commission @ 1% (Machines in Nos.)	2.31	—

8. **Annual Capacities (As certified by the Management)**

(No. of Machines)

	2002-03	2001-02
Installed Capacity	250	250



9. **Details of Production, Turnover and Stock of Finished Goods** (Machines in Nos.)

Op. Stock Nos.	Production Nos.	Sales		Closing Stock	
		Nos.	Rs. lakhs	Nos.	Rs. Lakhs
18	117	119	2279.06	16	320.81

(Rs. in lakhs)

Sales	2002-03		2001-02	
	Qty	Value	Qty	Value
SPM	24	672.96	30	1228.67
GPM (Indigenous)	95	1606.10	53	889.30
GPM (Exports)	0	—	4	63.28
	119	2279.06	87	2181.25

10. **Details of Raw Materials & Others Consumed:** (Rs. in lakhs)

	2002-03	2001-02
Raw Material	298.27	207.72
Stores & Components	1423.65	976.07

Note: The quantitative details of Raw Materials and Stores & Spares are not given as they consist of various types, which are not practicable to give.

11. **Value of Imported & Indigenous Raw Material consumed and their percentage of Consumption.**

(Rupees in lakhs)

Particulars	Raw Materials		Stores & Components	
	2002-03	2001-02	2002-03	2001-02
Imported	-	-	208.56	100.00
(% of Total)			(14.65%)	(10.25%)
Indigenous	298.27	207.72	1215.09	876.08
(% of Total)	(100%)	(100%)	(85.35%)	(89.75%)
Total	298.27	207.72	1423.65	976.08
	(100%)	(100%)	(100%)	(100%)

12. **Expenditure in Foreign Currency during the financial year:**

- On account of travel Rs.11.17 lakhs (Previous year: Rs.11.31 lakhs)
- On account of Capital Goods: Rs.6.92 lakhs (Previous year: Rs.9.19 lakhs)

13. **CIF Value of Imports of Stores, Spares & Components is of Rs.168.17 lakhs (Previous Year-Rs.105.60 lakhs).**

14. **Sundry Creditors includes Rs.13.93 lakhs (Previous year-Rs.11.68 lakhs) due to SSI units, whose outstanding balance for more than 30 days as on date of balance sheet is as follows :**

Alprint Industries, Annapurna Industries, Armtech Associates, Ashok Hema Engineers, Auto India, Balaji Agricultural Agencies, Bhagya Tools Sharpners, Bharati Wire Engineers, Bharat Rolling Shutters, B.I.Enterprise, Boys Town Industrial Training Center, Cables & Plastics Industries, Carb Tools, Caretronics, Dhanalakshmi Industrial Needs, Daimel Systems, Durga Engg. & Fabrication Works, Essar Tooling Systems, Hind Electricals, Hindustan Steel, Inteltec, Indian Gears, K.L.R.Rigs Company, Krison Sai Tool Craft, Metal Treat, Metal Treat Enterprises, Pavitra Industries, R.K.Hydraulics, Rose Enterprises, Satyanarayana Saw Mill, Sekhar Engg Works, Shanti Trading Corporation, S.K.Traders, S.R.Gears



Wheels, Sonalkar Precesion, Sudha Metal Finishers, Suguna Industries, Triveni Enterprises, Vako Seals, Victoria Enterprises, Vijaya Lakshmi Engg. Works, Vikas Metals, Vision Hydraulics, Y.S.L. Electronics

15. In view of the revised guidance note issued by the Institute of Chartered Accountants of India, effective from accounting period starting on or after 1st April. 1999, which requires that provision should be made for Excise Duty liability in respect of the Finished Goods, the Company has provided liability for excise duty aggregating to Rs.44.25 lakhs. payable on goods held at the year end therefore included the same in the valuation of inventories at the year end. This has no effect on the Profits for the year.
16. The Company has made a payment of Rs.54.00 lakhs to M/s Nandi Investments Limited towards redemption of the 12% Optionally Convertible Cumulative Preference Share Capital. Pending the finalisation of the terms of such redemption, including the premium on redemption, the payment has been shown as an advance under Loans and Advances and no amount has been transferred to Capital Redemption Reserve from out of the profits available for dividend as required by Section 80 of the Companies Act, 1956.

17. Finance leases

The Company has outstanding finance leases as at March 31, 2003 on five motor vehicles. These arrangements were entered for a period of three to four years. The liability payable in finance leases is analysed as follows:

	2002-03 (Rs. in lakhs)
Total minimum lease payments	11.46
Interest	(1.41)
Present value of minimum lease payments	10.05

Future minimum lease payments under finance lease are as under:

	(Rupees in lakhs)	
	Minimum lease payments	Present value of minimum lease payments
Payable not later than one year	5.92	4.95
Payable later than one year and not later than five years	5.54	5.10
	11.46	10.05

18. Previous year's figures have been regrouped/reclassified wherever considered necessary to conform to this year's classification.

FINANCIAL YEAR 2003-04

1. Contingent Liabilities not provided for on account of: (Rupees in lakhs)

	2003-04	2002-03
a) Letters of Credit	284.15	247.93
b) Bank Guarantees	219.46	155.02
c) Income Tax	—	—
d) Provident Fund	—	18.77

2. Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs.62.22 lakhs (Previous Year-Rs.649.07 lakhs).

3. Secured and Unsecured Loans

- (a) Term loans from Indian Bank and IDBI Bank are secured by equitable mortgage of Land & Buildings, Plant & Machinery and Hypothecation of all movables (except book debts) including movable machinery, machinery spares, tools and accessories, both present and future. The Managing Director and Executive Director further guarantee



these loans in their personal capacity. Term loan from Punjab National Bank is secured by hypothecation of the vehicle and personal guarantee of the Managing Director.

- (b) Open Cash Credit from State Bank of Hyderabad and Punjab National Bank are secured by Hypothecation of Stock & Receivables and Second Charge on Land, Buildings and Machinery and personal guarantee of the Managing Director, the Executive Director, and some shareholders.
- (c) Finance leases from Kotak Mahindra Primus Limited, GE Country Wide Consumer Financial Services, Citicorp Finance (India) Limited, Ford Credit Kotak Mahindra Limited are secured by hypothecation of Vehicles, and personal guarantee of the Managing Director.

4. Pursuant to the adoption of Accounting Standard - 22 'Accounting for Taxes on Income', the Company has recorded the cumulative net deferred tax liability of Rs.350.98 lakhs upto March 31, 2003. Further, the Company has recognised a deferred tax liability of Rs.91.04 lakhs for the year ended March 31, 2004 as a charge to the Profit and Loss Account

(Rupees in lakhs)

Particulars	Deferred Tax Liability / (Asset) as at 01.04.2003	Current Year Charge / (Credit)	Deferred Tax Liability / (Asset) as at 31.03.2004
Deferred Tax Liabilities			
(a) Difference between book and tax depreciation	394.75	64.42	459.17
(b) Deferred Revenue Expenditure	14.20	(3.82)	10.38
Total (A)	408.95	60.60	469.55
Deferred Tax Assets			
(a) Unabsorbed Depreciation c/f	(48.03)	48.03	0
(b) Others	(9.94)	(17.60)	(27.54)
Total (B)	(57.97)	30.43	(27.54)
Net Total (A+B)	350.98	91.03	442.01

5. Current Liabilities and Provisions includes under other liabilities, statutory dues aggregating to Rs.78.68 lakhs (Previous year Rs.74.35 lakhs) payable towards Sales Tax, Tax Deducted at Source, Provident Fund, ESI and Professional Tax.

6. **Particulars of Directors Remuneration:**

(Rupees in lakhs)

	2003-04	2002-03
(a) Salary	19.20	12.72
(b) Commission	2.25	2.31
(c) Provident Fund	0.19	0.19
(d) Other benefits	1.86	2.79
(e) Directors fees	0.02	0.01
Total	23.52	18.02

Computation of Net Profit under Section 349 of the Companies Act, 1956

(Rupees in lakhs)

	2003-04	2002-03
Profit as per Profit and Loss Account	201.68	212.82
Add : Directors Remuneration	23.52	18.02
Profit U/S.349	225.20	230.84
Commission @ 1%	2.25	2.31



7. Annual Capacities (As certified by the Management) (No. of Machines)

	2003-04	2002-03
Installed Capacity	250	250

8. Details of Production, Turnover and Stock of Finished Goods

(Machines in Nos.)

Op. Stock Nos.	Production Nos.	Sales		Closing Stock	
		Nos.	Rs. lakhs	Nos.	Rs. lakhs
16	153	141	2548.56	28	478.54

(Rupees in lakhs)

Sales	2003-04		2002-03	
	Qty	Value	Qty	Value
SPM	13	509.03	24	672.96
GPM (Indigenous)	115	1809.49	95	1606.10
GPM (Exports)	13	230.04	0	3.01
Spares	—	67.56	—	85.48
Component	—	2054.84	—	1719.91
	141	4670.96	119	4087.46

9. Details of Raw Materials & Others Consumed:

(Rupees in lakhs)

	2003-04	2002-03
Raw Material	242.19	298.27
Stores & Components	1609.13	1423.65

Note: The quantitative details of Raw Materials and Stores & Spares are not given as they consist of various types, which are not practicable to give.

10. Value of Imported & Indigenous Raw Material consumed and their percentage of Consumption.

(Rupees in lakhs)

Particulars	Raw Materials		Stores & Components	
	2003-04	2002-03	2003-04	2002-03
Imported	-	-	325.65	208.56
(% of Total)			(20.24%)	(14.65%)
Indigenous	242.19	298.27	1283.47	1215.09
(% of Total)	(100%)	(100%)	(79.76%)	(85.35%)
Total	242.19	298.27	1609.12	1423.65
	(100%)	(100%)	(100%)	(100%)

11. Expenditure in Foreign Currency during the year.
- (a) On account of travel Rs. 10.85 lakhs (Previous year: Rs.11.17 lakhs)
- (b) On account of Capital Goods: Rs 126.03 lakhs (Previous year: Rs.6.92 lakhs)
12. Earnings in Foreign currency: Rs. 230.04 lakhs (Previous year: Rs. 3.01 lakhs)
13. CIF Value of Imports of Stores, Spares & Components is of Rs.265.04 lakhs (Previous Year-Rs.168.17 lakhs).
14. Sundry Creditors includes Rs.11.60 lakhs (Previous year-Rs.13.93 lakhs) due to SSI units, whose balance is outstanding for more than 30 days as on March 31, 2004. The party-wise details are as follows:

Alprint Industries, Annapurna Industries, Andhra Sales Corporation, Armatech Associates, Ashok Hema Engineers, Balaji Agricultural Agencies, Bhagya Tools Sharpeners, Belting International, Diamel Systems, Deccan Switchgears, Durga Engg & Fabrication Works, Fazal Industries, Hind Electricals, Mag Tools, Numa Industry, S.K.Traders, S.K. Engineers, Sunitha Enterprises, Vision Hydraulics, YSL Electronics, Bharathi CNC Technologies, Choudary Metal Industries, Chandrika Industrials, Essar Tooling Systems, Harika Industries, J.V. Engineering Corporation, Metal Treat, Nanda Fabricators, Narven Industries, Nava Bharat Industries, Pastas Industries, Prudvi Industries, Reddy Engg Industries, Rohith Fabricators, Siva Sai Industries, S.R. Gear Wheels, Sri Balaji Industries, Sri Lakshmi Narasimha Industries, Sri Maithri Engineers, Sri Sai Manikanta Engg Works, Suguna Industries, Suji Industries, S.V. Industries, S.V.R. Industries, Sudha Metal Finishers, Ushodaya Industries.

15. Finance leases

The Company has outstanding finance leases as at March 31, 2004 on five motor vehicles. These arrangements were entered for a period of three to four years. The liability payable in finance leases is analysed as follows:

(Rupees in lakhs)

	2003-04	2002-03
Total minimum lease payments	8.94	11.46
Interest	(0.78)	(1.41)
Present value of minimum lease payments	8.16	10.05

Future minimum lease payments under finance lease are as under:

(Rupees in lakhs)

	Minimum lease payments		Present value of minimum lease payments	
	2003-04	2002-03	2003-04	2002-03
Payable not later than one year	5.64	5.92	5.46	4.95
Payable later than one year and not later than five years	3.30	5.54	2.70	5.10
	8.94	11.46	8.16	10.05

16. During the year, the Company has redeemed 15,00,000 12% Optionally Convertible Cumulative Preference Shares of Rs. 10 each aggregating to Rs.150.00 lakhs at par and an equivalent amount has been transferred to Capital Redemption Reserve from out of the profits available for dividend as required by Section 80 of the Companies Act, 1956.
17. Preoperative expenses aggregating to Rs.43.69 lakhs represents interest on term loan (relating to the year 2001-02) availed from IDBI for development of prototype machine and for setting up of a dedicated line for Mahindra & Mahindra (M&M). The interest has been charged off to Profit & Loss Account in view of considerable delay in completion of the said project beyond the expected schedule.
18. Previous year's figures have been regrouped / reclassified wherever considered necessary conform to this year's classification.

FINANCIAL YEAR 2004-05
1) Contingent Liabilities not provided for on account of: (Rs. in Lakhs)

	2004-05	2003-04
a) Letters of Credit	258.60	284.15
b) Bank Guarantees	296.16	219.46

2) Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs.115.04 lakhs (Previous Year-Rs. 62.21lakhs).

3) Secured and Unsecured Loans

- (a) Term loans from State bank of Hyderabad, State bank of Indore, and IDBI Bank are secured by equitable mortgage of Land & Buildings, Plant & Machinery and Hypothecation of all movables (except book debts) including movable machinery, machinery spares, tools and accessories, both present and future. The Managing Director and Executive Director further guarantee these loans in their personal capacity. Term loan from Punjab National Bank is secured by hypothecation of the vehicle and personal guarantee of the Managing Director.
- (b) Open Cash Credit from State Bank of Hyderabad, State Bank of Indore and Punjab National Bank are secured by Hypothecation of Stock & Receivables and Second Charge on Land, Buildings and Machinery and personal guarantee of the Managing Director, the Executive Director, and some shareholders.
- (c) Finance leases from Kotak Mahindra Primus Limited, Kotak Mahindra Bank Ltd, GE Country wide consumer financial services, Citicorp Finance (India) Limited, are secured by hypothecation of Vehicles, and personal guarantee of the Managing Director.

4) Pursuant to the adoption of Accounting Standard - 22 'Accounting for Taxes on Income', the Company has recorded the cumulative net deferred tax liability of Rs. 495.53 lakhs as on March 31, 2005. Further, the Company has recognised a deferred tax liability of Rs.53.52 lakhs for the year ended March 31, 2005 as a charge to the Profit and Loss Account

Particulars	Deferred Tax Liability / (Asset) as at 01.04.2004	Current Year Charge / (Credit)	Deferred Tax Liability / (Asset) as at 31.03.2005
Deferred Tax Liabilities			
Difference between book and tax depreciation	459.18	61.19	520.37
(b) Deferred Revenue Expenditure	10.38	(4.22)	6.16
Total (A)	469.56	56.97	526.53
Deferred Tax Assets			
(a) Others	27.54	3.45	30.99
Total (B)	(27.54)	(3.45)	(30.99)
Net Total (A+B)	442.02	53.52	495.54

5) Current Liabilities and Provisions include under other liabilities, statutory dues aggregating to

Rs.50.86 lakhs (31.03.2004 Rs.78.68 lakhs) payable towards Sales tax, Tax Deducted at Source, Tax collected at source, Provident Fund, ESI and Professional Tax that are due.

6) Particulars of Directors Remuneration: (Amount in Lakhs)

	2004-05	2003-04
(a) Salary	25.80	19.20
(b) Commission	0	2.25
(c) Provident Fund	0.19	0.19
(d) Other benefits	2.45	1.86
(e) Directors fees	0.01	0.02
Total	28.45	23.52


Computation of Net Profit under Section 349 of the Companies Act, 1956
(Rs. in Lakhs)

	2004-05	2003-04
Profit as per Profit and Loss Account	783.97	201.68
Add : Directors Remuneration	28.44	23.52
Profit U/S.349	812.41	225.20
Commission @ 1%	-	2.25

7) Annual Capacities (As certified by the Management) (No. of Machines)

	2004-05	2003-04
Installed Capacity	250	250

8) Details of Production, Turnover and Stock of Finished Goods (Machines in Nos.)

Op. Stock	Production	Sales		Closing Stock	
Nos.	Nos.	Nos.	Rs. Lacs	Nos.	Rs.lacs
28	244	248	4619.23	24	559.26

Sales	2004-05		2003-04	
	Qty	Value (Rs. In Lakhs)	Qty	Value (Rs. In Lakhs)
SPM	20	929.50	13	509.03
GPM (Indigenous)	191	3095.07	115	1809.49
GPM (Exports)	37	594.66	13	230.04
Spares		36.55		67.56
Components		2827.48		2054.84
	248	7483.26	141	4670.96

9) Details of Raw Materials & Others Consumed: (Rs. in Lakhs)

	2004-05	2003-04
Raw Material	682.38	242.19
Stores & Components	2972.64	1609.13

Note: The quantitative details of Raw Materials and Stores & Spares are not given as they consist of various types, which are not practicable to give.

10) Value of Imported & Indigenous Raw Material consumed and their percentage of Consumption.
(Rs. in Lakhs)

Particulars	Raw Materials		Stores & Components	
	2004-05	2003-04	2004-05	2003-04
Imported	-	-	667.14	325.65
(% of Total)			(22%)	(20.24%)
Indigenous	682.38	242.19	2305.50	1283.47
(% of Total)	(100%)	(100%)	(78%)	(79.76%)
Total	682.38	242.19	2972.64	1609.12
	(100%)	(100%)	(100%)	(100%)

- 11) Expenditure in Foreign Currency during the financial year.
- On account of travel Rs.11.39 lakhs (On 31.03.2004: Rs.10.85 lakhs)
 - On account of Capital Goods: Rs Nil (On 31.03.2004: Rs126.03 lakhs)
- 12) Earnings in Foreign currency: Rs.594.66 lakhs (Previous year: Rs.230.04 lakhs)
- 13) CIF Value of Imports of Stores, Spares & Components is of Rs.638.81 lakhs (Previous Year- Rs.265.04 lakhs).
- 14) Names of small-scale industrial undertakings to whom the Company owes any sum together with interest outstanding for more than 30days are as under:

Alprint Industries, Armatech Associates, Balaji Agricultural Agencies, Bhagya Tools Sharpeners, Diamel Systems, Fazal Industries, S.K. Engineers, YSL Electronics, Bharathi CNC Technologies, Choudary Metal Industries, Chandrika Industrials, Essar Tooling Systems, J.V. Engineering Corporation, Metal Treat, Nanda Fabricators, Narven Industries, Pastas Industries, Rohith Fabricators, Siva Sai Industries, Sri Balaji Industries, Sri Lakshmi Narasimha Industries, Sri Maithri Engineers, Sri Sai Manikanta Engg Works, Suji Industries, Sudha Metal Finishers, Ushodaya Industries.

15) Finance leases

The Company has outstanding finance leases as at March 31, 2005 on seven motor vehicles. These arrangements were entered for a period of three to four years. The liability payable in finance leases is analysed as follows:

(Rs. in Lakhs)

	2004-05	2003-04
Total minimum lease payments	26.54	8.94
Interest	(2.62)	(0.78)
Present value of minimum lease payments	23.92	8.16

Future minimum lease payments under finance lease are as under:

(Rupees in lakhs)

	Minimum lease payments		Present value of minimum lease payments	
	2004-05	2003-04	2004-05	2003-04
Payable not later than one year	12.266	5.64	10.65	5.46
Payable later than one year and not later than five years	14.28	3.30	13.27	2.70
Total	26.54	8.94	23.92	8.16

16) Earnings per share (EPS)

Basic earnings are calculated by dividing the net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

(Rs. in Lakhs)

		2004-05	2003-04
Profit after tax as per accounts	A	522.48	94.65
Number of shares issued and subscribed *	B	87.77	87.77
Basic EPS (Amount in Rupees)	A/B	5.95	1.08

* For the purpose of arriving the number of shares issued and subscribed for the year 2004-05, weighted average number of shares outstanding as on 31st March 2005, has been considered as per Accounting Standard 20 - Earning per share.



17) Segment Information

The following is the segment information for the year ended 31st March 2005:

(Rs. in Lakhs)

	M/c Div	Com. Div	Un allocable	Total
Revenue				
External sales(including export benefit)	4102.79	1883.49	-	5986.28
Inter-segment sales	-	-	-	-
Total revenue	4102.79	1883.49	-	5986.28
Segment Results	853.74	892.69	-	1746.43
Corporate expenses			(531.56)	(531.56)
Other income	3.56	28.64	5.02	37.22
Interest income	-	-	11.68	11.68
Interest expenses	-			479.80
Profit before taxes				783.96
Taxes on income	-	-		261.48
Net profit	-	-		522.48
Segment Assets	5385.06	2187.02	741.90	8313.98
Segment liabilities	410.81	176.92	5507.77	6095.50
Capital expenditure	49.16	59.75	45.51	154.42
Segment depreciation	145.90	149.97	33.50	329.37
Non-cash expenses other than depreciation	-	-	10.64	10.64

The primary reporting of the company has been performed on the basis of business segment. The company is organized into two business segments ie Machines division and Components division. Segments have been identified and reported based on the nature of the products, risks and returns, the organization structure and the internal financial reporting systems.

Secondary segment reporting is performed on the basis of geographical location of customers. The operations of the company are largely confined to India, with exports contributing to approximately 9.93% of its annual net sales. The management views the Indian market and export market as distinct geographical segments.

Sales by market - The following are the distribution of the company's sales by geographical market:

(Amount in Lakhs)

	2004-05
India	5391.62
Exports(including export benefits)	594.66
Total	5986.28



Assets and additions to fixed assets by geographical area - The following is the carrying amount of segment assets and additions to fixed assets by geographical area in which the assets are located:

(Rs. in Lakhs)

	Carrying amount of segment assets	Additions to fixed assets
India	8221.40	154.43
Outside India	92.58	-
Total	8313.98	154.43

Carrying amount of segment assets outside India represents export receivables.

Segment revenue and results

The expenses that are not directly attributable to the business segments are shown as unallocated corporate costs.

Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of debtors, inventories, advances and fixed assets, net of allowances. Assets at the corporate level are not allocable to segments on a reasonable basis and thus the same have not been allocated.

Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities.

Inter segment transfers

There is no inter segment transfers during the year.

18) Related party disclosures

- a) Parties where control exists: M/s M.L.R.Motors Private Limited

Nature of relationship:

Mr. M.Lokeswara Rao- Managing Director: Director in MLR Motors Private Limited

Mr. B.Kishore Babu- Executive Director: Director in MLR Motors Private Limited

- b) Related party relationships where transactions have taken place during the year.

Key management personnel:

M.Lokeswara Rao-	Managing Director
B. Kishore Babu -	Executive Director
K.Krishna Swamy-	Whole Time Director
M.Srinivas -	Son of Managing Director
M.Srikrishna -	Son of Managing Director

- c) **Transactions with related parties during the year:** (Rs. in Lakhs)

Purchases (Job work) - MLR Motors Private Limited	4.53
Rent received- MLR Motors Private Limited	0.96
Advance paid B.Kishore Babu towards purchase of Land	39.25
Remuneration paid to M.Srinivas	6.00
Remuneration paid to M.Srikrishna	6.00

Note: Transactions with other key management personnel represents remuneration paid to these personnel. Details of such remuneration have been disclosed in Note 21.

- d) **Related party balances as on 31.03.2005** (Rs. in Lakhs)

Related party	Other Receivables
MLR Motors Pvt Ltd	1.83
M.Srinivas	3.00
M.Srikrishna	3.00



STATEMENT OF CASH FLOWS

The cash flows of the Company for the five financial years ended on March 31 of 2001 to 2005 and for the period ended October 31, 2005 read with significant accounting policies, notes on accounts are set out below

Rs. In lakhs

Particulars	Period ended October 31, 2005	Year ended March 31				
		2005	2004	2003	2002	2001
Cash flow from operating activities						
Net Profit before tax	391.26	783.97	201.67	212.82	101.30	31.71
Adjustment for						
Depreciation	194.58	329.37	249.12	243.94	244.94	184.77
Interest expense	316.54	505.68	506.19	477.52	394.02	295.96
Profit on sale of fixed assets	-	(0.22)	(0.18)	-	-	-
Interest income	(15.37)	(11.68)	(4.56)	(5.42)	(7.98)	(4.13)
Fixed assets written off	4.29	-	-	-	-	-
Deferred revenue expenditure, as restated	6.21	10.64	10.64	10.64	1.49	1.49
Operating profit before working capital changes	897.51	1617.76	962.88	939.50	733.77	509.80
Adjustment for changes in						
Trade and other receivables, as restated	(334.41)	(329.00)	(197.51)	339.30	(610.89)	323.72
Inventory, as restated	(103.31)	(955.05)	(64.56)	(147.31)	(40.93)	(277.62)
Trade and other payables, as restated	(86.06)	386.17	156.39	(170.02)	41.27	272.51
Cash generated from operations	373.73	719.88	857.20	961.47	123.22	828.41
Direct taxes paid	(139.43)	(78.67)	(42.39)	(40.67)	(69.25)	(10.00)
Net cash generated from operating activities (A)	234.30	641.21	814.81	920.80	53.97	818.41
Cash flow from investing activities						
Purchase of fixed assets and other capital/deferred expenditure	(12.44)	(421.55)	(351.06)	(268.44)	(713.49)	(933.19)
Sale of fixed assets	-	1.25	2.19	-	-	-
Interest received	11.41	10.34	3.80	6.52	8.31	4.96
Net cash used in investing activities (B)	(1.03)	(409.96)	(345.07)	(261.92)	(705.18)	(928.23)
Cash flow from financing activities						
Loans taken	404.23	1437.24	416.12	121.85	1073.22	364.15
Loans repaid	(291.10)	(1023.67)	(197.42)	(171.77)	(174.77)	(85.09)
Redemption of Preference Shares, as restated	-	-	(96.00)	(54.00)	-	-
Proceeds from issue of shares and share application money	256.50	-	(48.55)	(37.70)	184.94	190.70
Dividend including dividend tax paid	(150.13)	(19.64)	(103.88)	(43.95)	(12.26)	(63.66)
Interest paid	(334.96)	(605.95)	(439.80)	(468.55)	(400.80)	(299.22)
Net cash used in financing activities (C)	(115.46)	(212.02)	(469.53)	(654.12)	670.33	106.88
Net increase/(decrease) in cash and cash equivalents (A+B+C)	117.81	19.23	0.21	4.76	19.12	(2.94)
Opening balance of cash and cash equivalents	136.30	117.07	116.86	112.10	92.98	95.92
Closing balance of cash and cash equivalents	254.11	136.30	117.07	116.86	112.10	92.98
Cash and cash equivalents include restricted cash balances in the form of margin money deposits of	252.50	133.08	113.57	91.35	89.79	90.64



Annexure VI

SUMMARY ACCOUNTING RATIOS

Amount in Rupees

Particulars	Period ended October 31, 2005	Year ended March 31				
		2005	2004	2003	2002	2001
Basic EPS	4.32	6.47	0.46	1.13	(0.00)	0.23
Cash EPS	6.61	10.34	3.42	4.03	2.86	2.57
Return on Net Worth (%) *annualised	26.94	27.90	2.51	5.89	(0.01)	1.13
Net Asset value per share	27.49	23.17	18.41	19.23	19.87	19.99
Weighted average number of equity shares	8,777,400	8,777,400	8,777,400	8,777,400	8,617,688	7,955,356

The ratios have been computed as below:

Earnings per share

Net Profit after adjustments attributable to equity shareholders divided by weighted average number of equity shares outstanding at the end of the period/year

Cash earning per share represents Net Profit after adjustments plus non cash charges divided by the weighted average number of equity shares as at the end of the period/year

Return on Net worth

Net Profit after adjustments as restated divided by equity share holders' funds at the end of the period/year.

Net Asset Value per share

Net worth at the end of the period/year divided by the weighted average number of equity shares at the end of the period/year.

Annexure VII

PRINCIPAL TERMS OF SECURED LOANS

Rs. in lakhs

Sl. No.	Name of the lender	Facility	Sanctioned Amount	Balance as on October 31, 2005	Balance as on March 31, 2005	Rate of Interest	Repayment Schedule	Prepayment Clause
1)	Industrial Development Bank of India Limited (a)	Term loan	1686.94	492.94	675.94	11%	As intimated by IDBI from time to time (At present Rs.61 lakhs per quarter till January 2008)	Prepayment is subject to prior approval of IDBI & conditions as may be stipulated by IDBI including payment of premium.
2)	State Bank of Hyderabad (b)	Term Loan	750.00	522.00	595.21	1% over the SBH PTLR	19 quarterly instalments of Rs.38 lakhs each and last instalment of Rs.28 lakhs upto April 2009	Prepayment penalty of 1% of the loan amount outstanding for the unexpired period.
3)	State Bank of Hyderabad (c)	Term Loan	250.00	110.00	158.85	SBH PTLR	36 monthly instalments of Rs.7 lakhs each upto State December 2006	Prepayment penalty of 1% of the loan amount outstanding for the unexpired period.
4)	State Bank of Hyderabad (d)	Term Loan	250.00	250.00	-	9%	6 half yearly instalments of Rs.41.67 lakhs each upto June 2008	No specific clause



Rs. in lakhs

Sl. No.	Name of the lender	Facility	Sanctioned Amount	Balance as on October 31, 2005	Balance as on March 31, 2005	Rate of Interest	Repayment Schedule	Prepayment Clause
5)	State Bank of Indore (e)	Term Loan	225.00	121.82	134.89	9%	15 quarterly instalments of Rs.14.10 lakhs each and the balance in the 16th instalment upto December 2008	No specific clause
6)	Punjab National Bank (f)	Car Loan	21.00	2.80	6.37	13.50%	48 EMI of Rs.56,100 upto March 2006	No specific clause
7)	Consortium of banks with State Bank of Hyderabad (40%) as lead bank and State Bank of Indore (35%) and Punjab National Bank (25%) as the members of consortium (g)	Various facilities like Cash credit, WCDL, OD, PC cum FUBD	Fund based limit of Rs.2000 lakhs	2327.97	2147.93	As negotiated from time to time	As per nature of facility	
8)	Finance Leases from various finance companies	Term loan		17.92	23.92			
9)	Interest accrued and due			-	2.54			
				3845.45	3745.65			

Secured by the whole of the moveable properties of the Company including its moveable plant and machinery, machinery spares, tools and accessories and other moveables, both present and future (save and except book debts) howsoever and wheresoever in the possession of the Company. Further secured by mortgage by way of deposit of title deeds by constructive delivery of the Company's immovable properties

Secured by first charge on the fixed assets of the Company ranking paripassu with member bankers; and second charge by way of hypothecation and/or pledge of entire goods, moveables and other assets present and future including documents of title to the present and future including receivables by way of cash assistance and/or cash incentives, claims including claims by way of refund of customs and excise duties, bills, invoices, insurance policies, guarantees, engagements, securities, investments and rights, uncalled capital and all machinery present and future of such form satisfactory to the Bank

Secured by exclusive charge over the unencumbered fixed assets of the expansion programme and second charge over the current assets of the Company. Further secured by equitable mortgage in respect of one of the immovable properties belonging to the Company

Secured by paripassu first charge on fixed assets of the Company; paripassu second charge on current assets of the Company; personal guarantee of the promoters; and extension of charge on equity shares held by the promoters in the Company

Secured by first charge on the fixed assets of the Company ranking paripassu with other term lenders; second paripassu charge over the current assets of the Company with other term lenders. Further secured by extension of charge over factory land and building

Secured by hypothecation of car.

Secured by first paripassu charge over existing and future current assets of the Company assets present and future; equitable mortgage of properties belonging to the Company and the promoters on pari passu basis; pari passu second charge on the fixed assets of the Company; and personal guarantee of the promoters.



STATEMENT OF UNSECURED LOANS

Rs. in lakhs

Borrowed from	As on October 31, 2005	As on March 31, 2005	Terms	Remarks
From Promoters/Group Companies and Associate Companies	-	-	-	-
Mahindra & Mahindra Limited	-	40.54	The loan will be recovered by deduction of Rs.10 lakhs each month from the amount due against supplies. Interest at 18% p.a. (subsequently reduced to 12% p.a.) will also be deducted on diminishing balance.	The trade advance was obtained for setting up a machining facility for tractor components.
Mahindra & Mahindra Limited	59.30	104.22	To be repaid in 24 equal monthly instalments carrying a rate of interest of 9%	Loan was taken for enhancement of production capacity of NEF line
Life Insurance Corporation of India	96.26	-	Loan sanctioned against Key Man Insurance Policy carrying a rate of interest of 9.5%	Obtained for working capital purpose
TOTAL	155.56	144.76		

Annexure VIII

STATEMENT OF AGE WISE ANALYSIS OF RECEIVABLES

Rs. in lakhs

Particulars	As at October 31, 2005	As at March 31				
		2005	2004	2003	2002	2001
Sundry Debtors						
(Unsecured)						
a) Outstanding for more than six months						
Considered good						
from related parties	22.35	32.12	32.11	107.42	78.05	-
from Others	166.55	170.18	68.19	66.16	126.95	122.42
Considered Doubtful	39.75	39.75	67.57	52.38	37.79	22.88
	228.65	242.05	167.87	225.96	242.79	145.30
Less: Provision for doubtful debts	39.75	39.75	67.57	52.38	37.79	22.88
	188.90	202.30	100.30	173.58	205.00	122.42
b) Other Debts - Considered good	1748.93	1268.40	948.13	792.92	1012.48	685.85
TOTAL	1937.83	1470.70	1048.43	966.50	1217.48	808.27



Top ten customers as on October 31, 2005

Name of the customer	Rs. in lakhs
Mahindra & Mahindra Limited	692.99
Bharat Forge Limited	278.03
Ashok Leyland Limited	140.17
Everest Kanto Cylinder Limited	107.27
AVM Angilini SRL	68.12
Lakshmi Durga Enterprises	41.09
Hindalco Industries	34.33
Amtek Auto Limited	33.97
Pearlite Liners Private Limited	31.23
True Rings India Private Limited	26.17

None of the above customers is related to the directors or promoters of the company.

Annexure IX

STATEMENT OF LOANS AND ADVANCES

Rs. in lakhs

Particulars	As at October 31, 2005	As at March 31				
		2005	2004	2003	2002	2001
Advances recoverable in cash or in kind or for value to be received	-	-	-	-	-	-
Given to affiliates /group companies /related promoter or director	5.48	23.50	16.31	35.93	1.32	0.19
To others						
For purchases	276.75	146.76	177.04	162.66	174.10	95.82
For expenses	11.35	7.76	25.18	17.94	3.00	3.42
Others	31.31	91.84	125.85	147.99	269.83	161.68
Prepaid expenses	4.50	8.15	5.19	3.90	11.47	9.66
Deposits	41.31	41.30	25.60	36.63	31.91	27.87
Claims receivable	156.56	156.56	156.56	-	-	-
Interest accrued but not received	7.36	3.40	2.06	1.30	2.40	2.74
Advance tax (net of provision)	-	-	29.95	3.57	57.71	-
TOTAL	534.62	479.27	563.74	409.92	551.74	301.38
Of the above						
Unsecured - Considered good	378.06	322.71	407.18	409.92	551.74	301.38
Unsecured - Considered doubtful	156.56	156.56	156.56	-	-	-
	534.62	479.27	563.74	409.92	551.74	301.38
Less: Provision for doubtful claims	156.56	156.56	156.56	-	-	-
Net Loans and Advances	378.06	322.71	407.18	409.92	551.74	301.38



Loans and advances as on October 31, 2005 include advances to the following top ten suppliers

Name of the supplier	Rs. in lakhs
Indian Machine Tools Manufacturing Association	13.52
Sipra Engineers Private Limited	10.65
Machine Tool Attachments	8.62
Industrial Automation Technologies	7.61
Guru Krupa Electronik Services	5.40
Messung Systems	5.38
Long life tools Mfg Co	4.92
CNC Ball Screws & Bearing Co	4.88
Guindy Technocrats	4.21
Gattamaneni Engineering Works	4.41

None of the above is related to the directors or promoters of the Company

Annexure X

STATEMENT OF CAPITALISATION

Rs. in lakhs

Particulars	Adjusted for Issue (2)		Pre Issue	
	31.10.2005	31.03.2005	31.10.2005	31.03.2005
Borrowing				
Short Term Debt			2327.97	2147.93
Long Term Debt (A)			1673.04	1742.47
Total Debts			4001.01	3890.40
Equity (Share Holders' Funds)				
Equity Share Capital			877.74	877.74
Share Application money			-	-
Share Premium			796.81	796.81
Reserves and Surplus (excluding share premium)			738.33	359.13
Total Equity (B)			2412.88	2033.68
Long term Debt / Equity Share Holders' Funds ((A) / (B))			0.69	0.86

Notes:

- 1) Long term debt is debt with a tenure of more than one year.
- 2) Share Capital and Reserves and Surplus after the issue can be calculated only on the conclusion of the issue process



Annexure XI

STATEMENT OF TAX SHELTER

Rs. in lakhs

Particulars	Period ended October 31, 2005	Year ended March 31				
		2005	2004	2003	2002	2001
Profit before tax as per books of accounts	391.26	783.97	201.67	212.82	101.30	31.71
Normal tax rates	33.66%	36.5925%	35.875%	36.75%	35.70%	39.55%
Minimum alternative tax rates	8.415%	7.84125%	7.6875%	7.875%	7.65%	8.475%
Notional tax at normal rates (A)	131.70	286.87	72.35	78.21	36.16	12.54
Permanent Differences						
Other adjustments - Disallowances	2.00	10.75	20.04	29.64	34.23	36.56
Total (B)	2.00	10.75	20.04	29.64	34.23	36.56
Timing Differences						
Difference between tax depreciation and book depreciation	(36.00)	(260.82)	(178.74)	(118.33)	(192.05)	(226.27)
Other adjustments	174.30	13.58	49.50	(40.43)	(8.12)	1.30
Total (C)	138.30	(247.24)	(129.24)	(158.76)	(200.17)	(224.97)
Net Adjustments (B+C)	140.30	(236.49)	(109.20)	(129.12)	(165.94)	(188.41)
Tax expense / (savings) thereon (D)	47.22	(86.54)	(39.18)	(47.45)	(59.24)	(74.52)
Total taxation (E=A+D)	178.92	200.33	33.17	30.76	-	-
Brought forward losses set off (Depreciation)	-	45.13	92.49	83.71	-	-
Tax effect on the above (F)	-	16.51	33.17	30.76	-	-
Net tax for the year / period (E+F)	178.92	183.82	-	-	-	-
Tax payable as per MAT	32.92	61.47	15.50	16.76	7.75	2.69
Tax expense recognised	199.47	207.97	16.00	94.83	8.00	5.00
Tax as per return of income	-	183.82	15.50	16.76	7.75	2.69

The statement of tax shelter has been prepared based on returns of income filed by the Company with the Income tax authorities, except for the period ended October 31, 2005 and not based on restated profits as per Annexure I. The statement of tax shelter for the period ended October 31, 2005 is based on computation of tax under the Income Tax Act, 1961 since the return of income is filed only for the whole year. The effect of assessment/appellate orders have not been considered for the above statement.

Annexure XII

RELATED PARTY DISCLOSURES

A) List of related parties and relationships

Sl. No.	Related Party	Nature of relationship
1)	M.Lokeswara Rao	Key Management Personnel
2)	B.Kishore Babu	Do
3)	K.Krishna Swamy	Do
4)	MLR Motors Private Limited	Entities owned or significantly influenced by Key Management Personnel
5)	Matrix Equipments Private Limited	Do
6)	M.Srinivas	Relatives of Key Management Personnel
7)	M.Sri Krishna	Do
8)	M.Vijaya Lakshmi	Do



B) Transactions with related parties during the period ended October 31, 2005

Rs. in lakhs

Sl. No.	Particulars	Key Management Personnel	Entities owned or significantly influenced by Key Management Personnel	Relatives of Key Management Personnel	TOTAL
A)	Services received (jobwork)				
	MLR Motors Private Limited	-	1.92	-	1.92
		-	4.53	-	4.53
	Matrix Equipments Private Limited	-	25.03	-	25.03
		-	49.39	-	49.39
B)	Sale of goods				
	Matrix Equipments Private Limited	-	-	-	-
		-	0.01	-	0.01
C)	Rent received				
	MLR Motors Private Limited	-	0.56	-	0.56
		-	0.96	-	0.96
D)	Advances for purchase of assets				
	B.Kishore Babu	-	-	-	-
		39.25	-	-	39.25
	M.Srinivas	-	-	-	-
	M.Sri Krishna	-	-	48.00	48.00
		-	-	-	-
E)	Interest received				
	B.Kishore Babu	5.01	-	-	5.01
		-	-	-	-
F)	Remuneration				
	M.Lokeswara Rao	8.99	-	-	8.99
		15.30	-	-	15.30
	B.Kishore Babu	5.65	-	-	5.65
		9.53	-	-	9.53
	Others	2.30	-	7.00	9.30
		3.60	-	12.00	15.60
G)	Share Application Money				
	M.Lokeswara Rao	25.00	-	-	25.00
		-	-	-	-
	B.Kishore Babu	25.00	-	-	25.00
		-	-	-	-
	M.Srinivas	-	-	25.00	25.00
		-	-	-	-
	M.Sri Krishna	-	-	25.00	25.00
		-	-	-	-
	M. Vijaya Lakshmi	-	-	25.00	25.00
		-	-	-	-
H)	Debit balances outstanding as on October 31, 2005				
	MLR Motors Private Limited	-	0.47	-	0.47
		-	1.83	-	1.83
	Matrix Equipments Private Limited	-	20.04	-	20.04
		-	34.82	-	34.82
	Others	-	-	-	-
		39.25	-	6.00	45.25



(Figures in italics in respect of items A to G represent transactions during the year 2004-05 and in respect of item H represent balance as on March 31, 2005)

Annexure XIII

DETAILS OF CONTINGENT LIABILITIES

Rs. in lakhs

Sl. No.	Particulars	As at October 31, 2005	As at March 31				
			2005	2004	2003	2002	2001
1)	Letter of Credit	628.48	258.60	284.15	247.93	240.53	185.39
2)	Bank Guarantees	264.82	296.16	219.46	155.02	187.64	208.66

Annexure XIV

STATEMENT SHOWING RATES AND AMOUNT OF DIVIDEND

Rs. in lakhs

Sl. No.	Particulars	As at October 31, 2005	As at March 31				
			2005	2004	2003	2002	2001
A)	Equity Share Capital						
1)	Number of Equity Shares of Rs.10 each	8,777,400	8,777,400	8,777,400	8,777,400	8,777,400	8,122,400
2)	Rate of Dividend	-	15.00%	-	5.00%	2.50%	2.00%
3)	Dividend Amount (Rs. in lakhs)	-	131.66	-	43.89	21.54	14.30
4)	Tax on Dividend (Rs. in lakhs)	-	18.47	-	5.62	-	1.60
B)	Optionally Convertible Cumulative Preference Shares						
1)	Number of Preference Shares of Rs.10	-	-	1,500,000	1,500,000	1,500,000	1,500,000
2)	Rate of Dividend	-	-	12.00%	12.00%	12.00%	12.00%
3)	Dividend Amount (Rs. in lakhs)	-	-	14.62	18.00	18.00	18.00
4)	Tax on Dividend (Rs. in lakhs)	-	-	1.91	2.31	1.84	2.02

Preference shares were redeemed during the year 2003-04. Accordingly, dividend was paid till the date of redemption.

Annexure XV

STATEMENT OF OTHER INCOME FOR THE FOLLOWING YEARS/PERIOD

Rs. in lakhs

Particulars	Period ended October 31, 2005	Year ended March 31					Nature of Income	Related or not related to business
		2005	2004	2003	2002	2001		
SOURCES OF INCOME								
Scrap sales	18.50	32.20	22.56	14.61	7.07	0.66	Recurring	Related
Interest	15.37	11.68	4.56	5.42	7.98	4.13	Recurring	Related
Profit on sale of assets	-	0.22	0.18	-	-	-	Non recurring	Related
Foreign exchange gain	1.00	1.52	-	-	-	-	Non recurring	Related
Miscellaneous income	0.64	3.28	8.63	1.61	6.42	1.67	Non recurring	Related
TOTAL	35.51	48.90	35.93	21.64	21.47	6.46		



The classification of income into recurring and non-recurring is based on the current operations and business activity of the Company

Annexure XVI

DETAILS OF RESERVES AND SURPLUS

Rs. in lakhs

Sl. No.	Particulars	As at October 31, 2005	As at March 31				
			2005	2004	2003	2002	2001
1)	Capital Reserve	15.00	15.00	15.00	15.00	15.00	15.00
2)	Securities Premium	796.81	796.81	796.81	796.81	796.81	698.56
3)	General Reserve	181.61	181.62	129.36	127.00	127.00	117.00
4)	Capital Redemption Reserve	150.00	150.00	150.00	54.00	-	-
5)	Profit and Loss Account	391.72	12.51	(352.59)	(278.23)	(253.93)	(202.46)
	TOTAL	1535.14	1155.94	738.58	714.58	684.88	628.10

2. Financial Information of Group Companies

(1) MLR Motors Private Limited

Constitution	:	Private Limited Company
Date of Incorporation	:	August 19, 1998 with the Registration No.01-29977
Board of Directors	:	Mr. M. Lokeswara Rao Mr. B.Kishore Babu Mr. D. Balakrishna Mr. M.Srinivas Mrs. M Kanaka Durga Mrs. B Vijaya Lakshmi
Nature of activities	:	Manufacturing, Assembling, designing, etc., of three wheelers.

Shareholding pattern :

Sl. No.	Name	No. Of Shares held
1	M. Lokeswara Rao	4,50,100
2	B Kishore Babu	1,80,100
3	M Vijaya Lakshmi	4,50,000
4	M Srinivas	2,25,000
5	M Kanaka Durga	2,25,000
6	M Srikrishna	4,50,000
7	M Vasanthalakshmi	4,50,000
8	M Likhita	2,25,000
9	M Siddhartha	2,25,000
10	B Vijaya Lakshmi	1,80,000
11	Others	20,87,400
	Total	51,47,600



Brief Financials

(Rs. in lakhs)

Particulars	31.03.2003	31.03.2004	31.03.2005
Sales & Other Income	Nil	Nil	331.12
PAT	Nil	Nil	(69.00)
Equity Capital	23.82	23.82	514.76
Share Application Money	323.03	452.97	40.38
Reserves & Surplus Excluding Revaluation reserve	Nil	Nil	(69.00)
EPS (Rs.)	Nil	Nil	(1.34)
Book Value / Share (Rs.)	(25.21)	(57.55)	8.63

(2) Matrix Equipments Private Limited

Constitution	:	Private Limited Company
Date of Incorporation	:	January 9, 2002 with the Registration No.01-38334
Board of Directors	:	Mr. Y. Sriram Mr. M. Srikrishna
Nature of activities	:	Manufacturing of Tool Turrets , Tool Changers, Jigs, Fixtures Automobile Components and Job Works.

List of Shareholders:

Sl.No.	Name	Shares held
1	Y. Sriram	236500
2	M. Srikrishna	105000
3	Dr. Y. Satyanarayana	56500
4	T.W. Bhutia	40000
5	M Vijaya Lakshmi	48000
6	M Siddhartha	25000
7	M.Likhita	25000
8	M Kanaka Durga	25000
9	M Srinivas	25000
10	C.Srirekha	100000
11	B Sree Harsha	50000
12	B Shilpa	25000
13	B Vijayalakshmi	25000
14	Y Ammaji	50000
15	Master Abhinav	25000
16	Dr Y Kavitha	100000
17	Y Anurag	25000
	Total	9,86,000

Brief Financials

(Rs. in lakhs)

Particulars	31.03.2003	31.03.2004	31.03.2005
Sales & Other Income	34.83	88.87	93.27
PAT	(8.85)	(5.98)	0.19
Equity Capital	1.00	1.00	98.60
Share Application Money	97.60	97.60	3.82
Reserves & Surplus Excluding Revaluation reserve	(8.85)	(14.83)	(14.65)
EPS (Rs.)	(88.50)	(59.81)	0.02
Book Value / Share (Rs.)	(98.06)	(153.50)	8.40

None of the above companies have become a sick company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1995 or is under winding up.

The sales and purchases between the Companies in the promoter group have not exceeded in the aggregate 10% value of the total sales/purchases of the Company.

Struck off from the Register of Registrar of Companies

None of the Group Companies has been struck off from the Register of the relevant Registrar of Companies.

Disassociation of the Promoters

Promoters have not disassociated from any of the Companies/firms during the preceding three years.

3. Changes in Accounting Policies

For changes in Accounting policies please refer to the Annexure - III of the section "Financial Information" on page no. 74.

4. Management Discussion and Analysis of Financial Condition.

Company Overview

Mr. M Lokeswara Rao, who had a steady job as a shop-floor executive in HMT Ltd. started his proprietary concern to carry out job works for the same company. Soon afterwards, - as a first generation technocrat entrepreneur, he promoted Lokesh Machines Ltd., which had a modest beginning carrying out some machining and conversion operations for the components and machine tools of HMT Ltd. .

Over the past 21 years the company has made a steady progress by constantly upgrading its capabilities and enhancing the range and depth of activities. From handling job works, the company graduated to manufacture of Special Purpose Machines, which was the mainstay of its operations during the first few years. The first few years of the company's existence also was the pre-liberalisation era, with limited scope of growth for machine tool manufacturers in the private sector.

The post liberalization era witnessed the entry of a number of new players in the engineering industry in general and automobile sector in particular. This resulted in an enhanced demand for Special Purpose Machines as well as CNCs. While this meant opening up of opportunities for machine and machine tool manufacturers, there was general tendency among auto majors to import their requirements for Special Purpose Machines from established companies abroad, rather than try out local manufacturers.

In spite of the prevailing atmosphere, the company persisted with its efforts at innovation and product development. The recognition of the technical capabilities of the company received a major boost in the year 1995-96, when the company was able to conclude an agreement with Mahindra & Mahindra Limited for machining of their Cylinder Blocks. The Company was also able to bag orders for Special Purpose Machines from other Auto majors like Escorts, Ashok Leyland, Bajaj Auto etc.

Another feature of the growth of the automobile sector was the increasing tendency of introduction of new models of vehicles by the manufacturers and acceptance of outsourcing as an option for auto majors.. This brought about a greater demand for the more versatile CNC machines. In tune with the prevailing changes, the company also started focusing on machining the CNC Machines and General Purpose Machines (GPMs) and auto components.



Significant developments subsequent to the last financial year

In December 2005, the Company declared an interim dividend of 10% which has been paid to the shareholders. Other than this, in the opinion of the Board of Directors of the Company, there are no such significant developments that have taken place from the date of the last financial statements that have an adverse material impact on the financials.

Factors that may affect results of the Operations

● Import of cheap and reconditioned machine tools adversely impacts industry revenues

Cheap and reconditioned machine tools are being imported into India in large volumes. Among the factors favoring these imports are the low cost and easy availability of such machine tools. The present scenario where inadequate indigenous capacities have hindered availability of machine tools, users find it easier to procure from abroad. The low cost import has adversely impacted the industry revenues and continues to be a major concern in the high cost machine tools

● Increasing price sensitivity of the users lead to lower price realization for machine tools

Greater choices and option of imports have impelled the users in demanding lower prices for the machine tools. The factor has been accentuated by the growing number of smaller manufacturers who scout for low cost machine tools due to limited resources. Hence the machine tools manufacturers are faced with price sensitive users, mainly in the low and medium cost products. This price sensitivity has resulted in lower prices and lower revenues for the industry

● Perceived lack of quality leads results in lower price realization for Indian machine tools

The indigenous machine tools suffer from perceived lack of quality. Large number of users are unwilling to pay the same price for indigenous machine tools which are enjoyed by the imported makes. Many users prefer to favor imported machine tools while others settle for indigenous brands at a lower price. The low price points for the indigenous machine tools has resulted in decline of the industry revenues

● The loss of or shutdown of operations at any of its manufacturing facilities may have a material adverse effect on its business, financial condition and results of operations.

● Increase in the Raw Material prices

● Depreciation of the Indian Rupee in relation to US\$, Euro or other currencies.

Discussion on Results of operations

Investors should read the following discussion of the Company's financial condition and results of operations together with the restated audited financial statements and the notes to those statements included in this Red Herring Prospectus. The following discussion is based on the Company's restated financial statements and information available from other sources.

Financial analysis

(Rs. Lakhs)

Period ended on	31.03.02	31.03.03		31.03.04		31.03.05		31.10.05
	Amount	Amount	Increase/ Decrease (%)	Amount	Increase/ Decrease (%)	Amount	Increase/ Decrease (%)	Amount
Income								
Net Sales	2684.94	3632.69	35.30	3717.24	2.33	5986.28	61.04	4018.43
Other Income	21.47	21.64	0.79	35.93	66.03	48.90	36.10	35.51
Increase/Decrease in inventories	19.95	140.76	605.56	54.09	(61.57)	886.61	1539.14	35.43
Total Income	2726.36	3795.09	39.20	3807.26	0.32	6921.79	81.81	4089.37
Expenditure								
Materials consumed	1183.79	1721.92	45.46	1851.32	7.51	3655.02	97.43	2060.62
Stock Cost	345.57	393.54	13.88	417.97	6.21	606.37	45.08	389.00
Other manufacturing expenses	265.94	483.46	81.79	412.01	(14.78)	600.30	45.70	311.36



(Rs. Lakhs)

Period ended on	31.03.02	31.03.03		31.03.04		31.03.05		31.10.05
	Amount	Amount	Increase/ Decrease (%)	Amount	Increase/ Decrease (%)	Amount	Increase/ Decrease (%)	Amount
Administrative, selling & Distribution expenses	189.31	251.25	32.72	384.84	53.17	430.44	11.85	419.80
EBITDA	741.75	944.92	27.40	1194.12	26.36	1629.66	36.47	908.59
Interest	394.02	477.52	21.20	506.19	6.00	505.68	(0.10)	316.54
Depreciation	244.94	243.94	(0.41)	249.12	2.12	329.37	32.21	194.58
Miscellaneous expenditure written off	1.49	10.64	614.09	10.64	—	10.64	—	6.21
Captive Consumption	—	—	—	226.50	100.00	—	(100.00)	—
Net Profit before Tax	101.30	212.82	110.08	201.67	(5.24)	783.97	288.74	391.26
Current Tax and deferred tax	8.00	176.75	2109.37	107.03	(39.45)	261.49	144.31	155.64
Net Profit after Tax and before adjustments	93.30	36.07	(61.33)	94.64	162.38	522.48	452.07	235.62

Comparison for FY 2001-2002 to 2002-2003

Sales and Material consumed

Materials consumed have gone up from Rs.1183.79. lakhs to Rs. 1721.92 lakhs, an increase of 45% over the previous year. There has been a corresponding increase of 35.3% in net sales from Rs.2684.94 lakhs to Rs.3632.69 lakhs, and in inventories from Rs. 19.95 lakhs to Rs. 140.76 lakhs. In absolute terms, the incremental cost in the materials consumed, amounting to Rs. 538.13 lakhs is more than offset by the increase in sales (Rs. 947.75 lakhs) and the increase in the inventory (Rs. 120.81 lakhs)

Administrative, Selling & other expenses

Administrative, Selling and other expenses have gone up from Rs.189.31 lakhs to Rs. 251.25 lakhs, an increase of 33%. This increase can be correlated to increase in sales by about 35%.

Profit before tax

Profit before Tax has increased from Rs. 101.30 lakhs to Rs. 212.82 lakhs, an increase of 110% over the preceding year. The growth in profit before tax is more than proportionate to the growth in the sales, in view of the benefits derived from the cost reduction measures adopted by the company.

Profit after Tax

Profit after Tax has decreased from Rs. 93.3 lakhs to Rs. 36.07 lakhs in the year 2002-03 compared to the preceding financial year, a decrease of 61%. This decrease can be traced to [h1] but not after tax. higher impact of tax liability, occasioned by the adoption of AS 22 and making a provision for deferred tax liability for the first time. [h2]

Financial Expenses

Financial expenses have increased from Rs.394.02 lakhs to Rs.477.52 lakhs, an increase of 21%. The increase is basically on account of differences in amount of interest [h3]

Comparison for FY 2002-2003 to 2003-2004

Sales and Material consumed

Material consumed has gone up from Rs. 1721.92 lakhs to Rs. 1851.32 lakhs, an increase of 8% over the previous year. However, there has been a corresponding increase in net sales from Rs. 3632.69 lakhs to Rs. 3717.24 lakh, which attributes to an increase of 2%. A part of the productive capacity of the company was utilized for producing machines for captive consumption during the year, which accounted for 6.09% of sales. This brought about an apparent slower growth rate in sales.

Administrative & Selling Expenses

Administrative & Selling Expenses has increased from Rs.251.25 lakhs to Rs. 384.84 lakhs, an increase of 53%. The increase is largely on account of expenses incurred in participation in trade fairs and exhibitions amounting to Rs.47.45 lakhs, provision of doubtful debts amounting to Rs.28.08 lakhs, and pre-operative expenses amounting to Rs.43.69 lakhs debited to the profit and loss account. [h4]

Profit after Tax

Profit after Tax has increased from Rs. 36.07 lakhs to Rs. 94.64 lakhs in the year 2003-04 compared to the preceding financial year, an increase of 162%. During the year, there was no need to make any provisions for tax liabilities attributable to prior years - as was done in respect of the previous year for an amount of Rs.78.03 lakhs. This largely explains the rise in the profit after tax.

Financial Expenses

Financial expenses have increased from Rs.477.52 lakhs to Rs.506.19 lakhs, an increase of 6%. This is largely on account of new short-term corporate loan availed from State bank of Hyderabad.

Comparison for FY 2003-2004 to 2004-2005**Sales and Material consumed**

Material consumed has gone up from Rs. 1851.32 lakhs to Rs. 3655.02 lakhs, an increase of 97% over the previous year. There has been a corresponding increase in net sales from Rs. 3717.24 lakhs to Rs.5986.28 lakhs and inventories from Rs. 54.09 lakhs to Rs. 886.61 lakhs. The major thrust given to marketing of CNC Machines and Auto Components, and also exports which increased from Rs.230 lakhs in the previous year to Rs.595 lakhs contributed to the growth in sales.

Administrative & Selling Expenses

Administrative & Selling Expenses has increased from Rs. 384.84 lakhs to Rs. 430.44 lakhs, an increase of 11.85% over the previous year, in line with the increase in sales.

Financial Expenses

Financial expenses have decreased from Rs. 506.19 lakhs to Rs 505.68 lakhs, a negligible decrease over the previous year. Interest coverage has also increased mainly on account of increased earnings and stagnant finance charges. This was mainly because the company was able to achieve significant savings in the interest costs by swapping high cost borrowing with low cost borrowing. The improved performance helped the board to recommend a dividend of 15% for the year.

Profit after Tax

Profit after Tax has increased from Rs.94.64 lakhs to Rs. 522.48 lakhs in the year 2004-05 compared to the preceding financial year, an increase of 452%.

There was no need during this year to effect any write-offs or make any special provisions, unlike the previous years. Hence there was no negative impact on the bottom line due to the conservative accounting policies adopted in the previous year. This, accompanied by an improved performance resulted in a quantum jump of over 452% profits after tax over the previous year.

Comparison for FY 2004-2005 to 2005-2006 (upto 31 October)**Sales and Material consumed**

Material consumed have gone down from Rs. 3655.02 lakhs to Rs. 3532* lakhs, a negligible decrease over the previous year. However, there has been a corresponding increase in net sales from Rs. 5986.28 lakhs to Rs. 6888.70* lakhs, which attributes to an increase of 15%. This is on account of increased efficiency and reduced inventories. The company would like to stretch increased efficiency to the new project.

Administrative & Selling Expenses

Administrative & Selling Expenses has increased from Rs. 430.44 lakhs to Rs. 718.59* lakhs, an increase of 67% over the previous year.

Profit after Tax

Profit after Tax has decreased from Rs. 522.48 lakhs to Rs. 404* lakhs in the year 2005-06 compared to the preceding financial year, a decrease of 23% over the previous year. This is on account of increased administrative and selling expenses and finance



charges.

Financial Expenses

Financial expenses have increased from Rs. 505.68 lakhs to Rs. 542.64*lakhs, an increase of 7.31%

Information required as per clause 6.10.5.5 of SEBI (DIP) Guidelines.

Unusual or infrequent events or transactions

There are no unusual or infrequent events or transactions having significant impact on the operations of the company.

Significant economic changes that materially affected or likely to affect income from continuing operations.

Inability on the part of the Company to pass on any increase in Excise Duty, Customs Duty and Sales Tax to the end users on account of competitive pressures may have adverse impact on the business of the company.

Known trends or uncertainties that have had or are expected to have a material adverse impact on sales, revenue or income from continuing operations.

No known trends and uncertainties are envisaged from continuing operations.

Future changes in relationships between costs and revenues in case of events such as future increase in labour or material cost or prices that will cause material change are known.

There are no such changes in relationship between cost and revenues.

Total turnover of each major industry segment in which the company operated.

The total turnover for the financial year 2004-05 of Machine Tool Division is Rs.4102.79 lakhs and for Components division is Rs.1883.49 lakhs.

Status of any publicly announced new products or business segment.

The Company has not publicly announced any new products or segments.

The extent to which the company's business is seasonal

The Company's business is not seasonal.

Any significant dependence on a single or few suppliers or customers

The revenues of the Company are highly dependent on a limited number of clients. However, the Company has excellent business relations with the existing customers by bagging repetitive orders from them. Hence the Company does not foresee any loss of business because of its dependence on few customers.

Competitive conditions

For details of competitive conditions please refer to Section titled, "Business Overview" starting on page no. 46 of this Red Herring Prospectus.

SECTION VI: LEGAL AND OTHER INFORMATION

1. Outstanding Litigations and Material Developments

Cases filed by the Company

The company has imported a double column Plano milling machine from Germany under EPCG Licence during the year 2001. The equipment was damaged at the Chennai port while unloading. The company had covered the machine under marine insurance policy to the destination at Hyderabad with New India Assurance Company. In spite of the insurance surveyor's report in favour of settlement of the claim the insurance company repudiated the claim, the Company has filed a complaint before the National Consumer Disputes Redressal Commission, New Delhi (OP29 of 2004). The amount claimed by the Company is Rs.2,08,36,791/-. The matter is posted for hearing.

Other than the above

There are no outstanding litigations, suits, criminal or civil prosecutions, potential disputes, labour disputes, bargains and demands, investigations, Central / State Government claims or inquiries, proceedings or tax liabilities, overdues to banks/financial institutions, defaults against banks/ financial institutions, proceedings initiated for economic/civil/ any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (I) of Part I of Schedule XIII of the Companies Act) other than unclaimed liabilities of the Company or its Subsidiary or its Group Companies or its promoters or its directors and no defaults of non-payment of statutory dues against the Company including under the excise, customs, sales tax, income tax and service tax, and no disciplinary action has been taken by SEBI or any stock exchanges against the Company.

2. Contingent liabilities of the Company as of October 31, 2005:

Contingent liabilities of the Company as of 31st March 2005 and 31st October, 2005 as per the Audited Financial Statement are as follows:

	(Rs. In Lakhs)	
	31.10.2005	2004-05
a) Letters of Credit	628.48	258.60
b) Bank Guarantees	264.82	296.16

3. Income Tax Liabilities

The Company has filed its income tax returns till the Assessment Year 2005-06. The contingent liability of the Company relating to income tax is Nil as of March 31, 2005 and there are no proceedings pending against the Company by the Income Tax Department and the Company is not disputing any tax demand.

4. Litigations / Disputes involving Securities related offences, including penalties imposed by SEBI or any other securities market regulator in India or abroad

NIL

5. Litigations involving statutory or other offences, including penalties imposed by any regulatory authority in India or abroad (present or past)

NIL

6. Outstanding litigation against the group companies and subsidiary company-

A Writ Petition (No. 5231 of 2004) was filed by a Group Company - MLR Motors Pvt. Ltd. challenging the action of State Government of Andhra Pradesh in not granting the eligibility Certificate for Sales Tax Incentives, applicable to Pipeline Industries, and raising a Demand Note for Rs 11,34,110 on alleged sales tax arrears. This Petition was dismissed by the Andhra Pradesh High Court, relying on the Affidavit filed on behalf of the Government that Eligibility Certificate was cancelled after serving Show Cause Notice, which was not responded to. Subsequently the Government issued a distraing order on the property of the company claiming arrear sales tax dues.

Since the Company replied to the Show Cause Notice within the deadline, the cancellation of the Eligibility Certificate and the issue of the Dstraint Order was challenged by yet another Writ Petition (No. 16564 of 2004). The Andhra Pradesh High Court stayed the operation of the distraint order while granting leave to the Commisioner of Industries to pass a fresh order after considering the reply of the Company t the Show Cause Notice.

7. Litigation in relation to labour laws, and employee related cases: Nil
8. Litigation involving revenue authorities (customs/excise/sales tax/income tax/service tax): Nil
9. Litigation involving customers/suppliers/agents : Nil
10. Litigation in the nature of winding up petitions/ liquidation/ bankruptcy / closure filed by / against the company: Nil
11. Other Litigation:
 - i. Non payment of statutory dues or dues to Banks / Institutions: Nil
 - ii. Overdue interest/ principal as on current date: Nil

There have been no defaults and there are no over dues in respect of bonds, debentures and fixed deposits (placed through public or private placement) and arrears in respect of cumulative preference shares or any other liabilities as on current date.

Further, there are no litigations/disputes/penalties or any proceedings known to be contemplated by government authorities.

No disciplinary action/investigation has been taken by the Securities and Exchange Board of India (SEBI)/ Stock Exchanges against the Company, its Directors, Promoters and their other business ventures (irrespective of the fact whether or not they fall under the purview of Sec 370 (1B) of the Companies Act, 1956.

The Company, promoters, directors or any of the Company's Associates or Group companies or other ventures of the promoters and companies with which the directors of Lokesh Machines Limited are associated as directors or promoters have not been prohibited from accessing the capital markets under any order or direction passed by SEBI and no penalty has been imposed at any time by any of the regulators in India or abroad.

No penalties were ever imposed by SEBI or any other regulatory body in India or abroad. Other than those mentioned above, there is no litigation against Lokesh Machines Limited.

The Company owes Rs.1.00 lac and above for more than 30 days to the following SSI Units as on 31st October 2005.

Name	Amount payable (Rs. Lakhs)
Bharathi CNC Technologies	1.13
Metal Treat	1.35

There are no litigations against any other company whose outcome could have materially adverse effect on the position of Lokesh Machines Limited including disputed tax liabilities, prosecution under any enactment in respect of Schedule XIII to the Companies Act, 1956 (1 of 1956) etc.

Litigation against Promoters:

There are no pending litigations in which the promoters are involved. Further, no defaults were made to the financial institutions/ banks, non-payment of statutory dues and dues towards instrument holders like debenture holders, fixed deposits, and arrears on cumulative preference shares by the promoters and the companies/ firms promoted by the promoters.

Further, there are no cases of pending litigations, defaults, etc. in respect of companies/ firms/ ventures with which the promoters were associated in the past but are no longer associated.

Further, there are no litigations against the promoter involving violation of statutory regulations or alleging criminal offence.

There are no Pending proceedings initiated for economic offences against the promoters, companies and firms promoted by the promoters

There are no pending litigations, defaults, non payment of statutory dues, proceedings initiated for economic offences/ civil offences (including the past cases, if found guilty). Further, no disciplinary action was taken by the SEBI/ stock exchanges against the promoters and their other business ventures (irrespective of the fact whether they are companies under the same management with the issuer company as per section 370 (1B) of the Companies Act, 1956).

Litigation against Directors:

There are no pending litigations against the directors involving violation of statutory regulations or alleging criminal offence.



There are no pending proceedings initiated for economic offences against the directors.

There are no past cases in which penalties were imposed by the concerned authorities on the issuer company or its directors.

There are no pending litigations, defaults, non payment of statutory dues, proceedings initiated for economic offences/ civil offences (including the past cases, if found guilty), any disciplinary action taken by the SEBI / stock exchanges against the issuer company or its Directors.

Litigation against Group Company/ Associate Concerns: Nil

The promoters, their relatives (as per Companies Act, 1956), issuer, group companies, associate companies are not detained as willful defaulters by RBI/ government authorities and there are no violations of securities laws committed by them in the past or pending against them.

Default or rescheduling of loans etc.:

We have been informed that there are no defaults made by the Company and there is no any reschedulement of payment of loans.

Penalties:

There are no penalties levied; show-cause notices issued by the Reserve Bank of India/Income Tax /Pension Authorities/ Sales Tax/Commissioner of Employees Provident Fund/any other regulatory authority on the Company or on its promoters and directors.

Material developments since the last balance sheet

In the opinion of the Board of Directors, there have not arisen, since the date of the last financial statements disclosed in this Red Herring Prospectus, any circumstance that materially or adversely affect or are likely to affect the profitability of the Company and its subsidiaries taken as a whole or the value of their consolidated assets or their ability to pay their material liabilities within the next twelve months other than declaration of 10% interim dividend by the Company in December 2005.

2. Government Approvals/Licensing Arrangements

Investment Approvals

There is no investment approval required for the Company from FIPB/RBI or any other authority.

Government approvals

In view of the indicative list of approvals mentioned below, the Company is permitted to undertake all the present or proposed activities and no further major approvals are required from any Government authority / statutory body to continue these activities. However, the Company may need to take additional approvals time to time that may be required to be taken in the normal course of the business.

Technical Approvals

There are no technical approvals required for the Company from any authority.

Approvals for the Business

The Company require various approvals and registrations to carry on its business in India. The approvals and registrations that the Company has received are detailed below:

The Company has received the following licenses / approvals:

- 1 Memorandum and Articles of Association of the Company along with the Certificate of Incorporation no.01-4319 of 1983 dated 17th December 1983 issued by the Registrar of Companies, Andhra Pradesh, Hyderabad.
- 2 The Company has received approval from Secretariat for Industrial Assistance, Ministry of Industry, Government of India vide letter Ref No.1810/SIA/IMO/99 dated 16/09/99 for manufacture of General Purpose Machines like CNC, etc. and manufacture of Parts and Accessories for motor vehicles, and their engines like break gear boxes, axils, wheels, suspension shock absorbers, Internal cumbersion piston engines, etc.,
- 3 The Company has received approval from Secretariat for Industrial Assistance, Ministry of Industry, Government of India vide letter Ref No.1813/SIA/IMO/99 dated 16/09/99 for the manufacture of Special Purpose Machines like Unit Head Way type, Unit Head Shuttle Type, Unit Head Linear and Rotary Indexing, Unit Head Transfer lines for metal cut and manufacture of Machine tools, their parts and accessories, like CNC, Milling and Boring Machines.
- 4 The Company has received approval from Secretariat for Industrial Assistance, Ministry of Industry, Government of India vide letter Ref No.1815/SIA/IMO/99 dated 16/09/99 for the manufacture of Vertical Machining Centres and Automatic Capstans and Turrets and Lathes.



- 5 The Company has received approval from Secretariat for Industrial Assistance, Ministry of Industry, Government of India vide letter Ref No.1817/SIA/IMO/99 dated 16/09/99 for the manufacture of Boring, Broaching, Drilling, Land threading machines, etc.
- 6 PAN number of Lokesh Machines Limited. is AAACL4244L. Tax Deduction Account No. is HYDL00057B.
- 7 The Company has the following Sales Tax Registrations :

Sl. No.	Certificate No.	Date	Unit
1	APGST No.HYR/14/2/1208/1984-1985 Valid from 02/12/1984	December 24, 2004	Balanagar
2	CST No.HYR/14/2/1182/1984-85 Valid from 09/12/1984	December 28, 2004	Balanagar
3	VAT(TIN) No.28500194792 1-04-2003	March 19, 2003	Balanagar

- 8 Certificate of Importer - Exporter Code IEC number 0988007941 dated 5/9/1988.
- 9 The Company is duly registered under the Customs Act and Customs No.(BIN) is **AAACL4244LFT001**
- 10 The Company has obtained Licence from Central Excise Department vide License No. **AAACL4244LXM001** for the unit situated at B-25, EEIE, Stage II, Balangar, Hyderabad-500 037, for CMC Lathes for removing Metal and Machining Centers (Vertical & Horizontal Machining Centers, Machine other Lathes), Parts for Nuclear Reactors, Parts and Accessories for machine and Machine tools, Parts & Accessories of Motor vehicles Waste & Scrap of iron & Steel.
- 11 The Company has obtained Licence from Central Excise Department vide Licence No. **AAACL4244LXM002** for the unit situated at B-36, EEIE, Stage II, Balangar, Hyderabad-500 037, for CMC Lathes for removing Metal and Machining Centers (Vertical & Horizontal Machining Centers, Machine other Lathes), Parts for Nuclear Reactors, Parts and Accessories for machine and Machine tools, Parts & Accessories of Motor vehicles Waste & Scrap of iron & Steel.
- 12 The Company has obtained Licence from Central Excise Department vide Licence No. **AAACL4244LXM003** for the unit situated at Bonthapally Village, Jinnaram Mandal, Medak District, for CMC Lathes for removing Metal and Machining Centers (Vertical & Horizontal Machining Centers, Machine other Lathes), Parts for Nuclear Reactors, Parts and Accessories for machine and Machine tools, Parts & Accessories of Motor vehicles Waste & Scrap of iron & Steel.
- 13 The Company has obtained Licence from Central Excise Department vide Licence No. **AAACL4244LXM004** for the unit situated at Shahziguda, Ravallakollu Village, Medchal Mandal, Ranga Reddy District, for CMC Lathes for removing Metal and Machining Centers (Vertical & Horizontal Machining Centers, Machine other Lathes), Parts for Nuclear Reactors, Parts and Accessories for machine and Machine tools, Parts & Accessories of Motor vehicles Waste & Scrap of iron & Steel.
- 14 The Company has obtained Licence from Central Excise Department vide Licence No. **AAACL4244LXM005** for the unit situated at Plot No.41, Balanagar, Hyderabad-500 037, for CMC Lathes for removing Metal and Machining Centers (Vertical & Horizontal Machining Centers, Machine other Lathes), Parts for Nuclear Reactors, Parts and Accessories for machine and Machine tools, Parts & Accessories of Motor vehicles Waste & Scrap of iron & Steel.
15. The Company has obtained licence to work as a factory for the Unit situated at Survey No.16, Ravulakollu Village, Medchal Mandal, R.R.District, from Inspector of Factories vide Licence No.41951 issued on 01/01/2001 and the said licence is valid until it is duly cancelled.
16. The Company has obtained licence to work as a factory for the Unit situated at Bonthapally, Jinnaram Mandal, Medak District, from Inspector of Factories vide Licence No.31899 and the said licence is valid until it is duly cancelled.
17. The Company has obtained licence to work as a factory for the Unit situated at B-36, EEIE, Stage II, Balanagar, Hyderabad-500 037, from Inspector of Factories vide Licence No.36191 and the said licence is valid until it is duly cancelled.
18. The Company has obtained licence to work as a factory for the Unit situated at B-25 & 27, EEIE, Stage II, Balanagar, Hyderabad-500 037, from Inspector of Factories vide Licence No.36214 and the said licence is valid until it is duly cancelled.

It must be specifically understood that in giving the above approvals, the Central / State Government or RBI does not take any responsibility for financial soundness or correctness of the statements made by the Company.



SECTION VII: OTHER REGULATORY AND STATUTORY DISCLOSURES

Authority for the present issue

The Issue has been authorised pursuant to a resolution passed by the Board of Directors of the Company at its meeting held on October 1, 2005 and by a special resolution adopted pursuant to Section 81(1A) of the Companies Act, at the extraordinary general meeting of the shareholders of the Company held on November 15, 2005.

Prohibition by SEBI

The Company, its Directors, its Promoters, the directors and persons in control of Promoters, its subsidiaries, its group companies, associates of its group companies and other companies promoted by the Promoters and companies with which the Company's Directors are associated as directors have not been prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI or any other authorities.

Eligibility for the Issue

In terms of clause 2.2.1 of the SEBI (DIP) Guidelines, 2000 an unlisted company may make an Initial Public Offering (IPO) of Equity Shares or any other securities, which may be converted into or exchanged, with Equity Shares at a later date, only if it meets all the following conditions.

- (a) The company has net tangible assets of at least Rs. 3 crores in each of the preceeding 3 full financial years (of 12 months each), of which not more than 50% is held in monetary assets and is compliant with clause 2.2.1(a) of the SEBI Guidelines.

Provided that if more than 50% of the net tangible assets are held in monetary assets, the company has made firm commitments to deploy such excess monetary assets in its business/project.

- (b) The company has a track record of distributable profits in terms of Section 205 of the Companies Act, 1956, for at least three(3) out of immediately preceeding five (5) years has complied with with Clause 2.2.1(b) of the SEBI Guidelines

Provided further that extraordinary items shall not be considered for calculating distributable profits in terms of Section 205 of the Companies Act, 1956;

- (c) The company has net worth of at least Rs.1 crore in each of the preceeding 3 full years (of 12 months each) and is compliant with Clause 2.2.1(c) of the SEBI Guidelines

- (d) In case the company has changed its name within the last one year, at least 50% of the revenue for the preceeding 1 full year is earned by the company from the activity suggested by the new name; There has been no change in the name of the Company in the last one year. Therefore, Clause 2.2.1(d) of the SEBI Guidelines is not applicable.

- (e) The aggregate of the proposed issue and all previous issues made in the same financial year in terms of size (i.e., offer through offer document + firm allotment + promoters' contribution through the offer document), does not exceed five (5) times its pre-issue networth as per the audited balance sheet of the last financial year and is compliant with Clause 2.2.1(e) of the SEBI Guidelines

The Company satisfies the above eligibility criterion in the following manner:

(Rs. in Lakhs)

Year	31st March 2005	31st March 2004	31st March 2003	31st March 2002	31st March 2001
Net Tangible Assets	8107.28	6704.06	6460.17	6722.16	5533.99
Monetary Assets	136.30	117.07	116.86	112.10	92.98
Distributable Profit	567.48	40.53	99.51	(0.10)	18.01
Networth	2033.68	1616.32	1688.32	1712.62	1590.34

Net Tangible Assets: means the sum of all net assets of the Company excluding 'intangible assets'.

Monetary assets means cash and bank balances

In addition to these, the company shall ensure that the number of allottees getting Equity Shares is not less than one thousand in number.



DISCLAIMER CLAUSE

AS REQUIRED, A COPY OF THE DRAFT RED HERRING PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE DRAFT RED HERRING PROSPECTUS TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED TO MEAN THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE DRAFT RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGER, KARVY INVESTOR SERVICES LIMITED HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES AS FOR THE TIME BEING IN FORCE. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT RED HERRING PROSPECTUS, THE BOOK RUNNING LEAD MANAGER ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE ISSUER COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE THE BOOK RUNNING LEAD MANAGER, KARVY INVESTOR SERVICES LIMITED HAS FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED JANUARY 16, 2006 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992, WHICH READS AS FOLLOWS:

- (i) WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS, ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE DRAFT RED HERRING PROSPECTUS PERTAINING TO THE PUBLIC ISSUE OF M/S. LOKESH MACHINES LIMITED.
- (ii) ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY.

WE CONFIRM THAT:

- (A) THE DRAFT RED HERRING PROSPECTUS FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;
- (B) ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND
- (C) THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELLINFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE;
- (D) BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT RED HERRING PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID; AND
- (E) WHEN UNDERWRITTEN WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS

THE FILING OF THE DRAFT RED HERRING PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 OF THE COMPANIES ACT, 1956 OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY AND/OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE BOOK RUNNING LEAD MANAGER, ANY IRREGULARITIES OR LAPSES IN THE DRAFT RED HERRING PROSPECTUS.”

THE BOOK RUNNING LEAD MANAGERS AND THE COMPANY ACCEPT NO RESPONSIBILITY FOR STATEMENTS MADE OTHERWISE THAN IN THE RED HERRING PROSPECTUS OR IN THE ADVERTISEMENT OR ANY OTHER MATERIAL ISSUED BY OR AT OUR INSTANCE AND ANYONE PLACING RELIANCE ON ANY OTHER SOURCE OF INFORMATION WOULD BE DOING SO AT HIS OWN RISK.



WE CERTIFY THAT WRITTEN CONSENT FROM PROMOTERS HAS BEEN OBTAINED FOR INCLUSION OF THEIR SECURITIES AS PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN AND THE SECURITIES PROPOSED TO FORM PART OF THE PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN, WILL NOT BE DISPOSED/SOLD/TRANSFERRED BY THE PROMOTERS DURING THE PERIOD STARTING FROM THE DATE OF FILING THE DRAFT RED HERRING PROSPECTUS WITH SEBI TILL THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THE DRAFT RED HERRING PROSPECTUS.

ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF FILING OF THE RED HERRING PROSPECTUS WITH THE REGISTRAR OF COMPANIES, ANDHRA PRADESH AT SULTAN BAZAR, KOTI, HYDERABAD, IN TERMS OF SECTION 56, SECTION 60 AND SECTION 60B OF THE COMPANIES ACT.

GENERAL DISCLAIMER

The Company, its Directors and the BRLMs accept no responsibility for statements made otherwise than in this Red Herring Prospectus or in the advertisements or any other material issued by or at the instance of Company or its Directors or BRLMs and anyone placing reliance on any other source of information, including the Company's web site, www.lokeshmachines.com would be doing so at his or her own risk.

The BRLMs accept no responsibility, save to the limited extent as provided in the Memorandum of Understanding entered into between the BRLMs and the Company and the Underwriting Agreement to be entered into between the Underwriters and the Company.

All information shall be made available by us, the BRLMs to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever including at road show presentations, in research or sales reports, at bidding centers or elsewhere.

Further, Lead Manager and Issuer undertake to update the Red Herring Prospectus and keep the public informed of any material changes till the listing and trading commencement.

Disclaimer in Respect of Jurisdiction

This Issue is being made in India to persons resident in India including Indian nationals resident in India who are not minors, Hindu Undivided Families (HUFs), companies, corporate bodies and societies registered under the applicable laws in India and authorized to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), Trusts registered under the Societies Registration Act, 1860, as amended from time to time, or any other trust law and who are authorized under their constitution to hold and invest in shares, permitted insurance companies and pension funds and to non-residents including NRIs and FIIs. This Red Herring Prospectus does not, however, constitute an offer to sell or an invitation to subscribe to Equity Shares offered hereby in any other jurisdiction to any person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any person into whose possession this Red Herring Prospectus comes is required to inform himself or herself about, and to observe, any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of appropriate court(s) in Hyderabad, Andhra Pradesh, India only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Red Herring Prospectus has been submitted to the SEBI. Accordingly, the Equity Shares represented thereby may not be offered or sold, directly or indirectly, and this Red Herring Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Red Herring Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

The Equity Shares have not been and will not be registered under the US Securities Act of 1933 ("the Securities Act") or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, "U.S. persons" (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares are only being offered and sold (i) in the United States to "qualified institutional buyers", as defined in Rule 144A of the Securities Act in reliance on Rule 144A under the Securities Act, and (ii) outside the United States to certain Persons in offshore transactions in compliance with Regulation S under the Securities Act and the applicable laws of the jurisdictions where those offers and sales occur.



Disclaimer Clause of BSE (Designated Stock Exchange)

As required, a copy of the Draft Red Herring Prospectus has been submitted to the BSE. The Bombay Stock Exchange Limited ("the Exchange") has given vide its letter No. List/Smg/sm/2006 dated February 10, 2006 permission to this Company to use the Exchange's name in this Offer Document as one of the Stock Exchange on which the Company's securities are proposed to be listed. The Exchange has scrutinized this Offer Document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner:

- Warrant, certify or endorse the correctness or completeness of any of the contents of this Offer Document; or
- Warrant that this Company's securities will be listed or will continue to be listed on the Exchange; or
- Take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this company;

And it should not for any reason be deemed or construed that this Offer Document has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

Disclaimer Clause of the NSE

As required, a copy of the Draft Red Herring Prospectus has been submitted to the National Stock Exchange of India Limited (NSE). NSE ("the Exchange") has given vide its letter No. NSE/LIST/20553-B dated February 24, 2006 permission to this Company to use the Exchange's name in this Offer Document as one of the Stock Exchange on which the Company's securities are proposed to be listed. The Exchange has scrutinized this draft Offer Document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Offer Document has been cleared or approved by NSE nor does in any any manner warrant, certify or endorse the correctness or completeness of any of the contents of the draft Offer Document nor does it warrant that the Company's securities will be listed or will continue to be listed on the Exchange or or does it take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this company;

Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

UNDERTAKING FROM PROMOTERS AND DIRECTORS

The Issuer accepts full responsibility for the accuracy for the information given in this Red Herring Prospectus and confirms that to the best of their knowledge and belief, there are no other facts, their omission of which makes any statement in this Red Herring Prospectus misleading and they further confirm that they have made all reasonable inquiries to ascertain such facts. The issuer further declares that the Stock Exchanges to which an application for official quotation is proposed to be made do not take any responsibility for the financial soundness of this issue or for the price at which the equity shares are offered or for the correctness of the statement made or opinions expressed in this Red Herring Prospectus. The promoters/directors declare and confirm that no information/material likely to have a bearing on the decision of the investors in respect of the shares offered in terms of the Red Herring Prospectus has been suppressed, withheld and/or incorporated in the manner that would amount to mis-statement, mis-representation and in the event of its transpiring at any point of time till allotment/refund, as the case may be that any information/material has been suppressed/withheld and/or amounts to a mis-statement/mis-representation, the promoters/directors undertake to refund the entire application monies to all the subscribers within 7 days thereafter without prejudice to the provisions of the Section 63 of the Companies Act, 1956.

Filing

A copy of the Draft Red Herring Prospectus had been filed with SEBI at Corporation Finance Department, Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai 400 012.

A copy of the Red Herring Prospectus, along with the documents required to be filed under Section 60B of the Companies Act, would be delivered for registration to the RoC, Andhra Pradesh at Kendriya Sadan, Sultan Bazar, Koti, Hyderabad 500 195 and a copy of the Prospectus to be filed under Section 60 of the Companies Act would be delivered for registration with RoC.



Listing

Initial Listing Applications have been made to the BSE and NSE for permission to deal in and for an official quotation of the Equity Shares. BSE will be the Designated Stock Exchange.

If the permissions to deal in and for an official quotation of the Equity Shares are not granted by any of the Stock Exchanges mentioned above, the Company will forthwith repay, without interest, all moneys received from the applicants in pursuance of this Red Herring Prospectus. If such money is not repaid within 8 days after the Company become liable to repay it, i.e. from the date of refusal or within 15 days from the Bid/Issue Closing Date, whichever is earlier, then the Company, and every Director of the Company who is an officer in default shall, on and from such expiry of 8 days, be liable to repay the money, with interest at the rate of 15% per annum on application money, as prescribed under Section 73 of the Companies Act.

The Company with the assistance of the BRLM shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges mentioned above are taken within 7 working days of finalization of the Basis of Allotment for the Issue.

Consents

Consents in writing of: (a) the Directors, the Company Secretary and Compliance Officer, the Statutory Auditor, Tax Auditor, Bankers to the Company and Bankers to the Issue; and (b) Book Running Lead Managers to the Issue and Syndicate Members, Escrow Collection Bankers, Registrar to the Issue and Legal Advisors to the Issue, Monitoring Agency to act in their respective capacities, have been obtained and filed along with a copy of the Prospectus with the RoC, as required under Sections 60 and 60B of the Companies Act and such consents have not been withdrawn up to the time of delivery of this Red Herring Prospectus for registration with the RoC.

Deloitte Haskins & Sells, Chartered Accountants has given its written consent to the inclusion of their report in the form and context in which it appears in this Red Herring Prospectus and such consent and report has not been withdrawn up to the time of delivery of this Red Herring Prospectus for registration with the RoC.

R Vridhachalam, Chartered Accountant, has given his written consent to the inclusion of statement of tax benefits accruing to the Company and its members in the form and context in which it appears in this Red Herring Prospectus and has not withdrawn such consent up to the time of delivery of this Red Herring Prospectus for registration with the RoC.

Expert Opinion

The Company has obtained opinion from Mr. R Vridha Chalam, Chartered Accountant with regard to the tax benefits available to various categories of investors. Other than this, the Company has not obtained any expert opinion.

Expenses of the Issue

The expenses of this Issue include, among others, underwriting and management fees, selling commission, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees. All expenses with respect to the Issue would be borne by the Company.

The estimated Issue expenses are as under:

Activity	Expenses (Rs. In Lakhs)	As a % of the issue size	As a % of the total issue expenses
Lead management fees, underwriting commission and selling commission	[•]	[•]	[•]
Advertising and Marketing expenses	[•]	[•]	[•]
Printing and stationery	[•]	[•]	[•]
Others (Registrars fee, legal fee, listing fee, etc.)	[•]	[•]	[•]
Total estimated Issue expenses	[•]	[•]	[•]

Fees Payable to the BRLMs

The total fees payable to the Book Running Lead Managers will be as per the letters of appointment dated October 17, 2005 & January 12, 2006 with Karvy Investor Services Limited and UTI Securities Limited respectively issued by the Company, a copy of which is available for inspection at the registered office of the Company.



Fees Payable to the Registrar to the Issue

The fees payable to the Registrar to the Issue will be as per the letter of appointment dated January 6, 2006, issued by the Company, a copy of which is available for inspection at the registered office of the Company.

Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allotment advice by registered post.

Underwriting commission, brokerage and selling commission on Previous Issues

Since this is the initial public offer of the Company, no sum has been paid or has been payable as commission or brokerage for subscribing to or procuring or agreeing to procure subscription for any of the Equity Shares since its inception.

Previous Rights and Public Issues

The Company has not made any previous rights and public issues except as stated in the section titled

Previous issues of shares otherwise than for cash

The Company has not made any previous issues of shares otherwise than for cash.

Particulars in regard to the Company and other listed Companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956, which made any capital issues during the last three years.

There are no listed companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956 which made any capital issue during the last three years.

Promise v/s performance

The Company has not made any public issue of shares since incorporation. There are no group companies, which have made any public issues.

Outstanding Debentures or Bond Issues or Preference Shares

The Company has no outstanding debentures or bond issues.

Stock Market Data for the Equity Shares

This being an initial public issue of the Company, the Equity Shares of the Company are not listed on any stock exchange.

Mechanism for Redressal of Investor Grievances

The agreement between the Registrar to the Issue and the Company will provide for retention of records with the Registrar to the Issue for a period of at least one year from the last date of despatch of the letters of allotment, demat credit and refund orders to enable the investors to approach the Registrar to the Issue for redressal of their grievances.

All grievances relating to the Issue may be addressed to the Company and the Registrar to the Issue, giving full details such as name, address of the applicant, number of Equity Shares applied for, amount paid on application and the bank branch or collection centre where the application was submitted.

The average time required by the Company or the Registrar to the Issue for the redressal of routine investor grievances will be seven business days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, the Company will seek to redress these complaints as expeditiously as possible.

The Company has formed an Investor Grievance Committee on December 8, 2005 chaired by Mr. Mohan Reddy with Mr. Venkata Rao and Mr. M Srinivas as members. The Company has also appointed Mr.D.Subrahmanya Sarma as the Compliance Officer for this Issue.

Changes in Auditors

The auditors of the Company are appointed (and reappointed) in accordance with provisions of the Companies Act and their remuneration, rights and duties are regulated by Sections 224 to 233 of the Companies Act.

There have been no changes of the auditors in the last three years.

Capitalization of Reserves or Profits

The Company has not capitalized its reserves or profits since inception.

Revaluation of Assets

The Company has not revalued its assets in the last five years.



SECTION VIII- ISSUE INFORMATION

1. Terms of the Issue

Authority for the Issue

The Issue has been authorised pursuant to a resolution passed by the Board of Directors of the Company at its meeting held on October 1, 2005 and by a special resolution adopted pursuant to Section 81(1A) of the Companies Act, at the extraordinary general meeting of the shareholders of the Company held on November 15, 2005.

Ranking of Equity Shares

The Equity Shares being issued shall be subject to the provisions of the Memorandum and Articles and shall rank pari-passu with the existing Equity Shares of the company including rights in respect of dividend. The Allottees in receipt of allotment of Equity Shares under this Issue will be entitled to dividends and other corporate benefits, if any, declared by the Company after the date of allotment.

Mode of payment of dividend

The Company shall dividend to the shareholders as per the provisions of the Companies Act, 1956.

Face Value and Issue Price

Fresh Equity Shares with a face value of Rs. 10 each are being offered as part of the Issue at a total price of Rs. [●] per share. At any given point of time there shall be only one denomination for the Equity Shares.

Compliance with SEBI Guidelines

We shall comply with all disclosure and accounting norms as specified by SEBI from time to time.

Rights of the Equity Shareholder

Subject to applicable laws, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to receive notices, annual reports and to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right of free transferability; and
- Such other rights, as may be available to a shareholder of a listed public company under the Companies Act and the Company's Memorandum and Articles.

For a detailed description of the main provisions of the Articles relating to voting rights, dividend, forfeiture and lien and/or consolidation/splitting, please refer to the section titled "Main Provisions of Articles of Association of the Company" on page no. 150 of this Red Herring Prospectus.

Market Lot and Trading Lot

In terms of Section 68B of the Companies Act, the Equity Shares shall be allotted only in dematerialised form. As per existing SEBI (DIP) Guidelines, the trading of the Equity Shares shall only be in dematerialised form. Since trading of the Equity Shares is in dematerialised form, the tradable lot is one Equity Share. Allotment in this Issue will be only in electronic form in multiples of one Equity Share subject to a minimum allotment of 50 Equity Shares.

Jurisdiction

Exclusive jurisdiction for the purpose of this Issue is with the competent courts/authorities in Hyderabad, Andhra Pradesh, India.

Nomination Facility to Investor

In accordance with Section 109A of the Companies Act, the sole or first Bidder, along with other joint Bidders, may nominate any one person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A person, being a nominee, entitled to the



Equity Shares by reason of the death of the original holder(s), shall in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale of equity share(s) by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Registered Office of the Company or to the Registrar and Transfer Agents of the Company.

In accordance with Section 109B of the Companies Act, any Person who becomes a nominee by virtue of Section 109A of the Companies Act, shall upon the production of such evidence as may be required by the Board, elect either:

- to register himself or herself as the holder of the Equity Shares; or
- to make such transfer of the Equity Shares, as the deceased holder could have made.

Further, the Board may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with within a period of ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Since the allotment of Equity Shares in the Issue will be made only in dematerialised form, there is no need to make a separate nomination with us. Nominations registered with respective depository participant of the applicant would prevail. If the investors require to change their nomination, they are requested to inform their respective depository participant.

Notwithstanding anything stated above, since the Allotment in the Issue will be made only in dematerialised mode, there is no need to make a separate nomination with the Company. Nominations registered with the respective depository participant of the applicant would prevail. If the investors require to change the nomination, they are requested to inform their respective depository participant.

If the Company does not receive the minimum subscription of 90% of the Issue, including devolvment of underwriters within 60 days from the Bid/Issue Closing Date, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days after the Company becomes liable to pay the amount, the Company shall pay interest prescribed under Section 73 of the Companies Act.

Subscription by Eligible Non Residents

There is no reservation for any NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions and such NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions will be treated on the same basis with other categories for the purpose of allocation/allotment.

As per RBI regulations, OCBs cannot participate in the Issue.

Application in Issue

Equity Shares being issued through this Red Herring Prospectus can be applied for in the dematerialized form only.

Minimum subscription

If the Company does not receive the minimum subscription of 90% of the net issue to public including devolvment of underwriters within 60 days from the date of closure of the issue, the company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days after the company becomes liable to pay the amount, the Company shall pay interest as prescribed under Section 73 of the Companies Act, 1956.

If the number of allottees in the proposed issue is less than 1000 allottees, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 15 days after the Company becomes liable to pay the amount, the Company shall pay interest at the rate of 15% per annum for the delayed period.

Withdrawal of the Issue

The Company in consultation with the BRLMs, reserves the right not to proceed with the Issue at anytime including after the Bid Closing Date, without assigning any reason thereof.

Arrangements for disposal of odd lots

The Company's shares will be traded in dematerialized form only and therefore the marketable lot is one share. Therefore there is no possibility of odd lots.



Restriction on transfer and transmission of shares

Nothing contained in the Articles of Association of the Company shall prejudice any power of the Company to refuse to register the transfer of any share.

No fee shall be charged for sub-division and consolidation of share certificates (physical form), debenture Certificates and detachable warrants and for sub-division of letters of allotment and split, consideration, renewal and pucca transfer receipts into denomination corresponding to the market units of trading.

The Equity Shares have not been and will not be registered under the US Securities Act of 1933 (“the Securities Act”) or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, “U.S. persons” (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares are only being offered and sold (i) in the United States to “qualified institutional buyers”, as defined in Rule 144A of the Securities Act in reliance on Rule 144A under the Securities Act, and (ii) outside the United States to certain Persons in offshore transactions in compliance with Regulation S under the Securities Act and the applicable laws of the jurisdictions where those offers and sales occur.

ISSUE STRUCTURE

Public issue of 30,00,000 Equity Shares of face value of Rs.10/- each at a price of Rs. [●] for cash at a premium of Rs. [●] per Equity Shares aggregating Rs. [●] lakhs (hereinafter referred to as the “Issue”), and the issue would constitute 25.47% of the post issue paid up capital of the Company. The Issue is being made through Book Building Process.

Particulars	QIBs	Non-Institutional Bidders	Retail Individual Bidders
Number of Equity Shares*	At least 15,00,000 Equity Shares	Minimum of 4,50,000 Equity Shares or Issue less allocation to QIB Bidders and Retail Individual Bidders.	Minimum of 10,50,000 Equity Shares or Issue less allocation to QIB Bidders and Non-Institutional Bidders.
Percentage of Issue Size available for allotment/allocation	At least 50% of Issue Size being allotted. However, up to 5% of the QIB Portion shall be available for allocation proportionately to Mutual Funds.	Minimum 15% of the Issue Size or Issue Size less allotment of the QIB Portion and allocation to Retail Individual Bidders.	Minimum 35% of Issue Size or Issue Size less allotment of the QIB Portion and allocation to Non Institutional Bidders.
Basis of Allotment/ Allocation if respective category is over-subscribed	Proportionate as follows: (a) Equity Shares shall be allocated on a proportionate basis to Mutual Funds in the Mutual Funds Portion; (b) Equity Shares shall be allotted on a proportionate basis to all QIBs including Mutual Funds receiving allocation as per (a) above.	Proportionate	Proportionate
Minimum Bid	Such number of Equity Shares that the Bid Amount exceeds Rs. 1,00,000 and in multiples of 50 Equity Shares thereafter.	Such number of Equity Shares that the Bid Amount exceeds Rs. 1,00,000 and in multiples of 50 Equity Shares thereafter.	50 Equity Shares and in multiples of 50 Equity Share thereafter.
Maximum Bid	Such number of Equity Shares not exceeding the Issue, subject to applicable limits.	Such number of Equity Shares not exceeding the Issue subject to Applicable limits.	Such number of Equity Shares whereby the Bid Amount does not exceed Rs. 1,00,000.
Mode of Allotment	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.
Trading Lot	One Equity Share	One Equity Share	One Equity Share

Particulars	QIBs	Non-Institutional Bidders	Retail Individual Bidders
Who can Apply **	Public financial institutions, as specified in Section 4A of the Companies Act, Scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, multilateral and bilateral development financial institutions, and State Industrial Development Corporations, permitted insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million in accordance with applicable law.	NRIs, Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, scientific institutions societies and trusts.	Individuals (Including HUFs, NRIs) One Equity Share HUFs, NRIs) applying for Equity Shares such that the Bid Amount does not exceed Rs. 100,000 in value.
Terms of Payment	QIB Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members.	Margin Amount shall be payable at the time of submission of Bid cum Application Form to the Syndicate Members.
Margin Amount	At least 10% of Bid amount	Full Bid Amount on bidding	Full Bid Amount on bidding

* Subject to valid Bids being received at or above the Issue Price and subject to a minimum of 50% of the Issue being allotted to QIBs. The Issue is being made through the 100% Book Building Process wherein at least 50% of the Issue shall be allotted to Qualified Institutional Buyers on a proportionate basis out of which 5% shall be available for allocation on a proportionate basis to Mutual Funds. The remainder shall be available for allotment on a proportionate basis to QIBs and Mutual Funds, subject to valid bids being received from them at or above the Issue Price. Further, not less than 15% of the Issue would be allocated to Non-Institutional Bidders and not less than 35% of the Issue would be allocated to Retail Individual Bidders on a proportionate basis, subject to valid bids being received from them at or above the Issue Price. Under-subscription, if any, in the Non-Institutional category and the Retail Individual category would be met with spill over from any other category at the sole discretion of the Company in consultation with the BRLMs.

** In case the Bid cum Application Form is submitted in joint names, the investors should ensure that the demat account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form.

2. ISSUE PROCEDURE

Book Building Procedure

The Issue is being made through the 100% Book Building Process wherein up to 50% of the Issue to the public shall be available for allocation to QIB Bidders on proportionate basis out of which 5% shall be available for allocation on a proportionate basis to Mutual Funds. The remaining shall be available for allotment on a proportionate basis to QIBs and Mutual Funds, subject to valid bids being received from them at or above the issue price. Further not less than 35% of the Issue to the public shall be available for allocation on a proportionate basis to the Retail Individual Bidders and not less than 15% of the Issue to the public shall be available for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received at or above the Issue Price within price band.

Bidders are required to submit their Bids through the Syndicate. The Company, in consultation with the BRLMs, would have the discretion to allocate to QIBs based on a number of criteria which would typically include but not be limited to the following: prior commitment, investor quality, price, earliness of bid. In case of Non-Institutional Bidders and Retail Individual Bidders, the Company would have a right to reject the Bids only on technical grounds.

Investors should note that allotment to all successful Bidders will only be in the dematerialised form. Bidders will not have the option of getting allotment in physical form. The Equity Shares, on allotment, shall be traded only in the dematerialised segment of the Stock Exchanges.



Illustration of Book Building and Price Discovery Process (Investors may note that this illustration is solely for the purpose of easy understanding and is not specific to the Issue)

Bidders can bid at any price within the price band. For instance, assume a price band of Rs.31 to Rs 38 per share, issue size of 7000 equity shares and receipt of five bids from bidders out of which one bidder has bid for 500 shares at Rs.38 per share while another has bid for 1,500 shares at Rs.37 per share. A graphical representation of the consolidated demand and price would be made available at the bidding centers during the bidding period. The illustrative book as shown below shows the demand for the shares of the company at various prices and is collated from bids from various investors.

<i>Bid Quantity</i>	Bid Price (Rs.)	Cumulative Quantity	Subscription
500	38	500	30.33
1000	37	1500	40.44
2500	35	4000	180.56
3000	33	7000	300.34
4000	31	11000	450.65

The price discovery is a function of demand at various prices. The highest price at which the issuer is able to issue the desired quantum of shares is the price at which the book cuts off i.e. Rs.33 in the above example. The issuer, in consultation with the BRLMs, will finalise the issue price at or below such cut off price i.e., at or below Rs.33. All bids at or above this issue price and cutoff bids are valid bids and are considered for allocation in respective category.

Bid cum Application Form

Bidders shall only use the specified Bid cum Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of this Red Herring Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid cum Application Form and such options shall not be considered as multiple Bids. Upon the allocation of Equity Shares, dispatch of the CAN, and filing of the Prospectus with the RoC, the Bid cum Application Form shall be considered as the application form.

Upon completing and submitting the Bid cum Application Form to a member of the Syndicate, the Bidder is deemed to have authorised the Company to make the necessary changes in this Red Herring Prospectus and the Bid cum Application Form as would be required for filing the Prospectus with the RoC and as would be required by RoC after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed color of the Bid Cum Application Form for various categories, is as follows:

Category	Colour of Bid cum Application Form
Indian public including resident QIBs, Non Institutional Bidders and Retail Individual Bidders	White
NRIs and FIIs	Blue

Who can Bid?

- Indian nationals resident in India who are majors, in single or joint names (not more than three);
- Hindu Undivided Families or HUFs, in the individual name of the Karta. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: "Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the Karta". Bids by HUFs would be considered at par with those from individuals;
- Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in the Equity Shares;
- Indian Mutual Funds registered with SEBI;
- Indian Financial Institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission, as applicable);

- Venture Capital Funds registered with SEBI;
- Foreign Venture Capital Investors registered with SEBI;
- State Industrial Development Corporations;
- Trusts registered under the Societies Registration Act, 1860, as amended, or under any other law relating to Trusts and who are authorised under their constitution to hold and invest in equity shares;
- NRIs and FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws;
- Scientific and/or Industrial Research Organisations authorised to invest in equity shares;
- Insurance Companies registered with Insurance Regulatory and Development Authority;
- Provident Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
- Pension Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
- Multilateral and Bilateral Development Financial Institutions; and
- Pursuant to the existing regulations, OCBs are not eligible to participate in the Issue.

Bidders are advised to ensure that any single bid from them does not exceed the investment limits are maximum number of equity shares that can be held by them under the relevant regulations or statutory guidelines.

Note: BRLMs and Syndicate Members shall not be entitled to subscribe to this issue in any manner except towards fulfilling their underwriting obligation.

Application by Mutual Funds

As per the current regulations, the following restrictions are applicable for investments by mutual funds:

- No mutual fund scheme shall invest more than 10% of its net asset value in the Equity Shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds.
- No mutual fund under all its schemes should own more than 10% of any company's paid-up share capital carrying voting rights. These limits have to be adhered to by the mutual funds for investment in the equity shares.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

Under the SEBI Guidelines 5% of the QIB portion has been specifically reserved for Mutual Funds.

Application by NRIs

Bid cum application forms have been made available for NRIs at the Registered Office of the Company.

NRI applicants may please note that only such applications as are accompanied by payment in free foreign exchange shall be considered for allotment under the NRI category. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for Resident Indians and shall not use the forms meant for reserved category. All instruments accompanying bids shall be payable in Mumbai only.

Application by FIIs

As per the current regulations, the following restrictions are applicable for investments by FIIs:

The issue of Equity Shares to a single FII should not exceed 10% of the post-Issue issued capital (i.e. 10% of 1,17,77,400 Equity Shares of Rs.10/- each) Equity Shares. In respect of an FII investing in the Equity Shares on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital or 5% of the total issued capital in case such sub-account is a foreign corporate or an individual. As of now, the aggregate FII holding in the Company cannot exceed 24% of the total issued capital of the Company. With the approval of the Board of Directors and the shareholders by way of a special resolution, the aggregate FII holding can go up to 100%. However, as on this date, no such resolution has been recommended to the shareholders of the Company for adoption.



Bids by NRI's or FII's on repatriation basis.**Bids and revision to Bids must be made:**

- On the Bid cum Application Form or Revision Form, as applicable, (Blue in colour), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
- In a single or joint names (not more than three).
- Bids by NRIs for a Bid Amount of up to less than Rs. 1,00,000 would be considered under the Retail Individual Bidders Portion for the purposes of allocation and Bids for a Bid Amount of more than or equal to Rs. 1,00,000 would be considered under Non Institutional Bidder Portion for the purposes of allocation; by FIIs or Foreign Venture Capital Fund, Multilateral and Bilateral Development Financial Institutions for a minimum of such number of Equity Shares and in multiples of 50 Equity Shares thereafter so that the Bid Amount exceeds Rs. 1,00,000; For further details, please refer to the sub-section titled "Maximum and Minimum Bid Size" on page no.131 of this Red Herring Prospectus.
- In the names of individuals or in the names of FIIs or in the names of Foreign Venture Capital Fund, Multilateral and Bilateral Development Financial Institutions but not in the names of minors, firms or partnerships, foreign nationals or their nominees or OCB's.

Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and / or commission. In case of Bidders who remit money payable upon submission of the Bid cum Application Form or Revision Form through Indian Rupee drafts purchased abroad, such payments in Indian Rupees will be converted into US Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post/speed post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. The Company will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

As per the current regulations, the following restrictions are applicable for SEBI registered Venture Capital Funds and Foreign Venture Capital Investors:

The SEBI (Venture Capital) Regulations, 1996 and the SEBI (Foreign Venture Capital Investor) Regulations, 2000 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed 25% of the Company's paid-up capital. The aggregate holdings of venture capital funds and foreign venture capital Investors registered with SEBI could, however, be up to 100% of the Company's paid-up equity capital.

The above information is given for the benefits of the Bidders. The Company and the BRLMs are not liable for any amendments or modification or changes if applicable laws or regulations, which may happen after the date of the Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that the number of equity Shares bid for do not exceed the applicable limits under laws or regulations.

Maximum and Minimum Bid Size

- For Retail Individual Bidders:** The Bid must be for a minimum of 50 Equity Shares and in multiples of 50 Equity Share thereafter, so as to ensure that the Bid Amount payable by the Bidder does not exceed Rs.1,00,000. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs.1,00,000. In case the Bid Amount is over Rs. 1,00,000 due to revision of the Bid or revision of the Price Band or on exercise of cut-off option, the Bid would be considered for allocation under the Non Institutional Bidders portion. The cut-off option is an option given only to the Retail Individual Bidders indicating their agreement to Bid and purchase at the final Issue Price as determined at the end of the Book Building Process.
- For Non-Institutional Bidders and QIB Bidders:** The Bid must be for a minimum of such number of Equity Shares such that the Bid Amount exceeds Rs. 1,00,000 and in multiples of 50 Equity Shares thereafter. A Bid cannot be submitted for more than the Issue to the public. However, the maximum Bid by a QIB Bidder should not exceed the investment limits prescribed for them by applicable laws. Under existing SEBI guidelines, a QIB Bidder cannot withdraw its Bid after the Bid Closing Date/Issue Closing Date.

In case of revision in Bids, the Non Institutional Bidders, who are individuals, have to ensure that the Bid Amount is greater than Rs. 1,00,000 for being considered for allocation in the Non Institutional Portion. In case the Bid Amount reduces to Rs. 1,00,000 or less due to a revision in Bids or revision of the Price Band, Bids by Non Institutional Bidders who are eligible for allocation in the Retail Portion would be considered for allocation under the Retail Portion. Non Institutional Bidders and QIB Bidders are not allowed to Bid at 'cut-off'. A QIB Bidder cannot withdraw its Bid after the Bid/Issue Closing Date.



Information for the Bidders

- (a) The Company will file the Red Herring Prospectus with the RoC at least three days before the Bid Opening Date/ Issue Opening Date.
- (b) The members of the Syndicate will circulate copies of the Red Herring Prospectus along with the Bid cum Application Form to potential investors.
- (c) Any investor (who is eligible to invest in the Equity Shares according to the terms of this Red Herring Prospectus and applicable law) who would like to obtain the Red Herring Prospectus and/or the Bid cum Application Form can obtain the same from the Registered Office or from any of the members of the Syndicate.
- (d) The Bids should be submitted on the prescribed Bid cum Application Form only. Bid cum Application Forms should bear the stamp of the members of the Syndicate. Bid cum Application Forms which do not bear the stamp of the members of the Syndicate will be rejected.
- (e) Investors who are interested in subscribing for the Company's Equity Shares should approach the BRLMs or syndicate Members or their authorized agent(s) to register their Bid.

Method and Process of Bidding

- (a) The Company and the BRLMs shall declare the Bid Opening Date/Issue Opening Date, Bid Closing Date/Issue Closing Date and Price Band at the time of filing the Red Herring Prospectus with the RoC and also publish the same in two widely circulated newspapers (one each in English and Hindi) and a regional language newspaper circulated at the place where the registered office of the Company is situated. This advertisement shall be in the format and contain the disclosures specified in Part A of Schedule XX-A of the SEBI Guidelines. The BRLMs and Syndicate Member shall accept Bids from the Bidders during the issue Period in accordance with the terms of the Syndicate Agreement.
- (b) Investors who are interested in subscribing for the Company's Equity Shares should approach any of the members of the Syndicate or their authorised agent(s) to register their Bid.
- (c) The Bidding Period shall be a minimum of at least three working days and not exceed seven working days. In case the price band is revised, the revised price band and Bidding Period will be published in two widely circulated newspapers (one each in English and Hindi) and a regional language newspaper circulated at the place where the registered office of the Company is situated and the Bidding period will be extended for the further period of three days, subject to the total Bidding period not exceeding 10 working days. During the bidding period, the Bidders may approach the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients/ investors who place orders through them and shall have the right to vet the bids.
- (d) Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details see the section titled "Issue Procedure-Bids at Different Price Levels" on page no. 133 of this Red Herring Prospectus) within the Price Band and specify the demand (i.e. the number of Equity Shares Bid for) in each option. The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Issue Price, the maximum number of Equity Shares Bid for by a Bidder at or above the Issue Price will be considered for allocation and the rest of the Bid(s), irrespective of the Bid Price, will become automatically invalid.
- (e) The Bidder cannot bid on another Bid cum Application Form after Bids on one Bid cum Application Form have been submitted to any member of the Syndicate. Submission of a second Bid cum Application Form to either the same or to another member of the Syndicate will be treated as multiple Bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the section titled "Issue Procedure-Build up of the Book and Revision of Bids" on page no.140 of this Red Herring Prospectus.
- (f) The BRLMs and Syndicate Member will enter each Bid option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, ("TRS"), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid cum Application Form.
- (g) During the Bidding Period, Bidders may approach the members of the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients / investors who place orders through them and shall have the right to vet the Bids.



- (h) Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the section titled “Issue Procedure-Terms of Payment and Payment into the Escrow Accounts” on page no. 134 of this Red Herring Prospectus.

Bids at Different Price Levels

1. The Price Band has been fixed at Rs.130/- to Rs. 140/- per Equity Share of Rs. 10 each, Rs. 130/- being the Floor Price and Rs. 140/- being the Cap Price. The Bidders can bid at any price within the Price Band, in multiples of Re. 1 (one).
2. In accordance with SEBI Guidelines, The Company reserves the right to revise the Price Band during the Bidding Period. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.
3. In case of revision in the Price Band, the Issue Period will be extended for three additional days after revision of Price Band subject to a maximum of 10 working days. Any revision in the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by notification to BSE and NSE, by issuing a public notice in two national newspapers (one each in English & Hindi) and a regional newspaper and also by indicating the change on the websites of the BRLMs and at the terminals of the members of the Syndicate.
4. The Company, in consultation with the BRLMs, can finalise the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.
5. The Bidder can bid at any price within the Price Band. The Bidder has to bid for the desired number of Equity Shares at a specific price. Retail Individual Bidders applying for a maximum Bid in any of the bidding options not exceeding Rs.1,00,000 may bid at Cut-off Price. However, bidding at Cut-off Price is prohibited for QIB Bidders and Non-Institutional Bidders and such Bids from QIB Bidders and Non Institutional Bidders shall be rejected.
6. Retail Individual Bidders who bid at the Cut-off Price agree that they shall purchase the Equity Shares at the issue price, as finally determined, which will be a price within the price band. Retail Individual Bidders bidding at Cut-off Price shall deposit the Bid Amount based on the Cap Price in the respective Escrow Accounts. In the event the Bid Amount is higher than the subscription amount payable by the Retail Individual Bidders who Bid at Cut-off Price (i.e. the total number of Equity Shares allocated in the Issue multiplied by the Issue Price), the Retail Individual Bidders, who Bid at Cut off Price, shall receive the refund of the excess amounts from the respective Escrow Accounts/refund account(s).
7. In case of an upward revision in the Price Band announced as above, Retail Individual Bidders, who had bid at Cut-off Price could either (i) revise their Bid or (ii) make additional payment based on the cap of the revised Price Band (such that the total amount i.e. original Bid Amount plus additional payment does not exceed Rs.1,00,000 if the Bidder wants to continue to bid at Cut-off Price), with the Syndicate Member to whom the original Bid was submitted. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs.1,00,000, the Bid will be considered for allocation under the Non-Institutional Portion in terms of this Red Herring Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the cap of the Price Band prior to the revision, the number of Equity Shares Bid for shall be adjusted downwards for the purpose of allotment, such that no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut-off Price.
8. In case of downward revision in the Price Band, announced as above, Retail Individual Bidders, who have bid at Cut-off Price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the respective Escrow Accounts/refund account(s).
9. In the event of any revision in the Price Band, whether upwards or downwards, the minimum application size shall remain 50 Equity Shares irrespective of whether the Bid Amount payable on such minimum application is not in the range of Rs.5,000 to Rs.7,000.

Option to Subscribe

Equity Shares being issued through this Red Herring Prospectus can be applied for in the dematerialized form only. Bidders will not have the option of getting Allotment in physical form. The Equity Shares, on Allotment, shall be traded only in the dematerialized segment of the Stock Exchanges.

Escrow Mechanism

The Company shall open Escrow Accounts with one or more Escrow Collection Bank(s) in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the Bid. Cheques or demand drafts received for the full Bid Amount from Bidders in a certain category would be deposited in the respective Escrow Account. The Escrow Collection Bank(s) will act in terms of this Red Herring Prospectus and the Escrow Agreement. The monies in the Escrow Accounts shall be maintained by the Escrow Collection Bank(s) for and on behalf of the Bidders. The Escrow Collection Bank(s) shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Bank(s) shall transfer the monies from the Escrow Accounts to the Issue Account as per the terms of the Escrow Agreement. Payments of refund to the Bidders shall also be made from the Escrow Accounts/refund account(s) as per the terms of the Escrow Agreement and this Red Herring Prospectus.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between the Company, the members of the Syndicate, the Escrow Collection Bank(s) and the Registrar to the Issue to facilitate collections from the Bidders.

Terms of Payment and Payment into the Escrow Accounts

In case of Non-Institutional Bidder and Retail Individual Bidders, each Bidder shall, with the submission of the Bid cum Application Form draw a cheque or demand draft for the maximum amount of his Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (for details see the section titled “Issue Procedure-Payment Instructions” on page no. 141 of this Red Herring Prospectus) and submit the same to the member of the Syndicate to whom the Bid is being submitted. Bid cum Application Forms accompanied by cash shall not be accepted. The maximum Bid price has to be paid at the time of submission of the Bid cum Application Form based on the highest bidding option of the Bidder.

The members of the Syndicate shall deposit the cheque or demand draft with the Escrow Collection Bank(s), which will hold the monies for the benefit of the Bidders till the Designated Date. On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds equivalent to the size of the Issue from the Escrow Accounts, as per the terms of the Escrow Agreement, into the Issue Account with the Banker(s) to the Issue. The balance amount after transfer to the Issue Account shall be held for the benefit of the Bidders who are entitled to refunds on the Designated Date, and not later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall refund all monies to unsuccessful Bidders and also the excess amount paid on bidding, if any, after adjustment for allotment to the Bidders.

Each category of bidders i.e. QIBs, Non-Institutional Bidders and Retail Individual Bidders would be required to pay their applicable margin amount at the time of submission of the bid cum application form. The margin amount payable by each category of bidders is mentioned under the section titled, “Issue procedure” on page No. 128 of this Red Herring Prospectus. Where the margin amount applicable to the bidder is less than 100% of the bid price, any difference between the amount payable by the bidder for equity shares allocated/allotted at the issue price and the margin amount paid at the time of Bidding, shall be payable by the Bidder not later than the Pay-in-Date which shall be minimum period of 2 days from the date of communication of the allocation list to the Members of the Syndicate by the BRLMs. If the payment is not made favouring the Escrow Account within the time stipulated above, the Bid of the Bidder is liable to be cancelled. However, if the members of the Syndicate do not waive such payment, the full amount of payment has to be made at the time of submission of the bid cum application form.

Where the Bidder has been allocated lesser number of Equity Shares than he or she had Bid for, the excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder within 15 days from the Bid Closing Date/Issue Closing Date, failing which the Company shall pay interest at 15% per annum for any delay beyond the periods as mentioned above.

Electronic Registration of Bids

- (a) The Members of the Syndicate will register the Bids using the on-line facilities of NSE and BSE. There will be at least one on-line connectivity in each city, where a stock exchange is located in India and where Bids are being accepted.
- (b) NSE and BSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the Members of the Syndicate and its authorised agents during the Bidding Period/Issue Period. Members of the Syndicate can also set up facilities for off-line electronic registration of Bids subject to the condition that it will subsequently download the off-line data file into the on-line facilities for book building on an half hourly basis. On the Bid Closing Date/ Issue Closing Date, the Syndicate Member shall upload the Bids till such time as may be permitted by the Stock Exchanges.

- (c) The aggregate demand and price for Bids registered on the electronic facilities of NSE and BSE will be downloaded on an half hourly basis, consolidated and displayed on-line at all bidding centers. A graphical representation of the consolidated demand and price would be made available at the bidding centers and the websites of the Stock Exchanges during the Bidding Period/Issue Period.
- (d) At the time of registering each Bid, the members of the Syndicate shall enter the following details of the investor in the on-line system:
- Name of the investor (Investors should ensure that the name given in the Bid cum Application form is exactly the same as the Name in which the Depository Account is held. In case, the Bid cum Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form).
 - Investor Category - Individual, Corporate, FII, NRI or Mutual Fund, etc.;
 - Numbers of Equity Shares Bid for;
 - Bid price;
 - Bid cum Application Form number;
 - Whether payment is made upon submission of Bid cum Application Form; and
 - Depository Participant identification no. and client identification no. of the demat account of the Bidder.
- (e) A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. **It is the Bidder's responsibility to obtain the TRS from the members of the Syndicate.** The registration of the Bid by the member of the Syndicate does not guarantee that the Equity Shares shall be allocated either by the members of the Syndicate or the Company.
- (f) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.
- (g) In case of QIB Bidders, the members of the Syndicate also have the right to accept the Bid or reject it without assigning any reason. In case of Bids under the Non-Institutional Portion, Bids under the Retail Portion and Bids under Employee Reservation Portion Bids would not be rejected except on the technical grounds listed in this Red Herring Prospectus.
- (h) It is to be distinctly understood that the permission given by NSE and BSE to use their network and software of the Online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by the Company or the BRLMs are cleared or approved by NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of the Company, its Promoter, its management or any scheme or project of the Company.
- (i) It is also to be distinctly understood that the approval given by NSE and BSE should not in any way be deemed or construed that this Red Herring Prospectus has been cleared or approved by the NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the NSE and BSE.

Build Up of the Book and Revision of Bids

- (a) Bids registered by various Bidders through the Members of the Syndicate shall be electronically transmitted to the NSE or BSE mainframe on an on-line basis. Data would be uploaded on a regular basis.
- (b) The Price Band can be revised during the Bidding Period, in which case the Bidding period shall be extended further for a period of three days, subject to the total Bidding Period not exceeding ten working days. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.
- (c) Any revision in the Price Band will be widely disseminated by informing the stock exchanges, by issuing a public notice in two national newspapers (one each in English and Hindi) and one regional newspaper and also indicating the change on the relevant websites and the terminals of the members of the Syndicate.



- (d) The book gets built up at various price levels. This information will be available with the BRLMs on a regular basis.
- (e) During the Bidding Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the Price Band using the printed Revision Form, which is a part of the Bid cum Application Form.
- (f) Revisions can be made in both the desired number of Equity Shares and the Bid price by using the Revision Form. Apart from mentioning the revised options in the Revision Form, the Bidder must also mention the details of all the options in his or her Bid cum Application Form or earlier Revision Form. For example, if a Bidder has Bid for three options in the Bid cum Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being changed, in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the members of the Syndicate.
- (g) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the Bid, the Bidders will have to use the services of the same member of the Syndicate through whom he or she had placed the original Bid. Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.
- (h) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Red Herring Prospectus. In case of QIB Bidders, the members of the Syndicate may at their sole discretion waive the payment requirement at the time of one or more revisions by the QIB Bidders.
- (i) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the members of the Syndicate. **It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.**
- (j) In case of discrepancy of data between NSE or BSE and the members of the Syndicate, the decision of the BRLMs, based on the physical records of Bid cum Application Forms, shall be final and binding on all concerned.

Price Discovery and Allocation

- (a) After the Bid Closing Date/Issue Closing Date, the BRLMs will analyse the demand generated at various price levels and discuss pricing strategy with the company.
- (b) The Company, in consultation with the BRLMs, shall finalise the “Issue Price”, the number of Equity Shares to be Allotted in each portion and the allocation to successful QIB Bidders. The allocation will be decided based inter alia, on the quality of the Bidder, and the size, price and time of the Bid.
- (c) The allocation for QIB Bidders for up to 50% of the Issue (including 5% specifically reserved for Mutual Funds) would be on proportionate basis in consultation with the Designated Stock Exchange subject to valid bids being received at or above the Issue Price, in the manner as described in the Section titled “Basis of Allotment - Allotment to QIB Bidders”. The allocation to Non-Institutional Bidders not less than 15% and Retail Individual Bidders not less than 35% each of the Issue, respectively, would be on proportionate basis, in the manner specified in the SEBI Guidelines, in consultation with Designated Stock Exchange, subject to valid Bids being received at or above the Issue Price.
- (d) Allocation to QIBs, Non Residents, FIIs and NRIs applying on repatriation basis will be subject to the terms and conditions stipulated by RBI while granting permission for allotment of Equity Shares to them.
- (e) Under subscription, if any, in any category, other than QIB category, would be allowed to be met with spill over from any other categories at the discretion in consultation with the BRLMs.
- (f) The BRLMs, in consultation with the Company, shall notify the Members of the Syndicate of the Issue Price and allocations to their respective Bidders, where the full Bid Amount has not been collected from the Bidders.
- (g) The Company reserves the right to cancel the Issue any time after the Bid Opening Date/Issue Opening Date without assigning any reasons whatsoever.
- (h) In terms of SEBI Guidelines, QIB Bidders shall not be allowed to withdraw their Bid after the Bid Closing Date/ Issue Closing Date.
- (i) The allotment details shall be put on the website of the Registrar to the Issue.

Signing of Underwriting Agreement and ROC Filing

- (a) The Company, the BRLMs and the Syndicate Member shall enter into an Underwriting Agreement on finalisation of the Issue Price and allocation(s) to the Bidders.
- (b) After signing the Underwriting Agreement, the Company would update and file the updated Red Herring Prospectus with the RoC, which then would be termed 'Prospectus'. The Prospectus would have details of the Issue Price, Issue size, underwriting arrangements and would be complete in all material respects.

Filing of the prospectus with the ROC

The Company will file a copy of the prospectus with the Registrar of Companies, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad in terms of Section 56, Section 60 and Section 60B of the Companies Act, 1956.

Announcement of Pre-Issue Advertisement

Subject to Section 66 of the Companies Act, 1956, the Company shall after receiving final observations, if any, on this Red Herring Prospectus from SEBI, publish an advertisement, in the form prescribed by the SEBI (DIP) Guidelines in an English National Daily with wide circulation, one Hindi National Newspaper and a regional language Newspaper with wide circulation.

Advertisement regarding Issue Price and Prospectus

The company will issue a statutory advertisement after the filing of the Prospectus with the ROC in two widely circulated newspapers (one each in English and Hindi,) and a regional language newspaper circulated at the place where the registered office of the Company is located. This advertisement, in addition to the information (in the format and contain the disclosures specified in Part A of Schedule XX-A of the SEBI Guidelines), that has to be set out in the statutory advertisement shall indicate the issue price along with a table showing the number of Equity Shares, Any material updates between the date of Red Herring Prospectus and the date of Prospectus will be included in such statutory advertisement.

Issuance of Confirmation of Allocation Note (CAN)

- (a) The BRLMs or Registrar to the Issue shall send to the Members of the Syndicate a list of their Bidders who have been allocated Equity Shares in the Issue.
- (b) The BRLMs or members of the Syndicate would then send the CAN to their Bidders who have been allocated Equity Shares in the Issue. The dispatch of a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares allocated to such Bidder. Those Bidders who have not paid the entire bid amount into the Escrow Accounts at the time of bidding shall pay in full the amount payable into the Escrow Accounts by the Pay-in Period specified in the CAN.
- (c) Bidders who have been allocated Equity Shares and who have already paid into the Escrow Account at the time of bidding shall directly receive the CAN from the Registrar to the Issue subject, however, to realisation of their cheque or demand draft paid into the Escrow Accounts. The dispatch of a CAN shall be a deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for the allotment to such Bidder.

Designated Date and Allotment of Equity Shares

- a) The Company will ensure that the Allotment of Equity Shares is done within 15 days of the Bid Closing Date/Issue Closing Date. After the funds are transferred from the Escrow Accounts to the issue account on the Designated Date, the Company would ensure the credit to the successful Bidders depository account Allotment of the Equity Shares to the allottees within two working days of the date of Allotment.
- b) All allottees will receive credit for the Equity Shares directly in their depository account. Equity Shares will be offered only in the dematerialized form to the allottees. Allottees will have the option to re-materialise the Equity Shares so allotted, if they so desire, as per the provisions of the Companies Act and the Depositories Act.
- c) After the funds are transferred from the Escrow Account to the Public issue account on the Designated Date, the Company would allot the Equity Shares to the allottees. The Company would ensure the allotment of Equity Shares within 15 days of Bid / Issue Closing Date and give instructions to credit to the allottees' within 15 days of the Bid/Issue Closing Date, interest would be paid to the investors at the rate of 15% per annum.
- d) Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be allocated to them pursuant to this issue.



GENERAL INSTRUCTIONS

Do's:

- Check if you are eligible to apply;
- Read all the instructions carefully and complete the Resident Bid cum Application Form (white in colour) or Non-Resident Bid cum Application Form (blue in colour), as the case may be;
- Ensure that the details about Depository Participant and Beneficiary Account are correct as allotment of Equity Shares will be in the dematerialized form only;
- Ensure that the name given in the Bid cum Application form is exactly the same as the Name in which the Depository Account is held. In case, the Bid cum Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form;
- Ensure that the Bids are submitted at the bidding centers only on forms bearing the stamp of a Members of the Syndicate;
- Ensure that you have been given a TRS for all your Bid options;
- Submit revised Bids to the same Member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;
- Ensure that you mention your Permanent Account Number (PAN) allotted under the I.T. Act where the maximum Bid for Equity Shares by a Bidder is for a total value of Rs. 50,000 or more and attach a copy of the PAN Card and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN along with the application for the purpose of verification of the number, with the Bid cum Application Form. In case you do not have a PAN, ensure that you provide a declaration in Form 60 prescribed under the I.T. Act along with the application.; and
- Ensure that the Demographic Details (as defined herein below) are updated, true and correct in all respects.
- Ensure that the Bid Cum Application Form Number is mentioned on the reverse of the cheque/demand draft.

Don'ts:

- Do not Bid for lower than the minimum Bid size;
- Do not Bid/ revise Bid price to less than the lower end of the price band or higher than the higher end of the Price Band;
- Do not Bid on another Bid cum Application Form after you have submitted a Bid to the members of the Syndicate;
- Do not pay the Bid Amount in cash;
- Do not send Bid cum Application Forms by post; instead submit the same to a member of the Syndicate only;
- Do not Bid at Cut-off Price (for QIB Bidders, Non-Institutional Bidders)
- Do not fill up the Bid cum Application Form such that the Equity Shares Bid for exceeds the Issue size and/or investment limit or maximum number of Equity Shares that can be held under the applicable laws or regulations or maximum amount permissible under the applicable Regulations;
- Do not submit Bid accompanied with Stockinvest.
- Do not submit the GIR Number instead of the PAN as the Bid is liable to be rejected on this ground.

INSTRUCTIONS FOR COMPLETING THE BID CUM APPLICATION FORM

Bidders can obtain Bid cum Application Forms and/or Revision Forms from the Members of the Syndicate.

Bids and Revisions of Bids

Bids and revisions of Bids must be:

- Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white colour for Resident Indians and blue colour for NRIs and FIIs and applying on repatriation basis).



- Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid cum Application Forms or Revision Forms are liable to be rejected.
- The Bids from the Retail Individual Bidders must be for a minimum of 50 Equity Shares and in multiples of 50 thereafter subject to a maximum Bid Amount of Rs. 1,00,000.
- For Non-institutional Bidders and QIB Bidders, Bids must be for a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 1,00,000 and in multiples of 50 Equity Shares thereafter. Bids cannot be made for more than the Issue size. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under the applicable laws or regulations.
- In single name or in joint names (not more than three, and in the same order as their Depository Participant details).
- Thumb impressions and signatures other than in the languages specified in the Eighth Schedule of the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

Bidder's Bank Details

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details. **These bank account details would be printed on the refund order, if any, to be sent to Bidders. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant.** Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor the Company shall have any responsibility and undertake any liability for the same.

Bidder's Depository Account Details

IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALISED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID CUM APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID CUM APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders and occupation ("Demographic Details"). Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.

These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ CANs/Allocation Advice and printing of bank particulars on the refund order and the Demographic Details given by Bidders in the Bid cum Application Form would not be used for these purposes by the Registrar.

Hence, Bidders are advised to update their Demographic Details as provided to their Depository Participants.

By signing the Bid cum Application Form, Bidder would have deemed to authorise the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

Refund Orders/Allocation Advice/CANs would be mailed at the address of the Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/allocation advice/CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk and neither the Company nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.

In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected.



Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum and articles of association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, the Company reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason thereof.

In case of Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, the Company reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason thereof.

In case of Bids made by insurance companies registered with the Insurance Regulatory and Development Authority, a certified copy of certificate of registration issued by Insurance Regulatory and Development Authority must be lodged along with the Bid cum Application Form. Failing this, the Company reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason thereof.

In case of Bids made by provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged along with the Bid cum Application Form. Failing this, the Company reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason thereof.

The Company, in its absolute discretion, reserve the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid cum Application Form, subject to such terms and conditions that the Company and the BRLMs may deem fit.

The Company, in its absolute discretion, reserve the right to permit the holder of the power of attorney to request the Registrar that for the purpose of printing particulars on the refund order and mailing of the refund order/CANs/allocation advice, the Demographic Details given on the Bid cum Application Form should be used (and not those obtained from the Depository of the Bidder). In such cases, the Registrar shall use Demographic Details as given in the Bid cum Application Form instead of those obtained from the depositories.

Bids by NRIs, FIIs, Foreign Venture Capital Funds registered with SEBI on a repatriation basis

NRI, FIIs and Foreign Venture Capital funds Bidders to comply with the following:

- Individual NRI bidders can obtain the Bid cum Application Forms from the Registered Office of the Company or Registrar to the Issue or BRLMs whose addresses are printed on the cover page of this Red Herring Prospectus.
- NRI bidders may please note that only such bids as are accompanied by payment in free foreign exchange shall be considered for allotment under the NRI category.
- The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for resident Indians [white in colour].

Bids and revision of Bids must be made:

Bids and revision to Bids must be made:

- On the Bid cum Application Form or the Revision Form, as applicable (blue in color), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
- In a single name or joint names (not more than three).
- By FIIs for a minimum of such number of Equity Shares and in multiples of 50 thereafter that the Bid Amount exceeds Rs.1,00,000. For further details see section titled “Issue Procedure-Maximum and Minimum Bid Size” on page no.131 of this Red Herring Prospectus.
- In the names of individuals, or in the names of FIIs, or in the names of foreign venture capital funds, multilateral and bilateral development financial institutions, but not in the names of minors, firms or partnerships, foreign nationals (including NRIs) or their nominees, foreign venture capital investors.
- Refunds, dividends and other distributions, if any, will be payable in Rupees only and net of bank charges and/or commission. In case of Bidders who remit money through Rupee drafts purchased abroad, such payments in Rupees



will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. The Company will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency. It is to be distinctly understood that there is no reservation for NRIs and FIIs. All NRIs and FIIs will be treated on the same basis with other categories for the purpose of allocation.

The Company does not require approvals from FIPB or RBI for the transfer of Equity Shares in this Issue to eligible NRIs, FIIs, Foreign Venture Capital Investors registered with SEBI and multilateral and bilateral institutions. As per the RBI regulations, OCBs are not permitted to participate in the issue.

There is no reservation for non-residents, NRIs, FIIs and foreign venture capital funds and all non-residents, NRI, FII and foreign venture capital fund applicants will be treated on the same basis with other categories for the purpose of allocation.

Payment Instructions

The Company shall open Escrow Accounts with the Escrow Collection Bank(s) for the collection of the Bid Amounts payable upon submission of the Bid cum Application Form and for amounts payable pursuant to allocation in the Issue.

Each Bidder shall draw a cheque or demand draft for the amount payable on the Bid and/or on allocation as per the following terms:

(a) Payment into Escrow Account

- The Bidders for whom the applicable Margin Amount is equal to 100% shall, with the submission of the Bid cum Application Form draw a payment instrument for the Bid Amount in favour of the Escrow Account and submit the same to the members of the Syndicate.
- In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Issue Price multiplied by the Equity Shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs.
- The payment instruments for payment into the Escrow Account should be drawn in favour of:
 - * In case of QIB Bidders : **“Escrow Account - LML Public Issue - QIB”**
 - * In case of Resident Bidders : **“Escrow Account - LML Public Issue”**
 - * In case of Non Resident Bidders : **“Escrow Account - LML Public Issue - NR”**
- In case of bids by NRIs applying on a repatriation basis, the payments must be made through Rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in the NRE Accounts or the Foreign Currency Non-Resident Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non Resident Ordinary (NRO) Account of the Non Resident Bidder bidding on a repatriation basis. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to the NRE Account or the Foreign Currency Non-Resident Account.

In case of Bids by FIIs, the payment should be made out of funds held in Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to Special Rupee Account.

- Where a Bidder has been allocated a lesser number of Equity Shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Escrow Accounts.
- The monies deposited in the Escrow Account will be held for the benefit of the Bidders till the Designated Date.
- On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Issue Account with the Banker to the Issue.
- On the Designated Date and no later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding, if any, after adjusting for allocation to the Bidders



Payments should be made by cheque, or demand draft drawn on any bank (including a Co-operative bank), which is situated at, and is a member of or sub-member of the bankers' clearing house located at the centre where the Bid cum Application Form is submitted. Outstation cheques/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash/stockinvest/money orders/postal orders will not be accepted.

Payment by Stock Invest

In terms of the Reserve Bank of India Circular No.DBOD No.FSC BC 42/27.47.00/2003-04 dated November 05, 2003, the option to use the Stock Invest instrument in lieu of cheques or bank drafts for payment of bid money has been withdrawn. Hence, payment through Stock Invest would not be accepted in this issue.

Submission of Bid cum Application Form

All Bid cum Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the Members of the Syndicate at the time of submission of the Bid. Each member of the Syndicate may, at its sole discretion, waive the requirement of payment at the time of submission of the Bid cum Application Form and Revision Form provided however that for QIB Bidders the Syndicate Member shall collect the QIB margin and deposit the same in specified Escrow Account.

No separate receipts shall be issued for the money payable on the submission of Bid cum Application Form or Revision Form. However, the collection center of the members of the Syndicate will acknowledge the receipt of the Bid cum Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid cum Application Form for the records of the Bidder.

Other Instructions

Joint Bids in the case of Individuals

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made out in favour of the Bidder whose name appears first in the Bid cum Application Form or Revision Form. All communications will be addressed to the First Bidder and will be dispatched to his or her address.

Multiple Bids

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids will be deemed to be multiple Bids if the sole or First Bidder is one and the same.

The Company reserves the right to reject, in its absolute discretion, all or any multiple Bids in any or all portion.

Permanent Account Number or PAN

Where Bid(s) is/are for Rs. 50,000 or more, the Bidder or in the case of a Bid in joint names, each of the Bidders, should mention his/ her Permanent Account Number (PAN) allotted under the I.T. Act. The copy of the PAN card or PAN allotment letter is required to be submitted with the Bid-cum-Application Form. Applications without this information and documents will be considered incomplete and are liable to be rejected. **It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground.** In case the Sole/First Bidder and Joint Bidder(s) is/are not required to obtain PAN, each of the Bidder(s) shall mention "Not Applicable" and in the event that the sole Bidder and/or the joint Bidder(s) have applied for PAN which has not yet been allotted each of the Bidder(s) should Mention "Applied for" in the Bid cum Application Form. Further, where the Bidder(s) has mentioned "Applied for" or "Not Applicable", the Sole/First Bidder and each of the Joint Bidder(s), as the case may be, would be required to submit Form 60 (Form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), or, Form 61 (form of declaration to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income tax in respect of transactions specified in rule 114B), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a) Ration Card (b) Passport (c) Driving License (d) Identity Card issued by any institution (e) Copy of the electricity bill or telephone bill showing residential address (f) Any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address (g) Any other documentary evidence in support of address given in the declaration. It may be noted that Form 60 and Form 61 have been amended vide a notification issued on December 1, 2004 by the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes. All Bidders are requested to furnish, where applicable, the revised Form 60 or 61, as the case may be.



Unique Identification Number (“UIN”)

Through its circular MAPIN/Cir-13/2005, with effect from July 1, 2005, SEBI has suspended all fresh registrations for obtaining a Unique Identification Number (“UIN”) and the requirement to provide or quote a UIN under the SEBI MAPIN Regulations.

The Company’s right to reject Bids

The Company and BRLMs have a right to reject Bids on technical grounds only. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the Bidder’s address at the Bidder’s risk.

Grounds for Technical Rejections

Bidders are advised to note that Bids are liable to be rejected on among others on the following technical grounds:

- Amount paid does not tally with the amount payable for the highest value of Equity Shares Bid for;
- Age of First Bidder not given;
- In case of partnership firms, shares may be registered in the names of the individual partners and no firm as such, shall be entitled to apply;
- Bids by Persons not competent to contract under the Indian Contract Act, 1872, including minors, insane Persons;
- PAN photocopy/ PAN Communication/ Form 60/Form 61 declaration not given if Bid is for Rs. 50,000 or more;
- Bids for lower number of Equity Shares than specified for that category of investors;
- Bank account details for refund are not given;
- Bids at a price less than lower end of the Price Band;
- Bids at a price more than the higher end of the Price Band;
- Bids at Cut-off Price by Non-Institutional Bidders and QIB Bidders.
- Bids for number of Equity Shares, which are not in multiples of 50;
- Category not ticked;
- Multiple Bids as defined in this Red Herring Prospectus;
- In case of Bid under power of attorney or by limited companies, corporate, trust etc., relevant documents are not submitted;
- Bids accompanied by Stockinvest/money order/postal order/cash;
- Signature of sole and /or joint Bidders missing;
- Bid cum Application Forms does not have the stamp of the BRLMS or the Syndicate Member;
- Bid cum Application Forms does not have Bidder’s depository account details;
- Bid cum Application Forms are not submitted by the Bidders within the time prescribed as per the Bid cum Application Forms, Bid Opening Date/Issue Opening Date advertisement and this Red Herring Prospectus and as per the instructions in this Red Herring Prospectus and the Bid cum Application Forms;
- Bids accompanied by Stock Invest;
- In case no corresponding record is available with the Depositories that matches three parameters namely, names of the Bidders (including the order of names of joint holders), the Depository Participant’s identity (DP ID) and the beneficiary’s identity;
- Bids for amounts greater than the maximum permissible amounts prescribed by the regulations. See the details regarding the same in the section titled “Issue Procedure-Bids at Different Price Levels” at page no. 133 of this Red Herring Prospectus;
- Bids by OCBs; and
- Bids by US Persons other than “qualified institutional buyers” as defined in Rule 144A under the Securities Act.



Basis of Allotment.**A. For Retail Individual Bidders**

- Bids received from the Retail Individual Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allotment to all the successful Retail Individual Bidders will be made at the Issue Price.
- The Issue size less allotment to Non-Institutional Bidders and QIB Bidders shall be available for allotment to Retail Individual Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this portion is less than or equal to 50 Equity Shares at or above the Issue Price, full allotment shall be made to the Retail Individual Bidders to the extent of their demand.
- If the aggregate demand in this category is greater than 10,50,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of 50 Equity Shares and in multiples of one Equity Share thereafter. For the method of proportionate basis of allocation, refer below.

B. For Non-Institutional Bidders

- Bids received from Non-Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allotment to all successful Non-Institutional Bidders will be made at the Issue Price.
- The Issue size less allocation to QIB Bidders and Retail Individual Bidders shall be available for allocation to Non-Institutional Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 4,50,000 Equity Shares at or above the Issue Price, full allotment shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than 4,50,000 Equity Shares at or above the Issue Price, allocation shall be made on a proportionate basis up to a minimum of 50 Equity Shares and in multiples of one Equity Share thereafter. For the method of proportionate basis of allocation refer below.

C. For QIB Bidders

- Bids received from the QIB Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allocation to all the QIB Bidders will be made at the Issue Price.
- The QIB portion shall be available for allotment to QIB Bidders who have Bid in the Issue at a price that is equal to or greater than the Issue Price.
- Allotment shall be undertaken in the following manner:
 - a) In the first instance allocation to Mutual Funds for upto 5% of the QIB portion shall be determined as follows:
 1. In the event that Mutual Fund bids exceed 5% of the QIB portion, allocation to Mutual Funds shall be done on a proportionateproportionate basis for upto 5% of the QIB portion.
 2. In the event that the aggregate demand from Mutual Funds is less than 5% of the QIB portion, then all Mutual Funds shall get full allotment to the extent of valid bids received above the issue price.
 3. Equity Shares remaining unsubscribed, if any, not allocated to Mutual Funds shall be available for allotment to all QIB Bidders as set out in (b) below.
 - b) In the second instance, allocation to all QIBs shall be determined as follows:
 1. In the event that the oversubscription in the QIB portion, all QIB Bidders who have submitted Bids above the issue price be allotted Equity Shares on a proportionate basis for upto 95% of the QIB portion.
 2. Mutual Funds, who have received allocation as per (a) above for less than the number of Equity Shares Bid for by them, are eligible to receive Equity Shares on a proportionate basis alongwith other QIB Bidders.
 3. Under subscription below 5% of the QIB portion, if any, from Mutual Funds would be included for allocation to the remaining QIB Bidders on a proportionateproportionate basis.

Method of proportionate basis of allocation in the QIBs, Retail and Non-Institutional Portions

Bidders will be categorized according to the number of Equity Shares applied for by them.



- (a) The total number of Equity Shares to be allotted to each portion as a whole shall be arrived at on a proportionate basis, being the total number of Equity Shares applied for in that portion (number of Bidders in the portion multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.
- (b) Number of Equity Shares to be allotted to the successful Bidders will be arrived at on a proportionate basis, being the total number of Equity Shares applied for by each Bidder in that portion multiplied by the inverse of the over-subscription ratio.
- (c) If the proportionate allotment to a Bidder is a number that is more than 50 but is not a multiple of one (which is the market lot), the decimal would be rounded off to the higher whole number if that decimal is 0.5 or higher. If that number is lower than 0.5, it would be rounded off to the lower whole number. Allotment to all Bidders in such categories would be arrived at after such rounding off.
- (d) In all Bids where the proportionate allotment is less than 50 Equity Shares per Bidder, the allotment shall be made as follows:
 - Each successful Bidder shall be Allotted a minimum of 50 Equity Shares; and
 - The successful Bidders out of the total Bidders for a portion shall be determined by draw of lots in a manner such that the total number of Equity Shares Allotted in that portion is equal to the number of Equity Shares calculated in accordance with (b) above;
- (e) If the Equity Shares allocated on a proportionate basis to any portion are more than the Equity Shares allotted to the Bidders in that portion, the remaining Equity Shares available for allotment shall be first adjusted against any other portion, where the Equity Shares are not sufficient for proportionate allotment to the successful Bidders in that portion. The balance Equity Shares, if any, remaining after such adjustment will be added to the portion comprising Bidders applying for minimum number of Equity Shares.

The Executive Director /Managing Director of the Designated Stock Exchange along with the Book Running Lead Managers and the Registrars to the issue shall be responsible to ensure that the basis of allotment is finalized in a fair and proper manner in accordance with the SEBI Guidelines.

Procedure and time of schedule for allotment and issue of certificates

The Company reserves, at their absolute and uncontrolled discretion and without assigning any reason thereof, the right to accept or reject any Bid in whole or in part. In case a Bid is rejected in full, the whole of the Bid Amount will be refunded to the Bidder within 15 days of the Bid/Issue Closing Date. In case a Bid is rejected in part, the excess bid amount will be refunded to the Bidder within 15 days of the Bid/Issue Closing Date. The Company will ensure the allotment of the Equity shares within 15 days from the Bid/Issue Closing Date. The Company shall pay interest at the rate of 15% per annum (for any delay beyond the periods as mentioned above), if allotment is not made, refund orders are not dispatched and/or dematerialized credits are not made to investors within two working days from the date of allotment.

Mode of making refunds

The Company shall make refunds to applicants using the following modes:

- a) in case of applicants residing in Ahmedabad, Bangalore, Bhubaneshwar, Kolkata, Chandigarh, Chennai, Gauhati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvanthapuram any of the centres specified by SEBI, the refunds shall be credited to the bank accounts of the applicants through electronic transfer of funds by using electronic clearance service (ECS) Direct Credit, Real Time Gross Settlement or National Electronic Funds Transfer (NEFT), as is for the time being permitted by the Reserve Bank of India.
- b) In case of other applicants - by dispatch of refund orders by registered post, where the value is Rs.1,500/- or more or under certificate of posting in other cases, (subject however to postal rules) and
- c) In case of any category of applicants specified by SEBI - crediting of refunds to the applicants in any other electronic manner permissible under the banking laws for the time being in force which is permitted by SEBI from time to time.

Despatch of refund orders

The Company shall make refunds to applicants in case of oversubscription using the following modes:

- a) in case of applicants residing in any of the centres specified by SEBI, the refund shall be credited to the bank accounts of applicants through electronic transfer of funds by using Electronic Clearing Service (ECS), Direct Credit, Real Time Gross Settlement (RTGS) or National Electronic Funds Transfer (NEFT), as is for the time being permitted by the Reserve Bank of India.



- b) In case of other applicants - by dispatch of refund orders by registered post, where the value is Rs.1,500/- or more or under certificate of posting in other cases, (subject however to postal rules) and
- c) In case of any category of applicants specified by SEBI - crediting of refunds to the applicants in any other electronic manner permissible under the banking laws for the time being in force which is permitted by SEBI from time to time.

Letter of Allotment or Refund Orders

We shall ensure dispatch of allotment advice, refund orders and give benefit to the beneficiary account with Depository Participants and submit the documents pertaining to the allotment to the Stock Exchanges within two working days of finalization of the basis of allotment of Equity Shares. The Company shall dispatch refund orders, if any, of value up to Rs. 1,500/-, by "Under Certificate of Posting", and will dispatch refund orders above Rs. 1,500/-, if any, by registered post only at the sole or First Bidder's sole risk and adequate funds for the purpose shall be made available to the Registrar by the Company.

The Company shall use best efforts to ensure that all steps for completion of the necessary formalities for listing and commencement of trading at the Stock Exchanges where the Equity Shares are proposed to be listed are taken within seven working days of the finalisation of the basis of allotment.

In accordance with the Companies Act, the requirements of the Stock Exchanges and the SEBI DIP Guidelines, the Company further undertake that:

- Allotment of Equity Shares will be made only in dematerialized form within 15 days from the Bid/Issue Closing Date;
- Dispatch of refund orders will be done within 15 days from the Bid/Issue Closing Date;

We shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if allotment is not made, refund orders are not dispatched and/or demat credits are not made to investors within the 15 day time prescribed above as per the guidelines issued by the Government of India, Ministry of Finance pursuant to their letter No.F/8/S/79 dated July 31, 1983, as amended by their letter No.F/14/SE/85 dated September 27, 1985, addressed to the Stock Exchanges and as further modified by SEBI's clarification XXI dated October 27, 1997, with respect to the SEBI DIP Guidelines.

- Complaints received in respect of this Issue shall be attended to by the Company expeditiously and satisfactorily;
- The funds required for dispatch of refund orders or allotment advice by registered post or speed post shall be made available to the Registrar to the Issue by the Company;
- Refund orders or allotment advice to the NRIs or FIIs or multilateral or bilateral development financial institutions, foreign venture capital investors registered with SEBI shall be dispatched within the specified time;
- No further issue of Equity Shares shall be made till the Equity Shares offered through this Prospectus are listed or until the Bid moneys are refunded on account of non-listing, under-subscription, etc.

We will provide adequate funds required for dispatch of refund orders or allotment advice to the Registrar to the Issue.

Refunds will be made by cheques, pay-orders or demand drafts drawn on a bank appointed by us, as an Escrow Collection Bank and payable at par at places where Bids are received. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.

Equity Shares in Dematerialised Form with NSDL or CDSL

The allotment of Equity Shares in this Issue shall be only in a de-materialised form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

In this context, two agreements have been signed among the Company, the respective Depositories and the Registrar to the Issue:

- a tripartite agreement dated 20th February 2006 with NSDL, the Company and Registrar to the Issue; and
- a tripartite agreement dated 3rd March 2006 with CDSL, the Company and Registrar to the Issue.

All Bidders can seek allotment only in dematerialised mode. Bids from any Bidder without relevant details of his or her depository account are liable to be rejected.

- A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
- The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's identification number) appearing in the Bid cum Application Form or Revision Form.



- Allotment to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder.
- Names in the Bid cum Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
- Non-transferable allotment advice or refund orders will be directly sent to the Bidders by the Registrar.
- If incomplete or incorrect details are given under the heading 'Bidders Depository Account Details' in the Bid cum Application Form or Revision Form, it is liable to be rejected.
- The Bidder is responsible for the correctness of his or her Demographic Details given in the Bid cum Application Form vis-à-vis those with his or her Depository Participant.
- It may be noted that Equity Shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where the Equity Shares are proposed to be listed have electronic connectivity with CDSL and NSDL.
- The trading of the Equity Shares of the Company would be in dematerialised form only for all investors in the demat segment of the respective Stock Exchanges.

Communications

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Bidder, Bid cum Application Form number, details of Depository Participant, number of Equity Shares applied for, date of Bid form, name and address of the member of the Syndicate where the Bid was submitted and cheque or draft number and issuing bank thereof.

The Company has appointed Mr. D.Subrahmanya Sarma, Company Secretary as Compliance Officer. He can be contacted at the Registered Office of the Company.

The investors can contact the Compliance Officer in case of any pre-issue or post-issue related problems such as non-receipt of letter of allotment, credit of allotted shares in the respective beneficiary account, refund orders etc.,

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, which is reproduced below:

“Any person who:

- (a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or*
- (b) otherwise induces a company to allot, or register any transfer of shares, therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years.”*

Undertaking by the Company

The Company undertakes :

- that the complaints received in respect of this Issue shall be attended to by the Company expeditiously and satisfactorily;
- that all steps will be taken for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed within seven working days of finalisation of the basis of allocation;
- that funds required for making refunds to unsuccessful applicants as per the mode(s) disclosed under the heading “Modes of Making Refunds” on page no. 145 of the Red Herring Prospectus shall be made available to the Registrar to the Issue by the Registrar to the Issue by the Issuer;



- that where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 15 days of closure of the issue giving the details of the bank where refunds shall be credited alongwith the amount and expected date of electronic credit of refund.
- that no further issue of Equity Shares shall be made till the Equity Shares offered through the Red Herring Prospectus are listed or until the Bid monies are refunded on account of non-listing, under-subscription etc.

The Company shall not have recourse to the Issue proceeds until the approval for trading of the Equity Shares from all the Stock Exchanges where listing is sought has been received.

Utilisation of Issue Proceeds

The Board of Directors of the Company certifies that:

- all monies received out of the Issue to the public shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Companies Act;
- details of all monies utilised out of the Issue shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such monies have been utilised;
- details of all unutilised monies out of the Issue, if any, shall be disclosed under the appropriate separate head in the balance sheet of the Company indicating the form in which such unutilized monies have been invested;

The Company shall not have any recourse to the Issue proceeds until the approval for trading the Equity Shares is received from the Stock Exchanges.

Disposal of Applications and Applications Money and Interest in Case of Delay in Dispatch of Allotment Letters/ Refund Orders

The Company shall ensure dispatch of allotment advice, refund orders and give benefit to the beneficiary account with Depository Participants and submit the documents pertaining to the allotment to the Stock Exchanges within two working days of date of finalisation of allotment of Equity Shares. The Company shall dispatch refund orders, if any, of value up to Rs. 1,500/-, "Under Certificate of Posting", and shall dispatch refund orders above Rs. 1,500, if any, by registered post only at the sole or First Bidder's sole risk and adequate funds for the purpose shall be made available to the Registrar by the Company.

The Company shall use best efforts to ensure that all steps for completion of the necessary formalities for listing and commencement of trading at the Stock Exchanges where the Equity Shares are proposed to be listed, are taken within seven working days of finalisation of the basis of allotment.

In accordance with the requirements of the Stock Exchanges and SEBI Guidelines, the Company further undertake that:

- Allotment shall be made only in dematerialised form within 15 days of the Bid Closing Date/Issue Closing Date;
- dispatch of refund orders shall be made within 15 days of the Bid Closing Date/Issue Closing Date; and
- to pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if allotment is not made and refund orders are not dispatched and/or demat credits are not made to investors within the 15 day time prescribed above as per the guidelines issued by the Government of India, Ministry of Finance pursuant to their letter No. F/8/S/79 dated July 31, 1983, as amended by their letter No. F/14/SE/85 dated September 27, 1985, addressed to the Stock Exchanges, and as further modified by SEBI's Clarification XXI dated October 27, 1997, with respect to the SEBI Guidelines.

Refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Bank(s) and payable at par at places where Bids are received. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.



RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

Foreign investment in Indian securities is regulated through the Industrial Policy, 1991 of the Government of India and FEMA. While the Industrial Policy, 1991 prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA regulates the precise manner in which such investment may be made. Under the Industrial Policy, unless specifically restricted, foreign investment is freely permitted in all sectors of the Indian economy up to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. As per current foreign investment policies, foreign investment in the telecom sector is permitted up to 100% under the automatic route. By way of Circular No. 53 dated December 17, 2003, RBI has permitted FIIs to subscribe to shares of an Indian company in a public offer without prior RBI approval, so long as the price of equity shares to be issued is not less than the price at which equity shares are issued to residents. Non-resident Bidders are not required to make separate applications seeking permission from the FIPB or RBI.

The above information is given for the benefit of the Bidders and neither the Company nor the BRLMs are liable for any changes in the regulations after the date of this Red Herring Prospectus.



SECTION IX : DESCRIPTION OF EQUITY SHARES AND TERMS OF THE ARTICLES OF ASSOCIATION

SHARE CAPITAL

Authorised Capital

4. “The Authorised Share Capital of the Company shall be as per Clause V of the Memorandum of Association.”
5. Subject to the provisions of these Articles, the shares shall be under the control of the Board who may allot or otherwise dispose of the same to such terms and conditions, at such times, either at par or at a premium, and for such consideration as the Board thinks fit. Provided that, where the allotment of further shares, such further shares shall be issued in conformity with the provisions of Section 81 (1) or 81 (1A) or 81 (3) of the Act, as the case may be. Provided further that option or right to call on shares shall not be given to any person except with the sanction of the Company in General Meeting.

Shares at the disposal of the Directors

- 5A. Subject to the provisions of Section 81 of the Act and these Articles, the shares in the capital of the company for the time being shall be under the control of the Directors who may issue, allot or otherwise dispose of the same or any of them to such persons, in such proportion and on such terms and conditions and either at a premium or at par or (subject to the compliance with the provisions of section 79 of the Act) at a discount and at such time as they may from time to time think fit and with the sanction of the company in the General Meeting to give to any person or persons the option or right to call for any shares either at par or premium during such time and for such consideration as the Directors think fit, and may issue and allot shares in the capital of the company on payment in full or part of any property sold and transferred or for any services rendered to the company in the conduct of its business and any shares which may so be allotted may be issued as fully paid up shares and if so issued, shall be deemed to be fully paid shares. Provided that option or right to call of shares shall not be given to any person or persons without the sanction of the company in the General Meeting.

Return of Allotments

6. As regards all allotments made from time to time the Company shall duly comply with Section 75 of the Act.

Restriction on Allotments

7. If the Company shall offer any of its shares to the public for subscription:
 - (1) no allotment thereof shall be made, unless the amount stated the prospectus as the minimum subscription has been subscribed, and the sum payable on application thereon has been paid to and received by the Company; but this provision shall no longer apply after the first allotment of shares offered to the public for subscription.
 - (2) the amount payable on application on each share shall not be less than five per cent of the nominal amount of the share; and
 - (3) the Company shall comply with the provisions of sub-section (4) of Section 69 of the Act. And if the Company shall propose to commence business after filing a statement in lieu of prospectus, the Board shall not make an allotment of shares payable in cash unless at least seven of the shares proposed to be issued shall have been subscribed for as payable in cash by seven members and the provisions of Sections 70 and 149 of the Act shall have been complied with.

Commission and brokerage

8. The Company may exercise the powers of paying commission conferred by Section 76 of the Act, provided that the rate percent or the amount of the commission paid or agreed to be paid shall be disclosed in the manner required by the said Section and the Commission shall not exceed 5 per cent of the price at which and shares, in respect where of the same is paid, are issued or 2½ per cent, of the price at which any debentures are issued (as the case may be). Such commission may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The company may also on any issue of shares or debentures pay such brokerage as may be lawful.

Shares at a discount

9. With the previous authority of the Company in general meeting and the sanction of the appropriate authority mentioned in and upon otherwise complying with Section 79 of the Act, the Board may issue at a discount shares of a class already issued.



Installment on shares to be duly paid

10. If, by the conditions of allotment of any share, the whole or part of the amount or issue price thereof shall be payable by instalments. Every such share shall, instalment when due, be paid to the Company by the person who, for the time being, shall be the registered holder of the share or by his executor or administrator.

Liability of joint holders

11. The joint-holders of a share shall be severally as well as jointly liable for the payment of all instalments and calls due in respect of such share.

Trusts not recognized

12. Save as herein otherwise provided, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof and accordingly shall not except as ordered by a court of competent jurisdiction, or as by statute required; be bound to recognise any equitable or other claim to or interest in such share on the part of any other person.

Who may be registered

13. Shares may be registered in the name of any person, Company or other body corporate. Not more than four persons shall be registered as joint-holders of any share.

FORFEITURE AND LIEN

If call or instalment not paid notice may be given

21. If any member fails to pay any call or instalment of a call on or before the day appointed for the payment of the same; the Board may, at any time thereafter during such time as the call or instalment remains unpaid, serve a notice on such member requiring him to pay the same, together with any interest that may have accrued, expenses owing upon by the Company by reason of such non-payment.

Form of Notice

22. The notice shall name a day (not being less than fourteen days from the date of the notice) and a place or places on and at which such call or instalment, expenses owing upon are to be paid. The notice shall also state that in the event of non-payment at or before the time on which such call was made or instalment is payable will be liable to be forfeited.

If notice not complied with shares may be forfeited

23. If the requisitions of any such notice as aforesaid be not complied with, any shares in respect of which such notice has been given, may, at any time thereafter, before payment of all calls or instalments, interest, expenses owing upon be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture.

Notice after forfeiture

24. When any share shall have been so forfeited, notice of the resolution shall be given to the member in whose name it stood immediately prior to the forfeiture and an entry of the forfeiture, with the date thereof, shall forthwith be made in the Register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or to make such entry as aforesaid.

Forfeited share to become property of the Company

25. Any share so forfeited shall be deemed to be the property of the Company, and the Board may sell, allot or otherwise dispose of the same in such manner as it thinks fit.

Power to annul forfeiture

26. The Board may, at any time before any share so forfeited shall have been sold, re-allotted or otherwise disposed of, annul the forfeiture thereof upon such conditions as it thinks fit.

Liability on forfeiture

27. A person whose share has been forfeited shall cease to be a member in respect of the forfeited share, but shall, notwithstanding, remain liable to pay, and shall forthwith pay to the Company, all calls, or instalments, interest and expenses, owing upon or in respect of such share, at the time of the forfeiture, together with interest thereon, from the time of forfeiture until payment, at 12 per cent per annum and the Board may enforce the payment thereof or any part thereof, without any deduction or allowance for the value of the shares at the time of forfeiture, but shall not be under any obligation to do so.



Evidence of forfeiture

28. A duly verified declaration in writing that the declarant is a Director or Secretary of the Company, and that certain shares in the Company have been duly forfeited on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the shares and such declaration and the receipt of the Company for the consideration, if any, given for the shares on the sale or disposition thereof shall constitute a good title to such shares; and the person to whom any share shall be registered as the holder of such share and shall not be bound to see to the application of the purchase money, nor shall his title to such share be affected by any irregularity or invalidity in the proceedings in reference to such forfeiture, sale or disposition.

Forfeiture provisions to apply to non-payment in terms of issue

29. The provisions of Articles 22 to 29 hereof shall apply in the case of non payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of a share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

Company's lien on shares

30. The Company shall have a first and paramount lien upon every share/debenture not being fully paid up registered in name of each member/debenture holder (whether solely or jointly with others, and upon the proceeds of sale thereof for moneys called or payable at a fixed time in respect of such shall be actually arrived or not and no equitable interest in any share shall created except upon the footing and condition that Article 12 hereof is to have full effect. Such lien shall extend to all dividends and bonuses from time to time declared in respect of such share. Unless otherwise agreed, the registration of transfer of a share/debenture shall operate as a waiver of the Company's lien, if any, on such share/debenture.

As to enforcing lien by sale

31. For the purpose of enforcing such lien the Board may sell the shares/debentures subject thereto in such manner as it thinks fit, but no sale shall be made until such time for payment as aforesaid shall have arrived and until notice in writing of the intention to sell have been served on such member/debenture holder, his executor or administrator or his committee, curator bonus or other legal representative as the case may be and default shall have been made by him or them in the payment of the moneys called or payable at a fixed time in respect of such share/debenture for seven days after the date of such notice.

Application of proceeds of sale

32. The net proceeds of the sale shall be received by the Company and applied in or towards payment of such part of the amount in respect of which the lien exists as is presently payable and the residue, if any, shall (subject to a like lien for sums not presently payable as existed upon the share/debenture before the sale) be paid to the person entitled to the share/debenture at the date of the sale..

Validity of sales in exercise of lien and after forfeiture

33. Upon any sale after forfeiture or for enforcing a lien in purported exercise of the powers herein before given, the Board may appoint some person to execute an instrument of transfer of the share/debenture sold and cause the purchaser's name to be entered in the Register in respect of the share/debenture sold, and the purchaser shall not be bound to see the regularity of the proceedings, nor to the application of the purchase money, and after his name has been entered in the Register in respect of such share/debenture the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively. The directors may at any time declare any share/debenture wholly or in part to be exempt from the provisions of Article 31 to 33.

Board may issue new certificates

34. Where any share/debenture under the powers in that behalf herein contained is sold by the Board and the certificate in respect thereof has not been delivered up to the Company by the former holder of such share/debenture, the Board may issue a new certificate for such share/debenture distinguishing it in such manner as it may think fit from the certificate not so delivered up.



TRANSFER AND TRANSMISSION

Execution of transfer etc.

35. Save as provided in Section 108 of the Act, no transfer of a share shall be registered unless a proper instrument of transfer duly stamped and executed by or on behalf of the transferee has been delivered to the Company within the time prescribed by Section 108 of the Act together with the certificate or, if no such certificate is in existence, the Letter of Allotment of the share. The transferor shall be deemed to remain the holder of such share until the name of the transferee is entered in the Register in respect thereof. Each signature to such transfer shall be duly attested by the signature of one witness who shall add his address. Provided that the transfer of shares in the Company shall also be subject to the provisions of Sections 108 A to 108 H of the Act if and to the extent the said Section may be applicable.

Application by transferor

36. Application for the registration of the transfer of a share may be made either by the transferor or the transferee, provided that, where such application is made by the transferor, no registration shall, in the case of a partly paid share, be effected unless the Company gives notice of application to the transferee in the manner prescribed by Section 110 of the Act, and subject to the provisions of these Articles, the Company shall, unless objection is made by the transferee within two weeks from the date of receipt of the notice, enter in the Register the name of the transferee in the same manner and subject to same conditions as if the application for registration of the transfer was made by transferee.

Form of Transfer

37. Every instrument of transfer of shares shall be in the prescribed form and in accordance with Section 108 of Act.

Form of transfer (in what case the board may refuse to register transfer)

38. Subject to the provisions of Section 111 of the Act and Section 22A of the Securities Contract (Regulation) Act, 1956, the Board may, within one month from the date on which the instrument of transfer was delivered to or the intimation of transmission was lodged with Company, refuse to register any transfer of or the transmission by operation of the right to a share not fully paid up upon which the Company has alien and in case of a share not fully paid up, the Board may refuse to register the transfer to a transferee of whom the Board does not approve. The Board may also likewise refuse to register a transfer when any statutory prohibition or any attachment or prohibitory order of a competent authority restrains the Board from transferring the shares out of the name of the transferor or when a transferor objects to the transfer, provided he serves on the Company within a reasonable time a prohibitory order of a court of competent jurisdiction. Provided however that the registration of a share shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever. Transfer of shares in whatever lot shall not be refused.

No transfer to minor, etc.

39. No transfer shall be made to a minor or person of unsound mind or to persons who are disqualified from contracting by any law to which they are subject.

Transfer to be left at office when to be retained

40. Every instrument of transfer shall be left at the Office for registration, accompanied by the certificate of the share to be transferred or, if no such certificate is in existence, by the Letter of Allotment of the share and such other evidence as the Board may require to prove the title of the transferor or his right to transfer the share. Every instrument of transfer which shall be registered shall be retained by the Company, but any instrument of transfer which the Board may refuse to register, shall be returned to the person depositing the same.

Notice of refusal to register transfer

41. If the Board refuses whether in pursuance of Article 38 or otherwise to register the transfer of or the transmission by operation of law of the right to any share, the Company shall, within one month from the date on which the instrument of transfer or the intimation of such transmission, as the case may be, was lodged with the Company, send to the transferee and the transferor or to the person giving intimation of such transmission, as the case may be, notice of the refusal.

Right to Dividend etc., pending registration of transfer of shares

- 41A. Where an instrument of transfer of shares of the Company has been delivered to the Company for registration and the transfer of such shares has not been registered by the company, it shall comply with the provisions of Section 206A of the Act in respect of the dividend, right shares and bonus shares in relation to such shares.



No fees on registration of transfer probate, etc

42. No fee shall be charged for registration of transfer, transmission, grant of probate, grant of letters of administration, succession certificate, certificate of death or marriage, Power of Attorney or other similar instruments.

Transmission of registered shares

43. The executor or administrator of a deceased member (not being one of several joint holders) shall be the only person recognised by the Company as having any title to the share registered in the name of such member, and in case of the death of any one or more of the joint-holders of any registered share, the survivor shall be the only person recognised by the Company as having any title to or interest in such share, but nothing herein contained shall be taken to release the estate of a deceased joint-holder from any liability on the share held by him jointly with any other person. Before recognising any executor or administrator, the Board may require him to obtain a Grant of Probate or Letter of Administrator or other legal representation, as the case may be, from a competent Court in India and having effect in the place where the Board in its absolute discretion thinks fit it shall be lawful for the Board to dispense with the production of probate or Letter of Administration or such other legal representation upon such terms as to indemnity or otherwise as the Board, in its absolute discretion, may consider adequate.

As to transfer of shares of insane, deceased, or bankrupt members

44. Any Committee or guardian, curator bonis or other legal curator of a lunatic, idiot or non compos mentis member becoming entitled to or to transfer a share in consequence of the death or bankruptcy or insolvency of any member upon producing such evidence that he sustains the character in respect of which he proposes to act under this Article or of his title as the Board thinks sufficient, may, with the consent of the Board (which the Board shall not be bound to give), be registered as a member in respect of such share, or may, subject to the regulations as to transfer hereinbefore contained, transfer such share. This Article is herein after referred to as "The Transmission Article".

Election under the Transmission Article

45. (1) If the person so becoming entitled under the Transmission Article shall elect to be registered as holder of the share himself, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.
- (2) If the person aforesaid shall elect to transfer the share, he shall testify his election by executing an instrument of transfer of the share.
- (3) All the limitations, restrictions, and provisions of these Articles relating to the right to transfer and the registration of instruments of transfer of a share shall be applicable to any such notice or transfer as aforesaid as if the death, lunacy, bankruptcy or insolvency of the member had not occurred and the notice of transfer were a transfer signed by that member.

Rights for persons

46. A person so becoming entitled under the Transmission Article to a share by reason of the death, lunacy, bankruptcy or insolvency of the holder shall, subject to the provisions of Article 79 be entitled to the same dividends and other advantages as he would be entitled to if he were the registered holder of the share except that no such person (other than a person becoming entitled under the Transmission Article to the share of a lunatic, idiot or non compos mentis member) shall before being registered as a member in respect of the share, be entitled to exercise in respect thereof any right conferred by membership in relation to meetings of the Company.

Provided that the Board may at any time give notice requiring any such person to elect either to be registered himself or to transfer the share; and if the notice is not complied with within ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the share, until the requirements of the notice have been complied with.

MODIFICATION OF RIGHTS

Power to modify rights

56. If at any time the share capital is divided into different classes of shares the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with consent in writing of the holders of three-fourth of the issued shares of that class, or with the sanction of a Special Resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate meeting the provisions of these Articles relating to general meetings shall apply, but so that the necessary quorum shall be two persons at least holding or representing by proxy one-fifth of the issued shares of the class but so that if at any adjourned



meeting of such holders a quorum as above defined is not present, those members who are present shall be a quorum and that any holder of shares of the class present in person or by proxy may demand a poll and on a poll, shall have one vote for each share of the class of which he is the holder. The Company shall comply with provisions of Section 192 of the Act as to forwarding a copy of any such agreement or resolution to the Registrar.

DEMATERIALIZATION OF SHARES

56A. Dematerialisation of Shares

(i) Definitions for the purpose of this article:

“Beneficial Owner” means the beneficial owner as defined in Clause (a) of Sub-Section (1) of Section 2 of the Depositories Act, 1996;

“Depositories Act” means the Depositories Act, 1996 and shall include any statutory modification or re-enactment thereof for the time being in force.

“Depository” means the Depository as defined under Clause (e) of Sub-section (1) of Section 2 of the Depositories Act, 1996.

‘Security’ means such security as may be specified by Securities and Exchange Board of India from time to time.

ii. Dematerialization of Shares

Notwithstanding anything contained in these Articles, the Company shall be entitled to dematerialize its existing shares, debentures and other securities, re-materialize its shares, debentures and other Securities held in the depositories and/or to issue its fresh shares, Debentures and other securities in a dematerialized form pursuant to the Depositories Act, 1996 and rules framed thereunder if any.

iii. Securities in depositories to be in fungible form

All Securities held by a depository shall be dematerialized and be in fungible form.

All Securities held by a depository shall be dematerialized and be in fungible form. The provisions relating to progressive numbering shall not apply to the shares of the Company, which have been dematerialized.

iv. Rights of Depository and beneficial owners

Notwithstanding anything to the contrary contained in the Act or these Articles, Depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of the beneficial owner.

Save as otherwise provided in (a) above, the depository as the registered owner of the securities shall not have any voting rights or any other rights in respect of the securities held by it.

Every person holding securities of the Company and whose name is entered as the beneficial owner in the records of the depository shall be deemed to be a member of the company. The beneficial owner of securities shall be entitled to all the rights and be subject to all the liabilities in respect of his securities which are held by a depository.

v. Transfer of Securities

Nothing contained in the Act or these Articles shall apply to transfer of securities affected by the transferor and the transferee both of whom are entered as beneficial owners in the records of a depository.

In the case of transfer of securities where the company has not issued any certificate and where such securities are being held in an electronic and fungible form, the provisions of the Depositories Act, 1996 shall apply.

vi. Register and Index of beneficial owners

The Register and index of beneficial owners maintained by a depository under Depositories Act, 1996, shall be deemed to be the register and index of Members and Security holders for the purpose of these Articles”.

BORROWING POWERS

Power to borrow

57. The Board may, from time to time, at its discretion, subject to the provisions of Sections 58A, 292 and 293 of the Act, raise or borrow, either from the Directors or from elsewhere and secure the payment of any sum or sums of money for the purpose of the Company.



Conditions on which money may be borrowed

58. The Board may raise or secure the repayment of such sum or sums in such manner and upon such terms and conditions in all respects as it thinks fit, and, in particular, by the issue of bonds, perpetual or redeemable, debentures or debenture-stock, or any mortgage, or other security on the undertaking of the whole or any part of the property of the Company (both present and future), including its uncalled capital for the time being.

Issue at discount etc. or with special privileges

59. Any debentures, debenture-stock, bonds or other securities may be issued at a discount, premium or otherwise and with any special privileges, as to redemption, surrender, drawings, allotment of shares, appointment of Directors and otherwise. Debentures, debenture-stock, bonds and other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued. Provided that debentures with a right to allotment of or conversion into shares shall not be issued except in conformity with the provisions of Section 81 (3) of the Act.

Instrument to transfer

60. Save as provided in Section 108 of the Act, no transfer of debentures shall be registered unless a proper instrument of transfer duly stamped and executed by the transferor and transferee has been delivered to the Company together with the certificate or certificates of the debentures.

Certificates of debentures and other securities upon allotment of transfer.

- 60A Delivery by the Company of certificates upon allotment or registration of transfer of any Debentures, Debenture Stock or Bond issued by the Company shall be governed and regulated by Section 113 of the Act.

Notice of refusal to register transfer

61. If the Board refuses to register the transfer of any debentures the Company shall, within one month from the date on which the instrument of transfer was lodged with the Company, send to the transferee and to the transferor notice of the refusal. Transfer of debentures in whatever lot shall not be refused.

GENERAL MEETINGS

The Statutory Meeting

62. The Statutory Meeting of the Company shall, as required by Section 165 of the Act, be held at such time not being less than one month or more than six months from the date at which the Company shall be entitled to commence ~business and at such place as the Board may determine, and the Board shall comply with the other requirement of that Section as to the report to be submitted and otherwise.

When Annual General Meeting to be held

63. In addition to any other meetings, general meetings of the Company shall be held within such intervals as are specified in Section 166 (1) of the Act, and, subject to the provisions of Section 166(2) of the Act, at such times and places as may be determined by the Board. Each such general meeting shall be specified as such in the notice convening the meeting. Any other meeting of the Company shall except in the case where an Extraordinary General Meeting is convened under the provisions of the next following Article, be called as “general meeting”.

When other general meetings to be held

64. The Board may, whenever it thinks fit, call a general meeting, and it shall, on the requisition of such number of members as hold, at the date of the deposit of the requisition, not less than one-tenth of such of the paid up capital of the Company as at the date carried the right of voting in regard to the matter to be considered at the meeting, forthwith proceed to call an Extra-ordinary General Meeting, and in the case of such requisition the following provisions shall apply:
- (1) The requisition shall state the matters for the consideration of which the meeting is to be called, shall be signed by the requisitionists and shall be deposited at the Office. The requisition may consist of several documents in like form each signed by one or more requisitionists.

- (2) Where two or more distinct matters are specified in the requisition, the requisition shall be valid only in respect of those matters in regard to which the requisition has been signed by the member or members herein before specified.
- (3) If the Board does not, within twenty-one days from the date of deposit of valid requisition in regard to any matters proceeded duly to call a meeting for the consideration of these matters on a day not later than forty five days from the date of deposit, the requisitionists or such of the mas are enabled so to do by virtue of Section 169 (6)(b) of the Act may themselves call the meeting but any meeting so called shall not be commenced after three months from the date of deposit.
- (4) Any meeting called under this Article by the requisitionists shall be called in the same manner as nearly as possible as that in which meetings are to be called by the Board but shall be held at the office.
- (5) Where two or more persons hold any shares jointly a requisitionists or notice calling a meeting signed by one or only some of them shall for the purposes of this Article have the same force and effect as if it had been signed by all of them.
- (6) Any reasonable expenses incurred by the requisitions by reason of the failure of the Board to duly call a meeting shall be repaid to the requisitionists by the Company and any sum so repaid shall be retained by the Company out of any sums due or to become due from the Company by way of fees or other remuneration for their services to such of the Directors as are in default.

Circulation of members resolutions

65. The Company shall comply with the provisions of Section 188 of the acts as to giving notice of resolutions and circulating statements on the requisition of members.

Notice of Meeting

66. (1) Save as provided, in sub-section (2) of section 171 of the Act not less than twenty-one day's notice shall be given of every general meeting of the Company. Every notice of a meeting shall specify the place and the day and hour of the meeting and shall contain a statement of the business to be transacted thereat. Where any such business consists of "special business" as hereinafter defined there shall be annexed to the notice a statement complying with Section 173(2) and (3) of the Act.
- (2) Notice of every meeting of the Company shall be given to every Director and member of the Company, to the Auditors of the Company and to any person entitled to a share in consequence of the death or insolvency of a member in any manner hereinafter authorised for the giving of notices to such persons. Provided that where the notice of a general meeting is given by advertising the same in a newspaper circulating in the neighbourhood of the Office under sub-section (3) of Section 53 of the Act, the statement of material facts referred to in Section 173(2) of the Act need not be annexed to the notice as required by that section but it shall be mentioned in the advertisement that the statement has been forwarded to the members of the Company.
- (3) The accidental omission to give any such notice to or its non-receipt by any member or other person to whom it should be given shall not invalidate the proceedings of the meeting.

DIRECTORS

Number of Directors

87. Until otherwise determined by Special Resolution, the number of the Directors of the Company shall not be less than three nor more than twelve.

First Directors

88. The persons thereafter named shall become and be the First Directors of the Company:
- 1) Mullapudi Lokeswara Rao
 - 2) I. Bhavanarayana
 - 3) Jasti Raja Rammohan Rao

No share qualification of Directors

89. Until otherwise determined by the Company in general meeting a Director shall not be required to hold any share in the Capital of the Company as his qualification.

Directors fee, remuneration and expenses

90. Unless otherwise determined by the Company in a general meeting:
- (1) Each Director, who is neither a Managing Director nor a Director in the Wholetime employment of the company, shall be entitled to receive out of the funds of the Company for each meeting of the Board or a Committee thereof attended by him such fee as may from time to time be determined by the Board but not exceeding Rs.2000/- or such other higher sum as may from time to time be prescribed by the Central Government by or under the Act and applicable to the Company.
 - (2) The Directors (other than a Managing Director and a Director in the Wholetime employment of the Company) shall also be entitled to receive a commission (to be divided between them in such manner as the Board may from time to time determine and in default of determination, equally) of such amount as may be determined by the Board but not exceeding one per cent of the net profits of the Company computed in the manner referred to in sub-section (1) of section 198 of the Act.
 - (3) All other remuneration, if any payable by the company to each Director, whether in respect of his services as a Managing Director or a Director in the whole or part-time employment of the Company, shall be determined in accordance with and subject to the provisions of these Articles and of the Act.
 - (4) The Directors shall be entitled to be paid all fees for filing documents which they may be required to file under the Act and shall also be entitled to be paid, their reasonable traveling and hotel and other expenses incurred in consequence of their attending at Board or Committee meetings or otherwise incurred in the execution of their duties as Directors.

Remuneration for extra service

91. If any Director, being willing, is appointed to an executive office either for whole time or part time or is called upon to perform extra services or to make any special exertions for any of the purposes of the Company or in giving special attention to the business of the Company or as a member of a Committee of the Board then, subject to Sections 198,309 and 310 of the Act, the Board may remunerate the Director so doing either by a fixed sum or by a percentage of profits or otherwise and such remuneration may be either in addition to or in substitution for any other remuneration to which he may be entitled.

Board may act notwithstanding vacancy

92. The continuing Directors may act notwithstanding any vacancy in their body; but so that if the number falls below the minimum above fixed the Board shall not, except for the purpose of filling vacancies, act so long as the number is below the minimum.

Vacation of office of Director

93. (1) The office of a Director shall ipso facto become, if:
- (a) He fails to obtain within the time specified in sub-section (1) of section 270 of the Act, or at any time thereafter ceases to hold, the share qualifications, if any, necessary for his appointment; or
 - (b) He is found to be of unsound mind by a Court of competent jurisdiction:
- OR
- (c) He applies to be adjudicated an insolvent; or
 - (d) He is adjudged an insolvent; or
 - (e) He is convicted by a Court of any offence involving moral turpitude and is sentenced in respect thereof to imprisonment for not less than six months; or

- (f) He fails to pay any call in respect of shares of the Company held by him, whether alone or jointly with others, within six months from the last date fixed for the payment of the call unless the Central Government has, by notification in the Official Gazette, removed the disqualification incurred by such failure; or
 - (g) He absents himself from three consecutive meetings of the Board or from all meetings of the Board for a continuous period of three months, whichever is the longer without obtaining leave of absence from the Board; or
 - (h) he (whether by himself or any person for his benefit or on his account), or any firm in which he is a partner, or any private company of which he is a director, accepts a loan, or any guarantee or security for a loan, from the Company in contravention of Section 295 of the Act; or
 - (i) he acts in contravention of Section 299 of the Act; or
 - (j) he becomes disqualified by an order of Court under Section 203 of the Act; or
 - (k) he be removed from office in pursuance of Section 284 of the Act; or
 - (l) having been appointed a Director by virtue of his holding any office or other employment in the Company, he ceases to hold such office or other employment in the Company; or
 - (m) by notice in writing to the Company he resigns his office; or
 - (n) any office or place of profit under the Company or under any subsidiary of the Company is held in contravention of Section 314 of the Act and by operation of that Section he is deemed to vacate office.
- (2) Notwithstanding any matter of thing in sub-clauses (d), (e) and (i) of clause (1), the disqualification referred to in those sub-clauses shall not take effect:
- (a) for thirty days from the date of adjudication, sentence or order; or
 - (b) where an appeal or petition is preferred within the thirty days aforesaid against the adjudication, sentence or conviction resulting in the sentence or order until the expiry of seven days from the date on which such appeal or petition is disposed of; or
 - (c) where within the seven days aforesaid, any further appeal or petition is preferred in respect of the adjudication, sentence, conviction or order, and the appeal or petition, if allowed, would result in the removal of the disqualification, until such further appeal or petition is disposed of

Holding any office or place of profit

94. Any director or other person referred to in Section 314 of the Act may be appointed to or hold any office or place of profit under the Company or under any subsidiary of the Company in accordance with and subject to the provisions of Section 314 of the Act.

When Director of the Company appointed director of a Company in which the Company is interested either as a member or otherwise

95. A Director of this Company may be or become a director of any other company promoted by this Company or in which it may be interested as a member, share-holder or otherwise and no such Director shall be accountable for any benefits received as a director or member of such Company.

Conditions under which Directors may contract with Company

96. Subject to the provisions of Section 297 of the Act neither shall a Director be disqualified from contracting with the Company either as vendor, purchaser or otherwise for goods, materials or services or for underwriting the subscription of any shares in or debentures of the Company nor shall any such contract or arrangement entered into by or on behalf of the Company with a relative of such Director or relative is a partner or with any other partner in such firm or with a private Company of which such Director is a member or Director be avoided nor shall any Director so contracting or being such member or so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding office or of the fiduciary relation thereby established.



Disclosure of a Directors interest

97. Every Director who is in any way, whether directly or indirectly, concerned or interested in a contract of arrangement, entered into or to be entered into, by or on behalf of the Company not being a contract or arrangement entered into or to be entered into between the Company and any other Company where any of the Director of the Company or two or more of them together holds or hold not more than two per cent of the paid up share capital in the other Company shall disclose the nature of his concern or interest at a meeting of the Board as required by Section 229 of the Act. A general notice, renewable in the last month of each financial year of the Company, that a Director is a director or a member of any specified body corporate or is a member of any specified firm and is to be regarded as concerned or interest in any subsequent contract or arrangement with that body corporate or firm shall be sufficient disclosure of concern or interest in relation to any contract or arrangement so made and, after such general notice, it shall not be necessary to give special notice relating to any particular contract or arrangement with such body corporate or firm. Provided, such general notice given at a meeting of the Board or the Director concerned takes reasonable steps to secure that it is brought up and read at the first meeting of the Board and from time to time renews a general notice as aforesaid in respect of all bodies corporate of which he is a Director or member and of all firms of which he is a partner.

Discussion and voting by Director interested

98. No Director shall as a Director, take any part in the discussion of, or vote on any contract or arrangement in which he is in any way, whether directly or indirectly concerned or interested, nor shall his presence count for the purpose of forming a quorum at the time of such discussion or vote. This prohibition shall not apply to (a) any contract or indemnity against any loss which the Directors or any of them may suffer by reason of becoming or being sureties or a surety for the Company; or (b) any contract or arrangement entered into or to be entered into by the Company with a public Company or with a private Company which is a subsidiary of a public Company, in which the interest of the Director consists solely in his being a director of such company and the holder of shares not exceeding in number or value the amount requisite to qualify him for appointment as a director thereof, he having been nominated as such director by the Company or in his being a member of the Company holding not more than two per cent of the paid up share capital of the Company.

RETIREMENT AND APPOINTMENT OF DIRECTORS

Proportion to retire by rotation

99. Not less than two-thirds of the total number of Directors shall be persons whose period of office is liable to determination by retirement of Directors by rotation.

Rotation and retirement of Directors

100. At each Annual General meeting of the Company one-third of such of the Directors for the time being as are liable to retire by rotation, or if their number is not three or a multiple of three, then the number nearest to one-third shall retire from office.

Which Directors to retire

101. The Directors to retire by rotation at every Annual General Meeting shall be those who have been longest in office since their last appointment, but as between persons who become Directors on the same day those or retire shall, in default of and subject to any agreement among themselves, be determined by lot.

Power to Board to and to its number

102. The Board shall have power, at any time and from time to time to appoint any person as a Director as an addition to the Board but so that the total number of Directors shall not any time exceed the maximum number fixed by these Articles. Any Director so appointed shall hold office only until the next Annual General Meeting of the Company and shall then be eligible for re-election.

Board may fill up casual vacancies

103. If any Director appointed by the Company in general meeting vacates offices as a Director before his term of office will expire in the normal course the resulting casual vacancy may be filled up by the Board at a meeting of the Board, but any



person so appointed shall retain his office so long only as the vacating Director would have retained the same if no vacancy had occurred, Provided that the Board may not fill such a vacancy by appointing thereto any person who has been removed from the office of Director under Articles 109.

Power to appoint alternate Director

104. The Board may appoint any person to act as alternate Director for a Director during the latter's absence for a period of not less than three months from the State in which meetings of the Board are ordinarily held and such appointment shall have effect and such appointee, whilst he holds office as an alternate director, shall be entitled to notice of meetings of the Board and to attend and vote there at accordingly; but he shall not require any qualification and shall ipso vacate office if and when the absent Director returns to the State in which meetings of the Board are ordinarily held or the absent Director vacates office as a Director.

When the Company and candidate for office of Director must give notice

105. No person not being a retiring Director shall be eligible for appointment to the office of Director at any general meeting unless he or some member intending to propose him has not less than fourteen days before the meeting, left at the office a notice in writing under his hand signifying his candidature for the office of Director or the intention of such member to propose him as a candidate for that office as the case may be 'along with a deposit of Rupees five hundred or such other sum as may from time to time be prescribed by or under the Act, which shall be refunded to such person or as the case may be to such member, if the person succeeds in getting elected as a Director. The Company shall inform its members of the candidature of a person for the office of Director or the intention of a member to propose such person as a Candidate for that office, by serving individual notices on the members not less than seven days before the general meeting: Provided that it shall not be necessary for the Company to serve individual notices upon the members as aforesaid if the Company advertises such candidature or intention not less than seven days before the general meeting in at least two newspapers circulating in the place where the Office is located, of which one is published in the English language and the other in the regional language of that place.
106. Save as permitted by Section 263 of the Act, every resolution of a general meeting for the appointment of a Director shall, be late to one named individual only.

Meeting to fill up vacancies

- 107.(1) The Company at the Annual General Meeting at which a Director retires by rotation in manner aforesaid may fill up the vacated office by appointing the retiring Director or some other person thereto.

Appointment of Directors to be voted on individually

- (2) if the place of the retiring Director is not so filled up and the meeting has not expressly resolved not to fill the vacancy, the meeting shall stand adjourned till the same day in the next week, at the same time and place, or if that day is a public holiday, till the next succeeding day which is not a public holiday, at the same time and place, if at the adjourned meeting also, the place of the retiring Director is not filled up and that meeting also not expressly resolved not to fill the vacancy, the retiring Director shall be deemed to have been re-appointed at the adjourned meeting unless:
- (a) at the meeting or at the previous meeting a resolution for the re-appointment of such Director has been put to the vote and lost; or
 - (b) to retiring Director has by notice in writing addressed to the Company or the Board expressed his unwillingness to be re- appointed; or
 - (c) he is not qualified or is disqualified for appointment; or
 - (d) the provision to sub-section (2) of Section 263 of the Act is applicable to the case.



Company in general meeting to increase or reduce number of Directors

108. The Company in general meeting may from time to time increase or reduce the number of Directors within the limits fixed by Article 87.

Power to remove director by ordinary resolution on special notice

109. The Company may, subject to the provisions of Section 284 of the Act, by ordinary resolution of which special notice has been given, remove a Director before the expiration of his period of office and may by ordinary resolution of which special notice has been given, appoint another person in his seat. The person so appointed shall hold office until the date up to which his predecessor would have held office if he had not been so removed. If the vacancy created by the removal of a Director under the provisions of this Article is not so filled by the meeting at which he is removed the Board may at any time thereafter till such vacancy under the provisions of Article 103.

PROCEEDINGS OF DIRECTORS

Meetings of Directors

110. The Board shall meet together at least once in every three months for the despatch of business and may adjourn and otherwise regulate meetings and proceedings as it thinks fit; provided that at least four such meetings shall be held in every year. Notice in writing of every meeting of the Board shall be given to every Director for the time being in India, and at his usual address in India to every other Director. Unless otherwise determined from time to time and at any time by the consent of all the Directors for the time being in India meetings of the Board shall take place either at the office or at some other place within the city, town or village in which the office is situated.

When meetings to be convened

111. The Managing Director or Director or a Secretary may at any time at the request of a Director shall convene a meeting of the Board.

Chairman

112. The Board shall appoint a Chairman of its meetings and determine the period for which he is to hold office, if no such Chairman is appointed or if at any meeting of the Board the Chairman be not present within five minutes after the time appointed for holding the same, the Directors present shall. Choose one of their numbers to be Chairman of such meeting.

Quorum

113. The quorum for a meeting of the Board shall be determined from time to time in accordance with the provisions of Section 287 of the Act. if a quorum shall not be present within fifteen minutes from the time appointed for holding a meeting of the Board, it shall be adjourned until such date and time as the Chairman of the Board shall appoint.

Power of Quorum

114. A meeting of the Board at which a quorum be present shall be competent to exercise all or any of the authorities, powers and discretions by or under these Articles or the Act for the time being vested in or exercisable by the Board.

How questions to be decided

115. Subject to the provisions of Sections 316, 372(5) and 386 of the Act, questioning arising at any meeting shall be decided by a majority of votes.

Power to appoint committees and to delegate

116. The Board may, subject to the provisions of the Act, from time to time and at any time, delegate any of its powers to a Committee consisting of such Director or Directors as it thinks fit, and may, from time to time, revoke such delegation. Any Committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

Proceedings of committee

117. The meetings and proceedings of any such Committee consisting of two or more members shall be governed by the provisions herein contained for regulating the meeting and proceedings of the Board so far as the same are applicable thereto, and are not superseded by any regulations made by the Board under the last preceding Article.

When acts of a Director valid not withstanding defective appointment etc.

118. Acts done by a person as a Director shall be valid notwithstanding that it may afterwards be discovered that his appointment was invalid by reason of any defect or disqualification or had terminated by virtue of any provisions contained in the Act or in these Articles. Provided that nothing in this Article shall be deemed to give validity to acts done by a Director after his appointment has been shown to the Company to be invalid or to have terminated.

Resolution without Board Meeting

119. Save in those cases where a resolution is required by Sections 262; 292, 297, 316, 372(5) and 386 of the Act; to be passed at a meeting of the Board, a resolution shall be as valid and effectual as if it had been passed at a meeting of the Board or Committee or the Board, as the case may be duly called and constituted, if a draft thereof in writing is circulated, together with the necessary papers if any, to all the Directors, or to all the members of the Committee of the Board, as the case may be, then in India (not being less in number than the quorum fixed for a meeting of the Board or Committee, as the case may be) and to all other Directors or members of the Committee at their usual address in India, and has been approved by such of them as are then in India or by a majority of such of them as are entitled to vote on the resolution.

Minutes

- 120.1) The Board shall, in accordance with the provisions of Section 193 of the Act, cause minutes to be kept by making within thirty days of the conclusion of every general meeting and of every meeting of the Board or of every committee of the Board, entries thereof in books provided for the purpose with their pages consecutively numbered, each page of every such book being initialed or signed and the last page of the record of proceeds of each meeting in such books being dated and signed, in the case of minutes of proceedings of a meeting of the Board or of a committee thereof, by the chairman of the said meeting or the Chairman of the next succeeding meeting, and in the case of minutes of proceedings of a general meeting by the Chairman of the same meeting within the aforesaid period of thirty days or in the event of the death or inability of that Chairman within that period, by a Director duly authorised by the Board for the purpose.

The minutes shall include particulars:

- (a) of the names of the Directors present at each meeting of the Board and of any Committee of the Board and in the case of each resolution passed at the meeting, the names of the Director, if any, dissenting from or not concurring in, the resolution;
- (b) of all orders made by the Board and Committees of the Board.
- (c) of all appointments of Directors and other officers made at the meeting; and
- (d) of all resolutions passed at the meeting and a fair and correct summary of the proceedings thereat.

PROVIDED that no matter need be included in any such Minutes which the Chairman of the meeting in his absolute discretion, is of opinion:

- (a) is, or could reasonably be regarded as, defamatory of any person;
 - (b) is irrelevant or immaterial to the proceedings; or
 - (c) is detrimental to the interest of the Company.
- (2) Any such Minutes of any meeting of the Board or of any committee of the Board or of the Company in general meeting, if kept in accordance with the provisions of Section 193 of the Act, shall be evidence of the matters stated in such Minutes. The Minute Books of general meetings of the Company shall be kept at the office and shall be open to inspection by members during the hours of 10 a.m. and 12 noon on such business days as the Act requires them to be open for inspection.

POWERS OF THE BOARD

General Powers of Company vested in the Board

121. Subject to the provisions of the Act, the control of the Company shall be vested in the Board who shall pay all expenses incurred in prompting and registering the Company and shall be entitled to exercise the all such powers, and to do all such acts and things as the Company is authorised to exercise and do; Provided that the Board shall not exercise any power or do any act or thing which is directed or required, whether by the Act or any other statute or by the Memorandum of the Company or by these Articles or otherwise to be exercised or done by the Company in general meeting. Provided further that in exercising any such power or doing any such act or thing, the Board shall be subject to the provisions in that behalf contained in the Act or any other statute or in the memorandum of the Company or in these Articles, or in any regulations not inconsistent therewith and duly made there under, including regulation made by the Company in general meeting, but no regulations made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if that regulation had not been made.

Mode and Terms of appointment of Managing or whole time Director

122. (1) Subject to the provisions of the Act, the Board shall have power to appoint from time to time one or more of their body to the office of the Managing Director or whole-time Director for such period and on such terms as they think fit, such period not exceeding five years at a time. A Managing Director so appointed shall not whilst holding that office be subject to retirement by rotation. The Board may by resolution vest in such Managing Director or whole time Director such of the powers hereby vested in the Board generally as it thinks fit, and such powers may be made exercisable for such period or periods and upon such conditions and subject to such restrictions as it may determine.
- (2) Subject to provisions of Section 309, 310 and 311 of the Act, the Managing Director/whole time Director shall receive such remuneration as may be determined by the Board from time to time.

Nomination of Directors

123. (1) Subject to the provisions of Section 255 of the Act, the Company may allow International Venture Capital Management Limited, on behalf of Nandi Investments Limited or Gujarat Venture Finance Limited or any Body Corporate as a result of special arrangement arrived at, to nominate a person on the Board with a power to replace or remove such nominee on the Board.
- (2) The Directors appointed under the provisions of subclause (i) above shall be deemed ex-officio Directors within the meaning of these Articles.

The ex-officio Directors as aforesaid shall not be liable to retire by rotation nor shall their number be taken into account for determining the number of directors liable to retire by rotation.

- (3) Notwithstanding anything to the contrary contained in these Articles, so long as any moneys shall be owing by the Company to Industrial Development Bank of India (IDBI) or any other Financing Corporation or Company or Body corporate (hereinafter referred to as “the Corporation”) and/or so long as the Corporation holds the shares/debentures in the Company as a underwriting assistance granted to the Company, each such Corporation shall, pursuant to an agreement between it and the Company, have the right to appoint one or more persons as Director(s) on the Board of Directors of the Company (each such Director hereinafter referred to as “the Corporation Director). The Corporation Director shall not be required to hold qualification shares and shall not be liable to retire by rotation. The Corporation may at any time and from time to time remove the Corporation Director, appoint another in his place and also fill any vacancy which may occur as a result of the Corporation Director ceasing to hold office for any reason whatsoever, Such appointment or removal shall be made in writing by the Corporation and shall be delivered to the Company at the registered office. The Board of Directors of the Company shall have no power to remove from office the Corporation Director., The Corporation Director shall be entitled to attend general meetings. Board meetings and Committee meetings of which he is a member, and the Corporation Director as well as the Corporation shall be entitled to receive notices of all such meetings. The Corporation Director shall be paid normal



fees and expenses to which other Directors are 'entitled PROVIDED THAT if the corporation Director nominated by IDBI is an officer of the Reserve Bank of India (RBI) or IDBI no sitting fees shall be payable to him be the Company shall reimburse RB) or IDBI, as the case may be, the amounts paid or payable under its rules to such Corporation Director on account of travelling and halting allowances and any other expenses for attending any general meeting or any meeting of the Board or Committee of the Board of the Company.

SECRETARY

124. The Board may, from time to time appoint and, at its discretion, remove any individual (hereinafter called the "Secretary" to perform any functions which by the Act are to be performed by the Secretary, and to execute any other purely ministerial or administrative duties which may from time to time be assigned to the Secretary by the Board. The Board, may also at any time appoint some person (who need not be the Secretary) to keep the registers to be kept by the Company.

THE SEAL

Custody of Seal

125. The Board shall provide for the safe custody of the Seal and the seal shall never be used except by the authority previously given of the Board or a Committee of the Board authorised by the Board in that behalf and save as provided in Article 14 (i) hereof, any two Directors or one Director and the Secretary or one Director and such other person as the Board may appoint shall sign every instrument to which the seal is affixed. Provided nevertheless, that any instrument bearing the seal of the Company and issued for valuable consideration shall be binding on the Company notwithstanding any irregularity touching the authority of the Board to issue the same.

ANNUAL RETURNS

126. The Company shall comply with the provisions of Sections 159 and 161 of the Act as to the making of Annual Returns.

RESERVES

127. Subject to the provisions of the Act, the Board may, from time to time before recommending any dividend, set apart any and such portion of the profits of the Company as it thinks fit as reserves to meet contingencies or for the liquidation of any debentures, debts or other liabilities of the Company, for equalisation of dividends, repairing, improving or maintaining any of the property of the Company and for such other purposes of the Company as the Board in its absolute discretion thinks conducive to the interest of the Company; and may, subject to the provisions of Section 372 of the Act, invest the several sums so set aside upon such investments (other than shares of the company) as it may think fit, and from time to time deal with and vary such investments and dispose of all or any part thereof for the benefit of the Company, and may divide the reserves into such special funds as it thinks fit, with full power to employ the Reserves or any parts thereof in the business of the Company, and that without being bound to keep the same separate from the other assets.

Investment of money

128. All moneys carried to the Reserves shall nevertheless remain and be profits of the Company applicable, subject to due provisions being made for actual loss or depreciation, for the payment of dividends and such moneys and all the other moneys of the Company not immediately required for the purposes of the Company and may, subject to the provisions of Sections 370 and 372 of the Act, be invested by the Board in or upon such investments or securities as it may select, or may be used as working capital or may be kept at any bank on deposit or otherwise as the Board may, from time to time, think proper.

CAPITALISATION OF RESERVES

129. Any general meeting may upon the recommendation of the Board resolve that any undivided profits of the Company standing to the credit of the Reserves, or any Capital Redemption Reserve Account or in the hands of the Company and available for dividend or representing premiums received on the issue of shares and standing to the credit of the Shares Premium Account be capitalised and distributed amongst such of the shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportions in the footing that they become entitled thereto as capital and that all or any part of such capitalised fund be applied on behalf of such shareholder in paying up in full any



un issued shares, debentures or debenture stock of the Company which shall be distributed accordingly or in or towards payments of the uncalled liability on any issued shares, and that such distribution or payment shall be accepted by such shareholders in full satisfaction of their interest in the said capitalised sum. Provided that any sum standing to the credit of a Share Premium Account or a Capital Redemption Reserve Account may, for the purposes of this Article, only be applied in the paying up of unissued shares to be issued to members of the Company as fully paid bonus shares.

Fractional Certificates

130. For the purpose of giving effect to a resolution under the preceding Article the Board may settle any difficulty which may arise in regard to the distribution as it thinks expedient and in particular may issue fractional certificates, and may determine that cash payments shall be made to any members in order to adjust the rights of all parties and may vest such cash in trustees upon such trusts for the persons entitled to the capitalised fund as may seem expedient to the Board. Where requisite, a proper contract shall be filed in accordance with Section 75 of the Act, and the Board may appoint any person to sign such contract on behalf of the persons entitled to the capitalised fund, and such appointment shall be effective.

DIVIDENDS

How profits shall be divisible

131. Subject to rights of members entitled to shares (if any) with preferential or special rights attached to them, the profits of the Company from time to time determined to be distributed as dividend in respect of any year or other period shall be applied for payment of dividend on the Shares in proportion to the amount of capital paid up on the Shares provided that unless the Board otherwise determines all dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid up on the shares during any portion or portions of the period in respect of which the dividend is paid provided always that (subject as aforesaid) any capital paid up on a share during the period in respect of which a dividend is declared shall (unless the Board otherwise determines or the terms of issue otherwise provide, the case may be) only entitle the holder of such share to an apportioned amount of such dividend as from the date of payment but so that where capital is paid up in advance of calls such capital shall not confer a right to participate in profits.

Declaration of dividends

132. The Company in general meeting may declare a dividend to be paid to the members according to their rights and interest in the profits and may, subject to the provisions of Section 207 of the Act, fix the time for payment.

Restrictions on amount of dividends

133. No larger dividend shall be declared than is recommended by the Board, but the Company in general meeting may declare a smaller dividend.

Dividend

134. Subject to the provisions of Section 205 of the Act, no dividend shall be payable except out of the profits of the Company or out of moneys provided by the Central or a State Government for the payment of the dividend in pursuance of any guarantee given by such Government and no dividend shall carry interest against the Company.

What is to be deemed net profits

135. Subject to the provisions of the Act, the declaration of the Board as to the amount of the net profits of the Company shall be conclusive.

Interim Dividends

136. The Board may, from time to time, pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company.

Debts may be deducted

137. The Board may deduct from any dividend payable to any member all sums of money, if any, presently payable by him to the Company on account of calls on shares or otherwise.



Dividends and call together

138. Subject to the provisions of Article 16 any general meeting declaring a dividend may adjust a call made by it on the members of such amount as the meeting fixes, but so that the call on each member shall not exceed the dividend payable to him and so that the call be made payable at the same time as the dividend.

Dividend in Cash

139. No dividend shall be payable except in cash. Provided that nothing in the foregoing shall be deemed to prohibit the capitalisation of profits or reserves of the Company for the purpose of issuing fully paid up bonus shares or paying up any amount for the time being unpaid on the shares held by the members of the Company.

Payment of interest on capital

140. A transfer of shares shall not pass the rights to any dividend declared thereon before the registration of the transfer by the Company.

Payment of interest on capital

141. The Company may pay interest on capital raised for the construction of works or buildings when and in so far as it shall be authorised to do by Section 208 of the Act.

To whom dividend payable

142. No dividend shall be paid in respect of any share except to the registered holder of such share or to his bankers but nothing contained in this Article shall be deemed to require the bankers of a registered shareholder to make a separate application to the Company for the payment of the dividend. Nothing in this Article shall be deemed to affect in any manner the operation of Article,

Dividend to joint holders

143. Any one of several persons who are registered as the joint holders of any share may give effectual receipts for all dividends, bonuses and other payments in respect of such share.

Payment by post

144. Unless otherwise directed in accordance with Section 206 of the ' Act, any dividend, interest or other moneys payable in cash in respect of a share may be paid by cheque or warrant sent through the post to the registered address of the holder or, in the case of joint-holders, to the registered address of that one of the joint-holders who is the first named in the Register in respect of the joint-holding or to such person and such address as the holder or joint-holders, as the case may be may direct and every cheque or warrant so sent shall be made payable to the order of the person to whom it is sent.

Unpaid and unclaimed dividends

145. The Company shall comply with the requirements of Section 205A of the Act as regards and unpaid or unclaimed dividends declared by the Company.

Secrecy

171. Every Director, Secretary, Trustee for the Company, its members or debenture-holders, members of a committee, officer, servant, agent, accountant, or other person employed in or about the business of the Company shall, if so required by the Board before entering upon his duties, sign a declaration pledging himself to observe a strict secrecy respecting all transactions of the Company with its customers and the state of accounts with individuals and in matters relating thereto, and shall by such declaration pledge himself not to reveal any of the matters which may come to knowledge in the discharge of his duties except when required so to do by the Board or by any general meeting or by a court of Law and except so far as may be necessary in order to comply with any of the provisions in these Articles contained,

No member to enter the premises of the Company without permission

172. No member or other person (not being a Director) shall be entitled to enter upon the property of the Company or to inspect or examine the premises or properties of the Company without the permission of the Board or, subject to Article



156, to require discovery of any information respecting any detail of the trading of the Company or any matter which is or may be in the nature of a trade secret, mystery of trade, or secret process or of any matter whatsoever which may relate to the conduct of the business of the Company and which in the opinion of the Board it will be inexpedient in the interest of the Company to communicate.

Winding Up

Distribution of assets

173. If the Company shall be wound up and the assets available for distribution among the members as such be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that as nearly as may be the losses shall be borne by the members in proportion to the capital paid-up or which ought to have been paid up at the commencement of the winding-up on the shares held by them respectively. And if in a winding-up the assets available for distribution among the members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members in proportion to the capital at the commencement of the winding-up paid up or which ought to have been paid up on the shares held by them respectively. But this Article is to be without prejudice to the rights of the holders of shares issued upon special terms and conditions.

Distribution of assets in specie

174. If the Company shall be wound up, whether voluntarily or otherwise, the Liquidators may with the sanction of a Special Resolution, divide among the contributories, in specie or kind, any part of the assets of the Company and may, with the like sanction, vest any part of the assets of the Company in trustees upon such trusts for the benefit of the contributors, or any of them as the Liquidators, with the like sanction, shall think fit.

INDEMNITY

175. Every Director, Secretary or Officer of the Company or any person (whether an officer of the Company or not) employed by the Company and any person appointed Auditor shall be indemnified out of the funds of the Company against all liability incurred by him as such Director, Secretary, Officer, employee or Auditor in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted, or in connection with any application under Section 633 of the Act in which relief is granted to him by the Court.



SECTION X - OTHER INFORMATION

LIST OF MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following Contracts (not being contracts entered into in the ordinary course of business carried on by the Company or entered into more than two years before the date of this Red Herring Prospectus) which are or may be deemed material have been entered or to be entered into by the Company. These Contracts, copies of which have been attached to the copy of this Red Herring Prospectus, to be delivered to the Registrar of Companies, Andhra Pradesh for registration and also the documents for inspection referred to hereunder, may be inspected at the Registered office of the Company from 10.00 am to 4.00 pm on working days from the date of this Red Herring Prospectus until the Bid/Issue Closing Date.

Material Contracts

1. Memorandum of Understanding and interse allocation of responsibilities dated January 13, 2006 entered into amongst the Company, Karvy Investor Services Limited and UTI Securities Limited to act as the Book Running Lead Managers for the proposed public issue.
2. Memorandum of Understanding dated January 06, 2006 entered into with Karvy Computershare Private Limited, to act as the Registrar to the Issue.
3. Letters dated October 17, 2005 and January 12, 2006 from Lokesh Machines Ltd. appointing Karvy Investor Services Limited and UTI Securities Limited as the Book Running Lead Managers.
4. Letter dated December 05, 2005 appointing Karvy Computershare Private Limited as the Registrars to the Issue.
5. Escrow Agreement dated March 23, 2006 amongst Escrow Collecting Banks, Syndicate Members, Registrars, the Company and BRLMs.
6. Syndicate Agreement dated March 23, 2006 amongst BRLMs, The Registrar, Syndicate Members and the Company.
7. Underwriting Agreement dated [●] amongst BRLMs, the Registrar, the Company and Syndicate Members.
8. Copies of quotations obtained for capital equipment (35 Quotations).

Material Documents

1. Memorandum and Articles of Association as amended from time to time.
2. Resolution passed by the Board of Directors of Company on October 01, 2005 and by the shareholders of Company at the EGM held on November 15, 2005 pursuant to Section 81(1A) of the Companies Act, 1956.
3. Copy of the tax benefit report dated December 19, 2005 from R Vridha Chalam, Chartered Accountant.
4. Report of statutory Auditors M/s. Deloitte Haskins and Sells dated March 13, 2006 for financial statements mentioned in the Red Herring Prospectus along with the Annual Reports for the relevant period.
5. Consents of Auditors, Bankers to the Company, BRLMs, Syndicate Members, Legal Advisor to the Issue, Directors, Company Secretary, Registrars, Bankers to the Issue, Compliance Officer, Monitoring Agency as referred to, in their respective capacities.
6. Power of Attorney executed by the Directors in favour of Mr. L.Dhanamjay Reddy, Practicing Company Secretary & Mr. R. Vijaya Kumar, Finance Executive for signing and making necessary changes in the Draft Red Herring Prospectus, Red Herring Prospectus and Prospectus
7. Initial Listing application filed with BSE and NSE.
8. In principle listing approvals from BSE dated February 10, 2006 and NSE dated February 24, 2006.
9. Resolutions passed by the Company appointing the Managing Director and Executive Directors.
10. Legal Advisor certificate dated January 16, 2006 regarding litigation.
11. Legal Advisor's due diligence report dated January 16, 2006



12. Resolution of the Meeting of the Board of Directors held on 08/12/2005 and 09/01/2006 for the constitution/ Reconstitution of the Company's Audit Committee, Investors Grievances Committee, and Remuneration Committee.
13. Tripartite agreement between the NSDL, Company and Karvy Computershare Private Limited dated February 20, 2006.
14. Tripartite agreement between the CDSL, Company and Karvy Computershare Private Limited dated March 3, 2006.
15. Resolution of the Members of Company passed at the Annual General Meeting held on September 30, 2005 re-appointing M/s. Delloitte Haskins & Sells, Chartered Accountants, as statutory auditors.
16. Certified copies of Form 5s alongwith relevant resolutions for increase in authorized Share Capital.
17. Copies of letters/agreements entered into with Banks/Financial Institutions sanctioning term loan and credit facilities.
18. Copy of the Board Resolutions dated January 16, 2006 and March 27, 2006 approving Draft Red Herring Prospectus and Red Herring Prospectus respectively.
19. Market Data used in the Red Herring Prospectus with regard to Industry Information.
20. Copies of various Government approvals obtained by the Company.
21. Statutory Auditors certificate dated March 13, 2006 regarding sources and deployment of funds as on February 28, 2006.
22. Agreements of sale dated November 28, 2005 entered into with Mr. Srinivas and Mrs. C. Sirekha for purchase of land.
23. Copy of ISO Certification
24. Due Diligence certificate dated January 16, 2006 issued by Book Running Lead Managers to the issue, Karvy Investor Services Limited.
25. SEBI Observation letter No. CFD/DIL/PB/AC/61448/2006 dated February 28, 2006.
26. Copy of the Special Resolution passed by the members of the Company under section 293(1)(a) and Section 293 (1) (d) of the Companies Act 1956 in the Annual General Meeting held on 30-09-2004.
27. Copies of land documents.
28. Copy of the letter received from Ashok Leyland Limited dated January 16, 2006 confirming the agreement for machining and supply of Cylinder Blocks and Cylinder Heads with the Company.

Any of the contracts or documents mentioned in this Red Herring Prospectus may be amended or modified at any time, if so required, in the interest of the Company or if required by other parties, without reference to the shareholders, subject to compliance of the applicable laws.



DECLARATION

All the relevant provisions of the Companies Act, 1956, and the guidelines issued by the GOI or the guidelines issued by Securities and Exchange Board of India, established under Section 3 of the Securities and Exchange Board of India Act 1992, as the case may be, have been complied with and no statement made in this Red Herring Prospectus is contrary to the provisions of the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992 or the rules made thereunder or guidelines issued, as the case may be. The Directors and Chief Financial Officer of the Company certify that all the statements in this Red Herring Prospectus are true and correct.

SIGNED BY ALL THE DIRECTORS OF LOKESH MACHINES LIMITED

Mr. M. Lokeswara Rao, Managing Director

Mr. B. Kishore Babu, Executive Director

Mr. M. Srinivas , Director (Auto Components)

Mr. M. Srikrishna, Director (CNC Machines Division)

Mr. K. Krishnaswamy, Director (Whole Time Director)

Mr. V.Shankar, Nominee Director (IDBI Nominee)

Mr B R Mahesh, Director

Dr. Y. Satyanarayana, Additional Director

Mr. R Mohan Reddy, Additional Director

Mr. Y Venkata Rao, Additional Director

SIGNED BY

Mr. V Sudhakar Reddy, Finance Manager

Place : Hyderabad

Date : 27th March, 2006