
DIRECTORS' REPORT

To,
The Shareholders,

The Directors hereby present the 18th Annual Report together with the audited statement of account for the year 31st March 2004. During the year under review there is an improvement in the market conditions of steel industry. The Automobile and automobile component industry, which consumes approximately 75% of your company's output, is registering growth that is expected to continue for sometime.

Input costs have been increased continuously through out the year and all out efforts are made by the management for strict cost reduction and improved working capital management which has contributed towards the below mentioned profitability :

1) FINANCIAL RESULTS

Summarised results for the year are as under :

	For the year ended 31.03.2004 (Rs. Lacs)	For the year ended 31.03.2003 (Rs. Lacs)
Total Income	47,405.99	42,562.11
Total Expenditure	41,638.96	36,635.94
Gross Profit	5767.03	5,926.17
Interest	2,197.05	2,684.93
Profit before Depreciation	3,569.98	3,241.24
Depreciation	2,590.30	2,548.81
Profit/(Loss) before Tax	979.68	692.43

2) MARKET SCENARIO

Both the Automobile and Auto Component Industry continued to do well throughout the year 2003-04 and this trend is likely to continue for the year 2004-05 also. All this augurs well for the demand of alloy steels in the years to come. **SUNFLAG**, being an approved supplier for major automobile component manufacturing units in the country, is expected to be benefited from the growth. Total exports during the year were 36865 MT (Rs.6804.36 Lacs) as compared to 46649 MT (Rs.7717.61Lacs) of previous year. The reduction in exports is due to the domestic demand and the domestic pricing for our products were more attractive.

3) POWER PLANT

During the period under review, the power plant generated 1075.67 Lacs kWh as compared to 1036.57 Lacs kWh in the corresponding period, thus an increase of 3.77%. Installation of new Captive Power Plant of 10 MW is under progress.

4) FINANCE

Even though the market conditions improved in the year, but due to steep increase in the cost of inputs and break-down of the transformer, which resulted in loss of production and sales, your Company has ended the year with a profit before tax of Rs.979.68 Lacs. After taking into account the brought forward profit of Rs.2867.03 Lacs, your Company has carried forward an amount of Rs.3716.40 Lacs.

5) OPERATIONS

During the year under review, operations showed improvements in all areas although there was a closure of Steel Melt Shop for two months viz. September 2003 - October 2003 due to unfortunate breakdown of 40 MVA transformer. The repair of transformer was carried out on emergency basis, which took 65 days for putting it back in operation. Had it not been this set back, operating figures would have been much better.

The total production of 189884 MT in our Steel Melt Shop was 12.67 % less than the production of the previous year which was 217431 MT due to break down of transformer and production loss for two months.

The total production of rolled products during the year was 195542 MT against 203133 MT as of the previous year.

6) DEMATERIALISATION OF SHARES

Upto 31.03.2004, there were approximately 790.06 Lacs shares dematerialised through Depositories viz. National Securities Depository Limited and Central Depository Services (India) Limited which represents 48.75 % of the Paid-up Capital.

7) LISTING OF SHARES

As already reported in the 17th annual report, the Company had already applied for voluntary delisting of shares from five stock exchanges viz. Delhi, Madras, Calcutta, Ahmedabad and Pune for which confirmations from stock exchanges except Calcutta stock exchange have been received.

8) ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGES EARNINGS AND OUTGO.

Particulars required to be disclosed under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are given in the annexure to this report.

9) SUBSIDIARY COMPANY

The Board at its meeting held on 16.06.2003 authorised formation of another subsidiary company. Accordingly, incorporated and constituted a subsidiary company under the name and style "Sunflag Power Limited" effective 21.08.2003 at Dehradun, Uttaranchal.

10) DIRECTORS

- i) Pursuant to Article 151 of the Articles of Association of the Company, Dr. E.R.C. Shekar and Mr. Navin C. Shah both retire by rotation and, being eligible, offered themselves for re-appointment.
- ii) Effective 12.04.2004, nomination of Mr. R.M. Ganatra has been withdrawn by the I D B I, Bombay.

11) INDUSTRIAL RELATIONS

Industrial relations remained cordial during the year. The company has entered with 3 years bonus agreement. Employees' competencies and skills were enhanced by exposing them to several internal and external training programmes. Various measures were taken to improve motivation level of employees. Welfare Schemes and social functions were continued to be implemented with a view to obtain commitment and loyalty towards the organisation.

12) PERSONNEL

Information as per Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, forms part of this report. However, as permitted by the Companies Act, 1956, the report and accounts are being sent to all shareholders excluding the statement of particulars of employees under Section 217 (2A). Any shareholder interested in obtaining a copy of this statement may write to the Secretary at the Registered Office of the Company.

13) AUDITOR'S REPORT

The observations made by the Auditors in their report are self-explanatory and have also been further amplified in the Notes to the Accounts.

14) AUDITORS

M/s Patel, Shah & Joshi, the existing Auditors are eligible and are recommended for re-appointment as Statutory Auditors till the conclusion of the next Annual General Meeting. The auditors have furnished a certificate of their eligibility for re-appointment under Section 224 (1-B) of the Companies Act, 1956.

15) AUDIT COMMITTEE

Audit Committee of Board is under Chairmanship of Mr. N.C. Shah, Chartered Accountant, and independent members consisting of Dr. E.R.C. Shekar, Mr. K. Chandramouli (UTI Nominee) and Mr. R.M. Ganatra (IDBI Nominee) as a practice of good corporate governance.

16) CORPORATE GOVERNANCE REPORT

Your Directors are pleased to report that your Company has complied with the SEBI Guidelines on Corporate Governance as of 31.03.2004 relating to Clause 49 of the Listing Agreement with concerned Stock Exchanges.

17) DIRECTORS' RESPONSIBILITY STATEMENT**Directors confirm**

- i) That the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation, wherever necessary, relating to material departures.
- ii) That the Directors have selected prudent accounting policies.
- iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) That the Directors have prepared the annual accounts on a going concern basis.

18) ACKNOWLEDGEMENT

Directors acknowledge with thanks co-operation and assistance received by the Company from the Central and State Government, Financial Institutions and Banks. The Directors also record their appreciation of the dedication of all the employees of the Company for their support and commitment to ensure that the Company continues to grow.

NAGPUR
11.05.2004

For and on the behalf of the Board
RAVI BHARDWAJ
VICE CHAIRMAN &
MANAGING DIRECTOR

**COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988
ANNEXURE TO THE DIRECTORS' REPORT****CONSERVATION OF ENERGY**

The following measures were taken during the year under review for conservation of energy :

- 1) Continuous improvement in power factor by augmentation of capacitor banks.
- 2) Modification of booster compressor circuit for coal injection system of SMS to achieve power saving.

FORM - A**FORM FOR DISCLOSURE OF PARTICULARS WITH
RESPECT TO CONSERVATION OF ENERGY****A) Power and Fuel Consumption**

Particulars	(2003 - 2004)	(2002 - 2003)
1) Electricity purchased [Units (kWh)]	109511274	126998244
Total Amount (Rs' 000)	402824	494296
Rate/Unit (Rs./kWh)	3.678	3.89
2) Production of Rolled Products (MT)	195542	203133
Electricity purchased (kWh/MT)	560.04	625.20
3) Fuel Oil like Furnace Oil/LSHS/LDO etc.		
Quantity (K.Ltrs.)	9949	11020
Total Amount (Rs'000)	117000	122612
Average Rate (Rs./KL)	11760	11126

B) Consumption Per Unit of Production

	Current Year		Previous Year	
	DRI	STEEL	DRI	STEEL
Production (MT)	123565	195542	113013	203133
Electricity (kWh/MT)	103.380*	903.724 *	107.870	931.608
Fuel (Ltr/MT)	0.700	50.437	2.378	52.928

* Reduction in fuel consumption is due to out-sourcing of heavy vehicles and better operating parameters.

C) Details of Captive Power Generation

	Current Year	Previous Year
Production (kWh)	107567000	103657000
Captive Consumption (CPP)	11668930	11986270
Captive Consumption (Steel)	79979070	74432730
Wheeled back power	15919000	17238000

FORM - B**FORM FOR DISCLOSURE OF PARTICULARS WITH
RESPECT TO TECHNOLOGY ABSORPTION****A) RESEARCH & DEVELOPMENT :**

Continuous development of new steel grades for critical applications in the automobile component industry for domestic and overseas market.

BENEFIT : Increase market share for the products.

FUTURE PLANS

- (a) Installation of AOD.
- (b) To add new grades to the product mix.
- (c) TPM is being initiated

Expenditure on R & D :

	Current Year 2003-2004	Previous Year 2002-2003
(a) Capital (Rs'000)	7768	2437
(b) Recurring (Rs'000)	3215	5838
(c) Total (Rs'000)	10983	8275
(d) Total R&D Expenditure as a percentage of total turnover.	0.21%	0.19%

**B) TECHNOLOGY ABSORPTION, ADAPTATION AND
INNOVATION**

1. Commissioning of Profile rolling.

BENEFITS :

- Wider product range(s).
- Value addition

FOREIGN EXCHANGE EARNINGS AND OUTGO

Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
i) Earnings		
Export of goods	680436	771761
ii) Outgo		
a) CIF value of imports	80211	74315
b) Others	10786	2546

Auditor's Certificate on Corporate Governance

To,
The Members of
Sunflag Iron & Steel Company Limited

1. We have examined the compliance of the conditions of corporate governance by Sunflag Iron & Steel Company Limited (the Company) for the year ended March 31, 2004 as stipulated in clause 49 of the Listing Agreement of the Company with the Stock Exchanges in India.
2. The Compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.
3. In our opinion and to the best of our information and according to the explanations given to us and based on the representations made by the Directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the Listing Agreements.
4. We state that no Investor Grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/Investors Grievances Committee.
5. We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For Patel, Shah & Joshi
Chartered Accountants

(Jayesh Parmar)
Partner

Nagpur
11.05.2004