

## DIRECTORS' REPORT

To,

**The Shareholders,**

The Directors hereby present the 19th Annual Report together with the audited statement of account for the year 31<sup>st</sup> March 2005. During the year under review there is an improvement in the market conditions of steel industry. The Automobile and automobile component industry, is registering growth that is expected to continue for sometime.

Input costs have 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 :

	<u>For the year ended 31.03.2005 (Rs. Lacs)</u>	<u>For the year ended 31.03.2004 (Rs. Lacs)</u>
Total Income	79163.87	47405.99
Total Expenditure	67659.91	41638.96
Gross Profit	11503.96	5767.03
Interest	2147.00	2197.05
Profit before Depreciation	9356.96	3569.98
Depreciation	4484.64	2590.30
Profit/(Loss) before Tax	4872.32	979.68

**2) MARKET SCENARIO**

As per the market indication, the Autoomile sector should have a growth of 8 to 10% in the year 2005-06. Auto Component Industry should do still better as India has become major hub for component sourcing. This should translate into further increase in the demand of Alloy and Spring Steel. SUNFLAG, have also started manufacturing high value stainless steel for which tremendous growth of domestic and international market is expected. Total exports during the year were 36092 MT(Rs.10433.40 Lacs) as compared to 36865 MT (Rs.6804.36 Lacs) of previous year.

**3) POWER PLANT**

During the period under review, the power plant generated 1209.77 Lacs kWh as compared to 1075.67 Lacs kWh in the corresponding period, thus an increase of 12.46%. Installation of new Captive Power Plant of 10 MW is under progress and is expected to be commissioned shortly.

**4) FINANCE**

Your Company has ended the year with a profit before tax of Rs.4872.32 Lacs. After taking into account the brought forward profit of Rs.3716.40 Lacs, your Company has carried forward an amount of Rs.7199.22 Lacs. In order to sustain in the business, profits made in past years have been ploughed back into the diversification/expansion of projects to ensure long term strength and stability. Keeping in mind the difficult and unpredictable days ahead, therefore, no dividend has been recommended.

**5) OPERATIONS**

During the year under review, operations showed improvements in all areas. Direct Reduction Plant during the year under review showed a growth of 8.60% with a production of 134192 MT as against 123565 MT in the previous year. The total production of 243877 MT in Steel Melt Shop was 28.43 % more than the production of the previous year which was 189884 MT.

The total production of rolled products during the year was 245821 MT against 196941 MT as of the previous year.

**6) PROJECTS**

Your company has taken steps to add additional capacity at Steel Melt Shop by installing Argon Oxygen Degassing (AOD) for making Stainless Steel and the Wire Rod Block machinery for further value addition and finishing. This will enable the company to enter into new market segment. Also this will reduce the dependency on Automobile / Auto ancillaries industry.

**7) DEMATERIALISATION OF SHARES**

Upto 31.03.2005, there were approximately 820.06 Lacs shares dematerialised through Depositories viz. National Securities Depository Limited and Central Depository Services (India) Limited which represents 50.56 % of the Paid-up Capital.

**8) LISTING OF SHARES**

The shares of your company continued to be listed with/traded on Mumbai Stock Exchange. In response to Company's earlier application for voluntary delisting of shares from Calcutta Stock Exchange Association Ltd., the confirmation has been received. The listing fees have been paid to both Mumbai Stock Exchange and Calcutta Stock Exchange.

- 9) 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.
- 10) SUBSIDIARY COMPANIES**  
Sunflag Power Limited has initiated steps for detailed technical study. There are no activities started yet at Sunflag Special Steel. The Annual Reports of both the subsidiary companies, viz. 'Sunflag Special Steels Ltd.' and 'Sunflag Power Limited' are enclosed in accordance with Section 212 of the Companies Act, 1956.
- 11) DIRECTORS**
- i) Pursuant to Article 151 of the Articles of Association of the Company, Dr. E.R.C. Shekar and Mr. N. C. Shah retire by rotation and, being eligible, offered themselves for re-appointment.
  - ii) Effective 16.10.2004, Mr. Pawan Chopra, Retired Secretary, Ministry of Information and Broadcasting, Government of India, has been nominated by UTI Asset Management Co. Pvt. Ltd., Mumbai.
  - iii) Effective 16.03.2005, Mr. P. Sitaram has been nominated by the I D B I Ltd., Mumbai.
  - iv) Effective 12.08.2004, nomination of Mr. K. Chandramouli has been withdrawn by UTI Asset Management Co. Pvt.Ltd., Mumbai.
  - v) Effective 18.10.2004, nomination of Mr. N. Lakshmanan has been withdrawn by the LIC of India, Mumbai.
- 12) INDUSTRIAL RELATIONS**  
Industrial relations remained cordial during the year. 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.
- 13) 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.
- 14) 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.
- 15) 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.
- 16) 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. Pawan Chopra (UTI Asset Management Co.'s Nominee) as a practice of good corporate governance.
- 17) CORPORATE GOVERNANCE REPORT**  
Your Directors are pleased to report that your Company has complied with the SEBI Guidelines on Corporate Governance as of 31.03.2005 relating to Clause 49 of the Listing Agreement with concerned Stock Exchange.
- 18) 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 safe guarding 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.
- 19) 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.

For and on the behalf of the Board

**RAVI BHARDWAJ  
VICE CHAIRMAN &  
MANAGING DIRECTOR**

30.07.2005

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) Replacement 5.5 KW motor of material handling trolley with 2.2 KW motors at Steel Melt Shop to save power approximately 4300 Kwh/annum.
- 2) Conventional motor operated cooling tower in Utility, replaced with fanless water-cooling tower saving 18.5 KW power per hour.
- 3) At utility, indirect cooling tower water pipe line modified to re-circulate the return water back to cooling tower without entering in the sump saving power of 75 KW per hour which was required to pump the water from sump to cooling tower.
- 4) Replaced 310 KW HT motors by 11 kw LT motors in cooling water system at captive power plant to save energy and power generation loss.

**FORM - A**

**FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY**

**A) Power and Fuel Consumption**

Particulars	2004 - 2005	2003 - 2004
1) Electricity purchased [Units (kWh)]	146334857	109511274
Total Amount (Rs' 000)	545018	402824
Rate/Unit (Rs./kWh)	3.72	3.678
2) Production of Rolled Products (MT)	245821	196941
Electricity purchased (kWh/MT)	595.29	560.04
3) Fuel Oil like Furnace Oil/LSHS/LDO etc.		
Quantity (K.Ltrs.)	12407	9949
Total Amount (Rs'000)	162057	117000
Average Rate (Rs./KL)	13062	11760

**B) Consumption Per Unit of Production**

	Current Year		Previous Year	
	DRI	STEEL	DRI	STEEL
Production (MT)	134192	245821	123565	196941
Electricity (kWh/MT)	98.121	943.461	103.380	897.300
Fuel (Ltr/MT)	0.632	50.129	0.700	50.078

**C) Details of Captive Power Generation**

	Current Year	Previous Year
Production (kWh)	120977000	107567000
Captive Consumption (CPP)	13167248	11668930
Captive Consumption (Steel)	98754752	79979070
Wheeled back power	9055000	15919000

**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 Wire Rod Block.
- (b) To add new grades to the product mix.
- (c) TPM is being initiated

**Expenditure on R & D :**

	Current Year 2004-2005	Previous Year 2003-2004
(a) Capital (Rs'000)	9212	7768
(b) Recurring (Rs'000)	617	3215
(c) Total (Rs'000)	9829	10983
(d) Total R&D Expenditure as a percentage of total turnover.	0.11%	0.21%

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

1. Commissioning of Strip Coiler.
2. Commissioning of Profile rolling.

**BENEFITS :**

- Wider product ranges.
- Value addition

**FOREIGN EXCHANGE EARNINGS AND OUTGO**

Particulars	Current Year ( Rs.'000 )	Previous Year ( Rs.'000 )
i) Earnings		
Export of goods	1043340	680436
ii) Out Go		
a) CIF value of imports	659746	80211
b) Others including Technical Services	11547	10786

**Auditors' Certificate to the Members of Sunflag Iron & Steel Company Limited**

We have examined the compliance of the conditions of corporate governance by Sunflag Iron & Steel Company Limited for the year ended March 31<sup>st</sup>, 2005 as stipulated in Clause 49 of the Listing particulars of the said Company with Stock Exchange(s).

The Compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to review of the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, and 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 aforesaid Listing Agreement.

We state that in respect of investor grievances received during the year ended 31st March 2005, no investor grievances were remaining unattended pending against the Company for a period exceeding one month as per the records maintained by the Shareholders / Investors Grievance Committee.

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 conducted the affairs of the Company.

**For Patel, Shah & Joshi**  
Chartered Accountants

**Jayant I. Mehta**  
Partner  
M. No. 42630

30.07.2005