

DIRECTORS' REPORT

To,

The Shareholders,

The Directors hereby present the 20th Annual Report together with the audited statement of accounts for the year 31st March 2006. During the year under review there is an improvement in the market conditions of steel industry. The Automobile and its component industry, is registering growth that is expected to continue for sometime.

Input costs have increased continuously throughout the year and all out efforts were 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 :

(Rs. in Lacs)

Particulars	For the year ended	
	31.03.2006	31.03.2005
Total Income	81096.32	79267.14
Total Expenditure	70135.54	67659.91
Gross Profit	10960.78	11607.23
Interest	1230.16	2250.27
Profit before Depreciation	9730.62	9356.96
Depreciation	4661.29	4484.64
Profit/(Loss) before Tax	5069.33	4872.32

2) DIVIDEND

Board of Directors have proposed payment of:

- i. arrears of dividend on Cumulative Preference Shares for the past years 1988 to 1993 of Rs.325.18 Lacs.
- ii. dividend @ 5% on 16,21,97,503 Equity Shares of Rs.10/- each subject to approval of members at the ensuing annual general meeting.

3) MARKET SCENARIO

As per the market indication, the Automobile sector shown a growth of 8 to 10% in the year 2005-06. Auto Component Industry had done better as India has become major hub for component sourcing. This has translated 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 30365 MT (Rs.8348.44 Lacs) as compared to 36092 MT (Rs.10433.40 Lacs) of previous year.

4) POWER PLANT

During the period under review, the power plant generated 1211.00 Lacs KWH as compared to 1209.77 Lacs KWH in the corresponding period, thus an increase of 0.1%. The company installed a new Captive Power Plant of 10 MW and has now been commissioned.

5) FINANCE

Your Company has ended the year with a profit before tax of Rs. 5069.33 Lacs. After taking into account the brought forward profit of Rs. 7199.22 Lacs, your Company has carried forward, after appropriations, an amount of Rs. 6287.83 Lacs. In order to sustain in the business, the same have been ploughed back into the diversification / expansion projects to ensure long term strength and stability.

6) OPERATIONS

- a) Direct Reduction Plant during the year under review showed a reduction of 5.31% with a production of 127067 MT as against 134192 MT in the previous year on account of synchronisation of 2nd power generation unit with DRI plant.
- b) The total production of 236760 MT in our Steel Melt Shop which is 12.48% more than the rated capacity of 210500 MT.
- c) The total production of rolled products during the year was 233130 MT which is 16.57% more than the rated capacity of 200000 Tonns.

7) PROJECTS

Your company has taken steps to install Argon Oxygen Degassing (AOD) for making Stainless Steel and the Wire drawing 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 in Automobile/Auto ancillaries industry.

8) DEMATERIALISATION OF SHARES

Upto 31.03.2006, there were approximately 849.15 Lacs shares dematerialised through Depositories viz. National Securities Depository Limited and Central Depository Services (India) Limited which represents 52.35% of the Paid-up Capital.

9) LISTING OF SHARES

The shares of your company continued to be listed with / traded on Bombay Stock Exchange Limited. In response to Company's earlier application for enlisting of Company's Equity Shares on the National Stock Exchange of India Limited, the confirmation had received and the Shares have been listed/traded w.e.f. 29.09.2005. The listing fees have been paid to both Bombay Stock Exchange and National Stock Exchange.

10) 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.

11) SUBSIDIARY COMPANIES

Sunflag Power Limited has initiated steps for detailed technical study. There are no activities started yet at Sunflag Special Steel Limited. The Annual Reports of both the subsidiary companies, viz. 'Sunflag Special Steels Limited' and 'Sunflag Power Limited' are attached in accordance with Section 212 of the Companies Act, 1956.

12) DIRECTORS

- i. Pursuant to Article 151 of the Articles of Association of the Company, Dr. E.R.C. Shekar and Mr. Navin C. Shah retire by rotation and, being eligible, offered themselves for re-appointment.
- ii. Effective 10.11.2005, nomination of Mr. Pawan Chopra has been withdrawn by UTI Asset Management Co. Pvt. Ltd. Mumbai.

13) 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.

14) 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 Company Secretary at the Registered Office of the Company.

15) 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.

16) AUDITORS

M/s Patel, Shah & Joshi, the retiring 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.

17) AUDIT COMMITTEE

Audit Committee of Board is under Chairmanship of Mr. Navin C. Shah, Chartered Accountant, and consisting of independent members viz. Dr. E.R.C. Shekar and Mr. P. Sitaram, Nominee IDBI Ltd. as a practice of good corporate governance.

18) CORPORATE GOVERNANCE REPORT

Your Directors are pleased to report that your Company has complied with the SEBI Guidelines on Corporate Governance as of 31.03.2006 relating to Clause 49 of the Listing Agreement with concerned Stock Exchange(s).

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

- i) That in 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.

20) 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 behalf of the Board

28th July, 2006
NAGPUR

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) In Bar & Section Mill, a total revamp of billet reheating furnace was done in which a new recuperator and newly fabricated water cooled beams were placed and sealing of the furnace was improved which has resulted in a saving of almost 10 Ltr/Ton in the consumption of furnace oil.
- 2) The revamping of reheating furnace also resulted into the reduced idle running of the rolling mill thereby reducing the power consumption of the Mill.
- 3) In Captive Power Plant, one of the T.G. set was re-wound and revamped and this increased the generation of reactive power thereby increasing the power factor of the input of electrical energy which has resulted in reduction in the power cost and also improved the power efficiency of various machines.

FORM - A

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

A) Power and Fuel Consumption

Particulars	2005 - 2006	2004 - 2005
1) Electricity purchased [Units (kWh)]	156960843	146334857
Total Amount (Rs' 000)	588212	545018
Rate/Unit (Rs./kWh)	3.75	3.72
2) Production of Rolled Products (MT)	233130	245821
Electricity purchased (kWh/MT)	673.28	595.29
3) Fuel Oil like Furnace Oil/LSHS/LDO etc.		
Quantity (K.Ltrs.)	13018	12407
Total Amount (Rs'000)	220858	162057
Average Rate (Rs./KL)	16966	13062

B) Consumption Per Unit of Production

	Current Year		Previous Year	
	DRI	STEEL	DRI	STEEL
Production (MT)	127067	233130	134192	245821
Electricity (kWh/MT)	104.31	1022.86	98.121	943.461
Fuel (Ltr/MT)	0.910	55.618	0.632	50.129

C) Details of Captive Power Generation

	Current Year	Previous Year
Production (kWh)	121100000	120977000
Captive Consumption (CPP)	14522836	13167248
Captive Consumption (Steel)	93572164	98754752
Wheeled back power	13005000	9055000

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 2005-2006	Previous Year 2004-2005
(a) Capital (Rs'000)	6298	9212
(b) Recurring (Rs'000)	5796	617
(c) Total (Rs'000)	12094	9829
(d) Total R&D Expenditure as a percentage of total turnover.	0.13%	0.11%

B) TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Commissioning of Strip Coiler.
2. 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	834844	1043340
ii) Out Go		
a) CIF value of imports	1049868	659746
b) Others including Technical Services	30302	11547

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 31st March, 2006 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 2006, 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

28th July, 2006
NAGPUR