

**DIRECTORS' REPORT**

To,

**The Shareholders,**

The Directors hereby present the 21<sup>st</sup> Annual Report together with the audited statement of account for the year ended 31<sup>st</sup> March, 2007. Financial year 2006 - 2007 has been another remarkable year for India. While the economic upswing has created significant business opportunities, the story has been somewhat mixed for the Company's overall performance for the year under review.

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 :

**(Rs. in Lacs)**

Particulars	For the year ended	
	31.03.2007	31.03.2006
Total Income	83,649.65	81,096.32
Total Expenditure	73,563.74	70,135.54
Gross Profit	10,085.91	10,960.78
Interest	1,195.43	1,230.16
Profit before Depreciation	8,890.48	9,730.62
Depreciation	4,006.82	4,661.29
Profit before Tax	4,883.66	5,069.33

**2. DIVIDEND**

The Board of Directors have identified certain projects to be implemented in near future which will enhance the present capacity as well as quality of our products and also enable the Company to venture in new market segments. However, this will require huge capital expenditure which, apart from borrowings from Banks / Financial Institutions, requires Company's own resources / contributions.

In view of above, the Board of Directors have recommended payment of dividend @2.5% on 162,197,503 Equity Shares of Rs.10/- each subject to approval of members at the ensuing annual general meeting.

**3. MARKET SCENARIO**

SUNFLAG has started manufacturing high value stainless steel for which tremendous growth of domestic and international market, which is expected to continue for some time. Total exports during the year under review were 30,439 MT (Rs. 8,605.25 Lacs) as compared to 30,365 MT (Rs. 8,348.44 Lacs) of the corresponding previous year.

**4. FINANCE**

Your Company has ended the year with a profit before tax of Rs. 4,883.66 Lacs. After taking into account the brought forward profit of Rs. 9,381.11 Lacs, your Company has carried forward an amount of Rs.13,907.42 Lacs.

**5. OPERATIONS**

- Direct Reduction Plant during the year under review showed a increase of 7.07% with a production of 1,36,044 MT as against 1,27,067 MT in the previous year.
- The total production of 2,36,569 MT in our Steel Melt Shop which is marginally less than the previous year's production of 2,36,760 MT due to trial of Mini Blast furnace.
- The total production of rolled products during the year was 2,42,982 MT which is 4.26% more than the previous year production of 2,33,130 MT.
- The total production of Pig Iron during the year for the period of 17 days was 4,786 MT, since Mini Blast furnace was commissioned on 14<sup>th</sup> March, 2007.

**6. PROJECTS**

During the year under review, the Company has installed Wire Rod Block Mill & Mini Blast Furnace (MBF) commissioned on 14<sup>th</sup> August, 2006 and 14<sup>th</sup> March, 2007 respectively. The Company has also taken the requisite steps pertaining to Belgaon Coal Block allotted to the Company at Warora in Chandrapur District and coal production is likely to be started by the end of financial year 2007-2008.

**7. POWER PLANT**

During the year under review, the power plant generated 1,582.75 Lacs kWh as compared to 1,211.00 Lacs kWh in the corresponding previous year, thus an increase of 30.07 %.

**8. DEMATERIALISATION OF SHARES**

As on 31<sup>st</sup> March, 2007, there were approximately 860.72 Lacs equity shares of the Company dematerialised through Depositories viz. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) which represents 53.066% of the Paid-up Capital of the Company.

**9. LISTING OF SHARES**

The equity shares of the company continued to be listed with / traded on Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE). The listing fees have been paid to both the stock exchanges - BSE & NSE for and up to the financial year 2007 - 2008.

**10. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGES EARNINGS AND OUTGO**

The 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**

The Annual Reports of both the Company's subsidiaries, viz. 'Sunflag Power Limited' and 'Sunflag Special Steels 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 from 21<sup>st</sup> May, 2007, Mr. D. B. Moharil ceased to be a Director / Whole time Director of the Company.
- iii. Mr. S. K. Gupta has been inducted on the Board as an Additional Director with effect from 21<sup>st</sup> May, 2007 and elevated as the Whole time Director with effect from 30<sup>th</sup> July, 2007. The Members are requested to approve his appointment as a Director / Whole time Director with terms and conditions together with remuneration payable to him, as set out in the Notice, in the interest of the Company.

**13. COMMISSION TO CHAIRMAN**

The Remuneration Committee and in turn the Board of Directors has recommended payment of remuneration by way of commission @1% of the net profits of the Company to Mr. P. B. Bhardwaj, Non-executive Chairman with effect from financial year 2006 - 2007, subject to requisite approvals.

**14. INDUSTRIAL RELATIONS**

Industrial relations remained cordial during the year. Employees' competencies and skills were enhanced by their participation in 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.

**15. PERSONNEL/PARTICULARS OF EMPLOYEES**

Information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, forms part of this report. However, as permitted by Section 219(1)(b)(iv) of the Companies Act, 1956 the report and accounts are being sent to all the 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.

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**16. TRANSFER OF UNCLAIMED DIVIDEND TO IEPF**

Pursuant to the provisions of Section 205A of the Companies Act, 1956, the dividend declared / paid which remain unpaid for a period of seven (7) years is required to be transferred to the Investor Education & Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the said Act.

**17. 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.

**18. AUDITORS**

- i. M/s Patel, Shah & Joshi, the existing Statutory 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 and are not disqualified for such appointment within the meaning of Section 226 of the Companies Act, 1956.
- ii. M/s. G. R. Paliwal & Company, Cost Accountant, Nagpur has been appointed as the Cost Auditors of the Company for the financial year 2007 - 2008.

**19. AUDIT COMMITTEE**

Audit Committee of the Board is under Chairmanship of Mr. Navin C. Shah, Chartered Accountant and independent members consisting of Dr. E. R. C. Shekar and Mr. P. Sitaram, Nominee (IDBI Limited) as a practice of good Corporate Governance.

**20. CORPORATE GOVERNANCE REPORT**

Your Directors are pleased to report that your Company has complied with the SEBI Guidelines on Corporate Governance as of 31<sup>st</sup> March, 2007 relating to Clause 49 of the Listing Agreement with concerned Stock Exchange(s). A Certificate from the Statutory Auditors - M/s Patel, Shah & Joshi, Chartered Accountants, Mumbai confirming compliance with conditions as stipulated under the aforesaid Clause 49 is annexed to this Report.

**21. CODES OF CONDUCT OF BUSINESS PRINCIPLES & ETHICS AND PREVENTION OF INSIDER TRADING**

Your Directors are pleased to report that your Company has complied with :

- i. the Code of Conduct of Business Principles and Ethics; and
- ii. the Prevention of Insider Trading in the equity shares of the Company by the designated persons/officers (insider)

**22. DIRECTORS' RESPONSIBILITY STATEMENT**

**The Board of Directors confirms :**

- 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.

**23. ACKNOWLEDGEMENT**

The Board of Directors acknowledge with thanks co-operation and assistance received by the Company from the Shareholders, 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

30<sup>th</sup> July, 2007  
New Delhi

**P. B. BHARDWAJ**  
**CHAIRMAN**

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**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) The power factor improved from 0.95 to unity during the year resulting in energy savings.
- 2) Usage of hot metal from Mini Blast Furnace into Electric Arc Furnance will result in power saving.
- 3) Modification of buildup line for annealing from Single coil to two coils result in increase capacity and saving of energy.

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

Sr. No.	Particulars	Current Year 2006 - 2007	Previous Year 2005 - 2006
1	Electricity purchased [Units (kWh)]	144686067	156960843
	Total Amount (Rs' 000)	625769	588212
	Rate/Unit (Rs./kWh)	4.33	3.75
2	Production of Rolled Products (MT)	242982	233130
	Electricity purchased (kWh/MT)	595.46	673.28
3	Fuel Oil like Furnace Oil/LSHS/LDO etc.		
	Quantity (K.Ltrs.)	13658	13018
	Total Amount (Rs'000)	239521	220858
	Average Rate (Rs./KL)	17538	16966

**B) Consumption Per Unit of Production**

Sr. No.	Particulars	Current Year 2006 - 2007		Previous Year 2006 - 2007	
		DRI	STEEL	DRI	STEEL
1	Production (MT)	1,36,004	2,42,982	1,27,067	2,33,130
2	Electricity (kWh/MT)	107.83	1,086.38	104.31	1,022.86
3	Fuel (Ltr/MT)	0.872	55.720	0.910	55.618

**C) Details of Captive Power Generation**

Sr. No.	Particulars	Current Year 2006 - 2007	Previous Year 2005 - 2006
1	Production (kWh)	158275000	121100000
2	Captive Consumption (CPP)	18185494	14522836
3	Captive Consumption (Steel)	133950506	93572164
4	Wheeled back power	16139000	13005000

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

1. Continuous development of new steel grades for critical applications in the automobile component industry for domestic and overseas market.
2. Bell annealing modification to increase the capacity which will reduce consumption of Fuel (LDO)

**BENEFIT :** Increase market share for the products.

**FUTURE PLANS**

- (a) Installation of new Caster in Steel Melt Shop
- (b) To add new grades to the product mix
- (c) TPM is being initiated

**Expenditure on R & D :**

Sr. No.	Particulars	Current Year 2006-2007	Previous Year 2005-2006
1	Capital (Rs'000)	4,999	6,298
2	Recurring (Rs'000)	2,171	5,796
3	Total (Rs'000)	7,170	12,094
4	Total R&D Expenditure as a percentage of total turnover.	0.08%	0.13%

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

1. Commissioning of Mini Blast Furnace (MBF)
2. Commissioning of Wire Rod Block

**BENEFITS:**

1. Usage of hot metal from MBF will result in power saving
2. Wider product range(s)
3. Value addition

**C) FOREIGN EXCHANGE EARNINGS AND OUTGO**

Sr. No.	Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
1	Earnings :		
	a) Export of goods	860,525	834,844
2	Out Go		
	a) CIF value of imports	317,365	1,049,868
	b) Others including Technical Services	31,398	30,302