

**DIRECTORS' REPORT**

To,

**The Shareholders,**

The Directors hereby present the 22<sup>nd</sup> Annual Report together with the audited statement of account for the financial year ended 31<sup>st</sup> March, 2008. During the financial year under review, there is a continuous improvement in the market conditions of Steel Industry as the automobile and automobile component industry is registering growth. However, there is shortfall in expected overall performance of the Company mainly due to higher input cost specially for Iron Ore, Coal, Coke, Ferro Alloys, Sponge Iron.

**1. FINANCIAL RESULTS**

Summarised results for the year are as under :

**(Rs. in Lacs)**

Particulars	For the financial year ended	
	31.03.2008	31.03.2007
Total Income	99,784.52	83,649.65
Total Expenditure	88,519.93	73,563.74
Gross Profit	11,264.59	10,085.91
Interest	2,067.40	1,195.43
Profit before Depreciation	9,197.19	8,890.48
Depreciation	3,841.83	4,006.82
Profit before Tax	5,355.36	4,883.66

**2. DIVIDEND**

The Board of Directors are pleased to recommend Dividend @5% i.e. Rs. 0.50 per Equity Share of the Company for the Financial Year 2007-2008, subject to approval of the Members in the ensuing 22<sup>nd</sup> Annual General Meeting of the Company.

**3. MARKET SCENARIO**

**SUNFLAG STEEL** is continuing to develop new high value grades of alloy steel to cater needs of domestic as well as international markets. During the financial year under review, the growth in the net turnover is around 19% as compared to corresponding previous financial year.

**4. FINANCE**

Your Company has ended the financial year with a profit before tax of Rs. 5,355.36 Lacs. After taking into account the brought forward profit of Rs. 9,518.62 Lacs, your Company has carried forward an amount of Rs.12,931.58 Lacs.

**5. OPERATIONS**

- Direct Reduction Plant during the financial year under review produced 1,29,350 MT as against 1,36,044 MT in the previous year, due to constraints of availability of raw materials.
- The total production of 2,46,308 MT in our Steel Melt Shop, which is marginally more than the previous year's production of 2,36,569 MT, but much higher than the rated capacity of 2,00,000 MT.
- The total production of rolled products during the financial year was 2,40,847 MT which is marginally less than the corresponding previous financial year production of 2,42,982 MT.
- The total production of Pig Iron during the financial year was 1,63,384 MT (previous year 5,725 MT)
- During the financial year under review, the power plant generated 1472.06 Lacs kWh as compared to 1582.75 lacs kWh in the corresponding previous year, thus decrease of 7% due to interruption in the operation of Sponge Iron Plant.

**6. PROJECTS**

- The Company is in the process of installing a Circular Type Sinter Plant with a capacity to manufacture 4,70,500 MT per annum. This plant would facilitate to reduce the consumption of Iron Ore lumps and utilisation of coke fines and other waste materials. This will also have an effect on reducing the cost of production of Hot Metal through Mini Blast Furnace.
- The installation of Continuous Casting Machine (CCM) is under progress and is expected to be operational in the second half of the financial year 2008 - 2009.

- c) The Belgaon Coal Block allocated to the Company at Warora in Chandrapur District of Maharashtra State becomes operational within a record time period from the date of allocation. It is also expected that the same will become fully operational and will achieve full capacity at the end of year 2009.
- d) Madanpur (North) Coal Block in the State of Chhattisgarh has been allocated to a joint venture consisting of eight co-allocattee companies, wherein the Company's share is about 11.73%. In terms of the allocation letter issued by the Ministry of Coal, Government of India; the Joint Venture Company (JVC) in the name and style 'Madanpur (North) Coal Company Private Limited' has been formed for development / exploration of coal block and the requisite efforts are being made for due implementation of the project.

## **7. DEMATERIALISATION OF SHARES**

Upto 31<sup>st</sup> March, 2008, there were approximately 871 Lacs equity shares dematerialised through Depositories viz. National Securities Depository Limited and Central Depository Services (India) Limited which represents 53.692% of the Paid-up Capital of the Company.

## **8. LISTING OF SHARES**

The shares of your company continued to be listed with / traded on Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The listing fees have been paid to both Bombay Stock Exchange and National Stock Exchange upto 31<sup>st</sup> March, 2009.

## **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 is venturing in Power generation at Hanol Tuini Hydro Electric Power Project in the state of Uttarakhand. The Company has initiated steps for detailed technical study and project clearances from the Government and other Authorities. However, there are no commercial activities started at Sunflag Special Steels Limited and the management is exploring business opportunities for the same.

The Annual Reports of both these subsidiaries, viz. 'Sunflag Power Limited' and 'Sunflag Special Steels Limited' are attached in accordance with Section 212 of the Companies Act, 1956.

## **12. DIRECTORS**

- a. 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, offer themselves for re-appointment.
- b. The Board of Directors recommends for the approval of the Members, the appointment of Mr. S. Gajendran as a Director (Independent, Non-executive) of the Company, liable to retire by rotation.
- c. The Board of Directors also recommends for the approval of the Members, the re-appointment of Mr. Ravi Bhushan Bhardwaj as the Vice-Chairman and Managing Director of the Company for a further period of five (5) years effective from 14<sup>th</sup> November, 2008.

The Members are requested to approve the aforesaid appointment / re-appointment in the interest of the Company.

## **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 / 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 Secretary at the Registered Office of the Company.

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**15. TRANSFER OF UNCLAIMED DIVIDEND TO I.E.P.F.**

Pursuant to the provisions of Section 205A of the Companies Act, 1956, the dividend declared and paid but which remain unpaid for a period of 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.

**16. 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.

**17. AUDITORS**

- a. M/s Patel, Shah & Joshi, the existing Statutory Auditors are eligible and are recommended for re-appointment as the Statutory Auditors till the conclusion of the next Annual General Meeting. The Statutory 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.
- b. M/s. G. R. Paliwal & Company, Cost Accountant, Nagpur has been appointed as Cost Auditors of the Company for the financial year 2008 - 2009.

**18. AUDIT COMMITTEE**

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

**19. 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, 2008 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 the Report of Corporate Governance.

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

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

- a. Code of Conduct of Business Principles and Ethics; and
- b. Prevention of Insider Trading in the shares of Sunflag by the designated persons/officers (insider).

**21. DIRECTORS' RESPONSIBILITY STATEMENT****The Board of Directors confirms :**

- a. 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;
- b. That the Directors have selected prudent accounting policies;
- c. 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;
- d. That the Directors have prepared the annual accounts on a going concern basis.

**22. 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

**Nagpur**  
**16<sup>th</sup> June, 2008**

**RAVI BHUSHAN BHARDWAJ**  
**VICE-CHAIRMAN & MANAGING DIRECTOR**

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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) Stoppage of PH2 reservoir pump, now raw water is directly supplied from intake well to treatment plant instead of intake to reservoir by 37 kW pump resulting in power saving.
- 2) Usage of DRI Ash in captive power plant which has resulted in reduction in the fuel cost.
- 3) Usage of MBF hot metal in EAF has resulted in power saving.

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

Sr. No.	Particulars	Current Year 2007-2008	Previous Year 2006-2007
1	Electricity purchased [Units (kWh)]	124770924	144686067
	Total Amount (Rs' 000)	479472	625769
	Rate/Unit (Rs./kWh)	3.843	4.33
2	Production of Rolled Products (MT)	240847	242982
	Electricity purchased (kWh/MT)	518.05	595.46
3	Fuel Oil like Furnace Oil/LSHS/LDO etc. Quantity (K.Ltrs.)	13202	13658
	Total Amount (Rs'000)	259069	239521
	Average Rate (Rs./KL)	19624	17538

**B) Consumption Per Unit of Production**

S. N.	Particulars	Current Year 2007 - 2008		Previous Year 2006 - 2007	
		DRI	STEEL	DRI	STEEL
1	Production (MT)	1,29,350	2,40,847	1,36,004	2,42,982
2	Electricity (kWh/MT)	109.91	951.877	107.83	1,045.227
3	Fuel (Ltr/MT)	1.094	54.235	0.872	55.720

**C) Details of Captive Power Generation**

S. N.	Particulars	Current Year 2007-2008	Previous Year 2006-2007
1	Production (kWh)	147206000	158275000
2	Captive Consumption (CPP)	17807234	18185494
3	Captive Consumption (Steel)	118702766	123950506
4	Wheeled back power	10696000	16139000

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

1. Down Coiler : Coil weight has been increased from 600 kg to 750 kg which has reduced the end cutting loss in hot rolling as well as in cold rolling.
2. Using DRI ash in place of Coal Fines in captive power plant reduced cost of power generation.
3. Usage of hot metal in EAF : Significant quantity of hot metal was used in the EAF which has reduced electricity consumption as well as improved the yield.

**BENEFITS :**

1. To minimise the losses and to improve the yield.
2. To avoid pickling

**FUTURE PLANS**

1. Installation of Circular Type Sinter Plant.
2. Usage of Blast Furnace Gas in re-heating furnace at Rolling Mills.
3. To add new grades to the product Mix.

**Expenditure on R & D :**

Particulars	Current Year 2007-2008	Previous Year 2006-2007
Capital (Rs'000)	16,329	4,999
Recurring (Rs'000)	2,359	2,171
Total (Rs'000)	18,688	7,170
Total R & D Expenditure as a - percentage of total turnover.	0.19%	0.08%

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

1. Development of Under Ground Coal Mine
2. Installation fo Continuous Casting Machine

**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**

Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
Earnings : Export of goods	<u>6,50,110</u>	<u>8,60,525</u>
Out Go :		
a) CIF value of imports	<u>7,72,542</u>	<u>317,365</u>
b) Other including Technical Services	<u>16,915</u>	<u>31,398</u>

**PROFILE(S) OF THE DIRECTORS SEEKING APPOINTMENT/RE-APPOINTMENT****Mr. Ravi Bhushan Bhardwaj**

Mr. Ravi Bhushan Bhardwaj, Promoter of the Company is an industrialist. He is having more than four decades of experience as a business tycoon in handling various industries and particularly in the Steel and Textile industry. He joined Sunflag as Vice Chairman & Managing Director in the year 1998. He has successfully led the Company by his unstinted efforts and wide contributions which resulted in not only increasing in the Company's overall performance and financial results and make it profitable but also the dividend paying Company. He is also holding position of Directorship in Sunflag Power Limited, Sunflag Special Steels Limited and Haryana Television Limited.

**Dr. E.R.C. Shekar**

Dr. E.R.C. Shekar is graduated in the Metallurgical Engineering and awarded Doctorate in that field. He was Managing Director of Steel Authority of India Limited (SAIL). He has gained more than four decades of experience in steel making and marketing. He is associated with Sunflag since 1991 as an Independent, Non-executive Director. He is Chairman of the 'Remuneration Committee' and 'Investors' Grievance Committee' of Board and also a member of 'Board Committee', 'Audit Committee' and 'Share Transfer Committee' of the Board. He is also holding Directorship in SPA Computers Limited, Navbharat Ventures Limited, Jayprakash Associates Limited and Hazira Plates Limited.

**Mr. Navin C Shah**

Mr. Navin C. Shah is a British National, and has done B.Sc. (Econ), Fellow Chartered Accountant from England, A.T.I.I., P.M.D. He is acting as Consultant to many Audit Firms in India and overseas. He has gained more than four decades of experience in the fields of Accounts, International Accounting, Auding practices, Tax laws, Management Accounting etc. He is associated with Sunflag since 2002 as an Independent, Non-executive Director. He is Chairman of 'Audit Committee' and also a member of 'Board Committee' and 'Remuneration Committee' of the Board. He is holding Directorship in Sunflag Power Limited, Sunflag Special Steels Limited, Savla Shirt Exporters Private Limited, United Industrial Fasteners Private Limited and Birla Cotsyn (India) Limited.

**Mr. S. Gajendran**

Mr. S Gajendran is graduated as Electrical Engineer from Madras University. He is a member of Institution of Engineers. On completion of his graduation, he started his career with Bharath Earth Movers Limited (BEML), Bangalore in 1969. Afterwards, he joined Tamil Nadu Electricity Board in 1970. He subsequently joined IDBI in 1979 as a Deputy Manager. He served IDBI in various capacities and retired from IDBI in the year 2004 from the post of Executive Director. He served as a Nominee Director of IDBI on the Board of various Industrial Concerns including Sunflag (from the year 1996 to 2000) and State owned Corporation. Presently he is a Chairman of Review Committee of GER Group of Industries.