



(AN ISO-9001:2000 CO.)

Aarti Group

Annual Report 2006-07

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Aarti Steels Limited

AARTI STEELS LIMITED , LUDHIANA.

| | | |
|-----------------------------|---|--|
| BOARD OF DIRECTORS : | SH. SOHAN LAL MITTAL SH. SHIV PARSHAD MITTAL SH. MAHESH MITTAL SH. RAJEEV MITTAL SH. RATTAN SINGHANIA SH. BHARAT JAIN SH. O . P. BHATIA | MG. DIRECTOR DIRECTOR DIRECTOR DIRECTOR DIRECTOR DIRECTOR DIRECTOR |
|-----------------------------|---|--|

REGISTERED OFFICE : G . T. ROAD , MILLER GANJ ,
LUDHIANA.

WORKS :

- 1 FOCAL POINT ,
LUDHIANA.
- 2 VILLAGE : GHANTIKHAL ,
DIST. CUTTACK (ORISSA)

BANKERS : STATE BANK OF PATIALA
STATE BANK OF INDIA
PUNJAB NATIONAL BANK

AUDITORS : M/S N . K. BECTOR & CO.
CHARTERED ACCOUNTANTS
LUDHIANA.

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AUDITORS' REPORT

TO THE MEMBERS OF AARTI STEELS LIMITED

1. We have audited the attached Balance Sheet of AARTI STEELS LIMITED , as at March 31, 2007, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance . about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India In terms of sub-section (4A) of Section 227 of The Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the said order to the extent applicable.

4. Further to our comments in the Annexure referred to in paragraph (3) above :

- (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit ;
- (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books and proper returns adequate for the purposes of our audit have been received.
- (c) The Balance Sheet, the profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (d) In our opinion, the Balance Sheet, the Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ;
- (e) On the basis of written representations received from the directors, as on 31st March, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 ;

- (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India ;
- (i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2007 ;
- (ii) In the case of the Profit and Loss Account, of the profit of the company for the year ended on that date ; and
- (iii) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For N. K. Bector & Co.,
Chartered Accountants,

Sd/-
N. K. BECTOR,
Chartered Accountant.
Membership No.81095

Ludhiana :24.08.2007

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Annexure to the Auditors' Report

- (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets.
- (b) The fixed assets of the Company have been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed. In our opinion, the frequency of verification is reasonable.
- (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the company during the year.
- (ii) (a) The inventory of finished goods and semi-finished goods and raw materials at Works have been physically verified by the management at reasonable intervals during the year. In our opinion the frequency of such verification is reasonable having regard to the size of the company and the nature of its business.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) In our opinion and according to the information and explanations given to us, the company has maintained proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) (a) The Company has taken unsecured loans from seven parties covered in the register maintained under Section 301 of the Companies Act, 1956. The amount involved in the transactions is Rs.14278.93 Lacs. The amount payable at close of the year to these parties is Rs.3148.46 Lacs.
- (b) The Company has not granted unsecured loans to any company covered in the register maintained under Section 301 of the Companies Act, 1956.
- (c) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions on which loans have been taken from/granted to companies, firms or other parties listed in the registers maintained under section 301 of the Companies Act, 1956 are not prima facie, prejudicial to the interest of the Company.
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchases of inventory and fixed assets and for the sale of goods. In our opinion and according to the information and explanations given to us, there is no continuing failure to correct major weaknesses in internal control.
- (v) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained u/s 301 of the Companies Act, 1956 and aggregating during the year to Rs.5.00 lacs or more in respect of each party, have been made at prices which are reasonable having regard to the prevailing market prices for such goods, material or services or the prices at which transactions for similar goods or services have been made with other parties.

(vi) The Company has not accepted any deposits under the provisions of Sections 58A and 58AA of the Act and the rules framed there under.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) We have broadly reviewed the books of account maintained by the company pursuant to the order made by the The Central Government for the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been maintained .

(ix) (a) According to the information and explanations given to us, there are no undisputed statutory dues payable in respect of Provident Fund, Investor Education and Protection Fund, Employees State Insurance Fund, Income Tax, Sales-tax, Wealth Tax, Customs Duty, Excise Duty, Cess which are outstanding as at 31st March, 2007 for a period of more than 6 months from the date they became payable.

(b) According to the information and explanation given to us, the dues of sales tax, income tax, custom duty, wealth tax, service tax, excise duty and cess which have not been deposited on account of any disputes with the appropriate authorities are as follows :-

| Sr. No. | Statutes | Forum before whom pending | Amount (Rs.) | Nature of Dues |
|---------|--------------------|---------------------------|--------------|---------------------|
| 1 | Central Excise Act | CESTAT | 6814966/- | Inadmissible CENVAT |

(x) The Company has no accumulated losses as at March 31, 2007 and it has not incurred any cash losses during the financial year ended on that date or in the immediately preceding financial year.

(xi) According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial Institution or bank or debenture holders as at the balance sheet date.

(xii) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, and according to the information and explanations given to us, the provisions of any special status applicable to chit fund/nidhi/mutual benefit fund/ societies are not applicable to Company.

(xiv) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of transactions and contracts relating to dealing in shares, securities, debentures and other investments during the year and, based on representations received by us from the management, timely entries have been made therein. Further such securities have been held by the Company in its own name.

(xv) According to the information and explanations given to us, the Company has given corporate guarantee to the Banks for term loans granted to Aarti International Limited, a group Company, the terms & conditions whereof are not prejudicial to the interest of the company

(xvi) In our opinion & according to the informations and explanations given to us , the term loans have been applied for the purpose for which they were obtained.

(xvii) According to the information and explanations given to us and on the basis of an overall examination of the balance sheet of the Company, in our opinion, there are no funds raised on a short-term basis which have been used for long-term investment, and vice versa.

(xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.

(xix) The Company has not issued any secured debentures which are outstanding at the year end.

(xx) The Company has not raised any money by public issue during the year.

(xxi) During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, no fraud (i.e.. intentional material misstatements resultant from fraudulent financial reporting and misappropriation of assets) on or by the Company has been noticed or reported during the year by the Company.

For N. K. Bector & Co.,
Chartered Accountants,

Sd/-

N. K. BECTOR,
Chartered Accountant.
Membership No.81095

Ludhiana : 24.08.2007

AARTI STEELS LIMITED, LUDHIANA.

BALANCE SHEET AS AT 31ST MARCH, 2007

(Figures in Rupees)

| PARTICULARS | ANNEX. NO. | AS AT 31.03.2007 | | AS AT 31.03.2006 | |
|--|---------------|----------------------|----------------------|----------------------|----------------------|
| | | AMOUNT | TOTAL | AMOUNT | TOTAL |
| SOURCES OF FUNDS : | | | | | |
| 1. Shareholder's Funds : | | | | | |
| a) Share Capital | I | 110730000.00 | | 110730000.00 | |
| b) Reserve & Surplus | II | <u>1898940421.98</u> | 2009670421.98 | <u>1624544595.87</u> | 1735274595.87 |
| 2. Borrowed Funds : | | | | | |
| a) Secured Loans | III | 3102271837.94 | | 2805691065.11 | |
| b) Unsecured Loans | IV | <u>314846034.52</u> | 3417117872.46 | <u>351354881.08</u> | 3157045946.19 |
| 3. Deferred Tax Liability | | | | | |
| | | | 315980082.00 | | 353489375.00 |
| TOTAL : | | | <u>5742768376.44</u> | | <u>5245809917.06</u> |
| APPLICATION OF FUNDS : | | | | | |
| 1. Fixed Assets : | | | | | |
| a) Gross Block : | V | 3904979012.53 | | 3515335638.61 | |
| b) Less : Depreciation | | <u>1017551941.99</u> | | <u>730459803.99</u> | |
| c) Net Block | | 2887427070.54 | | 2784875834.62 | |
| d) Capital work-in-process | | <u>277393947.47</u> | 3164821018.01 | <u>327585627.75</u> | 3112461462.37 |
| 2. Investments : | | | | | |
| | VI | | 170746552.48 | | 206849173.28 |
| 3. Current Assets, Loan and Advances | | | | | |
| a) Inventories | | 1135438782.00 | | 845925289.00 | |
| b) Sundry Debtors | | 1262881815.88 | | 926189455.85 | |
| c) Cash and Bank Balances | | 114857814.35 | | 95398634.01 | |
| d) Interest Accrued | | 1333222.47 | | 0.00 | |
| e) Loan and Advances | | <u>304709822.95</u> | | <u>405289031.47</u> | |
| | (A) | <u>2819221457.65</u> | | <u>2272802410.33</u> | |
| Less : Current Liabilities and Provisions | | | | | |
| a) Current Liabilities | VIII | 411823651.70 | | 346108411.92 | |
| b) Provisions | | <u>217000.00</u> | | <u>234717.00</u> | |
| | (B) | <u>412040651.70</u> | | <u>346343128.92</u> | |
| Net Current Assets (A - B) | | | 2407180805.95 | | 1926459281.41 |
| MISC. EXPENDITURE : | | | | | |
| Capital Issue Expenses (to the extent not written-off or adjusted) | | | 20000.00 | | 40000.00 |
| TOTAL : | | | <u>5742768376.44</u> | | <u>5245809917.06</u> |

Notes on Accounts

XIX

The Annexures referred to above form an integral part of the Balance Sheet.

LUDHIANA : 24th August, 2007

As per our report of even date,

for N. K. BECTOR & CO.

(Chartered Accountants)

Sd/-
(N. K. Bector)
PROPRIETOR

Sd/-
(Sohan Lal Mittal)
MANAGING DIRECTOR

Sd/-
(Shiv Parshad Mittal)
DIRECTOR

AARTI STEELS LIMITED, LUDHIANA.

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDING 31ST MARCH, 2007

(Figures in Rupees)

| PARTICULARS | ANNEX. NO. | CURRENT YEAR | | PREVIOUS YEAR | |
|--|---------------|---------------------|-----------------------------|---------------------|-----------------------------|
| | | AMOUNT | TOTAL | AMOUNT | TOTAL |
| INCOME : | | | | | |
| Gross Sales | XVII | 6884522313.63 | | 5562120092.09 | |
| Less : Excise Duty | | <u>896089065.00</u> | | <u>760546550.00</u> | |
| Net Sales | | | 5988433248.63 | | 4801573542.09 |
| Other Income | IX | | 30750767.85 | | 28075386.86 |
| TOTAL : (I) | | | <u><u>6019184016.48</u></u> | | <u><u>4829648928.95</u></u> |
| EXPENDITURE : | | | | | |
| Accretion in stocks | X | | (155515501.00) | | (81260707.00) |
| Raw Material Consumed | XI | | 2431273363.66 | | 1570100329.34 |
| Purchase of Semi-Finished Products | XI | | 668980011.37 | | 943707390.98 |
| Manufacturing Expenses | XII | | 1785612587.09 | | 1413471819.39 |
| Personnel Expenses | XIII | | 237262703.68 | | 168041742.92 |
| Administrative & Other Expenses | XIV | | 72460000.32 | | 68251139.81 |
| Financial Expenses | XV | | 282813286.58 | | 241574219.85 |
| Selling & Distribution Expenses | XVI | | 153324760.39 | | 130573150.42 |
| Loss on Sale of Fixed Assets | | | 652409.53 | | 776362.00 |
| Capital Issue Expenses (Written Off) | | | 20000.00 | | 20000.00 |
| Depreciation | V | | 289669542.00 | | 139214328.50 |
| TOTAL : (II) | | | <u><u>5766553163.62</u></u> | | <u><u>4594469776.21</u></u> |
| Profit before Tax (I - II) | | | <u><u>252630852.86</u></u> | | <u><u>235179152.74</u></u> |
| Provision for - Current Tax | | | 30700000.00 | | 19700000.00 |
| - Fringe Benefit Tax | | | 1140000.00 | | 1620000.00 |
| - Wealth Tax | | | 217000.00 | | 222000.00 |
| - Adjustment of Deferred Tax Liability | | | (37509293.00) | | 191425910.00 |
| - Taxes (Written Back) | | | <u>(15578717.25)</u> | | <u>0.00</u> |
| Profit after Tax | | | <u><u>273661863.11</u></u> | | <u><u>212967910.00</u></u> |
| Add : Earlier year depreciation added back | | | 733963.00 | | 0.00 |
| Surplus from the Previous Year | | | 492442.10 | | 781199.36 |
| Balance available for Appropriation | | | <u><u>274888268.21</u></u> | | <u><u>22992442.10</u></u> |
| Less : Transferred to General Reserve | | | 272500000.00 | | 22500000.00 |
| Unappropriated Profit transferred to B/Sheet | | | 2388268.21 | | 492442.10 |
| Earning Per Share of Rs.100/- each | | | | | |
| (Refer Note No.19 of Notes on accounts) | | | | | |
| - Basic | | | 247.81 | | 22.04 |

Notes on Accounts

XIX

The Annexures referred to above form an integral part of the Profit and Loss Account.

LUDHIANA : 24th August, 2007

As per our report of even date ,

for N . K. BECTOR & CO.

(Chartered Accountants)

Sd/-

(N . K . Bector)
PROPRIETOR

Sd/-

(Sohan Lal Mittal)
MANAGING DIRECTOR

Sd/-

(Shiv Parshad Mittal)
DIRECTOR

AARTI STEELS LIMITED , LUDHIANA .

CASH FLOW STATEMENT for the year ended 31st March , 2007

| PARTICULARS | CURRENT YEAR (Figures in Rs.) | PREVIOUS YEAR (Figures in Rs.) |
|--|-----------------------------------|------------------------------------|
| A. CASH FLOW FROM OPERATING ACTIVITIES | | |
| Net Profit before Tax and extraordinary items | 252630852.86 | 235179152.74 |
| Adjustments for : | | |
| Depreciation | 289669542.00 | 139214328.50 |
| Interest Charged | 273614907.33 | 235677019.12 |
| Interest / Rent / Dividend Received | (7660529.85) | (5115927.42) |
| Loss on sale of Assets (Net) | 652409.53 | 776362.00 |
| Investments / Capital Issue Expenses (Written Off) | <u>20000.00</u> | <u>20000.00</u> |
| Operating Profit before Working Capital changes | 808927181.87 | 605750934.94 |
| Adjustments for : | | |
| Increase in Inventories | (289513493.00) | (411290227.00) |
| Increase in Trade & Other Receivable | (246382739.26) | (155950840.62) |
| Increase in Trade & Other Liabilities | <u>65715239.78</u> | <u>(76532579.18)</u> |
| Cash Generation from Operations | 338746189.39 | (38022711.86) |
| Interest Paid | (273614907.33) | (235677019.12) |
| Net Tax Paid | <u>(7559634.47)</u> | <u>(35519914.04)</u> |
| NET CASH FROM OPERATING ACTIVITIES | 57571647.59 | (309219645.02) |
| B. CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchase of Fixed Assets | (362218451.85) | (582793538.61) |
| Sale of Fixed Assets | 20270907.68 | 1062167.00 |
| Sale of Investments | 36102620.80 | (158876075.44) |
| Interest / Rent / Dividend Received | <u>7660529.85</u> | <u>5115927.42</u> |
| NET CASH USED IN INVESTING ACTIVITIES | (298184393.52) | (735491519.63) |
| C. CASH FLOW FROM FINANCING ACTIVITIES | | |
| Proceeds from long term borrowings | (163602979.30) | 602241609.00 |
| Increase in Capital (Net) | 0.00 | 150235000.00 |
| Proceeds from short term borrowings | 460183752.13 | 362172710.21 |
| Proceeds from unsecured borrowings | <u>(36508846.56)</u> | <u>(114086926.43)</u> |
| NET CASH USED IN FINANCING ACTIVITIES | 260071926.27 | 1000562392.78 |
| NET INCREASE IN CASH & CASH EQUIVALENTS | 19459180.34 | (44148771.87) |
| CASH AND CASH EQUIVALENTS AS ON 01.04.2006 | 95398634.01 | 139547405.88 |
| CASH AND CASH EQUIVALENTS AS ON 31.03.2007 | 114857814.35 | 95398634.01 |

LUDHIANA : 24th August, 2007

As per our report of even date ,
for N. K. BECTOR & CO.
(Chartered Accountants)Sd/-
(N. K. Bector)
PROPRIETORSd/-
(Sohan Lal Mittal)
MANAGING DIRECTORSd/-
(Shiv Parshad Mittal)
DIRECTOR