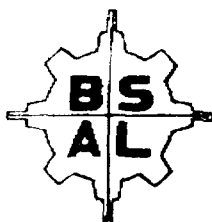


**23rd
ANNUAL REPORT
2006 - 2007**

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Bellary Steels and Alloys Limited



Bellary Steels and Alloys Limited

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**BELLARY STEELS & ALLOYS LIMITED**

BOARD OF DIRECTORS	: Shri. S.Madhav, Managing Director Shri. G.J.Prasad, Nominee of IFCI Smt. S.Parvathi, Director
EXECUTIVES	: Shri S.Sivaram Prasad, President (Operations & Admin.) Shri A. Mallikarjunappa - GM (F&A) Shri A. Raghuram - GM (Operations)
AUDITORS	: M/s. Manohar Chowdhry & Associates Chartered Accountants, Bangalore
BANKERS	: HDFC Bank Limited Central Bank of India Indian Bank The Dhanalakshmi Bank Ltd Bharath Overseas Bank Ltd.
REGISTERED OFFICE/ FACTORY	: S-10/11, Anantapur Road, Bellary – 583 101. Karnataka Grams: "BESTEEL" web:www.bsai.in email : bsalbly@sancharnet.in.; bsalbly@bsai.in. Phone : 08392-261201 (4 lines), Fax: 08392-260113
CORPORATE OFFICE	: #201, 7th cross, Off.C.M.H Road, Indiranagar 1st stage, Bangalore-560038. Email:bsai@vsnl.com; bsalblr@bsai.in Phone : 080-25210461(3 lines), Fax: 080-25210460
NAME OF THE STOCK EXCHANGES WHERE THE COMPANY'S SHARES ARE LISTED	: Bombay Stock Exchange Limited., Phiroze Jeejeebhoy Towers, Dalal Street Mumbai - 400 001, Ph : 22721234 Bangalore Stock Exchange Limited., No. 51, Stock Exchange Towers, J C Road Bangalore – 560 027, Ph : 22995234

23rd Annual Report 2006 - 2007**NOTICE TO THE SHAREHOLDERS**

NOTICE is hereby given that the Twenty Third Annual General Meeting of the Shareholders of M/s. Bellary Steels & Alloys Limited will be held at its Registered Office of the Company at S-10/11, Anantapur Road, Bellary – 583 101 at 11.00 a.m. on Saturday, the 29th September, 2007 to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2007 and Profit & Loss Account for the year ended on that date together with the reports of Directors and Auditors thereon.
2. To appoint a Director in place of Shri S. Madhav, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint Auditors and fix their remuneration.

M/s Manohar Chowdhry & Associates, Chartered Accountants, Bangalore, the retiring Auditors are eligible for reappointment.

To consider and if thought fit, to pass with or without modifications, the following resolution as a special resolution.

"RESOLVED THAT in terms of section 224 of the Companies Act 1956, M/s Manohar Chowdhry & Associates, Chartered Accountants, Bangalore the retiring auditors of the Company be and are hereby reappointed as Auditors of the Company till the conclusion of the next Annual General Meeting at the remuneration as may be fixed by the board of directors in consultation with the Auditors".

SPECIAL BUSINESS :

4. To consider and if thought fit, to pass with or without modifications, the following resolution as an ordinary resolution.

" RESOLVED THAT pursuant to provisions of section 198, 269, 309, 310 and 311 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII (including any statutory modification or re-enactment thereof, for the time being in force), the consent of the Company be and is hereby accorded for reappointment of Shri S. Madhav, as Managing Director of the Company for a period of 5 years with effect from 29th January, 2007 on the following salary and perquisites".

- (a) SALARY: Rs. 30,000/- per month in the scale of Rs. 30,000/- – Rs.60,000/- including dearness and all other allowances.
- (b) PERQUISITES: Perquisites will be in addition to the salary and will be subject to the condition that the monetary value shall be restricted to an amount equal to the annual salary and will include furnished accommodation, gas, electricity, water and furnishings, medical reimbursement and leave travel concession for self and family, club fees, personal accident insurance etc. in accordance with the rules of the company, for the purposes of which limit.
 - (i) Perquisites shall be evaluated as per Income Tax Rules, wherever applicable and in the absence of any such Rule, perquisites shall be evaluated at actual cost; and
 - (ii) Use of Company Car for official purposes and telephone at residence (including payment for local calls and long distance official calls) shall not be included;
- (c) Company's contribution to Provident Fund and Superannuation Fund as per the Rules of the Company together not exceeding 25% of the salary. Gratuity will be limited to half a month's salary for each completed year of service.

"RESOLVED FURTHER THAT where in any financial year the Company has no profits or its profits are inadequate, the remuneration payable to Shri S Madhav, shall be governed by Part II of Schedule XIII of the Companies Act, 1956 or any statutory enactment thereof".

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to alter and vary terms and conditions of the said appointment in accordance with the laws in force from time to time as may be agreed to between the Board of Directors and Shri S Madhav".

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to take such steps as may be necessary, to give effect to this resolution".

5. To consider and if that fit, to pass with or without modifications, the following resolution as a special resolution:

" RESOLVED THAT in accordance with the provisions of section 81(1)(a) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force), and enabling provisions in the Memorandum and Articles of Association of the Company and the Listing



Bellary Steels and Alloys Limited

Agreements entered into by the Company with the Stock Exchanges where the shares of the Company are listed and subject to the approval of the Financial Institutions (FIs), Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), and all other related provisions, if any, and to the extent necessary, and such other approvals, permissions and sanctions, as may be necessary, and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions while may be agreed to, by the Board of Directors of the Company (hereinafter referred to as the "Board") and/or a duly authorised Committee thereof (hereinafter referred to as the "Committee") for the time being exercising the powers conferred by the Board, the consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot on behalf of the Company, in one or more lots (including with provision for reservation on firm and / or competitive basis) of public or private offerings in domestic and / or international markets, through prospectus and offer letter or other Permissible / requisite offer document, Foreign Currency Convertible Bonds (FCCBS) and / or Global Depository Receipts (GDRs) and / or American Depository Receipts (ADRs) and / or other Depository Receipts (DRs) and / or Securities representing either Equity Shares or convertible Securities through Depository Receipts, and / or Equity Shares and / or any other Securities convertible into Equity Shares at the option of the Company and / or holders of the Securities and / or Securities linked to Equity Shares and / or Securities with or without detachable / non detachable warrants (the "Securities") whether secured by way of

creating charge on the assets of the Company or unsecured, subscribed to in Indian / Foreign Currency(ies), by Indian or Foreign Banks, Institutions, Institutional Investors, Mutual Funds, Companies, Other Corporate Bodies, Trusts, Funds, Hedge Funds, Resident / Non-Resident Indians, Foreign Nationals, individuals and other eligible Investors, persons or entities ("Investors") as may be decided by the Board / whether or not such investors are members of the Company; up to an aggregate amount not exceeding US\$ 300 Millions or equivalent amount in Indian or any other currency as the case may be (inclusive of such premium as may be determined), and such offer, issue and allotment to be made, at such time or times, in Indian Rupees or any convertible foreign exchange or other currencies as may be permissible and / or required, at such price or prices, at a discount, par or premium to market price, in such form and manner and on such other terms and conditions as may be decided and deemed appropriate by the Board at the time of such offer, issue and allotment, subject however, to the applicable guidelines, rules, regulations, notifications, circulars and applicable statutory provisions, subject to necessary provisions & approvals."

By order of the Board
for **BELLARY STEELS AND ALLOYS LIMITED**

Bangalore
27th July, 2007

S.MADHAV
Managing Director

23rd Annual Report 2006 - 2007**NOTES**

- (i) Explanatory statement under section 173(2) of the Companies Act, 1956 is annexed herewith in respect of special business.
- (ii) Any member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself, and the proxy need not be a member. The proxy form should, however, be deposited at the Registered office of the Company not less than 48 hours before the commencement of the meeting.
- (iii) The register of Members of the Company will remain closed during the period 27th September, 2007 to 29th September, 2007 (Both days inclusive)
- (iv) Members/Proxies, should bring the Attendance slip sent herewith duly filled in for attending the meeting and hand it over at the entrance of the hall.

ITEM NO.3**Explanatory statement as required u/s 173(2) of the Companies Act, 1956**

M/s Manohar Chowdhry & Associates, Chartered Accountants, Bangalore, were appointed as auditors in the Annual General Meeting held on 30th September, 2006 and to hold office until the conclusion of the next Annual General Meeting of the company. Accordingly they retire as this Annual general Meeting and eligible for reappointment.

The reappointment is required to be made by a special resolution as per section 224 (A) of the companies Act, 1956, since not less than 25% of the subscribed capital of the company is held by Public Financial Institutions.

It is proposed to reappoint them to hold office until the conclusion of the next Annual General Meeting of the company at a remuneration as may be fixed by the board of Directors in consultation with the Auditors.

Your Directors commend the resolution for approval.

None of the Directors is concerned or interested in the said resolution.

ITEM NO.4

Mr. S Madhav has been the Managing Director of the Company almost since inception. It is proposed to re-appoint him as Managing Director for a further period of 5 years with effect from 29th January, 2007, on the following terms as his continuation is in the best interest of the Company:

- (a) **SALARY:** Rs.30,000/- per month in the scale of Rs.30,000/- – Rs. 60,000/- including dearness and all other allowances.
- (b) **PERQUISITES:** Perquisites will be in addition to the salary and will be subject to the condition that the monetary value shall be restricted to an amount equal to the annual salary and will include furnished accommodation, gas, electricity and furnishings, medical reimbursement and leave travel concession for self and family, club fees, personal accident insurance etc., in accordance with the rules of the Company, for the purposes of which limit.

- (i) Perquisites shall be evaluated as per Income Tax Rules, wherever applicable and in the absence of any such Rule perquisites shall be evaluated at actual cost; and
- (ii) Use of Company Car for official purposes and telephone at residence (including payment for local calls and long distance official calls) shall not be included;
- (c) Company's contribution to Provident Fund and Superannuation Fund as per the Rules of the Company together not exceeding 25% of the salary. Gratuity will be limited to half a month's salary for each completed year of service.

The draft agreement proposed to be entered into with Mr. S. Madhav is available for inspection by any Member of the Company at the registered office of the Company on any working day between the hours at 11 am & 1 pm. This may also be treated as an abstract of the draft agreement between Mr. S. Madhav and the Company pursuant to section 302 of the Companies Act, 1956. There is no change in the salary and perquisites as compared to the previous five year period as the financials of the Company do not permit for any enhancement.

Your Directors commend the resolution for approval

None of the Directors of the Company except Shri S Madhav and Smt Parvathi. S being related to him, is concerned or interested in the resolution.

ITEM NO.5

The Company is implementing Integrated Steel Project at Bellary. As a result of the Company being declared sick, the Operating Agency, IDBI have suggested to the Company to submit a Debt Restructuring Proposal. Accordingly the Company had submitted a suitable Proposal.

Due to the delay in the approval of the scheme by IDBI – SASF the Company has decided to raise the requisite funds through the Global Depository Receipts (GDR). For this purpose, the Company has approached London based Pan Asia Advisors Limited, to assist the Company in raising of funds to the extent of USD 300 Million.

The Company has received positive response from the agency and therefore the Company has decided to go ahead with the process of raising funds through GDRs.

By order of the Board
for BELLARY STEELS AND ALLOYS LIMITED

Bangalore
27th July, 2007

S.MADHAV
Managing Director



Bellary Steels and Alloys Limited

DIRECTORS' REPORT

Dear Shareholders,

Your Directors present the Twenty Third Annual Report of the Company along with the Audited Financial Statements for the year ended 31st March 2007.

INDUSTRY SCENE

Indian Steel Industry witnessed encouraging both in terms of demand and supply. However, the company is not in a position to encash the opportunities due to nonavailability of working capital.

FINANCIAL RESULTS

The Sales for the year under review amount to Rs.3620 Lacs compared to Rs.3636 lacs for the previous year. During the current year under review, the company has produced mainly Sponge Iron. The company has incurred a loss of Rs.10724 lacs after tax during the year under review compared to a loss of Rs.8113 Lacs for the previous year. The accumulated loss up to the year ended 31.03.2007 is Rs.54374 lacs. The company is still under BIFR as net worth for the company continued to be negative. The Hon'ble BIFR has accepted the sickness of the company and appointed IDBI as Operating Agency.

The summarised financial results of the company are as under:

	Current Year Rs. in Lacs	Previous year Rs. in Lacs
Total Income	3,620	3,636
Gross Profit (Loss)	374	245
Less : Indirect expenses	674	609
Less: Financial charges	9,665	7,821
Profit/(Loss) before Depreciation and Income Tax	(9,965)	(8,185)
Less: Depreciation	711	712
Net Profit before Tax (Loss)	(10,675)	(8,897)
Prior Period items (net)	44	791
Less : Fringe Benefit Tax	4	7
Less : Income Tax for the year	0	0
Net Profit/(Loss) after tax	(10,724)	(8,113)
Add : Balance from the		
Previous year	(43,650)	(35,537)
Balance carried to Balance Sheet	(54,374)	(43,650)

DIVIDEND

In view of the loss incurred by the Company during the year under review, your Directors have decided not to recommend dividend to the shareholders.

ISP PROJECT

There has not been any improvement in the situation with regard to implementation of the Integrated Steel Plant Project, which has been further delayed due to inability to attain financial closure. The company is continuing its full efforts to obtain foreign investment from strategic investors towards additional equity, so that the Power project and Blast Furnace could be completed in the first phase. The promoters are also pursuing their efforts to mobilize additional equity. The Company has submitted debt restructuring proposal to IDBI –SASF under CDR Scheme which is under process. The Directors are hopeful of an early solution to the situation.

DIRECTORS

Shri S. Madhav, Director of your Company retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

AUDITORS

M/s .Manohar Chowdhry & Associates, Chartered Accountants, Bangalore, Auditors of the Company retire at the conclusion of this Annual General Meeting and are eligible for reappointment. As required under section 224(1-B) of the Companies Act, 1956, the present auditors have furnished the necessary certificate.

FIXED DEPOSITS

Your Company has not accepted any deposits from the public during the period under review.

CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO.

Conservation of energy and Technology absorption:

The information required to be furnished under section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1968, is given in annexure-I forming part of this report.

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Foreign Exchange Earnings and Outgo :

The foreign exchange earnings and outgo during the year are as under:

	Amount (Rs. in lacs)
Earnings :	Nil
Outgo :	
1. Imports (CIF Value)	Nil
2. Foreign Travel Expenses	24.01
3. Consultancy	7.27

PARTICULARS OF EMPLOYEES

There are no employees drawing remuneration beyond the stipulated limit in accordance with section 217 (2A) of the Companies Act, 1956 read with companies (particulars of Employees) Rules 1975 as amended upto date.

INFORMATION UNDER THE LISTING AGREEMENT

The statement containing details as required under Clause 49 of the Listing Agreement with the Stock Exchanges is appended hereto in Annexure – II and forms part of this report.

CORPORATE GOVERNANCE

The Company has implemented the code of corporate Governance as required by the Listing Agreement introduced by Securities and Exchange Board of India.

The report of Directors on the particulars prevalent on Corporate Governance in the Company is produced as annexure-III to this report.

The Company is required to employ a Company Secretary on whole-time basis. Though the company has appointed a Company Secretary, the appointee did not report and accordingly steps have been taken to appoint alternate person. A compliance certificate from Shri.V.S. Varun, whole time practicing Company Secretary to fulfill the legal obligation has been obtained. The certificate of Shri.V.S. Varun is annexed to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of section 217 (2AA) of the Companies Act, 1956, your Directors state:

- (i) That in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) That your Directors have selected such accounting policies and applied them consistently and made judgement and

estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year, and of the profit or loss of the Company for the period;

- (iii) That your Directors have taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the provisions of this Act, for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities;
- (iv) That your Directors have prepared the annual accounts as a going concern basis.

MANAGEMENT DISCUSSION AND ANALYSIS:

Management discussion and analysis of the financial condition and results and operations of the Company for the period under review as required under Clause 49 of the listing agreement

(i) FINANCIAL AND OPERATIONAL PERFORMANCE

The company financial operation has been already impacted due to lower levels of production of performance and non availability of working capital. The company has to provide the interest on the termloan and working capital on accrual basis as per the Accounting Standard. The net loss has arrived after charging interest on term loan and working capital. The company is expecting to get sufficient working capital during the year 2007-2008.

(II) OUTLOOK

India is witnessing stupendous economic growth which encourages infrastructure development. The steel is a main commodity to support all infrastructural developments. The company has taken up suitable steps to improve the production within limited source available and expecting to reach higher turnover and profitability. The company is also expecting the allotments of captive mines from Government of Karnataka to meet Ironore requirements to Sponge Iron unit.

(iii) OPPORTUNITIES, THREATS AND RISKS

The continuous demand for Steel products to meet the industrial growth in and around Bellary as well as in of Karnataka. Main threat is from the unorganised small sponge iron units and also volatility in commodity prices – raw materials prices - Ironore and coal. However, this can be mitigated by getting captive iron ore mines.



Bellary Steels and Alloys Limited

(iv) INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT

Your company engaged the services of an independent agency to carry out internal audit of the company. The Audit Committee of the Board approves to Audit plan in the beginning of each quarter in consultation with the Internal Auditors, the Statutory Auditors and the operative management. The findings of the internal auditors are placed before the Audit Committee for review. The response of the operating management and counter measures proposed are discussed at the Audit Committee meetings. The process not only seeks to ensure the reliability of control systems and compliance with laws and regulations but also covers resources; utilization and system efficacy.

Risk Management is an integral part of the business process. With the help of experts, the Company mapped the risks at the business processes and enterprise levels and evolved a risk management framework. Mitigative measures have been identified in respect of the latter. These would be periodically reviewed by the Board of Directors.

(v) HUMAN RESOURCE

Your company attached considerable importance to Human Resource Development (HRD) and harmonious industrial relations. The management is continuously working on the development of human capital, vital in an ever changing business environment towards achieving the goals and realizing the Vision of the Company. No. of Employees as on 31.03.2007 is 260

(vi) CAUTIONARY STATEMENT

The information and opinion expressed in this report may contain certain forward looking statement which the management believe are true to the best of its knowledge at the time of its preparation. Actual results may differ materially from those either expressed or implied in this report.

ACKNOWLEDGEMENT

Your Company maintained cordial relationships with Financial Institutions and Banks, State, and Central Governments and other Statutory Bodies, customers, suppliers, share holders during the period under review. Your Directors are grateful for the support extended by them and look forward to receiving their continued support and encouragement. Lastly, your Directors place on record their appreciation for the dedicated efforts put in by the employees during the year under review.

for and on behalf of the Board of Directors

Bangalore

S.MADHAV

S.PARVATHI

27th July, 2007

Managing Director

Director

ADDENDUM TO DIRECTORS' REPORT

1. The additional Deferred Tax Asset has been reviewed in view of the present financial position of the Company, vis-à-vis future earnings. Based on the reassessment, the company has not recognized the deferred tax asset due to uncertainty of sufficient future business income. However, the Directors are of the opinion that the company would be in a position to earn adequate income in future, in view of the improvement in operations of the company to continue the Deferred Tax Asset.
2. In respect of determining the value of impairment of assets as on 31.03.2007, The Company will take suitable steps to comply with the accounting standard in the subsequent year.
3. Other comments are self-explanatory

for and on behalf of the Board of Directors

Bangalore

S.MADHAV

S.PARVATHI

27th July, 2007

Managing Director

Director

23rd Annual Report 2006 - 2007**ANNEXURE - I TO THE DIRECTORS' REPORT****PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY FROM 01.04.2006 TO 31.03.2007**

POWER AND FUEL CONSUMPTION		2007	2006
1 Electricity:			
Units Purchased (lacs)	31	51	
Amount (Rs. In lacs)	195	292	
Rate per Unit (Rs.)	7	6	
2 Own Generation :			
Units (lacs)	2	2	
Amount (Rs. in lacs)	41	26	
Rate per Unit (Rs.)	25	13	
Captive Power Plant:			
Unit in (Lacs)	25	28	
3 Furnace Oil / HSD/LDO/ : SUPER KEROSENE			
Quantity KL	1.36	0.76	
Amount (Rs. in Lacs)	40.00	26	
Average Rate per LTR (Rs.)	30.00	35	
4 Liquid Oxygen:			
Purchase+Own Generation			
Qty. 000' Cu. M.	Nil	Nil	
Amount (Rs. in lacs)	Nil	Nil	
Average Rate (Rs.)	Nil	Nil	
5 Coal:			
Qty. Tons	4928	59456	
Amount (Rs. in lacs)	1719	1745	
Average Rate Rs./Ton	3449	2935	
6 Consumption per Unit of Production:			
Electricity Purchased (Units)	87	121	
Own generation (Units)	76	68	
Furnace Oil/HSD/LDO (Ltrs.)	4	2	
Coal (MT.)	1	1	
PRODUCTION :			
Steel Products	0	1273	
Sponge Iron	34669	41159	
TOTAL	34669	42432	

ANNEXURE - II TO THE DIRECTORS' REPORT**INFORMATION UNDER CLAUSE 49 OF THE LISTING AGREEMENT**

- a) De-Listing :
No application for de-listing the Company's securities has been made to any of the Stock-Exchanges.
- b) Suspension in Trading:
Trading in the Company's securities had not been suspended for any reason during the period under review.
- c) Listing Fees:
The listing fees payable for the year 2006-07 has been paid.

**ANNEXURE-III TO THE DIRECTORS' REPORT
CORPORATE GOVERNANCE**

(Pursuant to Clause 49 of the Listing Agreement entered into with the Stock Exchanges)

1. BOARD OF DIRECTORS**1.1 Composition**

The present Board of Directors comprises of Three Directors.
The composition is as under:

Name of the Director	Position
Mr. S.Madhav	Managing Director
Mr. G.J.Prasad	Nominee Director of IFCI
Smt. S.Parvathi	Director

1.2 Meetings and attendance record of each Director

- (i) Four Meetings of the Board of Directors were held during the 12 months period ended on 31.03.2007.

- | | |
|----------------------|-----------------------|
| 1. 28th July, 2006 | 3. 29th October, 2006 |
| 2. 30th August, 2006 | 4. 30th January, 2007 |

- (ii) The attendance record of the Directors at the Board Meetings during the year ended on 31st March, 2007 and the last Annual General Meeting (A.G.M) is as under

Name of the Director	Attendance at Board Meetings	Attendance at Last AGM
Mr. S. Madhav	4	Yes
Mr. G.J. Prasad	4	No
Smt. S.Parvathi	4	Yes