

ANNUAL REPORT

2013 - 2014



BHUWALKA STEEL INDUSTRIES LIMITED

"Bhuwalka Centre", No.71, III Cross, Residency Road, Bangalore- 560 025.

BOARD OF DIRECTORS	:	Shri. Suresh Kumar Bhuwalka <i>Chairman and Managing Director</i> Shri. Ajay Kumar Bhuwalka Shri. Ankit Bhuwalka Shri. Munish Mohan <i>Nominee Director - IDBI Bank Ltd.</i>
AUDITORS	:	M/s. ASR Associates Chartered Accountants Bellary
BANKERS	:	Canara Bank IDBI Bank Ltd. Indian Overseas Bank
REGD. OFFICE	:	No.71, III Cross Residency Road Bangalore - 560 025
CIN NUMBER	:	L27209KA1981PTC004343
FACTORIES	:	1) at 10th Mile Old Madras Road, Bangalore - 560 049. 2) 204, Mauji Khupri Taluka Wada, District Thane Mumbai - 421 312.
SHARE TRANSFER AGENTS	:	Integrated Enterprises (India) Ltd. No. 30, Ramana Residency Ground Floor, 4th Cross Sampige Road, Malleswaram Bangalore - 560 003.

NOTICE

Notice is hereby given that the 32nd Annual General Meeting of the Company will be held on Saturday, the 27th September, 2014, at 12.30 P.M. at Hotel Woodlands, No. 5, Raja Ram Mohan Roy Road, Bangalore- 560 025 to transact the following business.

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Statements of Accounts of the Company for the year ended 31st March 2014, and the Reports of the Directors' and the Auditors' thereon.
2. To appoint a Director in place of Shri. Ajay Kumar Bhuwalka, who retires by rotation and being eligible, offers himself for re-appointment.
3. To re-appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next annual General Meeting and to authorize the Board to fix their remuneration.

SPECIAL BUSINESS:

4. To consider and, if thought fit, to pass with or without modification(s), the following resolution as Ordinary Resolution:

"RESOLVED THAT pursuant to Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985, and such other laws, rules, regulations, guidelines or notifications as may be applicable, the report of the Board of Directors explaining the reasons of erosion of more than 50% of the peak net worth of the Company as per the audited financial accounts of the Company for the period ended 31st March, 2014 be and is hereby considered and approved.

RESOLVED FURTHER THAT the Company do report about this erosion to to the Board for Industrial and Financial Reconstruction (BIFR) as required under section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985.

NOTES:

1. A Member entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and vote instead of himself and the Proxy need not be a Member of the Company.
2. The instrument appointing a Proxy shall be deposited at the Registered Office of the Company not less than 48 hours before the time of holding the Meeting.
3. The Register of Members and Share Transfer Book of the Company will remain closed from 23rd September, 2014 to 26th September, 2014 (both days inclusive).
4. Queries on accounts and Operations of the company, if any, may please be sent to the company at least 15 days in advance of the Meeting.
5. Members are requested to bring their copies of the Annual Report to the meeting.
6. Members/proxies should bring their attendance slip sent herewith duly filled in for recording the attendance at the meeting.
7. A statement containing the details of Directors seeking appointment/re-appointment at the forthcoming Annual General Meeting is attached.
8. Members are requested to notify the Registrars and Transfer Agents of the Company, Integrated Enterprises (India) Ltd., No.30, Ramana Residency, 4th cross, Sampige Road, Malleswaram, Bangalore 560 003 or the company at its Registered Office of any change in address quoting their Folio Number/s, in respect of shares held in electronic form, instructions regarding change in address be furnished to members' Depository Participant only.
9. **In view of the Green Initiative, Members are also requested to inform the Registrars and Transfer Agents of the Company, Integrated Enterprises (India) Ltd., No.30, Ramana Residency, 4th cross, Sampige Road, Malleswaram, Bangalore 560 003 or the Company at its Registered Office their 'EMAIL IDS' to enable the Company to communicate and deliver the information/notices/documents etc. to all the shareholders electronically.**
10. Explanatory statement pursuant to section 102 of the Companies Act, 2013 for the special business is annexed hereto.

Registered Office:
No.71, III Cross
Residency Road
Bangalore - 560 025
Date :14th August,2014

By Order of the Board

(AJAY KUMAR BHUWALKA)
Director

Explanatory statement pursuant to Section 102
Item No.4

In terms of Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985, if the accumulated losses of an Industrial Company, as at the end of any financial year have resulted in erosion of fifty percent or more of its peak net worth during the immediately preceding four financial years, such Company falls under the category of potentially sick Industrial Company and therefore the fact is required to be reported to Board for Industrial and Financial Reconstruction (BIFR) within 60 days from the date of finalization of the audited accounts which is the date of this Annual General Meeting.

As per the audited accounts of the Company for the period ended 31.03.2014, the accumulated losses of the Company as at 31st March, 2014, have resulted in erosion of more than fifty percent of its peak net worth during the immediately preceding four financial years.

A report on such erosion and its causes is required to be submitted before the shareholders for their consideration. The said report is annexed herewith and is forming part of this notice and explanatory statement.

In view of above, your directors recommend approval of the shareholders. This Resolution is subject to approval of audited accounts for the financial period 2013-14 by the members of the Company in this Annual General Meeting

REPORT ON EROSION OF NET WORTH AND ITS CAUSES IN TERMS OF SECTION 23 OF SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT 1985.

In terms of requirements of Section 23 of Sick Industrial Companies (Special Provisions) Act, 1985, a report of board of directors on erosion of more than 50 % of peak net worth during the immediately preceeding four financial years along with causes is being submitted herewith.

Under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985, Net worth of the Company for present as well as preceeding four financial years is as follows:

Financial Year	Tangible Net worth (Rs. In Lacs)
2009-10	2,490.95
2010-11	2,819.60
2011-12	2,598.87
2012-13	2,648.66
2013-14	719.36

As per audited financial accounts of the Company for the period ended March 31, 2014, the accumulated losses stood at Rs.638.57 lacs which has resulted in erosion of more than 50% of Company's peak net worth during the immediately preceeding four financial years.

CAUSES OF EROSION OF NET WORTH OF THE COMPANY:

Erosion in Net worth took place due to the following Reasons:-

1. Company could not produce at its plants beyond 10% of its installed capacities during most of the period of FY 2013-14, which resulted in negative operational profits. Further Trading activities of the company were also not able to contribute much in profits of the company.
2. Lower Production capacity utilization were results of mainly shortage of required net working capital in the business. Liquidity pressures were mounting on the company during financial year 13-14 and the company could not buy raw material at good prices in required quantities. Further realization from sale per unit was adversely impacted due to lack of demand during FY 2013-14 coupled with tough market competition.
3. Due to Negative operational profits, company could not recover High Interest cost and depreciation cost of the Fixed assets apart from other fixed costs of the company.
4. These all factors resulted in huge losses during 2013-14 and eroded its peak net worth by more than 50% during preceeding four financial years i.e.

STEPS TAKEN/PROPOSED TO BE TAKEN BY THE COMPANY MANAGEMENT:

Company has taken following Steps to safeguard shareholder's and company's interest from further erosion of the net worth:-

1. Company has taken up discussion with potential vendors and large traders for undertaking job work at its plants which will require very nominal working capital from company. This will control operational losses of the company.

Annual Report 2013- 2014

2. Company has already entered agreement for sale of its investment at UAE venture which is excepted to be completed in FY 14-15. This will generate capital gains / profits for the company and will also augment required working capital for the company.
3. Company is taking all possible steps to reduce its cost at all level in order to control further losses.
4. Company is also in discussion with various equity and strategic partners for investment in the company which will reduce company's burden on debts and interest servicing cost. Further additional equity will reduce the gap of required working capital for the company.

Registered Office:
No.71, III Cross
Residency Road
Bangalore - 560 025
Date: 14th August,2014

By Order of the Board

(AJAY KUMAR BHUWALKA)
Director

Details of Directors seeking appointment / re-appointment at 32nd Annual General Meeting (In pursuance of Clause 49 of Listing Agreement)

Name of Director	Shri Ajay Bhuwalka
Date of Birth	08.02.1976
Qualification	B.Com
Expertise in specific	More than 19 years experience as industrialist in manufacturing.
List of other Companies in which Directorship held	Nava Karnataka Steels Pvt. Ltd., Benaka Sponge Iron Pvt. Ltd., Mahesh Sponge Iron & Power Ltd., Sri Durga Trade Links Pvt.Ltd. Bhuwalka Metal Industries Pvt. Ltd., Bhuwalka Jewellers Ltd.
Chairman/ Member of the Committees of the Board of Directors of other Companies in which he is a Director	None

DIRECTORS' REPORT

TO THE MEMBERS OF

BHUWALKA STEEL INDUSTRIES LIMITED:

Your Directors have pleasure in presenting before you the 32nd Annual Report of the Company together with Audited Statement of Accounts for the Six Months Period ended 31st March, 2014.

1. FINANCIAL RESULTS:

(Rs. in Lakhs)

Particulars	2013 – 14 (6 months)	2012 – 13 (18 months)
Total Income	16,838.80	85,405.18
Profit/(Loss) before Interest, Depreciation and Taxation	(10,69.70)	3809.25
Less: Interest	11,51.56	3,369.46
Less: Depreciation/Amortization	304.09	817.42
Profit/(Loss) Before Tax before Extraordinary item	(25,25.36)	(377.63)
Add: Profit from Extraordinary item	–	501.03
Profit/(Loss) Before Tax After Extraordinary item	(25,25.36)	123.40
Less: Income Tax for the year(including FBT and Deferred taxation)	596.05	(73.60)
Less: Income tax for earlier years	–	–
Profit After Tax	(19,29.31)	49.80
Add: Balance of profit brought forward From last year	592.03	542.23
Appropriations:		
Proposed Dividend with Dividend tax on Equity shares	–	–
Balance of Profit carried forward	(13,37.27)	592.03

2. OPERATIONS REVIEW:

The Company has adopted 6 Months Financial Period from 1st October 2013 to 31st March, 2014 as compared to previous financial year of 18 months i.e. 1st April 2012 to 30th September 2013. Total income from operations during the period of six months under review was Rs. 16,838.80 lakhs as compared to Rs. 85,405.18 lakhs in the previous year (18 months). During the period under review, the Company has suffered a loss after tax of Rs. 19,29.31 lakhs (after extra ordinary items) as against profit after tax of Rs. 49.80 lakhs in the previous accounting year. Main reason for losses were Lower capacity utilization of production capacities due to inadequate working capital during most of the period of reported FY, steep rise in interest costs and high depreciation cost.

Company is endeavoring hard to overcome the issues of poor demand in Infra and Real Estate by innovative marketing strategies and also focusing in optimizing its capacity utilization. However shortage of working capital is impacting the efforts negatively.

In order to improve financial performance and profitability, Company is endeavoring to raise long term funding resources through equity, concentrating in improving productivity, efforts for optimum capacity utilization of the Wada plant and an overall cost reduction exercise. Further company is trying to dispose of its surplus Investments and Surplus properties in FY 2014-15 in order to fund the gap of working capital requirements of the company.

3. DIVIDEND:

Your Directors express their inability to recommend any dividend in view of huge losses incurred by the Company.

4. SUBSIDIARY COMPANY:

As required under section 212 of the Companies Act. 1956, the audited statements of accounts along with the report of the Board of Directors of M/s Benaka Sponge Iron Private Limited together with the Auditor's report as at 31st March 2014, are appended. While preparing consolidated financials of the company, Financials of M/s Benaka Sponge Iron Private Limited has been consolidated as per Accounting Standard- 21 of ICAI. As

Company has already taken up steps to sell its Investment in shares in Overseas Joint Venture at Bhuwalka Steel Industries, UAE (FZC), the same is shown under Investments and Consolidation of the same is not done while preparing Consolidated Financial Statements.

5. CONSERVATION OF ENERGY:

Total energy consumption and energy consumed per unit of production as per Form 'A' is annexed - forming part of this Report.

6. TECHNOLOGY ABSORPTION:

The Company is keeping abreast of the latest developments in product technology, manufacturing process and methods and using indigenous technology.

7. FOREIGN EXCHANGE EARNINGS AND OUTGOINGS:

Foreign Exchange Earnings and Expenditure are given under Point 8 (F) and 8 (G) of Note '23' forming part of the Accounts for the Period ended 31st March, 2014.

8. PERSONNEL:

Industrial Relations remained cordial through out the year.

There are no employees of the categories specified under Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended. Hence, this information is not given.

9. DIRECTORS:

Sri Ajay Kumar Bhuwalka retire by rotation at the forthcoming Annual General Meeting and being eligible, offer himself for re-appointment.

10. AUDITORS:

The Auditors, M/s. ASR Associates, Chartered Accountants, Bellary, retire at the conclusion of the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment.

11. AUDITORS' REPORT:

- a) As reported by Statutory Auditor's in their Audit, there have been delays in servicing undisputed statutory liabilities during 2013-14 on time. Further certain payments have been delayed beyond 180 days. Amount of these delays have been detailed in point no. 8 and 9 of annexure of Paragraph 1 (CARO) of the Auditor's Report.

Management's Reply:- Company has been going through tough financial condition during FY 13-14 due to operational and cash losses. These situation occurred due to lower production level and bad demand scenario of Company's product during such period. Owing to cash losses and liquidity constraints, company could not mobilize funds for statutory dues and hence same were delayed unintentionally. Company has already taken measure to improve its position by utilization of current assets and these dues will be paid on highest priority.

- b) In Reply of Point no.10 of the annexure of Paragraph 1 (CARO) of the Auditor's Report i.e. "The Company's accumulated losses at the end of the Financial Year were more than 50% of the net worth. The company has not incurred any cash losses in the immediately preceding Financial Year. The Company has incurred cash losses of Rs.2221 lacs in the current Financial Year. The Company has to comply with provisions of The Sick Industrial Companies Act, 1985 (SICA ACT) as applicable to the Company post this event."

Management's Reply: - Company has suffered losses due to low operational capacity utilization and shortage of working capital in the Company. Management has already taken initiatives to safeguard the company from further erosion of the net worth. Company is in process of getting additional working capital margin from sale of surplus assets of the company. These sales will get materialized in FY 14-15 which will augment additional working capital for the company. With this, company will be able to improve its production capacity utilization and also to check on losses.

The Company will comply with provisions of The Sick Industrial Companies Act, 1985 as far as it is applicable to the company.

- c) As reported in point no. 11 of the annexure of Paragraph 1 (CARO) of the Auditor's Report i.e. "Based on our Audit procedures and as per the information and explanations given by the management, the company has defaulted in repayment of loans and interest to Banks and Financial Institutions. Unpaid overdues interest and installments to banks and institutions as at 31.03.2014 aggregates to Rs.1,172.13 lacs including devolved L.C. unfunded at that date".

Management's Reply: - As mentioned above to the reply of a) Company could not arrange funds for timely banking repayments due to cash losses and liquidity constraints and hence banking repayments were delayed unintentionally. Company has already taken measure to improve its position by utilization of current assets and sale of surplus assets. As a result of the same, these dues will be paid as earlier as possible.

For further clarification on Auditor's observation, The Notes on accounts referred to in the Auditors' Report are self explanatory and therefore do not call for any additional comments under section 217(3) of the Companies Act, 1956.

12. DIRECTORS' RESPONSIBILITY STATEMENT AS PER SECTION 217 (2AA):

Your Directors hereby confirm:

- a) that in the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- b) that the directors had selected such accounting policies and applied them consistently and made judgments 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 of the company for the year;
- c) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, to safeguard the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) that the directors had prepared the annual accounts on a 'going concern' basis.

13. REPORT ON CORPORATE GOVERNANCE:

Pursuant to Clause 49 of the Listing Agreements with the Stock Exchanges, the following form part of this Annual Report:

- a) Management Discussion and Analysis;
- b) Report on Corporate Governance;
- c) Auditors' Certificate regarding compliance of conditions of Corporate Governance

14. ACKNOWLEDGEMENTS:

Your Directors wish to place on record their appreciation for the continued support, encouragement and co-operation extended by all the stakeholders namely; Financial Institutions, Bankers, shareholders, customers and suppliers.

Your Directors also place on record their appreciation for the contributions made by the employees of the Company at all levels.

By Order of the Board

(AJAY KUMAR BHUWALKA)
Director

Place : Bangalore
Date : 14th August, 2014

(ANKIT BHUWALKA)
Director

Management Discussion and Analysis

Industry Structure & Developments:

The Company's primary product, steel rolled product (Mainly TMT and Structural Steel), is catering to the demand of Real Estate construction, infrastructure, power, Telecom and engineering industries. There are large no. of re-rolling mills across the country who are largely local players apart from Primary Steel Producers like Tata Steel, JSW etc.

During the year under review, the steel prices continued to be volatile and the prices of rolled products were market driven. For improving margins, Company has taken serious steps for reduction in the cost of production and overheads. Company is concentrating to optimize its capacity utilization so as to achieve economies of scale. Company is also exploring Job work opportunities for better utilization of the capacities. Further to create a wide product base to cater other growing industries such as telecom and engineering, Company has already ready and modern facilities at Wada to achieve these objects. Company is exploring means to get additional working capital Finance by way of sale of surplus assets and also from equity investors so that company can achieve optimal capacity utilization.

Opportunities, Threats and Concerns:

Deep economic recession coupled with global meltdown has affected all the commodities market across the globe during last 4 to 5 years and steel was one of the worst affected commodity. There is no major surge in demand in current year, however there is growth opportunities in Infra sector based on expected Central Government's announcement of Infra projects. Further there are also expectations of export of company's product. . In an emerging economy like India, there will be good opportunity for growth though may be lower than earlier targets and renewed emphasis on infrastructure by the newly elected central government may work as stimulus for the industries at large. Major Job work contracts with various large vendor will also help company for utilizing its capacities.

Competition from un-organized sector is still a threat to the Company. However, renowned builders and infrastructure companies are keen to source their requirement from organized company like yours. Moreover, Company's better-structured product portfolio will enable it to penetrate into new markets and to meet the requirements of existing customers.

Accumulated losses, erosion in net working Capital, Price volatility, low demand, Capacity utilization and higher cost of borrowing remain serious concerns of the Company. Company has already initiated necessary steps to mitigate this risk.

Outlook:

The year ahead looks promising as there is growth envisaged in demand in various industries to whom company's products are catered to. Company is catering to requirements of Housing, Power, Telecommunication and Engineering Sectors. Large integrated plant mainly focuses on flat products and long products are generally the domains of secondary steel makers like us. A growth rate higher than the global industry average has been envisaged in the national steel policy. The long-term goal of the country is to become self reliant and globally competitive in steel sector.

Risks and concerns:

Erosion in Working capital and liquidity issues are major concerns for the company. It is impacting company's ability to produce at optimal level and generate profits. Further the cost of power (including fuel) and its availability is also one of the major concern. High power tariffs and volatility in input prices may adversely affect the profitability of the Company. However, it is not significant considering the level of operations of the Company and normal correlation in the price of raw material and finished goods. High volatility in commodity prices remain serious concern. Company is also exposed to financial risks like exchange fluctuation and interest rate variations. Management has already identified these risks and taking necessary steps to mitigate the risks by looking at alternative and cheaper source of finance and cost reduction exercise across the company.

Internal control systems and their adequacy:

The Company's internal control systems and procedures are adequate and commensurate with the size and nature of Company's operations. Company has sufficient procedures that form part of internal control system which provide for check and balances. In current year, Company has engaged industry and finance experts to further strengthen its internal control and audit system for reduction of various costs and overheads.

Cautionary Statement:

This report contains forward-looking statements, which are based on certain assumptions and future events. It cannot be guaranteed that these are accurate or realized in future. Company's actual results may materially differ from those projected in forward looking statements. The reader should bear this in mind. Further, Company undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

FORM "A"
ANNEXURE TO DIRECTOR'S REPORT
FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO
CONSERVATION OF ENERGY

A. POWER AND FUEL CONSUMPTION:

		ROLLED PRODUCTS	
		Current Year 2013-14*	Previous Period 2012-13**
1. ELECTRICITY:			
a) Purchased			
Units	1,368,243	11,071,085	
Total Amount(Rs.)	12,906,662	80,628,114	
Rate/Unit(Rs.)	9.43	7.28	
b) Own Generation	NIL	NIL	
2. FURNACE OIL:			
Quantity (Ltrs)	-	849,652	
Total Amount (Rs.)	-	32,437,564	
Average Rate (Rs.)	-	38.18	
3. COAL & OTHERS:			
Quantity (Tonnage)	1,461	10,981	
Total Amount (Rs.)	9,285,672	82,483,259	
Average Rate (Rs.)	6,354	7,512	
B. CONSUMPTION PER UNIT OF PRODUCTION:			
Production (MTs)	6,359	91,388	
Electricity(Units)	215	121	
Furnace Oil (Ltrs.)	-	9	
Coal & Others (Kgs)	230	120	

*Power and Fuel Consumption for the period of 6 months from 1-October-2013 to 31-March-2014

**Power and Fuel Consumption for the period of 18 months from 1-April-2012 to 30-Sep-2013