

## Corporate Information

Chairman	P. K. Khaitan
Directors	B. Khaitan Naresh Chandra Jamshed J. Irani
Managing Director	Umang Kejriwal
Joint Managing Director	Mayank Kejriwal
Wholetime Directors	N. C. Bahl Uddhav Kejriwal
Company Secretary	Jyoti Jain
Auditors	Lodha & Co. Chartered Accountants
Solicitors	Khaitan & Co.
Bankers	Bank of Baroda BNP Paribas HSBC Limited HDFC Bank Limited ICICI Bank Ltd. IDBI Bank Ltd. Punjab National Bank Standard Chartered Bank State Bank of India
Works	Khardah, West Bengal Haldia, West Bengal Elavur, Tamil Nadu Parbatpur, Jharkhand
Corporate Office	G. K. Tower 19, Camac Street Kolkata 700 017
Registered Office	Rajgangpur 770 017, Orissa

## Contents

Directors' Report	02
Annexure : "A" to the Directors' Report	08
Management Discussion and Analysis	10
Risk Management	18
Corporate Governance	20
Auditors' Certificate on Corporate Governance	30
Ten-Year Financial Summary	31
Auditors' Report	32
Balance Sheet	36
Profit & Loss Account	37
Cash Flow Statement	38
Schedules	39
Auditors' Report on Consolidated Accounts	68
Consolidated Accounts	69
Consolidated Cash Flow	71
Consolidated Schedules	72

# Directors' Report

## To The Shareholders

To,  
The Members  
Your Directors take pleasure in presenting their Fifty Fourth Annual Report and Audited Accounts of the Company for the year ended March 31, 2009.

Financial Results		Rs. in Crores	
Sl.no.	Particulars	FY 2008-09	FY 2007-08
i.	Gross Turnover	1895.58	1384.42
ii.	Net Turnover	1838.04	1331.23
iii.	Other Income	89.92	94.14
iv.	<b>Total Revenue</b>	<b>1927.96</b>	<b>1425.37</b>
v.	<b>Earning Before Interest, Depreciation, Taxation and Amortisation(EBITDA)</b>	<b>358.43</b>	<b>173.47</b>
vi.	Interest	97.26	26.21
vii.	Depreciation	52.12	36.61
viii.	<b>Profit before Taxation &amp; Exceptional items</b>	<b>209.05</b>	<b>110.65</b>
ix.	Exceptional items	–	(60.20)
x.	<b>Profit before Taxation (PBT)</b>	<b>209.05</b>	<b>50.45</b>
xi.	Tax including Deferred Tax & Fringe Benefit tax	68.65	(8.17)
xii.	Income tax refund	–	9.73
xiii.	Profit after Taxation (PAT)	140.40	52.01
xiv.	Profit brought forward from previous year	59.99*	61.18
xv.	Transfer from Debenture Redemption Reserve	45.00	15.00
xvi.	<b>Amount available for appropriation</b>	<b>245.39</b>	<b>128.19</b>
<b>Appropriation</b>			
	Transfer to debenture redemption reserve	10.00	9.00
	Transfer to general reserve	100.00	20.00
	Interim Dividend including tax thereon	–	30.98
	Proposed Final Dividend including tax thereon	45.74	8.20
	<b>Total</b>	<b>155.74</b>	<b>68.18</b>
xvii.	<b>Surplus carried to balance sheet</b>	<b>89.65</b>	<b>60.01</b>

\* Net of Rs 0.02 crores relating to payment of dividend on the shares allotted after the balance sheet date.

*During the year the Company achieved a gross turnover of Rs. 1,895.58 crores representing an increase of 37% over the previous year including exports of Rs. 479.20 crores.*

### **Dividend**

Your Directors recommend a dividend @ Rs.1.25 per share i.e.125% for the year ended March 31, 2009. The dividend, on approval by members, will absorb Rs.45.74 crores, inclusive of tax of Rs.6.64 crores on distribution of dividend.

### **Operations**

During the year the Company achieved a gross turnover of Rs 1,895.58 crores representing an increase of 37% over the previous year including exports of Rs. 479.20 crores. The Company's profit before taxation & exceptional items for the year was Rs. 209.05 crores, as against Rs. 110.66 crores in the previous year. The increase in profit was mainly due to increase in sales volumes, sales realization and operational efficiencies mainly on account of benefits of commissioning of Sinter Plant. However, the increase in raw material prices i.e coal and iron ore has affected the profit adversely.

During the year D.I.pipes production was 2,51,823 MT as against 2,14,956 MT in the previous year, showing an increase of 17%. The increase in production was mainly due to increase in the capacity due to installation of Sinter Plant and Finishing Lines. Production of D.I.fittings was marginally lower by 9% over the previous year (from 4,654 MT to 4,230 MT).

The Company's export of D.I.pipes decreased to 89,161 MT as compared to 1,03,413 MT in the preceding year, showing a decline of 14%, owing to higher proportion of sales in the domestic market. The decrease in export was due to global slowdown in the later half of the year.

The production of C.I.pipes at Elavur was 39,831 MT as against 50,503 MT in the previous year.

### **Cost reduction and backward integration**

Sinter plant which was commissioned towards the end of last year has enhanced the operational efficiency of Blast furnace. Costlier calibrated iron ore has been replaced to a large extent by more easily available iron ore fines.

Coke oven plant – In order to further reduce dependence on imported coke, Company has commissioned one more battery with similar capacity in the month of Nov'08. 2nd additional battery is in advance stage of commissioning and expected to be in operation in Q2 of FY 2009-10.

Railway siding – the Company is constructing a railway siding at Haldia to create facility for smooth movement of materials from the forthcoming coal mine at Parbatpur, Jharkhand and iron ore mine at Kodolibad, Jharkhand. The project is in advance stage of completion.

The Company has acquired two wagon rakes under the Indian Railway's Wagon Investment Scheme (WIS) to improve the logistics of iron ore movement.

### **Finance**

During the year, Zero Coupon Convertible Bonds (ZCCB's) amounting to US\$ 0.05 million were converted in equity shares. To augment the long term resources required for expansion and other business purposes, the Company has raised Rs.124.57 crores as detailed below through preferential issue of equity shares and convertible warrants :-

- **Issue of shares to Overseas Body Corporates**

Rs. 96.71 crores for allotment of 2,54,50,414 equity shares of Re.1 each at a price of Rs. 38.00 per share. These shares have been allotted post balance sheet date.

- **Issue of shares and warrants to Promoters/ Promoter Group Companies**

- a) Rs. 24.64 crores being 90% of the total amount due against conversion of 6,25,000 warrants (issued in earlier year) into 62.50 lakhs equity shares of Re. 1 each at a price of Rs. 43.80 per share.
- b) Rs.3.22 crores being 10% of the total amount due for issue of 1,40,00,000 warrants. Each such warrant is convertible into 1 equity share of Re.1 each at a price of Rs. 23.00 per share within 18 months from the date of allotment.

## Directors' Report (Contd.)

In addition to above, the Company has raised the following loans for augmenting its long term funds for general corporate purposes :

- a) a rupee term loan of Rs. 150 crores
- b) Rs. 100 crores by issue of Non Convertible Debenture on private placement basis.

The Company has further tied up a long term debt by way of External Commercial Borrowings of US \$ 77.50 million and a rupee term loan of Rs. 200 crores for funding its capex.

### Credit Rating

The rating for long-term/medium term debt and various Bank facilities sanctioned and/or availed by the Company has been rated by Credit Analysis & Research Ltd. (CARE) as "CARE AA –"(Double A Minus) including the Non-Convertible Debentures (NCDs) of the Company (outstanding Rs. 100 crores as at 31.03.2009). "CARE AA –" rating indicates high safety for timely servicing of debt obligations and very low credit risk.

The rating for the short-term debt/facilities sanctioned and/or availed by the Company has been assigned as "PR1 +" which is the highest rating in the category and indicates a strong capacity for timely payment of short-term debt obligations and lowest credit risk.

### Future Prospects

The Government of India continue to give thrust on increasing infrastructure facilities for effective management of water resources and sewerage which will result in increase of demand for D.I.pipes in the domestic market. However, additional capacity installed by new entrants and peer group Companies may intensify the competition in the domestic market.

Further, global slowdown continues to be a cause of concern for export of Company's product. However this has resulted in reduction of basic input prices. Your Company is fully geared to take corrective steps to address the challenges that may arise out of above situations.

Report



*During the year D.I.pipes production was 2,51,823 MT as against 2,14,956 MT in the previous year, showing an increase of 17%.*

The Company has started trial production of its coal mine. The import of coal would be lower to the extent of mined coal is used by its coke oven plants.

#### **Corporate Governance**

Your Company has fully complied with the requirements of Clause 49 of the Listing Agreement regarding Corporate Governance.

A report on Corporate Governance Practices, the Auditors' Certificate on compliance of mandatory requirements thereof and Management Discussion and Analysis are given as annexure to this report.

#### **Directors' responsibility statement**

Your Directors hereby confirm:

- a) that in the preparation of annual accounts, containing financial statements for the year ended March 31, 2009 the applicable accounting standards have been followed.
- b) that the stated accounting policies have been consistently followed to give a true and fair view of the state of affairs of the Company and the profit for that period.
- 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 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d) the annual accounts have been prepared on a going concern basis.

#### **Energy, Technology and Foreign Exchange**

Statement containing necessary information as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed hereto as Annexure 'A'.

#### **Employees**

The Board of Directors expresses its appreciation for the cordial relations and outstanding contribution made by the employees of the Company.

Particulars of employees as required under Section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975, as amended, form part of this report. However, pursuant to Section 219(1)(b)(iv) of the Companies Act, 1956, the Annual Report is being sent to all the shareholders of the Company, excluding the aforesaid information. Those members desirous to obtain such particulars may write to the Company Secretary at the Registered office of the Company.

#### **Subsidiary, Joint Venture and Associate Companies**

As on March 31, 2009, the Company has the following Subsidiary, Joint Ventures and Associate Companies.

S.No.	Name of the Company	STATUS
1.	Electrosteel Castings (UK ) Limited	Subsidiary
2.	Electrosteel Europe S.A.	Subsidiary
3.	Electrosteel Algeria SPA	Subsidiary
4.	Singardo International Pte Limited	Subsidiary
5.	North Dhadhu Mining Company Pvt Ltd	Joint Venture
6.	Domco Pvt Limited	Joint Venture
7.	Lanco Industries Limited	Associate
8.	Electrosteel Integrated Limited	Associate

In addition to above, the Company has formed a new wholly owned subsidiary namely, Electrosteel USA, LLC, post balance sheet date.

The statement pursuant to Section 212 of the Companies Act 1956, in respect of the above mentioned subsidiaries are attached in the annual report.

In terms of the approval granted by the Central Government under Section 212(8) of the Companies

## Directors' Report (Contd.)

Act, 1956, vide its letter number 47/5/2009-CL-III dated March 18, 2009, the copies of the balance sheet, profit and loss account, reports of the Board of Directors and the Auditors' Reports of the subsidiary Companies for the year ended March 31, 2009 are not attached to the Balance Sheet of the Company. However, a statement containing brief financial details of the Company's subsidiaries for the year ended March 31, 2009 is included in the Annual Report, as to comply with the terms of the exemption letter. The Company will furnish the annual accounts and other related detailed information of the subsidiaries upon request by any member of the Company. Moreover, the annual accounts of the subsidiary companies will also be kept for inspection for members at the Company's Registered Office.

### **Greenfield Project by an Associate Company M/s Electrosteel Integrated Limited (EIL)**

EIL is setting up a 2.2 MTPA integrated steel project at a capital outlay of Rs. 7,268 crores at Siyaljuri in Bokaro District in the industrially backward state of Jharkhand. The project cost would be financed in the debt equity ratio of 3:1. The project envisages production of 1.20 MTPA long steel products viz. bar & rods, 0.33 MTPA of D I pipes and balance 0.677 MTPA of other steel products. The project is appraised by the State Bank of India as the lead bank. The EIL plant will be based on Blast Furnace Route and would have various technological facilities including of Sinter Plant, Coke Oven Plant, Pellet Plant, Blast Furnace, Basic Oxygen Furnace, Billet Casters, Rebar & Wire Rod Mill.

Implementation of the project is progressing satisfactorily and EIL has acquired the land, received all statutory clearances, and placed almost all the orders for supply of plant & machinery. Equipments worth about USD 150 million have already arrived and balance equipments would be dispatched as per schedule. The construction work at site has already commenced and progressing as per schedule.

*Continuous efforts of Electrosteel team for improving its plant operational systems using TPM were recognized by JIPM at its prestigious ceremony held at Kyoto Japan in March'2009.*

#### **Awards**

Continuous efforts of Electrosteel team for improving its plant operational systems using TPM were recognized by JIPM at its prestigious ceremony held at Kyoto Japan in March'2009. Electrosteel is the only pipe manufacturer in India to win this TPM Excellence Award.

#### **Consolidated Financial Statements**

Pursuant to Clause 41 of the Listing Agreement entered into with the Stock Exchanges, the Board of Directors has pleasure in attaching the Consolidated Financial Statement prepared in accordance with the Accounting Standards prescribed by the Institute of Chartered Accountants of India.

#### **Auditors and Auditor's Report**

M/s. Lodha and Company, Chartered Accountants, statutory auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting of the Company. They have offered themselves for reappointment as statutory auditors and confirmed that their appointment, if made, will be within the prescribed limits under section 224(1B) of the Companies Act, 1956.

There are no qualifications or adverse remarks in the Auditors' Report which require any clarification/explanation. The Notes to Accounts forming part of the financial statements are self explanatory and needs no further explanation.

#### **Directors**

Your Directors have regret in informing the members that Mr. V. K. Lamba, Director of the Company left for his heavenly abode. Your Directors place on record their appreciation for the valuable guidance and services provided by Mr. V. K. Lamba on various matters during his tenure as Director of the Company and member of the Audit Committee.

Shri Binod Khaitan and Shri Nigam Chander Bahl, Directors, retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

#### **Acknowledgement**

Your Directors take this opportunity to thank the Financial Institutions, Banks, Government Authorities, Customers, Shareholders, Investors, Employees and other stakeholders for their continued trust and support to the Company.

Kolkata  
June 30, 2009

On behalf of the Board  
P. K. KHAITAN  
Chairman

# Annexure 'A'

## To Directors' Report

### CONSERVATION OF ENERGY

a) **Energy conservation measures taken :**

- "Solar lighting system": 29 nos. of 400-watt light fittings have been installed for road light at 49 BT Road & 30 BT Road.
- Electrical Energy consumption has been reduced for DI Pipe Production by Hydraulic power pack optimization, lighting improvement, and downsizing of motor capacity.
- Replacement of FRP blades in place of aluminium die cast blades in power plant.
- Further additions of capacitor bank for power factor improvement in MBF.

b) **Additional investment & proposals, if any, being implemented for reduction of consumption of energy**

- Modification of Blast Furnace for more efficient use of energy and increased replacement of Coke by Coal injection.
- Reduction in Fossil fuel by improving BF gas utilization in heat-treatment furnaces.

c) **Impact of measures of (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods**

- Above measures have already resulted in improvement of energy consumption as is evident from reflection thereof in Form 'A'.

d) **Total energy consumption & energy consumption per unit of production As per FORM – A attached**

### TECHNOLOGY ABSORPTION RESEARCH & DEVELOPMENT (R & D)

The Company's Research & Development cell is fully geared to absorb, adapt and innovate the latest technology on a continuous basis. Some of the R&D initiatives taken by the company during the year to improve the life, performance and market share of the product are as below :

- Pipe coatings have been developed for conveying water conforming to potability quality of water as per European Union (EU) directive, under extreme temperature conditions of Europe and Middle East. Further additions to the type of coatings have been made to enter the newer Markets having extreme aggressive conditions.
- Technology of Sinter making has been fully integrated by utilizing all the plant generated wastes and use of flux

*The Company's Research & Development cell is fully geared to absorb, adapt and innovate the latest technology on a continuous basis.*

fines/iron ore fines/coke breeze.

- Collaborative research and development is being carried out on testing and measurement of corrosion prevention characteristics of metallic and non-metallic protective coatings with Jadavpur University (Industrial Institute Partner Cell) to improve the life of DI Pipes under different aggressive soil conditions.
- Pipes and Fittings as per AWWA specification of USA have been developed for entering high-end market.

The Company incurred Rs 58.89 lakhs on R & D activities.

#### FOREIGN EXCHANGE EARNINGS & OUTGO

- a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products & services and export plans :

Continuing efforts are made to increase the exports by exploring, creating and developing new markets, setting up Subsidiaries, Joint Ventures and Branches in foreign countries.

- b) Total foreign exchange used and earned :

Foreign exchange used

- Rs 443.78 crores

Foreign exchange earned

- Rs 489.23 crores

#### Form - A

Form for disclosure of particulars with respect to conservation of energy : 2008-2009

##### (a) Power & Fuel

		Current Year ended 31.03.09	Previous Year ended 31.03.08
<b>1. Electricity</b>			
<b>(a) Purchased</b>			
Units	Kwh '000	<b>119025.02</b>	91539.81
Total Amount	Rs. Lakhs	<b>4820.26</b>	3717.88
Rate/Unit	Rs.	<b>4.05</b>	4.06
<b>(b) Own Generation</b>			
i) Though diesel Generator			
Units	Kwh '000	<b>3089.26</b>	6938.84
Unit/litre of Diesel Oil	Kwh	<b>3.01</b>	3.48
Cost/Unit variable	Rs.	<b>12.19</b>	10.37
ii) Though Steam Turbine Generator			
Units	Kwh '000	<b>106198.95</b>	120485.64
Unit/litre of Diesel Oil	Kwh	<b>203.19</b>	257.99
Cost/Unit Variable	Rs.	<b>0.17</b>	0.12
<b>2. Furnace Oil incl. Diesel</b>			
Quantity	K.L.	<b>10313.21</b>	9371.10
Total Amount	Rs. Lakhs	<b>3321.45</b>	2341.97
Average Rate	Rs./KL	<b>32205.78</b>	24991.40
<b>3. Coke &amp; Coal</b>			
Quantity	M.T.	<b>318559.40</b>	319,590.06
Total Amount	Rs. Lakhs	<b>36116.89</b>	16,954.84
Average Rate/MT	Rs./MT	<b>11337.57</b>	5,305.18
<b>4. Coal Gas</b>			
Quantity	NM <sup>3</sup> '000	<b>10202.58</b>	9567.06
Total Amount	Rs. Lakhs	<b>722.81</b>	529.74
Average Rate	Rs./NM <sup>3</sup>	<b>7.08</b>	5.54

##### (b) Consumption per Unit of Production (MT)

	Pipes and Allied Products
Electricity (KWH)	<b>772</b> (812)
Furnace Oil (Ltr.)	<b>35</b> (35)
Coke & Coal (Kg.)	<b>1077</b> (1185)
Coal Gas ( NM <sup>3</sup> )	<b>34</b> (35)



# Management

## Discussion and Analysis

### « Overview

The Company is engaged in the business of manufacturing Ductile Iron Pipes and Fittings and Cast Iron Pipes. Additionally, the Company also undertakes turnkey solutions for water transportation and sewerage management, which includes manufacturing DI Pipes, supplying and laying various types of pipes, operating the system and transferring to the owners.

### « Industry Outlook

In the last decade about 800 million people around the globe have gained access to improved water supply. Over 10% of the global population is currently not being served with water supply. Urban services face the greatest overall challenges with more than a billion additional people needing access to both water supply & sanitation in the next 15 years. In India the current coverage of urban population with water supply is reported as 91% and rural population as 75%, which means that over 200 million people are not covered with water supply.

The global aim is of providing the water & sanitation facilities to all. Hurdles that come in the way of providing water and sanitation facilities to all are :-

1. Keeping pace with a new population growth.
2. Closing the coverage and service gap.
3. Ensuring sustainability of existing & new services
4. Improving the quality of services.

The regular plan programmes by the Indian States are heavily tilted towards supply side management. However, realization is dawning that water resource is limited and cannot be wasted. The current level of leakages is restricted by giving short hours of supply at low pressures. Still the average water loss in the leaking water systems varies from place to place and it is generally between 20-50%. Dedicated efforts to plug the leakages are required in addition to demand management measures for achieving the sustainability and equity.

DI Pipes are stronger, have longer life span, are easier to tap, require less support and provide greater flow area as compared to pipes made from other materials. DI Pipes have a lower life cycle cost