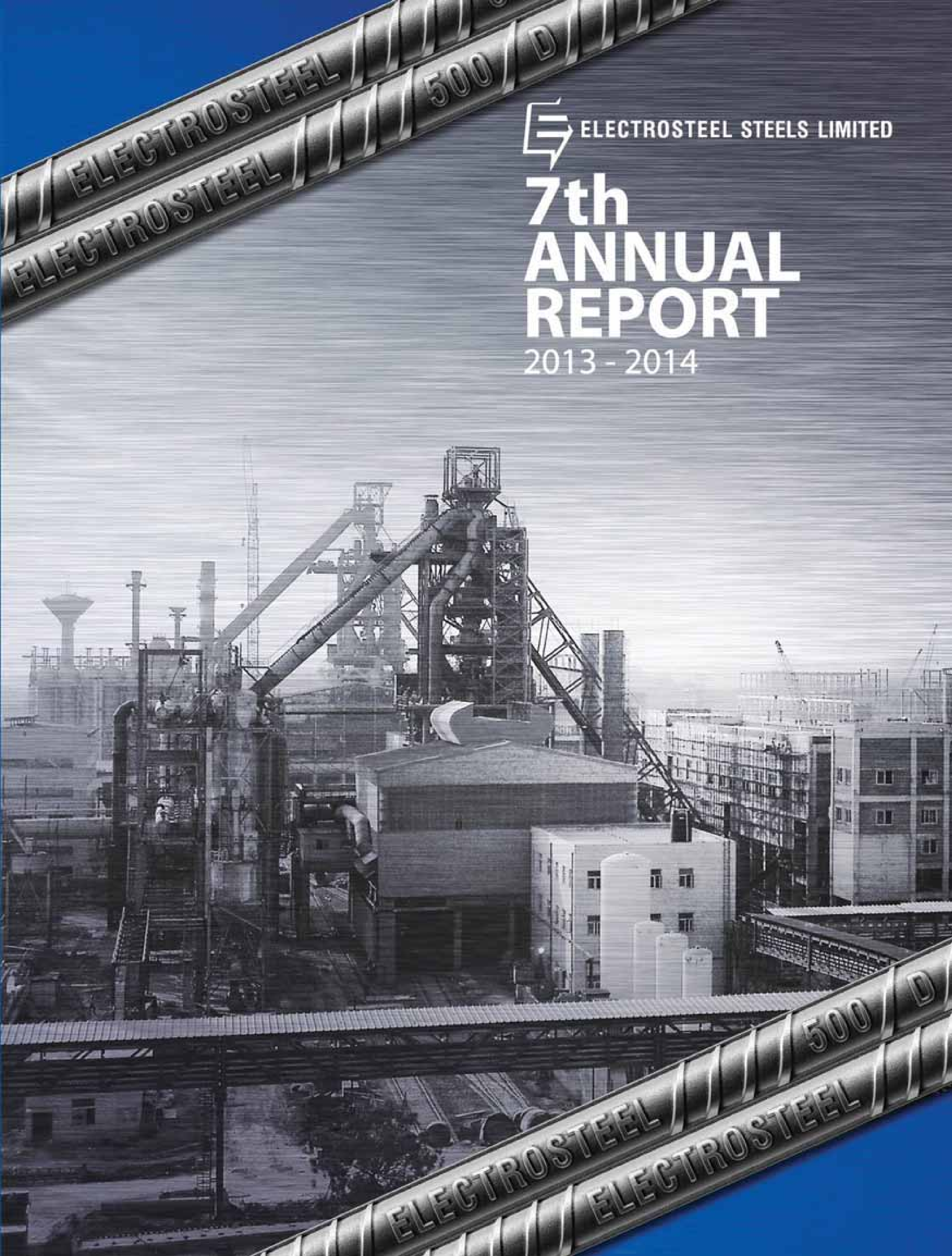
ELECTROSTEEL STEELS LIMITED

7th ANNUAL REPORT

2013 - 2014



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CORPORATE INFORMATION

CIN-L27310JH2006PLC012663

DIRECTORS	Mr. Rajkumar Khanna Mr. Lalit Kumar Singhi Mr. Jinendra Kumar Jain Mr. Naresh Pachisia Mr. Amrendra Prasad Verma Mr. Sunil V Diwakar Mr. Umang Kejriwal
WHOLETIME DIRECTOR	Mr. Rama Shankar Singh
COMPANY SECRETARY	Mr. Vikash Kumar Agarwal
STATUTORY AUDITORS	M/s. B Chhawchharia & Co., Chartered Accountants
COST AUDITORS	M/s S. G. & Associates, Cost Accountants
LENDERS	State Bank of India Allahabad Bank Andhra Bank Bank of Baroda Bank of India Bank of Maharashtra Canara Bank Central Bank of India Corporation Bank Dena Bank HUDCO ICICI Bank Ltd. IL&FS Financial Services Ltd. Indian Bank Indian Overseas Bank LIC of India Oriental Bank of Commerce Punjab & Sind Bank Punjab National Bank State Bank of Hyderabad State Bank of Mysore State Bank of Patiala State Bank of Travancore Syndicate Bank Jammu & Kashmir Bank Ltd. UCO Bank Union Bank of India United Bank of India Vijaya Bank SREI Insfrastructure Finance Ltd.
REGISTERED OFFICE	801, Uma Shanti Apartments, Kanke Road, Ranchi - 834 008 Jharkhand. Tel & Fax No.: 0651 223 1636
PLANT	Village Siyaljori, P.O - Jogidih, P.S - Chandankyari, Dist - Bokaro, Pin - 828 303, Jharkhand.
HEAD OFFICE	G K Tower, 2nd & 3rd Floor, 19, Camac Street, Kolkata - 700 017, West Bengal Phone : 033-7103 4400 Fax : 033-2290 2882 Website : www.electrosteelsteels.com

DIRECTORS' REPORT

Dear Shareholders,

Your Directors take pleasure in presenting their Seventh Annual Report and the Audited Accounts of your Company for the year ended March 31, 2014.

FINANCIAL RESULTS **Amount (Rs/Lakhs)**

Particulars	**FY 2013-14**	FY 2012-13
i. Gross Turnover	**57,616.92**	18,329.76
ii. Net Turnover	**513,22.19**	16,311.01
iii. Other Income	**692.57**	93.39
iv. Total Revenue	**52,014.76**	16,404.40
v. Earnings Before Interest, Depreciation, Taxation and Amortization (EBIDTA)	**(4,616.28)**	(8,422.33)
vi. Interest	**17,731.41**	13,441.11
vii. Depreciation	**6,764.31**	6136.39
viii. Profit before Taxation (PBT)	**(29,112.00)**	(27,999.83)
ix. Tax including Deferred Tax	**1.17**	1.42
x. Profit after Taxation (PAT)	**(29,113.17)**	(28,001.25)
xi. Profit brought forward from previous year	**—**	—
xii. Amount available for appropriation	**(29,113.17)**	(28,001.25)
xiii. Transfer to general reserve	**—**	—
xiv. Surplus/ (Deficit) carried to Balance Sheet	**(29,113.17)**	(28,001.25)

PROPOSED ISSUE OF EQUITY SHARE CAPITAL UNDER PREFERENTIAL ALLOTMENT

During the year the Board of Directors of the Company at its Meeting held on February 6, 2014 and further as approved by the shareholders by a resolution passed by Postal Ballot and as announced on 19th March, 2014, it has been decided to issue equity shares of Rs 10 each ("**Equity Shares**") on preferential basis to the promoter of the Company, namely, Electrosteel Castings Limited, aggregating to Rs-222.50 Crores.

The above issue is as per Corporate Debt Restructuring Package as approved by Corporate Debt Restructuring Empowered Group (**CDR EG**) on 26-09-13 and the Letter of Approval (LOA) was issued by CDR EG on 28-09-13. The Company has made petition before the Company Law Board for issuance of Shares at a discounted value of Rs-5 per share or such other value as may be sanctioned by the Company Law Board. The petition is pending before the Company Law Board.

DIVIDEND

You will appreciate that since the project is under implementation, there is not much earnings as of now, and hence your Directors are not recommending any dividend on the Equity Shares of the Company for the year ended 31st March 2014.

OPERATIONS

As you are aware, that your Company is setting up a 2.51 MTPA integrated Steel & Ductile Iron (DI) Pipe project, at Siyaljori village, in Bokaro District, in the state of Jharkhand, which is about 22 kms from Bokaro city, a well-developed industrial town of Jharkhand, the plant will produce;

Finished Products	**MTPA**
Wire rods	0.60
Reinforcement bars in straight lengths	0.85
Ductile Iron Pipe	0.33
Commercial Billets	0.33
Pig Iron	0.40
Total	2.51

Your Company has operationalised Blast Furnace (BF #II) of 1050 M^3 capacity in addition to Blast Furnace (BF #III) of 350 M^3 capacity. Operations of Coke Oven and Sinter Plant are continuing. In addition to Pig Iron, production of Billets and Re-bars are persistent from Steel Melt Shop (SMS) and Rebar Mill. One unit of Captive Power Plant (CPP) of 60 MW based on Waste Heat Recovery Boiler has been commissioned during the year. This would result in the reduction of overall power cost of the plant. Pulverized Coal Injection System has also been commissioned during the reporting period. Lime Calcination Plant has also started operations thereby reducing the dependence on supply from outside. With the operationalization of BF #II, daily production of steel has increased.

Presently your Company is selling TMT Bar, Billets and Pig Iron in the open market. Your Company is also tapering international market and exploring possibilities of export of its products. Your Company has already exported few consignments of Billets and has few export orders in hand.

Construction activities of the balance facilities are in full swing.

Capex Loan of Rs.824 Crs, as reported in the last year's director's report, could not be availed because sanction from one of the banks expired and took inordinate time in renewal.

Ultimately in the Joint Lenders Meeting held in May'13, it was decided by all the lenders that the Company should go for Corporate Debt Restructuring (CDR). Accordingly, flash report was filed by State Bank of India. Your Company's CDR Package was approved by CDR EG on 26-09-13 and the Letter of Approval (LOA) was issued by CDR EG on 28-09-13 with additional Term Loan of Rs.1307.10 Crs to complete the Project (Rs.1107.10 Crs for the Capex and Rs.200 Crs for shoring up of working capital). Rs.1107.10 Crs is assessed considering the undisbursed portion of Capex Loan of Rs.824 Crs required earlier. In addition to the additional loan, CDR EG has allowed some other benefits like:

- Reduction in rate of interest
- Longer Repayment Period
- Conversion of interest on Term Loan into Funded Interest Term Loan

CDR Package was implemented well within the stipulated time frame.

Assessment of Need Based Working Capital of Rs.1300 Crores for FY 2014-15 was also approved under the CDR Package.

The Company has started receiving disbursements of approved additional term loan from Banks for completion of balance facilities.

The Company has during the year capitalised part of the plant facility comprising of Vertical Coke Oven including CPCS, Sinter Plant (Unit-I), Steel Melting Shop and Rebar Mill. Accordingly the Pre-Operative Expenses incurred upto the date of capitalisation have been allocated to the cost of the various facilities on a proportionate basis.

LISTING

The equity shares of your Company continue to be listed on Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE). Both these stock exchanges have nation-wide terminals and therefore, shareholders/ investors are not facing any difficulty in trading in the shares of the Company from any part of the Country. The Company had paid annual listing fees for the financial year 2014-15 to BSE & NSE and will also pay the annual custodian fees to National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

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 and the Auditors Certificate on compliance of mandatory requirements thereof is given as annexure to this report.

BUSINESS RESPONSIBILITY REPORT and CSR

Ministry of Corporate Affairs (MCA), Government of India has, in July 2011, issued National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (Guidelines). The Guidelines list out nine principles and core elements on ethics, transparency and accountability, sustainability, employee well-being, responsiveness towards stakeholders, promotion of human rights, environment protection, influencing public policy, inclusive growth and equitable development, value to customers and consumers. The Companies in India are advised to follow these Guidelines for reporting their initiatives and activities relating to corporate social responsibilities (CSR). The Company's vision, mission and core values enshrine these principles which are integral to the business of the Company. The Company engages in elaborate CSR initiatives, conducts business with transparency and accountability, looks after well-being and protection of the employees with a human face, is responsive to the needs of all its stakeholders and takes care of quality of the products manufactured by it, gives priority to preservation and protection of environment and prevention of pollution and believes that business is also a medium to contribute to the social development. Initiatives undertaken during the year under report in respect of corporate social responsibility, environment protection, industrial relations and human resource management etc. are mentioned in detail in the Management Discussion and Analysis Report which forms a part of this report as Annexure.

With the Commencement of Section 135 of the Companies Act, 2013 the provisions of Corporate Social Responsibility are applicable to the Company. The details of same will be covered in next year's Director's report.

MANAGEMENT DISCUSSIONS AND ANALYSIS

A report on Management discussion and analysis is given as annexure to this report.

FIXED DEPOSITS

The Company has not accepted any fixed deposit during the period under review.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors hereby confirm that:

a) in the preparation of annual accounts, containing financial statements for the year ended March 31, 2014, the applicable accounting standards have been followed along with proper explanations, wherever required.

b) the Board 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 2013-14 and of the profit or loss of the Company for that period.

c) the Board has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safe guarding the assets of the company and for preventing and detecting any fraud and other irregularities.

d) the annual accounts have been prepared on a going concern basis.

PERSONNEL

Particulars of employees as required under Section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975, as amended, forming a 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 members of the Company, excluding the aforesaid information. Those members desirous of obtaining such particulars may write to the Company at its registered office.

"Disposal of complaint under "The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013" ("The Act")

In compliance with the Act, the Company has constituted the "Internal Complaints Committee" and also framed the redressal policy in case of sexual harassment at workplace. During the year, the Company has not received any complainant with respect to sexual harassment at work place. "

INFORMATION AS PER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956

Information as per Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 related to conservation of energy, technology absorption, foreign exchange earnings and outgo are given in Annexure - 'A' attached hereto and forming part of this Report.

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 Financial Statement prepared in accordance with the Accounting Standards prescribed by the Institute of Chartered Accountants of India.

Since your Company does not have any subsidiary, preparation of the Consolidated Financial Statement is not required.

DIRECTORS

Pursuant to the provisions of 198, 269, 309 and 310 read with Schedule XIII and other applicable provisions of the Companies Act, 1956, Mr Rama Shankar Singh was appointed as the Whole Time Director of the Company by the Board at its meeting held on 6th February 2014 for a period of 3 (three) years at a remuneration and on such terms and conditions as decided by the Remuneration Committee at its meeting held on 6th February 2014. His appointment was also approved by the Shareholders of the Company by a resolution passed by Postal Ballot and as announced on 19th March, 2014. The remuneration for the aforesaid Whole time Director is subject to the approval of the Central Government which is yet to be received.

Mr. N C Bahl, Whole Time Director of the Company, have resigned from the Board of your Company with effect from 6th February 2014. The Board places on record its deep appreciation for the guidance and the invaluable services rendered by him during the tenure of his office as Whole Time Director of the Company.

Pursuant to the provisions of the Companies Act, Mr Umang Kejriwal and Mr Lalit Kumar Singhi, Directors of the Company, retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

Pursuant to the provisions of Section 149 of the Companies Act, 2013, Mr. Jinendra Kumar Jain and Mr. Naresh Pachisia were appointed as Independent Directors of the Company w.e.f 1st April, 2014 for a term of 5 years subject to approval of Shareholders.

Pursuant to the provisions of section 161 of the Companies Act, 2013, Mr Rajkumar Khanna was appointed as the Additional Independent Director (Non-Executive) of the Company with effect from May 5, 2014 and will hold office upto the date of the next Annual General Meeting of the Company.

Pursuant to the provisions of Section 149 of the Companies Act, 2013, Mr. Rajkumar Khanna was appointed as Independent Director of the Company w.e.f 5th May, 2014 for a term of 5 years subject to approval of Shareholders.

None of the Directors of the Company are disqualified as per section 164(2) of the Companies Act, 2013. The Directors have made necessary disclosures as required under various provisions of the Act and Clause 49 of the Listing Agreement.

STATUTORY AUDITORS

The Statutory Auditor M/s. B Chhawchharia & Co., Chartered Accountants, holds office up to the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Certificate from the Auditors has been received to the effect that their re-appointment, if made, would be within the limits prescribed under the Companies Act, 2013. They are proposed to be re-appointed as the Statutory Auditors of the Company for a term of three financial years 2014-17.

The Notes to Accounts forming part of the financial statements are self- explanatory and needs no further explanation.

COST AUDITORS

Your Directors have proposed M/s S. G. & Associates, Cost Accountants, to be appointed as the Cost Auditors of the Company for the year 2014-15, subject to such approvals as may be applicable.

Necessary certificate and consent letter from the said Auditor has been obtained to the effect that their appointment, if made, would be within the limits prescribed under the Companies Act, 2013.

APPRECIATION

Your Directors take this opportunity to place on record their gratitude and thank the Financial Institutions, Bankers, Government Authorities, Customers, Vendors, Shareholders and Employees for their valuable guidance, support and continued assistance, cooperation to the Company. The Directors also commend the continuing commitment and dedication of the employees at all levels. The Directors also look forward to their continued support in future.

For and on behalf of the Board of Directors

Place : Kolkata
Dated : May 5, 2014

R S Singh
Whole-time Director

Lalit Kumar Singhi
Director

ANNEXURE 'A' to Directors' Report

Information as per Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March 2014.

CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION

Since the Project is under implementation, conscious efforts are being made during the design, engineering and construction stage itself to ensure that the technology is understood and necessary measures to minimize energy consumption are incorporated in the Project.

FOREIGN EXCHANGE EARNING AND OUTGO

Foreign Exchange Earnings and Outgo:

		2013-14 Amount (Rs)	2012-13 Amount (Rs)
a)	Foreign Exchange Earnings	**145,962,726/-**	2,02,48,280/-
b)	Foreign Exchange Outgo	**3,004,283,713/-**	170,88,99,062/-

FORM A

		2013 - 14	2012 - 13
A	**POWER & FUEL CONSUMPTION**		
	Electricity		
	a. Purchased:		
	Units (KWH)	**15,99,64,000**	7,07,35,000
	Total amounts (Rs in lacs)	**6425.89**	2866.05
	Rate / Units (Rs / KWH)	**INR 4.02**	INR 4.05
	b. Own Generation:		
	Through Diesel Generator		
	Units (KWH)	**1,77,478**	8,64,776
	Units / Ltr. of Diesel oil	**3.98**	3.22
	Cost / Unit (Rs / KWH)	**INR 14.11**	INR 11.60
B	**CONSUMPTION PER UNIT OF PRODUCTION (MT)**	**2013 - 14**	2012 - 13
	(Product with details) units		
	Electricity (KWH)		
	Pig Iron	**137**	224
	Coke	**13**	16
	Steel Billet	**80**	190
	Rebar	**205**	178

For and on behalf of the Board of Directors

Place : Kolkata
Dated : May 5, 2014

R S Singh
Whole-time Director

Lalit Kumar Singhi
Director

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The Company is promoted by Electrosteel Castings Limited (ECL) to setup a 2.51 MTPA Greenfield Integrated Steel &Ductile Iron (DI) Pipes project in the district of Bokaro, Jharkhand. Pursuant to group's strategy of focusing on identification of opportunities for backward integration, new DI pipe capacity as well as investment in the steel sector, ECL has been allotted mining blocks of iron ore and coking coal in the state of Jharkhand and has promoted this Company for implementing the integrated steel & DI pipe plant.

ECL, the Promoter of your Company, is a premier manufacturer of Cast Iron pipes for over five decades and DI Pipes since last 20 years. ECL has five manufacturing facilities, three located at Khardah, Basberia and Haldia, all three in the State of West Bengal, one at Elavur in the State of Tamil Nadu and one Coal washery plant at Parbatpur in the State of Jharkhand.

The plant will produce 1.45 MTPA of long steel products, comprising 0.60 MTPA wire rods and 0.85 MTPA of reinforcement bars in straight lengths, bundles and plain rounds. The plant will have a 0.33 MTPA DI pipe production facility in the same complex and will be provided with hot metal from the Blast Furnaces. The plant will also have production facilities for 0.33 MTPA of Commercial Billets and 0.40 MTPA of Pig Iron.

The Company will be manufacturing basically the long steels which will be used as construction steel along with intermediary products like commercial billets and pig iron. The Company will also produce DI Pipes.

Your Company has acquired approximately 2,200 acres of land for the proposed plant, taking into account the scope for future expansion.

Your Company has operationalised Blast Furnace (BF #II) of 1050 M^3 capacity in addition to Blast Furnace (BF #III) of 350 M^3 capacity. Operations of Coke Oven and Sinter Plant are continuing. In addition to Pig Iron, production of Billets and Re-bars are persistent from Steel Melt Shop (SMS) and Rebar Mill. One unit of Captive Power Plant (CPP) of 60 MW based on Waste Heat Recovery Boiler has been commissioned during the year. This would result in the reduction of overall power cost of the plant. Pulverized Coal Injection System has also been commissioned during the reporting period. Lime Calcination Plant has also started operations thereby reducing the dependence on supply from outside. With the operationalization of BF #II, daily production of steel has increased.

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Capex Loan of Rs.824 Crs, as reported in the last report, could not be availed because sanction from one of the banks expired and took inordinate time in renewal.

Ultimately in the Joint Lenders Meeting held in May'13, it was decided by all the lenders that the Company should go for Corporate Debt Restructuring (CDR). Accordingly, flash report was filed by State Bank of India. Your Company's CDR Package was approved by CDR EG on 26-09-13 and the Letter of Approval (LOA) was issued by CDR EG on 28-09-13 with additional Term Loan of Rs.1307.10 Crs to complete the Project (Rs.1107.10 Crs for the Capex and Rs.200 Crs for shoring up of working capital). Rs.1107.10 Crs is assessed considering the undisbursed portion of Capex Loan of Rs.824 Crs required earlier.In addition to the additional loan, CDR EG has allowed some other benefits like:

- Reduction in rate of interest
- Longer Repayment Period
- Conversion of interest on Term Loan into Funded Interest Term Loan
- CDR Package was implemented well within the stipulated time frame.

Assessment of Need Based Working Capital of Rs.1300 Crores for FY 2014-15 was also approved under the CDR Package.

The Company has started receiving disbursement of approved additional term loan from Banks for completion of balance facilities.

Units under operation:

- Vertical Coke Oven
- 350 m^3 Blast Furnace
- 1050 m^3 Blast Furnace
- Pig Casting Machine
- Sinter Plant
- Rebar Mill
- Water Supply System
- Steel Melting Shop
- 220 KV sub station& 33 KV distribution
- One unit of Power Plant (60 MW) based on WHR
- Lime Calcination Plant
- Pulverised Coal Injection System

ECONOMICS OVERVIEW

Chairman of worldsteel Economics Committee, Mr. Hans Jürgen Kerkhoff said "In 2013 world steel demand grew higher than our previous forecasts due to a stronger than expected performance in the developed world in the second half of the year. In particular, the recovery in the United States gained strength. In addition the downturn in the EU bottomed out and we now expect that steel demand in the Eurozone will move into positive growth in 2014. On the other hand, many emerging economies continue to struggle with structural issues and financial market volatility. This, along with China's deceleration, is the reason for our slightly lower global growth rate forecast for 2014. In 2015, growth in most parts of the world will accelerate thanks to a continuing steady recovery in the developed economies and an improvement in the situation for the emerging economies. But China's steel demand will further decelerate and this will prevent the broad recovery momentum from registering a higher global growth rate for 2015.

The continued closure of older, higher-cost steelmaking capacity and increased demand growth should lead to improved profitability for the sector in 2014 and 2015, driven by better utilization rates. The closure of inefficient capacity will require the sector to avoid political interference with commercially rational decisions.

The world economy is expected to have grown by 3.1% in 2014 and grow 3.3% in 2015. This growth is primarily driven by the revival of US and European economies, but further growth will be checked by the decelerated growth of the Chinese steel demand. In short, the global steel demand recovery continues but growth is stabilising at a lower rate with continued volatility and uncertainty leading to a challenging environment for steel companies."

INDUSTRY STRUCTURE

The Indian steel industry is broadly classified into two groups: Primary steel producers & Secondary steel producers. Primary steel producers have backward integration & normally have a higher capacity over 1.0 MTPA. The manufacturing process starts with steel making from Iron ore. The investment needed is also much higher as compared to secondary producers.

Secondary producers essentially have mini steel plants with capacities below 1.0 MTPA. This category mainly employs Electric Arc Furnace (EAF) or Induction Furnace (IF) route, which use scrap and sponge iron or a mix of both as raw materials to produce steel. This group also consists of processors and re-rollers of steel products. Secondary producers primarily manufacture long products and the route adopted by them is highly energy intensive for which they have to depend upon the purchased power.

Although, there are over 3,500 varieties of regular and special steel available, steel products can be broadly classified into two basic types according to their shape viz. flats and longs. All finished steel products are made from semi-finished steel that comes in the form of slabs, billets and blooms.

GLOBAL STEEL INDUSTRY

The World Steel Association (worldsteel) released its Short Range Outlook (SRO) apparent steel consumption for 2014 and 2015 at its annual meeting held this year in Sao Paulo, Brazil.