



Electrosteel Steels Limited



8TH ANNUAL REPORT 2014-15



CONTENTS

Corporate Information	2
Directors' Report	3
Management Discussion & Analysis	10
Corporate Governance Report	20
Auditors' Certificate on Corporate Governance	35
Independent Auditors' Report	44
Balance Sheet	48
Statement of Profit & Loss	49
Cash Flow Statement	50
Notes to the Financial Statements	51

CORPORATE INFORMATION

CIN - L27310JH2006PLC012663

BOARD OF DIRECTORS	Mr. Rajkumar Khanna (DIN: 05180042)	Non-Executive Independent Chairman
	Mr. Amrendra Prasad Verma (DIN: 00236108)	Nominee Director
	Mr. Jinendra Kumar Jain (DIN: 00737352)	Non-Executive Independent Director
	Mr. Lalit Kumar Singhi (DIN: 00893144)	Non-Executive Director
	Mr. Naresh Pachisia (DIN: 00233768)	Non-Executive Independent Director
	Ms. Rishu Kumari (DIN: 00729938)	Non-Executive Independent Director
	Mr. Sunil V Diwakar (DIN: 00089266)	Non-Executive Director
	Mr. Umang Kejriwal (DIN: 00065173)	Non-Executive Director
	Mr. Rama Shankar Singh (DIN: 02093276)	Executive Director
CHIEF FINANCIAL OFFICER	Mr. Ashutosh Agarwal	
COMPANY SECRETARY	Mr. Anubhav Maheshwari (ACS-22829)	
STATUTORY AUDITORS	M/s. B. Chhawchharia & Co., Chartered Accountants	
LENDERS	State Bank of India	Oriental Bank of Commerce
	Allahabad Bank	Punjab & Sind Bank
	Andhra Bank	Punjab National Bank
	Bank of Baroda	State Bank of Hyderabad
	Bank of India	State Bank of Mysore
	Bank of Maharashtra	State Bank of Patiala
	Canara Bank	State Bank of Travancore
	Central Bank of India	Syndicate Bank
	Corporation Bank	Jammu & Kashmir Bank Ltd.
	Dena Bank	UCO Bank
	HUDCO	Union Bank of India
	ICICI Bank Ltd.	United Bank of India
	IL&FS Financial Services Ltd.	Vijaya Bank
	Indian Bank	SREI Infrastructure Finance Ltd.
	Indian Overseas Bank	L&T Fin Corp Limited
	LIC of India	
REGISTERED OFFICE	801, Uma Shanti Apartments, Kanke Road, Ranchi - 834 008, Jharkhand. Tel & Fax No.: +91 0651 228 5636	
PLANT	Village Siyaljori, P.O. - Jogidih, P.S. - Chandankyari, Dist - Bokaro, Pin - 828 303, Jharkhand.	
CORPORATE OFFICE	G K Tower, 2nd & 3rd Floor, 19, Camac Street, Kolkata - 700 017, West Bengal Phone : +91 033-7103 4400 Fax : +91 033-2290 2882 Email: eil.investors@electrosteel.com Website : www.electrosteelsteels.com	

DIRECTORS' REPORT

Dear Shareholders,

Your Directors take pleasure in presenting the Eighth Annual Report along with Audited Financial Statements for the year ended 31st March, 2015.

FINANCIAL SUMMARY/HIGHLIGHTS

Particulars	Amount (Rs in Lakhs)	
	FY 2014-15	FY 2013-14
i. Gross Turnover	203287.58	57,616.92
ii. Net Turnover	183124.07	513,22.19
iii. Other Income	1560.49	692.57
iv. Total Revenue	184684.56	52,014.76
v. Earnings Before Interest, Depreciation, Taxation and Amortization (EBIDTA)	2855.09	(4,616.29)
vi. Interest	45173.13	17,731.41
vii. Depreciation	20085.09	6,764.31
viii. Profit before Taxation (PBT)	(62403.13)	(29,112.00)
ix. Tax including Deferred Tax	1.10	1.17
x. Profit after Taxation (PAT)	(62404.23)	(29,113.17)
xi. Profit brought forward from previous year	-	-
xii. Amount available for appropriation	(62404.23)	(29,113.17)
xiii. Transfer to general reserve	-	-
xiv. Surplus/ (Deficit) carried to Balance Sheet	(62404.23)	(29,113.17)

OPERATIONS

The Company's Greenfield Integrated Steel & Ductile Iron Pipe Plant with 2.51 Million Ton Per Annum (MTPA) capacity as detailed hereunder is under construction and erection:

Finished Products	MTPA
Wire rods	0.60
TMT Bars	0.85
Ductile Iron Pipe	0.33
Billets	0.33
Pig Iron	0.40
Total	2.51

In addition to the already operational Blast Furnace of smaller 350 M³ capacity, Your Company has operationalised bigger Blast Furnace of 1050 M³ capacity resulting in increase in production and turnover. In addition to above, the already operational ancillary units viz Vertical Coke Oven, Rebar Mill and one unit each of Sinter & Steel Melt Shop were further buoyed by the successful trial run of Lime and Dolomite Plant, Oxygen Plant, Power Plant and balance unit of Sinter Plant. Hence, the development of ancillary modules is resulting into augmentation of integrated capabilities of the Plant and further reducing dependency for supply from outside. A part of the Plant facility has commenced production and the work for completion of the balance Project modules to make the Plant completely commissioned to its annual capacity are in progress.

Presently Your Company is selling TMT Bar, Billets, Ductile Iron Pipes and Pig Iron in the open market. With the commencement of production of the flagship product - Ductile Iron Pipe, Your Company expects better margins translating into improved performance with the increase in turnover. Your Company has also started exporting billets to various neighbouring countries like Nepal, Bangladesh, Bhutan and Sri Lanka. However, sluggishness in the global steel industry remains a matter of concern.

It is pertinent to note that the execution of balance project modules has been funded by the Corporate Debt Restructuring (CDR) Package sanctioned to the Company in September 2013. However, the sanction of CDR Package, post the referral to CDR forum, and consequent release of additional term loan under CDR Package happened with delay which resulted in further delay of operationalization of the balance project modules.

Further, the CDR Package had also approved the assessed Need Based Working Capital facility of Rs 1300 Crores. However, the financial closure of said facility took inordinate delay and ultimately the documents for the same were executed in November 2014. The release of the sanctioned working capital facility by majority of the lenders was done gradually and only subsequent to the execution of the documents in November 2014. The delay in release of working capital facilities had impacted the cash flow generation of the Company. Further, the Company is still to get the entire sanctioned need based working capital facility.

The shareholders of the Company pursuant to the requirement of the Companies Act 2013 had approved procurement of coal/coking coal from Electrosteel Castings Limited (ECL) on the terms and conditions as stated in the notice for the Annual General Meeting held on 16th September 2014. However, Supreme Court vide its order dated 24th September 2014 had de-allocated Parbatpur Coal Block allotted to ECL. Hence the agreement with ECL for procurement of coking coal stood cancelled w.e.f. 1st April 2015 due to Force Majeure.

Your Company is optimistic that with the release of entire working capital facilities, it will be able to step up production levels, which will add to enhanced top line and cash flow generation.

Under the CDR Package, further funds in the form of equity/preference shares/unsecured loan etc. needs to be infused, for which Company is seeking potential investment sources.

Thus, with the operationalization of other Project modules together with the increase in release of working capital facilities and the infusion of funds, it is expected that the overall financial health of the Company would improve considerably.

EQUITY SHARE CAPITAL

In terms of CDR Package, Electrosteel Castings Limited (ECL), the Promoter Company, was required to make contribution by way of equity and/or unsecured (subordinate) loans for Rs 222.50 crores. The Board of Directors ("Board") in its meeting held on 13th August 2014 after the approval of the shareholders on 19th March 2014 through Postal Ballot process had allotted 22.25crores equity shares of Rs 10 each fully paid up to ECL. The equity shares were later admitted for listing and trading on both the stock exchanges i.e. National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE). The equity share capital of the Company was enhanced from Rs 2,18,673.50 lakhs to Rs 2,40,923.50 lakhs.

DIVIDEND

In view of the loss, Your Directors regret their inability to declare any dividend for the year.

TRANSFER TO RESERVES

In view of losses incurred by the Company during the year, no amount has been transferred to the General Reserve.

EROSION OF NETWORTH

With accumulated losses of Rs. 1,356.33 crores at the end of the financial year, resulting in erosion of over 50% of peak net worth during the immediately preceding four financial years, we regret to inform that Your Company has become a "Potential Sick Company" within the meaning of Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA).

The Board in its meeting held on 11th May 2015 has reviewed the causes for such erosion and the reasons amongst others which adversely affected the performance of the Company were:

- (a) Delay in execution of Project mainly due to change in visa policy for Chinese work force deployed, problems in aggregation of land, necessity to hire local workmen, adverse operating and financial leverage and delay in sanction and disbursement of required Project Loan which resulted in huge overrun and caused non achievement of performance and profitability and thereby losses.

- (b) Delay in sanction & disbursement of “need based working capital facilities ”which resulted in lower capacity utilization and lower cash flow generation.

The Board after considering the various steps implemented and/or to be undertaken for improvement of performance of the Company is confident/optimistic that the Company would be able to implement effective measures in normal course of business to revive the operations of the Company. Accordingly, the financial statements for the Financial Year 2014-15 has been prepared on a going concern basis.

The Board in its meeting held on 11th May 2015 also approved Report of even date to such erosion and causes for such erosion, for consideration of the shareholders in the Extra Ordinary General Meeting to be convened on Friday, 11th September, 2015. The said Report is enclosed as an Annexure to the Notice of the Extra Ordinary General Meeting. In terms of the requirement of SICA, the Company shall also report to Board for Industrial and Financial Reconstruction (BIFR) the fact of erosion after consideration of the Report by the shareholders in the ensuing Extra-Ordinary General Meeting.

MANAGEMENT DISCUSSIONS AND ANALYSIS

A report on Management Discussion and Analysis is enclosed as “**Annexure A**” and forms an integral part of this Report.

NATURE OF BUSINESS

There has been no change in the nature of the business of the Company during the year. No material changes and commitments occurred between 31st March 2015 and 11th May 2015 i.e. the date of the Directors Report, affecting the financial position of the Company.

NUMBER OF BOARD MEETINGS

During the year 6 (Six) Board Meetings were convened and held, details of which are provided in the Corporate Governance Report. The intervening gap between the meetings was within the period prescribed under the Companies Act, 2013 (“Act”).

FIXED DEPOSITS

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

SUBSIDIARY / ASSOCIATE /JOINT VENTURES COMPANIES

The Company does not has a subsidiary/associate /Joint venture company for the year ended 31st March 2015.

INTERNAL FINANCIAL CONTROLS

The Company has in place ERP Package “SAP” which is operated on a pre-defined manual. The Company also has adopted Standard Operating Practices (SOPs) for its various areas of operations, which are in line with SAP manual. SOPs are adopted or revised, if required, to ensure that internal control system is effective and constantly assessed and strengthen. The Company has appointed Internal Auditors who monitor and evaluate the efficacy and adequacy of the internal control systems in the Company, its compliance with operating systems and accounting procedures and policies adopted by it, besides benchmarking controls with best practices in the Industry. Based on the reports of the internal auditor, process owners undertake corrective action(s) in their respective area(s) and thereby strengthening the controls. Significant audit observation(s) and corrective action(s) thereon are presented to the Audit Committee and the Board.

SIGNIFICANT AND MATERIAL ORDERS

During the year no significant and material order was passed by any regulator or court or tribunal impacting the going concern status and Company's operations in future.

ANNUAL EVALUATION OF THE BOARD

The Board on recommendation of the Nomination and Remuneration Committee, had adopted Schedule IV to the Act, as criteria for evaluating the performance of the Independent Directors and on the basis of the performance evaluation report has determined to continue their term of appointments as Independent Directors of the Company.

All the Independent Directors of the Company in its separate meeting held on 13th February 2015, without the attendance of Non-Independent Directors and members of management, on the basis of defined and agreed parameters, inter-alia, without the attendance of non-executive Directors and members of management had (i) reviewed the performance of the Non Independent Directors, the Board and Committees thereof and (ii) assessed the quality, quantity and timeliness of flow of information between the Company management and the Board that is necessary for the Board to be effective and reasonably perform their duties.

DIRECTORS AND KEY MANAGERIAL PERSONNEL

The shareholders of the Company in its previous Annual General Meeting held on 16th September 2014 had approved appointment of Mr Rajkumar Khanna as an Independent Director of the Company for a period of five years w.e.f 5th May 2014. In terms of requirement of the Act, Mr Naresh Pachisia and Mr Jinendra Kumar Jain, were also appointed in the aforesaid Annual General Meeting as Independent Directors of the Company for a period of 5 years w.e.f 1st April 2014. The Company has received from Mr Rajkumar Khanna, Mr Naresh Pachisia and Mr Jinendra Kumar Jain (i) intimation in Form DIR-8 pursuant to Section 152(2) of the Act read with Rule 14 of the Companies (Appointment & Qualifications of Directors) Rules, 2014 to the effect that they are not disqualified in accordance with Section 164(2) of the Act (ii) statement on declaration that they meet the criteria of Independence as provided in Section 149(6) of the Act and (iii) declaration that they have abide by the provisions specified in Schedule IV to the Act.

The Board in its meeting held on 21st March 2015, on the recommendation of the Nomination & Remuneration Committee and subject to approval of the shareholders in the ensuing Annual General Meeting, appointed Ms Rishu Kumari as an Additional Independent Non Executive Director not liable to retire by rotation. The Board is of opinion that her appointment is appropriate and in the best interest of the Company. The Company has received from Ms Rishu Kumari (i) consent in writing to act as Director in Form DIR-2 pursuant to Rule 8 of the Companies (Appointment & Qualifications of Directors) Rules, 2014 (ii) intimation in Form DIR-8 pursuant to Rule 14 of the Companies (Appointment & Qualifications of Directors) Rules, 2014 to the effect that she is not disqualified in accordance with Section 164(2) of the Act and (ii) statement on declaration that she meet the criteria of Independence as provided in Section 149(6) of the Act. Based on the declarations received, the Board is of opinion that Ms Rishu Kumari is a person of integrity and possesses relevant expertise and experience and is eligible and fulfills the conditions specified in the Act and Listing Agreement for such appointment and is independent of the management of the Company. The Board recommends her appointment as Independent Director of the Company.

The Company issued letter of appointment to all Independent Directors as per Scheduled IV to the Act and the terms and conditions for appointment are disclosed on the website of the Company www.electrosteelsteels.com.

The Board in its meeting held on 5th May 2014 had appointed Mr Ashutosh Agarwal as Chief Financial Officer of the Company. During the period under review, Mr Anubhav Maheshwari was appointed as Company Secretary and Compliance officer of the Company w.e.f. 5th September 2014 in place of Mr Vikash Kumar Agarwal who tendered his resignation as Company Secretary and Compliance officer of the Company w.e.f. 27th August 2014.

All the Directors have made necessary disclosures as required under various provisions of the Act and Clause 49 of the Listing Agreement.

Mr A P Verma and Mr Sunil V Diwakar, Directors shall retire at the Annual General Meeting and being eligible offers themselves for re-appointment.

The brief Resume/Profile of the Directors recommended by the Board for appointment /re-appointment is attached with Notice for the ensuing Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors hereby confirm that:

- a) in the preparation of annual accounts, containing financial statements for the year ended March 31, 2015, the applicable accounting standards have been followed along with proper explanations, wherever required.
- b) they have 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 2014-15 and of the loss of the Company for that period.

- c) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safe guarding the assets of the company and for preventing and detecting any fraud and other irregularities.
- d) they have prepared annual accounts on a going concern basis.
- e) they have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively.*
- f) The Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

*Please refer to the Section 'Internal Financial Controls' of the Report and 'Internal Controls' in the enclosed Management Discussion & Analysis Report.

PARTICULARS OF THE EMPLOYEES

The information required pursuant to Section 197 of the Companies Act, 2013 read with Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014 in respect of employees of the Company is given a separate annexure to this Report. The Reports and Accounts are being sent to members and other entitled thereto, excluding the information on employee's particulars which is available for inspection by the members at the Registered Office of the Company during business hours on any working day. If any member is interested in obtaining a copy thereof, such member may write to Company Secretary in this regard.

AUDIT COMMITTEE

The composition, terms of the reference and number of meetings of the Audit Committee during the year is covered in the enclosed Corporate Governance Report.

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

The information related to conservation of energy, technology absorption, foreign exchange earnings and outgo stipulated under Section 134 (3)(m) of the Act read with Rule 8 of the Companies (Accounts) Rules 2014 is enclosed as "**Annexure B**" and forms integral part of this Report.

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 and the Auditors Certificate on compliance of conditions as stipulated therein is enclosed as "**Annexure C**" and forms integral part of this Report.

STATUTORY AUDITORS & AUDITORS REPORT

The Shareholders of the Company in the 7th Annual General Meeting (AGM) held on 16th September 2014 had approved appointment of M/s. B Chhawchharia & Co., Chartered Accountants as Statutory Auditors of the Company until the conclusion of the 10th AGM of the Company and authorized the Board to fix their remuneration. In terms of the requirement of the Act, their appointment is required to be ratified by the members at the ensuing AGM. Accordingly, the Notice convening the ensuing 8th AGM includes the resolution seeking such ratification by the members for the said re-appointment of the Auditors.

Pursuant to Sections 139, 141 and 142 of the Act, and relevant rules prescribed there under, the Company has received certificate from the Statutory Auditors to the effect, inter alia, that they are not disqualified for ratification of appointment under the provisions of applicable laws, the appointment is as per the terms and the limits prescribed under the Act, and no proceedings against them or any of their partners are pending with respect to matter of professional conduct.

The Auditors have also confirmed that they have subjected themselves to Peer Review, a process of Institute of Chartered Accountants of India (ICAI) for evaluating the quality of audit and attestation services and that they hold a valid certificate issued by the Peer Review Board of the ICAI.

The Auditors' Report addressed to the Members of the Company, does not contain any qualification or reservation or adverse remark or disclaimer.

COST AUDITORS & COST AUDIT REPORT

In terms of requirement of Section 148 of the Act, read with Companies (Audit and Auditors) Rules, 2014, the Board in its meeting held on 11th May 2015 on the recommendation of the Audit Committee, had approved re-appointment of M/s S. G. & Associates, Cost Accountants, Kolkata (Registration No 000138) as Cost Auditors for audit of the Cost records to be maintained by the Company for the Steel Products and Mineral Fuels (Other than Petroleum) to be produced by the Company during the Financial Year 2015-16 on a remuneration of Rs 60,000 (Sixty Thousand) plus out of pocket expenses. The appointment as Cost Auditors is till the expiry of 180 days from the closure of the financial year ending 31st March 2016 or till the submission of the Cost Audit Report for the financial year 2015-16 in the prescribed format to the Board, whichever is earlier.

As required under the Act, the remuneration payable to the Cost Auditors is required to be placed before the Members for ratification. Accordingly, a resolution seeking Members ratification for the remuneration payable to M/s S. G. & Associates, Cost Accountants is included at Item No. 6 of the Notice convening the AGM. The Company has received consent letter from M/s S. G. & Associates, Cost Accountants, for their appointment.

The Cost Auditors are expected to submit their Cost Audit Report to the Board of Directors in the prescribed form for the financial year 2014-15 within the due date of 27th September 2015.

The Cost Audit Report for the Financial year 2013-14 do not contain any qualification or reservation or adverse remark and was filed with Ministry of Corporate Affairs on 24th September 2014.

SECRETARIAL AUDITOR & SECRETARIAL AUDIT REPORT

The Board in its meeting held on 11th May 2015 on the recommendations of the Audit Committee had approved appointment of M/s K Arun & Co., Practicing Company Secretaries, as Secretarial Auditor of the Company for audit of the secretarial and related records of the Company for the financial year ending 31st March 2016. The Company has received consent letter from M/s K Arun & Co., Practicing Company Secretaries, for their appointment.

The Secretarial Audit Report of M/s K Arun & Co., Practicing Company Secretaries for the financial year ended 31st March 2015 do not contain any qualification or reservation or adverse remark or disclaimer and is enclosed as **"Annexure D"** and forms integral part of this Report.

EXTRACTS OF ANNUAL RETURN

The details forming part of the extract of the Annual Return in Form MGT-9 as required under section 92 of the Act is enclosed as **"Annexure E"** and forms integral part of this Report.

PARTICULARS OF CONTRACTS OR ARRANGEMENT WITH RELATED PARTIES

During the period under review, the related party transactions with Electrosteel Castings Limited, Promoter Company, is within the limits and terms and conditions approved by the shareholders of the Company in its meeting held on 16th September 2014. The policy on Related Party Transactions as approved by the Board of Directors is available on the Company's website <http://www.electrosteelsteels.com/investor-relations/pdf/rpt.pdf>

The particulars of the material contract or arrangements with related party are enclosed as **"Annexure F"** and forms integral part of this Report.

The related party transactions are entered into based on considerations of various business exigencies such as synergy in operations, profitability, legal requirements, liquidity, resources availability etc of related parties. All related party transactions are intended to further the Company's interests.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

During the year, the Company has not provided any loan, guarantee or made investment under provisions of Section 186 of the Act.

RISK MANAGEMENT POLICY

The Board in its meeting held on 13th November 2014 had amended the Risk Management Policy of the Company. The details of the identification of the various risk associated with the business of the Company is detailed in the enclosed Management Discussion & Analysis Report.

CORPORATE SOCIAL RESPONSIBILITY POLICY

The Board in its meeting held on 13th August 2014 on the recommendation of the Corporate Social Responsibility (CSR) Committee had approved the Corporate Social Responsibility Policy. The CSR policy is available on the website of the Company www.electrosteelsteels.com. The composition and the terms of reference of the Committee are detailed in the enclosed Corporate Governance Report.

During the year, the CSR initiatives undertaken by the Company, although not mandatory under Section 135 of the Act read with Companies (Corporate Social Responsibility Policy) Rules 2014, are detailed in the enclosed Management Discussion & Analysis Report.

REMUNERATION POLICY

The Board on the recommendation of the Nomination & Remuneration Committee in its meeting held on 13th November 2014 modified/amended its remuneration policy for Directors, Key Managerial Personnel and Senior Management Personnel to align with the requirement of the Act and Listing Agreement. The particulars of the remuneration policy are stated in the enclosed Corporate Governance Report.

DISCLOSURE UNDER “THE SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT, 2013

The Company has in place “Internal Complaints Committee” and redressal policy in case of sexual harassment of women at workplace as envisaged under aforesaid Act. During the year, the Company has not received any complaint with respect to sexual harassment of woman at work place.

VIGIL MECHANISM/WHISTLE BLOWER POLICY

The Board in its meeting held on 5th May 2014 had approved Vigil Mechanism/Whistle Blower Policy. The details of the Policy as well as establishment of vigil mechanism are provided in the Corporate Governance Report enclosed and are also available on the website of the Company i.e. www.electrosteelsteels.com.

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 continued assistance and 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 : 11th May, 2015

R S Singh
Whole-time Director

Lalit Kumar Singhi
Director