



# ELECTROSTEEL STEELS LIMITED



9th Annual Report 2015-2016

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## CORPORATE INFORMATION

CIN - L27310JH2006PLC012663

<b>BOARD OF DIRECTORS</b>	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
	Mr. Sunil V Diwakar (DIN: 00089266)	Non-Executive Director
	Mr. Umang Kejriwal (DIN: 00065173)	Non-Executive Director
	Ms. Rishu Kumari (DIN: 00729938)	Non-Executive Independent Director
	Mr. Rama Shankar Singh (DIN: 02093276)	Executive Director
<b>CHIEF FINANCIAL OFFICER</b>	Mr. Ashutosh Agarwal	
<b>COMPANY SECRETARY</b>	Mr. Anubhav Maheshwari (ACS-22829)	
<b>STATUTORY AUDITORS</b>	M/s. B. Chhawchharia & Co., Chartered Accountants	
<b>LENDERS</b>	Allahabad Bank	LIC of India
	Andhra Bank	Oriental Bank of Commerce
	Bank of Baroda	Punjab National Bank
	Bank of India	Punjab & Sind Bank
	Bank of Maharashtra	SREI Infrastructure Finance Ltd.
	Canara Bank	State Bank of Hyderabad
	Central Bank of India	State Bank of India
	Corporation Bank	State Bank of Mysore
	Dena Bank	State Bank of Patiala
	HUDCO	State Bank of Travancore
	ICICI Bank Ltd.	Syndicate Bank
	IL&FS Financial Services Ltd.	UCO Bank
	Indian Bank	Union Bank of India
	Indian Overseas Bank	United Bank of India
	Jammu & Kashmir Bank Ltd.	Vijaya Bank
<b>REGISTERED OFFICE</b>	801, Uma Shanti Apartments, Kanke Road, Ranchi - 834 008, Jharkhand. Tel & Fax No.: +91 0651 228 5636	
<b>PLANT</b>	Village Siyaljori, P.O. - Jogidih, P.S. - Chandankyari, Dist - Bokaro, Pin - 828 303, Jharkhand.	
<b>CORPORATE OFFICE</b>	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: <a href="mailto:eil.investors@electrosteel.com">eil.investors@electrosteel.com</a> Website : <a href="http://www.electrosteelsteels.com">www.electrosteelsteels.com</a>	

## DIRECTORS' REPORT

Dear Shareholders,

Your Directors take pleasure in presenting the Ninth Annual Report along with Audited Financial Statements for the year ended 31<sup>st</sup> March 2016.

### FINANCIAL SUMMARY/HIGHLIGHTS

Particulars	Amount (Rs in Lakhs)	
	FY 2015-16	FY 2014-15
i. Gross Turnover	<b>288,875.89</b>	203,287.58
ii. Net Turnover	<b>259,769.47</b>	183,124.07
iii. Other Income	<b>1,516.41</b>	1,560.49
iv. Total Revenue	<b>261,285.88</b>	184,684.56
v. Earnings Before Interest, Depreciation, Taxation and Amortization (EBIDTA) (excluding exceptional item)	<b>12,482.81</b>	2,855.09
vi. Interest	<b>52,531.47</b>	45,173.13
vii. Depreciation	<b>20,257.93</b>	20,085.09
viii. Exceptional Item	<b>27,651.92</b>	-
ix. Profit before Taxation (PBT)	<b>(32,654.67)</b>	(62,403.13)
x. Tax including Deferred Tax	-	1.10
xi. Profit after Taxation (PAT)	<b>(32,654.67)</b>	(62,404.23)
xii. Amount available for appropriation	<b>(32,654.67)</b>	(62,404.23)
xiii. Transfer to general reserve	-	-
xiv. Surplus/ (Deficit) carried to Balance Sheet	<b>(32,654.67)</b>	(62,404.23)

### 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 Rod	0.60
TMT Bars	0.85
Ductile Iron Pipe	0.33
Billets	0.33
Pig Iron	0.40
<b>Total</b>	<b>2.51</b>

Both Blast Furnaces of 1050 M<sup>3</sup> and 350 M<sup>3</sup> capacity are operating at their optimum capacity resulting in increased production and turnover. Further during the period, Wire Rod Mill, 2<sup>nd</sup> unit of Sinter Plant and Steel Melt Shop were completed, commissioned and production commenced. Other commissioned ancillary units viz. Lime and Dolomite Plant, Oxygen Plant, Power Plant, etc. have facilitated augmentation of integrated capabilities of the Plant and enhancement of production. At present, out of envisaged installed capacity of 2.51 MTPA, the Plant is running to the current operational capacity of about 1.50 MTPA.

Your Company is selling TMT Bars, Billets, Ductile Iron Pipes, Pig Iron and Wire Rod in the open market. Your Company's flagship product - Ductile Iron Pipe has established its presence in the market and is contributing significantly to Company's growth. Your Company's continuous efforts for reduction of production cost and improvement in operational efficiency has resulted in increase in overall sales in terms of products sold by more than 78% vis-a-vis Financial Year 2014-15 and was also able to report profit in the quarter ended 31<sup>st</sup> March 2016. Your Company had entered into contracts with several parties for supply of equipment, structures, civil and erection commissioning, etc for its Plant. Since there was inordinate delay in delivery and commissioning of the project modules of the Plant, which in turn had resulted in loss of opportunity/profit, Your Company after its own assessment and in terms of the contracts had recovered a part of the amount payable to such vendors and has recognized it as income in the Statement of Profit and Loss as Exceptional Item. Your Company expects better margins translating into improved performance with increase in turnover. Your Company is presently exporting Billets, Wire Rod and TMT bars to neighboring countries like Nepal and Bangladesh. However, sluggishness in the global steel industry still remains a matter of concern.

As informed in previous Report, even after assessment of the need based working capital facility of Rs 1300 crores under Corporate Debt Restructuring Package, the delay in release of working capital facilities by the Bankers had impacted the cash flow generation of the Company. However, inspite of paucity of the working capital, due to better management of available resources, overall sales has improved. With operationalization of other project modules of Plant together with anticipated release of sanctioned working capital facilities, it is expected that the overall financial health of Your Company should improve considerably as has been reflected from the performance of the period under review.

Lenders of the Company invoked Strategic Debt Restructuring (SDR) pursuant to RBI Circular No. DBR.BP.BC.NO.101/21.04.132.2014-15 dated 8<sup>th</sup> June 2015 and RBI Circular No. DBR.BP.BC.NO. 41/21.04.048/15-16 dated 24<sup>th</sup> September 2015. Shareholders of the Company in the Extra-Ordinary General Meeting held on 7<sup>th</sup> January 2016, had approved Joint Lenders Forum decision taken on 16<sup>th</sup> October 2015 to convert part of the principle amount of restructured debt aggregating to Rs 2507.57 crores outstanding as on Reference date of 27<sup>th</sup> July 2015 into 250.75 crores equity shares of Rs 10 each to enable Lenders to collectively hold 51% or more of the equity capital of the Company. Although the Company had received share application forms from the Lenders pursuant to Section 42 of the Companies Act, 2013 read with Rules made therein, the Company, in absence of final communication from the Lenders did not proceed with allotment of the aforesaid equity shares.

### **EQUITY SHARE CAPITAL**

In terms of SDR Package, to accommodate issue and allotment of aforesaid equity shares to the Lenders of the Company and pursuant to the shareholders approval in the Extra-Ordinary General Meeting held on 7<sup>th</sup> January 2016, the authorized share capital of the Company had been enhanced from Rs 4500 crores to Rs 5000 crores.

### **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**

As reported in previous Report, since accumulated losses resulted in erosion of over 50% of peak net worth during the immediately preceding four financial years, your Company had become a "Potential Sick Company" within the meaning of Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). Shareholders of the Company, at the Extra Ordinary General Meeting held on 11<sup>th</sup> September 2015 had considered and approved the Report of Directors on the causes of erosion of more than 50% of the net worth and steps to be taken for revival remedial measures. In terms of the requirement of SICA, the Company after shareholders approval had reported to the Board for Industrial and Financial Reconstruction the fact of such erosion.

During the period under review, Your Company, inspite of financial constrains as stated earlier, had been able to improve its overall revenue. However, due to insufficient funds for completion of the remaining modules of the Plant, the Company is not able to operationalize to its envisaged capacity.

Your Board is confident/optimistic that it would continue to implement effective measures in normal course of business to revive the operations of the Company as it did during the period under review, which is evident from the improvement in the overall sales/performance. Accordingly, financial statements for the period under review have been prepared on a going concern basis.

#### **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 31<sup>st</sup> March 2016 and 13<sup>th</sup> May 2016 i.e. the date of the Directors Report, affecting the financial position of the Company.

#### **NUMBER OF BOARD MEETINGS**

During the year, 5 (Five) 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 VENTURE COMPANY**

The Company does not has any subsidiary/associate /joint venture company during the year ended 31<sup>st</sup> March 2016.

#### **INTERNAL FINANCIAL CONTROLS**

Your Company has in place policies and procedures to ensure orderly and efficient conduct of its business including adherence to Company policies, safeguarding its assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records, and timely preparation of reliable financial information. Your Company with respect to all material aspect has adequate internal financial controls over financial reporting and such internal financial controls were operating effectively during the period under review. The financial reporting criteria established by Your Company considered the essential components of internal control stated in the Guidance Note on “Audit of Internal Financial Controls Over Financial Reporting” issued by The Institute of Chartered Accounts of India (ICAI).

The Company's ERP Package “SAP” 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 bench marking controls with best practices in the Industry. Based on the reports of the internal auditor, process owners undertake corrective action in their respective areas and thereby strengthening the controls. Significant audit observation(s) and corrective action(s) thereon, if any, are presented to the Audit Committee and the Board.

#### **SIGNIFICANT AND MATERIAL ORDERS**

During the period under review 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. However, Members attention is drawn to the statement of contingent liabilities, commitments in the note forming part of Financial Statement.

#### **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 performance of Independent Directors and on the basis of the performance evaluation report has determined to continue their term of appointment as Independent Directors of the Company.



The Independent Directors of the Company in their meeting held on 11<sup>th</sup> February 2016, without the attendance of Non-Independent Directors and members of the management, on the basis of defined and agreed parameters, inter-alia, had (i) reviewed the performance of the Non Independent Directors, the Board and Committees thereof; (ii) reviewed the performance of the Chairman taking into account the views of the Executive Director and Non-Executive Directors (iii) assessed the quality, quantity and timeliness of flow of information between the management and the Board that is necessary for the Board to be effective and reasonably perform their duties.

#### **DIRECTORS AND KEY MANAGERIAL PERSONNEL**

Shareholders of the Company at the Annual General Meeting held on 11<sup>th</sup> September 2015 had approved appointment of Ms Rishu Kumari as an Independent Director of the Company for a period of five years w.e.f 21<sup>st</sup> March 2015. The Company has received from Mr Rajkumar Khanna, Mr Naresh Pachisia, Mr Jinendra Kumar Jain and Ms Rishu Kumari (i) statement on declaration that they meet the criteria of Independence as provided in Section 149 of the Act and Uniform Listing Agreement under SEBI (Listing Obligations and Disclosure Requirements), 2015 ("LODR") and (ii) declaration that they have abide by the provisions specified in Schedule IV to the Act.

All the Directors have made necessary disclosures as required under various provisions of the Act and LODR.

Mr Umang Kejriwal and Mr Rama Shankar Singh, Directors shall retire at the ensuing Annual General Meeting and being eligible offers themselves for re-appointment. The Board recommends their re-appointment for the consideration of Members of the Company at the ensuing Annual General Meeting.

The brief Resume/Profile of the Directors recommended by the Board for 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, 2016, 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 2015-16 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) they have 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 Act, 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 is enclosed as “**Annexure B**” and forms an integral part of this Report.

## **CORPORATE GOVERNANCE**

Your Company has complied with the requirements of LODR relating to 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 an integral part of this Report.

## **STATUTORY AUDITORS & AUDITORS REPORT**

The Shareholders of the Company in the 7<sup>th</sup> Annual General Meeting (AGM) held on 16<sup>th</sup> September 2014 had approved appointment of M/s. B Chhawchharia & Co., Chartered Accountants (Registration No. 30512E) as Statutory Auditors of the Company until the conclusion of the 10<sup>th</sup> 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 9<sup>th</sup> AGM includes the resolution seeking such ratification by the Members for the said appointment of the Auditors.

Pursuant to Sections 139, 141 and 142 of the Act, and relevant rules prescribed therein, 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 under the Chartered Accountants Act, 1949 and the rules and regulation made therein.

The Auditors have also confirmed that they have subjected themselves to Peer Review, a process of ICAI 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 13<sup>th</sup> May 2016 on the recommendation of the Audit Committee, had approved 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 goods to be produced by the Company during the Financial Year 2016-17. The appointment as Cost Auditors is till the expiry of 180 days from the closure of the financial year ending 31st March 2017 or till the submission of the Cost Audit Report for the financial year 2016-17 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 in 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 2015-16 within the due date of 27<sup>th</sup> September 2016.

The Cost Audit Report for the Financial year 2014-15 do not contain any qualification or reservation or adverse remark and was filed with Ministry of Corporate Affairs within the stipulated time.



## **SECRETARIAL AUDITOR & SECRETARIAL AUDIT REPORT**

The Board in its meeting held on 13<sup>th</sup> May 2016 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 31<sup>st</sup> March 2017. 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 31<sup>st</sup> March 2016 do not contain any qualification or reservation or adverse remark or disclaimer and is enclosed as “Annexure D” and forms an 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 an integral part of this Report.

## **PARTICULARS OF CONTRACTS OR ARRANGEMENT WITH RELATED PARTIES**

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.

All related party transactions are placed on quarterly basis before the Audit Committee for approval and before the Board for consideration and noting. The Company pursuant to the requirement of Section 188 of the Act read with Rules made therein had taken shareholders approval on 11th September 2015 for execution of related party transactions with Electrosteel Castings Limited, Promoter Company.

During the period under review related party transactions have been on arms- length and in ordinary course of business and they were not material in nature. Accordingly the particulars of the transactions as prescribed in form AOC-2 under Section 134 of the Act read with rules made therein are not required to be disclosed as they are not applicable.

The policy on Related Party Transactions as approved by the Board is available on the Company's website <http://www.electrosteelsteels.com/investorrelations/pdf/rpt.pdf>

## **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 Company has in place the Risk Management Policy. The details of the identification of the various risk associated with the business of the Company which in the opinion of the Board may threaten existence of the Company is detailed in the enclosed Management Discussion & Analysis Report.

## **CORPORATE SOCIAL RESPONSIBILITY POLICY**

The Company has in place Corporate Social Responsibility Policy and it is available on the website of the Company [www.electrosteelsteels.com](http://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 Company has in place Remuneration Policy for Directors, Key Managerial Personnel and Senior Management Personnel to align with the requirement of the Act and LODR. 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 Company has in place 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](http://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 co-operation to the Company. The Directors also look forward to their continued support in future.

For and on behalf of the Board of Directors

Place : Kolkata  
Dated : 13th May, 2016

<b>R S Singh</b>	<b>Lalit Kumar Singhi</b>
<i>Whole-time Director</i>	<i>Director</i>