

10th Annual Report 2016-2017



ELECTROSTEEL
STEELS LIMITED

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CORPORATE INFORMATION

CIN - L27310JH2006PLC012663

BOARD OF DIRECTORS	Mr. Pradeep Kumar Misra (DIN: 01471543)	Non-Executive Independent Chairman
	Mr. Devaprasad Mozumder (DIN: 07666887)	Nominee Director
	Ms. Jayantika Ganguly (DIN: 07667499)	Non-Executive Independent 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. Rajkumar Khanna (DIN: 05180042)	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)	Whole time Director
CHIEF EXECUTIVE OFFICER	Mr. Sunil Katial	
CHIEF FINANCIAL OFFICER	Mr. Ashutosh Agarwal	
COMPANY SECRETARY	Mr. Binaya Kumar Dash (ACS-17982)	
STATUTORY AUDITORS	M/s. B Chhawchharia & Co., Chartered Accountants	
LENDERS	Allahabad Bank	Indian Overseas Bank
	Andhra Bank	Jammu & Kashmir Bank Ltd.
	Bank of Baroda	LIC of India
	Bank of India	Oriental Bank of Commerce
	Bank of Maharashtra	Punjab National Bank
	Canara Bank	Punjab & Sind Bank
	Central Bank of India	SREI Infrastructure Finance Ltd.
	Corporation Bank	State Bank of India
	Dena Bank	Syndicate Bank
	HUDCO	UCO Bank
	ICICI Bank Ltd.	Union Bank of India
	IL&FS Financial Services Ltd.	United Bank of India
	Indian Bank	Vijaya Bank
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 Tenth Annual Report along with Audited Financial Statements for the year ended 31st March 2017.

FINANCIAL SUMMARY/HIGHLIGHTS

Particulars	Amount (₹ in Lakhs)	
	FY 2016-17	FY 2015-16
i. Revenue from Operations	277,429.58	288,875.89
ii. Other Income	9,353.12	1,571.44
iii. Total Income	286,782.70	290,447.33
iv. Earnings Before Interest, Depreciation, Taxation and Amortization (EBIDTA) (excluding exceptional item)	14,517.36	8,469.86
v. Finance Cost	112,983.05	52,663.27
vi. Depreciation & Amortization Expenses	47,882.30	20,257.93
vii. Exceptional Item	-	(27,651.92)
viii. Profit before Taxation (PBT)	(146,347.99)	(36,799.42)
ix. Tax including Deferred Tax	-	-
x. Profit after Taxation (PAT)	(146,347.99)	(36,799.42)
xi. Other Comprehensive Income	24.91	(19.86)
xii. Total Comprehensive Income	(146,323.08)	(36,819.28)
xiii. Earnings Per Share	(6.07)	(1.53)

Pursuant to the notification dated February 16, 2015 issued by the Ministry of Corporate Affairs, the Company has adopted the Indian Accounting Standards ("Ind AS") notified under the Companies (Indian Accounting Standards) Rules, 2015 (as amended) with effect from April 1, 2016. Financial Statements for the year ended and as at March 31, 2016 have been restated accordingly to conform Ind AS.

OPERATIONS

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

Your Company is selling Pig Iron, Billets, TMT Bars, Wire Rods and Ductile Iron Pipes in the open market. Its flagship product - Ductile Iron Pipe has established its presence in the market and is contributing significantly to Company's growth. Continuous efforts for reduction of production cost and improvement in operational efficiency has resulted in the Company being able to report positive Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year.

Owing to the shutdown of the Oxygen Plant as a result of an accident and to sustain the production level, your Company had to resort to procurement of oxygen from Open Market which resulted in increase in cost and increase in operating and maintenance cost which adversely affected performance of the Company to some extent. Wide fluctuation in raw material prices, especially imported coking coal, also had a negative impact. Effective steps towards implementing better guidelines for operational procedure and precautionary measures thereto have been put in place. Continuous efforts were initiated to improve performance of the Company in both, quantitative and qualitative terms.

In spite of paucity of working capital, the Company was able to sustain turnover vis-a-vis previous financial year.

The Lenders had invoked Strategic Debt Restructuring pursuant to RBI Circulars dated 8th June 2015 and 24th September 2015 and implementation thereof is in progress. Lenders of the Company are proposing to change the Management of the Company, in accordance with RBI Circular on Prudential Norms on change in Ownership of Borrowing entities (Outside SDR Scheme).

EQUITY SHARE CAPITAL

Authorised Share Capital of the Company is Rs. 50,000,000,000 (Rupees Five Thousand crores), divided into 5,000,000,000 equity shares of Rs. 10 each. Issued and paid up share capital is Rs. 24,092,350,230 divided into 2,409,235,023 equity shares of Rs. 10 each.

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 last year, since accumulated losses resulted in erosion of over 50% of peak net worth during the immediately preceding four financial years, your Company continues as a "Sick Company", the fact of which has already been reported to erstwhile Board for Industrial and Financial Reconstruction (BIFR).

During the period under review, your Company, in spite of financial constraints as stated earlier, had been able to maintain its overall revenue. However, due to insufficient funds for completion of remaining modules of the Plant, the Company is not able to operationalize to its envisaged capacity.

Your Board is confident and 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 positive EBITDA. The 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 31st March, 2017 and 15th May, 2017 i.e. the date of the Board's 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.

FIXED DEPOSITS

The Company has not accepted or renewed any fixed deposits during the period under review.

SUBSIDIARY / ASSOCIATE / JOINT VENTURE COMPANY

The Company did not have any subsidiary/associate/joint venture Company during the year ended 31st March 2017.

INVESTOR EDUCATION AND PROTECTION FUND

All unclaimed / unpaid share application money, remaining unclaimed / unpaid for a period of seven years from the date they became due for payment, are required to be transferred to the Investor Education and Protection Fund (IEPF). Accordingly, unclaimed/unpaid share application money, lying in the IPO Refund Account shall be transferred to IEPF during the financial year 2017-18.

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 accounting records and timely preparation of reliable financial information. Your Company, with respect to all material aspects, has adequate internal financial controls over financial reporting and such internal financial controls were operating effectively during the period under review. 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).

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 strengthened. 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.

Statutory Auditors of the Company have in their Report dated 15th May, 2017, opined that the Company has, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2017.

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 the recommendation of the Nomination and Remuneration Committee had adopted Schedule IV to the Companies Act, 2013 (hereinafter referred to as "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 February 2, 2017, 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

The Board at its Meeting held on September 29, 2016, on the recommendation of the Nomination & Remuneration Committee and subject to approval of shareholders in the ensuing Annual General Meeting, appointed Mr. Pradeep Kumar Misra as an Additional Independent Non-Executive Director designated as Chairman, not liable to retire by rotation.

The Board at its Meeting held on September 29, 2016, accepted the resignation of Ms. Rishu Kumari, Independent Non-Executive Woman Director with effect from September 29, 2016.

The Board at its Meeting held on December 8, 2016, accepted the resignation of Mr. Amrendra Prasad Verma, Nominee Director, with effect from October 18, 2016.

The Board places on record its appreciation for the valuable services provided by Mr. Amrendra Prasad Verma and Ms. Rishu Kumari.

The Board at its Meeting held on December 8, 2016, appointed Mr. Devaprasad Mozumder as a Nominee Director, proposed by the Lenders of the Company, not liable to retire by rotation. The Board at its Meeting held on December 8, 2016, on the recommendation of the Nomination & Remuneration Committee and subject to approval of shareholders in the ensuing Annual General Meeting, appointed Ms. Jayantika Ganguly as an Additional Independent Non-Executive Woman Director, not liable to retire by rotation.

The Company has received from Mr. Pradeep Kumar Misra and Ms. Jayantika Ganguly, (i) Consent to act as Director in Form DIR-2 pursuant to Rule 8 of the Companies (Appointment & Qualification of Directors) Rules, 2014 (ii) Intimation by Director in Form DIR-8 pursuant to Rule 14 of the Companies (Appointment & Qualification of Directors) Rules, 2014, to the effect that they are not dis-qualified in accordance with the provisions of Sec. 164(2) of the Companies Act, 2013 and (iii) Statement of declaration that they meet the criteria of independence as provided in Sec. 149(6) of the Act. The Board is of the opinion that Mr. Pradeep Kumar Misra and Ms. Jayantika Ganguly are persons of integrity and possess relevant expertise and experience and are eligible and fulfills the conditions as specified in the Act and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, (hereinafter referred to as "the LODR Regulations") for such appointment for a period of five years.

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

During the period under review, Mr. Binaya Kumar Dash was appointed as the Company Secretary and Compliance Officer of the Company w.e.f. February 14, 2017 in place of Mr. Anubhav Maheshwari who tendered his resignation as Company Secretary and Compliance Officer w.e.f. February 4, 2017.

Mr. Lalit Kumar Singhi, Non-Executive Director shall retire at the ensuing Annual General Meeting and being eligible offers himself for re-appointment. The Board recommends his re-appointment for the consideration of Members of the Company at the ensuing Annual General Meeting.

The brief Resume/Profile of the Director recommended by the Board for appointment/re-appointment is attached with the 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, 2017, 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 2016-17 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 Act, 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 as 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.

All recommendations made by the Audit Committee during the financial year 2016-17 were accepted by the Board of Directors of the Company.

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 the LODR Regulations, relating to Corporate Governance. A Report on Corporate Governance and the Certificate on compliance of conditions as stipulated therein, issued by Practicing Company Secretary is enclosed as "**Annexure C**" and forms an integral part of this Report.

STATUTORY AUDITORS

Companies Act, 2013, introduces the requirement of rotation of Auditor after a specified period. As per provisions of Section 139(2) of the Companies Act, 2013, a listed Company shall not appoint or re-appoint an Audit Firm as Auditor for more than two terms of five consecutive years. Further every Company which was required to comply with the aforesaid provisions was given a period of three years from the date of commencement of the Act, for compliance with the said provisions.

M/s B Chhawchharia & Co., Chartered Accountants, the existing Auditors has remained as Statutory Auditors of the Company, since incorporation of the Company i.e. December 20, 2006. Hence, they do not qualify to be re-appointed, your Directors recommends M/s. Lodha & Co., Chartered Accountants (Firm Registration No.:301051E) of 14, Government Place East, Kolkata 700069 as Statutory Auditors of the Company and has received their Consent in this regard, for a period of five years i.e. from conclusion of the tenth Annual General Meeting to be held in FY 2017-18 till the conclusion of the Fifteenth Annual General Meeting to be held in F Y 2022-23, subject to approval and subsequent ratification of the shareholders at every Annual General Meeting.

Pursuant to Sections 139, 141 and 142 of the Act, and relevant rules prescribed therein, the Company has received consent and certificate from Lodha & Co., to the effect, inter alia, that (1) they are not disqualified for appointment under the provisions of the applicable laws (2) the appointment would be as per the terms and the limits prescribed under the Act and (3) no proceedings against them or any of their Partners are pending with respect to matters of professional conduct under the Chartered Accountants Act, 1949 and the Rules and Regulations made therein.

The said Lodha & Co., 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.

AUDITOR'S REPORT

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 May 15, 2017 and on the recommendation of the Audit Committee, had approved appointment of M/s S. G. & Associates, Cost Accountants, Kolkata (Firm 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 2017-18. The appointment as Cost Auditors is till the expiry of 180 days from the closure of the financial year ending 31st March 2018 or till the submission of the Cost Audit Report for the financial year 2017-18 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 ensuing 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 2016-17 within the due date of 27th September 2017.

The Cost Audit Report for the Financial year 2015-16 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 May 15, 2017 and 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 2018. 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 2017 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

In accordance with Section 134 (3)(a) of the Companies Act, 2013, an extract of the Annual Return in the prescribed format is appended 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.