24th Annual Report 1999 2000

ESSAR

Essar Steel Limited

Essar Steel Limited

BOARD OF DIRECTORS

Shashi Ruia	*Chairman*
Ravi Ruia	*Vice Chairman*
Jatinder Mehra	*Managing Director*
Prashant Ruia	
S. V. Venkatesan	
S. N. Puri	*Wholetime Director & Company Secretary*
I. C. Jain	
D. D. Udeshi	
Sanjeev Shriya	
T. M. Nagarajan	Nominee – IDBI
Sanjivi Sundar	Nominee – UTI
Chanda Kochhar	Nominee – ICICI

REGISTERED OFFICE

Post : Hazira Pin : 394 270
Dist : Surat
Gujarat
Tel : 0261-626260
Fax: 0261-626224/626462

CORPORATE OFFICE

Essar House
11, Keshavrao Khadye Marg
Mahalaxmi
Mumbai 400 034

BANKERS

State Bank of India
Punjab National Bank
Bank of India
Allahabad Bank
State Bank of Patiala
State Bank of Mysore
Indian Bank
State Bank of Saurashtra
State Bank of Indore
Sakura Bank

AUDITORS

Lovelock & Lewes
Chartered Accountants
1104, Raheja Chambers
Nariman Point
Mumbai 400 021

INTERNAL AUDITORS

M/s. B.P. Jain & Co.
Chartered Accountants
A-16, Everest, Tardeo Road
Tardeo, Mumbai 400 034

SOLICITORS

M/s. Crawford Bayley & Co.
State Bank Buildings
NGN Vaidya Marg
Mumbai 400 023

TRANSFER AGENTS

Data Software Research Co. Pvt. Ltd.
Sree Sovereign Complex
No. 22, 4th Cross Street
Trustpuram, Kodambakkam
Chennai 600 024
Tel : 044-4834487/3738
Fax : 044-4834636
E-mail : dsrcmd@md3.vsnl.net.in

Visit us at our website

http://www.essar.com

Please send in your e-mail address to : webmaster@essar.com to keep you informed about the progress of the Company.

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Chairman's Statement

Dear Shareholder,

The financial year 1999-2000 was a truly challenging year for the iron and steel industry and for Essar Steel. International and domestic steel markets have been depressed for two years, while both input costs and competition have risen. Steel makers the world over have responded by consolidating their operations through re-structuring, de-bottlenecking and upgrading their processes and technology.

Today, the long-term steel demand looks promising because of the higher capital spending trends in construction, capital equipment and consumer durables in many countries. There has been a concerted global upturn in steel consumption largely due to improved economic growth rates and the turnaround in the steel inventory cycle. This explains why international steel prices have experienced renewed growth, touching levels of US$280-300 C&F per tonne from as low as US$ 180 to US$ 200 last year.

While the international market looks encouraging, the Indian market is yet to stabilise to its projected levels. The industry installed capacity for flat and long products keeping in mind the 12% growth in steel consumption that was witnessed during the year 1991-1996. However, during the last four years the domestic growth has been at the rate of 4%. The reasons for this slow growth rate are a mix of the reduction in the Government's planned expenditure and slow down of the Indian economy. The consumption domestically has now picked up and the market is expected to stabilise. *Now that infrastructure projects including housing are getting the desired impetus, the steel demand both in the long products and white goods sector is likely to improve substantially in the next 2-3 years.*

In a changing and competitive environment, the future of the iron and steel industry will continue to be challenging. However, it is precisely in these conditions that Essar Steel's intrinsic strengths will be a key strategic advantage. Only strong players prosper in tough markets. Today, Essar Steel is technologically the best steel plant in the country with the highest yields in the industry. We have the built-in capacity to produce high quality export products. For four consecutive years, we have been India's largest exporter of HRC. We sell our steel to some of the world's most demanding markets and customers.

We operate with a very lean work force, which is comparable with the best globally. Essar Steel has changed the face of steel marketing and customer service in India. We were the first company to brand our steel as 24 carat steel. Besides, our customers now have the opportunity *to access their respective order position, despatch details and truck movements online from anywhere in the world because of our large* investments in the latest software and ERP systems like *SAP R/3* and CRM *(Customer Relationship Management).*

Yet, we recognize that excellence is always an on-going process. Essar Steel has now bench-marked its operations and work practices with some of the best steel plants in the world. We are already among the 25% of lowest cost steel producers in the world. Our aim now is to enter the lowest 5%. To shield ourselves from future depressions in a cyclical market and constantly improve share holder value, we focused on cutting costs substantially in the past year. We did this largely through indigenous process development, ramping up capacity without significant investments, reducing the per-tonne capital cost of steel and improving efficiencies, resulting in substantial savings in power costs and improved yields.

In the last year, we proved that we can indeed compete in challenging market conditions. Our production and capacity utilization have improved substantially. Exports have increased 46% from 441,000 MT to 645,000 MT over the previous year. Although input prices rose and steel prices dropped, our operating margins were 15% higher at Rs.327 crore as compared to Rs.285 crore in the previous year. Operationally, therefore, the last year has been a good one.

Financially, however, the year has been challenging because of high interest costs and some asset-liability mismatches. Our debt is shorter-term than we would like, largely because when we raised those loans, policy restricted us to shorter maturity debt. Since conditions and policies now permit longer-term loans, Essar Steel intends to restructure its debt profile. The delay on payments on our floating rate note issue was blown out of all proportion. Essar Steel had simply asked international lenders to reschedule the repayments of our FRNs, which is resorted to when the industry faces serious recession. I am thankful to FRN holders overseas who have not only reposed their confidence in your company and have agreed to extend the maturity by 5 years but have also realised the real need for such a roll over, given the present scenario in the steel industry.

Simultaneously, Essar Steel is reducing debt costs through other initiatives. We expect to achieve a minimum debt reduction of Rs.800 crore during the current year, thus reducing the interest costs. To strengthen the balance sheet and provide a sharper business focus we have spun off our pellet business into a joint venture company and brought in an equity infusion. We are now considering divesting some of our investments in the power business. Together with our cost cutting focus, this is expected to yield a much higher EBIDTA than that of last year, adding substantially to shareholder value.

In fact these measures have already paid off as Essar Steel has reported a substantial improvement in performance in the first quarter of the current year, ended June 2000. Your company has shown a net profit of Rs.4.8 crore against the loss of Rs.138 crore in the first quarter of 99-00. In the same period, sales rose 28% and total income rose 50% while EBIDTA rose 409%.

However, your company is still burdened by unreasonably high interest rates. The Indian long term lenders for industrial development have all along been aware of the problems facing the steel industry due to international market conditions, domestic liberalisation and reduction in tariffs and interest rates. Notwithstanding the fact that an expert committee went into the problems of steel industry during the recent recession period, the Indian FIs/banks did not provide commensurate relief to the Indian steel industry. The exorbitant interest rates coupled with penal interest rates, which make the cost of funds in Indian rupees as high as 28% p.a., continues. Having entered the core industry of steel production with an earning potential of Rs.1500 crore this year from exports alone, we continue to fight the battle of high interest rates. I seek the blessings and support of all our shareholders in taking up the matter singly and collectively with all those who matter in correcting the situation.

The intrinsic strengths that led most of you to invest in this company still hold true. Essar Steel is a long distance runner. Over the last few years, we have been uncompromising when it comes to investing in technology and world-class operations. That long-term focus has begun to pay off. *Apart from our business and operational advantages and physical assets, we have developed a valuable base of intangible assets.* These will be the foundation for future growth, prosperity and increased shareholder value. A recent study by Ernst & Young has valued these assets at Rs.1400 crore.

We fully believe that the best is yet to come. Essar Steel has already emerged from these short-term difficulties as a world class, profitable player. I would like to thank Essar Steel's shareholders and other stakeholders for their trust and support of the company's management. I also take this opportunity to thank all the company's employees for their dedication, their dynamic response to challenge and their positive attitude.

With warm regards

Yours Sincerely

S. N. Ruia
Chairman
Mumbai, August 19, 2000

NOTICE

NOTICE is hereby given that the Twenty-fourth Annual General Meeting of the Members of ESSAR STEEL LIMITED will be held at the Registered Office of the Company at Post Hazira, Pin 394 270, Dist. Surat, **on Friday, September 22, 2000 at 2.30 p.m.** to transact with or without modifications, as may be permissible, the following as:

ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2000 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in the place of Mr. I.C. Jain, who retires by rotation as a Director and, being eligible, offers himself for reappointment.
3. To appoint a Director in the place of Mr. R.N. Ruia, who retires by rotation as a Director and, being eligible, offers himself for reappointment.
4. To appoint a Director in the place of Mr. S.V.Venkatesan, who retires by rotation as a Director and, being eligible, offers himself for reappointment.
5. To appoint Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS :

6. To consider and, if thought fit, to pass with or without modification(s), the following as a Special Resolution:-

   "RESOLVED THAT pursuant to Section 372A and other applicable provisions of the Companies Act, 1956 and subject to the approval, if any, of the All India Financial Institutions/ Banks and other lenders and such other approvals as may be necessary, consent of the Company be and it is hereby accorded to the Board of Directors of the Company to invest upto Rs.3 crores (Rupees Three crores only) to acquire equity shares of Essar Information Technology Limited (EITL) by subscription or otherwise notwithstanding that the aggregate of the loans and investments so far made or to be made and the guarantee so far given or to be given and the security so far provided or to be provided to all Bodies Corporate in excess of the limit laid down by Section 372A of the Companies Act, 1956, as they may, in their absolute discretion, deem beneficial and in the interest of the Company.

   RESOLVED FURTHER THAT the Board of Directors of the Company be and they are hereby authorised to do from time to time all such acts, deeds and things necessary or expedient or proper in respect of the above investments including the time, the amount and other terms and conditions of investments and varying the same through transfer, sale, disinvestments or otherwise either in part or in full as they may, in their absolute discretion, deem necessary to give effect to this resolution."

NOTES :

1. The Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 relating to the Special Business under Item Nos. 6 is annexed herewith.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY AND VOTE INSTEAD OF HIMSELF ON A POLL ONLY AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxy forms should be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for the meeting.
3. Register of Members and Share Transfer Books of the Company will remain closed from September 14, 2000 till September 22, 2000 (both days inclusive).
4. All documents referred to in the accompanying notice and the explanatory statement are open for inspection at the Registered Office of the Company on all working days between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.
5. Members who have not encashed the dividend warrants prior to March 31, 1995 are requested to claim the amount from the Registrar of Companies, Ahmedabad, Gujarat. Members who have not encashed their dividend warrants for the years/period ended 31st March, 1995, 31st March,1996 & 31st March, 1997 may approach Company's R &T Agents for revalidating the warrants and/or for obtaining duplicate warrants.
6. The Companies (Amendment) Act, 1999 has introduced through Section 109A, the facility of nomination to shareholders. Nomination Form 2 B is attached to the notice.
7. The Company's shares are listed with Ahmedabad, Baroda, Bangalore, Calcutta, Delhi, Chennai, Mumbai & National Stock Exchanges. The Company has paid the listing fees for the year 2000-2001 to all the aforesaid Stock Exchanges.
8. **Members are requested to notify any change in their address to the Company's R & T Agents, Data Software Research Co. Pvt. Ltd. Sree Sovereign Complex No. 22, 4th Cross Street, Trustpuram, Kodambakkam, Chennai 600 024.**
9. Members / Proxies should bring the Attendance Slip duly filled in for attending the meeting.
10. Members desiring any information as regards the Accounts are requested to write to the Company at least 15 days before the date of the meeting, as to enable the management to keep the information ready.

By Order of the Board

S.N. Puri
Wholetime Director
& Company Secretary

Mumbai
30th June, 2000

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT

Pursuant to Section 173 (2) of the Companies Act, 1956 the following Explanatory Statement sets out the material facts relating to Item No. 6 mentioned under the heading as SPECIAL BUSINESS :

Item No. 6

Essar Information Technology Limited (EITL) was formed in 1992 with a view to cater to the Information Technology requirements of Essar Group of companies. Information Technology (IT) has been identified as a separate business unit which has a very high potential in the IT services market with many companies requiring IT services and are not able to have them inhouse.

The objective of EITL is to provide total information technology solutions to companies, which includes hardware, software, system software, plant office automation packages of all types. EITL intends to operate in the various areas, which includes ERP implementation, interface & peripheral solution, Application Service Provider for ERP, E-Commerce and Software Development, Manufacturing Plant Software & Process Automation Services, Computer Integrated Manufacturing (CIM) Consultancy and IT infrastructure development, etc.

EITL is already associated with captive customers – Essar Group Companies. Within a year, EITL will have other small manufacturing companies as its clients. These companies, being small time cold rollers, who do not have IT capacity would become the clients of EITL. EITL will provide them services through servers and other infrastructure of EITL, through Internet, for which there is a market potential. EITL has expertise in the field of automated manufacturing and has a good marketability with more high technology manufacturing units coming up in the country.

EITL aims at targeting foreign customers where the potential exists in the web based software development.

With clearly defined business technology, EITL is expected to exploit the business opportunities/potential currently available in the IT industry. Thus, it becomes imperative that such a company be given the right kind of push monetarily, so that it achieves its objectives.

The proposed investment would yield good dividend right from year one. Considering the current trends in the field of information technology and huge market potential thereof, it is likely that the proposed investment of Rs.3 crores would appreciate many times over a period of time. The proposed investment will be made out of internal accruals of the Company.

Section 372A of the Companies Act, 1956, inter alia, provides that no company shall directly or indirectly make any loan to any other body corporate or give guarantee or provide security in connection with the loan made by any other person to or to any other person by any body corporate and acquire by way of subscription, purchase or otherwise the securities or any other body corporate exceeding 60% of the paid up share capital and free reserves or 100% of its free reserves, whichever is more. However, the aforesaid limit can be exceeded with the approval of the shareholders by way of a special resolution passed in the General Meeting. Since the aforesaid limits are exceeded, the resolutions set out in Item No.6 are, therefore, proposed to be passed as special resolution.

At present, none of the Directors is interested or concerned in this resolution.

By Order of the Board

S.N. Puri
Wholetime Director
& Company Secretary

Mumbai
30th June, 2000

DIRECTORS' REPORT

To the members of **ESSAR STEEL LIMITED**
Your Directors are pleased to present the twenty-fourth annual report of your company, the audited accounts for the year ended March 31, 2000 and the auditors' report.

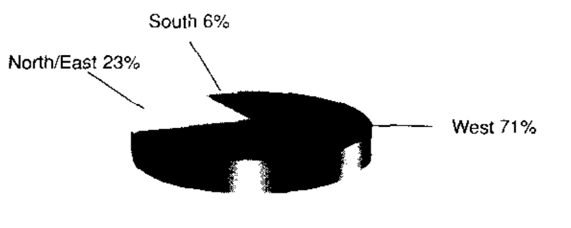
1.0 OPERATIONS

During the year under review, your company focused sharply on reducing costs and increasing both production and sales. A host of in-house initiatives in technological and process improvements at both the hot briquetted iron (HBI) and hot rolled coils (HRC) plants yielded very favourable results. At the HRC plant, your company achieved a monthly production rate of 1,77,000 MT in March 2000, thus establishing a capacity utilisation of over 105% of the rated installed capacity of 2 million tonnes. Power consumption reduced considerably due to process improvements such as charging hot direct reduced iron (DRI) into the arc furnaces. At the HBI plant too, the capacity utilisation improved further after various modifications. The production of 1,65,052 tonnes of HBI in March 2000 established annual production capabilities close to 2 million tonnes.

During the year, domestic and overseas markets showed signs of recovery both in demand and price realisation. The ground work laid by your company earlier in overseas markets enabled a quantum jump in exports of 46% over the previous year, from 441,000 MT to 645,000 MT. The average export realisation also rose by 14% compared to the previous year. This increase was much higher in the second half of the year. While the domestic market kept pace with the international market recovery, realisations in domestic markets have not improved proportionately.

1.1 Domestic Sales

Geographical Distribution of Domestic Sales : 1999-2000



In the domestic market, your Company maintained its market-share, while shifting its focus from base grade steel to high value grades. These grades fetch premium over base grade resulting in better realisation for your company. More specifically, the company increased its market-share in the automobile sector, LPG Cylinders, GP/GC with thin gauge hot rolled coils, marine freight containers, etc.

Your Company has also developed new products for application in niche segments like electrical and automobile, this is expected to yield higher realisation.

To ensure superior efficiency for customers, your Company proposes to launch the Internet based "Customer Relationship Management" through SAP systems. Objective is to enable customers to go online to place orders, check order & production status, and track despatch complete with invoice numbers, truck numbers, status of accounts & due payments.

1.2 Exports

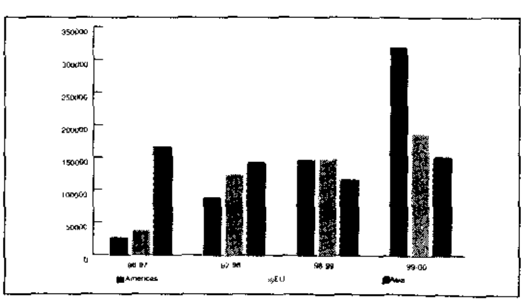
Your Company continues to be the largest exporter of hot rolled coils for the fourth consecutive year.

During the year, your Company developed several new segments in the overseas market, such as, the HSLA grade for pre-fabricated structures, API grade steel for sour gas line pipes in emerging markets, wide width coils for cold rolling applications. Objective being to fetch premium over the base grade steel and prevent erosion of price realisation during the downturn.

Exports Strategy

- Focus on value added grades and high-quality markets for the highest realisations.
- Focus on exports to the Americas, followed by the European Union and Asia. Currenty targeting the rapidly-recovering Asian market with specific products.
- Long-term contracts with niche customers for approximately 70% of export volume. Our international trade partners include Klockner, Slzgitter, Stemcor, MFM and VAIT.

Export Achievements



The increase in domestic and export sales led to a sales income of Rs. 2422 crore and total income of Rs. 2470 crore against Rs. 2260 crore and Rs. 2363 crore respectively during the previous year. The prices of controlled inputs were further hiked during the year putting considerable pressure on production costs. Your company, however, was able to absorb these hikes by cutting and controlling costs elsewhere through process improvements and economical procurements. As a result, despite higher costs, your company's operating margin improved to Rs. 327.50 crore, 15% higher than in the previous year.

2.0 FINANCIALS

2.1 THE FINANCIAL RESULTS

Particulars	Year ended March 31, 2000 (Rs. in crores)	Year ended March 31, 1999 (Rs. in crores)
Gross Profit before Interest, Depreciation, Deferred Revenue and Taxation	**327.50**	285.17
Less : Finance & Similar charges (net)	**545.52**	413.51
Profit/(Loss) before Depreciation and taxation	**(218.02)**	(128.34)
Less : Deferred revenue expenses	**32.89**	41.89
Less : Depreciation	**329.81**	326.22
Profit/(Loss) before Tax	**(580.72)**	(496.45)
Less : Provision for Taxation (for earlier years)	**0.52**	—
Profit/(Loss) after Tax	**(581.24)**	(496.45)
Add : Balance brought forward from previous year	**(285.95)**	162.12
Add: Transfer from Investment Allowance Reserve (utilised)	—	48.38
Balance carried forward to next year	**(867.19)**	(285.95)

In view of the losses, your Board of Directors does not recommend any dividend. Your company's paid up capital on March 31, 2000 was Rs. 330.35 crores and the net worth was Rs. 1147 crores. During the year, your company significantly improved its working capital management. The average inventory reduced from 111 days to 96 days of sales. The working capital borrowings at the end of the year stood at Rs.497 crores compared to Rs.727 crores at the end of last year. Similarly, sundry debtors fell by Rs.190 crores during the year. Your company is aggressively focusing on reducing the interest burden on long-term loans, as follows.

2.2 STATUTORY ANNUAL AUDIT

The auditor's observations on the accounts have been extensively dealt with in the notes and since they are self-explanatory, they are not commented upon.

2.3 FUTURE IMPROVEMENTS

In the current year, your company continues to focus on increasing capacity, improving realizations, lowering costs and restructuring financially to increase shareholder value. Your directors are pleased to report that these measures have already paid off and your company has shown a substantial improvement in performance in the first quarter of the current year, ended June 2000.

This encouraging performance is a result of the following mix of strategies and initiatives, which your company will continue to pursue this year to reap further benefits.

(a) Capacity Enhancement :

The capacity has already been enhanced from 2 to 2.4 million tonnes. Your company has set a production plan of 2.2 million tonnes for the year 2000-01, a 44% increase over the year 1999-2000. With further modifications under way, the capacity target for the year 2001-02 is 2.7 million tonnes, an increase of 76% over the actual production levels for 1999-00.

(b) Cost Reduction :

The cost-cutting measures during the year 1999-2000 have already yielded results and their benefits will be fully harnessed during the year 2000-01. We expect costs to fall by at least Rs.1500 per tonne over 1999-00.

I. Process Improvements :

With a view to cutting costs, your company implemented numerous process improvements which will help to drastically reduce the power consumption during the current year. The cost of refractory and electrodes will also come down. The improvements include the following:

i. Hot DRI charging
ii. Upgrading the transformer to 150 kA in the electric arc furnace
iii. Electrode regulation
iv. Better slag practices
v. Hot charging of slabs

II. Additional Allocation of Gas :

Your company expects a substantial improvement in profitability with the sanction of additional gas of 0.7 MMSC per day through GAIL. In addition, your company has successfully concluded a contract with NIKO Resources to supply additional gas of 0.1 MMSC per day. This will allow your company to maximise its production of HBI and reduce usage of other metallics. Power costs will also reduce since the additional gas will replace naphtha as source of energy for power generation.

(c) Improved Sales Realisation :

International and domestic steel markets are already on an upturn. Your company has established its products in high value niche markets where price fluctuations are minimum. During the current year, your company expects to increase its realisation by Rs.1500 per tonne over 1999-00.

(d) Financial Restructuring and Cost Reductions :

Your company has chalked out a clear programme both to reschedule its debt and to reduce debt costs. Your company has engaged Banc of America Securities LLC., to work out a restructuring of its loans. After detailed discussions with various groups of lenders, BAS has prepared a rescheduling plan, which is under consideration of the various lenders. The plan will extend secured loans for a further period of eight years and unsecured loans for a further fiveyear period, effective from April 1, 2000. This will enable your company to match the repayment obligations with internal accruals from year to year.

Your company plans to divest certain assets and investments to repay high cost loans. We expect to reduce debt by Rs. 800 crore during the current year, thus reducing the interest cost substantially. Your company has also approached financial institutions to restructure term loans at reduced rate of interest, in line with the current interest rate trends.

Shareholder Value

We expect these initiatives to increase the EBIDTA over that of 1999-00, adding substantially to share holder value. Value will also increase through your company's intangible assets, valued by Ernst & Young at over Rs. 1400 crore.

3.0 ENERGY, TECHNOLOGY & FOREIGN EXCHANGE

Details of the company's energy conservation and research and development activities, along with the information in accordance with the provisions of section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, are given in the annexure.

4.0 DIRECTORS

Mr. R.N. Ruia, Mr. S.V. Venkatesan and Mr. I.C. Jain are retiring by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment. The Board recommends their reappointment.

5.0 SUBSIDIARY

During the financial year under review, Essar Minerals Limited (EML), your company's wholly owned subsidiary changed its name to Hy-Grade Pellets Limited (HGPL). As reported last year, the company has identified a joint venture partner, STEMCOR of the U.K. During the year under review, the company was appraised by IDBI & financial assistance was sanctioned by IDBI & other consortium lenders for acquisition of the Pellet business and for implementation of the proposed expansion plans relating to beneficiation plant slurry pipeline & captive power plant projects. HGPL has achieved financial closure for the acquisition of the Pellet business and is in the final stages of completing the financing of the aforesaid expansion plans.

Your Directors are also pleased to inform you that HGPL has initiated steps to increase its production capacity from present 3.3 MTPA to 7.0 MTPA, thereby leading to economies of scale and ensuring the required edge in the market place.

6.0 CORPORATE GOVERNANCE

Your company has already taken advance action in line with the recommendations made by the committee on corporate governance set up by the Securities and Exchange Board of India (SEBI). Therefore, your company does not foresee any problem in complying with the directions issued and the timeframe prescribed, either by the SEBI or the stock exchanges where your company's shares are listed.

Your company is benchmarking its corporate governance practices with the best in the world covering issues including the composition of Board, role of the Chairman, executive and non-executive Directors, code of ethics, insider trading, business policy and retirement policy for Directors and employees.

7.0 PERSONNEL

Your Directors would like to express their sincere thanks and appreciation to all the employees for their commendable teamwork, exemplary professionalism and enthusiastic contribution. Information in accordance with sub-section (2A) of section 217 of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 is given in the statement forming a part of this report. However, as per the provisions of section 219(1)(b)(iv) of the Companies Act, 1956, the report and accounts are being sent to all shareholders of the company excluding this information. Any shareholder interested in obtaining a copy of the particulars may write to the company secretary at the company's Registered Office.

8.0 AUDITORS

Your company's auditors M/s. Lovelock & Lewes, chartered accountants, will retire at the ensuing annual general meeting and have confirmed their eligibility and willingness to accept the office, if re-appointed.

9.0 Y2K COMPLIANCE

Your company faced no disruptions whatsoever on account of Y2K related activities and completed a smooth transition into the new millennium.

10.0 ACKNOWLEDGEMENTS

Your Directors wish to thank the central and state governments for their continued support and advice. Your Directors also thank the shareholders, customers, suppliers, dealers, bankers, financial institutions and international lenders for their continued support and faith in the Board and the management.

For and on behalf of the Board

R.N. Ruia
Vice Chairman

Mumbai, 30th June, 2000

Annexure to Directors' Report

Particulars required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

A. CONSERVATION OF ENERGY :

a) ***Energy Conservation measures taken:***

1. **Hot DRI charging:** HBI comes out of the Briquetting Machine at around 600°C is quenched by water to 60°C. While in Hot DRI charging system HBI has been collected in 45 MT & 90 MT vessels at 600°C itself and charged to EAF. Due to this Hot DRI charging at EAF, the power saving observed up to 100KWH for each ton of Hot DRI charged.
2. **High-temp operation:** Rate of reduction reactions inside the furnace is increased by elevating the temperature of Furnace input gas (Bustle gas) by injecting Oxygen. About 5% of natural gas saving observed due to this high-temp operation.
3. Modules lighting have been taken through PLC to provide lights during required period exactly. This results in saving of about 21600 units per year.
4. Double Bustle Port: In Module II, Double bustle ports have been provided in furnace at inlet gas distribution area. It has reduced the pressure drop resulting in power saving and improved reducing gas distribution thereby improving utilization.
5. The reheating furnaces are operated at highest efficiency levels. In the year 1999-2000 an average hot charging of 29% of slabs has been achieved. On several occasions hot slab charging of upto 50% has been achieved of long duration of 6 to 7 days. A highest monthly average level of 39% hot slab charging was achieved in May 1999.
6. "Powermax" system in Reheating furnaces has been installed to improve fuel efficiency by controlling the fuel inflow.
7. We have been able to maintain production level in spite of producing more difficult grades and sections compared to previous financial years. (Width/Thickness ratio : 1st half of FY 1998-99 : 374, FY1999-2000 : 424). In spite of this there has been improvements of 1 to 2% in terms of power & fuel savings.
8. **Hot Heel Improvement:** We increased the enthalpy of the bath by increasing the retained Hot Heel. With this high Hot Heel increasing power input rate became possible which brought down the thermal losses. Less power on time less losses. Savings recorded 34 Kwh/T.
9. **Computerised Flux Control:** We developed a dynamic Model which reacts to HBI day-wise gangue content and optimises flux addition. Less flux less power consumption. This has brought the energy reduction by 8 Kwh/T.
10. **Optimal HBI Feeding:** We modified our charging practice to get our continuously fed HBI reach the bottom of the electrical arc ensuring maximum heat efficiency. Losses came down. Savings achieved 16 Kwh/T.
11. Raw Water supply vertical turbine pump modified from 2 stage to single stage resulted in saving of 154 KWh from November '99.
12. Service air pressure was reduced system pressure to 6-6.5 Bar from 7.5 Bar resulting pressure is maintained on two compressors instead of three compressors.

b) **Additional investments and proposals being implemented for reduction in consumption of energy:**

1. Hot DRI charging: To increase percentage of Hot DRI in EAF charge mix, additional vessel will be erected & required modifications will be carried out. As mentioned above, there is 100KWH saving for each ton of Hot DRI charged.
2. Over capacity motors are being identified in the plant and will be replaced with required capacity motors.
3. It is planned to replace side walls of both pump house & all conveyors with transparent sheets, which shall save about 84000 units per year.
4. Hot Cone Bleed in reduction furnace in module II is being implemented. This is the first HBI plant wherein this modification is being done. This shall enhance the furnace performance, thereby reduce the operating cost of HBI.
5. Power generation from Flue gas: The flue gas from reformer after passing through recuperator to recover the heat, it is being discharged to atmosphere at 390°C to 400°C. Study is under progress to generate power using this flue gas.
6. CO_2 Removal System: Study is under progress to remove CO_2 from spent gas of furnace which contains about 60% reductants – CO & H_2, and 33% of which is being used as fuel for reformer at present. After CO_2 removal the CO & H_2 will be used as reductants only and not as fuel, which will save the energy required to convert equal quantity of CO & H_2 from Natural gas.
7. **150 Ka upgradation of transformer:** We are in the process of increasing the current, thereby reducing the arc time considerably. With reduced arc time thermal losses will also come down. Energy saving envisaged is 50 Kwh/T.
8. **Water-cooled supersonic lances:** Better foamy slag practice will reduce thermal losses and additional chemical energy through intense oxygen lancing will reduce electrical energy consumption. Energy saving envisaged is 20 Kwh/T.
9. Installation of online oxygen analyzer in reheating furnace will help to optimize furnace air/fuel ratio, thus reduce scale loss & fuel consumption.
10. Work roll lubrication system is planned for trial in April-May 2000. This will improve work roll life in stand F2, F3 & F4. An estimated 10% reduction in rolling power in stand F2, F3 & F4 will be achieved.
11. Air curtains for reheating furnace. These will prevent loss of heat during the discharging operation of slabs.

c) **Impact of measures at (a) and (b) above for reduction of energy conservation and on the cost of production of goods:**

As mentioned in (a) & (b) above

B. TECHNOLOGY ABSORPTION :

The Company has fully absorbed the MIDREX technology obtained from Voest Alpine, Austria for the production of HBI. It has also absorbed technology supplied by METCHEM for HRC plant including DC-Electric Arc Furnace (s), Continuous Casters and the Hot Strip Mill. The Company has emerged as the largest user of HBI in DC EAF and developed satisfactory technology for the same.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO :

I) Activities relating to exports, initiatives to increase exports, developments of new export markets for products and services and export plan.

The export activities of the Company during the year were very successful. The Company exported total of 645,000 MT of HRC/CRC during the year ended March, 2000 as against 442,000 MT during the previous year. With the price of HRC also firming up during the later part of the year the FOB realization was also better.

The Company was successful in developing markets in USA for its high strength low alloy steel and API grade steel during the year. A total of around 80,000 MT of these grades was exported to the American market during the year.

The Company was successful in avoiding the levy of anti-dumping duty by the EU by providing a price undertaking. This has ensured the Company's ability to continue servicing the market.

For the year 2000-01 considering the international market scenario the Company has undertaken an export target of over 1 Mio tones. The above tonnage would be marketed in all geographic regions viz. Americas, EU, Asia (Middle East & South East Asia). The Company is focusing to enter into long term contracts with selected customers to ensure that the export activity will be more stable.

ii) Total Foreign exchange used and earned

		(Rs. in Crores)
a)	Total Foreign exchange directly earned	679.43
b)	Foreign exchange earned through third party exports	—
c)	Others	21.56
	Total foreign exchange earned (a+b+c)	700.99
d)	Total foreign exchange used	
	i) For import of plant and machinery/ technical know-how	3.92
	ii) Others including raw materials and interest	397.76
	Total	401.68

Particulars with respect to Conservation of Energy :

FORM A

A. Power and Fuel Consumption

	Current Year	Previous Year
1. Electricity		
a) Purchased		
Unit (Lakhs)	**199.08**	1,016.43
Total Amount (Rs. in crores)	**24.59**	67.75
Rate/Unit (Rs.)	**12.35**	6.67
	Current Year	Previous Year
b) Own generation		
(i) Through diesel generator		
Unit	—	47,000
Units per ltr. of diesel oil	—	5.14
Cost/Unit (Rs.)	—	1.77
ii) Through gas turbine/generator		
Unit (Lakhs)	**1948.33**	1,094.09
Units / SM3 of gas	**3.63**	3.73
Cost of fuel/Unit (Rs.)	**0.65**	0.55
iii) Through third party on conversion basis		
Unit (Lakhs)	**14,314.49**	16,460.34
Units / Ltr of NGL/HSD/NG	**4.12**	4.77
Cost of fuel/Unit (Rs.)	**1.23**	0.89
2. Coal (specify quality and where used)		
Quantity (tones)	—	—
Total Cost	—	—
Average Rate	—	—
3. Furnace Oil		
Quantity(k. ltrs)	—	22,337.86
Total Cost (Rs. crs)	—	12.25
Average Rate (Net of Modvat)	—	5,484
4. Others		
Quantity.(NGL) – MT	**47,840.60**	34,599.47
Total Cost (Rs.crs)	**48.10**	23.78
Rate/Unit	**10,054**	6,872
Quantity.(NG) - '000 SM3	**23,596.33**	45,582.47
Total Cost (Rs. crs)	**5.58**	9.32
Rate/Unit	**2.36**	2.05

B. Consumption per unit of Production

	Standard (If any)	Current Year	Previous Year
Product: Hot Briquetted Iron	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity	125	**120**	114
Furnace Oil	—	—	—
Coal (specify quality)	—	—	—
Diesel Oil	—	—	—
Others - Natural Gas (SM3)	325	**306**	303
Others - Naphtha (Kg)	—	**1.73**	—
Product: Hot Rolled Coils	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity	—	**952**	996
Furnace Oil	—	—	—
Coal (specify quality)	—	—	—
Diesel Oil	—	—	—
Others – NGL (Ltr)	—	**43**	30
Other – NG (SM3)	—	**15**	29
Product: Iron Oxide Pellets	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity (kWh)	60	**N.A.**	54
Furnace Oil (Ltr)	20	—	14
Coal (specify quality)	—	—	—
Diesel Oil	—	—	—
Others (Specify)	—	—	—

FORM B

RESEARCH AND DEVELOPMENT (R & D):

The Company has well equipped Laboratory facilities with a highly qualified team of engineers and technologists who are conducting developmental work continuously.

1. Specific areas in which R & D carried by the Company
   (a) Slurry of dust collection system of Mod I & II is diverted to quench tank. This slurry was earlier used for land filling, which is now product fines, which we can sale in market at good NSR.
   (b) Trial taken successfully for Mill Scale, which has very low market value, as a feed for HBI furnace.
   (c) Naphtha is introduced to maintain Product Carbon by replacing Natural gas.
   (d) Conditioning of flue gas with water spray was done to increase flue gas fan capacity and plant load.
   (e) Several new sections and grade of hot rolled strips have been developed in the year 1999-2000 that suit the specific requirement of the customer. The development of API grade of steel have found world wide acceptance.
   (f) Trial production ultra thin strips of thickness 1.2 & 1.4 mm strip thickness has been successful. Successful production of very wide materials for cold rolling applications, wide strips for LPG cylinders upto 1685 mm width. Very thick high tensile materials of ST52 strength has been done.
   (g) Recycling of mill scale : Laboratory test and trial runs using a blend of mill scale and pellets in HBI Module have given encouraging results. Potential cost savings Rs 20 Million/Year.
   (h) Trials of 'Ferritic rolling' have provided with in-house know how have given encouraging results. This process, hold a tremendous promise in terms of cost savings, wider product range etc.
   (i) Online Eye strapping machine has improved the packaging standard of the product. This has improved the logistics by preventing the damages to the coil during handling.
   (j) Software for automation was upgraded for Y2K Compliance. Computer hardwares for Level -1 PC were upgraded for better reliability.
   (k) Descaling system valves were replaced by HUNT make valve for better descaling efficiency thereby improving the product quality.
2. **Future Plan of action.**
   (a) Cooling zone bleed in reduction furnace in module II is being implemented. This is the first HBI plant wherein this modification is being done. This shall enhance the furnace performance, thereby reduce the operating cost of HBI.
   (b) CO_2 Removal System: Study is under progress to remove CO_2 from spent gas of furnace which contains about 60% reductants – CO & H_2, and 33% of which is being used as fuel for reformer at present. After CO_2 removal the CO & H_2 will be used as reductants only and not as fuel, which will save the energy required to convert equal quantity of CO & H_2 from Natural gas.
   (c) **Improvement product yield by 0.6% :** Installation of Online surface inspection - To eliminate tail end inspection losses (0.15%). This will help improve the yield by 0.6% and to improve the product quality & productivity.
   (d) **Improving product quality :** (i) Online pinch roll grinding will further improve the quality standards of steel. Special benefits from this will be derived by cold rolling mills & manufactures of LPG cylinders. (ii) Installation of control valves for roll cooling & Inter stand cooling in the hot strip finishing mill will increase operator control on roll cooling system will result in optimizing water consumption during short stoppages. (iii) Installation of offline flow measurement meter to regulate & improve uniformity of water in the laminar strip cooling system improving thereby the quality of strip cooling system & conserving water.
   (e) **Safety :** Several measures are being taken to improve the safety of workmen & that of equipment. In the coming a water spray system for cable tunnel is being planned which will eliminate the loss & damage to the cables in case of fire. For rapid evacuation of water in the basement areas trolley mounted self priming pumps are being procured. A foam flooding system is being procured in the reheating furnace basement.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION :

1. **Efforts, in brief made towards technology absorption, adaptation and innovation**
   (a) The Company has fully absorbed the MIDREX technology obtained from Voest Alpine, Austria for the production of HBI.
   (b) The Company has fully absorbed the METCHEM technology obtained from METCHEM Inc. Canada for the production of HRC.
2. **Imported Technology**

Product	Technology from	Year of import	Status of absorption/adaptation
HBI (Sponge Iron)	MIDREX Corpn. U.S.A./Voest Alpine, Austria	1989-90	Fully absorbed
HRC	METCHEM Inc. Canada	1991-94	Fully absorbed

AUDITORS' REPORT TO THE MEMBERS OF ESSAR STEEL LIMITED

1. We report that we have audited the Balance Sheet of Essar Steel Limited as at 31st March, 2000 and the relative Profit and Loss Account for the year ended on that date both of which we have signed under reference to this report and the above mentioned accounts are in agreement with the books of account.
2. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 dated 7th September, 1988, issued by the Central Government of India and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us during the course of our audit, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
3. Further to our comments in the Annexure referred to in paragraph 2 above, we report as under:
   (a) (i) The company has recorded certain transactions of sale of steel at the rate of exchange prevailing on the date of receipt of advances and the outstanding advances have not been revalued at the year end exchange rate. If the company's view is not adopted, the exchange loss (net) of Rs. 129.75 crores (including Rs. 16.36 crores for the year) due to revaluation of the outstanding advances would have been charged off to the Profit and Loss Account (Refer Note 5 of Schedule 21);
   (ii) The company has not made provision for diminution in the market value of strategic long-term investments in the equity of certain companies as in the opinion of the management, such diminution is temporary in nature. The impact of such non-provision on the accounts is presently not ascertainable (Refer Note 8 of Schedule 21);
   (iii) Provision has not been made for certain debts and loans and advances, including interest, aggregating to Rs. 144.64 crores. The impact of such non-provision on the accounts is presently not ascertainable (Refer Notes 11 and 12 of Schedule 21);
   (iv) The Company has accounted for sale of licences to a company, aggregating to Rs. 32.44 crores, though the licences have been granted by the concerned authorities subsequent to the year end (Refer Note 16 of Schedule 21);
   (v) Remuneration paid to the managing director and whole time director in excess of the limits prescribed under 'The Companies Act, 1956' of India (the 'Act') amounting to Rs. 0.25 crore is subject to approval from the Central Government (Refer Note 17 of Schedule 21);
   (b) Had the observations made by us in paragraphs (a)(i) and (a)(iv) above been considered, without considering our remarks in paragraphs (a)(ii) and (a)(iii) above as the effect of these could not be determined, the loss for the year would have been Rs. 630.04 crores (as against the reported figure of Rs. 581.24 crores), long-term advances from customer would have been Rs. 1,137.91 crores (as against the reported figure of Rs. 1,008.16 crores), sundry debtors would have been Rs. 435.79 crores (as against the reported figure of Rs. 468.23 crores) and profit and loss account (debit balance) would have been Rs. 911 crores (as against the reported figure of Rs. 748.81 crores);
   (c) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
   (d) In our opinion, subject to our remarks in paragraphs (a)(i) to (a)(iv) above, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
   (e) In our opinion, subject to our remarks in paragraphs (a)(i), (a)(ii) and (a)(iv) above, these accounts have been prepared in compliance with the applicable accounting standards referred to in sub-section (3C) of section 211 of the Act;
   (f) In our opinion and to the best of our information and according to the explanations given to us, subject to our remarks in paragraph (a) above with corresponding effects on the loss for the year and year end net assets to the extent indicated in paragraph (b) above, the Balance Sheet and Profit and Loss Account together with notes thereon, give in the prescribed manner the information required by the Act and also give respectively, a true and fair view of the state of the company's affairs as at 31st March, 2000 and its loss for the year ended on that date.
4. Attention is drawn to Note 7 of Schedule 21, which states that the management of the company has capitalised interest and depreciation aggregating Rs. 140.84 crores and deferred interest on working capital aggregating Rs. 18.69 crores on certain plant and machinery for the period 1st April, 1999 to 27th/28th March, 2000. The dates of completion have been certified by a Government of India Enterprise/a Government of India approved valuer.

For Lovelock & Lewes
Chartered Accountants

Sharmila A. Karve
Partner

Mumbai, 30th June, 2000

ANNEXURE TO AUDITORS' REPORT

(referred to in paragraph 2 thereof)

1. The Company has maintained proper records to show full particulars, including quantitative details and situation of its fixed assets. The fixed assets of the company are physically verified by the management according to a phased programme designed to cover all the items over a period of three years which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. However, all the fixed assets of the company (excluding assets given on lease) were physically verified by the management during the previous year. The physical inventory in respect of significant portion of fixed assets has been reconciled with the book records during the year and no material discrepancies between the book records and the physical inventory have been noticed.
2. The fixed assets of the company have not been revalued during the year.
3. The stocks of finished goods, stores and spares and raw materials of the company at all its locations (excluding goods in transit and stocks with third parties) have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable. In respect of stocks lying with third parties, these have substantially been confirmed by them.
4. The company's stock of most of the raw materials and certain finished goods require technical expertise for quantification. Considering the nature of such stocks, the company has hired an independent agency for carrying out physical verification of stocks. In our opinion, the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
5. The discrepancies noticed on physical verification of stocks as compared to book records, subject to Note 10 of Schedule 21, were not material in relation to the operations of the company and have been properly dealt with in the books of account.
6. On the basis of our examination of the stock records, in our opinion, the valuation of stocks of finished goods, work-in-progress, stores and spares and raw materials has been fair and proper in accordance with the normally accepted accounting principles in India and is on the same basis as in the preceding year.
7. In our opinion, the rates of interest and the terms and conditions of unsecured loans taken by the company from companies, firms and other parties listed in the register maintained under section 301 of the Act are prima facie not prejudicial to the interest of the company. In terms of sub-section (6) of section 370 of the Act, provisions of section 370 are not applicable to a company on or after 31st October, 1998.
8. In our opinion, the rates of interest and other terms and conditions of unsecured loans granted by the company to companies, firms or other parties listed in the register maintained under section 301 of the Act, are prima facie not prejudicial to the interest of the company except for interest bearing unsecured loans and advances granted to subsidiary company, wherein the repayment terms have not been stipulated. In terms of sub-section (6) of section 370 of the Act, provisions of section 370 are not applicable to a company on or after 31st October, 1998.
9. The parties to whom loans or advances in the nature of loans have been given by the company are generally repaying the principal amounts as stipulated and are also generally regular in payment of interest subject to certain loans given to employees and certain loans/inter-corporate deposits referred to in Notes 11 and 12 of Schedule 21. In the case of non-receipts or significant delays in respect of principal and interest, including cases where deposits have been repaid without payment of interest thereon, reasonable steps have been taken by the company for the recovery of the said loans/inter-corporate deposits and interest thereon.
10. In our opinion, having regard to the explanation that some of the items purchased are of special nature and suitable alternative sources do not exist for obtaining comparable quotations, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets and for the sale of goods.
11. In our opinion, the transactions of purchase and sale of goods and materials made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Act and aggregating during the year to Rs. 50,000 or more in respect of each party, have been made at prices which are reasonable having regard to the prevailing market prices for such goods and materials or the prices at which transactions for similar goods and materials have been made with other parties. In respect of transactions of sale of services, comparative prices/quotations are not available since the services provided by the company are of a specialised nature.
12. The company has a regular procedure for the determination of unserviceable or damaged stores, raw materials and finished goods and adequate provision has been made in the accounts for the loss arising on the items so determined.
13. The company has not accepted any deposits from the public.
14. In our opinion, reasonable records have been maintained by the company for the sale and disposal of realisable scrap, where applicable and significant. The company does not have any by-products.
15. In our opinion, the company's present internal audit system is commensurate with its size and nature of its business.
16. The Central Government of India has prescribed the maintenance of cost records by the company under section 209(1)(d) of the Act for Hot Rolled Coils. On the basis of the records produced, we are of the opinion that prima facie, the prescribed accounts and records have been maintained. However, we are not required to and have not carried out a detailed examination of such accounts and records. To the best of our knowledge and according to the information given to us, the Central Government of India has not prescribed the maintenance of cost records by the company under section 209(1)(d) of the Act, for any of its other products.
17. The company has generally been regular during the year in depositing Provident Fund dues with the appropriate authorities in India. We are informed that the provisions of the Employees State Insurance Act, 1948 of India are not applicable to the company.
18. At the last day of the financial year, there were no amounts outstanding in respect of undisputed income-tax, wealth tax, sales tax, customs duty and excise duty which were due for more than six months from the date they became payable.
19. During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices in India, we have not come across any personal expenses which have been charged to Profit and Loss Account, nor have we been informed of such case by the management other than those payable under contractual obligations and/or accepted business practices.
20. The company is not a sick industrial company within the meaning of clause (o) of sub-section (1) of section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 of India.
21. The company's service activities are such that the question of recording receipts, issues and consumption of materials and stores and the allocation of materials, stores and man-hours utilised to the relative jobs and consequently, the authorisation and adequacy of internal control on the issue of stores and allocation of stores and labour to jobs does not arise.

For Lovelock & Lewes
Chartered Accountants

Sharmila A. Karve
Partner

Mumbai, 30th June, 2000