



Essar Steel Limited

**27th Annual Report
2002-2003**

Essar Steel Limited**BOARD OF DIRECTORS**

Shashi Ruia	<i>Chairman</i>
Ravi Ruia	<i>Vice-Chairman</i>
Prashant Ruia	
Vikram Amin	<i>Executive Director</i>
Jatinder Mehra	
S. V. Venkatesan	
Sanjeev Shriya	
Jitender Balakrishnan	<i>Nominee - IDBI</i>
G. A. Nayak	<i>Nominee - UTI</i>
G. D. Goswami	<i>Nominee - ICICI Bank Ltd.</i>
N. B. Vyas	<i>Company Secretary</i>

REGISTERED OFFICE

Post : Hazira Pin: 394 270
 Dist : Surat
 Gujarat
 Tel. : 0261-2872400
 Fax : 0261-2872796

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

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. : 044-24834487/3738
 Fax : 044-24834636
 E-mail : dsrcomd@md3.vsnl.net.in

Visit us at our website

<http://www.essar.com>

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



NOTICE

NOTICE is hereby given that the Twenty Seventh 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 **Saturday, July 19, 2003 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, 2003 and the Profit and Loss Account for the period ended on that date and the Reports of the Directors and Auditors thereon.
2. 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.
3. 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.
4. To appoint M/s B P Jain & Co., Chartered Accountants, as Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

5. INCREASE / RECLASSIFICATION OF AUTHORISED SHARE CAPITAL

To consider and if thought fit to pass with or without modification(s), the following as an Ordinary Resolution:

"RESOLVED THAT in accordance with the provisions of Section 16, 94 and all other applicable provisions, if any, of the Companies Act, 1956, the authorised share capital of the Company be and it is hereby increased and reclassified from Rs.1600 crores (Rupees one thousand six hundred crore only) divided into

150,00,00,000 (one hundred fifty crores) equity shares of Rs.10/- (Rupees ten only) each and

1,00,00,00,000 (one crore) Cumulative Redeemable Preference Shares of Rs.100/- (Rupees one hundred only) each to **Rs.5000 crores** (Rupees five thousand crores only) divided into

460,00,00,000 (four hundred sixty crores) equity shares of Rs.10/- (Rupees ten only) each, 30,00,00,000 (thirty crore) 0.01% Cumulative Redeemable Preference Shares of Rs.10/- each and 10,00,00,000 (ten crore) 10% Cumulative Redeemable Preference shares of Rs.10/- each

and consequently, the existing Clause V of the Memorandum of Association of the Company relating to Share Capital be and is hereby altered by deleting the same and substituting in its place and stead, the following as new Clause V:

"The Authorised Share Capital of the Company is Rs. 5000.00 Crores (Rupees five thousand crores only) divided into 460,00,00,000 (four hundred and sixty crores) equity shares of Rs.10/- (Rupees ten only) each, 30,00,00,000 (thirty crores) 0.01% Cumulative Redeemable Preference Shares of Rs.10/- (Rupees ten only) each and 10,00,00,000 (ten crores) 10% Cumulative Redeemable Preference Shares of Rs.10/- (Rupees ten only) each with a power to increase or reduce the same in accordance with the provisions of the Companies Act, 1956."

6. ISSUE OF EQUITY SHARES TO ESSAR INVESTMENTS LIMITED AND / OR ASSOCIATE COMPANIES

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

"RESOLVED THAT pursuant to recommendations of the Corporate Debt Restructuring Cell (CDR), the Scheme of Compromise and Arrangement with secured creditors filed under Section 391 of the Companies Act in the High Court of Gujarat at Ahmedabad and in accordance with the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 and enabling provisions in the Memorandum and Articles of Association of the Company, the Listing Agreements entered into by the Company with the Stock Exchanges where the shares of the Company are listed and in accordance with the guidelines issued by the Securities and Exchange Board of India (SEBI) and clarifications thereon issued from time to time and subject to all such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to, by the Board of Directors of the Company (hereinafter referred to as the **"Board"**, which term shall be deemed to include any duly authorised committee thereof for the time being exercising the powers conferred on the Board by this Resolution), the consent of the Company be and is hereby accorded to the Board to create, issue and allot such number of equity shares of Rs. 10/- each with or without premium aggregating to Rs. 2,38,00,00,000 (Rupees two hundred thirty eight crores only) to the promoters, Essar Investments Limited and associate companies, whether or not they are members of the Company, on preferential allotment basis by conversion of the unsecured loan extended by the promoters to the Company, to the extent and in one or more tranches and in the manner as may be decided by the Board in this behalf.

RESOLVED FURTHER THAT

- i. The equity shares to be so issued and allotted shall be subject to the provisions of the Memorandum and Articles of Association of the Company;
- ii. The equity shares so issued and allotted shall rank *pari passu* with the existing equity Shares of the Company, except that for the financial year in which they are issued and allotted, they shall rank only for pro-rata dividend for the period during which such capital is so paid up;
- iii. The relevant date as per clause 13.1.2.2 of SEBI (Disclosure and Investor Protection) Guidelines, 2000 for the determination of applicable price for the issue of equity shares is June 19, 2003;
- iv. The equity shares to be so issued and allotted shall be listed and traded on stock exchanges;
- v. For the purpose of giving effect to this resolution the

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Board be and is hereby authorised to do all such acts, deeds and things as the Board may in its absolute discretion consider necessary, proper, desirable or appropriate for making the said issue as aforesaid and to settle any question, difficulty or doubt that may arise in this regard including the power to allot over subscribed / undersubscribed portion if any, in such manner and to such person(s) as the Board may deem fit and proper in its absolute discretion to be most beneficial to the Company.

7. REDUCTION OF EQUITY CAPITAL BY 40% AND ISSUE OF 0.01% CUMULATIVE REDEEMABLE PREFERENCE SHARES IN ITS STEAD

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

"RESOLVED THAT in accordance with the provisions of Sections 80, 81, 100 and all other applicable provisions, if any, of the Companies Act, 1956 and the enabling provisions in the Memorandum and Articles of Association of the Company, the Listing Agreements entered into by the Company with the Stock Exchanges where the securities of the Company are listed and in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) and clarifications thereon issued from time to time and subject to confirmation of the Jurisdictional High Court / Tribunal and approval of the Financial Institutions (FIs), SEBI, Reserve Bank of India (RBI) and other concerned authorities, if any, and such other approvals, permissions and sanctions, as may be necessary, and subject to such conditions and modifications, as may be prescribed or imposed by any of the aforementioned authorities while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any duly authorised committee thereof), the consent of the Company be and is hereby accorded to the Board for cancellation of 40% of existing equity shares having face value of Rs. 10/- each (including such number of equity shares, as may be allotted to the promoters in terms of resolution No. 6 of this notice) plus such number of shares resulting out of fractional entitlement and in lieu thereof create, issue and allot, without any further act or deed and without any further payment, such number of cumulative redeemable preference shares of Rs.10/- each, without carrying voting rights, with a coupon rate of 0.01% redeemable in four quarterly installments starting from October 1, 2017, to the holders of the said equity shares in the manner and on the terms and conditions detailed herein below:

- (a) The equity shares of Rs.10/- each shall stand cancelled on the date of order of the Jurisdictional High Court/ Tribunal is registered by the Registrar of Companies, Ahmedabad, in the ratio of four (4) equity shares of Rs. 10/- each out of every ten (10) equity shares of Rs. 10/- each held by the equity shareholders.
- (b) The remaining six (6) equity shares of Rs.10/- each out of the ten (10) equity shares of Rs.10/- each shall continue to be held by the equity shareholders as fully paid equity shares of Rs.10/- each without any

alterations to the rights attached thereto.

- (c) The preference shares shall not entitle the holders thereof to any voting rights, except in respect of resolutions which directly affect the rights attached to the preference shares and in the event the Company does not pay any dividend thereon, no voting rights shall accrue to such holders on account of dividend.
- (d) The issue and allotment of preference shares to the extent related to non-resident shareholders of the Company shall also be subject to the applicable provisions of the Foreign Exchange Management Act, 1999 and the Regulations and Rules framed thereunder.
- (e) No fractional certificates shall be issued by the Company in respect of fractional entitlements, if any, to which the members of the Company may be entitled on cancellation of the equity shares and on issue and allotment of the preference shares as aforesaid and the Board shall instead consolidate all fractional entitlements and thereupon issue and allot equity and/or preference shares (as the case may be) in lieu thereof to a director or an officer of the Company who shall hold the shares in trust on behalf of such members of the Company, with the express understanding that such director(s) or officer(s) to whom such equity and/or preference shares shall be allotted shall sell the same in the market at the best available price and pay to the Company, the net sale proceeds thereof whereupon the Company shall distribute such net sale proceeds to the members of the Company in proportion to their respective fractional entitlements.
- (f) In the event there are any pending share transfers whether lodged or outstanding of any shareholder of the Company, the Board be and is hereby empowered in appropriate cases, even subsequent to the Record Date (as may be fixed by the Board at a later date), as the case may be, at its sole discretion, to effectuate such a transfer in the Register of Members of the Company as if such changes were operative as on the Record Date.
- (g) The remaining equity shares shall continue to be listed and traded on the Stock Exchanges.

RESOLVED FURTHER THAT the Board be and is hereby authorised in their absolute discretion, to make the said issue of the shares on such other terms and conditions as they may consider appropriate and to accept such other conditions and modifications as may be prescribed by the jurisdictional High Court, Banks, Financial Institutions and other appropriate Bodies/ Authorities while according their sanction or consent to the proposed issue of shares and to take such consequential action thereon including the authority to revise/ adjust the redemption period, conversion ratio, coupon rate of the preference shares to be issued in such manner as may be considered appropriate by the Board.

8. ISSUE OF EQUITY SHARES TO FINANCIAL INSTITUTIONS AND /OR BANKS

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



"RESOLVED THAT in accordance with the provisions of Section 81(1A) and all other applicable provisions, if any of the Companies Act, 1956 and enabling provisions in the Memorandum and Articles of Association of the Company, the Listing Agreements entered into by the Company with the Stock Exchanges where the shares of the Company are listed and in accordance with the guidelines issued by the Securities and Exchange Board of India (SEBI) and clarifications thereon issued from time to time and subject to the approval of the Financial Institutions (FIs), SEBI, Reserve Bank of India (RBI) and all other concerned authorities, if any, and all such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the "Board" which term shall be deemed to include any duly authorised committee thereof for the time being exercising the power conferred on the Board by this Resolution), the consent of the Company be and is hereby accorded to the Board to create, issue and allot such number of equity shares of Rs. 10/- each with or without premium not exceeding Rs.200,00,00,000 (Rupees two hundred crores) to the Lenders namely, Indian Financial Institutions (IFIs), Banks, Mutual Funds, Insurance Companies and other entities, whether or not they are members of the Company, on preferential allotment basis.

RESOLVED FURTHER THAT

- i. The equity shares to be so issued and allotted shall be subject to the provisions of the Memorandum and Articles of Association of the Company and shall not be subject to the reduction of equity capital by 40% as envisaged under resolution No. 7 herein above;
- ii. The equity shares so issued and allotted shall rank *pari passu* with the existing equity Shares of the Company, except that for the financial year in which they are issued and allotted, they shall rank only for pro-rata dividend for the period during which such capital is so paid up;
- iii. The relevant date as per clause 13.1.2.2 of SEBI (Disclosure and Investor Protection) Guidelines, 2000 for the determination of applicable price for the issue of equity shares is June 19, 2003;
- iv. The equity shares to be so issued and allotted shall be listed and traded on stock exchanges.
- v. For the purpose of giving effect to this resolution the Board be and is hereby authorised to do all such acts, deeds and things as the Board may in its absolute discretion consider necessary, proper, desirable or appropriate for making the said issue as aforesaid and to settle any question, difficulty or doubt that may arise in this regard including the power to allot over subscribed / undersubscribed portion if any, in such manner and to such person(s) as the Board may deem fit and proper in its absolute discretion to be most beneficial to the Company.

9. ISSUE OF 10% CUMULATIVE REDEEMABLE PREFERENCE SHARES TO FINANCIAL INSTITUTIONS AND /OR BANKS

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

"RESOLVED THAT in accordance with the provisions of Sections 80, 81(1A) and all applicable provisions, if any of the Companies Act, 1956 and enabling provisions in the Memorandum and Articles of Association of the Company, the Listing Agreements entered into by the Company with the Stock Exchanges where the shares of the Company are listed and in accordance with the guidelines issued by the Securities and Exchange Board of India (SEBI) and clarifications thereon issued from time to time and subject to the approval of the Financial Institutions (FIs), SEBI, Reserve Bank of India (RBI) and all other concerned authorities, if any, and all such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the "Board" which term shall be deemed to include any duly authorised committee thereof for the time being exercising the power conferred on the Board by this Resolution), the consent of the Company be and is hereby accorded to the Board to create, issue and allot 10,00,00,000 10% Cumulative Redeemable Preference Shares of Rs.10/- each at par not exceeding Rs.100,00,00,000 (Rupees One Hundred Crores) to the Lenders namely, Indian Financial Institutions (IFIs), Banks, Mutual Funds, Insurance Companies and other entities.

RESOLVED FURTHER THAT

- i. The CRPS to be so issued and allotted shall be subject to the provisions of the Memorandum and Articles of Association of the Company.
- ii. The CRPS will be entitled to a preferential dividend of 10% from the date of allotment or 1st October, 2003 whichever is earlier on cumulative basis and will be redeemable at par in 12 equal monthly installments commencing from October 01, 2017 to September 01, 2018, subject to the provisions of Section 80 and other applicable provisions of the Companies Act, 1956 and other applicable legislations as may be in force from time to time and the provisions of the Articles of Association;
- iii. For the purpose of giving effect to this resolution the Board be and is hereby authorised to do all such acts, deeds and things as the Board may in its absolute discretion consider necessary, proper, desirable or appropriate for making the said issue as aforesaid and to settle any question, difficulty or doubt that may arise in this regard including the power to allot over subscribed / undersubscribed portion if any, in such manner and to such person(s) as the Board may deem fit and proper in its absolute discretion to be most beneficial to the Company."

Essar Steel Limited**NOTES :**

1. The Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 relating to the Special Business under Item Nos. 5 to 9 are 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 July 18, 2003 till July 19, 2003 (both days inclusive).
4. The Chairman of the Audit Committee of Directors shall be present at the Annual General Meeting to answer queries of shareholders arising out of the Accounts of the Company.
5. 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.
6. Members who have not encashed their dividend warrants for the years/period ended 31st March, 1996 and 31st March, 1997 may approach Company's R & T Agents for revalidating the warrants and/or for obtaining duplicate warrants.
7. The Company's shares are listed with Ahmedabad, Vadodara, Bangalore, Kolkatta, Delhi, Chennai, Mumbai & National Stock Exchanges. The Company has paid the listing fees for the year 2003-2004 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

N B Vyas

Mumbai, June 10, 2003

Company Secretary

The logo for Report Junction.com features the word "Report" in a grey sans-serif font, followed by a yellow diamond icon containing a black upward-pointing arrow, and then the word "junction.com" in a green sans-serif font. The entire logo is enclosed within a light green rounded rectangular border.



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. 5 to 9 mentioned under the heading as SPECIAL BUSINESS :

SPECIAL BUSINESS :

ITEM NO. 5

INCREASE / RECLASSIFICATION OF AUTHORISED SHARE CAPITAL

In terms of the Corporate Debt Restructuring Proposal approved by the lenders, the Company has to issue Cumulative Redeemable Preference Shares against reduction of existing equity capital. The Company also intends to issue further Cumulative Redeemable Preference Shares at a coupon rate of 10% to Financial Institutions & Banks in conversion of simple interest charged by lenders in excess of 14% p.a. Further as per the terms of the CDR proposal, in the event of default if any, at a later date, Financial Institutions / Banks shall have the right to convert the defaulted amount into equity shares at par. The Company at present has an Authorised share capital of Rs.1600 crores divided into

- 150,00,00,000 (One hundred fifty crores) Equity Shares of Rs.10/- each (Rupees Ten only) and
- 1,00,00,000 (One Crore) Cumulative Redeemable Preference Shares of Rs.100/- each (Rupees One hundred only)

In view of the above proposals, it is necessary to increase and reclassify the Authorised Share Capital of the Company and alter the capital clause contained in the Memorandum of Association of the Company.

Your directors recommend the resolution for your approval.

None of the Directors is interested or concerned in the resolution.

Item No: 6

ISSUE OF EQUITY SHARES TO ESSAR INVESTMENTS LIMITED AND / OR ASSOCIATE COMPANIES

One of the recommendations of the Corporate Debt Restructuring Proposal is the issue of equity shares with or without premium having face value of Rs.10/- to the promoters, Essar Investments Limited and / or associate companies for an amount not exceeding Rs. 238 crores against conversion of unsecured loan.

The Statutory Auditors have certified that this issue of equity shares is being made in accordance with the requirement contained in SEBI (Disclosure and Investor Protection) Guidelines, 2000 (as amended upto May 03, 2003). The said certificate will be placed before the Members at the time of the Annual General Meeting.

Your directors recommend the resolution for your approval.

Mr. S.N.Ruia, Mr. R.N.Ruia Mr.P.S.Ruia and Mr. S.V.Venkatesan, are interested or concerned in this resolution.

Item No: 7

REDUCTION OF EQUITY CAPITAL BY 40% AND ISSUE OF 0.01% CUMULATIVE REDEEMABLE PREFERENCE SHARES IN ITS STEAD

The financial restructuring package prepared by the lenders has been approved by the Corporate Debt Restructuring Group vide its letter no.CDR/585 dated February 24, 2003 and letter no. BY.CDR/ 681 dated March 25, 2003. The salient features of the Corporate Debt Restructuring Package (CDRP) are as under:-

PART A - WITH SECURED INDIAN LENDERS

- (i) **Waiver** : All amounts of penal interest and liquidated damages, aggregating to Rs.27.00 crores remaining due and unpaid up to the Cut off Date, (being September 30, 2002) relating to Existing Secured Credits will be waived by each relevant

Existing Secured Lender.

- (ii) **Conversion to Zero Coupon Debt**: All amounts of compound interest overdue and unpaid as on the Cut off Date aggregating up to Rs.250 crores will be converted to Zero Coupon Debt. This Zero Coupon Debt is repayable in 48 equal monthly installments commencing from October 1, 2008 and ending on September 1, 2012 and will be secured by first pari-passu charge on the fixed assets of the Company.
- (iii) **Conversion to Preference Share Capital**: Simple interest charged in excess of 14% p.a. in respect of Rupee term loans and Non Convertible Debentures, with effect from April 1, 2001 till the Cut off Date will be converted into 10% Cumulative Redeemable Preference Shares (CRPS). The CRPS would be redeemed in 12 equal monthly installments commencing from October 1, 2017 to September 1, 2018.
- (iv) **Restructuring of balance Rupee Term Debt**: All amount of Rupee debt, including, simple interest due and accrued as on the Cut off Date, devolved Deferred Payment Guarantees and Lease Assistance and non-convertible debentures after waiver and conversion as per item (ii) to (iv) above will be restructured as follows:
 - (a) **Conversion of Rupee term debt into Equity Share Capital**: Pro rata conversion of Rupee Debt aggregating up to Rs. 175 crore to Equity Share Capital at par;
 - (b) **Conversion of Rupee term debt into Foreign Currency Loan**: 40% of the Rupee Debt to be converted to fixed rate Foreign Currency Loan or Reduced Rate Rupee Term Loan, carrying fixed interest rate of 8% per annum.
 - (c) **Balance to continue as Rupee Term Loan**: The balance amount of the Rupee Debt to continue as Rupee Term Loan, carrying fixed interest of 14% per annum and repayable in 156 monthly installment from October 2004 to September 2017 in structured installments.

Primary Financial Terms relating to Working Capital Debt

Working Capital Facility: Working Capital Lenders to arrange for adequate working capital assistance based on a current ratio of 1:1. The working capital lenders shall also sanction Working Capital Term Loan ("WCTL") of Rs. 140 crore (approximately). The WCTL will be repayable in equal monthly installments in four years after moratorium of four years. Rate of interest shall be charged at a rate of 11.75% per annum. WCTL shall be secured by first pari-passu charge on the fixed assets of the Company.

PART B - WITH SHAREHOLDERS

As per the CDRP, the equity shares of Rs.10/- would stand cancelled in the ratio of four (4) equity shares of Rs.10/- each out of every Ten (10) equity shares of Rs.10/- each and in lieu of such cancellation four (4) cumulative redeemable preference shares of Rs.10/- each with a coupon rate of 0.01% redeemable in four quarterly installments starting from October 01, 2017 will be created, issued and allotted. The remaining Six (6) equity shares of Rs.10/- each out of the Ten (10) equity shares continue to be held by existing equity shareholders as equity shares of Rs.10/- each fully paid up, without any alterations to the rights attached thereto. This would result in cancellation of 40% of existing equity shares having face value of Rs. 10/- each (including such number of equity shares as may be allotted to promoters in terms of resolution No. 6 of this notice) and in lieu of such cancellation requisite number of cumulative redeemable preference shares of Rs. 10/- each will be issued and allotted to the shareholders whose shares stand cancelled.

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While the domestic lenders are implementing the CDRP, the existing equity shareholders are required to convert part of their existing equity holding into 0.01% Cumulative Redeemable Preference Shares. Even though the implementation of the proposed resolution will not result in reduction of capital within the meaning of Section 100 of the Companies Act, 1956 (the Act), conversion of equity shares into preference shares has been held to be a deemed reduction by some judicial authorities. Members approval is sought for the reduction in share capital as per the CDRP. Hence, the resolution as at item no.7 of this notice is proposed under Sections 100 to 104 of the Act for approval of the members.

The Directors of your Company may be deemed to be concerned or interested to the extent of the preference shares that may be allotted to them or their relatives or to the Companies in which they or their relatives are Directors.

Your Directors recommend the resolution for your approval.

Item No: 8 & 9

ISSUE OF EQUITY SHARES AND 10% CUMULATIVE REDEEMABLE PREFERENCE SHARES TO FINANCIAL INSTITUTIONS & BANKS

The terms and conditions of the restructuring package approved by the Corporate Debt Restructuring Cell (CDR) referred under item no.7 of this notice involves the issue of equity shares of Rs. 10/- each not exceeding Rs.200 crores in lieu of part of debt to certain secured lenders and issue 10% Cumulative Redeemable Preference shares not exceeding Rs.100 crores

to certain secured lenders. None of the Promoters, Directors or key management persons are subscribers to the aforesaid issue of shares.

The allotment of the aforesaid shares will be in accordance with the provisions of SEBI (Disclosure and Investor Protection) Guidelines, 2000, including completion of the issue within three months from the passing of the Resolution.

The Special resolution will, if passed, enable the Board on behalf of the Company, to issue and allot equity and preference shares to the said lenders as per the terms of the restructuring package approved. The Company in consultation, with its Advisors will fix the detailed terms and conditions of the issue which will be in line with the requirements of the guidelines issued/ to be issued by SEBI and by any other concerned authorities.

None of the Directors of your Company is in any way concerned or interested in the proposed resolutions.

Your Directors recommend the resolutions for your approval.

By Order of the Board

N B Vyas

Company Secretary

Mumbai, June 10, 2003



DIRECTORS REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

To the Members of ESSAR STEEL LIMITED

Your Directors have pleasure in presenting the Twenty-Seventh Annual Report of your Company together with the Audited Statement of Accounts for the period of six months ended March 31, 2003.

FINANCIALS

The Financial Results

(Rs. in crores)

Particulars	Period ended	
	March 31, 2003 (Six months)	September 30, 2002 (Eighteen months)
Sales and other Income	1771.37	3279.51
Gross Profit before Interest, Depreciation, Deferred Revenue and Taxation	404.44	77.20
Less : Finance cost (net)	143.13	944.22
Profit/(Loss) before Depreciation and taxation	261.31	(867.02)
Less : Depreciation	195.47	592.16
Less : Deferred revenue expenses	22.42	128.37
Profit / (loss) before Charges pertaining to earlier years and taxation	43.42	(1587.55)
Less : Charges pertaining to earlier years	41.91	322.73
Profit / (Loss) before Taxation	1.51	(1910.28)
Less: Deferred tax credit	—	(710.91)
Profit / (Loss) after Taxation	1.51	(1199.37)
Add : Balance brought forward from previous period	(2412.47)	(1213.10)
Add: Transfer from Debt Reconstruction Reserve	639.00	—
Add: Transfer from Debenture Redemption Reserve	329.04	—
Balance carried forward to next year	(1442.92)	(2412.47)

The Board of Directors are pleased to state that during the period ended March 31, 2003, your Company turned the corner after an unprecedented and long recessionary period. Your Company has posted a Net Profit (after providing for Finance Charges and Depreciation) after several years during the period of six months ended March 31, 2003. The gross profit has increased substantially during the six months period ended March 31, 2003 as compared to corresponding period of previous year. There has been an all around improvement in the performance of the Company on all fronts. The outlook for the current year continues to be good.

STATUTORY ANNUAL AUDIT

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

DIVIDEND

Your Board of Directors do not recommend any dividend.

DEBT RESTRUCTURING

During the period ended March 31, 2003, the Company received the approval of secured lenders, under CDR (Corporate Debt

Restructuring) mechanism, of a Debt Restructuring Package. The company is in the process of implementing this package. As a part of this package the Company has successfully completed negotiations in respect of buy back of FRNs. As a result of the same, the net worth of the Company has increased by Rs.799.97 crores. The net worth thus has become positive and stands at Rs. 335.32 Crores as on March 31, 2003.

OPERATIONS & PERFORMANCE

◆ Highlights of Plant Operations during the period under review;

	Oct'02 to Mar'03	Apr'02 to Mar'03
> Production of HBI	1.04	1.98
> Production of Liquid Steel	0.99	1.81
> Production of HRC	0.94	1.75

(Note: All figures in Million tons)

The Hot Rolled Coils production for the period ended March 31, 2003 has increased by 37% at 944,967 metric tons as compared to 689,089 metric tons during the corresponding period in the previous year. During the period under review, your Company achieved a capacity utilization of 104% in its Hot Briquetted Iron plant and 78% in its Hot Rolled Coils/ Sheets Plant.

Steel markets, from June 2002 onwards have recovered well and currently the steel prices are over Rs. 17,500 per metric ton as compared to a low of Rs.11,500 per metric ton a year ago. With the current trend of increased prices steel companies expect to leave the worst behind and come up with positive results in the future.

The average net Sales Realization of Hot Rolled Coils per metric ton stood at Rs.16,809 in the domestic market and Rs.17,143 per metric ton in the export market, showing a growth of 42 % & 60% respectively over the previous corresponding period.

◆ Marketing & Sales Highlights

During the period under review, your company has been able to post a turnover of Rs.1,765 crores.

Sales during the period stood at 947,353 tons as compared to 701,827 tons during the corresponding period in the previous year.

With the steel markets recovering, your company expects to achieve a much higher turnover in the years to come and will continue to increase its focus on value added segments in niche markets, where your company's capabilities to produce high quality special grades required in these markets can be harnessed so as to increase the contribution and Net Profit of your company.

Export Performance Highlights

Your Company has an excellent track record in the international market and this has helped in maintaining its position as the country's largest exporter of Hot Rolled Coils in India.

Your Company concentrated on major markets such as the Middle East, China and South East Asia. New regions such as Africa, Bangladesh and Europe have been tapped to further broaden the scope of exports. Your Company continued to concentrate on high value added grades of steel for niche markets which has enabled it to command a premium for its products.

Domestic Performance Highlights

Your Company saw a substantial improvement in the domestic

Essar Steel Limited

scenario during the period under review. Your company, in line with the marketing policy adopted during the previous years continued its presence in different product segments Viz. API grades for pipes, LPG cylinder grade, Cold Rolling grade etc., so as to command a premium over the base grades.

DIRECTORS

Mr R N Ruia and Mr S V Venkatesan retire by rotation at the ensuing Annual General Meeting and, being eligible, offer themselves for reappointment. The Board recommends their reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements under Section 217(2AA) of the Companies Act, 1956, the Board of Directors of the Company hereby state and confirm that

- i. in the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- ii. the directors have selected accounting policies and applied them consistently and made judgements 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 and of the profit or loss of the Company for the year under review.
- iii. the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv. the directors have arranged preparation of the accounts for the period ended March 31, 2003 on a "going concern" basis.

AUDITORS

M/s. B. P. Jain & Co. Chartered Accountants, Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting. M/s B. P. Jain & Co. Chartered Accountants, have informed the Company that, if appointed, their appointment will be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956. Accordingly, the members' approval is being sought to their appointment as the Auditors of the Company at the ensuing Annual General Meeting.

PERSONNEL

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended the names and other particulars of the employees are set out in the Annexure to the Directors' 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 the aforesaid information. Any shareholder interested in obtaining a copy of the particulars may write to the Company Secretary at the Registered Office of the Company.

ENERGY, TECHNOLOGY & FOREIGN EXCHANGE

Details of energy conservation and research and development activities undertaken by the Company 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, forming part of this report.

CORPORATE GOVERNANCE

Your Company attaches considerable significance to good corporate governance as an important step towards building investor confidence, improve investors' protection and maximise long term shareholder value. Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a compliance report on the Corporate Governance forms part of the Annual Report along with Auditors' Certificate on its compliance.

ACKNOWLEDGEMENT

Your directors would like to express their grateful appreciation for the assistance and cooperation received from the Financial Institutions, Banks, Government Authorities and Shareholders during the year under review. Your Directors wish to place on record their deep sense of appreciation to all the employees for their commendable teamwork, exemplary professionalism and enthusiastic contribution during the year.

For and on behalf of the Board

S N RUIA
Chairman

Mumbai, June 10, 2003