Steel

Essar Steel Limited

32nd Annual Report 2007 - 2008

BOARD OF DIRECTORS

Shashi Ruia	*Chairman*
Ravi Ruia	*Vice-Chairman*
Prashant Ruia	
Rewant Ruia	
Vikram Amin	*Director - Marketing*
Robin Banerjee	*Director - Finance*
Dilip Oommen	*Chief Executive Officer*
V. G. Raghavan	
Jatinder Mehra	
S. V. Venkatesan	
K. V. Krishnamurthy	
Narottam B. Vyas	*Company Secretary*

REGISTERED OFFICE

Post : Hazira Pin: 394 270
Dist : Surat
Gujarat
Tel. : 0261-668 2400
Fax : 0261-668 2796

CORPORATE OFFICE

Essar House,
11 Keshavrao Khadye Marg,
Mahalaxmi,
Mumbai - 400 034.
Tel. : 022-66601100
Fax : 022-66602748

CONTENTS

BANKERS

State Bank of India
Punjab National Bank
Bank of India
Allahabad Bank
IDBI Bank
State Bank of Patiala
State Bank of Mysore
Indian Bank
State Bank of Saurashtra
State Bank of Indore
State Bank of Bikaner & Jaipur

AUDITORS

M/s. S.R. Batliboi & Co.
Chartered Accountants,
6th Floor, Express Towers,
Nariman Point, Mumbai 400 021

SOLICITORS

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

TRANSFER AGENTS

Data Software Research Co. Pvt. Ltd.
Sree Sovereign Complex,
No. 22, IVth Cross Street,
Trustpuram, Kodambakkam,
Chennai - 600 024.
Tel. : 044-24834487/3738
Fax : 044-24834636
E-mail : dsrcmd@md3.vsnl.net.in

Visit us at our website

http://www.essar.com

DIRECTORS' REPORT

To the Members of **Essar Steel Limited**

Your Directors have pleasure in presenting the 32nd Annual Report of your Company together with the Audited Statement of Accounts for the year ended 31st March, 2008.

FINANCIALS

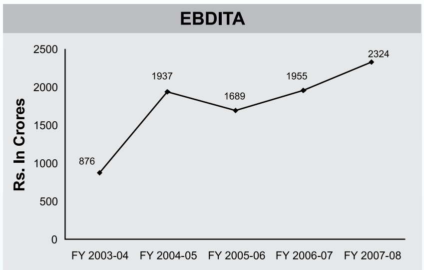
(Rs. in Crores)

Particulars	Year ended	
	March 31, 2008	March 31, 2007
Sales and other Income	**11,926.87**	9,019.68
Profit before Finance Cost (net), Depreciation, Charges pertaining to earlier years, Exceptional Item and Taxation	**2,324.30**	**1,955.25**
Less: Finance Cost (Net)	**726.40**	617.94
Profit before Depreciation, Charges pertaining to earlier years, Exceptional Item and Taxation	**1,597.90**	1,337.31
Less: Depreciation	**766.52**	631.04
Profit before charges pertaining to earlier years, Exceptional Item and Taxation	**831.38**	706.27
Less: Charges pertaining to earlier years and exceptional items	**—**	22.81
Profit before Taxation	**831.38**	**683.46**
Less: Provision for Deferred tax	**267.97**	187.52
Less: Current Tax	**108.88**	55.01
Less: Short / (excess) tax provisions related to earlier years (Net)	**19.83**	(1.22)
Less: Provision for Fringe Benefit Tax	**6.08**	5.66
Profit after taxation	**428.62**	**436.49**
(Less)/Add: Balance brought forward from previous year	**1,444.29**	1,008.30
Add: Net Gain on adoption of AS-15 (Revised)	**1.87**	—
Add: Transfer from Debenture Redemption Reserve	**15.50**	7.25
Less: Transfer to Debenture Redemption Reserve	**—**	7.75
Less: Transfer to Capital Redemption Reserve	**202.92**	—
Less: Preference Dividend (Including DDT)	**13.46**	—
Balance carried forward to next year	**1673.90**	1444.29

DIVIDEND

During the year under review the Company paid Dividend (cumulated for three years) on 0.01% Cumulative Redeemable Preference Shares of Rs.10/- each alongwith redemption proceeds in terms of authority obtained from those shareholders vide postal ballot process held in December, 2007. The Company also paid dividend (cumulated for two and half years) on 10% Cumulative Redeemable Preference Shares of Rs.10/- each. In view of the need to conserve resources, the Board does not recommend any equity dividend for the year.

OPERATIONS

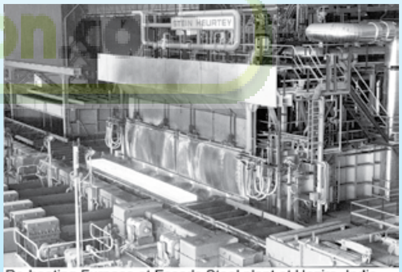


Manufacturing:

Company has made efforts to increase its operational efficiency and quality of products at Essar Steel, Hazira during FY 2007-08

The major steps taken in this regard were:

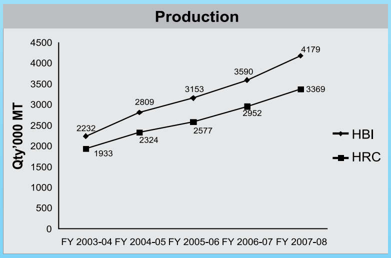
- Physical and chemistry improvement in the quality of pellets at the pelletisation plant.
- All the HBI modules were run efficiently and the process was stable.
- Increase in usage of Hot DRI by 20% and saving power in Steel Melt Shop.
- Utilisation Index of HSM increased by 0.7%, from 83.7 in 2006-07 to 84.4 in 2007-08.
- Quality improvement programme with Kobe Steel Japan was implemented to supply to Auto majors and the white goods sector.

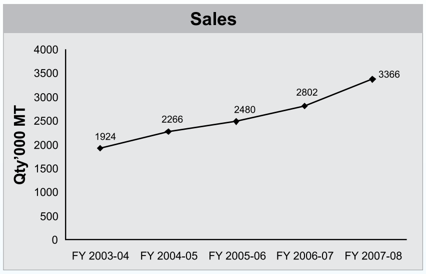


Re-heating Furnace at Essar's Steel plant at Hazira, India

The major benefits derived from the above steps are:

- HBI production has been increased by 16% over what was achieved in the last financial year.
- Natural gas consumption in the HBI process was reduced by 5 sm3/tonne compared to what was consumed in the last financial year.
- Steel production was increased by 19% over what was achieved in the last financial year.
- Power consumption was reduced by 23 kwh/tonne compared to what was consumed in the last financial year.
- Hot Strip Mill production was increased by 15 percent over what was achieved in the last financial year.





Sales and Marketing

- Sales of flat rolled products were up 20% y-o-y to 3.36 million tonnes
- Revenues were up 32% to Rs.11,911 crore and net sales realisation per tonne was up 5% y-o-y
- 34% of sales were made in value added segments -- up from 27% in 2006-07.
- Domestic sales at 2.57 million tones grew 41% y-o-y. Domestic market share was 12.4% in 2007-08 -- up from 10.5% in 2006-07.
- Essar moved into 2nd position in flats production in India from a single-unit-single-location.
- Export volumes, at 0.92 million tonnes, dropped 9%, a deliberate strategy to reduce exposure to the rising rupee. Despite a 9% rupee appreciation during the year, the realisation in flat rolled exports increased by 2%. This was achieved by rationalisation of geographies and a better product mix.
- PLATES, which is India's fastest growing product segment in the flat products basket in India because of the infrastructure and construction boom, registered a record 1 million tonnes of sales, a growth of more than 50% over the previous year. This was achieved through augmenting the Hazira service centre with third-party processors.
- The Steel Hypermart business took off in 2007-08 and at 0.53 million tonnes registered a 243% growth in volumes. Revenues of Steel Hypermart has crossed more than Rs.1,900 crore. Consolidation of business processes through JDA (a retail ERP software), real time pricing mechanisms and rationalisation of Steel Hypermart locations through express marts together contributed to delivering higher volumes and realisations with a leaner setup.
- Better planning and inventory management led to a 38% reduction in year-end closing stocks.

Finance:

Your Company concluded its steel making capacity enhancement programme of 4.6 million tonnes per annum in the previous financial year. In the current financial year, it has focussed on de-leveraging the balance sheet. This has resulted in an improvement in your Company's credit profile which is evidenced in the ratings published by ICRA Ltd. (an associate of Moody's Investors Service).

ICRA Limited has assigned an

- 'LA' rating to the fund based bank facilities and to the Rs. 6,000 crore Long Term Debt programme of the Company, recognising the improvement in the credit quality of the Company's Long Term Debt.

ICRA has also assigned an

- 'A1' rating to the non fund based bank facilities of the Company, indicating highest credit quality in the short term.

  The above ratings reflect your Company's established position in the value-added segments in the steel industry, a diversified export base, integrated nature of operations, healthy operating profitability and improving capital structure.

  During the year, your Company has made efforts to significantly reduce the total debt burden with a reduction in the term debt position by over Rs. 1,000 crore. Further, with an increase in the Net Worth of over Rs. 300 crore, the Company has seen a significant improvement in the gearing ratio for FY 08 over the previous financial year. The net cash accrual to term debt ratio has also improved from 18% to 25%. Your company has therefore been prudently managing its financials, thus helping it to grow from strength to strength.

  In light of the growth in business and plans for setting up Steel Hypermarts (75 Hypermarts/Express Marts commissioned till date with a plan to increase the same to 100 Hypermarts/ Express Marts in the near term) and steel service centres in various regions, the Company is in the process of enhancing its working capital limits from Rs. 2,600 crore to Rs. 3,150 crore.

SUBSIDIARIES

As on March 31, 2008 the Company had following subsidiaries:

- Essar Steel Jharkhand Ltd.
- Essar Steel Orissa Ltd.
- Essar Steel Trading FZE, Dubai

A statement pursuant to section 212 of the Companies Act, 1956, and also a copy of each of the audited accounts and other documents referred under section 212 of the Companies Act, 1956, of the abovementioned companies is attached to this report.

HOLDING COMPANY

Essar Steel Holdings Ltd (which in turn is a subsidiary of Essar Global Ltd) continues to be the Holding Company of our Company. The ultimate holding company viz. Essar Global Ltd, along with its other subsidiaries, as of date holds 93.05% equity shares in the total paid up equity capital of the Company.

DELISTING OF EQUITY SHARES

In accordance with the permission obtained from shareholders vide postal ballot held in March, 2007 and in compliance with the SEBI (Delisting of Securities) Guidelines, 2003 ("the Guidelines), the Company's Equity Shares have been delisted from the Bombay Stock Exchange Ltd. and National Stock Exchange of India Ltd. with effect from December 24, 2007. Further in accordance with the Guidelines, Essar Steel Holdings Ltd. (Acquirer and one of the Promoter Group Company), provided an Exit Option to the remaining equity shareholders of the Company at the discovered price of Rs. 48 per share. This Exit Option was open for a period of six months and closed on 30th June, 2008.

DIRECTORS

Shri R N Ruia, Shri S V Venkatesan and Shri J Mehra retire by rotation at the ensuing Annual General Meeting and, being eligible, offer themselves for reappointment. Shri G D Goswami, Nominee Director appointed by ICICI Bank Ltd. ceased to be Director of the Company w.e.f June 20, 2008. Shri Sanjeev Shriya ceased to be Director of the Company w.e.f July 7, 2008. The Board wish to place on record their sincere appreciation for the contribution made by Shri G D Goswami and Shri Sanjeev Shriya during their tenure as Directors of the Company.

The tenure of Shri Vikram Amin as wholetime director ended on 31st October, 2007. The Board has appointed Shri Vikram Amin as wholetime director for a further period of three years w.e.f November 01, 2007. Shri Dilip Oommen has been appointed as an Additional Director on wholetime basis for a period of three years on the Board w.e.f. July 07, 2008 and would hold office as a Director up to the date of this Annual General Meeting. Necessary resolutions for their appointment as wholetime directors of the company forms part of the notice of the annual general meeting.

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, applicable accounting standards have been followed along with proper explanation relating to material departures.

ii. 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. 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. Directors have arranged preparation of the accounts for the year ended March 31, 2008, on a "going concern" basis.

AUDIT COMMITTEE

The Audit Committee of the Board comprises of three non-executive directors, viz. Shri S.V. Venkatesan, Shri J. Mehra and Shri K.V. Krishnamurthy. The Audit Committee is Chaired by Shri S.V. Venkatesan. The terms of reference of the Audit Committee are as per Section 292A of the Companies Act, 1956.

AUDITORS

M/s S R Batliboi & Co., Chartered Accountants, will retire at the conclusion of the ensuing Annual General Meeting. M/s S R Batliboi & Co., Chartered Accountants have informed the Company that if appointed, their appointment will be within the prescribed limits under Section 224(1B) of the Companies Act, 1956. Accordingly, members' approval is being sought for their re-appointment as the Auditors of the Company at the ensuing Annual General Meeting.

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, is provided in Annexure 'A', forming part of this Report.

PERSONNEL

As per 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 is seperately attached, as Annexure 'B', forming part of this Report.

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 made during the year.

For and on behalf of the Board

Shashi Ruia
Chairman

Date: August 27, 2008

Annexure - 'A' 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. Incremental in HOT DRI charging at SMP has resulted reduction of about 626 lacs electrical unit.
2. Electronic Ballast replaced 1800 nos, saving of 3 lacs unit electrical energy and saved Rs.12 Lacs/annum.
3. Installation of LED Indication Lamp & CFL in complex, energy saved 0.7 lacs unit and saving in Rs. 3 Lacs.
4. Stoppage of Idle equipments during shutdown and down time, energy saved about 5 lacs unit.
5. Product mix and scheduling in process at HSM has increased production of 4.5 lacs Ton which has resulted reduction in power consumption compare to last year.
6. Installation of transparent sheet at roof to save electrical Energy of 0.7 lacs unit.
7. HSM RHF Revamping has reduced NG consumption by 20Kcal/Kg and saved Rs. 372 Lacs.
8. Replacement of 160 W Lamps by 70 W Lamps has reduced energy by 0.7 lacs unit.
9. Switching off SVC's during shutdown has reduced power consumption by 43.2 lacs unit.
10. Optimization of cooling tower in winter season & cooling water pump at MRSS. Energy saved - 0.19 lacs unit.
11. VVF drive installation at CPP-1 new cooling tower fan & Side stream filtration unit fixed in new cooling tower CPP1. Energy saving observed 36 Lacs unit and saved Rs. 151.2 Lacs.
12. Stopping of hot water pump, MR open pumps and fans, capacity optimization at HBI. Energy saved 17.17 lacs unit and Saved Rs. 72.11 lacs.
13. Modification of suction lines at HBI has saved energy of 1.46 lacs unit.
14. Energy saving in lighting network by reducing voltage, auto sensor and timer at CRM/DSC & HBI. Energy saved 8.56 lacs unit & saved Rs. 36 Lacs.
15. Power Saving due to VVVF Drive Installation at various locations of CRM/DSC. Energy saved 14.7 lacs unit and saved Rs. 61.78 Lacs.
16. Power Saving due to reduction of Speed (1000 RPM) of Base Fan Drive at CRM.
17. Utility - Chiller # 4 : Enhanced the capacity (by 9 TR) by increasing the condenser water flow from 47 to 85 m3/hr. Energy saved 2.47 Lacs unit with saving of Rs 10.37 lacs.
18. Centrifugal Chillers (Capacity 300 TR – 04 nos): Evaporator and condenser's tube side (water) as well as shell side (refrigerant) were Chemically cleaned. Saving of Rs. 52.58 Lacs.
19. Instead of 01 HT + 01 LT compressor at CRM compressor house, 02 nos LT efficient compressors commissioned. Saved energy 8.61 Lacs unit with saving of Rs. 36.16 Lacs.
20. EAF 3 Primary circuit – Orifice plate removed for reduction in pressure drop. Saving of Rs. 30 Lacs per annum.
21. CRM Steam System – 1,323 m3 Condensate recovered which has resulted in saving of Rs 11 lacs.
22. Plant air and Instrument air system is separated after modification which has saved 31.5 Lacs unit. Saved Rs. 132.4.
23. Fan blade changed from aluminum to FRP at CRM cooling tower and one pump stopped at BAF. Energy saved 3.5 Lacs unit with saving of Rs. 15 lacs per annum.
24. CRM Pump House: Smaller diameter Impeller replaced; saved Rs. 4.8 lacs per annum.
25. RM Main Drive Ventilation System : Effectiveness of Heat exchanger increased by Chemical cleaning, Heat and Mass balance, Repairing of Partition plate. Chiller 4 stopped & saved Rs 21 Lacs per annum.

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

1. Metallic blades of eight cooling tower fans will be replaced with FRP blades. Power saving of about 42500 units per fan per year.
2. To generate 19MW power from flue gas waste heat recovery by power plant.
3. Removal of heavy hydrocarbon by PSA system to avoid carbon deposition in catalyst tubes. This will avoid carbon burnout requirement, which consumes both natural gas and power during each carbon burn out without production.
4. Use of Corex gas and VPSA system: Corex gas consumption saves natural gas which can be used for reformer burner.
5. We had implemented Energy Scada project across the CRM and DSC complex, which is an online tool for energy audit and monitoring deviations from norm. This can be easily accessible across the plant Through Level-II network.

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, 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.

- For joining the coil in Electro cleaning Line we had installed State of the art LASER welder, which is first of its type in India and facilitate coil buildup also.
- We have modified our batch Tandem Mill in to Continuous Tandem line with Dynamic Shape Roll, which is also first of its kind in India and gives better control of the shape in the mill then the conventional CVC mills.
- We have installed Electro Discharge Texturising Machine supplied by Waldrich, Germany, for providing the roughness to the work roll. This is a modern technology mainly used for providing a fine control of surface roughness across the surface which is the most important requirement of the paint-ability in Outer Auto Parts.
- We have installed a CNC Profile grinder supplied by Waldrich, Germany, which enables us in maintaining a close control on the roll profile which in turn results in very good shape of the strip.
- We have installed High Convection Annealing furnaces from Ebner, which is their latest technology used for annealing and provides a close tolerance in mechanical properties and better surface finish in reduced cycle time.

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 year 2007 – 08 was another eventful year in the International Sales business of Essar Steel Limited. We achieved exports of 1.24 mio Mt. (comprising of 920,848 Mt of steel exports and 313,317 Mt of mill scale and sludge pond fines).

We continued with our focus on the value added segments in discerning markets like EU, US, Middle East and South East.

Some of the noteworthy events for the year were the approval granted to us by leading auto companies and OEM's for our HR and downstream products. We also successfully executed a trial shipment for armor quality slabs for the US market.

The Company continued with its policy of maintaining a global presence with supplies to markets ranging from USA, EU, Middle East, South East Asia and neighboring countries and also developed supplies of ship building quality plates into new markets like Vietnam.

The Company's focus on value added segments continued with 60% share of the total sales. The company continued its focus of doing direct business with end users and thereby entering into long term contracts / MOUs with direct customers.

During the year, the company exported close to 200,000 Tons of Galvanized and Cold Rolled Products into various export markets.

We have established ourselves as a supplier of repute in the international market and several customers depend on us for their regular needs.

II) Total Foreign exchange used and earned (Rs. in Crores)

a)	Foreign exchange directly earned through export	2,970.10
b)	Others	254.97
	Total foreign exchange earned (a + b)	3,225.07
c)	Total foreign exchange used	
	i) For import of plant and machinery/technical know-how	196.56
	ii) Others including raw materials and interest	1,108.54
	Total foreign exchange used (c)	1,305.10

Particulars with respect to Conservation of Energy:

FORM A

B. Consumption per unit of Production

Sr. No.	Particulars	Current year	Previous year
1.	Electricity		
	a) Purchased		
	Unit (Lakhs)	**2,951.98**	2,997.66
	Total Amount (Rs. in Crores)	**127.17**	142.12
	Rate/Unit (Rs.)	**4.31**	4.74
	b) Own generation		
	(i) Through diesel generator		
	Unit (Lakhs)	**47.63**	59.58
	Units per ltr. of diesel oil	**3.32**	3.77
	Cost/Unit (Rs.)	**13.30**	6.33
	(ii) Through steam turbine / generator		
	Unit (Lakhs)	**1003.94**	1003.94
	Units per ltr. of Fuel oil Gas/Steam Coal	**1.25**	1.25
	Cost/Unit (Rs.)	**3.44**	3.44
	(iii) Through gas turbine generator		
	Unit (Lakhs)	**1,756.54**	2,226.64
	Units / SM3 of gas	**3.26**	3.38
	Cost of fuel/Unit (Rs.)	**3.67**	3.04
	(iv) Through third party on conversion basis		
	Unit (Lakhs)	**33,562.97**	28,533.41
	Units / Ltr of NGL/HSD/NG	**4.47**	4.36
	Cost of fuel/Unit (Rs.)	**3.60**	3.14
2.	Coal (specify quality and where used)		
	a) Steam Coal for power generation by CPP		
	Quantity (tones)	**98,746**	80,526
	Total Cost (Rs. crs)	**30.61**	26.00
	Average Rate (Rs.)	**3100**	3230
	b) Anthracite Coal consumed as fuel for induration		
	Quantity (tones)	**85,816**	66,299
	Total Cost (Rs. crs)	**37.88**	29.00
	Average Rate (Rs.)	**4414**	4374
3.	Furnace Oil		
	Quantity (k. ltrs)	**88,706**	75,784
	Total Cost (Rs. Crs)	**173.74**	141.38
	Average Rate (Net of Modvat)	**19,586**	18,656
4.	Others		
	Quantity.(NGL) – MT	**-**	1,309.559
	Total Cost (Rs.Crs)	**-**	4.05
	Rate/Unit (Rs. per MT)	**N.A**	30,890
	Quantity.(NG) - '000 SM3	**178,849.91**	162,410.71
	Total Cost (Rs. Crs)	**189.07**	143.87
	Rate/Unit	**10.57**	8.86

B. Consumption per unit of Production

Particulars	Standard (If any)	**Current year**	Previous Year
Product: Beneficiated Concentrate	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity (Kwh)	40.00	**35.00**	39.00
Others (Specify)	N.A.	**N.A.**	N.A.
Product: Iron Oxide Pellets	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity (Kwh)	40.14	**41.12**	43.64
Furnace Oil / LSHS (Ltrs)	16.00	**16.54**	16.80
Anthracite Coal (Kgs)	16.00	**16.00**	14.70
Coal (Steam coal on net generation) (Kgs)	0.72	**0.77**	0.80
Others (Specify)	N.A.	**N.A.**	N.A.
Product: Hot Briquetted Iron	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity	125	**115**	117
Furnace Oil	---	**---**	---
Coal (Specify quality)	---	**---**	---
Diesel Oil	---	**---**	---
Others - Natural Gas (SM3)	325	**293**	298
Others – Naphtha (Kg)	---	**---**	---
Product: Hot Rolled Coils & Cold Roll/Galvanizing	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity	---	**887**	877
Furnace Oil	---	**---**	---
Coal (Specify quality)	---	**---**	---
Diesel Oil	---	**---**	---
Others – NGL (Ltr)	---	**---**	33
Other – NG (SM3)	---	**53**	55

FORM B

RESEARCH AND DEVELOPMENT (R & D):

Essar has a well equipped R&D center with latest state-of-the-art facilities and a highly qualified team of engineers and technologists who are conducting developmental activities incessantly.

1. Specific areas in which R & D carried by the Company and benefits derived

(a) Development of SPRC-35 / 40 CRCA steel for automobile application.

(b) High strength IF CRCA steel as per SPRC-45 for auto application.

(c) High strength steel plates equivalent to DOMEX 650 steel for automobile chassis application.

(d) In-house development of mathematical model for a) HSM-ROT temperature prediction and b) Micro-structure evolution model.

(e) Development of Dual phase steel- DP-600 (F+M) for automobile application.

(f) Development of API 5L X-80 grade steel for Line Pipe application with HTP concept.

(g) Development of API 5L X-65 Line Pipe steel for sour service application.

(h) Development of High strength plates as per Caterpilar spec. 1E 1242 which is as import substitute.

(i) Cost reduction w.r.t. Ferro-alloys consumption, the approximate saving amounts to Rs. 22.0 Crores (without affecting the quality parameters)

(j) Coal trial taken in Modules to study the effects in reducing Natural Gas consumption.

(k) LPG extraction system commissioned.

(l) Commissioned the cold DRI pilot facility in Module 3.

2. Future Plan of action.

(a) Product Development

HR PRODUCTS

(1) Dual phase steel (F+M) DP-600 (thickness 3.00-5.00mm)

(2) DOMEX 650 grade (thickness 4.00-7.00mm)

(3) Ultra high strength steel as per S700MC (thickness 3.00-5.00mm)

(4) Boron steel for auto applications (thickness 3.00-8.00mm)

(5) DOMEX 550 grade (thickness 4.00-7.00mm)

(6) SAE 1527 for precision tubes for auto sector (thickness 2.20-3.00mm)

(7) API 5L X-80, Thk <12.70mm (For Commercialisation)

(8) API 5L X-65 Sour service Thk. <10.0mm (For Commercialisation)

(9) API 5L X-70 Sour service (ForThk <10.0mm)

CRCA PRODUCTS

R&D and Product Development Department has successfully developed the steel starting from D quality to IF quality for deep drawing applications in auto industries. In the current financial year, the Department intends to develop and commercialize the following grades through batch annealing route.

(1) IF in higher thickness (1.70-2.25mm)

(2) SPRC 35 in higher thickness (1.10-1.60mm)

(3) SPRC 45 (with improved formability, IF based) in thickness 0.70- 1.00mm

(4) SPRC 45 (with adequate formability, LC based) in thickness 0.80-1.50mm

(5) HSLA steel with higher strength level (380 / 440) in thickness 0.80-1.25mm

(6) EDD / IF for Skin panels (Process Development)

(7) ST 52 in thickness 1.00-1.50mm

(8) BH 180 / 220 in thickness 0.80-1.25mm

(9) Electrical steel grade 50 SP 560 D5 (Base grade SRSILB2) thickness 0.50mm

GALVANISED PRODUCTS

In the galvanized product category, R&D and Product Development Department intends to accomplish the following projects.

(1) DD Grade Suppressed Spangle (thickness 1.00-1.60mm)

(2) High strength structural steel (thickness 2.00-2.60mm)

(b) Process Improvement

(1) Continuous Hot Dri feeder for 100% HDRI heat making is under conceptualization phase which will help in enhance productivity and reduced power consumption rate.

(c) Quality Improvement Projects

(1) Improvement of slab quality through altering of tapping practices and soft rinsing techniques.

(d) Cost Reduction

(1) Cost reduction by altering process enabling a higher Ti recovery.

(2) Cost reduction by process re engineering of injection alloying.

(3) Yield improvement by Corp shear optimization system in HSM. Expected yield improvement is 0.4% from the total production.

(e) Beneficiation Process, further recovery of FE units from Tailings by adopting Column Floatation Process.

(f) Working out for making cold briquetting of Quench tank fines to increase NSR.

(g) Reheating Furnance Upgradation Plan (Hot Strip Mill)

(1) Modified Roof Refractory design which was implemented in furnace 2 last year, will be implemented in furnace 1 this year

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

1. Efforts, In brief made towards technology absorption, adaptation and Innovation

(a) The unit has fully absorbed the LURGI GmbH technology for manufacture of Iron Oxide Pellets.

(b) Required plant modifications have been carried out to produce pellets using Organic Binder.

(c) The Company has fully absorbed the MIDREX technology obtained from Voest Alpine, Austria for the production of HBI.

(d) 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
Pellets	Lurgi Traveling Grate Process	1993	Fully absorbed
HBI (Sponge Iron)	MIDREX Corpn. U.S.A./Voest Alpine, Austria	1989-90	Fully absorbed
HRC	METCHEM Inc. Canada	1991-94	Fully absorbed

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES

SR NO.	PARTICULARS	Essar Steel Jharkhand Ltd	Essar Steel Orissa Ltd.	Essar Steel Trading FZE
1	The relevant financial year of the subsidiary company ended on	The financial year ends on 31.3.2008	The financial year ends on 31.3.2008	The financial year ends on 31.3.2008
2	Number of Equity Shares in the subsidiary company held by Essar Steel Ltd at the above date	49,940 equity shares of Rs. 10 each	49,940 equity shares of Rs. 10 each	1 share of AED 3 million each
3	Extent of Equity holding by Essar Steel Ltd as at the above date	99.88%	99.88%	100%
4	The net aggregate of profits/(losses) of the subsidiary company for its financial year so far as it concerns the members of the Holding Company.			
	a) Not dealt with in the Holding Company's Accounts:			
	i) For the subsidiary's financial year ended 31st March, 2008	Rs. (125,826)	Rs. (56,56,354)	USD 1851197
	ii) For the previous financial years of the subsidiary companies since they became the Holding Company's subsidiaries	Rs. (315,229)	Rs. (292,270)	USD 1693261
	b) Dealt with in the Holding Company's Accounts:	nil	nil	nil
	i) For the subsidiary's financial year ended 31st March, 2008			
	ii) For the previous financial years of the subsidiary companies since they became the Holding Company's subsidiaries			
5	Change of interest of Essar Steel Ltd. in the subsidiary company between the end of the financial year of subsidiary company and that of Essar Steel Ltd.	NA	NA	NA
6	Material changes between the end of the subsidiary's financial year and the end of the financial year of Essar Steel Ltd in respect of subsidiary's fixed assets, investments, monies lent and borrowed.	NA*	NA*	NA*
	i) Fixed assets (net additions)			
	ii) Investments			
	iii) Money lent by the subsidiary			
	iv) Money borrowed by the subsidiary company other than for meeting current liabilities (Net)			

*Since the financial year of the subsidiary companies coincide with the financial year of Essar Steel Ltd

For and on behalf of the Board of Directors of Essar Steel Limited

P. S. Ruia	**Robin Banerjee**
Director	Director Finance
V. G. Raghavan	**Vikram Amin**
Director	Director Marketing
	Narottam B Vyas
Mumbai, August 27, 2008	Company Secretary

Auditors' Report to the Members of Essar Steel Limited

1. We have audited the attached Balance Sheet of Essar Steel Limited ('the Company') as at March 31, 2008 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) ('the order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

   i. 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;

   ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   iii. The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

   iv. In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.

   v. On the basis of the written representations received from the directors, as on March 31, 2008, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

   vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

      a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2008;

      b) in the case of the profit and loss account, of the profit for the year ended on that date; and

      c) in the case of cash flow statement, of the cash flows for the year ended on that date.

For S. R. BATLIBOI & CO.
Chartered Accountants

per Hemal Shah
Partner
Membership No.: 42650

Place: Mumbai
Date: July 07, 2008