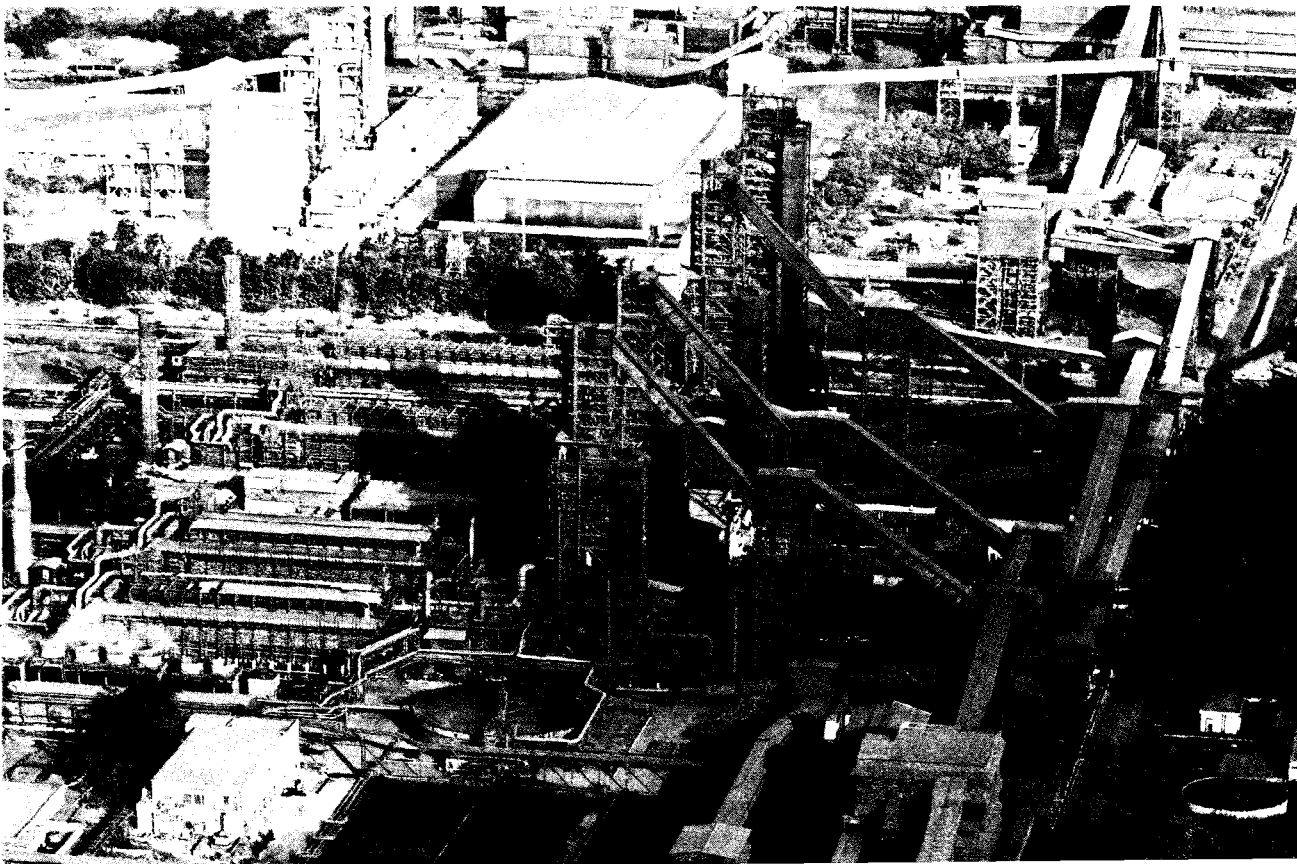


## **Essar Steel Limited**

Annual Report 2009 - 2010



## BOARD OF DIRECTORS

S. N. Ruia	Chairman
P. S. Ruia	
R. R. Ruia	
S. V. Venkatesan	
Jatinder Mehra	
V. G. Raghavan	
Malay Mukherjee	
Vikram Amin	Director - Marketing
Dilip Oommen	Director - Operations
Mahadev Iyer	Director - Finance
K. V. Krishnamurthy	
Jitender Balakrishnan	
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 : 022-66669426

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## BANKERS

Allahabad Bank  
Andhra Bank  
Axis Bank Ltd  
Bank of Baroda  
Bank of India  
Canara Bank  
Central Bank of India  
Corporation Bank  
Dena Bank  
Export Import Bank of India  
Federal Bank Ltd.  
HDFC Bank Ltd.  
ICICI Bank Ltd.  
IDBI Bank Ltd.  
Indian Bank  
Indian Overseas Bank  
Jammu & Kashmir Bank  
Oriental Bank of Commerce  
Punjab National Bank  
Punjab & Sind Bank  
SBI Commercial & International Bank Ltd.  
State Bank of Bikaner & Jaipur  
State Bank of Hyderabad  
State Bank of India  
State Bank of Mysore  
State Bank of Patiala  
Syndicate Bank  
UCO Bank  
Union Bank of India  
United Bank of India  
Yes Bank Ltd.

## AUDITORS

M/s. S.R. Batliboi & Co.  
Chartered Accountants,  
Jalan Mills Compound,  
95, Ganpatrao Kadam Marg,  
Lower Parel, Mumbai 400 013

## 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 : dsr cmd@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 34th Annual Report of your Company together with the Audited Statement of Accounts for the year ended 31st March, 2010.

### FINANCIALS

#### The Financial Results

(Rs. in crores)

Particulars	Year ended	
	31-Mar-10 (Amalgamated)	31-Mar-09 (Stand Alone)
Sales and other Income	10,893.01	11,873.48
Profit before Finance Costs, Exchange variation and Derivative Losses, Depreciation/Amortisation, Exceptional Items and Taxation	1,764.42	2,625.05
Less: Finance Cost	908.40	789.47
Less: Exchange variation and Derivative Losses (net)	(8.86)	539.75
Profit before Depreciation / Amortisation, Exceptional Items and Taxation	864.88	1,295.83
Less: Depreciation / Amortisation	792.85	828.11
Profit before Exceptional Items and Taxation	72.03	467.72
Less: Exceptional Item	—	166.91
Profit before Taxation	72.03	300.81
Less: Provision for Deferred tax	33.69	104.99
Less: Current Tax (MAT Payable)	15.31	—
Add: Short / (excess) tax provisions related to earlier years (Net)	0.58	5.29
Less: Provision for Fringe Benefit Tax	—	5.33
Profit after taxation	22.45	185.20
(Less)/Add: Balance brought forward from previous year	1,859.10	1,673.90
Add: Balance acquired on Amalgamation	10.92	—
Less: Preference Dividend (including DDT)	10.20	—
Balance carried forward to next year	1,882.27	1,859.10

### DIVIDEND

Your Directors do not recommend any dividend for the year.

### GLOBAL SCENARIO

The world economy entered into further recession in the 1st half of FY 10 though it started picking up towards the 3rd Quarter. It is now on a definite recovery path. After a sharp, broad and synchronized global downturn in late 2008 and early 2009, countries around the world are now showing positive quarterly growth in gross domestic product (GDP), and some recovery in their trade patterns and global industrial production. The Global equity markets are also showing improvements and the risk premiums on borrowing have also fallen.

Despite these more encouraging developments in global economy on the whole, the recovery is uneven. While the developed nations still continue to struggle through the effects of the downturn, the developing nations look to be at

a more comfortable position. However with the ever growing dependence among the economies of the world, the condition for sustained growth remain fragile.

Credit conditions are still tight in major developed economies, where many major financial institutions are still continuing the process of strengthening their balance sheets. The real demand in most of the domestic market remains tentative as much of the rebound currently seen in the real economy is due to the strong fiscal stimulus provided by Governments in a large number of developed and developing countries and to the restocking of inventories by industries worldwide. Consumption and investment demand remain weak and unemployment and underemployment rates continue to rise. In the outlook, the global economic recovery is expected to remain sluggish and employment prospects look unclear.

Further adding to the concerns of the World economy is the fiscal positions of several European high-income countries. Europe's Sovereign debt crisis did slow down the recovery in the European Union and had its impact elsewhere in the world as well.

### INDIAN SCENARIO

During the Financial Year 2009-10, the Indian economy has bounced back from the global economic slowdown and is on its way to a growth path of 9%. The economy displayed a broad based recovery in the second half of 2009-10 and despite poor monsoon and fragile global recovery, the Indian economy achieved a GDP growth of 7.4% during the financial year 2009-10, one of the highest in the world. The prudent and accommodative fiscal stance by the Indian government created an overall liquidity and interest rate conditions that were conducive for growth.

The inflationary conditions changed significantly during the Financial Year 2009-10. Though it remained subdued in the first half of the year, the headline inflation shot up in the second half, driven by high food prices in the beginning and later turning more generalized over successive months.

The Indian economy, despite the inflationary pressures, looks quite promising in the current fiscal. The outlook for GDP growth in 2010-11 has improved considerably, given the robust recovery seen in the overall economy during the last quarter of 2009-10. The prospects of continuation of the momentum are good and will be driven by buoyant performance of the industrial sector, better monsoon compared to last year and sustained growth of services. From the demand side, investment demand had already witnessed a sharp acceleration by the fourth quarter of 2009-10 and trends in growth of production of capital goods in the first quarter of this financial year suggest continuation of momentum. Private consumption demand, going by recent pattern in corporate sales, the production of consumer durables and auto sales suggest a gradual pick up which could accelerate to make the growth process more self sustaining. Although concerns about

a possible weakening of global recovery persists, domestic risks to growth have receded significantly. As a result, the GDP growth projections for 2010-11 have been revised upwards to 8.5% in July'10 from 8% projected in April'10.

## STEEL INDUSTRY

### A) Global Overview

After witnessing huge setbacks arising out of economic crisis of 2008, world steel industry turned the corner by mid-2009 and has been firmly set on a path to recovery since then. The recovery has mostly been an outcome of the massive multi-governmental projects all around the world and to some extent the start of restocking.

World Apparent Steel use in 2009 was estimated at around 1121.1 million tonnes (mt) a drop of 6.7% over 2008 levels. The Global crude steel production during the same year was at 1,226 mt, a decline by almost -8% year-on-year.

Apparent Steel Use (Finished Steel) Source: WSA						
Regions	2009	2010	2011	09/08	10/09	11/10
	Quantities (MT)			Growth (%)		
World	1,121.2	1,240.9	1,306.2	-6.7	10.7	5.3
European Union (27)	118.4	134.6	145.2	-35.2	13.7	7.9
Other Europe	23.9	27.2	30.4	-12.5	13.5	11.9
C.I.S.	35.8	39.8	43.0	-28.2	11.0	8.0
N.A.F.T.A.	80.9	99.9	107.1	-37.4	23.5	7.2
Central & South America	33.6	40.4	43.1	-24.1	20.0	6.7
Africa	26.4	28.7	31.3	9.6	8.6	9.3
Middle East	40.7	44.7	48.4	-8.0	10.0	8.2
Asia & Oceania	761.5	825.7	857.7	8.7	8.4	3.9

The economic crisis has also brought about a definite shift in the landscape of the global steel industry. The steel industry is now shifting focus to East. The emerging economies witnessed a quicker and stronger recovery than developed economies. In 2009, the Asian region alone accounted for 67% of world steel use, 11% higher than in 2007. In particular, China and India posted impressive growth rates through the crisis. The increase in the regional share of developing economies is likely to remain in the foreseeable period. The recovery in the major developed economies is slow and their projected demand in 2011 remains at some 70% of the 2007 peak level.

Brazil, Russia, India and China (The BRIC countries) were the driving force behind the global economic recovery and steel demand growth in 2009. Thanks to the resilience of China and India, ASU in BRIC countries grew by 17.5% and reached 640 mt. This figure accounted for 57% of world steel demand in 2009. Excluding BRIC, the world ASU growth rate would have recorded -26.8% and without China -24.6%. The projected demand for the world excluding BRIC countries for 2011 will be at the level of 2003.

The BRIC countries showed major discrepancies in the period of crisis. While China and India maintained high growth due to booming internal demand, Russia and Brazil suffered a substantial decline. The Russian recovery lags behind that of the other BRIC economies.

In NAFTA, the economic recovery started in the third quarter of 2009. The manufacturing sector has been improving steadily. ASU in the US is expected to recover by 26.5% after plummeting by 42% in 2009. The recovery is backed by improving end-user demand and stock rebuilding.

The EU-27 was among the most severely affected regions during the economic recession. Recovery is expected to be slow and surrounded by uncertainties. The fall in real steel use and destocking led to an ASU decline amounting to -35% in 2009. In 2010, there will be a 14% "technical recovery" in ASU, mostly from inventory build-up.

The CIS, which was badly affected by the crisis, is recovering, but more slowly than other emerging economies. Export-driven sectors of Russia are benefiting from the global recovery. Domestic market driven sectors such as automotive and construction, however, have weak prospects. Russia's ASU, after dropping by 30% in 2009, is forecast to grow by 10% in 2010.

In 2009, steel use in MENA (Middle East & North Africa) increased by 0.8%. However, a closer look at the region reveals widely-varying growth rates, from 40% in Egypt to -38.6 % in the UAE. The strength of Egypt was the demand from the infrastructure sector and a special government housing program. In Iran, oil & gas projects and housing construction drove steel use up by 4.6% in 2009. In 2010, the region's steel use will increase by 9.5% to 63 mt, given the strength of oil producing countries such as Saudi Arabia. Egypt and Algeria will see steel consumption moderate with the end of stimulus spending.

Similar to the trend in Apparent Steel Use, Crude Steel production also witnessed a similar trend. While developed economies suffered unprecedented decline (for example, the EU was down by -30% and the US by -36% year-on-year), India, China, Iran and some North African countries continued to record growth during the crisis.

Most notably, crude steel production in China increased by 13.5% and reached 567.8 mt. This is a record annual crude steel production figure for a single country. China's share of world steel production continued to grow in 2009. The country produced 47% of the world's total crude steel, an increase of 9 percentage points compared to 2008. In the World excluding China, crude steel production fell by 21% during 2009 compared to 2008.

The other most important recent happening in the Global Steel Industry was the shift in the pricing of Raw Material from Annual Benchmark to quarterly prices. From the first quarter of 2010, the price contracts negotiated between the raw material majors and steel mills are now on a quarterly basis. This has further added to complexities that the steel industry is currently facing as this has brought in more volatility or instability in the market prices especially in terms of prices.

## B) Domestic Overview

While the Global Steel Industry witnessed a drop in production during 2009, the steel industry in India has been moving from strength to strength. According to the Annual Report 2009-10 published by the Ministry of Steel, India has emerged as the fifth largest producer of steel in the world.

According to a recent statement made by the India's Steel Minister, Mr. Virbhadr Singh, the country is all set to become the world's second-largest steel producer by 2012, with more than doubling its capacity to 124 mt as part of the push being given to assist overall infrastructure development.

According to Ministry of Steel's Annual Report, Crude Steel Production in India in FY 2009-10 rose 11% to reach 64.9 mt in 2009-2010. The finished steel consumption rose 7% in the year ended March 2010 and touched 52.8 mt up from 48.99 mt over the same period a year ago on account of improved demand from sectors like automobile, infrastructure and housing.

Earlier the National Steel Policy 2005 had projected an annual steel consumption growth of 7% based on GDP growth rate of 7-7.5% and production of 110 mt of crude steel by 2019-2020. However, with the current rate of ongoing Greenfield and Brownfield projects, the Ministry of Steel has projected that these growth trends are likely to be exceeded and it is envisaged that in the next five years demand will grow at higher annual average growth rate of over 10% as compared to around 7% growth achieved between 1991-92 and 2005-06.

The likely growth in the India Steel industry is evident from the huge investments being planned by both the domestic players and by other international majors like Arcelor Mittal, POSCO, etc. While most of the existing domestic players are on a huge expansion spree, International majors are looking for opportunities to enter the fast growing domestic market through direct investments and Joint ventures.

According to the Ministry of Steel, 222 memorandum of understanding (MoUs) have been signed with various states for planned capacity of around 276 mt. Major investment plans are in Orissa, Jharkhand, Chattisgarh, West Bengal, Karnataka, Gujarat and Maharashtra.

With factors like high growth rates in economy of around 9%, huge government spending on infrastructure, rich and huge iron ore reserves, country set to become automotive hub, growing manufacturing sector etc. India's steel consumption is set to grow at a steady rate.

## OPERATIONS

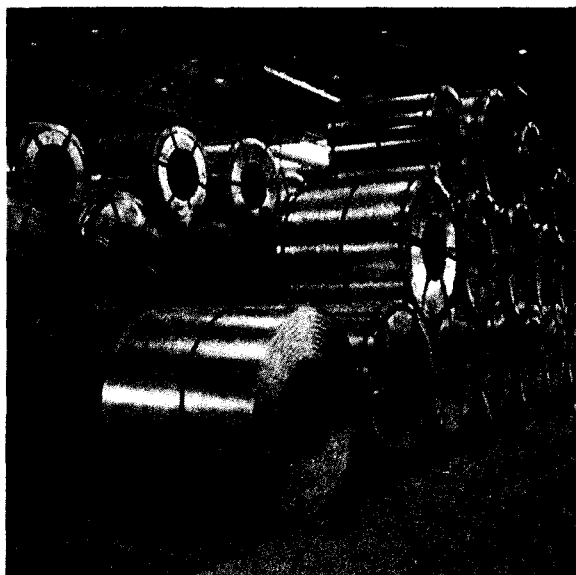
### Manufacturing:

Recovering from effects of the global economic meltdown, Essar produced 3.39 MT (flat product) & achieved sales of 3.24 MT showing improvement of 8% & 6% respectively. Sales were on lower side in Q II & Q III on account of Raw Material shortage to sustain Hazira operations. The Company

has suspended slurry transportation through its slurry pipeline from Kirandul to Visakhapatnam from end of May 2009 till date due to damage to the pipeline at various locations caused by some unknown group of people. Though the Company tried to initiate the repair works, there have been some difficulties due to inhospitable terrain, monsoons and resistances from the local population and hence the restoration of pipeline could not be completed till date. To maintain the sustainable production of pellets at the Company's Pelletisation plant at Visakhapatnam, production of steel at its plant at Hazira and augment the shortage of slurry, the Company has made alternative arrangements like movement of Iron ore fines through railway rakes, purchase of iron ore fines from sources other than NMDC and procurement of products like pellets, DRI and Slabs.

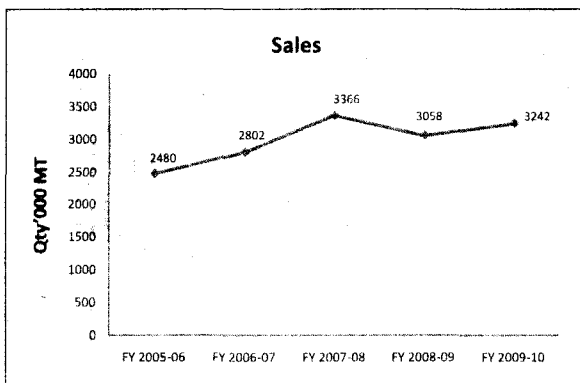
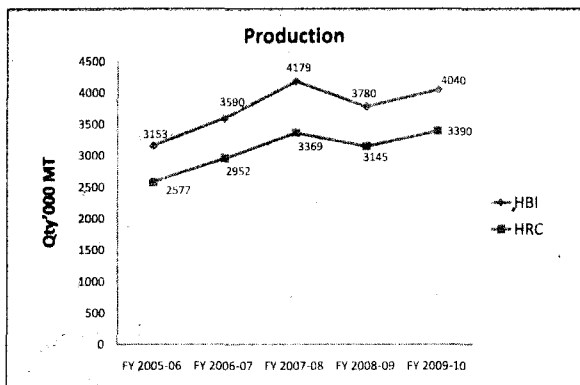
The production levels picked up again to plan levels in the last quarter. Some steps taken were:

- 1st time in the history of Midrex modules that BF grade pellet was used.
- Stabilisation of pellet quality in the backdrop of a fluctuating input.
- Increase in usage of Hot DRI to 66.1% resulting in further saving power at Steel Melt Shop.
- Umbrella agreement on Quality and capability improvement with Kobe Steel, Japan was extended to encompass development of skin panels.
- Discussions initiated for joint venture in the field of further value addition in CRCA by adding Continuous Annealing in the product portfolio.



Your Company has done well on the whole though the impact of variable raw material input played its role. Some indicators are as below:

- NG & Power consumption @ HBI was higher in Q II & Q III mainly on account of lower production on account of Raw material shortage & poor quality of oxides from sources like KIOCL. However from Q III NG consumption improved as production level had increased.
- HBI finished with NG consumption of 297 sm<sup>3</sup>/t in Financial Year 2009-10 against 292 sm<sup>3</sup>/t achieved in Financial Year 2008-09. Power consumption during Financial Year 2009-10 was 112 kwh/t as against 111 kwh/t in Financial Year 2008-09.
- SMP finished with liquid steel yield of 83.84% as against 84.97% achieved in Financial Year 2008-09. The main reasons for lower yield in Q IV were use of non beneficiated pellets & use of oxide with much lower Fe% (from KIOCL etc.). The situation is getting corrected as we go forward due to alternative planning and use of beneficiated pellets.
- SMP achieved power consumption of 608 kwh/t of liquid steel as against 589 kwh/t achieved in Financial Year 2008-09, the main reasons being poor oxide quality etc. The situation is getting corrected as we go forward due to alternative planning and use of beneficiated pellets.
- HSM ended with YTD yield of 97.84% as against 97.83% previous year. Highest yield achieved was 98.21% in Jan'10.
- Performance of the Cold Rolling Mill Complex was as per plan and utilization of lines was at planned levels.



#### Sales and Marketing:

- The financial year 2009-10 was witness to the global economic crisis and was a critical year for the steel industry. Only companies with sound fundamentals managed to survive in difficult market conditions and Essar Steel is one of them.
- Essar Steel is in the process of expanding its liquid steel production capacity at its Hazira facilities to approximately 10.0 MTPA and has diversified the finished steel product portfolio to include plates and pipes.
- The state-of-the-art Plate Mill with an installed capacity of 1.5 MTPA is under trial run and is capable of producing High Strength Extra Wide plates, including quenched & tempered and furnace normalized categories. It is amongst Asia's widest and only mill to produce 5 meter wide plates in the country, with a comprehensive thickness range of 5 to 150 mm.
- As a part of forward integration of our steel plant, we have commissioned a 600,000 TPA Pipe Mill including one L-SAW mill with a capacity 325,000 TPA and two H-SAW mills with total capacity 275,000 TPA pipe making facility. Our pipes will cater mainly to the oil and gas transportation, line pipe and structural fabrication segments. In addition to this we also have 3LPE/3LPP/FBE (Capacity 2 Mn square meter per annum) and internal liquid epoxy coating (Capacity 1 Mn square meter per annum) facilities. We have already received API 5L and API 2B certification.
- The upcoming CSP will enable us to produce hot-rolled coils up to 0.85mm thickness, which will find wide applications in the automotive market. This will enable us to cater to a wider range of customer segments and product applications.
- The year 2009-10 was an eventful one and some performance parameters need to be discussed in the right perspective. Overall sale of flat rolled products was up 6% Year on Year to 3.24 million tonnes, largely because of improved performance in the domestic markets.
- Domestic sales at 2.93 million tonnes rose 19% Year on Year. This was in line with the 21% improvement in combined domestic sales volume of the top 5 producers. Export volumes, at 0.31 million tonnes, dropped 48% on account of the depressed steel demand globally.
- Revenues were down marginally 8.26% to Rs.10,893.01 crore and net sales realization per tonne was lower by 16.34% Year on Year on account of cheap imports flooding the country. This trend was evident across the entire domestic steel industry.
- As much as 71% of sales were made in the value-added segments - up from 52% in Financial Year 2008-09. This

was largely due to increased emphasis on value-added products, like Electrical, Auto Hi-strength grade, PEB, API, etc. Essar Steel gained in market share (domestic) -- from 13.6% in Financial Year 2008-09 to 14.8 % in Financial Year 2009-10.

- Essar Steel was the first Indian producer to de-commoditize steel and increase its availability across the remotest corners of the country. Essar Hypermart is the first and largest steel retail network in India and needless to say, commands the largest sales volume to its credit.
- Essar Hypermart sales in Financial Year 2009-10 grossed 1.11 million tonnes, thus registering a stupendous 82.73% growth in volumes. Revenues grew by an impressive 37.23% to approximately Rs. 3,487 crore. Increase in revenues was achieved mainly because of higher sales volume.
- In the year Financial Year 2009-10 Essar Hypermart extended its footprint across the length and breadth of the country by adding 26 more outlets from 61 to 87, while our market penetration and reach was further strengthened by the expansion of the Expressmart network from 27 to 387.
- With the acquisition of SPSL (Shree Precoated Steel Ltd.), now rechristened ESPF (Essar Steel Pune Facility), Essar Steel has added Pre-painted galvanized coils and sheets in its product portfolio and has emerged as one of the largest producer by capacity of coated products in the country. Essar Steel is the only Indian steel company to have the entire range of flat products from Plates to Pre-painted Galvanized coils and sheets.
- We are aiming to widen our geographical reach and further strengthen our distribution network in Financial Year 2010-11 with the addition of more Hypermarts and Expressmarts.
- The four existing Service Centers at Hazira, Pune, Bahadurgarh and Chennai are fully established and have successfully developed good customer base to cater to various just-in-time customized requirements. Our current Service Centre installed capacity is 2.6 MTPA and we are expanding the network to include three new upcoming Service Centers at Bhuj, Indore and Kolkata to augment our processing capacity to 3.6 MTPA, which is the largest in the country.
- The year ahead will be a challenging one and Essar Steel is well positioned to play a defining role in the domestic as well as overseas steel markets and will aim to further establish its presence in new product segments and emerging markets and increase stakeholder value.

### Finance:

As part of the Essar Group's expansion and product diversification strategy, additional capacities were planned for manufacture of pellets, slabs, Hot Rolled Coils, plates and pipes in the Project Companies viz. Essar Steel Orissa Ltd., Essar Steel (Hazira) Ltd., Hazira Plate Limited and Hazira Pipe Mill Ltd. During the current financial year, the amalgamation of the Essar Steel Business in India was commenced and necessary approvals from the Shareholders and Creditors of the companies were received for amalgamation of these companies with Essar Steel Ltd. The amalgamation enables greater economies of scale and operational synergies for

your Company due to the strong upstream and downstream operational linkages of the project companies with Essar Steel Limited. The Honourable High Court of Bombay Judicature in March 2010 and the Honourable High Court of Gujarat in June 2010 have passed the orders for amalgamation of the companies indicating successful completion of the amalgamation exercise.

This amalgamation has also facilitated a debt consolidation of Rs.17,328 crores under a single loan agreement for your Company's rupee term loans to simplify and improve administration of debt by your Company and the lenders. The funds under debt consolidation will be utilized for take over of existing facilities of your companies and the project companies and for meeting expenditure requirements for ongoing projects. SBI Capital Markets Ltd was mandated as the Financial Advisors for the debt consolidation programme. The Company has tied up the amount of Rs.17,328 crores under the debt consolidation programme and executed the common loan agreement with eight lenders in August 2010.

In addition to the existing working capital limits sanctioned to Essar Steel Limited of Rs.3150 Crores, your Company also tied up working capital limits of Rs.1120 Crores and Rs.550 Crores for meeting the requirements of the erstwhile Essar Steel (Hazira) Ltd and Hazira Pipe Mill Ltd respectively during the financial year. Your Company also issued Commercial Paper aggregating to Rs. 500 crores, thereby reducing finance cost during the financial year.

In October 2009 your Company completed the purchase of the assets of Shree Precoated Steel at Sanaswadi, Pune, Maharashtra. The facility is located near a large automotive and white goods manufacturing hub and has hot-rolled pickling and oiling lines with capacity of 0.7 MTPA, cold-rolled (including close annealed) facilities with capacity of 0.6 MTPA, two galvanizing lines with capacity of 0.5 MTPA and colour coated products facility with capacity of 0.4 MTPA. We believe that this additional production capacity, together with the capacity at the Hazira facilities, is one of the largest cold-rolling capacity (1.8 MTPA) and the largest colour coating capacity (0.4 MTPA) in India. The purchase of the assets was done through a mix of debt and equity. Essar Steel Ltd. began managing this facility from the beginning of August 2009 pursuant to the execution of a Business Transfer Agreement, and formalised the purchase of these assets by the end of October 2009.

Led by high growth rates in the Indian economy during Financial Year 2009-10, your Company's domestic sales realizations increased considerably due to higher steel prices in the domestic market, higher offtake from the Hypermarts and Service Centres and continuing focus on quality improvement of products and increased value addition. Therefore your Company's realizations through domestic sales have considerably substituted export sales. This trend coupled with greater certainty in cost structure following your Company's success in securing gas allocation at pre-defined rates from a number of sources, the integrated nature of operations; its established position in the value-added segments of the steel industry and the purchase of CR, Galvanised and Colour Coating facilities from Shree Precoated Steel Limited are likely to strengthen your Company's operating profile further.

During the year, your Company was successful in progressing with its capital expenditure programme, meeting all its payment obligations and retaining adequate liquidity within the Company to meet its operational requirements.

## SUBSIDIARIES

As on March 31, 2010 the Company had following three subsidiaries:

- Essar Steel Middle East FZE, Dubai
- Essar Steel Trading FZE, Dubai
- Essar Bulk Terminal Paradip Limited

During the year under review, Essar Bulk Terminal Paradip Limited, Essar Steel Middle East FZE, Dubai became the subsidiaries of the Company and Essar Steel Jharkhand Limited ceased to be subsidiary of the Company. Subsequent to March 31, 2010 the Company has formed two subsidiaries in Mauritius namely Essar Steel Offshore Limited and Essar Steel Overseas Limited. 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.

## AMALGAMATION

During the year under review, Essar Steel (Hazira) Ltd, Hazira Plate Ltd, Hazira Pipe Mill Ltd and Essar Steel Orissa Ltd have been amalgamated with your Company pursuant to the order passed by the Hon'ble High Courts at Mumbai and Ahmedabad sanctioning the Scheme of Amalgamation. The merger will provide a much wider product portfolio to customers ranging from pellets to Slabs, HRC, CRC, Galvanised and Annealed Products, Pipes and Plates and also leading to greater economies of scale and operational synergies.

All the formalities with respect to Amalgamation have been complied with.

## HOLDING COMPANY

Essar Steel Holdings Ltd (which in turn is a subsidiary of Essar Global Ltd, Cayman Island – the ultimate holding Company) continues to be the Holding Company of your Company.

## DIRECTORS

In accordance with the requirements of the Companies Act, 1956 and the Articles of Associations of the Company, Shri J Mehra, Shri Rewant Ruia and Shri K V Krishnamurthy retire by rotation at the forth coming Annual General Meeting and, being eligible, have offered themselves for reappointment. Shri R N Ruia ceased to be Director of the Company w.e.f November 26, 2009. The Board wishes to place on record their sincere appreciation for the contribution made by Shri R N Ruia during his tenure as a Director of the Company.

Shri Malay Mukherjee has been appointed as an Additional Director w.e.f. November 26, 2009 and Shri Jitender Balakrishnan has been appointed as an Additional Director w.e.f. August 25, 2010 and they would hold office as a Director up to the date of this Annual General Meeting. Necessary resolutions for their appointment as a director 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 for the year ended March 31, 2010, Applicable accounting standards have been followed along with proper explanation relating to material departures.
- ii. They 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 of the Company for the year under review.

- iii. They 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. They have arranged the preparation of the accounts for the year ended March 31, 2010, on a "going concern" basis.

## AUDIT COMMITTEE

The Audit Committee of the Board comprises of four non-executive directors, viz. Shri S.V. Venkatesan, Shri J. Mehra, Shri V G Raghavan and Shri K.V. Krishnamurthy. The Chairman of the Audit Committee is Shri S V Venkatesan. The Company Secretary Shri N B Vyas acts as the Secretary of the Company. The terms of reference of the Audit Committee are as per Section 292A of the Companies Act, 1956.

## AUDITORS

Your Company's auditors, M/s S R Batliboi & Co., Chartered Accountants, retire at the conclusion of the ensuing Annual General Meeting. The ultimate Holding Company, Essar Global Limited has appointed M/s Deloitte Haskins & Sells as their Auditors for the financial year 2010-11. It is proposed to appoint M/s Deloitte Haskins & Sells as the Statutory Auditors of the Company for the financial year 2010-11. The Company has received a certificate under section 224(1-B) from M/s Deloitte Haskins & Sells, Chartered Accountants confirming that if appointed their appointment will be within the limit prescribed under that section. The Company has received Special Notice within the meaning of section 225(1) from a member proposing to appoint M/s Deloitte Haskins & Sells, Chartered Accountants as the Statutory Auditors of the Company. No representation referred to in section 225(3) has been received from the retiring Auditors.

Accordingly, Members approval is being sought out for their 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, are given in the 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 name and other particulars of the employees is separately 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 during the year.

For and on behalf of the Board

Date : 25<sup>th</sup> August, 2010  
Place : Mumbai

**Shashi Rula**  
Chairman



## **Annexure - 'A' to Director Report**

### **A. CONSERVATION OF ENERGY:**

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

1. Incremental in HOT DRI charging at SMP. Total energy saved 313.42 Lacs unit.
2. Replacement of Conventional light with CFL. Total energy saved 3.53 Lacs unit.
3. Timer introduction in TPS circuit at SMP. Total Energy saved 0.48 Lacs unit.
4. HSM-Reheating Furnace performance Improvement by minimizing heat losses due to repairing of skid cooling pipe, Lintel replacement at discharge side, refractory repairing resulted in saving of NG 7.85 Kcal/Kg.
5. MH-Energy saving in lighting network by PLC control, Auto sensor and timer. Energy saved 0.34 Lacs unit.
6. MH-Optimization in Idle running of conveyor has saved 0.90 Lacs units.
7. CRM-Modification in Pump of Sump Tank making it Auto Start and Stop with help of Level Switch resulted in saving of 0.48 Lacs unit.
8. Making Cooling Tower Fan Auto Start and Stop resulted in saving of 0.32 Lacs Unit at CRM.
9. CRM-Modification in High Bay lighting operation by Timer resulted in saving 0.87 Lacs Unit.
10. Improvement in availability of the Compressor and minimizing of Energy consumption resulted in saving 6.13 Lacs Unit at CRM/DSC.
11. Installation of Drives in cranes 16 & 17 resulted in saving 0.25 Lacs Unit at CRM.
12. Utilities-Power Factor panel installed on motor Load Switchgear at EAF 3 Pump House.
13. SVC'S were switched off during planned shutdown and standby operation of EAF's by MRSS. Energy Saved 73.73 Lacs Unit.
14. Energy Saving by installing smaller conveyor for feeding of raw material. Energy saved 2.16 Lacs unit.
15. HBI-Energy savings in Main Air Fan Motor at Module-5 Motors. Energy saved 8.0 Lacs unit.
16. HBI-Energy saving by reducing the Water Consumption at M-1/3 Pump House. Energy saved 0.37 Lacs unit.
17. Energy saving by stopping Auxillary air blower motor at Module-5. Energy saved 25.9 Lacs unit.
18. Energy saving by Automation of Roll Drive Power Circuit Breakers. Energy saved 0.63 Lacs unit.
19. Energy saved in utilities by removing orifice plates from Indirect System in HSM pump House. Energy saved is 0.43 Lacs unit.
20. Utilising the Operation of Return Hot Water Pump resulted in saving of 2.34 Lacs unit.
21. Energy savings due to installation of VVVF drives for CAG blowers at Galvanizing Lines resulted in savings of around Rs. 36.43 lacs per annum at Pune Facility.
22. Installation of Heatless vaporizer for propane/LPG thereby saving of Rs. 40.75 Lacs at Pune facility.
23. Low efficient luminaries like florescent tube light fixtures were replaced with high efficient luminaries like CFL and HPSV fixtures at Pune facility.

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

1. To generate 19MW power from flue gas waste heat recovery by power plant.
2. Modification of Module 4 first stage feed gas bundle to reduce the power consumption of flue gas fan and to reduce natural gas consumption by better waste heat recovery.
3. Implementation of VVVF drives in HT motors to reduce power consumption.
4. Up gradation of lime dosing system for high temperature operation to reduce specific natural gas and power consumption.
5. Air compressor to be changed from outdated screw type to centrifugal to cut down on oil consumption and power.
6. EFFIMAX system to be installed in boiler to improve on the efficiency.
7. PSL-1 in DSC-up-gradation which will result in saving of 864 MWH.
8. 4 New LT compressors to be installed instead of 3 HT compressors in DSC which will result in saving of 1131.84 MWH.
9. Effective Utilization of 5th, 7th and 11th harmonics Filters Banks in MRSS and PF improvement up to 0.95-MSS which will result in saving of 238.46 MWH.
10. Installation of 12 no. of VVVF drives in Mill and Pickling area in pune facility.
11. Automation of mill and coating area compressors for optimized operation of compressors in pune facility.
12. Replacement of NIR electric oven with conventional gas fires oven at Color Coating Line-II to reduce the specific consumption of power and fuel at pune facility.

#### **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.

Installation of tension leveller in pickling#2 provided by M/s MULTIFORM to improve on Productivity.

### **C. FOREIGN EXCHANGE EARNINGS AND OUTGO:**

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

#### **Activities relating to exports**

We have been exporting to various destination right from the start of commercial production in 1995. We have always endeavoured to maintain the export volumes in all market conditions and we have been the largest exporters of the flat products in India for the past several years.

We have a unique distinction to be present in all markets such as EU, Middle East, NAFTA Region, ASEAN and African countries.

We have consistently focused on high end of the market and continuously added value by bringing in new grades and quality. Over the years we have been able to built up sales in niche segments like automobile components, white goods, yellow goods, Boilers, pressure vessels and API( American Petroleum Institute) line pipe.

With our consistent export presence and thrust on high end grades we are able to effectively compete globally with premium steel mills like EU, American and Japanese in their respective domestic markets. This has enabled us to evolve in to a supplier choice for several high end clients and help us offer an effective alternate for these customers. We were able to build long term relationships with SAIPA Iran, Bentler, Germany, APM Iran, CAT USA, and Mexico. We have managed to enter into annual and six monthly contracts which helps us both to have element of price, volume stability in volatile market and steady supply to the buyers.

#### Specific Initiatives undertaken to increase exports

Introduced new products like Pre coated galvanized and marketing of PPGI (Pre coated Galvanized Steel) from Essar Pre coated Facility.

Marketing of Heavy Plates through our Plate mill Plant to different projects for High End Applications.

Customer Accreditation initiative through which we gave credibility to SAIPEM and SHELL. We have also initiated registering ourselves as premium suppliers to Shell and SAIPEM for their requirements continuously.

Acquired Logistical competitiveness by getting into charter of Affreightment with shipping companies. This helped us to achieve competitive freight rates on long term basis and ensure availability of vessels to regular destinations like EU and US Ports.

Developed containerized shipments which provided flexibility to cater to customers in Mexico, Myanmar, Baharin, Oman Angola, Nigeria, Ghana, Brazil etc.

Product development also remained a priority to develop new Markets for the new products which were under development. We were able to manufacture value added Galvanised steel for high end usage such as white goods to South East Asia.

We were also able to book trial orders with companies in Middle East and Africa for High end heavy plates for our Plate mill Plant at Hazira.

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

a) Foreign exchange directly earned through export	1,109.23
b) Others	55.39
Total foreign exchange earned (a + b )	1,164.62
c) Total foreign exchange used	
i) For import of plant and machinery/ technical know-how	3,099.47
ii) Others including raw materials and interest	1,777.90
Total foreign exchange used (c )	4,877.37

#### Particulars with respect to Conservation of Energy:

##### FORM A

##### A. Power and Fuel Consumption

Sr. No.	Particulars	Current year	Previous year
1.	Electricity		
a)	Purchased Unit (Lakhs)	2,279.80	2,750.41
	Total Amount (Rs. in crores)	106.73	126.10
	Rate/Unit (Rs.)	4.68	4.58
b)	Own generation		
(i)	Through diesel generator		
	Unit (Lakhs)	12.78	24.78
	Units per ltr. of diesel oil	3.50	2.50
	Cost/Unit (Rs.)	9.95	22.50
(ii)	Through steam turbine/generator		
	Unit (Lakhs)	395.35	1790.55
	Units per ltr. of Fuel oil/ Gas/Steam Coal	0.79	0.77
	Cost/Unit (Rs.)	3.36	3.95
(iii)	Through gas turbine/generator		
	Unit (Lakhs)	1,721.16	646.00
	Units / SM3 of gas	4.00	3.45
	Cost of fuel/Unit (Rs.)	3.04	4.96
(iv)	Through third party on conversion basis		
	Unit (Lakhs)	31,825.47	29,963.22
	Units / Ltr of NGL/HSD/NG	4.26	4.67
	Cost of fuel/Unit (Rs.)	3.94	5.10
2.	Coal (specify quality and where used)		
(a)	Steam Coal for power generation by CPP		
	Quantity (Tonnes)	31,465	1,18,427
	Total Cost (Rs. crs)	11.69	51.56
	Average Rate (Rs.)	3,715	4,354
b)	Anthracite Coal consumed as fuel for induration		
	Quantity (Tonnes)	50,763	88,252
	Total Cost (Rs. crs)	60.82	87.46
	Average Rate (Rs.)	11,981	9,910
3.	Furnace Oil		
	Quantity (k. ltrs)	50,842	81,130
	Total Cost (Rs. Crs)	127.06	216.22
	Average Rate (Net of Modvat)	24,991	26,651
4.	Others		
	Quantity (NG) - '000 SM3	1,92,392	1,69,722
	Total Cost (Rs. Crs)	202.03	267.42
	Rate/Unit	10.50	15.76