

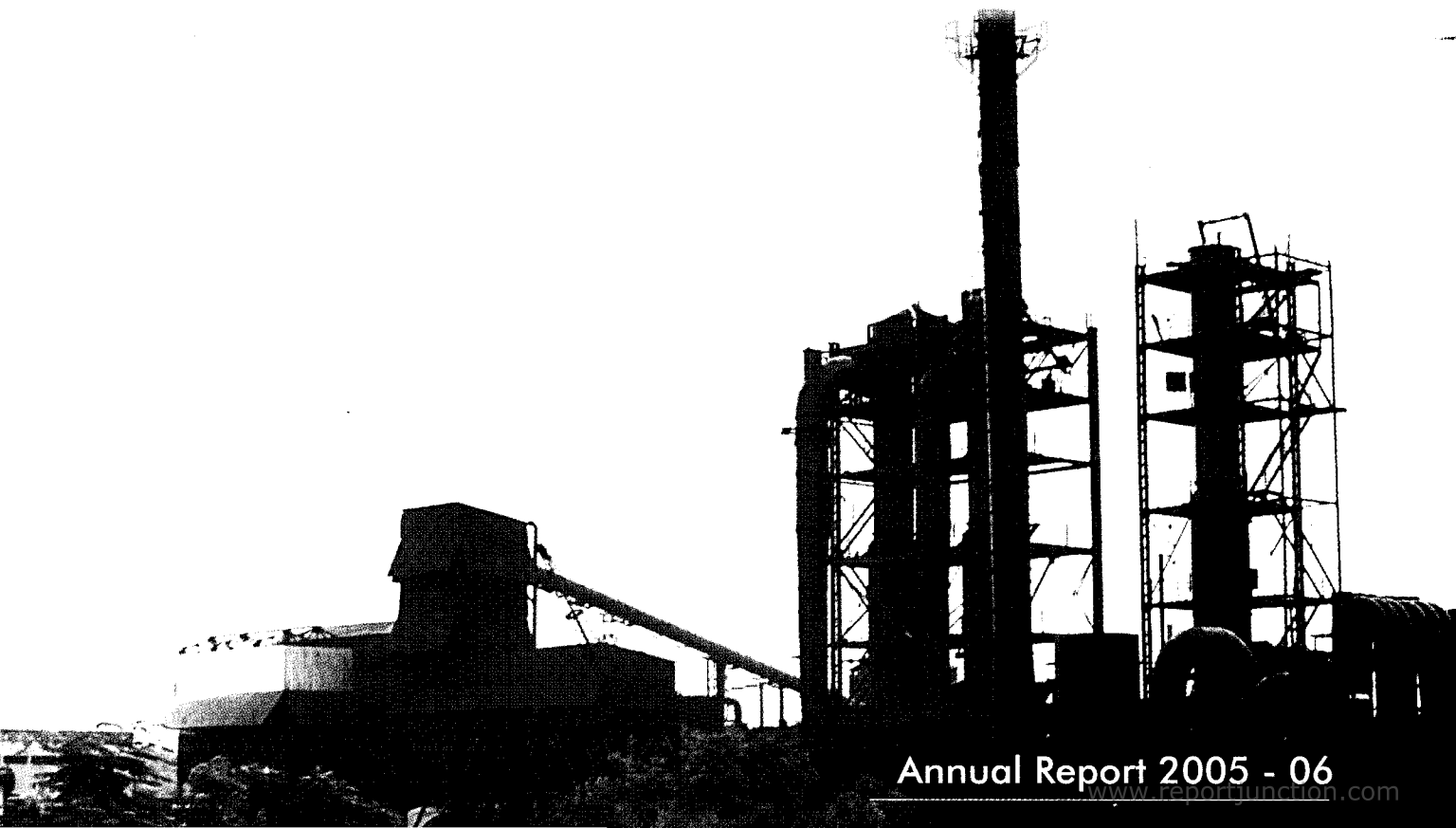


Jai Balaji Sponge Limited

Steel in Our Strategy



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Annual Report 2005 - 06

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## Jai Balaji Sponge Limited

### Notice to the Shareholders

NOTICE is hereby given that the Sixth Annual General Meeting of the Members of Jai Balaji Sponge Limited will be held on Saturday, the 23rd September, 2006, at 10.30 A.M. at Rotary Sadan (Shripati Singhanian Hall), 94/2 Chowringhee Road, Kolkata – 700 020 to transact the following business :

#### ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2006 and the Balance Sheet as at that date together with the Reports of the Directors and Auditors' thereon.
2. To approve the interim dividend on Equity Shares paid in May, 2006, as final dividend for the financial year ended 31st March, 2006.
3. To appoint a Director in place of Shri Ashok Kumar, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s. Rashmi & Co., Chartered Accountants as Auditors of the Company who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.



Registered Office :  
5, Bentinck Street  
Kolkata-700 001  
Dated : 11th August, 2006

By Order of the Board  
For **JAI BALAJI SPONGE LIMITED**  
**Ajay Kumar Tantia**  
Company Secretary

#### Notes :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ALSO ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF / HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENT APPOINTING THE PROXY SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY DULY COMPLETED NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. Members are requested to bring their copy of Annual Report at the Meeting.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from Thursday, 21st September, 2006 to Saturday, 23rd September, 2006 (both days inclusive).
4. Members desirous of obtaining any information concerning the accounts of the Company are requested to send their queries to the Company at least seven days before the meeting so that the information required by the members may be made available at the meeting.



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5. All documents referred to in the accompanying Notice and Explanatory Statement are available for inspection at the Registered Office of the Company on all working days (except Saturdays, Sundays and holidays) between 10.00 a.m. to 1.00 p.m. up to the date of the Annual General Meeting.
6. Members holding shares in physical form can avail of the nomination facility by submitting Form No. 2B of the Companies (Central Government's) General Rules and Forms, 1956 with the Company or its Registrar & Share Transfer Agents. Blank forms will be made available on request. In case of shares held in demat form, the nomination has to be lodged with their Depository Participant.
7. Members / Proxy-holders are requested to produce at the entrance, the attached Attendance Slip duly completed for admission to the meeting hall.
8. Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, the brief profile of the Director seeking re-appointment at the Annual General Meeting is annexed to this Notice.

### BRIEF PROFILE OF THE DIRECTOR SEEKING RE-APPOINTMENT AT THE ANNUAL GENERAL MEETING

As required under the Listing Agreement, the particulars of Director proposed to be appointed / re-appointed is given below:

Shri Ashok Kumar, aged 48 years, is a science graduate having secured gold medal in Mathematics (Honours) from Benaras Hindu University. He did his articleship from M/s. Lodha & Co., Chartered Accountants, Kolkata, a renowned practicing Chartered Accountancy firm. He is a fellow member of The Institute of Chartered Accountants of India and is a member of The Institute of Cost and Works Accountants of India.

Directorship held in other companies : M/s. Ashirwad Steel & Industries Limited  
M/s. MPA Financial Services Limited  
M/s. MPA Properties Private Limited  
M/s. Chandi Steel Industries Limited

Mr. Ashok Kumar does not hold any shares in the Company



## Directors' Report to the Members

Your Directors have pleasure in presenting the Sixth Annual Report on the business and operations of your Company and its audited financial results for the year ended 31st March, 2006.

### Financial Results

(Rs. In Lacs)

| Particulars  | 2005-06          | 2004-05          |
|--|------------------|------------------|
| <b>Net Sales and Other Income</b>                    | <b>43,315.88</b> | <b>27,571.31</b> |
| Less : Total Expenditure                             | 37,973.16        | 25,625.54        |
| <b>Profit before Interest, Depreciation and Tax</b>  | <b>5,342.72</b>  | <b>1,945.77</b>  |
| Less : Interest                                      | 794.85           | 435.27           |
| <b>Profit before Depreciation and Taxation</b>       | <b>4,547.87</b>  | <b>1,510.50</b>  |
| Less : Depreciation                                  | 454.30           | 228.11           |
| <b>Profit before Tax</b>                             | <b>4,093.57</b>  | <b>1,282.39</b>  |
| Less : Provision for Taxation                        |                  |                  |
| Current tax  | 344.47           | 104.30           |
| Fringe benefit                                       | 2.11             | —                |
| Deferred   | 1,034.38         | 313.63           |
| <b>Profit after Tax (PAT)</b>                        | <b>2,712.61</b>  | <b>864.46</b>    |
| Less : Income Tax for earlier years                  | 0.10             | 2.99             |
| Education Cess on Dividend Tax                       | —                | 0.64             |
| <b>Profit Transferred to Profit and Loss Account</b> | <b>2,712.51</b>  | <b>860.83</b>    |
| Add : Balance brought forward from previous years    | 1,529.11         | 1,009.21         |
| <b>Profit available for appropriation</b>            | <b>4,241.62</b>  | <b>1,870.04</b>  |
| Less : Interim / Proposed Dividend (including tax)   | 361.02           | 340.93           |
| Transfer to General Reserve                          | 125.00           | —                |
| <b>Accumulated Profit Carried Forward</b>            | <b>3,755.60</b>  | <b>1,529.11</b>  |

### Financial Condition and Result of Operation

During the year under review, your Company successfully completed the commissioning of Captive Power Plant of 12 MW capacity and a 30,118 MTPA capacity of Ferro Alloy Plant. The Sales and other income during the period under review were Rs. 43,315.88 lacs which is higher by about 57% over the revenues of Rs. 27,571.31 lacs earned in the previous year. Profit before tax has increased to Rs. 4,093.57 lacs from previous year's Rs. 1,282.39 lacs registering a record increase of 219%. The Company has achieved Profit after Tax of Rs. 2,712.61 lacs as compared to Rs. 864.46 lacs in the previous year, representing an increase of 214%.

### Dividend

Your Directors had declared and paid an interim dividend @ 12.50% on equity share capital (Rs. 1.25 per equity share)

for the financial year ended 31st March, 2006 during May, 2006. Your Directors proposes to consider this interim dividend as final dividend. The total outgo on account of dividend will be Rs. 361.02 lacs (including dividend tax of Rs. 46.93 lacs).

### Business Review and Outlook

Economic conditions around the world have been encouraging. Globally, steel consumption and production continued to grow. The Indian economy grew at an estimated 8.1% in FY '06. This includes a strong performance in steel consuming sectors like automobiles, engineering, constructions and other infrastructure sectors. In view of the robust growth and future prospects the Company has developed a long term strategy of developing a strong base in India. The Board of Directors of the Company has in principle approved further expansion plan for increasing the existing steel making facility to 2 million tonnes, enhancing



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the power generation capacity and foraying into iron ore and coal mine at a total outlay of Rs. 2,500 crores within a period of 3 to 5 years. As a part of expansion plan the Board of Directors have approved a project at a total cost of Rs. 500 crores under which a Sinter Plant, Blast Furnace (Pig Iron) and Steel Melting Shop of the capacity of 5,44,444, 4,28,750 and 4,42,029 MTPA respectively will be set up and the entire project is expected to be commissioned during the financial year 2007-08. The commissioning of new capacities of Sinter Plant, Blast furnace and Steel Melting Shop will drive the future growth of the Company. Further the Board of Directors have in principle decided to merge Shri Ramrupai Balaji Steels Limited with the Company to enable business consolidation as well as expansion with economic resource utilisation and improvement in various operating parameters.

### Corporate Governance

Your Company recognises the importance of good Corporate Governance as step for building stakeholders' confidence, improving investor protection and enhancing long-term enterprise value. A detailed report on Corporate Governance, pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, along with the Auditors' Certificate on compliance of conditions of Corporate Governance is made a part of this Annual Report.

### Management Discussion and Analysis

As per the requirement of the Listing Agreement with the Stock Exchange(s) a separate Report on Management Discussion and Analysis for the year under review is attached to this Annual Report.

### Environment

Your Directors are deeply conscious of preserving the environment and are making all out effort to prevent any sort of pollution in it. Your Company's Waste Heat Recovery Based Captive Power Plant has been registered by UNFCCC on 17th July, 2006 under Clean Development Mechanism Project Activity. Your Company is now eligible for Carbon Credits amounting to 46,387 CERs per year for a period of 10 years. Your Company has undertaken various safety and environment friendly measures in its different units for promoting better environment and ensuring the health and safety of its employees. Air Cooled condenser has been installed instead of conventional water cooled condenser thus saving the precious water in the process. The increased focus on safety has resulted in improved safety records at all our Plants and thus has improved the working environment.

### Directors

In accordance with the Articles of Association of the Company, Shri Ashok Kumar, Director of the Company, will retire by rotation at the ensuing Annual General Meeting and, being eligible, offers himself for re-appointment.

### Directors' Responsibility Statement

Pursuant to section 217(2AA) of the Companies Act, 1956, your Directors confirm that:

- i) in the preparation of annual accounts, the applicable accounting standards have been followed;
- ii) they have selected such accounting policies and applied

them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the statement of affairs of the Company as at 31st March, 2006 and of the profit of the Company for the financial year ended on that date;

- 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; and
- iv) the annual accounts have been prepared on a going concern basis.

### Auditors

M/s. Rashmi & Co., Chartered Accountants, Kolkata will retire as Auditors of the Company at the ensuing Annual General Meeting and are eligible of re-appointment. The Board of Directors has recommended their re-appointment as the Statutory Auditors of the Company to hold office from the conclusion of the ensuing Annual General Meeting till the conclusion of the next Annual General Meeting. M/s. Rashmi & Company has also expressed their willingness to act as Auditors of the Company, if appointed, and confirmed that the said appointment would be in conformity with the provisions of Section 224(1B) of the Companies Act, 1956.

### Particulars of Employees

Your Company has no employees requiring disclosure under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

### Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

The information pertaining to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo as required to be disclosed under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988, are given in the Annexure forming part of this Report.

### Acknowledgement

Your Directors would like to express their sincere appreciation for the valuable co-operation and support extended by the investors, financial institutions / banks, regulatory and government authorities, customers, suppliers and all other business associates.

Your Directors also take this opportunity to acknowledge the dedicated efforts made by the workers, staff and executives of the Company, which have largely contributed to the efficient operations and management of the Company.

On behalf of the Board of Directors

*Aditya Jajodia*

Place : Kolkata

Date : 11th August, 2006

**Aditya Jajodia**  
Chairman





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### Annexure to the Directors' Report

Information as per Section 217(1)(e) read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2006

#### A. Conservation of energy :

##### (a) Energy conservation measures taken :

- i) Commissioning of waste heat recovery based 12 MW Captive Power Plant.
- ii) Periodic checking and supervision of the Electric Distribution Network and corrective and proactive measures helped to maximise energy usage, ensuring an effective and efficient system of energy distribution.
- iii) Reuse of waste oil in furnaces.
- iv) Regular monitoring of leakages of compressed air and fuel oil to save fuel.
- v) Controlling of idle running of equipment during stoppages to save energy.
- vi) Applying right voltage to the systems through transformers with automatic voltage regulator.
- vii) Reduction in steam condensate loss and loss due to leakages by improved maintenance practices.

##### (b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

Installation of Air pre heater in WHRB to reduce the exhaust gas temperature and enhance the steam generation.

##### (c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

On account of above measures, energy cost is expected to be reduced and consequently there will be impact on the cost of production.

##### (d) Total energy consumption and energy consumption per unit of production as per Form A of the Annexure is annexed.

#### B. Technology absorption :

##### (a) The details of efforts made towards absorption of technology are given separately in the Report in Form B.

#### C. Foreign Exchange Earnings and Outgo :

##### (a) Activities relating to exports, initiatives taken to exports, development of new export markets for products and services and export plans:- NIL

##### (b) Total Foreign Exchange used and earned:

|                             | (Rs. In Lacs) |         |
|-----------------------------|---------------|---------|
|                             | 2005-06       | 2004-05 |
| i) Foreign currency used    | 575.04        | 225.28  |
| ii) Foreign currency earned | NIL           | NIL     |



# Jai Balaji Sponge Limited

## Annexure

### FORM – A

Form for Disclosure of Particulars with respect to Conservation of Energy.

#### A. Power and fuel consumption :

| Particulars         | 2005-06      | 2004-05      |
|---------------------|--------------|--------------|
| <b>Electricity</b>  |              |              |
| a) Purchased        |              |              |
| Units               | 8,72,33,044  | 8,66,75,480  |
| Total amount (Rs.)  | 19,25,56,998 | 19,69,33,785 |
| Rate / Unit (Rs.)   | 2.21         | 2.27         |
| b) Own Generation   |              |              |
| Through Power Plant |              |              |
| Units               | 92,01,096    | Nil          |
| Cost / Units (Rs.)  | 3.20         | Nil          |

#### B. Electricity Consumption per unit (MT) of production:

| Particulars          | 2005-06 | 2004-05 |
|----------------------|---------|---------|
| Sponge Iron (units)  | 161     | 104     |
| Steel Ingots (Units) | 867     | 1510    |
| Ferro Alloys (Units) | 4,790   | Nil     |

### FORM – B

Form for Disclosure of Particulars with respect to Technology Absorption.

#### Research and Development (R & D)

##### 1. Specific areas in which R & D carried out by the Company :

Research was carried out in the areas of raw materials including iron ore, coal and ferro chrome, product development, process improvement, energy utilisation, energy conservation and waste utilisation.

##### 2. Benefits derived as a results of the above R & D :

It has resulted in improvement of quality and cost reduction through improved production process.

##### 3. Future Plan of action :

Continuing R & D in energy saving technologies, development of new products and processes and to improve the quality of existing products.

##### 4. Expenditure on R & D :

In view of the established accounting practice the cost associated with the Research and Development has been merged with the respective account head and not segregated.

#### Technology absorption, adaptation and innovation :

##### a) Efforts, in brief, made towards technology absorption, adaptation and innovation.

The Company continued its research in the areas of raw materials, energy conservation and waste utilisation.

##### b) Benefits derived as a result of the above efforts.

Efforts have led to improved efficiencies and cost competitiveness

##### c) In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), the following information may be furnished :

- |  |   |                |
|--|---|----------------|
| (i) Technology imported  | : | Nil            |
| (ii) Year of import  | : | Not applicable |
| (iii) Has technology been fully absorbed?  | : | Not applicable |
| (iv) If not fully absorbed, areas where this has not taken place, reasons thereof and future plans of action | : | Not applicable |





## Corporate Governance Report

### 1. Company's Philosophy

Your Company remains resolute in its commitment to conduct business in accordance with the highest ethical standards and sound Corporate Governance practices. Our governance practices stem from an inherent desire to improve and innovate and are driven by strong board, timely disclosures, transparent accounting policies and high levels of integrity in decision making. The Company believes that all actions and strategic plans should deliver value to all stakeholders as well as conform to the highest standards of corporate behaviour.

### 2. Board of Directors

The composition of the Board of Directors of the Company is in conformity with Clause 49 of the Listing Agreement with stock exchange(s). The Board comprises of six Directors of which three Directors are non-executives and independent. During the financial year 2005-06, the Company has held 12 Board Meetings. The maximum time gap between any two consecutive meetings did not exceed four months. The dates of the 12 Board Meetings are as follows: 18.04.2005, 25.04.2005, 07.05.2005, 02.06.2005, 30.06.2005, 30.07.2005, 29.08.2005, 26.09.2005, 29.10.2005, 05.12.2005, 30.01.2006 and 31.03.2006.

The composition of Board of Directors and their attendance at the Board Meetings during the year and at the Annual General Meeting and the number of other Directorship and Board Committee Membership/Chairmanship are as follows:

| Name of the Directors | Category                           | Attendance Particulars |          | Number of other Directorship and Committee Membership / Chairmanship |                      |                        |
|-----------------------|------------------------------------|------------------------|----------|--|----------------------|------------------------|
|                       |                                    | Board Meetings         | Last AGM | Other Directorship   | Committee Membership | Committee Chairmanship |
| Shri Aditya Jajodia   | Promoter Non-Executive Director    | 11                     | Yes      | 10   | 1                    | —                      |
| Shri Rajiv Jajodia    | Promoter Non-Executive Director    | 12                     | Yes      | 9  | 1                    | 1                      |
| Shri Sanjiv Jajodia   | Promoter Whole-time Director       | 12                     | Yes      | 7  | 1                    | —                      |
| Shri Ashok Kumar      | Independent Non-Executive Director | 9                      | Yes      | 4  | 4                    | —                      |
| Shri Mahesh Keyal     | Independent Non-Executive Director | 11                     | Yes      | 1  | —                    | —                      |
| Shri D. R. Patnaik    | Independent Non-Executive Director | 9                      | Yes      | 3  | 1                    | —                      |

None of the Directors is a member of more than 10 Board-level Committees or Chairman of more than five such committees.

The Company placed before the Board the Annual Plans and Budget, Performance of the various Divisions, Unaudited Quarterly Financial Results, Audited Annual Financial Results and various other information as specified under Annexure 1A of the Listing Agreement, from time to time.

### 3. Audit Committee

As on 31st March, 2006, the Audit Committee comprised of three Directors, all of them being independent. The terms of reference of the Audit Committee are in conformity with those mentioned in Clause 49 of the Listing Agreement of the Stock Exchange(s) read with Section 292A of the Companies Act, 1956.

Shri Ashok Kumar, Chairman of the Audit Committee was present at the last Annual General Meeting to reply to shareholders' queries. The Company Secretary of the Company is the Secretary of the Audit Committee.

The Audit Committee met four times during the year on 30.06.05, 30.07.05, 29.10.05 and 30.01.06. The Composition of the Committee and the attendance at the meetings of the Committee are given below:

| Name of Members    | Designation | No. of Meetings attended |
|--------------------|-------------|--------------------------|
| Shri Ashok Kumar   | Chairman    | 4                        |
| Shri Mahesh Keyal  | Member      | 4                        |
| Shri D. R. Patnaik | Member      | 4                        |



## Jai Balaji Sponge Limited

The terms of reference of the Audit Committee as stipulated by the Board are as follows:-

- Reviewing of quarterly, half-yearly and annual accounts of the Company before submission to the Board for approval.
- Recommending the appointment and removal of statutory auditor and fixation of their remuneration.
- Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Review of adequacy of internal control systems.
- Reviewing the Company's financial and risk management policies.

#### 4. Remuneration Committee

The Remuneration Committee comprises entirely of three non-executive and independent Directors. The terms of reference to the Committee includes determination of the Company's policy on remuneration package for Executive Directors and any compensation payment. The committee is also empowered to discuss, approve and recommend the appointment, re-appointment of Executive Directors and also to fix their remuneration packages for approval by the Board as well as the Shareholders. During the financial year ended 31st March, 2006, one meeting was held on 09.08.05 and the attendance of member Directors were as follows:

| Name of the Members | Designation | No. of Meeting attended |
|---------------------|-------------|-------------------------|
| Shri D. R. Patnaik  | Chairman    | 1                       |
| Shri Ashok Kumar    | Member      | 1                       |
| Shri Mahesh Keyal   | Member      | 1                       |

Details of Remuneration paid to Executive Directors for the year ended 31st March, 2006 are as follows :

| Name of the Executive Director | Remuneration (Rs. In Lacs) | Notice Period | Severance Fees, if any |
|--------------------------------|----------------------------|---------------|------------------------|
| Shri Sanjiv Jajodia            | 1.80                       | Three months  | Nil                    |

#### 5. Shareholder Committee

The Shareholders' Grievance Committee of the Board of Directors comprises of two Promoter Directors and one non-executive independent Director. The terms of reference of the Committee are to specifically look into the redressal of investors' complaints like transfer of shares, non-receipt of annual report, non-receipt of declared dividend etc. and to oversee the performance of the Registrar and Share Transfer Agents.

During the year 2005-06 the Committee met seven times on 31.05.2005, 15.07.2005, 29.07.2005, 15.10.2005, 03.12.2005, 18.01.2006 and 16.02.2006.

The composition of Shareholders' Grievance Committee and the attendance of member Directors are as follows:

| Name of Members     | Designation   | No. of Meetings Attended |
|---------------------|---------------|--------------------------|
| Shri Sanjiv Jajodia | Chairman      | 7                        |
| Shri Aditya Jajodia | Vice Chairman | 7                        |
| Shri D. R. Patnaik  | Member        | 5                        |

Shri Ajay Kumar Tantia, Company Secretary, is the Compliance Officer of the Company.