JINDAL

JINDAL VIJAYANAGAR STEEL LIMITED

ANNUAL REPORT 2000 - 01

BOARD OF DIRECTORS

MR. P.R. JINDAL
CHAIRMAN

DR. S.K. GUPTA
EXECUTIVE VICE-CHAIRMAN

MR. SAJJAN JINDAL
MANAGING DIRECTOR

MR. J.K. TANDON
JT. MANAGING DIRECTOR & CEO

MR. SESHAGIRI RAO M.V.S.
DIRECTOR (Finance)

MR. RATAN JINDAL
DIRECTOR
MR. N.K. JAIN
ALTERNATE DIRECTOR

MR. N.D. PINGE
Nominee Director of ICICI

MR. S. DORESWAMY
Nominee Director of IDBI

MR. B.S. PATIL, I.A.S.
Nominee Director of KSIIDC

MR. C.K. NEELAKANTARAJ, I.A.S.
Nominee Director of KSIIDC

MR. B.R. SETHI
Nominee Director of LIC of India

DR. S.S. JHA
Nominee Director of IFCI Ltd.

MR. MOOSA RAZA, I.A.S. (Retd.)
DIRECTOR

MR. U. MAHESH RAO
DIRECTOR

DR. RAMASWAMY P. AIYAR
DIRECTOR

COMPANY SECRETARY
MR. P.S.M. CHARI

STATUTORY AUDITORS
M/S LODHA & COMPANY
6, KARIM CHAMBERS
40A, DOSHI MARG (HAMAM STREET)
MUMBAI - 400 023.

CONCURRENT AUDITORS
M/S. PRICE WATERHOUSE,
MITTAL TOWER, 10TH FLOOR, 'C' WING
47/6, M.G. ROAD,
BANGALORE - 560 001

BANKERS
ALLAHABAD BANK
ICICI BANKING CORPORATION LIMITED
PUNJAB NATIONAL BANK
STATE BANK OF INDIA
STATE BANK OF INDORE
STATE BANK OF MYSORE
VIJAYA BANK

REGISTERED OFFICE & WORKS
P.O. Toranagallu, Dist. Bellary
Karnataka - 583 123

REGISTRARS & SHARE TRANSFER AGENTS
M/s. Karvy Consultants Limited
TKN Complex, 51/2, Vanivilas Road
Opp. National College
Basavanagudi
Bangalore - 560 004.

NOTICE

NOTICE is hereby given that the **SEVENTH ANNUAL GENERAL MEETING** of the Shareholders of **JINDAL VIJAYANAGAR STEEL LIMITED** will be held on **Friday, the 17th day of August, 2001 at 3:00 P.M.** at the Registered Office of the Company at Village & P.O. Toranagallu, Sandur Taluk, Bellary District - 583 123, Karnataka, to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Profit and Loss Account and Statement of Pre-Operative Expenditure for the year ended 31st March, 2001 and the Balance Sheet as at that date, together with the Reports of the Board of Directors and the Auditors thereon.
2. To appoint a Director in place of Dr. S.K. Gupta who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. U. Mahesh Rao who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Moosa Raza, IAS (Retd.) who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint M/s. Lodha & Co., Chartered Accountants, the retiring Auditors, as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

SPECIAL BUSINESS :

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

"RESOLVED THAT in accordance with the provisions of Sections 81 (1A), 80 and all other applicable provisions, if any, of the Companies Act, 1956, and the enabling provisions in the Memorandum and Articles of Association of the Company, the Listing Agreements entered into by the Company with the Stock Exchanges where the securities of the Company are listed and in accordance with the Guidelines issued by the Securities and Exchange Board of India and clarifications thereon issued from time to time and subject to the approval of the Financial Institutions (FIs), Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI) and other concerned authorities, if any, and all such approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any duly authorised committee thereof), the consent of the Company be and is hereby accorded to the Board to create, issue/offer and allot 10,78,82,140 Equity/Redeemable Non-Cumulative Preference Shares (Preference Shares) of the face value of Rs.10/- each as the Board may in its absolute discretion deem fit for cash at par aggregating to Rs 1,07,88,21,400/- (Rupees One hundred and seven crores, eighty eight lakhs, twenty one thousand and four hundred only) to the promoters, being the Jindal Group Companies, which, inter-alia, include Jindal Iron & Steel Company Limited (JISCO), Jindal Strips Limited (JSL), and Saw Pipes Limited (SPL) and Associates whether or not they are members of the Company, on preferential allotment basis to the extent and in one or more tranches and in the manner as may be decided by the Board in this behalf.

RESOLVED FURTHER THAT

i. the Equity / Preference Shares to be so issued and allotted shall be subject to the provisions of the Memorandum and Articles of Association of the Company and shall rank pari-passu with the existing Equity/ Preference Shares of the Company except that for the financial year in which they are issued and allotted, they shall rank only for pro-rata dividend for the period during which such capital is so paid-up;

ii. the Preference Shares will be entitled to the preferential dividend of 0.0001% on Non-Cumulative basis and will be redeemable at par subject to the provisions of Sec. 80 and other applicable provisions of the Companies Act, 1956, other applicable legislations as may be in force from time to time and the provisions of the Articles of Association in five equal annual installments commencing from 1st October, 2016.

iii. the Board be and is hereby authorised to accept any modification(s) to or to modify the terms of issue of the said new Equity/ Preference Shares subject to the provisions of the Companies Act, 1956 and SEBI guidelines/Regulations, without being required to seek any further consent or approval of the Company in General Meeting;

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

7. To consider, and if thought fit, to pass with or

without modification(s), the following resolution as a **Special Resolution :**

"RESOLVED THAT in accordance with the provisions of Section 259 and all other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government, the maximum number of Directors of the Company be increased from 15 to 18 and consequently in accordance with the provisions of Section 31 and all other applicable provisions of the Companies Act, 1956, article 118 (1) of the Articles of Association of the Company be altered as under :

" The words **'nor more than 15'**, be substituted by the words **'nor more than 18'**"

RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board be and is hereby authorised to do all such things and acts as may be necessary and expedient and to settle any matters that may arise in connection therewith".

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

"RESOLVED THAT in accordance with the provisions of Sections 16, 94 and all other applicable provisions, if any, of the Companies Act, 1956, the existing Authorised Capital of the Company i.e. Rs.30,00,00,00,000/- (Rupees Three Thousand Crores only) divided into 2,80,00,00,000 (Two hundred and eighty crores) Equity Shares of Rs.10/- each and 20,00,00,000 (Twenty Crores) Preference Shares of Rs.10/- each be and is hereby re-classified into 2,20,00,00,000 (Two Hundred and Twenty Crores) Equity Shares of Rs.10/- each and 80,00,00,000 (Eighty crores) Preference Shares of Rs.10/- each and consequently, Clause V of the Memorandum of Association of the Company relating to Share Capital be and is hereby altered by deleting the same and substituting in its place and stead, the following as new Clause V:

V. The Authorised Share Capital of the Company is Rs.30,00,00,00,000/- (Rupees three thousand crores only) divided into 2,20,00,00,000 (Two Hundred and Twenty Crores) Equity Shares of Rs.10/- each and 80,00,00,000 (Eighty Crores) Preference Shares of Rs.10/- each with power to increase or decrease its capital from time to time and to divide the Shares in the Capital for the time being into several classes and to attach thereto respectively such preferential, deferred, qualified or special rights, privileges, conditions or restrictions as may be determined by or in accordance with the Articles of Association of the Company and to vary, modify, amalgamate or abrogate any such rights, privileges or conditions in such manner as may for the time being be provided by the Articles of Association of the Company".

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

"RESOLVED THAT in accordance with the provisions of Section 31 and all other applicable provisions, if any, of the Companies Act, 1956 the existing Article 3 of the Articles of Association of the Company be altered by deleting the same and substituting in its place and stead, the following as new Article 3:

3. The Authorised Share Capital of the Company is Rs. 30,00,00,00,000/- (Rupees Three Thousand Crores Only) divided into 2,20,00,00,000 (Two Hundred and Twenty Crores) Equity Shares of Rs.10/- each and 80,00,00,000 (Eighty Crores) Preference Shares of Rs.10/- each with power to increase or decrease its Capital from time to time and to divide the Shares in the Capital for the time being into several classes and to attach thereto respectively such preferential, deferred, qualified or special rights, privileges, conditions or restrictions as may be determined by or in accordance with the Articles of Association of the Company and to vary, modify, amalgamate or abrogate any such rights, privileges or conditions in such manner as may for the time being be provided by the Articles of Association of the Company and also to acquire, purchase, hold, re-sell, any of its own fully/partly paid shares and/or Preference Shares whether redeemable or not and to make any payment out of capital or out of the funds at its disposal, for and in respect of such purchase, subject to the provisions of the Act in force from time to time ".

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

"RESOLVED THAT in accordance with the provisions of Sections 100, 80 and all other applicable provisions ,if any, of the Companies Act, 1956 and enabling provisions in the Memorandum and Articles of Association of the Company and the Listing Agreements entered into by the Company with the Stock Exchanges where the securities of the Company are listed and in accordance with the guidelines issued by the Securities and Exchange Board of India (SEBI) and clarifications thereon issued from time to time and subject to confirmation of the Hon'ble High Court of Karnataka, and subject to approval of the financial institutions (FIs), SEBI, RBI and all other such approvals, permissions, and sanctions, as may be necessary and subject to such conditions and modifications, as may be prescribed or imposed by any of the aforementioned authorities while granting such approvals, permissions and sanctions , which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any duly authorised committee thereof), the consent of the Company be and is hereby accorded to the Board for cancellation of 516455844 (Fifty One Crores Sixty Four Lakhs Fifty Five Thousand Eight Hundred Forty Four) Equity Shares of the face value of Rs.10/- each (out of the total existing 1291139610 (One Hundred Twenty Nine Crores Eleven Lakhs Thirty Nine Thousand Six Hundred Ten) Equity Shares of Rs.10/- each) and in lieu of such cancellation create, issue and allot 516455844, 0.0001% Redeemable Non-Cumulative Preference Shares (Preference Shares) of the face value of Rs.10/- each to the holders of the said equity shares in the manner and on the terms and conditions detailed herein below:-

a) The said equity shares of Rs.10/- each shall stand cancelled as on the record date in the ratio of 2 equity shares of Rs.10/- each out of every 5 equity shares of Rs.10/- each held by the existing equity shareholders.

b) The Company will issue and allot without any further act or deed and without any further payment Redeemable Non-Cumulative Preference Shares of Rs.10/- each with a coupon rate of 0.0001% to the holders whose equity shares are cancelled as aforesaid. The existing equity shareholders shall continue to hold the remaining 3 equity shares out of 5 equity shares held by them as equity shares of Rs.10/- each without any alterations to the rights attached thereto.

c) in respect of equity shares which are not fully paid up and are not forfeited before cancellation thereof, the Company will issue preference shares of Rs.10/- each marked partly paid up to the same extent as the cancelled equity shares were paid up by the existing shareholders thereof.

d) In the event of the Board deciding on annulment of forfeiture of any equity shares made due to non-payment of call moneys, the said equity shares would also stand cancelled in the ratio of 2 equity shares of Rs. 10/- each out of every 5 equity shares of Rs. 10/- each held and in lieu of such cancellation, the Company will issue and allot Preference Shares as provided in this resolution and remaining 3 equity shares be held by the shareholders as equity shares of Rs. 10/- each without any alterations to the rights attached thereto.

e) The Preference shareholders will be entitled to a Preferential dividend of 0.0001% on non-cumulative basis.

f) The Preference Shares will be redeemed at par, subject to the provisions of Section 80 and other applicable provisions of the Companies Act, 1956 and other applicable legislations as may be in force from time to time and the provisions of the Articles of Association in five equal annual instalments commencing from 1st October, 2016.

g) The issue and allotment of Preference Shares to the extent related to non-resident shareholders of the Company shall also be subject to the applicable provisions of the Foreign Exchange Management Act,1999 and the Exchange Control Regulations/Rules framed thereunder.

FURTHER RESOLVED THAT the Directors of the Company shall be bound in trust to handle fractional entitlements of the Preference Shares as also fractional holdings of existing Equity Shares and such fractional entitlements/holdings shall be consolidated for allotment to and holding in lieu thereof to a Director or Officer of the Company who shall hold the said Equity/Preference Shares in trust for and on behalf of the holders entitled thereto. The Director or Officer of the Company who holds the said Equity/Preference Shares shall sell the same in the market at the best available price and pay to the Company the net sale proceeds thereof, whereupon the Company shall distribute such net sale proceeds to the members/holders entitled thereto in proportion to their fractional entitlements/holdings.

RESOLVED FURTHER THAT the preference shares of the Company to be issued in terms of this resolution shall be listed and admitted for trading on such of those Stock Exchange(s) as may be decided by the Board.

RESOLVED FURTHER THAT the Board be and is hereby authorised, in their absolute discretion, to make the said issue of the Preference Shares on such other terms and conditions as they may consider appropriate and to accept such other conditions and modifications as may be prescribed by the Hon'ble High Court of Karnataka, financial institutions and other appropriate bodies/authorities while according their sanction or consent to the proposed issue of shares and to take such consequential action thereon including the authority to revise/adjust the conversion ratio, coupon rate of the preference shares to be issued in such manner as may be considered appropriate by the Board.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable and to settle any questions, difficulty or doubt that may arise with regard to cancellation of the aforesaid equity shares and to the offer, issue and allotment of preference shares, as it may in absolute discretion, deem fit and proper."

By Order of the Board
for JINDAL VIJAYANAGAR STEEL LIMITED

Place : Mumbai
Date : 18th May, 2001

P.S.M. CHARI
Company Secretary

JINDAL

NOTES (Forming part of the Notice) :

a] A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.

b] The instrument(s) appointing the proxy, if any, shall be delivered at the Regd. Office of the Company at Toranagallu, Bellary District-583 123, Karnataka, not less than forty eight (48) hours before the commencement of the Meeting and in default, the instrument of proxy shall be treated as invalid. Proxies shall not have any right to speak at the meeting.

c] The Explanatory Statement setting out the material facts in respect of the businesses under item numbers 6 to10 is annexed hereto.

d] Members are requested to intimate the Registrar and Share transfer agents of the Company, M/s. Karvy Consultants Limited, TKN Complex, 51/2, Vani Vilas Road, Opposite National College, Basavanagudi, Bangalore - 560 004, immediately of any change in their address.

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT :

The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 for item numbers 6 to 10 of the accompanying notice is as under :

Item No. 6 :

Members may be aware that a special resolution was passed in the Sixth Annual General Meeting held on 18th August, 2000 for issue of 40,43,32,140 equity shares of Rs.10/- each for cash at par on preferential basis to the promoters, being the Jindal Group Companies and associates.

Out of the above, only 29,64,50,000 equity shares were allotted to the Promoters and their associates. Since the earlier resolution could not be fully acted upon within the period stipulated under the SEBI Guidelines a special resolution at Item No. 6 of the appended notice for the issue of the balance of 10,78,82,140 equity/preference shares is proposed for the approval of the members. It is proposed that the Board shall have discretion to decide on the extent to which the said issue shall consist of preference shares.

The promoters of your Company presently hold an aggregate of 62% of the subscribed Equity Capital of Rs. 1291.13/- crores. The proposed preferential issue if subscribed for and allotted to the promoters in the form of equity capital consisting of 6,47,29,284 equity shares of face value Rs. 10/- each at par and preference capital consisting of 4,31,52,856 preference shares of face value Rs. 10/- each at par in the ratio of equity to preference share explained in Resolution No. 10 and the accompanying Explanatory Statement thereto in the notice, would result in the promoter's equity holding of 38.99% of the post restructed equity capital base of Rs. 1398 crores. In case the entire preferential issue is subscribed for and allotted in the form of equity capital consisting of 10,78,82,140 equity shares of face value Rs. 10/- each at par, the resultant promoters holding will be 64.93% of the enhanced equity capital base of Rs 1399.02 crores. The equity holding of the promoters would however, vary depending on the extent of which the said issue consists of preference shares out of the total proposed preferential issue. The preferential issue and allotment of equity/preference shares is proposed to be made for cash, at par value of Rs.10/- each, which pricing is higher than that arrived at pursuant to the guidelines issued by SEBI in this regard. The proposed preferential allotment to any of the promoters and/or their associates as aforesaid would not result in any change in the control over your Company.

The relevant clause of the Listing Agreements executed by the Company with the various Stock Exchanges in India where the Company's securities are listed and the provisions of Section 81 (1A) provides 'inter-alia' that when it is proposed to increase the issued capital of the Company by allotment of further shares, such shares shall be first offered to the existing shareholders of the Company for subscription unless the shareholders decide otherwise in a General Meeting.

The said Special Resolution will, if passed, enable the Board on behalf of the Company, to issue and allot equity/preference shares on a preferential basis to promoters and/or their associates as permitted by Section 81(1A) of the Companies Act, 1956. The Company in consultation with its Advisors, Experts and others concerned, will fix the detailed terms and conditions of the issue which will be in line with the requirements of the guidelines issued/to be issued by the Securities and Exchange Board of India (SEBI) and by any other concerned authorities.

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

The Directors recommend the resolution for your approval.

Item No. 7 :

The present strength of the Board of Directors of your Company is 15 which is the maximum permitted by Article 118 (1) as existing. It would be prudent to facilitate your Board to induct competent persons and to allow for the nomination by financial institutions of their representatives as Directors on the Board of your Company in accordance with the respective loan agreements entered into with them/to be entered with them by increasing the maximum strength as fixed by the existing Article 118 (1) by suitably amending the Articles of Association. The said alteration shall however be subject to the approval of the Central Government as laid down under Section 259 of the Companies Act, 1956.

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

Your Directors recommend the resolution for your approval.

Item Nos. 8 & 9 :

The present Authorised Capital of your Company is Rs. 30,00,00,00,000 (Rupees Three Thousand Crores) divided into 2,80,00,00,000 (Two Hundred and Eighty Crores) Equity Shares of Rs.10/- each and 20,00,00,000 (Twenty Crores) Preference Shares of Rs.10/- each. It is proposed to re-classify the Authorised

Capital in the manner as set out in the notice in accordance with Section 94 of the Companies Act,1956. The re-classification of the Authorised Capital of the Company is proposed to enable the issue of preference shares pursuant to the scheme of financial restructuring proposed under item no.10 of this notice.

The Alteration of Article 3 of the Articles of Association is purely consequential to the alteration of the Capital clause of the Memorandum of Association of your Company.

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

Your Directors recommend the resolution for your approval.

Item No. 10 :

The members may be aware that the steel project had undergone time and cost overruns during present implementation stage, mainly due to delay in achieving financial closure and set back in last commissioning of Corex-01 unit due to failure in certain peripheral equipment. The buoyant market and attractive realisations prevailing in the market soon after introduction of liberalisation had attracted large private investments in the steel sector. Subsequent developments, namely, melt-down of South East Asian economies, persistent recession in Japan, disintegration of erstwhile Soviet Union and slackening demand worldwide on account of substantial addition to capacity have changed the fortunes of the steel industry which is currently passing through an unprecedented recession. Morever, the steel industry has witnessed high volatility in steel prices and shortened price cycles, with prices ruling at low levels during most part of the cycle. In the meantime, inefficient units with old technologies are fading away, paving the place for companies which embrace new technologies producing quality steel at low cost. Your Company has adopted a cost effective and environmental friendly Corex technology of 21st century which enable to produce steel at low cost in the most efficient manner.

During the period of project implementation, in view of the difficulties the steel industry is embroiled, investors and lenders have become averse to lend/invest in steel companies. The public issue of partly convertible debentures floated by your Company, even though oversubscribed handsomely, did not enthuse the investors to pay the balance calls in arrears. Capital markets become subdued leaving no scope for new issues to emerge, particularly from steel companies. The lenders have become over cautious in lending to steel companies. Notwithstanding these impediments, your Company gradually progressed with implementation of the project, considering the inherent competitive strengths in terms of operating efficiencies in low operating cost structure. The increase in project cost on account of these delays are mostly funded by debt by the existing lenders and the promoters. The debt profile of the Company has undergone a dramatic change and debt gearing went up as high as over 3 on completion of the project due to skewed debt financing to meet the increase in cost.

After having successfully commissioned 0.8 mln. tonne capacity (Phase-I) in August 1999, when the second Phase was close to the scheduled commissioning, your Company in consultation with the lenders approached Accenture (formerly known as Andersen Consulting) to prepare a robust financial restructuring package and capital structure, taking into account the price volatility and cyclical nature of the steel industry. The primary objective of this financial restructuring is to ensure that your Company will be able to sustain profitable operations in the face of any future adverse price trends. After exhaustive review and detailed analysis of the profitability parameters of this project, Accenture recommended a restructuring package which is expected to improve the project's ability to sustain adverse trends arising out of future cyclic steel price and downward price fluctuations. The salient features of restructuring package are as under:

PART A - WITH SECURED INDIAN LENDERS

a. Conversion of part of the debt, non-convertible debentures and optionally fully convertible debentures upto Rs.560 crores by the lenders into equity shares of the Company at par.

b. Reduce interest rate on the balance debt, not exceeding 14% p.a. as may be negotiated by the Company with the lenders, from time to time.

c. 50% of the Net Present Value of the loss of interest income of the lenders between the agreed rate (as per the respective credit agreements) and re-negotiated rate to be converted into optionally fully convertible debentures/rupee loan with applicable normal interest rates not exceeding 14% p.a. to be repaid at the end of fourth (4th) and fifth (5th) year in two equal installments. The balance 50% of loss in the interest income of the lenders in aggregate will be converted into 0% non-convertible debentures/rupee loan with repayment at the end of twelfth (12th) year.

d. The revised interest rate on the balance rupee debt is reduced in the initial years and stepped up during the balance tenure maintaining the agreed revised yield.

e. Additional Funded Interest Term Loan is to be sanctioned considering revised capitalisation schedule of various units of the steel plant.

f. The restructuring package is effective 1st October, 2000.

PART B - WITH SHAREHOLDERS

For every five (5) equity shares of Rs.10 each held by the equity shareholders, the Company shall cancel two (2) equity shares and in lieu of such cancellation create, issue and allot two (2) non-cumulative redeemable preference shares of Rs. 10/- each with a coupon of 0.0001%, redeemable in 5 equal yearly installments starting from 1st October, 2016 and the existing equity shareholder shall continue to hold the remaining three (3) equity shares of Rs. 10/- each out of the five (5) equity shares held by them as equity shares of Rs. 10/- each fully paid up, without any alterations to the rights attached thereto. This would result in cancellation of 51,64,55,844 (Fifty One Crores Sixty Four Lakhs Fifty Five Thousand Eight Hundred Forty Four) existing equity shares of Rs. 10/- each and in lieu of such cancellation 51,64,55,844 preference shares of Rs. 10/- each will be issued and allotted to the shareholders whose shares stand cancelled. The terms and conditions governing the issue and allotment of preference shares have been detailed in the resolution at item no. 10 of the notice.

The Board had forfeited 20,69,78,250 equity shares for non-payment of call moneys of Rs. 146,04,30,150/- with authority to annul the forfeiture in appropriate cases. In the event of the Board deciding on annulment of any forfeited equity shares, such equity shares would also stand cancelled in the ratio of 2 equity shares out of 5 equity shares held and in lieu of such cancellation, issue and allot preference shares as provided in the resolution and the remaining 3 equity shares held by them would continue to be held as equity shares without any alterations to the rights attached thereto.

The means of financing last appraised and post restructuring is as under :

		Last Appraised (Rs. Crores)	Post-restructuring (Rs. Crores)
a.	Cost of Project	6,144	6,495
b.	Means of Finance		
	Equity Capital	1,398	1,398
	Amount received on forfeited shares	61	61
	0.0001% non-cumulative redeemable preference shares	–	560
	Internal accruals/Internal Cash Resources/Insurance Claims	19	127
	Total (b)	1,478	2,146
c.	Debt		
	Public Debentures	635	101
	Loans	4,031	4,248
	Total (c)	4,666	4,349
d.	Total (b+c)	6,144	6,495
	Debt/Equity ratio	3.16	2.03

The post restructuring means of finance detailed above is based on the assumption that following cancellation of existing equity shares and issue of preference shares proposed in the resolution, the term loans to the extent of Rs. 560 crores extended by Indian Lenders are converted into equity shares of Rs.10/- fully paid up and the promoters contribution of Rs.107,88,21,400/- (Rupees One Hundred Seven Crores Eighty Eight Lakhs Twenty One Thousand Four Hundred only) as detailed in Resolution No. 6 of the notice is brought in by the promoters in the form of Equity Capital of Rs. 64,72,92,840/- (Rupees Sixty Four Crores Seventy Two Lakhs Ninety Two Thousand Eight Hundred Forty only) and Preference Capital of Rs.43,15,28,560/- (Rupees Forty Three Crores Fifteen Lakhs Twenty Eight Thousand Five Hundred Sixty only). Any change in aforesaid assumptions would result in consequent change in the capital structure and means of finance.

The financial restructuring proposed is unique in the Indian corporate history, envisaging sharing of gains and pains equitably by all the shareholders and lenders. The benefits of restructuring package are as under :

1. Debt equity ratio of the Company is brought down to around 2:1 with conversion of debt into equity.
2. Even during the period of stress (stress is defined as low selling price in severely depressed market scenario as envisaged at the time of restructuring) restructured debt can be serviced.
3. Any upturn beyond stress scenario assume substantial gains predominantly to the equity shareholders.
4. The interest burden is brought down significantly with reduction and restructuring of interest rates.

While the lenders agreed in principle to reduce the interest rates, ballooning of interest rates keeping low coupon in the initial years, conversion of part of the debt into equity, existing equity holders are required to convert part of the existing equity capital of the Company into 0.0001% non-cumulative redeemable preference shares, redeemable in five equal yearly installments commencing from 1st October, 2016. As per the restructuring package envisaged every five (5) equity shares of Rs. 10 each held in the Company shall now be held as three (3) equity shares of Rs.10 each and two (2) non-cumulative redeemable preference shares of Rs. 10 each with a coupon of 0.0001%.

Your Company is a fully integrated steel manufacturing facility with sustainable competitive advantage with low operating leverage and high operating efficiency. The vulnerability due to high level of debt to maintain profitable operations is addressed adequately in the proposed restructuring package. The cost effective, environment friendly Corex technology, locational advantages in terms of lower freight in marketing its products in South India being the only flat steel producer, proximity to the rich iron ore mines in Bellary-Hospet region and captive consumption close to 40% production of Hot Rolled Coils within Jindal group are expected to make your Company as one of the lowest cost producers of steel.

Even though implementation of the proposed resolution will not result in reduction of capital within the meaning of Section 100 of the Companies Act, 1956 (the Act), conversion of equity shares into preference shares has been held to be a deemed reduction by some judicial authorities. Hence, the resolution at Item No. 10 of the Notice is proposed under Section 100 of the Act for the approval of the members which is subject to confirmation by the Hon'ble High Court of Karnataka.

The proposed acquisition of shares by conversion of debt into equity by the financial institutions is exempt under regulation 3 (f)(III) of SEBI (Acquisition of Shares and Takeovers) Regulations, 1997.

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

The Directors recommend the resolution for your approval.

By Order of the Board
for JINDAL VIJAYANAGAR STEEL LIMITED

Place : Mumbai
Date : 18th May, 2001

P. S. M. CHARI
Company Secretary

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting their Seventh Annual Report of your Company along with the Audited Accounts for the year ended 31st March, 2001.

1) FINANCIAL RESULTS

Your Company posted a turnover of Rs. 1345.78 Crores showing an increase of 45% over the previous year. Even though the production and sales showed an upward trend quantitatively relative to the previous year, the oversupply situation in the market exerted pressure on the selling price. The price realisations gradually slided and once again hit the bottom in the last quarter of the financial year. However, the higher capacity utilisation and reduction in the cost of production could restrict the losses at Rs. 49.61 Crores as against Rs. 148.18 Crores in the previous year.

2) STATUS OF PROJECT

An eventful year has passed in stabilizing the operation of the integrated steel plant of 0.8 million tonne capacity. During the year 2000 - 2001, your Company has produced HR Coils to the tune of 7,88,336 tonnes and 63,223 tonnes of Sheets from CTL - 02. All efforts were put in for the completion of the balance project (stage II) viz., Pelletisation Plant, Corex - 02 and Continuous Casting Plant - 02 during the year.

On one side, stabilization of the installed capacity and on the other side commissioning of the following units as per plan can be considered as a tremendous feat:

(a) Pelletisation Plant on 28th November, 2000
(b) CTL - 01 on 19th March, 2001
(c) Caster - 02 on 25th March, 2001 and
(d) Corex - 02 on 16th April, 2001.

The above units are expected to achieve the designed capacity at the earliest.

3) FUTURE PROSPECTS

Steel industry is beset with a variety of problems which, inter alia, include sluggish demand due to oversupply situation worldwide and consequent sharp fall in realisations. Indian steel industry is further threatened with dumping of steel by CIS countries and initiation of anti dumping investigation/levies by the advanced countries limiting the ability to export. While there is an intense competition, supply outpacing the demand, slow capacity additions and increased outlays for infrastructural development are expected to correct the imbalance in the demand/supply position and also stimulate the demand gradually. During this period of turbulence, the companies which embrace new technology and produce quality steel at low cost with emphasis on customer satisfaction shall emerge as winners.

Your Company has adopted the technology of the 21st century, namely Corex and both the units of Corex are now fully operational. With the commissioning of this cost effective and environmental friendly technology, your Company is poised to produce steel at low cost which can be benchmarked with the best in the industry. The high interest cost due to time and cost overrun in the implementation of the project is a matter of concern for which your Company has moved pro-actively and put in place the financial restructuring package acceptable to the lenders which reduces the interest cost significantly. As per the business plan for 2001-02, 1.43 mln tonnes of Hot Rolled Coils and 2.85 mln tonnes of Pellets are planned to be produced. Notwithstanding intense competition and over supply situation, being the only flat steel producer in South India, having freight advantage over other competitors and with captive consumption within the Jindal group close to 40% of the production, your Company is set to pass through the turbulent phase and is on the path to be a leader in the Indian steel market.

4) ASSOCIATED COMPANIES FOR POWER, OXYGEN AND MINING

i) JINDAL TRACTEBEL POWER COMPANY LIMITED (JTPCL)

Both the units of 130 MW have been working satisfactorily. JTPCL has supplied 600 million units (MU) of power to your Company in the year for catering its demand and that of JPOCL. Now JTPCL is fully meeting the requirements of the Steel & Oxygen Plants.

After meeting the requirements of JVSL & JPOCL, JTPCL has supplied 1180 MU of power to Karnataka Power Transmission Corporation Ltd. (KPTCL) during the period under review.

ii) JINDAL PRAXAIR OXYGEN COMPANY LIMITED (JPOCL)

JPOCL has supplied Oxygen (685,409 T), Nitrogen (143, 263 T) and Argon (3029 T) to your Company for Stage-I operation during the year from Module # 1. Module # 2 has now been successfully commissioned and has started supplying Oxygen & Nitrogen to meet the requirement of stage – II operation of your Company.

JPOCL is also supplying liquid Oxygen, Nitrogen and Argon to third party customers.

iii) VIJAYANAGAR MINERALS (P) LTD. (VMPL)

VMPL is proposing to develop a one million-tonne per annum capacity Iron Ore Mine at a cost of Rs. 11.80 Crores under Phase – I at Thimmappanagudi in Sandur Taluk of Bellary District, which is located at about 25 KMs from your Company's Plant site. This mine which was temporarily closed in August, 1999 for clearance from the Forest Department started mining activities by the end of November, 2000 after obtaining the requisite approval at Thimmappanagudi Iron

Ore Mine (TIOM). By end of March 2001, approximately 4.4 lakh tonnes of overburden/rejects have been removed and transported to dump yard for development of benches at the mine. Simultaneously, the fabrication and erection of Gravity Screening Plant (GSP) was taken up and completed by end of March 2001. The production from the mine commenced in April 2001, with the supply of iron ore fines to your Company's Pellet Plant. The production of calibrated ore at the mine will commence after the erection and commissioning of the Crushing & Screening Plant.

5) DIVIDEND

Since your Company has not made any profits during the year under review, your Directors have not recommended any dividend.

6) FIXED DEPOSITS

Your Company has not accepted any Fixed Deposits from the public during the year under review.

7) DIRECTORS

Dr. S.K. Gupta, Mr. U. Mahesh Rao and Mr. Moosa Raza, IAS (Retd.) Directors, retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. The proposals regarding their re-appointment as Directors are placed for your approval.

The Life Insurance Corporation of India (LIC) has nominated Mr B.R. Sethi as its nominee on the Board of your Company w.e.f. 25.10.2000 in place of Mr. G.N. Bajpai. Mr. Bajpai served your Company as a Director during the period from 11.05.1999 to 25.10.2000. The Board of Directors place on record its deep appreciation of the valuable services rendered by Mr. G.N. Bajpai during his tenure as Director.

IFCI Ltd. has appointed Dr. S.S. Jha as its nominee on the Board of your Company w.e.f. 18.08.2000.

Mr. N.K. Jain was appointed as Alternate Director to Mr. Ratan Jindal by the Board with effect from 19th January, 2001.

8) SHARE CAPITAL

a) Preferential Allotment

As approved by the members in the 6th Annual General Meeting held on 18th August, 2000, the Company made a preferential allotment of 29,64,50,000 equity shares of Rs. 10/- each to the promoter companies for cash at par during the period under review.

b) Forfeiture of Shares

20,69,78,250 equity shares were forfeited during the year for non-payment of Call money arrears as a result of which the Company's subscribed equity share capital stands reduced to Rs. 12,91,13,96,100/-

9) AUDITORS & AUDITORS' REPORT

M/s. Lodha & Co., Chartered Accountants, Auditors of the Company will retire at the end of the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

Attention of the members is invited to Note B-5 of Schedule-18 of the Notes to Accounts which is self-explanatory clarifying the auditors' comments on non-provision towards professional fees and supervisory services rendered by certain foreign contractors/parties relating to the project under implementation.

10) CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION

a) Conservation of Energy

Information on conservation of energy, 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 the Board of Directors) Rules, 1988, are provided as an Annexure to this report.

b) Technology Absorption

The R&D Project undertaken in association with the Society for Innovation and Development (SID)/Indian Institute of Science (IISC) by your Company for effective absorption and incremental improvement of the COREX process technology imported in 1994 has been successfully completed. The principal investigator of the project has submitted his findings to the Management. The COREX process technology has been fully absorbed.

The other R&D Project partly financed by the Ministry of Steel and Department of Science and Technology aimed at studying various tolerable Indian non-coking coal to partly replace imported coal is under progress. Agreement has been signed with the Central Fuel Research Institute, Dhanbad to carry out the project. This is likely to be completed by 2002-03.

Similarly, the coil box technology, imported from Canada in 1994, has been fully absorbed. The adoption of this technology is giving an advantage to your plant to produce hot rolled coils of uniform properties and good quality.

During this financial year your Company has developed a number of special and alloy steel HR Coils. These include special EDD, micro alloyed steel, LPG etc. Steel for line pipe and other special applications are in the developmental stage.

Your Company has put much emphasis on the Waste recycling. During the year, with the commissioning of the Pellet Plant, COREX sludge and other raw materials fines are being used in that plant. Project for recycling of coal fines through briquetting technology has been initiated. Utilisation of BOF slag as replacement of limestone in COREX and Pellet Plant is under study.