



ANNUAL REPORT

2005-2006



Jayaswals Neco Limited

**BOARD OF DIRECTORS**

Shri Basant Lall Shaw	Chairman.
Shri B K Agrawal	Director.
Shri M M Vyas	Director.
Shri D Singh	Director.
Shri D R Gangopadhyay	Director (IIBI Nominee).
Shri John Mathew	Director (Exim Nominee).
Shri S K Singhai	Director (IFCI Nominee).
Shri B W Ramteke	Director (IDBI Nominee).
Dr. S R Chougule	Director (ICICI Nominee).
Shri Ramesh Jayaswal	Joint Managing Director.
Shri Arbind Jayaswal	Managing Director.

COMPANY SECRETARY

: Shri A D Karajgaonkar

CHIEF FINANCE OFFICER

: Shri P K Saraogi

BANKERS

: State Bank of India.
Punjab National Bank.
Union Bank of India.
ING Vysya Bank Ltd.
State Bank of Travancore.
Oriental Bank of Commerce
ICICI Bank Ltd.

AUDITORS

: M/s Chaturvedi & Shah,
Chartered Accountants
Mumbai.

M/s Agrawal Chhallani & Co.
Chartered Accountants
Nagpur.

REGISTERED OFFICE

: F-8 MIDC Industrial Area,
Hingna Road, Nagpur - 440 016.
Tel. No. : (07104) 237276, 237471, 237472.
Fax No. : (07104) 237583, 236255.
E-mail : contact@necoindia.com

WORKS

1. Steel Plant Division - Siltara Growth Centre, Raipur.
2. Automotive Castings Division - Butibori, Nagpur.
3. Centricast Division - MIDC Area, Hingna Road, Nagpur.
4. Engineering Castings Division - MIDC Area, Hingna Road, Nagpur.
5. Construction Castings Division - LI Area, Bhilai & Anjora.

NOTICE

NOTICE is hereby given that THIRTY - THIRD Annual General Meeting of the Members of JAYASWALS NECO LIMITED will be held on Monday, the 25th day of September, 2006, at 11.30 A.M. at the Registered Office of the Company at F-8, MIDC Industrial Area, Hingna Road, Nagpur - 440 016 to transact the following business:

1. To receive, consider and adopt Balance Sheet of the Company as at 31st March, 2006, Profit and Loss Account for the year ended on that date and the reports of the Auditors and Directors thereon.
2. To appoint Directors in place of the following Directors who retire by rotation and being eligible offer themselves for re-appointment.
 - a. Shri Ramesh Jayaswal
 - b. Shri D Singh

3. To consider and if thought fit to pass with or without modifications the following resolution as Special Resolution

"**RESOLVED** pursuant to section 224A of the Companies Act, 1956, THAT M/s Chaturvedi & Shah, Chartered Accountants Mumbai, and M/s Agrawal Chhallani & Co. Chartered Accountants, Nagpur, be and are hereby appointed Joint Auditors of the Company to hold office from the conclusion of this Annual General Meeting on such remuneration as may be decided by the Board of Directors of the Company."

By order of the Board of Directors

AD Karajgaonkar
Company Secretary

Registered Office:
F-8, MIDC Industrial Area,
Hingna Road,
NAGPUR - 440 016.

Date: 27th July, 2006.


Details of Directors seeking re-appointment at forthcoming Annual General Meeting.

Name of Directors	Shri Ramesh Jayaswal	Shri Dhananjay Singh
Date of Birth	02.02.1960	02.01.1941
Date of Appointment	05.03.1983	30.03.2002
Qualifications	B.Com.	B.Sc., Engg. (Met.)
Experience in Specific Functional Areas	Associated with Iron and Steel business for over 21 years. Looks after the implementation of new projects and other allied matters	Rich experience of about 42 years in Steel business (Technical and Administration) has led setting up of several Plant Operations in Steel Industries, and achieving reduction in Coke rate.
Other Directorships	1. Neco Industries Ltd., 2. Nagpur Agro & Food Processors Ltd., 3. NSSL Limited 4. Maa Usha Urja Ltd., 5. Steel and Tube Exports Ltd., 6. Jayaswal Holdings Pvt. Ltd., 7. Neco Valves and Pumps Pvt. Ltd., 8. Neco Leasing and Finance Pvt. Ltd., 9. Nagpur Scrap Suppliers Pvt. Ltd.,	1. Neco Castings Ltd., 2. NSSL Limited
Membership on Committees of other Companies	Nil	1
No. of Equity Shares held	50,000	Nil

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE ABOVE SAID MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. A PROXY NEED NOT BE A MEMBER. THE PROXY IN ORDER TO BE EFFECTIVE, MUST BE LODGED WITH THE COMPANY AT LEAST 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. Register of Members and Share Transfer Books of the Company will remain closed from 18th September, 2006 to 25th September, 2006 (both days inclusive).

DIRECTORS' REPORT

Dear Members,

The Directors present their THIRTY THIRD Annual Report on the affairs of the Company together with Audited Balance Sheet as at 31st March, 2006 and the Profit and Loss Account for the year ended on that date. The summarised financial results for the year vis-à-vis the previous year are as follows:

Particulars	(Rs. In Lacs)	
	31.03.2006	31.03.2005
Gross Turnover	103012	102837
Other Income	541	725
Total Income	103553	103562
Total Expenditure	97651	94509
Profit before Interest Depreciation & Tax	5902	9053
Interest & Financial Charges	6319	5163
Profit / (Loss) before Depreciation and Tax	(417)	3890
Depreciation	2980	2603
Profit / (Loss) before earlier year's Interest and tax	(3397)	1286
Interest relating to earlier years (Net)	—	779
Fringe Benefit Tax	67	—
Profit / (Loss) after Tax	(3464)	507
Balance Brought forward and other adjustments	(9336)	(9367)
Available for Appropriations	(12800)	(8860)
Transfer to Debenture Redemption Reserve	—	469
(Loss) carried to Balance Sheet	(12800)	(9328)

In view of the losses, the Directors regret their inability to recommend any dividend to the Members of the Company for the year ended 31st March, 2006.

2. MANAGEMENT DISCUSSION AND ANALYSIS:**a) Segment-wise Performance:****i) Steel Plant Division:**

The production in Steel Plant Division of the Company during the year under review continued to be satisfactory. Various measures that were taken during the year, has helped in increasing production of Pig Iron and Steel products up to 436461 MTs an increase of over 10 % over the previous year. The Sinter Plant set up under the CDR Approved Scheme is functioning at more than its rated capacity. During the year under review, the operations of Pulverised Coal Dust Injection system have been stabilised. This together with use of Sintered material up to 40% in the charge has helped in improving the efficiency of the Furnace and achieving higher production.

The Coke Oven Plant is ready to commence operations. Trials are in progress but it would take some more time to stabilise the operations of this plant. There are some technical and teething problems in these operations, which are being looked into and the remedial measures are being taken in consultations with Foreign collaborators and equipment suppliers.

The Total sales volume at 426865 MTs is at the same level as the previous year. In terms of value however, the Division has suffered a set back mainly on account of substantial drop in selling prices of Pig Iron by about 15% when compared with previous year. Steel prices all over the world have witnessed a downturn during the year. In addition, the dumping of Pig Iron by Integrated Steel Plants in the country from time to time had further dampened the sentiments. The prices of Metcoke have softened during the year however the benefits of the same diminished as a result of lower sales realisations of Pig Iron and the higher prices of Iron Ore another vital input and Furnace Oil. The average price of Iron Ore and Furnace Oil during the year has been higher by about 41 % and 36 % respectively. As a result the segment profit is lower at Rs. 412 Lacs as compared to Rs. 4841 Lacs in the previous year.



ii) Castings Division:

The operations of all the foundries under Castings Division have improved during the year under review, giving overall higher Production – 73680 MTs as compared to 59003 MTs in the previous year, and higher Sales realisation – about 6% higher than the previous year. This together with lower cost of raw materials consumed has helped in achieving higher segment profit at Rs. 2727 Lacs as compared to Rs. 1655 Lacs in the previous year. It is expected that the Company would be able to maintain the growth in this segment in the coming years.

During the year under review the Company has with the approval of CDR Empowered Group in that behalf, incurred further Capital expenditure for installing the balancing equipments in the facilities under Plant II of Automotive Castings Division. Commercial production from the said facilities has commenced with effect from 25th March, 2006. In view of the alround encouraging market conditions in the Automotive sector, the performance of the Automotive Castings Division as a whole has shown remarkable improvement now and is poised to cater to the growing needs of the Automotive sector. In view of better prospects for Automotive castings now in domestic and overseas markets, the Company has shelved its plans for disposal of these assets as was contemplated in CDR Approved Scheme.

b) Financial Performance:

As can be seen from the Accounts, the Company has suffered a net loss of Rs. 3464 Lacs - a significant deviation from the Profit of Rs.507 Lacs in the previous year. This is mainly on account of set back in Steel Plant Division as mentioned above and increased interest and Financial Charges owing to increase in working capital facilities. The Company is making its all out efforts to contain the losses at the minimum. The measures taken in this direction are achieving further reduction in coke consumption and use of higher percentage of Sintered materials in Steel Plant Division.

During the year under review, the Company was sanctioned a Scheme of Settlement of dues by UTI Mutual Fund. The Company has paid in full the amount

crystallised in terms of the Scheme. This, coupled with repayment of loans to other Lenders as per CDR Package, baring a few instances of delays / defaults, has helped the Company in reducing the Debt burden and consequently Term Loan interest overheads.

The Company has since been sanctioned some amendment to CDR Approved Scheme in so far as the rate of interest on Term Loans is concerned. The same has been reduced to flat 9.50% - down from an average 13.84% and 13% for Rupee Term Loans and Future Funded Interest Term Loans respectively. The Company continues to pursue with Lenders for their confirmations on waiver of Compound Interest, which was recommended by CDR Empowered Group earlier.

c) Capital:

As Members are aware, the Company had in March 2004, submitted the CDR Approved Scheme before the Hon'ble High Court as and by way of a Scheme of Arrangement and Compromise for sanction under Section 391 of the Companies Act, 1956. The Hon'ble High Court vide its order dated 27th January, 2006 has sanctioned the said Scheme.

In pursuance of the said order, the Board of Directors at its Meeting held on 27th April, 2006 approved allotment of 2,50,00,000 Equity Shares of Rs.10/- each cash at par to the Promoter Group entities towards their contribution for Projects implemented as per the CDR Package. The Board also approved allotment of further 95,00,000 Equity Shares of Rs. 10/- each for cash at Par to Promoters. 0.0001% Cumulative Redeemable Preference Shares of Rs. 100/- each of the nominal value of Rs.950 Lacs held by them have been redeemed concurrently.

d) Outlook:

While the operations in Castings Division as also in Steel Plant Division are steadily improving, the Financial Results of the Company as a whole would improve on completing the facilities under backward and forward integration measures in the Steel Plant Division of the Company. This Division is at present engaged mainly in the production of Pig Iron and Steel Billets, which are intermediate products. It is also getting a small part of its

production of Steel Billets converted into rolled products from outside sources.

The efforts are already on for completing backward and forward integration facilities so as to make the operations of the Division as that of an Integrated Steel Plant. The Company has been allotted Mining Blocks for Coal, Iron Ore and other inputs for captive consumption. The Company is also looking forward as a part of forward integration step, to have the facilities to produce Rolled Products set up on long term basis. This would pave the way of making value added rolled products to significantly improve profitability in the coming years. However, the Company is not in a position for the time being, to fund huge capital expenditure and hence is looking forward for strategic investors / Mining Contractors / forming Special purpose Vehicles on Joint Venture basis etc. for implementing these facilities at the earliest. Arrangements for the same are being worked out and the work would commence during the current year. It is expected that in about a year or so, the said facilities would be in place and the scenario would change for better.

e) Internal Control Systems:

The Company has a risk focused, Internal Control System to analyze and report to the management on the day to day operations of the Company. Efforts are being made to continuously strengthen it further.

f) Industrial Relations:

Industrial Relations in all the Divisions of the Company remained cordial and peaceful. During the year, average number of persons working in the Company was about 4500 approximately.

3. AUDITORS' REPORT:

As regards comments of the Auditors in para 4 of their report on the Balance Sheet, Profit and Loss Account and Cash Flow statement, with respect to levy of Compound Interest for the period from 1st January 2001 to 31st March, 2003, the Directors wish to state that the same and related note no. 6 in Schedule 17 to the accounts are self explanatory and therefore, does not require further clarifications on the matter. Likewise, accumulated

losses, and cash loss in the current year referred to in para 10 of the Annexure to their report which are the statement of facts, also do not require any clarifications on the matter.

4. DIRECTORS:

During the year under review IFCI Limited has effective from 5.1.2006, withdrawn the nomination of Shri A K Bhan its Nominee and has appointed Shri S K Singhai in his place. Further, Shri S Chakravorty Nominee Director of UTI Mutual Fund has also ceased to be a Director w.e.f. 21.04.2006. The Board appreciates and takes on record on the services rendered by the said Nominee Directors during their tenure with the Company.

Shri Ramesh Jayaswal and Shri D Singh, Directors of the Company retire by rotation at the ensuing Annual General Meeting. Being eligible, they offer themselves for re-appointment. Necessary information on the Directors seeking re-appointment is included in the Notice for the ensuing Annual General Meeting.

5. ADDITIONAL INFORMATION:

The information required to be furnished under Section 217(1)(e) of the Companies Act, 1956, and The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is attached and forms a part of this Report.

6. PARTICULARS OF EMPLOYEES:

During the year review, there are no employees drawing remuneration in excess of the prescribed limits and whose particulars need be given under Section 217 (2A) of The Companies Act, 1956, read with The Companies (Particulars of Employees) Rules, 1975, as amended.

7. CORPORATE GOVERNANCE REPORT:

As required under the provisions of Clause 49 of the listing Agreement with Stock Exchanges, the Report on prescribed matters under Corporate Governance together with a certificate from Auditors of the Company thereon is appended and forms a part of this Report.

8. DIRECTORS RESPONSIBILITY STATEMENT:

As required, under Section 217 (2AA) of The Companies



Act, 1956, the Directors confirm and state that:

- a. All the applicable accounting standards have been followed in the preparation of accounts enclosed herewith
- b. Accounting policies followed are consistent and are based on the principle of a Going Concern.
- c. Judgements and estimates made in that behalf to the extent necessary are reasonable and prudent to give true and fair view of the Accounts of the Company for the year under review.
- d. Directors have taken sufficient care for maintenance of the records and safeguarding the assets of the Company and the procedures, practices and control systems in the day to day management are sound enough to prevent the occurrence of frauds and irregularities.

Accountants, Nagpur, the Auditors of the Company retire at the ensuing Annual General Meeting. The Members are requested to appoint the Auditors and fix their remuneration by Special Resolution as required under section 224 A of the Companies Act, 1956.

10. **ACKNOWLEDGEMENTS:**

The Directors place on record, their appreciation and gratitude for all the co-operation extended by Government Agencies, Bankers, Financial Institutions, Business Associates and Shareholders. The Directors also record their appreciation for the dedicated services rendered by all the Executive Staff and Workers of the Company at all levels in all units for their valuable contribution in the working of the Company.

For and on behalf of Board of Directors,

9. **AUDITORS:**

M/s Chaturvedi & Shah, Chartered Accountants,
Mumbai, and M/s Agrawal Chhallani & Co., Chartered

Nagpur
Dated: - 21st June, 2006.

B L SHAW
Chairman

ANNEXURES TO THE DIRECTORS' REPORT

PARTICULARS UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AS AMENDED FOR THE YEAR ENDED 31ST MARCH, 2006.

I. **CONSERVATION OF ENERGY:**

- A) The Company recognises the importance of savings in the cost of energy consumption. High efficiency, energy effective equipments for steam generation, water softening etc., have been installed at various manufacturing units which ensure stabilised power supply, minimum interruptions and smooth operations.
- B) Effective methods like, furnace cover, replacement of existing equipments with more energy saving devices, Installation of devices to plug the leakages and loss of energy, standardisation of processes and other steps have been taken wherever possible giving a considerable saving in consumption of energy.
- C) The Blast Furnace Gases are extensively utilised for pre-heating of the hot blast stoves, blowing plant in the boilers and as a fuel for generation of Power for captive consumption and sale to others.

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY.

(a) Power and Fuel Consumption.

Particulars	Electricity			Furnace Oil			Coal/Coke		
	Units (KWHs in Lacs)	Amount (Rs. In Lacs)	Rate/ Unit (Rs.)	Units (KL)	Amount (Rs. in Lacs)	Rate/ Unit	Units (MT)	Amount (Rs. in Lacs)	Rate/ Unit (Rs.)
(I) Purchases:									
(a) Iron & Steel Castings	388.67 (313.31)	1441.83 (1162.17)	3.71 (3.71)	- (-)	- (-)	- (-)	16396 (15475)	1170.21 (1064.35)	7137 (6878)
(b) Pig Iron	132.02 (41.86)	1051.10 (403.40)	7.96 (9.64)	1533 (497)	274.26 (65.55)	17894 (13181)	302695 (315034)	36031.82 (45628.43)	11904 (14484)
(II) Own Generation:									
Pig Iron	840.20 (644.87)	2226.52 (1708.90)	2.65 (2.65)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)

Note : Figures in brackets relate to previous year.

(b) Consumption/Unit of Production.

PARTICULARS	ELECTRICITY KWHs.	FURNACE OIL LTRs.	COAL/COKE KGs.
Iron & Steel Castings	499.19 (521.49)	- (-)	210 (257)
Pig Iron	200.45 (160.70)	3.165 (1.340)	625 (737)

Note : Figures in brackets relate to previous year.

II. TECHNOLOGY ABSORPTION:

The Company has adopted the Chinese Technology at its Plant for manufacture of Pig Iron through Blast Furnace and Pulverised Coal Dust Injection. Further, the Company is in the process of setting up Coke Oven Project at its Steel Plant Division. Technology for the same is being provided by Shanxi Provisional Chemical Design Institute of China.

III. FOREIGN EXCHANGE EARNINGS AND OUTGO:

	(Rs. In Lacs) 2005-2006	(Rs. In Lacs) 2004-2005
i) Foreign Exchange earned:		
Export of goods on FOB basis	1853.34	2302.73

ii) **Foreign Exchange used:**

Purchase of Raw Materials, Stores and components and capital goods	29419.45	25403.63
Interest	157.96	8.10
Travelling	43.48	25.85
Salary	10.70	—
Export Promotion	0.20	0.09
Technical know how	383.15	116.03
Bank Charges	1.50	3.88
Repair & Maintenance	—	217.93
Others	3.60	—
Total	30020.04	25775.51

For and of behalf of Board of Directors

Nagpur

Date : 21st June, 2006

B L SHAW

Chairman.

CORPORATE GOVERNANCE REPORT**I COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE**

The core of Corporate Governance is based upon, *inter-alia*; the objective of maximising the wealth of all the Stakeholders of the Company by making optimum utilization of resources at its disposal. It also advocates the principles of transparency to be followed by the Company in all its decisions and actions; apart from furnishing full disclosures to the Board, its Shareholders and other Stakeholders. The Company is committed to adhere to high standards of the Corporate Governance Code in words and spirit. It is also constantly taking review of systems and procedures to keep pace with changing corporate environment.

II BOARD OF DIRECTORS

As of date the Board of the Company comprises of 11 (Eleven) Directors; with the composition of Executive and Non-executive / Independent Directors.

5 (Five) Board Meetings were held during the year ended 31.03.2006. The Dates of the Meetings are given below:

26.04.2005, 31.05.2005, 22.08.2005, 27.10.2005, and 30.01.2006

The names and categories of the Directors on the Board, their attendance at Board Meetings during the year under review and at the last Annual General Meeting as also the number of Directorships and Committee Memberships held by them in other companies are given below:

Sr. No	Names of Directors	Category	Board Meetings Attended	Attended last AGM held on 30.09.05	No. of Directorships in other companies (Excluding Foreign & Private Ltd. Companies)	No. of Memberships in Committee of Directors in other Companies.	
						Member	Chairman
1	Shri BasantLall Shaw Chairman	Promoter Non-Executive	4	Yes	5	-	-