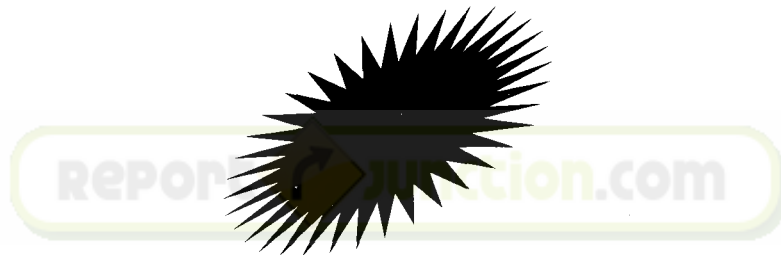


NAVA BHARAT FERRO ALLOYS LIMITED



NBFA

34th ANNUAL REPORT 2005-06

NAVA BHARAT FERRO ALLOYS LIMITED

"Nava Bharat Chambers", 6-3-1109/1, Raj Bhavan Road, Hyderabad - 500 082

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NAVA BHARAT FERRO ALLOYS LIMITED

Five Years at a Glance

(Rs. in lakhs)

	2005-06	2004-05	2003-04	2002-03	2001-02
Sources of Funds :					
Share Capital	1337.01	1337.01	1337.01	1337.01	1774.75
Reserves	29375.15	24983.49	15766.07	12528.25	9241.64
Loans	21846.92	17991.21	15173.89	16368.63	17548.22
Deferred Tax Liability	1983.97	1553.16	2121.56	—	—
	<u>54543.05</u>	<u>48564.87</u>	<u>34398.53</u>	<u>30233.89</u>	<u>28564.61</u>
Application of Funds :					
Fixed Assets less Depreciation	34828.27	28564.61	23374.94	19982.12	16962.44
Investments	218.19	241.34	243.71	210.71	206.11
Net Current Assets	19496.59	17058.92	10779.88	10041.06	11392.14
Miscellaneous Expenditure	—	—	—	—	3.92
	<u>54543.05</u>	<u>45864.87</u>	<u>34398.53</u>	<u>30233.89</u>	<u>28564.61</u>
Profit and Dividend :					
Profit after Taxation	5801.33	10636.04	5564.04	3027.94	1699.92
Dividend	1409.67*	1409.67*	836.81*	443.52*	288.55
Retained Profit	<u>4391.66</u>	<u>9226.37</u>	<u>4727.23</u>	<u>2584.42</u>	<u>1411.37</u>
* Includes Corporate Dividend Tax					
Other Data :					
Dividend per Share :					
— Rs. 2/- each (Rs.)	2.00	—	—	—	—
— Rs. 10/- each (Rs.)	—	10.00	6.00	3.00	1.80
Debt Equity Ratio	0.58	0.45	0.62	0.78	1.11
Our Contribution to Revenue :					
Sales Tax, Income Tax etc.	1426.07	4422.40	1913.90	688.90	782.95
Excise Duty	1957.12	1266.93	2785.68	2352.96	1383.06
	<u>3383.19</u>	<u>5689.33</u>	<u>4699.58</u>	<u>3041.86</u>	<u>2166.01</u>

NAVA BHARAT FERRO ALLOYS LIMITED

Board of Directors

Mr. D. Ashok	Managing Director
Mr. P. Trivikrama Prasad	Executive Director
Mr. C.V. Durga Prasad	Director (Business Development)
Mr. G.R.K. Prasad	Director (Finance & Corporate Affairs)
Mr. P. Punnaiah	
Dr. G. Sreeramjee	
Dr. E.R.C. Shekar	
Dr. M.V.G. Rao	
Mr. K. Balarama Reddi	
Mr. N. Prakash	IDBI Nominee

Mr. M. Subrahmanyam	Company Secretary & Chief General Manager (Corporate Affairs)
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Auditors

Messrs Brahmayya & Co.
Chartered Accountants
Flat No. 403, Golden Green Apartments
Irrum Manzil Colony
Somajiguda, Hyderabad - 500 082

Registered Office

"Nava Bharat Chambers"
6-3-1109/1
Raj Bhavan Road
Hyderabad - 500 082

Cost Auditors

Messrs Narasimha Murthy & Co.
Cost Accountants
104, Pavani Estates
3-6-365, Himayat Nagar
Hyderabad - 500 029

Works :

Ferro Alloy Division
Ferro Alloy Plant (A.P.)
Paloncha - 507 154
Khammam District
Andhra Pradesh

Power Division
Power Plant (A.P.)
Paloncha - 507 154
Khammam District
Andhra Pradesh

Bankers

State Bank of India
Andhra Bank
Bank of India
State Bank of Hyderabad
UCO Bank

Ferro Alloy Plant (Orissa)

Kharagprasad Village - 759 121
Dhenkanal District
Orissa

Power Plant (Orissa)

Kharagprasad Village - 759 121
Dhenkanal District
Orissa

Registrars and Share Transfer Agents

Karvy Computershare Private Limited
"Karvy House"
46, Avenue 4, Street No. 1
Banjara Hills
Hyderabad - 500 034

Sugar Division

Samalkot - 533 440
East Godavari District
Andhra Pradesh

Machine Building Division

Nacharam
Hyderabad - 500 076
Andhra Pradesh



NAVA BHARAT FERRO ALLOYS LIMITED

Report of the Directors and Management Discussion and Analysis for the Financial Year ended 31st March, 2006

Dear Members,

Your Directors have pleasure in submitting their Report and the Audited Accounts of the Company for the Financial Year ended 31st March, 2006.

FINANCIAL RESULTS

The performance of the Company for the Financial Year ended 31st March, 2006 is summarized below:

	Year ended 31.03.2006	Year ended 31.03.2005
	(Rs. in lakhs)	
Turnover/Income (Gross)	58997.83	55871.61
Profit before Finance Charges, Depreciation and Taxation	7931.37	16905.46
Less :Finance Charges (excluding amount capitalized)	1275.02	1097.80
Profit before Depreciation and Taxation	6656.35	15807.66
Depreciation	1832.31	1526.94
Profit for the year after Depreciation	4824.04	14280.72
Extra-ordinary items - (Loss)/Gain	1708.10	(1013.08)
Profit after extra-ordinary items and before tax	6532.14	13267.64
Provision for Taxation - Current tax	560.00	3200.00
- Deferred tax	430.81	(568.40)
- MAT Credit entitlement	(300.00)	—
- Fringe Benefit Tax	40.00	—
Profit after Tax	5801.33	10636.04
Balance brought forward from last year	4002.77	2785.35
Income Tax of earlier years	—	(8.95)
Profit available for Appropriation	9804.10	13412.44
Appropriations :		
Dividend on Equity Share Capital	1236.28	1236.28
Corporate Dividend Tax	173.39	173.39
General Reserve	4000.00	8000.00
Surplus carried to Balance Sheet	4394.43	4002.77
	9804.10	13412.44

NAVA BHARAT FERRO ALLOYS LIMITED

REVIEW OF OPERATIONS:

Financial year 2005-06 was marked by huge volatility and wide swings in ferro alloy realizations coupled with spurt in input costs for a greater part of the year exerting severe pressure on margins notwithstanding higher sales volume. Your Company therefore proactively effected a business shift in favour of merchant sale of power instead of captive consumption from the fourth quarter of FY'06. Sugar operations, however, provided the requisite boost with an all round improvement both in terms of higher performance metrics as well as higher realizations compared to the previous year. Diversity in the operations proved to be a blessing for your Company, which ended the year 2005-06 on a Gross Turnover of Rs.589.98 Crs reflecting an increase by 5.6% while the net profit declined to Rs.58.01 Crs.

Ferro Alloy Division:

Members would recall that the robust phase of the ferro alloy commodity cycle was expected to undergo a correction on account of inventory overhang at each phase of the supply chain, be it the finished steel or the ferro alloys or the ores. This correction took place rather suddenly during FY '06 catching the ferro alloy industry by surprise. The price of Manganese alloys fell sharply in this period. While a slow down of consumption in China is pointed at as a reason, unchecked inventory build up both at the finished steel and intermediate alloy levels might have had a direct bearing to this volatility. Your Company strived hard to mitigate this pressure on margins, to the extent possible, by increasing Sales volume of Manganese Alloys to 92,102 MT compared to that of 52,281 MT in the previous year.

The Ferro Chrome plant in Orissa took the brunt of a sudden recession in Stainless Steel industry resulting in the fall of realization by almost 30%. Your Company was constrained to close the plant operations during the last quarter to wear off this steep fall in prices. The resumption of the production in this unit in May 2005 after a long outage following the fire accident was therefore confined to about seven months only during FY '06.

The Company continued the thrust on export sales of ferro alloys during the year under review notching up turnover of Rs.191.16 Crs for 2005-06. Overall the production of ferro alloys was 1,10,561 MT is comparable to that in the previous year of 1,05,475 MT considering the outage of smelters both in AP and Orissa.

Power Division:

The CPPs in AP and Orissa generated 426.04 MU and 218.22 MU respectively in 2005-06. Members will recall that the export of power in AP was stopped in June 2005 at the behest of the Utility owing to low demand. The new 32 MW power facility in AP became operational in the last quarter of the financial year taking the capacity upto 82 MW. Owing to a sudden correction in the ferro chrome market adversely affecting the margins it was felt that sale of power from the 30MW power plant in Orissa was a better option than captive consumption. Your Company explored the possibility of inter state transmission through open access as an alternative. With sustained efforts permission for open access was obtained and inter state trading of power commenced from January 2006 from the Orissa and AP power units. This strategy also paved way for a new vista of opportunity for future growth of your Company. This has also afforded your Company the critical flexibility to switch the usage of the power for either captive consumption or sale depending on the respective margins as opposed to a tied captive use in a predominantly commodity market. While the altered business strategy has come about in the last quarter, the average Plant Load Factor in the AP power plant was lower compared to the previous year on account of backing down of generation for a major part of the year.

In the pursuit of the new business strategy, your Company has undertaken another 32 MW power facility in AP with a view to sustain the merchant sale of power under open access after meeting the full requirement of captive needs of the four smelters in the AP ferro alloy plant.

Sugar Division:

The sugar plant continued the excellent operating performance during the year under review although the average recovery declined owing to unseasonal rains in the command area. The Sugar Plant crushed 4,37,457 MT cane at an average yield of 10.71% in 2005-06. The Co-generation facility for 9MW power was successfully commissioned and contributed to better operations. The aggressive steam consumption efficiency in this Unit results in higher saving of bagasse, which can boost the down stream application for power generation. The crushing capacity is under optimization to reach the 4000 TCD shortly.

NAVA BHARAT FERRO ALLOYS LIMITED**Infrastructure:**

Your Company has over the years strived to bring about stability in its core activities by integrating to the extent possible. The ferro alloy smelting capacity, your Company feels, has reached a critical mass with coal based captive power aiding it. Further consolidation in the business segment is possible through mining of ore for which efforts are underway. Sugar business is riding a resurgence and the Company is poised to benefit from this buoyancy. In order to ensure that a reasonable growth takes place in future, your Company felt the need to diversify into other lucrative avenues. Infrastructure, members will agree, offers a growth opportunity with immense potential with emphasis of the Central and State Governments in this regard. Infrastructure spans construction of roads, ports, airports, special economic zones, power plants and urban transport and is typically capital intensive. In order to have a focused approach, your Company deemed it fit to invest in a joint venture holding company, which would in turn invest in and incubate special purpose vehicles for each venture. Over a period of time the holding company would assume the flagship role for infrastructure yielding investment returns to your Company.

OUTLOOK AND FUTURE PLANS:

The outlook and future plans of the Company are presented in "Management Discussion and Analysis", forming part of this Report.

SUB DIVISION OF SHARE CAPITAL:

The Company, with a view to prep up the participation of small investor base and trading volumes on the stock exchanges, has sub divided the equity shares from Rs.10/- per share to Rs.2/- per share during the year after obtaining all the relevant approvals. The paid up equity share capital now stands at Rs.1335.75 lakhs represented by 6,67,87,475 equity shares of Rs 2/- each.

DIVIDEND ON EQUITY SHARE CAPITAL:

Considering the reasonable performance of your Company and keeping in view the ongoing capital works and growth trajectory, your Directors are pleased to repeat and recommend dividend @ 100% on the Paid-up Equity Share Capital (Rs.2/- per share) subject to necessary approvals absorbing a sum of Rs.1236.28 lakhs.

The aggregate dividend payout for the year 2005-06 amounts to Rs.1409.67 lakhs including Corporate dividend tax (same as in the previous year).

CONVERTIBLE WARRANTS TO THE PROMOTERS:

During the current Financial Year 2006-07, 32,00,000 Warrants convertible into Equity Shares are approved to be issued to the Persons Acting in Concert with the Promoters on preferential basis at a conversion price of Rs.95/- per Warrant (at a premium of Rs.93/- per Equity Share of Rs.2/- each). The proceeds of the issue will be deployed for funding the ongoing Capital Expenditure and Working Capital requirements.

ISSUE OF FURTHER SECURITIES:

Your Company has been considering various growth opportunities from time to time for which large funds are required. While it is envisaged that the internal generation of funds would partially finance the proposed investments, your Board proposed to raise a part of the fund requirements through the issue of securities including Foreign Currency Convertible Bonds and / or Equity Shares or Securities to the Qualified Institutional Buyers. Your Board approved the issue of the above Securities subject to the consent of the General Body.

INCREASE OF BORROWING POWERS AND CREATION OF SECURITY:

Your Board was empowered by the members on 26.09.1996 to borrow monies for an amount not exceeding Rs.500 crores. In view of the additional requirements for borrowings, proposed issue of Bonds/Securities for long term funds and working capital requirements, your Board proposed to seek consent of the members, the power to borrow an amount not exceeding Rs.3000 crores as required under Section 293(1)(d) of the Companies Act, 1956. The Creation of Security to the extent of the enhanced borrowing powers of not exceeding Rs.3000 crores in favour of the Banks, Institutions, Trustees or any other lenders may be regarded as disposal of Company's properties/undertakings in terms of Section 293(1)(a) of the Companies Act, 1956 for which the consent of the members is sought by your Board by way of Ordinary Resolution through Postal Ballot.

EMPLOYEES STOCK OPTION SCHEME:

Your Company has always believed in rewarding its employees for their continuous hard work, dedication and support, which has led the Company on a growth path. To enable more and more employees to enjoy the fruits of the phenomenal growth that the Company has witnessed in the recent past, it is proposed to implement an Employee Stock Option Scheme called ESOS-2006. The main objective

NAVA BHARAT FERRO ALLOYS LIMITED

of the Scheme is to give employees who are performing well, a certain opportunity to gain from the Company's performance thereby acting as a retention tool. Enabling resolutions are proposed for the consent of the members at the ensuing Annual General Meeting.

LISTING OF SHARES:

The Securities of the Company are listed at National Stock Exchange of India Limited, Bombay Stock Exchange Limited and The Hyderabad Stock Exchange Limited. The Listing fees for these Stock Exchanges have been paid.

FIXED DEPOSITS:

Your Company has been inviting and accepting deposits from the Public, Shareholders and others. The amount of deposits outstanding as on March 31, 2006 was Rs.714.22 lakhs.

There were no overdue deposits and deposits amounting to Rs.0.80 lakhs remained unclaimed as on the date.

INSURANCE:

All the properties of the Company including Buildings, Plant and Machinery and Stocks have been adequately insured.

INSURANCE CLAIM:

The Insurance claims against material damage and loss arising out of business interruption were settled and the final payment of Rs.11.55 Crs received in the current year. The company has received a total sum of Rs.10.77 Crs against material damage and a sum of Rs.25.05 Crs towards loss on account of business interruption and the proceeds were accounted on receipt basis in FY '05, FY '06 and FY '07.

CHANGE OF NAME:

Your Company has over the years pursued a diversity in business and is advantageously placed with all the segments contributing to the profitability. With the repositioning strategy adopted by the Company, thrust will be on the business segments yielding steady and decent returns. While ferro alloys continues to be the main stay, it is felt that a name change is called for to depict the diversity in business of your Company. Accordingly your Board had deliberated and decided to change the name of the Company as "Nava Bharat Ventures Limited " subject to necessary statutory approvals.

DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Sri C.V.Durga Prasad, Director (Business Development) and Sri G.R.K.Prasad, Director (Finance & Corporate Affairs) will be retiring by rotation at this Annual General Meeting and being eligible, offer themselves for reappointment.

Sri N.Prakash was nominated by IDBI on the Board in the place of its earlier nominee, Sri K.P.Ramakrishnan with effect from 20th December, 2005. The Board recorded its appreciation of valuable advice and guidance extended by Sri K.P.Ramakrishnan during his tenure on the Board, Audit Committee and Remuneration Committee of the Company.

Sri P.Trivikrama Prasad, Executive Director, is proposed to be reappointed with effect from 19.03.2007 for a further period of 5 years.

SUBSIDIARY COMPANIES AND CONSOLIDATED ACCOUNTS:

The Company has two Indian subsidiary companies Viz., Kinnera Power Company Limited and Brahmani Infratech Private Limited (formerly Brahmani Power Company Private Limited). NBFA PTE. LIMITED, the Wholly Owned Subsidiary in Singapore continued the trading of ferro alloys. The accounts of the Subsidiary Companies are consolidated with your Company accounts besides appending them to the financial statements in accordance with the provisions of the Companies Act, 1956. The Company incorporated another wholly owned subsidiary "Nava Bharat Realty Limited" with an initial paid up capital of Rs.5 lakhs during April, 2006.

AUDITORS:

M/s.Brahmayya & Co., Chartered Accountants, Hyderabad, the Statutory Auditors of the Company, hold office until the conclusion of the forthcoming Annual General Meeting and are eligible for reappointment. The Company has received letter from them to the effect that their appointment, if made, would be within the prescribed limits under Section 224 (1-B) of the Companies Act, 1956.

COST AUDIT:

Central Government had prescribed Cost Audit for electricity from 2005-06. M/s. Narasimha Murthy & Co, Cost Auditors have been engaged by the Company to conduct the Cost Audit in respect of Industrial Alcohol and

NAVA BHARAT FERRO ALLOYS LIMITED

Sugar manufactured and power generated by the Company for the year ended 31st March, 2006. The approval of the Central Government has since been received for this appointment.

DIRECTORS' RESPONSIBILITY STATEMENT:

The Directors confirm that in the preparation of Annual Accounts for the year ended 31.03.2006:

- All Applicable accounting standards have been followed.
- The accounting policies framed in accordance with the guidelines of the Institute of Chartered Accountants of India have been applied.
- Reasonable and prudent judgement and estimates were made so as to give a true and fair view of the state of affairs of the Company.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, as applicable.
- The accounts have been prepared on 'a going concern' basis.

CORPORATE GOVERNANCE:

Pursuant to amended Clause 49 of the Listing Agreement, your Company has to mandatorily comply with the requirements of Corporate Governance. A separate section on Corporate Governance and a Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance, form part of the Annual Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE:

As required under the provisions of Section 217(1)(e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the particulars relating to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo have been given in the Annexure - I, which forms part of this Report.

INDUSTRIAL SAFETY AND ENVIRONMENT:**Safety:**

Your Company continues to accord high priority to safety of all the personnel and mitigation of damage to equipment in all the plants. A thorough review of all the safety measures in all the plants is being undertaken in consultation with risk management specialists and certain proactive actions taken to avoid accidents. Safety drills are being conducted at regular intervals to train the workers and the employees to face accidents.

Environment:

Members are aware that your Company has been accorded 14001-2004 Certifications reflecting its commitment to environment protection. The Company has also adopted 5-S concept in all its plants to achieve work place excellence.

PARTICULARS OF EMPLOYEES:

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the Annexure - II to the Directors' Report.

INDUSTRIAL RELATIONS:

Industrial relations have been cordial and your Directors appreciate the sincere and efficient services rendered by the employees of the Company at all levels towards successful working of the Company.

ACKNOWLEDGEMENT:

Your Directors would like to express their grateful appreciation for the assistance and co-operation received from the Financial Institutions, the Company's Bankers, Insurance Companies, the Governments of Andhra Pradesh, Orissa and the State utilities and Shareholders during the year under review.

For and on behalf of the Board

P.Trivikrama Prasad
Executive Director

Place : Hyderabad
Date : 31st May, 2006

D.Ashok
Managing Director