

NOVA IRON & STEEL LIMITED



NOVA R.G.
GROUP

14th
ANNUAL
REPORT
2005-2006



NOVA R.G.
GROUP

NOVA IRON & STEEL LIMITED

14TH ANNUAL REPORT 2005-2006
Year ended 31st March, 2006

BOARD OF DIRECTORS

Sh. R.K. Gambhir
Sh. Narsingh Awatar
Sh. V.K. Sakhuja
Sh. M. Ramachandran
Sh. A. Rajasekaran
Sh. R.P. Singh (IFCI Nominee)

DIRECTOR-CUM - COMPANY SECRETARY

Sh. S.P. Maken

BANKERS

Bank of India
Punjab National Bank
Canara Bank

AUDITORS

M/s Antima & Goel
Chartered Accountants
3618/XI, Netaji Subhash Marg,
Darya Ganj, New Delhi-110002

CORPORATE OFFICE

506, Hemkunt Tower,
98, Nehru Place, New Delhi-110 019

Report  junction.com

CONTENTS

Notice	2
Report of the Directors	4
Report on Corporate Governance	8
Report of the Auditors	14
Balance Sheet	17
Profit & Loss Account	18
Schedules & Notes to the Accounts	19
Cash Flow Statement	29



NOVA IRON & STEEL LIMITED

NOTICE

Notice is hereby given that the 14th Annual General Meeting of Nova Iron & Steel Limited will be held at the plant site & Regd. Office at Village Dagori, Tehsil Belha, District Bilaspur, Chattisgarh on Friday, the 22nd September, 2006 at 3.30 P.M. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006 and the profit & loss Account of the Company for the year ended on that date and the reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Shri R.K. Gambhir who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri V.K. Sakhuja who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors of the Company and to fix their remuneration. M/s Ahtima & Goel, Chartered Accountants, retire at the conclusion of this Annual General Meeting and being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS.

5. To consider and, if thought fit, to pass with or without modification(s), the following resolution as an ordinary resolution:

"RESOLVED THAT Mr. A Rajasekaran who was appointed as an Additional Director of the Company w.e.f. 28.04.2006 and who ceases to hold office under Section 260 of the Companies Act, 1956, be and is hereby appointed a Director of the Company".
6. To consider and, if thought fit, to pass with or without modifications, the following Resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, 314, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and consequent upon the approval of the Financial Institutions, Central Govt. and such other approvals as may be required, the appointment of Sh. A. Rajasekaran as a Whole Time Director of the Company, not liable to retire by rotation, for a period of 3 years be and is hereby approved on the following terms and conditions:

 - a) Basic Salary Rs. 50,000/- (Rupees Fifty thousand only) per month.
 - b)

- Education Allowance	-	Rs. 10,000/- P. M.
- Spl. Allowance	-	Rs. 15,000/- P.M.
- Servant Allowance	-	Rs. 7,500/- P.M.
- Gardner Allowance	-	Rs. 7,500/- P.M.
- Books & Periodicals Allowance	-	Rs. 5,000/- P.M.
- Leave Travel Allowance	-	Rs. 30,500/- Per annum.
- Medical Allowance	-	Rs. 2,500/- P.M.
 - c) Free use of Company's Car and Driver for the business of the Company.
 - d) Free use of telephone at residence for the business of the Company.
 - e) Contribution to Provident Fund, Superannuation Fund or Annuity Fund as per rules of the Company and to the extent these, singly or put together, are not taxable under the Income tax Act, 1961.
 - f) Encashment of leave(s) as per rules of the Company.



NOVA IRON & STEEL LIMITED

g) Gratuity as per rules of the Company.

In the event of loss or inadequacy or profit, Shri A. Rajasekaran would be paid the remuneration as mentioned hereinabove."

By order of the Board

Place : New Delhi
Dated : 29th July, 2006

(S.P. Maken)
Director & Company Secretary

NOTES :-

1. A member entitled to attend and vote is entitled to appoint Proxy to attend and vote instead of himself and the proxy need not be a member of the Company. Proxy, in order to be effective, must be deposited with the Company at its Registered Office not less than 48 hours before the time fixed for the meeting.
2. The Register of Members and the Share Transfer Books shall remain closed from 11/09/2006 to 22/09/2006 (both days inclusive).
3. Members seeking information about the accounts are requested to write atleast 10 days before the date of the meeting so that it may be convenient to keep the information ready at the meeting.
4. Members are requested to bring their copy of Annual Report at the Meeting.
5. Members are requested to notify immediately any change in their addresses quoting their folio numbers.

ANNEXURE TO THE NOTICE

Explanatory statement pursuant to Section 173(2) of the Companies Act 1956.

Item No. 5

Mr. A Rajasekaran is B.E. (Metallurgy) and has about 34 years experience in the Steel Industry and is a widely travelled person.

A notice from a member proposing his candidature as a Director alongwith a deposit of Rs.500/- (Rupees five hundred only) pursuant to the provisions of Section 257 of the Companies Act, 1956, has been received by the Company.

Mr. A. Rajasekaran holds 100 shares of the Company.

Item No. 6

The Board of Directors in its meeting held on 28th April, 2006 decided to appoint Mr. A. Rajasekaran as a Whole-time-Director of the Company, subject to the approval of shareholders, financial institutions and Central Government on the terms and conditions mentioned in the proposed resolution.

The terms and conditions of his appointment are according to schedule XIII to the Companies Act, 1956.

He is not a Director in any other Company.

In view of the amendment of schedule XIII vide notification No.5/48/2001-C(V) dated 16.01.2002 issued by the Ministry of Law, Justice and Company Affairs, Department of Company Affairs, his appointment and remuneration are now also subject to the prior approval of the Central Government, keeping in view that the Company has defaulted in repayment of its debts to the financial institutions. The Remuneration Committee in its meeting held on 18th April, 2006 has approved the proposed remuneration for Mr. A Rajasekaran. The Directors, therefore, recommend this resolution for your approval as a special resolution. The appointment of Mr. A. Rajasekaran shall take effect only after the approval from the Central Government.

None of the Directors is interested in the resolution.

NOVA R.G.
GROUP**NOVA IRON & STEEL LIMITED****DIRECTORS' REPORT**

Your Directors have pleasure in presenting the Fourteenth Annual Report together with Audited Accounts for the period ended 31st March, 2006.

Since the accounting year under reference has been extended by three months to end on 31st March, 2006 against the previous year's closing on 31st December, 2004 the Company has prepared the accounts for a period comprising of 15 months for this year.

FINANCIAL RESULTS

	(2005-2006) (15 Months) (Rs. In Lakhs)	(2003-2004) (18 Months) (Rs. In Lakhs)
Total Income	16740.80	17562.12
Gross Profit (Loss)		
Before interest and depreciation	(659.65)	238.27
Interest & Financial Charges	21185.83	19213.15
Profit/ (Loss)	(21845.48)	(18974.88)
Depreciation	492.75	989.41
Provision for Fringe Benefits Tax	6.00	—
Net Profit/(Loss) Transferred to Balance Sheet	(22344.23)	(19964.29)

OPERATIONS & FUTURE OUTLOOK

The operations of the Company during the period under review continue to be under strain. Such strain is reflected in the rising costs of Iron Ore, Coal, Power, freight and other inputs with no corresponding increase in Sponge Iron prices which has further worsened the financial position of the Company. For the last about 3 years the prices of Iron Ore have increased many fold. This has further shaken the business economics and has eroded the bottom line of the Company and the business of manufacturing and sale of Sponge Iron as such has become quite unviable. The sponge iron industry is yet to get encouraging support from the Government.

As informed in the previous reports the company was declared a Sick Company by the Board for Industrial and Financial Reconstruction (BIFR) vide its order dated 23rd June, 1998. The Company had submitted a scheme for Rehabilitation to the Operating Agency i.e. IFCI and BIFR. Subsequently, the Company submitted a modified proposal on 15.10.1999.

The BIFR at the hearing on 27th October, 1999 directed the Company to hold discussions with the Secured Creditors for sorting out the matter regarding the reliefs & concessions sought and to submit an agreed Comprehensive Rehabilitation Scheme with the means of Finance fully tied up. Subsequently, the Company submitted a revised Rehabilitation proposal vide its letter dated 11th November, 1999.

The Company has not heard anything from the Operating Agency (IFCI) so far, nor the OA has carried out any techno-economic feasibility. In the meantime, the Company filed a Writ Petition in the High Court at Jabalpur (MP) against the Order of BIFR dated 27th October, 1999, on the plea that the normal procedure laid down under the Sick Industrial Companies (Special Provisions) Act, (SICA) has been ignored completely by the BIFR and that the BIFR has failed to apply its mind to the proposal submitted by the Company and has insisted that even prior to the submission of a proposal, the Company arrives at an agreed scheme with secured creditors.

The Jabalpur High Court granted stay of the proceedings at BIFR in the meantime. The matter has since been transferred to the Chattisgarh High Court at Bilaspur. The Company had, however, moved an application to the High Court of Chattisgarh at Bilaspur requesting for an early disposal of our pending petition.

In the meantime in a hearing at BIFR on 20.01.2003, the BIFR has permitted a few secured creditors and one unsecured creditor to file/continue recovery suits subject to the condition that decrees, if issued, would not be executed without specific approval of the Bench. The BIFR has also directed again to submit a fully tied up proposal. Again on a hearing on 03/11/2003 the BIFR has permitted two more secured creditors to file/continue recovery suits. The Company has filed Appeals with the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) against the said orders of BIFR. The final hearing of the Appeal is yet to take place.

DIVIDEND

Your Directors express their inability to recommend dividend for the period under review.

DIRECTORS

In accordance with the provisions of Articles of Association of the Company, Sh. R. K. Gambhir and Sh. V.K. Sakhuja, Directors retire by rotation and offer themselves for re-appointment.

Sh. A. Rajasekaran has been appointed as an Additional Director w.e.f. 28.04.2006.

NOVA R.G.
GROUP**NOVA IRON & STEEL LIMITED****AUDITORS AND THEIR REPORT ON THE ACCOUNTS**

The Company's Auditors M/s Antima & Goel, Chartered Accountants will retire at the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment. Your Directors recommend their appointment as Statutory Auditors for another year.

Auditor's Report to the Accounts has been considered by the Board and clarified, wherever necessary, in the Schedule "NOTES ON ACCOUNTS".

PUBLIC DEPOSITS

The Company has not invited or accepted any deposits from public within the meaning of Section 58A of the Companies Act, 1956.

CORPORATE GOVERNANCE

A detailed report on Corporate Governance and a Certificate from the Statutory Auditors of the Company regarding compliance of conditions of Corporate Governance in terms of Clause 49 of Listing Agreement is appended as Annexure -I to this report.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217(2AA) OF THE COMPANIES ACT, 1956

As stipulated in Section 217(2AA) of Companies Act, 1956, your Directors hereby confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures ;
- (ii) the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2006 and of the profit and loss of the Company for the period ended on that date ;
- (iii) the directors have taken proper and sufficient care of the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) the directors have prepared the annual accounts on a going concern basis.

PARTICULARS RELATING TO EMPLOYEES

During the year the Company had no employees to whom the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended from time to time, were applicable.

PARTICULARS RELATING TO TECHNOLOGY ABSORPTION, CONSERVATION OF ENERGY & FOREIGN EXCHANGE EARNINGS AND OUTGO.

Statement giving information regarding conservation of energy, technology absorption etc. required 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, is appended as Annexure-II and forms part of this Report.

INDUSTRIAL RELATIONS

Relations between the Management and its Employees/ Workmen have been cordial and the Directors wish to express their appreciation for the co-operation and dedication of the Employees/Workmen at all levels of the Company.

COMPLIANCE CERTIFICATE FROM THE AUDITORS IN TERMS OF CLAUSE 49 OF THE LISTING AGREEMENT.

A certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance in terms of Clause 49 of the Listing Agreement is appended as Annexure III to this report.

ACKNOWLEDGEMENTS

Your Directors convey their sincere thanks to the Bankers, Financial Institutions, various departments in Central and State Governments and all others associated with the Company for their co-operation, continued support and confidence resposed by them in the Company.

For and on behalf of the Board

Place : New Delhi

Date : 29th July, 2006

R.K.GAMBHIR
(Director)

N.AWATAR
(Director)

NOVA R.G.
GROUP**NOVA IRON & STEEL LIMITED****ANNEXURE-II TO DIRECTORS' REPORT**

STATEMENT PURSUANT TO SECTION 217(1)(e) READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES 1988.

(A) CONSERVATION OF ENERGY:**a) ENERGY CONSERVATION MEASURES TAKEN:**

- By installation of Vibratory Screen in Day Bin Building, the operating Hours of iron ore crusher and the Raw Material Preparation Plant have been reduced to a great extent.
- Continued energy audit of all the Electrical drives has helped in the optimisation of idle running of Motors and saving of Electrical Energy and its cost.
- Installation of Variable Voltage Variable Frequency (VVF) Drives.

b) ADDITIONAL INVESTMENT AND PROPOSAL BEING IMPLEMENTED FOR REDUCTION OF CONSUMPTION OF ENERGY

- Installation of additional 1250 KVA DG set to avoid raw material feed loss in case of long power interruption from C. S. E. B.
- Installation of Hydraulic Fluid Coupling for 250KW Waste Gas Fan to reduce Power Consumption.
- Installation of Bag Filter for Cooler Discharge Area.
- Installation of Third Electric field in the Electro Static Precipitator.

c) IMPACT OF ABOVE MEASURES:

With the implementation of the measures referred above at (a) Saving in energy has been achieved.

Implementation of measures cited at (b) would result in

- i) Increased Production
- ii) Reduced Power Consumption
- iii) Improved Financial Performance and
- iv) Improved dust collection efficiency and improved working Environment.

TECHNOLOGY ABSORPTION:

Efforts made in technology absorption as per Form-B Annexed.

FOREIGN EXCHANGE EARNINGS AND OUT GO:

ACTIVITIES RELATING TO EXPORTS, INITIATIVES TAKEN TO INCREASE EXPORTS, DEVELOPMENTS OF NEW EXPORT MARKETS FOR PRODUCTS AND SERVICES AND EXPORT PLANS.

Cost of key inputs to manufacture Sponge Iron, like Iron Ore, Coal, Power and transportation etc., have increased substantially. Indian Coal based sponge Iron Industry continues to be in a disadvantageous position with respect to its overseas counterparts. However, company is making efforts to counter the difficulties and explore the export markets.

TOTAL FOREIGN EXCHANGE USED & EARNED (2005-06)

• Earned	:	Nil
• CIF Value of Imported Components and Spares	:	Rs.62688/-
• Other Expenses	:	Nil
• Interest on Loans	:	Rs.11794222/-

FORM-B : RESEARCH AND DEVELOPMENT (R & D)**1. SPECIFICATION AREA IN WHICH R & D CARRIED OUT BY THE COMPANY.**

- Studies on process parameters like Kiln Speed, Air Profile, Control of particles, Size of Raw Materials for achieving Long Campaign life.
- Studies on characteristics of Low Grade Iron Ore from New Sources for production of Sponge Iron.
- Studies on utilisation of Waste Material and marketing research for selling the waste materials.
- Studies on New Type of Refractory material

2. BENEFITS DERIVED AS A RESULT OF THE ABOVE R & D:

- Campaign life has been improved resulting in one shut down only in a year instead of 3 thereby effecting reduction in cost of shut down maintenance.
- Use of Iron Ore from New Sources has been established.
- Market for sale of all types of waste material has been developed.
- Suitable indigenous refractory for sponge iron kilns has been developed.
- Refractory consumption has been reduced.

3. FUTURE PLAN OF ACTION :

- Condition monitoring and predictive maintenance to improve plant availability.
- Extension of field in electrostatic precipitator for enhancement in performance of the Electro Static Precipitator as per the revised Chhattisgarh Pollution Control Board norms.
- Modification in the material flow circuit to use lump iron ore of 150mm size.
- Replacement of existing Bag Filters for improving the working environment.

4. EXPENDITURE ON R & D:

- Since in-house expertise, available equipments and instruments were used, separate identification/ allocation of expenditure towards R&D is not feasible.

TECHNOLOGY ABSORPTION, ADOPTION & INNOVATION:

- Lurgi's technology based on SL/RN Process has been fully absorbed and Process/operations parameters have been optimized.

NOVA R.G.
GROUP**NOVA IRON & STEEL LIMITED****CERTIFICATE****ANNEXURE-III****To The Members of
Nova Iron & Steel Ltd.**

We have examined the compliance of conditions of Corporate Governance by Nova Iron & Steel Ltd. ('the Company') for the year ended on 31st March, 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges. The Company has complied the same materially.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, the Company has complied in material respects with the conditions of Corporate Governance, except as reported in the Corporate Governance report, as stipulated in the Listing Agreement.

We have been explained that no investor grievances remained un-attended for a period exceeding one month, as at 30th April, 2006 against the Company as per the records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Report  junction.com**For ANTIMA & GOEL
Chartered Accountants****New Delhi
29th July, 2006****(R.B.Goel)
Partner**

NOVA R.G.
GROUP**NOVA IRON & STEEL LIMITED****ANNEXURE-I TO DIRECTORS' REPORT****REPORT ON CORPORATE GOVERNANCE**

Pursuant to SEBI Circular No. SMDRP/Policy/CIR-10/2000 dated February 21, 2000, Corporate Governance norms have been enshrined in Clause 49 of the Listing Agreement with the Stock Exchanges.

The Company is fully committed to good Corporate Governance practices. Your Directors endeavour to adhere to the Standards set out by the Securities And Exchange Board of India (SEBI). Your Company is, therefore, complying in all material respects the mandatory requirements as explained hereunder :-

BOARD OF DIRECTORS

a) The Board consists of Seven directors. As required, more than 50% (more than 2/3rd in our case) are non-executive Directors, and more than one third (2/3rd in our case) of the board comprises of independent directors.

b) **Attendance Record of Directors in the Board Meetings held during the period under review –**

Date of Board Meeting	R.K.Gambhir	N.Awatar	V.K.Sakhuja	S.P.Maken	M.Ramachandran	R. P. Singh
27.01.2005	✓	✓	X	✓	X	✓
29.04.2005	✓	✓	X	✓	X	✓
20.05.2005	✓	✓	X	✓	X	✓
30.07.2005	✓	✓	X	✓	X	✓
28.10.2005	✓	✓	X	✓	X	✓
31.01.2006	✓	X	X	✓	X	✓

· Mr. A. Rajasekaran has been appointed an Additional Director w.e.f. 28-4-2006.

c) **NUMBER OF DIRECTORSHIPS/NUMBER OF BOARD COMMITTEE MEMBERSHIPS HELD IN OTHER PUBLIC LIMITED COMPANIES.**

Name of the Director	No. of Directorships held in other Public Ltd. Companies	Number of Board Committee Memberships held in other Companies
Sh. R.K.Gambhir	-	-
Sh. Narsingh Awatar	1	-
Sh. V.K.Sakhuja	-	-
Sh. M.Ramachandran	-	-
Sh. S.P.Maken	-	-
Sh. R.P.Singh	3	6
Sh. A. Rajasekaran	-	-

d) The Non-Executive Directors had no pecuniary relationship or transactions with the Company in their personal capacity during the period under review.

e) Sh. R.K. Gambhir and Sh. V.K. Sakhuja are retiring by rotation and have offered themselves for re-appointment.

Sh. R.K. Gambhir is a Promoter Director and is one of the first Directors. He is a Graduate with about 27 years of experience in Steel and Electronics Industries.

Sh. V. K. Sakhuja is an ex-Banker. He has a rich experience of working of Industrial Companies including Steel Industry.

NOVA R.G.
GROUP**NOVA IRON & STEEL LIMITED**

f) Details of remuneration paid to the Directors during the Period under review :

(i) Executive Directors

S.No.	Name of the Director	Salary(Rs.)	Perquisites and Allowances(Rs.)	Period
1.	Mr. S.P. Maken	1,80,000	3,42,000	01/01/2005 to 31/03/2006

(ii) Non-Executive Directors

S.No.	Name	Sitting Fee(Rs.)
1.	Mr. N. Awatar	11,000/- @ Rs. 1000/- per meeting of the Board or Committee except Share Transfer Committee Meetings.
2.	Mr. R.K.Gambhir	NIL
3.	Mr. V.K.Sakhuja	NIL
4.	Mr. M. Ramachandran	NIL

BOARD PROCEDURE

During the year under review 6 meetings of the Board were held. The intervening period between two Board Meetings was well within the maximum prescribed gap of four months.

Last Annual General Meeting was held on 27.6.2005 which was attended by Mr.N.Awatar and Mr. S.P.Maken, Directors.

CODE OF CONDUCT

The Board has approved a 'Code of Conduct' binding on all Board Members and Senior Management Personnel in its meeting held on 28th April, 2006. The same has been circulated to all concerned for compliance.

AUDIT COMMITTEE

An Audit Committee consisting of 3 members, all being non-executive directors has been constituted. Two of the 3 members are independent directors and the Chairman of the Committee is also independent director and he is a very senior practising Chartered Accountant.

The Company Secretary is the Secretary of the Audit Committee.

The following are the members of the Audit Committee.

1. Sh. N.Awatar (Chairman)
2. Sh. V.K.Sakhuja
3. Sh. R.K.Gambhir

The General Manager (Accounts) who is the head of the Accounts functions is invited to all the meetings of the Audit Committee.

A representative of the Statutory Auditors is a permanent invitee to the Audit Committee Meetings.

The following are the terms of reference of the Committee –

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. **Approval of payment to statutory auditors for any other services rendered by the statutory auditors.**
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to: