

15<sup>th</sup>

**ANNUAL REPORT  
2003-04**



**SATHAVAHANA ISPAT LIMITED**

**BOARD OF DIRECTORS:**

<b>Shri Ghulam Ghouse</b>	Chairman
<b>Shri A.S.Rao</b>	Executive Vice Chairman
<b>Shri K.Thanu Pillai</b>	Director
<b>Shri Khaja Ruknuddin</b>	Director
<b>Shri A. Naresh Kumar</b>	Managing Director
<b>Shri S.N.Rao</b>	Executive Director (Works)

**GENERAL MANAGER (FINANCE) & COMPANY SECRETARY,**

K.V. Krishna Rao

**AUDITORS**

M/s. P.V.R.K. Nageswara Rao & Co.,  
Chartered Accountants

**BANKERS:**

State Bank of Hyderabad  
Canara Bank  
ING Vysya Bank Limited

**REGISTERED OFFICE**

314, Sri Rama Krishna Towers,  
Nagarjuna Nagar, Ameerpet,  
Hyderabad - 500 073.

**CORPORATE OFFICE & SECRETARIAL DEPARTMENT**

505, 5th Floor, Block - 1,  
Divyashakti Complex,  
Ameerpet,  
Hyderabad - 500 016.

**SHARE TRANSFER AGENTS**

M/s. Ikon Visions Private Limited,  
33, Sanali Heavens, Ameerpet,  
Hyderabad - 500 073.

**WORKS**

Haresamudram Village,  
Bommanahal Mandal,  
Ananthapur District,  
Andhra Pradesh.

	<b><u>CONTENTS</u></b>	<b><u>PAGE NO.</u></b>
1.	Notice of 15th Annual General Meeting	3 - 6
2.	Directors' Report	6 - 8
3.	Report on Corporate Governance	8 - 11
4.	Management Discussion & Analysis	12 - 14
5.	Auditors' Report	14 - 15
6.	Balance Sheet	16
7.	Profit and Loss Account	17
8.	Cash Flow Statement	18
9.	Schedules to Balance Sheet	19 - 21
10.	Schedules to Profit and Loss Account	22 - 23
11.	Notes to Accounts	23 - 28
12.	Balance Sheet Abstract and Companies General Business Profile	28
13.	ECS Mandate	29
14.	Form for Furnishing Bank Particulars	30
15.	Attendance Slip/Proxy Form	31



## NOTICE OF 15TH ANNUAL GENERAL MEETING

**NOTICE** is hereby given that the 15th Annual General Meeting of the shareholders of **SATHAVAHANA ISPAT LIMITED** will be held at Sri Sagi Ramakrishnam Raju Community Hall, Madhura Nagar, Hyderabad-500 038 on Thursday the 30th September, 2004 at 3.00 p.m. to transact the following business:

### AS ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended 31st March, 2004 along with the Reports of directors and auditors thereon.
2. To declare a dividend on equity shares.
3. To appoint a director in place of Shri A.S.Rao, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a director in place of Shri K.Thanu Pillai, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint auditors for the current year under section 224A of the Companies Act, 1956 and fix their remuneration. The retiring auditors M/S. P.V.R.K. Nageswara Rao & Co., Chartered Accountants, Hyderabad, are eligible for reappointment.

To consider and, if thought fit, to pass the following resolution, with or without any modifications as an **ORDINARY RESOLUTION**:

"RESOLVED that, pursuant to section 224A of the Companies Act, 1956, M/s. P.V.R.K. Nageswara Rao & Co., Chartered Accountants, Hyderabad, retiring auditors of the Company, be and are hereby reappointed as auditors of the Company till the conclusion of next Annual General Meeting on a remuneration to be decided by the Board of Directors of the Company plus service tax and out of pocket expenses".

### AS SPECIAL BUSINESS:

6. **To consider and, if thought fit, to pass, with or without any modifications, the following resolution as an ORDINARY RESOLUTION:**

"RESOLVED that, pursuant to the provisions of Section 198, 269, 309, 310, 311 and Schedule XIII and other applicable provisions if any, of the Companies Act, 1956 and subject to the approval of the Banks from whom the Company availed Term Loans and as recommended by the Remuneration Committee of Board of Directors and approved by Board of Directors at its meeting held on 30th April 2004, approval be and is hereby accorded to the re-appointment of Shri A.Naresh Kumar, Managing Director for a period of five years effect from 01.06.2004 to 31.05.2009 on the following remuneration:

#### I. SALARY:

Salary of Rs.75,000 per month, in the scale of Rs.75,000-10,000-1,15,000 per month.

#### II. PERQUISITES:

The following perquisites may be allowed in addition to salary.

### CATEGORY A:

- i. Housing-I: The expenditure incurred by the Company on hiring furnished accommodation which will be subject to a ceiling of sixty percent of the Salary over and above ten percent payable by Shri A.Naresh Kumar, Managing Director; or  
 Housing II: In case the accommodation is owned by the Company ten percent of the salary of the appointee shall be deducted by the Company; or  
 In case no accommodation is provided by the Company a House Rent Allowance subject to the ceiling laid down in Housing I.  
 Explanation: The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income Tax Rules, 1962 and shall be subject to a ceiling of ten percent of salary of the appointee.

- ii. Medical Reimbursement: Expenses incurred for self and family subject to a ceiling of one month's salary in a year or three month's salary over a period of three years.
- iii. Leave Travel Concession for self and family, once in a year incurred in accordance with any rules specified by the Company.
- iv. Club Fee subject to a maximum of two Clubs. This will not include admission and life membership fee.
- v. Personal accident insurance the premium of which shall not exceed Rs.10,000/- per annum.
- vi. Medical & Insurance Premium, the premium of which shall not exceed Rs.24,000/- per annum.

### CATEGORY B:

- i. Contribution to Provident Fund, Superannuation fund and annuity fund to the extent these either singly or put together are not taxable under Income Tax Act, 1961.
- ii. Gratuity payable at a rate not exceeding half a month's salary for each completed year of service, and
- iii. Encashment of leave at the end of the tenure.

### CATEGORY C:

Provision of car for use on Company's business and telephone at residence. Personal long distance calls on telephone and the use of car for private purpose shall be billed by the Company to Shri A. Naresh Kumar, Managing Director.

### III. COMMISSION:

1% commission on the net profits of the Company computed in the manner laid down in Section 309(5) of the Companies Act, 1956.

### IV. MINIMUM REMUNERATION:

In the event of losses or inadequacy of profits during the above period, the Managing Director is entitled to the aforesaid salary and perquisites mentioned above as minimum remuneration".

"RESOLVED FURTHER that the office of Managing Director held by Shri A. Naresh Kumar pursuant to this resolution shall not be liable to determination by retirement of Directors by rotation".

7. **To consider and, if thought fit, to pass, with or without any modifications, the following resolution as an ORDINARY RESOLUTION:**

"RESOLVED THAT pursuant to section 293(1)(a) and other applicable provisions if any, of the Companies Act, 1956 (including any statutory modification(s) or re-enactment thereof, for the time being in force) and in supersession of the resolution passed in this behalf at the 13th Annual General Meeting of the Company held on 30th September 2002, and such other approvals as may be necessary and subject to such conditions and modifications as may be prescribed, required or directed in granting any such approvals or consents and which the Board of Directors be and is hereby authorised to accept, consent of the Company be and the same is hereby accorded to the Board of Directors of Company (herein after referred to as "the Board" which term shall be deemed to include any committee of Directors, for the time being exercising the powers conferred upon by the Board) for mortgaging, and/or charging or second mortgaging and / or second charging by the Board of Directors in any manner whatsoever of all or any of the immovable and movable (save and except book debts) properties of the Company, wheresoever situate, both present and future or the whole or substantially the whole of the undertaking or undertakings of the Company in such form and in such manner as the Board of Directors may think fit, together with power to take over the management of the business and concern of the Company in certain events for securing any loans and/or advances for company's business, either already obtained or that may be obtained from any Financial Institutions/Banks/Bodies Corporate/Person or Persons (herein after referred to them severally as "The Lenders") and/ or to secure any debentures issued and that may be issued together



with interest at the respective agreed rates, additional interest, liquidated damages, commitment charges, premium on prepayment or on redemption, costs, charges, expenses and all other moneys payable by the Company to the Lenders in terms of their loan agreements/heads of agreement/hypothecation agreements/trustees agreements/letters of sanction/memorandum of terms and conditions, entered into/to be entered into by the Company in respect of the said term loans/debentures, subject to the condition that overall borrowings outstanding at any one time for which mortgage and / or charge is created shall not exceed Rs.500 crores (Rupees five hundred crores only).

RESOLVED FURTHER THAT the Board of Directors of the Company be and they are hereby authorised to finalise the documents for creating the aforesaid mortgages and/or charges and to do all such acts, deeds, matters and things as may be necessary, proper or expedient for giving effect to this resolution."

8. **To consider and, if thought fit, to pass, with or without any modifications, the following resolution as an ORDINARY RESOLUTION:**

"RESOLVED THAT in supersession of the resolution passed in this behalf at the 6th Annual General Meeting of the Company held on 30th September 1995, and pursuant to section 293(1)(d) and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification(s) or re-enactment thereof, for the time being in force), consent of the Company be and is hereby accorded to the Board of Directors of the Company (herein after referred to as "the Board" which term shall be deemed to include any committee of Directors, for the time being exercising the powers conferred upon by the Board) for borrowing from time to time any sum or sums of money or moneys for company's business, in such manner from time to time, with or without security and upon such terms and conditions as the Board may think fit which, together with the moneys already borrowed by the Company (apart from temporary loans obtained or to be obtained from the Company's bankers in the ordinary course of business), may exceed the aggregate for the time being of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided that the total amount of money / moneys so borrowed by the Board and outstanding at any given time shall not exceed the limit of Rs.400 crores (Rupees four hundred crores only)."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and they are hereby authorised to finalise the terms and conditions of borrowal and to do all such acts, deeds, matters and things as may be necessary, proper or expedient for giving effect to this resolution."

By order of the Board

Hyderabad  
Date: 31.07.2004

(A. NARESH KUMAR)  
MANAGING DIRECTOR

**NOTES:**

1. THE RELATIVE EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956, IN RESPECT OF THE BUSINESS SET OUT UNDER ITEMS 6 TO 8 IS ANNEXED HERETO AND FORMS PART OF THE NOTICE. THE RELEVANT DETAILS OF DIRECTORS, AS REQUIRED BY CLAUSE 49 OF THE LISTING AGREEMENTS ENTERED INTO WITH THE STOCK EXCHANGES, SEEKING RE-APPOINTMENT UNDER ITEM NOS. 3 AND 4 ABOVE ARE ALSO ANNEXED.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. MEMBER INTENDING TO APPOINT A PROXY SHOULD COMPLETE THE PROXY FORM FURNISHED ELSEWHERE AND DEPOSIT IT AT THE COMPANY'S

CORPORATE OFFICE NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

3. THE REGISTER OF MEMBERS AND SHARE TRANSFER BOOKS OF THE COMPANY WILL REMAIN CLOSED FROM **16.09.2004 TO 30.09.2004** (BOTH DAYS INCLUSIVE) FOR TRANSFERS IN PHYSICAL MODE AND ON **15.09.2004** FOR ELECTRONIC MODE FOR DETERMINING THE NAMES OF MEMBERS ELIGIBLE FOR DIVIDEND ON EQUITY SHARES, IF APPROVED AT THE ANNUAL GENERAL MEETING.
4. THE DIVIDEND ON EQUITY SHARES FOR THE YEAR 2003-04 RECOMMENDED BY THE BOARD OF DIRECTORS, IF DECLARED AT THE GENERAL MEETING, WILL BE PAYABLE ON OR AFTER 1ST OCTOBER, 2004. TO THOSE MEMBERS WHOSE NAMES APPEAR ON THE COMPANY'S REGISTER OF MEMBERS HOLDING SHARES IN PHYSICAL MODE AS ON 30TH SEPTEMBER, 2004 AND TO THOSE BENEFICIAL OWNERS WHOSE NAME APPEARS ON 15TH SEPTEMBER 2004 IN THE LISTS PROVIDED BY THE DEPOSITORIES.
5. MEMBERS MAY PLEASE NOTE THAT THE DIVIDEND WARRANTS WILL BE MADE PAYABLE AT PAR AT THE DESIGNATED BRANCHES OF THE BANK PRINTED ON REVERSE OF THE DIVIDEND WARRANT FOR AN INITIAL PERIOD OF SIX MONTHS ONLY. THEREAFTER THE DIVIDEND WARRANTS WILL BE REQUIRED TO BE REVALIDATED BY THE COMPANY AND WILL BE MADE PAYABLE ONLY AT DRAWEE BRANCH OF THE BANK. **MEMBERS ARE THEREFORE ADVISED TO ENCASH DIVIDEND WARRANTS WITHIN THE INITIAL VALIDITY PERIOD OF SIX MONTHS.**
6. MEMBERS HOLDING SHARES IN PHYSICAL FORM ARE REQUESTED TO INTIMATE TO THE COMPANY ON OR BEFORE 15TH SEPTEMBER 2004 THE BANK PARTICULARS TO BE INCORPORATED ON THE DIVIDEND WARRANTS. (IN THE FORM FURNISHED ELSEWHERE IN THIS REPORT) DULY SIGNED BY THE SOLE/FIRST HOLDER.  
IN CASE OF SHARE HOLDINGS IN ELECTRONIC FORM, THE BANK ACCOUNT DETAILS OF BENEFICIARIES AS FURNISHED BY THE DEPOSITORIES TO THE COMPANY WILL BE PRINTED ON THEIR DIVIDEND WARRANTS AS PER THE APPLICABLE REGULATIONS OF THE DEPOSITORIES. NO REQUEST SHOULD BE LODGED WITH THE COMPANY / SHARE TRANSFER AGENTS FOR DELETION / CHANGE IN SUCH BANK DETAILS. BANK DETAILS AVAILABLE IN PHYSICAL HOLDING WILL NOT BE AUTOMATICALLY TRANSFERRED TO ELECTRONIC MODE AT THE TIME OF DEMATERIALISATION OF SHARES. MEMBERS HOLDING SHARES IN ELECTRONIC MODE SHOULD ARRANGE TO CHANGE THE BANK DETAILS, IF REQUIRED, WELL BEFORE THE BOOK CLOSURE DATE BY CONTACTING THEIR DEPOSITORY PARTICIPANT.
7. THE COMPANY PROVIDES THE FACILITY OF ELECTRONIC CLEARING SERVICE (ECS) TO ALL SHAREHOLDERS HOLDING SHARES IN ELECTRONIC AND PHYSICAL MODE FOR THE PAYMENT OF DIVIDEND DECLARED AT THE MEETING, AT THOSE CENTRES PERMITTED BY RBI.

MEMBERS HOLDING SHARES IN PHYSICAL FORM AND WISHING TO AVAIL THE ECS FACILITY SHOULD LODGE WITH SHARE TRANSFER AGENT, THE ECS MANDATE (COPY OF WHICH IS FURNISHED ELSEWHERE IN THIS REPORT) UNDER SOLE / FIRST HOLDER'S SIGNATURE ON OR BEFORE 15TH SEPTEMBER, 2004. ADDITIONAL COPIES OF ECS MANDATE, IF REQUIRED, CAN ALSO BE OBTAINED FROM THE SHARE TRANSFER AGENT.

8. THE MEMBERS WHO HAVE SO FAR NOT ENCASHED THEIR DIVIDEND WARRANTS RELATING TO THE DIVIDEND DECLARED FOR THE FINANCIAL YEAR ENDING 31ST MARCH, 2003 MAY APPROACH THE COMPANY WITHOUT ANY FURTHER DELAY FOR THE PAYMENT OF THE SAID WARRANTS. PURSUANT TO PROVISIONS OF SECTION 205C OF THE COMPANIES ACT, 1956 THE UNCLAIMED DIVIDEND AT THE END OF SEVEN YEARS WILL HAVE TO BE TRANSFERRED TO THE INVESTOR EDUCATION AND PROTECTION FUND OF THE CENTRAL GOVERNMENT, WHEREBY

**SATHAVAHANA ISPAT LIMITED**

15th Annual Report 2003-04



THE MEMBERS WILL NOT BE ABLE TO CLAIM THE SAID DIVIDEND FOREVER THEREAFTER. ACCORDINGLY THE UNCLAIMED DIVIDEND FOR THE YEAR ENDED 31ST MARCH, 2003 WILL HAVE TO BE CLAIMED BY THE SHAREHOLDERS ON OR BEFORE 29TH SEPTEMBER 2010 AND THEREAFTER IT WILL BE TRANSFERRED TO INVESTOR EDUCATION AND PROTECTION FUND ON OR BEFORE 28TH OCTOBER 2010.

9. MEMBERS DESIROUS OF SEEKING CLARIFICATIONS ON ACCOUNTS ARE REQUESTED TO SEND THEIR QUERIES TO THE CORPORATE OFFICE ADDRESS OF THE COMPANY AT LEAST SEVEN DAYS BEFORE THE DATE OF THE ANNUAL GENERAL MEETING TO ENABLE THE COMPANY TO COMPILE AND FURNISH REQUIRED INFORMATION.
10. THE SHAREHOLDERS HOLDING SHARES IN PHYSICAL MODE ARE REQUESTED TO INTIMATE IMMEDIATELY ANY CHANGE IN THEIR ADDRESS REGISTERED WITH THE COMPANY TO THE SHARE TRANSFER AGENTS M/S IKON VISION PRIVATE LIMITED, 33 SANALI HEAVENS, AMEERPET, HYDERABAD - 500 073.
11. THE SHAREHOLDERS ARE HEREBY REQUESTED THAT ALL THE CORRESPONDENCE IN CONNECTION WITH THE SHARES BE ADDRESSED TO THE SHARE TRANSFER AGENTS OF THE COMPANY M/s. IKON VISIONS PRIVATE LIMITED, 33, SANALI HEAVENS, AMEERPET, HYDERABAD - 500 073 OR TO THE SECRETARIAL DEPARTMENT OF THE COMPANY AT 505, 5TH FLOOR, BLOCK-1, DIVYASHAKTI COMPLEX, AMEERPET, HYDERABAD - 500 016.
12. PURSUANT TO THE DIRECTIONS OF THE SEBI THE SHARES OF THE COMPANY ARE TO BE COMPULSORILY TRADED IN DEMAT MODE W.E.F 26TH FEBRUARY, 2001. MEMBERS MAY THEREFORE, CONVERT THEIR EQUITY HOLDINGS OF THE COMPANY INTO DEMAT MODE BY OPENING THE DEMAT ACCOUNTS WITH DEPOSITORY PARTICIPANTS WHO ARE ACTING AS AGENTS TO THE DEPOSITORIES VIZ., NSDL AND CDSL. THE COMPANY HAS BEEN ALLOTTED THE ISIN NO. **INE176C01016**. HOWEVER, MEMBERS MAY CONTINUE TO HOLD THE SHARES OF THE COMPANY IN PHYSICAL FORM AT THEIR OPTION BUT FOR TRADING THE SAME ON THE STOCK EXCHANGES, CONVERSION INTO DEMAT MODE IS COMPULSORY.
13. MEMBERS ARE REQUESTED TO BRING THEIR COPY OF ANNUAL REPORT TO THE MEETING. MEMBERS / PROXIES SHOULD FILL THE ATTENDANCE SLIP FOR ATTENDING THE MEETING. MEMBERS / PROXIES ARE REQUESTED TO FILL IN THE CLIENT ID AND DP ID NUMBERS IN CASE OF ELECTRONIC HOLDING AND FOLIO NUMBER IN CASE OF PHYSICAL HOLDING IN THE ATTENDANCE SLIPS. CORPORATE MEMBERS WISHING TO DEPUTE THEIR AUTHORISED REPRESENTATIVES ARE REQUESTED TO SEND A DULY CERTIFIED COPY OF BOARD RESOLUTION AUTHORISING THEIR REPRESENTATIVES TO ATTEND AND VOTE AT THE GENERAL MEETING.
14. MEMBERS HOLDING SHARES IN PHYSICAL FORM AND DESIROUS OF AVAILING THE BENEFIT OF NOMINATION FACILITY IN TERMS OF SECTION 109A OF THE COMPANIES ACT, 1956 READ WITH ARTICLE 64A OF ARTICLES OF ASSOCIATION OF THE COMPANY, MAY DO SO BY SENDING THEIR REQUESTS IN FORM 2B COPY OF WHICH WILL BE MADE AVAILABLE ON A REQUEST TO THE SHARE TRANSFER AGENTS M/S. IKON VISIONS PVT LTD.
15. THE EQUITY SHARES OF THE COMPANY ARE LISTED ON HYDERABAD AND MUMBAI STOCK EXCHANGES. THE ANNUAL LISTING FEE TO THE STOCK EXCHANGES WHERE THE COMPANY'S SHARES ARE LISTED HAS BEEN PAID UPTO DATE.

**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956.**

**Item No. 6:** Shri A.Naresh Kumar had been appointed as Managing Director in the Board Meeting held on 31.05.1999 for a period of five years with effect from 01.06.1999 to 31.05.2004. The appointment was subsequently approved at the 9th Annual General Meeting of the Company held on 30.09.1999. Accordingly his tenure has had come to close on 31.05.2004. Shri A.Naresh Kumar is eligible for re-appointment. Accordingly, the Remuneration Committee of the Board of Directors had considered and recommended the re-appointment at its meeting held on 30th April 2004, for a further period of five years and the Board of Directors at its meeting held on 30th April 2004 approved the re-appointment for a further period of five years effective from 1st June 2004 to 31st May 2009. Shri A.Naresh Kumar, one of the Promoter Director is a Director on the Board of the company since May 1992. He was also a Director on the Board of the company during 1989-1991.

Shri A.Naresh Kumar is a chemical engineer by profession and holds a Masters' Degree from the University of Missouri-Rolla, U.S.A. He was employed in trans-national companies in U.S.A. for about four years.

Shri A.Naresh Kumar as Director on the Board of Director has gained good experience on the operations of the Company. He is the brain behind technical improvements programme implemented by the Company during the last few years. He has actively participated in the modernisation and expansion programme and made it a success. He has closely studied the operations of the Company and rendered valuable advice in the day to day operations of the Company. His contribution to the operations of the Company has yielded good results in the form of expanded capacity and improved productivity and production.

Keeping in view his contribution to the Company and on the recommendations of the Remuneration Committee, the Board of Directors at its meeting held on 30th April 2004 re-appointed him as Managing Director for a further period of five years effect from 01.06.2004 to 31.05.2009 at the remuneration set out in the resolution. Shri A.Naresh Kumar is not liable to retire by rotation of Directors during his tenure as Managing Director.

The re-appointment and the remuneration are as per the provisions of the Schedule XIII of the Companies Act, 1956, which does not require the approval of the Central Government but is subject to approval of banks and members in General Meeting.

Accordingly, the approval of the members is being sought by way of ordinary resolution.

Shri A.Naresh Kumar, the appointee Director, and Shri A.S.Rao Executive Vice Chairman, being a relative of Shri A.Naresh Kumar are interested in the resolution. No other Director is concerned or interested in the resolution.

Your Board of Directors commend the resolution for your approval.

**Item No. 7:** Section 293(1)(a) of the Companies Act, 1956 provides, inter alia, that the Board of Directors of a public limited company, shall not without the consent of the members in a General Meeting sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the Company.

The members of the Company at the 13th Annual General Meeting held on 30.09.2002 had authorised the Board of Directors of the Company to create inter alia a mortgage and / or charge on the immovable / movable properties of the Company in a sum not exceeding Rs. 150 crores (Rupees one hundred and fifty crores only).

In view of the Company's plans for expansion by way of backward and forward integration, the Company may have to create a mortgage and / or charge including a second mortgage and / or second charge on the immovable / movable (save and except book debts) properties of the Company to the lenders - both existing and prospective, by way of collateral security for the loans raised or to be raised by the Company. It is therefore, considered necessary to approach the members of the Company to revise the aforesaid authorisation with a limit up to Rs. 500 Crores (Rupees five hundred crores only).

The Board of Directors commends the resolution for your approval. None of the Directors is interested or concerned in the said resolution.





**Item No.8:** Under Section 293(1)(d) of the Companies Act, 1956, the Board of Directors of the Company, shall not, except with the consent of the members of the Company in General Meeting, borrow moneys (apart from temporary loans from Company's bankers in the ordinary course of business) in excess of the aggregate of the paid up capital and free reserves. The members of the Company at the 6th Annual General Meeting held on 30.09.1995, had authorised the Board of Directors of the Company to borrow (apart from temporary loans obtained from the Company's bankers in the ordinary course of business) up to Rs.100 Crores (Rupees one hundred crores only) notwithstanding that the same exceeds the aggregate of the paid up capital of the Company and its free reserves.

In view of the Company's plans for expansion by way of backward and forward integration, the Company may have to borrow in excess of the existing authorisation of Rs.100 Crores (Rupees one hundred crores only) granted to the Board of Directors. It is therefore, considered necessary to approach the members of the Company to revise the aforesaid authorisation to Rs.400 Crores (Rupees four hundred crores only).

The Board of Directors commends the resolution for your approval.

None of the Directors is interested or concerned in the said resolution.

**DETAILS OF DIRECTORS RETIRING BY ROTATION AND SEEKING RE-APPOINTMENT AT THE ENSUING ANNUAL GENERAL MEETING**  
(in pursuance of Clause 49 of the Listing Agreements)

Name of Director	Shri A.S.Rao	Shri K. Thanu Pillai
Date of Birth	13.08.1942	14.05.1935
Date of Appointment	08.11.1989	29.01.1999
Qualifications	B.Tech (Hons)	B.Com., M.B.A., CAIIB
Expertise in specific functional areas	Over 37 years of experience in Iron and Steel Industry including 21 years in Steel Authority of India Ltd., in senior capacities	Over 35 years in Commercial Banking and Financial Management
List of Companies in which outside directorship held as on 31st March, 2004	1. Maruthi Industries Limited 2. Vamsadhara Polymers Limited	1. B.Seenaiah & Co. (Projects) Limited. 2. Progressive Constructions Limited 3. L.V.Power Limited 4. Sagar Cements Limited 5. Nuziveedu Seeds Limited 6. Aishu Fincorp Limited 7. e-Talent Software Ltd. 8. Aishu Securities Ltd. 9. SCM Sugars Limited.
Chairman / Member of the Committees of the Board of the other Companies in which he is a director as on 31st March, 2004	NIL	1. Chairman, Audit Committee, Nuziveedu Seeds Limited. 2. Member, Audit Committee, L.V.Power Limited. 3. Member, Audit Committee, Sagar Cements Limited. 4. Chairman, Remuneration Committee, Sagar Cements Limited.

By order of the Board

**(A. NARESH KUMAR)**  
MANAGING DIRECTOR

Hyderabad  
Date: 31.07.2004

## DIRECTORS' REPORT

To

The Members,

**SATHAVAHANA ISPAT LIMITED.**

Your Directors have pleasure in presenting the 15th Annual Report together with the audited accounts of the Company for the year ended 31st March, 2004.

### FINANCIAL RESULTS:

Your Directors report the following financial results for the year 2003-04:

(Rs. in Lakhs)			
SL. NO.	Particulars	Year ended 31-03-2004	Year ended 31-03-2003
1.	Sales	14914.60	8309.03
2.	Other Income	451.39	103.89
3.	Operating profit before Interest and Depreciation	3322.03	761.47
4.	Interest	(7.44)	(34.14)
5.	Depreciation	326.18	262.26
6.	Profit before Tax	3003.29	533.35
7.	Income Tax adjustment and provision	806.79	112.35
8.	Net Profit after Tax	2196.50	421.00
9.	Add: Profit brought forward from last year	1105.11	862.12
10.	Available for appropriation	3301.61	1283.12
11.	Less: Transfer to General Reserve	1500.00	0.00
12.	Less: Proposed Dividend	315.60	157.79
13.	Less: Provision for Corporate Dividend Tax	40.44	20.22
14.	Balance carried forward	1445.57	1105.11
15.	Earning per Equity Share Rs.	8.35	1.60

Your Directors are glad to state that the sales turnover during the year under review at Rs.14914.60 Lakhs is the highest ever achieved by your Company. The Profit before tax has also substantially improved to Rs.3003.29 Lakhs as against Rs.533.35 Lakhs in the year before. The net profit after tax stood at Rs.2196.50 Lakhs compared to Rs.421.00 Lakhs in the previous year. As a result of this outstanding performance, the Earning Per Share (EPS) has significantly improved from Rs.1.60 per share in the previous year to Rs.8.35 per share in the current year. Further, out of the profits available for appropriation, a sum of Rs.1500.00 Lakhs has been transferred to General Reserves and accordingly the General Reserves at the end of the year stood at Rs.1800 Lakhs.

### DIVIDEND:

The Board of Directors have recommended a dividend of 12% for the year, as against dividend of 6% declared in the previous year. The proposed dividend involves an outlay of Rs.315.60 Lakhs as compared to Rs.157.79 Lakhs for the last year. The applicable corporate dividend tax on the proposed dividend amounting to Rs.40.44 Lakhs (Rs.20.22 Lakhs in the previous year) will be borne by the company. While recommending the dividend for the year under review the Board of Directors have kept in mind the long term fund requirements for meeting the capital expenditure on expansion and other project proposals.

### DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to the requirement under section 217 (2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, your Directors hereby confirm that:



- i) The applicable accounting standards have been followed in the preparation of Annual Accounts for the Financial Year 2003-04;
- ii) The accounting policies selected were applied consistently and the judgements and estimates made 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 2004 and of the Profit of the Company for the year ended on the date;
- iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and,
- iv) The annual accounts have been prepared on a going concern basis.

#### **AUDIT COMMITTEE:**

The Audit Committee at its meeting held on 31st May 2004 has considered and approved the audited accounts for the financial year ended 31st March 2004. The audited accounts for the financial year ended 31st March 2004, as approved and recommended by the Audit Committee, do not require any explanations from the Board.

#### **CORPORATE GOVERNANCE:**

Pursuant to Clause 49 of the listing agreement entered into by the Company with the stock exchanges where the shares of the Company are listed, Company is required to comply with the Code of Corporate Governance for the financial year under review. Accordingly, the reports on Corporate Governance and Management Discussion and Analysis together with Auditors' Report on compliance of Corporate Governance are attached to this report and forms part of the Annual Report.

#### **PROJECT:**

The proposal for setting up of project for manufacture of Metallurgical Coke with Co-generation of power, which has been kept in abeyance since 2000-01 has been revived in view of the high business prospects. The proposal envisages setting up of a Greenfield project for manufacture of Metallurgical Coke with capacity of 300000 tpa with 30 MW Co-Generation of Power at an estimated out lay of about Rs.17500 Lakhs. Barring unforeseen circumstances, the project would be completed within a period of one and a half year from the date of financial closure. Efforts are on for financial tie up of the project.

#### **MODERNISATION AND EXPANSION:**

Your Board of Directors in its last report stated that the plans for modernisation and expansion have been firmed up and the works are in progress. However during the year under review the works could not be completed in view of the management's focussed attention for setting up of captive Coke Oven facility. During the year under review the international prices of Metallurgical Coke had gone up by about 400% and even at that high price, desired quality and quantity were not available. Foreseeing the problem on sourcing the Metallurgical Coke, your Company has quickly gone into and had set up a non-recovery type Coke Oven facility with conventional technology, just to tide over the impending crisis on sourcing the same. This Coke Oven facility for manufacture of Metallurgical Coke with a name plate capacity of 150000 tpa has been commissioned on March 1, 2004 at the existing site itself. With the commissioning of the facility, the dependence of the company on sourcing of Metallurgical Coke from abroad at high prices has been eliminated.

However, during the year your Company has procured major portion of the equipment required for Modernisation and Expansion project and works have since been going on in full swing. These works are likely to be completed within a short time.

#### **DIRECTORS:**

Shri A.S.Rao and Shri K. Thanu Pillai retire by rotation as directors at the ensuing Annual General Meeting and are eligible for reappointment.

Shri A.Naresh Kumar has been re-appointed as Managing Director for a further period of five years effect from 01.06.2004 and approval of the members for the said re-appointment is being sought in the ensuing Annual General Meeting.

#### **AUDITORS:**

M/s. P.V.R.K. Nageswara Rao & Co., Chartered Accountants, Hyderabad retire as auditors at this Annual General Meeting and are eligible for reappointment.

#### **EMPLOYEES:**

The particulars of employees required to be furnished pursuant to section 217(2A) of the Companies Act, 1956 read with the Companies (particulars of employees) rules, 1975, as amended, are given in the Annexure forming part of this report.

#### **DEMATERIALISATION OF EQUITY SHARES:**

The Agreements entered into by the Company with the two Depositories viz., National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for dematerialisation of shares are in force and the Company's shares are in dematerialised mode under ISIN No. INE 176C01016. As per the SEBI directives, the equity shares of the Company are to be compulsorily traded in dematerialisation form with effect from 26th February 2001. In view of the significant benefits that accrue on dematerialisation of securities, members may avail the facility.

#### **VOLUNTARY DELISTING OF SHARES:**

In pursuance of the provisions of Securities and Exchange Board of India (delisting of securities) Guidelines, 2003 and other applicable provisions of the Companies Act 1956 and in terms of approval granted by the members at the 14th Annual General Meeting held on 30th September 2003, the company has voluntarily delisted equity shares of the Company on The Madras Stock Exchange Limited (MSE), Chennai and The Stock Exchange Ahmedabad (ASE), Ahmedabad. On requests made, pursuant to the above authority, to the respective stock exchanges seeking voluntary delisting of equity shares of the Company, The Stock Exchange Ahmedabad has vide its letter No.ASE/2004/127 dated 8th April, 2004 and The Madras Stock Exchange Limited vide its letter No.MSE/LD/PSK/731/439/04 dated 21st April, 2004 confirmed that shares of the Company have been delisted effective from 31st March, 2004 and 21st April, 2004 respectively.

The equity shares of the Company continue to be traded on The Stock Exchange Mumbai (BSE), Mumbai and The Hyderabad Stock Exchange Limited (HSE), Hyderabad.

The Board of Directors at its meeting held on 31st July 2004 has approved, keeping in view the interests of the shareholders and with a view to facilitate trading of shares on the stock exchange having nation wide trading terminals, for getting the shares of the company listed on the National Stock Exchange of India Limited (NSE), Mumbai. The Company will be approaching NSE in course of time to get the shares of the Company listed on the said stock exchange.

#### **STATUTORY INFORMATION:**

Information on conservation of energy, technology absorption, foreign exchange earnings and out go required to be disclosed under section 217 (1) (e) of the Companies Act, 1956, is given in the Annexure forming part of this report.

#### **FIXED DEPOSITS:**

During the year the Company has not accepted any fixed deposits within the meaning of Section 58-A of the Companies Act, 1956 from the public.

#### **ACKNOWLEDGMENTS:**

Your directors take this opportunity to express their grateful thanks to Industrial Development Bank of India Limited (IDBI), State Bank of Hyderabad, Canara Bank, ING Vysya Bank Limited, Shareholders, Central and State Governments and valued suppliers and customers for their co-operation and support. The Board also places on record its appreciation of the valuable services rendered by the employees of the Company.

for and on behalf of the Board

Place: Hyderabad  
 Date: 31.07.2004

**(GHULAM GHOUSE)**  
 CHAIRMAN



## ANNEXURE TO DIRECTORS' REPORT

## Statutory information as required under section 217(1)(e) of the Companies Act, 1956.

- a) Conservation of Energy: The Company has set-up a Captive Power Generation Plant, which utilises surplus blast furnace gas. The Power Plant has been functioning satisfactorily.
- b) Technology absorption: Company had earlier replaced the Tata-Korf technology with China Shougang technology and partially absorbed the new technology during the year. China Shougang Technology is expected to be absorbed in the year 2004-05.
- c) Foreign Exchange earnings and outgo:
- |                               |              |
|-------------------------------|--------------|
| i) Foreign Exchange earnings: | Nil          |
| ii) Foreign Exchange outgo:   |              |
| a) C.I.F. value of imports:   | Rs. In Lakhs |
| Raw materials                 | 4708.49      |
| Capital goods                 | 200.54       |
| b) Travelling expenses        | 9.47         |
| c) Usance interest            | 19.93        |

## Information pursuant to section 217 (2A) of the Companies Act, 1956 read with the Companies (particulars of employees) Rules 1975.

Sl No.	Name / Designation	Qualifications	Age (years)	Experience (years)	Date of Commencement of employment	Gross Remuneration Rs.	Name of Last Employer / Post held
1.	Shri A. Naresh Kumar Managing Director	B. Tech., M.S.(USA)	34	14	01.06.1999	3995361	Chemical Market Resources Inc., Project Manager
2.	Shri A.S.Rao Executive Vice Chairman	B.Tech (Hons),	62	41	01.07.1991	4085243	Steel Authority Of India Limited / Addl Chief (Marketing)

Notes: 1. Gross remuneration includes salary, H.R.A., commission and other perquisites. 2. The conditions of employment are contractual. 3. Sri A. Naresh Kumar and Sri A.S.Rao are related to each other.

Place: Hyderabad

Date: 31.07.2004

for and on behalf of the Board

(GHULAM GHOUSE)

CHAIRMAN

## REPORT ON CORPORATE GOVERNANCE

## 1. COMPANY'S PHILOSOPHY ON GOVERNANCE:

Sathavahana Ispat Limited believes that the Code of Corporate Governance is a necessary discipline and a means of achieving and attaining the goals and objectives of the Company and only proper governance implemented in true spirit would lead to effectiveness and transparency in the functioning of a corporate. The Company lays emphasis on basic governance issues and supports the broad principles of governance code viz., transparency, accountability and integrity.

Company's philosophy on Corporate Governance accordingly envisages attainment of high level of transparency, accountability and integrity in all its areas of operations on the one hand and in its interactions with stakeholders viz., shareholders, employees, customers, suppliers, lenders and the government on the other, with ultimate object of protecting the interests of all stakeholders, and enhancing the shareholders value over a sustained period of time.

## 2. BOARD OF DIRECTORS:

The Board of Directors consists of six directors of which three are executive and three are non-executive directors and among these two are promoter directors and four are independent directors. The independent directors constitute 66.67% and non-executive directors constitute 50% of the board's strength. The Chairman of the board is non-executive, independent director.

- Composition and category of directors is as follows:

Category	Name of the Director
I. Executive Directors	
a) promoters	Shri A.S.Rao Shri A.Naresh Kumar Shri S.N.Rao
b) Non-promoter, independent	
II. Non-executive Directors	
a) independent	Shri Ghulam Ghouse Shri K.Thanu Pillai Shri Khaja Ruknuddin

- Attendance of each director at the Board of Directors meetings and the last Annual General Meeting:

Name of the Director	Board meetings		Attendance at Last AGM
	Held	Attended	
Shri Ghulam Ghouse	6	6	Yes
Shri A.S.Rao	6	6	Yes
Shri K.Thanu Pillai	6	4	No
Shri Khaja Ruknuddin	6	6	Yes
Shri A.Naresh Kumar	6	6	Yes
Shri S.N.Rao	6	4	Yes





- Number of other board of directorships, board committees he is a member or chairperson of:

Name of the Director	Board of Directors		Board Committees	
	Director	Chairman	Member	Chairman
Shri Ghulam Ghouse	None	None	None	None
Shri A.S.Rao	2	None	None	None
Shri K.Thanu Pillai	9	None	3	1
Shri Khaja Ruknuddin	1	None	None	None
Shri A.Naresh Kumar	2	None	None	None
Shri S.N.Rao	None	None	None	None

None of the directors on the Board are members in more than ten committees and they do not act as chairman of more than five committees across all companies in which they are directors.

- Number of Board meetings held, dates on which held:  
During the year the Company has held six Board of Directors meetings. The dates on which these meetings held were: 30th April 2003; 30th June 2003; 31st July 2003; 30th September 2003; 29th October 2003 and 31st January 2004. The maximum interval between any two meetings was not more than three calendar months.

- Reappointment of Directors at the 15th AGM:  
Shri A.S.Rao and Shri K.Thanu Pillai are liable to retire by rotation at the ensuing Annual General Meeting of the Company and being eligible have offered themselves for reappointment. The Board of Directors at its meeting held on 30th April 2004 has re-appointed Shri A. Naresh Kumar as Managing Director for a further period of five years effect from 01.06.2004 to 31.05.2009.

Shri A.S.Rao, B.Tech (Hons) in Metallurgy is the chief promoter of the Company who has to his credit over three and a half decades of experience in the Iron and Steel Industry. He had earlier served in Steel Authority of India Limited (SAIL) for over 21 years before moving on to his own business. He is a first generation entrepreneur and has successfully implemented the existing Pig Iron project in 1992-93 with a distinction of being the first project of its kind to have a Cogeneration Power Plant and also the least cost project of similar capacity in the country. Mr. Rao was the Managing Director of the Company during the period 1992-1999 and is at present the Executive Vice Chairman of the Company. Mr. A.S.Rao is actively involved in the planning and execution of Company's ongoing Modernisation and Expansion project apart from setting up of captive Coke Oven Plant at the existing site. He is also actively pursuing the proposed Coke Oven Project with Co-Generation of Power. Under his able stewardship the Company weathered ups and downs in the industry and maintained a consistent track record of profits.

Shri K.Thanu Pillai, B.Com., M.B.A., CALIB, is a retired banking professional who has served State Bank Group for about 35 years and retired as Managing Director of State Bank of Hyderabad. He is an independent Director on the Board of Directors of the Company. Mr. Thanu Pillai is a Director on several companies with rich experience in commercial banking and financial management.

Mr. Naresh Kumar, B. Tech (Chem), M.S. (U.S.A) is promoter Director on the Board of the Company since 1992. Mr. Kumar after his post graduation and a brief stint in U.S.A., returned to India to closely study the technical operations of the Company. On gaining insight into the workings of the Company, he went on to implement a technical up-gradation Programme. This Programme helped the Company in reducing its cost of production, thereby giving the Company a major competitive cost advantage. In appreciation of this achievement, Mr. Naresh Kumar was elevated to the position of Managing Director of the Company in 1999. Since then, Mr. Naresh Kumar is successful in running the operations of the Company. He has closely studied several Iron and steel plants in China and Japan with an intention to bring the latest technologies and operating efficiencies to operations of the Company. The present modernisation and expansion project is conceived by him after carefully studying similar plants in China. He is also actively involved in the revival of the proposed Coke Oven plant with Co-Generation of Power.

### 3. AUDIT COMMITTEE:

The Audit Committee of directors comprises Shri Ghulam Ghouse, Shri K.Thanu Pillai and Shri Khaja Ruknuddin as its members all of whom are independent non-executive directors. Shri Ghulam Ghouse is the Chairman of the Committee. The Audit Committee meets the requirements of both section 292A of the Companies Act 1956 and Clause 49 of the Listing Agreement.

The Committee has all the powers, duties and obligations conferred upon and vested in it in terms of Section 292A of the Companies Act, 1956 as amended from time to time and also such additional powers, functions / features, duties, obligations and discretions as is contained in Clause 49 of the Listing Agreements entered into by the Company with the Stock Exchanges where the shares of the Company are listed and as amended from time to time and / or any other powers, duties and obligations that may be given or assigned from time to time by the Board of Directors and the said Committee shall submit its reports, recommendations etc., to the Board of Directors on all matters.

The Audit Committee met four times during the year. The attendance of the members at these meetings vis-à-vis meetings held was as under: Shri Ghulam Ghouse 4/4; Shri K.Thanu Pillai 2/4 and Shri Khaja Ruknuddin 4/4.

### 4. REMUNERATION COMMITTEE:

Remuneration Committee comprises Shri Ghulam Ghouse, Shri K.Thanu Pillai and Shri Khaja Ruknuddin as its members all of whom are independent non-executive directors. Shri Ghulam Ghouse is the Chairman of Remuneration Committee.

The responsibility of the Committee is to review and fix the remuneration package of the Managing/Whole-time directors based on performance and other criteria; to consider and approve service contracts, notice period, severance fee; and to consider and approve stock option schemes, if any. The Committee did not meet during the year, as there was no agenda for consideration. The remuneration policy inter alia provides adequate remuneration levels, a portion of which would be based on corporate and individual performance, of the executive directors.

Details of remuneration to all the Directors:

#### a) Executive Directors:

Rs.

Name of the Director	Salary	Benefits	Commission	Total
1. Shri A.S.Rao Executive vice Chairman	732968	65441	3286834	4085243
2. Shri A. Naresh Kumar Managing Director	650000	58527	3286834	3995361
3. Shri S.N.Rao Executive Director (Works)	414000	119756	-	533756

#### b) Non-Executive Directors:

Rs.

Name of the Director	Sitting fee		Total
	As a Director	As a committee member	
1. Shri Ghulam Ghouse Chairman	12000	4000	16000
2. Shri K. Thanu Pillai Director	8000	2000	10000
3. Shri Khaja Ruknuddin Director	12000	22000	34000