

SATHAVAHANA ISPAT LIMITED



Report Junction.com

17th

**ANNUAL REPORT
2005-06**

**BOARD OF DIRECTORS:**

Shri K.Thanu Pillai	Chairman
Shri A.S.Rao	Executive Vice Chairman
Shri Khaja Ruknuddin	Director
Shri Syed Anis Hussain	Director
Shri A. Naresh Kumar	Managing Director
Shri S.N.Rao	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. XL Softech Systems Limited,
#3, Sagar Society, Road No.2,
Banjara Hills,
HYDERABAD - 500 034.

WORKS :

1. Haresamudram Village,
Bommanahal Mandal,
Ananthapur District,
Andhra Pradesh.
2. Kudithini Village,
Korugodu Road,
Bellary District, Karnataka

AGM	:	17th Annual General Meeting
Day and Date	:	Saturday, the 30th September 2006
Time	:	3.00 p.m.
Venue	:	Sri Sagi Ramakrishnam Raju Community Hall, Madhura Nagar, Hyderabad - 500 038.
Date of book closure	:	
i) Physical mode	:	16.09.2006 to 30.09.2006 (both days inclusive).
ii) Electronic mode	:	15.09.2006.
ISIN NO.	:	INE 176C01016
Listing	:	The Bombay Stock Exchange Limited (Stock Code 526093)
	:	The Hyderabad Stock Exchange Ltd. Hyderabad (Stock Code SVI)

CONTENTS**PAGE NO.**

1. Notice of 17th Annual General Meeting	3 - 4
2. Directors' Report	5 - 6
3. Report on Corporate Governance	6 - 9
4. Management Discussion & Analysis	9 - 12
5. Auditors' Report	12 - 13
6. Balance Sheet	14
7. Profit and Loss Account	15
8. Cash Flow Statement	16
9. Schedules to Balance Sheet	17 - 19
10. Schedules to Profit and Loss Account	21
11. Notes to Accounts	21 - 26
12. Balance Sheet Abstract and Companies General Business Profile ...	27
13. Code of Business Conduct and Ethics	27 - 28
14. ECS Mandate	29
15. Form for Furnishing Bank Particulars	30
16. Attendance Slip/Proxy Form	31

**NOTICE OF 17TH ANNUAL GENERAL MEETING**

NOTICE is hereby given that the 17th 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 Saturday the 30th September, 2006 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, 2006 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 K. Thanu Pillai, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Shri Khaja Ruknuddin, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors for the current year under section 224 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 224 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 Shri Syed Anis Hussain who was appointed as an Additional Director of the Company with effect from 15.12.2005 and whose term of office expires at this Annual General Meeting as a Director under section 260 of the Companies Act, 1956 read with Article 107 of the Articles of Association of the Company and being proposed by a member under section 257 of the Companies Act, 1956 to be appointed as a Director of the Company be and is hereby appointed as a Director on the Board of Directors of the Company whose period of office is liable to determination by retirement by rotation."

By order of the Board

Hyderabad
Date: 30.06.2006

(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 SETOUT UNDER ITEM 6 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 **16.09.2006 TO 30.09.2006** (BOTH DAYS INCLUSIVE) FOR TRANSFERS IN PHYSICAL MODE AND ON **15.09.2006** FOR

ELECTRONIC MODE FOR DETERMINING THE NAMES OF MEMBERS ELIGIBLE FOR DIVIDEND, IF APPROVED, ON EQUITY SHARES.

4. THE DIVIDEND ON EQUITY SHARES FOR THE YEAR 2005-06 RECOMMENDED BY THE BOARD OF DIRECTORS, IF DECLARED AT THE GENERAL MEETING, WILL BE PAYABLE ON OR AFTER 1ST OCTOBER, 2006, TO THOSE MEMBERS WHOSE NAMES APPEAR ON THE COMPANY'S REGISTER OF MEMBERS HOLDING SHARES IN PHYSICAL MODE AS ON 30TH SEPTEMBER, 2006 AND TO THOSE BENEFICIAL OWNERS WHOSE NAME APPEARS ON 15TH SEPTEMBER 2006 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 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 2006 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 AND SUBJECT TO GUIDELINES ISSUED IN THIS REGARD BY RESERVE BANK OF INDIA. MEMBERS HOLDING SHARES IN PHYSICAL FORM AND WISHING TO AVOID 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, 2006. 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 YEARS ENDING 31ST MARCH, 2003, 31ST MARCH, 2004 AND 31ST MARCH, 2005 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 THE MEMBERS WILL NOT BE ABLE TO CLAIM THE SAID DIVIDEND FOREVER THEREAFTER. **ACCORDINGLY THE UNCLAIMED DIVIDEND FOR THE YEAR ENDING 31ST MARCH, 2003, 31ST MARCH 2004 AND 31ST MARCH, 2005 WILL HAVE TO BE CLAIMED BY THE SHAREHOLDERS ON OR BEFORE 29TH SEPTEMBER 2010, 29TH SEPTEMBER 2011 AND 29TH SEPTEMBER 2012 RESPECTIVELY AND THEREAFTER IT WILL BE TRANSFERRED TO INVESTOR EDUCATION AND PROTECTION FUND ON OR BEFORE 28TH OCTOBER 2010, 28TH OCTOBER 2011 AND 28TH OCTOBER 2012 AS THE CASE MAY BE.**
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 XL SOFTECH SYSTEMS LIMITED, #3, SAGAR SOCIETY, ROAD NO.2, BANAJARA HILLS, HYDERABAD - 500 034.
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 XL SOFTECH SYSTEMS LIMITED, #3, SAGAR SOCIETY, ROAD NO.2, BANAJARA HILLS, HYDERABAD - 500 034 OR TO THE SECRETARIAL DEPARTMENT OF THE COMPANY AT 505, 5TH FLOOR, BLOCK-1, DIVYASHAKTI COMPLEX, AMERPET, HYDERABAD - 500 016.
12. PURSUANT TO THE DIRECTIONS OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) THE SHARES OF THE COMPANY ARE TO BE COMPULSORILY TRADED IN DEMAT MODE W.E.F 26TH FEBRUARY, 2001. MEMBERS HOLDING SHARES IN



PHYSICAL MODE 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. XL Softech Systems Limited OR COMPANY'S SECRETARIAL DEPARTMENT.
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 Syed Anis Hussain was appointed as Additional Director of the Company with effective from 15th December 2005. As per the provisions of the Companies Act, 1956 read with Article 107 of the Articles of Association of the Company Shri Syed Anis Hussain retires as Director at this Annual General Meeting. The Company has received a notice under section 257 of the Companies Act, 1956 from a member proposing the appointment of Shri Syed Anis Hussain as Director. In view of Shri Syed Anis Hussain's vast experience in the banking and financial disciplines the Board recommends that Shri Syed Anis Hussain be appointed as a Director on the Board of Directors of the Company.

No other Director except Shri Syed Anis Hussain is interested in the resolution.

Your Board of Directors commend the resolution for your approval.

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 K. Thanu Pillai	Shri Khaja Ruknuddin	Shri Syed Anis Hussain
Date of Birth	14.05.1935	03.01.1933	29.05.1938
Date of Appointment	29.01.1999	30.07.2001	15.12.2005
Qualifications	B.Com., M.B.A., C.A.I.I.B.,	B.A., LL.B., C.A.I.I.B.,	M.A.(Econ), C.A.I.I.B.,
Expertise in specific functional areas	Over 35 years in Commercial Banking and Financial Management	Commercial Banking, Human Resources and Financial Management.	Over 40 years in Banking-specialized in Currency Management, Urban Co-operative Banking and Administration
List of Companies in which outside Directorship held as on 31st March, 2006	1. B.Seenaiah & Co. (Projects) Limited. 2. Progressive Constructions Limited 3. L.V.S.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. 10. Icomm Tele Limited. 12. Amar Biotech Limited.	Babuji Estates Pvt. Ltd.	1. Godavari Drugs Limited. 2. Bio Chemicals & Synthetic Products Limited
Chairman / Member of the Committees of the Board of the other Companies in which he is a director as on 31st March, 2006	1.Chairman, Audit Committee, Nuziveedu Seeds Limited. 2.Chairman, Remuneration Committee, Nuziveedu Seeds Limited. 3.Chairman, Remuneration Committee, Sagar Cements Limited. 4. Member, Audit Committee, Sagar Cements Limited. 5. Member, Audit Committee, L.V.S.Power Limited. 6. Member, Audit Committee, Progressive Constructions Limited. 7. Member, Audit Committee, ICOMM Tele Limited. 8. Member, Remuneration Committee, Progressive Constructions Limited. 9. Member, Remuneration Committee, ICOMM Tele Limited.	NIL	NIL

By order of the Board
(A. NARESH KUMAR)
MANAGING DIRECTOR

Hyderabad

Date: 30.06.2006

**DIRECTORS' REPORT**

To

The Members,**SATHAVAHANA ISPAT LIMITED,**

Your Directors have pleasure in presenting the 17th Annual Report together with the audited accounts of the Company for the year ended 31st March, 2006.

FINANCIAL RESULTS:

Your Directors report the following financial results for the year 2005-06:

SL. NO.	Particulars	(Rs. in Lakhs)	
		Year ended 31-03-2006	Year ended 31-03-2005
1.	Sales	21121.31	19829.70
2.	Other Income	745.92	828.62
3.	Operating profit before Interest and Depreciation	1463.16	5129.21
4.	Interest	487.05	337.34
5.	Depreciation	906.25	753.65
6.	Profit before Tax	69.86	4038.22
7.	Income Tax adjustment and provision	40.71	1398.12
8.	Net Profit after Tax	29.15	2640.10
9.	Add: Profit brought forward from last year	1725.81	1445.57
10.	Available for appropriation	1754.96	4085.67
11.	Less: Transfer to General Reserve	0.00	2000.00
12.	Less: Proposed Dividend	131.50	315.60
13.	Less: Provision for Corporate Dividend Tax	18.44	44.26
14.	Balance carried forward	1605.02	1725.81
15.	Earning per Equity Share Rs.	0.11	10.04

Your Directors are pleased to report the sales turnover during the year under review at Rs.21121.31 Lakhs as against Rs. 19829.70 Lakhs in the year before. The Profit before Tax is Rs. 69.86 Lakhs as against Rs.4038.22 Lakhs in the last year. The Net Profit after Tax is Rs.29.15 Lakhs as compared to Rs.2640.10 Lakhs in the previous year. The lower profitability was mainly due to constant fall in the sales realisation and increase in raw material costs, whereby the margins got squeezed. The Earning Per Share has come down to Re.0.11 as against Rs.10.04 for equity share in the last year.

DIVIDEND:

The Board of Directors have recommended a dividend of 5% for the year. The proposed dividend involves an outlay of Rs.131.50 Lakhs with the applicable corporate dividend tax on the proposed dividend amounting to Rs.18.44 Lakhs will be borne by the Company. Due to inadequacy of profits and funds commitment for implementation of the Greenfield Project, the dividend rate has been considered at 5% for the year 2005-06 and is being paid out of current year and also accumulated profits.

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 2005-06;

- 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 2006 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 it's meeting held on 30th June 2006 has considered and approved the audited accounts for the financial year ended 31st March 2006. The audited accounts for the financial year ended 31st March 2006, 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 Greenfield Project for manufacture of Metallurgical Coke with Co-generation of Power is under advanced stage of implementation. The Project, coming up at a Greenfield Site in the Bellary district of Karnataka, envisages setting up of a plant 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.17400 Lakhs, which is being financed by term debt of Rs.11900 Lakhs and internal accruals of Rs. 5500 lakhs. This project will be commissioned during the mid of current financial year.

EXPANSION:

The enhanced capacity of Pig Iron from 120000 MTs to 210000 MTs that was augmented on 30th June 2005 could not be fully utilised as the plant was under stabilisation. The capacity utilisation was also partially affected due to raw material constraints.

DIRECTORS:

Shri Ghulam Ghouse stepped down as Director and Chairman of the Company effective from 15th December 2005 for personal reasons. The Company and Board of directors record their deep sense of gratitude and appreciation for the invaluable services rendered by Shri Ghulam Ghouse during his tenure as Director and Chairman of the Company. The Board of Directors join you in conveying our best wishes and long life to Shri Ghulam Ghouse.

Consequent to the resignation of Shri Ghulam Ghouse as Chairman of the Company, the Board of Directors have appointed Shri K. Thanu Pillai, Director as Chairman of the Company with effective from 15th December 2005.

Shri Syed Anis Hussain has joined the Board of Directors with effective from 15th December 2005 as an Additional Director. Shri Hussain's re-appointment is coming up for approval of the members 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, your Directors report that there was no employee who was in receipt of remuneration of Rs.24,00,000/- or more per annum if employed through out the year, or Rs.2,00,000/- or more per month, if employed for a part of the year.

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 Securities and Exchange Board of India (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.

LISTING OF SHARES ON NSE:

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 the Company has applied for listing of shares of the Company on the National Stock Exchange of India Limited (NSE), Mumbai. The Company's application is still under consideration of the NSE.

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 accepted fixed deposits within the meaning of Section 58-A of the Companies Act, 1956 from the Shareholders and Directors. An amount of Rs.225 Lakhs (Previous year Rs. Nil) of principal and Rs.6.70 Lakhs towards accrued interest are outstanding as on the date of Balance Sheet. There are no overdue deposits as on the said date.

ACKNOWLEDGMENTS:

Your directors take this opportunity to express their grateful thanks to Canara Bank, State Bank of Hyderabad, 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 at all levels of the Company.

for and on behalf of the Board

Place: Hyderabad

Date: 30.06.2006

(K. THANU PILLAI)

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 Plants, which utilise surplus Blast Furnace gas. The Power Plants have been functioning satisfactorily.
- b) Technology absorption: With the commissioning of the enhanced capacity in 2005-06, the China Shougang technology stands fully absorbed.
- c) Foreign Exchange earnings and outgo:
 - i) Foreign Exchange earnings: Nil
 - ii) Foreign Exchange outgo: Nil
 - a) C.I.F. value of imports: Rs. In Lakhs

- Raw materials	8762.08
- Capital Goods	1734.90
 - b) Travelling expenses 4.72
 - c) Usance interest 228.95

for and on behalf of the Board

Place: Hyderabad

Date: 30.06.2006

(K. THANU PILLAI)

CHAIRMAN

REPORT ON CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE 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	1. Shri A.S.Rao 2. Shri A.Naresh Kumar
b) Non-promoter, independent	1. Shri S.N.Rao
II. Non-executive Directors	
a) Independent	1. Shri Ghulam Ghouse* 2. Shri K. Thanu Pillai 3. Shri Khaja Ruknuddin 4. Shri Syed Anis Hussain**
* Upto 15.12.2005	
** From 15.12.2005	

- 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 *	5	5	Yes
Shri A.S.Rao	6	6	Yes
Shri K.Thanu Pillai	6	6	Yes
Shri Khaja Ruknuddin	6	4	No
Shri A.Naresh Kumar	6	6	Yes
Shri S.N.Rao	6	5	Yes
Shri Syed Anis Hussain **	1	1	N.A.
* Upto 15.12.2005			
** From 15.12.2005			



- 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	12	None	6	3
Shri Khaja Ruknuddin	1	None	None	None
Shri A.Naresh Kumar	2	None	None	None
Shri S.N.Rao	None	None	None	None
Shri Syed Anis Hussain**	2	None	1	None
* Upto 15.12.2005				
** From 15.12.2005				

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 2005; 30th June 2005; 30th July 2005; 30th September 2005; 29th October 2005 and 30th January 2006. The maximum interval between any two meetings was not more than three calendar months.

- Reappointment of Directors at the 17th AGM:

Shri K. Thanu Pillai and Shri Khaja Ruknuddin 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 vide circular resolution dated 15th December 2005 have appointed Shri Syed Anis Hussain as Additional Director on the Board of the Company. Shri Syed Anis Hussain's re-appointment as Director of the Company is proposed by a member of the Company and accordingly members approval for his re-appointment is being sought at the ensuing Annual General Meeting.

Shri K.Thanu Pillai, B.Com., M.B.A., C.A.I.I.B., 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.

Shri Khaja Ruknuddin, B.A., LL.B., C.A.I.I.B., is an independent Director on the Board of Directors of the Company. Shri Ruknuddin had his entire career with State Bank of India and held senior positions including overseas assignments before retiring as its Dy. Managing Director. He was former Chairman of Banking Service Recruitment Board. He has rich experience in commercial banking, human resources and financial management.

Shri Syed Anis Hussain had his entire career in Reserve Bank of India and retired as its 'Executive Director' in the year 1998. He also served as Banking Ombudsman for Andhra Pradesh for over three years. Mr. Hussain is an M.A.(Econ), C.A.I.I.B., with specializations in Banking-specialized in Currency Management, Urban Co-operative Banking and Administration. Earlier he was on the Boards of i) Bharatiya Reserve Bank Note Mudran Private Limited, 2) Indian Immunologicals Limited and 3) RBI nominee Director on the Boards of three Nationalised banks Viz: Andhra Bank, United Bank of India and Indian Bank. At present he is a Director on the boards of a few other companies.

3. AUDIT COMMITTEE:

The Audit Committee of Board of Directors comprises Shri K. Thanu Pillai, Shri Khaja Ruknuddin and Shri Syed Anis Hussain as its members all of whom are independent non-executive Directors. Consequently to the resignation of Shri Ghulam Ghouse from the Board of Directors with effect from 15.12.2005, the Audit Committee was reconstituted vide circular resolution dated 15.12.2005 passed by the Board of Directors in this behalf. The Audit Committee was reconstituted inter alia inducting Shri Syed Anis Hussain as member of the Committee and also appointing Shri K. Thanu Pillai as

the Chairman of the Committee in place of Shri Ghulam Ghouse. Shri K. Thanu Pillai is the Chairman of the Committee from 15.12.2005 and Shri Ghulam Ghouse was the Chairman of the Committee upto 15.12.2005. Company Secretary is also functioning as Secretary to the Audit 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 3/3 (upto 15.12.2005); Shri K.Thanu Pillai 4/4; Shri Khaja Ruknuddin 3/4 and Shri Syed Anis Hussain 1/1 (From 15.12.2005).

4. REMUNERATION COMMITTEE:

Remuneration Committee comprises Shri K. Thanu Pillai; Shri Khaja Ruknuddin and Shri Syed Anis Hussain (from 15.12.2005) as its members all of whom are independent non-executive Directors. Consequently to the resignation of Shri Ghulam Ghouse from the Board of Directors with effect from 15.12.2005, the Remuneration Committee was reconstituted vide circular resolution dated 01.03.2006 passed by the Board of Directors in this behalf. The Remuneration Committee was reconstituted inter alia inducting Shri Syed Anis Hussain as member of the committee and also appointing Shri K. Thanu Pillai as the Chairman of the Committee in place of Shri Ghulam Ghouse. Shri K. Thanu Pillai is the Chairman of Remuneration Committee with effect from 01.03.2006.

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 has met on 30th June 2005 for re-appointment of Shri A.S.Rao as Executive Vice Chairman, whose re-appointment was subsequently approved by the General Meeting held on 30th September 2005.

Details of remuneration to all the Directors:

a) Executive Directors:

Name of the Director	Salary	Benefits	Commission	Rs.	
				Total	
1. Shri A.S.Rao, Executive Vice Chairman	893290	9360	121499	1024149	
2. Shri A. Naresh Kumar, Managing Director	1060000	20951	121499	1202450	
3. Shri S.N.Rao, Executive Director (Works)	548000	167250	—	715250	

b) Non-Executive Directors:

Name of the Director	Sitting fee (in Rs.)			No. of Equity shares held
	As a Director	As a Committee Member	Total	
1. Shri Ghulam Ghouse, Chairman (Upto 15.12.2005)	20000	7000	27000	NIL
2. Shri K. Thanu Pillai, Director / Chairman (from 15.12.2005)	24000	9000	33000	NIL
3. Shri Khaja Ruknuddin, Director	16000	36000	52000	1000
4. Shri Syed Anis Hussain, Director (From 15.12.2005)	4000	2000	6000	NIL

5. SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE:

Shareholders'/Investors' Grievance Committee comprises Shri Khaja Ruknuddin, Shri A.S.Rao and Shri A.Naresh Kumar as its members and is headed by Shri Khaja Ruknuddin. Shri K.V. Krishna Rao, General Manager (Finance) & Company Secretary has been nominated as the Compliance Officer.



The Board of Directors entrusted, inter alia, the following powers and responsibilities to the Committee:

1. To approve and register transfer, transmission, issue of equity shares other than duplicate shares; to approve the demat requests, remat requests in connection with dematerialisation and/or rematerialisation of equity shares;
2. To attend to shareholders' grievances and redress the complaints of shareholders and attend to the complaints received from other authorities.

During the year under review, Company received a total number of 14 shareholders' complaints. All these complaints were redressed / replied to the satisfaction of the shareholders and no complaints were outstanding as on 31st March 2006.

Share transfers in dematerialisation mode pending on 31st March 2006 were eighteen requests involving 8300 shares. These pending transfers were approved and dealt with in the next one week from that date.

6. CODE OF BUSINESS CONDUCT AND ETHICS:

In line with the avowed policy on Corporate Governance, the Company has evolved a Code of Business Conduct and Ethics (hereafter referred to as "the Code") applicable to all Directors and Senior Management of the Company and the same was adopted by the Board of Directors at its meeting held on 29th April 2006. The Code is appended to this Annual Report as an exhibit elsewhere.

The Code has since been circulated to all the directors and members of Senior Management and their compliance reports for the financial year 2005-06 have been obtained by the Company.

Statement furnished by the Managing Director as to the compliance of the terms of the Code by the Company is given below:

"COMPLIANCE OF CODE OF BUSINESS CONDUCT AND ETHICS BY THE COMPANY.

I hereby declare and confirm that the Company has complied with the terms of Code of Business Conduct and Ethics evolved by the Company and has obtained the statements of compliance from all the members of the Board of Directors and Senior Management of the Company for the financial year 2005-06 and further confirm that there are no incidences of violation of the Code.

Sd/-

(A.Naresh Kumar)

Managing Director."

7. CEO / CFO CERTIFICATION:

The Managing Director jointly with General Manager (Finance) have furnished to the Board of Directors a certificate certifying therein, inter alia, that the financial statements for the financial year 2005-06 submitted to the Audit Committee and to the Board of Directors, have been reviewed by them and further affirmed to the best of their knowledge and belief (a) that there are no materially misleading and untrue statements; (b) that the statements comply with existing accounting standards, applicable laws and regulations; (c) that they have established and evaluated the internal control systems for financial reporting while disclosing to the Audit Committee, Board of Directors and Statutory Auditors, deficiencies, if any, including remedies taken thereof and also significant changes, made if any, in internal controls and accounting policies.

8. GENERAL BODY MEETINGS:

Location and time, where last three Annual General Meetings (AGM) held:

Year	Type of meeting	Venue	Date	Time
2002-03	AGM	Sri Sagi Ramakrishnam Raju Community Hall, Madhuranagar, Hyderabad-500 038	30.09.2003	3.30 PM
2003-04	AGM	Same as above	30.09.2004	3.00 PM
2004-05	AGM	Same as above	30.09.2005	3.00 PM

No postal ballots were used / invited for voting at the last Annual General Meeting in respect of special resolutions passed. There are no special resolutions, which are proposed to be passed through postal ballot for the year under review.

9. DISCLOSURES:

- a) Disclosures on materially significant related party transactions that may have potential conflict with the interests of the company at large:

The following are the related party transactions with the directors:

Rs.

Name of the Related Party	Nature of transaction			
	Rental Income	Rental Deposit	Acceptance of Fixed Deposits	Interest paid on Fixed Deposits
Shri A.Naresh Kumar Managing Director	453600	810000	2500000	72499
Shri A. Ashok Kumar Relative of two Directors	352800	630000	Nil	Nil
Smt. A. Mutya Bai Relative of two Directors	317000	108000	20000000	597699

There is no pecuniary relationship or transaction of the non-executive Directors' vis-à-vis the Company.

- b) Details of non-compliance by the Company:

There were neither instances of non-compliance by the Company nor penalties, strictures imposed on the Company by stock exchange or Securities and Exchange Board of India or any statutory authority, on any matter related to capital markets, during the last three years.

- c) Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of clause 49 of Listing Agreement:

The Company hereby declares that the Company has complied with all the mandatory requirements of clause 49 of the listing agreement. Non-mandatory requirements of clause 49 of the listing agreement will be adopted as and when these are felt necessary.

10. MEANS OF COMMUNICATION:

Half yearly and quarterly results are normally published in the newspapers viz., The Indian Express (English daily) and the Andhra Prabha (Telugu daily) on approval of the financial results by the Board of Directors. Half-yearly unaudited financial results (provisional) are also sent to shareholders by individual mail. The Company has registered with Securities and Exchange Board of India's (SEBI) EDIFAR website and the financial results are made available soon after declaration of the same on SEBI's website www.sebidifar.nic.in. Financial results are sent regularly to financial institutions and banks upon their publication.

Management Discussion and Analysis forms part of the Directors' Report.

11. GENERAL SHAREHOLDERS INFORMATION:

- a) AGM : 17th Annual General Meeting
Day and Date : Saturday, the 30th September 2006
Time : 3.00 p.m.
Venue : Sri Sagi Ramakrishnam Raju Community Hall, Madhura Nagar, Hyderabad - 500 038.

- b) Financial Calendar: Tentative schedule is as under.

- i) Unaudited Financial Results:
 1. First quarter : Last week of July 2006.
 2. Half yearly : Last week of October 2006.
 3. Third quarter : Last week of January 2007.
- ii) Audited Financial Results: Last week of June 2007.



- c) Date of book closure:
- Physical mode : 16.09.2006 to 30.09.2006
both days inclusive.
 - Electronic mode : 15.09.2006.
- d) Listing on Stock exchanges, stock code, demat code:

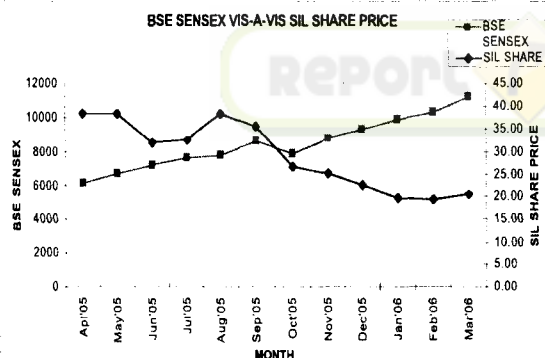
Name of the Stock exchange	Stock code
The Hyderabad Stock Exchange Limited	SVI
The Bombay Stock Exchange Limited	526093
ISIN Code for electronic trading and dematerialisation in NSDL / CDSL	INE 176C01016

The fee to the above stock exchanges has been paid upto financial year 2006-07.

- e) Market price data: high/low during each month in last financial year 2005-06.

Month	High	Low	Month	High	Low
April	48.00	38.00	October	37.25	25.40
May	42.15	36.80	November	29.35	25.00
June	39.35	32.05	December	25.95	20.80
July	36.90	30.10	January	24.00	19.10
August	40.25	31.00	February	20.35	17.55
September	45.90	34.15	March	24.60	18.50

- f) Market price (closing) performance in comparison to broad based index of The Bombay Stock Exchange Limited (BSE):



- g) Registrar and Transfer Agents: The Company has appointed M/s. XL Softech Systems Limited, in place of M/s Ikon Visions Private Limited, who ceased to be Registrars and Transfer Agents effective from 31st March 2006. M/s XL Softech Systems Limited would be acting as share transfer agents for physical transfers as well as for electronic transfers effective from 1st April 2006 and their address is as under:

M/s. XL Softech Systems Limited,
#3, Sagar Society, Road No.2,
Banjara Hills, HYDERABAD - 500 034.

- h) Share transfer system: The Company's shares are under compulsory dematerialisation category and transfers in electronic mode are affected on line by the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). In respect of physical shares received for transfer the share transfer agent normally processes the requests

within 10 to 15 days and affects the transfer, if all the papers received were in order. The share transfer agent after affecting the transfer of the shares sends the same immediately.

- i) Distribution of shareholding as on 31.03.2006:

No. of shares		No. of Shareholders		Shareholding	
From	To	Nos.	% to total	Nos.	% to total
1	500	18591	80.11	4603902	17.50
501	1000	2659	11.46	2382100	9.06
1001	2000	1026	4.42	1670949	6.35
2001	3000	324	1.40	846514	3.22
3001	4000	133	0.57	490791	1.87
4001	5000	170	0.73	812347	3.09
5001	10000	159	0.69	1203334	4.58
10001 and above		145	0.62	14290063	54.33
Total		23207	100.00	26300000	100.00

Dematerialisation of shares: The Company's shares are in compulsory dematerialisation category w.e.f. 26.02.2001 with ISIN No. INE176C01016. The Company has established electronic connectivity with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) through its Depository transfer agents M/s. XL Softech Systems Limited, #3, Sagar Society, Road No.2, Banjara Hills, HYDERABAD - 500 034. So far 159.55 Lakhs shares constituting 60.67% of paid up share capital have been converted into fungible form.

- j) Plant locations:

1. Haresamudram Village, Bommanahal Mandal, Anantapur District, Andhra Pradesh.	2. Kudithini Village, Korugodu Road, Bellary District, Karnataka. (under implementation)
--	---

- k) Address for correspondence:

Sathavahana Ispat Limited,
505, 5th Floor, Block -1,
Divyashakthi Complex,
Ameerpet, HYDERABAD - 500 016.

for and on behalf of the Board

Place: Hyderabad

(K. THANU PILLAI)

Date: 30.06.2006

CHAIRMAN

MANAGEMENT DISCUSSION AND ANALYSIS

1. INDUSTRY STRUCTURE AND DEVELOPMENTS

The Company is engaged in the manufacture and sale of Pig Iron and thus operates in the iron and steel industry, which is considered as core sector. The Company is using Mini Blast Furnace Technology. Earlier the Company had replaced TATA-KORF technology with CHINA-SHOUGANG technology and fully absorbed the new technology during the year.

Pig Iron is of two grades - basic grade and foundry grade. Basic grade is used in the manufacture of steel and whereas foundry grade is used for making castings. Basic grade is produced mainly by the Integrated Steel Plants (ISPs) for captive consumption in the manufacture of steel and exports. Part of the