

# **18<sup>th</sup>**

## **ANNUAL REPORT**

### **2006-07**



# **SATHAVAHANA ISPAT LIMITED**

---

**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  
Andhra Bank**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	:	18th Annual General Meeting
Day and Date	:	Saturday, the 29th September 2007
Time	:	3.00 p.m.
Venue	:	Sri Sagi Ramakrishnam Raju Community Hall, Madhura Nagar, Hyderabad - 500 038.
Date of book closure	:	
i) Physical mode	:	15.09.2007 to 29.09.2007 (both days inclusive).
ii) Electronic mode	:	14.09.2007.
ISIN NO.	:	INE 176C01016
Listing	:	The Bombay Stock Exchange Limited (BSE) (Stock Code : 526093) National Stock Exchange of India Limited (NSE) (Stock Code : sathaispat) The Hyderabad Stock Exchange Limited (HSE) (Stock Code : SVI)

**CONTENTS****PAGE NO.**

1. Notice of 18th Annual General Meeting .....	3 - 4
2. Directors' Report .....	5 - 6
3. Report on Corporate Governance .....	6 - 9
4. Management Discussion & Analysis .....	9 - 11
5. Auditors' Report .....	11 - 12
6. Balance Sheet .....	13
7. Profit and Loss Account .....	14
8. Cash Flow Statement .....	15
9. Schedules to Balance Sheet .....	16 - 18
10. Schedules to Profit and Loss Account .....	19 - 20
11. Notes to Accounts .....	20 - 26
12. Balance Sheet Abstract and Companies General Business Profile .....	27
13. Code of Business Conduct and Ethics .....	27-28
14. ECS Mandate Form .....	29
15. Form for furnishing Bank Particulars .....	30
16. Attendance Slip/Proxy Form .....	31



## NOTICE OF 18th ANNUAL GENERAL MEETING

NOTICE is hereby given that the 18th Annual General Meeting of the shareholders of **SATHAVAHANA SPAT LIMITED** will be held at Sri Sagi Ramakrishnam Raju Community Hall, Madhura Nagar, Hyderabad - 500 038 on Saturday, the 29th September, 2007 at 3.00 p.m. to transact the following business:

### AS ORDINARY BUSINESS:

- To receive, consider and adopt the Audited Accounts of the Company for the year ended 31st March, 2007 along with the Reports of Directors and Auditors thereon.
- To declare a dividend on equity shares.
- To appoint a Director in place of Shri K. Thanu Pillai, who retires by rotation and being eligible, offers himself for reappointment.
- To appoint a Director in place of Shri Khaja Ruknuddin, who retires by rotation and being eligible, offers himself for reappointment.
- 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".

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

Hyderabad  
Date: 30.07.2007

### NOTES:

- 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 ANNEXED.
- 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.
- THE REGISTER OF MEMBERS AND SHARE TRANSFER BOOKS OF THE COMPANY WILL REMAIN CLOSED FROM 15.09.2007 TO 29.09.2007 (BOTH DAYS INCLUSIVE) FOR TRANSFERS IN PHYSICAL MODE AND ON 14.09.2007 FOR ELECTRONIC MODE FOR DETERMINING THE NAMES OF MEMBERS ELIGIBLE FOR DIVIDEND, IF APPROVED, ON EQUITY SHARES.
- THE DIVIDEND ON EQUITY SHARES FOR THE YEAR 2006-07 RECOMMENDED BY THE BOARD OF DIRECTORS, IF DECLARED AT THE GENERAL MEETING, WILL BE PAYABLE ON OR AFTER 1ST OCTOBER, 2007. TO THOSE MEMBERS WHOSE NAMES APPEAR ON THE COMPANY'S REGISTER OF MEMBERS HOLDING SHARES IN PHYSICAL MODE AS ON 29TH SEPTEMBER, 2007 AND TO THOSE BENEFICIAL OWNERS WHOSE NAME APPEARS ON 14TH SEPTEMBER 2007 IN THE LISTS PROVIDED BY THE DEPOSITORIES.
- 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 WARRANT 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 WARRANT WITHIN THE INITIAL VALIDITY PERIOD OF SIX MONTHS.**
- MEMBERS HOLDING SHARES IN **PHYSICAL FORM** ARE REQUESTED TO INTIMATE TO THE COMPANY ON OR BEFORE 14TH SEPTEMBER 2007 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.

- 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 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 14TH SEPTEMBER, 2007. ADDITIONAL COPIES OF ECS MANDATE, IF REQUIRED, CAN ALSO BE OBTAINED FROM THE SHARE TRANSFER AGENT.

- 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, 31ST MARCH, 2005 AND 31ST MARCH 2006 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 ENDED 31ST MARCH, 2003, 31ST MARCH 2004, 31ST MARCH, 2005 AND 31ST MARCH 2006 WILL HAVE TO BE CLAIMED BY THE SHAREHOLDERS ON OR BEFORE 29TH SEPTEMBER 2010, 29TH SEPTEMBER 2011, 29TH SEPTEMBER 2012 AND 29TH SEPTEMBER 2013 RESPECTIVELY AND THEREAFTER IT WILL BE TRANSFERRED TO INVESTOR EDUCATION AND PROTECTION FUND ON OR BEFORE 28TH OCTOBER 2010, 28TH OCTOBER 2011, 28TH OCTOBER 2012 AND 28TH OCTOBER 2013 AS THE CASE MAY BE.
- 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.
- 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, BANJARA HILLS, HYDERABAD- 500 034.
- 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, BANJARA HILLS, HYDERABAD - 500 034 OR TO THE SECRETARIAL DEPARTMENT OF THE COMPANY AT 505, 5TH FLOOR, BLOCK-1, DIVYASHAKTI COMPLEX, AMEERPET, HYDERABAD - 500 016.
- 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 THE HYDERABAD STOCK EXCHANGE LIMITED, HYDERABAD (STOCK CODE:SVI). THE BOMBAY STOCK EXCHANGE LIMITED, MUMBAI (STOCK CODE:526093) AND NATIONAL STOCK EXCHANGE OF INDIA LIMITED, MUMBAI (STOCK CODE:SATHAISPAT). THE ANNUAL LISTING FEE TO THE STOCK EXCHANGES WHERE THE COMPANY'S SHARES ARE LISTED HAS BEEN PAID UPTO DATE.

### 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
Date of Birth	14.05.1935	03.01.1933
Date of Appointment	29.01.1999	30.07.2001
Qualifications	B.Com., M.B.A., CAIIB.	B.A., LL.B., CAIIB.
Expertise in specific functional areas	Over 35 years in Commercial Banking and Financial Management	Commercial Banking, Human Resources and Financial Management.
List of Companies in which outside Directorship held as on 31st March, 2007	1. B.Seenaiah & Co. (Projects) Limited. 2. Aishu Castings (P) Limited. 3. L.V.S.Power Limited. 4. Sagar Cements Limited. 5. Nuziveedu Seeds Limited. 6. Aishu Fincorp Limited. 7. e-Talent Software Limited. 8. Aishu Securities Limited. 9. SCM Sugars Limited. 10. Icomm Tele Limited. 11. Amar Biotech Limited. 12. Bollineni Castings & Steel Limited.	Babuji Estates Pvt. Ltd.
Chairman / Member of the Committees of the Board of the other Companies in which he is a Director as on 31st March, 2007	1. Chairman, Audit Committee, Nuziveedu Seeds Limited. 2. Chairman, Remuneration Committee, Sagar Cements Limited. 3. Member, Audit Committee, Sagar Cements Limited. 4. Member, Audit Committee, L.V.S.Power Limited. 5. Member, Audit Committee, B.Seenaiah & Co. (Projects) Limited. 6. Member, Audit Committee, Icomm Tele Limited.	NIL

Hyderabad

Date: 30.07.2007

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



## DIRECTORS' REPORT

To  
The Members,  
SATHAVAHANA ISPAT LIMITED,

Your Directors have pleasure in presenting the 18th Annual Report together with the Audited Accounts of the Company for the year ended 31st March, 2007.

### FINANCIAL RESULTS:

Your Directors report the following financial results for the year 2006-07:

(Rs. in Lakhs)

SL NO.	Particulars	Year ended 31-03-2007	Year ended 31-03-2006
1.	Sales	28497.52	21121.31
2.	Other Income	704.91	745.92
3.	Operating profit before Interest and Depreciation	3675.54	1463.16
4.	Interest	542.58	487.05
5.	Depreciation	946.74	906.25
6.	Profit Before Tax	2186.22	69.86
7.	Income Tax adjustment and provision	782.29	40.71
8.	Net Profit after Tax	1403.93	29.15
9.	Add: Profit brought forward from last year	1605.02	1725.81
10.	Available for appropriation	3008.95	1754.96
11.	Less: Transfer to General Reserve	700.00	0.00
12.	Less: Proposed Dividend	263.00	131.50
13.	Less: Provision for Corporate Dividend Tax	44.70	18.44
14.	Balance carried forward	2001.25	1605.02
15.	Earning per Equity Share	5.34	0.11

Your Directors are pleased to report that the Company's performance has significantly improved in line with the rebounded Iron and Steel industry. The sales turnover improved to Rs.28497.52 Lakhs during the year under review as against Rs. 21121.31 Lakhs in the last year. The Profit Before Tax has also gone up to Rs.2186.22 Lakhs as compared to Rs.69.86 Lakhs in the year before. The Net Profit After Tax also improved to Rs.1403.93 Lakhs as against Rs.29.15 Lakhs in the previous year. Factors like improved sales realisation, increase in volumes, stable and moderated prices of energy materials have contributed to the rise in the bottomline. The Earning Per Share is at Rs.5.34 as against Rs.0.11 for equity share in the last year.

### DIVIDEND:

The Board of Directors have recommended a dividend of 10% for the year. The proposed dividend involves an outlay of Rs.263.00 Lakhs with the applicable Corporate Dividend Tax on the proposed dividend amounting to Rs.44.70 Lakhs will be borne by the Company. Due to funds commitment for implementation of the Greenfield project, the dividend rate has been considered at 10% for the year 2006-07 and is being paid out of current year 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:

- The applicable Accounting Standards have been followed in the preparation of Annual Accounts for the Financial Year 2006-07;
- 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 2007 and of the Profit of the Company for the year ended on the date;
- 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,
- The Annual Accounts have been prepared on a going concern basis.

### AUDIT COMMITTEE:

The Audit Committee at it's meeting held on 30th June 2007 has considered and approved the Audited Accounts for the financial year ended 31st March 2007. The Audited Accounts for the financial year ended 31st March 2007, 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, 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 Metallurgical Coke facility has been, after successful trials during the period commencing from November 2006 to March 2007, has been commissioned on 21st March 2007. The Co-generation Power facility is expected to be commissioned during second quarter of financial year 2007-08.

### DIRECTORS:

Shri K.Thanu Pillai and Shri Khaja Ruknuddin, Directors are liable for retirement by rotation at the end of the ensuing 18th Annual General Meeting and being eligible, offers themselves for re-appointment at the said Annual General Meeting.

### AUDITORS:

M/s. PVR 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 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. NSE was kind enough to grant listing of the equity shares of the Company effective from 27th December 2006 under stock code: Sathaispat. The equity shares of the Company since then, are regularly traded on NSE apart from the Bombay Stock Exchange Limited (Stock Code:526093) and Hyderabad Stock Exchange Limited (Stock Code: SVI).

### 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 / renewed 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. 225 Lakhs) of principal and Rs.21.31 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, Andhra 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 at all levels of the Company.

for and on behalf of the Board  
(K. THANU PILLAI)  
CHAIRMAN

Place: Hyderabad  
Date: 30.06.2007





## 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 of Pig Iron Plant in 2005-06, the China Shougang technology and with the commissioning of Metallurgical Coke plant at Kudithini in 2006-07, the Anshan Technology, both technologies sourced from P.R.China, stand fully absorbed.
- 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 | Rs. In Lakhs |
| Raw materials                 | 10619.96     | 4.11         |
| Capital Goods                 | 76.82        | 166.99       |
| b) Travelling expenses        |              |              |
| c) Usance interest            |              |              |

## 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)	36	17	01.06.1999	3549127	Chemical Market Resources Inc., /Project Manager
2.	Shri A.S.Rao Executive Vice Chairman	B.Tech (Hons)	64	44	01.07.1991	3284589	Steel Authority Of India Limited /Addl Chief (Marketing)

## Notes:

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

for and on behalf of the Board

(K. THANU PILLAI)

CHAIRMAN

Place: Hyderabad

Date: 30.06.2007

## 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 :	1. Shri A.S.Rao
a) Promoters	2. Shri A.Naresh Kumar
b) Non-promoter, independent	1. Shri S.N.Rao
II. Non-executive Directors	1. Shri K. Thanu Pillai
a) Independent	2. Shri Khaja Ruknuddin
	3. Shri Syed Anis Hussain

- 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 K.Thanu Pillai	6	6	Yes
Shri A.S.Rao	6	6	Yes
Shri Khaja Ruknuddin	6	5	Yes
Shri Syed Anis Hussain	6	5	Yes
Shri A.Naresh Kumar	6	6	Yes
Shri S.N.Rao	6	6	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 K.Thanu Pillai	12	None	4	2
Shri A.S.Rao	2	None	None	None
Shri Khaja Ruknuddin	1	None	None	None
Shri Syed Anis Hussain	2	None	1	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: 29th April 2006; 30th June 2006; 31st July 2006; 30th September 2006; 31st October 2006 and 31st January 2007. The maximum interval between any two meetings was not more than three calendar months.



#### Reappointment of Directors at the 18th 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.

Shri K. Thanu Pillai, B.Com., CAIIB, M.B.A., 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 also a Director on several other companies with rich experience in commercial banking and financial management.

Shri Khaja Ruknuddin, B.A., LL.B., CAIIB., 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.

#### 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. 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 K. Thanu Pillai 4/4; Shri Khaja Ruknuddin 3/4 and Shri Syed Anis Hussain 3/4.

#### REMUNERATION COMMITTEE:

Remuneration Committee comprises Shri K. Thanu Pillai, Shri Khaja Ruknuddin and Shri Syed Anis Hussain as its Members all of whom are independent Non-executive Directors.

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 not met during the financial year 2006-07 as there was no agenda.

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	989290	0	2295299	3284589
2. Shri A. Naresh Kumar, Managing Director	1180000	73828	2295299	3549127
3. Shri S.N.Rao, Executive Director (Works)	596000	173294	0	769294

##### 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 K. Thanu Pillai, Director / Chairman	24000	8000	32000	NIL
2. Shri Khaja Ruknuddin, Director	20000	34000	54000	1600
3. Shri Syed Anis Hussain, Director	20000	6000	26000	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:

- 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;
- 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 2007.

Share transfers in dematerialisation mode pending on 31st March 2007 were nil.

#### 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 2006-07 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 2006-07 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 2006-07 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 body meetings (AGM) held:

Year	Type of meeting	Venue	Date	Time
2003-04	AGM	Sri Sagi Rama krishnam Raju Community Hall, Madhuravanagar, Hyderabad-500 038	30.09.2004	3.00 PM
2004-05	AGM	Same as above	30.09.2005	3.00 PM
2005-06	AGM	Same as above	30.09.2006	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 deposits	Acceptance of fixed fixed deposits	Interest paid on
Shri A.Naresh Kumar, Managing Director	453600	810000	2500000	207858
Shri A. Ashok Kumar, Relative of two Directors	352800	630000	Nil	Nil
Smt. A. Mutha Bai, Relative of two directors	492000	108000	20000000	1650608

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 declare 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 Agreements 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 un-audited 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](http://www.sebidifar.nic.in).

Financial results are sent regularly to Stock Exchanges where the shares of Company are listed, financial institutions and banks upon their publication.

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

**11. GENERAL SHAREHOLDERS INFORMATION:**

- a) AGM : 18th Annual General Meeting  
Day and Date : Saturday, the 29th September 2007  
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 2007.  
2. Half yearly : Last week of October 2007.  
3. Third quarter : Last week of January 2008.  
ii) Audited Financial Results : Last week of June 2008.

- c) Date of book closure:

- i) Physical mode : 15.09.2007 to 29.09.2007  
both days inclusive.  
ii) Electronic mode : 14.09.2007.

- 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
National Stock Exchange of India Limited	sathaispat
ISIN Code for electronic trading and dematerialisation in NSDL / CDSL	INE 176C01016

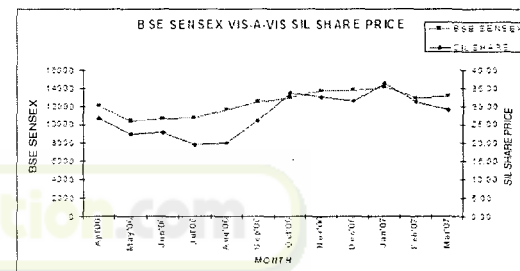
The Listing fee to the above stock exchanges has been paid upto financial year 2007-08.

- e) Market price data: high/low during each month in last financial year 2006-07.

Rs.Ps.

Month	High	Low	Month	High	Low
April	28.40	21.00	October	37.05	26.00
May	28.10	19.85	November	39.25	29.60
June	23.50	15.45	December	37.25	28.45
July	23.75	16.50	January	42.40	30.90
August	22.40	18.55	February	40.60	30.00
September	27.50	19.50	March	33.00	26.60

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



- g) Registrar and Transfer Agents: The Company has appointed M/s. XL Softech Systems Limited, who are 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 31.03.2007:

No. of shares		No. of Shareholders		Shareholding	
From	To	Nos.	% to total	Nos.	% to total
1	500	16645	80.79	4047784	15.39
501	1000	2224	10.79	1999682	7.60
1001	2000	875	4.25	1416281	5.39
2001	3000	296	1.44	776798	2.95
3001	4000	111	0.54	411228	1.56
4001	5000	137	0.66	661092	2.51
5001	10000	165	0.80	1274741	4.85
10001 and above		151	0.73	15712394	59.75
<b>Total</b>		<b>20604</b>	<b>100.00</b>	<b>26300000</b>	<b>100.00</b>





The shareholding pattern as on 31st March 2007:

SNo.	Category of shareholder	Number of share holders	Total Number of shares	Total share holding as a percentage of total number of shares
<b>A. Shareholding of Promoter and Promoter Group :</b>				
A.1	Indian	7	9817603	37.33
A.2	Foreign	0	0	0.00
<b>B. Public Shareholding :</b>				
B.1	Mutual Funds	5	128200	0.49
	Financial Institutions / Banks	8	312800	1.19
B.2	Bodies Corporate	420	1598225	6.08
	Individuals	19927	14275306	54.28
	Trust	1	1000	0.00
	Non Resident Indians	236	166866	0.63
<b>Grand Total</b>		<b>20604</b>	<b>26300000</b>	<b>100.00</b>

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 162.45 Lakhs shares constituting 61.77% 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,  
Divyashakti Complex,  
Ameerpet,  
HYDERABAD - 500 016.  
Email : sathavahana@eth.net

for and on behalf of the Board

Place: Hyderabad

(K. THANU PILLAI)

Date: 30.06.2007

CHAIRMAN

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. INDUSTRY STRUCTURE AND DEVELOPMENTS:

The Company is engaged in the manufacture and sale of Pig Iron and also Metallurgical Coke, 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 for Pig Iron making. During the year the Company also absorbed the Anshan technology, sourced from P.R.China for Metallurgical Coke making.

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 production is also diverted to the domestic market. Foundry grade is mainly used for castings and is produced by the Mini Blast Furnace units.

Pig Iron is the basic raw material for most of the engineering products and construction industry. Pig Iron is also a raw material for foundry and engineering industry also. With the significant growth in the main user industries like automobiles, construction, foundries, the demand for Iron and Steel has increased significantly. The total production of Pig Iron in India has increased from 1.59 million tons in 1991-92 to the present level of 4.96 million tons in 2006-07 after having reached to a peak level of 5.22 million tons in 2003-04. The production of Pig Iron as per statistics released by the Joint Plant Committee (JPC) attached to the Ministry of Steel for the financial year 2006-07 is at 4.96 million tons as against 4.69 million tons in the previous year. Factors like increase in raw material costs, increase in transportation costs and competition from the Integrated Steel Plants have a straight bearing on the performance of the Pig Iron units in India.

Metallurgical Coke is the key input material for Iron making. The Company was sourcing Metallurgical Coke all through these years from P.R.China. With the commissioning of Metallurgical Coke at a Greenfield site, the Company has integrated itself backward for the key input material. The surplus Metallurgical Coke production from this facility will be sold in the open market.

#### Global scenario:

During the year the global Iron and Steel industry rebounded, marching forward to scale new heights and recording compounded annual growth rate of over 7.70% during the last six years. The World Steel Production during the year 2006 touched an all time of 1.244 billion tons beating previous year's all time high of 1.142 billion tons, clocking 8.9% year on year growth. China continues to be the main driver for this phenomenal growth in the Iron and Steel industry, which accounted for about 34% of global production, with year on year growth of 18.5% in the year 2006. Asia continues to dominate the Iron and Steel market with Japan, Korea and India becoming the predominant producers and consumers of the metal. A strong demand push of 6.2% in Europe and 3.8% growth in U.S.A have also been the other factors for clocking this new global record. The global Pig Iron production in 2006 also grew in line with Steel industry recording 873 million tons as against 794 million

tons in 2005. As a consequence of the growing demand, the price line of finished steel recovered during the year and remained more or less stable with a mild correction in the last quarter of 2006. However the strong growth had exerted pressures on the availability and price of Iron Ore and energy, the costs of which ruled higher than expected forcing the Steel units to crave for higher price for the finished goods, which remained elusive.

#### Indian Scenario:

The Indian Steel industry is slowly emerging as one of the global player, placing itself as one of the world's top ten players and ranked as the 7th largest producer and consumer in 2006. In line with the world Steel growth, the Indian finished Steel production touched a peak of 49.39 million tons in the year 2006-07 accounting for 10.9% year on year growth and with apparent consumption reaching to 43.74 million tons, an increase of 11.6% over last year's level of 39.19 million tons. The Indian Pig Iron production and apparent consumption during the year was at 4.96 million tons and 4.65 million tons which account for an annual growth of 5.6% and 12.6% respectively.

#### Price Trends:

The phenomenal growth in the global Iron and Steel industry continues to exert pressure on both availability and price of raw materials like Iron Ore, Coking Coal and Metallurgical Coke. The Iron Ore prices have steeply increased through out the year with an average of Rs.2000-2400/MT. The Coking Coal prices were about USD130 to 150/MT c and f Indian Ports during the year. The Metallurgical Coke Prices were in the range of USD180-200/MT during the most part of the year but quality material was not available. On the sales front, the sales prices of steel have moved in a range of Rs.24000 to Rs.27000 per ton and the Pig Iron prices from Rs.15000 to Rs.16000 ex works. The moderate increase in sales realisation has improved the margins and in turn the profitability.

### 2. OPPORTUNITIES, THREATS, RISKS AND CONCERNS:

- As the Company's Pig Iron enjoys brand value and being one of the low cost producers of Pig Iron, there is an opportunity of increasing the market share. The Company has augmented additional capacity at its existing operations to improve its market share.
- Opportunity of modernising the plant, which not only facilitates further efficiency and reduction in process costs but also increases volumes. The Company is carrying out on a continuous basis modernisation of its existing operations to improve its efficiency parameters and bring down operating costs over a period.
- Being in the intermediate stage there is an opportunity for both backward integration and forward integration. The Company has set up a Coke Oven facility with Co-generation of Power at a Greenfield site-as a first phase of forward integration.
- Company sources the Metallurgical Coke / Coking Coal, key input materials, by importing from outside India and thus suffers from import constraints. However, the Company has identified reliable suppliers, which minimises the