

**SATHAVAHANA ISPAT LIMITED**

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**19<sup>th</sup>**  
**ANNUAL REPORT**  
**2007-08**

**BOARD OF DIRECTORS:**

|                               |                         |
|-------------------------------|-------------------------|
| <b>Shri K.Thanu Pillai</b>    | Chairman                |
| <b>Shri A.S.Rao</b>           | Executive Vice Chairman |
| <b>Shri Khaja Ruknuddin</b>   | Director                |
| <b>Shri Syed Anis Hussain</b> | Director                |
| <b>Shri S.N.Rao</b>           | Director                |
| <b>Shri A. Naresh Kumar</b>   | Managing Director       |

**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                  | : | 19th Annual General Meeting.  |
| Day and Date         | : | Tuesday, the 30th September 2008  |
| Time                 | : | 3.00 PM.  |
| Venue                | : | Sri Sagi Ramakrishnam Raju, Community Hall,<br>Madhura Nagar, Hyderabad - 500 038 |
| Date of book closure | : |   |
| i) Physical mode     | : | 16.09.2008 to 30.09.2008 (both days inclusive).                                   |
| ii) Electronic mode  | : | 15.09.2008  |
| ISIN No.             | : | INE 176C01016   |
| Listing              | : | The Bombay Stock Exchange Limited (BSE)<br>(Stock Code : 526093)                  |
|                      |   | National Stock Exchange of India Limited (NSE)<br>(Stock Code : sathaispat)       |

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

|   |         |
|---|---------|
| 1. Notice of 19th Annual General Meeting .....                          | 3 - 4   |
| 2. Directors' Report .....  | 4 - 5   |
| 3. Report on Corporate governance .....                                 | 6 - 8   |
| 4. Management Discussion & Analysis .....                               | 8 - 10  |
| 5. Auditors' Report .....   | 10 - 11 |
| 6. Balance Sheet .....  | 12      |
| 7. Profit and Loss Account .....  | 13      |
| 8. Cash Flow Statement .....  | 14      |
| 9. Schedules to Balance Sheet .....                                     | 15 - 17 |
| 10. Schedules to Profit and Loss Account .....                          | 18 - 19 |
| 11. Notes to Accounts .....   | 19 - 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 of furnishing Bank Particulars .....                           | 30      |
| 16. Attendance Slip/Proxy Form .....                                    | 31      |



## NOTICE OF 19th ANNUAL GENERAL MEETING

**NOTICE** is hereby given that the 19th 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 Tuesday, the 30th September, 2008 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, 2008 along with the Reports of Directors and Auditors thereon.
- To declare a dividend on equity shares.
- To appoint a Director in place of Shri. Syed Anis Hussain, who retires by rotation and being eligible, offers himself for reappointment.
- To appoint a Director in place of Shri S.N.Rao, 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

Hyd. rabad  
Date: 30.05.2008

### 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 ALSO 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 16.09.2008 TO 30.09.2008 (BOTH DAYS INCLUSIVE) FOR TRANSFERS IN PHYSICAL MODE AND ON 15.09.2008 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 2007-08 RECOMMENDED BY THE BOARD OF DIRECTORS, IF DECLARED AT THE GENERAL MEETING, WILL BE PAYABLE ON OR AFTER 1ST OCTOBER, 2008. TO THOSE MEMBERS WHOSE NAMES APPEAR ON THE COMPANY'S REGISTER OF MEMBERS HOLDING SHARES IN PHYSICAL MODE AS ON 30TH SEPTEMBER, 2008 AND TO THOSE BENEFICIAL OWNERS WHOSE NAME APPEARS ON CLOSE OF 15TH SEPTEMBER 2008 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 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.
- MEMBERS HOLDING SHARES IN PHYSICAL FORM ARE REQUESTED TO INTIMATE TO THE COMPANY ON OR BEFORE 15TH SEPTEMBER 2008 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 15TH SEPTEMBER, 2008. 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, 31ST MARCH 2006 AND 31ST MARCH 2007 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, 31ST MARCH 2006 AND 31ST MARCH 2007 WILL HAVE TO BE CLAIMED BY THE SHAREHOLDERS ON OR BEFORE 29TH SEPTEMBER 2010, 29TH SEPTEMBER 2011, 29TH SEPTEMBER 2012, 29TH SEPTEMBER 2013 AND 29TH SEPTEMBER 2014 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, 28TH OCTOBER 2013 AND 28TH OCTOBER 2014 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 COMPILATE 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, BANAJARA 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, BANAJARA HILLS, HYDERABAD - 500 034 OR TO THE SECRETARIAL DEPARTMENT OF THE COMPANY AT 505, 5TH FLOOR, BLOCK-1, DIVYASHAKTI COMPLEX, AMEEPET, 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.
- 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.
- 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.
- THE EQUITY SHARES OF THE COMPANY ARE LISTED ON THE BOMBAY STOCK EXCHANGE LIMITED, MUMBAI (STOCK CODE:526093) AND NATIONAL STOCK EXCHANGE INDIA LIMITED, MUMBAI (STOCK CODE:SATHAISPAT). THE ANNUAL LISTING FEE TO THE STOCK EXCHANGES WHERE THE COMPANY'S SHARES ARE LISTED HAS BEEN PAID UP TO DATE. THE LISTING ON THE HYDERABAD STOCK EXCHANGE LIMITED, HYDERABAD, (STOCK CODE:SVI) IS NOT IN FORCE AS THE SAID EXCHANGE HAS BEEN DERECOGNISED BY THE SECURITIES AND EXCHANGE BOARD OF INDIA.



## 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 Syed Anis Hussain  | Shri S.N.Rao  |
| Date of Birth  | 29.05.1938  | 27.10.1948  |
| Date of Appointment  | 15.12.2005  | 01.02.1999  |
| Qualifications   | M.A.(Econ), C.A.I.I.B.,   | B.E.(Mech.)   |
| Expertise in specific functional areas   | Over 40 years in Banking-specialized in currency management, Urban Co-operative banking and administration  | Over 35 years experience with several leading Companies in India engaged in manufacture of Iron & Steel, Chemicals etc. |
| List of Companies in which outside directorship held as on 31st March, 2008  | 1. Godavari Drugs Limited.<br>2. Bio Chemicals & Synthetic Products Limited.<br>3. Pasific Cotspin Limited. | NIL   |
| Chairman / Member of the Committees of the Board of the other Companies in which he is a Director as on 31st March, 2008 | NIL   | NIL   |

Hyderabad

Date: 30.06.2008

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 19th Annual Report together with the Audited Accounts of the Company for the year ended 31st March, 2008.

### FINANCIAL RESULTS:

Your Directors report the following financial results for the year 2007-08:

(Rs. in Lakhs)

| SL NO. | Particulars                                       | Year ended 31-03-2008 | Year ended 31-03-2007 |
|--------|---|-----------------------|-----------------------|
| 1.     | Sales   | 39589.35              | 28980.95              |
| 2.     | Other Income                                      | 432.18                | 221.48                |
| 3.     | Operating profit before Interest and Depreciation | 8346.71               | 3675.54               |
| 4.     | Interest  | 1696.54               | 542.58                |
| 5.     | Depreciation                                      | 1498.50               | 946.74                |
| 6.     | Profit before Tax                                 | 5151.67               | 2186.22               |
| 7.     | Income Tax adjustment and provision               | 1853.75               | 782.29                |
| 8.     | Net Profit after Tax                              | 3297.92               | 1403.93               |
| 9.     | Add: Profit brought forward from last year        | 2001.25               | 1605.01               |
| 10.    | Available for appropriation                       | 5299.17               | 3008.94               |
| 11.    | Less: Transfer to General Reserve                 | 1500.00               | 700.00                |
| 12.    | Less: Proposed Dividend                           | 394.73                | 263.00                |
| 13.    | Less: Provision for Corporate Dividend Tax        | 67.08                 | 44.70                 |
| 14.    | Balance carried forward                           | 3337.36               | 2001.25               |
| 15.    | Earning per Equity Share-Basic                    | 12.53                 | 5.34                  |
| 16.    | Earning per Equity Share-Diluted                  | 12.53                 | 5.34                  |

Your Directors are pleased to report that the Company's performance has significantly improved in view of the benefits flowing in from the commissioning of Metallurgical Coke Plant in the last year and in spite of capital shut down of Blast Furnace for about two months. The sales turnover improved to Rs.39589.35 Lakhs during the year under review as against Rs. 28980.95 Lakhs in the last year. The Profit before tax has also gone up to Rs.5151.67 Lakhs as compared to Rs.2186.22 Lakhs in the year before. The net profit after tax also improved to Rs.3297.92 Lakhs as against Rs.1403.93 Lakhs in the previous year. Factors like improved sales realisation, in house Coke making have contributed to the rise in the bottomline. The Earning Per Share is at Rs.12.53 as against Rs.5.34 in the last year.

### DIVIDEND:

The Board of Directors have recommended a dividend of 15% for the year 2007-08, up from 10% in the previous year. The proposed dividend involves an outlay of Rs.394.73 Lakhs and the applicable Corporate Dividend Tax on the proposed dividend amounting to Rs.67.08 Lakhs will be borne by the Company. Thus the total outflow on account of dividend payment works out to Rs.461.81 Lakhs. Due to funds commitment for implementation of the expansion of Greenfield project, the dividend rate has been considered at 15% for the year 2007-08 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:

- i) The applicable Accounting Standards have been followed in the preparation of Annual Accounts for the Financial Year 2007-08;
- 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 2008 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 30th June 2008 has considered and approved the audited accounts for the financial year ended 31st March 2008. The audited accounts for the financial year ended 31st March 2008, 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 Green Field 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 outlay of about Rs.17400 Lakhs, which is being financed by term debt of Rs.11900 Lakhs and internal accruals of Rs. 5500 lakhs. The Metallurgical Coke facility has been commissioned on 21st March 2007. The Co-generation Power facility is expected to be commissioned during second quarter of financial year 2008-09, as test runs have already been started.

### DIRECTORS:

Shri S.N.Rao, has stepped down, upon attainment of superannuation, as Executive Director (Works) effective from 01.02.2008 after putting a meritorious service of about 13 years with the Company and continues to be on the Board of the Company as an independent Director. Shri Syed Anis Hussain and Shri S.N.Rao, Directors are liable for retirement by rotation at the end of the ensuing 19th Annual General Meeting and being eligible, offers themselves for re-appointment at the said 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.

**DEMATERIALIZATION 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 STOCK EXCHANGES:**

The equity shares of the Company are regularly traded on the Bombay Stock Exchange Limited (Stock Code:526093) and The National Stock Exchange of India Limited (NSE) (Stock Code: sathaispat.) The listing on Hyderabad Stock Exchange Limited (Stock Code: SV) is not in force as the said exchange was de-recognised by The Securities and Exchange Board of India.

**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.

**PREFERENTIAL ISSUE OF EQUITY SHARES AND SHARE WARRANTS:**

In terms of approval accorded by the Company in the Extraordinary General Meeting held on 14th January 2008 Company has issued and allotted 4900000 Equity Shares to Stercor A.G. Switzerland and 625000 Equity Shares to Promoter's Group at issue price of Rs.60/- per share (comprising of Rs.10/- towards face value and Rs.50/- towards share premium) per cash. The Company in terms of the said approval also issued and allotted 1575000 Share Warrants to Promoters Group at issue price of Rs.60/- per Share Warrant (comprising Rs.10/- towards face value and Rs.50/- towards premium) which Share Warrants are convertible in the ratio of one Share Warrant to one Equity Share within a period of eighteen months from the date of allotment and where ten percent of the issue price having already been paid upfront. The allotment of these Equity Shares and Share Warrants had been completed on 31.03.2008. The utilisation of the proceeds of Preferential issue of Equity Shares and Share Warrants as on the balance sheet date have been provided in the Notes to accounts (Clause 11 to Schedule 22).

**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. There are no overdue deposits or outstanding deposits as on the Balance Sheet date.

**ACKNOWLEDGMENTS:**

Your directors take this opportunity to express their grateful thanks to Canara Bank, State Bank of Hyderabad, Andhra Bank, 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.

Place: Hyderabad

Date: 30.06.2008

for and on behalf of the Board

(K. THANU PILLAI)  
CHAIRMAN

## ANNEXURE TO DIRECTORS' REPORT

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

- 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.
- Technology absorption: The technology sourced from China Shougang for the Pig Iron plant expansion and Anshan Technology for Metallurgical Coke plant at Kudithini, both technologies sourced from P.R.China, stand fully absorbed.
- Foreign Exchange earnings and outgo:

(Rs.Lakhs)

|                                |          |
|--------------------------------|----------|
| I) Foreign Exchange earnings : |          |
| a) F.O.B value of exports      | 1542.75  |
| II) Foreign Exchange outgo :   |          |
| a) C.I.F. value of imports:    |          |
| i) Raw materials :             | 18979.87 |
| ii) Capital Goods :            | 17.50    |
| b) Travelling expenses :       | 8.72     |
| c) Usance interest :           | 306.62   |

### 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) | 37          | 18                 | 01.06.1999                         | 7116403                | Chemical Market Resources Inc., / Project Manager         |
| 2.     | Shri A.S.Rao Executive Vice Chairman   | B.Tech (Hons)     | 65          | 45                 | 01.07.1991                         | 6862274                | 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.

Place: Hyderabad

Date: 30.06.2008

for and on behalf of the Board

(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 two are executive and four 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 66.67% 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    |
| II. Non-executive Directors | 1. Shri K. Thanu Pillai   |
| a) Independent              | 2. Shri Khaja Ruknuddin   |
|                             | 3. Shri Syed Anis Hussain |
|                             | 4. Shri S.N.Rao           |

• 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   | 9              | 8        | Yes                    |
| Shri A.S.Rao           | 9              | 9        | Yes                    |
| Shri Khaja Ruknuddin   | 9              | 9        | Yes                    |
| Shri Syed Anis Hussain | 9              | 7        | Yes                    |
| Shri A.Naresh Kumar    | 9              | 9        | Yes                    |
| Shri S.N.Rao           | 9              | 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   | 13                 | None     | 6                | 3        |
| Shri A.S.Rao           | 2                  | None     | None             | None     |
| Shri Khaja Ruknuddin   | 1                  | None     | None             | None     |
| Shri Syed Anis Hussain | 3                  | 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 nine Board of Directors Meetings. The dates on which these meetings held were:

28th April 2007; 30th June 2007; 30th July 2007;

29th September 2007; 31st October 2007; 20th December 2007; 29th January 2008; 31st January 2008 and 31st March 2008. The maximum interval between any two meetings was not more than three calendar months.

• Reappointment of Directors at the 19th AGM:

Shri Syed Anis Hussain and Shri S.N.Rao are liable to retire by rotation at the ensuing Annual General Meeting of the Company and being eligible have offered themselves for reappointment.

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.

Shri S.N.Rao is a Mechanical Engineer by profession and has gained wide experience with several leading companies in India engaged in manufacture of Iron & Steel, Chemicals etc. During last nine years of employment as Executive Director (Works), Shri S.N.Rao contributed significantly to the operations of the Company. The Company also achieved a good progress during his tenure as Executive Director (Works). Shri S.N.Rao, upon attainment of superannuation, has retired as Executive Director (Works) on 31st January 2008 but continues to be on the board of Company as an independent, professional Director with effective from 1st February 2008.

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

### 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 met once during the financial year 2007-08.

Details of remuneration to all the Directors:

#### a) Executive Directors:

| Name of the Director   | Salary  | Benefits | Commission | Total   |
|--|---------|----------|------------|---------|
|  |         |          |            |         |
| 1. Shri A.S.Rao, Executive Vice Chairman                     | 1085290 | 9360     | 5767624    | 6862274 |
| 2. Shri A. Naresh Kumar, Managing Director                   | 1300000 | 48779    | 5767624    | 7116403 |
| 3. Shri S.N.Rao, Executive Director (Works)(upto 31.01.2008) | 530000  | 789599   | Nil        | 1319599 |

#### 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  | 64000                | 14000                 | 78000  | NIL                       |
| 2. Shri Khaja Ruknuddin Director             | 72000                | 68000                 | 140000 | 1000                      |
| 3. Shri Syed Anis Hussain, Director          | 56000                | 18000                 | 74000  | 1000                      |
| 4. Shri S.N.Rao, Director (w.e.f.01.02.2008) | 8000                 | 0                     | 8000   | 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 26 shareholders' complaints. All these complaints were redressed / replied to the satisfaction of the shareholders and no complaints were outstanding as on 31st March 2008.

Share transfers in dematerialisation mode pending on 31st March 2008 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 2007-08 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 Conduct and Business 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 2007-08 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 2007-08 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    |
|---------|-----------------|---|------------|---------|
| 2004-05 | AGM             | Sri Sagi Rama Krishnam Raju Community Hall, Madhuranagar, Hyderabad-500 038 | 30.09.2005 | 3.00 PM |
| 2005-06 | AGM             | Same as above   | 30.09.2006 | 3.00 PM |
| 2006-07 | AGM             | Same as above   | 29.09.2007 | 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:

| Name of the Related Party                    | Nature of transaction |                |                              |                                 |  |   | Rs. |
|--|-----------------------|----------------|------------------------------|---------------------------------|--|---|-----|
|  | Rental Income         | Rental deposit | Acceptance of Fixed deposits | Interest paid on fixed deposits | Allotment of Equity shares by preferential issue | Allotment of Share Warrants by preferential issue |     |
| Sri A.Naresh Kumar Managing Director         | 453600                | 810000         | 2500000                      | 184005                          | 12900000   | 150000  |     |
| Sri A. Ashok Kumar Relative of two Directors | 352800                | 630000         | Nil                          | Nil                             | 1500000  | 9000000   |     |
| Smt. A. Mutha Bai Relative of two Directors  | 492000                | 108000         | 20000000                     | 1413616                         | 18360000   | 150000  |     |
| Sri A.S.Rao Executive Vice Chairman          | Nil                   | Nil            | Nil                          | Nil                             | 4740000  | 150000  |     |

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 mds, dual 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.sebidar.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 : 19th Annual General Meeting  
Day and Date : Tuesday, the 30th September 2008  
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 2008.  
2. Half yearly : Last week of October 2008.  
3. Third quarter : Last week of January 2009.

ii) Audited Financial Results

: Last week of June 2009.

c) Date of book closure:

i) Physical mode : 15.09.2008 to 30.09.2008  
both days inclusive.  
ii) Electronic mode : 15.09.2008.

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 |

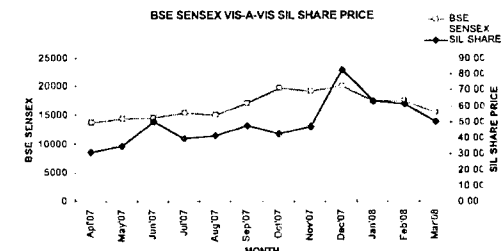
\*The Listing Agreement with the said Exchange is not in force as the said Exchange was derecognised by the Securities and Exchange Board of India.

The fee to the above Stock Exchanges (except HSE) has been paid upto financial year 2008-09.

e) Market price data: high/low during each month in last financial year 2007-08.

| Month     | High  | Low   | Month    | High   | Low   |
|-----------|-------|-------|----------|--------|-------|
| April     | 33.20 | 27.70 | October  | 48.95  | 40.00 |
| May       | 36.95 | 30.75 | November | 57.00  | 40.25 |
| June      | 55.20 | 31.00 | December | 85.80  | 48.00 |
| July      | 50.90 | 39.15 | January  | 110.90 | 56.40 |
| August    | 46.00 | 37.50 | February | 68.90  | 51.15 |
| September | 51.70 | 41.75 | March    | 62.00  | 41.65 |

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 31st March 2008\*:

| No. of shares   |       | No. of Shareholders |            | Shareholding |            |
|-----------------|-------|---------------------|------------|--------------|------------|
| From            | To    | Nos.                | % to total | Nos.         | % to total |
| 1               | 500   | 17846               | 82.48      | 3951592      | 11.83      |
| 501             | 1000  | 2055                | 9.50       | 1829601      | 5.48       |
| 1001            | 2000  | 821                 | 3.79       | 1331336      | 3.99       |
| 2001            | 3000  | 291                 | 1.35       | 759242       | 2.27       |
| 3001            | 4000  | 119                 | 0.55       | 440494       | 1.32       |
| 4001            | 5000  | 150                 | 0.69       | 720904       | 2.16       |
| 5001            | 10000 | 189                 | 0.87       | 1427444      | 4.27       |
| 10001 and above |       | 167                 | 0.77       | 22939357     | 68.68      |
| Total           |       | 21638               | 100.00     | 33400000     | 100.00     |

The shareholding pattern as on 31st March 2008\*:

| S.No. | Category of shareholder                            | Number of share holders | Total Number of shares | Total share holding as a percentage of total number of shares |
|-------|--|-------------------------|------------------------|---|
| A.    | <b>Shareholding of Promoter and Promoter Group</b> |                         |                        |   |
| A.1   | Indian   | 7                       | 12027603               | 36.01   |
| A.2   | Foreign  | 0                       | 0                      | 0.00  |
| B.    | <b>Public Shareholding</b>                         |                         |                        |   |
| B.1   | Mutual Funds                                       | 6                       | 302500                 | 0.91  |
|       | Financial Institutions / Banks                     | 8                       | 312800                 | 0.94  |
| B.2   | Bodies Corporate                                   | 532                     | 2095814                | 6.27  |
|       | Individuals  | 20864                   | 13577474               | 40.65   |
|       | Trust  | 3                       | 8400                   | 0.03  |
|       | Non Resident Indians                               | 217                     | 175409                 | 0.52  |
|       | Foreign Bodies Corporate                           | 1                       | 4900000                | 14.67   |
|       | <b>Grand Total</b>                                 | <b>21638</b>            | <b>33400000</b>        | <b>100.00</b>   |

\*Distribution of shareholding and shareholding pattern as on 31st March 2008 includes issue and allotment of 1575000 Share Warrants to promoters group.

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 231.21 Lakhs shares constituting 72.65% of paid up share capital have been converted into fungible form.

- j) Plant locations:

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

- k) Address for correspondence:

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

for and on behalf of the Board

(K. THANU PILLAI)

CHAIRMAN

Place: Hyderabad

Date: 30.06.2008

## 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 - an input material for Pig Iron, 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. The Company uses 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 5.26 million tons in 2007-08. 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 2007-08 is at 5.26 million tons as against 4.95 million tons in the previous year, registering a growth of 6.1%. Factors like increase in raw material costs, increase in freight and 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 the Greenfield site, the Company has integrated itself backward for the key input material. The surplus Metallurgical Coke production from this facility is being sold in the nearby market.

### Global scenario:

The Global Iron and Steel Industry witnessed another eventful year in 2007 with robust growth in crude steel production recording compounded annual growth of 6.80% over a period 2000-2007. The world steel production reached to another peak of 1.344 billion tons as against 1.249 billion tons in the year before, registering annual growth of 8.03%. This growth was led mainly by Asian markets and in the face of softened North American markets and moderated European markets. Of the total global steel production, Asia continues to dominate the field, accounting for 56.15%, up from previous year's 54.05%. China, with its 489 million tons production, continues to be the world's largest steel producer accounting for 36.39% of global steel production and 64.84% of Asian Steel production. Japan, India and South Korea together account for 16.71% of global steel production and 29.77% of the Asian steel production. The global Pig Iron production, in line with the steel production also grew from 881 million tons to 946 million tons, registering a growth of 7.38%. However, this phenomenal growth has had its impact on steel making raw material prices and availability. The prices of steel making raw materials have seen record highs. The availability had also contracted despite significant investments by the mining sector, due to severe infrastructure problems in some markets and export restrictions in other markets. Sourcing raw material has become main concern of the steel industry. This pushed the production costs of steel units, forcing them to increase the prices of finished products - only to be resisted by the consumers. The industry tried its best to meet both ends and achieved this growth.

### Indian Scenario:

The Indian Steel industry has emerged as one of the leading producer of Steel, ranking fifth largest in the world and third largest in the Asia. Indian Steel production continued to grow rapidly this year, driven by demand growth. During the year 2007-08 saleable Steel production touched a peak of 55.27 million tons as against 52.53 million tons in the previous year, registering a year on year growth of 5.2%. The apparent consumption increased to 57.13 million tons, up from last year's level of 52.26 million tons, an increase of 9.2%. The year saw two way foreign trade, with imports at 6.92 million tons and exports of 5.05 million tons, indicating that the country has become a net importer of steel. The imports during the





year grew by 40.5% and whereas exports saw a negative of 3.7%. In line with this growth trend, the Pig Iron industry recorded a production of 5.26 million tons versus previous year's level of 4.95 million tons, registering a growth of 6.1%. The apparent Pig Iron consumption also grew from 4.34 million tons to 4.63 million tons, an increase of 6.8%. The Pig Iron industry saw negative export trend of 20.8%, due to increased demand in the domestic markets. In line with global scenario, the Indian Iron and Steel industry during the year, faced a tight raw material situation.

#### Price Trends:

As Steel production continued to increase, the markets for steelmaking raw materials also continued to tighten. The prices of raw materials like Iron Ore, Coking Coal have recorded unprecedented highs, mainly due to supply side bottlenecks and infrastructure problems. The suppliers took advantage of this situation and pushed the prices to record highs. The Iron Ore prices have steeply increased in the domestic market from low of Rs.2000/- to high of Rs.4000/- per ton. The Coking Coal price touched as high as US\$300/- per ton. C and F Indian Ports during the year. The Metallurgical Coke prices have also risen to about US\$450/- per ton C and F Indian Ports, towards the year end. This has significantly affected the Iron and Steel production costs. As a result of high production costs, the sales realisations have also seen some increase. The Sales prices of steel have been ruling in a range of Rs.30000 to Rs.45000 per ton ex works. The Pig Iron prices were also range bound between Rs.16000 to Rs.22000 per ton ex works. Due to wide fluctuations in raw material prices, the margins wavered which resulted in moderate profits.

#### 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 Coking Coal, key input material, by importing from outside India and thus suffers from import constraints. However, the Company has identified reliable suppliers, which minimises the import constraints. The Company has set up a coke making facility with latest technology at a Greenfield project site to minimize the impact of import of Metallurgical Coke.
- Future competition from the prospective domestic producers of Pig Iron. The Company is conscious of the threat and constantly upgrading its technology so as to derive competitive advantage.
- As the customs duties on Pig Iron imports are lowered from time to time there is an import threat to that extent. However, given the importers' profile of Pig Iron who are mainly foundries and are in an unorganised sector, the import threat is minimal. Moreover, with the surge in global demand for Iron and Steel and increase in raw material prices, the availability of Iron and Steel at competitive price is remote. Negligible imports during the last couple of years are an ample indication of zero risk of the threat.
- The levy of export duty on Pig Iron is a deterrent for exporting the Pig Iron. Given the global scenario of high prices and growing demand, the present levy will have less bearing in the short term. Moreover, the levy, in all probabilities, would only be temporary, as exporting Pig Iron - a value added product over Iron Ore makes a sense.
- The Company's business consists of single product line viz., manufacture of Pig Iron, which is a commodity business. The financial health of the unit will be affected by adverse changes in the industry. Company is looking at both forward integration and backward integration and will take steps to minimise the risk.

#### 3. SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

The Company's business predominantly comprises manufacture and sale of Pig Iron. The operations of the Company during the year under review were satisfactory. Actual production during the year was 148921 MTs as against 161409 MTs in the previous year, inspite of the fact of capital shut down of Blast Furnace for about two months. The operations would also have been better but for the deterrents like non availability of quality Iron Ore and steep increase in its prices apart from steep increase in Coking Coal prices and supply interruptions due to heavy congestion in the Australian Ports. The actual sales in volume terms were 136453 MTs as against 157363 MTs in the previous year. The gross sales in value terms were Rs.39589.35 Lakhs as compared to Rs.28980.95 Lakhs in the last year. The Company's market share constitutes about 3.25% of the domestic consumption. The Company produced 200928 MTs of Metallurgical Coke of which 124452 MTs was captively consumed and 61229 MTs was sold in the nearby markets.

#### 4. OUTLOOK:

The outlook for Iron and Steel industry continues to be positive and encouraging with future prospects appearing to be clear and bright. With robust demand growth emanating from emerging economies, in particular BRIC nations (Brazil, Russia, India and China), the industry is poised for a big leap in the coming years. Massive infrastructure built up, shipbuilding, booming construction and industrial sectors

in the emerging economies are the main drivers for demand push in the Iron and Steel sector. The sub-prime meltdown in America is likely to impact the economic growth and in turn the growth in the Iron and Steel sector in that country. The sub-prime ripples percolating into European Union might also result in moderation of economic and industrial growth, in particular Iron and Steel growth, in this part of world. However, it is expected that these setbacks will have minimal impact on the emerging economies as these economies have already insulated by self sustenance and therefore, it is expected, that the same would have no bearing on overall growth of the industry. The tightening steel making raw material is another cause for concern, but however, this is expected to ease once the exporting countries overcome infrastructure bottlenecks. So far as Indian Iron and Steel industry is concerned, it is expected to grow significantly. With target of 80 million tons by 2012, India would emerge as one of the leading global players in the industry.

The Indian Pig Iron industry, following the global trends, is picking up steadily and the outlook for the segment continues to be mixed but positive. The Indian Pig Iron segment, by virtue of its size and limited resources at its disposal could not emerge as a force to reckon with. The growth in the industry continues to be directly hit by such factors as non availability of quality raw materials at competitive prices, intense competition from the integrated steel players etc. As a result, the benefits of the present Sectoral boom could not be fully reaped by the segment. It is in this context, your Company evolved strategies by creating facilities for value additions, which would eventually lead to enhancing the competitive strengths of the Company. The benefits of this strategies started flowing in and your Company is confident of sustaining its growth path.

#### 5. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has adequate internal control systems commensurate with the size and nature of its business. Internal control systems are supplemented by internal audits carried out regularly by outside independent qualified auditors. The Audit Committee interacts with the statutory and internal auditors. The Management also regularly reviews the operational efficiencies, utilisation of fiscal resources and compliance with laws so as to ensure optimum utilisation of resources, achieve better efficiencies and comply with the laws of land.

#### 6. DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE:

The Financial Statements for the year under review have been prepared on a going concern basis and in compliance with provisions of the Companies Act 1956 and by following the generally accepted accounting principles in India and the applicable mandatory Accounting Standards. The operational performance vis-à-vis financial performance is as under:

| Indicator  | Year<br>2007-08 | Year<br>2006-07 | Increase/<br>(Decrease)% |
|--|-----------------|-----------------|--------------------------|
| I. In volume terms                                     | MTs             | MTs             |                          |
| Production-Pig Iron                                    | 148921          | 161409          | (7.74)                   |
| -Metallurgical Coke                                    | 200928          | 11450           | 1654.83                  |
| Sales-Pig Iron   | 136453          | 157363          | (13.29)                  |
| -Metallurgical Coke                                    | 61229           | 272             | 22410.66                 |
| II. In Value terms                                     | (Rs. Lakhs)     |                 |                          |
| Gross Sales  | 39589.35        | 28980.95        | 36.60                    |
| Net Sales  | 35763.67        | 25100.60        | 42.48                    |
| III. Operating Profit before interest and depreciation | 8346.71         | 3675.54         | 127.09                   |
| IV. Interest   | 1696.54         | 542.58          | 212.68                   |
| V. Depreciation  | 1498.50         | 946.74          | 58.28                    |
| VI. Net Profit before tax                              | 5151.67         | 2186.22         | 135.64                   |
| VII. Income tax provisions and adjustments             | 1853.75         | 782.29          | 136.96                   |
| VIII. Net Profit after tax                             | 3297.92         | 1403.93         | 134.91                   |

Both operational and financial performance of the Company during the year are satisfactory. The production and sales volumes of Pig Iron were marginally lower due to capital shut down of Blast Furnace for about two months in June/July 2007. The Pig Iron production was 148921 MTs as compared with 161409 MTs in the last year. The Pig Iron sales were 136453 MTs as against 157363 MTs in the year before. Metallurgical Coke production was at 200928 MTs as against 11450 MTs in the previous year, which is not comparable, as the Coke Oven plant operations during the current year were for full year. In value terms the Gross Sales for the year under review was Rs. 39589.35 Lakhs as compared to Rs. 28980.95 Lakhs in the year before, accounting for year on year growth of 36.60%. The net sales have also posted an impressive growth of 42.48%, up from previous year's level of Rs. 25100.60 Lakhs to Rs. 35763.67 Lakhs. The average sales realisation during the year under review works out to Rs.22041/MT as against Rs.18085/MT during the last year, an increase of 21.87%. The average sales realisation on sale of surplus Metallurgical Coke was Rs.14080/MT. The average cost of Iron Ore purchase was at Rs.2749/MT as compared with Rs.1686/MT in the last year, which in percentage terms works to 63.04%. The average cost of Coking Coal was at Rs.7492/MT. During the year raw material prices have gone up significantly but the increase in sales realisations were not commensurate with the increase in input costs.