



14TH ANNUAL REPORT 2008-09



SOUTHERN ISPAT AND ENERGY LIMITED
(FORMERLY SOUTHERN ISPAT LIMITED)

SOUTHERN ISPAT & ENERGY LIMITED

(FORMERLY SOUTHERN ISPAT LIMITED)

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Board of Director

Shri. Vivek Agarwal

Chairman & Managing Director

Smt. Richa Agarwal

Director

Smt. Anasuya Devi Agarwal

Director

Shri. M. Eswaran

Director (Non Executive)

Shri. V. Manikandan

Director (Non Executive)

Auditors

M/s. Sunil Johri & Associates
Chartered Accountants,
Raipur (C.G.), Chattisgarh.

M/s. Mahadevan & Sivarajan
Chartered Accountants,
Palakkad

Bankers

State Bank of India, Palakkad.

Registered Office:

19/629 (1), "Sreyas",
Near Yakkara School Bus Stop,
West Yakkara, Palakkad - 678 001.

Factory

Kariankode Post, Kottayi, Palakkad - 678 572

Share Transfer Agents

S.K.D.C. CONSULTANTS LIMITED

No. 7, Seth Narayandas Layout,
Street No. 1, West Power House Road,
Coimbatore - 641 012.

Tel : (0422) 6549995 Fax : (0422) 2499574

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Report  junction.com

Chairman & Managing Director's Message

SYNERGY VISION EXPANSION

Dear Shareholders,

I consider it is a matter of great honour to place before you the Annual Report of Southern Ispat & Energy Ltd., for year 2008-09 – a year of severe volatilities and uncertainties.

While India's economic growth continued in full swing during the initial months, the rate of growth slowed considerably thereafter as a sequel to worldwide financial turmoil.

Now, it appears that our GDP growth in 2008-09 may be around 7% instead of estimated 9%. With the earlier aspirations and expectation, we are not so bad in the global context, being No.2, next to China.

I am glad to share some of the significant initiatives and measures undertaken by your company during the year.

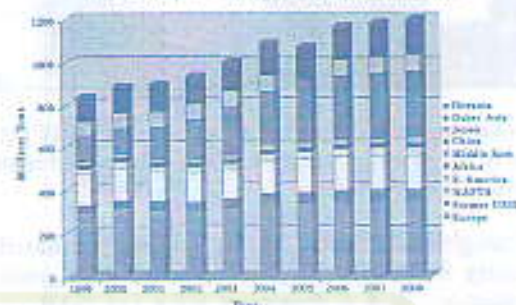
Global Steel Industry Trends

The global steel industry has been going through major changes since 1970. China has emerged as a major producer and consumer, as has India to a lesser extent. Consolidation has been rapid in Europe. Global steel production grew enormously in the 20th century from a mere 28 million tonnes at the beginning of the century to 781 million tonnes at the end. While the world average per capita steel consumption is 197 Kg, the Indians use a meager 43 kg per persons per year compared to 782 kg in China. Astronomically high expenditure on the infrastructure is the pressing requirement of the Indian Economy.

The Global steel industry, which was framed as a sunset industry two decades ago, is experiencing a

vast change in scenario. United States, Russia and Japan, which were leading steel producers, are no more in a position to claim that position.

World Consumption of Steel - Current & Projected (2008)



Indian Steel Industry in a Changing Global Scenario

Indian steel production has done well despite the global meltdown. Steel production witnessed a 2.5 percent jump in January 2009 as demand for products in the construction sector went up slightly. This increase in production is indeed a good sign given the fact that the domestic steel industry for October

The Indian steel industry has entered into a new development stage from 2005-06, resulting in India becoming the 5th largest producer of steel globally. Producing about 53 million tonnes (MT) of steel a year, today India accounts for a little over 7 per cent of the world's total production. However, it has a very low per capita consumption of steel of around 46 kgs as against an average of 200 kgs of the world.

This wide gap in relative steel consumption indicates that the potential ahead for India to raise its steel consumption is high. India's steel

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consumption will continue to grow by 16 per cent annually till 2012, fuelled by demand for construction projects worth US\$ 1 trillion.

Per capita consumption of steel in the world was estimated to be 170 kg during the year 2005. However in India it stood at only 35 kg during the same year. Indian steel production was 38 million tonnes, which accounted for only 3.4 per cent of the world steel output.



In view of the fact that Indian population is 16 per cent of the global population, the production of steel is much lower in India.

Although India is the second largest populated country in the world, it ranks eighth in steel production. Steel Authority of India Ltd (SAIL) is ranking 17th among the world's largest steel producing companies.

With stiff competition in the global market, the formation of giant companies to reduce cost and add to profitability has become the regular feature in the industry. Merger and acquisitions have become the order of the day. The attempt of the Mittal Steel to acquire Arcelor, a Luxemburg based European company, make Mittal Steel produce over 110 million tonnes of steel per year, i.e. about 10 per cent of the global steel output. India, the world's largest producer of Direct Reduced Iron (DRI) or Sponge Iron, is also expected to maintain its lead in the near future. It has been assessed that, on a "most likely scenario" basis, the steel production capacity in the country by the year 2011-2012 will be nearly 124 million tons.

I welcome measures introduced by the Government to promote housing and infrastructure and to inject liquidity in the system. Excise duty reduction on cement and rationalization on clinker,

and removing the ban on exports are landmark decisions.

GLOBAL MELT DOWN & CHALLENGES BEFORE STEEL INDUSTRY MARKET

The world of steel has changed significantly with the global economic meltdown. So unexpected was the downturn and so severe was the slide that the industry globally was left with one of the worst situations in the recent history. Most experts are still busy gauging the impact the global recession has left on the steel industry. The conditions the world was unprepared for have also altered the understanding on the dynamics of the steel industry worldwide among experts. Most of the projections of future growth have become redundant.

Although Indian economy and to a large extent the steel industry here, remained relatively insulated from the global turmoil, the impact could not be written off as minor. A fresh look was immediately required to examine and assess the same rationally, realistically and truthfully.

The Synergy

Your company on understanding the global melt down the recovery path finding alternatives to get out of the temporary set back, entered into trading activity besides manufacturing process. The trading in most of the times gives lead to enhance the profitability; your company has exactly equally concentrating trading activities equally given importance to manufacturing process.

This enhanced performance of company at the macro level. On the macro-economic front, we believe that the worst is over. The Indian economy is showing signs of revival with growth reviving across sectors like cement, steel, auto.

The year 2008 has been a significant one for Southern Ispat & Energy Ltd. The combined effect of Trading & Manufacturing Activities yielded the following:-

- Ø Net Sales & other operating income fell by 5.28 % to 39.10 Cr in 2008-09
- Ø Operating EBITDA was Rs 1.82 Cr. The company continued earning a single-digit operating EBITDA margin: at 4.66 % sales and

other operating income for 2008-09.

- ☐ Operating PBT was Rs 1.04 Cr. with an operating profit margin 3.22 % of Net Sales & other income.

It was difficult here all together for steel manufacturing industry but your company has timely planned & traded to bring the stress out of it. The growth was mainly driven by combined efforts to take the EPS from 0.05 to 1.03 during the year 2008-09. With this base & future expansion & integration program we will be reaching a new high in the following years.

The Global Scenario witnessed more of merger & acquisitions. The companies having plan for expansion or forward, backward integration has made synergical growth through mergers & acquisition. Your company after understanding global move on such integration has made a thorough study on its sister company M/s Kerala Sponge Iron Limited which manufacture the major raw material Sponge Iron & the Power.

The path breaking synergy between Southern Ispat & Energy Ltd and Kerala Sponge Iron Ltd, has been recognized for its visionary and strategic intent and has opened up a new paradigm for the future of the Company.

This proposed merger will unlock significant and sustained operational and strategic synergy, thereby elevating Southern Ispat & Energy Ltd, on to a faster growth trajectory.

Team

Your company believes in TEAM building for improving the performance. We create a work environment which tends to focus on individuals and personal goals, with reward and recognition appreciating out the achievements of the individual employees.



This culture in the company made every employee is self disciplined and marching ahead with the goal to reach number one position and recognition with the quality and timely delivery in mind set.

Leadership

Management is doing things right, leadership is doing the right things is the quotation of Peter Drucker a famous American writer "Your Company believes in for any organization to succeed in today's global competitive environment, most important requirement is nothing but good leadership, to establish the vision, mission and strategies."

But to achieve these missions and to realize the goals, good management of the available scarce organizational resources is also very important.

Thus efficiency and effectiveness can be related to two sides of the same coin. Because one cannot substitute the other, but doing right things (effectiveness) and doing things right (efficiency) are complementing each other. Thus leadership ensures effectiveness and management make sure that employees are efficient.



Your company makes every effort to bring the efficiency and effectiveness with every employee with the able leadership at every level.

Green company

Consistent efforts in promoting clean environment and community development have continued through out and have become a way of life for us.

Southern Ispat and Energy Ltd, continued to provide invaluable visibility and sustainable initiatives at all our locations. Southern Ispat and Energy Ltd, has planted around 6000 trees which includes

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Neem, Badam, Teak, Coconut in the Kerala Sponge Iron Ltd, plant besides planting in your company. We are committed to drive this initiative with enhanced focus and in a more inclusive way in the future.



It is the endeavour of your company to make the factory site looks like a beautiful green park and totally protected from the pollution and keeps always the social welfare of the humane life in and around the Factory. Your company has planted number of trees to retain & merge with the Green Kerala. Precisely, that is the main motto of your company in participation in the Green Kerala Movement welfare of the people living nearby.

Self sufficiency through Expansion

Your company has plans to set up a Rolling Mill, Concord Unit to make the Company more viable and increase the profit. These expansion program makes your company self sufficient in manufacturing TMT rods and allied products.

Synergy in amalgamation

Your Company is planning to amalgamate a sponge iron manufacturing Unit and power plant which makes the company completeness.

This proposed amalgamation will benefit the company from the availability of Sponge Iron, Power which are the major Raw materials at a lower cost. The cost benefit will enhance the working of the Company and profitable to the shareholders.

This Synergy makes your company that the main raw material is manufactured with best of the quality in competitive market. The Sponge Iron which comments the quality is used near about 70 % & the rest quality shredded scrap adds more

value. This manufacturing process as an integration by support of power supply as an integration will definitely make your company, Quality & timely delivery in the competitive market to take an edge over others.

Your company, after this proposed expansion / integration will be self sufficient and near about a complete integrated unit, borrowing, owning an iron ore mine, coal mine, I am constantly in touch with the concerned suppliers & owners of mines and there is no gap in supply assurances than owning the mine / mines. Time comes in our favour I will put forth owning the mine pre-positions. Precisely your company is near about integrated to command in the market with the quality product since the supply chain is under the control.



Conclusion

TEAM SIEL has weathered quite a storm, together, in 2008; it would have challenged the best. Together, we will come out of this in better shape. On behalf of the Board, I would like to thank all our share holders for reposing their faith in the Management, Bankers, and every employee of the Company for their dedication and our loyal customers for their continued support and patronage.



My sincere thanks to the Government of Kerala and Statutory Departments of Government of India for their continued guidance and support.



NOTICE TO THE ANNUAL GENERAL MEETING

NOTICE is hereby given that the 14th Annual General Meeting of the Company will be held on Tuesday, the 29th September, 2009 at 3-00 P.M. at the Registered Office of the Company at 19/629(1) "SREYAS" Near Yakkara School Bus Stop, West Yakkara, Palakkad - 678 001 to transact the following business.

Item No. 1:

To receive, consider and adopt the Audited Balance Sheet as at 31st March 2009, the Profit and Loss Account for the year ended on that date, together with the Reports of the Board of Directors and the Auditors thereon.

Item No.2:

To reappoint a director in place of Mrs. Richa Agarwal who retires by rotation and being eligible offers herself for reappointment.

Item No.3:

To reappoint a director in place of Mr. M. Eswaran who retires by rotation and being eligible offers himself for reappointment.

Item No.4:

To appoint auditors and fix their remunerations.

Resolved that M/s Sunil Johri & Associates, Chartered Accountants be and are hereby appointed as Auditors of the Company from the conclusion of this Annual General Meeting to the conclusion of next Annual General Meeting on a remuneration of Rs.20,000/- per annum plus Out of Pocket Expenses incurred by them during the course of audit.

Resolved that M/s Mahadevan & Sivarajan, Chartered Accountants be and are hereby appointed as Joint Auditors of the Company from the conclusion of this Annual General Meeting to the conclusion of next Annual General Meeting on a remuneration of Rs. 15,000/- per annum plus Out of Pocket Expenses incurred by them during the course of audit.

Special Business:

Item No. 5:

To consider and if thought fit to pass with or without modification the following resolution as Special Resolution:

Resolved that pursuant to Section 198, 309, 310, 314 and other applicable provision/s, if any, of the Companies Act, 1956 the consent of the Company be and is hereby accorded to the payment of monthly remuneration of Rs.15,000/- (consolidated) to Mrs. Richa Agarwal for a period of two years with effect from 8th June 2009.

Resolved further that Mrs. Richa Agarwal will not be entitled to any sitting fees for attending Board Meetings.

Item No. 6:

To consider and if thought fit to pass with or without modification the following resolution as Special Resolution:

Resolved that pursuant to Section 198, 309, 310, 314 and other applicable provision/s, if any, of the Companies Act, 1956 the consent of the Company be and is hereby accorded to the payment of monthly remuneration of Rs.10,000/- (consolidated) to Mrs. Ansuyadevi Agarwal for a period of two years with effect from 8th June 2009.

Resolved further that Mrs. Ansuyadevi Agarwal will not be entitled to any sitting fees for attending Board Meetings.

Item No. 7:

To consider and if thought fit to pass with or without modification the following resolution as Special Resolution:

Resolved that pursuant to Section 391 to 394 and other applicable provision/s, if any, of the Companies Act, 1956 the consent of the Company be and is hereby accorded to take over M/s Kerala Sponge Iron Limited Subject to approval of the court & other statutory bodies.

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Resolved further that Mrs. Ansuysadevi Agarwal will not be entitled to any sitting fees for attending Board Meetings.

Item No. 7:

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Directors' Report to Shareholders

INDUSTRY OVERVIEW

Steel industry is considered to be an indicator of economic growth as steel plays a critical role in infrastructural and overall economic development. In recent years the demand of steel has been on a constant rise and between the years 2000 – 2005 the demand rose to about 6 %. The largest producer of steel is Archelor Mittal followed by Nippon Steel, JFE of Japan. It became billion dollar industry in the year 2004 and still growing.

Today Steel Industry is no more labour-intensive industry. There is a dramatic change in the modern steel plants which employs fewer people. Steel industry reduced its manpower around the world by more than 1500,000 in 25 years. In USA it was downsizing from 521,000 to 153,000, in Japan it was from 459,000 to 208,000 during the period 1974 to 1999.

Countries like China and India saw a boom in their economic growth, resulting in a massive increase in the demand of steel. Recently the production of steel is found to be more in developing countries than the developed ones. China produced 349.36 million tonnes in 2005 which is way much more compared to 112.47 million tonnes in Japan and 93.90 million tonnes in United States. As the growth in steel production is staggering in China, the focus is now shifting to India. India requires around 300 million tonnes of steel compared to the present production of around 50 million tonnes. But the country's potential cannot be doubted as the production has nearly doubled in the last 10 years. It is expected that the production will go to about 275 million tonnes by the year 2020.

A. FINANCIAL RESULTS

Particulars	(Rs. in Lakhs)	
	31.03.2009	31.03.2008
Turnover (Gross Revenue)	3926.17	4170.78
Total Expenditure	3796.57	4088.18
Profit Before Depreciation	129.60	82.60
Depreciation	25.87	67.16
Income Tax/Deferred Tax	30.18	12.73
Net Profit	73.55	2.70

REVIEW OF OPERATIONS

The Operations have resulted in a Net Profit of Rs. 73,55,359/-. Inspite of the recessionary market conditions, during the year under review, your Company has managed to retain a level of Turnover and in fact managed to increase its profitability by taking cost saving measures.

FUTURE OUTLOOK

The proposal to takeover M/s. Kerala Sponge Iron Limited is on the verge of completion and is expected to materialise during the next financial year. Further expansion by doubling its production capacity and installation of Power Plant in the new unit are to be completed within a few months, which will enhance the profitability of your Company and your Company will become an Integrated Steel Plant.

EXPANSION PLANS

The Company order position is encouraging and the management is confident of recording a better performance in the coming years. Your Company has already taken initial steps to install a 70000 TPA, TMT Rolling Bar / Mill as stated during the last financial year. For this purpose your Company have opted for a Warrant issue and the issue was completed and Warrants are converted into Equity Shares on 02/01/2009. Your company has utilized this money for purchase of pollution control equipments. Your Company has obtained all the necessary approvals from the Government Authorities and a portion of the installation and erection of additional plant & machineries are already completed.