



**24th Annual Report
2003-2004**

VALLABH STEELS LIMITED



VALLABH STEELS LIMITED

BOARD OF DIRECTORS

Mr. Kapil Jain	Chairman
Mr. Rahul Jain	Whole Time Director
Mr. M. K. Jain	Director
Mr. Mohan Lal	Director
Mr. Ashok Jain	Director
Mr. Jawahar Jain	Director

AUDITORS

M/s Raj Gupta & Co.
Chartered Accountants
Miller Ganj, Ludhiana-141 003

BANKERS

Punjab National Bank
International Banking Branch
Industrial Area - A,
Ludhiana-141 003.

State Bank of India
Specialised Commercial Branch
Miller Ganj, Pahwa Hospital Complex,
Ludhiana-141 003.

REGISTERED OFFICE

G.T. Road, Pawa, Sahnewal,
Ludhiana - 141 120 (Punjab)

WORKS

- | | |
|---|--|
| (i) G.T. Road, Pawa, Sahnewal,
Ludhiana-141 120 (Punjab) | (ii) G.T. Road, Nandpur, Sahnewal,
Ludhiana-141 120 (Punjab) |
| (iii) G.T. Road, Village Kanech,
Sahnewal, Ludhiana - 141 120 (Punjab) | (iv) G.T. Road, Village Bapror,
Tehsil Rajpura, Distt. Patiala (Punjab) |
| (v) Adityapur Industrial Complex,
Distt. Saraikela (Jharkhand) | |

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VALLABH STEELS LIMITED

NOTICE

Notice is hereby given that the 24th Annual General Meeting of the members of Vallabh Steels Limited will be held at Registered Office of the company at G.T. Road, Village Pawa, Sahnewal, Ludhiana on Wednesday, the 21st July, 2004 at 10.00 A.M. to transact the following business:-

AS ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2004, Profit and Loss Account for the year ended on that date together with the Report of Auditors and Directors thereon.
2. To declare dividend on Preference Shares.
3.
 - a) To appoint a Director in place of Shri Kapil Jain who retires by rotation and being eligible offers himself for re-appointment.
 - b) To appoint a Director in place of Shri Mohan Lal who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this Annual General Meeting upto the conclusion of next Annual General Meeting and to fix their remuneration.

AS SPECIAL BUSINESS

5. **TO CONSIDER AND, IF THOUGHT FIT, TO PASS WITH OR WITHOUT MODIFICATION(S), IF ANY, THE FOLLOWING RESOLUTION AS A SPECIAL RESOLUTION:**

"RESOLVED THAT pursuant to the provisions of Section 293(1)(a) and all other applicable provisions, if any, of the Companies Act, 1956, and in partial modification of earlier resolution passed in the 23rd AGM held on 29.09.2003, consent of the Company be and is hereby accorded to the Board of Directors of the company to hypothecate and/or mortgage and/or to create charge on all the immoveable and moveable properties of the company wheresoever situate, present and future and the whole or substantially the whole of the company's undertaking(s), including the properties/assets comprised in any existing and/or new undertakings of the Company as the case may be in favour of Punjab National Bank to secure Rupee Term Loan of Rs. 3018.19 lacs (Rupees Thirty Crores Eighteen Lacs and Nineteen Thousand only) lent and advanced/agreed to be lent and advanced by Punjab National Bank to the Company and the interest at the respective agreed rates, compound/additional interest, commitment charges/premium on prepayment or on redemption, costs, charges, expenses and all other monies payable by the Company in terms of respective Loan Agreements/heads of Agreements/Letters of sanction/Memorandum of terms and conditions or any other Agreements as may be entered into/ to be entered into by the Company, in respect of above said Term Loan."

"RESOLVED FURTHER that the Board of directors be and is hereby authorised to mortgage and/or hypothecate/ create first/second/ pari-passu charge in such manner and in such form upon moveable and immoveable assets of the Company, both present and future and the whole or substantially the whole of the undertaking of the Company together with power to takeover the management of the business and concern of the Company in certain events, in favour of the aforesaid Bank to secure term loan or any other kind of financial assistance as may be deemed necessary, desirable and in the best interest of the Company from time to time and to do all such acts, deeds, matters and things as may be necessary or expedient for giving effect to the above resolution."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to finalise the documents and such other agreements for creation of charge as aforesaid and to do all such acts, deeds, matters and things as may be necessary or expedient for giving effect to the above resolution."

6. **TO CONSIDER AND, IF THOUGHT FIT, TO PASS WITH OR WITHOUT MODIFICATION(S), IF ANY, THE FOLLOWING RESOLUTION AS A SPECIAL RESOLUTION:**

"RESOLVED THAT pursuant to the provisions of Section(s) 198, 269, 309, 314 and Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 and rules framed thereunder, including any statutory modification or re-enactment thereof and in modification of earlier Resolution passed on 27.9.2002 and as recommended by the Remuneration Committee in its meeting held on 31.03.2004 and subject to such approvals as may be deemed necessary, including the approval of the Central Government required, if any, consent of the Company be and is hereby accorded for the payment of remuneration to Sh. Rahul Jain, Whole Time Director of the Company upto a consolidated salary of Rs.2,50,000/- (Rs. Two lac Fifty thousand only) per month for a period of three years w.e.f. 1.4.2004."

"RESOLVED FURTHER THAT Board of Directors/Remuneration Committee be and is hereby authorised to alter or increase or vary the terms and conditions of the said remuneration and/or agreement in such form and manner or with such modifications as the board may deem fit or as may be prescribed by the Central Government while granting necessary approvals if any, required in this regard and as may be acceptable to Sh. Rahul Jain, without again referring the same to the General meeting."

"RESOLVED FURTHER THAT where in any financial year, the company has no profits or its profits are inadequate during the tenure of remuneration as proposed of Sh. Rahul Jain, the remuneration aforesaid shall be the minimum remuneration to Sh. Rahul Jain."



VALLABH STEELS LIMITED

"RESOLVED FURTHER THAT the Board be and is hereby authorised to do all such acts, deeds and things and to execute all such agreements, documents, instruments and writings as may be required to give effect to the aforesaid resolution(s)."

By order of the Board of Directors

Sd/-

(KAPIL JAIN)
CHAIRMAN

PLACE : LUDHIANA

DATED : 21.06.2004

NOTES:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on poll instead of himself/herself and the proxy need not be a member of the company. Proxy Form, in order to be effective must be delivered at the Regd. office of the Company atleast 48 hours before the scheduled time of the meeting. The blank Proxy Form is enclosed.
2. The Register of Members and Share Transfer Books of the company will remain closed from Monday, the 19th July, 2004 to Wednesday, the 21st July, 2004 (both days inclusive).
3. Members holding shares in physical mode are requested to notify the change in their address, if any, at the earliest to the company. However, members holding shares in electronic mode may notify the change in their address, if any, to their respective Depository Participants.
4. Members are requested to send their queries on the accounts, if any, so as to reach the Regd. Office of the Company at least seven days before the meeting to enable the company to have relevant information ready at the meeting.
5. Members are requested to bring their copy of Annual Report alongwith them to the Annual General Meeting.
6. Members may also note that the equity shares of the company have been included in the list of securities for compulsory trading in dematerialisation form. Shareholders are, therefore, advised to dematerialise their shareholding to avoid inconvenience in future. They are requested to send their Dematerialisation Request Form (DRF) through their Depository Participant(s) (DP).
7. Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956 in respect of items no. 5 and 6 is annexed hereto and forms part of the Notice.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956 IN RESPECT OF ITEMS NO. 5 AND 6 OF SPECIAL BUSINESS:

FOR ITEM NO. 5

To part finance the cost of company's Sponge Iron project being setup in the State of Jharkhand with a capacity of 350 TPD, Punjab National Bank has sanctioned a term loan of Rs. 3018.19 lacs. One of the terms for grant of above said loans is/will be creation of mortgage, hypothecation and creation of first/second/pari-passu charge on the moveable and immoveable properties of the company which the company proposes to create as agreed to with the said Bank. Under Section 293(1)(a) of the Companies Act, 1956 for creation of mortgage and charge, approval of shareholders is required. Hence, the Board recommends the resolution for your approval which is in partial modification of special resolution passed in the 23rd Annual General Meeting held on 29.09.2003.

Memorandum of Interest

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

FOR ITEM NO. 6

Sh. Rahul Jain was re-appointed as Whole Time Director of the Company for a period of five years with effect from 1st April, 2002 on the terms & conditions approved by the members of the Company in 22nd Annual General meeting of the company held on 27th September, 2002. As per the amendments in Schedule XIII (Part-II)(Section II) of the Companies Act, 1956 consent of the members of the Company by way of passing a Special Resolution is required for payment of remuneration to a Managerial person for a period not exceeding three years in case of Companies having no profits or inadequate profits.

The principal terms of remuneration of Sh. Rahul Jain as approved by the Remuneration Committee and by the Board of Directors of the Company for a period of three years w.e.f. 1.4.2004 is given in the proposed resolution. The Board recommends the resolution for your approval.

The above may also be treated as an abstract and notice of Interest under Section 302 of the Companies Act, 1956.

Memorandum of Interest

None of the Directors except Sh. Rahul Jain, the appointee and Sh. Kapil Jain being his relative is interested in the resolution.

STATEMENT ON THE INFORMATION AS REQUIRED UNDER SECTION II, PART II, OF SCHEDULE XIII OF THE COMPANIES ACT, 1956(AS AMENDED) IS GIVEN AS UNDER:

1. a) NATURE OF INDUSTRY:

Your Company is mainly engaged in the manufacturing and marketing of Steel Ingots, Pipes and Cold Rolled Steel Strips and Coils which fall within the single segment of "Iron & Steel Industry."

The Iron & Steel industry as a whole has staged a major turnaround on the back of improved demand from User sector and firming up of prices during the last over one year. The Indian Iron & Steel Industry witnessed spurt in Exports apart from increase in domestic consumption during the year 2003-04.



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b) **DATE OF COMMENCEMENT OF COMMERCIAL PRODUCTION:**

The Company started its commercial production in December, 1980.

c) **FINANCIAL PERFORMANCE**

Financial Performance of the Company for the last two years is given below:

(Rs. in Lacs)

	2003-04	2002-03
Gross Sales	24937.82	20131.84
Gross Profit	795.63	695.42
Less Interest	93.12	94.79
Less Depreciation	251.83	285.36
Net Profit before tax	450.68	315.27
Provision for taxation	173.34	127.39
Net Profit after tax	277.34	187.88

d) **EXPORT PERFORMANCE**

Export Performance during the year 2003-04 (Being the First year of Exports) is as under:

Foreign Exchange Earnings	:	(Rs.)	20,66,642/-
(Less) Foreign Exchange Outgo	:	(Rs.)	Nil
Net Foreign Exchange Earnings	:	(Rs.)	20,66,642/-

2. **INFORMATION ABOUT SH. RAHUL JAIN:**

a) **BACKGROUND**

Sh. Rahul Jain was appointed as an Additional Director on the Board of the Company w.e.f. 1.4.1996. He was subsequently appointed as Whole Time Director of the Company w.e.f. 1.4.1997 for a period of 5 years and was re-appointed as Whole Time Director of the Company for a further period of five years with effect from 1st April, 2002. He has vast experience in the field of General Administration and project implementation.

b) **PAST REMUNERATION**

The remuneration as approved by the members of the Company in 22nd Annual General Meeting held on 27th September, 2002 and amended by Board at its Meeting held on 31.03.2003 is given as under:

Remuneration:

Salary : Upto Maximum of Rs. 1,00,000/- per month.

Perquisites:

The perquisites shall be allowed in addition to salary. However, such perquisites shall be restricted to an amount equal to one year's salary during each year as per details given below:-

i) **Housing:**

Free furnished accommodation or house rent allowance equal to 50% of the basic salary. Free furnishing shall also be provided by the Company alongwith other amenities. The said facility shall, however, be subject to the policy framed by the Company in this respect. The expenditure incurred by the Company on the gas, electricity, water and furnishing shall be valued as per the Income Tax Rules, 1962.

ii) **Medical Reimbursement:**

Reimbursement of expenses incurred for self and the family (including Mediclaim Insurance premium) subject to a ceiling on one month's salary in a year or three months salary over a period of three years.

iii) **Leave:**

Leave with full pay or encashment thereof as per the Rules of the Company.

iv) **Leave Travel Concession:**

For self and family, once in a year incurred in accordance with Rules specified by the Company.

v) **Club fees:**

Fees of clubs subject to a maximum of two clubs, excluding admission or life membership fees.

vi) **Personal Accident insurance:**

Premium not to exceed Rs.5000/- per annum.

vii) **Provident fund:**

Contribution to Provident fund, Superannuation Fund or Annuity Fund will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act.

viii) **Gratuity:**

Gratuity payable shall not exceed half a month's salary for each completed year of service. This will, however, be subject to ceiling prescribed by the Central Government from time to time.



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- ix) **Car:**
Provision of car alongwith driver for use for company's business and telephone at residence will not be considered as perquisites, personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to the appointee.
- c) **RECOGNITION OR AWARDS:**
Though no specific awards have been won by the Company its performance over the years is in itself an award.
- d) **JOB PROFILE**
Sh. Rahul Jain is a Director of the company from 1996. He was appointed as Whole Time Director of the company w.e.f. 1.4.1997 for a period of 5 years and was re-appointed for a further period of 5 years w.e.f. 1.4.2002. He looks after the work related to Project implementation, marketing and assisting the Chairman in formulating the Plans, Future Policies of the Company.
- e) **REMUNERATION PROPOSED**
A consolidated salary of Rs.2,50,000/- (Rs. Two lac Fifty Thousand only) per month for a period of three years w.e.f 1.4.2004 is proposed to be paid to Sh. Rahul Jain as Whole Time Director of the Company as recommended by the Remuneration Committee.
- f) **COMPARATIVE REMUNERATION PROFILE**
The remuneration profile with respect to manufacturing and other companies having comparative turnover as reported in the respective Annual Reports.

Sr. No.	Financial Year Ended	Name of the Company	Name of Managerial Personal	Turnover (Rs. in lacs)	Remuneration Paid (Rs. in Lacs)
1.	31.03.2002	Indian Acrylics Ltd.	Ms. Priya Gang , Executive Director	23196	23.45
2.	31.12.2002	Abhishek Industries Ltd.	Mr. P.K. Mashadey, Jt. Mg. Director	35736 (9 months)	33.75 (9 months)
3.	31.03.2003	Ajanta Pharma Ltd.	Mr. Madhusudan B. Aggarwal Jt. Mg. Director	10234	21.54

g) **PECUNIARY RELATIONSHIP**

Sh. Rahul Jain, except his appointment as Whole time Director of the company, has no pecuniary relation with the Company.

3. OTHER INFORMATION

a) **REASONS FOR LOSS OR INADEQUATE PROFITS**

Though the Company has not incurred losses, but there may be inadequacy of profits under section 198,249 and 350 of the Companies Act, 1956 on account of the following factors:

1. Quantitative restrictions and/or additional tariffs of exports from India by importing countries.
2. Cheap imports to India creating pressure on domestic demand and prices.
3. Unpredictable and sharp cyclical movements in the raw material and other input prices.
4. Unfavourable Govt. policies in respect of import of Steel/Steel products.

b) **STEPS TAKEN BY THE MANAGEMENT TO IMPROVE THE PERFORMANCE OF THE COMPANY:**

The company has increased its production capacity, diversified its product mix, gaining economies of scale and setting up additional facilities and backward integration projects.

The company by virtue of quality and market oriented specification of its products have posted profitable operations during the most trying times in the past. As such current buoyant conditions are paving way for major strides towards improved performance in future. Besides the Company has recently adopted strategy of taking its products to new markets in India and abroad and purchasing of Raw material on long term bulk basis besides savings on overheads to bring down the cost per unit of production.

c) **EXPECTED INCREASE IN PRODUCTIVITY AND PROFITS:**

The company is continuously improving its operational efficiency, productivity and cost control besides setting up new projects, which will help it to improve the bottom line in future. With the various steps taken by company and expansion plans and strategies under implementation the performance of the company is likely to improve in future.

4. DISCLOSURES

The remuneration package along with the corresponding details payable to the Whole Time director has been mentioned earlier.

The aforesaid statement forms part of the notice calling the AGM. None of the Directors except Sh. Rahul Jain, the wholetime Director and Sh. Kapil Jain being his relative is concerned or interested in resolution at serial no. 6 of notice.

By order of the Board of Directors

Sd/-

(KAPIL JAIN)
CHAIRMAN

PLACE : LUDHIANA
DATED : 21.06.2004



VALLABH STEELS LIMITED

DIRECTORS' REPORT

To

The Members,

We have pleasure in presenting the 24th Annual Report of the Company alongwith the Audited Statement of Accounts for the year ended 31st March, 2004:

FINANCIAL RESULTS

	(Rupees in Lacs)	
	Current Year	Previous year
Operating & Other Income	24937.82	20131.84
Profit before Interest, Depreciation and tax	795.63	695.42
Less :		
Financial Expenses	93.12	94.79
Provision for Depreciation	251.83	285.36
Taxes : Current Tax	141.01	123.50
Deferred Tax	<u>38.23</u>	<u>3.89</u>
Profit after Tax	<u>277.34</u>	<u>187.88</u>
Add: Balance b/f from previous Year	<u>795.63</u>	<u>695.28</u>
Profit available for appropriations	<u>1072.97</u>	<u>885.16</u>
Appropriations:		
Proposed Dividend on Preference shares	0.22	0.22
Tax adjustment of earlier years	(0.18)	0.04
Tax on proposed dividend	0.03	0.03
Transferred to General Reserve	50.00	50.00
Surplus carried to Balance Sheet	<u>1012.13</u>	<u>785.87</u>
	<u>1072.97</u>	<u>885.16</u>

OPERATIONS

Your directors are pleased to inform you that during the year under review, your company has achieved operating & other income of Rs. 24937.82 lacs, against previous year income Rs. 20131.84 lacs thus registering an increase of about 24%. This has resulted in a higher gross profit of Rs. 795.63 lacs as compared to Rs. 695.42 lacs of previous year and quantum jump in profit after tax of 48% which is placed at Rs. 277.34 lacs as compared to Rs. 187.88 lacs of previous year. This has been made possible due to optimum utilisation of resources, better product mix, better sales realisation and effective cost control.

C.R. MILL PROJECT

During the year under review the Company set up a new C.R. Mill project at Rajpura Distt. Patiala in the state of Punjab with an estimated Capital outlay of Rs. 725 lacs and the same was financed by way of a Term Loan of Rs. 500 Lacs from State Bank of India and balance out of internal accruals/unsecured loans. The said project commenced operations in March, 2004 and the management hopes that the profitability of this new project will be reflected fully in the Company's performance during the current year 2004-05.

BACKWARD INTEGRATION PROJECT

The Company is setting up a backward integration project for the manufacture of sponge iron with a capacity of 350 tons per day in the state of Jharkhand for which the company has already started taking effective steps for implementation of the project and all financial arrangements have been tied up, land has been acquired, orders for major Plant & Machinery placed and the Civil construction has already been started.

PROCEEDS OF PREFERENTIAL ISSUE

During the year under review the Company issued and allotted 16,50,000 Equity Shares of Rs. 10/- each at a Price of Rs. 10.34 per share of the value of Rs. 1,70,61,000/- on Preferential basis to the Promoters and persons acting in concert (after taking necessary permissions from SEBI and Stock Exchange). The proceeds of this Preferential Issue have been utilised for meeting a part of the Project Cost related to Company's Sponge Iron Project being set up in the State of Jharkhand as per the object of Issue stated in the Explanatory Statement to the notice calling the Extra Ordinary General Meeting to approve issue of Shares on Preferential basis.

DIVIDEND

With a view to conserve resources for immediate future requirements, your directors have not recommended any dividend for the year under consideration. However, dividend at the fixed rate of 11% is recommended for payment on Preference Share Capital.

LISTING OF SHARES

The Equity Shares of the Company are listed at The Stock Exchange, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai. The company has duly paid the listing fee to The Stock Exchange, Mumbai upto the Financial Year 2004-05.



VALLABH STEELS LIMITED

Further during the year under review and pursuant to resolution passed by the shareholders in the 23rd AGM held on 29.09.2003 the Company sought delisting of shares from The Ludhiana Stock Exchange Assn. Ltd., Ludhiana (LSE) The Delhi Stock Exchange Assn. Ltd., New Delhi (DSE) and the Calcutta Stock Exchange Association Ltd., Kolkata (CSE). The Company has duly complied with all the requirements for delisting well before 31.03.2004. As a result LSE has already approved the Delisting of shares. But the Company is yet to receive delisting approval letter from DSE and CSE. However, the Company has already paid the Listing Fees upto the Financial Year 2003-04 to these Stock Exchanges.

FIXED DEPOSITS

During the year, your Company has not accepted any fixed deposits within the meaning of Section 58-A of the Companies Act, 1956 and the Rules made thereunder.

DIRECTORS

Shri Kapil Jain and Shri Mohan Lal, Directors of the company retire by rotation and being eligible offer themselves for re-appointment.

CORPORATE GOVERNANCE

Corporate Governance and Management Discussion and Analysis Reports along with Certificate of the Auditors of your company pursuant to clause 49 of the Listing Agreement with the Stock Exchanges has been included in the report as Annexure-I. Your company has been practicing the principle of good Corporate Governance over the years. The Board of Directors supports the broad principles of Corporate Governance. In addition to the basic governance issues as dictated by compliance of statutory requirements, the Board lays strong emphasis on transparency, accountability and integrity.

AUDITORS

M/s Raj Gupta & Co., Chartered Accountants, Auditors of the company, retire at the conclusion of this Annual General Meeting and are eligible for re-appointment. They have furnished a certificate to the effect that re-appointment, if made, will be in accordance with sub-section (IB) of Section 224 of the companies Act, 1956.

AUDITORS' REPORT

The Auditors' report read with the relevant notes on accounts for the year under review is self explanatory and do not call for any further comments as there are no adverse remarks in the Auditors' Report.

COST AUDITORS

The Board of Directors has appointed M/s Verma, Verma & Associates, Cost Accountants, Jalandhar as the Cost Auditors of the Company under Section 233 B of the Companies Act, 1956 for which approval of the Central Government has been taken to conduct cost audit in respect of Steel Pipes Unit for the year 2004-05.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

Information as per section 217(1)(e) read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 are given in the Annexure-II forming part of this report.

PERSONNEL AND INDUSTRIAL RELATIONS

The Management - Employees relations remained cordial throughout the year. The results achieved during the year have been possible only with the dedication and hard work at all levels of workers, staff and executives of the Company.

None of the employees of the Company is covered under Section 217(2A) of the companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

AUDIT COMMITTEE

The constituent members of the Audit Committee are Sh. Mohan Lal, Sh. Ashok Jain and Sh. Jawahar Jain. Sh. Ashok Jain has been the Chairman of the said Committee. The statutory auditors and internal auditors are the permanent invitees to the audit committee meetings. The Committee met four times during the year under review.

DIRECTORS' RESPONSIBILITY STATEMENT

Director's responsibility Statement pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956 is given in Annexure-III forming part of this report.

ACKNOWLEDGEMENT

Your Directors take this opportunity to express their sincere thanks and appreciation to the team of executives, staff members and workers at all levels for their co-operation, hard work, dedication and devotion. Our thanks are also due to the Bankers, Financial Institutions, Government Authorities and Business constituents for their continued support and co-operation extended from time to time to the Company.

By order of the Board of Directors

Sd/-

PLACE : LUDHIANA
DATED : 21.06.2004

(KAPIL JAIN)
CHAIRMAN



VALLABH STEELS LIMITED

ANNEXURE - I TO THE DIRECTORS REPORT

CORPORATE GOVERNANCE REPORT

I. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

(a) Industry Structure and Development:

Your Company is mainly engaged in the manufacturing and marketing of Steel Ingots, Pipes and Cold Rolled Steel Strips and Coils which fall within the single segment of "Iron & Steel Industry."

The steel & strips industry as a whole has staged a major turnaround on the back of improved demand from User sector and firming up of prices during the last over one year. The Indian Iron & Steel Industry witnessed spurt in Exports apart from increase in domestic consumption during the year 2003-04.

(b) Company's Performance:

Your Company has performed remarkably well during the year under review in line with encouraging market scenario of the Steel Industry in the financial year 2003-04.

The turnover and other income during the year 2003-04 has increased to Rs. 24937.82 lacs as against Rs. 20131.84 lacs in the previous year. The net profit after tax is placed at Rs. 277.34 lacs as compared to Rs. 187.88 lacs. Your company is encouraged with this success particularly of its strategy of taking its products to new markets.

(c) Dividend:

Your directors are constrained not to recommend any dividend for the period under review for conserving resources to strengthen the financials of the company for its immediate requirements.

(d) Outlook : Opportunity, Threats, Risks & Concerns:

The Iron & Steel industry as a whole continues to witness buoyant trends. The overall increase in production capacity of the company, diversified product mix, expected economies of scale, highly responsive market conditions give the management surety for having optimistic outlook for substantial growth in the operating performance of your company in near future.

Your directors perceive following factors which may pose threat, risk & concern for the Iron & Steel Industry in general and your company in particular:

1. Any adverse conditions of User Sector to which it caters. Thus adversely affecting the demand.
2. Quantitative restrictions and/or additional tariffs of exports from India by importing countries.
3. Cheap imports to India may exert pressure on domestic demand and prices.
4. Unpredictable and sharp cyclical movements in the raw material and other input prices.

The opportunities of growth for your company as detailed below are manifold in view of its Strengths which may also counter the above concerns:-

1. Buoyant trends are continuing in User sector and it is expected that such trends will persist in the times ahead. Your company by virtue of quality and market oriented specification of its products have posted profitable operations during the most trying times in the past. As such current buoyant conditions are paving way for major strides towards improved performance in future.
2. The company's production capacity entails less outgo for servicing interest payments and repayments of principals vis-a-vis its returns thus, improving cash flows of the company.
3. Well established customers base for the last over 23 years.
4. Your company's recently adopted strategy of taking its products to new markets in India and abroad has been a resounding success. Encouraging feedback from new customers gives optimism of momentum for its growth.
5. Your Company is fully poised to reap the benefits of economies of scale and it will be in a better position to negotiate raw material prices on long term bulk lifting basis & definite savings on overheads will bring down the cost per unit of production and lead to higher profitability.
6. Your Company has strategic advantage as its units are located in the industry friendly area having all infrastructural amenities.