



**26th Annual Report**  
**2005-2006**

**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. Mohinder Pal Gupta	Director
Mr. Jawahar Jain	Director

### AUDITORS

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

### BANKERS

Punjab National Bank  
Large Corporate Branch  
Miller Ganj,  
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,<br>Ludhiana-141 120 (Punjab)                 | (ii) G.T. Road, Nandpur, Sahnewal,<br>Ludhiana-141 120 (Punjab) |
| (iii) G.T. Road, Village Bapror,<br>Tehsil Rajpura, Distt. Patiala (Punjab) | (iv) Vill. Dugdha Ghamaria,<br>Distt. Saraikela (Jharkhand)     |

CONTENTS	Page Nos.
NOTICE	1-2
DIRECTORS' REPORT	3-13
AUDITORS' REPORT	14-15
BALANCE SHEET	16
PROFIT & LOSS ACCOUNT	17
ANNEXURES	18-23
NOTES ON ACCOUNTS	24-26
BALANCE SHEET ABSTRACT	27
CASH FLOW STATEMENT	28



## VALLABH STEELS LIMITED

### NOTICE

Notice is hereby given that the 26th 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 Saturday, the 29th July, 2006 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, 2006, 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 Mr. Rahul Jain who retires by rotation and being eligible offers himself for re-appointment.  
b) To appoint a Director in place of Mr. Jawahar Jain 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 AN ORDINARY RESOLUTION:**

RESOLVED THAT Mr. Mohinder Pal Gupta who was appointed as an Additional Director under section 260 of the Companies Act, 1956 and who holds office upto the date of this Annual General Meeting be and is hereby appointed as a director of the Company liable to retire by rotation.

**By order of the Board of Directors**

**Sd/-**

**PLACE : LUDHIANA**

**(KAPIL JAIN)**

**DATED : 30.06.2006**

**CHAIRMAN**

### 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. Explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of item No. 5 of Special Business is annexed hereto and forms part of this Notice.
3. The Register of Members and Share Transfer Books of the company will remain closed from Wednesday, the 26th July, 2006 to Saturday, the 29th July, 2006 (both days inclusive).
4. Members holding shares in physical mode are requested to notify the change in their address, if any, at the earliest to the Registrar & Share Transfer Agents of the company. However, members holding shares in electronic mode may notify the change in their address, if any, to their respective Depository Participants.
5. Members are requested to send their queries on the accounts, if any, so as to reach the Registered Office of the Company at least seven days before the meeting to enable the company to have relevant information ready at the meeting.



## **VALLABH STEELS LIMITED**

---

6. Members are requested to bring their copy of Annual Report alongwith them to the Annual General Meeting.
7. 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).

### **EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956 IN RESPECT OF ITEM NO. 5 OF SPECIAL BUSINESS:**

Mr. Mohinder Pal Gupta was appointed as Additional Director of the Company on 19th December, 2005. In terms of section 260 of the Companies Act, 1956, he holds office until the date of this Annual General Meeting. Notice in writing has been received from a member of the company in accordance with the section 257 of the Companies Act, 1956 alongwith a deposit of Rs.500/- signifying his intention to propose Mr. Mohinder Pal Gupta as a candidate for the office of Director liable to retire by rotation.

### **MEMORANDUM OF INTEREST**

None of the Directors except Mr. Mohinder Pal Gupta, the appointee is concerned or interested in the resolution.

**By order of the Board of Directors**

**Sd/-**

**PLACE : LUDHIANA**

**(KAPIL JAIN)**

**DATED : 30.06.2006**

**CHAIRMAN**

A large, semi-transparent watermark logo for "Report Junction.com" is centered across the page. It features a stylized diamond shape with an upward-pointing arrow inside, and the text "Report Junction.com" in a sans-serif font.



## VALLABH STEELS LIMITED

### DIRECTORS' REPORT

To

The Members,

We have pleasure in presenting the 26th Annual Report of the Company alongwith the Audited Statement of Accounts for the year ended 31st March, 2006:

### FINANCIAL RESULTS

	(Rupees in Lacs)	
	Current Year	Previous year
<b>Turnover (Gross)</b>	<b>32069.75</b>	<b>31527.14</b>
Profit before Interest, Depreciation and tax	<b>1352.58</b>	<b>1068.51</b>
Less :		
Financial Expenses	<b>361.04</b>	168.20
Provision for Depreciation	<b>303.27</b>	353.20
Taxes : Current Tax & FBT	<b>64.00</b>	195.00
Deferred Tax	<b>168.12</b>	43.00
Profit after Tax	<b>456.15</b>	309.11
Add: Balance b/f from previous Year	<b>1283.75</b>	1012.13
<b>Profit available for appropriations</b>	<b>1739.90</b>	<b>1321.24</b>
<b>Appropriations:</b>		
Proposed Dividend on Preference shares	<b>0.22</b>	0.22
Tax adjustment of earlier years	---	(12.76)
Tax on proposed dividend	<b>0.03</b>	0.03
Transferred to General Reserve	<b>75.00</b>	50.00
Surplus carried to Balance Sheet	<b>1664.65</b>	1283.75
	<b>1739.90</b>	<b>1321.24</b>

### OPERATIONS

Your directors are pleased to inform you that during the year under review, your company has achieved gross turnover of Rs. 32069.75 lacs, against previous year income of Rs. 31527.14 lacs. This has resulted in a higher gross profit of Rs. 1352.58 lacs as compared to Rs. 1068.51 lacs of previous year. After providing for interest of Rs. 361.04 lacs (Rs. 168.20 lacs) and depreciation of Rs. 303.27 lacs (Rs. 353.20 lacs), the profit before tax is placed at Rs. 688.27 lacs (Rs. 547.11 lacs) thus recording a growth of about 26%. After providing for taxation of Rs. 232.12 lacs (Rs. 238.00 lacs), net profit after tax is Rs. 456.15 lacs as compared to Rs. 309.11 lacs of previous year, thus registering a sharp jump of over 47%. This has been made possible due to optimum utilisation of resources, better product mix, better sales realisation and effective cost control.

### EXPORTS

We are pleased to inform you that during the year under review the Company continued to export its products in various countries such as Ghana, Dubai, Ethiopia, Kuwait, Maruitius, Sri Lanka and West Indies etc. However, due to wide fluctuation in prices and stiff competition, the exports were lower at Rs. 1014.45 Lacs as compared to Rs. 1286.85 Lacs in previous year.

The company has been able to make major dent in new export markets despite stiff competition and the management is quite hopeful that in future it will be able to achieve better Exports turnover.

### BACKWARD INTEGRATION PROJECT

We are happy to inform you that company's backward intregation project for the manufacture of sponge iron with a capacity of 350 Tons per day in the State of Jharkhand has already started trial runs and commercial production soon thereafter. The performance of this unit will be reflected in current year's working.



## VALLABH STEELS LIMITED

### PROCEEDS OF PREFERENTIAL ISSUE

During the year 2003-04 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 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 Bombay Stock Exchange Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai. The company has duly paid the listing fee to Bombay Stock Exchange Limited, Mumbai upto the Financial Year 2006-07.

### 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

Mr. Rahul Jain and Mr. Jawahar Jain, Directors of the company retire by rotation and being eligible offer themselves for re-appointment.

Mr. Mohinder Pal Gupta was appointed as an Additional Director of the company w.e.f. 19th, December, 2005 in terms of section 260 of the Companies Act, 1956. Notice in writing has been received from a member of the company in accordance with section 257 of the Companies Act, 1956 alongwith a deposit of Rs. 500/- signifying his intention to propose Mr. Mohinder Pal Gupta as a candidate for the office of director liable to retire by rotation.

Since our last report Mr. Ashok Jain has resigned from the directorship of your company w.e.f. 19th December, 2005. The Board places on record with appreciation the services rendered by Mr. Ashok Jain during his tenure as a director of the Company.

### CORPORATE GOVERNANCE

Corporate Governance Report and Management Discussion and Analysis along with Certificate of the Auditors of your company pursuant to clause 49 of the Listing Agreement with the Stock Exchange(s) has been annexed to 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 (1B) 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.



## VALLABH STEELS LIMITED

### 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 application to the Central Government has already been made seeking approval for appointment of Cost Auditors to conduct audit in respect of Steel Pipes Unit for the year 2006-07.

### 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.

Statement pursuant to section 217(2A) of the Companies Act, 1956 and the companies rules, 1975 is given below:

Name	Age	Designation/ Nature of Duties	Remuneration (Rs.)	Qualification	Experience (Years)	Date of Commencement of Employment	Last Employment held
Mr. Rahul Jain	32	Whole Time Director	3030000/-	B.Com.	10	1.04.97	1st Employment

Note: The above remuneration includes perquisites valued in accordance with the Income Tax Rules, 1962.

### AUDIT COMMITTEE

Upto 19.12.2005 constituent members of the Audit Committee were Sh. Mohan Lal, Sh. Ashok Jain and Sh. Jawahar Jain. Sh. Ashok Jain has been the Chairman of the said Committee. The committee was reconstituted on 19th December, 2005 with Sh. Mohinder Pal Gupta replacing Mr. Ashok Jain as member and chairman of the 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 : 30.06.2006

(KAPIL JAIN)

CHAIRMAN



## VALLABH STEELS LIMITED

### ANNEXURE - I TO THE DIRECTORS REPORT

#### CORPORATE GOVERNANCE REPORT

#### I. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

##### I. MANAGEMENT DISCUSSION AND ANALYSIS

##### (a) Industry Structure and Development :

Your Company is mainly engaged in the manufacturing and marketing of Steel Pipes and Cold Rolled Steel Strips & Coils and Sponge Iron 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 two years. The Indian Iron & Steel Industry witnessed increase in Exports apart from increase in domestic consumption during the year 2005-06.

##### (b) Company's Performance :

Your Company has performed remarkably well during the period under review in line with encouraging market scenario particularly in the Steel Industry in the financial year 2005-06.

The Gross turnover during the year 2005-06 has increased to Rs. 32069.75 lacs as against Rs. 31527.14 lacs in the previous year. The net profit after tax is placed at Rs. 456.15 lacs as compared to Rs. 309.11 lacs during the previous year. 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 on equity shares 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, implementation of sponge Iron Project, 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 25 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.





## VALLABH STEELS LIMITED

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 areas having all infrastructural amenities.
7. The recently commissioned unit of Sponge Iron in the state of Jharkhand is expected to contribute significantly to the performance of the company.

Thus, your company stands in good stead to avail of the opportunities and also to take head on successfully the areas posing risks, concerns and threats to it.

### (e) Internal Control system and their adequacy:

Your company has adequate internal control systems commensurate with its size and nature of business to ensure efficient utilisation and protection of assets, compliance with statutes and proper recording of all transactions.

In addition, the company has engaged M/s Gupta Sanjeev & Co., Chartered Accountants as external independent agency to conduct internal audit of the affairs of your company.

The company has also an Audit Committee constituted pursuant to the provisions of Listing Agreement which reviews internal control system of the company from time to time besides looking into other areas in its scope.

### (f) Risk Management :

The company is exposed to various normal business risks such as risks from market fluctuations of foreign exchange, interest rates, prices of raw materials and finished goods and natural vagaries.

Business risk evaluation and management is an ongoing process within the Company. During the year under review, a detailed exercise on "Risk Assessment and Management" was carried out covering the entire gamut of business operations and the Board was informed of the same.

### (g) Cautionary Statement :

Statement in this Management Discussion and Analysis describing the company's objectives, projections, estimates, expectations or predictions, may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied.

## 2. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE:

Your company is committed to the attainment of highest level of transparency, integrity, accountability and equity in all dealings with shareholders, employees, lenders, government and other business constituents in all dealings in pursuit of its overall organisational goals.

In pursuance of the above, the Board of directors has constituted committees to implement its policies and guidelines and has set up adequate review systems for exercising effective management control and ensuring compliance of laws. There is adequate representation of independent directors on the Board. We believe in timely and transparent disclosure of information.

Our focus on sustainable growth, productivity improvement, commitment to quality, self-discipline, value of time, safety in operations and total customers satisfaction is unrelenting. The company will continue its efforts towards raising the standards in Corporate Governance and will also review its systems and procedures constantly in pace with the changing economic environment from time to time as it feels that the Corporate Governance should be need based and is not seen only as an issue of compliance dictated by statutory requirements.

## 3. BOARD OF DIRECTORS:

### (a) Board Meetings:

During the financial year 2005-06, eleven Board meetings were held on 04.04.2005, 03.06.2005, 18.06.2005, 29.06.2005, 30.07.2005, 04.10.2005, 28.10.2005, 30.11.2005, 19.12.2005, 31.01.2006 and 31.03.2006.