



Vardhmān

Delivering Excellence. Since 1965.

Emphasis on Value & Vision

6th Annual Report
2015-2016

VARDHMAN SPECIAL STEELS LIMITED



From Managing Director's Desk

Dear Shareholders,

I am very happy to be communicating with you again. Last year, I was completing five years of association with the steel business and this year is another five year anniversary, that of being Managing Director of the Company for 5 years. Last year, I had traced our journey up to the point. This year, I would like to point a little bit into the future.

Increasing Throughput:

The rolling mill expansion increased our capacity to 180,000 tons of rolling, but our melting capacity meant that we could not go beyond 130,000 tons. As mentioned in last year's report, we are in the midst of a project to reduce the tap to tap time in the furnace which leads to increase in the production of billets. This project should get completed by November and after stabilizing the changes, we should be able to start increasing our production. Some impact of that should come in the last quarter but the full impact would come in the next year. This means that from capacity point of view, we will be ready to face the increased demand that we are foreseeing within the next year. The signs of this increase already seem visible. Similarly, we are also working on improving the performance of our bright bar section (which is a value addition on to our normal bars) by about 15-20%.

Improving Quality:

As I explained last year, our strategy is to be in the high quality, critical steel areas. This means that the grades that we make are going to become tougher than ever and the customers we serve will be more demanding. This means that demands on the quality will be higher and we have to be on our toes to constantly improve that. We have multiple teams working on improving the quality and I am happy to announce that we have started seeing those changes and we expect more results to come in by the end of the year.

Technical Orientation:

To move to the next level as an organization, we need to be much stronger technically than we have ever been. Over the last few years, we have been working hard with the key engineering institutes around to be able to attract good metallurgy students to join us. I am happy to announce that over the last couple of years, we have become quite popular in the campuses and we have been able to attract more young metallurgists to come and join us. This has improved the culture of inquisitiveness and enquiry. Also, we have begun to move some of these youngsters into other functions like Exports and more will follow in the next few years.

Research & Development:

This is a futuristic thought. I have asked our team to add an additional track to our working. So far we have tried work on developing difficult grades for our customers which meant providing a better solution to what the customer was anyway using. Now our thought process is, can we develop original entirely new grades of steel which will help our customers reduce overall cost or improve performance or both? Whether we will succeed in this bold thought only time will tell but suffice to say that our intent is strong and we have started on the journey.

Changes in Management:

When the organization is in the process of changing gears, quite often there is also need to have changes in the people who will help us to move to the next level. In a first for Vardhman Group, we have hired a new President and Chief Executive, Mr. Subhasis Dey, who has a rich experience of 19 years with Tata Motors and 10 years with the Lucas TVS group. So he brings to the organization a far better understanding of the automobile and automobile component industries. I am happy to welcome him on board. A few other key people are joining the organization in the month of August. We have also brought back Mr. Tippannavar, an old veteran of the group to help take our Technical journey forward on the lines I explained earlier.

Capital Structure:

We have already started the process of debt reduction. The peak debt levels reached in March'15 have already come down and may rise marginally by March'17 because of increased capex on account of the melting expansion and upgradations as also increasing working capital requirements on higher sales. However, the debt levels will remain lower than our March'15 numbers on increased volume.

As a management, we are thinking of examining the proposals of infusing some equity in the company to make the capital base stronger. No decisions have been taken but the process has begun. We shall come back to you once we arrive at the right course of things.

Adventure:

And lastly, I want to share as I turned 50 in July, I have been thinking of how to infuse more adventure in our lives. I recently went on a high attitude trek in the Himalayas. We crossed Rupin Pass at a height of 15,300 feet. We had started climbing from 5,200 feet and it was an exhilarating experience.

I am now trying to infuse a sense of adventure in our organization too by sending people to white water rafting or some treks. A sense of adventure brings excitement, happiness and team work as well as increased risk taking ability.

Thank you ladies and gentlemen for coming along with me on this adventurous journey of Vardhman Special Steels Limited. Whether you will make money or not, time will tell, I can only assure you that you will have quite an adventure with me.

Thank you and all the best.

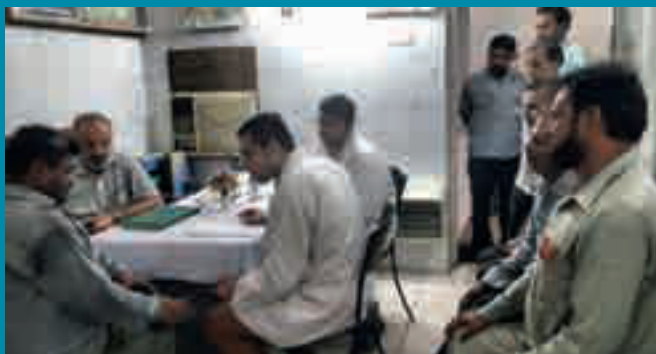
Warm Regards,

Sachit Jain
Managing Director
& fellow shareholder

National Safety Week 2016



Mock Drill & Practical Fire Fighting Training



Health Checkup Camp 2016

Rupin Pass Trek by Mr. Sachit Jain, MD VSSL



Environment Day 2016

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Management Discussion & Analysis Report

In the year 2015, World's Crude Steel production stood at 1,622.80 Million Tonnes (MT) as compared to 1,670 MT in the last year, showing a decline of 2.8%. China remained the World's largest Crude Steel producer in the year 2015 and India became World's third largest Steel producing nation in the year 2015 as compared to fourth largest nation in the previous year.

India is expected to become World's second largest steel producing nation soon. The growth in the Indian steel sector has been driven by domestic availability of raw materials such as iron ore and cost-effective labour. In the year 2015, India produced 91.46 MT of finished steel and the consumption of finished steel grew to 76.99 MT.

The business environment related to alloy steel industry is intertwined with the highly globalized automobile industry. The automobile industry also happens to be one of the most vibrant sectors of the Indian industry at present and likely to be so for foreseeable future as well. Further, growth in auto components export also gives additional impetus to the alloy steel industry growth in terms of better capacity utilization and capacity expansion. The domestic market driven by demographic changes visible in urbanization and growing income levels even in rural sector are the major drivers of alloy steel related industry in medium to long run.

On the supply side, growing competition from non-alloy steel manufacturers, who increased their presence in alloy steel sector due to lower demand elsewhere, challenges of growing imports from China and rising cost of production in the country are some of the constraints forcing steel manufacturers in India to relentlessly pursue value creation for the customers in terms of competitive prices, high quality and superior customer services.

Keeping in view the above factors, the Company has been making earnest efforts to win global customer confidence to become their preferred supplier and focus on high value added products of global quality to increase margin to beat increase in costs partially.

The year 2015-16 turned out to be a better year for your Company. The Company earned a Net Profit of ₹ 5.21 crores in the financial year 2015-16 as compared to losses in the last couple of years. The savings in cost from the fully commissioned New Rolling Mill is ₹ 1,061.63 lacs for the year 2015-16 as compared to ₹ 960.16 lacs in the year 2014-15. On the exports front, the Company exported 5,710.12 MTs of alloy steel in 2015-16 as against 4,178.97 MTs in the year 2014-15. The main impetus for the increase in margins were lower raw material & lower fuel costs.

As mentioned in the last Annual Report, your Company has successfully commissioned New Bright Bar Shop. The Company had also received Environment Clearance from Ministry of Environment & Forests (MOEF), Govt. of India. After getting the approval from MOEF, the process of revamping the capacity of steel melt shop has started which is likely to be complete in the ongoing financial year. In this revamp, the main job that we intend to do is replace our 20MVA Transformer with a 25MVA Transformer. This will increase the power input in the furnace and reduce the tap to tap time of our melting, thereby increasing the number of heats per day and hence the production. Other modernization jobs include :-

- a) Modernisation and revamping of Ladle Refining Furnace.
- b) Modernisation of Continuous Casting Machine.
- c) Installation of some additional cranes etc.

Since the Rolling Mill anyway has excess capacity, increase in melting will lead to increase in throughput.

In addition to meet the requirements of the customers, we intend to start a new size in our billet from the continuous casting. We will be introducing 240mm x 260mm cross section size billet. This will enable us to get a better reduction ratio and help us to enter some more critical customer segments.

Further, as mentioned in the last Annual Report, we wish to inform you that expansions undertaken by the company during last 3 years, stands covered under the revised Fiscal Incentives and Industrial Promotion Scheme, 2013 of Govt. of Punjab. Your Company has also received Letter of Regulatory Clearances (LORC-1), LORC-2 and Letter of intent for fiscal incentives (LOIFI) from Punjab Bureau of Investment Promotion. Further, Company is in the process of preparing for next steps i.e. LoRC-3 and then signing an agreement with the State Government to obtain the fiscal incentives under the scheme.

And lastly, as per study conducted by "Business World" Magazine in its edition dated 4th April, 2016 with an attempt to find out Fastest Growing Companies in India in various categories, your Company is ranked 26th in the list of Fastest Growing (Feather Weights) Companies.

DIRECTORS' REPORT

Dear Members,

The Directors of your Company have pleasure in presenting their 6th Annual Report on the affairs of the Company together with the Audited Accounts of the Company for the year ended, 31st March, 2016.

1. FINANCIAL RESULTS:

The financial results for the year are as under:-

	(₹ in Crore)	
PARTICULARS	2015-16	2014-15
Revenue from operations (Gross)	729.33	734.18
Profit before Depreciation, Interest & Tax (PBDIT)	45.77	18.96
Interest and Financial expenses	23.53	20.21
Profit before Depreciation and Tax (PBDT)	22.24	(1.25)
Depreciation	17.03	13.87
Profit before Tax (PBT)	5.21	(15.12)
Provision for Tax - Current	-	0.01
- Deferred Tax (Net of Adjustment)	-	-
Profit for the period after tax (PAT)	5.21	(15.13)
Earnings per share (₹)		
- Basic	2.81	(8.15)
- Diluted	2.81	(8.15)

2. FINANCIAL ANALYSIS AND REVIEW OF OPERATIONS:

PRODUCTION & SALES REVIEW:

During the year under review, your Company has registered Revenue from Operations of ₹ 729.33 Crore as compared to ₹ 734.18 Crore in the previous year. The exports for the year under review were ₹ 39.35 Crore as compared to ₹ 28.64 Crore in the previous year.

PROFITABILITY:

The Company earned profit before depreciation, interest and tax of ₹ 45.77 Crore as against ₹ 18.96 Crore in the previous year. After providing for depreciation of ₹ 17.03 Crore (Previous Year ₹ 13.87 Crore), interest of ₹ 23.53 Crore (Previous Year ₹ 20.21 Crore), the net profit from operations worked out to ₹ 5.21 Crore as compared to net loss of ₹ 15.13 Crore in the previous year.

RESOURCES UTILISATION:

a) Fixed Assets:

The net fixed assets (including capital work-in-progress) as at 31st March, 2016 were ₹ 252.71 Crore as compared to ₹ 250.78 Crore in the previous year.

b) Current Assets:

The current assets as on 31st March, 2016 were ₹ 343.17 Crore as against ₹ 349.89 Crore in the previous year. Inventory level was at ₹ 106.90 Crore

as compared to the previous year level of ₹ 132.89 Crore.

FINANCIAL CONDITIONS & LIQUIDITY:

Management believes that the Company's liquidity and capital resources should be sufficient to meet its expected working capital needs and other anticipated cash requirements. The position of liquidity and capital resources of the Company is given below:-

	(₹ in crore)	
PARTICULARS	2015-16	2014-15
Cash and Cash equivalents:		
Beginning of the year	8.65	13.90
End of the year	3.79	8.65
Net cash provided (used) by:		
Operating Activities	50.10	(32.75)
Investing Activities	(20.13)	(3.65)
Financial Activities	(34.83)	31.15

3. DIVIDEND:

No Dividend was declared during the current financial year.

4. CONSOLIDATED FINANCIAL STATEMENT:

As your Company does not have any subsidiary, associate or joint venture company, the provisions of Companies Act, 2013 and Accounting Standards 21, 23 and 27 in relation to consolidation of accounts do not apply.

5. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATE COMPANIES:

The Company does not have any subsidiary, associate or joint venture Company.

6. MATERIAL CHANGES AND COMMITMENT, IF ANY, AFFECTING THE FINANCIAL POSITION OF THE COMPANY OCCURRED BETWEEN THE END OF THE FINANCIAL YEAR TO WHICH THESE FINANCIAL STATEMENTS RELATE AND THE DATE OF THE REPORT:

No material changes and commitments affecting the financial position of the Company occurred between the end of the financial year to which these financial statements relate on the date of this report.

7. CORPORATE SOCIAL RESPONSIBILITY:

Your Company is committed to and fully aware of its Corporate Social Responsibility (CSR), the guidelines in respect of which were more clearly laid down in the new Companies Act, 2013. The Company's vision is to pursue a corporate strategy that enables shareholder value enhancement and societal value creation in a mutually reinforcing and synergistic manner.

The Corporate Social Responsibility Committee of the Company has formulated and recommended to the Board, a Corporate Social Responsibility (CSR) Policy indicating the activities to be undertaken by the Company, which has been approved by the Board.

The CSR policy may be accessed on the Company's website at the link:

<http://vardhmansteel.com/Corporate%20Social%20Responsibility%20Policy.pdf>

The Company has identified following thrust areas for CSR:-

- **PROMOTION OF EDUCATION:** To continue our endeavour for promoting education by setting up schools, colleges to deliver high quality education to students of all strata of society, including wards of employees of the Company.
- **ENVIRONMENT PROTECTION AND ENERGY CONSERVATION:** To protect environment and to sustain and continuously improve standards of Environment, Health and Safety through the collective endeavour of Company and its employees at all levels towards attaining world class standards.
- **DEVELOPMENT OF HUMAN CAPITAL:** To encourage the development of human capital through skills development, vocational training programmes.
- **RURAL DEVELOPMENT:** To contribute to development in rural areas through agricultural research and knowledge sharing, promoting superior farm practices, improving cotton production, productivity and quality and other agri-extension practices such as soil and moisture conservation and watershed management etc.
- **OTHER INITIATIVES:**
 - ✓ To contribute to empowering women economically, supplementing primary and secondary education and participating in rural capacity building programmes and such other schemes.
 - ✓ To respond to emergency situations & disasters by providing timely help to affected victims and their families.
 - ✓ Any other project/ programme pertaining to activities listed in Schedule VII of the Companies Act, 2013 read with Companies (Corporate Social Responsibility) Rules, 2014.

During the year, the Company was not able to undertake any CSR initiatives as it has incurred losses in the last three financial years.

The disclosures related to CSR activities pursuant to Section 134(3) of the Companies Act, 2013 read with Rule 9 of Companies (Accounts) Rules, 2014 and Companies (Corporate Social Responsibility) Rules, 2014 is annexed hereto and form part of this report as **Annexure I**.

8. RISK MANAGEMENT:

The Board of Directors in their meeting held on 31st January, 2015 had constituted Risk Management Committee of the Company. Thereafter, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 became effective from 1st December, 2015. These regulations provide for the obligation to constitute Risk Management Committee only on top 100 Listed Companies. Therefore, the Board of Directors in its meeting held on 29th April, 2016 approved dissolution of the Risk Management Committee of the Company w.e.f 29th April, 2016.

However, the Risk Management Policy of the Company required to be formulated under the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 has been duly formulated and approved by the Board of Directors of the Company. The aim of risk management policy is to maximize opportunities in all activities and to minimize adversity. The policy includes identifying types of risks and its assessment, risk handling, monitoring and reporting, which in the opinion of the Board may threaten the existence of the Company.

The Risk Management policy may be accessed on the Company's website at the link:

http://www.vardhmansteel.com/sites/default/files/download-files/risk_management_policy_final.pdf

9. INTERNAL FINANCIAL CONTROLS:

The Company has in place adequate internal financial controls with reference to financial statements. During the year, such controls were tested and no reportable material weakness in the design or operation was observed.

A report on the Internal Financial Controls under clause (i) of sub-section 3 of section 143 of the Companies Act, 2013 as given by the Statutory Auditors of the Company forms part of the Independent Auditor's Report as Annexure B.

10. PARTICULARS OF CONTRACTS OR ARRANGEMENTS MADE WITH RELATED PARTIES:

All contracts / arrangements / transactions entered by the Company during the financial year with related parties were in the ordinary course of business and on an arm's length basis. During the year, the Company had not entered into any contract/ arrangement/ transaction with related parties which could be considered material in accordance with the Regulation 23 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The Policy on dealing with related party transactions as approved by the Board may be accessed on the Company's website at the link:

http://www.vardhmansteel.com/sites/default/files/download-files/related_party_transaction_final.pdf

Your Directors draw attention of the members to Note 37 to the financial statement which sets out related party disclosures.

11. PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS MADE UNDER SECTION 186 OF THE COMPANIES ACT, 2013

Particulars of loans given, investments made, guarantees given and securities provided along with the purpose for which the loan or guarantee or security is proposed to be utilized by the recipient are provided in the financial statement (Please refer to Note 13, 14, 15 and 19 to the financial statement).

12. DIRECTORS:

Mr. Rajinder Kumar Jain, Director of the Company, retires by rotation at the conclusion of the forthcoming Annual General Meeting, pursuant to the provisions of the Articles of Association of the Company and being eligible, offers himself for re-appointment. The Board recommended his appointment for the consideration of the members of the Company at the ensuing Annual General Meeting.

Mr. Sanjoy Bhattacharyya was appointed as an Additional Director of the Company by the Board of Directors in its meeting held on 30th October, 2015. His appointment as an Independent Director for a term starting from conclusion of 6th Annual General Meeting till the conclusion of 11th Annual General Meeting is to be approved by the members in ensuing Annual General Meeting.

Declaration under Section 149(6):

The Independent Directors have submitted their disclosures to the Board that they fulfill all the requirements as stipulated in Section 149(6) of the Companies Act, 2013 so as to qualify themselves to be appointed as Independent Directors under the provisions of the Companies Act, 2013 and the relevant rules thereof.

Company's Policy relating to Directors appointment, payment of remuneration and discharge of their duties:

The Nomination & Remuneration Committee of the Company has formulated the Nomination & Remuneration Policy on Director's appointment and remuneration includes the criteria for determining qualifications, positive attributes, independence of a Director and other matters as provided under Section 178(3) of the Companies Act, 2013.

The Nomination & Remuneration Policy is annexed hereto and forms part of this report as **Annexure II**.

Familiarization programmes for Board Members:

Your Company has formulated Familiarization Programme for all the Board members in accordance with Regulation 25 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the Schedule IV of the Companies Act, 2013 which provides that the

Company shall familiarize the Independent Directors with the Company, their roles, rights, responsibilities in the Company, nature of Industry in which the Company operates, business model of the Company, etc. through various programmes.

The Familiarization Programme for Board members may be accessed on the Company's website at the link:

<http://vardhmansteel.com/vss/uploads/tpl-buddy-011/img/familiarisation%20program.pdf>

Annual Evaluation of the Board Performance:

The meeting of Independent Directors of the Company for the calendar year 2015 was held on 30th March, 2015 to evaluate the performance of Non-Independent Directors, Chairperson of the Company and the Board as a whole.

The evaluation was done by way of discussions on the performance of the Non- Independent Directors, Chairperson and Board as a whole and the minutes of the meeting was submitted to the Chairman of the Company.

A policy on the performance evaluation of Independent Directors, Board, Committees and other individual Directors which includes criteria for performance evaluation of Non-Executive Directors and Executive Directors have been formulated by the Company.

13. AUDITORS AND AUDITORS' REPORT:

Statutory Auditors:

At the Annual General Meeting held on 24th September, 2014, M/s. S.S. Kothari Mehta & Company, Chartered Accountants, Panchkula were appointed as Statutory Auditors of the Company to hold office till the conclusion of 9th Annual General Meeting of the Company. In terms of provisions of Section 139 (1) of the Companies Act, 2013, the appointment of Statutory Auditors shall be placed for ratification at every Annual General Meeting. Accordingly, the appointment of M/s. S.S. Kothari Mehta & Company as Statutory Auditors is placed for ratification by the members.

Further, the Statutory Auditors of the Company have submitted Auditors' Report on the accounts of the Company for the accounting year ended 31st March, 2016. This Auditors' Report is self-explanatory and requires no comments.

Secretarial Auditor:

M/s. Khanna Ashwani & Associates, Company Secretary in Practice, were appointed as Secretarial Auditors of the Company by the Board of Directors of the Company in their meeting held on 2nd May, 2015 for the financial year 2015-16.

The Secretarial Auditors of the Company have submitted their Report in Form No. MR-3 as required under Section 204, of the Companies Act, 2013 for the financial year ended 31st March, 2016. This Report is self-explanatory

and requires no comments. The Report forms part of this report as **Annexure III**.

Cost Auditor:

The Board of Directors in their meeting held on 2nd May, 2015 has appointed M/s Ramanath Iyer & Company, Cost Accountants, New Delhi, as the Cost Auditors of the Company to conduct Cost Audit of the Accounts for the financial year ended 2015-16. However, as per provisions of Section 148 of the Companies Act, 2013, read with Companies (Cost Records and Audit) Rules, 2014, the remuneration to be paid to the Cost Auditors is subject to ratification by members at the Annual General Meeting. Accordingly, the remuneration to be paid to M/s Ramanath Iyer & Company, Cost Accountants, New Delhi, for financial year 2016-17 is placed for ratification by the members.

The Cost Auditor's Report for the Financial Year 2015-16 will be forwarded to the Central Government as required under law.

14. NUMBER OF BOARD MEETINGS CONDUCTED DURING THE YEAR UNDER REVIEW:

Four meetings of the Board were held during the year.

15. AUDIT COMMITTEE DISCLOSURES:

Composition:

The Audit Committee consists of Mr. Prafull Anubhai, Chairman and Independent Director, Mr. Rajeev Gupta, Independent Director, Mr. Sanjeev Pahwa, Independent Director and Mr. Rajinder Kumar Jain, Non-Executive Non-Independent Director. Mr. Prafull Anubhai is the Chairman of the Committee and Ms. Sonam Taneja is the Secretary of the Committee. All the recommendations made by the Audit Committee were accepted by the Board.

Vigil Mechanism:

The Vigil Mechanism of the Company, which also incorporates a whistle blower policy in terms of the Listing Agreement aims to provide a channel to the employees and Directors to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the Codes of conduct or policy. The mechanism provides for adequate safeguards against victimization of employees and Directors to avail of the mechanism and also provide for direct access to the Chairman/ Chairman of the Audit Committee in exceptional cases.

The Policy on Vigil Mechanism and Whistle Blower Policy as approved by the Board may be accessed on the Company's website at the link:

http://vardhmansteel.com/sites/default/files/download-files/vigil_mechanism_final.pdf

16. CORPORATE GOVERNANCE:

The Company has in place a system of Corporate Governance. A separate report on Corporate Governance forming part of the Annual Report of the Company is annexed hereto. A certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Corporate Governance Clause of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is annexed to the report on Corporate Governance.

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

Energy conservation continues to be an area of major emphasis in our Company. Efforts are made to optimize the energy cost while carrying out the manufacturing operations. Particulars with respect to conservation of energy and other areas as per Section 134(3)(m) of the Companies Act, 2013 read with the Companies (Accounts) Rules, 2014, are annexed hereto and forms part of this report as **Annexure IV**.

18. ANNUAL RETURN:

The extracts of Annual Return pursuant to the provisions of Section 92 read with Rule 12 of the Companies (Management and Administration) Rules, 2014 for the financial year 2015-16 in Form No. MGT-9 is annexed hereto and forms part of this report as **Annexure V**.

19. HUMAN RESOURCES /INDUSTRIAL RELATIONS:

The Company continues to lay emphasis on building and sustaining an excellent organization climate based on human performance. Performance management is the key word for the Company. During the year the Company employed around 863 employees on permanent rolls.

Pursuit of proactive policies for industrial relations has resulted in a peaceful and harmonious situation on the shop floor of the plant.

20. PARTICULARS OF EMPLOYEES AND RELATED DISCLOSURES:

The disclosures in respect of managerial remuneration as required under section 197(12) read with Rule 5(1) of the Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014 is annexed hereto and forms part of this report.

A statement showing the names and other particulars of the employees drawing remuneration in excess of the limits set out in Rule 5 (2) and 5 (3) Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014 is annexed hereto and forms part of this report.

In terms of section 197(14) of the Companies Act, 2013,