



Vardhman

VARDHMAN SPECIAL STEELS LIMITED



Annual Report 2010-2011

PROCESS FLOW



Raw Material



30 Ton UHP Electric Arc Furnace



Bloom Caster



Vacuum Degassing



Ladle Refining Furnace (Secondary Metallurgy)



Bloom Conditioning



Rolling Mill



(Optional) Heat Treatment



Delivery



Testing & Inspection



(Optional) Bright Bars

BOARD OF DIRECTORS

Mr. Prafull Anubhai - Chairman
Mr. Rajinder Kumar Jain
Mrs. Ramni Nirula
Mr. Rajeev Gupta
Mr. Mukund Choudhary
Mr. Sanjeev Pahwa
Mrs. Suchita Jain
Mr. B. K. Choudhary
Mr. Sachit Jain - Managing Director

GENERAL MANAGER

Mr. Naresh Bansal

COMPANY SECRETARY

Mr. Mohan Singh

AUDITORS

M/s. S.S. Kothari Mehta & Co.
Chartered Accountants
Panchkula

BANKERS

State Bank of India
HDFC Bank Limited
Bank of Baroda

REGISTERED OFFICE

Vardhman Premises, Chandigarh Road
Ludhiana - 141 010
Phones : (0161) 2228943 - 48
Fax : (0161) 2601048, 2602710 & 2222616
E-mail: secretarial.lud@vardhman.com
Web site: www.vardhmansteel.com

WORKS

Vardhman Special Steels Limited Unit-I, Ludhiana
C-58, Focal Point,
Ludhiana - 141 010

BRANCHES

- Plot No. 264,
Sector 24, N.I.T.
Faridabad - 121 005
- 422 & 423, 4th Floor,
B Wing, Jai Ganesh Vision, Akurdi,
Pune - 411 033
- Gate No. 153, Pune-Nashik Highway,
Kuruli, Chimbli Phata, Chakan
Pune - 411 033
- D-8, Industrial Estate,
Opp. Tansi Building, Guindy,
Chennai - 600 032
- New No. 1/55E, Old No. 1/73
Kamarajar, Salai, Nazaratpet, Poonamallee
Chennai - 600 032
- SPL - 1, Phase - I,
Industrial Area, Bhiwadi,
Distt.- Alwar - 301 019
- Arisht Spinning Mills,
Sai Road,
Baddi

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**NOTICE**

NOTICE is hereby given that the FIRST ANNUAL GENERAL MEETING of Vardhman Special Steels Limited will be held on Saturday, the 23rd day of July, 2011 at 12.00 noon at the Registered Office of the Company situated at Vardhman Premises, Chandigarh Road, Ludhiana, to transact the following business :-

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2011, Profit and Loss Account for the year ended on that date, together with Report of Auditors' and Directors' thereon.
2. To appoint a Director in place of Mrs. Suchita Jain, who retires by rotation in accordance with Article 108 of the Articles of Association of the Company and being eligible, offers herself for re-appointment.
3. To appoint Auditors for the year 2011-2012 and to fix their remuneration.

SPECIAL BUSINESS:

4. To consider and if thought fit to pass, with or without modification(s), the following resolutions as Ordinary Resolutions:-

- (a). "RESOLVED THAT Mr. Prafull Anubhai, who was appointed as an Additional Director by the Board of Directors under Section 260 of the Companies Act, 1956, to hold office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company, liable to retire by rotation, under the Articles of Association of the Company."
- (b). "RESOLVED THAT Mr. Rajinder Kumar Jain, who was appointed as an Additional Director by the Board of Directors under Section 260 of the Companies Act, 1956, to hold office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company, liable to retire by rotation, under the Articles of Association of the Company."
- (c). "RESOLVED THAT Mrs. Ramni Nirula, who was appointed as an Additional Director by the Board of Directors under Section 260 of the Companies Act, 1956, to hold office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company, liable to retire by rotation, under the Articles of Association of the Company."
- (d). "RESOLVED THAT Mr. Rajeev Gupta, who was appointed as an Additional Director by the Board of Directors under Section 260 of the Companies Act, 1956, to hold office up to the date of this Annual General Meeting and in respect of whom the

Company has received a notice under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company, liable to retire by rotation, under the Articles of Association of the Company."

- (e). "RESOLVED THAT Mr. Mukund Choudhary, who was appointed as an Additional Director by the Board of Directors under Section 260 of the Companies Act, 1956, to hold office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company, liable to retire by rotation, under the Articles of Association of the Company."
 - (f). "RESOLVED THAT Mr. Sanjeev Pahwa, who was appointed as an Additional Director by the Board of Directors under Section 260 of the Companies Act, 1956, to hold office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company, liable to retire by rotation, under the Articles of Association of the Company."
 - (g). "RESOLVED THAT Mr. B. K. Choudhary, who was appointed as an Additional Director by the Board of Directors under Section 260 of the Companies Act, 1956, to hold office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company, liable to retire by rotation, under the Articles of Association of the Company."
5. To consider and if thought fit to pass, with or without modification(s), the following resolution as a Special Resolution :-
"RESOLVED THAT pursuant to the provisions of Section 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, the approval of the Members of the Company be and is hereby given to the fixation of the sitting fee payable to the Directors for attending each meeting of the Board of Directors and the Committee of Directors as Rs.15,000/- and Rs. 10,000/- respectively."

BY ORDER OF THE BOARD

**PLACE : NEW DELHI
DATED : 27th APRIL, 2011**

**(MOHAN SINGH)
COMPANY SECRETARY**

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY, IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE

COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING. THE BLANK PROXY FORM IS ENCLOSED.

2. The information pursuant to Corporate Governance Clause of the Listing Agreement(s) regarding the directors seeking appointment/re-appointment in the Annual General Meeting as proposed in Item No. 2 and 4 (a) - (g) of the notice is also being annexed hereto separately and forms part of the Notice.
 3. **The Register of Members and the Share Transfer Books of the Company shall remain closed from 12th July, 2011 to 23rd July, 2011.**
 4. The Members holding shares in physical mode are requested to notify the change in their address, if any, at the earliest to the Registrar & Transfer Agent/Company. However members, holding shares in electronic mode may notify the change in their address, if any, to their respective Depository Participants.
 5. Members desiring any information, as regards Accounts, are requested to write to the Company at its Registered Office at least 10 days before the date of Annual General Meeting so as to enable the management to keep the information ready.
 6. The copies of relevant documents can be inspected at the Registered Office of the Company on any working day between 10.30 A.M. to 12.30 P.M.
 7. Members holding shares in the same/identical name(s) under different folios are requested to apply for consolidation of such folios and send relevant share certificates to the Company/Registrar and Transfer Agent.
 8. The Ministry of Corporate Affairs ("MCA") has vide Circular Nos. 17/2011 and 18/2011 dated April 21, 2011 and April 29, 2011 respectively, taken a 'Green Initiative in Corporate Governance', by allowing paperless compliances through electronic mode, allowing to send documents such as Notice convening General Meetings, Audited Financial Statements, Directors' Report, Auditors' Report, etc. and any other notice/documents, henceforth in electronic form in lieu of the paper form.
- In case you wish to support your Company's concern to prevent global environment degradation, you are requested to please register your E-mail ID with your DP, if you hold the Company's shares in electronic form, under intimation to the Registrar & Transfer Agent through your registered E-mail ID. However, if you hold the shares in physical form then you may register your E-mail ID with the Registrar & Transfer Agent of the Company by sending a letter under your Registered signature at the below mentioned address.

M/s Alankit Assignments Limited,
2E/21, Alankit House, Jhandewalan Extension,
New Delhi-110 055
Phone: (011) 41540060-63,
Fax: (011) 41540064,
E-mail: rta@alankit.com

BY ORDER OF THE BOARD

**PLACE : NEW DELHI
DATED : 27th APRIL, 2011**

**(MOHAN SINGH)
COMPANY SECRETARY**

ANNEXURE TO THE NOTICE:

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956.

ITEM NO. 4 (a)-(g) OF THE SPECIAL BUSINESS.

The Board of Directors had appointed Mr. Prafull Anubhai, Mr. Rajinder Kumar Jain, Mrs. Ramni Nirula, Mr. Rajeev Gupta, Mr. Mukund Choudhary, Mr. Sanjeev Pahwa and Mr. B. K. Choudhary as Additional Directors on the Board of the Company in its Meeting held on 15th March, 2011 pursuant to Article 105 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956.

The Company has received notices from the members of the Company u/s 257 of the Companies Act, 1956, together with the requisite deposit, proposing the candidature of Mr. Prafull Anubhai, Mr. Rajinder Kumar Jain, Mrs. Ramni Nirula, Mr. Rajeev Gupta, Mr. Mukund Choudhary, Mr. Sanjeev Pahwa and Mr. B. K. Choudhary as the Directors of the Company.

MEMORANDUM OF INTEREST

None of the Directors except Mr. Prafull Anubhai, being the appointee himself in Item No. 4(a), Mr. R. K. Jain being the appointee himself and Mr. Sachit Jain & Mrs. Suchita Jain, being the relatives of Mr. Rajinder Kumar Jain, in Item No. 4(b), Mrs. Ramni Nirula, being the appointee herself, in Item No. 4(c), Mr. Rajeev Gupta, being the appointee himself, in Item No. 4(d), Mr. Mukund Choudhary, being the appointee himself, in Item No. 4(e), Mr. Sanjeev Pahwa, being the appointee himself, in Item No. 4(f) and Mr. B. K. Choudhary, being the appointee himself, in Item No. 4(g) are concerned or interested in the respective resolutions.

ITEM NO. 5 OF THE SPECIAL BUSINESS.

Article 96 of the Articles of Association of your company provides for payment of sitting fee to every director for attending a meeting of the Board or its Committee subject to such maximum fee as may be prescribed by the Central Government from time to time. In terms of Circular No. G. S. R. 580 (E) dated 24.07.2003 issued by the Central Government, your Company can pay a maximum amount of Rs. 20,000/- as sitting fee for each meeting of the Board or any Committee thereof. Keeping in view the contribution to be made by the Directors in framing progressive policies and also giving their valuable guidance/suggestions from time to time to the Company, the Board of Directors of the Company in its meeting held on 2nd April, 2011 has fixed the sitting fee of Rs. 15,000/- and Rs. 10,000/- per meeting for attending the Board Meeting and Committee Meeting respectively, subject to the consent of the Members. Accordingly, your approval is solicited.

Information pursuant to Corporate Governance Clause of the Listing Agreement(s)

Name of the Director	Mr. Prafull Anubhai	Mr. Rajinder Kumar Jain	Mrs. Ramni Nirula
Date of Birth	20-01-1938	07-02-1939	27-05-1952
Date of Appointment	15 th March, 2011	15 th March, 2011	15 th March, 2011
Expertise in specific functional area	Mr. Prafull Anubhai is an Industrialist and business consultant having experience of more than 38 years.	Mr. Rajinder Kumar Jain is an Engineer and has retired as a General Manager from Indian Railways.	Mrs. Ramni Nirula is a retired banker.
Qualification	B.Com, B.Sc (Eco.)-London	Chartered Mechanical Engineer, London	M.B.A.
Directorships of other Companies as on 31 st March, 2011	<ol style="list-style-type: none"> Unichem Laboratories Ltd. Vardhman Textiles Ltd. Gruh Finance Ltd. Torrent Cables Ltd. The EMSAF-Mauritius Management Structure & Systems Pvt. Ltd. Baker Oil Tools (India) Pvt. Ltd. Birla Sun Life Trustee Co. Pvt. Ltd. Centre for Science, Technology and Policy (CSTEP) (Section-25 Company) 	NIL	<ol style="list-style-type: none"> Haldia Petrochemicals Limited Usha Martin Limited Jubilant Foodworks Limited PI Industries Limited Utkarsh Microfinance Limited IKPG Knowledge Park
Chairman/Member of Committees of other Companies as on 31 st March, 2011	<p>Audit Committee</p> <ol style="list-style-type: none"> Gruh Finance Ltd. (Member) Torrent Cables Ltd. (Member) Unichem Laboratories Ltd. (Chairman) Birla Sun Life Trustee Co. Pvt. Ltd. (Chairman) Vardhman Textiles Ltd. (Chairman) <p>Investors' Grievance Committee</p> <ol style="list-style-type: none"> Gruh Finance Ltd. (Member) Torrent Cables Ltd. (Member) 	NIL	<p>Audit Committee</p> <ol style="list-style-type: none"> Utkarsh Microfinance Limited (Member) <p>Investors' Grievance Committee</p> <ol style="list-style-type: none"> Jubilant Foodworks Limited (Chairman) PI Industries Limited (Chairman)
No. of shares held	NIL	NIL	NIL
Relationship with other Director(s)	Not related to any Director	Mr. Sachit Jain is the son and Mrs. Suchita Jain is the daughter-in-law of Mr. Rajinder Kumar Jain	Not related to any Director

regarding the Directors seeking appointment/re-appointment in the Annual General Meeting

Mr. Rajeev Gupta	Mr. Mukund Choudhary	Mr. Sanjeev Pahwa	Mrs. Suchita Jain	Mr. B. K. Choudhary
19-03-1958	22-08-1971	26-12-1966	21-03-1968	27-06-1951
15 th March, 2011	15 th March, 2011	15 th March, 2011	13 th December, 2010	15 th March, 2011
Mr. Rajeev Gupta has experience in Financial and Investment activities. He has been the Managing Director of Carlyle Asia Partners.	Mr. Mukund Choudhary has more than 15 years of Industrial experience.	Mr. Sanjeev Pahwa has about 20 years experience in the field of bicycle/automobiles tyres & tubes industry and bicycle components industry.	Mrs. Suchita Jain has a rich experience of more than 18 years in Textile Industry.	Mr. B. K. Choudhary has more than 30 years of experience in the Steel Industry.
B.Tech, M.B.A.	B.Com	B. Tech.	M.Com	M.B.A.
1. Cosmo Films Limited	1. Himalayan Crest Power Pvt. Ltd. 2. CLC & Sons Pvt. Ltd. 3. CLC Power Ltd. 4. CLC Enterprises Ltd. 5. CLC Textile Park Pvt. Ltd. 6. Spentex Industries Ltd. 7. Spentex (Netherlands) B.V 8. Spentex (Mauritius) Pvt. Ltd. 9. Ramya Agrotech Pvt. Ltd.	1. Ralson (India) Ltd. 2. Ram Commercial Enterprises Ltd. 3. Kosani Finance & Investments Pvt. Ltd. 4. Shivansi Investments Pvt. Ltd. 5. Ralco Finance & Investments Pvt. Ltd. 6. Ralco Tyres Pvt. Ltd. 7. Ralson Communication Technologies Pvt. Ltd.	1. Syracuse Investment & Trading Co. Pvt. Ltd. 2. Srestha Holdings Ltd. 3. Anklesh Investments Pvt. Ltd. 4. Pradeep Mercantile Co. Pvt. Ltd. 5. Plaza Trading Co. Pvt. Ltd. 6. Marshall Investment and Trading Co. Pvt. Ltd. 7. Santon Finance & Investment Co. Ltd. 8. Flamingo Finance & Investment Co. Ltd. 9. Ramaniya Finance and Investment Co. Ltd. 10. Vardhman Holdings Ltd. 11. Vardhman Spinning & General Mills Ltd. (Formerly known as Vardhman Linen Ltd.) 12. Vardhman Textiles Ltd.	1. Vardhman Acrylics Ltd. 2. Bharuch Eco-Aqua Infrastructure Ltd.
Audit Committee 1. Cosmo Films Limited (Member)	Audit Committee 1. Himalayan Crest Power Pvt. Ltd. (Member) Investors' Grievance Committee 1. Spentex Industries Ltd. (Member)	NIL	NIL	Investors' Grievance Committee 1. Vardhman Acrylics Ltd. (Member)
NIL	NIL	NIL	52,266 (including 1 share held as a nominee of Vardhman Textiles Ltd.)	NIL
Not related to any Director	Not related to any Director	Not related to any Director	Mr. Sachit Jain is the husband and Mr. R. K. Jain is the Father-in-law of Mrs. Suchita Jain	Not related to any Director



DIRECTORS' REPORT

Dear Members,

The Directors of your Company have pleasure in presenting their 1st Annual Report on the affairs of the Company together with the Audited Accounts of the Company for the period ended, 31st March, 2011.

As you are aware, pursuant to the Scheme of Arrangement & Demerger between Vardhman Textiles Limited (VTXL) and Vardhman Special Steels Limited (VSSL) and their respective shareholders & creditors as approved by the Board of Directors and Shareholders of respective Companies and sanctioned by the Hon'ble High Court of Punjab & Haryana at Chandigarh under Section 391-394 vide its Order dated 12th January, 2011, the Steel Business Undertaking of VTXL has been demerged into VSSL w.e.f 1st January, 2011. Therefore the figures given herein include operational figures in respect of said Steel Business Undertaking for a period of 3 months i.e. from 1st January, 2011 to 31st March, 2011.

1. FINANCIAL RESULTS:

The financial results for the period are as under:-

PARTICULARS	(Rs. In Crores)
	2010-2011
Turnover	124.55
Profit before Depreciation, Interest & Tax (PBDIT)	12.72
Interest and Financial expenses	1.04
Profit before Depreciation and Tax (PBDT)	11.68
Depreciation	0.95
Profit before Tax (PBT)	10.73
Provision for Tax	3.86
- Current	
- Deferred Tax	(0.09)
Profit after Tax (PAT)	6.96
Surplus carried to Balance Sheet	6.96
Earnings per share (Rs.)	
- Basic	11.95
- Diluted	11.95

2. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

A) STEEL INDUSTRY - GLOBAL AND INDIAN PERSPECTIVE:

The global steel industry has grown rapidly from the year 2002, helped to a great extent by China, whose spectacular economic growth and rapidly-expanding infrastructure led to soaring demand for steel, which its domestic supply could not meet. At the same time, recoveries in major markets took place, reflected by increase in production, recovery of prices, return of profitability, emergence of new markets, lifting of trade barriers and finally, rise in steel demand globally.

The situation has been no different for the Indian steel industry, with emphasis on intensive R&D activities and adoption of measures to increase domestic per capita steel consumption, which is only 49 kg against the world average of 182 kg. India was the 5th largest producer of crude steel in the world in 2010, based on rankings released by the World Steel Association. From a negligible global presence, the Indian steel industry is now globally acknowledged for its product quality.

B) OUTLOOK:

Indian steel industry has just come out of the slowdown that affected its performance during 2008-09. Domestically, 2010 ended on a relatively better and encouraging note, with Central Statistical Organisation (CSO) reporting an

overall improvement of economic situation through its GDP data, which showed a robust 8.9 per cent growth during Apr-Sept 2010-11. Globally also there are signs of improvement in economic conditions and firming up of demand and prices.

India has become a global hub for steel/auto steel sourcing. Vehicle Production in India is expected to witness strong growth of 3.5 times till 2020 from 13.36 Million units to 46.79 Million units. Indian Auto Components demand is also expected to reach USD 108-119 billion by 2020 from USD 30 billion in 2009. Demand for alloy and special steel forgings is expected to reach 7.46 Million MT by 2020 from 2.61 Million MT in 2009. Demand for alloy & Special Steels is expected to rise 2.85 times to 9.70 Million MT by 2020 from 3.40 Million MT in 2009.

C) STRATEGY:

Your Company plans to continue with its position in the niche special alloy segment as of now, with additional investments in upgradation of facilities, further improvements in quality, increase in production and increasing the share of value added products. A renewed focus on product development is on the anvil, along with increased efforts on training and HR practices. The company will follow a LVCQSA strategy – Low Volume Critical Quality Special Application. This would give us advantages of less competition from mass players, increased loyalty

from customers seeking stringent quality and will consolidate our image as a quality player.

D) FINANCIAL ANALYSIS AND REVIEW OF OPERATIONS:

• Production & Sales Review:

During the period under review, your company has registered a turnover of Rs. 124.55 crore.

• Profitability:

The Company earned profit before depreciation, interest and tax of Rs. 12.72 crore. After providing for depreciation of Rs. 0.95 crore, interest of Rs 1.04, provision for current tax Rs. 3.86 crore, provision for deferred tax Rs. (0.09) crore, the net profit from operations worked out to Rs. 6.96 crore.

• Resources Utilisation:

a). Fixed Assets:

The gross fixed assets (including work-in-progress) as at 31st March, 2011 were Rs. 85.51 crore.

b). Current Assets:

Debtors outstanding for more than six months were Rs. 3.27 crore. The net current assets as on 31st March, 2011 were Rs. 176.34 crore. Inventory level was at Rs. 97.98 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:-

(Rs. in crore)

Current Period

Cash and Cash equivalents:

Transferred from Transferor Company	4.38
End of the period	5.29

Net cash provided (used) by:

Operating Activities	(7.73)
Investing Activities	(22.17)
Financial Activities	30.81

E) INTERNAL CONTROL SYSTEM:

The Company has well defined internal control system. The Company takes abundant care to design, review and monitor the working of internal control system. Internal Audit in the organization is an independent appraisal activity and it measures the efficiency, adequacy and effectiveness of other controls in the organization. All significant issues are brought to the attention of the Audit Committee of the Board.

F) MANAGEMENT PERCEPTION OF RISK AND CONCERN:

The main hindrance in growth of steel in India could be low labour productivity and high cost of inputs and services. Cost of electricity is on the rise. Poor quality of basic infrastructure like roads, ports, etc. adds to the concern of steel industry today. The land policy of various States also is slowing down the installation of green field projects in respective States. High ash content of indigenous coking

coal and high basicity index of iron ore clubbed with non-availability of key ingredients like ferro nickel and ferro – molybdenum are slowing down the production of steel from blast furnace route. This is proving a major bottleneck when it comes to compete in global world. Indian steel companies have to bear additional costs pertaining to capital equipment and power. The government policy on railway freight also determines the cost of finished steel. The Indian steel sector may face threat from cheap imports, now that the import duties on steel in India are amongst the lowest in the world. Import pressures could consequently lead to pressure on margins of the domestic companies on account of lower steel realisations. Since India is already a member of WTO, it might become difficult for the government to increase duties substantially. The real demand is growing at slow pace, due to uncertainty over economic outlook of 2011. However inspite of that going forward, steel industry remains apprehensive about the continuation of the strong performance by steel companies. Volume growth would be visible in the years to come, largely due to the continuation of infrastructure spending (including housing), strong demand from the auto sector, which could help in driving demand for value added steel products like CR (cold roll) steel and exports. Realisations expected to remain under pressure on account of excessive supplies. The global steel scenario is in favour of steel producers, as restocking in countries such as Europe and North America has led to a recovery in 2010, after the slump in 2009. If there are worries, these are on the raw materials front; both iron ore and coal prices have begun to increase again in recent months. But companies have used the stronger demand environment to hike prices to end users, which should offset the impact of higher costs on margins, to some extent. The long term outlook for steel production is bright and industry is looking towards compound growth of 3.6% between 2010 and 2020.

G) 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 over 700 employees.

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

3. DIRECTORS:

The Board of Directors in its meeting held on 15th March, 2011 has appointed Mr. Prafull Anubhai, Mr. R. K. Jain, Mrs. Ramni Nirula, Mr. Rajeev Gupta, Mr. Mukund Choudhary, Mr. Sanjeev Pahwa and Mr. B. K. Choudhary as Additional Directors on the Board of the Company, pursuant to Article 105 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956. Further, the members of the Company in their Extra-Ordinary General Meeting held on 1st April, 2011 have appointed Mr. Sachit Jain as the Managing Director of the Company for a period of five years w.e.f. 15th March, 2011.



The Board of Directors in its Meeting held on 2nd April, 2011 has appointed Mr. Prafull Anubhai as the Chairman to chair all the Board and General Meetings. Mrs. Shakun Oswal, however, has resigned from the Board of Directors of the Company w.e.f. 2nd April, 2011.

The Company has received notices from some members under Section 257 of the Companies Act, 1956, proposing the candidature of Mr. Prafull Anubhai, Mr. R. K. Jain, Mrs. Ramni Nirula, Mr. Rajeev Gupta, Mr. Mukund Choudhary, Mr. Sanjeev Pahwa and Mr. B. K. Choudhary as Directors of the Company. Requisite approval for their appointment is being sought at the ensuing Annual General Meeting.

Mrs. Suchita Jain, Director of the Company, retires by rotation at the conclusion of the forthcoming Annual General Meeting, pursuant to the provisions of Article 108 of the Articles of Association of the Company and being eligible, offers herself for re-appointment. The Board recommended her appointment for the consideration of the members of the Company at the ensuing Annual General Meeting.

4. SCHEME OF ARRANGEMENT AND DEMERGER:

During the period under review, the Company had filed a petition under section 391-394 of the Companies Act, 1956 for a Scheme of Arrangement and Demerger between Vardhman Textiles Ltd. (VTXL) and Vardhman Special Steels Ltd. (VSSL) and their respective shareholders & creditors which was approved by the shareholders & creditors of the respective companies in the court convened meetings. The Hon'ble High Court of Punjab & Haryana, at Chandigarh vide its Order dated 12th January, 2011 has sanctioned the Scheme of Arrangement and Demerger pursuant to which the Steel Business Undertaking of VTXL stood vested in your Company w.e.f. 1st January, 2011.

The Company, in consideration, of the Steel Business Undertaking has allotted 1,27,30,376 Equity Shares of Rs. 10/- each on 8th April, 2011 to the shareholders of VTXL in the ratio of 1 (one) Equity Share of Rs. 10/- each for every 5 (five) shares held by the shareholders of VTXL as on the record date i.e. 30th March, 2011 fixed for the purpose.

5. 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 Listing Agreement is annexed to the report on Corporate Governance.

6. AUDITORS:

M/s. S. S. Kothari Mehta & Co., Chartered Accountants, Panchkula, Auditors of the Company, retire at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

7. AUDITORS' REPORT:

The Auditors' Report on the accounts is self-explanatory

and requires no comments.

8. COST AUDITORS:

The Board of Directors had appointed M/s. Ramanath Iyer & Company, Cost Accountants, New Delhi, as the Cost Auditors of the Company under Section 233B of the Companies Act, 1956, for a period of 3 months from 1st January, 2011 to 31st March, 2011. The Cost Auditors' Report for the aforesaid period of 3 months will be forwarded to the Central Government as required under law.

9. STATEMENT OF PARTICULARS OF EMPLOYEES:

A Statement of Particulars of Employees pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 is enclosed and forms part of this report.

10. GROUP:

The Company, inter-alia with the following entities, constitutes a 'Group' as defined under the Monopolies and Restrictive Trade Practices Act, 1969: -

- a) Vardhman Textiles Limited
- b) Vardhman Holdings Limited
- c) VTL Investments Limited
- d) Adinath Investment and Trading Company
- e) Devakar Investment and Trading Company Private Limited

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

Energy conservation is an area of major emphasis in your Company. Efforts are made to minimize the energy cost while carrying out the manufacturing operations. Particulars with respect to conservation of energy and other areas as per Section 217(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are annexed hereto and form part of this report.

12. DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to Section-217 (2AA) of the Companies Act, 1956, the Directors confirm that in the preparation of the annual accounts, the applicable accounting standards have been followed;

- a. appropriate accounting policies have been selected and applied consistently, and have made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2011 and of the profit of the Company for the period ended on 31st March, 2011;
- b. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- c. the annual accounts have been prepared on a going concern basis.

13. ACKNOWLEDGEMENT:

Your Directors are pleased to place on record their sincere gratitude to the Government, Financial Institutions, Bankers and Business Constituents for their continued and valuable co-operation and support to the Company. They also take this opportunity to express their deep appreciation for the devoted and sincere services rendered by the employees at all levels of the operations of the Company during the period under review.

FOR AND ON BEHALF OF THE BOARD

PLACE: NEW DELHI
DATED : 27TH APRIL, 2011

(PRAFULL ANUBHAI)
CHAIRMAN

ANNEXURE TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(1)(e) READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988, AND FORMING PART OF THE DIRECTORS' REPORT FOR THE PERIOD ENDED 31ST MARCH, 2011:

I. CONSERVATION OF ENERGY:

The Company is taking several steps to conserve energy wherever possible. This is a thrust area with studies, discussions and analysis being undertaken regularly for further improvements. The Company is in the process of re-engineering of compressor & compressor line. It is also taking up the condition monitoring of motors, improving the Power Factor from 0.96 to 0.98, replacing inefficient pump and motors with energy efficient ones. The optimisation of suction pressure of APCD system, installation of drive on cooling tower, use of steam condensation, etc. are also being undertaken as some of the measures for conservation of energy.

Form-A U.O.M. Current Period
Particulars

(A) Power And Fuel Consumption:**1 Electricity :****(A) Purchased**

Units	(KWH in lac)	224.63
Total Amount	(Rs. in lac)	1099.42
Rate Per Unit	Rs./KWH	4.89

(B) Own Generation

Through Diesel Generetor		
Units	(KWH in lac)	0.14
Unit/Ltr. of Diesel	KWH	3.19
Cost Per Unit	Rs./KWH	16.49

2 Oil (HFO/HSD):**(A) (Used In Boiler)**

Quantity	Ltrs.	18,685
Total Cost	Rs. in lac	5.49
Average Rate	Rs./Litre.	29.38

(B) (Used In Furnace)

Quantity	Ltrs.	8,68,259
Total Cost	Rs. in lac	270.36
Average Rate	Rs./Litre.	31.14

(B) Consumption Per Unit of Production**1 Steel Billets/ Ingots**

Electricity	KWH/MT	835.11
Oil (F.O./ L.D.O.)	Ltr./MT	7.45

2 Rolled Steel

Electricity	KWH/MT	81.47
Oil (F.O./ L.D.O.)	Ltr./MT	41.12



II. TECHNOLOGY ABSORPTION:

Efforts made in Technology Absorption are furnished in Form-B as under: -

A) RESEARCH AND DEVELOPMENT (R&D):

1. Specific areas in which Research & Development is carried out by the Company:

Research & Development is carried out for development of new products and for improvement in the production process and quality of products. The Company has been able to pioneer the launch of new products that have been successful in the market due to its R&D efforts.

2. Benefits derived as a result of R & D:

The Company has been continuously improving the quality of its existing products and entered into new products and also been able to reduce the cost of production.

3. Future Course of action:

Management is committed to strengthen R & D activities further to improve its competitiveness in times to come.

4. Expenditure on R & D:

	(Rs. in lac)
	Current Period
Capital	14.05
Recurring	43.39
Total	57.44
Total R & D expenditure as a Percentage of turnover is	0.46

B) TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

1. Efforts made:

The Company is continuously making efforts for adaptation of latest technology in its unit. The Company has also created specific cells for studying and analysing the existing processes for further improvement.

2. Particulars of technology imported in the last five years.

a) Technology imported	NIL
b) Year of import	N.A.
c) Has technology been fully absorbed	N.A.

III. FOREIGN EXCHANGE EARNINGS AND OUTGO:

Activities relating to export, initiatives taken to increase exports, development of new export market for products and services and export plans are given hereunder:

- Exported 350 MT of rolled black bars from Jan 2011-Mar 2011 to the tune of 0.4 million dollars.
- Developed customers in country like Thailand.
- Studies have been undertaken for markets like US and Turkey so as to explore more business potential in exports for the year 2011-12.

Total Foreign Exchange earned and used:

	(Rs. in lac)
	Current Period
a). Earnings (FOB value of Exports, Commission earned)	172.52
b). Outgo (CIF value of Imports and Expenditure in Foreign Currency)	1938.61

STATEMENT OF PARTICULARS OF EMPLOYEES

INFORMATION REQUIRED AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF DIRECTORS' REPORT FOR THE PERIOD ENDED 31ST MARCH, 2011.

(A) PERSONS EMPLOYED THROUGHOUT THE FINANCIAL YEAR, WHO WERE IN RECEIPT OF REMUNERATION WHICH, IN THE AGGREGATE, WAS NOT LESS THAN Rs. 60,00,000/- PER ANNUM

S. No.	Name of Employee	Designation/Nature of duties	Remu-neration (In Rs. lac)	Qualifi-cation	Age (Years)	Experience (Years)	Date of Employ-ment	Particulars of last Employment
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(B) PERSONS EMPLOYED FOR A PART OF THE FINANCIAL YEAR, WHO WERE IN RECEIPT OF REMUNERATION FOR ANY PART OF THE YEAR, AT A RATE WHICH, IN THE AGGREGATE, WAS NOT LESS THAN Rs. 5,00,000/- PER MONTH.

S. No.	Name of Employee	Designation/Nature of duties	Remu-neration (In Rs. lac)	Qualifi-cation	Age (Years)	Experience (Years)	Date of Employ-ment	Particulars of last Employment
1.	Mr. Sachit Jain	Managing Director	5.35	B. Tech, M. B. A.	45	21	15.03.2011	Executive Director, VMT Spinning Company Ltd.

- Remuneration includes Salary, Commission, Contribution to Provident Fund, Leave Travel Concession, Medical Assistance and other allowances paid in cash and taxable value of non cash perquisites.
- Mr. Sachit Jain is not related to any of the Directors of the Company except Mrs. Suchita Jain and Mr. Rajinder Kumar Jain.

CORPORATE GOVERNANCE REPORT:

This report on corporate governance forms part of the Annual Report. Corporate governance refers to a combination of laws, regulations, procedures, implicit rules and good corporate practices that ensure that a Company meets its obligations to optimize shareholders' value and fulfill its responsibilities to the community, customers, employees, Government and other segments of society. Your Company is committed on adopting the best practices of Corporate Governance as manifested in the Company's functioning to achieve the business excellence by enhancing long-term shareholders' value. Efficient conduct of the business of the Company through commitment to transparency and business ethics in discharging its corporate responsibilities is hallmark of the best practices followed by the Company. This report on Corporate Governance, besides being in compliance of the Listing Agreement, gives an insight into the functioning of the Company.

1. COMPANY'S PHILOSOPHY:

- ❖ Continued expansion in areas "which we know best".
- ❖ Total customer focus in all operational areas.
- ❖ Products to be of best available quality for premium market segments through TQM and zero defect implementation.
- ❖ Integrated diversification/ product range expansion.
- ❖ World class manufacturing facilities with most modern R & D and process technology.
- ❖ Faith in individual potential and respect for human values.
- ❖ Encouraging innovation for constant improvements to achieve excellence in all functional areas.
- ❖ Accepting change as a way of life.
- ❖ Appreciating our role as a responsible corporate citizen.

2. BOARD OF DIRECTORS:

i) **Board Meetings:** During the financial year 2010-2011, the Board met 8 times on the following dates

- | | |
|---------------------------------|-----------------------------------|
| - 17 th May, 2010 | - 17 th July, 2010 |
| - 27 th July, 2010 | - 14 th August, 2010 |
| - 21 st August, 2010 | - 18 th November, 2010 |
| - 1 st January, 2011 | - 15 th March, 2011 |

ii) **Composition as on March 31st, 2011:**

The Board of Directors comprises of a Managing Director and 9 Non-Executive Directors. Out of the total strength of 10 directors, 5 directors are independent, thus it meets the stipulated requirement.

The composition of the Board of Directors and their attendance at the Board Meetings during the year and also the number of other Directorship/Chairmanship in Indian Public Limited Companies are as follows: -

Name of Director	Designation & Category	No. of Board meetings attended	Attendance at last AGM	Total No. of Directorships in other Companies	No. of Committee Memberships in other Companies	Total No. of Board Chairmanship in other Companies	Total No. of Committee Chairmanship in other Companies
Mr. Prafull Anubhai*	Non- Executive Independent Director	NIL	N.A.	4	6	-	2
Mr. Rajinder Kumar Jain*	Non- Executive Non-Independent Director	NIL	N.A.	-	-	-	-
Mrs. Ramni Nirula*	Non- Executive Independent Director	NIL	N.A.	5	3	-	2
Mr. Rajeev Gupta*	Non- Executive Independent Director	NIL	N.A.	1	1	-	-
Mr. Mukund Choudhary*	Non- Executive Independent Director	NIL	N.A.	3	1	-	-
Mr. Sanjeev Pahwa*	Non- Executive Independent Director	NIL	N.A.	2	-	1	-
Mrs. Shakun Oswal**	Non- Executive Non-Independent Director	7	N.A.	5	1	-	-
Mrs. Suchita Jain	Non- Executive Non-Independent Director	8	N.A.	7	-	-	-
Mr. B. K. Choudhary*	Non- Executive Non- Independent Director	NIL	N.A.	2	1	-	-
Mr. Sachit Jain***	Managing Director Non-Independent Director	8	N.A.	13	5	1	1

* Mr. Prafull Anubhai, Mr. Rajinder Kumar Jain, Mrs. Ramni Nirula, Mr. Rajeev Gupta, Mr. Mukund Choudhary, Mr. Sanjeev Pahwa and Mr. B. K. Choudhary were appointed as the Additional Directors of the Company w.e.f. 15th March, 2011 by the Board of Directors in its meeting held on 15th March, 2011.

** Resigned w.e.f. 2nd April, 2011.

*** Mr. Sachit Jain has been appointed as the Managing Director of the Company by the members of the Company in their Extra-Ordinary General Meeting held on 1st April, 2011 for a period of 5 years w.e.f. 15th March, 2011 to 14th March, 2016.

Mrs. Shakun Oswal, Mr. Sachit Jain, Mrs. Suchita Jain and Mr. Rajinder Kumar Jain are related among themselves. None of the other Directors are related to any other Director of the Company.



Disclosure of change

Mr. Prafull Anubhai, Mr. Rajinder Kumar Jain, Mrs. Ramni Nirula, Mr. Rajeev Gupta, Mr. Mukund Choudhary, Mr. Sanjeev Pahwa and Mr. B. K. Choudhary were appointed as the Additional Directors by the Board of Directors of the Company in its meeting held on 15th March, 2011. Further, Mr. Sachit Jain was appointed as the Managing Director of the Company by the members of the Company in their Extra-Ordinary General Meeting held on 1st April, 2011 for a period of five years w.e.f. 15th March, 2011 to 14th March, 2016. The Board of Directors of the Company in its Meeting held on 2nd April, 2011 appointed Mr. Prafull Anubhai as the Chairman to chair all the Board and General Meetings. Mrs. Shakun Oswal, however, resigned from the Board of Directors of the Company w.e.f. 2nd April, 2011.

3. AUDIT COMMITTEE:

The Board of Directors in its meeting held on 2nd April, 2011 constituted the Audit Committee of the Company comprising of 3 members i.e. Mr. Prafull Anubhai, Mr. Rajinder Kumar Jain and Mrs. Ramni Nirula. Mr. Prafull Anubhai is the Chairman of the Committee. Mr. Mohan Singh is the Secretary of the Committee. The terms of reference of the Audit Committee are, as contained in Section 292A of the Companies Act, 1956, and also as contained in Corporate Governance Clause of the Listing Agreement.

4. REMUNERATION COMMITTEE:

The Board of Directors in its meeting held on 2nd April, 2011 constituted the Remuneration Committee of the Company for framing the Company’s policy on specific remuneration packages for its Managing Director and Whole Time Directors including Executive Directors. The Committee comprises of 3 members i.e. Mr. Prafull Anubhai, Mr. Rajeev Gupta and Mr. B. K. Choudhary. Mr. Prafull Anubhai is the Chairman of the Committee.

5. DIRECTORS’ REMUNERATION:

i) Managing Director :

The Company pays remuneration to the Managing Director as approved by the Remuneration Committee of the Company subject to the approval of the Members of the Company in the General Meeting.

A detail of remuneration paid to the Managing Director during the period under review is as given below:

(Rs. in lac)

Name	Designation	Salary	Perquisites	P.F. Contribution	Commission	Gross remuneration
Mr. Sachit Jain	Managing Director	3.29	-	-	2.06	5.35

ii) Non-Executive Directors:

Non-Executive Directors have not been paid any remuneration/fees for during the period under review.

6. SHAREHOLDING OF DIRECTORS AS ON 31.03.2011.

The shareholding of the Directors in the Equity Share Capital of the Company is given as follows: -

Name of Directors	Number of Shares held
Mr. Sachit Jain	1
Mrs. Suchita Jain	1
Mrs. Shakun Oswal	1

Note: 1. The aforesaid shares are held by the Directors of the Company as a nominee of Vardhman Textiles Limited.
2. No other director held any share in the Equity Share Capital of the Company.

7. SHAREHOLDERS’/INVESTORS’ GRIEVANCE COMMITTEE:

The Board of Directors in its meeting held on 2nd April, 2011 constituted the Investors’ Grievance Committee of the Company comprising of 3 members i.e. Mr. Sanjeev Pahwa, Mrs. Suchita Jain and Mr. B. K. Choudhary. Mr. Sanjeev

Pahwa is the Chairman of the Committee. The Compliance Officer of this committee is Mr. Mohan Singh, Company Secretary.

During the period under review, the Company did not receive any investor complaints.

8. GENERAL BODY MEETINGS:

The details of General Body Meetings held during the last three financial years are given as follows:

Meeting	Day, Date and Time of the Meeting	Venue	No. of Special Resolutions
1 st Extra-Ordinary General Meeting	Monday, 13 th December, 2010 at 3.00 P. M.	Regd. Office, Vardhman Premises, Chandigarh Road, Ludhiana- 141010.	1

The Company has not passed any resolution through postal ballot, during the period under review. No resolution is proposed to be passed by postal ballot in forthcoming Annual General Meeting.

9. DISCLOSURES:

There was no material/significant transaction with the directors or the management and their relatives etc. that have any potential conflict with interest of the Company at large. Also there has not been any non-compliance by the Company in respect of which penalties or strictures were imposed by the Stock Exchanges or Securities Exchange Board of India (SEBI) or any other Statutory Authority during the period under review.

Further, the Company has complied with all mandatory requirements of Clause 49 of the Listing Agreement. The Company may also take up the non-mandatory requirements of Clause 49 in due course of time.

10. MEANS OF COMMUNICATION:

The Company shall continue its communication with the shareholders at large through its Annual Reports, publication of financial results, press releases in leading newspapers and by filing of various reports and returns with the Statutory Bodies like Stock Exchanges and the Registrar of Companies. The Quarterly Financial Results are published in prominent daily newspapers viz., "Business Standard" and "Desh Sewak". The Financial Results and the Shareholding Patterns of the Company are also made available at the Company's web-site www.vardhmansteel.com.

GENERAL INFORMATION FOR SHAREHOLDERS

i) 1st Annual General Meeting:

Date : 23rd July, 2011.
 Time : 12.00 Noon
 Venue : Regd. Office, Vardhman Premises, Chandigarh Road, Ludhiana-141 010.

ii) Financial Calendar 2011-2012 (Tentative)

First Quarter Results : August, 2011
 Second Quarter Results : October, 2011
 Third Quarter Results : January, 2012
 Annual Results : May, 2012

iii) Dates of Book Closure : 12th July, 2011 to 23rd July, 2011 (both days inclusive)

iv) Dividend payment date : The Board of Directors has not recommended any dividend for the period under review.

v) Listing : The securities of the Company are proposed to be listed on the following Stock Exchanges:

1. The Bombay Stock Exchange Limited, Mumbai (BSE), 1st Floor, New Trading Ring, Rotunda Building, P.J. Towers, Dalal Street, Fort, Mumbai-400 001.
2. The National Stock Exchange of India Limited (NSE), "Exchange Plaza", Bandra-Kurla Complex, Bandra(East), Mumbai."

- The Company has duly paid the listing fee to both the aforesaid Stock Exchanges for the financial year 2011-12.



vi) Stock Code:

- _ The Bombay Stock Exchange Limited, Mumbai : **N.A.**
- _ The National Stock Exchange of India Limited, Mumbai : **N.A.**

vii) Stock Market Data:

During the period under review, the Equity Shares of the Company were not listed on any stock exchange and therefore there is no past stock market data.

viii) Registrar & Transfer Agent:

The work related to Share Transfer Registry in terms of both physical and electronic mode is being dealt with by M/s. Alankit Assignments Limited at the address given below: -

M/s. Alankit Assignments Limited,
 (Unit: Vardhman Special Steels Limited)
 2E/21, Alankit House, Jhandewalan Extension, New Delhi - 110 055.
 Phone: (011) 41540060-63, Fax: (011) 41540064, E-mail: rta@alankit.com

ix) Share Transfer System:

The Company shall constitute a Share Transfer Committee of its directors. The Committee shall meet on an average once in a fortnight. The list of valid transfers prepared by the Transfer Agent in respect of transfer cases received by them and objections, if any, shall be placed before the Committee for its approval/confirmation. The Share Certificates shall be returned back to the shareholders by Transfer Agent normally within 15 days from the date of receipt by them.

x) Distribution of Shareholding as on 31st March, 2011:

RANGE No. of Shares	SHAREHOLDERS		SHARES	
	Numbers of Total Holders	% to Total Holders	Number of Shares Held	% to Total Shares
Upto-500	6	0.00	6	0.00
501-1000	-	-	-	-
1001-2000	-	-	-	-
2001-3000	-	-	-	-
3001-4000	-	-	-	-
4001-5000	-	-	-	-
5001-10000	-	-	-	-
10001- above	1	100.00	58,24,994	100.00
Total	7	100.00	58,25,000	100.00

xi) Dematerialisation of shares:

As on 31st March, 2011, Nil % of the capital comprising Nil shares, out of total of 58,25,000 shares, were dematerialized.

xii) Plant Location:

Vardhman Special Steels Limited Unit-I, Ludhiana,
 C-58, Focal Point,
 Ludhiana – 141 010.

xiii) Address for correspondence:

Registered office : Vardhman Premises, Chandigarh
 Road, Ludhiana-141010
 Tel : 0161-2228943-48
 Fax : 0161-2601048, 2602710, 2222616
 E-mail : secretarial.lud@vardhman.com
 (Exclusively for redressal of investors' grievances)

Auditors' Certificate on Compliance of Corporate Governance Under Corporate Governance Clause of the Listing Agreement(s)

To
The Members of
Vardhman Special Steels Limited

We have examined the compliance of the conditions of Corporate Governance by Vardhman Special Steels Limited for the year ended on 31st March, 2011, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The Compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to review of the procedures and implementation thereof, adopted by the Company, for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and based on the representation made by the Directors and Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For S.S. Kothari Mehta & Co.
Chartered Accountants
(Firm Regn No.022150N)

(CA Dinesh K.Abrol)
Partner
M.No.087899

Place : New Delhi
Dated : 27.04.2011

AUDITORS' REPORT TO THE MEMBERS OF VARDHMAN SPECIAL STEELS LIMITED

To
The Members,
Vardhman Special Steels Limited,
Ludhiana.

We have audited the attached balance sheet of Vardhman Special Steels Limited, Ludhiana as at 31st March 2011, and also the Profit and Loss Account and the Cash Flow Statement for the period ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

1. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

2. As required by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the enclosed Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
3. Further to our comments in the Annexure referred to in Para 2 above, we report that:
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
 - (iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (iv) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - (v) On the basis of written representations received

from the directors, as on 31st March 2011 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31st March 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

- (vi) In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit & Loss Account read together with significant Accounting Policies and other notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
- in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2011;
 - in the case of the Profit and Loss Account, of the profit for the period ended on that date; and
 - in the case of the Cash Flow Statement, of the cash flows for the period ended on that date.

For S. S. Kothari Mehta & Co.
Chartered Accountants
(Firm Regn. No. 022150N)

Place: New Delhi
Date: 27th April, 2011

(CA Dinesh K. Abrol)
Partner
Membership No.87899

ANNEXURE REFERRED TO IN PARAGRAPH 2 OF OUR REPORT OF EVEN DATE

- The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- Fixed Assets were physically verified during the period and the discrepancies observed, which were not material in nature, have been properly adjusted in the books of accounts.
- During the period, the company has not disposed off substantial portion of fixed assets. Therefore, it has not affected the ability of Company to continue as going concern.
- The inventory of the Company has been physically verified during the period by the management. In our opinion, the frequency of verification is reasonable.
- In our opinion and according to the informations and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- On the basis of our examination of the records of inventory, we are of the opinion that the company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material and have been adequately dealt with in books of accounts.
- We have been informed that there are no loans granted in pursuance of contracts or arrangements that need to be entered into the register maintained under section 301.
- We have been informed that there are no loans taken in pursuance of contracts or arrangements that need to be entered into the register maintained under section 301.
- In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, we have neither come across nor have we been informed of any instance of major weaknesses in the aforesaid internal control procedures.
- We have been informed that there are no other transactions made in pursuance of contracts or arrangements that need to be entered into the register maintained under section 301.
- In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits within the meaning of section 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and rules framed thereunder. We have been explained that no order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any other tribunal against the Company during the period.
- In our opinion, the company has an internal audit system commensurate with the size and nature of its business.
- We have broadly reviewed the books of account maintained by the company pursuant to the Rules made by the Central Government for the

maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956 and we are of the opinion that *prima facie* the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the said records with a view to determine whether they are accurate or complete.

14. According to the records of the Company examined by us and the information and explanations given to us, in our opinion, the company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, wealth tax, service tax, sales tax, custom duty, excise duty, cess and other statutory dues applicable to it.
15. According to the records of the Company examined by us and the information and explanations given to us, in our opinion, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, wealth tax, service tax, sales tax, custom duty, excise duty, cess and other statutory dues were outstanding, as at 31.03.2011 for a period of more than six months from the date they became payable.
16. According to the records of the Company examined by us and the information and explanations given to us, in our opinion, there are no dues of sale tax, income-tax/sales tax/wealth tax/service tax/customs duty/excise duty/cess which have not been deposited on account of any dispute, except the following:

S. No.	Nature of dues	Amount due (Rs.)	Forum where pending
1.	Punjab Sales Tax	Basic Rs. 1,86,500	Joint Director, Enforcement, Patiala
2.	Punjab Sales Tax	Basic Rs. 1,80,000	Joint Director, Enforcement, Patiala
3.	Punjab Sales Tax	Basic Rs. 2,00,000	Joint Director, Enforcement, Patiala
4.	CENVAT – Denial of CENVAT	Basic Rs. 4,15,723	Chief Commissioner Excise, CHD
5.	CENVAT – Denial of CENVAT	Basic Rs. 45,450	CESTAT
6.	CENVAT Credit	Rs. 27,78,084	Commissioner Appeals, CHD
7.	CENVAT – Denial of CENVAT	Basic Rs. 9,51,035	CESTAT
8.	CENVAT – Denial of CENVAT	Basic Rs. 1,33,333	Remanded back to Commissioner Appeals by CESTAT in Aug'10
9.	CENVAT – Denial of CENVAT	Basic Rs. 5,44,993	Commissioner Appeals, Chandigarh
10.	CENVAT – Denial of CENVAT	Basic Rs. 33,69,378	Assistant Commissioner, Ludhiana

17. The company does not have accumulated losses as at the end of the financial period. The company has not incurred any cash losses during the financial period covered by our audit. This is the first financial year of the Company.
18. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the company has not defaulted in repayment of dues to any financial institution or bank during the period.
19. According to the information and explanations given to us, the company has not given any guarantee for loans taken by others from bank or financial institutions.
20. According to the records of the Company examined by us and the information and explanations given to us, no term loans have been taken by the Company during the period.
21. According to the information and explanations given to us and on the basis of an overall examination of the balance sheet of the Company, in our opinion, generally, there are no funds raised by the Company on short-term basis, which have been used for long-term investment.
22. The company has not made any preferential allotment of shares during the period.
23. The company has not issued any debentures during the period covered by our audit report.
24. The Company has not raised any money by way of public issue during the period covered by our audit report.
25. During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India, we have neither come across any instance of fraud on or by the Company, noticed or reported during the period, nor have we been informed of such case by the management.
26. The other provisions of the Order do not appear to be applicable for the period under report.

For S. S. Kothari Mehta & Co.
Chartered Accountants
(Firm Regn. No. 022150N)

Place : New Delhi
Date : 27th April, 2011

(CA Dinesh K. Abrol)
Partner
Membership No.87899

**BALANCE SHEET as at 31st March, 2011**

Particulars	Schedule No.		As at 31.03.2011 (Amount In Rs.)
I. SOURCES OF FUNDS			
1. Shareholders' funds			
a) Capital	1		58,250,000
b) Reserves and Surplus	2		1,458,688,610
c) Equity Share Capital Pending Allotment pursuant to the 'Scheme of Arrangement and Demerger' (Refer Note No.4)			127,303,760
			<u>1,644,242,370</u>
2. Loan Funds			
a) Secured Loans	3	258,345,705	
b) Unsecured Loans	4	342,122,034	
			<u>600,467,739</u>
3. Deferred Tax Liability			
			<u>41,354,285</u>
TOTAL			
			<u>2,286,064,394</u>
II APPLICATION OF FUNDS			
1. Fixed Assets			
a) Gross Block	5		854,056,171
b) Less: Depreciation			<u>532,427,490</u>
c) Net Block			321,628,681
d) Capital Work-in-Progress	6		1,013,655
			<u>322,642,336</u>
2. Investments			
	7		200,000,000
3. Current Assets, Loans and Advances			
a) Inventories	8		979,825,366
b) Sundry Debtors			896,956,417
c) Cash and Bank Balances			52,853,194
d) Loans and Advances			117,927,425
			<u>2,047,562,402</u>
Less: Current Liabilities and Provisions			
a) Liabilities	9		272,939,835
b) Provisions			<u>11,200,509</u>
			<u>284,140,344</u>
Net Current Assets			
	(A-B)		<u>1,763,422,058</u>
TOTAL			
			<u>2,286,064,394</u>

SIGNIFICANT ACCOUNTING

POLICIES AND NOTES ON ACCOUNTS

18

The Schedules referred to above form an integral part of the Balance Sheet

As per our report of even date attached

For S.S.Kothari Mehta & Co.

Chartered Accountants

(Firm Regn No.022150N)

(CA Dinesh K.Abrol)

Partner

M.No.087899

Mohan Singh

Company Secretary

Naresh Bansal

General Manager

Suchita Jain

Director

Sachit Jain

Managing Director

Place : New Delhi

Dated : 27.04.2011

PROFIT AND LOSS ACCOUNT for the period ended 31st March, 2011

Particulars	Schedule No.	Current Period (Amount In Rs.)
INCOME		
Sales (Gross)		1,245,518,490
Less: Excise Duty		114,589,211
Sales (Net)		1,130,929,279
Other Income	10	2,566,851
Total		1,133,496,130
EXPENDITURE		
Raw Material Consumed and Purchase of Finished Goods	11	715,886,682
Manufacturing Expenses	12	280,981,161
Personnel Expenses	13	35,347,011
Administrative and Other Expenses	14	11,489,320
Interest and Financial Charges	15	10,428,081
Selling and Distribution Expenses	16	39,526,057
(Increase)/Decrease in Work in Process and Finished Stock	17	(82,274,140)
Difference of Excise Duty on Stocks		5,315,547
Depreciation & Amortisation		9,531,185
Total		1,026,230,904
Profit for the period before tax		107,265,226
Less : Provision for		
- Current Tax (including Wealth Tax of Rs. 0.40 lacs)		38,540,000
- Deferred Tax		(901,134)
Net Profit for the period after tax carried to balance sheet		69,626,360
Earning per share of Rs. 10/- each		
- Basic & Diluted		11.95

SIGNIFICANT ACCOUNTING

POLICIES AND NOTES ON ACCOUNTS

18

The Schedules referred to above form an integral part of the Profit and Loss Account.

As per our report of even date attached

For S.S.Kothari Mehta & Co.

Chartered Accountants

(Firm Regn No.022150N)

(CA Dinesh K.Abrol)

Partner

M.No.087899

Mohan Singh

Company Secretary

Naresh Bansal

General Manager

Suchita Jain

Director

Sachit Jain

Managing Director

Place : New Delhi

Dated : 27.04.2011

**CASH FLOW STATEMENT for the period ended 31st March, 2011**

Particulars	Schedule No.	Current Period (Amount In Rs.)
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before Tax and Extraordinary items		107,265,226
Adjustments for :		
Depreciation		9,531,185
Interest charged		8,542,086
Provision for Doubtful Debts written back		(1,455,696)
Excess Provision written back		(197,156)
Sundry Balances written off		13,968
		<u>16,434,387</u>
Operating Profit before Working Capital Changes		123,699,613
Adjustments for :		
Decrease/(Increase) in Trade & Other Receivables		(138,112,452)
Decrease/(Increase) in Inventories		(100,628,518)
(Decrease)/Increase in Liabilities		73,402,024
		<u>(165,338,946)</u>
Cash Generation from Operations		(41,639,333)
Taxes Paid		(35,700,000)
Net Cash from Operating activities		(77,339,333)
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets		(21,680,739)
Purchase of Investments		(200,000,000)
		<u>(221,680,739)</u>
Net Cash used in investing activities		(221,680,739)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share capital		58,250,000
Proceeds from Secured Borrowings (Net)		246,995,077
Payments from Unsecured Borrowings (Net)		11,359,168
Interest Paid		(8,542,086)
		<u>308,062,159</u>
Net Cash from Financing Activities		308,062,159
Net Increase in cash & cash equivalents		9,042,087
Cash & cash equivalents (Opening)		-
Cash & cash equivalents (Transferred from Transferor Company)		43,811,106
Cash & cash equivalents (Closing)		52,853,193

SIGNIFICANT ACCOUNTING

POLICIES AND NOTES ON ACCOUNTS

18

The Schedules referred to above form an integral part of the Account.

As per our report of even date attached
For S.S.Kothari Mehta & Co.
Chartered Accountants
(Firm Regn No.022150N)

(CA Dinesh K.Abrol)
Partner
M.No.087899

Mohan Singh
Company Secretary

Naresh Bansal
General Manager

Suchita Jain
Director

Sachit Jain
Managing Director

Place : New Delhi
Dated : 27.04.2011

**Schedules 1 to 18 Annexed to and forming part of the Balance Sheet as at 31st March, 2011 and
Profit & Loss Account for the period ended 31st March, 2011**

As at 31.03.2011
(Amount In Rs.)

Schedule 1 — SHARE CAPITAL**Authorised**

3,50,00,000 Equity Shares of Rs.10/- each	<u>350,000,000</u>
	<u>350,000,000</u>

Issued, Subscribed & Paid-up

58,25,000 Equity Shares of Rs.10/- each fully paid up	<u>58,250,000</u>
	<u>58,250,000</u>

Notes:

All of the above fully paid up Equity Shares are held by Vardhman Textiles Limited, the Holding Company

Schedule 2 — RESERVES AND SURPLUS**General Reserve**

Transferred from Transferor Company (Refer Note No 4)	<u>1,389,062,250</u>
---	----------------------

Surplus i.e., Balance as per annexed Profit and Loss Account

<u>69,626,360</u>
<u>1,458,688,610</u>

Schedule 3 - SECURED LOANS

Loans and Advances from Banks	
- Working Capital	<u>258,345,705</u>
	<u>258,345,705</u>

NOTES:

Working Capital Borrowings from Banks are secured by hypothecation of entire present and future tangible current assets of the Company as well as a charge on the entire present and future fixed assets of the company. (Refer Note No. 4)

Schedule 4 - UNSECURED LOANS

Loans and Advances	
-From Fellow Subsidiary Company	<u>320,200,000</u>
Interest accrued on above	<u>10,562,866</u>
Clean Overdraft from Bank	<u>11,359,168</u>
	<u>342,122,034</u>

Note:

Amount due for repayment out of above within one year is Rs. 3,315.59 Lacs

Schedule 5 — FIXED ASSETS

(Amount in Rs)

Sr. No.	Particulars	Gross Block			Depreciation			Net Block				
		As at 01.04.2010	Transferred from Transferor Company	Additions during the year	Sales/ Adjustments	As at 31.03.2011	As at 01.04.2010	Transferred from Transferor Company	For the year	Adjustments	Upto 31.03.2011	As at 31.03.2011
1.	Land	-	13,763,110	-	-	-	-	-	-	-	-	13,763,110
2.	Buildings	-	163,553,786	2,785,561	-	-	75,862,297	1,234,170	-	-	77,096,467	89,242,880
3.	Plant & Machinery	-	633,135,663	11,599,195	-	-	433,827,466	7,809,615	-	-	441,637,081	203,097,777
4.	Furniture & Fixtures	-	7,121,021	122,488	-	-	4,965,575	71,623	722	-	5,036,476	2,207,033
5.	Office Equipments	-	11,053,570	479,454	-	-	7,252,364	199,031	1,799	-	7,449,596	4,083,428
6.	Vehicles	-	4,764,456	5,677,867	-	-	991,124	216,746	-	-	1,207,870	9,234,453
	Total	-	833,391,606	20,664,565	-	-	522,898,826	9,531,185	2,521	532,427,490	321,628,681	

Note : Balances were transferred from Transferor Company on 01.01.2011 as per the Scheme of Arrangement and Demerger as approved by the Hon'ble High Court of Punjab and Haryana. (Refer Note No. 4)

As at
31.03.2011
(Amount In Rs.)

Schedule 6 — CAPITAL WORK IN PROGRESS

Plant and Machinery	1,013,655
	1,013,655

Schedule 7 — INVESTMENTS**CURRENT INVESTMENTS (AT LOWER OF COST AND FAIR VALUE)****OTHER THAN TRADE :
(QUOTED)**

10,000,000 Units of Rs.10/- each of Reliance Fixed Horizon Fund - Series 10 - Growth Plan	100,000,000
10,000,000 Units of Rs.10/- each of Birla Sun Life Fixed Term Plan Series CX - Growth Plan	100,000,000
	200,000,000

Notes:

1. Aggregate amount of quoted investments	200,000,000
2. Aggregate amount of unquoted investments	-
3. Market value of quoted investments	200,294,000

Schedule 8 - CURRENT ASSETS, LOANS AND ADVANCES**(A) CURRENT ASSETS****1. Inventories (Valued at cost or net realisable value whichever is lower as certified by the Company Management)**

Raw Materials	166,191,973
Material in Transit	104,354,433
Finished Goods	624,961,152
Stores and Spares	84,317,808
	979,825,366
Total (A)	979,825,366

2. Sundry Debtors (Unsecured)

(i) Debts outstanding for a period exceeding six months : Considered Good	24,425,869
(ii) Debts outstanding for a period exceeding six months : Considered Doubtful	8,277,701
(iii) Other Debts	872,530,548
Less : Provision for Doubtful Debts	8,277,701
	896,956,417
Total (B)	896,956,417

3. Cash and Bank Balances

(a) Cash Balances	
Cash in hand	1,831,879
	1,831,879
(b) Bank Balances	
With Scheduled Banks:	
(i) in Current Accounts	50,676,315
(ii) Fixed Deposit Accounts	345,000
(including Rs. 20,000/- pledged with Govt. Authorities)	51,021,315
Total (C)	52,853,194

(B) LOANS AND ADVANCES

(Unsecured, considered good unless otherwise stated)

(i) Advances recoverable in cash or in kind or for value to be received	67,082,490
(ii) Balance with Government Authorities	50,844,935
	117,927,425
Total (D)	117,927,425
Total (A+B+C+D)	2,047,562,402



As at
31.03.2011
(Amount In Rs.)

SCHEDULE 9 — CURRENT LIABILITIES AND PROVISIONS**(A) CURRENT LIABILITIES**

Sundry Creditors

- Total outstanding dues to Small Scale Industrial Undertakings -
(Includes Rs. Nil due to Micro, Small & Medium Enterprises)

- Total outstanding dues of creditors other than Small Scale Industrial Undertakings 126,139,195

Trade Deposits & Advances 13,004,652

Other Liabilities 133,795,988

Total (A) 272,939,835

(B) PROVISIONS:

Provision for Current Tax 38,500,000

Less: Prepaid Taxes 35,700,000

2,800,000

Provision for Wealth Tax 40,000

Less: Prepaid Taxes -

40,000

Provision for Leave Encashment 4,320,101

Provision for Gratuity 4,040,408

Total (B) 11,200,509

Total (A+B) 284,140,344

**Current Period
(Amount In Rs)**

SCHEDULE 10 — OTHER INCOME

Interest Received (TDS Rs. Nil) 7,830

Provisions no longer required written back 197,156

Duty Draw Back/DEPB Received 752,998

Provision for Doubtful Debts written back 1,455,696

Miscellaneous 153,171

2,566,851

SCHEDULE 11 — RAW MATERIAL CONSUMED AND PURCHASE OF FINISHED GOODS

Opening Stock -

Add : Transferred from Transferor Company (Refer Note No 4) 105,206,885

Add : Purchases 776,871,770

882,078,655

Less: Closing Stock 166,191,973

Raw Material Consumed 715,886,682

Current Period
(Amount In Rs.)

SCHEDULE 12 — MANUFACTURING EXPENSES

Power and Fuel	145,590,415
Packing Material and Charges	1,757,098
Stores & Spares Consumed	76,250,102
Repairs to Plant and Machinery	10,929,649
Electric Repair	6,215,105
Processing Charges	31,078,853
Miscellaneous	9,159,939
	<u>280,981,161</u>

SCHEDULE 13 — PERSONNEL EXPENSES

Salaries, Wages and Bonus	31,305,981
Contribution to Provident and other Funds	2,733,043
Workmen and Staff Welfare	1,307,987
	<u>35,347,011</u>

SCHEDULE 14 — ADMINISTRATIVE AND OTHER EXPENSES

Rent	206,250
Fees, Rates and Taxes	295,935
Building Repairs and Maintenance	3,423,016
General Repairs and Maintenance	746,388
Insurance	203,660
Legal and Professional	2,097,093
Travelling and Conveyance	910,934
Printing and Stationery	570,189
Communication & ERP expenses	334,230
Vehicle Maintenance	391,072
Auditors Remuneration:	
Audit Fee	75,000
Tax Audit Fee	25,000
Cost Auditors Remuneration:	
Cost Audit Fee	25,000
Managerial Remuneration	534,543
Exchange rate fluctuation (Net)	238,165
Bad debts written off	13,968
Charity and Donation	15,000
Preliminary Expenses Written off	374,285
Miscellaneous Expenses	1,009,592
	<u>11,489,320</u>



Current Period
(Amount In Rs.)

SCHEDULE 15 — INTEREST AND FINANCIAL CHARGES

Interest:

on Inter Corporate Deposits	8,885,514	
on Working Capital	776,015	
Less : Interest Received from Customers, Suppliers & Others (Gross) [TDS Rs 1.08 lac]	<u>1,119,443</u>	8,542,086
Bank & Other charges		<u>1,885,995</u>
		<u>10,428,081</u>

SCHEDULE 16 - SELLING AND DISTRIBUTION EXPENSES

Forwarding Charges and Octroi	30,019,386
Rebate and Discount	9,441,491
Business promotion	7,180
Advertisement	58,000
	<u>39,526,057</u>

**SCHEDULE 17 - (INCREASE)/DECREASE IN WORK- IN-PROCESS
AND FINISHED STOCK**

Opening Stock:	
Finished Goods	-
Add : Transferred from Transferor Company (Refer Note No 4)	
Finished Goods	542,687,012
Less: Closing Stock:	
Finished Goods	<u>624,961,152</u>
	<u>(82,274,140)</u>

SCHEDULE 18 – SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS

Introduction : Vardhman Special Steels Limited ('the Company') was incorporated as a public limited company under the Companies Act, 1956 on 14th May 2010 as a subsidiary of Vardhman Textiles Limited.

1. Significant Accounting Policies:

a) Accounting Convention:

The accounts are prepared on accrual basis under the historical cost convention in accordance with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 and other relevant provisions of the said Act.

b) Revenue Recognition:

i) Sales:

- a) Export sales are converted at negotiated rate, that approximates the actual rate prevailing on the date of the transaction and/or at the forward contract rate, if so applicable. The unnegotiated export sale at the end of the year/period has been recognised at the closing conversion rate.
- b) Domestic Sales (Gross) include excise duty and freight and is recognised on despatch of goods to customers.

ii) Insurance and Other Claims:

The revenue in respect of claims is recognised when no significant uncertainty exists with regard to the amount to be realised and the ultimate collection thereof.

iii) Benefit under Duty Entitlement Pass Book/Duty Drawback Scheme:

Revenue in respect of the above benefits is recognised on post export basis.

c) Retirement Benefits:

- a) **Gratuity:** Provision for gratuity liability to employees is made on the basis of actuarial valuation as per AS-15 issued by Institute of Chartered Accountants of India.
- b) **Leave Encashment:** Provision for leave encashment is made on the basis of leave accrued to the employees during the calendar year and has been determined on actuarial valuation as per AS-15 issued by Institute of Chartered Accountants of India.
- c) **Provident Fund:** Contribution to Provident Fund is made in accordance with the provisions of the Provident Fund Act, 1952 and is treated as revenue expenditure.
- d) **Superannuation:** The liability in respect of eligible employees covered as per Company policy is provided on accrual basis.

d) Fixed Assets:

Fixed Assets are stated at historical cost less depreciation.

e) Depreciation:

- a) Depreciation on Plant & Machinery & Building is charged on Straight Line method. Depreciation on straight line method is calculated on the basis of circular No.1/86 dated 21.5.1986 issued by the Company Law Board i.e. on the basis of rates corresponding to rates (inclusive of multiple shift allowance) applicable under the Income Tax Rules at the time of acquisition/purchase of assets upto 02.04.1987. However, for the assets purchased/acquired after 02.04.1987, depreciation is provided in accordance with the rates prescribed in Schedule XIV to the Companies Act, 1956. In respect of the assets purchased/acquired on or after 16.12.1993, depreciation has been provided in accordance with Notification No. GSR 756(E) dated 16.12.1993 issued by the Department of Company Affairs.
- b) On the remaining assets, depreciation is provided on straight line method in accordance with and in the manner specified in Schedule XIV to the Companies Act, 1956, except in case of computers, on which depreciation has been provided @ 25 % on straight line basis.
- c) Depreciation on assets costing Rs 0.05 lac or below acquired during the year is charged @ 100% on proportionate basis.

f) Inventories:

Inventories are valued at cost or net realisable value, whichever is lower. The cost in respect of various items of inventories is computed as under:

- o In case of raw materials-at weighted average cost plus direct expenses.
- o In case of stores & spares-at weighted average cost plus direct expenses.
- o In case of work in process at raw material cost plus conversion costs depending upon the stage of completion.



- o In case of finished goods-at raw material cost plus conversion cost, packing cost, excise duty and other overheads incurred to bring the goods to their present condition and location.

g) Foreign Currency Conversion/Translation:

- o Foreign currency transactions are recorded on initial recognition at the rate prevailing on the date of the transaction. Where export bills are negotiated with the bank, the export sales are recorded at the rate on the date of negotiation as the said rate approximates the actual rate on the date of transaction.
- o Foreign currency monetary items are reported using the closing rate. Exchange differences arising on the settlement of monetary items or on reporting the same at the closing rate as at the balance sheet date are recognised as income or expense in the period in which they arise.
- o The premium or discount arising at the inception of forward exchange contracts is amortised as an expense or income over the life of the contract.
- o Exchange differences on the aforesaid forward exchange contract are recognised in the statement of profit & loss in the reporting period in which the exchange rates change. Profit or loss arising on cancellation or renewal of such contracts is recognised as income or expense in the period in which such profit or loss arises.

h) Borrowing Costs:

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Other borrowing costs are recognised as expense in the period in which they are incurred.

i) Expenditure incurred during construction period:

In respect of major expansion, the indirect expenses incurred during construction period upto the date of commercial production is capitalised on various categories of fixed assets on proportionate basis.

j) Accounting for Tax on Income:

The accounting treatment followed for taxes on income is to provide for Current Tax and Deferred Tax. Current Tax is the amount of income-tax determined to be payable in respect of taxable income for a period. Deferred Tax is the tax effect of all timing differences.

k) Impairment of Assets:

At each Balance Sheet date, an assessment is made whether any indication exists that an asset has been impaired. If any such indication exists, an impairment loss i.e. the amount by which the carrying amount of an asset exceeds its recoverable amount is provided in the books of accounts.

2. There are contingent liabilities in respect of:

**As at 31.03.2011
(Rs.in lac)**

- | | |
|--|--------|
| a) Bank Guarantees and Letters of Credit outstanding | 820.48 |
| b) Other contingent liabilities | 123.72 |

3. Estimated amount of contracts remaining to be executed is Rs 93.23 Lac.

4. a) The Steel Business Undertaking including 'Vardhman Special Steels' was a part of Vardhman Textiles Limited (VTXL) till 31.12.2010, and consequent to the Order of the Hon'ble High court of Punjab and Haryana dated 12.01.2011, the said undertaking was demerged from Vardhman Textiles Ltd. and got vested in the Company from the Appointed Date i.e. 01.01.2011. As a result, accounting treatment has been given to assets and liabilities of the said Undertaking based on the Scheme of Arrangement and Demerger approved by the Hon'ble High Court.
- b) In accordance with the 'Scheme of Arrangement & Demerger' among Vardhman Textiles Limited (VTXL), Vardhman Special Steels Limited (VSSL) and their respective Shareholders and Creditors, the entire Steel Business Undertaking together with all its properties, assets, rights, benefits and interest therein of VTXL has vested in VSSL w.e.f 1st January, 2011 as per the order of the Hon'ble Punjab and Haryana High Court dated 12.01.2011, received on 11.03.2011. As a result of the above, the following assets, liabilities and reserves of the Steel Business Undertaking of VTXL, as certified by the management, stand vested in VSSL as on 1st January, 2011:

Particulars	As at 31.03.2011 Rs. in Lac
1) Reserves & Surplus	
General Reserve	13,890.62
2) Loan Funds	
i) Working Capital Borrowing from Banks	113.51
ii) Short Term Loans from Subsidiary Company	3,202.00
	3,315.51
3) Deferred Tax Liability	422.55
Total A = (1+2+3)	17,628.68

4) Fixed Assets		
Gross Block	8,333.92	
Less: Depreciation	5,228.99	
Net Block	3,104.93	
Capital Work-in-Progress	-	3,104.93
5) Current Assets,Loans and Advances		
Inventories	8,791.97	
Sundry Debtors	8,044.70	
Cash and Bank Balances	438.11	
Loans & Advances	708.60	17,983.38
6) Less: Current Liabilities & Provisions		2,186.59
7) Net Current Assets = (5-6)		15,796.79
Total B = (4+7)		18,901.72
Balance (B-A)		1,273.04

In consideration of the aforesaid assets, liabilities and reserves being vested in VSSL, VSSL was required to issue 1,27,30,376 equity shares of Rs. 10/- each credited as fully paid-up to the shareholders of VTXL in proportion of 1 share of VSSL for every 5 shares of VTXL held by Shareholders. The said equity shares were to be issued by the Company after the record date, which was fixed as 30.03.2011. Accordingly as on the balance sheet date, the aforesaid number of shares valued at Rs 127,303,760/- have been disclosed as "Equity Share Capital Pending Allotment pursuant to the Scheme of Arrangement and Demerger" in the Balance Sheet in order to comply with the terms of Scheme.

The allotment of share was subsequently completed on 08-04-2011. The company is there after in the process of listing of Shares on the stock exchanges.

5. The Company has contested the additional demand in respect of Excise Duty/Service Tax /Sale Tax amounting to Rs. 88.04 Lac in different cases. The Company has filed an appeal with the Appellate Authorities. No provision has been made in the books of accounts in respect thereof.
6. **Leases:**
The Company has leased facilities under cancellable operating leases arrangements with a lease term ranging from one to five years, which are subject to renewal at mutual consent thereafter. The cancellable arrangements can be terminated by either party after giving due notice. The lease rent expenses recognised during the year amount to Rs. 2.06 lacs.
7. In the opinion of the Board, Current Assets, Loans & Advances have a value in the ordinary course of business at least equal to that stated in the Balance Sheet.
8. Balances of Sundry Debtors and Sundry Creditors are subject to reconciliation and confirmation.
9. Computation of net profit under Section 198 read with Section 349 of the Companies Act,1956, for the purpose of commission payable to the Managing Director:

	Period ended March, 2011
	(Rs.in lac)
Profit before tax	1072.65
Add: Depreciation for the year	95.31
Managing Director's Remuneration	5.35
Less : Depreciation for the year	94.84
Profit for computation of commission	1078.47
Maximum permissible i.e. 5% of profits	53.92
	Period ended March, 2011
	(Rs.in lac)
Remuneration paid/payable to the Managing Director	
Salary, Allowances and Contributions	3.29
Commission	2.06

10. Sundry creditors include amount of Rs. Nil owed to Small Scale Industrial Undertakings, out of which amount outstanding for a period of more than 30 days is Rs. Nil. The Company has not made any delays in settlement of balance due to Small Scale Industrial undertakings and hence no provision for interest on delayed payment is required. Further, there are no outstanding amount payable beyond the agreed period to Micro, Small and Medium Enterprises as on the Balance Sheet date to the extent such enterprises have been identified, based on the information available with the Company.

11. Employee Benefits :

The summarized position of Post-employment benefits and long term employee benefits recognized in the Profit & Loss Account and Balance Sheet as required in accordance with Accounting Standard (AS)-15 are as under:-

(a) Changes in the present value of the obligations :

Particulars	(Rs. in Lac)	
	Leave (Unfunded) Current Period	Gratuity (Funded) Current Period
Present value obligation as at May 14, 2010	-	-
Transferred pursuant to De-merger Scheme (Refer Note No 4)	40.27	172.71
Interest cost	0.60	3.43
Past Service cost	-	-
Current service cost	(1.98)	8.89
Curtailment cost	-	-
Settlement cost	-	-
Benefits Paid	(2.29)	(1.40)
Actuarial (gain)/loss on obligations	(0.56)	40.58
Present value obligation as at March 31, 2011	36.04	224.21

(b) Change in Fair Value of Plan Asset :

Particulars	(Rs. in Lac)	
	Leave (Unfunded) Current Period	Gratuity (Funded) Current Period
Fair value of Plan Assets as at May 14, 2010	-	-
To be transferred pursuant to De-merger scheme (Refer Note 4)	-	177.59
Expected return on Plan Assets	-	5.56
Contributions	-	-
Benefits Paid	-	-
Actuarial gain/(loss) on obligations	-	1.28
Fair value of Plan Assets as at end of the period	-	184.43

(c) Amount recognized in Balance Sheet :

Particulars	(Rs. in Lac)	
	Leave (Unfunded) Current Period	Gratuity (Funded) Current Period
Present value obligation as at March 31, 2011	36.04	224.21
Fair value of Plan Assets as at March 31, 2011	-	184.43
Funded Status	(36.04)	(39.78)
Present value of unfunded obligation as at May 14, 2010	-	-
Unfunded Actuarial (gains)/losses	-	-
Unfunded Net Asset/(Liability) recognised in Balance Sheet.	(36.04)	(39.78)

(d) Expenses Recognized in Profit & Loss :

Particulars	(Rs. in Lac)	
	Leave (Unfunded) Current Period	Gratuity (Funded) Current Period
Current service cost	(1.98)	8.89
Past Service cost	-	-
Interest cost	0.60	3.43
Expected return on Plan Assets	-	(5.56)
Curtailment cost	-	-
Settlement cost	-	-
Net Actuarial (gain)/loss recognised during the period	(0.56)	39.91
Total Expenses recognised in Profit & Loss Account	(1.94)	46.67

(e) Investment details of Fund :

In terms of the Scheme of De-merger as referred in Note No 4, the equitable interest of the employees of the Resultant

company in the Gratuity Fund of De-merged company shall be transferred to the Gratuity fund of the resultant company once the same comes into existence.

(f) Principal actuarial assumption at the Balance Sheet Date (expressed as weighted average) :

Particulars	Leave (Unfunded)	Gratuity (Funded)
	Current Period	Current Period
Discount Rate (per annum)	8.50%	8.50%
Rate of increase in compensation levels (per annum)	7.00%	6.00%
Rate of return on plan assets (per annum)	N.A.	7.00%
Expected Average remaining working lives of employees (years)	22.22	22.22
Method Used	Projected Unit Credit	Projected Unit Credit

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in employee market.

(g) Other short term employees' benefits (Un-Funded) :

Particulars	Short term Leave	Leave Travel Encashment	Ex-Gratia
	Current Period	Current Period	Current Period
Transfer pursuant to De-merger scheme (Refer Note 4)	4.22	6.10	6.43
Closing Liability	7.16	5.23	8.77
Benefits Paid during the period	0.00	1.81	-
Amount debited to P&L Account	2.94	0.94	2.34

(Rs. in Lac)

h) During the period, the Company has recognized an expense of Rs.18.19 lac in respect of Contribution to Provident Fund and Rs.1.20 lac in respect of Contribution to Superannuation Scheme being continued from VTXL. In due course a new Superannuation Scheme shall be got incorporated separately for the company.

12. Segment Reporting :

The Company operates only in one business segment viz. "Steel" which is the reportable segment in accordance with the requirements of Accounting Standard (AS)-17 on Segment Reporting issued by The Institute of Chartered Accountants of India.

13. Related Party Disclosure :

Details of transactions entered into with related parties during the period as required by Accounting Standard (AS)-18 on "Related Party Disclosures" issued by The Institute of Chartered Accountants of India are as under :

Particulars	Holding Company	Fellow Subsidiary Companies	Key Management Personnel (KMP)	Total as on 31.03.2011
	Purchase/Processing of goods	6.20	3.07	-
Purchase of DEPB licences	257.66	-	-	257.66
Interest received	10.80	-	-	10.80
Managerial Remuneration	-	-	5.35	5.35
Loan Given Including opening balance	2,561.00	-	-	2,561.00
Loan Repayment	2,561.00	-	-	2,561.00
Closing Balance of Loan	-	-	-	-
Interest Paid	23.72	65.14	-	88.86
Loan taken including opening balance	8,121.83	3,202.00	-	11,323.83
Loan Repayment	8,121.83	-	-	8,121.83
Closing Balance of Loan	-	3,202.00	-	3,202.00

(Rs. in Lac)

Note :

1. (a) Holding Company Vardhman Textiles Limited
- (b) Fellow Subsidiary Companies
 - VTL Investments Limited
 - Vardhman Yarns & Threads Limited
 - Vardhman Acrylics Limited
 - Vardhman Nisshinbo Garments Company Limited
 - VMT Spinning Company Limited



- | | |
|--|---------------------------|
| 2. Key Management Personnel | Mr. Sachit Jain |
| 3. Enterprises over which Key Management Personnel (KMP) is able to exercise significant influence | Vardhman Holdings Limited |

14. Earnings Per Share :

The calculation of Earnings Per Share (EPS) as disclosed in the Profit & Loss Account has been made in accordance with the requirements of Accounting Standard(AS)-20 on Earnings Per Share issued by the Institute of Chartered Accountants of India.

15. Deferred Tax :

Accounting entries for deferred tax have been passed in accordance with the provisions of Accounting Standard (AS)-22 on 'Accounting for Taxes on Income' issued by the Institute of Chartered Accountants of India.

Deferred Tax Asset/(Liability) (Net) as on 31st March, 2011 is as follows :

(Rs. in Lac)

**As at
31.03.2011**

Difference between Depreciation as per Companies Act,1956 and Income Tax Act, 1961	(475.19)
Less: Deferred Tax Asset arising on account of expenses allowable for tax purposes when paid	61.65
Net Deferred Tax Asset/(Liability)	(413.54)
Deferred Tax Asset/(Liability) provided during the period and charged to Profit & Loss Account	9.01

16. No asset qualifies for impairment for the current period according to AS-28 issued by The Institute of Chartered Accountants of India.

17. Figures in brackets indicate deductions.

18. As this is the first year of the Company, no comparative figures for previous year have been given.

19. Figures have been rounded off to the nearest rupee.

20. The information required by para 3 & 4 of Part II of Schedule VI to the Companies Act, 1956.

(A) CAPACITY	Unit	LICENCED CAPACITY As at 31.03.2011	INSTALLED CAPACITY As at 31.03.2011
1. Billets	MT	N.A.	1,00,000
2. Rolled Products	MT	N.A.	80,400

(Installed capacity has been certified by the management and not verified by the auditors being a technical matter.)

(B) ACTUAL PRODUCTION	Unit	CURRENT PERIOD
Billets	MT	25,292
Rolled Products	MT	24,154*

Note :* Including a quantity of 6,125 MT processed by others on job basis

(C) PURCHASE OF FINISHED GOODS	Unit	QUANTITY	VALUE (Rs.in lac)
Billet	MT	Nil	Nil
Rolled Products	MT	Nil	Nil
(D) SALES			
Billet	MT	15	8.72
Rolled Products	MT	21,241	12,222.84
By Products/Waste	MT	499	144.95
Raw Material	MT	47	11.17
Miscellaneous			67.50
Total			<u>12,455.18</u>
(E) RAW MATERIAL CONSUMED			
Iron and Steel Scrap	MT	29,310	6,037.82
Ferro Alloys			1,121.05
Total			<u>7,158.87</u>

Note: Raw Material Consumed includes sales of Raw Material of 46.81MT and Own Generated Material 2,922.580 MT at Nil Value

(F) STOCK PARTICULARS OF FINISHED GOODS

	Unit	QUANTITY	CURRENT PERIOD
			VALUE Rs. in Lac
Opening Stock:		-	-
Transferred From Transferor Company (Refer Note No.4)			
Billet	MT	7,526	2,604.35
Rolled Products	MT	6,519	2,822.00
Closing Stock:			
Billets	MT	8,307	2,993.45
Rolled Products	MT	7,533	3,256.16

CURRENT PERIOD
(Rs. in Lac)

(G) CIF VALUE OF IMPORTS

Components & Spare Parts	148.61
Capital Goods	27.01
Raw Material	1,762.13
Total	1,937.75

(H) EXPENDITURE IN FOREIGN CURRENCY

Travelling out of India	0.86
Total	0.86

(I) FOB VALUE OF EXPORTS

172.52

CURRENT PERIOD

	Value (Rs.in lac)	%
(J) VALUE OF RAW MATERIALS, COMPONENTS AND SPARE PARTS CONSUMED		
1 Raw Material		
Imported	2076.02	29.00
Indigenous	5082.85	71.00
Total	7158.87	100.00
2 COMPONENTS & SPARE PARTS		
Imported	232.94	16.91
Indigenous	1144.31	83.09
Total	1377.25	100.00

VARDHMAN SPECIAL STEELS LIMITED

Regd. Office: Vardhman Premises, Chandigarh Road, Ludhiana - 141 010



PROXY FORM

I/We.....
of.....
in the Districtbeing a Member/Members
of **Vardhman Special Steels Limited** hereby appoint.....
of.....in the
Districtfailing him/her
.....of.....
.....in the District
as my/our proxy to vote for me/us on my/our behalf at the 1st Annual General Meeting of the Company to be held at Registered Office of the Company situated at Vardhman Premises, Chandigarh Road, Ludhiana, at 12.00 Noon, on Saturday, the 23rd day of July, 2011 and at any adjournment thereof.
Signed this.....day of.....2011.

Affix
Revenue
Stamp here

Signature.....
Address.....
Folio No./Client-ID.....

- NOTES :
1. A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote on poll instead of himself/herself.
 2. The Proxy Form duly signed across Revenue Stamp should reach the Company's Registered Office at least 48 hours before the time of meeting.

(TEAR HERE)

(TEAR HERE)

VARDHMAN SPECIAL STEELS LIMITED

Regd. Office: Vardhman Premises, Chandigarh Road, Ludhiana - 141 010



SUGGESTIONS

In case you have any suggestion for the betterment of your Company, please do write to us.
Suggestion.....
.....
.....
Name.....Folio No./Client-ID.....
Address.....
.....Pin Code

(TEAR HERE)

VARDHMAN SPECIAL STEELS LIMITED

Regd. Office: Vardhman Premises, Chandigarh Road, Ludhiana - 141 010



ATTENDANCE SLIP

I hereby record my presence at the 1st Annual General Meeting of the above named Company being held at Registered Office of the Company situated at Vardhman Premises, Chandigarh Road, Ludhiana, at 12.00 Noon, on Saturday, the 23rd day of July, 2011.

.....
Full Name of the Member
(IN BLOCK LETTERS)
Folio No./ Client-ID No.
.....
Full Name of the Proxy
(IN BLOCK LETTERS)

.....
Signature
No. of Shares held.....
.....
Signature

NOTE: Members attending the meeting in person or by proxy are requested to complete the attendance slip and hand it over at the entrance of the meeting hall.



A scenic view of the Company's unit, Vardhman Special Steels Limited Unit-I, Ludhiana