



AANCHAL ISPAT LIMITED

Build today, for tomorrow...



2014 - 2015
Annual Report









Contents

TOPIC	PAGE
MANAGEMENT DISCUSSION AND ANALYSIS REPORT	01
REPORT ON CORPORATE GOVERNANCE	04
AUDITOR'S CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 52 OF THE SME LISTED COMPANY AS PER BSE SME LISTING AGREEMENT	16
BOARD REPORT	17
COMPANY'S POLICY RELATING TO DIRECTORS APPOINTMENT, PAYMENT OF REMUNERATION AND DISCHARGE OF THEIR DUTIES	21
FORM NO. MGT 9 (ANNEXURE TO BOARD REPORT)	25
INDEPENDENT AUDITOR'S REPORT	38
REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS	39
REPORTS UNDER THE COMPANIES (AUDITOR'S REPORT) ORDER, 2015 (CARO 2015)	40
FINANCIAL STATEMENTS	42
NOTICE TO THE MEMBERS	63

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Structure and Developments

The Indian steel sector enjoys advantages of domestic availability of raw materials and cheap labour. Iron ore is also available in abundant quantities. This provides major cost advantage to the domestic steel industry.

The steel industry reflects the overall economic growth of an economy in the long term as demand for steel is derived from other sectors like automobiles, consumer durables and infrastructure.

While steel continues to have a stronghold in traditional sectors such as construction, housing and ground transportation, special steels are increasingly being used in engineering industries such as power generation, petrochemicals and fertilisers.

The Indian steel industry is very modern with state-of-the-art steel mills. It has always strived for continuous modernisation and up-gradation of older plants and higher energy efficiency levels.

These features of the industry have made India the world's fourth largest producer of steel and the country is poised to move to second position in steel production in the next 10 years.

Government Initiatives

- The Government of India is aiming to scale up steel production in the country to 300 MT by 2025 from 81 MT in 2013-14.
- The Ministry of Steel has announced to invest in modernisation and expansion of steel plants of Steel Authority of India Limited (SAIL) and Rashtriya Ispat Nigam Limited (RINL) in various states to enhance the crude steel production capacity in the current phase from 12.84 MTPA to 21.4 MTPA and from 3 MTPA to 6.3 MTPA respectively.
- The Ministry of Steel is facilitating setting up of an industry driven Steel Research and Technology Mission of India (SRTMI) in association with the public and private sector steel companies to spearhead research and development activities in the iron and steel industry at an initial corpus of Rs 200 crore (US\$ 31.67 million).
- Some of the other recent government initiatives in this sector are as follows:
- An Inter-Ministerial Group (IMG) has been setup in the Ministry of Steel for effective coordination and expediting implementation of various investment projects in the steel sector.
- A Project Monitoring Group (PMG) has been constituted under the Cabinet Secretariat to fast track various clearances/ resolution of issues delaying the investments in the sector.
- To increase domestic value addition and improve iron ore availability for domestic steel industry, duty on export of iron ore has been increased to 30 per cent.
- Rates of Import Duty on Long & Flat steel products have been enhanced from 5 per cent to 7.5 per cent in the Union Budget for 2014-15.

Global Scenario

- In 2014, the world crude steel production reached 1665 million tonnes (mt) and showed a growth of 1% over 2013.
- China remained the world's largest crude steel producer in 2014 (823 mt) followed by Japan (110.7 mt), the USA (88.2 mt) and India (86.5 mt) at the 4th position.
- WSA has projected Indian steel demand to grow by 6.2% in 2015 and by 7.3% in 2016 as compared to global steel use growth of 0.5% and 1.4% respectively. Chinese steel use is projected to decline in both these years by 0.5%.
- Per capita finished steel consumption in 2014 is estimated at 217 kg for world and 510 kg for China by WSA.

Domestic Scenario

- The Indian steel industry has entered into a new development stage from 2007-08, riding high on the resurgent economy and rising demand for steel.
- Rapid rise in production has resulted in India becoming the 3rd largest producer of crude steel in 2015 and the country continues to be the largest producer of sponge iron or DRI in the world.
- As per the report of the Working Group on Steel for the 12th Five Year Plan, there exist many factors which carry the potential of raising the per capita steel consumption in the country. These include among others, an estimated infrastructure investment of nearly a trillion dollars, a projected growth of manufacturing from current 8% to 11-12%, increase in urban population to 600 million by 2030 from the current level of 400 million, emergence of the rural market for steel currently consuming around 10 kg per annum buoyed by projects like Bharat Nirman, Pradhan Mantri Gram Sadak Yojana, Rajiv Gandhi Awaas Yojana among others.
- At the time of its release, the National Steel Policy 2005 had envisaged steel production to reach 110 million tonnes (mt) by 2019-20. However, based on the assessment of the current ongoing projects, both in greenfield and brownfield, the Working Group on Steel for the 12th Five Year Plan has projected that domestic crude steel capacity in the country is likely to be 140 mt by 2016-17 and has the potential to reach 149 mt if all requirements are adequately met.
- The National Steel Policy 2005 is currently being reviewed keeping in mind the rapid developments in the domestic steel industry (both on the supply and demand sides) as well as the stable growth of the Indian economy since the release of the Policy in 2005.

All these measures have led to a rise in confidence among investors, developers and end users which are expected to have a positive impact on the future. It will create a better environment for growth of Iron & Steel Industry, backed by a strong economy and consumer confidence.

Opportunities and Threats

Opportunities for growth of Iron and Steel in Private Sector

The New Industrial Policy Regime

The New Industrial policy opened up the Indian iron and steel industry for private investment by (a) removing it from the list of industries reserved for public sector and (b) exempting it from compulsory licensing. Imports of foreign technology as well as foreign direct investment are now freely permitted up to certain limits under an automatic route. Ministry of Steel plays the role of a facilitator, providing broad directions and assistance to new and existing steel plants, in the liberalized scenario.

The Growth Profile

(i) *Steel* : The liberalization of industrial policy and other initiatives taken by the Government have given a definite impetus for entry, participation and growth of the private sector in the steel industry. While the existing units are being modernized/expanded, a large number of new steel plants have also come up in different parts of the country based on modern, cost effective, state-of-the-art technologies. In the last few years, the rapid and stable growth of the demand side has also prompted domestic entrepreneurs to set up fresh Greenfield projects in different states of the country.

Crude steel capacity was 109.85 mt in 2014-15 and India, which emerged as the 3rd largest producer of crude steel in the world in 2015 as per ranking released by the WSA, has to its credit, the capability to produce a variety of grades and that too, of international quality standards. The country is expected to become the 2nd largest producer of crude steel in the world soon, provided all requirements for creation of fresh capacity are adequately met.

(ii) *Pig Iron*: India is also an important producer of pig iron. Post-liberalization, with setting up several units in the private sector, not only imports have drastically reduced but also India has turned out to be a net exporter of pig iron. The private sector accounted for 91% of total production for sale of pig iron in the country in 2014-15. The production for sale of pig iron has increased from 1.6 mt in 1991-92 to 9.7 mt in 2014-15.

(iii) **Sponge Iron:** India is the world's largest producer of sponge iron with a host of coal based units, located in the mineral-rich states of the country. Over the years, the coal based route has emerged as a key contributor and accounted for 90% of total sponge iron production in the country. Capacity in sponge iron making too has increased over the years and stood at 46.23 mt in 2014-15.

Threat:

Risks and concerns

The process of Risk Management in the Company identifies inherent risks in its operations and records residual risk after taking specific risk mitigation steps. The Company has identified and categorized risks in the area of Operations, Finance and Marketing, Regulatory Compliances and Corporate matters. Wherever possible and necessary, appropriate insurance cover is taken for financial risk mitigation.

On the Financial front, the Company has not borrowed any amount in foreign currency however the foreign exchange fluctuation may affect the prices of raw material and other allied inputs, but at present the Company is not importing its Raw Material or other allied inputs. Such Raw Materials and other allied inputs are abundantly available in the domestic market. Credit Policy of the Company is primarily based on the customer profile. The Management does not perceive any major technological, environmental and/or financial risks for the Company in the near future.

Discussion on financial performance with respect to operation performance and Outlook

Your Company is engaged in Iron & Steel.

The revenue from operations of your Company for the year ended 31st March, 2015 is Rs. 190.74 Crores which was marginally higher than the revenue from operation of the previous year that is, Rs. 190.55 crores. The Profit after Tax stood at Rs. 0.39 Crores which was lower than the Profit after Tax for the previous year, Rs. 0.77 Crores. The reason for decrease in profit is due to Change in depreciation Method (change as per Companies Act, 2013) & Onetime expenses incurred for the listing procedure, as Company has gone for SME listing on BSE on 10th December, 2014 for 80,04,000 equity shares for at a price of Rs. 20 each (Face value Rs.10 plus a share premium of Rs.10).

Internal control systems and their adequacy

Aanchal Ispat Limited has an adequate system of internal control, commensurate with the size and nature of its business to ensure that the resources of the Company are used efficiently and effectively, all assets are safeguarded and protected against loss from unauthorised use or disposition whatsoever and the transactions are authorised, recorded and reported correctly, financial and other data are reliable for preparing financial information and other data and for maintaining accountability of assets. The internal control is supplemented by extensive programme of internal audits, review by management, documented policies, guidelines and procedures. The Audit Committee of the "Board" continuously reviews the significant observations, if any, of the internal and Statutory Auditors on financials

Human Resource and Industrial Relation

Your Company's business is managed by a team of competent and passionate leaders, capable of enhancing your Company's standing in the sector.

Cautionary Statement

The Management Discussion and Analysis Report may contain certain statements that might be considered forward looking. These statements are subject to certain risks and uncertainties. Actual results may differ materially from these expressed in the statement as important factors could influence the Company's operations such as Government policies, local, political and economic development, risk inherent to the Company and such other factors.

REPORT ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Sound Corporate Governance practices are guided by culture, conscience and mindset of an organization and are based on principles of openness, fairness, professionalism, transparency and accountability with an aim to build confidence of its various stakeholders and paving way for its long-term success. Achievement of excellence in good Corporate Governance practices requires continuous efforts and focus on its resources, strengths and strategies towards ensuring fairness and transparency in all its dealings with its stakeholders including society at large.

COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

At Aanchal Ispat Limited, corporate governance has always been a focal point of attention with emphasis on the complete well-being of all constituents. Good corporate governance encompasses law, procedures, practices and implicit rules that determine the management's ability to take sound and informed business decisions vis-à-vis all its stakeholders i.e. shareholders, creditors, employees and the state. The Company's philosophy on corporate governance envisages attainment of the highest level of transparency, accountability, integrity and equity in all facets of its operations and in its interaction with stakeholders.

The Board of Directors of your Company is responsible for and committed to sound principles of Corporate Governance in the Company. The Board plays a pivotal role in overseeing how the management serves the short and long term interests of shareholders and other stakeholders. This belief is reflected in our governance practices, under which we strive to maintain an effective, informed and independent Board. We keep our governance practices under continuous review and benchmark ourselves to the best practices across the globe.

BOARD OF DIRECTORS

Composition of Board of Directors

The Company has an optimum composition of Board of Directors in conformity with Clause 52 of the SME Listing Agreement with the BSE Limited. The Board as on 31st March, 2015 consists of 4 Directors out of which 2 Directors are Independent Directors. The Composition of the Board of Directors as on March 31, 2015 is as under:

Sl. No.	Name	Designation	Category
1	Mr. Mukesh Goel	Managing Director	Executive
2	Mr. Manoj Goel	Director	Non-Executive
3	Mr. Sudhir Kumar Budhia *	Director	Non-Executive Independent
4	Mr. Mukesh Agarwal *	Director	Non-Executive Independent

*Appointed as Independent Director to hold office for a period of 5 (Five) consecutive years from the date of the 19th Annual General Meeting (AGM) held on September 15, 2014, in accordance with the Companies Act, 2013 & the Listing Agreement with Stock Exchanges .

** The Company is in the process of identifying a suitable candidate for the position of the Woman Director in the Company in compliance with the provisions of section 149(1) of the Companies Act 2013 along with rule 3 of The Companies (Appointment and Qualification of Directors) Rule, 2014 and shall comply with the same at the earliest.