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Aanchal Ispat Limited

An ISO 9001:2015 Company

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Annual Report 2017-18

Relicon

Corporate Information

CORPORATE IDENTITY NUMBER: L27106WB1996PLC076866

DIRECTORS

1. **Mr. Mukesh Goel**	Managing Director
2. **Mr. Manoj Goel**	Non-Executive Director
3. **Mr. Mukesh Agarwal**	Independent Director
4. **Mr. Sudhir Kumar Budhia**	Independent Director (Resigned w.e.f August 14, 2018)
5. **Ms. Preetee Agarwal**	Independent Director (Resigned w.e.f. May 30, 2018)
6. **Mr. Vijay Srivastava**	Executive Director (Appointed w.e.f August 14, 2018)
7. **Ms. Nilu Nigania**	Independent Director (Appointed w.e.f August 14, 2018)

SECRETARIAL AUDITOR

Ms. Manisha Saraf
11, Dacres Lane,
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REGISTERED OFFICE

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BANKERS

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COST AUDITOR

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102, Banerjee Para Road,
Kolkata-700041

CHIEF FINANCIAL OFFICER

Mr. A.S Nageswar Rao

COMPANY SECRETARY

Ms. Neha Sharma

REGISTRAR & SHARE TRANSFER AGENT

Purva Sharegistry (India) Pvt. Ltd.
Unit no. 9, Shiv Shakti Ind.Estt.
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Email: busicomp@vsnl.com

STATUTORY AUDITOR

M/s Raj Chandra & Associates
Chartered Accountants
205, Rabindra Sarani
3rd Floor, Room No. 105
Kolkata- 700 007

MANAGEMENT DISCUSSION & ANALYSIS REPORT

GLOBAL IRON & STEEL INDUSTRY OVERVIEW

The World Economic Outlook recently brought out by IMF has predicted a reasonably good growth in global GDP of 3.9% and this would be fuelled by GDP growth of 7.4% in India, 6.6% in China, 2.4% in the EU and 2.9% in the US. Japan, a major steel producer is also likely to experience a GDP growth of 1.2% in the current year. Thus, higher global economic growth which would also require an investment growth of 11% over last year to take the share of investment as a percentage of global GDP to 26% as per IMF estimates would generate substantial steel demand in varying proportions in different countries depending on the primary focus of Fixed Asset Investment as a percentage of GDP.

The vulnerability of these positive outlook, however hinges crucially on what is going to happen in China that not only controls nearly 50% of global steel production, but is also a major exporter (achieved 16% of global exports in 2017) of steel, dominates the iron ore prices (imported 1,075 MT of iron ore in 2017 and would gradually close down the high priced domestic iron ore concentrate producing units). It has also a major influence on global coking coal and coke prices.

As excess steel capacity was found to be the single phenomenon damaging the interests of the global steel producers during 2014-17 in terms of lowering the prices and thereby the profitability of the industry, China, having accounted for nearly 50% of the estimated surplus steel capacity, had to assure the outside world that its commitment to bring down the carbon footprint would entail elimination of some of the polluting units in steel, coal and cement. It had set a target of closing down 150 MT steel capacity during 2016-20. The record so far is good and it is likely that China would overshoot the target by 2020.

The implication for the global steel trade arising out of US actions on steel imports under Section 232 of US Trade Expansion Act, 1962 may not be significant as the US has initiated exclusion action with a number of major trading partners. For China, however, the protectionist move by the US may extend to products other than steel and may include Chinese engineering exports. As the US is keen to improve the productivity of its manufacturing sector for job consideration and creating earning opportunities, it may restrict imports of manufactured products from China. The resultant slowdown in Chinese indirect steel exports would imply that indigenous demand for steel in China must grow by a larger extent to compensate the loss of steel market for making exportable engineering items to the US. The inability of the Chinese domestic market to grow to make up the shortfall may prompt China to enhance steel exports and this action may depress the global prices of HRC and other flat products.

The steel industry has been undergoing a technological revolution, and the trend in building new production capacity has been towards the recycled steel-scrap-using electric arc furnace (EAF) by smaller mills Although integrated steel works where steel is made from iron ore are operating at record levels of efficiency, EAF steel works with production capacities in the order of less than 1 million tonnes a year are becoming more common in the main steel-producing countries of the world.

Thus, apart from these few unpredictable events, the global market for steel in 2018 is poised for a stable growth for steel industry in terms of a reasonable margin and profitability for the industry sufficient to attract more investment for creation of fresh capacities in the product range where indigenous availability remains a constraint to cater to the emerging requirements of the critical sectors in the economy.

INDIAN IRON & STEEL INDUSTRY OVERVIEW

Indian firms are estimated to have churned out a record amount of steel in the year that ended in March, 2018 as the government took steps to protect steel makers, construction activity rebounded and China shut down illegal factories. India produced 86.7 million tonnes (mt) in the nine months to December 2017 from 73.96 mt in the corresponding previous year, according to provisional figures from the steel ministry. Exports rose to 7.6 mt from 4.98 mt in the previous year. India, in fact, has been a net exporter of steel for the past 13 months and has surpassed Japan to be the world's second largest exporter.

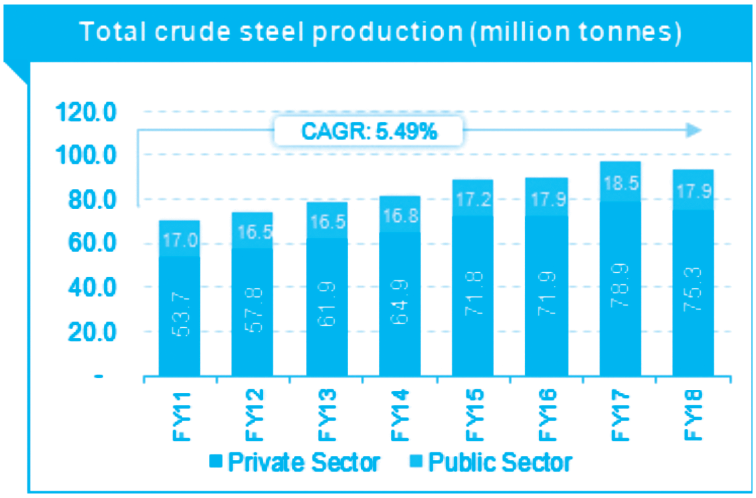
Last year's National Steel Policy that projected crude steel production capacity will increase to 300 mt per year for 2030-31 from 100-120 mt now came on heels of the government introducing a minimum import duty (MIP) on certain steel products, and an anti-dumping duty on products from China and European countries. The duty on Chinese products was later extended to five years.

Across the northern border, the Chinese seem no longer interested in keeping open capital-intensive units that are racking up losses. In 2016 and 2017, it phased out 115 mt of capacity and is aiming to further cut production by 30 mt in 2018. Marginal producers fell afoul of the country's new environmental norms and have been shut down.

Indian steel makers have made the most of this. Domestic demand for steel has bounced back over the past year, growing at 7.6% y-o-y. This growth has been supported by a strong pick-up in infrastructure execution in the past year. JSW Steel, for instance, saw sales of its long products grow 11% y-o-y, the government's Make in India initiative has come out very strongly, the government's preferential procurement definitely has given a fillip and more and more orders are likely in the days ahead with the infrastructure development

Long-steel products are bulky and difficult to ship. So, as local construction activity has increased—especially of highways, bridges and metro lines—contractors have had to depend on locally made long-products to meet demand. Till last year, long steel sold at a discount of 15-17% to flat steel. The gap has since narrowed to 10%.

Long steel includes categories like TMT bars, which goes into construction and infrastructure. Given that the government has set aside Rs 14.3 lakh crore towards infrastructure expenditure, we see this momentum is likely to sustain with steel production growing at over 5% over the next two years.



Government Initiatives

Some of the other recent government initiatives in this sector are as follows:

- Government of India's focus on infrastructure and restarting road projects is aiding the boost in demand for steel. Also, further likely acceleration in rural economy and infrastructure is expected to lead to growth in demand for steel.
- The Union Cabinet, Government of India has approved the National Steel Policy (NSP) 2017, as it seeks to create a globally competitive steel industry in India. NSP 2017 targets 300 million tonnes (MT) steel-making capacity and 160 kgs per capita steel consumption by 2030.
- 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$ 30 million).

OPPORTUNITIES AND THREATS

India has one of the richest reserves of all the raw materials required for the Iron & steel industry, namely land, capital, cheap labour, iron ore, power, coal etc. Indian Iron and steel industry with its strong forward and backward linkages contributes significantly to overall growth and development of the economy. As per official estimates, the industry today directly contributes 2% of India's Gross Domestic Product (GDP) and its weightage in the official index of Industrial Production (IIP) is 6.2 %.

The topmost factor determining the demand is the GDP of the country. The dependency is quite different for an advanced economy or a developing economy. People in country with increasing GDP will spend more on steel based on products, investments etc. Typically the per capita consumption keeps rising as the income level per head increases till it reaches an upper limit of income level. The consumption is somewhere around 120 to 160 kgs per head.

The next factor is the resource availability. The availability of iron ore, coal both in terms of quality and quantity triggers investment towards steel industry. In spite of all modern cheap transport, the transport logistics costs play a major role for steel industry and so when resources are available, building steel plants close to such resources will make the steel production cheaper.

Availability of downstream economy who need steel as input can also cause the need for a booming steel industry. This could be both, manufacturing setups (like India focusing on Made in India) or infrastructure developments.

One critical factor is also the government policies. The government could specifically target to produce iron & steel either to improve employment (as steel is a manpower intensive industry) or on the other side decide not to allow steel production even if all other factors favour it because of other consideration like pollution.

Government Initiatives:

The Government of India initiated several steps to protect the iron & steel industry from the external threats of dumping and uniform trade. Following were the measures taken:

- Bureau of Indian Standards (BIS) -Norms Compulsory BIS norms were laid down for the steel industry and production of steel. The norms were also applied to overseas firms, which are licensed steel exporters to India. This reform was thoughtfully imposed to maintain consistency and improve the quality of steel, to compete with international standards.
- Annulling Classification-The Government removed classification of steelmakers in their projects to avoid any discrimination arising due to classification. Further, it served to provide equal opportunity for all steel manufacturers. Anti-dumping Measures India imposed strict anti-dumping duties on China, the United States and other countries to protect the interests of domestic steel producers. A 'Minimum Import Price' (MIP) was imposed on certain steel imports, which was a key factor in reducing low-priced steel imports to India. The Safeguard duty is another measure by the Government that will eventually replace the MIP.
- Railway Freight Reforms- The Government of India has withdrawn the differential railway freight policy for domestic consumption and exports of iron ore and pellets. This reform will help to bolster iron ore exports. Domestic Finished Steel price trend Domestic prices for both hot rolled coil and plate increased between 15% and 19% since April 2016. They reached peak price in January 2017. However, there has been a downward trend in the last few months. Additionally, price of long steel reached its apex in March and April 2017, thereafter facing a downward trend. Further, prices of TMT and wire rod have increased upto 9% since April 2016.

SEGMENT–WISE OR PRODUCT-WISE PERFORMANCE

Make in India Manufacturing sector is the core driver of economic growth for any country, and the Government has shown strong intent to make India a global manufacturing hub through the 'Make in India' initiative launched in 2014. The initiative aims to build best-in-class manufacturing infrastructure by enabling investments, boosting innovation, encouraging skill development and strengthening intellectual property protection. India is expected to become the fifth largest manufacturing country in the world by the end of year 2020. Our Company also believes in the initiative taken by the Government and has adopted Make in India Policy. The Company has earned its position among the top ten manufacturers of Re-bars and Structural's under the segment of smaller dia size of Re-bars and lower section of structural's. The product we specialize in manufacturing are as under:

Particulars	Size
TMT Re-Bars	8 mm to 25 mm
Structural Re-Bars	35mm*35mm*5 40mm*40mm*75

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company has an adequate internal audit system that promotes reliable financial reporting, safeguards assets, encourages adherence to fair management and ethical conduct. The internal control systems have been designed in a way that they not only prevent fraud and misuse of company's resources but also protect shareholder's interest.

The Company has sufficient and commensurate internal control systems to match the size and the sector it falls under. The Company has well defined and clearly laid out policies, processes and systems. These are strictly and regularly monitored by the top management and any digression or discrepancy is immediately flagged off and corrected. The Company also has a regular internal audit process that is monitored and reviewed by the Audit Committee, which ensures that any deviations from set benchmarks are immediately reported and corrected. The Company regularly keeps upgrading its systems and processes to ensure these are up-to-date and the latest.

FINANCIAL HIGHLIGHTS

(₹ in Lacs)

Particulars	F.Y 2018	F.Y 2017	% Increase
Revenue from Operations	38,451	27,948	37.58%
PAT	131	123	6.65%
PBT	223	202	10.26%
EBITDA	769	717	7.28%
Total Income	38,510	28,047	37.31%

Key Highlights of Iron & Steel Industry

- Infrastructure, oil and gas and automotives would drive the growth of the industry
- Steel production in India is for ecast to double by 2031, with growth rate expected to go above 10 percent in FY 18
- To achieve steel capacity build-up of 300 million tones per annum (MTPA) by 2030, India would need to invest US$ 156.08 billion by 2030-31.
- Ministry of steel plans to setup Steel Research and Technology Mission in India to promote R & D activities in the sector
- As of 2017, India is the world's 3rd largest producer of crude steel (up from 8th in 2003). India's steel production in 2017 stood at 101.4 MT.
- National steel policy (NSP) implemented to encourage the industry to reach global benchmarks.

OUTLOOK

The growth momentum should rise, driven by the Government's policy initiatives in areas such as taxation (GST), foreign direct investment (FDI), and the ease of doing business, among others Other major factors helping India stay as a bright spot in the global economic landscape include the lower global oil price, with positive impact on the country's import bill, a well-regulated monetary policy by the Reserve Bank to stabilize prices, and improving fiscal condition. The Government's endeavor to drive a bigger as well as a cleaner GDP is expected to augur well for the economy in the medium and long terms. The growth recovery has primarily happened due to discretionary spending, public investment and FDI reforms. The introduction of GST and higher outlays in the Budget 2017 are expected to drive growth as well.

Looking at Indian government's focus on rapid infrastructural development across the country by constructing railways, roads, bridges, dams, airports, power plants and many more, construction is now growing at a fast pace.

RISKS AND CHALLENGES

Across the world and in India too, business dynamics are fast changing. With greater digitization, every manufacturing process as well as pre and post manufacturing parameters are being revisited and updated rapidly. Being a producer of components for end-user industries, which are characterized by their unique economic cycles. Your Company has to remain alert to a range of factors that present themselves as risks and could upset the Company's sectoral growth path. Accordingly, wherever possible, your Company seeks to anticipate and pre-empt any foreseeable risk with robust mitigation strategies.

Here are some of the key risks which could emerge and the corresponding mitigation measures: