



Aanchal Ispat Limited

An ISO 9001 : 2015 Company

Annual Report 2018-19

Build today for tomorrow ...









Corporate Information

CORPORATE IDENTITY NUMBER: L27106WB1996PLC076866

DIRECTORS

- | | |
|-----------------------------------|--|
| 1. Mr. Mukesh Goel | Managing Director |
| 2. Mr. Manoj Goel | Non-Executive Director |
| 3. Mr. Vijay Srivastava | Executive Director |
| 4. Mr. Mukesh Agarwal | Independent Director |
| 5. Ms. Nilu Nigania | Independent Director |
| 6. Ms. Babita Kaur Bagga | Independent Director
(Appointed w.e.f. November 14, 2018) |
| 7. Ms. Preetee Agarwal | Independent Director
(Resigned w.e.f. May 30, 2018) |
| 8. Mr. Sudhir Kumar Budhia | Independent Director
(Resigned w.e.f. August 14, 2018) |

SECRETARIAL AUDITOR

Ms. Manisha Saraf
11, Dacres Lane, 1st Floor,
Kolkata- 700069

CHIEF FINANCIAL OFFICER

Mr. A.S Nageswar Rao

COMPANY SECRETARY

Ms. Neha Sharma

REGISTERED OFFICE

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Liluah, Howrah-711114
Tel: 03212246121
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E-Mail: cs@aanchalispac.com

REGISTRAR & SHARE TRANSFER AGENT

Purva Shareregistry (India) Pvt. Ltd.

Unit no. 9, Shiv Shakti Ind.Estt.
J.R. Boricha Marg
Opp. Kasturba Hospital Lane
Lower Parel(E) Mumbai-400 011
Email: busicomp@vsnl.com

BANKERS

The Karur Vysya Bank Ltd
43, Strand Road, Burra bazar
(Off) 9, Ram Sevak Mullick Lane
Kolkata-700001

STATUTORY AUDITOR

M/s Raj Chandra & Associates
Chartered Accountants
9, Weston Street, 2nd Floor, Room No. 224,
Kolkata- 700 013

INTERNAL AUDITOR

R. Modi & Co.
Jogendra Apartment, 1st Floor, Suite-1D,
214 Shyam Nagar Road, Kolkata-700055

COST AUDITOR

A S & Associates
ILA Apartment, 2nd Floor
102-Banerjee Para Road, Kolkata-700041

TOPIC	PAGE
MANAGEMENT DISCUSSION & ANALYSIS REPORT	3
CORPORATE GOVERNANCE REPORT	8
REPORT OF THE BOARD OF DIRECTORS	26
ANNEXURE TO BOARD'S REPORT	31
INDEPENDENT AUDITORS REPORT	50
BALANCE SHEET	58
STATEMENT OF PROFIT AND LOSS	59
CASH FLOW STATEMENT	60
NOTES FORMING PART OF THE FINANCIAL STATEMENTS	61
NOTICE	79

MANAGEMENT DISCUSSION & ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT

After strong growth in 2017 and early 2018, global economic activity slowed notably in the second half of last year, reflecting a confluence of factors affecting major economies. As a result of these developments, global growth is now projected to slow from 3.6 percent in 2018 to 3.3 percent in 2019, before returning to 3.6 percent in 2020. While global growth could surprise favorably if trade differences are resolved quickly so that business confidence rebounds and investor sentiment strengthens further, the balance of risks to the outlook remains on the downside. A further escalation of trade tensions and the associated increases in policy uncertainty could further weaken growth. (International Monetary Fund, April 2019).

World Steel Scenario In 2018

Global Crude Steel production increased by 4.51% to reach 1808.00 million tonnes (MT) compared to 2017. All major steel production regions registered an increase in Crude Steel output, except Japan, Germany, Turkey where output decreased marginally. Asia accounted for 1238.00 MT of Crude Steel production in 2018, up by 5.4% vis-à-vis 2017. China continued to dominate World Crude Steel production with an output of 928.3 MT, at a growth of 6.59% over 2017. In 2017, China increased its share of Global Crude Steel Production to 51.33% compared to 50.34% in 2018. India, which is currently the world's third largest steel producing nation in 2017, increased its annual Crude Steel Output by 4.93% and has reached to Second Largest steel Producing nation by producing 106.5 MT in 2018. Japan produced 104.3 MT of Crude Steel in 2018, a marginal decline by 0.38% compared to 2017. South Korea's Output of Crude Steel stood at 72.5 MT in 2018 at a growth of 2.10%. Crude Steel Production in the US in 2017 stood at 86.6 MT, up by 6.13% over 2017. The EU (28) also saw marginal growth in Crude Steel output by 0.18% to reach 162.50 MT in 2018. World Steel Association forecast that in 2019 and 2020 global steel demand was expected to continue to grow, but growth rates would moderate in tandem with a slowing global economy.

INDIAN IRON & STEEL INDUSTRY OVERVIEW

Industry Profitability Outlook

For Indian steel industry, FY 2018-19 suffered from slowdown in demand from auto sector (particularly in second half), continued steel imports and highly leveraged balance sheets. Going forward, the industry profitability is expected to witness more challenges and risks as follows:

- **High and volatile Coke prices:** Prices of Metallurgical Coke remained consistently high (>USD 320/T) and quite volatile ranging from USD 324/ T to USD 408/T during the financial year 2018-19.

Further, in November, 2016, the Department of Commerce had imposed an anti-dumping duty on Low Ash Metallurgical Coke at 25.2 USD/T and 16.29 USD/T for imports from China and Australia respectively. Such anti-dumping duty coupled with rising global Coke & Coking coal prices has severely affected Indian steel Industry.

- **Chinese overcapacity:** As China shifts towards consumption led economy, Chinese steel industry is being forced to export more and more steel to maintain its capacity utilisation.

It is pertinent to note that even though there were various talks of China reducing its steel capacity, in reality, the Chinese crude steel production has increased by 6.6% in CY 2018.

Given the above scenario, it is becoming more and more important to focus on cost reduction and quality improvement to remain competitive in current market and to maintain margins.

Development of Indian Steel Sector

Indian Economic Environment GDP growth for the year 2018-19 has been estimated at 6.9% at constant market prices as per the provisional estimates of annual national income by the Central Statistics Office (CSO), compared to 6.7% in 2017-18.

The most important and the fastest growing sector of Indian economy are services. Trade, hotels, transport and communication; financing, insurance, real estate and business services and community, social and personal services account for more than 60 percent of GDP. Agriculture, forestry and fishing constitute around 12 percent of the output, but employs more than 50 percent of the labor force. Manufacturing accounts for 15 percent of GDP, construction for another 8 percent and mining, quarrying, electricity, gas and water supply for the remaining 5 percent.

GDP growth rates of Agriculture & allied, Industry, and Services sector are 2.92%, 6.86%, and 7.53% respectively. India has registered highest growth of 8.74% in 'Construction' sector and lowest 1.34% in 'Mining & quarrying' sector. The economic reforms initiated by the Government since 1991 added new dimensions to industrial growth in general and the steel industry in particular. Licensing requirement for capacity creation was abolished, except for certain locational restrictions and the steel industry was removed from the list of industries reserved for the public sector. Automatic approval of foreign equity investment up to 100% was granted. Price and distribution controls were removed with a view to make the

steel industry efficient and competitive. Restrictions on external trade, both in import and export, were removed with drastic reductions in import duty. General policy measures like reduction in import duty on capital goods, convertibility of rupee on trade account, permission to mobilise resources from overseas financial markets among others, also benefited the Indian steel industry.

India's economic growth is contingent upon the growth of the Indian steel industry. Consumption of steel is taken to be an indicator of economic

Key Highlights

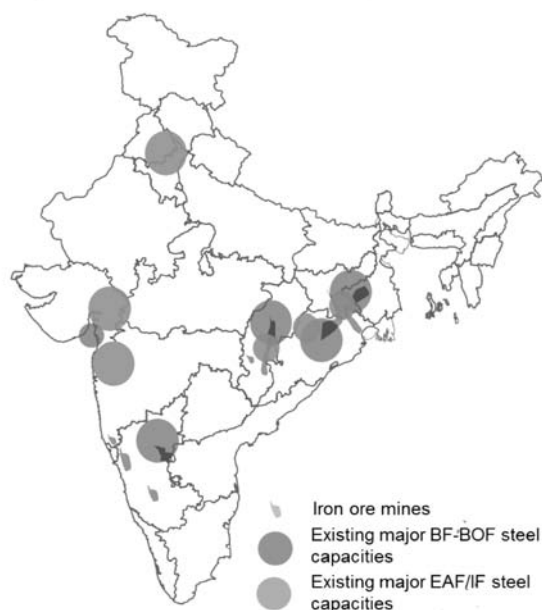
- At global level in 2018, the world crude steel production reached 1789 million tonnes (mt) and showed a growth of 4.94% over 2017.
- China remained world's largest crude steel producer in 2018 (928 mt) followed by India (106 mt), Japan (104 mt) and the USA (87 mt).
- Per capita finished steel consumption in 2017 is placed at 212 kg for world and 523 kg for China and for India it was 69 kg as published by World Steel Association.
- India is the largest producer of sponge iron in the world and the 2nd largest finished steel consumer in the world after China .
- The Government has taken various steps to boost the sector including the introduction of National Steel Policy 2017 and allowing 100 per cent Foreign Direct Investment (FDI) in the steel sector under the automatic route.
- The growth in the Indian steel sector has been driven by domestic availability of raw materials such as iron ore and cost-effective labour. Consequently, the steel sector has been a major contributor to India's manufacturing output.

development. 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 fertilizers. India occupies a central position on the global steel map, with the establishment of new state-of-the-art steel mills, acquisition of global scale capacities by players, continuous modernization and up gradation of older plants, improving energy efficiency and backward integration into global raw material sources.

Steel industry derives its demand from other important sectors like infrastructure, aviation, engineering, construction, automobile, pipes and tubes etc. With the Indian economy poised for its next wave of growth under the reforms being unleashed in the last one year, there lies tremendous opportunity for the Indian steel industry to prosper and grow exponentially.

The Indian steel industry is largely iron-based through the blast furnace (BF) or the direct reduced iron (DRI) route. Indian steel industry is highly consolidated. About 50% of the crude steel capacity is resident with integrated steel producers (ISP). But the changing ratio of hot metal to crude steel production indicates toward the increasing presence of secondary steel producers in the eco-system.

Figure 1: Current steel footprint in India



Source: Ministry of Steel, JPC

Initiatives taken by the Company

The Company is in continuous pursuit of creating more value for all its stakeholders. The Company's various functional teams have taken some initiatives to not only strengthen its profitability in near future but also gain medium to long-term competitive advantage over its peers.

OPPORTUNITIES AND THREATS

Opportunities:

- India was a net exporter of total finished steel. Growth in exports ensures greater access to far out markets.
- Intention of Government to increase funding in infrastructure, affordable housing (Prime Minister Awas Yojana), strengthening of Real Estate norms through 'Real Estate (Regulation and Development) Act, 2016' etc. will generate positive demand for steel.
- In line with Central Government's announcement of various road/rail infrastructure projects, the market for local manufacturers is expected to improve.
- India's steel production is increased to 106.15 MT in year 2018 to 128.6 MT by 2021.
- The Government has taken various steps to boost the sector including the introduction of National Steel Policy 2017 and allowing 100 per cent Foreign Direct Investment (FDI) in the steel sector under the automatic route. Between April 2000 and December 2018, inflow of US\$ 11.18 billion has been witnessed in the metallurgical industries as Foreign Direct Investment (FDI).
- India's per capita consumption of steel grew to 68.9 kgs, during 2017-18. National Steel Policy 2017 aims to increase the per capita steel consumption to 160 kgs by 2030-31.

Threats:

- Improper supply-demand balance
- Depletion of high quality raw materials required for production of steel.
- Environmental concerns.
- Dumping of excess inventory in other countries by countries producing steel in abundance.
- The glut in the global steel market, which led to an influx of cheap imports into India and a series of steps by the government to protect the domestic steel industry, might not end anytime soon. In what indicates that threats of low-priced imports are here to stay, the world capacity utilization ratio of the alloy climbed upwards in the current year. So only structural reforms that will help cut costs and improve productivity could enable the domestic steelmakers to acquire competitiveness in the domestic and global markets. Rising cost of raw material, fuel, power prices coupled with unforeseen general macro economic factors may affect the industry adversely.

SEGMENT WISE OR PRODUCT WISE PERFORMANCE

The Company has no other segments apart from steel business, details of which have been included in the financial performance. Hence, no separate details on segment wise or product wise performance are being reported.

OUTLOOK

Analysts are upbeat over the expected above normal monsoon and higher GDP growth. The slow pace of public and private sector projects is expected to improve with the Government of India's thrust on infrastructure projects. Further, 'Make in India' initiative has got a boost by a slew of measures aimed at improving the ease of doing business in the Country. Small and medium industry a major employment generator for the economy has been liberated to participate in the Nation's development in accordance with its potential. Bold measures by the Government such as improved targeting of subsidy, broadening of the tax base and expected buoyancy in tax revenue are all aimed at achieving the fiscal consolidation which had been an area of concern in the recent past.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company employs an adequate and effective system of internal control commensurate with its size and nature of business that provides for assurance of the efficiency of operations, security of Company's assets, accurate and prompt recording of transactions, efficient Management Information Systems and compliance with prevalent statutes, accounting standards.

The internal control is supplemented by an extensive review by internal auditors. The prime objective of internal audit is to test the adequacy and effectiveness of the internal controls laid down by the management and to suggest improvements.

Observations of the internal auditors are subject to periodic review and compliance monitoring. The Audit Committee of Directors reviews the significant observations made by internal auditors along with status of action thereon.

RISKS & CONCERNS

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

Sr.No.	Type	Impact	Mitigation Strategies
1.	Macroeconomic Risk	<ul style="list-style-type: none"> • Overcapacity and oversupply in global steel industry may affect steel prices. • Newer developments in competitive global business. • Cheaper imports and raw material deficiencies may lead to low capacity utilization despite of the ability of Indian steel sector to work at full capacity level. 	<ul style="list-style-type: none"> • Diversification of product portfolio. • Development of alternate techniques to ensure better capacity utilization.
2.	Operational Risk	<ul style="list-style-type: none"> • Risk of limitation or disruption in the supply of raw materials. 	<ul style="list-style-type: none"> • Establishing sources of supplies from alternate geographies.
3.	Market Related Risk	<ul style="list-style-type: none"> • Excess volatility in steel and raw material markets may affect financial condition. • Competition from substitute materials may lead to change in demand pattern. 	<ul style="list-style-type: none"> • Enhanced product development and focus on value addition.
4.	Environmental Risk	<ul style="list-style-type: none"> • Share of iron and steel industry in CO2 emissions is around 7%. • Stringent international and domestic regulations relating to climate control. 	<ul style="list-style-type: none"> • Innovation in products and methods to ensure sustainable development. • Investment in environmental related projects.
5.	Regulatory Risk	<ul style="list-style-type: none"> • Non-compliance to increasing stringent regulatory norms. • Removal of favorable trade measures. 	<ul style="list-style-type: none"> • Focus on compliance and fulfilling regulatory requirements.

FINANCIAL PERFORMANCE

The Company had prepared its financial statements based on Indian Accounting Standard (Ind AS). The financial statements were prepared under the historical cost convention on an accrual basis. Figures of the previous years were reclassified/ regrouped to confirm the presentation requirements under Ind AS and the requirements laid down under Schedule III of the Companies Act, 2013

The Company's revenues in FY 2018-19 following was 35,367.83 Lakhs. EBITDA stood at Rs. 1,070.23 lakhs compared to Rs. 769.24 lakhs in the previous year. The Company reported a post-tax profit of Rs. 279.94 Lakhs in FY 2018-19 compare to a post-tax profit of Rs. 132.72 Lakhs in the previous year.