

Ankit Metal and Power Limited | Annual Report- 2007-08

Forward-looking statement

In this annual report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make/contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realized, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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540

What India expects to invest
in infrastructure (US\$/billion)
over the next five years.

210

What various industries
expect to invest in capital
expenditure (US\$/billion)
over the next five years.

1,090

What Ankit expects to invest
in its business over the next
three years (Rs./crore).

2

Why are we making a really sizeable investment in our capacities and facilities?

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report

Because India's infrastructure sector, the country's biggest steel user, will invest Rs. 20,017.76 billion (at 2006-07 prices) across the Eleventh Plan. And the market for long products, accounting for 60% of the country's total steel demand, is also expected to increase significantly.

Ankit Metal and Power Ltd. enjoys an extensive presence in the country's steel value chain.

Our background

- The Company was promoted by Suresh Kumar Patni as a private limited company in August, 2002
- The status of the Company was changed from private limited to public limited in August, 2004
- It went public through an IPO in July 2007

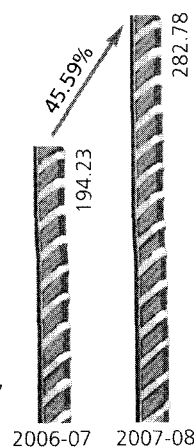
Our presence

- Its registered and corporate offices are located in Kolkata, West Bengal
- Its manufacturing facilities are located at Jorehira, P.S. Chhatna, Bankura District, West Bengal
- Its shares are listed and traded on the Bombay Stock Exchange (BSE)

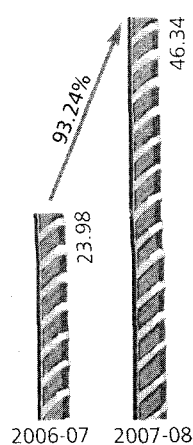


Our performance

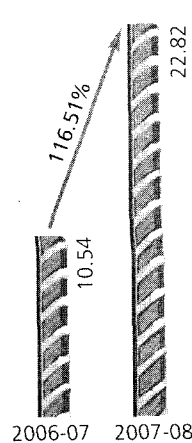
Net sales (Rs. in crores)



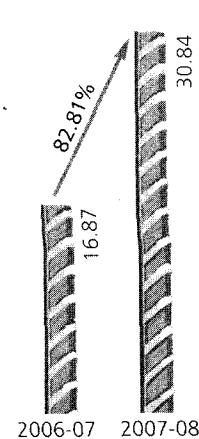
EBIDTA (Rs. in crores)



PAT (Rs. in crores)



Cash profit (Rs. in crores)



From the manufacture of sponge iron at one end to the manufacture of finished rolled products at the other.

Our product lines

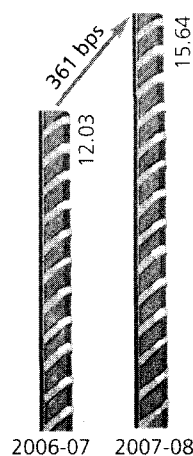
■ We possess the capacity to manufacture sponge iron (105,000 TPA), billets (65,140 TPA), rolled products (100,000 TPA) and to generate 12.5 MW power

■ We enhanced exports from Rs. 12.33 crore in 2006-07 to Rs. 23.16 crore in 2007-08.

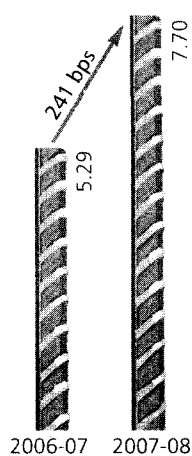
Total quantity exported was 10,128 MT compared with 6,858 MT in 2006-07



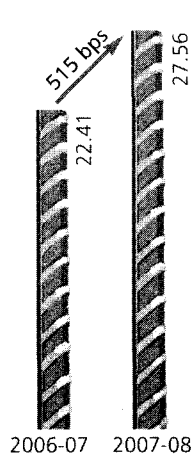
EBITDA margin (%)



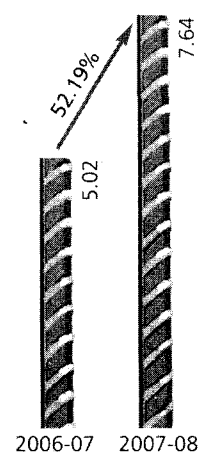
Net profit margin (%)



RONW (%)



EPS (Rs.)



Managing Director's review



What the Company expects to generate in turnover (Rs./crore) in 2011-12.

Ankit Patni, *Managing Director*, reviews the Company's performance in 2007-08 and looks ahead.

Were you happy with the performance of the Company during 2007-08?

We were pleased with our performance. This was largely a result of the industry buoyancy. With steel demand outpacing supply, realisations strengthened significantly. We capitalised on the situation through an effective double-play – we enhanced our steel production by 33.72% and reported an average 9.29% increase in our realisations. The result was that we increased our topline and bottomline significantly by 46.70% and 116.51% to Rs. 307.97 crore and Rs. 22.82 crore respectively in 2007-08. I must point out at the very outset that our performance would have been better had it not been for the delay in commissioning of our re-rolling mill and captive power plant, following the delay in the supply of critical equipment.

To what extent can the Company take credit for the performance?

I am glad that this question has been raised. Most analysts see only the realisation side of the business and conclude that the rise in water level raised the level of all ships in a significant

way. This did not happen equally and generally for some important reasons: there was a sharp increase in costs during the year under review, which eroded the margins of a number of standalone manufacturers; there was a general increase in competition, which made it imperative to invest in product and process quality. As a result, manufacturers with low capacity, inadequate integration and average product quality failed to generate the cash flows commensurate with the industry opportunity and will, going ahead, find it difficult to create the right balance sheet size to take their business forward. It is in this context that our performance must be appraised. We did well to capitalise most effectively on the industry opportunity, maximising our cash flow and creating a foundation for sustainable growth.

What were the specific initiatives that strengthened the Company's performance?

The general explanation is that this improvement was a reflection of a general increase in industry realisations. While I concede that this is partly true, the other side of the story is that we enhanced our capacity, generated attractive

economies of scale, strengthened our product mix, reduced our production cost and strengthened our integration. The cumulative impact of these initiatives translated into an increase in our EBIDTA margin from 12.03% in 2006-07 to 15.64% in 2007-08.

In what other ways did the Company strengthen its competitive edge?

In the business of steel manufacture, the role of a captive power source cannot be underestimated for various reasons. One, a captive source of low-cost power translates into a distinctive competitive edge. Two, the continued availability of power makes it possible to circumvent production interruptions. Three, the availability of quality power helps stabilise product quality. Four, a captive power plant provides attractive depreciation buffers that make it possible to accelerate payback and invest in a bigger facility. Five, the profitable use of waste materials – charcoal and waste heat – provides additional benefits in terms of profitability and waste management. Six, an experience in power generation can be profitably monetised in today's environment through the commissioning of larger power plants that can engage in merchant sale or captive consumption. It is with this perspective that the Company commissioned captive power plants (8.5 MW and 4 MW) in January 2008 and June 2008 respectively.

What were the major challenges faced by the Company?

Let me segregate the answer into in-plant and out-plant challenges and start with the former:

Scarcity of critical raw material: There was a growing shortage of quality iron ore on the one hand and a sharp appreciation in ore prices in 2007-08, on the other. We responded to this reality through the prudent leverage of our intellectual capital: we worked successfully with relatively economic ore varieties, without corresponding quality or productivity compromises. The result is that we maintained the ore feed, sustained our DRI production at a capacity utilisation of 53% and increased DRI production by 22% over the previous year's.

Entry into a new product segment: We launched TMT bars under the brand 'Ankit TMT' and promoted the brand by signing film star Mithun Chakraborty as our brand ambassador. The impact of this product launch will be reflected in 2008-09.

What is the outlook for 2008-09?

Our fear is that raw material costs will continue to redefine the base prices of steel with short-term corrections. Besides, the challenge for any steel company will be to secure raw materials. A reduction in the basic customs duty on pig iron and mild steel products from 5% to zero on the one hand, and the imposition of 15% export tax on specified steel products on the other, could soften domestic steel prices. Considering that we will buy 40,000 tonnes of billets for onward re-rolling into TMT bars, any correction in billet costs will strengthen our margins.

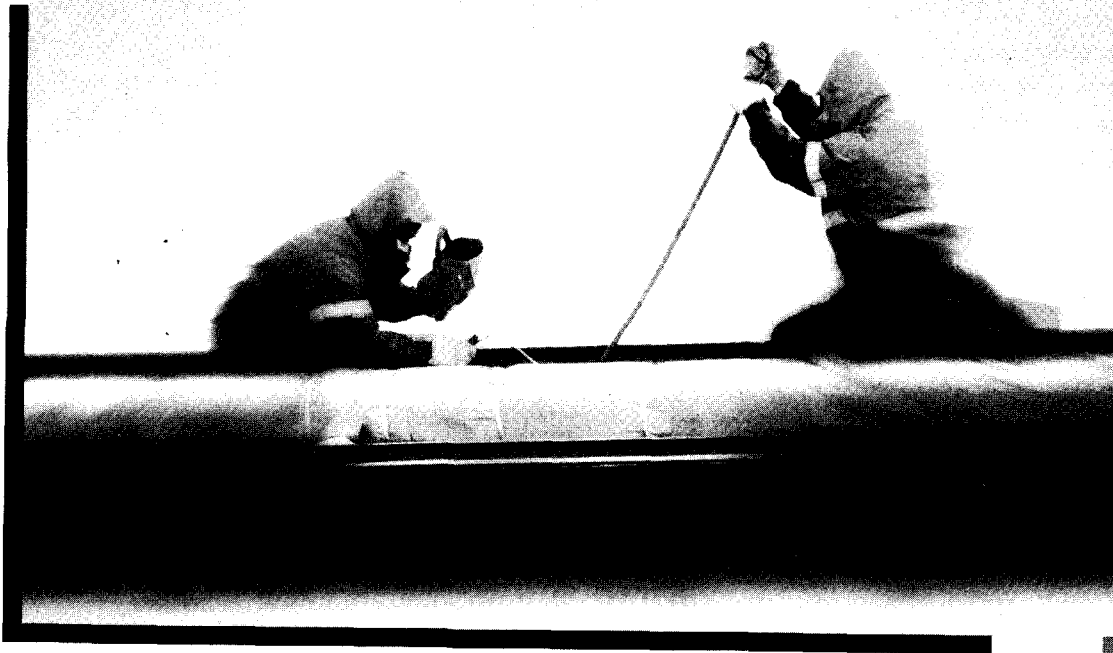
How does the Company expect to enhance shareholder value?

Any question on shareholder value must necessarily come down to business model and strategy. At Ankit Metal, I am optimistic about our prospects as we possess a large product basket, an integrated business model, value-added focus, high operational efficiency and a wide geographic presence. This will ensure attractive incomes during market upturns and limited downsides during industry downturns. We expect the above strategies to translate into a revenue growth of 45% and an EBIDTA growth of 6% in 2008-09.

We intend to take this industry edge ahead: we expect to invest Rs. 1,090 crore across the next three years in our business. This will enable us to ramp up our installed steel-making capacity from 0.10 million TPA to 0.50 million TPA including TMT bars, wire rods and structural items and power-generation capacity from 12.5 MW to 70 MW apart from the intermediary products such as 0.60 million TPA pellets and 0.40 million TPA pig iron. As a result, we expect to generate a topline of Rs. 1,500 crore by 2011-12.

One last question. Shareholders may be concerned about how the Company will fund such a large expansion.

At Ankit, we are particularly aware of the need to size the project appropriately, structure the financing without an excess dependence on external funds and raise funds at the lowest possible cost. Our Rs. 1,090-crore project cost will be funded through external debt, equity and internal accruals. We are already negotiating with financial institutions to mobilise low-cost, long-term debt and feel that our net worth requirements can be suitably funded through structured financing.



Value-addition

ONE OF THE PRINCIPAL OBJECTIVES OF OUR PROPOSED EXPANSION IS TO GRADUATE BEYOND THE COMMODITY END OF STEEL PRODUCTS TOWARDS NICHE AND VALUE-ADDED PRODUCTS.

For instance, semi-finished steel products (billets) fetched an average net realisation of Rs. 19,855 per tonne, whereas finished steel products (TMT bars) fetched average net realisations of Rs. 27,588 per tonne in financial year 2007-08.

As a value-focused organisation, we extended from the manufacture of billets to TMT bars following the commissioning of our 0.10 million TPA rolling facility in West Bengal. This extension strengthened the Company's average realisation per tonne from Rs. 20,594 in 2006-07 to Rs. 26,072 in 2007-08.

Greenfield projects in the pipeline

- The Company is commissioning a 15 MT induction furnace with a continuous casting mill to manufacture 0.05 million TPA large-diameter billets for onward rolling into finished products
- The Company is commissioning a 5.5-MVA submerged arc furnace to manufacture 0.01 million TPA high-carbon ferro manganese

- The Company is investing to expand its steel manufacturing capacity from 0.10 million TPA to 0.50 million TPA which will include production of TMT bars, wire rods and structural items
- The Company is investing to install the 0.60 million TPA pelletisation plant and 325 cu. meters blast furnace with sinterisation
- The Company is investing in the expansion of its power generation capacity from 12.5 MW to 70 MW including an 8 MW WHRB and a 50 MW CFBC power plant that will reduce the cost of power and fuel

Way ahead

The Company expects to emerge as a large-sized steel player in eastern India, enjoying larger revenues and enhanced realisations through the increased production of value-added products over the coming years.