

9th

ANNUAL REPORT 2011-2012

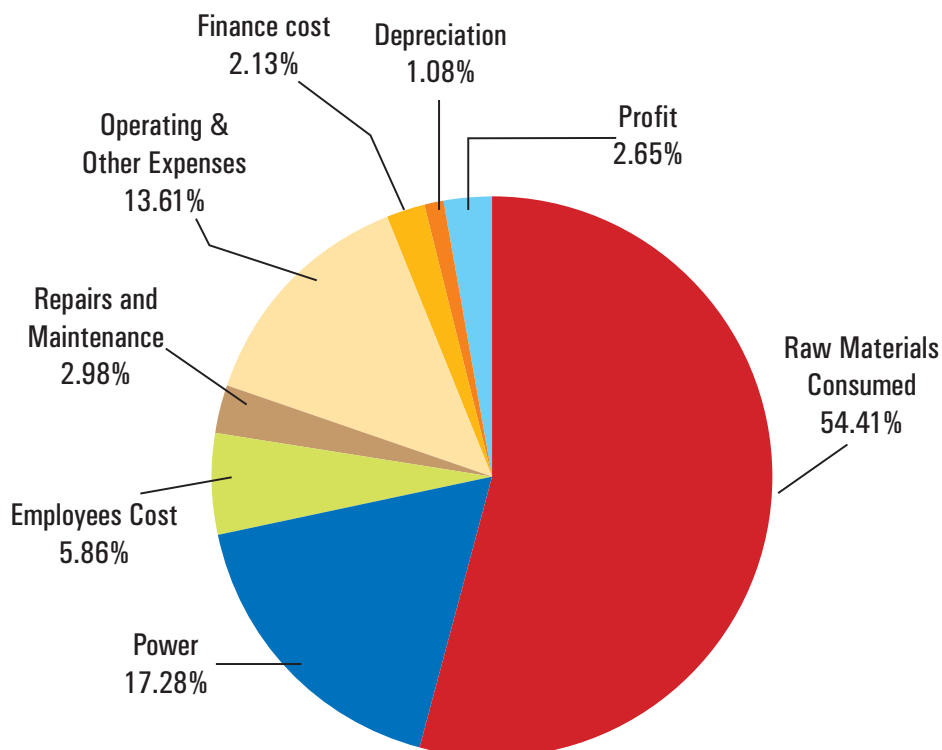


FACOR ALLOYS LIMITED

HIGHLIGHTS - 2011-12

PARTICULARS	In ₹ Lacs		In \$ ('000)	
	2011-12	2010-11	2011-12	2010-11
Total Production (in MT)	64000	71325	–	–
Total Turnover (in MT)	64384	70910	–	–
Total Turnover	36743.90	38858.95	71826	87030
Profit before Finance Cost,Tax and Depreciation	2247.28	5413.70	4393	12125
Profit after Tax	671.38	3311.78	1312	7417
Exchange Rate ₹ 51.1565 for March, 2012				

DISTRIBUTION OF REVENUE



CORPORATE INFORMATION**Board of Directors**

R.K. Saraf
Chairman & Managing Director

M.D. Saraf
Vice Chairman

Yogesh Saraf
Joint Managing Director

Ashim Saraf
Joint Managing Director

C.N. Harman
Director (Technical)

K. Jayabharath Reddy

P.V.R.K. Prasad

K.L. Mehrotra

A. S. Kapre

Gautam Khaitan

Vibhu Bakhru (w.e.f. 20.03.2012)

Arye Berest

S.S. Sharma
General Manager (Legal) &
Company Secretary

Executives

M.S.S. Sarma
Chief Executive

Dinesh Sardana
Chief Financial Officer

O.P. Saraswat
Dy. Chief Financial Officer

D.K. Pareek
Director (Projects)

Bankers

Bank of India
Central Bank of India
State Bank of India
Syndicate Bank
State Bank of Bikaner & Jaipur
Indian Overseas Bank

Solicitors

Mulla & Mulla and Craige Blunt & Caroe
Bhaishankar Kanga and Girdharilal

Auditors

Salve & Company
Chartered Accountants

Internal Auditors

Rao & Kumar
Chartered Accountants

Registrar & Share Transfer Agent
(for Both Physical & Electronic)

Link Intime India Pvt. Ltd.

C-13 Pannalal Silk Mills
Compound, LBS Road,
Bhandup (W),
MUMBAI – 400 078
Phone No. 022-2594 6970
Fax No. 022-2594 2969
E-mail: rnt.helpdesk@linkintime.co.in

Contents :

Corporate Information and Index	1	Auditors' Report to Members	18
Notice to Members	2	Balance Sheet, Statement of Profit & Loss & Notes.....	21
Directors' Report	4	Consolidated Auditors' Report, Balance Sheet, Statement of Profit & Loss & Notes	36
Management Discussions and Analysis.....	8	Principal Addresses of the Company.....	50
Corporate Governance Report	9	Proxy Form	

NOTICE

Notice is hereby given that the **NINTH ANNUAL GENERAL MEETING** of the Members of the Company will be held at the **Registered Office** of the Company at **"Administrative Building, Shreeramnagar-535101, Garividi, Distt. Vizianagaram, Andhra Pradesh"** on **TUESDAY, the 18th September, 2012 at 3.00 p.m.** to transact, with or without modifications as may be permissible, the following business:

Ordinary Business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2012 and Statement of Profit & Loss for the year ended on that date and the Reports of the Board of Directors and the Auditors thereon.
2. To appoint a Director in the place of Mr. K Jayabharath Reddy who retires from office by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Mr. A S Kapre who retires from office by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Mr. Arye Berest who retires from office by rotation and, being eligible, offers himself for re-appointment.
5. To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:

"RESOLVED THAT pursuant to provisions of section 224 and other applicable provisions, if any, of the Companies Act, 1956, Messrs Salve & Company, Chartered Accountants, the retiring Auditors of the Company, be and they are hereby re-appointed Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration plus service tax as applicable and reimbursement of expenses incurred by them incidental to their functions as the Board of Directors may fix in that behalf in consultation with the said Auditors."

As Special Business :

6. To appoint Mr. Vibhu Bakhru who was appointed as an Additional Director by the Board of Directors of the Company under Article 107 of the Articles of Association of the Company and who holds office under the said Article and Section 260 of the Companies Act, 1956 upto the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing pursuant to the provisions of Section 257 of the Companies Act, 1956 alongwith a deposit of Rs 500/- from a member signifying his intention to propose Mr. Vibhu Bakhru as a candidate for the office of Director, as a Director of the Company and in that behalf to consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:

"RESOLVED THAT pursuant to the relevant provisions of the Companies Act, 1956 including Section 257, Mr. Vibhu Bakhru be and is hereby elected and appointed as a Director of the Company liable to retire by rotation."

7. To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution :

"RESOLVED that in partial modification of the Ordinary Resolution No. 17 passed by the members of the Company at the 1st Annual General Meeting held on 27th October, 2004 and pursuant to Section 293 (1) (d) and other applicable provisions, if any, of the Companies Act, 1956 approval be and is hereby accorded to the Board of Directors borrowing moneys for and on behalf of the Company, from time to time, as they may consider fit, in any manner and without prejudice to the generality thereof, by way of loans, advances, credits, acceptance of deposits, or otherwise, from any Bank or Banks or any Financial Institutions, or other person or persons and whether the same be unsecured or secured, and, if secured, whether by way of mortgage, charge, hypothecation, pledge or otherwise in any way whatsoever, over all or any of the Company's assets, effects and properties, including uncalled capital, stock in trade (including raw materials, stores, spare parts and components in stock or in transit) notwithstanding that the moneys so borrowed, together with the moneys, if any, already borrowed, by the Company (apart from the temporary loans obtained from the Company's bankers in the ordinary course of business) may exceed the aggregate of the paid up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided that the sum or sums so borrowed and remaining outstanding at any one time on account of principal shall not exceed in the aggregate Rupees Six Hundred Crores".

NOTES:

1. The relevant explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of Item Nos. 6 & 7 of the notice set out above is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
3. PROXIES IN ORDER TO BE EFFECTIVE MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY AT SHREERAMNAGAR-535101, GARIVIDI, DIST. VIZIANAGARAM (A.P) NOT LESS THAN 48 HOURS BEFORE HOLDING THE MEETING.
4. The Register of Members and Share Transfer Books of the Company will remain closed from Friday the 14th September, 2012 to Tuesday, the 18th September, 2012, both days inclusive.

5. Pursuant to Section 205C of the Companies Act, 1956, unclaimed dividend is to be transferred to the "Investor Education and Protection Fund" of the Central Government after a period of 7 years from the date of transfer to unpaid dividend A/c. Shareholders who have not en-cashed/misplaced/not received the dividend warrant for the years 2008-09 (interim), 2009-10 & 2010-11 are requested to write to M/s.Link Intime India Pvt.Ltd., (Unit: Facor Alloys Ltd.) C-13, Pannalal Silk Mills Compound, LBS Road, Bhandup (W) Mumbai 400 078, Maharashtra for claiming the dividend. Due dates for the transfer of the unclaimed dividend of the year 2008-09, 2009-10 & 2010-11 to the said fund is 3rd September, 2015, 24th October, 2017 & 15th October, 2018 respectively and shareholders cannot make a claim after these dates.
6. Members are requested to notify immediately any change in their address/bank mandate to their respective Depository Participants (DPs) in respect of their electronic share accounts and to the Registrar and Share Transfer Agent of the Company viz., Link Intime India Pvt. Limited,(Unit: Facor Alloys Ltd.) C-13, Pannalal Silk Mills Compound, LBS Road, Bhandup (W) Mumbai 400 078, Maharashtra in respect of their physical share holding, if any. While intimating change of address to Depositories and Registrar and Share Transfer Agents please indicate your client ID No. / Folio No., as may be applicable. The address should be complete with Pin Code No.
7. Members holding shares in physical form and desirous of making a nomination in respect of their shareholding in the Company are requested to submit Form No.2B duly filled in and signed to the above Registrar & Transfer Agent. The Form can be had from the Share Department at the Registered Office of the Company at Shreeramnagar-535101 Distt. Vizianagaram, Andhra Pradesh.
8. Shareholders intending to require information about accounts to be explained at the meeting are requested to furnish the queries to the Company at least 10 (ten) days in advance of the Annual General Meeting.
9. Members are requested to bring their copy of the Annual Report with them to the Annual General Meeting.
10. As required by the Listing Agreement with the Stock Exchange, the relevant details in respect of the Directors proposed to be appointed/re-appointed are set out in the Report on Corporate Governance forming part of the Annual Report.
11. The Company's securities are admitted in the National Securities Depository Ltd. and Central Depository Services Ltd. and the ISIN No. allotted to the Company by them in respect of Equity Shares is INE 828G01013.
12. Non-resident Indian Members holding shares in physical form are requested to inform the Registrar and Transfer Agent of the Company about:
 - a) The change in their residential status on return to India for permanent settlement.
 - b) The details of the bank account in India with complete name, branch, account type, account no. and address of the bank.
13. All documents referred-to in the accompanying notice are open for inspection at the Registered Office of the Company on all working days between 11.00 a.m. and 1.00 p.m. up to the date of Annual General Meeting.

Registered Office:

Administrative Building,
Shreeramnagar-535 101,
Garividi, Dist. Vizianagaram,
Andhra Pradesh

By Order of the Board,

S.S. Sharma
General Manager (Legal)
& Company Secretary

Dated: 28th July, 2012

ANNEXURE TO THE NOTICE**Explanatory Statement as required by Section 173 of the Companies Act, 1956 :****ITEM NO.6**

Mr. Vibhu Bakhru was appointed as a Director by the Board of Directors of the Company by Circular Resolution No. FAL/CR/1/2012 dated 20th March, 2012 to broad base the Board by inducting professionals and businessmen of proven records with effect from 20.03.2012. Pursuant to Section 260 of the Companies Act, 1956 read with Article 107 of Articles of Association of the Company, he holds office as a Director only until the forthcoming Annual General Meeting of the Company. A Notice has been received from a member

pursuant to Section 257 of the Companies Act, 1956 signifying his intention to propose Mr. Vibhu Bakhru as a candidate for the office of Director.

Mr. Vibhu Bakhru, aged around 46 years is a Fellow Member of the Institute of Chartered Accountants of India and Bachelor of Law and is a practicing Senior Advocate by profession at New Delhi. He is having more than 2 decades rich and versatile experience in commercial legal matters with an illustrious career to his credit. His experience, advice and guidance will be of immense benefit to the Company. Accordingly, the resolution under this item of the Notice is commended for your acceptance.

Except Mr. Vibhu Bakhru, no other Director is concerned or interested in this Resolution.

ITEM NO. 7

Keeping in view the future requirements of funds for its business activities, Company is required to borrow funds from time to time. The shareholders' consent pursuant to the provisions of Section 293(1)(d) of the Companies Act, 1956 authorising the Board of Directors to borrow moneys, not exceeding Rupees Six Hundred Crores on account of principal (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) is required. The resolution in item No.7 of this Notice is accordingly commended for your approval.

None of the Directors of the Company is concerned or interested in the resolution.

Registered Office:

Administrative Building,
Shreeramnagar-535 101,
Garividi, Dist. Vizianagaram,
Andhra Pradesh

By Order of the Board,

S.S. Sharma
General Manager (Legal)
& Company Secretary

Dated: 28th July, 2012

DIRECTORS' REPORT TO THE MEMBERS

The Directors submit the **NINTH ANNUAL REPORT** on the business and operations of the Company and the Audited Statements of Accounts for the year ended 31st March, 2012.

FINANCIAL RESULTS

	For the year ended 31-3-2012 (Rs. in Lacs)	For the previous year ended 31-3-2011 (Rs. in Lacs)
Gross Profit/(Loss)	1427.16	5196.69
Depreciation	411.51	216.35
Provision for taxation	266.45	1430.06
Tax for earlier years	0.21	0.65
Deferred Tax	77.61	237.85
Net Profit/(Loss) for the year	671.38	3311.78
APPROPRIATIONS		
Transfer to General Reserve	0.00	250.00
Dividend on Equity Shares	0.00	391.09
Corporate Tax on Dividend	0.00	63.45
	671.38	2607.24
Balance brought forward from last year	246.37	(2360.87)
Balance Carried to Balance Sheet	917.75	246.37

OVERALL PERFORMANCE

Ferro Alloys is one of the intermediate products used as additives and de-oxidising/de-sulfurizing agents in steel making. The growth of the Ferro Alloy industry is directly linked to the growth of the steel industry. During the first half of year under review overall the global steel industry witnessed steady growth. Despite financial turbulence in the Euro zone, weak private demand in the United States and events in Japan and the Middle East, the growth in global steel demand was driven by increased demand from key steel end-user industries specially from automotive sector. This resulted in increase in demand for Ferro Chrome.

However the second half of 2011-12 witnessed weakness in international demand due to a slowdown in China combined with the

effects of the European debt crisis. In fact, the second half saw prices go down to the low 90's (cents per pound of chrome content).

The prolonged economic slowdown in the developed world, particularly in the European Union and the UK has resulted in a significant decline in steel consumption in several geographies in the western hemisphere. Steel plants are being closed or mothballed to conserve costs and to control over-supply. In the first few months of 2012-13 also, apparent Ferro Chrome demand from steel plants remained subdued due to the uncertain economic climate. On account of this, the demand and prices of chrome products in the domestic market too were adversely affected.

On account of above and other factors, during the year under consideration the production and sale of ferro chrome were lower as compared to the previous year 2010-2011. Owing to unfavourable market conditions, the overall turnover of the Company declined from Rs.388.59 crores in 2010-2011 to Rs.367.44 crores in 2011-2012. Exports were Rs.287.13 crores as against Rs.309.90 crores in the previous year. The Company derived 78% of its total sales from exports and during the year under review foreign currency earnings in rupee terms was Rs 262.17 crores. The profit before tax too was lower at Rs. 10.16 crores as compared to Rs. 49.80 crores in the previous year recording a steep fall of 80%.

DIVIDEND

In order to conserve and plough back the resources, your Directors have not recommended any dividend for the year on Equity Shares of the company.

FINANCE

The Company has not invited any deposit from public during the year.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the Accounting Standard AS-21 on Consolidated Financial Statements read with Accounting Standard AS-23 on Accounting for Investment in Associates the audited Consolidated Financial Statements are provided in the Annual Report.

SUBSIDIARIES

In terms of the general circular issued by the Ministry of Corporate Affairs, Government of India, the Balance Sheet, Profit and Loss Account and other documents of the subsidiary companies are not being attached with the Balance Sheet of the Company. However, the financial information of the subsidiary companies is disclosed in the Annual Report in compliance with the said circular. The company will make available the Annual Accounts of the subsidiary companies and related detailed information to any member of the Company who may be interested in obtaining the same. The annual accounts of the Company will also be kept open for inspection at the Registered Office of the Company and that of the respective subsidiary companies as well. Further, the Consolidated Financial Statements presented by the Company include the financial results of the subsidiary companies.

PROSPECTS

As mentioned above Ferro Chrome is a value added intermediate product which imparts the noncorrosive property to stainless steel, hence growth of Ferro Alloys industry is primarily driven by the growth and progress of Steel Industry. Growth in the Indian economy is expected to remain strong. The automotive segment, is expected to grow by 11-13% in Financial Year 2012-13. As per world steel forecasts, steel demand in India should grow by 6.9% in 2012 and the growth should accelerate to 9.4% in 2013. Further the low per capita consumption of stainless steel in India which was 2.1 kg as compared to 7.5 kg in China and a world average of 4 kg, all in the 2011-12 fiscal year, constitutes a huge opportunity for growth in this sector. Indian stainless steel consumption will grow at a compounded annual growth rate of 9.7 percent reaching 3.4 million tons per annum (mtpa) by 2015, outstripping global consumption growth of 6 percent to 34.12 million tons which is a welcome sign for the Ferro Alloys Industry as consumption of Ferro Alloys will also increase. India's total annual production of ferro chrome is around 1.2 million tons (mt), of which around 0.7 mt is exported. As against monthly export of around 60,000 tons on an average current export is only around 40,000 to 45,000 tons per month as the long term contract materials are still going, while spot deals are not there. Further, out of the total export of around 0.7 mt of ferro chrome annually, the maximum quantity goes to China. On an average around 70 percent of the total export goes to Far East Asian countries and the balance 30 percent to Europe, US and other places. However, the prices of ferro alloys have improved by about 10 to 30 percent in second half of the year 2012-13 on slight improvement in demand from steel makers in Europe and the US even as demand from China continued to remain weak. Presently, the supply of ferro chrome is higher than domestic demand and unless 40-50 percent of ferro chrome that is produced in India is exported, the price will continue to remain under pressure.

The global economy is also on a recovery path due to concerted

policy actions around the world. Chinese GDP growth and targets remains strong. Chinese steel demand growth is expected to be moderate as the government pursues economic restructuring. As such, steel demand in China is projected to grow by 4% every year in the next two years. Overall, the world GDP is expected to grow by 3.3% in 2012. Steel prices have recovered from the lows reached in December last year with increased buying activity seen across regions. However, the momentum seems to have lost steam and with the economic conditions in many parts of the world not looking strong, steel capacity utilisation remains below 80%. Looking ahead, global steel market developments are likely to remain generally positive, but with lower growth in 2012 compared to 2011. For 2012 as a whole, global steel demand is forecasted to grow by a further 4% to reach 1,422 million tonnes. China, India and other emerging markets will continue to drive demand but recent market developments suggest likely slackening of demand. South Africa has a crucial role to play in the ferro chrome industry. There has been significant increase in power tariffs over the last 4 years. As a result, South Africa's share of the total ferro chrome production worldwide now stands at approximately 40%.

At the same time, the Indian Ferro Alloys Industry is concerned about the insufficient availability of good quality raw-material mainly Chrome Ore, Coke and availability of cheaper imported Ferro Alloys. Further the problems of this industry are aggravated because of the high input cost of power as well as ore and stiff competition in the domestic and export markets. Since the ferro alloy industry is a power intensive unit, the power cost is about 35-40 percent of its total production cost and repeated power tariff hikes by state run power utility company have put the industry in a fix. In addition to the higher power tariff, the frequent power cuts in Andhra Pradesh are affecting the industry badly. At such high power tariff, there is hardly any margin and viability in the production of ferro alloys. These issues need to be addressed by the Government to enable the Ferro Alloys Producers to compete in the Domestic as well as International Markets.

INDUSTRIAL RELATIONS

The overall industrial relations in the Company were generally satisfactory.

DIRECTORS

Mr. Vibhu Bakhru was appointed as Additional Director on the Board w.e.f. 20th March, 2012. Notice has been received from member along with a deposit of Rs.500/- under Section 257 of the Companies Act, 1956 signifying his intention to propose him as Director of the Company. Mr. K. Jayabharath Reddy, Mr. A.S. Kapre and Mr. Arye Berest, Directors of the Company, retire by rotation and, being eligible offer themselves for re-election.

The Company has formulated a code of conduct for all members of the

Board and Senior Management Personnel. All concerned members/executives have affirmed compliance with the said code.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217 (2AA) of Companies Act, 1956, your Directors confirm that -

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanations;
- ii) they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- iii) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) they have prepared the annual accounts on a going concern basis.

AUDIT COMMITTEE

The Audit Committee formed by the Board of Directors of the Company consists of Mr. K. Jayabharath Reddy, Mr. P.V.R.K. Prasad & Mr. A.S. Kapre who are Non-Executive Independent Directors of the Company and Mr. R.K. Saraf. Mr. K. Jayabharath Reddy is its Chairman. The Committee's role, terms of reference and the authority and powers are in conformity with the requirement of the Companies Act, 1956 and the Listing Agreement.

AUDITORS

You are requested to appoint Auditors for the current year and to fix their remuneration. M/s Salve & Company, Chartered Accountants hold office upto the conclusion of the ensuing 9th Annual General Meeting. The Company has received a requisite Certificate pursuant to Section 224 (1B) of the Companies Act 1956 regarding their eligibility for re-appointment as Auditors of the Company.

COST AUDITOR

Pursuant to provisions of Section 233B of the Companies Act, 1956 and with prior approval of Central Government

Mr. Prakash Uppalapati, Cost Accountant, having an arm's length relationship with the Company and who is free from any disqualification as specified under Section 233 B(5) read with Section 224 and sub-section 3 and sub-section 4 of Section 226 of the Companies Act, 1956 has been appointed by the Board as Cost Auditor of the Company to conduct audit of cost records of the Company for the year ended 31st March 2012. His appointment is in accordance with the limits specified in Section 224 (1B) of the Companies Act, 1956. Cost Audit Reports would be submitted to the Central Government within prescribed time.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The statement giving details of conservation of energy, technology absorption, foreign exchange earnings and outgo, in accordance with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed and marked Annexure 'A' which forms part of this Report.

PARTICULARS OF EMPLOYEES

During the year under review there were no employees receiving remuneration of or in excess of Rs.60,00,000/- per annum or Rs.5,00,000/- per month requiring disclosure as per the provisions of Section 217(2A) read with the Companies (Particulars of Employees) Rules, 1975.

CORPORATE GOVERNANCE

Management Discussion and Analysis, Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of Corporate Governance are made a part of the Annual Report.

ACKNOWLEDGEMENT AND APPRECIATION

Your Directors place on record their gratitude for the support and co-operation received from Central and State Governments, Financial Institutions & Banks, Customers, Suppliers and Shareholders and for their continued support. The Board also expresses its sincere appreciation to the dedicated and committed team of employees and workmen.

On behalf of Board of Directors,

Place : New Delhi
Dated: 28th July, 2012

R.K. SARAF
Chairman & Managing Director

ANNEXURE 'A' TO THE DIRECTORS' REPORT

Additional information as required under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

A. CONSERVATION OF ENERGY

- | | |
|--|--|
| a) Measures taken | : 1) Individual furnaces pollution control equipment having higher motor capacity was replaced with new energy efficient bag filter systems having less motor capacity.
2) Variable frequency drives (VFD) are connected to the cross travel and long travel drives of all the 5 cranes situated in 1 st crane bays.
3) All the conveyor motors of 3/5 HP are replaced with energy efficient motors (EEF class 1)
4) Fixing of translucent sheets would help in reducing the usage of metal halide lamps |
| b) Additional investment and proposals, if any, being implemented for reduction of consumption of energy. | : Nil |
| c) Impact of measures at (a) and (b) for reduction of energy consumption and consequent impact on the cost of production of goods. | : Moderate savings in power consumption |
| d) Total energy consumption and energy consumption per unit of production in prescribed form 'A'. | : Form "A" is inapplicable to Ferro Alloys Industry |

B. TECHNOLOGY ABSORPTION

Research and development

- | | |
|---|---|
| a. Specific areas in which R & D carried out by the Company. | : Nil |
| b. Benefits derived as a result of above R & D | : Nil |
| c. Future plan of action | : Nil |
| d. Expenditure on Research & Development | : Nil |
| e. Technology absorption, adaptation and innovation | |
| i) Efforts, in brief, made towards Technology absorption, adaptation and innovation | a) By changing /altering the receptacle's design recovery of prime metal is improved by 5%. Hence operation hours of metal recovery plant have come down.
b) By crushing the metal entrapped slag below 10 mm and by improving the jiggling process, metal recovery entrapped in the slag is improved. |
| ii) Benefits derived as a result of above efforts | : Nil |
| iii) Information regarding technology imported during the last five years | : Nil |

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

- | | |
|--|---|
| 1) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans | : During the year 2011-12 45072 MT Ferro Chrome was exported. Directors undertake extensive foreign traveling to explore new avenues of exports and to understand latest developments in the international markets. |
|--|---|

- 2) Total Foreign Exchange used and earned (2011-2012):

	<u>(Rs. in Lacs)</u>
i) CIF value of imports	2513.00
ii) Expenditure in Foreign Currency	1269.85
iii) Foreign Exchange earned	26217.16

On behalf of Board of Directors,

R.K. SARAF

Chairman & Managing Director

Place : New Delhi

Dated : 28th July, 2012

MANAGEMENT DISCUSSIONS AND ANALYSIS

INDUSTRY STRUCTURE, DEVELOPMENT AND OTHER RELATED MATTERS

Ferro Chrome is a value added intermediate product which imparts the noncorrosive property to stainless steel, hence growth of Ferro Alloys industry is primarily driven by the growth and progress of Steel Industry. Growth in the Indian economy is expected to remain strong. The automotive segment, is expected to grow by 11-13% in Financial Year 2012-13. As per world steel forecasts, steel demand in India should grow by 6.9% in 2012 and the growth should accelerate to 9.4% in 2013. Further the low per capita consumption of stainless steel in India which was 2.1 kg as compared to 7.5 kg in China and a world average of 4 kg, all in the 2011-12 fiscal year, constitutes a huge opportunity for growth in this sector. Indian stainless steel consumption will grow at a compounded annual growth rate of 9.7 percent reaching 3.4 million tons per annum (mtpa) by 2015, outstripping global consumption growth of 6 percent to 34.12 million tons which is a welcome sign for the Ferro Alloys Industry as consumption of Ferro Alloys will also increase. India's total annual production of ferro chrome is around 1.2 million tons (mt), of which around 0.7 mt is exported. As against monthly export of around 60,000 tons on an average current export is only around 40,000 to 45,000 tons per month as the long term contract materials are still going, while spot deals are not there. Further, out of the total export of around 0.7 mt of ferro chrome annually, the maximum quantity goes to China. On an average around 70 percent of the total export goes to Far East Asian countries and the balance 30 percent to Europe, US and other places. However, the prices of ferro alloys have improved by about 10 to 30 percent in second half of the year 2012-13 on slight improvement in demand from steel makers in Europe and the US even as demand from China continued to remain weak. Presently, the supply of ferro chrome is higher than domestic demand and unless 40-50 percent of ferro chrome that is produced in India is exported, the price will continue to remain under pressure.

The global economy is also on a recovery path due to concerted policy actions around the world. Chinese GDP growth and targets remains strong. Chinese steel demand growth is expected to be moderate as the government pursues economic restructuring. As such, steel demand in China is projected to grow by 4% every year in the next two years. Overall, the world GDP is expected to grow by 3.3% in 2012. Steel prices have recovered from the lows reached in December last year with increased buying activity seen across regions. However, the momentum seems to have lost steam and with the economic conditions in many parts of the world not looking strong, steel capacity utilisation remains below 80%. Looking ahead, global steel market developments are likely to remain generally positive, but with lower growth in 2012 compared to 2011. For 2012 as a whole, global steel demand is forecasted to grow by a further 4% to reach 1,422 million tonnes. China, India and other emerging markets will continue to drive demand but recent market developments suggest likely slackening of

demand. South Africa has a crucial role to play in the ferro chrome industry. There has been significant increase in power tariffs over the last 4 years. As a result, South Africa's share of the total ferro chrome production worldwide now stands at approximately 40%.

RISKS AND CONCERNS/OPPORTUNITIES AND THREATS/OUTLOOK

The Ferro Alloys Industry is highly cyclical in nature reflecting a similar trend in the stainless steel industry and as a result, there is substantial volatility in prices. The performance of the Company is dependent to a large extent on the prevailing prices in the international market which is influenced / set by large producers in South Africa and Kazakhstan. To hedge against the vagaries of the market, Company has entered into long-term contracts for supply of HCFC. Such long term supply contracts has helped the Company to a great deal by way of committed off-take. Apart from committed supply, company also keeps aside tonnage for selling in the spot market so as to benefit from upward trend in prices, if any.

Ferro alloy production cost is principally constituted of ore, reductants and power accounting in the aggregate for about 90% of the cost. Electrical energy is one of the major inputs in production of ferro alloys and repeated power tariff hikes by state run power utility company have put the industry in a fix. In addition to the higher power tariff, the frequent power cuts in Andhra Pradesh are affecting the industry badly. At such high power tariff, there is hardly any margin and viability in the production of ferro alloys. Further the Indian Ferro Alloys Industry is concerned about the insufficient availability of good quality raw-material mainly Chrome Ore, Coke and availability of cheaper imported Ferro Alloys. These issues need to be addressed by the Government to enable the Ferro Alloys Producers to compete in the Domestic as well as International Markets.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Company is continuously endeavoring to maintain high standards of internal control designed to provide adequate assurance on the efficiency of operations and security of its assets. The adequacy and effectiveness of the internal control across various activities, as well as compliance with laid-down systems and policies are comprehensively and frequently monitored by management at all levels of the organization, internal and statutory auditors and based on the experience gained and suggestions received, if any, these are updated, modified and accordingly implemented. The Audit Committee of Board of Directors also reviews these matters from time to time in their meetings.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

During the first half of year under review overall the global steel industry witnessed steady growth. Despite financial turbulence in