

S E V E N T H

A N N U A L

R E P O R T



2009 - 2010



FACOR STEELS LIMITED

CORPORATE INFORMATION**Board of Directors****Narayandas Saraf**

Chairman & Whole-time Director

M.D. Saraf

Vice Chairman & Managing Director

Vinod Saraf

Managing Director

Anurag Saraf

Joint Managing Director

A.S. Kapre**M.B. Thaker****Arye Berest****G.L.N. Sastry**

Nominee of Bank of India

P.K. Kukde**Vibhu Bakhru****Amit G. Pandey**

Company Secretary

Executives**R.V. Dalvi**

Director (Technical)

C.V. Raghavan

Chief Finance Officer

S.C. Parija

Executive Vice-President

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

Auditors

Salve & Co.

Chartered Accountants

Internal Auditor

M. M. Jain

Chartered Accountant

Registrar & Share Transfer Agent

(for Both Physical & Electronic)

Link Intime India Pvt. Ltd.

C-13 Pannalal Silk Mills

Compound, LBS Marg,

Bhandup (W),

MUMBAI – 400 078

Phone No. 022-2596 3838

Fax No. 022-2594 6969

E-mail: mumbai@linkintime.co.in**Contents :**

Corporate Information and Index	Auditors' Report to Members'	18
Notice to Members	Balance Sheet.....	21
Directors' Report	Profit & Loss A/c	22
Management Discussions and Analysis.....	Cash Flow Statement.....	23
Corporate Governance Report	Schedules	24
Compliance Certificate.....	Principal Address of the Company	35

NOTICE TO MEMBERS

Notice is hereby given that the SEVENTH ANNUAL GENERAL MEETING of the Members of the Company will be held at the Registered Office of the Company at 46 A & B, MIDC, Industrial Estate, Hingna Road, Nagpur- 440 028 on Monday, the 20th of September, 2010 at 12.30 P.M to transact, with or without modification as may be permissible, the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2010 and Profit & Loss Account 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. A. S. Kapre, who retires from Office by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Mr. P. K. Kukde, who retires from office by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Mr. Vibhu Bakhru, 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 the provisions of Section 224 and other applicable provisions, if any, of the Companies Act, 1956, Messrs Salve And 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."
4. 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 Agents. The Form can be had from the Share Department at the Registered Office of the Company at 46 A&B, MIDC Industrial Estate, Hingna Road, Nagpur – 440 028
5. 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.
6. 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.
7. 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 829G01011.
8. Non-resident Indian Members are requested to inform the Registrar and Transfer Agents of the Company their Depository particulars 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.
9. 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.

NOTES:

1. 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.
2. The Register of Members and Share Transfer Books of the Company will remain closed from Tuesday 14th September, 2010 to Monday 20th September, 2010 both days inclusive.
3. 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

Registered Office:

46 A & B, MIDC, Industrial Estate,
Hingna Road,
Nagpur – 440028
Dated: 26th July, 2010

By ORDER OF THE BOARD

Amit G. Pandey
Company Secretary

DIRECTORS' REPORT TO THE MEMBERS

The Directors submit the **SEVENTH ANNUAL REPORT** on the business and operations of the Company and the Audited Statements of Accounts for the year ended 31st March, 2010.

FINANCIAL RESULTS:

	For the year ended 31.3.2010 (Rs in lacs)	For the year ended 31.3.2009 (Rs in lacs)
Gross Profit / (Loss)	(192.85)	(42.85)
Depreciation / Amortization	397.11	371.08
Adjustments relating to earlier years	(3.22)	6.93
	<u>(586.74)</u>	<u>(420.86)</u>
Provision/(Credit) for MAT/FBT/DEF. TAX/ WT	72.73	106.52
Profit/(Loss) after tax for the year	<u>(659.47)</u>	<u>(527.38)</u>

OVERALL PERFORMANCE:

The global recession which started from October 2008 onwards continued in the first two Quarters of financial year 2009-10. The Domestic demand improved towards the middle of the year with the automobile sector cautiously increasing orders on steel producers, however, not letting the inventories at their end increase like in Pre-Oct 2008 period. At the same time many new steel plants started producing with facilities like Blast Furnaces and Coke Ovens. The companies which did not have their rolling facilities commissioned, did so towards the middle of the year. This resulted in the market being far more competitive than the previous year. Your company therefore could not avail full benefits of the improved automobile market. On the export front, improvement was even slower with USA showing some signs of improvement toward the end of the year and Europe showing none. Exports therefore were below expectations. Raw material prices increased twice in the year, first during the Oct-Dec 2009 period and thereafter towards the end of the financial year. Your company had to face adverse situation on both occasions as the price increases obtained from the automobile sector were not immediate whereas the Raw Material prices had to be conceded as per market forces.

The working capital gap created by losses in the first half coupled with increase in working capital demand due to rising Raw Material prices created further problems in achieving targets, resulting in a net loss of Rs. 659 lacs in a Sales Turnover of Rs 21954.58 lacs during the financial year 2009-10 as compared to a net loss of Rs 527 lacs in a Sales Turnover of Rs. 36510.70 lacs during the 2008-2009.

Your company in order to tide over this situation has decided to give more focus on development and utilization of capacity of forged products. The company's forging plant has started commercial production and approvals from most of its customers were also secured through trials. Your company is hopeful that this will bring stability in the operations of the company and reduce dependency of the company in the automobile sector.

DIVIDEND:

In the absence of profit, your directors are unable to declare any dividend for the year 2009-2010.

PROSPECTS:

In order to face a situation with stiff competition in automobile market and lack of backward integration facilities your company is taking the following steps:

- Your company will enter Forged Product market catering to Engineering, Energy, Nuclear, Railways, Defense, Cement and sugar Industry sectors. Forgings will be supplied to these sectors in as forged; heat treated and proof machined conditions. All efforts are being put to diversify from the common straight shaft market to stepped shafts, eccentric shafts, dies and special shapes. At the same time, stress is being put to be in specialised grades like stainless and tool steels rather than Carbon and low alloy steels. Initial modest level of production of 250 MT/month will be ramped to 1000 MT/month in about 2 years.
- A tie up with equity participation in Wardha Power Company Ltd., a company in the field of captive Power manufacturing will enable your company to procure cheaper electricity under open access policy of Maharashtra Electricity Regulatory Commission from October 2010 onwards. This will reduce energy cost and overall cost of production.
- Product development shall remain a major thrust of your company looking for niche products and import substitutions. Special grade development continues to be a major requirement of most export markets despite recession and the same shall be tapped to improve margins.

The above steps will be coupled with cost reduction and product mix optimisation in order to give your company competitiveness within the constraints of working capital and high cost of borrowing. The export market is expected to pick up this year after the exceptionally long recession period and this will enable your company to improve profitability. The forging products will add to the long products to improve export tonnage. Your company expects that the above steps would bring your company back in track and 2010-2011 would be a turnaround year for the company.

FINANCE:

The Company has not accepted any fixed deposit from the public during the year under review. However, continued losses posted by the company for the consecutive second year has considerably affected the fund flow of the company. Various steps are being taken by the Company to effectively manage the finances and it is expected that with the improvement in the production level the finance position of the company will also stabilize.

COST AUDITOR:

The Directors have appointed Mr. Shridhar K. Phatak, a practicing Cost Accountant, as Cost Auditor for the financial year 2010-11 for the Company's Mini Steel Plant at Nagpur for which Central Government's approval has also been obtained.

INDUSTRIAL RELATIONS:

The overall industrial relations in the Company were cordial during the year.

DIRECTORS:

Mr. A. S. Kapre, Mr. P. K. Kukde and Mr. Vibhu Bakhru, 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 Board 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 and there are no material departures.
- ii) they have selected such accounting policies and applied them consistently and made judgments 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) proper and sufficient care has been taken 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) annual accounts have been prepared on a going concern basis.

AUDIT COMMITTEE:

The Audit Committee formed by the Board of Directors of the Company consists of Mr. A.S. Kapre, Mr. M. B. Thaker, who are Non-Executive Independent Directors of the Company, and Mr. Vinod Saraf who is Managing Director. Mr. A.S. Kapre is its Chairman. The committee's role, terms of reference and the authority and powers are in conformity with the requirements 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 Annual General Meeting. The Company has received the requisite Certificate pursuant to Section 224 (1B) of the Companies Act 1956 regarding their eligibility for reappointment as Auditors of the Company.

AUDITOR'S REPORT:

With reference to the comments made by the Auditor in his Report, the Directors wish to state that the relevant notes forming part of the Company's Accounts are self-explanatory and hence do not require any further explanation from the Board.

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.24,00,000/- per annum or Rs.2,00,000/- per month requiring disclosure as per the provisions of Section 217(2A) read with the Companies (Particulars of Employees) Rules, 1975.

CORPORATE GOVERNANCE:

Pursuant to Clause 49 of the Listing agreement with the Stock Exchange, a Management Discussion and Analysis Report, Corporate Governance Report and Auditor's 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 cooperation received from Central and State Governments, Financial Institutions & Banks, Customers, Suppliers and Shareholders for their continued support. The Board also expresses its sincere and special appreciation to the dedicated and committed team of employees and workmen of the company who have wholeheartedly supported the management of the company.

On behalf of Board of Directors,

Place : Nagpur
Dated : 26th July, 2010

N.D.SARAF
CHAIRMAN & WHOLETIME 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 | i) Duration of Heat Treatment Cycles was brought down in several grades.
ii) SCADA Control was installed for Ingot Reheating Furnace and Heat Treatment Furnace. |
| b) Additional investment and proposals, if any, being : implemented for reduction of consumption of energy. | Company has entered into an agreement with Wardha Power Company Ltd. to avail cheaper power through Open Access Policy. It is expected that the above measures will result in reduced energy consumption and reduction in cost of production. |
| c) Impact of measures at (a) and (b) for reduction of energy : consumption and consequent impact on the cost of production of goods. | |
| d) Total energy consumption and energy consumption per unit : of production in prescribed form 'A'. | As per Form A attached |

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. | : NOT APPLICABLE |
| 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. | : Forging Technology was developed after buying Oilgear USA design for plant modernisation and synchronisation of equipments.

The following new grades were developed:-

Nitrallloy R 7088, R7103, R7104, Duplex Stainless Steels 1.4462, 1.4362, AISI 304LN, 316LN for Nuclear Application, High Sulphur cold drawing grade 115Mn Pb37. |
| ii) Benefits derived as a result of above efforts. | : Product Mix was broadened due to inclusion of above grades. |
| iii) Information regarding technology imported during the last five years | : Forging automation technology was obtained from M/s Oilgear USA through Towler Enterprise Solutions Pvt. Ltd., Bangalore |

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

- | | |
|---|--|
| 1) Activities relating to exports initiatives taken to increase exports, development of new exports markets for products and services and export plans. | New grades were developed for foreign customers to establish niche export markets. The Directors and Executives do undertake foreign tours to keep abreast of the latest developments in technology and to develop new export market, establish contacts with overseas parties, renew relationship with customers and to study export potential. |
| 2) Total Foreign Exchange used and earned (2009-2010) | : |
| i) CIF value of imports | (Rs.in Lacs)
1218.25 |
| Expenditure in Foreign Currency | 43.25 |
| ii) Foreign Exchange earned | 2079.51 |

On behalf of Board of Directors,

Place : Nagpur

Dated : 26th July, 2010

N.D.SARAF
CHAIRMAN & WHOLETIME DIRECTOR

FORM 'A'

FORM OF DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY.

PARTICULARS	STEEL	
	CURRENT YEAR 2009-2010	PREVIOUS YEAR 2008-2009
A. POWER AND FUEL CONSUMPTION:		
1. ELECTRICITY		
a) Purchased		
Units (KWH in lacs)	449.39	447.63
Total Amount (Rs. in Lacs)	2146.64	1932.57
Average rate per unit (Rs.)	4.78	4.31
b) Own generation		
i) Through Diesel Generator		
Units (KWH)	—	—
Units per ltr. of diesel oil	—	—
Cost/unit (Rs.)	—	—
ii) Through Steam Turbine/Generator		
Units	—	—
Units per ltr. of fuel oil/gas	—	—
Cost/unit (Rs.)	—	—
2. Coal (specify quality)	—	—
3. Furnace Oil		
Quantity (K.Liter)	3439.74	2825.94
Total cost (Rs.in Lacs)	871.51	795.61
Average Rate (Rs./K.Liters)	25336.60	28153.73
4. Others/Internal Generation	—	—
B. CONSUMPTION PER UNIT OF PRODUCTION:		
ELECTRICITY (KWH per tonne)		
Rolled Products	1110.000	1160.000
FURNACE OIL (K.Liter per tonne)		
Rolled Products	0.061	0.066
Coal (Specify quality)	—	—
Others (Specify)	—	—

MANAGEMENT DISCUSSIONS AND ANALYSIS

INDUSTRY STRUCTURE, DEVELOPMENT AND OTHER RELATED MATTERS

Post Global Recession period the Indian Special Steel Industry's performance has improved substantially during the last fiscal 2009-2010 backed up by significant growth and demand from auto and auto component sectors. The strong auto sales have made India the second fastest growing automobile market after china. However, the Special Steel Industry has also witnessed increased volatility in the prices of input raw material such as coking coal, iron ore, High Carbon Ferro Chrome and other Ferro Alloys which has forced the industry to operate at low margins with stiff competition in the market. The volatility in the input prices has also altered the procurement practices of the steel plants as inventory levels of raw material has seen significant decline and more focus and attention is being given to optimization in procurement policies. Sharp fluctuation in raw material prices has forced the industry to enter into short term contracts instead of long-term contracts at fixed prices.

Captive mines and power plant with modern technology has become a necessity to withstand the increasing competition in special steel industry. Major drivers for demand for the green field capacity are from automobile, infrastructure, Power sector and industrial machinery. Growing markets of automobiles and consumer goods are expected to double during the next five years. With the completion of scheduled Brownfield and Green field expansion plans, India will become the second largest steel producer in the world. Mining licenses, land acquisition, resettling and providing sustainable means for locals are some of the issues faced by those seeking Green field expansions. However, the success of an expanding steel sector after five years down the line depends on our national economic growth of more than 8-9% for the next five years.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE:

OPERATIONAL PERFORMANCE:

(Rs. In Lacs)

YEAR	STEEL MELTING SHOP PRODUCTION (GROSS) (M.T)	ROLLING MILL SHOP PRODUCTION (GROSS) (M.T)	TOTAL SALE	
			QUANTITY	Value (Rs in lacs)
2009-2010	38715	56046**	33864	21954.58*
2008-2009	39279	42519**	37545	36510.70*

* includes value of by-product sale

**Includes conversion job work

FINANCIAL PERFORMANCE:

(Rs. in lacs)

	2009-2010	2008-2009
Total Income	23073.54	37154.26
EBIDT	553.43	945.16
interest	746.28	988.01
depreciation	397.11	371.08
adjustments relating to earlier years	(3.22)	6.93
PBT	(586.74)	(420.86)
MAT/FTB/deferred tax	72.73	106.52
PAT	(659.47)	(527.38)
EPS	(0.32)	(0.26)

The reasons for company's performance has been covered in Director's Report

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

The Company has an adequate system of internal control implemented by the management towards achieving efficiency in operations, optimum utilization of resources, and effective monitoring thereof and compliance with all applicable resources. Internal Audit of the company is carried out by an independent agency at regular intervals and the suggestions / recommendations made by them to the Management are looked into and adopted as far as practicable. The scope of the Audit activities is broadly guided and approved by the audit committee constituted by the Board of Directors. The company has introduced better system for monitoring the cost and trade position on various levels of processing for better cost/inventory control. Keeping in view the size and nature of its business the company has adequate internal control system.

OPPORTUNITIES, THREATS, RISKS AND CONCERN:

The Indian economy has shown tremendous strength and resilience during the global recession which slowed major economies of the world. The speciality steel industry has seen fairly encouraging results due to double digit growth in automobile and auto component production. With the growth in the economy it is expected that consumption of steel will also increase thereby opening various opportunities for your company. Your company has been trying to tap the potential and growth in the government sector and sees huge opportunity for growth. The open die forging press installed by the company has started commercial production and your company

expects significant contribution from forging operations in the coming future. The Company has recently got registration with RDSO which will allow the company to cater to the requirements of steel in Indian Railways.

Fluctuating raw material prices of shredded scrap, Nickel, Molybdenum, ferro chrome, ferro silicon, Furnace Oil, power etc., has been a major worry for the company. The growing power tariff and slow rate of consumption of speciality steel in developed markets of USA and Europe has been as major concern. Protective measures adopted by countries like USA, China has also affected the business of your company. New system of raw material pricing for bulk raw materials like coal and iron ore etc., on quarterly basis could result in further increase in volatility of finished goods prices and may affect the margins of the company.

MATERIAL DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS:

Industrial relations in the company were cordial through out the year 2009-2010. Your company undertook various Human Resources initiatives to keep the employees motivated and continuously kept them informed regarding the situation in the special steel industry. The employees were given continuous training through out the year to enhance their skills and knowledge.

CAUTIONARY STATEMENT:

Statements in the Management Discussion and Analysis describing the Company's projections and estimates are forward looking statements and progressive within the meaning of applicable securities laws and regulations. Actual results may differ materially from those expressed or implied, depending upon economic conditions, Government policies and other incidental factors.

CORPORATE GOVERNANCE REPORT

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE:

Your company's Board of Directors and Employees stand committed to the core principles of transparency, integrity and honesty, by adhering to the Corporate Governance values and Corporate Governance code of Business practices.

Your Company is in compliance with the requirements of the guidelines on Corporate Governance stipulated under clause 49 of the Listing Agreement with the Stock Exchange.

2. BOARD OF DIRECTORS:

The composition of the Board of Directors of your company complies with the norms as set out by the Listing Agreement and has been strictly adhered to at all times. As on 31st March, 2010, the Company had an optimum ratio of independent and non-independent members as required by the listing agreement.

The composition of the Directors as on 31st March 2010 is as follows:-

Name and Particulars	Category	No of Board Meetings attended	Whether last AGM Attended	No. of Outside Directorship held in Public Companies	Outside Committee Position Held	
					Member	Chairman
Mr. N. D. Saraf, Chairman & Whole Time Director	Executive*	5	Yes	2	---	---
Mr. M. D. Saraf, Vice Chairman & Managing Director	Executive*	6	Yes	3	---	---
Mr. Vinod Saraf, Managing Director	Executive*	5	Yes	2	---	---
Mr. Anurag Saraf Joint Managing Director	Executive*	6	Yes	2	---	---
Mr. A.S. Kapre	Non-Executive Independent	6	Yes	2	1	3
Mr. M.B. Thaker	Non-Executive Independent	6	Yes	1	3	---
Mr. Arye Berest	Non-Executive Non-Independent	1	Yes	2	---	---
Mr. Ashim Saraf @ Alternate Director to Mr. Arye Berest	Non-Executive*	2	No	2	---	---
Mr. P. K. Kukde	Non-Executive Independent	2	No	2	---	---
Mr. G. L. N. Sastry @@	Non-Executive Independent	Nil	N A	Nil	---	---
Mr. Vibhu Bakhru	Non-Executive Independent	1	Yes	2	---	---

@ Ceased to be director w. e. f. 20.04.2010. ,

@@ Appointed as Nominee Director Bank of India w.e.f. 12.03.2010

* Represent Promoters.

None of the Directors on the Board is a member of more than 10 Committees or a Chairman of more than 5 Committees across all Companies in which he is a Director. The necessary declarations regarding Committee position held have been made by the Directors.