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FORTYSIXTH

ANNUAL REPORT

2001-2002

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FACOR

FERRO ALLOYS CORPORATION LIMITED

Board of Directors

Umashankar Agrawal
Chairman & Managing Director

R. K. Saraf
Vice Chairman &
Jt. Managing Director

Manoj Saraf
Executive Director

M. D. Vaidya
Nominee of Life Insurance
Corporation of India

A. S. Kapre

V. J. Trivedi

M. B. Thaker

Jamnadhhar Mor

Executives

Vineet Saraf
Sr. President

Rohit Saraf
President

R. D. Agrawal
Advisor

O. P. Banka
Sr. General Manager

Sudhir Gupta
General Manager
(Marketing)

C. N. Harman
Sr. Technical Director

M. S. S. Sarma
General Manager
(Shreeramnagar Works)

B. B. Singh
Technical Director
(Charge Chrome Works)

V. S. S. Rao
General Manager
(Charge Chrome Works)

R. V. Dalvi
Chief Executive (Steel Division)

Ashok Agrawal
Chief Executive (Mines)

M. K. Pujari
Sr. General Manager (Mines)

Bankers

Bank of India

Central Bank of India

State Bank of India

Syndicate Bank

State Bank of Bikaner & Jaipur

Solicitors

Mulla & Mulla, and
Craigie Blunt & Caroe

Bhaishanker Kanga
and Girdharlal

Auditor

K. P. Sahasrabudhe
Proprietor
Salve And Co.,
Chartered Accountants

Internal Auditors

D. C. Dhupia & Co.
Chartered Accountants

M. M. Jain
Chartered Accountant

Share Department

Shreeram Bhavan
Tumsar - 441 912
Maharashtra

V. V. Somasundaran
Secretary

Notice is hereby given that the **FORTYSIXTH ANNUAL GENERAL MEETING** of the Members of the Company will be held at Shri Durgaprasad Saraf Atithi Grah at Tumsar 441 912 (Maharashtra) on Wednesday, the 25th September, 2002 at 11.00 A.M. to transact, with or without modifications as may be permissible, the following business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2002 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 Shri M.B. Thaker, who retires from office by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Shri V.J. Trivedi, who retires from office by rotation and, being eligible, offers himself for re-appointment.
4. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

"RESOLVED that pursuant to the provisions of Section 224A and other applicable provisions, if any, of the Companies Act, 1956 Shri K.P. Sahasrabudhe, Proprietor, Messrs Salve And Company, Chartered Accountants, the retiring Auditor of the Company, be and is hereby re-appointed as the Auditor 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 as may be fixed by the Board of Directors in consultation with the said Auditor, plus travelling and other incidental expenses incurred by him incidental to his functions."

AS SPECIAL BUSINESS:

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 relevant provisions of the Companies Act, 1956, including Section 257, Shri A.S. Kapre, who was appointed as a Director by the Board of Directors of the Company under Article 108 of the Articles of Association of the Company, in the casual vacancy caused by the resignation from the Board of Shri Govinddas Agrawal and who holds office as a Director of the Company under the said Article read with Section 262 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 from a member signifying his intention to propose Shri A.S. Kapre as a candidate for the office of Director, be and is hereby elected and appointed as a Director of the Company, liable to retire by rotation."

6. 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 258 and other applicable provisions, if any, of the Companies Act, 1956, the number of existing Directors in office for the time being do stand reduced from ten to eight."

NOTES:

1. The relevant explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of item Nos. 4 to 6 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. The Register of Members and Share Transfer Books of the Company will remain closed from Monday, the 23rd September, 2002 to Wednesday, the 25th September, 2002, both days inclusive.
4. All requests received from Members for change of address will be entertained only when shareholders' signatures on the letter intimating change of address tally with the specimen signatures recorded with the Company. While notifying change in address please ensure that the address is complete and the pin code number is clearly mentioned. Incorrect/incomplete address may lead to non-delivery of documents/communications sent by the Company.
5. Members are requested to quote Folio Numbers in all correspondence.
6. Shareholders intending to require information about accounts to be explained at the meeting are required to furnish the queries to the Company at least 10 (Ten) days in advance of the Annual General Meeting.

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 to the Company Form No. 2B duly filled in and signed. The Form can be had from the Share Department at the Registered Office of the Company at Tumsar.

Registered Office :
Shreeram Bhavan,
TUMSAR - 441 912
(Maharashtra)

By Order of the Board,

V. V. Somasundaran
Secretary

Dated : 2nd August, 2002

ANNEXURE TO THE NOTICE

Explanatory Statement as required by Section 173 of the Companies Act, 1956.

ITEM NO. 4 :

In terms of Section 224A of the Companies Act., 1956, if not less than 25% of the Subscribed Capital of a Company is held either singly or in combination by public financial institutions, government companies, the Central or State Governments, nationalised banks or insurance companies carrying on general insurance business, then the appointment or re-appointment of an auditor of that Company has to be made by a Special Resolution.

In the case of our Company, the aforesaid categories of shareholders together at present hold and are likely to continue to hold more than 25% of the Subscribed Capital at the date of ensuing Annual General Meeting of the Company. Hence, it is desirable to pass a Special Resolution to re-appoint Shri K. P. Sahasrabudhe, Proprietor, Messrs Salve and Company, Chartered Accountants, as the Auditor of the Company. A certificate has been received from him to the effect that his re-appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the said Act.

ITEM NO. 5

Shri A.S. Kapre was appointed as a Director of the Company on 31.7.2002 by the Board of Directors in the casual vacancy caused by the resignation of Shri Govinddas Agrawal. Pursuant to Article 108 of the Articles of Association of the Company read with Section 262 of the Companies Act, 1956 he holds office as a Director until the forthcoming Annual General Meeting of the Company. Notice alongwith a deposit of Rs. 500/- has been received from a member pursuant to Section 257 of the Companies Act, 1956 signifying his intention to propose Shri A.S. Kapre for the office of the Director.

Shri A.S. Kapre, aged about 53 years, is an Engineering Graduate from IIT Madras and a Law Graduate from Mumbai University. He has over 24 years experience, as a highly placed Executive with one of the leading Financial Institutions, in various functions like project and corporate lending, rehabilitation finance and risk management besides further six years experience in various industrial companies. Presently, he is a Senior Executive in a private sector company. His presence on the Board will be a valuable addition and the Board should continue to receive the benefit of his guidance and advice particularly on technical and financial aspects of the Company's administration. Accordingly, the resolution as set out in this Item No. 5 is commended for your acceptance.

Except Shri A. S. Kapre, none of the Directors of the Company is interested in the resolution.

ITEM NO. 6

The strength of the Board for the time being in force was ten pursuant to a resolution passed last year under Section 258 of the Companies Act, 1956 reducing the number of Directors for the time being in office from fifteen to ten. During the year 2001-2002, ICICI and Bank of India have withdrawn their respective Nominees on the Board reducing further the strength for the time being in office to eight. With the recent resignation of Shri Govinddas Agrawal, the number of Directors for the time being in office temporarily stood reduced to seven. However, with the appointment of Shri A.S. Kapre as Director in his place, the number of Directors for the time being in office will again become eight which is still less than ten. Section 258 of the Companies Act, 1956 contemplates the passing of an ordinary resolution of the Company in General Meeting for, inter alia, reducing the number of its Directors within the limits fixed in that behalf by its Articles. Although not strictly necessary to pass a specific resolution in view of a Bombay High Court Judgement, it has been deemed necessary to pass such resolution reducing the strength of Directors for the time being in office from ten to eight, particularly considering the fact that the Company had in the past passed resolutions under this Section reducing/increasing the strength of the Board as and when such change took place. Accordingly, the resolution as set out in this Item No. 6 is commended for your approval.

Registered Office :
Shreeram Bhavan,
TUMSAR - 441 912
(Maharashtra)

By Order of the Board,

V. V. Somasundaran
Secretary

Dated : 2nd August, 2002

Details of the Directors seeking appointment/re-appointment in forthcoming Annual General Meeting

1. Name of Director	Shri M.B. Thaker	Shri V.J. Trivedi	Shri A.S. Kapre
2. Date of Birth	13.12.1938	11.4.1932	1.5.1949
3. Date of appointment	27.10.1968	22.12.1999	31.7.2002
4. Expertise in specific functional areas.	40 years business experience in Manganese mining	About 50 years business experience in extracting & selling Manganese Ore and Coal. Very good knowledge and experience in sales & marketing.	Over 30 years experience mainly in project and corporate Lending, rehabilitation finance & risk management.
5. Qualifications	B.Com	M.A (Economics)	B. Tech, LLB
6. List of Public Limited Companies in which outside Directorship held as on 31.3.2002.	Nil	Nil	N.A.
7. Chairman/Member of the Committee of the Board of the Public Limited Companies on which he is a Director as on 31.3.2002.	Nil	Nil	N.A.

Directors' Report to the Members

The Directors submit the 46th Annual Report on the business and operations of the Company and the Audited Statements of Accounts for the year ended 31st March, 2002.

FINANCIAL RESULTS:

	Year ended 31.03.2002 (Rs. in lacs)	Previous Year ended 31.03.2001 (Rs. in lacs)
Gross Profit / (Loss)	(4645.16)	(2788.39)
Depreciation	1233.31	1207.99
Voluntary Retirement Compensation	2.09	333.13
Provision for taxation (Wealth Tax)	8.00	3.00
Profit / (Loss) for the year	(5883.56)	(4432.51)
Balance of Profit & Loss Account brought forward from last year	(26355.47)	(21922.96)
Balance carried to Balance Sheet	(32239.03)	(26355.47)

OVERALL PERFORMANCE:

During the year 2001-2002 several Ferro Chrome Producers around the world including your Company and other Indian producers implemented cutback in their production in order to accelerate the process of de-stocking to prop up the global market. However, due to weak demand from stainless steel industry, availability of scrap, continuing high stock levels and other factors, demand for chrome products as also their prices remained subdued throughout the year. The domestic market too was sluggish owing to excess capacity, availability of cheap imported materials, slump in Steel industry and similar other adverse factors. Further, overall demand for alloy steel was also adversely affected as a result of slow down in the automobile industry. Export of stainless steel round bars to USA also suffered due to imposition of anti-dumping duty thereon. These factors coupled with high cost of production and suspension of production at our Charge Chrome Plant in Orissa, from November 2001 contributed to the adverse working results of the Company thereby

adding to the woes of the Company. The turnover of the Company fell sharply to Rs. 201.24 crores from Rs. 248.04 crores in the previous year. The exports constituted 33.26% of the turnover.

REFERENCE TO BIFR:

The Draft Rehabilitation Scheme (DRS) was submitted to BIFR in March 2001 as mentioned in the last year's Report. The Company's case was heard in August 2001 and BIFR directed the Company to, inter alia, get the Techno Economic Viability Study (TEVS) of its various Units done and to revise/update the DRS incorporating therein the findings of the TEVS Reports and the latest financial position of the Company. The revised/updated DRS was submitted to BIFR in March 2002. However, BIFR has now directed the Company to submit revival proposal with cut off date as 31.3.2002 alongwith audited Balance Sheet etc. as on the said date. The DRS based on audited accounts for the year ended 31.3.2002 will be submitted to the OABIFR shortly.

DIVIDEND:

In view of the heavy loss, the Directors regret their inability to recommend any dividend for the financial year ended 31st March, 2002.

PROSPECTS:

Due to the substantial cut backs in production effected by the ferro chrome producers for almost a year and a half and the tightening supply of stainless steel scrap, there has been progress in the de-stocking at the global stainless steel mills. Further, as per recent reports, stainless steel companies of Europe, USA and Asia are expanding their production. As a result of these somewhat favourable developments, the prices of chrome products have recently increased slightly in the international market. Moreover, in the Indian and Global Steel Industry also there have been some signs of recovery. These trends, if continued, may augur well for the domestic Ferro Alloys Industry which has been passing through the most difficult period in its history for the last several years.

FERRO ALLOYS DIVISION:

As in the previous year, this Division produced only high carbon ferro chrome in the two furnaces, out of six furnaces, with the available 16 MW NTPC power.

During the year no power was generated from the Captive Power Plant as its operation has become unviable due to abnormal increase in the prices of LSHS/Furnace Oil. Even with NTPC power the operations have been unremunerative particularly due to rock bottom prices for chrome products prevalent in the international and domestic markets. While this Division has been somehow managing its operations with great difficulty, the Andhra Pradesh State Electricity Regulatory Commission recently effected substantial increase in the wheeling charges and introduced Grid Support Charges making the cost of NTPC power unbearable and operations of furnaces completely unviable. This has led to suspension of operations by almost all the Ferro Alloys Units in Andhra Pradesh including the Company's Garividi Unit w.e.f. 1st April 2002. The Andhra Pradesh Ferro Alloys Producers have jointly taken up the matter with the concerned State Government Authorities and it is hoped that the Government would intervene and settle the issues in a way to enable the closed units to resume operations soon.

CHARGE CHROME DIVISION:

During the year the production and sales including exports were considerably lower as compared to the previous year due to various factors including break down of equipments, low load operation of furnaces owing to depressed international and domestic markets as well as power problems resulting in lay off and suspension of Plant operations w.e.f. 5.11.2001. Efforts are being made to sort out the issues and resume operations of the Plant as soon as possible. The furnace operated with power generated by the Captive Power Plant.

STEEL DIVISION:

The overall production and sales were lower in comparison to the previous year due, inter alia, to inadequate working capital, slow down in the automobile industry, particularly in the heavy/medium commercial vehicles segment where alloy steels are used, tough competition and imposition of antidumping duty on exports of stainless steel round bars to USA. However, exports including stainless steel angle bars were slightly higher as compared to the previous year. Since angle bars are not covered within the scope of antidumping duty and safeguard duty, export of this item to USA is likely to improve.

FINANCE:

1. Funds raised by the company by issue of Debentures for working capital have been utilized for the said purpose.
2. As on 31st March, 2002, 49 deposits amounting to Rs. 2,49,500/- which had matured, remained unclaimed. Since then no deposits out of the same have been repaid.

COST AUDITOR:

The Directors have appointed Mr. Shridhar K. Phatak, a practicing Cost Accountant, as Cost Auditor for the financial year 2002-2003 for Company's Mini Steel Plant at Nagpur for which Central Government approval has been received.

SUBSIDIARY:

The report and accounts of Best Minerals Ltd., a subsidiary of the Company, for the period 1st April, 2001 to 31st March, 2002 are annexed alongwith statement pursuant to Section 212 of the Companies Act, 1956.

INDUSTRIAL RELATIONS:

The overall industrial relations in the Company were generally satisfactory except the lay off and suspension of operations declared at the Charge Chrome Plant w.e.f. 5.11.2001.

DIRECTORS :

During the year the nominations of Shri S.V. Nayak and Shri A.S. Kapre have been withdrawn by Bank of India and ICICI respectively. After 31.3.2002 Shri Govinddas Agrawal has resigned from the Board w.e.f. 7.6.2002. The Directors place on record their high appreciation of the valuable service rendered by Shri S.V. Nayak, Shri A. S. Kapre and Shri Govinddas Agrawal.

Shri A.S. Kapre was subsequently appointed as a Director by the Board of Directors of the Company with effect from 31.7.2002 in the casual vacancy caused by the resignation of Shri Govinddas Agrawal. Having been appointed as such under Article 108 of the Articles of Association of the Company and section 262 of the Companies Act 1956, Shri Kapre holds office as a Director upto the date of the ensuing Annual General Meeting of the Company but, being eligible, offers himself for re-appointment. Notice has been received from a member signifying his intention to propose Shri A. S. Kapre for the office of the Director. A resolution is accordingly being proposed at the ensuing Annual General Meeting of the Company.

Shri M. B. Thaker and Shri V. J. Trivedi, Directors of the Company, retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' RESPONSIBILITY STATEMENT :

Pursuant to the provisions of Section 217 (2AA) of Companies Act, 1956, your Directors state as under :

- i) that in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanations; (Refer Note Nos. 17, 18 and 19 of Schedule K)
- ii) that the Directors 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 loss of the Company for that period;
- iii) that the Directors 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) that the Directors have prepared the annual accounts on a going concern basis.

AUDIT COMMITTEE :

The Board of Directors of the Company had formed an Audit Committee comprising of Shri M.D. Vaidya, Shri M.B. Thaker and Shri V.J. Trivedi who are non-executive independent directors of the Company. Shri M.D. Vaidya 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. The retiring Auditor Shri K.P. Sahasrabudhe, Chartered Accountant and Proprietor of Messrs Salve and Company, being eligible, offers himself for re-appointment. He has furnished a certificate to the Company that the proposed re-appointment, if made, will be in accordance with sub-section (1B) of Section 224 of the Companies Act, 1956.

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.

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 Exchanges, a 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.

On behalf of Board of Directors,

TUMSAR

Dated : 31st July 2002.

UMASHANKAR AGRAWAL
CHAIRMAN

ANNEXURE 'A' TO THE DIRECTORS' REPORT**FACOR****46****FORTYSIXTH
ANNUAL REPORT
2001-2002**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. : Several measures have been taken to reduce the energy consumption per tonne of alloy.
Following are the details :
- Utilisation of ores having high metallic content.
- Increasing agglomerate proportion in the charge mix to facilitate faster reducibility.
- Utilisation of waste heat in preheating the charge in the storage hoppers.
- Storing of raw material in closed sheds to avoid moisture absorption during rains.
- Reduction in generation of off grade material and improvement in productivity due to the improved casting techniques.
- Reduction in auxiliary power consumption by re-engineering the total system and standardizing the drive equipment.
- b) Additional investment and proposals, if any, being implemented for reduction of consumption of energy. : No additional investments were made but improvements are being made in the existing systems to bring down the consumption of energy.
- c) Impact of measures at (a) and (b) for reduction of energy consumption and consequent impact on the cost of production of goods: : The reduction in specific power consumption and auxiliary power consumption brings down the variable cost of production of HC Ferro Chrome.
- 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. :
- Chrome Ore beneficiation by simple washing techniques
- Identification of alternative binder to substitute molasses and hydrated lime for making Chrome Ore briquettes.
- Direct estimation of Calcium hydroxide in hydrated lime by EDTA and Acid base Titration.
- b. Benefits derived as a result of above R & D. :
- Realised better price for the product besides reduction in specific power consumption.
- Agglomerate will be available throughout irrespective of availability of molasses.
- Helped in procurement of quality lime and in bringing down the consumption of hydrated lime. There is saving in the cost of production of briquettes.
- c. Future plan of action. : R & D activities are being carried out to further bring down the specific power consumption of all the ferro alloys to the extent possible by incorporating changes in the process and using agglomerates in the reduced state.
- d. Expenditure on Research & Development. : There is no capital expenditure during the year. The other expenses have been shown under appropriate heads of expenditure in the Profit & Loss Account.
- e. Technology absorption, adaptation and innovation.
- i) Efforts, in brief, made towards technology absorption, adaptation and innovation. : Not applicable.
- ii) Benefits derived as a result of above efforts. : Not applicable.

- iii) Information regarding technology imported during the last five years.

No technology has been imported during last five years.

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.

The Company has exported High Carbon Ferro Chrome, Charge Chrome, Chrome Ore and Steel products to different countries during the year 2001-02. Exports constituted 33.26% of the total turnover of the Company. The Directors and Executives undertake foreign Tours to study the market conditions and develop new market for boosting exports.

- 2) Total Foreign Exchange used and earned (2001-2002)

(Rs. in Lacs)

i) CIF value of imports	1160.15
Expenditure in Foreign Currency	244.04
iii) Foreign Exchange earned	6618.87

On behalf of the Board,

TUMSAR
Dated : 31st July, 2002.

UMASHANKAR AGRAWAL
CHAIRMAN

FORM 'A' FORM OF DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY STEEL

PARTICULARS	CURRENT YEAR 2001-2002	PREVIOUS YEAR 2000-2001
A. POWER AND FUEL CONSUMPTION :		
1. ELECTRICITY		
a) Purchased		
Units (KWH in lacs)	414.64	407.48
Total Amount (Rs. in Lacs)	1605.60	1593.39
Average rate per unit (Rs.)	3.87	3.91
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. Litre)	2462.528	2686.255
Total cost (Rs. in Lacs)	268.19	300.56
Average Rate (Rs. / K.litres)	10891.01	11188.81
4. Others/Internal Generations	--	--
B. CONSUMPTION PER UNIT OF PRODUCTION :		
ELECTRICITY (KWH per tonne)		
Rolled Products	1326	1162
FURNACE OIL (K.Litre per tonne)		
Rolled Products	0.070	0.063
Coal (Specify quality)	--	--
Others (Specify)	--	--

Note : Form 'A' is not applicable to Ferro Alloys Industry.

MANAGEMENT DISCUSSIONS AND ANALYSIS**INDUSTRY STRUCTURE, DEVELOPMENT AND OTHER RELATED MATTERS****FERRO ALLOYS**

Indian ferro alloys industry in the organized sector began production in 1950. It has made huge investments over the years for creating capacity to produce about 1.5 million tons of various types of ferro alloys based on projected growth of Indian Steel industry to which it mainly caters. It is a power intensive industry using power as a raw material rather than a motive force.

The Company has a Ferro Alloys Plant at Garividi in Andhra Pradesh with six furnaces of different capacities totaling 72,500 MT per annum for manufacture of various types of ferro alloys. It also has a 100% Export Oriented Unit, the Charge Chrome Plant, at Randia in Orissa having one 45 MVA furnace with a capacity to produce 65000 MT of charge chrome per annum. The Company has been allotted chrome ore mines in Orissa which is also the main raw material for chrome production.

The capacity of ferro alloys industry in the country far exceeds the demand from domestic Steel industry. The country's capacity utilization at present is around 60%. This situation is further aggravated by the large scale imports due to drastic reduction in import duty on ferro alloys. Although the industry has good potential for exports, Indian producers are unable to compete with producers from other countries, particularly in the present depressed international market scenario due to high cost of production on account of high cost of inputs, mainly power. The power tariff in India is substantially higher than in the competing countries. The growth in the domestic and global steel and stainless steel production may help, to some extent, the domestic ferro alloys industry to minimize the difficulties being faced by it at present.

STEEL PRODUCTS:

The Company also produces alloy steel and special steels including stainless steel at its Mini Steel plant at Nagpur. The country's capacity of this industry through electric arc furnace far exceeds the demand. Slackness in demand coupled with high cost of production have forced many units to close down their operations. Units using mini blast furnace route or having captive power plant and sponge iron plant are able to survive in this adverse condition due to their low cost of production. Since in Maharashtra the power tariff is high the Company's Steel Plant using electric arc furnace is at a disadvantage as compared to units owning captive power plant and those established in the States where power tariff is comparatively low.

Since ours is not an integrated steel plant, in many segments we are unable to compete due to high cost of production. Power and scrap are the major inputs for production of steel through electric arc furnace. Electricity tariff is being revised upwards from time to time by State Electricity Board. The Scrap prices also keep fluctuating depending on local sponge iron price and the price of imported scrap.

Since furnace capacity of our Steel Plant is 22 Metric Tonnes Blooms per heat, export of special grades of steel, where demand volume is less but prices are remunerative, has become possible. Further, due to this small size, penetration into the market with various grades of steel has also become possible which bigger plants find difficult to achieve. While USA, has imposed safeguard duty on steel import from certain countries India has been excluded, offering good opportunity for us to export to USA stainless steel angles, prices of which have also firmed up recently.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

The Company has adequate internal control systems commensurate with its size and nature of its operations in respect of management of manpower, production, buying and selling, finance and accounts etc. These control systems have been developed over the years and have been strengthened on the basis of past experience as well as suggestions and recommendations for improvement in control systems given by the statutory and internal auditors from time to time. The internal control systems are also discussed by the Audit Committee with the statutory and internal auditors.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Operations of the Company have been adversely affected due to various factors including sluggish market characterized by sharp decline in prices and high cost of production. Therefore, the Company has been suffering heavy losses and as a consequence its financial position has also become quite stringent.

MATERIAL DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS INCLUDING NO. OF PEOPLE EMPLOYED:

The Company is trying to reduce manpower by not filling up vacancies arising out of retirement/resignations wherever possible. The overall industrial relations in the Company were generally satisfactory except the lay off and suspension of operations declared at the Charge Chrome Plant w.e.f. 5.11.2001. The manpower strength of the company as on 31.3.2002 was 3150.