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FIFTIETH

ANNUAL REPORT

2005-2006

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FACOR

FERRO ALLOYS CORPORATION LIMITED

FERRO ALLOYS CORPORATION LIMITED**FACOR****50****FIFTIETH
ANNUAL REPORT
2005-2006****Board of Directors****Umashankar Agrawal**
Chairman & Managing Director**R.K. Saraf**
Vice-Chairman**Manoj Saraf**
Managing Director**Vineet Saraf**
Joint Managing Director**Rohit Saraf**
Joint Managing Director**Ashish Saraf**
Joint Managing Director**A.K. Bhandari**
Nominee of Bank of India**A.S. Kapre****M.B. Thaker****V.J. Trivedi****N.L. Ajwalia****Umesh Kumar Khaitan****S.B. Mishra****Arye Berest****R.M. Sethi**
Special Director Appointed By BIFR**V V Somasundaran**
Secretary**Executives****R.D. Agrawal**
Advisor**O.P. Banka**
Director (Finance)**Ashok Agrawal**
Chief Executive [Mines]**M. K. Pujari**
Senior General Manager [Mines]**B.B. Singh**
Director (Technical)
(Charge Chrome Plant)**V. K. Begani**
General Manager
(Charge Chrome Plant)**Bankers**

Bank of India

Central Bank of India

State Bank of India

Syndicate Bank

State Bank of Bikaner & Jaipur

SolicitorsMulla & Mulla and
Craig Blunt & CaroeBhaishankar Kanga and
Girdharilal**Auditors**Salve And Co.
Chartered Accountants**Internal Auditors**D.C. Dhupia & Co.
Chartered Accountants**Registrars & Share Transfer
Agents**
(for Both Physical & Electronic)**MCS Limited**
'Harmony', 1st Floor,
Sector 1, Khanda,
NEW PANVEL 410 206 (W)
Dist.: Raigad (Maharashtra)
Fax No. 2749 2005
E-mail: mcsnum@vsnl.com

Notice is hereby given that the **FIFTIETH ANNUAL GENERAL MEETING** of the Members of the Company will be held at the Registered Office of the Company at FACOR DP Officers' Club at D.P. Nagar, Randia 756 135, Dist. Bhadrak, Orissa on Friday, the 29th September, 2006 at 11.45 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, 2006 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 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 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 Vineet Saraf 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 a Special Resolution:

"RESOLVED THAT pursuant to provisions of section 224A 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."

AS SPECIAL BUSINESS:

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 all other applicable provisions, if any, of the Companies Act, 1956, the number of the existing directors of the Company for the time being in office be increased from thirteen to fifteen".
7. To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:
"RESOLVED THAT Mr. N.L. Ajwalia (who was appointed to fill up the casual vacancy on the Board caused by the resignation of Mr. B.B. Singh, under Article 108 of the Articles of Association of the Company and who holds office under the said Article and Section 262 of the Companies Act, 1956 as a Director, only upto the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Act alongwith a deposit of Rs.500/- from a Shareholder proposing his candidature for the office of Director) be and is hereby appointed a Director of the Company, liable to retirement by rotation."
8. To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:
"RESOLVED THAT Mr. Umesh Kumar Khaitan (who was appointed to fill up the casual vacancy on the Board caused by the resignation of Mr. O.P. Banka, under Article 108 of the Articles of Association of the Company and who holds office under the said Article and Section 262 of the Companies Act, 1956 as a Director, only upto the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Act alongwith a deposit of Rs.500/- from a Shareholder proposing his candidature for the office of Director) be and is hereby appointed a Director of the Company, liable to retirement by rotation."
9. To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:
"RESOLVED THAT Mr. S.B. Mishra (who was appointed by the Board of Directors as an Additional Director with effect from 1st January 2006 and who holds office upto the date of this Annual General Meeting in terms of Article 108 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice under Section 257 of the Act alongwith a deposit of Rs.500/- from a Shareholder proposing his candidature for the office of Director) be and is hereby appointed a Director of the Company, liable to retirement by rotation."

NOTES:

1. The relevant Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of Item Nos. 5 to 9 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.

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3. The Register of Members and Share Transfer Books of the Company will remain closed from Monday, the 18th September 2006 to Friday, the 29th September 2006, both days inclusive.
4. Members are requested to send all correspondence relating to the Company's shares including share transfer documents, demat requests, change of address etc. to the Company's Registrar & Transfer Agents M/s MCS Limited, Harmony, 1st Floor, Plot No.6, Sector-1, Khanda, NEW PANVEL (W) 410 206, Dist. Raigad (Maharashtra). Requests for change of addresses 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/Registrar.
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. 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 Corporate and Head Office of the Company at Shreeram Bhavan, Tumsar-441912, Maharashtra.
7. 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 in this Annual Report.
8. 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 912A01026 and in respect of Preference Shares is INE 912A04012.

Registered Office:
D.P. Nagar,
RANDIA 756135
Dist. Bhadrak, (Orissa)

By Order of the Board,

V.V. Somasundaran
Secretary

Dated: 3rd August, 2005.

ANNEXURE TO THE NOTICE

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

ITEM NO.5

In terms of Section 224A of the Companies Act, 1956, if not less than 25% of the Subscribed Capital of the Company is held either singly or in combination by Public Financial Institutions, Government Companies, Central or State Governments, Nationalized Banks or Insurance Companies carrying on general insurance business, then the appointment or re-appointment of an Auditor of the Company has to be made by a Special Resolution.

In the case of your Company, the aforesaid categories of shareholders together are likely to hold more than 25% of the Subscribed Capital at the date of ensuing Annual General Meeting of the Company. Hence, it is necessary to pass a Special Resolution to re-appoint M/s Salve And Company as Auditors of the Company. M/s Salve And Company have furnished a Certificate to the Company to the effect that their re-appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the Companies Act, 1956.

ITEM NO.6

The strength of the Board of Directors for the time being in office was 13 pursuant to a resolution passed at the 49th Annual General Meeting. Since then there have been changes on the Board of Directors of the Company as under:

1. Mr R.M. Sethi was appointed as Special Director by BIFR w.e.f. 11.10.2005.
2. Mr O.P. Banka and Mr B.B. Singh ceased to be Directors w.e.f. 1.1.2006.
3. Mr N.L. Ajwalia, Mr Umesh Kumar Khaitan and Mr S.B. Mishra were appointed by the Board as Directors w.e.f. 1.1.2006.
4. Mr S.C. Jain's nomination was withdrawn by Bank of India w.e.f. 28.7.2006.
5. Mr A.K. Bhandari was nominated by Bank of India w.e.f. 28.7.2006.

In view of the above changes, the number of Directors now in office stands increased from 13 to 15 which is within the limit fixed in that behalf by the Articles of Association of the Company. Although not strictly necessary to pass a specific resolution as in this item of the Notice, it has been deemed appropriate to pass such a resolution by way of abundant caution in view of the provisions of Section 258 of the Companies Act, 1956.

Accordingly, the resolution in Item No.6 of this Notice is commended for your approval.

ITEM NO.7

Mr N.L. Ajwalia was appointed as a Director by the Board of Directors of the Company at its meeting held on 28.1.2006 to fill up the casual vacancy caused by the resignation of Mr B.B. Singh, Director (Technical) from the Board. Pursuant to Section 262 of the Companies Act 1956 read with Article 108 of the Articles of Association of the Company he holds office as a Director only until the forth-coming Annual General Meeting of the Company when the said Mr Singh would have retired, had he continued in office. A Notice has been received from a member pursuant to Section 257 of the Companies Act, 1956 signifying his intention to propose Mr Ajwalia as a candidate for the office of the Director.

Mr N.L. Ajwalia, aged around 63 years, is a graduate in Economics. He has expertise in financial management and in-depth experience in banking, credit, finance and other related matters. His advice and guidance, particularly in banking and finance matters, will be of considerable benefit to the Company.

Accordingly, the resolution as in this Item of the Notice is commended for your approval. Mr Ajwalia is interested in this resolution.

ITEM NO.8

Mr Umesh Kumar Khaitan was appointed as a Director by the Board of Directors of the Company at its meeting held on 28.1.2006 to fill up the casual vacancy caused by the resignation of Mr O.P. Banka, Director (Finance) from the Board. Pursuant to Section 262 of the Companies Act, 1956 read with Article 108 of the Articles of Association of the Company, he holds office as a Director only until the forth-coming Annual General Meeting of the Company when the said Mr Banka would have retired, had he continued in office. A notice has been received from a member pursuant to Section 257 of the Companies Act, 1956 signifying his intention to propose Mr Umesh Kumar Khaitan as a candidate for the office of the Director.

Mr Umesh Kumar Khaitan, aged around 57 years, is a Bachelor of Arts and a Bachelor of Law. He is an Advocate by profession and has rich and vast experience in corporate and legal matters. He holds directorships in several companies. His experience, advice and guidance will be of great advantage to the Company.

Accordingly, the resolution in Item No.8 of this Notice is commended for your approval. Mr Umesh Kumar Khaitan is interested in this resolution.

ITEM NO.9

Mr S.B. Mishra was appointed as an Additional Director by the Board of Directors of the Company at its meeting held on 28.1.2006. Pursuant to Section 260 of the Companies Act 1956 read with Article 108 of the 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 S.B. Mishra as a candidate for the office of Director.

Mr Mishra, aged around 65 years, is a Post Graduate in Physics. He is a retired IAS officer. He has vast and varied experience in Administration, Industry, Mining as well as management of Public Sector Undertakings related to Iron & Steel, Ferro Alloys, Finance, Infrastructure Development etc. His expertise in the above mentioned fields would be of immense benefit to the Company.

Accordingly, the resolution in Item No.9 of this Notice is commended for your approval. None of the Directors except Mr S.B. Mishra is interested in this resolution.

Registered Office:
D.P. Nagar,
RANDIA 756135
Dist. Bhadrak, (Orissa)

By Order of the Board,

V.V. Somasundaran
Secretary

Dated: 3rd August, 2006.

FERRO ALLOYS CORPORATION LIMITED
DIRECTORS' REPORT TO THE MEMBERS
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The Directors submit the 50th ANNUAL REPORT on the business and operations of the Company and the Audited Statements of Accounts for the year ended 31st March, 2006.

GOLDEN JUBILEE YEAR

The Directors are happy to inform that your Company has completed 50 years catering to the national and international steel and stainless steel industries. During this long period there were several ups and downs. However, with the unstinted support and co-operation of shareholders, Financial Institutions, Consortium Banks, Customers, Central Government, as well as, concerned State Governments, Management and workers at all levels and other stakeholders, your Company has been able to restore its position as one of the prominent manufacturers and exporters of ferro alloys. It has now plans for diversification for which spade work has already begun in the Golden Jubilee Year by undertaking new projects like Platinum Exploration/Mining as a Joint Venture as well as Power Generation under a wholly owned subsidiary called FACOR Power Ltd. It is hoped that our efforts in the above directions would fructify in due course auguring a better future for your Company.

FINANCIAL RESULTS:

	For the year ended 31.3.2006 (Rs. in lacs)	For the previous year ended 31.3.2005 (Rs. in lacs)
Gross Profit/(Loss)	2,472.74	3,850.89
Depreciation/Amortization / Impairment	802.34	2,345.65
Provision for taxation - MAT/Wealth Tax	108.40	55.50
Deferred Tax	391.15	847.81
Provision for Fringe Benefit Tax	22.86	--
Profit/(Loss) for the year	1,147.99	601.93

OVERALL PERFORMANCE:

One of the raw materials used in the production of stainless steel is chrome. Hence the demand and prices of ferro chrome/charge chrome produced by the Company, inter alia, depend largely on the production and consumption of stainless steel. The first half of 2005 was characterized by strong growth in stainless steel production accounting for about 80% of global ferro chrome consumption. This had resulted in an increase in demand for ferro chrome leading to increase in price. The second half of 2005, however, witnessed a slow down in global stainless steel production due to accumulation of heavy stocks and increase in cost of production. To recover from this situation, several stainless steel mills resorted to considerable cutback of their production from the second half of 2005. Due to this and other factors, there was successive reduction of price for ferro chrome/charge chrome in the international market for the three quarters from July-September 2005 @ 5 US Cents per quarter aggregating to 15 US Cents per lb. of chrome content. On account of these, the demand and prices of chrome products in the domestic market too were adversely affected.

However, in the case of your Company, except for a small quantity, the entire production of Ferro Chrome/Charge Chrome was covered by a conversion contract as in the previous years since own production could not be undertaken owing, inter alia, to working capital crunch. Depending on the price fluctuations in the international market the conversion rate was also revised suitably after mutual discussions.

During the year, the production and sale of Ferro Chrome/Charge Chrome were lower as compared to the previous year 2004-2005 mainly on account of relining of furnace etc. which took about two months, low load operation of furnace before relining, restriction imposed by NESCO for drawing more power due to transmission line constraints, paucity of working capital and off-take of lesser Ferro Chrome/Charge Chrome than the quantity covered under the conversion contract owing to unfavourable market conditions. Briquette production during the year was also lower than the previous year. For easier and economical disposal of slag generated from furnace a Slag Granulation Plant was commissioned and put into commercial use in May 2006.

The overall working of the Mining Division of the Company was quite satisfactory. Production was higher than in the previous year. Domestic sale and export (quantity-wise) far exceeded the previous years' level. While average realization on domestic sale was higher, export realization was lower as compared to 2004-2005. Lower realization on exports was due to fall in the prices of chrome ore in the international market in the second half of 2005. The average export realization was, however, higher than the realization on domestic sale in the year 2005-2006 and in the previous year.

The overall turnover of the Company, however, declined from Rs.154.68 crores in 2004-2005 to Rs.145.39 crores in 2005-2006. Exports were of the order of Rs.63.18 crores as against Rs.64.70 crores in the previous year.

The Captive Power Plant remained idle throughout the year as generation of power was not viable due to high cost of fuel. However, timely maintenance is being carried out to keep the power plant in running condition.

REHABILITATION SCHEME:

Implementation of most of the provisions of the sanctioned Rehabilitation Scheme including induction of promoters' contribution of Rs.5462 lacs committed in the Scheme and restructuring of bank borrowings has been completed. Sale of 5 DG sets (3 DG sets of 10 MW each situated at Garividi in Andhra Pradesh now owned by FACOR Alloys Ltd. and 2 DG sets of 10 MW each installed at Company's Charge Chrome Plant in Orissa) could not be completed. Efforts are continuing to find a prospective buyer for the DG Sets. Reliefs and concessions from State Governments and Income Tax Authorities are still awaited.

DIVIDEND:

Keeping in view the future requirements of funds for working capital and other purposes, the Directors regret their inability to recommend any dividend for the financial year ended 31-03-2006.

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The world production of crude stainless steel in 2005 was 24.33 million tons. According to analysts, the world production of stainless steel in 2006 is expected to increase by 5.9% to 7.2%. Accordingly, demand for chrome product, which is a crucial raw material for making stainless steel, is also, barring unforeseen circumstances, expected to improve considerably. As regards price, after successive reductions of price for chrome products for the 3 quarters from July-September 2005, it has started moving upwards from April-June 2006 quarter owing, inter alia, to strengthened exchange rate of South African currency Rand against US Dollar, tightened supply situation of chrome product and increasing stainless steel production. These may give fillip to export of ferro chrome/charge chrome from India.

The domestic market scenario for chrome products appears to be encouraging on account of increasing production of stainless steel in the country. However, the industry continues to face the problem of surplus capacity, increased power tariff, dependence on imported LAM coke which is priced very high, and cheaper imports due to further reduction in import duty on ferro alloys from 10% to 7.5%. The Indian Ferro Alloys Industry has been requesting Central Government through various representations to provide a level playing field by supplying all inputs, especially power, at internationally comparable prices/tariffs, to enable the producers to compete in domestic and international markets.

JOINT VENTURE:

In our last year's report it was mentioned that the company has entered into a Joint Venture Agreement with Platinum Mining Corporation of India Ltd. (PMCIL) UK for exploration of platinum group of elements for which necessary approvals have been sought from the concerned authorities. However, much headway in the exploration activities, as was anticipated, could not be made in the year 2005-06 due to reshuffling of the Board/Management at PMCIL and pending approvals from the concerned authorities. Now that the issues at PMCIL have been sorted out and efforts are being made to get clearances from all quarters, we expect to make progress in this joint venture during the current financial year.

FINANCE AND ISSUE OF SHARES:

- 1) During the year, 9,90,88,428 equity shares of Re.1/- each have been allotted by the Company to the promoters including JV Partners against contribution received from them in terms of the Rehabilitation Scheme sanctioned by the Board for Industrial & Financial Reconstruction (BIFR).
- 2) Out of 7,64,106 0.01% Redeemable Preference Shares of Rs.100/- each allotted to Financial Institutions/Debtentureholders, 537958 Preference Shares have been prematurely redeemed under One Time Settlement (OTS) which has been approved by BIFR by modifying the sanctioned Scheme vide its Order dated 3.5.2006, and the difference between aggregate paid up value of the said shares and the aggregate amount paid to the preference shareholders as per OTS has been transferred to Capital Reserve Account.
- 3) Consequent upon a separate settlement reached with UTI pursuant to the Scheme sanctioned by BIFR 5,19,948 equity shares of Re.1/- each allotted to UTI stands cancelled/extinguished which has been approved by BIFR by way of modification of the sanctioned Scheme as mentioned above.
- 4) The Company has not accepted any fixed deposit during the year under review.

SUBSIDIARY:

FACOR Power Limited, incorporated on 24th August 2005, has been issued the Certificate for Commencement of Business on 14th March 2006 and is now a wholly owned subsidiary of this Company. The Report and Accounts of FACOR Power Limited for the period commencing from the date of incorporation till 31st March 2006 are annexed along with Statement pursuant to Section 212 of the Companies Act, 1956.

INDUSTRIAL RELATIONS:

The overall industrial relations in the Company were cordial.

DIRECTORS:

Mr R.M. Sethi was appointed as Special Director on the Board by the Board for Industrial & Financial Reconstruction (BIFR) w.e.f. 11.10.2005. Bank of India has nominated Mr A.K. Bhandari as Director on the Board in place of their Nominee Director Mr S.C. Jain.

During the year Mr O.P. Banka, Director (Finance) and Mr B.B. Singh, Director (Technical) have resigned from the Directorship of the Company w.e.f. 1st January 2006. The Directors place on record their high appreciation of the valuable service rendered by Mr S.C. Jain, Mr O.P. Banka and Mr B.B. Singh.

Mr Umesh Kumar Khaitan and Mr N.L. Ajwalia have been co-opted as Directors on the Board of Directors of the Company w.e.f. 1.1.2006 in the casual vacancies caused by the resignation of Mr O.P. Banka and Mr B.B. Singh respectively. Further, Mr S.B. Mishra has been appointed as Additional Director on the Board w.e.f. 1st January 2006.

Mr M.B. Thaker, Mr A.S. Kapre and Mr Vineet Saraf, 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 except one Director 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 along with proper explanations; (Refer Note No. 18 of Schedule K)
- 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 A.S. Kapre, Mr M.B. Thaker and Mr V.J. Trivedi who are non-executive independent Directors of the Company. Mr A.S. Kapre is its Chairman. The committee's role, terms of reference and the authority and power 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. The retiring Auditors M/s Salve And Company, being eligible, offer themselves for re-appointment. They have furnished a Certificate to the effect 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 hereto 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, Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of Corporate Governance are made a part of the Annual Report.

VOLUNTARY DELISTING OF OLD EQUITY SHARES OF RS.10/- EACH:

The Company's applications for delisting its equity shares from Stock Exchanges at Ahmedabad, Bhubaneswar and Kolkata are still pending with them for approval. After reorganization/restructuring of share capital of the Company as on the record date viz. 1.7.2004 pursuant to the provisions of Scheme of Arrangement forming part of the Rehabilitation Scheme sanctioned to the Company by BIFR, the previous equity shares have become infructuous and hence delisting of same from the Ahmedabad, Bhubaneswar and Calcutta Stock Exchanges is just a formality only.

LISTING OF NEW EQUITY SHARES:

The new equity shares of Re.1/- each allotted to Promoter group including J.V. Partners on 8.12.2005 pursuant to the provisions of the Rehabilitation Scheme sanctioned by BIFR have already been listed in Bombay Stock Exchange Ltd. which has extensive networking and nationwide trading terminals.

SHIFTING OF REGISTERED OFFICE:

With the issuance of Certificate of registration of BIFR order dated 13.4.2004 by the Registrar of Companies, Mumbai (Maharashtra) on 28.9.2005 and by the Registrar of Companies, Cuttack (Orissa) on 18.10.2005, intimation about the transfer of Registered Office of the Company from Tumsar 441912 (Maharashtra) to D.P. Nagar, Randia (Orissa) based on the aforesaid BIFR Order has now been taken on record by both the Registrar of Companies (ROC) as advised by the Ministry of Company Affairs in that behalf.

As regards, exemption sought from Ministry of Company Affairs in respect of other reliefs and concessions granted by BIFR to the Company on the recommendation of the Operating Agency, the Ministry has now advised the Company that it may take suitable action in this behalf in consultation with the Operating Agency.

ACKNOWLEDGEMENT AND APPRECIATION:

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

On behalf of Board of Directors,

R. K. SARAF
VICE CHAIRMAN

MANOJ SARAF
MANAGING DIRECTOR

Tumsar,

Dated: 28th July, 2006

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
- b) Additional investment and proposals, if any, being implemented for reduction of 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.
- d) Total energy consumption and energy consumption per unit of production in prescribed form 'A'.

As mentioned in the last year's report, conservation of energy is an on going process and is always given priority. Installation of efficient electric equipments and other measures taken in the recent past years are yielding results. However, it is difficult to quantify same and its impact on cost of production.

Form A is not applicable to Ferro Alloys Industry.

B. TECHNOLOGY ABSORPTION:

Research and development:

- a. Specific areas in which R & D carried out by the Company.
- b. Benefits derived as a result of above R & D.

As reported last year, R&D in certain specific areas are in progress. R&D carried out in respect of recovery of metal from slag-metal mixture, enrichment of Cr/Fe ratio and recovery of chromite from low grade chrome ore are yielding better results. Granulation of slag is also being carried out for easier and economical disposal of the same.

- c. Future plan of action : Efforts are being made continuously in studying and experimenting different methods of briquetting to cut down the cost of production as mentioned in the report of last year.
- d. Expenditure on Research & Development. : Recurring expenditure incurred on in-house R&D has been shown under respective heads of accounts in Profit & Loss A/c.
- e. Technology absorption, adaptation and innovation :
 - i) Efforts, in brief, made towards Technology absorption, adaptation and innovation. : Not Applicable since no new technology has been adopted.
 - ii) Benefits derived as a result of above efforts. : Not Applicable
 - iii) Information regarding technology imported during last five years. : No technology has been imported during the last five years.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

- 1) Activities relating to exports, initiatives taken to increase exports, development services and export plans. : During the year 2005-2006, there was substantial increase in the export of chrome ore as compared to the previous year. In order to keep abreast of the latest developments in the international markets and to maintain relationship with customers, the Directors and Executives do undertake foreign tours as may be required.

2) Total Foreign Exchange used and earned (2005-2006):	(Rs. in Lacs)
i) CIF value of imports	446.33
ii) Expenditure in Foreign Currency	26.63
iii) Foreign Exchange earned	6324.51

On behalf of the Board,
R. K. SARAF
VICE CHAIRMAN

MANOJ SARAF
MANAGING DIRECTOR

Tumsar,
Dated: 28th July, 2006

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

Ferro Alloys Industry is a part of the core sector Steel Industry. Established in the second Five Year Plan, it caters to the growing needs of domestic steel sector. As per report, the industry has already invested over Rs.40 billion on plant and machinery and employs directly and indirectly tens of thousands of people. The annual capacity of the industry is over 2 million tons of bulk and noble ferro alloys which are vital inputs to produce various types of steel. It is an export oriented industry and 35%/40% of its production is sold in the international markets. It earns foreign exchange to the extent of Rs.10 billion per annum after meeting the domestic requirements.

Your Company is engaged in the production of ferro chrome/charge chrome and mining of chrome ore. Chrome falls under bulk ferro alloys. Ferro Chrome Units in the country are mainly located in the States of Andhra Pradesh, Orissa and West Bengal. Your Company's Charge Chrome Plant and Mines are located in Orissa where basic raw material viz. chrome ore, is available from our Mines.

The world demand for chrome products according to the reports is estimated at about 6.50 million tons per year and South African producers, who meet substantial portion of this demand, have a decisive say in the matter of deciding the prices of chrome products in the international market on quarterly basis by negotiation with global stainless steel units. Chrome is used in the production of stainless steel and hence the demand and prices of chrome products depend, inter alia, on the growth of stainless steel industry. Since, according to analysts, world production of stainless steel in 2006 is expected to increase by 5.9% to 7.2%, the scope for export of ferro chrome/charge chrome from India appears to be rosy. The stainless steel production in India has witnessed an average growth rate of 15% during the last 5 years. If this growth trend in stainless steel production continues, it may augur well for the domestic ferro chrome/charge chrome producers.

The Indian manufacturers of chrome products are, however, facing tough competition in the international market on account of high cost of production due to ever rising power tariff. Ferro Alloys Industry is a power intensive industry and power constitutes major portion of the cost of production. While the power tariff in India varies in different States from 237 paise to 490 paise per unit, in other countries it varies from 46 paise to 143 paise approximately per unit. The power tariff in South Africa, who is the world leader in ferro chrome production with about 60% market share, is approximately 113 paise per unit. The Indian ferro alloys industry is also adversely affected by other factors like gradual reduction in basic import duty on ferro alloys from 105% till 1992-93 to 7.5% at present resulting in cheaper imports and non-availability of LAM Coke indigenously making the industry dependent on imports at exorbitant prices.

The ferro alloys industry has been requesting the Central Government through various representations to provide a level playing field by supplying all inputs, especially power, at internationally comparable prices/tariffs to enable the domestic ferro alloys producers to compete in the international markets and also against cheaper imported material in the domestic market. But there has been no effective response upto now.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

The internal control systems and procedures adopted by the Company for better and efficient utilization of men, material and money are being properly monitored and implemented. These systems and procedures are reviewed with the internal and statutory auditors from time to time and based on suggestions received from them and on the basis of experience gained by the Company, modifications, as may be required, are carried out and implemented. These matters are also reviewed at the Audit Committee meetings.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE:

During the year the production and sale of charge chrome by the Charge Chrome Plant were lower as compared to the previous year 2004-2005 mainly on account of relining of furnace etc. which took about 2 months, low load operation of furnace before relining, restriction imposed by NESCO for drawing more power due to transmission line constraints, paucity of working capital and off-take of charge chrome less than the quantity covered under the conversion contract owing to unfavourable market conditions.

The overall working of the Mining Division of the Company was quite satisfactory. Production was higher than in the previous year. Domestic sale and export (quantity-wise) far exceeded the previous years' level while average realization on domestic sale was higher, export realization was lower compared to 2004-2005. Lower realization on exports was due to fall in the prices of chrome ore in the international market in the second half of 2005. The average export realization was, however, higher than the realization on domestic sale.

The overall turnover of the Company, declined from Rs.154.68 crores in 2004-2005 to Rs.145.39 crores in 2005-2006. Exports were Rs.63.18 crores as against Rs.64.70 crores in the previous year. The Company earned a cash profit of Rs.2472.74 lacs as against Rs.3850.89 lacs in 2004-05. The net profit after providing for depreciation and taxation works out to Rs.1147.99 lacs as against Rs.601.93 lacs in the previous year.

MATERIAL DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT INCLUDING PEOPLE EMPLOYED:

The overall industrial relations in the Company were cordial. The manpower employed is around 934 excluding indirect employment. During the year a tripartite agreement has been executed between the Management and the Charge Chrome Employees Union in the presence of District Labour Officer, Bhadrak for increase in wages w.e.f. 1.4.2005 for a period of 3½ years.

CAUTIONARY STATEMENT:

Statements in this Management Discussion and Analysis Report are based upon data available with the Company and on certain assumptions having regard to the economic conditions, government policies, political developments within and outside the country. The management is not in a position to guarantee the accuracy of the assumptions and the projected performance of the Company in future. It is, therefore, cautioned that the actual results may differ from those expressed or implied herein.