

# FIFTY SIXTH ANNUAL REPORT 2011-2012

---



**FERRO ALLOYS CORPORATION LIMITED**

## CORPORATE INFORMATION

### Board of Directors

**R. K. Saraf**

Chairman & Managing Director

**M. D. Saraf**

**Manoj Saraf**

Managing Director

**Vineet Saraf**

Joint Managing Director

**Ashish Saraf**

Joint Managing Director

**Rohit Saraf**

Joint Managing Director

**A. S. Kapre**

**Arye Berest**

**S. B. Mishra**

**N. L. Ajwalia**

**M. B. Thaker**

**Pinaki Misra** (w.e.f. 20.12.2011)

**S. Sridhar** (w.e.f. 28.07.2012)

**Keshaorao Pardhi** (w.e.f. 16.03.2012)

**Harish Salve** (up to 11.5.2012)

**Umesh Kumar Khaitan** (up to 21.09.2011)

**P.K. Sangamkar** (up to 01.07.2011)

Nominee of Bank of India

**Ritesh Chaudhry**

General Manager (Legal) &

Company Secretary

### Executives

**R. D. Agrawal**

Advisor

**O. P. Banka**

Director (Finance)

**B. B. Singh**

Director (Technical)  
(Charge Chrome Plant)

**Ashok Agrawal**

Director (Mines)

**P. G. Sureshkumar**

Chief Executive  
(Charge Chrome Plant)

**M. K. Pujari**

Chief General Manager (Mines)

**Sanjiv Goyal**

Chief Financial Officer

### Bankers

Bank of India

Central Bank of India

State Bank of India

Syndicate Bank

State Bank of Bikaner & Jaipur

### Solicitors

Mulla & Mulla and

Craige Blunt & Caroe

Bhaishankar Kanga and  
Girdharilal

### Auditors

Salve And CO.

Chartered Accountants

### Internal Auditors

M/s Das & Prasad

Chartered Accountants

### Registrars & Share Transfer Agents

(for Both Physical & Electronic)

Link Intime India Pvt. Ltd.

C-13 Pannalal Silk Mills Compound,  
LBS Road, Bhandup (W),

MUMBAI – 400 078

Phone No. : 022-2594 6970

Fax No. : 022-2594 6969

E-mail : [rnt.helpdesk@linkintime.co.in](mailto:rnt.helpdesk@linkintime.co.in)

## Contents :

### Corporate Information and Index:

Notice to Members ..... 1

Directors' Report ..... 4

Management Discussions and Analysis..... 7

Corporate Governance Report ..... 8

Auditors' Report to Members ..... 19

Balance Sheet, Profit & Loss & Notes..... 23

Consolidated Auditors' Report.....41

Consolidated Balance Sheet, Statements of Profit &  
Loss & Notes ..... 42

Principal Addresses of the Company..... 58

Proxy Form

## NOTICE TO MEMBERS

**Notice** is hereby given that the **FIFTY SIXTH 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 DP Nagar, Randia – 756 135, Dist. Bhadrak, Odisha" on Monday, the 17<sup>th</sup> day of September, 2012 at 12 Noon to transact, with or without modifications as may be permissible, the following business:

### Ordinary Business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31<sup>st</sup> March, 2012 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. S.B. Mishra who retires from office by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Mr. M.D. Saraf who retires from office by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Mr. Rohit Saraf who retires from office by rotation and, being eligible, offers himself for re-appointment.
5. To appoint a Director in the place of Mr. Ashish Saraf who retires from office by rotation and, being eligible, offers himself for re-appointment.
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 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."

### Special Business:

7. To consider and, if thought fit, to pass the following resolution which shall be proposed as a **Special Resolution**:

**"RESOLVED THAT** pursuant to the provisions of Section 372A and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and in addition to the limits already sanctioned by shareholders from time to time, consent of the Company be and is hereby accorded to the Board of Directors of the Company to invest further amount not exceeding Rs. 150 Crores (One Hundred and fifty Crore only) by way of subscription, purchase, acquisition from existing shareholders or otherwise in the equity/preference capital or other securities of

Facor Power Limited in one or more tranches notwithstanding that the aggregate of investments so made exceed the limits prescribed under section 372A and other applicable provisions, if any of the Companies Act, 1956.

**RESOLVED FURTHER THAT** the Board of Directors of the Company be and are hereby authorized to determine the actual sum upto which the investments may be made and also determine the time and manner of making such investments and to do all such acts, deeds, matters and things as the Board may, in its absolute discretion, consider necessary, expedient or desirable, including the delegation of the above authority in accordance with the provisions of Section 292(1)(d) of the Companies Act, 1956 and to settle any question or doubt that may arise in relation thereto in order to give effect to this resolution or decide otherwise if so considered by the Board to be in the best interest of the Company.

8. To consider and, if thought fit, to pass the following resolution which shall be proposed as a **Special Resolution**:

**"RESOLVED THAT** pursuant to the provisions of Section 372A and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) the Company hereby approves and confirms the decision of the Board of Directors inter alia approving execution of guarantees for Rs. 42 crores in respect of working capital limits and for Rs. 31 crores in respect of one time Capex LC limit on behalf of Facor Power Limited in favour of Central Bank of India for the aforesaid limits sanctioned limits by them to Facor Power Limited notwithstanding that the aggregate of the loans and investments so made or guarantees or securities so given to all bodies corporate may exceed the limits prescribed in that section."

9. To consider and, if thought fit, to pass the following resolution which shall be proposed as a **Special Resolution**:

**"RESOLVED THAT** pursuant to the provisions of Section 372A and other applicable provisions if any of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) the Company hereby approves and confirms the decision of the Board of Directors inter alia approving execution of guarantees for Rs. 1.60 crores on behalf of Facor Power Limited vide their resolution dated 28<sup>th</sup> July, 2012 in favour of State Bank of Mysore for working capital limits sanctioned by them to Facor Power Limited notwithstanding that the aggregate of the loans and investments so made or guarantees or securities so given to all bodies corporate may exceed the limits prescribed in that section."

**Registered office:**  
D.P. Nagar,  
P.O. Randia – 756 135  
Distt. Bhadrak, Odisha

By Order of the Board

Dated : 28<sup>th</sup> July, 2012  
Place : New Delhi

**Ritesh Chaudhry**  
Company Secretary

## NOTICE TO MEMBERS

### NOTES:

1. The relevant explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of item nos. 7 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.
3. Members / Proxies are requested to bring their Attendance Slip sent herewith, duly filled in, for attending the meeting.
4. In case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.
5. The Register of Members and Share Transfer Books of the Company will remain closed from Saturday, the 15<sup>th</sup> September, 2012 to Monday, the 17<sup>th</sup> September, 2012, both days inclusive.
6. Corporate Members intending to send their authorised representatives to attend the Meeting are requested to send a certified copy of the Board Resolution authorising their representative to attend and vote on their behalf at the Meeting.
7. Securities and Exchange Board of India has made it mandatory that submission of Permanent Account Number (PAN) by every participant in securities market. Members holding shares in electronic form are, therefore, requested to submit the PAN to their Depository Participants with whom they are maintaining their demat accounts. Members holding shares in physical form can submit their PAN details to the Company/Registrars and Transfer Agents quoting reference of their folio no.
8. Members who hold shares in physical form in multiple folios in identical names or joint names in the same order of names are requested to send the share certificates to the Registrar and Transfer Agent of the Company for consolidation into a single folio.
9. **Change of address or other particulars:**  
Members are requested to inform their Change of address (with PIN CODE), Nominations in respect of their shareholding, Bank Details, Mandate instructions, Electronic Clearing Service (ECS) mandates, Change in their residential status as also their bank account in India as also any changes in the above (*under the signature of the registered holder(s) of shares*) etc. to:
  - The Registrar and Share Transfer Agent (RTA) of the Company in respect of shares held in physical form; and
  - The Depository Participants in respect of shares held in electronic form.
10. Shareholders intending to require information on the accounts at the meeting are requested to furnish the queries to the Company at least 10 (ten) days in advance of the Annual General Meeting to facilitate ready response.
11. 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.
12. Those Members who have so far not encashed their dividend warrants for the financial years 2006-07, 2007-08, 2008-09, 2009-10 and 2010-11 may claim or approach the Company's Secretarial Department at Corporate One, Suite 401, Plot no.5, Jasola, New Delhi – 110 025 for payment thereof as the same will be transferred to the "Investor Education & Protection Fund" of the Central Government pursuant to Section 205 of the Companies Act, 1956 on the following dates:
  - Dividend for the year 2006-2007, on 13<sup>th</sup> September, 2014.
  - Interim Dividend for the year 2007-2008, on 27<sup>th</sup> February, 2015.
  - Final Dividend for the year 2007-08, on 12<sup>th</sup> October, 2015.
  - Interim Dividend for the year 2008-09, on 29<sup>th</sup> August, 2015.
  - Dividend for year 2009-10 on 17<sup>th</sup> October, 2017
  - Dividend for the year 2010-11 on 12<sup>th</sup> October, 2018.

**Registered Office:**  
D.P. Nagar,  
P.O. Randia – 756 135  
Distt. Bhadrak, Odisha

Dated : 28<sup>th</sup> July, 2012  
Place : New Delhi

By Order of the Board

**Ritesh Chaudhry**  
Company Secretary

## ANNEXURE TO THE NOTICE

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

#### Item No. 7

Facor Power Limited (FPL), subsidiary of the Company, which is establishing a 100MW power plant for the captive use of the Company, envisaged the project to cost Rs. 567.68 Crores at its inception. However, due to various factors including delay in supplies by vendors and delay in receipt of statutory approvals and clearances, there has been time delay of about 10-12 months which has led to overrun in the project cost which is now estimated at Rs. 657.90 crores.

The major elements of cost overrun comprise of Interest during construction, increase in steel and Cement cost and additional civil work. Moreover, a dedicated 132 KV Overhead line, additional reservoir, roads etc. which were not envisaged earlier have increased the total Project cost.

The Company had, at its 54<sup>th</sup> Annual General Meeting, passed a Special resolution authorizing the Board to invest an additional amount of Rs. 100 Crores in addition to Rs. 50 Crores sanctioned earlier. However, the company has already invested a sum of Rs. 147.06 Crores in the project till now, thereby, exhausting its limits of investment under the above mentioned authorization.

Members are informed that Clause 11 of the "Pre Commitment Conditions" of the Sanction letters dated 14<sup>th</sup> August, 2007 and 5<sup>th</sup> April, 2010 issued by Rural Electrification Corporation Limited (REC) to FPL provides that any shortfall in the resources of the Company for completing the project and/or overrun in the cost of the project shall be met by the project sponsors i.e. Ferro Alloys Corporation Limited (FACOR). Accordingly, the Company submitted Undertaking for Cost Overrun with REC, as the project sponsor/promoter of Facor Power Limited. Nonetheless, Facor Power Limited has approached REC and has sought over-run financing as well as for extension of time limit for some clearances, approval of which is awaited.

The present resolution is, therefore, proposed to enable the Company provide funds for meeting the increased cost of project.

Mr. Vineet Saraf, Mr. Ashish Saraf, Mr. A.S. Kapre, being the Directors in Facor Power Limited and Mr. R.K. Saraf being father of Mr. Ashish Saraf are deemed to be interested in the proposed resolution to the extent of their shareholding in the Company.

#### Item No. 8

Members are informed that Central Bank of India increased the credit facilities to Facor Power Limited, the subsidiary of the Company, from Rs. 125 crores to Rs.198 crores which included working capital limits of Rs. 42 crores and One time Capex LC limit of Rs. 31 crores.

As per the terms of the sanction letter issued, Corporate Guarantee of Ferro Alloys Corporation Limited was required for additional Rs. 73 crores increase from the said Rs. 125 crores to inter alia secure the revised limits to Facor Power Limited.

The above Guarantee to Central Bank of India on behalf of Facor Power Limited for the working capital facilities specified above exceeds the limits which can be approved by the Board of Directors of your Company u/s 372A of the Companies Act, 1956. However, the second proviso to sub-section (1) of Section 372A of the Companies Act, 1956 provides that the Board of Directors may, in exceptional circumstances which prevent the previous authorization by a special resolution, give corporate guarantee provided that the said Board resolution is confirmed within 12 months in a General meeting of the Company or Annual General Meeting held immediately after passing of the resolution by the Board, whichever is earlier. Accordingly, the Company has, after obtaining the approval of the Board and subject to confirmation by the members, given additional guarantee to the extent of Rs.73 crores to Central Bank of India. Hence, the resolution in item no.8 of the notice is commended for your confirmation/approval.

Mr. Vineet Saraf, Mr. Ashish Saraf, Mr. A.S. Kapre, being the Directors in Facor Power Limited and Mr. R.K. Saraf being father of Mr. Ashish Saraf are deemed to be interested in the proposed resolution to the extent of their shareholding in the Company.

#### Item No. 9

Facor Power Limited, the subsidiary of the Company has been renewed working capital facilities to the extent of Rs. 1.60 crores by State Bank of Mysore subject to fulfillment of certain conditions including a Corporate Guarantee from your Company as collateral security. It is a precondition for the above renewal that Facor Power Limited should arrange a Corporate Guarantee of your Company. Accordingly, Facor Power Limited has requested your Company to extend a Guarantee for the above amount sanctioned to them by State Bank of Mysore, as aforesaid, to enable them to utilize the facilities.

The above Guarantee to State Bank of Mysore on behalf of Facor Power Limited for the working capital facilities to the extent of Rs. 1.60 crores exceeds the limits which can be approved by the Board of Directors of your Company u/s 372A of the Companies Act, 1956. However, the second proviso to sub-section (1) of Section 372A of the Companies Act, 1956 provides that the Board of Directors may, in exceptional circumstances which prevent the previous authorization by a special resolution, give corporate guarantee provided that the said Board resolution is confirmed within 12 months in a General meeting of the Company or Annual General Meeting held immediately after passing of the resolution by the Board, whichever is earlier. Accordingly, the Company has, after obtaining the approval of the Board vide resolution passed at its meeting held on 28<sup>th</sup> July, 2012, subject to confirmation by the members, given a guarantee to the extent of Rs. 1.60 crores to State Bank of Mysore. Hence, the resolution in item no. 9 of the notice is commended for your confirmation/approval.

None of the Directors except Mr. Vineet Saraf, Mr. Ashish Saraf and Mr. A.S. Kapre, being directors in the Company and in Facor Power Limited and Mr. R.K. Saraf, being father of Mr. Ashish Saraf may be deemed to be concerned or interested in the resolution to the extent of their shareholding in the Company.

Your Directors have pleasure in presenting the 56<sup>th</sup> Annual Report of your Company and the Audited Statement of Accounts for the year ended 31<sup>st</sup> March, 2012.

## FINANCIAL RESULTS

(Rs. in lacs)

Particulars	For the year ended 31 <sup>st</sup> March, 2012	For the year ended 31 <sup>st</sup> March, 2011
Gross Profit/(Loss)	767.18	6867.18
Depreciation/Amortization	975.86	997.84
Provision for taxation	131.54	2125.02
Net Profit/(Loss) for the year	(340.22)	3744.32
Transfer to General Reserve	–	2000.00
Balance carried to Balance Sheet	3844.97	4185.19

## OPERATIONS

Ferro alloys industry is a part of core sector, which supplies crucial intermediaries to the steel industry. Its growth is primarily related to the growth of steel industry domestically as well as globally. Steel Industry is marking a century since stainless steels were first created, patented and produced. During the 100 years, stainless steel has grown to be an integral part of our modern world. World's crude stainless steel production in 2011 was 32.1 million tonnes, up by 3.3% from 2010. Production in China of crude stainless steel in 2011 was 12.5 million tonnes, up by 11.9% from 2010. The production of crude stainless steel in 2012 is expected to reach 34 million tonnes. The biggest growth will again be in China, followed by India. The international steel industry is growing at a rapid pace resulting in robust demand for various Ferro Alloys like Ferro Chrome, Ferro Manganese, Ferro Silicon, Silico Manganese and noble Ferro Alloys. Indian Ferro Alloys industry has also grown during the year 2011-12.

Also, the world crude steel production reached 1,527 million tonnes (M.T.) reflecting an increase of 6.8% over 2010 and was a record for global crude steel production. Annual production for Asia was 988.2 million MT for 2011, an increase of 7.9% compared to 2010. In India the end users of steel are primarily infrastructure projects, construction of dams, malls railway stations, utensils, auto industry, defence sector etc. The major part of consumption is in infrastructure and auto industry.

Power cost continue to plague the ferro alloys industry, and forms almost 40% of the cost of production. Ever increasing price is affecting revenue and as such has rendered Indian ferro alloys product non competitive in the international market. Due to lack of proper coal allocation and high cost of coal the captive power plant setup also suffers from high cost of production which is passed on to the ferro alloys produce. Your Company, however, is a fully integrated producer owning chrome ore mines and access to captive power through its subsidiary viz. Facor Power Limited.

Your company's turnover for the current financial year, 2011-12 stands at Rs.47604.17 lacs as against Rs.48786.54 lacs last year. Exports during the year saw a slight decline against last year. Further, your company has posted a loss of Rs.208.68 lacs this year as against profit of Rs.5869.34 lacs in the previous year.

## DIVIDEND

Keeping in view the future requirements of funds in working capital and other purposes, the Directors do not recommend any dividend in the financial year ended 31<sup>st</sup> March, 2012.

## FINANCE

Your Company has not raised any deposit from public during the year.

## CONSOLIDATED FINANCIAL STATEMENTS

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

## SUBSIDIARIES

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

## PROSPECTS

As highlighted above, prospects of ferro alloys industry is dependent on the growth of steel industry. Infrastructure and auto industry are the major consumers, consequently, developing countries are major customers of all type of steel for their growth. Prospect for ferro alloys industry seems bright and is expected that demand of steel shall be doubled by 2015. As per world steel forecast, steel demand in India should grow by 6.9% in 2012 and the growth should accelerate to 9.4% in 2013. Further, the low per capita consumption of stainless steel in India which was 2.1 kg as compared to 7.5 kg in China and the world average of 4 Kg all in the 2011-12 fiscal year, constitutes a huge opportunity for growth in this sector. Indian Stainless Steel consumption will grow at a compounded annual growth rate of 9.7% reaching 3.4 million tonnes per annum by 2015, outstripping global consumption growth of 6% to 34.12 million tonnes which is a welcome sign for the ferro alloys industry as consumption of ferro alloys will increase.

Further, there are indications that there may be power shortage in South Africa, which may directly affect the production of ferro alloys to some extent. This factor may help Indian Ferro Alloys industry to utilize its idle



## DIRECTORS' REPORT TO THE MEMBERS

capacity to take seize the opportunity of meeting the shortfall by South Africa. However, full utilization of capacity may happen provided raw materials are readily available and the power cost is made internationally comparable with peers like South Africa and CIS countries.

South Africa is exporting large quantities of Chrome Ore to China and making China highly competitive to South African Ferro Chrome production. Therefore, Government of South Africa is seriously planning to impose export duty on Chrome Ore thereby the landed cost of Chrome ore in China will be exorbitant resulting in higher cost of production of Ferro Chrome. Hence, there are good prospects of export of Indian High Carbon Ferro Chrome to China.

### FUTURE STRATEGY AND GROWTH

As reported earlier, your Company, as a measure for backward integration, was setting up a 100 MW Captive Power Plant. The phase-I (One Turbine of 50MW and One Boiler) of the project was successfully synchronized on 8th July 2011 and the same was under testing till 30th September 2011. The erection & commissioning activities for phase-II (2nd Turbine of 50MW and 2nd Boiler) of the Project are in full swing and expected to be synchronized by July/August, 2012. Commissioning of 3rd boiler is expected by June/July, 2013.

Once the Power plant is fully operational the Company shall benefit by continuous supply of quality power and shall also help realize a good return on its investment by selling the excess in open market.

Further, measures are being taken to increase the capacity of production to 115000 MT p.a. from present 65000 MT p.a. New Furnace with high quality yield are being considered for capacity enhancement. This is in line with our focus on upgradation of technology for sustained growth and better utilization of resources.

Also, your company is also looking at forward integration by way of setting up green field projects, acquisitions, joint ventures etc.

### INDUSTRIAL RELATIONS

Apart from the lockout carried out by the Company on its plant located at Randia, from 29.06.11 to 10.07.11 industrial relations with the labour union were peaceful and satisfactory. The lockout was called due to unlawful activities by the labour union which resulted in non conducive and potentially unsafe work environment.

### DIRECTORS

Mr. S.B. Mishra, Mr. M.D. Saraf, Mr. Rohit Saraf and Mr. Ashish Saraf shall retire by rotation at the ensuing 56<sup>th</sup> Annual General Meeting and, being eligible, offer themselves for re-appointment.

The Company has formulated a code of conduct for all members of the Board and Senior Management Personnel. All concerned members/executives have affirmed compliance with the said code.

### DIRECTORS RESPONSIBILITY STATEMENT

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

- i) in the preparation of the annual accounts, the applicable

accounting standards have been followed along with proper explanations;

- 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) 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

Audit Committee of the Company comprises of Mr A.S. Kapre, Mr M.B. Thaker, and Mr. S.B. Mishra, all Independent Directors. The committee has been constituted in strict compliance with the provisions of Clause 49 of the Listing agreement and assumes all responsibilities provided therein, discharging their duties diligently with transparency and accountability as their sole motivation.

### AUDITORS

M/s Salve & Company, Chartered Accountants hold office upto the conclusion of the ensuing 56<sup>th</sup> Annual General Meeting. The Company has received a requisite Certificate pursuant to Section 224 (1B) of the Companies Act 1956 regarding their eligibility for reappointment as Auditors of the Company. You are requested to appoint Auditors for the current year and to fix their remuneration.

### COST AUDITORS

Your Directors had, in accordance with the General Circular from the Ministry of Corporate Affairs appointed M/s Niran & Co., Cost Accountants, as Cost Auditors for Financial Year ended 31<sup>st</sup> March, 2012, for which Central Government approval had been received by the Company. The report on Cost audit for Financial Year ended 31<sup>st</sup> March, 2012 would be filed with Central Government before 30<sup>th</sup> September, 2012. Further, your Directors have appointed M/s Niran & Co., Cost Accountants, as Cost Auditors of the Company for Financial year ended 31<sup>st</sup> March, 2013 as well for which Central Government approval has also been received.

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

A 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 as Annexure 'A' which forms part of this Report.

### PARTICULARS OF EMPLOYEES

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

## DIRECTORS' REPORT TO THE MEMBERS

of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

### CORPORATE GOVERNANCE

In terms of clause 49 of the Listing Agreement, a separate report on Corporate Governance, Management Discussion and Analysis along with your Company's Statutory Auditors' Certificate dated 28<sup>th</sup> July, 2012 confirming the above compliance is annexed to and forms part of the Directors' Report.

### ACKNOWLEDGEMENTS

Directors of the Company wish to thank the Central and State Governments for their continued support and co-operation extended towards the business as well as the company's social functions. The

Management also thanks the shareholders, Business Associates, Financial Institutions & Banks, Customers and Suppliers for the faith reposed in the Company and in them. The Board expresses its sincere appreciation to the dedicated and committed team of employees and workmen without whom reaching this far and maintaining the standard and quality of the products for which the company is famous, would not have been possible. We look forward to all of your continued support. Let us grow and move ahead together.

On behalf of Board of Directors,

Place : New Delhi

**R.K. SARAF**

Dated : 28<sup>th</sup> July, 2012

CHAIRMAN & MANAGING DIRECTOR

## ANNEXURE 'A' TO THE DIRECTORS' REPORT

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

### A CONSERVATION OF ENERGY:

- Measures Taken
- Additional investment and proposals if any being implemented for reduction of consumption of energy
- Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods.
- Total energy consumption and energy consumption per unit of production in prescribed form 'A'.

Conservation of Energy is an ongoing process and is always attached great importance. Installation of efficient electric equipments and other measures taken in recent past have brought down energy consumption. However, it is difficult to quantify the same and/or assess its impact on cost of production.

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

### B) TECHNOLOGY ABSORPTION:

Research & Development (R&D):

- Specific areas in which R & D carried out by the company
- Benefits derived as a result of the above R&D
- Future Plan of action
- Expenditure on R&D

R&D in the operation of Ferro Chrome Production and manufacturing of briquettes is a continuous process. Studies to recover the entrapped metal from the discharged slag are in progress.

- : The Company is analyzing and experimenting different methods of briquetting to cut down cost of production.
- : Recurring expenditure on R&D has been shown under respective heads of accounts in Profit & Loss Account.

- Technology absorption, adaptation and innovation:

- Efforts, in brief, made towards technology absorption, adaptation and innovation. : Not applicable since no new technology has been adopted
- Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc. : Not applicable
- Information regarding technology imported during last 5 years : No technology has been imported during the last five years.

### C) FOREIGN EXCHANGE EARNINGS AND OUTGO:

- Activities relating to exports, initiatives taken to increase: exports, development of new export markets for products and services; and export plans
- Total Foreign Exchange used and earned (2011-12) :
- i) CIF value of imports
- ii) Expenditure in Foreign currency
- iii) Foreign exchange earned on FOB basis

To explore new avenues of exports and to understand latest developments in the international markets, your directors undertake foreign tours as and when required.

**Rs. in lacs**

**2993.38**

**730.57**

**24158.96**

On behalf of Board of Directors,

**R.K. SARAF**

CHAIRMAN & MANAGING DIRECTOR

Place : New Delhi

Dated : 28<sup>th</sup> July, 2012



## MANAGEMENT DISCUSSIONS AND ANALYSIS

### INDUSTRY STRUCTURE, DEVELOPMENT AND OTHER RELATED MATTERS

Ferro Alloys industry, which was established as an ancillary industry to cater to the growing needs of the domestic steel industry has come a long way and now forms part of core sector under the Ministry of Steel and is one of the oldest industry in India. The ferro alloys industry supplies crucial intermediates to the steel industry and its growth is linked to the growth of the steel industry, domestically as well as globally. The present capacity of Indian ferro alloys industry can comfortably cater to the requirement of domestic steel industry to produce 120 Million Tons. This capacity of steel industry is expected to increase to 132 Million tons by 2016-17. The present installed capacity of ferro alloys industry is 4.65 Million Tons p.a. operating at 62% capacity.

Despite being on par in terms of quality with the produce of CIS nations Indian ferro alloys products fail to shine in international market owing to their expensive nature. Price cues for global sales are determined in line with those fixed by South Africa, Kazakhstan and China. Also, the high cost of power in India compared to other ferro alloy producing countries of the world is the major factor limiting the capacity utilization of the industry.

The dismal state of the ferro alloy products is further impacted by unavailability of good quality raw materials thus rendering the industry to depend on imports which, in turn, increases the cost of production further. As a result the ferro alloys product manufactured in India loses competitiveness in the international market. Although the Government has partially reduced the input cost but cost of power is still very high and as a result, cost of ferro chrome produced by Ferro Alloys industry in India is comparatively higher.

### RISKS AND CONCERNS / OPPORTUNITIES AND THREATS / OUTLOOK

Ferro alloys industry expects and requires a level playing field to compete with the international producers in the global market. Being an ancillary industry to steel sector, ferro alloys industry is critical for the growth of the former and national infrastructure in general. The cyclical trend of the industry further makes the environment delicate and tumultuous. To render the industry viable and competitive investment should be encouraged in the sector by providing low cost financing, tax holidays/ incentives and fiscal support for export promotion. Customs duty on raw materials should be reduced and scarce raw material like manganese ore, chrome should be made easily available for utilization of the total installed capacity which is idle by 38% at present. .

Following is a brief list of the major concern affecting the Indian ferro alloys industry:

- industry has time and again raised the concern that the present import duty of 5% be hiked to 7.5 to curb the flow imports which

is yet to be considered and given effect by the Government

- Lack of uniform electricity tariff and high power cost renders Indian ferro alloy products non – competitive. The tariff should be brought to international comparable price.
- Besides high cost of LAM coke its availability has also become an issue with production failing to meet the demand.
- Need to control the export of friable chrome ore/ concentrate, so that the same is available to domestic industry ; and
- lack of raw materials have rendered under utilization of installed capacity.

Indian Ferro Alloys industry has potential to be internationally competitive if the concerns of the industry outlined above are addressed by the Government. At the same time, indian economy is expected to return to a 9% growth trajectory as inflationary pressures begin to soften and reach a manageable levels. The outlook for ferro alloys industry in 2012-13 remains stable considering stabilization of economy in major parts of the world and especially in steel industry after world wide recession. Also, the following steps taken provide an insight for a better tomorrow for ferro alloys industry

- Import duty on vanadium pentaoxide and vanadium sludge, which go into the making of noble alloys.
- Control over export of friable chrome ore by imposing import duty on chrome ore to 30% of value from Rs.3000/- per MT signals governments intent to ensure availability in domestic market
- The sanction of duty free import of stainless steel scrap shall boost the demand resulting in increase in demand for ferro alloys product.
- The budgetary concessions shall definitely give a fillip to the local demand, however, to sustain the push there is urgency for early commissioning of various stainless steel capacity.
- As regards the power cost ferro alloys producers are now focusing on making their units self reliant by setting up their own power units. This not only reduces the input cost but ensures continuous supply of quality power. In the long run this effort of backward integration shall definitely help the domestic ferro alloys producers compete in the international market.

### FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Your company for the FY 2011-12 registered a turnover of Rs.47604.17 lacs as against Rs.48786.54 lacs last year, recording a decrease of 2.42%. Exports at Rs.25770.19 lacs this year compared to Rs.28231.01 previous year reflect a decline of 8.70%. The Company posted a loss of Rs. 208.68 lacs during the year as against profit of Rs. 5869.34 lacs in the previous year.

The performance was impacted on the back of general slow down in China coupled with debt crisis in Europe. Consequently, the

performance of your company was also impacted but with recoveries happening in the economies the world over, your company's performance improved but still could not completely offset the losses during the initial nine months period ending 31<sup>st</sup> December, 2011. However, the performance of the Company during FY 2012-13, barring unforeseen circumstances, is expected to be better.

### **INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

The Company has placed systems and procedures of internal control and checks in operation commensurate with the size and the nature of its business for optimum utilization of available precious resources. The mechanism of internal control and checks are reviewed by the management, internal and statutory auditors from time to time and suitable changes/ modifications are implemented so as to ensure that an effective scheme of checks and balances exists at all times. The management is reasonably satisfied with the existing internal control systems. The Audit Committee of Board of Directors also reviews these matters from time to time in their meetings.

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

The manpower employed is around 945 excluding indirect employment. Apart from the lockout carried out by the Company on its plant located at Randia, from 29.06.11 to 10.07.11 industrial relations with the labour union were peaceful and satisfactory. The lockout was called due to unlawful activities by the labour union which resulted in non conducive and potentially unsafe work environment.

### **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.

## **CORPORATE GOVERNANCE REPORT**

### **1. COMPANY'S PHILOSOPHY**

Creating value for our stakeholders in line with the principles of fairness, equity, transparency, accountability and dissemination of information is the underlying belief of Facor. Business operations, expansion and diversification is considered from a holistic view and social responsibility towards the society, in general and environment, in particular is not ignored.

We continuously strive to create conducive environment to foster growth, innovation and leadership. Level playing opportunity is provided to all. Employees are considered the most valuable assets and form the FACOR family. Together we resolve to move forward for a better future.

### **2. BOARD OF DIRECTORS**

The Board of FACOR is comprised of individuals having varied experience in different form of businesses and are considered stalwarts in their respective fields. The composition of the Board is in line with the Listing Agreement and is strictly adhered to at all times. The Board members are handpicked to provide for optimum mix of knowledge and experience. The optimum ratio of executive – non executive Board members provides for the required vigilance and security required for enhancement of organizational capabilities. The executive – non-executive members provide for a structure of performance and control.

The composition of the Directors as on 31<sup>st</sup> March, 2012 was as follows:-

Name of Director	Category	No of Board Meetings attended	Whether last AGM Attended	No. of Outside Directorship held	Outside Committee Position Held	
				Public	Member	Chairman
Mr R.K. Saraf, Chairman & Managing Director	Executive*	5	Yes	3	–	1
Mr. Manoj Saraf, Managing Director	Executive*	3	Yes	1	–	–
Mr. Harish Salve \$	Non-Executive Independent	2	No	–	–	–
Mr. A.S. Kapre	Non-Executive Independent	5	Yes	2	1	3