



# GRAPHITE INDIA LIMITED

**ANNUAL REPORT 2009-10**

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Mr. K. K. Bangur, Chairman  
Mr. Bhaskar Mitter  
Mr. P. K. Khaitan  
Mr. S. Goenka  
Mr. N. S. Damani  
Mr. A. V. Lodha  
Dr. R. Srinivasan  
Mr. D. J. Balaji Rao  
Mr. J. D. Curravala  
Mr. N. Venkataramani  
Mr. M. B. Gadgil, Executive Director

## COMPANY SECRETARY

Mr. B. Shiva

## AUDITORS

Price Waterhouse

## SOLICITORS

Khaitan & Co.  
Orr, Dignam & Co.

## BANKERS

Bank of India  
Canara Bank  
Corporation Bank  
Citibank N.A.  
HDFC Bank Limited  
ICICI Bank Limited  
IDBI Bank Limited  
ING Vysya Bank Limited  
Punjab National Bank  
State Bank of India  
UCO Bank

## REGISTERED OFFICE

31, Chowringhee Road, Kolkata 700 016  
Ph : (033) 22265755/2334/4942

# NOTICE

NOTICE is hereby given that the Thirty Fifth ANNUAL GENERAL MEETING of Graphite India Limited will be held on Thursday, the 29th day of July, 2010 at 10.00 A.M. at Kala Kunj Auditorium (Sangit Kala Mandir Trust) 48, Shakespeare Sarani, Kolkata- 700 017 to transact the following business :

## ORDINARY BUSINESS

1. To receive, consider and adopt Directors' Report and Audited Profit & Loss Account for the year ended 31st March, 2010 and the Balance Sheet as at that date.
2. To declare dividend on Equity Shares for the year ended 31st March, 2010.
3. To appoint a Director in place of Mr. D. J. Balaji Rao who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Mr. P. K. Khaitan who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Mr. Sanjiv Goenka who retires by rotation and being eligible offers himself for re-appointment.
6. To appoint Auditors of the Company and fix their remuneration.

By Order of the Board  
For Graphite India Limited

Kolkata  
May 13, 2010

B. Shiva  
Company Secretary

## NOTES :

- a. The relevant Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 is annexed hereto.
- b. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- c. The Register of Members and Share Transfer Books of the Company will remain closed from Friday, 16th July, 2010 to Thursday, 29th July, 2010 (both days inclusive).
- d. No Director is related to any other Director on the Board in terms of the definition of 'relative' given under the Companies Act, 1956. At the ensuing General Meeting Mr. D. J. Balaji Rao, Mr. P. K. Khaitan and Mr. Sanjiv Goenka, Directors, retire by rotation and being eligible offer themselves for re-appointment. A brief resume, their shareholding in the Company and names of other companies in which they hold directorships are given below:

Mr. D. J. Balaji Rao, aged 70 years, holds a Degree in Mechanical Engineering and PG Diploma in Industrial Engineering. He attended the Advanced Management Program at the European Institute of Business Administration, France in 1990. He pursued his career as an Industrial Engineer for about 8 years before joining erstwhile ICICI Ltd. (since merged with ICICI Bank Ltd) in 1970. After wide ranging responsibilities in different locations, he reached the position of Dy. Managing Director. He subsequently took over as the Vice Chairman and Managing Director of SCICI Ltd., in August 1996. With the merger of SCICI Ltd. with ICICI Ltd., he moved to Infrastructure Development Finance Co. Ltd. (IDFC), as its first Managing Director, which he served till his superannuation in January 2000. He is currently the Chairman of 3M India Limited and also sits on the Board of several well-known companies in India. He does not hold any equity shares in the Company.

### Other Directorships

	Name of the Company	Position
1	Bajaj Auto Ltd.	Director
2	Ashok Leyland Ltd.	Director
3	3 M India Ltd.	Director
4	Hinduja Foundries Ltd	Director
5	J S W Energy Ltd.	Director
6	Bajaj Finserv Ltd.	Director
7	Bajaj Holdings and Investment Ltd.	Director
8	Bajaj Auto Finance Ltd.	Director
9	CMI-FPE Ltd.	Director

#### Other Committee Memberships -

	Name of the Company	Committee	Position
1	Bajaj Auto Ltd.	Audit Committee Shareholders Grievance Committee Remuneration Committee	Member Chairman Chairman
2	Ashok Leyland Ltd.	Audit Committee Remuneration Committee	Member Chairman
3	3M India Limited	Shareholders Grievance Committee Audit Committee	Chairman Member
4	Hinduja Foundries Ltd	Audit Committee	Chairman
5	J S W Energy Ltd.	Audit Committee Remuneration Committee	Member Member
6	Bajaj Finserv Ltd.	Audit Committee Remuneration Committee	Member Member
7	Bajaj Holdings and Investment Ltd.	Remuneration Committee	Member
8	CMI FPE Ltd.	Audit committee Remuneration Committee	Chairman Member

Mr. Pradip Kumar Khaitan aged 69 years, B.Com, L.L.B., Attorney-at-Law (Bell Chambers Gold Medalist) is an eminent legal personality in the country. He is a member of the Bar Council of India, Bar Council of West Bengal and Indian Council of Arbitration, New Delhi. His areas of specialization are Commercial and Corporate Laws, Tax Laws, Arbitration, Intellectual Property, Foreign Collaboration, Mergers and Acquisition, Restructuring and De-mergers. Mr.Khaitan is on the Board of several well-known Companies in India. He is the Chairman of the 'Remuneration Committee' and member of the 'Committee for Borrowings' and "Committee of Directors-FCCB Issue" of the Company. He does not hold any equity shares in the Company.

#### Other Directorships

	Name of the Company	Position
1	CESC Limited	Director
2	Dalmia Cement (Bharat) Limited	Director
3	Electrosteel Castings Limited	Director
4	Emaar MGF Land Limited	Director
5	Gillanders Arbuthnot & Co. Ltd.	Director
6	Hindustan Motors Limited	Director
7	India Glycols Limited	Director
8	OCL India Limited	Director
9	Pilani Investment & Industries Corpn. Ltd.	Director
10	South Asian Petrochem Ltd.	Director
11	Suzlon Energy Limited	Director
12	Visa Steel Limited	Director
13	Woodlands Medical Centre Limited	Director

#### Other Committee Memberships

	Name of the Company	Committee	Position
1	CESC Limited	Finance & Forex Committee Remuneration Committee	Member Chairman
2	Emaar MGF Land Limited	Shareholders and Investors Grievance Committee	Member
3	Gillanders Arbuthnot & Co. Limited	Remuneration Committee Shareholders and Investors Grievance Committee	Member Member

	Name of the Company	Committee	Position
4	Hindustan Motors Limited	Executive Committee Investors Grievances Committee Remuneration Committee	Member Member Member
5	Pilani Investment & Industries Corporation Limited	Audit Committee	Member
6	South Asian Petrochem Limited	Remuneration Committee	Member
7	Suzlon Energy Limited	Audit Committee Remuneration Committee Investor Relations Committee	Member Member Member
8	VISA Steel Limited	Remuneration Committee Finance & Banking Committee Selection Committee	Member Member Member

Mr. Sanjiv Goenka aged 49 years, is Vice Chairman of RPG Enterprises, one of India's top industrial group (turnover USD 3 billion), involved in power, transmission, tyres, entertainment, organized retailing, IT, lifescience etc. He has been President of CII and Indian Chamber of Commerce and Chairman, Board of Governors, IIT Kharagpur. Mr Goenka is President of All India Management Association (AIMA). He is member of Indo-French Forum, India-China Eminent Persons Group, National Integration Council and of Board of Governors, International Management Institute, New Delhi. He is Honorary Consul of Canada in Kolkata. He does not hold any equity shares in the Company.

#### Other Directorships

	Name of the Company	Position
1	RPG Enterprises Ltd.	Vice Chairman
2	CESC Ltd.	Vice Chairman
3	Phillips Carbon Black Ltd.	Chairman
4	Spencer International Hotels Ltd.	Chairman
5	Spencer and Company Ltd.	Chairman
6	Spencer's Travel Services Ltd.	Chairman
7	Harrisons Malayalam Ltd.	Chairman
8	Noida Power Company Ltd.	Director
9	Saregama India Limited.	Director
10	Eveready Industries India Ltd.	Director
11	Woodlands Medical Centre Ltd.	Chairman

#### Other Committee Memberships

	Name of the Company	Committee	Position
1	CESC Limited	Audit Committee Investor Grievances Committee Finance & Forex Committee	Member Chairman Member
2	Saregama India Ltd.	Shareholders Grievance Committee	Chairman
3	Eveready Industries India Ltd.	Audit Committee Remuneration Committee	Member Member

- e. Dividend on Equity Shares when sanctioned will be made payable to those shareholders whose names stand on the Company's Register of Members on 29th July, 2010 and to whom dividend warrants will be posted. In respect of shares held in electronic form, the dividend will be paid on the basis of beneficial ownership as per details furnished as on 15th July, 2010 by the depositories for this purpose.
- f. Unclaimed dividend amounts upto the financial years ended 31st March, 1995 declared by the Company have been transferred to the General Revenue Account of the Central Government in terms of the provisions of Section 205A of the Companies Act, 1956. Members who have not encashed the dividend warrants are requested to prefer their claim to the Office of Registrar of Companies, West Bengal, Nizam Palace, 234/4, A.J.C. Bose Road, Kolkata-700 020. Members can obtain details of the transfers made to the Central Government from the Company.

- g. Members are hereby informed that dividends which remain unclaimed/ unencashed over a period of 7 years have to be transferred by the Company to the Investor Education & Protection Fund (IEPF) established by the Central Government under Sec. 205(C) of the Companies Act, 1956. Unclaimed / un-encashed dividend declared by the Company for the year ended 31st March, 2003 would be transferred to the said fund in the last week of August, 2010.

It may be noted that no claim of the shareholders will be entertained for the unclaimed dividends which have been transferred to the credit of the IEPF under the provisions of Sec. 205(B) of the Companies Act, 1956. In view of the above, the shareholders are advised to send all the unencashed dividend warrants to the Registered Office/ Mumbai office of the Company for revalidation and encash them immediately. Unclaimed/ Unencashed dividend for the year ended 31st March, 2002 has already been transferred to the IEPF.

- h. The Company has entered into agreements with National Securities Depository Ltd (NSDL) and Central Depository Services (India) Ltd (CDSL). Shares of the Company are under the compulsory demat settlement mode from May 8, 2000 and can be traded only in demat mode. Members are advised to send the shares of the Company held in physical form through their Depository Participant for demat purposes to the Company's Registrars and avail the benefits of paperless trading.
- i. Members are requested to affix their signature at the space provided in the attendance slip with complete details including the Folio No. annexed to the proxy form and hand over the slip at the entrance of the place of meeting.
- j. Members are requested to notify change in their address, if any, immediately to the Company's Registrar, Link Intime India Pvt. Ltd., C-13, Pannalal Silk Mills Compound, L B S Marg, Bhandup (W), Mumbai 400 078 or to their Kolkata office at 59C Chowringhee Road, 3rd Floor, Kolkata 700 020.

By Order of the Board  
For Graphite India Limited

Kolkata  
May 13, 2010

B. Shiva  
*Company Secretary*

## DIRECTORS' REPORT

The Directors have pleasure in presenting their Thirty Fifth Annual Report together with the audited statement of accounts of the Company for the year ended 31st March, 2010.

### FINANCIAL RESULTS

Rs. in Crore

Particulars	2009-10	2008-09	2009-10	2008-09
	Graphite India Limited		Graphite India Limited Consolidated	
Sales / Income from Operations – (Gross)	1178.22	1182.73	1394.06	1557.86
Profit for the year after charging all expenses but before providing interest, depreciation and tax	409.28	261.04	428.27	332.91
Less : Interest	10.49	25.94	14.47	35.10
Profit before depreciation and tax	398.79	235.10	413.80	297.81
Less : Depreciation	39.54	34.35	49.94	44.04
Profit before taxation	359.25	200.75	363.86	253.77
Less : Provision for taxation -				
Current Tax	116.00	23.50	117.69	34.87
MAT Credit	—	(23.50)	(0.07)	(23.50)
Earlier years	0.08	13.78	0.11	13.79
Deferred	11.00	(7.25)	11.28	(7.56)
Fringe Benefit	—	0.65	—	0.65
Profit for the year	232.17	193.57	234.85	235.52
Add : Balance brought forward from the previous year	44.39	10.83	142.97	67.67
Transfer from Debenture Redemption Reserve	3.90	—	3.90	—
	<u>280.46</u>	<u>204.40</u>	<u>381.72</u>	<u>303.19</u>
Which has been appropriated as under :				
Proposed Dividend on Equity Shares	60.03	51.29	60.03	51.29
Dividend Tax	9.97	8.72	9.97	8.72
Transfer to General Reserve	100.00	100.00	100.00	100.00
Reserve Fund	—	—	0.59	0.21
Balance carried forward	<u>110.46</u>	<u>44.39</u>	<u>211.13</u>	<u>142.97</u>
	<u>280.46</u>	<u>204.40</u>	<u>381.72</u>	<u>303.19</u>

### BUSINESS REVIEW

The Indian economy as a whole has shown remarkable resilience in containing the ill-effects of the continuing global economic crisis. While there was a significant decline in the economic activity across the globe, in the year gone

by, the major relief however is that the worst of the economic slowdown apparently seems to be behind us. Demand in the domestic economy has witnessed positive growth since the Q2 of current fiscal and is likely to gain further momentum-going forward. The Global recovery too is more pronounced than earlier expectations, bolstered

by the emerging and developing economies—especially China, Russia and Brazil — driven mainly by their buoyant internal demand. IMF has projected the US economy to grow by 3% and world economic growth to be around 4% for the year 2010. This augurs well for the year ahead and corporates which had put their plans of capacity expansion “on hold” are once again looking at expansions with renewed hope and vigour.

The Indian GDP Growth rate which had gone down from 9% in 2007-08 to 6.7% in 2008-09 has risen to 7.2% in 2009-10. The real turnaround came in the second quarter of 2009-10, when the economy grew by 7.9 per cent. The industrial and service sectors grew by 8.2 and 8.7 percent respectively, while growth in the manufacturing sector more than doubled from 3.2 per cent in 2008-09 to 8.9 per cent in 2009-10. Riding on the strong industrial growth, India's GDP is expected to grow at 8.5% for the year 2010-2011 and 9% for the year 2011-2012.

#### GRAPHITE INDIA

In spite of this challenging business scenario, the Company has been able to post a satisfactory performance, primarily as a result of the cost optimization efforts carried out across all product divisions and functions. Despite lower sales volumes, the higher sales realization, lower input costs and reduction in operational costs helped in improving the operating margins of the Company during the year.

Gross sales for 2009-10 were Rs. 1178 crore as against Rs. 1183 crore in the previous year and PAT was Rs. 232 crore for the current year as against Rs.194 crore in the previous year.

The Company's Graphite and Carbon Segment (Graphite Electrodes) continue to be the main source of income and profit for the Company, accounting for about 82% of the total revenues. Though domestic demand recovered from Q2 of the current fiscal, overseas demand continued to be depressed. While sales by volume was lower, both domestic and export price realization were higher, which led to higher profitability.

The Company had raised USD 40 Million by way of Foreign Currency Convertible Bonds in October 2005, of which USD 30.2 Million is outstanding and if not converted will be redeemed in October-2010. FCCB of USD 0.675 mn were converted into 536,973 equity shares at a premium of Rs.53.31 per share, of the Company

during the year. Out of FCCB funds, Rs.13.38 crore was utilized to fund various capital expenditure requirements out of proceeds of Bonds during the year.

The German operations have been affected severely by the subdued demand in EU during the year.

#### DIVIDEND

The Directors are pleased to recommend the payment of Dividend @ Rs. 3.50 per equity share on equity shares of Rs. 2/- each.

#### MANAGEMENT DISCUSSION AND ANALYSIS REPORT

##### (i) Industry's structure and developments

##### A. GRAPHITE ELECTRODE BUSINESS

Capacity utilization of this segment was 52% as compared to the previous year of 85%. Production was attuned to demand, while keeping some buffer stock for across the counter sale. Procurement of key raw materials continued as per commitment made to the suppliers. In these times of unpredictable condition, customers resorted to quarterly purchase cycle, instead of the earlier practice of annual contracts.

Graphite Electrode is used in electric arc furnace (EAF) based steel mills for conducting current and is a consumable item for the steel industry. The estimated world capacity for manufacture of Graphite Electrode in EAF is over 1 million metric tonnes. The principal manufacturers are based in USA, South America, Europe, India, China and Japan.

Graphite Electrode demand is primarily linked with the global production of steel in electric arc furnaces. Between the two basic routes for steel production - (1) Blast Furnace (BF); and (2) Electric Arc Furnace (EAF) – the EAF route to steel production has increased over the last two decades from 26% to about 32% at the global level. The share of EAF is expected to grow further in years to come due to its inherent favourable characteristics of (a) an environment friendly and less polluting production process; (b) low capital cost; and (c) faster project commissioning time. Fresh investments in EAF steel mills are characterised by large furnace capacities requiring large diameter UHP Electrodes. It is expected that the demand for UHP Electrodes will grow in proportion.

The global production of steel during 2009 at 1.2 billion

metric tonnes, was less by 8.1% as compared to 1.31 billion metric tonnes in 2008.

Thus the relatively weak demand in the steel consuming sectors and a sharp destocking of inventory in the steel supply chain resulted in steep fall in demand of crude steel as well as Graphite Electrodes. Our production plans for Graphite Electrodes were accordingly rationalised across plants to derive the optimal benefit from the respective operating efficiencies and manufacturing costs.

Graphite India signaled its international debut in the 750 mm (30") dia. electrodes by receiving two export orders during the year. Production and sale of Graphite Electrodes, and Speciality Graphite Products in volume terms were lower during the financial year, owing to the weak demand. However, the price realization was higher, resulting in higher revenues.

Though developed economies like Europe, USA & Japan continue to reel under recessionary pressure, steel production and electrode demand in India and some Asian economies have recovered back to pre-recession levels or in some cases, even more. As a result, American, European and Japanese suppliers of graphite electrode are aggressively entering the Indian and other Asian markets to garner volumes. Hence prices in the international as well as domestic market have softened during Q3 & Q4 of 2009-10. It is expected that there will be further softening of electrode prices in Q1 & Q2 of 2010-11 followed by firming up of the prices due to expected recovery in the global steel production.

Due to this limited visibility into FY 2010-11, it is difficult to make a realistic projection of the Company's performance in the next year.

Nevertheless, it is expected that by mid 2011-12 the steel industry would revive to its full potential. As a result the Company has revised its expansion plan at Durgapur from the initial 10,500 MTPA to 20,000 MTPA. The additional capacity of 9,500 MT will be commissioned with a very low incremental cost of Rs. 67.50 crore. This capacity of 20,000 MT will be installed with eco-friendly, energy-efficient advanced technology leading to a more cost-efficient and sustainable operation in the long term.

#### Coke Division

The Coke Division in Barauni, engaged in the manufacture of Calcined Petroleum Coke (CPC), Electrode Paste and Tamping Paste is one of the many backward integration

initiatives of the Company. Two grades of CPC - aluminium and graphite – are produced here. CPC is a raw material used in the manufacture of regular and high power grade Graphite Electrodes. This is also a critical raw material for fine grained high density graphite used in speciality graphite products and Impervious Graphite Equipment. Electrode Paste is used in ferro alloy smelters and Tamping Paste is used as a lining material in steel and aluminium smelters.

Production and sale of Calcined Petroleum Coke and Carbon Paste were higher in volume terms during the year in comparison with that of the previous year. Led by the buoyant domestic market, this Division has performed well during the year.

#### B. GRAPHITE EQUIPMENT BUSINESS

The Impervious Graphite Equipment (IGE) Division is engaged in manufacturing and marketing heat exchangers, ejectors, pumps and turnkey plants at its Nashik Works. The Graphite Equipments have wide range of applications in corrosive chemicals industries such as pharmaceutical, agro-chemical, chloro alkali and fertilizer industries.

This Division too was under demand pressure due to the low levels of fresh investment in new projects, both within the country and overseas. Majority of projects were kept on hold due to recession. While domestic market is showing some signs of revival, there is no sign of improvement in the export market and the export order book position continues to be around 50% less than the previous year.

Modernisation and expansion work of this division to improve overall manufacturing efficiency has been completed.

The regulatory requirement of export licences and the delay in obtaining the same, has to some extent affected the delivery lead times resulting in loss of some business from the overseas customers. New regulation formulated by DGFT requiring permissions to be obtained for visits of overseas customers is likely to result in certain impediments in pursuing export business, effectively.

#### C. GRP PIPES & TANKS BUSINESS

Glass Reinforced Plastic (GRP) Pipes and Tanks Division is engaged in manufacturing and marketing of GRP Pipes and Tanks. The Company converts users of conventional pipes to GRP through re-engineering, strategic marketing,

superior product quality, competitive pricing and value-added services.

Second manufacturing line which will enable production of pipes up to a diameter of 3000 mm has been commissioned during the year.

#### D. POWER

The Company has an installed capacity of 33 MW of power generation through Hydel (19.5 MW) and Multi-fuel routes (13.5 MW).

Generation through hydel route was higher by 22% during the year owing to good rainfall in the region.

Power supply from Wardha Power Company (WPC), with whom the Company had entered into a long term agreement and had made a commitment to invest Rs. 9 crore in WPC, is expected to commence later in the year 2010-11.

Multi-fuel generating capacity was not operational for most part of the year due to high cost of generation as well as lower capacity utilization in Graphite Electrode Plants.

Power is a major cost input in the manufacturing of Graphite Electrodes. The cost of power from grid continues to rise year-over-year. The power requirement at Durgapur Plant will go up with the on going expansion. In order to reduce dependence on grid power and ensure availability of quality power at economical rate, the Company is setting up a coal based thermal power plant of 50 MW capacity at Durgapur. This will enable Graphite India to further optimise its cost of production and increase its competitiveness in the global market.

#### E. POWMEX STEELS DIVISION (PSD)

Powmex steels is engaged in the business of manufacturing high speed steel and alloy steel having its plant at Titilagarh in the State of Orissa. PSD is the single largest manufacturer of High Speed Steel (HSS) in the country. Its current market share is estimated at around 60%. HSS is used in the manufacture of cutting tools such as drills, taps, milling cutters, reamers, hobs, broaches and special form tools. HSS cutting tools are essentially utilized in – (a) automotive; (b) machine tools; (c) aviation; and DIY market. The industry is categorized by one dominant quality manufacturer of HSS viz. PSD and other small manufacturers who cater to the lower end of the quality spectrum in the retail segment. On the demand side, the industry is broadly

divided into large and small cutting tool manufacturers who use both domestic and imported HSS. PSD faces competition from small domestic producers and imports from large overseas manufacturers.

#### (ii) Opportunities and threats

The Company's export turnover constituted about 45% of its total turnover. Driven by increased demand in domestic and export markets, there was all-round growth in the past years and the Company thus benefited from the opportunities. Expansion of capacity brought economies of scale. There is constant need for improvement of quality. To a great extent the increased sales captured by penetrating into new markets, enlisting new customers and increasing the market share in its existing markets, have contributed to this steady growth.

Export sales decreased significantly in volume during the year under review as a result of the worldwide recession which set in since October 2008. Globally, though a glimmer of recovery was apparent since June 2009, the rate of recovery seems to be relatively slow and pegged down by uncertainties.

The Company is equipped and geared to face even these extreme business challenges and is hopeful of realising its business goals.

#### (iii) Segment-wise Performance

#### TOTAL SALES OF THE COMPANY

The Company achieved a turnover of Rs. 1149 crore which incidentally was the same in the previous year.

Aggregate Export Sales of all divisions at Rs. 528 crore were marginally lower as against Rs. 615 crore in the previous year.

#### (a) Graphite and Carbon Division

Production of Graphite Electrodes, Anodes and Other Miscellaneous Carbon and Graphite Products during the year under review was 41,086 MT against 67,813 MT in the previous year.

Production of Calcined Petroleum Coke during the year was 30,781 MT as against 28,348 MT in the previous year.

The price of Needle Coke went up during the year. The cost of energy has also risen steeply. Cost of other inputs has shown a downward trend.