



GRAPHITE INDIA LIMITED



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. Curavala
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
Citibank N.A.
Corporation Bank
HDFC Bank Limited
ICICI Bank Limited
IDBI Bank Limited
ING Vysya Bank Limited
Punjab National Bank
State Bank of India
The Hongkong and Shanghai Banking Corporation Limited
UCO Bank

REGISTERED OFFICE

31, Chowringhee Road, Kolkata 700 016
Phone No. : +91 33 22265755/2334/4942, 40029600
Fax No. (033)22496420
Email : corp_secy@graphiteindia.com
Website : www.graphiteindia.com

NOTICE

NOTICE is hereby given that the Thirty Sixth ANNUAL GENERAL MEETING of Graphite India Limited will be held on Monday, the 25th day of July, 2011 at 10.00A.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, 2011 and the Balance Sheet as at that date.
2. To declare dividend on Equity Shares for the year ended 31st March, 2011.
3. To appoint a Director in place of Mr. A. V. Lodha who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Mr. N. S. Damani who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Mr. K. K. Bangur 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 9, 2011

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 Monday, 11th July, 2011 to Monday, 25th July, 2011 (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. A. V. Lodha, Mr. N. S. Damani and Mr. K. K. Bangur, 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. A. V. Lodha, aged 45 years is a qualified Chartered Accountant and is the Country Managing Partner of Lodha & Co. He has over 24 years of experience in providing advisory services to a diverse client base across a wide spectrum of industries. He has handled various consultancy assignments in fields of corporate restructuring, mergers & acquisitions, joint ventures, collaborations, business strategy etc. He has also assisted large Indian corporates to raise resources from the overseas capital markets and also advises many clients on market investments.

Mr. Lodha served as the President of the Indian Chamber of Commerce (ICC), Kolkata twice i.e., in 1998-99 and in 2001-02 in its 75th year (Platinum Jubilee Year) as well as served as the Chairman of its Banking and Finance Committee. He has also served as a Member of The National Council of CII and was National Committee Chairman of its Accounting Standards & Corporate Disclosures and Tax Committees. He served as a member of the High Level Naresh Chandra Committee for corporate audit and governance, appointed by the Government of India, Governing Body of Indian Council of Arbitration, Governing Council of the Central Manufacturing Technology Institute, Bangalore, Peer Review Board of Institute of Chartered Accountants of India, Industrial Development Bank of India's Eastern Regional Advisory Board, State Advisory Board on Investment Promotion in Tripura. He does not hold any share in the Company.

Other Directorships

	Name of the Company	Position
1	Alfred Herbert (India) Ltd.	Director
2	Herbert Holdings Ltd.	Director
3	Shalimar Paints Ltd.	Director

Other Committee Membership

Name of the Company	Committee	Position
Shalimar Paints Ltd.	Shareholders' Grievance Committee	Chairman
	Audit Committee	Member
	Remuneration Committee	Member

Mr. N. S. Damani, aged 58 years, is an industrialist and is presently Chairman & Managing Director of Simplex Realty Limited. He is a science graduate and has completed business management studies. He has around 32 years experience in business and industry. He does not hold any share in the Company.

Other Directorships

Name of the Company	Position
Simplex Realty Limited	Chairman & MD
Simplex Renewable Resources Pvt. Ltd.	Director
The Nav Bharat Refrigeration & Industries Ltd.	Director
New Textiles Private Limited	Director
Shreelekha Global Finance Limited	Director
Lucky Vyapaar & Holdings Pvt. Limited	Director
Enas Foundation (U/s 25)	Director

Other Committee Memberships

Name of the Company	Committee	Position
Simplex Realty Limited	Shareholder/ Investors Grievance Committee	Member
The Nav Bharat Refrigeration & Industries Ltd.	Shareholder/ Investors Grievance Committee	Member
	Remuneration Committee	Member

Mr. K. K. Bangur, aged 50 years, Chairman of the Company is an industrialist of repute. He has been exposed to business and industry at an early age and has more than 25 years of experience in managing the affairs of companies and its business activities. He has been a director of the Company since July 1988 and Chairman since July 1993. He is President of All India Organization of Employers (AIOE) and Member, Board of Governors of Indian Institute of Social Welfare and Business Management (IISWBM) and Chairman of Council of Indian Employers (CIE). He is a past President of Indian Chamber of Commerce, Kolkata and Executive Committee member of FICCI. He is Chairman of the Shareholders / Investors Grievance Committee and 'Committee for Borrowings' of the Company. As per Company records, he holds 510,885 shares of the Company.

Other Directorships

	Name of the Company	Position
1	The Bond Company Limited	Chairman
2	Carbon Finance Limited	Chairman
3	The Emerald Company Limited	Chairman
4	H.L. Investment Co. Limited	Chairman
5	Laxmi Asbestos Products Limited	Director
6	RPG Enterprises Limited	Director
7	Shree Laxmi Agents Limited	Chairman
8	West Bengal Properties Limited	Director
9	BCC Mercantile Ltd.	Director
10	Innovative Properties Pvt. Limited	Director
11	The Marwar Textiles (Agency) Pvt. Ltd.	Director

Committee Membership of other companies - NIL

- 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 25th July, 2011 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 9th July, 2011 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, 2004 would be transferred to the said fund in the last week of August, 2011.

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, 2003 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.
- k. Ministry of Corporate Affairs, Govt. of India vide circular No. 17/2011 dated 21.4.2011 has made available an option to shareholders to receive communications electronically, save paper and in turn save nature. Your Company is eager to cover more and more shareholders under the ambit of Go Green initiative and has made available an option particularly to shareholders holding shares in physical mode to register their email id with R&T agent. Shareholders who wish to register their email id can visit <http://www.linkintime.co.in/gogreen.asp> and register their email id. We request shareholders to avail of this facility and strengthen the Go Green movement.

Shareholders holding shares in demat mode are requested to update their DP records for changes in email id to receive timely communications from the Company.

By Order of the Board
For Graphite India Limited

Kolkata
May 9, 2011

B. Shiva
Company Secretary

DIRECTORS' REPORT

The Directors have pleasure in presenting their Thirty Sixth Annual Report together with the audited statement of accounts of the Company for the year ended 31st March, 2011.

FINANCIAL RESULTS

Rs` in Crore

Particulars	2010-11	2009-10	2010-11	2009-10
	Graphite India Limited		Graphite India Limited Consolidated	
Sales / Income from Operations – (Gross)	1280.04	1178.22	1501.33	1394.06
Profit for the year after charging all expenses but before providing interest, depreciation, exceptional item and tax	312.92	409.28	342.78	428.27
Interest	5.04	10.49	7.75	14.47
Profit before depreciation, exceptional item and tax	307.88	398.79	335.03	413.80
Depreciation	39.33	39.54	48.62	49.94
Profit before taxation and exceptional item	268.55	359.25	286.41	363.86
Payment under Voluntary Retirement Scheme	12.73	—	12.73	—
Profit before Taxation	255.82	359.25	273.68	363.86
Provision for taxation -				
Current Tax	94.24	116.00	96.29	117.69
MAT Credit	—	—	—	(0.07)
Earlier years	—	0.08	0.15	0.11
Deferred	(10.74)	11.00	(11.87)	11.28
Profit for the year	172.32	232.17	189.11	234.85
Balance brought forward from the earlier year	110.46	44.39	211.13	142.97
Transfer from Debenture Redemption Reserve	68.04	3.90	68.04	3.90
	<u>350.82</u>	<u>280.46</u>	<u>468.28</u>	<u>381.72</u>
Which has been appropriated as under :				
Dividend paid on Equity Shares	4.18	—	4.18	—
Proposed Dividend on Equity Shares	68.38	60.03	68.38	60.03
Dividend Tax	11.79	9.97	11.79	9.97
Transfer to General Reserve	100.00	100.00	100.00	100.00
Reserve Fund	—	—	0.26	0.59
Balance carried forward	<u>166.47</u>	<u>110.46</u>	<u>283.67</u>	<u>211.13</u>
	<u>350.82</u>	<u>280.46</u>	<u>468.28</u>	<u>381.72</u>

BUSINESS REVIEW

As per Central Statistical Organisation, the Indian Economy – led by a resurgence in agriculture, services and manufacturing sectors – is estimated to grow by a robust 8.6% in FY 2010-11. In 2009-10, the Indian Economy grew by 8%. The farm sector which grew by a meagre 0.4 % in 2009-10 is estimated to turnaround with an impressive 5.4% growth in 2010-11, while manufacturing and services sectors are expected to post consistent growth levels of 8% and 9.6% respectively.

The GDP forecast for 2011-12 is set at 9%, subject to certain assumptions.

The United Nations Industrial Development Organisation, in one of its publications, has commended India for its strong economic growth and has ranked India as one of the top 10 manufacturers of the world for the year 2010.

The world economy too registered a rapid recovery - led by Asia in the front, hopefully leaving the worst economic recession behind us. Despite the myriad challenges faced by

the global economy, the forecast for world GDP for 2011 has been upgraded, thus signalling slow but steady revival.

GRAPHITE INDIA

Gross sales for 2010-11 were ` 1280 crore as against ` 1178 crore in the previous year and PAT was ` 172 crore for the current year as against ` 232 crore in the previous year.

The Company's Graphite and Carbon Segment (Graphite Electrodes) continues to be the main source of income and profit for the Company, accounting for about 81% of the total revenues.

With improved market demand for electrodes, capacity utilisation registered a steady rise every quarter and the growth in sales was driven entirely by volume growth. While volumes increased, electrode prices declined virtually throughout the year and are reflected in the declining PAT.

Capacity utilization of the German Operations improved as compared to previous year. However due to softening of prices, results continue to be depressed.

DIVIDEND

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

FOREIGN CURRENCY CONVERTIBLE BONDS (FCCB)

Out of the FCCB amounting to USD 40 mn raised in 2005 with maturity date in October-2010:

35,925 Bonds were converted into 285,91,033 equity shares;
3,875 Bonds were bought back; and
200 Bonds were redeemed.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

(i) Industry's structure and developments

A. GRAPHITE ELECTRODE BUSINESS

Capacity utilization of this segment was 73% compared to the previous year of 52%. It is reported that capacity utilization of the global electrode industry during 2010 was more than 2009.

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 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 crude steel production during 2010 at 1.4 billion metric tonnes, was more by 15% as compared to 1.2 billion metric tonnes in 2009. The share of production through the EAF is estimated at 30%. Commensurate with this rise, there was significant revival in the demand for Graphite Electrodes with sales in volume terms registering a growth of 21% on a Y-O-Y basis. However, there was significant fall in the Graphite Electrodes prices due to the aggressive pricing policy adopted by the manufacturers to gain volumes.

On 27th December 2010 the Reserve Bank of India abruptly discontinued the ACU (Asian Clearing Union) payment mechanism. This has resulted in delayed payments from customers in the countries covered by ACU mechanism causing uncertainty over the business with these countries.

The countervailing / anti-dumping duty on Graphite Electrodes exported from India to EU-27 imposed five years ago, is extended for a further period of five years from September-2010.

Global industrial production increased in 2010 though margins in most of the businesses came under pressure due to higher input costs and lower realisation. The forecast for global economic prospects for 2011 is positive and it is being upgraded. With that, the outlook for the steel industry and the Graphite industry is expected to improve in 2011 and 2012.

The Company's Order book for FY 2011-12 continues to be comfortable following the continued economic rebound.

Durgapur Plant Expansion : The capacity expansion by 20,000 MT of Graphite Electrodes at Durgapur Plant is progressing well and it is expected to be completed in the first quarter of the FY 2012-13. This expansion is being carried out with eco-friendly and 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), is one of the many backward integration initiatives of the Company. The Division also makes Electrode Paste and Tamping Paste. 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 Electrode. 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 were higher both in volume and value 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 continues to be under demand pressure due to low levels of fresh investment in new projects, both within the country and overseas. The effect of the economic slowdown seems to be fading and the order booking in the current year is better than the previous year.

This Division is equipped to meet the challenges of competition from established European and Japanese producers.

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.

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 with capability to produce pipes up to a diameter of 3000 mm was commissioned last year. The Division is now poised for higher business volumes in coming years.

D. POWER

Power constitutes one of the major costs of Electrode production. 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 16% 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 ` 9 crore in WPC, is expected to commence from the first quarter of FY 2011-12.

With a view to attaining self sufficiency in its electrical energy requirements - both in terms of the quality of power and its cost per kwh, the Company had decided to set up a 50 MW Coal based Thermal Power Plant at Durgapur at an investment of ` 214 crore. From the environmental perspective, we are now advised by the department concerned that the power plant has got to be located outside the city limits of Durgapur and this has caused delays in the further progress of the power project.

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

Generally, the Company's export turnover constituted about 50% 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.

India became the fourth largest producer of crude steel in the world in 2010 and is expected to become the world's second largest producer by 2015-16. India's crude steel production in 2010 reached 66.8 million tonnes, registering a growth of just 6.4% (62.8 million tonnes) over 2009. MoUs have been signed with various states for planned capacity of around 276 million tonnes. The steel demand in India remains strong, led by strong demand from sectors like automobile and engineering services, and the steel consumption of the country grew during the year under review as compared to the previous year. This augurs well for the domestic Graphite Electrode industry in the country.

The Company is exposed to the threat of the cyclicalities in the steel business and also to the risks arising from the volatility in costs of input materials. The Company faces threats from imports given the growth prospects of the Indian Steel industry.

Export sales declined post global recession which set in since October 2008 and the world output through Electric Arc Furnace route is still to return to pre-crisis levels. The positive growth in the emerging and developing economies was more than offset by negative growth in the advanced economies. The fragility of recovery in the world economy, as well as, the uncertainty created because of political unrest in West Asia and North Africa may have serious implications.

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 ` 1248 crore as against ` 1149 crore in the previous year.

Aggregate Export Sales of all divisions together was

` 631 crore as against ` 528 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 57,241 MT against 41,086 MT in the previous year.

Production of Calcined Petroleum Coke during the year was 33,768 MT as against 30,781 MT in the previous year.

Cost of all inputs increased during the year.

(b) Power Division

Total power generated was 59 million units during the year, as against 55 million units in the previous year.

(c) Others

Production in the Impervious Graphite Equipment (IGE) Division and spares at 983 MT was higher as compared to that of 848 MT in the previous year.

The Glass Reinforced Plastic Pipes (GRP) Division produced 9,504 MT as against 4,959 MT in the previous year.

(d) Powmex Steels Division (PSD)

Production of HSS and Alloy Steels was 1898 MT during the period April, 2010 to February, 2011 as against 1675 MT in the previous year. The Division was making steady progress towards achieving higher production and productivity. However, due to an unfortunate emergency situation, the operations of the Division were suspended with effect from 6 March, 2011.

(iv) Outlook

In its forecast in April, the IMF has said that the global economy remains firm on the path to recovery and that the global economy should grow by 4.4% in 2011. However, it also cautioned on the challenges of rising oil prices, unrest in the Middle East, inflation in China and debt problems in Europe.

It is projected that Electric Arc Furnaces will contribute to 50% (as against current level of 30%) of global steel production by 2020, in view of the various advantages, primarily from the point of view of emission of carbon dioxide. This development will augur well for the growth of graphite electrode demand in future.

With its competitive cost structure, strong technical product

features and a well diversified customer base, the Company has established its position in the global graphite electrode industry and this has significantly enabled the Company to penetrate the growing market for large diameter UHP graphite electrodes.

It is expected that the domestic demand for steel and as a consequence for Graphite Electrodes will increase moderately. Faced with unfavourable business conditions, the global players have turned to Asian markets and have started aggressive pricing policy to capture volumes. During the last couple of months, two major electrode manufacturers have announced price increase which may lead to recovery in electrode prices.

(v) Risks and Concerns

It is undeniable that business projections have an inherent element of uncertainty of unknown factors like sudden reversal of positive trends leading to economic slowdown resulting in possible negative growth for steel, automotive and infrastructure industries which in turn may adversely impact the prospects for our industry.

Disproportionate increase in taxes and other levies imposed by the Central Government and State Governments from time to time, especially on essential inputs, increase the cost of manufacture and reduce the profit margins.

Economic slowdown and/or cyclical recession in certain industry can adversely impact the demand-supply dynamics and profitability and the Company too is vulnerable to these changes.

Exports to specific regions may get severely affected by trade barriers in the form of crippling import duties or anti dumping duties or countervailing duties as the case may be and our export volumes to specific markets could get affected by such protectionist measures. Current political unrest in some West Asian & African countries may adversely impact the electrode industry.

The main raw materials are petroleum based or coal based. The increasing price of crude and coal and its direct impact on its derivative materials like Needle Coke, Pitch, Furnace Oil, Met Coke, etc. all tend to rise in Unison. They will inflate the input cost in a major way.

The Company has a mixed exposure of exports, imports and foreign currency debt portfolio. So, volatility in foreign currency market directly impacts the company's prospects. Inherent natural hedge of various exposures mitigate the same up to an extent.

(vi) Internal control systems and their adequacy

The Company has proper and adequate system of internal controls. Internal audit is conducted by outside auditing firms, except in the case of PSD where internal audit is done internally. The Internal audit reports are reviewed by the top management, the Audit Committee and adequate remedial measures are taken in time.

(vii) Discussion on financial performance with respect to operational performance

Sales/Income from Operations recorded ` 1280 crore as against ` 1178 crore in the previous year. Graphite and Carbon Division contributed 81% to the revenue of the Company while others contributed 19%.

Unlike in the previous year, the increase in gross sales was the result of increased volume of sales of Graphite Electrodes. Graphite Electrode prices declined both in the domestic and international markets. Thus, the beneficial effect of higher volumes was more than negated by lower realisation. Notwithstanding that, the Company has maintained a healthy profit margin and robust interest coverage.

There have been increases in costs due to increased prices of Pitch, CPC, Furnace Oil and Metcoke, as well as increase in manning and power costs.

Borrowing has increased during the year despite redemption of FCCBs following higher working capital requirement and ECB of USD 15 mn availed for the ongoing expansion of capacity of Durgapur Plant.

The estimated cost of ` 255 crore for the ongoing expansion of capacity at Durgapur Plant, is funded partly by way of ECB amounting to USD 30 million and the balance is by internal accruals.

The operations continue to generate adequate cash flows to fund normal capital expenditure, expansion and higher working capital.

ICRA has upgraded the long term rating to LAA+ (pronounced L double A plus) which indicates high credit quality. The short-term debt programme rating has been reaffirmed as 'A1+' (pronounced A One plus). This rating indicates highest-credit-quality. The upgrade of the long term rating reflects the significant improvement in the Company's financial risk profile.

Initiatives have been taken for convergence towards IFRS.

Details of contingent liabilities are given in Schedule 31(5).

The Company is a net foreign exchange earner.