

8th Annual Report 2005-06

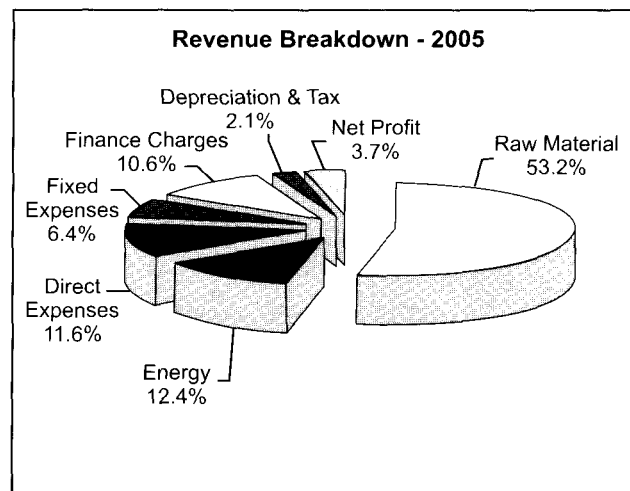
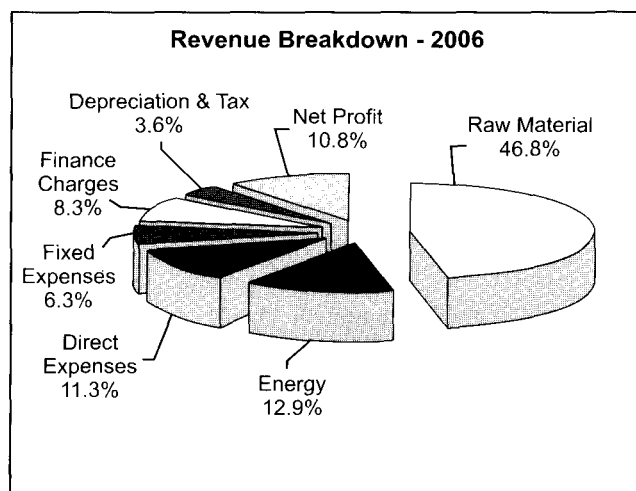
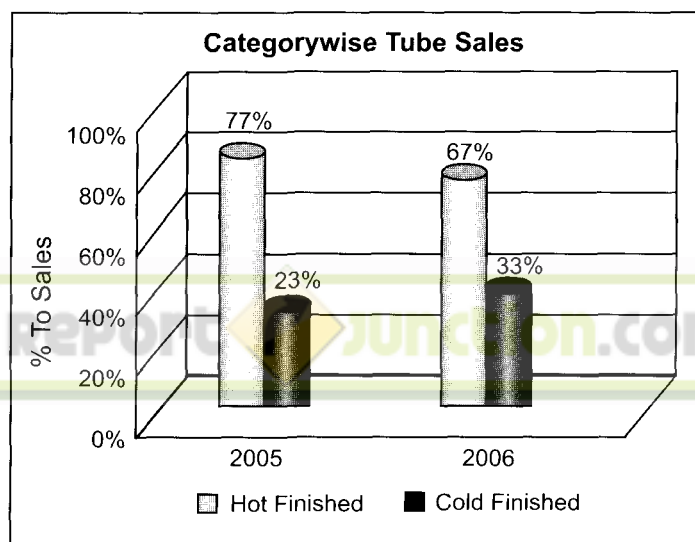
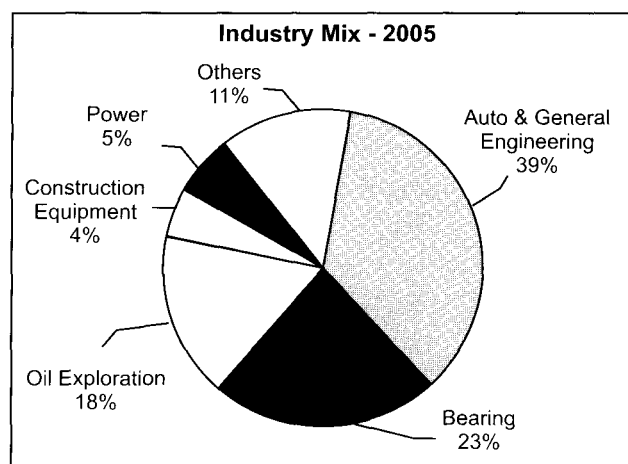
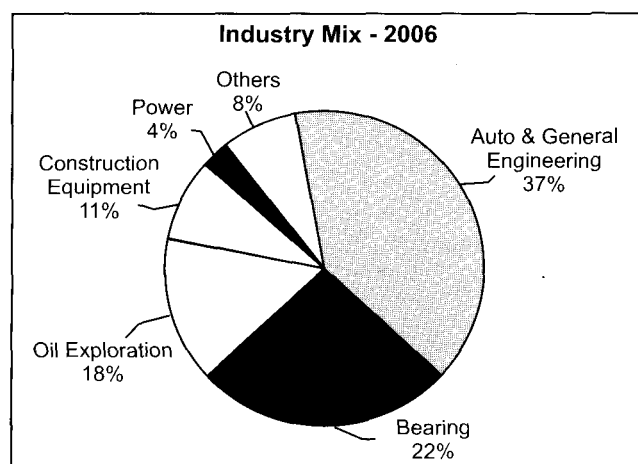
Report  Junction.com

ISMT LIMITED



Automotive Bearings Construction Equipment General Engineering Oil Exploration Power

www.reportjunction.com



BOARD OF DIRECTORS

KHUSHROO RUSTUMJI Chairman	B R TANEJA Chief Executive Officer
V BALASUBRAMANIAN Executive Director (Operations)	A K JAIN
NIRMAL CHANDRA President (International Business & Product Development)	VIRENDRA KAPOOR
SALIL TANEJA President (Corporate Strategy & Development)	J P SUREKA
O P KAKKAR Managing Director	K D HODAVDEKAR - IDBI Nominee
	N D PINGE - ICICI Nominee
	RAJIV GOEL Chief Financial Officer

COMPANY SECRETARY

Jayan Nair

AUDITORS

M/s P G BHAGWAT Chartered Accountants	J K SHAH & CO. Chartered Accountants
--	---

SOLICITORS & ADVOCATES

Dave & Girish & Co.	Mulla & Mulla & Craigie Blunt & Caroe
---------------------	---------------------------------------

FINANCIAL INSTITUTIONS & BANKS

ICICI Bank Limited	Bank of Baroda
IFCI Limited	Bank of India
Industrial Development Bank of India Limited	Bank of Maharashtra
Life Insurance Corporation of India	Central Bank of India
Unit Trust of India	Indian Overseas Bank
International Finance Corporation (Washington)	State Bank of India

REGISTERED OFFICE

Lunkad Towers, Viman Nagar, Pune 411 014

TRANSFER AGENT

Sharepro Services (India) Pvt Ltd

WORKS

MIDC Industrial Area Ahmednagar 414 111	MIDC Industrial Area Baramati 413 133	Jejuri-Morgaon Road Jejuri 413 133
--	--	---------------------------------------

CONTENTS

Highlights	2	Cash Flow Statement	16
CEO's Statement	3	Schedules to the Balance Sheet	17
Directors Report	4	Schedules to Profit & Loss Account	21
Management Discussion and Analysis	6	Notes on Accounts	23
Corporate Governance Report	8	Significant Accounting Policies	32
Auditor's Report	12	Balance Sheet Abstract	34
Balance Sheet	14	Proxy & Attendance Slip	35
Profit & Loss Account	15		

Annual General Meeting at Taj Blue Diamond, Pune on Monday, August 28, 2006 at 11.00 a.m.

HIGHLIGHTS

Rs. in Crore

	2006		2005	
	Tube	Steel	Tube	Steel
Capacity (Tonnes Per Annum)	158000	250000	158000	250000
Production (Tonnes)	135635	234707	110184	213303
Capacity Utilisation (%)	85.8%	93.9%	69.7%	85.3%
Sales (Tonnes)	132794	228078	110526	214399
Captive	17068	131968	11621	109091
External of which	115726	96110	98905	105308
Domestic	82481	95263	74878	102961
Exports	33245	847	24027	2347
Revenue				
Domestic	486.84	363.65	367.59	372.52
Exports	207.13	3.43	142.83	9.31
	<u>693.97</u>	<u>367.08</u>	<u>510.42</u>	<u>381.83</u>
Earning before Interest Tax & Amortization	86.66	109.81	23.36	88.89

	2006	2005	% Increase
Key parameters			
■ Sales	1061.05	892.25	19%
■ Export sales	210.56	152.14	38%
■ Raw material (% to sales)	46.8%	53.2%	-12%
■ Energy Cost (% to sales)	12.9%	12.4%	4%
■ EBITDA	251.19	158.67	58%
Profitability Ratios			
■ Operating Profit margin	23.7%	17.8%	33%
■ Cash Profit margin	15.6%	8.6%	82%
■ Net Profit margin	10.8%	3.7%	192%
■ Return on Network	27.3%	9.4%	191%
Finance			
■ Forex debt	170.11	73.94	130%
■ Forex Debt as a % to term debt	31.9%	13.2%	141%
■ Interest cost (% of sales)	8.3%	10.6%	-22%
■ Repayment of Term Debt	75.55	-ve	--
General			
■ Market Capitalisation (year end)	1631	450	263%
■ Share price during the year			
High (Rs.)	112.45	41.90	--
Low (Rs.)	27.00	3.05	--
■ Earning per Share (Rs.)	7.96	2.33	242%

CEO's STATEMENT

Dear Shareholders,

I must start by saying that we have come a long way during the year and the performance of the Company bears testimony to that.

During the year ISMT Ltd brought together and consolidated the capabilities both in terms of processes and people - that existed in the erstwhile The Indian Seamless Metal Tubes Ltd. and Indian Seamless Steels & Alloys Ltd. We were able to reposition ourselves as an integrated precision seamless tube manufacturer and further improve our services to the specialized seamless tube as well as alloy steel customers.

Our growth driver is international business. Our exports increased by 40 percent in the year to approximately USD 45 million and it is expected to further grow by about 40 percent in the year 2006-07. It is planned that in the next five years about 50 percent of our tube production would be exported to some of the most discerning markets of the world.

We have embarked upon an expansion plan and this would result in our capacity for seamless tubes increasing from the current level of 155,000 to 475,000 MTPA and the investment required for this would be about Rs 250 Crore. To support this level of seamless tube production, the steel capacity would also be increased incrementally from the existing 250,000 to 500,000 MTPA. The increase in the capacity of seamless tubes should be in place by the last quarter of FY 2007-08. The drivers for this increase in capacity is the anticipated growth in demand from the power, bearing and automobile sectors in the domestic market.

All the pre-implementation activities for the project have been completed and work at the Baramati Unit, the place where the new finishing mill would be commissioned will start soon. The expansion is expected to improve our competitiveness through improved material utilization and reduced process cost. We expect to reach the optimal level of utilization within three years of the commissioning of the new mill.

To become one of the leading specialized seamless tube manufacturers in the world we have to move faster than global competitors and this can happen only if we scale up our capacities and continuously improve our efficiencies in all our business processes. We also have to imbibe an operating culture where we are on a constant lookout for better ideas, are willing to experiment and take risks and where we value our commitments to both internal and external customers.

I must mention here that our knowledge capital is absolutely unparalleled it is this knowledge capital along with our commitment to teamwork that would take us to our next milestone — ***to be one of the largest integrated specialized seamless tube manufacturing companies in the world.***

I am glad to mention that your Company increased its turnover by 19 percent to Rs 1061 Crore and exports accounted for 20 percent of the turnover. The Net Profit has reached the healthy level of 11 percent of turnover (Rs 115 Crore). Given the fact that the macro-economic parameters are likely to remain robust, the market for our products should continue to grow and the Company should further improve its operating performance and increase profits in the years to come.

Your Company is targeting aggressive growth based on increased international exposure as well as higher penetration in the domestic market. A comprehensive strategic package has been developed to make this happen and the management is confident that we should get very close to realizing the vision that we have set for ourselves ***"to be the most sought after, efficient, profitable and respected producer globally of seamless tubes and alloy steels"***.

I take this opportunity to express my gratitude to our Customers, Banks, Financial Institutions, Business Associates and Shareholders for their continued support.

Thank you.



B.R. Taneja

Pune, 4th May, 2006

DIRECTORS' REPORT

To the Members

The Directors present their 8th Annual Report and Audited Accounts for year ended 31st March, 2006.

FINANCIAL RESULTS

	<i>Rs in Crore</i>	
	<i>2005-06</i>	<i>2004-05</i>
Gross Sales	1807.08	1442.01
Less : Inter Segment & Division Transfers	618.10	448.14
Excise Duty	127.93	101.62
Net Sales	1061.05	892.25
Other Income	24.22	17.64
Total Income	1085.27	909.89
Operating Expenditure	821.16	745.68
Finance Charges	87.80	94.48
Depreciation and Amortisation	50.92	43.88
Provision for Taxation	10.35	(7.04)
Profit After Tax	115.04	32.89
Add: Balance brought forward	8.24	(8.54)
Less: Transferred to Profit & Loss A/c	6.21	--
Balance available for Appropriation	117.07	24.35
Appropriations		
Debenture Redemption Reserve	14.76	16.11
Capital Redemption Reserve	33.68	--
General Reserve	11.50	--
Balance carried to Balance Sheet	57.13	8.24

DIVIDEND

In view of the proposed expansion and the impending Repayments, your Directors in the interest of the Shareholders would like to conserve the resources and hence do not recommend any Dividend.

OPERATIONS

There has been a marked improvement in performance of Tube segment while the Steel segment has consolidated its position. Conscious cost reduction, improving product mix and better utilisation saw the Operating margin improve from 17.8% to 23.7% of Sales.

MARKET

Strong growth in each of the major markets for the Company's products viz Automobile, Bearing, Construction

Equipments, Oil exploration and Power have pushed up the domestic Tube sales by 32% to Rs. 487 Crore. Exports maintained its growth momentum and went up by 40% to Rs. 211 Crore. Europe has now emerged as a major market accounting for about 40% of Exports.

FINANCE

During the year the Company has converted Rs. 105 Crore of Rupee Loans into Foreign Currency Loans to reduce its interest cost. The Company has also repaid Term Loans of Rs. 75 Crore. Accordingly, the interest cost during the year has come down by about 20% and is now lower at 8.3% of sales as against 10.6% last year. The Company has initiated the process of refinancing the existing CDR debt by fresh Term Loans at lower cost to reduce the interest burden. Further the Company is also exploring various options for raising finance for its future plans and to further reduce the finance cost.

EXPANSION

The Company has embarked upon expansion of its capacity at Baramati Unit from 90,000 tonnes per annum to 4,00,000 tonnes per annum which together with Ahmednagar Unit will take the total tube manufacturing capacity to 4,75,000 tonnes per annum. The expansion is estimated to cost Rs. 250 Crore. Further the project will help reduce the cost of production significantly and make the Company highly competitive. The project is expected to be commissioned by December 2007.

RESEARCH AND DEVELOPMENT

The development of new products and processes is an integral part of the production culture. These developments either help to reduce the cost or improve the quality and thereby strengthen the competitive position of the Company. The activities of R & D are described in Annexure - I to this Report.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. V Balasubramanian, Mr. Nirmal Chandra and Mr. O P Kakkar retire by rotation and being eligible offer themselves for re-appointment.

Mr. Khushroo Rustumji was appointed as Chairman of the Company at the Board Meeting held on 21st January, 2006.

AUDITORS

Both M/s P G Bhagwat and J K Shah & Co retire at the conclusion of the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment.

FIXED DEPOSITS

There are no outstanding fixed deposits as on 31st March 2006 except the unclaimed Deposits of erstwhile The Indian Seamless Metal Tubes Limited.

CORPORATE GOVERNANCE REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a separate section on Corporate Governance together with a Certificate from the Company's Auditors on compliance, Management Discussion and Analysis form part of the Directors' Report.

SUBSIDIARY COMPANY

During the year, Indian Seamless Power limited a wholly owned Subsidiary ceased to be a Subsidiary Company.

STATUTORY PARTICULARS

The particulars in respect of energy conservation, technology absorption etc. as required under Section 217 (1) (e) of the Companies Act, 1956 are given in Annexure - I to this Report.

The particulars of employees as required under Section 217 (2A) of the Companies Act, 1956 forming part of this Report are given in Annexure - II to this Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Company is in compliance with various accounting and financial reporting requirements in respect of the financial

statements for the period under review. Pursuant to Section 217 (2AA) of the Companies Act, 1956 ("the Act") and based on the representations received from the operating management, the Directors hereby confirm that:

- i. in the preparation of the annual accounts for the year ended 31st March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- ii. that such accounting policies as mentioned in Schedule 22 to the Accounts have been selected and applied consistently and judgements and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2006 and of the profit or loss account of the Company for the year ended on that day;
- iii. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. the annual accounts have been prepared on a "going concern basis".

ACKNOWLEDGEMENTS

The Directors take this opportunity to thank the Company's Shareholders, Customers, Suppliers, Bankers, Financial Institutions, Government and Other Authorities for their continued support. The Directors also wish to place on record their sincere appreciation of employees at all levels for their hard work, dedication and commitment.

On behalf of the Board of Directors

Registered Office :

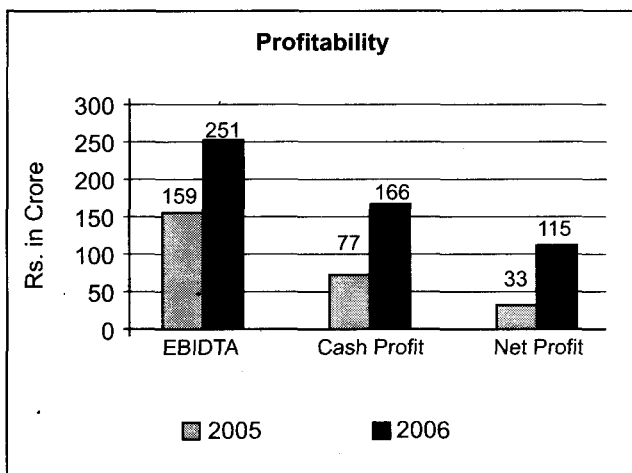
Lunkad Towers, Viman Nagar,
Pune - 411 014.
4th May, 2006

Khushroo Rustumji
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENTS

The sustained economic growth led to robust demand for seamless tubes in the country which together with the export growth resulted in 35% growth in Tube Sales. The performance for the year was thus considerably better as under:



The improvement in performance during 2005-06 can be attributed to the following major initiatives:

- 1) Baramati Unit which turned around last year was the largest contributor to revenue and profit growth among the three units.
- 2) Continued growth in exports with emphasis on extending the reach in terms of customer, products and geographic segments.
- 3) Increasing shift in product mix towards high value items.
- 4) Increase in Tube sales as percentage of total sales.
- 5) Cost efficiencies arising from improved utilisation as also conscious cost reduction measures undertaken by the Company.

OPPORTUNITIES AND THREATS

Seamless Tubes consumption is aligned to economic growth and 7% growth recorded by the economy for 3 consecutive years has meant accelerating demand for tubes. In particular, the investments under way in both Construction and Power sector has created a large market for seamless tubes. On the international front, increasing customers base, buoyancy in U.S. Economy and under exploited European market present a large pool of opportunity. Your Company, with its global competitive strengths, is suitably placed to exploit this opportunity.

The Company's focus on continuous improvement in quality and delivery, large range of product offering, and the widespread geographical spread not only insulates it against 'competitor aggression' but also makes it possible to improve its penetration on a sustained basis. The expansion in capacity would result in improved economies of scale & further bring down the cost of production. This would enable the Company to retain and improve market share even under suppressed and price competitive market conditions.

SEGMENT / PRODUCT INFORMATION

The external steel sales came down from 53% to 47% of total steel sales.

Particulars	Rs. in Crore		
	2005-06	2004-05	% increase
Sales - Steel	784.08	719.81	9%
- Captive	417.00	337.98	23%
- External	367.08	381.83	-4%

Consequently Share of Tube Sales went up to 2/3rd of the total sales against 57% Previous Year. Accordingly margin from Tube segment dramatically went up by 271% and accounted for 44% of total margin as against only 21% Previous Year.

Particulars	Rs. in Crore		
	2005-06	2004-05	% increase
Sales	1061.04	892.25	19%
- Tube	693.96	510.42	36%
- Steel	367.08	381.83	-4%

Cold finished tube being high end seamless tubes in terms of price and margins was a thrust area and the sales of such tubes went up to 33% of total tubes sales against 23% of sales during Previous Year.

OUTLOOK

Given the strong market, the Company has reason to be optimistic about its prospects during 2006-07. Going forward, the expansion project will drive and transform the business of the Company. The prices of inputs continue to be volatile and the Company pursues the strategy of either linking the sale price to international scrap prices or entering into shorter delivery orders.

RISKS AND CONCERNS

The improved financial position has considerably reduced risks in respect of liquidity and leverage. Foreign exchange, input cost volatility, taxation, interest rates, natural and man made disasters and political risks are some of the general risks to which your Company is also exposed.

INTERNAL CONTROL SYSTEMS

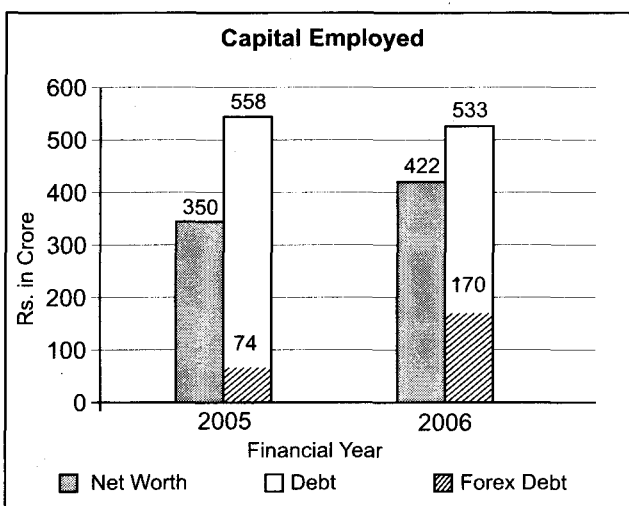
The Company has established a strong Internal Audit system which is supported by controls at various operating levels. Internal Audit carries out ongoing examination of the efficacy of internal control systems.

FINANCIAL PERFORMANCE

The year was notable for the fact that the Company has for the first time crossed turnover of Rs.1000 Crore and profit of Rs.100 Crore. This has led to the Company emerging as a strong financial entity.

Particulars	2005-06	Rs. in Crore 2004-05
Debt Equity Ratio	1.26	1.59
Term Debt to EBITDA (times)	2.12	3.52
Bank Borrowing (% to sales)	13.2%	17.7%
Current Ratio	1.40	1.10

While the Company has brought down total debt, it has also increased the forex debt as a proportion of total debt to reduce interest cost.



The Working Capital requirement of the Company did go up in order to meet the increasing production requirements and the same was met by internal resources.

Particulars	2005-06	Rs. in Crore 2004-05
Working Capital Borrowing	140.37	157.82
Inventory	184.65	127.30
- no of months	2.94	2.22
Receivables	247.12	194.87
- no of months	2.79	2.62

HUMAN RESOURCES DEVELOPMENT AND INDUSTRIAL RELATIONS

The Company has a rich pool of technical and managerial skills. Efforts are underway to document and store all the knowledge that is available within the Company, which is the core strength of the Company. Programmes on manufacturing and maintenance related skill development, team building and knowledge creation are carried out on an on-going basis.

EMPLOYEE RELATED INFORMATION

as of 31st March, 2006		
	Factory Locations	Others
Managers	135	61
Officers and Staff	506	111
Workmen	1321	NIL
Total	1962	172

CAUTIONARY STATEMENT

The report of the Board of Directors and the Management Discussion and Analysis Report are forward looking and affirmative statements within the meaning of the applicable securities laws and regulations. The actual performance in the coming years could differ from what is expressed or implied. The factors that could affect the Company's performance are the economic and other factors that affect the demand - supply balance in the domestic market as well as the international markets that the Company services, changes in governmental regulations, tax laws and other statutes and host of other incidental factors.

CORPORATE GOVERNANCE REPORT**COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE**

The Company is committed to Corporate Governance by being transparent with high level of integrity, accountability and social responsibility. This report is prepared in conformity with the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges.

BOARD OF DIRECTORS

The composition of the Board, attendance at Board Meetings held during the year and at the last Annual General Meeting, number of Directorships in other public companies and committees across various public companies of which the Director is a Member / Chairman are given below:

		Financial year 2005-06 Attendance at		As on Date		
Name of the Director	Category	Board Meetings	Last AGM	No. of Directorships in other public companies	Committee positions	
					Member	Chairman
Khushroo Rustumji Chairman w.e.f 21.01.06	Non Executive Independent	3	Yes	1	2	—
V Balasubramanian	Executive	8	Yes	Nil	1**	—
Nirmal Chandra ^s	Executive	3	No	Nil	—	—
Rajiv Goel ^s	Executive	3	Yes	1	—	—
O P Kakkar	Executive	7	Yes	Nil	1**	—
B R Taneja ^s	Executive	3	Yes	1	—	—
Salil Taneja ^s	Executive	2	No	1	—	—
A K Jain ^s	Non-Executive	3	Yes	1	1**	—
Virendra Kapoor ^s	Non-executive, Independent	3	Yes	1	—	3
G S Sambhi+	Non Executive, Independent	5	No	Nil	2**	—
J P Sureka ^s	Non Executive	3	Yes	3	1**	—
Rear Adml. D V Taneja (Retd.)*	Non Executive, Independent	5	No	Nil	—	3**
K D Hodavdekar	Independent – IDBI Nominee	5	No	Nil	2	—
N D Pinge ^s	Independent – ICICI Nominee	3	No	3	3	—

+ Ceased to be Director w.e.f 29.11.2005

* Retired by rotation at the AGM held on 31.12.05

** Committee members upto 29.11.05

^s Appointed w.e.f. 29.11.05

The Company has a Non Executive Chairman and the number of independent Directors are as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges.

During the year under review 8 Board Meetings were held i. e., on 16th April 2005, 18th July 2005, 24th October 2005, 31st October 2005 29th November 2005 (2 meetings), 21st January 2006 and 22nd March 2006.

Brief resume of the Directors proposed to be appointed / re-appointed.

Mr V Balasubramanian is a graduate in metallurgy from

Indian Institute of Technology, Madras. He has extensive working experience in various areas of operations in steel plants of Steel Authority of India Limited (SAIL). He joined the Company in the year 2000 and presently he is the Executive Director (Operations) of the Company.

Mr Nirmal Chandra, is associated with the Indian Seamless Group right from inception. He is a Graduate in Mechanical Engineering. He is having more than 37 years experience in Steel/ Tube industry in various functional areas such as marketing, purchase, administration, production and planning and presently he is the President (International Business & Product Development) of the Company.