



# ISMT

**ANNUAL REPORT  
2010-11**



You may never see our products,  
But they touch your life everyday ....

## Board of Directors

<b>S C Gupta</b>	–	Chairman
<b>Salil Taneja</b>	–	Chief Executive Officer
<b>Rajiv Goel</b>	–	Chief Financial Officer
<b>Nirmal Chandra</b>	–	President – (Project & Product Development)
<b>B R Taneja</b>	–	Director
<b>A K Jain</b>	–	Director
<b>J P Sureka</b>	–	Director
<b>K K Rai</b>	–	Director (from July 29, 2010)
<b>Vinod Sethi</b>	–	Director
<b>V Gourishankar</b>	–	Nominee of IDBI Bank Limited

## Company Secretary

Jayan Nair

## Auditors

<b>M/s. P G Bhagwat</b>	<b>J K Shah &amp; Co.</b>
Chartered Accountants	Chartered Accountants

## Cost Auditors

M/s. D.V. Joshi & Associates	M/s. Parkhi Limaye & Co.
Cost Accountants	Cost Accountants

## Advocates & Solicitors

Amarchand & Mangaldas & Suresh A Shroff & Co.
J Sagar Associates
HSB Partners, Chennai

## Bankers

Andhra Bank	Bank of Baroda
Bank of India	Bank of Maharashtra
Central Bank of India	ICICI Bank Limited
IDBI Bank Limited	IKB Deutsche Industriebank Aktiengesellschaft
Indian Overseas Bank	State Bank of India
Handelsbanken - Sweden	

## Registered Office

Lunkad Towers, Viman Nagar, Pune - 411 014

## Transfer Agent

Sharepro Services (India) Private Limited

## Works

MIDC Industrial Area Ahmednagar - 414111	MIDC Industrial Area Baramati - 413133	Jejuri Morgaon Road Jejuri - 412303	Structo Hydraulics AB STORFORS, Sweden
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13th Annual General Meeting at Vivanta by Taj Blue Diamond, Pune 411001  
on Friday, September 30, 2011 at 11.30 AM

**PHYSICAL SUMMARY**

(Tonnes Per Annum)

	<b>TUBE SEGMENT</b>						
	<b>2010-11</b>	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Capacity	<b>465000</b>	158000	158000	158000	158000	158000	158000
Production	<b>167187</b>	135782	145429	162276	161181	135635	110184
Capacity Utilisation (%)	<b>38.5%</b>	85.9%	92.0%	102.7%	102.0%	85.8%	69.7%
Sales	<b>165662</b>	132156	144242	159062	163315	132794	110526
Captive	<b>19992</b>	14652	16025	19150	17175	17068	11621
External of Which	<b>145670</b>	117504	128217	139912	146140	115726	98905
- Domestic	<b>101499</b>	92363	86422	101208	112833	82481	74878
- Exports	<b>44171</b>	25141	41795	38704	33307	33245	24027

\* Seamless Tube Capacity Stands increased to 4,65,000 TPA w.e.f. May 08, 2010.

(Tonnes Per Annum)

	<b>STEEL SEGMENT</b>						
	<b>2010-11</b>	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Capacity	<b>350000</b>	250000	250000	250000	250000	250000	250000
Production	<b>254070</b>	231395	202392	237914	247351	234707	213303
Capacity Utilisation (%)	<b>84.4%</b>	92.6%	81.0%	95.2%	98.9%	93.9%	85.3%
Sales	<b>256347</b>	227866	201601	244684	245096	228078	214399
Captive	<b>148990</b>	133976	145394	157862	160985	131968	109091
External of Which	<b>107357</b>	93890	56207	86822	84111	96110	105308
- Domestic	<b>107174</b>	93390	55865	86320	83510	95263	102961
- Exports	<b>183</b>	500	342	502	601	847	2347

\* Steel Capacity Stands increased to 350,000 TPA w.e.f. September 27, 2010.

## FINANCIAL SUMMARY

(Rs in Crore)

	2010-11	2009 -10	2008-09	2007-08	2006-07	2005-06	2004-05
<b>A) Profitability</b>							
Gross Sales	2602	1914	2308	2051	2049	1807	1442
Net Sales & Other Income	1650	1205	1314	1210	1201	1085	910
Raw Material	737	501	644	570	536	497	475
Energy Cost	281	215	171	174	165	137	111
Other Direct Expenses	243	173	157	152	151	120	101
Personnel & Administrative Expenses	111	98	92	89	80	67	59
EBIDTA	278	218	251	226	269	264	164
Finance Cost	91	79	82	67	76	86	92
Depreciation & Amortization	86	56	56	55	60	51	44
Foreign Exchange (Gain)/ Loss	6	(9)	57	(22)	(5)	2	2
Tax	21	17	-	26	8	10	(7)
Net Profit	75	75	56	100	130	115	33
<b>B) Balance Sheet</b>							
<b>Sources of Funds</b>							
Net Worth	619	579	532	542	470	429	357
Term Borrowing	763	672	693	550	476	533	558
Working Capital Borrowings	112	109	100	120	141	140	158
Unsecured Loans	174	219	219	204	217	111	83
Deferred Tax Liability	75	42	15	-	-	-	-
<b>Total</b>	<b>1743</b>	<b>1621</b>	<b>1559</b>	<b>1416</b>	<b>1304</b>	<b>1213</b>	<b>1156</b>
<b>Application of Funds</b>							
Net Block & Capital Work In Process	1311	1187	1148	1021	810	823	858
Investments	50	36	26	19	-	-	-
FC Translation Reserve	-	5	40	-	-	-	-
Current Assets	1241	986	799	689	691	533	474
Current Liabilities	(860)	(595)	(457)	(327)	(257)	(242)	(273)
Net Current Assets	381	391	342	362	434	291	201
Deferred Tax Asset & Misc. Expenditure	1	2	3	13	60	99	97
<b>Total</b>	<b>1743</b>	<b>1621</b>	<b>1559</b>	<b>1416</b>	<b>1304</b>	<b>1213</b>	<b>1156</b>

**KEY PARAMETERS**

(Rs. in Crore)

	<b>2010-11</b>	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
<b>Operations :</b>							
- Net Sales	<b>1611.36</b>	1185.13	1284.55	1179.71	1190.39	1061.05	892.25
Tube Sales	<b>1078.50</b>	777.46	980.27	826.53	871.98	693.97	510.42
Steel Sales	<b>532.86</b>	407.67	304.28	353.18	318.41	367.08	381.83
- Exports	<b>328.46</b>	175.58	354.10	246.58	225.47	210.56	152.14
- Imports	<b>358.45</b>	267.71	194.75	60.25	89.67	131.98	100.41
- Raw Material (% of Net Sales)	<b>45.7%</b>	42.3%	50.1%	48.3%	45.0%	45.4%	51.8%
- Energy Cost ( % of Net Sales)	<b>17.4%</b>	18.1%	13.3%	14.7%	13.9%	12.9%	12.4%
<b>Profitability :</b>							
- EBIDTA margin	<b>16.8%</b>	18.1%	19.1%	18.6%	22.4%	24.3%	18.0%
- Net Profit Margin	<b>4.6%</b>	6.2%	4.3%	8.3%	10.8%	10.6%	3.6%
- Return on Net worth	<b>12.2%</b>	12.9%	10.6%	18.8%	28.2%	27.3%	9.4%
- Return on Capital Employed	<b>14.1%</b>	15.3%	12.5%	16.4%	18.5%	19.9%	15.9%
<b>Finance :</b>							
- Term Debt	<b>763</b>	672	693	550	476	533	558
- FC Debt (% of Term Debt)	<b>57.1%</b>	67.9%	65.4%	76.0%	50.8%	31.9%	13.3%
- Finance Charges ( % of Net Sales)	<b>5.6%</b>	6.6%	6.4%	5.6%	6.4%	8.1%	10.3%
<b>General :</b>							
- Average Market Capitalization	<b>766.08</b>	635.51	466.90	1288.92	1154.48	888.24	164.97
- Share Price during the yr.- High (Rs)	<b>70.00</b>	64.90	68.10	140.00	124.90	112.45	41.90
- Low (Rs)	<b>42.00</b>	19.10	14.10	49.00	62.00	27.00	3.05
- Book Value (Rs. Per Share)	<b>42.08</b>	39.42	36.11	36.41	31.90	29.20	33.24
- Earning Per Share (Rs)	<b>5.14</b>	5.09	3.84	6.92	9.01	7.96	2.33
- Dividend Per Share (Rs)	<b>1.25</b>	1.00	1.00	1.00	0.50	-	-





## CEO's Statement

The fiscal year that has just ended has been positive and encouraging for ISMT, a clear sign that we are on the right and intended path. Net sales increased by 36%, Tube sales increased by 24%, Steel sales increased by 31%, exports increased by 87%, and EBITDA increased by 28% as compared to the previous year.

Indeed, this is the inflection point that we were looking for a steep increase in sales after many years of level growth. As I mentioned last year, and I would like to reiterate now, this is the start of a transition from being a niche producer of specialized seamless tubes and alloy steels to becoming a global leader in these products; In other words, the unfolding of our 'Vision' to be the most sought after, efficient, profitable and respected producer globally of precision seamless tubes and alloy steels.

Undoubtedly, a key driver for this change has been the commissioning of the PQF Mill that is now shown some improved performance. We now have the largest tube making capacity in the country and we are leveraging this advantage to secure an unshakeable market position for ourselves in key sectors of the economy.

During the last year we have been making efforts towards bringing the PQF Mill on stream by reducing some of the issues that we have had with this Mill in terms of product quality and productivity, and creating a market for some of the

new products that can be produced by the PQF Mill.

During the current year our focus will be to reduce production costs. While sales volumes will no doubt increase as a result of the marketing efforts that have gone in during the preceding years, we will now seek to optimize the production processes in the PQF Mill and drive down the costs of our core products. We expect that these efforts will begin to bear fruit by way of increased operating margins during the current year. The combination of these elements will make our business model very robust and create a secure foundation for future growth.

In addition to the above, we have launched various other initiatives and business process changes to make our Company more responsive and agile. We have a very active marketing team that is constantly looking for new markets by geography as well as by product segments. We have tightened various business processes so that we can adjust prices very quickly in response to changes in input prices. We have also put in place an improved planning process that aims to reduce delivery lead times while simultaneously reducing inventory and WIP at all stages.

This year a specific focus area for the Company is on improving delivery timelines and on improving quality. Our management attention is now directed towards developing very strong embedded customer relationships with 'market leaders' in each of our

target markets and ensuring that they are completely satisfied. With the tremendous growth in certain sectors we believe that associating with such companies will create a firm basis for sustained future growth. We have already made some significant headway in this direction and will continue the development further.

As part of our firmly entrenched corporate philosophy we continue to be focused on new product development. Like in the previous years we are working on launching several new products, tubes as well as steel, for the Powergen, Mining and Automotive markets.

The overall market situation today is not very different as compared to this time last year. The key dynamic in the seamless tube market today is the overcapacity in China, the consequent price cutting by Chinese enterprises, and the anti-dumping duty on Chinese tubes in the European, U.S., and Canadian markets. This scenario is contrasted by the fact that as yet there is no anti-dumping duty imposed by the Indian Government.

Faced with mounting duties in the developed markets China is dumping seamless tubes in the remaining parts of the world including the Middle East, North Africa, South-East, and India with extreme aggression. Selling seamless tubes in these regions is extremely difficult. On the other hand, demand for Indian tubes has increased in countries like the U.S., and Europe, where anti-dumping duty has been levied on Chinese products.

Last year our application for anti-dumping duty had been turned down by the Indian Government on a technicality. We are now making a new application supported by fresh evidence of Chinese anti-dumping behavior, and we are hopeful of securing a positive response from our Government.

Regardless, as a means to hedge ourselves against these uncertainties in the market, we are vigorously focusing on increasing our exports to the U.S., Europe, and other regions where duty has been imposed on Chinese products. We are also increasing our market share in more sophisticated product segments where Chinese competition is more muted. Fortunately for us these specialized product segments, namely, construction, Powergen, and mining are all growing rapidly in India.

During current year our 40MW captive power-plant will come on stream. Combined with the other cost cutting activities that I mentioned earlier the power cost savings that will accrue from the operations of this plant will further strengthen the financial structure of our operations.

In summary, I believe we are taking all the necessary steps to create and secure a firm foundation for our Company. We are moving in the right direction and I look forward to our shared future with optimism.

I would like to take this opportunity to express my gratitude to our customers, banks, and business associates, for their continued support and for the trust they have reposed in us.

Thank you



**Salil Taneja**

Pune, August 29, 2011



## Directors' Report

To the Members of ISMT LIMITED

The Directors have pleasure in presenting their Annual Report and Audited Accounts for the year ended March 31, 2011

### FINANCIAL HIGHLIGHTS (Rs. in Crore)

Particulars	Financial Year	
	2010-11	2009-10
Gross Sales	<b>2601.92</b>	1914.19
Profit before Finance Charges, Depreciation, Amortization & Tax (EBIDTA)	<b>277.84</b>	217.81
Cash Profit	<b>162.99</b>	132.91
Gross Profit	<b>101.74</b>	82.71
Profit Before Tax	<b>96.02</b>	91.23
Taxation	<b>20.66</b>	16.62
Net Profit	<b>75.36</b>	74.61
Add : Balance brought forward from previous year	<b>54.83</b>	47.30
Balance available for Appropriation	<b>130.19</b>	121.91
<b>Appropriations</b>		
Dividend	<b>18.31</b>	14.65
Tax on Dividend	<b>2.97</b>	2.43
General Reserve	<b>50.00</b>	50.00
<b>Balance carried to Balance Sheet</b>	<b>58.91</b>	54.83

Despite a 28% improvement in EBIDTA, the net profit was impacted by higher interest and depreciation of the expansion project.

### DIVIDEND

The Board has recommended a higher Dividend of Rs 1.25 per Equity Share of Rs. 5/- each (25 % of face value) for the financial year ended March 31, 2011 and is subject to the approval of the shareholders at the ensuing Annual General Meeting of the Company.

### OPERATIONS

While incremental capacity became available during the year leading to higher production at Baramati plant, the volumes at Ahmednagar plant were flat. Expansion of both, the size range and the product mix was targeted and achieved during the year.

### MARKET

Consistent marketing efforts by your Company during last few years towards developing new customers especially in Export market has helped the Company to achieve strong Export led growth. Export during the year were higher by about 87%, while Domestic Tubes & Steel Sales increased by 24% & 31% respectively riding on strong growth in Auto, Bearing and Power Sector.

### FINANCE

There were frequent increases in the bank rates on account of higher inflation. However by optimizing the foreign currency borrowings, where the libor rates continued to be low, the Company could limit the adverse impact and finance cost which came down from 6.6% to 5.6% of the sales. With over 30% of Export Sales in Euro denomination, the Company has started borrowing in Euro to create a natural hedge.

### POWER PROJECT

The Company's 40 MW Captive Power Project at Chandrapur District is now close to commissioning. But for the frequent interruptions and impediments both internal and external, the project should have already been on stream. The Company has applied for domestic coal linkage.

### DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr J P Sureka and Mr Salil Taneja retire by rotation and being eligible offer themselves for re-appointment.

### AUDITORS

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

### COST AUDITORS

The Central Government had directed an audit of the Cost Accounts maintained by the Company in respect of Steel and Tube businesses for the financial year commencing from 2010 -11. In terms of the said direction the Company has appointed M/s. D. V. Joshi & Associates and M/s. Parkhi Limaye & Co., Cost Accountants as Cost Auditors for conducting the cost audit for Tube & Steel divisions

## Directors' Report (contd.)

respectively. The Central Government has approved appointment of the said Cost Auditors.

### SUBSIDIARIES

While the operations of Structo attained break even during the year, in order to reduce cost and to attain long term viability & growth, it was decided to re-locate some of the upstream facilities to India. One of the Draw Benches has already been shifted to Ahmednagar Plant and the Second Draw Bench is planned for shifting during the current year to Baramati Plant.

As on date of this report, the Company has eight direct & indirect subsidiary companies. The Central Government has granted general exemption to all Companies from attaching the Annual Accounts of the subsidiary companies. The Annual Accounts of these subsidiary companies and other relevant information shall be made available for inspection at the Company's Registered Office.

In accordance with the Accounting Standard (AS 21), the audited consolidated financial statement of the Company forming part of this report is attached hereto.

### FIXED DEPOSITS

The Company has not accepted any deposits from the public.

### CORPORATE GOVERNANCE REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

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

### RESEARCH & DEVELOPMENT

Your Company continued its efforts towards Research & Development activities during the year in key areas of Product, Process and inhouse tooling development.

Details of the R&D activities undertaken are enumeated in Annexure I to this report.

### DISCLOSURE PARTICULARS

The Particulars in respect of energy conservation, technology absorption and foreign exchange earnings outgo, etc as required under Section 217(1) (e) of the Companies Act, 1956 are given in Annexure - I to this

report. The Company has also initiated number of Energy reduction initiatives anticipating UNFCCC benefits under Green House Gas Commission reduction programme

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

As required by Section 217 (2AA) of the Companies Act, 1956 the Directors' Responsibility Statement is given hereunder:

- i) that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures ;
- ii) that the Directors 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 March 31, 2011 and of the Profit of the Company for that period.
- iii) that the Directors have taken proper and sufficient care 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) that the Directors have prepared the annual accounts on a going concern basis.

### ACKNOWLEDGEMENTS

Your Directors take this opportunity to express its sincere gratitude for the continued support and co-operation received by the Company from the Government of India, Government of Maharashtra, Reserve Bank of India, Stock Exchanges, other regulatory agencies and the shareholders. The Board would also like to acknowledge the continued support of its bankers, vendors, clients and investors. The Directors also wish to place on record their appreciation of all the employees for their dedication and team work.

For and on behalf of the Board of Directors

Pune  
June 29, 2011

**S C Gupta**  
Chairman