



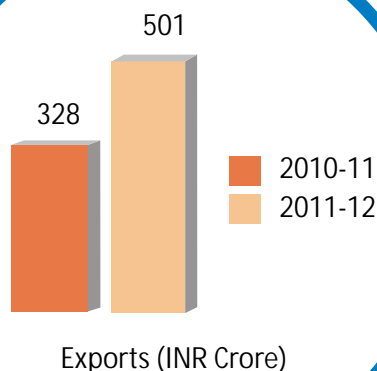
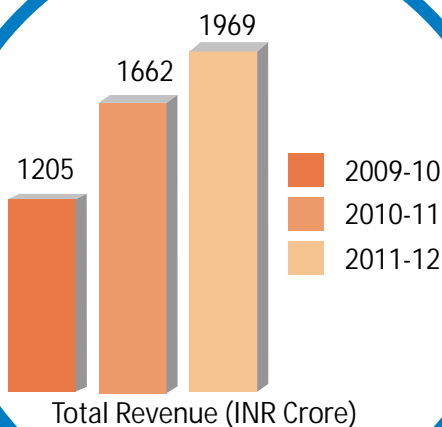
**ISMT** LIMITED  
Solutions You Can Trust

ANNUAL  
REPORT  
2011-2012

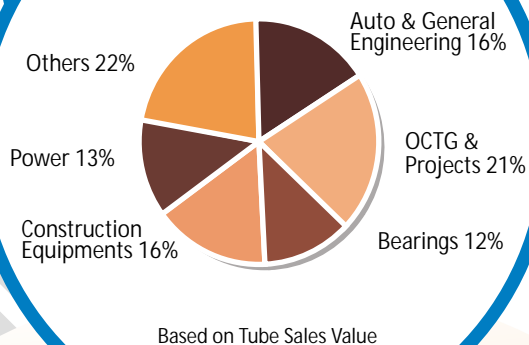
## Vital Statistics 2011-12

Total Revenue:  
Rs. 1969 Crore

Per annum Growth  
in Revenue: 18%



### Industry Mix - 2011-12



## CRISIL's Independent Equity Research Report 2012 on ISMT Ltd.



CRISIL's Independent Equity Research Report 2012 has assigned ISMT a **5/5** on valuation grade indicating that the company has a **strong upside** from the current market price. The report also gives fundamental grade of 3/5 to ISMT - indicating that the company has **good fundamentals** in relation to other listed equity securities in India. In its update to the IER Report for quarter 4 (2012), CRISIL maintains its ratings for ISMT - highlighting exports to be "going strong" and is **optimistic** about ISMT's YoY growth. The report says "(we) maintain our fundamental grade of 3/5 as we remain **positive** on the growth of the tube industry"

## COMPANY INFORMATION

### Board of Directors

|                         |   |   |
|-------------------------|---|---|
| <b>S C Gupta</b>        | – | <i>Chairman</i>   |
| <b>Salil Taneja</b>     | – | <i>Chief Executive Officer</i>                                  |
| <b>Rajiv Goel</b>       | – | <i>Chief Financial Officer</i>                                  |
| <b>Nirmal Chandra</b>   | – | <i>President (Project &amp; Product Development)</i>            |
| <b>B R Taneja</b>       | – | <i>Director</i>   |
| <b>A K Jain</b>         | – | <i>Director</i>   |
| <b>J P Sureka</b>       | – | <i>Director</i>   |
| <b>K K Rai</b>          | – | <i>Director</i>   |
| <b>Vinod Sethi</b>      | – | <i>Director</i>   |
| <b>V Gourishankar</b>   | – | <i>Nominee Director of IDBI Bank Ltd. (upto June 5, 2012)</i>   |
| <b>Suresh Khatanhar</b> | – | <i>Nominee Director of IDBI Bank Ltd. (w.e.f. June 6, 2012)</i> |

### Company Secretary

**Jayan Nair** (upto April 30, 2012)

**Nilesh Jain** (w.e.f May 28, 2012)

### Auditors

**M/s P. G. Bhagwat** Chartered Accountants

**J. K. Shah & Co.** Chartered Accountants

### Cost Auditors

**M/s Dhananjay V. Joshi & Associates** Cost Accountants

**M/s Parkhi Limaye & Co.** Cost Accountants

### Advocates & Solicitors

Amarchand & Mangaldas & Suresh A Shroff & Co.

J Sagar Associates

HSB Partners, Chennai

Lindahi, Sweden

### Registered Office

Lunkad Towers, Viman Nagar, Pune - 411 014

### Works

|       |   |   |
|-------|---|---|
| Tube  | - | MIDC Industrial Area, <b>Ahmednagar</b> - 414111  |
|       |   | MIDC Industrial Area, <b>Baramati</b> - 413133    |
|       |   | Structo Hydraulics AB, Storfors, <b>Sweden</b>    |
| Steel | - | Jejuri Morgaon Road, <b>Jejuri</b> - 412303       |
| Power | - | Village Kurla, Warora, <b>Chandrapur</b> - 422910 |

### Bankers

Andhra Bank

Axis Bank

Bank of Baroda

Bank of India

Bank of Maharashtra

Central Bank of India

Export - Import Bank of India

Handelsbanken - Sweden

ICICI Bank Limited

IDBI Bank Limited

IKB Deutsche Industriebank AG

Indian Overseas Bank

State Bank of India

### Registrar & Share Transfer Agent

Sharepro Services (India) Private Limited

**PHYSICAL SUMMARY****(Tonnes Per Annum)**

|                          | <b>A. TUBE DIVISION</b> |         |         |         |         |         |         |         |
|--------------------------|-------------------------|---------|---------|---------|---------|---------|---------|---------|
| <b>Particulars</b>       | <b>2011-12</b>          | 2010-11 | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
| Capacity                 | <b>465000</b>           | 465000* | 158000  | 158000  | 158000  | 158000  | 158000  | 158000  |
| Production               | <b>185976</b>           | 167187  | 135782  | 145429  | 162276  | 161181  | 135635  | 110184  |
| Capacity Utilisation (%) | <b>40.0%</b>            | 38.5%   | 85.9%   | 92.0%   | 102.7%  | 102.0%  | 85.8%   | 69.7%   |
| Sales                    | <b>183194</b>           | 165662  | 132156  | 144242  | 159062  | 163315  | 132794  | 110526  |
| Captive                  | <b>21553</b>            | 19992   | 14652   | 16025   | 19150   | 17175   | 17068   | 11621   |
| External of Which        | <b>161641</b>           | 145670  | 117504  | 128217  | 139912  | 146140  | 115726  | 98905   |
| - Domestic               | <b>104355</b>           | 101499  | 92363   | 86422   | 101208  | 112833  | 82481   | 74878   |
| - Exports                | <b>57286</b>            | 44171   | 25141   | 41795   | 38704   | 33307   | 33245   | 24027   |

\* w.e.f. May 8, 2010

**(Tonnes Per Annum)**

|                          | <b>B. STEEL DIVISION</b> |          |         |         |         |         |         |         |
|--------------------------|--------------------------|----------|---------|---------|---------|---------|---------|---------|
| <b>Particulars</b>       | <b>2011-12</b>           | 2010-11  | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
| Capacity                 | <b>350000</b>            | 350000** | 250000  | 250000  | 250000  | 250000  | 250000  | 250000  |
| Production               | <b>268638</b>            | 254070   | 231395  | 202392  | 237914  | 247351  | 234707  | 213303  |
| Capacity Utilisation (%) | <b>76.8%</b>             | 84.4%    | 92.6%   | 81.0%   | 95.2%   | 98.9%   | 93.9%   | 85.3%   |
| Sales                    | <b>267296</b>            | 256347   | 227866  | 201601  | 244684  | 245096  | 228078  | 214399  |
| Captive                  | <b>157913</b>            | 148990   | 133976  | 145394  | 157862  | 160985  | 131968  | 109091  |
| External of Which        | <b>109383</b>            | 107357   | 93890   | 56207   | 86822   | 84111   | 96110   | 105308  |
| - Domestic               | <b>108975</b>            | 107174   | 93390   | 55865   | 86320   | 83510   | 95263   | 102961  |
| - Exports                | <b>408</b>               | 183      | 500     | 342     | 502     | 601     | 847     | 2347    |

\*\* w.e.f. September 27, 2010

## KEY PARAMETERS

(Rs. in Crore)

| Particulars                            | 2011-12        | 2010-11 | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
|--|----------------|---------|---------|---------|---------|---------|---------|---------|
| <b>Operations :</b>                    |                |         |         |         |         |         |         |         |
| Gross Sales                            | <b>2980.60</b> | 2552.79 | 1914.19 | 2308.44 | 2051.17 | 2049.25 | 1807.08 | 1442.01 |
| Net Sales                              | <b>1879.42</b> | 1602.38 | 1185.13 | 1284.55 | 1179.71 | 1190.39 | 1061.05 | 892.25  |
| - Tube Sales                           | <b>1301.76</b> | 1070.85 | 777.46  | 980.27  | 826.53  | 871.98  | 693.97  | 510.42  |
| - Steel Sales                          | <b>577.66</b>  | 531.53  | 407.67  | 304.28  | 353.18  | 318.41  | 367.08  | 381.83  |
| - Exports                              | <b>501.06</b>  | 328.46  | 175.58  | 354.10  | 246.58  | 225.47  | 210.56  | 152.14  |
| - Imports                              | <b>556.55</b>  | 363.96  | 267.71  | 194.75  | 60.25   | 89.67   | 131.98  | 100.41  |
| Raw Material (% of Net Sales)          | <b>51.1%</b>   | 46.3%   | 42.3%   | 50.1%   | 48.3%   | 45.0%   | 45.4%   | 51.8%   |
| Energy Cost ( % of Net Sales)          | <b>18.3%</b>   | 18.1%   | 18.1%   | 13.3%   | 14.7%   | 13.9%   | 12.9%   | 12.4%   |
| <b>Profitability :</b>                 |                |         |         |         |         |         |         |         |
| EBIDTA                                 | <b>265.47</b>  | 274.64  | 217.81  | 251.21  | 225.63  | 268.55  | 264.12  | 164.20  |
| - EBIDTA margin                        | <b>13.5%</b>   | 16.5%   | 18.1%   | 19.1%   | 18.6%   | 22.4%   | 24.3%   | 18.0%   |
| Net Profit                             | <b>28.59</b>   | 75.36   | 74.61   | 56.23   | 100.04  | 130.12  | 115.00  | 33.00   |
| - Net Profit Margin                    | <b>1.5%</b>    | 4.5%    | 6.2%    | 4.3%    | 8.3%    | 10.8%   | 10.6%   | 3.6%    |
| Net worth                              | <b>586.92</b>  | 617.63  | 577.55  | 528.97  | 533.45  | 460.61  | 421.60  | 350.20  |
| - Return on Net worth                  | <b>4.9%</b>    | 12.2%   | 12.9%   | 10.6%   | 18.8%   | 28.2%   | 27.3%   | 9.4%    |
| - Return on Avg. Capital Employed      | <b>9.7%</b>    | 14.1%   | 15.3%   | 12.5%   | 16.4%   | 18.5%   | 19.9%   | 15.9%   |
| <b>Finance :</b>                       |                |         |         |         |         |         |         |         |
| Long Term Borrowings                   | <b>972</b>     | 853     | 762     | 795     | 630     | 563     | 533     | 558     |
| - FX Debt (% of Long Term Borrowings)  | <b>78.1%</b>   | 61.6%   | 79.7%   | 78.2%   | 88.7%   | 58.4%   | 31.9%   | 13.3%   |
| Finance Charges ( % of Net Sales)      | <b>6.4%</b>    | 5.7%    | 6.6%    | 6.4%    | 5.6%    | 6.4%    | 8.1%    | 10.3%   |
| <b>General :</b>                       |                |         |         |         |         |         |         |         |
| Average Market Capitalization          | <b>499.57</b>  | 766.08  | 635.51  | 466.90  | 1288.92 | 1154.48 | 888.24  | 164.97  |
| Share Price during the yr. - High (Rs) | <b>60.40</b>   | 70.00   | 64.90   | 68.10   | 140.00  | 124.90  | 112.45  | 41.90   |
| - Low (Rs)                             | <b>22.25</b>   | 42.00   | 19.10   | 14.10   | 49.00   | 62.00   | 27.00   | 3.05    |
| Book Value (Rs. Per Share)             | <b>40.06</b>   | 42.16   | 39.42   | 36.11   | 36.41   | 31.90   | 29.20   | 33.24   |
| Earning Per Share (Rs)                 | <b>1.95</b>    | 5.14    | 5.09    | 3.84    | 6.92    | 9.01    | 7.96    | 2.33    |
| Dividend – Rs. Per Share               | <b>0.75</b>    | 1.25    | 1.00    | 1.00    | 1.00    | 0.50    | 0.00    | 0.00    |



## CEO's Statement

The fiscal year that has just ended has proved to be a mixed bag in terms of performance. Net Sales increased from 1602 Crore to 1879 Crore, an increase of 17%. Within this, tube sales increased by 21.5% from 1070 Crore to 1301 Crore, while steel sales increased by 8.6% from 531 Crore to 577 Crore. During this period exports increased by 52% from 328 Crore to 500 Crore. However, at the same time the EBIDTA margin was under severe pressure and decreased from 16.5% to 13.5%. This was reflective of two factors: The extremely severe economical environment under which we operated, especially during the second half of the year and our attempts to increase sales in this adverse environment by adding new customers based on an entry pricing strategy which yielded lower margins.

The key achievement during the year has been that we have widened the customer base. Therefore, we are now well positioned to take advantage of an upturn in the market as and

when it occurs. While it is too early to say that such an upturn is in the offing, there are, at least some indications that the optimism level in the economy is beginning to move up. ISMT is present in virtually all the core sectors of the economy including mining, construction (through sales to earth moving equipment manufacturers), oil exploration, automotive, and power generation. It is hard to envisage that all these sectors will continue to remain depressed. Once the market begins to move in a positive direction we should, from the new customers that we have added, be able not only to increase volumes but also to increase margins.

As we speak we continue to operate in an extremely difficult economic climate. In this situation our company's efforts are directed at aggressively looking for new customers and reducing inventories as well as receivables. On all these fronts tremendous efforts are being put in by our team. We are also aggressively pruning

both fixed as well as variable costs keeping in mind however that we should be able to react quickly to a surge in the market.

Soon we should also begin to see a perceptible positive contribution to the bottom-line from the 40 MW captive power plant which was commissioned on May 28, 2012 and has started running smoothly. Apart from reducing costs immediately, having a captive power plant de-risks us from sudden, arbitrary increases in power costs by the State Government.

However our request for coal linkage continues to be pending for nearly four years and the problem is further aggravated by the policy distinction between Independent Power Producers and Captive Power Plants. Your Company alongwith Indian Captive Power Producers Association is pursuing the same at all levels.

As mentioned in earlier reports, we continue to work with the Commerce / Finance Ministry to convince them to impose an anti-dumping / safe guard duty on Chinese tubes which are being imported into India in ever increasing volumes. The fairness of our request is unquestionable and are making ceaseless efforts in this direction.

I would like to take this opportunity to express our 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 18, 2012



**Directors' Report**

To the Members of ISMT LIMITED

The Directors have pleasure in presenting the Annual Report and Audited Accounts of the Company for the year ended March 31, 2012.

**FINANCIAL HIGHLIGHTS** (Rs. in Crore)

| Particulars  | Financial Year |         |
|--|----------------|---------|
|  | 2011-12        | 2010-11 |
| Gross Sales  | <b>2980.60</b> | 2552.79 |
| Profit before Finance Charges, Depreciation, Amortization & Tax (EBIDTA) | <b>265.47</b>  | 274.64  |
| Cash Profit  | <b>107.08</b>  | 162.98  |
| Gross Profit   | <b>144.68</b>  | 184.08  |
| Profit Before Tax  | <b>28.66</b>   | 95.96   |
| Taxation   | <b>0.07</b>    | 20.60   |
| Net Profit   | <b>28.59</b>   | 75.36   |
| Add : Balance brought forward from previous year                         | <b>58.91</b>   | 54.83   |
| Balance available for Appropriation                                      | <b>87.50</b>   | 130.19  |
| <b>Appropriations</b>  |                |         |
| Dividend   | <b>10.99</b>   | 18.31   |
| Tax on Dividend  | <b>1.78</b>    | 2.97    |
| General Reserve  | <b>50.00</b>   | 50.00   |
| <b>Balance carried to Balance Sheet</b>                                  | <b>24.73</b>   | 58.91   |

**DIVIDEND**

Despite drop in profit and taking long term view, the Board has recommended a dividend of Rs. 0.75 per Equity Share of face value of Rs. 5/- each (15 % of face value) for the financial year ended March 31, 2012 and is subject to the approval of the shareholders at the ensuing Annual General Meeting of the Company.

**OPERATIONS**

During the year the Company registered incremental tube sales of 17,532 MT and incremental steel sales of 10,950 MT. After streamlining the new PQF capacity with the existing processes last year, this year the efforts were to increase the lot size so as to minimize downtime on account of size changes and further on Production Planning to optimize on available resources.

**MARKET**

Exports growth of over 52% has been quite encouraging given the fact that the key world economies are passing

through uncertain times. On the domestic front, while inflation and higher interest rates have adversely impacted some of the industries, construction equipment segment witnessed good growth.

**FINANCE**

During the year the company redeemed entire outstanding Foreign Currency Convertible Bonds ('FCCB') amounting to USD 20 Million along with redemption premium. Increase in overall interest rates and adverse foreign exchange rates along with provisioning for FCCB redemption premium led to the increase in finance cost during year. Unprecedented forex volatility during the financial year resulted in forex loss of Rs. 31.52 Crore. To address the risks associated with foreign currency transactions, company has put in place forex risk management policy.

**POWER PROJECT**

The 40 MW Captive power plant of the company has commenced commercial production from May 28, 2012. The Power generated is wheeled using the state electricity grid to all three manufacturing plants located at Ahmednagar, Baramati & Jejuri. The surplus power generation resulting from the current Banking Regulations, on account of varying load consumption pattern at the manufacturing plants, is proposed for sale to MSEDCL. The Company has applied for domestic coal linkage, which is still awaited.

**DIRECTORS**

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. A.K. Jain and Mr. Vinod Sethi retire by rotation and being eligible offer themselves for re-appointment.

**AUDITORS**

M/s P. G. Bhagwat and J. K. Shah & Co., 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 approved appointment of the following Cost Auditors for FY 2011-12:

- (i) M/s Dhananjay V. Joshi & Associates and
- (ii) M/s Parkhi Limaye & Co.

The Cost Audit Report for the year 2010-11 was due on



## Directors' Report (contd.)

September 27, 2011 and was filed with the Ministry of Corporate Affairs on September 27, 2011.

### SUBSIDIARIES

As on date of this report, the Company has eight direct and indirect subsidiary companies. The Central Government has granted general exemption to the holding Companies from attaching the Annual Accounts of their 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.

Continuing with the strategy to shift employee intensive activity from Structo to India, while retaining technology intensive front end activities in Sweden, the second cold draw bench was shifted during the year to the Company's Baramati plant and is now fully operational.

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 & ANALYSIS

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

### RESEARCH & DEVELOPMENT

Your Company is actively pursuing R&D activities focussed on developing new Steel grades and tubes to match customer requirements. In addition, the Company also encourages inhouse development of tooling and indigenisation of imported machinery. The Company remained focused on developing value added products for all its market segments including the Energy, OCTG, Bearing, Auto and Mining Sectors. R&D activities also focused on process cost reductions through an increase in yields.

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

### PARTICULARS OF DISCLOSURE

The particulars in respect of energy conservation,

technology absorption and foreign exchange earnings and outgo 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 are given in Annexure II to this Report.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to provisions of Section 217(2AA) of the Companies Act, 1956, your Directors make the following statement :

- 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, 2012 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  
May 28, 2012

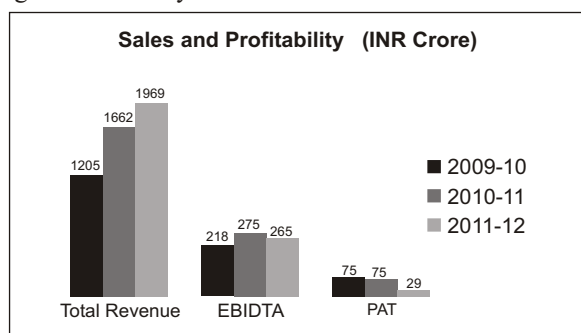
**S C Gupta**  
Chairman

## Management Discussion and Analysis

The business environment remained challenging for 2011-12, with higher inflation & interest rates, volatile domestic currency, slowing global economic growth and Euro zone crisis. In this challenging year, your company has attained highest ever :

|                      |                  |
|----------------------|------------------|
| Total Revenue        | : Rs. 1969 Crore |
| Tube Sales           | : 161,641 MT     |
| Exports              | : 57,286 MT      |
| External Steel Sales | : 109,383 MT     |
| Steel Production     | : 267,296 MT     |

On back of increased manufacturing capacity, total revenue grew by 18%, however, the challenging economic environment, more specifically sluggish domestic demand, higher energy cost and volatile foreign exchange rate has impacted company's profitability. During the year company posted total Revenue and PAT of Rs. 1969 Crore and Rs. 28.59 Crore respectively against Rs. 1662 Crore and Rs. 75.36 Crore reported last financial year. The aggressive marketing efforts in overseas markets led to over 52% rise in export sales which has now crossed Rs. 500 Crores. Exports now accounts for over 38% of company's total tube sales against 31% last year.



The 40 MW captive power project undertaken to address the rising power cost, which accounts for company's second biggest cost element (at 11% of net sales) after raw material, is now operational. Nearly 80% of company's power requirement would be met by the captive plant. The Project is expected to result in much needed cost efficiencies through reduction in energy cost.

With expanded capacities in place, your Comapany is

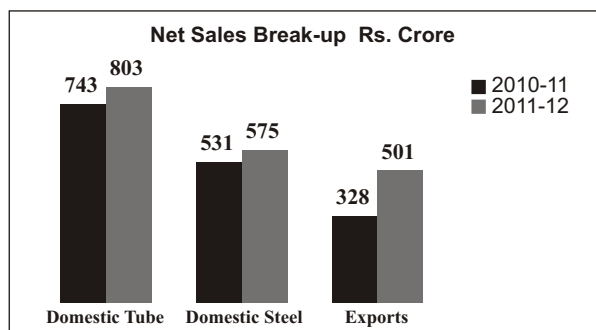
well positioned to take advantage of the upturn in market as and when it happens. No major fresh capital expenditure is anticipated in the immediate future.

Continuing with the cost rationalisation exercise initiated last year at company's overseas subsidiary, Structo Hydraulics AB, the second draw bench from Sweden was shifted to India which is now fully operational. ISMT would now be supplying cold drawn tubes to Structo instead of hot finished tubes and in turn Structo would focus on value added hydraulic tubes & products. Further, it would enhance ISMT's product range for cold draw tubes enabling it to offer wider range of cold drawn tubes to its customers. Given the back drop of the continuing European crisis and the Cold draw bench shifting, Structo's performance was satisfactory.

Domestic Tube & Steel Sales grew by 8% while exports grew by 52%. While growth in domestic sales was largely on account of higher realisations, the growth in exports was led by growth in volumes.

(Rs. in Crore)

| Particulars      | 2010-11     | 2011-12     | % Change   |
|------------------|-------------|-------------|------------|
| <b>Net Sales</b> | <b>1602</b> | <b>1879</b> | <b>17%</b> |
| Domestic         |             |             |            |
| - Tube           | 743         | <b>803</b>  | <b>8%</b>  |
| - Steel          | 531         | <b>575</b>  | <b>8%</b>  |
| Exports          | 328         | <b>501</b>  | <b>52%</b> |



Despite the challenging economic environment, the Company was able to sustain EBITDA which dropped marginally to Rs. 265 Crore. However, Profitability was impacted largely on account of FCCB redemption premium provisioning and foreign exchange volatility.