ANNUAL REPORT
2012-13

ISMT LIMITED

Solutions You Can Trust

History

1977-1980

ISMT began life as 'The Indian Seamless Metal Tubes Limited'. Incorporated on 29th July 1977 as a public limited company, raised Rs. 45 lacs through Initial Public Offering and commenced production of Seamless Tubes in the year 1980 with an installed capacity of 15,000 MTPA.

1985

Seamless Tube manufacturing capacity increased to 30,000 MTPA.

1992

Seamless Tube manufacturing capacity further increased to 50,000 MTPA. Promoted 'Indian Seamless Steels and Alloys Ltd.' (ISSAL) to produce alloy Steel giving the company better control over product quality as well as deliveries. Successfully completed Public Issue of ISSAL which was hugely oversubscribed.

1993-1994

Rights Issue of Rs. 28 Crore in the year 1993 followed by Rights Issue of Rs. 58 Crore through Convertible and Non-convertible Debentures with Warrants in the year 1994. Amalgamated with Seamless Tubes & Technologies (India) Ltd, a group company. Group company 'Indian Seamless Steels and Alloys Ltd.' (ISSAL) commenced commercial production of Steel Rounds.

1998

Steel manufacturing capacity at ISSAL increased to 190,000 MTPA.

1999

Merged into Kalyani Seamless Tubes Ltd., (KSTL), a competing Seamless tube manufacturer with 90,000 MTPA capacity. The combined entity, which retained the name The Indian Seamless Metal Tubes Ltd., not only had a larger capacity (158,000 MTPA) but also a much wider size range (from 6 mm to 273 mm).

2004-2005

Steel manufacturing capacity at ISSAL increased from 190,000 MTPA to 250,000 MTPA in the year 2004. 'The Indian Seamless Metal Tubes Ltd.' and 'Indian Seamless Steels and Alloys Ltd.' merged to form 'ISMT Limited'. Exports crosses Rs. 100 Crore mark.

2006-2007

Raised USD 20 Million through Foreign Currency Convertible Bonds issue in the year 2006. Acquired Structo Hydraulics AB (based in Storfors, Sweden), Europe's leading supplier of Tubes and Engineering products for the hydraulic cylinder industry in the year 2007.

2010

ISMT added a PQF Mill, increasing its tube making capacity to 465,000 MTPA. Simultaneously, Steel making capacity was increased from 250,000 MTPA to 350,000 MTPA with the addition of a second Ladle Refining Furnace.

2011

Exports crosses Rs. 500 Crore mark. Redeemed Foreign Currency Convertible Bonds (FCCB's) amounting to USD 20 Million along with redemption premium.

2012

Commissioned 40 MW Captive Power Plant located at Chandrapur district (Maharashtra). The power generated is wheeled using the state electricity grid to all three manufacturing plants located at Ahmednagar, Baramati & Jejuri. It would cater to about 80% of company's power requirement, thereby helping the company to substantially reduce its variable costs.

COMPANY INFORMATION

Board of Directors

S C Gupta	-	*Chairman*
Salil Taneja	-	*Chief Executive Officer*
Rajiv Goel	-	*Chief Financial Officer*
Nirmal Chandra	-	*President (Project & Product Development) up to November 30, 2012*
B R Taneja	-	*Director*
A K Jain	-	*Director (up to April 12, 2013)*
O P Kakkar	-	*Director (w. e. f. November 08, 2012)*
J P Sureka	-	*Director*
K K Rai	-	*Director*
Vinod Sethi	-	*Director*
V Gourishankar	-	*Nominee Director of IDBI Bank Limited (upto June 05, 2012)*
Suresh Khatanhar	-	*Nominee Director of IDBI Bank Limited (w. e. f. June 06, 2012)*

Company Secretary

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

J Sagar Associates

Amarchand & Mangaldas & Suresh A Shroff & Co.

Federal & Rashmikant

Registered Office

Lunkad Towers, Viman Nagar, Pune - 411014

Website : www.ismt.co.in

Works

Tube	-	MIDC Industrial Area, **Ahmednagar** - 414111
		MIDC Industrial Area, **Baramati** - 413133
		Structo Hydraulics AB, Storfors, **Sweden**
Steel	-	Jejuri – Morgaon Road, **Jejuri** - 412303
Power	-	Village Kurla, Warora, **Chandrapur** - 422910

Bankers

Andhra Bank	Export - Import Bank of India
Axis Bank	ICICI Bank Limited
Bank of Baroda	IDBI Bank Limited
Bank of India	IKB Deutsche Industriebank AG
Bank of Maharashtra	Indian Overseas Bank
Central Bank of India	State Bank of India

Registrar & Share Transfer Agent

Sharepro Services (India) Private Limited

PHYSICAL SUMMARY

(Tonnes Per Annum)

A. TUBE DIVISION

Particulars	**2012-13**	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Capacity	**465000**	465000	465000	158000	158000	158000	158000	158000	158000
Production	**138571**	185976	167187	135782	145429	162276	161181	135635	110184
Capacity Utilisation (%)	**29.8%**	40.0%	38.5%	85.9%	92.0%	102.7%	102.0%	85.8%	69.7%
Sales	**141980**	183194	165662	132156	144242	159062	163315	132794	110526
Captive	**13539**	21553	19992	14652	16025	19150	17175	17068	11621
External of Which	**128441**	161641	145670	117504	128217	139912	146140	115726	98905
- Domestic	**83695**	104355	101499	92363	86422	101208	112833	82481	74878
- Exports	**44745**	57286	44171	25141	41795	38704	33307	33245	24027

* Seamless Tube Capacity increased to 465000 TPA w.e.f May 8, 2010

(Tonnes Per Annum)

B. STEEL DIVISION

Particulars	**2012-13**	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Capacity	**350000**	350000	350000	250000	250000	250000	250000	250000	250000
Production	**216319**	268638	254070	231395	202392	237914	247351	234707	213303
Capacity Utilisation (%)	**61.8%**	76.8%	84.4%	92.6%	81.0%	95.2%	98.9%	93.9%	85.3%
Sales	**214796**	267296	256347	227866	201601	244684	245096	228078	214399
Captive	**137255**	157913	148990	133976	145394	157862	160985	131968	109091
External of Which	**77541**	109383	107357	93890	56207	86822	84111	96110	105308
- Domestic	**77497**	108975	107174	93390	55865	86320	83510	95263	102961
- Exports	**44**	408	183	500	342	502	601	847	2347

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

KEY PARAMETERS

Rs. in Crore

Particulars	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Operations :									
Gross Sales	**2513.02**	2980.60	2552.79	1914.19	2308.44	2051.17	2049.25	1807.08	1442.01
Net Sales	**1511.41**	1879.42	1602.38	1185.13	1284.55	1179.71	1190.39	1061.05	892.25
- *Tube Sales*	***1098.14***	*1301.76*	*1070.85*	*777.46*	*980.27*	*826.53*	*871.98*	*693.97*	*510.42*
- *Steel Sales*	***413.27***	*577.66*	*531.53*	*407.67*	*304.28*	*353.18*	*318.41*	*367.08*	*381.83*
- *Exports*	***412.07***	*501.06*	*328.46*	*175.58*	*354.10*	*246.58*	*225.47*	*210.56*	*152.14*
- *Imports*	***492.45***	*551.07*	*363.96*	*267.71*	*194.75*	*60.25*	*89.67*	*131.98*	*100.41*
- *Exports (% of Total Tube Sales)*	***37.5%***	*38.5%*	*30.7%*	*22.6%*	*36.1%*	*29.8%*	*25.9%*	*30.3%*	*29.8%*
Raw Material (% of Net Sales)	**49.9%**	51.1%	46.3%	42.3%	50.1%	48.3%	45.0%	45.4%	51.8%
Energy Cost (% of Net Sales)	**19.6%**	18.3%	18.1%	18.1%	13.3%	14.7%	13.9%	12.9%	12.4%
Profitability :									
EBIDTA	**171.51**	265.47	274.64	217.81	251.21	225.63	268.55	264.12	164.20
- *EBIDTA margin*	***10.6%***	*13.5%*	*16.5%*	*18.1%*	*19.1%*	*18.6%*	*22.4%*	*24.3%*	*18.0%*
Net Profit	**(99.71)**	28.59	75.36	74.61	56.23	100.04	130.12	115.00	33.00
- *Net Profit Margin*	***(6.2%)***	*1.5%*	*4.5%*	*6.2%*	*4.3%*	*8.3%*	*10.8%*	*10.6%*	*3.6%*
Net worth	**496.44**	586.92	617.63	577.55	528.97	533.45	460.61	421.60	350.20
- *Return on Net worth*	***(20.4%)***	*4.9%*	*12.2%*	*12.9%*	*10.6%*	*18.8%*	*28.2%*	*27.3%*	*9.4%*
- *Return on Avg. Capital Employed*	***0.7%***	*9.7%*	*14.1%*	*15.3%*	*12.5%*	*16.4%*	*18.5%*	*19.9%*	*15.9%*
Finance :									
Long Term Borrowings	**878**	972	853	762	795	630	563	533	558
- *FC Debt (% of Long Term Borrowings)*	***85.2%***	*78.1%*	*61.6%*	*79.7%*	*78.2%*	*88.7%*	*58.4%*	*31.9%*	*13.3%*
Finance Charges (% of Net Sales)	**10.1%**	6.4%	5.7%	6.6%	6.4%	5.6%	6.4%	8.1%	10.3%
General :									
Average Market Capitalization	**316.60**	499.57	766.08	635.51	466.90	1288.92	1154.48	888.24	164.97
Share Price during the yr. - High (Rs)	**30.70**	60.40	70.00	64.90	68.10	140.00	124.90	112.45	41.90
- Low (Rs)	**9.21**	22.25	42.00	19.10	14.10	49.00	62.00	27.00	3.05
Book Value (Rs. Per Share)	**33.89**	40.06	42.16	39.42	36.11	36.41	31.90	29.20	33.24
Earning Per Share (Rs.)	**(6.81)**	1.95	5.14	5.09	3.84	6.92	9.01	7.96	2.33
Dividend – Rs. Per Share	**0.00**	0.75	1.25	1.00	1.00	1.00	0.50	0.00	0.00

CEO's Statement

The last fiscal year has one of the most challenging times that we have faced. A year that began on a precarious note became progressively worse as the months passed. Pressures mounted on all fronts: Chinese and other imports remained high throughout the year and the domestic economy remained subdued. Together there was an unprecedented downward pressure on volumes as well as margins. As a result there was a significant adverse impact on our financials - Net sales fell from Rs. 1879 Crore to Rs. 1511 Crore and EBITDA margins shrunk to 10.6%. The shrinkage in margins was, in large part, a direct outcome of the shrinkage in sales volume that in turn led to an increase in direct costs.

The primary thrust during the year was to improve volumes and cut manufacturing costs. This effort began to pay dividends during the last quarter of the year which saw a steady increase in order flow from December onwards. This increasing trend has continued into the coming year and we are today seeing a steady restoration of earlier volumes. This was possible not only because of a much more aggressive stance taken by the Company in respect of pricing - a strategy that was significantly aided by our success in cutting costs - but also because we were able to increase the customer base substantially.

The other good news was that after considerable efforts, ongoing now for more than two years, the

Government Of India initiated Safeguard Investigations with respect to imported Seamless Tubes on April 22, 2013. We now hope that these investigations will be concluded quickly and that the Indian seamless tube industry will receive a much needed reprieve through the introduction of a Safeguard Duty on imports. Given the sheer weight of evidence supporting our case we do hope for a positive outcome.

I had mentioned earlier that our efforts to reduce operating costs by setting up our own Captive Power Plant had been stymied by the refusal of the Maharashtra State Electricity Distribution Company (MSEDCL) to honour the Energy Banking Agreement that we had signed with them. The lack of banking facilities, in effect, nullified the benefits of setting up the power plant completely. We have now filed a petition with the Maharashtra Electricity Regulatory Commission (MERC) to restore banking facilities and we already have an interim order in our favour.

With the efforts underway I am very hopeful that we should be able to turn around the Company very shortly. I assure you that we are leaving no stone unturned in this endeavour.

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 that they have placed in us.

Thank you,

Salil Taneja

Pune, May 28, 2013

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, 2013

FINANCIAL HIGHLIGHTS Rs. in Crore

Particulars	Financial Year	
	2012-13	2011-12
Gross Sales	**2513.02**	2980.60
Profit / (Loss) before Finance Charges, Depreciation, Amortization & Tax (EBIDTA)	**171.51**	265.47
Cash Profit	**(45.00)**	107.08
Gross Profit	**18.85**	144.68
Profit / (Loss) Before Tax	**(140.63)**	28.66
Taxation	**(40.92)**	0.07
Net Profit / (Loss)	**(99.71)**	28.59
Add : Balance brought forward from Previous Year	**24.73**	58.91
Balance available for Appropriation	**(74.98)**	87.50
Appropriations		
Dividend	-	10.99
Tax on Dividend	-	1.78
General Reserve	-	50.00
Balance carried to Balance Sheet	**(74.98)**	24.73

DIVIDEND

Your Directors are unable to recommend a dividend for the year ended on March 31, 2013, in absence of adequate profits.

OPERATIONS

As a result of adverse market conditions, particularly on the domestic front, volumes dropped significantly both in Tube as well as Steel. In turn, lower volumes led to higher fixed costs per ton, resulting in a further erosion of margin.

During the year the Company's focus was on containing its losses by initiating a number of cost reduction measures at its plants with a special emphasis on improving yields, reducing input costs, and reducing the PQF mill process cost.

MARKET

Faced with an uncertain economic situation, both domestically as well as internationally, a volatile domestic currency, and steep inflation, 2012-13 was a very difficult year for the Company. The recessionary international environment, a slow domestic market, coupled with large imports from China put tremendous downward pressure on margins as well as volumes. As a result, domestic Steel & Tube sales fell by 24% and exports fell by 22%.

FINANCE

The Company continues to closely monitor its forex exposure despite which the extreme volatility resulted in a loss of Rs. 63.85 Crore. This is largely offset by savings on interest cost on total forex borrowings of Rs. 1121 Crore.

Due to increased borrowings and higher interest rates the finance costs went up steeply.

CAPTIVE POWER

The Captive Power Plant commissioned during the year is operating satisfactorily. However, the expected reduction in power cost has not been fully realised because of -

(a) non availability of coal linkage.

(b) the denial of banking facilities by MSEDCL, despite valid agreement for Banking with MSEDCL.

SAFEGUARD DUTY

As repeatedly pointed out in the Chairman's communication to the shareholders, the Company has undergone immense suffering because of the cheap & unabated imports from China and other countries. Imports have increased dramatically during last three years resulting in serious injury to the domestic Seamless Tube Industry in the form of declining profitability, increase in idle capacity, drop in domestic market share, and an increase in inventory levels.

Recognising the serious injury to the domestic industry the Director General of Safeguards has already proceeded with Safeguard investigation.

DIRECTORS

Mr. A. K. Jain, Director of the Company, expired on April 12, 2013. The Board of Directors express grief on his sad demise.

Mr. Nirmal Chandra, Whole-Time Director designated as President (Project & Product Development) ceased to be Director of the Company w.e.f. November 30, 2012 on completion of his term of office.

IDBI Bank Limited has withdrawn the nomination of Mr. V. Gourishankar from the Board and instead appointed Mr. Suresh Khatanhar as its Nominee Director, w. e. f June 6, 2012.

The Board places on record its sincere appreciation of the services rendered by Mr. A. K. Jain, Mr. Nirmal Chandra and Mr. V. Gourishankar during their respective association with the Company.

Mr. O. P. Kakkar was appointed as an Additional Director of the Company on November 8, 2012. He holds office up to the date of the ensuing Annual General Meeting (AGM) of the

Directors' Report (contd.)

Company and is eligible for appointment. Members' approval has been sought in the Notice convening AGM for his appointment as a Director of the Company liable to retire by rotation.

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. S. C. Gupta and Mr. Rajiv Goel retire by rotation and being eligible, offers 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 ensuing Annual General Meeting and being eligible have offered themselves for re-appointment.

In respect of the Emphasis of Matter by the Auditors on the Standalone and Consolidated Financial Statement, it has been explained in the Notes forming part of said Financial Statements which are self-explanatory and therefore do not call for any further comments.

COST AUDITORS

The Central Government had approved appointment of the following Cost Auditors for Financial Year 2012-13 :

(i) M/s. Dhananjay V. Joshi & Associates and

(ii) M/s Parkhi Limaye & Co.

The Cost Audit Report for the year 2011-12 was due on January 31, 2013 and was filed with the Ministry of Corporate Affairs on December 31, 2012.

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.

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

As part of the Company's overall strategy, throughout the year the Company remained focused on developing value added products for all its market segments including Energy, OCTG, Bearing, Auto and Mining Sectors. R & D activities also focused on process cost reductions. 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 & 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 forming part of this Report are given in Annexure II to this Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the 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, 2013 and of the Loss 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 — **S C Gupta**
May 28, 2013 — Chairman

Management Discussion and Analysis

The business environment more particularly in the second half of the year has been the most challenging times that we have faced in the recent past. The core sectors of the Indian economy which in turn are our key consuming sectors witnessed deceleration in growth, due to policy paralysis, apart from other reasons. The domestic Seamless Tube industry was further impacted by increasing share of imports resulting from dumping. At the global front, the developed economies continue to show growth below the consensus estimates, putting further pressure on our Exports. During the year the Company posted losses for the first time since its merger in 2004.

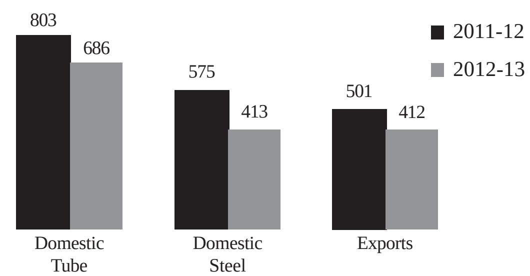
Company Performance :

- Total Revenue : Rs. 1612.46 Crore
- EBDITA : Rs. 171.51 Crore
- Profit / (Loss) before Tax & Foreign Exchange loss : Rs. (76.78) Crore
- Profit / (Loss) after Tax : Rs. (99.71) Crore

Rs. in Crore

Particulars	2012-13	2011-12	% Change
Net Sales	**1511**	1879	(20%)
Domestic			
- Tube	**686**	803	(15%)
- Steel	**413**	575	(28%)
Exports	**412**	501	(18%)

Net Sales Break-up (Rs. in Crore)



Export sales during the year was Rs. 412 Crore and accounts for over 38% of Company's total Tube Sales. During the year the Company initiated several cost rationalization infinitives, which apart from others involved developing new vendors in the international markets. The imported raw material now accounts for 55% of Company's total Raw Material requirement against 48% Previous Year.

EBIDTA in absolute terms during the year stood at Rs. 171.51 Crore, impacted by under utilisation of capacities. In absence of Banking, the 40 MW Captive Power Plant was forced to run at lower PLF to match with lower power requirement of the manufacturing plants. Over 68% of Company's power requirement was met through the Captive route.

As mentioned in the last report, the Company continues its efforts to lobby against the rising imports of seamless tubes at prices which is clearly hurting the domestic industry. Imports now accounts for over 60% of domestic consumption and has been on a rise. After aggressively pursuing, the Directorate General of Safeguards under Ministry of Finance has initiated Safeguard investigations vide its Notification dated April 22, 2013. The Company is expected to substantially benefit from levy of safeguard duty on Import of seamless tubes as and when it happens. The Company is hopeful of a positive outcome of the same.

Having created significant tube & steel capacities, the challenge during the year has been to achieve volumes and hence higher capacity utilisation. The immediate priority of your Company has been to sail through this difficult times while maintaining its quality standards and ensure that the Company retains and wins those customers that matter the most.

The 40 MW Captive Power Project was undertaken to address the rising power cost, which accounts for Company's second biggest cost element after Raw Material. However, the denial of Banking beyond 15 minutes, has resulted into captive consumption of only 76% units generated at the 40 MW Captive Power Plant. With the fluctuating nature of power consumption involved at Company's Steel & Tube manufacturing plants your Company is forced to sell the balance power at rate which is below its cost of generation. Further, our request for coal linkage continues to be pending for over five years now which has further aggravated the problem.

The problems in the Eurozone refusing to die down, it continued to negatively impact Company's Overseas subsidiary Structo Hydraulics AB, Sweden.

INDUSTRY STRUCTURE AND DEVELOPMENTS

Seamless tubes have unique features of better surface finish and hence good machineability, excellent corrosion resistance properties, higher pressure ratings & 'Strength to weight' ratio, Uniform shape and longer life over other tube types. With newer technologies manufacturing of thinner tubes is resulting into increasing usage of Seamless Tubes for newer applications and industries. However, the higher capital investment, use of high end technology & requirement of experienced manpower has restricted the use of Seamless Tubes in some of the sectors.

Seamless Tubes find applications in Oil and Gas exploration industry, Power Sector, Automotive, Construction Equipment,