ANNUAL REPORT
2013-14

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.

Seamless Tubes & Technologies (India) Ltd, a group Company amalgamated with the 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 (1,58,000 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.

'The Indian Seamless Metal Tubes Ltd.' and 'Indian Seamless Steels and Alloys Ltd.' merged to form 'ISMT Limited'.

Exports cross Rs. 100 Crore mark.

2006 - 2007

Raised USD 20 Million through Foreign Currency Convertible Bonds issue.

Acquired Structo Hydraulics AB (based in Storfors, Sweden), Europe's leading supplier of tubes and engineering products for the hydraulic cylinder industry.

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.

2011

Exports cross 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).

COMPANY INFORMATION

Board of Directors

S C Gupta	-	*Chairman*
Salil Taneja	-	*Chief Executive Officer*
Rajiv Goel	-	*Chief Financial Officer*
O P Kakkar	-	*Director*
K K Rai	-	*Director*
Vinod Sethi	-	*Director (up to February 11, 2014)*
J P Sureka	-	*Director*
B R Taneja	-	*Director*
Suresh Khatanhar	-	*Nominee Director of IDBI Bank Limited*

Company Secretary
Nilesh Jain

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
Federal & Rashmikant, Mumbai

Registered Office
Lunkad Towers, Viman Nagar, Pune – 411014

Website: www.ismt.co.in
Email ID: secretarial@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
Bank of Baroda
Bank of India
Bank of Maharashtra
Central Bank of India
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)

A. TUBE DIVISION

Particulars	**2013-14**	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Capacity	**465000**	465000	465000	465000	158000	158000	158000	158000	158000	158000
Production	**147180**	138571	185976	167187	135782	145429	162276	161181	135635	110184
Sales	**145052**	141980	183194	165662	132156	144242	159062	163315	132794	110526
Captive	**5007**	13539	21553	19992	14652	16025	19150	17175	17068	11621
External	**140045**	128441	161641	145670	117504	128217	139912	146140	115726	98905
of which:										
- Domestic	**107783**	83695	104355	101499	92363	86422	101208	112833	82481	74878
- Exports	**32262**	44745	57286	44171	25141	41795	38704	33307	33245	24027

(Tonnes Per Annum)

B. STEEL DIVISION

Particulars	**2013-14**	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Capacity	**350000**	350000	350000	350000	250000	250000	250000	250000	250000	250000
Production	**244888**	216319	268638	254070	231395	202392	237914	247351	234707	213303
Sales	**246410**	214796	267296	256347	227866	201601	244684	245096	228078	214399
Captive	**165222**	137255	157913	148990	133976	145394	157862	160985	131968	109091
External	**81189**	77541	109383	107357	93890	56207	86822	84111	96110	105308
of which :										
- Domestic	**80995**	77497	108975	107174	93390	55865	86320	83510	95263	102961
- Exports	**194**	44	408	183	500	342	502	601	847	2347

KEY PARAMETERS

Rs. in Crore

Particulars	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Operations :										
Gross Sales	**2563**	2513	2981	2553	1914	2308	2051	2049	1807	1442
Net Sales	**1495**	1511	1879	1602	1185	1285	1180	1190	1061	892
- Tube Sales	***1072***	*1098*	*1302*	*1071*	*777*	*980*	*827*	*872*	*694*	*510*
- Steel Sales	***424***	*413*	*578*	*532*	*408*	*304*	*353*	*318*	*367*	*382*
- Exports	***291***	*412*	*501*	*328*	*176*	*354*	*247*	*225*	*211*	*152*
- Imports	***566***	*492*	*551*	*364*	*268*	*195*	*60*	*90*	*132*	*100*
- Exports (% of Total Tube Sales)	***27.1%***	*37.5%*	*38.5%*	*30.7%*	*22.6%*	*36.1%*	*29.8%*	*25.9%*	*30.3%*	*29.8%*
Raw Material (% of Net Sales)	**50.0%**	49.9%	51.1%	46.3%	42.3%	50.1%	48.3%	45.0%	45.4%	51.8%
Energy Cost (% of Net Sales)	**21.3%**	19.6%	18.3%	18.1%	18.1%	13.3%	14.7%	13.9%	12.9%	12.4%
Profitability :										
EBIDTA	**103**	179	265	275	218	251	226	269	264	164
- EBIDTA margin	***6.5%***	*11.1%*	*13.5%*	*16.5%*	*18.1%*	*19.1%*	*18.6%*	*22.4%*	*24.3%*	*18.0%*
Net Profit / (Loss)	**(170)**	(100)	29	75	75	56	100	130	115	33
- Net Profit / (Loss) Margin	***(10.8%)***	*(6.2%)*	*1.5%*	*4.5%*	*6.2%*	*4.3%*	*8.3%*	*10.8%*	*10.6%*	*3.6%*
Net worth	**304**	490	582	618	578	529	533	461	422	350
Finance :										
Long Term Borrowings	**981**	878	972	853	762	795	630	563	533	558
- FC Debt (% of Long Term Borrowings)	***63.8%***	*85.2%*	*78.1%*	*61.6%*	*79.7%*	*78.2%*	*88.7%*	*58.4%*	*31.9%*	*13.3%*
Finance Charges (% of Net Sales)	**12.3%**	10.1%	6.4%	5.7%	6.6%	6.4%	5.6%	6.4%	8.1%	10.3%
General :										
Average Market Capitalization	**151**	317	500	766	636	467	1289	1154	888	165
Share Price during the year - High (Rs.)	**15.30**	30.70	60.40	70.00	64.90	68.10	140.00	124.90	112.45	41.90
- Low (Rs.)	**8.55**	9.21	22.25	42.00	19.10	14.10	49.00	62.00	27.00	3.05
Book Value (Rs. Per Share)	**20.78**	33.43	39.72	42.16	39.42	36.11	36.41	31.90	29.20	33.24
Earning Per Share (Rs.)	**(11.62)**	(6.81)	1.95	5.14	5.09	3.84	6.92	9.01	7.96	2.33
Dividend – Rs. Per Share	**0.00**	0.00	0.75	1.25	1.00	1.00	1.00	0.50	0.00	0.00

CEO's Statement

The year 2013 to 2014 has been a year fraught with challenges on all fronts. Yet, while these challenges have certainly taken their toll on the overall revenues as well as the profitability of the Company, we have simultaneously been able to tackle the key challenges head-on and prepared ourselves for better prospects.

During the course of the year market demand for our products fell secularly across all the sectors and geographies that we serve. The domestic market witnessed a severe contraction in demand from the bearing, construction, powergen, and automotive sectors. In the engineering sectors this demand contraction was due to the market slowdown while in the commodity seamless tube markets it was due to the drastic increase in imports at economically unviable prices. Concurrently, there was a reduction in demand from the U.S. markets resulting from the Anti-dumping investigation launched by the U.S. Commerce Department. The European markets continued to be extremely fragile through the year and inspite of focused efforts we could push only marginal additional volumes into this market. As a result, we saw pressure on volumes as well as realizations. Together these two factors had a severe impact on our revenues as well as our profitability.

Having said the above, we now see considerably better prospects ahead of us. As this Annual Report goes to the press we have been able, after more than two years of effort, to secure the levy of a Safeguard Duty of 20% on the import of seamless tubes into India as a result of which we expect a substantial improvement in sales volumes and margins. In combination, we expect a major boost to the top-line as well as the bottom-line of the Company.

We have also made progress in our discussions with the Maharashtra State Electricity Distribution Company Limited to resolve the impasse with respect to the Energy Banking Agreement that we signed with them and the monies that are owed to us on this account. We expect to conclude this matter soon.

During the course of the year we have taken numerous steps to streamline the operations of the Company so that we are able to function with minimal inventory across all workstations and with tight control on process costs.

As we speak, we are witnessing a revival in demand particularly on the domestic front. With the positivism that has been created by the change of government we are seeing incremental growth across virtually all sectors. If this growth continues, as we hope it will, the steps that we have taken should see us emerge in a strong competitive position.

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, August 19, 2014

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, 2014.

FINANCIAL HIGHLIGHTS Rs. in Crore

Particulars	Financial Year	
	2013-14	2012-13
Gross Sales	**2563.10**	2513.02
Profit / (Loss) before Finance Charges, Depreciation, Amortization & Tax (EBIDTA)	**102.91**	179.36
Cash Profit / (Loss)	**(102.56)**	(45.00)
Gross Profit / (Loss)	**(80.62)**	26.69
Profit / (Loss) Before Tax	**(204.65)**	(140.63)
Taxation	**(34.36)**	(40.92)
Net Profit / (Loss)	**(170.29)**	(99.71)
Add: Balance brought forward from Previous Year	**(74.98)**	24.73
Balance available for Appropriation	**(245.27)**	(74.98)
Appropriations	**NIL**	NIL
Balance carried to Balance Sheet	**(245.27)**	(74.98)

DIVIDEND

Your Directors are unable to recommend a dividend for the year ended on March 31, 2014, in absence of adequate profits.

OPERATIONS

All the Plants viz., the two Tube Plants at Ahmednagar and Baramati, the Steel Plant at Jejuri and the Captive Power Plant at Chandrapur operated at poor utilization levels leading to higher production cost. However, the focus on internal cost cutting, both fixed and variable and minimizing working capital could partially mitigate the same.

MARKET

The recessionary international environment, a weak domestic market and large imports put tremendous pressure on domestic market. Exports were also drastically affected as a result of slump in US Sales.

FINANCE

While the Company raised long term loans of Rs. 235 Crore during the year, it did not result in the desired improvement given the continuing losses arising from the external factors as above. These losses have led to further erosion in net working capital and the Company is evaluating various options for meeting its requirements.

Due to increased borrowings and higher interest rates, the finance cost shot up by more than 20%.

CAPTIVE POWER

The operation of Captive Power Plant was adversely affected on account of lower production in Tube and Steel Plants. The Company's persistent efforts in obtaining the coal linkage to improve the viability are continuing and its petition with MERC to get the Banking Agreement is still awaiting decision.

SAFEGUARD DUTY

There has been considerable delay in implementation of Safeguard Duty despite the initiation of Safeguard investigation in April 2013. The Safeguards authority has now recommended Safeguard Duty of 25% subject to the approval of the Safeguards Board. In the absence of this protection, the domestic industry continued to suffer from increasing imports in a declining market.

DIRECTORS

In accordance with the provisions of the Companies Act, 2013 and the Articles of Association of the Company, Mr. J.P. Sureka retires by rotation and being eligible, offers himself, for re-appointment.

Mr. Vinod Sethi, Independent Director resigned from the Board on February 11, 2014. The Board placed on record its sincere appreciation and gratitude for his guidance and contribution to the Company.

In compliance with the provisions of Section 149 read with Schedule IV of the Companies Act, 2013, the appointment of Mr. S. C. Gupta and Mr. K.K. Rai as Independent Director(s) is being placed before the Members in the forthcoming Annual General Meeting for their approval.

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 (AGM) and being eligible have offered themselves for re-appointment.

Pursuant to the provisions of Section 139 of the Companies Act, 2013 and the Rules framed thereunder, it is proposed to appoint M/s. P. G. Bhagwat and J. K. Shah & Co., as Joint Statutory Auditors of the Company from the conclusion of the forthcoming AGM for a period of three years until the conclusion of the AGM for the year ending March 31, 2017 subject to ratification of their appointment at every Annual General Meeting.

Directors'Report (contd.)

In respect of the Qualified Opinion and 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 2013-14:

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

The Cost Audit Report for the year 2012-13 was due on September 30, 2013 and was filed with the Ministry of Corporate Affairs on September 27, 2013.

SUBSIDIARIES

As on date of this report, the Company has eleven 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, 2014 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

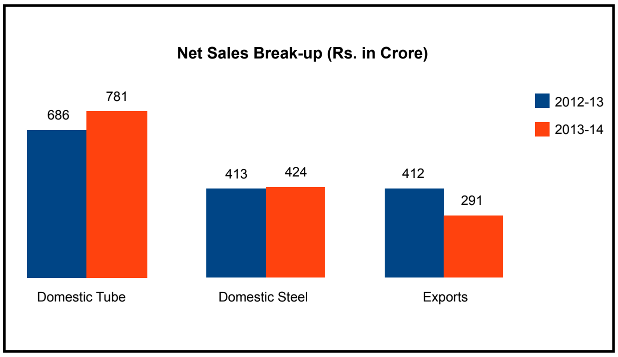
Pune **S C Gupta**
May 28, 2014 Chairman

Management Discussion and Analysis

The year under review was an extremely trying one with most of the ISMT customer industries witnessing slowdown. The lack of clarity on policy issues in some of the key economic sectors and the resultant uncertainty have severely impacted the investment cycle in the economy and hence the demand for seamless tubes. Continued dumping of seamless tubes in the already weak domestic demand scenario, persistent weak global demand, sustained high inflation, tight monetary policies with the consequent high interest rates coupled with rupee depreciation of over 20%, all led to an extremely challenging environment and a net loss of Rs. 170.29 Crore.

Company Performance :

- Total Revenue : Rs. 1576.72 Crore
- EBDITA : Rs. 102.91 Crore
- Profit/ (Loss) after Tax : Rs. (170.29) Crore



Given that the Company's seamless tube capacity is highly underutilized, the focus during the year was to increase volumes. External tube and steel volumes increased by over 9% and 5% respectively over Previous Year. The growth in domestic sector was more pronounced with Seamless tube volumes increasing by over 29%, which, given the depressed market and cheap imports could only be achieved at significantly lower margins.

Export sales during the year was lower by 29% at Rs. 291 Crore against Rs. 412 Crore last year, driven by the initiation of anti dumping investigation on OCTG imports into US and accounted for about 27% of the Company's total Tube Sales.

The U.S.A. & Europe continued to remain the dominant export revenue earners for the Company.

Rs. in Crore

Particulars	2013-14	2012-13	% Change
Net Sales	**1495**	1511	(1%)
Domestic			
- Tube	**781**	686	14%
- Steel	**424**	413	3%
Exports	**291**	412	(29%)

The ongoing dispute with MSEDCL on denial of Power Banking continued to severely impact the flexibility in Operations at Tube and steel manufacturing plants of the Company. In a scenario of weak product demand, synchronizing the 40 MW Captive Power Plant with manufacturing plants whose power consumption pattern is highly varying, the denial of power banking is posing serious challenges to the Company. The Company hence has not sought the Open Access for wheeling of power from its Captive Power Plant with effect from April 01, 2014. During the year, about 63% of Company's power requirement was met through the Captive route.

During the year, the Company has received payment of Rs. 134.05 Crore in relation to an Arbitration case initiated by the Company against one of its equipment suppliers.

EBIDTA during the year stood at Rs. 102.91 Crore against Rs. 179.36 Crore Previous Year.

The prolonged slowdown in the Eurozone economy continued to negatively impact Company's Overseas subsidiary Structo Hydraulics AB in Sweden. Drastic reduction of man power coupled with other cost saving initiatives has however ensured that the Company can attain cash break even at a fraction of the production achieved by it in the past.

INDUSTRY STRUCTURE AND DEVELOPMENTS

Seamless Tubes Industry

Seamless Tube is a capital intensive industry and deploys high end technology. While the industry competes with other types of pipes and tubes in certain applications, it clearly is a preferred choice when it comes to better surface finish, machine-ability, strength to weight ratio and longer life. Seamless Tubes find applications in Oil and Gas exploration industry, Power Sector, Automotive, Construction Equipment, Bearing, Material handling equipments, Structural Components and host of other Mechanical applications. With the fast growing horizontal drilling and hydraulic fracturing technology being deployed for recovery of Shale gas, the use of seamless tubes is also set to increase.

The domestic boiler and mining sectors which looked promising for the seamless tubes industry, few years back, failed to pick up due to policy paralysis in the sector and the investment cycle almost came to a standstill. This along with the slowdown in the core Seamless Tube consuming sectors both in the domestic and international markets along with rampant dumping by global players has rendered the domestic Seamless Tube manufacturers extremely vulnerable. While Indian seamless tube sector accounts for less than 5% of the world seamless tube market, ample scope exists for growth of the sector once the core sectors of the economy start reviving and the problem of dumping is addressed. Indian seamless tubes industry is also competitive in the global arena with about 30% of seamless tube production in the country is being directly or indirectly exported.

Safeguard Duty

With the sluggish global economy and the levy of dumping duty on seamless tubes by most of the developed nations on Chinese imports, India remains one of the few tube producing countries where the seamless tubes imports are still permitted. Nearly about 60% of domestic demand is currently met through imports, which has severely impacted the domestic industry. In response to the safeguard duty petition on imports of Seamless tubes, Directorate