

ANNUAL REPORT

2018-19

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 1,50,000 MTPA 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, for modernization and technology upgradation of Seamless Tube plant.

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 Ltd'.

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).

2013

Raised long term working capital loans of Rs. 235 Crore.

2014

Operations of Captive Power Plant were suspended due to non-availability of coal & denial of energy banking facilities by MSEDCL.

Leavy of Safeguard Duty on imports of seamless tubes into India.

JLF approved and disbursed Corporate Term Loans of Rs. 405 Crore under corrective Action Plan

2016

Levy of Anti-Dumping Duty for a period of 5 years on imports of seamless tubes from China.

COMPANY INFORMATION

Board of Directors

S C Gupta	- Chairman (upto March 28, 2019)
O P Kakkar	- Chairman (w.e.f. June 14, 2019)
B R Taneja	- Managing Director
Rajiv Goel	- Chief Financial Officer
Deepa Mathur	- Director
Shyam Powar	- Director
Shashank Dixit	- Nominee Director of IDBI Bank Ltd. (upto January 17, 2019)
Kanakraj M	- Director (w.e.f. March 1, 2019)
R Poornalingam	- Director (w.e.f. December 28, 2018)

Company Secretary

Chetan Nathani

Auditors

DNV & Co.

Cost Auditors

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

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

Bankers / Lenders

Indian Overseas Bank
Bank of Baroda
ICICI Bank Limited
Andhra Bank
Central Bank of India

State Bank of India
IKB Deutsche Industrie Bank AG
Edelweiss Asset Reconstruction Co. Ltd.
Asset Reconstruction Company (India) Ltd. (ARCIL)
SC Lowy Primary Investment Limited

Registered Office

Lunkad Towers,
Viman Nagar, Pune - 411014
Tel: +91-20-4143 4100/ 6602 4901
Fax: +91-20-26630779
E-mail ID: secretarial@ismt.co.in
Website: www.ismt.com
CIN: L27109PN1999PLC016417

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

Registrar & Share Transfer Agent

Karvy Fintech P Ltd
(Formerly known as Karvy Computershare P. Ltd)

Directors' Report

To the Members of ISMT Limited

Your Directors present herewith the Twenty First Annual Report & Audited Financial Statements of the Company for financial year ended March 31, 2019.

FINANCIAL HIGHLIGHTS

The Company had undergone a very difficult period in last few years and peak net sales of Rs. 1,879 Crores in 2011-12 dipped to Rs. 968 Crores in 2015-16 and the net profit of Rs. 29 Crores dipped to net loss of Rs. 382 Crores during the said period. However, a remarkable turnaround has been achieved in last 3 years where the sales have gone back to the same level while the net loss also came down by 40% as can be seen from the following:

Particulars	Rs. in Crore	
	Financial Year	
	2018-19	2015-16
Net Sales	1795.44	968.44
Gross Sales	2423.39	1331.28
Profit/ (Loss) before Finance Charges, Depreciation, Amortization & Tax (EBIDTA)	119.87	33.65
Cash Profit/ (Loss)	(154.35)	(300.99)
Gross Profit/ (Loss)	(156.59)	(246.47)
Profit/ (Loss) Before Tax	(228.78)	(372.82)
Taxation	-	(9.39)
Net Profit/ (Loss)	(228.78)	(382.21)
Re-measurement Gains/ (Losses) on Defined Benefit Plans	(0.84)	-
Total Comprehensive income for the year	(229.62)	(382.21)

DIVIDEND

Your Directors are unable to recommend dividend for the year ended March 31, 2019 in view of the losses.

RESERVES

No amount is proposed to be transferred to Reserves.

OPERATIONS

There has been gradual improvement in utilization at all the plants. Steel plant utilization has gone up from 38% in 2015-16 to 50% in 2018-19. There is a quantum jump in tube plant utilization which went up from 22% in 2015-16 to 48% in 2018-19.

MARKET

Total tube sales went up from Rs. 566 Crores in 2015-16 to Rs. 1,317 Crores in 2018-19 i.e. an increase of 133%. In fact the domestic sales increased 2.5 times from Rs. 456 Crores in 2015-16 to Rs. 1,122 Crores in 2018-19 while the exports sales nearly doubled from Rs. 110 Crores in 2015-16 to Rs. 195 Crores in 2018-19.

Steel despatches went up from Rs. 609 Crores in 2015-16 to Rs. 1,020 Crores in 2018-19. Most of the increase was driven by the captive sales which increased from Rs. 207 Crores in 2015-16 to

Rs. 541 Crores in 2018-19 while external sales also went up by 20% from Rs. 402 Crores in 2015-16 to Rs. 478 Crores in 2018-19 despite the slow down in the Auto Industry.

FINANCE

The turnover of the Company doubled over last 3 years from Rs. 968 Crores in 2015-16 to Rs. 1,795 Crores in 2018-19. EBIDTA went up more steeply and EBIDTA in 2018-19 of Rs. 120 Crores was more than thrice the EBIDTA in 2015-16 of Rs. 34 Crores. The cash loss in turn halved from Rs. 301 Crores in 2015-16 to Rs. 154 Crores in 2018-19.

The Company has continued to be EBIDTA positive throughout this period and the increasing EBIDTA is a positive for the Lenders of the Company. The Company is proposing to restructure its debt on sustainable basis which, inter alia, could necessitate downsizing of debt including interest. However, pending restructuring, the Company is required to provide full interest in its books to comply with the relevant accounting standards and will give effect to the restructuring once it is implemented.

FUNDS UTILIZATION

The internal cash flows are mainly utilized for incremental working capital requirements, essential maintenance capex and other need based capex and also for payment to Lenders of the Company.

The Company is also regular in payment of its statutory dues.

DEBT RESOLUTION

The Company and the Bankers had been looking at various options permitted by Reserve Bank of India Circular in force from time to time and has finally decided to explore assignment of debt to Asset Reconstruction Company (ARC) as a Resolution Plan. Pursuant to the same, erstwhile Lead Bank viz. Indian Overseas Bank and other major Banks aggregating to about 71% have assigned their debt to ARCs with ARCIL acquiring most of this debt. ARCIL has initiated the process for restructuring the debt on a sustainable basis.

IMPORTS

An effective import duty levied in 2016 provided immediate and much needed relief. After the initial dip, imports from China have again started increasing. There is also increase in non Chinese imports. The Company will seek continuation and widening of the tariff regime to address increasing imports.

ENERGY BANKING

Captive Power Plant of the Company continued to be inoperative throughout the year in the absence of banking facility from MSEDCIL. The Company has contested the wrongful denial of the banking facility and the Company's appeal in this regard is pending in the Supreme Court.

NON CORE ASSETS

Captive Power Plant in Maharashtra had in the past been identified as asset held for sale. Given the continuing weakness in the economic environment, the Company does not foresee disposal of the same in the short term. Hence, it has been decided to reclassify the said asset as non-current asset under the head "Property, Plant & Equipment".

Directors' Report (Contd.)

Despite non operation for last 5 years, the Captive Power Plant has been kept in good working condition. It also has easy access to raw material being located close to the coal mines. The Company also has surplus land and other infrastructure for increasing the capacity. The Company is also evaluating the possibility of restarting the Power Plant.

Port and Power project in Tamil Nadu does have long term potential. The Company, through its wholly owned subsidiary, has also got about 1,000 acres of freehold land which can be put to alternate use once there is improvement in the investment scenario.

RESEARCH & DEVELOPMENT

As part of Company's overall strategy, Company remained focused on developing new products for all its market segments including Energy, OCTG, Bearing, Auto & Mining Sectors. R&D activities also focused on process cost reductions. Details of R&D activities undertaken are enumerated in Annexure 'B' attached to this Report.

DIRECTORS & KEY MANAGERIAL PERSONNEL

Mr. R Poornalingam & Mr. Kanakraj Madhavan were appointed as Additional Directors (Independent) of the Company w.e.f. December 28, 2018 & March 1, 2019 respectively.

Mr. Shyam Powar is re-appointed as Independent Director of the Company, subject to shareholders approval at the ensuing AGM. Post completion of the tenure as Independent Directors, Mr. S C Gupta and Ms. Deepa Mathur continued on the Board as Non-Executive Directors (Non-Independent) till the ensuing AGM.

Mr. Shashank Dixit, Nominee Director & Mr. S C Gupta, Non-executive Director resigned as Directors of the Company w.e.f. January 18, 2019 & March 29, 2019 respectively.

The Board placed on record its sincere appreciation and gratitude for services rendered by Mr. Shashank Dixit and Mr. S C Gupta during their respective association with the Company.

The term of Mr. Rajiv Goel as Whole-time Director expired on September 30, 2018. He was further re-appointed as such upto September 30, 2019.

The term of Mr. B R Taneja as Managing Director expired on November 30, 2018. He was further re-appointed as such upto November 30, 2020.

Eight (8) meetings of the Board of Directors were held during the year. Detailed information is given in the Corporate Governance report.

The Independent Directors have given a Declaration pursuant to Section 149(7) of the Companies Act, 2013 (Act).

The Company has devised a Policy for annual performance evaluation of the Board, its Committees & individual Directors which include criteria for performance evaluation of the non-executive & executive directors.

The performances of non-independent directors & Committees of the Board have been evaluated by independent directors. The

performances of independent directors have been evaluated by Chairman of the Nomination & Remuneration Committee (NRC) with inputs from all directors. The performance of the Board as a whole is evaluated by the Chairman with inputs from all directors. The performance evaluation of Chairman of NRC is evaluated by Chairman with inputs from all the directors.

The above evaluations have been carried out once during the year.

The details of familiarization Programme of Independent Directors with the Company, their roles, rights, responsibilities in the Company, nature of the industry in which the Company operates, business model of the Company and related matters are put up on the website of the Company at www.ismt.co.in

AUDITORS REMARKS

In respect of the Qualified Opinion and Emphasis of Matter by the Auditors on the Financial Statements of the Company, it has been explained in the Notes forming part of the said Financial Statements i.e. Note Nos. 1.31, 3.12, 3.16, 3.17, 3.18, 3.19 and 3.20 which are self-explanatory and therefore do not call for any further comments.

The Auditors have discussed the key matters for each of the qualifications.

COST AUDITORS

The Company is required to maintain cost records as specified u/S 148(1) of the Act and accordingly such accounts and records are made and maintained by the Company.

Pursuant to Section 148 of the Act read with Rules framed thereunder, your Directors had, on recommendation of the Audit Committee, approved the appointment & remuneration of the following Cost Auditors of the Company for FY2018-19:

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

The payment of remuneration for FY2018-19 to aforesaid Cost Auditors is subject to ratification by the Members at the ensuing Annual General Meeting.

The Cost Audit Report for FY2017-18 was filed within the prescribed time limit as per the Companies (Cost Record and Audit) Rules, 2014.

SUBSIDIARIES

As on date of this report, the Company has ten direct and indirect subsidiary companies. In accordance with Section 129(3) of the Act, a statement containing salient features of the financial statements of subsidiaries in Form AOC-1 is provided separately in this Annual Report. A report on performance & financial position of each of the subsidiaries is provided in financial statements forming part of this Annual Report. The Company has also framed a Policy for determining Material Subsidiaries which is available on website: www.ismt.com.

FIXED DEPOSITS

The Company has not accepted any deposits from the public.

Directors' Report (Contd.)

MANAGEMENT DISCUSSION & ANALYSIS AND CORPORATE GOVERNANCE REPORT

Pursuant to SEBI (LODR) Regulations, 2015 (Listing Regulations), a separate section on Management Discussion & Analysis & Corporate Governance' Report is forming part of this Report.

The Managing Director & CFO have certified to the Board with regard to the financial statements & other matters as required under Regulation 17(8) of the Listing Regulations.

Certificate from Auditors of the Company regarding compliance of conditions of Corporate Governance is also annexed to this Report.

EXTRACT OF ANNUAL RETURN

The extract of Annual Return in Form MGT-9 is forming part of this Report as Annexure 'A'.

Further, the latest Annual Return of the Company in Form MGT-7 is placed on website of the Company at www.ismt.com

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO

Information required under Section 134(3)(m) of the Act is forming part of this Report as Annexure 'B'.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 134(3)(c) read with Section 134(5) of the Act, your Directors make the following statement:

- i) That in preparation of 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 & applied them consistently & made judgments & estimates, that are reasonable & prudent so as to give a true & fair view of the state of affairs of the Company at end of financial year March 31, 2019 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, 2013 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;
- v) That the Directors had laid down internal financial controls to be followed by the Company & that such internal financial controls are adequate & were operating effectively; and
- vi) That the Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

NOMINATION & REMUNERATION POLICY

The Nomination & Remuneration Policy of the Company on director's appointment & remuneration including criteria for determining qualifications, positive attributes, independence of a director & other matters is available on website of the Company at www.ismt.com.

The criteria for performance evaluation as laid down by the Nomination & Remuneration Committee have been defined in the Nomination & Remuneration Policy.

Details pertaining to Section 197(12) of the Act read with Rules framed thereunder are forming part of this Report as Annexure 'C'.

A statement showing details of employees in terms of Rule 5(2) and (3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 forms part of this Report. However, in terms of Section 136 of the Act, the Annual Report excluding the aforesaid information is being sent to the members and other entitled thereto. The said statement is available for inspection by the Members at the Registered Office of the Company during business hours on working days up to the date of the ensuing AGM. If any Member is interested in obtaining a copy thereof, such Member may write to the Company Secretary in this regard.

SECRETARIAL AUDIT REPORT

Pursuant to Section 204 of the Act & Rules made thereunder the Board has appointed M/s. MRM Associates, Company Secretaries as Secretarial Auditors to undertake Secretarial Audit of the Company for the period ended March 31, 2019.

The Report of the Secretarial Auditors in Form MR-3 is forming part of this Report as Annexure 'D'.

In respect of the Audit observations, following are the comments of the Board:

i. Delay in submission of financial Results:

Submission of the financial results got delayed only by 2 weeks due to delay in financials of foreign subsidiaries.

ii. Inadequate Board composition:

Listing Regulations usually provide 3 months to fill vacancy of independent directors.

Accordingly, the Company within 3 months filled the vacancy of Independent Director.

iii. Promoter shareholding not in demat form:

One Promoter Group (holding 0.02% shares in physical form) was classified as such by virtue of being related to a former promoter of the Company.

The Company proposes to take steps to reclassify the said promoter group to public category.

Directors' Report (Contd.)

iv. Disqualification of Director

The concerned director was erroneously disqualified by ROC. Nevertheless, on the date of appointment in the Company, the said Director was not disqualified. Subsequently, he has resigned from the Board on becoming aware of his disqualification.

v. Non-filing of forms with ROC

Due to pre-scrutiny/ technical error on MCA website, the Company could not file few forms with ROC. However, the said forms were subsequently filed through form GNL-2, which were duly approved by ROC.

PARTICULARS OF LOANS, GUARANTEES AND INVESTMENTS

Particulars of Loans, Guarantees and Investments covered under Section 186 of the Act have been mentioned in the Notes to the Financial Statements forming part of this Annual Report.

RISK MANAGEMENT

The Company has constituted a Risk Management Committee to address organization wide risk including credit, security, property, regulatory and other risks. The Committee is assisting the Board in ensuring that there is adequate risk management policy in place capable of addressing those risks.

INTERNAL FINANCIAL CONTROLS

The Company has an internal financial control framework which is commensurate with the size, scale and complexity of its operations. The Statutory Auditors of the Company review the same on periodical basis.

CORPORATE SOCIAL RESPONSIBILITY

Pursuant to Section 135 of the Act a CSR Committee has been constituted by the Board consisting of three directors including one independent director.

Pursuant to the provisions of Section 135 of the Act, no profits were available for spending on CSR activities.

AUDIT COMMITTEE & VIGIL MECHANISM

Pursuant to Section 177 of the Act, an Audit Committee constituted by the Board consists of at least three directors with independent directors forming a majority.

The Whistle Blower Policy/ Vigil Mechanism of the Company was established by the Board & available on website at www.ismt.com.

CONTRACTS & ARRANGEMENTS WITH RELATED PARTIES

During the year, the Company has not entered into any contract/ arrangement/ transaction with related parties which were either not at an arm's length or not in the ordinary course of business & further could be considered material in accordance with the policy of the Company on materiality of related party transactions.

Hence, there is no information to be provided in Form AOC-2 while particulars of Related Party Transactions in terms of Ind AS-24 are forming part of the enclosed financial statements.

The Policy on materiality of related party transactions and dealing with related party transactions as approved by the Board may be accessed on the website at www.ismt.com

GENERAL

1. No significant or material orders were passed by Regulators or Courts or Tribunals which impact the going concern status & Company's operations in future.
2. The Company has complied with the provisions relating to the constitution of Internal Complaints Committee under the Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013 and during the year, there were no cases filed/pending under the said Act.
3. The Company has complied with the applicable secretarial standards.

ACKNOWLEDGEMENTS

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

**For and on behalf of
the Board of Directors**

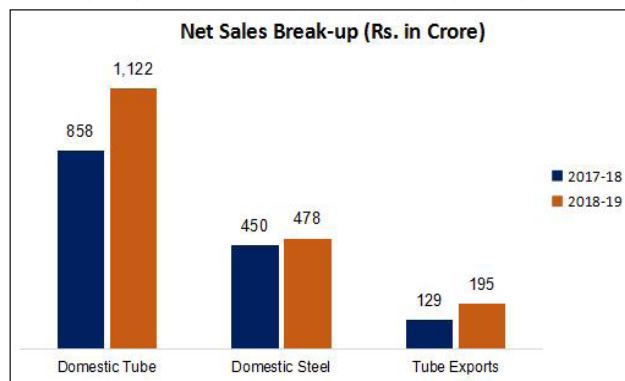
Pune
June 14, 2019

**O P Kakkar
Chairman**

Management Discussion and Analysis

Company Performance (F.Y. 2018-19):

Total Revenue	: Rs. 1832.04 Crore
EBDITA	: Rs. 119.87 Crore
Cash Profit/ (Loss)	: Rs. (154.35) Crore
Profit/ (Loss) after Tax	: Rs. (228.78) Crore



Sales of Domestic and Export seamless tubes and pipes increased by 31% and 51% respectively in the current year over previous year.

Growth in Domestic demand and lower imports consequent on levy of Anti Dumping Duty on imports of the seamless tubes and pipes from China resulted in Domestic seamless tube sales volumes increase over previous year.

Rs. in Crore

Particulars	2018-19	2017-18	Change
Net Sales	1795	1437	25%
Domestic			
- Tube	1122	858	31%
- Steel	478	450	6%
Tube Exports	195	129	51%

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 equipment, Structural Components and host of other Mechanical applications. The Seamless Tube consumption is largely dependent on economic developments and with expected long term economic growth, the Company is assured of a secular market in future.

Steel Industry

ISMT has integrated Steel Plant which uses the Electric arc furnace technology to produce Steel.

ISMT is predominantly engaged in the manufacturing of specialty alloy and bearing Steel. The end user segments are largely Bearing, Automotive, Engineering and Forging Customers apart from some customers requiring steel for specialized application. The fortunes of the specialty and alloy steel products is closely linked to automotive and auto component industry.

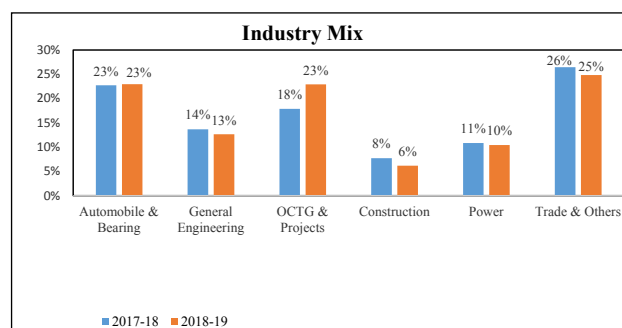
Captive Power Plant

The operations of the Captive Power Plant remained suspended during the year on account of non-availability of energy banking facility from Maharashtra State Electricity Distribution Company Limited (MSEDCL).

MARKET

ISMT is a diversified value added Seamless Tube supplier catering to following major industries:

- Oil and gas : As casings & Tubings during oil/ gas exploration.
- Power : In Boilers & Heat Exchangers
- Construction Equip-ment : In mining and earth moving equipment
- Automotive & Gen-eral Engineering : Applications in two wheeler to four wheeler as front forks, axel, Steeling columns, Air bag system etc.
- Bearings : Inner and outer races of Bearings
- Others : In greenfield projects for fluid transportation, Construction of Stadiums and airports, gas cylinders, crane booms etc.



Sales value in absolute terms in all the Industry segments increased over previous year.

OPPORTUNITIES & THREATS

Opportunities

The imposition of Anti Dumping Duty on Chinese imports of seamless tubes and pipes for a period of five years continues to be an opportunity especially with the growing Indian economy. An opportunity in increase in export sales can also be expected due to future increase in demand for seamless pipes from developing countries.

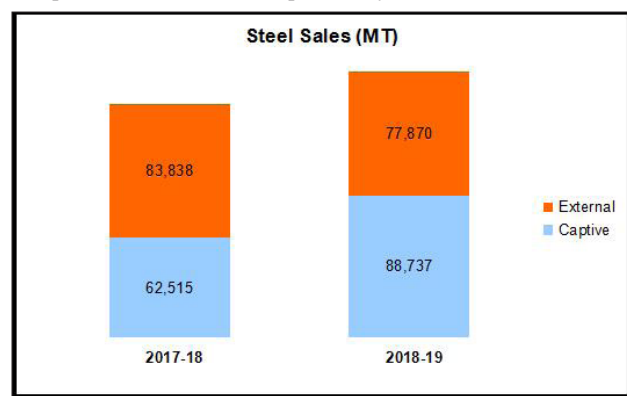
Management Discussion and Analysis (Contd.)

Threats

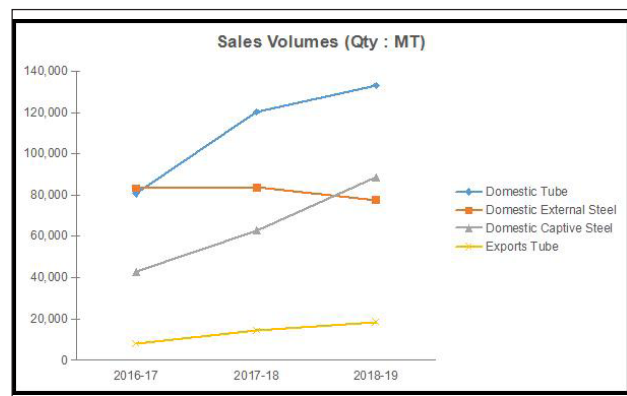
There is a continuous threat of imposition of duties from developed economies. Also strict ecological regulations may lead to technological changes.

SEGMENT/ PRODUCT INFORMATION

Your Company is engaged in manufacturing Seamless Tubes and Engineering Steels. Seamless Tube accounted for 73% of ISMT's total external sales value while Steel accounted for the balance 27%. Captive consumption of steel increased to 53% as compared to that of 43% for previous year.



Total sales quantity of both seamless tube and steel put together showed an increasing trend. The same for the year 2018-19 was 318,121 MT as against 280,959 MT for 2017-18 and 214,975 MT for 2016-17.



OUTLOOK

Levy of Final Anti Dumping Duty on import of seamless tube into India from China coupled with 'Make in India' program of the Government of India is likely to lead to increase in volume of the Company's product in domestic market.

RISKS & CONCERNS

Your Company regularly evaluates and reviews potential risks on account of various factors such as government policies, natural/ man-made disasters, and political risks. Apart from above, the Company is exposed to changes in foreign exchange rates and commodity prices. Any change in laws & regulations, whether domestically or internationally could affect the business and financial condition of your Company.

The long term success of a Company largely depends on effectively identifying and analyzing the risks involved. The Company has adequate risk management system towards identification and evaluation of potential risks and the same are evaluated and reviewed regularly by the management so as to minimize/ eliminate the adverse impact if any.

INTERNAL CONTROL SYSTEMS

The Company has adequate and effective internal control systems and processes in place, which are designed to provide reasonable assurance with regards to recording and providing reliable financial and operational information, safeguarding the assets, statutory compliance, executing transactions with proper requisite approvals and ensuring compliance with applicable laws and regulations. The Audit Committee of Directors on a periodic basis reviews the effectiveness and adequacy of the internal control systems and processes and suggests improvements if any.

In addition to the Chief Internal Auditor, the Company has also appointed an external Chartered Accountants firm as internal auditors to conduct internal audit of the function and activities of the Company.

FINANCIAL PERFORMANCE

Some of the key financial parameters are as under:

Finance Cost

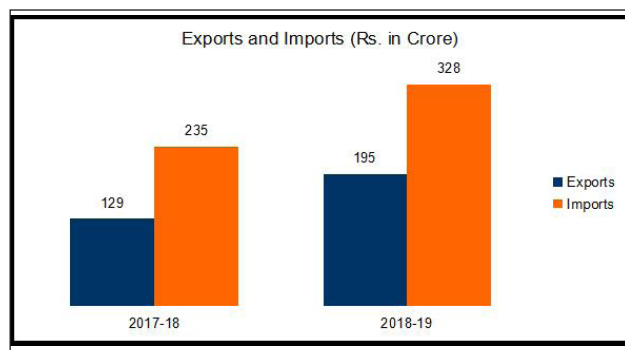
The Finance cost for the year was almost same as that for previous year at Rs. 276 Crore and stood at 15% of Net Revenue.

During the year imported raw material consumption increased to Rs. 328 Crore from Rs. 235 Crore in the previous year. The increase is in line with increase in sales turnover.

Exports are expected to continue its growth trend on account of increase in demand from developing countries. Going forward this should lead to growing net Foreign Exchange inflows. The Company's forex exposure is managed both through a natural hedge and by contracting appropriate treasury products, with a view to balancing risks while optimizing borrowing costs. Appropriate hedging tools are used under the board approved risk management policy framework. The forex risk is reviewed periodically and managed in line with the objectives laid in the policy.

Foreign Currency Term Loans accounted for over 27% of the Company's outstanding term debt as on March 31, 2019. The same accounted for 26% of total outstanding term debt as on March 31, 2018.

Management Discussion and Analysis (Contd.)



The Company's major exports are to North America and Europe and the imports are mainly from USA, Europe, Gulf and South Africa.

Working Capital

While the inventory level in absolute term for the current year is same as that for previous year, the debtors level increased by Rs. 65 Crore over previous year. The increase in debtors was on account of increase in sales turnover. In term of holding period calculated on yearly sales, the inventory level has reduced while debtor level was almost same as that for previous year.

Rs. in Crore

Particulars	2018-19	2017-18
Inventory	341	334
Stock Turnover (times)	5.27	4.31
Debtors	295	225
Debtors Turnover (times)	6.09	6.38
Creditors	100	102
Creditors Turnover (times)	12.48	9.90

The Company is making all possible efforts to keep the inventory and debtor's level at the minimum possible in the current stressed financial scenario.

Energy Cost

Energy Cost accounted for 16% of the Company's net revenues at Rs. 289 crore. In the current financial year, operations of the Captive Power Plant remained suspended.

Particulars	2018-19	2017-18	Change
Power consumption (KWH/ Ton of Production)			
- Steel Division	884	839	(5%)
- Tube Division	558	546	(2%)
Avg. Electricity Rate per Unit from MSEDCL (Rs. / KWH)	8.44	7.44	(13%)

There was a increase in electricity rate per unit by 13% as compared to previous year on account of increase in power tariff by state electricity board.

The power consumption per unit of tube production increased marginally by 2% and that of steel division by 5% as compared to previous year.

Your Company is consistently focused on achieving higher energy efficiency across value chain and is simultaneously committed towards utilising environment friendly means in the process.

Particulars	2018-19	2017-18	Change
Furnace oil Consumption (K Ltrs/ Ton of Production)			
- Steel Division	32	45	29%
- Tube Division	72	70	(3%)
Avg. Furnace Oil rate Rs. per Litre	36.00	27.19	(32%)

Increase in furnace oil rate per litre is driven by international oil prices which is beyond the scope of the Company.

Increase in melting shop production led to reduction in furnace oil consumption per Metric Ton of production of steel division over previous year. Furnace oil consumption of tube division increased marginally by 3%.

Significant scope exists for reduction in power and Fuel consumption per unit of production once the capacity utilization at manufacturing plants improve.

KEY FINANCIAL RATIOS

Some of the key financial ratios for current year as compared to previous year are as under:

Particulars	2018-19	2017-18	Change
Debtors Turnover	6.09	6.38	(5%)
Inventory Turnover	5.27	4.31	22%
Interest Coverage Ratio	0.17	0.12	39%
Current Ratio	0.25	0.26	(3%)
Debt Equity Ratio	-ve	-ve	N.A.
Operating Profit Margin	6.7%	6.0%	11%
Net Profit Margin	-ve	-ve	N.A.
Return on Net Worth	-ve	-ve	N.A.

Owing to the increase in sales turnover and resultant increase in Earnings before Interest and Taxes (EBIT), the interest coverage ratio has almost doubled as compared to previous year. While EBIT increased by 39%, Finance Cost remained at almost same level as that of previous year.

HUMAN RESOURCES DEVELOPMENT AND INDUSTRIAL RELATIONS

The Industrial relations continued to remain peaceful throughout the year. The personnel expenses increased by 5% during the year over previous year on account of yearly increments. The Company continues to believe that the culture of sharing knowledge within the employees and involving them to be part of the solution, enables the Company curtail costs and excel. In the current economic scenario, the focus was on aligning HR to support cost control and conserve cash, while ensuring organizational confidence and employee motivation, to enable the Company sail through the current challenges and prepare itself for the future opportunities.