

ANNUAL REPORT

2020-21

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.

Levy 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

| | |
|----------------|--------------------------------------|
| O P Kakkar | - Chairman |
| B R Taneja | - Managing Director |
| Rajiv Goel | - Chief Financial Officer |
| Deepa Mathur | - Director |
| Shyam Powar | - Director (upto September 30, 2020) |
| Kanakraj M | - Director |
| R Poornalingam | - Director |

Company Secretary & Compliance Officer

Chetan Nathani

Statutory Auditors

M/s. D N V & Co., Chartered Accountants

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 Ltd.
Andhra Bank
Central Bank of India

IKB Deutsche Industrie Bank AG
Edelweiss Asset Reconstruction Co. Ltd.
Asset Reconstruction Co. (India) Ltd. (ARCIL)
SC Lowy Primary Investments, Ltd.

Registered Office

Panama House,
(Earlier known as Lunkad Towers),
Viman Nagar, Pune - 411014
Tel: +91-20-4143 4100/ 26630144
Fax: +91-20-26630779
E-mail ID: secretarial@ismt.co.in
Website: www.ismt.co.in
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

KFin Technologies Pvt. Ltd.
(Formerly known as Karvy Fintech Pvt. Ltd.)
Selenium Tower B, Plot 31 & 32,
Financial District, Nanakramguda, Serilingampally Mandal,
Hyderabad - 500 032, Telangana
Email id: einward.ris@kfintech.com
Website: <https://www.kfintech.com> and/ or <https://ris.kfintech.com/>
Toll free number: 1 800 309 4001

Board's Report

To the Members of ISMT Limited

Your Directors present herewith the Twenty Third Annual Report & Audited Financial Statements of the Company for financial year ended March 31, 2021.

FINANCIAL HIGHLIGHTS

Rs. in Crore

| Particulars | Financial Year | |
|---|-----------------|-----------------|
| | 2020-21 | 2019-20 |
| Gross Sales | 1681.70 | 1675.09 |
| Income from Operations | 1234.67 | 1304.29 |
| Earnings before Finance Cost, Depreciation, Amortization & Tax (EBIDTA) | 25.27 | 89.03 |
| Cash Profit/ (Loss) | (289.33) | (179.40) |
| Net Profit/ (Loss) | (350.71) | (240.43) |
| Total Comprehensive income | (350.18) | (243.12) |

Increased demand from automobile and bearing sector helped contribute increase in steel sales. However demand for tube sales in other sectors continued to be weak.

DIVIDEND

Your Directors are unable to recommend dividend for the year ended March 31, 2021, in view of the losses.

RESERVES

No amount is proposed to be transferred to Reserves.

IMPACT OF COVID-19

COVID-19 pandemic & subsequent countrywide lockdown substantially impacted the business of the Company in Q1FY2020-21 & has caused significant disturbance & slowdown in economic activity across the globe. During the year under review, the Company's operations & revenue improved quarter on quarter, yet full impact of the pandemic is not ascertainable on account of outbreak of second wave of the pandemic.

OPERATIONS

Capacity utilization at steel plant went up from 34% to 44% on account of both higher external and captive sales. The tube plant utilization was adversely affected by the pandemic going down from 45% to 30%.

FINANCE

For the year under review, EBIDTA came down from Rs. 89.03 Crore to Rs. 25.27 Crore due to drop in Sales and sudden unprecedented increase in raw material prices which could be passed on only partially and that too with a time lag.

In spite of lower EBIDTA, the Company was able to meet all statutory obligations, essential capex, need based working capital & payment to lenders as per agreed plan.

DEBT RESOLUTION

The debt restructuring could not be concluded in the previous year on account of COVID-19 pandemic.

The Company, during the year under review, after considering the impact of COVID-19 Pandemic on its Cash Flows, have submitted the revised resolution options to the Lenders which are under consideration.

ENERGY BANKING

Captive Power Plant continued to be inoperative throughout the year in absence of banking facility from Maharashtra State Electricity Distribution Company Ltd. (MSEDCL). The Company's appeal against wrongful denial of banking facility is pending in Supreme Court.

The Company continued to pursue all available options for the Captive Power Plant.

IMPORTS

The present anti dumping duty on imports from China was in force until May 16, 2021. On account of continuing large imports from China adversely impacting the industry, the industry has sought renewal of the anti dumping duty. Pending imposition of final duty, the Ministry of Finance has provisionally extended the duty up to October 31, 2021.

The steep increase in raw material cost has resulted in the domestic selling price being higher than the reference price and the industry is seeking an effective Anti Dumping Duty to address the impact of the increase in input cost.

It is also observed that there are large imports from various countries into the country as Seconds/ Defectives at very low prices. The industry will pursue with the Government for suitable safeguards in this regard. There is sufficient capacity & capability with the industry to meet most of the import requirements.

PSU BUSINESS

Despite having a track record of decades in supplying to ONGC & other PSUs, the Company today is not able to participate in their tenders because of its negative net worth thereby losing out on substantial business. While the Company is pursuing with the lenders for debt resolution which is also expected to address the issue of negative net worth, the Company has also made suitable representations to respective authorities for relaxing the positive net worth requirement.

STEEL BUSINESS

After long time, demand for Steel Products of the Company has surged resulting in higher capacity utilization and external steel sales.

However, the Company has also witnessed sudden and steep increase in international scrap prices as well as in the prices of domestically procured raw materials.

In absence of the policy for scrapping old commercial vehicles, the country pays for higher pollution and also suffers forex outgo on account of high cost imports. Implementation of this policy will increase domestic availability of scrap at competitive prices & considerably enhance the viability of steel making by EAF.

Board's Report (Contd.)

The Company is entirely dependent on high cost power from the State grid. Availability of power at competitive rates is key to success of Atmanirbhar Bharat and suitable steps need to be taken at both Central and State Governments levels to facilitate-

- (a) Special tariff for EAF route;
- (b) Free market for sale of power across India; and
- (c) Removal of cross subsidy and other State levies on captive power generation.

RESEARCH & DEVELOPMENT

Details of R&D activities undertaken are enumerated in Annexure 'A' attached to this Report

DIRECTORS & KEY MANAGERIAL PERSONNEL

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

Term of Mr. B R Taneja, as the Managing Director expired on November 30, 2020. He was further re-appointed upto November 30, 2022.

Term of Mr. Rajiv Goel as Whole-time Director expired on September 30, 2020. He was further re-appointed upto September 30, 2021.

Mr. Shyam Powar ceased to be a Director of the Company w.e.f. October 1, 2020 on account of completion of his term as an Independent Director.

The Board placed on record its sincere appreciation and gratitude for services rendered by Mr. Shyam Powar during his association with the Company.

Mr. R Poornalingam and Mr. Kanakraj M, Independent Directors will complete their term as Independent Directors of the Company upon conclusion of the ensuing AGM. The Board has proposed to re-appoint Mr. R Poornalingam and Mr. Kanakraj M as Independent Directors on the basis of their performance evaluation.

Five (5) meetings of the Board of Directors were held during the year. Detailed information is given in the Corporate Governance report as enclosed herewith.

Independent Directors have given Declaration pursuant to Section 149(7) of the Act & Regulation 25(8) of SEBI (LODR), Regulations 2015 (Listing Regulations), stating that they meet the criteria of independence.

The Board is assured that Independent Directors possess adequate proficiency, experience, expertise and integrity.

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

The Board evaluates performance of the Committees & of the Independent Directors whereas the Chairman of the Board evaluates the performance of the Board as a whole.

The Independent Directors evaluate the performance of Non-Independent Directors.

The above evaluation is 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 industry in which the Company operates, business model of the Company and related matters are on website of the Company: www.ismt.co.in

PROMOTER RECLASSIFICATION

The following shareholders belonging to "Promoter/ Promoter Group" category holding 45,45,789 equity shares (equivalent to 3.11% of the total share capital of the Company) were reclassified into "Public" category :

- i. Mrs. Tara Jain
- ii. M/s Ashok Kumar Jain (HUF)
- iii. Ms. Aayushi Jain
- iv. Mr. Akshay Jain
- v. Tulika Estate & Holdings Pvt. Ltd

The shareholders of the Company approved the aforesaid reclassification in the Extra-ordinary General Meeting held on December 03, 2020 while the Stock Exchanges approved the same on April 05, 2021

AUDITORS REMARKS

In respect of Audit observations on Financial Statements, it has been explained in Notes forming part of Financial Statements i.e. Note Nos. 1.32- Remuneration to Executive Directors, 3.12-Minimum Alternate Tax, 3.17-Investments & Receivables - Structo Hydraulics AB, Sweden (Structo), 3.18-Investment in Tridem Port & Power Company Private Limited (Tridem), 3.19-Going Concern, 3.20- Interest on Loans, 3.21(i)-Recoverability from MSEDCCL, 3.21(ii)-Investments in Captive Power Plant & 3.3 - Impact of COVID-19 on operations which are self-explanatory & therefore do not call for any further comments.

The Auditors have discussed the key matters separately as per the Annexure A to the Independent Auditors Report as enclosed herewith.

COST AUDITORS

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

Pursuant to Section 148 of the Act read with Rules framed there under, your Directors had, on recommendation of the Audit Committee, approved the appointment & remuneration of following Cost Auditors for FY2020-21:

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

The payment of remuneration for FY2020-21 to aforesaid Cost Auditors is subject to ratification by Members at ensuing Annual General Meeting.

Board's Report (Contd.)

The Cost Audit Report for FY2019-20 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 & 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 & a report on performance & financial position of each subsidiary is provided in the financial statements forming part of the Annual Report for FY2020-21. The Company has framed a Policy for determining Material Subsidiaries which is available on website: www.ismt.co.in.

On account of continuing weakness in European economy, Structo, Subsidiary of the Company recorded a contraction in Sales, on consolidated basis, from Rs. 106.14 Crore to Rs. 64.98 Crore. Structo received Rs. 6.60 Crore as government grant against lay-off and social security payments. As a result, there was a profit of Rs. 0.03 Crore in FY2020-21 against loss of Rs. 4.55 Crore in FY2019-20. The COVID-19 crisis has made turnaround of business more challenging in the short term.

There has also not been any development on the Tridem group of subsidiaries. Taking into account the COVID-19 impact, the Company has made a provision for Rs. 58.37 Crore towards impairment of the amount invested in Tridem.

FIXED DEPOSITS

The Company has not accepted deposits from the public.

MANAGEMENT DISCUSSION & ANALYSIS AND CORPORATE GOVERNANCE REPORT

Pursuant to Listing Regulations, a separate section on Management Discussion & Analysis & Corporate Governance Report is forming part of this Report.

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

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

ANNUAL RETURN

Latest Annual Return of the Company in Form MGT-7 is placed on website: www.ismt.co.in

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION ETC

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

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to 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, 2021 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 www.ismt.co.in.

The criteria for performance evaluation as laid down by NRC 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 'B'.

Pursuant to Section 197(9) of the Act, Mr. B R Taneja, Managing Director has, pending lenders approval, refunded remuneration due for refund during the year under review.

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 members and others entitled thereto. The said statement is available for inspection by Members at Registered Office of the Company during business hours on working days upto the date of 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 there under, the Board has appointed M/s. KPRC & Associates, Company Secretaries as Secretarial Auditors to undertake Secretarial Audit of the Company for the period ended March 31, 2021 onwards.

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

Board's Report (Contd.)

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

i. Delay in submission of Financial Results:

Submission of financial results for Quarter ended September, 2020 got delayed on account of delay in finalization of results on account of movement restriction in office premises due to COVID-19 outbreak.

ii. Promoter shareholding not in demat form:

One Promoter Shareholder (holding 0.02% shares in physical form) was classified as such by virtue of being related to a former promoter of the Company, who passed away in April, 2013.

The Company has requested the said shareholder from time to time to Demat the shareholding or reclassify holding to Public Category.

iii. Delayed/ non filing of Annual Performance Report

In view of the COVID-19 Pandemic and subsequent countrywide lockdown as well as State wise restrictions, there was a delay in filing of Annual Performance Report. The Company has initiated necessary corrective steps.

PARTICULARS OF LOANS, GUARANTEES & INVESTMENTS

Particulars of Loans, Guarantees & Investments covered under Section 186 of the Act have been mentioned in 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 was constituted by the Board. However, pursuant to the Companies (Amendment) Act, 2020 which came into effect on January 22, 2021, CSR Committee is not required in case amount to be spent on CSR activity does not exceed Rs. 50 Lakhs. In view of losses, the Company, at present, is not required to incur CSR expenditure. Hence, the Board has dissolved the CSR Committee.

AUDIT COMMITTEE & VIGIL MECHANISM

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

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

CONTRACTS & ARRANGEMENTS WITH RELATED PARTIES

During the year under review, 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 website: www.ismt.co.in

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 constitution of Internal Complaints Committee under Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013 and during the year under review there were no cases filed under the said Act.
3. The Company has complied with 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**

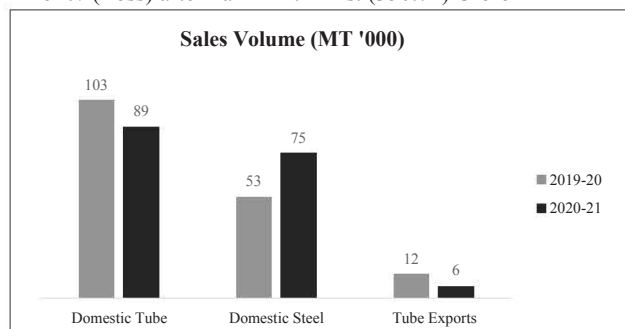
Pune
July 12, 2021

**O P Kakkar
Chairman**

Management Discussion and Analysis

Company Performance:

| | |
|---------------------------|----------------------|
| Total Revenue | : Rs. 1278.30 Crore |
| EBIDTA | : Rs. 25.27 Crore |
| Cash Profit / (Loss) | : Rs. (289.33) Crore |
| Profit / (Loss) after Tax | : Rs. (350.71) Crore |



Net Sales of Domestic and Export seamless tubes and pipes dropped by 15% and 42%, respectively, whereas Steel sales was higher by 41% in the year under review over the previous financial year.

Lockdown in the first quarter of the financial year resulted in drop in domestic tube sales. However increase in demand from Automobile and Bearing sector in subsequent quarters helped reduce the gap in domestic tube sales against previous financial year. Export demand was adversely impacted on account of prolonged lockdown especially in US and European countries.

Steel sales saw an exceptional growth in third and fourth quarter of the year under review on account of revival of Automobile and Bearing sector.

Rs. in Crore

| Particulars | 2020-21 | 2019-20 | Change |
|------------------|-------------|---------|--------|
| Net Sales | 1217 | 1280 | (5%) |
| Domestic | | | |
| -Tube | 725 | 855 | (15%) |
| -Steel | 420 | 298 | 41% |
| Tube Exports | 73 | 127 | (42%) |

INDUSTRY STRUCTURE AND DEVELOPMENTS

Seamless Tubes Industry

Seamless Tube is a capital intensive industry & deploys high end technology. While the industry competes with other types of pipes & 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 & with expected long term economic growth, the Company is assured of a 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.

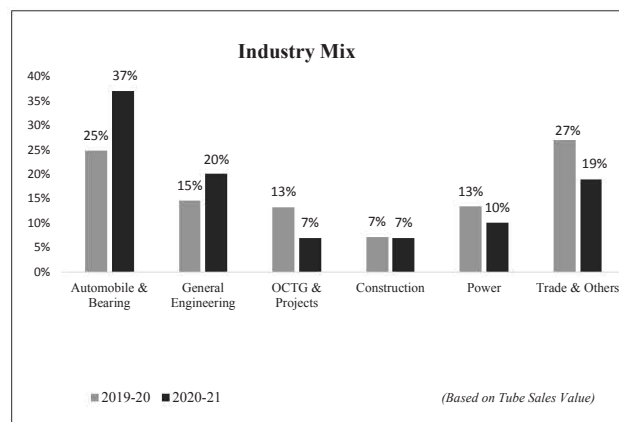
Captive Power Plant

Operations of Captive Power Plant remained suspended during the year under review on account of non-availability of energy banking facility from Maharashtra State Electricity Distribution Company Ltd. (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 Equipment : In mining and earth moving equipment
- Automotive & General Engineering : Applications in two wheeler to four wheeler as front forks, axel, Steeling columns, Air bag system etc.
- Bearings : Inner & outer races of Bearings
- Others : In greenfield projects for fluid transportation, Construction of Stadiums and airports, gas cylinders, crane booms etc.



Increase in demand for passenger vehicles & two wheeler and general manufacturing activities post lifting of lockdown in June 2020 led to increase in sales to Automobile & Bearing and General Engineering sectors respectively. Simultaneously, the dependence on Trader has come down.

Management Discussion and Analysis (Contd.)

OPPORTUNITIES & THREATS

Opportunities

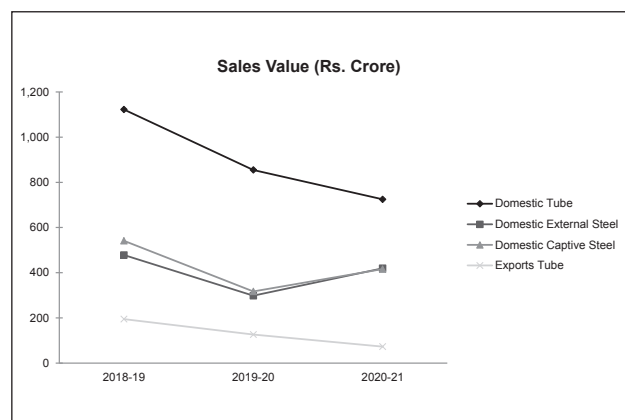
The domestic and export demand is likely to pick-up in the second half of FY 2021-22 post decline in COVID-19 cases and increase in vaccination across the globe.

Threats

Drop in domestic manufacturing activities in case of the outbreak of third wave of COVID-19 in India remains a threat. Imposition of inadequate Anti Dumping Duty on imports from China by Government of India may have an adverse impact on domestic sales. Also imposition of duties on Indian exports by other countries to safeguard domestic players after a disastrous year may lower the Company's export sales.

SEGMENT/PRODUCT INFORMATION

Your Company is engaged in manufacturing Seamless Tubes and Engineering Steels. Seamless Tube accounted for 66% of ISMT's total external sales value while Steel accounted for the balance 34%. Captive consumption of steel was half of total steel sales volumes.



Automobile and Bearing sectors has been a saviour for the Company's tube division in the year under review which was affected by COVID-19 pandemic. The share of tube sales to these segments increased to 37% against 24% in the previous financial year. Steel division volume being directly or indirectly dependant on Automotive and Bearing sectors saw a healthy growth and exceeded previous financial year's sales.

The seamless tubes required for Automobile and Bearing sector are mostly of alloy grade and 80% of the production for Ahmednagar Plant is dedicated for these industries. It procures its total requirement of steel from Company's Steel division.

Baramati Plant, in past two years, procured majority of its carbon steel requirement from the market. However, to avoid shortage in supply and steep increase in prices in H2FY2020-21, it procured more steel from captive source. As a result, captive sales of steel division was higher than previous financial year.

OUTLOOK

The outbreak of second wave of COVID-19 in the last quarter of the year under review have posed major challenges in terms of uncertainty in demand coupled with volatility in raw material prices. This constant fluctuation have negative impact on contribution and EBIDTA margins. Considering the second wave and impending third wave of COVID-19, FY2021-22 looks more challenging than FY2020-21.

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 the 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 sudden emergence of COVID-19 pandemic is a great concern for the growth in the short term.

For the long term 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 the Board of Directors, on a periodic basis reviews the effectiveness and adequacy of the internal control systems and processes and suggests improvements, if any.

FINANCIAL PERFORMANCE

Some of the key financial parameters are as under:

Finance Cost

The Finance cost for the year under review was Rs. 262 Crore against Rs. 274 Crore for previous financial year. Most of the finance cost is only a provision towards interest on Term Loans and Working Capital Loans pending restructuring.

The Company's forex exposure is managed both through a natural hedge and by contracting import consignment on high sea on INR term factoring therein the premium on exchange rates 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.

Working Capital

In spite of turbulent year, the Company was able to manage its inventory holding at the same level as that of previous financial year.

Management Discussion and Analysis (Contd.)

The debtors and creditors in absolute terms were higher than the previous financial year on account of increase in selling and raw material prices in the second half of the year under review. While debtors turnover reduced to 4.23 times, creditors turnover also reduced thereby maintaining the cash flows.

Rs. in Crore

| Particulars | 2020-21 | 2019-20 |
|---------------------------|---------|---------|
| Inventory | 352 | 379 |
| Stock Turnover(times) | 3.46 | 3.38 |
| Debtors | 285 | 238 |
| Debtors Turnover(times) | 4.27 | 5.37 |
| Creditors | 130 | 106 |
| Creditors Turnover(times) | 6.35 | 8.17 |

In the absence of pending debt restructuring with its lenders, the Company is unable to get any credit facilities and is relying totally on its internal cash flows for meeting its entire working capital requirement.

Energy Cost

Energy Cost at Rs. 233 Crore accounted for 19% of the Company's net revenues. In the current financial year, operations of the Captive Power Plant remained suspended.

| Particulars | 2020-21 | 2019-20 | Change |
|--|---------|---------|--------|
| Power consumption (KWH/Ton of Production) | | | |
| - Steel Division | 958 | 869 | (10%) |
| - Tube Division | 757 | 624 | (21%) |
| Avg. Electricity Rate per Unit From MSEDCL (Rs./KWH) | 8.06 | 9.04 | 11% |

Reduction in base rate by MSEDCL and rebate on account of power factor resulted in drop in rate per KWH by 11%.

Power consumption per unit of production for steel & tube showed adverse variance of 10% & 21% respectively.

In spite of increase in production as compared to previous year, steel division consumed more power per unit on account of lower production in first half of the year under review. The production of tube division dropped by 25% against previous financial year resulting in higher power consumption per unit.

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

| Particulars | 2020-21 | 2019-20 | Change |
|---|---------|---------|--------|
| Furnace oil Consumption (KLtrs/Ton of Production) | | | |
| - Tube Division | 84 | 72 | (17%) |
| - Steel Division | 31 | 35 | 11% |
| Avg. Furnace Oil rate Rs. Per Litre | 30.88 | 32.66 | 5% |

There was a savings of 11% in furnace oil consumption per unit of steel division on account of various energy saving steps taken by the Company. Tube division on the other hand consumed 17% more fuel per unit over previous financial year on account of lower capacity utilisation.

KEY FINANCIAL RATIOS

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

Rs. In Crore

| Particulars | 2020-21 | 2019-20 | Change |
|-------------------------|---------|---------|---------|
| Debtors Turnover | 4.27 | 5.37 | (20.5%) |
| Inventory Turnover | 3.46 | 3.38 | 2.5% |
| Interest Coverage Ratio | -ve | 0.09 | NA |
| Current Ratio | 0.20 | 0.22 | (9.6%) |
| Debt Equity Ratio | -ve | -ve | NA |
| Operating Profit Margin | 1.7% | 7.0% | (76.1%) |
| Net Profit Margin | -ve | -ve | NA |
| Return on Net Worth | -ve | -ve | NA |

Tube division sales which forms major share of Company's top line dropped on account of COVID-19 pandemic. Further there was a time lag in passing the steep and sudden increase in input costs in third and fourth quarter of the year under review. Both the above, led to lower operating profit for the financial year under review which further resulted in adverse Operating Profit Margin variance.

HUMAN RESOURCES DEVELOPMENT AND INDUSTRIAL RELATIONS

The Industrial relations continued to remain peaceful throughout the financial year under review except for a notice from Trade Union of strike at Ahmednagar plant due to delay in revision of wage agreement in the last week of February 2021. The workers however did not proceed with the strike and the relations remained cordial. The personnel expenses decreased by 9% during the financial year under review over previous financial year on account of salary cut taken by employees at all levels.