

NAVA BHARAT FERRO ALLOYS LIMITED



33rd ANNUAL REPORT 2004-05

NAVA BHARAT FERRO ALLOYS LIMITED

'Nava Bharat Chambers', 6-3-1109/1, Raj Bhavan Road, Hyderabad - 500 082

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NAVA BHARAT FERRO ALLOYS LIMITED

Five Years at a Glance

(Rs. in lakhs)

	2004-05	2003-04	2002-03	2001-02	2000-01
Sources of Funds :					
Share Capital	1337.01	1337.01	1337.01	1774.75	1774.75
Reserves	24983.49	15766.07	12528.25	9241.64	7806.55
Loans	17991.21	15173.89	16368.63	17548.22	18300.85
Deffered Tax Liability	1553.16	2121.56	—	—	—
	<u>45864.87</u>	<u>34398.53</u>	<u>30233.89</u>	<u>28564.61</u>	<u>27882.15</u>
Application of Funds :					
Fixed Assets less Depreciation	28564.61	23374.94	19982.12	16962.44	17576.09
Investments	241.34	243.71	210.71	206.11	290.40
Net Current Assets	17058.92	10779.88	10041.06	11392.14	10007.37
Miscellaneous Expenditure	—	—	—	3.92	8.29
	<u>45864.87</u>	<u>34398.53</u>	<u>30233.89</u>	<u>28564.61</u>	<u>27882.15</u>
Profit and Dividend :					
Profit after Taxation	10636.04	5564.04	3027.94	1699.92	593.95
Dividend	1409.67*	836.81*	443.52*	288.55	272.26*
Retained Profit	<u>9226.37</u>	<u>4727.23</u>	<u>2584.42</u>	<u>1411.37</u>	<u>321.69</u>
* Includes Corporate Dividend Tax					
Other Data :					
Dividend per Share (Rs.)	10.00	6.00	3.00	1.80	1.20
Debt Equity Ratio	0.45	0.62	0.78	1.11	1.43
Our Contribution to Revenue :					
Sales Tax, Income Tax etc.	4422.40	1913.90	688.90	782.95	1356.81
Excise Duty	1266.93	2785.68	2352.96	1383.06	1291.89
	<u>5689.33</u>	<u>4699.58</u>	<u>3041.86</u>	<u>2166.01</u>	<u>2648.70</u>

NAVA BHARAT FERRO ALLOYS LIMITED

Board of Directors

Mr. D. Ashok

Mr. P. Trivikrama Prasad

Mr. C.V. Durga Prasad

Mr. G.R.K. Prasad

Mr. P. Punnaiah

Dr. G. Sreeramjee

Dr. E.R.C. Shekar

Dr. M.V.G. Rao

Mr. K. Balarama Reddi

Mr. K.P. Rama Krishnan

Managing Director**Executive Director****Director (Business Development)****Director (Finance & Corporate Affairs)****Company Secretary &
Chief General Manager (Corporate Affairs)**

Mr. M. Subrahmanyam

Registered Office

"Nava Bharat Chambers"

6-3-1109/1

Raj Bhavan Road

Hyderabad - 500 082

Auditors

Messrs Brahmayya & Co.

Chartered Accountants

Flat No. 403

Golden Green apartments

Irrum Manzil Colony

Somajiguda, Hyderabad - 500 082

Works :**Ferro Alloy Division****Ferro Alloy Plant (A.P.)**

Paloncha - 507 154

Khammam District

Andhra Pradesh

Power Division**Power Plant (A.P.)**

Paloncha - 507 154

Khammam District

Andhra Pradesh

Bankers

State Bank of India

Andhra Bank

Bank of India

State Bank of Hyderabad

UCO Bank

Ferro Alloy Plant (Orissa)

Kharagprasad Village - 759 121

Dhenkanal District

Orissa

Power Plant (Orissa)

Kharagprasad Village - 759 121

Dhenkanal District

Orissa

Registrars and Share Transfer Agents

Karvy Computershare Private Limited

"Karvy House"

46, Avenue 4, Street No. 1

Banjara Hills

Hyderabad - 500 034

Sugar Division

Samalkot - 533 440

East Godavari District

Andhra Pradesh

Machine Building Division

Nacharam

Hyderabad - 500 076

Andhra Pradesh

BLANK

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NAVA BHARAT FERRO ALLOYS LIMITED

Report of the Directors and Management Discussion and Analysis for the Financial Year ended 31st March, 2005

Dear Members,

Your Directors have pleasure in submitting their Report and the Audited Accounts of the Company for the financial year ended 31st March, 2005.

FINANCIAL RESULTS

The performance of the Company for the financial year ended 31st March, 2005 is summarised below :

	Year ended 31.03.2005	(Rs. in lakhs) Year ended 31.03.2004
Turnover / Income (Gross)	55871.61	49806.39
Profit before Finance Charges, Depreciation and Taxation	16905.46	10010.14
Less : Finance Charges (excluding amount capitalized)	1097.80	1098.70
Profit before Depreciation and Taxation	15807.66	8911.44
Depreciation	1526.94	1185.75
Profit for the year after Depreciation	14280.72	7725.69
Extra-ordinary items	1013.08	109.60
Profit after extra-ordinary items and before tax	13267.64	7616.09
Provision for Taxation - Current tax	3200.00	1450.00
- Deferred tax	(568.40)	602.05
Profit after Tax	10636.04	5564.04
Balance brought forward from last year	2785.35	2047.53
Income Tax of earlier years	(8.95)	30.10
Transitional cumulative deferred tax	—	(1519.51)
Profit available for Appropriation	13412.44	6122.16
Appropriations:		
Dividend on Equity Share Capital	1236.28	741.77
Corporate Dividend Tax	173.39	95.04
General Reserve	8000.00	2500.00
Surplus carried to Balance Sheet	4002.77	2785.35
	13412.44	6122.16

NAVA BHARAT FERRO ALLOYS LIMITED

REVIEW OF OPERATIONS:

Financial year 2004-05 proved to be a watershed with robust demand and exuberant realisations for Ferro Alloys and Sugar, enabling your Company to turn out record performance with Gross Turnover of Rs.558.72 Crores and Profit after Tax of Rs.106.36 Crores, a significant milestone indeed. While the Gross Turnover for 2004-05 registered an increase of 12%, Profit after Tax scaled a steep jump of 91% over that of the previous year.

FERRO ALLOY DIVISION:

Though the strong underlying demand for the Steel industry worldwide propelled the prices of Manganese Ferro Alloys in the first two quarters of the previous year to hitherto unprecedented levels, a correction soon followed in the last two quarters of the previous year, manifesting high degree of volatility within a short span. The Company has set up a new furnace in the Ferro Alloy Plant in Andhra Pradesh, catering to the production of Manganese Alloys from which commercial operations are expected in 2005-06. As of now the Unit has an installed capacity of 1,25,000 MT of Manganese Alloys.

As the Manganese Alloy prices had since retreated and as the ore cost spurted, your Company had to take the brunt of two-way squeeze in the margins in the later part of the financial year 2004-05. As expected in our earlier forecast, the sudden upswing in Manganese Alloys brought to fore additional and dispersed production capacities throwing concerns on raw-material availability and unbridled competition.

Ferro Chrome market, however, witnessed a steady demand and sustained price rise. The Company was severely hampered in Ferro Chrome operations owing to the disruption of the Orissa works on account of the unfortunate and severe fire accident in late November'04. This set back could not have happened at a worse time when Ferro Chrome was poised to take off in both domestic and international markets and had affected the top line as well as bottom line of the Company in the last quarter. It is however heartening that the Company's team rose to the occasion to speedily resume the operations in the unit by end May, 2005. Your Company has utilized the slack time in the period of 'project-restart' to complete the balancing works necessary to achieve the capacity expansion to 75,000 TPA in the Orissa unit.

The Company notched up export turnover of Rs.187.91 Crs for 2004-05 registering an increase of 58% over the

previous year and widened the market to China too. Overall the production of ferro alloys at 105475 MT compares with the volume in the previous year of 122220 MT, given that the Orissa works was not operational for a period of more than four months.

POWER DIVISION:

The CPPs in AP and Orissa generated 336.25 MU and 172.68 MU respectively in 2004-05. The Power Plants in Andhra Pradesh and Orissa predominantly catered to the captive requirements of the ferro alloy units during the year under review as export of power was stopped in the AP unit. Consequent to the disruption of ferro alloy operations in Orissa, your Company was however able to enter in to a short term power sale arrangement with GRIDCO for about three months. Nevertheless, plant load factor of both the CPPs was affected on account of down sized operations for lack of export and reduced demand from the Ferro Alloy unit in Orissa.

As explained in our previous report, Open Access on Transmission is still fraught with issues on transmission charges, availability and allocation of transmission corridor for inter state trading and local duties which seem to cripple the much needed competition. Your Company has therefore decided to implement the expansion of Power Plant in AP in phases with the first phase of 32 MW expansion having been grounded to cater to the higher power requirement of the ferro alloy unit with the new furnace.

SUGAR DIVISION:

Your Company's Sugar Plant was one of the few units to have adequate Sugarcane during 2004-05 season. On the operational metrics like recovery, steam consumption also, we are glad to inform you that the Sugar unit ranks amongst the best in the industry. The Sugar Plant crushed 394771 MT cane at an average yield of 10.93%. The capacity expansion up to 3500 TCD was achieved smoothly in the just concluded Sugar season. Expansion of Co-generation activity to 9 MW which was initiated in 2004-05 will be commissioned by September 2005 and which should improve the efficiencies further from the ensuing season.

OUTLOOK AND FUTURE PLANS:

The outlook and future plans of the Company are presented in "Management Discussion and Analysis", forming part of this Report.

NAVA BHARAT FERRO ALLOYS LIMITED

DIVIDEND ON EQUITY SHARE CAPITAL:

Considering the excellent performance of your Company and keeping in view the need to conserve resources for the ongoing capital works, your Directors are pleased to recommend higher dividend @ 100% on the Paid-up Equity Share Capital (Rs.10 per share) subject to necessary approvals absorbing a sum of Rs.1236.28 lakhs.

The aggregate dividend payout for the year 2004-2005 amounts to Rs.1409.67 lakhs including Corporate dividend tax as against Rs.836.81 lakhs for the previous year.

LISTING OF SHARES:

The Securities of the Company are listed at National Stock Exchange of India Limited, The Stock Exchange, Mumbai and The Hyderabad Stock Exchange Limited. The Listing fees for these Stock Exchanges have been paid.

Pursuant to approvals for the listing of 14,40,852 Equity Shares issued in redemption of 12% Non-Cumulative Redeemable Preference Shares, the said Equity Shares were listed and trading commenced on The Stock Exchange, Mumbai, National Stock Exchange of India Limited and The Hyderabad Stock Exchange Limited from September / October 2004.

FIXED DEPOSITS:

Your Company has been inviting and accepting deposits from the Public, Shareholders and others. The amount of deposits outstanding as on March 31, 2005 was Rs.701.67 lakhs.

There were no overdue deposits and deposits amounting to Rs.0.80 lakhs remained unclaimed as on the date.

INSURANCE:

All the properties of the Company including Buildings, Plant and Machinery and Stocks have been adequately insured.

ACCIDENT AT FERRO ALLOY PLANT (ORISSA) AND INSURANCE CLAIM:

A fire accident occurred in the Ferro Alloy Plant of the Company at Dhenkanal, Orissa, on 26th November, 2004 causing disruption in operations. The furnaces were restarted achieving optimum loads by end May 2005. The resultant loss due to material damage and business interruption in the Orissa works, was covered by Insurance against which part payments were received by your Company in 2004-05 and in the current year

aggregating to Rs.18.5 crores. Final claim settlement is under process.

DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Dr. G. Sreeramjee and Sri K Balarama Reddi will be retiring by rotation at this Annual General Meeting and being eligible, offer themselves for reappointment.

SUBSIDIARY COMPANIES AND CONSOLIDATED ACCOUNTS:

The Company has two Indian subsidiary companies Viz., Kinnera Power Company Limited and Brahmani Power Company Private Limited. There have been no operations in these companies. Recognizing the need to create a trading hub for the growing international trade of your Company, NBFA PTE. LIMITED was established in Singapore as a Wholly Owned Subsidiary during the year under review. Your Company is of the view that a vibrant trading hub will usher in many opportunities in establishing critical business tie-ups as we move forward. The Company would capitalize the Subsidiary to the extent of S\$ One million in due course to obtain suitable credit evaluation to tie up future businesses of the Company. The accounts of the Subsidiary companies are consolidated with your Company accounts besides appending them to the financial statements in accordance with the provisions of the Companies Act, 1956.

AUDITORS:

M/s. Brahmayya & Co., Chartered Accountants, Hyderabad, the Statutory Auditors of the Company, hold office until the conclusion of the forthcoming Annual General Meeting and are eligible for reappointment. The Company has received letter from them to the effect that their appointment, if made, would be within the prescribed limits under Section 224 (1-B) of the Companies Act, 1956.

COST AUDIT:

The approval of the Central Government for the appointment of M/s. Narasimha Murthy & Co, Cost Auditors to conduct the Cost Audit in respect of Industrial Alcohol and Sugar manufactured by the Company for the year ended 31st March, 2005 as recommended by the Board has been received vide Order Nos. 52/236/CAB-88 (CLB) dt.27.09.2004 and 52/261/CAB-89 (CLB) dt.30.09.2004.

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DIRECTORS' RESPONSIBILITY STATEMENT:

The Directors confirm that in the preparation of Annual Accounts for the year ended 31.03.2005:

- All Applicable accounting standards have been followed.
- The accounting policies framed in accordance with the guidelines of the Institute of Chartered Accountants of India have been applied.
- Reasonable and prudent judgement and estimates were made so as to give a true and fair view of the state of affairs of the Company.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, as applicable.
- The accounts have been prepared on 'a going concern' basis.

CORPORATE GOVERNANCE:

Pursuant to Clause 49 of the Listing Agreement, your Company has to mandatorily comply with the requirements of Corporate Governance. A separate section on Corporate Governance and a Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance, form part of the Annual Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE:

As required under the provisions of Section 217(1)(e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the particulars relating to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo have been given in the Annexure - I, which forms part of this Report.

RECLASSIFICATION OF AUTHORIZED SHARE CAPITAL AND SUB DIVISION OF EQUITY SHARES:

The Authorized Share Capital of your Company is Rs.50,00,00,000/- divided into 20,00,000 Cumulative Redeemable Preference Shares of Rs.100/- each, 5,00,000 – 12% Non-Cumulative Redeemable Preference Shares of Rs.100/- each and 2,50,00,000 Equity Shares of Rs.10/- each. Your Board is of the view that 12%

Non-Cumulative Redeemable Preference Shares, being no longer required, could be reclassified into Equity Shares.

Your Directors have considered and recommended reclassification of Authorized Capital into one class of Preference Shares i.e., Cumulative Redeemable Preference Shares amounting to Rs.20,00,00,000/- and one class of Equity Shares amounting to Rs.30,00,00,000/- and also the sub division of Equity Shares of face value of Rs.10/- each into shares of face value of Rs.2/- each in order to improve availability of the number of shares and the affordability of Company's shares for investors. Each Equity Share of Rs.10/- each will be sub divided into 5 Equity Shares of Rs.2/- each on the approval of the sub division and on the effective date for sub division.

INDUSTRIAL SAFETY AND ENVIRONMENT:

Safety:

Your Company continues to accord high priority to safety of all the personnel and mitigation of damage to equipment in all the plants. The unfortunate Fire accident in the Orissa works which crippled the operations was an eye opener in facing and addressing calamities. A thorough review of all the safety measures in all the plants has since been undertaken in consultation with risk management specialists and certain proactive actions taken to avoid recurrence of such accidents. Safety drills are being conducted at regular intervals to train the workers and the employees to face unforeseen accidents.

Environment:

Members are aware that your Company has been accorded ISO 9001:2000 and ISO 14001-1996 Certifications reflecting its commitment to quality and environment protection. The Company has also adopted 5-S concept in all its plants to achieve work place excellence in all areas. Members will be pleased to know that Company's Ferro Alloy Plant in Andhra Pradesh has been specially chosen by Andhra Pradesh Pollution Control Board as a unit adopting good practices for cleaner production and a certificate awarded.

PARTICULARS OF EMPLOYEES:

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the Annexure - II to the Directors' Report.

NAVA BHARAT FERRO ALLOYS LIMITED

INDUSTRIAL RELATIONS:

Industrial relations have been cordial and your Directors appreciate the sincere and efficient services rendered by the employees of the Company at all levels towards successful working of the Company.

ACKNOWLEDGEMENT:

Your Directors would like to express their grateful appreciation for the assistance and co-operation received from the Financial Institutions, the Company's Bankers, the Governments of Andhra Pradesh, Orissa and the State utilities and Shareholders during the year under review.

For and on behalf of the Board

P.Trivikrama Prasad
Executive Director

Place : Hyderabad
Date : 28th May, 2005

D.Ashok
Managing Director

