2010-11 ROHIT FERRO-TECH LIMITED
ANNUAL REPORT

BACKWARD & FORWARD

HOW THE COMPANY IS INTEGRATING ITS BUSINESS BACKWARD TO COAL MINING AND FORWARD TO MULTI-PRODUCT MANUFACTURE.

Inside the document

Rohit Ferro-Tech is at an inflection point in its existence.

Over the years, the Company commissioned ferro alloy and stainless steel capacities.

The Company acquired economic interest in coal blocks (thermal and coking) in Indonesia through its subsidiary company to feed its downstream ferro alloys units and the upcoming power plant. This backward integration will strengthen its raw material security, reduce costs and increase revenue streams.

The Company went a step forward and commissioned a stainless steel manufacturing plant as well. This forward integration will enable it to manufacture value-added products and enhance realisations.

GOING BACK CAN REALLY BE GOING AHEAD.

ROHIT FERRO-TECH – THREE COMPANIES IN ONE.

- A MINING-FOCUSED COMPANY WITH ECONOMIC INTEREST IN INDONESIAN MINES (THERMAL AND COKING COAL) FOR CAPTIVE USE AND MERCHANT SALE THROUGH A SUBSIDIARY COMPANY.*
- A FERRO ALLOYS COMPANY, POSSESSING ONE OF INDIA'S LARGEST CAPACITIES.
- A STAINLESS STEEL COMPANY FOCUSED ON VALUE-ADDITION.

THIS INTEGRATION WILL MAKE IT POSSIBLE TO ENGAGE IN EFFECTIVE COST REDUCTION AT ONE END AND EXTENSIVE VALUE-ADDITION AT THE OTHER.

** Effective from the second quarter of 2011-12*

Pedigree

- Part of the ₹ 3,000 Crores SKP Group with interests in the manufacture and trading of ferro alloys, steel, metals and minerals
- Promoted and managed by Suresh Kumar Patni (Chairman), Rohit Patni (Managing Director) and Ankit Patni (Joint Managing Director)

Business

- Among India's largest ferro alloy manufacturers with leadership in high-carbon ferro-chrome
- Commenced operations with 24,000 TPA in October 2003; recorded a 10-fold increase in capacity to 241,040 TPA in eight years to 2010-11

Locations

- Headquartered in Kolkata, India
- Manufacturing facilities in Bishnupur, Haldia (both West Bengal) and Jajpur (Orissa)
- Depots in West Bengal, Gujarat, Chhattisgarh, Andhra Pradesh, Uttar Pradesh and Tamil Nadu
- Exports to various countries across the globe including China, Japan, Korea, Indonesia, Vietnam, Taiwan, Thailand, Netherlands, Italy, Greece, Spain, Romania, Germany, Sweden, Russia, Ukraine, Poland, Brazil, Argentina, Peru, Mexico, West Indies, the US, Turkey, Doha, Saudi Arabia and UAE
- Thermal (prognosticated reserves of 20 MT) and coking coal mines (proven reserves of over 5 MT) in Indonesia

Listing

- Listed on the Bombay Stock Exchange and the National Stock Exchange of India

Accreditations

- Manufacturing units certified for ISO 9001:2008
- Registered as a two-star export house

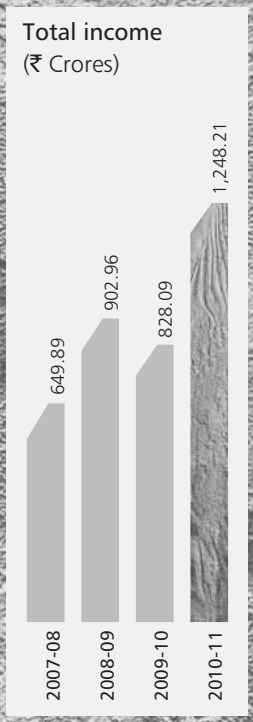
Products

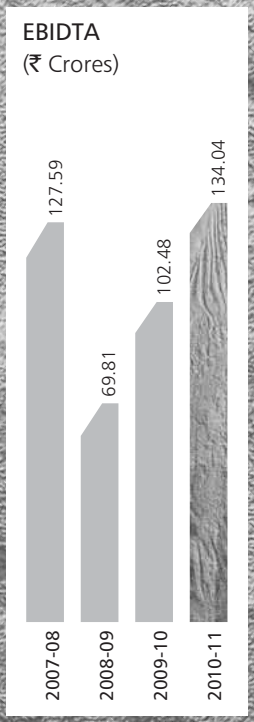
- High-carbon ferro-manganese, silico-manganese, high-carbon ferro-chrome and ferro-silicon
- Stainless steel
- Coking and thermal coal for captive use and merchant sale (through subsidiary)

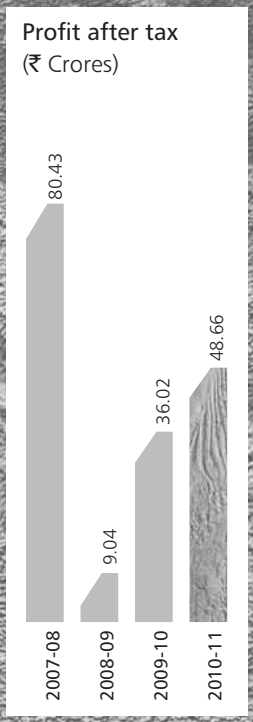
Clientele

- Exports over 63% of ferro alloys production to Europe, Asia, the US, South America and the Middle East
- Key Indian consumers include major stainless steel producers and government steel plants. The clientele includes prominent names like POSCO, YUSCO, LISCO, Glencore, Arcelor Mittal, ABS, Bao Steel, Stemcore, ThyssenKrupp, Jindal Steel, SAIL and Shah Alloys among others

KEY PERFORMANCE INDICATORS







Operational

- Operationalised four ferro alloy furnaces in Haldia with a cumulative capacity of 67,080 TPA
- Successfully commissioned a stainless and alloy steel project of 100,000 TPA capacity six months ahead of its schedule
- Increased ferro alloy capacity from 172,875 TPA in 2009-10 to 241,040 TPA
- Enhanced ferro alloy production from 142,289 tonnes in 2009-10 to 181,360 tonnes
- Achieved ferro alloy capacity utilisation of 75%

Marketing

- Ferro alloy exports to 49.06% from ₹ 478.51Crores in 2009-10 to ₹ 713.29 Crores
- Increased average ferro alloy realisations from ₹ 52,767 per tonne in 2009-10 to ₹ 61,568 per tonne, owing to positive market conditions

Ferro alloy capacity

24,000 TPA
in 2003

›

241,040 TPA
in 2010-11

›

274,583 TPA
in 2011-12 (projected)

"OUR EXTENSIVE INTEGRATION WILL ENABLE US TO UNLEASH VALUE"

IN THE COMPETITIVE METALS, INPUTS AND RESOURCES BUSINESSES, IT IS NOT ENOUGH TO BE A COMPETENT PLAYER IN ONE, BUT TO POSSESS AN INTEGRATED BALANCE OF EACH, EXTENDING THE COST ADVANTAGE OF ONE TO THE SCALE ADVANTAGE OF THE OTHER TO THE VALUE-ADDITION EDGE OF THE THIRD. WHEN ANY COMPANY HAS ALL THESE INTEGRATED COMPETENCIES IN PLACE, IT CAN HOPE TO BE VIABLE ACROSS PRODUCT SEGMENTS, GEOGRAPHIES AND INDUSTRY CYCLES.

It is precisely this competitive advantage that is now unfolding at Rohit Ferro-Tech. For years, we were a ferro alloys manufacturer; in 2011-12, we are becoming three companies in one (post balance sheet development) – mining at one end, ferro alloys in the middle and stainless steel at the other. In the next two years, we will create the fourth element – a captive power company.

Competitive advantage

At Rohit Ferro-Tech, we are not just engaged in putting these elements together; we are creating a competitive advantage in each for onward sustainability.

One, our coal assets (comprising thermal and coking coal) will provide a non-inflationary resource for our power needs (thermal coal) and ferro alloy production (after converting coking coal into LAM coke). This captive access to resources will insulate us from external price or supply volatility. Our competitive advantage is not merely a captive access to them leading to cost reduction; we are empowered to market material from these mines on a merchant basis (through our subsidiary), which will translate into high-margin revenues that will lift our overall profitability average.

Two, our ferro alloy capacity is one of the largest in India, resulting in organisational economies in terms of raw material procurement on the one hand and operational efficiencies on the other. This business is increasingly attractive on account of China reducing its international exposure; Rohit Ferro-Tech exports over 63% of its output to various countries.

Three, our upcoming power plant in Jajpur will largely meet the power requirement of Jajpur manufacturing facility.

Four, our stainless steel facility has been launched at a time of growing Indian affluence which led to increase consumption of stainless steel. We are already competitive within months of having ventured into commercial production on account of captive ferro alloys supply and adequate production capacity.

Benefits

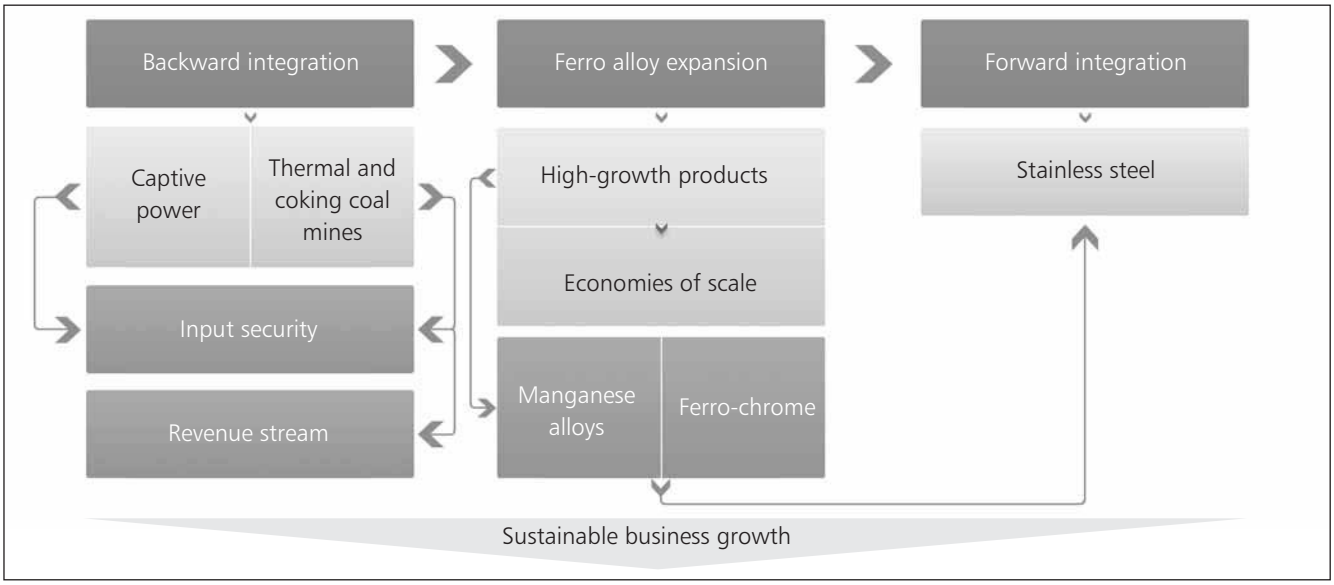
A number of benefits of this integrated business model will begin to manifest once these initiatives come on stream:

- Savings in power cost between ₹ 2,000-4,000 per tonne (depending on the respective ferro alloys being manufactured) using captive power 2013-14 onwards
- Wider product basket, resulting in a diverse dispersal of risk across a larger number of products
- Increase in revenues arising from fully commissioning our stainless steel facility and Haldia ferro alloy furnaces
- Progressive reduction in debt and a greater reliance on accruals for our subsequent projects

Valuation

At Rohit Ferro-Tech, we are aware that our Company's market capitalisation has underperformed our rich

Integrated model



fundamentals over the last couple of years. I would like to assure investors that once mining profits start coming in and we right-size our balance sheet, then the positives should be numbered : That our long gestation is over as we now possess all relevant clearances, that there is a global dearth of coking coal, that our mines are in commercially exploitable condition, that there is an adequate resource quantity at our disposal, that these resources are for captive and merchant use, that we allied with strong local partners, that we will consider the rented use of our infrastructure (road and jetty) to other agencies that will accelerate payback; that the cumulative impact of our various initiatives is expected to translate into significant revenue in the coming years.

In view of these, we expect to enhance value in an attractive and sustainable way for those who hold shares in our Company.

Suresh Kumar Patni
Chairman

Our competitive edge

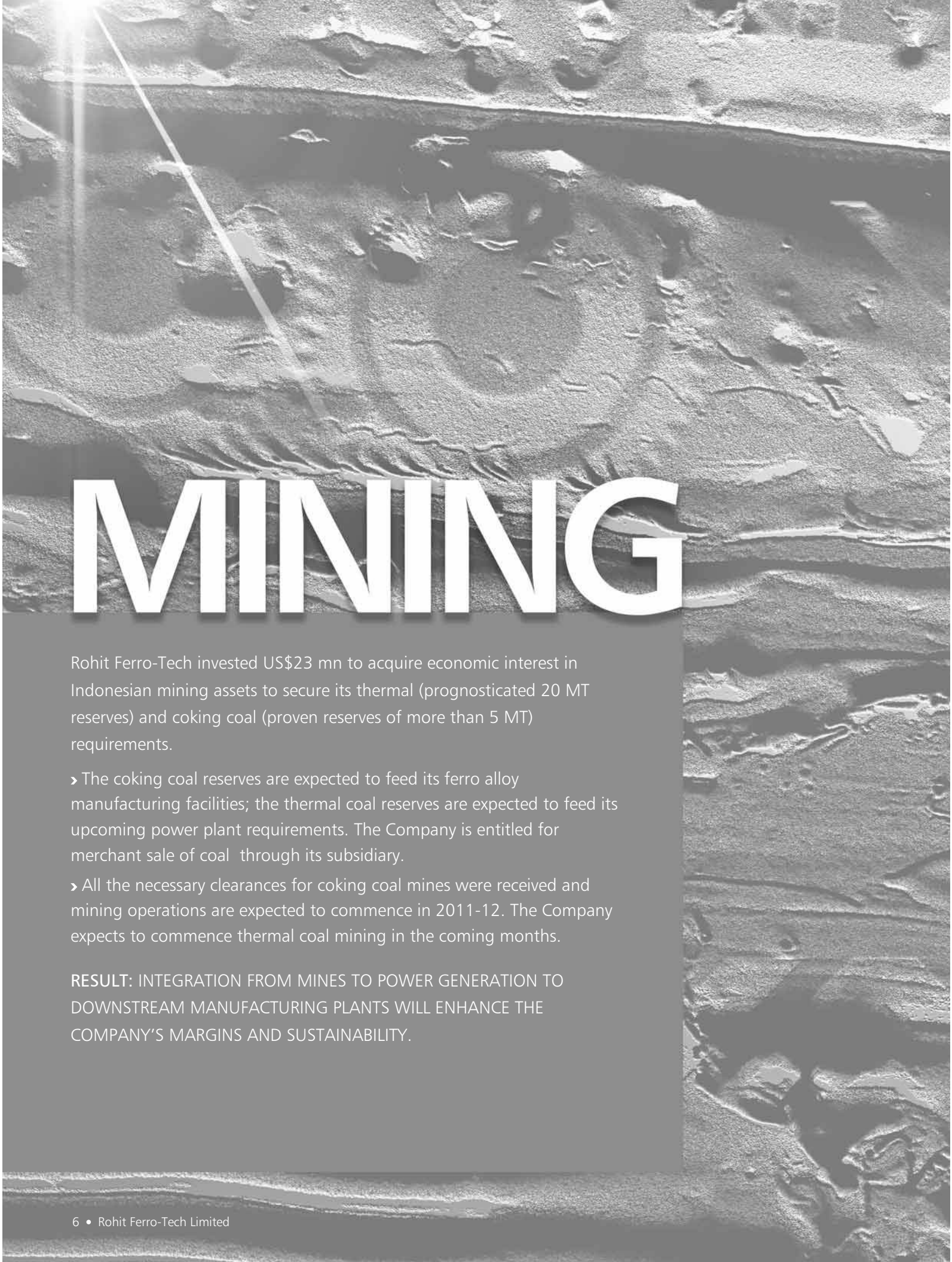
Integration
Rohit Ferro-Tech is integrated from coal mines to ferro alloys to stainless steel manufacture.

Projects team
Rohit Ferro-Tech's project management team ensures timely and cost-effective execution. All expansion projects undertaken by the Company were executed on time and the upcoming projects are in progress and on schedule.

Scale
The Company is among India's largest ferro alloys manufacturers with 241,040 TPA capacity projected to increase to 274,583 TPA by 2011-12. It is among India's few ferro alloys companies manufacturing all bulk ferro alloys including ferro-manganese, ferro-chrome, silico-manganese, ferro-silicon and stainless steel.

Resource security
Rohit Ferro-Tech acquired economic interest in Indonesian mines (coking and thermal coal) through its wholly-owned subsidiary. The reserves will feed a part of the coal requirement for the upcoming 67.5 MW power plant; the plant will largely meet the energy requirements of our Jajpur plant.

Spread
Besides India, Rohit Ferro-Tech's products are marketed to various countries; over 63% of the production is sold in the overseas markets.



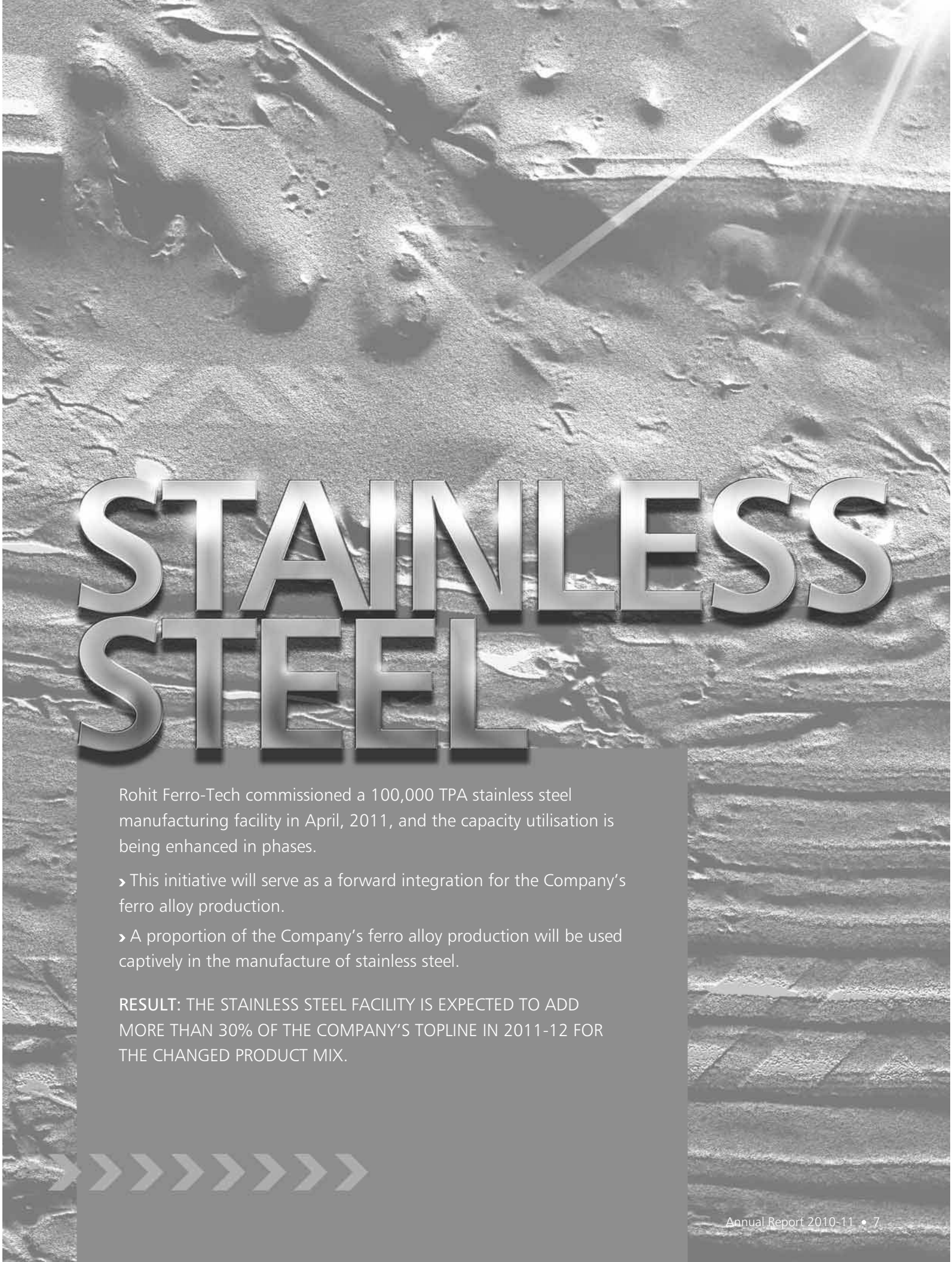
MINING

Rohit Ferro-Tech invested US$23 mn to acquire economic interest in Indonesian mining assets to secure its thermal (prognosticated 20 MT reserves) and coking coal (proven reserves of more than 5 MT) requirements.

› The coking coal reserves are expected to feed its ferro alloy manufacturing facilities; the thermal coal reserves are expected to feed its upcoming power plant requirements. The Company is entitled for merchant sale of coal through its subsidiary.

› All the necessary clearances for coking coal mines were received and mining operations are expected to commence in 2011-12. The Company expects to commence thermal coal mining in the coming months.

RESULT: INTEGRATION FROM MINES TO POWER GENERATION TO DOWNSTREAM MANUFACTURING PLANTS WILL ENHANCE THE COMPANY'S MARGINS AND SUSTAINABILITY.



STAINLESS STEEL

Rohit Ferro-Tech commissioned a 100,000 TPA stainless steel manufacturing facility in April, 2011, and the capacity utilisation is being enhanced in phases.

› This initiative will serve as a forward integration for the Company's ferro alloy production.

› A proportion of the Company's ferro alloy production will be used captively in the manufacture of stainless steel.

RESULT: THE STAINLESS STEEL FACILITY IS EXPECTED TO ADD MORE THAN 30% OF THE COMPANY'S TOPLINE IN 2011-12 FOR THE CHANGED PRODUCT MIX.

MANAGEMENT DISCUSSION AND ANALYSIS ›

GLOBAL ECONOMIC REVIEW

STRONG DEMAND GROWTH IN DEVELOPING COUNTRIES (46% OF GLOBAL GROWTH IN 2010) ENABLED THE GLOBAL ECONOMY TO EXPAND 5.1% IN 2010 AGAINST A NEGATIVE GROWTH OF 2.2% IN 2009. GDP IN LOW AND MIDDLE-INCOME COUNTRIES EXPANDED 7% DURING 2010 (5.2% EXCLUDING INDIA AND CHINA). WHILE DEVELOPING COUNTRIES REGAINED GROWTH RATES CLOSE TO THOSE OBSERVED IN THE PRE-CRISIS PERIOD, HIGH-INCOME COUNTRIES (EUROPE AND CENTRAL ASIA) DID NOT MAKE MAJOR INROADS ON ACCOUNT OF UNEMPLOYMENT AND SPARE CAPACITY.

Indian economic review

India's GDP rebounded from 8% in 2009-10 to 8.6% in 2010-11, following a recovery in its agriculture and manufacturing sectors. Mining declined 6.2% in 2010-11 against 6.9% in 2009-10.

Global ferro alloys industry

Global ferro alloys production grew during 2010-11, owing to robust steel demand. Over 80% of the world's ferro-chrome output is used in stainless steel production. Global ferro-chrome production was 8.3 MT in 2010, representing a growth of 37% year-on-year from 2009 despite energy tariffs, influencing production levels in South Africa and China. South Africa ramped up production in the first half of 2010 with scheduled maintenance, reducing production in the high electricity-cost winter months.

Despite growing energy costs, rising chrome ore prices and the Chinese government's energy supply restrictions (as it pursues energy reduction and efficiency targets), China produced 1.8-1.9 MT ferro chrome in 2010 and remained a net importer for 50-55% of its annual requirements. South Africa's global (despite reaching record levels of 3.5 MT) market share declined from 50% in 2002 to 42% in 2010, owing to increased Chinese production.

Indian ferro alloys industry

India accounts for around 10% of the world's ferro alloy production. India