



Navigating the downturn

Shyam Century Ferrous Limited | Annual Report **2018-19**

Forward looking statement

This document contains statements about expected future events and financial and operating results of Shyam Century Ferrous Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management’s discussion and analysis of the Shyam Century Ferrous Limited Annual Report.

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Our performance, 2018-19

134.44

Revenues (₹ crores)

18.85

EBITDA (₹ crores)

10.43

Total Comprehensive Income (₹ crores)

Corporate snapshot

Navigating the downturn commences from a commitment to strengthen ourselves

Our experienced management

Shyam Century Ferrous Limited is managed by Mr. M V K Nageswara Rao (Chief Executive Officer) who possesses more than 43 years of industry experience and a team of experienced professionals, committed to graduate the Company to the next level.

Our strategic presence

The Company is registered in Lumshnong, Meghalaya, with its manufacturing unit in Byrnihat, Meghalaya. The Company's strategic presence in North East India provides proximate access to raw materials like coal, low ash metallurgical coal and quartz. The increased infrastructure development in the country provides the company with a growing market for its products.

Our listing

The Company's equity shares are listed on BSE Limited as well as National Stock Exchange of India Limited. The Company's market capitalization stood at ₹145.52 crores as on March 31, 2019.

Our products

The Company is engaged in the manufacture of ferro-silicon with an annual manufacturing capacity of 21,600 MT, captive 14 MW power generation capacity and facilities to produce silico manganese and other ferro alloys.

Performance review

Dear Shareholders,

In a year marked by slowing economic growth, international trade wars and slower global offtake, your Company strengthened its fundamentals with the objective to report multi-year business sustainability.

The Indian economy slowed to 6.8% in 2018-19 on account of the lingering impact of GST, subdued consumer sentiment, slowing rural economy and a national liquidity crunch following the NBFC crisis at the end of the first half of 2018-19.

Given this reality, it is creditable that your Company reported a 7.12 percent increase in revenues to ₹134.44 crores while the profit after tax declined to ₹10.43 crores in 2018-19. This reality followed a year when the ferro alloys market had been weak, affecting the viability of most players.

The Company's performance was creditable as it addressed a number of challenges.

One, the political attrition between the world's largest consumer economy (United States of America) and the world's largest steel manufacturer (China) affected the dynamics of the global steel sector, the company's principal downstream sector. This reality affected prospects of companies and countries exporting raw material to China's steel sector.

Two, ferro alloys realisations declined more than 30% from

the peak, affecting the industry's performance.

Three, the import of lower cost alternatives affected domestic demand and realisations.

Four, the automobile sector, one of the largest steel consumers, slowed during the year with offtake declining virtually month-on-month in what is seen as one of the most significant sectoral declines seen in a decade.

Five, a pressure on the Indian stainless steel semi-products segment (fillet and sponge) compelled some players to discontinue operations.

Six, a subdued growth of the real estate segment following RERA implementation and demonetization, impacted the demand for long steel products like TMT and structurals.

Strengthening our core

Against a backdrop of these economic and sectoral realities, your Company strengthened its business model.

Your Company produced 15,219 metric tonnes of ferro silicon during the year under review compared to 14,169 metric tonnes during FY 2017-18.

Your Company optimized costs and strengthened processes. During the year under review, there was an increment in the power cost that has been reflected in the increased costs. The Company has thus entered into long term power purchase agreements from FY2019-20 which shall help in stabilising the costs.

Your Company is attractively placed to capitalize on India's long-term growth prospects through prudent vertical selection, knowledge, competence, best-in-class assets, governance and adequate manufacturing capacity.

Macro-economic scenario

Global crude steel production reached 1,808.6 million tonnes in 2018, up 4.6% compared to 2017. Asia produced 1,271.1 million tonnes of crude steel in 2018, an increase of 5.6% over 2017. China's crude steel production in 2018 reached 928.3 million tonnes, up 6.6% over 2017. China's share of global crude steel production increased from 50.3% in 2017 to 51.3% in 2018.

India's crude steel production for 2018 was 106.5 million tonnes, up 4.9% on 2017. India replaced Japan as the world's second-largest steel-producing country, while retaining its position as the third-largest finished steel consumer. India also emerged as the largest producer of sponge

iron across the world.

India possessed an installed capacity of 132 million tonnes in 2018, whereas production for the period was 106.5 million tonnes compared to 101.5 million tonnes in 2017, a y-o-y 4.9% growth. India's per capita steel consumption rose from 59 kilograms in 2014 to 69 kilograms in 2018, which was still below the global average of ~214 kilograms.

India emerged as the fastest-growing major stainless steel market in the world. The per capita consumption of stainless steel in India is a mere 2 kilograms, compared to the global average of ~6 kilograms, indicating large headroom. In 2018, India's total stainless steel production was pegged at ~3.6 million tonnes for long and flat products.

India's steel demand is estimated to grow 7.3% in 2019, riding robust GDP growth. Despite burgeoning demand, steel production is projected to grow 2.5-3%. Domestic steelmakers are expected to increase their capacity by ~16 million tonnes between FY2019 and FY2021. This capacity ramp-up and debottlenecking of stressed assets would warrant industry-wide capex of ~₹750-800 billion between FY2018-19 and FY2020-21.

Looking ahead, the steel industry is expected to achieve 300 million tonnes of production capacity by 2030. Increased outlays for the railways sector, affordable housing push, and rising demand in capital goods and consumer durables could strengthen the domestic steel industry.

India is the world's fourth-largest automobile industry and the world's seventh-largest commercial vehicle

manufacturer. The Indian automobile industry, which accounts for a ~7% share of the country's GDP, is at the cusp of a transformation. The sector has seen glut in FY 2018-19 because of policies like the ban on diesel vehicles on specific pockets, thrust on electric vehicles, graduation to BS-VI standards and shared mobility, each affecting demand and consumer sentiment. However, India is expected to be the world's third-largest car market by 2020, with more than 4 million units being sold annually. A projected improvement in banking liquidity, government infrastructure spending and rising incomes provide an optimistic sectoral environment.

Outlook

What provides optimism in this challenging scenario is our long-term goodwill with customers and trade partners on account of superior product quality.

The demand for steel is expected to rise as the real estate sector and automobile sector stabilises. The political stability in the country and continued infrastructure development could strengthen steel and ferro alloys demand.

At Shyam Century Ferrous Limited, our retrospective industry disappointment has transformed to guarded optimism where we believe that we will continue to leverage our passion to excel and outperform.

Regards,

Sajjan Bhajanka

Director,

Shyam Century Ferrous Limited

CORPORATE INFORMATION

Board of Directors

Mr. Sajjan Bhajanka, Director
Mr. Nagraj Tater, Director
Mr. Aditya Vimalkumar Agrawal, Director
Mr. Mangilal Jain, Director
Mr. Santanu Ray, Director
Mrs. Plistina Dkhar, Director

Auditors

AKSD & Associates
(Formerly Kailash B. Goel & Co.)
Chartered Accountants
70, Ganesh Chandra Avenue, 1st Floor
Kolkata – 700013

Chief Executive Officer

Mr. M.V.K. Nageswara Rao

Chief Financial Officer

Mr. Uday Bahadur Chetri (upto 30.04.2019)

Company Secretary

Ms. Neha Agarwal

Bankers

HDFC Bank Ltd.

Registered Office

Vill.: Lumshnong, P.O.Khaliehriat
Dist.: East Jaintia Hills
Meghalaya – 793210

Works

Ferro Alloy & Power Plant

EPIP, Rajabagan,
Dist. Ri-Bhoi, Byrnihat
Meghalaya – 793101

Corporate Office

'Satyam Towers', 1st Floor,
Unit No. 9B,
3, Alipore Road
Kolkata-700027
Phone : 033 22484169/70
Fax : 033 22484168
Email : investors@shyamcenturyferrous.com
Website : www.shyamcenturyferrous.com

Registrars & Share Transfer Agents

Maheswari Datamatics Pvt. Ltd.
23, R. N. Mukherjee Road, 5th Floor,
Kolkata - 700001

CIN Number

L27310ML2011PLC008578

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Dear Shareholders,

Your Directors have pleasure in presenting the Eighth Annual Report of the Company together with the Audited Balance Sheet as at March 31, 2019 and the Statement of Profit & Loss for the year ended on that date.

Financial performance

The highlights of the financial performance of the Company for the financial year ended March 31, 2019 as compared to the previous financial year are as under:-

(₹ in Lacs)

Particulars	Consolidated		Standalone	
	2018-19	2017-18	2018-19	2017-18
Total Income	13,443.78	12,550.69	13,443.78	12,550.69
Profit before Depreciation, Interest and Tax	1,885.10	2,019.97	1,885.10	2,019.97
Depreciation	276.21	249.67	276.21	249.67
Interest and Finance Charges	129.51	171.62	129.51	171.62
Profit/Loss Before Tax	1,479.38	1,598.68	1,479.38	1,598.68
Tax Expenses:				
-Current Tax	438.53	526.67	438.53	526.67
-Deferred Tax	(7.16)	26.65	(7.16)	26.65
Profit/Loss after Tax	1,048.01	1,045.36	1,048.01	1,045.36
Share of profit of associates	619.29	552.42	-	-
Net profit after taxes and share of profit of associates	1,667.30	1,597.78	-	-
Other comprehensive income for the year, net of tax	(5.51)	1.29	(5.22)	2.16
Total comprehensive income for the year	1,661.79	1,599.07	1,042.79	1,047.52

Previous years figures were rearranged and regrouped wherever necessary.

Ferro Alloy Business - Industry at a glance

Steel is the one of the multipurpose materials on the earth. Ferro alloy are mainly used in the production of steel. Ferro alloys are important additives in manufacturing of steel. The product mix of Ferro Alloys contains bulk Ferro Alloys viz., Ferro Manganese, Silicon Manganese, Ferro Silicon, Ferro Chrome, Charge Chrome, etc. and noble Ferro Alloys viz., Ferromolybdenum, Ferrovanadium, Ferrotungsten, Ferro-silicon magnesium, Ferro-boron and Ferro-titanium. Bulk ferro alloys is used for making stainless steel and Carbon steel while noble ferro alloys are made from rare earth minerals. Therefore, market of ferro alloys industries are dependent on the future of steel industry.

India is having various potentialities for the development of the steel industry mainly due to availability of skilled man power resources with low cost, abundant raw materials availability etc. The National Steel Policy announced in the

year 2017 aims to encourage the industry to reach global benchmark. The government is setting up Steel Research and Technology Mission of India to spearhead research and development activities in the iron steel sector at an initial corpus of ₹200 crores.

Country's finished steel production is anticipated to increase to 230 MT by 2030-31, the rise in demand likely to be supported by the growth of domestic market. Country's steel industry is modern with state of arts steel mills and it has always keen for upgradation of older plants and development of energy efficiency level.

Government's 30% levy of export duty on iron ore will help supply of iron ore and budgetary thrive to develop infrastructure, housing, rail road, ports etc., will push the demand of the ferro alloy industries. National Steel Policy aims to envisage 300 MT steel making capacity and 160 kgs per capita consumption by 2030-31.

During the year under review your Company continued to focus on its fundamental strength i.e., productivity and quality. Strong emphasis were given on utilization of internal efficiencies together with an improvement in the sales mix which enabled your Company to withstand inflationary pressures on costs and profitability.

During the year under review, your company has sold 14,580 MT of Ferro Silicon as against 14,189 MT. While your Company constantly strives to increase stakeholder's value, emphasis continues to be on delivering value to customers and strengthening processes while driving sustainable practices, resulting into expanding customer base.

Power Business

During the year under review, your Company generated 347 lacs KWH unit as compared to 689 lacs KWH unit which was captively consumed by the Company.

Further, M/s. Meghalaya Power Limited, an Associate Company has generated 1,701 lacs KWH units as compared to 1,901 lacs KWH units recorded in the previous year. During the Financial year 2018-19, the associate Company has posted PBT of ₹1,511.10 lacs and PAT of ₹1,269.16 lacs as against ₹1,054.27 lacs and ₹1,132.12 lacs respectively recorded in the previous financial year.

Opportunities & Threats, Risks and Concerns

Performance of the Company depends on the continued demand of our products in the steel and stainless steel industry. Government's initiatives to liberalise industrial policy, approval of National Steel policy and policy on 'Make in India' and other infrastructural initiatives taken for the entire country is expected to have positive impact of the ferro alloy industry and thereby boosting demand for the company's product. Global stainless steel production growth is expected to average +2.6% p.a. upto 2021. The industry seems healthy in future as it is expanding at estimated CAGR of 5.9% during 2017-2025. The market for worldwide ferro alloys is projected to reach a valuation of USD 188.7 bn by the end of 2025 from its worth of USD 112.8 bn in 2016.

However, challenge faced by the domestic industry due to short availability of raw materials and very high power cost comparative with other countries, lack of infrastructural facilities for easy transportation of raw materials from mines to the location affects the sector. Policy of the Government and regulatory changes may also affect the domestic industry.

Despite these threats, Indian Ferro alloy industry has growth prospect due to rapid industrialization, urbanization and

other infrastructural development. Various initiatives of the Government addressing their concern to help the industry and resolve the problems likely to have positive impact on the development of the industry.

The Company has evolved a risk management framework to identify, assess and mitigate the key risk factors of the business. The Board of the Company is kept informed about the risk management of the Company.

Performance and Operations Review

During the year under review, on a full year basis, although on the demand side there has been concern, on the realization side, your company was able to achieve marginal improvement. The Company has posted total revenue of ₹13,443.78 Lacs and Profit before Tax of ₹1,479.38 Lacs in FY 2018-19 as against ₹12,550.69 Lacs and ₹1,598.68 Lacs respectively during the previous financial year. Your Company produced 15,219 MT of Ferro Silicon during the year under review as against 14,169 MT in the Financial Year 2017-18. Net realization has been improved marginally during the year under review as compared to previous financial year. However, due to increase in costs, profits declined during the year.

It is expected that after ongoing Lok Sabha election, infrastructural development in the country will get further motion and ferro alloy market of the country is likely to be revamped.

Share Capital

The paid up Equity Capital as on March 31, 2019 was ₹2,221.73 lacs. During the year under review, the Company has neither issued any shares with differential voting rights nor granted stock options or sweat equity shares.

Shares in Suspense Account

Disclosures of the shares lying in Company's Unclaimed Shares Suspense Account are given in the Report of Corporate Governance.

Extract of Annual Return

In terms of requirement of section 134 (3) (a) of the Companies Act, 2013, the extract of the Annual return in form MGT-9 is annexed herewith and marked Annexure-1.

Further, in terms of Section 134(3)(a) of the Companies Act, 2013 the Annual Return of the Company has been placed on the Company's website and can be accessed at the web link: <http://shyamcenturyferrous.com/wp-content/uploads/2019/08/Annual-Return-2017-18.pdf>.

Meetings of the Board

During the year, Five (5) Board Meetings and Four (4) Audit Committee meetings were convened and held. The intervening gap between the Meetings was within the period prescribed under the Companies Act, 2013. The details of the Meetings are provided in the Corporate Governance Report.

Meetings of Independent Directors

During the year under review, meeting of Independent Directors was held on 15th March, 2019 wherein the performance of the Non-Independent Directors and the Board as a whole was reviewed. The Independent Directors at their meeting also, inter alia, assessed the quality, quantity and timeliness of flow of information between the Company management and the Board of Directors of the Company.

Committees of the Board

The composition and terms of reference of the Audit Committee, Nomination and Remuneration Committee, Corporate Social Responsibility Committee, Stakeholders Relationship Committee and Finance Committee have been furnished in the Corporate Governance Report forming part of this Annual Report. There has been no instance where the Board has not accepted the recommendations of the Audit Committee and Nomination and Remuneration Committee.

Whistle Blower Policy/ Vigil Mechanism

The Company has formed a Whistle Blower Policy/ Vigil Mechanism as required under Section 177 of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. A Vigil (Whistle Blower) mechanism provides a channel to the employees and Directors to report to the management concerns about unethical behavior, actual or suspected fraud or violation of the Codes of conduct or policy. The mechanism provides for adequate safeguards against victimization of employees and Directors to avail of the mechanism and also provide for direct access to the Chairman of the Audit Committee in exceptional cases. The said policy may be referred to at the Company's website at the web link: http://shyamcenturyferrous.com/wp-content/uploads/2015/04/Whistle_Blower_Policy.pdf

Policy on Appointment and Remuneration of Directors, Key Managerial Personnel and Senior Management Employees

The Board has framed a Remuneration Policy for selection, appointment and remuneration of Directors, Key Managerial

Personnel and Senior Management Employees. The remuneration policy aims to enable the company to attract, retain and motivate highly qualified members for the Board and at other executive levels. The remuneration policy seeks to enable the Company to provide a well-balanced and performance-related compensation package, taking into account shareholders' interests, industry standards and relevant Indian corporate regulations. The details on the same are given in the Corporate Governance Report. The said policy may be referred to at the Company's website at the web link: http://shyamcenturyferrous.com/wp-content/uploads/2019/04/SCFL_Remuneration-Policy.pdf

Code of Conduct

With intent to enhance integrity, ethics & transparency in governance of the Company your Company had adopted a Code of Conduct for Directors and Senior Management Personnel. The Code has been displayed on the Company's website www.shyamcenturyferrous.com

Compliance with the Secretarial Standard and Indian Accounting Standards

The Company has complied with the applicable Secretarial Standards as recommended by the Institute of Company Secretaries of India. The Company has also complied with all relevant Indian Accounting Standards referred to in Section 133 of the Companies Act, 2013 read with Companies (Indian Accounting Standard) Rules, 2015 while preparing the financial statements.

Directors' Responsibility Statement

Pursuant to requirement of Section 134 (3) (c) read with section 134 (5) of the Companies Act, 2013, the Directors hereby confirm and state that:

- In the preparation of Annual Accounts, the applicable Accounting Standards have been followed along with the proper explanation relating to material departures, if any.
- The Directors have selected such accounting policies and have applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2019 and of the profit of the Company for the year under review.
- The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and

detecting fraud and other irregularities.

- The Directors have prepared the annual accounts on going concern basis.
- The Directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.
- The Directors have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively.

Auditors & Auditors' Report

M/s. AKSD & Associates (Formerly M/s. Kailash B. Goel & Co.), Chartered Accountants, Statutory Auditors (Firm Registration no. 322460E) of the Company, will retire at the conclusion of the ensuing Annual General Meeting of the Company. Being eligible, they have offered themselves for re-appointment for a final term of two consecutive years from the date of ensuing Annual General Meeting till conclusion of tenth Annual General Meeting of the Company and have confirmed that their appointment, if made, will be in accordance to the provisions of section 141 read with section 139 of the Companies Act, 2013 and the rules framed there under for re-appointment of auditors. Members are requested to approve their re-appointment. Members are also requested to approve the Auditors' Remuneration payable for the F.Y. 2019-20.

The notes to the accounts referred to in the Auditors' Report are self-explanatory and, therefore, do not call for any further comments.

Cost Auditors

Pursuant to Section 148 of the Companies Act, 2013 read with the Companies (Cost Records and Audit) Amendment Rules, 2014, the cost audit records maintained by the Company in respect of its manufacturing activity is required to be audited. The Board of Directors re-appointed M/s. B. G. Chowdhury & Co., Cost Accountants, (Firm Registration number 000064) as Cost Auditors of the Company for conducting the audit of cost records of the Company for the Financial Year 2018-19.

The Board of Directors of the Company on the recommendation of the Audit Committee, appointed Messrs Sanjib Das & Associates, Cost Accountants (Firm Registration Number 100751), as the Cost Auditors of the Company for the Financial Year 2019-20 under section 148 of the Companies

Act, 2013. Messrs Sanjib Das & Associates have confirmed that their appointment is within the limits of Section 141(3)(g) of the Companies Act, 2013 and have also certified that they are free from any disqualifications specified under section 141(3). The Audit Committee has also received a Certificate from the Cost Auditors certifying their independence and arm's length relationship with the Company.

As per the provisions of the Companies Act, 2013, the remuneration payable to the Cost Auditor is required to be placed before the Members in a General Meeting for their ratification. Accordingly, a Resolution seeking Members' ratification for the remuneration payable to Messrs Sanjib Das & Associates, Cost Auditors for the Financial year 2019-20 is included in the Notice convening the Annual General Meeting.

The cost audit report for the Financial Year 2017-18 was filed with the Ministry of Corporate Affairs on 26.09.2018.

Secretarial Audit

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Company has appointed M/s. MKB & Associates, a firm of Company Secretaries in Practice to undertake the Secretarial Audit of the Company. The Secretarial Audit Report is annexed herewith marked Annexure-2. The report is self-explanatory and do not call for any further comments.

Particulars of Loans, Guarantees or Investments

During the year under review, your Company has not made any investment or provided guarantee or security in connection with a loan to any person exceeding the limit specified in Section 186 of the Companies Act, 2013.

Details of Investments covered under the provisions of Section 186 of the Companies Act, 2013 are given in the notes to the Financial Statements.

Related Party Transactions

All related party transactions are entered on arm's length basis, in the ordinary course of business and are in compliance with the applicable provisions of the Companies Act, 2013. There are no materially significant related party transactions made by the Company with Promoters, Directors, Key Managerial Personnel or other designated persons which may have a potential conflict with the interest of the Company at large. In terms of Section 134 of the Act read with Rule 8 of the Companies (Accounts) Rules, 2014, the particulars of