

ANNUAL REPORT 2012-13



New blast furnace(4060 m³) - the largest in India at SAIL's Rourkela Steel Plant

Sustaining Growth, Maintaining Leadership



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Vision

To be a respected world-class corporation and the leader in Indian steel business in quality, productivity, profitability and customer satisfaction.


Credo

- We build lasting relationships with customers based on trust and mutual benefit.
- We uphold highest ethical standards in conduct of our business.
- We create and nurture a culture that supports flexibility, learning and is proactive to change.
- We chart a challenging career for employees with opportunities for advancement and rewards.
- We value the opportunity and responsibility to make a meaningful difference in people's lives.



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Letter to Shareholders



Dear Shareholders,

I am extremely happy to share with you that SAIL's relentless drive to fast-track its modernization & expansion plan (MEP), resulted in commissioning of projects worth ₹5500 crore in 2012-13, which is the highest for a year since inception. Under the MEP, cumulative orders worth ₹58,151 crore have been placed till March, 2013 and an expenditure of ₹ 44,112 crore has been incurred. The company's capital expenditure during 2012-13 was ₹9731 crore. The significant projects commissioned in the last fiscal include New Sinter Plant at Rourkela Steel Plant (RSP); 700 TPD Air Separation Unit-4; Oxygen Plant-II at Bhilai Steel Plant (BSP); Skin Pass Mill at Bokaro Steel Plant; Raw Material Handling Plant, Sinter Plant, Coke oven Battery No.11 and Wire Rod Mill at IISCO Steel Plant at Burnpur. Maintaining the rhythm, in the 1st quarter of 2013-14, projects worth ₹2600 crore have already been commissioned which include the new Coke Oven battery and new slab caster at RSP.

Further, it gives me immense pleasure to inform my esteemed shareholders that the new 4060 m³ Blast Furnace at RSP, which is the largest in the country has become operational in August, 2013. Bringing about a quantum jump of 2.5 million tonnes in our hot metal capacity, this marks a new chapter in the modernization and expansion of our company and entire SAIL is jubilant about the same. Many more significant projects are in advanced stage of readiness and expected to go on stream in the coming months, on account of which we are likely to operationalise projects worth more than ₹15,000 crore during the current financial year.

Going beyond, your Company is working on a long term strategic plan 'Vision 2025', which will steer the Company towards a target of 50 million tonnes of hot metal production, thereby meeting the strategic objectives of achieving leadership in Indian steel sector and a position amongst the top steel companies globally. Your company already has the land and the other necessary infrastructure for expanding its capacity to this level.

On the operational front, notwithstanding the challenging market conditions in 2012-13 arising from demand stagnation, SAIL produced 13.4 million tonnes of crude steel by operating at 103% of its capacity. In line with its long term objective of increasing the proportion of value added steel in the overall product basket of SAIL, the production of special steels was scaled up to 5 million tonnes, up by 4% over previous fiscal.

SAIL plants have taken various initiatives to enhance production processes, by improving operational discipline and minimizing equipment downtime. This has led to a significant improvement in operating parameters, leading to best ever techno-economic efficiency in 2012-13.

SAIL intensified its efforts to enhance its reach further throughout the country. "SAIL Rural Dealership Scheme" was launched in the year 2011-12 with the primary objective of meeting the steel demands of the small rural consumers at block, tehsil and taluka levels. Under this scheme 562 rural dealers were appointed during 2012-13. Process for further appointments is under progress. As on 1st April, 2013, SAIL has a wide network of 2896 dealers spread over 629 districts of the country.

The implementation of the Company's R&D Master Plan, launched in 2011-12, is proceeding as per schedule. Centres of Excellence (CoE) have been created at all plants and RDCIS and work on the identified projects is underway. Similarly, High Impact Projects and Technology Missions taken up at corporate level are also being pursued which would give us benefits through beneficiation and pelletisation of iron ore, alternative iron-making technologies, near net-shape casting and other such projects of strategic importance.

Your Company has strived to enhance its product basket by developing several new products during the year. Bhilai Steel Plant developed special soft iron magnetic plates for the prestigious India-based Neutrino Observatory (INO)

Project of Bhabha Atomic Research Centre (BARC). Our Plants at Bokaro and Salem started production of IS 2062 E450 and E 350 HR Coils, tailor-made for wagons used by the Indian Railways. For the petrochemicals industry, Bhilai and Rourkela developed a new grade of ASTM 537 plates, which find application in pressure vessels.

It is a matter of great pride to inform you that the country has launched the first indigenously made Aircraft Carrier INS Vikrant made entirely from SAIL Steel plates. About 26,000 tonnes of high-grade DMR 249 A, 249 A-Z and 249 B steel has been supplied by SAIL for this prestigious project.

On the Raw Material front, total requirement of iron ore was met from captive sources. In case of coking coal, around 24% requirement was met from indigenous sources and balance through imports. For ensuring regular supplies of iron ore, capacities of existing iron ore mines are being expanded and new iron ore mines are being developed. In addition, new iron ore deposits in the States of Rajasthan, Chhattisgarh, MP, Maharashtra, Odisha and Karnataka are being explored. In this respect, an MOU was signed with Chhattisgarh Mineral Development Corporation (CMDC) in November 2012 for development of Eklama Iron Ore Deposit in Kabirdham district of Chhattisgarh, in a joint venture. Eklama Iron Ore Deposit would be a supplementary iron ore source for Bhilai Steel Plant, which is located at a distance of around 135 km from Bhilai (reserves around 100 Million Tonnes of iron ore).

For improving coking coal security, your Company is also making efforts for development of new coking coal blocks at Tasra and Sitanala. For development of Tasra Coal Block, a Mine developer-cum-operator (MDO) has been appointed in July 2013, who would be developing 4 million tonnes per annum (ROM) coal capacity mine through open cast mining along with a washery of matching capacity. Large-scale production at this colliery is likely to start by mid-2015 after completion of pre-development activities such as land acquisition, R&R and associated infrastructure.

Your Company continued to give impetus towards taking new business initiatives in the last fiscal. Significant among these include formation of a JV with Burn Standard Company Limited (BSCL) for setting up a Wagon Component Manufacturing facility at Jellingham, MoU with KSIDC & KML of Government of Kerala for establishing a Titanium Sponge project and MoU with Power Grid Corporation of India Ltd. (PGCIL) for setting up of a Transmission Line Tower manufacturing facility.

SAIL achieved the highest ever Labour Productivity (LP) of 258 TCS/Man/Year in the financial year 2012-13. The manpower strength of SAIL was 1,01,878 employees (as on 31.03.2013) with manpower rationalization of 4,126 achieved during the year. The enhanced productivity with rationalized manpower could be achieved as a result of judicious recruitments, redeployment strategies, building competencies and infusing a sense of commitment and passion among employees.

Your Company continued to get laurels and appreciation from different quarters, which inter-alia include, "Excellent" Rating for the year 2011-12 for the 10th consecutive year under the Government's Performance evaluation scheme; Bhilai Steel Plant being awarded the Prime Minister's Award for best performing integrated steel plant for the 11th time; SCOPE Award for Best Practices in Human Resource Management for 2011-12; total 13 out of 28 Viswakarma Awards declared in the country and 11 out of 32 Prime Minister's Shram Awards declared in the country.

Your Company's focus on social responsibility remains unwavering. Some of the notable initiatives that your company took in 2012-13 include, operating 7 Health centres at plants exclusively for providing free medical care to poor and needy families; organizing more than 3500 health camps in various villages across the country; supplying around 25,000 meals on daily basis to school children in Bhilai region; running seven special schools for underprivileged children at integrated steel plant locations which provide free education, mid-day meals, transport, text books and other required items.

SAIL is growing and poised for a big leap. At the same time, we are optimistic and remain committed to India's growth story. Notwithstanding the short-term dampeners, we believe that India continues to be one of the key growth engines of the global economy in the coming years on the basis of its strong fundamentals. With greater emphasis on increasing growth rate of manufacturing sector; higher rates of urbanization, rising middle class population, we are confident of a buoyant Indian steel industry in the years to come. We look forward to moving ahead on this journey along with the support of all our shareholders.


(C.S. Verma)
 Chairman

New Delhi
Dated: 16th August, 2013

Board of Directors

Chairman

Shri C.S.Verma

Functional Directors

Finance

Shri Anil Kumar Chaudhary

Technical & Commercial (Additional Charge)

Shri S.S. Mohanty

Personnel

Shri H.S. Pati

Projects & Business Planning

Shri T.S. Suresh

Raw Material & Logistics

Shri Kalyan Maity

Government Directors

Shri Vinod Kumar Thakral,
Additional Secretary & Financial Adviser
Ministry of Steel, Government of India

Shri Upendra Prasad Singh
Joint Secretary, Ministry of Steel, Government of India

Independent Directors

Dr. Jagdish Khattar
Prof. Subrata Chaudhuri
Shri P.C. Jha
Shri P.K. Sengupta
Dr. Isher Judge Ahluwalia
Shri Sujit Banerjee
CA Arun Kumar Srivastava
Dr. Atmanand
Shri J.M. Mauskar

Chief Executive Officers (Permanent Invitees)

Rourkela Steel Plant

Shri G.S. Prasad

Durgapur Steel Plant

Shri P.K. Singh

Bokaro Steel Plant

Shri Anutosh Maitra

Bhilai Steel Plant

Shri S. Chandrasekaran

IISCO Steel Plant

Shri N. Kothari

Secretary

Shri M.C. Jain

Bankers

Allahabad Bank
Andhra Bank
Australia and New Zealand Banking Group Ltd.
Axis Bank Ltd.
Bank of America
Bank of Baroda
Bank of India
Bank of Maharashtra
Bank of Tokyo-Mitsubishi UFJ Ltd.
Barclays Bank PLC
BNP Paribas
Canara Bank
Central Bank of India
Citi Bank
Corporation Bank
Credit Agricole Corporate & Investment Bank
Dena Bank
Deutsche Bank
Development Bank of Singapore
Federal Bank Ltd.
HDFC Bank Ltd.
ICICI Bank Ltd.
IDBI Bank
Indian Bank
Indian Overseas Bank
IndusInd Bank Ltd.
ING Vysya Bank Ltd.
Jammu & Kashmir Bank Ltd.
JP Chase Morgan
Kotak Mahindra Bank Ltd.
Mizuho Corporate Bank
Oriental Bank of Commerce
Punjab & Sind Bank
Punjab National Bank
Royal Bank of Scotland
Standard Chartered Bank
State Bank of Bikaner & Jaipur
State Bank of Hyderabad
State Bank of India
State Bank of Mysore
State Bank of Patiala
State Bank of Travancore
Sumitomo Mitsui Banking Corporation
Syndicate Bank
UCO Bank
Union Bank of India
United Bank of India
Vijaya Bank
Yes Bank Limited

Statutory Auditors

M/s. S.K. Mittal & Co.

Chartered Accountants

M/s. O.P. Totla & Co.

Chartered Accountants

M/s. B.N. Misra & Co.

Chartered Accountants

Registered Office

Ispat Bhawan, Lodi Road, New Delhi-110003
Phone:24367481; Fax-24367015
Internet: www.sail.co.in
E.Mail: secy.sail@saillex.com

Board of Directors



Shri C.S. Verma



Shri Vinod Kumar Thakral



**Shri Upendra Prasad
Singh**



**Shri Anil Kumar
Chaudhary**



Shri S.S. Mohanty



Shri H.S. Pati



Shri T.S. Suresh



Shri Kalyan Maity



Dr. Jagdish Khattar



Prof. Subrata Chaudhuri



Shri P.C. Jha



Shri P.K. Sengupta



Dr. Isher Judge Ahluwalia



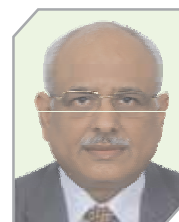
Shri Sujit Banerjee



**CA Arun Kumar
Srivastava**



Dr. Atmanand



Shri J.M. Mauskar

DIRECTORS' REPORT

To,

The Members,

The Directors have pleasure in presenting the 41st Annual Report of the Company together with Audited Accounts for the Financial Year ended 31st March, 2013.

FINANCIAL REVIEW

Your Company achieved a turnover of ₹49,350 crore during the Financial Year 2012-13 which was almost at the same level as that of last year (₹50348 crore). The profit after tax of your Company for the Financial Year 2012-13 was ₹2170.35 crore compared to ₹3542.72 crore in the previous Financial Year. Net profit was down largely due to the lower Net Sales Realization resulting from a subdued market. Higher usage of external inputs like BF Coke & pellets and higher salary & wages were other key factors impacting profitability adversely. The comparative performance of major financial parameters during the Financial Years 2012-13 and 2011-12 is given in Management Discussion and Analysis Report.

SAIL continued its thrust on optimum utilisation of funds by better fund management. This included replacement of high cost short term loans with low cost debts, timely Repayment of loans including interest, strategic parking of surplus funds with scheduled banks, actions for future fund raising etc. to meet our growth objectives. Further, the Company hedged the foreign currency risk on Buyer's Credit and repayment of External Commercial Borrowing depending on market conditions. The Company had liquid assets of ₹3,400 crore as on 31st March, 2013 invested in short term deposits with scheduled banks against borrowings of ₹21,597 crore as on 31st March, 2013. The debt equity ratio of the Company was 0.53:1

as on 31st March, 2013 as against 0.41:1 as on 31st March, 2012 which went up on account of increase in borrowings during the year to fund the ongoing capital expenditure.

The net worth of your Company improved from ₹39,811 crore as on 31st March, 2012 to ₹41,025 crore as on 31st March, 2013 and this helped in generation of internal resources for funding expansion plans of SAIL. During the Financial Year 2012-13, SAIL's relentless drive to fast track its modernization & expansion plan resulted in commissioning of projects worth ₹ 5500 crore. A capital expenditure of ₹ 9,731 crore was made during the year.

Your Company paid interim dividend @ 16% of the paid-up equity share capital during the year. The Board of Directors has further recommended a final dividend @ 4%, subject to approval of shareholders, thus making the total dividend @ 20% of the paid up equity share capital for the Financial Year 2012-13. A sum of ₹163 crore has been transferred to the general reserves during the Financial Year 2012-13 (previous year ₹275 crore).

Credit Rating:

M/s. FITCH and M/s. CARE, RBI approved credit rating agencies, maintained 'AAA' ratings, indicating the highest safety, for SAIL's long term borrowing programme. The International Borrowings programme of the Company has been rated at 'BBB-' by M/s Fitch ratings and M/s Standard & Poor's, which is also the sovereign rating of the Country.

PRODUCTION REVIEW

Notwithstanding the challenging market conditions in 2012-13 arising from demand stagnation, your Company produced 13.4 million tonnes (MT) of crude steel by operating at 103% of its capacity, marking an improvement of 1% over CPLY. In line with its long term objective of increasing the proportion of value added steel in the overall product basket of SAIL, the production of special steels was scaled up to 5 MT, up



Hon'ble Prime Minister Dr. Manmohan Singh presenting the Prime Minister's Trophy for the best integrated steel plant to Chairman SAIL Shri C.S. Verma, in the presence of Union Steel Minister Shri Beni Prasad Verma on August 27, 2012.



First batch of slabs being cast from the New Slab Caster at Rourkela Steel Plant.

by 4% over last Financial Year. Best ever power generation of 690 MW was achieved during the Financial Year 2012-13, with a growth of 4% over last year. Improvement was also achieved in the production of Hot Metal, Finished Steel and Continuous Cast Steel with a growth of 1% each over last year.

SAIL plants have taken various initiatives to enhance production processes, by improving operational discipline and minimizing equipment downtime. This has led to a significant improvement in operating parameters, leading to best ever techno-economic efficiency. SAIL Plants recorded the best ever specific energy consumption of 6.68 Gcal/tcs, an improvement of 3% over last year. This was achieved, as production through energy efficient CC route went up by 1% as compared to last year. Lowest ever coke rate at 512 kg/thm was achieved, with an improvement of 1% over last year. This was possible primarily because of higher usage of CDI (Coal Dust Injection) at 54 kg/thm as compared to 51 kg/thm achieved last year. Best ever BF-Productivity of 1.58 T/m³/day was achieved, with an improvement of 5% over last year, by consistent operation of Blast furnaces at BSP, DSP and RSP where 2%, 8% and 3% growth was achieved in BF-Productivity.

Your Company has strived to enhance its product basket by developing several new products during the year. Bhilai Steel Plant developed special soft iron magnetic plates for the prestigious India-based Neutrino Observatory (INO) Project of Bhabha Atomic Research Centre (BARC). Our Plants at Bokaro and Salem started production of IS 2062 E450 and E 350 HR Coils, tailor-made for wagons used by the Indian Railways. For the petrochemicals industry, Bhilai and Rourkela developed a new grade of ASTM 537 plates, which finds application in pressure vessels. Another product which caters to petrochemical industry is the NACE quality plate developed by SAIL Bhilai. These crack-resistant plates are ideal for transportation of gases having high Hydrogen-Sulphide content. SAIL Bokaro came out with ultra high strength HR and CR steel with Mn-B, especially for auto body components, thereby enhancing our presence in

that sector. Besides catering to large scale industry, our penetration also improved in the medium and small scale industries with 31 CrV3 grade billets rolled out in Durgapur Steel Plant for the first time in India; a product which finds a growing market among makers of spanners and hand tools.

Several initiatives have been undertaken for implementation of R&D Master Plan of SAIL. An exhaustive Master Plan for R&D was prepared aiming at integrating R&D activities towards business and operational goals of your Company. The implementation of this Master Plan; besides giving a competitive advantage to SAIL by improving efficiencies, reducing costs, meeting market demands and upgrading current steel technologies; will also help in gradually increasing R&D expenditure to a level of 1% of sales turnover, which is an international benchmark.

R&D Master Plan is envisaged to have positive impact on the existing operations through implementation of centralized and decentralized projects. Centralized projects consist of High Impact Projects (HIP) and Technology Mission Projects (TMP). The projects which are of common interest to all integrated steel Plants viz. coal & coke beneficiation, pelletisation, environmental projects etc. will come in the category of HIP. Development/acquisition of radically new technologies which are of strategic importance for SAIL viz. thin strip casting and inline rolling, CRGO etc. will be pursued through TM Projects. Under the decentralized category, all the Plants/Units of SAIL have Centres of Excellence (CoE) in selected areas/products. Centre of Excellence projects mainly focus on augmenting product volume and product attribute.

Centres of Excellence have been created at all plants and RDCIS. 13 projects have been identified as CoE Projects, 2 each at BSP, RSP, ISP and SSP and one each at BSL, DSP, ASP, VISL and RDCIS. These projects have taken shape in terms of formulation of objective, scope, duration, budget and deliverables. A few examples are better quality plates and rails at Bhilai, high performance Cold Rolled Sheets at Bokaro, CRNO and API

pipes at RSP etc. Three HIPs are being pursued with specific objectives of beneficiation and pelletisation of iron ore at mines, assimilation of new technologies for coke oven, sinter making and blast furnace at ISP and identification of new uses of BF and BOF sludge & slag for improving solid waste utilisation. Under the Technology Mission (TM) projects, discussions have been initiated with technology suppliers for acquiring technology for Thin Slab Casting & Direct Rolling (TSCDR) and CRGO Steel production.

Raw Materials

During the Financial Year 2012-13, total requirement of iron ore was met from captive sources. The Company's captive iron ore mines produced about 21.48 million tonnes. However, in case of coking coal, around 24% requirement was met from indigenous sources and balance through imports. During the Financial Year 2012-13, production in captive collieries of the Company was about 0.82 million tonnes. In case of fluxes, around 1.26 million tonnes of limestone and 0.96 million tonnes of dolomite was produced resulting in total production of 2.22 million tonnes from captive sources. For thermal coal, your Company depends entirely on purchases from Coal India Limited (CIL) except small quantity produced from captive mines.

During the Financial Year 2012-13, your Company got the final forest clearance for Bolani, Barsua and Stage-I forest clearance for Gua Iron Ore Mines. Environment clearance for the capacity expansion of Gua and Bolani Iron Ore Mines and renewal of Dhubil mine were also obtained from MoEF, Government of India (GoI). Two mining leases of Kuteshwar Limestone mines got renewed for further period of twenty years.

For ensuring regular supplies of iron ore, capacities of existing iron ore mines are being expanded and new iron ore mines are being developed. In addition, new iron ore deposits in the States of Rajasthan, Chhattisgarh, MP, Maharashtra, Odisha and Karnataka are being explored.

For improving coking coal security, your Company is also making efforts for development of new coking coal blocks at Tasra and Sitanala. At Tasra Coal Block, Letter of Acceptance (LoA) has been issued to the M/s Lanco Infratech on 26th July '13 for development of 4 MTPA (ROM) coal capacity mine through open cast mining and production of washed coal through establishing a washery of 3.5 MTPA input capacity and further, setting up of 200-300 MW Power Plant through JV route based on secondary product available from Tasra Washery. Production is likely to start by mid 2015 after completing pre-development activities such as land acquisition, R&R, setting up infrastructure like Coal Handling Plant, Heavy Earth Moving Machineries (CHP, HEMM), etc. M/s Lanco Infratech was selected as the H-I bidder (on Net Present Value basis) for development of Tasra coking coal block as Mine developer cum operator (MDO).

For allotment of new thermal coal blocks applications have been submitted to Ministry of Coal, GoI and for coking coal Ministry of Coal, GoI has been approached for allotment of 2-3 coking coal blocks under Government dispensation route.

SALES & MARKETING REVIEW

- SAIL achieved a total sales volume of 11.35 million tonnes during the Financial Year 2012-13. Exports during the year at 0.368 million tonnes achieved 10.1% growth over previous year. Major categories where growth was recorded in home sales included: HR Coils: 2.1%, CR Coils/Sheets: 4.6%, GP/GC: 5.3%, Wire Rods: 1.7% and Electrical Steel Sheets: 16.8%. New records were also set in supplies of Wheels to Indian Railways during the year.
- Highest ever sales of LPG grade HR Coils were achieved at 2.07 lac tonnes during the Financial Year 2012-13 registering 6.8% growth over the previous best achieved during 2011-12.
- Supplies were started to rural dealers appointed under "SAIL Rural



Wire rods produced in the new Wire rod mill at ISP, Burnpur.