



## **TATA METALIKS**



Grit Under Pressure  
Nineteenth Annual Report | 2008-09

Purity...piping hot

Tata Metaliks Kubota Pipes Ltd's Ductile Iron Pipe Plant Inauguration



## Contents

- Chairman's Statement 3 • Directors' Report 10 • Management Discussion and Analysis 20 • Corporate Governance Report 23
- Auditors' Report 37 • Annexure to Auditors' Report 38 • Balance Sheet 40 • Profit and Loss Account 41 • Cash Flow Statement 42
- Schedules forming part of Balance Sheet 43 • Notes on Balance Sheet and Profit and Loss Account 46
- Schedules forming part of Profit and Loss Account 54 • Balance Sheet Abstract 56 • Statement pursuant to Section 212 57
- Consolidated Financial Statements:**
  - Auditors' Report 57 • Balance Sheet 58 • Profit and Loss Account 59 • Cash Flow Statement 60
  - Schedules forming part of Balance Sheet 61 • Notes on Consolidated Financial Statement 64
  - Schedules forming part of Profit and Loss Account 71 • Documents of Subsidiary Company 73
- Corporate Compliance Certificate (3Cs) 83 • Calendars 2009-10 85

**Annual General Meeting on Tuesday 15th September, 2009 at Kalamandir at 11.30 a.m.**

As a measure of economy copies of the Annual Report will not be distributed at the Annual General Meeting. Shareholders are requested to kindly bring their copies to the meeting.





## Board of Directors (As on 24th July 2009)

Mr. H. M. Nerurkar (Chairman)  
 Mr. A. C. Wadhawan  
 Mr. P. K. Jha - (upto 08.05.2009)  
 Mr. Ashok Kumar  
 Mr. Manish Gupta  
 Mr. Dipak Banerjee  
 Mr. Ajoy Kumar Roy  
 Mr. Ashok Kumar Basu  
 Mr. V. S. N. Murty  
 Mr. M. V. Rao - (Nominee of WBIDC Ltd. upto 19.03.2009)  
 Mr. Subrata Gupta (Nominated by WBIDC Ltd. w.e.f 19.03.2009)  
 Mr. Koushik Chatterjee (Additional Director w.e.f. 24.07.2009)  
 Mr. Harsh K Jha (Managing Director)

## Management (As on 24th July, 2009)

Mr. Harsh K Jha	Managing Director
Mr. Subhasis Dey	GM (Corporate Services)
Mr. Sudhin Mitter	GM (Marketing)
Mr. Debasish Mishra	GM (LSCM)
Mr. Kalyan Chatterji	GM (BI, Projects & IT)
Mr. P. Daniel Kumar	GM (Iron Making)
Mr. Subhra Sengupta	Chief Financial Officer
Dr. Ashok Mohanty	Executive-in-Charge – Kharagpur Unit
Mr. Partha Chattopadhyay	Executive-in-Charge – Redi Unit
Mr. S. Shyam	Chief HR (Corporate) & CQH
Mr. Vishwanath G Malagi	Chief of Corp. Gov. & Company Secretary

REGISTERED OFFICE	Tata Centre, 43, Jawaharlal Nehru Road, Kolkata – 700 071.
-------------------	---

BANKERS	State Bank of India, Citibank N.A, Axis Bank Indian Overseas Bank, Bank of India, IDBI Bank HDFC Bank, ABN Amro Bank
---------	--

AUDITORS	M/s Deloitte Haskins & Sells Chartered Accountants Kolkata
----------	--

SHARE REGISTRARS	M/s R & D Infotech Pvt. Ltd. 22/4 Nakuleshwar Bhattacharjee Lane Kolkata – 700 026
------------------	--

### Committees of Board (As on 24th July 2009)

<b>Audit Committee</b>			<b>Remuneration Committee</b>		
Mr. A. C. Wadhawan	-	Chairman	Mr. A. C. Wadhawan	-	Chairman
Mr. Dipak Banerjee	-	Member	Mr. H. M. Nerurkar	-	Member
Mr. Ajoy Kumar Roy	-	Member	Mr. Ajoy Kumar Roy	-	Member
Mr. V. S. N. Murty	-	Member	Mr. Dipak Banerjee	-	Member
<b>Shareholders' Grievance Committee</b>			<b>Investment / Borrowing Committee</b>		
Mr. Manish Gupta	-	Chairman	Mr. Harsh K Jha	-	Chairman
Mr. Ashok Kumar Basu	-	Member	Mr. V. S. N. Murty	-	Member
Mr. Harsh K Jha	-	Member	Mr. Manish Gupta	-	Member
<b>Share Transfer Committee</b>			<b>Ethics &amp; Compliance Committee</b>		
Mr. Ajoy Kumar Roy	-	Chairman	Mr. Manish Gupta	-	Chairman
Mr. Harsh K Jha	-	Member	Mr. Ashok Kumar Basu	-	Member

### Investor Service Centre

Tata Metaliks Limited Tata Centre 43, Jawaharlal Nehru Road Kolkata – 700 071 Phone : +91 33 6613 4205 Fax : +91 33 2288 4372 Email : investors@tatametaliks.co.in		M/s R & D Infotech Pvt. Ltd. Ground Floor 22/4, Nakuleshwar Bhattacharjee Lane Kolkata – 700 026 Phone : +91 33 2463 1658 Telefax : +91 33 2463 1657 Email : rd.infotech@vsnl.net	
--	--	---	--



## Chairman's Statement

### Dear Shareholders,

Just as everything seemed to be going right for the global economy, especially with aggressive new players like China and India notching up impressive GDPs, the third quarter of 2008-09 came as a bolt from the blue. Almost overnight, the global economy spiralled into a challenging downturn mode.

Your Company's performance needs to be assessed against this tough economic backdrop. The iron and steel industry slumped. Pig iron was hit hard, especially as the global auto industry went into back gear. In India, foundries struggled to survive. It was not easy for Tata Metaliks Limited, the world's biggest foundry grade pig iron producer. But I am pleased to state that your Company managed to combat the downturn credibly.

The half-yearly results showed an encouraging PBT of Rs. 50 crore and a PAT of Rs. 33 crore. But in the third quarter your Company took a heavy beating on account of foreign exchange fluctuations and universal drop in realizations. Your Company showed courage in revaluing its inventory, thereby ending the third quarter with a loss of Rs. 168 crore. Your Company approached the fourth quarter with a clean slate and by dint of its performance, achieved an operational profit of Rs. 2.84 crore and PAT of Rs. 19.66 despite the continuing hostile economic headwinds, to end the year with reduced losses of Rs. 149 crore.

These figures illustrate three vital truths about your Company: strong fundamentals, financial transparency in difficult times and repaying shareholder trust with an honest balance sheet. Your Company also showed the might of collective will in hard times. The Redi plant, dysfunctional until its TML takeover, demonstrated proven commitment to excellence across its workforce tiers, on a par with Kharagpur.

Your Company is insulating its risks and cautiously increasing its growth appetite. TML was granted a prospecting license for iron ore at Dongarpal village across 154.80 hectares, close to its Redi plant. A backward integration initiative, it holds immense significance for future plans in Redi. I may also mention that the plant for Tata Metaliks Kubota Pipes Limited (TMKPL), the JV between your Company, Japan's Kubota and Metal One, to produce DI pipes, is ready to go downstream into production. Your Company will provide hot metal to TMKPL. In the long term is an ambitious forward integration initiative: a small integrated iron and steel plant in Haveri, Karnataka.

Internally, your Company is committed to the Tata Group's century-old business ethics. This year, the Tata Group evolved its Tata Code of Conduct, with extensive inputs from Mr. Ratan Tata. TML follows the updated TCoC faithfully and is also a 600+ score company on the TBEM scorecard.

Winding up, let me express my heartfelt thanks to every stakeholder for standing by your Company in tough times, assuming responsibilities of true partnership. More than in any other year I state my admiration for employees, management and union, for their single-minded commitment to TML. It reassures me that your Company is in safe hands.

Kolkata  
24th July, 2009

H M Nerurkar  
Chairman

## CORPORATE INTEGRITY. CHALLENGES FOR THE MELTDOWN-PROOF BRAVE

In the annals of corporate history, 2008-09 will go down as the year when the invincible giants were reduced to dust, raising clouds of recession worldwide. While the first two quarters continued the unabated optimism of the 2007-08 fiscal year, in the third quarter, the US sub-prime banking crisis and its unprecedented aftershocks pushed the US economy — and consequently the rest of the world — off a cliff.

Although China and India, the two fastest growing Asian economies in the world at present, were spared the worst, the global recession did cause a slowdown in these fast-track economies. In India, the GDP which was expected to touch the magic 2-digit figure hovered around 6%. Manufacturing industries like iron and steel were hit hard as customer demand weakened drastically, leading to sharp drop in realisations.

At Tata Metaliks Limited, the year started on a buoyant note. We were geared to improve upon the performance of our best-ever fiscal of 2007-08, and our “can-do” attitude had its solid foundation in our “did-do” achievements. The first two quarters proved us right: the half-yearly results showed a PBT of Rs. 50 crore. However, TML ended the third quarter with a loss of Rs. 168 crore. The international economic climate was not conducive to big ambitions. It took a leap of faith to create a turnaround in the fourth quarter: generating a PAT of Rs. 19.66 crore in the span of just four months, reducing the overall loss to Rs. 149 crore.

As the world's biggest pig iron producer with five blast furnaces across two locations, we have always needed a continuous supply of raw material for continuous large-scale production. In the best of times, the availability of coal and coke is uncertain due to absence of long-term contracts with possible exporters, uncertain spot prices, including extreme volatile dollar. This explains our passion about owning captive mines (a reality in the near future, but more of that in latter pages of the book). In the beginning of 2008, as the markets were buoyant, commodity inflation was at its peak, and so prices for imported coke and coal (to be converted into coke) rose steadily. As a prudent resolution, the Company decided to invest in raw material inventory, enough for around 90 days of production.

However, the global catastrophe in the first two weeks of October 2008 caused a dramatic market slump, crashing prices of raw materials and finished goods alike. Our prudent calculations turned turtle: while the average net realizations came down, the landed cost of raw materials in our inventory remained at the same old procurement price. So the operational loss mounted during this period. So the management had no option but to curtail the production to 50% (for the first time since the Company's inception) to reduce as much loss as possible. Thus, only one MBF each in Kharagpur and Redi remained operational, with controlled coke consumption. As production slowed down, the build-up inventory for 90 days automatically carried forward to 180 days, as a result of which inventory (both raw materials and finished goods) valued as per accounting norms resulted in



an inventory loss of almost 40%. This sudden recessionary onset did the damage in the third quarter.

## HEAD HELD HIGH

A lesser company would have crumpled under pressure, but not TML. We took stock of the situation. After years of performance highs, we were faced with a challenge, a serious one, but we faced it boldly and ethically. Here's how:

**Fiscally:** We decided not to roll over our raw material stock valuation for the next fiscal but revalue it in the same fiscal to oblige accounting standards as a good Corporate Citizen and show the true picture to our stakeholders, including shareholders and bankers. A member of the ethically driven TATA Group, we walked the Corporate Governance talk.

**Operationally:** We put our heart, mind and soul into leveraging our existing operational strengths across Redi and Kharagpur. As a result, in the last quarter, despite the continuing hostile markets, we made an operational profit of Rs. 2.84 crore, proving the soundness of our fundamentals.

**In marketing:** We're injecting the stimuli of our brand goodwill, market research and add-ons into the still-sluggish markets by categorising products and customer segments to become more customer-responsive than ever.

**Through human capital:** We kept the morale of employees, vendors and suppliers high with our transparent disclosures and motivation, including the formation of Must-Win Battle teams to overcome the crisis.

**By risk mitigation:** We evaluated how much flux in a violent market scenario our Company can absorb, by fixing a prudent

Value-at-Risk for finished goods and raw material. Acquiring captive mines to insulate ourselves from raw material volatility is a core focus. A major de-risking move is supplying molten metal to our JV Company, Tata Metaliks Kubota Pipes Ltd. (TMKPL), for DI pipe manufacturing by early 2009-10.

## BOUNCING BACK

A mature company is greater than the sum of its balance sheet. At TML, we do not need to hard sell that our core strengths are greater than the audited accounts for 2008-09. That is an established fact. Stakeholders as diverse as shareholders, bankers, the government, workers and vendors affirm that our fundamentals are strong. We are moving in the right direction, minimising risks to maximise value to customers and shareholders. Getting a prospecting license and captive mines will ensure captive sustainable raw material linkage. Simultaneously, we are enhancing productivity through operational excellence and value-added products like SSG grade pig with low sulphur, phosphorus and manganese content. Despite cautious markets, we have a cushion — our in-house 'customer' TMKPL for molten metal.

For a Company that started 2008-09 on a winning spree, it has been a tremendous year. While the first two quarters were the continuation of a celebratory summer, Q3 slammed us into winter. It took all our introspection, innovation and integrity to usher in spring — it took us only 90 days to come up with a PAT of Rs. 19.66 crore — for Q4. Today, everyone in TML has a strong commitment and an iron will to put the Company back to the top — where it belongs.

Our operations

## Digging the well before thirst...

**But not flooding it with water!**

Many times, too much is as bad as too little. Many times, it doesn't pay to be over-prepared, yet under-preparedness is not an option. Being one of the bigger global manufacturers of a commodity product, pig iron, every day operations at TML can be an exercise in tightrope walking. But in the long run it teaches one that every step must be the right step.

Pig iron manufacturing is a cyclical industry with ups and downs, but in Q3, global markets jumped off the cliff. As a result, operationally, 2008-09 proved to be an eventful year for TML. Last year, we established a plant in less than a year for Tata Metaliks Kubota Pipes Limited, our multinational

joint venture — with Japan's Kubota and Metal One — to manufacture ductile iron pipes for sewerage and water supply.

Not surprisingly, operational excellence has always been a given: we are not just ISO 9001:14001 certified; we are also ISO 17025 NABL-certified, which is given after an audit of systems and capability and which acts as a gateway to exports in Europe. Through Q1 and Q2, we extracted the optimum from operations. Targeting production costs, we stretched resources like power, water, iron ore, imported coke and coal to the fullest, producing premium quality pig — in chemistry and cosmetics — at Kharagpur and Redi.

## Grit & Glory

Less is more

During the downturn, even the smallest operational inefficiencies can translate into significant losses. So our motto became "Reuse, Reduce, Recycle" down to the last detail to minimize real-time costs. Implemented across all tiers, it was enthusiastically adhered to by the workers across both Kharagpur and Redi, who themselves came out with cost-cutting ideas and solutions, avoiding the help of contractors from outside! Proving once and for all that when the going gets tough, the tough get smarter!





Our marketing team

## Changing rules, constant values...

**A contradiction that works!**

Marketing in a downturn is like trying to sell refrigerators to Eskimos. The persistent lack of buoyancy in the market and de-growth in demand can turn all projections turtle. A global financial meltdown impacts markets worldwide. In India, the stock markets were deeply affected, and sectors like realty and auto that were red-hot in 2007-08, rapidly cooled off, a development that left pig iron makers without customers from those sectors and competing with scrap dealers.

So, where did that leave TML's marketers? Out of the box and free to innovate. The focus was on making marketing strategies more agile, efficient, and at the lowest possible cost. This was made possible by giving customers more voice than before and then listening to what they said, which resulted in segmentations, pricing and packaging innovations, inventory management, customer value-adds, as well as attacking new markets.

At TML, we did the following :

- Bifurcated our marketing activities into two focused groups: marketing and Logistics and Supply Chain Management (LSCM) — one group created demand and reinforced brand recall, another ensured smooth delivery of products to buyers.
- Strengthened SCOPE (Strategizing for Customer Oriented Processes and Excellence) from the last fiscal, collaborating with Indian Institute of Management-Calcutta for performance solutions
- Established management committee meetings with an Apex team to devise overall marketing strategy and

functional teams to implement them on the ground

- Segmented buyers into two categories — institutional (direct) buyers and retail buyers (dealers, traders, intermediaries) — to zero in on the pulse of customers for better service
- Segmented products according to sizes, grades and features
- Created pockets across markets in India to cater to customers easily and just-in-time
- Monitored inventory to de-risk the Company from over-stocking as well as stock-out
- Facilitated greater online access — Internet access for dealers and customers, TML web linkage with websites of The Institute of Indian Foundrymen and Engineering Export Promotion Council, India
- Put in place a very efficient system for working capital
- Stayed away from making compromises through unprofessional credit, freebies or any instant gratification schemes, focusing on long-term relationships with customers

In a nutshell, we tried to beat the downturn by stretching ourselves for maximum customer delight without compromising our brand values. Through our efforts, we sold about 3.7 lakh tonnes of metal domestically and about 65,000 tonnes through exports. Even though the global downturn bells tolled, we spared no effort to keep consumers coming and the tills ringing.

## Grit & Glory

Selling a tailored suite

During a downturn, a smart marketer realizes that customers are also cash-strapped. That's why they ask for more credit. But managing the payment cycle wisely gets easier when these same customers find that their needs are being met intelligently. Our solution: custom-made packages were the key to customer delight, as each customer was different and deserved to be treated as such. So instead of marketing our products, we decided to change our products and prices to his need. If his needs were met at fair prices, his business would grow and he would have the resources and the desire to return to us, time and again!

Our financials

## More than doing things right, doing right...

**That's how our bottomline held its head high!**

The global slump had despairing Americans compare the Great Depression of the 1930s with the fiscal under report. For India, which in the first half of 2007-08 gained admission into an elite club—becoming one of the world's 12 trillion dollar economies—2008-09 was the worst year in recent corporate history. But despite gloom and doom predictions, India Inc. is inching its way bravely into the black once more.

TML's story mirrors India's in its broader aspect, which geared us for a tough fight to come out of the situation.

Our battleground strategies are:

- Judicious use of current assets so that the working capital could be evenly used as per internal norms to help in
- Deploying the option of long-term debt rather than short, as the former is less expensive
- Applying for Minimum Alternative Tax (MAT) for 2009-10, to provide a transparent institutionalized reporting of economic performance to help the Company, banks, auditors and shareholders
- Taking advantage of the close synergies between TML and Tata Metaliks Kubota Pipes Limited (TMKPL)
- Establishing a synergy to sell assured customers, including subsidiary company TMKPL for DI pipes.

mitigating risk (as envisaged now)

## Grit & Glory

Integrity up for inventory writedown

The third quarter of 2008-09 booked losses on inventory revaluations, both on raw materials and finished goods — a negative impact of the recession. For TML, inventory write-down ensured no write-off of corporate integrity. We approached Q4 with a clear conscience and an even clearer countdown: 90 days of 100% performance. For the fourth quarter, our efforts were rewarded with an operational profit of Rs. 2.84 crore and a Profit After Tax of Rs.19.66 crore. Honesty pays!