# TATA SPONGE IRON LIMITED



SustainAbility



26th Annual Report 2008-09

# Performance Highlights 2008-09

# **Financial**

# Operational

Turnover	Rs. 64,486.49 lac	Sponge Iron	
Profit Before Tax	Rs. 18,116.70 lac	<ul> <li>Installed capacity</li> </ul>	390000 MT
		Production	342074 MT
Profit After Tax	Rs. 12,066.61 lac	<ul> <li>Despatch</li> </ul>	342920 MT
Dividend	80%	Power	
Return on Capital Employed	34.49%	<ul> <li>Installed capacity</li> </ul>	227.76 Million KWH (26 MW)
		<ul> <li>Generation</li> </ul>	181.01 Million KWH
Earning per Share	Rs. 78,35	□ Sale	124.82 Million KWH

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The Twenty-sixth Annual General Meeting of Tata Sponge Iron Limited will be held at "Lake View" (Officers' Recreation Centre), TSIL Township, Joda, Dist – Keonjhar, Orissa – 758 034, on Saturday, the 1st August, 2009 at 4-00 p.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.



# **LVLV** SPONGE IRON LIMITED

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Parakh	C.	.Ч	Mr.
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2nd April, 2009]	ا ج	ıo	s\]
OF DIRECTORS	JA	A	ВО

Vice President (Operations) Managing Director Mr. Suresh Thawani [800S, lingA bnSS no sA] **MANAGEMENT TEAM** 

Mr. T. P. Ninan

Mr. R. Raju

Share Registrars

Registered Office

& Works

Auditors

**Bankers** 

Mr. Ujjwal Chatterjee

Company Secretary Mr. S.S. Dhanjal

Canara Bank

State Bank of India

(Finance & Accounts)

General Manager

M/s Deloitte Haskins & Sells

General Manager (Coal Project)

Chartered Accountants

Orissa - 758 034 Dist - Keonjhar Post - Joda

E-mail: info@tatasponge.com Fax No.: (06767) 278159 Tel No.: (06767) 284236

Website: www.tatasponge.com

6-10 Haji Moosa Patrawala Industrial M/s. TSR Darashaw Ltd.

Tel No: (022) 66568484 Mumbai - 400 011 Mahalaxmi 20, Dr. E. Moses Road

Website: www.tsrdarashaw.com E-mail: csg-unit@tsrdarashaw.com Fax No: (022) 66568494

Mr. Sanjay Kumar Pattnaik Mr. K. K. Varugnese

Mr. Arun Mis<mark>ra</mark>

Mr. Suresh Thawani (Managing Director)

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### TATA SPONGE IRON LIMITED

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### CHAIRMAN'S STATEMENT

Dear Shareholder.

The sub-prime banking crisis in the global financial markets triggered a global recession in the third quarter of 2008-09, which led to meltdown of economies across the world. India was no exception, though, along with China, it continued to grow. India's GDP which was expected to touch two digits hovered at around 6%.

Future of Sponge Industry in India is linked to the growth of steel demand in the country and its fulfillment through secondary steel sector. Due to various issues, the installation of large Integrated Steel Plants through BF & BOF route has not happened and the demand supply gap has been met by increase in production through the secondary steel making route i.e. melting of scrap to make steel in Electric Arc Furnaces and Induction Furnaces. Secondary steel making requires steel scrap or sponge iron as source of metallic. As availability of scrap in India is limited and the country depends largely upon imported scrap, sponge iron fills the demand supply gap conveniently. However, the price of sponge iron is determined by the scrap price internationally and the steel price in domestic market. In short to medium term, demand of sponge iron in India is expected to be satisfactory.

The steel industry and its allied industries like sponge iron suffered depressed prices which put pressure on margins. As a commodity product, sponge iron witnessed a reduction in selling price even as raw material costs did not go down, mirroring industry trends. Tata Sponge Iron Limited also suffered the limitations of the economic scenario.

However, it is heartening that despite above constraints, the Company registered its highest ever performance across all segments like production, dispatches, PBT (Rs. 181 crore), PAT (Rs. 121 crore) and EPS (Rs. 78.35). This was due to impressive profits of the first half and sale of surplus power from the Company's captive power plants. Therefore, the Board has recommended a dividend of 80% for 2008-09, the highest in the history of the Company.

While there are reasons for cheers, there is no room for complacence. The Company is weighing its various options for de-risked growth in the currently tight economic situation. Security of raw material supply is a priority as we seek captive capacities or long-term supply commitments for raw material and lower production costs among others. Work on the Company's captive coal project progressed, although slower than our expectations.

The Company is concerned about quality of environment, climate change and global warming. Therefore, to address these concerns, the Company has taken some steps e.g. implemented Environment Management System as per standards of ISO 14001: 2004, efforts made to reduce greenhouse gas emissions, carried-out an environment impact assessment of our presence on bio-diversity, measuring of carbon footprint etc.

Internally, we continued to strengthen our fundamentals. The HR focus on our pioneering e-Associates Programme and Daily Management Programme was accepted well by the employees who saw them as self-development initiatives. Our TBEM score also improved during assessment, validating the quality of our processes and systems within the Tata Group. The Company also won the prestigious CII (ER) Quality Award, getting certified as a Model TQM Company for 2008-09 in an industry wide contest for continuous improvement.

As a responsible corporate citizen, this year our Annual Report communication is based on the triple bottomline (TBL) approach, addressing the parameters of profit, people and planet. Concern for the ecology and the community has always been a part of the Tata Group and the Tata Code of Conduct (TCoC). In fact, the TCoC was revamped this fiscal and we have also reported our stringent adherence to it in this report. Our corporate responsibility also saw us extending the ambit of our CSR activities directly and through a Trust, Vidya Shatki Niyas. The Company donated generously to help victims of the Bihar floods and the Mumbai blasts, in August and November 2008, respectively.

Although we delivered value to our shareholders this fiscal, the global economic trends signify a tough economic year ahead. The Company seeks shareholders' continued support for sustenance throughout the present economic crisis. On our part, we are committed to do all we can to maximize stakeholder value in 2009-10. We also acknowledge the unstinted support of all stakeholders — our shareholders, employees and management, suppliers and vendors and the community — across the 26 years of our existence, and hope for its sustained continuation.

A. D. Baijal Chairman



### NOTICE

The TWENTY-SIXTH ANNUAL GENERAL MEETING of TATA SPONGE IRON LIMITED will be held at 'Lake View' (Officers' Recreation Centre), TSIL Township, Joda, Dist - Keonjhar, Orissa - 758 034, on Saturday, the 1st August, 2009, at 4-00 p.m. to transact the following business:

### **ORDINARY BUSINESS**

- To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2009 and the Balance Sheet as at that date together with the Report of the Board of Directors and the Auditors' Report
- 2. To declare a dividend.
- 3. To appoint a Director in place of Mr. N. P. Sinha, who retires by rotation and is eligible for re-appointment.
- 4. To appoint a Director in place of Mr. P. K. Lahiri, who retires by rotation and is eligible for re-appointment.
- 5. To appoint Auditors of the Company and to fix their remuneration

### **SPECIAL BUSINESS**

- To consider and if thought fit to pass, with or without modification, the following Resolutions as Ordinary Resolutions:
  - "RESOLVED that Mr. Sanjay Kumar Pattnaik, a Director liable to retire by rotation, who does not seek reelection, is not therefore re-appointed as Director of the company."
  - "RESOLVED FURTHER that the vacancy on the Board of Directors of the Company so created be not filled."
- 7. To consider and if thought fit to pass, with or without modification, the following Resolution as Ordinary Resolution:
  - "RESOLVED that Mr. S. P. Mehrotra be and is hereby appointed a Director of the Company."
- To consider and if thought fit to pass, with or without modification, the following Resolution as Ordinary 8. Resolution:
  - "RESOLVED that Mr. Rajesh Chintak be and is hereby appointed a Director of the Company."
- 9. To consider and if thought fit to pass, with or without modification, the following resolution as Ordinary Resolution:
  - "RESOLVED that in partial modification of the resolutions passed at the 24th Annual General Meeting held on 25th June, 2007, and 25th Annual General Meeting held on 14th July, 2008, in respect of appointment and remuneration payable to Mr. Suresh Thawani, Managing Director, and in accordance with the provisions of Sections 198, 269, 309 and 311 read with Schedule XIII of the Companies Act, 1956 and other applicable provisions of the Companies Act, 1956, and Article 112 of the Articles of Association of the Company, the Company hereby approves of the change in the remuneration applicable to Mr. Suresh Thawani (including remuneration to be paid in the event of loss or inadequacy of profits in any financial year during the tenure of his appointment) with authority to the Board/Committee of Directors to fix his salary within the pay scale, increasing thereby proportionately all benefits related to the quantum of salary, with effect from 1st April, 2009, for the remainder period of his current tenure, as set out in the Annexure to the Notice of Twenty-sixth Annual General Meeting."
- To consider and, if thought fit, to pass with or without modification the following resolutions as Ordinary Resolutions:
  - "RESOLVED that in supersession of the Resolution No.13 passed at the 24th Annual General Meeting of the Company held on 25th June, 2007, and pursuant to Section 293(1)(d) and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to the Board of Directors of the Company for borrowing from time to time any sum or sums of money on such terms and conditions as the Board may deem fit, which together with the monies already borrowed by the Company (apart from temporary loans obtained/to be obtained from the Company's Bankers in the ordinary course of business) may exceed the aggregate of the paid up capital of the Company and its free reserves, that is to say, reserves

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not set apart for any specific purpose, provided that the maximum amount so borrowed by the Board shall not at any time exceed Rupees One Thousand and Eight Hundred Crores."

"RESOLVED FURTHER that pursuant to the provisions of Section 293(1)(a) of the Companies Act, 1956, the Board of Directors be and is hereby authorised to secure the borrowings of monies as aforesaid with interest, costs, charges and other monies in such manner as they may think fit and for that purpose to execute mortgage, charge and/or hypothecation in respect of the whole or any part of the properties and assets of the Company, both present and future, and on such terms and conditions as the Board of Directors may think fit from time to time."

### Notes:

- 1) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL, VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. PROXIES, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY AT JODA, DIST-KEONJHAR, ORISSA, PIN 758 034, NOT LESS THAN 48 HOURS BEFORE THIS ANNUAL GENERAL MEETING.
- 2) The Register of Members and Share Transfer Books will remain closed from 16th July, 2009 to 22nd July, 2009, both days inclusive.
- 3) Dividend, if declared, will be paid to those shareholders, whose names appear on the Company's Register of Members/Register of Beneficial Owners as on 15th July, 2009. The payment will be made on or after 5th August, 2009.

Your dividend warrant is valid for payment by the Company's Bankers for three months from the date of issue. Thereafter, please contact our Share Registrars, M/s. TSR Darashaw Ltd., (formerly Tata Share Registry Ltd.) 6-10 Haji Moosa Patrawala Industrial Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai – 400 011, for revalidation of the warrants.

Please encash your dividend warrants immediately as the dividend amounts remaining unclaimed/unpaid at the expiry of 7 years from the date that becomes due for payment are required to be transferred by the Company to the Investor Education and Protection Fund established under Section 205C in terms of Section 205A of the Companies Act, 1956 and no payment shall be made in respect of any such unclaimed/unpaid dividend either by the Company or by the Fund.

- 4) The unclaimed dividend for the financial years 1993-94 and 1994-95 has been transferred to the General Revenue Account of Central Government and for the years 1995-96, 1996-97, 1997-98, 1998-99, 1999-2000 and 2000-01 has been transferred to Investor Education and Protection Fund. Members, who have not encashed their dividend warrant for 1993-94 and 1994-95 are, therefore, requested to claim the amount from the Registrar of Companies, Orissa, Chalachitra Bhawan (IInd Floor), Buxi Bazar, Cuttack-753 001.
- 5) Members, who have not encashed their dividend warrants issued for the years 2001-02, 2002-03, 2003-04, 2004-05, 2005-06 2006-07 & 2007-08 are requested to immediately forward the same for revalidation to our Share Registrars at their address given under (3) above, and get the encashment at the earliest.
- 6) Shareholders are requested to notify their bank particulars giving the name of the bank and the branch and the nature of account and also any change of address to the Company's Registrar and Share Transfer Agent, M/s.TSR Darashaw Ltd. Shareholders are hereby intimated that under instructions from the Securities and Exchange Board of India, furnishing of bank particulars by the shareholders has become mandatory.
- 7) In order to provide better service to the shareholders, the Company has introduced Electronic Clearing Service (ECS) for payments of dividend. Shareholders desirous of availing ECS facility may provide the required information to our Share Registrars at their address given under (3) above.
- Shareholders are hereby informed that the bank particulars given by them at the time of opening a depository account will be used by the Company for printing on the dividend warrants. This would ensure that the dividend warrants cannot be deposited in any account other than the one specified on the warrants. For the safety and interest of the shareholders, it is important that bank account details are correctly provided to the depository participants. The bank mandate for shares held in physical form will not be applied for shares held in electronic form.

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- 9) Section 109 A of the Companies Act, 1956 extends the nomination facility to individual shareholders of the Company. Therefore, the shareholders holding share certificates in physical form and willing to avail this facility may make nomination in Form 2B, which may be sent on request. However, in case of demat holdings, the shareholders should approach to their respective depository participants for making nominations.
- 10) Members, who have multiple accounts in identical names or joint names in same order are requested to intimate M/s.TSR Darashaw Ltd., the Ledger Folios of such accounts to enable the Company to consolidate all such share holdings into one account.

By Order of the Board of Directors

Kolkata 22nd April, 2009 S. S. Dhanjal Company Secretary

### ANNEXURE TO NOTICE

As required by Section 173 of the Companies Act, 1956, (hereinafter referred to as "the Act") the following Explanatory Statement set out all material facts relating to the business mentioned under item Nos. 6, 7, 8, 9 and 10 of the accompanying Notice dated 22nd April, 2009.

### Item No. 6

Mr. Sanjay Kumar Pattnaik, one of the Directors liable to retire by rotation at this meeting, has informed the company that he does not wish to seek re-appointment. A resolution pursuant to Section 256 of the Companies Act, 1956, is, therefore, necessary for not filling the vacancy caused by the retirement of Mr. Sanjay Kumar Pattnaik.

The Board commends acceptance of the resolution set out in Item No.6 of the convening Notice.

None of the Directors other than Mr. Sanjay Kumar Pattnaik is concerned or interested in the resolution at Item

### Item No. 7

The Board of Directors of the Company appointed Mr. S. P. Mehrotra as Additional Director of the Company w.e.f. 8th August, 2008, pursuant to Article 109 of the Articles of Association of the Company. Mr. Mehrotra will hold office as Director up to the date of the Twenty-sixth Annual General Meeting and is eligible for appointment. The Company has received from a member a Notice in writing in terms of Section 257 of the Companies Act, 1956, signifying his intention to propose the appointment of Mr.Mehrotra as a Director on the Board of Directors of the Company at the 26th Annual General Meeting.

The Board commends acceptance of the resolution set out in Item No.7 of the convening Notice.

None of the Directors other than Mr. S. P. Mehrotra is concerned or interested in the resolution at Item No.7 of the Notice.

### Item No. 8

The Company has received from a member a Notice in writing in terms of Section 257 of the Companies Act, 1956 signifying his intention to propose the appointment of Mr. Rajesh Chintak as a Director on the Board of Directors of the Company at the forthcoming Annual General Meeting.

Mr. Rajesh Chintak is presently working with Tata Steel Ltd. at Bhubneswar in the capacity as Chief Resident Representative (Orissa). His experience and knowledge would be of immense help to the company.

The Board commends acceptance of the resolution set out in Item No.8 of the convening Notice.

None of the Directors is concerned or interested in the resolution at Item No. 8 of the Notice.

### Item No. 9

The Shareholders at their 24th Annual General Meeting held on 25th June, 2007 approved the appointment and remuneration of Mr. Suresh Thawani as Managing Director of the Company with effect from 10th March, 2007 to 9th March, 2010 or attaining the age of 60 years, whichever is earlier upon the terms and conditions set out in the Explanatory Statement, which includes fixation of salary in the scale of Rs.50,000 – Rs.1,20,000 per month with

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annual increments effective 1st April every year as may be decided by the Board based on certain criteria. Subsequently, at the 25th Annual General Meeting held on 14th July, 2008, the shareholders had revised the pay scale of Mr. Suresh Thawani, Managing Director, from Rs.50,000 – Rs.1,20,000 to Rs.80,000 to Rs.1,50,0000 per month with effect from 1st April, 2009.

Now it is proposed that the pay scale of Mr. Suresh Thawani, Managing Director, be revised to Rs.80,000 - Rs.2,50,000 per month (with proportionate increase in the value of the benefits related to salary) with effect from 1st April, 2009 for the remainder period of his current tenure with the authority to the Board/Committee to fix his salary within the pay scale from time to time. The annual increment will be merit based and take into account the Company's performance.

All other terms and conditions of his appointment and remuneration as approved by the Board in its meeting held on 7th March, 2007, and by the Shareholders at the 24th Annual General Meeting held on 25th June, 2007 will remain unchanged.

The draft agreement of variation between the Company and Mr. Suresh Thawnai is available for inspection at the Registered Office of the Company between 11-00 a.m. and 1-00 p.m. on any working day of the Company.

The Board commends acceptance of the resolution set out in Item No.9 of the convening Notice.

None of the Directors other than Mr. Suresh Thawani is concerned or interested in the Resolution at Item No.9 of the Notice.

This may also be treated as an abstract of the draft agreement of variation between the Company and Mr.Suresh Thawani pursuant to Section 302 of the Companies Act, 1956.

### Item No. 10

Under Section 293(1)(d) of the Companies Act, 1956, the Board of Directors cannot, except with the consent of the Company in general meeting, borrow monies apart from temporary loans obtained from the Company's bankers in the ordinary course of business, in excess of the aggregate of the paid up capital and free reserves of the company, that is to say, reserves not set apart for any specific purpose.

The shareholders at the 24th Annual General Meeting held on 25th June, 2007, had accorded their consent to the Board of Directors for borrowing up to Rs.600 crores.

In view of the Company's fund requirements in the near future for development of its coal block, installation of washeries, power generation and transmission facilities, further expansions, acquisitions, growing operations etc. it is considered desirable to enhance this limit to Rs.1800 crores.

The Board, accordingly, commends acceptance of the resolutions set out in Item No. 10 of the convening Notice.

None of the Directors of the Company is concerned or interested in the resolution at Item No. 10 of the Notice.

By Order of the Board of Directors

Kolkata 22nd April, 2009

S. S. Dhanjal Company Secretary

# DETAILS OF DIRECTORS SEEKING APPOINTMENT/REAPPOINTMENT IN TWENTY-SIXTH ANNUAL GENERAL MEETING

(In pursuance of Clause 49 of Listing Agreements)

Details of shareholding (both own or held by/for other persons on a beneficial basis), if any, in the Company	Chairman/Member of the Committees of the Board of Directors of other Companies in which he is a Director (excluding in foreign companies).	List of other Companies in which Directorship held (excluding in foreign companies)	Expertise in specific functional areas	Date of appointment	Qualifications	Date of birth	Name of the Director(s)
1000 shares held in his name	1) Chairman of Remuneration Committee of Tata Pigments Ltd. 2) Member of Remuneration Committee of Steel City Press Ltd. 3) Member of Audit Committee and Remuneration Committee of Jamshedpur Utility and Services Company Ltd. 1) Chairman of Audit Committee and Member of Remuneration Committee of Indian Steel & Wire Products Ltd.	Jamshedpur Utility and Services Company Ltd.     Tata Pigments Ltd.     Indian Steel & Wire Products Ltd.     Steel City Press Ltd.	Engineer	18-01-2002	B.Sc.Engg.(Elect.), PGDM 1 & S	21-01-1939	Mr. N. P. Sinha
2	Chairman of Remuneration Committee, Member of Audit Committee and Shareholders' Grievance Committee of Bharat Seats Ltd.	1) Shiv Vani Oil & Gas Exploration Services Ltd. 2) Bharat Seats Ltd. 3) Viswakriya Housing Finance Ltd.	Retired IAS	28-01-1997	M.A. (History), Dip (Development Studies), UK	28-04-1937	Mr .P.K. Lahiri
N <sub>3</sub>	None	Uranium Corporation of India Limited	Process Metallurgy, Mathematical Modeling & Simulation, Process Design, Development and control in Extractive Metallurgy.	08-08-2008	M.Tech (Met. Engg.,) & Ph.D in Met. Engg.	26-4-1947	Mr .S.P. Mehrotra
Z	Member of Audit Committee of Rawmet Ferrous Industries Ltd.	Rawmet Ferrous Industries Ltd.	Power Engineering, Business Excellence, Business Management, Greenfield project.	01-08-2009	· B.Tech (Elec. Engg.)	10-10-1967	Mr. Rajesh Chintak

Note: Directors of the company do not have any inter-se relationship



### TATA SPONGE IRON LIMITED

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# Cheers and Chils

Across the globe, 2008-09 would be known as the two-faced year. The first two quarters gave reason for cheers, the last two, chills. Q1 and Q2 saw Tata Sponge Iron Limited riding high on a buoyant iron and steel market, enjoying its highest net realizations ever. Post October 2008, when the world grappled with the shock of global recession and the consequent meltdown, we at the Company also felt the ripples. Sponge iron prices dropped dramatically and sometimes touched almost the cost of production.

# Sponge iron and power

Yet, as we reach this fiscal year's finishing line, we have a PBT of Rs. 181.17 crore, an increase of 33 % from last year. The reason: a heartening mix of strong fundamentals of the company.

While sponge iron profits from the first two quarters gave us a comfortable lead, the solid contributors of Q3 and Q4 were our two power stations, which generated approximately 181 million units. We sold power to the Joda grid coupled with operational cost reduction measures.

Power is a recession-proof commodity and sponge iron isn't. Remaining profitable through the meltdown needs internal excellence. For any company, the big picture lies within. This realization inspired us to look inwards. Resulting in some profound transformations that will benefit the company in times good and bad.

# **Looking Inward**

First and foremost, we are stretching our intellectual capital to become a knowledge company. The pioneering e-associates Programme introduced last year, matured this year. It empowered our people with more vision, ownership and accountability. This year, we initiated a Daily Management Programme for officers to build their capacities for problem solving and changing mindsets. Second, we tackled a key

operational crisis — kiln shutdowns — through Critical Change Project Management process to optimize shutdown time. Third, we stressed on people motivation through a slew of measures: salary restructuring with separate fixed and variable pay segments, performanceoriented pay, custom-made Key Result Areas (KRAs), a personalized company newsmagazine called Sponge Times and more. Fourth, we accelerated our internal training in a cost-friendly and effective manner: hiring faculty from premier institutes to train more employees in-house instead of sending few people out. Fifth, we simultaneously overhauled and streamlined our human resource processes and systems for more stakeholder transparency and accessibility. Sixth, we intensified efforts to ensure both supplier and customer delight, as both are critical to our health. Last but not the least, we prioritized on our backward integration and growth: as a backward integration initiative, we are acquiring land in a phased manner for our ambitious captive coal block, and as growth initiatives, we are looking at a new railway siding for better logistics, timely arrival and delivery and elimination of demurrage among others.

# Small Steps, Big Strides

With us, corporate sustainability goes way beyond feelgood jargon. It's evident in the way we became the first company in the TATA Group to earn carbon credit from our green power generating initiatives. We have widened Total Productivity Maintenance across every sector of the plant. It's visible in this year's Halla Bol ("Speak Out") campaign to facilitate institutionalized autonomous plant maintenance, demarcating 10 zones within the plant area. We're waging war on pollution and waste, following the 5S path (Organization, Neatness, Cleanliness, Standardization and Discipline) to workplace management, earning kudos, credit and cash! Our community development footprints are visible across 50 villages in five Gram Panchayats. And Vidya Shakti Niyas, an NGO started and run by the spouses of the company's officers, empowered by funds from the sale of bricks recycled from fly ash, has even adopted a village, Kanhupur. This reporting year, we carried our commitment to the community a step further; community volunteering is now formatted in most officers' KRAs.