



**TATA** SPONGE IRON LIMITED



## INNER RESILIENCE

29<sup>th</sup> Annual Report, 2011-12

# Contents



01	Corporate Information
02	Chairman's Statement
03	Notice
07	Triple Bottom Line Report
14	Directors' Report
19	Managing Director's Declaration
20	Management Discussion & Analysis
23	Auditors' Report
26	Balance Sheet
27	Statement of Profit and Loss
28	Cash Flow Statement
29	Notes to the Financial Statements
44	Report on Corporate Governance
54	Corporate Governance Compliance Certificate
55	Financial Statistics

## PERFORMANCE HIGHLIGHTS 2011-12

### FINANCIAL

Total Revenue	Rs. 65,693.38 lac
Profit Before Tax	Rs. 11,207 lac
Profit After Tax	Rs. 7,568 lac
Dividend	Rs. 8 per equity share ( 80 %)
Return on Capital Employed	13.31 %
Earning per Share	Rs. 49.14

### OPERATIONAL

#### Sponge Iron

Installed capacity	3,90,000 MT
Production	2,72,106 MT
Despatch	2,73,766 MT

#### Power

Installed capacity	227.76 Million KWH (26 MW)
Generation	134.39 Million KWH
Sale	88.31 Million KWH

The Twenty-ninth 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 Friday, the 20th July, 2012 at 10-30 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.

# TATA SPONGE IRON LIMITED

Twenty-ninth Annual Report, 2011-12

## BOARD OF DIRECTORS

[As on 23rd April, 2012]

Mr. A. M. Misra (Chairman)  
 Mr. N. P. Sinha  
 Mr. Dipak Kumar Banerjee  
 Mr. P. C. Parakh  
 Mr. S. P. Mehrotra  
 Mr. K. K. Varughese  
 Mr. Arun Misra  
 Mr. Rajesh Chintak  
 Mr. Manoj T. Thomas  
 Mr. Suresh Thawani (Managing Director)

## MANAGEMENT TEAM

[As on 23rd April, 2012]

Mr. Suresh Thawani	Managing Director
Mr. Partha Chattopadhyay	Chief Operating Officer (Sponge Business)
Mr. Ujjwal Chatterjee	Chief Operating Officer (Coal Business)
Mr. S. K. Mishra	Chief (Finance & Accounts)
Mr. S. S. Dhanjal	Company Secretary

### Bankers

State Bank of India  
 Canara Bank

### Auditors

M/s. Deloitte Haskins & Sells  
 Chartered Accountants

### Cost Auditors

M/s. Shome & Banerjee  
 Cost Accountants

### Registered Office & Works

Post - Joda  
 Dist - Keonjhar  
 Orissa 758 034  
 Tel No : (06767) 284236  
 Fax No : (06767) 278159  
 E-mail : info@tatasponge.com  
 Website : www.tatasponge.com

### Share Registrars

M/s. TSR Darashaw Ltd.  
 6-10 Haji Moosa Patrawala  
 Industrial House  
 20, Dr. E. Moses Road  
 Near Famous Studio  
 Mahalaxmi  
 Mumbai - 400 011.  
 Tel No : (022) 66568484  
 Fax No : (022) 66568494  
 E-mail : csg-unit@tsrdarashaw.com  
 Website: www.tsrdarashaw.com



**CHAIRMAN'S STATEMENT**

*Dear Shareholders,*

*In continuation of my half yearly communication, I have now pleasure in presenting to you the performance of your company for full year 2011-12.*

*During the year the Company produced 2,72,106 MT of sponge iron compared to 3,83,002 MT in the previous year registering a shortfall of 1,10,896 MT in production. As communicated earlier, though there were no operational problems in the plant, only the shortage of Iron Ore forced the company to operate the Kilns at reduced capacity. Prime reason for the shortage of iron ore was unrest by villagers surrounding the supplier's mine leading to disruption in transportation. The situation worsened by disruption in the transportation due to flash floods in September, 2011 leading to erosion of the road. However, the transportation scenario improved to some extent towards the end of the year. Consequent to the lower production of sponge iron, the sales remained at 2,73,766 MT compared to 3,80,273 MT in the previous year. On the power front, the company generated 134.39 million units (previous year - 191.37 million units) and sold 88.31 million units (previous year 133.77 million units). Production and sale of power was in tandem with the sponge iron production as power is produced by recovering heat from the waste gases of the kilns.*

*The price of two major raw materials, i.e. coal and iron ore, witnessed steep rise during the review period mainly due to higher international prices and demand-supply pressure. There was an increase in the selling price of Sponge Iron albeit not covering the full increase in the raw material cost. An increase in the other income contributed to higher margin. Therefore, despite lower production and dispatches, the company achieved a somewhat satisfactory Profit Before Tax at Rs. 112.07 crore (Rs. 150.28 crore in the previous year) and Profit After Tax at Rs. 75.68 crore (Rs. 101.34 crore in the previous year). Consequently, Earnings Per Share decreased to Rs. 49.14 per share (Rs. 65.80 per share). The Company remained debt free during the year.*

*Significant progress has been made towards the development of coal block. The first phase of land acquisition was nearing completion when the process took a pause for some time due to some dispute arising out of process being followed by the Government of Odisha. There is considerable progress on the fronts of statutory clearances. The entire funding has so far been made out of internal generations. The coal block is now expected to be operational in next two years.*

*The commencement of project work for installation of AFBC Boiler based power plant (of 25 MW capacity) is pending for want of necessary statutory clearances, change in eco-dynamics etc. The Board is regularly reviewing the status.*

*The company continued its march towards improvement of processes as per Tata Business Excellence Model and also won three prestigious awards during the year, namely- HRD Thinker Award, National Quality Award from Indian Institute of Metal and CII(Eastern Region) Quality Award.*

*I would like to thank the office bearers and members of Tata Sponge Shramik Sangh for their support and cordial industrial relations. I would also like to take this opportunity to acknowledge the unstinted support of all stakeholders - our shareholders, customers, employees and management, suppliers, the community, the state and central government agencies and hope for better times ahead.*

A. M. Misra  
Chairman

Jamshedpur  
23rd April, 2012

## NOTICE

THE TWENTY-NINTH 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 Friday, the 20<sup>th</sup> July, 2012, at 10-30 a.m to transact the following business :

### ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Statement of Profit and Loss for the year ended 31<sup>st</sup> March, 2012 and the Balance Sheet as at that date together with the Report of the Board of Directors and the Auditors' Report thereon.
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. Rajesh Chintak, who retires by rotation and is eligible for re-appointment.
5. To appoint Auditors of the Company and to fix their remuneration

### SPECIAL BUSINESS

6. To consider and if thought fit to pass, with or without modification, the following Resolutions as Ordinary Resolutions :  
“RESOLVED that Mr.S. Srikanth be and is hereby appointed as Director in place of Mr.S.P. Mehrotra, a Director liable to retire by rotation but who does not seek re-election.”
7. To consider and if thought fit to pass, with or without modification, the following Resolution as Ordinary Resolution :  
“RESOLVED that Mr.Manoj Thankachan Thomas be and is hereby appointed a Director of the Company.”
8. Commission to Directors other than Managing and Whole-time Directors :  
To consider and if thought fit to pass, with or without modification, the following Resolution as Special Resolution :  
“RESOLVED that pursuant to the provisions of Section 309 and other applicable provisions, if any, of the Companies Act, 1956, a sum not exceeding one percent per annum of the net profits of the Company calculated in accordance with the provisions of Sections 198, 349 and 350 of the Act, be paid to and distributed amongst the Directors of the Company or some or any of them (other than the Managing Director and the Whole-time Directors) in such amounts or proportions and in such manner and in all respects as may be directed by the Board of Directors and such payments shall be made in respect of the profits of the Company for each year of the period of five years commencing 1<sup>st</sup> April, 2012.”

#### 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 4<sup>th</sup> July, 2012 (Wednesday) to 10<sup>th</sup> July, 2012 (Tuesday) 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 3<sup>rd</sup> July 2012. The payment will be made on or after 24<sup>th</sup> July, 2012.  
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 House, 20, Dr.E. Moses Road, Near Famous Studio, 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 to 2003-04 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, Corporate Bhawan, 3rd Floor, Plot No. 9(P), Sector 1, CDA, Cuttack - 753014.
- 5) Members, who have not encashed their dividend warrants issued for the years 2004-05 to 2010-11 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.
- 8) 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.
- 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.
- 11) **Members will be sent soft copy of the annual report at their e-mail ID with Depository Participants, unless they expressly request for physical copy of the annual report.**

By Order of the Board of Directors

**S.S. Dhanjal**  
Company Secretary

Jamshedpur  
23<sup>rd</sup> April, 2012

## 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**, of the accompanying Notice dated 23<sup>rd</sup> April, 2012.

### Item No.6

Mr.S.P. Mehrotra, 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. Therefore, it is proposed to appoint Mr.S. Srikanth as a Director on the Board of Directors of the company (in place of Mr.S.P. Mehrotra) at the forthcoming Annual General Meeting. 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.S. Srikanth as a Director on the Board of Directors of the company at the forthcoming Annual General Meeting.

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

None of the Directors other than Mr.S.P. Mehrotra is concerned or interested in the resolution at Item No. 6 of the Notice.

**Item No.7**

The Board of Directors of the company appointed Mr. Manoj Thankachan Thomas as Additional Director of the company w.e.f. 12<sup>th</sup> September, 2011, pursuant to Article 109 of the Articles of Association of the company. Mr. Thomas holds office as Director up to the date of the Twenty-ninth 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. Manoj Thankachan Thomas as a Director on the Board of Directors of the Company at the forthcoming 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. Manoj Thankachan Thomas is concerned or interested in the resolution at Item No.7 of the Notice.

**Item No.8**

The shareholders at their meeting held on 14<sup>th</sup> July, 2008, have authorised the Board by passing a Special Resolution to remunerate the non-executive directors out of the profits of the company for each year for a period of five years commencing from 1<sup>st</sup> April, 2007. The said period of five years has expired on 31<sup>st</sup> March, 2012. Therefore, the Board of Directors in its meeting held on 23<sup>rd</sup> April, 2012, decided that, subject to approval of the shareholders, in terms of Section 309 (4) of the Companies Act, 1956, the Non-executive Directors be paid for each of the five financial years of the company commencing from 1<sup>st</sup> April, 2012, remuneration not exceeding 1% per annum of the net profits of the company computed in accordance with the provisions of the Act. This remuneration will be distributed amongst all or some of the Non-executive Directors in accordance with the directions given by the Board.

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

All the Directors of the company, except Mr. Suresh Thawani, Managing Director, are concerned or interested in the Resolution at Item No.8 of the Notice to the extent of the remuneration that may be received by them.

By Order of the Board of Directors

**S.S. Dhanjal**  
Company Secretary

Jamshedpur  
23<sup>rd</sup> April, 2012

**DETAILS OF DIRECTORS SEEKING APPOINTMENT AND RE-APPOINTMENT IN TWENTY-NINTH ANNUAL GENERAL MEETING**

(In pursuance of Clause 49 of Listing Agreement)

Name of the Director(s)	Mr.N.P. Sinha	Mr.Manoj T. Thomas	Mr.S. Srikanth	Mr. Rajesh Chintak
Qualifications	B.Sc.Engg. (Elect.), PGDBM, I&S	BE (Civil), PGDRM, M.Phil (Economics), Fellow (IRMA), Strategic Management	M.E. Metallurgy Ph.D. Metallurgy Post Doctoral Fellow, McMaster University, Ontario, Canada.	B.Tech (Elec. Engg.)
Date of appointment	18-01-2002	12-09-2011	20-07-2012	01-08-2009
Expertise in specific functional areas	Engineer	Strategic Management, Resource based strategy, Contemporary Management practices, etc.	Thermodynamics and Kinetic modeling and measurements of Metallurgical process, Extraction of Metals from lean and complex ores, Mechano-chemical activation of minerals, Intermediate temperature Solid Oxide Fuel Cells, Failure analysis of engineering components, High temperature corrosion.	Power Engineering, Business Excellence, Business Management, Manganese and Greenfield project.
List of other Companies in which Directorship held (excluding in foreign companies)	1] Jamshedpur Utility & Services Co.Ltd. 2] The Indian Steel and Wire Products Ltd. 3] Steel City Press Ltd.	Nil	Nil	T.S. Alloys Ltd., Gopalpur Special Economic Zone Ltd., Kalinga Aquatics Ltd., TRL Krosaki Refractories Ltd.
Chairman/Member of the Committees of the Board of Directors of other Companies in which he is a Director (excluding in foreign companies).	1] Member of Audit Committee and Remuneration Committee of Jamshedpur Utility & Services Co.Ltd 2] Chairman of Audit Committee and Member of Remuneration Committee of The Indian Steel and Wire Products Ltd. 3] Member of Remuneration Committee of Steel City Press Ltd.	Nil	Nil	Member of Audit Committee of T.S. Alloys Ltd.
Details of shareholding (both own or held by/for other persons on a beneficial basis), if any, in the Company	1000 shares held in his name	Nil	Nil	Nil

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



## Triple Bottom Line Report

# Inner Resilience

The year 2011-12 was a tough year for Tata Sponge Iron Ltd. (TSIL). The reasons were external - the worst ever man-made raw material crisis affecting logistics, unprecedented floods which led to outage of capacity and lower availability of sponge iron to the customers to the tune of 27%. After a record breaking year of production of 3,83,002 tonnes in 2010-11, the company was hit by severe shortage of one of its key raw materials, namely iron ore, compelling TSIL to operate its kilns at reduced capacity. This led to a slump in production by 1,10,896 tonnes. And, yet TSIL strived against all odds and managed to remain profitable. The adversity taught the company to stretch itself and, in the process, managed to bring out the best in both its men and its machines. What really made the difference was TSIL's ability to make process adjustments, produce consistent quality product that the customers have come to appreciate, a proactive marketing team that kept communication with customers open and last, but not the least, the inner resilience of its people. It is said, 'When the going gets tough, the tough get going.' In 2011 -12, TSIL was a living embodiment of it.

### Riding the tough times

#### Raw Materials Scenario:

TSIL's two main raw materials, coal and iron ore, account for bulk of production costs. Supply of iron ore from the regular source was affected due to various problems stated above. Hence it was virtually impossible for TSIL to procure iron ore from outside, being a short term player. Scarcity of iron ore also resulted in its higher price.

During the year truckers disrupted the supply chain by charging higher rates and holding up movement of materials. The district administration also imposed restriction on plying of heavy vehicles during the day time. Rail transportation of iron ore will hopefully make a significant difference and address this problem adequately. The extension of the railway siding (work-in-progress) will help TSIL source iron ore from Joda mines by railway rakes.

In case of the other key raw material, coal, domestic prices shot up by 50-100% over the previous year. The price of imported coal, however, remained stable. In fact the domestic coal prices matched those of imported coal. TSIL has been importing coal from South Africa. It continued to use a mix of imported and domestic coal to meet its requirements.

Looking forward, operational costs would be lowered when the company's captive coal block at Angul gets operational. Certain procedural issues have delayed the process of coal block development, but all these issues are being adequately addressed.

### Rising to the occasion

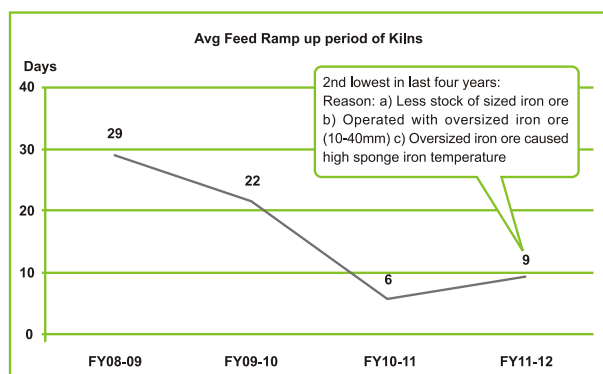
#### Operations:

Despite constraints, the company produced 2,72,106 tonnes of sponge iron in 2011-12. Operations at the plant were hit due to non-availability of iron ore forcing TSIL to operate its kilns at reduced feed leading to capacity loss. Power production also suffered due to frequent shut downs in the plant. Therefore, the company could produce 134.39 million kwh in 2011-12 compared to 191.37 million kwh in the previous year.

While TSIL has 3 kilns there were times when it was difficult to operate even a single kiln due to input scarcity. In the face of such operational constraints, the silver lining was the company's workforce and their 'never say die' attitude. While the grim situation on the raw material front led to a drop in morale, TSIL workforce managed to pick up production seamlessly as soon as availability of iron ore improved. This was clearly a break from the past experience. In more ways than one, it was also perhaps the highpoint of TSIL's achievements in the year. While the company took 21 days to reach full production level of a kiln earlier, this ramp up time has drastically come down to achieve full production in just nine days on an average. This is also the reason why the plant managed to keep its head above water in times of such crisis. A host of human resource initiatives had paved the way for this achievement. The motivation of the workforce was carefully honed through initiatives like Tata Business Excellence Model (TBEM), Total Productive Maintenance (TPM), e-associates programme, and a series of confidence-building exercises.

Raw material usage is more or less a standard depending upon its quality and hence, huge changes are not possible in any given year. However, TSIL recorded improvement in specific consumption of raw materials, which was better than the previous year.

TSIL has already set a benchmark in Overall Equipment Efficiency (OEE) in its industry sector. It had reported the longest kiln operating days of 351 in 2010-11. It achieved an OEE of 87% up from 77% in the previous year.



### Market Scenario:

The market for sponge iron was stable during the year. TSIL managed to fetch higher than expected prices due to quality of goods and services. The supply of iron ore was severely constrained during the year. While there was shortage due to ban on iron ore mining in Karnataka and in Odisha, iron ore supplies to TSIL were hit badly too, albeit totally for different reasons. Higher iron ore prices led to closure of a few units leading to a 15-20% shortfall of sponge iron in the market. This led to firming up of sponge iron prices. TSIL stretched itself to fill in the demand and it helped the company remain profitable in an otherwise difficult year.

During the year, the Marketing Department managed to sell the company's waste products in higher volumes. This generated additional revenues of Rs 24 crore on selling iron ore fines and coal fines. These fines come out as a result of screening before feeding to the sponge iron manufacturing process. Since iron ore fines and coal fines cannot be used in its kilns, every year TSIL sells it but in smaller quantities. This year TSIL managed to sell fines in larger quantities and at higher prices. This revenue boosted the bottomline and, to an extent, also made up for the production loss.

### Finance:

Despite a difficult year, TSIL's efforts to work its way around adversities helped it earn decent profits. During the year, the company faced iron ore shortages that forced it to cut down production. The shortage of iron ore compelled closure of a number of smaller units. This increased demand for sponge iron and also firmed up the price.

TSIL deployed its surplus cash by investing in short term deposits. This helped the company generate a good interest income. Thus even in a tough year, TSIL managed to declare 80% dividend and offer good returns to its shareholders. TSIL remains a debt-free company and its cash and cash equivalent to nearly Rs.220 crore as on March 31, 2012, are comfortable. It has already invested Rs. 170 crore on developing the coal block. With decent funds TSIL will be in a position to make an additional investment in coal block without recourse to borrowing in near future.

### A Relentless Pursuit

#### Quality:

Since TSIL could not use its full capacity due to reasons beyond its control, it instead decided to use the opportunity to focus on making its systems and processes more robust. It made a number of changes and improvements in its processes and engineering systems and these positively impacted TSIL's quality drive. It won the CII (Eastern Region) Quality Award for the second time in a row and the National Quality Award instituted by the Indian Institute of Metals, where it won the first prize under pig iron, rolling mill, DRI category. It also affirmed the company's relentless drive and commitment towards quality in every sphere of activity. In this, reduction in standard deviation of Fe (Metallics) in product from 2.5 to 1.89 was also a significant milestone which could be achieved due to many changes incorporated in the process. This also helped achieve zero customer complaint and having satisfied customers. Several changes were incorporated in the process to achieve better carbon utilisation

With a number of initiatives TSIL has controlled the percentage of carbon in fly ash to a level below 5%. Carbon is better utilized for heat generation in Post Combustion Chamber and in boiler for generation of steam. All these measures have resulted in better utilization of energy from coal and reduction in the coal cost.

From the point of view of customers, TSIL despatched 2,73,766 tonnes of sponge iron without a single complaint. There has been no problem reported by any customer with respect to weight and/or quality - two traditional causes of complaints. To achieve zero complaints in dispatches, TSIL had a single-minded focus on maintenance and planning. The company is trying to bring in the Plan, Do, Check, Act or 'PDCA' culture.