

TATA SPONGE IRON LIMITED

Integrated Report & Annual Accounts **2018-19**



Nurturing 'value-accretive' growth



Index

Corporate Profile

Overview

Key Highlights FY 2018-19	03
Key Milestones	04
Tata Sponge at a Glance	06
Key Performance Indicators	08
Chairman's Message	10

Value-creation Process

Operating Context	12
Business Model	14
Stakeholder Engagement and Key Issues	16
Strategic Framework	18

Value Realisation

Insight and Innovation	20
Trusted Partners	24
Operations and Technology	28
Human Resource	32
Sustainable Business	38

Governance

Risks and Opportunities	42
Board of Directors	44

Outlook

46

Statutory Reports

Directors' Report	48
Management Discussion and Analysis Report	77
Report on Corporate Governance	82

Financial Statements

Standalone

Independent Auditors' Report	100
Balance Sheet	108
Statement of Profit & Loss	109
Statement of Changes in Equity	110
Cash Flow Statement	111
Notes to Accounts	112

Consolidated

Independent Auditors' Report	158
Balance Sheet	164
Statement of Profit & Loss	165
Statement of Changes in Equity	166
Cash Flow Statement	167
Notes to Accounts	168

Notice	215
--------	-----



For more details, visit our website
www.tatasponge.com

"As the country's leading merchant sponge iron manufacturer, we took steps to capitalise on the growing steel demand. During the year, we enhanced our sales volumes and going way beyond the industry average of ~60% capacity utilisation, we achieved a capacity utilisation of 112%."

T. V. Narendran
Chairman



About the Report



With this Integrated Report & Annual Accounts 2018-19, Tata Sponge Iron Limited ('Tata Sponge') presents to all its stakeholders a narrative on its value-creation process and its performance during FY 2018-19. The Report presents balanced information on Tata Sponge's performance and summarises its governance, strategic framework, its value paradigm, its opportunities and its future prospects in a comprehensive manner. Apart from the Company's financial performance, the report covers the non-financial aspects, including operational, environmental and social performance.

The report provides an account of the material issues, their impact on the Company's value-creation process and the Company's strategic responses towards addressing these material issues.

Standards and framework

The Report is based on the guiding principles and content elements of the International Integrated Reporting

<IR> Framework recommended by the International Integrated Reporting Council (IIRC). The other statutory reports, including the Directors' Report, Management Discussion and Analysis (MDA) and the Corporate Governance Report, are as per the Companies Act, 2013 (including the rules framed thereunder), Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the revised Secretarial Standards issued by the Institute of Company Secretaries of India. The financial statements are as per the Indian Accounting Standards.

Scope and boundary of the Report

The reported information for FY 2018-19 covers the Company's manufacturing operations at Joda, Keonjhar, district Odisha and its corporate offices at Bhubaneswar and Kolkata. The report also covers the Company's sales and marketing activities, its initiatives across the value chain, as well as its community

initiatives. Comparative figures for the last five years have been incorporated, wherever thought fit.

Materiality

The report presents information on all the issues that are identified as material by the Company. These issues have significant business impacts and are key to the Company's value-creation process.

Assurance

The financial information in the Report has been audited by an authorised external auditor – Price Waterhouse & Co Chartered Accountants LLP (Pw).

Besides, the senior management of the Company has been closely involved in reviewing the non-financial information in the report and undertakes the responsibility for ensuring the integrity of the information.



Nurturing 'value-accretive' growth

Value-accretive growth is our overarching objective that drives our short-term and long-term strategies in a dynamic industry scenario.

We strive to grow and retain value in every facet of the business – from seeking organic and inorganic growth opportunities, focussing on capacity expansion and operational excellence cultivating and empowering the future talent pool and also optimising resources and developing sustainable communities.

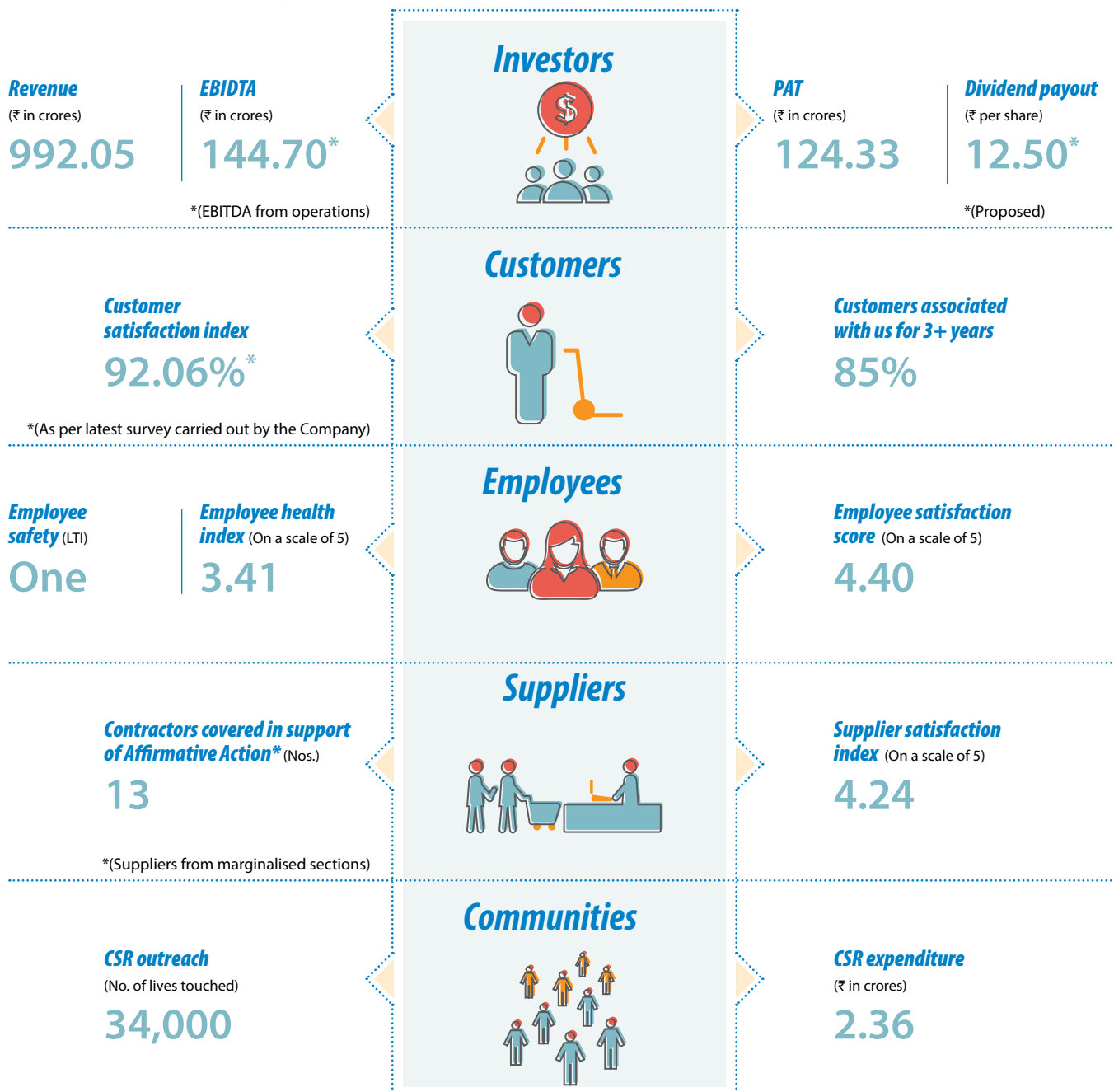
For more than 15 years, we have continued our operations with an uninterrupted track record of dividend payments to our investors. Our 112% capacity utilisation rate during the year was far ahead of industry average and remains a high benchmark

of operational excellence. Of the multiple enablers that help us achieve excellence, constant focus on resource optimisation and yield maximisation have been of paramount importance to us.

During the year, we continued to follow our strategy of value-accretive growth by delivering high-quality product, engaging more with customers and creating strong market recognition as an outperforming sponge iron brand. We are strengthening the overall integration of our business, drawing on the synergies of our parent company, Tata Steel and the Tata group to fast-track growth.

Most importantly, our sustainability commitment underpins our growth endeavours. We continue to remain committed to the safety and wellness of our people, a greener planet, and healthier and happier communities. Holistically speaking, this is our interpretation of value-accretive growth.

Sustainable value accretion



Overview > **Key Milestones**

Decades of value creation

1982

Commencement of our journey



Started as IPITATA Sponge Iron Limited, a joint venture between Tata Steel Limited and the Industrial Promotion & Investment Corporation of Orissa Limited (IPICOL), using TISCO Direct Reduction (TDR) technology

2008

Towards industry leadership



Established benchmark performance in the industry by improving equipment efficiencies, reducing costs and following Total Productive Maintenance (TPM)

1991

Emerging stronger



Tata Steel acquired IPICOL's entire stake and Tata Sponge became an associate company of Tata Steel

1998

Adoption of clean technology



Ventured into clean energy production through Waste Heat Recovery Boilers (WHRB)

Value creation is a continuous journey for us that is both exciting and eventful. It takes into account the changing expectations of customers and other stakeholders, shifting market dynamics and regulations, technology transformations and emerging opportunities for organic and inorganic growth in India and globally.

2017

Paving the way for next-level growth



Received an approval from the Ministry of Environment, Forest and Climate Change, Government of India, for enhancement of sponge iron production by 35,000 MT (i.e., from 3,90,000 MTPA to 4,25,000 MTPA) in the existing facility

2019

Ushering in a new growth era



Foray into steel manufacturing business and prepare for forward and backward integration

Received an approval from the Ministry of Environment, Forest and Climate Change, Government of India, for enhancement of sponge iron production by 40,000 MT (i.e., from 4,25,000 MTPA to 4,65,000 MTPA) in the existing facility



Here onwards

Tata Sponge is prepared to leverage the opportunities of forward and backward integration. As part of the Tata Steel group, we are trying to better leverage on the synergies with our parent company, and present an attractive value proposition to our stakeholders.

We want to further strengthen our accessibility to raw materials and enter into steel manufacturing, especially with an enhanced focus on long products.

Overview > **Tata Sponge at a Glance**

Integrated excellence is an exciting marathon

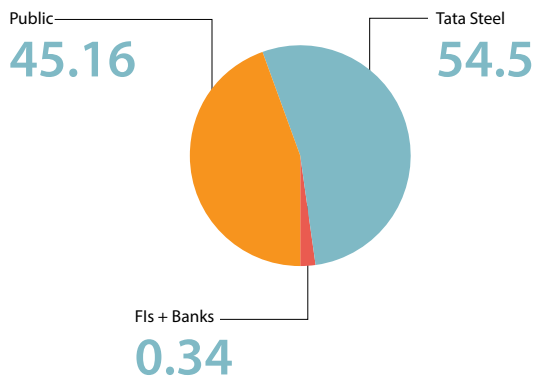
We have emerged as India's largest manufacturer of merchant sponge iron and aspire to be the benchmark in coal-based sponge iron operation by adopting best practices, innovating and exploring new opportunities for investment in our value chain.

We are a subsidiary of Tata Steel, the world's 10th largest steel maker by crude steel production volume in 2017*.

We embody the ethos of the Tata group which believes in 'Leadership with Trust' and are guided by our strong fundamentals.

*World Steel Association, 2018

Shareholding Patterns (%)



As at March 31, 2019

We are guided by our vision and instil our values in what we do.

Vision

Tata Sponge shall endeavour to be a sustainable and learning organisation for setting a benchmark in creating value in the sponge iron business, so as to meet the aspirations of its stakeholders. It shall do so through the pursuit of operational excellence and by adopting opportunities of new investments in its value chain. While doing so, Tata Sponge shall continue to remain a responsible corporate citizen.

Mission

Tata Sponge shall always contribute towards the progress of the nation through economic value creation. In doing so, and consistent with the Tata group's purpose, it will also try to improve the quality of life in its sphere of influence, by contributing to society, from what it earns.



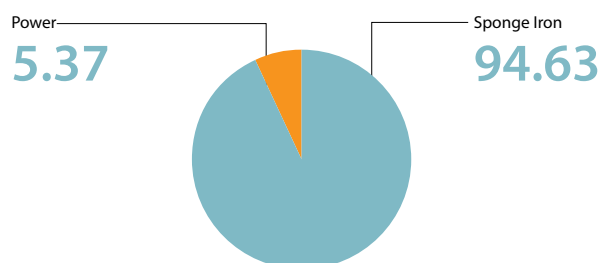
We leverage our inherent strengths to pursue our vision and live by our values, and power our business to outperform consistently.

With a consistent focus on quality and operational excellence, we have set an industry benchmark in terms of capacity utilisation.

We have an installed capacity of 390,000 TPA of sponge iron making. Additionally, we generate power using the Waste Heat Recovery route, with an installed capacity of 26 MW. The power generated by us is used for captive use and third-party sale.

We are located in Bileipada near Joda in the Keonjhar district of Odisha. Our plant is located near one of India's richest iron ore reserves. Moreover, we are well connected to road and railway networks, which ensures a seamless raw materials supply to the plant and product dispatch.

Segment-wise Revenue (%)



We are growing our scale and scope on the back of our strong fundamentals.

Our competitive advantages

- > Track record of above-average operational efficiency
- > Consistent product quality
- > Raw material (iron ore) security and its proximity
- > Enriched customer relationship management practices
- > Reliable manufacturing workflow with online information system and data backup
- > Infrastructural facilities to support manufacturing and delivery of finished products
- > Fair, transparent and ethical business practices
- > Efficient environment and waste management systems
- > Competent, motivated and engaged workforce, resulting in lower attrition
- > Cogeneration of power for own use and sale
- > Deep community relationships

Awards and recognition

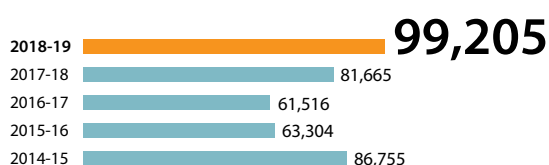
- > Kalinga Safety Award
- > Industry Leader Recognition to Tata Sponge in Tata Business Excellence Model (TBEM)
- > IIM National Quality Award
- > CII SHE Award
- > CMO Asia's 8th Best CSR Practices Award
- > Tata Business Excellence Group (TBExG) Recognition for Affirmative Action
- > CII Productivity Award

Overview > Key Performance Indicators

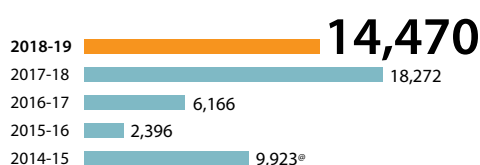
Consistent value creation

Financial performance

Turnover (₹ in lakhs)



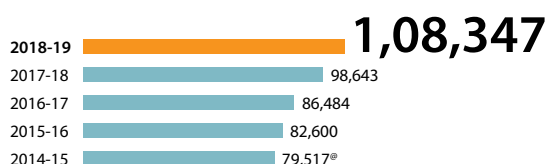
EBIDTA* (₹ in lakhs)



*(EBIDTA from operations)

*(Not as per Ind AS)

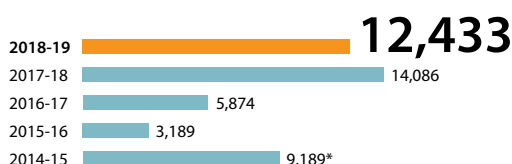
Net Worth* (₹ in lakhs)



*(Net Worth=Share Capital + Other Equity)

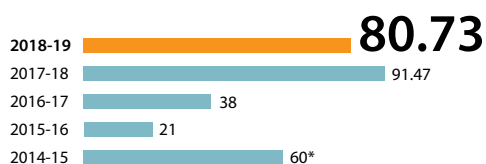
*(Not as per Ind AS)

Profit After Tax (₹ in lakhs)



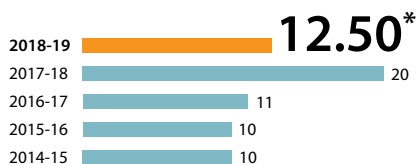
*(Not as per Ind AS)

Earnings Per Share (₹)



*(Not as per Ind AS)

Dividend Payout (₹ per share)



*(Proposed)