MANAGEMENT DISCUSSION AND ANALYSIS

INSIGHTS ON GLOBAL ECONOMY

As Compared to the FY 2017-18 in the FY 2018-19, the global economic activity remained under performed. As per the International Monetary Fund (IMF), the global output has been slated to go down from 3.6% in 2018 to 3.3% in 2019, which is 0.3 percentage lower than in 2018. The Slowdown in growth has been broad based, with the escalation of US-China trade conflicts, Economic stress in the countries of South America and Europe and financial tightening in other countries. The forecast for global growth in 2019 and 2020 is downward.

The International Monetary Fund (IMF) expects the global economic growth to further slow down to 3.3% in CY 2019, as the issues that plagued the major economies in the second half of CY 2018 are likely to spill over to the first half of CY 2019 and the effects of US policy stimulus are likely to taper off. Growth is likely to gradually pick up and stabilize at 3.6% in CY 2020, as the central banks of most major economies shift to a more accommodative policy stance and China ramps-up its economic stimulus to minimise the impact of increased tariffs.

In the near term, the risks to the global growth forecast appear to be balanced, however, some of the inward-looking policies, geopolitical tensions and political uncertainty in some countries could pose downside risks.

INDIAN ECONOMIC OVERVIEW

The Indian economy grew at 6.8% and remained the world's fastest growing major economy despite a visible slowdown in the fourth quarter of FY 2018-19 (April 2018-March 2019).With the improvement in the economic scenario, there have been various investments in various sectors of the economy. The M&A activity in India reached record US$ 129.4 billion in 2018 while private equity (PE) and venture capital (VC) investments reached US$ 20.5 billion. India is steadily moving towards sustaining growth in the near and long-term.

The Economic Survey of India 2018-19, projects Indian economy to have increased 7.2% in 2017-18 and 6.8% during FY 2018-19, with FY 2018-19 growth expected to be around 7 to 7.5%. Moreover, the country was ranked at the seventy seventh position, registering an improvement of 23 places, in the World Bank's Ease of Doing Business (EoDB) 2019 report.

India's crude steel production grew 3.3% to 106.56 MnT in FY 2018-19, making it the world's second largest steel producer, behind China. Steel exports fell 26.4% to 8.54 MnT as global demand weakened due to geopolitical uncertainties and additional tariffs on imports by the US. Finished and semifinished steel imports rose by 4.6% to reach 8.79 MnT. The domestic market saw rising imports from China, Japan and Korea.

Performance highlights - Indian Steel Industry

- Steel demand growth at 7.5% y-o-y (to 97.5 MnT) outpaced production growth at 3.3% y-o-y (to 106.6 MnT) in FY 2018-19.
- Total finished steel imports rose 4.6% to 8.8 MnT, displacing 15% of flat steel demand, 9% of total Indian steel demand.
- Indian exports plummeted 26% to 8.5 MnT in FY 2018-19 due to increased protectionism across the world.
- Per capita steel consumption rose from 69 kg to 73 kg; demand for flat products grew 4.2% while that for long products grew 10.4%. The share of flat and long products remained unchanged at 46% and 54%.

Some of the policy reforms and actions that have fuelled this growth are:

i) Infrastructure growth

The government's infrastructure push is visible across the country. Large-scale metro rail projects; dedicated freight corridors and transport ways network through the 'Bharatmala Pariyojana'; and port development through the 'Sagarmala' programme are progressing in full swing. This has resulted in an increase in Gross Fixed Capital (GFC) formation.

The Government is focused on strengthening the key pillars of the economy, agriculture, healthcare and infrastructure. To boost railway infrastructure in the country and foster job creation, the Government of India (GoI) announced an investment outlay of INR 94,071 crore in 2019-20 further the government has suggested the investment of Rs 5,000,000 crore (US$ 750 billion) for railways infrastructure between 2018-2030 to develop infrastructure to improve economic growth and community well-being.

ii) Infrastructure boost in Union Budget (interim) FY 2019- 20:

- Infrastructure sector was allocated ₹4.56 lakh crore.
- Communications was allocated ₹38,637 crore to develop post and telecommunications departments.
- Indian Railways was allocated ₹66.77 billion; of this, ₹64.59 billion was set aside for capital expenditures.
- ₹83,016 crore was allocated towards road transport and highways.
- ₹3,899 crore to increase capacity of Green Energy Corridor Project along with wind and solar power projects.

iii) Stable Political Support.

With the general election overhang now behind us and a stable government elected at the centre, any uncertainty around policy continuity or visibility has subsided. Continued economic reforms, along with efforts to reduce public debt, is a prerequisite for the country's growth. Given the strong mandate, the government is likely to push through key structural reforms towards its ambition of making India a $5 trillion economy by 2024.

Opportunities

There is a significant growth being witnessed in Construction sector as the government is spending on Infrastructure projects and the sector is considered to maintain the same level of momentum and demand with a gradual rise in Investment resulting in creating market for the Steel Industries in the Country.

Further the Capital goods market has also improved with rising manufacturing capacity utilization and infrastructure investment which has boosted demand for Construction and earthmoving equipment.

Also Consumer durable growth is driven by segments like Air-conditioner, Refrigerators and furniture supported by lowering of GST and hike in Import Duty and indirectly giving a good demand to steel industries

As per the National steel policy crafted during FY 2018-19, the crude steel production target for India is set at 300 MT by 2030. Share of sponge iron in steel making will be 80MT, which will create huge opportunity for sponge iron industry.

Threats

Presently there are no visible threats in the short and medium term in the sponge iron industry. However availability of key raw materials and environmental concerns might pose significant challenge in the future.

Outlook

The domestic consumption is considered to move at a same momentum as is evident in the demand pull visible in infrastructure, automobile and other sectors. Government is also driving the economy by investing in housing, roads, and ports and in other infrastructure projects.

Favourable domestic demand and remunerative prices in both domestic and international markets are likely to bolster steel production further in the years to come, resulting into more demand for sponge iron.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Production of sponge iron during the year was 1,72,724 MT as compared to 1,50,721 MT as compared in the previous year. Production of Ferro Chrome was 14,259 MT as compared to 11,260 MT in the previous year.

Accordingly, sales for sponge iron during the year was 1,72,598 MT as compared to 1,52,906 MT in the previous year. Sales of Ferro Chrome during the year were 14,497 MT as compared to 11,589 MT in the previous year.

Company has a power generation plant of 40 MW. During the year 1,03,388 MWH of power was sold by way of Captive Consumption as against 98,318.37 MWH in the previous year.

During the year under review Total Revenue from operation has been increased from ₹39,939.90 lacs to ₹ 51,136.81 lacs as compared to previous year's turnover. Company has registered a net profit of ₹ 4,239.07 lacs in comparison of profit of ₹ 87.68 lacs during previous year.

RISK AND CONCERNS

The process of Risk Management in the company identifies inherent risks in its operations and records residual risk after taking specific risk mitigation steps. The company has identified and categorized risks in the areas of Operations, Finance, Marketing, Regulatory Compliances and Corporate matter.

The volatility in price of sponge iron, excess supply of sponge iron in the market will have an effect of squeezing margins and poses risk to the profitability. New customers, new market and cost reduction have been identified as the mitigation measures.

Also, the enforcement of recent Tariff policy guidelines on power by Government of India that requires the State Electricity Regulatory Commission to ascertain sale price of power based on cost of generation will have an impact on the revenue from export of power.

Fluctuation of import coal price, increase in USD-INR exchange rate, may lead to increase in cost of production. This is mitigated by continuous evaluation of international coal price vis-à-vis Indian coal price and accordingly the action plan for procurement has been formulated.

INTERNAL CONTROL SYSTEM AND ITS ADEQUACY

The Company has adequate internal control procedures commensurate with its size and nature of its business. The objectives of these procedures are to ensure efficient use and protection of the Company's resources, accuracy in financial statements and due compliance of statutes and Company's policies and procedures.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

The Company is working on enhancing its competencies to take care of current and future business. Its employee strength as on March 31, 2019 was 393. Human Resource and Industrial Relations departments have developed systems and policies on recruitment, performance management, learning and development, and employee engagement. The Workers union of the Company has maintained healthy and cordial industrial relations, and has been an equal partner in implementing Company's policies and achieving stretched operational targets, year on year.

CAUTIONARY NOTE

Cautionary Statement the above Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include external economic conditions affecting demand/supply influencing price conditions in the market in which the Company operates, changes in Government regulations, tax laws, and other incidental factors.