MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT

From its position as the third largest steel producer in 2017 to the second largest producer of crude steel in 2018, India has definitely seen a positive slope. The nation's investment in the infrastructure sector is the biggest contributor to its steel sector growth. The overall steel consumption in India in 2017-18 stood at a healthy 7.8%. According to a report by the World Steel Association, India produced 79.6 million tonnes of crude steel in the first nine months of 2018, reflecting a growth of 6.1% as compared with that of previous year. The government's policy guidelines address the need to create a conducive environment to improve the efficiency and productivity of the steel sector. Post 2017 National Steel Policy, the sector embarked upon a capacity expansion spree. By 2030, the capacity is expected to reach 300 mntpa. This will drive the per capita steel consumption from approximately 61 kg to 160 kg. Recently, this sector has also seen major consolidations. This has made it easy for global players to enter the domestic markets. According to the Department of Industrial Policy and Promotion (DIPP), the Indian metallurgical industries attracted FDI to the tune of USD 10.84 billion in the period between April 2000 and June 2018. According to a report by the World Steel Association, the demand for steel in India is expected to grow by 7.3% in 2019.

Performance highlights - Indian Steel Industry

(Source: Joint Plant Committee Report, March 2019)

- 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 73kg; 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%.

OPPORTUNITY AND THREATS

Several initiatives in the construction, infrastructure and automotive space has forward and backward linkages with the steel industry. These links will catalyst the country's total steel demand in the next fiscal.

The fortune of the steel industry is proportionate to the swings in other sectors such as automobile, infrastructure, consumer durable, sectors that generate high steel demand. Availability of raw materials and cheap labour makes this industry cost effective. The country produces its own iron ore as well. The country's steel demand has been on a rise. However, the country witnessed unprecedented steel imports from several countries such as China, Japan, Russia and South Korea. Free trade agreement between India and Japan and South Korea eased the process of steel imports.

Consequently, the domestic steel industry suffered resulting in high price cuts. The growing imports into India on account of trade diversion are matter of concern. Since, certain trade remedial actions have become irrelevant, imposition of safeguard duty is the need of the hour to stop such imports and corresponding injury to the domestic industry. The government is expected to continue its long-term vision of giving impetus to the steel industry. Since the steel industry is closely linked to other industries, development of steel industry influences the national economic development.

OPPORTUNITIES:

The renewed importance given by Government on affordable housing, roads, sagarmala projects and other infrastructure projects are expected to create steel demand, this will augur well for sponge iron industry also. As per the National steel policy crafted during FY 2017-18, the crude steel production target for India is set at 300 MT by 2030. Share of sponge iron in steel making will be 80 MT, 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. Availability of scrap and its import will be an issue for sponge iron consumption and will affect the demand. Iron ore and coal prices will also play a key role in profitability as its availability will be an issue if there are closure of mines

OUTLOOK

Post elections and stable Government, it is expected that thrust on infrastructure projects will renew. Also liquidity infusion and project finance will become easier and spurt growth in housing and infrastructure sectors. This will lead to remunerative prices and business sustainability. India continues to remain a bright spot and has the distinction of witnessing the highest growth rate in steel consumption among major steel consuming markets. This, admittedly, has also made India a magnet to attract higher imports from steel surplus economies, especially from countries like Japan and South Korea who enjoy a Free Trade Agreement.

In India, a strong momentum in government spending on infrastructure is driving an increase in Gross Fixed Capital Formation (GFCF), this is likely to get an impetus with government policies. While IIP and manufacturing PMI have weakened recently, and automotive and consumer durables production have corrected sharply, there is an expectation of improvement in H2 financial year 2020. Government is likely to take measures to spur investment and end user demand.

The government announced outlays of ₹ 1 lac crore in the Interim Budget is expected to spur rural spending and aid overall consumer demand. Further expectations of a normal monsoon bode well for the rural demand. As a result, the Company expects 6.5% - 7% steel demand growth for Financial Year 2020 in India.

RISK AND CONCERNS

Risk Management and Control System to ensure that the risks of the Company are identified and managed effectively.

The re-constituted management of the Company has adopted risk management framework for identifying and evaluating risks and opportunities that may have bearing on the organisation. The Company recognizes that these risks need to be managed and mitigated to protect the shareholders and other stakeholders' interest.

Although the entire steel industry is under threat due to steel imports from China, Japan, South Korea and Russia yet consumption in expected to rise due to the boost in infrastructure, construction and automobile sectors. The demand of steel in the capital good sectors is expected to rise as well. The National Steel Policy, 2017, has envisaged 300 million tonnes of production capacity by 2030. The Indian Government is giving increased focus to find new markets for Indian manufactured steel, trying to shift industry's attention towards special steel production and increasing per capital steel consumption.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The internal control systems include documented policies, checks and balances, guidelines and procedures, that are supplemented by robust internal audit processes and monitored continuously by periodical reviews by management to provides reasonable assurance that all assets are safeguarded; transactions are authorized, recorded and reported properly. Post-acquisition, the reconstituted Board/ Management is in the process of further strengthening the internal controls framework with an objective to have a best-in-class internal control framework commensurate with the size, scale and nature of business.

HUMAN RESOURCE AND INDUSTRIAL RELATIONS FRONT

The Human Resources department is committed to recruiting strong candidates and this commitment involves discussing the needs of a department, advising on recruitment strategies, participating in the selection of the right candidate, checking references and making job offers. As part of this process, Human Resources analyzes data such as the number of vacant positions, the number of positions filled and the time it took to fill positions. Tracking this information helps to ensure quality of service and leads to a better understanding of the time required to fill a position.

DETAILS OF SIGNIFICANT CHANGES IN THE KEY FINANCIAL RATIOS: The details of significant changes in the key financial ratios during financial year 2018-19 as compared to the immediately previous financial year 2017-18 are given below:

Particulars	2018-19	2017-18	Change in %
Debtor Turnover	**Not calculated as no credit sale made**		**-**
Inventory Turnover	5.63	1.87	3.76
Interest Coverage Ratio	4.63	1.90	2.73
Current Ratio	0.84	0.80	0.04
Debt Equity Ratio	0.12	0.08	0.03
Operating profit margin(%)	2.87	26.80	-23.93
Net Profit Margin (%)	0.18	5.15	-4.97
Return on Net Worth (%)	5.63	1.87	3.76