MANAGEMENT DISCUSSION AND ANALYSIS

Monnet Ispat and Energy Limited – An overview

The Company has manufacturing facilities at two locations, Raigarh and Raipur in the state of Chhattisgarh. The sub units at each of these facilities and their respective capacities are detailed below-

	Raigarh Facility	Raipur Facility
Sinter plant	0.90 mtpa	-
Pellet Plant	2.00 mtpa	-
Sponge Iron	0.56 mtpa	0.30 mtpa
Blast Furnace	0.63 mtpa	-
Steel making unit	0.80 X 2 mtpa (with one unit under construction)	0.23 mtpa
Bar Mill	0.50 mtpa	0.15 mtpa
Plate Mill	0.80 mtpa (under construction)	
Power Plant	170 MW	60 MW
Ferro Alloys	-	46,400 tpa

During the year under review, the Corporate Insolvency Resolution Process **("CIRP Process")** of the company was initiated by the Financial Creditors of the Company. The Financial Creditors petition to initiate the CIRP Process was admitted by the National Company Law Tribunal**,** Mumbai Bench on July 18, 2017**.** Post the year under review, there has been a successful resolution of the CIRP process under which there has been a change in the management of the Company on August 31st, 2018. CIRP process is detailed in Directors report. A consortium of AION Investment Private II Limited & JSW Steel Limited ("Consortium")have invested in the equity share capital of the Company thereby bringing in the desired liquidity for smooth operation of the facilities of the Company.

During the year under review the DRI plants were in operation along with bar mill and ferro alloy plant in Raipur. The new management currently proposes to ramp up the DRI production to its rated capacity along with restarting operation of the pellet plant, blast furnace, sinter plant and bar mill in Raigarh during the third and fourth quarter of financial year 2019. In order to achieve the same the Company is currently in the process of estimating the capital expenditure required for the said purpose. The capital expenditure is proposed to funded by mix of debt, internal accruals and the equity capital bought in by the Consortium. The new management has a successful track record of executing projects within the planned time line as well as budget. Once these facilities commence operation the Company will have ability to produce 1mtpa of crude steel.

2. ECONOMIC ANALYSIS

2.1 Global economy

Global economic recovery gathered pace with the world economy growing at 3.8% in CY17, a 0.6 percentage point increase over CY16. This is the highest rate of global GDP growth after Cy11 aided by across the broad recovery in developed economies i.e. United States, European Union and Japan. The growth happened owing to an increase in manufacturing activity, private consumption and investments.

The growth was broad based, with growth increasing in more than half of the world's economies aided by benign global financing conditions, revival in investment sentiment, accommodative monetary policies and sustained increase in major commodity prices. The growth was higher as compared to the initial estimates with upside surprises in the second half of 2017 in advanced as well as emerging and developing countries aided by recovery in global demand. Two-thirds of countries accounting for about three-fourths of global output experienced faster growth in 2017 vis-à-vis previous year.

The advanced economies performed better than expected with a 0.6% growth in CY17 as compared to the previous year. The world is slowly coming out of low interest rate and abundant liquidity regime as advanced economies normalize monetary policy. After two years of uninspiring performance, global trade also picked up pace; and its impact was particularly pronounced in emerging markets. This happened owing to an improvement in investment growth.

On the other hand, emerging economies saw an upswing by 0.4 percentage point, primarily led by private consumption. In economies like India and China, resurgent exports too facilitated growth. The commodity exporting countries were largely benefitted by the global economic upswing during CY17, owing to firming up of prices of commodities. In terms of commodities, energy prices indices grew by 24% in CY17 (y-o-y) while the non- energy indices grew by 6%. The metal price indices grew by 24%. Accelerated global growth lifted the demand for commodities while a number of commodities faced supply side contractions. The global recovery offers a window of opportunity to strengthen policies and reforms that sustain the current upswing and raise medium-term growth for the benefit of all countries. According to the IMF, such policies should focus on reinforcing the potential for higher and more inclusive growth, building buffers to deal more effectively with future economic headwinds and fostering international cooperation.

Rising oil prices, increasing protectionism, rising trade barriers, geopolitical risks and escalating global debt and interest rates remain the key challenges to the global growth outlook.

Global growth projections remain firm for 2018 and expected to reach 3.9% with broad based recovery across regions. The positive momentum in the US continues with policy support, manufacturing focus, employment growth and strong consumer confidence. The Euro area is stabilising at a higher level with strong domestic demand, supportive monetary policy and robust trade. Japan's growth is expected to be supported by stronger exports, rising investments and budgetary support. China's growth rate is expected to soften as the rebalancing away from investment to private consumption and from industry to services continue. Commodity exporting countries are expected to perform better with increasing commodity prices. However, rising protectionism, hardening interest rates, increasing oil prices and geo-political concerns pose a risk to global growth.

2.2. Indian economy

The Indian economy continued to grow strongly as the economy recovered in the 2nd half post stabilization of the GST regime. India has achieved a growth of 6.7% in FY18 with a 7.1% growth in Q-4'18. India has bounced back as the fastest growing economy in the world during the third quarter for Fy18.

India's economic fundamentals continued to improve during the year. The investment cycle exhibited a growth of 7.6% in FY18 and 14.4% in the Q-4'18.

The Index of Industrial Production (IIP) touched 4.3% during the FY18 after a robust growth of 6.2% in the Q-4'18. Inflation figures are also largely in control, with the Consumer Price Inflation reducing to 3.6% in FY18 from a level of 4.5% in FY17, keeping the food prices under control.
The Government of India has put in place multiple enablers to bolster the country's consumption demand. Higher spending on social schemes such as NREGA, continued thrust on rural infrastructure projects, raising of minimum support prices, implementation of 7th Pay Commission pay hikes across states and One Rank, One Pension scheme are also likely to lead to robust disposable income leading to higher spend and consumption.

The major driver of India's consumption economy is the country's large younger population. Two consecutive years of favourable monsoon, addition of young working population and rising urbanisation are other major growth drivers.

The 2018-19 Union Budget has emphasised on India's infrastructural requirements and the allocation on roads, railways and rural infrastructure has been significant. The Budget also focussed considerably on health and education sectors, which are instrumental in developing a sustainable economy and society.

Indian growth outlook is improving with effects of demonetisation and GST slowly fading away. India is expected to record a robust GDP growth of 7.4% aided by structural and wide ranging reforms such as Goods and Services Tax (GST) to widen the indirect tax base, Insolvency and Bankruptcy code to address asset quality of banks and formalization and digitization of the business ecosystem, thrust on infrastructure development and liberal FDI regime.

Structural reforms are expected to increase productivity and incentivise investments. Gross fixed capital (GFC) formation continues to grow with government spending on infrastructure. Vehicle sales remain robust while industrial production growth has been positive. Manufacturing PMI remains in the expansionary zone. Inflation has been creeping up with higher commodity prices and robust domestic demand. As a result, interest rate cycle poses an upward bias. Surging crude oil prices pose a risk to domestic inflation and Indian currency in the near term.

The strengthening global economy, spend on infrastructure and pick up in capital expenditure spends of private companies will provide the necessary stimulus to the India's GDP growth.

3. INDUSTRY ANALYSIS

3.1. Global Steel Sector

The global steel consumption, grew 4.7% to 1.59 billion tonnes in 2017, after a subdued growth of 1% in 2016. The low base-effect of 2016, along with improved steel consumption in China and investment-led recovery in advanced economies led to this growth. The government's stimulus measures and momentum in construction activities fuelled steel demand in China. Consumption in Europe (other than EU) too gathered pace in the year and grew ~2.5% with other countries like US with 6.4%, Brazil 5.3% Iran 4.5% follow the growth trajectory of rising global steel demand.

Global crude steel production grew by 5.3% or 63 million tonnes in 2017 to 1,691.2 million tonnes, as most economies registered good growth in steel production. Annual production grew between 4% and 6% for major economies of China, India, European Union and USA, among others. Turkey, South America and Brazil witnessed the highest growth in steel production at 13.1%, 8.7% and 9.9%, respectively.

The China's supply side reform through capacity cut, environment protection measures and closure of inefficient facilities uplifted market sentiments and bolstered pricing power and profitability of most steel producers in the World. Overall, steel exports from China fell by 30% to 75mt in the year.

Global steel prices remained buoyant in 2017 due to:
a) falling exports from China as it continues to reduce excess capacities;
b) firm iron ore prices; and
c) improving demand from China following the upswing in the infrastructure and construction sectors.

In the preceding couple of months, trade actions across economies aggravated to arrest imports, threatening the possibility of trade diversion.

The World Steel Association (WSA) forecasts global steel demand to reach 1,616 Million tonnes in 2018, an increase of 1.8% over 2017. Steel demand is benefitting from favourable global economic momentum. China has seen a strong growth in steel demand during the first quarter of CY 2018. Hence, there is an upside risk to global demand growth forecasts for 2018. Chinese exports are lower on YoY basis and are expected to taper further as they continue to shut inefficient capacities and focus on domestic consumption. Global steel prices are expected to remain buoyant with steady demand growth across regions, lower exports from China and steady raw material prices.

3.2. Indian Steel Sector

India's steel production grew 4.5% to its highest ever level of 102 mt in FY18. The Government of India has been proactive in addressing the issues faced by domestic steel makers. It has taken major steps to stop unfair trade and to safeguard the interests of domestic players.

Riding high on an all-round improvement in the growth of key sectors, namely automobiles, infrastructure, and capital goods, among others, India's steel demand grew at a high rate of 7.9% to 91 million tonnes in FY18. This pace may accelerate further as domestic steel demand growth is pegged at 8.3% to 98.2 million tonnes in the current fiscal year (Source: JPC). In FY18, India's per capita steel consumption grew 6.2% to 69 kg, while share of flats improved from 42% to 44%.

India's construction activity, particularly in highways, bridges and metro lines has bolstered the demand for long steel products in recent times. Given their size, long steel products are relatively difficult to ship and hence most contractors are sourcing them locally.

Domestic steel prices have started trending northwards since November 2017, owing to a surge in global prices, healthy recovery in domestic demand, and a weaker rupee. The prices though still trail international prices and hence there is a scope for further uptick in prices.

Governmental measures such as the National Steel Policy and extension of anti-dumping duty on steel products, imposition of quality standards are key facilitators for the growth of domestic steel sector in India. Additionally, the Government has earmarked Rs. 14.3 lakh crore towards infrastructure spending, which will also enhance steel demand in the domestic market.

Steel demand grew at a healthy rate of 8% in 4QFY18. However, imports of steel into the country remained at elevated levels in FY2018 indicating that the trade remedial measures in place are ineffective. Flat products imports in FY2018 increased by 8% - with imports of coated products surging by 93% and of colour coated products increasing by 169%. Imports from Korea and Japan increased by 13% YoY in FY2018 and constituted ~45% of total imports.

With imposition of Section 232 in the US and rising trade measures in other regions, there is a likelihood of surplus steel tonnages finding their way into India. This necessitates imposition of effective trade remedial measures in a timely manner by the Government of India.

Steel consumption in India is expected to grow by 5% - 5.5% in FY2019 on the back of government push for infrastructure projects and strengthening consumer demand.

The National Steel Policy, 2017 (NSP) aims to make India a self-sufficient steel producing nation by 2030 thereby promoting indigenous industry to eliminate steel imports in the country by 2030. Reduction in import dependence for procuring coking coal, emphasis on BF / BOF technology, sharper focus on pelletisation and installation of slurry pipelines and conveyors, promotion of domestically manufactured steel in government procurement and production of value-added steel indigenously are the key goals of this Policy.

Overall, the NSP will empower domestic steel makers by making them more competitive globally.

In the domestic market as well, there are multiple catalysts to drive steel industry growth. Relatively lower per capita steel consumption, healthy prospects of consumption demand on the back of buoyant infrastructure growth and strong growth in the automobile and railways sector being the prominent ones.

Domestic growth enablers

Rural steel demand

Rural India is expected to reach a per capita consumption from 12.11 kg to 14 kg for finished steel by CY20. The policies like Food for Work Programme (FWP) and Indira Awaas Yojana, Pradhan Mantri Gram Sadak Yojana and Affordable Housing, among others are expected to drive the demand.

Housing demand

The allocation towards building houses in rural and urban areas under the PMAY scheme stood at Rs 275 billion in the Union Budget 2018-19. Rising transparency in the real-estate sector following the implementation of The Real Estate (Regulation and Development) Act has bolstered the confidence of both investors and home buyers. In this scenario, housing demand is likely to accelerate going forward, leading to higher steel demand in the domestic market.

Renewable Energy

India aims to generate 275 GW of total renewable energy by CY27. Of the total pie, 72 GW will be from hydro-energy and 15 GW from nuclear energy. Nearly 100 GW is expected to come from 'other zero emission' sources. Both generation and transmission capacities are expected to raise steel demand from the sector.

Automobile

The automobile industry is estimated to grow by US$260- 300 billion by 2026. With increasing capacity addition, steel demand is expected to be robust.

Outlook

According to the World Steel Association, consumption of finished steel products in India is estimated at 92mt in 2018 – a growth of 5.5% over 2017. Of the total incremental demand of 28.7mt in 2018 worldwide, India alone is likely to add steel demand of 4.8mt.

Pegged at 5.5%, the domestic steel demand is likely to grow at a faster pace than the global steel demand. Steel demand worldwide is likely to grow by 1.8% in 2018. The nation's per capita steel consumption is likely to improve to 72-74 kgs in 2018-19. Clearly, Indian steel players are looking inwards to achieve higher growth. As China continues to trim its excess capacities in 2018 as well, and given the low-cost, higher quality products offered by Indian companies, opportunity to grow exports is also sizeable.

3. FINANCIAL PERFORMANCE

The Company is engaged mainly into steel business. Brief performance of the Company is as follows:

(Rs. in Crores)

Particulars	FY 2017-18	FY 2016-17	Variation
Turnover	1419.09	1375.08	44.01
PBDIT	72.84	(52.09)	124.93
Interest and Finance Charges	1181.66	1110.45	71.21
Depreciation	351.61	356.36	(4.75)
Exceptional Items	440.53	209.90	230.63
Profit / (Loss) BeforeTax	(1900.96)	(1728.80)	(172.16)
Other Comprehensive Income (OCI)	(30.84)	(4.09)	(26.75)
Profit / (Loss) After Tax	(1900.96)	(1733.86)	(167.10)

Exceptional items include

a. non -recoverable advances written off amounting to Rs 47.62 Crores

b. loss on appropriation of pledged shares amounting to Rs 177.01 Crores,

c. inventory written-down of Rs. 19.33 Crores,

d. impairment in non- current investments of Rs 196.57 Crores.

Financial Performance & State of Affairs

During the year, the Company recorded a net loss of Rs.1900.96 crores (previous year: Loss of Rs 1733.86 crores). The Company's EBIDTA was Rs. 72.84 crores in the Financial Year ended 31st March, 2018 as opposed to a EBITDA loss of Rs.52.09 crores due to better market conditions and also efficient operational performance.

As the EBITDA earned during the year was not sufficient to cover the depreciation and interest costs, the Profit Before Tax (PBT) was negative and stood at Rs. (-)1900.96 crores as against Rs. (-)1728.80 crores in the previous financial year and Profit After Tax (PAT) was Rs. (-)1900.96 crores against Rs. (-)1733.86 crores in the previous financial year.

The analysis of major items of the financial statements is given below:

a) Net sales and other operating income

(Rs. in Crores)

	FY 18	FY 17	Change (%)
Sale of Products/ Services	1419.09	1375.08	3.20
Other Income	12.14	33.54	(63.80)
Total income	1431.23	1408.62	1.60

During the year, the overall turnover was higher primarily due to higher realizations for steel products.

GST has been implemented with effect from July 1, 2017 and therefore, revenue from operations for the year ended March 31, 2018 are net of GST. Revenue from operations and expenses for the year ended March 31, 2017 being inclusive of excise duty are not comparable with corresponding figures of year ended March 31, 2018.

b) Raw materials consumed

(Rs. in Crores)

	FY 18	FY 17	Change (%)
Raw materials consumed	1144.79	943.43	21.34

During the year, raw material consumption increased, primarily due to higher costs of bulk raw materials namely, iron ore and Coal.

c) Employee benefits expense

(Rs. in Crores)

	FY 18	FY 17	Change (%)
Employee benefits expense	94.07	101.55	(7.37)

The employee cost has decreased primarily on account of reduction in number of employees.

d) Depreciation and amortization expense

(Rs. in Crores)

	FY 18	FY 17	Change (%)
Depreciation and amortization expense	351.61	356.36	(1.33)

The marginal decrease in depreciation is due to lower base of fixed assets as there was no capex incurred during the year under review.

e) Other Expenses

(Rs. in Crores)

	FY 18	FY 17	Change (%)
Other Expenses	107.89	148.21	(27.20)

The details of other expenses are as below:

(Rs. in Crores)

	FY 18	FY 17	Change (%)
Consumption of stores and spares	28.66	29.35	(2.35)
Power and fuel	9.27	15.83	(41.44)
Rent	0.35	0.41	(14.63)
Repairs & Maintenance	5.86	5.30	10.56
Administrative Expenses	48.69	55.08	(11.60)
Provision for doubtful debts	1.82	7.57	(75.96)
Other Manufacturing Expenses	9.95	28.86	(65.52)
Misc Expenses	3.29	5.81	(43.37)
Total Other Expenses	**107.89**	**148.21**	**(27.20)**

The savings in administrative expenses accrued due to lower incurrence of sales & distribution expenses.

The positive variance in other manufacturing expenses was primarily due to lower expenses incurred on account of Patherdih Coal Washery EPC contract.

f) Finance costs and Net Finance Costs

(Rs. in Crores)

	FY 18	FY 17	Change (%)
Finance costs	1181.66	1110.45	6.41%

During the year, finance costs increased due to accrual of interest on un paid interest.

g) Exceptional Items

(Rs. in Crores)

	FY 18	FY 17	Change (%)
Exceptional items	440.53	209.90	109.88

Exceptional items include certain non -recoverable advances written off amounting to Rs. 47.62 crores, loss on appropriation of pledged shares of Rs 177.01 crores, inventory written-down amounting to Rs. 19.33 crores, impairment of non current investments amounting to Rs 196.57 crores.

h) Fixed Assets

(Rs. in Crores)

	FY 18	**FY 17**	**Change (%)**
Property, Plant and Equipment (PPE)	6017.26	6360.87	(5.40%)
Capital work-in-progress	166.14	157.10	5.75%

PPE is lower primarily due to charge of depreciation for the year and non-incurrence of capital expenditure during the financial year ended on March 31, 2018.

i) Investments

(Rs. in Crores)

	FY 18	**FY 17**	**Change (%)**
Investment in Subsidiary, JVs and Associates	587.39	1057.80	(44.47)
Other Investments	35.36	1.38	2462.32
Total Investments	622.75	1059.18	(41.20)

The total investments are lower as compared to the previous year as the primarily due to loss on incurred due to appropriation of pledged shares of Odisha Sponge Iron & Steel Limited by the financial creditors of the Company and impairment of investments in Monnet Power Company Ltd. (MPCL) as MPCL has been admitted to the Corporate Insolvency Resolution Process under the provisions of the Insolvency and Bankruptcy Code 2016.

j) Inventories

(Rs. in Crores)

	FY 18	**FY 17**	**Change (%)**
Raw Material	151.43	124.55	21.58
Finished Goods & WIP	105.81	96.66	9.47
Stores, Spares & Others	63.72	56.52	12.74
Total Inventory	320.96	277.72	15.57%

Increase in raw material inventory was due to increase in raw material prices in FY 17-18.

k) Trade Receivables

(Rs. in Crores)

	FY 18	**FY 17**	**Change (%)**
Gross Debtors	97.28	132.66	(26.67)
Less: Provision for doubtful debts	36.98	35.53	4.08
Net Debtors	60.30	97.13	(37.92%)

The decrease in sundry debtors as compared to the previous year is primarily due to better credit control mechanism put in place during the year.

l) Cash Flow

(Rs. in Crores)

	FY 18	FY 17	Change (%)
Net Cash Flow from Operating activities	(28.05)	270.14	(110.38%)
Net Cash Flow from investing activities	(11.69)	(26.94)	56.61%
Net Cash Flow from financing activities	72.69	(205.91)	135.30%
Net increase / (decrease) in cash and cash equivalents	32.95	37.29	(11.64%)

The cash operating profit was Rs. (28.05) Crores as compared to Rs. 270.14 Crores during the previous year. Higher inflows in Fy17 were on account of funds released from current assets.
The cash outflow from Investing activities was Rs. (11.69) Crores as compared to Rs (26.94) Crores during the previous year. Higher outflows in FY 17 were towards mines allotted to the company.
The net cash outflow from financing activities was Rs 72.69 Crores as compared to Rs.(205.91) Crores during previous year. Higher outflows in Fy17 were on account of net repayments made to financial creditors.

4. SEGMENT WISE OR PRODUCT WISE PERFORMANCE

The Company is engaged in steel business, details of which have been included in the financial statement of the company.

5. RISKS AND CONCERNS

Risk Management and Control System to ensure that the risks of the Company are identified and managed effectively. The Company would put in place a suitable enterprise risk management framework for identifying and evaluating risks and opportunities that may have bearing on the organization. The Company recognises that these risks needs to be managed and mitigated to protect the shareholders and other stakeholders interest.

6.INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The reconstituted Board / Management believes that the Company has effective internal control systems and policies. 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 reviewing 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.

7.HUMAN RESOURCE DEVELOPMENT / INDUSTRIAL RELATIONS

As on March 31, 2018, the Company had 2110 employees apart from employeesemployed through contractors and suppliers.
The Company strives to provide a safe working atmosphere in the Company, wherein every employee can develop his own strength and deliver his expertise in the interest of the Company.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's 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.

By order of the Board
For Monnet Ispat and Energy Limited

Jyotin Kantilal Mehta
Chairman
DIN: 00033518

Place: Mumbai
Date: 15 October, 2018