

Management Discussion and Analysis



FERRO CHROME

Ferro Chrome is an alloy of chrome and iron containing between 50% to 70% chrome. While high carbon ferro chrome / charge chrome is mostly used in the manufacture of stainless steel, low & medium carbon ferro chrome are largely consumed in the production process of special and carbon steel. Chrome imparts the non-corrosive property to stainless steel thus making it a unique product with multiple applications.

GLOBAL CHROME ORE SCENARIO

World resources of chromite exceed 11 billion tonnes with South Africa and Zimbabwe accounting for about 90%. South Africa has reserves of about 3.1 billion tonnes and a further estimated resource of 5.5 billion tonnes while India has 27 million tonnes of reserves and further resources of 67 million tonnes.

World chrome ore and concentrate output is estimated at 29 million tonnes in 2014 (Source: ICDA) representing a 4.2% decrease as compared to the previous year. While output increased in South Africa, Eastern Europe and Middle East, it declined in India mainly on account of various regulatory restrictions and change in policy which delayed lease renewals.

GLOBAL FERRO CHROME INDUSTRY

In 2014, the global production of ferro chrome rose by 9% to over 11.8 million tonnes whereas consumption is estimated to be around 10.60 MT. China's ferro chrome production expanded by 7.4% during 2014 to a record of 4.28 million tonnes. (Source: ICDA & Metal Bulletin Research)

Ferro Chrome prices remained low throughout the year owing to poor market sentiments relating to stainless steel and depreciation of the South African Rand. Prices remained low in China due to weak demand and over-capacity although it stabilised towards the end of FY 2014-15. Going ahead, a recovery seems unlikely in the short term particularly since the appreciation of the US Dollar will lead to high realisation in local currency terms for all producing countries. However, improving economic scenario worldwide will lead to a revival of demand and better prices in the mid to long term.

INDIAN FERRO CHROME SCENARIO

The ferro chrome industry in India comprises of fully integrated producers such as your Company with access to own chrome ore and captive power, semi-integrated producers with access to either own ore or power and non-integrated producers which operate on bought out chrome ore & electricity or operate on conversion contracts.

India is a significant player with almost a tenth of the global ferro chrome output and produces about 1 million tonnes per annum. At present growth of stainless steel production / consumption has been somewhat sedate. However, this is likely to change in the next 5 years as stainless steel is at a tipping point. As focus shifts from initial cost of acquisition to lifecycle cost, it is expected that stainless steel consumption will increase at a faster pace making India one of the key drivers and providing a boost to the ferro chrome industry.

OUTLOOK

Global ferro chrome market is relatively stable and prices are thought to have bottomed out in the current fiscal. Stability is a first step towards revival and augurs well for the industry given the downward trend witnessed during the year. While supplies are tightening as marginal producers come under pressure and expansion plans are put off, increased consumption can only come about from an economic revival. In this context, the North American economy has been a beacon of hope although Europe has been disappointing. China, meanwhile, is grappling with its own set of problems although steps to boost economic growth are thought to be on the anvil. Finally, greater positivity about the India growth story is a reason for optimism.

CHALLENGES AND OPPORTUNITIES

In FY 2014-15 the challenge for the ferro chrome industry stemmed primarily from an excess of supply over demand. A general bearish trend in all commodities - the most marked being oil - was evident and stainless steel mills cut back on procurement as demand for their product too contracted.

However, demand opportunities do exist:

- The Chinese steel industry has continued production to ship surpluses to overseas markets while import duty on ferro chrome has been removed.
- 'Make in India' holds great promise for the manufacturing sector and stainless steel in particular is at a tipping point.
- Lower oil prices have provided a boost by way of containing inflation and spurring demand.
- The United States economy in particular has continued to grow and major indicators such as unemployment have been noteworthy.

STAINLESS STEEL INDUSTRY

Global stainless steel crude production was up by 8.3% y-o-y to 41.68 million metric tonnes in 2014. China continued to be the largest producer with output of over 21.5 million metric tonnes while rest of Asia contributed over 9 million metric tonnes. (Source: ISSF)

ABOUT IMFA

IMFA is the country's leading, fully integrated producer of value added ferro chrome with its own chrome ore mines and backed up by captive power. Incorporated in 1961 and with a track record of over half a century, the Company firmly believes in a long term outlook and prioritises stability through a robust business model. Taking an end to end view of the industry, IMFA looks to straddle as much of the value chain as possible while looking to deliver superior performance through innovation and sustainable productivity improvement. The Company has an Integrated Management System comprising of quality, environment and health & safety certification.

PERFORMANCE HIGHLIGHTS

The Company operates in two segments – ferro alloys and power. It has

- 187 MVA installed furnace capacity at two manufacturing complexes at Therubali & Choudwar
- Captive chrome ore mines in Sukinda, Mahagiri and Nuasahi
- 258 MW captive power generation capacity at Choudwar

Key data for ferro alloys segment

Particulars	2014-15	2013-14
Production (tonnes)	2,05,203	1,98,063
Sales (tonnes)	2,05,478	1,86,493

Key data for power segment

Particulars	2014-15	2013-14
Generation (in million units)	913.92	909.83
Sales (in million units)	17.96	54.79

FINANCIAL PERFORMANCE

Particulars	₹ in Crore	
	2014-15	2013-14
Revenue from operations	1,344.79	1,317.85
EBITDA	262.90	310.34
Profit after tax	11.98	39.12
Cash profit	133.92	188.14
Earnings per share [EPS] (₹)	4.61	15.06
Cash EPS (₹)	51.56	72.43
Dividend per share (₹)	1.50	3.00
Net worth	862.89	855.60
Capital employed	1,827.47	1,843.88
Fixed assets (including CWIP*)	1,153.12	1,189.94
Net current assets	348.38	351.83

*CWIP stands for capital work in progress

Revenues

The Company's revenues from operations stood at ₹ 1,344.79 Crore in FY 2014-15 as against ₹ 1,317.85 Crore in FY 2013-14 registering a 2.04% growth over last year's revenue.

Exports

The Company earns a substantial amount from exports contributing around 79.15 % of the operating revenue. IMFA earned foreign exchange equivalent to ₹ 1,064.37 Crore in FY 2014-15 as against ₹ 1,073.75 Crore in FY 2013-14.

Other income

Other income stood at ₹ 21.78 Crore in FY 2014-15 as compared to ₹ 22.03 Crore in FY 2013-14. In FY 2014-15 other income included Interest income of ₹ 15.81 Crore and Insurance claim received was ₹ 0.05 Crore.

Profitability

The Company recorded an EBITDA of ₹ 262.90 Crore in FY 2014-15 as compared to ₹ 310.34 Crore during FY 2013-14. PAT stood at ₹ 11.98 Crore as against ₹ 39.12 Crore in FY 2013-14.

Tax expense

Net tax charge was ₹ 21.36 Crore in FY 2014-15 as compared to ₹ 13.99 Crore in FY 2013-14.

SOURCES OF FUND**Own funds**

The Company's net worth increased to ₹ 862.89 Crore as on 31st March 2015, from ₹ 855.60 Crore as on 31st March 2014.

Equity

The Company's equity comprises 2,59,77,053 equity shares with a face value of ₹ 10 per share with promoters holding 55.73 % as on 31st March, 2015.

Reserves

Reserves increased to ₹ 836.91 Crore as on 31st March, 2015 from ₹ 829.62 Crore on 31st March, 2014. Free reserves constitute around 99.87 % of the total reserves.

Long Term Borrowings

Long Term Borrowings stood at ₹ 856.43 Crore as on 31st March, 2015 as compared to ₹ 932.77 Crore on the same date the previous year as detailed below:

Particulars	₹ in Crore	
	2014-15	2013-14
Long Term loans	705.41	762.61
Long Term Maturities of Finance Lease Obligations	31.99	32.44
Current maturities of long-term borrowings	118.58	137.31
Current maturities of finance lease obligations	0.45	0.41
Total	856.43	932.77

APPLICATION OF FUNDS**Gross block**

The Company's gross block of fixed asset increased from ₹ 1,656.76 Crore as on 31st March, 2014 to ₹ 1782.94 Crore as on 31st March, 2015.

Capital work-in-progress

The Company's capital work-in-progress reduced to ₹ 40.47 Crore as on 31st March 2015 from ₹ 78.16 Crore in FY 2013-14 on account of commissioning of projects and capitalisation of various expansion activities.

RISK MANAGEMENT

The Company has an enterprise wide risk management policy in place and proactively identifies and mitigates relevant risks. Being in a cyclical industry with significant foreign currency earnings, the Company has to navigate the following risks:

Raw material security

The Company ensures that the major raw materials are adequately available to run its furnaces and power plants at optimum capacity. Chrome Ore is sourced from captive mines ensuring quality, reliability and a competitive advantage while other raw materials are sourced from several suppliers with whom the Company has developed excellent relationship over the years. Besides, innovative procurement strategy such as forward auction for coal helps bring about stability.

Price and currency volatility

Volatility in market conditions is the new norm and adapting to fluctuations is a critical requirement. The Company hedges export proceeds using several means such as forward contracts and derivatives. It also adopts a mix of long term contracts and spot sales to optimise offtake and realisations.

Regulatory

A delay in regulatory approvals or change in legislations could potentially impact the Company's business prospects. IMFA keeps a track of these changes in legislations and takes proactive measures to resolve these risks. It also ensures compliance of statutory legislations at all its establishments.

Productivity improvement and technologies

Softer ferro chrome prices can lead to lower margins. The Company is well aware and has achieved measurable productivity gains through continuous improvement in all its operations and technology upgradation.

Capital dilemmas

Capital access and its allocation risk is one that involves capital being poorly utilised. The Company continues to allocate capital effectively with constant review and action that confirms strategy and impacts the business profitably. The Company also optimises return on capital employed with strong capital management, capital growth and financial discipline followed at every level.

HUMAN CAPITAL

IMFA partners with its employees to ensure a highly engaged and motivated workforce dedicated to achieving the Company's goals. A culture of passion and commitment coupled with empowerment and accountability flows through the organisation. We have institutionalised learning and development initiatives like coaching and mentoring, internal and external training programmes, identification and nurturing of in-house talent with high potential, etc besides a comprehensive rewards & recognition process.

At IMFA, we ensure a safe work environment for all our women employees. We also promote gender equality. Abiding by the Sexual Harassment Policy, we have a Complaint Committee which addresses any complaint from women employees in this relation and take necessary action. The Policy is being reframed as per the provision of Sexual Harassment of Women at the Work Place (Prevention, Prohibition & Redressal) Act, 2013. During the year the Company has not received any complaints of sexual harassment.

The success of the Company's HR policies is reflected in the low attrition rates of 6%.

INTERNAL CONTROL SYSTEMS

The Company has a comprehensive system of internal controls that enables efficient operations, optimal resource utilisation and compliance with all applicable laws and regulations. Each of these internal controls strengthens the Company and protects loss or unauthorised use of assets by providing adequate checks and balances. The Company authorises, records and reports all transactions. An independent firm of Chartered Accountants serves as the internal auditor to execute the internal audit function. The Management and Audit Committee of the Board observe and then recommend corrective measures following such audits to further improve business operations.

HEALTH, SAFETY AND ENVIRONMENT

The Company accords the highest priority to Health, Safety and Environment (HSE) and has in place, an Integrated Management System, comprising quality, environment and occupational health and safety certification. The highlights of the year are:

- Reviewing implementation of HSE initiatives by senior management on a monthly basis at worksites
- Apex HSE Council reviews the HSE performance and approve HSE initiatives, KPI's and guidelines.
- HSE Reward Scheme implemented with a focus on proactive efforts.
- Focus on behaviour based safety amongst the workforce.



- Production based incentives are predicated on zero fatality
- Implementing a need-based HSE training module

CAUTIONARY STATEMENTS

Certain statements in the Management Discussion and Analysis describing the Company's objectives and predictions may be "forward-looking statements" within the meaning of applicable laws and regulations. Actual results may vary significantly from the forward looking statements contained in this document due to various risks and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India, volatility in interest rates, new regulations and Government policies that may impact the Company's business as well as its ability to implement the strategy. The Company does not undertake to update these statements.