



## **BALASORE ALLOYS LIMITED**

### **22<sup>ND</sup> ANNUAL GENERAL MEETING**

**9<sup>TH</sup> SEPTEMBER, 2010**

#### **FROM THE CHAIRMAN'S DESK**

#### **DEAR FELLOW SHAREHOLDERS,**

I welcome all the shareholders of the company at the 22<sup>nd</sup> Annual General Meeting of the Company. It indeed gives me great pleasure to share with you some significant happenings globally and in Indian context in the year passed by and in terms of what the future holds for us.

#### **ECONOMY**

The year gone by firmly established that the gloom looming large over the world economy is finally close to over. After a couple of difficult years, well co-ordinated efforts at the global level and various Stimulus packages (policy, fiscal and monetary) have helped to put the world economy back on track and as per the International Monetary Fund, World output is expected to grow by 4.5% in 2010 - 11 compared to a decline of 0.6% in 2009 - 10.

The Indian economy was also hit, although it fared much better than various developed countries during one of the most severe global financial crunch and the current trends indicate modest but definite improvement in most of the macro-economic indicators. Though the general mood is positive, future GDP growth in India will be influenced by a number of factors like the overall

performance of the monsoons, the global economic situation and the Reserve Bank's monetary policy.

The Indian economy is expected to grow at 8.4 % in the current fiscal (2010-2011) and 8.5 % in the next fiscal (2011-12) as per the revised survey of professional forecasters released by RBI. Recently, International Monetary Fund (IMF) predicted that India will grow by 9.4% in 2010-11 in comparison with the projected growth of global economy by 4.5%. However, as we have witnessed time and again, Economics is not a precise Science and we must be prepared for unforeseen developments and be geared up to meet the new challenges.

## **INDUSTRY SCENARIO**

Ferro Chrome producers across the globe in last couple of years was also one of the worst hit in history, with drastic collapse in demand and vertical fall in prices of finished products. However, inspite of the severity of the global recession, high-carbon ferro chrome market showed great deal of resilience in the year 2009 -10 with a fall of just 2.2% in demand, largely due to the demand from China's stainless steel industry. While global ferrochrome consumption is estimated to have remained below peak 2009 - 10 levels through the first quarter of 2010 -11, stainless steel production is rising again and this trend is expected to continue broadly throughout the current financial year. Global Ferro-chrome demand is forecast to increase by 17% over the present year as a whole and further recovery in 2010 -11. The next few years

also look promising with of projected growth of 5.8% p.a. between 2012-2014. Projections indicate China will account for 53% of the increase in ferrochrome demand over the next five years. Power shortages and tariff hikes have affected the Ferro-chrome Industry in South Africa and increasing quantities of Ore are likely to be smelted in China. The price of Ferro-chrome has been firming up recently but this has accelerated the supply response as well and a 40% increase in Production is expected in 2010-11.

It is also estimated that Indian Ferro-chrome production will increase by 26% to 832,000 tons in 2010-11. The capacity is also forecasted to rise from 1.17 MT in 2009-10 to 1.25 MT in 2010-11 and reach 1.43 MT in 2011-12.

## **FINANCIAL HIGHLIGHTS**

The performance of the Company remained subdued during the first half of the financial year under review mainly due to global market scenario but there has been increase in price of Ferro Alloys during the second half along with significant improvement in the overall performance.

Inspite of difficult business scenario, your Company has earned a net profit of Rs. 1254.91 lacs during the financial year ended on 31st March, 2010 as against Rs. 93.59 lacs during the previous financial year ended on 31st March, 2009, reflecting a growth of 1240.84%.

Major Financial Highlights are as follows:

Profit before Tax (PBT)	Rs. 2084.76 lacs
Net Profit (PAT)	Rs. 1254.90 lacs
Earnings per share	Rs. 1.95

- Net Profit increased by 1240.84%
- Profit Before Tax increased by 194.40%
- Earning per share increased by 1201.28%

## **OPERATIONS**

The production quantity during the year under review was 83,936 MT as against 88846 MT in the previous year (2008-09).

There has been some dip in the production quantity during the period under review but the team needs to be appreciated for achieving this level of production in-spite of unprecedented power crisis in the entire State of Orissa mainly on account of poor generation from hydel power plants on account of water shortage due to insufficient rain. The power supply to industries by the State's Electricity Regulatory Authority was reduced by 15 to 25 percent especially during the first quarter of the year.

The first quarter of the year under review was also partly under the influence of lingering after-effects of Global Meltdown experienced during previous year. But gradually, with the depletion of stock piles across the world due to

shutdown of Ferro chrome facilities, the demand of Ferro chrome has slowly picked up. Your Company's strategic moves and proactive measures in the direction of maintaining minimum stock, optimization of raw material consumption norms and other elements of operational cost, balanced focus on both domestic and export markets, etc has helped in sustaining full scale and efficient operations.

## **PROJECTS**

In the previous year, your Directors had taken a decision to set up a Captive Power Plant on utmost priority. The power scenario in the State of Orissa during the year under review has further emphasized the need for setting up the Power Plant at the earliest and necessary steps are being taken in this direction. Power constitutes about 40% of the Variable Cost of your Company's product and your company has directed all its effort towards setting up of Power Plant and there has been substantial progress in activities like acquisition of land, obtaining of Statutory Clearances, Coal Linkage, etc. The process of finalization of financial arrangement for the Power Plant is also in mature stage.

With the Ferro-chrome demand projected to increase over the next few years, your Company has taken steps to take up the capacity addition project which was kept on hold and the 6th Ferro-chrome Furnace of 16.5 MVA capacity is expected to be operational by the end of 3rd Quarter of next year. All necessary steps are being taken for its financial tie-up.

## **AWARD AND RECOGNITION**

It is my pleasure to inform you that your Company has been awarded by various organisations and statutory bodies in recognition of its contribution to the industry and society. Some of the awards / recognitions received during the year 2009-10 are as following:

- ❖ "EEPC Gold Award" for Being Top Exporter of Ferro Alloys from Eastern region by Engineering Export Promotion Council.
- ❖ "Rajiv Gandhi National Quality Award" by BIS (Bureau of Indian Standards) for Quality and Operational Excellence.
- ❖ "IMEA Platinum Award" by Frost & Sullivan in Metal Category for Manufacturing Excellence.
- ❖ "Special Achievement Award" (Thirteen Numbers) for Greenery development by Rotary Club.
- ❖ "NALCO QC Convention Runners Up Award" in TPM Circle (Workman Category) by National Aluminium Company Limited.

This is a result of the dedicated efforts and the continuous pursuit of excellence. I congratulate Mr. R. K. Jena and his team and hope this momentum shall be continued in future also.

## **FUTURE OUTLOOK**

The Ferro-chrome market is looking attractive because of the expectation of high growth and rising demand especially in China. Ferro-chrome production is a very energy intensive process and the long-term price of Ferro-chrome is

driven by uncertain electricity availability in South Africa, the country producing 40% of FeCr at global level. The electricity crisis in South Africa is expected to continue for several years and the electricity price in South Africa is also expected to double in the coming few years compared to the current level. This will definitely have a positive impact on your company.

HC FeCr consumption is likely to grow steadily throughout 2010 - 11, with exceptional y-o-y advances expected in H1 (36.6%), albeit largely due to a poor base year comparison. In the medium term, China will continue to be the main driver of growth in world demand for HC FeCr, accounting for an estimated 58.5% of the overall increase in global consumption.

With economic conditions expected to improve in 2010-11, demand for stainless steel is expected to show strong recovery this year. It is estimated that world stainless steel output will grow by 14.5% in 2010 -11, 8.9% in 2011-12 and 6.1% in 2012-12 with corresponding increase in FeCr demand.

## **CORPORATE GOVERNANCE**

Your Company's philosophy on Corporate Governance is founded on a rich legacy of fair and transparent governance practices which are essentially aimed at ensuring transparency in all dealings and hence seeks to focus on enhancement of long-term shareholder value without compromising on integrity, social obligations and regulatory compliances.

The Company has implemented all the mandatory requirements of Clause 49 of the Listing Agreement with the Stock Exchange(s) and any amendment in the provisions of the said clause implemented forewith.

The Company's Corporate Governance practices seek to go beyond the regulatory requirements and with a view to ensuring commitment to transparent, law abiding behaviour and good Corporate Governance, the Company has put in place the practices like Code of Conduct, Business Policies, Prohibition of Insider Trading, Risk Management, Safety, Health and Environment Policy and Equal Employment Opportunity.

The Company's Corporate Governance practices seek to uphold the core values of transparency, integrity, honesty and accountability, which are fundamental to the Company and for achieving Corporate Excellence.

## **CORPORATE SOCIAL RESPONSIBILITY**

Your Company firmly believes that sustainable development and inclusive growth has to be promoted in the periphery and it discharges its social responsibilities in a systematic manner with the involvement of its team of dedicated professionals. Various activities are undertaken after assessment of need through surveys and effective implementation is done with the involvement of employees, voluntary organizations and local representatives.

Some of the initiatives taken by your Company in the CSR arena pertain to:



1. Skill Development and Employment Generation
2. Upgrading Infrastructure in Schools and Colleges of the District
3. Health Care Initiatives and improvement of Health Infrastructure
4. Road development, Avenue plantation and Street Lighting
5. Upgradation of quality of education in nearby institutions by sponsoring teachers, improving basic amenities, promoting computer education, scholarship schemes, etc.
6. Massive Plantation Programme in the Plant Periphery.
7. Promoting local talent in various fields like Sports and cultural activities
8. Assistance to needy people

In each of the above areas, a well thought out strategy has been developed to ensure that the benefits reach the needy people without any disparity or dissatisfaction. The mass issues are given predominance but individual cases are also taken up depending on the genuineness and urgency.

## **HUMAN RESOURCES**

As always, the greatest strength of your Company has been its people and their spirit in overcoming challenges, which has helped the Company, chart for itself an illustrious path of growth. During the period under review, your company has further strengthened the relationship of mutual trust and transparency with its employees which helped in meeting all challenges and coming out with flying colours. The company is completely focussed to

fostering performance, transparency and empowerment at all levels. Human resource plan is closely aligned with Company's Business Plan. The human resources policy of the Company is geared towards attracting, motivating and developing a dedicated workforce, which will help the Company accomplish its mission and avowed values.

## **MANAGEMENT INITIATIVES**

Your Company's continued focus towards various strategic management initiatives with a view to exploit favourable market conditions and bring razor edge performance to the forefront has been of paramount importance. Business excellence is the systematic use of quality Management principles and tools in business Management, with the goal of improving performance based on the principles of customer focus, stakeholder value, and process improvement.

Your Company has implemented the European Foundation for Quality Management (EFQM) Excellence Model which provides comprehensive framework for effective management of different resources and elements of the organizations and helps in achieving all round excellence.

The enthusiasm demonstrated by employees in effective implementation of these initiatives being championed by various head of functions have enabled these initiatives to be institutionalized in the culture of your company. A structured review mechanism has been put in place at the apex level to

ensure that these initiatives contribute towards the overall improvement and growth of the organisation.

### **CONCLUDING REMARKS**

We shall in the year 2010-2011 and in the years to come put our best efforts to improve the Quality, Productivity and Profitability of the company while striving to add value to all our stakeholders. I am confident that the Company's ceaseless commitment to learn and to improve itself will once again help to achieve the future goals.

I must convey my sincere thanks to all our employees and business partners for their enthusiasm, professionalism and dedicated contribution to the Company's performance. I also thank my colleagues on the Board for their wise counsel and guidance. We truly value the continued patronage of our esteemed customers. And, of course, I remain grateful to you, our faithful shareholders, for your continuing confidence in our Company.

I also take this opportunity to place on record my sincere and heartfelt gratitude to Govt. Agencies, Ministry of Corporate Affairs, Govt. of Orissa, the Judiciary, Stock Exchanges, Banks, Financial Institutions and all other Business Associates, who have, as always, extended their valuable support and active co-operation to the Company's cause.

### **THANK YOU**