



**BALASORE ALLOYS LIMITED**  
**24<sup>TH</sup> ANNUAL GENERAL MEETING**

**26<sup>TH</sup> SEPTEMBER, 2012**

**FROM THE CHAIRMAN'S DESK**

**DEAR FELLOW SHAREHOLDERS,**

Good Morning. On behalf of the Board of Directors, I am glad to welcome all the shareholders, at the 24<sup>th</sup> Annual General Meeting of the Company.

The Annual Report containing the Directors' Report and the Audited Accounts for the year ended 31<sup>st</sup> March 2012 has been with you for some time and, with your permission, I shall consider them as read.

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 global growth environment has remained challenging due to the Euro zone sovereign debt crisis, volatile oil prices and fragile growth in most countries.

India's GDP growth projections have been trimmed down to 6.5% for the financial year 2011-12 after growing at 8.4% in the financial year 2010-11. While the growth in the agricultural and service sector continuing to perform well, India's slowdown can be attributed almost entirely to weakening industrial growth. The manufacturing sector grew by 2.7 per cent and 0.4 per cent in the second and third quarters of 2011-12. Inflation as measured by the wholesale price index (WPI) was high during most of the current fiscal year, though by the year's end there was a clear slowdown.

As per Mid-Quarter Monetary Policy Review: September, 2012 issued by the RBI on 17th September, 2012 states that, Global purchasing managers' indices (PMI) points towards contraction in manufacturing sector and only modest growth in Service sector. Persistent sovereign debt pressures amidst weakening economic activity in the EURO area pose significant downside risks to the global economy. Growth in several major emerging and developing economies (EDEs) is also moderating, with China's growth slowing to its lowest rate in the past three years during the second quarter of 2012. Slowing global demand has adversely affected industrial activity and exports in these economies. The Indian economic activity picked up modestly in the first quarter of 2012-13 in relation to the preceding quarter; but the sluggish momentum in the first quarter was evident across all sectors of the economy, and particularly in Industrial sector. Lead indicators also pointed towards slack activity in the second quarter of 2012. Industrial

production rose by just 0.1 per cent in July, 2012 and in August, 2012 the manufacturing PMI fell to its lowest level due to power shortages and declining export orders resulting in output disruptions.

According to the International Monetary Fund (IMF), global growth is projected to moderate to 3.5 percent in 2012 and 3.9 percent in 2013. Whereas, growth in emerging and developing economies will moderate to 5.6 percent in 2012 before picking up to 5.9 percent in 2013. Global consumer price inflation is projected to ease as demand softens and commodity prices recede.

## **INDUSTRY SCENARIO**

Your Company is engaged in the production of High Carbon Ferro Chrome which is backed up by captive Chrome Mines. Basically, Ferro chrome is used in metallurgical operations (especially stainless steel) as a raw material. Globally FeCr production is centred near regions with high chrome deposits. It is produced through a highly energy intensive electric arc furnace (EAF) process. Consumption and production of Ferro chrome has been growing for the last few years primarily due to increased usage of stainless steel. Demand for FeCr largely follows trends in Stainless steel and Alloy steel production.

## FINANCIAL HIGHLIGHTS

The Company achieved impressive performance with the improvements across key parameters. The turnover from manufacturing activities achieved for the year ended March 31, 2012 was Rs. 58,950.69 Lacs registering a growth of 14% over the previous year. During the year export was Rs. 23,095.14 Lacs higher by 4 % despite low demand and price pressure in the international market.

Major Financial Highlights are as follows:

	<b>Financial Year ended 31st March, 2012</b>	Financial Year ended 31st March, 2011
Profit before Tax (PBT)	<b>4889.07 lacs</b>	4078.56 lacs
Net Profit (PAT)	<b>3193.06 lacs</b>	2688.54 lacs
Basic Earnings per share	<b>4.97</b>	4.18

- Net Profit increased by 18.77%
- Profit Before Tax increased by 20.00%
- Earning per share increased by 19.00%
- Your directors have recommended a 10% Dividend successively for the second year for the financial year ended 31.03.2012 subject to the approval of Shareholders at this Annual General Meeting and necessary approval from

Lenders. Under the Income Tax Act, 1961, the receipt of Dividend is tax free in the hands of the shareholders.

## **OPERATIONS**

Your Company has been facing several challenges in the year ended 31<sup>st</sup> March, 2012 including increasing cost of Power and raw materials and very volatile market conditions. In view of the strong headwinds in the external environment, your Company has been undertaking several internal initiatives to continue its journey towards developing a robust business model. Optimum capacity utilization is a critical factor for achieving sustained profitability, which we have been achieving continuously, even during the Global Meltdown period. Sustainability has continued to be our core strategy. Safe working conditions, planned production schedules, cost savings in raw materials and procurement, lowest inventory level and the provision of clean working environments have been strengths to further improve the sustainability of our operations.

For the year ended 31<sup>st</sup> March 2012, the production stood at 93,996 MT as against 90,544 MT in the previous year 2010-11, thereby achieving a growth of about 3.18% than the previous year. Your Company exported 33,191 MT valued Rs 23,095.14 Lacs during the year under review as against 34,996 MT valued at RS 22,244.93 Lacs during the previous year 2010-11. Your Company is putting all its effort to maximize the Net Sales Realization (NSR) by optimizing the domestic and export sales mix.

Further your Company is focusing on optimum capacity utilization which is a critical factor for achieving sustained profitability and we have been achieving continuously even during adverse situation.

## **PROJECTS**

Though, the power supply during the year under review remained stable, there has been steep hike in power tariff, Power, therefore, continues to remain a major area of concern and impediment in the growth of the Company.

As already informed in earlier years, your Company had acquired land, coal linkage and other requisite statutory clearances for setting up the Captive Power Plant. However, the project being very capital intensive, efforts are on to explore the strategic partner for securing financial tie-up for the projects.

The capacity addition project i.e. new Ferro Chrome Furnace projects of 16.5 MVA and acquisitions of idle furnaces in close proximity to plant and mines are also under active consideration.

## **AWARD AND RECOGNITION**

The Company has received many awards from various organizations in recognition of its contribution to the industry & society and for its outstanding performance. Some of the awards during the financial year 2011-12 are mentioned below:

- a. **"GREENTECH ENVIRONMENT SILVER AWARD"** in METAL & MINING SECTOR from Green Tech Foundation, New Delhi for outstanding achievement in Environment Management.
- b. **"IMEA GOLD AWARD"** by FROST & SULLIVAN in METAL CATEGORY for manufacturing excellence.
- c. **"NALCO QC CONVENTION RUNNERS UP AWARD"** in TPM Circle by National Aluminium Company Limited.
- d. **"SPECIAL ACHIEVEMENT AWARD" (Twenty Three Numbers)** for Greenery Development by Rotary Club.

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

## **FUTURE OUTLOOK**

The temporary cutbacks in South African ferrochrome production, prompted by nationwide shortages of power, have brought focus to consumers. The announcements by all the major South African producers surprised many.

The ferrochrome market is forecast to experience a deficit of 2,88,000 MT in 2012 reflecting the impact of recent production cuts in South Africa, which in turn have been caused by local power shortages. South African output will contract for a second year running after sliding more than 20% year-on-year (y-y) in the first half. The near 16% predicted decline for the year overall –

down from 7% forecast in February - should bring global supply downwards for the first time since 2009.

Although there was a seasonal recovery in stainless steel market outside of China, stainless production did fall year-on-year in the first quarter as expected. The decline amounted to just 1.0%, set against a near 12% rise the year before. Sentiment has arguably deteriorated since that time, affected by a steadily falling nickel price though outside of Europe, production levels have still been picking up.

The economic outlook remains far better than market sentiment suggests, however, and after some destocking in Q3, a pronounced growth phase is expected.

After accelerating strongly in the final quarter of last year, ferrochrome consumption on an "apparent" basis has been steadily contracting, amid a steadily worsening economic outlook. However, real consumption has in fact been rising to record levels close to 2.3m tonnes in Q2 2012. In light of the de-stocking that has taken place through the past few quarters, ferrochrome suppliers are anticipating / hoping for a turnaround in enquiries before the end of this year, assuming consumers will need to replenish inventories.



Consumption in Western Europe, the second largest market, is forecast to rise next year, by 3%, but significant growth is expected elsewhere. China's growth will be followed by large gains in Japan and the USA, which will push the Western World growth to over 5% and world to 6.7%.

The likelihood of the market experiencing even higher prices in 2013 is substantial. Industry stocks are likely to have been pared back to extremely low levels by the end of this year and will persist at these levels until end-2013 at a minimum.

Recent rebound in Nickel price with 20 week high in Sep'12 is sure indication of market rebound which will boost stainless steel price thereby increase in Ferrochrome 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'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.

As a part of "Green Initiative in Corporate Governance", the Ministry of Corporate Affairs has permitted the Companies to serve the documents viz. Notice of General Meeting, Balance Sheet, Profit & Loss Account, Auditors Report, Directors Report etc. to the members through e-mail. In order to support this green initiative, we request you to please register your e-mail address by following the procedure already sent to you along with annual report 2011-12.

## **CORPORATE SOCIAL RESPONSIBILITY**

Your Company believes that any progressive activity cannot be carried out without sustainable development and growth of the society as a whole. Keeping in mind of this fact your company discharges its social responsibilities in a proactive manner with the help of its dedicated team. The CSR activities have been aligned with the Vision of the company and the activities are being carried

out regularly. Some of the initiatives undertaken during the year are given below:

- a. Skill Centre: Your Company in association with Confederation of Indian Industries during the year has set up a skill centre to impart vocational training to the local students. The company will be sponsoring the students and also assist with their placement on completion of the course.
- b. Assistance to poor and needy.
- c. Environmental protection through tree plantation.
- d. Drinking water facility in the neighbouring villages.
- e. Street Light facility in the neighbouring villages.

## **HUMAN RESOURCES**

Despite the fact that your Company during the period under review went through different challenges, continued to further strengthen the relationship of mutual trust and transparency with its employees which helped in meeting all challenges. The second half of the year was difficult as there were a large exodus of senior executives but the Management and employees of our Company worked hand in hand during the crisis and came out with flying colours.

Skill and knowledge up gradation has remained as one of the focus areas of the Company so that a vibrant workforce is developed to meet the present and future requirements. Special focus was given in areas like nurturing future leaders, role clarity, empowerment, team work to facilitate a performance driven culture. As the

Company looks to expand its business, it aims to develop a cohesive workforce through leadership, management, talent management and transparent performance management system. The individual goals have been synchronized with organizational goals and the young and energetic team of our Company is marching ahead in its quest for excellence. The human resource policy of the Company focuses on equal opportunity and fair treatment for all and there is a focus on attraction and retention of best talents. Right to freedom of association and collective bargaining has been established through joint consultation with office bearers of the Unions, grievance handling mechanism etc. A congenial atmosphere has been created through an environment of mutual trust and transparency between the Management and Union bodies.

## **MANAGEMENT INITIATIVES**

Your Company continues to practice various strategic management initiative such as Six Sigma, Total Productive Maintenance (TPM), Performance management System (PMS) , Supply Chain Management (SCM) and in the process of implementing "SAP" with a view to continually improving the productivity and to maximize the automation of business process. Continuous training and re-training are being conducted to update all employees on the modern initiatives. To augment the process, your company has taken up an integrated approach of various initiatives with focus on Business Excellence. 100% involvement of employees across the organization and structured review mechanism put in place at the

apex level has made these initiatives contributing towards growth of the organization.

## **CONCLUDING REMARKS**

We shall in the year 2012-2013 reinforce our quest for high quality and further improve our concern for customers. As we now stand on the doorstep of conquering new heights, I am confident that the Company's ceaseless commitment to learn and to improve itself will once again help it to achieve its 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. of Odisha, Stock Exchanges, Banks, Financial Institutions and all other Business Associates, who have, as always, extended their valuable support and active cooperation to the Company's cause.

**THANK YOU**