

Directors and Management Discussion and Analysis Report to the Shareholders of IFGL Refractories Limited

Your Directors are pleased to present the Seventeenth Annual Report together with Profit and Loss Account for financial year ended on 31st March, 2006 and Balance Sheet as on that date.

Financial Performance

Financial Performance of your Company for financial year ended on 31st March, 2006 has been satisfactory and as follows :

	(Rs. in Millions)	
Sales		1302.73
Income from Service Charge (Net)		1.04
Other Income		5.44
		1309.21
Less : Total Expenses	1019.69	
Interest	9.55	
		1029.24
Gross Profit after Interest but before Depreciation and Taxation		279.97
Less : Depreciation		41.13
Profit before Tax		238.84
Less : Provision for Current Tax		80.30
Profit after Current Tax and before Deferred Tax and Fringe Benefit Tax		158.54
Less : Provision for Deferred Tax		(0.07)
Less : Provision for Fringe Benefit Tax		3.70
Profit after Tax		154.91
Add : Profit brought forward from previous year		113.81
Profit available for appropriation		268.72

Total Income, Profit before Tax and Profit after Tax has increased by 14.97%, 24.30% and 29.61% respectively compared to that of previous year ended on 31st March, 2005.

Enhancement of customers satisfaction and stakeholders value

Your Company's philosophy is to enhance customers' satisfaction and value of all its stakeholders.

In continued pursuit of this philosophy, your Company, in September, 2005, acquired the Monocon Group (comprised of Companies named below) of UK through step down subsidiaries namely IFGL Worldwide Holdings Limited, Isle of Man and IFGL Monocon Holdings Limited, UK.

- Monocon International Refractories Limited, UK
- Monocon Refractories Limited, UK
- Monocon Overseas Limited, UK
- Mono Ceramics Inc, USA
- Tianjin Monocon Refractories Co Limited, China
- Monotec Refratarios Ltda, Brazil
- Monocon Taiwan Co Limited, Taiwan

Monocon Group is engaged in manufacture of following Products used by producers of Iron and Steel.

- Spraying Mass and Machine for Tundish Spraying
- Refractory Dart and Machine for BOF
- Monolithic lance for
 - i) Desulphurisation in iron making
 - ii) Secondary steel making applications
- Robot for Ladle Maintenance – Ladle Monocator
- Robot for Furnace Maintenance – Furnace Monocator
- Monolithics for EAF, Ladle and Tundish

Directors' and Management Discussion and Analysis Report (Contd.)

Operating facilities are located in the UK, USA, China, Brazil and Taiwan. MONOCON is an established brand in the Steel Industry for excellent product performance. Activities of Monocon Group are broadly complimentary and or similar to those of your Company and vice versa and thus are leading to various business synergies. With this acquisition as a Group we are able to provide a basket of eight products, instead of the earlier four, from six locations spread over four continents, to our customers. Combined Total Income and Profit before tax of the Monocon Companies for financial year is Rs. 16,556 lacs and Rs. 773 lacs respectively. However, since your Company acquired said Companies on and from 10th September, 2005 only, Total Income and Profit before tax of Rs. 10,049 lacs and Rs. 442 lacs respectively have only been added with that of your Company. While full financial impact of this business acquisition will be borne out in financial year 2006-2007, consolidated Total Income and Profit after tax of your Company for financial year 2005-2006 is Rs. 23,141 lacs and Rs. 1,860 lacs respectively. Consequently EPS for financial year 2005-06 on stand alone basis is Rs. 4.48 only whereas on consolidated basis the same is Rs. 5.37.

In terms of Accounting Standard 17 'Segment Reporting' issued by the Institute of Chartered Accountants of India following consolidated Segment information has been given for financial year 2005-06 only, being first year of consolidation.

	(Rs. in lacs)
Sales Revenue by Geographical Area	
India	5,621
Outside India	
Asia (excluding India)	3,337
Europe	6,360
Americas	4,957
Others	2,798
Capital employed by geographical location of assets	
India	7,265
Outside India	
Europe	3,256
Americas	2,055
Asia (excluding India)	544

Aforesaid acquisition of business and improved financial performance is aptly reflected in market capitalisation of Equity Shares of your Company in as much as market price per Equity Share of your Company in April, 2005 was around Rs. 43/- only whereas in March, 2006 the same was around Rs. 90/-, thus increased by more than 109%.

Dividend

Your Directors are pleased to recommend payment of Dividend at the rate of 17.5 % i.e. Rs. 1.75 per Equity Share for financial year 2005-2006, after transfer of Rs. 116.19 lacs to the General Reserve. Dividend recommended is higher by 16.67% i.e. Rs. 0.25 per Equity Share compared to Dividend of 15% i.e. Rs. 1.50 per Equity Share paid for financial year 2004-2005 and is subject to necessary approvals including approval of the shareholders at the ensuing Annual General Meeting.

Industry Structure, Developments, Opportunities, Threats, Risks and Concerns and Future Outlook

The Indian Economy has continued to grow strongly during financial year 2005-2006. Growth has been fuelled by favourable demographics, rising consumption, increased infrastructure investments, strong private capital expenditure as well as exponential growth in outsourcing opportunities. This growth is reflected in robust performance of the corporate sector, various macro economic indicators and the move of the Indian Government towards full capital account convertibility. Recently, Standard and Poor Ratings Services (S&Ps) has also revised its outlook on India to positive from stable, which is a notch short of the investment grade. Your Directors believe that these drivers and/or indicators point towards continued strength in industrial and investment demand in India in the coming years.

Fortunes of your Company are directly linked with that of the Steel Industry. Buoyancy in the Steel Industry due to strong growth in demand particularly by the demand for Steel in China, is continuing. The International Iron and Steel Institute (IISI) in its forecast for 2006 has reconfirmed the increase in Steel usage, This is in line with general economic growth specially those of the BRIC countries, of which China and India have recorded the highest growth rate. All these have resulted in substantial increase in demand for Iron and Steel products specially in India. Thrust is also on production of high end quality of Steel at most competitive cost and in this regard, role of high quality Refractory manufacturers is becoming further vital and important.

Your Company has taken several proactive steps to continue playing the role of a prominent Refractory manufacturer to the Steel Industry both in India and abroad and thus derive full financial benefits from aforesaid market scenario. During financial year 2005-2006, a technical assistance agreement was entered into with Krosaki Harima Corporation of Japan for latest know how pertaining to refractory components of Alumina Graphite material and this is going to phenomenally help your Directors to achieve objectives slated for your Company for time to come.

Directors' and Management Discussion and Analysis Report (Contd.)

Your Company has also commenced regular production of Bio Ceramic products namely Orbital Implants and Dental Granules and have commenced marketing thereof to Hospitals directly and or through network of Dealers. Response received from customers in general is encouraging and to give further impetus to these Products, has also obtained ISO 9001:2000 Certification therefor.

Notwithstanding aforesaid optimistic scenario, there are concerns of a strong credit growth resulting in tightening of liquidity and increase in interest rate, hardening of crude prices, increased imports on account of oil and capital goods leading to current account deficit etc, which could act as impediments to rapid economic growth of India and turn out to be a dampener in short to medium term. Rise in interest rate is a negative for corporate profitability and credit demand. Your Directors are however of strong belief that increase in interest rate is not going to be significant enough to have any major impact on either corporate profitability or credit demand.

Voluntary delisting of Equity Shares

In accordance with resolution earlier passed at the General Meeting, your Company made applications to the Calcutta Stock Exchange Association Limited and the Bhubaneswar Stock Exchange for voluntary delisting of your Company's Equity Shares therefrom. Said Stock Exchanges have acceded to the request of your Company and delisted Company's Equity Shares from 5th July, 2005 and 29th March, 2006 respectively.

Corporate Governance/Internal Control System and their adequacy

Your Company believes that practising good Corporate Governance is an important step towards building investor confidence, improving investors' protection and maximising long term value of stakeholders. Terms of reference of the Audit Committee constituted by your Board of Directors include reviewing adequacy of your Company's Internal Control System and Internal Audit Function and in their opinion the same appears to be effective and commensurate with the size of operations of your Company. Efforts have however been made to strengthen such Internal Control System on an ongoing basis and in this regard, for minimising adverse effects of different types of risks your Company is prone to, framework for risk assessment, minimisation and control have been put in place by way of a Risk Management Manual and Risk Register. Your Directors are of the opinion that such framework is supplementary and complimentary to Systems for internal control as well as internal audit function. A detailed report on Corporate Governance compliance duly certified by the Company's Statutory Auditors forms part of this Report as Annexure 'A'.

Accounts of Subsidiary Companies

By an approval dated 25th April, 2006 under Section 212(8) of the Companies Act, 1956 (the Act), the Ministry of Company Affairs has exempted your Company from the provisions of Section 212(1) of the Act for financial year 2005-2006 for attachment of statements of accounts of its aforesaid subsidiaries to its accounts for said financial year. However, a statement having financial information of said subsidiary Companies forms part of the Annual Report. Shareholders of the Company desirous of having complete statement of accounts and related detailed information of said subsidiary companies, may send their request either to the Company's registered office or to head office. The statement of accounts and related detailed information shall be also kept for inspection at Head Offices of your Company and its subsidiary companies. These will also be available at your Company's website i.e. www.ifglref.com

Directors' Responsibility Statement

Your Directors, in terms of Section 217(2AA) of the Companies Act, 1956 (the Act), state that :

- a) in preparation of statement of accounts for the financial year under review, the applicable Accounting Standards have been followed and in case of departures therefrom, proper explanations relating thereto have been given in the Notes forming part thereof.
- b) Accounting Policies selected have been applied consistently and judgments and estimates made are reasonable and prudent as they give true and fair state of affairs of the Company at the end of the financial year under review and of the profit and loss of the Company for that period.
- c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d) Annual Accounts have been prepared on a going concern basis.

Your Company's Statutory Auditors, Messrs Price Waterhouse, Chartered Accountants have audited the statement of accounts in accordance with generally accepted Accounting Standards and practices as indicated in their Report.

Directors' and Management Discussion and Analysis Report (Contd.)

Consolidated Financial Statements

In accordance with Accounting Standard 21, Consolidated Financial Statements form part of this Annual Report. Consolidated Financial Statements have been prepared based on Financial Statement (including Consolidated) of immediate two levels of Subsidiary Companies i.e. IFGL Worldwide Holdings Limited and IFGL Monocon Holding Limited, as approved by their respective Boards.

Directors

Directors due to retire by rotation are Mr D G Rajan and Mr K S B Sanyal, who, being eligible, offer themselves for re-election for further period. Mr T Ohashi ceased to be a Director of your Company due to resignation on and from Monday, 24th October, 2005. In the casual vacancy so caused, Mr T Yazawa, Manager of Sojitz Chemical Corporation, Japan, was appointed as a Director of your Company on and from that date. Your Directors place on record sincere appreciation for invaluable contributions made by Mr Ohashi during his association with your Company as a Director and look forward to a long, cordial and fruitful association with Mr Yazawa.

Human Resources and Industrial Relations

Your Company believe that immediately after customers, human resource is its most important capital and the same need to be empowered in all possible ways for achieving objectives slated from time to time. In this regard, employees are subjected to periodical trainings for upliftment of their skills and familiarisation with latest techniques and practices, provided with most conducive working environment and always kept motivated by extending compensation packages and benefits most competitive in the Refractory Industry in India. Furthermore, during financial year 2005-2006 your Company's employees strength neither increased nor decreased substantially and Industrial Relations continued to remain cordial.

Particulars of remuneration paid in excess of limit specified for the purpose of Section 217(2A) of the Act read with the Companies (Particulars of Employees) Rules, 1975, amended to date are given in Annexure 'B'.

Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

Information in accordance with provision of Section 217(1)(e) of the Act read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 regarding conservation of energy, technology absorption and foreign exchange earnings and outgo is given in Annexure 'C'.

Auditors' Report

The Auditors in their Report have referred to the Notes forming part of accounts, which are self explanatory.

Auditors

Messrs Price Waterhouse, Auditors will retire at the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment.

Acknowledgement

Your Directors sincerely appreciate continued support received from all concerned particularly from the shareholders, banks and all the employees.

On behalf of the Board of Directors

Kolkata, 15th May, 2006

S K Bajoria
Managing Director

P Bajoria
Director & Chief Executive