

## Directors' Report and Management Discussion and Analysis Report to the Shareholders

### *Dear Shareholders*

Your Directors are pleased to present the Eighteenth Annual Report together with Profit and Loss Account for financial year ended on 31st March 2007 and Balance Sheet as on that date.

#### Financial Performance

The financial performance of your Company for financial year ended on 31st March 2007 has generally been satisfactory and as follows :

(Rs. in millions)

Sales (Net of Excise Duty)	<b>1508.19</b>	
Income from Service Charge (Net)	<b>0.02</b>	
Other Income	<b>6.73</b>	<b>1514.94</b>
Less : Total Expenses	<b>1182.62</b>	
Interest	<b>42.95</b>	<b>1225.57</b>
Gross Profit after Interest but before Depreciation and Taxation		<b>289.37</b>
Less : Depreciation		<b>36.76</b>
<b>Profit before Tax</b>		<b>252.61</b>
Less : Provision for Current Tax		<b>86.07</b>
<b>Profit after Current Tax and before Deferred Tax and Fringe Benefit Tax</b>		<b>166.54</b>
Add : Provision for Deferred Tax		<b>0.07</b>
Less : Provision for Fringe Benefit Tax		<b>2.70</b>
<b>Profit after Tax</b>		<b>163.91</b>
Add : Profit brought forward from previous year		<b>188.04</b>
<b>Profit available for appropriation</b>		<b>351.95</b>

Briefly, Total Income, Profit before Tax and Profit after Tax have increased by 15.71%, 5.76% and 5.81% respectively, compared to that of previous year ended on 31st March 2006. This was achieved despite several adverse factors particularly substantial increase in prices of inputs and enhanced competition.

#### Enhancement of customers satisfaction and stakeholders value

In continued pursuit of the philosophy to enhance customers satisfaction and value of all stakeholders, your Company through its step down subsidiaries acquired Goricon Group of Wales in the UK comprising of Goricon Metallurgical Services Ltd, Wales (UK) and Goricon LLC, Ohio (USA) for an amount aggregating to about GBP 1 (one) million. These entities are also engaged in manufacture of Darts, Lances and Ladle Powders used in the Steel Industry. These acquisitions have added value in several ways and are likely to add further value because exercise for integration thereof is

still going on. Your Company has also set up a subsidiary named Tianjin Monocon Aluminous Refractories Co. Ltd. in Tianjin (PRC) mainly for manufacture of Refractory Darts. Trial production has already commenced and commercial production is likely to start by the end of current quarter June 2007. This facility will be primarily used for exports and hence add further value to your Company.

Total Income, Profit before Tax and Profit after Tax and Minority Interest of your Company for financial year 2006-2007 on a consolidated basis is Rs. 3238.96 millions, Rs. 372.04 millions and Rs. 262.37 millions respectively. Although these figures are not comparable with those of immediately preceding financial year 2005-2006 [which were effectively for 7 (seven) months operations], are higher by about 40%, 31% and 41% respectively. Similarly, EPS for financial year 2006-2007 on stand alone basis and consolidated basis is Rs. 4.74 and Rs. 7.58 respectively, compared to Rs. 4.48 and Rs. 5.37 for financial year 2005-2006.

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**Segment Reporting - in terms of Accounting Standard 17**

Your Company and its subsidiaries are primarily engaged in manufacturing of and dealing in Specialised Refractories and accordingly, geographical locations where its products are produced are its primary locations and the Segment Revenue, Segment Results and Capital Employed are as follows :

*(Rs. in millions)*

	For financial year ended 31st March 2007	For previous year ended 31st March 2006
<b>Segment Revenue</b>		
India	1508	1302
Outside India		
Asia (excluding India)	278	93
Europe	1023	639
Americas	637	406
<b>Total</b>	<b>3446</b>	<b>2440</b>
Less : Inter Segment Adjustment	219	133
<b>Total Segment Revenue</b>	<b>3227</b>	<b>2307</b>
<b>Segment Results (Profit before tax)</b>		
India	295	248
Outside India		
Asia (excluding India)	59	6
Europe	77	120
Americas	21	3
<b>Total (Profit before interest)</b>	<b>452</b>	<b>377</b>
Less : Inter Segment Adjustment	25	62
Less : Interest Expenses (Net)	70	32
Add : Unallocable Items	15	0
<b>Profit before tax</b>	<b>372</b>	<b>283</b>

*(Rs. in millions)*

	As at 31st March 2007	As at 31st March 2006
<b>Segment Capital Employed (Assets – Liabilities)</b>		
India	847	657
Outside India		
Asia (excluding India)	110	41
Europe	432	352
Americas	191	220
<b>Total</b>	<b>1580</b>	<b>1270</b>
Less : Inter Segment Adjustment	36	9
Less : Liabilities	688	670
<b>Total Capital Employed</b>	<b>856</b>	<b>591</b>

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**Dividend**

Your Directors are pleased to recommend payment of Dividend at the rate of 17.50% i.e. Rs. 1.75 per Equity Share for financial year 2006-2007 after transfer of Rs. 12.29 millions to the General Reserve. Dividend recommended is same as that for previous financial year 2005-2006 and is subject to necessary approvals including approval of the shareholders at the ensuing Annual General Meeting.

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

The Indian economic growth momentum continued during financial year 2006-2007 also. As indicated by your Directors in their report to you for previous financial year 2005-2006, all indicators point towards sustained industrial and investment demand in India in the coming years. Targets set out by the Indian Government for current financial year though initially appeared to be stretched but now seems to be achievable. Rising inflation is becoming an area of major concern.

Growth of your Company is directly linked to the Steel Industry. Demand for Steel continues to be strong in emerging markets of the BRIC Countries. More and more capacities for production of Steel are being set up in India and as per the Ministry of Steel, Government of India, the target for year 2020 is to reach a production level of 110 million tonnes, of which 90 million tonnes are for internal consumption. Thrust is also on the production of high end quality of Steel at most competitive cost. This results in the requirement of high quality refractories. Your Directors are proud to inform that your Company is now one of the prominent manufactures of specialised Refractories and Operating Systems for

the Steel industry and has appropriately positioned itself both in India and overseas.

Your Company has adopted a new slogan 'DEDICATED TO CLEAN STEEL' depicting commitment to provide high quality Refractory products to the Steel industry globally. Your Company already has ISO 9001:2000 Certification and steps have now been initiated for ISO 14001 Certification.

Your Directors are aware that above objective cannot be attained without having technological edge and thus continually strengthening your Company with latest technologies. During financial year 2006-2007, your Company entered into a Technical Assistance Agreement with Alcar International Ltd, UK for Tube Changer for Continuous Casting Slab Machines.

**Bio Ceramics**

Bio Ceramic products namely Orbital Implants and Dental Granules produced by your Company have of late been brought under the definition of Drugs within the meaning of Drugs and Cosmetic Rules, 1945 and thus require License to manufacture and sell said products. Steps have already been taken for obtaining said License at the earliest.

**Corporate Governance/Internal Control System and their adequacy**

It is belief of your Directors 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 Functions and in their opinion the same appears to be effective and commensurate with the size of operations of your Company. Nonetheless, Internal Control System are being strengthened on an on-going basis and 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. Such framework is supplementary and complimentary to system for internal controls as well as internal audit functions. A detailed report on Corporate Governance compliance duly certified by the Company's Statutory Auditors form part of this Report as Annexure 'A'.

**Accounts of Subsidiary Companies**

By an approval dated 14th February 2007 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 2006-2007 for attachment of statements of accounts of the subsidiaries to its accounts for said financial year. However, a statement having financial information of Subsidiary Companies form part of the Annual Report. Shareholders of the Company desirous of having complete statement of accounts and related detailed information of subsidiary companies, may send their request therefor either to the Company's registered office or to head and corporate office. Said statement of accounts and related detailed information are being

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kept for inspection at Head Offices of your Company and 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 judgements 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, M/s. Price Waterhouse, Chartered Accountants have audited the statement of accounts in accordance with Generally Accepted Accounting Standards and Practices as indicated in their Report.

**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 Statements (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 Prof AN Sadhu and Mr M Kusakabe, who, being eligible, offer themselves for re-appointment for further period.

**Human Resources and Industrial Relations**

Your Directors seek to provide most conducive working environment to its human resource and empower them by periodical trainings on latest techniques and practices. Compensation packages and benefits provided are most competitive and comparable to the best offered in the Refractory Industry in India. During financial year 2006-2007, employees strength of your Company neither increased nor decreased substantially and Industrial Relations remained most 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**

Report of the Auditors, including references made therein to the Notes forming part of the Statement of Accounts, are self explanatory and does not require to be elucidated further.

**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 place on record appreciation for unabated support received from all concerned particularly from the shareholders, banks and employees.

On behalf of the Board of Directors

**S K Bajoria**  
Managing Director

**P Bajoria**  
Director & Chief Executive

Kolkata  
10th May 2007

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