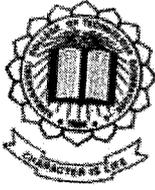


P-2124



**“A STUDY ON DEBTORS MANAGEMENT OF STEEL
AUTHORITY OF LIMITED, SALEM STEEL PLANT”**

By

N.MOHANA

Reg No.71206631028

Of

Department of Management Sciences
Kumaraguru College of Technology
Coimbatore

A PROJECT REPORT
Submitted to the

FACULTY OF MANAGEMENT STUDIES

In partial fulfillment of the requirements
for the award of the degree

Of

MASTER OF BUSINESS ADMINISTRATION

July 2007



Department of Management Sciences
KUMARAGURU COLLEGE OF TECHNOLOGY
COIMBATORE – 641006

BONAFIDE CERTIFICATE

Certified that this project report titled “A STUDY ON THE DEBTORS MANAGEMENT IN STEEL AUTHORITY OF INDIA LIMITED , SALEM STEEL PLANT” is the bonafide work of Ms. N.MOHANA (Reg No : 71206631028), who carried out the research under my supervision. Certified further, that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.


FACULTY GUIDE


DIRECTOR

Evaluated and vice-voce conducted on 29/10/09


EXAMINER I


EXAMINER II

STEEL AUTHORITY OF INDIA LIMITED

A Government of India Enterprise

Salem Steel Plant

Salem 636 013, Tamil Nadu, India

Phone : 0427-238 3021 Fax : 0427 - 238 2800

Grams : STAINLESS www.sail.co.in



Ref No TR-15(6)/698

August 29, 2007

CERTIFICATE

Certified that
Miss N. Mohana
Final Year MBA student of
Kumaraguru College of Technology, Coimbatore
has done a Project on
**“A STUDY ON DEBTORS MANAGEMENT
IN SAIL, SALEM STEEL PLANT”**
in Finance & Accounts Department
of Salem Steel Plant
during 27/06/2007 to 21/08/2007

KN Sankarlal
Asst Manager(HRD)

Product Mix : Cold rolled stainless steel coils / sheets, hot rolled stainless steel and carbon steel coils / sheets / plates, stainless steel coinage blanks and utility circles.

Unit Offices : Chennai Ph : 2855 4542-44, Fax : 2855 3686, New Delhi Ph : 2572 9534 / 4416, Fax : 2575 5608. Marketing Head Quarters : Salem Ph 238 3236 / 2236, Fax 238 3249 / 3063

Regional Marketing Offices : Chennai Ph : 2851 4308 / 2858 3936, Fax : 2851 3208, Mumbai Ph : 2529 9487 / 570 Fax : 2527 6121 Kolkata Ph : 2288 8593, 2288 0058, Fax : 2288 2265
New Delhi Ph : 2332 9872, 2372 5683, Fax : 2372 0540. Registered Office : Ispat Bhavan, Lodi Road, New Delhi - 110 003, Ph : 2436 7481-86, Fax : 2436 7015

DECLARATION

I, hereby declare that this project report entitled as "A STUDY ON DEBTORS MANAGEMENT IN STEEL AUTHORITY OF INDIA LIMITED SALEM STEEL PLANT", has undertaken for academic purpose submitted to Anna University in partial fulfillment of requirement for the award of the degree of Master of Business Administration. The project report is the record of the original work done by me under the guidance of Mrs.R.Hemanalini during the academic year 2007-2008.

I, also declare hereby, that the information given in this report is correct to the best of my knowledge and belief.

Place: Coimbatore

Date: 29/10/07

N. Mohana
(N.MOHANA)

EXECUTIVE SUMMARY

STEEL AUTHORITY OF INDIA (SAIL) is the market leader in the Indian steel industry. It meets around one third of the country's requirement of saleable steel including semi-finished steel. SAIL's strength lies in its being the largest steel producer with a wider product range than any other domestic steel maker. As a result, it remains the only company able to service a combination of requirements from a large customer base within a shorter time frame. Leading the steel-consuming market segments being serviced by SAIL is the construction segment which accounts for around a third of the country's total steel consumption, higher than any other segment. SAIL has been an active and steady supplier in this and the related fabrication segment.

The project strives to study the Debtors Management System prevailing at Salem Steel Plant and to provide considerable recommendations for better Debtors management of the company. The data used for the study were both Primary and Secondary in nature. Primary data were collected from official through formal discussions. Secondary data were collected through annual reports, records, journals, magazines and manuals of the company.

The tools used for analysis were Ratio analysis, Comparative financial statement.

Based on the analysis and findings, conclusions were drawn to improve the future Debtors Management of the company.

ACKNOWLEDGEMENT

It is inevitable that thoughts and ideas of other people tend to drift into the subconscious when one feels to acknowledge helping derived from others. I acknowledge to all those who have helped me in the preparation of this project work.

I would like to thank the god almighty for his guidance without whom this project wouldn't have become reality.

I wish to express my deep gratitude to the principal Dr. Joseph V. Thanikal for his guidance and encouragement to complete my project work.

I wish to express my sincere thanks to Prof. Devanathan – Director, KCT Business School, for his continuous encouragement throughout my project.

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I express my sincere thanks to Mr.Sankarlal, Training center, SAIL(SSP), for granting permission to do my project work.

I extend my sincere gratitude to Mr.Raguraman, Manager(Costing) Finance, Salem Steel Plant,SAIL, for his guidance to complete my project successfully.

I extend my sincere thanks to Mr.S.Sivasubramaniam, Finance,Salem Steel Plant, SAIL, for his guidance to complete this project successfully.

Lastly I thank all the employees in the organization who were involved knowingly or unknowingly to make this project work successful.

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CHAPTER 1

INTRODUCTION

CHAPTER 1

1. INTRODUCTION

1.1 BACKGROUND

Trade credit arises when a firm sells its products or services on credit and does not receive the cash immediately. It is an essential marketing tool, acting as a bridge for the movement of goods through production and distribution stages to customers. A firm grants trade credit to protect its sales from the competitors and to attract the potential customers to buy its products at favourable terms. Trade credit creates **accounts receivable** or **trade debtors**. The customers from whom receivable or book debts have to be collected in future are called trade debtors or simply as debtors, who constitute a substantial portion of current assets of several firms. A credit sale has three characteristics, it involves element of Risk, Economic value and Futurity. A firm's investment in accounts receivable depends on (a) volume of credit sales, and (b) the collection period. In order to have the receivables in effective manner the firm should have an effective credit policy. The term credit policy refers to combination of three decision variables, credit standards, credit terms and collection efforts. In practice the Indian companies grant credit for several other reasons such as the company position, buyer's status and requirement, dealer relationship, transit delays, industrial practice, transit delays etc.

The firm will have to evaluate its credit policy in terms of both return and costs of additional sales. Additional sales should add to the firms operating profit. There are three costs involved: production and selling cost, administration cost and bad-debt losses. The firm's operating profit is maximised when total cost is minimised for a given level of revenue. Optimum credit policy is one which maximises the firm's value. The value of the firm is maximised when the **incremental** or **marginal rate of return** of an investment is equal to **incremental** or **marginal cost of funds**.

1.2 REVIEW OF LITERATURE

Cash is the lifeblood of any business and most businesses need some financial help to get started, grow and develop. Finance for business comes in three different forms equity, grants and bank finance. Before approaching the bank, a company first investigate the other forms of finance grants and financial supports that are available.

Liquidity needs can be met through the discretionary acquisition of funds on the basis of interest rate competition. This does not preclude the option of selling assets to meet funding needs, and conceptually, the availability of asset and liability options should result in a lower liquidity maintenance cost. The alternative costs of available discretionary liabilities can be compared to the opportunity cost of selling various assets. The major difference between liquidity are better able to control the level and composition of their liabilities and assets. When funds are required, The Companies have a wider variety of options from which to select the least costly method of generating funds. The ability to obtain additional liabilities represents liquidity potential. The marginal cost of liquidity and the cost of incremental funds acquired are of paramount importance in evaluating liability sources of liquidity. Consideration must be given to such factors as the frequency with which the companies must regularly refinance maturing purchased liabilities, as well as an evaluation of the companies ongoing ability to obtain funds under normal market conditions

Beyond liquidity and leverage, the following section will discuss other analysis such as working capital and bankruptcy. As an investor, you will want to know if a company you are considering is in danger of not being able to make its payments. After all, some of the company's obligations will be to you if you choose to invest in it.

The analysis of a balance sheet can identify potential liquidity problems. These may signify the company's inability to meet financial obligations. An investor could also spot the degree to which a company is leveraged, or indebted. An overly leveraged company may have difficulties raising future capital. Even more severe, they may be headed towards bankruptcy. These are just a few of the danger signs that can be detected with careful analysis of a balance sheet.

Financial ratios are the analyst's microscope; they allow us to get a better view of the firm's financial health than just looking at the raw financial statements.

Ratios are used by both internal and external analysts

- Internal uses
 1. planning
 2. evaluation of management
- External uses
 1. credit granting
 2. performance monitoring
 3. investment decisions
- Financial statements report both on a firm's position at a point in time and on its operations over some past period.
- From management's viewpoint, financial statement analysis is useful both as a way to
 - anticipate future conditions and
 - more important, as a starting point for planning actions
 - that will influence the future course of events or
 - to show whether a firm's position has been improving or deteriorating over time.

Debt Management Ratio

- Implications of use of borrowings
 - Creditors look to Stockholders' equity as a safety margin
 - Interest on borrowings is a legal liability of the firm
 - Interest is to be paid out of operating income
 - Debt magnifies return and risk to common stockholders

1. Public Debt Management: Theory and History (Hardcover)

by Rudiger Dornbusch (Editor), Mario Draghi (Editor) "In about 1980s the US public debt has grown rapidly and raised questions about the sustainability of deficits..."

Editorial Reviews

Review

"...a very good collection of thoughtful essays on an important policy topic. It can be recommended highly to all scholars of fiscal policy and public debt." *Journal of Economic Literature*

Book Description

This book from the Centre for Economic Policy Research collects theoretical, applied and historical research on the welfare economics of public debt; how inappropriate debt management can lead to funding crises; capital levies; debt consolidation; U.S. public debt history; political influences on debt accumulation; trade-offs between indexation and maturity; and confidence effects in a stochastic rational expectations framework.

2. Public Debt Management by Alessandro Missale

Author(s) of Review: Henning Bohn

Journal of Economic Literature, Vol. 39, No. 3 (Sep., 2001), pp. 921-922

3. ¹The article reports that Debt Resolve Inc. is buying the Creditors Interchange *Receivables Management* LLC collections agency to extend the services it offers to creditors. Debt Resolve offers an online platform for negotiating repayment plans. Debt Resolve says the purchase is part of the company's plan to expand internationally, organically, and through acquisitions.; (AN24986965)

4. ²The article discusses on the mechanisms of finance to the growth in Russia. Factoring is the mechanism which has been the only available in the country since 1998, with a growth of 100% year on year by invoice value. Another mechanism is the *receivables management* outsourcing (RMO), which is found to be a good solution when Russia is the choice for market. It is the service provided by some factoring companies and by respectable Russian banks. Bad debt protection is also available to protect against buyer insolvency and protracted default. A debtor *management* process includes checking the sales contract, debtor credit

¹ *Debt Resolve Acquiring Collections Agency* By: Launder, William. *American Banker*, 5/2/2007, Vol. 172 Issue 84, p7-7, 1/4p, 1c;

² *Factoring and Receivables management outsourcing* By: Rogers, Barry. *Credit Management*, Dec2006, p27-27, 2/3p;

assessment, dunning procedures and repatriation of funds to foreign or Russian clients.; (AN 23152462)

5. ³The article discusses three processes that can help companies gain greater profitability from **receivables management**. The processes include creating an executive portfolio strategy which makes a concrete definition of how to manage **receivables** assets, defining a dispute resolution process that prevents customers from delaying payment and deducting fees from invoices, and ensuring accurate order fulfillment and invoicing, particularly when a customer has previously been given the wrong order.; (AN 22527386)

6. ⁴The article presents the world's best banks and treasury **management** software providers in 2007. Citigroup Inc.'s on-going technology investment, product innovation and standardization of Citigroup continues to yield. The Global Transaction Banking business of Deutsche Bank AG has been highly regarded in terms of qualitative market indicators. The integrated payments and **receivables management** solutions of Hongkong and Shanghai Banking Corp. (HSBC) have been well received.; (AN 24419065)

7. It⁵ Provides information about the improvement of revenue cycle through the use of an automated **receivables management** information system in health care industry in the U.S. Determination of the insurance payment; Replacement of patient accounting system; Inclusion of the interactive voice response system.; (AN 18184688)

³ **UNLOCKING Greater Profitability from Receivables management** By: Salek, John G.. *Financial Executive*, Oct2006, Vol. 22 Issue 8, p55-56, 2p;

⁴ **WORLD'S BEST TREASURY PROVIDERS 2007** By: Hawser, Anita. *Global Finance*, Mar2007, Vol. 21 Issue 3, p28-39, 10p;

⁵ **An automative Response** By: Castellano, Matthew; Scibetta, Steve. *hfm (Healthcare Financial Management)*, Sep2005, Vol. 59 Issue 9, p90-92, 3p;

8. It⁶ Emphasizes the need for business owners to protect their intellectual property in the U.S. Efforts of Patrick Jouve's startup, *Receivables Management* Consultants Corp., to help companies protect their assets by collecting money owed by their customers; Four main categories of intellectual property; U.S. trademark owners' need to submit their international applications through the U.S. Patent Office. (AN 13047049)

1.3 OBJECTIVES OF THE STUDY

- To study and analyse how effectively the debtors are being managed in Salem steel plant from year 2003 to 2007.
- To study the credit policy in Salem steel plant and to give them suggestions regarding pertinent development and actions to strengthen the receivables management process of the company.
- To do a comparative analysis between the years 2003 to 2007 regarding the receivables and increase or decrease in sales of the company.
- To study the various parameters and their influence in receivables management in the company.

1.4 SCOPE OF THE STUDY

The study highlights on the various aspects like company's ability to get back their loans at agreed duration and instalments, the company's ability to retrieve their money from the defaulter or any compensation for the same and any legal actions taken against default customers. The study says about the various credit proposals applied to the company to different customers. The customers who are availing the credit facility from the company are bound to repay it in pre specified duration in agreed instalments and interest rates

⁶ *Business need to keep protecting intellectual property* By: Stinson, Sonya. *New Orleans CityBusiness*, 5/3/2004, Vol. 24 Issue 45, p32-33, 2p;

1.5 RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It shows all the details of data which have been used for the research and procedures which have been followed in the study.

1.5.1 TYPE OF THE STUDY

The method adopted for the study is historical research. It is based on the study of past and current records of existing delinquent customers to analyse the default status of their account and its significance in order to draw a conclusion. The research is descriptive in nature as the study was done on the existing data. The research design used in this study is descriptive research design. A descriptive study is undertaken in order to study and analyse the receivables of the company with the available data.

1.5.2 METHOD OF DATA COLLECTION

It was got from the published annual reports and database of the company for the corresponding years for which the study has been made.

1.5.3 TOOLS FOR ANALYSIS

In order to study and analyse the debtors management of the company the following tools are used.

- Ratio analysis
- Comparative financial statement

RATIO ANALYSIS

Ratio analysis is one of the popular tools of financial statement analysis. A ratio can be defined as “the indicated quotient of two mathematical expressions” and as “the relationship between two or more things.” A financial ratio is defined as a relationship between two variables taken from financial statements of the concern. It’s a mathematical yardstick that measures the relationship between the two financial figures. Experts have identified ratios as significant and important tool, since they through considerable light on financial position of the concern.

COMPARATIVE FINANCIAL STATEMENT

Any financial statement that reports the comparison of data of two or more consecutive accounting periods is known as comparative financial statement. According to A.F. Foulke "Comparative financial statements are statements of the financial position of a business so designed as to provide time prospective to the consideration of various elements of financial position embodied in such statements." Such a statement spotlights trends and establishes relationship between items that appear on the same row of a comparative financial statement. Much valuable information is obtained from financial statements in this manner.

1.6 LIMITATIONS:

- Ratio analysis lacks standard values for the ratio, therefore, scientific analysis is not possible.
- As there are no standards with which to compare, ratio analysis fails to throw light on the efficiency of any activity of the business.
- Ratio analysis gives only the relationship between different variable and the actual magnitudes are not known through the ratios.

1.7 CHAPTER SCHEME:

The **FIRST CHAPTER** is introductory in nature. This chapter tells about the objectives and scope of the study and its limitations.

The **SECOND CHAPTER** conveys about the history of the HCL INFOSYSTEMS LTD., highlights the origin and development, objectives and production, financial and working of the company, development programmes and plan of the company.

The **THIRD CHAPTER** gives the macro and micro scenario with respect to the hardware industry.

The **FOURTH CHAPTER** presents the data analysis and interpretation.

The **FIFTH CHAPTER** gives summary of findings and concludes the study with relevant suggestions.

CHAPTER 2

ORGANIZATIONAL PROFILE

CHAPTER-2

COMPANY PROFILE

2.1 HISTORY OF THE ORGANISATION:

Steel Authority of India Limited (SAIL) is the leading steel-making company in India. It is a fully integrated iron and steel maker, producing both basic and special steels for domestic construction, engineering, power, railway, automotive and defence industries and for sale in export markets.

Ranked amongst the top ten public sector companies in India in terms of turnover, SAIL manufactures and sells a broad range of steel products, including hot and cold rolled sheets and coils, galvanised sheets, electrical sheets, structurals, railway products, plates, bars and rods, stainless steel and other alloy steels. SAIL produces iron and steel at five integrated plants and three special steel plants, located principally in the eastern and central regions of India and situated close to domestic sources of raw materials, including the Company's iron ore, limestone and dolomite mines. The company has the distinction of being India's largest producer of iron ore and of having the country's second largest mines network. This gives SAIL a competitive edge in terms of captive availability of iron ore, limestone, and dolomite which are inputs for steel making.

SAIL's wide range of long and flat steel products are much in demand in the domestic as well as the international market. This vital responsibility is carried out by SAIL's own Central Marketing Organisation (CMO) and the International Trade Division. CMO encompasses a wide network of 34 branch offices and 54 stockyards located in major cities and towns throughout India. With technical and managerial expertise and know-how in steel making gained over four decades, SAIL's Consultancy Division (SAILCON) at New Delhi offers services and consultancy to clients world-wide.

SAIL has a well-equipped Research and Development Centre for Iron and Steel (RDCIS) at Ranchi which helps to produce quality steel and develop new technologies for the steel industry. Besides, SAIL has its own in-house Centre for Engineering and Technology (CET), Management Training Institute (MTI) and Safety Organisation at Ranchi. Our captive mines are under the control of the Raw Materials Division in Kolkata. The Environment Management Division and Growth Division of SAIL operate from their headquarters in Kolkata. Almost all our plants and major units are ISO Certified.

2.1. A.MAJOR UNITS OF SAIL

Integrated Steel Plants

- Bhilai Steel Plant (BSP) in Chhattisgarh
- Durgapur Steel Plant (DSP) in West Bengal
- Rourkela Steel Plant (RSP) in Orissa
- Bokaro Steel Plant (BSL) in Jharkhand
- IISCO Steel Plant (ISP) in West Bengal

2.1. B.SPECIAL STEEL PLANTS

- Alloy Steels Plants (ASP) in West Bengal
- Salem Steel Plant (SSP) in Tamil Nadu
- Visvesvaraya Iron and Steel Plant (VISL) in Karnataka

2.1. C. SUBSIDIARY STEEL PLANTS

Maharashtra Elektros melt Limited (MEL) in Maharashtra.

2.1. D. JOINT VENTURES

SAIL has promoted joint ventures in different areas ranging from power plants to e-commerce.

NTPC SAIL Power Company Pvt. Ltd

A 50:50 joint venture between Steel Authority of India Ltd. (SAIL) and National Thermal Power Corporation Ltd. (NTPC Ltd.), it manages the captive power plants at Rourkela, Durgapur and Bhilai with a combined capacity of 314 megawatts (MW)

Bokaro Power Supply Company Pvt. Limited

This 50:50 joint venture between SAIL and the Damodar Valley Corporation formed in January 2002 is managing the 302-MW power generation and 1880 tonnes per hour steam generation facilities at Bokaro Steel Plant.

Mjunction Services Limited

A joint venture between SAIL and Tata Steel on 50:50 basis, this company promotes e-commerce activities in steel and related areas.

SAIL-Bansal Service Center Ltd

SAIL has formed a joint venture with BMW industries Ltd. on 40:60 basis to promote a service centre at Bokaro with the objective of adding value to steel.

Bhilai JP Cement Ltd

SAIL has also incorporated a joint venture company with M/s Jaiprakash Associates Ltd to set up a 2.2 MT cement plant at Bhilai SAIL has signed an MOU with Manganese Ore India Ltd (MOIL) to set up a joint venture company to produce ferro-manganese and silico-manganese at Bhilai.

2.2 MANAGEMENT:

2.2.A Ownership and Management

The Government of India owns about 86% of SAIL's equity and retains voting control of the Company. However, SAIL, by virtue of its 'Navratna' status, enjoys significant operational and financial autonomy.

2.2.B MISSION:

Sustained growth through internal generation of resource is the hallmark of corporate mission of SAIL.

2.2.C VISION:

To be the market leader and prosper in business through satisfaction of customer needs by continued improvement in quality, cost and delivery of products and services.

2.2.D SALEM STEEL PLANT:

The history of Salem Steel Plant can be traced to the early 70's when Mrs. Indra Gandhi, the prime minister of India laid the foundation stone for the plant on the foothills of Kanjamalai, Salem in September 1970. The government of India decided in May 15, 1972 to set up an integrated special steels plant at Salem in the State of Tamil Nadu for the production of sheets and strips of electrical, stainless and other special and mild steel on the basis of sound techno-economic considerations.

The construction of the plant was inaugurated in June 13, 1972 by the late Shri. Mohan Kumaramangalam, the then minister for steel and mines. The company Salem steel limited was registered on October 25, 1972. It was a government of India undertaking and the subsidy of SAIL. The plant was designed to roll out 32000 tons of cold rolled stainless steel strips and wide sheets per annum in the first phase, situated in Tamil Nadu, in September 1981. A decade later in 1991 was augmented to 70000 tons per annum with the addition of a second rolling mill.

Stainless steel from Salem finds its application in many industries-nuclear, petroleum, chemicals, fertilizers, food processing, pharmaceuticals, diary, household appliances and cutlery. The plant is actively pursuing development activities to promote use of stainless steel in new areas such as coinage, coaches, buildings, furniture, automobiles, etc. In addition to the cold rolling mills, blanking line was commissioned during the year 1993 with a capacity of producing 3000T coin blanks per annum and the provision to make utility blanks is present. Today the product, "Salem Stainless" is accepted in national and international markets as a symbol of quality.

Backward integration was done with the addition of the hot rolling mill, which was, commissioned during November 3, 1995 with an installed capacity of around 2 lakh tons with an investment of Rs. 839 crores. This mill is capable of rolling both stainless and non stainless steels. The mill is also capable of producing carbon grade slabs for rolling sourced from Salem's sister units (i.e.) Alloy steel plant Durgapur and Bhilai steel plant. Salem steel plant has contributed over 455000 tons of steel for infrastructure development of the country in different sectors.

Exports alone accounted for around 82000 tons with foreign exchange realization of about 500 crores. The plant has supplied 15600 tons of coin blanks to government mints. They have been put into circulation after minting into currency denominations. Besides these products, conversion scheme was launched for producing value added products like dinner sets doorframes. These products have gained popularity with the general public.

Quality is the hallmark of Salem Steel. Strong adherence to quality is followed in the plant since inception. Salem is the first among steel plants to get ISO 9002 accreditation. The plant has also achieved ISO 9002 accreditation for its hot rolling mill within one year of its commissioning.

2.2.E QUALITY POLICY:

Salem steel plant is committed to build and sustain itself as an organization, which is customer oriented and innovative, where quality is the hallmark of every activity. SSP assures quality of their products by keeping the requirements of the customers as a main consideration and by perfecting the systems and procedures followed through involvement of their employees. SSP also develops spirit of partnership with their suppliers for enhancement of business and quality objectives. SSP continuously upgrades the knowledge and skills of its workers to maximize the efficiency of its operations and improving the quality of its products. It has got ISO 9002 certification for the whole plant from RWTUV Germany.

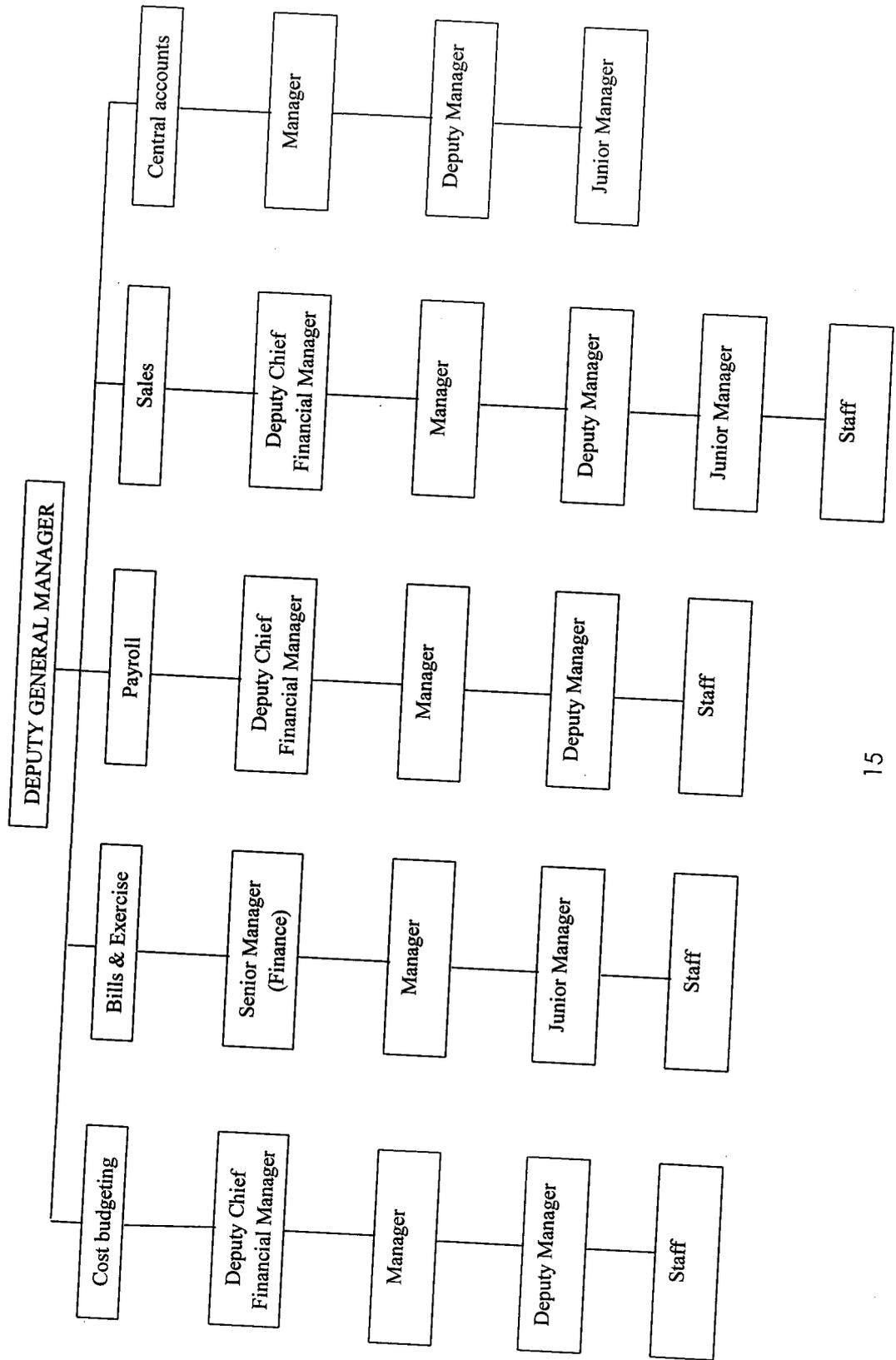
2.2.F SAFETY POLICY:

The safety policy has been formulated to take care of its employees and the people associated with it including those living in the neighborhood. It is implemented by pursuing the safety goals and demanding accountability from workers for various actions performed.

2.2.G GUIDING PRINCIPLES:

- SSP believes that all actions are preventable.
- All employees are responsible for maintaining laid down safety standards.
- Safety standards are incorporated in the procedures.
- SSP performs all works taking into account local, state and central laws on safety
- Comprehensive improvement in safety performance is necessary for success.

12.3 ORGANISATION CHART OF FINANCE DEPARTMENT



2.4 SAIL ORGANISATION PRODUCT MIX

SAIL plants produce a variety of products that meet the exact requirements of a wide variety of both overseas and domestic customers. The products can be divided into main products(primary products), alloys and special steels and coal chemicals.

2.4.A MAIN PRODUCTS:

Flat products: plates, HR coils & sheets, CR sheets, TMBP Coils, Galvanised sheets, Electrolytic tin plates, CRNO electrical sheets.,

Long products: Rounds, TMT bars, Ribbed twisted bars, Angles Channels, Beams Joists, Wire Rod.

Railway materials: High conductivity rails and crane rails, long / heavy rails, light rails, crossing sleeper bars, Wheels and Axles, Wheel sets.

Semis: Blooms Billets and Slabs.

Pig Iron: All grades.

Spl sections: MS Arch sections, Z piling , Z bar, Bulb Bars.

2.4.B ALLOY AND SPECIAL STEELS:

Blooms, billets, bars, flats, forgings of different shapes and sizes, plates and continuous cast slabs, blooms with EMS and billets spread over 400 varieties of alloy steel grades conforming to BI, EN,BS, DIN, SAE, ASTM, JIS etc standards for steels of different types.

Also has hot and cold rolled coils, sheets, plates of austenitic, ferrite and martensitic grades of stainless steels in various finishes, coin blanks and utility blanks and also hot rolled carbon steel coils and plates of superior surface finish.

Ferro alloys: high carbon ferro manganese, medium carbon ferro manganese, low carbon ferro manganese, and silico-manganese.

2.5 COMPETITIVE STRENGTH OF THE COMPANY

2.5.A ACHIEVEMENTS:

SAIL has won the "Paryavaran Award" for the third time in succession to refractory material plant and sintering plant for the best environmentally managed plant.

SAIL has won the CII award (eastern) for the year 1999

SAILCON the consultancy division of SAIL was awarded the ISO 9002 certification from RWTUV, Germany at a function held on August 19 1999 at the companies corporate office.

It has won the Jawaharlal Nehru Memorial Award for pollution free energy conservation methods from the international Greenland society.

Salem steel plant has been awarded ISO 14001 certification for its environment management system.

Salem steel plant has won the "sword of honor" for the years 1984 and 1985 in recognition for the safety standards and performance.

2.5.B ENHANCING COMPETITIVENESS

The objective, however, remains the same. Beside capacity enhancement, the growth plan addresses the need of the SAIL plants and other units towards eliminating technological gaps in the production process, improving productivity levels for all stages right from raw materials to rolling mills, bringing in technologies for energy savings, yield improvement, pollution control and automation. The long term plan is to build sustainable competencies.

MECON, a leading consultant in the field of metallurgical industry, has been assigned the task of preparing composite project feasibility reports (CPFRs) for Bhilai, Durgapur, Rourkela and Bokaro Steel Plants of SAIL, indicating various schemes required to be implemented along with all requisite auxiliary services, essential utilities logistics and infrastructure support necessary to achieve the enhanced production.

2.6 SAIL INTO FUTURE:

2.6.A SAIL'S GROWTH PLAN 2010

Much has happened ever since SAIL's Corporate Plan was announced in 2004. Investment plans for the three speciality steel plants have been firmed up. Company has grown in size with the amalgamation of IISCO (now renamed as IISCO Steel Plant). Production targets have been revised from 19 million tonnes (MT) of steel to about 24 MT. Estimated investment has increased from Rs 25,000 crore to around Rs 40,000 crore. And the time period has been squeezed by two years, bringing the targeted year of completion of major projects from 2012 to 2010.

Saleable Steel Capacities (MT)	
PLANT	2010
Bhilai Steel Plant	6.21
Durgapur Steel Plant	2.85
Rourkela Steel Plant	2.90
Bokaro Steel Plant	6.50
IISCO Steel Plant	2.37
Alloy Steels plant	0.43
Salem Steel Plant	0.36
Visvesvaraya Iron & Steel Plant	0.22

2.6.B DYNAMIC ADJUSTMENTS

SAIL's Growth Plan is essentially a directional document. With the changing market scenario and technological advancements the company shall continue to fine-tune our growth plans keeping in mind the steel plants' operational requirements. As such, the company's growth plan is in tune with the boom being experienced by the global steel industry and the high rates of growth being established by the Indian economy and the major steel-consuming sectors. The endeavour is not only in tandem with India's National Steel Policy of achieving

a production level of 110 MT of crude steel by the year 2020, but also amply reflects the company's Vision of achieving market leadership. The target of 110 mt of steel has been worked out on the basis of a compounded annual growth rate of 7.3% per annum.

2.6.C ENSURING RAW MATERIALS

The iron ore production has been estimated to go up to the level of 35 MT per annum. The plan includes developing two major mechanised iron ore mines – at Rowghat in the western region and Chiria in the east. Both the mines will be developed with latest technology to ensure assured supply of required quantity of quality iron ore to SAIL plants. Under its corporate plan SAIL aims at setting up of pellet plants (one at Bhilai and another near Manoharpur), which would enable utilisation of huge iron ore fines generated during the mining operations, apart from reducing cost of hot metal production.

SAIL has adopted the following four pronged strategy to meet the enhanced requirement of iron ore

1. Developing new blocks/mines
2. Maximising production from existing mines
3. Improving the quality of iron ore by suitable beneficiation, and
4. Achieving operating efficiencies by economic scale of operations

The total coking coal requirement is likely to increase from the current level of 15 MT to around 28 MT by 2010. Plans are on the anvil to enter into strategic investments/ tie-ups for coking coal blocks in India and abroad to ensure assured supply of Coking coal. SAIL's corporate plan envisages investment in collieries at Tasra, Ramnagore, Chasnalla and Jitpur.

2.6.D SALEM STEEL PLANT (SSP)

mt		
	2005-06	After Expansion
Crude Steel	-	0.18
Saleable Steel	0.17	0.35

2.6.E IMPORTANT PROJECTS:

1. Installation of Steel Melting and Continuous Casting facilities to produce 180,000 tonnes of slabs along with single strand slab caster.
2. Expansion of Cold Rolling Mill Complex (to enhance Cold Rolled Stainless Steel capacity from 65,000 TPA to 146,000 TPA).
3. Additional Roll grinding machine for Hot Rolling Mill for enhanced production of 370,000 TPA.
4. Up gradation of existing Sendzimir Mills for quality & productivity improvements.

2.7 BOARD AND ORGANISATION:

S.NO	NAME OF THE DIRECTORS	CATEGORY
1.	Shri S.K. Roongta	Chairman, SAIL
2.	Shri K.K. Khanna	Director(Technical),SAIL
3.	Shri Arun Kumar Rath	Special secretary & finance advisor to the government of India
4.	Shri Nilotpal Roy	Managing director, IISCO
5.	Shri G. Elias	Joint secretary to the government of India
6.	Shri V. Shyamsundar	Managing director, Durgapur steel plant
7.	Shri B.N. Singh	Managing Director Rourkela Steel Plant,
8.	Shri V.K. Srivastava	Managing Director Bokaro Steel Plant
9.	Shri G. Ojha	Director (Personnel),SAIL
10.	Shri R. Ramaraju	Managing Director Bhilai Steel Plant,
11.	Prof. Javaid Akhtar	Dean, Faculty of Management
12.	Dr. Vinayshil Gautam	Professor
13.	Shri S. Bhattacharya	Director (Finance),SAIL
14.	Shri Shoeb Ahmed	Director (Commercial),SAIL

CHAPTER 3

MACRO-MICRO ANALYSIS

CHAPTER-3

3. MACRO-MICRO ANALYSIS

3.1 Steel Industry - A Global Perspective

Global steel production has now crossed the 1 billion tonne mark due to an upturn in steel demand during the last two years on the back of recovery in the global economy. The recovery has largely been led by increased demand for steel in China as the country focuses on strong infrastructure led growth and prepares for Olympics 2008. There has also been partial recovery in key sectors such as housing, construction and automobiles in the USA and Europe and the Japanese economy is also promising to turn around after a prolonged phase of recession. In 2002 China became the largest producer and consumer of steel in the world. The current Chinese demand is estimated at over 250 MT. China is now followed by Japan and the USA in terms of production.

But at the backdrop of this recovery has been one of the most turbulent phases for the global steel industry. The industry went through one of its most difficult phases between 1997 and 2001, as it faced severe recession in the global economy leading to imbalance between capacity, demand and production. After the break up of USSR many new countries turned into net exporters from net importers and the world market had an excess capacity of 50 MT. Steel started getting traded at lower and lower prices. The Asian economic meltdown in 1997-98 had a further impact on steel demand and supply. Demand in Southeast and Far east was reduced by 35-40 MT. Japan was faced with a weak Yen and lower demand. These events coupled with similar developments across the world led to a situation where producers had much higher capacity than they could sell. Prices of steel during this period touched a 20-year low (with HR Steel going below \$200 mark in 2001) and most producers made heavy losses. Many companies were forced to shut down leading to loss of many jobs. New capacities became uneconomical and surplus. Fresh expansion plans had to be abandoned as Financial sector withdrew support from the steel sector. The period also witnessed major steel producing nations resorting to tariff and non-tariff barriers to safeguard their domestic industry.

Pushed to the wall, in 2001 advanced countries were forced to call for a global agreement organised by the OECD to limit the world output of steel and stem the slide in steel prices.

Only in 2002 the global steel industry witnessed a turnaround led by growth in China and prices of steel recovered to realistic levels once again.

World Crude Steel Production

Period	Production (MT)	Growth
1995	752	-0.50%
1996	750	-0.30%
1997	799	6.50%
1998	777	-2.80%
1999	788	1.40%
2000	848	7.60%
2001	850	0.20%
2002	902	6.10%
2003e	1000	9.70%

A look at the world steel production figures (Fig. 1) shows the difficult phase between 1995 and 2001 (with 2000 being the exception) and recovery that took place 2002 onwards. Another important development in the global steel market in the last few years has been the emergence of steel intensive technologies in various user industries leading to increased usage of steel. The consumption is showing a shift from long products to flat products and special quality steels. Global steel trade has now increased to 350 MT. The industry though continues to be fragmented with top 5 players accounting for less than 20% of the total industry capacity. Global steel manufacturers are increasingly realizing the need to have alliances and consolidation activity has picked up all over the world during the last 2-3 years. Today, Arcelor (Europe) is the largest producer of steel in the world followed by LNM-Ispat Group, Nippon Steel, JEE Holdings, Posco and Shanghai.

3.1. a. INTERNATIONAL STEEL PRODUCERS

- Arbed - LUXEMBOURG
- ARMCO Incorporated - Now AK Steel - UNITED STATES
- Bethlehem Steel - UNITED STATES
- BHP - AUSTRALIA
- CORUS Group plc - UNITED KINGDOM
- Dofasco - CANADA

- Ispat Inland Inc - UNITED STATES
- Kobe Steel - JAPAN
- Nippon Steel - JAPAN
- Nucor Corporation - UNITED STATES
- Outokumpu Oyj - FINLAND
- POSCO - Republic of KOREA
- p.t. Krakatau Steel - INDONESIA
- Rautaruukki Oyj - FINLAND
- ThyssenKrupp - GERMANY
- Usinor - FRANCE
- USX Corporation - UNITED STATES

3.1. b. INTERNATIONAL STEEL ORGANISATIONS

- AISE - Association of Iron and Steel Engineers (AISE)
- Indian Steel Alliance
- AISI - American Iron and Steel Institute
- AIME - American Institute of Mining, Metallurgical and Petroleum Engineers
- American Bureau of Metal Statistics
- CISR - Carnegie Mellon University Center of Iron and Steel Research (US)
- CRU International
- EEVL - Edinburgh Engineering Virtual Library
- Eurofer - European Confederation of Iron and Steel Industries.
- IISI - international Iron and steel institute
- Indian Institute of Metals
- Institute of Materials (United Kingdom)
- Iron & Steel Society
- ISIJ - Iron and Steel Institute of Japana
- Jernkontoret - Sweden
- MEFOS - The Foundation for Metallurgical Research
- MEPS - Consultancy supplying information on steel, markets, prices, etc. (UK)
- OECD Steel - Steel Section of the Organisation for Economic Co-operation and Development.

- SEAISI - South East Asia Iron and Steel Institute.
- UK Steel Association

3.2. Indian Steel Industry

An Introduction

The Indian Steel industry is almost 100 years old now. Till 1990, the Indian steel industry operated under a regulated environment with insulated markets and large scale capacities reserved for the public sector. Production and prices were determined and regulated by the Government, while SAIL and Tata Steel were the main producers, the latter being the only private player. In 1990, the Indian steel Industry had a production capacity of 23 MT. 1992 saw the onset of liberalization and the Indian economy was opened to the world. Indian steel sector also witnessed the entry of several domestic private players and large private investments flowed into the sector to add fresh capacities.

The last decade saw the Indian steel industry integrating with the global economy and evolving considerably to adopt world-class production technology to produce high quality steel. The total investment in the Indian steel since 1990 is over Rs 19,000 crores mostly in plant equipments, which have been installed after 1990. The steel industry also went through a turbulent phase between 1997 and 2001 when there was a downturn in the global steel industry. The progress of the industry in terms of capacity additions, production, consumption, exports and profitability plateau off during this phase. But the industry weathered the storm only to recover in 2002 and is beginning to get back on its feet given the strong domestic economic growth and revival of demand in global markets.

With a current capacity of 35 MT the Indian Steel Industry is today the 8th largest producer of steel in the world. Today, India produces international standard steel of almost all grades/varieties and has been a net exporter for the past few years, underlining the growing acceptability of its products in the global market.

Steel is a highly capital intensive industry and cyclical in nature. Its growth is intertwined with the growth of the economy at large, and in particular the steel consuming industries such as manufacturing, housing and infrastructure. Steel, given its backward and forward linkages, has a large multiplier effect. Economists quantify the economic impact of

any sector through measures such as the output multiplier effect, forward and backward effects etc. Based on the Indian input-output model, the Iron, Steel and Ferro Alloys sector (sector code 72 of CSO Table) reveals high output multiplier of 2.64 and ranks 4 out of 115 sectors into which the economy is divided. The output multiplier effect is defined as the total increase in output generation (in case of sector 72, total increase of 2.64 units including unitary increase of the sector's own output) for one unit increases of final demand in the particular sector.

The Forward Linkage refers to the inter relationship between the particular sector and all other sectors which demand the output of the former as their inputs. In the CSO table of 60 sectors (where all iron and steel sub sectors have been merged to one sector), the Forward Linkage of the Iron and Steel sector at 4.79 is quite significant (ranks 4 out of 60 sectors into which the economy is divided). The significant output multiplier effect and the forward linkage effects are the compelling reasons propelling various economies to set up domestic plants to satisfy the local demand. Economists have estimated that for every additional one lakh rupees output (2002-03 prices) in the Iron, Steel and Ferro alloys sector, an additional 1.3 man years of employment are created. With capital investments of over Rs 100, 000 crores, the Indian steel industry currently provides direct/indirect employment to over 2 million people. As India moves ahead in the new millennium, the steel industry will play a critical role in transforming India into an economic superpower.

3.2. a. A background of the Indian Steel Industry

If we were to pause for a moment to think about the growth of human civilization, we would find that the pace of social and economic growth has been closely linked to the proficiency with which people have been able to use and shape materials. Steel is one such material that has played an important role in the development of mankind in the last century. Today, it is difficult to imagine a world without steel. Steel has become vital to our everyday life. It is at the root of the quality of life that each of us enjoys today, helping to shelter us, to feed us and to facilitate both our working day and leisure activities. We depend on steel for almost everything from our houses and buildings, the cars we drive, roads, bridges, agricultural equipment, machines, the list is endless.

Steel is a versatile, constantly developing material that underpins all manufacturing activity. Even if a product is not made entirely from steel, it will undoubtedly have steel as a

component at some point in the manufacturing process. There are currently more than 3,500 different grades of steel with many different properties - physical, chemical, environmental, 75% of which have been developed in the last 20 years. Steel is also an environment friendly material and has the distinction of being the most recycled material in the world today. Today, consumption of steel is also regarded as an indicator of development of a nation. Per capita steel consumption is now universally accepted as an index of economic development of a nation. Given its role, steel has established itself as the backbone of any economy.

3.2. b. Industry Structure

The Indian steel industry can be divided into two distinct producer groups:

Major producers : Also known as Integrated Steel Producers (ISPs), this group includes large steel producers with high levels of backward integration and capacities of over 1 MT. Steel Authority of India Limited (SAIL), Tata Steel, Rashtriya Ispat Nigam Limited (RINL), Jindal Vijayanagar Steel Limited (JVSL), Essar Steel and Ispat Industries form this group.

SAIL, TISCO and RINL produce steel using the blast furnace/basic oxygen furnace (BF/BOF) route that uses iron ore, coal/coke as the basic input mix for producing finished steel. Other major producers such as Essar Steel, Ispat Industries and JVSL use routes other than BF/BOF for producing steel. . While Essar Steel and Ispat Industries employ Electric Arc Furnace (EAF) route that uses sponge iron, melting scrap or a mix of both as input, JVSL uses COREX, a revolutionary technology for making steel using basically iron-ore and coal.

Other producers : This group consists of smaller stand-alone steel plants that include producers and processors of steel. Processors/Rerollers: Units producing small quantities of steel (flat/long products) from materials procured from the market or through their own backward integration system. Stand alone units making pig iron and sponge iron. Small producers using scrap-sponge iron-pig iron combination produce steel ingots (for long products) using Electric Arc Furnace (EAF) or Induction Arc Furnace (IAF) route.

The Major producers are strategic in nature and account for most of the mild steel production in the country. The group produces most of the flat steel products in the country including Hot Rolled, Cold Rolled and Galvanised steel. The majors also produce a small proportion of Long products and other special steel being produced in the country. Other

producers account for a majority of long products being produced in the country and some of the value added flat steel products like cold rolled steel and galvanized steel.

WAY FORWARD FOR THE INDIAN STEEL INDUSTRY

"We still have a number of persons in our country in SAIL, TISCO and other big and small steel plants who have the capabilities. They have the will to excel and transform the country, given a long term vision."

"We should be ready to compete in outside markets.....If our steel industry gears up in about 3 to 4 years, Indian steel can be both in Indian and foreign markets. Our vision should be towards this."

- Indian 2020: A vision for the new millennium by APJ Abdul Kalam and YS Rajan

The Government envisions India becoming a developed nation by 2020 with a per capita GDP of \$1540. For a nation that is economically strong, free of the problems of underdevelopment and plays a meaningful role in the world as befits a nation of over one billion people, the groundwork would have to begin right now. The Indian Steel Industry will be required and is willing to play a critical role in achieving this target. With abundant iron ore resources and well-established base for steel production in the country, steel is poised for growth in the coming decades. Production has increased from 17 MT in 1990 to 36 MT in 2003 and 66 MT is targeted for 2011. While steel will continue to have a stronghold in traditional sectors such as construction, housing, ground transportation, special steels will be increasingly used in hi-tech engineering industries such as power generation, petrochemicals, fertilisers etc. Steel will continue to be the most popular, versatile and dominant material for wide ranging applications. While India may not become a leader in world steel market, it can become a powerful force.

To help the Indian Steel Industry achieve its potential and play a meaningful role in India's development some steps need to be taken

- Steel is yet to touch the lives of millions of people in India. Per capita consumption of steel in India is only 29 kg and has to go a long way to reach consumption levels of around 400 kg in developed countries like USA and world average of 140 kg.

- There is a need to continue the current thrust on infrastructure related activities and extend them to rural India. Rural Indian today presents a challenge for development of the country and the opportunity to increase usage of steel in these areas through projects such as rural housing etc.
- Current shortage of inputs has pushed up the costs for the steel industry. Government should ensure that quality raw material such iron-ore and coke are available to the industry. With Ministry of Steel targeting an output of 100 MT of steel by 2020 there is an urgent need to develop raw material resources for inputs like iron-ore and coal within or outside the country. Countries like Japan have already taken similar steps to safeguard their industries.
- Adequate enabling infrastructure such as power, ports, roads, rail transport is pre-requisite for the Indian steel industry to remain competitive.
- Government should not regulate prices and free market forces should prevail. Intervention by the Government is only a short-term solution to the issue of steel prices in the country. Once left alone, market dynamics will automatically ensure price corrections and determine the optimum price of steel.
- The Indian steel Industry is amongst the least protected in the world. While developed countries have put numerous tariff and non-tariff barriers on steel exports from the country, the domestic industry is exposed to cheaper imports from competing nations. As in case of other important industries, the Government should give reasonable levels of protection to the domestic steel industry, which is just starting to get back on its feet.
- Industry should be allowed to have a fair return on investment and contribute to the overall health of the Indian manufacturing segment. The steel industry has invested a capital of over Rs 90, 000 crores. CRISIL in a recent study has concluded that given the large exposure that banks and financial institutions have to the steel industry, a healthy steel sector is in the interest of the economy. Steel industry still continues to be unattractive for investors and a recent study by CRIS INFAC suggests that any new projects with target price below \$270/MT will be economically unattractive.
- Today, Indian producers employ world-class standards of technology. Steel from Indian finds growing acceptability in international markets. But despite this India's share in world

trade steel is a miniscule 2%. Given the capabilities of the Indian steel industry there is tremendous scope to increase this share further. While the steel industry will continue servicing the domestic demand there is a lot of untapped export potential with the industry. The Government, in line with EXIM policy 2002-07, should take steps to make Indian exports more competitive.

China's soaring demand (over the past five years China's demand for flat steel has risen at 17 percent as compared with just 2 percent for the rest of the world: the growth rate in China's demand for steel is expected to come down to 8 percent during 2003 through 2010) which had revived the long term suffering industry will eventually be satisfied by additional domestic capacity-hardly a long term solution to the fundamental problem of worldwide capacity. The basis for such a conclusion is the estimated lower cost of construction of steel mills in China by some 30 to 50 percent than comparable facilities in the developed world and the fact that currently the global flat steel industry has at least 100 million tons of overcapacity. Add to this the worry of economists of slower economic growth in China and the fact that the country can become a net exporter with telling effects on future international prices. Adequate steps must be taken right now to make the Indian steel industry more competitive in order to meet these challenges.

3.3 SAIL'S BACKGROUND AND HISTORY

3.3. A. THE PRECURSOR

SAIL traces its origin to the formative years of an emerging nation - India. After independence the builders of modern India worked with a vision - to lay the infrastructure for rapid industrialisation of the country. The steel sector was to propel the economic growth. Hindustan Steel Private Limited was set up on January 19, 1954. The President of India held the shares of the company on behalf of the people of India.

3.3.B.EXPANDING HORIZON (1959-1973)

Hindustan Steel (HSL) was initially designed to manage only one plant that was coming up at Rourkela. For Bhilai and Durgapur Steel Plants, the preliminary work was done by the Iron and Steel Ministry. From April 1957, the supervision and control of these two steel plants were also transferred to Hindustan Steel. The registered office was originally in New Delhi. It moved to Calcutta in July 1956, and ultimately to Ranchi in December 1959.

A new steel company, Bokaro Steel Limited, was incorporated in January 1964 to construct and operate the steel plant at Bokaro. The 1 MT phases of Bhilai and Rourkela Steel Plants were completed by the end of December 1961. The 1 MT phase of Durgapur Steel Plant was completed in January 1962 after commissioning of the Wheel and Axle plant. The crude steel production of HSL went up from .158 MT (1959-60) to 1.6 MT. The second phase of Bhilai Steel Plant was completed in September 1967 after commissioning of the Wire Rod Mill. The last unit of the 1.8 MT phase of Rourkela - the Tandem Mill - was commissioned in February 1968, and the 1.6 MT stage of Durgapur Steel Plant was completed in August 1969 after commissioning of the Furnace in SMS. Thus, with the completion of the 2.5 MT stage at Bhilai, 1.8 MT at Rourkela and 1.6 MT at Durgapur, the total crude steel production capacity of HSL was raised to 3.7 MT in 1968-69 and subsequently to 4MT in 1972-73.

3.3.C.HOLDING COMPANY

The Ministry of Steel and Mines drafted a policy statement to evolve a new model for managing industry. The policy statement was presented to the Parliament on December 2, 1972. On this basis the concept of creating a holding company to manage inputs and outputs under one umbrella was mooted. This led to the formation of Steel Authority of India Ltd. The company, incorporated on January 24, 1973 with an authorized capital of Rs. 2000 crore, was made responsible for managing five integrated steel plants at Bhilai, Bokaro, Durgapur, Rourkela and Burnpur, the Alloy Steel Plant and the Salem Steel Plant. In 1978 SAIL was restructured as an operating company.

Since its inception, SAIL has been instrumental in laying a sound infrastructure for the industrial development of the country. Besides, it has immensely contributed to the development of technical and managerial expertise. It has triggered the secondary and tertiary waves of economic growth by continuously providing the inputs for the consuming industry.

3.3.D SAIL TODAY

SAIL today is one of the largest industrial entities in India. Its strength has been the diversified range of quality steel products catering to the domestic, as well as the export markets and a large pool of technical and professional expertise. Today, the accent in SAIL is to continuously adapt to the competitive business environment and excel as a business organisation, both within and outside India.

CHAPTER 4
DATA ANALYSIS & INTERPRETATION

CHAPTER-4

4. DATA ANALYSIS & INTERPRETATION

4.1 CREDIT POLICY OF COMPANY:

The approved Credit Policy circulated vide Ref No Mktg/HQ/AN/06-07 dated 27 05 06 for the sale of stainless steel products shall remain as the guideline for making any commitment in the OFFERS to customers. The detailed **credit policy** is placed at **(ANNEXURE-1 with relevant attachments therein as ANNEXURES 1(1) TO 1(9))** for reference and guidance of all concerned.

As a rule, stainless steel products from SSP shall be sold against Cash payment(i.e., against Cheque/DD/Pay Order).For this purpose, each branch shall identify a list customers on this basis of past performance and payment record, who can be allowed to make payment record, who can be allowed to make payment by cheque. This list, to be approved by ED, shall also stipulate a limit upto which cheques can be accepted. It would be necessary to update this list every year for any addition/deletion in the list as may be called for. Other customers or such customers or such customers having an indifferent payment history shall be asked to make payment by Demand Draft.

Unsecured Credit shall normally be extended to any customer. However if it is required to be extended to be extended under specific circumstances, approval of the Competent Authority shall be obtained before commencement of despatch in the prescribed format **(ANNEXURE-10(5))**, clearly indicating the period, value etc.

Based on the customer requirement, off take, criticality of the order etc. if the need so arises, Secured Credit may be extended to customers on a selective basis. Secured Credit may be extended against an Irrevocable Letter of credit opened through a Scheduled/ Nationalised Bank. The Branch Manager shall additional precautions to verify the LC conditions, documentation stipulated, LC charges etc. before hand.

In special cases Secured Credit may also be extended against Bank Guarantee from Scheduled/Nationalised Banks.Approval for Secured Credit is to be obtained in the prescribed format **(ANNEXURE-10(6))**

Branch Manager/Branch Executive shall ensure the BGS/LCS furnished by the Customers are as per the approved formats for BG and LC as enclosed at **ANNEXURE - 10 of Credit policy (Annexure 10(3) &10(4))**.

As a measure of abundant precaution, the Branch Manager shall independently verify the authenticity of the BG/LC from the issuing bank , at the time of its receipt /before despatch of the material, after obtaining confirmation of LC from Regional/Zonal Office of the issuing Branch.

The secured credit shall also be extended only after obtaining specific approval from the Competent Authority. In such proposal , the branch marketing executive shall specifically bring forth the requirement as to whether the secured credit shall be interesting bearing or interest free and for the period so proposed.

4.2 RATIO ANALYSIS

4.2.1. DEBTORS TURNOVER RATIO:

The debtors also constitute major portion of the current assets as that of the inventory. The liquidity of the firm depends upon the realization of debtors. The high realization of debtors implies that the firm is highly liquid and vice versa.

As a company sells goods for both cash and credit, credit is used as a marketing tool by a number of companies. When the company extends credits to its customers, book debts are created in the company's accounts. Book debts are expected to be converted into cash over a short period and, therefore are included in current assets. The liquidity position of the company depends on the quality of debtors to a great extent. Financial analysis apply debtors turnover to judge the liquidity of debtors.

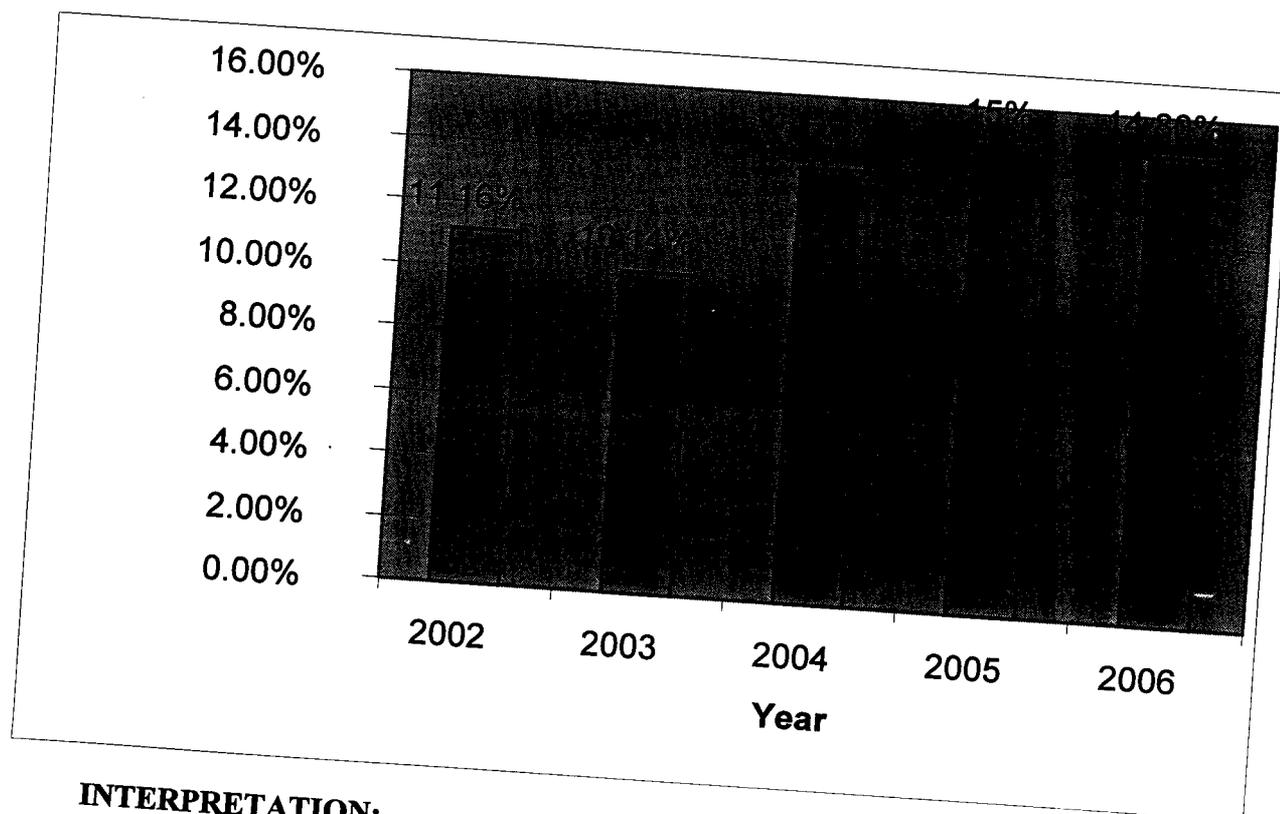
$$\text{Debtors turnover ratio} = \frac{\text{Credit Sales}}{\text{Debtors}}$$

Debtors turnover ratio indicates the number of times debtors turnover each year. Generally, higher the value of debtor's turnover, the more efficient is the arrangement of credit.

TABLE 4.2.1

Year	Credit sales	Debtors	Debtors turnover ratio
2002	15502	1389	11.16%
2003	16837	1660	10.14%
2004	21297	1550	13.74%
2005	28345	1908	15%
2006	27838	1882	14.80%

CHART-4.2.1

Debtors Turnover Ratio Chart**INTERPRETATION:**

The above table shows that the debtors *Turnover* Ratio lies within its upper limit and also maintains a reasonable level which is useful for the liquidity of the firm.

4.2.2. DEBT COLLECTION PERIOD:

The average collection period measures the quality of debtors because; it measures the speed of their collection. Shorter the average collection period, their better quality if debtors as a short collection period implies the prompt payment by debtors. An excessively long collection period implies a very liberal and inefficient credit and collection performance. This certainly delays the collection of cash and impairs of the company's liquidity.

Thus the collection period ratio indicates in two aspects:

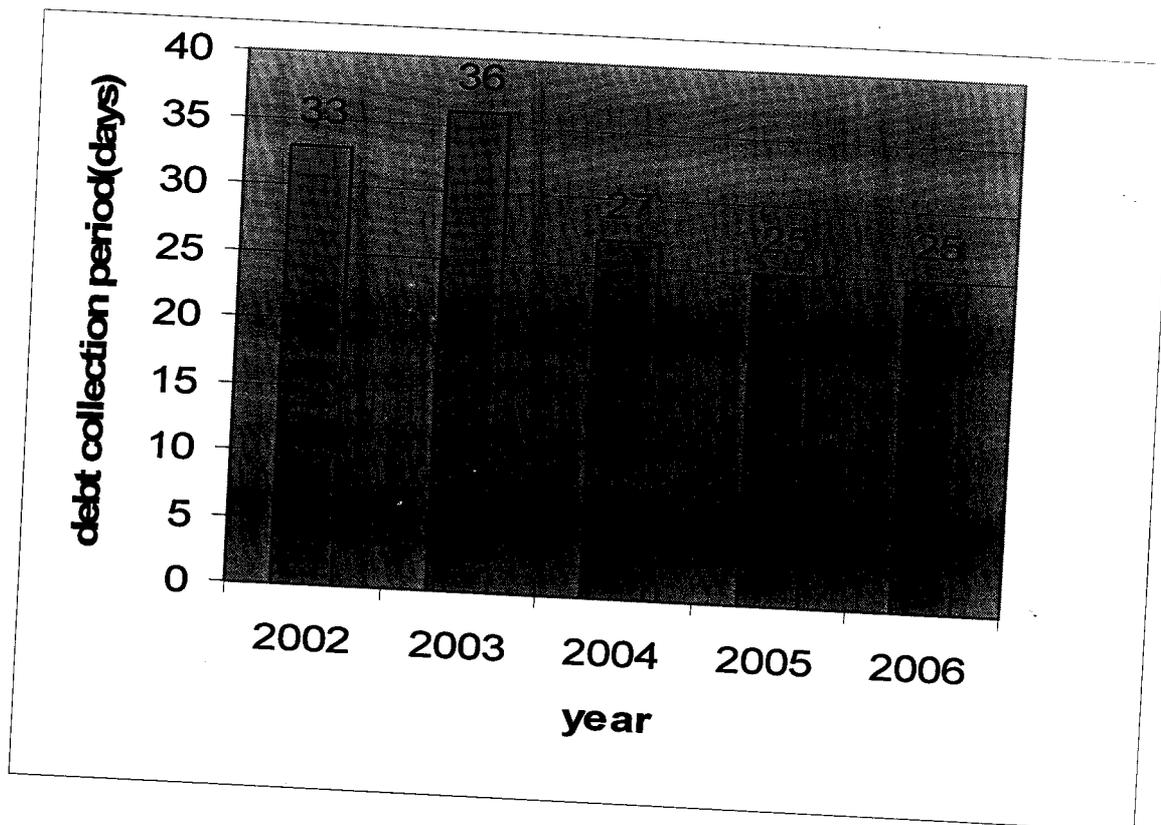
1. In determining the collectables of debtors
2. In ascertaining the company's comparative strength and advantages relative to its credit policy a Performance vis-à-vis the competitors credit policies and performance.

$$\text{Debt collection period} = \frac{\text{Debtors}}{\text{Credit Sales}} \times 365 \text{ days}$$

TABLE 4.2.2

Year	Debtors	credit sales	debt collection period(days)
2002	1389	15502	33
2003	1660	16837	36
2004	1550	21297	27
2005	1908	28345	25
2006	1882	27838	25

CHART-4.2.2

Debt collection period chart**INTERPRETATION:**

The above table shows that the *debt* collection period has reduced in the consecutive years, as the credit collection is done faster. Also it is noted that the debt collection period is get minimised after year 2003 continuously, thus the company is reviewing its credit policy every year to collect the debts within stipulated time period.

4.3.COMPARATIVE FINANCIAL STATEMENT

TABLE 4.3.1

	2003-04	2004-05	2005-06	2006-07
TOTAL SALES	557.35	1008.83	770.12	1299.27
CREDIT SALES	41.52	68.68	92.57	150.01
TOTAL DEBTORS	42.81	19.01	18.93	28.64
a) PUBLIC SECTOR	2.02	2.33	2.57	3.28
GOVT.PARTIES	15.71	0.93	3.09	3.39
PRIVATE	25.08	15.75	13.27	21.97
b) CATEGORY-WISE:				
< 6 MONTHS	27.24	4.84	5.32	15.45
6 MONTHS-1 YEAR	0.32	0.14	0.06	0.01
1-2 YEARS	0.21	0.07	0.10	0.02
2-3 YEARS	0.07	0.09	0.04	0.01
> 3 YEARS	14.97	13.87	13.41	13.15

INTERPRETATION:

- The total sales from the year 2003-04 to 2006-07 has been continuously increasing, it shows that the company is performing well. The credit sales has also been increasing in correspondence to total sales, thus the increase in credit sales has increased the total sales value for the company. This shows that the company is continuously improving its credit policy over every year.
- The Total debtors value in the year 2003-04 is 42.81 and the in the consecutive years the total debtors value is decreased, thus the receivables were attained within the stipulated time period as per the credit policies they followed.
- The company has given credit in large to the private organisation (single) and the debts are received by the company in time, whereas the company gives credit comparatively less to the public and Government sectors.

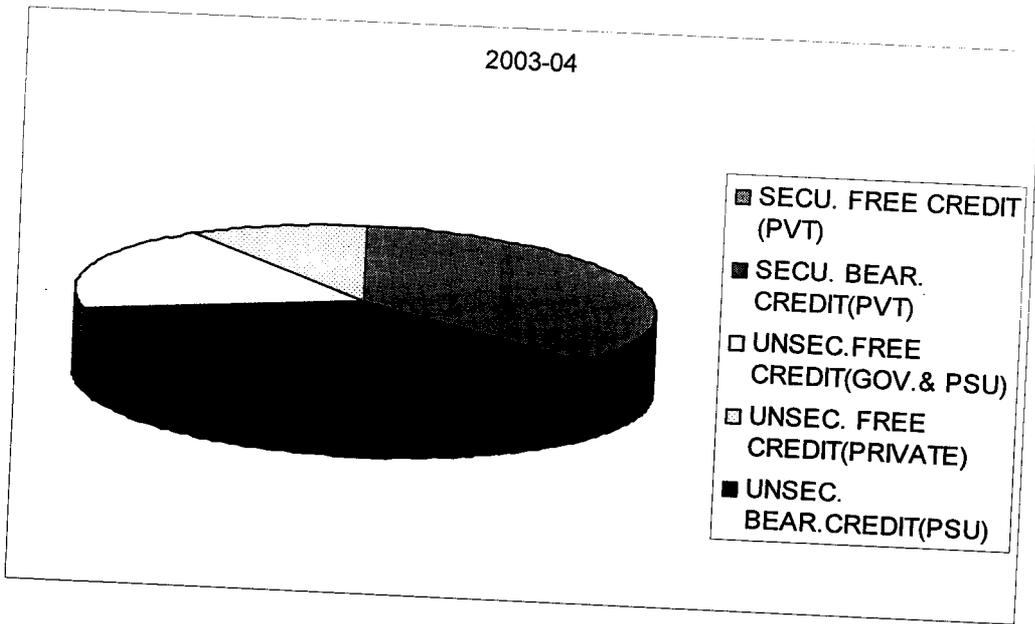
- The bad debt value is nil which is noted from their balance sheets from year 2003-04 to 2006-07. It proves that the company is doing well in managing their debtors.
- The credit is given to its customers mainly in the fashion, either <6 months or >3 years and also from 6 months-1 year, 1-2 years, 2-3 years. It shows that the company is practising short term, mid term and long term credit terms according to their customer needs. Since the company is collecting large value of debts in short term (<6 months) duration, the company can have a good working capital to meet its current liabilities, reserves and surplus, and can also plan its future investments.

TABLE 4.3.2

	2003-04	2004-05	2005-06	2006-07
SECU. FREE CREDIT (PVT)	14.41	13.42	24.16	29.18
SECU. BEAR. CREDIT(PVT)	13.49	27.93	8.96	45.73
SECU.FREE/BEAR.CREDIT(PVT)	1.95	1.27	0.66	1.37
UNSEC.FREE CREDIT(GOV.& PSU)	7.59	22.12	53.80	62.82
UNSEC. FREE CREDIT(PRIVATE)	4.05	3.94	4.99	10.91
UNSEC. BEAR.CREDIT(PSU)	0.03	NIL	NIL	NIL

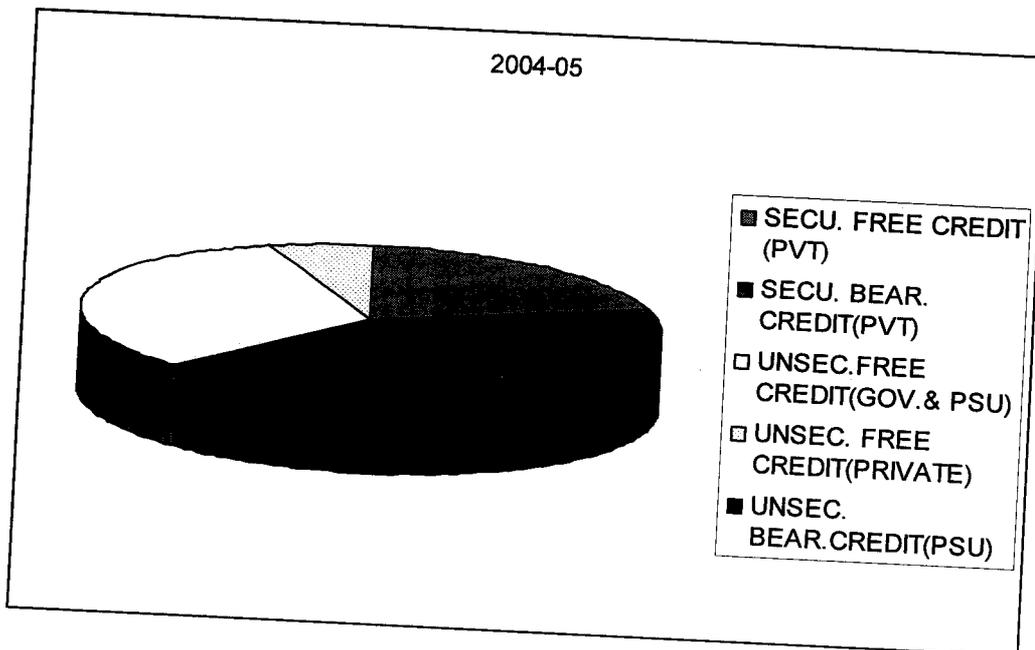
The following figures shows the five fashion of credit terms which the company has followed from 2003-04 to 2006-07

CHART-4.3.1



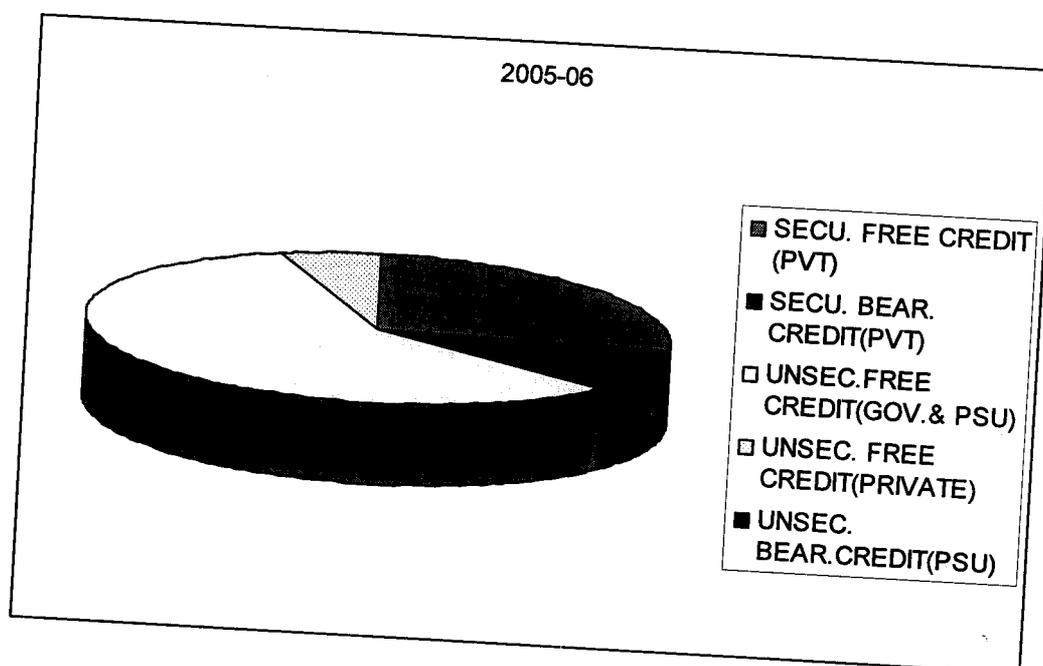
In year 2003-04, the company has given secured bearing credit to private sector in large, hence the company is safe enough in receiving its debts. Also, the company has provided secured free credit to private sector, unsecured free credit to Government & PSU and to Private sectors. Since the unsecured credits are comparatively less in proportion, the risk over receivables is less. Thus the total debtors value during this year is 42.81 with the credit sales 41.52 among the total sales of 557.35.

CHART-4.3.2



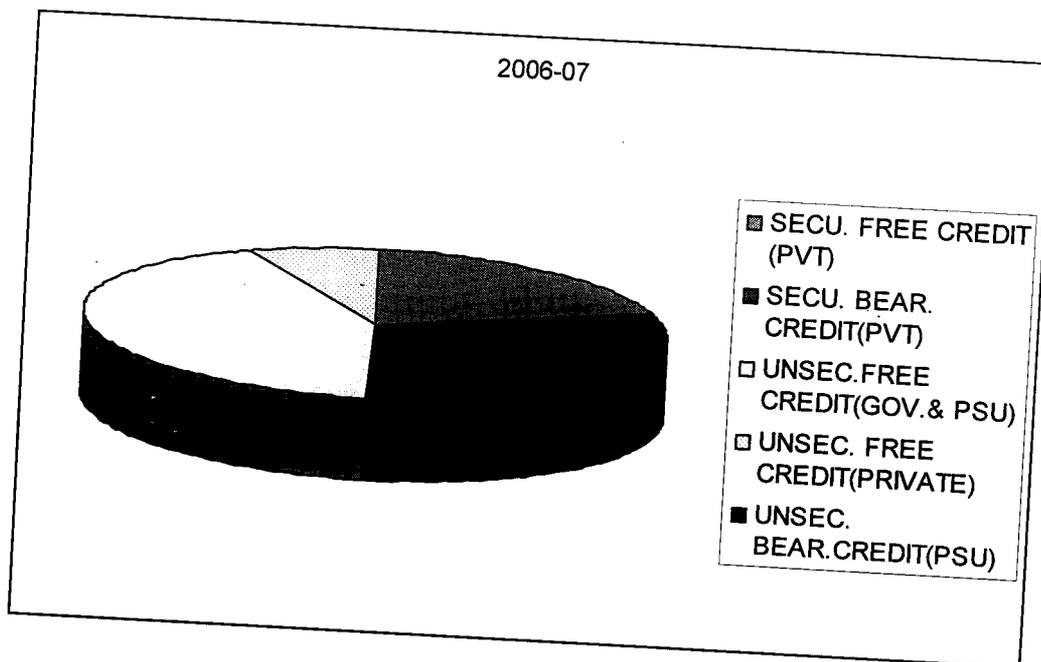
From the figure it is inferred that, the secured bearing credit to the private customers is given in large than the other types of credit lending's. thus the company's risk is minimised. The debtors collection period has also been decreased to 27 days than the previous years. It shows that the company is continuously revising its credit policy every year in order to promote the total sales and to have a good working capital by receiving the debts in time.

CHART-4.3.3



From this figure it is inferred that the unsecured free credit to both government and public sector has been given in large than the other credit lending's. In this year the debt collection period is reduced to 25 days, thus the credits are received in short span. Since the company is has given credit to Government and public sector (regular customers), they have given in policy of Unsecured free credit.

CHART-4.3.4



From the figure it is interpreted that the secured free credit to private and unsecured free credit to private are given in less the secured and unsecured bearing credit lending's. Since the bearing credits are in large the Risk at the Returns are less. The collection period is maintained as 25 days as in previous year. The credit sales of this year have increased to 150.01 when compared to the previous years. Hence the company has maintained its credit standards and managed its receivables well.

TABLE 4.3.3

	2003-04	2004-05	2005-06	2006-07
INVENTORY-TOTAL	109.37	268.95	317.78	228.77
INVENTORY-FINISHED GOODS	93.89	252.56	298.93	193.02
INVENTORY- RAW MATERIAL	15.48	16.39	18.85	35.75

CHART-4.3.5

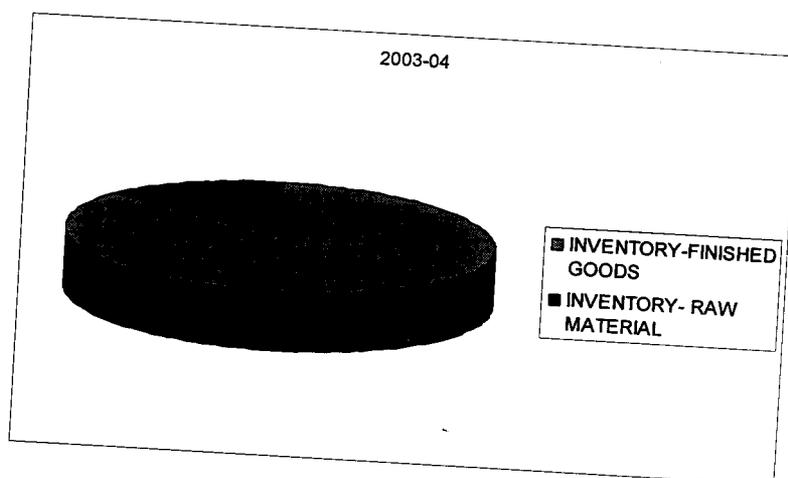


CHART-4.3.6

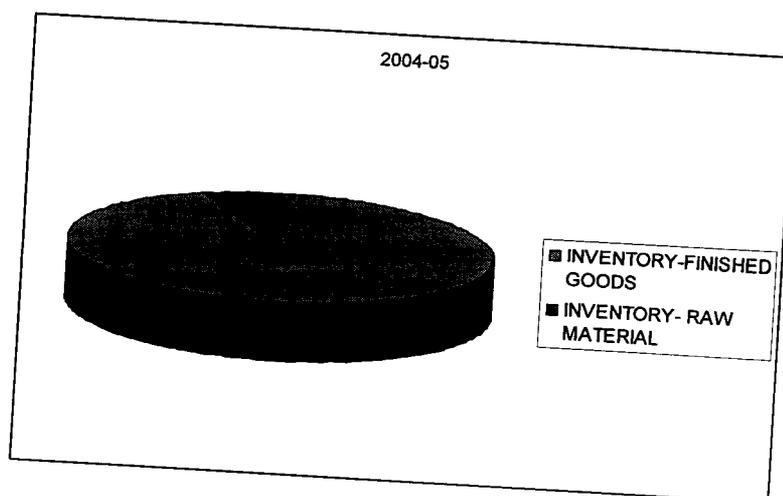


CHART-4.3.7

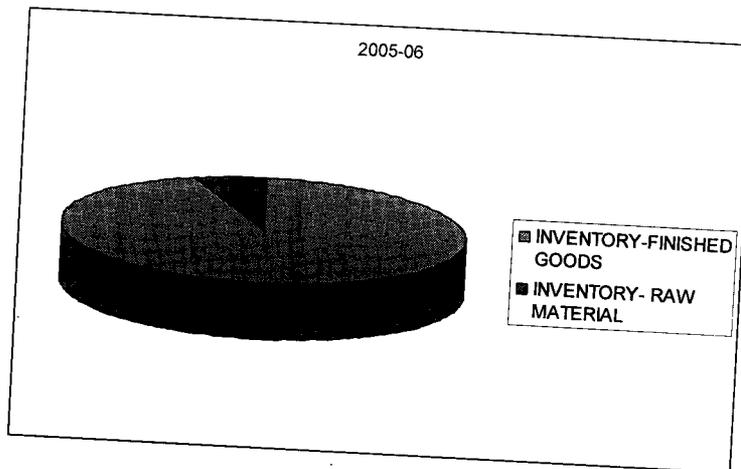
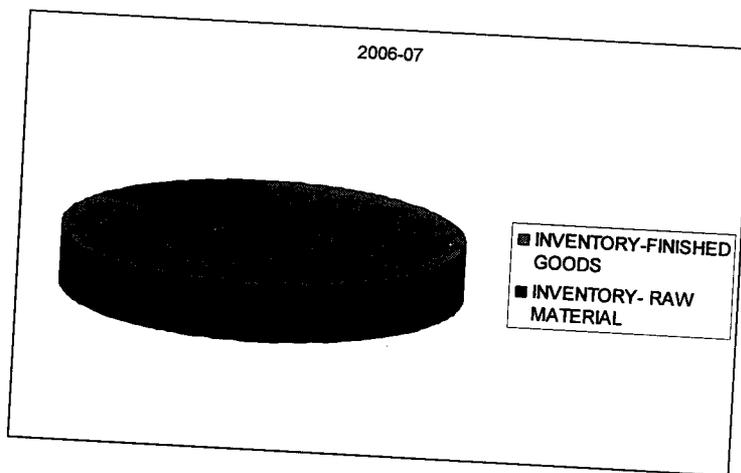


CHART-4.3.8



From the above figures it is noted that the inventory of finished goods is higher than the raw material inventory. It shows that the raw materials are being converted into finished goods fastly in order to meet the demand. The inventory of finished is lowest in the year 2003-04 but correspondingly the value of total sales was also less in that year.

But in the next 2 consecutive years the inventory of finished goods were high and along with them the total sales has also been increased. Particularly in year 2005-06 the purchase of finished goods of the company is done in large by the Government parties only. In the next year 2006-07 the total inventory of finished goods is lessened than the previous years, and the corresponding sales in this year is also increased. Thus the company has minimised its storage cost during year 2006-07. It shows that the company had a effective maintenance over its inventory, receivables during the year.

INFERENCE:

From the above comparative financial statement analysis, it is inferred that the company is continuously reviewing its credit policy over every year and has received all their credits within the collection period.

CHAPTER 5
CONCLUSIONS AND RECOMMENDATIONS

CHAPTER 5

FINDINGS AND SUGGESTIONS

- ❖ The credit policy of the company is studied, and hence we conclude that the secured bearing credit given to private sector can still be increased to minimise the risk on returns.
- ❖ From the study it is inferred that inventory, working capital, interest fixation, collection period, customers ability to repay the credit given by the company, are also some of the parameters which has been involved in debtors management.
- ❖ The debtors Turnover Ratio lies within its upper limit and also maintains a reasonable level which is useful for the liquidity of the firm.
- ❖ The debt collection period has reduced in the consecutive years, as the credit collection is done faster. Also it is noted that the debt collection period is get minimised after year 2003 continuously, thus the company is reviewing its credit policy every year to collect the debts within stipulated time period.
- ❖ The total sales from the year 2003-04 to 2006-07 has been continuously increasing, it shows that the company is performing well. The credit sales has also been increasing in correspondence to total sales, thus the increase in credit sales has increased the total sales value for the company. This shows that the company is continuously improving its credit policy over every year.
- ❖ The Total debtors value in the year 2003-04 is 42.81 and in the consecutive years the total debtors value is decreased, thus the receivables were attained within the stipulated time period as per the credit policies they followed.
- ❖ The company has given credit in large to the private organisation (single) and the debts are received by the company in time, whereas the company gives credit comparatively less to the public and Government sectors.
- ❖ The bad debt value is nil which is noted from their balance sheets from year 2003-04 to 2006-07. It proves that the company is doing well in managing their debtors.
- ❖ The credit is given to its customers mainly in the fashion, either less than 6 months or greater than 3 years and also from 6 months to 1 year, 1-2 years, 2-3 years. It shows that

the company is practising short term, midterm and long term credit terms according to their customer needs.

- ❖ Since the company is collecting large value of debts in short term (<6 months) duration, the company can have a good working capital to meet its current liabilities, reserves and surplus, and can also plan its future investments.
- ❖ From the financial statement analysis, it is inferred that the company is continuously reviewing its credit policy over every year and has received all their credits within the collection period.

CONCLUSION:

Over the years, SAIL grew in size from its first steel plant established at Rourkela and consecutively to Bhilai, Durgapur, Bokaro, Salem, Durgapur and Bhadravati. An experienced and committed workforce is the hallmark of the company taking it successfully through the vagaries of business cycles.

Today SAIL is truly a market driven company, making important structural changes and continuous process improvements to meet its customers and obligations. Through its continuous efforts to utilise its modernised facilities to their full capacity and achieve cost-effectiveness, SAIL is endeavouring to provide its customers with the benefit of competitively priced products of world-class quality. To achieve cost leadership, the company is currently implementing a business restructuring plan which envisages the separation of all non-core activities into secondary businesses, in addition to regular cost-cutting measures, including manpower cost. Following restructuring, SAIL will succeed in consolidating its core strength of producing mild carbon steels and emerge as one of the lowest cost producers of steel in India. The company is found to be collecting large value of debts in short term duration that enables the company to have a good working capital to meet its current liabilities, reserves and surplus, and can also plan its future investments. The company is found to be constantly reviewing its credit policy every year and has acquired all their credits within the stipulated period. Therefore SAIL is found to stick to its vision to be a respected world-class corporation and the leader in Indian steel business in quality, productivity, profitability and customer satisfaction.

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APPENDIX

STEEL AUTHORITY OF INDIA LTD
SALEM STEEL PLANT, SALEM - 636 013

CREDIT POLICY

BACKGROUND:

As a commercial organization dealing with production and marketing of steel, regular cash flow and maximizing return under the prevailing marketing conditions are of critical importance for the Steel Authority of India Ltd (SAIL). Under the present market condition, SAIL has to compete with other producers both in the domestic and foreign market. While marketing against full payment made in advance is the ideal situation, at times it becomes necessary to provide material on credit, keeping in view the prevailing market conditions, requirement of the customers and trade practices followed by other players in the market. Thus provision of credit has become one of the important marketing tools. As provision of credit has an inherent element of risk, such proposal is required to be processed judiciously for safeguarding the interest of the Company.

1.0 OBJECTIVE:

The Credit Policy aims at laying down guidelines for deciding the suitability of a customer for extending credit, minimizing the risk involved and methodology for sanction and monitoring credit.

2.0 GUIDING PRINCIPLES:

- 2.1 Material should be sold mainly on "cash and carry" basis or delivery against payment through negotiation of documents. For the purpose, bank drafts, pay orders, banker's cheques and current dated cheques shall also be considered as Cash. Acceptance of current dated cheques will be guided as per the operational guidelines enclosed at Annexure - 10 (1).
- 2.2 Material may be sold on Secured Credit basis on Letter of Credit (LC) or Bank Guarantee (BG) of adequate amount from a Scheduled bank.
- 2.3 Material may be sold on Unsecured Credit, if deemed necessary, keeping in view the trade practices and specific customers' requirements.
- 2.4 All proposal for provision of credit shall be processed in consultation with Branch Finance (BF) / Finance & Accounts Deptt. (FAD), Salem. Secured credit facility

may be extended to customers by the Branch Managers as per delegation of powers indicated in the Operational Guidelines. Unsecured Credit facility may be provided to customers only with the approval of the Executive Director, SSP.

3.0 CATEGORISATION OF CUSTOMERS:

For the purpose of selling of material on credit, customers may be broadly divided into two categories, namely:

Category I:

- i) Central / State Govt. Departments
- ii) Public Sector Undertakings (whose net worth is positive)
- iii) Projects of National / State level importance, including those funded by International Financial Agencies.
- iv) Public Limited Companies (whose shares are traded regularly)
- v) Customers, with whom MoU / tie up has been executed.

Category II

- i) Public Sector Undertaking (whose net worth is negative)
- ii) Public Limited Companies (whose shares are not traded regularly) and Private Limited Companies (i.e. closely held companies).
- iii) HUFs / Partnership / Proprietorship firms.

While processing proposal for provision of credit, special attention should be paid to the second category of customers because of the relatively higher risk involved.

4.0 CREDIT LIMITS:

- 4.1 Based on prevailing market conditions and business needs, an overall limit for provision of secured and unsecured credit separately shall be fixed at the beginning of each financial year by Executive Director, SSP in consultation with Corporate Finance. These limits may be revised in case of necessity arising out of pressing market conditions with the approval of ED, SSP. Credit, Secured and Unsecured, provided at any point of time, should not exceed the limit.
- 4.2 In case of sale of material against secured credit, the Branch Manager in consultation with Branch Finance / FAD, Salem, shall issue material against valid banking document(s) on approval from Regional Manager of SSP Mktg. Over all position of provision of secured credit shall be monitored at the Branch level by the concerned Branch Managers of SSP Marketing and FAD, Salem and at the Plant level by HOD Mktg and shall be reviewed by ED, SSP, Salem on quarterly basis.

5.2 Extension of credit after the normal period:

5.2.1 In exceptional cases, existing credit may be extended beyond the credit period by the higher authority only, on the request of the customers for period not exceeding the limit indicated below, on charging interest as applicable.

	<u>Secured Credit</u>	<u>Unsecured Credit</u>
Head of Mktg with CFA	15 days	-
ED, SSP	30 days	-
ED (CP)	45 days	30 days

(CFA – Concurrence of Finance & Accounts.)

5.2.2 In case the period for credit is decided by a higher authority, same can be reviewed only by the said or a higher authority.

5.2.3 In case any proposal for extension of period (secured / unsecured) is approved, interest thereon shall be charged as per normal interest rates.

6.0 INTEREST FREE CREDIT:

6.1 Interest Free Credit (IFC) facility may be allowed for the specified time period as provided in Clause 5.1 above by the respective levels, by corresponding adjustments of discounts / rebates or loading of prices.

7.0 INTEREST ON CREDIT SALE:

7.1 Interest, normal or penal as applicable, shall be charged on credit facility extended, at the rates declared from time to time and in line with those of CMO.

8.0 METHODOLOGY FOR SANCTION OF CREDIT:

8.1 Proposal for credit shall be processed, either as per terms of enquiry / tender or on request of the customer in the prescribed format along with supporting documents:

8.2 Within the limits for provision of secured credits communicated to the Branch, the Branch Manager shall process all cases in consultation with Branch Finance, wherever available, and decide the credit limit for individual customer, with the approval of Regional Manager. Secured Credit facility may be provided based on LC / BG after verifying genuineness and validity of the documents as per operational guidelines.

- iv) Unsecured credit sanctioned in respect of all customers shall automatically lapse on 30th of June every year, if otherwise not specified in the approval.
- v) BMs of SSP Mktg and FAD, Salem shall maintain a credit register for effective monitoring of credit utilisation against limits approved / available.
- vi) Credit limits of the customers shall not be considered free unless the cheque(s) deposited against earlier credits are cleared. However, credit limits of customer enjoying cheque facility can be considered for immediate restoration before encashment of cheque(s) to the extent of availability of cheque limit.
- vii) All payments shall be considered overdue if not made on due date and applicable penal rate shall be chargeable on all overdues.
- viii) If both secured and unsecured credit are over-due from a customer, payments should first be adjusted against unsecured credit.
- ix) Rate of interest as applicable on the date of sanction of credit shall be chargeable.
- x) The interest would be charged on annual rate basis on all outstanding over dues beyond the permitted interest free credit period. The denominator should be 365 days in case of ordinary year and 366 days in case of leap year in those cases where for calculating number of days for interest, 29th February is also counted.
- xi) Secured Credit limit for individual customers shall be operated and monitored by the Branch, which had processed the sanction of credit based on available documents with supporting LC/BG. Transferring balance part of secured credit to a different Branch will not be considered.
- xii) While processing proposal for execution of Memorandum of Understanding, which envisages supply of credit on a long term basis, past experience with the party should be taken into account.
- xiii) The date of commencement of credit shall be reckoned from the date of Commercial Invoice.
- xiv) For customers referred to BIFR, the material should be supplied only on cash basis. In case of BIFR companies, the secured credit may not be extended as the operation of BGs/LCs comes to a stay while the proceedings are on.

OPERATIONAL GUIDELINES OF CREDIT POLICY

The following operational guidelines may be followed by all the concerned, while implementing the approved Credit Policy.

- 1.0 Guidelines for accepting of Cheques / Dishonour etc:
 - 1.1 For the purpose of accepting payments for supply of stainless steel / carbon steel products, each branch shall identify a list of customers on the basis of past performance, business demands and payment history record who can be allowed to make payment by cheque. This list shall be got approved by ED, SSP at the commencement of every year.
 - 1.2 This list shall also stipulate a limit upto which cheques can be accepted. It would be necessary to update this list every year for any addition / deletion in the list as may be called for. Other customers or such customers having an indifferent payment history shall be asked to make payment by Demand Draft.
 - 1.3 Cheques of Scheduled / Nationalised Banks may be accepted for supply of stainless steel / carbon steel products.
 - 1.4 Refunds against MRCA / MR, if any, shall be issued to customers only after obtaining confirmation of realisation of proceeds of the cheque.
 - 1.5 Normally, outstation cheques shall not be accepted from customers. However, in the case of Govt. Departments and Public sector undertakings, as a special case outstation cheques may be accepted, provided the bank collection charges are to the account of the customer. Bank charges that could not be recovered may be absorbed with the approval of the Head of Mktg with CFA.
 - 1.6 RBI Cheques and Cheques of Govt. Departments may be accepted without any limit.
 - 1.7 In the event of dishonour of cheques issued by a customer, the cheque facility enjoyed by him hitherto may be withdrawn.
 - 1.8 Cheque facility may be reinstated after an observation period of three months, in respect of customers, whose cheques have been dishonoured with remarks such as "insufficient funds", "effects not cleared", please present again" etc. after obtaining specific approval of competent authority.

- 2.3 The stamp paper used in the BG must be of the requisite value and should be purchased on behalf of the issuing bank or SAIL. For determining the value of the requisite Stamp Paper as per the Stamp Act of the State, help may be taken, if required, from a local Advocate on one time basis.
- 2.4 BGs are to be checked for its correctness in line with the BG format. It should also be ensured that name, designation, seal and the authorisation number of the person issuing the BGs / LCs are indicated clearly in the document(s). If any minor deviation is required on the BGs, the same shall be referred back to Branch Finance / Regional finance of CMO for necessary advice. If necessary, the BGs may be sent to SSP Finance also for advice.
- 2.5 In the case of BGs / amendments if any, written confirmation must be obtained from the issuing Bank regarding the genuineness of the same. In case, the controlling banks are not willing to issue a confirmation letter, then it should be ensured that letter(s) seeking confirmation are sent through Registered Post and proper records are kept with the concerned Branch.
- 2.6 In the case of LCs, it should be ensured as to whether all the L/C conditions are adhered to as per the approved format at Annexure -10(4).
- 2.7 Credit against BGs / LCs shall be allowed only after satisfying all the above conditions and the BMs concerned should send proposal(s), in consultation with Branch Finance, wherever possible, seeking approval for credit sale as per the format at Annexure - 10(6) to the respective Regional Chiefs of SSP Mktg.
- 2.8 Exceptions may be made in the approved format of BG in respect of the above stipulations in the case of Government Departments / PSUs with the approval of the Heads of Marketing & Finance. Minor deviations, if any, in the approved format of BG, in respect of other customers, may be considered, for which a separate proposal indicating the justifications should be forwarded to Mktg HQ, which will be scrutinised and recommended by the Committee for approval by the Competent Authority, on case to case basis.
- 2.9 Credit shall be extended latest upto 7 (seven) working days prior to the expiry of the respective BGs/LCs and for outstation BGs, the same may be restricted to 10 (ten) working days.
- 2.10 It should be ensured that amount of BGs / LCs should cover the amount of interest, if any.
- 2.11 At any point of time, the credit limit sanctioned should not exceed the limit / approval.

Customer shall also furnish a letter to SAIL requesting for drawing of the bills against LC by SAIL with an undertaking stating that the bills will be discounted with the referred banker at their limit, cost and without recourse to SAIL.

- 5.0 Supply of materials against Unsecured Credit:
- 5.1 Proposal seeking approval, wherever applicable, for extending unsecured credit, along with Customer's request letter, duly recommended by the Branch Finance, shall be sent to Mktg HQ by the concerned BMs of SSP Mktg through their Regional Chiefs, as per the approved format at Annexure 10(5) indicating the required amount and period.
- 5.2 The proposal shall accompany the financial statements preferably for the last three years which shall include the balance sheet for the last two years, profits and loss account, the schedule of assets and liability and preferably the auditor's report including notes on accounts.
- 5.3 In case of companies, the audited accounts and schedules should be obtained in line with the requirements of the Companies Act. In case of listed companies, the audited / unaudited accounts in respect of the quarter ended at least 30 days prior to the date of proposal should also be enclosed with the proposal. (Exception to Govt / PSUs.)
- 5.4 The proposal complete in all respect received from the Branches would be scrutinised by the Committee constituted for this purpose at Mktg HQ and forwarded through Head of Mktg and Finance for approval.
- 5.5 In respect of PSUs/Government Depts/Quasi Government Departments, unsecured credit proposals received from the Branches/Regions shall be cleared by Head of Marketing in consultation with Head of Finance of SSP.
- 5.6 It should be ensured that unsecured credit limit is operated within the sanctioned / approved limit.
- 6.0 Documents required for grant of Unsecured Credit:

a) **Corporate Guarantee:**

At the time of availing unsecured credit for the first time, customers are required to submit (in case of companies) Corporate Guarantee under the seal of the company, duly authorised by the resolution of the Board of Directors of the Company, in prescribed format at Annexure - 10(7). After that such corporate guarantees are to be furnished in the beginning of each financial year, if the customer wishes to continue sales against unsecured

7.0 Exemption from submission of Documents:

- i) Government Departments, Quasi-Government bodies, Public Sector Undertakings may be exempted from submission of Corporate Guarantee, Personal Guarantee Bonds, PDCs & Hundi.
- ii) Non-gazetted Organisations (NGOs) & Public Limited Companies, whose shares are quoted in the stock exchange and traded regularly, may be exempted from submission of personal guarantee.
- iii) In case of companies not covered at "i & ii" above, personal guarantees may be obtained without insisting on the conditions for registration or charge.
- iv) Exemption from submission of document(s) mentioned at 6.0 (a) to (c) above can be granted with the approval of the competent authority.

8.0 Continuation of supply in case of overdue against unsecured credit:

In case payments are over-due (beyond 10 days) against any earlier unsecured credit after exhausting the extension periods of maximum 30 days, if approved by the competent authority as per Delegation of Powers, no further credit (secured/unsecured) should generally be extended, even if credit limit is available and no DO on cash and carry should be issued. In such cases, further credit can only be given with the approval of the competent authority.

DISHONOUR OF CHEQUES**PART - A NOTICE UNDER SEC 138/142 OF THE NI ACT**

1. Dishonour of cheques is a Criminal Offence in terms of Sec.138 of the Negotiable Instruments Act 1881 (as amended), if cheques are returned unpaid by the Bank on the ground of "insufficiency of fund" or "arrangement exceeds" etc. Over and above, the dishonour of cheques on the ground of "stop payment" will also be an offence u/s 138 of NI Act.

1. As a part of our commercial activities, the payments are received through cheques from the customer. In case of unsecured credit, the customer may be requested to submit a letter requesting for availing credit. In case of post dated cheques, the cheque amount and date should be mentioned with reference to customer's request for providing credit and a Letter of Undertaking as per enclosed Annexure-10(9) of Dishonour of Cheques should be obtained from the customer(s).

2. In case of dishonour of cheques, Notice u/s 138 is to be issued by Registered Post and through courier within 15 days from the date of receipt of intimation from our Banker returning the cheque(s) unpaid. In the notice under section 138 only the cheque amount should be claimed and no credit should be given for any payment received before or after the dishonour of cheque since claiming an amount higher or smaller than the cheque amount may render the notice under section 138 invalid as per one of the Judgements of Kolkata High Court. If any payment is received between the date of dishonour of cheque and the date of issuance of Notice u/s 138, then the acceptance and acknowledgement of such payment should be given only after the Notice u/s 138 is issued. However, interest should be claimed in the Civil suit / Winding up Proceeding. Notice under section 138 has to be issued to the Company / Firm as also to all its Directors / Partners as well as other persons in charge and responsible for the conduct of the business of the said Company / Firm so as to make them liable for prosecution in terms of Sec.141 of the N.I. Act. Such notice should also be delivered by hand under a clear acknowledgement as a proof of delivery of such notice. This is important since the failure to pay the cheque amount by the Company / Firm and/or by Director(s) / Partner(s) and all other persons to whom the notices u/s 138 have been sent within the period of 15 days from the date of receipt of Notice u/s 138 of the N.I. Act will make them liable for criminal prosecution in terms of provisions of Sec.138. No format for the notice can be prescribed since the contents of the notice will vary depending upon the facts and circumstances of each case. For drafting the notice, Law Dept may be

in terms of Sec 142 of the N.I. Act. It has also been held by the Apex Court that if subsequent date of service through other mode like Registered Post is taken and if the Complaint is filed beyond the period of one month reckoning from the date of transmission of FAX through which Notice u/s 138 has been served, the Criminal Complaint will not be maintainable being barred by limitation.

For clarity the following example is set out:

A Notice under section 138 is served on 1st May 2001, which was received by the Drawer / Director(s) and/or Partner(s) of the concerned Company / Firm on 8th May, 2001. Then the drawer/other person(s) has to make payment by 23rd May, 2001. In case of failure to pay the entire cheque amount within 23rd May, 2001, SAIL can file criminal complaint under section 138/142 of the N.I. Act within one month i.e. 22nd June, 2001 to avoid the case being time barred. In view of the judgement of the Supreme Court in the case of *Sadanandan Bardhan Vs. Madhavan Sunil Kumar*, the following procedure should be adopted in case of dishonour of cheque(s).

- 7.0 Once Notice u/s 138 is issued, the cheque(s) should not be represented. However, only in cases where the advice of the Bank returning cheque unpaid is to the effect say for example, "Fund Expected", "Present again" in such cases, we may represent the cheque provided the notice u/s/ 138 has not been issued. In other words, even in this case too, cheque(s) should not be represented if notice u/s 138 has been issued.
- 9.0 For any further clarification, the matter may promptly be referred to Legal Dept on case to case basis. As already mentioned, for drafting of the Notice under sec.138, Legal Dept should be contacted immediately and notice should be issued with the approval of the Legal Dept.

PART - B FILING OF CIVIL SUITS

- 1.0 In addition to the above, law also permits us to file suit in the concerned High Court / Civil Court for recovery of our dues, with interest. During the civil proceedings in the Civil Court we are also entitled to seek an order from the court under Order 38. rule 5 of the Civil Procedure Code (CPC) for attachment of the properties of the delinquent / defaulting customers even before judgement. For that, along with the Plaint, a separate Petition under Order 38 Rule 5 of the CPC is also to be filed in consultation with the Legal Dept and the Counsel engaged for the civil suit.

in terms of Sec 142 of the N.I. Act. It has also been held by the Apex Court that if subsequent date of service through other mode like Registered Post is taken and if the Complaint is filed beyond the period of one month reckoning from the date of transmission of FAX through which Notice u/s 138 has been served, the Criminal Complaint will not be maintainable being barred by limitation.

For clarity the following example is set out:

A Notice under section 138 is served on 1st May 2001, which was received by the Drawer / Director(s) and/or Partner(s) of the concerned Company / Firm on 8th May, 2001. Then the drawer/other person(s) has to make payment by 23rd May, 2001. In case of failure to pay the entire cheque amount within 23rd May, 2001, SAIL can file criminal complaint under section 138/142 of the N.I. Act within one month i.e. 22nd June, 2001 to avoid the case being time barred. In view of the judgement of the Supreme Court in the case of Sadanandan Bardhan Vs. Madhavan Sunil Kumar, the following procedure should be adopted in case of dishonour of cheque(s).

- 7.0 Once Notice u/s 138 is issued, the cheque(s) should not be represented. However, only in cases where the advice of the Bank returning cheque unpaid is to the effect say for example, "Fund Expected", "Present again" in such cases, we may represent the cheque provided the notice u/s/ 138 has not been issued. In other words, even in this case too, cheque(s) should not be represented if notice u/s 138 has been issued.
- 9.0 For any further clarification, the matter may promptly be referred to Legal Dept on case to case basis. As already mentioned, for drafting of the Notice under sec.138, Legal Dept should be contacted immediately and notice should be issued with the approval of the Legal Dept.

PART - B FILING OF CIVIL SUITS

- 1.0 In addition to the above, law also permits us to file suit in the concerned High Court / Civil Court for recovery of our dues, with interest. During the civil proceedings in the Civil Court we are also entitled to seek an order from the court under Order 38 rule 5 of the Civil Procedure Code (CPC) for attachment of the properties of the delinquent / defaulting customers even before judgement. For that, along with the Plaint, a separate Petition under Order 38 Rule 5 of the CPC is also to be filed in consultation with the Legal Dept and the Counsel engaged for the civil suit.

- a) Payment of Court fee is fixed and small amount of Court fee is involved
- b) Attachment of the properties of Director(s) / Partner (s) / Proprietor (s) will be possible even if there is no Personal guarantee Bond by the Director.

**PART - D : F I R WITH THE LOCAL POLICE STATION
U/S 420 OF IPC**

1. In addition to the two proceedings referred to in Parts A & B, there is also another recourse available to us u/s 420 of the IPC and that is by way of lodging Written Report (FIR) to the concerned / local Police Station. In the FIR, we should state that the materials were delivered to delinquent / defaulting customers on their assurance(s) made to us in writing or through cheques that whenever those cheques would be presented on or after the due dates as agreed to between the customers and the Branch, they would be honoured by the Banks. That assurance induced the Branch to effect delivery of certain quantities and categories of materials to such customers on the stated dates giving references of the related Delivery Challan(s). In the Written Reports (FIR), it is not necessary to give a reference of the MoUs, if any, signed with the customers, since MoUs are not Contracts legally enforceable in law. In the Written Reports (FIR), bare facts of the agreement (oral or through correspondences (if any) between the customers and the Branch in regard to the delivery of the materials against their post-dated cheques should be stated. The Written Report (FIR) to the Police Station must be very precise and confined to the above facts only.

NB: Steps under Part - D should be taken only with prior written approval from Marketing HQ through Legal Dept.

**PART - E ENGAGEMENT OF LAWYERS AND
MONITORING OF CASES**

- 1.0 The Branch must engage best lawyers available at the concerned locations in consultation with the Legal Dept through Marketing HQ.
- 2.0 The Branches must monitor the cases carefully and with due diligence in consultation with the Legal Dept and the concerned lawyer and submit a fortnightly report to the Legal Dept / Marketing HQ.

Our obligation hereunder shall continue in full force and effect notwithstanding:

Our obligation hereunder shall continue in full force and effect
(a) any change in the constitution or style of our said client M/s _____
(Name & address of client)

Or

your granting time or any other indulgence to the said M/s _____
(Name & address of client)

This guarantee will remain in force upto _____
Notwithstanding anything contained hereinbefore the bank's liability under this guarantee
is restricted to Rs. _____ (Rupees).

Our guarantee shall remain in full force till _____ unless a claim is filed
against us in writing on or before _____ and payment is made by us all
your rights under this guarantee shall be forfeited and we shall be relieved and discharged
from all liabilities hereunder.

We _____ (name of the bank and address) lastly undertake
not to revoke / amend / issue addendum to this Guarantee during its currency without
your previous consent in writing.

Place :
Dated :

Yours faithfully

- Note:
- 1) Bank guarantee would be issued from a Bank located in the same town of the BSO or Drawer Office of SAIL
 - 2) The Bank guarantee should be on requisite stamp paper of appropriate value taken in the name of Bank
 - 3) While submitting the bank guarantee, Zonal Office address of issuing bank should be given separately.

SPECIAL INSTRUCTIONS

- A. Letter of Credit is also available for applicable Sales Tax and Govt. or Municipal Levies, if any.
- B. This credit is governed by the *Uniform Customs and Practices for documentary credit* (1993 revision) International Chambers of Commerce, Publication No. 500.
- C. Supplementary Invoices against the Delivery Orders allowed to be paid under this Credit.

** In case of Direct Despatch :

- 1) Invoice, 2) Railway Receipt or Lorry Challan

- A. Validity of LC can be extended for a further period of a maximum six months, if need be, at the request of the beneficiary.
- B. All bank charges to opener's account.
- C. Drafts drawn under this LC are negotiable by (This should be a bank in the town where the Branch Sales Offices of SAIL is situated) _____ only.
- D. Stamp Duty to be affixed on the usance drafts will be borne by the accountee (i.e. the customer) and may be included in the Delivery Order value / draft value.
- E. Draft / D.O. value will include interest for per annum on the value of the D.O. for a period extending from the date of D.O. to the date of maturity.
- F. Reimbursement clause - Negotiating bank may debit to us through branch clearing general account on due date.

Original Delivery order to be handed over to the authorised representative of the Company and photocopy of the D.O. to be negotiated.

- e. Whether lifting is normally average or erratic? :
- f. Was SAIL sole supplier to this customer for its range of products :
- g. If No, what is the SAIL's approx. share in their purchases? :
- h. Unsecured credit limit extended :
 - Regular :
 - One time :
- i. Secured Credit operated :
- j. No. of days credit period operated :
- k. Payment performance against Credit sale
 - Total credit transactions :
 - %age of payment on due date :
 - %age of payment before due date :
 - %age of payment beyond due date :
- l. Whether customer pays interest for delay in payment? :
- m. Any case of Cheque dishonour in last three years :
- n. Cheque limit extended :
- o. Any overdue outstanding of last year, still existing
 - Current year status :

f) Fixed assets excluding re-valuation net of depreciation

g) Current Assets :

- Inventory :
- Debtors net of provisions :
- Others :

h) Current Liabilities & Provisions :

PROPOSAL:

Finance Executive

Branch Manager

RM

14. Overdue outstanding of party as on date (including U/S credit, if any): Rs.
15. Gross outstanding : DD + SYD = Rs.
16. Overdue outstanding : DD + SYD = Rs.
17. Limit available for credit : Rs.
18. Remarks (others or for rejecting Proposal)

FINANCE EXECUTIVE

Credit sanctioned as proposed / Credit not sanctioned.

BRANCH FINANCE INCHARGE

BRANCH MANAGER

**COMPUTER GENERATED CREDIT AUTHORISATION MEMO NO. /
DOCUMENT NO.**

(Dealing Finance Executive)

- 5) Notwithstanding anything hereinbefore contained, this guarantee shall not stand determined / revoked in the event of any change in our constitution.
- 6) That this guarantee shall remain in full force and shall be revoked except with the previous written permission of the Company.

For & on behalf of Buyer
(Authorised Signatory with Seal)

3. Any time granted, concession or indulgence on the part of the said creditor towards the said debtor shall not prejudice the rights and obligations of the parties under THESE PRESENTS.
4. Provided always that in the event of any winding up order, whether voluntary or compulsory, being made against the said debtor as mentioned above or their entering or attempting to enter into a scheme of composition / amalgamation with others or for any attachment effected or receiver being appointed over their business, even then the guarantee hereunder given SHALL NOT STAND REVOKED BUT STILL THE Guarantor shall pay to the Creditor on demand by virtue of this guarantee hereunder given for the full amount or balance amount, as the case may be, not realised from the said Debtor.
5. I do also hereby declare that my property mentioned in the schedule below is hereby charged as Security for payment of the said cheque(s) amount / other dues in respect of the transactions, referred to above with interest to SAIL.
6. The said property is free from all encumbrances and the same shall not be charged, encumbered not otherwise dealt with by me in any way without getting written consent from SAIL first so long as the said cheque(s) amount or any part thereof remains unpaid / unsettled.
- 6.1 I do hereby declare that my property mentioned in the schedule below is not subject matter of any other guarantee.
7. I shall, whenever required by the Creditor (SAIL), to do so, execute at my own cost and expenses a deed of transfer to the said property / security together with power of sale and all other necessary powers for securing and / or enforcing the payment of the said cheque(s) amount(s) and interest or otherwise for liquidation of the same.
8. No change whatsoever in the constitution of the aforesaid Debtor / Creditor or any enactment shall impair or discharge my liability hereunder.
9. In case the said debtor becomes sick and / or goes in liquidation, my liability hereunder will still continue till the entire cheque amount(s) with interest is paid to SAIL.

LETTER OF UNDERTAKING

Annexure - 10(9)

M/s Steel Authority of India Ltd
Branch Sales Office

Dear Sirs,

Sub: Unsecured Credit Facility
Ref: Your Offer Letter No

dated

In response to your letter no. _____ dated _____ enclosing therewith the above offer letter, I/We am/are submitting Cheque(s) bearing No(s) _____ dated _____ for Rs. _____ for payment and to discharge our liability towards the price of the materials sold and delivered to us as per your offer letter(s) on credit basis as well as interest accrued thereon @ _____ % per annum for the aforesaid credit period. We also undertake to pay further interest at the aforesaid rate by separate cheque for the extended credit period as may be made at our request.

I/We further agree and undertake to pay interest at the rate _____ % per annum on the principal amount due w.e.f the date of Invoice(s) till the date of payment for our failure to pay the entire dues within the initial credit period or within the extended period, as the case may be.

I/We assure and undertake that as and when such cheque(s) is / are presented to our Banker(s), the same will be honoured by them and we will keep sufficient amount in our account for payment of the cheque amount.

I/We further agree and undertake that we shall not instruct our Banker(s) to stop payment(s) of the cheque(s) issued to you against our liability as aforesaid.

I/We also undertake that we shall never issue any notice requesting you not to present the cheque (s) issued by us on the respective due date(s).

I/We am/are aware that on the basis of this undertaking and the cheque(s) submitted by me / us, you have agreed to provide us unsecured credit and I / we submit that in the event of any default in honouring the cheque(s) you are at liberty to take action against me / us for the dishonour of the cheque(s) under the provisions of Section 138 of NI Act or any other legal action for recovery of the cheque amount plus interest.

Thanking you,

Yours faithfully,