



ECONOMIC PERFORMANCE

WSA Sustainability Indicators for Economic Performance: 2008-09

No.	Indicator	Units	Indicator value (World Avg.)	BSP's Value
1	Investment in new processes and product	% of revenue	6.0	5.07
2	Operating Margin	% of revenue	8.9	32.2
3	Return on Capital Employed (ROCE)	% of capital employed	9.5	102.4
4	Economic value distributed	Rs. in Million	-	158019.8

The financial strategy of Bhilai steel plant is to maximize its profitability through optimal use of resources. This is driven by the organizational objective of becoming a leader in steel business in quality, productivity & profitability. The achievement of financial results over a period of time indicates the efforts made towards optimal use of financial resources in achieving the objective. Capital Expenditure Plan is made for a period of 5 years indicating estimated outlays drawn up in line with long term policy and strategy of SAIL. Estimation & Planning of financial resources is derived from the Annual Business Plan of BSP, both short and long term Schemes are prioritized according to their need & relative strategic importance.

Reporting Systems:

An exhaustive financial reporting system is prevalent in BSP This helps in monitoring, measuring and reviewing the financial performance of all the cost centers and compliance to various systems and procedures existing and subsequent corrective actions in case of any deviation.

Capital Expenditure Plan

Cost of 7.0 Mt expansion
- Rs.17000 Crores

Major contracts signed
under 7.0 Mt expansion:
New coal handling plant,
COB-11, SMS-3 with CCP,
OHP Part-A, Compressed
Air Station-4,
Augmentation of MSDS,
Augmentation of
Plate Mill

Activity	Details	Periodicity	User
Budget	Utilization of construction budget	Monthly	C.O. Top Management
Review	Cost sheet & O&M details	Monthly	C.O. Top Management
MIS	Preparation of accounts and progress of each section w.r.t. targets	Quarterly	C.O. Top Management, HODs
Financial Accounting	Financial results of the plant wrt target and variance	Quarterly / Half Yearly	C.O. Top Management, HODs
Financial Accounting	Return on capital employed details	Monthly	C.O. Top Management
Financial Accounting	Inventory status, fuel used and its pricing details	Quarterly	C.O. Top Management
Funds	Funds balance position and requirement	Daily	C.O. Top Management



Monthly capital expenditure report indicating cumulative expenditure and anticipated completion cost is assessed and sent to management for review and speedy correction if required. Similarly weekly, monthly cost sheets indicating cost of products are prepared for management review.

Examples:

- Maximization of profit through production of Special value added/new products, more profitable product mix, increasing home sales by regulating exports.
- Initiation of intensive cost control measures to improve Techno-economics, curtail expenditure.

The accounts are audited every year by Statutory Auditors, Internal Auditor, Cost Auditor, Government Auditor to verify accuracy, truth and fairness of the results and certify for presentation of the audited results in the prescribed formats to stakeholders like Govt., Shareholders etc.

Evaluating Investment in tangible assets: The present investment process has been developed based on recommendations of M/s McKinsey to address the modern day requirements.

- Investment proposals are evaluated by Investment Planning Unit (IPU), a multi disciplinary team consisting of PP&E, Operation, RDCIS/CET/BEDB, IED/O&M and Finance.
- The IPU processed proposals are considered by Project Appraisal Group (PAG) comprising of Head of Works, Finance, Projects, a representative from CET and CMO in case of market driven proposals for evaluation and final prioritization.
- The committee thoroughly examines the proposals regarding their techno-Economic/commercial viability. Estimates of capital cost, operating cost, revenues, savings and cash flows are also examined.
- Proposals are evaluated on the basis of adequacy of Pay Back period and ROI.
- Approval of competent authority is obtained in two stages: a) In principle approval and b) Final approval based on firm cost estimate arrived at after competitive bidding and revised techno economics study

Financial review of each project is carried out through the well structured process of Audits. Post Completion Audit is carried out for all major schemes. The committee submits a report indicating analysis of results achieved and recommendations for corrective action, if any, and consideration in future projects.

Various financial mechanisms and parameters are used to ensure an efficient and effective Working Capital structure. Appropriate Financial tools are used for achieving better results.

Cost of Major Projects completed during FY 2008-09 (Rs. In Lacs)

Managing Risk to financial resources :

The risk management process at Bhilai Steel Plant is done by timely analysis and reporting of various operational results/parameters

Business Risk	Risk associated with Capital Investment
<ul style="list-style-type: none"> ● Focus on increasing turnover, contribution margin & reduction in operating cost. ● Reduction in Fixed Costs through thrust on reduction of various contractual expenditure. ● Variability of Cash flow is controlled by prioritization of outstanding payment position to avoid any risk of business interruption. 	<ul style="list-style-type: none"> ● Prioritization of various proposals to meet the availability of fund, essentiality & to minimize the risk of obsolescence. ● Sensitivity analysis is done for all major projects so that IRR is judged w.r.t variation in capital cost, operating cost & net realization ● Physical & financial progress of Projects is monitored by PMC & finance to avoid the risk of time and cost overruns.
Legal & Statutory Risk	Other financial risks
<p>Compliance to statutory requirements like Pollution control norms, issues related to industrial and factory acts, to avoid exploitation of BSP's financial resources at the cost of penalty.</p>	<ul style="list-style-type: none"> ● Mega Insurance policy to cover major assets against fire hazards. ● Transit insurances to cover the transportation risks of materials/ machinery, Corporate office covers the coal transit risks. ● Fidelity Insurance and Cash in Transit Insurance to cover cash at BSP chest. ● For non-turn key jobs, if the quoted values are less than 85% of the estimates, Bank guarantees are sought to ensure execution of the work. ● For high value procurement as well as works contracts, the financial condition of the contractor/suppliers is assessed before award of the work. ● Public liability insurance to cover risks

Financial governance:

There is a well designed and structured Delegation of Power (DOP) which delegates power with responsibility for the smooth running of the organization while ensuring the canons of financial propriety. The DOP is being reviewed periodically by a committee and based on the recommendations of the same and approval of competent authority necessary changes are incorporated based on the day to day requirements as well as to cater statutory obligations. To bring best practices in project evaluation, investment decisions and to strengthen internal control mechanism for greater transparency, several high powered committees have been constituted at board level for ensuring prudent corporate governance.

Name of Committee	Purpose of Committee
Audit Committee	To strengthen internal control system through audit
Management Control Committee	For effective internal monitoring in project implementation and operation
Project Sub- Committee	To examine and make recommendation for investments in new projects
Investment Sub- Committee	For deployment of surplus funds and acceptance of bonds/debt instruments
Sub- Committee for allotment of Bonds	For allotment and other related activities for bond issues
Committee for Initial Public offer	For drafting, approval and adopting the red herring prospectus





Major products & production volumes

Product	Parameter	2006-2007	2007-2008	2008-09
Rails & Structural	Production Volume (PV) [thousand tonnes]	937.6	952.4	990.1
	% Improvement	-	1.6	5.3
Plates	Production Volume [thousand tonnes]	1138.2	1294.4	1203.2
	% Improvement	-	12.1	5.4
Merchant Products	Production Volume [thousand tonnes]	610	730.6	756.2
	% Improvement	-	16.5	19.3
Wire rods	Production Volume [thousand tonnes]	545.7	625.6	655.0
	% Improvement	-	12.8	16.7

Net Sales & Other Financial Indicators

Sl No	Parameters	Rupees Million 2006-07	Rupees Million 2007-08	Rupees Million 2008-09
a.	Gross sales	135263.1	165178.1	184967
	Excise Duty	18762.7	22789.3	21658.7
	Freight Outward	2205.1	2739.6	2982.4
	Export Expenses	54.5	42.8	79.7
	Conversion Charges	232.5	446.4	977.5
	Contribution to JPC funds	11.4	0	0
	CMO's share of Expenses	782.7	1096.4	1332.8
	TOTAL:	22048.9	27114.5	27031.1
	Less:			
	NET SALES:	113214.2	138063.6	157935.9
b.	Other Income	6470	5004.6	8226.6
c.	Total (a+b)	119684.2	143068.2	166162.5
d.	Total Expenditure	74587.5	86648.6	113402.1
e.	Operating Profit	45096.7	56419.6	52760.4
f.	Less: Interest	146.5	589.1	649.9
g.	Profit before depreciation	44950.2	55830.5	52110.5
h.	Less: Depreciation	2234.3	2166.8	24456
I	Profit before Taxes	42715.9	53663.7	49654.5
J	Add : Balance brought forward from previous year	149269.4	191927.7	245591.4
		57.6	0	
K.	Balance carried over to Balance Sheet	191927.7	245591.4	295245.9



Turnover, Gross Margin and Net Profit

(Rs Millions)

Year	Turnover	Gross Margin	Net Profit
2006-07	135263.1	45099.7	42715.9
2007-08	165178.1	56411.6	53663.7
2008-09	184967.0	52752.6	49654.5

EXPENDITURE DETAILS 2008-09

Detail	Rs In Million	%
Raw materials	70484.3	53.79
Salaries & Wages	21846.0	16.67
Stores & Spares	10950.2	8.36
Power & Fuel	9135.4	6.97
Repairs & Maintenance	2224.4	1.70
Misc Expenses(including freight)	13289.3	10.14
Depreciation	2456.0	1.87
Interest	649.9	0.50

INCOME DETAILS in 2008-09

Detail	Rs In Million	%
Home Sales	180287.2	94.04
Exports(incl export incentive)	4679.8	2.44
Int Earned	332.3	0.17
IPT	4194.3	2.19
Prov Writeback	545.7	0.28
Other Revenues	1667.6	0.87

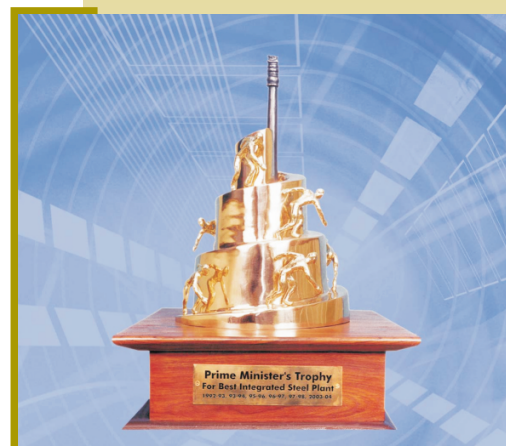
Export Performance (Rs in Million)

Year	Export
2006-07	4043.1
2007-08	6452.9
2008-09	4614.5

Working Capital(Rs in Million)

Year	Working Capital
2006-07	1949.56
2007-08	1948.50
2008-09	2126.87

The plant receives, export incentive on the finished/semis exported based on the DEPB % of the individual item as per the EXIM policy of the Indian Govt. Plant also receives subsidy on the sale of materials to small scale industries.





Expenditure on Society and Other social activities

S.N.	Non-core infrastructure area	2006-07(Rs Million)	2007-08 (Rs Million)	2008-09 (Rs Million)
1	Township	1316.9	1724.7	2166.6
2	Education	256.0	429.0	492.8
3	Medical	450.1	707.3	824.9
4	Transport & Socio-cultural	35.6	49.9	86
	Total	2058.6	2910.9	3548.3

Contribution to Exchequer

S.N.	Particulars	2006-07(Rs Million)	2007-08 (Rs Million)	2008-09 (Rs Million)
1	Excise Duty	16570.6	18941.6	18353.3
2	Service Tax	35.69	Nil	Nil
3	Custom & Import Duty	417.6	518.2	527.8
4	Central Sales Tax	2443.5	2277.7	2290.9
5	State Sales Tax	601.3	492.4	597.2
6	Entry Tax	2224.8	2315.2	1405.5
7	Terminal Tax	16	17.6	21.5
8	Royalty	165.2	178.6	153.2
9	Electricity	131.7	10.0	76.9
10	Cess	2.08	8.3	9.7
	TOTAL	18778.0	22627.19	23436.0

Economic value generated & distributed	Rs Millions
Economic Value Generated	165882
Operating Costs	108539.6
Employee wage & benefits	21846
Payments to providers of capital	649.9
Payments to government	23436
Community Investments	3548.3
(Total Expenditure)	
Economic Value Retained	7862.2

No financial assistance received from government during the year.

Policy, practices, and spending on locally-based suppliers at significant locations of operation.

In line with the guidelines issued by Bureau of Public Enterprises, Govt. of India to develop Small Scale Industries in and around heavy industries, Bhilai Steel Plant took up an ambitious Ancillarisation programme in 1979 by declaring the then 31 existing SSI units as ancillaries and marched on to 199 units as on date. SSI units situated in the entire State of Chhattisgarh and the ancillary units are given special concession during procurement of spares.

A separate department known as Ancillary development & vendor development under Material Management is functioning at BSP for addressing these activities. BSP has an Ancillary policy wherein local industries are accorded Ancillary status. Effective operation of special Purchase Policy for Ancillary units has resulted in a mutually beneficial relationship between BSP and Ancillary units and getting strengthened with time. Support is provided to them in the form of technical guidance, preference in tendering, exemption from submission of earnest money deposit in tenders etc.

While selecting the vendors, in addition to capacity, capability, quality system and the cost factors, the commitment of vendors towards Social Accountability and Environment is also taken into consideration. Inspection at the premises of the vendors are also conducted to confirm their commitment towards social accountability/ and are advised to adopt better practices wherever necessary. Development of large nos of ancillary units and their working in tandem with BSP while complying elements of SA8000, clearly indicates the multiplier effect across the Chhattisgarh state. Proportion of spending towards local based suppliers has been enhanced by around 42%.

YEAR->	2006-07	2007-08	2008-09
No. of Ancillary Units	182	182	199
No. of orders	2381	2442	1621
Value of orders placed on Ancillary Units (In Rs. Crores)	830.6	1100.7	1186.1

BSP has brought a significant change in the lives of local communities through its investments in infrastructure. BSP's efforts in infrastructure development of local communities include transport links, utilities, community social facilities, sports centers, health and welfare centers etc. The impacts of the new infrastructure extend beyond the scope of the organization's own business operations

More than 98% of the skilled/unskilled employees are from the local communities of Chhattisgarh/MP State. The directive of Hon'ble supreme court for PSUs on recruitment on all India basis are being followed. Executives are selected at corporate level on all India basis through common competitive examination wherein local communities are free to participate.

The Company gives prime importance and implements various measures for ensuring improvement in the Quality of Life of employees and community in which it operates. BSP has aligned its social initiatives in line with MDG goals for primary education, child and mother health care, Gender equality, women empowerment, sanitation, AIDS control and environment sustainability. To meet the goals of social responsibility, the Plant has provided educational support through schools, high class medical services, health camps, health education, community welfare programmes and adoption of villages under peripheral development, recreation facilities through infrastructure for sports, games, parks, gardens, zoo, civic amenities like construction of roads, bridges, bore-wells, safe drinking water facilities. BSP has maintained and supported these activities as part of the overall management system.

BSP has planted saplings along 25 km road of state Highways as a part of Road side plantation program covering 100 km roads in Chhattisgarh state.

BSP has an effective system for deployment of contractual jobs engaging around 6000 contractual workers in the plant and township for performing various activities. Contractual workers are provided subsidized canteen facilities. Workers have been developed for highly skilled steel making operations. This capacity building has resulted in the creation of jobs for in the private steel companies for these workers. BSP has become the learning platform and talent pool for the nearby companies, as retired personnel immediately finds employment in the nearby industries.

The overall socio-economic development of Bhilai has resulted in further development of housing complexes in the adjoining areas. More and more people prefer to settle at Bhilai due to overall progress in this region. BSP Township provides large number of markets which creates indirect employment. For maintaining the township, large number of contracts ensures creation of sustainable livelihood for many streams of marginal workers. Supply of 1.5 million tonnes of granulated slag for cement making has resulted in viable establishment of cement plants in the 100 km periphery of BSP which intern creates indirect employment. Other byproducts from coal chemical deptt have also resulted in growing up of downstream industries at Bhilai. Considerable amount of Semis supply resulted in installation of large number of local rolling mills. The economic sustainability primarily depends upon the BSP presence. People residing in the nearby villages of BSP and the people of chhattisgarh are benefitted under huge employment right since inception.





The company focuses on skill development and capacity building in the communities through organizing training programmes and awareness camps through employee volunteering in areas like Achar, Papad, Agarbati manufacturing, Literacy camps, Health & Sanitation training, Masala Making, Soap manufacturing, Candle Manufacturing, Sports, Cultural (Music, dance, skit etc), motor winding, Personality Development, Environmental Awareness, Eradication of Alcoholism, Disaster management (flood, fire, cyclone, heavy rain, earthquake), AIDS awareness etc.

HRD centre provides an infrastructure for the vocational training. Every Year more than 5000 students get training in BSP from various educational institutes all across the country. BSP has been identified by Ministry of Steel under UNDP project for capacity building of various rerolling mills in the country.

Bhilai is known as education hub of Chhattisgarh. Large number of schools, colleges & coaching institutes have been given opportunity to grow.

BSP's efforts have been aligned along the National Education Policy 1986 which targets meeting gaps in public provisioning for literacy improvement, particularly in the educationally backward States. The excellent educational facilities provided by Bhilai Steel Plant for the wards of its employees as well as non-BSP children up to Senior Secondary level are supported by 42 schools and 1327 teaching staff. Ratio of girls to boys in primary and secondary education is nearly 1:1.

Recognizing that gender equality and empowerment of women leads to faster progress of society, Mahila Samaj was formed on August 4th, 1957 in Bhilai when the industrial complex was just coming up. This revolutionary institution headed by the wife of the Managing Director, has become the pioneer of community welfare and has been given the status of an ancillary industry by BSP. It is involved in various activities especially those involving women from the weaker sections or belonging to SC/ST communities. The members, through internal revenue collections have been conducting/operating various functions including hand gloves factory, masala section, soap factory, petrol pump and many other similar initiatives.

A comprehensive study of the socio-economic impact on Bhilai Steel Plant was conducted in 1988 by an independent research fellow Dr NR Srinivasan. Based on this study a book namely "Ripples" was published.. Subsequently, as a part of EIA studies, Socio-economic study was conducted during 1990 for 4 Million Tones expansion and recently for 7.0 Million Tones expansion of BSP. BSP has identified various indicators in line with MDG goals for assessing the benefits in the society. Sustainability report of BSP provides compiled information of CSR activities and its benefits for last five years. CSR deptt prepares the annual highlights and it is communicated to external and internal stakeholders.

Indirect employment creation by BSP is estimated to be 1 lakh persons. The indirect economic impacts of BSP is development of small scale industries in the Bhilai area under local ancillaries, development of housing and infrastructure for the people, schools, universities, Engineering colleges etc.

Standard entry-level Wages for contractual workers & Regular employees:

Minimum Wages : Skilled	: Rs 221.24 per day with 26 days	= Rs5752/-
Semi-skilled	: Rs 213.83 per day with 26 days	= Rs5559/-
Un-Skilled	: Rs 206.56 per day with 26 days	= Rs 5370/-

Standard entry level wages at BSP : Rs 6440/- (Basic + DA) .

Note: The SAIL employee wages are under revision.

At present the ratio of standard entry level wage to minimum wages of skilled labour = 1.2