

MEMORANDUM OF UNDERSTANDING
BETWEEN
FERRO SCRAP NIGAM LIMITED (FSNL)
AND
MSTC LTD.

2010-2011

MISSION

The mission of FSNL is to generate "Wealth from Waste" by maximising recovery from waste material generated by Iron and Steel making and other manufacturing processes.

OBJECTIVES

1. To increase 2% market share every year and to remain market leader in the field of waste recycle management in the steel industry.
2. To increase return on investment atleast to 3% in 2010-11 and then to increase to 12.5% over a period of 5 years.
3. To increase the productivity atleast 15% over a period of 5 years.

MOU ASSESSMENT FORMAT FOR INDUSTRIAL CPSEs - (Manufacturing and Mining CPSEs) 2010-11										
EVALUATION CRITERIA				BASIC TARGET (Very Good)	MoU Target					MOU TARGET (GOOD) 09-10
					EXCELLENT (1)	VERY GOOD (2)	GOOD (3)	FAIR (4)	POOR (5)	
1. STATIC/ FINANCIAL PARAMETERS		UNIT	Weight (in %)							
(a) Financial indicators - profit related ratios										
	i) Gross Margin/Gross Block	(%)	2	10.96	11.94	10.96	10.54	10.21	10.62	
	ii) Net Profit/Net Worth	(%)	10	3.30	3.65	3.30	2.89	2.76	2.89	
	iii) Gross Profit/Capital employed	(%)	10	5.45	6.24	5.45	5.27	4.95	4.82	
(b) Financial Indicators - size related										
	(i) Gross Margin	(Rs.in lakhs)	8	2279	2506	2279	2170	2062	2134	
	(ii) Gross Sales	(Rs.in lakhs)	4	15934	17527	15934	15175	14416	14198	
(c) Financial returns - productivity related										
	(i) PBDIT/total employment	(Rs.in lakhs)	7	1.98	2.18	1.98	1.89	1.79	1.81	
	(ii) Added value/ Sales.	(%)	9	5.10	5.92	5.10	4.67	4.17	4.68	
Sub-total 1 (a + b + c)			50							
2. DYNAMIC PARAMETERS										
2.1 Research & Development Study on recovery of stainless steel scrap from slag		Date	5	31/01/11	31/12/10	31/01/11	28/02/11			
2.2 Sustainable Development : Consumption of Diesel										
	i) per tonne of scrap processed	(Lts./T)	3	1.32	1.19	1.32	1.39	1.46	1.41	
	ii) per tonne of haulage of slag,etc	(Lts./T)	2	0.60	0.54	0.60	0.63	0.66	0.66	
2.3 Corporate Social Responsibility Expenditure on CSR activities as per DPE guidelines & approved by Board		(Rs.in lakhs)	5	9.00	10.00	9.00	8.00	7.00	6.00	
2.4 Project Implementation										
	i) Timely completion of recovery of scrap from slag at HEC, Ranchi	Date	5	31/07/10	30/06/10	31/07/10	31/08/10	-	-	
	ii) Timely completion of Capacity enhancement of Crushing & Screening Unit at Bokaro Unit at Bokaro	Date	5	31/01/11	31/12/10	31/01/11	28/02/11	-	-	
2.5 Human Resource Development (Training - details at Annexure - A)										
	i) Managerial Training	Man-Days	2	17	20	17	16	15	16	
	ii) Skill based Training	Man-Days	2	315	347	315	300	285	300	
2.6 Productivity										
	i) scrap despatched (tonnage/direct employee)	tonnage	5	1169	1286	1169	1113	1058	908	
	ii) slag hauled (tonnage/direct employee)	tonnage	5	4315	4747	4315	4110	3904	3717	
Sub-total 1 (d + e + f + g + h)			39							
3. SECTOR-SPECIFIC PARAMETERS										
(i) Reduction in the value of inventory of Spare parts and consumables as on 31.3.2011 over the 31.03.10		(%)	5	4%	5%	4%	3%	2%	3%	
			5							
4. ENTERPRISE-SPECIFIC PARAMETERS										
Safety & Maintenance Frequency rate of accidents *		Rate	6	0.57	0.51	0.57	0.60	0.63	0.60	
			6							
Total (1 + 2 + 3 + 4)			100							

* Frequency rate of accidents = Total No. of Accidents x 1000
No. of Mandays worked

DELEGATION OF POWERS


Existing delegation of power to continue.

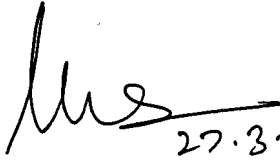
ASSISTANCE FROM THE GOVERNMENT

- 1) To make FSNL a stand-alone company with equal equity participation of SAIL, RINL & MSTC.
- 2) Diversification into new areas like ;
 - a) manufacture and marketing of Ferro Alloys including Ferro Chrome.
 - b) acquisition of profit making unit of M/s. Burn Standard Co. Ltd, Kolkata i.e., Magnesite Brick Plant at Salem, Tamilnadu.
- 3) To cater to the capital requirements arising out of expansion needs of steel plants of SAIL/RINL and the diversification needs of FSNL, the Co. may be permitted to increase the authorised capital and then go for limited IPO.

FREQUENCY OF MONITORING AND INFORMATION FLOW

1. FSNL will submit a report to the Government within 30 days of the end of each quarter.
2. In addition, there will be an internal monitoring committee, to be constituted by the FSNL BOARD which will review the performance on a monthly basis.
3. A joint half-yearly review meeting will be held in the Ministry of Steel to review performance.


ANTONY CHACKO
MANAGING DIRECTOR
FERRO SCRAP NIGAM LTD.


27.3.10
S.K. TRIPATHI
CHAIRMAN CUM MANAGING DIRECTOR,
MSTC LTD.

ABSOLUTE VALUES FOR MOU 2010-11

	<u>Excellent</u>	<u>Very Good</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>
Gross Margin (Rs.in lakhs)	2506	2279	2170	2062	1958
Gross Profit (Rs.in lakhs)	917	800	770	723	619
Net Profit (Rs.in lakhs)	508	457	399	381	333
Capital Employed (Rs.in lakhs)	14696	14657	14613	14599	14562
Net Worth (Rs.in lakhs)	13901	13862	13818	13803	13767
Gross Block (Rs.in lakhs)	20998	20798	20598	20198	19998
Gross Sales (Rs.in lakhs)	17527	15934	15175	14416	13695
10% Returns on Capital Employed (Rs.in lakhs)	1470	1466	1461	1460	1456
Added Value(GM -10% of CE) (Rs.in lakhs)	1037	813	709	602	502
Total Employment (Nos.)(Average)	1150	1150	1150	1150	1150
Gross Margin/Gross Block (%)	11.94	10.96	10.54	10.21	9.79
Gross Profit to Capital Employed (%)	6.24	5.45	5.27	4.95	4.25
Net Profit to Net Worth (%)	3.65	3.30	2.89	2.76	2.42
PBDIT/Total Employment (Rs.in lakhs)	2.18	1.98	1.89	1.79	1.70
Added value/Gross Sales (%)	5.92	5.10	4.67	4.17	3.67

Details of Managerial & Skilled based Training Programme:

(Dynamic Parameters Sl.No.(ii)- **Human Resource Development**)

Managerial Training

1. Negotiating effectively
2. Managerial skills for technical personnel
3. Leadership & Organisational development
4. Global buying in the changing world marketing
5. Discipline management
6. Business Management
7. Strategic Human Resource Management
8. What Senior Manager should know of Disciplinary action
9. Financial Management
10. Awareness on Safety Health & Environment.

Skill Based Training

1. Bearing technology & condition monitoring
2. Computer training
3. Cummins Engine familiarisation, maintenance & trouble shooting
4. Workers' Participation in the Management
5. Behaviour oriented course for workmen/supervisor
6. Effective office management
7. Enhancing effectiveness of PA/PS
8. Basic First Aid
9. Industrial Safety
10. L&T 300 CK-II
11. Hydraulic Excavator
12. Cummins Field Service
13. CLBT-754 Transmission
14. Torque Converter & Transmission of Bulldozers
15. Protected Maintenance Welding
16. Engine Rebuilt

FSNL'S Performance on Financial Parameters for last 5 years.

Rs. In Crores

Particulars	2005-06	2005-06	2006-07	2006-07	2007-08	2007-08	2008-09	2008-09	2009-10	2009-10	2009-10
	MOU	Actual	MOU	Actual	MOU	Actual	MOU	Actual	Upto September	Anticipated	MOU
Production (In M.T.)											
Scrap	2000000	2245855	2100000	2203817	2160000	2377154	2150000	2263216	1152607	2200000	2250000
Slag	2900000	3064584	3000000	3611811	3400000	4151132	3900000	3970258	2103162	4200000	4300000
Gross Sales	90.53	99.85	107.00	105.71	108.55	120.51	120.57	128.98	65.90	138.00	141.98
Gross Margin	16.30	18.65	19.00	15.37	19.01	15.85	20.92	16.83	11.39	19.72	21.34
Profit before tax	5.70	9.51	7.70	3.08	7.51	2.01	6.53	4.31	3.51	4.47	6.09
Gross block	137.48	151.62	162.00	165.77	178.62	178.98	187.77	175.38	181.38	187.38	200.98
Less Depreciation	89.56	90.63	100.93	101.96	112.46	114.54	127.93	112.94	120.06	126.69	142.27
Net block	47.92	60.99	61.07	63.81	66.16	64.44	59.84	62.44	61.32	60.69	58.71
Share capital of CPSE	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Reserves & surplus of CPSE	125.67	128.98	131.06	128.25	133.82	129.66	131.76	131.37	133.23	133.63	135.23
Less Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
exp/pre acquisition loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Less Profit & Loss A/c	127.67	129.24	133.06	129.19	135.70	131.28	133.76	132.99	135.23	135.00	136.85
Net worth of CPSE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investment	27.00	27.20	35.00	19.84	25.00	35.40	36.00	36.48	35.00	36.00	38.00
Sundry Debtor/sales	8.00	7.82	10.00	10.72	10.00	10.38	10.00	10.61	10.00	10.00	10.00
Inventory	111.24	116.41	110.00	115.01	126.87	136.50	144.45	138.04	145.68	150.00	127.28
Total Current Assets	30.00	34.84	36.09	39.10	40.00	59.51	60.00	59.53	65.00	65.00	38.99
Total Current Liabilities & provision	129.16	142.56	134.98	139.72	153.03	141.43	144.29	140.95	142.00	145.69	147.00
Capital employed (Net block+net current assets)	1.49	11.58	1.92	9.47	17.21	9.77	10.53	7.58	6.77	10.06	9.77
Total debt (loan fund)	159.16	177.40	171.07	178.82	193.03	200.94	204.29	200.48	207.00	210.69	185.99
Total assets	1173	1166	1150	1157	1160	1160	1157	1147	1147	1157	1157
No of employees of CPSE	0.00	1.14	0.00	0.25	0.00	0.40	0.00	0.44	0.00	0.00	0.00
Dividend paid											
Add value (gross margin less capital recovery factor 4% of capital employed for social sector and 10% for other CPSE	3.38	4.39	5.50	1.40	3.71	1.71	6.49	2.74	-2.81	5.15	6.64

Particulars	2005-06	2005-06	2006-07	2006-07	2007-08	2007-08	2008-09	2008-09	2009-10	2009-10	2009-10
	MOU	Actual	MOU	Actual	MOU	Actual	MOU	Actual	Actual Upto September	Anticipated	MOU
Ratio											
Debt/equity	0.75	5.79	0.96	4.74	8.61	4.89	5.27	3.79	3.39	5.03	4.89
Return on net worth (%age)	2.83	4.40	3.78	0.98	3.42	0.56	3.03	1.68	1.80	2.19	2.89
PBDIT / Total employment of CPSE (Rs.)	138960	159961	165217	132803	163879	136724	180812	146745	99259	170441	184443
Gross Profit / Capital employed (%age)	5.19	6.24	6.45	2.89	5.56	2.32	5.22	3.99	3.00	4.10	4.82
Net Profit / Net Worth (%age)	2.83	4.40	3.78	0.98	3.43	0.56	3.03	1.68	1.80	2.19	2.89
Working of Gross Margin											
Net Profit	3.61	5.69	5.03	1.26	4.65	0.73	4.05	2.23	2.43	2.95	3.96
Tax	2.09	2.87	2.67	1.82	2.86	1.28	2.48	2.08	1.08	1.52	2.13
Net profit before tax	5.70	8.56	7.70	3.08	7.51	2.01	6.53	4.31	3.51	4.47	6.09
Add prior period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Add extra ordinary items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit before prior period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Add Interest	1.00	0.33	1.00	0.96	1.00	1.27	1.00	1.31	0.75	1.50	1.00
Gross Profit	6.70	8.89	8.70	4.04	8.51	3.28	7.53	5.62	4.26	5.97	7.09
Add depreciation	9.60	9.76	10.30	11.33	10.50	12.57	13.39	11.21	7.12	13.75	14.25
Misc Expenditure written off	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin before Interest, depreciation & misc. expenditure written off	16.30	18.65	19.00	15.37	19.01	15.85	20.92	16.83	11.38	19.72	21.34