

10/2 - 2013 - VSP

AUTHENTICATED

(BENI PRASAD VERMA)  
MINISTER OF STEEL



प्रसाद वर्मा/BENI PRASAD VERMA

इस्पात मंत्री/Minister of Steel

भारत सरकार/Govt. of India

उद्योग भवन/Udyog Bhawan

नई दिल्ली/New Delhi

## समझौता ज्ञापन

### Memorandum of Understanding

2013-14

Rashtriya Ispat Nigam Limited (RINL) and Ministry of Steel (MoS) agree to enter into Memorandum of Understanding (MoU) for the year 2013-14.

The MoU contains the following parties:

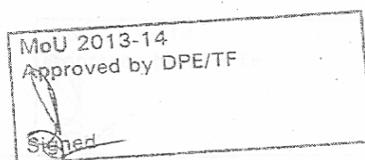
राष्ट्रीय इस्पात निगम लिमिटेड

Rashtriya Ispat Nigam Limited

&

इस्पात मंत्रालय

Ministry of Steel



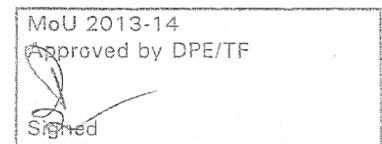
MEMORANDUM OF UNDERSTANDING  
BETWEEN  
RASHTRIYA ISPAT NIGAM LIMITED  
AND  
MINISTRY OF STEEL

2013-14

Rashtriya Ispat Nigam Limited (RINL) and Ministry of Steel (MOS) agree to enter into Memorandum of Understanding (MOU) for the year 2013-14.

The MOU contains the following parts:

- Part I : Vision, Mission and Objectives of RINL
- Part II : Autonomy and delegation of Financial Powers
- Part III : Performance Evaluation Parameters and Targets
- Part IV : Commitment / Assistance from the Government
- Part V : Action Plan for implementation and monitoring of MOU



**PART - I****1.0 VISION, MISSION AND OBJECTIVES OF RINL**

The Vision, Mission & Objectives of RINL, prepared with the participation of a cross section of employees, are brought out below:

**VISION**

To be a continuously growing world class company,

We shall

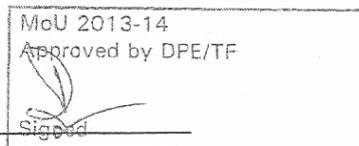
- harness our growth potential and sustain profitable growth
- deliver high quality and cost competitive products and be the first choice of customers
- create an inspiring work environment to unleash the creative energy of people
- achieve excellence in enterprise management
- be a respected corporate citizen, ensure clean and green environment and develop vibrant communities around us

**MISSION**

To attain 20 million tonne (Mt) liquid steel capacity through technological up-gradation, operational efficiency and expansion; augmentation of assured supply of raw materials; to produce steel at International Standards of Cost and Quality; and to meet the aspirations of the Stakeholders.

**OBJECTIVES**

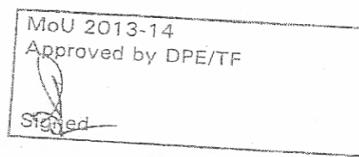
- Stabilise 6.3 Mt expansion by 2013-14 with the mission to expand further in subsequent phases as per the corporate plan.
- Revamp existing Blast Furnaces to make them energy efficient to contemporary levels and in the process increase their capacity by 0.5 Mt each, thus total hot metal capacity to 7.5 Mt.
- Be amongst top five lowest cost liquid steel producers in the world.
- Achieve higher levels of customer satisfaction.
- Vibrant work culture in the organisation.
- Be proactive in conserving environment, maintaining high levels of safety and addressing social concerns.



PART - II

2.0 AUTONOMY AND DELEGATION OF FINANCIAL POWERS

- 2.1 With conferment of Navratna status in Nov 2010, the company will use enhanced empowerment of the Board in cost effective and timely decisions on modernization, expansion, and acquisition / JV initiatives.



## PART - III

## 3.0 PERFORMANCE EVALUATION PARAMETERS AND TARGETS

3.1 RINL undertakes to achieve targets with respect to the identified parameters during 2013-14. These parameters are broadly divided into two categories i.e. **common parameters** and **specific parameters**.

3.2 The performance evaluation sheet for 2013-14 is given at Page-5.

3.3 Details of the performance evaluation parameters are brought out below:

3.3.1 The **common parameters** include **static financial parameters** and **dynamic parameters**. The static financial parameters are further divided into three groups, i.e. financial performance indicators, financial indicators and financial returns. The static financial parameters and targets for 2013-14 will be as per **Annexure A**.

The **dynamic parameters** include quality – defectives in saleable steel & production of value added steel, Customer satisfaction parameters - customer satisfaction index and improvement of marketing network; HRM parameters; R&D Project milestones; Project implementation milestones and capital expenditure. These are indicated at **Annexure B, C, D, E and F** respectively.

CSR and Sustainability Parameters are at **Annexure G**.

3.3.2 The **specific parameters** have been divided into **Sector Specific (Annexure H)** and **Enterprise Specific Parameters (Annexure I)**.

3.3.3 Documentary evidence with respect to non-financial parameters will be submitted at the time of submission of Performance Evaluation Report.

3.4 Major assumptions made for financial estimates for 2013-14 are as under:

- Average Net Sales realisations (NSR per tonne) of ₹ 35000/-\* and ₹ 23000/- have been considered for Saleable Steel and Pig Iron respectively.
- Exchange Rate (USD) : ₹ 56 / \$\*
- Prices of major raw materials considered are as follows:

Imported Coking coal	FOB Price (\$ per ton)
Imported Coking Coal (Hard)	180
Soft coking coal	156
Coal for PCI	159

Base prices considered for iron ore is given below:

Iron Ore	Price (₹ per ton)
Iron Ore Lump	4580
Iron Ore Fines	2871
CLO	6702

\* Provision to incorporate correction in financial target to offset variation in actual NSR of Saleable Steel and Exchange Rate adopted for 2013-14, if variation is outside the range of +/- 5%.

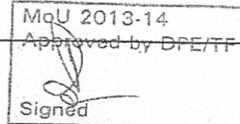
## PERFORMANCE EVALUATION FOR 2013-14

Annexure III

	Criteria	Units	Weightage (%)	Criterion values				
				Excellent	Very good	Good	Fair	Poor
					(Budget)			
1	Static financial parameters							
(a)	Financial performance indicators							
i	Gross margin/Gross block	%	2.0	5.10	5.00	4.75	4.51	4.29
ii	Net profit after tax / Net worth	%	10.0	0.84	0.82	0.78	0.74	0.70
iii	Gross profit / Capital employed	%	10.0	3.92	3.84	3.65	3.47	3.29
(b)	Financial indicators							
i	Gross margin	₹. Cr	8.0	1181	1101	1046	994	944
ii	Gross sales	₹. Cr	4.0	16066	15751	14964	14215	13505
(c)	Financial returns							
i	PBDIT / Total employment	₹. lac/employee	7.0	5.67	5.56	5.28	5.02	4.77
ii	Added value / Gross sales	%	9.0	-2.44	-2.49	-2.61	-2.75	-2.88
2	Dynamic parameters							
(d)	Quality							
i	Defectives in saleable steel (Existing units)	%	2.5	0.48	0.50	0.53	0.55	0.58
ii	Value added steel production in saleable steel	%	2.0	63	60	57	54	51
(e)	Customer Satisfaction							
i	Improvement in marketing network to ensure sales of 90% of the production from expansion units during the year	%	1.0	90	85	80	75	70
ii	Customer satisfaction index	Index	0.5	80	79	78	76	74
(f)	HRM							
i	Parameters as per Guidelines	-	5.0	As per Annexure D				
(g)	R&D							
i	R&D expenditure as % of PAT	%	2.5	1.05	1.00	0.95	0.90	0.86
ii	R&D projects implementation	Months	2.5	As per Annex E				
(h)	Project implementation							
i	Plant Expansion (6.3MTPA & Modernisation)	Months	5.0	1 month ahead	As per Annex F	1 month behind	2 months behind	3 months behind
(i)	Capital expenditure	₹. Cr	1.0	1050	1000	950	903	857
(j)	Globalisation / JV's							
i	% Completion of Route survey for Slurry Pipeline from Nagarnar to Visakhapatnam in Joint Venture with NMDC	%	3.0	55	50	45	40	35
(k)	CSR and Sustainability							
i	CSR and Sustainability Parameters	-	8.0	As per Annexure G				
3	Sector-specific							
i	Saleable steel production	Mt	5.0	3.58	3.47	3.30	3.13	2.98
ii	BF productivity of BF-3 in Q4	t/cum/day	1.0	2.20	2.09	1.99	1.89	1.79
iii	PCI in BF-3 in Q4	Kg/thm	1.0	50	48	46	43	41
iv	LD converter productivity (SMS-1)	tcs/cum/day	2.0	24	23	22	21	20
v	Labour productivity	tcs/man/year	2.0	340	336	319	303	288
4	Enterprise-specific							
i	Frequency rate (Existing units)	Rate	1.0	0.50	0.67	0.70	0.74	0.78
iii	Specific energy consumption	Gcal/tcs	2.0	6.21	6.52	6.86	7.22	7.60
iv	Specific water consumption	cum/tcs	3.0	2.80	2.94	3.09	3.26	3.43

100.0

1.00 - 1.50 = Excellent; 1.51 - 2.50 = Very Good; 2.51 - 3.50 = Good; 3.51 - 4.50 = Fair; 4.51 - 5.00 = Poor



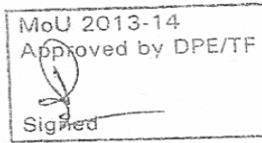
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MOU 2013-14

## PART-IV

### 4.0 COMMITMENT / ASSISTANCE FROM THE GOVERNMENT

- 4.1 To help in allotment of iron ore and coal mines in the country to RINL as captive mines for meeting major raw material requirements.
- 4.2 To impress Government of Andhra Pradesh to ensure power supply as per the contractual maximum demand.
- 4.3 To increase export benefit for steel from 2.4% to 5% and for pig iron from 1.5% to 2.5%.
- 4.4 To increase customs duty on wire rods from present level of 5% to 10% to discourage imports.



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PART - V

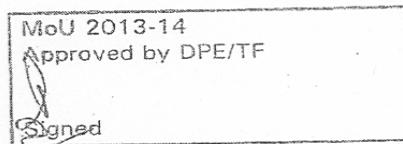
5.0 ACTION PLAN FOR IMPLEMENTATION AND MONITORING OF MOU

The performance of RINL with respect to MOU targets will be closely monitored on monthly basis by CMD, RINL. Quarterly review meetings will also be organized at Board level of RINL and also suitably at Ministry of Steel level to monitor the performance.

A.P. Choudhary  
Chairman-cum-Managing Director  
Rashtriya Ispat Nigam Ltd.

D.R.S. Chaudhary  
Secretary  
Ministry of Steel, GOI

Dated:



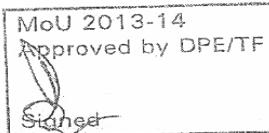
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MOU 2013-14

Annexure-A

STATIC FINANCIAL PARAMETERS  
2013-14

S.No.	Items	Unit	Target
1 (a)	<b>Financial performance indicators</b>		
i	Gross Margin / Gross Block	%	5.00
ii	Net profit after tax / Net worth	%	0.82
iii	Gross profit / Capital employed	%	3.84
1 (b)	<b>Financial indicators</b>		
i	Gross Margin	₹. Cr.	1101
ii	Gross Sales	₹. Cr.	15751
1 (c)	<b>Financial returns</b>		
i	PBDIT / Total employment	₹. lakhs/employee	5.56
ii	Added value / Gross sales	%	-2.49



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Annexure-B

QUALITY & VALUE ADDED STEEL  
2013-14

S.No.	Item	Unit	Target
2 (d )	<b>Quality</b>		
i	Defectives in Saleable Steel (Existing units)	%	0.50
ii	Value Added Steel Production in Saleable Steel	%	60

MoU 2013-14  
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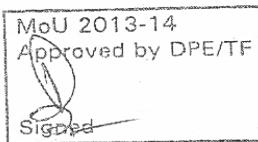
MoU 2013-14

Annexure-C

CUSTOMER SATISFACTION PARAMETER  
2013-14

IMPROVEMENT IN MARKETING NETWORK

S.No.	Item	Unit	Target
2(e) i	Improvement in marketing network to ensure sales of 90% of the production from expansion units during the year	%	85
2(e) ii	Customer Satisfaction Index (CSI)	Index	79



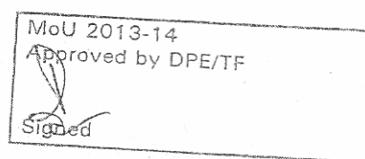
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MOU 2013-14

Annexure-D

HRM PERFORMANCE EVALUATION  
2013-14

SI	HRM Performance Indicators	Unit	Wtg. (%)	Criterion Values				
				Excellent	Very Good (Budget)	Good	Fair	Poor
				1	2	3	4	5
1	Skill development (fulfilment of training plan for multi skilling / skill up-gradation of non-executives)	%	1.0	100	95	90	85	80
2	Formal Risk Management training for Senior Management Personnel (E-6 & above)	No of Employees	1.0	100	95	90	85	80
3	Participative management – structured meetings with employees' representatives	No. of meetings	1.0	299	285	271	257	242
4	Creativity & innovation through employee involvement – % of QC projects completed against target	%	1.0	100	95	90	85	80
5	Collaboration with academic / professional institutions	Date	0.5	Feb'14	Mar'14	-	-	-
6	Fixing of KPAs and KRAs for executives upto E-7	Month	0.25	Jun'13	Jul'13	Aug'13	Sep'13	Oct'13
7	Leadership development and Succession Planning	No. of executives at E-7 level	0.25	50	45	40	35	30
	Total		5.0					



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Annexure-F

PROJECT IMPLEMENTATION  
2013-14

CAPITAL EXPENDITURE

S.No.	Parameter	Wtg (%)	Target (₹.Cr)
2 (i)	Capital Expenditure	1.0	1000

PROJECT / MILESTONES

S.No.	Project / Milestone	Wtg (%)	Target
2 (h) i	Project Implementation		
1	BF 1 - Completion of Major Supplies for BF-1 Capital Repairs	0.5	Jun'13
2	STM – Commencement of Cold trails	0.5	Jul'13
3	SBM – Furnace Light-up	0.5	Jul'13
4	WRM-2 – Commencement of integrated commissioning of Mill Proper	0.5	Aug'13
5	CRMP – Start of Commissioning of one kiln	0.5	Aug'13
6	AIOS – Commencement of storage of Iron Ore in new yard	0.5	Sep'13
7	RMHP – Commissioning of PCI coal conveying system	0.5	Sep'13
8	ASU-V – Commissioning of ASU-5	0.5	Oct'13
9	BF-2 - Commencement of Detailed Engineering of BF-2	0.5	Dec'13
10	PP-2 – Hydro test of Boilers	0.5	Jan'14
	<b>Total</b>	<b>5.0</b>	

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## Annexure-G

CSR AND SUSTAINABILITY PARAMETERS  
2013-14

Sl. 2(k)i	Parameter	Units	Wtg.	Criterion Values				
				(%)	1	2	3	4
1 (i)	Number of seminars/ workshops/ training sessions organised to sensitize the employees	Nos.	1	20	18	16	14	12
1 (ii)	a) Introduction of green technology to generate power from waste energy - Commissioning of Top Pressure Recovery Turbine in Blast Furnace (BF-3)	Month	1	Feb'14	Mar'14	-	-	-
	b) Bio-diversity : Number of Trees Planted during the year					10500	9500	9000
2	Formulation of a Corporate Communication strategy for all stakeholders	Month	1	Sep'13	Oct'13	Nov'13	Dec'13	Jan'14
3	Publishing of Sustainability Report in line with GRI guidelines	Month	1	Feb'14	Mar'14	-	-	-
4 (a)	<b>CSR Project:</b> Jaladhara (Safe Drinking Water) - providing safe drinking water supply to residents in tribal villages of Visakhapatnam Agency area-using gravity system to utilize natural spring water - in 9 habitations	Nos. of habitation s / villages	1	10	9	8	7	6
4 (b)	<b>SD Project:</b> Rain Water harvesting at VSP Premises - Completion of detailed Engineering	Month	1	Dec'13	Jan'14	Feb'14	Mar'14	--
5	Expenditure incurred on CSR and Sustainability activities vis-à-vis commitment of ₹ 7.5 Crore	% fulfilment	0.5	105	100	95	90	85
6	Number of Board Level Committee meetings held for monitoring CSR & SD activities	Nos.	0.5	4	3	2	1	0
<b>Total</b>			8.0					

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MoU 2013-14

Annexure-H

SECTOR SPECIFIC PARAMETERS  
2013-14

S.No.	Items	Unit	Target
3	<b>Sector Specific</b>		
i	Saleable steel production	Mt	3.47
ii	BF productivity of BF-3 in Q4	t /cum/day	2.09
iii	PCI in BF-3 in Q4	Kg/thm	48
iv	LD converter productivity (SMS-1)	tcs /cum/day	23
v	Labour productivity	tcs /man/year	336

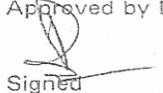
Mt : million tons

t : ton

tcs : ton of crude steel

cum : cubic metres

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Annexure-I

ENTERPRISE SPECIFIC PARAMETERS  
2013-14

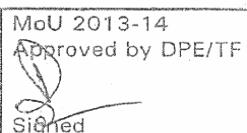
S.No.	Items	Unit	Target
4	<b>Enterprise Specific</b>		
i	Frequency Rate (Existing units)	Rate	0.67
ii	Specific Energy Consumption	Gcal / tcs	6.52
iii	Specific Water Consumption	cum / tcs	2.94

Gcal : Giga calories

tcs : ton of crude steel

cum : cubic metre

Frequency Rate = (No of reportable accidents/ Man-hours worked)  $\times 10^6$



## TREND OF CPSE's PERFORMANCE ON FINANCIAL PARAMETERS FOR LAST FIVE YEARS

Annexure-VIII

Particulars	Unit	2008-09		2009-10		2010-11		2011-12		2012-13		(₹. in Crores)	
		MOU	ACTUAL	MOU	ACTUAL	MOU	ACTUAL	MOU	ACTUAL	MOU	Projected for 31-3-2013	Projected	
Production (Saleable Steel)	000 t	3080.00	2701.00	3080.00	3167.00	3100.00	3077.00	3467.00	2990.00	3467.00	3001.00	3470.00	
Gross Sales	₹. Crores	10500.46	10410.63	9860.86	10634.63	10500.00	11516.99	13606.52	14461.87	15000.47	13434.83	15751.22	
Gross Margin	"	2300.00	2355.51	706.71	1602.37	1000.00	1412.15	800.38	1645.47	1275.35	910.70	1101.27	
Profit before tax	"	1958.09	2026.59	401.71	1247.65	438.21	981.66	29.21	1110.01	387.06	370.47	148.45	
Gross Block	"	9421.94	9005.99	9450.63	9473.90	15987.89	9794.60	19417.90	10393.87	21208.38	12646.50	22017.91	
Less dep	"	7807.05	7749.74	8006.19	8008.55	8347.04	8264.71	8841.88	8607.03	9204.74	8821.59	9348.55	
Net block	"	1614.89	1256.25	1444.44	1465.35	7640.85	1529.89	10576.02	1786.84	12003.64	3824.91	12669.35	
Share capital of CPSE	"	6282.32	7827.32	7827.32	7827.32	7827.32	7827.32	7727.32	7727.32	6346.82	6346.82	5739.85	
Reserves & surplus of CPSE	"	4365.13	4592.59	4927.48	5057.68	5137.63	5401.90	5384.03	5931.97	6362.85	6089.87	6187.86	
Less deferred revenue 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	"	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Net worth of CPSE	"	10647.45	12419.91	12754.80	12885.00	12964.95	13229.22	13111.35	13659.29	12709.67	12436.69	11927.71	
Investment	"	0.05	0.25	361.60	362.58	422.58	330.61	422.58	362.58	422.58	362.58	462.58	
Sundry debtors/sales	"	191.27	181.18	2451.52	2451.52	3254.71	3254.71	3254.71	3254.71	3254.71	3254.71	3254.71	
Inventory	"	3215.28	3215.28	5489.49	11859.32	6802.36	9550.66	5460.14	7625.21	4620.81	8492.11	7363.88	
Total Current assets	"	1852.72	4181.32	1811.26	4307.84	3186.77	4607.49	2703.39	7221.61	4954.43	8257.06	8092.90	
Total current liabilities & provision	"	3636.78	7678.00	4991.10	5242.82	2273.38	3017.72	1917.41	1270.50	2409.45	431.14	2267.94	
Capital employed ( Net block + net current assets)	"	5251.66	8934.25	6435.54	6708.17	9914.23	4547.61	12493.43	3057.34	(4413.10	4256.04	14937.29	
Total debt (loan funds)	"	1050.00	1007.76	440.73	1232.55	3357.76	1136.76	2664.50	2575.14	5154.02	4779.03	7469.03	
Total assets	"	11901.58	12419.91	13293.26	12885.00	12964.95	13229.22	13164.18	13659.29	12715.67	12436.69	11927.72	
No of employees of CPSE	Nos.	16868	17225	18206	17830	18982	17829.00	19220.00	18079.00	19200.00	18800.00	19795.00	
Dividend paid	₹. Crores	0.00	339.18	0.00	285.29	0.00	271.47	0.00	187.91	0.00	0.00	0.00	
Added value ( gross margin less capital recovery factor 4% of capital employed for social sector and 10% for other CPSE)	"	1774.83	1462.08	63.16	931.55	8.58	957.39	-448.96	1339.74	-165.96	485.10	-392.46	
Ratio													
Debt/equity		0.21	0.21	0.09	0.25	0.69	0.23	0.54	0.53	1.05	0.13	0.39	
Return on Net worth (%) age)	%	12.07	10.75	2.04	5.18	0.98	4.98	0.69	5.50	2.44	2.04	0.82	
PBDIT/ Total employment of CPSE (Rs.)	₹ in Lakhs	13.64	14.01	3.88	8.99	5.27	7.92	4.16	9.10	6.64	4.84	5.56	
Gross Profit/Capital employed (% age)	%	51.09	59.47	3.00	59.96	6.53	25.20	1.74	42.54	4.72	16.36	3.84	
Net Profit / Net Worth (%) age)	%	12.07	10.75	2.04	6.18	0.98	4.98	0.69	5.50	2.44	2.04	0.82	
Working of gross margin													
Net profit	₹. Crores	1285.14	1335.57	260.75	796.67	126.63	658.49	89.88	751.46	309.61	253.84	97.99	
Tax	"	672.95	691.02	140.97	450.98	311.57	323.17	-60.67	358.55	77.44	116.63	50.46	
Net profit before tax	"	1958.09	2026.59	401.71	1247.65	438.20	981.66	29.21	1110.01	387.06	370.47	148.45	
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	"	1958.09	2026.59	401.71	1247.65	438.20	981.66	29.21	1110.01	387.06	370.47	148.45	
add Interest	"	35.50	88.14	60.00	77.55	209.50	164.55	187.84	190.60	293.26	325.67	425.86	
Gross profit	"	1993.59	2114.73	461.71	1325.20	647.70	1146.21	217.05	1300.61	680.32	696.14	574.31	
add depreciation	"	306.41	240.78	245.00	277.17	352.30	265.94	583.33	344.86	595.03	214.56	526.96	
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	"	2300.00	2355.51	706.71	1602.37	1800.00	1412.15	800.38	1645.47	1275.35	910.70	1101.27	

Note: Ratios arrived are calculated as per agreed MoU terms.

AUTHENTICATED

ANNEXURE-IX

**Self declaration/certification by CPSE**

It is hereby certified that the targets and actual achievements in respect of financial parameters have been worked out as per MoU Guidelines by adopting the norms and definitions laid down in MoU Guidelines for the year 2013-14. In case, any deviation is found at the time of appraisal of performance, DPE is free to evaluate as per audited accounts as per MoU Guidelines. CPSE has no right of claim in this regard.



Authorised Signatory

अनित इडिकुल्ला - ANITA IDICULLA  
उप महाप्रबंधक - Dy.General Manager  
सी एस एम विभाग - CSM Deptt.  
विशाखापट्टनम इस्यात संयंत्र  
**VISAKHAPATNAM STEEL PLANT**  
विशाखापट्टनम - VISAKHAPATNAM-530 031

