

# E L E C T R O S T E E L

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Annual Report 2003-04

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## Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

<b>Chairman</b>	P.K. Khaitan	<b>Solicitors</b>	Khaitan & Co.
<b>Directors</b>	B. Khaitan V.K. Lamba Naresh Chandra Jamshed J. Irani	<b>Bankers</b>	Punjab National Bank Standard Chartered Bank BNP Paribas ICICI Bank Ltd. IDBI Bank Ltd. HDFC Bank Ltd.
<b>Managing Director</b>	U. Kejriwal		
<b>Joint Managing Director</b>	M. Kejriwal	<b>Works</b>	Khardah, West Bengal. Elavur, Tamil Nadu.
<b>Wholetime Directors</b>	N.C. Bahl Uddhav Kejriwal	<b>Administrative Office</b>	40 Stephen House 4 B.B.D. Bag (East), Kolkata 700 001.
<b>Director &amp; Secretary</b>	S.Y. Rajagopalan		
<b>Auditors</b>	Lodha & Co. Chartered Accountants	<b>Registered Office</b>	Rajgangpur 770 017, Orissa.

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# who we are

## Visiting card

Electrosteel Castings Limited is a four-decade-old water infrastructure company providing techno-economic solutions for water supply and sewerage systems.

## Select

It is India's largest and one of the few manufacturers in the world to make ductile iron (DI) pipes and ductile iron fittings. These are produced at Khardah (West Bengal). The company suspended the production of CI pipes in the third quarter of 2003-04 in view of the declining demand for cast iron pipes.

## Quality

The company's robust quality management system is reflected in its ISO 9001-2000 certification. Over the years, the company has also received quality approvals for its DI pipes from BSI, Kitemark, BIS India and KSA Korea, among others. These certifications

have ensured the acceptance of the company's DI pipes across various countries in Europe, the Gulf, Southeast Asia and Africa.

These certifications and a quality-respecting organisational culture ensure that the company is a preferred vendor in Asian Development Bank-funded and World Bank-assisted projects in India and abroad.

## Network

The company has branch offices in Ahmedabad, Bangalore, Chandigarh, Chennai, Delhi, Hyderabad, Jaipur, Mumbai and Singapore, complementing its head office at Kolkata, India.

## Performance

Electrosteel reported a turnover of Rs 724.45 cr and a profit after tax of Rs 73.68 cr in 2003-04. The company enjoyed a market capitalisation of Rs 476.62 cr towards the close of 2003-04.





We aim to be world-class, committed to customer satisfaction and to encourage the spirit of leadership amongst our dedicated team by creating a healthy environment for continuous growth, profit and prosperity.

### Highlights, 2003-04

- Turnover increased from Rs 656.86 cr in 2002-03 to Rs 724.45 cr, a 10.29 per cent increase.
- Interest outflow declined from Rs 14.31 cr in 2002-03 to Rs 5.03 cr, a 64.85 per cent drop mainly on account of net of derivative gains. As a result, interest cover improved from 10.68 in 2002-03 to 27.10 in 2003-04.
- DI pipe production increased from 159,307 tonnes in 2002-03 to 164,370 tonnes.
- Pig iron production increased from 178,367 tonnes in 2002-03 to 179,461 tonnes.
- Turnover of turnkey projects increased from Rs 69.19 cr in 2002-03 to Rs 121.33 cr.

### Our long pipeline

- 1975: Electrosteel Castings Limited was incorporated.
- 1979: The company's first cast iron pipe factory was commissioned at Khardah, near Kolkata.
- 1982: Electrosteel acquired another cast iron pipe manufacturing unit at Elavur, near Chennai, to further augment its pipe production.
- 1984: Electrosteel set up a 60,000 tpa DI spun pipe plant at Khardah, the first ever in India.
- 1995: Electrosteel was accredited with ISO-9002 certification from Indian Register Quality System, an accredited body of Raad Voor de Certificate of Netherlands, for its DI pipes.
- 1996: The company obtained Kitemark licence from British Standard Institute (BSI) for its DI pipes as per ISO 2531, BS EN 545, BS EN 598. It commissioned its own mini-blast furnace with matching capacity for better quality control.
- 1999: Electrosteel received the ISO-9002 accreditation from BSI for DI pipes and fittings.
- 2000: The company increased its capacity to 120,000 tpa for DI pipes.
- 2003: Electrosteel obtained Kitemark license from BSI, UK for DI fittings made at its facilities in Elavur, Chennai as per ISO 2531, BS EN 545, BS EN 598.
- 2004: The company scaled its DI pipe capacity from 120,000 tpa to 150,000 tpa.
- 2004: Electrosteel received the ISO-14001 and ISO 9001-2000 certification as a testimony to its sound environment management practices.
- 2005: Electrosteel received BSI Kitemark license for DI Fittings at Khardah works, West Bengal.
- 2005: Electrosteel increased its DI pipe manufacturing capacity from 150,000 tpa to 200,000 tpa.

# management

## Report Junction The business

The company manufactures ductile iron pipes, ductile iron fittings as well as cast iron pipes. The business offering also comprises turnkey services, which includes manufacturing, supplying, laying, operating and transferring complete DI pipe projects. Hence, the company essentially provides techno-economic solutions for water transportation and sewerage management.

## Rationale for presence

Millions consume water, which is required to be carried in clean and efficient pipes from municipal sources to homes. With the demand for good quality water increasing, it becomes extremely important to transport water without any contamination. This requirement is completely fulfilled by DI pipes.

However, India's vast rural population does not enjoy an access to safe drinking water and proper sanitation. As government spending increases in this area, so will the demand for

### Dividend

Your Directors recommend payment of dividend @ Rs.10/- per share (100%) for the year ended 31st March 2004. If approved the dividend together with dividend tax of Rs.207.46 Lakhs will absorb Rs. 1826.69 Lakhs.

### Operations

The year gone by has been a period of consolidation.

Production of D.I.Pipes improved marginally to 164370 MT showing an increase of 3% over the preceding year. Increase in turnover is largely due to an increase in the sale of bought out items used in turnkey jobs.

The cost of imported coke, which is the major input, increased to abnormal levels abruptly during the year from \$ 100 to around \$ 500 per tonne (CIF). The working results of the year under review were not largely affected due to timely imports supplemented by the local purchases of coke converted from imported coal.

The production of C.I. Pipes is being phased out. With a steep increase in Pig Iron prices,

the production of C.I. Pipes has become uneconomical. In all probability the demand will be switched over to D.I. Pipes. Production from both Khardah and Elavur Units together was lower at 65228 MT against 104405 MT in the preceding year.

Production of Liquid Iron/Pig Iron in the Mini Blast Furnace was maintained at 179461 MT against 178367 MT in the preceding year.

### Current year prospects

Production of D.I. Pipes is likely to be in the range of 175000 MT. Your Company has effected an increase in prices of D.I. Pipes, but this increase cannot neutralise the increase in the price of imported coke, unless the artificial increase comes down to a realistic level. The hopes of early reduction in the prices have been belied and there are no indications at present to this effect.

The Company's project of Coke Oven Plant with a capacity of 150000 MT per annum at Haldia is proceeding well and is expected to be ready for commercial production by end of August 2004. The Power Plant being part of the Coke Oven Plant is however likely to be commissioned

by end of the current financial year. With the commissioning of the Coke Oven Plant, it is expected that coke will be available at a reasonable cost even at the current level of prices of imported coal. However, it is expected that imported coal will be available at lower price in due course.

Lanco Kalahasthi Castings Ltd has been merged with Lanco Industries Ltd by an order of the High Court of Andhra Pradesh dated 20.02.2004. The merger will be effective from 1st April 2003. The performance of the merged unit has substantially improved.

### Corporate Governance

Corporate Governance report is set out as Annexure to this Report.

### Directors' Responsibility Statement

Your Directors hereby confirm:

- (i) That in the preparation of annual accounts containing financial statements for the year ended 31st March 2004 the applicable accounting standards have been followed.
- (ii) That the accounting policies are consistently followed and your Directors have applied them

to give a true and fair view of the state of affairs of the company and the profit for that period.

(iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

(iv) The annual accounts have been prepared on a going concern basis.

#### Energy, Technology and Foreign Exchange

Statement containing necessary information as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed hereto as Annexure 'A'.

#### Labour Relations

During the year under review the industrial relations with the staff and workmen have

remained cordial.

#### Officers

Particulars of Employees as required by the Companies (Particulars of Employees) Rules, 1975 are enclosed as Annexure 'B'.

#### Subsidiary Companies

The Statement required under Section 212 of the Companies Act, 1956 in respect of the subsidiaries of the Company is attached hereto.

#### Directors

Mr. Parag Dalmia resigned from the Board on 18.03.2004. The Board places on record their deep appreciation of the services rendered by him during his tenure. Mr. J.J. Irani has been co-opted on 26.03.2004 in place of Mr. Parag Dalmia. Mr. M.S. Verma was appointed as Additional Director on 26.03.2004. He however subsequently resigned on 23.04.2004 citing personal reasons.

Mr. Naresh Chandra has been co-opted as Additional Director on 11.05.2004. He will hold

office till the ensuing Annual General Meeting. A notice has been received by the Company from a shareholder proposing him to be appointed as Director of the Company.

Shri.P.K. Khaitan, Shri N.C. Bahi and Shri. S.Y.Rajagopalan retire by rotation at the ensuing Annual General Meeting and are eligible for re-election.

#### Auditors

The retiring Auditors, Messrs. Lodha & Co. are eligible for re-appointment.

On behalf of the Board

Kolkata  
11th May, 2004

P.K. KHAITAN  
Chairman



# annexure - "A"

## to directors' report

Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988

### A. Conservation of Energy

- a) Energy Conservation measures taken :
  - Electrosteel have appointed Energy Managers as per EC Act, 2001 of Ministry of Power Notification.
  - Energy Cell has been constituted in January 2004.
  - Energy Policy has been formulated and displayed.
  - Energy Conservation Principle is followed through awareness, training, poster campaign, quiz etc. monitoring, trend analysis of energy consumption pattern, metering and sub-metering and fixation of targets and audits as well as implementation of audit recommendation on continual basis.
  - Implementation of measures to improve power factor.
- b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy. : Investments made in purchase of meters and laying of pipelines for B.F.Gas and Coal Gas to Heat Treatment Furnaces, Burners and Control Equipments including Sensors and Detectors, Fuel Savers in D.G. Sets. Installation of Capacitor Banks in MBF.
- c) Impact of measures of (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods. : The above measures of (a) & (b) have resulted in use of surplus Blast Furnace Gas to the tune of  $1.6 \times 10^6 \text{ nm}^3/\text{month}$  which has approximately resulted in a reduction of  $\text{SO}_x$  emission from 495 kg/day to 84 kg/day and saving of LDO/LVFO Fuel Oil.
- d) Total energy consumption & energy consumption per unit of production : Form - A enclosed.

### B. Technology Absorption

- Research & Development (R&D) : Separate account of R&D expenditure is not maintained and the expenses are merged with relevant heads of expenditure. The Company's Research & Development wing is fully geared to absorb, adapt & innovate the imported technology on a continuing basis. The R&D wing has continually developed various customer friendly jointing systems and has set up performance testing laboratory to generate various parameters required by customers. The company has also developed indigenously special protective coating for anti-corrosion through R&D efforts and set up the corrosion test laboratory in collaboration with University/Institute/Partnership.

### C. Foreign Exchange Earnings & Outgo

- a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products & services and export plans : Continuing efforts are made to increase the exports by exploring, creating and developing new markets.
- b) Total foreign exchange used and earned : Foreign Exchange used - Rs.12770.91 lakhs. Foreign Exchange earned - Rs.11888.97 lakhs.

## Form - A

Form for disclosure of particulars with respect to conservation of energy : 2003-04

## (a) Power &amp; Fuel

		Current Year ended 31.03.04	Previous Year ended 31.03.03
1 Electricity			
(a) Purchased			
Units	Kwh ' 000	61629.443	67639.324
Total Amount	Rs. Lakhs	3220.21	2864.06
Rate/Unit	Rs.	5.23	4.24
(b) Own Generation			
i) Through Diesel Generator			
Units	Kwh ' 000	6759.738	6521.455
Unit/litre of Diesel Oil	Kwh	3.09	3.11
Cost/Unit Variable	Rs.	6.73	5.46
ii) Through Steam Turbine Generator			
Units	Kwh ' 000	22107.909	19074.111
Unit/litre of Diesel Oil	Kwh	73.39	72.55
Cost/Unit Variable	Rs.	0.26	0.20
2 Furnace Oil			
Quantity	K L	7281.433	5905.932
Total Amount	Rs. Lakhs	859.40	631.05
Average Rate	Rs./ KL	11971.81	10726.82
3 Hard Coke			
Quantity	M T	10135.998	16401.811
Total Amount	Rs. Lakhs	708.80	942.01
Average Rate	Rs./MT	7377.78	5922.07
4 Diesel Oil			
Quantity	K L	6567.744	11954.979
Total Amount	Rs. Lakhs	1271.17	1785.52
Average Rate	Rs./ KL	19358.07	14957.69
5 Coal Gas			
Quantity	NM <sup>3</sup> ' 000	1227.942	-
Total Amount	Rs. Lakhs	43.12	-
Average Rate	Rs./NM <sup>3</sup>	3.51	-

## (b) Consumption Per Unit of Production (MT)

	Pig Iron	D.I Pipes	C.I Pipes	D.I Fittings
Electricity (KWH)	140 (146)	348 (355)	91 (87)	1704 (1623)
Furnace Oil (Ltr.)	0 (-)	16 (-)	55 (53)	29 (-)
Diesel Oil (Ltr.)	0 (-)	30 (60)	2 (3)	124 (256)
Hard Coke (Kg.)	0 (-)	0 (-)	140 (149)	0 (-)
Coal Gas (NM <sup>3</sup> )	0 (-)	7.50 (-)	0 (-)	0 (-)