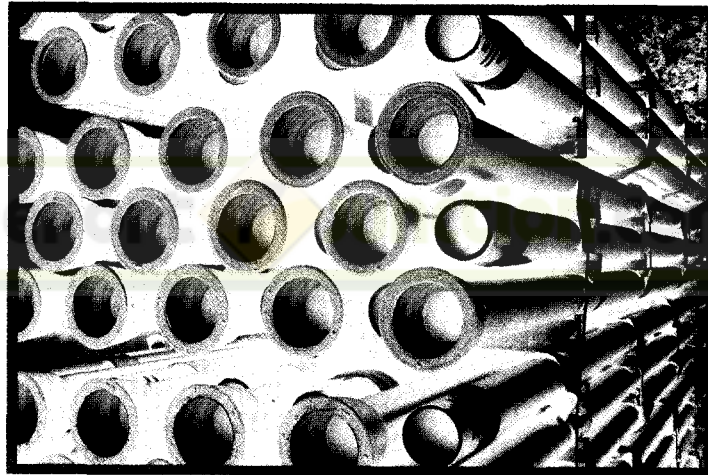


## 50TH ANNUAL REPORT 2004 - 05



**ELECTROSTEEL CASTINGS LIMITED**

# 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.

## Corporate Information

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

## Contents

Vision	01
Mission	02
Achievements	03
Management Discussion and Analysis	04
Risk Management	12
Ten-Year Financial Summary	13
Directors' Report	14
Annexure "A" to Directors' Report	17
Annexure "B" to Directors' Report	19
Corporate Governance	20
Auditors' Certificate on Corporate Governance	27
The Financial Section	28
Auditors' Report	29
Balance Sheet	32
Profit & Loss Account	33
Cash Flow Statement	34
Schedules	35
Balance Sheet Abstract	53
Section 212	54
Subsidiary Accounts	55
Auditors' Report on Consolidated Accounts	83
Consolidated Accounts	84
Consolidated Cash Flow	86



## Vision

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

# MISSION

Our Principles, that help us to grow, thrive, prosper and realize our vision.

## **INTEGRITY**

We strongly abide by integrity in our work. We demand the highest ethical standards of our employees. We always strive to improve the quality of our products.

## **TRANSPARENCY AND SHAREHOLDER VALUE**

The company recognizes its primary obligation to generate a superior return for its shareowners through a prudent strategy, reasonable payouts of dividend and a fair degree of corporate transparency that does not threaten its competitive position in the marketplace.

## **COMMUNITY DEVELOPMENT**

We do not live by bread alone. The company is committed to contributing meaningfully to the community and society in which it lives.

## **RESPECT FOR PEOPLE**

People represent our intellectual capital. Respect for the individual is of paramount importance. We treat our people like members, not employees. We provide an exciting working environment. We recognize that learning is an important part of the growing process.

## **LEADERSHIP**

Electrosteel's focus is to emerge as a global company – with leaders not only at the top, but at every level.

## **ENVIRONMENT**

Electrosteel's world does not end with the perimeter of its office and factory. It extends beyond: to conducting its various manufacturing processes with adequate respect for a safe and pollution-free environment.

## **PERFORMANCE**

The company's performance speaks. Within a decade, it grew the DI pipe market in India to over one lakh fifty thousand tonnes per annum.

## **TEAMWORK**

The company's ductile pipe was the first of its kind in India. The commissioning and success continues to be the result not of individual brilliance but of a collective initiative.

## **CUSTOMER FOCUS**

We are a highly customer-focused company. This reflects in the product that we make and in the value that we deliver to them.



# ACHIEVEMENTS

## Environment Excellence Award, 2004

West Bengal Cleaner Production Centre

*a collaborative effort of*



Indian  
Chamber of Commerce



West Bengal  
Pollution Control Board

confers the

## Environment Excellence Award, 2004

(Industry Sector)

on

M/s. Electrosteel Castings Limited

Unit : Khardah Works

Khardah, 24 Parganas (North), West Bengal

having been ranked *Third*

In recognition of  
their efforts to protect and preserve the environment  
through proactive environmental management practices  
during the year, 2003

*Anup Singh*  
Anup Singh  
President  
Indian Chamber of Commerce

*Prof. Sudip K. Banerjee*  
Prof. Sudip K. Banerjee  
Chairman  
West Bengal Pollution Control Board

Electrosteel has been recognized in Environment Management for Environmental Excellence in 2003. The award was instituted jointly by Indian Chamber of Commerce (ICC) and the West Bengal Pollution Control Board (WBPCB), and was presented by the Hon'ble Chief Minister of West Bengal, Shri Buddhadeb Bhattacharya.

Electrosteel has been accorded One Star Export House by the JDGFT, Ministry of Commerce and Industry of the Government of India. This status was conferred in September 2004 based upon the export performance of Electrosteel for Ductile Iron Pipes and Fittings.

 भारत सरकार GOVERNMENT OF INDIA कृषि एवं उद्योग मंत्रालय MINISTRY OF COMMERCE & INDUSTRY संयुक्त महासचिव, विदेश व्यापार का कार्यालय OFFICE OF THE JOINT DIRECTOR GENERAL OF FOREIGN TRADE मान्यता प्रमाण पत्र <b>Certificate of Recognition</b> निर्यात सदन <b>ONE STAR EXPORT HOUSE</b>	
नाम : _____ (अवकाश - निर्देशक कोश सहाय) (अवकाश सहाय कोश सहाय)	
निर्यात - अद्यतन नीति के उपबन्धों के अनुसार एम् एल एल निर्यात करने के रूप में मान्यता दी जाती है। यह प्रमाण - पत्र 1 अक्टूबर, 2004 से 31 मार्च, 2005 तक वर्षों के अवधि के लिए वैध है।	
M/s. ELECTROSTEEL CASTINGS LIMITED A. B.D.BAG (EAST), 46, STEPHEN HOUSE, KOLKATA-700001	
(IEC No. 0230022319 and Income Tax PAN No. AAACE4975R)	
are hereby accorded the status of a <b>One Star Export House</b> in accordance with the provisions of the Exim Policy. This Certificate is valid for a period of <b>Five</b> years effective from 1st April, 2004 to 31st March, 2009.	
नं० No. 014535 तारीख Date 28.09.2004 स्थान Place KOLKATA	 (MANOJ KUMAR) संयुक्त महासचिव, विदेश व्यापार JOINT DIRECTOR GENERAL OF FOREIGN TRADE

# MANAGEMENT DISCUSSION

## **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. As a backward integration company has set up a Captive Coke Oven Plant at Haldia, which has already been commissioned on 1st February 2005 with an installed capacity of 1.5 lakhs tonnes per annum. The Unit will import Coal and convert it to coke for feeding the Mini Blast Furnace at Khardah, reducing the Company's dependence on Imported Coke.

## **Rationale for presence**

Safe drinking water is needed for millions in India. Demand of safe drinking water is increasing in a rapid rate. In 2030 we would need three times the water what we get today.

To transport this huge quantity of water from different source, may it be river, lake or wells, to treatment plant without any loss and then take the clear water to the millions of homes in India, we require a reliable pipe material. A strong pipe, which will serve for maximum years without leaking and without giving any chance of contamination. Throughout the world Ductile Iron pipe has satisfied these needs and so is most sought after pipe in the present time.

## **2004-05 vs. 2003-04**

Electrosteel's turnover increased 30.03 per cent from Rs 724.45 cr in 2003-04 to Rs 941.98 cr in 2004-05.

## **Income sources**

In 2004-05, 80.72 per cent of the company's income was derived from ductile iron pipes including turnkey (74.97 per cent in 2003-04) and 9.49 per cent from cast iron pipes (17.78 per cent in 2003-04).

## **Cast iron pipes**

As a first step towards phasing out the production of CI Pipes and migrating towards value-added DI pipes, we have discontinued production at Khardah and truncated production at Elavur Works.



# AND ANALYSIS

## DUCTILE IRON PIPES

DI Pipe production during the year increased from 164370 MT to 178174 MT an increase of 8.40% which reflects the increasing awareness of the products and its vast superiority over the Cast Iron and other metal pipes used for water supply & sewerage.

Year	DI Pipe Production
2002-03	159307
2003-04	164370
2004-05	178174

During the year the Company has installed a separate finishing line for small diameter pipes, thereby increasing the production of the smaller variety of pipes.

## DUCTILE IRON FITTINGS

Fittings play a major role in the function and success of any pipeline. Electrosteel initiated the production of DI Fittings and accessories in its manufacturing facilities at Khardah, West Bengal. Fittings are an extension of pipes, joining them across distances and providing bends/branches for complete pipe laying solutions. Customers are increasingly demanding services from a single window solution provider and the off-take of DI Pipes and accessories logically accelerate the off-take of DI Fittings. During the year the company produced 2327 MT of DI Fittings and accessories, conforming to ISO 2531 / IS 9523 / EN 545 standard compared to 1711 MT in 2003-04.

## MINI-BLAST FURNACE

As a first step towards backward integration, Mini-Blast Furnace was set up in September, 1996 with an installed capacity of 1,09,000 MT. This has grown upto a capacity of 2,00,000 MT over a period of time.

During the year the Company has produced 178442 MT of Liquid Metal/Pig Iron with a Capacity utilization of 89.22 % and has catered to all the metal needs of Ductile Iron Pipe plant.

### **Captive power plant**

Apart from existing 3.75 MW Captive Power Plant at Khardah Works, the Company is setting up a 12 MW Power Plant at Haldia which will use the waste gas from Coke Oven Plant to generate power. This plant is expected to commence generation from September, 2005. This will further reduce the Company's dependence on high cost power supplied by power utility companies.

### **Export**

Electrosteel positioned itself as an international manufacturer of Ductile Iron Pipes based in India. As a result, while the mindset is clearly global, the Company has successfully leveraged the resident advantages of its domestic presence. Apart from two wholly owned subsidiaries in Europe and Algeria, during the year the Company has formed Joint Ventures with other reputed companies at U.K. and Singapore. This will give further boost to export in near future which has already reached approx 200.00 crore in 2004-05 an increase of 45% over previous year.

### **Turnkey projects**

The company has entered into Engineering Procurement & Construction (EPC) Contracts through its infrastructure services division. This Division is executing the major water and sewage projects, all over the country and contributing approximately 12% to the total revenues of the Company.

With a view to strengthen this division further, the Company is venturing into integrated Water Supply System and keenly looking at desalination plants and various management and concession contracts.

### **Raw material management**

Continuing its programme of assured supply of Raw Materials at steady cost Electrosteel commissioned its Coke Oven Plant at Haldia for Commercial production on 1st February 2005. This provides stability with regard to availability of Low Ash Metallurgical Coke. Further to reduce dependence on high cost M.S. Scrap, the company is setting up a Sponge Iron facility at Haldia. This plant will be expected to be commissioned by September 2005.



These backward integration initiatives are expected to reduce raw materials cost substantially.

### **Manufacturing discipline and Electrosteel**

At Electrosteel, the ability to rationalize costs and enhance quality on a continuous basis has been derived through its commitment to "Total Productive Maintenance" (TPM). This unique Japanese managerial system is based on the preventive maintenance theory, widely accepted today among global manufacturing companies and applicable to every line and function of their businesses. TPM aims at zero defects, zero accidents and zero pollution, translating into zero losses.

TPM's objectives comprise:

- To create a corporate system that maximises efficiency of production.
- To create systems which prevent losses.
- To seek active participation from all members of the organisation.
- To achieve zero losses through the overlapping of small-group activities.

At Electrosteel, TPM is comprehensively practiced in consultation with the Japan Institute of Plant Maintenance. This is what it has achieved for the company over the last few years:

- An understanding and implementation of basic housekeeping tenets by almost every worker at the shop floor level.
- A conscious effort to utilise time more productively across the organisation.
- Comprehensive mass-scale training and orientation programmes, including Jishu Hozen (autonomous maintenance), creating a strong sense of ownership for equipment among workers, higher machine utilisation and lower breakdowns.

### **Quality management and Electrosteel**

Pipes are manufactured one time, sold in an instant but put to test across a lifetime. This criticality is captured in the company's Quality Policy, which dictates an encompassing quality approach across the organization. The following table highlights the company's compliance with this policy:

Policy	Implementation
We are committed to provide goods and services, which meet customers' expectations and needs.	Electrosteel maps the customer's requirements, manufactures customised products, puts the materials through specialised tests (sampling and soil testing) and supports this with extensive documentation.
Our aim is to achieve 'quality right the first time'.	Internal rejects declined from 7.2 per cent in 2003-04 to 6.9 per cent in 2004-05.
We are committed to comply with the requirements and to continually improve the effectiveness of Quality Management System through teamwork, training and motivation.	Our quality management system is ISO 9001-2000 certified. We have initiated a discipline of 'Plan → Do → Check → Act' across every manufacturing function, involving a team of members, dedicating at least two hours a day for routine plant maintenance.
We shall formulate quality objectives for all functions and involve employees in the fulfillment of the same.	Our quality objectives consist of a focus on quality as well as quantity across every department and function to enable us to deliver the right quality and the right quantity to our customers at all times.
The quality policy and the quality objectives will be reviewed for continuing stability.	We have formulated an extensive Customer Satisfaction Index (CSI), which measures specifications, delivery commitment documentation and feedback. Result: In 2004-05 we achieved CSI in export 81 per cent and 80 per cent in domestic.

#### Quality highlights and initiatives, 2004-05

- Electrosteel's testing laboratories is preparing to undergo exhaustive examination by the National Accreditation Bureau of Laboratories, India, leading to impending certification, which will enable it to perform rigorous tests for its domestic and overseas customers. Its in-house testing facilities covered corrosion-resistance and leakage, among others. In addition in-house