



**ELECTROSTEEL
CASTINGS LIMITED**

Report

51ST ANNUAL REPORT 2005 - 06

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	Pradip Pinto Khaitan
Directors	B. Khaitan V.K. Lamba Naresh Chandra Jamshed J. Irani
Managing Director	U. Kejriwal
Joint Managing Director	M. Kejriwal
Wholetime 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

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Vision

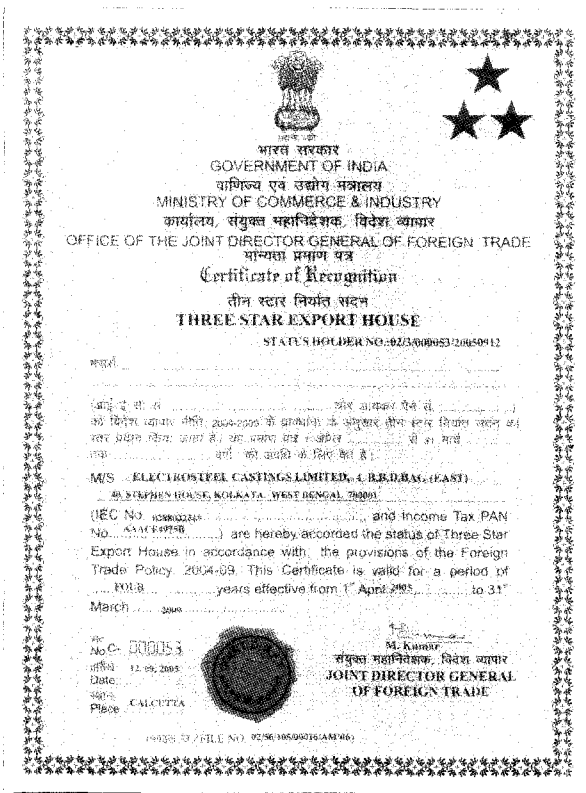
We aim to be world-class,
committed to customer
satisfaction to encourage the
spirit of leadership amongst
our dedicated team by
creating a healthy
environment for continuous
growth, profit and prosperity.

ACHIEVEMENTS

Electrosteel (ECL) raised US \$ 40 million through the Issue of Global Depository Receipts (GDRs) in October 2005. The GDRs are listed on the Professional Securities Market (PSM) of the London Stock Exchange (LSE) and ECL is the first Indian company to be so listed in addition to being the first company to issue GDRs on the PSM which is designed for issuers whose financial data are reported according to their own home-country accounting standards.



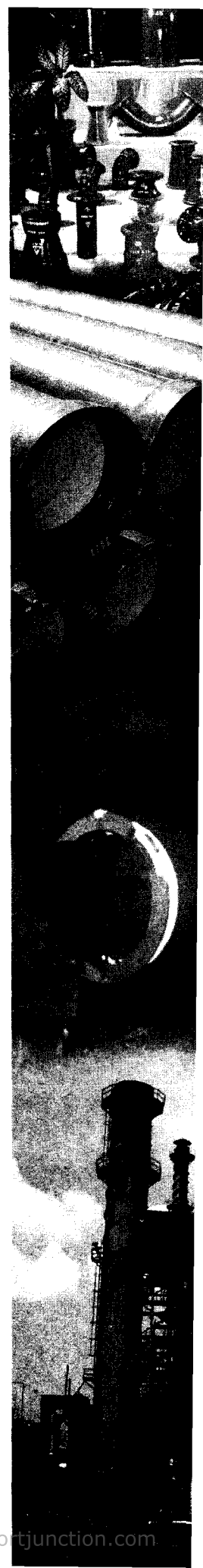
Report  junction.com



Electrosteel has been accorded Three Star Export House by the JDGFT, Ministry of Commerce and Industry of the Government of India. This status was conferred in September 2005 based upon the export performance of Electrosteel for Ductile Iron Pipes and Fittings.

ELECTROSTEEL AT A GLANCE

- 1955 :** Electrosteel Castings Limited was incorporated.
- 1959 :** 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.
- 1994 :** Electrosteel set up a 60,000 tpa Ductile Iron 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.
Mini Blast Furnace with 1,09,000 tpa capacity commissioned 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 1,20,000 tpa for DI pipes.
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.
- 2001 :** The company scaled its DI Pipe capacity from 120,000 tpa to 1,50,000 tpa
Mini Blast furnace capacity increased from 1,09,000 tpa to 2,00,000 tpa.
- 2003 :** Electrosteel received the ISO-14001 and ISO 9001-2000 certification as a testimony to its sound environment management practices
Electrosteel received BSI Kitemark license for DI Fittings at Khardah works, West Bengal.
Electrosteel increased its DI Pipe manufacturing capacity from 1,50,000 tpa to 2,00,000 tpa.
- 2004 :** Electrosteel Castings Limited bags environmental excellence award
Electrosteel achieves One Star export house status.
- 2005 :** Electrosteel set up 1,50,000 tpa Coke Oven Plant at Haldia
Electrosteel set up 30,000 tpa first Kiln Sponge Iron Plant at Haldia
Electrosteel achieves Three Star export house status.
- 2006 :** Electrosteel set up 12 MW Captive Power Plant at Haldia using waste gas from Coke Oven Plant.
Electrosteel increases its DI Pipe manufacturing capacity from 2,00,000 to 2,50,000 tpa.
Mini Blast Furnace capacity increased from 2,00,000 to 2,35,000 tpa.
Electrosteel set up 30,000 tpa second Kiln Sponge Iron Plant at Haldia.



MANAGEMENT DISCUSSION AND ANALYSIS

The Business

The Company is in water infrastructure segment and its primary products are Ductile Iron Pipes, Cast Iron Pipes and Ductile Iron Fittings. Company also provides Turnkey services, which encompass manufacturing, supplying, laying, operating and transferring complete DI pipe projects. The company has emerged as a provider of techno-economic solutions for water transportation and sewerage management.

A number of backward integration measures have been initiated to reduce dependence on external sources and also as a means of reducing cost. In addition to a Captive Coke Oven Plant, a Sponge Iron Plant has been commissioned at Haldia, which will not only reduce dependence on MS Scrap but also reduce cost.

The Government of India has taken major initiatives to provide safe drinking water to the millions of people in India with increased focus on water related projects including supply of safe drinking water. It has been estimated that demand of safe drinking water will increase by 3 times in next 25 years.

Conveying large quantity of water from different sources, may it be river, lake or wells, to treatment plant without any loss and then taking the clear water to millions of homes in India requires a reliable pipe material which has a long life and is capable of rendering trouble free service. Ductile iron pipes have all such qualities in addition to being capable of carrying water over long distances without leakage or contamination.

Ductile Iron pipes are the preferred pipe materials the world over for their superiority over other pipes particularly in regard to supply of water.

2004-05 Vs. 2005-06

Electrosteel's turnover increased by 6.49 percent from Rs 941.98 cr in 2004-05 to Rs 1003.13 cr in 2005-06.

Income Sources

In 2005-06, 69.68 per cent of the company's income was derived from ductile iron pipes including turnkey (80.72 per cent in 2004-05) and 13.59 per cent from cast iron pipes (9.49 per cent in 2004-05).

Cast Iron Pipes

The Company continues its focus on DI Pipes given their superiority over other pipe materials. However, demand for CI Pipes particularly in lower sizes has been quite good and the company produced 55104 tons at its Elavur works as against 31144 tons in the preceding year.

Ductile Iron Pipes

DI Pipe production during the year increased from 1,78,174 MT to 1,81,161 MT inspite of a long shutdown of 49 days of Blast Furnace for capital repair and major overhauling.

Year	DI Pipe Production
2003-04	1,64,370 MT
2004-05	1,78,174 MT
2005-06	1,81,161 MT

Production of small dia Pipes (below 150 mm dia) has increased by more than 20% (from 43,007 MT to 55,407 MT). It is expected that in the year 2006-07 overall DI Pipe Production will increase by more than 20%.

Mini Blast Furnace

Blast Furnace stabilized within a very short period after relining and is performing as per expectation in terms of productivity.

DI Fittings & Accessories

DI Fittings production during the year was 2346 MT, which was marginally higher than the preceding year.

Captive Power Plant

The Company has commissioned a 12 MW Power Plant at Haldia on 20 March, 2006 which generates power using waste gas of Coke Oven Plant and Sponge Iron Plant. This is in addition to 3.75 MW Power Plant at Khardah.

Export

Electrosteel's Ductile Iron Pipes are marketed in many advanced countries. The setting up of subsidiaries and joint ventures has given an impetus to the Company's initiatives in the very challenging European and other markets. While the Company is well positioned to take advantage of the increased focus of the Government of India on water related infrastructure in India, exports will also continue to grow. This is evident from exports of Rs 260 crores during 2005-06, which translates into an increase of 30 % over the previous year.

Turnkey Projects

The Company has entered into Engineering Procurement and Construction (EPC) Contracts through its infrastructure services division. The Company continues to give emphasis only where DI Pipes are the predominant position of the total contract value.

Raw Material Management

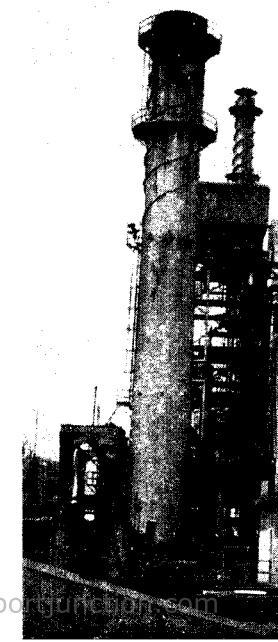
In addition to Coke Oven Plant which was commissioned on 1st February, 2005, the Company has set-up a Sponge Iron facility at Haldia. The first kiln was commissioned on 03.10.2005 and the second on 10.03.2006.


The Company has been allotted in July, 2005 a coking coal mine Block in Parbatpur in the State of Jharkhand and is in the process of meeting and complying with various statutory requirements for execution of the lease.

A Sintering Plant with adequate capacity will be set up in Khardah as a measure of reducing cost of liquid metal by use of Iron Ore Fines in place of lumps. The Company will benefit in terms of cost reduction and assured supply as Iron Ore Fines are more easily available than the lumps.

Quality

- 1) At Electrosteel, TPM by its philosophy of continual improvement by everyone has ensured quality work at all levels including material management, production and maintenance processes, quality maintenance, process standardisation.
- 2) Testing Laboratory of Electrosteel is now fully equipped with all the necessary facilities including special Mechanical testing machine with auto recorder/printer for Certification by NABL (National Accreditation Bureau of Laboratories), India. This will bring more confidence to its customers.
- 3) Electrosteel's Products have met the challenge of special specifications of some of the Countries. Stringent quality checks on our products for some of the Countries were fully met by creating special testing facilities in-house for witnessing, automatic recording and conformity assessment by the 3rd parties.



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- 4) Electrosteel's quality system and products have got continued approval from different international agencies like DVGW-Germany, BSI-UK.
Further addition has been made to BSI and DVGW certified products, which include higher sizes of Restraint Joint pipes, and fittings and special Fusion Bonded Epoxy coated Ductile Iron Fittings and Specials.
 - 5) ECL - NER EPDM Gaskets have been WRAS, UK approved for use in potable water.

Safety Health & Environment

- 1) Electrosteel successfully met the change over to ISO-14001-2004 (Environmental Management System), Standard and has been certified by IRQS.
- 2) Electrosteel has further strengthened safety systems using JIPM TPM methodology.
- 3) Electrosteel is preparing for OHSAS 18001-99 (Occupational Health & Safety Management System) for certification by 3rd party.
- 4) As a part of environmentally efficient and global requirement, the fossil fuel have been curtailed in Heat Treatment Furnaces and replaced by Blast Furnace Gas with a further improvement for SO_x reduction.
- 5) Apart from Environmental Quiz Competition among youths and school children of the locality, Electrosteel has successfully participated in the 'Vigyan O Projukti Mela' and 'Paribesh Mela' organized by West Bengal Pollution Control Board during the year 2005-06 with profound success.

Information Technology and Electrosteel

We continue to leverage Information Technology for improving our business processes and increasing efficiency in all areas. Accordingly, we have taken steps to further improve upon the ERP usage in key operations. While the business integration of Export sales operations was already implemented on Ramco ERP, we have extended the scope of the IT enabled processes to get better automation benefits and improve management information systems used in key decision making. A number of improvements have been made in the existing systems being used for procurement, HR and logistics, among others. This has helped to streamline the operations and enabled us to respond faster to business requirements.

The initiative taken last year to move important documents to electronic storage has now become a mainstream application. A large number of frequently retrieved documents are now available online to users in different departments and they can view the same based on their access privileges. This business solution is now being extended to more areas to help achieve savings in storage space, reduction of retrieval time and safeguard against loss of physical documents. Your Company now intends to implement solutions for sales tracking, improved production planning, and business intelligence and collaboration tools.

Appropriate measures have been taken to enhance the IT security in the company. Improvements at the technical level have helped reduce the threat from intrusion attempts, virus outbreaks and spam message flooding, thereby increasing productivity. Information security has been further improved by implementing better data backup strategy across the network and covering all sources of data, thereby ensuring integrity and availability of electronic records.

The IT infrastructure has been continuously upgraded as per anticipated needs of the business. In doing so, the company has taken advantage of the latest technology solutions in providing a WAN infrastructure connecting its various offices, overseas subsidiaries and manufacturing plants. The online connectivity at distributed operations has been continuously improved, and are providing better accessibility of information. High levels of uptime are maintained to ensure the availability of information whenever required.

The Company plans to implement solutions for improving communications using VoIP and video conferencing to realise the benefits of convergence. It continues to adopt different wireless technologies for LAN, WAN and mobile access to the workplace for increasing its agility and thereby our competitive advantage.

Human Resource Management and Electrosteel

Electrosteel continues its harmonious industrial relation without losing a single man-day in the year 2005-2006. Education & training, manpower rationalization, effective retention plans and enhancement of competencies comprised the company's HR-priorities in 2005-06.

Our long-term success required a total commitment to exceptional standards of performance and productivity and willingness to embrace new ideas and learn continuously. Assessing performance through Appraisals strengthened our pursuit of Developing Human Capital. The competence & skill gaps identified were bridged through extensive training imparted on various Management Skills, Visual SOP's, Advance Statistical tools like Multiple Regression Analysis and Data Interpretation. Our young Engineers visited TPM practicing companies to learn the best practices. All this helped us in increasing productivity and institutionalising TPM initiatives.

The success also required, as we believe, the highest standards of corporate behaviour towards everyone we work with, the communities we touch, and the environment on which we have an impact. This is our road to sustainable, profitable growth, creating long-term value for our shareholders, our people, and our business partners.

Risks and Concerns

This has been dealt with separately in the Annual Report under "Risk Management."

Internal Control Systems and Their Adequacy

The Audit Committee reviews the financial reporting systems and procedures regularly with the Internal and Statutory Auditors. Follow-up reporting is insisted upon to ensure corrective action is taken.

Industry Opportunities

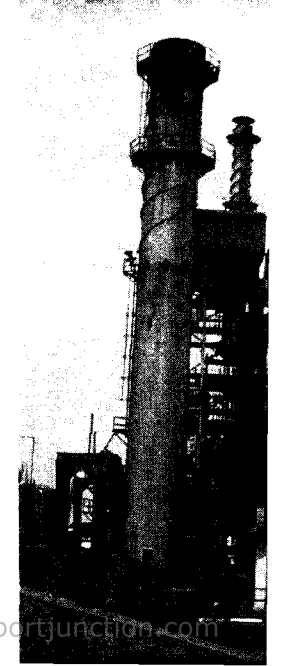
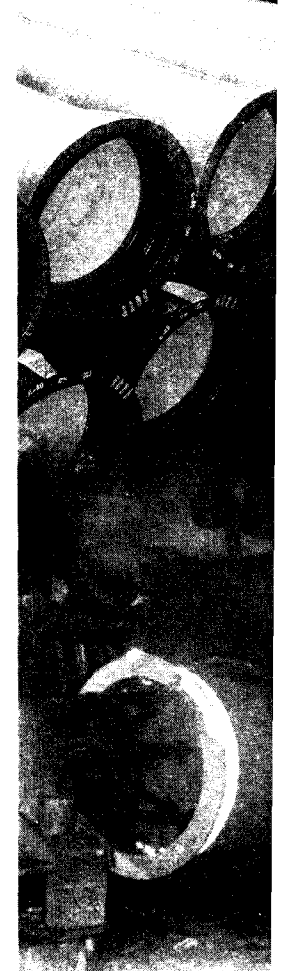
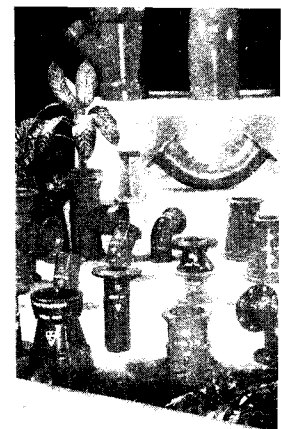
Pure water and its transportation in addition to waste management and sewage disposal continue to drive the demand for good pipe materials. This coupled with an increasing presence in the European and other foreign markets will ensure robust and sustainable growth for Electrosteel.

Threats

This year has seen new players entering the Ductile Iron pipe industry. Continued reduction in import duties also poses a threat. However the Company has positioned itself with various cost effective measures to meet the same.

Outlook

The Company is very optimistic of the future considering that it is one of the largest and cost effective in the business of Ductile Iron pipes in the country. Also apart from a very strong national presence it continues to enjoy the benefits of increasing its international presence.



RISK MANAGEMENT

1. Substitution Risk

Customers may prefer other varieties of pipes, adversely affecting demand for DI pipes which could slow down growth.

Risk Mitigation

DI Pipes are preferred over other variety of pipes particularly in large water supply projects. This preference is largely on account of the superior quality of these pipes. The alternative pipes do not measure upto customers' expectations. International agencies like the World Bank and Asian Development Bank which fund large water supply projects also prefer DI pipes which will help increase demand for such pipes.

2. Raw Material and Cost Risk

The increase in the cost of number of inputs and raw materials used by the company may adversely affect margins and profitability.

Risk Mitigation

As a cost reduction measure a Sponge Iron facility has been set up in Haldia which will reduce company's dependence on high cost MS Scrap. In addition to a Coke Oven Plant with capacity of 150000 tpa at Haldia commissioned on 1st Feb'05, the company has also set up a 12 MW Waste Heat recovery based Co-generating Captive Power Plant in March 2006. These measures are expected to substantially mitigate the risk of wide fluctuations in input cost.

3. Environment Risk

Non-compliance with strict emission norms might lead to suspension of the company's operation.

Risk Mitigation

The Company is committed to the conservation of the environment and continues to invest in Pollution control equipments. The company has been certified by IRQS for successfully meeting the changeover of ISO-14001-2004 (Environment Management System). Reductions in SOx emissions have been achieved by curtailing use of fossil fuel and replacing by Blast Furnace Gas. Annual reduction targets for

different manufacturing sites are monitored for adherence on a monthly basis.

4. Geographical Risk

The Company may be excessively dependent on a particular market.

Risk Mitigation

The domestic market for DI Pipes continues to grow and this momentum will be sustained in view of the thrust of Government of India on water and water related projects. With water requirement estimated to grow by 3 times in the next 25 years, demand for DI Pipes will also increase accordingly which the company is well positioned to meet. Growing exports are proof of the company's increasing presence in the international market and with wholly owned subsidiaries in Europe and Algeria and joint ventures in Singapore and UK exports will further increase. The Company is also looking at other markets abroad.

The Company believes that given the excellent track record of the company's pipes in the country and their acceptance in the fiercely competitive export market, there is no risk of losing any particular market segment.

5. Industrial Relation Risk

The labour unrest may lead to production slowdown ultimately resulting to plant shutdown.

Risk Mitigation

The labour relations have been excellent though there are a number of unions in the plant. The relations have been congenial and harmonious which is evident from the fact that not a single manday has been lost in the last 6 years. The Company believes that labour relations will continue to remain good.

6. Payment Risk

Payment defaults from parties may lead the company into losses.

Risk Mitigation

Since major water infrastructure projects are government funded or foreign aided the risk involved in payment default is minimal.