

ELECTROSTEEL

CASTINGS LIMITED



60TH ANNUAL REPORT
2014-2015

Corporate Information

Chairman	Mr. Pradip Kumar Khaitan
Directors	Mr. Binod Khaitan Mr. Naresh Chandra Dr. Jamshed Jiji Irani Mr. Shermadevi Yegnaswami Rajagopalan Ms. Nityangi Kejriwal Mr. Ram Krishna Agarwal
Managing Director	Mr. Umang Kejriwal
Joint Managing Director	Mr. Mayank Kejriwal
Whole-time Directors	Mr. Uddhav Kejriwal Mr. Vyas Mitre Ralli Mr. Mahendra Kumar Jalan
Chief Financial Officer	Mr. Gautam Jhunjhunwala
Company Secretary	Mr. Prem Kumar Bafana
Auditors	Lodha & Co. Chartered Accountants
Solicitors	Khaitan & Co. LLP, Kolkata
Bankers	Axis Bank Limited Bank of India DBS Bank Limited Export-Import Bank of India HDFC Bank Limited ICICI Bank Limited IDBI Bank Limited Kotak Mahindra Bank Limited IndusInd Bank Limited Punjab National Bank Standard Chartered Bank State Bank of India Syndicate Bank Yes Bank Limited
Works	Khardah, West Bengal Haldia, West Bengal Bansberia, West Bengal Elavur, Tamil Nadu
Corporate Office	G. K. Tower 19, Camac Street Kolkata 700 017 Tel. : 033 2283 9990 Fax : 033 2289 4339 E-mail Id : companysecretary@electrosteel.com Website : www.electrosteel.com
Registered Office	Rathod Colony, Rajgangpur Dist. Sundergarh Odisha 770 017
Corporate Identification Number	L27310OR1955PLC000310

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Report of the Directors

Dear Members,

Your Directors are pleased to present the Sixtieth Annual Report together with Audited Annual Financial Statements (including Audited Consolidated Financial Statements) of the Company for the Financial Year ended 31 March 2015.

FINANCIAL RESULTS

(Rs. in Crores)

Particulars	Standalone		Consolidated	
	FY 2014-15	FY 2013-14	FY 2014-15	FY 2013-14
Revenue from Operations	2153.78	2186.88	2401.83	2459.16
Other Income	30.81	19.70	62.18	28.66
Total Revenue	2184.59	2206.58	2464.01	2487.82
Profit before Tax (PBT)	96.34	135.97	143.51	119.57
Less : Tax including Deferred Tax	23.67	35.41	27.23	38.07
Profit after Tax (PAT)	72.67	100.56	116.28	81.50
Add : Share of Profit/(Loss) in Associates	–	–	(232.06)	(96.61)
Add/(Less) : Share of Unrealised Profit	–	–	(0.18)	(0.05)
Net Profit/(Loss) before Minority Interest	72.67	100.56	(115.96)	(15.16)
Minority Interest	–	–	(0.13)	(0.77)
Net Profit/(Loss) for the year	72.67	100.56	(116.09)	(15.93)
Add : Profit brought forward from previous year	182.10	186.69	(59.91)	61.26
Less : Earlier year adjustment	–	–	0.68	–
Amount available for appropriation	254.77	287.25	(176.68)	45.33
Appropriations :				
Less : Transfer to Debenture Redemption Reserve	3.50	54.00	3.50	54.00
Less : Transfer to General Reserve	25.00	25.00	25.00	25.00
Less : Proposed Dividend including tax thereon	27.92	26.15	27.92	26.15
Less : Amount Transferred to Legal Reserve	–	–	0.08	0.09
Total	56.42	105.15	56.50	105.24
Surplus carried to Balance Sheet	198.35	182.10	(233.18)	(59.91)

DIVIDEND

The Directors are pleased to recommend a dividend of Re.0.65 per Equity Share of face value of Re.1 each, i.e. 65%, for the Financial Year ended 31 March 2015. This dividend is subject to the approval of the Members at the ensuing Annual General Meeting (AGM). If approved, the total outlay on account of dividend for the Financial Year 2014-15 would amount to Rs.27.92 Crores

(including Rs.4.72 Crores towards Dividend Distribution Tax) as compared to Rs.26.15 Crores (including Rs.3.80 Crores towards Dividend Distribution Tax) paid for the Financial Year 2013-14.

TRANSFER TO RESERVES

The Company proposes to transfer an amount of Rs.3.50 Crores to Debenture Redemption Reserve Account and an amount of Rs.25.00 Crores to the General Reserve. An amount of Rs.198.35 Crores is proposed to be retained in the Statement of Profit and Loss.

OPERATIONS

The Company's Revenue from Operations on standalone basis decreased marginally by around 1.51% from Rs.2,186.88 Crores in 2013-14 to Rs.2,153.78 Crores in 2014-15. Export Sales decreased by around 23.83% from Rs.989.21 Crores in 2013-14 to Rs.753.46 Crores in 2014-15, due to stiff competition faced by the products of the Company in the overseas markets. The Company's profit (PAT) for the Financial Year was Rs.72.67 Crores as against Rs.100.56 Crores for the previous Financial Year due to additional Coal levy of Rs.13 Crores being charged to the Profit and higher depreciation of Rs.16 Crores due to change in rates under Schedule II of the Companies Act, 2013. An additional levy at the rate of Rs.295 per ton of Coal extracted has been paid as per the terms of the Ordinance promulgated by Government of India, Ministry of Law & Justice dated 21 October 2014 in pursuance of the Order dated 24 September 2014 issued by Hon'ble Supreme Court of India cancelling the allocation of Parbatpur Coal Block to the Company with effect from 31 March 2015.

The Revenue from Operations on consolidated basis, for the year ended 31 March 2015 was marginally down by 2.33% from Rs.2,459.16 Crores in 2013-14 to Rs.2,401.83 Crores in 2014-15. The consolidated loss after tax increased to Rs.116.09 Crores for the Financial Year as against Rs.15.93 Crores in the previous year mainly on account of losses of associates.

During the year under review, the production of Ductile Iron (DI) Pipes was 2,77,317 MT as against 2,81,239 MT in the previous year. Production of DI Fittings during the year was 6,027 MT as compared to 5,992 MT in the previous year. The production of Cast Iron (CI) Pipes at Elavur was 32,041 MT as against 25,848 MT in the previous year.

During the last quarter of the financial year 2014-15, the Company partly commissioned its new DI Fittings Plant at Haldia. The operations are expected to stabilise during the current financial year.

The Company continues to provide special attention towards improvement in production and productivity with higher energy efficiency. Further, to delight both International and Indian customers, the Company has added a number of product variants to its existing product base during the year 2014-15.

There have been no material changes and commitments, affecting the financial position of the Company which have occurred between the end of the financial year of the Company to which the financial statements relate and the date of this report and there has been no change in the nature of business.

Report of the Directors (Contd.)

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis Report forms an integral part of this Report and gives details of the overall industry structure, developments, performance and state of affairs of the Company's business, international operations, internal controls and their adequacy, risk management systems including a section on 'Risk Management' and other material developments during the financial year 2014-15 is annexed marked as Annexure 1 forming part of this Report.

FUTURE PROSPECTS

Demand for Ductile Iron Pipes and Fittings in the domestic market continues to be bullish. The Company continues to maintain its dominant position in the market against competitors. The Company, after entrenching itself in the prestigious Western European markets, is looking to expand in Eastern Europe. The European Commission has started Anti-Dumping and Anti Subsidy investigation on import of Ductile Iron Pipes manufactured in India, which the Company is stoutly defending. New markets are being opened up in South America and Africa. The Company will continue to maintain its emphasis on the Gulf markets where it has a historically strong presence.

SHARE CAPITAL

In order to meet the working capital requirements of the Company and for general corporate use for the Company's growth, the Company had issued and allotted 1,31,38,000 Equity Shares of face value of Re.1/- each at a premium of Rs.18.03 per Equity Shares on preferential basis to the Promoter Companies during the year under review. These Equity Shares rank pari passu in all respect with the existing Equity Shares of the Company.

The Issued, Subscribed and Paid up Share Capital of the Company consequently, stood at Rs.35,69,55,322/-, comprising of 35,69,55,322 Equity shares of Re.1/- each as on 31 March 2015.

FINANCE

Global Depository Receipts

Global Depository Receipts (GDRs) of the Company were delisted from London Stock Exchange on 26 February 2015, as the trading volume of GDRs was minimal. A total of 21,05,000 GDRs are outstanding as on 31 March 2015.

Debentures

As on 31 March 2015, the Company has the following Secured Redeemable Non-Convertible Debentures (NCDs) listed on the National Stock Exchange of India Limited:

Series of Debentures	Amount (Rs. in Crore)
10.75%	120
11.00%	50
12.50%	100
Total	270

The Debenture Trustee for each of the aforesaid Series of Debentures is as follows:

M/s. Axis Trustee Services Limited,
2nd Floor, Axis House, Bombay Dyeing Mills Compound,
Pandurang Budhkar Marg, Worli, Mumbai 400 025
Contact Person : Chief Operating Officer
Phone : (022) 2425 5202
Fax : (022) 2425 4200
Email Id: debenturetrustee@axistrustee.com

The Company has paid interest on the aforesaid debentures on time and nothing is payable as on date. There was a partial redemption of 10.75% Series of NCD's amounting to Rs.39.60 Crores after the close of the financial year ended 31 March 2015 as per the terms of issue of these NCDs.

Warrants

The Company had issued 3,35,68,312 Warrants in the year 2010 entitling the holders to convert into one Equity Share of Re.1/- each at an exercise price of Rs.59.58 per share till 7 February 2015. However, all these outstanding warrants expired on 7 February 2015 due to non-exercise of options by the warrant holders within the tenure of the warrants.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS

The Company was allotted Parbatpur Coal Block on 7 July 2005 by the Ministry of Coal.

The Company was also allotted North Dhadhu Coal Block on 13 January 2006 by the Ministry of Coal and according to the terms of allocation, the Company entered into a joint venture agreement with Adhunik Alloys & Power Limited, Jharkhand Ispat Pvt. Limited and Pawanjay Steel & Power Limited for mining of coal.

During the year under review, in pursuance of the Order dated 24 September 2014 issued by Hon'ble Supreme Court of India (the Order) followed by the Ordinance promulgated by the Government of India, Ministry of Law & Justice (legislative department) dated 21 October 2014 (the Ordinance) for implementing the Supreme Court Order, allotment of Parbatpur Coal Block (coal block/mines) to the Company which was under advanced stage of implementation, has been cancelled with effect from 1 April 2015. In terms of the Ordinance, the Company was allowed to continue the operations in the said Block till 31 March 2015. Accordingly, the coal block/mine was handed over to Bharat Coking Coal Ltd as per the directions from Coal India Ltd with effect from 1 April 2015.

The claim for compensation amounting to Rs.1,220.71 Crores till 31 March 2014 and Rs.68.13 Crores during the year under review till the handing over the mines is yet to be received by the Company. The Company, pending acceptance and recovery of the claim, has filed a petition before the Hon'ble High Court at Delhi, hearing whereof has concluded and judgement is awaited.

Further in terms of the aforesaid Hon'ble Supreme Court Order, North Dhadhu Coal Block allotted in joint venture with other companies, has also been cancelled w.e.f. 24 September 2014. The Company barring initial contribution of Rs.8.23 Crores has not made any further investments in the

Report of the Directors (Contd.)

said joint venture company. In view of the management, the compensation to be received in terms of the Ordinance is expected to cover the cost incurred by the joint venture companies.

INTERNAL FINANCIAL CONTROLS

The Internal Financial Controls with reference to the Financial Statements are considered to be commensurate with the size, scale and complexity of the operations of the Company. All operations are executed through Standard Operating Procedures (SOPs) in all functional activities for which key manuals have been put in place. The manuals are updated and validated periodically. Approval of all transactions is ensured through a preapproved Delegation of Authority (DOA) Schedule which is in-built into the SAP system. DOA is reviewed periodically by the management and compliance of DOA is regularly checked and monitored by the Auditors. The Company's books of accounts are maintained in SAP and transactions are executed through SAP (ERP) setups to ensure correctness/ effectiveness of all transactions, integrity and reliability of reporting.

The Internal Auditors of the Company, M/s. Chaturvedi & Company, an independent firm of Chartered Accountants, monitors and evaluates the efficacy and adequacy of internal control system in the Company, its compliance with operating system, accounting procedures and policies at all locations of the Company. Based on the Internal Audit Reports, process owner takes corrective actions in their respective areas and thereby strengthens the controls. The Report is presented before the Audit Committee for review at regular intervals.

DETAILS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Company had the following Subsidiaries, Associate Companies and Joint Ventures as on 31 March 2015:

Sl. No.	Name of the Company	Status
1.	Electrosteel Algeria SPA	Subsidiary
2.	Electrosteel Castings (UK) Limited	Subsidiary
3.	Electrosteel Castings Gulf FZE	Subsidiary
4.	Electrosteel Doha for Trading LLC	Subsidiary
5.	Electrosteel Europe S.A.	Subsidiary
6.	Electrosteel Trading S.A, Spain	Subsidiary
7.	Electrosteel USA, LLC	Subsidiary
8.	Electrosteel Brasil Ltda. Tubos e Conexoes Duteis	Subsidiary
9.	Mahadev Vyapaar Pvt Ltd	Subsidiary
10.	Electrosteel Bahrain Holding S.P.C. Company	Subsidiary
11.	WaterFab LLC (subsidiary of Electrosteel USA, LLC)	Subsidiary

S. No.	Name of the Company	Status
12.	Electrosteel Steels Limited	Associate Company
13.	Electrosteel Thermal Power Limited	Associate Company
14.	Srikalahasthi Pipes Limited (Formerly, Lanco Industries Limited)	Associate Company
15.	Domco Private Limited	Joint Venture
16.	North Dhadhu Mining Company Private Limited	Joint Venture

M/s. Electrosteel Bahrain Holding S.P.C. Company, Bahrain was incorporated as a subsidiary of the Company and M/s. Singardo International Pte Ltd., Singapore ceased to be the subsidiary during the year under review. The Company has formulated a policy on determining material subsidiaries of the Company, which has been uploaded on the Company's website at the web link: <http://www.electrosteelcastings.com/investors/pdf/policy-on-material-subsiidiary.pdf>.

A Report on performance and financial position of each of the Company's subsidiaries, associate companies and joint ventures for the financial year ended 31 March 2015 pursuant to the provisions of Section 129(3) of the Companies Act, 2013 (the Act) read with Rule 8 of Companies (Accounts) Rules, 2014 is given in Annexure - 2. The statement containing salient features of financial statement of subsidiaries, associate companies and joint ventures for the financial year ended 31 March 2015 pursuant to the said Section read with Rule 5 of the said Rules are given in the financial statements.

STATUS OF MERGER OF MAHADEV VYAPAAR PVT LTD

The Board of Directors of the Company on 11 August 2014 approved the Scheme of Amalgamation ("the Scheme") between the Company and M/s. Mahadev Vyapaar Pvt Ltd., a wholly owned subsidiary of the Company with effect from 1 April 2014 ("Appointed Date") to obtain operational synergies and also to pool resources of both the companies for growth and development of business. The Company has received Observation letters from both BSE Limited and the National Stock Exchange of India Limited dated 26 February 2015. Separate applications made in this regard by the Company and the subsidiary are pending before Hon'ble High Court of Orissa, Cuttack and Hon'ble Calcutta High Court, respectively.

REPORT ON CORPORATE GOVERNANCE

The Company is committed to maintain the highest standards of Corporate Governance and adheres to the Corporate Governance requirements as stipulated in Clause 49 of the Listing Agreement. A Report on Corporate Governance & Shareholder Information for the year under review together with the Auditors' Certificate thereon is annexed as Annexure 3 forming part of this Report.

The Company had also adopted a "Code of Conduct", as required under Clause 49 of the Listing Agreement and all Directors and Senior Management have affirmed compliance with the Code for 2014-15. A certificate, signed by the Managing Director, affirming compliance of Directors & Senior Management, forms part of the Report on Corporate Governance.

Report of the Directors (Contd.)

MEETINGS OF THE BOARD

The details of Board Meetings held during the financial year 2014-15 have been furnished in the Corporate Governance Report forming part of this Report and annexed at Annexure 3.

DIRECTORS AND KEY MANAGERIAL PERSONNEL

Mr. Pradip Kumar Khaitan, Mr. Binod Khaitan, Mr. Naresh Chandra, Dr. Jamshed Jiji Irani and Mr. Bhaskara Nageswararao Mandavilli were appointed as Independent Directors of the Company for tenure of five years with effect from 28 August 2014. The status of Mr. Naresh Chandra had changed from an Independent Director to a Non Executive and Non Independent Director with effect from 10 September 2014. Mr. Bhaskara Nageswararao Mandavilli, an Independent Director resigned from the Board with effect from 27 March 2015. The Board places on record its sincere appreciation for the valuable contributions made by Mr. Bhaskara Nageswararao Mandavilli during the tenure of his office as a Director of the Company.

Mr. Vyas Mitre Ralli and Mr. Mahendra Kumar Jalan were appointed as Whole-time Directors of the Company for a period of 5 years with effect from 21 December 2014 and 22 January 2015, respectively and they are liable to retire by rotation as per the provisions of Section 152 of the Act.

Mr. Mahendra Kumar Jalan, retires by rotation at the forthcoming Annual General Meeting (AGM) and being eligible, offer himself for re-appointment.

Mr. Rama Shankar Singh, Director of the Company resigned from the close of business hours on 31 March 2015 and Ms. Nityangi Kejriwal was appointed as a Director from the close of business hours on 31 March 2015 to fill the casual vacancy caused by the resignation of Mr. Singh. The Board places on record its sincere appreciation for the contributions made by Mr. Rama Shankar Singh during the tenure of his office as a Director of the Company.

Ms. Kejriwal holds office only upto this AGM pursuant to the provisions of Section 161(4) of the Act since Mr. Singh would have retired by rotation at this AGM if he had not resigned from his office. The Company has received a notice under Section 160 of the Act from a Member proposing her appointment as a Director of the Company and the same has been included as an item in the notice of AGM for consideration of the Members.

The Board had appointed Mr. Jinendra Kumar Jain as Additional Director (Independent) with effect from 18 June 2015. However, Mr. Jain resigned from his office with effect from 30 July 2015. The Board appointed Mr. Ram Krishna Agarwal, as an Additional Director (Independent) with effect from 30 July 2015 for a term of 5 years, subject to the approval of Members. A declaration has been received from Mr. Agarwal that he satisfies the criteria of independence as per Section 149(6) of the Act. The Company has also received a notice from a Member proposing his appointment as an Independent Director of the Company and the same has been included in the notice of ensuing AGM.

Brief resume of the Directors who are subject to appointment/re-appointment at the ensuing AGM, nature of their expertise in their specific functional areas, details of directorships in other companies and the membership of Committees of the Board, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges are given in the Notice for the forthcoming AGM.



The Board, at its meeting held on 12 May 2015, had appointed Mr. Gautam Jhunjhunwala as the Chief Financial Officer of the Company under the provisions of Section 2(51) and 203 of the Act read with Rules made thereunder.

Mr. Prem Kumar Bafana has been appointed as Company Secretary of the Company with effect from 15 December 2014. Ms. Kavita Bhavsar has resigned from the post of Company Secretary with effect from 6 December 2014. The Board also places on record its appreciation for the contributions made by Ms. Kavita Bhavsar during the tenure of her office as the Company Secretary of the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 134(3)(c) and 134(5) of the Act, the Directors state that :

- a) in the preparation of annual accounts for the Financial Year ended 31 March 2015, the applicable accounting standards had been followed and there were no material departures requiring any explanation;
- b) they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- c) they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) they had prepared annual accounts on a 'going concern' basis;
- e) they had laid down internal financial controls to be followed by the Company and such internal financial controls are adequate and were operating effectively; and
- f) they had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems are adequate and operating effectively.

INDEPENDENT DIRECTORS

Declaration by Independent Directors

Mr. Pradip Kumar Khaitan, Mr. Binod Khaitan, Dr. Jamshed Jiji Irani and Mr. Ram Krishna Agarwal, Independent Directors have given declarations that they fulfil the criteria of independence as laid down in Section 149(6) of the Act and the Rules made thereunder and Clause 49 of the Listing Agreement.

Familiarisation Programme for the Independent Directors

The Company, on 9 February 2015 had conducted a Familiarisation Programme for the Independent Directors of the Company in order to familiarise them with their roles, rights, responsibilities in the Company. The Familiarisation Program is hosted on the website of the Company and the