



ELECTROSTEEL

CASTINGS LIMITED

61ST ANNUAL REPORT 2015-2016

Corporate Information

Chairman	Mr. Pradip Kumar Khaitan
Directors	Mr. Binod Kumar Khaitan Mr. Naresh Chandra Dr. Jamshed Jiji Irani Mr. Ram Krishna Agarwal Mr. Shermadevi Yegnaswami Rajagopalan Mr. Vyas Mitre Ralli Ms. Nityangi Kejriwal
Managing Director	Mr. Umang Kejriwal
Joint Managing Director	Mr. Mayank Kejriwal
Whole-time Directors	Mr. Uddhav Kejriwal Mr. Mahendra Kumar Jalan
Chief Financial Officer	Mr. Brij Mohan Soni
Company Secretary	Ms. Subhra Giri Patnaik
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.electrosteeltcastings.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 Sixty First Annual Report together with Audited Annual Financial Statements (including Audited Consolidated Financial Statements) of the Company for the Financial Year ended 31 March 2016.

FINANCIAL RESULTS

(Rs. in Crore)

Particulars	Standalone		Consolidated	
	FY 2015-16	FY 2014-15	FY 2015-16	FY 2014-15
Revenue from Operations	1972.26	2153.78	2160.34	2401.83
Other Income	32.04	30.81	20.08	62.18
Total Revenue	2004.30	2184.59	2180.42	2464.01
Profit before Tax (PBT)	80.50	96.34	61.05	143.51
Less : Tax including Deferred Tax	21.54	23.67	22.38	27.23
Profit after Tax (PAT)	58.96	72.67	38.67	116.28
Add : Share of Profit/(Loss) in Associates	–	–	(71.81)	(232.06)
Add/(Less) : Share of Unrealised Profit	–	–	(0.07)	(0.18)
Net Profit/(Loss) before Minority Interest	58.96	72.67	(33.21)	(115.96)
Minority Interest	–	–	0.00	(0.13)
Net Profit/(Loss) for the year	58.96	72.67	(33.21)	(116.09)
Add : Profit brought forward from previous year	198.35	182.10	(233.18)	(59.91)
Add : Transfer from Debenture Redemption Reserve	34.90	–	34.90	–
Less : Earlier year adjustment	–	–	–	0.68
Amount available for appropriation	292.21	254.77	(231.49)	(176.68)
Appropriations :				
Less : Transfer to Debenture Redemption Reserve	–	3.50	–	3.50
Less : Transfer to General Reserve	25.00	25.00	25.00	25.00
Less : Proposed Dividend including tax thereon	21.48	27.92	21.48	27.92
Less : Amount Transferred to Legal Reserve	–	–	0.17	0.08
Total	46.48	56.42	46.65	56.50
Surplus carried to Balance Sheet	245.73	198.35	(278.14)	(233.18)

DIVIDEND

The Directors are pleased to recommend a dividend of Re.0.50 per Equity Share of face value of Re.1 each, i.e. 50%, for the Financial Year ended 31 March 2016. 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 2015-16 would amount to Rs.21.48 Crore (including Rs.3.63 Crore towards Dividend Distribution Tax).

TRANSFER TO RESERVES

The Company proposes to transfer an amount of Rs.25.00 Crore to the General Reserve. An amount of Rs.245.73 Crore is proposed to be retained in the Statement of Profit and Loss.

OPERATIONS

The Company's Revenue from Operations on standalone basis decreased marginally from Rs.2,153.78 Crore in 2014-15 to Rs.1,972.26 Crore in 2015-16. Export Sales increased by around 3.27% from Rs.753.46 Crore in 2014-15 to Rs.778.13 Crore in 2015-16, due to increase in volume of sales. The Company's profit (PAT) for the Financial Year was Rs.58.96 Crore as against Rs.72.67 Crore for the previous Financial Year, mainly due to increase in finance cost.

The Revenue from Operations on consolidated basis, for the year ended 31 March 2016 was down by 10.05% from Rs.2,401.83 Crore in 2014-15 to Rs.2,160.34 Crore in 2015-16. The consolidated loss after tax for the year ended 31 March 2016 was Rs.33.21 Crore as against Rs.116.09 Crore for the previous Financial Year.

During the year under review, the production of Ductile Iron (DI) Pipes was 2,92,467 MT as against 2,77,317 MT in the previous year. The production of Cast Iron (CI) Pipes at Elavur was 33,639 MT as against 32,041 MT in the previous year.

DI Fittings & Accessories produced 6,572 MT of DI Fittings in 2015-16 as against 6,027 MT in 2014-15. The operation of Haldia Fittings Plant is under stabilisation. Further improvement is expected in current financial year.

The Company continues to provide special attention towards improvement in production and productivity with higher energy efficiency. Further, to meet and improve upon the expectations of both International and Indian customers, the Company has added a number of product variants to its existing product base.

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.

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, opportunities, threats, performance and state of affairs of the Company's business, internal controls and their adequacy, risk management systems including a section on 'Risk Management' and other material developments during the Financial Year 2015-16 is annexed as Annexure 1 forming part of this Report.

FUTURE PROSPECTS

The Indian pipes business has been growing rapidly since the past several years mainly due to increasing demand for pipes in the irrigation sector, for crude oil, real estate industry and growth in Gross domestic product of the country. Among the several varieties of pipes available in the market, the demand for ductile iron pipes in particular, is on a rise due to its high quality and high durability. Nationwide infrastructural development, urbanization, government's focus on real estate, irrigation to drive agricultural growth have been identified as major factors facilitating the growth of the pipes industry in the country.

The Government of India is launching new schemes in the irrigation and the real estate sector for significant investments. It is evident that the focus of Indian government is on water supply for housing sector, which will only be fulfilled with effective use of pipelines. Therefore, this end-user is a major demand driver of pipes. Furthermore, strong demand for crude oil transportation is also adding to the demand of pipes across the country.



Report of the Directors (Contd.)

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 European markets, is continuously expanding the business to new countries like Tanzania, Zambia, Congo, Nigeria, Senegal, Morocco in Africa, Vietnam, Cambodia, Myanmar in South East Asia. The Company will continue to maintain its emphasis on the Gulf markets where it has a historically strong presence.

SHARE CAPITAL

The Issued, Subscribed and Paid up Share Capital of the Company is Rs.35,69,55,322/- comprising of 35,69,55,322 Equity shares of Re.1/- each as on 31 March 2016.

FINANCE

Global Depository Receipts

A total of 5,000 Global Depository Receipts are outstanding as on 31 March 2016.

Debentures

As on 31 March 2016, the Company has the following Secured Redeemable Non-Convertible Debentures (NCDs) listed on National Stock Exchange of India Limited :

Series of Debentures	Amount (Rs. in Crore)
10.75%	80.40
11.00%	50.00
Total	130.40

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

During the period under review, State Bank of India, debenture holder had exercised put option of 12.5% NCD (ISIN INE086A07133) and requested the Company to redeem 1,000 NCDs on 6 January 2016. The Company duly redeemed the NCDs. The Company had been regular in payment of interest on its NCDs.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS

During the year under review, there were no significant or material order passed by the regulators or courts or tribunals impacting the going concern status and the Company's operations in future.

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 pre-approved 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 2016 :

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
12.	Electrosteel Bahrain Trading W.L.L (subsidiary of Electrosteel Bahrain Holding S.P.C. Company)	Subsidiary
13.	Electrosteel Steels Limited	Associate Company
14.	Electrosteel Thermal Power Limited	Associate Company
15.	Srikalahasthi Pipes Limited (Formerly, Lanco Industries Limited)	Associate Company
16.	Domco Private Limited	Joint Venture
17.	North Dhadhu Mining Company Private Limited	Joint Venture

M/s. Electrosteel Bahrain Trading W.L.L was incorporated as a subsidiary of Electrosteel Bahrain Holding S.P.C. Company 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-subsidiary.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 2016 pursuant to the provisions of Section 129(3) of the



Report of the Directors (Contd.)

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 2016 pursuant to the said Section read with Rule 5 of the said Rules are given in the financial statements.

STATUS OF AMALGAMATION OF MAHADEV VYAPAAR PVT. LTD.

The Hon'ble High Court at Calcutta, had vide order dated 18 November 2015, in Petition No. 278 of 2015 connected with Company Application No. 207 of 2015, filed by Mahadev Vyapaar Pvt. Ltd., a wholly owned subsidiary of the Company, passed order sanctioning the Scheme of Amalgamation of Mahadev Vyapaar Pvt. Ltd. with the Company in terms of prayers made in said Petition. The certified copy of said order had been filed with the Registrar of Companies by Mahadev Vyapaar Pvt. Ltd.

The Petition filed by the Company before the Hon'ble High Court of Orissa at Cuttack is pending for hearing. Hence, the said scheme has not been given effect by the Company.

REPORT ON CORPORATE GOVERNANCE

In compliance with Regulation 34 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), a Report on Corporate Governance for the year under review together with the Auditors' Certificate thereon is annexed as Annexure 3 forming part of this Report.

MEETINGS OF THE BOARD

The details of Board Meetings held during the Financial Year 2015-16 have been furnished in the Corporate Governance Report forming part of this Report and annexed as Annexure 3.

DIRECTORS AND KEY MANAGERIAL PERSONNEL

The Members of the Company appointed Mr. Ram Krishna Agarwal, as an Independent Director with effect from 30 July 2015 for a term of 5 years, at their meeting held on 11 September 2015.

The Board in its meeting held on 5 November 2015 accepted the request of Mr. Vyas Mitre Ralli for early retirement from the office of Whole-time Director of the Company with effect from 1 January 2016. However, he continues as a Non-Executive Director of the Company with effect from 1 January 2016. The Board places on record its sincere appreciation for the valuable contributions made by Mr. Ralli during the tenure of his office as the Whole-time Director of the Company.

Mr. Uddhav Kejriwal and Mr. Naresh Chandra, retires by rotation at the forthcoming AGM and being eligible, offer themselves for re-appointment.

In compliance with Regulation 34 of the Listing Regulations, brief resume and other information of all the Directors proposed to be appointed/re-appointed are given in the Notice for the forthcoming AGM.

During the year, Mr. Gautam Jhunjunwala was appointed as the Chief Financial Officer with effect from 12 May 2015 and he resigned with effect from 30 September 2015. Mr. Brij Mohan Soni was appointed as the Chief Financial Officer of the Company with effect from 9 November 2015.

Mr. Prem Kumar Bafana resigned as the Company Secretary of the Company with effect from 31 July 2015. Ms. Subhra Giri Patnaik was appointed as the Company Secretary and Compliance Officer of the Company with effect from 1 August 2015.

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 2016, 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 Kumar 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.

DETAILS OF BOARD COMMITTEES & ADOPTION OF POLICIES

There are 5 Board Committees as on 31 March 2016 viz. Audit Committee, Nomination and Remuneration Committee, Stakeholders' Relationship Committee, Corporate Social Responsibility Committee and Banking and Authorisation Committee.

The details of composition, terms of reference and meetings held and attended by the Committee members of Audit Committee, Nomination and Remuneration Committee and Stakeholders' Relationship Committee are provided in the Corporate Governance Report annexed as Annexure 3.

The Banking and Authorisation Committee comprises of Mr. Binod Kumar Khaitan as the Chairman, Mr. Shermadevi Yegnaswami Rajagopalan, Mr. Mayank Kejriwal and Mr. Uddhav Kejriwal as members as on 31 March 2016. The terms of reference for the Committee include taking various decisions pertaining to the opening or closing of bank accounts of the Company, changing the signatories of the Bank Accounts, subscribing/purchasing/selling/dealing in shares and securities and availing broking services, making loans from time to time to subsidiary companies/Joint Ventures/Associates for its working capital requirement and any other work related to day-to-day operations of the Company.

Vigil Mechanism

The Company has adopted Whistle Blower Policy and established a Vigil Mechanism in compliance with provisions of Section 177(9) of the Act and Regulation 22 of the Listing Regulations for the Directors and employees to report genuine concerns and grievances. This mechanism provides adequate safeguards against victimisation of employees and directors and also provide for direct access to the Chairperson of the Audit Committee. The said Policy is available at the Company's website and can be accessed through a web-link i.e. <http://www.electrosteelcastings.com/investors/pdf/vigil.pdf>.

Nomination and Remuneration Policy

The Board has adopted a Nomination and Remuneration Policy recommended by Nomination and Remuneration Committee in terms of the provisions of Section 178 of the Act. The Nomination and Remuneration Policy has been annexed to this Report as Annexure 4.



Report of the Directors (Contd.)

Corporate Social Responsibility Policy

In accordance with the requirements of Section 135 of the Act read with Companies (Corporate Social Responsibility Policy) Rules, 2014, your Company has a Corporate Social Responsibility Committee and developed and implemented the Corporate Social Responsibility Policy. A Report on CSR activities/initiatives which includes the contents of the CSR Policy, composition of the Committee and other particulars as specified in the Section 135 of the Act read with Rule 8 of the Companies (Corporate Social Responsibility Policy) Rules, 2014 are disclosed as Annexure 5 to this Report.

Policy on Board Diversity and Succession Plan

A Policy on Board Diversity and Succession Plan was devised by the Nomination and Remuneration Committee to ensure adequate diversity in the Board of Directors of the Company.

FORMAL ANNUAL EVALUATION AND ITS CRITERIA

The Nomination and Remuneration Committee of the Board has formulated and laid down certain criteria for annual evaluation of Directors pursuant to provisions of Section 178 of the Companies Act, 2013 and Listing Regulations and as per requirements of Section 134 of the Act, are disclosed below –

- A. The Board shall evaluate the roles, functions, duties of the Independent Directors (IDs) of the Company. Each ID shall be evaluated by all other Directors but not by the Director being evaluated. The Board shall also review the manner in which IDs follow guidelines of professional conduct as specified in Schedule IV to the Act. The adherence of Section 149 and aforesaid Schedule IV by the IDs shall also be reviewed by the Board.
- B. Performance review of all the Non Independent Directors of the Company on the basis of the activities undertaken by them, expectations of Board and level of participation.
- C. Performance review of Chairman of the Company in terms of the level of competence of Chairman in steering the Company.
- D. The review and assessment of the flow of information by the Company to the Board and the manner in which deliberations take place, the manner of placing Agenda and contents therein.
- E. The review of the performance of Directors individually, its own performance as well as evaluation of working of its Committees shall be carried out by the Board.
- F. On the basis of performance evaluation, it shall be determined by the Nomination & Remuneration Committee & Board whether to extend or continue the term of appointment of ID subject to all other applicable compliances.

Further, in terms of the requirements of the Act and the Listing Regulations, the Board had carried out an annual evaluation of its own performance, the performance of Directors individually as well as evaluation of the performance and working of its Committees at its meeting based on the criteria formulated by the Nomination & Remuneration Committee.

Meeting of Independent Directors: The Independent Directors of the Company held a separate meeting without the attendance of Non Independent Directors and members of the management for evaluation of the performance of Non Independent Directors, the Board as a whole and Chairman of the Company and for consideration of such other matters as required under the provisions of the Act.

DISCLOSURE RELATING TO REMUNERATION OF DIRECTORS, KEY MANAGERIAL PERSONNEL (KMP) AND PARTICULARS OF EMPLOYEES

The statement pertaining to particulars of employees including their remuneration as required to be reported under the provisions of Section 197(12) of the Act, read with Rules 5(2) and 5(3) of the Companies (Appointment and

Remuneration of Managerial Personnel) Rules, 2014 (the Rules) are provided in Annexure 6A to this Report. However, as per the provisions of Section 136 of the Act, the Reports and Accounts for the Financial Year 2015-16 are being sent to the Members and other entitled thereto, excluding this statement. This statement is available for inspection by the Members at the Registered Office of the Company during business hours on working days of the Company. If any Member is interested in obtaining a copy thereof, such Member may write to the Company Secretary in this regard.

The disclosures pertaining to the remuneration of Directors, KMPs and employees as required under Section 197(12) of the Act, read with Rule 5(1) of the Rules are provided in Annexure 6B to this Report.

AUDITORS AND AUDITORS' REPORT

M/s. Lodha & Co., Chartered Accountants, (Firm Registration No.301051E) were appointed as Auditors of the Company for a tenure of three years i.e. from the conclusion of the 59th AGM till the conclusion of the 62nd AGM of the Company. This appointment is subject to ratification by the Members at every AGM held after appointment during their tenure of office.

As required under Section 139 of the Act, the Company has received a written consent from the Auditors to such continued appointment and also a certificate from them to the effect that their appointment, if ratified, would be in accordance with the conditions prescribed under the Act and the Rules made thereunder, as may be applicable. The necessary resolution is being placed for Members ratification at the ensuing AGM.

The para wise responses of the management to the opinion/remarks/observations made in the Independent Auditors' Report are given below :

1. As regards the Qualified Opinion expressed by the Auditors in their Report and its consequential references made in para nos. (d), (e), (h) and (i)(i) of their Report, attention is drawn to Note nos. 2.33a and 2.33b of the Standalone Financial Statement, which are self-explanatory;
2. On the Auditors' observation made in para (i)(a) of the Annexure to the Auditors' Report of even date, your Directors wish to inform that all necessary steps are being taken to regularise the maintenance of proper records for furniture and fixtures;
3. On the Auditors' observation made in para (ix) of Annexure to the Auditors' Report of even date, your Directors have to clarify that External Commercial Borrowings (ECB) funds are being used as per the progress of the respective project(s) for which these amounts were borrowed and pending the completion of the project(s), the balance amounts could only be parked with Authorised Dealer Bank as per the terms of ECB.

COST AUDITORS

The Companies (Cost Records and Audit) Amendment Rules, 2014 as published in Official Gazette on 31 December 2014 pursuant to Section 148 of the Act, requires audit of the cost accounting records of the Company relating to Pig Iron, DI Pipe, DI Fittings, CI Pipe, Coke, Dolomite, Sponge Iron & Power Generating units for every Financial Year.

The Cost Audit Report and a Compliance Report for the Financial Year 2014-15 were filed on 21 September 2015 which was within stipulated due date.

M/s. S. G. & Associates (FRN 000138), Cost Accountants, Kolkata, has been re-appointed as the Cost Auditors for Financial Year 2016-17 for all the applicable units and products of the Company with an intimation to the Ministry of Corporate Affairs. The remuneration proposed to be paid to them for the Financial Year 2016-17 requires ratification of the shareholders of the Company. In view of this, your ratification for payment of remuneration to the Cost Auditors is being sought at the ensuing AGM.