

Registered number: 04057880

ELECTROSTEEL CASTINGS (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

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ELECTROSTEEL CASTINGS (UK) LIMITED

COMPANY INFORMATION

Directors

Mr M K Jalan
Mr P Lohia
Mr S Bailie
Mr S N Agarwal
Mr G Wheeler

Registered number

04057880

Registered office

Ambrose House
Broombank Road
Chesterfield
Derbyshire
S41 9QJ

Independent auditor

Grant Thornton UK LLP
Chartered Accountants & Statutory Auditor
1 Holly Street
Sheffield
South Yorkshire
S1 2GT

Bankers

Barclays Bank Plc
121 Norfolk Street
Sheffield
South Yorkshire
S1 2JW

Solicitors

Keeble Hawson LLP
Commercial House
14 Commercial Street
Sheffield
South Yorkshire
S1 2AT

ELECTROSTEEL CASTINGS (UK) LIMITED

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ELECTROSTEEL CASTINGS (UK) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

Introduction

The business continues to concentrate the majority of its activities in the UK whilst retaining some long term relationships with a small number of European clients.

Business review and future developments

We continue to generate the majority of our sales and profits via our involvement in the supply of our Ductile Iron Pipes and Fittings into the UK Water and Waste Water Industry.

The majority of our sales are secured under long term (varying from 3 - 12 years) Framework Contracts, which are negotiated directly with the Water and Sewage Companies (WASC) or Water only Companies (WOC) and governed by the European Public Contracts Directive.

23% of sales were generated via contracts in Europe.

The risks and opportunities for the business lie in existing long term Framework Contracts coming up for renewal, and Frameworks not currently held coming out for negotiation. However, this is very much mitigated for 20/21 as the vast majority of Utility Framework negotiations were completed during previous years.

Our sales predictions for 2020/21 are projected to be 21% lower than the previous year, predominantly due to the Covid-19 outbreak.

Overheads and cost of sales remain under tight control by way of a rigorous suite of KPI's, and our IMPROVEMENT initiative continues to provide the platform for the whole team (UK and India) to come up with the ideas we use to improve how efficiently and effectively we run our business.

Having secured long term Frameworks the key future development for us is to deliver continued improvements in world class service to our customers in the most effective and efficient way possible.

Principal risks and uncertainties

Covid-19

From a financial and ongoing operational perspective and compared to many other UK sectors, WATER is extremely fortunate in that being a critical infrastructure, its operations must continue.

Within the Water sector, Electrosteel Casting (UK) Limited have a significantly enhanced level of good fortune, in that we are a Framework contracted sole materials provider directly to the water companies.

This good fortune is further enhanced by the fact that the goods we are contracted to supply are essential for the critical repairs and maintenance required to keep all our taps flowing with drinking water and sewage removed from our homes.

ELECTROSTEEL CASTINGS (UK) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2020

Whilst there is likely lower revenue and profitability due to Covid-19, this is vastly mitigated for ECL (UK):

1. ECL (UK) are a Framework supplier, supplying directly to the UK Water Companies, who are a critical infrastructure and must continue to maintain and repair their network to ensure safe supplies of drinking water and sewage treatment to UK consumers. This can be evidenced by order intake during the first 4 weeks of the lockdown, which remained strong
2. ECL (UK) have been confirmed as "Key Workers" by all water companies where we are in contract, which accounts for circa 50% of the UK population
3. 30% of our workforce have been furloughed to reflect the reduced activity levels in line with the Governments job retention scheme, the necessary claims have been made to HMRC (the first of which has been received).
4. Our long term funders are closely engaged with our business and are extremely supportive. No credit approval has been sought as our opinion remains clear that this will not be required, we have however discussed additional funding availability either via the UK Government supported scheme or a standalone facility and they have confirmed their willingness to assist if required.

Competition

Continued global competition and a global over capacity compared to current demand pressurises price levels, but we seek to mitigate this by way of the long term Framework Contracts and differentiating ourselves through the service our people provide to our customers.

Continued volatility in global raw material pricing proves a challenge to control but we continue to do so through close interaction with our supply chain and customers.

Financial risk management objectives and policies

The company uses financial instruments, including, third party borrowings, inter-company borrowings, cash and other liquid resources and various other items such as trade debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations. The main risks arising from the company financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The directors review and agree policies for managing each of these risks and they are summarised below. The policies have remained unchanged from previous periods.

Interest rate risk

The company finances its operations through a mixture of retained profits, third party borrowings and inter-company borrowings. The company's exposure to interest rate fluctuations on its borrowings is managed on a group basis by the use of both fixed and floating facilities.

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Primarily this is achieved through inter-company accounts and bank loans and similar financing.

Credit risk

The company's principal financial assets are cash and trade debtors. The credit risk associated with cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from the company's trade debtors. In order to manage credit risk, management set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by management on a regular basis in conjunction with debt ageing, collection history and limits advised by its trade debtor insurers.

ELECTROSTEEL CASTINGS (UK) LIMITED

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020

Foreign currency risk

The company is exposed to transaction and translation foreign exchange risk. At this time no formal hedging of any foreign exchange risk is undertaken in the UK, but this position is reviewed on a regular basis.

Key performance indicators

Key performance indicators used to monitor the company performance in the years as follow:

	2020	2019
Sales per employee	£349,567	£506,358
PBT per employee	£5,075	£24,468
General overheads	6.86%	6.70%
Delivered in full and on time	97%	94%

This report was approved by the board on 10 June 2020 and signed on its behalf.

Stewart Bailie

Mr S Bailie
Director

ELECTROSTEEL CASTINGS (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2020

The directors present their report and the financial statements for the year ended 31 March 2020.

Going concern

Operational

All our Directors, Senior Managers, office based Supervisors, Sales, Technical, Finance and Central Services functions were moved to home working prior to the Governments official lockdown and were fully operational from day one.

We are suppliers of materials critical to the ongoing operations of Water Companies who provide drinking water and sewage treatment to circa 50% of the UK population, and as such our "Key Worker" status was confirmed by the all of the Water Companies we are in Framework contract with.

Stock grounds and production facility remain operational with all of the Governments hygiene and social distancing guidelines fully implemented.

30% of our workforce were furloughed from 16th of April with the necessary claims made to HMRC via for the Governments Coronavirus Job Retention Scheme with first payment already received.

Sales activities

Circa 75% of our regular contracted sales are used in the critical repairs and maintenance of the Water Companies infrastructure and as these works must go ahead to ensure all of our taps continue to flow with drinking water, and our sewage is continued to be removed and treated, we are seeing sales activity for May at circa 75% and fully expect this to continue during lockdown.

Cash flow

Our sales and cash flow projections for 20/21 take the view that 75% activity levels will continue through May & June, which is comfortably achievable within our current cash headroom via our sales and stock funding facilities with Barclays who are our long term funders and closely engaged with our business.

Contingency

Should the worst happen and a second spike be encountered with longer and more severe lockdowns we have confirmed support from our Indian parent company, which would most likely take the form of simple extensions to our trade payments to them.

Whilst no credit applications have been made as we are firmly of the opinion that with our existing cash headroom no further support is required, and the secondary option of group support, we do have a third option of additional funding from Barclays who have confirmed their willingness to assist based our long standing relationship and their in-depth knowledge of our business, either via the Government supported Coronavirus Business Interruption Loan Scheme or a standalone Term Loan.

As a result of the above, the directors do not believe that there are any material uncertainties which cast significant doubt on the ability of the company to continue as a going concern.

Results and dividends

The profit for the year, after taxation, amounted to £140,491 (2019: £686,000).

ELECTROSTEEL CASTINGS (UK) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020**

Directors

The directors who served during the year were:

Mr M K Jalan
Mr P Lohia
Mr S Bailie
Mr S N Agarwal
Mr G Wheeler

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Post balance sheet events

There have been no significant events affecting the company since the year end.

Disclosure of information to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

ELECTROSTEEL CASTINGS (UK) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020**

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 10 June 2020 and signed on its behalf.

Stewart Bailie

Mr S Bailie
Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELECTROSTEEL CASTINGS (UK) LIMITED

Opinion

We have audited the financial statements of Electrosteel Castings (UK) Limited (the 'company') for the year ended 31 March 2020, which comprise the Statement of Income and Retained Earnings, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible implications for a company associated with these particular events.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELECTROSTEEL CASTINGS (UK) LIMITED
(CONTINUED)**

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business model, including effects arising from Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this Auditor's Report is not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELECTROSTEEL CASTINGS (UK) LIMITED
(CONTINUED)**

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.



Grant Thornton

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELECTROSTEEL CASTINGS (UK) LIMITED
(CONTINUED)**

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP

Peter Edwards BA FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield

10 June 2020

ELECTROSTEEL CASTINGS (UK) LIMITED

**STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 MARCH 2020**

	Note	2020 £000	2019 £000
Turnover	4	14,682	20,254
Cost of sales		(11,306)	(16,189)
Gross profit		3,376	4,065
Distribution costs		(1,119)	(1,396)
Administrative expenses		(1,875)	(1,641)
Operating profit	5	382	1,028
Interest payable and expenses	9	(179)	(162)
Profit before tax		203	866
Tax on profit	10	(63)	(180)
Profit after tax		140	686
Retained earnings at the beginning of the year		962	276
Profit for the year		140	686
Retained earnings at the end of the year		1,102	962

There were no recognised gains and losses for 2020 or 2019 other than those included in the statement of income and retained earnings.

All of the above activities relate to continuing operations.

The notes on pages 13 to 28 form part of these financial statements.

ELECTROSTEEL CASTINGS (UK) LIMITED
REGISTERED NUMBER:04057880

BALANCE SHEET
AS AT 31 MARCH 2020

	Note	2020 £000	2019 £000
Fixed assets			
Tangible assets	11	296	334
		<u>296</u>	<u>334</u>
Current assets			
Stocks	12	8,871	8,858
Debtors: amounts falling due within one year	13	4,725	7,425
Cash at bank and in hand	14	444	109
		<u>14,040</u>	<u>16,392</u>
Creditors: amounts falling due within one year	15	(12,092)	(14,610)
Net current assets		<u>1,948</u>	<u>1,782</u>
Total assets less current liabilities		<u>2,244</u>	<u>2,116</u>
Creditors: amounts falling due after more than one year	16	(26)	(37)
Provisions for liabilities			
Deferred tax	19	(16)	(17)
		<u>(16)</u>	<u>(17)</u>
Net assets		<u><u>2,202</u></u>	<u><u>2,062</u></u>
Capital and reserves			
Called up share capital	21	1,100	1,100
Profit and loss account	20	1,102	962
		<u>2,202</u>	<u>2,062</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 10 June 2020.

Stewart Bailie

Mr S Bailie
 Director

The notes on pages 13 to 28 form part of these financial statements.

ELECTROSTEEL CASTINGS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

1. General information

Electrosteel Castings (UK) Limited is a private company limited by shares and incorporated in England and Wales. Registered number 04057880. Its registered head office is located at Ambrose House, Broombank Road, Chesterfield, Derbyshire, S41 9QJ.

The company is principally engaged in the supply of ductile iron pipes, fittings and ancillaries into the UK water and waste water industry.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Electrosteel Castings Limited as at 31/03/2020 and these financial statements may be obtained from the parent company's website at www.electrosteel.com.

2.3 Going concern

Operational

All our Directors, Senior Managers, office based Supervisors, Sales, Technical, Finance and Central Services functions were moved to home working prior to the Governments official lockdown and were fully operational from day one.

We are suppliers of materials critical to the ongoing operations of Water Companies who provide drinking water and sewage treatment to circa 50% of the UK population, and as such our "Key Worker" status was confirmed by the all of the Water Companies we are in Framework contract with.

Stock grounds and production facility remain operational with all of the Governments hygiene and social distancing guidelines fully implemented.

30% of our workforce were furloughed from 16th of April with the necessary claims made to HMRC via for the Governments Coronavirus Job Retention Scheme with first payment already received.

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)**2.3 Going concern (continued)****Sales activities**

Circa 75% of our regular contracted sales are used in the critical repairs and maintenance of the Water Companies infrastructure and as these works must go ahead to ensure all of our taps continue to flow with drinking water, and our sewage is continued to be removed and treated, we are seeing sales activity for May at circa 75% and fully expect this to continue during lockdown.

Cash flow

Our sales and cash flow projections for 20/21 take the view that 75% activity levels will continue through May & June, which is comfortably achievable within our current cash headroom via our sales and stock funding facilities with Barclays who are our long term funders and closely engaged with our business.

Contingency

Should the worst happen and a second spike be encountered with longer and more severe lockdowns we have confirmed support from our Indian parent company, which would most likely take the form of simple extensions to our trade payments to them.

Whilst no credit applications have been made as we are firmly of the opinion that with our existing cash headroom no further support is required, and the secondary option of group support, we do have a third option of additional funding from Barclays who have confirmed their willingness to assist based on our long standing relationship and their in-depth knowledge of our business, either via the Government supported Coronavirus Business Interruption Loan Scheme or a standalone Term Loan.

As a result of the above, the directors do not believe that there are any material uncertainties which cast significant doubt on the ability of the company to continue as a going concern.

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using a straight-line method. The estimated useful lives .

Depreciation is provided on the following basis:

Freehold property	-	10%
Plant, machinery & motor vehicles	-	15% to 35%
Fixtures & fittings	-	15% to 35%
Computer equipment	-	20% to 33%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Income and Retained Earnings.

2.6 Operating leases

Rentals paid under operating leases are charged to the Statement of Income and Retained Earnings on a straight line basis over the lease term.

2.7 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)**2.8 Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.10 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Earnings.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)**2.11 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.12 Foreign currency translation**Functional and presentation currency**

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Income and Retained Earnings except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Income and Retained Earnings within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Income and Retained Earnings within 'other operating income'.

2.13 Finance costs

Finance costs are charged to the Statement of Income and Retained Earnings over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.14 Leased assets: the company as lessee

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Statement of Income and Retained Earnings so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)

2.15 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the company in independently administered funds.

2.16 Borrowing costs

All borrowing costs are recognised in the Statement of Income and Retained Earnings in the year in which they are incurred.

2.17 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Income and Retained Earnings in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

ELECTROSTEEL CASTINGS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

2. Accounting policies (continued)

2.18 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Income and Retained Earnings, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance. The following are the key estimates made in preparing these financial statements:

Stock provisioning

The company is engaged in the supply of ductile iron pipes, fittings and ancillaries, as a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability. See note 12 for the net carrying amount of the inventory and associated provision.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property, plant and equipment and note 2.5 for the useful economic lives for each class of assets.

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

4. Turnover

Analysis of turnover by country of destination:

	2020	2019
	£000	£000
United Kingdom	11,360	16,231
Rest of Europe	3,309	3,951
Rest of the world	13	72
	14,682	20,254

5. Operating profit

The operating profit is stated after charging:

	2020	2019
	£000	£000
Depreciation of tangible fixed assets	75	110
Exchange differences	72	(21)
Other operating lease rentals	111	98

6. Auditor's remuneration

	2020	2019
	£000	£000
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	20	18

Fees payable to the company's auditor and its associates in respect of:

Taxation compliance services	2	2
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ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2020	2019
	£000	£000
Wages and salaries	1,249	1,205
Social security costs	145	122
Cost of defined contribution scheme	74	61
	1,468	1,388

The average monthly number of employees, including the directors, during the year was as follows:

	2020	2019
	No.	No.
Manufacturing	13	13
Selling and administration staff	27	27
	40	40

8. Directors' remuneration

	2020	2019
	£000	£000
Directors' emoluments	257	273
Company contributions to defined contribution pension schemes	24	18
	281	291

During the year retirement benefits were accruing to 2 directors (2019: 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £169,405 (2019: £189,243).

Key management personnel are the same as the directors therefore no additional disclosures required.

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

9. Interest payable and similar expenses

	2020 £000	2019 £000
Bank interest payable	<u>179</u>	<u>162</u>

10. Taxation

	2020 £000	2019 £000
Corporation tax		
Current tax on profits for the year	<u>64</u>	<u>180</u>
Total current tax	<u>64</u>	<u>180</u>
Deferred tax	<u>(1)</u>	<u>-</u>
Taxation on profit on ordinary activities	<u>63</u>	<u>180</u>

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2019: *the same as*) the standard rate of corporation tax in the UK of 19% (2019: 19%) as set out below:

	2020 £000	2019 £000
Profit on ordinary activities before tax	<u>203</u>	<u>866</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	<u>39</u>	<u>165</u>
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	<u>24</u>	<u>15</u>
Total tax charge for the year	<u>63</u>	<u>180</u>

ELECTROSTEEL CASTINGS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

11. Tangible fixed assets

	Freehold property £000	Plant, machinery & motor vehicles £000	Fixtures & fittings £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 April 2019	291	622	157	247	1,317
Additions	20	13	2	2	37
At 31 March 2020	<u>311</u>	<u>635</u>	<u>159</u>	<u>249</u>	<u>1,354</u>
Depreciation					
At 1 April 2019	95	498	148	242	983
Charge for the year	25	44	2	4	75
At 31 March 2020	<u>120</u>	<u>542</u>	<u>150</u>	<u>246</u>	<u>1,058</u>
Net book value					
At 31 March 2020	<u>191</u>	<u>93</u>	<u>9</u>	<u>3</u>	<u>296</u>
At 31 March 2019	<u>196</u>	<u>124</u>	<u>9</u>	<u>5</u>	<u>334</u>

The net book value of assets held under finance or hire purchase contracts, included above, are £20,242 (2019: £37,592). Included within the depreciation charge above are £17,350 (2019: £17,420) relating to depreciation on finance or hire purchase contracts.

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

12. Stocks

	2020	2019
	£000	£000
Finished goods and goods for resale	8,871	8,858

Stocks are stated after provision for impairment of £18,879 (2019: £18,879).

Stock recognised in cost of sales in the year as an expense was £10,015,134 (2019: £15,530,982).

13. Debtors

	2020	2019
	£000	£000
Trade debtors	3,778	6,558
Amounts owed by group undertakings	172	11
Other debtors	554	626
Prepayments and accrued income	221	230
	4,725	7,425

Trade debtors are stated after provision for impairment of £Nil (2019: £Nil).

14. Cash and cash equivalents

	2020	2019
	£000	£000
Cash at bank and in hand	444	109
Less: bank overdrafts and loans	(5,560)	(5,375)
	(5,116)	(5,266)

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

15. Creditors: Amounts falling due within one year

	2020	2019
	£000	£000
Bank loans and similar financing	5,560	5,375
Trade creditors	488	607
Amounts owed to group undertakings	5,159	7,831
Corporation tax	64	180
Other taxation and social security	21	30
Obligations under finance lease and hire purchase contracts	9	9
Other creditors	129	142
Accruals and deferred income	662	436
	12,092	14,610

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Similar financing includes an invoice financing facility secured by way of a fixed and floating charge over the assets of the company.

A bank loan was taken out with ICICI Bank UK Plc for £3,250,000 dated 28 March 2015. Interest is charged at a rate of 2.84%. The loan was reduced to £1,854,545 in March 2020 and due for repayment on 15 March 2021.

16. Creditors: Amounts falling due after more than one year

	2020	2019
	£000	£000
Net obligations under finance leases and hire purchase contracts	26	37

17. Hire purchase and finance leases

Minimum lease payments under hire purchase fall due as follows:

	2020	2019
	£000	£000
Within one year	9	9
Between 1-5 years	26	37
	35	46

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

18. Financial instruments

	2020	2019
	£000	£000
Financial assets		
Trade debtors	3,778	6,558
Other debtors	554	626
Cash	444	109
	<u>4,776</u>	<u>7,293</u>
Financial liabilities		
Bank loans and similar financing	(5,560)	(5,375)
Trade creditors	(488)	(607)
Amounts owed to group undertakings	(5,159)	(7,831)
Other creditors	(129)	(142)
Accruals	(662)	(436)
	<u>(11,998)</u>	<u>(14,391)</u>

19. Deferred taxation

	2020	2019
	£000	£000
At beginning of year	(17)	(17)
Charged to the profit or loss	1	-
At end of year	<u>(16)</u>	<u>(17)</u>

The provision for deferred taxation is made up as follows:

	2020	2019
	£000	£000
Accelerated capital allowances	<u>(16)</u>	<u>(17)</u>

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

20. Reserves

Profit & loss account

Includes all current and prior period retained profits and losses.

21. Share capital

	2020	2019
	£000	£000
Authorised, allotted, called up and fully paid		
1,100,000 (2019: 1,100,000) Ordinary shares of £1.00 each	1,100	1,100
	<u> </u>	<u> </u>

22. Capital commitments

There were no capital commitments at 31 March 2020 or 31 March 2019.

23. Pension commitments

The company participates in a money purchase pension scheme in respect of its directors, staff and employees. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the schemes and amounted to £74,000 for the year (2019: £61,000).

24. Commitments under operating lease

At 31 March 2020 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2020	2019
	£000	£000
Not later than 1 year	85	90
Later than 1 year and not later than 5 years	74	26
	<u> </u>	<u> </u>
	159	116
	<u> </u>	<u> </u>

25. Related party transactions

As a wholly owned subsidiary of Electrosteel Castings Limited, the company is exempt from the requirements of FRS 102 to disclose transactions with other members of the group headed by Electrosteel Castings Limited (registered office being 19 Camac Street, Kolkata, 700017, India) on the grounds that accounts are publicly available. The consolidated financial statements are available on the parent company's website www.electrosteel.com.

ELECTROSTEEL CASTINGS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

26. Controlling party

The ultimate parent undertaking of this company is its parent company, Electrosteel Castings Limited, a company incorporated in India, which is also the company's controlling related party by virtue of its 100% ownership of the company's share capital.