

CASTINGS P.L.C.

INTERIM MANAGEMENT REPORT

Six months ended 30 September 2021

Interim Management Report

Overview

Sales for the six months ended 30 September 2021 were £69.7 million (2020 – £41.7 million) with profit before tax of £5.41 million (2020 – loss of £0.63 million). In the prior period, demand was significantly reduced as a result of the COVID-19 pandemic.

After a strong start, the current period has been impacted by supply chain disruption affecting our commercial vehicle customers, which represent 70% of group revenue. As a result of these issues (particularly in respect of semiconductors), the OEMs have been unable to build sufficient heavy trucks to satisfy the high demand in the market.

Group despatch weight during the first quarter of the financial year was in line with recent years before COVID-19. However, with the OEMs having to reduce truck build rates to below their order intake levels, group sales were reduced from the last two weeks of June and into the second quarter.

Whilst forward demand schedules from our customers have remained high throughout the period, the conversion rate to actual sales has been significantly below what we would normally expect. In an attempt to cut across these fluctuations and remain efficient, higher production levels were retained and inventory levels increased. However, this has been hampered by labour recruitment difficulties and, as a result, we closed the machining business for a week at the end of September.

Raw material prices have continued to rise throughout the period which, with the time lag in the associated sales price increase, has continued to put pressure on margins.

Foundry operations

Output during the period was up 69% at 24,300 tonnes (2020 – 14,350 tonnes) and external sales revenue was up by 68% to £68.1 million.

The profit from the foundry segment of £5.3 million compares to £0.8 million in the equivalent period last year ('previous period'). The margin has been negatively impacted by lower and fluctuating demand during the period, as well as rising raw material prices.

The strong group cash position has enabled the continued investment in foundry facilities during the period, including the start of a production line automation upgrade that will be completed in 2022/23.

Machining operation

CNC Speedwell generated external revenue of £1.6 million during the period, an increase of 32% compared to the previous period, with a reported profit of £0.1 million compared to a loss of £2.1 million in the previous period.

The break-even result demonstrates the positive impact of the productivity improvements made in the business over recent years. However, being a well-invested business with a depreciation charge of £1.8 million in the six month period, the significantly lower levels of demand in the second quarter had a particularly negative impact on the result.

The focus on automation and productivity improvements has continued, which makes up the majority of the capital investment of £0.3 million during the period.

Outlook

The long term demand schedules continue to reflect the higher build rates that the heavy truck OEMs require to satisfy their order books. However, the medium term call-off schedules have significantly reduced, reflecting the supply chain restrictions being experienced by our customers.

The group is well positioned to see the benefits of the productivity improvements in both the foundry and machining businesses when supply chain restrictions do ease.

The automation of finishing processes within the foundries is now largely complete, with the focus now shifting to automating elements of the melting process. The automation investment programme in the machining business will continue in the medium term.

The group maintains a strong balance sheet with cash levels of £34.6 million; a decrease of £1.4 million during the period after the dividend payment of £5.1 million.

Dividend

An interim dividend of 3.66 pence per share has been declared and will be paid on 6 January 2022 to shareholders who are on the register at 26 November 2021.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results.

The directors consider that the principal risks and uncertainties remain substantially the same as those stated on pages 8 to 12 of the Annual Report for the year ended 31 March 2021.

Cautionary statement

This Interim Management Report ('IMR') has been prepared solely to provide additional information to shareholders to enable them to assess the group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose. This IMR contains certain forward-looking statements. These are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

The IMR has been prepared for the group as a whole and therefore gives greater emphasis to those matters which are significant to Castings P.L.C. and its subsidiary undertakings when viewed as a whole.

By order of the board

BRIAN J. COOKE
Chairman
12 November 2021

Castings P.L.C.
Lichfield Road
Brownhills
West Midlands
WS8 6JZ

Consolidated Statement of Comprehensive Income

For six months ended 30 September 2021

	Unaudited Half year to 30 September 2021 £'000	Unaudited Half year to 30 September 2020 £'000	Audited Year to 31 March 2021 £'000
Revenue	69,747	41,748	114,702
Cost of sales	(55,798)	(36,593)	(94,870)
Gross profit	13,949	5,155	19,832
Distribution costs	(1,490)	(769)	(2,237)
Administrative expenses	(7,071)	(5,722)	(13,345)
Profit/(loss) before surplus on sale of property	5,388	(1,336)	4,250
Surplus on sale of property	—	658	658
Profit/(loss) from operations	5,388	(678)	4,908
Finance income	19	51	79
Profit/(loss) before income tax	5,407	(627)	4,987
Income tax (expense)/credit	(1,025)	121	(838)
Profit/(loss) for the period attributable to the equity holders of the parent company	4,382	(506)	4,149
Other comprehensive income/(losses) for the period:			
Items that will not be reclassified to profit and loss:			
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses	—	—	142
Defined benefit pension schemes GMP equalisation charge	—	—	66
	—	—	208
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of financial assets	26	(15)	(50)
Tax effect of items that may be reclassified	(4)	3	10
	22	(12)	(40)
Total other comprehensive income/(losses) for the period (net of tax)	22	(12)	168
Total comprehensive income/(loss) for the period attributable to the equity holders of the parent company	4,404	(518)	4,317
Earnings per share attributable to the equity holders of the parent company			
Basic	10.04p	(1.16)p	9.51p
Diluted	10.03p	(1.16)p	9.50p

Consolidated Balance Sheet

30 September 2021

	Unaudited 30 September 2021 £'000	Unaudited 30 September 2020 £'000	Audited 31 March 2021 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	65,441	68,843	67,112
Financial assets	334	343	308
	65,775	69,186	67,420
Current assets			
Inventories	20,275	17,932	18,719
Trade and other receivables	36,048	30,777	35,358
Current tax asset	251	411	—
Cash and cash equivalents	34,648	35,217	36,092
	91,222	84,337	90,169
Total assets	156,997	153,523	157,589
LIABILITIES			
Current liabilities			
Trade and other payables	24,528	23,550	24,371
Current tax liabilities	—	—	184
	24,528	23,550	24,555
Non-current liabilities			
Deferred tax liabilities	3,628	3,807	3,570
Total liabilities	28,156	27,357	28,125
Net assets	128,841	126,166	129,464
Equity attributable to equity holders of the parent company			
Share capital	4,363	4,363	4,363
Share premium account	874	874	874
Other reserve	13	13	13
Retained earnings	123,591	120,916	124,214
Total equity	128,841	126,166	129,464

Consolidated Cash Flow Statement

For six months ended 30 September 2021

	Unaudited Half year to 30 September 2021 £'000	Unaudited Half year to 30 September 2020 £'000	Audited Year to 31 March 2021 £'000
Cash flows from operating activities			
Profit/(loss) before income tax	5,407	(627)	4,987
Adjustments for:			
Depreciation	4,050	4,251	8,802
Profit on disposal of property, plant and equipment	—	—	3
Profit on disposal of held for sale asset	—	(658)	(658)
Finance income	(19)	(51)	(79)
Equity settled share-based payment expense	74	—	21
Pension administrative costs	—	—	142
Pension GMP equalisation charge	—	—	66
(Increase)/decrease in inventories	(1,556)	3,243	2,456
Decrease/(increase) in receivables	383	(712)	(6,979)
Increase in payables	157	3,458	4,279
Cash generated from operating activities	8,496	8,904	13,040
Tax paid	(1,406)	(78)	(672)
Interest received	9	41	60
Net cash generated from operating activities	7,099	8,867	12,428
Cash flows from investing activities			
Dividends received from listed investments	10	10	19
Purchase of property, plant and equipment	(2,379)	(2,606)	(5,244)
Proceeds from disposal of property, plant and equipment	—	—	20
Proceeds from disposal of held for sale asset	—	1,923	1,718
Repayments from pension schemes	—	—	2,778
Advances to pension schemes	(1,073)	(1,404)	(2,496)
Net cash used in investing activities	(3,442)	(2,077)	(3,205)
Cash flow from financing activities			
Dividends paid to shareholders	(5,101)	(4,974)	(6,532)
Net cash used in financing activities	(5,101)	(4,974)	(6,532)
Net (decrease)/increase in cash and cash equivalents	(1,444)	1,816	2,691
Cash and cash equivalents at beginning of period	36,092	33,401	33,401
Cash and cash equivalents at end of period	34,648	35,217	36,092
Cash and cash equivalents:			
Short-term deposits	19,080	33,394	13,062
Cash available on demand	15,568	1,823	23,030
	34,648	35,217	36,092

Consolidated Statement of Changes in Equity

Unaudited	Equity attributable to equity holders of the parent				
	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2021	4,363	874	13	124,214	129,464
Profit for the period	—	—	—	4,382	4,382
Other comprehensive income/(losses):					
Change in fair value of financial assets	—	—	—	26	26
Tax effect of items taken directly to reserves	—	—	—	(4)	(4)
Total comprehensive income for the period ended 30 September 2021	—	—	—	4,404	4,404
Equity settled share-based payments	—	—	—	74	74
Dividends	—	—	—	(5,101)	(5,101)
At 30 September 2021	4,363	874	13	123,591	128,841

Unaudited	£'000	£'000	£'000	£'000	£'000
At 1 April 2020	4,363	874	13	126,408	131,658
Loss for the period	—	—	—	(506)	(506)
Other comprehensive income/(losses):					
Change in fair value of financial assets	—	—	—	(15)	(15)
Tax effect of items taken directly to reserves	—	—	—	3	3
Total comprehensive loss for the period ended 30 September 2020	—	—	—	(518)	(518)
Dividends	—	—	—	(4,974)	(4,974)
At 30 September 2020	4,363	874	13	120,916	126,166

Audited	£'000	£'000	£'000	£'000	£'000
At 1 April 2020	4,363	874	13	126,408	131,658
Profit for the period	—	—	—	4,149	4,149
Other comprehensive income/(losses):					
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses	—	—	—	142	142
Defined benefit pension GMP equalisation charge	—	—	—	66	66
Change in fair value of financial assets	—	—	—	(50)	(50)
Tax effect of items taken directly to reserves	—	—	—	10	10
Total comprehensive income for the year ended 31 March 2021	—	—	—	4,317	4,317
Equity settled share-based payments	—	—	—	21	21
Dividends	—	—	—	(6,532)	(6,532)
At 31 March 2021	4,363	874	13	124,214	129,464

Notes

1. General information

Castings P.L.C. (the 'company') is a company domiciled in England. The condensed consolidated interim financial statements of the company for the six months ended 30 September 2021 comprise the company and its subsidiaries (together referred to as the 'group').

The principal activities of the group are the manufacture of iron castings and machining operations.

The financial information for the year ended 31 March 2021 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 31 March 2021 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for 2020 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498 (2) or (3) of the Companies Act 2006.

This report has not been audited and has not been reviewed by independent auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

2. Accounting policies

The annual financial statements of Castings P.L.C. are prepared using the recognition and measurement principles of IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the UK.

Basis of preparation

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half-yearly condensed consolidated interim financial statements.

The same accounting policies, presentation and methods of computation are followed in the condensed consolidated interim financial statements as applied in the group's latest annual audited financial statements.

3. Seasonality of operations

The directors do not consider there to be any significant seasonality or cyclical to the results of the group.

4. Segment information

For internal decision making purposes, the group is organised into three operating companies which are considered to represent two operating segments of the group. Castings P.L.C. and William Lee Limited are aggregated into Foundry Operations and CNC Speedwell Limited is the Machining Operation.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would be available to third parties.

The following shows the revenues, results and total assets by reportable segment for the half year to 30 September 2021.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	68,132	1,615	—	69,747
Inter-segmental revenue	7,538	9,381	—	16,919
Segmental result	5,336	52	—	5,388
Unallocated income:				
Finance income				19
Profit before income tax				5,407
Total assets	141,272	28,119	(12,394)	156,997
Non-current asset additions	2,081	298	—	2,379
Depreciation	2,263	1,787	—	4,050
Total liabilities	(27,328)	(6,997)	6,169	(28,156)

The following shows the revenues, results and total assets by reportable segment for the half year to 30 September 2020.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	40,523	1,225	—	41,748
Inter-segmental revenue	4,099	4,767	—	8,866
Segmental result	776	(2,112)	—	(1,336)
Unallocated income:				
Exceptional profit on disposal of held for sale asset				658
Finance income				51
Loss before income tax				(627)
Total assets	136,837	29,966	(13,280)	153,523
Non-current asset additions	1,784	822	—	2,606
Depreciation	2,246	2,005	—	4,251
Total liabilities	(26,214)	(9,299)	8,156	(27,357)

The following shows the revenues, results and total assets by reportable segment for the year ended 31 March 2021.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	111,987	2,715	—	114,702
Inter-segmental revenue	11,089	15,594	—	26,683
Segmental result	6,659	(2,255)	13	4,417
Unallocated income/(costs):				
Exceptional credit for recovery of Icelandic bank deposits previously written off				41
Profit on disposal of held for sale asset				658
Defined benefit pension cost				(142)
Defined benefit pension GMP equalisation charge				(66)
Finance income				79
Profit before income tax				4,987
Total assets	140,141	28,795	(11,347)	157,589
Non-current asset additions	3,744	1,500	—	5,244
Depreciation	4,582	4,220	—	8,802
Total liabilities	(26,525)	(7,725)	6,125	(28,125)

5. Surplus on sale of property

During the prior period the group completed on the sale of a property that was previously classified as an asset held for sale. The surplus on the sale of the property was £658,000.

6. Dividends

Amounts recognised as distributions to shareholders in the period:

	Half year to 30 September 2021 £'000	Half year to 30 September 2020 £'000
Final dividend of 11.69p per share for the year ended 31 March 2021 (2020 – 11.40p per share)	5,101	4,974
	5,101	4,974

The directors have declared an interim dividend in respect of the financial year ending 31 March 2022 of 3.66p per share (2021 – 3.57p), which will be paid on 6 January 2022.

7. Earnings per share and diluted earnings per share

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The diluted earnings per share includes the outstanding share options within the weighted average number of shares figure.

	Unaudited Half year to 30 September 2021	Unaudited Half year to 30 September 2020	Audited Year to 31 March 2021
Profit/(loss) after tax (£'000)	4,382	(506)	4,149
Weighted average number of shares - basic calculation	43,632,068	43,632,068	43,632,068
Weighted average number of shares - diluted calculation	43,699,509	43,667,360	43,667,360
Earnings per share — basic	10.04p	(1.16)p	9.51p
Earnings per share — diluted	10.03p	(1.16)p	9.50p

8. Pension schemes

The group operates two defined benefit pension schemes which are closed to new entrants and closed to future accruals on 6 April 2009. The assets of the schemes are independent of the finances of the group and are administered by trustees.

The pension schemes are related parties of the group and during the period £1,073,000 (2020 – £1,404,000) was paid by the group on behalf of the schemes in respect of pension payments and administration costs. At 30 September 2021, the outstanding balance of £3,569,000 (2020 – £4,182,000) is repayable within one year.

Payments made by the company on behalf of the schemes in the current period are repayable by 30 November 2022.

9. Interim report

Copies of this interim management report will be available on the company's website, <https://castings.plc.uk/>, and from the registered office.

Statement of Directors' Responsibilities

The directors confirm that the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The directors of Castings P.L.C. are listed on the back cover of this report.

By order of the board

S. J. MANT FCA
Group Finance Director
12 November 2021