
CASTINGS P.L.C.

INTERIM MANAGEMENT REPORT

Six months ended
30 September 2022

Interim Management Report

Overview

Sales for the six months ended 30 September 2022 were £85.6 million (2021 – £69.7 million) with profit before tax of £7.5 million (2021 – £5.4 million).

During the period, the underlying demand for heavy trucks has been strong and the conversion of forward schedules to actual sales has improved when compared with the same period in the previous year. Two of our largest commercial vehicle customers have introduced new engine platforms during the period on which the group has an increased share of parts. The simultaneous introduction has led to production challenges in the transition phase which are now largely behind us.

Input price changes continue to be passed onto our customers through both established escalators and additional price increases. The most significant increase came into effect on 1 October 2022, following the end of our fixed price electricity contract. The higher unit cost for power is being surcharged to our customers immediately and will therefore increase revenue in the second half of the year. This should not adversely affect group profit as it is a pass-through of a direct cost increase.

Foundry operations

Output during the period was up 3.3% at 25,100 tonnes (2021 – 24,300 tonnes) and external sales revenue was up by 24.3% to £84.7million. Of the output weight for the period, 57.4% related to machined castings compared to 52.4% in the previous period. This reflects a return to the sales mix for the year ended 31 March 2021, following a reduction last year due to the disrupted customer demand patterns.

The profit from the foundry segment of £7.8 million compares to £5.3 million in the equivalent period last year.

The strong group cash position has enabled the continued investment in foundry facilities during the period. The most significant investments include £0.8 million on the completion of an automated pouring process on one of our largest production lines and £0.6 million on automation of the foundry finishing processes.

Machining operation

CNC Speedwell generated external revenue of £0.9 million during the period, a reduction of 42.7% compared to the previous period, with a reported loss of £0.47 million compared to a profit of £0.05 million in the previous period.

The previously mentioned introduction of new engine platforms in the period has a particularly significant impact on the operational efficiency of the machining business. With the end of the transitional ramp down and ramp up period, it is pleasing to see that CNC Speedwell returned to profitability in the final month of the period.

Outlook

The long-term demand schedules continue to reflect the high build rates that the heavy truck OEMs require to satisfy their order books.

The group will see the benefit of the greater content won on the new customer platforms as these are now in production. Production efficiencies will also improve as the focus will be on the new parts that have been introduced.

The group maintains a strong balance sheet with cash levels of £25.6 million; a decrease of £10.2 million during the period after paying dividends totalling £12.0 million (including a supplementary dividend of £6.5 million).

Dividend

An interim dividend of 3.84 pence per share has been declared and will be paid on 5 January 2023 to shareholders who are on the register at 25 November 2022.

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 11 of the Annual Report for the year ended 31 March 2022.

Director changes

I have decided to step down as Chairman of the company with effect from 1 January 2023 and will not be seeking re-election as a director at the next Annual General meeting of the company to be held in August 2023. I am pleased to announce that Alec Jones, who is currently senior independent director, will succeed me as chairman of the company.

Mark Smith has been appointed as a non-executive director with effect from 16 November 2022. He is also appointed Chairman of the Audit and Risk Committee and a member of the Nomination and Remuneration Committees. Mark was a partner at PricewaterhouseCoopers LLP for 24 years until his retirement from the firm in September 2021. He was the Midlands Regional Chairman and a senior partner in the UK Audit and Risk business and has extensive experience of auditing public limited companies.

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

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

BRIAN J. COOKE
Chairman
16 November 2022

Consolidated Statement of Comprehensive Income

For six months ended 30 September 2022

	Unaudited Half year to 30 September 2022 £'000	Unaudited Half year to 30 September 2021 £'000	Audited Year to 31 March 2022 £'000
Revenue	85,600	69,747	148,583
Cost of sales	(68,265)	(55,798)	(118,105)
Gross profit	17,335	13,949	30,478
Distribution costs	(2,471)	(1,490)	(3,411)
Administrative expenses	(7,515)	(7,071)	(15,040)
Profit from operations	7,349	5,388	12,027
Finance income	104	19	47
Profit before income tax	7,453	5,407	12,074
Income tax expense	(1,414)	(1,025)	(3,522)
Profit for the period attributable to the equity holders of the parent company	6,039	4,382	8,552
Other comprehensive (losses)/income 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	—	—	119
	—	—	119
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of financial assets	(77)	26	88
Tax effect of items that may be reclassified	15	(4)	(22)
	(62)	22	66
Total other comprehensive (losses)/income for the period (net of tax)	(62)	22	185
Total comprehensive income for the period attributable to the equity holders of the parent company	5,977	4,404	8,737
Earnings per share attributable to the equity holders of the parent company			
Basic	13.86p	10.04p	19.60p
Diluted	13.83p	10.03p	19.57p

Consolidated Balance Sheet

30 September 2022

	Unaudited 30 September 2022 £'000	Unaudited 30 September 2021 £'000	Audited 31 March 2022 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	62,236	65,441	62,801
Financial assets	318	334	396
	62,554	65,775	63,197
Current assets			
Inventories	24,699	20,275	25,889
Trade and other receivables	41,861	36,048	39,874
Current tax asset	556	251	489
Cash and cash equivalents	25,592	34,648	35,745
	92,708	91,222	101,997
Total assets	155,262	156,997	165,194
LIABILITIES			
Current liabilities			
Trade and other payables	24,611	24,528	28,477
	24,611	24,528	28,477
Non-current liabilities			
Deferred tax liabilities	5,278	3,628	5,219
Total liabilities	29,889	28,156	33,696
Net assets	125,373	128,841	131,498
Equity attributable to equity holders of the parent company			
Share capital	4,363	4,363	4,363
Share premium account	874	874	874
Treasury shares	(231)	—	(79)
Other reserve	13	13	13
Retained earnings	120,354	123,591	126,327
Total equity	125,373	128,841	131,498

Consolidated Cash Flow Statement

For six months ended 30 September 2022

	Unaudited Half year to 30 September 2022 £'000	Unaudited Half year to 30 September 2021 £'000	Audited Year to 31 March 2022 £'000
Cash flows from operating activities			
Profit before income tax	7,453	5,407	12,074
Adjustments for:			
Depreciation	3,996	4,050	8,601
Profit on disposal of property, plant and equipment	—	—	62
Finance income	(104)	(19)	(47)
Equity settled share-based payment expense	59	74	74
Pension administrative costs	—	—	119
Decrease/(increase) in inventories	1,190	(1,556)	(7,170)
(Increase)/decrease in receivables	(919)	383	(4,898)
(Decrease)/increase in payables	(3,866)	157	4,106
Cash generated from operating activities	7,809	8,496	12,921
Tax paid	(1,407)	(1,406)	(2,568)
Interest received	95	9	28
Net cash generated from operating activities	6,497	7,099	10,381
Cash flows from investing activities			
Dividends received from listed investments	9	10	19
Purchase of property, plant and equipment	(3,430)	(2,379)	(4,379)
Proceeds from disposal of property, plant and equipment	—	—	27
Repayments from pension schemes	—	—	2,496
Advances to pension schemes	(1,068)	(1,073)	(2,114)
Net cash used in investing activities	(4,489)	(3,442)	(3,951)
Cash flow from financing activities			
Dividends paid to shareholders	(12,009)	(5,101)	(6,698)
Purchase of own shares	(152)	—	(79)
Net cash used in financing activities	(12,161)	(5,101)	(6,777)
Net decrease in cash and cash equivalents	(10,153)	(1,444)	(347)
Cash and cash equivalents at beginning of period	35,745	36,092	36,092
Cash and cash equivalents at end of period	25,592	34,648	35,745
Cash and cash equivalents:			
Short-term deposits	11,627	19,080	17,065
Cash available on demand	13,965	15,568	18,680
	25,592	34,648	35,745

Consolidated Statement of Changes in Equity

Unaudited	Equity attributable to equity holders of the parent					
	Share capital £'000	Share premium £'000	Treasury shares £'000	Other reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2022	4,363	874	(79)	13	126,327	131,498
Profit for the period	—	—	—	—	6,039	6,039
Other comprehensive income/(losses):						
Change in fair value of financial assets	—	—	—	—	(77)	(77)
Tax effect of items taken directly to reserves	—	—	—	—	15	15
Total comprehensive income for the period ended 30 September 2022	—	—	—	—	5,977	5,977
Shares acquired during the period	—	—	(152)	—	—	(152)
Equity settled share-based payments	—	—	—	—	59	59
Dividends	—	—	—	—	(12,009)	(12,009)
At 30 September 2022	4,363	874	(231)	13	120,354	125,373
Unaudited	£'000	£'000	£'000	£'000	£'000	£'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
Audited	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2021	4,363	874	—	13	124,214	129,464
Profit for the year	—	—	—	—	8,552	8,552
Other comprehensive income/(losses):						
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses	—	—	—	—	119	119
Change in fair value of financial assets	—	—	—	—	88	88
Tax effect of items taken directly to reserves	—	—	—	—	(22)	(22)
Total comprehensive income for the year	—	—	—	—	8,737	8,737
Shares acquired in the year	—	—	(79)	—	—	(79)
Equity settled share-based payments	—	—	—	—	74	74
Dividends	—	—	—	—	(6,698)	(6,698)
At 31 March 2022	4,363	874	(79)	13	126,327	131,498

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 2022 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 2022 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 31 March 2022 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for 2022 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 cyclicity 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.

4. Segment information continued

The following shows the revenues, results and total assets by reportable segment for the half year to 30 September 2022.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	84,676	924	—	85,600
Inter-segmental revenue	10,309	9,773	—	20,082
Segmental result	7,818	(469)	—	7,349
Unallocated income:				
Finance income				104
Profit before income tax				7,453
Total assets	141,547	25,594	(11,879)	155,262
Non-current asset additions	2,820	610	—	3,430
Depreciation	2,381	1,615	—	3,996
Total liabilities	(28,733)	(6,299)	5,143	(29,889)

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)

Notes

4. Segment information continued

The following shows the revenues, results and total assets by reportable segment for the year ended 31 March 2022.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	145,601	2,982	—	148,583
Inter-segmental revenue	17,037	19,488	—	36,525
Segmental result	13,084	(894)	(50)	12,140
Unallocated costs:				
Exceptional credit for recovery of Icelandic bank deposits previously written off				6
Defined benefit pension cost				(119)
Finance income				47
Profit before income tax				12,074
Total assets	148,554	26,741	(10,101)	165,194
Non-current asset additions	3,388	991	—	4,379
Depreciation	4,790	3,811	—	8,601
Total liabilities	(31,561)	(6,977)	4,842	(33,696)

5. Dividends

Amounts recognised as distributions to shareholders in the period:

	Half year to 30 September 2022 £'000	Half year to 30 September 2021 £'000
Final dividend of 12.57p per share for the year ended 31 March 2022 (2021 – 11.69p per share)	5,475	5,101
Supplementary dividend of 15.00p per share for the year ended 31 March 2022	6,534	—
	12,009	5,101

The directors have declared an interim dividend in respect of the financial year ending 31 March 2023 of 3.84p per share (2022 – 3.66p), which will be paid on 5 January 2023.

6. 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 2022	Unaudited Half year to 30 September 2021	Audited Year to 31 March 2022
Profit after tax (£'000)	6,039	4,382	8,552
Weighted average number of shares — basic calculation	43,565,115	43,632,068	43,631,545
Weighted average number of shares — diluted calculation	43,675,024	43,699,509	43,698,986
Earnings per share — basic	13.86p	10.04p	19.60p
Earnings per share — diluted	13.83p	10.03p	19.57p

7. 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 £1,068,000 (2021 – £1,073,000) was paid by the group on behalf of the schemes in respect of pension payments and administration costs. At 30 September 2022, the outstanding balance of £3,182,000 (2021 – £3,569,000) 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.

8. Interim report

Copies of this interim management report will be available on the company's website, www.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
16 November 2022

Directors and Officers

Directors

B. J. Cooke, AdvDipNFC, FICME *Non-executive Chairman*
A. Vicary, BEng, MSc, FICME *Chief Executive*
S. J. Mant, BCom (Hons), FCA *Group Finance Director*
A. N. Jones, BA (Hons), FCA *Senior Independent Non-executive*
A. K. Eastgate, BA (Hons), *Non-executive*
M. L. Smith, BA Econ (Hons), FCA, *Non-executive*

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