

CHETTINAD CEMENT CORPORATION LTD.

42nd ANNUAL REPORT 2004-2005



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Chettinad Cement Corporation Limited

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FOUNDER

Dr. Rajah Sir M.A. Muthiah Chettiar's urge to contribute to the nation building cause combined with his business acumen culminated in establishment of "**Chettinad Cement Corporation Limited**" in 1962 to cater to the growing demands of Cement in the country.

48th ANNUAL REPORT 2004-2005

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MANAGEMENT

- Chairman** : Dr. M.A.M. Ramaswamy
- Managing Director** : Sri M.A.M.R. Muthiah
- Directors** : Sri N. Thiagarajan
Sri Ramanathan Palaniappan
Sri R. Krishnamoorthy
Sri SPST. Palaniappan
Sri K. Ganapathy
Sri C.S. Pani
Smt. D. Sabitha (TIIC Nominee)
- Company Secretary** : Sri S. Hariharan
- Auditors** : M/s P.B. Vijayaraghavan & Co.
M/s Seshadri & Jayaraman
M/s Krishnaan & Co.
- Registered Office** : "Rani Seethai Hall Building"
No. 603, Anna Salai, Chennai – 600 006
Tel : 28292727, 52149955 Fax : 28291558
Email : chtdmds@vsnl.com
Website : www.chettinadcement.com



PROFILE

CHETTINAD CEMENT CORPORATION LIMITED

The history of the group "House of Chettinad" is linked with the 9 decades old saga. In 1912 took birth the House of Chettinad through a visionary, idealist and born entrepreneur Dr. Rajah Sir Annamalai Chettiar who believed in Social transformation through business. The founder of the House of Chettinad envisaged his companies providing the stimulus for Industrial Growth and conceived business as a means of improving the living standards of people.

Following the footsteps of his father Dr. Rajah Sir Annamalai Chettiar, Dr. Rajah Sir M.A. Muthiah Chettiar continued to contribute to the nation building cause and combined his business acumen to establish the company "Chettinad Cement Corporation Limited" in 1962 to cater to growing demand of Cement in the country. The Company's first manufacturing unit located at Puliur, Karur District, in Tamil Nadu commenced production in April 1968. Today the group is being steered under the versatile, dynamic and pragmatic Leadership of Dr. M.A.M. Ramaswamy and his son Sri M.A.M.R. Muthiah based on the footsteps of Dr. Rajah Sir M.A. Muthiah Chettiar. Apart from cement, the Chettinad House is today engaged in activities as diverse as granite, engineering, silica, garnet, information technology, plantations, shipping, transportation, stevedoring, clearing and forwarding and logistics having a combined turnover of about Rs. 8,500 million.

PRODUCTS

OPC 43 Grade
Super Grade
Sulphate Resistant Portland Cement
Portland Slag Cement

From a modest beginning of 2 Lac tonnes capacity per annum, Chettinad Cement has gradually increased its production capacity to 15 lakhs tonnes today. Presently the plant employs the Modern Dry Process Technology. It has the most advanced, Sophisticated, Computer

controlled State-of-the-art Loesche Mill for Grinding Raw Meal, Loesche lignite mill (first of its kind in India), a five stage pre-heated Kiln & Electronic Packing plant. Equipped with Centralised control room for process control, the advanced instrumentation and elaborate display screens give up-to-the minute information on the production process so that any deviation can be promptly corrected.

The Company, which has always been striving for Total Quality, possesses International Certificate ISO 9001 : 2000 and ISO 14001 : 1996 and takes pride in being acclaimed as one of the major player in a highly competitive Cement Industry in India. The Company added another feather to its cap by installing and commissioning a giant, sophisticated, high-tech and power efficient O&K cement mill resulting in a quantum leap in production to touch One Million Tonne mark. The Company has achieved many laurels through award for "BEST PERFORMANCE" in the Cement Industry issued by "National Productivity Council".

Chettinad Cement has attached great importance to social responsibility and environmental values. This is manifest in the installation of the latest pollution control equipment in the plant.

The Company's State-of-the Art Green Field Cement Plant in Karikkali Village, Tamil Nadu commenced commercial production in October 2001 with a capacity of 0.9 Million Tonnes per annum. It is equipped with ABB's latest knowledge based solution package right from the treatment of Raw Material to the packing of Cement, making it one of India's most modern and efficient plant. The Company commissioned a 15MW Captive Thermal Power Plant at its unit at Karikkali in October 2004 to cater to the entire power requirements of the Karikkali Plant there by reduce the power cost. The Company is also in the process of installing a new cement grinding unit at Karikkali with a capacity of 0.5 million tonnes.

PERFORMANCE AT A GLANCE

	2000-01	2001-02	2002-03	2003-04	2004-05
PRODUCTION			(In MT)		
Clinker	804210	850855	1388994	1576574	1875774
Cement	777332	937510	1681728	1911825	2211277
Capacity Utilisation (%)	130	93	112	127	147
SALES					
Cement & Clinker	877030	1043980	1729296	1995382	2335605
FINANCIAL HIGHLIGHTS			(Rs. in Lakhs)		
Turnover (net) including					
Other Income	19530	20292	26837	32614	38839
Gross Profit	5307	5018	5011	8215	9421
Interest & Lease rentals	2483	3304	4610	3005	2038
Depreciation	2090	2204	2780	2826	3111
Profit / (Loss) before Tax	734	(490)	(2379)	2384	4272
Provision for Taxation					
- Current Tax	113	-	-	185	342
- Deferred Tax - (Asset) / Liability	-	700	(1657)	803	1134
Net Profit / (Loss) after Tax	621	(1190)	(722)	1396	2796
PAID - UP SHARE CAPITAL	2108	2108	2950	2950	2950
RESERVES & SURPLUS	13900	8125	9617	10345	11796
RATIOS					
PBIDT to Sales (%)	27.17	24.73	18.67	25.18	24.25
Net Profit to Sales (%)	3.76	(2.41)	(8.86)	7.30	11.00
EPS (Rs.)	3.15	(2.32)	(8.07)	7.45	13.32
Debt to Equity	1.31	2.84	2.10	2.02	1.59
Book Value per Share (Rs.)	76	49	43	45	50
Dividend (%)	20	-	-	20	40



NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the **Forty second Annual General Meeting** of the members of Chettinad Cement Corporation Limited will be held at "Rani Seethai Hall", No. 603, Anna Salai, Chennai - 600 006 on Monday, the 26th day of September, 2005 at 10.00 AM to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit and Loss Account for the Year ended 31st March, 2005, the Balance Sheet as at that date and the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in the place of **Sri R. Krishnamoorthy** who retires by rotation in accordance with the Articles of Association of the Company and being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of **Sri C.S. Pani** who retires by rotation in accordance with the Articles of Association of the Company and being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of **Sri K. Ganapathy** who retires by rotation in accordance with the Articles of Association of the Company and being eligible, offers himself for re-appointment.
5. To declare a Dividend on the Equity Share Capital for the Financial year 2004-05.
6. To appoint M/s P.B. Vijayaraghavan & Co., M/s Seshadri & Jayaraman and M/s Krishna & Co., Chartered Accountants as Auditors of the Company to hold office from the conclusion of the

Forty second Annual General Meeting until the conclusion of the next Annual General Meeting on a remuneration of Rs. 1,00,000/- (Rupees One Lakh Only) each, plus Service Tax if any, besides out of pocket expenses.

SPECIAL BUSINESS:

7. To consider and if thought fit, to pass the following resolution as an **Ordinary resolution**, with or without modifications.

"Resolved that the consent be and is hereby accorded to the Board of Directors of the Company in terms of Section 293 (1) (a) of the Companies Act, 1956 to mortgage and / or create a charge on all the immoveable properties of the company wheresoever situate, present and future and whole of the undertaking of the company in certain events (whether such power is contained in the documents creating the mortgage / charge or otherwise), on *pari passu* Second Charge basis in favour of Central Bank of India in connection with the Enhanced Fund based Working Capital Cash credit facilities of Rs.40.00 Crores and Non-fund based limits of Rs.15.00 Crores sanctioned by them".

"Resolved further that the mortgage/ charge created/ to be created and / or all agreements / documents executed / to be executed and all acts done in terms of the above resolution by and with the authority of the Board of Directors be and are hereby confirmed and ratified".

By order of the Board

Place : Chennai
Date : 28th June, 2005

S. Hariharan
Company Secretary

NOTES:

1. An Explanatory Statement with regard to **Item No.7** as required under Section 173 (2) of the Companies Act, 1956 is annexed.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF ON A POLL AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY FORM TO BE VALID MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE TIME FIXED FOR THE MEETING.**
3. The Register of Members and Share Transfer Books of the company shall remain closed from 16/9/2005 to 26/9/2005 (both days inclusive) for transfer of shares.
4. The Company has appointed M/s Integrated Enterprises (India) Ltd., "Kences Towers", 2nd Floor, No.1, Ramakrishna Street, T.Nagar, Chennai - 600 017 as the Registrar & Share Transfer Agents to undertake all investor servicing activities, both demat and physical segments with effect from 01/04/2003. All concerned are requested to send their documents and address all their future correspondence directly to the above Registrars.

5. Members are requested to intimate their change of address, if any, along with PIN CODE to the Registrars to facilitate quick receipt of the Annual Reports and other official correspondences.
6. Non-resident Shareholders are requested to inform us immediately :
 - a) The change of residential status on return to India permanently.
 - b) The particulars of the NRE Account, if not furnished earlier.
7. Pursuant to the Section 205 A (before amendment) of the Companies Act, 1956, all the unclaimed dividends upto the financial year 1994-95 have been transferred to the Central Government's General Revenue Account. As per the amended section 205 A, unclaimed dividend amounts out of the Dividend declared from the financial year ended 31st March, 1996 onwards shall be transferred to the Investor Education and Protection Fund of the Central Government after the expiry of seven years from the date of transfer of such amounts to the unpaid dividend account. Accordingly, the unclaimed dividend for the financial year 1995-96 and 1996 - 97, except where the claim is under dispute or kept in abeyance, has been transferred to the said Fund within the stipulated time and the unclaimed / un-encashed dividend amount relating the Financial Year 1997-98 as on the 8th November, 2005 will be transferred to the Investor Education and Protection Fund.
8. All the shareholders who are holding the shares in Physical Form are advised to get their shares dematerialised, if necessary.

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173 (2) OF THE COMPANIES ACT, 1956.

Item No. 7

The Central Bank of India, have sanctioned an enhanced Fund based working capital facilities of Rs.40.00 Crores (previously Rs. 37.00 Crores) and Non-fund based limits of Rs.15.00 Crores (previously Rs.4.00 Crores).

The security for the above facilities is the *pari passu* Second Charge on the Block Assets of the company, both present and future.

A resolution as specified under Section 293 (1) (a) of the Companies Act, 1956 has to be passed by the Members of the company for the creation of the mortgage.

Section 293(1)(a) of the Companies Act, 1956 provides *inter - alia* that the Board of Directors of the Public Company shall not, without the consent of such public company in General Meeting, sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking, of the whole or substantially the whole of any such undertaking.

Since creation of charge/mortgage by the company, on *pari passu* Second charge basis on the block assets

of the company in favour of the Central Bank of India to secure their enhanced Fund based and Non - Fund based Working Capital facilities of Rs.40.00 Crores and Rs.15.00 Crores respectively, may be regarded as disposal of the Company's properties/ undertaking, it is necessary for the members of the company to pass an ordinary resolution in terms of Section 293(1) (a) of the Companies Act, 1956.

Hence this Ordinary resolution.

INTEREST OF DIRECTORS:

None of the Directors is deemed to be interested in the subject matter of the Special Business / Ordinary Resolution under Item No.7.

INSPECTION OF DOCUMENTS:

The following documents will be kept at the Registered Office, during the working hours of the Company and it is open for inspection by the Members.

1. Memorandum and Articles of Association of the Company.
2. Letter dated IFB : 2004-05:15:753 dated 22nd February, 2005 received from Central Bank of India regarding sanction of enhanced Fund based and Non fund based working capital limits of Rs. 40.00 Crores and Rs.15.00 Crores respectively.



DIRECTORS' REPORT

The Shareholders,

Your Directors take pleasure in presenting the Forty second Annual Report and the Audited Accounts of the Company for the year ended 31st March, 2005.

FINANCIAL RESULTS:

(Rs. in lakhs)

	Current Year ended 31/3/2005	Previous Year ended 31/3/2004
Profit before Depreciation and Interest	9421	8215
LESS :		
Depreciation	3111	2826
Interest	2038	3005
Profit before Tax	4272	2384
LESS :		
Provision for Income Tax – Current	342	185
Deferred	1134	803
Profit after current and deferred tax	2796	1396
ADD :		
Surplus brought from previous year	4691	3941
Income Tax relating to earlier year	–	(2)
Investment Allowance Reserve withdrawn	–	172
Total available for appropriation	7487	5507
APPROPRIATIONS		
Transfer to General Reserve	419	150
Proposed Dividend on Equity Shares	1180	590
Tax on the Proposed Dividend	165	76
Balance Carried over to Balance Sheet	5723	4691

DIVIDEND

Your Directors are pleased to recommend a Dividend on Equity Share Capital @ 40% for the year 2004-05.

PRODUCTION AND SALES FOR THE YEAR 2004-05

	MT
Clinker produced	- 1875774
Cement produced	- 2211277
Cement and Clinker Sales	- 2335605

OPERATIONS

This is covered under the topic Management Discussion and Analysis.

MANAGEMENT DISCUSSION AND ANALYSIS**a) Industry structure and developments**

The resilience of the Indian citizens and the Indian economy was put through the toughest test during the financial year 2004-05 in the form of Tsunami. This worst ever catastrophe was preceded by a bad monsoon and hardening of world oil and steel prices. But the economy again came out shining with a modest performance of around 7% growth.

The overall growth in the Cement Industry was modest mainly due to stabilization of prices in Northern and Eastern region with Demand and supply attaining parity. The Cement production this year stood at 125.56 Million Tonnes and dispatch at 125.13 Million Tonnes thereby registering a growth of 6.85% and 6.74% respectively.

In the export front, 4.07 Million Tonnes of Cement and 5.98 Million Tonnes of Clinker were exported during the financial year 2004-05 registering a growth of about 21% and 6% respectively when compared to previous year.

The performance of Southern region was dismal again with the demand-supply parity still not in sight. The growth in Cement production here was about 2% with the consumption registering a negative growth. The performance of Tamil Nadu, was also similar where the production has grown by 3% and the consumption registered a fractional negative growth.

Your company has come up with a splendid overall performance for the second year in succession, this time surpassing the two million tonnes mark in Sales Volume. The production grew nearly by 16% and despatch by 14% when compared to the

previous year. This performance is all the more significant in the face of a very dismal record by the Cement industry in the southern region. The company continued to maintain its record of more than 100% capacity utilization.

b) Opportunities, Threats, Risks and Concerns

The fact that India being the second largest Cement producer in the world and still having the lowest per capita consumption of cement itself speaks for the vast potential for growth available in this sector.

The consolidation process is only at its beginning stage with nearly half of the Cement capacity still fragmented. The continued drive for consolidation augurs well for the industry with the results already visible in the north and east where consolidation has led not only to demand-supply parity but also to stabilization of prices.

It is also a fact that post liberalization, the prices of Cement have not moved proportionate to the prices of other commodities and on factoring the Cement prices with inflation, we may find that today's prices are even lower when compared to prices about 10 years back.

Again the increase in the prices of key Raw Materials disproportionate with the increase in realizations greatly hampers the performance of the industry.

c) Segment-wise or Product-wise performance

The Company has no segments. Given below are the Product-wise production figures for the financial year 2004-05

Grades of Cement	Quantity in M.T
OPC	538217
SRC	10074
PPC	1662986
TOTAL	2211277
Ready Mix Concrete (in Cu.m)	25301

d) Outlook

On account of the consolidation drive, the cement demand as well as realization has indeed improved in all the zones except the South, where there is still a supply overhang. The South market is expected to do well this year in the face of a good North-east monsoon last year and demand supply parity is expected to be attained in the next couple of years.



With the construction boom in the middle-east and Africa continuing, the West zone manufacturers are expected to perform very well in the face of firm international prices.

The growing strength of construction and infrastructure industry and booming export opportunities augurs well for the Cement industry which can be expected to grow at the rate of 8-10% for the next few years.

e) Internal control system and their adequacy

The Company has got an adequate system of internal control in place commensurate with the size of its operation and is properly designed to protect and safeguard the assets of the Company. There is a proper system for recording all the transactions which ensures that every transaction is properly authorized and executed according to the norms.

The Company has developed an in-house Internal Audit Department which is contributing to the continuing process of sharpening the Internal Control mechanism by introduction of various concurrent audit systems and facilitating regular evaluation of the system by the management.

f) Discussion on financial performance with respect to operational performance.

The financial year 2004-05 was a landmark year for the company with its Sales volume crossing 2 Million Tonnes. The Sales for the financial year was 2205719 MT, a growth of 14% over the previous year. The Turnover for the financial year 2004-05 increased by nearly 19% to Rs. 478.53 crores, indicating a healthy growth in realization levels. The robust growth in Sales supported by equally good realization and cost control exercise resulted in Profit before Tax increasing by 79% to 42.72 Crores.

g) Material developments in Human resources / Industrial relations front, including number of people employed.

As always, the Industrial relation during the current year also has been very cordial and contributed to mutual development. Various seminars, counselling sessions, trainings etc., were conducted to improve the quality of the manpower available thereby increasing the productivity and efficiency of the personnel. The number of personnel employed in the company is 547.

WINDMILL OPERATIONS

The Power Generation from the company's Windmills for the financial year 2004-05 was 2.67 crore units. The continuous efforts to improve efficiency resulted in the RKVAH import from the TNEB getting further reduced from 1.44% in 2003-04 to 1.11% for the financial year 2004-05.

30 Nos. lightning arrestors were installed during the year 2004-05 to improve the HT line healthiness. Gear Cooling System has been introduced for reducing Gear Oil temperature and enhance the bearing life and the performance of the machines. The company has proposal to install further 30 Nos. Lightning arrestors.

REVIEW OF OPERATIONS OF READY MIX CONCRETE PLANT (RMC)

The company started its operations of Ready Mix Concrete (RMC) in Madukkarai, near Coimbatore, Tamil Nadu in the year 2001 and despite completion of three years of operations it has still not been able to achieve even 50% of its capacity utilization. The demand for RMC in the region has not been growing upto the expectation of the company. In view of the same and considering the fact that the profitability from RMC operations are not commensurate with the investment and operational cost and efforts, it was found more prudent to focus the efforts on manufacture and sale of Cement.

In view of the same it was decided to discontinue the production and sale of Ready Mix Concrete and dispose off its assets.

CAPTIVE THERMAL POWER PLANT

The company has installed a 15MW Captive Thermal Power Plant in its factory at Karikkali and the same was commissioned in October, 2004. The main aim is to reduce the power cost and also get uninterrupted power for smooth running of cement plant.

The said plant has been running efficiently since the date of its commissioning and has since achieved optimum level of capacity. The net generation from the Captive Thermal Power Plant till 31/03/2005 was 39546098 units.

NEW CEMENT GRINDING UNIT AND STORAGE SILO AT KARIKKALI PLANT

The company is in the process of installing a new Cement Mill with a capacity of 0.5 million tonnes per annum for utilizing the full potential of Kiln capacity. The company is also installing a Silo and a packer as part of this project. The new Cement Mill is expected