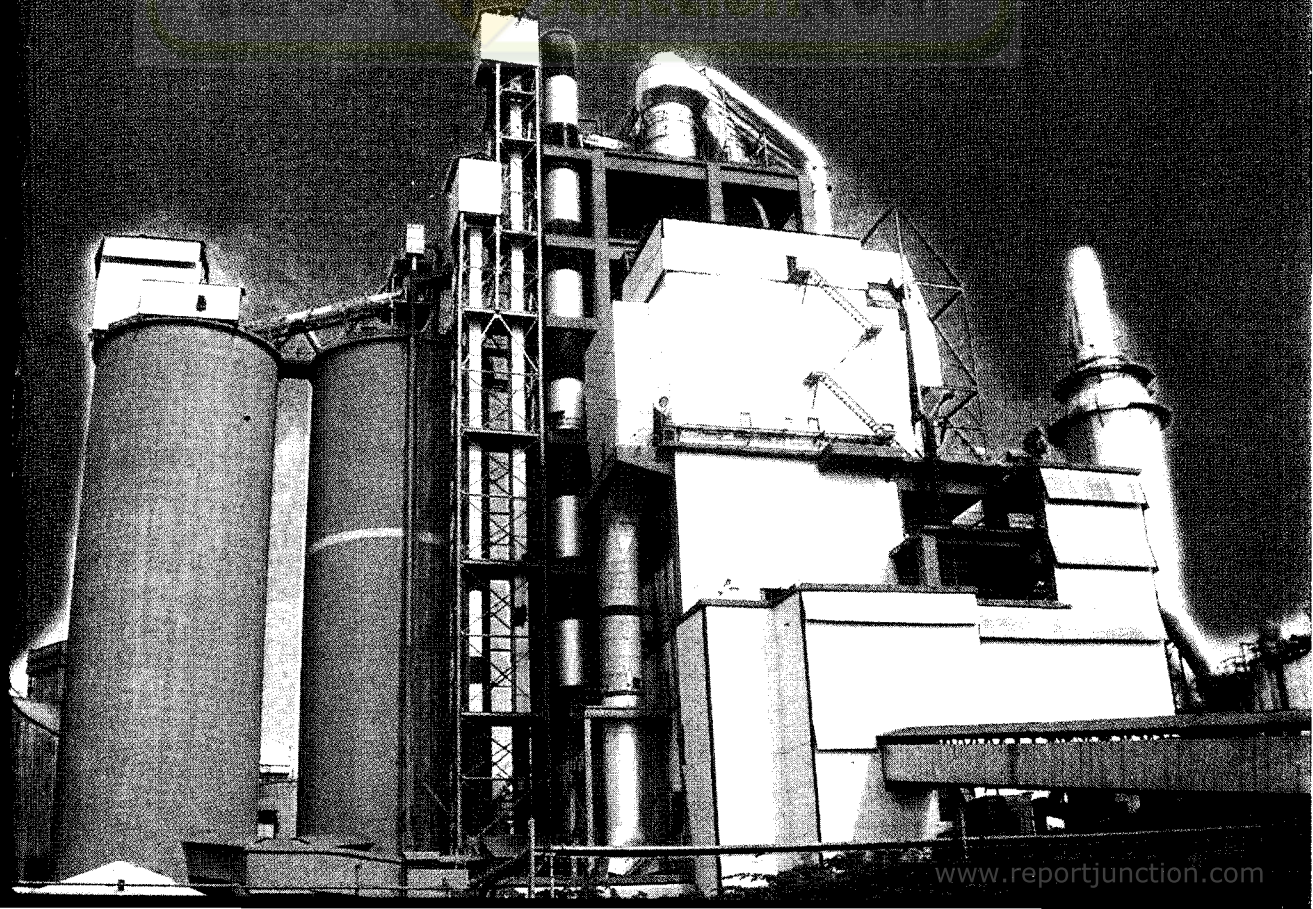


# Chettinad Cement Corporation Limited



**43** *ANNUAL REPORT*  
*2005-2006*





# Chettinad Cement Corporation Limited



## 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.

## 43<sup>rd</sup> ANNUAL REPORT 2005-2006

CONTENTS	PAGES
Company Profile	02
Performance at a Glance	03
Notice	04
Directors' Report	06
Annexure to the Directors' Report	11
Auditors' Report	23
Balance Sheet	26
Profit & Loss Account	27
Schedules to Balance Sheet	28
Schedules to Profit & Loss Account	33
Cash Flow Statement	38
Notes forming part of Accounts	40
Statement u/s 212 of the Companies Act, 1956	46
Consolidated Auditors' Report	47
Consolidated Balance Sheet	48
Schedules to Consolidated Balance Sheet	49
Notes to the Consolidated Financial Statements	52
Financial Statements of Subsidiaries	55

## 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 Krishaan & Co.

**Registered Office** : "Rani Seethai Hall Building"  
No. 603, Anna Salai, Chennai – 600 006  
Tel : 044-42149955 / 28292727  
Fax : 28291558  
Email : [chtdmds@vsnl.com](mailto:chtdmds@vsnl.com)  
Website : [www.chettinadcement.com](http://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 20 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 : 2004 and takes pride in being acclaimed as one of the major player in a highly competitive Cement Industry in India.

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 has achieved many laurels through awards for "BEST PERFORMANCE" in the Cement Industry and for Environmental Excellence.

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 has also recently commissioned a new cement grinding unit at Karikkali with a capacity of 0.5 million tonnes.

## PERFORMANCE AT A GLANCE

	2001-02	2002-03	2003-04	2004-05	2005-06
<b>PRODUCTION</b>			(In MT)		
Clinker	850855	1388994	1576574	1875774	1942742
Cement	937510	1681728	1911825	2211277	2360557
Capacity Utilisation (%)	93	112	127	147	118
<b>SALES</b>					
Cement & Clinker	1043980	1729296	1995382	2335605	2447313
<b>FINANCIAL HIGHLIGHTS</b>			(Rs. in Lakhs)		
Turnover (net) including					
Other Income	20292	26837	32614	43336	50056
Gross Profit	5018	5011	8215	9421	11901
Interest & Lease rentals	3304	4610	3005	2038	1877
Depreciation	2204	2780	2826	3111	3609
Profit / (Loss) before Tax	(490)	(2379)	2384	4272	6415
Provision for Taxation					
- Current Tax (Net)	-	-	185	342	5
- Deferred Tax - (Asset) / Liability	700	(1657)	803	1134	2271
- Fringe Benefit Tax	-	-	-	-	40
- Earlier years Income Tax	-	-	-	-	93
Net Profit / (Loss) after Tax	(1190)	(722)	1396	2796	4006
<b>PAID - UP SHARE CAPITAL</b>	2108	2950	2950	2950	2950
<b>RESERVES &amp; SURPLUS</b>	8125	9617	10345	11796	14492
<b>RATIOS</b>					
PBIDT to Sales (%)	24.73	18.67	25.18	21.74	23.78
Net Profit to Sales (%)	(2.41)	(8.86)	7.30	9.86	12.82
EPS (Rs.)	(2.32)	(8.07)	7.45	13.32	21.59
Debt to Equity	2.84	2.10	2.02	1.59	1.37
Book Value per Share (Rs.)	49	43	45	50	59
Dividend (%)	-	-	20	40	50

## NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the **Forty third 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 Tuesday, the 19<sup>th</sup> day of September, 2006 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 31<sup>st</sup> March, 2006, 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 **Dr. M.A.M. Ramaswamy** 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 Ramanathan Palaniappan** 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 SPST. Palaniappan** 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 2005-06.
6. To appoint M/s P.B. Vijayaraghavan & Co., M/s Seshadri & Jayaraman and M/s Krishnaa & Co., Chartered Accountants as Auditors of the Company to hold office from the conclusion of the Forty third 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.

**By order of the Board**

**Place : Chennai**

**Date : 20th June, 2006**

**S. Hariharan  
Company Secretary**

### NOTES:

1. **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.**
2. The Register of Members and Share Transfer Books of the company shall remain closed from **15<sup>th</sup> September, 2006 to 19<sup>th</sup> September, 2006** (both days inclusive) for transfer of shares.
3. The Company has appointed M/s Integrated Enterprises (India) Ltd., "Kences Towers", 2<sup>nd</sup> 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. All concerned are requested to send their documents and address all their

future correspondence directly to the above Registrars.

4. 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.
5. 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.
6. 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 205A, the unclaimed dividend amounts out of the Dividend declared from the financial year ended 31<sup>st</sup> March, 1996 onwards are being transferred to the Investor Education and

Protection Fund of the Central Government after the expiry of seven years from the date of declaration. Accordingly, the unclaimed dividend for the Financial years 1995-96, 1996 – 97 and 1997 - 98 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 / unencashed dividend amount relating to the Financial Year 1998-99 as on the 14.11.2006 will be transferred to the Investor Education and Protection Fund.

7. All the shareholders who are holding the shares in Physical Form are advised to get their shares dematerialised, if necessary.
8. The details of shareholdings of the Directors appointed / re-appointed in this Annual General Meeting has been disclosed alongwith their respective resume in the Report on Corporate Governance.

**INTEREST OF DIRECTORS:**

Sri M.A.M.R. Muthiah, Managing Director of the Company is the son of Dr. M.A.M. Ramaswamy, Chairman of the Company and is therefore, deemed to be interested in the subject matter under Item No.2 in the Notice.

**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.

- Memorandum and Articles of Association of the Company.





## DIRECTORS' REPORT

The Shareholders,

Your Directors take pleasure in presenting the Forty third Annual Report and the Audited Accounts of the Company for the year ended 31<sup>st</sup> March, 2006.

### FINANCIAL RESULTS:

(Rs. in lakhs)

	Current Year ended 31/3/2006	Previous Year ended 31/3/2005
Profit before Depreciation and Interest	11901	9421
LESS :		
Depreciation	3609	3111
Interest	1877	2038
<b>Profit before Tax</b>	<b>6415</b>	<b>4272</b>
LESS :		
Provision for Income Tax – Current	545	342
Deferred	2271	1134
Fringe Benefit Tax	40	0
Income Tax relating to earlier years	93	0
<b>Profit after current and deferred tax</b>	<b>3466</b>	<b>2796</b>
ADD :		
Surplus brought from previous year	5723	4691
MAT Credit entitlement	540	0
<b>Total available for appropriation</b>	<b>9729</b>	<b>7487</b>
<b>APPROPRIATIONS</b>		
Transfer to General Reserve	650	419
Proposed Dividend on Equity Shares	1475	1180
Tax on the Proposed Dividend	207	165
<b>Balance Carried over to Balance Sheet</b>	<b>7397</b>	<b>5723</b>



**DIVIDEND**

Your Directors are pleased to recommend a Dividend on Equity Share Capital @ **50%** for the year 2005-06.

**PRODUCTION AND SALES FOR THE YEAR 2005-06**

	MT
Clinker produced	- 1942742
Cement produced	- 2360557
Cement and Clinker Sales	- 2447313

**OPERATIONS**

This is covered under the topic Management Discussion and Analysis.

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

The Indian economy is in the midst of a robust cyclical upswing the initial momentum of which was provided by Agriculture sector but adequately supported now by a resurgent Industrial Sector. The Indian economy continued to shine with a growth exceeding 8%, even in the face of rising inflation all over the world due to the galloping steel and Oil prices.

The Cement Industry too has been witnessing a boom in the wake of the increased concentration on Infrastructure by the Government of India. The Industry recorded an increase in production of about 11% from 127 Million Tonnes in 2004-05 to 141 Million Tonnes in the year ended 31<sup>st</sup> March, 2006. The upsurge in demand for Cement is quite visible with the all-India consumption of Cement growing by 9% in 2005-06 to about 133 Million Tonnes.

Though the Cement Exports grew by about 47% from 4.07 Million Tonnes in 2004-05 to about 6 Million Tonnes in financial year 2005-06, it still accounts for a meager 4% of the total Cement production of 141 Million Tonnes during the year. However this trend may be considered as acceptable considering the prevailing low per capita Cement consumption in the country.

The Southern region is easily the best performer of the year after having suffered a couple of sluggish years even in the face of

robust growth in the Industry. Cement consumption in this region for the financial year 2005-06 was up almost by 20% over the previous year. Moreover nearly 28% of the All-India Cement consumption of 133 Million Tonnes during 2005-06 has been recorded by the Southern region. This has consequently resulted in a growth in Cement production of about 15% over the year 2004-05 in the Southern region.

The performance of your company was nearing its peak even when the region as a whole was under-performing. Now the upswing in the Southern region performance has only added to your company's momentum in this direction. The growth in production and dispatches during the financial year 2005-06 of about 7% and 8% respectively only shows how close your company was to its peak performance in the previous year.

**b) Opportunities, Threats, Risks and Concerns**

The boom in construction activity mainly in the Information Technology sector and the Integrated Township presents great opportunities for the Cement Industry. Further in the liberalized economic scenario, the Government is also keen in improving the infrastructure facilities in the country, which augurs well for the future of Indian Cement Industry.

The construction boom in West Asia on account of surge in Oil prices also presents great opportunities for Indian Cement manufacturers with huge export potential. This has also resulted in an increase in Cement prices in the international market and has had similar effect in the domestic market also.

The Cement Industry is only beginning to reap the benefits of more than a decade of hard work since de-control of price and distribution of Cement by the Government in 1989. But the fact that Industry is still very much fragmented does not present sufficient impetus to the Cement lobby to persuade the Government to help the growth of the Industry.

Cement transportation is the biggest bottleneck for the Industry and it is high time the Government does something in this regard



which would go a long way in supporting an Industry which can be said to be the backbone of Infrastructure development.

Your company has been constantly working on strategies to mitigate the effects of the industry threats to the minimum. As part of these efforts, your company has installed a new cement grinding plant for optimum utilization of production capacity and a Captive Power Plant to economically meet its power requirements, both at its Karikkali Plant, details of which are mentioned later in this Report.

**c) Segment-wise or Product-wise performance**

The Company has no segments. Given below are the Product-wise production figures for the financial year 2005-06

Grades of Cement	Quantity in M.T
OPC - 43 Grade	303007
SRC - PC	30840
PPC	1964573
Slag - PSC	62137
<b>TOTAL</b>	<b>2360557</b>

**d) Outlook**

The Indian Cement Industry has recorded a Compounded Annual Growth Rate (CAGR) of about 8 % compared to the world average of about 3.5% during the period 1994-2003. These were very nascent period for the Indian Cement Industry when they had just come out of de-control and de-licensing. So now a liberalized Indian Cement Industry can only be expected to atleast repeat this performance in the next decade or so.

The Demand for Cement both in the International and domestic sector augurs well for the Indian Cement Industry which is now matching world standards both in terms of production facilities available and the quality of the product.

The construction boom in the West Asia and the resultant huge export of Cement from the Western Frontier of India has not only restored parity between Demand and supply of Cement but in fact pushed demand beyond the reach of the suppliers.

The capacity of Indian Cement Industry is just above 150 Million Tonnes. With the

projected GDP growth of 8% for the next few years, the demand for Cement in the next three years can be expected to increase atleast by another 40 Million Tonnes. The current expansion plans of the Cement Industry would increase the capacity only by about 22 Million Tonnes by 2008. There still being a lot of scope for growth, so even by very conservative estimates the Industry as a whole can be expected to show a healthy CAGR of around 6-7% in the next five years.

**e) Internal control system and their adequacy**

The Company has got an adequate system of internal controls 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 Sales for the financial year was 2372491 MT, a growth of 8 % over the previous year. The Turnover for the financial year 2005-06 increased by 12% over the previous year to Rs. 584.17 crores. The increase in Turnover of 1.5 times over the increase in despatch compared to the 1.36 times in the previous year, indicates the result of continuous perseverance to push the realization levels. The improvement in operational efficiency is a continuous process is very much evident from the Profit before Tax increasing by 50% to 64.15 Crores.

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

As always, the Industrial relations during the current year also has been very cordial and contributed to mutual development. Various seminars, counselling sessions, trainings etc.,