



# Sarve Sukhina Bhavantu

MAY ALL BE HAPPY



**JK Cement LTD.**

Annual Report 2011-12





## CONTENTS



Notice .....	01
Chairman's Message.....	02
MD & CEOs Message .....	04
Management Discussion and Analysis .....	06
Directors' Report .....	10
Corporate Governance Report.....	16
Financial Statements.....	28

# NOTICE

Notice is hereby given that the Eighteenth Annual General Meeting of J.K. CEMENT LIMITED will be held at Sir Padampat Singhania Auditorium of the Merchants' Chamber of Uttar Pradesh, 14/76, Civil Lines, Kanpur on Saturday the 4th August, 2012 at 12.00 Noon to transact the following business: -

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2012, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors' thereon.
2. To declare Dividend on Equity Shares.
3. To appoint a Director in place of Shri Jayant Narayan Godbole, who retires by rotation pursuant to the provisions of Article 140 of the Articles of Association of the Company and being eligible offers himself for reappointment.
4. To appoint a Director in place of Shri Suparas Bhandari, who retires by rotation pursuant to the provisions of Article 140 of the Articles of Association of the Company and being eligible offers himself for reappointment.
5. To appoint a Director in place of Shri Kailash Nath Khandelwal, who retires by rotation pursuant to the provisions of Article 140 of the Articles of Association of the Company and being eligible offers himself for reappointment.
6. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. The retiring Auditors M/s P.L. Tandon & Company, Chartered Accountants, Kanpur, are, however eligible for re-appointment.

## BY ORDER OF THE BOARD

**Shambhu Singh**

Sr. General Manager (Legal) &  
Company Secretary

Place : Kanpur

Date : 26th May 2012

## 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/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday 25th July, 2012 to Saturday 4th August, 2012 (both days inclusive)
3. The dividend as recommended by the Board of Directors and approved by the members shall be paid to those members, whose names shall appear on the Company's Register of Members on 25th July, 2012. In respect of shares in electronic form, the dividend will be payable on the basis of beneficial ownership as per details to be furnished by National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL).
4. Members are requested to notify immediately change of

address, if any, to their Depository Participants (DPs) in respect of their shareholding in Demat Accounts and to the Company's Registrar & Share Transfer Agents in respect of their shareholding in physical segment by mentioning folio nos., etc.

5. Members are requested to convert their share(s) lying in physical form to the Demat form for easy transferability of shares. For any help the shareholders may contact the Sr. General Manager (Legal) & Company Secretary at mail id. shambhu.singh@jkcement.com
6. Members are requested to bring their copies of the Annual Report, as Copies of the Report will not be re-distributed at the Meeting.
7. Members seeking any information with regard to the accounts of the Company are requested to write to the Company at its Registered Office, so as to reach at least 10 days before the date of the Meeting to enable the Management to keep the information ready.
8. Proxies, in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the commencement of the meeting. Members, who hold shares in Physical/Dematerialised Form, are requested to bring their Folio No./ Depository Account Number and Client I.D. Number for identification.
9. Pursuant to clause 49 of the Listing Agreement relating to Corporate Governance, the particulars of Directors proposed to be appointed or re-appointed are given in the Report on Corporate Governance attached to the Directors' Report.
10. The Ministry of Corporate Affairs has taken 'Green Initiative in the Corporate Governance' by allowing paperless compliances by the Companies and had issued circulars stating that service of notice/documents including Annual Report can be sent by e-mail to its members. In this regard we solicit your cooperation to update our databank. Members who have not registered so far, are requested to register their e-mail address, contact telephone Number, ECS Mandate in respect of electronic holdings with the Depository through their concerned Depository Participants. Members who hold shares in physical form are requested to intimate their e-mail address, contact telephone number at any of our e-mail address viz. (a) shambhu.singh@jkcement.com, (b) rc.srivastava@jkcement.com, (c) investorservices@jkcement.com, (d) jkshr@jkcement.com and send ECS Mandate to the Registered Office of the Company.

## BY ORDER OF THE BOARD

**Shambhu Singh**

Sr. General Manager (Legal) &  
Company Secretary

Place : Kanpur

Date : 26th May 2012





OUR PHILOSOPHY OF  
ENTREPRENEURSHIP  
IS ENCAPSULATED  
IN THE SANSKRIT  
EXPRESSION:  
'SARVE SUKHINA  
BHAVANTU'  
OR ENDURING  
HAPPINESS FOR ALL  
STAKEHOLDERS.

## CHAIRMAN'S MESSAGE

Dear Shareholders,

J.K. CEMENT HAS ALWAYS BEEN ABLE TO RIDE INDUSTRY CYCLES AND ECONOMIC CRESTS AND TROUGHS BY VIRTUE OF ITS STRONG FUNDAMENTALS AND A VALUE SYSTEM NURTURED BY J.K. ORGANISATION. VALUES THAT HELPED US CREATE A SOCIALLY RESPECTED ORGANISATION AND A NATIONALLY RELEVANT ENTERPRISE.

Our philosophy of entrepreneurship is encapsulated in the Sanskrit expression: 'Sarve Sukhina Bhavantu' or enduring happiness for all stakeholders. The people-centric approach is embedded in our corporate culture, imbibed and practised by our founders in business as well as in social endeavours. At J.K. Cement, the wealth earned through our business performance has benefited and brought happiness to various stakeholders that include shareholders, employees, business associates and the community at large.

Taking a cue from global scheme of things, we need to be a little cautious and risk-focused in our approach. Economies are failing across the world: the crisis in the euro zone is deepening; the US recovery is in trouble; and the Asian growth juggernaut seems to be losing steam as China and India are witnessing economic slowdown. However, India's growth rate (currently 6.5%) is comfortably higher than most economies of the world, and the long-term prospects continue to be bright.

Despite challenges, J.K. Cement has increased revenues and profits owing to higher realisation and volumes in both grey cement and white cement business. At J.K. Cement, we believe we have created a business model, which can counter adversities and create an ecosystem of sustainable value creation for the stakeholder community.

Few years ago, we foresaw an enormous pent-up cement demand, as a result of which we started enhancing capacities. Our performance for 2011-12 validated the prudence of our expansion strategy. Today, J.K. Cement's customer offering is not only limited to varieties of grey cement but it has also extended to white cement and other value added products. Besides, the Company is well on its way to expanding its capacities in India and is also setting up a grey cum white cement plant at Fujairah in UAE to cater to GCC and African markets.

Infrastructure creation remains a priority for the government, and if properly implemented, can be the single most important driver for economic growth. Besides, the housing sector, if properly

incentivised, is also expected to enhance inclusive growth. The government has prioritised infrastructure investments, proposing an investment of US\$ 1 trillion for the 12th Plan, compared to an estimated US\$ 500 billion in the 11th Plan. Such an approach augurs well for J.K. Cement as enhanced infrastructure demand will accelerate cement demand.

We are constantly investing in the knowledge and skill set of our people to meet international benchmarks. This has enhanced their confidence to take up bigger challenges and elevate the organisation to the next level. Besides, we continued our endeavour of social entrepreneurship by being a part of numerous community initiatives to help enrich the quality of life, encompassing education, healthcare, religion, sports, culture and so on.

More than a hundred years ago, Lala Kamlapat Singhanian had asserted his faith in universal good: "I believe that industry, apart from serving society by creating wealth, should also promote and take an active part in the mental, physical and social uplift of man and society at large." At J.K. Cement, we are keeping faith in his vision, by espousing the philosophy of Sarve Sukhina Bhavantu.

Let us all work hard to extend this philosophy, making it a foundation for sustainable value creation in good times and bad.

Warm Regards,

**Gaur Hari Singhanian**  
Chairman



DESPITE CHALLENGES,  
J.K. CEMENT  
HAS INCREASED  
REVENUES AND  
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AND VOLUMES IN  
BOTH GREY CEMENT  
AND WHITE CEMENT  
BUSINESS.



## MD AND CEO'S MESSAGE

Dear Shareholders,

THE DEVELOPED ECONOMIES OF THE WORLD SEEM TO BE IN DIRE NEED OF A LIFE-SUPPORT SYSTEM, AND THE EMERGING BLOC IS ALSO EXPERIENCING MOMENTARY FATIGUE. THE LOOMING SHADOWS OF A SLOWDOWN HAVE LENGTHENED TO THE SHORES OF INDIA, ALTHOUGH THE GDP GREW BY OVER 6% IN 2011-12. THE IMPACT IS VISIBLE ACROSS KEY SECTORS OF THE DOMESTIC ECONOMY. HOWEVER, INDIA'S VAST, UNEXPLORED DOMESTIC MARKET, REFORMS-FOCUSED GOVERNANCE AND AN ASPIRATIONAL POPULATION WITH STEADILY RISING INCOME CREATE LONG-TERM REASONS FOR OPTIMISM.



AT J.K. CEMENT, 2011-12 WITNESSED STELLAR PERFORMANCE. WHILE, OUR REVENUES INCREASED 21% OVER THE PREVIOUS YEAR, OUR POST-TAX PROFIT SURGED 179%.

The cement industry showed signs of revival in the second half of 2011-12, owing to enhanced urbanisation across tier II and tier III cities, low-cost housing across sub-urban and rural areas and government-backed construction projects. We expect more demand to emanate from the infrastructure segment in the immediate future. Once big-ticket infrastructure projects are implemented, cement demand will escalate further. According to industry estimates, India would require an overall cement capacity of around 480 million tonnes. This means the industry will have to add another 150 million tonnes of capacity during the 12th Five-Year Plan (2012-17) period.

## PERFORMANCE

At J.K. Cement, 2011-12 witnessed stellar performance. While, our revenues increased 21% over the previous year, our post-tax profit surged 179%. This was on account of additional volumes and contribution from all the products i.e. grey cement, white cement and wall putty.

## KEY DEVELOPMENTS

Some of the important developments of the year comprise the following:

✦ J.K. Cement undertook initiatives to enhance brand visibility in the southern part of India. We are now on course to emerging as a pan-India player.

✦ We witnessed steady demand for our white cement and value-added wall putty throughout the last fiscal,

resulting in optimum utilisation of our white cement capacity.

✦ We completed our wall putty capacity expansion to three lac tonnes per annum on schedule, resulting in higher volumes.

✦ We are progressing well with our expansion at Fujairah. The Company has achieved financial closure and the work at site has begun. We are optimistic about this expansion, because of the demand potential the region offers. The Middle-East accounts for 16% of global white cement demand, with one of the highest per capita use (12.2 kg). Besides, the Gulf as a whole also enjoys high demand, with UAE, Qatar, Kuwait and Saudi Arabia having a per capita use of 45 kg, 54 kg, 27 kg and 22 kg, respectively. With the setting up of Fujairah plant, we will become the first Indian company to set up a white cement plant in India and overseas.

## ENHANCING POTENTIAL

During the year, your Company conducted numerous training and development activities to enhance people potential. This helped strengthen technological awareness, quality consciousness, productivity improvement, energy conservation practices, communication skills and negotiation skills of our employees. These initiatives were conducted across various levels of the organisation.

## WAY FORWARD

Over the years, we have successfully executed our expansion plans without diluting the shareholder's value. Rather, we have consistently paid dividend since 2004-05 and rewarded our shareholders.

This gives us the confidence to commence the next lap of the journey to achieve higher growth and greater visibility. The industry also offers significant potential for future growth. The residential sector will be the key demand driver, thanks to increasing per capita income, nuclear families, growing urbanisation and government stimulus to various rural and affordable housing schemes. Our multi-regional and multi-product play will enable us to achieve our objectives and bring smiles to all our stakeholders.

**Yadupati Singhania**

Managing Director and CEO



WITH THE SETTING UP OF FUJAIRAH PLANT, WE WILL BECOME THE FIRST INDIAN COMPANY TO SET UP A WHITE CEMENT PLANT IN INDIA AND OVERSEAS.

# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

## ECONOMIC REVIEW

### Indian economy

The Indian economy has undergone a tough phase in the year 2011-12. The growth was impacted by both the deteriorating global economy and various domestic issues like high interest rates, inflation, infrastructure constraints, lack of political consensus and liquidity crunch among others. Besides, a fragile external account has caused depreciation of rupee in the backdrop of volatile global risk sentiment. Indian GDP growth is restricted to 6.5% (at factor costs) in financial year 2011-12.

### GDP growth rates (%)

	2007-08	2008-09	2009-10	2010-11	2011-12
GDP	9.3	6.7	8.4	8.4	6.5
Agriculture	5.5	0.4	1.7	6.8	2.5
Industry	10.3	4.7	8.6	7.4	4.5
Services	39.9	10.0	10.5	9.3	9.4

(Source: Economic Survey 2011-12)

### Outlook

The Union Budget 2012-13 has announced measures to augment the supply side response of the economy to maintain price stability and growth. The service sector comprising 57% of GDP is expected to come down from 9.4% in 2011-12 to 8.7% in 2012-13 on account of slackening demand from hotels, transportation, communication, community, social and personal services. The industrial segment on the other hand is expected to improve from 4.5% in 2011-12 to 5.6% in 2012-13 on account of expected money easing by RBI. The agricultural sector is expected to clock in a flat growth of 3% in 2012-13 in the event of normal monsoon. Considering these domestic factors and a mild improvement in global macro-economic

scenario, the GDP growth is expected to return back to the levels of 7% in 2012-13

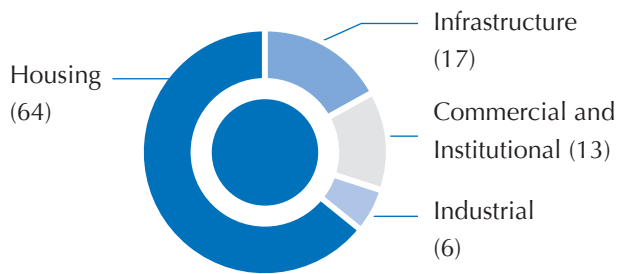
## CEMENT INDUSTRY STRUCTURE AND DEVELOPMENT

### Overview

India is the second largest cement market after China, accounting for 7-8% of the total global production with an installed capacity of over 300 Mntpa by the end of 2011-12. Cement being a cyclical commodity, has a high correlation with GDP, accounting for around 1.2x of nominal GDP. Over the years housing sector has been the pillar of cement consumption in India constituting 64% of the total consumption, followed by infrastructure (17%), Commercial & Institutional (13%) and rest by Industrial segment (6%).



### Cement consumption pattern (%)

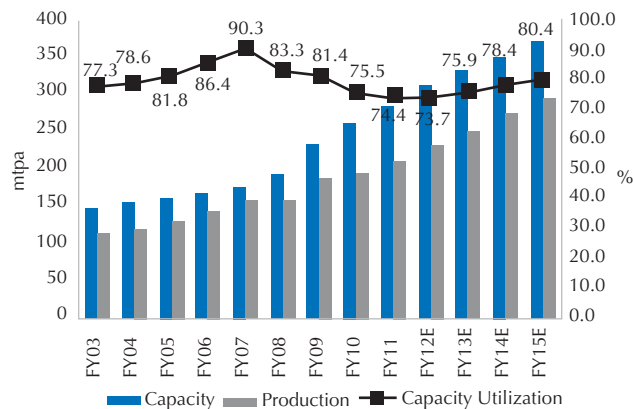


(Source: Task force report on Indian Cement industry)

### Cement consumption pattern

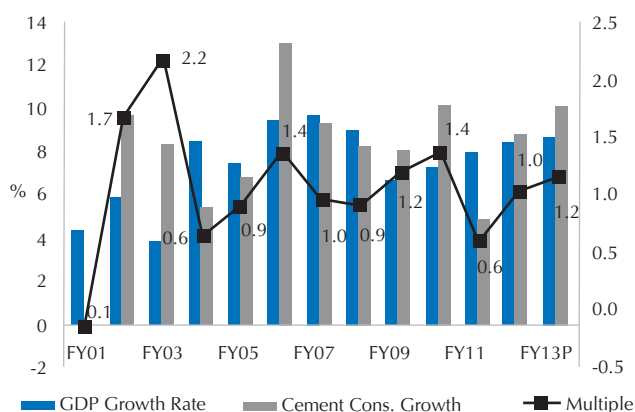
The year 2011-12 witnessed India's cement production reported growth of 6.2% mainly owing to slowdown in construction activities, prolonged monsoon, delay in infrastructural projects caused by environmental clearances hurdle and overall downturn in the economy. Resultant capacity utilisation levels also declined to 73.7% in 2011-12 as against 74.4% in 2010-11 owing to higher capacity additions as against incremental demand.

### Installed capacity, production and utilisation levels



(Source: Task force report on Indian Cement industry)

### Sector demand vs GDP growth trend



(Source: CMA, MSFL Research)

### Outlook

#### Grey cement

The long term drivers for the cement demand remain intact in the form of higher infrastructure spending, strong growth in rural housing, peaking interest rates and normal growth in urban housing. All these factors would trigger cement demand and bring back the momentum on track. Given the slowing pace of capacity additions, the installed capacity is expected to have 6.7% CAGR across India till 2015. Investments planned by the government under various sub-sectors of infrastructure and US\$ 1 trillion allocated to infra development in the country during the XIIth five year Plan period would require an overall cement capacity of around 480 million tonnes.

#### White cement

Growing product awareness and its long-term advantages has led to spurt in demand in YoY demand of white cement and wall putty especially from middle and high income group. While white cement is used as base work for interior and exterior applications for residential and commercial segments, wall putty finds its application as water resistant and provides a sub coating surface for decorative paints. With increasing wall putty applications for interiors, the demand is expected to grow 25% annually.

### Growth drivers

#### Huge investments in infrastructure by Government

The government has intended to expend US\$ 1 trillion on infrastructure in the XIIth five year plan period (2012-17), against an investment of US\$ 514 billion in the XIth five year plan period. The sustained focus of the government on infrastructure development especially in power, road, and irrigation would boost up the demand for the cement sector. The government in its budget has increased allocation to various schemes like PMGSY, AIBP in the range of 13% to 20% for the benefit of the construction sector. All this would augur the growth of cement.

#### Strong demand from the housing sector

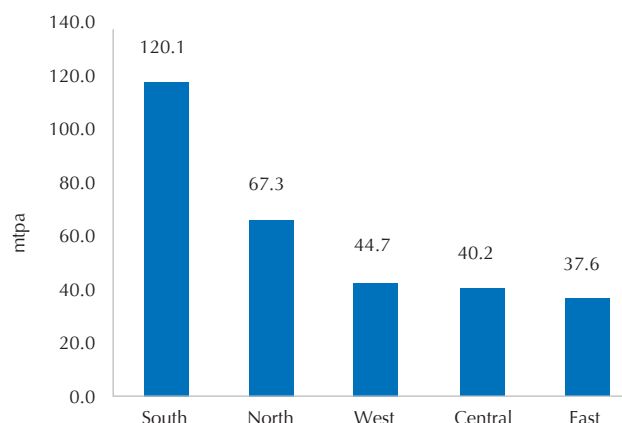
Around 64% of the total cement demand is contributed from the housing segment. It also accounts for 80% of the total real estate developments in the country. Increased urbanisation and rising income levels would drive the demand of this sector. Housing demand is expected to be robust backed by various measures adopted in the budget like continued interest subvention up to ₹ 15 lacs, exemption from service tax for low cost

housing construction, and increase in investment-linked deduction of capital expenditure on low-cost housing to 150% from 100%. The strong housing demand would in turn fuel the demand for cement.

### Regional spread of the cement industry

The cement industry is split up into five geographic regions, south, north, west, central and east. The Southern region of India has a total installed capacity of 120.1 mtpa (38.7% of total India's cement capacity) and dominates the cement space, followed by North with 67.3 mtpa (21.7% of total India's cement capacity). Whereas, the Western region has a total capacity of 44.7 (14.4% of total India's cement capacity), Central India has a total capacity of 40.2 mtpa (13.0% of total India's cement capacity) and Eastern India has a total installed capacity of 37.6 mtpa (12.1% of total India's cement capacity).

### Region-wise capacity break-up



(Source: GEPL)

Region-wise growth projections	East		North		West		South	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Capacity growth (%)	4	8	5	7	2	7	7	3
Production (m tonnes)	35	39	61	68	37	41	73	80
Capacity utilisation (%)	91	93	89	92	83	85	61	65

(Source: IIFL, August 2011)

### Risks and concerns

#### Sustained economic slowdown

The growth of cement industry is directly proportional to GDP growth rate. Of late, absence of decision making at Government level is affecting economic growth and its continuation for long term may have cascading affect. If proper measures are not adopted against inflation, high interest rates, depreciating rupee, corruption and scams, then it would impact the overall economic growth of the country resulting in dragging the sector down.

#### Execution delays

Any delays in execution of infra projects or slow investments by the government over the next two years may result in low demand for cement and hit the sector badly.

#### Adverse demand-supply mismatch

In case, the additional capacities get commissioned ahead of schedule, then a state of oversupply would arise, consequently prices may head southwards and the sector may suffer a severe blow.

#### Increase in production cost

The cement sector is facing challenging operating environment headed by cost push. There has been

severe pressure on the production costs over the past two years, primarily driven by a rise in costs of raw materials, fuel, power, and freight costs which approximately forms 70% of the overall costs. The key factors that contribute to the high costs are lower availability of linkage coal leading to high coal cost, shortage of railway wagons and increase in fuel cost leading to increase in freight cost both for inward & outward movement.

#### Unavailability of coal linkages

Coal costs constitute 14-23% of cost of production of cement. The hike in coal prices would hit the industry margins. Also, coal linkages from Coal India are declining over the years; as a result companies have to procure coal at higher costs from South Africa and Indonesia. With dwindling production of Coal India, coal linkages for cement companies is expected to decline further and for the new capacities coal linkages are likely to be minimal.

### Opportunities and Threats

#### Grey cement

On an overall basis, industry is positive for cement sector in general. Cement sector saw the demand growth of 6.4% during the year. However the slower GDP growth