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IN PURSUIT OF GROWTH AND EXCELLENCE IN PERFORMANCE

BOARD OF DIRECTORS

Hari Shankar Singhania
Chairman

Bharat Hari Singhania
Vice Chairman & Managing Director

B.V. Bhargava

Nand Gopal Khaitan

Pradip Roy

Pravinchandra V. Gandhi

Raghupati Singhania

U.Mahesh Rao

V.K. Guruswamy

Vinita Singhania
Managing Director

Shailendra Chouksey
Whole-time Director

S.K. Wali
Whole-time Director

OFFICES

Registered Office
Jaykaypur - 765 017,
Rayagada (Orissa)

Administrative Office
Nehru House,
4, Bahadur Shah Zafar Marg,
New Delhi - 110 002

REGISTRAR & SHARE TRANSFER AGENT

MCS Limited,
Shri Venkatesh Bhawan,
W-40, Okhla Indl. Area, Phase-II,
New Delhi - 110 020
Ph. : 2638 4917-20

AUDITORS

Lodha & Co.
Chartered Accountants

PLANTS

Lakshmi Cement
Jaykaypuram - 307 021,
Basantgarh,
Dist. Sirohi (Rajasthan)

JK Magnetics
B-4, Surajpur Industrial Area II,
Surajpur - 203 207,
Dist. Gautam Budh Nagar,
(Uttar Pradesh)

BANKERS

State Bank of India
Punjab National Bank
Canara Bank
Bank of Baroda

COMPANY SECRETARY

Brijesh K. Daga



CHAIRMAN'S MESSAGE

Dear Shareholders,

The period, coinciding with our financial year, has seen some major developments on international and domestic arena. Indian efforts to improve relations with its neighbours eased tension and created more congenial environment domestically – both on economic and political fronts.

Indian economy continued to grow at a pace faster than the global pace and was able to attain a GDP growth rate of about 8% after many years. This was a result of continued progressive policy initiatives with emphasis on development of infrastructure, lower interest rate regime and comfortable foreign exchange reserves. It is expected that country would continue to progress at a higher pace with the new Government in place and their emphasis on larger investments in infrastructure and rural upliftment.

To be able to sustain an annual GDP growth rate of 7 to 8%, it is essential that the Indian economy remains globally competitive and necessary emphasis on the growth of infrastructure is continued. This impetus along with rational tax structure and pragmatic human resource policy would encourage the Indian Industry to attain the desired growth and help the country to take its rightful position among the leading economies of the world.

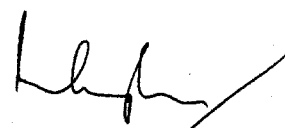
Cement being one of the core inputs for infrastructure development, needs Government's attention. This industry is one of the highest taxed – with both direct and indirect taxes which are deterrent to large scale use by the road segment. The superiority and viability of concrete roads have long been established both in developed and developing countries. It results in lower fuel consumption and reduced cost of road and vehicle maintenance. In the present context with ever rising petroleum prices and presently used alternative material - bitumen being petroleum based, it has become even more relevant. The rural housing is yet another area needing greater encouragement and support. Reasonably taxed cement would become more affordable to larger populace and would help attain laudable objectives of rural development emphasised by the new Government.

The financial working of the Rajasthan based Cement Industry during last 3-4 years has largely been affected due to over supply situation prevailing in North. A correction in the same appears imminent with continued emphasis on infrastructure, housing and rural development. This should bring in its wake better financial performance of these units, including yours.

It is heartening to note that your Company's continued efforts in development of human resources and consumer centric approach have started yielding results. The dedicated efforts in these areas have enabled the Company to grow at a higher pace than Industry in last 3 years. The Company's production has gone up from 21.2 lac MT to 24.53 lac MT without any significant capex. The Company's fresh initiatives to get cheaper power through captive power generation as also enhancing its capacity further to 30 lac MT is in continuance of the untiring efforts of the dedicated team with clear vision and mission.

I am indeed happy that your Company's operations are environment friendly and its emission levels are much below the prescribed norms. The Company has maintained its emphasis on being a responsible corporate citizen by adopting good corporate governance system and undertaking various social initiatives in and around its areas of operation.

Thank you,



Hari Shankar Singhania
Chairman



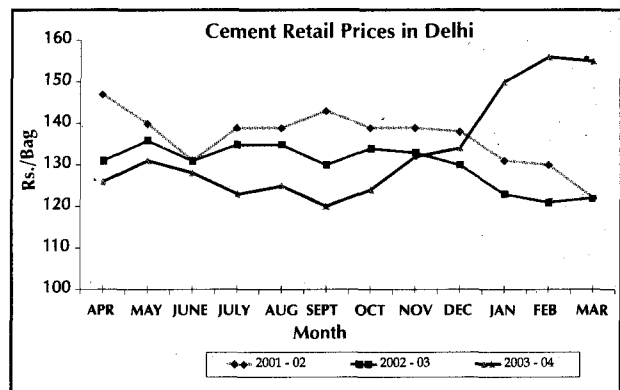
Shri Bharat Hari Singhania

Review by the Vice Chairman and Managing Director

Has the cement consumption grown as per your earlier projections and whether the changes had any impact on the prices in your region?

We were optimistic that the cement demand growth, especially in northern region, would be satisfactory, viz. 8% or plus. The growth in the last two years, however, has been unexpectedly low, viz. 7.3% in FY-03 and 6.5% in FY-04. This unexpected low level of growth, despite various infrastructure projects already under construction, has prolonged the supply overhang situation in our region. We believe that continued drought situation in many states of our marketing areas such as Rajasthan, Gujarat etc. has affected the rural demand adversely. The situation in the last quarter of the year 2003-04, however, has witnessed a growth of over 12% in North which reinforces our belief that the good monsoons which were experienced especially in Rajasthan and Gujarat in July-September 2003 has started translating into improvement in the rural economy there.

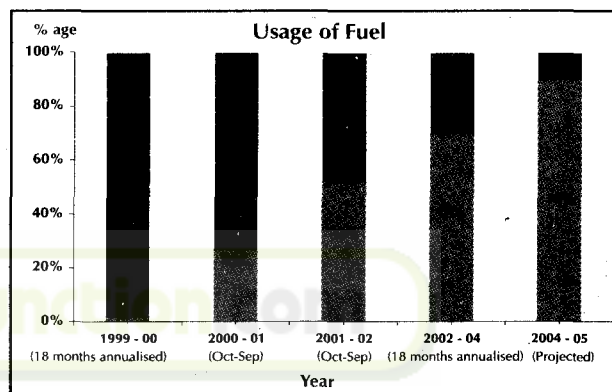
The continued overhang of supplies has had a cascading impact on the retail prices of cement in our area and many of the markets witnessed



steep fall in prices. For instance, in quarter April-June 2001 the retail prices per bag in Delhi were at about Rs.139 per bag which came down to Rs.133 in the same quarter of 2002 and further to about Rs.128 in April – June 2003. The demand situation in Gujarat was still worse which recorded a negative growth rate of 2% in the year 2002-03 and a growth of 6.3% in the year 2003-04. The commissioning of Sanghi Cement plant of 2.6 million tonnes during this period contributed to nose diving of prices in Gujarat, from Rs.132 in April 03 to Rs.106 per bag in November 03.

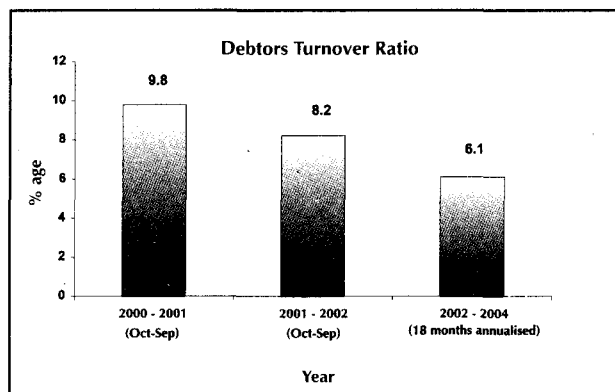
How has been the performance of your Company in this situation?

The Company could further increase its production by about 6% to 24.36 lac MT on annualised basis and attained 101% capacity utilisation. However, there was no matching increase in the turnover, viz. only an increase of 3.6% despite the sales growth of 6%, due to steep fall in the prices in our region. The fall in the prices affected our Net Realisation and accordingly the margins got reduced. The



Company vigorously followed up its plans for improvising the operating parameters and succeeded in reduction of its power consumption by 2 Kwh and improved its usage of Petcoke to 70%. The gains in the efficiency parameters, however, were considerably offset due to hike in the prices of both petcoke and coal, raw material cost and packing cost due to hike in the international prices of petroleum products. The Company is currently using Petcoke upto 95%.

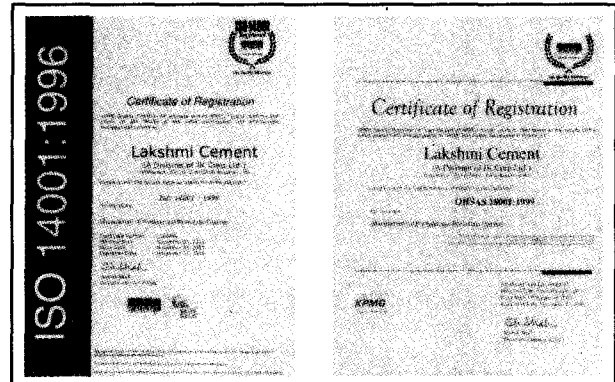
In the current year, the Company increased its blended cement ratio to 31% from 18% in



previous year, average age of the outstandings was reduced to 12 days from 14 days and its freight and distribution costs were further reduced.

The Company has also been able to reduce its interest burden in the current year with the re-scheduling of certain repayments with encouraging support of the Financial Institutions.

The Company in pursuit of maintaining ecology and as a responsible corporate citizen has been taking serious initiatives to systemise its environmental safety plans. After a detailed planning and rigorous audit, the Company has been awarded ISO-14001:1996 and OSHAS-18001:1999 by KPMG Quality Registrars. These accreditations will help and further our resolve towards environment, safety and health of our people.



Going forward what are your major plans?

We recognise that the cost optimisation on one hand and maximising the realisation on the other, are the only solutions to the vagrancies of wide fluctuations in the cement prices. Towards the cost optimisation, we have continuously been stressing on improvement of operating parameters and we are happy to note that almost all the parameters, be it the fuel or power consumption or manpower productivity, continuous improvements have been achieved. Today, our operating norms are comparable to the best in the Industry. We have considerably reduced our fuel cost by maximising usage of Petcoke.



Lakshmi Cement Plant at Jaykaypuram, Distt. Sirohi, Rajasthan

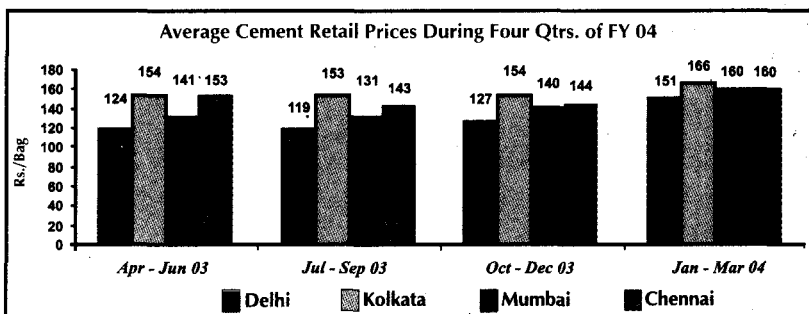
For improving the realisations, we are continuing our drive to optimise the freight and logistics costs by redistribution of our produce. We are also stressing on altering the product mix to achieve even higher blended cement sale. We have also embarked on a major branding exercise which entails rechristening our brand to **"JK LAKSHMI"** so as to fully capture the intrinsic value of **JK brand**. The other measures include further improvement in other areas including still better working capital management by reduced debtors, reduced inventory, lessening of the transit time etc.



The Company has already embarked on an ambitious project to further improvise on its efficiency parameters, including reduction in the power and fuel consumption. This project also involves enhancing its capacity from the existing 24 lac MT to about 30 lac MT. Efforts are on to explore the setting up of a captive power plant. We are also on the look out for cheaper power from other sources under the provisions of the new Central Electricity Act 2003. The fructification of these efforts would help us to remove our present handicap of higher power cost.

How do you perceive the outlook for the Cement Industry in North and especially your Company?

We firmly believe that North is reaching a stage of considerable equilibrium between the demand and supply. The demand pick up which has been witnessed in the last quarter of the previous financial year has reinforced this belief. The fact that no greenfield site projects are coming for next one or two years give us a hope that in the medium term the Cement Industry based in North can expect reduced price wars and resultantly more rational pricing. In fact, reasonable price levels have been witnessed in our markets for the last six months. The anomaly of the prices in the Northern markets, which are lower by Rs. 20 to 30 per bag compared to those witnessed in Southern and Eastern markets, would also get eased out. We are confident that the measures which have been taken by the Company in the recent past in improvising our performance would lead to higher margins on the operations.



DIRECTORS' REPORT

To The Members

Your Directors present the 64th Annual Report and Audited Accounts of the Company for the 18 months period ended 31st March 2004.

OPERATIONS

During the period under review, the Company's Sales and Other Income was Rs.716.43 Crores, Operating Profit (PBITD) Rs.60.91 Crores and Cash Profit (PBDT) Rs.24.17 Crores. After providing for depreciation and accounting for deferred tax credit, the profit after tax (loss) was Rs.31.58 Crores.

The Company's results were adversely affected due to substantial fall in Cement prices particularly in Company's marketing zone, hike in excise duty by Rs. 50 per tonne from March 2003, increase in the cost of major inputs such as fuel, raw material, packaging cost etc. The Company could partly mitigate these adversities by improving logistics including savings in freight and distribution costs. The Division achieved substantial reduction in power consumption from 88 Kwh/MT to 86 Kwh/MT and fuel consumption from 106 Kg/MT to 94 Kg/MT, through increased usage of petcoke and other technical improvements.

The Company has been continuously optimising product mix through increased sale of blended Cement to improve its profitability. It achieved 101% capacity utilisation and continue to operate at high

efficiency and productivity. The annualised production was 24.34 lac MT registering an increase of 6% over the previous year.

January-March 2004 quarter has witnessed spurt in demand to the extent of 7% on All India basis and 12% in Northern Region. This had positive effect on the prices of Cement in our Region in this quarter. With signs of improvement in rural economy, prediction of good monsoon in the coming year, completion of long term infrastructure and housing projects undertaken by the Government, Cement consumption is expected to increase by 8 to 9% p.a. in the coming years. This would considerably ease the excess supply condition hitherto experienced and also the pressure on the selling prices.

It is hoped that the new Government would continue to lay emphasis on development of roads, houses and other infrastructure projects resulting in healthy growth of Cement consumption.

The debt restructuring proposal of the Company has been approved. This will facilitate Company's plan to improve its production capacity from the existing 2.4 million tonnes per annum to approximately 3 million tonnes per annum as also further improve its operational efficiencies and reduce cost. The work on the implementation of the project has since commenced. The Company is also arranging to set up a captive thermal power plant to reduce the cost of power. With these measures, the Company's profitability would improve substantially.

The operations of Company's Magnetic Division have been suspended with effect from 30th June 2003 being uneconomical.

SHARE CAPITAL

The Equity Share Capital of the Company has been increased by Rs.5.65 Crores during the year.

DIRECTORS

Shri Bharat Hari Singhania and Smt. Vinita Singhania were re-appointed as Managing Directors of the Company for a further period of five years each w.e.f. 1.10.2003 and 1.8.2003 respectively.

Shri B.V. Bhargava and Shri N.G. Khaitan retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible, offer themselves for re-appointment.

Shri Pradip Roy has been nominated by IDBI on the Board w.e.f. 21st July 2003, in place of Shri A.K. Doda. The Board places on record its sincere appreciation of the valuable services rendered by Shri A.K. Doda during his tenure of office.

AUDITORS

M/s. Lodha & Co., Chartered Accountants, the Auditors of the Company, retire and are eligible for re-appointment. The appointment of the Auditors is required to be made by a Special Resolution pursuant to Section 224A of the Companies Act 1956. The observations of the Auditors in their Report on Accounts read with the relevant notes are self-explanatory.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217(2AA) of the Companies Act 1956, your Directors state that :

- in the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures in the financial statement ;
- the accounting policies have been selected and applied consistently and judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial period and of the Profit or Loss of the Company for that period ;
- proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the said Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities ; and
- the annual accounts have been prepared on a going concern basis.

COST AUDIT

Audit of the Cost Accounts of the Company relating to 'Cement' for the 18 months period ended 31.3.2004 will be conducted by the Cost Auditors and Cost Audit Report will be submitted to the Department of Company Affairs, Government of India.