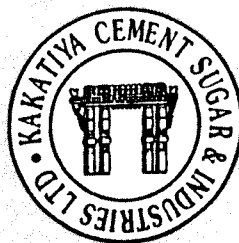


27th Annual Report 2005-06



**KAKATIYA CEMENT
SUGAR & INDUSTRIES LTD.**


BOARD OF DIRECTORS:

P. Venkateswarlu

P. Veeraiah

J.S.R. Prasad

R.S. Vidya Sagar

T.R.C. Bose

J. Seshagiri Rao

J. Lakshmi Nalini

C. Madhusudana Rao

V.B.R. Suryam

M. Narasimha Rao

P.V. Rao

Chairman & Managing Director

Joint Managing Director

Executive Director

Nominee of IDBI

Director

Director

Director

Director

Director

Director

Director

SENIOR EXECUTIVES

K.V. Rao Choudhary

G. Bharadwaja

A. Siva Sankar Reddy

T. Ramesh

Vice President (Cement Works)

General Manager (Sugar Works)

General Manager (Fin.)

Company Secretary

AUDITORS

M/s. M. Anandam & Co.,

Chartered Accountants,

SECUNDERABAD

COST AUDITORS

M/s. Narasimha Murthy & Co.,

Cost Accountants,

HYDERABAD

BANKERS

State Bank of India

Industrial Finance Branch

Somajiguda, Hyderabad

Andhra Bank

Specialised Corporate Finance Branch

Somajiguda, Hyderabad

REGISTERED OFFICE

1-10-140/1, "GURUKRUPA"

Ashok Nagar,

HYDERABAD-500 020

REGISTRARS

XL SOFTECH Systems Limited,

3, Sagar Society, Road No.2, Banjara Hills,

HYDERABAD-500 034

FACTORIES
CEMENT:

Srinivasa Nagar

Mellacheruvu Mandal

Nalgonda Dist. A.P.

SUGAR & POWER:

Peruvancha Village

Kallur Mandal

Khammam Dist. A.P.


NOTICE

NOTICE is hereby given that the **TWENTY SEVENTH ANNUAL GENERAL MEETING of KAKATIYA CEMENT SUGAR & INDUSTRIES LIMITED** will be held on Wednesday, the 27th day of September, 2006 at 11.00 A.M at Surana Udyog Auditorium, FAPCCI Premises, Red Hills, Hyderabad - 500 004 to transact the following Business.

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March, 2006, the Balance Sheet as on that date and the Reports of the Directors and the Auditors thereon.
2. To declare Dividend on Equity Shares.
3. To appoint a Director in place of Sri. P.V. Rao, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Smt. J. Lakshmi Nalini, who retires by rotation and being eligible, offers herself for re-appointment.
5. To appoint a Director in place of Sri. V.B.R. Suryam, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint M/s. M. ANANDAM & CO., Chartered Accountants, as Statutory Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting of the Company and to fix their remuneration.

By Order of the Board
for **KAKATIYA CEMENT SUGAR &
INDUSTRIES LIMITED**

Place : Hyderabad

T. RAMESH

Date : 24.08.2006

Company Secretary

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON POLL ONLY INSTEAD OF HIMSELF/HERSELF SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The Register of Members and Share Transfer Books will remain closed from 25.09.2006 to 27.09.2006 (both days inclusive).

3. Members are requested to notify immediately any change in their addresses to the Company's Registered Office with their Folio Number(s).
4. The Dividend, after declaration, will be paid to those shareholders whose names stand on the Register of Members on September, 27 2006. The Dividend in respect of shares held in the electronic form will be paid to the beneficial owners of shares whose names appear in the list furnished by the Depositories for this purpose as on September 27, 2006. The Dividend will be paid on and from October 12, 2006.
5. The Securities and Exchange Board of India (SEBI) has made it mandatory for all Companies to use the Bank Account details furnished by the Depositories for depositing dividend through Electronic Clearing Service (ECS) to investors wherever ECS and bank details are available. In the absence of ECS facilities, the Company will print the Bank details, if available, on the payment instrument for distribution of dividend.
6. As per provisions of Section 205A of the Companies Act, 1956 the Company has already transferred to the Investors Education and Protection Fund, the amount of all unclaimed dividends declared up to and including the financial year ended 31st March, 1998.
As per the provisions of Section 205A, the Company is required to transfer dividend, which remains unpaid or unclaimed for a period of 7 years, to the Investors Education and Protection Fund set up by the Central Government. Shareholders, who have not claimed their dividend for any year from the financial year ended March 31, 1999 onwards, are requested to lodge their claim with the Company.
7. (a) The Company's shares are listed with the Hyderabad Stock Exchange Limited (HSE), The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Limited (NSE).
(b) The Annual Listing Fee for the year 2006-2007 has been paid to all the three Stock Exchanges i.e., HSE, BSE and NSE.

By Order of the Board
for **KAKATIYA CEMENT SUGAR &
INDUSTRIES LIMITED**

Place : Hyderabad

T. RAMESH

Date : 24.08.2006

Company Secretary

**DIRECTORS' REPORT**

To
The Members

Your Directors have pleasure in presenting the 27th Annual Report together with the Audited Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

The Financial Results for the year ended 31st March, 2006 are summarised below:-

	(Rs. in Lakhs)	
Particulars	2005-06	2004-05
Income (Sale and other Income)	12767.77	14841.44
Profit before Depreciation, Interest & Taxes		
Depreciation	2564.87	3100.40
Interest	777.60	784.24
Provision for Taxation	575.15	1208.16
Provision for Deferred Taxation	95.04	98.29
Prior year Taxation	(162.26)	0.00
F B T	(9.45)	0.00
Profit after Taxation	5.12	0.00
Profit brought forward from Previous year	1283.67	1009.71
APPROPRIATIONS		
Transfer to General Reserve	2679.37	1956.95
Proposed Dividend	112.00	110.00
Corporate Tax on Dividend	155.48	155.48
Balance carried over to Balance Sheet	21.81	21.81
	3673.75	2679.37

Segment-wise performance has been furnished under Notes on Accounts.

DIVIDEND

Your Directors are pleased to recommend for your consideration a Dividend of Rs.2/- per equity share for the year ended 31.03.2006, aggregating an amount of Rs.155.48 lakhs.

PERFORMANCE OF THE YEAR UNDER REVIEW**Cement Division:**

During the year under review, the Cement Division has produced 2,62,227 MT of cement as against 2,75,727 MT of cement for the previous year. The loss for the Division was Rs.266.06 lakhs as against Rs.136.77 lakhs loss for the previous year.

Sugar Division:

The Sugar Division crushed 2,84,335 MT of sugarcane for the current season as against 1,88,013 MT for the previous season. The recovery rate was 10.51% compared to 10.76% for the previous season. The profit for the Division was Rs.1282.71 lakhs as against Rs.1160.98 lakhs for the previous year.

Power Division:

During the year under review, the Power Division has generated 6,45,20,200 KWH against 6,03,34,123 KWH of power for the previous year. The Profit for the Division was Rs.267.02 lakhs as against loss of Rs.14.50 lakhs for the previous year.

CURRENT YEAR OUTLOOK:**Cement Division:**

In the first three months of the current year i.e. April-June, 2006, the production of cement was 36,933.541 MT as against 74,331.095 MT of the first three months of the previous year. Your Directors expect that price realisations will improve during the remaining part of the current year.

Sugar Division:

Sugarcane crop in the factory zone has been affected due to deficit rainfall for the last 2, 3 years. However, price of sugar and molasses have stabilized at a very remunerative level, which is expected to continue in the near future. Further, heavy rainfall during the months of July - August' 2006 in the neighbouring States of Maharashtra and Karnataka have helped in filling the water reservoirs in the State which will ensure that the zonal areas of the factory will get good irrigation and thereby increased sugarcane availability.

Power Division:

The downward revision of tariff, by the APERC, on the power sales to APTRANSCO, has affected the profitability of the Division. The matter, however, has been contested in the Courts and is pending.


FIXED DEPOSITS:

The aggregate amount of deposits accepted by the Company as on 31.03.2006 stood at Rs.304.84 lakhs. There were no fixed deposits, which were matured but not paid, other than unclaimed deposits, as on that date.

INSURANCE:

All the properties of the Company including its buildings, Plant and Machinery and Stocks wherever required have been adequately insured.

STATEMENT PURSUANT TO SECTION 217 (2A) OF THE COMPANIES ACT, 1956 AND COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 (FORMING PART OF THE DIRECTORS' REPORT)

As none of the employees has drawn more remuneration than the limits prescribed under the above Rules, no statement is enclosed.

DIRECTORS' RESPONSIBILITY STATEMENT:

The Board of Directors of the Company hereby declares and states that -

1. In the preparation of annual accounts, the applicable accounting standards have been followed and there were no material departures therefrom.
2. The Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the status of the Company as on 31st March, 2006 and Profit & Loss Account of the Company for the year ended as on 31st March, 2006.
3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and preventing and detecting fraud and other irregularities.
4. The accounts were prepared on a going concern basis.

ENVIRONMENTAL PROTECTION:

The Company consciously makes efforts to preserve the environment and control the pollution from time to time.

Planting of saplings and seedlings in and around the factories and colonies is being done on a continuous basis, so as to develop green belt around the plant to improve the environment.

AUDITORS:

M/s. M. ANANDAM & CO., Chartered Accountants, Secunderabad, the Auditors of the Company retires at the conclusion of this Annual General Meeting and they are eligible for re-appointment.

COST AUDIT:

The Central Government had ordered audit of cost accounts relating to manufacture of cement. For the year ended 31st March 2006, with the approval of Central Government, M/s. Narasimha Murthy & Co., Cost Accountants, Hyderabad have been appointed to conduct the Cost Audit.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT:
a. Industry Structure And Developments:

Andhara Pradesh is marked as 'Cement Stock' State in the country. In this scenario, the Cement manufacturing Companies in AP State itself is facing stiff competition to secure competitive market share in the Industry. But, slowly demand for the Cement increased and the production remains same, which results hike in Cement prices. Implementation of major irrigation projects, setting of special economic zones, National and State high ways, housing projects, etc., has caused to increased in demand for cement for the year 2006-07.

Cement as well as Sugar industries in India are fragmented and scattered throughout the country and have been experiencing consolidations and achieving considerable growth rates and improved price realizations.

Sugar being an agro-based industry needs good irrigation facilities. Some regions of the country having sufficient water have given good crop yields. The recent heavy rains will help in improving the local irrigation facilities which will improve the crushing in the ensuing season. As far as Power operations are concerned,



the same being based on bagasse, due to insufficient availability of sugarcane, the power plant could not run optimally.

b. Opportunities and threats:

With the continued emphasis by the Government on infrastructure sector and housing sector, the demand for the cement is expected to remaining strong. Mixing of Ethanol with Petrol has improved demand for molasses, which is a positive factor for Sugar industry.

c. Segment or product-wise performance:

Segment-wise or product-wise performance has already been furnished elsewhere in this Report.

d. Outlook:

Division-wise outlook has already been furnished elsewhere in this Report.

e. Risks and concerns:

The Cement, Sugar and Power industries being core industries, there is no risk of product obsolescence nor steep fall in demand by way of product substitution or otherwise and therefore, your Directors do not foresee any major risks and concerns, in the near future except as discussed elsewhere in this Report.

f. Internal control systems and their adequacy:

The Company has adequate internal control system. Apart from this, the Company also has independent internal auditors, who conduct periodical audit and their report is taken into account by the Audit Committee for its review and suggest remedial actions wherever required.

g. Financial Performance with respect to operational performance:

This has been already discussed elsewhere in this Report.

h. Human Resources / Industrial Relations:

Workers of Cement Division resorted to strike on 22.03.2006. Management and Union have come to a conclusion to settle the issues and strike was called on 29.04.2006. Ever since the production started in the year 1983, this type of activities were not faced by Company.

However presently Company enjoys cordial industrial relations with employees and believes that human resources are an invaluable asset. The Board wishes to place on record its appreciation to all employees for

their efforts and cooperation for the performance and growth of business during the year.

i. CAUTIONARY STATEMENT:

Statements in this "Management Discussion & Analysis" may be considered to be "forward looking statements" within the meaning of applicable securities laws or regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand-supply conditions, increased installed capacity, finished goods prices, raw materials availability and prices, cyclical demand and pricing in the Company's markets, changes in Government regulations, tax regimes, besides other factors, such as litigations and labour negotiations.

ACKNOWLEDGEMENTS:

Your Directors wish to express their thanks for the assistance received from IDBI, ICICI, IFCI, IREDA, Indian Bank, United Bank of India and APIDC from time to time.

Your Directors also thank the State Bank of India, Industrial Finance Branch, Somajiguda, Hyderabad and Andhra Bank, Specialised Corporate Finance Branch, Somajiguda, Hyderabad for extending the support towards working capital to meet the requirements of its operations.

Your Directors appreciate the support and the cooperation received from the State Government, NEDCAP, APTRANSCO and the Central Government for the Company's growth and development.

Your Directors would like to convey the deep appreciation to all the employees and workers of the Company for their sustained effort and wholehearted co-operation throughout the year.

Your Directors thank the Distributors, Dealers and Suppliers for their continuous support and active involvement.

Finally your Directors record their deep sense of gratitude to all the Shareholders for the abundant confidence reposed in the Board of Directors.

For and on behalf of the Board

Place : Hyderabad

Date : 24.08.2006

P. VENKATESWARLU

Chairman &
Managing Director



ANNEXURE TO DIRECTORS' REPORT:

Particulars required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. CONSERVATION OF ENERGY

- a) Energy Conservation Measures adopted NIL
- b) Additional Investments and Proposal for reduction of Consumption of energy NIL
- c) Impact of the above measures NIL
- d) Total Energy Consumption and Energy Consumption per unit of production FORM "A" Enclosed.

c. TECHNOLOGY ABSORPTION

Efforts made in Technology Absorption FORM "B" Enclosed

B. FOREIGN EXCHANGE EARNINGS AND OUTGO

- a) Activities relating to exports, initiatives taken to increase exports, development of new export market for product & services and export plans. Exports are not contemplated at the present.
 Total foreign exchange used : Nil
 Total foreign exchange earned : Nil

FORM-A

Form for Disclosure of particulars with respect to Conservation of Energy

	CURRENT YEAR 2005-06			PREVIOUS YEAR 2004-05		
	CEMENT	SUGAR	POWER	CEMENT	SUGAR	POWER
A. POWER & FUEL CONSUMPTION						
1 ELECTRICITY						
(a) Purchased (KWH)	2,95,15,256	90,71,634	--	2,56,05,445	63,34,738	--
Total Amount (Rs.)	9,56,38,288	3,05,09,337	--	8,42,72,147	2,34,20,094	--
Rate per Unit (Rs.)	3.24	3.37	--	3.29	3.70	--
(b) OWN GENERATION						
Through Diesel						
Generators (Units)	48085	--	--	1,24,638	--	--
Units per Ltr. Of Diesel /	3.17	--	--	3.53	--	--
Furnace Oil						
Cost per Unit (Rs.)	8.07	--	--	5.79	--	--
2 FUEL						
(a) COAL						
Quantity (MT)	53,546	--	17,762	41,783	--	14,523
Total Cost (Rs.)	10,84,66,812	--	3,05,34,016	8,01,98,363	--	2,63,17,439
Average Rate (Rs.)	2,025.68	--	1,719.06	1,919.42	--	1,812.12
(b) DIESEL/ LDO						
Quantity (Ltrs.)	18,546	--	--	23,334	--	--
Total Cost (Rs.)	4,37,009	--	--	4,64,681	--	--
Average Rate (Rs.)	23.57	--	--	19.91	--	--



(c) Bagasse / Cane Trash						
Quantity (MT)	--	--	96,173	--	--	81,917
Total Cost (Rs.)	--	--	8,99,02,000	--	--	8,10,82,000
Average Rate (Rs.)	--	--	934.79	--	--	989.80

B. CONSUMPTION PER UNIT OF PRODUCTION

1. Electricity (KWH)						
Cement (MT)	108.259	--	--	102.958	--	--
Sugar (KGS)	--	0.36	--	--	0.31	--
Power (KWH)	--	--	0.084	--	--	0.094
2. Coal (MT)	0.20	--	--	0.19	--	--
(Per tonne of clinker)						

FORM - B

Form for disclosure of particulars with respect to Absorption, Research & Development (R & D):

- | | |
|--|--|
| 1. Specific areas in which R & D carried out by the Company
2. Benefits derived as a result of the above R & D
3. Future plan of action
4. Expenditure on R & D
A. Capital
B. Recurring
C. Total
D. Total R & D expenditure as a Percentage of total turnover | There is no separate Research and Development Wing as the scale of Company's operations are relatively small. However, the Company has fairly good laboratory with adequate testing facility to ensure quality of various inputs and also finished products. Besides the Company continuously endeavours to improve production process and product quality and encourages the technicians and workers to innovate in turnover. |
|--|--|

TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION - NOT APPLICABLE

For and behalf of the Board

Place : Hyderabad

Date : 24.08.2006

P. VENKATESWARLU

Chairman & Managing Director


CORPORATE GOVERNANCE REPORT
THE CORPORATE GOVERNANCE CODE & COMPANY'S PHILOSOPHY

The Company attaches immense importance to good Corporate Governance and the code of governance as formulated by the Stock Exchanges/SEBI and other authorities. It will be the endeavour of the Board of Directors that the Company is so governed as to maximise the benefits of all stake-holders i.e., shareholders, employees, customers, society and others. The Company has been implementing the various clauses of Corporate Governance from time to time.

BOARD OF DIRECTORS:

The Board of Directors of the Company is composed of 11 Directors, out of which 3 are whole-time directors and one is nominee of Financial Institution. The proportion of independent Directors is more than 50% as the Company has full-time Chairman. During the year under review, there were in all five (5) meetings of the Board of Directors and the maximum time gap between any two Board meetings was 96 days and the following is the attendance of the Directors:

Sl.No.	Name of the Director	No. of meetings attended	Whether Attended the last Annual General Meeting	No. of Directorships in other Boards	No. of Memberships in other Board Committees
01.	P. Venkateswarlu	5	Yes	1	Nil
02.	P. Veeraiah	5	Yes	1	Nil
03.	J.S.R. Prasad	4	No	4	4
04.	V. Venkateswara Rao	1	No	Nil	Nil
05.	T.R.C. Bose	4	No	4	4
06.	J. Seshagiri Rao	5	Yes	10	8
07.	J. Lakshmi Nalini	4	Yes	Nil	Nil
08.	C. Madhusudana Rao	3	Yes	4	Nil
09.	V.B.R. Suryam	1	No	Nil	Nil
10.	M. Narasimha Rao	3	No	2	Nil
11.	P.V. Rao	3	Yes	2	Nil
12.	R.S. Vidya Sagar *	2	No	Nil	Nil

* Appointed w.e.f. 26.04.2005.

The dates of Board Meeting held during the year under review are: 25.04.2005, 27.07.2005, 19.08.2005, 27.10.2005 and 27.01.2006.

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Sri. P.V. Rao, Smt. Lakshmi Nalini and Sri. V.B.R. Suryam retire by rotation and are eligible for reappointment.

Particulars, required to be furnished under clause 49 of the Listing Agreement, of Directors who are proposed to be appointed/reappointed at the ensuing AGM
Sri. P.V. Rao :

Sri. P.V. Rao, IAS (Retd.), aged about 63 years was served as the Chief Secretary to the Government of Andhra Pradesh. He had held very senior positions both in the Government of India as well as the Government of Andhra Pradesh. He is also on the Board of Directors of ACC Limited.

Smt. J. Lakshmi Nalini:

Smt. J. Lakshmi Nalini, aged about 50 years, has been associated with the Company as Director, since its inception.

Sri. V.B.R. Suryam:

Sri. V.B.R. Suryam, aged about 75 years is a Cement Technologist. He was associated with many cement Companies including ACC, Rasi Cement and having wide experience in his credit.


GENERAL BODY MEETINGS:

The last three Annual General Meetings were held as under:

Sl. No.	Location	Date and Time	Whether any special resolutions were passed	Postal Ballots
01.	Tyagaraya Gana Sabha, Chikkadapally, Hyderabad	27.09.2003 11.00 a.m	Yes	N.A.
02	KLN Prasad Auditorium, FAPPCI Premises, Red Hills, Hyderabad	30.09.2004 11.00 a.m	No	N.A.
03.	KLN Prasad Auditorium, FAPPCI Premises, Red Hills, Hyderabad	30.09.2005 12.00 noon	No	N.A.

SHAREHOLDERS / INVESTORS GRIEVANCES:

The Company accords utmost attention for resolving shareholders/investors grievances /complaints. Complaints received from shareholders/investors directly or through Stock Exchanges or SEBI are replied to immediately. There are no outstanding unresolved complaints.

SHAREHOLDERS GRIEVANCE COMMITTEE:

The Board of Directors of the Company constituted Shareholders Grievance Committee consisting of the following Directors, to deal with complaints regarding transfer/ transmission of shares; non-receipt of share certificates, dividends, annual reports and such other matters:

Sri C. Madhusudana Rao	-	Chairman
Sri T.R.C. Bose	-	Member
Sri M. Narasimha Rao	-	Member

During the year the Company has received 14 complaints and all have been resolved and there is no pending complaint.

AUDIT COMMITTEE:

The Board of Directors of the Company constituted Audit Committee consisting of the following Directors, with the role and responsibilities duly defined and in accordance with the applicable statutory and other requirements. During the year, in all, 5 meetings of the Committee took place and attendance thereat is as under:

Name of the Director		No. of Meetings Attended
Sri C. Madhusudana Rao	- Chairman	3
Sri T.R.C. Bose	- Member	4
Sri M. Narasimha Rao	- Member	3
Sri J. Seshagiri Rao	- Member	5

REMUNERATION OF DIRECTORS & REMUNERATION COMMITTEE:

Other than the whole-time Directors, no other Director receives any remuneration from the Company excepting Sitting Fees for attending the Board Meetings. The details of remuneration paid to the whole-time Directors is mentioned in Schedule XII (Notes to Accounts) to the Balance Sheet of the Company.

The Board of Directors of the Company constituted Remuneration Committee consisting of the following Directors, with the role and responsibilities duly defined and in accordance with the applicable statutory and other requirements.

Sri C. Madhusudana Rao	-	Chairman
Sri T.R.C. Bose	-	Member
Sri M. Narasimha Rao	-	Member