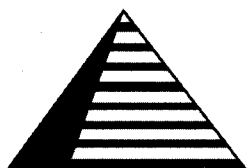


**47th
Annual Report
2003 - 2004**

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**Saurashtra Cement
Limited**



BOARD OF DIRECTORS

(As on 27-01-2005)

Mr. M. N. Mehta	<i>Chairman</i>
Mr. D. N. Mehta	<i>Deputy Chairman</i>
Mr. Jay Mehta	<i>Executive Vice Chairman</i>
Mr. H. D. Mehta	
Mr. M. N. Rao	
Mr. S. V. S. Raghavan	<i>Directors</i>
Mrs. Savita V. Pittle	
Dr. Kala S. Pant	
Mr. Stephen Potter	<i>Industrialization Fund for Developing Countries, Denmark, Nominee</i>
Mr. Peter Gorm Christiansen	<i>F. L. Smidth & Co. A/S, Denmark, Nominee</i>
Mr. B. P. Deshmukh	<i>UTI, Nominee</i>
Mr. M. S. Gilotra	<i>Managing Director</i>
Mr. R. K. Poddar	<i>Dy. Managing Director</i>

Bankers

Central Bank of India
Dena Bank
Vijaya Bank
The Saraswat Co-operative Bank Ltd.
IndusInd Bank Ltd.
Rajkot Nagarik Sahakari Bank Ltd.

Auditors

Messrs Bansi S. Mehta & Company
Chartered Accountants

Mr. A. M. Fadia

Director (Legal & Secretarial)

Registered Office

Near Railway Station,
Ranavav-360 560
(Gujarat)

Corporate Office

Agrima Business Centre
N. K. Mehta International House
178 Backbay Reclamation
Mumbai-400 020.

Share Departement

N. K. Mehta International House
178 Backbay Reclamation
Mumbai-400 020.

DIRECTORS' REPORT

Dear Members,

The Directors present the 47th Annual Report, Audited Accounts and Auditors Report for the year ended 30th June 2004

During the year under review, cement consumption on an All India basis increased by 5.1 percent (from 108.9 million tonnes to 114.5 million tones) and installed capacity increased from 143.52 million tonnes in the year ending June 2003 to 148.32 million tonnes in the year ending June 2004.

The consumption of cement in Gujarat grew by about 11 percent to 8.01 million tonnes against 7.31 million tonnes in the previous year. However, this level of consumption continues to be lower than that prevailing in Gujarat three years ago. Additional capacity has also been added in Gujarat resulting in surplus being almost double the demand. The new capacities which have come up enjoy the benefits of tax concessions as per the policies of the Government of Gujarat. These facts have resulted in cement prices remaining low.

Large increase in the price of petroleum products as well as shipping freights have also affected bottom line adversely.

FINANCIAL RESULTS

The Highlights of the financial results for the year ended 30th June 2004 are shown below:

	In Million Rupees	
	Current Year (2003 – 2004)	Previous Year (2002 – 2003)
Sales & Other Receipts	1960.04	2120.76
Profit / (Loss) before interest, depreciation, misc. expenses written off and extraordinary items.	(216.96)	118.53
Interest	303.45	278.36
Profit/(Loss) before depreciation & misc. expenses written off.	(520.41)	(159.83)
Depreciation, misc. expenses written off and losses of subsidiaries	189.63	176.00
Profit/(Loss) before extraordinary items and deferred tax assets	(710.04)	(335.84)
Extraordinary Items	–	(15.80)
Deferred Tax Assets	263.28	127.93
Prior Period adjustment – Credit/tax	(62.48)	(0.32)
Profit/(Loss) after tax	(509.24)	(224.03)
Brought forward Profit/(Loss) from earlier years	(859.78)	(635.75)
Balance of Profit/(Loss) carried forward (net of GR 7)	(1369.01)	(859.78)

PERFORMANCE REVIEW

Production and Despatches :

Cement production decreased from 0.71 million tonnes in the previous year to 0.67 million tonnes in the year under review. The volume of clinker production during the year was 1.01 million tonnes as against 1.11 million tonnes in the previous year. The sale of cement during the current year decreased by about 4 percent to 0.73 million tonnes from 0.76 million metric tonnes in the previous year. Production in the plant was affected due to liquidity constraints and in-adequate working capital.

Cost Reduction :

The Company continued to use indigenously available petcoke mixed with imported coal to the extent of 43.2 percent of fuel used, thereby offsetting the high cost of imported coal. The operational parameters of the plant were slightly lower than the previous year on account of lower production during the first quarter mainly due to heavy rainfall in the Saurashtra region.

However, during the year the cost of raw materials, coal, petcoke and fuel increased substantially resulting in lower contribution. The inward and outward freight also increased due to substantial hike in prices of petroleum products.

Marketing :

The consumption of cement in Gujarat grew by 10.6 percent from 7.32 million tonnes to 8.09 million tonnes. The Company's despatches within Gujarat increased by almost 10 percent from 0.54 million tonnes in the previous year to 0.60 million tonnes in the year under review.

Exports :

The Company has exported 0.38 million metric tonnes of clinker during the year under review as compared to 0.32 million metric tonnes in the previous year. There has been a continued growth in demand for cement and clinker in the Gulf area and cement companies located in Gujarat are well placed to meet this demand. It is expected that a growth in consumption of

cement in the Gulf region will continue and prices will remain firm at least for the next two years.

Expansion

Efforts are being made to complete the Corporate Debt Restructuring as well as rearranging finance for completion of the expansion project which is in progress. The Company has commenced a 7500 tonne silo for the bulk loading of cement at its jetty in the Porbandar port and a second silo of the same capacity is expected to be completed in the middle of 2005. The facility will help the Company in exporting a greater quantity of cement.

Applicability of SICA 1985:

The financial position of the Company has further deteriorated due to non-completion of the capital expenditure projects planned by the Company and adverse market conditions. However, more than fifty percent of net worth of the Company has been eroded. Accordingly, the Company has filed its application to the Board for Industrial and Financial Reconstruction (BIFR) under the provisions of Section 23 of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA 1985) in January 2004.

FUTURE OUTLOOK

During the year 2003-2004, the economy achieved an impressive GDP growth of 8.1 percent. In the current year, considering the satisfactory

monsoon throughout the country, the tempo of GDP growth is likely to be maintained which is expected to result in growth in demand of cement, the basic material for housing and infrastructure development. The Government of India has announced a speedy infrastructure development, as a policy.

Long term prospects of the cement industry in India as well as in Gujarat continue to remain bright. The growth in the infrastructure sector especially roads and irrigation, is expected to result in demand growing up over 8 percent per annum. Moreover, the construction boom in the U.A.E. and other Gulf countries will help the plants in Gujarat to export their surplus production ensuring good capacity utilization.

The areas of concern remain the high cost of energy, fuel and transport. The Installation of a captive thermal power plant as per Company's plan will help in reducing the cost of production in future.

DIVIDEND

In view of the losses in current year, the Directors express their inability to recommend any dividend for the year.

AUDITORS' OBSERVATIONS

In respect of observations of Auditors, attention of members is invited to Note No. 5 of Schedule L of Notes on Accounts, which is self-explanatory and do not require elucidation.

47th Annual Report

PUBLIC DEPOSITS

The Company has not invited and/or accepted any deposits, during the year.

CASH FLOW STATEMENT

Cash flow statement pursuant to Clause 32 of the listing agreement is attached herewith.

SUBSIDIARY COMPANIES

As required under Section 212 of the Companies Act, 1956, copies of the Balance Sheet and Profit & Loss Account and the Report of the Board of Directors and Auditors in respect of subsidiary companies are attached.

CONSOLIDATED FINANCIAL STATEMENTS

As required under Clause 32 of the Listing Agreement with the Stock Exchange, the Consolidated Financial Statement has been prepared by the Company in accordance with the requirements of Accounting Standard 21 "Consolidated Financial Statements" issued by The Institute of Chartered Accountants of India. The audited Consolidated Financial Statements together with Auditors' Report thereon form part of the Annual Report.

DIRECTORS

Mr. Pasupati Das, Dr. Kala S. Pant, Mr. B.L.Kalwar and Mr. Peter Gorm Christiansen were appointed as additional directors on Board on 28.9.2004.

Mr.M.N. Mehta, Mr.D.N. Mehta, Mr. Jay Mehta, Mr. Hemang D. Mehta, Mr. Stephen Potter, Mr. S.V.S. Raghavan, Mrs. Savita Pittie, Mr. M. N. Rao, Mr. M.S.Gilotra and Mr. R.K.Poddar resigned from the Board on 28.9.2004.

The Board places on record its appreciation of the valuable services rendered by the aforesaid directors during their tenure as a member of the Board.

Mr. M.N. Mehta, Mr. D.N. Mehta, Mr. Jay Mehta, Mr. Hemang D.Mehta, Mr. Stephen Potter, Mrs. Savita Pittie, Mr. M.N.Rao, Mr.M.S. Gilotra and Mr. R.K.Poddar were appointed as additional directors pursuant to section 260 of the Companies Act, 1956 on 15.10.2004.

Mr. S. V. S. Raghavan was appointed as additional director pursuant to section 260 of the Companies Act, 1956 on 27.01.2005.

The aforesaid directors retire at the ensuing Annual General Meeting of the Company and in respect of which the Company has received requisite notice together with prescribed deposit proposing their appointment.

Mr. M.K. Chanduka, nominee director of IFCL Limited, resigned from the Board and in his place Mr. A.K.Gupta was appointed.

Subsequently Mr. A.K.Gupta's nomination was withdrawn by IFCL.

Mr. S. Ramjee's nomination was withdrawn by his sponsor UTI Assest Management Company Pvt. Ltd. and nominated Mr. B. P. Deshmukh as their nominee on Board.

Mr. Erling Frandsen, nominee of FL Smidth & Co., resigned from the Board, and in his place Mr. Peter Gorm Christiansen was appointed.

Mr. Pasupati Das, Mr. B.L. Kalwar resigned from the Board on 15.10.2004.

The Board places on record its appreciation of the valuable services rendered by Mr. M.K. Chanduka, Mr. A.K. Gupta, Mr. S. Ramjee, Mr. Erling Frandsen, Mr. Pasupati Das and Mr. B.L. Kalwar during their tenure as a member of the Board.

LISTING OF EQUITY SHARES

The Company's equity shares are listed on the Bombay Stock Exchange and the listing fee for 2004-2005 has been paid.

AUDITORS

M/s. Bansi S. Mehta & Co., Chartered Accountants, the Auditors of the Company, are due to retire and being eligible, offer themselves for reappointment.

TAX AUDIT

M/s.Bansi S. Mehta & Co., Chartered Accountants, have been appointed to carry out the Tax Audit for the assessment year 2004-2005.

INTERNAL AUDIT

M/s. Pipalia Singhal & Associates, Chartered Accountants, have been appointed to carry out the Internal Audit for the Financial Year 2004-2005.

COST AUDITORS

In pursuance to Order No. 52/58/CAB-98 dated 30th October, 1998 issued under section 233-B of the Companies Act, 1956, your Directors have appointed M/s.V.J.Talati & Co., as Cost Auditors of the Company for the year 2004-2005.

PARTICULARS OF EMPLOYEES

Particulars of the employees as required under section 217(2A) of the Companies Act, 1956 are not given, since none of the employees employed throughout the year or for part of the financial year 2003-2004 was drawing remuneration exceeding the limit specified in Section 217(2A) of the Companies Act, 1956 as amended from time to time.

ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE

As required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors') Rules 1988 the relevant particulars are enclosed in Annexure 1, forming part of the Report.

INDUSTRIAL RELATIONS

The Company continued to maintain harmonious and cordial relations with its workers.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management Discussion and Analysis Report on the Operations of the Company are provided in a separate section and forms part of this Report.

CORPORATE GOVERNANCE

A separate report on the compliance with Clause 49 of the Listing Agreement with the Stock Exchanges on Corporate Governance and the Auditors' Certificate on its compliance forms part of this Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm:

- ❖ These statements have been prepared in conformity with generally accepted accounting principles and appropriate accounting standards. Judgments and estimates are reasonable and prudent.
- ❖ The accounting policies selected and applied consistently to give a true and fair view of the financial statements.
- ❖ The Company has implemented internal controls to provide

reasonable assurances of the reliability of its financial records, proper safeguarding and use of its assets and detection of frauds and irregularities. Such controls are based on established policies and procedures and are implemented by trained, skilled and qualified personnel with an appropriate segregation of duties. The Company's internal auditors conduct regular internal audits, which complement the internal controls.

- ❖ The Directors have prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENT

The Directors wish to thank the Government of Gujarat, Financial Institutions, Bankers, Shareholders, Employees, Stockists, Dealers and all others associated with its operations for the co-operation and encouragement extended to the Company.

On behalf of the Board of Directors.

M. N. Mehta
Chairman

Place: Mumbai
Dated: 27th January, 2005

ANNEXURE TO DIRECTORS' REPORT

ANNEXURE- 1

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO AS REQUIRED UNDER COMPANIES (DISCLOSURE OF PARTICULARS IN REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 30.6.2004.

A. CONSERVATION OF ENERGY :

a. ENERGY CONSERVATION MEASURES TAKEN.

1. Raw mix optimization & use of mineralizer to improve burnability.
2. Modification in inlet cone of Raw Mill ID Fan & Cooler Vent Fan for improving the fan efficiencies.
3. Use of energy efficient lamps & light emitting diodes.
4. Modification/ improvement in the control systems of the plant to reduce electrical energy (logic modification & optimization of speed of the various drives).

b. ADDITIONAL INVESTMENT AND PROPOSALS, IF ANY, BEING IMPLEMENTED FOR REDUCTION OF CONSUMPTION OF ENERGY.

1. Additional of one stage in the Preheater of kiln string.
2. Installation of high efficiency classifiers in the Coal Mills & Cement Mills.
3. Use of variable frequency drive in the fan application.
4. Rationalization of Transformers for bringing down distribution losses.
5. Replacement of old motors by high efficiency motors in a Phased manner.
6. Use of Preheater gases for the drying of high volatile matters coal.

c. IMPACT OF THE MEASURES AT (a) AND (b) ABOVE FOR REDUCTION OF ENERGY CONSUMPTION AND SUBSEQUENT IMPACT ON THE COST OF PRODUCTION OF GOODS.

Reduction in the consumption of thermal & electrical energy.

d. TOTAL ENERGY CONSUMPTION AND ENERGY CONSUMPTION PER UNIT OF PRODUCTION AS PER FORM "A" OF THE ANNEXURE.

B. TECHNOLOGY ABSORPTION.

Efforts made in Technology absorption are given in prescribed Form B annexed.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO.

Total foreign exchange earned and used.

	Current Year (Rs.in Lacs)	Previous Year (Rs. in Lacs)
Foreign Exchange earned	5225.67	3248.56
Foreign Exchange used	1138.92	1116.55

FORM-A

(See Rule 2)

Form for disclosure of particulars with respect to conservation of energy.

(A) Power and Fuel Consumption

	Current Year 2003-2004	Previous Year 2002-2003
1. Electricity		
a) Purchased		
Unit (KWH) - Lacs	632.68	627.24
Total Amount (Rs.in lacs)	3645.35	3619.97
Rate/Unit (Rs.)	5.76	5.77
b) Own Generation		
i) Through Diesel Generator		
Net units (KWH) lacs	368.36	371.91
Units/Ltr. of Furnace Oil	3.90	3.66
Variable total cost per unit (Rs.)	4.13	4.33
ii) Through Steam Turbine/Generator	—	—

		Current Year 2003-2004	Previous Year 2002-2003
2.	Coal and other fuels		
	Quantity (Million K.Cal)	816447	866233
	Total cost (Rs.lacs)	3282.53	2790.41
	Average Rate/Million KCL (Rs.)	402.05	322.13
3.	Furnace Oil		
	Quantity (K.Ltrs)	9520	10485
	Total Amount (Rs.lacs)	993.92	1208.49
	Rupees per litre	10.44	11.53
(B)	Consumption per unit of production		
	Industry norms.	Current year	Previous year
	Electricity (KWH/T of Cement)	110-115	108.95
	Coal/Lignite (Usage in percentage)	17-18	13.45

FORM B

A. RESEARCH & DEVELOPMENT

Specific areas in which the company carried out R&D

- 1 Optimization of Raw mix & use of mineraliser to improve burnability.
- 2 Use of silicon carbide based castable in the calciner firing area.
- 3 Modification in inlet cone of Raw Mill ID Fan & Cooler Vent Fan.
- 4 Standardization of Lubricants.
- 5 Use of energy efficient lamps & light emitting diodes.

Benefits derived as a result of above R&D

- 1 Reduction in fuel consumption.
- 2 Reduction in build-up of coating in calciner.
- 3 Reduction in power consumption.
- 4 Reduction in the inventory & procurement cost.

Future plan of Action

- 1 Use of waste derived fuel.
- 2 Use of variable frequency drives in fan application.
- 3 Rationalization of transformers for bringing down distribution losses.

B. DETAILS OF TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- 1 Use of air gaps in Blast hole.
- 2 Use of capacitor banks for improving power factor..

Benefits derived as a result of above efforts.

- 1 Improvement in the powder factor & thus savings in mining cost.
- 2 Savings in power cost.

FUTURE PLANT UPGRADE

- 1 Installation of 5th stage in old pre-heater.
- 2 Installation of classifiers in coal mills.
- 3 Increase in the volume of inline calciner for increasing the coal residence time thereby improvement in the burning process.
- 4 Replacement/ retrofitting of process fans by higher efficiency fans for the reduction in power consumption.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

1. Industry Structure and Development

India is the second largest cement producer in the world having approximate installed capacity of 148.73 million tonnes per annum as at 30.6.2004 including 7.45 million tonnes added during the year. The industry is highly fragmented having more than 125 plants producing cement in the country owned by nearly 55 companies.

2. Opportunities and Threats

It is projected that cement industry should achieve a growth rate between 8 percent to 10 percent per annum, due to substantial growth expected in housing for which fiscal and other incentives have been granted by the Govt. The reduction in the rate of interest on housing loans will add to demand for housing leading to increased consumption of cement. The boost to infrastructure like Ports, Roads is expected to boost the demand for cement. However, at present against the installed capacity of 148.73 millions tonnes, the consumption is only 114.52 million tonnes per annum leading to excess supply in short term.

3. Segment Review and Analysis

It is a single product company.

4. Outlook

The long term outlook for the cement industry is encouraging. The demand for cement is expected to grow around 8 percent to 10 percent per annum as estimated, in the coming years. The per capita consumption of cement in India is only around 105 kgs., per annum compared to world average of over 260 kgs per annum. To be at par with world average per capita cement consumption, the production of cement has to grow around 2.5 times of current level. Considering the good monsoon during 2003-04 and 2004-05 coupled with Government policy of housing and infrastructure developments, the demand of cement is expected to grow as per estimates in the coming years.

5. Risks and Concerns

As compared to the increase in consumer price index, the increase in price of cement has not been commensurate. While on the other end the cost of production continuous to raise unabated in view of the continuous rise in the cost of fuel, coal and increase in royalty on various raw materials used for cement production.

The position in Gujarat is particularly vulnerable since the installed capacity of cement in Gujarat is around 17 million metric tonnes per annum against the demand of around 8 million metric tonnes per annum for the year 2003-04. It leaves a wide gap between the supply and demand leads to continuous pressure on prices of the commodity.

The company could not complete its proposed capital projects for expansion in view of non disbursement of sanctioned loans by Financial Institutions.

6. Internal Control systems and their adequacy

The Company has adequate system of internal control relating to purchase of stores, raw materials including components, plant and machinery, equipment and other similar assets and for the sale of goods commensurate with the size of the Company and the nature of its business. The Company has internal control systems for correct compilation of accounts and management information reports and to comply with the applicable laws and regulations. The Audit Committee ensures proper compliance with provisions of the Listing Agreements with the Stock Exchanges and the relevant provisions of the Companies Act.

7. Company's Financial Performance and Analysis

The company's financial performance continues to be adversely affected on account of the following factors.

1. Over supply of cement in the State of Gujarat.
2. Availability of various tax concessions to the competitors, resulting in lower realisation to our company due to tax payments.

3. Depending on State Electricity Board for purchase of Electrical energy at high prices.
4. Company remaining dependant on Gujarat Market as far as domestic sales are concerned.
5. Non completion of the expansion and power projects.
6. Considering the good monsoon for 2004-05, the company expects reasonable growth in demand of cement and also improvements in price of cement, which should enable the company to earn some profits.
7. Financial restructuring with infusion of equity as well as Debt Restructuring would enable the company to overcome the difficulties.

8. Human Resource Development/Industrial Relations

The Company believes that its human resources are its most valuable asset. Its HR Mission is to become a Total Quality Organisation. In this quest, the Company is committed to empowering each employee to make continuous improvement relating to both internal activities and external customer satisfaction, thereby enhancing his potential for development.

In pursuit of good corporate governance, we practice the values of respecting the individual rights and dignity of people, upholding the integrity of self and that of the customers. Being team players, behaving in a professional manner, recognising merit as the main criterion for growth and development and create an open environment for ideas /suggestions.

The Company continues to take steps for the involvement, education and development of employees and continues to benchmark with the best practices of suggestion schemes, TPM, Management Action teams, Employees training, HR Audit, and Employee Satisfaction Survey etc., as well as installing effective systems for improving the productivity, quality and accountability at all levels in harmony with the business needs/strategy.

The Management places on record the contribution of employees during the year and their wholehearted co-operation in meeting the difficult business conditions during the year.

The company had 598 permanent employees as on 30.6.2004.

9. Cautionary Statement

Statements in this Report on Management's Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable security laws and regulations. The Statements are based on certain assumptions and expectation of future events. Actual results could however differ from those expressed or implied. Important factors that could make a difference to the Company's operations include the global and domestic demand supply position, raw material cost and availability, changes in Government regulations and tax structure, economic development in India.

The Company assumes no responsibility in respect of forward looking statements which may be amended or modified in future on the basis of subsequent developments, information or events.

On behalf of the Board of Directors

M. N. Mehta
Chairman

Place: Mumbai
Dated: 27th January, 2005