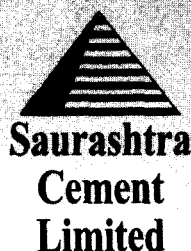


48th
A n n u a l
R e p o r t
2004 - 2005



**Saurashtra Cement
Limited**



BOARD OF DIRECTORS

(As on 11-8-2005)

Mr. M. N. Mehta

Chairman

Mr. D. N. Mehta

Deputy Chairman

Mr. Jay Mehta

Executive Vice Chairman

Mr. H. D. Mehta

Mr. M. N. Rao

Mr. S. V. S. Raghavan

Directors

Mrs. Savita V. Pittie

Dr. Kala S. Pant

Mr. Stephen Potter

Industrialization Fund for Developing Countries, Denmark, Nominee

Mr. B. P. Deshmukh

UTI, Nominee

Mr. M. S. Gilotra

Managing Director

Mr. R. K. Poddar

Dy. Managing Director

Bankers

Central Bank of India

Dena Bank

Vijaya Bank

The Saraswat Co-operative Bank Ltd.

InclusInd 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 Department

N. K. Mehta International House

178, Backbay Reclamation

Mumbai-400 020.

48th Annual Report

NOTICE

Notice is hereby given that the 48th ANNUAL GENERAL MEETING of the Members will be held on **Monday the 19th December, 2005 at 10.00 a.m.** at the Registered Office of the Company, near Railway Station, Ranavav-360 560 (Gujarat), to transact the following business:

1. To consider and adopt the Directors' Report and Audited Profit & Loss Account for the year ended 30th June, 2005 and the Balance Sheet as on that date and the Auditors' Report thereon.
2. To appoint a Director in place of Dr. Kala S. Pant, who retires by rotation, but being eligible, offers herself for reappointment.
3. To appoint a Director in place of Mr. D. N. Mehta, who retires by rotation, but being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Hemang D. Mehta, who retires by rotation, but being eligible, offers himself for reappointment.
5. To consider and, if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution:

"RESOLVED THAT M/s. Bansi S. Mehta & Co., Chartered Accountants, the retiring auditors of the Company, be and are hereby re-appointed as Auditors of the Company for audit of accounts for the financial year 2005-06 and they shall hold the office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at a remuneration to be decided by the Board of Directors of the Company plus Service Tax and reimbursement of travelling and out of pocket expenses actually incurred."

By Order of the Board of Directors

A. M. Fadia

Directors (Legal & Secretarial)

Place : Mumbai

Date : August 11, 2005

Registered Office:

Near Railway Station

Ranavav-360 560 (Gujarat)

NOTES:

1. **A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and vote instead of himself on a poll and that a proxy need not be a member. Proxies in order to be effective must be received by the company at the Registered Office not less than 48 hours before the meeting.**
2. The Share Transfer Books and Register of Members of the Company shall remain closed from 12th December, 2005 to 19th December, 2005 (both days inclusive) in connection with AGM.
3. Members who have multiple account in identical names or joint accounts in same order are requested to send all the share certificates to the Company for consolidation of all such shareholdings into one account to facilitate better service.
4. (a) Members are requested to notify immediately any change of address:
 - (i) To their Depository Participants (DPs) in respect of their electronic share accounts; and
 - (ii) To the Registrar and Transfer Agents at M/s. Intime Spectrum Registry Ltd., C-13 Pannalal Silk Mills Compound, L.B.S. Road, Bhandup (West), Mumbai-400 078 in respect of their physical share folios, if any.
 (b) In case the mailing address mentioned on this Annual Report is without the Pin code, members are requested to kindly inform their PINCODE immediately.
5. Non-resident Indian Shareholders are requested to inform us immediately the change in the residential status.
6. Members desiring any information on the Accounts are requested to write to the company at least one week before the meeting so as to enable the Management to keep the information ready and replies will be provided only at the meeting.
7. Shares of the company are required to be compulsorily traded in demat form from 8th May, 2000. If you have, therefore, not demated your shares, you are requested to please do the same at the earliest.



DIRECTORS' REPORT

Dear Members,

The Directors present the 48th Annual Report, Audited Accounts and Auditors Report for the year ended 30th June, 2005.

During the year under review, cement consumption on an All India basis increased by 8.6 percent (from 114.52 million tonnes to 124.37 million tonnes). Installed capacity increased to 152.14 million tonnes at the end of June, 2005.

During the year under review, the consumption of cement in Gujarat grew by about 8.4 percent from 8.09 million tonnes to 8.77 million tonnes.

Clinker exports from Gujarat during the year under review declined to 4.15 million tonnes from 4.90 million tonnes in the previous year. However, exports of cement increased to 3.35 million tonnes during the year under review as against 2.67 million tonnes in the previous year.

The financial results of the Company for the year ended 30th June, 2005 are given below:

FINANCIAL RESULTS

	In Million Rupees	
	Current Year (2004-2005)	Previous Year (2003-2004)
Sales & Other Receipts	2221.97	1960.04
Profit/(Loss) before interest, depreciation, misc. expenses written off and extraordinary items	111.99	(216.96)
Interest	434.22	303.45
Profit/(Loss) before depreciation & misc. expenses written off	(322.23)	(520.41)
Depreciation, misc. expenses written off and losses of subsidiaries	176.55	189.63
Profit/(Loss) before extraordinary items and deferred tax assets	(498.78)	(710.04)
Deferred Tax Assets/Provision of Income Tax W/Back/Provision for Wealth Tax	(16.39)	264.78
Prior Period adjustment – Credit/tax	–	(63.98)
Profit/(Loss) after tax	(515.17)	(509.24)
Brought forward Profit/(Loss) from earlier years	(1369.01)	(859.77)
Balance of Profit/(Loss) carried forward	(1884.18)	(1369.01)

PERFORMANCE REVIEW

Production and Despatches

The production of cement during the year under review was 0.86 million tonnes as against 0.67 million tonnes in the previous year. The production of clinker during the year under review was 1.12 million tonnes as against 1.01 million tonnes in the previous year. The sale of cement during the year was 0.49 million tonnes as against 0.63 million tonnes in the previous year. The Company exported 0.36 million tonnes of clinker and 0.38 million tonnes of cement as compared to 0.49 million tonnes and 0.10 million tonnes respectively in the previous year.

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Cost Reduction

The Company continued to use indigenously available petcoke mixed with imported coal to the extent of 42 percent of fuel used, thereby offsetting the high cost of imported coal. The operational parameters of the plant were better than the previous year on account of higher production during the year.

During the year there has been a reduction in the consumption of electricity by almost 7 percent. However, the average price of power at Rs. 5.81 per unit continues to be one of the highest in the country. The Company proposes to install a 20 MW Thermal Captive Power Plant to reduce the cost of power.

MARKETING

During the year under review, the total sales including exports were 1.26 million tonnes as against 1.24 million tonnes, a marginal increase over the previous year. Out of the total sales, about 59 percent was sold in the international markets. The prices were under pressure for major part of the year but have firmed up from January 2005 onwards.

EXPORTS

The Company exported 0.36 million tonnes of clinker and 0.38 million tonnes of cement as compared to 0.49 million tonnes and 0.10 million tonnes respectively in the previous year. There has been a continued growth in demand for cement

and clinker in the Gulf region 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 for the next 2-3 years.

PROJECTS

The Corporate Debt Restructuring (CDR) proposal is under active consideration of the Lenders and is expected to be approved in due course. The balance financing arrangements for the 0.9 million tonnes expansion project and for Captive Power Plant will be made after the approval of the CDR proposal. Meanwhile, an additional cement silo of 7500 tonnes for storage and loading of cement for exports is under construction and expected to be completed by December 2005. The Company is going ahead with the arrangements for recommissioning of old kiln which would produce 660 tonnes per day of Specialty Cement. The commercial production from this kiln is expected to start from January 2006.

APPLICABILITY OF SICA 1985

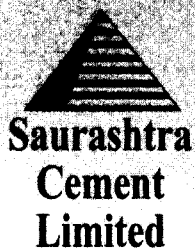
At the last annual general meeting of the company and thereafter followed by extraordinary general meeting, the members of the company had noted and considered erosion in the peak net worth in preceding four financial years by more than 50 percent and, consequently, authorized the company to file a

report in terms of Section 23(1)(a)(i) of the Sick Industrial Companies (Special Provisions) Act, 1985, with BIFR. The working results for the financial year under report reveal that the entire net worth of the company is eroded by its accumulated losses at the end of the said financial year and, hence, the company may be liable to file its reference with BIFR. The Board of Directors of the company therefore decided to seek and obtain an opinion from the expert as to whether or not the company has attracted the provisions of Section 15(1) of the said Act. In the event the opinion so obtained suggests that the company has become a sick industrial company, thereby attracting the provisions of Section 15(1) of the said Act, the Board of Directors will take necessary action for filing the reference with BIFR within the statutory prescribed time limit.

FUTURE OUTLOOK

During the year 2004-2005, the economy achieved an impressive GDP growth of 8 percent. In the current year, considering the prediction of a 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, a basic material for housing and infrastructure development.

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 export their surplus production, ensuring full capacity utilization.

The areas of concern remain the high cost of energy, fuel and transport. The Installation of a captive power plant will help in reducing the cost of production in the future.

DIVIDEND

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

AUDITORS' OBSERVATIONS

As advised by a Senior Counsel, the Company has appropriated Rs. 2,638.14 lacs against Revaluation Reserve upto 30th June, 2005 in respect of provision of diminution in the value of investments and provision for doubtful loans including interest thereon. For further details, please refer to Note No. 5 of Schedule L of Notes on Accounts.

PUBLIC DEPOSITS

The Company has not invited and/or accepted any deposits, during the year. However, as on 30th June, 2005 deposits of Rs. 55,000/- from 7 depositors have remained unclaimed.

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 STATEMENT

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

Dr. Kala S. Pant, Mr. D. N. Mehta and Mr. Hemang D. Mehta, shall retire by rotation and being eligible offer themselves for reappointment.

During the year under review, Mr. Peter G. Christiansen, Nominee Director of M/s. F. L. Smidth A/S resigned from the Board effective from 25.5.2005. The Board places on record its appreciation of the valuable services rendered by Mr. Peter G. Christiansen.

LISTING OF EQUITY SHARES

The Company's equity shares are listed on the Bombay Stock Exchange and the listing fee for 2005-2006 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 2005-2006.

INTERNAL AUDIT

M/s. Pipalia Singhal & Associates, Chartered Accountants, have been appointed to carry out the Internal Audit for the Financial Year 2005-2006.

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., Cost Accountants, as Cost Auditors of the Company for the year 2005-2006.

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 through out the year or for part of the financial year 2004-2005 was drawing remuneration exceeding the limit specified in Section 217(2A) of the Companies Act, 1956 as amended from time to time.

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ENERGY, TECHNOLOGY & 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 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

JAY MEHTA

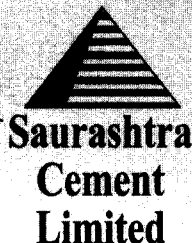
Executive Vice Chairman

M. S. GILOTRA

Managing Director

Place : Mumbai

Date : August 11, 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 30.06.2005

A. CONSERVATION OF ENERGY:

(a) Energy Conservation measures taken

- Extension of ILC calciner to improve combustion process.
- Retrofitting of static separator in Coal Mill No. 2 & 3 by dynamic separators.
- Enlargement of diameter of Raw Mill outlet duct.
- Implementation of transformer rationalization project.

(b) Additional Investment and proposals, if any, being implemented for reduction of consumption of energy

- Addition of Vth stage in Preheater of kiln string.
- Installation of high efficiency classifiers in Cement Mills.
- Replacement of old motors by high efficiency motors in a phased manner.

(c) Impact of 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 electrical and thermal 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 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.	8615.79	5225.67
Foreign Exchange used.	1015.91	1138.92

Form A

(See Rule 2)

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

(A) Power and Fuel Consumption

	Current Year 2004-2005	Previous Year 2003-2004
1. Electricity		
(a) Purchased		
Unit (KWH) – Lacs	554.97	632.68
Total Amount (Rs. in lacs)	3222.66	3645.35
Rate/Unit (Rs.)	5.81	5.76
(b) Own Generation		
(i) Through Diesel Generator		
Net units (KWH) lacs	524.69	368.36
Units/Ltr. of Furnace Oil	3.78	3.90
Variable total cost per unit in Rupees	3.86	4.13
(ii) Through Steam Turbine/Generator	—	—

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	Current Year 2004-2005	Previous Year 2003-2004
2. Coal and other fuels		
Quantity (Million K.Cal)	898241	816447
Total cost (Rs. lacs)	4678.38	3282.53
Average Rate/Million KCL (Rs.)	520.84	402.05
3. Furnace Oil		
Quantity (K.Ltrs)	13968	9520
Total Amount (Rs. lacs)	1609.59	993.92
Rupees per litre	11.52	10.44
(B) Consumption per unit of production		
	Industry norms.	Current 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. Use of energy efficient lamps & light emitting diodes.
4. Modification in kiln baghouse to reduce mechanical losses.

Benefits derived as a result of above R&D

1. Reduction in fuel consumption.
2. Reduction in power consumption.
3. Reduction in kiln down line.

Future plan of action

1. Use of waste derived fuel/optimization of Raw Mix.
2. Use of variable speed drives/DC drives in fan application.

B. DETAILS OF TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

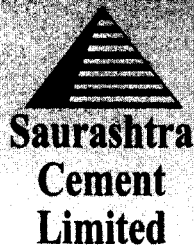
1. Use of photo sensors for operating the plant & colony lighting.
2. Using energy efficient FRP blades in cooling fan.
3. Use of cord relays in blasting.

Benefits derived as a result of above efforts.

1. Saving in power cost.
2. Reduction in power consumption.
3. Better fragmentation and environment friendly.

FUTURE PLANT UPGRADE

1. Extension of separate line calciner for improving the combustion process and thereby improvement in productivity.
2. Enlargement of SLC down corner pipe for reducing the pressure drop in the preheater system.
3. Installation of Vortex Guide Vans in preheater ILC second stage for reducing the pressure drop across the cyclone.
4. Modification in the involute design of cyclone-III & IV in ILC preheater for reduction in the pressure drop.
5. Enlargement of kiln inlet riser duct for improvement in combustion process & reduction in pressure drop.
6. Replacement/retrofitting of process fans by latest generation high efficiency impeller for reduction in electrical energy.



MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT

1. Industry Structure and Development

India is the second largest cement producer in the world having approximate installed capacity of 152.14 million tonnes per annum as at 30.6.2005. The industry is highly fragmented having more than 128 plants producing cement in the country owned by nearly 55 companies. During the year there has been major activity in the acquisition of cement companies with the acquisition of two largest producers of cement in India. It is expected that with the entry of matured manufacturers, the industry would continue to grow and develop to meet the growing needs of the country besides earning reasonable revenues from exports.

2. Opportunities and Threats

The per capita consumption of cement in India is still below the average of other similar countries as well as the world average. Further, there is a large scope of growth in the long run for the cement industry. The presence of large number of players (55 companies having installed capacity of 152 million tonnes) as well as the extent of entries by some new manufacturers could result in local price fluctuations in the short run affecting the profitability of cement companies. The availability of some concessions like excise duty and sales tax to some manufacturers in some states also causes surplus in some regions of the country. However, with the continued growth in the economy, it is expected that the Cement Industry will continue to flourish.

3. Segment Review and Analysis

It is a single product company.

4. Outlook

During the year 2004-2005, the estimated GDP growth has been 8 percent. In the current fiscal, the economy is expected to clock 7.2 percent growth with industry growing at around 7.6 percent. Based on the mid-term appraisal of the tenth five year plan (2002 – 2007) of Planning Commission, the economic growth target has been set at 7.8 percent annually. But on the conservative side, during the last 3 years there has been an average growth of 6.5 percent. As growth of cement consumption is normally 20 percent – 30 percent more than the GDP, the cement consumption is expected to grow at around 9 percent annually. The increased activity in the construction has resulted growth in domestic demand for cement.

5. Risks and Concerns

New units, as well as expansion of existing capacity and emphasis on blended cement production are likely to increase availability of cement, which may put pressure on the cement prices. The possibility of rising interest rates may impact the housing demand and may slow down the construction activity. Any delay in implementation of infrastructure projects may affect the economic growth and in turn the cement demand.

High incidence of taxation, rising trend in input cost due to spiraling crude oil prices, Government levies, coal, power and freight cost etc., is a matter of concern for cement industry.

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 has shown improvement over the previous year on account of the following:

1. Improved realization from the export particularly cement.
2. Exports of cement have been higher than the clinker resulting in better product mix.
3. Higher volume of production by almost 12 percent.
4. Reduced electricity energy consumption through improvement in plant operations.