

2010-11

25th ANNUAL REPORT



SHIVA CEMENT LTD.

ROURKELA, ODISHA



Ceremonial Welcome at Kandeimunda Village to Director Works



Bhoomi Puja for periphery development activity at Kandeimunda village



Periphery development meeting at Kandeimunda village



Inaugurating Foot ball match for youth at Kutra High school

BOARD OF DIRECTORS

Sri R. P. Gupta
Managing Director

Sri Akash Gupta
Executive Director

Sri B K Mangaraj
Director (Works)

Sri Ramit Budhraj
Nominee-ACC Ltd.

Sri Vivek Chawla
Nominee-ACC Ltd.

Sri O P Goyal
Director

Sri D K Senapati
Nominee-IPICOL

Sri K P Jhunjhunwala
Director

Dr. N. S. Datar
Director

AUDITORS

Tibrewal Chand & Co.
1st Floor, KK - 5, Civil Township,
Rourkela - 4

REGISTRAR & TRANSFER AGENT

Niche Technologies (P) Ltd.
D/511, Bagree Market, 5th floor,
71, B.R.B.B. Road, Calcutta - 1.

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REGISTERED OFFICE

P-25, Civil Township,
Rourkela - 769 004

PLANT SITE

Vill : Telighana
PO : Biringatoli, Kutra
Dist. Sundargarh (Odisha)

MINES

Vill : Khatkurbahal
Via : Kutra
Dist. Sundargarh (Odisha)

N O T I C E

NOTICE is hereby given that the TWENTY FIFTH Annual General Meeting of the Members of SHIVA CEMENT LIMITED will be held at its Registered office at P-25, Civil Township, Rourkela - 769004, on Monday the 27th June, 2011 at 11.00 A.M. to transact the following business :

Ordinary Business

1. To consider and adopt the Balance sheet as at 31st March, 2011 and Profit & Loss Account for the year ended on that date and the reports of Board of Directors and Auditors' thereon.
2. To appoint Directors in place of Sri K P Jhunjhunwala, Sri B K Mangaraj and Sri O P Goyal who retires by rotation and being eligible, offers themselves for re-appointment.
3. To appoint M/s. Tibrewal Chand & Co. Chartered Accountants as Auditors, who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

Registered Office :
P-25, Civil Township
Rourkela-769 004
Date : 28/05/2011

By Order of the Board
Sd/-
Akash Gupta
Director

Notes :

- ❖ A member entitled to attend and vote, is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company. A proxy in order to be valid must be received at least 48 hours before the meeting.
- ❖ Members/Proxies should bring the Attendance slip duly filled in for attending the meeting.
- ❖ Shareholders seeking any information with regard to accounts are requested to write to the company atleast seven days before the date of the meeting so as to enable the management to keep the information ready.
- ❖ Members are requested to inform immediately changes in their addresses to the registered office of the company.
- ❖ Register of members shall remain closed from 22/06/2011 to 27/06/2011 (both the days inclusive).
- ❖ Shareholders are requested to bring their copy of Annual Report to the meeting.
- ❖ Members who hold shares in dematerialised form are requested to bring their client ID and DP ID numbers for easy identification of attendance at the meeting.
- ❖ As per requirement of Clause 49 of the Listing Agreement on Corporate Governance following particulars of the retiring Directors, who are eligible to be re-appointed, are given below :-

| | | | |
|--|--|--|------------------|
| Name of Director | Sri K P Jhunjhunwala | Sri O P Goyal | Sri B K Mangaraj |
| Date of Birth | 30/01/1933 | 29/11/1942 | 20/10/1951 |
| Date of Appointment | 27/03/2007 | 24/09/2007 | 26/12/2002 |
| Qualification | IIE,EEC, IICE & Mngt. Graduate from Harvard Univ | B.Com FCA | FIE, FCC |
| Expertise in specific functional areas | Technical & Admn. | Finance & Admn. | Mining & Admn. |
| List of other Companies in which Directorship held (excluding in Foreign companies) | Orind Steels Ltd Bansal Fiscal Services Ltd | J K Papers Ltd., JK Enviro-Tech Limited, LVP Foods Pvt. Ltd. | None |
| Chairman/Member of Committees the Board of Directors of other Companies in which he is a Director (excluding in foreign Chairman of Companies) | Nil | NIL | NIL |
| Details of shareholding (both own or held by/for other persons on a beneficial basis), if any, in the Company. | 8000 | NIL | NIL |

DIRECTORS REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Dear Members,

It gives me immense pleasure to present the **25th Annual Report**. Your company was incorporated in the year 1985 and commenced its commercial production in the year 1986. It has completed quarter century by now. I extend my thanks to all associates, shareholders & employees in particular. Your company could complete successful 25 years because of their support and commitment. With this, I am pleased to present the annual report along with audited statement of accounts and the Auditor's report of your company for the financial year ended **31st March, 2011** as under :-



R. P. Gupta, M.D.

Financial/Operational Performance

(Rs. in Lakhs)

| Particulars | 31/03/2011 | 31/03/2010 |
|-------------------------------------|----------------|---------------|
| Turnover | 5693.28 | 4920.36 |
| Operating Income | 1010.96 | 935.84 |
| Other Income | 37.32 | 33.01 |
| PBIDT | 1048.28 | 968.85 |
| Less: Interest | 326.80 | 306.59 |
| Cash Profit (PBDT) | 721.48 | 662.26 |
| Less: Depreciation & Amortization | 383.67 | 366.62 |
| Profit before Taxation (PBT) | 337.81 | 295.65 |

There was production loss in 4th quarter due to break downs in mill gear boxes of Raw mill and Cement mill. Hence, mills were under loaded and output was sacrificed in the interest of production continuity. This resulted into drop in despatches in the 4th quarter, which other wise, is a peak season for cement industry. Despite these constraints, the **annual increase** of production was 9.7% and the despatches (cement & clinker) were up by 7.4% on annual basis. Turnover increased by 15.7% and EBITDA was up by 8.2% and PBT was up by 14.3%.

On going modernisation capex facilitated the cost reduction in quantitative terms of clinker cons. power & fuel cons. Clinker cons. was reduced by 1.53%. Scope remains for further reduction of 3-4%; which will be achieved in next two years through process optimisation. Power cons. was reduced by 15 unit/MT. Scope remains for further reduction of 3-4 units which may be achieved in subsequent years through additional capex and process optimisation.

Specific fuel cons. per MT (cement & surplus clinker) was reduced from 16.7% to 13.4%, hence achieving 20% economy in quantitative terms. This was partly due to process optimization and partly due to coal quality improvement. During the year, avg. power rate has gone up by Re.0.64 per unit i.e. by 17.9%. Avg. coal price has gone up by Rs. 168/- per MT i.e. up by 6.6%. Cost of slag has gone up nearly by 50%. Freight cost has also gone up for inward & outward materials. Despite such stiff hike in input cost, company could manage the production cost almost in the same level of previous year through additional capex and process optimization.

Future Strategies

Major cost saving shall be achieved only after implementation of proposed capacity expansion and modernisation. During interim period (about 1½ yrs) we have adopted following strategies to curtail production cost and to improve cost effectiveness :-

- ❖ To undertake and to continue with such modernisation capex which are part of ultimate capacity expansion.
- ❖ To reduce clinker, power & fuel consumption through further process optimisation.
- ❖ To improve capacity utilisation and to dilute fixed and semi-variable cost.
- ❖ Part replacement of imported Gypsum by domestic Gypsum.
- ❖ Bulk purchase of Raw material to economise purchase cost.

With these strategies, we hope to combat in part about rise in input cost, of course; balance has to be passed on to consumer.

Modernisation & Expansion

The commercial production of the expanded capacity (upto 0.66 MTPA) was envisaged in FY-2012. However during the year under review your company has decided to expand the capacity to 1.0 MTPA for long term viability. The modification

of the plan was in accordance with the MOU with Govt. of Odisha entered on 27/04/2011 and also on recommendation of ACC Ltd. Due to modification in the expansion plan, the commercial production of expanded capacity is now envisaged by April, 2013.

The revised plan envisages world reputed make VRM for cement grinding which will be highly economical in terms of clinker & power consumption. The expansion will also facilitate to dilute the fixed cost and utilisation of idle assets & surplus infrastructure. The Board has also formed the Project Management Committee to monitor the progress of capacity expansion project.

Alliance with ACC

During the year, ACC nominated Sri Vivek Chawla as second ACC nominee director on the Board. He joined the Board on 29/04/2010. He is presently working as Chief Executive (East Region) in ACC Ltd.

Economic Scenario & Outlook

During the year 2010-11, Indian economy has grown by about 8.5%. This is considered to be reasonably good looking into over all global scenario. Hon'ble Finance Minister has set growth target of 9% for the year 2011-12. Our country has immense potentiality to achieve double digit growth in medium term. Planning commission is also considering to fix the growth target of 9-10% in the 12th Five year plan.

However, despite such good prospect in medium term, the areas of concern are inflation, slow down in investment rate and increase in Govt. spending in non investment related activities. Short term outlook of Indian economy may be status-quo, but medium/long term outlook appears to be bright. It is expected that Govt. will take policy initiative and may bring more reforms to boost investment, so as to achieve double digit growth in future years.

Cement Industry Outlook & Opportunities

Our country has already entered into "Next Trillion Dollar" GDP era. Hence, the demand of non food items shall register high growth giving boost to manufacturing and allied service sector. Govt. is also planning to spend in infrastructure upto USD 1000 Bn in the 12th Plan between 2012-17. Govt. focus has increased in rural spending which will generate demand of rural housing. Real Estate activities are spreading in Tier II & III cities due to urbanization. Hence, cement demand growth is likely to remain 10-12% for next five years. Long term outlook of cement industry in the country shall remain bright.

Demand growth of eastern zone will remain above India average due to massive industrialisation and low base. Company's expanded capacity production is likely to come by Apr, 2013 by then, demand is likely to exceed the supply. Hence, time selected by the company for enhanced production perfectly matches with industry cycle.

Risks and Concerns

Availability of good quality coal at affordable rate is a major concern. Industry is also worried on repeated power tariff hike. Company has therefore selected latest technology of separate grinding of clinker & slag in VRM instead of conventional inter mix grinding in Ball mill. This will result substantial reduction in energy consumption in quantitative terms. Hence, the risk of rising cost of energy will be partly mitigated.

Increase in petroleum crude price resulting into high freight cost by road and inadequate supply of railway wagons is another area of concern. Since the entire product is sold under ACC Brand, combined logistic benefit already exist for saving in freight cost. Due to strategic location, average freight cost is already lower in comparison to industry average. Hence, risk of rising freight cost is already mitigated.

Cement industry is likely to face temporary over supply situation in FY 2011-12. But no significant capacity addition is envisaged in 2012-13 onwards. So as to over come this risk, company has already amended the implementation schedule of enhanced production to match with upper cycle of industry.

Awards & Recommendations

The Company received a "Certificate of Merit" awarded by 'Dalal Street Investment Journal' for ranking among India's top 400 small cap company in the year 2010.

Director General - Mines Safety, Dhanbad under Ministry of Labour & Employment Govt. of India, Chaibasa Region awarded First prize for "Best over all performance" on the occasion of 48th Mines Safety Week Celebration. Indian Bureau of Mines, Govt. of India, Bhubaneswar awarded second prize for "Sedimentation & Water Management" during 13th Mines Environment and Mineral Conservation Week.

Human Resource

Company is maintaining cordial and healthy relations with its employees. Employees at all levels are extending their full support. The Company has strong faith in potential of human resources. It believes in the creative abilities of the people who work for the Company and believes in participatory management.

Internal Control Systems

The company has an Internal Management audit team commensurate with the size of the company. It carries out desired level of audit of various spheres of activities of the company to ensure that the laid down system and procedures are adequate and being followed. The audit reports are presented to the Audit committee of the Board, which meets at periodical intervals. The audit committee has been reconstituted during the year. Continuous support and advice is available from ACC in this area.

During the year, ERP system was introduced for integration and computation of datas generated from various Deptt. It will definitely improve overall efficiency of the company in future years.

Environmental & Social Obligation

Environment clearance from Ministry of Environment & Forest (MoEF) has been already obtained for it's proposed expansion upto 1.05 MTPA capacity. Your company has been doing reasonable expenditure on periphery development. It is also committed to gear it up for future years.

Shareholders Dividend / Bonus

In view of on going expansion and requirement of funds, we do not recommend any dividend for the year. During the year under review, the company has issued bonus share to the shareholders, the amount of Rs. 3491.14 lakhs standing credit to the company's securities Premium account out of which an amount of Rs. 340.00 lakhs was capitalised and applied in paying up fully paid up 170.00 lakhs Equity Shares of Rs.2/- each in the capital of the Company, to distribute as fully paid bonus shares to the members of the company, including 126.36 lakh Equity Share Warrants to be converted into Equity Shares as on record date 11/12/2010.

The Equity Shares of the Company continue to be listed on Bombay Stock Exchange Limited and The Calcutta Stock Exchange Association Limited. Total no. of shareholders has increased from 40,959 nos. to 41770 nos. during the year. We sincerely express our thanks to all shareholders for imposing their faith in the company despite delay in implementation of the expansion plan.

Finance

We are thankful to our banker IDBI Bank who had sanctioned Term loan for our expansion plan in May, 2010. However, we have already submitted the revised expansion plan upto 1.0 MTPA as against original plan of 0.66 MTPA. We hope for favourable consideration by IDBI Bank. In the meantime, promoters have mobilized funds through warrant subscription for part funding of on going expenses related to expansion project.

Fixed Deposits

The Company has accepted deposits from public including share holders and employees within the meaning of Section 58A of the Companies Act, 1956 and rules made there under and has duly complied with the provisions of the Companies (Acceptance of Deposits) Rules 1975.

Directors' Responsibility Statement

In terms of provisions of Section 217(2AA) of the Companies Act, 1956, your Directors confirm that :-

- ❖ In the preparation of the annual accounts, the applicable accounting standards have been followed along-with proper explanations relating to material departures, wherever applicable.
- ❖ The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company, as at the end of the financial year and of the Profit of the Company for the year ended on that date.
- ❖ The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company, and for preventing and detecting fraud and other irregularities.
- ❖ The Directors have prepared the annual accounts on a going concern basis.

Directors

During the year ACC Ltd. withdraw its nomination for Mr. Vivek Agnihotri as Alternate Director to Ramit Budhraj, IPICOL, Govt. of Odisha nominated Mr. D K Senapati as Nominee Director in place of Sri S B Satpathy. The Board place on record it's gratitude for the services rendered by the two director during the tenure as member of the Board.

Mr. K P Jhunjhunwala, Mr. O P Goyal & Mr. B. K. Mangaraj, Directors of your Company retire from the Board by rotation and being eligible for re-appointment.

Auditors / Cost Auditors

M/s. Tibrewal Chand & Co., Chartered Accountants, retire as Auditors of the Company at the conclusion of the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept the office of the Auditors, if re-appointed.

In pursuance of Section 233-B of the Companies Act, 1956, your directors had appointed M/s. Chatterjee & Co, Kolkata as the Cost Auditors to conduct the Cost Audit of Cement for the year 2010-11 with the approval of the Central Government.

Particulars of Employees

The Particulars of employees as required u/s 217 (2A) of the Companies Act, 1956 are not given as none of the employees were in receipt of remuneration exceeding the limits specified therein.

Foreign Exchange Earnings and Outgo

There has been no foreign Exchange earnings during the year. However, company has purchased imported Coal & Gypsum from the domestic market. Company has incurred foreign exchange expenditures for overseas travel and payment to international consultants.

Conservation of Energy, Technology Absorption

A statement containing necessary information, as required under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 is annexed hereto in Annexure - "A".

Corporate Governance

Pursuant to Clause-49 of the listing agreement, Report on Corporate Governance and the Compliance Certificate thereon from the Auditors of the Company is attached to this report.

Acknowledgements

Your directors place on record their appreciation of the assistance and support extended by the Government Authorities, IDBI, ACC Ltd, Consultants, Shareholders, Employees, Suppliers & Contractors of the Company.

Cautionary Statement

Statements in the Directors' Report and the Management Discussion & Analysis describing the Company's objectives, expectations or predictions, may be forward-looking statement within the meaning of applicable laws and regulations. Although we believe our expectation is based on reasonable assumption, Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include: global and domestic demand and supply conditions affecting selling prices, new capacity additions, availability of critical materials and their cost, changes in government policies and tax laws, economic development of the country, and such other factors which are material to the business operations of the Company

For and on behalf of the Board
Sd/-

Rourkela-769 004

Dated : 28/05/2011

R. P. Gupta
Managing Director

Annexure - A To The Directors' Report

Form - A [See Rule - 2]

Form for Disclosure of Particulars with respect to Conservation of Energy

A. Power and Fuel Consumption

| Particulars | As at 31/03/2011 | As at 31/03/2010 |
|---------------------------------------|------------------|------------------|
| 1. Electricity | | |
| a) Purchased | | |
| Units (in Thousand) | 13344.99 | 13891.76 |
| Total amount (in Thousand) | 56139.79 | 49641.51 |
| Rate/Unit (including DPS) | 4.21 | 3.57 |
| b) Own Generation | | |
| i) Through Diesel Generator | | |
| Units (in Thousand) | 67.03 | 166.24 |
| Cost/Unit (Rs.) | 18.79 | 11.83 |
| ii) Through Steam Turbines Generator | | |
| Units | N.A | N.A |
| Unit per ltr. for Fuel oil Gas | | |
| Cost/Unit. | | |
| 2. Coal | | |
| Quantity (in Mt) | 15196.32 | 17591.90 |
| Total Cost (Rs. in Thousand) | 41313.77 | 44875.94 |
| Average Rate (Rs.) | 2718.67 | 2550.94 |
| 3. Diesel Oil | | |
| Quantity (in K.Ltr) | 160.47 | 121.51 |
| Total Cost (Rs. in Thousand) | 5677.89 | 3863.10 |
| Average Rate (Rs.) | 35.38 | 31.79 |
| 4. Other / Internal Generation | | |
| Quantity (in Mt) | | |
| Total Cost (Rs. in Thousand) | N.A | N.A |
| Average Rate (Rs.) | | |

Consumption per Unit of Production

| Particulars | Standards if any | Current Year | Previous Year |
|---------------------------|------------------|---------------|---------------|
| Cement Production (in Mt) | | 107993 | 98474 |
| Surplus Clinker (in Mt) | | 5502 | 6759 |
| Total Quantity | | 113495 | 105233 |
| Power Units Per Tonne | | 118.2 | 133.6 |
| Coal Cons. (%) | | 13.37% | 16.72% |

Reasons for variation in consumption of Power & fuel from previous year :

- ❖ The cost of self generated power is very high, but is sparingly used and hence, no substantial impact on the total cost of production.
- ❖ Power & Fuel consumption has come down due to improved efficiency & benefit of capex.

Annexure - A To The Directors' Report (Contd..)**Form - B [See Rule - 2]****Form for Disclosure of Particulars with respect to Technology Absorption Research and Development (R & D) for the year Ended 31/03/2011**

| | |
|---|--|
| A. Research & Development (R & D) | |
| ❖ Specific areas in which R & D carried out by the Company | To reduce clinker consumption without affecting cement quality. |
| ❖ Benefits derived as a result of the above R & D | Current year clinker consumption reduced by 1.53% in comparison to previous year. |
| ❖ Future Plan of action | Considering some major modification in the plant in plant in future expansion to reduce clinker consumption by 10% in terms of cement. |
| ❖ Expenditure on R & D | No specific expenditure incurred on R & D |
| a) Capital | |
| b) Recurring | |
| c) Total | |
| d) Total R & D expenditure as a percentage of total turnover Technology absorption, adaptation and innovation | |
| B. Foreign Exchange Earnings Outgo | |
| | Earned-NIL Used Rs. 11.89 Lakhs |
| C. Technology Absorption, Adoption & Innovation | |
| The efforts towards technology absorption / adoption / innovation and corresponding benefits are summarized as under :- | |
| ❖ Pre-blending of crushed Limestone was improved by making modifications in the Limestone stock pile feed and extraction system. This has facilitated uniformity of Kiln feed and thereby quality of clinker. Due to better quality of clinker, clinker consumption has been reduced. | |
| ❖ Proportioning system of domestic and imported coal has been improved to bring uniformity in the coal feed to the Kiln for consistent operation. This has resulted into decrease in coal consumption, besides improvement in clinker quality. | |
| ❖ A separate system was installed for handling of clay and laterite (additives). The proportioning system of these additives was also installed. This has given uniformity in the kiln feed and hence, improvement in kiln efficiency. | |
| ❖ Kiln bag filter capacity has been enhanced. | |
| ❖ Concrete yard have been constructed for raw material storage to minimize ground loss. | |
| ❖ High speed water guns with 3600 movement of water spraying have been installed at Haul road for fugitive dust suppression for achieving clean working environment. | |
| ❖ Few reciprocating compressors have been replaced with modern screw compressors for power saving. | |
| ❖ ERP system have been implemented for on line data processing. | |