

Shree
Cement
Limited

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Management

Board of Directors

Shri B.G. Bangur
Chairman & Managing Director

Shri G.D. Bangur

Shri H.M. Bangur
Jt. Managing Director

Shri Sidharth Birla
Shri R.L. Gaggar
Shri O. P. Setia
Shri H. L. Somany
Shri Harkirat Singh
(Nominee LIC)
Ms. I. T. Vaz
(Nominee IDBI)

Management Team

Shri M.K. Singhi	- President
Shri Ashok Bhandari	- Group Financial Advisor
Shri O.P. Kalani	- Sr. Vice President (Marketing)
Shri S.M. Lotia	- Sr. Vice President (Commercial)
Shri S.S. Jain	- Sr. Vice President (Tech.)
Shri V.P. Sinha	- Vice President (Mines)
Shri C.M. Wahie	- Vice President (Marketing)
Shri H.S. Shekhawat	- Jt. Vice President (H.R. & A.)

Assistant Secretary

Shri S.S. Khandewal

Bankers

State Bank of Bikaner and Jaipur
Punjab National Bank
State Bank of India
Union Bank of India
UTI Bank Ltd.

Auditors

M/s. B.R. Maheswari & Co., New Delhi

Cost Auditors


Tholiya & Associates, Mumbai

Registered Office and Works

Bangur Nagar, Beawar 305 901,
District Ajmer, Rajasthan

Corporate Office

21, Strand Road, Calcutta 700 001

Certified True Copy
For Shree Cement Limited

Authorised Signatory



Shri B.G. Bangur

Dear Shareholder,

The last two years have been testing times for manufacturers of cement. The fortune of the cement industry is highly dependent on the level of economic activity. In the years 1997-98 and 1998-99, the cement sector witnessed a period of depressed demand compounded by overcapacity and demand - supply mismatch. This in turn could be related to the depressed development activity, especially in the infrastructure creation. The cement sector witnessed a high level of restructuring and shakeouts - the prime drivers being attaining competitive cost structure and economies in operations. In 1998-99, production and dispatch grew by 5.7% and 6.5% respectively.

Business Operations

	Period Ended	
	30-Jun-99	30-Jun-98
	(Rupees in Crore)	
Sales	442.14	342.78
Other Income	2.84	14.72
Operating profit before interest, depreciation, other income & tax	72.25	42.81
Less: Interest	44.07	37.34
Less: Depreciation	25.14	11.15
Profit after Interest, depreciation & tax	5.83	8.54

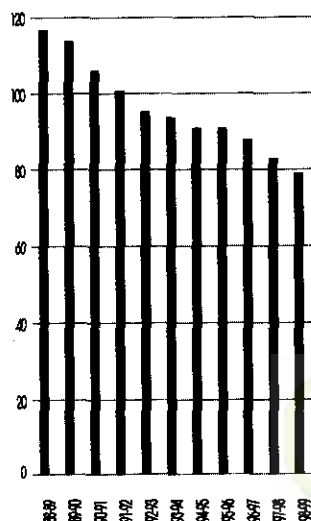
In spite of the adverse conditions in 1998-99, your Company managed to increase its turnover by Rs. 99.36 crore to Rs. 442 crore, a growth of 28.98%. This has resulted in operating profits (before addition of non-operational other income) moving up from Rs. 42.81 crore to Rs. 72.25 crore for the current year, a rise of 68.73%. The full impact of the expansion plans undertaken in the last couple of years was seen fully in the current year and this saw depreciation charges more than double from Rs. 11.15 crore to Rs. 25.14 crore. This combined with higher interest cost resulted in the profits declining to Rs. 5.83 crore versus Rs. 8.50 crore for the previous year. But the cash profit of your Company (PAT plus depreciation) rose from Rs. 19.69 crore to Rs. 30.97 crore, a rise of 57.30%. This performance in trying times is truly heartening.

Industry Outlook

There are issues which Shree Cement shall face in the months to come ...

The first has been the consolidations in the domestic cement industry. The cement industry today in India has over 50 players possessing 115 plants showing the fragmented state of the industry. But critically the consolidation has begun. In the last one year a total of nearly 10% of industry capacity saw consolidation.

Power Consumption (KWH/T)



Acquirer	Seller	Capacity
Lafarge	Tisco	1.50 MT
India Cement	Rasi Cement	2.00 MT
Grasim	Digvijay Cement	1.25 MT
L & T	Narmada Cement	1.20 MT
Grasim	Dharani	0.60 MT
Grasim	Indian Rayon	3.00 MT

With this round of consolidation the top 6 players today account for over 50% of the installed capacity and an astonishing sum of over Rs. 1500 crore has been spent on these takeovers & re-alignments.

We feel the years to come will see further heightened activity in consolidations. Your management has taken several initiatives to maintain the Company's position in the market place and further enhance its competitive advantages. While industry consolidations will, in the end, affect all competitors, your Company shall participate in that process at appropriate times and from a position of strength & choice.

The second has been the challenges put up in constantly managing costs. In the short run, with the economy not totally out of the woods we feel pressures on margins will continue. But as stated your Company is striving to ensure greater cost competitiveness.

But the cement sector has shown remarkable resurgence for the first five months of the current financial year. The recent study and estimates have revised the economy's GDP, agriculture and industrial growth rate upwards. This has translated into increased demand, better realizations and improved profitability for the companies in the core sector. Infact, the cement sector has been a major beneficiary in terms of increased demand (and margins) and the after effects of the restructuring in the industry. The sops provided by the budget to the housing sector resulted in increased demand for cement. Quantitatively in 1998-99, the sector witnessed an increase in production and dispatch by 5.7% and 6.5% respectively. The overall cement dispatches in the Northern markets have shown a marked improvement and this has resulted in dispatches of Shree Cement rising by over 20% for the corresponding period last year. The management is cautiously optimistic that these growth rates could be sustained for the year. In the current fiscal, the economy has shown signs of recovery.

Shree Cement's Cost Competitiveness

Shree Cement, inspite of the tough times, took several important steps towards building a fundamentally strong Company in the cement industry. In the last 2 years, your Company has consciously made significant investments in achieving cost competitiveness & economies of scale. The capacity has been upped in the last 2 years from 0.7 MT to 2.0 MT. At the same time significant steps were taken to achieve cost competitiveness. The table below highlights few of the achievements on this front.

	Shree Cement		Industry Average
	June 1999	June 1998	
Electricity (kwh/t)	79	83	110-115
Coal (% of clinker)	12.79	12.94	20

When compared to other domestic cement manufacturers these figures reveal that Shree Cement is well placed to take on competition. As a step towards this, efforts are on to reduce energy cost further.

Shareholder Value Creation

Shree Cement today is committed to enhancing value of the shareholder through a variety of initiatives. The management now endeavors to focus on further improving of operational efficiencies. Steps are on to unlock value from underutilised assets & the Company shall be investing in de-bottlenecking exercises. The working capital requirement is an area where the efforts are on to improve cashflow. The Company in the last one year has tried reducing its capital costs and these moves shall be further expedited in the current year.

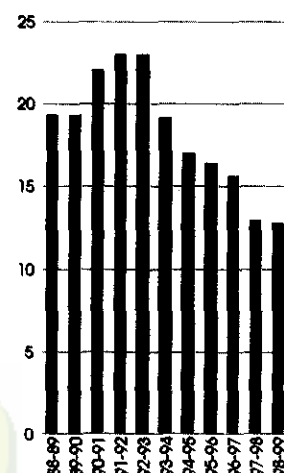
Shree Cement today is looking to expand its marketing network with an aim to increase its penetrations in key areas. With this in mind an extensive effort is being put in place for increasing the distributor & dealer network. Moves are on to increase brand awareness & consolidate our position in the market place.

All these should help improve margins & cashflows further in the years to come.

Thus Shree Cement strives to achieve consistent improvement in performance, expanding the Company's markets and increasing earnings year on year thereby delivering superior returns to the shareholders.

With this renewed resolve, we commend our efforts this year to our expertise and aptitude.

Coal Consumption (%)



Five Year Financial Highlights

(Rs. in lac)

	1994-95	1995-96	1996-97*	1997-98	1998-99
Sales	18144.30	20765.88	25112.19	34278.00	44214.30
Other Income	888.94	1076.56	819.16	1471.92	283.82
Total Income	19033.24	21842.44	25931.35	35749.92	44498.12
Operating Expenses	15786.87	16502.30	20498.11	29996.48	36990.02
Operating Profit	3246.37	5340.14	5433.24	5753.44	7508.10
Op. Profit Margin (%)	17.06	24.45	20.95	16.09	16.87
Interest	555.79	755.85	719.78	3733.52	4406.65
Depreciation	60.32	446.31	907.38	1114.54	2514.11
Profit before Tax	2630.26	4137.98	3806.08	905.38	587.34
Tax	404.00	805.00	252.00	51.28	4.72
Profit after Tax	2226.26	3332.98	3554.08	854.10	582.62
Equity Capital	2462.95	2903.10	3483.72	3483.72	3483.72
EPS (in Rupees)	9.04	11.48	10.20	2.45	1.67
Cash EPS (in Rupees)	9.28	13.02	12.81	5.65	8.89
Net Block	4797.82	7516.44	24663.06	39654.52	37422.76
Shareholders' Fund	8858.99	13487.43	18202.76	19056.86	19654.48
Total Capital Employed	12040.55	19617.01	44128.91	45614.14	45270.97
Return on Net Worth (%)	25.13	24.71	19.52	4.48	2.96
Return on Capital Employed (%)	23.11	20.84	9.68	10.62	11.02
Dividend (%)	20	22.5	NIL	NIL	NIL

*Figures for 15 months

Review of Operations

For almost four years now, the Indian economy has been sluggish. Some parts of the economy were under recession. One of the worst-hit were the core sectors of steel, cement, engineering and construction. Poor offtake across all the regions affected performance of all cement manufacturers.

However, during the quarter April-June '99 (last quarter for Shree Cement), the economy showed signs of a recovery. In this quarter, the cement industry witnessed a remarkable upswing in demand and firming up of prices. Even the Northern region, which has a concentration of large cement capacities, saw dramatic increase in dispatches.

Like other cement producers, Shree Cement too suffered from sluggish demand and poor realisation. However, the last quarter helped the Company not only in wiping out losses of the first three quarters but also helped it report profits. Post-tax profit was Rs 5.83 crore compared to previous year's profit of Rs 8.54 crore. Sales grew by 29%, from Rs 342.78 crore in 1997-98 to Rs 442.14 in 1998-99.

The two most important factors that drive profitability of cement companies are expansion (to ensure growth in absolute terms) and cost efficiency (to ensure margins). Shree Cement is well aware of this and is working on both the fronts. The Company's thrust on cost efficiency helped it improve operating margin from 16% during the previous year to over 17% during the year under review, under extremely difficult conditions.

Sales

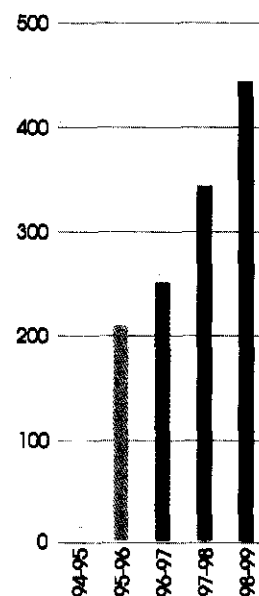
During 1998-99, Shree Cement's plants operated at over 100% capacity utilisation. We reported the highest ever sales of 22.54 lakh tonnes of cement and clinker 25% higher than the previous year. In value terms, sales at Rs 442.14 crore rose by 29%. Other income dropped sharply, from Rs 14.72 crore in 1997-98 to Rs 2.83 crore in 1998-99. As a result, total income at Rs 444.98 crore rose by 24.47%.

Operating Expenses

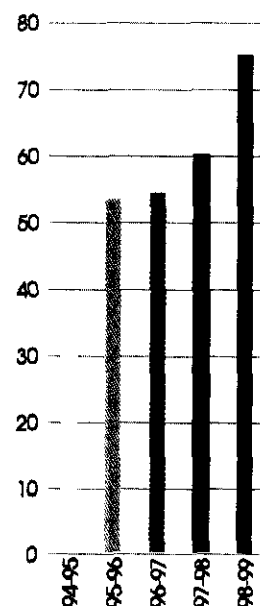
For commodity producers, especially under an economic slowdown, the key objective is peak cost-efficiency through production efficiency and other means. Shree Cement is focused on reducing operating costs year after year. This year too, the Company continued its focus on reducing power costs, one of the biggest cost components for a cement plant. From 83 units in previous year, power consumption was brought down to 79 units. The coal consumption per tonne of clinker production too has been brought down from 12.94% in 1997-98 to 12.79% in 1998-99.

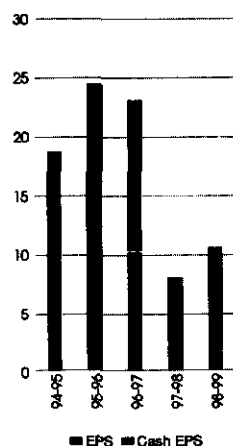
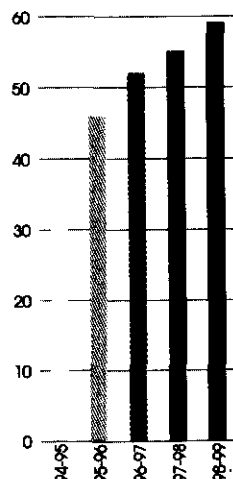
Our energy efficiency drive was well noticed and the government of India awarded the Company the prestigious 'National Energy Conservation Award' for 1998 for the lowest power and heat consumption in the cement sector. The power consumption of the Company is one of the lowest in the world.

Sales (Rupees in Crore)



Operating Profit (Rupees in Crore)



**Earning Per Share
(Rupees)****Book Value (Rupees)**

Overall, the Company's manufacturing expenses at Rs 173.34 crore went up by 18.56% during 1998-99. While freight and handling expenses at Rs 66.19 crore showed an increase of 8.27%, employee costs went up by 17.37% and administration expenses by 26.62%.

Operating Profit

As a result of Shree Cement's efforts to keep costs under control, operating profit rose dramatically by 30.50%, from Rs 57.53 crore in 1997-98 to Rs 75.08 crore in 1998-99. Operating margin rose by about one percentage point.

Interest

Net interest expenses at Rs 44.07 crore went up by 18.02% as the Company issued additional 17.5% non-convertible debentures during the year. The Company is making efforts to restructure its debt to reduce interest cost. During the year, the Company made an arrangement with IDBI for reduction of rate of interest on project loan of Rs 150 crore from 19.52% to 16.84%.

Depreciation

Depreciation charges rose sharply by 125.57%, from Rs 11.15 crore in 1997-98 to Rs 25.14 crore during 1998-99. Shree Cement's second unit was commissioned on 31 October '97. Hence, the depreciation charged in 1997-98 was not for the full year for the second unit. In addition, excess depreciation provision of over Rs 6.37 crore for the first unit was written back during 1997-98. For 1998-99, the depreciation charges was higher because of provision of full depreciation on both units.

Profit After Tax

Though operating profit went up by 30.50%, higher interest and depreciation charges brought PAT down by 31.79%, from Rs 8.54 crore in 1997-98 to Rs 5.83 crore in 1998-99. However, as mentioned earlier, poor realisation through out the year was a key factor that dampened returns and it was only during the last quarter (April - June '99), the Company could make substantial profits. However, despite lower post-tax profit, the Company's cash flow has actually gone up as explained later.

Earning Per Share

Though net earning per share (EPS) for 1998-99 stood at Rs 1.67 compared to EPS of Rs 2.45 reported in 1997-98, cash earning per share has increase to Rs 8.89 as against cash EPS of Rs 5.65.

Dividend

In view of moderate profits, the board has decided not to recommend any dividend for the year under review.

Financial Position

Share Capital

There was no change in the Company's equity share capital. During the year, the Company issued 7,50,000 - 9% Cumulative preference shares and has reserved call option for early redemption after 3 years and 5 years with adjustments in redemption premium.

Reserves & Surplus

During the year, the Company received Housing Subsidy of Rs 15 lakh from the government. The amount has been credited in Capital Reserves account.

Borrowings

During 1998-99, the Company issued additional 12 lakh - 17.5% Non-convertible debentures of Rs 100/- each and repaid a portion of rupee term loan as per repayment schedule. Overall, for 1998-99, the Company's debt stood lower at Rs 286.22 crore compared to Rs 299.37 in the previous year.

Fixed Assets

In 1998-99, the total addition to fixed assets was Rs 6.14 crore. Capital work in progress stood at Rs 13.91 crore.

Investment

Shree Cement's investment during 1998-99 came down marginally from Rs 4.52 crore to Rs 4 crore.

Current Assets

Inventory level came down in 1998-99 to Rs 45.16 crore as against the 1997-98 level of Rs 54.21 crore. Debtors outstanding at the end of the year went up marginally to Rs 50.96 crore from Rs 47.16 crore in 1997-98. Loans and Advances during 1998-99 went up to Rs 47.73 crore from Rs 31.16 crore in 1997-98. The increase was on account increase of Rs 9.9 crore in intercorporate deposit placed with other companies (not group companies). These were purely temporary in nature.

Current Liabilities & Provisions

Current liabilities went up marginally from Rs 56.61 crore in 1997-98 to Rs 59.09 crore in 1998-99. Creditors went up from Rs 41.09 crore in 1997-98 to Rs 45.97 crore in 1998-99.

Operating Cash Flow

During 1998-99, Shree Cement reported operating cash flow of Rs 17.66 crore as compared to operating cash flow of Rs 14.75 crore in 1997-98.