

TRUST does the
IMPOSSIBLE



Annual Report
2008-09

FORWARD-LOOKING STATEMENT

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward looking-statements, whether as a result of new information, future events or otherwise.

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Night view of Beawar Plant

concept note

Trust delivers.

Trust touches, assures and inspires people.

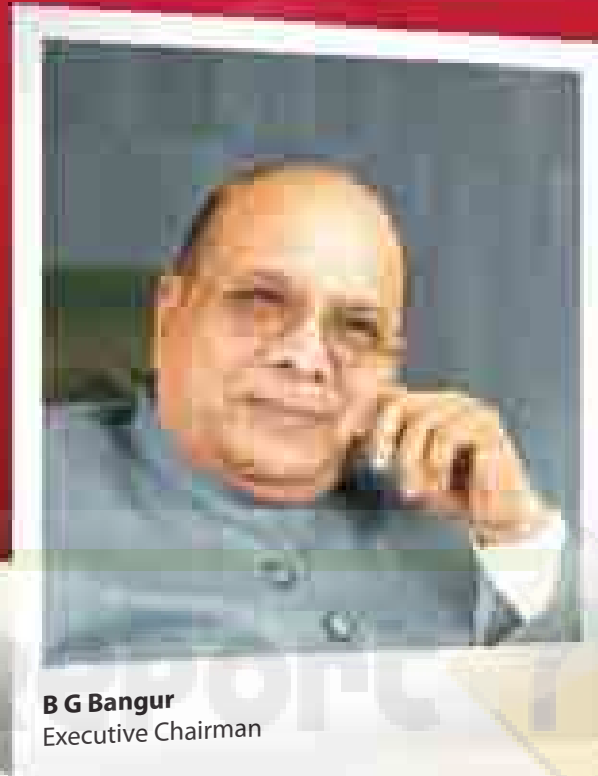
Acting thus, trust transforms organisations.

At Shree, trust has been working hard behind the scenes.

It's time we brought it to the limelight.

Chairman's words

With more 'trust best practices' in place, we are sure Shree Cement will acquire a hard edge from this soft attribute



B G Bangur
Executive Chairman

India's age-old culture has adequate references to trust and ethics as the basis of governing daily life. Take Chaanakya's Arthashastra written around 330 BC. Although, it is about the accretion and management of wealth and resources, the first Sutra or principle outlined in the book does not mention wealth at all. Instead, it says very clearly, 'Sukhasya Moolam Dharmaha' - The Basis of Happiness is Ethics. Besides elaborating on character development, the Sutras also stress the importance of competency building. Another ancient Indian contribution, the Panchatantra has numerous stories on the value of trust and friendship.

Having been brought up on such a rich diet of wisdom since childhood, Trust was a natural instinct with us. So, in a sense, it was inevitable we started thinking of it in more active terms for our organisation by implementing trust-based procedures. This is just the beginning. With more 'trust best practices' in place, we are sure Shree Cement will acquire a hard edge from this soft attribute.

About Shree Cement

Shree Cement is one of India's premier cement makers; the largest in North India. Among the country's top 5 cement groups, Shree Cement is being professionally managed by its promoters Shri B. G. Bangur, Chairman and Shri H. M. Bangur, Managing Director.

Shree Cement posted a turnover of Rs. 2715 crore and generated operating profit of nearly Rs. 1034 crore during 2008-09. Operational excellence and efficiency of the Company gets reflected in one of the highest operating profit margins of 38%.

High-calibre project management and execution capabilities have seen the Company compress project timelines and push rapid capacity expansions. A striking case in point is the commissioning of Unit VII in a world record of 367 days.

Fast scale-up of operations, driven by such rapid capacity ramp-ups, made it possible for the company to grab market opportunities. Shree enjoys the highest market shares in prime markets of Delhi, Haryana and Rajasthan.

The Company pursues a multi-brand strategy. The three brands, viz. Shree Ultra Jung Rodhak Cement, Bangur Cement and Rockstrong Cement, appeal to different customers and thus create a more diverse and broad customer base.

Shree follows the triple bottom-line approach of measuring its performance in terms of three aspects – economic, social and environmental. In line with this approach, the Company goes beyond profit performance to impact community development and environment protection in a sustainable manner. Shree has already embarked on the 'greening' of its processes so that its operations put the minimum burden on the earth's finite resources. The company is on the way to installing one of the world's largest 'green' power projects to run on waste heat.

Shree is continuing its capacity expansion both in cement and power plants with further investment committed to the tune of approximately Rs.1000 crore during 2009-10. For future growth, the Company is looking at acquiring limestone mines within India as well as abroad.



The Shree Vision

Vision

“To drive and sustain industry leadership of the company within a global context - by developing individual leadership competencies at every level, through a robust backbone of trust, support, innovation and reward”

Mission

- To harness sustainability through low carbon philosophy
- To sustain its reputation as one of the most efficient manufacturers globally
- To continually have most engaged team
- To drive down cost through innovative practices
- To continually add value to its products and operations meeting expectations of all its stakeholders
- To continually build and upgrade skills and competencies of its human resource for growth
- To be a responsible corporate citizen with total commitment to communities in which it operates and society at large

Guiding Principles

- Enforce good corporate governance practices
- Encourage integrity of conduct
- Ensure clarity and unambiguity in communication
- Remain accountable to all stakeholders
- Encourage socially responsible behaviour

Philosophy

“Aah no bhadra: Kratavo
yantu vishwatah”
- *Rigveda*

“Let noble thoughts come to
us from all over the world.”

MD's

Prisoners work hard,
give results, and do not
commit any mistakes as
their hands are tied
with chains



H M Bangur
Managing Director

perspective Leadership by Trust

organisational level, top tier management has to earn faith from the middle tier management, which in turn should generate it in their juniors.

Questions raised by juniors, if not answered adequately or truthfully by the seniors, erodes trust between the ranks. Authority enjoyed by the boss may be used to cover up his failure to furnish a satisfactory answer. However, such an action prompts an immediate loss of faith in the boss, undermining his ability to deliver in the future. Thus, transparency is the first condition of generating trust.

A natural corollary of trust is the opportunity to work with freedom. Lesser the degree of trust in people, more the amount of control and lower the freedom in an organisation. Under a system of strict control, people may work hard and deliver results with machine-like efficiency, without any errors. However, machine-like efficiency is actually for robots, not human beings. Such efficiency is achieved at the high cost of sacrificing all innovations. Prisoners work hard, give results, and do not commit any mistakes as their hands are tied with chains. Similarly, unrelenting supervision and strict control creates 'prisoners' of the system. Taught to work hard and deliver results without mistakes, all their creativity gets killed by the system.

If we do not have faith in our people, we seek to control performance and outcomes through a regime of strict adherence to parameters and targets. But, in a dynamic organisation, targets have to change daily to adjust to emerging situations and opportunities. The targets we have achieved yesterday is history; what is important today is 'what next?', or future targets. Older organisations are remembered for their sense of history or past achievements; younger organisations are remembered for future expectations.

Immediately after getting the latest kiln commissioned in a world record time of 367 days, I called up a meeting to congratulate the team. To my utter surprise, I found that the team was no more celebrating the success. As soon as it was

achieved, it had become history. They were already looking for the next big milestone; they wanted to complete the next kiln in only 342 days. They have learnt with experience that 25 additional days could still have been saved in commissioning. They were setting their own benchmark, their own limit, and the world record was too small for that.

A substitute for innovation is resourcefulness and inventiveness captured in a very *desi* word, 'jugaad'. I fail to understand why it has a negative connotation in terms of street-smart inventiveness, when it gets past every obstacle and delivers positive results. When the situation changes drastically, it is only 'jugaad' that comes to the rescue. With presence of mind, thinking 'on the feet' and effective actions, 'jugaad' can only be undertaken by an innovative workforce.

Repairing a breakdown in the system returns it, at best, to its original level. But, modifying the current system to achieve higher efficiency is the only way to get ahead. This is possible only after the team has the faith that their efforts, even if they result in failure, will not be misunderstood, and management will stand by their efforts.

The biggest frustration for any individual is to know what is wrong, and yet, feel powerless to take corrective steps. This results in the person losing faith in the organisation as well as the leadership. To pre-empt such a situation from developing, it is important that the individual's voice is heard at the right time by the right people. This can happen only if communication lines (trust lines) between various persons are totally open.

To take a leaf out of our ancient literature, take Hanuman, a capable hero of the 'Ramayana'. According to the myth, Hanuman had a curse upon him that made him forget his strengths; he could achieve his immense potential only when reminded of his capabilities. Great leadership is that which achieves the best out of all potential 'Hanumans' in the team.

The most daunting task a leader faces is how to sell his vision to a group of people. Forget a group, try convincing even a single individual, say even someone as close as your spouse; and you will understand what I mean. This is because a team, far from being an undifferentiated unit, consists of individuals with diverse backgrounds and ambitions.

So, achieving a common vision for different members of a team is the work of the leader; achieving the highest degree of harmony among members is the touchstone of successful leadership. If the team vision is not coherent, then it is not the failure of the team, or of its ability to deliver on expectations; it is the failure of the leadership to sell its vision to the team. I was often told by my teacher ages ago that if I performed badly, it was not my fault but his; it is not the student who fails, but the teacher. Similarly, it is not the team which fails, but the leadership.

Once the common organisational vision is framed, the top management's behaviour and work has to conform to it. Disharmony between what is being said and practiced, results in total aural and visual mismatch, and thus, in total

loss of trust. We expect all our religious leaders to practice what they preach. It is equally true of corporate leadership. Confidence and trust in it always comes from the top and travels to the bottom.

At Shree Cement, telephone, traveling and other personal expenses are self-certified. All such expenses are paid without any further verification by the accounts department. Only 10% of the bills are sampled out for checking at a later date. Last year, we found that only 12% of the total bills checked had discrepancies. Out of the 12%, 4% of the bills were under-claimed and only 8% were over-claimed. Even the over-claiming was due to genuine ambiguity of the rules. In fact, we found that given the responsibility of self determination, nobody over-claims intentionally.

Trust is a two-way communication line between the top and bottom. A leader can trust only when there is faith on both capability and commitment of the people, and vice-versa. Incapable and uncommitted management cannot generate faith, irrespective of the results. At an

Trust provides the strong roots that allow our people to take unusually high risks and even fail on the way to hitherto unreachable heights



M K Singhi
Executive Director

We follow the triple bottom line approach of measuring our overall performance in terms of economic, social and environmental performance (also called the 3Ps of performance - Profit, People and Planet.) This is a holistic yardstick that looks at how our performance matters to those impacted by it - our employees, shareholders and other stakeholders, the community and the environment.

Of course, performance is a matter of fundamentals like people, infrastructure and resources. Does it follow then that if the quality of tangibles like people, infrastructure and resources were exactly the same at two different places, performance would be the same? I am sure it would not be so.

Besides the tangibles, I know of one intangible that changes the picture completely - trust. Let me illustrate with an analogy. Say, your task is to row a

ED's

overview

What is our 'bottommost' line?

boat; then, trust is like the favourable wind in its sails - unseen and yet, impactful. Stronger the wind (or trust), faster and easier does your rowing (or your effort) take the boat forward (or bear results). On the other hand, an absence of wind (or no trust), or presence of unfavourable wind (or distrust) makes your rowing (or effort) slower and harder.

The analogy makes clear various aspects of trust. One, the intangible trust has a tangible impact. With the favourable wind in its sails, the boat reaches its destination hours faster than otherwise and the rowers are relatively less exhausted because of the less exertion. Likewise, for the individual, his task gets completed ahead of schedule with little cost in terms of effort. Say because of trust, it takes the individual 8 hours to complete a task that would otherwise take 10 hours. The Gain from Trust, or Trust Gain, in this case is $(10 - 8 =) 2$ hours, or 20%. Thus, the effects of trust can be measured and quantified in terms of time and cost.

Two, like trust, distrust too has consequences - of course, adverse. Say because of distrust, it takes another individual 14 hours instead of the normal 10 hours to finish the above task. Then Loss from Distrust, or Distrust Loss, is to the extent of $(14 - 10 =) 4$ hours, or 40%.

Three, what is true at the individual level is true for the organisation too. At an organisational level, the boat in the above analogy could refer to the Company's Strategy and the rowing could be thought of as its Execution. A widely known business model has it that Strategy (S) times Execution (E) equals Results (R), or $S \times E = R$. Trust multiplies the effects of Strategy and

Execution to deliver much bigger Results; Distrust discounts the effects of Strategy and Execution to deliver much smaller Results. In this model, Trust Gain could be as high as 40%, while Distrust Loss could be as high as 80%.

As a later section shows, we have had demonstrated Trust Gains in our company; our commissioning of Unit VII in a world record time of 367 days, instead of the industry standard of 630 days, would not have been possible without trust. Now, 367 days is about 58% of 630; thus, Trust Gain in terms of time was $(100 - 58 =) 42\%$. Because of trust, we could complete the project 42% faster than the norm.

Trust is a two-way street between individuals. There is one who trusts and another who delivers on such trust. Our performance, as an organisation, depends on such two-way interaction of trust and support between bosses and subordinates, colleagues in different departments and even between the company and its suppliers and stakeholders. Trust provides the strong roots that allow our people to take unusually high risks and even fail on the way to hitherto unreachable heights. Because, it is such a natural performance enhancer, it is the bottom line beneath all our three bottom lines. Surely, it is our bottommost line.



What Trust achieves?

Trust, according to me, achieves the 'impossible.' By 'impossible,' I mean those things that cannot be conceived of in an ordinary context or setting. Let me furnish a simple logic. Can any departmental head singlehandedly run his department without trusting those down the line? It's completely inconceivable. So, doesn't trust achieve the unimaginable, the unachievable, or the 'impossible?'

Transactions within the framework of trust happen faster and cheaper. This is quite self-obvious in our everyday life. Say you want to buy a car. You are more likely to go for a vehicle a trusted friend or relative recommends. Because you know clearly which car to buy, the purchase takes less time (faster) and less effort (cheaper); less overall cost or burden, in terms of time and effort, is borne by you. Thus, trust has a measureable impact - lower cost of any transaction. Imagine the impact at an organisational level where countless such transactions take place daily. The cumulative effect of trust across the organisation results in huge cost-efficiencies that can be quantified. What it all means is that trust is an intangible asset that multiplies productivity and has tangible, measureable outcomes.

Facet of Company	Trust outcomes
Speed of transactions	Faster
Cost of transactions	Lower
Employee productivity /engagement	Higher
Supplier delivery	Better
Community involvement	Greater
Shareholder return	Bigger
Customer confidence	Stronger

I will now dwell on what trust has achieved in our organisation. Trust initiatives across functions and departments can be slotted into one broad trust outcome or the other. I have identified five such outcomes and adopted a cross-departmental approach to elaborate on the payoffs. This is to hit home the point that trust is the indivisible principle that can be applied in every sphere of the Company's activity.



Night view of Ras Plant

trust sets ‘unthinkable’ benchmarks

Let me list some 'unthinkable' industry records created by our Company this year.

World record in commissioning a cement plant

We set a world record of 367 days in commissioning a brownfield 1 MTPA (Million Tonnes Per Annum) Clinkerisation Unit (Unit VII). To put the record into perspective, the industry takes 630 days for such a project.

How did it happen? For a start, we forgot the words like 'unthinkable' and 'unrealistic.' We sat and discussed with our project managers deadlines that would be considered a dead 'no-no' elsewhere. We trusted their capability and commitment to deliver on such incredible targets. In a cascading effect of trust, the managers showed confidence in their execution teams, who in turn, banked on the suppliers. All in the 'trust chain' responded with great enthusiasm and commitment. The result - the world record.

“This project itself is a record time of execution of a brownfield plant of this size as far as our knowledge goes with respect to various organisations and countries where KHD-HW is working.

We would like to record our appreciation to Shree Cement for this unique achievement which can become a learning experience for other entrepreneurs who are looking for faster implementation of projects.”

- In a letter from the Sr. Vice President (Global Sales & Mktg), A. K. Dembla and President (Delhi Operations), Martin Gierse of KHD Humboldt Wedag

“Shree Cement is one of the country's most efficient cement companies. This tremendous achievement is yet another feather in the cap of the entire team.”

- In a letter from Rajasthan Chamber of Commerce & Industry

“I want to congratulate you for the speed of Shree Cement in building and firing a kiln in barely 12 months' time...it is for sure a very fast project.”

- In a letter from the Chairman and CEO of Lafarge, Bruno Lafont, France