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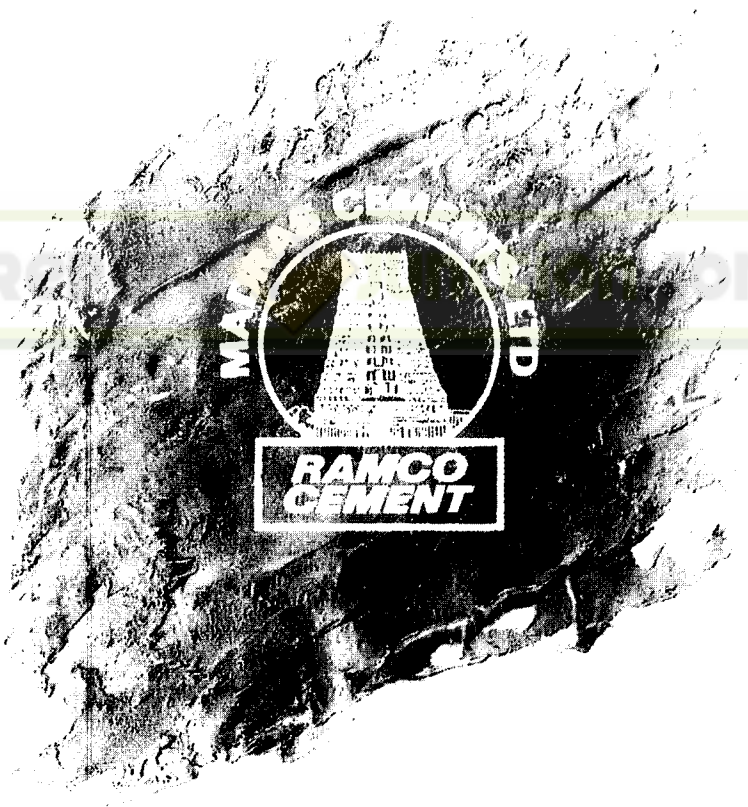
# Madras Cements Ltd.

## Annual Report

## 2002-2003

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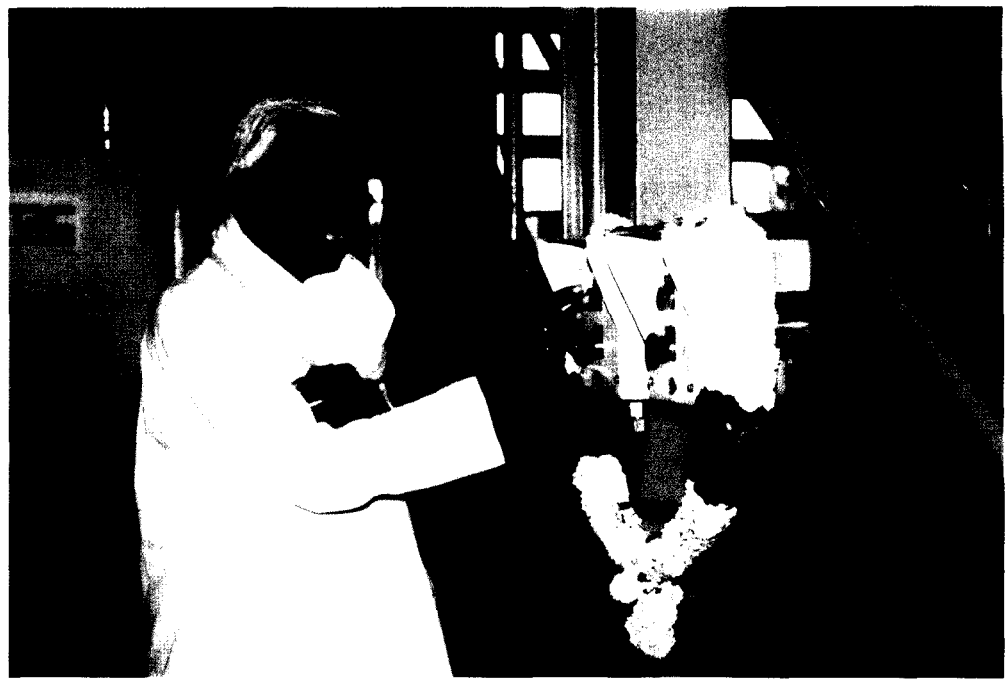

*Inauguration of the Dry Mortar Plant by our Chairman & Managing Director, Shri P.R. Ramasubrahmaneya Rajha*

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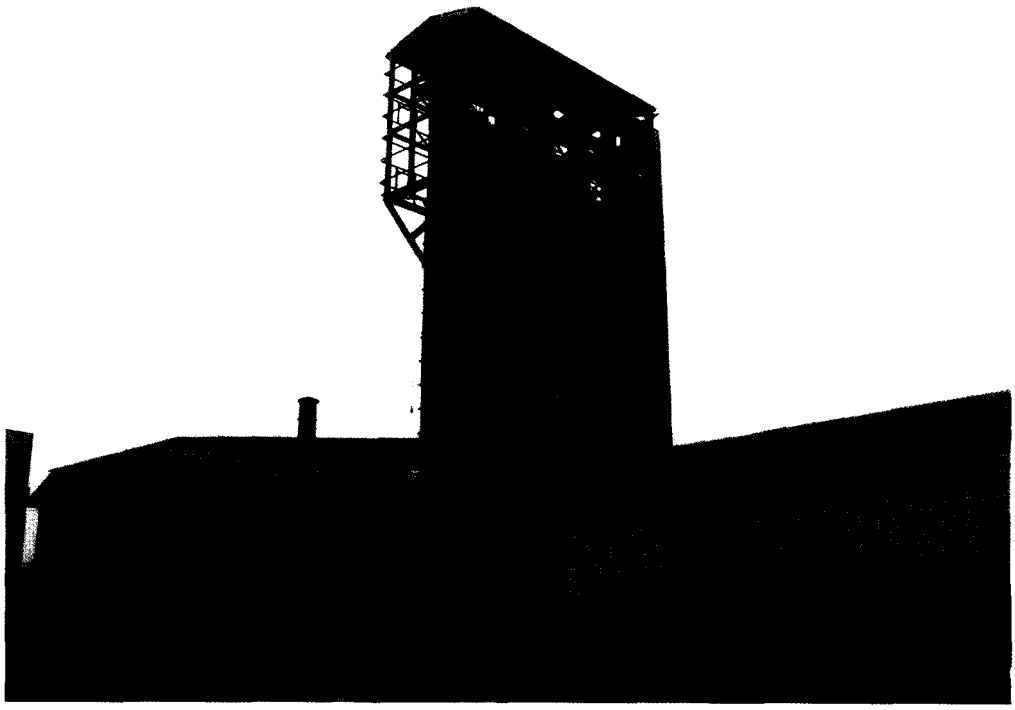

*A view of the Dry Mortar Plant at Sriperumbudur*

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# Statement of the Chairman
# Tarun Das

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ACC

THE ASSOCIATED CEMENT COMPANIES LIMITED

## 67th ANNUAL GENERAL MEETING
## July 9, 2003

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**To the Members**

(67th Annual General Meeting of The Associated Cement Companies Limited at Birla Matushri Sabhagar, 19 Sir Vithaldas Thackersey Marg, Mumbai 400 020, Wednesday 9th July 2003 at 3.30 p m.)

**Ladies and Gentlemen,**

I extend to you all a warm welcome to the 67th Annual General meeting of your Company. I must start on a sombre and solemn note.

**2. Tribute to Mr Nani Palkhivala**

Let us begin the day's proceedings by paying tribute and homage to a great soul, that of a person who was closely associated with us, who led and inspired us for three decades – our beloved Chairman Emeritus Mr Nani Palkhivala. A legend in his own life time, in his demise he leaves us with a tremendous feeling of awe and wonder that such a person worked with us in close proximity and led this organization through joyous and difficult times and contributed significantly to ACC's culture and ethos. We must consider it a special privilege that we were able to have a long association with a statesman. His passing leaves a vacuum that will be felt not just in ACC or in the business world but in the country itself. The Directors of ACC unanimously decided to dedicate the Board Room in Cement House in his memory – a room full of the Company's rich heritage. It is a room he liked and visited often. Accordingly it has been renamed the "Nani Palkhivala Board Room" and his portrait in oil has been prominently displayed in an alcove of the room.

In his speeches, articles and books, Mr Palkhivala leaves us a priceless legacy of wisdom in the fields of law, economics, business and in general about India itself. Ladies and Gentlemen, please join me in observing a minute's silence to salute the memory of Mr Nani Palkhivala.



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### 3. ACC – Financial Results for 2002-03

During the year 2002-03, total income of your Company grew to Rs.3489.89 crores from a level of Rs.3333.79 crores in the previous year. And profit before depreciation, interest, exceptional items and tax was Rs.403.61 crores as against Rs.492.25 crores in the previous year. During the year we achieved greater cost efficiencies in respect of interest costs and operating parameters. However these were weighed down by a decline in realization on account of depressed selling prices of cement and escalations in the costs of diesel, slag and coal.

### 4. Cement Production and Sales

The cement business of your Company fared well last year under conditions which were somewhat difficult. We produced 13.42 million tonnes of cement, which was 17 per cent higher than the previous year. Clinker production at 10.71 million tonnes registered a growth of 22 per cent.

### 5. New Projects

Captive Power Plants of 15 MW capacity each which were under implementation at Chanda, Tikaria and Madukkarai were commissioned during the year. This makes your Company more self-sufficient in power generation and reduces the cost of power consumption as compared to purchased power. Work on augmenting the grinding capacity at our Tikaria grinding unit in Uttar Pradesh is also completed. This state-of-the-art and environment-friendly plant is the largest fly-ash based grinding unit in the country, utilising otherwise waste hazardous fly-ash from a thermal power plant of the National Thermal Power Corporation.

### 6. Cement marketing overview

Your Company sold 13.95 million tonnes during the year which represents a growth of 15 per cent. The increase helped to partly neutralize the impact of lower price realizations especially in the south and west. The marketing team continued its focus on reduction of distribution costs through more efficient logistics and supply chain management. Also relative price positions were sought to be enhanced in all our strategic markets through brand building activities. Credit management continued to be strict and an industry benchmark. These areas will continue to receive attention in the coming year as well.



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**7. Ready-mixed Concrete**

There has been a remarkable turnaround in the profitability of the Ready Mixed Concrete business of your Company. This was achieved by restructuring and a greater focus on the remunerative retail customer segment. We now have nine units operating in the country. Your Company, which pioneered RMC in India, retains its position as the country's largest producer in this category. RMC continues to receive favourable recommendations for mass and major construction projects. The only irritant for RMC that continues is the levy of sales tax on it whereas there is no tax on site-mixed concrete. Despite this handicap, RMC is preferred by discerning retail customers and large projects who recognize the inherent advantages of this product.

**8. Refractories**

The Refractories Business has shown improved results during the year. Sales volume grew by 8 per cent and sales turnover by 6 per cent. As a result there has been an appreciable improvement in profitability of this segment. Feedback from end-users in two of our major customer segments, viz. steel and cement, was favourable and reinforced the Company's image of being leaders in our range of refractory products and services. We expect a satisfactory rate of growth in demand from both steel and cement sectors in this year as well. Exports were maintained at a healthy level.

**9. Overseas Business**

On the overseas business front, your Company added two feathers in its cap during the year. While the Yanbu contract progressed satisfactorily, we made two significant new breakthroughs in overseas technical consultancy assignments. M/s. Dangote Industries, Nigeria, a leading diversified industrial group retained us to help set up their proposed 3 x 7000 TPD cement plant in Nigeria. ACC also successfully completed an assignment in Sudan where it helped stabilize operations at the Atbara Cement Plant, newly acquired from the Sudanese government by the Jeddah-based Sudanese African Company (SUDAFCO).

I have no doubt that these assignments, in addition to the existing one at Yanbu, will serve to enhance ACC's image as being a company with world-class expertise in project management consultancy.



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**10. Good Corporate Citizen**

And now for some more good news. Your Company was selected by PHD Chamber of Commerce and Industry, New Delhi as winner of its Good Corporate Citizen Award for the year 2002. The nomination recognizes outstanding contributions by a member of the corporate sector to social causes, including rural and community development activities, healthcare, education, vocational training, employment generation as well as environment awareness and protection activities. This award, which carries a trophy and a citation, was presented to ACC's Managing Director by Shri K C Pant, Deputy Chairman, Planning Commission at PHDCCI's 97th annual session in December 2002.

From inception, ACC has always strived to be a good corporate citizen – and this was long before corporate social responsibility was talked about. Your Company's earliest initiatives in community and rural development date back to the 1940's while the first formal Village Welfare Scheme was launched in 1952. As you know, most of our plants and mines are located in backward and remote areas which are home to some of India's most under-privileged people. Each plant is closely involved in the development of rural areas around it as well as in the welfare of the local community.

ACC is also among the first Indian companies to include commitment to environmental protection as one of its corporate objectives. Long before pollution control norms and regulatory laws came into existence, your Company inducted the use of sophisticated high efficiency pollution control equipment for cement kilns, raw mills, coal mills, power plants and coolers. Over the years, your Company has won several prizes and certificates of merit for environmental measures undertaken at its various plants and mines. In particular ACC has been appreciated for its programmes involving 'greening,' afforestation, rehabilitation of mines, noise abatement and other visible measures such as tree plantation and water management.

Significantly, ACC is respected in the industry for its professional style of management based on a philosophy of the best in business ethics. Your Company has always fostered a tremendous sense of belonging among its stakeholders, and in particular, employees, customers and associates. It is all these values that make ACC's culture unique. Mindful of such a great tradition, we are deeply committed to protecting the richness of our reputation.



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**11. Support to national Sport**

I would like to mention one other development of some relevance here. Your Company has had an old and close association with the game of cricket. Many cricket legends were employees of ACC during their active cricket careers. This was in the days before cricketers became like the superstars they are today. I believe we contributed in some small measure to support the game in its early days. Today the game is more than self-sufficient. But there are many sporting disciplines languishing for want of patronage. We have agreed to participate in a scheme proposed by the Confederation of Indian Industry that seeks to supplement the efforts of Government of India and Sports Federations in providing expert coaching and additional foreign exposure to top promising sportsmen in training them for the next Athens Olympics in 2004. The discipline chosen by us is Boxing. We feel this is a deserving cause and wish our sportsmen every success.

**12. Global Scenario**

A recent report by Directors of the International Monetary Fund (IMF) noted that the pace of global recovery has slowed down since late 2002, "amid rising geopolitical uncertainties and the continued adverse effects of the fallout from the bursting of the equity market bubble. Industrial production has stagnated in the major advanced countries; world trade growth has slowed; labour market conditions have remained soft; the recovery of global fixed investment is tentative; and forward-looking indicators have generally weakened". But the report is quick to add that the global economy has been resilient so far and that in many industrial countries the fundamentals remain sound although it warns that resilience of the world economy to shocks may now be weakening. The IMF Directors forecast that the global recovery should gradually reassert itself, achieving global GDP growth of just over 3 percent in 2003 under the baseline scenario on the assumption that current geopolitical uncertainties are resolved quickly. Unless reconstruction and rehabilitation work in Iraq is accelerated without delay, the aftermath of the war in Iraq is likely to affect the global economy through a number of channels which will need to be monitored closely. These include soaring oil prices, uncertain international financial markets, generally depressed consumer and business confidence, adverse trends in travel, tourism and remittance income and possible terrorist attacks.



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We are living in a continent ridden with strife and crisis. Asia, the cradle of human civilization, has been in recent years also the most troubled part of the world. As if hunger, poverty and illiteracy were not enough in themselves to cope with, we have also seen the perils of 'oil-fired' global politics. Afghanistan is still far from being over her trials. Thankfully, the war in Iraq is at last over.

Generations ago, at the time of a similar international crisis, the great Swami Aurobindo had said "It should have been a perfect world. It is not. Every political principle man adopted, every national policy he conceived, every religious truth he believed, every moral structure he erected, almost every thing he created since his existence is falling apart with an urgency that was never before." Fortunately for us, the sage also said, this is an "Evolutionary Crisis" and not the end of the world. He said, "For the first time in the history of the earth, man has the chance to exceed himself consciously; to make the choice and become part of an accelerated evolution; to aspire and emerge as a New Being." Let us hope with optimism for such an evolution.

**13. National Economy**

Industrial production fared better this year as did the services sector which has been growing rapidly. Tourism and travel which slowed down since September 2001 has yet to fully recover. The year 2002-03 also saw good performances in steel, telecommunications, railways and road transport movements. Cargo handling and movements at our ports are also showing an improving trend.

While oil is 'black gold' or the most sought after natural wealth for the world's more developed economies, for us and many countries in Asia and Africa, Water continues to be the common man's most scarce resource. Nothing shows this up more than failures of the monsoon. The Indian economy continues to be most vulnerable to the bounties of the rain god. Last year, seasonal rainfall fell short of its normal volume by as much as 19 per cent. As a result, we experienced the most deficient monsoon since 1987-88, with moderate to severe drought conditions suffered by 17 states of the country. It is not surprising that agriculture suffered. Kharif foodgrain output (rice, coarse cereals and pulses) declined by 19 per cent as against the previous year. Commercial crops such as oilseeds cotton and sugarcane were badly hit. Overall foodgrain production fell by 13.6 per cent during the year. Only



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the large buffer stocks cushioned us from feeling the adverse impact of this steep shortfall. In his Budget speech, the Union Finance Minister called for a second Green Revolution. In order to achieve this end, I believe that we also need to give priority to more efficient water management. Even the President wondered aloud if the Garland Canal scheme to link Indian rivers can ever become a reality. Why not? Even the Golden Quadrilateral road project now under implementation was once but a dream.

**14. Budget 2003**

This year's Union Budget achieves a healthy balance of economic and political needs. It seeks to promote an environment that facilitates entrepreneurial growth. The Budget carries on the much-needed task of tax reforms and rationalization. There were meaningful tax concessions and measures that will give a fillip to the infrastructure and construction projects. Interest rates were further down. As a result it was generally citizen-friendly and investor-friendly. All in all a good budget. But only one thing caused us concern – the increase in excise duty on cement. To be honest, we have not yet been able to comprehend why cement was singled out with such a steep increase in excise duty. Fertilizers which shared a similar slot with cement was subsequently exempted after popular resistance. We feel cement, still the only viable building material available to the masses of India, merits more favourable treatment.

**15. Roads and Highway Projects**

We closely monitor the progress of national highways and rural roads. We must be proud of the progress being shown on this front. This is indeed a critical activity which has valuable linkages with so many other sectors including cement and steel. Our National Highway Development Project (NHDP) is among the most ambitious highway projects in the world. The Finance Minister announced additions to the road programme costing Rs.40,000 crore with 25 per cent of them to be built with cement concrete. We would have welcomed a greater share for the construction of concrete based roads. Cement industry stands to gain substantially if more roads are built with cement and concrete. One kilometre of a four-lane highway will require at least 2000 tonnes of cement. The overall success of road development including its financing systems offers important lessons for other sectors.



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