

**REPORT OF THE DIRECTORS****FOR THE YEAR ENDED 31<sup>st</sup> MARCH, 2010**

Dear Members,

Your Directors have pleasure in presenting the ninety-first Annual Report and the Audited Statements of Accounts of the Company for the year ended 31<sup>st</sup> March, 2010.

**FINANCIAL RESULTS***(Rupees in Crore)*

Particulars	31 <sup>st</sup> March, 2010	31 <sup>st</sup> March, 2009
Net Sales/Income from Operations <i>(including Excise Duty)</i>	5,020.63	4,292.07
Other Income	125.07	75.94
<b>Total Income</b>	<b>5,145.70</b>	<b>4,368.01</b>
 <b>Gross Profit</b>	 648.30	 520.97
Less:		
Depreciation (Net of transfer from Revaluation Reserve)	172.80	111.86
Provision for Income Tax	36.00	45.00
Provision for Fringe Benefit Tax [charge/(credit)]	(0.13)	2.00
Provision for Deferred Tax [charge/(credit)]	202.29	(16.63)
	<u>410.96</u>	<u>142.23</u>
<b>Net Profit</b>	<b>237.34</b>	<b>378.74</b>
Less:		
Debenture Redemption Reserve	101.25	25.00
<b>Amount available for appropriation which the Directors have appropriated as under:</b>	<b>136.09</b>	<b>353.74</b>
(i) Proposed Final Dividend	14.87	14.87
(ii) Tax on Proposed Final Dividend	2.47	2.53
(iii) Interim Dividend	10.29	10.29
(iv) Income Tax on the Interim Dividend	1.75	1.75
(v) General Reserve	24.00	44.78
(vi) Balance carried forward to next year	82.71	279.52
	<u>136.09</u>	<u>353.74</u>

**DEFERRED TAX**

In terms of the Accounting Standard on 'Accounting for Taxes on Income' (AS-22) a sum of Rs.202.29 crore has been debited to the Profit & Loss Account being Deferred Tax Liability for the year under review.

**TRANSFER TO INVESTOR EDUCATION & PROTECTION FUND**

In terms of sections 205A and 205C of the Companies Act, 1956 read together with General Circular no. 22/2002 dated 23<sup>rd</sup> September, 2002 issued by the Department of Corporate Affairs, the Company deposited about Rs.13.26 Lac, being Unclaimed Dividend and interest on Fixed Deposits of the Company as well as that of an earlier merged Company, during the year under review in the 'Investor Education and Protection Fund' created by the Central Government.

**DIVIDEND**

The Board of Directors in its meeting held on 30<sup>th</sup> October, 2009 declared an interim dividend and today has recommended the final dividend for the year ended 31<sup>st</sup> March, 2010 on Ordinary Shares as under:

	31 <sup>st</sup> March, 2010 (Rs.)	31 <sup>st</sup> March, 2009 (Rs.)
Interim on 4,57,43,318 Ordinary Shares of Rs.10/- each @ Rs.2.25 per Share (Previous year 2.25 per Share )	10,29,22,466	10,29,22,466
Final on 4,57,43,318 Ordinary Shares of Rs.10/- each @ Rs. 3.25 per Share (Previous year Rs.3.25 per Share )	14,86,65,784	14,86,65,784

Thus, the total dividend of Rs.5.50 per share, as per detail given herein above, has been paid / recommended by the Board for the financial year ended 31.03.2010.

**AUDIT REPORT**

As regards paragraphs 3.1(b) and 3.2(a) referred to by the Auditors in its Report, the physical verification of the fixed assets (in phased manner) and inventories as referred in para nos. 3.1(b) and 3.2(a) respectively at the Spun Pipes & Foundries Section of the Company, could not be carried out due to continued suspension of work and barricade in front of the factory gate by a section of workers at the said Section. So far as paragraphs 3.9(b) and 3.16 of the report are concerned, the same are self-explanatory and need no further explanation.

Regarding the paragraph 3.19 of the Report, the necessary security or charge pending to be created in respect of Short-term Debentures will be created within the stipulated time provided by law if not redeemed before. Further, the immovable properties of Birla Tyres, a Section of the Company at Uttarakhand, could not be created due to continuing verification of search report of the said properties by the empanelled lawyer of the Lead Banker, State Bank of India. The Short-term Debentures issued during the year were redeemed before the security could have been created within the stipulated period provided by law.

Further, paragraph 4(f) referred to by the Auditors' in its Report is self-explanatory and requires no explanation.

**GENERAL REVIEW**

During the year under review our turnover for the first time crossed Rs.5,000 Crore. This has been primarily due to the increase in sales of Tyre Section from Birla Tyres Unit-II at Laksar, Haridwar. Birla Tyres Unit-III and Unit-IV related to Truck / Bus Radial and Motor Cycle / LCV tyres started Commercial Production in March, 2010 and October, 2009 respectively. Capacity at Vasavadatta Cement was also increased which started Commercial Production in August, 2009.

The total benefit in top line and bottom line for all these expansions will get reflected in the coming year.

The profitability of the Company during the year has also increased due to good results of Cement Sections and enhanced capacity of Tyre Sections besides good treasury management and cost control effected throughout the Company. Rayon Section also showed higher profitability due to strong domestic demand.

Work at Spun Pipe Section continues to be under suspension.

**CEMENT SECTIONS*****Vasavadatta Cement***

Your Directors are pleased to report that the expansion undertaken at this section by setting up the 4<sup>th</sup> Unit comprising of Cement capacity of 1.65 million ton per annum and thermal power plant of 17.5 MW has been completed. After completion of trial run, commercial production of Cement has started from 7<sup>th</sup> August, 2009.

Operational performance of this section continues to be good and it has achieved highest ever production of Clinker as well as Cement during the year. Production figures of this section given hereunder include 1,29,300 metric ton of clinker and 76,610 metric ton of cement produced during trial run of the 4<sup>th</sup> Unit:



<u>Production</u>	<u>2009-10</u> (Metric Ton)	<u>2008-09</u> (Metric Ton)
Clinker	42,98,390	34,41,496
Cement	42,03,373	39,24,589

Cement dispatches were adversely affected due to non-availability of adequate wagons and as a result clinker to the extent of 4,52,045 metric ton was sold during the year.

The Section has achieved higher production despite several challenges such as substantial build-up of new capacity by other companies in the industry, lack of corresponding pickup in demand, shortage of rail wagons for movement of cement, coal and raw materials and unsatisfactory coal availability position in absence of adequate coal linkage arrangements. However, quality of its products, established brand image and proper logistic management have enabled the section to achieve good performance in a year characterized by continued slowdown in the construction sector and weak monsoon. Due to surplus capacity, cement prices were not able to keep pace with rising costs for major part of the year resulting in pressure on margins. Stimulus measures undertaken by the Government, particularly reduction in excise duty, encouragement to infrastructure development and improving liquidity in the economy have however, helped to maintain the growth momentum.

Captive power generation was 445.07 million KWH during the year under review as against 338.12 million KWH during the previous year. Captive power generation catered to about 98% of the total power requirement of the section. 54.15 million KWH being 12.17% of the power generated from the power plants was sold to Gulbarga Electricity Supply Company Ltd. The unit is also exploring the possibilities of power generation from Waste Heat Recovery System which will give considerable advantage in cost of power generation. Further, the Company is also exploring possibilities of further expansion or a Green field unit in nearby area.

As a part of corporate social responsibility, the unit has undertaken various social welfare and community development activities such as construction of water tank and children's park, plantation of trees, water conservation, health camps, distribution of agricultural implements to the villagers, vocational training and skill development activities, etc. in its surrounding areas.

In the year 2009-10, the Section received two prizes in the 'Mines Safety Week' under the aegis of DGMS - Drilling & Blasting First Prize and Method of Working 2<sup>nd</sup> Prize. Also in the various safety competitions conducted on the occasion of 'Gulbarga Region Industrial Safety Day 2010' (GRISD) celebration, our employees bagged various prizes.

Apart from the above, seven Scout & Guide students of our School - Vasavadatta Vidya Vihar have won recently, the coveted Award of 'Rashtrapati Puraskar'.

Industrial relations with the employees were good during the year.

## **Kesoram Cement**

Production figures of this Section are as under:

<u>Production</u>	<u>2009-10</u> (Metric Ton)	<u>2008-09</u> (Metric Ton)
Clinker	11,61,200	10,97,175
Cement	13,78,833	15,11,615

This Section also has achieved highest ever production of Clinker. However, Cement production and dispatches were adversely affected due to Telangana agitation and paucity of Railway wagons for movement of cement. Consequently, the Section had to sell 55,024 metric ton of clinker. There was substantial capacity expansion also in Andhra Pradesh, which had put pressure on sales realizations and profitability of the Section. However, from the month of March 2010, cement prices are improving and are expected to improve further in coming months.

The unit has built-up an excellent brand image of its blended cement "BIRLA SHAKTI" and was able to market about 81% of its total output in PPC cement segment.

There has been substantial increase in cost of raw materials and coal. However, Management has taken various control measures to keep the cost of cement under control.

Captive Thermal Power Plant of this Section generated 113.29 million KWH of power, out of which 0.03 million KWH were supplied to APTRANSCO. In this Section, about 82% of the power requirement of the cement plant is met from the Captive generation and balance power was purchased from APTRANSCO. Captive Power Plant plays a vital role in improving the cost competitiveness and providing quality power to the Section. In view of this, the Section is considering the feasibility of power generation by Waste Heat Recovery System.

The suit challenging the validity of imposition of Electricity Duty on captive power generation @ 25 paise per Unit from 17.07.2003 by the Government of Andhra Pradesh is still pending before the Hon'ble High Court of Andhra Pradesh.

This Section bagged the FAPCCI (Federation of Andhra Pradesh Chambers of Commerce & Industry) Award of EXCELLENCE IN WORKERS' WELFARE for the year 2008-09, which was presented by the Hon'ble Chief Minister of Andhra Pradesh Sri K. Rosaiah on 5<sup>th</sup> April 2010.

Basantnagar Limestone Mines of this Section bagged two 1<sup>st</sup> prizes for "Environmental & Health Management" and "Maintenance and Operation of Heavy Earth Moving Equipments" and 2<sup>nd</sup> prize for "Drilling and Blasting" from the Director General of Mines Safety, Hyderabad during the Mines Safety Week celebrations.

As a part of corporate social responsibility, the Section is continuing the rural and community development and welfare activities in nearby villages by running of Agricultural Demonstration Farm, Model Dairy Farm, Vocational Training Centre for Youth, Distribution of agricultural implements, Sewing Machines, Tri-cycles for physically challenged people, Animal Health Camps, Blood Donation Camps, Pulse Polio Programs and promotion of Self Help Groups of women for their economic development etc.

Industrial relations were cordial during the year.

#### **BIRLA TYRES SECTIONS**

The gross turnover of the Section this year has been Rs.2,849.62 Crore as compared to Rs.1,947.23 crore showing an increase of about 46.34% compared to last year. In spite of stiff competition, we have been able to increase our market share from 15% to 18%. The export sales for the year under review amounted to Rs 361.48 crore as against Rs 240.41 crore in the previous year.

Though the Section has recorded commendable sales growth but due to sharp increase in raw material prices particularly of rubber in quarter III and quarter IV, profitability has been adversely affected.

The Company's world class Green field facility for production of Motor Cycle/LCV and Truck/ Bus Radial tyres started commercial production in October, 2009 and March, 2010 respectively.

The board has approved further expansion of capacity to produce Truck/Bus Radial tyres by 85 MT/day at Haridwar and for Passenger Car Radial tyres of 80 MT/day at Balasore involving capital outlay of Rs. 350 Crore and Rs. 450 Crore respectively. The civil construction for the above expansions is in full swing and order for the major machineries and equipments have already been placed. The commercial productions in both the projects are likely to commence by March, 2011.

The Section continues to have the distinction of being certified for ISO-9001, TS-16949, ISO-14001, SA-8000, OSHAS-18001 and TPM.

Relations with employees have been cordial and conducive to growth during the year.

#### **RAYON & TRANSPARENT PAPER SECTIONS**

Amidst challenging environment, performance of VFY (Viscose Filament Yarn) business is satisfactory. Strong domestic demand and higher penetration in export market led to substantial growth in volumes, coupled with reduction in the cost of all the major raw materials – pulp and sulphur, the Section's operating margin improved in spite of the steep hike in coal & electricity costs. Margins in future, are likely to decline from current level due to upward trend in pulp and sulphur prices. Export demands are also likely to be impacted due to stiff competition from China and the imposition of Anti-dumping duty by the Government has not been of much help in arresting cheap imports in the country. The exports were 612 M.T. against 521 M.T. of previous year.

The T.P (Transparent Paper) business continues with unfavourable market environment resulting into poor realization mainly due to competition with cheaper imports & substitutes. As a result of the above, again the production capacity of this Section could not be fully utilized. The exports were 293 M.T. against 306 M.T. of previous year. The recent hike in the rate of Excise Duty will further impact the demand and profitability of this product.

The performance of Section's chemical business was satisfactory despite the prevailing global economic conditions and cheap imports.

Relations with the employees were cordial during the year.



### SPUN PIPES SECTION

The factory of this Section continues to be under suspension of work on and from 2<sup>nd</sup> May, 2008. The blockade and barricade in front of the factory gate is continuing, as a result finished goods and other material lying inside the factory could not be removed. All finished goods outside the factory have been sold.

During the year Rs 4.53 crore were recovered against old outstanding while sale was of Rs.0.35 crore only.

### HINDUSTHAN HEAVY CHEMICALS SECTION

The production figures of the Section were as under :

<u>Production</u>	<u>2009-10</u>	<u>2008-09</u>
Caustic Soda Lye	11,663 MT	11,737 M.T.
Sulphuric Acid	19,061 MT	19,139 M.T.
Hydrogen Gas	7,53,453 M <sup>3</sup>	8,18,882 M <sup>3</sup>

Demand for Caustic Soda was subdued during the year due to slow down in Aluminium sector. However, there was improvement in demand for joint products – Chlorine and Hydrochloric Acid – towards the end of the year. Production of Caustic Soda was affected due to frequent breakdowns and power trippings. Production of Hydrogen Gas was lower due to lesser demand from Vanaspati Industry in the first half of the year but improved considerably towards end of the year.

The Section continues to enjoy certificates for Quality and Environment management under ISO-9001-2000 and ISO-14001-2004.

The Section takes various measures on its own and also in collaboration with various government agencies for improving awareness of environment and safety.

Relations with employees continue to be cordial.

### EXCISE DUTY

During the year under review a sum of Rs 289.98 crore (Rs 414.35 crore in 2008-09) was paid on account of Excise Duty on various products manufactured and sold by your Company.

### INSURANCE

Appropriate Insurance cover has been taken for the properties of the Company.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors to the best of their knowledge and belief confirm that:

- in the preparation of the Annual Accounts, the applicable Accounting Standards have been followed by the Company;
- appropriate Accounting Policies, as mentioned in Schedule 17, have been selected and applied consistently and such judgments and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31<sup>st</sup> March, 2010 and of the profit of the Company for the financial year ended on that date;
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- the annual accounts have been prepared on a going concern basis.

### CORPORATE GOVERNANCE

Adequate steps to ensure compliance of all the mandatory provisions of 'Corporate Governance' as amended in the Listing Agreements of the Stock Exchanges with which the Company's Shares are listed have been taken and your Company has ensured its required compliance.

A separate Report each on Corporate Governance and Management Discussion & Analysis is annexed hereto as **Annexure 'A'** along with Auditors' Certificate for its due compliance and **Annexure 'B'** respectively as part of Annual Report.

### DIRECTORS

On 31st December, 2009 Shri S K Parik, Sr. President (Account, Finance & Taxation) and Secretary resigned from the services and also from the Board on 31st March, 2010 after more than 55 years of service to the Company in various capacities. Your Directors wish to place on record their appreciation for the services rendered by Shri Parik during his tenure as a Senior Executive as well as Director of the Company.

Shri K.G. Maheshwari and Shri G.B. Pande, Directors of your Company, retire from the Board by rotation but are eligible for re-election.

### AUDITORS

The Company has received a requisite certificate pursuant to Sec.224 (1B) of the Companies Act, 1956 and a confirmation that Price Waterhouse, the Auditors of your Company, is complying with ongoing cycle of peer review process as required by the 'Statement on Peer Review' issued by The Institute of Chartered Accountants of India (ICAI) together with a copy of the peer review certificate dated 30.8.2006 issued by the 'Peer Review Board' of ICAI regarding their eligibility for re-appointment as Auditors, who retire at the ensuing Annual General Meeting and we recommend their re-appointment.

### COST AUDITORS

The Company has appointed qualified Cost Auditors, in terms of the directives of the Central Government under section 233B of the Companies Act, 1956, to conduct cost audits of the various products manufactured by the Company.

### PARTICULARS OF EMPLOYEES

The particulars as required under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 forms part of this Report and the same is enclosed as **Annexure 'C'**.

### CASH FLOW ANALYSIS

The Cash Flow Statement for the year under reference in terms of clause 32 of the Listing agreement with the Stock exchanges is annexed hereto.

### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO.

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 as **Annexure 'D'**.

### APPRECIATION

We wish to acknowledge the understanding, support and the services of the sincere workers, staff and executives of the Company, which have largely contributed to the efficient operations & management of the Company. Your Directors also wish to place on record the valuable co-operation & support received from the Financial Institutions, Banks, the Government of India, the State Governments and the concerned local authorities.

We would also like to express sincere thanks to our Shareholders and Debenture holders for their confidence and understanding.

Kolkata,  
28<sup>th</sup> April, 2010.

S.K.PATODIA  
Secretary

DEEPAK TANDON  
Whole-time Director

B. K. BIRLA

Chairman

K. G. MAHESHWARI  
B. P. BAJORIA  
P. K. CHOKSEY  
G. B. PANDE  
AMITABHA GHOSH  
P. K. MALLIK  
MANJUSHREE KHAITAN

Directors