

ANNEXURE "B"

REPORT ON MANAGEMENT DISCUSSION AND ANALYSIS

A. INDUSTRY STRUCTURE AND DEVELOPMENT

CEMENT

Indian Cement Industry continues to be the second largest cement producer in the world with installed capacity of 244.69 million Ton.

The Indian Cement Industry had a growth of 12% in the year under review as compared to 8% in previous year in spite of the global financial melt down affecting the entire world economy including India.

During the year under review, Cement Industry has achieved capacity utilization of 85% as against 88% in preceding year, which has dropped mainly due to augmentation of new capacity.

The cement production and consumption in India has recorded growth of 12% and 13% respectively over preceding year but the cement production and consumption in Southern Region, where both the cement Plants of the Company are situated have been only 9% & 5% respectively due to sizable addition of new capacity which has put pressure on Cement prices as well.

TYRE

The Indian Tyre Industry is mainly dominated by the organized sector and consists of five major players who together account for approximately 85% of the Industry's turnover. These companies have a presence in all the major segments of the Tyre Industry – the replacement market, Original Equipment Manufacturers (OEMs) as well as export and consequently, offer the consumer a well diversified product mix.

In the Indian Tyre Industry commercial vehicle tyres take the lead and account for approximately 65% of the Industry's turnover. As a result, the growth of the entire Tyre Industry depends on primary factors like agricultural growth, overall GDP growth, industrial production, growth in vehicle demand and secondary factors like infrastructure development, prevailing interest rates and financing options. Another significant difference between the Indian and the global Tyre Industry is the extent of radialisation in the commercial vehicle tyres. Globally, commercial vehicle tyres are radialized to the extent of 70% as compared to India where the radialisation levels in this segment until last year was only 10%. However, this trend is gradually changing and it is expected that radialisation levels will go up to the extent of 20-25% in the next 2 years. The major domestic players have announced significant expansion plans to meet the growing demand for commercial vehicle radial tyres.

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There is no growth in the production capacities in the country. The demand for Viscose Filament Yarn (VFY) is expected to be moderate in the short to medium term in view of the high competition with other fibres and increased imports in the country.

Further, the Transparent Paper (TP) manufacturing is not viable due to high cost of inputs, cheap substitutes resulting into restricted demand.

Looking to erratic demand of both the products, there does not appear to be any further scope of development.

SPUN PIPES

The Industry witnessed sluggish demand during the first half of the year under review. While demand for pipes has picked up but Cast Iron pipes continue to face very stiff competition from Ductile pipes. As the section is under Suspension of Work since 2nd May 2008, no comments are made under the heads "Opportunities & Threats, Segmentwise Performance, Outlook and Risks & Concerns."

HEAVY CHEMICALS

The capacity utilization of Indian Caustic Soda Industry declined to around 67% during the year due to demand recession and huge import at dumping price. The Industry's demand for imposition of safeguard duty – in addition to prevailing anti-dumping duty – has been favourably considered by the designated authority resulting in sharp decline in imports towards the end of the year.

Capacity utilization in Sulphuric Acid Industry suffered in the first half due to import of the product at throwaway prices. However, the situation improved in the second half due to increase in prices of Sulphur and Sulphuric Acid in International Market.

B. OPPORTUNITIES AND THREATS

CEMENT

In order to meet future demand for Cement, Industry has taken up large scale capacity expansion during the last three years and further substantial capacity addition is planned during next two years.



Creating world class road infrastructure for laying highways, road to rural connectivity, mass housing, urban development and projects for upliftment of rural economy etc. are some of the major thrust areas of Government and to achieve these objectives, Government has been increasing substantially its budget allocation in the last two years.

Heavy augmentation in capacities by 70-80 million ton in next two to three years coupled with non-availability of good quality of coal and inadequate wagons for transportation are the main threats.

TYRE

The national thrust on road infrastructure, construction of expressways and national highways present a range of opportunities for the Tyre Industry. Creation of road infrastructure has given some fillip to surface transportation. Emphasis on making India an Auto Centre for small cars also augurs well for the Industry. The Tyre industry will continue to play an important role in this dynamic and evolving situation.

The volatility in raw material prices is the biggest threat.

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The curtailed production of VFY due to suspension of operations by few competitors created supply gap, which resulted in an opportunity to maintain the inventory. However, regular imports and stiff Chinese competition in International Market are the biggest threats to the VFY Industry.

The TP segment is affected by slowdown in demand from 'Fireworks' Industry. Any increase in selling price due to increase in costs of inputs is threatened by diversion to cheaper alternatives.

The volatility in raw material prices and imports from China, however, remains the biggest threat.

HEAVY CHEMICALS

Ongoing capacity addition and Greenfield projects in Aluminium sector in Eastern India will improve demand for Caustic Soda in the coming years. Lower production cost of larger capacity Caustic Soda Plants in Eastern India may affect competitiveness of the Unit.

C. OUTLOOK

CEMENT

Even though, India is the second largest cement producer in the world, the per capita cement consumption is only 156 Kg., as against the world average of 396 Kg. Therefore, there is enormous opportunity for the growth of Cement Industry. This country has huge potential for cement consumption growth, considering major emphasis of the Government on infrastructure development and boost to housing sector through measures like easy finance, provision of tax incentives etc.

TYRE

Fortune of Tyre Industry is linked to the automobile & transportation sectors. Future looks bright due to various economic fillips by the government, large infrastructure spending and positive market sentiment.

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The sales outlook of VFY appears positive owing to signs of revival in consumer off-take. However, focus will continue to be on increasing share of value added yarn and improving yarn quality.

Realisations of TP are expected to be under pressure due to cheap imports and substitutes. The Government should consider to provide some incentives to encourage bio-degradability and eco-friendly attributes of this product.

HEAVY CHEMICALS

Improvement in demand for joint products – Chlorine, Hydrochloric Acid and Hydrogen Gas was witnessed during the second half of the year under review, which is expected to be sustained and is likely to result in better realization for the products.

D. RISKS AND CONCERNS

CEMENT

Although cement demand is expected to grow with economic growth, large capacity additions may create surplus capacity in the short term. Any unexpected slow down in the economic activity or deferment of large infrastructure projects will aggravate the situation and affect margin adversely.

Cement Industry is heavily dependent on coal for its fuel requirement. While cement capacity is increasing continuously whereas the allotment of coal against linkages is decreasing. As a result, Cement Industry's fuel cost is increasing due to purchase of coal from open market, E-auction or import of coal.

Similarly, short supply of Railway Wagons is also a major bottleneck, affecting outward movement of cement and inward movement of raw materials like gypsum, coal etc. Alternate Road Transport, only add to the inward and outward transport costs.

TYRE

The volatility in all major raw material prices and the inverted duty structure between tyres and natural rubber puts further pressure on the Industry's revenue and profitability.

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The revenue is likely to be impacted due to increased competition and rising input costs in both VFY & TP segments. Exports are likely to be affected due to subdued demand.

HEAVY CHEMICALS

Steep increase in power cost caused by rise in price of coal is a major concern as power constitutes around 65% of cost of production in Caustic Soda Industry.

E. INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The Company has proper and adequate systems of internal control, to safeguard all assets against loss from unauthorized use or disposition. These systems also ensure that all transactions are authorized, recorded and reported correctly. Regular internal audits and checks are carried out to provide assurance that adequate systems are in place and that the responsibilities at various levels are discharged effectively. The Management continuously reviews the internal control systems and procedures to obtain comfort regarding orderly and efficient conduct of business. The review includes overseeing adherence to management policies, safeguarding the assets of the Company as well as ensuring the preparation of timely and accurate financial information. The emphasis on internal control prevails across functions and processes, covering the entire gamut of activities including finance, supply chain, sales and distribution, marketing and the like. A strong system of internal audit supported by Internal and External Auditors and effective & comprehensive reviews by the Audit Committee have strengthened the internal control within the organization.

F. MATERIAL DEVELOPMENT IN HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Measures for safety of employees, training, welfare and development continue to get high priority at all levels, which are reflected in the improved quality and efficiency. Industrial relations have been cordial during the year under review except Spun Pipes Section, where the factory continues to be under suspension of work since 2nd May, 2008.

G. The Company as a whole had 13,544 persons on its rolls as on 31.3.2010.

H. CAUTION STATEMENT

Statements in this report on Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable laws or regulations. These statements are based on certain assumptions and reasonable expectation of future events. Actual results could, however, differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and domestic demand-supply conditions, finished goods prices, raw materials cost & availability, changes in Government regulations and tax structure, economic developments within India and the countries with which the Company has business contacts and other factors such as litigation and industrial relations.

Thus, the Company should and need not be held responsible, if, which is not unlikely, the future turns to be something quite different. Subject to this management disclaimer, this discussion and analysis should be perused.

Kolkata,
28th April, 2010.

S.K.PATODIA
Secretary

DEEPAK TANDON
Whole-time Director

B. K. BIRLA

Chairman

K. G. MAHESHWARI
B. P. BAJORIA
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Directors