



REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31ST MARCH, 2012

The Board presents its Ninety third Annual Report and the Audited Statements of Accounts of the Company for the year ended 31st March, 2012.

FINANCIAL RESULTS

₹/crore

Particulars	31 st March, 2012	31 st March, 2011
Total Revenue	6004.86	5559.49
Total Expenses	6018.78	5175.69
Profit/(Loss) before interest, depreciation, tax and amortisation ["EBIDTA"]	(13.92)	383.80
Less :		
Depreciation and Amortisation Expenses <i>(Net of transfer from Revaluation Reserve)</i>	297.40	272.58
Finance Costs	410.15	263.57
Exceptional item Income	(11.22)	Nil
Tax Expenses Net	(330.51)	57.86
	365.82	594.01
Loss for the year	379.74	210.21
Balance at the beginning of the year	948.51	1126.75
Add : Loss for the year	(379.74)	(210.21)
Amount transferred from Debenture Redemption Reserve (Net)	65.00	61.25
Amount available for appropriation	633.77	977.79
Appropriations :		
(i) Proposed Dividend	4.57	14.87
(ii) Tax on Proposed Dividend	0.74	2.41
(iii) Interim Dividend		10.29
(iv) Tax on Interim Dividend		1.71
(v) Balance Carried Forward	628.46	948.51
	633.77	977.79



DIVIDEND

The Board recommends a dividend of ₹ 1 (Rupee One only) per Ordinary Share of ₹ 10 in respect of the year under review as against a dividend of ₹ 5.50 per Ordinary Share of ₹ 10 in respect of the previous year.

GENERAL REVIEW

Total Revenues of the Company during the year under review increased by about 8% to ₹ 6005 Crore. Both major businesses, Tyres and Cement, recorded revenue growth. Operating margins, however, came under considerable pressure owing to spiralling input costs. These, in turn, impacted financing costs, which too showed a steep increase during the year. Brief commentaries on the performance of the Tyres, Cement and the Rayon businesses are appended :

Tyres

The year under review was pervaded by several challenges making it perhaps the Tyre Business's most difficult year since inception.

Revenues grew by 9% to ₹ 3922 Crore. However, inordinate pressure on margins forced the Business's EBIDTA to decline significantly. Consequently, negative EBIDTA stood at ₹ 428 crore during the year under review as compared to a negative EBIDTA of ₹ 15 crore in the previous year.

Margin pressure was exerted on the Business during the year as a result of sharp volatility in raw material prices and energy costs. Although prices of finished products (i.e. Tyres) moved up, these increases were not entirely commensurate with the higher input costs. Moreover, given a stagnant demand situation, price enhancements and productivity gains that the Business strived for during the year were insufficient to offset the sharp increases in input costs.

The Tyre Business focusses essentially on the Truck and Bus Tyre categories. This market remained flat during the year. The previous year had seen a 23% increase in industry wide production of Truck and Bus Tyres from 12.8 Million in 2009 10 to 15.6 Million in 2010 11. During 2011 12, on the other hand, this category rose by only 2.5% to 16.1 Million. In view of the stagnant demand during 2011 12, sales to the profitable replacement market segment also remained flat.

To stem the decline, the Tyre Business put in place several key initiatives during the second half of the year under review. The more significant of these were as follows :

- calibrated changes were made to the sales mix so as to increase sales of the more profitable products. For instance, increased focus was put on marketing of two and three wheeler tyres.
- a number of measures were taken for raising productivity on the shop floor as well as in product development.
- the Passenger Car Radial Tyre Project at Balasore with a per day production of 80MT is currently under implementation.
- the Business continues its focus on quality and has the distinction of being certified for ISO 9001, TS 16949, ISO 14001, SA 8000, OSHAS 18001 and TPM.

A new management team has been in place beginning the second half of the year under review. This team is aggressively spearheading EBIDTA positive initiatives and will take ownership for the structural changes that such measures would bring in their wake.



KESORAM INDUSTRIES LIMITED

The first signs of these initiatives bearing fruit have showed through in the fourth quarter of the year under review with EBIDTA margins rising almost 4% as the table below shows :

Particulars	April, 2011 to June, 2011	July, 2011 to September, 2011	October, 2011 to December, 2011	January, 2012 to March, 2012
Sales (₹ /crore)	1057	820	1071	974
EBIDTA (₹ /crore)	80	127	135	86
EBIDTA Margin %	7.6	15.5	12.6	8.8

Going forward, EBIDTA margins are expected to improve further and the Tyre Business looks to the future with confidence.

The Auditors, in their Report, have referred to the need for the Tyre Business to improve its internal control systems. The Board states that several effective measures have been taken during the year to further strengthen internal controls in this Business and fully address over ride related issues. These include an eventual roll out of Standard Operating Procedures across the Business and finally amalgamating these with a structured ERP system.

Cement

Production during the year under review as compared with that of the previous year was as follows :

(lakh/MT)

	Vasavadatta		Kesoram		Total	
	2011 12	2010 11	2011 12	2010 11	2011 12	2010 11
Clinker	31.74	39.21	8.20	8.94	39.94	48.15
Cement	38.83	42.78	10.74	11.50	49.57	54.28

A number of factors combined to contribute to the lower production during the year viz. slowdown in the housing and infrastructure sector, substantial capacity additions in the recent past, the prolonged monsoon and generally tight liquidity conditions in the economy. These constraints were further exacerbated by the innate volatility in input costs and major logistics issues, particularly the shortage of railway wagons for evacuating production. To partially overcome the logistics related impediments, the Business has begun setting up packing facilities near its key markets and entered into contract manufacturing.

Financially, the Business continued to be intrinsically profitable with EBIDTA at ₹ 543 crore during the year under review as against ₹ 376 crore in the previous year. Superior product mix, established brand name and initiation of strategic marketing policies combined to make this possible.

The Cement Business considers captive power generation to be a major thrust area. During the year under review, both plants met virtually their entire power requirements from captive generation. Additionally, some power was sold to the local grid. The Vasavadatta Cement Plant is preparing to commission its fifth captive power unit during the current year. Co incineration of materials, like used tyres, municipal and agricultural waste etc. will also be taken up during the current year. This will help in further reducing coal consumption for generating captive power. The petition challenging the *vires* of imposition of duty @ 25 paise per unit on captive power generation by the State Government of Andhra Pradesh continues to be pending before the High Court of Andhra Pradesh.

The Cement Business's prospects for the current year are satisfactory. Barring unforeseen circumstances, EBIDTA is expected to improve further.



KESORAM INDUSTRIES LIMITED

As is usual for a mature business, the Cement Business continued to win awards and accolades during the year. Two significant awards have been the National Award for Mines Safety and the Karnataka State Pollution Control Board's Environmental Excellence Award.

Rayon

Revenues from the Rayon Business during the year under review at ₹ 283 crore was marginally higher than that of the previous year. However, performance was impacted by a number of adverse factors including :

- significant softening of fibre prices in view of the sharp decline in cotton prices.
- high imports from China resulted in flattened demand and lower prices of viscose filament yarn ("VFY") produced domestically.
- high industry inventories of VFY. What was 11 days in March, 2011 went up to 28 days in March, 2012.

A difficult situation was aggravated further by margin pressure consequent upon steep rise in cost of inputs. Particularly severe was the sharp increase in the prices of coal and the consistent weakening of the Rupee against the US Dollar.

The Business signed a satisfactory wage settlement with its workmen during the year under review. The settlement has removed several working constraints faced by the manufacturing facility.

The Business is working strongly to further widen its market reach during the current year, a measure that will considerably improve unit price realisations. This is being combined with significant improvement in quality standards to include fine denier material. It has also represented to the authorities for levying anti dumping duty on cheap imports.

Spun Pipes and Heavy Chemicals

Kesoram Spun Pipes and Foundries and Hindusthan Heavy Chemicals facilities continued to be under suspension of work since 2nd May, 2008 and 8th December, 2010 respectively. Barricades put up by a section of workmen do not permit ingress/egress to or from these facilities. In view of this position, finished goods and other materials could not be accessed at either facility. This situation also explains the reference by the Auditors in their Report to the Company's inability to conduct physical verification of fixed assets and inventories at these locations.

CORPORATE SOCIAL RESPONSIBILITY

The Company is committed to the fulfillment of its social responsibility to society in general and those living in the vicinity of its facilities in particular. It regards this as a thrust activity area.

Numerous welfare programmes designed to cater to the needs of the populace around its facilities were undertaken during the year. A few such key initiatives were as follows :

- medical camps including conducting comprehensive health checks on local villagers ;
- installation of facilities for water purification to improve accessibility to potable water ;
- provision of street lights on certain arterial roads in adopted villages ;
- training villagers in water conservation methodologies ;
- animal husbandry camps including setting up of model dairy farms ;
- participation in the Government mid day meal schemes through procurement and distribution of utensils ;
- arrangements for mass weddings ;
- afforestation programmes ;
- imparting of vocational training spanning sections of the population around most facilities of the Company. These programmes are enabling a large number of unemployed or underemployed beneficiaries transform themselves into self respecting earning family members. Tailoring, stitch craft and needlework training, imparting computer literacy, pickle and *papad* making, feature prominently amongst the vocational training initiatives taken.



Going forward, welfare programmes will be further accelerated to benefit larger sections of the community.

In the urban areas, the Company has begun working closely with the local traffic police to promote road safety. With this in mind, it has taken up several activities in the public domain to enable mould the mindset of young adults to the need for scrupulously observing road safety norms.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956 and, based upon representations from the management, the Board, to the best of its knowledge and belief, confirms that:

- in the preparation of the Annual Accounts, applicable Accounting Standards have been followed and there are no material departures ;
- it has selected such Accounting Policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2012 and of the loss 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.

MANAGEMENT DISCUSSION AND ANALYSIS AND CORPORATE GOVERNANCE

A Management Discussion & Analysis and a Report on Corporate Governance together with the corresponding Compliance Certificate are attached as part of this Annual Report.

DIRECTORS

Shri Vinay Sah joined the Board during the year under review as a nominee of the Life Insurance Corporation of India. He replaced Shri G. B. Pande, who resigned during the previous year. Shri Sah was appointed an Additional Director under Section 260 of the Companies Act, 1956 to hold office up to the date of the forthcoming Annual General Meeting and being eligible, has offered himself for re appointment.

The Board expresses its profound sorrow at the sad demise on 20th February, 2012 of B. P. Bajoria, colleague and an eminent Industrialist. He was on the Board for nearly three decades and his contributions to the Board's deliberations were always distinctive. The Board places on record its deep appreciation of his sagacious advice and wise counsel during his tenure. Shri Kashi Prasad Khandelwal joined the Board, effective 10th April, 2012, in the casual vacancy caused by his demise. B P Bajoria would have, in the normal course, retired by rotation at the forthcoming Annual General Meeting. Shri Khandelwal, being eligible, has therefore offered himself for re appointment.

Shri K C Jain's appointment as a Whole time Director was determined by mutual consent as at the close of business hours on 31st March, 2012. Shri Jain has been re appointed a Whole time Director effective 1st April, 2012 on revised remuneration. An appropriate Resolution has, therefore, been proposed in the Notice convening the Ninety third Annual General Meeting for approval of Shri Jain's re appointment and remuneration.

Smt. Manjushree Khaitan retires by rotation and, being eligible, offers herself for re appointment.

AUDITORS

Price Waterhouse, Chartered Accountants, ("PW") Auditors of the Company, retire at the forthcoming Annual General Meeting and offer themselves for re appointment. The Company has received the requisite Certificate pursuant to Section



224(1B) of the Companies Act, 1956. PW has also confirmed that it complies with the ongoing cycle of the peer review process as required under the Regulations of The Institute of Chartered Accountants of India.

AUDITOR'S REPORT

In response to the Auditor's observations in their Report, the Board wishes to state as follows :

- Paragraph 4(a) and Paragraph 21 of the Annexure to the Report :
 - Note No.31 of the Financial Statements is self explanatory and do not call for any further comment.
- Paragraph 4(b) :
 - As stated in Note No.24 of the Financial Statements, it is reiterated that the principles of prudence have been duly considered by the Company in recognising the income referred to by the Auditors in their Report.

COST AUDIT

As per directives of the Central Government under Section 233B of the Companies Act, 1956, the Company has appointed qualified Cost Auditors to conduct compliance reporting and cost audit on such of its products in which audit has been ordered by the Central Government.

PARTICULARS OF EMPLOYEES

The information required under Section 217(2A) of the Companies Act, 1956 read together with the Companies (Particulars of Employees) Rules, 1975, forms a part of this Report. However, based upon the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts that are being circulated to Members do not include the Statement of Particulars of Employees under Section 217(2A). Any Member interested in obtaining a copy may write to the Company Secretary at the Registered Office and a copy thereof will be forwarded by post.

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

A Statement containing the information, as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is annexed.

APPRECIATION

The Board gratefully acknowledges the understanding and support received by the Company from its employees. It also places on record its deep gratitude for the unstinted support the Company has received from the Banks, Institutions, the Central Government, the various State Governments and the local authorities during the year.

Specific acknowledgement is also made for the confidence and understanding shown by the Members in the Company.

B. K. Birla | *Chairman*

K. G. Maheshwari

P. K. Choksey

Amitabha Ghosh

P. K. Mallik

Manjushree Khaitan

Vinay Sah

K. P. Khandelwal

Directors

K. C. Jain

Whole time Director

Gautam Ganguli

Company Secretary

Place: Kolkata

Date : 28th April, 2012