

## 6 Economic Performance

ACC Limited (formerly The Associated Cement Companies Limited) is India's foremost manufacturer of cement and ready mix concrete with a countrywide network of factories and marketing offices. ACC's brand name enjoys a high level of equity in the Indian market.

The company's distribution network is the largest in the country, with dealers and customers in every state. ACC is a people's brand of cement, with over 80 % of sales made through its extensive dealer network. ACC's customer base represents the masses of India - individual home builders in small towns and rural areas. The range and quality of customer services has been increased appreciably in the last four years. A large team of qualified civil engineers who man Customer Service Cells at the sales offices have regular

interactions with customers, engineers, masons and influencers in promoting good construction practices.

In the last few years, the company divested all of its non-core businesses and is now focused on the business of cement. The company seeks to retain a leadership position in the cement industry and as one that meets world-class norms. Continuous efforts are made to keep technologically abreast in order to ensure that higher levels of quality, productivity and cost efficiency can be attained. ACC is an important benchmark for the cement industry in India in production, distribution, marketing and other management practices.

The company's operations are aligned to maximize shareholders value. Profitability

has increased appreciably in the last five years. Leadership in cement requires new projects for capacity expansion to be taken up at regular intervals. Organic growth is preferred as it is faster and enables overall economies of scale. ACC is currently implementing expansion projects that will raise its cement capacity from 22.40 million tonnes in December 2007 to 30.40 million tonnes by the close of 2010.

The Indian cement industry experiences high degrees of competition. Affordable energy and logistics are important challenges. This necessitates a relentless pursuit of innovative measures to enhance overall efficiency, productivity and competitiveness especially in respect of cost leadership which helps assure our customers the best terms of price, quality, productivity, service and availability.



## 6.1 Customer Relations

ACC is India's largest manufacturer of cement. ACC Cement has an image of being dependable, consistent and of high quality backed by in-house research and expertise. The company's distribution network has the widest spread of dealers and customers in every state of the country. Though it has catered to some of India's most admired infrastructure projects, ACC is essentially a people's brand of cement. Today nearly 85 per cent of sales is made through the extensive dealer and retailer network to a large customer base representing the masses of India - individual home builders in small towns, rural and semi-urban India.

ACC has been a trend-setter in the manufacture and promotion of blended cements namely, portland pozzolana and portland slag cements which use materials that are otherwise industrial wastes and pollutants. ACC is the largest manufacturer of Blended Cements in the country. These are positioned as premium products highlighting their special properties and their eco-friendliness.

The level of customer services has been appreciably increased through the expansion of our sales network and sales force. Customer Service Cells at each of our regional marketing offices are manned by a team of qualified civil engineers who interact with consumers, engineers, masons and influencers to understand their requirements, attend to their complaints and provide pre and post sales services including guidance on the correct usage of cement and concrete and demonstrating good construction practices.

The company has a regular practice of interacting with customers and end-users



as well as members of our distribution channels such as dealers, sub-dealers and retailers. Through these interactions we build relationships and seek to educate them about cement, common complaints and pit-falls in usage and other aspects of construction. Market surveys are organized at regular intervals to ascertain perceptions about our brand image, marketing and distribution procedures, our sales force, channel management and relationships with customers, dealers and influencers. A brand equity study carried out by a well-known market research firm of global repute indicated that ACC is the most preferred and recommended brand of cement in India. The brand stood way ahead of all other competitors in this comparative analysis.

In the last few years, a host of new customer services were introduced to assist customers in selected cities and towns. These include site visits for inspection and guidance, testing and aides for customers. Most were devised for individual home builders who constitute a large group of our end-users. A unique new service was the establishment of ACC Help Centres in several cities to provide basic information and guidance to

customers on various home building-related procedures. An interactive website was launched primarily for the benefit of small retail consumers and home builders. The site provides online inputs on a host of useful topics related to home building and is proving to be quite popular. The website - [www.askacc.com](http://www.askacc.com) is visited by about 10,000 persons from different parts of the country.

Customer service personnel are responsible to attend to customer complaints. There is a formal system in place for handling customer complaints at all sales offices. These systems and documentation are regularly inspected by representatives of the Bureau of Indian Standards. The regional head is personally responsible to resolve individual complaints to their just and logical end. Commercial complaints are resolved at the local level while complaints related to application failures and quality are promptly referred to the head and quality in charge at the supplying cement plant as well as to the quality department at the corporate office. On receipt of a complaint, our representatives visit the complainant's site at the earliest and, if found necessary, samples are drawn for testing at the company's own laboratory.

**The company is known to promote ethical and fair practices in its supply chain.** The company's commercial terms, procedures are professional and transparent. ACC is popular with its customers and suppliers. Our marketing and sales practices envisage the promotion and encouragement

of all dealers including small traders and retailers, particularly those in interior places. In addition, the company fosters a tremendous sense of belonging not only among employees, but also among its customers, dealers and associates.

## 6.2 Supplier Relations

ACC's countrywide spread of cement plants consumes a wide spectrum of inputs – about 130,000 different items ranging from coal, gypsum, slag, packaging bags, refractory products, steel, grinding media, lubricants, electrodes, cables, bearings, conveyor belts, spares of various mechanical, electrical and mining equipment, explosives and instrumentation. A team of professionals at Corporate, Region and Plant Level manages the procurement function. The function is organized so as to derive maximum value for the company through economies of scale from central pooling and procurement of some inputs at the corporate level while meeting individual operational requirements at plant level.

**Procurement Organisation:** The materials management and purchase processes were reorganized in 2006 as the company's new Procurement function. The function underwent further change after implementation of an SAP based Enterprise Resource Planning (ERP) system. The Procurement function now comprises a Central Procurement team at the corporate office for the requirements of major inputs for the operation of cement plants. Central procurement is divided into the following major groups:

- Raw materials
- Energy, Fuels and Gases
- Maintenance spares
- Wearing parts, Consumable materials
- Administrative & office supplies
- Services
- Packing

The structure provides for procurement managers at regional level and plants. There is a separate projects head for procurement of capital equipment and purchases.

**Code of Conduct:** Adequate care is taken to ensure transparency in procurement processes. A new policy was adopted in 2007 which has a clearly defined code of practice for procurement conduct aimed at setting the norms of behaviour governing employees involved in various activities of procurement. The policy enshrines the practice of fair competition and forbids interference with open competition in markets. Vendors are assured equal access to non-confidential information. The policy calls for clear criteria to be communicated to vendors such that the process generates equal expectations from comparable vendors towards providing the best acceptable solution for both parties. There are provisions for avoiding conflicts of interest and misconduct such as bribery and corruption.

**Procurement Manual:** The procurement manual describes the processes and sequential and procedures to be followed in procurement including vendor registration and appraisal, indenting and tendering. There are detailed guidelines for negotiation, order acceptance, order processing and execution and payment.

**Vendor Management:** The vendor base is more than 19000 suppliers across the country, comprising reputed manufacturers, usually the leading names of their particular industry segment who are technically and financially sound and have the intrinsic capacity to supply material of desired quality on time. Preference is given to applicants with ISO (Quality & Environmental) certification. About half of the registered vendors who represent about 10 per cent of total purchase volume have been individually assessed based on quality standards.

The new vendor registration system incorporates details of environment performance, social responsibility initiatives and employment practices implemented by the vendor applicants, but these parameters have not been formally inducted for evaluation and selection. There are plans to widen the scope of the vendor registration and evaluation system to incorporate specific pre-qualification criteria relating to environment performance.

Care is taken to ascertain that vendors and contractors, who operate within the company's premises, observe and conform to fair labour practices. The engagement of children and adolescent labour is not permitted.

There is no specific policy for preferring local suppliers. In 2007 as many as 70 per cent of our suppliers were regionally based and they supplied 30 per cent of total purchase volume.

We have detailed guidelines for vendor appraisal, registration, approval, rating and de-listing. Periodical evaluation and assessment is recommended on a random basis.

**Outlook:** We expect the procurement of energy and fuel to pose increasing challenges. In particular, the outlook for coal is critical. The share of coal supplies based on official linkages is declining and in 2007 the company had to source more than a third of its requirement from the open market and imports, at significantly higher cost.

## 6.3 Economic Performance

ACC has registered consistent improvement in its financial and overall economic performance. ACC was identified by Standard & Poor's, the world's leading index provider, as one of eight Indian companies in the S&P Global Challengers Class of 2007 which are expected to emerge as Challengers to the World's Leading blue-chip companies. The list was based on companies that exhibited the strongest internal and external growth characteristics.

### Cement Business – Performance At A Glance

	2007	2006	Change %
Production - Million Tonnes	19.92	18.73	6.40%
Sales volume - Million Tonnes*	19.97	18.83	6.10%
Sales value - Rs. Million**	66399	55037	20.60%
EBITDA %	31%	32%	

\* Cement sales volume includes sale to RMX and Trading Sales

\*\* Sales value as per cement segment / activity (includes trading)

### Operational Performance

	2007	2006
Blended cement - %	90	87
Fuel consumption (Kcal/Kg of clinker)	752	736
Power consumption (process) Kwh/T	89	88
Manhours per tonne of cement	1.14	1.36

### Segment wise Revenue, Results and Capital Employed (Audited Rs in Million) Consolidate

Segment Revenue (net sale / income from each segment) Particulars	2007 AUDITED Rs.	2006 AUDITED Rs.
a Cement	67504	56150
b Ready Mix Concrete	3670	3004
c Others	603	844
d Unallocated	2	4
Total	71779	60002
Less: Inter segment revenue	1104	1490
Net sales / income from operations	70675	58512

\*from consolidated segment information

**Dividend:** Total dividend for the year 2007 was Rs 20 per share (200% on the par value of Rs 10) as against Rs 15 per equity share for the year ended December 31, 2006.

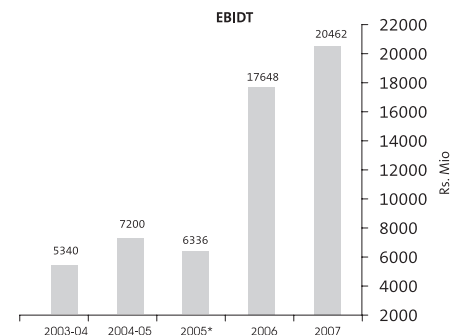
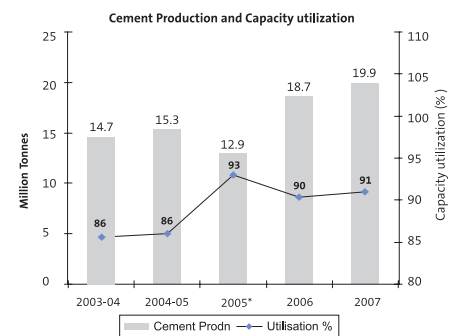
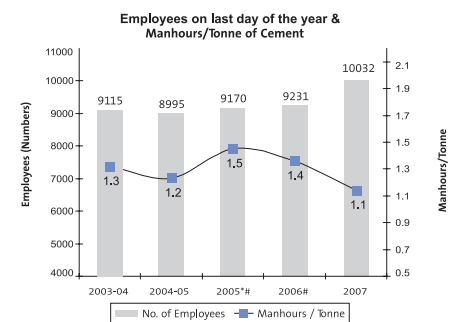
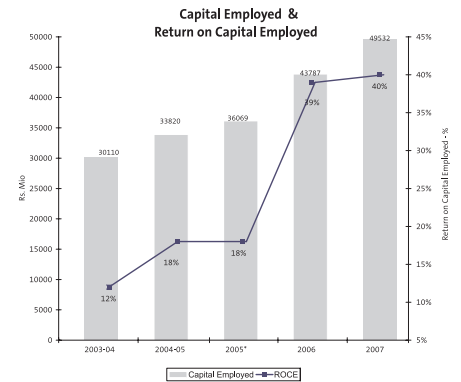
Total dividend outgo for fiscal 2007 was Rs 4387.6 million including dividend distribution tax of Rs 637.4 million as against Rs 3203.2 million including dividend distribution tax of Rs 394 million in the previous year.

## Production and Sales Highlights

		2007	2006
Cement Production	m.tonnes	19.92	18.73
Cement despatch (by packing)	m.tonnes	19.88	18.71
Bagged	%	97.9	98.1
Bulk Cement	%	2.1	1.9
Cement despatch (by Category)			
Trade sales	%	83.8	81.8
Non-trade sales	%	16.2	18.2
Cement despatch (by type)			
Ordinary Portland Cement	%	9.8	12.7
Portland Slag Cement	%	19.7	19.9
Portland Pozzolana Cement	%	70.5	67.4
Cement Despatches (by mode)			
by Rail	%	51	48
by Road	%	49	52
ACC's Market Share	%	12.2	12.3

## Financial Highlights

	2007	2006
	Rs. Millions	Rs. Millions
Gross Revenue	79,771	65,947
Profit / (Loss) before tax and exceptional items	17,172	14,586
Exceptional Items	2,131	1,609
Profit / (Loss) after tax and exceptional items	14,386	12,318
Dividend (includes Dividend Tax - Rs. 637.4 Million-Previous Year - Rs. 394 Million)	4,389	3,220
Capital Employed	49,533	43,787
Net Worth	41,527	31,420
Borrowings	4,691	9,160
Debt : Equity Ratio	0.11	0.29
Book Value per Share at year end	Rs. 221.33	Rs. 167.77
Basic Earnings per Share	Rs. 76.75	Rs. 66.02
Dividend per share	Rs. 20.00	Rs. 15.00
Employee (Numbers)	10,032	9,231
Shareholder (Numbers)	1,27,476	1,10,455



\* figures for 2005 pertain to the nine months period April 2005-December 2005

# Manhours per tonne of cement as per Holcim Methodology

# 6.4 Case Study: ACC Help Center

## *A model to achieve service excellence in the cement Industry*

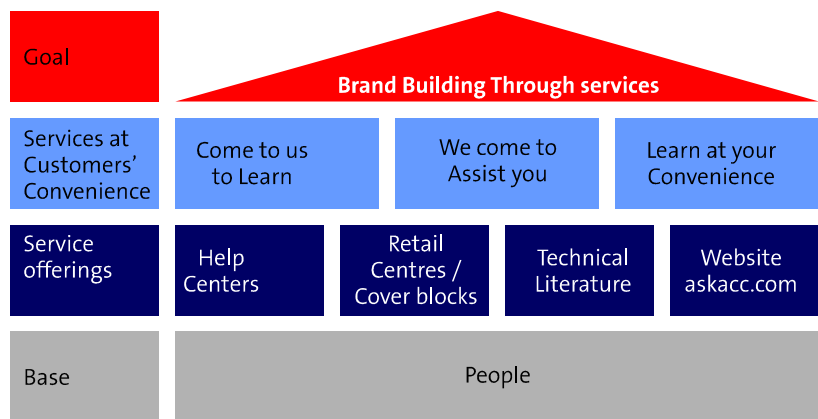
First launched in Bangalore, the ACC Help Centre was created as a customer service initiative and comprises a place to impart knowledge and expertise required to assist individual homebuilders understand and manage the entire process of home building in a professional and unbiased environment. The first of its kind in India to target individual home-builders in this way, the center addresses the anxieties of home builders at all stages of planning and construction and provide the “expert” inputs needed for successful completion of the home building process.

Tutorials, conveniently scheduled in the evenings, guide the home builder, through all the relevant steps of house construction process - from pre-construction worries on stamp duty, selection of architects and appropriate service providers to estimating budgets. Steps from purchasing land, budgeting to choice of material and planning of the construction process are elaborated, step-

by-step. Specially designed booklets on each stage of building one’s “Dream House” are made available at these centres at a nominal price. Films and educational literature designed for masons and students and technical books/booklets on cement, concrete and building construction, and maintenance are also available on request. The centers tracks relevant data of aspiring home builders and proactively engages with

them in a dialogue. Valuable feedback is obtained from each visitor.

ACC launched the first Help Centre in Nov 2003 in Bangalore. Today there are 17 of them in the country. Average customer footfalls at each center has increased from 50 per month to a national average of 275 per month. More than 10000 satisfied customers have been created through this initiative.



## 6.5 Case Study: Value-added Eco-friendly Products

ACC's pioneering efforts in introducing two value added products - Bulk cement and Ready Mix Concrete have been responsible for redefining the pace and quality of construction activity in India's metropolitan cities and in mega infrastructure projects.

### Bulk Cement

ACC introduced Bulk cement to India in 1956 as an alternative to bagged cement, which has proved to be of particular advantage to large consumers of cement. In India, more than 95 per cent of cement consumed is purchased in 50 kilogram bags while in developed nations more than 90 percent cement is transported and sold in bulk.

ACC offers bulk cement through its subsidiary company, Bulk Cement Corporation of India (BCCI) situated at Kalamboli, in Navi Mumbai. BCCI caters to bulk cement requirements of the city of Mumbai and its environs. It has two cement storage silos with a capacity of 5,000 tonnes each. The plant receives cement in bulk from ACC plant at Wadi and has its own special purpose railway wagons and rakes and its own railway

siding. The first of its kind in India, BCCI is equipped with all the facilities required by increasingly sophisticated construction sites in a bustling metropolis, including a laboratory, a fleet of specialized trucks and site silos for the convenience of customers.

Bulk cement has several advantages as compared to bagged cement. Mechanized handling, loading and unloading of cement reduces manual intervention to the barest minimum. At site, the cement is pumped into portable 15-ton steel silos offered by ACC. Dust collecting silos safeguard against dust pollution. Since it is stored in a sealed space, the quality and quantity of cement is assured. It is tamper-proof, cost-efficient and eco-friendly.

### Ready-Mix Concrete

ACC established India's first commercial Ready-Mix Concrete (RMX) in Mumbai. From January 2008 this business has been reorganized as a separate wholly owned subsidiary company called ACC Concrete Limited. It is one of the largest manufacturers of RMX in India with 30 modern plants in major cities such as Mumbai, Bangalore, Kolkata, Chennai, Delhi, Hyderabad, Goa, Pune and

Ahmedabad.

RMX is concrete that is specifically manufactured for delivery to the customer's construction site in a freshly mixed and plastic or unhardened state. RMX Concrete is sold by volume - usually expressed in cubic meters. RMX can be custom-made to suit different applications. ACC Concrete is supplied in a variety of grades and compositions to meet customized applications. ACC has supplied ready mixed concrete to many prestige projects in Mumbai and other cities including the Mumbai-Pune expressway and the Delhi Metro rail project. The JJ flyover in Mumbai was the first mega construction project in India to use High Performance Concrete of M-75 grade.

RMX assures its customers numerous benefits including consistent and assured quality of concrete, flexibility in concrete design mixes, smaller inventories, material handling and storage of raw materials at sites. The use of RMX is an environmental friendly practice that ensures a cleaner work place and causes minimal disturbance to its surroundings.

