



Build with confidence

**ACC Limited**

71st Annual General Meeting, March 28, 2007

**Statement of the Chairman, N. S. Sekhsaria**

### **To the Members**

(Seventy-First Annual General Meeting of ACC Limited at Birla Matushri Sabhagar, 19, Sir Vitthaladas Thackersey Marg, Mumbai 400 020 on Wednesday, March 28, 2007 at 10 a.m)

#### **Ladies and Gentlemen,**

It gives me immense pleasure to welcome you to the 71<sup>st</sup> Annual General Meeting of your Company. I start by introducing you to new members of the management team at ACC and explain certain important changes in the top management of your Company. Mr. M L Narula is set to complete his extended term as Managing Director of your Company on March 31<sup>st</sup> this year. He will be succeeded by Mr. Sumit Banerjee, CEO Designate and Director with effect from April 1, 2007.

As we stand at the brink of Mr. Narula's retirement, I would like to share with you some highlights of his illustrious career. His has been a long and meritorious stint in the service of your Company, a stay of more than forty-four years. Mr. Narula has held various positions including that of Wholetime Director since April 1996 and as Managing Director from December 2002 onwards.

During his tenure as Managing Director, the performance of your Company has been consistently outstanding. Many important milestones were crossed under his stewardship – ACC's turnover crossed the US\$ 1 billion mark, yearly production exceeded 18 million tonnes and profits grew beyond Rs. 1,400 crore in 2006.

Mr. Narula joined ACC in 1963 as a junior engineer. His engineering skills, his keen eye for innovation and impeccable common sense helped him on his way up the ladder. The career path of Mr. M L Narula serves as an inspiration to his younger colleagues in ACC.

With the ACC ship now in full sail, Mr. Narula is all set to make way for his worthy successor. Mr. Sumit Banerjee is appointed as the CEO Designate and a Director on the Board from 1<sup>st</sup> January 2007 and will take over as Managing Director on April 1, 2007.

The track record of Mr. Sumit Banerjee is impressive. A B.Tech (Hons) in Mechanical Engineering from IIT Kharagpur, he joined Larsen & Toubro Limited (L & T) where he was engaged in sales and execution of projects in steel and energy sectors. He moved to the Indal and Hindalco group where he was Project Manager for implementation of their power project at

Hirakud. He was appointed Chief Executive of Sheet Business one of Indal's Strategic Business Units. From 2004 as President Foils & Wheels, Mr. Banerjee headed the integrated Foil/Packaging and Wheel Businesses of Hindalco and Indal. He then joined Tube Investments of India Limited as Managing Director in April 2006. His strong background in engineering will prove useful in managing your Company.

I take this opportunity to formally welcome the incumbent CEO of your Company Mr Sumit Banerjee, on behalf of all of us. We wish him all success in his new assignment.

### **Cement Industry**

The Cement Industry has played a pivotal role in revving up the Indian Economy by maintaining an impressive rate of growth in the last three years. In the calendar year 2006, the industry witnessed an imposing growth of 11.3 percent as compared to 9.4 percent in the preceding year, with capacity utilization well over 90 per cent. It could have been even higher, had infrastructure growth been upto the expected level. Housing sector has remained the largest source for cement demand.

The industry has sustained a growth of 8 percent CAGR for the last one-and-a-half decades. This growth is both quantitative and qualitative, as our cement is at par with the best in the world. India maintained its position as the second largest cement producer in the world. Indian cement further enhanced its status in the global market, when the export of cement and clinker crossed the 10 million-tonne mark last year.

Though the outlook for the Indian Cement Industry depicts a bright picture, there are some lingering concerns. Containing the cost-push to maintain competitiveness and profitability of the industry in the long term will be a big challenge. Energy continues to worry us. I fear that the availability and price of coal will require close coordination with Government.

Capital investment in the industry is likely to rise significantly. Currently the industry is able to finance a substantial part of capital expenditure through internal generation. Supply of machinery and equipment on schedule has also not been reliable. Both these factors can affect capacity expansion projects.

The production of blended cements, particularly fly ash based cement, continued to grow in 2006 as well. The availability of good quality fly ash is

not uniform across the country. There are locations where fly ash is not adequately available or where its usage is not viable. Last year I mentioned that many government departments do not accept blended cements. That position still continues though some of the departments have accepted the use of blended cements.

In sum, I expect that the industry will perform well during 2007 with demand likely to grow at about 9 to 10 percent. The demand supply scenario will be balanced in most regions, though some regions may experience seasonal tightness. I believe we should all be appreciative of the Government, as a target of 8 to 9 percent growth has been aimed for in the XI Plan, and the cement industry is an integral part of the core sector industries. Now, the onus is upon us to live up to the expectations and endure with our excellent performance to embark upon newer horizons and reach greater heights.

### **Taxes and Duties**

Cement remains the highest taxed amongst all the essential infrastructure inputs in India. Various government taxes and duties put together constitute over 70 percent of the ex-factory price. This is exorbitant when compared with the 17 countries in the Asia Pacific region where the average incidence of all taxes on cement is just 11.4 percent with the highest rate being in Sri Lanka at 20 percent. Yet it is an irony that cement is an essential commodity required by all sections of society, including the common man. Cement Industry is a major contributor to the Exchequer with excise duty alone working out to be over Rs.5,500 crores annually. As India takes decisive steps towards further globalisation, it is hoped that the incidence of taxation on cement will also reflect the same moderate rate that prevails in other countries.

### **Coal and Energy**

The Cement Industry receives coal through long term linkages. Currently due to the gap between the demand and supply of coal, Ministry of Coal is not sanctioning linkages to new capacity which is adversely affecting the Cement Industry.

The situation becomes all the more difficult, as the Ministry of Coal is supplying only 80 percent of coal requirements of the Cement Industry through Fuel Supply Agreements (FSAs) while cement plants may have to procure the rest through other channels. As cement is a continuous process,

the industry cannot depend for any part of its supplies on uncertain procurement linkages.

Cement Industry is largely dependant on captive power generation as the power availability situation is grim in most cement-producing states, both in terms of quality and quantity. Most cement plants have been compelled to make huge investments to install captive power plants. To make matters worse, some state governments are also imposing taxes and duties on these captive power plants.

Though coal production is slated to grow, there are indications that the demand supply mismatch will not be solved in the near future. Last year I had appealed for speeding up the process of allotting coal blocks to cement producers for captive mining. There has been no positive development on this front.

### **Customer Service Initiatives**

In the last few years, your Company took visible steps to become more customer-focused and appreciably increased the level of services to customers. A host of new customer services have been introduced to assist customers in selected cities and towns across the country. These include site visits for inspection and guidance, testing and aides for customers. Most of these services targeted small individual home builders who constitute a large group of our end-users.

Your Company has set up 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.

Your Company conducted exhaustive market surveys to understand the perception of customers and assess its brand image. You will be happy to note that 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.

### **Modernization / Expansion Projects**

The total annual capacity of your Company stood at 19.91million tonnes at the close of the year. Last year we completed the project for augmentation of clinkering and cement grinding in Gagal Unit II after which the capacity at

Gagal increased to 4.4 million tonnes per annum (MTPA). The expansion and modernization of Lakheri Cement Works along with the installation of a new 25 MW Captive Power Plant is scheduled for commissioning in the first quarter of 2007. Other projects scheduled to be completed in 2007 include grinding augmentation at Tikaria, Kymore, and Wadi. After all these projects are completed, the total cement capacity of your Company will increase to about 23.10 MTPA by the end of 2007.

In 2008 we expect to complete augmentation of cement grinding capacity at Madukkarai by 0.22 MTPA. The expansion project at Bargarh, together with the establishment of a 30 MW Captive Power Plant, will also go on stream next year raising the capacity of the plant to 2.14 MTPA.

Recently the Board approved capital outlay of Rs. 1,487 crore to increase the clinkering capacity at the New Wadi Plant with additional cement grinding facilities in Karnataka and a captive power plant of 50 MW capacity. This project is likely to go on stream in 2009 and will enhance our cement capacity in the state by 3 MTPA. With this the capacity of your Company will rise to 27.50 MTPA by the end of 2009.

These projects would enable your Company to cater to the varied requirements of the cement market and also help in maintaining its distinct position across all parts of the country. It will also enhance the efficiency and productivity of our plants in the country.

### **Ready Mix Concrete**

The Ready Mix Concrete Business of your Company picked up its growth momentum. Sales volume and turnover grew by 18 percent and 36 percent respectively. Ready Mix Concrete (RMX) is recognized as being among the fastest growing industries in the country. This rapid growth is fuelled by the construction of major institutional and infrastructure projects and the high demand for commercial and residential property in major metropolises as well as in tier-II cities.

The potential and scope for future growth of this industry is enormous. In the developed world, construction industry consumes as much as 70 percent of cement through the use of Ready Mix Concrete (RMX). The overall usage of RMX in India is still quite low at about 2.5 percent but it is increasing rapidly. In many of our large cities, more than 20 percent of cement consumption is already consumed in the form of RMX.

Ready Mix Concrete will be an important focus area for your Company in the years to come. Your Company has drawn up an ambitious growth plan for this business to avail the growing opportunities in this field and has taken steps to create the necessary organization structure required to achieve this growth.

### **Overseas Contracts**

Your Company has been in contract with Yanbu Cement Company for the operations and management of their large cement plant at Yanbu in the Kingdom of Saudi Arabia for the twenty-eighth year of a successful relationship. The consultancy assignment with Dangote Industries, a leading group in Nigeria, for their cement plants at Obajana and Benue has progressed satisfactorily. Your Company entered a new agreement with Mughar Cement Enterprises of Ethiopia to provide consultancy for their proposed 3000 TPD Greenfield cement project. Likewise, your Company extended its services to other clients in Africa and West Asia.

### **Connect India**

Your Company implemented an ERP system called CONNECT India. Using SAP software, the project has standardized the Cement and Ready Mix Concrete business with all operations, locations and transactions being fully integrated in a manner that is on-line with updated data and information. This new system will greatly facilitate day-to-day operations and decision-making. Project CONNECT India incorporates tighter controls through well-defined authorizations and rigid systems that in turn will help inculcate even better governance in business processes. This system enables an enhanced level of internal control as envisaged under Clause 49 of Listing Agreement for Corporate Governance Compliances. In order to ensure the project's successful implementation, training and induction into the new system was undertaken on an unprecedented scale.

### **Sustainable Development**

In the last year, your Company initiated several new activities to emphasize its commitment to the economic, environmental and social sustainability of all its stakeholders. The thrust on sustainable development was strengthened with the formation of dedicated teams at the corporate office and units to oversee and coordinate activities relating to Alternate Fuels and Raw Materials, corporate social responsibility and occupational health and safety (OH&S). Salient among the measures taken by these new departments were a detailed assessment of community needs, a corporate policy and strategy to

support the national effort against HIV/AIDS, the introduction of Waste management services and the introduction of a new safety culture.

Your Company is closely interacting with Government and expert bodies to promote co-processing of waste materials. Your Company has also demonstrated keen interest in expressing its voice in Sustainability matters at a global level. Your Company is an active member of the Cement Task Force of the Asia Pacific six nation partnership (APP6) for reducing Green House Gases. Recently your Company co-sponsored the Delhi Sustainable Development Summit which was organized by The Energy Resources Institute (TERI) and the World Business Council for Sustainable Development. The Cement Sustainability Initiative (CSI) of the World Business Council for Sustainable Development (WBCSD) organized a special CEO forum at this event to discuss how to make use of its international practice and experience within the large and growing Indian cement sector. Your Company presented papers at this forum on Indian Cement scenario on Clean Development Mechanisms and Opportunities for Co-processing of Waste in Cement plants. As a corollary to this event, it was decided that Cement Manufacturers' Association (CMA) and TERI could partner to formalize this initiative in India particularly with a view to explore ways to improve the Cement Industry's climate and energy impacts through increased usage of blended cement and alternate fuels. Your Company will participate in this initiative with enthusiasm.

Your Company has made notable strides in the areas of Alternate Fuels and Raw Materials, Occupational Health and Safety, Community Development and Support to the National Effort against HIV/AIDS, highlights of which I am pleased to share with you here.

### **Alternate Fuels & Raw Materials**

Your Company has embarked wholeheartedly on a new path to promote the use of Alternate Fuels and Raw Materials (AFR) and provide a total solution to the waste generators of the country through co-processing of all types of waste in the cement process. This forms an essential part of your Company's contribution to sustainable development and an effective means of providing service to the waste generators, conserving the environment and our mineral resources. The AFR programme includes a determined quest to offer practical and better ways of disposing of industrial and

municipal wastes through co-processing in cement kilns, dryers and Captive Power Plants. Your Company has drawn from the global experience and expertise of the Holcim Group in this field.

### **Occupational Health & Safety**

Your Company is deeply committed to provide a safe and healthy work environment to all its employees and contractors. Occupational Health and Safety (OH&S) received renewed focus and the function was enriched with several valuable inputs from Safety practices of the Holcim Group. During the year, an Apex OH&S Committee was constituted which is headed by the Managing Director and monitors the proper implementation of the Company's OH&S policies at each of the plants. Your Company redoubled its efforts to achieve excellence in safety performance across all its operations with special attention to improving safety related behaviour and actions of employees at all levels and across all functions and units of the organization.

Your Company takes a “Zero tolerance” stance on all health and safety related behaviour. Mechanisms for monitoring activities related to health, hygiene and safety have been set up at every plant. These include strict rules and procedures to prevent mishaps. Advanced medical facilities, qualified doctors and effective monitoring devices are available at every plant to ensure workplace hygiene and good occupational health and emergency care.

Safety awareness and Behavioural Safety training programmes and workshops are organized regularly to educate and encourage employees to take adequate precautions to avoid unsafe practices and minimize risks.

### **Community Development**

Your Company has demonstrated the practices of being a Good Corporate Citizen from the early years of its inception. In particular your Company has focused on the community that lives near its factories and undertaken a wide range of activities to improve the living conditions of the less privileged classes among them. These include education, healthcare, vocational guidance and building

rural infrastructure. Last year, your Company initiated research to assess the basic needs of these local communities and their perceptions of the impact of various community development schemes implemented in recent years. Two such studies were conducted during the year with the help of external agencies of repute. The research findings will help enhance the effectiveness of development schemes in consultation with the target community.

### **Combating HIV/AIDS**

Your Company stepped forward to play a proactive role in the nationwide effort against the spread of HIV/AIDS that is recognized as being one of the country's most important public health issues. As a first step, your Company announced a Workplace policy for HIV/AIDS to guarantee and safeguard the fundamental human rights of employees affected by this virus while enunciating care for their treatment. The policy includes awareness programmes for the benefit of employees and their families as well as for the community around us.

Another important initiative by your Company was the establishment of an Anti Retroviral Treatment (ART) Centre for the treatment of persons affected with HIV/AIDS. The center is located at Wadi in Karnataka and is now operational. The centre provides voluntary counseling and testing and has state-of-the art equipment including a CD4/CD8 cell counting machine that is critical in HIV testing. Your Company aims to operate the centre as a world-class facility catering to the general public living in Wadi and surrounding areas. It is a matter of pride that your Company became the first in the Indian corporate sector to establish an ART centre of this kind.

In another development, your Company signed a memorandum of understanding with Christian Medical College (CMC) Vellore to cooperate with them in combating the HIV/AIDS virus. This partnership will leverage the expertise of a distinguished medical institution like the CMC to help draw up similar programmes to create awareness, facilitate treatment and tackle the spread of the virus in Tamil Nadu which has the country's highest prevalence.

### **Good Corporate Citizen Award**

The Bombay Chamber of Commerce and Industry (BCCI) selected ACC as the winner of its Good Corporate Citizen Award for the year 2005 - 2006. The citation singled out your Company as being an organization that “has always reached out beyond its business interests while pursuing the objective of creation of a better society”. According to the Chamber’s announcement, ACC’s consistency in terms of business performance, employee welfare, customer satisfaction and social investment were the key differentiators, which made it the most suited candidate for the award. Awards such as this one are cherished with special satisfaction because they encourage us to become more involved with the world around us.

### **Reorganization**

Your Company adopted a new organization structure that was drawn in consultation with The Boston Consulting Group. This was done to make your Company more customer-focused and responsive to the external environment, and in addition to the core business of cement, to facilitate sharper focus on certain new thrust areas for the organisation such as the growth of RMX business, pursuit of technical excellence and sustainable development.

### **Synergies with Holcim**

The association with the Holcim Group continued to be valuable. Close interactions between our employees enabled your Company to acquire knowledge in a host of new areas and create mutual synergies. Of these the most critical initiative has been in the area of Information Technology comprising ERP implementation of a SAP-based software package which I have already described. Other areas in which significant expertise was acquired included a better understanding of logistics and supply chain management, product portfolio management, project management training, management of capital expenditure projects and quarry scheduling and optimization.

### **Macro-economic Outlook**

India’s image continues to soar in the global scenario. In recent years, the world watched the economic awakening of India and wondered if the slumbering giant could follow in the footsteps of China. There are few doubts now. During 2006, the Indian economy firmly moved centre stage with 9.1 percent GDP growth in the first half of the 2006-07 fiscal.

This was no flash in the pan. The economy has grown at above 8 percent in six of the last seven quarters, and the so-called 'Hindu rate of growth' may well become a distant memory. In 2006 Indian companies raised \$52 billion in domestic and overseas markets, about 66 percent higher than in 2005. Bank credit expanded by over 30 percent, for the third consecutive year.

On the geopolitical front, the country made important strides. Last year's nuclear cooperation agreement with the US will pave the way to meet some of the energy shortfall that could hamper economic development in large parts of the country. Trade and investments instead of territorial disputes are increasingly defining our relations with China.

These headlines are encouraging, but there are worrying signs on the horizon. Our infrastructure is grossly inadequate and bursting at the seams. Inflation has risen, and there is little to indicate that our burgeoning energy requirements will be met soon. Some analysts fear that the booming housing market seems to have reached what appear to be unsustainable levels in many regions. The current account has moved firmly into deficit. The RBI recently acknowledged the risk of overheating and has been steadily tightening the monetary policy.

There are long-abiding constraints that need to be addressed if we are going to sustain this recent momentum. Three, in particular, bear mention, and are intimately connected - poverty, unemployment and education. Over a third of this country still lives on just \$1 a day. The sun is the only thing that shines in their India. Such numbing poverty can be alleviated by encouraging investments to rejuvenate the agricultural sector, by investing in industrial activity that can provide employment and by investing in the basic education that enables such employment.

But if we continue to take the right path and the right decisions that meld social justice and economic reforms, the prospects for this great country are very bright. I have no doubt that our leadership will not fail us in steering the economy in its proper course. Let us all pledge to support this task.

## **Conclusion**

There are many visionaries, many dreamers, many aspirants, but at the end of the day it is your accomplishments that matter. At ACC, we strive to convert all our dreams and visions into practical achievements. Yes, there is scope to grow, there is scale to expand, but it is the resounding blend of passion and

desire that sets ACC apart from the rest, on the exigent road of sustained growth.

I see a very bright future for ACC. Today as I stand here and address you, I can see a gleam of optimism in each one of you. A gleam to outshine others, to succeed and excel.

As always, I am confident that you will give us your unstinting support to achieve this goal.

Thank you.

A handwritten signature in black ink, reading "Naustom Sethouin". The script is cursive and fluid, with the first name and last name clearly distinguishable.

Chairman

February 19, 2007



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