

MANAGEMENT DISCUSSION AND ANALYSIS

HIGHLIGHTS OF PERFORMANCE / EVENTS

- Largest cement producer having produced and sold 15 Million Tonnes of cement.
- Capacity increased to 17.63 Million Tonnes per annum .
- Capacity utilisation higher at 91% as compared to 86% in the previous year.
- Market share improved to 13.1% from 12.5%.
- Profit before Exceptional Items & Tax Rs. 264 crore as against Rs.135 crore in the previous year.
- Profit after Taxes increased by 93 % to Rs 200 crore from Rs 104 crore.
- Growth in profit through higher volume, improved cement price realization and improvement in operational efficiencies.
- Interest expenses lower by 11% over the previous period due to improved financial and working capital management.
- Acquisition of 0.96 MTPA of IDCOL Cement Ltd (renamed Bargarh Cement Ltd.) in Orissa.
- Maiden international offering - US\$40 million through GDS and US\$60 million through FCCB.

ECONOMY AND BUSINESS ENVIRONMENT

The year 2003-04 witnessed buoyant and sustained growth of the Indian economy. The normal monsoon which spurred the agriculture sector growth, the pick up of the industrial growth and the continued growth of service sector made the Indian economy one of the fastest growing economies in the world. The burgeoning foreign exchange reserves and the modest inflation notwithstanding the high crude oil prices are positive factors for economic growth. The key growth drivers like housing, infrastructure are continuing to be robust which augurs well for the Cement Industry.

INDUSTRY OUTLOOK & OPPORTUNITIES FOR CEMENT BUSINESS

Cement production and despatches during the year ended March 31, 2004 have exceeded 117 million tonnes as compared to 111 million tonnes during the previous year. Despite low per capita consumption, the Indian Cement Industry occupies the second position after China in the world cement production. The consumption of cement grew at a Compounded Annual Growth Rate (CAGR) of around 8% during the last decade. During the year under review the Indian Cement Industry, however, grew at a lower rate of 5.5% due to various reasons including early onset and prolonged spell of monsoon.

Housing and infrastructure are the key growth drivers of cement industry. Rural housing demand is largely dependent on good rainfall and consequent agricultural output. The planned infrastructure projects of road, airports, ports and power generation should push cement demand further. The continuation of fiscal benefits for promoting housing, lower housing finance rates, sustained growth in disbursements of housing finance etc will give a fillip to the cement demand growth.

The rising capacity utilisation levels of leading cement players, with no new large capacities being created are expected to bring about more remunerative and stable cement prices in view of the narrowing down of the supply demand gap. There has been substantial growth in exports of cement and clinker by 30% to 9 million tonnes during 2003-04.



If the Cement Industry grows at CAGR of 8%, the cement consumption is likely to exceed 126 million tonnes during the current year.

Risks and concerns:

In the event of continued high prices for crude oil and other petroleum products, hardening of the coal prices and freights in the international markets, transport constraints in regard to movement of raw materials and products, and worsening fiscal position, the growth trajectory of the industry may be affected. Any delay/slowdown in implementation of the ongoing infrastructure development projects may result in reduced cement demand. Any bottlenecks in rail or road transportation will adversely affect the availability of coal and other inputs as well as the delivery of cement to consumption centres.

Cement continues to be one of the highly taxed products in our country despite being a basic essential commodity for growth. Any move on the part of the Government to hike tax rates further to garner more revenue may impact the profitability of the industry.

Cement Business - Performance at a glance :

	Year ended 31-3-2004	Year ended 31-3-2003	% Change
Production – Million Tonnes	14.65	13.42	9.1%
Sales volume – Million Tonnes (including traded cement)	15.25	13.95	9.3%
Sales value - Rs Crore *	2906.08	2549.38	14%
Return on Capital Employed % **	11%	6%	

* Net of Excise Duty

** including Cement and Trading . Return on capital employed = PBIT / capital employed excluding capital work in progress

Detailed segmental analysis is included in Notes on the accounts on page 82 of this Annual Report.

Operational Performance:

	2003-04	2002-03
Capacity utilization (%)	91%	86%
Blended cement (%)	83%	81%
Fuel Consumption Kcal /Kg of Clinker	775	782
Power consumption (Process) Kwh/T	89	90
Manhours per tonne of cement	1.32	1.38

Costs and Profitability:

The operations and profitability for the year 2003-04 have shown significant improvement due to higher volume, improved cement price realisation and continued cost control.

Significant reduction in cost has been achieved due to use of cheaper captive power, improved operational efficiencies, reduction in cost of slag, packing materials and higher absorption of fly ash.

Future Plans – Cement Business:

The Company expects to continue its growth momentum to support the growing cement market. The Company has taken up a major project for modernisation of Chaibasa Cement Plant by setting up a

new 1.3 MTPA clinkering unit and 15 MW Captive Power Plant at an estimated cost of Rs 285 crore. With the completion of this project, the last of the wet process plants of the Company will get converted into the cost efficient dry process. The captive power plant will provide stable quality power at significantly lower cost.

The consolidated cement capacity of the Company would then go up to about 19 million tonnes retaining its position as the largest cement company in the country.

The Company would continue to explore options of enhancing its capacity through expansion of its existing units and /or through acquisitions as and when favourable opportunities arise. The Company's strategy of further improving the process efficiencies by modifying, upgrading and retrofitting the existing facilities will continue.

REFRACTORY BUSINESS

Refractory business has reported improved results for the year ended March 31, 2004. The improved prospects for iron and steel industry are expected to favorably impact the refractory business. The Company's strategy for the Refractory business has been to go up the value chain by focusing on value added niche products and total refractory management services enabling it to enhance its market share in these more lucrative segments. Exports, which grew at a healthy rate of around 80% during the year, will also continue to be the focus of the Company.

Performance at a glance:

	Year ended 31-3-2004	Year ended 31-3-2003	% Change
Sales Volume (Lakh Tonnes) *	1.24	1.10	13%
Sales Value(Rs crore) **	165.26	147.10	12%
Return on Capital employed	38%	26%	

* excludes sister works sales

** net of Excise Duty

READY MIXED CONCRETE (RMC) BUSINESS

RMC business witnessed substantial growth during year ended March 31, 2004 both in volume and in value terms. Your Company will be adding three additional units during the current year to the existing units. The RMC business is expected to continue its growth momentum in the future.

Performance at a glance:

	Year ended 31-3-2004	Year ended 31-3-2003	% Change
Sales Volume (Lakh Cubic Meters)	6.12	4.48	37%
Sales Value(Rs crore)	128.63	91.89	40%
Return on Capital employed %	18%	14%	

RESEARCH AND DEVELOPMENT

The activities of the Research and Development center are focused on the Company's core business of cement to achieve improvement mainly in the areas of raw material utilisation, process improvement, energy conservation and enhanced usage of blending material.

PERFORMANCE OF SUBSIDIARY COMPANIES

Damodhar Cement and Slag Limited (DCSL): DCSL has shown good performance during the year ended March 31, 2004 . Cement sales during the year touched all time high at 4.70 lakh tonnes as compared to



3.95 lakh tonnes in the previous year. Better cement price realisation and higher volume has resulted in higher profit of Rs 5.19 crore as compared to net profit of Rs 2.32 crore in the previous year.

Bargarh Cement Limited (BCL): This newly acquired subsidiary in December 2003 has shown encouraging physical performance with 1.77 Lakh tonnes of clinker production and 2.27 lakh tonnes of cement production during the period 22-12-2003, the date of takeover by ACC, to 31-3-2004.

Bulk Cement Corporation (India) Limited (BCCI): BCCI has achieved 117% of capacity as compared to 110 % in the previous year. It handled 5.89 lakh tonnes of cement as compared to 5.54 lakh tonnes in the previous year. The Company has reported a profit of Rs 2 crore as compared to Rs 1.92 crore during the previous year.

Everest Industries Limited (EIL): Turnover and other income for the year ended March 31, 2004 was Rs 201.07 crore as compared to Rs 211.16 crore for the 15 months period ended March 31, 2003.

Profit for the year was Rs 59.57 crore which included profit from sale of land of Rs.46.71 crore as compared to Rs 9.51 crore for the 15 months period ended March 31, 2003.

EIL has already declared a special dividend of Rs.30 per share and further recommended a dividend of Rs.2.50 per share for the year.

ACC Machinery Company Limited (AMCL): AMCL has achieved a sales turnover and other income of Rs 17.11 crore for the year ended March 31, 2004 as compared to Rs 13.13 crore during the previous year. The Company has reported a profit of Rs 2.30 crore as compared to Rs.0.11 crore during the previous year.

ACC Nihon Castings Limited (ANCL): ANCL has shown improved sales and other income at Rs 24.50 crore as compared to Rs 22.69 crore in the previous year. However, in view of higher manufacturing cost due to steep increase in input prices, the working has resulted in loss of Rs 1.72 crore as compared to profit of Rs 1.64 crore in the previous year.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate Social Responsibility has always been one of the guiding principles of your Company while enhancing business value. We have been consistently taking action to integrate the community around our plants through various community development programmes related to issues like health, hygiene, safety, education, environment, water management, sports, social and cultural activities.

The health centers at all our cement manufacturing units are well equipped and carry out regular medical check up and offer required health care measures for all its employees and their families. The health centers also organize various health programmes on vaccinations, Eye and ENT camps, Malaria Immunization camps etc for the benefit of employees and their families and also for the surrounding community.

Five Star Safety Management System as per the British Safety Council is being followed vigorously in all the cement manufacturing units. As per the practice, annual Safety Audits were carried out from Jan-March 2004 by the National Safety Council at all the cement manufacturing units for the calendar year 2003. Safety training to the Company employees and contractor employees have been carried out on a regular basis.

All our manufacturing units in ACC comply with the National standards notified under the Environment (Protection) Act, 1986 and actively participate in the Charter Corporate Responsibility for Environment Protection (CREP) initiated by the Ministry of Environment and Forests. Nine of our cement plants have been accorded ISO 14001 accreditation.

HUMAN RESOURCES

Industrial Relations at all the Units of the Company remained cordial and harmonious throughout the year. To enhance the productivity of employees as well as to make their workplace enjoyable, we have adopted Total Productive Maintenance (TPM) across all over units and Head Office as a philosophy of working in our daily life. An annual audit of TPM implementation was carried out with the assistance of an external agency.

The Company continued to focus on training its employees on a continuous basis, both on the job and through training programmes by internal and external agencies.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The operations of the company's various units and subsidiaries are reviewed by the finance and engineering professionals of the Company's Management Audit Department.

The Management Audit function examines and evaluates the adequacy, relevance and effectiveness of the internal control systems, compliance with policies, plans and statutory / regulatory requirements. Appropriate recommendations are made from operational and financial management perspectives. It also provides value-added services to the auditees for improvement in efficiencies and prevention of avoidable losses.

Management Audit is an independent function headed by a Vice President and reports to the Managing Director.

The Management Audit Department is accredited with the ISO 9001:2000 Quality Systems Procedures Certification.

Financial performance:

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Highlights of Financial Performance:

	2003-04 Rs crore	2002-03 Rs crore	% change
1. Sale of product and services (net of excise duty)	3284.47	2860.40	15
2. Other Income	150.53	110.41	36
3. Total Income (1+2)	3435.00	2970.81	16
4. Manufacturing and other expenses	2901.08	2567.20	13
5. Earnings before Interest, Depreciation and Tax(EBIDT)	533.92	403.61	32
6. EBIDT Margin	16%	14%	
7 Interest	92.91	103.91	-11
8. Gross Profit after interest but before depreciation, exceptional items & Tax	441.01	299.70	47
9. Gross Profit after interest but before Depreciation, exceptional items & tax (Ratio)	13%	10%	
10. Depreciation	176.85	164.56	7
11. Profit/(Loss) before Exceptional items & Tax	264.16	135.14	95
12. Exceptional Items:			
Write down of value of assets	(8.00)	(13.21)	
Provision for contingencies (net)	(2.30)	(3.75)	
13. Profit /(Loss) after Exceptional items & before Tax	253.86	118.18	115
14. Provision for Current Tax	16.09	9.58	
15. Provision for Deferred Tax	37.53	4.71	
16. Profit/(Loss) after Exceptional items & Tax	200.24	103.89	93
17. Return on capital employed*%	12%	9%	

* Including non-recurring/exceptional items. ROCE = PBIT/Capital employed excluding capital work in progress.

Total income for the year has improved by 16% over the previous year to Rs. 3435 crore on account of improved volume at 152.51 lakh tonnes, better cement prices as also on account of increase in other income.

There was an improvement in EBIDT of 32% to Rs.533.92 crore (previous year Rs.403.61 crore) due to higher volumes, better sales realizations, improved operational efficiencies and increase in other income.



Depreciation for the year was Rs.176.85 crore as compared to Rs.164.56 crore in the previous year mainly on account of full year impact of capitalization of captive power plants installed at Chanda, Madukkarai and Tikaria and Tikaria capacity augmentation.

Interest for the year was lower at Rs 92.91 crore compared to Rs 103.91 crore in the previous year on account of accessing of low cost funds and better working capital management.

Exceptional items charged to the profit and loss account during the year was Rs.10.30 crore as compared to Rs.16.96 crore in the previous year. During the current year exceptional items included Rs.8 crore towards write down in value of assets at Advanced Microwave Material Center. Further provision for contingencies made at Rs.2.30 crore during the year was on account of net diminution in value of investment.

Profit after tax and exceptional items is Rs. 200.24 crore as compared to Rs.103.89 crore in the previous year, an increase of 93%

Financial Condition

Share Capital

Issued and Subscribed Capital as at March 31, 2004 increased to Rs.177.94 crore as against Rs.171.14 crore as at the end of previous year primarily on account of GDS issue made during the year.

Reserves and Surplus

The Reserves and Surplus as at March 31, 2004 stood at Rs 1175.79 crore compared to Rs 905.60 crore as at the end of the previous year. The increase is on account of issue of GDS at a premium and retained profits.

Loan Funds

There has been a decline in loan funds to Rs.1327.24 crore as at March 31, 2004 as compared to Rs.1404.75 crore at the end of the previous year.

Fixed Assets

Net fixed assets including Capital Work in Progress, as at March 31, 2004 was Rs.2472.07 crore as compared to Rs.2455.48 crore as at March 31, 2003.

Total amount of investments as at March 31, 2004 increased to Rs.375.74 crore as compared to Rs.127.77 crore as at March 31, 2003. The increase has been on account of investment made in Bargarh Cement Ltd. during the year.

Deferred Tax Liability provision outstanding as at March 31, 2004 was Rs.275.23 crore.

Net Current Assets declined to Rs.163.49 crore as at March 31, 2004 from Rs.175.24 crore as at March 31, 2003.

ENHANCING SHAREHOLDER VALUE

The creation of shareholder value is one of the prime objectives of the management. Towards this end all efforts are made to enhance the value through measures of cost control, improving Company's position in strategic markets and strengthening its brand equity to improve the return to shareholders.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable securities, laws and regulations. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include global and domestic supply and demand conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic developments within the country and other factors such as litigation and industrial relations.