MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE ECONOMY

The year under review (2015-16) reflected weak global activity and most of the advanced and emerging economies faced sluggish growth and tight financial conditions.

It is estimated that Global growth had slowed down to 3.1% in 2015 from 3.4% in 2014 triggered by the slowdown in China which recorded its slowest growth in 25 years at 6.9% during 2015.

Also World Trade remained subdued due to weak growth of economy and falling imports from emerging markets.

INDIAN ECONOMY A "BRIGHT SPOT" AMIDST GLOBAL HEADWINDS

Amidst the global headwinds, Indian economy appears to have held its ground firmly due to its strong economic fundamentals and macro-economic stability. Global agencies like IMF and World Bank have hailed India as a "Bright Spot" among major economies and the fastest growing economy in global landscape with GDP growth exceeding 7% in 2014-15 and 2015-16.

Adopting the revised base year of 2011-12, CSO and Economic Survey have also projected a five year high in GDP growth at 7.6% in 2015-16 against 7.2% in 2014-15. RBI has pegged the growth slightly lower at 7.4% for last year.

SECTORAL PERFORMANCE

As in the previous year, the high growth in GDP last year was largely driven by the strong growth of over 9% in the Services sector. On the other hand, both the agricultural and industrial sectors reported lower growth. Deficient rainfall for the second year in 2015-16 is said to have impacted the farm sector which recorded a growth of only 1.1%. It is estimated that agriculture and allied sectors grew by an average of 1.6% in the first four years of the 12th Five Year Plan (2012-17) against the plan target of 4% per annum.

Similarly, industrial sector reported subdued growth for most part of last year due to reduced manufacturing activity. Although RBI had cut Repo rate by 1.5% to 6.5% since January 2015, it had translated into only about 70 basis points reduction in lending rates by the banks. With lower demand, a number of industries operated at low capacity.

However, since the beginning of 2016 there have been signs of industrial recovery with eight core sectors (which account for nearly 38% of the weightage of items included in the Index of Industrial Production) recording a growth of 5.7% in February 2016. This was followed by the 16 - month high growth at 6.4% in March, 2016.

More particularly, cement industry reported a robust recovery with a 13.5% growth in February followed by 11.9% in March.

However, the overall core sector growth during 2015-16 was lower at 2.7% (2004-05 base year) against 4.5% in 2014-15 as per the latest official figures released by the Ministry of Commerce & Industry.

IIP growth in the first 11 months of 2015-16 was lower at 2.6% and for the full year, it is expected to be flat as compared 2.84% clocked in the previous year.

Fiscal deficit

With the NDA Government retaining focus on fiscal consolidation, the fiscal deficit for the year under review was contained at the targeted level 3.9% of GDP against 4.2% in the previous year.

Inflation

For most part of last year retail inflation (CPI) hovered within RBI's target range of 4% - 6% due to continued softening in oil, commodity and food prices. Core or WPI inflation has remained in the negative zone since November 2014.

CEMENT INDUSTRY

The weak demand situation for Cement prevailed in the 3rd year in a row with practically nil growth in the market on an all India basis according to the information published by DIPP. The overall cement production was up only by 5% during the year under review. Even this was possible with a growth of around 12% in production in the last quarter of the year while in the first 9 months, the production growth was hardly 2%. An analysis of the demand reveals that the North had a normal growth of 8%, East around 10%, while there was a flat growth in South with West registering 10%. The overall capacity utilisation of the industry in the country was around 70%. The silver lining was the impressive growth recorded by the industry in the January to March quarter and with the positive outlook for the Indian economy as predicted by the experts, the chances of the revival in the fortunes of the industry can be expected in the medium term. With the emphasis and focus being given to ambitious projects like Make in India, Smart Cities Mission, Housing for all schemes and establishment of new capital city for Andhra Pradesh, there could be a further acceleration in the demand growth.

COMPANY PERFORMANCE

The performance of the company was outstanding with a record production since its inception during the year under review. The clinker production was at 9.78 lakh tons (8.68 lakh tons) while the cement production was at 13.46 lakh tons against 12.10 lakh tons registering a capacity utilisation of 90%. The sale of cement was also impressive at 13.47 lakh tons compared to 12.22 lakh tons. The selling price remained stable from the 2nd quarter of the year, excepting minor aberration in between, resulting in improved bottom line when compared with the previous year. The Company has achieved significant strides in cost reduction during the year through increased blending, improved kiln outputs and reduced power consumption besides deriving the full benefit of reduction in fuel prices as a result of which the variable cost of operations came down sharply during the year.

BUSINESS RISKS AND OPPORTUNITIES

The Company has evolved a detailed Risk Management Policy which is very well defined to include various risks and the mitigation process. The Board of directors of the Company periodically reviews the risks and the mitigation plans. The risk management policy lays down the frame work which identifies the business risk and corporate risks including project risks, competition risks, raw material risks, occupational health and safety risks, environmental and regulatory risks and operational business risk, etc.

However, the primary risk faced by the industry in general is the poor demand for cement. Deficit in monsoon may impact the demand for cement.

While the Indian economy has withered the global downturn with a nominal growth of 7%, in ground reality, it has not helped in demand improvement as the basic infrastructure growth has been weak. With the thrust being given by the Central Government for infrastructure projects and various other items including creation of new Andhra Pradesh capital as mentioned above, the fortunes of the industry are expected to be bright in the medium term.

The MMDR Act has prescribed new rules which complicates procurement/mining of Lime Stone. As per the present rules, the mining activity can be carried out only after acquiring the mining rights through auction. The norms prescribed by the Environmental authorities for pollution and emission levels and other gases would also mean huge investments. The Company has already invested on several equipments in a phased manner to comply with the revised norms.

Paucity of good quality coal at economic prices has led the industry to depend more on imported coal and other fuels.

The non-availability of good quality gypsum within India in adequate quantities is a constraint resulting in import of high purity gypsum from other countries.

With higher dependence on imported fuel and raw materials, the industry is open to risks associated with forex fluctuations and international freight rates.

The Company has adequate limestone reserves to take care of the requirements for the next several decades.

To ensure continuous availability of fly ash, the Company has installed collecting systems at the state owned thermal power plants situated closer to the cement plants.

The Industry is also under pressure with continuous increase in logistics cost and frequent tariff revision by the Railways. However, the impact during the current year was low on account of steep fall in the diesel prices. But the volatility in the prices of petroleum products is a cause of concern.

The Company has also got a pro-active safety policy with the well- defined safety rules and regulations to ensure safety of its employees and workmen and frequent training programmes are conducted to ensure high safety standards.

OUTLOOK

Major global markets are still facing slowdown and weak recovery. Notwithstanding the turmoil in global markets, Indian economy is continued to be viewed as a "Bright Spot" by the Global agencies like World Bank and IMF. They expect GDP growth to improve to 7.7% to 7.8% in the current year.

The global agencies expect Indian economy to remain on high growth track on the back of macro-economic stability, benign inflation, rising real income and private consumption, better policy reforms and global investors' confidence in the Indian market.

RBI has also said that the uneven recovery in growth in 2015-16 is likely to be more broad based gradually into 2016-17, assuming a normal monsoon, the likely boost to consumption demand from the implementation of the 7th Pay Commission recommendations and One Rank One Pension (OROP), and continuing monetary policy accommodation.

Considering that the cement industry is in the grip of a long down cycle with a single digit growth, the 2016-17 Budget's thrust on increasing public expenditure on farming, irrigation, rural economy, infrastructure, roads, urban development and housing has raised hopes for higher demand for cement.

HUMAN RESOURCES & INDUSTRIAL RELATIONS

The industrial relations remained cordial throughout the year at all our units. Continuous training programmes and management development programmes are being organised to improve the talents of every employee and are being conducted internally and also through external agencies. The Company has also developed strong HR process and strategy to improve the overall organisational effectiveness with rewards through performance appraisal schemes.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your company has a well-defined internal control system commensurate with size, scale and complexity of operation to support the business operations to ensure statutory compliance. External auditors carryout concurrent audit of all the plants and offices which adds to the stability of the internal control systems. Suitable internal checks have been built in to cover all monetary transactions with proper delineation of authority, which provides for checks and balances at every stage. The Company has a strong system of budgetary control which covers all aspects of operations, finance, capital expenditure at macro level and on a monthly basis reported directly to top management. All the physical performances and efficiency parameters are monitored on a daily basis and actions are taken then and there. The Company has an Audit Committee of Directors to review financial statements to shareholders. The role and terms of reference of the Audit Committee cover the areas mentioned under SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and Section 177 of the Companies Act, 2013 besides other terms as may be referred to it by the Board of Directors from time to time.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis Report 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 development within the country and other factors such as litigation and industrial relations.

For and on behalf of the Board

Place: Chennai — N.SRINIVASAN
Date : 26th May, 2016 — Chairman