THE KCP LIMITED

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Chairman's Speech at Annual General Meeting 31st August 2017

Dear Shareholders, Ladies & Gentlemen,

At the outset I welcome you all to this wonderful day of the 76th AGM of your Company, the KCP Ltd.

Before I commence the proceedings of AGM, I am happy to inform you that Smt Indira Dutt has become Managing Director of the Company and Smt. Kavitha Dutt Chitturi became Joint Managing Director of the Company with effect from 1st July 2017. I, on your behalf, congratulate them and wish that their rich experience would take the Company to newer heights.

Today KCP proudly announces that it is multi-national, multiproduct and geographically diverse Company with interest spread across the boundaries of the Country with units spread across the States and with diversified commodities like cement, sugar, power and heavy engineering goods.

Before I elaborate on the performance of the Company in the year 2016-17, let me ponder over the economic events in the country, which have relevance to the operations of your company.

GST, the most significant indirect tax reform in decades, has at last become reality and would be a game changer. It may not be the optimal GST structure, but let the best not be the enemy of the good. It is expected to usher in significant efficiencies and benefits in the logistics chain across sectors and lift India's growth trajectory over the medium run.While short-term hiccups cannot be ruled out, the efficiency gains will, over time, accrue across sectors, and the fiscal gains, as the net widens, will ensure the economy is a net gainer.

Although somewhat disruptive in the short run, demonetization is being leveraged to move India towards a 'less-cash' economy. Though there is a small and transitory hit to India growth from demonetization, it is expected to lift India's GDP growth to 7.4% in fiscal 2017-18 from 7.1% in the preceding fiscal. GST together with the move towards a 'less cash' economy will also give speed to the formalization of the economy

Importantly, the government has largely avoided populism and has stayed away from deploying monetary and fiscal policies to push growth up.

A continuation of reform momentum, particularly the implementation of GST in 2017, will mean that India will continue to improve its competitiveness ranking and remain an attractive investment destination.

After modest cement demand growth in H1 of FY17, Cement demand was flat at 0-1% during FY17 at its slowest pace in a decade, being severely hit post demonetization. South region, with more banking coverage and higher urbanization remained fairly insulated from the impact and continued to maintain the moderate cement demand growth even in the face of cash crunch caused by demonetization, driven by construction of capital at Amaravati and 2-BHK housing and irrigation projects in Telangana.

Cement demand is expected to increase by 5-6% y-o-y in the near future on account of increased spends on roads and railways, push on affordable housing by central govt.

Weak demand post demonetization and increased competition in some regions exerted pressure on cement prices, thus limiting any recovery. Consequently, pan-India cement prices dipped by 1% in FY17 on a y-o-y basis, marking second consecutive year of decline in pan-India prices.

Indian engineering industry suffers from competition from across the borders due to non-availability latest of technology and lack of investments in to research & development. The present government's drive for 'make in India' should help revive the prospects of the industry.

With this back ground, now I proceed to the performance of the company.

The performance of the cement segment is heartening. The segment recorded a growth of 15% in volumes. Despite de-growth in realizations, demonetization blues, the segment registered impressive best ever performance, both in top line and bottom line. With the brown field expansion at Muktyala unit likely to be completed by mid 2018-19, the volumes are expected to grow substantially.

On the power front, hydel unit continues to disappoint as hardly any power could be generated with scanty rains in the catchment areas. The thermal power generation was lower in fiscal 2016-17, as the available surplus capacity could not be utilized to export to others, as was done in 2015-16, due ample availability of power in AP & Telangana. Further the selling rates available in power exchanges also were not encouraging. With the better season, Wind power could generate 78% more than that of 2015-16.

The engineering unit continues to struggle due to combination of reasons like the recovery from cyclone 'Vardah', delayed reflection of effects of reforms etc. The Unit is vigorously pursuing the opportunities in defense, space etc. apart from strengthening its core competent areas of cement, sugar and power. With the implementation of reforms and growth in the economy, it is hoped that bad days for the unit are behind and would contribute to the growth of the Company.

The expansion from 6000 TCD of cane crushing to 8000 TCD, in the Vietnam subsidiary has been completed. But the effects of expansion could not get reflected in the financial performance as the production was lower due to excessive rains in that country during the season. However, the subsidiary has embarked on further expansion to 10,000 TCD which is expected to be on stream in about one or two years' time.

The new Hotel at Hyderabad started operating with improved occupancy levels. The outlook for the hospitality industry at Hyderabad is encouraging and is expected to break even at operational levels.

Your company is always in the forefront of CSR activities since its inception. Apart from health, provision of basic amenities, your company is concentrating of imparting education to the poor to enable them to obtain IT capabilities to compete for the jobs in that sector.

The credit quality of India Inc is showing signs of gradual recovery driven by firm commodity prices, stable macros, impact of sustained structural reforms, improving capital structure and lower interest costs. The banking sector is expected to see lower slippages to non-performing assets (NPAs). Turnaround is increasingly visible in some commodity linked sectors (especially metals) and in the mid-sized engineering, procurement, construction (EPC) segment.

The focus on digitalization would usher in efficiency gains apart from complimenting GST. The monetary and fiscal prudence and growth-potential enhancing reforms like GST and Bankruptcy Code would improve the country's ability to grow faster in a sustainable manner.

With these positives in the economy of the nation, 76 year old KCP would grow from strength to strength and reward all stakeholders.

I place on record the excellent cooperation from the state and central government departments, customers, suppliers and those living around our units and offices, in enabling the KCP Ltd discharge its obligations to the satisfaction of all.

I also place on record the unstinted, tireless support and efforts of the employees in the forward march of the Company.

We from the Board of Directors, assure you of good corporate governance in all the business activities of the Company.

Dr.V.L.Dutt
Chairman