

THE KCP LIMITED

Chairman's Speech for the 68th AGM on 27th July 2009

Ladies and Gentlemen,

On the occasion of the 68th Annual General Meeting of your company, I welcome all the shareholders and their representatives.

At the outset, I it is my sad duty to announce the passing away during the year of our Director, Mr. S Nandagopal on 31st December 2008.. Mr S Nandagopal, a leading Chartered Accountant was appointed a Director in 1999 and took keen interest in the affairs of the company. He was the Chairman of the Audit, Investment, Remuneration and Shareholders' Grievance Committees of the Board until his death and his contribution was greatly valuable. His passing away has caused a void which will be very hard to fill.

I request the shareholders to observe a few moments silence as a mark of respect to the departed soul.

I now have the pleasure to share with you the performance highlights of your company for the year ended 31st March 2009 and shall briefly touch upon these and also on the current operations and the future plans for the company.

The audited accounts of the company for the year 2008-09 together with the reports of the Directors and the Auditors have been with you for some time now and with your permission I shall take the same as read.

The World Outlook and the Indian Scenario:

During the past year, we have witnessed what has been described as the greatest slump since 1929, from a hectic roller coaster ride from the peak of the asset market to runaway inflation to bank failures and a financial market crash. In retrospect, it appears that after several years of high economic growth which was not only very rapid but also well distributed across geographies, conditions for a downturn were also building up not sparing any economy.

The Indian economy had also slowed down from its high performance over the past four consecutive years. But it has been pointed out that even at the lowest level India's growth performance is one of the highest in the world along with China. The future growth prospects of India would be contingent upon the return to normalcy of the global economic and credit conditions. While there is a view that the recession has

bottomed out and that recovery may seem possible by the end of the year 2009 based on some indicators like commodity price index, employment etc, there is also a view that India is yet to see the full scale of the recession. Overall with the continuation of the deteriorating global conditions and the impact of global developments on India so far, it would indeed be very difficult to foresee precisely when the prospects of economic activity would turn better for India. While some upside developments are seen with industrial production data, the vacillating monsoon would take the agriculture production downwards which does not portend well for the country.

The just announced Union Budget has had mixed responses, but in the overall perspective, it appears that the approach is to increase public spending with heavy borrowings mainly to inject liquidity into the system and stimulate growth. It is evident that the possibility of rising inflation is to be combated through monetary policies of the RBI and the positive effects of a growth in the economy. It is only hoped that the country would achieve the projected GDP growth of 6.8% which in itself would be a major achievement. Fortunately the political climate seems to be comforting with a stable and strong Union Government in place.

Performance Highlights

Against the general analysis of the economy as above, I have the pleasure to state that your company has, to a large extent, been spared any of its ill effects in the last year as would be seen from the figures of performance.

Some of the highlights are as under:

- The business activities of the Engineering Division were spread across varied industrial segments such as machinery and equipment for the Sugar industry, cement industry, the power, aluminum and atomic sectors besides the general engineering sector. This has ensured that the effect on the Division by the downturn in one segment is compensated by the other and the turnover maintained at optimum levels. This is spite of the execution of some of the orders being deferred at buyers' requests as a result of the overall slowdown in the economy but for which the figures would have been more impressive. Notwithstanding the above, the Division posted satisfactory results due to higher efficiency in operations and an ideal product-mix. It is particularly notable that the unit recorded a higher figure of export sales under the circumstances.
- The Cement division's operations have also been equally satisfactory. The recessionary tendencies in the overall economy had not had any major effect on the infrastructure segment during the year under review. Production of cement at the factory has been above 100% capacity and selling prices also remained firm throughout with very minor fluctuations. This has indicated that the basic

infrastructure sector like construction of roads, buildings, flyovers and others had not been affected.

- The Thermal Energy Generation Unit (from Waste Heat Recovery) produced 1,17,98,200 units of energy during the year which was consumed internally by the cement plant. The company has during the year obtained the Registration under the Clean Development Mechanism under the UNFCCC (United Nations Framework Convention on Climate Change) effective from 19th November 2008 which is bound to give benefits to the company in future in the form of revenue from Carbon Credits.
- Notwithstanding certain modifications were carried out to strengthen the canal bund at the Hydel Unit, the generation of power was only marginally lower at 372.47 lakh units against 378.90 lakh units last year, due to lower availability of water in the Canal. As usual, most of the power generated was wheeled to the Macherla Cement unit.
- The Windmill in Tirunelveli District of Tamilnadu performed satisfactorily during the year under review with production of electrical units substantially higher at 79.09 lakhs units as against 68.71 lakh units in the last year. The Engineering Unit had the benefit of the power generated through wheeling arrangements.
- The operations of the Bio-tech Division at Hyderabad of the erstwhile subsidiary company KCP Biotech Ltd. which were merged effective from last year have not been able to turn the corner yet due high input costs and pressure on selling prices in the highly competitive export market. As a direct result of the merger, your company is exploring ways and means of improving operational results including increase in capacity, adding product lines etc. to increase the volume of business and become more competitive in the market. This should take some time to materialize.
- Considering the various factors enumerated, your company has been able to report levels of sales and earnings similar to the last year which may be viewed as satisfactory.

Subsidiary Company : KCP Vietnam Industries Ltd

- The subsidiary closes its books of accounts every December but for the purpose of group consolidation they are also presented as at 31st March every year. During the 12 months ended March 2009, the company completed the implementation of the project of expansion of sugar refinery to 5000 TPD. Though crushing of cane was lower than the corresponding previous year, sugar production was higher due to a better recovery rate.
- The Average Realisation per ton of sugar was also higher in the year under review.

- The facilities which were purchased from an inoperative sugar unit is under the process of erection in the Dong Xuan unit. The company is hopeful of getting the additional capacity operational from the ensuing sugar season.
- In regard to the proposal for a Cogeneration plant, discussions with the specified authority for the Power Purchase Agreement are on and the necessary approvals are awaited for further steps in its implementation.

Joint Venture: Fives Cail KCP Ltd

- During the year, this company was severely impacted by the continued problems faced by the sugar industry. This resulted in the sharp fall in its income during the year resulting in a moderate loss of Rs.216 lakhs.
- The sugar industry's misfortunes which have been raging for quite some years now appear to have come to an end. With the selling prices of sugar firming up, sugar companies are now looking at reviving their modernization and expansion proposals and orders on this company are looking up as also deliveries of deferred orders picking up. These and other trends suggest that a total revival of the sugar industry is on the cards and it is expected that with Government's determination to undertake sweeping changes in the various controls that it exercises, the industry will be placed on a firmer footing in the years to come.

Current Business Scenario and Expansion Plans

Cement:

India is the world's second largest producer of cement after China, with cement companies adding nearly eight million tonnes (MT) capacity in April 2009, taking the total installed capacity to 219 MT and despatch of 16.65 million tonnes during April 2009. The cement industry may add 40-45 MT of capacity this fiscal, a 21 per cent increase over the installed capacity at 212 MT in 2008-09.

Despite concerns of slowdown, led by a change in economic scenario along with fears of pressure of excess supply in the market, the cement industry has ended FY 2008-09 on a strong note. The pressure on the price of cement is likely to be clearly felt when the additional and new capacities under installation become fully operational and efficient operations and optimisation of transport and logistics cost play a decisive role in the profitable functioning of a cement unit. The promising part, however, is that with the proposals for massive increase in lay-outs for infrastructure spending by the Government as announced in the recent budget and also by private and public sectors, the demand for cement would continue to be strong with prices holding firm. Besides this general factor, the company is confident that with the inherent savings expected in the cost of production in its New Cement Plant due to locational and technological

advantages and its own dedicated marketing strengths, it will be able to make its operations profitable.

Engineering:

The Engineering industry and more particularly the Capital Goods industry is one of the largest segments in the manufacturing sector of the Indian economy. It has been a key indicator of the overall health of the economy with its various factors of steel consumption, employment potential etc.

In India, the engineering industry has been working under the stress of a number of disadvantages mainly due to the poor infrastructure available in India compared to its global competitors with whom it has to compete. These relate to:

- Unreliable power and high cost per unit.
- Port congestion and high turnaround time
- High cost of fuel and poor road connectivity of port/airports with hinterland

Successive Governments have been implementing measures to overcome these unfavourable factors but with little success mainly due to the lack of a comprehensive policy which can tackle these at the macro level. The demand for engineering products, however, is on the rise as an essential ingredient of every industry and with the thrust of government policies concentrated on revival of the economy, it is expected that demand will be boosted and exports look up in the course of the current year.

Though the Engineering division's order book is good and delivery schedules are being maintained to a large extent, it cannot be overlooked that its fortunes are directly dependent on the demand factor, as stated earlier, the expected surge in the economy will add to its better and improved performance.

Progress of the projects:

Members may be aware that the company has embarked on substantial increase in capacity in cement, modernization and expansion of the Engineering division and the diversification into hospitality industry by the proposal to set up a business hotel at Hyderabad. Work on the above is in full swing and necessary term loans for the cement and engineering projects have been tied up and is expected to be completely shortly for the hotel. Civil structure for the cement project is on at a fast pace and is on schedule. The Engineering project is being taken up in 2 phases. The first phase is towards modernization and debottlenecking the operations which is expected to be completed by the coming March and the second phase consists of expansion of the foundry which is expected to be commissioned by March 2011. The building plans with respect to the

Hotel project is expected to be submitted shortly to the concerned authority and we expect construction to commence from about October this year and the hotel to be commissioned by the second quarter of 2011. Proposals for franchise options with well known hotel brands are being explored and will be finalised in due course.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) as a form of corporate self-regulation integrated into a business model, has been entrenched in KCP's scheme of things. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. Essentially, CSR is the deliberate inclusion of public interest into corporate decision-making, and the honouring of a triple bottom line: People, Planet, Profit.

Your company is well aware of its own responsibilities to the society at large. Various steps like providing of potable water to the people in the vicinity of the factory, maintaining of the greenery in the environment and making available of the medical benefits to the people are but few of the steps taken in this regard.

The HRM function and HRD profession have undergone tremendous change over the past 20-30 years. Many years ago, large organizations looked to the "Personnel Department," mostly to manage the paperwork around hiring and paying people. More recently, organizations consider the "HR Department" as playing a major role in staffing, training and helping to manage people so that people and the organization are performing at maximum capability in a highly fulfilling manner. In line with the thinking the company considers the human assets as the fulcrum for its success and strives to make the function vibrant and more effective. I would like to acknowledge their immense contribution to the growth and profitability of your company through their committed efforts.

I would like to express my sincere thanks and deep gratitude to our esteemed shareholders, my colleagues on the Board for their active support and guidance

I also acknowledge the unstinted support extended by our valued customers, Associates, Joint Venture partners and our Bankers and would like to place on record our sincere thanks to them for their continued faith and confidence reposed on us

Thank you once again

Dr. V L Dutt