

**Chairman's Address at the Ninety First Annual General Meeting
held on 26th September, 2008**

Dear Esteemed Members,

I am privileged to address this 91st Annual General Meeting of your Company. The Directors' Report and the Audited Accounts for the year ended 31st March, 2008 are already with you for sometime and with your permission, I take them as read.

Before we commence deliberation on the Performance of your Company during the financial year 2007-08, let me share with you a few thoughts on the prevailing business environment in which your Company operated.

The Business Environment

The year 2007-08 has seen an annual growth rate in Gross Domestic Product of around 9%, rising foreign exchange reserves and increase in Foreign Direct Investment inflow. With such fundamental strength, the Country has emerged as one of the fastest growing major economies in the world.

Although in 2007-08, overall industrial production grew by around 8%; the primary driver of economic growth was the services sector which grew by 10.4% during 2007-08 riding on the back of 11.4% growth during the previous year. Per capita income also grew; in fact, the trend of per capita income growth exceeded an earlier forecast made by Goldman Sachs in BRIC Report, which estimated that India's per capita income would cross US\$ 800 per annum by 2010. Per capita consumption too increased keeping pace with the growth in the per capita income.

The year 2008-09 has, however, started with certain concerns like: possible impact of slow-down witnessed in the USA and Europe, crisis in global financial market, fluctuation in crude oil price, fluctuation in exchange rate of Indian Rupee vis-à-vis major foreign currencies and high cost of domestic fund arising out of the sustained high inflation rate. The Government has initiated several counter measures to improve the position including reduction of import duties for some food items, prohibiting futures trading in certain commodities, imposing liquidity norms for banks and implementing duty rationalization to cushion inordinate rise in price of crude oil which is now showing signs of tapering off. As of now, the general outlook has been quite competitive for the country in general and business in particular.

Established in the year 1867, your Company has been responding to the demands of the dynamic business environment, converting every change into an opportunity and fulfilling each vision with innovation carved out for itself. In addition, a significant presence of your Company in many areas of business provides to some extent an opportunity of natural hedge thus truly exemplifying unity in diversity.

Performance of the SBUs: 2007-08

The business activities of your Company cover both manufacturing as well as service sectors. Each of its businesses is termed a "Strategic Business Unit", in short, "SBU".

During 2007-08, the *SBU - Industrial Packaging* recorded higher physical sales and a higher turnover leading to a better-than-industry growth rate. This SBU continued to retain its lead position as a whole and achieved an increased market share in the non-lubricant segment. The challenge before the SBU is to counter volatility in prices of raw materials mainly steel and paints. Operational pressure of the SBU is also attributable to sluggish growth in the demand for Lubricants, which comprise the single largest consumer segment.

During 2007-08, the *SBU - Greases & Lubricants* recorded impressive growth in turnover as well as profit. The major contributory factors were better volumes in Retail sales -- including automotive lubricants -- as well as in Exports, better credit terms from input suppliers and adoption of cost-effective product mix coupled with discontinuation of low-margin products. This SBU has also got the benefit of lower base oil price for most part of the year.

The *SBU - Logistics Services* retained its competitive edge during the year under review, enhancing its performance in all three fronts, namely, turnover, contribution and profit. The SBU faces stiff competition in the market both from Multinationals as well as indigenous players in the industry.

The *SBU - Engineering & Technology Services* has two distinct activities: one in the area of construction & contracting and the other one in the area of providing service to the oil industries in the refinery/ exploration area by way of tank/lagoon sludge cleaning. This SBU, although accomplished 18% increase in turnover in 2007-08 compared to the previous year, financial performance was not satisfactory mainly because of time and cost overruns in executing contracts, which arose predominantly from enhanced input costs and sometimes on account of failure of the sub-contractors. Continuing

increase in steel and cement prices have also adversely impacted performance. This SBU has been restructured. While Construction & Contracting services would be limited to in-house projects, refinery & oil field related services would be given more focused attention.

As regards the *SBU-Logistics Infrastructure*, sustained impressive performance of the Indian economy coupled with growth in containerization of cargo has provided fillip for expansion of its activities. Opening up of the Indian economy has resulted in progressive expansion of the country's export- import trade. This has benefited this SBU especially at Chennai. At Mumbai, however, there has been reduction in volumes largely due to intense competition. Increasing competition has led to a drop in the overall market share and profits have also come down marginally in 2007-08. Nevertheless, the SBU is gearing up to meet the challenge through better service deliverables and widening of customer bases. Further expansion of the capacities at Chennai and Kolkata will provide the opportunity for securing incremental market share.

The *SBU - Travels & Tours* maintained its momentum of growth in both domestic and international sectors as well as Tours. As part of its diversification plans, the SBU has begun Money Changing Business from Hyderabad in August 2007.

During 2007-08, the operations of the *SBU - Leather Chemicals* were impacted by the spiraling price of crude oil which pushed up cost of input materials causing a squeeze on margins. The Indian Leather industry was affected by weakening of the US Dollar and this development also had a consequential effect on the Leather Chemicals industry, with demand remaining subdued. Despite adversities in the market, the Company consolidated its position in achieving volume growth over the previous year in both fat liquor and syntan segments. Such volume growth had allowed the SBU to maintain profit, which was marginally less than the previous year.

The *SBU - Tea* operates in a business environment which is characterized by cyclical fluctuations. During 2007-08, the SBU recorded a marginally improved performance in the export market mainly due to the receipt of higher volumes from the UK. The SBU does not have any garden of its own and, hence, encountered stiff competition from producer-exporters who were better placed to offer tea at more competitive rates. Strategically, therefore, the SBU is getting down downsized and till a viable alternative is worked out, it has been concentrating on sales to a niche segment / developed market that can offer better price.

Operating / Financial Results

Financial performance for the year 2007-08 has been outlined in detail in the Annual Report. I trust our valued shareholders have had the opportunity to peruse through the Report and were able to obtain useful insights into the Company's performance.

Here I wish to share with you some of the significant milestones we have achieved during 2007-08. The year witnessed the Company achieving its highest ever net income of Rs. 1490 crore – an increase of 15% as compared to that in the previous year. The Profit Before Tax at Rs. 130 crore shot up by a significant margin of 23% compared with that in the preceding year. These landmarks have been achieved without losing our focus on efficient use of capital and thus endeavouring to achieve a higher return on capital employed.

I take pleasure in announcing that your Board of Directors -- taking cognizance of better profitability -- has recommended for declaration an increase in the rate of dividend on the paid-up equity capital, from 135% declared in the previous year to 170% for 2007-08.

The First Quarter: 2008-09

The financial results of the Company for the first quarter ended 30 June 2008 of the current financial year were taken on record by the Board in July 2008 and published in the newspapers as per the Listing Agreement with the Stock Exchanges.

During the first quarter, the net income and Profit Before Tax of your Company were Rs. 433 crore and Rs. 36.5 crore as against Rs. 363 crore and Rs. 30.5 crore during the first quarter of 2007-08. The performance has thus improved considerably compared to the corresponding quarter of the year 2007-08 and represents an increase of 19% in income and 20% in Profit Before Tax.

Each SBU of your Company operates as a separate profit centre. It is my pleasure to inform you that the operating profits of all the service related SBUs have increased quite satisfactorily compared to the corresponding quarter of the previous year. The operating profit of two manufacturing SBUs viz. Industrial Packaging and Greases & Lubricants have been affected

by certain external factors, which would be covered by me under the Future Outlook.

Customer Care

In a rapidly transforming business and economic environment, where new paradigms constantly emerge, your Company has planned its business strategies keeping in mind the need for maintaining its leadership and / or market share in the competitive environment and to provide the customer with quality products.

The Future Outlook

The famous American actor and comedian – George Burns had revealed the secret of his success through the words

QUOTE

I look to the future because that's where I am going to spend the rest of my life.

UNQUOTE

The words, so very appropriately expressed, apply as much to corporates like us. Thus, in order to ensure continuity with growth, we are continually and consistently focusing on the future orientation of the Company.

In this connection, I would draw your attention to our Corporate Vision and Mission Statement, which focuses on gaining market leadership in all our business segments, making them robust and thereby surpassing a turnover of Rs. 2,000 crore and profit before tax of Rs. 200 crore by 2010. The trend has already been set with your Company recording its highest ever turnover of Rs. 1576 crore (including excise duty) and profit before tax of Rs. 130 crore in the financial year 2007-08. We are bullish on these targets especially keeping in view the need for value creation for our stakeholders and most notably our valued shareholders.

The future portends to be bright as much as it promises to be challenging and far more competitive than ever before. New opportunities would emerge with new challenges in every area of our activity. In charting our direction for the future, the diverse range of activities carried on by the various

Strategic Business Units offer us flexibility and adequate leverage for balancing our risk-return profile and in countering or adapting to the divergent market conditions.

We now commence the survey of the Future Outlook for our eight Strategic Business Units starting with *SBU-Industrial Packaging*. During 2007-08, the steel industry around the globe faced pressure on margins arising from cost increases in iron ore and coking coal. For the most part, these increases were absorbed by the market through increase in steel price. Escalation in input costs, especially steel and paint has often resulted in less than commensurate product price adjustments and has generally subjected your Company's *SBU-Industrial Packaging* activity to margin pressures. The complete impact of these cost increases is likely to continue in the current year as the prices of iron ore and coking coal continues to climb. This is indeed an area of concern. The major opportunities lie in extension of product range, leveraging the benefit of the Company's multi-locational presence, nurturing its leading edge technology and technical expertise and moving up the value chain as a packaging, filling and logistics service provider.

The Greases & Lubricant industry in India – in which the *SBU-Greases & Lubricants* of your Company operates -- is broadly divided into three major market segments: Automotive, Industrial and Marine & Energy applications. Your Company operates largely in the first two sectors. The past one year has been quite positive in terms of demand and profit outlook due to strong growth in the economy. The Indian car market -- which has grown by 12.2% in 2007-08 -- is poised to grow further with income levels rising amongst the rural populace, which sooner rather than later, would lead to enhanced penetration of small cars and motorcycles in the rural market. Thus we foresee opportunity for a wider customer base and volumetric growth in lubricants consumption as also the opportunity for introducing value-added, high-quality engine oils. On the downside, possibility of steep rise in crude price is bound to push up input costs pertaining to base oil & additives, which would in turn pressurize margins.

The *SBU-Logistics Services* now operates in a highly fragmented Industry with the entry of more and more new players including Multinationals adding edge to competition. Direct marketing by liners and steady rise in international fuel price may also affect margins in the near-term. However, the general upswing in export-import trade observed in 2007-08 in the Indian economy is a welcome factor. The economic buoyancy is expected to be accentuated in the next few years and offers scope for enhanced business activity. The indicators are already available: both Mumbai & Delhi airports

have entered the ranks of the top 50 airports in the World, based on volume of cargo handled.

Your Company has reviewed the service profile of the *SBU-Engineering & Technology Service*. As earlier stated, it has been decided that the Construction & Contracting activities would be made available only for in-house expansion projects. However, the activity of Tank / Lagoon Sludge cleaning is poised to grow with gusto inasmuch as the efficacy of the services has now been widely established. The Company is planning to further augment this service portfolio to provide a range of services for the Oil Refining & Exploration Sector.

The *SBU-Travel & Tours* is going to face a real challenge in the proximate future because of the steep increase in the oil prices, which fortunately is now showing signs of softening. Oil price hike forces the airlines to raise fares putting pressure on the airlines to reduce their costs and offer less incentive to the agents. With a view to leverage large customer base of Travel business of your Company, the SBU is paying a focused attention to increase its presence in Tours, specially out-bound tours.

Sustained growth in containerisation of cargo promises scope for expansion of the business of the *SBU-Logistics Infrastructure* of your Company. This optimism springs largely from the impressive performance of the Indian economy, entailing consistent year-on-year growth in GDP. Another positive factor is the extant policy of the port authorities to lay emphasis on quick turnaround time of vessels coupled with removal of cargo from its premises within a stipulated period which, no doubt, creates a stimulus for incremental volumes of business activity pertaining to the Container Freight Stations operated by this SBU. The CAGR growth of around 10% between 2002 and 2007 has resulted in expansion plans for Nhava Sheva and Chennai ports coupled with the development of newer ports such as Mundra, Pipava and Ennore. The outlook for the next year is positive at all locations. The SBU, in anticipation, is ramping up capacity at Chennai and Kolkata to handle the projected growth in port traffic.

The outlook for the *SBU-Leather Chemicals* of your Company appears to be fairly lucrative. It is pertinent to mention that the Union Government had constituted an Inter-Ministerial Group to evolve a comprehensive strategy for the development of the Leather & Leather products whereby it has been assessed that India has the potential to step up its leather exports from US\$ 2.7 billion in 2006-07 to US\$ 7 billion in 2011-12, with footwear accounting

for the largest growth. Your Company, being a leading manufacturer of sophisticated performance chemicals such as Synthetic fat liquors and Syntans used in the processing leather, stands to gain from the expected rise in volumes. The SBU has, however, to contend with certain concern areas such as price resistance in the domestic market accompanied by continuous increase in prices of raw materials, energy and other input costs which may lead to shrinkage of operating margins.

As regards the *SBU-Tea*, the focus of the SBU would mainly be on sales to a niche segment / developed market that can offer better price for good quality, noting that your Company does not have a garden of its own and faces tough competition from producer-exporters.

Your Company has traversed the entire spectrum of the Corporate Journey, emerging today as a conglomerate with global footprints along with its Subsidiary and joint ventures. Perhaps it would be appropriate to quote from Sir Winston Churchill who opined that "A pessimist sees difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

Mini-Ratna Category I Status

I had informed you at the last Annual General Meeting that your Company has now joined the select list of Category I Mini Ratnas, which include some leading PSUs of India and that the upgrade would enable us to enjoy greater managerial and commercial autonomy in our efforts to achieve inorganic growth inter alia through our joint ventures and subsidiary. We are waiting for the Government to induct the Independent Directors, which would broaden the Board for the benefit of the stakeholders.

Corporate Governance

Your Company is committed to sound Corporate Governance practices, which rest upon the foundations of high accountability to the stakeholders, absolute transparency in the reporting system, high ethical standards in the conduct of business, enhancement of shareholders' value on a consistent basis and discharge of Corporate Social Responsibility. Your Company has consistently functioned towards realization of these objectives.

Acknowledgement

I take this opportunity to place on record that the strength of Balmer Lawrie lies in the large number of our valued Shareholders. I am convinced that with your valuable support, we would further build upon our Vision, and successfully accomplish the Corporate Mission which we have chalked out for ourselves.

I would also like to extend my whole-hearted thanks to all employees of the Company who have performed diligently, stretched themselves and thereby contributed to the results achieved. Like in the recent past, my efforts at the helm has always been to nurture an inclusive corporate environment within the four walls of the organization so that every functionary feels and is recognized as an integral part of the organizational fabric.

I would thank all our other stakeholders including the customers, dealers, suppliers, bankers who represent the *Balmer Lawrie Family* for the loyalty, confidence and trust they have reposed in the Company over the years.

I would also like to record our deep gratitude to the Ministry of Petroleum & Natural Gas, Government of India for their valuable guidance, unstinted co-operation and continued support.

Last but not the least, my thanks go to my colleagues on the Board for their support and guidance.

Thank you, ladies & gentlemen, for the goodwill and support which all of you have so graciously extended to us.

S. K. Mukherjee

Chairman of the 91st Annual General Meeting
Kolkata, Friday, 26th September, 2008

Note: *This does not purport to be a record of the proceedings of the 91st Annual General Meeting.*