

Chairman's Address at the 93<sup>rd</sup> Annual General Meeting held on 24<sup>th</sup> September, 2010.

Dear Esteemed Members,

It gives me great pleasure to address you all at this 93<sup>rd</sup> Annual General Meeting of your Company.

At the outset, it may be relevant to briefly review the business environment in which your Company operated during the year 2009-10 since this is a critical input in judging the performance of the Company.

**BUSINESS  
ENVIRONMENT**

The year 2009-10 was a tough year in terms of global output and trade. Nevertheless, towards the later half of the year, there was perceptible improvement in international economic conditions which saw the global economy enter into an early recovery mode. Towards the end of the fiscal, most of the developed economies began reporting positive growth spanning both manufacturing and service sectors. While the recovery is in progress, it is still nascent and fragile and so the inherent risk factors continue to linger.

2009-10 was a challenging year for India too. The impact of recession in the developed economies, for the better part of 2009-10, meant a sluggish export performance and a slowdown in financial inflows into the country. A delayed and poor monsoon added to the overall uncertainty. The country's fiscal deficit increased from the level seen at the end of 2007-08.

Nevertheless, the Indian economy was amongst the first economies to emerge out of the grips of the global economic slowdown led by growth in both the manufacturing and services sectors. The country reported a GDP growth rate of 7.4% in 2009-10 (as against 6.7% in 2008-09) which was though below the 9% growth achieved in 2007-08, emphasized the point that the country continued to be one of the fastest growing economies in the world.

Performance of the  
SBUs:2009-10

As you are aware, your Company has a number of businesses spanning both manufacturing as well as services. I now propose to present before you a brief synopsis of their performance against the backdrop of the global economic downturn.

During the year 2009-10, the **SBU - Industrial Packaging** continued to be the largest manufacturer of steel drums in terms of market share in India. The SBU recorded strong growth in terms of volume and turnover fuelled by a substantial growth in demand for the products offered by the SBU. Relatively stable steel prices coupled with effective cost management enabled the SBU record its highest sales volume and, turnover, yielding improved profits. The areas of concern for the SBU in the medium to long-term continue to be increased competition from plastic drums and escalation in prices of key input materials viz., Steel and Paint.

The **SBU - Greases & Lubricants** turned in an impressive performance in 2009-10 achieving all-time high levels of production, sales volume, turnover and profit, despite intense competition. The performance was achieved due to improved production/delivery from all units, cost-effective substitution of inputs through R&D efficacy, introduction of new value-added products etc. The major area of concern for the SBU - is increase in base oil prices which in turn portends to affect the operating margins. Overall, the SBU has good growth prospects linked to the country's economic growth.

The **SBU - Logistics Services** saw a lower turnover in 2009-10 compared to the previous year 2008-09. The effect of the global recession continued to impact the operations in the first half of 2009-10 and more so in the air-chartering segment. However, with better cost control, the SBU achieved profitability which was marginally higher than the previous year. With the world economy emerging from the clutches of the widespread slowdown, the prospects of the SBU seem to be brightening especially in the context of higher allotment of funds to infrastructure sector in the national budget.

Your Company is one of the largest IATA affiliated travel agencies in the country operating in the organized sector. Despite the adverse impact of global recession on the Aviation industry, the **SBU: Travel & Tours** was able to maintain its profitability, through operational efficiency. It is a matter of satisfaction that the SBU received awards from the Lufthansa and Kenya Airways for outstanding performance and top revenue performer respectively.

The **SBU - Logistics Infrastructure** consists of two activities namely, Container Freight Stations (CFS) and Warehousing & Distribution (W&D) operations. The year witnessed diminution in the CFS business at Mumbai and Chennai as a sequel to the reduction in imports in the wake of the global economic downturn. The performance of CFS -

Kolkata, was better but the overall CFS segment showed a small decline in the total volume of containers handled. After many years, Warehousing & Distribution activity, which had posted its break-even last year, made profit in the year 2009-10.

The **SBU: Leather Chemicals** continued to perform well in the year under report; it recorded significant sales volume growth in both the operating segments, Fat Liquor and Syntans, compared to 2008-09. The performance was achieved despite the adversities faced by the Indian leather industry in terms of fall in exports to the USA and the European Union resulting from economic recession and the spiraling increase in raw material prices.

The **SBU: Refinery & Oilfield Services** which was evolved from the erstwhile Engineering & Technology Services Division kept its focus on the major area of its activity “Mechanized Tank Sludge Cleaning & Hydrocarbon Recovery” – which the Company is operating over the last one decade. The SBU continues to enjoy market leadership in ‘In-situ’ tank sludge cleaning and hydrocarbon recovery and has recorded double-digit increase in turnover during the financial year under review.

The **SBU: Tea** continued to face stiff competition from the Producer-Exporters - as the market is very competitive and is driven by lower price consideration. Export sales of the SBU during the year 2009-10 were relatively down compared to the previous year. The SBU’s financial performance during the year under review was unsatisfactory owing to low volume of business.

<b>OVERALL FINANCIAL PERFORMANCE</b>
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During the year 2009-10, despite the adverse economic factors, your Company was able to achieve good overall performance and maintain its growth, which is evident from the audited figures in the Annual Report 2009-10.

I trust, our valued shareholders have had the opportunity to go through the Annual Report and obtain insight on the performance of the Company.

During the year under review, your Company achieved –

- Profit Before Tax of Rs. 153 crore as against Rs. 152 crore earned in the previous financial year.
- Profit After Tax of Rs. 117 crore as against Rs. 102 crore in the previous financial year.

These were achieved by dint of enhanced productivity, cost management and continued innovation by the various business units of the Company.

Your directors have recommended for your consideration all-time high dividend of 230%, i.e. Rs. 23 per Equity share of Rs. 10/- each for the financial year 2009-10.

While our joint ventures also generally performed reasonably well, the year 2009-10, however, witnessed an unfortunate aberration with Transafe Services Ltd. recording a 9% drop in Turnover and a net loss (after tax) of Rs.38.95 crore [as against Profit After Tax of Rs. 8.21 crore in the previous year].

The severely adverse financial results of TSL for 2009-19 was on account of TSL having to make Prior Period adjustment of Rs.33.3 crore to correct the irregularities and financial manipulation pertaining to the previous three years when Shri G K Mukerjea was the chief executive of TSL, initially as its Manager and Chief Operating Officer and then as its Managing Director & Chief Executive Officer. These financial irregularities came to light only after: (i) an independent investigation was instituted by TSL (and carried out by the renowned firm KPMG) into anonymous letters alleging financial misconduct and other irregularities involving Shri G K Mukerjea and (ii) the exit in August/September 2009 of the two major shareholders of TSL -- represented by ICICI Venture Funds Management Co. Ltd. -- who together held 65% of the equity capital of TSL as on March 31, 2009. The TSL Board relieved Shri G K Mukerjea of his responsibility as its Managing Director & Chief Executive Officer with effect from November 21, 2009, with the immediate acceptance of his resignation.

Further investigation by KPMG brought out that some executives of TSL acting in concert, had caused manipulation / falsification of accounts for three years. Criminal complaints have, accordingly, been filed against the ex Managing Director & CEO and certain other officers of TSL before the Chief Metropolitan Magistrate, Kolkata, which has led to the Kolkata Police registering FIRs against the accused and investigations being taken up.

TSL has brought in new Internal Auditors and new Statutory Auditors were appointed for the year 2009-10 upon the resignation of the previous Statutory auditors. A new Chief Executive was appointed with effect from November 21, 2009 and measures to restore the organization to good health were initiated. TSL has recently appointed a new

Managing Director.

As a measure of conservatism, your Company has during 2009-10, provided for its investment in TSL and is closely monitoring the developments in TSL keeping in view its equity stake of 50% in TSL, the balance being held by Balmer Lawrie- Van Leer Ltd following the exit of ICICI Venture Funds Management Co. Ltd.

## FUTURE OUTLOOK

Reverting to Balmer Lawrie, I would now like to discuss with you the future outlook of your Company. Timely and appropriate action would be the key to managing growth at the macro-level where cost management, risk management, productive capital utilization and revenue focus would constitute essential elements.

In the words of *Eleanor Roosevelt*:

### QUOTE

*The future belongs to those who believe in the beauty of their dreams.*

### UNQUOTE

Noting that the future is fraught with uncertainty, we, at Balmer Lawrie & Co. Ltd. strongly believe in the said words of wisdom. This has resulted in our seeing bigger dreams which have been captured in the modified *Vision* and *Mission* statements appearing in the inside front-cover of the Annual Report.

Focusing on the future, the **SBU - Industrial Packaging** with its wide product-range, its multi-locational presence, leading-edge technology and manufacturing expertise built over decades, is well poised to retain its lead position in 2010-11. We expect this to be facilitated now that the Company's new plant at Chittoor in Andhra Pradesh has commenced commercial operations.

The **SBU: Greases & Lubricants** has good prospects in the lubricant industry particularly in view of the expected growth of the economy with emphasis on infrastructure development and greater industrialization. With its strong R&D, multi-locational production facilities and focused marketing network, the SBU expects to increase its market share aided by the emerging business conditions which is becoming more positive.

The **SBU: Logistics Services** is expected to grow at a faster pace with the world economy slowly weathering the impact of the global meltdown. The prospects for the industry have brightened following the allotment of higher funds to infrastructure sector in the national budget and the forecast is that the Logistics sector in the country would grow by 11% per year for the next few years. If this materializes, the SBU can be expected to perform better in the coming years.

The outlook and opportunities for the **SBU: Travel & Tours** lie in the revival of the Indian economy, the resultant increase in travel & tours both by corporate and the individual traveler and the introduction of the low-frill and budget airlines on various domestic and international routes. The working tie-up of the SBU with Air-India to provide end-to-end travel solutions to athletes and officials for the upcoming Commonwealth games to be held in India next month, is a promising development and would add to the visibility of the Company.

The **SBU: Logistics Infrastructure**, which was affected badly by the global slowdown, took a number of initiatives to overcome the ill-effects, including expansion of the Kolkata-CFS. The volume of cargo being handled by the SBU for exports and imports – both containerized and bulk – as well as volumes from the warehousing & distribution sector, are now showing modest growth which is expected to continue in 2010-11.

The **SBU: Leather Chemicals** expects to perform better in the coming year keeping in view a combination of factors including projected rise in the leather industry's production to meet rising demand, low cost of production of leather goods in India giving it a competitive edge and efforts initiated by the SBU to broaden the product range to cater to the divergent needs of the market.

The **SBU: Refinery & Oilfield Services** is focusing on tie-ups with technology suppliers in popularizing new technologies in the area of decontamination, composite repair etc. While the Oil industry would continue to form the prime focus of its attention, the SBU is simultaneously eying other industries as potential clients for future business opportunities.

The **SBU: Tea** has been continuously facing problem because of intense competition from the producer-suppliers mainly because the demand is highly dependent on the price offered. The major customers of the SBU are the Japanese importers. On account of rising price consciousness coupled with demand for low/no pesticide content in the tea – in Japan – the business of the SBU is being adversely affected. Your Company is actively reviewing its various options on the Tea business.

<b>CORPORATE GOVERNANCE &amp; CORPORATE SOCIAL RESPONSIBILITIES</b>
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You would have seen from the Annual Report the meticulousness with which we have implemented Corporate Governance in the Company aimed at ensuring:

- High accountability to the stakeholders.
- Absolute transparency in the reporting system and adherence to disclosure compliances.
- High ethical standards in the conduct of business with due compliance of laws and regulations.
- Enhancement of shareholders' value on a consistent basis.

The Department of Public Enterprises (DPE) has come up with the mandatory guidelines on Corporate Governance 2010 for the listed as well as unlisted PSUs to ensure better Governance. Your Company being a listed Company thus complies with governance requirements both under the Listing Agreement with the Stock Exchange and under the mandatory DPE guidelines in both letter and spirit.

Discharge of Corporate Social Responsibility is accorded due primacy by your Company and a portion of its net profit is earmarked towards financing CSR projects.

Two flagship schemes of CSR were introduced during the year under review, viz, **Balmer Lawrie Initiatives for Self-Sustenance [BLISS]** and **Samaj Mein Balmer Lawrie [SAMBAL]**. BLISS aims at promoting self-sustenance of disadvantaged / economically backward sections of the society with the focus groups being SCs / STs, Women and Persons with Disabilities. The thrust under SAMBAL is on overall development and improvement in the quality of life of communities, particularly from the disadvantaged sections, in and around the Company's work centres.

#### **ACKNOWLEDGEMENT**

I take this opportunity to thank our valued shareholders for their continued support and faith which have been a source of inspiration to us. I would also like to acknowledge the valuable guidance, support and cooperation which we have received from the Ministry of Petroleum of Natural Gas, Government of India being the Administrative Ministry of the Company. The backbone of every company is its human resource. On this occasion, I wish to acknowledge hard work and dedication of our employees – which have made it possible for the Company to accomplish the business goals. I would also like to thank all other stakeholders, including Balmer Lawrie Investments Ltd., the holding Company, our valued customers, vendors, associates, bankers, financial Institutions, service providers,

etc. for their support and co-operation. As I now formally move into the agenda of this Meeting, I would also like to convey my gratitude to my colleagues on the Board for their counsel and valued involvement.

S. K. Mukherjee  
Chairman of the 93<sup>rd</sup> Annual General Meeting

Kolkata,  
Friday, 24<sup>th</sup> September 2010