

## Management Discussion and Analysis

The Company has a diverse business portfolio spanning manufacturing and services sectors with each major business being recognized as a Strategic Business Unit (SBU). Each SBU is discussed separately herein.

### 1. INDUSTRIAL PACKAGING (SBU-IP)

#### Industry Structure and Developments

The SBU operates in the bulk packaging industry with products such as 200/210 litre capacity Mild Steel (MS) barrels for packing lubricating oils and greases, transformer oil, chemicals, food products etc and 165 litre MS drums for packing bitumen. The industry consists of a large number of small and medium sized manufacturers. The steel barrels/drums industry in India is characterized by surplus capacities and low growth rate.

During the major part of the year, spiraling increase in prices of Colled Rolled steel (which is the main input for making barrels/drums) remained unabated, on the back of increased global demand and consequent exports from India. The steel drum industry was unable to realize commensurate increase in selling prices for its products due to the frequent increase in steel prices and stiff competition in the industry as well as the resistance from customers. As a result, the industry witnessed further erosion of margins during the year.

It is estimated that the market for steel barrels/drums recorded a growth rate of only about 3% during the year with no new sectors of usage coming up. However, the SBU continued to retain its lead position during the year in terms of market share despite increased competition.

#### Opportunities and Threats

The major opportunities for the SBU are :

- Improving market share in the non-lube sectors which are projected to have relatively higher growth rates.
- Leveraging its multi-locational presence and high quality standards to remain most preferred supplier of large customers with geographical spread.
- Becoming total packaging service provider to large volume customers by moving up the value chain.
- Extension of product range.

The major threats faced by the SBU are :

- Over capacity prevailing in the industry leading at times to unremunerative pricing.
- Continued increase in steel prices and inability to realize commensurate increase in selling prices.
- Competition from plastic drums segment for certain applications.

#### Segmentwise or Productwise Performance

The SBU recorded higher growth in sales volume (and sales value) of 200/210 litre barrels compared to the Industry growth rate. In 165 litre bitumen drums, there was a decline in sales volume.

#### Outlook

Increase in exports of food products from India should lead to an increased demand for drums in this segment. It is also expected that with the projected growth of the country's GDP, the steel drum market would continue to grow, albeit at a low growth rate.

The SBU would attempt to realize better sale price for the coming year. It is expected that ongoing measures aimed at cost reduction and improving efficiencies would yield further benefits and would enable the SBU to move towards being the lowest cost producer in the industry.

#### Risks and Concerns

Increase in input costs are less-than-commensurate increase in produce prices are major areas of concern.

Stagnation of demand in lubes sector is another area of concern as this sector accounts for the largest share of the market.

#### Internal Control Systems and their adequacy

The SBU has a detailed performance budget system and internal control measures are in place to monitor performance against targets/norms. BIS certificate is available for all plants of the SBU. Its plants at Sewree, Chennai, Silvassa and Kolkata are certified to ISO 9001: 2000 Quality Management Systems. The plants at Panipat and Mathura are in the process of getting certified. Additional checks are maintained through Internal Audit, Vigilance Inspection etc.

#### Discussion on Financial Performance with respect to Operational Performance.

Although rising steel prices continued to put pressure on margins, with better operating efficiencies, the SBU has considerably improved performance vis-a-vis the previous year.

#### Material Developments in Human Resources Industrial Relations

The SBU continued to enjoy cordial relationship with all the employees.

### 2. GREASE AND LUBRICANTS (SBU – G & L)

#### Industry structure and developments

The market for lubricating oils and greases in India is estimated to be about 11 lakh tons, valued at around Rs. 6,000 crores.

Lubricants (oils and greases) for use in automobiles account for over two-thirds of the market and Industrial lubricants, the rest. The Company is a major participant in the industrial lubricants segment and also accounts for a large share of the automotive greases through its own range of products as well as contract manufacturing done for other oil/lube companies. The Company also markets a comprehensive range of automotive lube oils and has a strong portfolio of speciality greases and oils for industrial applications.

The industry has a large number of players including (a) national oil companies (who have interests in the whole range of petroleum products including lubricants) (b) multinational oil companies (whose operations in India have so far been largely limited to lubricants and certain other niche products) (c) specialist lubricant companies like Balmer Lawrie and (d) companies –MNCs and Indian companies – which operate only in niche product segments. Small-scale and unorganized sectors also have significant presence in some territories.

Both in lubricating greases and oils, there is surplus production capacity in the country; capacity utilization remains low. There is no report of (a) any major new manufacturing facilities being set up in the country either for blending of lubricating oil or for manufacture of greases or (b) closure of any significant production capacities during the year.

#### **Opportunities and Threats**

The Company sees major opportunities for growth in (a) speciality lubricants leveraging the Company's strengths in technology and R&D and (b) automotive lubricants in the retail segment and in supplies to OEMs.

The major threats are the steep and continuing increase in price of lubricating base oils, which are major inputs for production, and their erratic availability.

#### **Segmentwise or Productwise Performance**

The Company's lubricants business can be categorized as (a) "processing business" or contract manufacturing for others and (b) manufacture and sale of its own 'Balmerol' range of products.

The Company retained its customers and share in processing business. Sales volume grew by about 7% against the estimated industry growth of less than 5%. However, the unanticipated rise in cost of inputs eroded the margins.

#### **Outlook**

The expected growth in the country's industrial and agricultural sector should lead to growth in demand for lubricants. Demand is expected to increase particularly for speciality products which can deliver superior performance.

#### **Risks and Concern**

The major risk in the business is the unpredictable increase in prices of base oils, coupled with their erratic availability. The unprecedented increase in crude oil prices globally have a bearing on base oil prices and availability apart from other factors specific to our country.

#### **Internal Control Systems and their adequacy**

The SBU has a detailed performance budget system and adequate internal control to meet the requirements of business. The SBU utilizes a computerized integrated business operations system in each unit, which helps in monitoring various performance and operating parameters. Quality Management Systems at all the five units of the SBU are certified to ISO –9001: 2000 standard. Checks are also exercised through Internal Audits, Vigilance Inspection, etc. which help in identifying areas of deficiencies for corrective action.

#### **Discussion on Financial Performance with respect to Operational Performance**

The net sales turnover was about the same as in the previous year, but the profitability was adversely affected mainly by the steep increase in inputs costs and inability to pass on the cost increase to customers due to contractual obligations and competitive pressures.

#### **Material Development in Human Resources/ Industrial Relations**

The Industrial Relations situation at all the units has been satisfactory.

### **3. LOGISTICS MANAGEMENT (SBU-LM)**

#### **Industry Structure and Developments**

The Logistics Services SBU of the Company encompasses a wide array of products, which include Air Freight Services, Ocean Freight Services, Chartering (both Air & Sea), Project Cargo Management, Customs House Agencies, Warehousing and Surface Transportation. The industry comprises of large multinational companies, large Indian companies and numerous small operators.

The recent developments that are likely to influence the business are:-

- The Government's export-led growth strategy opens up new opportunities for the industry.
- The global air cargo market is forecasted to grow at 5.3% from 2002 to 2006 while the market to and from India is predicted to grow faster at 7%.
- Further liberalization measures and infrastructure development action taken by the Indian Government is facilitating trade and commerce.
- Freight rates are firming up due to buoyancy in World Trade.

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- The only spoilsport is the continuous upward movement in oil price.

## Opportunities and Threats

Customers are looking towards a single window service delivery by logistics service providers where MNCs have an inherent advantage. The Company is also positioning itself for providing such services.

## Segmentwise or productwise performance

The SBU has been able to improve its performance over the last financial year in all its activities. Among these, the performance in the segments of Air Exports and Freight Forwarding activities have seen the most noteworthy progress. The products handled include Engineering goods, Chemicals, Garments, etc with Bangalore, Delhi, Chennai and Mumbai branches having the predominant share.

## Outlook

The increased participation of India in global trade offers the SBU opportunities for growth and the outlook for this business is quite positive.

## Risks and Concerns

Acquisition of Indian logistics companies by MNCs erodes the competitive advantage of other Indian companies in the business. The industry also needs to adapt its operations in tandem with the rapid changes in India's export-import business and the global regulatory requirements.

## Internal Control Systems and their adequacy

Performance of the SBU is tested on various aspects by regular financial and quality audits conducted internally as well as by external agencies. The branches at Kolkata, Mumbai, Bangalore and Corporate Head office are certified to ISO 9001: 2000 Quality Management Systems. Chennai Branch obtained certification during the year.

## Discussion on Financial Performance with respect to operational performance

The turnover of the SBU registered growth of 17% over 2003-04 with corresponding increase in profit.

## Material developments in Human Resources/ Industrial Relations

The SBU has been able to improve its manpower positioning thereby reducing its overhead cost to a great extent.

## 4. PROJECT AND ENGINEERING CONSULTANCY (SBU- PEC)

### Industry Structure and Developments

The SBU has been offering its services mainly to the oil and infrastructure sectors as well as in select markets

abroad. Large EPC firms continue to compete for medium and small projects in the domestic and overseas markets. Fierce competition continues to put pressure on operating margins.

The continued steep increase in price of steel has been a major adverse development for all companies executing fixed price turnkey projects.

## Opportunities and Threats

Medium sized project in the oil sector and major investment plans in infrastructure development in the country offers opportunities for the SBU. Similar opportunities also exist in the few overseas markets in which the SBU has been focusing.

Opportunities are also seen for participation in larger projects abroad through tie-ups with other Indian/foreign firms.

Regulations in certain countries requiring local registration of firms and need to set up multi-disciplinary establishments in client countries, are sometimes disadvantageous factors.

Opportunities are also seen for the environment friendly crude oil tank cleaning service and vapour loss preventions and recovery systems being provided by the Company.

## Segmentwise or Productwise Performance

The activity during the year recorded a downturn both in turnover and profitability.

## Outlook

In the short term the SBU expects to recover its turnover but profitability may continue to be weak. The SBU is taking up longer term strategies of building competencies and associations in various growth areas of hydrocarbons and infrastructure.

## Risks and Concerns

Project execution contracts at fixed price are fraught with risks of increase in cost of inputs such as steel. Overseas projects have additional risk connected with each country's regulations, fluctuation in foreign exchange rates, etc. In the tank cleaning business, utilization of capital equipment due to non-regular availability of assignments in close proximity is a risk.

## Internal Control Systems and their adequacy

The SBU has well defined and established working procedures and control systems. These are reviewed periodically to ensure their adequacy keeping with the changing level and nature of activities. The SBU is certified to ISO 9001: 2000 Quality Management Systems.

**Discussion on Financial Performance with respect to Operational Performance**

The SBU registered a substantial decline in turnover compared to the previous year. Overall profitability was severely affected due to decline in business volume as also margins resulting from change in nature of the projects in the domestic sector. Steep increase in the price of steel and other increase in costs in some turnkey projects also severely eroded the margins.

**Material Development in Human Resources/ Industrial Relations**

During the year, the SBU, while retaining its functional strengths, rationalized its manpower structure resulting in reduction in overhead costs.

**5. TRAVEL AND TOURS (SBU – T-T)**

**Industry Structure and Developments**

Travel facilitation industry in which the SBU operates is populated by large number of firms. There are around 1500 IATA approved agents and over 15000 non-IATA agents operating in the industry. Of these, only about 20 are large operators with multi-locational presence. The SBU, one of the largest operators in organized sector, operates through eleven branches spread across the country. The SBU primarily caters to government, corporate and institutional clients.

The fragmented structure of the industry, coupled with financial compulsions of airlines had over the past few years led to a decline in commissions and earnings potential. Some of the other notable developments were:

- Opening up of skies in India and also Indian airline companies making forays in International routes.
- Projected large additions to fleet by major airlines.
- Coming together of banks and airlines to offer travel discounts on tickets purchased through credit cards.
- Entry of “no frills” airlines whose fares are 30-50% cheaper than other established domestic carriers. A few more “no frill airlines” are likely to join the fray.

**Opportunities and Threats**

The industry is experiencing high growth fuelled by low fares, more routes and destinations apart from the overall economic growth. Tourism, both domestic as also inbound/outbound are showing record growths.

- Opportunities lie in value added inbound/outbound tours/conferences, increasing the share of business through branch expansions and superior servicing and extending multimodal value added services through strategic alliances. Employment of Information technology as a key business driver is another area of opportunity for the SBU.

- Further reduction in commission levels and incentives, direct marketing by airlines and fare wars amongst the airlines would have a direct, negative bearing on profitability of the SBU. Entry of new players in an already overcrowded market and resultant discount wars is another area of threat.

**Segmentwise or Productwise Performance**

The SBU recorded increase in turnover and profits over the previous year both in domestic and international sectors as well as in Tours.

**Outlook**

The outlook on financial returns to travel facilitation industry continues to be depressed on account of reduction in commissions and direct marketing by airlines.

However, the overall prospects of travel and tourism are encouraging in view of the overall buoyancy in the economy and the policy proposals to further open up the aviation & tourism sectors.

**Risks and Concerns**

It is anticipated that pressure on margins would continue due to decline in commission and incentives.

**Internal Control Systems and their adequacy**

The SBU has adequate internal control systems commensurate with the nature and scale of business. The Quality Management of systems of the SBU's Head office and New Delhi Branch are certified to ISO- 9001: 2000 standard. Internal Audits were carried out regularly by a reputed professional firm and no significant change in the internal control systems has been found necessary.

**Discussion on Financial Performance with respect of Operational Performance**

Despite difficult market conditions, the SBU through its marketing initiatives and improved service delivery achieved improvements in turnover. Bottomline also registered improvement over the previous year.

**Material Developments in Human Resources/ Industrial Relations**

Industrial relations in the SBU have been cordial all through the year.

**6. CONTAINER FREIGHT STATION (SBU- CFS)**

**Industry Structure & Developments**

A Container Freight Station (CFS) is a custom notified area where stuffing, de-stuffing and storage of containers and all customs formalities in imports and exports take place.

Global trade involving transnational movement of material is on the rise and also on the rise is increased utilization of containers in such movements. The container

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throughputs in all the major ports in India had been showing a steady increase.

Container Freight Stations were set up to decongest the ports and facilitate faster turn around for ships. The Company has its CFS at Kolkata, Navi Mumbai and Chennai. All the three ports had seen impressive growth during 2004-05 and together accounted for over 75% of traffic handled in all major ports. The CFSs are operating in a highly competitive environment, service delivery being the key differentiator.

The customer segment includes shipping lines, customs house agents and actual importers.

### Opportunities and Threats

The ports being catered to by the Company's CFSs account for 75% of the containers being handled in the country and had been recording impressive growth with Chennai growing at 15%, Nhava Sheva at 5% and Kolkata at 11%. India's participation in global trade is slated to increase and therefore volumes handled in these ports are likely to continue to grow. These offer opportunities to existing locations. New ports being developed particularly along the West Coast present opportunities to grow with wider geographical spread.

The major threats are in the form of new freight stations being set up and the resultant competition and new ICDs being set up in upcountry locations. Further some shipping companies are also reportedly looking at starting CFSs to meet their captive requirements.

### Segmentwise or Productwise Performance

During the year, the containers handled at all the three CFSs have shown a growth with Chennai recording the highest growth of over 35%, Mumbai 25% and Kolkata 3%. Except for Kolkata, in the other ports, the growth of Company's business was more than proportionate to the growth of the respective ports. The concentration of the SBU is more towards import boxes which account for approximately 91% of the total containers handled by the three CFSs.

### Outlook

All the studies including the one initiated by the Government of India on perspective plan for port sector "Vision 2020" points to volumes being handled by Indian ports increasing threefold by 2020. Hence, outlook for all the three CFSs is quite positive.

### Risks and Concerns

Any adverse changes in customs regulations or policies of ports present inherent risks for the business.

### Internal Control System and their adequacy

This SBU has an integrated computerized operations package with well established procedures for internal checks and balances. Constant review is carried out to

ensure implementation of good business policies and controls. Further, internal audit programmes are drawn up to cover areas like utilization of equipment, budgetary controls, billing systems etc.

### Discussion on Financial Performance with respect of Operational Performance

The SBU showed impressive growth both in turnover and the bottom-line. In both the areas it has out-performed the budgeted targets by a large margin as also industry trends.

### Material Developments in Human Resources/ Industrial Relations

Nothing to report.

## 7. LEATHER CHEMICALS (SBU – LC)

### Industry Structure and Developments

The status and growth of domestic leather chemicals industry is directly linked to the prospects of leather processing/leather goods industry, which in turn is largely dependent on the export market. Developed countries are gradually yielding ground to emerging economies such as China, India, Pakistan, Vietnam and Indonesia in the leather processing/leather goods industry on account of decreasing cost competitiveness of developed countries and environmental concerns. However, the domestic leather processing industry remains highly fragmented, thus impeding growth to its full potential.

Leather chemicals are classified as (i) Beam house (Tanning), (ii) Wet end (Fat liquoring, Retanning and Dyeing) and (iii) Finishing chemicals. The SBU primarily operates in Wet end sector with two broad product segments i.e. fat liquors and syntans (used for retanning) which together account for one-third of the leather chemicals market in value terms. MNCs have very strong presence in the domestic leather chemicals market with a wide range of products and global R&D capabilities.

### Opportunities and Threats

- Growing world demand for leather products and shift of manufacturing base to emerging economies augurs well for the leather chemicals industry in India, both in terms of the domestic market and export potential.
- Government's policy of free imports of raw hides and skins, semi-finished leather and concessional duty on imported machinery is also conducive to the growth of leather processing industry and thereby the derived demand for leather chemicals.

- Consolidation of MNCs operating in the leather chemicals business globally and in India coupled with access to easy imports on attractive terms are major threats.

**Segmentwise or Productwise Performance**

The Company continues to be the market leader in the synthetic fatliquors segment and is making continuous efforts to improve its market share in syntans.

**Outlook**

Domestic demand for leather chemicals is expected to grow steadily in the near future. There are also good opportunities of exporting leather chemicals. The SBU, leveraging its strengths, expects to grow the syntans business while continuing its leadership position in fat liquors.

**Risks and Concerns**

As the Indian leather industry is integrated with global markets, it would be susceptible to increased environmental activism and other factors affecting global trade, which in turn would affect the domestic leather chemicals industry also. Competition from un-regulated imports on liberal and attractive commercial terms is another area of concern.

**Internal Control Systems and their adequacy**

The SBU has a detailed performance budget system and adequate internal control system commensurate with the competition and scale of the business to monitor various performance parameters. The SBU utilizes a computerized business operations system manufacturing, material procurements and order processing activities have been brought under ISO 9001: 2000 Quality Management Systems. Checks are also maintained through Internal Audit exercises, Vigilance Inspection etc..

**Discussion on Financial Performance with respect of Operational Performance**

During the year, the SBU achieved growth of 7.5% in sales turnover. However, increase in the cost of raw materials affected the contribution adversely. Due to better management of working capital, the interest on working capital came down by about 19% compared to previous year. Capital employed was brought down by 22% during the year.

**Material Developments in Human Resources/ Industrial Relations**

The SBU continued to work towards upgrading technical skills of employees through in-house HRD programs. Industrial relations continued to be satisfactory.

**8. TEA (SBU – TEA)****Industry Structure and Developments**

India's tea production during the year was 820 million kg

down by about 37 million kg from last year. However, exports continued to show dismal performance and stood at a low of 183 million kg. Domestic consumption rose to 710 million kg leaving negligible surplus stocks. This resulted in high price realization for teas sold. Exports from India continued to face stiff price competition from other major tea producing countries. To arrest the downfall in exports, Tea Board of India has been propagating tea as a major health drink and has been engaged in promoting 'Brand India' in these markets. The efforts has been further intensified with Kolkata Port Trust planning to set up a "State-of-the-art" tea producing and packaging facility at Kolkata in collaboration with Tea Board of India.

**Opportunities and Threats**

The SBU would continue to leverage its strengths in blending and packaging value added teas for the high value added market. On the back of existing and new customer segments in Japan as also the emerging trends in US, wherein tea is gradually gaining acceptance as a health drink, the Company is hopeful of making breakthroughs in such niche market segments.

The major tea consuming/importing countries follow tendering procedure in sourcing teas, and the SBU being a merchant-exporter faces stiff competition from the producer-exporters who have a natural competitive advantage.

**Segmentwise or Productwise Performance**

During the year, export sales of the SBU improved substantially mainly due to resumption of supplies to Iraq and also increased demand from Japan. The domestic institutional sales improved with higher volume of business with Defence.

**Outlook**

India's good relationship with Iran, Iraq etc coupled with the easing of tensions between India and Pakistan (removal of trade restrictions etc) may result in newer opportunities for the SBU. However, the tendering procedures prevalent in Iraq/Libya may come in the way of securing business. The Division is also hopeful of improving domestic sales to Defence during the current years.

**Risks and Concerns**

Due to fierce competition, margins are likely to be under constant pressure, thus affecting bottom line. Also, emergence of stringent norms concerning residues of pesticides/chemicals in teas, particularly in developed countries like Japan, Germany etc would be a challenge/

concern not only for the SBU, but also for the entire Indian tea industry.

Such and other restrictions like pest free wooden pallets for packaging tea, requirement of national plant protection mandate to certify fumigation are going to put pressures on tea exports particularly to UK.

#### **Internal Control Systems and their adequacy**

The activities of the SBU are adequately covered by Internal control systems laid down by the Company in various operating manuals.

#### **Discussion on Financial Performance with respect to Operational Performance**

Though the SBU has achieved lower volume of business, the financial performance was subdued due to higher cost of tea over previous year.

#### **Material Developments in Human Resources/ Industrial Relations**

Industrial relations have remained cordial.

### **9. SPECIALITY CONTAINERS (SBU-SC)**

#### **Industry structure and Developments :**

The current product-mix of the SBU can be broadly categorised as Housing Containers, Insulated Boxes, Containers for Transport Sector (Dry van, swap body etc.) and other Speciality Boxes. The features of the speciality containers have been undergoing many changes with improvements in knowledge of designing custom built boxes and new applications are constantly emerging. Some of the new areas where considerable work has been done by the SBU include (a) Acoustically/Thermally insulated boxes for a variety of applications, (b) Super speciality containers ( Humidifiers, Electrical E-House, Telecom shelters etc), (c) Refrigerated containers for cold chain applications and (d) Containers specially designed for Armed Forces, Space research etc.

The SBU has been the leader in speciality container industry in India, where it has been able to leverage its previous experience and expertise of manufacturing freight containers. New application areas (Mobile Field Hospitals, Mobile Garrison Units, etc.) are being worked on and the SBU is also looking at strategic partners who can provide new technologies and market access. There are no major organized players in this field in the domestic market. The key success factor in this industry is continuous product development to incorporate new features requiring innovative product design solutions.

#### **Opportunities and Threats:**

- Increased economic activity and infrastructure building activity has opened up opportunities to build various speciality containers as per customer need.

- Increased thrust on agricultural activity and food processing coupled with setting up of modern food bazaars/refrigerated retail outlets would boost requirements for “cold chain” transport.
- Fragmented market and unorganized sector competing on price is a major threat for the SBU.

#### **Segment wise or Product wise Performance**

The SBU continues to be the leader in the insulated/refrigerated box manufacturing. Continuous efforts are being put to evolve new/novel applications for the speciality containers as per the customer's need.

#### **Outlook**

Domestic requirements for speciality containers are expected to grow steadily in the coming years. There are also a few opportunities for export of some of the speciality containers. The SBU expects to grow by leveraging its strengths in design and development of speciality containers.

#### **Risks and Concerns**

Competition from unorganized sector including cloning of some of the proven/ popular designs developed by the SBU is an area of concern.

#### **Internal Control Systems and their adequacy**

The SBU is adequately equipped with computerized systems for manufacturing, material procurement and order/ payment processing. The SBU has a quality management system for its design, development and manufacturing activities to produce quality products and services as per customer's need/ specification. Further, checks are also maintained by Internal Audit exercises.

#### **Discussion on Financial Performance with respect to Operational Performance**

During the year, the SBU achieved a small growth in turn over, but profitability was adversely affected on account of increasing steel prices and also changes in duty structure of the finished products, some of which could not be recovered.

#### **Material Developments In Human Resources/ Industrial Relations**

The SBU continued to work towards upgrading technical / managerial skills of employees through in-house HRD programmes. Industrial relations continue to be satisfactory.

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**Note :** The information and opinion stated in this section of the Annual Report cover certain forward looking statements which management believes are true to the best of its knowledge at the time of its preparation and the management shall not be liable for any loss which may arise as a result of any action taken on the basis of the information contained therein. The nature of opinion is such, which may not be disclosed, reproduced or used in whole or part for any purpose or furnished to any other person without the prior written permission of the Company.