



Dear Shareholders,

The last financial year was really a mixed bag. On the face of it, it was disappointing- while the operations generated cash profit, but with depreciation the Company slipped into a loss. The disappointment seemed heightened as the general economic environment was full of positive developments. However, even during this difficult period for the Company, there were elements and processes set which would eventually make it a strong organisation. I will like to elaborate on both sides to this picture.

As for hard facts, the Company had a net loss of Rs. 13.43 crores during the year as compared to a net profit of Rs. 79.66 crores during the previous one. The continuing impact of materials cost push had an adverse effect on the margins of the mainstay products of the Company - dry batteries and flashlights. This also necessitated passing on of significant quantum of price increases to the consumer. These products have substantial consumer-ship among the poorer segment of populace. They found it difficult to absorb these rapid increases and consequentially resorted to lowering or deferring consumption. This combined adversity of pressure on margins and lower volumes resulted in the above financial loss.

Moving on from this somewhat depressing position, I would now like to touch upon the positive elements, which fill me with optimism about the future success of your Company.

Throughout this difficult period your Company was able to maintain its market share position and this was possible only due to its initiatives on branding and distribution. Brand activities were done in an optimal manner as permitted by a situation when margins were already under pressure. Encouraging work was also done in the area of distribution and penetration level exceeded 3.5 million outlets all over the country.

The new state-of-the-art battery plant at Haridwar was commissioned on April 2, 2007. Construction done through this year was exactly as per schedule. This facility will not only add 360 million units to the dry battery capacity of the Company, it will also help improvement of margins by leveraging the free excise and tax benefits available to it.

Ground work related to diversification into new products was carried on at a high pitch and the Company is now ready with a slew of new products to be launched in the coming years. After its successful experience with packet tea and insect repellents, I look ahead for other new products to get in to your Company's basket, enabling it to gain scale through leveraging of brand and distribution.

Retention of human capital proved to be a major challenge during this year. Today's buoyant economy has a demand for human resources for which the present supply does not seem to be sufficient. Most organizations today are thus facing the challenge of human attrition. Your Company managed this position with its usual accent on processes which are friendly to its human capital. I am proud of the team of dedicated employees who passed this difficult period fully engaged to your Company's needs.

Your Company's subsidiary Powercell Battery India Limited (PBIL) also did not escape the market related phenomenon of demand slowing down in the face of price increases and margin pressure due to materials cost push. Yet PBIL managed decent volume growth during the year and was able to enhance its market share. In doing this, it achieved your Company's objective cut out for it as a measure to improve market dominance. It unfortunately incurred a net loss of Rs. 9.26 crores, which was the result of the phenomenon already

explained. This position will change for the better with only a slight improvement in the market dynamics.

I firmly believe that there has not been any change in the basic fundamentals of the business. The demand drivers continue to be the same and the Indian market continues to offer major potential for growth being a consumer of perhaps the lowest number of batteries and flashlights in the world. The current downturn relates to a severe cost push and consequential price hikes which the consumers were not able to absorb immediately.

I expect that after the initial difficulty of adjusting to the new high cost regime, the market will gradually come back to consumption levels as determined by fundamental demand. Input costs will continue to put pressure at least in the short to medium term. However your Company has already taken adequate pricing measures and also resorted to metal hedging mechanisms. So the impact on this account is perhaps not going to be significant.

The new products planned will add scale and profitability to your Company in the coming years and will support its diversification model.

While we are coming off a difficult period, I can say with reasonable amount of confidence that all processes are in place for a quick revival and thereafter, sustained performance. I can say with hope that shareholder value will enhance in the years to come.

I wish to end this note by mentioning a few groups of people who provide the foundation to this Company. I once again mention the Company's employees who are continuously endeavouring to make it a more valuable one. I wish to thank all our customers and vendors who have stood by us. Lastly, very special thanks to all shareholders for their faith and spirit.

With warm regards

B.M. Khaitan
Chairman