Report of the Directors

For the financial year ended March 31, 2008

Your Directors are pleased to present the Annual Report, together with the audited Accounts of your Company for the financial year ended March 31, 2008.

Amalgamation of Powercell Battery India Ltd with the Company

The Scheme of Amalgamation between Powercell Battery India Ltd (PBIL), the wholly owned subsidiary of the Company, and the Company effective April 1, 2007, as approved by the members on August 31, 2007, as per the directions of the Hon'ble High Court at Calcutta, has been sanctioned by the Hon'ble High Court at Calcutta by its Order dated December 5, 2007. The certified copy of the said Order has been filed with the Registrar of Companies, West Bengal on January 16, 2008. Accordingly, the entire undertaking of PBIL with all its employees, assets, liabilities, rights and obligations were transferred to and vested in the Company with retrospective effect from April 1, 2007.

Review of Performance

Financial results are summarized below :

(Rs. in Crores)

	2007-08 (A)	2006-07 (B)	2006-07 (C) Consolidated
Net Sales	847.18	772.52	839.70
Other Income from operations	4.48	2.62	3.34
Profit / (Loss) from sale of real estate	(1.10)	0.37	0.37
Provision no longer required	9.64	7.82	7.82
Total Income	860.20	783.33	851.23
Total Expenditure adjusted for increase/decrease of stocks	784.90	735.40	800.51
Profits before Depreciation, Interest and Taxation	75.30	47.93	50.72
Depreciation	27.63	19.95	24.22
Interest and Finance Cost	52.08	41.18	43.80
Profit/(Loss) before Taxation	(4.41)	(13.20)	(17.30)
Provision for Taxation including Fringe Benefit Tax	(14.91)	(0.23)	(5.25)
Profit/(Loss) after Taxation	(19.32)	(13.43)	(22.55)

(Previous year's figures have been regrouped / rearranged where necessary.)

Note : Figures related to 2007-08 (Column A) include those pertaining to an erstwhile subsidiary, Powercell Battery India Limited, which was amalgamated with the Company with effect from April 1, 2007. Figures related to 2006-07 (Column B) are stand-alone numbers which do not include the same and hence the numbers for these 2 years are not comparable. To enable comparison, the figures consolidated with the erstwhile subsidiary for 2006-07 (Column C) are also provided above.

Net sales for the year were only marginally higher over the previous financial year. However, Profit before Depreciation, Interest and Taxation (PBDIT) was higher by 48 % at Rs.75.30 crores as compared to Rs.50.72 crores in the previous year. Evidently, this was not sufficient to meet the charges on account of depreciation, interest and taxation, as a result of which the year ended at a net loss of Rs.19.32 crores.

The loss was contributed by a very steep and unprecedented increase in raw material prices and lower volumes due to consumer resistance to price increases necessitated by the cost push. However, as mentioned, there was an improvement in operating performance as borne out by the improved PBDIT.

Dividend

Your Directors considered it prudent not to recommend any dividend for the year under review in view of lack of profits.

Operational Review

Batteries and Flashlights

In the recent past, your Company had to pass on significant price increases in batteries to the market to offset severe material cost push, fuelled by extreme hardening of price of zinc – a metal used significantly in dry batteries. Cumulative price increases for the various battery types over the last 24 months or so ranged between 20 per cent and 50 per cent. It did not seem to impact consumers initially, but eventually such pricing measures met with stiff consumer resistance and demand started slowing down. Unfortunately, the price increases had to be persisted with, due to input costs continuing to prevail at high levels. Last such price increase - attributable to cost push - was taken in January 2007. This de-growth was most pronounced in 'D' size batteries, which is mostly consumed in the price sensitive rural segment.

This trend of de-growth continued to prevail during the early part of the financial year under review. Volumes in Quarter 1 of the year were at 82% of those in the corresponding quarter of the previous year. Thereafter, however, a gradually improving trend emerged with respect to sales volumes. Thus, by the end of the current year the overall de-growth was minimized to just 2%, with the last 3 quarters accounting for an average growth of 4%.

The improvement came primarily due to a handsome growth in 'AA' size batteries in the last 3 quarters, with an average growth of 22% over the corresponding period of the previous year – total year's growth being at 14%. The improvement was off-set by the continuing de-growth of the 'D' segment. However, the impact of de-growth of the 'D' segment became lower over the last 3 quarters.

This phenomenon of volumes being affected was not unique to the Company but was experienced by the market as a whole. The Company's market share remained by and large unaltered at 52.7% - brand 'Eveready' – 46.5%: brand 'Powercell' – 6.2% (Source : AC Nielson : April 2007 - March 2008).

The phenomenon of consumer resistance to pricing actions was also very significant in the flashlights business. Similar to the trend in batteries, flashlights business also experienced de-growth of volumes. The impact was most significant in the 'brass' (an alloy of zinc and copper) segment of flashlights – predominantly used in the rural areas.

As a mitigation measure and with a view to giving consumers a value-for-money option, the Company introduced a new class of flashlights. This new segment has popularly come to be known as the 'LED' segment due to usage of LED bulbs as the light source. The Company has been at the forefront of introduction of this new segment and has encouraged consumers to take to it due to the value proposition of lower battery consumption. While 'LED' flashlights may not fully meet all traditional consumer expectations, these have been taken on enthusiastically by the value conscious consumers.

From the Company's perspective, this measure is positive. The brass flashlights were profitable and were good for consumption of 'D' size batteries but remained for long period of in-use with consumers. The new 'LED' torches are equally profitable, but have much lower in-use period and is good for 'AA' battery consumption. Early trends indicate that these will increase overall torch user-ship significantly and will thus be beneficial to higher battery consumption.

The 'LED' flashlights were introduced at the beginning of the year under review and their impact is evident from the sales growth from Quarter 2 of the year. While sales volume in Quarter 1 of the year was at 61% of the corresponding quarter of the previous year, those in the subsequent 3 quarters grew by 32%.

Your Company believes that the difficulties experienced in batteries and flashlights businesses have been suitably tackled. There has not been any change in the basic fundamentals of these products. 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 recent downturn related to a severe cost push and consequential price hikes, which the consumers were not able to absorb immediately. However, it now appears that after the initial difficulty in adjusting to the new high cost regime, the market is gradually coming back to consumption levels as determined by fundamental demand.

It is also worthwhile to note that over the past few months, there has been significant softening in the price of zinc. Though other prices of other commodities used in batteries have increased, lower zinc price has resulted in margin expansion.

The pillars behind your Company's sustained good performance over time continue to be its fundamental strengths on distinct quality edge, penetrative distribution and effective marketing. These strength areas will eventually take the Company to a path of sustainable growth and accordingly these were persisted with during the year under review.

The manufacturing operations of your Company continued to focus on total quality management, safety, energy conservation and cost control. This helped your Company in achieving efficiency in the manufacturing function.

Your Company's new plant at Haridwar commenced commercial production on schedule on April 2, 2007. This 'AA' facility with capacity of 360 million units will augment your Company's capability in this growing product segment. This unit is also entitled to excise and tax benefits.

Packet Tea

The packet tea business continued with its steady performance through leveraging of the distribution network of the Company. Current share of the market stands at 2 – 8 per cent in the various markets of the country. Sales volumes were in line with previous year in a very competitive market scenario. Turnover for the year under review was at Rs.78.03 crores.

Lighting Products

Your Company started distributing compact fluorescent lamps (CFL) through the Company's distribution network during the year under review. It was initiated as a marketing arrangement with Phoenix Lamps Limited (PLL), a reputed manufacturer of CFL, for the products to be distributed through your Company's distribution network, under the dual brands of 'Eveready' and 'Halonix' (the latter belonging to PLL). The launch of the products took place in June 2007. The products were received quite enthusiastically by the market and turnover for the current year during the year stood at Rs.44.22 crores in the few months of operation.

The Company's distribution which is at a tangible differentiation from usual trade for this product segment, and brand 'Eveready' is set to create a long term value-enhancing proposition in this business. In recognition of this, the Company recently disengaged from the marketing arrangement it had with PLL. This will enable the Company to use its own branding, distribution and sourcing strategies to harness the full potential offered by this business.

Insect Repellents

The launch of Mosquito Coils over the target markets across the country became complete by the end of the last financial year. Liquid vaporizers were launched from October 2007. The trade and consumer response to the Company's mosquito coils was encouraging. The business is still in a nascent stage with a market share varying between 1 per cent and 4 per cent in the various states. Turnover of Rs.10 crores was achieved during the current year.

New Products

Your Company is committed to bringing new FMCG products to its selling basket with a view to improving turnover and profitability. Towards this, test marketing of dishwash detergents was initiated during the year under review, on successful completion of which, the products will be formally launched.

Value unlocking and reducing debt

Your Company is seized of the need to reduce its debt. It has thus been alert to opportunities whereby value is unlocked from surplus assets with a view to reducing debt and thereby improving its financial sustainability.

The Company entered into an MOU on August 29, 2007 with Housing Development & Infrastructure Limited (HDIL) for the transfer of its leasehold premises at Navi Mumbai for a consideration of Rs.115 crores. The Company received Rs.11.50 crores as Earnest Money Deposit for the same and a further advance of Rs.50 crores, thereby leaving a balance amount of Rs.53.50 crores receivable on completion. The proceeds have been and will be utilized for repayment of debt, which will reduce interest cost.

Prospects

While the financial results for the year under review were disappointing, these have to be read in the perspective of the severe challenging environment of somewhat unique cost push and consequent market shrinkage of the two main product categories. However, all pointers seem to indicate that these difficulties have been adequately tackled.

It is firmly believed that there has not been any change in the basic fundamentals of the market. The demand drivers and the potential offered by the presently low-consuming Indian market will continue to offer major potential for growth. Also, after the consumer's initial difficulty in adjusting to the new high cost regime, the market seems to be gradually coming back to the consumption levels determined by fundamental demand.

Though the challenge of high input costs remain, softening price trend of zinc – a major input to dry cell batteries – has resulted in margin expansion. The outlook with respect to overall input costs is set to be favorable in the foreseeable future.

Other products like packet tea, insect repellents and lighting products (CFLs) are poised for a success in the future. These new products leverage your Company's existing brand and distribution and will play a key role in improving scale and profitability of your Company's business.

All these factors are expected to combine and pave the way for a quick revival and thereafter a sustained performance.

Issue of Convertible Warrants on preferential basis

During the year under review, your Company had issued and allotted 45,00,000 Convertible Warrants on a preferential basis to one proposed allottee on October 17, 2007. The Convertible Warrants are convertible at the sole option of the Warrant holder within a period of 18 months from the date of allotment of the warrant (i.e. April 16, 2009) in one or more tranches. An amount of Rs. 2,61,00,000/- being 10% of the price of the underlying equity shares @ Rs. 58/- per share was received from the proposed allottee on the date of allotment of the Warrants. Proceeds on this account were utilized in the business of the Company.

Finance

The financial position of your Company remained somewhat tight given its operating performance. However, significant improvement in the management of working capital helped your Company coming through this difficult situation. Your Company met its financial commitments in servicing debt and repayments thereof in a timely manner. Capital expenditure programme – mainly that related to making the new generation 'LED' flashlights available to the market – was fully met. In view of lack of profits during the year under review, there was no transfer to reserve.

Employee Relations

One of your Company's key strengths is its people. Relations with employees remained cordial and satisfactory. Your Board would like to place on record its appreciation of employees for their contributions to the business.

Your Company believes in a system of Human Resource Management which rewards merit based performance and playing an active role in improving employee skills. Actions during the year under review were supportive of this policy.

A statement of particulars of employees as required under section 217 (2A) of the Companies Act, 1956 forms a part of this report as a separate Annexure. In terms of section 219 (1)(b)(iv) of the Act, this Report is being sent to all members without the said annexure. Any member interested in taking inspection or obtaining a copy of the statement may contact the Secretary of the Company at its Registered Office during working hours.

Public Deposits

Deposits amounting to Rs. 8.58 lakhs due for repayment remained unclaimed by depositors as on March 31, 2008. The concerned depositors have been intimated for completing the procedure for repayment.

Exports and Foreign Exchange Earnings and Outgo

During the year under review, your Company exported batteries of 62.16 million pcs and flashlights of 153.67 K pcs against 61.86 million pcs and 413.71 K pcs respectively in 2006-07.

Rs. Lakhs

	Year ended 31.03.2008	Year ended 31.03.2007
Foreign Exchange Earnings	1,602.85	1,424.73
Foreign Exchange Outgo	8,830.17	14,977.45

Conservation of Energy and Technology Absorption

A statement giving details of conservation of energy and technology absorption in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is annexed.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors state as follows :

1. That in the preparation of the annual accounts for the financial year ended March 31, 2008, the applicable accounting standards had been followed with no material departures;
2. That the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
3. That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. That the Directors had prepared the annual accounts on a going concern basis.

Directors

In accordance with the Articles of Association, Mr. B.Mitter, Mr. D. A. Nanda and Mr. V. Bhandari will retire by rotation at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment.

Mr. A. Roy, Wholetime Director, relinquished his services as Director, effective December 8, 2007. The Board places on record its appreciation of the contributions made by him during his tenure as a Director to the Company.

Mr. S. Saha has been re-appointed as Wholetime Director for a further period of three years effective March 22, 2008.

Mr. D. Khaitan has been re-appointed as Executive Vice Chairman & Managing Director for a further period of three years effective June 1, 2008.

The above re-appointments of the executive directors are subject to the approval of the shareholders at the forthcoming Annual General Meeting and/or the Central Government.

On a Reference Application made by the Central Government to the Company Law Board (CLB) under Section 408 of the Companies Act, 1956, the CLB, by an order dated December 20, 2004 directed the Central Government to appoint three Directors on the Company's Board for three years. As the CLB's order suffers from various legal infirmities, the Company, based on legal advice, has challenged this order of the CLB before the High Court at Calcutta, which has, by an interim order, stayed the operation of the CLB's order. The stay is continuing.

Auditors

Messrs. Deloitte Haskins & Sells retire as Auditors at the conclusion of the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

Management Discussion and Analysis Report and Report on Corporate Governance

As required in terms of the Listing Agreement with Stock Exchanges a Management Discussion and Analysis Report and a Report on Corporate Governance are annexed.

For and on behalf of the Board

Kolkata
6th May, 2008

B. M. Khaitan
Chairman