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LANCO INDUSTRIES LIMITED

Annual Report 2008-09

Vision

We aim to be world class, committed to customer satisfaction and to encourage the spirit of leadership amongst our dedicated team by creating a healthy environment for continuous growth, profit and prosperity.

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CORPORATE INFORMATION

DIRECTORS

Shri G. Maruthi Rao
 Shri Gouri Shankar Rathi
 Shri L. Madhusudhan Rao
 Shri G. Bhaskara Rao
 Shri L. Sridhar
 Shri D.R. Jawahar (Nominee of IDBI)
 Shri P. Rajeswara Rao (Nominee of APIDC)

MANAGING DIRECTOR

Shri Mayank Kejriwal

CHIEF OPERATING OFFICER

Shri Shirish Kurane

SR. GENERAL MANAGER-FINANCE & COMPANY SECRETARY

Shri G.D. Saini

AUDITORS

M/s. K.R. Bapuji & Co.
 Hyderabad

SOLICITORS

Khaitan & Co.

BANKERS

ICICI Bank Ltd.
 HDFC Bank Ltd.
 IDBI Bank Ltd.
 Standard Chartered Bank
 BNP Paribas
 Punjab National Bank
 Bank of India

REGISTERED OFFICE & WORKS

Rachagunneri – 517 641
 Srikalahasthi Mandal
 Chittoor District
 Andhra Pradesh

SHARE TRANSFER AGENTS

M/s. Karvy Computershare Private Limited
 Plot No. 17-24, Beside Image Hospital
 Vittalrao Nagar, Madhapur
 Hyderabad-500 081

DIRECTORS' REPORT

Dear Shareholders,

Your Directors take pleasure in presenting the 17th Annual Report and Audited Accounts of your Company for the year ended 31st March, 2009.

FINANCIAL RESULTS

| | (Rs. in Lakhs) 2008-09 | (Rs. in Lakhs) 2007-08 |
|---|---------------------------|---------------------------|
| Net Sales & Other Income | 64,681.79 | 46,458.84 |
| Gross Profit | 4,464.66 | 5,514.43 |
| Depreciation | 1,641.84 | 1,512.99 |
| Profit Before Taxation | 2,822.82 | 4,001.44 |
| Less: Provision for Taxation (Including Deferred Tax) | 987.53 | 1,409.70 |
| Profit After Tax | 1,835.29 | 2,591.74 |
| Profit Brought Forward from Previous Year | 1,242.48 | 858.92 |
| Prior Period Adjustment | — | (55.46) |
| Balance Available for Appropriation | 3,077.77 | 3,395.20 |
| Appropriations are made as under: | | |
| – Debenture Redemption Reserve | 468.75 | 187.50 |
| – General Reserve | 1,000.00 | 1,500.00 |
| – Proposed Dividend | 397.64 | 397.64 |
| – Dividend Tax | 67.58 | 67.58 |
| Balance Carried Forward to Next Year | 1,143.80 | 1,242.48 |

DIVIDEND

Your Directors recommend payment of dividend @ 10% on the equity shares of the Company for the year ended 31st March, 2009. If approved, the dividend will absorb Rs. 465.22 lakhs (including Rs. 67.58 lakhs towards dividend tax).

REVIEW OF OPERATIONS

During the year, the Company achieved Sales (Gross) of Rs. 680.47 Crs., an increase of 37.55% over the previous year's figure of Rs. 494.72 Crs. However due to spiraling cost of inputs especially the imported coal and freight, higher interest cost & foreign exchange loss, the Profit (PBT) for the year was lower at Rs. 28.23 Crs. as against Rs. 40.01 Crs. in the previous year.

The quantity of Low Ash Metallurgical Coke produced in the Coke Oven Plant was marginally low at 1,13,052 MT in FY 2008-09 as against 1,17,438 MT in FY 2007-08. The units of power generated in the 12 MW Waste Heat Recovery Based Captive Power Plant of the Company were higher at 629 Lakh units in the year under review compared with 473 Lakh units in the preceding year.

The production of Mini Blast Furnace (MBF) producing liquid metal mainly for Ductile Iron Pipe Plant, for the year was at 1,48,433 MT compared with 1,48,677 MT in the previous year, reflecting no major change.

However, the production of D.I. Pipes was higher by about 9% at 1,23,422 MT compared with 1,13,471 MT in the preceding year.

The production of Cement during the year was also higher by 24% at 86,812 MT compared to 70,002 MT in the previous year.

During the year, the Company installed two new Induction Furnaces and an Annealing Furnace at an aggregate capital outlay of about Rs. 30 Crs. to overcome the capacity constraints in the Ductile Iron Pipe plant, thereby increasing its capacity from 1,20,000 TPA to 1,80,000 TPA, in last quarter of the year 2008-09.

Apart from the above increase in the capacity of DIP Plant, the Company is also planning to install by June'10, a higher capacity Mini Blast Furnace with hot blast stoves, which along with water, power and other infrastructure facilities will require an additional investment of about Rs. 100 Crs. To meet the requirement of funds for these investments and to augment long-term funds for working capital, the Company has obtained sanction of a Term Loan of Rs. 128 Crs. out of which Rs. 14.41 Crs. have been availed during the year 2008-09.

CURRENT YEAR'S PROSPECTS

The market conditions are likely to remain challenging in the near future due to emerging domestic competition and the prevailing global economic recession.

However the demand for D.I. Pipes is likely to be positive, in view of the thrust given by the Government of India to create infrastructure for drinking water across the country. This along with softening prices of imported coking coal a key input for the Company, indicates towards a positive outlook for the performance of your Company, during the current year.

DIRECTORS

Shri Pradip Kumar Khaitan resigned from the Board on 29th January, 2009. Your Directors place on record their appreciation for the active participation and valuable services rendered to the Company by Shri Pradip Kumar Khaitan.

Industrial Development Bank of India Limited (IDBI), Mumbai nominated Shri D.R. Jawahar on the Board of Directors of the Company with effect from 8th September, 2008 in place of Smt. Vatsala Krishnakumar. Your Directors place on record their appreciation for the active participation and valuable services rendered to the Company by Smt. Vatsala Krishnakumar.

Shri Gouri Shankar Rathi and Shri G. Maruthi Rao retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

CORPORATE GOVERNANCE

The Corporate Governance report is set out as Annexure to this Report.

MANAGEMENT DISCUSSION AND ANALYSIS

Please refer to the management discussion and analysis section appearing elsewhere.

PARTICULARS OF EMPLOYEES

Board of Directors express its appreciation for sincere efforts made by the employees of your Company at all levels during the year and their co-operation in maintaining cordial relations.

The information required under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, forms part of this Report. However, the report and accounts are being sent to all the shareholders of the Company excluding the above information. Those shareholders, who desire to obtain these particulars, would be provided the same upon receiving such request.

STATUTORY INFORMATION

Information as per Companies (disclosure of particulars in the Report of Board of Directors) Rules, 1988 related to conservation of energy, technology absorption, foreign exchange earnings and outgo are given in Annexure-'A' attached hereto and forming part of this report.

DIRECTORS RESPONSIBILITY STATEMENT

The Board of Directors of the Company confirms:

- i) That in the preparation of annual accounts the applicable accounting standards have been followed and there has been no material departure.
- ii) That the selected accounting policies were applied consistently and the Directors 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 as at 31st March 2009 and of the profits of the Company for the year ended on that date.
- iii) That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provision of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities: and
- iv) That the annual accounts have been prepared on a going concern basis.

AUDITORS

The Auditors, M/s. K.R. Bapuji & Co., Chartered Accountants, retire at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

ACKNOWLEDGEMENTS

The Board of Directors thank the Customers, Shareholders, Investors, Government Authorities, Financial Institutions and Banks for their continued co-operation and support to your Company.

For and on behalf of the Board of Directors

Place: Chennai

Date: 27th April, 2009

G. Bhaskara Rao

Director

Mayank Kejriwal

Managing Director

ANNEXURE – 'A' TO DIRECTORS' REPORT

Information as per Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March 2009.

A. CONSERVATION OF ENERGY

a. Energy Conservation Measures taken

- Commissioned during the year a New Annealing Furnace with Blast Furnace Gas as fuel, which results in the Company not using LDO for Annealing Furnace.
- Reduction of Coke Consumption in MBF, by optimum utilization of the handling system.

b. Additional investments & proposals, if any, being implemented for reduction of consumption of energy

- Installation of high capacity Mini Blast Furnace with Hot Blast Stoves, which would result in high productivity with lower coke consumption.
- Variable frequency device (VFD) for slag drier & root blowers for energy conservation in Cement Plant.

Energy conservation is an ongoing process and there is a continuous programme to create awareness and motivate the employees to conserve energy through small group activities.

c. Benefits derived from the above initiatives (a) and (b)

With implementation of above measures, cost of energy is likely to be reduced resulting in reduction of cost of production.

B. TECHNOLOGY ABSORPTION

The Chinese Technology for Annealing Furnace and Stamp Charging in Coke Oven Plant has been fully absorbed.

C. FOREIGN EXCHANGE EARNING AND OUTGO

| | | |
|--|------------------|-----------|
| Foreign Exchange Earning and outgo (Rs. in Lakhs): | 2008-09 | 2007-08 |
| i) Foreign Exchange Earning | – | – |
| ii) Foreign Exchange Used | 27,968.87 | 14,067.65 |

FORM-A

| A. POWER & FUEL CONSUMPTION | 2008-09 | 2007-08 |
|-------------------------------------|--------------------|-------------|
| Electricity | | |
| a. Purchased: | | |
| Units (KWH) | 14826230 | 20167134 |
| Total amount (Rs.) | 8,02,32,190 | 6,90,37,809 |
| Rate / Unit (Rs. / KWH) | 5.41 | 3.42 |
| b. Own Generation: | | |
| 1. Through Diesel Generator | | |
| Units (KWH) | 528497 | 422320 |
| Units / Ltr. of Diesel Oil | 2.79 | 3.66 |
| Cost / Unit (Rs. / KWH) | 9.99 | 8.96 |
| 2. a) 2.5 MW CPP (MBF) | | |
| Units (KWH) | 17348800 | 18675200 |
| Cost / Unit (Rs. / KWH) | 0.25 | 0.26 |
| b) 12 MW CPP (COP) | | |
| Units (KWH) | 62907066 | 47254326 |
| Cost / Unit (Rs. / KWH) | 0.45 | 0.55 |
| B. CONSUMPTION PER MT OF PRODUCTION | | |
| Electricity (KWH) | | |
| Pig Iron | 180 | 175 |
| D.I. Pipe | 360 | 327 |
| Cement | 101 | 94 |
| Coke | 23 | 20 |

CORPORATE GOVERNANCE REPORT

COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

It is a process that requires to be comprehensive for maximum effectiveness. The Company, therefore, follows a systematic and rigorous process encompassing all regulatory disclosures, transparency, proficient operational practices, well-built internal controls and risk management systems for enhancement of Stakeholders' value.

The Board of Directors seeks to discharge its operational, strategic and fiduciary responsibilities in all fairness to ensure good management practices; further, the Board represents the shareholders' interest in terms of maximizing shareholders wealth and remain committed to its responsibilities for all the constituents of its business i.e., investors, customers, employees, suppliers and the general public.

BOARD OF DIRECTORS

Composition of Board

Company's eight-member Board of Directors comprises:

- One Executive Director.
- Three Independent Non-Executive Directors.
- Four Non-Independent Non-Executive Directors.

The composition of the Board of Directors and the position they hold in other public companies including private companies which are subsidiaries of public companies are given in the following table:

| Name of Director | Executive / Non-Executive / Independent | No. of Other* Directorships held | Other* Committee# positions held | |
|---|---|----------------------------------|----------------------------------|-----------|
| | | | As Chairman | As Member |
| Shri Pradip Kumar Khaitan (i) | Chairman-Non-Executive | 14 | 3 | 11 |
| Shri Mayank Kejriwal | Managing Director-Executive | 12 | — | — |
| Shri G. Maruthi Rao | Non-Executive-Independent | — | — | — |
| Shri Gouri Shankar Rathi | Non-Executive | — | — | — |
| Shri G. Bhaskara Rao | Non-Executive | 15 | 5 | 5 |
| Shri L. Madhusudhan Rao | Non-Executive | 14 | — | 2 |
| Shri L. Sridhar | Non-Executive | 15 | 1 | — |
| Smt. Vatsala Krishnakumar (ii) Nominee of IDBI (Lender) | Non-Executive-Independent | 1 | — | — |
| Shri D.R. Jawahar (ii) Nominee of IDBI (Lender) | Non-Executive-Independent | — | — | — |
| Shri P. Rajeswara Rao Nominee of APIDC (Equity Investor) | Non-Executive-Independent | 3 | — | 1 |

- (i) Resigned from the Board on 29th January, 2009.
- (ii) IDBI nominated Shri D.R. Jawahar as its nominee in place of Smt. Vatsala Krishnakumar with effect from 8th September, 2008.
- * Excluding Private Limited Companies, Foreign Companies and Companies under Section 25 of the Companies Act, 1956.
- # Only two Committees viz, Audit, and Shareholders / Investors' Grievance Committees have been considered for this purpose.

None of the Non-Executive Directors have any pecuniary relationship or transaction with the Company in their personal capacity.

ATTENDANCE OF EACH DIRECTOR AT THE BOARD MEETINGS AND THE LAST ANNUAL GENERAL MEETING

Five Board Meetings were held during the year 2008-09. The dates of the meetings are as follows:

28th April'08, 19th July'08, 27th August'08, 23rd October'08 and 23rd January'09.

Agenda Papers along with explanatory statements were circulated to the Directors in advance for each of these meetings. All relevant information as recommended by the SEBI on Corporate Governance as well as items required under Clause 49 of the listing agreement was placed before the Board from time to time.

The following table highlights the attendance of each Director at the respective meetings during the year 2008-09:

| Name of Director | Board Meetings | | AGM |
|---------------------------|----------------|----------|-----|
| | Held | Attended | |
| Shri Pradip Kumar Khaitan | 5 | 3 | NO |
| Shri Mayank Kejriwal | 5 | 4 | NO |
| Shri G. Maruthi Rao | 5 | 4 | YES |
| Shri Gouri Shankar Rathi | 5 | 5 | YES |
| Shri G. Bhaskara Rao | 5 | 4 | YES |
| Shri L. Madhusudhan Rao | 5 | — | NO |
| Shri L. Sridhar | 5 | 4 | YES |
| Smt. Vatsala Krishnakumar | 5 | 2 | NO |
| Shri D.R. Jawahar | 5 | 2 | NO |
| Shri P. Rajeswara Rao | 5 | 3 | YES |

AUDIT COMMITTEE

The Audit Committee, which was constituted on 30th January, 2001 presently comprises two Independent Non-Executive Directors and one Non-Executive Director.

The Audit Committee is expected to review the Company's financial reporting process and its financial statements, review the accounting and financial policies and practices, review the efficacy of the internal control mechanisms and monitor the management of risk, review policies adopted by the Company and ensure compliance with the regulating guidelines, review reports furnished by the internal and statutory auditors and ensure that suitable follow ups are taken.

The terms of the reference of the Audit Committee include the powers as laid out in Clause 49 II (C) of the Listing Agreement and role as stipulated in Clause 49 II (D) of the Listing Agreement.

The Audit Committee during the year ended 31st March, 2009 had four meetings on 28th April'08, 19th July'08, 23rd October'08 and 23rd January'09.

The composition of the Audit Committee as on 31st March, 2009 and attendance during the year are as under:

| Sl. No. | Name of Directors | Position | Executive / Non-Executive / Independent | No. of meetings attended |
|---------|---|----------|---|--------------------------|
| 1 | Shri G. Maruthi Rao | Chairman | Independent, Non-Executive | 3 |
| 2 | Shri G. Bhaskara Rao | Member | Non-Executive | 3 |
| 3 | Smt. Vatsala Krishnakumar (Nomination withdrawn w.e.f. 8.9.08) | Member | Independent, Non-Executive | 2 |
| 4 | Shri D.R. Jawahar (Nominated w.e.f. 8.9.08) | Member | Independent, Non-Executive | 1 |

The Audit Committee met on 27th April, 2009 for considering finalization of accounts for the year ended 31st March, 2009.

The Managing Director, Chief Operating Officer, Sr. General Manager-Finance & Company Secretary, Statutory Auditors and Internal Auditors are generally present in the Audit Committee meeting as invitees.

Company Secretary acts as the Secretary to the Audit Committee.

Shri G. Maruthi Rao, Chairman of the Audit Committee attended the last Annual General Meeting of the Company held on 27th August, 2008.

Code of Conduct

In pursuance of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 (as amended), the Board has approved the 'Code of Conduct for Prevention of Insider Trading' and authorized the Audit Committee to implement and monitor the various requirements as set out in the Code.

Pursuant to Clause 49 of the listing agreement, it is hereby affirmed that the 'Code of Conduct for Prevention of Insider Trading' approved by the Board has been complied with during the year by the senior management of the Company.

Whistle Blower Policy

Pursuant to Clause 49 of the listing agreement, the Company has put in place the 'Whistle Blower Policy' duly approved by the Board. Further, it is hereby affirmed that the Company has not denied any personnel access to the Audit Committee of the Company (in respect of matters involving alleged mis-conduct) and that the Company has provided protection to "Whistle Blowers" from unfair termination and other unfair or prejudicial employment practices.

REMUNERATION COMMITTEE

The Remuneration Committee comprises of three Directors namely Shri. Gouri Shankar Rathi (Chairman – Non-Executive), Shri G. Bhaskara Rao (Non-Executive) and Shri D.R. Jawahar (Independent – Non-Executive) as its members.

The Remuneration Committee reviews and recommends the terms of appointment and remuneration of the Executive Directors for approval by the Board as well as the shareholders.

Presently the Non-Executive Directors do not receive any remuneration from the Company except by way of sitting fees for attending the meetings of the Board and its Committees. Moreover, Shri Mayank Kejriwal, Managing Director of the Company has also offered his services without any remuneration from the Company.

Details of Remuneration to Directors, 2008-09

| Name of the Directors | Sitting Fee (Rs.) | Service contract / Notice Period / Severance fees |
|---------------------------|-------------------|---|
| Shri Pradip Kumar Khaitan | 60,000 | Resigned on 29th January, 2009 |
| Shri Mayank Kejriwal | — | — |
| Shri G Maruthi Rao | 1,40,000 | Retirement by rotation |
| Shri Gouri Shankar Rathi | 1,00,000 | -do- |
| Shri G Bhaskara Rao | 1,40,000 | -do- |
| Shri L Madhusudhan Rao | — | -do- |
| Shri L Sridhar | 80,000 | -do- |
| Smt. Vatsala Krishnakumar | 80,000 | Nomination withdrawn by IDBI w.e.f. 8.9.08 |
| Shri D.R. Jawahar | 60,000 | Nominated by IDBI w.e.f. 8.9.08 |
| Shri P. Rajeswara Rao | 60,000 | Nominee of APIDC |
| Total | 7,20,000 | |

Shareholdings of Non-Executive Directors

| Name | No. of shares held | % of Company's equity shares |
|-------------------------|--------------------|------------------------------|
| Shri L. Madhusudhan Rao | 2284724 | 5.75 |
| Shri G. Bhaskara Rao | 2284674 | 5.75 |
| Shri L. Sridhar | 2282935 | 5.74 |
| Shri G. S. Rathi | 10571 | 0.03 |

SHAREHOLDERS COMMITTEE

The composition of Shareholders' / Investors' Grievances Committee is as follows:

| | | |
|--------------------------|---|----------|
| Shri Gouri Shankar Rathi | — | Chairman |
| Shri G Bhaskara Rao | — | Member |
| Shri G. Maruthi Rao | — | Member |

THE SHAREHOLDERS' / INVESTORS' GRIEVANCES COMMITTEE ADMINISTERED THE FOLLOWING

- Redress Shareholders' and Investors' complaints relating to non-receipt of balance sheet, transfer of shares, non-receipt of dividends etc.
- Consolidate and sub-divide share certificate(s).
- Approve transmission and issue of duplicate / fresh share certificate(s).

In accordance with Clause 49 para VI(D) of the Listing Agreement of the Stock Exchanges, the Board has delegated powers of share transfers to M/s. Karvy Computershare Private Limited (KCPL), Plot No. 17-24, Beside Image Hospital, Vittalrao Nagar, Madhapur, Hyderabad-500 081. KCPL reviews share transfers every fortnight.

COMPLIANCE OFFICER

G.D. Saini, Company Secretary, Rachagunneri-517641, Srikalahasthi Mandal, Chittoor District, AP., Ph: 08578-287650-55, Fax: 08578-287657, E-mail: gdsaini@lancoindustries.com

GENERAL BODY MEETINGS

Location and time for last three Annual General Meetings:

| Date | Venue | Time |
|------------|---|------------|
| 31.08.2006 | Rachagunneri Village, Srikalahasthi Mandal, AP. | 11.30 A.M. |
| 27.08.2007 | Rachagunneri Village, Srikalahasthi Mandal, AP. | 11.30 A.M. |
| 27.08.2008 | Rachagunneri Village, Srikalahasthi Mandal, AP. | 11.30 A.M. |

No special resolution was put through postal ballot in the last year.