



LANCO INDUSTRIES LIMITED

Annual Report 2012-2013

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 S.Y. Rajagopalan
 Shri R.K. Khanna
 Shri L. Madhusudhan Rao
 Shri G. Bhaskara Rao
 Shri L. Sridhar
 Shri A. Joseph Kumar (Nominee of IDBI)
 Shri K. Rajendra Prasad (Nominee of APIDC)

MANAGING DIRECTOR

Shri Mayank Kejriwal

CHIEF FINANCIAL OFFICER & 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
 Punjab National Bank
 Bank of India
 Andhra Bank
 Yes Bank

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 21st Annual Report and Audited Accounts of your Company for the year ended 31st March, 2013.

FINANCIAL RESULTS:

Particulars	Rs. in Lakhs	
	2012-13	2011-12
Gross revenue from operations	89,762.13	82,384.79
Net revenue from operations	86,388.93	78,700.02
Other income	1,002.43	842.12
Total Revenue	87,391.36	79,542.14
Earning Before Interest, Depreciation, Taxation & Amortisation (EBITDA)	6,127.57	7,368.64
Finance Costs	6,041.80	5,786.10
Depreciation	2,218.42	1,999.33
Profit/(Loss) Before Taxation	(2,132.65)	(416.79)
Less: Tax including Deferred Tax	(823.03)	(21.56)
Profit/(Loss) After Taxation	(1,309.62)	(395.23)
Profit Brought Forward from Previous Year	1,154.15	1,608.28
Prior Period Adjustment – Taxation	–	(58.90)
Balance Carried Forward to Next Year	(155.47)	1,154.15

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DIVIDEND

In the absence of profits for the year, your Directors express their inability to recommend any dividend for the year ended 31st March, 2013.

REVIEW OF OPERATIONS

The Company achieved Gross operating revenue of Rs. 897.62 crores during the year under review as against Rs. 823.85 crores in the previous year, registering an increase of 8.95%.

The production of D. I. Pipes during the FY 2012-13 was higher by 7.70% at 1,57,753 MT when compared to 1,46,478 MT for the FY 2011-12.

The production of Mini Blast Furnace (MBF), producing liquid metal mainly for Ductile Iron Pipe Plant was marginally lower during the FY 2012-13 at 1,78,707 MT compared to 1,80,026 MT for the FY 2011-12. The production of Low Ash Metallurgical Coke was higher in FY 2012-13 by 16.2% at 1,25,239 MT as against 1,07,765 MT in FY 2011-12. However, the power generation in 12 MW – Waste Heat Recovery Based Captive Power Plant was slightly lower in FY 2012-13 at 642 lakh units as against 678 lakh units in FY 2011-12, due to shutdown of Power Plant for 25 days for synchronization of 3rd boiler and turbine overhauling.

Due to adverse power situation in the state, production of slag cement during the year under review was lower by 26.60% at 66,059 MT as against 90,000 MT in the FY 2011-12.

Procurement of calibrated iron ore through e-auction route at a higher cost continued till 3rd quarter of the year under review, resulting in significant increase in the input cost.

This apart, the power crisis in the State has further aggravated in the FY 2012-13, leading to shortage of power, on account of load/supply restrictions imposed by APSPDCL. This has forced your Company to purchase power from private power generation companies through Indian Energy Exchange (IEX) at a much higher cost compared to the cost of grid power. The power cost has been increased by about 28% in the State for HT Consumers from April, 2012.

Although, your Company has registered a moderate growth in the volumes of DI pipes during the FY 2012-13, due to higher cost of iron ore, power and interest, the profitability of the Company was adversely affected.

FUTURE PROSPECTS

Installation of 3rd battery in Coke Oven Plant and additional Boiler in 12 MW Captive Power Plant has been successfully

commissioned during the year under review. Accordingly, the capacity of Coke Oven Plant has increased from 1,50,000 TPA to 2,25,000 TPA. Moreover, the additional boiler has resulted in full utilization of the capacity of 12 MW Captive Power Plant.

Further, the Sinter Plant project started in the year 2011-12 has been successfully commissioned in the last quarter of the year under review. With sinter, the requirement of high cost calibrated iron ore has been replaced with low cost iron ore fines in the current inventory by more than 80% and reduced coke consumption. This has increased the capacity of MBF to 2,75,000 TPA. All these factors together lead to improved working in the last quarter of FY 2012-13.

The power cost has been increased by about 24% in the State for HT Consumers from April, 2013. Installation of 132 KVA Sub-Station to synchronize the power requirements of the company was delayed, due to slow progress of APTRANSCO's 220/132 KVA Substation. This is now expected to be commissioned by 2nd quarter of 2013-14, resulting to lower cost of power, besides improved quality.

Although there is intense competition in the domestic market, with the implementation of the above mentioned backward integration projects, your company's profitability will improve during the FY 2013-14, barring unforeseen circumstances.

DIRECTORS

Shri R.K. Khanna was appointed as an additional Director on the Board of Directors of the Company from 9th February, 2013. He will hold office upto the conclusion of ensuing Annual General Meeting. The Company has received a notice from a member of the Company to appoint Shri R.K.Khanna as a Director, liable to retire by rotation.

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

CORPORATE GOVERNANCE

Your Company is committed to maintain the highest standards of Corporate Governance and adhere to the Corporate Governance requirements set out by SEBI. A report on Corporate Governance Practices, as stipulated under Clause 49 of the Listing Agreement, the Auditors' Certificate on compliance of mandatory requirements thereof form part of the Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS

Please refer to the Management Discussion and Analysis section appearing elsewhere.

EMPLOYEES

Your Directors wish to place on record their appreciation for the committed services rendered by the employees of your Company at all levels during the year under review and for their co-operation in maintaining cordial relations.

There are no employees who are in receipt of remuneration exceeding the limits prescribed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended.

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:

That in the preparation of annual accounts the applicable accounting standards have been followed and there has been no material departure.

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, 2013 and of the loss of the Company for the year ended on that date.

That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities: and

That the annual accounts have been prepared on a going concern basis.

AUDITORS' REPORT

Regarding Auditors' observation on use of short term funds for long term purposes, your Directors would like to inform that steps are being taken for converting short term loans into medium term loans.

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.

COST AUDITORS

The Company has appointed M/s.Narasimhamurthy & Co., Cost Accountants, Hyderabad, as Cost Auditors and the Central Government has approved the appointment of M/s. Narasimhamurthy & Co., for conducting the audit of cost accounts maintained by the Company for the financial year 2012-13.

ACKNOWLEDGEMENTS

Your Directors would like to express their appreciation for the assistance and co-operation received from the Financial Institutions, banks, Government authorities, customers, vendors and members during the year under review.

For and on behalf of the Board of Directors

Place: Chennai
Date: 6th May, 2013

L. Sridhar
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, 2013.

A. CONSERVATION OF ENERGY:

a. Energy Conservation Measures taken:

- Installed and commissioned one more Coke Oven Battery with waste heat recovery boiler, which augmented power generation of the Captive power plant by 4 MW.
- Installed and commissioned Sinter plant in MBF resulting in effective utilization of iron ore fines in place of Calibrated ore and also reduced coke consumption marginally.
- Upgraded the PLC system in DIP resulting in enhanced productivity.
- Installed economizer to minimise oil consumption in the boiler of DIP.
- During power holidays and peak hour power restrictions, reduced operation of DG Sets and purchased power from Exchange, to minimize diesel consumption.
- Provided automatic switch off circuit to air compressors.
- Installed VFDs for compressors to reduce the energy consumption.
- Installed steam traps at CPP to reduce the steam losses.

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

- Revamping of Battery 2 to arrest heat losses, which will result in increased power generation.
 - Installing 132 KV power sub-station to improve the quality of power and to minimize power intermediates.
 - Installing coal based Gassifiers / Hot Air Generators to replace HSD/LDO in DIP and Cement Plants.
- Energy conservation is a continuous activity and it is the constant endeavor of the company to bring in awareness and encourage the employees to conserve energy at every stage through small group activities.

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

With implementation of above measures, consumption of energy in D I Pipe Plant has reduced significantly and upon implementation of proposed energy saving measures, the cost of energy is likely to come down further. Installation of additional waste heat recovery boiler in Captive Power Plant has resulted in increased power generation and commissioning of Sinter Plant has resulted in substituting precious and high cost Calibrated ore with abundant and low cost iron ore fines, thereby leading to lower cost of production.

B. TECHNOLOGY ABSORPTION:

Chinese Technology has been absorbed for the installation of Sinter Plant.

C. FOREIGN EXCHANGE EARNING AND OUTGO:

Foreign Exchange Earning and outgo (Rs. in Lakhs):

	2012-13	2011-12
i) Foreign Exchange Earning	224.77	1,100.39
ii) Foreign Exchange Used	21,016.83	35,633.81

FORM-A

A. POWER & FUEL CONSUMPTION	2012-13	2011-12
1. Electricity:		
a. Purchased:		
Units (KWH)	3,44,63,393	2,02,34,240
Total amount (Rs.)	24,29,90,109	11,12,58,059
Rate / Unit (Rs / KWH)	7.05	5.50
b. Own Generation:		
i) Through Diesel Generator		
Units (KWH)	14,63,563	6,35,496
Units/ Ltr. of Diesel Oil	3.45	4.17
Cost / Unit (Rs. / KWH)	13.78	10.15
ii) Through Turbo Generator		
a) 2.5 MW CPP (MBF)		
Units (KWH)	1,32,12,500	1,44,23,400
Cost / Unit (Rs. / KWH)	0.22	0.20
b) 12 MW CPP (COP)		
Units (KWH)	6,42,20,200	6,77,67,099
Cost / Unit (Rs. / KWH)	0.23	0.26
2. Overall LDO/HSD consumption		
Consumption (KL)	4,772	4,556
Total amount (Rs.)	22,66,21,581	19,27,29,225
Cost/Ltr. (Rs.)	47.49	42.30
B. CONSUMPTION PER MT OF PRODUCTION		
Units of Electricity (KWH):		
Pig iron	165	152
D. I. Pipe	344	367
Cement	128	113
Coke	21	20

REPORT ON CORPORATE GOVERNANCE

COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

The Company firmly believes that Corporate Governance is a set of systems and procedure to ensure accountability, transparency and fairness in the affairs of the Company to meet its stakeholders' aspirations and societal expectations. The Corporate Governance principles aim to provide stakeholders value and transparency to promote sustainable long-term success. The Company believes that adherence to business ethics and commitment to Corporate Governance will help the Company to achieve its goal of maximizing value for all its stakeholders and endeavours to not only match the standards but also strives to set a benchmark for Corporate Governance initiatives. The company's policy is reflected by the very values of transparency, professionalism and accountability. The company constantly strives towards betterment of these aspects and thereby perpetuate it into generating long term economic value for its shareholders, customers, employees, other associated persons and the society as a whole. The Board along with its Committee ensures at achieving not only the highest possible standards of legal and regulatory compliances, but also of effective management.

The Company is in full compliance with the requirements of Corporate Governance under Clause 49 of the Listing Agreement with the Indian Stock Exchanges, which cast upon the Board of Directors and the Audit Committee, onerous responsibilities to improve the Company's operating efficiencies and the risk management and internal control functions have been geared up to meet the progressive governance standards.

BOARD OF DIRECTORS

The Board of Directors and its Committee provide leadership and guidance to the Company's management and directs, supervises and controls the performance of the Company.

Composition of Board

The Board currently comprises of Ten Directors as categorized below.

- One Executive Director
- Four Independent Non-Executive Directors.
- Five 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 as on 31st March, 2013 unless otherwise stated 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 Mayank Kejriwal	Managing Director-Executive	8	–	2
Shri G. Maruthi Rao	Non-executive-Independent	–	–	–
Shri R.K. Khanna (ii)	Non-Executive-Independent	1	–	–
Shri Gouri Shankar Rathi	Non-executive	–	–	–
Shri S.Y. Rajagopalan	Non-Executive	1	–	–
Shri G. Bhaskara Rao	Non-executive	12	1	6
Shri L. Madhusudhan Rao	Non-executive	11	1	–
Shri L. Sridhar	Non-Executive	5	1	1
Shri A. Joseph Kumar	Non- Executive-Independent	–	–	–
Smt. Nilam Sawhney, IAS (i) Nominee of APIDC (Equity Investor)	Non- Executive-Independent	–	–	–
Shri K. Rajendra Prasad (i) Nominee of APIDC (Equity Investor)	Non- Executive-Independent	–	–	–

i) APIDC nominated Shri K. Rajendra Prasad as its nominee in place of Smt. Nilam Sawhney, IAS with effect from 27th April, 2012.

ii) Appointed as Additional Director on 9th February, 2013.

* 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 2012-13. The dates of the meetings are as follows:

27th April, 2012, 10th August, 2012, 27th August, 2012, 10th November, 2012, and 9th February, 2013.

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 were placed before the Board from time to time.

The following table highlights the attendance of each Director at the respective meetings during the year 2012-13:

Name of Director	Board Meetings		AGM
	Held	Attended	
Shri Mayank Kejriwal	5	2	NO
Shri G. Maruthi Rao	5	5	YES
Shri Gouri Shankar Rath	5	5	YES
Srhi S.Y. Rajagopalan	5	5	YES
Shri R.K. Khanna	5	0	NO
Shri G. Bhaskara Rao	5	1	NO
Shri L. Madhusudhan Rao	5	0	NO
Shri L. Sridhar	5	5	YES
Shri A. Joseph Kumar	5	4	NO
Shri K. Rajendra Prasad	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, 2013 had four meetings on 27th April, 2012, 10th August, 2012, 10th November, 2012 and 9th February, 2013.

The composition of the Audit Committee as on 31st March, 2013 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	4
2.	Shri R.K. Khanna*	Chairman	Independent, Non-Executive	–
3.	Shri G. Bhaskara Rao	Member	Non-Executive	1
4.	Shri A. Joseph Kumar	Member	Independent, Non-Executive	4

Shri G. Maruthi Rao resigned from the Membership of the Audit Committee with effect from 9th February, 2013.

* Shri R.K. Khanna was appointed as Chairman in place of Shri G. Maruthi Rao with effect from 9th February, 2013

The Audit Committee met on 6th May, 2013 for considering finalization of accounts for the year ended 31st March, 2013.

The Managing Director, Chief Financial Officer & 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, 2012.

Code of Conduct

Code of Conduct for the Directors and Senior Management of the Company was adopted by the Board in its meeting held on 31st October, 2005. This Code has been laid down with a view to promote good corporate governance, exemplary personal conduct, fair competition, Corporate Social Responsibility, Safety, Health & Environmental performance, transparency and compliance of laws and regulations and this Code is applicable to all the Directors and Senior Managerial Personnel of the Company. This Code is also available on the website of the Company www.lancoindustries.com.

Prevention of Insider Trading Code

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. This policy is posted on the website 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 misconduct) and that the Company has provided protection to "Whistle Blowers" from unfair termination and other unfair or prejudicial employment practices. This policy is also posted on the website of the Company.

REMUNERATION TO DIRECTORS

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.

Details of remuneration paid to Directors:

Name of the Directors	Sitting Fee (Rs.)
Shri Mayank Kejriwal	–
Shri G. Maruthi Rao	1,80,000
Shri Gouri Shankar Rathi	1,00,000
Shri S.Y. Rajagopalan	1,00,000
Shri R.K. Khanna	–
Shri G. Bhaskara Rao	40,000
Shri L. Madhusudhan Rao	–
Shri L. Sridhar	1,00,000
Shri A. Joseph Kumar	1,60,000
Shri K. Rajendra Prasad	60,000
Total	7,40,000

Shareholdings of Non-Executive Directors As on 31st March'2013

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