



**LANCO INDUSTRIES LIMITED**

**Annual Report 2013-2014**

# 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 A. Joseph Kumar (Nominee of IDBI)  
 Smt. Anita Rajendra IAS (Nominee of APIDC)

## MANAGING DIRECTOR

Shri Mayank Kejriwal

## CHIEF OPERATING OFFICER

Shri V. Poyyamozhi

## SR. GENERAL MANAGER – FINANCE & COMPANY SECRETARY

Shri Atosh R Surana

## AUDITORS

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

## SOLICITORS

M/s. Khaitan & Co.

## BANKERS

ICICI Bank Limited  
 HDFC Bank Limited  
 IDBI Bank Limited  
 Standard Chartered Bank  
 Punjab National Bank  
 Bank of India  
 Andhra Bank  
 Indusind Bank Limited  
 Yes Bank Limited

## REGISTERED OFFICE & WORKS

Rachagunneri-517 641  
 Srikalahasthi Mandal  
 Chittoor District  
 Andhra Pradesh  
 Website: [www.lancoindustries.com](http://www.lancoindustries.com)  
 CIN: L74999AP1991PLC013391

## 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 22nd Annual Report and Audited Accounts of your Company for the year ended 31st March, 2014.

## FINANCIAL RESULTS:

| Particulars  | Rs. in Lakhs<br><u>2013-14</u> | Rs. in Lakhs<br><u>2012-13</u> |
|--|--------------------------------|--------------------------------|
| Gross revenue from operations                                  | <b>1,03,715.95</b>             | 89,762.13                      |
| Net revenue from operations                                    | <b>98,939.56</b>               | 86,388.93                      |
| Other income   | <b>724.06</b>                  | 1,002.43                       |
| Total Revenue  | <b>99,663.62</b>               | 87,391.36                      |
| Earning Before Interest, Depreciation, Taxation & Amortisation | <b>12,425.54</b>               | 6,127.57                       |
| Finance Costs  | <b>5,489.61</b>                | 6,041.80                       |
| Depreciation   | <b>2,794.28</b>                | 2,218.42                       |
| Profit/(Loss) Before Taxation                                  | <b>4,141.65</b>                | (2,132.65)                     |
| Less: Tax including Deferred Tax                               | <b>271.62</b>                  | (823.03)                       |
| Profit/(Loss) After Taxation                                   | <b>3,870.03</b>                | (1,309.62)                     |
| Profit/(Loss) Brought Forward from Previous Year               | <b>(155.46)</b>                | 1,154.16                       |
| Prior Period Adjustment – Taxation                             | <b>(0.67)</b>                  | –                              |
| Amount available for Appropriations                            | <b>3,713.90</b>                | (155.46)                       |
| Appropriations are made as under:                              |                                |                                |
| – General Reserve  | <b>2,000.00</b>                | –                              |
| – Proposed Dividend including tax thereon                      | <b>697.82</b>                  | –                              |
| Balance Carried Forward to Next Year                           | <b>1,016.08</b>                | (155.46)                       |

## DIVIDEND

Your Directors are pleased to recommend a dividend @ Rs. 1.50 per share on the equity shares of the Company for the year ended 31st March, 2014. If approved, the dividend will absorb Rs. 697.82 Lakhs (including Rs. 101.37 Lakhs towards dividend tax).

## REVIEW OF OPERATIONS

Your Directors are pleased to inform that Company crossed the Rs. 1000 Crores turnover mark and has achieved Gross operating revenue of Rs. 1,037.16 crores during the year under review as against Rs. 897.62 crores in the previous year, thus registering an increase of 16% in gross revenue.

The production of D.I. Pipes during the FY 2013-14 was higher at 1,62,892 MT as compared to 1,57,753 MT for the FY 2012-13.

The production of Mini Blast Furnace (MBF), producing liquid metal mainly for Ductile Iron Pipe Plant was higher during the FY 2013-14 by 10.82% at 1,98,036 MT compared to 1,78,707 MT for the FY 2012-13. The production of Low Ash Metallurgical Coke was higher in FY 2013-14 by 9.66% at 1,37,339 MT as against 1,25,239 MT in FY 2012-13 and the power generation in 12 MW – Waste Heat Recovery Based Captive Power Plant was also higher in FY 2013-14 by 37.38% at 882 lakh units as against 642 lakh units in FY 2012-13. The production of cement during the FY 2013-14 was marginally higher

at 67,396 MT compared to 66,059 MT in the previous year.

Successful commissioning of Sinter Plant in the last quarter of the FY 2012-13, helped the Company during the year under review, in replacing high cost calibrated iron ore with iron ore fines. Resultant reduction in coke consumption and the favourable coal prices movement culminated into overall reduction in input cost.

This apart, the improved availability of captive power generation, during the year under review, minimized the incidence of power purchase from power exchange and also reduced the dependence on generation of power by DG Sets, thus leading to significant lower power cost during the FY 2013-14 as compared to FY 2012-13.

With the hedging policy of the company in place for the year under review the company prevented its foreign exchange losses inspite of unfavourable fluctuation in rupee-dollar equation.

With moderate growth in the volumes of D.I. pipes during the year under review, coupled with reduced cost of molten metal and captive power, your Company has achieved a pre-tax profit of Rs. 41.42 Crs in the FY 2013-14 as against a net loss of Rs. 21.32 Crs reported in the FY 2012-13.

## **FUTURE PROSPECTS**

During the current year, the company has embarked an investment of Rs. 100 Crores by way of capital expenditure to improve the quality and production level of Ductile Iron Pipes. The company is adding certain balancing facilities which include enhancement of blowing capacity in MBF, additional induction furnace, new spinning machine with higher productivity, additional finishing line and other process automation equipments. This will result in increased production of Ductile Iron Pipes by 50000 MT per annum.

This investment will also enable the company to enter into export market. The project is funded by term loan and internal accruals.

In spite of intense competition in the domestic market, the order position of your company is comfortable for FY 2014-15. Barring unforeseen circumstances, on completion of these investments in 2014, the company will start getting the benefits of higher production from last quarter of current financial year.

## **CREDIT RATING**

Your Company has been rated as "CARE A (Single A)" for long term bank facilities. This indicates adequate degree of safety regarding timely servicing of financial obligations and carry low credit risk. The rating assigned for short term facilities is "CARE A1 (A One)" and indicates having very strong degree of safety regarding timely payment of financial obligations and carries lowest risk.

## **DIRECTORS**

Andhra Pradesh Industrial Development Corporation (APIDC), Hyderabad nominated Smt. Anita Rajendra, IAS on the Board of Directors of your Company with effect from 5th August, 2013 in place of Shri K. Rajendra Prasad.

Shri L. Madhusudhan Rao, Shri G. Bhaskar Rao and Shri L. Sridhar resigned from the Directorship of the Company with effect from 3rd February, 2014.

Your Directors place on record their appreciation for the active participation and valuable services rendered to the Company by Shri K. Rajendra Prasad, Shri L. Madhusudhan Rao, Shri G. Bhaskar Rao and Shri L. Sridhar.

Shri S.Y. Rajagopalan retire by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment. Impending notification of section 149 and other applicable provisions of the Companies Act,

2013 your Directors are seeking appointment of Mr. G. Maruthi Rao and Mr. R.K. Khanna as Independent Directors for a term of five consecutive years from the conclusion of this Annual General Meeting.

Details of the proposal for appointment of Mr. G. Maruthi Rao and Mr. R.K. Khanna are mentioned in the Explanatory Statement under Section 102 of the Companies Act, 2013 of the Notice of the Annual General Meeting.

The Company has received declarations from the Independent Directors of the Company confirming that they meet with the criteria of independence as prescribed both under sub-section (6) of Section 149 of the Companies Act, 2013 and under Clause 49 of the Listing Agreement with the Stock Exchanges.

### **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.

In terms of the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules,

1975 as amended, the names and other particulars of the employees are set out in the annexure to the Directors' Report. However, having regard to the provisions of Section 219(1)(B)(iv) of the said Act, the Annual Report excluding the aforesaid information is being sent to all the members of the Company and others entitled thereto. Any member interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

### **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, 2014 and its profit 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 provisions 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.

**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 2013-14.

**ACKNOWLEDGEMENTS**

Your Directors wish to convey their appreciation to all of the Company's employees for their enormous personal efforts as well as their collective contribution to the Company's performance. The Directors would also like to thank the employee unions, shareholders, customers, agents, suppliers, bankers, Government authorities and all the other business associates for the continuous support given by them to the Company and the confidence reposed in its management.

For and on behalf of the Board of Directors

**S.Y. Rajagopalan**  
Director

**Mayank Kejriwal**  
Managing Director

Place: Chennai  
Date: 3rd May, 2014

# 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, 2014.

## A. CONSERVATION OF ENERGY:

### a. Energy Conservation Measures taken:

- Revamping of battery No. 2 of Coke Oven Plant to arrest heat losses, this resulted in increased power generation.
- During power restrictions, reduced operation of DG sets and purchased power through Exchange to minimize diesel consumption.
- Power generation of 12 MW Captive Power Plant increased by 37% to its full capacity and the auxiliary consumption is reduced from 11% to 9%.
- Installed PLC system in D.I. Pipe Plant for energy conservation.
- Installed VFDs in D.I. Pipe Plant and Cement Plant to reduce the energy consumption.
- Modification of BFG system to reduce oil consumption further in annealing furnace.
- Installed Hot Air Generator in Cement plant to control Slag moisture to facilitate higher percentage of slag consumption.
- Installed additional capacitors bank in Coke oven plant and Cement plant to improve power factor.

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

- Installation of 132 KV power sub-station

to improve quality of power and to minimize power intermediates.

- Installing VFDs for annealing furnace ID fan to reduce energy consumption.
- Installing solar street lights in common areas for promoting renewable energy.
- Introduction of cooling tower fan auto on/off system with water temperature to reduce energy consumption.
- Further modification of BFG system to reduce further oil consumption in annealing furnace.
- Initiating infrastructures for supply of steam to replace Oil in existing and upcoming Steam Curing Stations of D.I. Pipe Plant.
- 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 the implementation of aforementioned energy saving measures, generation of DG power has come down significantly and consumption of energy in MBF, Coke oven plant has also reduced. Upon implementation of proposed energy saving measures, the cost of energy is expected to come down further, besides resulting in reduced oil consumption.

## B. TECHNOLOGY ABSORPTION:

The Company is in the process of absorbing Chinese Technology for Spinning Machine and additional finishing line.

**C. FOREIGN EXCHANGE EARNING AND OUTGO:**

| Foreign Exchange Earning and outgo (Rs. in Lakhs): | 2013-14   | 2012-13   |
|--|-----------|-----------|
| i) Foreign Exchange Earning                        | –         | 224.77    |
| ii) Foreign Exchange Used                          | 31,883.55 | 21,016.83 |

## FORM-A

| <b>A. POWER &amp; FUEL CONSUMPTION</b>     | <b>2013-14</b> | <b>2012-13</b> |
|--|----------------|----------------|
| 1. Electricity:                            |                |                |
| a. Purchased:                              |                |                |
| Units (KWH)                                | 3,04,25,008    | 3,44,63,393    |
| Total amount (Rs.)                         | 25,21,34,814   | 24,29,90,109   |
| Rate / Unit (Rs / KWH)                     | 8.29           | 7.05           |
| b. Own Generation:                         |                |                |
| i) Through Diesel Generator                |                |                |
| Units (KWH)                                | 3,84,719       | 14,63,563      |
| Units/ Ltr. of Diesel Oil                  | 3.76           | 3.45           |
| Cost / Unit (Rs. / KWH)                    | 16.30          | 13.78          |
| ii) Through Turbo Generator                |                |                |
| a) 2.5 MW CPP (MBF)                        |                |                |
| Units (KWH)                                | 1,13,55,600    | 1,32,12,500    |
| Cost / Unit (Rs. / KWH)                    | 0.40           | 0.22           |
| b) 12 MW CPP (COP)                         |                |                |
| Units (KWH)                                | 8,82,07,300    | 6,42,20,200    |
| Cost / Unit (Rs. / KWH)                    | 0.19           | 0.23           |
| 2. Overall LDO/HSD consumption             |                |                |
| Consumption (KL)                           | 4,740          | 4,772          |
| Total amount (Rs.)                         | 29,03,44,098   | 22,66,21,581   |
| Cost/Ltr. (Rs.)                            | 61.25          | 47.49          |
| <b>B. CONSUMPTION PER MT OF PRODUCTION</b> |                |                |
| Units of Electricity (KWH)                 |                |                |
| Pig iron                                   | 161            | 165            |
| D.I. Pipe                                  | 344            | 344            |
| Cement                                     | 136            | 128            |
| Coke                                       | 19             | 21             |

# REPORT ON CORPORATE GOVERNANCE

## COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

It is the firm belief of the Company that Corporate Governance is a key element in improving efficiency and growth as well as enhancing investor confidence. "As a good corporate citizen, the Company is committed to sound corporate practices based on conscience, transparency, fairness, professionalism and accountability in building confidence of its various stakeholders in it thereby paving the way for its long term success."

We believe that our company shall go beyond adherence to regulatory framework. Our corporate structure, business and disclosure practices have been aligned to our Corporate Governance Philosophy. Transparency, accountability, fairness and intensive communication with stakeholders are fundamental to our functioning. We believe in system driven performance and performance oriented systems. We accord highest priority to these systems and protect the interests of all our stakeholders.

We have tried to blend growth and efficiency with governance and ethics. Our Board of Directors, guided by the mission statement, formulate strategies and policies having focus on optimizing value for various stakeholders like consumers, shareholders and the society at

large. Besides adhering to provisions of Listing Agreement we are also following guidelines on Corporate Governance issued by Department of Public Enterprises, Government of India.

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, 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 consist of highly experienced professionals and provide directions on operational issues, adoption of systems best practices of management and oversight of compliance of various legal and other requirements.

## COMPOSITION OF BOARD

The company has an Executive Managing Director. The Board currently comprises of Seven Directors, four of whom are independent non executive directors and two are non executive directors.