



LANCO INDUSTRIES LIMITED

ANNUAL REPORT 2005 - 2006

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

BOARD OF DIRECTORS

Shri Pradip Kumar Khaitan

Chairman

Shri S.Y. Rajagopalan

Shri Abhishek Dalmia

Shri G. Maruthi Rao

Shri Gouri Shankar Rathi

Shri L. Madhusudhan Rao

Shri G. Bhaskara Rao

Shri L. Sridhar

Shri Suresh Chukkapalli

Smt. Vatsala Krishnakumar

Nominee of IDBI

Shri M. Balarama Krishnaiah

Nominee of APIDC

MANAGING DIRECTOR

Shri Gowri Shankar Tekriwal

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

REGISTERED OFFICE & WORKS

Rachagunneri - 517 641

Srikalahasthi Mandal

Chittoor District

Andhra Pradesh

SHARE TRANSFER AGENTS

M/s. Karvy Computershare Private Limited

Karvy House, 46, Avenue # 4

Street No. 1, Banjara Hills

Hyderabad - 500 034

DIRECTORS' REPORT

Dear Shareholders,

Your Directors take pleasure in presenting the 14th Annual Report and Audited Accounts of your Company for the year ended 31st March, 2006.

FINANCIAL RESULTS

	(Rs. in lakhs) 2005-06	(Rs. in lakhs) 2004-05
Sales & Other Income	30373.30	28670.13
Gross Profit	1702.51	4326.84
Depreciation	1093.60	852.59
Profit Before Taxation	608.91	3474.25
Less: Provision for Taxation (Including Deferred Tax)	193.89	1380.08
Profit After Tax	415.02	2094.17
Profit Brought Forward from Previous Year	748.77	604.21
Balance Available for Appropriation	1163.79	2698.38
Appropriations are made as under:		
– General Reserve	100.00	1500.00
– Proposed Dividend	198.82	397.64
– Dividend Tax	27.88	51.97
Balance Carried Forward to Next Year	837.09	748.77

DIVIDEND

In view of the smallness of profit and the need to conserve the funds for operations, your Directors recommend payment of reduced dividend @ 5% on the equity shares of the Company for the year ended 31st March, 2006. If approved, the dividend will absorb Rs. 226.70 lakhs (including Rs. 27.88 lakhs towards dividend tax).

REVIEW OF OPERATIONS

The Company has achieved a production of 76,655 MT of D.I. Pipes as against 62,375 MT in the previous year, an increase of 23%. The production of MBF was also higher by 25% at 1,11,454 MT compared to 88,887 MT of previous year.

Despite the significant increase in the production, the net sales of the Company increased only by 6% at Rs. 30,295.60 lakhs as against Rs. 28,607.79 lakhs in the previous year due to reduction in the prices of D.I. Pipes and Pig Iron. Even though the reduced prices reflected the reduction in the international price of coke, which is a major input, the carry-over of inventory at higher prices resulted in a steep fall in profits of the Company during the year under review.

The 1,50,000 TPA Coke Oven Plant was commissioned on 15th June, 2005 and the Captive Power Plant is expected to be commissioned in May, 2006.

CURRENT YEAR'S PROSPECTS

Production of Ductile Iron Pipes is expected to be higher at around 90,000 MT. Production of liquid metal / pig iron from the MBF is also expected to be higher at 1,20,000 MT. However, at prevailing prices of imported coke, operations of Coke Oven Plant may not be beneficial at current prices of imported coal. Your Company therefore will limit the operation of the Coke Oven Plant depending upon its comparative advantage.

DIRECTORS

Andhra Pradesh Industrial Development Corporation Limited (APIDC), Hyderabad nominated Shri M. Balarama Krishnaiah on the Board of Director's of the Company with effect from 22nd October, 2005 in place of Shri Shravan Kumar, IAS (Retd.)

Your Directors place on record their appreciation for the active participation and valuable services rendered to the company by Shri Shravan Kumar, IAS (Retd.).

Shri S.Y. Rajagopalan, Shri G.S. Rathi and Shri Suresh Chukkapalli 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.

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" forming part of this report.

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, is given in Annexure "B" 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 2006 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 REPORT

Regarding Auditors' observation on remuneration to Managing Director, attention is invited to note 3 of schedule 20 of the accounts which is self-explanatory.

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.

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: 19th April, 2006

Pradip Kumar Khaitan
Chairman

ANNEXURE 'A' TO DIRECTORS' REPORT

Particulars required under the Companies (disclosure of particulars in the report of Board of Directors) Rules, 1988.

FORM-A

Form for disclosure of particulars with respect to Conservation of Energy.

A. POWER & FUEL CONSUMPTION	2005-06	2004-05
Electricity		
a. Purchased:		
Units (KWH)	39551356	28976756
Total amount (Rs.)	146398204	114138450
Rate / Unit (Rs. / KWH)	3.70	3.94
b. Own Generation:		
1. Through Diesel Generator		
Units (KWH)	1083287	419704
Units/ Ltr. of Diesel Oil	3.30	3.43
Cost / Unit (Rs. / KWH)	9.38	7.56
2. Through Turbo Generator		
Units (KWH)	17416200	16561800
Units/ Ltr. of Fuel Oil & Gas	53.29	55.17
Cost / Unit (Rs. / KWH)	0.61	0.51
B. CONSUMPTION PER MT OF PRODUCTION		
Electricity (KWH)		
Pig iron	201	185
D I Pipe	399	433
Cement	104	117
Coke	17	-

FORM - B**Technology Absorption**

The Brazilian Technology for Mini Blast Furnace implemented through M/s. Tata Korf Engineering Services Ltd. has been fully absorbed.

FORM - C

Foreign Exchange Earning and outgo:	2005-06	2004-05
i) Foreign Exchange Earning	-	-
ii) Foreign Exchange Used	8931.30	5613.19

ANNEXURE 'B' TO DIRECTORS' REPORT

Information Pursuant to the Provisions of Section 217 (2A) of the Companies Act, 1956 and forming part of the Directors Report for the year ended 31st March 2006

S.No.	Name	Designation	Remuneration Rs. in lakhs	Qualification	Experience (years)	Date of Appointment	Age (years)	Last Employment
1	Mr. G. S. Tekriwal	Managing Director	24.56	B. Com.	41	04.03.2002	71	Sr. General Manager, Electrosteel Castings Limited.
2	Mr. G. D. Saini	General Manager – Finance & Company Secretary	24.23	B.Com, ACA ACS, Grad. CWA	28	01.09.2003	49	Sr. Vice President – Finance & Company Secretary, Usha Martin Limited.

Note:

- 1 Remuneration includes salary, allowances and other benefits computed as per Income Tax rules.
- 2 The appointment of Managing Director is on contractual basis.
- 3 None of the above employee is related to any of the Directors of the Company.

CORPORATE GOVERNANCE REPORT

COMPANY'S PHILOSOPHY ON THE CODE OF 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, 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

The composition of the Board of Directors and the position they hold in other 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	Chairman – Non-executive	12	1	7
Shri S Y Rajagopalan	Non-executive	2	–	–
Shri G Maruthi Rao	Non-executive – Independent	–	–	–
Shri Gouri Shankar Rathi	Non-executive	–	–	–
Shri Gowri Shankar Tekriwal	Managing Director – Executive	–	–	–
Shri Abhishek Dalmia	Non-Executive – Independent	3	–	–
Shri G Bhaskara Rao	Non-executive	10	–	–
Shri L Madhusudhan Rao	Non-executive	9	–	–
Shri Suresh Chukkapalli	Non-executive – Independent	2	–	–
Shri L Sridhar	Non-Executive	5	–	–
Smt. Vatsala Krishnakumar Nominee of IDBI (Lender)	Non-Executive – Independent	–	–	–
Shri Shravan Kumar, IAS, Retd. Nominee of APIDC (Equity Investor) \$	Non-Executive – Independent	–	–	–
Shri M Balarama Krishnaiah Nominee of APIDC (Equity Investor) \$	Non-Executive – Independent	4	–	–

* Excluding Private Limited Companies, Foreign Companies and Companies under Section 25 of the Companies Act, 1956.

Only three committees viz, Audit, Remuneration and Shareholders Grievance Committees have been considered for this purpose.

\$ APIDC Nominated Shri M Balarama Krishnaiah as its nominee in place of Shri Shravan Kumar with effect from 22nd October, 2005.

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 2005-06. The dates of the meetings are as follows:

8th June, 2005, 27th July, 2005, 31st August, 2005, 22nd October, 2005 and 31st January, 2006.

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.

Name of Director	Board Meetings		AGM
	Held	Attended	
Shri Pradip Kumar Khaitan	5	1	YES
Shri S Y Rajagopalan	5	5	YES
Shri G Maruthi Rao	5	3	NO
Shri. Gouri Shankar Rathi	5	5	YES
Shri Gowri Shankar Tekriwal	5	5	YES
Shri Abhishek Dalmia	5	–	NO
Shri G Bhaskara Rao	5	5	YES
Shri L Madhusudhan Rao	5	2	NO
Shri Suresh Chukkapalli	5	3	NO
Shri L Sridhar	5	5	YES
Shri Shravan Kumar	5	1	NO
Shri M Balarama Krishnaiah	5	1	NO
Smt. Vatsala Krishnakumar	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.

There were four meetings of the Audit Committee held during the year on 8th June '05, 27th July '05, 22nd October '05 and 31st January '06.

The composition of the Audit Committee as on 31st March, 2006 and attendance during the year are as under:

Sl. No.	Name of Directors	Position	Executive / Non-Executive / Independent	No. of meetings held	No. of meetings attended
1	Shri G. Maruthi Rao (Appointed w.e.f. 31.01.06)	Chairman	Independent, Non-Executive	4	–
2	Shri S.Y. Rajagopalan (Resigned w.e.f. 31.01.06)	Chairman	Non-Executive	4	4
3	Shri G. Bhaskara Rao	Member	Non-Executive	4	4
4	Smt. Vatsala Krishnakumar	Member	Independent, Non-Executive	4	2

The Audit Committee met on 19th April, 2006 for considering finalization of accounts for the year ended 31st March, 2006.

The Managing Director, 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 S Y Rajagopalan, the then Chairman of the Audit Committee attended the last Annual General Meeting held on 31st August, 2005.

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.

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.

REMUNERATION COMMITTEE

The Remuneration Committee comprises of three Directors namely Shri S Y Rajagopalan (Chairman – Non-Executive), Shri L Madhusudhan Rao (Non-Executive) and Smt. Vatsala Krishnakumar (Independent and 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.

Remuneration paid during the year 2005-06 to the Managing Director and Non- Executive Directors by way of sitting fees is as follows:

Shri Gowri Shankar Tekriwal, Managings Director :	Rs. 24.56 Lakhs
Sitting Fees (to Non-Executive Directors) :	Rs. 2.20 Lakhs

SHAREHOLDERS COMMITTEE

The composition of shareholders' / Investors' grievances committee is as follows:

Shri S Y Rajagopalan	–	Chairman
Shri G Bhaskara Rao	–	Member
Shri Gowri Shankar Tekriwal	–	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).

The share transfers are processed on behalf of the Company by the Registrar and Transfer Agents viz. M/s. Karvy Computershare Private Limited, which are placed before the Committee for approval. The Committee met 31 times during the year.

COMPLIANCE OFFICER

Shri 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
29.09.2003	KLN Prasad Auditorium, FAPCCI, Red Hills, Hyderabad	3.30 P.M.
30.08.2004	KLN Prasad Auditorium, FAPCCI, Red Hills, Hyderabad	3.00 P.M.
31.08.2005	Rachagunneri Village, Srikalahasthi Mandal, AP.	11.30 A.M.

Special resolutions were also passed in the last two Annual General Meetings.

DISCLOSURES

- The Company has generally complied with all the mandatory requirements as specified in the revised Clause 49 to the extent these apply and extend to the Company.
- There were no materially significant related party transactions (i.e., transactions of the Company of material nature) made by the Company with its Promoters, Directors or Management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.

Transactions with the related parties are disclosed in Note 14 of Schedule 20 of the Accounts in Annual Report.

- The Managing Director has given declaration to the Board that he has no personal interest in any material, commercial and financial transactions that may have any potential conflict with the interest of the Company at large.
- There were no strictures or penalties imposed by either SEBI or the Stock Exchanges or any statutory authority for non-compliance of any matter relating to Capital Market during the last three years.
- The CEO (Managing Director) and the CFO (General Manager-Finance & Company Secretary) have furnished a Certificate to the Board for the year ended 31st March, 2006 in compliance with the revised clause 49.V of the Listing Agreement(s) as amended.

MEANS OF COMMUNICATION:

The Company regularly intimates quarterly financial results to the Stock Exchanges immediately after they are taken on record by the Board. Further, coverage is given by publication of the financial results in the leading economic and vernacular daily newspapers.

The quarterly financial results and other shareholder related information are also posted on SEBI EDIFAR site.

Management Discussion and Analysis is covered in the Directors' Report to the Shareholders which forms a part of the Annual Report.