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# Lanco Industries Limited Annual Report

Annual Report 2013-14

## 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

CHAIRMAN	Shri Pradip Kumar Khaitan
DIRECTORS	Shri Uddhav Kejriwal Shri Sanjeev Churiwal Shri G. Maruthi Rao Shri Gouri Shankar Rath 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 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
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 15th Annual Report and Audited Accounts of your Company for the year ended 31st March, 2007.

## FINANCIAL RESULTS

	(Rs. in Lakhs) 2006-07	(Rs. in Lakhs) 2005-06
Sales & Other Income	36970.24	30373.30
Gross Profit	3321.63	1720.44
Depreciation	1156.89	1093.60
Profit Before Taxation	2164.74	626.84
Less: Provision for Taxation (Including Deferred Tax)	583.94	211.82
Profit After Tax	1580.80	415.01
Profit Brought Forward from Previous Year	837.09	748.77
Balance Available for Appropriation	2417.89	1163.79
Appropriations are made as under:		
– Debenture Redemption Reserve	93.75	–
– General Reserve	1000.00	100.00
– Proposed Dividend	397.64	198.82
– Dividend Tax	67.58	27.88
Balance Carried Forward to Next Year	858.92	837.09

## DIVIDEND

Your Directors recommend payment of dividend @ 10% on the equity shares of the Company for the year ended 31st March, 2007. If approved, the dividend will absorb Rs. 465.22 lakhs (including Rs. 67.58 lakhs towards dividend tax).

## REVIEW OF OPERATIONS

The Mini Blast Furnace (MBF) producing liquid metal mainly for Ductile Iron Pipe Plant, had undergone a shutdown for a period of 24 days to repair a portion of refractory lining in the first quarter of the year under review. Despite, the production of MBF for the year was 1,38,956 MT compared with 1,11,454 MT in the previous year, an increase of 25%.

Production of DI Pipes was also higher by 28% at 98,292 MT compared with 76,655 MT in the preceding year. The expansion of Ductile Iron Pipe Plant increasing its capacity from 90,000 TPA to 1,20,000 TPA has been implemented. In view of the higher volumes, the net sales of the Company increased by 22% at Rs. 36,936.65 lakhs as against Rs. 30,295.60 lakhs in the previous year.

Power generation from the newly setup Power Plant making use of waste gas of Coke Oven Plant commenced on 27th March, 2007.

During the year, the Company arranged long-term funds of Rs. 110 Crores comprising of 9.75% Secured Redeemable Non-Convertible Debentures of Rs. 50 Crores and term loan of Rs. 60 Crores. The proceeds are being utilized towards capital expenditure, refinancing and augmentation of long-term funds for working capital.

## CURRENT YEAR'S PROSPECTS

With the increase in capacity of Ductile Iron Pipe Plant, the production of DI Pipes in the current year is expected to be around 1,08,000 TPA. Production of Liquid Metal / Pig Iron from the MBF is also expected to be higher at 1,50,000 TPA. The benefit of the Power Plant commissioned during last week of March, 2007 will also be available in the current year.

## DIRECTORS

Shri Gowri Shankar Tekriwal retired from the Board on completion of his term as Managing Director of the Company on 3rd March, 2007. The Board places on record its appreciation for the valuable services rendered to the Company by Shri Gowri Shankar Tekriwal.

The Board of Directors of the Company at its meeting held on 30th April, 2007 appointed Shri Mayank Kejriwal as additional Director of the Company and he was also appointed as Managing Director for a period of five years with effect from the same date, subject to approval of the shareholders and other applicable provisions of the Companies Act, 1956.

Shri Abhishek Dalmia resigned from the Board on 1st April, 2007 and Shri Uddhav Kejriwal was appointed as Director in the vacancy caused by the resignation of Shri Abhishek Dalmia. Your Directors place on record their appreciation for the active participation and valuable services rendered to the Company by Shri Abhishek Dalmia.

Shri G. Maruthi Rao, Shri L. Madhusudhan Rao and Shri G. Bhaskara 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 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 2007 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 & 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: 30th April, 2007

**Pradip Kumar Khaitan**  
Chairman

## ANNEXURE 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 2007.

## A. CONSERVATION OF ENERGY

## a. Energy Conservation Measures taken

- Increased the quantum of Blast Furnace Gas usage in Annealing Furnace.
- Modification of Flu Duct in Annealing Furnace
- Commissioning of 12 MW Captive Power Plant by using waste heat from Coke Oven Plant.
- Installation of capacitors to improve power factor.
- Installation of Insulation Bricks in waste heat tunnel of Coke Oven Plant.

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

- Modification of Annealing Furnace.
- Installation of Stamp Charging Facility in Coke Oven Plant
- Introduction of "Bio-Gas" fuel in canteen
- Further increase in quantum of Blast Furnace Gas utilization in Annealing Furnace.

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

## C. FOREIGN EXCHANGE EARNING AND OUTGO

Foreign Exchange Earning and Outgo: (Rs. in Lakhs)	2006-07	2005-06
i) Foreign Exchange Earning	—	—
ii) Foreign Exchange Used	9865.85	8931.30

## FORM-A

A. POWER & FUEL CONSUMPTION	2006-07	2005-06
Electricity		
a. Purchased:		
Units (KWH)	49316950	39551356
Total amount (Rs.)	169914357	146398204
Rate/Unit (Rs./KWH)	3.45	3.70
b. Own Generation:		
1. Through Diesel Generator		
Units (KWH)	647931	1083287
Units/Ltr. of Diesel Oil	3.17	3.30
Cost/Unit (Rs. /KWH)	10.00	9.38
2. Through Turbo Generator		
Units (KWH)	18816702	17416200
Units/Ltr. of Fuel Oil & Gas	64.65	53.29
Cost/Unit (Rs. /KWH)	0.36	0.61
B. CONSUMPTION PER MT OF PRODUCTION		
Electricity (KWH)		
Pig iron	165	201
D I Pipe	373	399
Cement	92	104
Coke	21	17

# 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 twelve-member Board of Directors comprises:

One Executive Director.

Four Independent Non-Executive Directors.

Six Non-Independent Non-Executive Directors.

The Chairman of the Board is Non-Executive Director.

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	13	2	7
Shri S. Y. Rajagopalan (i)	Non-Executive	2	–	–
Shri Sanjeev Churiwal (ii)	Non-Executive	1	–	–
Shri G. Maruthi Rao	Non-Executive – Independent	–	–	–
Shri Gouri Shankar Rathi	Non-Executive	–	–	–
Shri Gowri Shankar Tekriwal (iii)	Managing Director – Executive	–	–	–
Shri Mayank Kejriwal (iv)	Managing Director – Executive	5	–	–
Shri Abhishek Dalmia (v)	Non-Executive – Independent	3	–	–
Shri Uddhav Kejriwal (vi)	Non-Executive	7	–	–
Shri G. Bhaskara Rao	Non-Executive	8	1	7
Shri L. Madhusudhan Rao	Non-Executive	9	1	1
Shri Suresh Chukkapalli	Non-Executive – Independent	3	–	–
Shri L. Sridhar	Non-Executive	7	2	1
Smt. Vatsala Krishnakumar Nominee of IDBI (Lender)	Non-Executive – Independent	1	–	–
Shri M. Balarama Krishnaiah Nominee of APIDC (Equity Investor)	Non-Executive – Independent	1	–	–

- i) Resigned from the Board on 22nd January, 2007.
- ii) Appointed as Director on 25th January, 2007 in the casual vacancy caused by the resignation of Shri S.Y. Rajagopalan.
- iii) Retired on 3rd March, 2007.
- iv) Appointed as Managing Director on 30th April, 2007.
- v) Resigned from the Board on 1st April, 2007.
- vi) Appointed as Director on 30th April, 2007 in the casual vacancy caused by the resignation of Shri Abhishek Dalmia.

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

# Only three committees viz, Audit, Remuneration 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 2006-07. The dates of the meetings are as follows:

19th April '06, 27th July '06, 31st August '06, 31st October '06 and 25th January '07.

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 2006-07:

Name of Director	Board Meetings		AGM
	Held	Attended	
Shri Pradip Kumar Khaitan	5	3	YES
Shri S. Y. Rajagopalan	5	4	YES
Shri G. Maruthi Rao	5	4	YES
Shri Gouri Shankar Rathi	5	4	YES
Shri Gowri Shankar Tekriwal	5	5	YES
Shri Sanjeev Churiwal	5	1	NO
Shri Abhishek Dalmia	5	1	NO
Shri G. Bhaskara Rao	5	3	YES
Shri L. Madhusudhan Rao	5	—	NO
Shri Suresh Chukkapalli	5	2	YES
Shri L. Sridhar	5	3	NO
Smt. Vatsala Krishnakumar	5	4	YES
Shri M. Balarama Krishnaiah	5	2	NO

#### 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 19th April'06, 27th July'06, 31st October '06 and 25th January '07.

The composition of the Audit Committee as on 31st March, 2007 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	Chairman	Independent, Non-Executive	4	3
2.	Shri G. Bhaskara Rao	Member	Non-Executive	4	2
3.	Smt. Vatsala Krishnakumar	Member	Independent, Non-Executive	4	4

The Audit Committee met on 30th April, 2007 for considering finalization of accounts for the year ended 31st March, 2007.

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, the Chairman of the Audit Committee attended the last Annual General Meeting held on 31st August, 2006.

#### 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 personal 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 Sanjeev Churiwal (Chairman – Non-Executive), Shri L. Madhusudhan Rao (Non-Executive) and Smt. Vatsala Krishnakumar (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.

## Lanco Industries Limited

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 to Directors, 2006-07

Name of the Directors	Salary* (Rs.)	Benefits (Rs.)	Commission (Rs.)	Sitting Fees (Rs.)	Total (Rs.)	Service contract /Notice Period/ Severance Fees
Shri Pradip Kumar Khaitan	–	–	–	15000	15000	Retire by rotation
Shri S. Y. Rajagopalan	–	–	–	20000	20000	– do –
Shri G. Maruthi Rao	–	–	–	35000	35000	– do –
Shri Gouri Shankar Rathi	–	–	–	20000	20000	– do –
Shri Gowri Shankar Tekriwal	1109677	1454802	1109677	–	3674156	Service Contract
Shri Sanjeev Churiwal	–	–	–	5000	5000	Retire by rotation
Shri Abhishek Dalmia	–	–	–	5000	5000	– do –
Shri G. Bhaskara Rao	–	–	–	25000	25000	– do –
Shri L. Madhusudhan Rao	–	–	–	–	–	– do –
Shri Suresh Chukkapalli	–	–	–	10000	10000	– do –
Shri L. Sridhar	–	–	–	15000	15000	– do –
Smt. Vatsala Krishnakumar	–	–	–	40000	40000	–
Shri M. Balarama Krishnaiah	–	–	–	10000	10000	–
<b>Total</b>	<b>1109677</b>	<b>1454802</b>	<b>1109677</b>	<b>200000</b>	<b>3874156</b>	<b>–</b>

\* This represents the fixed component.

Shareholdings of Non-Executive Directors

Name	No. of shares held
Shri L. Madhusudhan Rao	2284724
Shri G. Bhaskara Rao	2284674
Shri L. Sridhar	2282710
Shri G.S. Rathi	10135

### SHAREHOLDERS COMMITTEE

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

Shri Sanjeev Churiwal – Chairman

Shri G. Bhaskara Rao – Member