



# LANCO INDUSTRIES LIMITED

Annual Report  
2009-2010

# 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 Rath  
 Shri L. Madhusudhan Rao  
 Shri G. Bhaskara Rao  
 Shri L. Sridhar  
 Shri P.M. Suresh (Nominee of IDBI)  
 Shri Vinod Kumar Agrawal, IAS (Nominee of APIDC)

## MANAGING DIRECTOR

Shri Mayank Kejriwal

## 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  
 Punjab National Bank  
 Bank of India  
 Andhra 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 18th Annual Report and Audited Accounts of your Company for the year ended 31st March, 2010.

## FINANCIAL RESULTS

	(Rs. in Lakhs) 2009-10	(Rs. in Lakhs) 2008-09
Net Sales & Other Income	69,129.89	64,681.79
Profit before Depreciation & Tax	10,592.23	4,464.66
Depreciation	1,794.60	1,641.84
Profit before Taxation	8,797.63	2,822.82
Less: Provision for Taxation (Including Deferred Tax)	3,003.66	987.53
Profit after Tax	5,793.97	1,835.29
Profit brought Forward from Previous Year	1,143.80	1,242.48
Prior Period Adjustment	67.99	—
Debenture Redemption Reserve written back	750.00	—
Balance available for Appropriation	7,755.76	3,077.77
Appropriations are made as under:		
– Debenture Redemption Reserve	—	468.75
– General Reserve	5,400.00	1,000.00
– Proposed Dividend	596.45	397.64
– Dividend Tax	101.37	67.58
Balance Carried Forward to Next Year	1,657.94	1,143.80

## DIVIDEND

Considering the improved profitability, your Directors are pleased to recommend a higher dividend @ Rs. 1.50 per share on the equity shares of the Company for the year ended 31st March, 2010, as against Rs. 1.00 per share in the previous year. If approved, the dividend will absorb Rs. 697.82 lakhs (including Rs. 101.37 lakhs towards dividend tax).

## REVIEW OF OPERATIONS

During the year, the Company has sold 1,49,805 MT of D.I. pipes compared to previous year's dispatches of 1,23,345 MT, registering an increase of 21.50% and the Sales (Gross) of the Company increased from Rs. 680.47 Crores in FY 2008-09 to Rs. 710.52 Crores in FY 2009-10. The profit (PBT) for the year, however, was considerably higher at Rs. 87.98 Crores as against Rs. 28.23 Crores reported in the previous year. The improved profitability is mainly attributable to higher volumes, reduced input costs, better sales realization and effective fund management resulting in lower interest expenses compared to last year.

The quantity of Low Ash Metallurgical Coke produced in the Coke Oven Plant was lower by 9% at 1,02,862 MT in FY 2009-10 as against 1,13,052 MT in FY 2008-09, due to shutdown of some ovens for major repair. The units of power generated in the 12 MW Waste Heat Recovery Based Captive Power Plant of the Company were also lower at 536 Lakh units during the year under review compared with 629 Lakh units in the preceding year due to reduced production of Coke Oven Plant.

The production of Mini Blast Furnace (MBF) producing liquid metal mainly for Ductile Iron Pipe Plant, for the year was higher at 1,58,503 MT compared with 1,48,433 MT in the previous year, reflecting an increase of about 7%.

The production of D.I. Pipes was higher by about 21% at 1,49,604 MT compared with 1,23,422 MT in the preceding year. The higher production is attributable to increased liquid metal availability from MBF and full-fledged operation of additional Induction Furnaces and Annealing Furnace installed during the previous year.

The production of Cement during the year was lower by 21% at 68,476 MT compared to 86,812 MT in the previous year, due to curtailed operations on account of sluggish market conditions prevailing during the year under review, particularly affecting the demand for slag cement.

As already reported in the previous year, the Company is in the process of repairing the Mini Blast Furnace along with installation of Hot Blast Stoves, which is expected to be commissioned by June, 2010 to increase the liquid metal capacity of the plant to 225,000 TPA. This, along with additional balancing equipments being installed in D.I. Pipe Plant, will increase the D.I. Pipes capacity also to 225,000 TPA.

### **FUTURE PROSPECTS**

Given the trend of spiraling prices of iron ore and coal and also the upcoming capacities in the D.I. Pipes sector, the margins would be under pressure in the coming years. However, Company is adopting various cost reduction measures like installation of Hot Blast Stoves etc., to reduce the impact.

As a measure of further cost reduction, your Company also envisages to install a Sinter Plant, which along with balancing equipments being installed in Ductile Iron Pipe Plant will further increase the liquid metal and D.I. pipe capacity to 275,000 TPA by September, 2011. The Company plans to finance these investments through internal accruals and the Term Loans already sanctioned by the Banks. With all these developments on course, the future outlook for the performance of your Company appears to be positive.

### **DIRECTORS**

Andhra Pradesh Industrial Development Corporation (APIDC), Hyderabad nominated Shri Vinod Kumar Agrawal, IAS on the Board of Directors of your Company with effect from 24th July, 2009 in place of Shri P. Rajeswara Rao. Your Directors place on record their appreciation for the active participation and valuable services rendered to the Company by Shri P. Rajeswara Rao.

Industrial Development Bank of India (IDBI), Chennai nominated Shri P.M.Suresh on the Board of Directors of your Company with effect from 19th April, 2010 in place of Shri D.R. Jawahar. Your Directors place on record their appreciation for the active participation and valuable services rendered to the Company by Shri D.R. Jawahar.

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-'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 2010 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 4 of schedule 17 of the accounts, which is self-explanatory.

#### **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 Government Authorities, Financial Institutions, Banks, Customers, Vendors, Shareholders & Investors for their continued co-operation and support to your Company.

For and on behalf of the Board of Directors

Place: Chennai  
Date: 28th April, 2010

**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 2010.

### A. CONSERVATION OF ENERGY

#### a. Energy Conservation Measures taken

- New Annealing furnace fully stabilized with MBF gas as fuel thereby eliminating LDO/HSD consumption.
- Installation of Variable frequency device (VFD) for slag drier in Cement Plant.
- Variable frequency device (VFD) for cooling tower make up pump in 12 MW CPP.
- Entire liquid metal converted into DI Pipes, avoiding usage of additional power for melting pig iron.
- Furnace oil consumption reduced in 2.5 MW power plant by carrying out improved maintenance.

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

- Repair of Mini Blast Furnace with installation of Hot Blast Stoves, which would result in higher productivity with lower coke consumption.
- Variable frequency device (VFD) for cement mill separator.
- Initiation of Energy Audit by CII to identify potential areas for energy conservation and implement energy saving measures suggested.
- Initiating 132 KVA sub-station for drawl of power to reduce power losses and improve quality of power.
- Revamping of Annealing Furnace – I to maximize Blast Furnace Gas consumption in place of LDO/HSD.

Energy conservation is an ongoing process and it is the constant endeavor of the Company to create awareness and motivate 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 cost of energy particularly LDO has considerably reduced and likely to come down further once the proposed energy saving initiatives are fully implemented, thus resulting in reduced cost of production.

### B. TECHNOLOGY ABSORPTION

The Chinese Technology for Annealing Furnace has been fully absorbed. For the installation and operation of ongoing Hot Blast Stoves, we are in the process of absorbing Russian technology.

### C. FOREIGN EXCHANGE EARNING AND OUTGO

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

	2009-10	2008-09
i) Foreign Exchange Earning	–	167.01
ii) Foreign Exchange Used	21,589.79	27,968.87

### FORM-A

A. POWER & FUEL CONSUMPTION	2009-10	2008-09
1. Electricity		
a. Purchased:		
Units (KWH)	36261888	14826230
Total amount (Rs.)	13,99,41,870	8,02,32,190
Rate / Unit (Rs. / KWH)	3.86	5.41
b. Own Generation:		
i) Through Diesel Generator		
Units (KWH)	669921	528497
Units / Ltr. of Diesel Oil	3.87	2.79
Cost / Unit (Rs. / KWH)	7.50	9.99
ii) Turbo Generator		
a) 2.5 MW CPP (MBF)		
Units (KWH)	15442400	17348800
Cost / Unit (Rs. / KWH)	0.14	0.25
b) 12 MW CPP (COP)		
Units (KWH)	53555600	62907066
Cost / Unit (Rs. / KWH)	0.39	0.45
2. Overall LDO/HSD consumption (KL)	3579.00	6810.00
Total amount (Rs.)	12,58,21,616	27,05,16,587
Cost/Ltr. (Rs.)	35.25	39.72
B. CONSUMPTION PER MT OF PRODUCTION		
Electricity (KWH)		
Pig Iron	182	180
D.I. Pipe	378	360
Cement	103	101
Coke	29	23

# REPORT ON CORPORATE GOVERNANCE

## 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 as on 31st March, 2010 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	12	–	–
Shri G. Maruthi Rao	Non-Executive – Independent	–	–	–
Shri Gouri Shankar Rathi	Non-Executive	–	–	–
Shri G. Bhaskara Rao	Non-Executive	9	3	2
Shri L. Madhusudhan Rao	Non-Executive	8	–	1
Shri L. Sridhar	Non-Executive	7	1	–
Shri P.M. Suresh (i) Nominee of IDBI (Lender)	Non-Executive – Independent	–	–	–
Shri D.R. Jawahar (i) Nomination withdrawn by IDBI	Non-Executive – Independent	–	–	–
Shri Vinod Kumar Agrawal (ii) Nominee of APIDC (Equity Investor)	Non-Executive – Independent	4	–	–
Shri P. Rajeswara Rao (ii) Nomination withdrawn by APIDC	Non-Executive – Independent	3	–	1

(i) IDBI nominated Shri P.M. Suresh as its nominee in place of Shri D.R. Jawahar with effect from 19th April, 2010.

(ii) APIDC nominated Shri Vinod Kumar Agrawal as its nominee in place of Shri P. Rajeswara Rao with effect from 24th July, 2009.

\* 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 2009-10. The dates of the meetings are as follows:

27th April' 09, 24th July' 09, 28th August' 09, 21st October' 09 and 21st January' 10.

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 2009-10:**

Name of Director	Board Meetings		AGM
	Held	Attended	
Shri Mayank Kejriwal	5	2	NO
Shri G. Maruthi Rao	5	5	YES
Shri Gouri Shankar Rathi	5	5	YES
Shri G. Bhaskara Rao	5	1	NO
Shri L. Madhusudhan Rao	5	–	NO
Shri L. Sridhar	5	4	YES
Shri D.R. Jawahar	5	5	YES
Shri P. Rajeswara Rao	5	1	NO
Shri Vinod Kumar Agrawal	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 includes 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, 2010 had four meetings on 27th April'09, 24th July'09, 21st October'09 and 21st January'10.

**The composition of the Audit Committee as on 31st March, 2010 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 G. Bhaskara Rao	Member	Non-Executive	1
3	Shri D.R. Jawahar	Member	Independent, Non-Executive	4

The Audit Committee met on 28th April, 2010 for considering finalization of accounts for the year ended 31st March, 2010. The Managing Director, 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 28th August, 2009.

### Code of Conduct

The Board of Directors has laid down a Code of Conduct for all the Board Members and the employees in the management grade of the Company. The code covers amongst other things the Company's commitment to honest & ethical personal conduct, fair competition, corporate social responsibility, sustainable environmental performance, health & safety, transparency and compliance of laws & regulations etc. The Code of Conduct is posted on the website of the Company.

### 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.

### DETAILS OF REMUNERATION TO DIRECTORS, 2009-10

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. Shri Mayank Kejriwal, Managing Director of the Company is being paid a commission @ 3% on the net profits of the Company computed in the manner prescribed under Sections 349 & 350 of the Companies Act, 1956, subject to a ceiling of Rs. 200 lakhs for the year ended 31st March, 2010.

#### Details of Remuneration to Directors, 2009-10

Name of the Directors	Sitting Fee (Rs.)	Service contract / Notice Period / Severance fees
Shri Mayank Kejriwal – Commission	2,00,00,000	Service contract
Shri G. Maruthi Rao	1,80,000	Retirement by rotation
Shri Gouri Shankar Rathi	1,00,000	-do-
Shri G. Bhaskara Rao	40,000	-do-
Shri L. Madhusudhan Rao	–	-do-
Shri L. Sridhar	80,000	-do-
Shri D.R. Jawahar	1,80,000	Nominee of IDBI
Shri P. Rajeswara Rao	20,000	Nomination withdrawn by APIDC w.e.f. 24.07.09
Shri Vinod Kumar Agrawal	40,000	Nominee of APIDC w.e.f. 24.07.09
<b>Total</b>	<b>2,06,40,000</b>	

#### Shareholdings of Non-Executive Directors as on 31st March, 2010

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	35000	0.09