



LANCO INDUSTRIES LIMITED

Annual Report
2010-2011

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 S.Y. Rajagopalan
Shri L. Madhusudhan Rao
Shri G. Bhaskara Rao
Shri L. Sridhar
Shri P.M. Suresh (Nominee of IDBI)
Shri V. Nagi Reddy, IAS (Nominee of APIDC)

MANAGING DIRECTOR

Shri Mayank Kejriwal

Dy. CHIEF OPERATING OFFICER

Shri Baskar Ramamurthy

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 19th Annual Report and Audited Accounts of your Company for the year ended 31st March, 2011.

FINANCIAL RESULTS

Particulars	Rs. in Lakhs	
	2010-11	2009-10
Gross Turnover	75,015.37	71,051.85
Net Turnover	72,485.63	69,057.96
Other income	324.66	71.93
Total Revenue	72,810.29	71,123.78
Earning Before Interest, Depreciation, Taxation & Amortisation (EBITDA)	8,923.50	12,654.05
Interest	1,467.37	2,061.82
Depreciation	1,871.61	1,794.60
Profit Before Taxation (PBT)	5,584.52	8,797.63
Less: Tax including Deferred Tax	1,381.89	3,003.66
Profit After Taxation (PAT)	4,202.63	5,793.97
Profit Brought Forward from Previous Year	1,657.94	1,143.80
Prior Period Adjustment – Taxation	(59.08)	67.99
Debenture Redemption Reserve written back	–	750.00
Amount available for Appropriation	5,801.49	7,755.76
Appropriations are made as under:–		
– General Reserve	3,500.00	5,400.00
– Proposed Dividend including tax thereon	693.21	697.82
Balance Carried Forward to Next Year	1,608.28	1,657.94

DIVIDEND

Despite lower profits during the year, your Directors recommend to maintain the dividend at Rs. 1.50 (i.e.15%) per share on the equity shares of the Company for the year ended 31st March, 2011 as in the earlier year. If approved, the dividend will absorb Rs. 693.21 lakhs (including Rs. 96.76 lakhs towards dividend tax).

REVIEW OF OPERATIONS

The Company achieved Gross Sales of Rs. 750.15 Crores during the year under review as against Rs. 710.52 Crores in the previous year reflecting an increase of 5.6%. However the quantity of D. I. Pipes sold during FY 2010-11 was lower by 9.72% at 1,35,246 MT as compared to 1,49,805 MT sold during FY 2009-10. The lower volume of sales coupled with increase in cost of inputs resulted in lower profits (PBT) for the year under review at Rs. 55.85 Crores as against Rs. 87.98 Crores earned during FY 2009-10.

During the first quarter of the year under review, your Company took a planned shutdown of its Mini Blast Furnace (MBF) from 9th May 2010 to 27th June, 2010 for repairing the MBF and for installation of Hot Blast Stoves. Apart from this, chilling-in of MBF at the time of restart, took further three – four weeks time to stabilize the operations after the long shutdown. During this period of about two and half months, while there was no production of liquid metal/pig iron, the Ductile Iron Pipe Plant (DIP) was also under shut-down for some time for annual preventive maintenance and operated at a very low capacity, due to non availability of metal. Consequently, the production of all the Divisions during the financial year 2010-11 was lower compared to the production achieved during FY 2009-10.

The quantity of Low Ash Metallurgical Coke produced in the Coke Oven Plant was lower by 8.5% at 94,092 MT in FY 2010-11 as against 1,02,862 MT in FY 2009-10, due to shutdown of some ovens for major repair, which continued till July, 2010. Accordingly, the units of power generated, in the 12 MW – Waste Heat Recovery Based Captive power Plant of the Company, were marginally lower at 518 Lakh units during the year under review compared with 536 Lakh units in the preceding year.

The production of Mini Blast Furnace (MBF), producing liquid metal mainly for Ductile Iron Pipe Plant, was lower at 1,46,285 MT for the financial year 2010-11 compared to 1,58,503 MT in the previous year, reflecting a decrease of about 8%. The production of D. I. Pipes during FY 2010-11 was lower by about 10% at 1,34,779 MT compared with 1,49,604 MT in the preceding year.

The production of Cement during FY 2010-11 was lower by about 10% at 61,384 MT compared to 68,476 MT in the previous year, due to curtailed operations, as the market for slag cement started improving from December, 2010.

Consequent to repair of Mini Blast Furnace (MBF) and installation of Hot Blast Stoves, as aforesaid, the manufacturing capacity of MBF for liquid metal/pig iron has gone up to 2,25,000 TPA. Similarly, with the installation of balancing equipments, the capacity of Ductile Iron Pipes Plant (DIP) also stands increased to 2,25,000 TPA.

FUTURE PROSPECTS

Your Company has taken steps for cost reduction and expansion of capacities in Coke Oven, Power Generation, Liquid Metal and Ductile Iron Pipes. While, these steps will help in volume growth, the pressure on selling prices may continue, due to intense competition in the domestic market in view of further capacities being added by the existing players and new entrants.

The installation of Sinter Plant along with regular upgradation and addition of balancing equipments in the Ductile Iron Pipe Plant (DIP) will increase the capacity of Ductile Iron Pipes to 2,75,000 TPA by end of Financial Year 2011-12. To cater to the increased requirement of coke, your Company is in the process of installing additional Battery at its Coke Oven Plant, which is expected to be commissioned by December, 2011. With this, the capacity of the Coke Oven Plant will increase to 2,25,000 TPA. In addition, for effective utilization of higher quantum of waste heat generated from the Coke Oven Plant after expansion, it is planned to add one more boiler to increase the power generation in the existing Captive Power Plant.

As a further measure of cost reduction, the Company envisages to set up a Ferro Alloys Plant at a capital outlay of Rs. 40 Crores partly to cater to its captive requirement and to serve the growing demand of Ferro Silicon, to support the profitability of the Company.

The Company plans to finance the above investments through internal accruals and Term Loans.

CREDIT RATING

Credit Analysis and Research Limited (CARE), a leading rating agency has reviewed and upgraded the rating to "CARE A+ (Single A plus) from CARE A (Single A). This rating is applicable to facilities having tenure of more than one year. CARE A+ rating indicates adequate safety for timely servicing of debt obligations and carry low credit risk.

The rating for short term facilities has been reviewed and reaffirmed as PR1+ (PR One Plus), the highest rating in the category and indicates a strong capacity for timely payment of short term debt obligations and carry lowest credit risk.

DIRECTORS

Andhra Pradesh Industrial Development Corporation (APIDC), Hyderabad nominated Shri V. Nagi Reddy, IAS on the Board of Directors of your Company with effect from 25th August, 2010 in place of Shri Vinod Kumar Agrawal, IAS. Your Directors place on record their appreciation for the active participation and valuable services rendered to the Company by Shri Vinod Kumar Agrawal.

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

Shri S.Y. Rajagopalan was appointed as an additional Director on the Board of Directors of the Company from 7th May, 2011. 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 S.Y. Rajagopalan as a Director, liable to retire by rotation.

CORPORATE GOVERNANCE

Your Company has fully complied with the requirements of Clause 49 of the Listing Agreement regarding Corporate

Governance. A report on Corporate Governance Practices, the Auditors' Certificate on compliance of mandatory requirements thereof and Management Discussion and Analysis are given as annexure to this report.

MANAGEMENT DISCUSSION AND ANALYSIS

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

EMPLOYEES

Board of Directors expresses 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. Your Directors are pleased to inform that a long term Wage Settlement for a period of four years under Section 12 (3) of Industrial Disputes Act, 1947 was signed with the Unions of the workmen in November, 2010.

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, 2011 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 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 Central Government vide its order dated 16th December, 2010 has directed the Company to conduct cost audit for its cement division. Accordingly, the Board of Directors of your Company appointed M/s. Narasimha Murthy & Co., Cost Accountants, Hyderabad, as Cost Auditors for the financial year 2010-11, which has been approved by the Central Government.

ACKNOWLEDGEMENTS

The Board of Directors thanks 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: 7th May, 2011

G. Maruthi Rao
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, 2011.

A. CONSERVATION OF ENERGY

a. Energy Conservation Measures taken

- Installation of Hot Blast Stoves and repair of MBF, resulting in lower coke consumption and higher productivity.
- Revamping of Annealing Furnace No. 1 to maximize the use of Blast Furnace Gas (BFG) in place of LDO/HSD.
- Installation of Variable Frequency Device (VFD) for cement mill separator.

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

- Installing additional Boiler to augment power generation of the existing waste heat recovery based captive power plant.
 - Setting up of Sinter Plant in MBF for effective utilization of iron ore fines in place of calibrated ore and to reduce coke consumption.
- 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, coke consumption in MBF and LDO/HSD consumption in Annealing Furnace has reduced significantly and upon implementation of proposed energy saving measures, the cost of energy is likely to come down further, thereby leading to lower cost of production.

B. TECHNOLOGY ABSORPTION

Russian Technology has been absorbed for Hot Blast Stoves and for the installation of Sinter Plant; we are in the process of absorbing Chinese Technology.

C. FOREIGN EXCHANGE EARNING AND OUTGO

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

	2010-11	2009-10
i) Foreign Exchange Earning	–	–
ii) Foreign Exchange Used	34,071.01	21,589.79

FORM-A

A. POWER & FUEL CONSUMPTION	2010-11	2009-10
1. Electricity		
a. Purchased:		
Units (KWH)	3,47,52,480	3,62,61,888
Total amount (Rs.)	16,02,44,518	13,99,41,870
Rate / Unit (Rs. / KWH)	4.51	3.86
b. Own Generation:		
i) Through Diesel Generator		
Units (KWH)	12,08,970	6,69,921
Units / Ltr. of Diesel Oil	3.62	3.87
Cost / Unit (Rs. / KWH)	10.90	7.50
ii) Through Turbo Generator		
a) 2.5 MW CPP (MBF)		
Units (KWH)	1,23,31,600	1,54,42,400
Cost / Unit (Rs. / KWH)	0.38	0.14
b) 12 MW CPP (COP)		
Units (KWH)	5,18,28,000	5,35,55,600
Cost / Unit (Rs. / KWH)	0.40	0.39
2. Overall LDO/HSD consumption		
Consumption (KL)	5,324.2	3,579.00
Total amount (Rs.)	21,02,10,443	12,58,21,616
Cost/Ltr. (Rs.)	39.48	35.25
B. CONSUMPTION PER MT OF PRODUCTION		
Units of Electricity (KWH)		
Pig Iron	161	182
D.I. Pipe	383	378
Cement	108	103
Coke	24	29

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 nine-member Board of Directors comprises:

- One Executive Director.
- Three 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, 2011 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	7	–	2
Shri G. Maruthi Rao	Non-Executive – Independent	–	–	–
Shri Gouri Shankar Rathi	Non-Executive	–	–	–
Shri G. Bhaskara Rao	Non-Executive	6	2	1
Shri L. Madhusudhan Rao	Non-Executive	5	2	1
Shri L. Sridhar	Non-Executive	4	1	–
Shri P.M. Suresh	Non-Executive – Independent	–	–	–
Shri Vinod Kumar Agrawal (i) Nominee of APIDC (Equity Investor)	Non-Executive – Independent	4	–	–
Shri V. Nagi Reddy (i) Nominee of APIDC (Equity Investor)	Non-Executive – Independent	–	–	–
Shri S.Y. Rajagopalan (ii)	Non-Executive	1	–	–

(i) APIDC nominated Shri V. Nagi Reddy as its nominee in place of Shri Vinod Kumar Agrawal with effect from 25th August, 2010.

(ii) Appointed as Additional Director on 7th May, 2011.

* 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 2010-11. The dates of the meetings are as follows:

28th April '10, 23rd July '10, 25th August '10, 20th October '10 and 28th January '11.

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 2010-11:

Name of Director	Board Meetings		AGM
	Held	Attended	
Shri Mayank Kejriwal	5	3	NO
Shri G. Maruthi Rao	5	5	YES
Shri Gouri Shankar Rathi	5	5	YES
Shri G. Bhaskara Rao	5	2	NO
Shri L. Madhusudhan Rao	5	–	NO
Shri L. Sridhar	5	4	YES
Shri P.M. Suresh	5	4	YES
Shri Vinod Kumar Agrawal	5	1	NO
Shri V. Nagi Reddy	5	1	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, 2011 had four meetings on 28th April '10, 23rd July '10, 20th October '10 and 28th January '11.

The composition of the Audit Committee as on 31st March, 2011 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	2
3.	Shri P.M. Suresh	Member	Independent, Non-Executive	3

The Audit Committee met on 7th May, 2011 for considering finalization of accounts for the year ended 31st March, 2011. 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 25th August, 2010.

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.

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	Commission (Rs.)	Sitting Fee (Rs.)	Total (Rs.)
Shri Mayank Kejriwal	1,80,00,000	–	1,80,00,000
Shri G. Maruthi Rao	–	1,80,000	1,80,000
Shri Gouri Shankar Rathi	–	1,00,000	1,00,000
Shri G. Bhaskara Rao	–	80,000	80,000
Shri L. Madhusudhan Rao	–	–	–
Shri L. Sridhar	–	80,000	80,000
Shri P.M. Suresh	–	1,40,000	1,40,000
Shri Vinod Kumar Agrawal*	–	20,000	20,000
Shri V. Nagi Reddy*	–	20,000	20,000
Total	1,80,00,000	6,20,000	1,86,20,000

The above remuneration is within the limits prescribed under the provisions of the Companies Act, 1956.

*APIDC nominated Shri V. Nagi Reddy in place of Shri Vinod Kumar Agrawal w.e.f. 25th August, 2010.

Shareholdings of Non-Executive Directors as on 31st March, 2011

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