



LANCO INDUSTRIES LIMITED

Annual Report
2011-2012

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

Contents

Corporate Information	I
Directors' Report	2
Annexure to Directors' Report	5
Report on Corporate Governance	6
Auditors' Certificate on Corporate Governance	15
Management Discussion & Analysis	16
Risk Management	20

Auditors' Report	21
Annexure to Auditors' Report	22
Balance Sheet	24
Profit and Loss Account	25
Cash Flow Statement	26
Notes to Financial Statements	27
Notice of Annual General Meeting	43

CORPORATE INFORMATION

DIRECTORS

Shri G. Maruthi Rao
Shri Gouri Shankar Rathi
Shri S.Y. Rajagopalan
Shri L. Madhusudhan Rao
Shri G. Bhaskara Rao
Shri L. Sridhar
Shri A. Joseph Kumar (Nominee of IDBI)
Shri K. Rajendra Prasad (Nominee of APIDC)

MANAGING DIRECTOR

Shri Mayank Kejriwal

Dy. CHIEF OPERATING OFFICER

Dr. Baskar Ramamurthy

CHIEF FINANCIAL OFFICER & 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
Yes 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 20th Annual Report and Audited Accounts of your Company for the year ended 31st March, 2012.

FINANCIAL RESULTS:

Particulars	Rs. in Lakhs	
	2011-12	2010-11
Gross revenue from operations	82,384.79	75,129.73
Net revenue from operations	78,700.02	72,599.99
Other income	842.12	1,011.48
Total Revenue	79,542.14	73,611.47
Earning Before Interest, Depreciation, Taxation & Amortisation (EBITDA)	7,368.64	9,724.67
Finance Costs	5,786.10	2,268.54
Depreciation	1,999.33	1,871.61
Profit/(Loss) Before Taxation	(416.79)	5,584.52
Less: Tax including Deferred Tax	(21.56)	1,381.89
Profit/(Loss) After Taxation	(395.23)	4,202.63
Profit Brought Forward from Previous Year	1,608.28	1,657.94
Prior Period Adjustment – Taxation	(58.90)	(59.08)
Amount available for Appropriation	1,154.15	5,801.49
Appropriations are made as under:		
– General Reserve	–	3,500.00
– Proposed Dividend including tax thereon	–	693.21
Balance Carried Forward to Next Year	1,154.15	1,608.28

DIVIDEND

In the absence of profits for the year and the need to conserve the funds for operations, your Directors express their inability to recommend any dividend for the year ended 31st March, 2012.

REVIEW OF OPERATIONS

The Company achieved Gross operating revenue of Rs. 823.85 Crores during the year under review as against Rs. 751.30 Crores in the previous year, registering an increase of 9.66%.

The production of D.I. Pipes during the FY 2011-12 was higher by 8.70% when compared with the previous FY 2010-11.

The production of Mini Blast Furnace (MBF), producing liquid metal mainly for Ductile Iron Pipe Plant registered an increase of 23% at 1,80,026 MT for the FY 2011-12 compared to 1,46,285 MT in the FY 2010-11. Similarly the production of Low Ash Metallurgical Coke was higher in FY 2011-12 by 14.5% at 1,07,765 MT as against 94,092 MT in FY 2010-11 and the power generation in 12 MW – Waste Heat Recovery Based Captive Power Plant was higher in FY 2011-12 by 30.89% at 678 lakh units as against 518 lakh units in FY 2010-11.

Due to better demand, the production and sale of Cement during the year under review has seen a substantial rise, by about 47%.

Although, your Company has registered a moderate growth in the volumes during the FY 2011-12, the following external factors have affected the overall working of the Company.

Iron ore, which is one of the major inputs being used by your Company, has been sourced predominantly from National Mineral Development Corporation, from their mines at Hospet and Bellary to take advantage of logistical proximity, under long term contract arrangement with them. Pursuant to the order of the Apex Court, the contract with NMDC got annulled leaving the option of procuring the required Iron ore only through e-auction route. This has resulted in substantial rise of input cost of iron ore by about 25% and also non-availability of desired quality material when compared to the price and availability of material to similar units elsewhere in the country, thereby depriving level playing field to your Company.

Further, owing to demand-supply mismatch of electricity in the State, APSPDCL has imposed load/supply restrictions for all industrial units, starting from the 3rd quarter of the year under review, and your company being a continuous process industry these power restrictions has reduced the productivity, particularly of D.I. Pipe Plant, resulting in additional financial costs.

In spite of reasonable increase in the volumes of production by all the Divisions when compared to the earlier year 2010-11, for the reasons mentioned hereinabove and unprecedented depreciation of rupee against dollar have taken a toll on the profitability of your company during the year under review.

FUTURE PROSPECTS

Project for installation of additional battery in Coke Oven Plant and installation of Boiler in 12 MW Captive Power Plant, executed by your Company during the last financial year, is in the final stages of its completion and is expected to be commissioned during 2nd quarter of FY 2012-13. With this, the capacity of coke oven plant will increase to 225,000 TPA and 12 MW Captive Power Plant is expected to increase to the extent of its installed capacity. Further, the project of installation of 132 KV Sub-Station to synchronize the power requirements of the company is also under progress and is likely to be completed in line with the erection of APTRANSCO's 220/132 KV Substation at Chindepalli, which is expected to be commissioned by September, 2012.

During the year under review, your Company has started executing its project for setting up of Sinter Plant. The installation and erection work is going on in full stream and it is also expected to be commissioned during 2nd quarter of FY 2012-13. After the commissioning of Sinter plant, requirement of high cost calibrated iron ore will come down by 75%, as it will be replaced by low cost iron ore fines. This will result in improved performance from the 3rd quarter of current year.

The above capital expenditure would provide a competitive edge to your company on account of reduction in production cost in the coming years.

While the intense competition in domestic market may continue to influence selling prices, the Company's major thrust on cost reduction measures and implementation of above mentioned backward integration projects will support in protecting the bottom-line of your Company.

CREDIT RATING

Credit Analysis and Research Limited (CARE), a leading rating agency has reviewed and reaffirmed the long term rating as "CARE A+" (Single A plus). 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 "CARE A1+" (A 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 Smt Nilam Sawhney, IAS on the Board of Directors of your Company with effect from 29th July, 2011 in place of Shri V. Nagi Reddy, IAS. Subsequently Shri K. Rajendra Prasad has been nominated by APIDC on the Board of Directors of your Company with effect from 27th April, 2012, in place of Smt Nilam Sawhney, IAS.

IDBI Bank nominated Shri A. Joseph Kumar on the Board of Directors of your Company with effect from 10th August, 2011 in place of Shri P.M. Suresh.

Your Directors place on record their appreciation for the active participation and valuable services rendered to the Company by Shri V. Nagi Reddy, Shri P.M. Suresh and Smt Nilam Sawhney.

Shri L. Sridhar and Shri L. Madhusudhan Rao retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

The present term of appointment of Shri Mayank Kejriwal as Managing Director of the Company shall expire on 29th April, 2012. The Board of Directors of the Company at its meeting held on 27th April, 2012 re-appointed Shri Mayank Kejriwal as Managing Director of the Company for a period of five years with effect from 30th April, 2012 at the same terms and conditions, subject to approval of the shareholders and other applicable provisions of the Companies Act, 1956.

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 for their co-operation in maintaining cordial relations.

There are no employees who are in receipt of remuneration exceeding the limits prescribed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended.

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:

That in the preparation of annual accounts the applicable accounting standards have been followed and there has been no material departure.

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, 2012 and of the loss of the Company for the year ended on that date.

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

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 Govt. vide Order No. F/S2/26/CAB/2010 has made cost audit of the cost records compulsory for industries such as Cement, Steel, tyres & tubes, paper, aluminum etc., in respect of each of the financial year commencing on or after 1st April, 2011.

Accordingly, to comply with the order of the Central Govt., the Board of Directors of your Company appointed M/s. Narasimhamurthy & Co., Cost Accountants, Hyderabad as Cost Auditors for conducting the audit of cost accounts maintained by the Company for the financial year 2011-12.

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: 27th April, 2012

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, 2012.

A. CONSERVATION OF ENERGY:

a. Energy Conservation Measures taken:

- The project for using Preliminary treated Sewage water of Tirupati Municipal Corporation for industrial purpose commissioned and ground water has been replaced to a greater extent.
- Variable Frequency drive introduced in Inoculants powder unit to conserve power as well as Inoculants powder in D.I. Pipe Plant.
- As a part of energy conservation measure, installed energy efficient motors, Variable Frequency Drives (VFDs) and Capacitors across the complex.

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

- Installing additional Coke Oven Battery & Boiler No. 3 to augment power generation of the existing Waste Heat Recovery based Captive Power Plant.
 - Revamping of Battery 2 to arrest heat losses, this results in increased power generation.
 - Installing 132 KV power sub-station to improve the quality of power and to minimize power intermediates.
 - Installing economizer to minimize furnace oil consumption in the boiler of DIP.
 - Up-gradation of PLC systems in spinning machines of DIP to enhance productivity.
 - Replacing the eddy current drive with VFD for cement kiln rotary gate.
 - Setting up of Sinter Plant in MBF for effective utilization of iron ore fines in place of calibrated ore.
- 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, consumption of energy in MBF and D.I. Plant has reduced significantly and upon implementation of proposed energy saving measures, the cost of energy is likely to come down further. Installation of additional boiler in Captive Power Plant will enhance the captive power generation further and setting up of Sinter Plant will replace precious and high cost calibrated ore with abundant and low cost iron ore fines, thereby leading to lower cost of production.

B. TECHNOLOGY ABSORPTION:

Chinese Technology has been absorbed for the installation of Sinter Plant.

C. FOREIGN EXCHANGE EARNING AND OUTGO:

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

	2011-12	2010-11
i) Foreign Exchange Earning	1,100.39	—
ii) Foreign Exchange Used	35,633.81	34,071.01

FORM-A

A. POWER & FUEL CONSUMPTION	2011-12	2010-11
1. Electricity		
a. Purchased		
Units (KWH)	2,02,34,240	3,47,52,480
Total amount (Rs.)	11,12,58,059	16,02,44,518
Rate / Unit (Rs / KWH)	5.50	4.51
b. Own Generation		
i) Through Diesel Generator		
Units (KWH)	6,35,496	12,08,970
Units/ Ltr. of Diesel Oil	4.17	3.62
Cost / Unit (Rs. / KWH)	10.15	10.90
ii) Through Turbo Generator		
a) 2.5 MW CPP (MBF)		
Units (KWH)	1,44,23,400	1,23,31,600
Cost / Unit (Rs. / KWH)	0.20	0.38
b) 12 MW CPP (COP)		
Units (KWH)	6,77,67,099	5,18,28,000
Cost / Unit (Rs. / KWH)	0.26	0.40
2. Overall LDO/HSD consumption		
Consumption (KL)	4,556.30	5,324.2
Total amount (Rs.)	19,27,29,225	21,02,10,443
Cost/Ltr. (Rs.)	42.30	39.48
B. CONSUMPTION PER MT OF PRODUCTION		
Units of Electricity (KWH):		
Pig iron	152	161
D. I. Pipe	367	383
Cement	113	108
Coke	20	24

REPORT ON CORPORATE GOVERNANCE

COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

The Company's philosophy on Corporate Governance is founded upon a rich legacy of fair, ethical and transparent governance practices, many of which are in place before they were mandated by adopting highest standards of professionalism, honesty, integrity and ethical behavior. The Corporate Governance practices followed by the Company are compatible with the best practices. Through the Governance mechanism in the Company, the Board along with its Committee undertakes its fiduciary responsibilities to all its stakeholders by ensuring transparency, fair play and independence in its decision making.

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 and 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 provide leadership and guidance to the Company's management and directs, supervises and controls the performance of the Company.

Composition of Board

The Board currently comprises of Nine Directors as categorized below.

- 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, 2012 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	8	–	2
Shri G. Maruthi Rao	Non-Executive – Independent	–	–	–
Shri Gouri Shankar Rathi	Non-Executive	–	–	–
Shri S.Y. Rajagopalan	Non-Executive	1	–	–
Shri G. Bhaskara Rao	Non-Executive	9	1	3
Shri L. Madhusudhan Rao	Non-Executive	6	1	–
Shri L. Sridhar	Non-Executive	3	1	1
Shri A. Joseph Kumar (i)	Non-Executive – Independent	–	–	–
Shri P.M. Suresh (i)	Non-Executive – Independent	–	–	–
Smt. Nilam Sawhney, IAS (ii) (Equity Investor)	Non-Executive – Independent	–		
Shri V. Nagi Reddy (ii) (Equity Investor)	Non-Executive – Independent	–	–	–

i) IDBI Bank nominated Shri A. Joseph Kumar as its nominee in place of Shri P.M. Suresh with effect from 10th August, 2011.

ii) APIDC nominated Smt. Nilam Sawhney, IAS as its nominee in place of Shri V. Nagi Reddy, IAS with effect from 29th July, 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 2011-12. The dates of the meetings are as follows:

7th May, 2011, 29th July, 2011, 25th August, 2011, 21st October, 2011 and 27th January, 2012.

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 2011-12:

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
Srhi S.Y. Rajagopalan	5	5	YES
Shri G. Bhaskara Rao	5	2	YES
Shri L. Madhusudhan Rao	5	0	NO
Shri L. Sridhar	5	4	YES
Shri P.M. Suresh	5	2	NO
Shri A. Joseph Kumar	5	3	YES
Shri V. Nagi Reddy	5	0	NO
Smt Nilam Sawhney	5	1	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.

The Audit Committee during the year ended 31st March, 2012 had four meetings on 7th May, 2011, 29th July, 2011, 21st October, 2011 and 27th January, 2012.

The composition of the Audit Committee as on 31st March, 2012 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 P.M. Suresh*	Member	Independent, Non-Executive	2
4.	Srhi A. Joseph Kumar*	Member	Independent, Non-Executive	2

*IDBI Bank nominated Shri A. Joseph Kumar in place of Shri P.M. Suresh w.e.f. 10th August, 2011.

The Audit Committee met on 27th April, 2012 for considering finalization of accounts for the year ended 31st March, 2012.

The Managing Director, Chief Financial Officer & 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, 2011.

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	Sitting Fee (Rs.)
Shri Mayank Kejriwal	–
Shri G. Maruthi Rao	1,80,000
Shri Gouri Shankar Rathi	1,00,000
Shri S.Y. Rajagopalan	1,00,000
Shri G. Bhaskara Rao	60,000
Shri L. Madhusudhan Rao	–
Shri L. Sridhar	80,000
Shri P.M. Suresh*	80,000
Shri A. Joseph Kumar*	1,00,000
Smt Nilam Sawhney	20,000
Total	7,20,000

*IDBI Bank nominated Shri A. Joseph Kumar in place of Shri P.M. Suresh w.e.f. 10th August, 2011.

Shareholdings of Non-Executive Directors As on 31st March '2012

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