

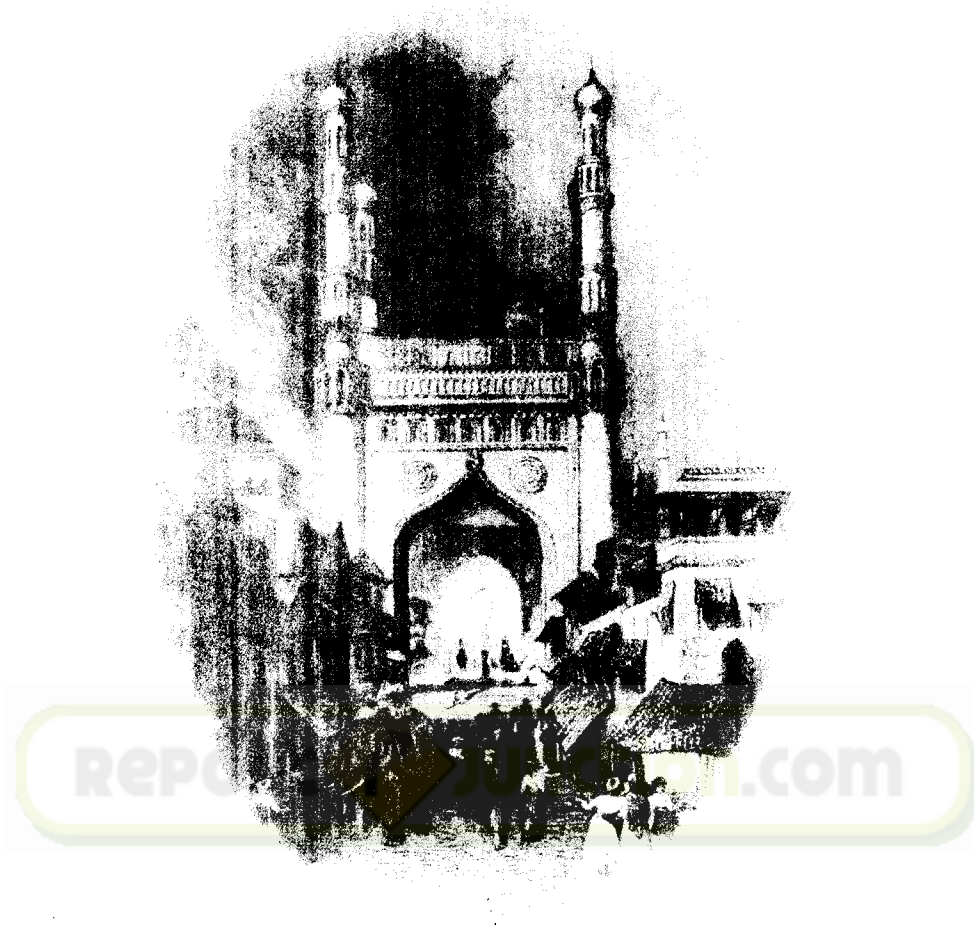
VST INDUSTRIES LIMITED

MD	<input checked="" type="checkbox"/>	BKC	<input checked="" type="checkbox"/>
CE	<input checked="" type="checkbox"/>	DPY	<input checked="" type="checkbox"/>
RO	<input checked="" type="checkbox"/>	DIV	<input checked="" type="checkbox"/>
TRA	<input checked="" type="checkbox"/>	AC	<input checked="" type="checkbox"/>
AGM	<input checked="" type="checkbox"/>	SHI	<input checked="" type="checkbox"/>
YC	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>

CHARMINAR

ANNUAL REPORT 1997





“While the Company has consciously initiated a process of modernisation to position VST in the frontline of technology, we have not forgotten our abiding values. The commitment to provide greater value to the consumer. The commitment to our shareholders’ interests. The commitment to professionalism. The commitment to business ethics. The commitment to create a better future for our employees. And the commitment to fulfil obligations to society.

This is the soul of VST, and the Company is committed to preserving these values, above all.”



VST Industries Limited

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BOARD OF DIRECTORS

VST Industries Limited

Chairman

ABHIJIT BASU

Managing Director

MALCOLM FRY

Directors

AIR CHIEF MARSHAL IDRIS HASAN LATIF, P.V.S.M. (Retd.)

C.S. RAO, I.A.S.

T.G.F. LORD

(Alternate: S.J.R. SMITH)

D. SENGUPTA

R. V. K. M. SURYARAU

SAMPATHKUMARAN THIRUMALAI

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Secretary

SAMPATHKUMARAN THIRUMALAI

Auditors

Lovelock & Lewes

Chartered Accountants

Hyderabad-500 029

Shares and Public Deposits

VST Industries Limited — Investors Services Department

Sarovar Centre

5-9-22, Secretariat Road

Hyderabad-500 004

Registered Office

Azamabad, Hyderabad-500 020

Andhra Pradesh



VST Industries Limited

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Sixty-sixth Annual General Meeting of VST INDUSTRIES LIMITED will be held at Bharatiya Vidya Bhavan, Kulapati Munshi Sadan, 5-9-1105, Bashirbagh-King Koti Road, Hyderabad-500 001, Andhra Pradesh, on **Wednesday, September 17, 1997, at 10.30 a.m.** for transaction of the following business :

1. To receive and consider the audited Balance Sheet as at March 31, 1997, the Statement of Accounts, Auditors' Report and Directors' Report for the Company's year ended March 31, 1997.
2. To declare a Dividend on the Ordinary Share Capital.
3. To elect Directors in place of those retiring by rotation.
4. To appoint Auditors and to fix their remuneration. In this connection to consider and, if thought fit, to pass the following Resolution which will be proposed as a Special Resolution:
"RESOLVED that Messrs Lovelock & Lewes, Chartered Accountants, be and are hereby appointed as the Auditors of the Company to hold such office until the conclusion of the next Annual General Meeting at a remuneration of Rs. 4,00,000/- (Rupees Four lakhs only) payable in two equal instalments plus out of pocket expenses incurred."

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass with or without modification, the following Resolution which will be proposed as an Ordinary Resolution:
"RESOLVED that Mr. Malcolm Fry who was appointed a Director of the Company with effect from September 1, 1996, under Article 98 of the Articles of Association of the Company in the casual vacancy arising out of the resignation of Mr. R. Sujana and who holds office upto the date of this Annual General Meeting, be and is hereby appointed a Director of the Company whose period of office is liable to determination by retirement of Directors by rotation."
6. To consider and, if thought fit, to pass with or without modification, the following Resolution which will be proposed as an Ordinary Resolution :
"RESOLVED that Mr. D. Sengupta who was appointed a Director of the Company with effect from March 7, 1997, under Article 98 of the Articles of Association of the Company in the casual vacancy arising out of the resignation of Mr. V. Natarajan and who holds office upto the date of this Annual General Meeting, be and is hereby appointed a Director of the Company whose period of office is liable to determination by retirement of Directors by rotation."
7. To consider and, if thought fit, to pass with or without modification, the following Resolution which will be proposed as an Ordinary Resolution :
"RESOLVED that Mr. T. G. F. Lord who was appointed a Director of the Company with effect from August 28, 1996, under Article 98 of the Articles of Association of the Company in the casual vacancy arising out of the resignation of

Mr. S. J. R. Smith and who holds office upto the date of this Annual General Meeting, be and is hereby appointed a Director of the Company whose period of office is liable to determination by retirement of Directors by rotation."

The Register of Members will remain closed from September 10, 1997 to September 17, 1997 (both days inclusive) for purposes of payment of dividend, if approved.

Transfers of shares received in order by the Company at its Registered Office or at its Investors Services Department at Sarovar Centre, 5-9-22, Secretariat Road, Hyderabad-500 004, upto the close of business on September 9, 1997 will be registered in time for the transferees to become eligible for dividend, if approved.

Dividend, if approved, will be paid on or after October 17, 1997 to those shareholders whose names appear in the Register of Members of the Company on September 17, 1997 or to their Mandatees.

By Order of the Board,
S. THIRUMALAI
Secretary

Dated this 13th day of May, 1997.
Azamabad, Hyderabad-500 020,
Andhra Pradesh.

NOTES :

1. **A Member entitled to attend and vote at the General Meeting may appoint a proxy, who need not be a Member, to attend and on a poll, to vote on his behalf. Such proxies should be deposited at the Registered Office of the Company not less than forty-eight hours before the commencement of the Meeting.**
2. In accordance with Section 173 of the Companies Act, 1956, an Explanatory Statement in respect of item 5 being item of Special Business is annexed to the Notice of the Meeting.
3. Shareholders should inform the Company at its Investors Services Department at Sarovar Centre, 5-9-22, Secretariat Road, Hyderabad-500 004, of any change in their registered address, before September 3, 1997.
4. The unclaimed dividends upto the interim dividend paid in respect of the Company's financial year ended March 31, 1994 (paid in 1993) have been transferred by the Company to the General Revenue Account of the Central Government. In respect of the dividends transferred by the Company to the General Revenue Account of the Central Government, shareholders who are entitled to the same may prefer an application to the Registrar of Companies, Andhra Pradesh, Hyderabad, for payment of the dividend due to them. In case any assistance is required, shareholders are requested to write to the Company.
5. Shareholders who have multiple folios in identical names or joint names in the same order are requested to intimate to the Company these folios to enable the Company to consolidate all such shareholdings into one folio.



VST Industries Limited

EXPLANATORY STATEMENT

In accordance with Section 173 of the Companies Act, 1956, the following information is given in explanation of the items of Special Business set out in the attached notice of the Sixty-sixth Annual General Meeting of the Company to be held at Bharatiya Vidya Bhavan, Kulapati Munshi Sadan, 5-9-1105, Bashirbagh-King Koti Road, Hyderabad-500 001, Andhra Pradesh, on September 17, 1997.

Item No. 5

Your Board of Directors appointed Mr. Malcolm Fry as a Director with effect from September 1, 1996 pursuant to the provisions of Article 98 of Articles of Association of the Company in the casual vacancy arising out of the resignation of Mr. R. Sujana from the Board.

In terms of Article 98, Mr. Malcolm Fry, holds office upto the date of the forthcoming Annual General Meeting and being eligible, offers himself for appointment as a Director whose period of office is liable to determination by retirement of Directors by rotation under the provisions of the Companies Act, 1956.

Notice, along with a deposit of five hundred rupees, as required under Section 257 of the Companies Act, 1956, has been received by the Company from a Member proposing the appointment of Mr. Malcolm Fry as a Director of the Company.

Mr. Malcolm Fry has filed with the Company his consent under Section 264(1) of the Companies Act, 1956, to act as a Director, if appointed.

No Director of your Company other than Mr. Malcolm Fry is concerned or interested in this Resolution.

Your Directors commend the appointment of Mr. Malcolm Fry as a Director of the Company.

Item No. 6

Your Company had been requested by General Insurance Corporation of India on its own behalf and on behalf of the other investment institutions such as Life Insurance Corporation of India, and Unit Trust of India who collectively hold 27.72% of the equity capital of the Company to appoint Mr. D. Sengupta, Chairman cum Managing Director of The New India Assurance Company Limited as their nominee on the Board of Directors of the Company, whose period of office will be liable to determination by retirement of Directors by rotation.

Your Board of Directors appointed Mr. D. Sengupta as a Director with effect from March 7, 1997, pursuant to the provisions of Article 98 of the Articles of Association of the Company in the casual vacancy arising out of the resignation of Mr. V. Natarajan from the Board. In terms of Article 98, Mr. D. Sengupta, holds office upto the

date of the forthcoming Annual General Meeting and being eligible, offers himself for appointment as a Director whose period of office is liable to determination by retirement of Directors by rotation under the provisions of the Companies Act, 1956.

Notice, along with a deposit of five hundred rupees, as required under Section 257 of the Companies Act, 1956, has been received by the Company from a Member proposing the appointment of Mr. D. Sengupta as a Director of the Company.

Mr. D. Sengupta has filed with the Company his consent under Section 264(1) of the Companies Act, 1956, to act as a Director, if appointed.

No Director of your Company other than Mr. D. Sengupta is concerned or interested in this Resolution.

Your Directors commend the appointment of Mr. D. Sengupta as a Director of the Company.

Item No. 7

Your Board of Directors appointed Mr. T. G. F. Lord as a Director with effect from August 28, 1996 pursuant to the provisions of Article 98 of Articles of Association of the Company in the casual vacancy arising from resignation of Mr. S. J. R. Smith from the Board.

In terms of Article 98, Mr. T. G. F. Lord, holds office upto the date of the forthcoming Annual General Meeting and being eligible, offers himself for appointment as a Director whose period of office is liable to determination by retirement of Directors by rotation under the provisions of the Companies Act, 1956.

Notice, along with a deposit of five hundred rupees, as required under Section 257 of the Companies Act, 1956, has been received by the Company from a Member proposing the appointment of Mr. T. G. F. Lord as a Director of the Company.

Mr. T. G. F. Lord has filed with the Company his consent under Section 264(1) of the Companies Act, 1956, to act as a Director, if appointed.

No Director of your Company other than Mr. T. G. F. Lord is concerned or interested in this Resolution.

Your Directors commend the appointment of Mr. T. G. F. Lord as a Director of the Company.

By Order of the Board,
S. THIRUMALAI
Secretary

Dated this 13th day of May, 1997.
Azamabad, Hyderabad - 500 020
Andhra Pradesh.



VST Industries Limited

REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS FOR THE YEAR ENDED 31ST MARCH, 1997

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 1997.

Financial Results

	Rs. Lakhs	Rs. Lakhs
The Net Profit for the year, after deducting all charges and expenses and taxation amounts to		7,55.60
Adding thereto profit brought forward from the previous year		12,38.38
The amount available for disposal was		19,93.98
Out of which the following appropriations have been made :		
General Reserve		75.56
Leaving a balance of		19,18.42
Out of which your Board recommends	1,54.42	
should be distributed as Dividend on the Ordinary Share Capital at the rate of Re. 1.00 per share payable on or after October 17, 1997 and		
Provide for Dividend Tax @ 10% of the proposed dividend	15.44	1,69.86
Leaving an undistributed amount of		17,48.56

in the Profit and Loss Account to be carried forward to the following year.

In the previous year, the interim and final dividend per share were Rs. 3.00 and Rs. 3.00 respectively.

PROFITS

Profit after tax for the year amounts to Rs. 7.56 crores as against Rs. 22.59 crores during the previous year. The decline in profits is mainly attributable to the phenomenal increase in State Taxation and also the unprecedented slump in the Financial Services Operations due to market conditions, both of which are commented on in detail later in this Report.

OPERATIONS

Marketing

Two excise revisions during the year (July 1996 and February 1997) severely jolted the industry, particularly the lower end of plain and filter segments. Excise increases

by segments are as under :

	July 1996	February 1997
Plains-Micro —	25.0%	20.0%
Plains - Regular size —	5.0%	11.1%
Filter tipped - Regular size —	7.5%	16.3%
Filter tipped - Long size —	6.7%	2.5%
Filter tipped - King size —	7.0%	2.8%

Your Company participates only in the lower 3 segments i.e. Micros, Plains and RSFT, and therefore was worst hit by the excise increases. As a consequence of such severe excise increases coupled with

increased burden of State Taxation (Rs. 25.04 crores for the year 1996-97 as against Rs. 13.35 crores for 1995-96) your Company experienced significant pressure on both volumes and profits from cigarette operations.

The volume turnover of your Company dropped by 10.7% with a consequent drop in market share from 16% to 13.2%. Since then certain corrective measures have been initiated in terms of pricing initiatives to regain volume and market share, together with concentrated brand building efforts on two key brands, namely **CHARMINAR** and **CHARMS**.

Your Directors are pleased to inform you that the new Charminar communication film has won the prestigious A & M award for the best advertising film for the year 1996-97. The new communication package with this film has been launched in the market-place since January 1997 and has yielded encouraging results.

CHARMS family which had suffered significant volume losses in the past few years, has responded positively to initiatives in the last few months thereby reversing the trend. More work is in progress to revitalise the brand during the year 1997-98.

On the issue of State Taxation, efforts of your Company to persuade the Central Government to intervene in the matter, have so far not been successful. The constitutionality of the levy of the Luxury Tax by States has been questioned by the industry and is still pending before the Supreme Court.

Production and Plant Modernisation

Your Company's efforts towards productivity improvement were further accelerated with successful implementation of Full and Partial Hard Link machine systems in the Secondary Manufacturing Department. This was an in-house development, as was the local development of High Speed Wrappers. More such machines were introduced to replace the older slow speed ones to improve productivity.



VST Industries Limited

In consultation with the Union revised standards for the entry level qualifications, skills and character were put in place to be applied for recruitment at the workmen level. This was agreed keeping in view the need to absorb new skills so as to be able to handle modern technology in the years to come.

Under a Voluntary Retirement Scheme, 198 workmen have left the services of the Company at a cost of Rs. 8.33 crores, which will be amortised over a period of five financial years.

The full impact of all these efforts are expected to be realised in 1997-98, as a Long Term Agreement which has been successfully concluded with the Union, gives significant reduction in manning.

EXPORTS

Leaf and Cigarettes

Tobacco exports of your Company have gone up for the second consecutive year from Rs. 4.67 crores in 1994-95, Rs. 7.44 crores in 1995-96 to Rs. 10.20 crores during this year.

We have established new customers like Lancaster Leaf, USA and also secured ongoing commitments from international merchants for export of Air Cured tobaccos.

Your Company has achieved No. 1 status as a source of supply of Air Cured tobaccos from India.

The focus on improvement of leaf productivity and quality is being pursued. Adequate seeds of newly tested strains are now available with us for use in the coming years. This should help us in achieving our goal for greater productivity. This will also enable us to maintain our cost competitiveness and leadership status by ensuring higher yields and attractive returns to farmers.

In line with global objective of a Greener Earth and for acquitting ourselves as a good corporate citizen to protect and enrich the environment, Afforestation & "Trees for Life" Programmes are being continued in the tobacco growing villages.

Cigarette exports mainly to the Middle

East have increased marginally from Rs. 1.03 crores in 1995-96 to Rs. 1.08 crores during this year.

Other agricultural exports

During the year, the financial restructuring of VST Natural Products Limited was completed with your Company holding the entire share capital of VST Natural Products Limited. As permitted by the Registrar of Companies, Andhra Pradesh, the financial year of VST Natural Products Limited has been extended upto September 30, 1997.

Commercial operations of the pickling & drying lines of the processing plant of **VST Natural Products Limited (VSTNPL)** in Venkatapur Village of Medak District, Andhra Pradesh commenced during the year. As you are aware, this is an Export Oriented Unit in the sunrise industrial sector of agri-products. The response from customers continues to be encouraging and VSTNPL have successfully manufactured value added products in consumer packs, based on customer specifications.

The installation of the Oleoresin Plant has been delayed due to late deliveries by the equipment manufacturers who faced a severe liquidity crunch. We had to pay the manufacturers' sub-contractors directly to avoid total stoppage of manufacturing.

The delay in commissioning this line has led to fall in the anticipated export earnings.

It is a matter of pride that your Company's products, in its final consumer packing, will be available in the main line supermarket shelves in Canada, U.S.A. and Holland.

During the year, your Company exported products valued at Rs. 5.77 crores (Rs. 1.30 crores, last year). All going well, we anticipate a significant increase in exports this year, with the plant becoming fully operational during the year.

High Value Horticulture p.l.c., U.K., Asia Ventures International Limited, Israel and University of Wisconsin, U.S.A. continue to provide professional consultancy services for agronomy.

VSTNPL are actively pursuing the grant of ISO 9002 certification, which is essential for continued success in exports.

With the project phase drawing to a conclusion, in the interests of better management of the business, the agronomy and marketing aspects which were in the charge of your Company, will henceforth be managed by VSTNPL. Expenditure incurred by your Company in agronomy & marketing amounting to Rs. 6.50 crores will be reimbursed by VSTNPL.

TRAINING

Focus on Employee Training and Development continued. Organisation processes in this direction were initiated. Managers in key functions have been identified and will be sent abroad to undergo training in their functional areas in order to fulfil the main objective of the Company to bring in world class expertise to face the highly competitive environment. British American Tobacco continue to support VST with new systems, training and management development as well as providing expertise particularly in marketing, production, personnel, safety and environmental management.

One of British American Tobacco's six strategic imperatives is to ensure that managers in key functions are first class.

Our vision being to achieve the number one position in the tobacco industry requires excellence at all levels in our organisation. Strong programmes of recruitment are essential and the most important being development processes for assisting talented managers in achieving their full potential.

To provide the best development opportunities for high potential staff, and to ensure we have appropriate "bench strength" to fill key positions throughout the organisation, we must be armed with current and accurate information on our employee talent pool.

To help Line Managers achieve this goal, a worldwide framework is needed to



VST Industries Limited

ensure the consistent application of solid development and planning practices for nurturing the growth of management talent throughout the organisation.

The ExecuTRACK System has been initiated in VST to monitor the above goals.

SAFETY, ENVIRONMENT & COMMUNITY SERVICES

Your Company intensified its efforts to consolidate and promote safety awareness measures/programmes and these contributed towards 16% reduction of Accidents in 1996-97.

A large section of our employees have undergone safety training and First Aid Training programmes. Regular safety audits and promotional activities were undertaken to generate and sustain enthusiasm amongst employees.

Two Managers have undergone Integrated Environment, Health and Safety Training programmes and steps are underway to target the best international practices for factory operations.

Your Company has received the 1997 Gold Safety Award from the Royal Society for Prevention of Accidents, RoSPA, U.K., for the third time in succession.

Vision Screening Centre

The Vision Screening Centre set up by your Company in collaboration with the L. V. Prasad Eye Institute continues to do exemplary work in the treatment of ocular diseases to the community in the neighbourhood of the factory. This programme has already covered about 6,162 cases in the year 1996-97 and since its inception in October 1992 it has covered about 18,716 cases.

Lal Bahadur Shastri Technical Academy (LBST)

Three batches comprising of 36 workmen were trained on Basic Engineering Skills during 1996-97. Three batches comprising of 12 fitters underwent refresher course on skills renewal and

consolidation during 1996-97. During the year 1996-97 a decision was taken to send all new recruits to LBST academy for an induction programme for a duration of four months on basic engineering skills, before they are actually engaged to work on production shop-floor. One batch comprising of 27 workmen underwent Induction programme during 1996-97. In all 7 batches comprising of 75 workmen completed full time training.

FINANCE

The foreign currency loan of Rs. 34.52 crores was repaid on schedule.

During the year, your Company has issued 18.5% Secured Redeemable Non-convertible Debentures amounting to Rs. 18.00 crores which have been privately placed with financial institutions.

In order mainly to fund the project cost requirements of the 100% EOU set up and commissioned by its wholly owned subsidiary VST Natural Products Limited, the Board of Directors of your Company have at their meeting on April 7, 1997 authorised a rights issue of an amount not exceeding Rs. 100 crores of such securities and upon such terms and conditions as may be decided by a Committee of Directors set up for this purpose.

Financial Services

The Andhra Pradesh High Court sanctioned the merger of VST Investments Limited (VSTI) with ITC Agro-Tech Finance and Investments Limited during the year. In terms of business arrangements pursuant to which investments were made by your Company, negotiations have commenced for realisation of the entire investments made as part of the said arrangement and based on legal advice received by the Company, the said investments are fully realisable.

Excise

The Hon'ble Supreme Court has issued necessary directions in the pending Post Manufacturing Expenses dispute relating to

the industry. The finalisation process in the context of your Company is in progress.

CRISIL RATING

The rating of VST's Fixed Deposit Schemes has been downgraded from FAAA to FAA+, by Credit Rating Information Services India Limited (CRISIL) in view of your Company's declining profitability in cigarettes and poor performance in financial services. Nevertheless, the revised rating indicates that the degree of safety in timely payment of interest and principal is strong. With the steps being taken for rebuilding its market presence, in strengthening its finances by way of fresh issue of capital and with expected returns from its investments in VST Natural Products Limited, your Company will strive for the restoration of its erstwhile rating of FAAA.

Your Company continues to enjoy the highest rating of P1+ for its Commercial paper from CRISIL.

PUBLIC FIXED DEPOSITS

Total deposits accepted by the Company for the purpose of its business stood at Rs. 1562.71 lakhs as at 31st March 1997. 189 persons, whose deposits amounted to Rs. 17.02 lakhs, did not claim or renew their deposits. Letters have been written to these persons before and after the dates of maturity asking for instructions.

OTHER INFORMATION

Information in accordance with clause (e) of sub-section (1) of Section 217 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and sub-section (2A) of Section 217 of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, and forming part of the Directors' Report for the year ended March 31, 1997 is given in the Annexures to this Report.

However, pursuant to provisions of Section 219(1)(b)(iv) of the Companies Act, 1956,