



VST INDUSTRIES LIMITED



ANNUAL REPORT 2002





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VST Industries Limited

BOARD OF DIRECTORS

Chairman

ABHIJIT BASU

Managing Director

RAYMOND S. NORONHA

Finance Director & Secretary

N. SAI SANKAR

Directors

S.K. ARORA I.A.S.

JAMES RICHARD SUTTIE

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

T. LAKSHMANAN

R.V.K.M. SURYARAU

Auditors

Lovelock & Lewes

Chartered Accountants

Hyderabad - 500 082

Registered Office

1-7-1063/1065, Azamabad

Hyderabad - 500 020

Andhra Pradesh

Registrars for Share Transfer & Public Deposits

Sathguru Management Consultants Private Limited

Plot No. 15, Hindi Nagar

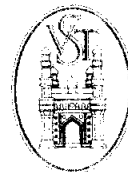
Near Sai Baba Temple, Punjagutta

Hyderabad - 500 034

Phone : 040 - 335 0586, 335 6507, 335 6975

Fax : 040 - 335 4042

E-mail : sta@sathguru.com



VST Industries Limited

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Seventy First 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-500 029, Andhra Pradesh, on **Wednesday, July 24, 2002 at 10.30 a.m.** for transaction of the following business:

1. To receive and consider the Audited Balance Sheet as at March 31, 2002, the Statement of Accounts, Auditors' Report and Directors' Report for the Company's year ended March 31, 2002.
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 an Ordinary 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.7,50,000/- (Rupees Seven lakhs fifty thousand 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. James Richard Suttie who was appointed a Director of the Company with effect from April 25, 2002, under Article 98 of the Articles of Association of the Company in the casual vacancy arising out of the resignation of Mr. Johann Roelofse and who holds office upto the date of this Annual General Meeting, and in respect of whom the Company has received notice in writing from a shareholder proposing him as a candidate for the office of a director under the provisions of Section 257 of the Companies Act, 1956 along with a deposit of Rs.500 and who is eligible for re-appointment 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 pursuant to the provisions of Sections 198, 269, 309, 310, 311, Schedule XIII and other applicable provisions of the Companies Act, 1956, subject to such approvals as may be necessary and further to the Resolution passed at the 69th Annual General Meeting of the Company held on September 26, 2000, in respect of the terms of appointment and remuneration of Mr. Raymond S. Noronha as the Managing Director of the Company, approval be and is hereby accorded to vary, alter and modify the terms of the appointment and remuneration of Mr. Raymond S. Noronha, with effect from April 1, 2002, for the period of his office upto October 31, 2003, on such consolidated salary, performance bonus and perquisites as have been set out in the Statement (a copy whereof initialled by the Chairman for the purpose of identification is placed before this meeting), consent of Mr. Raymond S. Noronha having been obtained in respect of such variation, alteration and modification, with liberty to the Board to vary, alter and modify such consolidated salary, performance bonus and perquisites so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956, or any statutory modifications, substitutions or re-enactments thereof as may be agreed to by the Board of Directors and Mr. Raymond S. Noronha.

RESOLVED FURTHER that where in any financial year of the Company during the aforesaid period of Mr. Raymond S. Noronha's office as Managing Director of the Company, the Company has no profits or its profits are inadequate, the Company may pay him remuneration by way of consolidated salary and perquisites in accordance with the limits laid down in Section II Part II of Schedule XIII to the Companies Act, 1956, or any statutory modifications, substitutions or re-enactments thereof as may be agreed to by the Board of Directors and Mr. Raymond S. Noronha."



VST Industries Limited

The Register of Members will remain closed from July 22, 2002 to July 24, 2002 (both days inclusive) for payment of dividend, if approved.

Transfers of shares received in order by the Company's Registrars and Share Transfer Agents, Sathguru Management Consultants Private Limited, Plot No.15, Hindi Nagar, Near Sai Baba Temple, Punjagutta, Hyderabad - 500 034, before the close of business on July 20, 2002, will be registered in time for the transferees to become eligible for dividend, if approved.

Dividend, if approved, will be paid on or before August 23, 2002 to those shareholders whose names appear in the Register of Members of the Company on July 24, 2002 or to their Mandatees.

By Order of the Board,

N. SAI SANKAR
Secretary

Dated this 25th day of April, 2002.
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 items 5 and 6 being items of Special Business is annexed to the Notice of the Meeting.
3. In accordance with the provisions of Article 93 of the Articles of Association of the Company, Mr. Raymond S. Noronha and Mr. S.K. Arora I.A.S. will retire by rotation at this Annual General Meeting and being eligible offer themselves for re-appointment.
4. Shareholders should inform the Company's Registrars and Share Transfer Agents, Sathguru Management Consultants Private Limited of any change in their registered address, before July 22, 2002.
5. Shareholders who have multiple folios in identical names or joint names in the same order are requested to intimate to the Registrars and Share Transfer Agents, Sathguru Management Consultants Private Limited, these folios to enable consolidate all such shareholdings into one folio.
6. Dividend on equity shares as recommended by the Directors for the financial year ended March 31, 2002 when declared will be paid within 30 days of the Meeting. Pursuant to the amendments introduced by the Finance Act, 2002, tax will be deducted at source at the applicable rates on such dividend where the dividend exceeds Rs.1,000. Shareholders whose income is not likely to exceed the taxable limit are requested to submit in duplicate Form 15G duly filled, signed and verified in the manner prescribed in the said form. This should reach the Registrars and Share Transfer Agents, Sathguru Management Consultants Private Limited, latest by July 22, 2002, to enable the Company to pay such dividend without deduction of tax at source. In this regard, shareholders are requested to furnish their Permanent Account Number.
7. Shareholders are requested to bring their copies of the Annual Reports to the Meeting.



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 Seventy First Annual General Meeting of the Company to be held at Bharatiya Vidya Bhavan, Kulapati Munshi Sadan, 5-9-1105, Bashirbagh - King Koti Road, Hyderabad-500 029, Andhra Pradesh, on Wednesday, July 24, 2002.

Item No. 5

Your Board of Directors appointed Mr. James Richard Suttie as a Director with effect from April 25, 2002 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. Johann Roelofse from the Board.

Mr. James Richard Suttie, aged 55 years is a Chartered Accountant from The Institute of Chartered Accountants of Scotland and an Associate Member of The Chartered Institute of Taxation. He has about 30 years experience in the cigarette industry in the area of Finance. He is currently the Regional Finance Controller for Asia Pacific, British American Tobacco.

In terms of Article 98, Mr. James Richard Suttie, 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. James Richard Suttie as a Director of the Company.

No Director of your Company other than Mr. James Richard Suttie is concerned or interested in this Resolution.

Your Directors commend the appointment of Mr. James Richard Suttie as a Director of the Company.

Item No.6

At the Sixty-eighth Annual General Meeting of your Company on September 27, 1999, approval was

accorded to the appointment of Mr. Raymond S. Noronha, Director and Managing Director of your Company, with effect from November 1, 1998 for the period of his office upto October 31, 2003, on such consolidated salary, performance linked bonus and perquisites as had been set out in the Explanatory Statement annexed to the Notice dated May 27, 1999, convening the Sixty-eighth Annual General Meeting with liberty to the Board to vary, alter and modify such consolidated salary, performance linked bonus and perquisites so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956 or any statutory modifications, substitutions, or re-enactments thereof, as may be agreed to by the Board of Directors and Mr. Raymond S. Noronha.

Your Board of Directors at their meeting held on October 25, 2001, subject to the approval of the Members, have with the consent of Mr. Raymond S. Noronha varied, altered and modified with effect from April 1, 2002, the terms of appointment and remuneration paid or payable to Mr. Raymond S. Noronha, for the period of his office upto October 31, 2003. This variation, alteration and modification in the terms of appointment and remuneration in respect of Mr. Raymond S. Noronha is within the limits specified in Part II of Schedule XIII to the Companies Act, 1956.

Accordingly, with effect from April 1, 2002, Mr. Raymond S. Noronha is entitled to the remuneration stated below which was approved by your Board in pursuance of Sections 198, 269, 309, 310 and 311 of the Companies Act, 1956, read with Schedule XIII thereof :-

I. Consolidated Salary :

In the scale of Rs.2,00,000 - Rs.3,25,000 subject to such increases as the Board may determine in the consolidated salary during the tenure of office as Managing Director having regard to the annual performance of Mr. Raymond S. Noronha and to cover the Consumer Price Index.

II. Performance Bonus :

Payable annually for each financial year ending 31st March, 2002 and thereafter, not exceeding 50% of the Consolidated Salary per annum after approval of



the accounts as may be determined by the Board of Directors of the Company.

In addition to the aforesaid Consolidated Salary and Performance Bonus, Mr. Raymond S. Noronha shall be entitled to perquisites like gas, electricity, water, furnishings, medical reimbursement and leave travel concession for self and family, club fees, personal accident insurance etc. in accordance with the Rules of the Company, the monetary value of such perquisites being limited to Rs.4,50,000/- per annum, for the purposes of which limit perquisites shall be evaluated as per Income Tax Rules, wherever applicable, and in absence of any such Rule, perquisites shall be evaluated at actual cost. However, the following shall not be included in the aforesaid perquisite limit :-

- a) Rent free furnished accommodation owned/ leased/rented by the Company, or Housing Allowance in lieu thereof, as per the Rules of the Company.
- b) Contribution to Provident Fund and Superannuation Fund upto 27% of salary and contribution to Gratuity Fund upto 8.33% of salary as defined in the Rules of the respective Funds, or upto such other limit as may be prescribed under the Income Tax Act, 1961 and the Rules thereunder for this purpose.
- c) Use of Company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- d) Encashment of unavailed leave as per the Rules of the Company at the time of retirement / cessation of service.
- e) Long service award as per the Rules of the Company.
- f) Costs and expenses incurred by the Company in connection with joining / transfer from one location to another as per the Rules of the Company.

The aggregate of the remuneration and perquisites/benefits including contribution towards Provident Fund, Superannuation Fund and Gratuity Fund, payable to Mr. Raymond S. Noronha shall not exceed 10% of the profits of the Company calculated in accordance with the provisions of Sections 198 and 309 of the Companies Act, 1956.

Minimum Remuneration

Notwithstanding anything herein, where in any financial year during the period of office of Mr. Raymond S. Noronha as Managing Director, the Company has no profits or its profits are inadequate the Company may pay him remuneration by way of consolidated salary and perquisites in accordance with the limits laid down in Section II Part II of Schedule XIII to the Companies Act, 1956, or any statutory modifications, substitutions, or re-enactments thereof, as may be agreed to by the Board of Directors and Mr. Raymond S. Noronha.

Power is also being taken in terms of this resolution for the Board to effect any variations, alterations or modifications in future in respect of the appointment and remuneration of Mr. Raymond S. Noronha within the limits specified in Schedule XIII to the Companies Act, 1956, or any statutory modifications, substitutions or re-enactments thereof, as may be agreed to by the Board of Directors and Mr. Raymond S. Noronha.

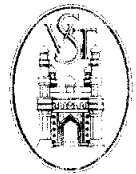
Your Directors consider that it would be appropriate and desirable to vary, alter and modify the terms of appointment and remuneration in respect of Mr. Raymond S. Noronha as set out in the Resolution and commend passing of the Resolution.

The resolution relates to the remuneration of Mr. Raymond S. Noronha and hence he would be deemed to be concerned or interested in the resolution. No other Director of your Company is in anyway concerned or interested in this Resolution.

By Order of the Board,

N. SAI SANKAR
Secretary

Dated this 25th day of April, 2002.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.



VST Industries Limited

REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS TO THE SHAREHOLDERS FOR THE YEAR ENDED 31ST MARCH, 2002

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2002.

Financial Results	Rs. Lakhs	Rs. Lakhs
The Net Profit for the year, after deducting all charges and expenses and taxation amounts to	3697.68	
The amount available for disposal was		3697.68
Out of which the following appropriations have been made :		
Debenture Redemption Reserve	225.00	
General Reserve	369.77	
Preference Dividend, inclusive of Dividend Tax (Paid)	27.18	
Capital Redemption Reserve	1000.00	1621.95
Leaving a balance of		2075.73
Out of which your Board recommends should be distributed as Dividend on the Ordinary Share Capital at the rate of Rs. 4.50 per share		694.89
Deducting therefrom loss brought forward from the previous year		(4137.76)
Balance in the Profit and Loss Account to be carried forward to the following year		<u>(2756.92)</u>

INDUSTRY STRUCTURE & DEVELOPMENT

Your Company along with other industry players, approached the central government for a more balanced and objective excise policy. Cigarettes are revenue-yielding and account for as much as 80% of tobacco excise collections. It is imperative that taxes are reduced further to shift tobacco consumption to a more modern form and also make it more revenue efficient. This year, the Government has not increased excise duty on cigarettes, but the anticipated improvement in business has been attenuated by further imposts of fresh state taxes and the ban on advertising.

Several state governments have proposed or enacted against advertising and cigarette smoking in public places, ahead of the proposed central legislation. Your Company along with other players in the industry are in dialogue with the state and central governments and will lend support to legislation which is reasonable, implementable and non-discriminatory.

SEGMENT WISE PERFORMANCE

Your Company considers tobacco and related products as the primary segment for reporting. Geographical segments considered for disclosure mainly consist of - sales within India and sales outside India. The entire

activity pertaining to sales outside India is carried out from India.

Cigarettes

Your Company is a strong player in the low-price segment and that too in the eastern and north-eastern markets, which were the ones most affected by large quantities of smuggled stocks of king sized filter tipped cigarettes from Bangladesh. These were being retailed at Re.1 per stick, which unsettled the market for branded cigarettes in the low-price segment. With continued efforts both at the central and state government level, the menace of smuggling could only be restricted in the low-price segment towards the second half of the year.

Cigarettes are highly price-sensitive and the major brand **Charms** crossed the convenient Re.1 per stick price point this year and declined by a double-digit drop compared to its volume last year. Nevertheless, your Company followed the strategic route of adding value, rather than compromise on quality and price which may have been effective in the short term. It introduced a hinged-lid pack with a new superior blend, and to add to the excitement around the brand, your Company launched a line-extension in the form of **Charms Minty** and a novel 4s pack. We are pleased to report that the brand is now holding its own.

The other filter offer **Charminar Special Filter** performed very well and remained steadfast at a level of about 70 mnc per month in its areas of strength, even at the higher price. Your Company is hopeful that plans of further improvements will strengthen the brand and that it will grow in the



coming years and sustain its leadership in the market place.

In the plains segment, **Charminar Plain** declined at a lower rate of 8% against a drop of 14% last year. This was made possible through a repositioning exercise with a change in communication and a contemporary pack. Your Company expects the decline of the brand to be checked in the current year.

During the year, your Company took the opportunity to improve on efficiencies and future strategic direction of business. In the coming months, your Company will continue to strengthen the current offers in the medium and lower segment to drive both volume and value through a trade marketing and distribution infrastructure.

It is a matter of pride for your Company to continue to contribute to the national endeavour of exports maximization and to maintain its thrust towards this end.

Leaf Tobacco

We are happy to report that your Company has recorded Rs.23.14 crores leaf export turnover which is 23% higher than in the year 2000-2001. This increase was achieved despite a 7% negative growth in overall exports of tobacco from India.

Your Company has established special tobaccos for niche markets which are being produced by the large farmer base your Company has. This has helped in optimizing the turnover and profit and also helped in economic uplift of the backward regions. Your Company has established new potential customers

for Oriental Tobacco for future growth and continue to retain the premier status in Sun/Air/Fire cured tobaccos.

You will be pleased to learn that pesticide residue levels in the tobaccos grown by your farmers are the lowest and within international standards.

As a social responsibility to conserve greenery, your Company is continuing social forestry through Afforestation and Trees for Life and also discouraging child labour involvement in tobacco growing/processing.

Production and Plant Modernisation

Secondary Manufacturing Department facilities have been modernised by inducting GDX2 machines coupled with Wrappers to improve productivity, quality and presentation of the packs and give the consumer the benefit of freshness of the product. During the year intensive training was given to managers / technicians and machine operating crew by sending them to M/s. GD in Italy to improve their technical skills. This has helped in running the new technology machines at more than 90% efficiency.

We have re-designed and integrated Soft Cup & HLP packing lines to improve productivity and optimize manpower utilisation by 43%, apart from ensuring the quality of the product.

Average active monthly inventory of wrapping materials including imported items has been brought down to Rs.2.75 crores from Rs.3.75 crores from the previous year showing a reduction of 27%.

PROFITS

In our last Report, it was indicated that your Company would continue to concentrate on its core business to consolidate its position further. The marked improvement in your Company's results is a reflection of this commitment.

The year under consideration has been a difficult one operationally. An unprecedented increase of 15% in excise duties (towards the National Calamity Relief Fund) in the Union Budget in February, 2001 coupled with sluggishness in rural demand and continued recession of Indian industry, severely affected the cigarette industry. It consequently suffered a double-digit drop in volume of 11%, to 7.2 billion cigarettes, the lowest in seven years.

In the circumstances, your Company's efforts to improve market share were ineffective and total sales income was lower at Rs.679.97 crores as compared to Rs. 755.82 crores in the previous year.

Nevertheless, despite the depressed market conditions, efforts made in other areas of improving all round operational efficiencies yielded results, with Profit After Tax at Rs.36.98 crores showing an improvement of 34.5% over that of Rs.27.50 crores in the previous year. In particular, the continued thrust to reduce borrowings resulted in net interest payments for the year dropping to Rs.2.72 crores from Rs.3.59 crores in the previous year.

Luxury and other taxes being imposed by various states continue to affect the profitability of your Company and its trading subsidiaries. The amount of