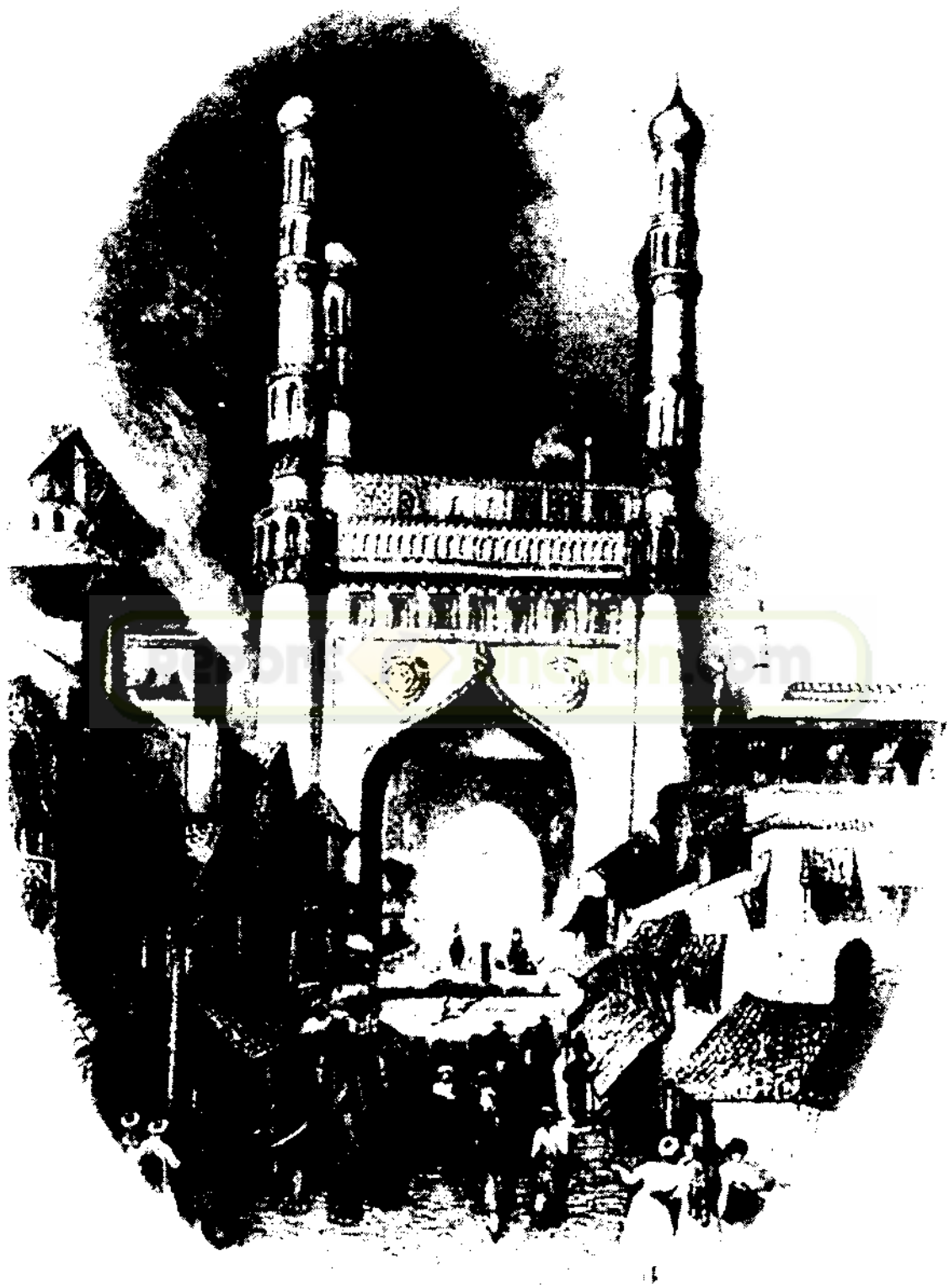


# **VST INDUSTRIES LIMITED**

**ANNUAL REPORT 2006**





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## BOARD OF DIRECTORS

### **Chairman**

ABHIJIT BASU

### **Managing Director**

RAYMOND S. NORONHA

### **Finance Director & Secretary**

N. SAI SANKAR

### **Directors**

EMIL MOSKOFIAN

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

T. LAKSHMANAN

R.V.K.M. SURYARAU

S.THIRUMALAI

### **Auditors**

Lovelock & Lewes

Chartered Accountants

Hyderabad - 500 082

Andhra Pradesh

### **Registered Office**

1-7-1063/1065, Azamabad

Hyderabad - 500 020

Andhra Pradesh

Phone: 040 - 2761 0460

### **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 - 2335 0586, 2335 6507, 2335 6975

Fax : 040 - 2335 4042

E-mail : [sta@sathguru.com](mailto:sta@sathguru.com)



## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Seventy Fifth Annual General Meeting of VST INDUSTRIES LIMITED will be held at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034, on **Thursday, 27th July, 2006 at 10.30 a.m.** for transaction of the following business :

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006, the Profit and Loss Account, Auditors' Report and Directors' Report for the Company's year ended 31st March, 2006.
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. 12,50,000 (Rupees Twelve lakhs fifty thousand only) payable in two equal instalments plus service tax as applicable and reimbursement of out-of-pocket expenses incurred."

### SPECIAL BUSINESS

5. To consider and, if thought fit, to pass with or without modification(s), the following Resolution which will be proposed as an Ordinary Resolution :

"RESOLVED that Mr. S. Thirumalai who was appointed a Director of the Company with effect from 20th October, 2005 under Article 98 of the Articles of Association of the Company 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 in accordance with the provisions of Sections 198, 269, 309, 310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to such approvals

as may be necessary and in partial modification of the resolution passed at the 72nd Annual General Meeting of the Company held on 24th July, 2003, approval be and is hereby accorded to the Board of Directors to vary, alter and modify the remuneration payable to Mr. Raymond S. Noronha, Managing Director of the Company with effect from 1st April, 2006 for the remaining period of his office upto 31st October, 2008 or upto the date of his retirement, whichever is earlier, as under:-

- I. **Consolidated Salary:** At the rate of Rs.6,75,000 per month in the scale of Rs.5,50,000 - Rs.9,75,000 subject to such increase 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, 2007 and thereafter, not exceeding 75% 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 always be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956."

7. To consider and, if thought fit, to pass with or without modification, the following Resolution which will be proposed as a Special Resolution:-

"RESOLVED that in accordance with the provisions of Sections 198, 269, 309, 310, 314 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to such approvals as may be necessary and in partial modification of the resolution passed at the 74th Annual General Meeting of the Company held on 28th July, 2005, approval be and is hereby accorded to the Board of Directors to vary, alter and modify the remuneration payable to Mr. N. Sai Sankar, Wholtime Director of the Company with effect from 1st April, 2006 for the remaining period of his office upto 31st December, 2010, as under:-

- I. **Consolidated Salary:** At the rate of  
 - Rs.4,00,000 per month in the scale of Rs.3,50,000  
 - Rs.6,00,000

- II. **Performance Bonus:** Payable annually for each financial year ending 31st March, 2007 and thereafter, not exceeding 75% 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. N. Sai Sankar 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. N. Sai Sankar shall always be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956."

8. To consider and, if thought fit, to pass with or without modification, the following Resolution which will be proposed as a Special Resolution:

"RESOLVED that pursuant to the Securities and Exchange Board of India (Delisting of Securities) Guidelines 2003, the equity shares of the Company be delisted from The Hyderabad Stock Exchange Limited.

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to do all things and deeds incidental thereto."

The Register of Members of the Company will remain closed from 25th July, 2006 to 27th July, 2006 (both days inclusive) for payment of dividend, if approved.

Transfer of shares received in order by the Company's Registrars and Share Transfer Agents, M/s. Sathguru

Management Consultants Private Limited, Plot No.15, Hindi Nagar, Near Sai Baba Temple, Punjagutta, Hyderabad - 500 034, before the close of business on 24th July, 2006, will be registered in time for the transferees to become eligible for dividend, if declared.

Dividend, if approved, will be paid on or before 26th August, 2006 to those shareholders whose names appear in the Register of Members of the Company on 27th July, 2006 or to their Mandatees, subject however to the provisions of Section 206A of the Companies Act, 1956, or any amendment or modification thereof. In respect of dematerialised shares the dividend will be payable on the basis of beneficial ownership as per details to be furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for this purpose.

By Order of the Board,  
N. SAI SANKAR  
Secretary

Dated this 27th day of April, 2006.  
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. The 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(2) of the Companies Act, 1956, an Explanatory Statement in respect of items 5, 6, 7 and 8 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. T. Lakshmanan and Mr. N. Sai Sankar 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, M/s. Sathguru Management Consultants Private Limited of any change in their registered address, before 25th July, 2006.
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, M/s. Sathguru Management Consultants Private Limited, these folios to enable consolidation of all such shareholdings into one folio.
6. Shareholders are requested to refer to the "Shareholder Referencer" which inter-alia contains details regarding unclaimed dividend.
7. Shareholders are requested to bring their copy of the Annual Report to the Meeting.





## EXPLANATORY STATEMENT

In accordance with Section 173(2) 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 Fifth Annual General Meeting of the Company to be held at Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad - 500 034, on Thursday, 27th July, 2006.

### Item No. 5

Your Board of Directors appointed Mr. S. Thirumalai as an Additional Director with effect from 20th October, 2005 pursuant to the provisions of Article 98 of Articles of Association of the Company.

Mr. S. Thirumalai, aged 57 years, is a Commerce and Law Graduate and is a member of Institute of Chartered Accountants of India, Institute of Company Secretaries of India and Certified Associate of the Indian Institute of Bankers. He has over 30 years of experience in manufacturing industry covering all aspects of Finance, Taxation and General Management (including three years with Reserve Bank of India/Unit Trust of India as an Officer). He is currently a Partner, National Director - Indirect taxation with Deloitte Haskins and Sells, Chartered Accountants. Mr. Thirumalai holds 25 shares in the Company.

In terms of Article 98, Mr. S. Thirumalai 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 Rupees five hundred, as required by Section 257 of the Companies Act, 1956, has been received by the Company from a Member proposing the appointment of Mr. S. Thirumalai as a Director of the Company.

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

The Board recommends this Resolution for your approval.

### Item No. 6

At the Sixty-eighth Annual General Meeting of your Company held on 27th September, 1999, approval was accorded to the appointment of Mr. Raymond S. Noronha, Managing Director of your Company, with effect from 1st November, 1998 for the period of his office upto

31st October, 2003, on such consolidated salary, performance linked bonus and perquisites as had been set out in the Explanatory Statement annexed to the Notice dated 27th May, 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 under 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. Subsequently, at the Seventy-second Annual General Meeting of the Company, the remuneration payable to Mr. Raymond S. Noronha, Managing Director was varied.

Your Board of Directors at their meeting held on 27th April, 2006, have with the consent of Mr. Raymond S. Noronha varied with effect from 1st April, 2006, remuneration payable to Mr. Raymond S. Noronha, subject to the approval of the Members, for the remaining period of his office upto 31st October, 2008 or upto the date of his retirement, whichever is earlier, in view of the significant contribution made by Mr. Raymond S. Noronha towards the improved performance of your Company.

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

None of the Directors other than Mr. Raymond S. Noronha may be deemed to be concerned or interested in the Resolution.

The Resolution and the Explanatory Statement may be treated as the abstract of terms under Section 302 of the Companies Act, 1956.

### Item No.7

At the Seventieth Annual General Meeting of your Company held on 14th June, 2001, approval was accorded to the appointment of Mr. N. Sai Sankar, Wholtime Director of your Company, with effect from 1st January, 2001 for the period of his office upto 31st December, 2005, on such consolidated salary, performance linked bonus and perquisites as had been set out in the Explanatory Statement annexed to the Notice dated 26th April, 2001, convening the Seventieth 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 under 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. N. Sai Sankar. Subsequently, at the 74th Annual General Meeting of the Company, the remuneration payable to Mr. N. Sai Sankar, Wholtime Director was varied.

Your Board of Directors at their meeting held on 27th April, 2006 have with the consent of Mr. N. Sai Sankar varied with effect from 1st April, 2006, remuneration payable to Mr. N. Sai Sankar, subject to the approval of the Members, for the remaining period of his office upto 31st December, 2010, in view of the significant contribution made by Mr. N. Sai Sankar towards the improved performance of your Company.

Mr. N. Sai Sankar shall continue to hold office as Company Secretary. The appointment and remuneration are subject to compliance with the requirements of Section 314 and other applicable provisions of the Companies Act, 1956.

Your Directors consider that it would be appropriate and desirable to vary the remuneration in respect of Mr. N. Sai Sankar as set out in the Resolution and commend passing of the Resolution.

None of the Directors other than Mr. N. Sai Sankar may be deemed to be concerned or interested in the Resolution.

The Resolution and the Explanatory Statement may be treated as the abstract of terms under Section 302 of the Companies Act, 1956.

#### Item No.8

Further to the approval given by the Members at the Annual General Meeting held on 24th July, 2003, the Company's equity shares have been delisted from the Ahmedabad,

Chennai, Kolkata and Delhi stock exchanges. Currently, the Company's equity shares are listed on three stock exchanges viz., Hyderabad, Bombay and National Stock Exchanges. The equity shares are now mainly traded on the online trading system at The Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE). The equity shares are not actively traded on The Hyderabad Stock Exchange Limited.

The Securities and Exchange Board of India has recently notified the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 which has come into force from 17th February, 2003. Pursuant to the said guidelines, the Company is permitted to delist from any one or more of the stock exchanges where the securities are listed subject to conditions contained therein which includes approval of the shareholders at the General Meeting by special resolution and also continuing listing on the BSE and NSE.

With online trading in place at BSE and NSE, it is felt that no useful purpose is being served to have the equity shares listed on Hyderabad stock exchange and hence, delisting from The Hyderabad Stock Exchange Limited as per the SEBI guidelines could be sought. The Company's equity shares would continue to be listed on the BSE and NSE.

Your Directors therefore, recommend the above resolution for your approval.

By Order of the Board,

N. SAI SANKAR  
Secretary

Dated this 27th day of April, 2006.  
Azamabad, Hyderabad - 500 020,  
Andhra Pradesh.



## REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS TO THE SHAREHOLDERS FOR THE YEAR ENDED 31ST MARCH, 2006

VST Industries Limited

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2006.

### Financial Results

	Rs. Lakhs
The Net Profit for the year, after deducting all charges, expenses and taxation but before extraordinary item amounts to	7221.30
Deducting therefrom extraordinary item (net of tax)	2911.48
Adding thereto Profit brought forward from the previous year	5036.19
The amount available for disposal was	9346.01
Out of which the following appropriation has been made :	
General Reserve	2000.00
Leaving a balance of	7346.01
Out of which your Board recommends	2200.97
Should be distributed as Dividend on the Ordinary Share Capital at the rate of Rs.12.50 per share and inclusive of Dividend Tax	
Leaving an undistributed amount of	5145.04
in the Profit and Loss Account to be carried forward to the following year.	

hamper growth. These get compounded when lower price segment (a segment in which your Company has substantial presence) would have to compete with tobacco products like Bidis and Gutka.

The industry has been representing to the Government about the need for an equitable tax policy for all tobacco products but with no success till date. The share of cigarettes which constitutes a mere 14% of the total tobacco consumption could erode further with Union Budget proposals for the year 2006-2007 levying an about 5.5% increase across the board in all segments of the cigarette industry.

### Market Scenario

Your Company had successfully reversed the trend of declining volumes year on year in the domestic market in 2004-2005. This trend continued in 2005-2006, and your Company achieved a growth of 4% as compared to the previous year. This growth was made possible primarily through expanding the consumer base in the micro plain segment, both in existing areas of operations, as well as in previously unrepresented geographies, and by successfully exploiting competitive price movements in the regular sized filter segment.

In the micro plain segment, a sustained level of inputs and distribution focus resulted in **Charminar Standard** achieving the highest volume growths among all brands in this segment. In addition, your Company's second largest micro brand **Shaan** has been instrumental in expanding your Company's

### INDUSTRY STRUCTURE & DEVELOPMENT

The Indian economy is showing signs of rapid growth pace with current year's growth being projected at 8% plus. The cigarette industry which revived after many years in 2004-2005 continued its growth path though at a much lower level this year. Discriminative tax policies on the cigarette industry continue unabated. Further, severe restrictions have been imposed over the last several years affecting both distribution and brand building.

### 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.

#### Industry Issues

Discriminative tax policies on cigarettes, by exempting non-cigarettes from excise levy would continue to impact consumption and