



VST INDUSTRIES LIMITED

ANNUAL REPORT 2008





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BOARD OF DIRECTORS

Chairman

ABHIJIT BASU

Managing Director

RAYMOND S. NORONHA

Finance Director & Secretary

N. SAI SANKAR

Directors

JAYAMPATHI DIVALE BANDARANAYAKE

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

T. LAKSHMANAN

V. SEKAR

R.V.K.M. SURYARAU

S. THIRUMALAI

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Auditors

Lovelock & Lewes

Chartered Accountants

Hyderabad - 500 034

Andhra Pradesh

Registered Office

1-7-1063/1065, Azamabad

Hyderabad - 500 020

Andhra Pradesh

Registrars & Share Transfer Agents

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

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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Seventy Seventh Annual General Meeting of VST INDUSTRIES LIMITED will be held at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034 on **Thursday 17th July, 2008 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, 2008, the Profit and Loss Account, Auditors' Report and Directors' Report for the Company's year ended 31st March, 2008.
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.16,00,000 (Rupees Sixteen Lakhs 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. Jayampathi Divale Bandaranayake who was appointed a Director of the Company with effect from 29th October, 2007 nominated by British American Tobacco in place of Mr. Andrew O'Regan and who vacates office at the ensuing Annual General Meeting under Section 262 of the Companies Act, 1956 and Article 98 of the Articles of Association of the Company and in respect of whom the Company has received a notice in writing from a Member proposing his candidature for the office of the Director be and is hereby appointed as a Director of the Company whose period of office shall be liable to determination by the retirement of Directors by rotation."

6. 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. V. Sekar who was appointed a Director of the Company with effect from 29th October, 2007 nominated by General Insurer's (Public Sector) Association of India in place of Mr. T. Lakshmanan and who vacates office at the ensuing Annual General Meeting under Section 262 of the Companies Act, 1956 and Article 98 of the Articles of Association of the Company and in respect of whom the Company has received a notice in writing from a Member proposing his candidature for the office of the Director be and is hereby appointed as a Director of the Company whose period of office shall be liable to determination by the retirement of Directors by rotation."

7. 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. T. Lakshmanan who was appointed a Director of the Company with effect from 29th October, 2007 under Section 260 of the Companies Act, 1956 and 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."

8. 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 in accordance with provisions of Sections 269, 309, 310, 311 read with Schedule XIII of the Companies Act, 1956 and other applicable provisions, if any, and subject to the approval of the Members of the Company at the forthcoming Annual General Meeting, Mr. Raymond S. Noronha be and is hereby re-appointed upon expiry of his current term of office as the Managing Director of the Company to hold office for a period of two years from 1st November, 2008 to 31st October, 2010 (both days inclusive) or up to the date of his retirement, whichever is earlier, on the following remuneration:

- I. **Consolidated Salary:** At the rate of Rs.8,40,700 per month 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, 2009 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.10,00,000 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.

- III. **Minimum Remuneration:** Notwithstanding anything to the contrary contained herein, where, in any financial year during the currency of the

tenure of Mr. Raymond S. Noronha, the Company has no profits or its profits are inadequate, the Company will pay salary and perquisites to the maximum as laid down in Section II of Part II of Schedule XIII as Minimum Remuneration.

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.

FURTHER RESOLVED that the Board of Directors, be and is hereby authorized to do all things and deeds incidental thereto including entering into an agreement with Mr. Raymond S. Noronha for the above purpose.

FURTHER RESOLVED that Mr. N. Sai Sankar, Secretary of the Company be and is hereby authorized to do all such acts and deeds as may be required to give effect to the above resolution."

The Register of Members of the Company will remain closed from 15th July, 2008 to 17th July, 2008 (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 14th July, 2008, will be registered in time for the transferees to become eligible for dividend, if declared.

Dividend, if approved, will be paid on or before 16th August, 2008 to those shareholders whose names appear in the Register of Members of the Company on 17th July, 2008 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 17th day of April, 2008.
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 to 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, Air Chief Marshal I.H. Latif (Retd.) and Mr. Raymond S. Noronha 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 15th July, 2008.
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.

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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 Seventh Annual General Meeting of the Company to be held at Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad - 500 034 on **Thursday, 17th July, 2008.**

Item No. 5

Mr. Jayampathi Divale Bandaranayake who was appointed as a Director of the Company on 29th October, 2007 to fill the casual vacancy caused by the resignation of Mr. Andrew O'Regan in terms of Section 262 of Companies Act, 1956 and Article 98 of the Articles of Association of the Company, vacates office at this Annual General Meeting.

A notice has been received by the Company along with a deposit of Rs.500 from a Member under Section 257 of the Companies Act, 1956, proposing the appointment of Mr. Bandaranayake as a Director at this meeting having filed his consent with the Company to act as Director.

Mr. Bandaranayake is a graduate of Law (Sri Lanka) and a Fellow of the Institute of Chartered Secretaries and Administrators (UK) and a Fellow of Institute of Personnel Management (Sri Lanka). Mr. Bandaranayake retired as Deputy Managing Director of Ceylon Tobacco Company, Sri Lanka in July 2007 after 40 years of service. He is a director on the board of Ceylon Tobacco Co. Ltd., Coco Cola Beverages, Sampath Bank Ltd., James Finlay & Co. Ltd., Union Assurance Ltd., Hayleys Ltd. and West Coast Power (Pvt) Ltd., all in Sri Lanka. He is also a director on the Board of Investment of Sri Lanka. He is the Vice Chairman of the Ceylon Chamber of Commerce.

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

The Board commends this Resolution for your approval.

Item No. 6

Mr. V. Sekar who was appointed as a Director of the Company on 29th October, 2007 to fill the casual vacancy



caused by the resignation of Mr.T. Lakshmanan in terms of Section 262 of Companies Act, 1956 and Article 98 of the Articles of Association of the Company, vacates office at this Annual General Meeting.

A notice has been received by the Company along with a deposit of Rs.500 from a Member under Section 257 of the Companies Act, 1956, proposing the appointment of Mr. Sekar as a Director at this meeting having filed his consent with the Company to act as Director.

Mr. Sekar is a Chartered Accountant. He joined the General Insurance Industry in 1975 and has held various positions in the Oriental Insurance Co. Ltd. prior to his assignment as General Manager of United India Insurance Co. Ltd. He has rich experience of more than three decades in the Oriental Insurance Co. Ltd. He is also a director on the board of United India Insurance Co. Ltd., Chennai.

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

The Board commends this Resolution for your approval.

Item No. 7

Mr. T. Lakshmanan who was appointed as Additional Director of the Company on 29th October, 2007 in terms of Section 260 of Companies Act, 1956 and Article 98 of the Articles of Association of the Company, vacates office at this Annual General Meeting.

A notice has been received by the Company along with a deposit of Rs.500 from a Member under Section 257 of the Companies Act, 1956, proposing the appointment of Mr. Lakshmanan as a Director at this meeting having filed his consent with the Company to act as Director.

Mr. Lakshmanan is a Post Graduate in Science and a Member of FFII. He has over 33 years of experience in various departments of General Insurance Corporation (GIC) and retired as General Manager of GIC in 2001. He resigned as a nominee Director from the Board of your Company and is appointed as an Additional Director.

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

The Board commends this Resolution for your approval.

Item No. 8

At the Seventy Second Annual General Meeting of your Company held on 24th July, 2003, the shareholders had approved the appointment of Mr. Raymond S. Noronha as Director and Managing Director of the Company with effect from 1st November, 2003 to hold office for a period of five years or up to the date of his retirement, whichever is earlier.

The Board of Directors at their meeting held on 17th April, 2008, have subject to the approval of the shareholders at the Seventy Seventh Annual General Meeting, re-appointed Mr. Noronha as a Managing Director of the Company to hold office for a period of two years from 1st November, 2008 to 31st October, 2010 (both days inclusive) or upto the date of his retirement whichever is earlier.

Mr. Noronha is a B.A. (Hons.) from St. Stephen's College, Delhi and attended the Wharton Advanced Management Program (1995) at Philadelphia, USA. He has had over 34 years of varied experience in the cigarette business both international and domestic and has held several top level positions for over a decade. He is a Member of the Committee of Directors and Shareholders Grievance Committee of your Company. He is a director on the board of the Tobacco Institute of India.

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

The Board commends this Resolution for your approval.

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

By Order of the Board,

N. SAI SANKAR
Secretary

Dated this 17th day of April, 2008.
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, 2008

VST Industries Limited

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2008.

Financial Results

Rs. Lakhs

The Net Profit for the year, after deducting all charges, expenses and taxation but before extraordinary item amounts to	..	..	..	..	5835.31
Adding thereto Profit brought forward from the previous year	...	..	..	..	6440.96
The amount available for disposal was	...	..	..	..	12276.27
Out of which the following appropriation has been made :					
General Reserve	...	..	..	..	600.00
Leaving a balance of	...	..	..	..	11676.27
Out of which your Board recommends	...	..	..	..	3613.25
Should be distributed as Dividend on the Ordinary Share Capital at the rate of Rs.20 per share and inclusive of Dividend Tax					
Leaving an undistributed amount of	..	..	..	..	8063.02
in the Profit and Loss Account to be carried forward to the following year.					

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.

Market Scenario

In spite of the twin challenges mentioned above, your Company was able to grow volumes by 1% during the current financial year. More heartening, was the change in mix with filters share improving substantially. The value for money filter brand **"Moments"** was launched during the last quarter of the year 2006-07 and continues to show promise. It is also pertinent to add that brands launched during the last five years, namely **Special Extra Smooth, Moments, Shaan, etc.** have continued to show great promise and **currently their share in the total volume is around 20%.**

The improved economic conditions as well as your Company's strategic thrust in concentrating on the tobacco business, have helped your Company to continue on the growth path despite great adversities.

The current Union Budget 2008-09 has dealt yet another unprecedented blow to the cigarette industry as a whole and has much more significant adverse effect on your Company in particular. The excise duty for non-filter cigarettes has been increased by **two and a half times to five times**, a selective increase not seen in the history of the cigarette industry. Upto length of 60mm brands the duty has been increased from Rs.168 per 1000 cigarettes to Rs.819 per 1000 cigarettes, **nearly 5 times**. For cigarettes between 60mm to 70mm, the excise duty has been increased from

INDUSTRY STRUCTURE & DEVELOPMENT

The financial year 2007-08 was one of the most challenging one for the industry and in particular, for your Company. Two issues namely imposition of Value Added Tax (VAT) and Graphic Health Warnings (GHW) on cigarette packets dominated the year and made the markets remain in a turbulent state.

Industry Issues

On 1st April, 2007, VAT on cigarettes was imposed for the first time in most markets where your Company operates. VAT being ad valorem in nature, is imposed on the invoice price and had an impact of 12.5% in the price to the consumer. This coupled with an

increase of 6% (inclusive of cess) in Excise Duties in the Union Budget 2007 resulted in increase of cigarette prices by more than 22%. It was expected that the industry would shrink in the current year as this rise was unprecedented in the cigarette industry. GHW has been the other issue which remained in news throughout the year. Originally scheduled for implementation during February, 2007, it was postponed a number of times during the year and the current revised date is June 2008. This uncertainty of the GHW being implemented resulted in creating uncertain market conditions through the year.

SEGMENT WISE PERFORMANCE

Your Company considers tobacco and related products as the primary segment



Rs.546 per 1000 cigarettes to Rs.1323 per 1000 cigarettes, an increase of nearly **two and a half times**. On the other hand, Excise Duty rates for the entire filter segment, accounting for 70% of industry volume **remain unchanged**.

You are aware these two plain segments constitute around 55% of your Company's market and such record increases can only create significant competitive disadvantages for us in the market place. As this move by the Government is selectively punitive, representations have been made to the Finance Ministry in New Delhi and also been taken up by the industry to moderate duty increases. Nevertheless, your Company has responded to such challenges in the past and is confident that it will overcome the current crises. For the industry however, this translates to impact of 30% on volumes and it would be fair to estimate that there would be substantial reduction in volumes in these two segments, as to render them virtually insignificant.

During the year under review the cigarette volumes grew from 8653 mns in 2006-07 to 8823 mns in 2007-08. The value realizations were also higher at Rs.709.94 crore up from Rs.674.98 crore in the previous year.

Leaf Tobacco

We are happy to report that your Company has recorded Rs.59.55 crore leaf export turnover, which is 32% higher than the year 2006-07, despite severe competition and rupee appreciation.

Your Company has established special tobaccos for niche markets, which are being produced by the large farmer base of your Company. This has helped in optimising the turnover and

profit and also helped in economic uplift of the backward regions. Your Company had entered into long term (10 years) tie-ups with potential customers for Oriental Tobacco development and marketing. We are now in the second year of commercial operations, and we look forward to 13% export growth for next three years. We have established markets with premium customers for Air cured Burley exports and Fire cured tobaccos and this will also ensure steady export growth in the years to come. Your Company continues to retain the premier status in Sun/Air/Fire cured tobaccos. There is however increased incidence of freelancers getting into development areas due to spurt in demand for Sun/Air/Fire cured tobaccos.

You will be pleased to learn that your Company's farmers continue to grow tobacco with lowest pesticide residue levels and well within international standards.

As a social responsibility to conserve greenery, your Company is continuing social forestry through afforestation and Trees for Life and also actively discouraging child labour involvement in tobacco growing/processing. Leaf function has been recommended for SA 8000 Certification by Registro Italiano Navale India (RINA).

PRODUCTION AND PLANT MODERNISATION

Primary Manufacturing Department (PMD)

Cut lamina conditioning tunnel has been installed in Lamina Cutting Line to ensure improved expansion and filling power.

Stem flattener has been installed in Stem Cutting Line to ensure better and consistent quality stem cutting.

On line moisture meter at drier entry and new design weigh feeders have been installed in Lamina Drying Line to achieve accurate moisture control.

Tobacco rejection in the processing lines has reduced by 0.86% over the last year.

Secondary Manufacturing Department (SMD)

The following technology has been put in place in accordance with ongoing modernisation plan of Secondary Manufacturing Department, to improve productivity and quality -

- One Molins MK9 MTF 5500 cpm Making machine has been installed
- Direct transportation of CFCs from SMD Packing lines to the warehouse on the Plains line
- One GD HRC (Half Round Corner) packer with S90 Cig Reservoir & GD wrapper along with the Parceller has been installed. HRC Capacity increased by 100 Mnc/month
- One GD 121 - 12000 Filter making Machine along with Filter Shooter installed

HUMAN RESOURCE DEVELOPMENT

Your Company's Human Resource Management focus continues to be in making available a talent pool, for meeting challenges in the competitive market place.

Development plans have been drawn up for key managers for job enrichment, as well as to increase effectiveness.

As on 31st March, 2008, your Company had a strength of 1,079 employees, with 275 management staff and 804 workmen.