



# **VST INDUSTRIES LIMITED**

**ANNUAL REPORT 2010-11**







## CONTENTS

VST Industries Limited

	Page
Board of Directors .. .. .	3
Notice of Meeting .. .. .	4
Report of the Board of Directors & Management Discussion and Analysis .. .. .	6
Annexure to the Directors' Report .. .. .	16
Report on Corporate Governance .. .. .	19
Certification by CEO and CFO .. .. .	34
Report of the Auditors .. .. .	35
Balance Sheet .. .. .	38
Profit and Loss Account .. .. .	39
Cash Flow Statement .. .. .	40
Schedules to the Balance Sheet .. .. .	41
Schedules to the Profit and Loss Account .. .. .	51
Significant Accounting Policies .. .. .	58
Balance Sheet Abstract and Company's General Business Profile .. .. .	60
Operating Results .. .. .	61
Attendance Slip/Form of Proxy .. .. .	63



## BOARD OF DIRECTORS

### **Chairman**

R.V.K.M. SURYARAU (w.e.f. 15th October, 2010)

ABHIJIT BASU (Resigned as Director & Chairman w.e.f. 15th October, 2010)

### **Managing Director**

RAYMOND S. NORONHA

### **Deputy Managing Director & Secretary**

N. SAI SANKAR

### **Directors**

PETER G. HENRIQUES

T. LAKSHMANAN

MILIND ANNA KHARAT

S. THIRUMALAI

### **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, Punjagutta

Hyderabad - 500 034

Phone : +91 40 3016 0333

Fax : +91 40 4004 0554

E-mail : sta@sathguru.com



## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Eightieth Annual General Meeting of VST INDUSTRIES LIMITED will be held at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034 on **Thursday, 14th July, 2011 at 10.30 a.m.** for transacting the following business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2011, the Profit and Loss Account of the Company for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare a Dividend on the Equity Shares for the year ended 31st March, 2011.
3. To appoint Directors in place of Mr. T. Lakshmanan and Mr. S. Thirumalai, who retire by rotation and being eligible, offer themselves for re-appointment.
4. To appoint Auditors and to fix their remuneration. In this connection, 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 M/s. Lovelock & Lewes, Chartered Accountants (Registration No: 301056E), 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 ₹22,00,000 (Rupees Twenty two Lakhs only) payable in two equal instalments plus service tax as applicable and reimbursement of actual out-of-pocket expenses incurred."

The Register of Members of the Company will remain closed from 12th July, 2011 to 14th July, 2011 (both days inclusive) for payment of dividend, if declared.

Transfer of shares received in order at the Registrars and Share Transfer Agents of the Company, M/s. Sathguru Management Consultants Private Limited, Plot No.15, Hindi Nagar, Punjagutta, Hyderabad - 500 034, before the close of business on 11th July, 2011, will be registered in time for the transferees to become eligible for dividend, if declared.

Dividend, if declared, will be paid on 11th August, 2011 to those Members whose names appear in the Register of Members of the Company on 14th July, 2011 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 on 11th July, 2011, 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  
VST INDUSTRIES LIMITED

N. SAI SANKAR  
Secretary

Dated this 13th day of April, 2011.  
Azamabad, Hyderabad - 500 020,  
Andhra Pradesh.



## NOTES

1. **A Member entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and vote on a poll on his behalf. A proxy need not be a Member of the Company. The instrument of proxy in order to be effective, must be received at the Registered Office of the Company, duly completed and signed not less than forty-eight hours before the commencement of the Annual General Meeting i.e., by 10.30 a.m. on 12th July, 2011.**
2. Corporate members are requested to send, a duly certified copy of the board resolution pursuant to Section 187 of the Companies Act, 1956, authorising their representative to attend and vote at the Annual General Meeting.
3. Members should inform the Company's Registrars and Share Transfer Agents, M/s. Sathguru Management Consultants Private Limited of any change in their registered address, mandate/bank details before 12th July, 2011.
4. Members 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.
5. Members are requested to refer to the "Shareholder Referencer" which inter-alia contains details regarding unclaimed dividend.
6. Members are requested to bring their copy of the Annual Report to the Meeting.
7. For the convenience of Members and for proper conduct of the meeting, entry to the venue of the Meeting will be regulated by Attendance Slip, which is attached to the Annual Report. Members are requested to sign at the place provided on the Attendance Slip and hand it over at the entrance to the venue.



# REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT

## DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31ST MARCH, 2011

VST Industries Limited

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2011.

### Financial Results

		₹ Lakhs
	2010-11	2009-10
Revenue from Operations	<b>139654</b>	112542
Net Profit after Tax	<b>9501</b>	6205
Profit brought forward from previous year*	<b>8620</b>	8200
Balance available for Appropriation	<b>18121</b>	14405
Amount transferred to General Reserves	<b>975</b>	625
Dividend proposed	<b>6949</b>	4632
Corporate Dividend Tax	<b>1127</b>	770
Surplus carried in Profit and Loss Account	<b>9070</b>	8378

\*Including ₹242 lakhs taken over on amalgamation of the wholly owned subsidiary VST Distribution, Storage & Leasing Company Private Limited with the Company.

### KEY RATIOS

Earnings Per Share (₹)	<b>61.53</b>	40.18
Dividend Per Share (₹)	<b>45.00</b>	30.00

**The financial year 2010-11 recorded an improvement of 24.1% in Sales (Gross) and 53.1% Profit after Tax when compared to the previous year. A record year with record Sales, record Profit after Tax and Dividends Per Share of ₹45, the best in the decade. Value Creation during the decade has been Compounded Annual Growth Rate (CAGR) of 9.9% in Earnings Per Share (EPS) and 28.2% in Dividends Per Share (DPS).**

did not propose any changes in the excise rates, which was a welcome relief for the industry and your Company.

### Industry Issues

Change in Graphic Health Warning which was to be made effective 1st November, 2010, was deferred to the financial year 2011-12 as the law was amended to make it compulsory for cigarette companies to change Graphic Health Warnings every twenty-four months instead of every twelve months. The exact date of its implementation is awaited.

As far as litigation is considered, there were far fewer cases which your Company had to address during the current financial year.

### 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.

Your Company's brands were stable during 2010-11, with most brands gaining volumes.

**SPECIAL EXTRA FILTER** and **MOMENTS** were two brands which gained substantially. SPECIAL EXTRA FILTER was able to gain 42% in volumes while MOMENTS gained 29%. You will be pleased to note that both these brands are fairly new brands launched in the recent past and now constitute 33% of your Company's volume base.

### INDUSTRY STRUCTURE & DEVELOPMENT

In the last report, it was mentioned that in view of steep increase in duties leading to increase in prices, volumes would get impacted. However you will be pleased to know that your Company was able to beat the general industry trend and grow volumes by 8.6% when compared to same period in the previous year. Tobacco prices were stable with a normal increase, while

foreign exchange volatility was lower when compared to previous year.

Financial year 2010-11 was one of the better years in terms of volume growth. Filter volumes now cover virtually 95% of your Company's volume. The increase in VAT rates across the states continues with more states increasing the VAT rates during the current financial year. This continues to impact margins and thereby profitability. The Union Budget presented in February 2011,





**CHARMS VIRGINIA FILTER** and **CHARMS SMOOTH VIRGINIA** were the other brands which were able to improve their performance.

The growth in volume of these brands has to be viewed in contrast to the steep increase of over 17% increase in prices which the brands were subjected to.

Your Company's strategy of launching new brands in value-for-money segments would continue in markets which provide opportunities as these continue to help grow the volumes.

### Market Scenario

During the year under review, the cigarette volumes stood at 8162 mns, up by 8.6% when compared to 2009-10. The value realisations were higher at ₹1230 crore, up by 28% when compared to ₹959 crore during the previous year.

### Leaf Tobacco

It is a matter of satisfaction that your Company has recorded leaf export turnover of ₹149 crore, in the year 2010-11, despite stiff competition in the domestic market, glut in the international market and fluctuation in exchange rate.

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 optimizing 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. The volumes can be maintained through improved agronomic practices. Your Company completed six years of commercial operations and expects

export growth to sustain. Establishment of markets with premium customers for new varieties of Sun Cured and Fire Cured tobaccos, will ensure steady exports in the years to come. Your Company continues to retain the premier status in Sun/Air/Fire cured tobacco exports. There is, however, increased incidence of freelancers getting into development areas due to spurt in demand for Sun/Fire cured tobaccos.

It will be gratifying to learn that your Company's farmers continue to grow tobacco with lowest pesticide residue levels that are well within international standards.

Your Company's leaf function continues to be certified by Registro Italiano Navale, Genova, Italy for SA8000.

### PRODUCTION AND PLANT MODERNISATION

#### Primary Manufacturing Department

A DCCC & Slicer with automatic Programmable Logic Controls has been installed in the Lamina Conditioning Line to ensure better and uniform conditioning of Lamina.

A sample plant with automatic Programmable Logic Controls has been installed to ensure that the quality of sample cut tobacco blend is identical to that of main plant.

A Lamina Airlift has been installed to ensure less degradation and capacity balancing.

A Rag drier with automatic Programmable Logic Controls has been installed in the Rag Line, which gives higher fill valve and better particle size

distribution in the cut tobacco blend and consistency of the cut tobacco moistures.

New design conveyors have been installed on down stream of Rag drier and lamina conditioning lines to ensure less degradation and tobacco rejection.

#### Secondary Manufacturing Department

In pursuance of ongoing modernization plan of Secondary Manufacturing Department to improve productivity and quality, contemporary technology has been put in place.

During the year, a total of 84 technicians (40 Mechanical & 44 Electrical) have been trained by a reputed training institute and Original Equipment Manufacturers as part of skills upgradation.

### 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, which is increasingly becoming complex.

Development plans have been drawn up for key managers to shoulder higher responsibilities as well as to increase their job effectiveness.

As on 31st March, 2011, your Company had a strength of 930 employees, with 292 management staff and 638 workmen.

### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

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 is given in the Annexure to this Report.

### **ENVIRONMENT, HEALTH & SAFETY (EHS) AND COMMUNITY SERVICES**

Your Company has been maintaining a high safety performance for the last 364 days without any accident.

Gold Award for the year 2010 was presented to your Company by Royal Society for Prevention of Accidents (RoSPA), U.K. for maintaining highest standards in Occupational, Health and Safety.

Accident Free Award was awarded to your Company from British American Tobacco on 5th April, 2010 for One Year Accident Free from 21st March, 2009 to 20th March, 2010.

Safety Innovation award was awarded to your Company from Institution of Engineers India on 28th December, 2010.

Environment, Health and Safety (EHS) in day-to-day business operations is given very high priority by your Company. 395 employees and 30 contractors have undergone EHS training and 543 employees have undergone fire fighting training programme. Mock Fire Drills were also conducted for workers and management during the period to comply with the Company's EHS guidelines. Involvement by workmen in quarterly EHS reviews along with staff members and periodical inspections have kept the performance monitoring on vigil. Quarterly and annual EHS audits of Company operations including leaf godowns was carried out to ensure

compliance of EHS requirements and to measure the EHS progress. EHS Road Map rating for your Company was assessed at 3.54 as against the scale of 4.0 for the year 2010-11.

Your Company celebrated National Safety Day on 4th March, 2011 by conducting safety meetings inside factory and all contractors attended safety programme conducted by National Safety Council.

Surveillance Reviews of ISO 14001: 2004 & OHSAS 18001: 2007 for the year 2010 by Registro Italiano Navale India (RINA) revalidated your Company's certifications.

On the environmental side, as a responsible corporate, your Company continues to put in sustained efforts in the upkeep and improvement of existing systems like Scrubber, DRF systems, rain water harvesting pits, ETP with soil bio-technology and also in energy conservation installation of solar water heating panels for boiler feed water and for workers canteen boiler.

Water Consumption was reduced by 30 Kl/day.

As a social responsibility and to conserve greenery, your Company is encouraging social forestry through afforestation and Trees for Life programme. It is also actively discouraging child labour involvement in tobacco growing/processing. Your Company has installed water purifiers in major tobacco growing villages to improve health through supply of clean drinking water to the rural community.

All statutory compliances are in place.

The thrust on EHS will continue while emphasizing the focus on Best International Work practices.

## **FINANCE**

### **a. Profits**

The Profit after Tax for the year at ₹95 crore is the highest ever recorded by your Company in its history.

The continuous increase in taxation over the last several years has made improvement in margins a daunting task thereby impacting profitability.

Your Company's thrust on growing volumes continued during the year with reasonable success though industry growth remained flat.

Your Company's focus on working capital management and budgetary control on expenses has resulted in improvement of profitability. When compared to previous year, your Company's profits improved both in cigarettes and leaf tobacco operations.

### **b. Treasury Operations**

Your Company follows a SLR model (Safety, Liquidity and Return) in deployment of surplus funds which arise during various periods of time. The Company predominantly deploys money in income funds of reputed mutual funds and tax free bonds. Such investments earned ₹13 crore during the current year.

## **ENTERPRISE RESOURCE PLANNING (ERP)**

Your Company was able to successfully manage the entire ERP system by developing an in-house team. All routine business issues as well as improvements in existing systems have been