

25TH ANNUAL REPORT

2006-2007



VISAKA INDUSTRIES LIMITED

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25th Annual Report 2006 – 2007

Board of Directors

Chairman

Shri. M. Sreenivasa Rao

Directors

Shri. B.B. Merchant
Shri. Nagam Krishna Rao
Shri. V.Pattabhi
Shri. Gusti Noria
Shri. H.Dayakiran
Smt. G.Saroja Vivekanand

Managing Director

Dr. G. Vivekanand

COMMITTEES OF THE BOARD

Audit Committee

Shri. M. Sreenivasa Rao
Shri. B.B. Merchant
Shri. Gusti Noria
Smt. G. Saroja Vivekanand

Remuneration Committee

Shri. M.Sreenivasa Rao
Shri. B.B.Merchant
Shri. Nagam Krishna Rao

Shareholders Grievances Committee

Shri. Nagam Krishna Rao
Dr. G. Vivekanand

Sr.V.P & Company Secretary

Shri. K.V.Soorianarayanan

Registered Office

Survey No.315,
Yelumala Village
R.C.Puram Mandal,
Medak Dist
Andhra Pradesh, Pin-502300.

Corporate Office

"Visaka Towers"
1-8-303/69/3, S.P. Road
Secunderabad 500 003.

Factories :

1. A.C. Division – 1
Survey No.315, Yelumala Village
R.C.Puram Mandal
Medak District
Andhra Pradesh - 502 300.
2. A.C. Division – 2
Behind Supa Gas
Manickanatham Village, Paramathi
Velur Taluq, Namakkal District
Tamil Nadu - 637 207.
3. A.C. Division – 3
Changsole Mouza
Bankibund, G.P.No.4, Salboni Block,
Midnapore (West)
West Bengal – 721 147.
4. A.C. Division – 4
Survey No: 27/1
G.Nagenahalli Village, Kora Hobli
Tumkur Taluk & District
Karnataka.
5. A.C.Division – 5
Village Kannawan, P.S.Bacharawan
Tehsil: Maharaj Ganj, Raibareli District
Uttar Pradesh – 229 301.
6. A.C.Division – 6
Survey No. 385, 386
Near Kanchikacharla, Jujjuru (Village)
Mandal: Veerula Padu, Krishna District
Andhra Pradesh – 521 181.
7. Textile Division
Survey No.179 & 180
Chiruva Village, Maudha Taluq
Nagpur District, Maharashtra.
8. Garment Division:
No.427/1A, Chettipunyam Village
(Opp. Mahindra City)
Chengalpet Taluq, Kancheepuram District
Tamilnadu – 603 204.

Auditors:

M/s. M. Anandam & Co.
Chartered Accountants
7 'A' Surya Towers,
S.P.Road, Secunderabad-3

Bankers:

State Bank of India
Industrial Finance Branch, Hyderabad.
State Bank of Hyderabad,
Industrial Finance Branch, Hyderabad.

Term Lenders:

IDBI
ICICI Bank
UTI Bank
Indusind Bank
SBI



VISAKA INDUSTRIES LIMITED

NOTICE

Notice is hereby given that the 25th Annual General Meeting of VISAKA INDUSTRIES LIMITED will be held at its Registered Office at Survey No.315, Yelumala Village, Ramachandrapuram Mandal, Medak District – 502 300, Andhra Pradesh on Monday, the 04th day of June, 2007 at 11.00 A.M to transact the following business.

ORDINARY BUSINESS

1. To adopt the Balance Sheet as at 31st March, 2007 and Profit and Loss Account for the year ended on that date and the reports of the Directors and Auditors thereon.
2. To declare Dividend for the year ended 31st March, 2007.
3. To appoint a Director in place of Shri. H. Dayakiran who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Shri. V. Pattabhi who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors of the Company.

To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution.

“RESOLVED THAT M/s M. Anandam & Co., Chartered Accountants, 7 ‘A’ Surya Towers, S.P. Road, Secunderabad 500 003, be and are hereby reappointed as Auditors of the Company to hold office from the conclusion of this Meeting till the conclusion of the next Annual General Meeting of the Company and that the Board of Directors be and are hereby authorized to fix their remuneration for the period”.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass, with or without modification (s) the following resolution as an Ordinary Resolution.

RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, to mortgaging and or charging by the Board of Directors of the Company of all the immovable properties of the Company, wheresoever situated, present and

future, and the whole of the undertaking of the Company, together with the power to take over the Management of the Business and Concern of the Company in certain events, on second charge basis, to or in favor of the State Bank of India & the State Bank of Hyderabad to secure its Working capital limits aggregating to Rs. 5147 Lakhs & Rs. 4206 Lakhs respectively, together with interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, premia on prepayment, costs, charges, expenses and other moneys payable by the Company to the State Bank of India & the State Bank of Hyderabad, under its respective heads of agreement / loan agreement / letters of sanction / memorandum of terms and conditions entered into by the Company in respect of said Working Capital Limits.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to finalize with the State Bank of India & the State Bank of Hyderabad, the documents for creating the aforesaid mortgage and / or charge and to do all such acts and things as may be necessary for giving effect to the above resolution.

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THIS MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF. A PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxies, in order to be effective, must be received at the Registered Office of the Company not less than forty-eight hours before the meeting.
2. If the dividend on shares as recommended by the Directors is passed at the meeting, payment of such dividend will be made to those shareholders or their mandatee (s) whose names appear in the Company's register of members as on 29.05.2007.
3. While members holding shares in physical form may write to the Company for any change in their addresses and bank mandates, members having shares in electronic form may inform the same to their depository participants with whom



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they have demat account immediately, so as to enable the Company to dispatch the dividend warrants at their correct addresses.

4. Members desiring any information as regards accounts are requested to write to the Company **at least seven** days before the date of the meeting to enable the management to keep the information ready at the meeting.
5. As per the provisions of Section 205 C of the Companies Act, 1956, Unclaimed Dividend Amount in respect of 1998-99 has been transferred to Investor Education and Protection Fund on 25.08.2006 upon expiry of 7 years period. Unclaimed Dividend for the year 1999-2000 will be transferred to Investor Education and Protection Fund on or before 25.06.2007. Shareholders who have not claimed Dividend for the year 1999-2000 are requested to claim the dividend on or before 19.06.2007.
6. All documents referred to in the notice and explanatory statement are open for inspection at the Registered Office of the Company during office hours on all working days except public holidays, between 11.00 A.M. and 1.00 P.M. up to the date of the Annual General Meeting.
7. The Register of Directors Shareholdings shall be open for inspection to any member or holder of debentures of the Company during the period beginning 14 days before the date of Company's Annual General Meeting and ending 3 days after the date of its conclusion. The said register shall also remain open and accessible during the Annual General Meeting to any person having a right to attend the meeting.

ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173 (2) OF THE COMPANIES ACT, 1956.

Item No. 6

To meet a part of the Working Capital requirements of the Company, the consortium of Bankers, namely the State Bank of India (A Bank), the State Bank of Hyderabad (B Bank), with State Bank of India, as the Lead Bank have sanctioned to the Company, various credit facilities, to the tune of Rs. 9353 Lakhs.

The financial assistance from the aforesaid institutions has to be secured by a Second mortgage of all the immovable properties of the Company, present and future.

Section 293(1)(a) of the Companies Act, 1956, provided inter alia, that the Board of Directors of a Public Company shall not, without the consent of such Public Company in a general meeting sell, lease or otherwise dispose off, the whole or substantially the whole of the undertaking of the Company, or where the Company owns more than one undertaking, of the whole or substantially the whole of any such undertaking.

Since the mortgaging by the Company of its immovable properties as aforesaid in favour of the State Bank of India & the State Bank of Hyderabad may be regarded as disposal of the Company(s) properties / undertaking, it is necessary for the members to pass a resolution under Section 293(1)(a) of the Companies Act, 1956 before creation of the mortgage / charges.

Copies of Letters of Sanction received from the aforesaid banks and copies of the relevant documents / correspondence between the said Institutions and the Company are open for inspection at the Corporate Office of the Company between 11.00 A.M. and 1.00 P.M. on any working day prior to the date of the meeting.

None of the Directors of the Company are interested in the resolution.

By Order of the Board

K.V. Soorianarayanan

Sr. V.P & Company Secretary

Date : 30.04.2007

Place : Secunderbad



VISAKA INDUSTRIES LIMITED

DIRECTORS REPORT

To

The Members
Visaka Industries Limited

Your Directors are pleased to present the 25th Annual Report of the Company with Audited Balance Sheet and Statement of Accounts. The financial highlights are as follows:

| | (Rs. in lakhs) | |
|--|----------------|-----------|
| | 2006-2007 | 2005-2006 |
| Gross Income | 38863.18 | 31120.20 |
| Profit for the year before taxation | 3466.05 | 2908.76 |
| Provision for taxation | 1092.32 | 983.02 |
| Profit for the year after taxation | 2373.73 | 1925.74 |
| Balance brought forward from previous year | 450.05 | 523.66 |
| Profit available for appropriation | 2823.78 | 2449.40 |
| Dividend on Preference Share Capital | 6.14 | 30.00 |
| Dividend on Equity Share Capital | 416.19 | 320.23 |
| Corporate Dividend Tax | 71.77 | 49.12 |
| Transfer to General Reserve | 1800.00 | 1600.00 |
| Balance carried to Balance Sheet | 529.68 | 450.05 |

DIVIDEND

Your Directors recommend payment of dividend of Rs.3.00 per share on the Equity Capital for the year ended 31st March 2007. Your Directors also declared a dividend of Rs.12.00 per share on the 12% Redeemable Cumulative Preference Share Capital

of Rs.100/- each, which were redeemed during the year, on a pro-rata basis. The Company is absorbing Corporate Dividend Tax of Rs 71.77 lakhs on the Preference & Equity Dividend and the dividend declared and paid this year is not taxable in the hands of Shareholders.

REDEMPTION OF PREFERENCE SHARES

2,50,000 Redeemable Preference Shares of Rs.100/- each which were issued in the year 1997-98, were redeemed during the Financial Year 2006-2007.

PREFERENTIAL ISSUE OF SHARES

The Company in the Annual General Meeting held on 25.05.2006, has taken the approval of the shareholders of the company, for placement on preferential basis, 3,00,000 Equity Shares and 9,00,000 Equity Share Warrants to M/s. Sandadi Homes Private Limited, for funding the Asbestos Cement Division at Vijayawada.

Accordingly, the Company has made allotment of the Equity Shares and Equity Share warrants @ Rs.138.10 per share / share warrant to M/s. Sandadi Homes Private Limited, on the 25th day of May' 2006.

The Equity Share Warrants are convertible at the option of the allottee into equity shares of the Company within a period of 18 months from the date of allotment i.e. 24th November' 2007. Against the 9,00,000 Convertible Equity Share Warrants allotted by the Company, the allottee has paid 10% of the issue price, as per the SEBI Guidelines, which shall be forfeited in case the allottee does not exercise the option within the specified time limit.

QUALIFIED INSTITUTIONAL PLACEMENT

The Company in the Extra-Ordinary General Meeting held on 30.10.2006 has taken the approval of shareholders, for the placement of 40,00,000 equity shares of the company of face value of Rs. 10 each at a SEBI determined price of Rs.136/- per share, to Qualified Institutional Buyers, in accordance with the Guidelines for Qualified Institutions Placement contained in Chapter XIII A of the SEBI (Disclosure and Investor Protection)



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Guidelines 2000, for funding the proposed 'Reinforced Building Board' Unit at Vijayawada.

The Issue was opened for subscription on the 15th day of January, 2007 and was closed on the 22nd day of January, 2007, respectively. The Target of the Company was the placement of 25,00,000 Equity Shares with the Qualified Institutional Buyers,

whereas the Company, in this connection, has received a subscription of 28,98,600 Equity Shares.

The Company in its Board Meeting held on 24.01.2007 approved the allotment of 28,98,600 Equity Shares of the Company to '8' Qualified Institutional Buyers, the details of whom are furnished below:

| <i>Sl. No.</i> | <i>Name of the Allottees</i> | <i>No. of Shares Allotted</i> |
|----------------|--|-------------------------------|
| 1. | Industrial Development Bank of India Limited | 2,00,000 |
| 2. | BNP Paribas Arbitrage | 6,50,000 |
| 3. | Minivet Limited | 6,50,000 |
| 4. | Reliance Capital Trustee Limited A/c. – Reliance Savings Fund Equity Option | 2,00,000 |
| 5. | Punjab National Bank | 1,00,000 |
| 6. | Detsche Securities Mauritius Limited | 5,00,000 |
| 7. | Morgan Stanley & Company International Limited A/c. – Morgan Stanley Dean Witter Mauritius Company Limited | 4,98,600 |
| 8. | Bank of India | 1,00,000 |
| | TOTAL | 28,98,600 |

MANAGEMENT DISCUSSION AND ANALYSIS

a) ASBESTOS CEMENT BUSINESS:

Industry Structure and Developments:

This industry is more than 70 years old industry in India.

Asbestos Cement Products continues to be in demand because of the industries effort in making inroads into rural markets, its affordability, and other qualities such as corrosion resistance, weather and fire proof nature.

Currently there are 17 players in the Industry with about 54 manufacturing plants through out the Country. The products are marketed under their respective brand names mainly through dealers for the retail market and directly for projects and government departments. The total production for the year 2006-2007 was estimated at 31.20 lac metric tones, which represents about 90% of the industry's installed capacity of 34.50 lac metric tones. The industry demand as measured by the

total sales of the industry has been growing considerably over the years, the growth for the last year being 16.5% i.e the sales increased from 24.50 lac metric tones in 2005-2006 to 28.55 lac metric tones during the year 2006-2007.

Opportunities and Threats:

Asbestos Cement Sheets are mainly used as roofing materials in rural and semi-urban housing and by industries and poultry sector.

Asbestos Cement Sheets are gaining popularity as they are inexpensive, need no maintenance and last long when compared to competing products such as thatched roofs, tiled roofs and galvanized iron sheets.

According to the information gathered by us almost 80-85% of rural people use thatched roof/tiles for the shelter. Thatched roof need regular replacing and tiled roof needs continued maintenance. Therefore whenever the economic conditions improve the first choice of the rural poor to replace the roof over their head is the affordable and relatively durable product Asbestos Cement Sheets.



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Thus we see lot of untapped potential for usage of Asbestos Cement Sheets in rural areas.

The Central and State Governments have been giving lot of thrust for housing for rural poor and Asbestos Cement Sheets are widely used for this purpose.

Both the existing and new manufacturers are venturing into setting up of new asbestos cement sheet producing plants. This could increase the competition and will have an effect on the margins.

The increase in fiber cost and imposition of Excise Duty are also matters of concern. The abnormal increase in cement cost not only pushes up the raw material cost but also in slowing down construction activity in rural areas.

However the fact that industry as a whole grew by about 16.5% during the last year indicates a growing demand for our products and this growth in demand should balance increase on the supply side over the medium term. The continuous efforts being made to capture rural markets should also increase the demand.

Product-wise Performance:

During the year your Company successfully implemented the Vijayawada Plant, which commenced production from 1st December 2006. As against a production of 3,59,288 tonnes during the previous year the production during the financial year ended 31st March 2007 was 4,36,922 tonnes recording an increase of 21.61%. The sales during the financial year 2006-2007 was 4,33,793 tonnes as against 3,34,090 tonnes sold during the preceding year recording a growth of about 29.84%.

Outlook:

During the year 2007-2008 your Company will have the benefit of full production from the Vijayawada Plant.

The Company is planning to set up a 'Reinforced Building Board' Unit in Vijayawada, Andhra Pradesh and this unit is expected to commence production by November' 2007.

These measures should help your Company to increase production and sales in this Division and therefore the production and sales as a whole is expected to grow in the year 2007-2008.

Risks and Concerns:

Lack of entry barriers:

Lack of entry barriers is attracting lot of new entrants into this line of business. Since the industry is continuing to grow at the rate of about 15-16% per annum this should not be a major threat. Moreover we have the following advantages:

- (1) Our manufacturing units are nearer to the consuming centers and thus we have the freight advantage.
- (2) We have an established brand name.
- (3) Being the second largest player in the industry we have economies of scale.
- (4) We have a widespread dealer net work.

Increase in input costs

In the recent past the cost of cement and fiber has been going up.

Activities of Ban Asbestos Lobby

The activities of the Ban Asbestos Lobby instigated by the manufacturers of substitute products continue to be a matter of concern.

Financial Performance:

The gross turnover of Asbestos Cement Division during the year was Rs. 296.31 crores as compared to Rs. 213.23 crores during the previous year. The Profit before tax for the year was Rs. 30.72 crores as compared to Rs. 26.26 crores in the previous year.



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FUTURE PLANS:

MERGER OF SHAKTI ROOFINGS PRIVATE LIMITED

The Board of Directors in their meeting held on 25.04.2006 has approved the merger of Shakti Roofings Private Limited with our company effective from 01.04.2006. The shareholders of the Company have approved the proposal in a general meeting convened by the High Court of Andhra Pradesh and thereafter application has been made to the High Court for the approval of the Merger.

Orders from the High Court are awaited. Hence, our balance sheet for the year 2006-2007, will not reflect the figures of M/s. Shakti Roofings Private Limited.

AHMEDABAD PROJECT

We have acquired the land required for this project in the district of Ahmedabad. The process of obtaining environmental clearance for this project is in progress.

REINFORCED BUILDING BOARD (RBB) UNIT AT VIJAYAWADA

Indian economy is growing at 8 to 9% per annum. This growth is lead by the services sector such as Banks, IT, Hotel, BPO and Airports which require high rise buildings. High rise buildings have given rise to increase in demand for false ceiling, doors, partitions, prefabricated structures, wall paneling and back liners.

According to a study made by us, the total demand for various products catering to this sector is around Rs. 4000/- crores per annum of which 40% is Plywood. This market is growing by about 15% annually. Due to environmental factors, deforestation is discouraged and thereby the availability of wood and wood based products is becoming scarce and costlier.

Reinforced Building Boards can fill this gap in demand supply position as it has the following advantages:

- (1) Reinforced Building Board is a new age multi-purpose cement board with a wide range of applications.
- (2) It is extensively used for false ceiling, doors, partitions, prefabricated structures, wall paneling, back liners and a variety of other applications in residential, commercial as well as industrial segments.
- (3) There are already other manufacturers manufacturing this product and it has gained wide market acceptance.
- (4) The unique composition of manufacturing process makes this wood free eco-friendly board the preferred choice amongst Architects and Interior Designers.
- (5) It consumes less paint or polish and is suitable for sound insulation.
- (6) These are user friendly and are available in various sizes and thickness as it can be cut into different sizes.
- (7) They are economical compared to similar boards.
- (8) RBB does not corrode.
- (9) They are more durable, stronger and need very little maintenance.

b) SYNTHETIC YARN BUSINESS:

Industry Structure and Developments:

Due to the anticipated closure of TUF scheme by March 2007, many spinning mills were on expansion spree during 2006-2007 (TUF scheme has later been extended). However, increased domestic consumption & active export of fabrics & garments from the country induced spark for the growth during the year which helped us perform better during the year.

The per capita income of our country has gone up like never before in the history. This is creating waves of demands for textiles & life style products. The average consumption of textiles & clothing in our



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country is going up by leaps & bounds, which is being aided by a flourishing retail industry.

Opportunities and Threats:

The continued GDP growth of our country is an opportunity for us. However, the appreciating rupee is a concern for exports. The rising inflation & increase in the interest rate may induce savings, thus reducing the tendency to spend.

China's freedom from quota from January 2008 may result in reduced export of fabrics & garments from our country.

Product-wise performance:

The price of viscose fibre has gone up due to a stronger EURO and increased global demand. The polyester fibre price has been under pressure due to cheaper cotton fibre price. High level of oil price hovering around 60 US Dollars per barrel did not have any impact on polyester fibre price due to this phenomenon.

The production in the spinning unit during the year 2006-2007 was 6976.02 metric tones as compared to 6619.27 metric tones during the previous year. The sales were 7122 metric tones of yarn during the year 2006-2007 as compared to 6744 metric tones in the previous year.

Risks and Concerns:

A stronger rupee is a concern for exports & cheap cotton fibre will be a substitute for blended yarns in the domestic market.

Outlook:

The industry will perform better than the previous year due to the opportunities cited above.

Financial Performance:

The turnover of this division during the current year was Rs.98.87 crores compared to Rs.89.98 crores during the previous year. The gross profit before tax during the year was Rs.8.89 crores as compared to Rs. 4.11 crores during the previous year.

c) GARMENT BUSINESS

Industry Structure and Developments:

During the year of quota removal 2006, many companies went for IPO & issued shares to the public. There had been about 25% increase in exports from our country during 2006-2007. The steep reduction in DEPB rates from 14% to 6% has reduced the overall margin of the industry during the year.

The industry in India is still fraught with many small satellite units controlled by a central unit which finances the mini-operations. This reduces the competitiveness of well organized corporate houses.

Opportunities and Threats:

As the business model is centered around exports, the appreciating rupee is playing deterrent to the earnings.

The unit may face pressure on garment prices due to competition from low cost & well subsidized countries like Bangladesh & China's freedom from quota from January 2008.

Though the domestic market is seeing an increased consumption, the rate of change is not reflecting in the prices offered to the manufacturers.

With the free trade arrangement being signed with ASEAN countries, there may be cheap imports into the country sooner or later.

Product-wise performance:

We are specialized in manufacturing formal dress pants & casual trousers for the western countries. The efficiency of our well trained operators has reached above the industry-average level & the quality of workman ship is appreciated by all our customers. We are one of the main suppliers for the American brand MATIX & BALLIN' & French brand KAPORAL 5. Since December 2006, our company is continuously busy with orders.