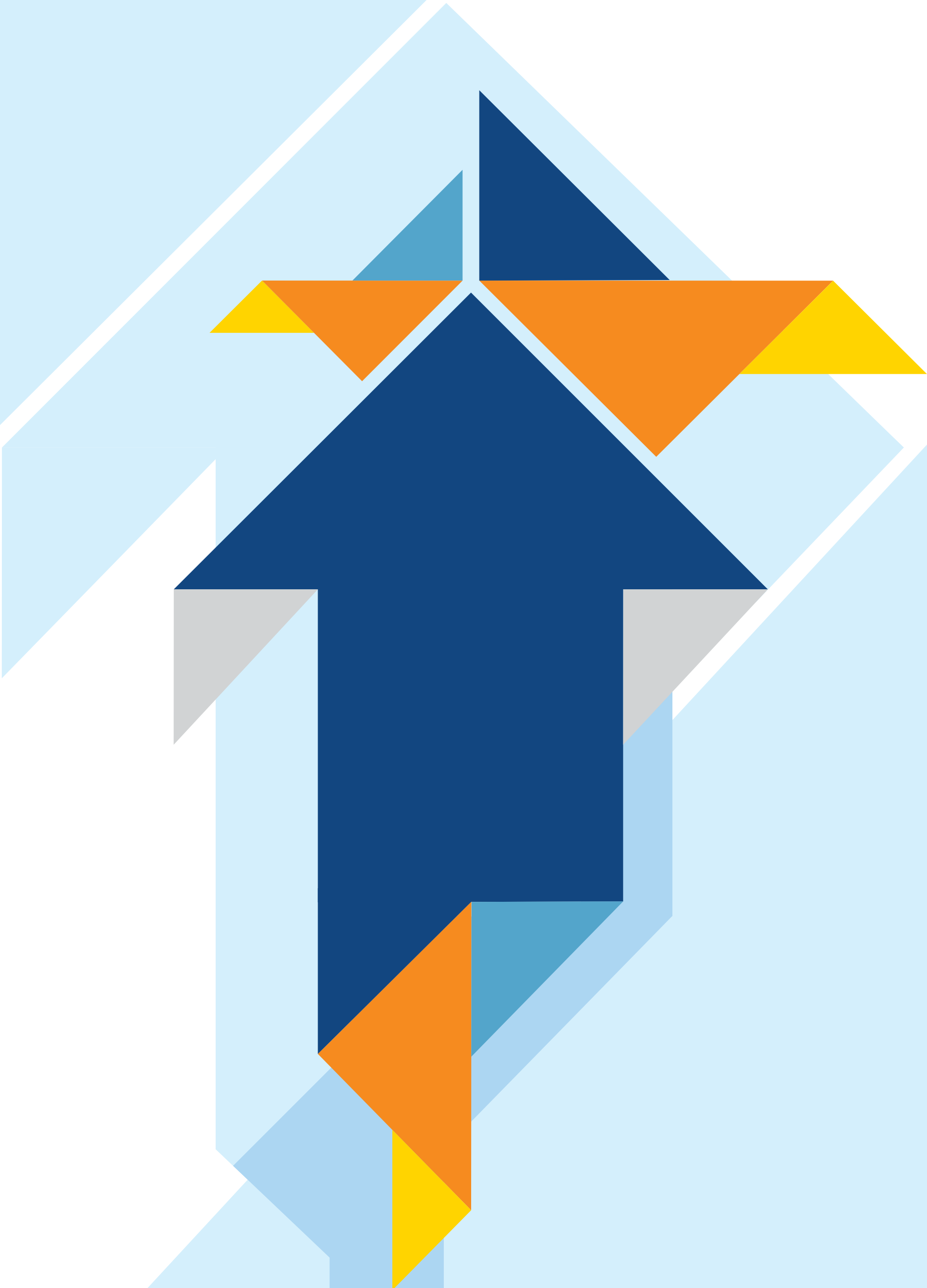
# CONSOLIDATION



VISAKA INDUSTRIES LIMITED®

ANNUAL REPORT 2012-13

### Forward-looking statements

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral –that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans' 'believes' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

# CONTENTS

The year 2012-13 was one of the most challenging for most industrial sectors the world over, India not excluded.

Visaka Industries Limited responded to this downturn by doing what it has always done – launching new products and enhancing production capacity in select businesses, while consolidating its presence in the others.

The result: the Company reported a 22% growth in revenues and a 47% increase in profit after tax.

**Visaka Industries Limited is three businesses in one.**

**Cement asbestos products. Synthetic yarn. Fibre cement flat products.**

**These businesses respond to diverse sectoral pulls, so that when one may be doing well, another may be performing moderately.**

**The combined mix is an ability to sustain growth in revenues, profits, capacities and competitiveness into the long-term.**

## Parentage

Visaka Industries Limited (incorporated 1981) entered the production of Cement Asbestos Products (36,000 TPA) in 1985 and diversified into textile yarn manufacture (1992). In 2009, the Company expanded its building product mix to manufacture non-asbestos fibre cement board and panels (flat products).

## Corporate

The promoters own 37.65% of the Company's equity. The Company enjoyed a market capitalisation of ₹155 cr as on 31st March, 2013. The Company's stock is actively traded on the Bombay Stock Exchange and the National Stock Exchange.

## Business

The Company is engaged in two broad businesses – building products (cement asbestos products and fibre cement flat products like V-Boards and V-Panels) and textiles.

## Presence

The Company is headquartered in Hyderabad (Andhra Pradesh), with manufacturing plants across ten regional locations and nine marketing offices.

## Highlights, 2012-13

### Building products business

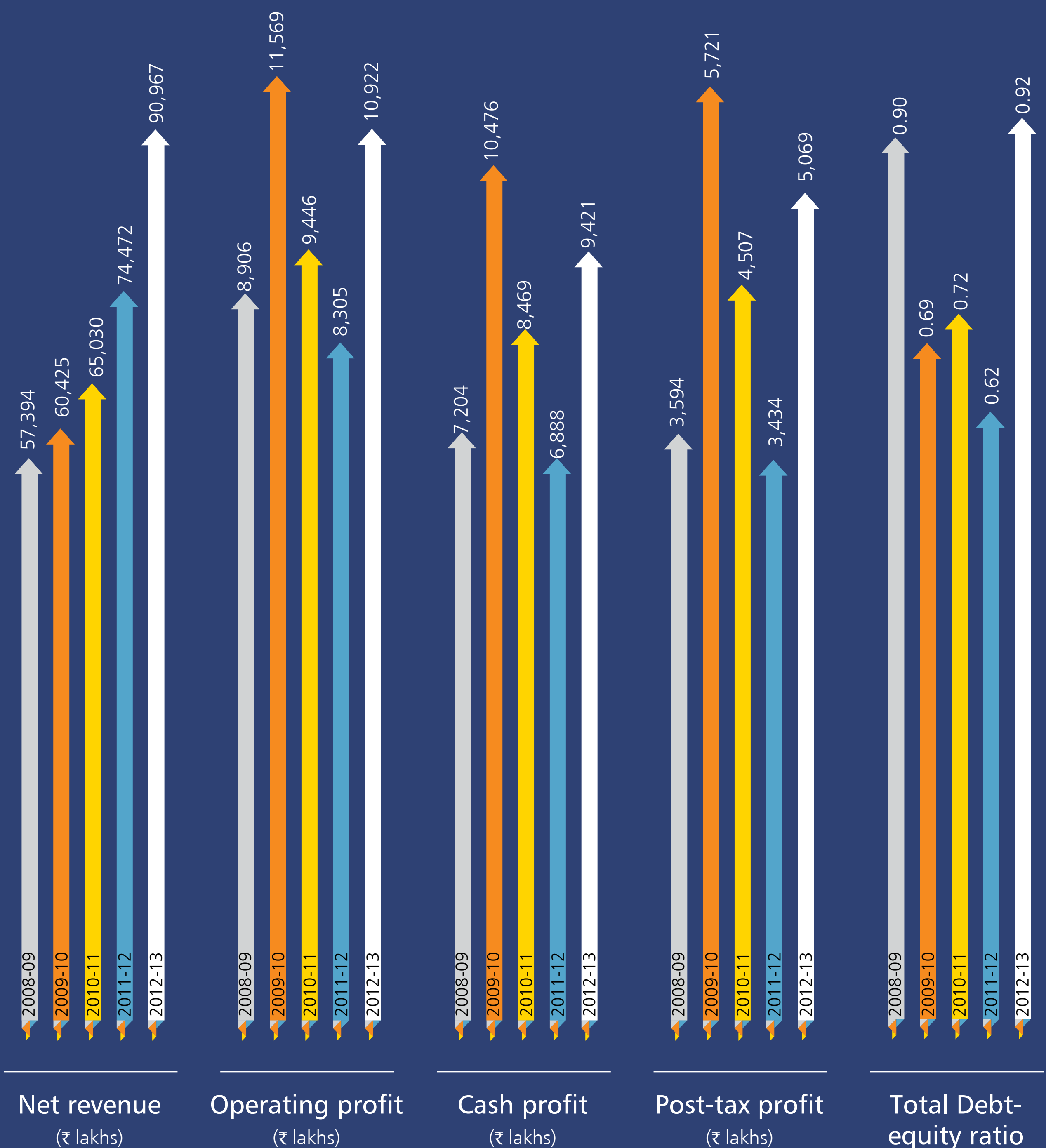
- Division revenues as a proportion of the Company's revenues is 82% in 2012-13 same as 2011-2012.
- Production (cement asbestos products) increased from 654198 MT IN 2011-12 TO 743624 MT in 2012-13; capacity utilisation was 99% as against 94% in 2011-12.
- The Company's sales volume of cement asbestos products grew by 4% and fibre cement flat sheets by 11% in 2012-13 over 2011-2012
- Average cement asbestos product realisation increased by 17.5% in 2013 over 2011-12

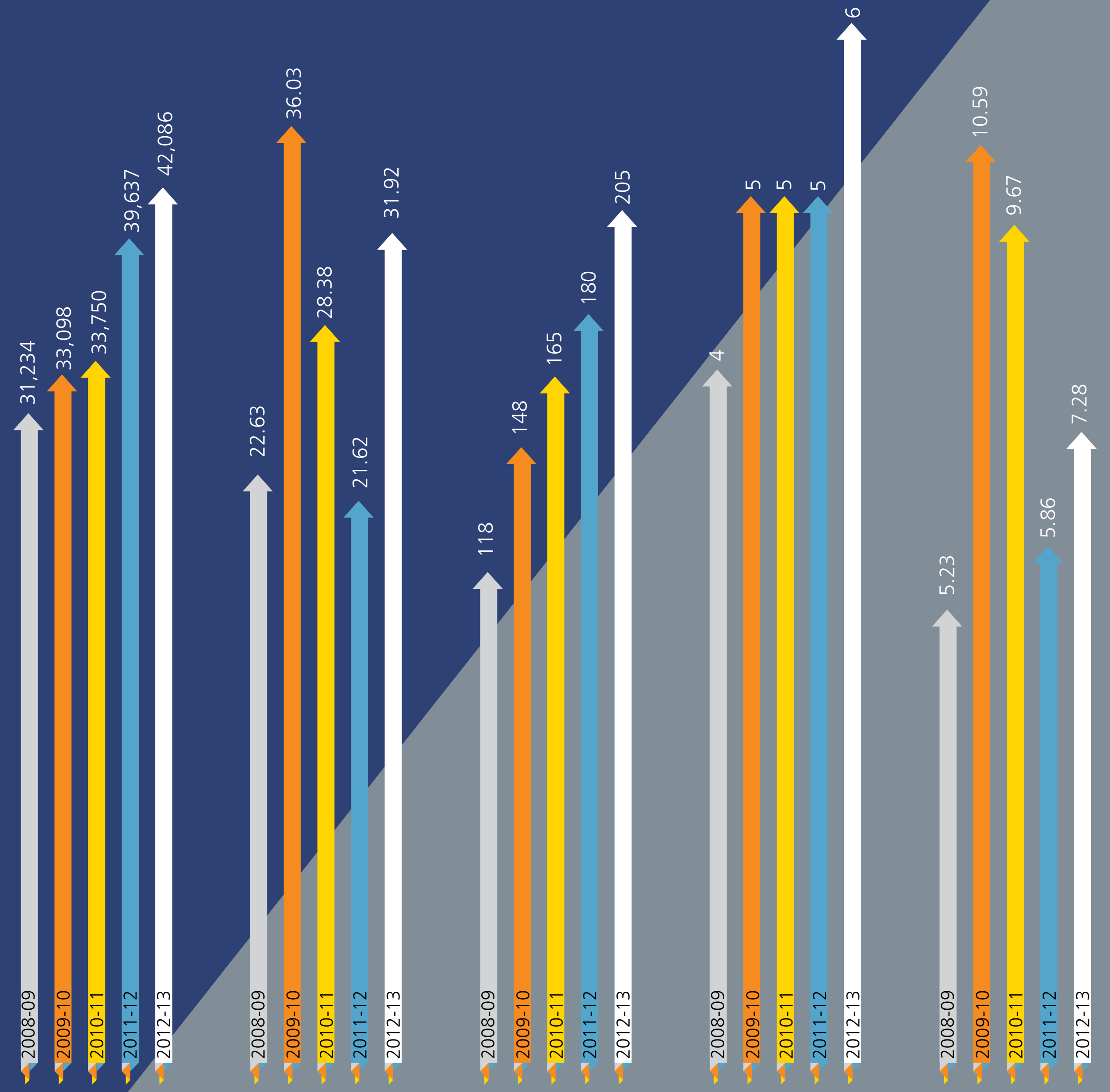
### Textile business

- Revenues as a proportion of the Company's revenues is about 18% in 2012-13 same as in 2011-2012
- Production was 7897 MT in 2012-13 where as 8030 MT in 2011-12
- Domestic sales increased from 5301 MT in 2011-12 to 6158 MT; export sales decreased from 2416 MT in 2011-12 to 2094 MT; Exports accounted for 25% of total yarn sales in 2012-13
- Average yarn realisation increased from ₹178 per kg in 2011-12 to ₹200 per kg in 2012-13

| Products | Manufacturing facility | Installed capacity (31st March, 2013) |
|---|---|---|
| Cement asbestos products | Patancheru (Andhra Pradesh) | 752000 MT |
| | Vijayawada (Andhra Pradesh) | |
| | Paramathi (Tamil Nadu) | |
| | Tumkur (Karnataka) | |
| | Midnapur (West Bengal) | |
| | Rae Bareli (Uttar Pradesh) | |
| | Pune (Maharashtra) | |
| | Sambalpur (Odisha) | |
| Fibre cement flat products | Miryalguda (Andhra Pradesh) | 48000 MT |
| Textiles | Nagpur (Maharashtra) | 29 MTS M/CS |

# FINANCIAL HIGHLIGHTS, 2012-13






Gross block (₹ lakhs)

EPS, basic (₹)

Book value per share (₹)

Dividend per share (₹)

Interest cover

# STRENGTHS

## CORPORATE

**Product profile:** The Company manufactures products that capitalise on an ongoing improvement in lifestyle standards in India and abroad.

**Diversified:** Visaka is a diversified company engaged in the manufacture of building products and synthetic blended yarn. The former accounted for 82% of revenues and the latter 18%, in 2012-13; the former accounted for 76% of profit before tax and the latter 24%, in 2012-13.

**Growth:** A combination of aggression and conservatism translated into increased CAGR in revenues of 12% in the five years leading to 2012-13.

**Wide market:** The Company addresses a range of customers – rural Indians who buy cement asbestos sheets, global institutional customers who buy the Company's yarn and individual cum institutional customers through its fibre cement flat products under the name of V-Board and V-Panels.

**Gearing:** The Company is relatively under-borrowed; its gearing was 0.92 at the end of 2012-13,which coupled with an interest cover of 7.28, represent adequate fiscal comfort. The average cost of the Company's debt was 10.3 % in 2012-13. There is a growing reliance on cash to fund operations and derive the best procurement bargains.

**Management bandwidth:** The Company's professional management comprises rich experience and stability in its senior management (the majority have been with the Company for more than 15 years), the process is mediated through chalking out, annual business plans and setting targets (revenues and profits) and defining employee responsibilities.

**Technology:** The Company has progressively invested in modern technologies across each of its business – its fibre cement plants are fully automated, its yarn manufacturing units use state-of-the-art twin air jet spinning technology (Murata).

## BUILDING PRODUCTS DIVISION

**Position:** The Company was the seventh largest cement asbestos product manufacturer in India in 1996; it is the second largest today. The Company's CAGR in revenues is 13% in the five years leading to 2012-13.

**Technological excellence:** Visaka's automated fibre cement plant incorporates sophisticated technologies; its consistency in properties and strengths exceed ISI standards; the Company's manufacturing plants consume the lowest electricity per tonne.

**Efficient distribution chain:** The Company generally markets directly to retailers as opposed to the conventional company-distributor-retailer model; this facilitates a better knowledge of marketplace realities.

A combination of aggression and conservatism translated into increased CAGR in revenues of 12% in the five years leading to 2012-13.

**Distribution network:** The Company possesses a strong distribution network of 6000 retailers inrural and semi urban markets; it derives 85 to 90 % of its sales from these markets while the rest 10 to 15% is derived from institutional sales to the government, industries and poultry farms.

**Sizeable market share:** The Company's Visaka and Shakti brands account for a significant share of India's organised cement asbestos market.

**Fabrication capability:** The Company's rich engineering competence is reflected in an ability to design and fabricate cement asbestos manufacturing equipment for six of its eight plants, reducing the overall cost compared with the industry benchmark by 20% and shrinking commissioning time. The Company demonstrated the commissioning of cement asbestos product capacity (100,000 TPA) within nine months of ground breaking; rated capacity utilisation was achieved within four months of start-up.

**Manufacturing presence:** The Company's cement asbestos product manufacturing facilities are dispersed nationally which helps address regional needs – four in South India, one in North India, two in East India and one in West India.

**Competitive:** The Company's historical cement asbestos products capacity corresponds to ₹264 cr of gross block at a historical cost of about ₹3,475 per MT as against a prevailing greenfield commissioning cost of ₹4,500 per MT.

**De-risked product mix:** The Company's building products division also comprises fibre cement boards (non- asbestos) used in urban and semi-urban interiors ensuring a well spread out product mix.

**Superior quality:** The Company's fibre cement plant is certified by the ISI. The V-Board division possesses HPSC technology conforming to ISO 14862-2000 norms.

**Intellectual capital:** The Company's 3,970 employees represent the best industry talent in the areas of engineering, finance, production, marketing, commercial, regulatory and quality management capabilities.

## TEXTILES BUSINESS

**High margins:** The Company manufactures value-added yarn, enjoying some of the highest margins in its segment.

**Engineering excellence:** The Company successfully produced dyed yarn at speeds higher than the equipment manufacturer's recommendation.

**Large scale:** The Company enjoys an attractive scale; it possesses the single largest twin airjet equipment installation in India and one of the biggest such installations in the world.

**Excellent product standard:** The Company's products figure in the top five percentile of Uster standards in the world.

**Niche:** The Company selected to specialise in the niche segment of a commodity business (polyester spun yarns as well as products from 30s to 76s counts - double yarn).

**Benchmark productivity:** The Company's twin airjet productivity is quoted as the benchmark by machinery manufactures (Murata of Japan).

**Reputed clientele:** The Company's domestic textiles clients comprise brand-enhancing names like Grasim Industries, Siyaram Silk Mills Ltd, S.Kumar Nationwide Ltd, Shreekar Polyester Pvt.Ltd, Puneet Syntex Pvt. Ltd, Anand Silk Mills, G.M. Knitting Industries Pvt. Ltd, D.C.Textiles, Kalpesh Synthetics Pvt. Ltd, Raj Rajendra Industries Ltd.

**Superior quality:** Visaka's yarns are environment-friendly and OEKO-TE-certified. The Company's adherence to stringent quality processes resulted in the ISO certification.

# Q&A

## "WE INTEND TO BE NICHE AND DIFFERENTIATED AND RANK NUMBER ONE IN THE INDUSTRY"

Smt. G. Saroja Vivekanand, Managing Director, reviews the Company's performance in 2012-13

**Q| How would you review the performance of the Company in 2012-13?**

**A|** In terms of financial performance, there was an improvement with overall profit after tax increasing from ₹34 cr in 2011-12 to ₹51 cr in 2012-13.

- PBT of our building products business grew from ₹46.45 cr in 2011-12 to ₹56.82 cr in 2012-13
- PBT of our yarn division increased from ₹4.78 cr in 2011-12 to ₹17.82 cr in 2012-13

What is important to note is that even though the global and Indian economies continued to be broadly subdued, the Company succeeded in growing each of its businesses. I must make another point here: the growth of the Company during the last financial year also represented the vindication of our multi-business model wherein there could always be one business that does well and more than makes up for another that may temporarily not be performing as well. This overall combination enabled the Company to report an attractive performance in what was a challenging year for most.

**Q| The building products business reported a profit before tax of ₹42 cr in the first quarter of 2012-13 but eventually finished the year with a PBT of ₹57 cr, indicating a considerable slowdown in the subsequent quarters.**

**A|** There is a general perception that in a country where the rural incomes are largely unaffected by the health of the global or national economies, the sale of asbestos cement sheets would remain largely insulated and unaffected. This conviction was born out of experience when this had actually happened, creating an expectation that this would recur. However, even as the building products business continued to report quarter on quarter profits that were higher than the corresponding quarters of the previous financial year, the big break transpired in the 3rd quarter – a PBT of ₹6.98 cr in 3rd quarter of 2011-12 declined to ₹3.29 cr in 3rd quarter of 2012-13, PBT of ₹15.86 cr in 4th quarter of 2011-12 declined to ₹4.90 cr in 4th quarter of 2012-13.

There are a number of suggested reasons for this decline: it appears that the country's low GDP growth in 2012-13 finally caught up with rural offtake; the impact of the global slowdown extended to rural India; the high Consumer Price Index (with a high food component) moving close to 10% began to affect rural disposable incomes, a weak Middle East job market translated into weak repatriations, precoated steel sheets became more competitive. There was an increase in the cost of asbestos fibre by 23% in the last year and 48% in last four years in dollar terms that could not be passed on to customers and there was also moderation in IT salaries.

**Q| What are some positives that one can look at?**

**A|** The time has come for analysts to stop see year-on-year performance of the Company but to start taking a three-year block perspective of our performance. Three-year performance blocks provide a true and fair picture of the Company