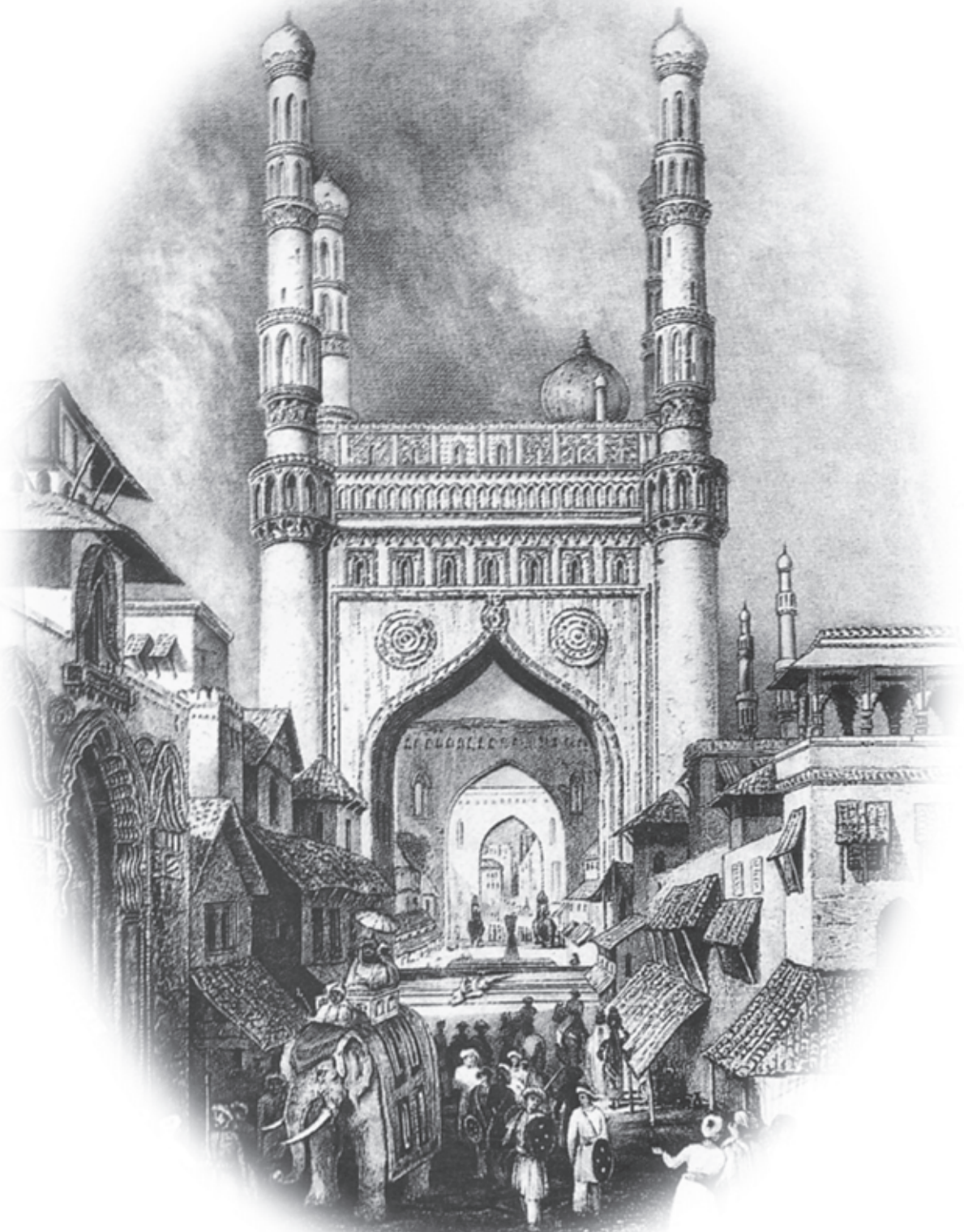




# **VST INDUSTRIES LIMITED**

**ANNUAL REPORT 2013-14**







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## BOARD OF DIRECTORS

### **Chairman**

RAYMOND S. NORONHA

### **Managing Director**

N. SAI SANKAR

### **Wholetime Director**

DEVRAJ LAHIRI

### **Non-Executive Directors**

S. THIRUMALAI

ASHA NAIR

JAMES H. YAMANAKA (w.e.f. 1st January, 2014)

MUBEEN RAFAT (w.e.f. 1st January, 2014)

### **Company Secretary**

NITESH BAKSHI

### **Auditors**

Lovelock & Lewes

Chartered Accountants

Hyderabad - 500 034

### **Registered Office**

1-7-1063/1065, Azamabad

Hyderabad - 500 020

Phone : +91 40 2761 0460

Fax : +91 40 2761 5336

Email : investors@vstind.com

Website : www.vsthyd.com

CIN : L29150TG1930PLC000576

### **Registrar & Transfer Agents**

Karvy Computershare Private Limited

Plot Nos.17 to 24, Vittal Rao Nagar

Madhapur, Hyderabad - 500 081

Phone : +91 40 2342 0815 to 24

Fax : +91 40 2342 0814

Email : einward.ris@karvy.com



## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Eighty Third Annual General Meeting of VST INDUSTRIES LIMITED will be held at Hotel Trident, HITEC city, Near Cyber Towers, Madhapur, Hyderabad - 500 081 on **Tuesday, 12th August, 2014 at 9.30 a.m.** for transacting the following business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2014, the Statement of Profit and Loss 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, 2014.
3. To appoint Director in place of Mr. Raymond S. Noronha, who retires by rotation and being eligible, offers himself 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 (ICAI Registration No: 301056E), the retiring Auditors be and are hereby re-appointed as the Auditors of the Company to hold such office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting at a remuneration of ₹30,00,000 (Rupees Thirty Lakhs only) payable in two equal instalments exclusive of service tax as applicable, travelling and reimbursement of actual 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. James Yamanaka, a nominee of the Raleigh Investment Company Limited, a British American Tobacco group Company who was appointed

a Director of the Company with effect from 1st January, 2014 in place of Mr. Peter G. Henriques and who vacates office at the ensuing Annual General Meeting pursuant to Section 161 of the Companies Act, 2013 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 Director be and is hereby appointed a Director of the Company whose period of office shall be liable to determination by 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 notwithstanding anything to the contrary contained in the Articles of Association of the Company and in terms of Section 149(10) and other applicable provisions of the Companies Act, 2013, Prof. Mubeen Rafat be and is hereby appointed as an Independent Director of the Company for a period of five years with effect from August 12, 2014 to August 11, 2019 (both days inclusive)."

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 notwithstanding anything to the contrary contained in the Articles of Association of the Company and in terms of Section 149(10) and other applicable provisions of the Companies Act, 2013 and in supercession of earlier resolutions passed by the Members, Mr. S. Thirumalai be and is hereby appointed as an Independent Director of the Company for a period of five years with effect from October 1, 2014 to September 30, 2019 (both days inclusive)."

The Register of Members of the Company shall remain closed from Thursday, 31st July, 2014 to Thursday, 7th August, 2014 (both days inclusive) for payment of dividend, if declared.



## NOTICE OF MEETING

Valid transfer of shares received at the office of Registrar and Transfer Agents of the Company, M/s. Karvy Computershare Private Limited, Plot Nos. 17 to 24, Vittal Rao Nagar, Madhapur, Hyderabad - 500 081, before the close of business hours on 30th July, 2014 will be registered in time for the transferees to become eligible for dividend, if declared.

Dividend, if declared, will be paid on 25th August, 2014 to those Members whose names appear in the Register of Members of the Company on 7th August, 2014 or to their mandatees, subject however to the provisions of Section 126 of the Companies Act, 2013 or any amendment or modification thereof. In respect of

dematerialised shares the dividend will be payable on the basis of beneficial ownership as on 30th July, 2014, 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

NITESH BAKSHI  
Company Secretary

Dated this 5th day of June, 2014.  
Azamabad, Hyderabad - 500 020

## NOTES

- 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.**
- In accordance with Section 102 of the Companies Act, 2013, Explanatory Statement setting out the material facts in respect of items 5 to 7 being items of Special Business is annexed to the Notice of the Meeting.
- Corporate members are requested to send, a duly certified copy of the board resolution pursuant to Section 113 of the Companies Act, 2013 authorising their representative to attend and vote at the Annual General Meeting.
- The brief profile of the Directors proposed to be appointed/re-appointed is given in the Directors' Report. None of the directors are related to each other inter-se.
- Members holding shares in physical form should inform the Company's Registrar and Transfer Agents, M/s. Karvy Computershare Private Limited of any change in their registered address, mandate/bank details/e-mail address. Similarly, Members holding shares in electronic form should inform their Depository Participants (DP) of any change in their registered address, mandate/bank details/e-mail address.
- The shares of the Company are under compulsory demat trading. Members holding shares in physical form are requested to convert their shares into dematerialized form in their own interest and for their convenience.
- SEBI has directed listed companies to use electronic payment modes such as NEFT, RTGS, ECS etc., for payment to the investors. Members are requested to update their bank details such as MICR, IFSC code etc., with the Registrar and Transfer Agents, M/s. Karvy Computershare Private Limited by submitting a cancelled cheque, while Members holding shares in electronic form are requested to update such bank details with their respective Depository Participants.
- Members who have multiple folios in identical names or joint names in the same order are requested to intimate to the Registrar and Transfer Agents, M/s. Karvy Computershare Private Limited about these folios to enable consolidation of all such shareholdings into one folio.





## NOTICE OF MEETING

9. Members are requested to refer to the 'Shareholder Referencer' of the Report on Corporate Governance which inter-alia contains details regarding unclaimed dividend.
10. Members are requested to bring their copy of the Annual Report to the Meeting.
11. 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 enclosed with this notice. Members are requested to sign at the place provided on the Attendance Slip and hand it over at the entrance to the venue.
12. The documents referred to in this notice are open for inspection at the Registered Office of the Company on all working days, except Saturdays, between 11.00 a.m. and 1.00 p.m. up to the date of Annual General Meeting.
13. Pursuant to Section 108 of Companies Act, 2013 read with Rule 20 of Companies (Management and Administration) Rules, 2014, it is mandatory to extend to the Members of the Company, the facility to vote at the AGM by electronic means. Members of the Company can transact all the items of the business through electronic voting system as contained in the Notice of the Meeting.

The Company has appointed Mr. Tumuluru Krishnamurthy, Practicing Company Secretary, failing him Mr. S.S. Marthi, Practicing Company Secretary, who in the opinion of the Board is a duly qualified person, as a Scrutinizer who will scrutinize the electronic voting process in a fair and transparent manner. The Scrutinizer shall within a period of three working days from the date of conclusion of e-voting period, submit his report of the votes cast in favour or against, if any, to the Chairman of the Company. The result of the same will be disclosed at the AGM proceedings. The Company has appointed Karvy Computershare Private Limited as the Agency for the purpose of facilitating the electronic voting.

## INSTRUCTION FOR E-VOTING

1. Use the following URL for e-voting from Karvy website: <http://evoting.karvy.com>
2. Shareholders of the Company holding shares either in physical form or in dematerialized form, as on July 4, 2014, the cut off date (Record Date), may cast their vote electronically.
3. Enter the login credentials [i.e., user id and password mentioned in the Attendance Slip enclosed with this notice]. Your Folio No/DP ID Client ID will be your user ID.
4. After entering the details appropriately, click on LOGIN.
5. You will reach the Password change menu wherein you are required to mandatorily change your password. The new password shall comprise of minimum 8 characters with at least one upper case (A-Z), one lower case (a-z), one numeric value (0-9) and a special character. The system will prompt you to change your password and update any contact details like mobile, email etc on first login. You may also enter the secret question and answer of your choice to retrieve your password in case you forget it. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.
6. You need to login again with the new credentials.
7. On successful login, the system will prompt you to select the EVEN i.e. VST Industries Limited.
8. On the voting page, enter the number of shares as on the cut off date under FOR/AGAINST or alternately you may enter partially any number in FOR and partially in AGAINST but the total number in FOR/AGAINST taken together should not exceed the total shareholding. You may also choose the option ABSTAIN.
9. Shareholders holding multiple folios/demat account shall choose the voting process separately for each folio/demat account.





## NOTICE OF MEETING

10. Cast your vote by selecting an appropriate option and click on SUBMIT. A confirmation box will be displayed. Click OK to confirm else CANCEL to modify. Once you confirm, you will not be allowed to modify your vote. During the voting period, shareholders can login any number of times till they have voted on the resolution.
11. Once the vote on the resolution is cast by the shareholder, he shall not be allowed to change it subsequently.
12. The Portal will be open for voting from 9.00 a.m. on 5th August, 2014 to 6.00 p.m. on 7th August, 2014.
13. In case of any queries, you may refer the Frequently Asked Questions (FAQs) for shareholders and e-voting User Manual for shareholders available at the download section of <http://evoting.karvy.com> or contact Karvy Computershare Private Limited at Telephone No. 1800 345 4001 (toll free).

## EXPLANATORY STATEMENT

In accordance with Section 102(1) of the Companies Act, 2013, the following material facts are given in explanation of the items of Special Business set out in the attached Notice of the Eighty Third Annual General Meeting of the Company to be held at Hotel Trident, HITEC city, Near Cyber Towers, Madhapur, Hyderabad - 500 081 on **Tuesday, 12th August, 2014 at 9.30 a.m.**

### Item No. 5

Mr. James Yamanaka who was appointed as a Director of the Company with effect from January 01, 2014 at the Board Meeting held on 18th October, 2013 to fill the casual vacancy caused by the resignation of Mr. Peter G. Henriques in terms of Section 161(4) of Companies Act, 2013 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 ₹1,00,000 from a Member under Section 160 of the Companies Act, 2013, proposing the appointment of Mr. James Yamanaka as a Director of the Company. The consent pursuant to Section 152(5) of the Companies Act, 2013 to act as Director if appointed, has been received from Mr. Yamanaka. Mr. Yamanaka does not hold any shares in the Company.

Mr. Yamanaka has a Bachelors' degree in Political Science & Economics from University of California, San Diego, MS in Foreign Service from Georgetown University,

Washington DC and MBA from London Business School, U.K. He has over 20 years of experience in the area of Strategy and Planning and was also the Managing Director/CEO of Ceylon Tobacco Company from January 2011 to December 2012. He specializes in strategy and planning and is currently the Group Head of Strategy and Planning of British American Tobacco Plc. Mr. Yamanaka is not a Director in any other Company in India.

None of the Directors or Key Managerial Personnel or their relatives other than Mr. James Yamanaka has any concern or interest, financial or otherwise in this Resolution.

The Board commends this item of business for your approval.

### Item No. 6

In terms of Section 149 of the Companies Act, 2013, the Company is required to appoint Independent Directors who shall not be liable to retire by rotation. Prof. Mubeen Rafat was appointed as an Additional Director of the Company under Section 161(1) of the Companies Act, 2013 and to act as an Independent Director in pursuance of Clause 49 of the Listing Agreement with effect from January 1, 2014 whose term as an Additional Director will come to an end at the ensuing Annual General Meeting.

On the basis of her declaration given that she meets the criteria of independence as provided in sub-section (6) of Section 149 of the Companies Act, 2013 the Board is of the opinion that Prof. Rafat fulfills the conditions specified in the Companies



## ANNEXURE TO NOTICE OF MEETING

Act, 2013 and the rules thereunder for appointment as Independent Director and she is independent of management.

Prof. Rafat has a Bachelors' degree in Science and has completed her MMS (Finance) from Jamnalal Bajaj Institute of Management Studies. After working for various corporates, she has been associated with Administrative Staff College of India (ASCI) and is now a Professor at ASCI. She has vast experience in the field of finance and specializes in financial management, capital markets, mergers and acquisitions, corporate governance & infrastructure finance. The Board is of the opinion that appointment of Prof. Mubeen Rafat as a director will add immense value. Prof. Rafat is not a Director in any other Company in India.

It is proposed that Prof. Rafat be appointed as an Independent Director for a period of five years with effect from August 12, 2014 to August 11, 2019 (both days inclusive) whose period of office shall not be liable to determination by retirement of directors by rotation. Prof. Rafat does not hold any shares in the Company.

The consent pursuant to Section 152(5) of the Companies Act, 2013 to act as Director, if appointed, has been received from Prof. Rafat.

None of the Directors or Key Managerial Personnel of the Company or their relatives other than Prof. Rafat has any concern or interest, financial or otherwise, in this resolution.

The Board commends this item of business for your approval.

### Item No. 7

In terms of Section 149 of the Companies Act, 2013, the Company is required to appoint Independent Directors who shall not be liable to retire by rotation. Mr. S. Thirumalai was re-appointed as Independent Director in pursuance of Clause 49 of the Listing Agreement by the Members on 30th July, 2013 and his office is liable to determination by retirement of Directors by rotation. However, in order to comply with the provisions of Companies Act, 2013, it is proposed to appoint Mr. Thirumalai as Independent Director for a period of five years with effect from October 1, 2014 to

September 30, 2019 (both days inclusive) whose period of office shall not be liable to determination by retirement of directors by rotation.

Mr. Thirumalai is a Commerce and Law graduate and is a Fellow Member of Institute of Chartered Accountants of India and Institute of Company Secretaries of India and is also a Certified Associate of Indian Institute of Bankers. He has diversified experience of over three decades and specializes in Finance, Taxation and General Management. He is presently associated with Deloitte Touche Tohmatsu India Private Limited as Senior Advisor. The Board feels that the vast and diversified experience of Mr. Thirumalai will prove to be an asset to the Company. Mr. Thirumalai is not a Director in any other Company in India.

On the basis of his declaration given that he meets the criteria of independence as provided in sub-section (6) of Section 149 of the Companies Act, 2013 the Board is of the opinion that Mr. Thirumalai fulfills the conditions specified in the Companies Act, 2013 and the rules thereunder for appointment as Independent Director and he is independent of management. Mr. Thirumalai holds 25 shares in the Company.

The consent pursuant to Section 152(5) of the Companies Act, 2013 to act as Director, if appointed, has been received from Mr. Thirumalai.

None of the Directors or Key Managerial Personnel of the Company or their relatives other than Mr. Thirumalai has concern or interest, financial or otherwise in this resolution.

The Board commends this item of business for your approval.

By Order of the Board  
VST INDUSTRIES LIMITED

NITESH BAKSHI  
Company Secretary

Dated this 5th day of June, 2014.  
Azamabad, Hyderabad - 500 020



## REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT

### DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31ST MARCH, 2014

VST Industries Limited

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2014.

#### Financial Results

	2013-14	2012-13
Revenue from Operations	162672	162109
Net Profit after Tax	15015	12625
Profit brought forward from previous year	10274	10205
Balance available for Appropriation	25289	22830
Amount transferred to General Reserves	1510	1265
Dividend proposed	10809	9651
Corporate Dividend Tax	1837	1640
Surplus in the Statement of Profit and Loss	11133	10274
<b>KEY RATIOS</b>		
Earnings per Share (₹)	97.24	81.76
Dividend per Share (₹)	70.00	62.50

- Value creation during the decade has been Compounded Annual Growth Rate (CAGR), 10.8% in Earnings Per Share (EPS) and 26.4% in Dividend Per Share (DPS).

#### INDUSTRY STRUCTURE & DEVELOPMENT

In the Union Budget presented in March 2013, the industry witnessed another round of steep hike in excise duty of 18% on all segments except 64mm. This successive increase in excise has adversely impacted consumption levels resulting in year-on-year volume decline. Industry volumes have been under pressure during the year 2013-14.

The industry continues to face significant taxation challenges. Most states revised the tax rates again in 2013-14. Significant hikes that impacted your Company were in Bengal and Bihar where the rates increased from 20% to 35% and 34.5%

respectively. The overall tax rate for your Company has increased from 22% to 26% in 2013-14.

The trend of steep tax hikes is likely to continue and will be a challenge moving forward.

The recently introduced 64mm filter segment has helped in mitigating overall industry volume losses. The segment now contributes 14% to industry volumes. However, the mid segment which largely comprises 69mm filter cigarettes is under significant pressure.

#### SEGMENT WISE PERFORMANCE

Your Company considers tobacco and related products as the primary segment

for reporting. Geographical segments considered for disclosure primarily consist of sales within and outside India. The entire activity pertaining to sales outside India is carried out from India.

Your Company has leveraged the opportunities arising from the introduction of 64mm cigarettes in 2012-13 by launching 64mm variants of key brands. Your Company's key brands **Moments, Special & Charms** have registered growth in volumes when compared to last year in Uttar Pradesh, North Bengal and Bihar respectively. This has helped your Company to compensate volumes in a declining industry.

#### Market Scenario

Cigarette volumes of your Company during 2013-14 stood at 8100 mns, marginally higher than 2012-13. This was primarily due to superior performance in the 64mm segment.

Your Company strives to strengthen its position further through a combination of geographic expansion and introduction of new brands.

#### Leaf Tobacco

Your Company has recorded leaf sales turnover of ₹241 crore, in the year 2013-14 leveraging its expertise in all varieties of tobacco. Your Company is concentrating on domestic sales by utilizing its image with the local trade in addition to exports for maximizing turnover and profits.

The focus on developing niche varieties of tobacco continued. Besides helping



## REPORT OF THE BOARD OF DIRECTORS

develop the backward regions, it has also helped in improving the Company's profitability. The oriental project continues with improved agronomic practices.

It is satisfying to note that your Company's farmers continue to grow tobacco with the lowest pesticide residue levels and low TSNA's (Tobacco Specific Nitrosamines) that are well within international standards.

Your Company's leaf tobacco function continues to be certified by Registro Italiano Navale, Genova, Italy for SA8000 reflecting Company's resolve to follow best international practices in its operations.

### PRODUCTION AND PLANT MODERNISATION

In view of rapid growth in the value filter segments (64mm), during the year 2013-14, your Company has successfully converted the cigarette making and packing machines by deploying in-house expertise.

In continuance with its tradition, 143 workmen were trained during the year to improve their technical skills.

World class high speed makers and packers were inducted in the shop floor as part of your Company's upgradation plan.

### HUMAN RESOURCE DEVELOPMENT

Your Company's Human Resource Management focus continue to attract and retain the best talent, in an increasingly competitive market place.

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

Your Company has constituted an Internal Complaints Committee as per the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and the Rules thereunder. No cases were filed during last year under the above Act.

As on 31st March, 2014, your Company had a strength of 885 employees, with 291 management staff and 594 workmen.

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

Information in accordance with clause (e) of sub-section (1) of Section 217 of the Companies Act, 1956 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 high safety performance.

President Award for the year 2013 was presented to your Company by Royal Society for Prevention of Accidents (RoSPA), U.K. for maintaining highest standards in Occupational, Health and Safety.

Safety Innovation Award for the year 2013 was awarded to your Company by Institution of Engineers India, New Delhi.

Environment, Health and Safety (EHS) in day-to-day business operations is given very high priority by your Company. 504 employees and 20 contractors have undergone EHS training and 570 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 standards at high level. Quarterly and annual EHS audits of Company operations were carried out to ensure compliance of EHS requirements, and to measure the performance of EHS. EHS Road Map rating for your Company was assessed at 3.54 as against the scale of 4.0 for the year 2013-14.

Surveillance Audit of ISO 14001: 2004 & OHSAS 18001: 2007 for the year 2013-14 were conducted by Registro Italiano Navale India (RINA).

As a social responsibility your Company has been actively discouraging child labor involvement in tobacco growing/processing. Your Company has also facilitated installation of solar lights in the tobacco growing areas in association with the village panchayats.

All statutory compliances are in place.



## REPORT OF THE BOARD OF DIRECTORS

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

### FINANCE

#### a. Profits

The Profit after Tax of your Company for the year is ₹150 crore.

The continuous increase in taxation over the last several years has brought about increased pressure on margins.

#### b. Treasury Operations

Your Company follows a SLR model (Safety, Liquidity and Return) in deployment of surplus funds which arise periodically during the year. The Company predominantly deploys monies in debt funds of reputed mutual funds and tax free bonds issued by Government bodies. Such investments earned ₹15 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 undertaken by the team. This team interacts with managers of the operating teams and works continuously to help improve the business processes. Your Company has also developed adequate skills to manage issues arising out of facilities management and networking which are the other components of the IT infrastructure.

### RATING

The Credit Rating Information Services India Limited (CRISIL) has re-affirmed the rating of your Company to 'FAAA/Stable' for Fixed Deposit Schemes, 'AA+/Stable' for Long Term Non-convertible Debentures and 'A1+' for Non-fund based liabilities (Letter of Credit and Bank Guarantee). Your Company has stopped accepting fresh deposits for the past several years.

### UNCLAIMED DIVIDENDS

Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, the declared dividends, which remained unpaid or unclaimed for a period of seven years, are transferred by the Company to Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the said Act. The final dividend for the year ended 31st March, 2007 remaining unpaid would be deposited by 23rd August, 2014 to IEPF in accordance with Section 205C of the Companies Act, 1956.

The details of the dividend due for transfer to IEPF as on 31st March, 2014 is given in the Report on Corporate Governance.

### UNCLAIMED SHARE CERTIFICATES

Your Company has communicated to the Members whose share certificates have been returned undelivered to the Company that these would be transferred to the Unclaimed Suspense Account if not claimed by them, as required under the Listing Agreement amended by SEBI vide its Circular dated 16th December, 2010.

The status of unclaimed shares as on 31st March, 2014 is given in the Report on Corporate Governance.

### CORPORATE GOVERNANCE

The Company's Report on Corporate Governance is annexed to this Report.

Certificate of the Statutory Auditors of your Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with stock exchanges is annexed to this Report.

Your Company has taken adequate steps for strict compliance with the Corporate Governance guidelines, as amended from time to time.

The Ministry of Corporate Affairs has released draft guidelines for voluntary compliance covering various aspects. Your Company has already implemented most of the items and is considering feasibility of implementation of the balance items.

### INTERNAL FINANCIAL CONTROLS

Your Company remains committed to improve effectiveness of internal financial controls and processes which would help in efficient conduct of its business operations, ensure security to its assets and timely preparation of reliable financial information.

The policies and procedures laid out by your Company capture the control environment prevalent in the organization. Over a period of three years, the business processes of your Company is reviewed through an





## REPORT OF THE BOARD OF DIRECTORS

internal audit process which reviews the systems on a continuous basis. The objective being to identify potential risk areas and come up with a comprehensive risk mitigation plan.

The Audit Committee of your Board met five times during the year. Review of audit observations covering the operations, consideration of accounts on a quarterly basis and monitoring the implementation of audit recommendations were some of the key areas which were dealt with by the Committee. The Statutory Auditors/Internal Auditors were invited to attend the Audit Committee meetings and make presentations covering their observation on adequacy of internal financial controls and the steps required to bridge gaps, if any.

### Risk Management

Risk Management is monitored by a Committee comprising of members from various functions. The Committee meets periodically to identify the potential risks as well as to take adequate steps for mitigating the risks. A comprehensive note covering various aspects is placed before the Board every quarter.

## DIRECTORS

### Directors retiring by rotation

In accordance with Article 93 of the Articles of Association of your Company, Mr. Raymond S. Noronha retires from the Board and being eligible, offers himself, for re-election. Your Board recommends his re-appointment.

### Mr. Raymond S. Noronha

At the Annual General Meeting held

on 12th July, 2012, Mr. Raymond S. Noronha was appointed as Non-Executive Director of your Company with effect from 3rd September, 2012. Mr. Noronha was elected as Chairman of your Company and of its Board of Directors with effect from 1st October, 2012.

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 39 years of varied experience in the cigarette business both international and domestic and has held several top level positions for over a decade. Mr. Noronha retired as Managing Director of your Company and was appointed as Non-Executive Director with effect from 3rd September, 2012. He is the Chairman of Committee of Directors and a Member of the Audit Committee, Shareholders Grievance Committee and Nomination & Remuneration Committee of your Company. Mr. Noronha neither holds any shares in the Company nor is related to any other Director of the Company.

### Directors' Resignation/ Appointment

### Mr. T. Lakshmanan

The Board of Directors place on record with deep regret the sad demise of Mr. T. Lakshmanan, the Non-Executive Director of your Company on 24th September, 2013. The Board of Directors place on record their deep appreciation of the contribution made to your Company by Late Mr. Lakshmanan.

### Mr. Peter G. Henriques

Mr. Peter G. Henriques ceased to be a Director of your Company with effect from close of business on 31st December, 2013. The Board of Directors place on record their deep appreciation of the contribution made to your Company by Mr. Peter G. Henriques.

### Mr. James Yamanaka

Mr. James Yamanaka was nominated by the Raleigh Investment Company Limited, a British American Tobacco group company as a Director of your Company with effect from 1st January, 2014 in place of Mr. Peter G. Henriques.

Mr. James Yamanaka is B.A. in Political Science & Economics from University of California, San Diego, MS in Foreign Service from Georgetown University, USA and M.B.A. from London Business School, U.K. He has 20 years of experience in the area of Strategy and Planning. He is currently the Group Head of Strategy and Planning of British American Tobacco Plc. Mr. Yamanaka neither holds any shares in the Company nor is related to any other Director of the Company.

A suitable resolution is being put up for your approval.

### Prof. Mubeen Rafat

Prof. Mubeen Rafat was appointed as Additional Director of your Company with effect from 1st January, 2014.

Prof. Mubeen Rafat is B.Sc.(Statistics) from Elphinstone College, Mumbai and



**REPORT OF THE BOARD OF DIRECTORS**

M.M.S. (Finance) from Jamnalal Bajaj Institute of Management Studies, Mumbai. She has over 25 years of experience in the area of Finance as a manager and as faculty. She is currently the Professor in Administrative Staff College of India (ASCI). She is a Member of the Audit Committee, Committee of Directors and Nomination & Remuneration Committee and is the Chairperson of Shareholders Grievance Committee of your Company. Prof. Rafat neither holds any shares in the Company nor is related to any other Director of the Company.

A suitable resolution for appointment of Prof. Mubeen Rafat as an Independent Director as per the provisions of Companies Act, 2013 is being put up for your approval.

**Mr. S. Thirumalai**

Mr. S. Thirumalai was re-appointed at the Annual General Meeting held on 30th July, 2013.

Mr. S. Thirumalai is a Commerce and Law Graduate and is a Fellow Member of Institute of Chartered Accountants of India and Institute of Company Secretaries of India. He is also a Certified Associate of the Indian Institute of Bankers. He attended the Advanced Management Program at Harvard Business School, Boston, M.A. (USA) in 1992. He has over 31 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 now the Senior Advisor

to the consulting firm Deloitte Touche Tohmatsu India Private Limited. He is the Chairman of the Audit Committee and Nomination & Remuneration Committee and a Member of Shareholders Grievance Committee and Committee of Directors of your Company. Mr. Thirumalai holds 25 shares in the Company and is not related to any other Director of the Company.

A suitable resolution for appointment of Mr. S. Thirumalai as an Independent Director as per the provisions of Companies Act, 2013 is being put up for your approval.

**DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to Section 217(2AA) of the Companies Act, 1956 your Directors confirm that:

1. in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
2. appropriate accounting policies have been selected and applied consistently. Judgement and estimates which are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of your Company as at the end of the financial year and of the profit of your Company for the period;
3. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of

the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and

4. the annual accounts have been prepared on a going concern basis.

**TAXATION****i. Income Tax****a. Financial Services Business**

Your Company had diversified into Financial Services Business and Foods Business in the early nineties. Subsequently in the year 1998-99, your Company incurred a total loss of ₹38.67 crore in the financial services business of which ₹29.70 crore was claimed as loss under the head 'Income from Business' and ₹8.97 crore was claimed as a capital loss under the provisions of the Income Tax Act.

The Income Tax Appellate Tribunal allowed the entire amount of ₹38.67 crore as a capital loss. It may be noted that the department had treated the entire loss as a 'Speculation Loss'.

Your Company has filed an appeal before the Hon'ble High Court of Andhra Pradesh which has been admitted. The matter is yet to be heard.



Further in connection with its divestment from the Foods Business in the financial year 1999-00, your Company had incurred a total loss of ₹53.68 crore, of which ₹44.18 crore was claimed as a loss under the head 'Income from Business' and ₹9.50 crore was claimed as a capital loss under the provisions of the Income Tax Act. The Income Tax Department has disallowed the entire amount excepting ₹5.70 crore which was allowed as a capital loss. The Commissioner of Income Tax (Appeals) further allowed ₹11.24 crore out of the balance amount of ₹47.98 crore, on appeal before him and the same was upheld by the Income Tax Appellate Tribunal. Your Company has preferred an appeal against the above order and the matter is now before the Hon'ble High Court of Andhra Pradesh.

Consequent to the above orders, the Income Tax Department had issued consequential orders under Section 154 of the Income Tax Act demanding ₹28.86 crore (revised) which was paid by your Company.

**b. North East**

Pursuant to the withdrawal of exemption notification for

manufacture of cigarettes in the North Eastern region in terms of Supreme Court judgement of 19th September, 2005, your Company had paid an amount of ₹31.20 crore towards principal and provided an amount of ₹12.69 crore towards interest.

In the income tax return filed by your Company for the relevant year, this amount was considered as an allowable expenditure in the assessment for the year 2006-07. However, subsequently the Income Tax Department has sent a demand notice seeking payment of ₹19.30 crore being tax payable along with interest which was paid by your Company. Your Company has contested the same.

**ii. Luxury Tax**

The Hon'ble Supreme Court by its judgement dated 20th January, 2005 set aside levy of Luxury Tax on tobaccoconists by various States. The Court had also directed the companies to pay back to the State any amount of luxury tax recovered from the customers after obtaining Stay orders from the Court. The Department has alleged that your Company has failed to pay an amount of ₹34.86 crore being the Luxury Tax collected from customers by your Company after passing of the interim order dated

1st June, 1999, but not paid to the State Government of Andhra Pradesh which is in violation of the said judgement dated 20th January, 2005 and filed the contempt petition against the Managing Director of your Company. An amount of ₹29.81 crore has also been claimed as interest thereon @ 24% per annum. The contempt charges against the Managing Director of your Company were dismissed by the Hon'ble Supreme Court on 19th March, 2010.

The State of Andhra Pradesh decided to continue with the legal proceedings for recovery of Luxury Tax from your Company by substituting the Company's Managing Director with your Company as the Respondent. The Supreme Court by its Order dated 9th November, 2012 appointed an independent auditor to examine and verify the accounts of your Company for the period 1st April, 1999 to 20th January, 2005 and submit their report as to whether any sum was collected by your Company towards luxury tax during the operation of the Stay Order dated 1st April, 1999. The auditor forwarded its report to the Supreme Court giving a clean chit to your Company. The Supreme Court, after examining the report of the auditor, disposed off the petition with an observation that no contempt lies against your Company. However, the State



## REPORT OF THE BOARD OF DIRECTORS

Government has been given an opportunity to issue a show cause notice to your Company for refund of the luxury tax collected after obtaining interim order from the Supreme Court. The show cause notice should be backed and supported by the evidence the department wishes to rely upon in support of its case and is subject to contest by the parties as per the law.

### iii. Entry Tax

As mentioned in last year's Report, several High Courts in the country including those of Andhra Pradesh, Kerala, Tamilnadu and Assam have struck down the levy of Entry Tax on the ground that it is violative of Article 301 and not saved under Article 304(b) of the Constitution, as it is not compensatory in the manner required in terms of the Supreme Court judgement in the case of M/s. Jindal Stainless Limited. Thereafter, several states such as Uttar Pradesh, Bihar, Haryana and Assam have attempted to re-introduce Entry Tax by amending the original Acts, sparking a fresh round of legal challenges in the High Courts. Most of the appeals filed by the various states, and individual companies have been clubbed together.

The Hon'ble Supreme Court in the batch of cases headed by Jai Prakash Associates vs the State of MP has referred a number of vital questions on levy of Entry Tax, to

the Constitutional Bench in terms of Article 145(3) of the Constitution which are still pending adjudication.

### iv. Excise

#### a. Wrapping Materials

The Excise Department claimed a sum of ₹3.62 crore (including penalty and interest @ 24%) on the ground that Gay Wrappers (printed paper used for wrapping cigarette packets) had been manufactured and consumed by your Company without payment of duty during the period April 1996 to March 2002. The Customs, Excise and Service Tax Appellate Tribunal (CESTAT), Bangalore had allowed your Company's appeal against the said demand and set aside the demand of the Excise Department. An appeal against the said Order has been filed by the Excise Department and is presently pending in the Hon'ble Supreme Court.

#### b. Cigarette manufacture in North Eastern states

The Excise Department had demanded a sum of ₹31.20 crore along with interest of ₹12.69 crore from the Company's former contract manufacturers consequent upon the judgement of the

Hon'ble Supreme Court upholding the withdrawal of exemptions granted in the North Eastern states. Thereafter, a total sum of ₹33.22 crore was paid to the Department. A Division Bench of the Gauhati High Court confirmed the judgement of the single judge and held that interest was also payable for the period 1st August, 2003 to 7th February, 2006 on the principal amount already repaid. Appeals have been filed in the Supreme Court against the said judgements of the Gauhati High Court which were admitted but no stay of the said judgements was granted. A sum of ₹2.92 crore was paid to the department during the current financial year.

#### c. Tobacco Refuse

Your Company has been receiving periodical show cause notices demanding recovery of duty on cut tobacco used in the manufacture of tobacco refuse together with interest and penalty from January 2005 to October 2013, amounting to ₹15.80 crore, five of which were confirmed by the Orders of the Commissioner of Central Excise. Your Company's Stay applications in the appeals before CESTAT



were heard favourably and stay with complete waiver of pre-deposit has been granted in the interim pending final hearing of the appeals by the Appellate Tribunal.

**d. Service Tax**

Your Company has received show cause notices from the Excise Department seeking to deny CENVAT credit availed on service tax paid by various service providers on the ground that the same are not in relation to the manufacture of final products. They are all pending adjudication at various levels. Total amount involved is approximately ₹7.28 crore together with interest and penalty.

**e. Enhancement of duties - Budget 2012**

Your Company has received a show cause notice from the Excise Department seeking payment of differential duty amounting to ₹15.60 crore together with interest and penalty for the period 17th March, 2012 to 27th May, 2012 on the ground that the proposed excise duty increase which was further enhanced during the pendency of the Finance Bill, 2012 in Parliament was saved by the declaration under the Provisional Collection of Taxes Act, 1931 and would

therefore, come into effect from 17th March, 2012 i.e. the date when the Finance Bill was introduced in the Lok Sabha and not from 27th May, 2012 when the Bill received the assent of the President. Similar demands have also been raised on the other major cigarette manufacturers in the country. Circular No.981/5/2014-CX dated 11th February, 2014 was issued by the Ministry of Finance clarifying that the date of enhancement shall be from 28th May, 2012 and not from 17th March, 2012. Your Company having provided the amount of ₹15.60 crore during the previous financial year has written back the same in the book. Your Company has written to the Department seeking to drop further proceedings in the matter.

**PUBLIC INTEREST LITIGATION (PIL)**

- i. The two PILs filed in the Madras High Court and the Andhra Pradesh High Court against the Central Government and the cigarette manufacturers including your Company, seeking strict implementation of Cigarettes and Other Tobacco Products (Prohibition of Advertisement And Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 (COTPA Act) and Rules are still pending.
- ii. A PIL was filed in the Karnataka High Court by Mr. Ravishankar, an advocate/activist against various ministries of the central government, state government, Advertising Standards Council of India, your Company and other cigarette manufacturing companies seeking several reliefs on various aspects and issues relating to COTPA and its implementation. The Bench disposed off the matter with directions to the State Government to take steps to enforce the provisions of COTPA through the mechanism already provided under the Act and direct the authorities specified to take steps accordingly. The Bench also observed that it is not proper for an individual to invoke the extraordinary jurisdiction of the High Court under Article 226 in matters such as these where there is no individual complaint and a mechanism has already been provided to deal with the question of violation.
- iii. Your Company has been impleaded in the petition filed in the Supreme Court by an NGO called 'Centre for Transforming India' against the Union of India along with other cigarette manufacturers, Tobacco Institute of India, bidi manufacturers and bidi manufacturers' Association seeking prohibition/ban of the manufacture, storage and sale of all forms of tobacco within the territory of India.



## REPORT OF THE BOARD OF DIRECTORS

### INTELLECTUAL PROPERTY

The suit for infringement and passing off filed by ITC Limited against your Company alleging that your Company had violated ITC Limited's 'Gold Flake' trade mark by using a deceptively similar get up and trade dress consisting of a combination of red and gold colors, on its 'Special' brand of cigarettes is still pending in the Hon'ble Calcutta High Court and the trial is yet to begin. ITC's application for temporary injunction was refused by a single judge of the Hon'ble Calcutta High Court. Appeal was filed by ITC and the Division Bench without allowing the Appeal directed the hearing of the suit to be expedited. Your Company, however, has been directed to submit the sales figures of the 'Special' brand of cigarettes every month to the Court.

### FINANCIAL SERVICES BUSINESS

The Company Petition filed by the Official Liquidator in the Hon'ble High Court of Andhra Pradesh seeking directions to some of the Ex-Directors of ITC Agro Tech Finance and Investments Limited (ITCATF) into which one of the subsidiaries of your Company, viz. VST Investments Limited was amalgamated, to file a Statement of Affairs is still pending.

In terms of the Order dated 10th July, 2007 the Division Bench of the Hon'ble High Court of Andhra Pradesh had directed the Regional Director, Department of Corporate Affairs, Chennai to conduct an investigation and submit a report showing the persons who promoted ITCATF and the persons

who were responsible in conducting its affairs until its winding up. A comprehensive report was prepared and filed in the Hon'ble High Court of Andhra Pradesh by the Regional Director in July 2008. All the matters are still pending final adjudication.

### THE CIGARETTES AND OTHER TOBACCO PRODUCTS (PROHIBITION OF ADVERTISEMENT AND REGULATION OF TRADE AND COMMERCE, PRODUCTION, SUPPLY AND DISTRIBUTION) ACT, 2003 (COTPA)

- i. Some of the provisions of COTPA have come into force with effect from 1st May, 2004. These include ban on advertising in print and visual media, ban on outdoor advertising, regulation of in-store advertising, prohibition of sale of cigarettes to persons below the age of 18 years and printing of pictorial warnings on cigarette packets, which came into effect from 31st May, 2009 and were further revised with effect from 1st December, 2011. A new set of pictorial warnings have been notified to come into force with effect from 1st April, 2013. All cigarette packets manufactured after that date bear the new warning.
- ii. Some Tobacco manufacturers have challenged various provisions of COTPA and Rules made thereunder in different High Courts across the country. The Union Government filed transfer petitions

in the Hon'ble Supreme Court seeking to transfer 31 pending writ petitions from various high courts to the Hon'ble Supreme Court. All the transfer petitions were allowed and the writ petitions have thus been moved to the Hon'ble Supreme Court, for final adjudication.

- iii. Your Company had also filed a writ petition in the Hon'ble High Court of Andhra Pradesh challenging the Cigarettes and Other Tobacco Products (Packaging & Labelling) Rules, 2006 and the Amendment Rules 2008, on the grounds inter alia that they are ultra vires of COTPA and therefore the Notifications issued there under (including those seeking implementation of graphic health warnings) should be quashed. The said writ petition has been admitted but no interim orders were passed by the Hon'ble Court.
- iv. A ban on smoking in public places as envisaged under COTPA, came into effect on 2nd October, 2008, under which smoking has been banned in virtually all public places including courts, public buildings, restaurants, bars, cinema halls etc. A batch of writ petitions challenging this was filed in the Hon'ble Delhi High Court and transferred to the Hon'ble Supreme Court, which was admitted by the Hon'ble Supreme Court in 2008. However, interim relief prayed for by the petitioners seeking to postpone implementation of the





## REPORT OF THE BOARD OF DIRECTORS

ban on smoking in public places was declined.

### REAL ESTATE

The Government of Andhra Pradesh had filed a land grabbing case against your Company in 1991 in relation to a piece and parcel of vacant land which has been under possession and occupation by your Company for over 45 years. By its judgement in July, 2010, the Land Grabbing Court had held that your Company was not a land grabber but had given the State Government the right to initiate proceedings against your Company to recover possession of the land at some future date. Against this part of the judgement, your Company had filed a writ petition in the Hon'ble High Court of Andhra Pradesh to expunge that part of the order giving such liberty to the Department despite the fact that your company has already been declared not to be a land grabber. The writ petition is still pending. In the meantime, after a lapse of over 3 years, the State Government has also filed a writ petition in the Hon'ble High Court of Andhra

Pradesh seeking to set aside the said judgement of the Land Grabbing Court. An interim Order was passed without the Company being present, restraining your Company from changing the status of the land or creating any third party interest therein. Your Company is taking steps to consolidate all the pending matters, get the interim orders vacated and seek speedy disposal so that the property becomes available for development.

### COMPANY EMPLOYEES

Under the provisions of Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended, the particulars of employees are set out in annexure to the Directors' Report.

However, as per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to all the shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary.

Your Directors take this opportunity to record their deep appreciation of the continuous support and contribution from all employees of your Company.

### AUDITORS

The Auditors, Messrs. Lovelock & Lewes, Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

### THE FUTURE

Your Company is well placed to exploit the opportunities in various geographies. The strategy of new brand launches, coupled with geographical expansion will further strengthen the market position of your Company. Your Company has been successful in improving its margins and has plans to further consolidate the momentum.

On behalf of the Board,

RAYMOND S. NORONHA  
Chairman

Dated this 22nd day of April, 2014.  
Azamabad, Hyderabad - 500 020





## ANNEXURE TO THE REPORT OF THE BOARD OF DIRECTORS

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st March, 2014.

### A. CONSERVATION OF ENERGY

#### 1. Energy conservation measures taken:

- i. Enhanced Maximum Demand from 920 Kva to 1250 Kva, and saved ₹39 lakhs in the year 2013-14.
  - ii. Purchased power through Open Access bidding process and saved ₹156 lakhs in the year 2013-14.
  - iii. Energy audit was conducted by CIL. As per the findings & recommendations by audit team, suction & pneumatic lines were balanced and compressed air line losses were arrested. This has reduced the respective energy consumption by 5%.
  - iv. Provided Variable Frequency Drive (VFD) for Cut Tobacco Stores humidifier and saved energy consumption by 2%.
  - v. Provided inductance & capacitive filters at load end side, and reduced the power distribution losses by 0.7%.
  - vi. Monitored machine wise power consumption on daily basis.
  - vii. Conducted energy conservation awareness program for 504 workmen.
2. Additional investments and proposals, if any, being

implemented for reduction of consumption of energy:

- i. Continue with enhanced Maximum Demand of 1250 Kva.
  - ii. Continue purchasing of power consumption of energy through open access bidding process, instead of generating power through genset.
  - iii. Introduce energy efficient motors for SMD DRF.
  - iv. Introduction of digital interactive mode for existing UPS.
  - v. Solar power system for street lights.
  - vi. Third party energy audit.
  - vii. Compressed air audit.
  - viii. Replacement of old air conditioners with new energy efficient ones.
  - ix. Monitor machine wise power consumption on daily basis.
  - x. Conduct energy conservation awareness program.
3. Impact of the measures at (1) and (2) above for reduction of energy consumption and consequent impact on the cost of production of goods:
- i. Reduced electrical energy consumption per unit by 10%.

### B. TECHNOLOGY ABSORPTION

#### Research & Development (R&D)

1. Specific areas in which R&D were carried out by the Company are:
  - i. Developed new tobacco flavors by working closely with

international tobacco flavor manufacturers.

- ii. Conducted Product Space Mapping (PSM) study for products of various segments in market & used data in developing new blends and designing new brand cigarettes.
- iii. Conducted quality audits by Quality Circles in SMD & PMD on continuous basis. Conducted periodical reviews on audit findings by Quality Circles and achieved improvements in both cut tobacco & finished product quality.
- iv. Tracked Retail Quality Index (RQI) data of market drawn samples each month, and utilized to resolve recurring quality issues time to time.
- v. Traced on-line Product Functional Quality data from Quality Test Modules (QTM) and used for implementation of quality based maintenance on each machine lines.
- vi. Training inputs given to workmen on :
  - a. Key areas of quality improvement - covered 452 workmen
  - b. Technical skills - covered 143 workmen
- vii. Trained all R&D lab analysts on ISO methods/test procedures/National Accreditation Board for Testing & Calibration Laboratories (NABL) requirements.



## ANNEXURE TO THE REPORT OF THE BOARD OF DIRECTORS

VST Industries Limited

2. Benefits derived as a result of the above R&D:

- i. Launched new brands in market.
- ii. Successfully made in-roads into markets in VSFT-64mm filter cigarettes segment.
- iii. Achieved target product quality - Retail Quality Index - for RSFT & VSFT.
- iv. Achieved 'Certificate of Continuance-ISO/IEC 17025' for our R&D laboratory from NABL, Department of Science & Technology, Government of India, New Delhi.

3. Future plan of action:

- i. Develop new blends & brands as required in market time to time.
- ii. Develop new blends & design cigarettes with futuristic view, to be in readiness to meet Government regulations from time to time.
- iii. Develop new flavors as required from time to time.
- iv. Continue quality audits by Quality Circles, review periodically to achieve improvement in quality.
- v. Track Retail Quality Index & Machine On-line Quality Data from quality test modules for use to carry out quality based maintenance to rectify machine specific quality issues.

- vi. Training inputs to staff & workmen on quality improvement, average machine output and reduction of waste generation.

Expenditure on R&D: ₹ Lakhs

a. Capital	-
b. Recurring	445.97
<b>TOTAL</b>	<b>445.97</b>

- c. Total R&D expenditure as a percentage of:

Gross Turnover 0.27%

Net Turnover 0.57%

### C. FOREIGN EXCHANGE EARNINGS AND OUTGO

1. Activities relating to exports:

- i. Your Company is marketing Dark Fire Cured, Light Soil Burley, Oriental, Flue Cured tobacco and other Sun/Air Cured tobacco.
- ii. Improved leaf growing technology for quality/farm yield improvement and minimizing TSNA levels. Creating awareness to minimize/eliminate NTRM (Non-tobacco related material).
- iii. To increase the exports further, tie up with merchant companies and production of low pesticide residue.
- iv. Upgradation of processing & manufacturing technology for better yield and reduction in NTRM.

2. Initiatives taken to increase exports and development of new export markets for products & services and export plans:

- i. Selection of tobacco, smoke analysis, on-line testing of cigarettes produced.
- ii. Modernisation of process and technology to upgrade quality.

3. Total foreign exchange:

Used: ₹ Lakhs

Raw Materials : 758.36

Spare Parts : 110.14

Capital Goods : 3704.55

Overseas Travel, Advertisement & Subscriptions, etc. : 57.68

Dividends : 3103.69

**7734.42**

Earned: ₹ Lakhs

Cigarettes (CIF, C&F & FOB) : -

Tobacco (CIF, C&F & FOB) : 15578.57

Cut Tobacco (CIF, C&F & FOB) : -

**15578.57**

On behalf of the Board,

RAYMOND S. NORONHA  
Chairman

Dated this 22nd day of April, 2014.  
Azamabad, Hyderabad - 500 020



VST Industries Limited

## **Auditors' Certificate regarding compliance of conditions of Corporate Governance**

To the Members of  
VST Industries Limited

We have examined the compliance of conditions of Corporate Governance by VST Industries Limited for the year ended 31st March, 2014, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For LOVELOCK & LEWES  
Firm Registration Number: 301056E  
Chartered Accountants

N. K. VARADARAJAN  
Partner  
Membership No. 90196

Hyderabad, 22nd April, 2014.



# REPORT ON CORPORATE GOVERNANCE

As per Clause 49 of the Listing Agreement entered into with the stock exchanges, the Directors present the Company's Report on Corporate Governance for the year ended 31st March, 2014.

## 1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Your Company considers good Corporate Governance a pre-requisite for meeting the needs and aspirations of its Members and other stakeholders in the Company. The Company's essential character revolves around values based on transparency, integrity, professionalism and accountability. At the highest level, the Company continuously endeavours to improve upon these aspects on an ongoing basis and adopts innovative approaches for leveraging resources, converting opportunities into achievements through empowerment and motivation.

## 2. I. BOARD OF DIRECTORS

### (A) Composition of Board

As on 31st March, 2014, your Company's Board has seven Directors, out of whom five Directors are non-executive directors including the Chairman and the remaining two are Executive Directors.

The table below gives the names and categories of the Directors on the Board, number of outside directorships and number of memberships/chairmanships of Board Committees held by them in other public companies as on 31st March, 2014:

Name of the Director	Category	Relationship with other Directors	No. of outside directorships held	No. of memberships/chairmanships of board committees of other companies
Mr. Raymond S. Noronha	Chairman Non-Executive Director	None	-	-
Mr. T. Lakshmanan <sup>1</sup>	Independent Non-Executive Director	None	-	-
Mr. N. Sai Sankar	Managing Director	None	1	-
Mr. S. Thirumalai	Independent Non-Executive Director	None	-	-
Mr. Peter G. Henriques <sup>2</sup>	Non-Executive Director	None	-	-
Mr. James H. Yamanaka <sup>3</sup>	Non-Executive Director	None	-	-
Mrs. Asha Nair <sup>4</sup>	Independent Non-Executive Director	None	2	-
Mr. Devraj Lahiri	Whole time Director	None	1	-
Ms. Mubeen Rafat <sup>5</sup>	Independent Non-Executive Director	None	-	-

<sup>1</sup> Ceased to be the Director of the Company with effect from 24th September, 2013 upon his demise.

<sup>2</sup> Representing equity interest of promoter group - British American Tobacco, U.K. ceased to be the Director of the Company from the close of business hours on 31st December, 2013.

<sup>3</sup> Representing equity interest of promoter group - British American Tobacco, U.K. appointed as the Director of the Company with effect from 1st January, 2014.

<sup>4</sup> Representing equity interest of General Insurers' (Public Sector) Association of India.

<sup>5</sup> Appointed as the Director of the Company with effect from 1st January, 2014.



## REPORT ON CORPORATE GOVERNANCE

VST Industries Limited

None of the Independent Non-Executive Directors has any pecuniary relationship or transactions with the Company, its promoters or its senior management which in the judgement of Board may affect the independence of the Director except receiving sitting fees for attending Board/Committee meetings and commission from the Company.

### **(B) Non-Executive Directors' compensation and disclosures**

All fees and commission paid to Non-Executive Directors including Independent Directors are fixed by the Board of Directors. Consent of the members of the Company is also obtained for commission paid to Non-Executive Directors including Independent Directors. The Company has no Employee Stock Option Scheme and hence, no stock options are granted to Non-Executive Directors, including Independent Directors.

### **(C) Other provisions as to Board and Committees**

- i. During the financial year ended 31st March, 2014, four meetings of the Board were held on 18th April, 2013, 30th July, 2013, 18th October, 2013 and 20th January, 2014.

The table below gives attendance of Directors at Board Meetings and at the Annual General Meeting (AGM) during the financial year:

Name of the Director	No. of Board Meetings attended	Attendance at last AGM held on 30th July, 2013
Mr. Raymond S. Noronha	4	Yes
Mr. T. Lakshmanan <sup>1</sup>	2	Yes
Mr. N. Sai Sankar	4	Yes
Mr. S. Thirumalai	4	Yes
Mr. Peter G. Henriques <sup>2</sup>	3	Yes
Mr. James H. Yamanaka <sup>3</sup>	–	NA
Mrs. Asha Nair	3	Yes
Mr. Devraj Lahiri	4	Yes
Ms. Mubeen Rafat <sup>4</sup>	1	NA

<sup>1</sup> Ceased to be the Director of the Company with effect from 24th September, 2013 upon his demise.

<sup>2</sup> Representing equity interest of promoter group - British American Tobacco, U.K. Ceased to be the Director of the Company from close of the business hours on 31st December, 2013.

<sup>3</sup> Representing equity interest of promoter group - British American Tobacco, U.K. Appointed as the Director of the Company with effect from 1st January, 2014.

<sup>4</sup> Appointed as the Director of the Company with effect from 1st January, 2014.

- ii. Availability of information to the members of the Board

- Annual operating plans and budgets, capital budgets and any updates;
- Quarterly, half yearly and annual results of the Company;
- Minutes of meeting of audit committee and other committees;
- Contracts in which Directors are interested;



## REPORT ON CORPORATE GOVERNANCE

VST Industries Limited

- Materially important show cause, demand, prosecution and penalty notices;
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems;
- Any materially relevant default in financial obligations to and by the Company, or substantial non-payment for goods sold by the Company;
- Issue which involves possible public or product liability claims of a substantial nature;
- Any judgement or order which may have passed strictures on the conduct of the Company or taken an adverse view regarding another enterprise that can have negative implications on the Company;
- Quarterly details of foreign exchange exposure and the steps taken by the management to limit the risks of adverse exchange rate movement;
- Non-compliance of any regulatory, statutory or listing requirements as well as shareholders services such as non-payment of dividend and delay in share transfer, if any; and
- All other information statutorily required to be placed before the Board including those specified in Clause 49 of the Listing Agreement.

The Board of Directors of your Company is routinely presented with all information under the above heads, wherever applicable. These are submitted either as part of the agenda papers well in advance of the Board meetings or are tabled in the course of the Board Meetings.

- iii. None of the Directors on the Board is a member of more than ten committees or a Chairman of more than five such committees, across all the Companies in which he/she is a Director as required under Clause 49 of the Listing Agreement. All the Directors have made the requisite disclosures regarding Committee positions held by them in other Companies. As per the provisions contained under Companies Act, 2013, with effect from 1st April, 2014, Mrs. Asha Nair, will be considered as Non-Independent Director.

### **(D) Code of Conduct**

Your Board of Directors has laid down Code of Conduct which is applicable to all Board Members and Senior Management of the Company. The Code of Conduct is also posted on the website of the Company [[www.vsthyd.com](http://www.vsthyd.com)].

#### **Declaration**

As provided under Clause 49 of the Listing Agreement with the Stock Exchanges, this is to confirm that all the Board Members and Senior Management Personnel have affirmed compliance with the Code of Conduct for the year ended 31st March, 2014.

For VST INDUSTRIES LIMITED

Hyderabad, 22nd April, 2014

N. SAI SANKAR  
Managing Director



**II. AUDIT COMMITTEE****(A) The composition of the Audit Committee and the details of meetings held and attended by its members are given below:**

During the financial year ended 31st March, 2014 five audit committee meetings were held on 17th April, 2013, 28th July, 2013, 17th October, 2013, 10th January, 2014 and 19th January, 2014.

Name of the Director	Category	Number of Meetings attended
Mr. S. Thirumalai <sup>1</sup>	Chairman	5
Mr. Raymond S. Noronha	Member	5
Mr. T. Lakshmanan <sup>2</sup>	Member	2
Mrs. Asha Nair <sup>3</sup>	Member	2
Ms. Mubeen Rafat <sup>4</sup>	Member	2

<sup>1</sup> Chairman of the Audit Committee with effect from 17th October, 2013.

<sup>2</sup> Ceased to be a Member of the Audit Committee with effect from 24th September, 2013 upon his demise.

<sup>3</sup> Appointed as Member of the Audit Committee with effect from 17th October, 2013 up to 31st March, 2014.

<sup>4</sup> Appointed as Member of the Audit Committee with effect from 1st January, 2014.

All the members of the Audit Committee are Independent Non-Executive Directors except Mr. Raymond S. Noronha who is a Non-Executive Director.

Mr. Nitesh Bakshi acts as the Secretary to the Audit Committee.

The Chairman of the Audit Committee was present at the previous Annual General Meeting of the Company held on 30th July, 2013.

**(B) Powers of Audit Committee**

The Audit Committee is endowed with the following powers:

- Investigate any activity within its terms of reference;
- Seek information from any employee;
- Obtain outside legal or other professional advice;
- Secure attendance of outsiders with relevant expertise wherever it considers necessary; and
- Review the risk management and mitigation plans.

**(C) Role of Audit Committee**

The role of the Audit Committee includes the following:

- overseeing the Company's financial reporting process and disclosure of financial information to ensure that the financial statements reflects true and fair position and that sufficient and credible information is disclosed;
- recommending the appointment, re-appointment and removal of statutory auditor, fixation of audit fee and approval for payment for any other services rendered;
- discussing with statutory auditors before the audit commences, of the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;



## REPORT ON CORPORATE GOVERNANCE

VST Industries Limited

- reviewing with the management the quarterly/half-yearly financial statements before submission to the Board for approval;
- reviewing with the management the annual financial statements before submission to the Board focusing primarily on:
  - ❖ any changes in accounting policies and practices;
  - ❖ major accounting entries based on exercise of judgment by management;
  - ❖ significant adjustments arising out of audit;
  - ❖ the going concern assumption;
  - ❖ compliance with accounting standards;
  - ❖ any related party transactions as per Accounting Standard 18;
  - ❖ compliance with listing and other legal requirements; and
  - ❖ qualifications in draft audit report.
- reviewing the Company's financial and risk management policies;
- reviewing with the management, performance of statutory and internal auditors, the adequacy of internal control systems;
- discussing with internal auditors of any significant findings and follow-up thereon;
- looking into reasons for substantial defaults in payments to the depositors, debenture holders, Members (in case of non-payment of declared dividends) and creditors, if any; and
- reviewing any other areas as may be required by the Board or which may be specified in the Listing Agreement with the stock exchanges or other statute as may be applicable.

Minutes of the Audit Committee Meetings are circulated to the Members of the Board of Directors and taken note of.

### III. SHAREHOLDERS GRIEVANCE COMMITTEE

The Shareholders Grievance Committee has been constituted to oversee redressal of shareholder complaints related to transfer of shares, non-receipt of declared dividends, non-receipt of annual report etc. The Committee also oversees the performance of the Registrar and Transfer Agents of the Company and recommends measures for overall improvements in the quality of investor services.

**The composition of the Shareholders Grievance Committee and the details of meetings held and attended by its members are given below:**

During the financial year ended 31st March, 2014 four meetings of Shareholders Grievance Committee were held on 17th April, 2013, 29th July, 2013, 17th October, 2013 and 20th January, 2014.

Name of the Director	Category	Number of Meetings attended
Mr. S. Thirumalai	Chairman	3
Mr. T. Lakshmanan <sup>1</sup>	Member	2
Mr. Raymond S. Noronha	Member	4
Mr. N. Sai Sankar	Member	4
Mr. Devraj Lahiri	Member	4

<sup>1</sup> Ceased to be a Member with effect from 24th September, 2013 upon his demise.



Mr. M. Vaidyanathan, Assistant Company Secretary is the Compliance Officer.

**Number of shareholders' complaints received and attended during the financial year:**

Nature of complaints/queries	Received	Attended
Non-receipt of annual reports	4	4
Non-receipt of dividend warrants	55	55
Letters from stock exchanges/SEBI	1	1

The shareholders/investors complaints and other complaints are normally responded to as prescribed by SEBI under general norms for processing documents, transfers etc. except where constrained by disputes or legal impediments. There are some pending cases relating to disputes over the title to shares in which the Company has been made a party. However, these cases are not material in nature.

#### IV. SUBSIDIARY COMPANY

The Company does not have any material unlisted subsidiary company as defined in Clause 49 of the Listing Agreement with the stock exchanges.

#### V. DISCLOSURES

##### **A. Basis of related party transactions**

There have been no materially significant related party transactions that may have potential conflict with the interest of the Company at large.

The details of transactions with related parties were placed before the Audit Committee and the Committee has reviewed the same for the year ended 31st March, 2014.

The details of related party transactions are disclosed in Note No.29 - Notes on Financial Statements to the Accounts in the Annual Report.

##### **B. Disclosure of accounting treatment**

The Company has complied with the appropriate accounting policies and has ensured that they have been applied consistently. There have been no deviations from the treatment prescribed under the Companies (Accounting Standards) Rules, 2006. Significant accounting policies are provided elsewhere in the Annual Report.

##### **C. Proceeds from public issues, rights issues, preferential issues, etc**

During the year, your Company has not raised any money through public issue, rights issue or preferential issue.

##### **D. Remuneration of Directors**

Nomination & Remuneration Committee has been constituted to look into the remuneration of directors, key managerial personnel and other employees. The remuneration of Executive Directors is considered by the Committee before being taken up at the Board, subject further to the approval of Members. Non-Executive Directors' remuneration is considered by the Board subject to the statutory provisions.

**Details of remuneration paid/payable to the Directors for the financial year ended 31st March, 2014:**

₹

Name	Position	Salary	Benefits & Contributions to Provident/Pension & Other Funds	Performance Linked Bonus	Commission	Sitting Fees	Total
Mr. R.S. Noronha	Chairman - Non-Executive Director	-	-	-	50,00,000	2,35,000	52,35,000
Mr. T.Lakshmanan <sup>1</sup>	Independent Non-Executive Director	-	-	-	11,57,260	1,10,000	12,67,260
Mr. N. Sai Sankar	Managing Director	1,08,43,776	67,55,872	1,62,65,664	-	-	3,38,65,312
Mr. S. Thirumalai	Independent Non-Executive Director	-	-	-	24,00,000	2,15,000	26,15,000
Mr. Peter G. Henriques <sup>2</sup>	Non-Executive Director	-	-	-	-	@	-
Mr. James H. Yamanaka <sup>3</sup>	Non-Executive Director	-	-	-	-	-	-
Mrs. Asha Nair <sup>4</sup>	Independent Non-Executive Director	-	-	-	-	-	-
Mr. Devraj Lahiri	Whole time Director	34,85,820	31,93,560	26,14,365	-	-	92,93,745
Ms. Mubeen Rafat <sup>5</sup>	Independent Non-Executive Director	-	-	-	4,50,000	50,000	5,00,000

<sup>1</sup> Ceased to be the Director of the Company with effect from 24th September, 2013 upon his demise. Commission paid to his nominee.

<sup>2</sup> Ceased to be the Director of the Company with effect from close of business hours on 31st December, 2013.

<sup>3</sup> Appointed as the Director of the Company with effect from 1st January, 2014.

<sup>4</sup> ₹90,000 sitting fees paid to United India Insurance Company Limited represented by its Director Mrs. Asha Nair.

<sup>5</sup> Appointed as the Director of the Company with effect from 1st January, 2014.

@ Waived entitlement to sitting fees with effect from 14th October, 2010.

Benefits include value of rent free accommodation, house rent allowance, leave travel allowance, reimbursement of medical expenses, insurance, provision of gas, electricity and club subscriptions etc.

The appointment of Executive Directors is governed by resolutions passed by the Board of Directors and the Members of the Company, which cover the terms and conditions of such appointment, read with the service rules of the Company. The notice period for Executive Directors is six months as per Article No.101 of Articles of Association of the Company. No transactions have been made with the Non-Executive Directors vis-a-vis the Company.

The Company has no stock option scheme and hence no stock options have been granted to the Directors.

**Criteria for making payments to Non-Executive Directors**

The Board periodically reviews the criteria for making payments to Non-Executive Directors. The Non-Executive Directors are paid sitting fees for attending each meeting of the Board or its Committee as per the details given below:

	₹
Board Meeting	20,000
Audit Committee	15,000
Shareholders Grievance Committee	10,000
Committee of Directors	10,000

Members of the Company at the Annual General Meeting held on 30th July, 2013, have approved payment of commission not exceeding one percent of the net profits of the Company for each of the five financial years commencing from 1st April, 2013, payable to all Non-Executive Directors in such manner as the Board of Directors of the Company may from time to time determine and in default of such determination, equally.

Remuneration paid to Non-Executive Directors is determined keeping in view industry benchmarks and also on the basis of their memberships in various committees of the Board.

**Number of shares and convertible instruments held by Non-Executive Directors**

For the year ended 31st March, 2014 the number of shares held by Non-Executive Directors is as follows:

Mr. S. Thirumalai	25 equity shares of ₹10 each
-------------------	------------------------------

There are no convertible instruments issued by the Company and hence none held by the Non-Executive Directors during the year ended 31st March, 2014.

**(A) Management**

- The Management Discussion and Analysis is part of Directors' Report to the Members is provided elsewhere in the Annual Report.
- For the year ended 31st March, 2014 your Company's Board has obtained declarations from the senior management relating to any material, financial and commercial transactions where they have personal interest that may have a potential conflict with the interests of the Company at large.

**(B) Shareholders Information**

- The quarterly results are sent to the stock exchanges on which the Company's shares are listed so as to display the same on its own web-site. During the year, there were no presentations made by the Company to analysts.
- To expedite the process of share transfers, your Board has delegated the power to Registrar and Transfer Agents - M/s. Karvy Computershare Private Limited.

**VI. CEO/CFO CERTIFICATION**

The CEO [Managing Director]/CFO [Vice President - Finance] certification for the year ended 31st March, 2014 has been attached at the end of this report. Similarly, the CEO/CFO have also given quarterly certification on financial results while placing the quarterly financial results before the Board in terms of Clause 41 of the Listing Agreement entered into with the stock exchanges.

**VII. ADOPTION OF MANDATORY AND NON-MANDATORY REQUIREMENTS OF CLAUSE 49**

The Company has complied with all the mandatory requirements of Clause 49. As part of non-mandatory requirements specified in Annexure 1D to Clause 49 of the Listing Agreement, the following are adopted:



- a. Maintaining Non-Executive Chairman's office at the Company's expense and reimbursement of expenses incurred in performance of his duties.
- b. During the year, your Company has constituted Nomination & Remuneration Committee of Directors.

### 3. GENERAL BODY MEETINGS

- i. Location and time of last three Annual General Meetings are as under:

Year	Venue	Date	Time
2012-13	Hotel Taj Krishna, Banjara Hills, Hyderabad	30.7.2013	9.30 a.m.
2011-12	Hotel Taj Krishna, Banjara Hills, Hyderabad	12.7.2012	10.30 a.m.
2010-11	Hotel Taj Krishna, Banjara Hills, Hyderabad	14.7.2011	10.30 a.m.

- ii. The following Special Resolutions were passed by the members at the last three Annual General Meetings:

#### **Annual General Meeting held on 30th July, 2013**

- Payment of commission to Non-Executive Directors

#### **Annual General Meeting held on 12th July, 2012**

- No special resolutions were passed

#### **Annual General Meeting held on 14th July, 2011**

- No special resolutions were passed

- iii. Postal Ballot

No special resolution requiring postal ballot was passed during the year 2013-14. At present, there is no proposal to pass any resolution through postal ballot.

### 4. MEANS OF COMMUNICATION

- The quarterly, half yearly and annual financial results are published in Business Standard and in a vernacular newspaper i.e. Andhra Prabha. The financial results are also posted on the Company's website viz. [www.vsthyd.com](http://www.vsthyd.com). Apart from the above, the Company also provides the above information to stock exchanges - BSE & NSE as per the requirements of Listing Agreement. During the year, there were no presentations made to institutional investors or to the analysts.
- There have been no instances of non-compliance by your Company and no penalties, strictures were imposed on the Company by stock exchanges or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

### 5. GENERAL SHAREHOLDER INFORMATION

#### ***Date, time and venue of the Annual General Meeting***

12th August, 2014 at 9.30 a.m. at Hotel Trident, Hitech City, Near Cyber Towers, Madhapur, Hyderabad - 500 081.

#### ***Financial calendar 2014-15 (Tentative)***

First quarter results	August, 2014
Second quarter and half yearly results	October, 2014
Third quarter results	January, 2015
Annual results	April, 2015





## REPORT ON CORPORATE GOVERNANCE

VST Industries Limited

### **Dates of Book Closure**

31st July, 2014 to 7th August, 2014 (both days inclusive)

### **Dividend Payment Date**

25th August, 2014

### **Listing on Stock Exchanges with Stock Code**

S.No.	Name of the Stock Exchange	Stock Code
1.	BSE Limited (BSE) 25th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001	509966
2.	National Stock Exchange of India Limited (NSE) Exchange Plaza, C-1, Block G, Bandra-Kurla Complex, Bandra (East), Mumbai - 400 051	VSTIND

Listing fees for the year 2014-15 has been paid to the above stock exchanges.

### **Market Price Data: High/Low during each month in the last financial year (2013-14)**

₹

Period	<sup>1</sup> BSE Limited		<sup>2</sup> National Stock Exchange of India Limited	
	High	Low	High	Low
April, 2013	1600.00	1480.50	1629.00	1477.00
May, 2013	1642.90	1531.05	1640.00	1538.10
June, 2013	1649.00	1561.00	1638.85	1546.00
July, 2013	1685.00	1510.15	1680.00	1505.20
August, 2013	1600.00	1400.00	1624.00	1430.00
September, 2013	1535.65	1411.10	1534.75	1420.20
October, 2013	1559.80	1450.00	1563.90	1450.00
November, 2013	1669.00	1438.25	1665.95	1432.40
December, 2013	1769.00	1623.00	1760.00	1627.00
January, 2014	1750.00	1588.05	1758.35	1551.15
February, 2014	1664.95	1550.05	1644.00	1555.60
March, 2014	1720.00	1565.00	1725.00	1558.00

<sup>1</sup> Source: [www.bseindia.com](http://www.bseindia.com)

<sup>2</sup> Source: [www.nseindia.com](http://www.nseindia.com)

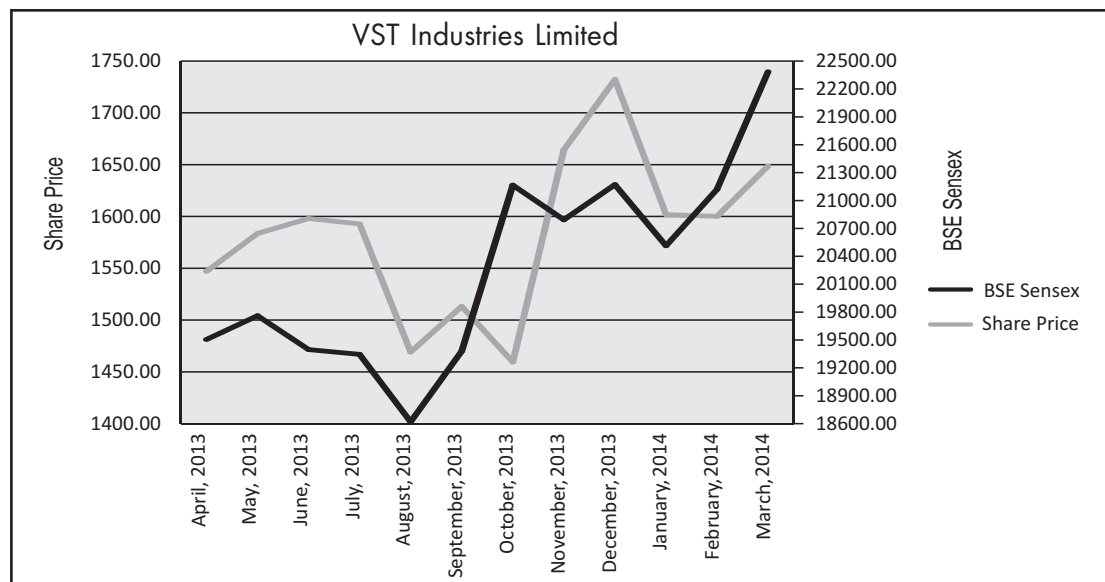


## REPORT ON CORPORATE GOVERNANCE

VST Industries Limited

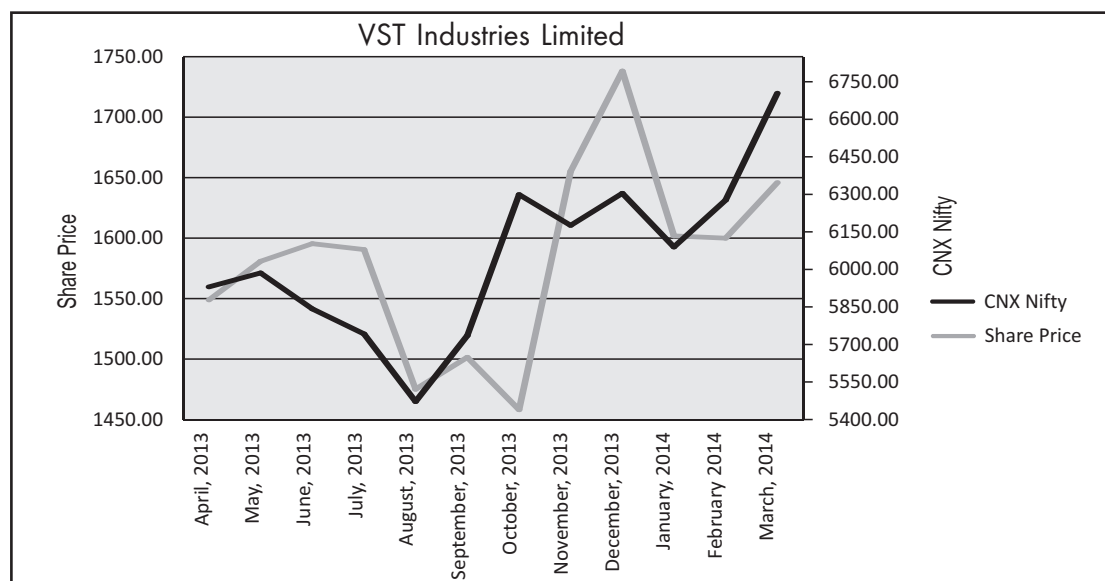
### Performance in comparison with BSE Sensex

(based on closing price/Sensex) [Source www.bseindia.com]



### Performance in comparison with CNX Nifty

(based on closing price/CNX Nifty) [Source: www.nseindia.com]



## CONTACT INFORMATION

### Registered Office

VST Industries Limited  
Azamabad  
Hyderabad - 500 020  
Phone: +91 40 2761 0460  
Fax : +91 40 2761 5336  
Email : investors@vstind.com

Mr. Nitesh Bakshi  
Company Secretary

Mr. M. Vaidyanathan  
Assistant Company Secretary &  
Compliance Officer



## Registrar and Transfer Agents

As a VST Shareholder, you are encouraged to contact the Registrar & Transfer Agents for all your shares related services and queries whose address is given below:

Karvy Computershare Private Limited  
Plot No.17 to 24, Vittal Rao Nagar,  
Madhapur, Hyderabad - 500 081  
Phone : +91 40 4465 5208, 4465 5269  
Fax : +91 40 2342 0814  
Email : einward.ris@karvy.com  
Contact Person: Mr. M.S. Madhusudhan - General Manager  
Mr. R. Chandra Sekher - Senior Manager [Registrar in Securities]

## Share Transfer System

The share transfers which are received in physical form are registered and returned in the normal course within an average period of 15 days from the date of receipt, if the documents are clear in all respects. The Board has delegated the authority for approving transfer, transmission etc. of the Company's securities to the Managing Director and Wholetime Director. A summary of transfer and transmission of shares of the Company approved is placed at meeting of the Shareholders Grievance Committee.

Requests for dematerialisation of shares are processed and confirmation is given to the respective depositories i.e. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) within 2 working days from the date of receipt of request. There are no pending share transfers as at 31st March, 2014.

## Reconciliation of Share Capital Audit

For each quarter of the financial year 2013-14, a qualified Company Secretary in Practice has carried out audit under Regulation 55A of SEBI (Depositories and Participants) Regulations, 1996 as amended to reconcile the total admitted capital with NSDL and CDSL and total issued and listed capital. The audit report confirms that the total issued/paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL and the same is filed with BSE & NSE.

Similarly, the Company obtains from a Company Secretary in Practice, half-yearly certificate of compliance with the share transfer formalities as required under Clause 47(c) of the Listing Agreement with stock exchanges and copy of the same is filed with BSE and NSE.

## Categories of shareholding as on 31st March, 2014

Category	Number of Shares Held	Percentage of Shareholding
Promoters and associates	49,65,902	32.16
Foreign Institutional Investors	17,87,445	11.58
Insurance companies	4,61,685	2.99
Mutual Funds	18,31,520	11.86
Nationalised banks and other banks	14,048	0.09
NRIs and OCBs	90,603	0.59
Bodies corporate	41,49,984	26.87
Indian public and others	21,40,733	13.86
TOTAL	1,54,41,920	100.00

**Distribution of shareholding as on 31st March, 2014**

Slab	No. of Shares	%	No. of Shareholders	%
1 - 500	9,50,056	6.15	11,959	92.98
501 - 1000	3,54,910	2.30	491	3.82
1001 - 2000	2,90,985	1.88	206	1.60
2001 - 3000	1,90,196	1.23	77	0.60
3001 - 4000	97,935	0.63	27	0.21
4001 - 5000	71,109	0.46	16	0.12
5001 - 10000	2,28,177	1.48	32	0.25
10001 and above	1,32,58,552	85.87	54	0.42
Total	1,54,41,920	100.00	12,862	100.00
Physical Mode	7,37,172	4.77	3,814	29.65
Demat Mode	1,47,04,748	95.23	9,048	70.35

**Dematerialisation of shares and liquidity**

With effect from 26th June, 2000, trading in the Company's shares was made compulsory in the dematerialised form. The Company's shares are available for trading in the depository systems of both National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

As at 31st March, 2014, 1,47,04,748 equity shares of the Company constituting 95.23% of issued and subscribed capital, were held in depository mode. The processing activities with respect to the requests received for dematerialisation are generally completed within two working days. Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's shares is INE710A01016. The annual custody fee for the financial year 2014-15 will be remitted to NSDL and CDSL, the Depositories, before the due date.

The Company's shares are regularly traded both in BSE Limited (BSE) and National Stock Exchange of India Limited (NSE).

**Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversion date and likely impact on equity**

Not applicable as the Company has not made any such issue.

**Plant Location**

1-7-1063/1065, Azamabad,  
Hyderabad - 500 020

**6. AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE**

As required by Clause 49 of the Listing Agreements with the stock exchanges, the statutory auditors' certificate that the Company has complied with the conditions of corporate governance is given as an annexure to the Report of the Directors' & Management Discussion and Analysis. This certificate will be forwarded to the stock exchanges where the securities of the Company are listed, along with the Annual Report of the Company.

**SHAREHOLDER REFERENCER**

Pursuant to Section 205A(5) of the Companies Act, 1956, unclaimed dividends upto and including for the financial year 1994-95 have been transferred to the General Revenue Account of the Central Government. Members who have not encashed their dividend warrant(s) relating to financial year(s) upto and including the financial year 1994-95 are requested to claim the amounts from the Registrar of Companies, Andhra Pradesh, 2nd Floor, Kendriya Sadan, No. 3-5-998, Sultan Bazar, Hyderabad - 500 095 in the prescribed form, which can be furnished by the Company's Registrar & Transfer Agents on request. However, no claim shall lie either with the Company or Investor Education and Protection Fund (IEPF), in terms of Section 205C of Companies Act, 1956, in respect of the unclaimed dividend transferred to IEPF for the financial year 1995-96 and thereafter. The dividend for the financial year 2005-06 viz. Dividend No. 171 has been transferred to Investor Education and Protection Fund Account on 31st August, 2013.

The dividends for the following years remaining unclaimed for 7 years will be transferred on their respective due dates by the Company to the Investor Education and Protection Fund established by the Central Government pursuant to Section 205C of the Companies Act, 1956:

Financial Year	Dividend No.	Date of Declaration	Total Amount of Dividend ₹	Unclaimed Dividend as on 31.03.2014 ₹	Due for transfer to IEPF on
2006-07	172	18.07.2007	30,88,38,400	36,73,300	23.08.2014
2007-08	173	17.07.2008	30,88,38,400	36,22,760	22.08.2015
2008-09	174	16.07.2009	46,32,57,600	54,85,620	21.08.2016
2009-10	175	16.07.2010	46,32,57,600	59,36,370	21.08.2017
2010-11	176	14.07.2011	69,48,86,400	62,95,050	18.08.2018
2011-12	177	12.07.2012	100,37,24,800	1,15,25,605	16.08.2019
2012-13	178	30.07.2013	96,51,20,000	1,39,80,500	04.09.2020

Members who have not so far encashed their dividend warrant(s) or have not received the same are requested to seek issue of duplicate warrant(s) by writing to the Company's Registrar & Transfer Agents confirming non-encashment/non-receipt of dividend warrant(s). Once the unclaimed dividend is transferred to Investor Education and Protection Fund, no claim shall lie in respect thereof against the Fund or the Company.

**BANK DETAILS**

Members holding shares in physical form are requested to notify the following to the Registrar & Transfer Agents, to facilitate electronic payment:

- particulars of their bank account - name of the bank, branch with complete postal address, account number, MICR and IFSC

Members holding shares in Dematerialised form and not opted for remittance of dividend through NECS are requested to notify the above details to their respective Depository Participants [DPs].

**REMITTANCE OF DIVIDEND THROUGH NATIONAL ELECTRONIC CLEARING SERVICE [NECS]**

The Company provides the facility of remittance of dividend through NECS to Members provided they maintain accounts with those branches of the banks which have implemented Core Banking System (CBS) and participate in the NECS facility extended by the Reserve Bank of India.



## REPORT ON CORPORATE GOVERNANCE

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Members holding shares in physical form, who now wish to avail NECS facility, may send their NECS mandate in the prescribed form to the Company. The NECS mandate form can be furnished by the Registrars and Transfer Agents on request or can be downloaded from the Company's website [www.vsthyd.com](http://www.vsthyd.com) under the section Investor Relations - NECS Mandate Form. Members holding shares in demat form are requested to update their bank account details with their respective Depository Participants [DPs].

### DEPOSITORY SERVICES

For guidance on depository services, Members may write to the Registrar and Transfer Agents or to the respective depositories:

#### National Securities Depository Limited

4th Floor, 'A' Wing, Trade World, Kamala Mills Compound,  
Senapati Bapat Marg, Lower Parel,  
Mumbai - 400 013  
Phone : +91 22 2499 4200  
Fax : +91 22 2497 6351  
Email : [info@nsdl.co.in](mailto:info@nsdl.co.in)  
Website : [www.nsdl.co.in](http://www.nsdl.co.in)

#### Central Depository Services (India) Limited

Phiroze Jeejeebhoy Towers,  
17th Floor, Dalal Street,  
Mumbai - 400 001  
Phone : +91 22 2272 3333, 2272 3224  
Fax : +91 22 2272 3199, 2272 2072  
Email : [investors@cdslindia.com](mailto:investors@cdslindia.com)  
Website : [www.cdslindia.com](http://www.cdslindia.com)

### INVESTOR GRIEVANCES

As required under Clause 47(f) of Listing Agreement with stock exchanges, your Company has created exclusive e-mail id for redressal of investor grievances. The Members can send their queries to the Email id: [investors@vstind.com](mailto:investors@vstind.com)

### NOMINATION FACILITY

The facility of nomination can be availed by the Members holding the shares in single name. In cases where the shares are held in joint names, the nomination will be effective only in the event of the death of all the holders. Members are advised to avail of this facility by submitting the nomination in Form 2B which could be obtained from Registrar & Transfer Agents - Karvy Computershare Private Limited at the address mentioned above or can be downloaded from the Company's website [www.vsthyd.com](http://www.vsthyd.com) under the section Investor Relations.

Where the shares are held in dematerialised form, the nomination has to be conveyed by the Members to their respective Depository Participant directly, as per the format prescribed by them.

### DETAILS OF UNCLAIMED SHARES

The details of shares remaining in the unclaimed suspense account are given below:

Particulars	No. of shareholders	No. of shares
Outstanding at the beginning of the year - 1st April, 2013	275	29,460
Members to whom shares were transferred - through rematerialisation	1	38
Outstanding shares lying at the end of the year - 31st March, 2014	274	29,422

The Members who have not claimed the shares still from the above returned undelivered cases are requested to contact the Registrar & Transfer Agents - Karvy Computershare Private Limited at the address given above.

The voting rights on the shares outstanding in the above suspense account as on March 31, 2014 shall remain frozen till the rightful owner of such shares claims the shares.





## Chief Executive Officer (CEO) and Chief Financial Officer (CFO) Certification

We, N. Sai Sankar, Managing Director and Anish Gupta, Vice President - Finance of VST Industries Limited, to the best of our knowledge and belief, certify that:

1. We have reviewed the Balance Sheet and Statement of Profit and Loss and notes on accounts as well as the Cash Flow Statement for the year ended 31st March, 2014.
2. To the best of our knowledge and belief,
  - i. these statements do not contain any untrue statement or omit any material fact or contain statements that might be misleading;
  - ii. the financial statements and other financial information included in this report present a true and fair view of the Company's affairs and are in compliance with existing accounting standards and applicable laws and regulations.
3. To the best of our knowledge and belief, there are no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.
4. We accept responsibility for establishing and maintaining internal controls for financial reporting. We have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and steps taken or proposed to be taken for rectifying these deficiencies.
5. We have indicated to the Company's Auditors and the Audit Committee of the Company's Board of Directors that during the year :
  - i. there are no significant changes in internal control over financial reporting;
  - ii. there are no significant changes in accounting policies; and
  - iii. there are no frauds, whether or not material that involves management or other employees who have significant role in the Company's internal control system over financial reporting.

N. SAI SANKAR  
Managing Director

ANISH GUPTA  
Vice President - Finance

Hyderabad, 22nd April, 2014.



## INDEPENDENT AUDITORS' REPORT

To the Members of  
VST Industries Limited

### Report on the Financial Statements

1. We have audited the accompanying financial statements of VST Industries Limited (the "Company"), which comprise the Balance Sheet as at 31st March, 2014, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information, which we have signed under reference to this report.

### Management's Responsibility for the Financial Statements

2. The Company's management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of Section 211 of 'the Companies Act, 1956' of India (the "Act") read with the General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain

reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

6. In our opinion, and to the best of our information and according to the explanations given to us, the accompanying financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2014;
  - (b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
  - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.



### Report on Other Legal and Regulatory Requirements

7. As required by 'the Companies (Auditor's Report) Order, 2003', as amended by 'the Companies (Auditor's Report) (Amendment) Order, 2004', issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Act (hereinafter referred to as the "Order"), and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
8. As required by Section 227(3) of the Act, we report that:
- (a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
  - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - (c) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account;
  - (d) In our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this report comply with the Accounting Standards notified under the Act read with the General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013;
  - (e) On the basis of written representations received from the Directors as on 31st March, 2014, and taken on record by the Board of Directors, none of the Directors is disqualified as on 31st March, 2014, from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

For LOVELOCK & LEWES  
Firm Registration Number: 301056E  
Chartered Accountants

N. K. VARADARAJAN  
Partner

Hyderabad, 22nd April, 2014. Membership No. 90196



## ANNEXURE TO INDEPENDENT AUDITORS' REPORT

[Referred to in paragraph 7 of the Independent Auditors' Report of even date to the Members of VST Industries Limited on the financial statements as of and for the year ended 31st March, 2014]

- i. (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation, of fixed assets.
- (b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies have been noticed on such verification.
- (c) In our opinion, and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company during the year.
- ii. (a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
- iii. The Company has not granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Therefore, the provisions of Clause 4 (iii) [(b), (c), (d), (f) and (g)] of the said Order are not applicable to the Company.
- iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods. Further, on the basis of our examination of the books and records of the Company and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
- v. According to the information and explanations given to us, there have been no contracts or arrangements that need to be entered in the register maintained under Section 301 of the Act. Accordingly, the question of commenting on transactions made in pursuance of such contracts or arrangements does not arise.
- vi. The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
- vii. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
- viii. We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act, and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- ix. (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, customs duty, excise duty and other material statutory dues, as applicable, with the appropriate authorities.
- (b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of service tax and excise duty as at 31st March, 2014 which have not been deposited on account of a dispute are as follows:



## ANNEXURE TO INDEPENDENT AUDITORS' REPORT

VST Industries Limited

Name of the statute	Nature of dues	Amount ₹ in Lakhs	Period to which the amount relates	Forum where the dispute is pending
The Central Excise Act, 1944	Excise duty on Printed Gay Wrappers	395.59	April 1996 to September 2013	Hon'ble Supreme Court of India
	Service tax credit ineligibility	3.01	April 2008	Customs, Excise & Service Tax Appellate Tribunal
		53.90	October 2011 to September 2012	
	Excise duty on Tobacco Refuse	951.11	January 2005 to September 2012	

- x. The Company has no accumulated losses as at the end of the financial year and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
- xi. As the Company does not have any borrowings from any financial institution or bank nor has it issued any debentures as at the balance sheet date, the provisions of Clause 4(xi) of the Order are not applicable to the Company.
- xii. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Therefore, the provisions of Clause 4(xii) of the Order are not applicable to the Company.
- xiii. As the provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the Company, the provisions of Clause 4(xiii) of the Order are not applicable to the Company.
- xiv. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of Clause 4(xiv) of the Order are not applicable to the Company.
- xv. In our opinion, and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year. Accordingly, the provisions of Clause 4(xv) of the Order are not applicable to the Company.
- xvi. The Company has not raised any term loans. Accordingly, the provisions of Clause 4(xvi) of the Order are not applicable to the Company.
- xvii. The Company has not raised any loans on short term basis. Accordingly, the provisions of Clause 4(xvii) of the Order are not applicable to the Company.
- xviii. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act, during the year. Accordingly, the provisions of Clause 4(xviii) of the Order are not applicable to the Company.
- xix. The Company has not issued any debentures during the year and does not have any debentures outstanding as at the beginning of the year and at the year end. Accordingly, the provisions of Clause 4(xix) of the Order are not applicable to the Company.
- xx. The Company has not raised any money by public issues during the year. Accordingly, the provisions of Clause 4(xx) of the Order are not applicable to the Company.
- xxi. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud on or by the Company, noticed or reported during the year, nor have we been informed of any such case by the management.

For LOVELOCK & LEWES  
Firm Registration Number: 301056E  
Chartered Accountants

N. K. VARADARAJAN  
Partner

Hyderabad, 22nd April, 2014. Membership No. 90196



# BALANCE SHEET AS AT 31ST MARCH, 2014

VST Industries Limited

₹ in Lakhs

	Notes	2014	2013
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	2	1544.19	1544.19
(b) Reserves and Surplus	3	<u>31279.37</u>	<u>28866.63</u>
		32823.56	30410.82
<b>2. Non-Current Liabilities</b>			
(a) Long-Term Provisions	4	329.43	22.12
<b>3. Current Liabilities</b>			
(a) Trade Payables	5	4990.56	5450.94
(b) Other Current Liabilities	6	24723.07	27181.92
(c) Short-Term Provisions	7	<u>12646.39</u>	<u>11291.42</u>
		42360.02	43924.28
TOTAL		<u>75513.01</u>	<u>74357.22</u>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets			
i) Tangible Assets	8A	20910.59	17516.57
ii) Intangible Assets	8B	-	-
iii) Capital Work-in-Progress		<u>2.58</u>	<u>6.03</u>
		20913.17	17522.60
(b) Non-Current Investments	9	325.57	325.57
(c) Deferred Tax Assets (Net)	10	989.32	856.64
(d) Long-Term Loans and Advances	11	214.15	1076.38
(e) Other Non-Current Assets	12	1.27	1.27
<b>2. Current Assets</b>			
(a) Current Investments	13	17795.94	19548.46
(b) Inventories	14	26762.06	25336.80
(c) Trade Receivables	15	777.89	2369.45
(d) Cash and Bank Balances	16	4693.54	4727.22
(e) Short-Term Loans and Advances	17	2567.34	2253.76
(f) Other Current Assets	18	<u>472.76</u>	<u>339.07</u>
		53069.53	54574.76
TOTAL		<u>75513.01</u>	<u>74357.22</u>
The accompanying notes form an integral part of the Financial Statements.			

This is the Balance Sheet referred to in our report of even date.

For LOVELOCK & LEWES  
Firm Registration No. 301056E  
Chartered Accountants

N.K. VARADARAJAN  
Partner  
Membership No. 90196

Hyderabad, 22nd April, 2014.

On behalf of the Board,

R. S. NORONHA Chairman

N. SAI SANKAR Managing Director

NITESH BAKSHI Company Secretary

Hyderabad, 22nd April, 2014.





# STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH, 2014

VST Industries Limited

₹ in Lakhs

	Notes	2014	2013
<b>I. Revenue from operations</b>			
Sales (Gross)	19	162672.48	162108.86
Less: Excise Duty		84203.49	95739.06
Sales (Net)		78468.99	66369.80
Other Operating Income	20	448.43	497.72
		78917.42	66867.52
<b>II. Other Income</b>	21	3244.24	2625.31
<b>III. Total Revenue (I+II)</b>		<u>82161.66</u>	<u>69492.83</u>
<b>IV. Expenses</b>			
Cost of Materials Consumed	22	38464.96	32419.55
Changes in Inventories of Finished Goods and Work-in-Progress	23	(196.17)	(360.77)
Employee Benefits Expense	24	6992.10	6342.75
Depreciation and Amortisation Expense	25	2657.13	2249.85
Other Expenses	26	11845.86	10435.80
<b>Total Expenses</b>		<u>59763.88</u>	<u>51087.18</u>
<b>V. Profit before Tax Expense (III-IV)</b>		22397.78	18405.65
<b>VI. Tax Expense</b>			
Current tax		7515.20	5484.00
Deferred tax		(132.68)	296.83
		<u>7382.52</u>	<u>5780.83</u>
<b>VII. Profit after Tax Expense (V-VI)</b>		<u>15015.26</u>	<u>12624.82</u>
Basic and diluted Earnings per Share (Face Value ₹10 each) - ₹	27	97.24	81.76

The accompanying notes form an integral part of the Financial Statements.

This is the Statement of Profit and Loss referred to in our report of even date.

For LOVELOCK & LEWES  
Firm Registration No. 301056E  
Chartered Accountants

N.K. VARADARAJAN  
Partner  
Membership No. 90196

Hyderabad, 22nd April, 2014.

On behalf of the Board,

R. S. NORONHA

Chairman

N. SAI SANKAR

Managing Director

NITESH BAKSHI

Company Secretary

Hyderabad, 22nd April, 2014.



# CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2014

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>A. Cash flow from operating activities</b>		
Profit before Tax Expense	22397.78	18405.65
Adjustments:		
Depreciation and Amortisation Expense (Net)	2657.13	2249.85
Liabilities no longer required written back	(1557.83)	(339.93)
Profit on Sale of Fixed Assets (Net)	(23.21)	(253.27)
Unrealised Loss/(Gain) on Exchange (Net)	19.33	(54.50)
Interest on Loans and Deposits, etc.	(261.62)	(235.84)
Dividend Income from - Current Investments	(839.44)	(873.47)
- Long-Term Investments	(2.97)	(2.85)
Profit on Sale of Investments (Net)	(445.05)	(800.63)
Operating Profit before Working Capital changes	21944.12	18095.01
Adjustments for movement in Working Capital:		
Trade Receivables, Loans & Advances and Other Assets	802.01	(2021.95)
Inventories	(1425.26)	(1511.71)
Trade Payables, Other Liabilities and Provisions	(1164.83)	2480.16
Cash generated from operations	20156.04	17041.51
Direct Taxes Paid	(7171.81)	(5206.30)
Net cash from operating activities	12984.23	11835.21
<b>B. Cash flow from investing activities</b>		
Purchase of Fixed Assets, Capital Work-in-Progress and Capital Advances	(5181.30)	(3814.83)
Sale of Fixed Assets	30.09	274.76
Purchase of Investments - Current	(161014.49)	(192018.42)
Sale/Redemption of Investments - Current	163212.06	195319.05
Dividend Income from - Current Investments	839.44	873.47
- Long-Term Investments	2.97	2.85
Interest on Loans and Deposits, etc.	282.78	237.46
Net cash used in investing activities	(1828.45)	874.34
<b>C. Cash flow from financing activities</b>		
Dividends paid on Ordinary Shares	(11291.42)	(11665.54)
Net cash used in financing activities	(11291.42)	(11665.54)
Net Increase/(Decrease) in cash and cash equivalents	(135.64)	1044.01
Opening cash and cash equivalents	4323.81	3279.80
Closing cash and cash equivalents	4188.17	4323.81

This is the Cash Flow Statement referred to in our report of even date.

For LOVELOCK & LEWES  
Firm Registration No. 301056E  
Chartered Accountants

N.K. VARADARAJAN  
Partner  
Membership No. 90196

Hyderabad, 22nd April, 2014.

On behalf of the Board,

R. S. NORONHA Chairman

N. SAI SANKAR Managing Director

NITESH BAKSHI Company Secretary

Hyderabad, 22nd April, 2014.



## NOTES ON THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PREPARATION OF ACCOUNTS

The financial statements have been prepared on the basis of going concern, under the historic cost convention, except for certain, tangible assets which are being carried at revalued amounts. These financial statements have been prepared to comply in all material aspects with applicable accounting principles in India, the applicable accounting standards notified under Section 211 (3C) of the Companies Act, 1956 ("the Act") read with General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013 and the other relevant provisions of the Act.

#### USE OF ESTIMATES

The preparation of financial statements, require estimates and assumptions to be made that affect the reported amounts of assets and liabilities as on the date of the financial statements and reported amount of revenues and expenses during the reported period. The estimates made are based on the principles of prudence and reasonableness, however, actual results could differ from these estimates. Any revision to such accounting estimates is recognised prospectively in the current and future periods.

#### FIXED ASSETS

##### TANGIBLE ASSETS

Tangible assets are stated at historical cost, net of accumulated depreciation and accumulated impairment loss, if any, except so far as they relate to the revaluation of land and buildings. Historical cost is inclusive of freight, installation cost, duties and taxes, interest on specific borrowings utilised for financing the assets and other incidental expenses.

Depreciation is provided on plant and machinery on straight line basis at the rates specified in Schedule XIV of the Companies Act, 1956. On other assets, depreciation is provided on straight line basis at rates determined based on estimated useful life of assets. Such rates adopted being higher than the Schedule XIV rates as given below.

##### Rate of Depreciation %

Buildings Freehold	5
Leasehold Property	5
Furniture and Fixtures	15 - 25
Office Equipment	15 - 25
Motor Vehicles etc.	25

Accelerated depreciation is provided based on technical evaluation of estimated useful life of an asset. All assets costing

less than ₹5,000 are fully depreciated in the year of purchase. Depreciation on the revalued assets is calculated on the revalued costs and the Revaluation Reserve is adjusted with the difference between the depreciation calculated on such revalued costs and historic costs.

##### INTANGIBLE ASSETS

Intangible assets are stated at cost net of accumulated amortisation and accumulated impairment loss, if any. Computer software (including license fees and cost of implementation/system integration services) is capitalised where it is expected to provide future enduring economic benefits. Cost of upgradation/enhancements is charged off as revenue expenditure unless they bring similar significant additional benefits. Intangible assets are amortised on a straight line basis over their estimated useful life. Useful life is determined based on the period of the underlying contract and the period of time the intangible asset is expected to be used i.e.

Rights on time share - over 20 years

Computer software - over 4 years

##### IMPAIRMENT OF ASSETS

All the fixed assets are assessed for any indication of impairment, at the end of each financial year. On such indication, the impairment loss, being the excess of carrying value over the recoverable value of the assets, is charged to the statement of profit and loss in the respective financial years. The impairment loss recognised in the prior years is reversed in cases where the recoverable value exceeds the carrying value, upon re-assessment in the subsequent years.

##### INVESTMENTS

Long term investments are valued at cost net of provision, for permanent diminution, if any. Current investments are stated at lower of cost and net realisable value.

##### INVENTORIES

Inventories are valued at lower of cost and net realisable value. Cost is computed on weighted average method. Cost includes purchase cost net of CENVAT credit availed and attributable expenses.

Consumption and/or other stock diminution is accounted for at the aforesaid weighted average cost. In the case of finished goods, cost comprises of material, direct labour, applicable overhead expenses, applicable excise duty and taxes paid/payable thereon.

Obsolete, slow moving and defective inventories are identified at the time of physical verification of inventories and where necessary, provision is made for such inventories.



## NOTES ON THE FINANCIAL STATEMENTS

Goods in transit/with third parties are valued at cost which represents the costs incurred upto the stage at which the goods are in transit/with third parties.

### PROPOSED DIVIDEND

Dividend (including related income tax thereon), proposed by the Directors, is provided for in the books of account, pending approval at the Annual General Meeting.

### REVENUE RECOGNITION

Sales are recognised when the property in the goods is transferred and are recorded net of trade discounts, rebates and value added tax. Gross Sales are inclusive of excise duty. Net Sales are stated after deducting such excise duty.

Interest income is recognised on a time proportion basis taking into account the amount outstanding and rate of interest applicable. Dividend income from investments is recognised in the year in which the right to receive dividend is established.

### EMPLOYEE BENEFITS

Contribution to various recognised provident funds, approved pension and gratuity funds and contributions to other retiral benefits are charged to revenue. Liabilities for retiral benefits which are in the nature of defined benefit schemes are determined on the basis of actuarial valuation as per the requirements of Accounting Standard 15 on 'Employee Benefits' as at the end of the accounting period. Payments under Voluntary Retirement Scheme are charged to revenue on accrual basis in the year in which they become due for payment.

### LEASES

Assets acquired by way of finance lease are capitalised at the lower of the fair value and the present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between finance charge and reduction of the lease liability based on the implicit rate of return. Finance charges are charged in the statement of profit and loss.

Lease rentals paid in respect of operating leases are charged to the statement of profit and loss.

### TAXES ON INCOME

Current tax is determined as the amount of tax payable in respect of taxable income for the period.

Deferred tax is recognised on timing differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent

periods, subject to consideration of prudence. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

### FOREIGN EXCHANGE TRANSACTIONS

The transactions in foreign currency are accounted for at the exchange rate prevailing on the date of the transaction. Gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit and loss.

The Company uses foreign exchange forward contracts and currency options to hedge risks associated with movements in foreign exchange rates. The use of these foreign exchange forward contracts and currency options is to reduce the risk or cost to the company and are not meant for trading or speculation purposes.

The Company adopted Accounting Standard 30 on 'Financial Instruments: Recognition and Measurement' issued by the Institute of Chartered Accountants of India to the extent the adoption does not contradict with existing accounting standards and other authoritative pronouncements of the company law and other regulatory requirements.

Foreign exchange forward contracts and currency options that are designated as cash flow hedges and qualify for hedge accounting are fair valued at each reporting date and the resultant gain or loss is recognised directly in Shareholders' Funds under 'Cash Flow Hedge Reserve Account' to the extent considered highly effective and are reclassified into the statement of profit and loss upon occurrence of the hedged transactions.

Gain or loss on derivative instruments that are either not designated as cash flow hedges or designated as cash flow hedges to the extent considered ineffective is recognised in the statement of profit and loss.

If the hedged transaction is no longer expected to occur, the net cumulative gain or loss on the hedging instrument recognised in Shareholders' Funds under Cash Flow Hedge Reserve is transferred to the statement of profit and loss.

### RESEARCH AND DEVELOPMENT

Revenue expenditure on research and development is recognised in the statement of profit and loss in the year it is incurred. Capital expenditure on research and development is included under fixed assets.



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013																									
<b>2. SHARE CAPITAL</b>																											
a) AUTHORISED																											
5,00,00,000 Ordinary Shares of ₹10 each	5000.00	5000.00																									
50,00,000 Cumulative Redeemable Preference Shares of ₹100 each	5000.00	5000.00																									
	<u>10000.00</u>	<u>10000.00</u>																									
b) ISSUED AND SUBSCRIBED																											
1,54,41,920 Ordinary Shares of ₹10 each fully paid up	<u>1544.19</u>	<u>1544.19</u>																									
c) There was no movement in number of Ordinary Shares during the year.																											
d) Details of shareholders holding more than 5% of Ordinary Shares:																											
<table><tr><th>Name of the Shareholders</th><th>No. Lakhs</th><th>% holding</th><th>No. Lakhs</th><th>% holding</th></tr><tr><td>Bright Star Investments Private Limited</td><td>40.07</td><td>25.95</td><td>40.07</td><td>25.95</td></tr><tr><td>The Raleigh Investment Company Limited</td><td>36.20</td><td>23.45</td><td>36.20</td><td>23.45</td></tr><tr><td>Tobacco Manufacturers (India) Limited</td><td>12.79</td><td>8.28</td><td>12.79</td><td>8.28</td></tr><tr><td>Small Cap World Fund Inc.</td><td>10.03</td><td>6.50</td><td>7.15</td><td>4.63</td></tr></table>	Name of the Shareholders	No. Lakhs	% holding	No. Lakhs	% holding	Bright Star Investments Private Limited	40.07	25.95	40.07	25.95	The Raleigh Investment Company Limited	36.20	23.45	36.20	23.45	Tobacco Manufacturers (India) Limited	12.79	8.28	12.79	8.28	Small Cap World Fund Inc.	10.03	6.50	7.15	4.63		
Name of the Shareholders	No. Lakhs	% holding	No. Lakhs	% holding																							
Bright Star Investments Private Limited	40.07	25.95	40.07	25.95																							
The Raleigh Investment Company Limited	36.20	23.45	36.20	23.45																							
Tobacco Manufacturers (India) Limited	12.79	8.28	12.79	8.28																							
Small Cap World Fund Inc.	10.03	6.50	7.15	4.63																							
e) RIGHTS, PREFERENCES AND RESTRICTIONS ATTACHED TO ORDINARY SHARES																											
The Company has only one class of Ordinary Shares outstanding, having a par value of ₹10 each, that rank pari passu in all respects including voting rights and entitlement to dividend.																											
<b>3. RESERVES AND SURPLUS</b>																											
CAPITAL REDEMPTION RESERVE	1000.25	1000.25																									
REVALUATION RESERVE																											
As at the commencement of the year	370.02	379.08																									
Transfer to Statement of Profit and Loss																											
- Depreciation & Amortisation expense (Refer Note 25)	<u>9.02</u>	<u>9.06</u>																									
	361.00	370.02																									
GENERAL RESERVE																											
As at the commencement of the year	17155.29	15890.29																									
Add: Transfer from surplus balance in the Statement of Profit and Loss	<u>1510.00</u>	<u>1265.00</u>																									
	18665.29	17155.29																									
CASH FLOW HEDGE RESERVE																											
As at the commencement of the year	67.27	-																									
Add: Movement during the year (Net)	<u>52.89</u>	<u>67.27</u>																									
	120.16	67.27																									
SURPLUS IN THE STATEMENT OF PROFIT AND LOSS																											
As at the commencement of the year	10273.80	10205.40																									
Add: Profit after Tax expense for the year	<u>15015.26</u>	<u>12624.82</u>																									
Profit available for appropriation	25289.06	22830.22																									
Less: Appropriations																											
Transfer to General Reserve	1510.00	1265.00																									
Dividend on																											
Ordinary Shares for the year - Final (Proposed)	10809.34	9651.20																									
Dividend Tax thereon	<u>1837.05</u>	<u>1640.22</u>																									
	<u>11132.67</u>	<u>10273.80</u>																									
	<u>31279.37</u>	<u>28866.63</u>																									



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>4. LONG-TERM PROVISIONS</b>		
Provision for Employee Benefits		
- Retirement Benefits (Refer Note 34)	329.43	22.12
	<u>329.43</u>	<u>22.12</u>
<b>5. TRADE PAYABLES</b>		
Payables for Goods and Services	4990.56	5450.94
	<u>4990.56</u>	<u>5450.94</u>
<b>Micro and small enterprises</b>		
There are no micro and small enterprises, to whom the Company owes dues, which are outstanding as at 31st March, 2014 (31st March, 2013 - Nil). This information as required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information available with the Company.		
<b>6. OTHER CURRENT LIABILITIES</b>		
Advances from Customers	10035.63	12396.23
Liability under State and Central Acts, etc.	13926.55	14194.85
Unpaid/Unclaimed Dividends	505.19	403.23
Preference Share Redemption Account	0.18	0.18
Security Deposits	3.15	3.05
Other Liabilities	252.37	184.38
	<u>24723.07</u>	<u>27181.92</u>
There is no amount due and outstanding to be credited to Investor Education and Protection Fund as at the year end.		
Liability under State and Central Acts includes an amount of ₹11342.58 Lakhs (2013 - ₹12810.58 Lakhs) relating to matters pending before various judicial forums in respect of which the date of expected settlement is not ascertainable.		
<b>7. SHORT-TERM PROVISIONS</b>		
Proposed Dividend on Ordinary Shares*	10809.34	9651.20
Dividend Tax thereon	1837.05	1640.22
	<u>12646.39</u>	<u>11291.42</u>
*An amount of ₹70.0 (2013 - ₹62.5) per Ordinary Share is proposed to be declared as dividend for the year.		





## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

### 8. FIXED ASSETS

	Gross Block				Accumulated Depreciation & Amortisation				Net Block	
	Cost/ Revaluation as at 1st April, 2013	Additions	Disposals	Balance as at 31st March, 2014	Balance as at 1st April, 2013	Depreciation for the year	Adjustment on Disposals	Balance as at 31st March, 2014	Balance as at 31st March, 2013	Balance as at 31st March, 2014
<b>A. Tangible Assets</b>										
Land	976.30	265.36	-	1241.66	-	-	-	1241.66	976.30	
Buildings Freehold	1087.03	7.95	-	1094.98	424.42	41.60	-	628.96	662.61	
Leasehold Property	1220.40	2.47	-	1222.87	1124.16	13.83	-	84.88	96.24	
Plant & Equipments	31027.35	5735.59	0.16	36762.78	15572.53	2484.68	0.16	18057.05	15454.82	
Furniture & Fixtures	421.83	18.53	10.15	430.21	377.89	17.95	10.15	44.52	43.94	
Motor Vehicle	452.15	20.34	98.46	374.03	232.92	78.80	91.89	154.20	219.23	
Office Equipment	302.64	16.81	0.50	318.95	239.21	29.29	0.19	50.64	63.43	
<b>Total Tangible Assets</b>	<b>35487.70</b>	<b>6067.05</b>	<b>109.27</b>	<b>41445.48</b>	<b>17971.13</b>	<b>2666.15</b>	<b>102.39</b>	<b>20534.89</b>	<b>17516.57</b>	
<b>B. Intangible Assets</b>										
Goodwill & Trade Marks	5.81	-	-	5.81	5.81	-	-	5.81	-	
Computer Software	51.82	-	-	51.82	51.82	-	-	51.82	-	
Time Share Rights	172.00	-	-	172.00	172.00	-	-	172.00	-	
<b>Total Intangible Assets</b>	<b>229.63</b>	<b>-</b>	<b>-</b>	<b>229.63</b>	<b>229.63</b>	<b>-</b>	<b>-</b>	<b>229.63</b>	<b>-</b>	
Per Balance Sheet 31st March, 2014	35717.33	6067.05	109.27	41675.11	18200.76	2666.15	102.39	20764.52	17516.57	
Per Balance Sheet 31st March, 2013	33592.15	3456.31	1331.13	35717.33	17251.49	2258.91	1309.64	18200.76		

Leasehold property include buildings on leasehold land cost ₹564.33 Lakhs (2013 - ₹561.86 Lakhs), Depreciation ₹509.56 Lakhs (2013 - ₹500.62 Lakhs).



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>9. NON-CURRENT INVESTMENTS</b>		
<b>Other than Trade - at cost</b>		
<b>Investment in Equity Instruments</b>		
<b>QUOTED</b>		
Duncan Industries Limited		
184* (2013 - 462) Equity Shares of ₹10 each fully paid up	0.04	0.04
*pursuant to scheme of capital reduction & consolidation		
Godfrey Phillips India Limited		
200 Equity Shares of ₹10 each fully paid up	0.01	0.01
GTC Industries Limited		
50 Equity Shares of ₹10 each fully paid up	0.01	0.01
Housing Development Finance Corporation Limited		
6,000 Equity Shares of ₹2 each fully paid up	0.08	0.08
HDFC Bank Limited		
2,500 Equity Shares of ₹2 each fully paid up	0.05	0.05
	<u>0.19</u>	<u>0.19</u>
<b>UNQUOTED</b>		
Andhra Pradesh Gas Power Corporation Limited		
1,39,360 shares of ₹10 each fully paid up	220.38	220.38
Twin Towers Premises Co-operative Society Limited		
10 Shares of ₹50 each fully paid up		
(Cost ₹500, Previous Year - ₹500 )		
Tobacco Institute of India - (Limited by Guarantee Maximum Contribution ₹10.00 Lakhs)		
ITC Classic Real Estate Finance Limited		
50,00,000 Equity Shares of ₹10 each fully paid up		
ITC Agrotech Finance and Investments Limited		
23,82,500 Equity Shares of ₹10 each fully paid up		
	<u>220.38</u>	<u>220.38</u>
<b>Investment in Government/Trust Securities</b>		
National Savings Certificate cost ₹500 (Previous Year - ₹500)		
Lodged with Government Authority		
<b>Investments in Debentures or Bonds</b>		
ITC Agrotech Finance and Investments Limited		
25,00,000 Floating Rate Unsecured Optionally Fully		
Convertible Debentures of ₹100 each fully paid up		
<b>Investment in Mutual Funds</b>		
HDFC - Top 200 Fund		
50,000 units of ₹10 each fully paid up	5.00	5.00
Sundaram Energy Opportunities Fund - Growth		
10,00,000 units of ₹10 each fully paid up	100.00	100.00
	<u>105.00</u>	<u>105.00</u>
<b>Total of Non-Current Investments</b>	<u>325.57</u>	<u>325.57</u>
Aggregate amount of Quoted Investments	0.19	0.19
[Market Value - ₹78.21 Lakhs (Previous Year - ₹70.53 Lakhs)]		
Aggregate amount of Other Investments	325.38	325.38



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>10. DEFERRED TAX ASSET - NET</b>		
<b>Deferred tax asset</b>		
On employees' separation and retirement	103.09	80.53
On State and Central Taxes, etc.	2429.04	2188.80
On other timing differences	40.64	38.35
	<u>2572.77</u>	<u>2307.68</u>
<b>Deferred tax liability</b>		
On fiscal allowances on fixed assets	1583.45	1451.04
	<u>989.32</u>	<u>856.64</u>
<b>11. LONG-TERM LOANS AND ADVANCES</b>		
(Considered Good)		
<b>Secured</b>		
Loans to Employees	32.37	43.38
<b>Unsecured</b>		
Capital Advances	4.00	886.30
Security Deposits	37.81	37.81
Advances recoverable in cash or in kind or for value to be received	138.22	101.16
Loans to Employees	1.75	7.73
	<u>214.15</u>	<u>1076.38</u>
<b>12. OTHER NON-CURRENT ASSETS</b>		
(Unsecured, Considered Good)		
Balances with Banks		
- On Term Deposits with original maturity of more than 12 months	1.27	1.27
Lodged with Government Authorities	<u>1.27</u>	<u>1.27</u>



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>13. CURRENT INVESTMENTS</b>		
<b>Other than Trade and Unquoted - at lower of cost and fair value</b>		
<b>Investments in Debentures or Bonds</b>		
India Infrastructure Finance Company Limited		
Nil (2013 - 1,350) 6.85% Tax Free Bonds of ₹1,00,000 each fully paid up	-	1348.46
Nil (2013 - 500) 6.85% Tax Free Bonds - Series II of ₹1,00,000 each fully paid up	-	500.00
	-	1848.46
<b>Investment in Mutual Funds</b>		
Birla Sun Life Savings Fund - Growth Regular Plan		
Nil (2013 - 2,45,014) units of ₹100 each fully paid up	-	500.00
Birla Sun Life Savings Fund - Growth Direct Plan		
6,33,491 (2013 - 11,18,609) units of ₹100 each fully paid up	1500.00	2500.00
Birla Sun Life Floating Rate Long Term Direct Plan - Daily Dividend Reinvestment		
9,99,809 (2013 - Nil) units of ₹100 each fully paid up	1003.73	-
Birla Sun Life Cash Plus - Growth Direct Plan		
2,43,311 (2013 - Nil) units of ₹100 each fully paid up	500.00	-
Birla Sun Life FTP - Series HM (366 Days) - Direct Plan - Growth		
50,00,000 (2013 - Nil) units of ₹10 each fully paid up	500.00	-
DSP BlackRock Liquidity Fund - Direct Plan - Growth		
27,266 (2013 - 35,775) units of ₹1,000 each fully paid up	500.00	600.00
HDFC Floating Rate Income Fund - STP - Direct Plan - Wholesale Option - Growth		
Nil (2013 - 24,98,201) units of ₹10 each fully paid up	-	500.00
HDFC Liquid Fund - Direct Plan - Growth		
Nil (2013 - 64,91,511) units of ₹10 each fully paid up	-	1500.00
HDFC Quarterly Interval Fund - Plan A - Retail Plan - Direct Plan - Dividend Payout		
78,94,214 (2013 - Nil) units of ₹10 each fully paid up	790.06	-
HDFC FMP 370D August 2013 (4) - Series 27 - Direct - Growth		
50,00,000 (2013 - Nil) units of ₹10 each fully paid up	500.00	-
ICICI Prudential Flexible Income - Regular Plan - Growth		
5,83,995 (2013 - 5,83,995) units of ₹100 each fully paid up	1000.00	1000.00
ICICI Prudential Flexible Income - Direct Plan - Growth		
6,65,290 (2013 - 11,42,814) units of ₹100 each fully paid up	1500.00	2500.00
ICICI Prudential Interval Fund - Quarterly Interval Plan 1 - Direct Plan - Dividend		
99,97,500 (2013 - Nil) units of ₹10 each fully paid up	1000.00	-



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>CURRENT INVESTMENTS (Contd.)</b>		
IDFC Ultra Short Term Fund - Direct Plan - Growth Nil (2013 - 1,22,86,295) units of ₹10 each fully paid up	-	2000.00
IDFC Cash Fund - Growth - Direct Plan 64,213 (2013 - Nil) units of ₹1,000 each fully paid up	1000.00	-
IDFC Money Manager Fund - Treasury Plan - Growth - Direct Plan 74,18,015 (2013 - Nil) units of ₹10 each fully paid up	1500.00	-
IDFC Fixed Term Plan Series 82 Direct Plan - Periodic Dividend (92 days) 50,00,000 (2013 - Nil) units of ₹10 each fully paid up	500.00	-
Reliance Money Manager Fund - Growth Plan 74,716 (2013 - 74,716) units of ₹1,000 each fully paid up	1000.00	1000.00
Reliance Money Manager Fund - Direct Growth Plan 62,436 (2013 - 1,56,046) units of ₹1,000 each fully paid up	1000.00	2500.00
Reliance Fixed Horizon Fund XXIV - Series 11 - Direct Plan - Growth Plan 1,00,00,000 (2013 - Nil) units of ₹10 each fully paid up	1000.00	-
Reliance Fixed Horizon Fund XXV - Series 29 - Direct Plan - Dividend Payout 50,00,000 (2013 - Nil) units of ₹10 each fully paid up	500.00	-
SBI Premier Liquid Fund - Direct Plan - Daily Dividend Reinvestment 1,99,566 (2013 - Nil) units of ₹1,000 each fully paid up	2002.15	-
Tata Floater Fund - Plan A - Growth Nil (2013 - 99,694) units of ₹1,000 each fully paid up	-	1600.00
UTI Floating Rate Fund - STP - Regular Plan - Direct Plan - Growth Nil (2013 - 52,991) units of ₹1,000 each fully paid up	-	1000.00
UTI Treasury Advantage Fund - Institutional Plan - Direct Plan - Growth 31,649 (2013 - 31,649) units of ₹1,000 each fully paid up	500.00	500.00
	<u>17795.94</u>	<u>17700.00</u>
<b>Total of Current Investments</b>	<u>17795.94</u>	<u>19548.46</u>
Aggregate amount of Unquoted Investments	<u>17795.94</u>	<u>19548.46</u>



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>14. INVENTORIES</b> (At lower of cost and net realisable value)		
Stores and Spare Parts	82.60	45.27
Raw Materials including packing materials	21490.97	20659.31
Finished Goods	4813.70	4044.96
Work-in-Progress	374.79	587.26
	<u>26762.06</u>	<u>25336.80</u>
<b>15. TRADE RECEIVABLES</b> (Unsecured, Considered Good) Receivables outstanding for a period not exceeding six months from the date they are due for payment	<u>777.89</u>	<u>2369.45</u>
	<u>777.89</u>	<u>2369.45</u>
<b>16. CASH AND BANK BALANCES</b> <b>Cash and cash equivalents</b> Cash including cheques on hand	0.83	0.53
Balances with Banks		
- On Current Accounts	1187.34	823.28
- On Term Deposits <sup>#</sup>	<u>3000.00</u>	<u>3500.00</u>
	4188.17	4323.81
<b>Other Bank Balances*</b>		
- On Unclaimed Ordinary Dividend Account	505.19	403.23
- On Preference Share Redemption Account	<u>0.18</u>	<u>0.18</u>
	<u>4693.54</u>	<u>4727.22</u>
<sup>#</sup> These can be withdrawn at any point of time without prior notice or exit costs on the principal amount. <sup>*</sup> The Company can utilise these balances only towards settlement of respective liabilities.		
<b>17. SHORT-TERM LOANS AND ADVANCES</b> (Considered Good) <b>Secured</b> Loans to Employees	3.39	12.33
<b>Unsecured</b> Loans to Employees	5.59	9.59
Advances recoverable in cash or in kind or for value to be received	588.30	801.62
Prepaid Expenses	215.58	208.96
Taxation (Net of provisions)	314.79	658.18
Balance with Statutory/Government Authorities	<u>1439.69</u>	<u>563.08</u>
	<u>2567.34</u>	<u>2253.76</u>
<b>18. OTHER CURRENT ASSETS</b> (Unsecured, Considered Good) Interest accrued on Loans, Deposits and Investments	2.78	23.94
Others	<u>469.98</u>	<u>315.13</u>
	<u>472.76</u>	<u>339.07</u>





## ₹ in Lakhs

55



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>23. CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK-IN-PROGRESS</b>		
(a) (Increase)/Decrease in Finished Goods		
Opening Stock	4044.96	3723.77
Closing Stock	<u>4813.70</u>	<u>4044.96</u>
	(768.74)	(321.19)
(b) Increase/(Decrease) in Excise Duties on Finished Goods		
Opening Stock	3302.57	3013.28
Closing Stock	<u>3662.67</u>	<u>3302.57</u>
	360.10	289.29
(c) (Increase)/Decrease in Work-in-Progress		
Opening	587.26	258.39
Closing	<u>374.79</u>	<u>587.26</u>
	212.47	(328.87)
	<u>(196.17)</u>	<u>(360.77)</u>
<b>24. EMPLOYEE BENEFITS EXPENSE</b>		
Salaries, Wages and Bonus	5994.61	5343.61
Contributions to Provident, Gratuity and Other Retiral Funds	726.93	738.30
Workmen and Staff Welfare Expenses	<u>270.56</u>	<u>260.84</u>
	<u>6992.10</u>	<u>6342.75</u>
<b>25. DEPRECIATION AND AMORTISATION EXPENSE</b>		
Depreciation of tangible assets	2666.15	2258.91
Less: Recoupment from revaluation reserve	<u>9.02</u>	<u>9.06</u>
	<u>2657.13</u>	<u>2249.85</u>



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>26. OTHER EXPENSES</b>		
Insurance	150.38	133.82
Consumption of Stores and Spare Parts	567.68	366.83
Power and Fuel	565.69	536.31
Rent	273.16	257.48
Repairs - Buildings	23.76	24.49
- Machinery	72.61	74.23
- Others	27.16	22.06
Rates and Taxes	2306.72	1496.31
Outward Freight	1270.31	1187.35
Sales Promotion/Advertising	2164.97	1996.74
Distribution Expenses	1420.84	2169.26
Loss on Exchange (Net)	411.69	177.29
Miscellaneous	2455.68	1924.07
Payment to Auditors (See details below)	38.14	36.16
Directors' Sitting Fees & Commission	97.07	33.40
	<u>11845.86</u>	<u>10435.80</u>
Payment to Auditors		
Audit fees	26.00	24.00
Tax Audit fees	2.00	2.00
Limited Reviews	6.00	6.00
Fees for certification	3.25	3.25
Reimbursement of expenses	0.89	0.91
	<u>38.14</u>	<u>36.16</u>
<b>27. EARNINGS PER SHARE</b>		
Earnings per Share is computed as under:		
(a) Profit after Tax Expense (₹ in Lakhs)	15015.26	12624.82
(b) Weighted average number of Ordinary Shares	1,54,41,920	1,54,41,920
(c) Basic and diluted Earnings per Share (Face Value per Share - ₹10) - ₹	97.24	81.76
<b>28. SEGMENT REPORTING</b>		
The Company's business activity primarily falls within a single primary business segment viz. Tobacco and related products and hence no business segment information is provided. Geographical segments considered for disclosure mainly consists of sales within India and sales outside India, information in respect thereof is as under:		
(a) Sales within India	147093.91	149905.95
(b) Sales outside India	15578.57	12202.91
	<u>162672.48</u>	<u>162108.86</u>
The entire activity pertaining to sales outside India is carried out from India, hence all segment assets are considered entirely to be in India.		



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2014	2013
<b>29. RELATED PARTY TRANSACTIONS DURING THE YEAR</b>		
<b>(a) Company having significant influence</b>		
British American Tobacco Group		
<b>Nature of transactions</b>		
Sales - Goods	40.50	197.33
Other payments - Services, etc.	0.38	1.00
- Dividends paid	3103.69	3227.84
<b>(b) Remuneration to Key Managerial Personnel</b>		
Mr. Raymond S. Noronha (upto 2nd September, 2012)	-	479.49
Mr. N. Sai Sankar	338.65	297.93
Mr. Devraj Lahiri	92.94	84.23
<b>30. EXPENDITURE ON R&amp;D</b>		
On Revenue Account	445.97	232.32
	<u>445.97</u>	<u>232.32</u>
<b>31. CONTINGENT LIABILITIES AND COMMITMENTS</b>		
<b>(a) Contingent Liabilities</b>		
Claims against the Company not acknowledged as debts ₹2355.48 Lakhs (2013 - ₹3450.59 Lakhs).		
These comprise -		
(i) Tax demands disputed by the Company relating to disallowances/additions of fiscal benefits, pending before various judicial forums, aggregating to ₹2351.23 Lakhs (2013 - ₹3446.34 Lakhs).		
(ii) Other matters relating to labour cases, etc. aggregating to ₹4.25 Lakhs (2013 - ₹4.25 Lakhs).		
<b>(b) Commitments</b>		
Estimated amount of contracts remaining to be executed on capital account (not provided for) - ₹329.06 Lakhs (2013 - ₹4277.23 Lakhs).		
<b>32. FUTURE LEASE OBLIGATIONS</b>		
The Company has entered into various operating lease agreements and the amounts paid under such agreements have been charged to revenue as Rent under Note 26. All these agreements are cancellable in nature.		
<b>33. DISCLOSURES REGARDING DERIVATIVE INSTRUMENTS</b>		
The Company uses forward exchange contracts to hedge its foreign currency exposures related to the underlying transactions, firm commitments and highly probable forecasted transactions. The use of these foreign exchange forward contracts are intended to reduce the risk or cost to the Company and are not intended for trading or speculation purpose. The information on such derivative instruments is as follows:		



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

(a) Forward exchange contracts outstanding as at year end

In Lakhs

		31.03.2014		31.03.2013	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	-	1716.02	-	2842.33

(b) Foreign exchange currency exposure recognised by the Company that have not been hedged by a derivative instrument or otherwise as at year end:

₹ in Lakhs

		31.03.2014		31.03.2013	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	69.13	662.32	6.33	2379.93
EUR/INR	INR	50.01	-	162.08	-

(c) Hedges of highly probable forecasted transactions

Foreign exchange forward contracts that are designated as cash flow hedges and qualify for hedge accounting are fair valued at each reporting date and the resultant gain or loss is recognised directly in Shareholders' Funds under 'Cash Flow Hedge Reserve Account' to the extent considered highly effective and are reclassified into the Statement of Profit and Loss upon occurrence of the hedged transactions. Gain or loss on derivative instruments that are either not designated as cash flow hedges or designated as cash flow hedges to the extent considered ineffective is recognised in the Statement of Profit and Loss.

In respect of the aforesaid hedges of highly probable forecasted transactions, the Company has recorded in Shareholders' Funds under Cash Flow Hedge Reserve Account, a net gain of ₹52.89 Lakhs (2013 - ₹67.27 Lakhs). The Company also recorded a net loss of ₹23.89 Lakhs (2013 - ₹45.12 Lakhs) in the Statement of Profit and Loss.

The net carrying amount on Company's 'Cash Flow Hedge Reserve Account' as at 31st March, 2014 was a gain of ₹120.16 Lakhs (2013 - ₹67.27 Lakhs).

### 34. EMPLOYEE BENEFITS

(a) The Employee Benefit Schemes are as under:

(i) **Provident Fund**

Eligible employees of the Company receive benefits under the Provident Fund which are defined contribution/benefit plans wherein both the Company and the employees make monthly contributions equal to a specified percentage of the covered employees' salary. These contributions are made to the Funds administered and managed by the Government of India/ Company's own Trust. The Company's own trust plan envisages guarantee of interest at the rate notified by the Provident Fund authority. The Company's contributions along with interest shortfall, if any, are charged to revenue in the year they are incurred. Expenditure for the year amounted to ₹167.71 Lakhs (2013 - ₹173.85 Lakhs).

Major category of Plan Assets as a % of the Total Plan Assets of the Company's Own Provident Fund Trust:

		2014	2013
Central government securities	(%)	38.4	35.0
State government securities	(%)	19.8	20.8
High quality corporate bonds	(%)	41.4	43.3
Cash and cash equivalent	(%)	0.4	0.9

(ii) **Gratuity**

In accordance with the Payment of Gratuity Act, 1972 of India, the Company provides for gratuity, a defined retirement benefit plan (the 'Gratuity Plan') covering eligible employees. Liabilities with regard to such Gratuity Plan are determined by actuarial valuation and are charged to revenue in the period determined. The Gratuity Plan is a funded plan administered by Company's own Trust which has subscribed to 'Group Gratuity Scheme' of Life Insurance Corporation of India.

(iii) **Pension Fund**

The Company has a defined contribution pension scheme to provide pension to the eligible employees. The Company makes monthly contributions equal to a specified percentage of the covered employees' salary. These contributions are administered by the Company's own Trust which has subscribed to 'Group Pension Scheme' of Life Insurance Corporation of India. The Company's contributions are charged to revenue in the period they are incurred - ₹97.65 Lakhs (2013 - ₹102.18 Lakhs).

In addition to the above, the Company has a funded defined benefit pension scheme for its employees in the workmen category. Liability with regard to such defined benefit plan are determined by actuarial valuation and are charged to



## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

revenue in the period determined. The plan is administered by the Company's own Trust which has subscribed to 'Group Pension Scheme' of Life Insurance Corporation of India.

### (iv) Leave Encashment

The accrual for unutilised leave is determined for the entire available leave balance standing to the credit of the employees at period-end. The value of such leave balance eligible for carry forward, is determined by actuarial valuation and charged to revenue in the period determined. The scheme is fully funded by way of subscription to the 'Leave Encashment Scheme' of Life Insurance Corporation of India.

### (v) Retirement Allowance

The Company has an unfunded defined benefit retirement allowance scheme for its employees in the workmen category. Liability with regard to such scheme is determined by actuarial valuation and charged to revenue in the period it is determined - ₹303.29 Lakhs (2013 - Nil). Consequently, asset/(liability) recognised in the Balance Sheet as at 31st March, 2014 is ₹(303.29) Lakhs (2013 - Nil).

### (b) The following table sets out the status of the Retirement and Other Defined Benefit Plans as required under the Standard:

₹ in Lakhs

	Gratuity		Pension		Leave Encashment	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013	31.03.2014	31.03.2013
<b>Projected benefit obligation at the beginning of the year</b>	2575.83	2280.44	122.67	115.27	494.81	545.63
Current Service Cost	152.31	150.26	8.05	7.74	31.93	27.02
Interest cost	198.65	173.76	9.31	9.15	32.73	35.61
Actuarial (Gain)/Loss	155.98	188.20	(9.50)	(7.75)	120.55	87.50
Less: Benefits Paid	185.28	216.83	12.48	1.74	171.45	200.95
Past Service Cost	-	-	-	-	-	-
<b>Projected benefit obligation at the end of the year</b>	2897.49	2575.83	118.05	122.67	508.57	494.81
<b>Fair value of Plan Assets at the beginning of the year</b>	2553.71	2230.45	149.51	138.52	494.85	545.98
Expected return on Plan Assets	217.20	191.36	11.91	11.52	39.94	41.63
Actuarial Gain/(Loss)	13.45	8.74	(0.55)	1.21	4.18	6.05
Employer Contributions	277.12	339.99	-	-	34.00	11.00
Less: Benefits Paid	185.28	216.83	12.48	1.74	69.25	109.81
<b>Fair value of Plan Assets at the end of the year</b>	2876.20	2553.71	148.39	149.51	503.72	494.85
<b>Amounts recognised in the Balance Sheet</b>						
Projected benefit obligation at the end of the year	2897.49	2575.83	118.05	122.67	508.57	494.81
Fair value of Plan Assets at end of the year	2876.20	2553.71	148.39	149.51	503.72	494.85
Asset/(Liability) recognised in the Balance Sheet	(21.29)	(22.12)	30.34	26.84	(4.85)	0.04
<b>Cost of retirement and other benefits for the year</b>						
Current Service cost	152.31	150.26	8.05	7.74	31.93	27.02
Interest Cost	198.65	173.76	9.31	9.15	32.73	35.61
Expected return on Plan Assets	(217.20)	(191.36)	(11.91)	(11.52)	(39.94)	(41.63)
Net actuarial (Gain)/Loss recognised in the year	142.53	179.46	(8.95)	(8.96)	116.37	81.45
Past Service Cost	-	-	-	-	-	-
Net Cost recognised in the Statement of Profit and Loss	276.29	312.12	(3.50)	(3.59)	141.09	102.45
<b>Actuarial assumptions</b>						
Discount Rate (%)	8.00	8.00	8.00	8.00	8.00	8.00
Expected Return on Plan Assets (%)	8.00	8.00	8.00	8.00	8.00	8.00

The estimates of future salary increases, considered in actuarial valuations take account of inflation, seniority, promotion and other relevant factors such as supply and demand factor in the employment market.

### Investment details of the Plan Assets

In the absence of detailed information regarding plan assets which are funded with Life Insurance Corporation of India, the composition of each major category of plan assets, the percentage or amount of each category to the fair value of plan assets is not disclosed.





## NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

	2014		2013	
	₹ in Lakhs	%	₹ in Lakhs	%
<b>35. VALUE OF RAW MATERIALS, SPARE PARTS AND COMPONENTS CONSUMED</b>				
Raw Materials				
Imported	784.75	2.0	838.65	2.6
Indigenous	37680.21	98.0	31580.90	97.4
	<u>38464.96</u>	<u>100.0</u>	<u>32419.55</u>	<u>100.0</u>
Stores and Spare Parts				
Imported	63.47	11.2	55.28	15.1
Indigenous	504.21	88.8	311.55	84.9
	<u>567.68</u>	<u>100.0</u>	<u>366.83</u>	<u>100.0</u>
<b>36. EXPORTS AND IMPORTS</b>				
Export of goods (F.O.B. Value)	<u>15551.10</u>		<u>12129.05</u>	
Imports (C.I.F. Value)				
Raw Materials	758.36		716.12	
Spare Parts	110.14		64.30	
Capital Goods	3704.55		2203.74	
	<u>4573.05</u>		<u>2984.16</u>	
<b>37. EXPENDITURE IN FOREIGN CURRENCY</b>				
Miscellaneous - Travelling, Advertisement and Subscriptions etc.	<u>57.68</u>		<u>53.64</u>	
<b>38. DIVIDEND PAID TO NON-RESIDENT SHAREHOLDERS IN FOREIGN CURRENCY</b>				
FINAL				
Amount of dividend	3103.69		3227.84	
Number of Non-Resident Shareholders		3		3
Number of Shares held		49,65,902		49,65,902
The year to which the dividend relate (year ended)		31-03-2013		31-03-2012
<b>39. COMPARATIVE FIGURES</b>				
The Comparative figures for the previous year have been re-arranged to conform with the current year presentation of the accounts.				
On behalf of the Board,				
For LOVELOCK & LEWES Firm Registration No. 301056E Chartered Accountants	R. S. NORONHA		Chairman	
N.K. VARADARAJAN Partner	N. SAI SANKAR		Managing Director	
Membership No. 90196	NITESH BAKSHI		Company Secretary	
Hyderabad, 22nd April, 2014.	Hyderabad, 22nd April, 2014.			



## Operating Results 2005-2014

₹ in Lakhs

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>REVENUE FROM OPERATION (GROSS)</b>	68155	71648	72523	77344	101735	112542	139964	160276	162607	163121
EXCISE DUTY	37317	40411	38903	43347	62366	65325	81811	91833	95739	84203
<b>OPERATING PROFIT</b>	8873	9938	8053	8413	9535	7018	14257	20977	18031	21811
OTHER INCOME	1420	2284	1580	1578	694	3326	1711	2572	2625	3244
DEPRECIATION	951	1024	1148	1372	1582	1787	2442	2483	2250	2657
FINANCE COST	61	8	9	13	13	3	-	-	-	-
PROFIT BEFORE TAX & EXTRAORDINARY ITEM	9281	11190	8476	8606	8634	8554	13526	21066	18406	22398
<b>PROFIT AFTER TAX &amp; EXTRAORDINARY ITEM</b>	5402	4310	5509	5835	6182	6205	9501	14251	12625	15015
DIVIDEND*	2203	2201	3613	3613	5420	5402	8076	11666	11291	12646
EARNINGS IN FOREIGN EXCHANGE (FOB VALUE)	5259	4527	4690	6075	10842	15499	15040	15575	12129	15551

## Sources and Application of Funds 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>SOURCES</b>										
EQUITY CAPITAL	1544	1544	1544	1544	1544	1544	1544	1544	1544	1544
RESERVES	15544	17633	19479	21649	22401	23194	24900	27475	28867	31280
<b>NET CAPITAL EMPLOYED</b>	17088	19177	21023	23193	23945	24738	26444	29019	30411	32824
<b>APPLICATION</b>										
GROSS FIXED ASSETS	15360	17768	19551	23345	25463	27807	30369	33604	35724	41678
DEPRECIATION	7983	8865	9843	11173	12377	13867	15120	17251	18201	20765
NET FIXED ASSETS	7377	8903	9708	12172	13086	13940	15249	16353	17523	20913
NET OTHER ASSETS (INCL. INVESTMENTS & DEFERRED TAX)	9711	10274	11315	11021	10859	10798	11195	12666	12888	11911
<b>NET ASSETS EMPLOYED</b>	17088	19177	21023	23193	23945	24738	26444	29019	30411	32824

## Performance Ratios 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EARNINGS PER SHARE (₹)	35.0	27.9	35.7	37.8	40.0	40.2	61.5	92.3	81.8	97.2
DIVIDEND PER SHARE (₹)	12.5	12.5	20.0	20.0	30.0	30.0	45.0	65.0	62.5	70.0
RETURN ON NET CAPITAL EMPLOYED (%)	31.6	22.5	26.2	25.2	25.8	25.1	35.9	49.1	41.5	45.7
RETURN ON NET WORTH (%)	31.6	22.5	26.2	25.2	25.8	25.1	35.9	49.1	41.5	45.7

\* Includes Income Tax on Dividend.



VST Industries Limited

**PROXY FORM**

[Pursuant to Section 105(6) of the Companies Act, 2013 and  
Rule 19(3) of the Companies (Management and Administration) Rules, 2014]

**VST Industries Limited**

CIN: L29150TG1930PLC000576

Registered Office: Azamabad, Hyderabad - 500 020

Phone: +91 40 2761 0460 | Fax : +91 40 2761 5336

Email: investors@vstind.com | Website:www.vsthyd.com

Name of the Member(s)			
Registered address			
Email ID			
Folio No./Client ID			
DP ID		No. of Shares	

I/We, being a member/members of above named Company, hereby appoint:

1. Name			
Address		Signature	
Email ID			
or failing him/her			
2. Name			
Address		Signature	
Email ID			
or failing him/her			
3. Name			
Address		Signature	
Email ID			

as my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the 83rd Annual General Meeting of the Company, to be held on Tuesday, 12th August, 2014 at 9.30 a.m. at Hotel Trident, Hitech City, Near Cyber Towers, Madhapur, Hyderabad - 500 081 and at any adjournment thereof in respect of such resolutions as are indicated below:

Resolution No.	Resolutions	For*	Against*
	<b>Ordinary Business</b>		
1.	Adoption of Balance Sheet, Statement of Profit and Loss, Report of the Board of Directors and Auditors thereon		
2.	Declaration of dividend on equity shares		
3.	Re-appointment of Mr. Raymond S. Noronha who retires by rotation and being eligible, offers himself for re-appointment.		
4.	Appointment of Lovelock & Lewes, Chartered Accountants as Auditors and fixing their remuneration		
	<b>Special Business</b>		
5.	Appointment of Mr. James Yamanaka as Non-Executive Director		
6.	Appointment of Prof. Mubeen Rafat as an Independent Director		
7.	Appointment of Mr. S. Thirumalai as an Independent Director		

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2014

Signature of Member \_\_\_\_\_

Signature of Proxy \_\_\_\_\_

Affix a  
15 paise  
Revenue  
Stamp

**Note:**

- This form of proxy in order to be effective should be duly completed and deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the Meeting.
  - A person can act as a proxy on behalf of Members, not exceeding fifty, and holding in the aggregate not more than 10% of the total share capital of the Company carrying voting rights. A Member holding more than 10% of the total share capital of the Company carrying voting rights may appoint a single person as proxy and such person shall not act as a proxy for any other person or shareholder.
- \*. It is optional to put an 'X' in the appropriate column against the resolution indicated in the box. If you leave the 'For' or 'Against' column blank against any or all the resolutions, your Proxy will be entitled to vote in the manner as he/she deems appropriate.







**VST Industries Limited**

## FORM A

### Pursuant to Clause 31(a) of Listing Agreement

1	Name of the Company	VST Industries Limited
2	Annual financial statements for the year ended	31 <sup>st</sup> March, 2014
3	Type of Audit observation	Un-qualified
4	Frequency of observation	Not applicable
5	To be signed by –  N. SAI SANKAR • Managing Director  ANISH GUPTA • Chief Financial Officer  N.K. VARADARAJAN • Auditor of the Company  S. THIRUMALAI • Audit Committee Chairman	  <i>N. Sai Sankar</i>  <i>Anish Gupta</i>  <i>N. K. Varadarajan</i>  <i>S. Thirumalai</i>



## **Auditors' Certificate regarding compliance of conditions of Corporate Governance**

To the Members of VST Industries Limited

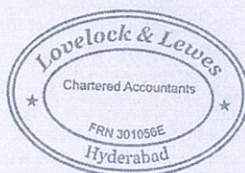
We have examined the compliance of conditions of Corporate Governance by VST Industries Limited, for the year ended March 31, 2014, as stipulated in Clause 49 of the Listing Agreement(s) of the said Company with stock exchange(s) in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

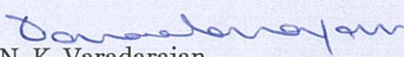
In our opinion and to the best of our information and according to the explanations given to us, We certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Hyderabad  
22 April 2014



For Lovelock & Lewes  
Firm Registration Number: 301056E  
Chartered Accountants

  
N. K. Varadarajan  
Partner  
Membership Number: 90196