



VST INDUSTRIES LIMITED

ANNUAL REPORT 2010-11





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BOARD OF DIRECTORS

Chairman

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

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

Managing Director

RAYMOND S. NORONHA

Deputy Managing Director & Secretary

N. SAI SANKAR

Directors

PETER G. HENRIQUES

T. LAKSHMANAN

MILIND ANNA KHARAT

S. THIRUMALAI

Auditors

Lovelock & Lewes

Chartered Accountants

Hyderabad - 500 034

Andhra Pradesh

Registered Office

1-7-1063/1065, Azamabad

Hyderabad - 500 020

Andhra Pradesh

Registrars & Share Transfer Agents

Sathguru Management Consultants Private Limited

Plot No.15, Hindi Nagar, Punjagutta

Hyderabad - 500 034

Phone : +91 40 3016 0333

Fax : +91 40 4004 0554

E-mail : sta@sathguru.com



NOTICE OF MEETING

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

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2011, the Profit and Loss Account of the Company for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare a Dividend on the Equity Shares for the year ended 31st March, 2011.
3. To appoint Directors in place of Mr. T. Lakshmanan and Mr. S. Thirumalai, who retire by rotation and being eligible, offer themselves for re-appointment.
4. To appoint Auditors and to fix their remuneration. In this connection, to consider and, if thought fit, to pass with or without modification(s) the following Resolution which will be proposed as an Ordinary Resolution:

"RESOLVED THAT M/s. Lovelock & Lewes, Chartered Accountants (Registration No: 301056E), be and are hereby appointed as the Auditors of the Company to hold such office until the conclusion of the next Annual General Meeting at a remuneration of ₹22,00,000 (Rupees Twenty two Lakhs only) payable in two equal instalments plus service tax as applicable and reimbursement of actual out-of-pocket expenses incurred."

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

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

Dividend, if declared, will be paid on 11th August, 2011 to those Members whose names appear in the Register of Members of the Company on 14th July, 2011 or to their Mandatees, subject however to the provisions of Section 206A of the Companies Act, 1956, or any amendment or modification thereof. In respect of dematerialised shares, the dividend will be payable on the basis of beneficial ownership as on 11th July, 2011, as per details to be furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for this purpose.

By Order of the Board
VST INDUSTRIES LIMITED

N. SAI SANKAR
Secretary

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



NOTES

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



REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT

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

VST Industries Limited

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

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

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

KEY RATIOS

Earnings Per Share (₹)	61.53	40.18
Dividend Per Share (₹)	45.00	30.00

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

INDUSTRY STRUCTURE & DEVELOPMENT

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

foreign exchange volatility was lower when compared to previous year.

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

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

Industry Issues

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

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

SEGMENT WISE PERFORMANCE

Your Company considers tobacco and related products as the primary segment for reporting. Geographical segments considered for disclosure mainly consist of sales within India and sales outside India. The entire activity pertaining to sales outside India is carried out from India.

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

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



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

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

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

Market Scenario

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

Leaf Tobacco

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

Your Company has established special tobaccos for niche markets, which, are being produced by the large farmer base of your Company. This has helped in optimizing the turnover and profit and also helped in economic uplift of the backward regions. Your Company had entered into long term (10 years) tie-ups with potential customers for Oriental Tobacco development and marketing. The volumes can be maintained through improved agronomic practices. Your Company completed six years of commercial operations and expects

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

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

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

PRODUCTION AND PLANT MODERNISATION

Primary Manufacturing Department

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

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

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

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

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

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

Secondary Manufacturing Department

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

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

HUMAN RESOURCE DEVELOPMENT

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

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

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

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

Information in accordance with clause (e) of sub-section (1) of Section 217



read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure to this Report.

ENVIRONMENT, HEALTH & SAFETY (EHS) AND COMMUNITY SERVICES

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

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

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

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

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

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

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

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

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

Water Consumption was reduced by 30 Kl/day.

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

All statutory compliances are in place. The thrust on EHS will continue while emphasizing the focus on Best International Work practices.

FINANCE

a. Profits

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

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

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

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

b. Treasury Operations

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

ENTERPRISE RESOURCE PLANNING (ERP)

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



undertaken by the team. This team interacts with managers of the operating teams and works continuously to help improve the overall business processes. Your Company has also developed adequate skills to manage issues arising out of facilities management and networking which are the other limbs of the IT infrastructure.

FIXED DEPOSITS

Your Company has stopped accepting fresh deposits for several years now.

As on 31st March, 2011, your Company does not have any deposits for the purpose of its business. Unclaimed deposits amounting to ₹8,000 is outstanding.

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 P1+ for Non-fund based liabilities (Letter of Credit and Bank Guarantee).

UNCLAIMED DIVIDENDS

Your Company had by its letter dated 25th October, 2001 communicated to all the Members about the promulgation of rules pertaining to the Investor Education and Protection Fund. Dividends which remain unpaid or unclaimed for a period of seven years would be deposited in the Investor Education and Protection Fund. The final dividend for the year ended 31st March, 2004 remaining unpaid would be deposited by 26th August, 2011 in accordance with Section 205C read with Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001.

UNCLAIMED SHARE CERTIFICATES

Your Company has communicated to the Members whose share certificates are 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.

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 examined the balance provisions for implementation.

INTERNAL CONTROL SYSTEMS

Your Company remains committed to improve effectiveness of internal control systems and processes which would help in increasing the efficiency of operations and provide security of its assets.

The internal audit process in your Company captures the control environment prevalent in the

organization. Over a period of three years, the entire business process of your Company is reviewed through a systems audit process which helps review the systems on a continuous basis. The objective is to identify potential risk areas and come up with a comprehensive mitigation plan.

The Audit Committee of your Board met four 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 of focus which were dealt with by the Committee. The Statutory Auditors/System Auditors were invited to attend all the Audit Committee meetings and make presentations covering their observation on adequacy of internal controls and the steps required to bridge gaps, if any.

The self-evaluation system which was put in place on internal controls is being reviewed continuously to improve its effectiveness.

Risk Management

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

DIRECTORS

Directors retiring by rotation

In accordance with Article 93 of the Articles of Association of your Company, Mr. T. Lakshmanan and



Mr. S. Thirumalai retire from the Board and being eligible, offer themselves, for re-election. Your Board recommends their re-appointment.

Mr. T. Lakshmanan

Mr. T. Lakshmanan was re-appointed at the Annual General Meeting held on 17th July, 2008. He is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Lakshmanan is a Post Graduate in Science and a Member of FFII. He has over 33 years of experience in various departments of General Insurance Corporation (GIC) and retired as General Manager of GIC in 2001. He was a nominee Director on the Board of your Company prior to his appointment as an Additional Director. He is the Chairman of the Audit Committee and a Member of Committee of Directors and Shareholders Grievance Committee of your Company. Mr. Lakshmanan does not hold any shares in the Company and is not related to any other Director of the Company.

Mr. S. Thirumalai

Mr. S. Thirumalai was re-appointed at the Annual General Meeting held on 16th July, 2009. He is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

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, MA (USA) in 1992. He has over 30 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 Shareholders Grievance Committee and a Member of Audit 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.

Directors' Resignation/ Appointment

Mr. R.V.K.M. Suryarau

Mr. R.V.K.M. Suryarau is elected Chairman of your Company and of its Board of Directors with effect from 15th October, 2010 in place of Mr. Abhijit Basu who had tendered his resignation.

The Board of Directors place on record their deep appreciation of the contribution made to your Company by Mr. Abhijit Basu.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000 the Directors confirm that:

1. in the preparation of the Annual Accounts, the applicable accounting standards have been followed;
2. appropriate accounting policies have been 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;
4. the Annual Accounts have been prepared on a going concern basis.

VST DISTRIBUTION, STORAGE & LEASING COMPANY PRIVATE LIMITED

The wholly owned subsidiary, VST Distribution, Storage & Leasing Company Private Limited was merged with your Company effective 1st April, 2010 in terms of Court Order dated 16th March, 2011.

TAXATION

i. Income Tax

a. Financial Services Business

It may be recalled that 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 1999-2000, 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

You would recall that 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 now sent a demand notice seeking payment of ₹20 crore being tax payable along with interest. Your Company will contest the same.

c. Subsidiary Company

During the financial year 1998-1999, your Company's subsidiary had received financial assets worth of ₹1200 lakhs against a future

liability of ₹5200 lakhs. This was settled on 31st March, 1999 for an immediate payment of ₹1250 lakhs. The settlement was not accepted during the assessment proceedings and accordingly disallowed by the Income Tax Authorities. On appeal before the CIT(A), the matter was held in favour of your Company's subsidiary. However, the Income Tax Tribunal while holding the matter against your Company's subsidiary held that the ratification of the said settlement agreement by the Board did not relate to 31st March, 1999 and consequently the liability to pay ₹1250 lakhs did not arise in the financial year 1998-1999 and therefore not allowable as a deduction for the year. The tax liability on this is ₹420 lakhs apart from interest.

Your Company's subsidiary preferred an appeal against the above order before the Hon'ble High Court of Andhra Pradesh.

ii. Luxury Tax

As mentioned in last year's Report, a Contempt Petition has been filed in the Hon'ble Supreme Court by the Commercial Tax Officer, on behalf of the Government of Andhra Pradesh against the Managing Director of your Company alleging contempt of the Hon'ble Supreme Court's judgement dated 20th January,



2005, which had set aside levy of Luxury Tax. 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. An amount of ₹29.81 crore has also been claimed as interest thereon @ 24% per annum. Your Company and the Managing Director have both filed separate counter affidavits strenuously denying that there has been any contempt on their part of the said judgement of the Hon'ble Supreme Court. The contempt case against the Managing Director of your Company was dismissed by Hon'ble Supreme Court. As far as the case against the Company is concerned, there have been no further developments during the year.

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 Ltd. Thereafter, several states such as Uttar Pradesh, Bihar and Haryana

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 by its Order dated 18th December, 2008 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

As mentioned in last year's Report, the Customs, Excise and Service Tax Appellate Tribunal, Bangalore by its Order dated 8th October, 2004, had allowed your Company's appeal and set aside the demand of the Excise Department for an amount 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. An appeal against the said Order has been filed by the Excise Department and is presently pending in the Hon'ble Supreme Court.

In the meantime, the Hon'ble Supreme Court by its Order dated 27th November, 2008 has remanded various other similar appeals pertaining to other manufacturers back to their respective Tribunals for re-adjudication in the light of individual facts of each case. Notices for subsequent periods have also been received by your Company which have been kept pending awaiting the decision of the Hon'ble Supreme Court.

b. Cigarette manufacture in North Eastern states

As mentioned in the last year's Report, the Excise Department had demanded a sum of ₹5.85 crore from two of your Company's former contract manufacturers, by way of interest on the principal amount of ₹31.20 crore repaid to the Excise Department, consequent upon the judgement of the Hon'ble Supreme Court dated 19th September, 2005. The two contract manufacturers had filed Writ Petitions challenging the said demands in the Hon'ble Guwahati High Court and obtained Interim Orders staying partial recovery until final disposal. Against the said Interim Orders, the Department had filed appeals in the Hon'ble Supreme Court. By its Order dated 15th April, 2009 the Hon'ble Supreme Court has requested the Hon'ble High Court to dispose



off the Writ Petitions within a period of two months from the date of communication of the Order. A Single Member Bench disallowed the writ petitions and upheld levy of interest. Against the judgement, the contract manufacturers filed appeals before the Division Bench, which passed interim orders staying the judgement of the Single Bench. First hearing has been completed and the appeals are reserved for judgement.

c. Tobacco Refuse

Your Company has received 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 November 2009.

Your Company has now received a demand for ₹10.22 crore being excise duty and penalty for the period upto 30th November, 2009. Interest is payable separately till the date of payment. Your Company is in the process of filing an appeal before CESAT.

v. 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 pending adjudication at various levels. Total amount involved is approximately ₹2.5 crore with equivalent penalty and interest thereon.

PUBLIC INTEREST LITIGATION (PIL)

- i. A PIL was filed in the Hon'ble Supreme Court by an NGO 'Health for Millions' seeking immediate implementation of various provisions of COTPA including the pictorial warnings, is still pending.
- ii. A PIL has been filed by Mr. A. Sherfuddin in the Hon'ble Madras High Court against the Health Ministry and tobacco companies (including your Company) seeking various reliefs including printing of ingredients contained in cigarettes on packets and their ill effects so as to inform the public of the dangers of smoking, removal of all hoardings and other visible representations of the brands which is still pending.
- iii. A PIL has been filed in the Hon'ble High Court of Andhra Pradesh by the Old Students' Association, PG College, Secunderabad against the Central Government and the tobacco companies (including your Company) seeking introduction of stronger pictorial warnings on both sides of the packets. Your Company has entered appearance in the Court.

INTELLECTUAL PROPERTY

A Suit for infringement and passing off was filed by ITC Limited against the

Company in the Original Side of Calcutta High Court alleging that the 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. A Single judge of the Calcutta High Court by his Order dated 4th March, 2011 has dismissed ITC Limited's application for interim injunction. The main suit is posted for trial in August 2011. Your Company has filed a Caveat in the Division Bench of the Calcutta High Court in anticipation of ITC Limited filing an appeal against this said interim order of the Single Judge.

FINANCIAL SERVICES BUSINESS

As mentioned in last year's Report 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) 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 dated 19th May, 2008 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.
- ii. The tobacco industry has been told to print the prescribed graphic health warnings on all its product packing. The Cigarettes and Other Tobacco Products (Packaging & Labelling) Rules, 2006 (COTPR) had originally prescribed pictorial warnings along with health messages and sign of skull and cross bones. However, due to vociferous objections from various sections of the industry and public, a Committee of a Group of Ministers (GoM) was constituted to relook at the warnings. Based on their recommendations, a new set of labelling requirements has been prescribed under the COTPR which were published on 16th March, 2008. However, these have again been modified based on representations made. The GoM is yet to give its conclusive

recommendations. The revised implementation date as originally envisaged from 1st November, 2010 has been deferred.

- iii. In the meantime, some Tobacco manufacturers had 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. On 18th November, 2008 all the Transfer Petitions were allowed and the Writ Petitions have thus been moved to the Hon'ble Supreme Court, for final adjudication.
- iv. Your Company had also filed a Writ Petition in the Hon'ble High Court of Andhra Pradesh challenging COTPR and the Amendment Rules 2008, on the grounds inter alia that they are ultra vires of COTPA and therefore the Notifications issued thereunder (including those seeking implementation of Graphic Health Warnings) should be quashed. The said Writ Petition was admitted on 17th October, 2008 but no interim orders were passed by the Hon'ble Court.
- v. 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 came up for admission on 29th September, 2008. While the Hon'ble Supreme Court admitted the Transfer Petitions it declined to grant interim relief prayed for by the petitioners seeking to postpone implementation of the ban on smoking in public places.

COMPANY EMPLOYEES

Under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the 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

In the current year's Budget no increase in excise duties has been proposed which has been a welcome relief.

The focus of your Company will continue to remain on cigarettes and tobacco. The strategy of offering "value for money" brands in both existing and new geographies which provide opportunities will continue as it has

improved the performance of your Company for the last several years.

The challenge to cope with increased bout of taxation across various states would continue as would be the challenge when comprehensive Goods and Services Tax (GST) is introduced in the financial year 2012-13 as per current indication, as GST would lead to change in the operation structure.

New pictorial warnings would have to be displayed on the packs effective financial year 2011-12. However the

exact date for change in graphical warning is awaited.

Leaf tobacco exports have been growing over the last several years and your Company's thrust on this area will continue.

On behalf of the Board,

R.V.K.M. SURYARAU
Chairman

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



ANNEXURE TO THE DIRECTORS' REPORT

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, 2011.

A. CONSERVATION OF ENERGY

1. Energy conservation measures taken:

- i. DRF modification, continuous monitoring the frequency
 - ii. VFDs for GD vacuum pumps, Rag drier.
 - iii. LED, Natural Sky lighting.
 - iv. Individual Vacuum pumps for Makers, ITM Packers
 - v. Review of energy daily dept. + M/c wise
 - vi. Solenoid valve for Box filling compressed air line
 - vii. Auto shut off for GD packers' vacuum pumps, Fans of MK9/MAX
 - viii. PMD DRF bags modification
 - ix. Energy Audit, Compressed air utilization audit, Electrical safety & systems
 - x. Energy conservation awareness programme conducted for 282 workmen.
2. Additional investments and proposals, if any, being implemented for reduction of consumption of energy:
- i. LED lighting

- ii. Natural light in PMD & canteen
- iii. Energy efficient fans for SMD DRF
- iv. VFDs for filter packing machines
- v. Awareness program among employees towards energy conservation
- vi. Audit by external party carried out for the assessment and further improvement
- vii. Effective monitoring of the energy consumption area wise

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

Achieved on account of the above:

- i. Reduction of electrical energy consumption/m by 5%

B. TECHNOLOGY ABSORPTION Research & Development (R&D)

1. Specific areas in which R&D carried out by the Company:
 - i. Developed new blends as per domestic and export requirements
 - ii. Developed new brands in various segments as per market requirements/general consumer survey feedback
 - iii. Worked closely with international suppliers of tobacco flavors and

developed new flavors for new blends

- iv. Conducted Product Space Mapping (PSM) for RSFT & KSFT brands, utilized findings in development of new blends
- v. Conducted OMEGA smoking panel refresher course for 16 internal smoking panelists, which plays a vital role in product development
- vi. Introduced new technology at PMD & SMD to improve finished product quality consistency
- vii. Introduced one more Quality Test Module (QTM) stalk in SMD, to facilitate machine operators to test quality parameters more frequently and carry out necessary quality corrections
- viii. Tracked Retail Quality Index (RQI) and machine on line data and carried out quality based maintenance
- ix. Trained 568 workmen and gave inputs with respect to technical skills development and product quality awareness, evaluation and improvement
- x. Conducted Product Knowledge workshop for 44 key workmen
- xi. Trained 86 key workmen of various production lines on SQC techniques, for better understanding of statistical quality data generated on line



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

- i. Launched new brands/variants in domestic market
- ii. Met export requirements from time to time
- iii. Revalidated ISO 17025 certification to R&D laboratory by National Accreditation Board for Testing & Calibration Laboratories (NABL), Department of Science & Technology, Government of India, New Delhi

3. Future plan of action:

- i. Development of new blends & brands as per domestic and export market requirements
- ii. Conduct PSM for KSFT & RSFT segments of brands and use findings for product development
- iii. Track RQI data and improve on quality parameters
- iv. To give further technical inputs to technical staff and workmen to improve product quality, utilization of tobacco and non tobacco materials

4. Expenditure on R&D:	₹ Lakhs
a. Capital	44.88
b. Recurring	331.61
TOTAL	<u>376.49</u>

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

Gross Turnover	0.29%
Net Turnover	0.65%

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

1. Activities relating to exports:

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

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	: 857.6
Spare Parts	: 59.7
Capital Goods	: 2043.8
Overseas Travel, Advertisement & Subscriptions, etc.	: 76.8
Dividends	: 1489.8
	<u>4527.7</u>
Earned:	₹ Lakhs
Cigarettes (CIF, C&F & FOB)	: —
Tobacco (CIF, C&F & FOB)	: 14863.7
Cut Tobacco (CIF, C&F & FOB)	: 232.9
	<u>15096.6</u>

On behalf of the Board,

R.V.K.M. SURYARAU
Chairman

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



ANNEXURE TO THE DIRECTORS' REPORT

Auditors' Certificate regarding compliance of the conditions of Corporate Governance under Clause 49 of the Listing Agreement

To the Members of
VST Industries Limited

We have examined the compliance of conditions of Corporate Governance by VST Industries Limited ("the Company" or "VST"), for the year ended 31st March, 2011, 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's Registration Number: 301056E
Chartered Accountants

N. K. VARADARAJAN
Partner
Membership No. 90196

Hyderabad, 13th April, 2011.



REPORT ON CORPORATE GOVERNANCE

As per Clause 49 of the Listing Agreement entered into with stock exchanges, the Directors present the Company's Report on Corporate Governance for the year ended 31st March, 2011.

1. COMPANY'S CORPORATE GOVERNANCE PHILOSOPHY

Your Company has a strong legacy of fair, transparent and ethical governance practices and endeavours to improve upon these aspects on an ongoing basis and adopts innovative approaches. Through its process and independence of functioning, the Board of Directors of your Company provides effective leadership to the Company and its management for achieving sustained growth which enhances the stakeholder value.

2. I. Board of Directors

(A) Composition of Board

As on 31st March, 2011, 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 composition of your Board and the number of outside directorships held and number of memberships/chairmanships of board committees of other companies held by each of the Directors -

Name of the Director	Position	Relationship with other Directors	No. of outside directorships held	No. of memberships/ chairmanships of board committees of other companies
Mr. A. Basu ¹	Chairman - Independent Non-Executive Director	None	–	–
Mr. Raymond S. Noronha	Managing Director	None	1	–
Air Chief Marshal I.H. Latif P.V.S.M. (Retd.) ²	Independent Non-Executive Director	None	–	–
Mr. T. Lakshmanan	Independent Non-Executive Director	None	–	–
Mr. R.V.K.M. Suryarau ³	Chairman - Independent Non-Executive Director	None	–	–
Mr. N. Sai Sankar	Deputy Managing Director	None	1	–
Mr. S. Thirumalai	Independent Non-Executive Director	None	–	–
Mr. Peter G. Henriques ⁴	Non-Executive Director	None	–	–
Mr. Milind Anna Kharat ⁵	Independent Non-Executive Director	None	1	–

¹ Ceased to be Non-Executive Director & Chairman with effect from 15th October, 2010.

² Ceased to be Non-Executive Director with effect from 16th April, 2010.

³ Elected as Chairman of the Board with effect from 15th October, 2010.

⁴ Represents equity interest of promoter group - British American Tobacco, U.K.

⁵ Represents equity interest of General Insurers' (Public Sector) Association of India.



None of the Independent Non-Executive Directors has any pecuniary relationship or transactions with the Company, its promoters, its senior management or its subsidiary 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, 2011, four meetings of the Board were held on 15th April, 2010, 16th July, 2010, 14th October, 2010 and 13th January, 2011.

The table below gives the number of Board Meetings held, attendance of Directors at Board Meetings and at the Annual General Meeting (AGM) for the year ended 31st March, 2011:

Name of the Director	No. of Board Meetings		Attendance at last AGM held on 16th July, 2010
	Held	Attended	
Mr. A. Basu ¹	4	3	Yes
Mr. Raymond S. Noronha	4	4	Yes
Air Chief Marshal I.H. Latif P.V.S.M. (Retd.) ²	4	1	NA
Mr. T. Lakshmanan	4	4	Yes
Mr. R.V.K.M. Suryarau	4	4	Yes
Mr. N. Sai Sankar	4	4	Yes
Mr. S. Thirumalai	4	3	Yes
Mr. Peter G. Henriques	4	4	Yes
Mr. Milind Anna Kharat	4	4	Yes

¹ Ceased to be a Non-Executive Director & Chairman with effect from 15th October, 2010.

² Ceased to be a Non-Executive Director with effect from 16th April, 2010.

- 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;
 - Information on recruitment and remuneration of senior officers just below the Board level;
 - Contracts in which Directors are interested;
 - 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;



- Significant development on the human resources and industrial relations front;
- 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 delays in share transfer, if any;
- Minutes of meetings of subsidiary company.

The Board of Directors of your Company is routinely presented with all information under the above heads whenever applicable and materially significant. 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 or are tabled before the appropriate Committees of the Board.

- 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 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.

(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].

Declaration

As provided under Clause 49 of the Listing Agreement with the stock exchanges, the Board Members and the senior management personnel have affirmed compliance with the Code of Conduct for the year ended 31st March, 2011.

For VST INDUSTRIES LIMITED

RAYMOND S. NORONHA

Managing Director

Hyderabad, 13th April, 2011

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, 2011 four Audit Committee meetings were held on 14th April, 2010, 15th July, 2010, 13th October, 2010 and 12th January, 2011.

Name of the Director	Position	Number of Meetings	
		Held	Attended
Mr. T. Lakshmanan ¹	Chairman	4	3
Mr. R.V.K.M. Suryarau ²	Member	4	4
Air Chief Marshal I.H. Latif P.V.S.M. (Retd.) ³	Member	4	1
Mr. A. Basu ⁴	Member	4	3
Mr. S. Thirumalai ⁵	Member	4	2

¹ Appointed as Member with effect from 15th July, 2010 and as Chairman with effect from 12th January, 2011.

² Ceased to be Chairman with effect from 12th January, 2011.

³ Ceased to be Member with effect from 16th April, 2010.

⁴ Ceased to be Member with effect from 15th October, 2010.

⁵ Appointed as Member with effect from 15th July, 2010.



All the members of the Audit Committee are independent directors.

Mr. N. Sai Sankar, who is the Deputy Managing Director & Secretary, acts as the Secretary to the Audit Committee.

The Chairman of the Audit Committee was present at the Annual General Meeting of the Company held on 16th July, 2010.

(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;
- 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;
- 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;
 - ❖ 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; and
- looking into reasons for substantial defaults in payments to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors, if any.

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, 2011 four meetings of Shareholders Grievance Committee were held on 14th April, 2010, 15th July, 2010, 13th October, 2010 and 12th January, 2011.

Name of the Director	Position	Number of Meetings	
		Held	Attended
Mr. S. Thirumalai ¹	Chairman	4	2
Mr. R.V.K.M. Suryarau	Member	4	4
Mr. Raymond S. Noronha	Member	4	4
Mr. N. Sai Sankar	Member	4	4
Mr. T. Lakshmanan ²	Member	4	3
Air Chief Marshal I.H. Latif P.V.S.M.(Retd.) ³	Member	4	1

¹ Appointed as Chairman with effect from 12th January, 2011.

² Appointed as Member and Chairman with effect from 15th July, 2010 and subsequently ceased to be a Chairman with effect from 12th January, 2011.

³ Ceased to be a Member & Chairman with effect from 16th April, 2010.

Name, designation and address of the Compliance Officer:

Mr. N. Sai Sankar
Company Secretary
VST Industries Limited
1-7-1063/1065, Azamabad
Hyderabad - 500 020
Tel : +91 40 2761 0478
Fax : +91 40 2760 6649
Email : saisankar@vstind.com

Number of shareholder complaints received, number not solved to the satisfaction of the shareholder and number of pending transfers:

Nature of Complaints/queries	Received	Attended to
Non-receipt of share certificates - transfers	Nil	Nil
Transmission of shares	59	59
Non-receipt of dividend warrants	26	26
Non-receipt of annual report	7	7
Letters from stock exchanges/SEBI	2	2



The Shareholders/Investors complaints and other complaints are normally responded to within a period of 7 working days 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. During the year, the subsidiary company, VST Distribution, Storage & Leasing Company Private Limited has been merged with holding company pursuant to the orders passed by the Hon'ble High Court of Andhra Pradesh with effect from 1st April, 2010 being the appointed date in the Scheme of Arrangement.

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, 2011.

The details of related party transactions are disclosed in Note IV on Schedule 19 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 notified under Section 211 (3C) of the Companies Act, 1956. 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

No separate remuneration committee has been constituted. The remuneration of Executive Directors is considered by the Committee of Directors 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 Members' approval.

**Details of remuneration paid/payable to the Directors for the financial year ended 31st March, 2011**

₹

Name	Position	Salary	Benefits & Contributions to Provident/Pension & Other Funds	Performance Linked Bonus	Commission	Sitting Fees	Total
Mr. A. Basu ¹	Chairman - Independent Non-Executive Director	–	–	–	5,39,500	81,000	6,20,500
Mr. R.S. Noronha	Managing Director	1,34,10,600	97,74,889	2,01,15,900	–	–	4,33,01,389
Mr. N. Sai Sankar	Deputy Managing Director & Secretary	82,87,200	50,01,723	1,24,30,800	–	–	2,57,19,723
Air Chief Marshal I.H. Latif P.V.S.M. (Retd.) ²	Independent Non-Executive Director	–	–	–	20,500	33,000	53,500
Mr. T. Lakshmanan	Independent Non-Executive Director	–	–	–	4,83,500	1,11,000	5,94,500
Mr. R.V.K.M. Suryarau ³	Chairman - Independent Non-Executive Director	–	–	–	7,30,000	1,32,000	8,62,000
Mr. S. Thirumalai	Independent Non-Executive Director	–	–	–	4,87,500	78,000	5,65,500
Mr. Peter G. Henriques	Non-Executive Director	–	–	–	^	24,000	24,000
Mr. Milind Anna Kharat	Independent Non-Executive Director	–	–	–	@	@	–

¹ Ceased to be a Non-Executive Director & Chairman with effect from 15th October, 2010.

² Ceased to be Non-Executive Director with effect from 16th April, 2010.

³ Elected as Chairman with effect from 15th October, 2010.

^ ₹1,19,500 Commission paid to British American Tobacco Company, U.K. represented by its Director Mr. Peter G. Henriques. Waived entitlement to sitting fees with effect from 14th October, 2010.

@ ₹48,000 Sitting Fees and ₹1,19,500 Commission paid to United India Insurance Company Limited represented by its Director Mr. Milind Anna Kharat.

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 and perquisite value of white goods provided.

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 significant material 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 and these are calculated as per the provisions of Companies Act, 1956 and the rules made thereunder. The method of calculation of Directors' remuneration is disclosed separately in the financial statements.



The Non-Executive Directors are paid sitting fees for attending each meeting of the Board or its Committee as per the details given below:

	Rupees
Board Meeting	12,000
Audit Committee	9,000
Shareholders Grievance Committee	6,000
Committee of Directors	6,000

Members of the Company have approved payment of commission up to a ceiling of ₹25 lakhs for all Non-Executive Directors or such amount as may be determined by the Board within the ceiling of ₹25 lakhs to be divided as per Board's discretion w.e.f. 1st April, 2009 for each of the five financial years of the Company.

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

As at 31st March, 2011 the number of shares held by Non-Executive Directors is as follows:

Mr. A. Basu ¹	900 equity shares of ₹10 each
Mr. S. Thirumalai	25 equity shares of ₹10 each

¹ Ceased to be a Director & Chairman of the Company with effect from 15th October, 2010.

There are no convertible instruments issued by the Company and hence none held by the Non-Executive Directors during the year ended 31st March, 2011.

(A) Management

- The Management Discussion and Analysis is part of Directors' Report to the Members and provided elsewhere in the Annual Report.
- For the year ended 31st March, 2011 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 is listed so as to display the same on its own website. During the year, there were no presentations made by the Company to analysts. The Company has been having conference calls on financial results with investors/analysts, at periodical intervals.
- To expedite the process of share transfers, your Board has delegated the above power to Registrar and Transfer Agents - M/s. Sathguru Management Consultants Private Limited.

VI. CEO/CFO Certification

The CEO/CFO certification for the year ended 31st March, 2011 has been enclosed at the end of this report. Similarly, the CEO/CFO also give 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 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. Non-mandatory requirements have not been adopted and are being reviewed for implementation.



3. GENERAL BODY MEETINGS

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

Year	Venue	Date	Time
2009-10	Hotel Taj Krishna, Banjara Hills, Hyderabad	16.7.2010	10.30. a.m.
2008-09	Hotel Taj Krishna, Banjara Hills, Hyderabad	16.7.2009	10.30. a.m.
2007-08	Hotel Taj Krishna, Banjara Hills, Hyderabad	17.7.2008	10.30. a.m.

The following Special Resolutions were passed by the Members at the last three Annual General Meetings:

Annual General Meeting held on 16th July, 2010

- Re-appointment of Wholetime Director & Secretary and payment of remuneration

Annual General Meeting held on 16th July, 2009

- Redesignation of Wholetime Director & Secretary and payment of adhoc performance payment
- Payment of commission to Non Wholetime Directors
- Alteration of Article 93 of the Articles of Association of the Company

Annual General Meeting held on 17th July, 2008 - No special resolution was passed.

No special resolution requiring a postal ballot under Section 192A of the Companies Act, 1956, was placed before the last Annual General Meeting. Similarly, no special resolution requiring a postal ballot is being proposed at the ensuing Annual General Meeting.

4. MEANS OF COMMUNICATION

- The quarterly, half yearly and annual results are published in Business Standard and in a vernacular newspaper i.e., Andhra Prabha. The results are also posted on the Company's website viz., www.vsthyd.com. Apart from the above, the Company also provides the above information to stock exchanges 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 the 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

Thursday, 14th July, 2011 at 10.30 a.m. at Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad - 500 034, Andhra Pradesh.

Financial Calendar: 2011-12 (Tentative)

First Quarter Results	July, 2011
Second Quarter and Half Yearly Results	October, 2011
Third Quarter Results	January, 2012
Annual Results	April, 2012



Dates of Book Closure

12th July, 2011 to 14th July, 2011 (both days inclusive)

Dividend Payment Date

11th August, 2011

Listing on Stock Exchanges with Stock Code

S.No.	Name of the Stock Exchange	Stock Code
1	Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001	509966
2	National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051	VSTIND

Listing Fees for the year 2011-12 has been paid to the above stock exchanges.

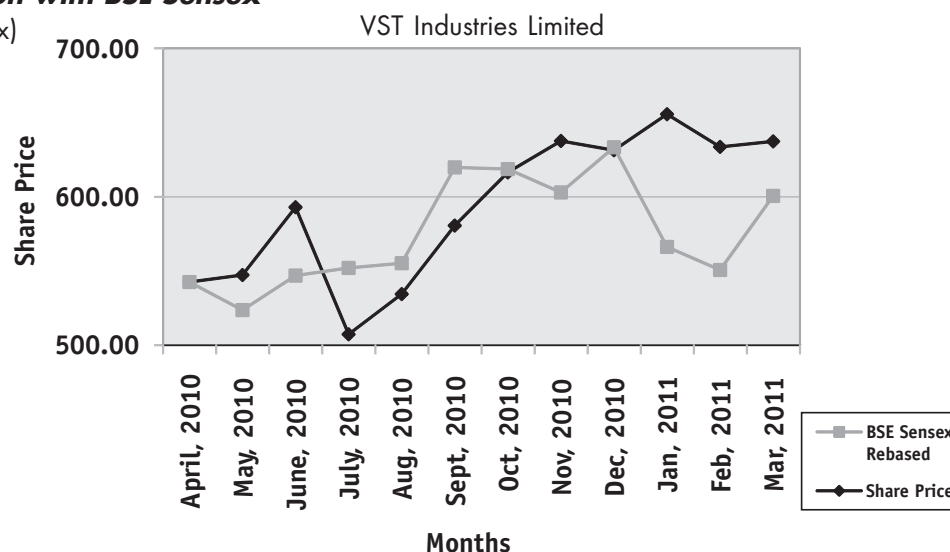
Market Price Data: High/Low during each month in the last financial year (2010-11)

₹

Period	Bombay Stock Exchange Limited		National Stock Exchange of India Limited	
	High	Low	High	Low
April, 2010	570.00	522.50	574.20	508.00
May, 2010	558.95	521.85	558.00	501.10
June, 2010	613.00	530.00	631.00	475.00
July, 2010	617.00	500.55	616.90	501.10
August, 2010	580.00	501.00	555.00	505.00
September, 2010	589.95	522.10	580.50	511.25
October, 2010	647.00	549.90	646.00	568.00
November, 2010	649.90	593.20	649.25	595.10
December, 2010	648.20	601.00	642.00	591.00
January, 2011	674.60	611.00	683.50	611.15
February, 2011	658.95	570.00	656.90	568.65
March, 2011	664.95	607.00	655.00	605.00

Performance in comparison with BSE Sensex

(based on closing price/Sensex)





CONTACT INFORMATION

Registrar and Transfer Agents

As a VST Shareholder, you are encouraged to contact the Registrars for all your share related services and queries whose address is given below:

M/s. Sathguru Management Consultants Private Limited

Plot No. 15, Hindi Nagar, Punjagutta,

Hyderabad - 500 034

Phone: +91 40 3016 0333

Fax : +91 40 4004 0554

Email : sta@sathguru.com

Contact person: Mr. R. Chandra Sekar, Senior Divisional Manager, Capital Markets

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 Deputy Managing Director & Secretary. 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 3 working days from the date of receipt of request. There are no pending share transfers as at 31st March, 2011.

Reconciliation of Share Capital Audit

For each quarter of the financial year 2010-11, 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 a copy of the same is filed with BSE and NSE.

Categories of shareholding as on 31st March, 2011

Category	Number of Shares Held	Percentage of Shareholding
Promoters and Associates	49,65,902	32.16
Foreign Institutional Investors	88,782	0.57
Insurance Companies	9,52,524	6.17
Mutual Funds	8,68,162	5.62
Nationalised banks and other banks	15,720	0.10
NRIs and OCBs	1,15,278	0.75
Bodies Corporate	59,09,966	38.27
Indian Public and Others	25,25,586	16.36
TOTAL	<u>1,54,41,920</u>	<u>100.00</u>

**Distribution of shareholding as on 31st March, 2011**

Slab	No. of Shares	%	No. of Shareholders	%
1 - 500	10,40,513	6.74	10,738	91.33
501 - 1000	4,07,290	2.64	561	4.77
1001 - 2000	3,21,902	2.08	233	1.98
2001 - 3000	2,48,150	1.61	101	0.86
3001 - 4000	97,725	0.63	28	0.24
4001 - 5000	97,066	0.63	22	0.19
5001 - 10000	2,47,079	1.60	35	0.30
10001 and above	1,29,82,195	84.07	39	0.33
Total	1,54,41,920	100.00	11,757	100.00
Physical Mode	58,60,874	37.95	4,429	37.67
Demat Mode	95,81,046	62.05	7,328	62.33

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, 2011, 95,81,046 Equity Shares of the Company constituting 62.05% 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 one working day. 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 2011-12 has been paid to NSDL and CDSL, the depositories.

The Company's shares are regularly traded both in Bombay Stock Exchange 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
Andhra Pradesh

6. AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

As required by Clause 49 of the Listing Agreement with the stock exchanges, the statutory auditor's 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 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 2002-03 viz., Dividend No. 168 has been transferred to Investor Education and Protection Fund Account on 28th August, 2010.

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	Amount of Dividend ₹	Amount of Unpaid Dividend as on 31.03.2011 ₹	Due for transfer to IEPF on
2003-04	169	22.07.2004	9,26,51,520	12,53,946	26.08.2011
2004-05	170	28.07.2005	19,30,24,000	23,95,800	30.08.2012
2005-06	171	27.07.2006	19,30,24,000	26,17,668	31.08.2013
2006-07	172	18.07.2007	30,88,38,400	39,76,900	23.08.2014
2007-08	173	17.07.2008	30,88,38,400	39,06,580	22.08.2015
2008-09	174	16.07.2009	46,32,57,600	59,31,900	21.08.2016
2009-10	175	16.07.2010	46,32,57,600	64,59,060	21.08.2017

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 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/send the following to the Registrar to facilitate better service:

- any change in their address/mandate/bank details; and
- particulars of their bank account - name of the bank, branch with complete address and account number which will be printed on the dividend warrants to prevent fraudulent encashment.

Members holding shares in dematerialised form are requested to notify the following to their Depository Participant:

- any change in their address/mandate/bank details; and
- particulars of bank account including account number, MICR codes of their bank with complete address.



NATIONAL ELECTRONIC CLEARING SERVICE (NECS) FACILITY

The Company provides the facility of remittance of dividend through NECS to Members at various locations, including the following cities:

Agra, Ahmedabad, Allahabad, Amritsar, Asansol, Aurangabad, Belgaum, Bengaluru, Bhilwara, Bhopal, Bhubaneswar, Bijapur, Burdwan, Calicut, Chandigarh, Chennai, Coimbatore, Davangere, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Erode, Gadag, Gorakhpur, Guwahati, Gwalior, Haldia, Hubli, Hyderabad, Indore, Jabalpur, Jaipur, Jalandhar, Jammu, Jamnagar, Jamshedpur, Jodhpur, Kakinada, Kanpur, Kochi, Kolhapur, Kolkata, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Nashik, Nellore, Panaji, Patna, Puducherry, Pune, Raipur, Rajkot, Ranchi, Salem, Shimla, Shimoga, Siliguri, Solapur, Surat, Thiruvananthapuram, Tiruchirapalli, Tirupati, Tirupur, Trichur, Udaipur, Udupi, Vadodara, Varanasi, Vijayawada and Visakhapatnam.

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 under the section Investor Relations - NECS/Bank Mandate. Members holding shares in demat form are requested to update their bank accounts with their respective depository participants.

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

Trade World, 4th Floor, Kamala Mills Compound,
Senapati Bapat Marg, Lower Parel,
Mumbai - 400 013
Phone : +91 22 2499 4200
Fax : +91 22 2497 2993, 2497 6351
e-mail : info@nsdl.co.in
website : 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
e-mail : investors@cdslindia.com
website : 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 E-mail ID: investors@vstind.com

NOMINATION FACILITY

The Companies (Amendment) Act, 1999 has introduced through Section 109A, the facility of nomination to Members which is mainly useful for 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 can be obtained from Registrars - Sathguru Management Consultants Private



Limited at the address mentioned above or can be downloaded from the Company's website 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

SEBI vide its Circular No. CIR/CFD/DIL/10/2010 dated 16th December, 2010 amended the Listing Agreement entered into with Stock Exchanges wherein under Clause 5A, the Company is required to open an unclaimed suspense account with demat participant and transfer all the unclaimed share certificates of Members after giving three reminders. Accordingly, your Company has sent three reminders to those Members who have unclaimed the shares issued pursuant to the Bonus issue made in the year 1989 and 1991 which were returned undelivered.

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

	No. of shareholders	No. of shares
Outstanding at the beginning of the year	385	47,040
Members approached for transfer of shares	54	6,291
Members to whom shares were transferred	54	6,291
Outstanding shares lying at the end of the year	331	40,749

The Members who have not claimed the shares still from the above returned undelivered cases are requested to contact the Registrar - Sathguru Management Consultants Private Limited at the address given above.



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

We, Raymond S. Noronha, Managing Director and N. Sai Sankar, Deputy Managing Director & Secretary of VST Industries Limited, to the best of our knowledge and belief, certify that:

1. We have reviewed the Balance Sheet and Profit and Loss Account and all its schedules and notes on accounts as well as the Cash Flow Statements for the year ended 31st March, 2011.
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.

RAYMOND S. NORONHA
Managing Director

N. SAI SANKAR
Deputy Managing Director & Secretary

Hyderabad, 13th April, 2011



REPORT OF THE AUDITORS

To the Members of
VST Industries Limited

1. We have audited the attached Balance Sheet of VST Industries Limited ("the Company"), as at 31st March, 2011, the related Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (together the "Order") issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') 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.
4. Further to our comments in the Annexure referred to in paragraph 3 above, 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 purposes 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, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
 - (e) On the basis of written representations received from the Directors, as on 31st March, 2011, and taken on record by the Board of Directors, none of the Directors is disqualified as on 31st March, 2011, from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i. in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011;
 - ii. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

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

N. K. VARADARAJAN
Partner

Hyderabad, 13th April, 2011. Membership No. 90196



ANNEXURE TO THE AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the Members of VST Industries Limited on the financial statements as at and for the year ended 31st March, 2011.]

1. (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
(b) The fixed assets of the Company 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 of the Company has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
(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.
2. (a) The inventory of the Company 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.
3. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
(b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items of fixed assets purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, 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, 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.
5. According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act, during the year to be entered in the register required to be maintained under that section. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
6. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA and other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information and explanations given to us, no Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other tribunal on the Company in respect of the aforesaid deposits.
7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
8. The Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for any of the products of the Company.
9. (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, cess 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 income tax, sales tax, wealth tax, service tax, customs duty, excise duty and cess, which have not been deposited on account of a dispute (without considering cases wherein the disputed dues have been deposited under protest) are as follows:



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	129.14	April 1996 to March 2002	Hon'ble Supreme Court of India
		177.61	April 2002 to September 2010	Same grounds as the above matter pending at Hon'ble Supreme Court of India
	Service tax credit ineligibility	2.48	February 2008 to July 2008	Tribunal
		3.01	April 2008	Tribunal
	Excise Duty	1.31	April 2005 to March 2010	Commissioner (Appeal)
		1029.54	January 2005 to November 2009	Order received on April 06, 2011 - Appeal yet to be filed
Andhra Pradesh General Sales Tax Act, 1957	Sales tax dues relating to dispute on applicable rate of tax	14.39	1999-2000	Sales Tax Appellate Tribunal
Income Tax Act, 1961	Income tax relating to disallowance of claims	344.05	1998-1999	Hon'ble High Court of Andhra Pradesh

10. The Company has no accumulated losses as at 31st March, 2011, and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
11. According to the records of the company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank. The Company has not issued any debentures during the year.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the Company.
14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
15. 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.
16. The Company has not obtained any term loans.
17. On the basis of an overall examination of the Balance Sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
18. 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.
19. The Company has not issued any debentures during the year.
20. The Company has not raised any money by public issues during the year.
21. 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 fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

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

N. K. VARADARAJAN
Partner

Hyderabad, 13th April, 2011. Membership No. 90196



BALANCE SHEET AS AT 31ST MARCH, 2011

VST Industries Limited

₹ in Lakhs

	Schedule	2011	2010
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Capital	1	1544.19	1544.19
(b) Reserves and Surplus	2	<u>24899.74</u>	<u>23193.83</u>
TOTAL		<u>26443.93</u>	<u>24738.02</u>
II. APPLICATION OF FUNDS			
1. Fixed Assets			
(a) Gross Block	3	30362.34	27126.49
(b) Less: Depreciation		<u>15120.26</u>	<u>13867.29</u>
(c) Net Block		15242.08	13259.20
(d) Capital Work-in-Progress		<u>689.84</u>	<u>680.79</u>
		15931.92	13939.99
2. Investments	4	17099.23	19030.82
3. Deferred Tax - Net	5	1388.20	1252.92
4. Current Assets, Loans and Advances			
(a) Inventories	6	23556.97	17907.55
(b) Sundry Debtors	7	1276.62	1450.95
(c) Cash and Bank Balances	8	2896.99	637.04
(d) Other Current Assets	9	22.87	16.11
(e) Loans and Advances	10	<u>1663.73</u>	<u>1455.10</u>
		<u>29417.18</u>	<u>21466.75</u>
Less: Current Liabilities and Provisions			
(a) Liabilities	11	29316.46	25550.47
(b) Provisions	12	<u>8076.14</u>	<u>5401.99</u>
		<u>37392.60</u>	<u>30952.46</u>
Net Current Assets		<u>(7975.42)</u>	<u>(9485.71)</u>
TOTAL		<u>26443.93</u>	<u>24738.02</u>
Capital Expenditure Commitments	13		
Notes to Balance Sheet	14		

The schedules referred to above and the Statement on Significant Accounting Policies form an integral part of the Balance Sheet.

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, 13th April, 2011.

On behalf of the Board,

R.V.K.M. SURYARAU Chairman

R. S. NORONHA Managing Director

N. SAI SANKAR Deputy Managing Director & Secretary

Hyderabad, 13th April, 2011.



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2011

VST Industries Limited

₹ in Lakhs

	Schedule	2011	2010
I. Income			
Sales (Gross)		139653.74	112541.66
Less: Excise Duty		81810.52	65325.25
Sales (Net)		57843.22	47216.41
Other Income	15	2324.39	3336.83
		<u>60167.61</u>	<u>50553.24</u>
II. Expenditure			
Raw Materials, Purchases and Stock-in-Trade	16	28534.21	26184.46
Manufacturing, Selling, Distribution and Administration Expenses, etc.	17	15665.93	12787.14
Depreciation and Impairment		2441.65	1786.51
		<u>46641.79</u>	<u>40758.11</u>
III. Profit before Taxation and Exceptional Item		13525.82	9795.13
IV. Exceptional Item - (Refer note (II) on Schedule 19)		—	(1241.00)
V. Profit before Taxation		13525.82	8554.13
Taxation	18	4024.77	2349.06
VI. Profit after Taxation		9501.05	6205.07
Balance Brought Forward [including ₹241.61 Lakhs taken over on amalgamation (Refer note (IV) on Schedule 14)]		8620.17	8200.48
VII. Profit available for Appropriation		<u>18121.22</u>	<u>14405.55</u>
VIII. Appropriations			
Transfer to General Reserve		975.00	625.00
Dividends on			
Ordinary Shares - Final (Proposed)		6948.86	4632.58
Dividend Tax thereon		1127.28	769.41
		<u>9051.14</u>	<u>6026.99</u>
IX. Balance Carried Forward		<u>9070.08</u>	<u>8378.56</u>
Basic and diluted Earnings Per Share (Face Value ₹10 each) - ₹		61.53	40.18
Notes to Profit and Loss Account	19 & 20		

The schedules referred to above and the Statement on Significant Accounting Policies form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account 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, 13th April, 2011.

On behalf of the Board,

R.V.K.M. SURYARAU Chairman
R. S. NORONHA Managing Director
N. SAI SANKAR Deputy Managing Director & Secretary
Hyderabad, 13th April, 2011.



CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2011

VST Industries Limited

₹ in Lakhs

	2011	2010
A. Cash flow from operating activities		
Net Profit Before Taxation	13525.82	8554.13
Adjustments:		
Depreciation and Impairment (Net)	2441.65	1786.51
Liabilities no longer required written back	(135.90)	(324.71)
(Profit)/Loss on Sale of Fixed Assets (Net)	(55.70)	(11.02)
Unrealised (Gain)/Loss on exchange (Net)	116.44	(442.00)
Interest Income on Loans and Deposits etc. (Gross)	(203.17)	(232.98)
Interest Paid	0.04	2.73
Income from Long Term Investments	(2.54)	(2.41)
Income from Current Investments	(542.13)	(323.98)
(Profit)/Loss on Sale of Investments (Net)	(661.62)	(1312.46)
Operating Profit before Working Capital changes	14482.89	7693.81
Adjustments for:		
Trade and Other Receivables	153.41	(1006.58)
Inventories	(5649.42)	(4481.30)
Trade and Other Payables	3785.28	5914.72
Cash generated from operations	12772.16	8120.65
Direct Taxes Paid	(4293.71)	(2865.40)
Net cash from operating activities	8478.45	5255.25
B. Cash flow from investing activities		
Purchase of Fixed Assets	(4378.26)	(2716.03)
Sale of Fixed Assets	117.49	11.10
Purchase of Investments	(232056.32)	(189719.01)
Sale/Redemption of Investments	234759.01	191296.71
Income from Long Term Investments	2.54	2.41
Income from Current Investments	542.13	323.98
Interest Income on Loans and Deposits etc. (Gross)	196.41	266.51
Net cash used in investing activities	(817.00)	(534.33)
C. Cash flow from financing activities		
Finance lease payments	–	(31.40)
Interest - Others	(0.04)	(2.73)
Dividends paid	(5401.99)	(5419.88)
Net cash used in financing activities	(5402.03)	(5454.01)
Net Increase/(Decrease) in cash and cash equivalents	2259.42	(733.09)
Opening cash and cash equivalents	637.04	1370.13
Cash and cash equivalents as at 1st April, 2010 of VST Distribution, Storage and Leasing Company Private Limited (Refer Note IV on Schedule 14)	0.53	–
Closing cash and cash equivalents	2896.99	637.04

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, 13th April, 2011.

On behalf of the Board,

R.V.K.M. SURYARAU Chairman

R. S. NORONHA Managing Director

N. SAI SANKAR Deputy Managing Director & Secretary

Hyderabad, 13th April, 2011.



SCHEDULES TO THE BALANCE SHEET

VST Industries Limited

₹ in Lakhs

	2011	2010
1. Capital		
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>
ISSUED AND SUBSCRIBED		
1,54,41,920 Ordinary Shares of ₹10 each fully paid up	<u>1544.19</u>	<u>1544.19</u>
OF THE ABOVE ORDINARY SHARES:		
81,065 Ordinary Shares of ₹10 each were partly paid for in cash to the extent of ₹6,94,843 and partly paid to the extent of ₹1,15,807 for a consideration other than cash as Bonus Shares by Capitalisation of Reserves	8.11	8.11
9,18,935 Ordinary Shares of ₹10 each were partly paid to the extent of ₹1,54,286 pursuant to an agreement without payment being received in cash and partly paid to the extent of ₹90,35,064 for a consideration other than cash as Bonus Shares by Capitalisation of Reserves	91.89	91.89
1,26,71,920 Ordinary Shares of ₹10 each were allotted for a consideration other than cash as Bonus Shares by Capitalisation of Reserves	<u>1267.19</u>	<u>1267.19</u>
	<u>1367.19</u>	<u>1367.19</u>
2. Reserves and Surplus		
CAPITAL REDEMPTION RESERVE		
As at the commencement of the year	1000.00	1,000.00
Add: Adjustment on Amalgamation (Refer note IV on Schedule 14)	<u>0.25</u>	<u>–</u>
	1000.25	1000.00
GENERAL RESERVE		
As at the commencement of the year	13416.09	12791.09
Add: Adjustment on Amalgamation (Refer note IV on Schedule 14)	49.20	–
Add - Transfer from Profit and Loss Account	<u>975.00</u>	<u>625.00</u>
	14440.29	13416.09
REVALUATION RESERVE		
As at the commencement of the year	399.18	409.53
Transfer to Profit and Loss Account		
- Depreciation (Refer note IV on Schedule 3)	<u>10.06</u>	<u>10.35</u>
	389.12	399.18
PROFIT AND LOSS ACCOUNT - BALANCE	9070.08	8378.56
	<u>24899.74</u>	<u>23193.83</u>



₹ in Lakhs

	Goodwill & Trade Marks	Time Share Rights	Land Freehold	Buildings Freehold	Leasehold Property	Plant & Machinery	Furniture & Fixtures	Motor Vehicles	Total 2011	Total 2010
3. Fixed Assets										
COST/REVALUATION										
As at 1st April, 2010	5.81	—	328.12	922.12	1233.78	23614.55	714.79	307.32	27126.49	24921.29
Cost taken over consequent to Amalgamation (Refer note IV on Schedule 14)	—	172.00	—	—	—	—	—	—	172.00	—
Additions	—	—	647.25	—	2.39	3628.25	33.34	57.98	4369.21	2577.20
	5.81	172.00	975.37	922.12	1236.17	27242.80	748.13	365.30	31667.70	27498.49
Disposals	—	—	—	—	—	1242.55	12.20	50.61	1305.36	372.00
GROSS BLOCK										
As at 31st March, 2011	5.81	172.00	975.37	922.12	1236.17	26000.25	735.93	314.69	30362.34	27126.49
DEPRECIATION/ADJUSTMENTS										
As at 1st April, 2010	5.81	—	—	324.27	1078.20	11785.79	487.67	185.55	13867.29	12377.34
Depreciation taken over consequent to Amalgamation (Refer note IV on Schedule 14)	—	44.84	—	—	—	—	—	—	44.84	—
Impairment (Refer note VI) For the year	—	127.16	—	—	—	—	—	—	127.16	—
	—	—	—	32.80	24.06	2096.16	103.42	68.11	2324.55	1796.86
	5.81	172.00	—	357.07	1102.26	13881.95	591.09	253.66	16363.84	14174.20
Adjustment on disposals	—	—	—	—	—	1199.73	12.13	31.72	1243.58	306.91
Depreciation as at 31st March, 2011	5.81	172.00	—	357.07	1102.26	12682.22	578.96	221.94	15120.26	13867.29
NET BLOCK										
As at 31st March, 2011	—	—	975.37	565.05	133.91	13318.03	156.97	92.75	15242.08	13259.20
Capital Work-in-Progress	—	—	—	—	—	—	—	—	689.84	680.79
Per Balance Sheet 31st March, 2011	—	—	975.37	565.05	133.91	13318.03	156.97	92.75	15931.92	13939.99
Per Balance Sheet 31st March, 2010	—	—	328.12	597.85	155.58	11828.76	227.12	121.77		

NOTES:

- (I) Leasehold property include Buildings on Leasehold Land cost ₹577.63 Lakhs (2010 - ₹575.24 Lakhs), Depreciation ₹489.57 Lakhs (2010 - ₹471.44 Lakhs).
- (II) Deeds of conveyance are to be executed for Land Freehold ₹0.83 Lakhs (2010 - ₹0.83 Lakhs), Building Freehold ₹11.28 Lakhs (2010 - ₹11.28 Lakhs).
- (III) Furniture & Fixtures as at year end include, Computer software cost ₹55.35 Lakhs (2010 - ₹55.35 Lakhs), Depreciation ₹12.91 Lakhs (2010 - ₹37.07 Lakhs).
- (IV) Depreciation for the year ended 31st March, 2011 of ₹2324.55 Lakhs (2010 - ₹1796.86 Lakhs) includes ₹10.06 Lakhs (2010 - ₹10.35 Lakhs) transferred from Revaluation Reserve.
- (V) Capital Work-in-Progress includes Capital Advances ₹683.20 Lakhs (2010 - ₹662.34 Lakhs) which are Unsecured and Considered Good.
- (VI) For the year ended 31st March, 2011 impairment loss of ₹127.16 Lakhs relates to Time Share Rights that have been brought down to their recoverable value upon evaluation of their future economic benefit from their use.
- (VII) Depreciation for the year ended 31st March, 2011 includes ₹287.33 Lakhs (2010 - Nil) being accelerated depreciation on revision of useful life of certain assets based on review carried out by the Company.



₹ in Lakhs

	2011	2010
4. Investments		
Long Term Other than Trade - at Cost		
QUOTED		
Duncan Industries Limited*		
462 Equity Shares of ₹10 each fully paid up	0.04	—
Godfrey Phillips India Limited*		
200 Equity Shares of ₹10 each fully paid up	0.01	—
GTC Industries Limited*		
50 Equity Shares of ₹10 each fully paid up	0.01	—
Housing Development Finance Corporation Limited		
6,000 Equity Shares of ₹2 each fully paid up	0.08	0.08
HDFC Bank Limited		
500 Equity Shares of ₹10 each fully paid up	0.05	0.05
[Aggregate Market Value of Quoted Investments ₹57.75 Lakhs, (Previous Year - ₹42.21 Lakhs)]	0.19	0.13
UNQUOTED		
Government/Trust Securities		
National Savings Certificate cost ₹500 (Previous Year - ₹500) Lodged with Government Authority		
Subsidiary Company		
VST Distribution, Storage & Leasing Company Private Limited		
Nil (2010 - 50,000) Equity Shares of ₹10 each fully paid up (Cancelled consequent to the merger with the Company - Refer note IV on Schedule 14)	—	5.00
	—	5.00
Other Investments		
HDFC - Top 200 Fund		
50,000 Units of ₹10 each fully paid up	5.00	5.00
Andhra Pradesh Gas Power Corporation Limited		
1,39,360 shares of ₹10 each fully paid up	220.38	220.38
India Infrastructure Finance Company Limited		
1,350 (2010 - 1,000) 6.85% Tax Free Bonds of ₹1,00,000 each fully paid up (350 units Purchased during the year)	1348.46	1000.00
500 6.85% Tax Free Bonds - Series II of ₹1,00,000 each fully paid up	500.00	500.00
Birla Sun Life Savings Fund Institutional - Growth		
53,58,655 (2010 - 60,11,892) units of ₹10 each fully paid up (53,58,655 units Purchased, 60,11,892 units Sold during the year)	1000.00	1000.00
Birla Sunlife FTP - Series CG - Growth		
50,00,000 units of ₹10 each fully paid up - Purchased during the year	500.00	—
Birla Sunlife FTP - Series CP - Growth		
50,00,000 units of ₹10 each fully paid up - Purchased during the year	500.00	—



₹ in Lakhs

	2011	2010
4. Investments (Contd.)		
Birla Sun Life FTP - Series CR - Growth 50,00,000 units of ₹10 each fully paid up - Purchased during the year	500.00	—
HDFC Floating Rate Income Fund - LTP - Growth 1,62,83,204 (2010 - 1,62,83,204) units of ₹10 each fully paid up	2500.00	2500.00
ICICI Prudential Flexible Income Plan Premium - Growth 5,83,995 (2010 - 15,04,591) units of ₹100 each fully paid up (9,20,596 units Sold during the year)	1000.00	2500.00
ICICI Prudential FMP Series 53 - 1Year Plan C Cumulative 50,00,000 units of ₹10 each fully paid up - Purchased during the year	500.00	—
ICICI Prudential FMP Series 55 - 1Year Plan C Cumulative 75,00,000 units of ₹10 each fully paid up - Purchased during the year	750.00	—
ICICI Prudential FMP Series 55 - 1Year Plan D Cumulative 25,00,000 units of ₹10 each fully paid up - Purchased during the year	250.00	—
Kotak Liquid (Institutional Premium) - Growth 70,49,353 units of ₹10 each fully paid up - Sold during the year	—	1000.00
Reliance Money Manager Fund - Institutional Plan - Growth Option 74,716 units of ₹1,000 each fully paid up - Purchased during the year	1000.00	—
Reliance Fixed Horizon Fund XVI - Series 3 - Growth Plan 50,00,000 units of ₹10 each fully paid up - Purchased during the year	500.00	—
Reliance Fixed Horizon Fund XVI - Series 5 - Growth Plan 50,00,000 units of ₹10 each fully paid up - Purchased during the year	500.00	—
Reliance Fixed Horizon Fund XIX - Series 1 - Growth Plan 50,00,000 units of ₹10 each fully paid up - Purchased during the year	500.00	—
Reliance Medium Term Fund - Retail Plan - Growth Option 55,05,032 units of ₹10 each fully paid up - Sold during the year	—	1000.00
Reliance Regular Savings Fund - Debt Plan - Institutional Growth Plan 41,56,967 units of ₹10 each fully paid up - Sold during the year	—	500.00
Sundaram BNP Paribas Energy Opportunities Fund - Growth 10,00,000 units of ₹10 each fully paid up	100.00	100.00
Tata Floater Fund - Growth 72,82,897 (2010 - 149,31,549) units of ₹10 each fully paid up (76,48,652 units Sold during the year)	1000.00	2000.00
Tata Fixed Maturity Plan Series 29 Scheme B - Growth 50,00,000 units of ₹10 each fully paid up - Purchased during the year	500.00	—
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	—	—
25,00,000 Floating Rate Unsecured Optionally Fully Convertible Debentures of ₹100 each fully paid up	—	—



₹ in Lakhs

	2011	2010
4. Investments (Contd.)		
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)		
	<u>13673.84</u>	<u>12325.38</u>
Current Investment - At lower of cost and fair value Other than Trade and Unquoted		
Birla Sun Life Quarterly Fund - Series 4 - Dividend Payout 99,97,101 units of ₹10 each fully paid up - Purchased during the year	1000.00	-
Birla Sun Life Savings Fund - Institutional Plan - Daily Dividend Reinvestment 49,96,602 units of ₹10 each fully paid up - Sold during the year	-	500.00
Birla Sun Life Dynamic Bond Fund - Retail Plan - Monthly Dividend Payout 96,09,563 units of ₹10 each fully paid up - Sold during the year	-	1000.00
HDFC CMF - Treasury Advantage Plan - Wholesale - Daily Dividend Reinvestment 49,84,299 units of ₹1,000 each fully paid up - Sold during the year	-	500.00
ICICI Prudential Flexible Fund II Quarterly Interval Plan F Institutional - Dividend 1,00,00,000 units of ₹10 each fully paid up - Purchased during the year	1000.00	-
ICICI Prudential Flexible Income Plan Premium - Daily Dividend Reinvestment 4,72,880 units of ₹100 each fully paid up - Sold during the year	-	500.00
IDFC Money Manager Fund - TP - Institutional Plan C - Daily Dividend Reinvestment 92,50,612 units of ₹10 each fully paid up - Purchased during the year	925.20	-
IDFC Money Manager Fund - IP - Institutional Plan B - Daily Dividend Reinvestment 99,86,202 units of ₹10 each fully paid up - Sold during the year	-	1000.12
Reliance Monthly Interval Fund - Series II - Institutional Dividend Plan 49,97,501 (2010 - 1,49,94,452) units of ₹10 each fully paid up (49,97,501 units Purchased, 1,49,94,452 units Sold during the year)	500.00	1500.00
Religare Ultra Short Term Fund - Institutional Plan - Daily Dividend Reinvestment 49,94,095 units of ₹10 each fully paid up - Sold during the year	-	500.19
UTI Treasury Advantage Fund - Series II - Institutional Plan (Daily Dividend Option) - Reinvestment 1,19,974 units of ₹1,000 each fully paid up - Sold during the year	-	1200.00
	<u>3425.20</u>	<u>6700.31</u>
Aggregate amount of unquoted investments	<u>17099.04</u>	<u>19030.69</u>
TOTAL	<u><u>17099.23</u></u>	<u><u>19030.82</u></u>
*Investments taken over consequent to Amalgamation - Refer note IV on Schedule 14.		



4. Investments (Contd.)

Note:

Details of Investments purchased and sold during the year in addition to above -

Birla Sun Life Savings Fund - Institutional Daily Dividend - Reinvestment 11,24,79,004 units of ₹10 each

Birla Sun Life Cash Plus - Institutional Premium Daily Dividend - Reinvestment 13,34,49,264 units of ₹10 each

Birla Sun Life Ultra Short Term Fund - Institutional Daily Dividend - Reinvestment 47,97,179 units of ₹10 each

Birla Sun Life Floating Rate Fund - LT - Institutional Weekly Dividend - Reinvestment 1,08,59,691 units of ₹10 each

HDFC Cash Management Fund - Treasury Advantage Plan - Wholesale - Daily Dividend Reinvestment 8,55,26,366 units of ₹10 each

HDFC Short term Opportunities Fund - Dividend option payout 50,00,000 units of ₹10 each

HDFC Liquid Fund Premium Plan - Daily Dividend Reinvestment 6,70,57,251 units of ₹10 each

HDFC Index Fund - Nifty Plan (Post Addendum) 2,39,202 units of ₹10 each

ICICI Prudential Institutional Liquid Plan - Super Institutional Daily Dividend 2,28,20,900 units of ₹100 each

ICICI Prudential Interval Fund V - Monthly Interval Plan A Institutional Dividend 1,59,16,141 units of ₹10 each

ICICI Prudential - Flexible Income Plan Premium Dividend - Daily 1,24,60,876 units of ₹100 each

IDFC Money Manager Fund - IP - Institutional Plan B - Daily Dividend Reinvestment 1,45,644 units of ₹10 each

IDFC Money Manager Fund - TP - Institutional Plan C - Daily Dividend Reinvestment 24,22,07,359 units of ₹10 each

IDFC Cash Fund - Super Institutional Plan C - Daily Dividend Reinvestment 19,55,31,431 units of ₹10 each

Reliance Liquidity Fund - Daily Dividend Reinvestment Option 14,37,47,984 units of ₹10 each

Reliance Monthly Interval Fund Series 1 - Institutional - Dividend Plan 49,98,351 units of ₹10 each

Reliance Medium Term Fund - Daily Dividend Reinvestment Option 8,39,57,632 units of ₹10 each

Reliance Money Manager Fund - Institutional - Daily Dividend Reinvestment Option 6,54,914 units of ₹1,000 each

Religare Liquid Fund - Institutional Daily Dividend - 1,34,10,012 units of ₹10 each

Religare Ultra Short Term Fund - Institutional Daily Dividend - 2,03,40,838 units of ₹10 each

Tata Liquid Super High Investment Fund - Daily Dividend 32,56,094 units of ₹1,000 each

Tata Floater Fund - Daily Dividend 16,76,66,117 units of ₹10 each

UTI Liquid Cash Plan Institutional - Daily Dividend Option - Reinvestment 1,09,802 units of ₹1,000 each

UTI Treasury Advantage Fund - Institutional Plan (Daily Dividend Option) - Reinvestment 1,41,086 units of ₹1,000 each

Reliance Monthly Interval Fund - Series II - Institutional Dividend Plan - 19,99,200 units of ₹10 each *

Reliance Liquid Fund - Treasury Plan - Institutional Option - Daily Dividend Plan - 14,30,141 units of ₹10 each *

Reliance Medium Term Fund - Daily Dividend Plan - 6,76,761 units of ₹10 each *

* Investments taken over consequent to Amalgamation - Refer note IV on Schedule 14.



₹ in Lakhs

	2011	2010
5. Deferred Tax - Net		
Deferred tax asset		
On employees' separation and retirement	247.34	444.67
On State and Central Taxes etc.	2252.94	1975.12
On other timing differences	43.35	30.98
	<u>2543.63</u>	<u>2450.77</u>
Deferred tax liability		
On fiscal allowances on fixed assets	1155.43	1197.85
	<u>1388.20</u>	<u>1252.92</u>
6. Inventories		
Stores and Spare Parts - At cost or below	57.72	59.31
Raw Materials - At cost or below	17990.06	14760.41
Stock-in-Trade		
Finished Goods - At cost or net realisable value whichever is lower	5210.37	2776.94
Work-in-Process - At cost or net realisable value whichever is lower	298.82	310.89
	<u>23556.97</u>	<u>17907.55</u>
7. Sundry Debtors		
(Unsecured, Considered Good)		
Debts outstanding for a period exceeding six months	17.91	3.02
Other Debts	1258.71	1447.93
	<u>1276.62</u>	<u>1450.95</u>
8. Cash and Bank Balances		
Cash including Cheques on hand	2.95	1.29
With Scheduled Banks		
- On Unclaimed Ordinary Dividend Account	268.44	229.22
- On Preference Share Redemption Account	0.18	0.18
- On Current Accounts	624.60	392.21
- On Term Deposits	2000.82	14.14
[Includes towards Margin Money ₹Nil (2010 - ₹13.32 Lakhs)]		
	<u>2896.99</u>	<u>637.04</u>
9. Other Current Assets		
(Unsecured, Considered Good)		
Interest accrued on Loans, Deposits and Investments	22.87	16.11
	<u>22.87</u>	<u>16.11</u>



₹ in Lakhs

	2011	2010
10. Loans and Advances (Considered Good)		
Secured - Loans	77.25	99.25
Unsecured - Loans	92.08	36.99
- Advances recoverable in cash or in kind or for value to be received	856.22	961.66
- Balances with Excise Authorities	208.42	115.57
- Deposits	24.84	24.22
- Taxation (Net of provisions)	404.92	217.41
	<u>1663.73</u>	<u>1455.10</u>
11. Liabilities		
Sundry Creditors		
- Total outstanding dues of micro enterprises and small enterprises (Refer note V on Schedule 14)	-	-
- Total outstanding dues of other than micro enterprises and small enterprises	17888.11	16132.95
	<u>17888.11</u>	<u>16132.95</u>
Advances from Customers	11133.90	9164.19
Unpaid/Unclaimed Dividends	268.44	229.22
Unclaimed/Unencashed Matured Deposits	0.08	0.08
Preference Share Redemption Account	0.18	0.18
Security Deposits	2.55	2.55
Other Liabilities	23.20	21.30
	<u>29316.46</u>	<u>25550.47</u>
There is no amount due and outstanding to be credited to Investor Education and Protection Fund.		
12. Provisions		
Proposed Dividend including Tax thereon	8076.14	5401.99
	<u>8076.14</u>	<u>5401.99</u>
13. Capital Expenditure Commitments (Not provided for)	<u>2391.62</u>	<u>3478.20</u>
14. Notes to Balance Sheet		
I Contingent Liabilities		
Claims against the Company not acknowledged as debts ₹3907.77 Lakhs (2010 - ₹267.19 Lakhs). These comprise -		
a. Tax demands disputed by the Company relating to disallowances/additions of fiscal benefits, pending at various stages of appeal, aggregating to ₹3894.40 Lakhs (2010 - ₹149.00 Lakhs).		
b. Land disputes representing claims towards land grabbing cases pending before Hon'ble Special Court aggregating to ₹Nil (2010 - ₹103.16 Lakhs).		
c. Other matters relating to labour cases etc. aggregating to ₹13.37 Lakhs (2010 - ₹15.03 Lakhs).		

**14. Notes to Balance Sheet (Contd.)****II Future lease obligations**

The Company has entered into various operating lease agreements and the amounts paid under such agreements have been charged to revenue as Rent under Schedule 17. All these agreements are cancellable in nature.

III Disclosures regarding Derivative Instruments

The Company uses forward exchange contracts to hedge against its foreign currency exposures relating to the underlying transactions and firm commitments. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts for trading or speculation purposes.

The information on such derivative instruments is as follows:

a. Forward exchange contracts outstanding as at the year end:

In Lakhs

		31.03.2011		31.03.2010	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	–	2876.10	–	4453.12
EUR/USD	USD	–	–	6.87	–

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

₹ in Lakhs

		31.03.2011		31.03.2010	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	382.87	1277.57	–	1429.66

IV Amalgamation of VST Distribution, Storage & Leasing Company Private Limited (DSL) with the Company

Pursuant to the scheme of amalgamation of erstwhile wholly owned subsidiary DSL with the Company, as sanctioned by the Hon'ble High Court of Andhra Pradesh on 16th March, 2011, the assets and liabilities of the erstwhile DSL were transferred to and vested in the Company, pending mutation, with effect from 1st April, 2010. The scheme has accordingly been given effect to in these accounts.

The amalgamation has been accounted for under the 'pooling of interest' method prescribed by the Accounting Standard on Amalgamation (AS-14).

The assets and liabilities and other reserves of the erstwhile DSL as at 1st April, 2010 have been taken over at their book values. Consequently, the investment of the Company in DSL and the Equity Share Capital of DSL stands cancelled.

In view of the aforesaid amalgamation with effect from 1st April, 2010, the figures for the current year are not comparable to those of the previous year.

V Micro and small scale business entities

There are no micro and small enterprises, to whom the Company owes dues, which are outstanding as at 31st March, 2011. 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.

VI 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 employee and the Company 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 monthly contributions are charged to revenue in the period they are incurred.

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.



14. Notes to Balance Sheet (Contd.)

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 of ₹103.66 Lakhs (2010 - ₹100.64 Lakhs) are charged to revenue in the period they are incurred.

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

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	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010	31.03.2011	31.03.2010
Projected benefit obligation at the beginning of the year	1983.79	1686.45	148.25	144.70	535.60	391.81
Current Service Cost	133.63	131.04	7.29	8.83	25.63	78.61
Interest Cost	120.01	116.07	8.87	9.92	30.35	22.98
Actuarial (Gain)/Loss	(61.10)	106.88	(4.56)	(9.35)	110.66	169.29
Less: Benefits Paid	538.83	56.65	43.13	5.85	204.04	127.09
Past Service Cost	251.26	—	—	—	—	—
Projected benefit obligation at the end of the year	1888.76	1983.79	116.72	148.25	498.20	535.60
Fair value of plan assets at the beginning of the year	1946.34	1686.45	157.27	149.86	522.48	445.21
Expected return on plan assets	141.79	145.31	11.37	12.29	42.38	38.71
Actuarial Gain/(Loss)	11.68	4.81	1.67	0.97	8.27	0.91
Employer Contributions	297.45	166.42	—	—	13.12	101.76
Less: Benefits Paid	538.83	56.65	43.13	5.85	49.16	64.11
Fair value of plan assets at the end of the year	1858.43	1946.34	127.18	157.27	537.09	522.48
Amounts recognised in the Balance Sheet						
Projected benefit obligation at the end of the year	1888.76	1983.79	116.72	148.25	498.20	535.60
Fair value of plan assets at end of the year	1858.43	1946.34	127.18	157.27	537.09	522.48
Asset/(Liability) recognised in the Balance Sheet	(30.33)	(37.45)	10.46	9.02	38.89	(13.12)
Cost of Retirement and Other Benefits for the year						
Current Service cost	133.63	131.04	7.29	8.83	25.63	78.61
Interest Cost	120.01	116.07	8.87	9.92	30.35	22.98
Expected return on plan assets	(141.79)	(145.31)	(11.37)	—	(42.38)	(38.71)
Net actuarial (Gain)/Loss recognised in the year	(72.78)	102.06	(6.23)	(9.35)	102.39	168.38
Past service cost	251.26	—	—	—	—	—
Net Cost recognised in the Profit and Loss Account	290.33	203.86	(1.44)	9.40	115.99	231.26
Assumptions						
Discount Rate (%)	7.00	7.00	7.00	7.00	7.00	7.00
Long term rate of compensation increase (%)						
- Management Staff	9.00	9.00	—	—	9.00	9.00
- Workmen	4.00	4.00	4.00	4.00	4.00	4.00

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.



SCHEDULES TO THE PROFIT AND LOSS ACCOUNT

VST Industries Limited

₹ in Lakhs

	2011		2010
15. Other Income			
Miscellaneous Income	420.36		403.02
Liabilities no longer required written back	135.90		324.71
Gain/(Loss) on Exchange	302.97		726.25
Income from Long Term Investments - Other than Trade (Gross)	2.54		2.41
Income from Current Investments - Other than Trade (Gross)	542.13		323.98
Profit/(Loss) on sale of Long Term Investments (Net)	648.88		1299.66
Profit/(Loss) on sale of Current Investments (Net)	12.74		12.80
Profit/(Loss) on Fixed Assets sold and discarded (Net)	55.70		11.02
Interest on Loans and Deposits etc. (Gross)	203.17		232.98
	<u>2324.39</u>		<u>3336.83</u>
Interest on Loans and Deposits etc. is stated at Gross. The amount of Income Tax deducted is ₹0.32 Lakhs (2010 - ₹10.61 Lakhs).			
16. Raw Materials, Purchases and Stock-in-Trade			
a. Raw Materials Consumed*			
Opening Stock	14760.41		10528.59
Purchases	<u>32254.07</u>		<u>30576.39</u>
	47014.48		41104.98
Less: Closing Stock	<u>17990.06</u>	29024.42	<u>14760.41</u>
			26344.57
b. (Increase)/Decrease in Stock-in-Trade			
Opening Stock			
- Cigarettes	2776.94		2648.99
Closing Stock			
- Cigarettes	<u>5210.37</u>	(2433.43)	<u>2776.94</u>
			(127.95)
c. Increase/(Decrease) in Excise Duties on Stock-in-Trade		1931.15	
			93.10
d. (Increase)/Decrease in Work-in-Process			
Opening	310.89		185.63
Closing	<u>298.82</u>	12.07	<u>310.89</u>
		<u>28534.21</u>	<u>26184.46</u>
* Includes 13,784 Tonnes (2010 - 11,902 Tonnes) of unmanufactured tobacco etc. sold - Value ₹13594.24 Lakhs (2010 - ₹13474.22 Lakhs).			



₹ in Lakhs

	2011	2010
17. Manufacturing, Selling, Distribution and Administration Expenses, etc.		
Salaries, Wages and Bonus	5098.74	4818.44
Contributions to Provident, Gratuity and Other Retiral Funds	568.83	485.01
Workmen and Staff Welfare Expenses	<u>417.13</u>	<u>410.08</u>
Insurance	93.50	87.51
Consumption of Stores and Spare Parts	297.15	331.19
Power and Fuel	288.29	216.57
Rent	212.25	179.72
Repairs - Buildings	19.42	27.44
- Machinery	59.06	46.94
- Others	18.37	19.22
Rates and Taxes	1632.09	896.85
Excise Duty on Samples	54.50	69.44
Outward Freight	1183.65	956.06
Advertising	2019.82	969.50
Distribution Expenses	1793.20	1619.37
Miscellaneous	1877.82	1621.79
Interest - Others	0.04	2.73
Payment to Auditors - Audit Fee	20.00	18.00
- Reimbursement of Expenses	1.00	0.33
- Fees for Other Services	6.00	6.26
Directors' Fees	5.07	5.19
	<u>15665.93</u>	<u>12787.64</u>
Less: Recovery of Costs	-	0.50
	<u>15665.93</u>	<u>12787.14</u>
R&D Expenses included above	331.61	332.20
18. Taxation		
Taxation - Current	4303.45	2749.51
- Prior Years	(143.68)	-
Deferred Tax	<u>(135.00)</u>	<u>(400.45)</u>
	<u>4024.77</u>	<u>2349.06</u>



₹ in Lakhs

	2011	2010
19. Notes to Profit and Loss Account		
(I) Directors' Remuneration		
Remuneration	309.49	267.27
Performance Linked Bonus	325.47	202.29
Commission to Non Wholetime Directors	25.00	25.00
Other Benefits	55.25	50.49
Directors' Fees	5.07	5.19
	<u>720.28</u>	<u>550.24</u>
Computation of Net Profit in accordance with Section 198 of the Companies Act, 1956:		
Profit before Taxation	13525.82	8554.13
Add: Depreciation as per Profit and Loss Account	2441.65	1786.51
Managerial Remuneration as above	720.28	550.24
(Profit)/Loss on sale of assets (Net)	(55.70)	(11.02)
Wealth Tax	45.00	40.00
	<u>3151.23</u>	<u>2365.73</u>
	16677.05	10919.86
Less: Depreciation and Impairment (Section 350)	2441.65	1786.51
(Profit)/Loss on sale of assets - Net (Section 350)	(55.70)	(11.02)
	<u>14291.10</u>	<u>9144.37</u>
Profit for the purpose of Directors' Remuneration	14291.10	9144.37
Commission payable to Non Wholetime Directors at 1% of above under Section 309(4) of the Companies Act, 1956	142.91	91.44
Restricted to	25.00	25.00
(II) Exceptional items represents expense incurred under Voluntary Retirement Scheme for employees for the year ended 31st March, 2010 - ₹1241 Lakhs.		
(III) Earnings Per Share		
Earnings Per Share is computed based on the following -		
a. Profit after Taxation (₹ Lakhs)	9501.05	6205.07
b. Weighted average number of equity shares	1,54,41,920	1,54,41,920
c. Basic and diluted Earnings Per Share (Face Value Per Share - ₹10) ₹	61.53	40.18



₹ in Lakhs

	2011	2010
19. Notes to Profit and Loss Account (Contd.)		
(IV) Related party transactions during the year		
1. Companies:		
a. Subsidiary Company where control exists		
VST Distribution, Storage & Leasing Company Private Limited (upto 31st March, 2010)		
Nature of transactions		
Receipts - Secondment/Service Charges	-	0.50
b. Company having significant influence		
British American Tobacco Group		
Nature of transactions		
Sales - Goods	1092.04	1650.05
Other receipts - Services etc.	-	58.82
Other payments - Services etc.	1.07	2.27
- Dividend Paid	1489.77	1489.77
Outstanding as at the year end		
- Receivable	-	102.12
2. Remuneration to Key Managerial Personnel		
Mr. Raymond S. Noronha - Managing Director	433.01	326.98
Mr. N. Sai Sankar - Deputy Managing Director & Secretary	257.20	193.07
(V) Segment Reporting		
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 segment considered for disclosure mainly consists of sales within India and sales outside India, information in respect thereof is as under:		
a. Sales within India	124557.13	96959.71
b. Sales outside India	15096.61	15581.95
	<u>139653.74</u>	<u>112541.66</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.		



	Unit	Quantity	2011 ₹ in Lakhs	2010 Quantity	2010 ₹ in Lakhs
20. Additional Information pursuant to the provisions of Paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956					
a. CLASS OF GOODS, CAPACITY AND PRODUCTION					
Class of goods Manufactured					
i. Cigarettes					
Capacity as at 31st March*					
- Registered/Licenced (p.a.)	Millions	25600		25600	
- Installed (p.a.)	Millions	21859		23976	
Actual Saleable Production (includes contract manufacture and manufactured for others)	Millions	8365		7488	
* The figure of 'Registered/Licenced Capacity' is as re-endorsed on the Certificate of Registration as on 30th September, 1985 and is exclusive of an additional 25 per cent of the approved 'Registered/Licenced Capacity' available to the Company under the Central Government's Liberalised Industrial Policy.					
The figure of 'Installed' capacity is computed on the basis of machines installed as on 31st March, as certified by management.					
ii. Paper Conversion Products					
Capacity as at 31st March					
- Registered/Licenced (p.a.)	Tonnes	5500		5500	
- Installed (p.a.) as certified by management	Tonnes	–		–	
Actual Production	Tonnes	–		–	
b. PARTICULARS IN RESPECT OF SALES (GROSS)					
Cigarettes	Millions	8162	122984.63	7511	95932.76
Unmanufactured Tobacco	Tonnes	13784	16402.62	11902	16259.69
Cut Tobacco	Tonnes	168	232.88	257	338.84
Others			33.61		10.37
			<u>139653.74</u>		<u>112541.66</u>
c. DETAILS OF STOCK-IN-TRADE					
i. Opening Stock					
Cigarettes	Millions	224	2776.94	248	2648.99
ii. Closing Stock					
Cigarettes	Millions	418	5210.37	224	2776.94
Stock quantities exclude damaged stocks, samples, etc.					



	Unit	Quantity	2011 ₹ in Lakhs	2010 Quantity	₹ in Lakhs
20. Additional Information (Contd.)					
d. DETAILS OF RAW MATERIALS CONSUMED					
Unmanufactured Tobacco	Tonnes	19900	20628.75	17487	19248.98
Board	Tonnes	1280	623.15	1854	828.25
Hinge Lid Packs	Millions	560	2063.98	296	1236.48
Cigarette Paper	M.Meters	438755	328.25	385686	290.26
Foil	M.Meters	30619	221.22	33883	215.35
Filter Rods	Millions	1376	1447.73	1202	1315.63
Others			3711.34		3209.62
			<u>29024.42</u>		<u>26344.57</u>
e. VALUE OF RAW MATERIALS, SPARE PARTS AND COMPONENTS CONSUMED					
			₹ in Lakhs	%	₹ in Lakhs
					%
Raw Materials					
Imported		560.29	1.9	583.14	2.2
Indigenous		28464.13	98.1	25761.43	97.8
		<u>29024.42</u>	<u>100.0</u>	<u>26344.57</u>	<u>100.0</u>
Stores and Spare Parts					
Imported		30.61	10.3	79.83	24.1
Indigenous		266.54	89.7	251.36	75.9
		<u>297.15</u>	<u>100.0</u>	<u>331.19</u>	<u>100.0</u>
f. EXPORTS AND IMPORTS					
Export of goods (F.O.B. Value)			<u>15040.29</u>		<u>15498.86</u>
Imports (C.I.F. Value) (On payment basis)					
Raw Materials		857.67		450.40	
Spare Parts		59.70		108.26	
Capital Goods		2043.77		2015.92	
		<u>2961.14</u>		<u>2574.58</u>	
g. EXPENDITURE IN FOREIGN CURRENCY (On payment basis)					
Miscellaneous - Travelling, Advertisement and Subscriptions etc.			<u>76.75</u>		<u>226.11</u>



₹ in Lakhs

	2011	2010
20. Additional Information (Contd.)		
h. DIVIDENDS PAID TO NON-RESIDENT SHAREHOLDERS IN FOREIGN CURRENCY FINAL		
Amount of dividend	1489.77	1489.77
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)	31-03-2010	31-03-2009
i. COMPARATIVE FIGURES The comparative figures for the previous year have been re-arranged to conform with the revised presentation of the accounts.		

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

N.K. VARADARAJAN
Partner
Membership No. 90196

Hyderabad, 13th April, 2011.

On behalf of the Board,

R.V.K.M. SURYARAU

Chairman

R. S. NORONHA

Managing Director

N. SAI SANKAR

Deputy Managing
Director & Secretary

Hyderabad, 13th April, 2011.



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, (with the exception of land and buildings, which have been revalued), 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") and the relevant provisions of the Act.

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. Sales are inclusive of excise duty.

Income from investments is accounted for when accrued.

FIXED ASSETS INCLUDING INTANGIBLES

Fixed Assets are stated at historic cost 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 and on other assets on straight line basis at rates based on estimated useful life of assets as determined by the management and such rates adopted are higher than the Schedule XIV rates as given below:

	Rate of Depreciation %
Buildings Freehold	5
Leasehold Property	5
Furniture & Fixtures	15- 25
Motor Vehicles etc.	25

Rights on time shares are amortised over a period of 20 years.

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. 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 Profit and Loss Account 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.

INVENTORIES

Inventories are valued at cost or below. Cost is computed based on the weighted average cost per unit after taking into account receipts at actual cost net of CENVAT credit availed. 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.

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.

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.

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 fair value.

EMPLOYEE BENEFITS

Contribution to various recognised provident funds/approved pension and gratuity funds and contributions to secured retiral benefits are charged to revenue. Liability for gratuity and leave encashment is determined on the basis of actuarial valuation 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.



RESEARCH AND DEVELOPMENT

Revenue expenditure on Research and Development is charged to Profit and Loss Account in the year it is incurred.

Capital expenditure on research and development is included under fixed assets.

FOREIGN EXCHANGE TRANSACTIONS

The transactions in foreign currency are accounted for at the exchange rate prevailing at 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 Profit and Loss Account.

Forward exchange contracts outstanding as at the period end on account of firm commitment/highly probable forecast transaction are marked to market and the resultant gain/loss is dealt in the Profit and Loss Account.

Difference between the forward exchange contract rate and the exchange rate as at the date of transaction is recognised as income or expense over the life of the said contract.

PROPOSED DIVIDEND

Dividend proposed by the Directors, pending approval at the Annual General Meeting, is provided for in the books of account.

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 Profit and Loss Account.

Lease rentals paid in respect of operating leases are charged to Profit and Loss Account.



BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

VST Industries Limited

I. Registration Details

Registration No. [][] [][] 5 7 6 [] State Code [0] [1]
Corporate Identification No. L 2 9 1 5 0 A P 1 9 3 0 P L C 0 0 0 5 7 6
Balance Sheet Date [3] [1] [0] [3] [2] [0] [1] [1]
Date Month Year

II. Capital raised during the year (Amount in ₹ Thousands)

Public Issue [][][][] N I L [][][][] Rights Issue [][][][] N I L [][][][]
Bonus Issue [][][][] N I L [][][][] Private Placement [][][][] N I L [][][][]

III. Position of Mobilisation and Deployment of Funds (Amount in ₹ Thousands)

Total Liabilities [][][] 2 6 4 4 3 9 3 Total Assets [][][] 2 6 4 4 3 9 3

Sources of Funds

Paid-up Capital [][][] 1 5 4 4 1 9 Reserves and Surplus [][][] 2 4 8 9 9 7 4
Secured Loans [][][][] N I L [][][][] Unsecured Loans [][][][] N I L [][][][]

Application of Funds

Net Fixed Assets [][][] 1 5 9 3 1 9 2 Investments [][][] 1 7 0 9 9 2 3 + - Deferred Tax - Net [][][] 1 3 8 8 2 0 + - Net Current Assets [][][] 7 9 7 5 4 2
Miscellaneous Expenditure [][][][] N I L [][][][] Accumulated Losses [][][][] N I L [][][][]

IV. Performance of Company (Amount in ₹ Thousands)

Turnover [][][] 6 0 1 6 7 6 1 Total Expenditure [][][] 4 6 6 4 1 7 9 + - Profit/Loss before Tax [][][] 1 3 5 2 5 8 2 + - Profit/Loss after Tax [][][] 9 5 0 1 0 5
Earnings Per Share in ₹ [][][][] 6 1 . 5 3 Dividend rate % [] 4 [] 5 [] 0
On year end of Capital Recommended

V. Generic Names of Principal Products/Services of the Company (as per monetary terms)

Item Code No. [][] 2 4 0 2 2 0 0 0 (ITC CODE)
Product Description C I G A R E T T E S C O N T A I N I N G T O B A C C O
Item Code No. [][] 2 4 0 1 1 0 0 9 (ITC CODE)
Product Description U N M A N U F A C T U R E D T O B A C C O
T O B A C C O O T H E R S
Item Code No. [][] 4 8 2 3 9 0 0 9 (ITC CODE)
Product Description O T H E R A R T I C L E S O F P A P E R O R
P A P E R B O A R D

On behalf of the Board,

R.V.K.M. SURYARAU

Chairman

R. S. NORONHA

Managing Director

N. SAI SANKAR

Deputy Managing
Director & Secretary

Hyderabad, 13th April, 2011.



Operating Results 2002-2011

₹ in Lakhs

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GROSS INCOME	68457	66937	64062	69460	73650	73944	78712	102312	115635	141775
EXCISE & CUSTOMS DUTIES	40176	38598	34416	37317	40411	38903	43347	62366	65325	81811
OPERATING PROFIT	6655	7325	7359	10178	11940	9474	9781	10112	10111	15765
DEPRECIATION	546	809	879	951	1024	1148	1372	1582	1787	2442
INTEREST	272	(237)	(106)	(54)	(274)	(150)	(197)	(104)	(230)	(203)
PROFIT BEFORE TAX & EXTRAORDINARY ITEM	5837	6753	6586	9281	11190	8476	8606	8634	8554	13526
PROFIT AFTER TAX & EXTRAORDINARY ITEM	3698	3824	2857	5402	4310	5509	5835	6182	6205	9501
DIVIDENDS [^]	722	958	1045	2203*	2201	3613	3613	5420	5402	8076
EARNINGS IN FOREIGN EXCHANGE (FOB VALUE)	2645	3275	4793	5259	4527	4690	6075	10842	15499	15040

Sources and Application of Funds 2002-2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
SOURCES										
EQUITY CAPITAL	1544	1544	1544	1544	1544	1544	1544	1544	1544	1544
RESERVES	7719	10569	12359	15544	17633	19479	21649	22401	23194	24900
BORROWINGS	1803	1199	598	-	-	-	-	-	-	-
NET CAPITAL EMPLOYED	11066	13312	14501	17088	19177	21023	23193	23945	24738	26444
APPLICATION										
GROSS FIXED ASSETS	10124	11859	13862	15360	17768	19551	23345	25463	27807	31052
DEPRECIATION ACCUMULATED	5992	6711	7290	7983	8865	9843	11173	12377	13867	15120
NET FIXED ASSETS	4132	5148	6572	7377	8903	9708	12172	13086	13940	15932
NET CURRENT ASSETS (INCLUDING INVESTMENTS & DEFERRED TAX)	6934	8164	7929	9711	10274	11315	11021	10859	10798	10512
NET ASSETS EMPLOYED	11066	13312	14501	17088	19177	21023	23193	23945	24738	26444

Performance Ratios 2002-2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
DIVIDEND RATE ON EQUITY CAPITAL (%)	45	55	60	125*	125	200	200	300	300	450
EARNINGS PER SHARE (₹)	23.8	24.8	18.5	35.0	27.9	35.7	37.8	40.04	40.18	61.53
RETURN ON NET CAPITAL EMPLOYED (%)	33.4	28.7	19.7	31.6	22.5	26.2	25.2	25.8	25.1	35.9
RETURN ON NET WORTH (%)	39.9	31.6	20.5	31.6	22.5	26.2	25.2	25.8	25.1	35.9
DEBT/EQUITY (%)	19.5	9.9	4.3	-	-	-	-	-	-	-
INTEREST COVER (Times)	22.5	-	-	-	-	-	-	-	-	-

[^] Includes Income Tax on Dividends.

* Includes Platinum Jubilee Dividend of 60%.

ATTENDANCE SLIP



VST INDUSTRIES LIMITED

Registered Office: AZAMABAD, HYDERABAD - 500 020.

DP ID

NAME & ADDRESS OF THE REGISTERED SHAREHOLDER

Client ID/
Folio No.

No. of Shares

I certify that I am a registered shareholder/proxy for the registered shareholder of the Company.

I hereby record my presence at the 80th ANNUAL GENERAL MEETING of the Company held on **Thursday, July 14, 2011 at 10.30 a.m.** at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034.

SIGNATURE OF MEMBER/PROXY

Note: Please complete this and hand it over at the entrance of the hall.

Tear Here

FORM OF PROXY



VST INDUSTRIES LIMITED

Registered Office: AZAMABAD, HYDERABAD - 500 020.

DP ID

NAME & ADDRESS OF THE REGISTERED SHAREHOLDER

Client ID/
Folio No.

No. of Shares

I / We _____ of _____
in the district of _____ being a member/members of VST INDUSTRIES LIMITED hereby appoint
_____ of _____
in the district of _____ or failing him/her _____
of _____ in the district of _____
as my/our proxy to vote for me/us on my/our behalf at the 80TH ANNUAL GENERAL MEETING of the Company to be held
on **Thursday, July 14, 2011 at 10.30 a.m.** and at any adjournment thereof.

Signed this _____ day of _____ 2011.

Signature

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.



VST Industries Limited