



VST INDUSTRIES LIMITED

ANNUAL REPORT 2011-12





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BOARD OF DIRECTORS

Chairman

R.V.K.M. SURYARAU

Managing Director

RAYMOND S. NORONHA

Deputy Managing Director & Secretary

N. SAI SANKAR

Wholetime Director

DEVRAJ LAHIRI (w.e.f. 1st August, 2011)

Non-Executive Directors

PETER G. HENRIQUES

T. LAKSHMANAN

MILIND A. 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

Registrar & Transfer Agents

Karvy Computershare Private Limited
Plot Nos.17 to 24, Vittal Rao Nagar
Madhapur, Hyderabad - 500 081
Phone : +91 40 2342 0815 to 24
Fax : +91 40 2342 0814
E-mail : einward.ris@karvy.com



NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Eighty First Annual General Meeting of VST INDUSTRIES LIMITED will be held at Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad - 500 034 on **Thursday 12th July, 2012 at 10.30 a.m.** for transacting the following business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2012, 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, 2012.
3. To appoint a Director in place of Mr. Peter G. Henriques, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Milind A. Kharat, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors and to fix their remuneration. In this connection, to consider and, if thought fit, to pass with or without modification(s) the following Resolution which will be proposed as an Ordinary Resolution:

"RESOLVED THAT M/s. Lovelock & Lewes, Chartered Accountants (ICAI Registration No: 301056E), the retiring Auditors be and are hereby re-appointed as the Auditors of the Company to hold such office until the conclusion of the next Annual General Meeting at a remuneration of ₹24 lakhs (Rupees Twenty four Lakhs only) payable in two equal instalments exclusive of service tax as applicable, travelling and reimbursement of actual out-of-pocket expenses incurred."

SPECIAL BUSINESS

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

"RESOLVED THAT pursuant to Section 269 and other applicable provisions, if any, of the Companies Act, 1956

read with Schedule XIII of the said Act including any statutory modification or re-enactment thereof approval be and is hereby granted to the appointment of Mr. Devraj Lahiri as Director and Wholetime Director of the Company for a period of five years from 1st August, 2011 to 31st July, 2016 [both days inclusive], on such remuneration as set out in the Explanatory Statement annexed to the Notice convening this Meeting."

7. To consider and, if thought fit, to pass with or without modification(s), the following Resolution which will be proposed as an Ordinary Resolution:

"RESOLVED THAT in partial modification of the Resolution passed at the Annual General Meeting held on 16th July, 2010 and in accordance with the provisions of Sections 198, 309, 310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 including any amendment thereto or re-enactment thereof, the consent of the Company be and is hereby accorded for an adhoc payment of 90% of the current annualised consolidated basic to Mr. Raymond S. Noronha, Managing Director of the Company in addition to his approved remuneration payable in financial year 2012-13.

RESOLVED FURTHER THAT the Board of Directors, be and is hereby authorised to do all things and deeds incidental thereto including entering into an agreement or amending the existing Agreement entered into with Mr. Raymond S. Noronha for the above purpose.

RESOLVED FURTHER THAT Mr. N. Sai Sankar, Secretary of the Company be and is hereby authorised to do all such acts and deeds as may be required to give effect to the above Resolution."

8. To consider and, if thought fit, to pass with or without modification(s), the following Resolution which will be proposed as an Ordinary Resolution:

"RESOLVED THAT Mr. Raymond S. Noronha be and is hereby appointed as a Non-Executive Director of the Company with effect from 3rd September, 2012 whose



NOTICE OF MEETING

period of office will be liable to determination by retirement by rotation and in respect of which appointment the Company has received the requisite notice from a Member pursuant to Section 257 of the Companies Act, 1956."

The Register of Members of the Company will remain closed from 19th June, 2012 to 26th June, 2012 (both days inclusive) for payment of dividend, if declared.

Transfer of shares received in order at the office of Registrar and Transfer Agents of the Company, M/s. Karvy Computershare Private Limited, Plot Nos. 17 to 24, Vittal Rao Nagar, Madhapur, Hyderabad - 500 081, before the close of business hours on 18th June, 2012 will be registered in time for the transferees to become eligible for dividend, if declared.

Dividend, if declared, will be paid on 10th August, 2012 to those Members whose names appear in the Register of

Members of the Company on 26th June, 2012 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 18th June, 2012 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 17th day of April, 2012.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.

NOTES

- A Member entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and vote on a poll on his behalf. A proxy need not be a Member of the Company. The instrument of proxy in order to be effective, must be received at the Registered Office of the Company, duly completed and signed not less than forty-eight hours before the commencement of the Annual General Meeting i.e. by 10.30 a.m. on 10th July, 2012.**
- In accordance with Section 173(2) of the Companies Act, 1956, an Explanatory Statement in respect of items 6 to 8 being items of Special Business is annexed to the Notice of the Meeting.
- Corporate members are requested to send, a duly certified copy of the board resolution pursuant to Section 187 of the Companies Act, 1956, authorising their representative to attend and vote at the Annual General Meeting.
- The brief profile of the Directors proposed to be appointed/re-appointed is given in the Directors' Report.
- Members holding shares in physical form should inform the Company's Registrar and Transfer Agents, M/s. Karvy Computershare Private Limited of any change in their registered address, mandate/bank details/e-mail address. Similarly, Members holding shares in electronic form should inform their depository participants (DP) of any change in their registered address, mandate/bank details/e-mail address.
- Members who have multiple folios in identical names or joint names in the same order are requested to intimate to the Registrar and Transfer Agents, M/s. Karvy Computershare Private Limited, these folios to enable consolidation of all such shareholdings into one folio.
- Members are requested to refer to the 'Shareholder Referencer' which inter-alia contains details regarding unclaimed dividend.
- Members are requested to bring their copy of the Annual Report to the Meeting.
- 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.



ANNEXURE TO NOTICE OF MEETING

EXPLANATORY STATEMENT

In accordance with Section 173(2) of the Companies Act, 1956, the following information is given in explanation of the items of Special Business set out in the attached Notice of the Eighty First Annual General Meeting of the Company to be held at Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad - 500 034 on **Thursday, 12th July, 2012.**

Item No. 6

The Board of Directors of your Company ('the Board') at its meeting held on 14th July, 2011, approved the appointment of Mr. Devraj Lahiri as Additional Wholetime Director of the Company for a period of five years with effect from 1st August, 2011 to 31st July, 2016 [both days inclusive], on the following remuneration, subject to the approval of the Members:

- I. **Consolidated Salary:** ₹2,50,000 per month
- II. **Other Allowance:** ₹50,000 per month
- III. **Performance Bonus:** Payable annually for each financial year ending 31st March, 2012 and thereafter, not exceeding 75% of the consolidated salary per annum after approval of the accounts as may be determined by the Board.
- IV. **Perquisites:** In addition to the aforesaid consolidated salary, other allowance and performance bonus, Mr. Devraj Lahiri shall be entitled to perquisites like gas, electricity, water, furnishings, medical reimbursement and leave travel concession for self and family, club fees, personal accident insurance etc. in accordance with the rules of the Company, the monetary value of such perquisites being limited to ₹4,00,000 per annum, for the purposes of which limit perquisites shall be evaluated as per Income Tax Act/Rules, wherever applicable, and in absence of any such Rule, perquisites shall be evaluated at actual cost. However, the following shall not be included in the aforesaid perquisite limit:

- a. Rent free furnished accommodation owned/leased/rented by the Company or Housing Allowance in lieu thereof, as per the rules of the Company.
- b. Contribution to Provident Fund and Superannuation Fund up to 27% of salary and contribution to Gratuity Fund up to 8.33% of salary as defined in the rules of the respective funds, or up to such other limit as may be prescribed under the Income Tax Act, 1961 and the Rules there under for this purpose.
- c. Use of Company car for official purposes, telephone at residence and cell phone (including payment for local calls and long distance official calls).
- d. Encashment of unavailed leave as per the rules of the Company at the time of retirement/cessation of service.
- e. Long service award as per the rules of the Company.
- f. Costs and expenses incurred by the Company in connection with joining/transfer from one location to another as per the rules of the Company.

The aggregate of the remuneration and perquisites/benefits, including contribution towards Provident Fund, Superannuation Fund and Gratuity Fund, payable to Mr. Devraj Lahiri as such shall always be subject to the overall ceilings laid down under the Companies Act, 1956 or any amendment or re-enactment thereof.

Minimum Remuneration: Notwithstanding anything to the contrary contained herein, where, in any financial year during the currency of the tenure of Mr. Devraj Lahiri as Wholetime Director, the Company has no profits or its profits are inadequate, the Company will pay salary and perquisites to Mr. Devraj Lahiri up to the maximum limit specified under Section II of Part II of Schedule XIII to the Companies Act, 1956 as minimum remuneration.



ANNEXURE TO NOTICE OF MEETING

A notice has been received by the Company along with a deposit of ₹500 from a Member under Section 257 of the Companies Act, 1956, proposing the appointment of Mr. Devraj Lahiri as a Director of the Company. The consent pursuant to Section 264(1) of the Companies Act, 1956, has been filed by Mr. Devraj Lahiri to act as Director, if appointed. Mr. Devraj Lahiri does not hold any shares in the Company.

An abstract under Section 302 of the Companies Act, 1956 dated 14th July, 2011 has been circulated to the Members of the Company.

None of the Directors of your Company other than Mr. Devraj Lahiri is concerned or interested in this Resolution.

The Board commends this Resolution for your approval.

Item No. 7

The Board of Directors at their meeting held on 17th April, 2012 have subject to the approval of the Members at the Eighty First Annual General Meeting approved an adhoc payment of 90% of the annualised consolidated basic to Mr. Raymond S. Noronha, Managing Director of the Company for the year 2012-13, in addition to his approved remuneration.

All other existing terms of re-appointment of Mr. Raymond S. Noronha, Managing Director of the Company including remuneration payable to him as approved by the Members at their meeting held on 16th July, 2010 remain unchanged.

Mr. Raymond S. Noronha is interested in the Resolution relating to adhoc payment. None of the other Directors of your Company is interested in the Resolution.

The Board commends this Resolution for your approval.

Item No. 8

Mr. Raymond S. Noronha shall be retiring as Managing Director of the Company on 2nd September, 2012. The Board of Directors at its meeting held on 17th April, 2012 recommended for the approval of the Members, the appointment of Mr. Raymond S. Noronha, as a Non-Executive Director of the Company as set out in the Resolution.

A notice has been received by the Company along with a deposit of ₹500 from a Member under Section 257 of the Companies Act, 1956 proposing the appointment of Mr. Raymond S. Noronha as Non-Executive Director of the Company. Requisite consent, pursuant to Section 264(1) of Companies Act, 1956 has been furnished by Mr. Raymond S. Noronha to act as a Non-Executive Director, if appointed. Mr. Noronha does not hold any shares in the Company.

Except Mr. Raymond S. Noronha, no other Director of the Company is concerned or interested in the proposed Resolution.

The Board commends this Resolution for your approval.

By Order of the Board
VST INDUSTRIES LIMITED

N. SAI SANKAR
Secretary

Dated this 17th day of April, 2012.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.



REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31ST MARCH, 2012

The Directors of your Company have pleasure in presenting their Annual Report and Accounts for the year ended 31st March, 2012.

Financial Results	₹ Lakhs	
	2011-12	2010-11
Revenue from Operations	159846	139654
Net Profit after Tax	14251	9501
Profit brought forward from previous year	9070	8620*
Balance available for Appropriation	23321	18121
Amount transferred to General Reserves	1450	975
Dividend proposed	10037	6949
Corporate Dividend Tax	1629	1127
Surplus in the Statement of Profit and Loss	10205	9070

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

KEY RATIOS

Earnings Per Share (₹)	92.29	61.53
Dividend Per Share (₹)	65.00	45.00

- **The financial year 2011-12 recorded an improvement of 14.4% in Sales (Gross) and 50% in Profit after Tax when compared to the previous year.**
- **A record year with record sales, record Profit after Tax and dividend Per Share of ₹65, in the history of the Company.**
- **Value creation during the decade has been Compounded Annual Growth Rate (CAGR), 14.1% in Earnings Per Share (EPS) and 25.9% in Dividends Per Share (DPS).**

INDUSTRY STRUCTURE & DEVELOPMENT

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. The industry as a result had a marginal growth in volumes of around 4%; however, your Company was able to beat the general industry trend and

grow volumes by 12% when compared to same period last year.

Financial year 2011-12 was one of the best years in terms of volume growth. Filter volumes now cover virtually 98% of your Company's volume. The increase in VAT rates across states continued with more states increasing the VAT rates during the current financial year. Two key states e.g. West Bengal and Andhra Pradesh, where your

Company has sizeable presence, increased VAT rates to 20% each. This will impact margins and profitability both in the current year and in the future.

During the financial year 2011-12, increase in VAT rates were affected in 17 states ranging from 0.75% to 11.5%.

Stable tobacco prices and higher foreign exchange volatility were the other highlights for the current financial year.

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 new graphic health warnings have come into effect from 1st December, 2011.

Apart from legacy taxation issues, the industry had to address fewer legal cases.

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 2011-12, with most brands gaining volumes.



REPORT OF THE BOARD OF DIRECTORS

The Company's filter brands performed well with all key brands showing gains over the previous year. Brands like SPECIAL EXTRA FILTER, MOMENTS and CHARMS VIRGINIA FILTER were the key contributors to the growth in volume.

The growth in volume of most of the brands has to be viewed in contrast to steep increases in VAT in different states during the year including the key states where your Company operates.

Your Company continued its strategic thrust of launching new brands in value-for-money segments 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 762 mns up by 12% when compared to 2010-11. The value realisations were higher at ₹1435 crore, up by 16.4% when compared to ₹1230 crore during the previous year.

Competition has intensified with many brands now available at different price points where your Company's brands are present. This is apart from your Company's brands having to face the non-duty paid cigarettes which are available across markets in India.

Leaf Tobacco

Your Company has recorded leaf export turnover of ₹154 crore, in the year 2011-12, despite glut in the international market and volatility in exchange rate. The situation which was similar last year did not show any improvement and in fact it worsened

during the current financial year. Latest statistics reveal that Indian tobacco exports are lower when compared to same period last year.

The focus on developing niche varieties of tobacco continued. Besides help develop the backward regions, it has also helped in improving the Company's profitability. The oriental project continues with improved agronomic practices.

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

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

Your Company is committed to encourage education to children in the tobacco growing areas by way of creating infrastructure for school buildings and spreading awareness in the villages to curb child labour.

PRODUCTION AND PLANT MODERNISATION

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

During the year, a total of 147 technicians (116 Mechanical & 31 Electrical) have been trained by 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 enhance their job effectiveness.

As on 31st March, 2012, your Company had a strength of 931 employees, with 296 management staff and 635 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 high safety performance for the last 364 days without any accidents.

Gold Award for the year 2011 was presented to your Company by Royal Society for Prevention of Accidents (RoSPA), U.K. for maintaining highest standards in Occupational, Health and Safety.



REPORT OF THE BOARD OF DIRECTORS

Accident Free Award was awarded to your Company by British American Tobacco on 5th April, 2011 for One Year Accident Free from 21st March, 2010 to 20th March, 2011.

Safety Innovation Award was awarded to your Company by Institution of Engineers India on 29th November, 2011.

Environment, Health and Safety (EHS) in day-to-day business operations is given very high priority by your Company. 584 employees and 35 contractors have undergone EHS training and 585 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 2011-12.

Your Company celebrated National Safety Day on 4th March, 2012, by conducting Safety meetings inside the factory and all contractors attended the safety programme conducted by National Safety Council.

Surveillance Audit of ISO 14001: 2004 & OHSAS 18001: 2007 for the

year 2011-12 and recertification audit for the year 2012-16 were conducted by Registro Italiano Navale India (RINA).

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 the workers canteen boiler.

Water Consumption was reduced by 25 Kl/day in 2011-12.

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 ₹142.51 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 greater success though industry growth remained moderate.

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 periodically during the year. The Company predominantly deploys money in debt funds of reputed mutual funds and tax free bonds issued by government bodies. Such investments earned ₹16 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



REPORT OF THE BOARD OF DIRECTORS

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, 2012, your Company does not have any deposits for the purpose of its business. Unclaimed deposits amounting to ₹8,000 are 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, 2005 remaining unpaid would be deposited by 30th August, 2012 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.

The status of unclaimed shares as on 31st March, 2012 is given in the Report on Corporate Governance.

CORPORATE GOVERNANCE

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

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

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

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

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



REPORT OF THE BOARD OF DIRECTORS

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. Peter G. Henriques and Mr. Milind A. Kharat retire from the Board and being eligible, offer themselves, for re-election. Your Board recommends their re-appointment.

Mr. Peter G. Henriques

Mr. Peter G. Henriques was appointed at the Annual General Meeting held on 16th July, 2010. He is now due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Henriques holds Bachelor of Arts degrees in History and International Relations from Syracuse University in New York, and a Master's degree in International Affairs from Columbia University in New York City.

Mr. Henriques has been in the tobacco industry for 20 years and is currently positioned in B.A.T. Marketing (Singapore) Representative Office, Vietnam.

Mr. Henriques neither holds any shares in the Company nor is related to any other Director of the Company.

Mr. Milind A. Kharat

Mr. Milind A. Kharat was 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. Kharat is a Post Graduate in Economics, a Bachelor of Law and a Fellow of Insurance Institute of India (FIII). He has rich experience of more than three decades in the General Insurance Industry. He was the Chief Metropolitan Magistrate appointed by Government of Maharashtra. He made significant contributions for revision of Fiji's Insurance Act, 1998. He served as an Executive Member on the National Road Safety Council of Fiji representing insurance industry. He is an Executive Member of Foreign Non-Life Insurance Association of Japan. He is a Director of United India Insurance Company Limited and also the Chairman cum Managing Director of Agriculture Insurance Company of India Limited.

Mr. Kharat neither holds any shares in the Company nor is related to any other Director of the Company.

Directors Appointment

Mr. Devraj Lahiri

Mr. Devraj Lahiri has been appointed as Director and Wholetime Director of the Company with effect from 1st August, 2011, at the Board Meeting held on 14th July, 2011, to hold office for a period of five years with effect from 1st August, 2011 to 31st July, 2016 (both days inclusive).

Mr. Devraj Lahiri is a Commerce graduate from Calcutta University and Masters in Business Administration from Indian Institute of Social Welfare and Business Management, Kolkata. He

joined the Company in 2001 and has made significant contributions during his association with the Company. He is a member of the Committee of Directors and Shareholders Grievance Committee of the Company.

Mr. Devraj Lahiri neither holds any shares in the Company nor is related to any other Director of the Company.

Mr. Raymond S. Noronha

Mr. Raymond S. Noronha was appointed as Managing Director on the Board of your Company with effect from 1st November, 1998 and is due to retire on 2nd September, 2012.

The Board of Directors at its meeting held on 17th April, 2012 recommended for the approval of the Members, the appointment of Mr. Raymond S. Noronha as a Non-Executive Director of the Company with effect from 3rd September, 2012. Appropriate resolution seeking your approval to the appointment is appearing in the Notice convening the 81st Annual General Meeting of your Company.

Mr. Noronha is a B.A. (Hons.) from St. Stephen's College, Delhi and attended the Wharton Advanced Management Program (1995) at Philadelphia, USA. He has had over 36 years of varied experience in the cigarette business both international and domestic and has held several top level positions for over a decade. He is also a director on the board of the Tobacco Institute of India.

Mr. Noronha neither holds any shares in the Company nor is related to any other Director of the Company.

**REPORT OF THE BOARD OF DIRECTORS****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.

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 1999-00, your Company had incurred a total loss of ₹53.68 crore, of which ₹44.18 crore was claimed as a loss under the head 'Income from Business' and ₹9.50 crore was claimed as a capital loss under the provisions of the Income Tax Act. The Income Tax Department has disallowed the entire amount excepting ₹5.70 crore which was allowed as a capital loss. The Commissioner of Income Tax (Appeals) further allowed ₹11.24 crore out of the balance amount of ₹47.98

crore, on appeal before him and the same was upheld by the Income Tax Appellate Tribunal. Your Company has preferred an appeal against the above order and the matter is now before the Hon'ble High Court of Andhra Pradesh.

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

b. North East

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 sent a demand notice seeking payment of ₹19.3 crore being tax payable along with interest which was paid by



your Company. Your Company will contest the same.

c. **Subsidiary Company**

During the financial year 1998-99, your Company's erstwhile 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 Commissioner of Income Tax (Appeals), 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 1998-99 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, which was pleased

to pass a judgement in your Company's favour. A Caveat has however been filed by your Company in Supreme Court by way of abundant caution.

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 charges against the Managing Director of your Company were 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, though the case was listed a couple of times. The case is likely to be posted for final hearing in July, 2012.

iii. **Entry Tax**

As mentioned in last year's Report, several High Courts in the country including those of Andhra Pradesh, Kerala, Tamilnadu and Assam have struck down the levy of Entry Tax on the ground that it is violative of Article 301 and not saved under Article 304(b) of the Constitution, as it is not compensatory in the manner required in terms of the Supreme Court judgement in the case of M/s. Jindal Stainless Limited. Thereafter, several states such as Uttar Pradesh, Bihar 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. The Hon'ble High Court of Allahabad has passed a judgement upholding the constitutional validity of Entry Tax



REPORT OF THE BOARD OF DIRECTORS

in Uttar Pradesh with retrospective effect, against which your Company filed an affidavit in the Supreme Court. In terms of the interim orders of the Supreme Court, your Company had to pay ₹6.15 crore as deposit pending disposal of the batch of appeals. The case has now been referred to the Supreme Court along with other cases.

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 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. Final hearing has been completed and the appeals were reserved for judgement. The matter was again listed for hearing on 27th March, 2012 for further final hearing and adjourned to the last week of April 2012.

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 up to 30th November, 2009. Interest is payable separately till the date of payment. Your Company's appeal before CESAT was heard favourably and a stay with complete waiver of pre-deposit has been granted in the interim as prayed for by your Company. Your Company continues to receive show cause notices for subsequent periods.



REPORT OF THE BOARD OF DIRECTORS

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 ₹3.9 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 application for interim injunction. The main suit is now posted for trial. ITC Limited has filed an appeal before the Division Bench of the Calcutta High Court against the interim Order of the Single Bench. By this Order dated 16th May, 2011 the Division Bench has declined to stay the Order, while admitting the appeal.

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

**REPORT OF THE BOARD OF DIRECTORS**

their recommendations, a new set of labelling requirements has been prescribed under the COTP Rules which were published on 16th March, 2008. However, these have again been modified based on representations made. The revised implementation date as originally envisaged from 30th November, 2008 has been deferred and the pictorial warnings fully came into effect from 31st May, 2009 and were further revised with effect from 1st December, 2011.

- 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 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 Union Budget, the Government has after several decades introduced ad-valorem as an additional levy apart from specific duty based on lengths which cigarettes are subject to. The impact of the above increase amounts to 11% on excise for your Company.

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.

Your Company is also exploring opportunities of launching branded non-smoke tobaccos as it expects this segment to provide opportunities in future.

The challenge to cope with increased bout of taxation across various states would continue.

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 17th day of April, 2012.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.



ANNEXURE TO THE REPORT OF THE BOARD OF DIRECTORS

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st March, 2012.

A. CONSERVATION OF ENERGY

1. Energy conservation measures taken:
 - i. UPS for Packers
 - ii. UPS for compressor
 - iii. Compressor air audit
 - iv. Modification in pneumatic feed system
 - v. Closed loop control for DRF of making m/c
 - vi. Energy conservation awareness programme conducted for employees
2. Additional investments and proposals, if any, being implemented for reduction of consumption of energy:
 - i. UPS for Makers
 - ii. Third party detailed energy audit at the plant
 - iii. Effective monitoring of the energy consumption area wise and m/c wise
 - iv. VFD's for Doffers of tobacco bulking bins
 - v. Energy conservation awareness programme for employees

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 2%

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/products
 - iv. Conducted Product Space Mapping (PSM) for RSFT & KSFT brands, utilized findings in development of new blends
 - v. Conducted audits and experiments in PMD and improved cut tobacco quality by further modernising/modifying technology
 - vi. Introduced new technology at SMD to improve finished product quality consistency

- vii. Tracked Retail Quality Index (RQI) and machine on line data and carried out quality based maintenance
 - viii. Trained 555 workmen and gave inputs with respect to technical skills development and product quality awareness, evaluation and improvement
 - ix. Trained 94 key workmen of various production lines on SQC techniques, for better understanding of statistical quality data generated online
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. Received 'Certificate of continuance' - ISO 17025 from 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

**ANNEXURE TO THE REPORT OF THE BOARD OF DIRECTORS**

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 material	
4.	Expenditure on R&D:	₹ Lakhs
a.	Capital	4.26
b.	Recurring	376.06
	TOTAL	380.32
c.	Total R&D expenditure as a percentage of:	
	Gross Turnover	0.24%
	Net Turnover	0.56%

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 and production of low pesticide residue
 - v. Upgradation of processing & manufacturing technology for better yield and reduction in NTRM
2. Initiatives taken to increase exports and development of new export markets for products & services and export plans:
 - i. Selection of tobacco, smoke analysis, on-line testing of cigarettes produced
 - ii. Modernisation of process and technology to upgrade quality

3. Total Foreign Exchange:

Used:	₹ Lakhs
Raw Materials :	845.9
Spare Parts :	58.8
Capital Goods :	2613.1
Overseas Travel, Advertisement & Subscriptions, etc. :	167.7
Dividends :	2234.7
	<u>5920.2</u>
Earned:	₹ Lakhs
Cigarettes (CIF, C&F & FOB) :	—
Tobacco (CIF, C&F & FOB) :	15414.6
Cut Tobacco (CIF, C&F & FOB) :	268.8
	<u>15683.4</u>

On behalf of the Board,

R.V.K.M. SURYARAU
Chairman

Dated this 17th day of April, 2012.
Azamabad, Hyderabad - 500 020,
Andhra Pradesh.



VST Industries Limited

Auditors' Certificate regarding compliance of conditions of Corporate Governance

To the Members of
VST Industries Limited

We have examined the compliance of conditions of Corporate Governance by VST Industries Limited (the "Company"), for the year ended 31st March, 2012, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges in India.

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

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

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

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

N. K. VARADARAJAN
Partner
Membership No. 90196

Hyderabad, 17th April, 2012.



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, 2012.

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

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, 2012, your Company's Board has eight Directors, out of whom five Directors are Non-Executive Directors including the Chairman and the remaining three 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. R.V.K.M. Suryarau	Chairman - Independent Non-Executive Director	None	-	-
Mr. Raymond S. Noronha	Managing Director	None	1	-
Mr. T. Lakshmanan	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 ¹	Non-Executive Director	None	-	-
Mr. Milind Anna Kharat ²	Independent Non-Executive Director	None	2	-
Mr. Devraj Lahiri ³	Wholetime Director	None	-	-

¹ Representing equity interest of promoter group - British American Tobacco, U.K.

² Representing equity interest of General Insurers' (Public Sector) Association of India.

³ Appointed as Additional Wholetime Director with effect from 1st August, 2011.

**REPORT ON CORPORATE GOVERNANCE**

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

(B) Non-Executive Directors' compensation and disclosures

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

(C) Other provisions as to Board and Committees

- i. During the financial year ended 31st March, 2012, four meetings of the Board were held on 13th April, 2011, 14th July, 2011, 13th October, 2011 and 17th January, 2012.

The table below gives the attendance of Directors at Board Meetings and at the Annual General Meeting (AGM) for the year ended 31st March, 2012:

Name of the Director	No. of Board Meetings attended	Attendance at last AGM held on 14th July, 2011
Mr. R.V.K.M. Suryarau	4	Yes
Mr. Raymond S. Noronha	4	Yes
Mr. T. Lakshmanan	4	Yes
Mr. N. Sai Sankar	4	Yes
Mr. S. Thirumalai	3	Yes
Mr. Peter G. Henriques	4	Yes
Mr. Milind Anna Kharat	4	Yes
Mr. Devraj Lahiri ¹	2	NA

¹ Appointed as Additional Wholetime Director with effect from 1st August, 2011.

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

**REPORT ON CORPORATE GOVERNANCE**

- Any judgement or order which may have passed strictures on the conduct of the Company or taken an adverse view regarding another enterprise that can have negative implications on the Company;
- Quarterly details of foreign exchange exposure and the steps taken by the management to limit the risks of adverse exchange rate movement; and
- Non-compliance of any regulatory, statutory or listing requirements as well as shareholders services such as non-payment of dividend and delay in share transfer, if any.

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, 2012.

For VST INDUSTRIES LIMITED

RAYMOND S. NORONHA
Managing Director

Hyderabad, 17th April, 2012

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, 2012 four audit committee meetings were held on 12th April, 2011, 13th July, 2011, 12th October, 2011 and 16th January, 2012.

Name of the Director	Position	Number of Meetings attended
Mr. T. Lakshmanan	Chairman	4
Mr. R.V.K.M. Suryarau	Member	4
Mr. S. Thirumalai	Member	4



REPORT ON CORPORATE GOVERNANCE

All the members of the Audit Committee are Independent Directors.

Mr. N. Sai Sankar, 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 14th July, 2011.

(B) Powers of Audit Committee

The Audit Committee is endowed with the following powers:

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

(C) Role of Audit Committee

The role of the Audit Committee includes the following:

- overseeing the Company's financial reporting process and disclosure of financial information to ensure that the financial statements reflect 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; and
 - ❖ qualifications in draft audit report.
- reviewing the Company's financial and risk management policies;
- reviewing with the management, performance of statutory and internal auditors, the adequacy of internal control systems;
- discussing with internal auditors of any significant findings and follow-up thereon; 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, 2012 four meetings of Shareholders Grievance Committee were held on 12th April, 2011, 13th July, 2011, 12th October, 2011 and 16th January, 2012.

Name of the Director	Position	Number of Meetings attended
Mr. S. Thirumalai	Chairman	4
Mr. R.V.K.M. Suryarau	Member	4
Mr. Raymond S. Noronha	Member	4
Mr. N. Sai Sankar	Member	4
Mr. T. Lakshmanan	Member	4
Mr. Devraj Lahiri ¹	Member	1

¹ Appointed as Member of the Shareholders Grievance Committee with effect from 13th October, 2011.

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 0460
 Fax : +91 40 2761 5336
 Email : investors@vstind.com

Number of shareholders' complaints received and attended:

Nature of complaints/queries	Received	Attended
Non-receipt of share certificates - transfers	4	4
Transmission of shares	82	82
Non-receipt of dividend warrants	25	25
Matters relating to dematerialization of shares	4	4
Non-receipt of Annual Report	5	5
Letters from stock exchanges/SEBI	2	2



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

IV. SUBSIDIARY COMPANY

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

V. DISCLOSURES

A. Basis of related party transactions

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

The details of transactions with related parties were placed before the Audit Committee and the Committee has reviewed the same for the year ended 31st March, 2012.

The details of related party transactions are disclosed in Note No.30 - Notes on Financial Statements to the Accounts in the Annual Report.

B. Disclosure of accounting treatment

The Company has complied with the appropriate accounting policies and has ensured that they have been applied consistently. There have been no deviations from the treatment prescribed under the Companies (Accounting Standards) Rules, 2006 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 generally 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, 2012**

₹

Name	Position	Salary	Benefits & Contributions to Provident/Pension & Other Funds	Performance Linked Bonus	Commission	Sitting Fees	Total
Mr. R.V.K.M. Suryarau	Chairman - Independent Non-Executive Director	-	-	-	10,00,000	2,20,000	12,20,000
Mr. R.S. Noronha	Managing Director	1,53,55,200	1,17,39,136	2,30,32,800	-	-	5,01,27,136
Mr. N. Sai Sankar	Deputy Managing Director & Secretary	94,72,200	56,60,320	1,42,08,300	-	-	2,93,40,820
Mr. T. Lakshmanan	Independent Non-Executive Director	-	-	-	6,50,000	2,20,000	8,70,000
Mr. S. Thirumalai	Independent Non-Executive Director	-	-	-	6,50,000	2,00,000	8,50,000
Mr. Peter G. Henriques	Non-Executive Director	-	-	-	^	^	-
Mr. Milind Anna Kharat	Independent Non-Executive Director	-	-	-	@	@	-
Mr. Devraj Lahiri ¹	Wholetime Director	20,00,000	16,21,433	12,75,000	-	-	48,96,433

¹ Appointed as Additional Wholetime Director with effect from 1st August, 2011.

^ ₹1,00,000 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.

@ ₹80,000 sitting fees and ₹1,00,000 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 etc.

The appointment of Executive Directors is governed by resolutions passed by the Board of Directors and the Members of the Company, which cover the terms and conditions of such appointment read with the service rules of the Company. The notice period for Executive Directors is six months as per Article No.101 of the 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.



REPORT ON CORPORATE GOVERNANCE

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

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

Members of the Company 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 with effect from 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

For the year ended 31st March, 2012 the number of shares held by Non-Executive Directors is as follows:

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

There are no convertible instruments issued by the Company and hence none held by the Non-Executive Directors during the year ended 31st March, 2012.

(A) Management

- i. The Management Discussion and Analysis is part of Directors' Report to the Members is provided elsewhere in the Annual Report.
- ii. For the year ended 31st March, 2012 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

- i. The quarterly results are sent to the stock exchanges on which the Company's shares are listed so as to display the same on its own 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 periodic intervals.
- ii. To expedite the process of share transfers, your Board has delegated the power to Registrar and Transfer Agents - M/s. Karvy Computershare Private Limited [with effect from 1st February, 2012].

VI. CEO/CFO CERTIFICATION

The CEO/CFO certification for the year ended 31st March, 2012 has been attached 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 are being reviewed for implementation.

**REPORT ON CORPORATE GOVERNANCE****3. GENERAL BODY MEETINGS**

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

Year	Venue	Date	Time
2010-11	Hotel Taj Krishna, Banjara Hills, Hyderabad	14.7.2011	10.30. a.m.
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.

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

Annual General Meeting held on 14th July, 2011

- No special resolutions were passed

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

- Resignation of Wholetime Director & Secretary
- Payment of ad-hoc performance payment to Wholetime Directors
- Payment of commission to Non-Wholetime Directors
- Alteration of Article 93 of the Articles of Association of the Company

iii. Special Resolution passed through Postal Ballot on 13th December 2011 - details of voting pattern

For change in place of keeping Register of Members due to change in Registrar & Transfer Agents from M/s. Sathguru Management Consultants Private Limited to M/s. Karvy Computershare Private Limited.

Particulars	No. of postal ballot	No. of shares	% of total valid votes cast through postal ballot
For the Resolution	594	56,75,650	99.89
Against the Resolution	24	6,060	0.11
Total number of valid votes cast	618	56,81,710	100.00
Invalid ballot papers	34	57,617	-

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 - BSE & NSE as per the requirements of Listing Agreement. During the year, there were no presentations made to institutional investors or to the analysts.
- There have been no instances of non-compliance by 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***

12th July, 2012 at 10.30 a.m. at Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad - 500 034, Andhra Pradesh.

Financial Calendar: 2012-13 (Tentative)

First quarter results	July, 2012
Second quarter and half yearly results	October, 2012
Third quarter results	January, 2013
Annual results	April, 2013

Dates of Book Closure

Tuesday, 19th June, 2012 to Tuesday, 26th June, 2012 (both days inclusive)

Dividend Payment Date

10th August, 2012

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 2012-13 has been paid to the above stock exchanges.

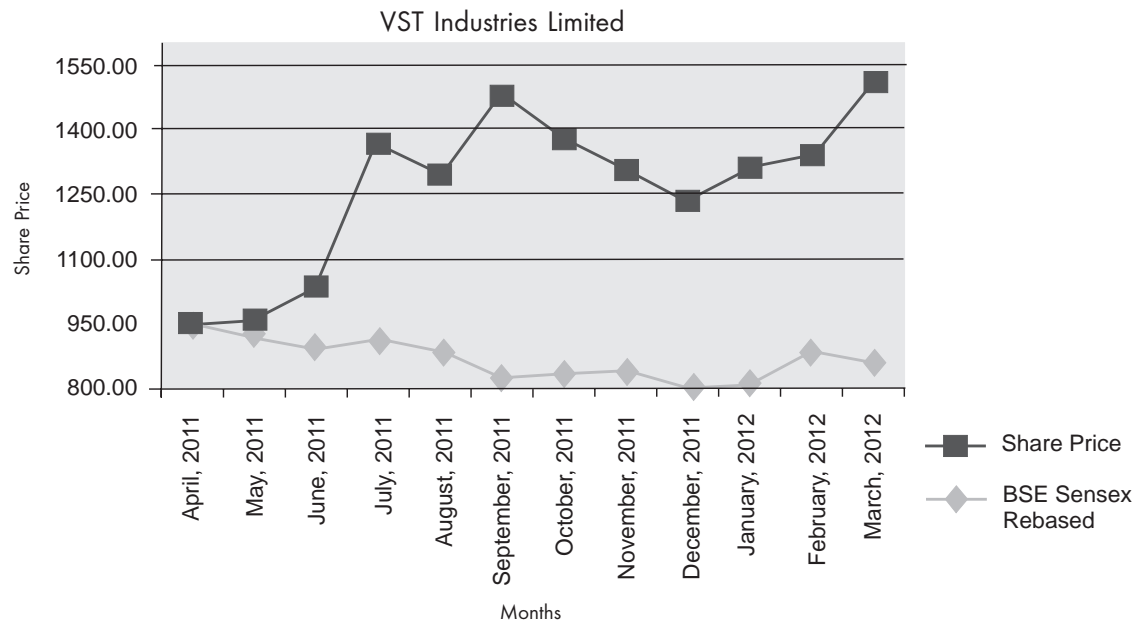
Market Price Data: High/Low during each month in the last financial year (2011-12)

₹

Period	Bombay Stock Exchange Limited		National Stock Exchange of India Limited	
	High	Low	High	Low
April, 2011	943.90	635.10	943.00	630.25
May, 2011	958.80	831.00	959.80	833.30
June, 2011	1033.00	851.00	1034.00	851.30
July, 2011	1362.00	987.00	1362.00	972.60
August, 2011	1297.40	1071.05	1300.00	1125.00
September, 2011	1483.00	1215.00	1484.00	1215.75
October, 2011	1374.70	1235.05	1373.05	1238.00
November, 2011	1309.50	1083.90	1309.95	1056.30
December, 2011	1233.35	1025.00	1234.00	1025.00
January, 2012	1306.00	1056.15	1310.00	1053.10
February, 2012	1340.00	1200.00	1354.60	1195.00
March, 2012	1506.70	1250.00	1510.00	1190.00

**REPORT ON CORPORATE GOVERNANCE****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 Registrar for all your shares related services and queries whose address is given below:

Karvy Computershare Private Limited
Plot No.17 to 24, Vittal Rao Nagar,
Madhapur, Hyderabad - 500 081, Andhra Pradesh

Tel : +91 40 2342 0815 to 24

Fax : +91 40 2342 0814

Email : einward.ris@karvy.com

Contact Person: Mr. T.P. Raju, General Manager

Mr. R. Chandra Sekher, Senior Manager [Registrar in Securities]

Share Transfer System

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

Requests for dematerialisation of shares are processed and confirmation is given to the respective depositories i.e., National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) within 2 working days from the date of receipt of request. There are no pending share transfers as at 31st March, 2012.



Reconciliation of Share Capital Audit

For each quarter of the financial year 2011-12, a qualified Company Secretary in Practice has carried out audit under Regulation 55A of SEBI (Depositories and Participants) Regulations, 1996, as amended to reconcile the total admitted capital with NSDL and CDSL and total issued and listed capital. The audit report confirms that the total issued/paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL and the same is filed with BSE & NSE.

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

Categories of shareholding as on 31st March, 2012

Category	Number of Shares Held	Percentage of Shareholding
Promoters and associates	49,65,902	32.16
Foreign Institutional Investors	4,54,307	2.94
Insurance companies	7,65,854	4.96
Mutual Funds	16,09,903	10.43
Nationalised banks and other banks	15,720	0.10
NRIs and OCBs	93,268	0.60
Bodies corporate	49,93,853	32.34
Indian public and others	25,43,113	16.47
TOTAL	1,54,41,920	100.00

Distribution of shareholding as on 31st March, 2012

Slab	No. of Shares	%	No. of Shareholders	%
1 - 500	10,42,044	6.75	11,974	92.05
501 - 1000	4,05,555	2.63	556	4.28
1001 - 2000	3,22,054	2.09	227	1.75
2001 - 3000	2,58,117	1.67	104	0.80
3001 - 4000	1,16,583	0.75	33	0.25
4001 - 5000	87,125	0.56	20	0.15
5001 - 10000	2,70,752	1.75	37	0.28
10001 and above	1,29,39,690	83.80	57	0.44
Total	1,54,41,920	100.00	13,008	100.00
Physical Mode	8,30,663	5.38	4,133	31.77
Demat Mode	1,46,11,257	94.62	8,875	68.23

**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, 2012, 1,46,11,257 equity shares of the Company constituting 94.62% of Issued and Subscribed Capital, were held in depository mode. The processing activities with respect to the requests received for dematerialisation are generally completed within two working days. Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's shares is INE710A01016. The annual custody fee for the financial year 2012-13 has been paid to NSDL and CDSL, the depositories.

The Company's shares are regularly traded both on the 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.169 has been transferred to Investor Education and Protection Fund Account on 26th August, 2011.

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 31.03.2012 ₹	Due for transfer to IEPF on
2004-05	170	28.07.2005	19,30,24,000	23,35,911	30.08.2012
2005-06	171	27.07.2006	19,30,24,000	25,46,992	31.08.2013
2006-07	172	18.07.2007	30,88,38,400	38,68,220	23.08.2014
2007-08	173	17.07.2008	30,88,38,400	38,20,860	22.08.2015
2008-09	174	16.07.2009	46,32,57,600	57,69,510	21.08.2016
2009-10	175	16.07.2010	46,32,57,600	62,32,890	21.08.2017
2010-11	176	14.07.2011	69,48,86,400	68,53,905	18.08.2018

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 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 above details to their respective Depository Participants [DPs].

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

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

Members holding shares in physical form, who wish to avail NECS facility, may notify their NECS mandate in the prescribed form to the Company. The NECS mandate form can be furnished by the Registrar and Transfer Agents on request or can be downloaded from the Company's website www.vsthyd.com available under the section Investor Relations - NECS/Bank Mandate. Members holding shares in dematerialised form are requested to update their new bank account number under CBS with their respective Depository Participants [DPs].

DEPOSITORY SERVICES

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

National Securities Depository Limited

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 could be obtained from Registrar - Karvy Computershare 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.

**REPORT ON CORPORATE GOVERNANCE****DETAILS OF UNCLAIMED SHARES**

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 - 1st April, 2011	331	40,749
Members to whom share certificates were returned pursuant to the reminders sent	46	10,360
Members to whom shares were transferred - through rematerialisation	9	926
Outstanding shares lying at the end of the year - 31st March, 2012	276	29,463

The Members who have not claimed the shares still from the above returned undelivered cases are requested to contact the Registrar - Karvy Computershare 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 notes on accounts as well as the Cash Flow Statement for the year ended 31st March, 2012.
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, 17th April, 2012



AUDITORS' REPORT

To the Members of
VST Industries Limited

Report on the Financial Statements

1. We have audited the accompanying financial statements of VST Industries Limited (the "Company"), which comprise the Balance Sheet as at 31st March, 2012, the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information, which we have signed under reference to this report.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend

on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, and to the best of our information and according to the explanations given to us, the accompanying financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2012;
 - (b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
 - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

7. As required by 'the Companies (Auditor's Report) Order, 2003', as amended by 'the Companies (Auditor's Report) (Amendment) Order, 2004', issued by the Central



AUDITORS' REPORT

Government of India in terms of sub-section (4A) of Section 227 of the Act (hereinafter referred to as the "Order"), and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

8. As required by Section 227(3) of the Act, we report that:

- (a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- (c) The Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;

- (d) In our opinion, the Balance Sheet, Statement of Profit and Loss 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, 2012, and taken on record by the Board of Directors, none of the Directors is disqualified as on 31st March, 2012, from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

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

N. K. VARADARAJAN
Partner
Membership No. 90196

Hyderabad, 17th April, 2012.



ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 7 of the Auditors' Report of even date to the Members of VST Industries Limited on the financial statements as of and for the year ended 31st March, 2012]

1. (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
(b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies 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 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, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods.
Further on the basis of our examination of the books and records of the Company and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
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, the question of 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 or any 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 its size and the nature of its business.
8. We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act, and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
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 and other material statutory dues as applicable with the appropriate authorities.

**ANNEXURE TO AUDITORS' REPORT**

(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 and excise duty as at 31st March, 2012 which have not been deposited on account of a dispute 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
		204.99	April 2002 to September 2011	Same grounds as the above matter pending at Hon'ble Supreme Court of India
	Service tax credit ineligibility	3.01	April 2008	Customs, Excise & Service Tax Appellate Tribunal
	Excise duty on Tobacco Refuse	680.53	January 2005 to October 2010	Customs, Excise & Service Tax Appellate Tribunal
	Excise Duty on Waste and CENVAT Credit	2.23	April 2005 to March 2011	Customs, Excise & Service Tax Appellate Tribunal
	CENVAT Credit	0.27	September 2009 to August 2010	Commissioner (Appeal)

10. The Company has no accumulated losses.
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 or debentureholders.
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 and does not have any debentures outstanding as at the year end.
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 any such case by the management.

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

N. K. VARADARAJAN
Partner

Hyderabad, 17th April, 2012. Membership No. 90196



BALANCE SHEET AS AT 31ST MARCH, 2012

₹ in Lakhs

	Notes	2012	2011
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	2	1544.19	1544.19
(b) Reserves and Surplus	3	<u>27475.02</u>	<u>24899.74</u>
		29019.21	26443.93
2. Non-Current Liabilities			
(a) Long-Term Provisions	4	49.99	30.33
3. Current Liabilities			
(a) Trade Payables	5	4702.79	3199.09
(b) Other Current Liabilities	6	25730.71	26126.29
(c) Short-Term Provisions	7	<u>11665.54</u>	<u>8076.14</u>
		42099.04	37401.52
TOTAL		<u><u>71168.24</u></u>	<u><u>63875.78</u></u>
II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets			
i) Tangible Assets	8A	16340.66	15236.71
ii) Intangible Assets	8B	-	5.37
iii) Capital Work-in-Progress		<u>12.43</u>	<u>6.64</u>
		16353.09	15248.72
(b) Non-Current Investments	9	2174.03	2174.03
(c) Deferred Tax Assets (Net)	10	1153.47	1388.20
(d) Long-Term Loans and Advances	11	639.45	927.01
(e) Other Non-Current Assets	12	0.82	0.82
2. Current Assets			
(a) Current Investments	13	20200.00	14925.20
(b) Inventories	14	23825.09	23556.97
(c) Trade Receivables	15	1262.11	1276.62
(d) Cash and Cash Equivalents	16	3597.45	2896.17
(e) Short-Term Loans and Advances	17	1806.30	1386.93
(f) Other Current Assets	18	<u>156.43</u>	<u>95.11</u>
		50847.38	44137.00
TOTAL		<u><u>71168.24</u></u>	<u><u>63875.78</u></u>

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

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

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

N.K. VARADARAJAN
Partner
Membership No. 90196
Hyderabad, 17th April, 2012.

On behalf of the Board,

R.V.K.M. SURYARAU Chairman
R. S. NORONHA Managing Director
N. SAI SANKAR Deputy Managing
Director & Secretary

Hyderabad, 17th April, 2012.



STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH, 2012

VST Industries Limited

₹ in Lakhs

	Notes	2012	2011
I. Revenue from operations			
Sales (Gross)	19	159845.92	139653.74
Less: Excise Duty		91833.16	81810.52
Sales (Net)		68012.76	57843.22
Other Operating Income	20	430.17	310.34
		68442.93	58153.56
II. Other Income	21	2572.01	1711.08
III. Total Revenue (I+II)		71014.94	59864.64
IV. Expenses			
Cost of Materials Consumed	22	30473.42	29024.42
Changes in Inventories of Finished Goods and Work-in-Progress	23	344.46	(490.21)
Employee Benefits Expense	24	6195.38	6059.70
Depreciation, Amortisation and Impairment Expense	25	2482.66	2441.65
Other Expenses	26	10453.21	9303.26
Total Expenses		49949.13	46338.82
V. Profit before Tax Expense (III-IV)		21065.81	13525.82
VI. Tax Expense			
Current tax	27	6580.22	4159.77
Deferred tax		234.73	(135.00)
		6814.95	4024.77
VII. Profit after Tax Expense (V-VI)		14250.86	9501.05
Basic and diluted Earnings per Share (Face Value ₹10 each) - ₹	28	92.29	61.53

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

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

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

N.K. VARADARAJAN
Partner
Membership No. 90196

Hyderabad, 17th April, 2012.

On behalf of the Board,

R.V.K.M. SURYARAU

Chairman

R. S. NORONHA

Managing Director

N. SAI SANKAR

Deputy Managing
Director & Secretary

Hyderabad, 17th April, 2012.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2012



VST Industries Limited

₹ in Lakhs

	2012	2011
A. Cash flow from operating activities		
Profit before Tax Expense	21065.81	13525.82
Adjustments:		
Depreciation, Amortisation and Impairment (Net)	2482.66	2441.65
Liabilities no longer required written back	(16.24)	(135.90)
Profit on Sale of Fixed Assets (Net)	(518.80)	(55.70)
Unrealised Loss on Exchange (Net)	170.06	116.44
Interest on Loans and Deposits, etc.	(343.15)	(203.17)
Dividend Income from - Current Investments	(782.06)	(542.13)
- Long-Term Investments	(2.69)	(2.54)
Profit on Sale of Investments (Net)	(725.34)	(661.62)
Operating Profit before Working Capital changes	<u>21330.25</u>	<u>14482.85</u>
Adjustments for movement in Working Capital:		
Long-Term Provisions	19.66	(7.12)
Trade Payables	1519.94	(1205.92)
Other Current Liabilities	(565.64)	5050.33
Inventories	(268.12)	(5649.42)
Trade Receivables	14.51	174.33
Long-Term Loans and Advances	125.38	(121.04)
Short-Term Loans and Advances	111.59	73.12
Other Current Assets	(58.63)	(25.01)
Cash generated from operations	<u>22228.94</u>	<u>12772.12</u>
Direct Taxes Paid	(7111.18)	(4293.71)
Net cash from operating activities	<u>15117.76</u>	<u>8478.41</u>
B. Cash flow from investing activities		
Purchase of Fixed Assets, Capital Work-in-Progress and Capital Advances	(3438.68)	(4378.26)
Sale of Fixed Assets	522.59	117.49
Purchase of Investments - Non-Current	-	(348.46)
Purchase of Investments - Current	(268220.60)	(231707.86)
Sale/Redemption of Investments - Current	263671.14	234759.01
Dividend Income from - Current Investments	782.06	542.13
- Long-Term Investments	2.69	2.54
Interest on Loans and Deposits, etc.	340.46	196.41
Net cash used in investing activities	<u>(6340.34)</u>	<u>(817.00)</u>
C. Cash flow from financing activities		
Dividends paid on Ordinary Shares	(8076.14)	(5401.99)
Net cash used in financing activities	<u>(8076.14)</u>	<u>(5401.99)</u>
Net increase in cash and cash equivalents	701.28	2259.42
Opening cash and cash equivalents*	2896.17	636.22
Cash and cash equivalents taken over on amalgamation (Refer Note 35)	-	0.53
Closing cash and cash equivalents*	<u>3597.45</u>	<u>2896.17</u>

*Cash and cash equivalents do not include term deposits with original maturity of more than 12 months - ₹0.82 Lakhs (2011 - ₹0.82 lakhs).

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, 17th April, 2012.

On behalf of the Board,

R.V.K.M. SURYARAU Chairman

R. S. NORONHA Managing Director

N. SAI SANKAR Deputy Managing
 Director & Secretary

Hyderabad, 17th April, 2012.



NOTES ON THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION OF ACCOUNTS

The financial statements have been prepared on the basis of going concern, under the historic cost convention, except for certain, tangible assets which are being carried at revalued amounts. These financial statements have been prepared to comply in all material aspects with applicable accounting principles in India, the applicable Accounting standards notified under Section 211 (3C) of the Companies Act, 1956 ("the Act") and the relevant provisions of the Act.

USE OF ESTIMATES

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

FIXED ASSETS

TANGIBLE ASSETS

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

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

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

Accelerated depreciation is provided based on technical evaluation of estimated useful life of an asset. All assets costing less than ₹5,000 are fully depreciated in the year of purchase.

Depreciation on the revalued assets is calculated on the revalued costs and the Revaluation Reserve is adjusted with the difference between the depreciation calculated on such revalued costs and historic costs.

INTANGIBLE ASSETS

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

Rights on time share - over 20 years

Computer software - over 4 years

IMPAIRMENT OF ASSETS

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

INVESTMENTS

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

INVENTORIES

Inventories are valued at lower of cost and net realisable value. Cost is computed on weighted average method. Cost



NOTES ON THE FINANCIAL STATEMENTS

includes purchase cost net of CENVAT credit availed and attributable expenses.

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

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

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.

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

EMPLOYEE BENEFITS

Contribution to various recognised provident funds, approved pension and gratuity funds and contributions to secured retirement 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.

LEASES

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

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

PROPOSED DIVIDEND

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

TAXES ON INCOME

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

Deferred tax is recognised on timing differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods, subject to consideration of prudence. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

FOREIGN EXCHANGE TRANSACTIONS

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

Foreign exchange contracts outstanding as at the period end on account of firm commitment/highly probable forecasted transactions are marked to market and the resultant loss, if any, is recognised in the statement of profit and loss.

In respect of forward contracts entered into to hedge risks associated with foreign currency fluctuation, the premium or discount at the inception of the contract is amortised as income or expense over the period of the contract.

RESEARCH AND DEVELOPMENT

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



NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2012	2011		
2. SHARE CAPITAL				
(a) AUTHORISED				
5,00,00,000 Ordinary Shares of ₹10 each	5000.00	5000.00		
50,00,000 Cumulative Redeemable Preference Shares of ₹100 each	5000.00	5000.00		
	<u>10000.00</u>	<u>10000.00</u>		
(b) ISSUED AND SUBSCRIBED				
1,54,41,920 Ordinary Shares of ₹10 each fully paid up	<u>1544.19</u>	<u>1544.19</u>		
(c) There was no movement in number of Ordinary Shares during the year.				
(d) Details of shareholders holding more than 5% of Ordinary Shares:				
Name of the Shareholders	No. Lakhs	% holding	No. Lakhs	% holding
Bright Star Investments Private Limited	40.07	25.95	40.07	25.95
ITC Limited	1.73	1.12	11.12	7.20
The Raleigh Investment Company Limited	36.20	23.45	36.20	23.45
Tobacco Manufacturers (India) Limited	12.79	8.28	12.79	8.28
3. RESERVES AND SURPLUS				
CAPITAL REDEMPTION RESERVE				
As at the commencement of the year	1000.25		1000.00	
Add: Adjustment on amalgamation (Refer Note 35)	-	1000.25	0.25	1000.25
REVALUATION RESERVE				
As at the commencement of the year	389.12		399.18	
Transfer to Statement of Profit and Loss				
- Depreciation, Amortisation & Impairment Expense (Refer Note 25)	10.04	379.08	10.06	389.12
GENERAL RESERVE				
As at the commencement of the year	14440.29		13416.09	
Add: Adjustment on amalgamation (Refer Note 35)	-		49.20	
Add: Transfer from surplus balance in the Statement of Profit and Loss	1450.00	15890.29	975.00	14440.29
SURPLUS IN THE STATEMENT OF PROFIT AND LOSS				
As at the commencement of the year	9070.08		8378.56	
Add: Profit after Tax Expense for the year	14250.86		9501.05	
Add: Adjustment on amalgamation (Refer Note 35)	-		241.61	
Profit available for appropriation	23320.94		18121.22	
Less: Appropriations				
Transfer to General Reserve	1450.00		975.00	
Dividend on				
Ordinary Shares for the year - Final (Proposed)	10037.25		6948.86	
Dividend Tax thereon	1628.29	10205.40	1127.28	9070.08
	<u>27475.02</u>		<u>24899.74</u>	



NOTES ON THE FINANCIAL STATEMENTS

₹ in Lakhs

	2012	2011
4. LONG-TERM PROVISIONS		
Provision for Employee Benefits (Funded) - Gratuity	49.99	30.33
	<u>49.99</u>	<u>30.33</u>
5. TRADE PAYABLES		
Payables for Goods and Services	4702.79	3199.09
	<u>4702.79</u>	<u>3199.09</u>
Micro and small enterprises		
There are no micro and small enterprises, to whom the Company owes dues, which are outstanding as at 31st March, 2012. 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.		
6. OTHER CURRENT LIABILITIES		
Advances from Customers	11444.06	11133.90
Liability under State and Central Acts, etc.	13312.83	14422.13
Unpaid/Unclaimed Dividends	317.47	268.44
Unclaimed/Unencashed Matured Deposits	0.08	0.08
Preference Share Redemption Account	0.18	0.18
Security Deposits	3.05	2.55
Other Liabilities	653.04	299.01
	<u>25730.71</u>	<u>26126.29</u>
There is no amount due and outstanding to be credited to Investor Education and Protection Fund as at the year end.		
Liability under State and Central Acts includes an amount of ₹11120.18 Lakhs (2011 - ₹11287.70 Lakhs) relating to matters pending before various judicial forums in respect of which the date of expected settlement is not ascertainable.		
7. SHORT-TERM PROVISIONS		
Proposed Dividend on Ordinary Shares*	10037.25	6948.86
Dividend Tax thereon	1628.29	1127.28
	<u>11665.54</u>	<u>8076.14</u>
*An amount of ₹65 (2011 - ₹45) per Ordinary Share is proposed to be declared as dividend for the year.		



NOTES ON THE FINANCIAL STATEMENTS

₹ in Lakhs

8. FIXED ASSETS	Gross Block						Accumulated Depreciation, Amortisation & Impairment				Net Block	
	Cost/ Revaluation as at 1st April, 2011	Additions	Disposals	Balance as at 31st March, 2012	Balance as at 1st April, 2011	Depreciation for the year	Adjustment on Disposals	Impairment	Balance as at 31st March, 2012	Balance as at 31st March, 2012	Balance as at 31st March, 2011	
A. Tangible assets												
Land	975.37	0.93	-	976.30	-	-	-	-	-	976.30	975.37	
Buildings Freehold	922.12	176.29	-	1098.41	357.07	37.18	-	394.25	704.16	565.05	565.05	
Leasehold Property	1236.17	-	15.77	1220.40	1102.26	20.32	15.46	1107.12	113.28	133.91	133.91	
Plant & Equipments	26000.25	3239.75	277.87	28962.13	12682.22	2278.98	277.04	14684.16	14277.97	13318.03	13318.03	
Furniture & Fixtures	449.35	9.59	7.34	451.60	376.40	24.36	7.18	393.58	58.02	72.95	72.95	
Motor Vehicle	314.69	101.28	64.20	351.77	221.94	67.98	61.71	228.21	123.56	92.75	92.75	
Office Equipment	231.23	67.23	0.08	298.38	152.58	58.51	0.08	211.01	87.37	78.65	78.65	
Total Tangible assets	30129.18	3595.07	365.26	33358.99	14892.47	2487.33	361.47	17018.33	16340.66	15236.71	15236.71	
B. Intangible assets												
Goodwill & Trade Marks	5.81	-	-	5.81	5.81	-	-	-	5.81	-	-	
Computer Software	55.35	-	-	55.35	49.98	5.37	-	55.35	-	5.37	5.37	
Time Share Rights	172.00	-	-	172.00	172.00	-	-	172.00	-	-	-	
Total Intangible assets	233.16	-	-	233.16	227.79	5.37	-	233.16	-	5.37	5.37	
Per Balance Sheet 31st March, 2012	30362.34	3595.07	365.26	33592.15	15120.26	2492.70	361.47	17251.49	16340.66	15242.08	15242.08	
Per Balance Sheet 31st March, 2011	27126.49	4541.21	1305.36	30362.34	13867.29	2369.39	1243.58	127.16	15120.26			

(i) Leasehold property include Buildings on Leasehold Land cost ₹561.86 Lakhs (2011 - ₹577.63 Lakhs), Depreciation ₹488.51 Lakhs (2011 - ₹489.57 Lakhs).

(ii) Deeds of conveyance are to be executed for Land Freehold ₹0.83 Lakhs (2011 - ₹0.83 Lakhs), Building Freehold ₹11.28 Lakhs (2011 - ₹11.28 Lakhs).

(iii) For the year ended 31st March, 2011, the Company had an impairment loss of ₹127.16 lakhs relating to timeshare rights that had been brought down to their recoverable value upon evaluation of their future economic benefit from their use. The loss had been recognised in the Statement of Profit and Loss under the head 'Depreciation, Amortisation & Impairment'.



NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2012	2011
9. NON-CURRENT INVESTMENTS		
Other than Trade - at cost		
Investment in Equity Instruments		
QUOTED		
Duncan Industries Limited		
462 Equity Shares of ₹10 each fully paid up	0.04	0.04
Godfrey Phillips India Limited		
200 Equity Shares of ₹10 each fully paid up	0.01	0.01
GTC Industries Limited		
50 Equity Shares of ₹10 each fully paid up	0.01	0.01
Housing Development Finance Corporation Limited		
6,000 Equity Shares of ₹2 each fully paid up	0.08	0.08
HDFC Bank Limited		
2,500 Equity Shares of ₹2 each fully paid up	0.05	0.05
	<u>0.19</u>	<u>0.19</u>
UNQUOTED		
Andhra Pradesh Gas Power Corporation Limited		
1,39,360 shares of ₹10 each fully paid up	220.38	220.38
Twin Towers Premises Co-operative Society Limited		
10 Shares of ₹50 each fully paid up		
(Cost ₹500, Previous Year - ₹500)		
Tobacco Institute of India - (Limited by Guarantee Maximum Contribution ₹10.00 Lakhs)		
ITC Classic Real Estate Finance Limited		
50,00,000 Equity Shares of ₹10 each fully paid up		
ITC Agrotech Finance and Investments Limited		
23,82,500 Equity Shares of ₹10 each fully paid up		
	<u>220.38</u>	<u>220.38</u>
Investment in Government/Trust Securities		
National Savings Certificate cost ₹500 (Previous Year - ₹500)		
Lodged with Government Authority		
Investment in Debentures or Bonds		
India Infrastructure Finance Company Limited		
1,350 6.85% Tax Free Bonds of ₹1,00,000 each fully paid up	1348.46	1348.46
500 6.85% Tax Free Bonds - Series II of ₹1,00,000 each fully paid up	500.00	500.00
ITC Agrotech Finance and Investments Limited		
25,00,000 Floating Rate Unsecured Optionally Fully Convertible Debentures of ₹100 each fully paid up		
	<u>1848.46</u>	<u>1848.46</u>
Investment in Mutual Funds		
HDFC - Top 200 Fund		
50,000 units of ₹10 each fully paid up	5.00	5.00
Sundaram BNP Paribas Energy Opportunities Fund - Growth		
10,00,000 units of ₹10 each fully paid up	100.00	100.00
	<u>105.00</u>	<u>105.00</u>
Total of Investments	<u>2174.03</u>	<u>2174.03</u>
Aggregate amount of Quoted Investments	0.19	0.19
(Market Value - ₹59.87 Lakhs (Previous Year - ₹57.75 Lakhs)		
Aggregate amount of Other Investments	2173.84	2173.84



NOTES ON THE FINANCIAL STATEMENTS

₹ in Lakhs

	2012	2011
10. DEFERRED TAX ASSET - NET		
Deferred tax asset		
On employees' separation and retirement	161.06	247.34
On State and Central Taxes, etc.	2146.87	2252.94
On other timing differences	38.35	43.35
	<u>2346.28</u>	<u>2543.63</u>
Deferred tax liability		
On fiscal allowances on fixed assets	1192.81	1155.43
	<u>1153.47</u>	<u>1388.20</u>
11. LONG - TERM LOANS AND ADVANCES		
(Considered Good)		
Secured		
Loans to Employees	55.79	69.40
Unsecured		
Capital Advances	521.38	683.56
Security Deposits	24.47	24.84
Advances recoverable in cash or in kind or for value to be received	19.91	116.41
Loans to Employees	17.90	32.80
	<u>639.45</u>	<u>927.01</u>
12. OTHER NON-CURRENT ASSETS		
(Unsecured, Considered Good)		
Balances with Banks		
- On Term Deposits with original maturity of more than 12 months	0.82	0.82
Lodged with Government Authorities	<u>0.82</u>	<u>0.82</u>



NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

₹ in Lakhs

	2012	2011
13. CURRENT INVESTMENTS		
Other than Trade and Unquoted - at lower of cost and fair value		
Investment in Mutual Funds		
Birla Sun Life Savings Fund Institutional - Growth 7,80,879 (2011 - 5,35,865) units of ₹100 each fully paid up	1500.00	1000.00
Birla Sun Life FTP Series EQ Growth 50,00,000 (2011 - Nil) units of ₹10 each fully paid up	500.00	-
Birla Sun Life Short Term FMP Series 29 Dividend - Payout 50,00,000 (2011 - Nil) units of ₹10 each fully paid up	500.00	-
Birla Sun Life Short Term FMP Series 30 Dividend - Payout 1,25,00,000 (2011 - Nil) units of ₹10 each fully paid up	1250.00	-
Birla Sun Life Quarterly Interval Fund - Series 4 - Dividend payout Nil (2011 - 99,97,101) units of ₹10 each fully paid up	-	1000.00
Birla Sun Life FTP - Series CG - Growth Nil (2011 - 50,00,000) units of ₹10 each fully paid up	-	500.00
Birla Sun Life FTP - Series CP - Growth Nil (2011 - 50,00,000) units of ₹10 each fully paid up	-	500.00
Birla Sun Life FTP - Series CR - Growth Nil (2011 - 50,00,000) units of ₹10 each fully paid up	-	500.00
DSP BlackRock FMP - Series 42 - 3M - Dividend Payout 50,00,000 (2011 - Nil) units of ₹10 each fully paid up	500.00	-
HDFC FMP 92D March 2012 (1) - Dividend - Series XIX, Option Payout 1,00,00,000 (2011 - Nil) units of ₹10 each fully paid up	1000.00	-
HDFC FMP 92D March 2012 (2) - Dividend - Series XXI 1,00,00,000 (2011 - Nil) units of ₹10 each fully paid up	1000.00	-
HDFC FMP 370D March 2012 (1) - Growth - Series XXI 50,00,000 (2011 - Nil) units of ₹10 each fully paid up	500.00	-
HDFC Cash Management Fund - Treasury Advantage Plan - Wholesale - Growth 42,57,620 (2011 - Nil) units of ₹10 each fully paid up	1000.00	-
HDFC Floating Rate Income Fund - LTP - Growth Nil (2011 - 1,62,83,204) units of ₹10 each fully paid up	-	2500.00
ICICI Prudential FMP Series 53 - 1Year Plan C Cumulative Nil (2011 - 50,00,000) units of ₹10 each fully paid up	-	500.00
ICICI Prudential FMP Series 55 - 1Year Plan C Cumulative Nil (2011 - 75,00,000) units of ₹10 each fully paid up	-	750.00
ICICI Prudential FMP Series 55 - 1Year Plan D Cumulative Nil (2011 - 25,00,000) units of ₹10 each fully paid up	-	250.00
ICICI Prudential Interval Fund II Quarterly Interval Plan F Institutional - Dividend Nil (2011 - 1,00,00,000) units of ₹10 each fully paid up	-	1000.00



NOTES ON THE FINANCIAL STATEMENTS

₹ in Lakhs

	2012	2011
CURRENT INVESTMENTS (Contd.)		
ICICI Prudential Flexible Income Plan Premium - Growth 8,34,163 (2011 - 5,83,995) units of ₹100 each fully paid up	1500.00	1000.00
ICICI Prudential Liquid Super Institutional Plan - Growth 4,73,124 (2011 - Nil) units of ₹100 each fully paid up	750.00	-
ICICI Prudential Interval Fund II Quarterly Interval Plan Institutional Dividend 1,50,00,000 (2011 - Nil) units of ₹10 each fully paid up	1500.00	-
ICICI Prudential FMP Series 62 - 1Year Plan G Cumulative 50,00,000 (2011 - Nil) units of ₹10 each fully paid up	500.00	-
IDFC Fixed Maturity Quarterly Series 70 Dividend 1,00,00,000 (2011 - Nil) units of ₹10 each fully paid up	1000.00	-
IDFC Fixed Maturity Quarterly Series 71 Dividend 60,00,000 (2011 - Nil) units of ₹10 each fully paid up	600.00	-
IDFC Money Manager Fund - TP - Institutional Plan C - Daily Dividend Reinvestment Nil (2011- 92,50,612) units of ₹10 each fully paid up	-	925.20
IDFC Ultra Short Term Fund Growth 33,74,001 (2011 - Nil) units of ₹10 each fully paid up	500.00	-
Reliance Fixed Horizon Fund XVI - Series 3 - Growth Plan Nil (2011 - 50,00,000) units of ₹10 each fully paid up	-	500.00
Reliance Fixed Horizon Fund XVI - Series 5 - Growth Plan Nil (2011 - 50,00,000) units of ₹10 each fully paid up	-	500.00
Reliance Fixed Horizon Fund XIX - Series 1 - Growth Plan Nil (2011 - 50,00,000) units of ₹10 each fully paid up	-	500.00
Reliance Monthly Interval Fund - Series II - Institutional Dividend Plan Nil (2011 - 49,97,501) units of ₹10 each fully paid up	-	500.00
Reliance Money Manager Fund - Institutional Option - Growth Plan 74,716 units of ₹1,000 each fully paid up	1000.00	1000.00
Reliance Liquidity Fund - Growth Option 61,91,950 (2011 - Nil) units of ₹10 each fully paid up	1000.00	-
Reliance Quarterly Interval Fund - Series III - Institutional Dividend Plan 99,87,117 (2011 - Nil) units of ₹10 each fully paid up	1000.00	-
Reliance Fixed Horizon Fund - XXI - Series 9 - Growth Plan 50,00,000 (2011 - Nil) units of ₹10 each fully paid up	500.00	-
Tata Fixed Maturity Plan Series 29 Scheme B - Growth Nil (2011 - 50,00,000) units of ₹10 each fully paid up	-	500.00
Tata Floater Fund - Growth 1,72,52,303 (2011 - 72,82,897) units of ₹10 each fully paid up	2600.00	1000.00
Aggregate amount of unquoted investments	<u>20200.00</u>	<u>14925.20</u>



NOTES ON THE FINANCIAL STATEMENTS

₹ in Lakhs

	2012	2011
14. INVENTORIES		
(At lower of cost and net realisable value)		
Stores and Spare Parts	54.64	57.72
Raw Materials including packing materials	19788.29	17990.06
Finished Goods	3723.77	5210.37
Work-in-Progress	258.39	298.82
	<u>23825.09</u>	<u>23556.97</u>
15. TRADE RECEIVABLES		
(Unsecured, Considered Good)		
Receivables outstanding for a period not exceeding six months from the date they are due for payment	1262.11	1276.62
	<u>1262.11</u>	<u>1276.62</u>
16. CASH AND CASH EQUIVALENTS		
Cash including cheques on hand	2.19	2.95
Balances with Banks		
- On Current Accounts	776.61	624.60
- On Unclaimed Ordinary Dividend Account*	317.47	268.44
- On Preference Share Redemption Account	0.18	0.18
- On Term Deposits	2501.00	2000.00
	<u>3597.45</u>	<u>2896.17</u>
*The Company can utilise these balances only towards settlement of respective unpaid dividend liabilities.		
17. SHORT - TERM LOANS AND ADVANCES		
(Considered Good)		
Secured		
Loans to Employees	9.79	7.85
Unsecured		
Loans to Employees	11.78	14.70
Advances recoverable in cash or in kind or for value to be received	493.97	606.48
Prepaid Expenses	161.74	144.56
Taxation (Net of provisions)	935.88	404.92
Balance with Statutory/Government Authorities	193.14	208.42
	<u>1806.30</u>	<u>1386.93</u>
18. OTHER CURRENT ASSETS		
(Unsecured, Considered Good)		
Interest accrued on Loans, Deposits and Investments	25.56	22.87
Others	130.87	72.24
	<u>156.43</u>	<u>95.11</u>



NOTES ON THE FINANCIAL STATEMENTS

₹ in Lakhs

	2012	2011
23. CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK-IN-PROGRESS		
(a) (Increase)/Decrease in Finished Goods		
Opening Stock	5210.37	2776.94
Closing Stock	<u>3723.77</u>	<u>5210.37</u>
	1486.60	(2433.43)
(b) Increase/(Decrease) in Excise Duties on Finished Goods		
Opening Stock	4195.85	2264.70
Closing Stock	<u>3013.28</u>	<u>4195.85</u>
	(1182.57)	1931.15
(c) (Increase)/Decrease in Work-in-Progress		
Opening	298.82	310.89
Closing	<u>258.39</u>	<u>298.82</u>
	40.43	12.07
	<u>344.46</u>	<u>(490.21)</u>
24. EMPLOYEE BENEFITS EXPENSE		
Salaries, Wages and Bonus*	5283.97	5073.25
Contributions to Provident, Gratuity and Other Retiral Funds	701.09	772.88
Workmen and Staff Welfare Expenses	210.32	213.57
	<u>6195.38</u>	<u>6059.70</u>
*This includes remuneration of ₹48.96 Lakhs to a Wholetime Director for the period 1st August, 2011 to 31st March, 2012 subject to Shareholders' approval.		
25. DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSE		
Depreciation of tangible assets	2487.33	2311.64
Amortisation of intangible assets	5.37	12.91
Impairment of intangible assets	-	127.16
	<u>2492.70</u>	<u>2451.71</u>
Less: recoupment from revaluation reserve	10.04	10.06
	<u>2482.66</u>	<u>2441.65</u>



NOTES ON THE FINANCIAL STATEMENTS

₹ in Lakhs

	2012	2011
26. OTHER EXPENSES		
Insurance	99.19	93.50
Consumption of Stores and Spare Parts	290.99	297.15
Power and Fuel	392.01	288.29
Rent	263.29	212.25
Repairs - Buildings	20.89	19.42
- Machinery	59.77	59.06
- Others	25.02	18.37
Rates and Taxes	1226.97	1686.59
Outward Freight	1377.80	1183.65
Sales Promotion/Advertising	1688.93	2019.82
Distribution Expenses	1956.73	1793.20
Loss/(Gain) on Exchange	714.72	(302.97)
Miscellaneous	2271.62	1877.86
Payment to Auditors (See details below)	33.08	27.00
Directors' Sitting Fees & Commission	32.20	30.07
	<u>10453.21</u>	<u>9303.26</u>
Payment to Auditors		
Audit fees	22.00	20.00
Tax Audit fees	2.00	1.50
Limited Reviews	6.00	3.00
Fees for Certification	2.75	1.50
Reimbursement of Expenses	0.33	1.00
	<u>33.08</u>	<u>27.00</u>
27. Current Tax includes ₹110.70 Lakhs [2011 - ₹143.68 Lakhs (refund)] towards prior year tax.		
28. EARNINGS PER SHARE		
Earnings per Share is computed as under:		
(a) Profit after Tax Expense (₹ in Lakhs)	14250.86	9501.05
(b) Weighted average number of Ordinary Shares	1,54,41,920	1,54,41,920
(c) Basic and diluted Earnings per Share (Face Value per Share - ₹10) - ₹	92.29	61.53
29. 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 segments considered for disclosure mainly consists of sales within India and sales outside India, information in respect thereof is as under:		
(a) Sales within India	144162.56	124557.13
(b) Sales outside India	15683.36	15096.61
	<u>159845.92</u>	<u>139653.74</u>
The entire activity pertaining to sales outside India is carried out from India, hence all segment assets are considered entirely to be in India.		



NOTES ON THE FINANCIAL STATEMENTS

₹ in Lakhs

	2012	2011
30. RELATED PARTY TRANSACTIONS DURING THE YEAR		
(a) Company having significant influence		
British American Tobacco Group		
Nature of transactions		
Sales - Goods	1091.88	1092.04
Other receipts - Services, etc.	65.56	-
Other payments - Services, etc.	0.70	1.07
- Dividends Paid	2234.66	1489.77
Outstanding as at the year end - Receivable	92.04	-
(b) Remuneration to Key Managerial Personnel		
Mr. Raymond S. Noronha - Managing Director	501.27	433.01
Mr. N. Sai Sankar - Deputy Managing Director & Secretary	293.41	257.20
Mr. Devraj Lahiri - Wholetime Director (with effect from 1st August, 2011)	48.96	-
31. EXPENDITURE ON R&D		
On capital account	4.26	44.88
On revenue account	376.06	331.61
	380.32	376.49
32. CONTINGENT LIABILITIES AND COMMITMENTS		
(a) Contingent Liabilities		
Claims against the Company not acknowledged as debts ₹3188.08 Lakhs (2011 - ₹3907.77 Lakhs).		
These comprise -		
(i) Tax demands disputed by the Company relating to disallowances/additions of fiscal benefits, pending before various judicial forums, aggregating to ₹3174.71 Lakhs (2011 - ₹3894.40 Lakhs).		
(ii) Other matters relating to labour cases, etc. aggregating to ₹13.37 Lakhs (2011 - ₹13.37 Lakhs).		
(b) Commitments		
Estimated amount of contracts remaining to be executed on capital account (not provided for) - ₹2371.12 Lakhs (2011 - ₹2391.62 Lakhs).		
33. 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 Note 26. All these agreements are cancellable in nature.		



34. DISCLOSURES REGARDING DERIVATIVE INSTRUMENTS

The Company uses forward exchange contracts to hedge its foreign currency exposures related to the underlying transactions, firm commitments and highly probable forecasted transactions. The use of these foreign exchange forward contracts are intended to reduce the risk or cost to the Company and are not intended for trading or speculation purpose. The information on such derivative instruments is as follows:

(a) Forward exchange contracts outstanding as at year end In Lakhs

		31.03.2012		31.03.2011	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	-	3599.99	-	2876.10

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

		31.03.2012		31.03.2011	
Currency Pair	Currency	Buy	Sell	Buy	Sell
USD/INR	INR	-	1245.42	382.87	1277.57
EUR/INR	INR	529.70	-	-	-
GBP/INR	INR	42.57	-	-	-

35. 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, the assets and liabilities of the erstwhile DSL were transferred to and vested in the Company with effect from 1st April, 2010. The amalgamation was accounted for under the 'pooling of interest' method prescribed by the Accounting Standard on amalgamation during the year ended 31st March, 2011.

36. EMPLOYEE BENEFITS

(a) **The Employee Benefit Schemes are as under:**

(i) Provident Fund

Eligible employees of the Company receive benefits under the provident fund which are defined contribution/benefit plans wherein both the Company and the employees make monthly contributions equal to a specified percentage of the covered employees' salary. These contributions are made to the Funds administered and managed by the Government of India/ Company's own Trust. The Company's own trust plan envisages guarantee of interest at the rate notified by the Provident Fund authority. The Company's contributions along with interest shortfall, if any, are charged to revenue in the year they are incurred - ₹178.52 Lakhs (2011 - ₹174.03 Lakhs).

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

		2012	2011
Central Government Securities	(%)	31.3	29.6
State Government Securities	(%)	15.6	15.0
High Quality Corporate Bonds	(%)	52.9	54.8
Cash and cash equivalent	(%)	0.2	0.6

(ii) Gratuity

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

(iii) Pension Fund

The Company has a defined contribution pension scheme to provide pension to the eligible employees. The Company makes monthly contributions equal to a specified percentage of the covered employees' salary. These contributions are administered



by the Company's own Trust which has subscribed to 'Group Pension Scheme' of Life Insurance Corporation of India. The Company's contributions are charged to revenue in the period they are incurred - ₹110.08 Lakhs (2011 - ₹103.66 Lakhs).

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	
	31.03.2012	31.03.2011	31.03.2012	31.03.2011	31.03.2012	31.03.2011
Projected benefit obligation at the beginning of the year	1888.76	1983.79	116.72	148.25	498.20	535.60
Current Service Cost	139.13	133.63	7.29	7.29	30.57	25.63
Interest cost	136.23	120.01	9.28	8.87	34.86	30.35
Actuarial (Gain)/Loss	142.54	(61.10)	(16.64)	(4.56)	107.07	110.66
Less: Benefits Paid	26.22	538.83	1.38	43.13	125.07	204.04
Past Service Cost	-	251.26	-	-	-	-
Projected benefit obligation at the end of the year	2280.44	1888.76	115.27	116.72	545.63	498.20
Fair value of Plan Assets at the beginning of the year	1858.43	1946.34	127.18	157.27	537.09	522.48
Expected return on plan assets	155.96	141.79	10.63	11.37	43.33	42.38
Actuarial Gain	21.95	11.68	2.09	1.67	6.73	8.27
Employer Contributions	220.33	297.45	-	-	-	13.12
Less: Benefits Paid	26.22	538.83	1.38	43.13	41.17	49.16
Fair value of Plan Assets at the end of the year	2230.45	1858.43	138.52	127.18	545.98	537.09
Amounts recognised in the Balance Sheet						
Projected benefit obligation at the end of the year	2280.44	1888.76	115.27	116.72	545.63	498.20
Fair value of plan assets at end of the year	2230.45	1858.43	138.52	127.18	545.98	537.09
Asset/(Liability) recognised in the Balance Sheet	(49.99)	(30.33)	23.25	10.46	0.35	38.89
Cost of retirement and other benefits for the year						
Current Service cost	139.13	133.63	7.29	7.29	30.57	25.63
Interest Cost	136.23	120.01	9.28	8.87	34.86	30.35
Expected return on plan assets	(155.96)	(141.79)	(10.63)	(11.37)	(43.33)	(42.38)
Net actuarial (Gain)/Loss recognised in the year	120.59	(72.78)	(18.73)	(6.23)	100.34	102.39
Past Service Cost	-	251.26	-	-	-	-
Net Cost recognised in the Statement of Profit and Loss	239.99	290.33	(12.79)	(1.44)	122.44	115.99
Actuarial assumptions						
Discount Rate (%)	8.00	7.00	8.00	7.00	8.00	7.00
Expected Return on Plan Assets (%)	8.00	8.00	8.00	8.00	8.00	8.00

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

Investment details of the plan assets

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



NOTES ON THE FINANCIAL STATEMENTS

VST Industries Limited

	2012		2011	
	₹ in Lakhs	%	₹ in Lakhs	%
37. VALUE OF RAW MATERIALS, SPARE PARTS AND COMPONENTS CONSUMED				
Raw Materials				
Imported	974.54	3.2	560.29	1.9
Indigenous	29498.88	96.8	28464.13	98.1
	<u>30473.42</u>	<u>100.0</u>	<u>29024.42</u>	<u>100.0</u>
Stores and Spare Parts				
Imported	29.91	10.3	30.61	10.3
Indigenous	261.08	89.7	266.54	89.7
	<u>290.99</u>	<u>100.0</u>	<u>297.15</u>	<u>100.0</u>
38. EXPORTS AND IMPORTS				
Export of goods (F.O.B. Value)	<u>15574.95</u>		<u>15040.29</u>	
Imports (C.I.F. Value)				
Raw Materials	845.90		856.72	
Spare Parts	58.85		59.70	
Capital Goods	2613.12		2420.29	
	<u>3517.87</u>		<u>3336.71</u>	
39. EXPENDITURE IN FOREIGN CURRENCY				
Miscellaneous - Travelling, Advertisement and Subscriptions etc.	<u>167.68</u>		<u>76.75</u>	
40. DIVIDEND PAID TO NON-RESIDENT SHAREHOLDERS IN FOREIGN CURRENCY				
FINAL				
Amount of dividend	2234.66		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)		31-03-2011		31-03-2010
41. 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	On behalf of the Board,		R.V.K.M. SURYARAU	Chairman
N.K. VARADARAJAN Partner Membership No. 90196			R. S. NORONHA	Managing Director
Hyderabad, 17th April, 2012.			N. SAI SANKAR	Deputy Managing Director & Secretary
			Hyderabad, 17th April, 2012.	



Operating Results 2003-2012

₹ in Lakhs

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
REVENUE FROM OPERATION (GROSS)	66743	63184	68155	71648	72523	77344	101735	112542	139964	160276
EXCISE DUTY	38598	34416	37317	40411	38903	43347	62366	65325	81811	91833
OPERATING PROFIT	7130	6481	8873	9938	8053	8413	9535	7018	14257	20977
OTHER INCOME	683	1116	1420	2284	1580	1578	694	3326	1711	2572
DEPRECIATION	809	879	951	1024	1148	1372	1582	1787	2442	2483
FINANCE COST	251	132	61	8	9	13	13	3	-	-
PROFIT BEFORE TAX & EXTRAORDINARY ITEM	6753	6586	9281	11190	8476	8606	8634	8554	13526	21066
PROFIT AFTER TAX & EXTRAORDINARY ITEM	3824	2857	5402	4310	5509	5835	6182	6205	9501	14251
DIVIDEND*	958	1045	2203	2201	3613	3613	5420	5402	8076	11666
EARNINGS IN FOREIGN EXCHANGE (FOB VALUE)	3275	4793	5259	4527	4690	6075	10842	15499	15040	15575

Sources and Application of Funds 2003-2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SOURCES										
EQUITY CAPITAL	1544	1544	1544	1544	1544	1544	1544	1544	1544	1544
RESERVES	10569	12359	15544	17633	19479	21649	22401	23194	24900	27475
BORROWINGS	1199	598	-	-	-	-	-	-	-	-
NET CAPITAL EMPLOYED	13312	14501	17088	19177	21023	23193	23945	24738	26444	29019
APPLICATION										
GROSS FIXED ASSETS	11859	13862	15360	17768	19551	23345	25463	27807	30369	33604
DEPRECIATION	6711	7290	7983	8865	9843	11173	12377	13867	15120	17251
NET FIXED ASSETS	5148	6572	7377	8903	9708	12172	13086	13940	15249	16353
NET OTHER ASSETS (INCL. INVESTMENTS & DEFERRED TAX)	8164	7929	9711	10274	11315	11021	10859	10798	11195	12666
NET ASSETS EMPLOYED	13312	14501	17088	19177	21023	23193	23945	24738	26444	29019

Performance Ratios 2003-2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EARNINGS PER SHARE (₹)	24.8	18.5	35.0	27.9	35.7	37.8	40.0	40.2	61.5	92.3
DIVIDEND PER SHARE (₹)	5.5	6.0	12.5	12.5	20.0	20.0	30.0	30.0	45.0	65.0
RETURN ON NET CAPITAL EMPLOYED (%)	28.7	19.7	31.6	22.5	26.2	25.2	25.8	25.1	35.9	49.1
RETURN ON NET WORTH (%)	31.6	20.5	31.6	22.5	26.2	25.2	25.8	25.1	35.9	49.1
DEBT/EQUITY (%)	9.9	4.3	-	-	-	-	-	-	-	-

* Includes Income Tax on Dividend.

ATTENDANCE SLIP



VST INDUSTRIES LIMITED

Registered Office: AZAMABAD, HYDERABAD - 500 020.

DP ID

Client ID/
Folio No.

No. of Shares

NAME & ADDRESS OF THE REGISTERED SHAREHOLDER

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

I hereby record my presence at the 81ST ANNUAL GENERAL MEETING of the Company held on **Thursday, 12th July, 2012 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.

FORM OF PROXY



VST INDUSTRIES LIMITED

Registered Office: AZAMABAD, HYDERABAD - 500 020.

DP ID

Client ID/
Folio No.

No. of Shares

NAME & ADDRESS OF THE REGISTERED SHAREHOLDER

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 81ST ANNUAL GENERAL MEETING of the Company to be held
on **Thursday, 12th July, 2012 at 10.30 a.m.** and at any adjournment thereof.

Signed this _____ day of _____ 2012.

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.

Teal Here









VST Industries Limited

Production CAPRICORN