



REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

VST INDUSTRIES LIMITED

REPORT OF THE BOARD OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31ST MARCH, 2020

The Directors of your Company have pleasure in presenting before you the Annual Report together with the Audited Statements of Accounts for the year ended 31st March, 2020.

Financial Summary

	(₹ Lakhs)	
	2019-20	2018-19
Revenue from Operations	141778	122301
Profit after Tax	30409	22684
Retained earnings brought forward from previous year	38365	32358
Balance available for Appropriation	68774	55042
Amount transferred to General Reserves	3000	2250
Dividend paid	14670	11967
Corporate Dividend Tax thereon	3015	2460
Balance in retained earnings	<u>48089</u>	<u>38365</u>
KEY RATIOS		
Earnings per Share (₹)	196.93	146.90
Dividend per Share (₹)	95.00	77.50

Value creation during the decade has been Compounded Annual Growth Rate (CAGR), 12.3% in Earnings Per Share (EPS) and 7.8% in Dividend Per Share (DPS).

DIVIDEND AND TRANSFER TO GENERAL RESERVE

The Directors are pleased to recommend a dividend of ₹103/- per equity share of ₹10/- each on the paid up equity share capital of the Company, for consideration and approval of Members at the ensuing Annual General Meeting (AGM). It is proposed to carry forward an amount of ₹3000 lakhs to General Reserve.

Pursuant to Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as Listing Regulations), the Company adopted a Dividend Distribution Policy in terms of the requirement which is annexed to this report as **Annexure C**. The Policy

is available on the Company's website at <http://www.vsthyd.com/i/Dividend-Distribution-Policy.pdf> and forms a part of this Report.

MATERIAL CHANGES AND COMMITMENTS

Except as disclosed elsewhere in the Report, there have been no material changes and commitments made between the end of the financial year of the Company and the date of this Report. There has been no change in the nature of business of the Company during the year.

SHARE CAPITAL

The paid up Equity Share Capital as on 31st March, 2020 was ₹ 1544.19 lakhs. The Company has neither issued

shares with differential rights as to dividend, voting or otherwise nor issued shares (including sweat equity shares) to the employees or Directors of the Company, under any Scheme.

No disclosure is required under Section 67(3)(c) of Companies Act, 2013 in respect of voting rights not exercised directly by the employees of the Company as the provisions of the said Section are not applicable.

MANAGEMENT DISCUSSION & ANALYSIS REPORT (MD&A)

Based on feedback from Members on the Annual Report and Accounts, this report includes MD&A as appropriate so that duplication and overlap between the Directors' Report and a separate MD&A is avoided and the entire material with Company's state of affairs is provided in a composite and comprehensive document.

INDUSTRY STRUCTURE & DEVELOPMENT

In 2019-20, legal cigarette industry volumes were largely stable. However, the industry continues to face taxation challenges. Industry witnessed another round of tax increase in the Union Budget presented in February 2020.

Non duty-paid cigarettes have benefited from the large price distortion arising from exponential tax hikes in the recent past, adversely affecting legal players and government revenues. Also, harsher regulations such as selling restrictions and ban on sale of loose sticks in key large states continue to pose challenges.

COMPANY PERFORMANCE

In 2019-20, your Company recorded another year of impressive performance with significant growth in both volume and value terms. Performance of key trademarks and increased geographic footprint have helped your Company to further bolster its market position.

Your Company's new age brands, especially 'Total', have contributed significantly in increasing the overall volume base in existing and new markets. Heritage trademarks such as Red Charms and Red Special continue to deliver a strong performance in their respective geographies.

Your Company remains focused on developing and nurturing a vibrant brand portfolio basis strong consumer insights, appealing to various socio-economic strata across geographies. Your Company continues to further strengthen its position through continued investments in distribution infrastructure and robust trade relationships.

The manufacturing operations of the Company had to be suspended between the later part of March, 2020 and the second week of May, 2020 due to the lockdown directives issued by the State Government and were partially resumed with restricted capacity and manpower in compliance with the applicable guidelines.

Moving forward, COVID-19 pandemic poses significant demand and supply challenges. Your Company is closely monitoring developments across markets to effectively respond to potential disruptions and minimize

impact. In all its initiatives, safety of employees remains your Company's foremost priority.

LEAF TOBACCO

Your Company's leaf function has registered a strong performance by procuring quality tobaccos for own manufacturing in line with the increasing volumes. By leveraging its expertise in all varieties of tobaccos, it continues its domestic sales in addition to exports.

The focus is on own development of new varieties and high nicotine tobaccos in view of the changing requirements of tobacco in domestic and in the international market with established customers.

In the backdrop of changing climatic conditions, wherein farming community is unable to realize their investment in agriculture, your Company continues to focus on farmers' interest to sustain the tobacco cultivation. This also has helped to develop backward regions in the leaf growing areas.

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

As part of commitment to social and economic upliftment of the Companies' tobacco growing areas, your Company is continuing the sponsorship of the initiatives like house hold toilets and solar street lighting with an aim to ensure higher standard of living of the farmers and their families.

PRODUCTION AND PLANT MODERNISATION

Your Company continues to give competitive edge to its products in the market place, by offering innovative products to consumers, which have been well received. The focus at the plants has been to enhance capital efficiencies and cost optimization.

RESEARCH & DEVELOPMENT ACTIVITY

Your Company continued to focus on R&D activity, by way of developing quality blends with innovative filter variants for new brands, which have been well accepted by consumers in the market place.

The R&D lab of your Company received a "Certificate of continuation" of ISO 17025:2005, from NABL, Quality Council of India, Government of India, for the year 2019-20.

HUMAN RESOURCE DEVELOPMENT

Your Company recognizes people as the primary source of its competitiveness, and continues its focus to attract and retain the best talent, in an increasingly competitive market place. Our endeavor is to give utmost importance for people development initiatives thereby unleashing their potential and fulfill their aspirations.

The year 2019-20 has been quite significant for Human Resources where several initiatives were taken forward. A series of innovative talent development initiatives like web enabled learning, management development programs and capability

building initiatives through development centers were taken up. The belief that 'great performance culture creates great organizations' has been at the core of the Company's approach to its people. Focused efforts are put in this regard, to empower individuals realize their potential.

Your Company continuously works on its engagement strategy initiatives at multiple levels to motivate & engage the employees. This is reflected in the positive employee engagement score, which is at par with the best in class score in the Industry.

As on 31st March, 2020, your Company's work force was 807 employees, with 357 Management staff and 450 Workmen.

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

ENVIRONMENT, HEALTH & SAFETY (EHS) AND COMMUNITY SERVICES

448 employees and 105 contract workmen have undergone EHS training and 492 employees and 108 Contract workmen have undergone fire fighting training. Mock drills were also conducted for workers and management during the period to comply with the Company's EHS guidelines.

Half-yearly and Annual EHS audits of the Company's operations were carried out to ensure compliance of EHS requirements. ISO 14001:2015 & OHSAS 18001:2007 surveillance audit

was held at Azamabad & Toopran premises by M/s. Rina India Pvt. Ltd., and received a continuation certificate for ISO 14001:2015 & OHSAS 18001:2007 for both Azamabad & Toopran locations.

Your Company received "Green Factory Building Certification with Gold rating" for Toopran factory from CII-Indian Green Building Council, Hyderabad.

Bio-Medical Waste Authorization was received for the Toopran factory from Telangana State Pollution Control Board (TSPCB) for a period of 5 years - 2019 to 2024.

FINANCE

a. Profits

The Profit after Tax of your Company for the year is ₹ 304.09 crores.

During the year, the Company had a strong growth momentum in Profit before Tax by 19.8% in turn leading to a growth of Profit after Tax by 34.1% on account of reduction in corporate tax rate announced by the Government of India.

b. Treasury Operations

Your Company follows a SLR model (Safety, Liquidity and Return) in deployment of earmarked funds.

There are no significant changes (change of 25% or more as compared to the immediately previous financial year) in the key financial ratios of the Company including those listed out and specified under Schedule V (B)(1)(i) read with Regulation 34(3) and 53(f) of the Listing Regulations, as amended.

There has been a positive change to the Return on Net worth by about 13 percentage points as compared to the

previous year primarily due to improved performance of the Company and efficient utilization of the shareholder resources.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

The Company has not taken any loans or given guarantees or made investments in any other Company covered and provided under Section 186 of the Companies Act, 2013 during the year.

RATING

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

UNCLAIMED DIVIDENDS

Pursuant to the provisions of Sections 124 and 125 of the Companies Act, 2013, the Company has transferred on due dates, the unpaid or unclaimed dividends for the financial year ended 31st March, 2012 to the Investor Education and Protection Fund (IEPF) established by the Central Government.

Further, as per the provisions of the Investor Education and Protection Fund (Uploading of Information regarding unpaid and unclaimed amounts lying with Companies) Rules, 2012, the Company has uploaded the details of unpaid and unclaimed amounts lying with the Company as on 31st March, 2019 on the website of the Company

(www.vsthyd.com), and also on the website of the Ministry of Corporate Affairs, Government of India.

The details of the dividend due for transfer to IEPF as on 31st March, 2020 is given in the Report on Corporate Governance. The Company has completed the process of complying with the provisions of Section 124(6) of the Companies Act, 2013 read with the IEPF Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 and as amended by the Second Amendment Rules of 2017 by transferring 23,392 shares (100 shareholders) on 9th September, 2019.

UNCLAIMED SHARE CERTIFICATES

Your Company has communicated to the Members whose share certificates have been returned undelivered to the Company that these would be transferred to the Unclaimed Suspense Account if not claimed by them, as required under Regulation 34(3) read with Schedule V[F] of the Listing Regulations (hereinafter referred as 'Listing Regulations') as amended.

The status of unclaimed shares as on 31st March, 2020 is given in the Report on Corporate Governance.

CORPORATE GOVERNANCE

In terms of Regulation 34 of the Listing Regulations, a Report on Corporate Governance along with Compliance Certificate issued by the Statutory Auditors of the Company is annexed as **"Annexure A"** and forms part of this Report.

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

MEETINGS

The Board and Committee Meetings are pre-scheduled and a tentative calendar of the Meetings finalized in consultation of the Directors are circulated to them in advance to facilitate them to plan their schedule. However, in case of special and urgent business needs, the approval is obtained by way of circular resolution. During the year five Board Meetings and four Audit Committee Meetings were convened and held. The details of the Meetings including composition of Audit Committee are given in the Corporate Governance Report. During the year, all the recommendations of the Audit Committee were accepted by the Board.

INTERNAL CONTROL SYSTEMS

- a. Your Company maintains an adequate and effective internal control system commensurate with the size and complexity. Your Company also has well documented Standard Operating Procedures (SOPs) for various processes which are periodically reviewed for changes warranted due to business needs.
- b. Your Company remains committed to improve effectiveness of internal financial controls and processes which would help in efficient conduct of its business operations, ensure security to its assets and timely preparation of reliable financial information.

The policies and procedures laid out by your Company capture the control environment prevalent in the organization. Over a period of three years, the business processes of your Company is reviewed through an internal audit process which reviews the systems on a continuous basis. The

objective being to identify potential risk areas and come up with a comprehensive risk mitigation plan.

The Audit Committee of your Board met 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 which were dealt with by the Committee. The Statutory Auditors/Internal Auditors were invited to attend the Audit Committee Meetings and make presentations covering their observations on adequacy of internal financial controls and the steps required to bridge gaps, if any. The Chief Financial Officer is a permanent invitee to the Audit Committee and other executives of the Company are invited to address, respond or provide clarifications to relevant issues as and when required.

RISK MANAGEMENT

Your Company has constituted the Risk Management Committee as mandated by SEBI for top 500 listed entities which was to be effective from 1st April, 2019. The Committee comprises of Directors and Senior Management as its Members as prescribed under Regulation 21 of the Listing Regulations as amended. The Company Secretary is the Secretary of the Committee.

Your Company has always endeavored to bring together elements of best practices for risk management in relation to existing and emerging risks faced by it at both strategic and operating level. The Company faces a variety of risks from external and internal sources. However, the objective is to be aware of different kinds of risks affecting the business. Rather than eliminating these

risks, the decision making process at your Company considers sensible risk taking, and thereby proactive steps are taken to ensure that business is undertaken in an environment which encourages a reasonable amount of risk taking and enables the Company to leverage market opportunities effectively.

The Board is responsible for determining the nature and extent of the principal risks that your Company is willing to take to achieve its strategic objectives and for maintaining sound risk management system. With the support of the Audit Committee, it carries out a review of the effectiveness of your Company's risk management process covering all material risks including strategic, financial, operational and also compliance levels.

Your Company has substantial operations all over the country and competes on the basis of brand appeal, loyalty, price value connotations and strong trade relationships. The Company's position is influenced by the economic, regulatory and political situations both nationally and at a state level and of the competitors. The principal risks impacting your Company's business and steps undertaken to mitigate them are as under:

i) **Regulatory restrictions** could have an impact on long term revenue growth of the Company.

The Company operates under increasingly stringent regulatory regime (COTPA guidelines on packaging and labeling, advertising and promotion). This further gets complicated with adoption of differing regulatory regimes in different states and/or lack of consensus on

interpretation/application.

Such restrictive regulations which are subjected to interpretation could result in not only penalties being imposed/loss of reputation, but also impair the Company's ability to communicate with adult smokers and/or to meet consumer expectations through new/innovative brand launches or geographic expansion.

The Company addresses this risk by engaging in continuous social dialogue with stakeholders and regulatory community through industry bodies. At the same time, it works on developing strategies and capabilities to effectively launch competitive and consumer acceptable brands within the changing regulatory environment.

(ii) **Taxation changes** could have an impact on short-term revenue growth of the Company.

The Company's business is subjected to GST, excise and other cesses as may be made applicable, which could require the Company to take up product prices and in absence of such action, impact its business. The impact increases when due to changes in economic situation, consumer's disposal income reduces, resulting in down-trading to cheaper cigarettes including non-duty paid cigarettes or alternative tobacco products.

Such risks are addressed by the company through: (a) engagement with tax authorities at levels where appropriate; (b) regular management review to build a well laddered brand portfolio across new segments including new brand

creation; and (c) capability build-up through investments in distribution infrastructure to increase geographical spread.

(iii) **Regional disruptions** could have an impact on short-term revenue growth of the Company as well as reputation.

Regional disturbances through state level restriction on trade or through terrorism and political violence including bandhs, strikes, have the potential to disrupt the Company's business operations. Such disruptions result in potential loss of assets and increased costs due to more complex supply chain arrangements and/or maintaining inefficient facilities.

The Company addresses this risk through developing secure multiple sourcing/delivery (supply chain) strategy and through Insurance cover and business continuity planning.

(iv) **Counter party risk** could have a potential impact on Company's capital and profitability.

The Company generates positive cash flows which are predominantly invested with financial institutions and mutual funds. Delay and/or default in settlement on maturity of such investments could result in liquidity and financial loss to Company.

Such risks are mitigated through investment based on principle of Safety; Liquidity & Returns (SLR) and with institutions having strong short-term and long-term ratings assigned by CRISIL.

(v) **Data risks**

The loss or misuse of sensitive

information, or its disclosure to outsiders, including competitors and trading partners, could potentially have a significant adverse impact on the Company's business operations and/or give rise to legal liability. For this purpose, the Company has put in place information technology policies and procedures which are reviewed regularly. Further, information technology controls like data back-up mechanism, disaster recovery center, authorization verification, etc. have also been established.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Your Company has formulated a Corporate Social Responsibility Policy with the objective to promote inclusive growth and equitable development of identified areas by contributing back to the society. Over the years, your Company has been involved in various social activities focusing on Health & Sanitation like construction of toilets under Swachh Ghar mission, Environment sustainability and Education.

The Company has with the help of Gramalaya, a non-profit organization constructed toilets in individual homes (of farmers living) in and around Jogulamba-Gadwal district of Telangana where your Company has its operations, under the 'Swachh Ghar' program of your Company. In addition to construction of toilets, the villages and the communities in the area are also sensitized about the importance of health & sanitation. Over 970 household toilets have already been constructed during the financial year and

your Company has plans to extend it further to other houses in the same area and thereafter extend it to other areas.

Your Company has taken up an initiative of supporting environment sustainability by installing 300 solar street lights in 30 villages/towns in Jogulamba-Gadwal and Wanaparthy districts of Telangana.

In the field of Education, your Company has under the project Gyandeeep supported for the supply of 2361 nos. of desk cum benches to 60 Government schools situated in Jogulamba-Gadwal, Adilabad, Medak and Jangaon districts of Telangana.

Your Company has also partnered with M/s. Akshaya Patra foundation to serve mid-day meals to over 5000 children covering over 129 schools present in and around Hyderabad.

Pursuant to the provisions of Section 135 and Schedule VII of the Companies Act, 2013, the Corporate Social Responsibility (CSR) Committee of the Board of Directors was formed to recommend the policy on Corporate Social Responsibility and monitor its implementation. The composition of the CSR Committee is given in the Annual Report on the CSR activities. The CSR policy is available on the Company's website at : www.vsthyd.com/i/CSRPolicy.pdf.

The CSR Policy and the Annual Report on CSR activities is annexed herewith as **"Annexure B"** and forms part of this Report.

BUSINESS RESPONSIBILITY REPORT

The Listing Regulations mandates inclusion of Business Responsibility Report (BRR) as part of the Annual Report for top 500 listed entities based on market capitalization. In compliance with the

Regulation, the BRR is provided as part of this Annual Report.

RELATED PARTY TRANSACTIONS

The related party transactions entered into by the Company during the year are in its ordinary course of business and on arm's length basis. There were no materially significant related party transactions between your Company and the Directors, Promoters, Key Managerial Personnel and other designated persons which may have a potential conflict with the interest of your Company at large. Prior approval for all the related party transactions is obtained from the Audit Committee.

Form AOC-2 for disclosure of particulars of contracts/arrangements, entered into by your Company with related parties is annexed herewith as **"Annexure D"** and forms part of this Report.

BOARD EVALUATION

Pursuant to the provisions of the Companies Act, 2013 as amended and Listing Regulations, the performance evaluation of the Board, the committees of the Board and individual Directors has been carried out. The manner in which the evaluation has been carried out has been explained in the Corporate Governance Report.

The performance evaluation of the Chairman and the Non-independent Directors was carried out by the Independent Directors. The Board of Directors expressed their satisfaction with the evaluation process.

REMUNERATION POLICY

Nomination and Remuneration Committee has formulated a policy relating to remuneration of directors, key

managerial personnel and other employees which has been approved by the Board. The Remuneration Policy and the criteria for determining qualification, position, attributes and independence of a Director are stated in the Corporate Governance Report. The policy is also placed on the website of the Company and can be viewed at <http://www.vsthyd.com/documents/remuneration-policy.pdf>.

MEETING OF INDEPENDENT DIRECTORS

The performance of the Non-Executive Director, the Chairman and the Board as a whole is done by the Board and the Independent Directors in their exclusive Meeting as per the policy formulated by the Board in this regard. In addition, the Independent Directors in such Meeting also review their role, functions and duties under the Companies Act, 2013 and the flow of information from the Management.

VIGIL MECHANISM

In terms of Section 177 of the Companies Act, 2013, the Company has formulated a Whistle Blower Policy as a vigil mechanism to encourage all employees and Directors to report any unethical behavior, actual or suspected fraud or violation of the Company's 'Code of Conduct and Ethics Policy' which also provides for adequate safeguard against victimization of person who use such mechanism and there is a provision for direct access to the chairman of the Audit Committee in appropriate/exceptional cases. The details of the Whistle Blower Policy is given in the Corporate Governance Report and also posted on the Company's website at: www.vsthyd.com/i/WhistleBlowerPolicy.pdf.

DIRECTORS AND KEY MANAGERIAL PERSONNEL

Directors retiring by rotation

Mr. Naresh Kumar Sethi

Mr. Naresh Kumar Sethi [DIN:08296486], a nominee of the Raleigh Investment Company Limited, a British American Tobacco group Company was appointed as a Director of the Company with effect from 14th December, 2018 whose office is subject to retirement by rotation. His appointment was approved by the Members at the Annual General Meeting held on 28th August, 2019.

Pursuant to Article 93 of the Articles of Association of your Company, Mr. Naresh Kumar Sethi is liable to retire from the Board and being eligible, offers himself for re-election. Your Board recommends his re-appointment.

Mr. Naresh Kumar Sethi is not a Director in any other Company in India. He is a Member in CSR Committee, Stakeholders Relationship Committee, Risk Management Committee and the Nomination & Remuneration Committee. Mr. Naresh Kumar Sethi does not hold any shares in the Company and is not related to any other Director of the Company.

Independent Directors

Ms. Rama Bijapurkar

At the Annual General Meeting of the Company held on 28th August, 2019, the Members have approved the appointment of Ms. Rama Bijapurkar as an Independent Director of the Company in accordance with Section 149 of the Companies Act, 2013, with effect from 1st April, 2019 to hold the

office for a term of five consecutive years.

Mr. Sudip Bandyopadhyay

At the Annual General Meeting of the Company held on 28th August, 2019, the Members have approved the appointment of Mr. Sudip Bandyopadhyay as an Independent Director of the Company in accordance with Section 149 of the Companies Act, 2013, with effect from 1st June, 2019 to hold office for a term of five consecutive years.

Mr. Rajiv Gulati

At the Annual General Meeting of the Company held on 28th August, 2019, the Members have approved the appointment of Mr. Rajiv Gulati as an Independent Director of the Company in accordance with Section 149 of the Companies Act, 2013, with effect from 26th July, 2019 to hold office for a term of five consecutive years.

Also, the term of Ms. Mubeen Rafat, an Independent Director of the Company, who was appointed for a period of 5 years from 12th August, 2014 has come to an end during the year. The Board of Directors placed on record their appreciation for the contributions made by Ms. Mubeen Rafat to your Company during her tenure as an Independent Director.

All the Independent Directors have given a declaration in terms of Section 149(6) of the Companies Act, 2013 as amended and Regulation 25 of the Listing Regulations as amended for the financial year ended 31st March, 2020, that they meet the criteria of independence. They also declared that they are not aware of any circumstance or situation, which exist or may be

reasonably anticipated, that could impair or impact their ability to discharge their duties as an Independent Director with an objective independent judgment and without any external influence. The Board carried out an assessment of the declarations and took the same on record.

None of the Independent Directors are related to any other director of the Company.

Key Managerial Personnel

The Managing Director Mr. Devraj Lahiri, the Chief Financial Officer Mr. Anish Gupta and the Company Secretary Mr. Phani K. Mangipudi are the Key Managerial Personnel as per the provisions of the Companies Act, 2013.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 134(5) of the Companies Act, 2013 your Directors confirm that:

1. in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
2. appropriate accounting policies have been selected and applied consistently. Judgement and estimates which are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of your Company as on 31st March, 2020 and of the statement of profit and loss and cash flow of your Company for the period ended 31st March, 2020;
3. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 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;
5. proper internal financial controls have been laid down to be followed by your Company and such internal financial controls are adequate and were operating effectively; and
6. proper systems to ensure compliance with the provisions of all applicable laws have been devised, and such systems were adequate and operating effectively.

Criteria for selection and appointment of Directors

The Nomination and Remuneration Committee is responsible for identifying, screening, recommending to the Board a candidate for appointment as Director. Based on the recommendation of the Committee, the Board identifies the candidate for the position of Director. While identifying the candidate, inter alia the following are taken into consideration :

- Qualification, experience and expertise;
- Skills, abilities and personal contribution;
- Commitment to spare time to attend Board/Committee and other Meetings as may be necessary;

- Diversity of perspectives brought to the existing Board;
- Existing composition of the Board.

The qualification of the candidate is scrutinized by the Committee considering educational degree, college/institution, professional qualification if any, etc. In addition, there is also a criteria regarding minimum work experience and the positive attributes such as leadership quality, level of maturity, management capabilities, strategic vision, problem solving abilities, etc., on which the candidate is judicially scrutinized.

In case of an internal candidate, the senior management employee is also evaluated on the above criteria before being recommended for promotion as a Director. While considering re-appointment of the Directors, their performance evaluation report is considered.

In case of Independent Director, the independence, integrity, expertise, experience and interest pecuniary or otherwise as per the statutory provisions are also assessed before appointment.

SIGNIFICANT & MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS OR TRIBUNALS

There are no significant or material orders passed by the Regulators, Courts or Tribunals which impact the going concern status of the Company and its future operations. However, Members' attention is drawn to the following:

TAXATION

i. Luxury Tax

The Government of AP introduced levy of luxury tax on cigarettes and its virus

was challenged before the High Court of AP and before Supreme Court which was struck down. The Commercial Tax department claimed that during pendency of the matter before the courts between 1999-2005, your Company had collected luxury tax amounting to ₹ 34.86 crores but not paid to the Government. Your Company denied collecting luxury tax and the litigation on the same is now pending before the appellate authority of the Department and the High Court of Telangana.

ii. Entry Tax

Entry Tax levy by the States of Bihar, West Bengal, Jharkhand and Assam has been challenged before the respective State High Courts by your Company, basis the directions of the Hon'ble Supreme Court. Demand of interest on entry tax was challenged before the High Court of Allahabad and is pending adjudication.

iii. Excise

a. Wrapping Materials

The Excise department has issued show cause notices demanding payment of duty of ₹ 4.51 crores on the ground that Gay Wrappers (printed paper used for wrapping cigarette packets) were manufactured and consumed by your Company without payment of duty during the period April 1996 to July 2015. Demand for the period till March 2002 has been adjudicated and the CESTAT decided in favour of your Company. Department preferred an appeal before the Supreme Court which is pending. Demands for period after March, 2002 till July, 2015 are yet to be adjudicated by the original authority.

b. Tobacco Refuse

Your Company has received show cause

notices demanding recovery of duty on cut tobacco used in the manufacture of tobacco refuse since January 2005 till June 2017 amounting to ₹14.52 crores. Demand for the period till October, 2013 has been adjudicated and the CESTAT decided in favour of your Company. Department preferred an appeal before Supreme Court which is pending. Demands for period after October, 2013 till June, 2017 are yet to be adjudicated by the original authority.

c. Service Tax

Your Company has received show cause notices from the Excise Department seeking to deny CENVAT credit availed on various input services on the ground that the same are not in relation to the manufacture of final products. Upon adjudication, credit on most of the services was allowed in favor of your Company. Some of them have been disputed. Since 2005, the matters are pending before various adjudicating authorities and before the CESTAT and are being effectively contested.

PUBLIC INTEREST LITIGATION (PIL)

- i) PIL filed in the Andhra Pradesh High Court (now Telangana High Court) against the Central Government and the cigarette manufacturers including your Company, seeking strict implementation of Cigarettes and Other Tobacco Products (Prohibition of Advertisement And Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 (COTP Act) and applicable Rules has been dismissed as infructuous. Similarly, another PIL filed before the High Court of Bombay seeking directions to prohibit

insurance companies from investing in cigarette companies has been dismissed.

- ii) Your Company has been impleaded in the petition filed in the Supreme Court by an NGO called 'Centre for Transforming India' against the Union of India along with other cigarette manufacturers, Tobacco Institute of India, Bidi Manufacturers and Bidi Manufacturers' Association, seeking prohibition/ban of the manufacture, storage and sale of all forms of tobacco within the territory of India. This is being contested.
- iii) Petitions have also been filed in other courts such as High Court of Madhya Pradesh - Jabalpur, National Green Tribunal, Delhi seeking ban on sale of cigarettes and before High Court of Madhya Pradesh-Indore Bench, seeking directions to mention tar and nicotine content on cigarette packs by the manufacturers.

All of the above are being effectively contested by your Company.

FINANCIAL SERVICES BUSINESS

The Company Petition filed by the Official Liquidator before the High Court of Andhra Pradesh (now Telangana High Court) seeking directions against some of the Ex-Directors of ITC Agro Tech Finance and Investments Limited (ITCATF), the Company in liquidation, into which one of the subsidiaries of your Company, viz. VST Investments Limited was amalgamated, and its related 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. In view of the provisions of COTPA, various restrictions such as ban on advertising in print, visual media and outdoors, regulation of in-store advertising, prohibition of sale of cigarettes to persons below the age of 18 years, etc. have been in force. Printing of pictorial warnings on cigarette packets, came into effect from 31st May, 2009 were further revised and the pictorial warning covering 85% of the front and back side of the packets was implemented w.e.f. 1st April, 2016 and is being duly complied with by your Company.
- ii. Your Company had also filed a writ petition in the Hon'ble High Court of Andhra Pradesh challenging The Cigarettes and Other Tobacco Products (Packaging & Labelling) Rules, 2006 and the Amendment Rules 2008, on the grounds inter alia that they are ultra vires of COTPA and therefore the notifications issued there under (including those seeking implementation of graphic health warnings) should be quashed. The said writ petition has been admitted but no interim orders were passed by the Hon'ble Court.
- iii. Before the High Court of Karnataka, a Writ Petition was filed by Tobacco Institute of India (TII) on behalf of your Company and

other manufacturers against the proposed notification dated 15th October, 2014 by Health Ministry to print health warning on both sides of the pack occupying 85% of space. The 85% health warning came into effect from 1st April, 2016. Your Company also filed a Writ Petition before the High Court bench at Dharwad against the implementation of 85% health warning. The Hon'ble Supreme Court on hearing a PIL filed by Health for Millions, constituted a Bench before the Karnataka High Court to hear all the matters relating to graphical health warning. The Writ Petitions filed by TII and your Company were heard before the Bangalore Bench and it was held on 15th December 2017 that the amendment made to the Packaging Rules imposing 85% graphic health warning is ultra vires the Constitution. Against the said Judgment, an appeal was filed by the Ministry of Health before the Supreme Court. A stay has been granted on the said judgement and is pending before the Supreme Court.

REAL ESTATE

The Government of Andhra Pradesh had filed a land grabbing case against your Company in 1991 in relation to a piece and parcel of vacant land which has been under possession and occupation by your Company for over four decades. By its judgment dated 28th July, 2010, the Special Court had held that your Company is not a land grabber but had given the State Government the right to initiate proceedings to recover possession of the land at some future

date. Against this part of the judgement, your Company filed a writ petition before the then Hon'ble High Court of Andhra Pradesh to expunge that part of the Order giving such liberty to the Department despite the fact that your Company has already been declared not to be a land grabber. The writ petition is still pending. The State Government has also filed a writ petition in the Hon'ble High Court of Andhra Pradesh seeking to set aside the said judgment of the Land Grabbing Court. An interim Order was passed restraining your Company from changing the status of the land or creating any third party interest therein. Your Company is taking all the necessary steps for speedy disposal of the above writ petitions which are pending before the Court.

One more case of land grabbing was filed by the then Government of Andhra Pradesh against your Company in the year 1989 on a piece of land along with building called 'Lal-e-Zar', before the Special Court. In the year 2010, the Special Court passed a judgment stating that your Company is not a land grabber. After 7 years, the Government of Telangana filed an appeal before the Hon'ble High Court of Telangana and Andhra Pradesh seeking a direction from the court that the nature of the land not to be altered and no third party interest to be created. Your Company filed a counter and vacate stay application seeking permission to construct on the said land. Judgment was pronounced on the vacate stay petition allowing your Company to construct but with certain conditions. The State Government preferred an appeal before the Supreme Court which was dismissed.

PARTICULARS OF EMPLOYEES

The information required pursuant to Section 197 of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 as amended in respect of employees of the Company, are annexed herewith as **"Annexure E"** and forms part of this Report. The statement containing particulars of employees as required under Section 197 of the Act read with Rule 5(2) of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is provided in a separate annexure forming part of this Report. However, in terms of Section 136 of the Act, the Report and Accounts are being sent to the Members and others entitled thereto, excluding the information on employees' particulars which is available for inspection by the Members at the Registered Office of the Company during business hours on working days of the Company up to the date of the ensuing AGM. In case any Member is interested in obtaining a copy thereof, such Member may write to the Company Secretary of the Company.

The Nomination and Remuneration Committee of the Company has affirmed that the remuneration is as per the Remuneration Policy of the Company.

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

ANNUAL RETURN

As required under Section 92(3) of Companies Act, 2013 and Rule 12(1)

of Companies (Management and Administration) Rules, 2014, an extract of Annual Return in Form MGT-9 is annexed as **"Annexure F"** and forms part of this Report.

A duly certified and filed copy of the annual return for the financial year 2019-20 will be made available on the website of the Company at www.vsthyd.com after the ensuing Annual General Meeting.

AUDITORS

Statutory Auditors

In compliance with the provisions of Sections 139 and 141 of the Companies Act, 2013 as amended and Companies (Audit and Audit Rules), 2014, including any statutory modification(s), re-enactments and amendments thereof, for the time being in force, M/s. B S R & Associates LLP, Chartered Accountants, were appointed as the Statutory Auditors of the Company to hold office from the conclusion of the 85th AGM to the conclusion of the 90th AGM. This was subject to the ratification at every AGM during the aforementioned term of their appointment. However, the requirement of annual ratification has been dispensed with under the Companies (Amendment) Act, 2017 which has been notified on 7th May, 2018. The Report given by the Auditors on the financial statements of the Company is part of the Annual Report. There has been no qualification, reservation or adverse remark in their Report. During the year under review, the Auditors have not reported any matter under Section 143(12) of the Companies Act, 2013 and hence, no detail is required to be disclosed under Section 134(3)(ca) of the Companies Act, 2013.

Secretarial Auditor

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Company appointed M/s. Tumuluru and Company Firm as Secretarial Auditor of the Company for the financial year 2019-20. The Secretarial Audit Report is annexed herewith as **"Annexure G"** and forms part of this Annual Report.

There are no qualifications, reservations or adverse remarks in the Secretarial Audit Report.

COMPLIANCE WITH SECRETARIAL STANDARDS

Your Company has complied with applicable Secretarial standards, i.e. on Meetings of the Board of Directors [SS-1] and on General Meetings [SS-2] issued by The Institute of Company Secretaries of India (ICSI) and approved by the Central Government under Section 118(10) of the Companies Act, 2013.

COST ACCOUNTS AND RECORDS

The maintenance of cost accounts and records as specified by the Central Government under Section 148(1) of the Companies Act, 2013 is not required by the Company.

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

Information in accordance with clause (m) of sub-section (3) of Section 134 of the Companies Act, 2013 read with Rule 8 of Companies (Accounts) Rules, 2014 is given in the **"Annexure H"** forming part of this Report.

SUBSIDIARY/ASSOCIATES/JOINT VENTURES

Addition or cessation of subsidiaries, associates or joint ventures is not applicable to the Company as the Company does not have any subsidiary company, associates and joint ventures.

DEPOSITS

Your Company has stopped accepting fresh deposits for several years now. As on 31st March, 2020, your Company does not have any deposits for the purpose of its business, hence details of deposits is not applicable.

UTILISATION OF FUNDS

Your Company has not raised any funds

during the year through preferential allotment or Qualified Institutional Placement, as a result question of providing details of utilization of such funds does not arise.

DEBENTURE TRUSTEES

Your Company does not have any debentures and as a result, creation of debenture trustees does not arise.

THE FUTURE

Despite adverse market conditions, your Company is well placed to exploit opportunities through innovative new brand launches, coupled with expansion of operational areas.

ACKNOWLEDGEMENTS

The Directors are grateful to all valuable stakeholders of the Company viz., customers, shareholders, dealers, vendors, banks and other business associates for their excellent support rendered during the year. The Directors also acknowledge the unstinted commitment and valued contribution of all employees of the Company.

On behalf of the Board,
NARESH KUMAR SETHI
Chairman
DIN : 08296486

Dated this 21st day of May, 2020
Azamabad, Hyderabad - 500 020.