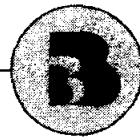


B A L A J I
DISTILLERIES
L I M I T E D

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18th
ANNUAL
REPORT
2001-2002



BALAJI DISTILLERIES LIMITED

EIGHTEENTH ANNUAL REPORT

Board of Directors	Shri. M Sreenivasulu Reddy Managing Director Shri. S V Sessa Reddy Shri. V Chandrasekhara Reddy
Company Secretary	Shri. G Sriraman
Auditors	M/s P A Reddy & Co. Chartered Accountants Nellore - 524 001 M/s Sridhar & Santhanam Chartered Accountants Chennai 600 004
Bankers	ICICI Bank Ltd. Bank of Baroda Ltd. Indian Overseas Bank Ltd.
Registered Office	16/1600, Ramamurthy Nagar Nellore - 524 003 Andhra Pradesh
Distillery	By-Pass Road Poonamallee Chennai - 600 056 Tamilnadu
Brewery Project	Mount Thiruvalluvar High Road Aranvoyal Village Chengai MGR district Pin - 602 025 Tamilnadu
Corporate Office	9, Bazullah Road T. Nagar Chennai - 600 017 Tamilnadu
Registrar and Share Transfer Agent	Cameo Corporate Services Limited "Subramanian Building" No. 1, Club House Road Chennai - 600 002



CONTENTS

	Page
NOTICE	3
DIRECTORS' REPORT	7
REPORT ON CORPORATE GOVERNANCE	12
AUDITORS' REPORT	18
BALANCE SHEET	22
PROFIT AND LOSS ACCOUNT	23
SCHEDULES TO ACCOUNTS	24
BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE	45
CASH FLOW STATEMENT	46





BALAJI DISTILLERIES LIMITED

NOTICE

NOTICE is hereby given that the Eighteenth Annual General Meeting of BALAJI DISTILLERIES LIMITED will be held at Raghava Kalyana Mandapam, 8/512, Ranganayakupeta, Nellore 524 001, on Monday, September 30, 2002, at 4.30 p.m. to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the audited Profit and Loss Account for the financial year ended on March 31, 2002, the Balance Sheet as at that date and report of the Directors and the Auditors thereon.
2. To appoint a Director in the place of Shri. V Chandrasekhara Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Auditors and authorise the Board of Directors to fix their remuneration by means of a special resolution as required under section 224A of the Companies Act, 1956.

SPECIAL BUSINESS :

4. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Section 81 (1A) and other applicable provisions, if any, of the Companies Act, 1956 and subject to all norms, guidelines, regulations in force and statutory approvals as may be necessary, consents, permissions and/or sanctions of the Government of India, Reserve Bank of India, Securities and Exchange Board of India, Stock Exchange(s) and all other appropriate authorities, institutions or bodies and subject to such conditions as may be prescribed by them in granting any such approval, consent, permission or sanction (hereinafter referred to as "the Requisite Approvals"), the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any committee of Directors which the Board may have constituted or hereafter constitute to exercise its powers including the powers conferred by this resolution) be authorised on behalf of the Company, to issue and allot, in the course of National/International offerings on private placement basis, right basis or otherwise in Indian/one or more

foreign markets, Equity Shares, Cumulative or Noncumulative, Redeemable or Convertible Preference Shares, Debentures, Bonds, Debt Instruments and/or securities convertible into Equity Shares at the option of the Company and/or the holders of the securities linked to Equity Shares and/or non convertible securities with or without detachable/non-detachable warrants/notes with a right exercisable by the warrants/notes holder to subscribe for Equity Shares at such price and manner and during such period as the Board may decide or by an issue to or by private placement with foreign/Indian investor(s) including institutional investors, banks, Non-Resident Indians, and Overseas Corporate Bodies, and/or Foreign Institutional Investors and to any select group of persons, including one or more creditors of the Company, whether members of the Company or not, subject to the memorandum of association of the Company through prospectus and/or offering letter of circular and/or private placement basis for an amount (inclusive of such premium as may be determined) not exceeding Rs.250 crores (Rupees two hundred and fifty crores only) or equivalent thereof in any other currency(ies), such issue and allotment to be made at such time or times, in such tranche(s), at such price or prices (including at a discount or premium to market price or prices) and in such manner as are in conformity with any guidelines or directions or norms, statutory or otherwise and as may be finalised by the Board and if necessary in consultation with the Lead Managers and/or Underwriters and/or other Advisors, and otherwise on such terms and conditions as may be decided and deemed appropriate by the Board."

"RESOLVED FURTHER THAT the above offer also includes a right of the Company to convert in whole or in part any of the existing loans of the Company provided by Banks, Financial Institutions, NBFCs and such other select group of persons like one or more creditors or suppliers to whom amounts are outstanding."

"RESOLVED FURTHER THAT without prejudice to the generality of the above, the securities may have all or any terms or combination of terms in



BALAJI DISTILLERIES LIMITED

accordance with Indian/International norms/practice including but not limited to terms and conditions in relation to payment of interest, additional interest, premia on redemption, prepayment and any other debt service payment whatsoever, besides terms as to security if any, to be created for any of the securities with such ranking as the Board may determine and including terms for issue of additional Equity Shares or variation of the conversion price of the security during the duration of the securities."

"RESOLVED FURTHER THAT the Board be authorised to enter into and execute all such arrangements with one or more Lead Manager(s), Co-Manager(s), Arranger(s), Banker(s), Broker(s), Underwriter(s), Guarantor(s), Depository(ies), Custodian(s), Trustee(s), Facilitator(s), Book Builder(s) and all such agencies as may be involved or concerned in such offering of securities and to remunerate all such institutions and agencies by way of commission, brokerage, fees or the like, and also to seek the listing of such securities in one or more International Stock Exchange and/or The National Stock Exchange/Stock Exchanges in India."

"RESOLVED FURTHER THAT the Company and/or an agency or body authorised by the Board may issue Depository Receipts representing the underlying Equity Shares in the Capital of the Company or such other securities in registered or bearer form with such features and attributes as are prevalent in Indian/International Capital Markets for instruments of this nature and providing for the tradability or free transferability thereof as per Indian/International norms, practices and regulations and under the forms and practices prevalent in Indian/International Markets."

"RESOLVED FURTHER THAT the Board be authorised to issue and allot such number of Equity Shares as may be required to be issued and allotted directly or upon conversion of any securities or as may be necessary in accordance with the terms of issue,

offering all such shares ranking 'pari passu' with the existing Equity Shares of the Company in all respects."

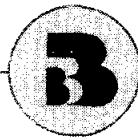
"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to decide the terms of issue of Equity Shares and/or Debentures, Bonds, Cumulative or Non-cumulative Preference Shares, redeemable or convertible into Equity Shares and other securities convertible into Equity Shares and that the price of the said instruments be a price not less than the price calculated as per the guidelines issued by SEBI for pricing of Preferential Issues. The relevant date for the purpose of issue of equity shares be 30th August, 2002 and in case of any other convertible instruments be a date 30 days prior to the date on which the holder of the said convertible instruments be entitled to the equity shares."

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be authorised on behalf of the Company to accept and make, in the interest of the Company, all such modifications, and alterations to the terms and conditions concerning any aspect of the issue including increases or decreases in the aggregate value of the issue, retention of over-subscription, rate of premium/discount, interest or other charges payable or any other matter as may be considered necessary or expedient and/or as may be specified in the Requisite Approvals and to take all such actions as may be necessary or desirable to effect such modifications and alterations and to do all such acts, deeds, matters and things as it may at its discretion deemed necessary or desirable for such purpose including without limitation the entering into of underwriting, marketing, depository and custodian / trustees / agents / Book Building arrangements with power on behalf of the Company to settle any questions, difficulties or doubts that may arise in regard to the offer, issue and allotment of the Equity Shares/securities as it may in its absolute discretion deemed fit."

By Order of the Board

Place : Chennai
Date : September 05, 2002

G SRIRAMAN
Company Secretary

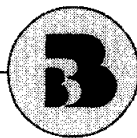


BALAJI DISTILLERIES LIMITED

NOTES

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself and such proxy need not be a member of the company.
2. The instrument appointing proxy in order to be effective should be lodged at the Registered Office of the Company not less than 48 hours before the meeting. A blank proxy form is enclosed.
3. Explanatory statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of the special business set out in the Notice is annexed.
4. The Register of Members and Share Transfer Books of the Company will remain closed from 25.09.2002 to 30.09.2002 (both days inclusive).
5. Members/Proxies should bring the Attendance slip duly filled in for attending the meeting. For shares held in dematerialised form, the DP ID and Client ID numbers should be indicated in the Attendance Slip.
6. For shares held in physical form, any change in address/other details may be intimated to the Company/Share Transfer Agent by quoting the Folio Number(s). For shares held in demat form, change in address/other details may be intimated directly to the Members' DP.
7. Pursuant to the provisions of Section 205A of the Companies Act, 1956, dividend for the financial year ending March 31, 1996 and thereafter which remains unclaimed for a period of seven years will be transferred to the Investor Education and Protection Fund of the Central Government. Members who have not encashed their dividend warrants for the said period are requested to make their claims to the Company. Upon such transfer, a member shall have no claim against the fund or the Company regarding his unpaid dividend.
8. Members are requested to send queries, if any, on the accounts, at least seven days prior to the date of the meeting, so that the information can be made available at the meeting.
9. Reappointment of Director :
 Shri V Chandrasekhara Reddy, Director of the Company, retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.
 Shri V Chandrasekhara Reddy, 42 years, has been a Director of the Company from June 29, 2001. He is a Chartered Accountant and has about 10 years of experience in Finance, Accounts and General Management. He is Director of 1) Polar Breweries Ltd, 2) Maldeep Investments Pvt Ltd, 3) Star Investments Pvt Ltd, 4) Venkatadri Investments Pvt Ltd and 5) Ador Computers Pvt Ltd.

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BALAJI DISTILLERIES LIMITED

**ANNEXURE TO THE NOTICE
EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173 (2)
OF THE COMPANIES ACT, 1956**

ITEM NO. 3:

As the combined shareholding of the public financial institutions in the Company exceeds 25% of the subscribed share capital of the Company, the Auditors are to be appointed/re-appointed by means of a special resolution as per section 224A of the Companies Act, 1956.

The special resolution is commended for approval by the members.

ITEM NO. 4:

The Company is in discussion with various banks/institutions/NBFCs/creditors/ suppliers for placement of Equity Shares/ convertible/cumulative or non-cumulative redeemable Preference Shares, Debentures and/or Bonds either convertible or non convertible into Equity Shares or other Debt instruments mainly for the purpose of repayment of existing or future loans in whole or in part and conversion of such loans into Equity as part of corporate debt restructuring exercise. The response has been quite encouraging. The discussions are in an advanced stage and the Company in consultation with the banks/institutions/NBFCs is in the process of finalising the modalities.

It is expected that the banks/institutions/NBFCs/creditors/ suppliers would be investing in the equity shares upto a face value of Rs.10 crores, the price of which would aggregate to Rs.17 crores or thereabout, as per the guidelines issued by SEBI for pricing of preferential issues. The banks/ institutions/ NBFCs/ creditors/suppliers may also prefer to invest in convertible instruments and the price of shares to be issued on conversion shall be determined as per the SEBI guidelines and regulations in force. The Company proposes to finalise the terms of issue and allotment within three months barring unforeseen circumstances.

The object of the issue is that the issue would help the Company in reducing the debt and interest burden and also

will result in improved Debt Equity ratio. Further the reduction in the finance charges will also improve the profitability of the Company.

The promoters/ directors/ key management personnel do not intend to subscribe to the offer.

The shareholding pattern before and after the offer will be as follows:

Sl. No	Category	Pre – Issue		Post – Issue	
		No of Shares	%	No of Shares	%
1.	Promoters & Associates	26328200	53.71	26328200	44.61
2.	NRI/OCB/FIIs	25900	0.05	25900	0.04
3.	Banks/ Institutions/ MFs	13534998	27.62	18534998	31.41
4.	Public/ Others	9128462	18.62	14128462	23.94
Total		49017560	100.00	59017560	100.00

The above post issue shareholding pattern is an estimate based on the assumption that the banks /institutions/NBFCs/ creditors/suppliers may subscribe for an equity with an aggregate face value of around Rs.10 Crores. There may be some variations, which may depend on the final quantity of the shares that may be subscribed by the Banks/ Institutions.

The resolution if passed would further enable the Company to mobilise funds by way of issue of Equity Shares, Debentures, Bonds and/or securities either in Indian / International markets when the market conditions show improvement.

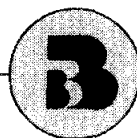
Directors recommend adopting the resolution afresh at this meeting.

None of the Directors of the Company is deemed to be interested in the resolution.

By Order of the Board

Place : Chennai
Date : September 05, 2002

G SRIRAMAN
Company Secretary



BALAJI DISTILLERIES LIMITED

DIRECTORS' REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of your Company present their Eighteenth Annual Report, together with the audited statement of accounts for the year ended March 31, 2002.

PERFORMANCE HIGHLIGHTS

Your Company earned a gross revenue of Rs 59128.84 lacs during the year 2001-2002 as against the gross revenue of Rs.56246 lacs in the previous financial year 2000-2001.

SUMMARY OF FINANCIAL RESULTS

A. EARNINGS

	Rs. in lacs	
	2001-2002	2000-2001
Profit / (Loss) before depreciation	(2208.35)	(6012.41)
Less: Depreciation	712.69	913.92
Profit / (Loss) before tax	(2921.04)	(6926.33)
Provision for tax for earlier years	(1.58)	(22.52)
Profit / (Loss) after tax	(2922.62)	(6948.85)
Prior period adjustment	(1802.01)	—
Deferred Tax	1499.86	—
Profit / (Loss) for the year	(3224.77)	(6948.85)
Profit / (Loss) brought forward from previous year	(5874.04)	1074.81
Loss carried forward from Profit and Loss Account	(9098.81)	(5874.04)
Less : Transfer from		
General Reserve	5088.81	—
Accumulated Loss carried in the balance sheet	(4010.00)	(5874.04)

OPERATING RESULTS

During the financial year under review, your Company achieved a production of 37,58,078 cases of Indian Made Foreign Liquor (33,87,379 cases in 2000-2001) and sold 37,79,470 cases (33,72,725 cases in 2000-2001) generating a revenue of Rs.58978.72 lacs (Rs.54193.74 lacs in 2000-2001).

The Charter Hire charges amounted to Rs. Nil (Rs.1249.55 lacs in 2000-2001).

The lease income amounted to Rs.89.11 lacs (Rs.647.57 lacs in 2000-2001).

Your Company has earned a profit of Rs.765.76 lacs before interest, depreciation, loss on sale of leased assets, extra ordinary items and tax. After taking into account interest, depreciation, loss on sale of leased assets, extra-ordinary items and tax the net loss for the year amounted to Rs.3224.77 lacs.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL

The company manufactures mainly Alcoholic Beverages. In India Indian Made Foreign Liquor (IMFL) and Beer together are known as alcoholic beverages. Presently, the company is engaged in manufacture of IMFL at its facility at Chennai. The company is also putting up a state-of-art facility for manufacture of beer.

INDUSTRY STRUCTURE AND DEVELOPMENT

Alcoholic beverages industry is a "state subject" and as such every state has its own policies in respect of this industry. Tamilnadu, the state in which the company operates, has its own policy, both for manufacture as well as for marketing / distribution. The alcoholic beverages are governed by the state excise policy.

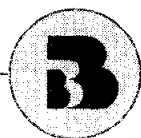
In the state of Tamilnadu there are 5 distilleries and 3 breweries. Presently, no fresh licence is issued to any one. However, to meet the growing demand, the existing players are normally allowed to expand, subject to the Government's approval.

In terms of marketing and distribution, the entire alcoholic beverages are sold through Tamilnadu State Marketing Corporation Ltd (TASMAC), a state government undertaking.

IMFL segment has posted a growth rate of 8.54% over the last year and the growth rate is expected to be maintained at the same level.

Even within the IMFL segment, the demand is split between the premium brands - Rs.566/- and above, medium brands - Rs.491/- to Rs.565/- and ordinary brands - upto Rs.490/-. In terms of volume, the lower end ordinary brands sell more than the premium brands.

Beer segment has posted a growth rate of 2.71% over the last year and on account of the entry of foreign players, the growth rate is expected to reach 15% in the years to come.



BALAJI DISTILLERIES LIMITED

This industry is one of the major contributors to the exchequer by way of excise duty, sales tax and vend fee. The Tamilnadu Government has introduced cheap liquor in the month of January, 2002 and due to the sudden shift of consumers from premium and medium segment to cheap liquor segment, there has been drop in the revenue to the government. Accordingly, the state government has with drawn the cheap liquor.

OPPORTUNITIES AND THREATS

Opportunity

Alcoholic beverages industry, probably is the only industry, which posts consistent growth year after year and is not affected by any cyclical factors. With the state government's efforts to eradicate the evil of illicit liquor, the demand for medium and lower end brands are expected to boom in the years to come. Your company is planning to enter into lower end ordinary brand segment, where it does not have its presence today.

Threat

Even though the entry of foreign players was perceived as a threat long back, it is not considered as a threat today due to high price of the foreign brands, which predominantly target the elitist society.

Prohibition is generally perceived as a major threat to this industry. However, with the state governments enjoying a huge revenue from this industry and with the lesser opportunity to compensate the loss of huge revenue, your Company do not anticipate any threat on account of prohibition.

OUT LOOK

Today, with the acceptance of social drinking, the alcoholic beverages industry is likely to grow with the compounded annual growth rate of 12%. More and more foreign players are expected to come into India, especially in the beer segment and on such foreign players entering the beer market, this segment is expected to grow exponentially.

Your Company continues to enjoy a significant market share in Tamil Nadu in respect of Indian Made Foreign Liquor. Barring unforeseen circumstances, the Company expects to do well in this line of business, in the coming year.

RISK AND CONCERNS THE MANAGEMENT PERCEIVE

For alcoholic beverages industry, the significant risk factor are the purchasing power of individuals and non existence of brand loyalty. The company is ensuring

that its products are available on the shelf at any point of time.

FINANCIAL SUMMARY

The summarised Profit and Loss account of your Company is given below: Rs. in lacs

	2001-2002	2000-2001
Sales and Services	59067.83	56090.86
Other income	61.01	155.14
Total income (A)	59128.84	56246.00
Excise Duty, Sales Tax,		
Vend Fee and Turnover Tax	45810.97	43578.38
Cost of Materials	8897.82	7477.21
Overheads	3654.30	3462.77
Interest	2639.41	4621.57
Depreciation	712.69	913.92
Loss on sale of assets	334.69	3118.48
Prior Year Expenses / Tax	1803.59	22.52
Total	63853.47	63194.85
Less : Deferred Tax Credit	1492.86	—
Total (B)	62353.61	63194.85
Profit / (Loss) Before		
Taxation (A-B)	(3224.77)	(6948.85)
Provision for taxation	—	—
Profit / (Loss) after Taxation	(3224.77)	(6948.85)

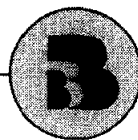
CORPORATE DEBT RESTRUCTURING

Your Company, as a first step to improve its financial viability, has approached the financial institutions and banks who have extended financial assistance, to restructure the debt over a long period. ICIJ Bank Ltd, IFCI Ltd and L & T Finance Ltd have already extended the restructuring package which includes concessional rate of interest, conversion of Debt into Equity / Preference Shares and reschedulement of loans spanning over a period of 17 years. The restructuring package has been implemented. The Company is awaiting approvals from other lenders. The full effect of the restructuring package will be felt in the ensuing year by way of substantial reduction of interest charges.

As per the terms and conditions of the restructuring package, the Company has appointed Concurrent and Joint Statutory Auditors to the satisfaction of the lenders.

BREWERY PROJECT

The Brewery Project of your Company is in the advanced stage of implementation. Your Company is in the process of tying up the balance funding



BALAJI DISTILLERIES LIMITED

requirements and in this regard, your Company has already entered into a MOU with United Breweries Ltd. Your Company expects to commence commercial production in the first quarter of 2003.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

Your Company has established its own internal control systems and procedures, which ensures maintenance of proper financial accounting records. As part of strengthening of internal control systems, your Company has reviewed its various systems and procedures and has brought out a comprehensive hand book on "Systems and Procedures". The financial institutions, as part of the restructuring exercise, have also appointed Concurrent Auditors to strengthen the internal controls, payment procedures, flow of information etc.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCES, INDUSTRIAL RELATIONS FRONT

Your Company considers the Human Resources as its most important asset and constantly endeavours to retain, nurture and groom talent to meet the current and future needs of the business. Your Company currently has 318 employees. Your Company strongly believes in the development of employees through training. Industrial relations at the plants are cordial.

CAUTIONARY STATEMENT

The report is based on the experience and information available to the company in its businesses and assumptions with regard to economic conditions, Government and regulatory policies. The performance of your Company is dependent on these factors. It may be materially influenced by various factors including change in economic conditions, government regulations, tax laws and other incidental factors, which are beyond your Company's control, affecting the views expressed in or perceived from this report.

SHARE CAPITAL

Equity Shares

The paid up Equity Share capital of your Company has increased from Rs.4101.76 lacs to Rs.4901.76 lacs on account of allotment of 40,00,000 equity shares of Rs.10/- each made on 29th June, 2001 to ICICI Bank Ltd. and 40,00,000 equity shares of Rs.10/- each made on 30th March, 2002 to IFCI Ltd., pursuant to conversion of part of their outstanding loans into equity.

Preference Shares

The paid up Preference Share capital of your Company

has increased from Rs.1500 lacs to Rs.5565.37 lacs due to the allotment of 2,41,50,000 - 6% Optionally Convertible Cumulative Redeemable Preference Shares (OCCRPS) of Rs.10/- each to ICICI Bank Ltd., 1,60,60,000 - 6% OCCRPS of Rs.10/- each to IFCI Ltd. and 4,43,700 - 6% OCCRPS of Rs.10/- each to L & T Finance Ltd. made on 30th March, 2002, pursuant to the financial restructuring by converting part of the existing assistance provided by them.

FINANCE

Your Company proposes to raise additional funds to augment the working capital and long term requirements of the Brewery Project.

DIVIDEND

As the operations of your Company in the current year have resulted in a loss, your directors do not recommend any dividend for the year 2001-2002.

DIRECTORS

Shri. V Chandrasekhara Reddy retires by rotation at the conclusion of the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

IFCI Ltd. has withdrawn their nominee Director Shri T K Subramanian from the Board with effect from 11.12.2001 and ICICI Bank Ltd. has withdrawn their nominee Director Shri S Srinivasan from the Board with effect from 7.12.2001.

The Board records its appreciation for the valuable advice, guidance and services rendered by Shri T K Subramanian and Shri S Srinivasan to the Company during the tenure of their office as Nominee Directors of the Company.

Your company is making endeavours to broad base its Board of Directors.

PERSONNEL

Your Company continues to enjoy cordial relations with employees of all categories. The Board records its appreciation of the dedicated efforts put in by the employees at all levels.

PARTICULARS OF EMPLOYEES

No employee of the Company was in receipt of remuneration in excess of the limits under Section 217 (2A) of the Companies Act, 1956.