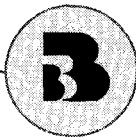


**B A L A J I**  
**DISTILLERIES**  
**L I M I T E D**

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19<sup>th</sup>  
ANNUAL  
REPORT  
2002-2003



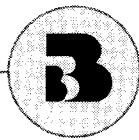
## BALAJI DISTILLERIES LIMITED

### NINETEENTH ANNUAL REPORT

|                                       |                                                                                                                                                        |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Board of Directors                    | Shri. M Sreenivasulu Reddy<br>Managing Director<br>Shri. S V Sesha Reddy<br>Shri. V Chandrasekhara Reddy<br>Shri. S Srinivasan<br>Nominee - ICICI Bank |
| Company Secretary                     | Shri. G Sriraman                                                                                                                                       |
| Auditors                              | M/s P A Reddy & Co.<br>Chartered Accountants<br>Nellore - 524 001<br><br>M/s Sridhar & Santhanam<br>Chartered Accountants<br>Chennai 600 004           |
| Bankers                               | Bank of Baroda<br>Indian Overseas Bank<br>ICICI Bank<br>Citi Bank, N.A.                                                                                |
| Registered Office                     | 16/1600, Ramamurthy Nagar<br>Nellore - 524 003<br>Andhra Pradesh                                                                                       |
| Distillery                            | Bye-Pass Road<br>Poonamallee<br>Chennai - 600 056<br>Tamilnadu                                                                                         |
| Brewery                               | Mount Tiruvallur High Road<br>Aranvoyal Village<br>Tiruvallur District<br>Pin - 602 025<br>Tamilnadu                                                   |
| Corporate Office                      | 9, Bazulfah Road<br>T. Nagar<br>Chennai - 600 017<br>Tamilnadu                                                                                         |
| Registrar and<br>Share Transfer Agent | Cameo Corporate Services Limited<br>"Subramanian Building"<br>No.1, Club House Road<br>Chennai - 600 002                                               |

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## BALAJI DISTILLERIES LIMITED

### NOTICE

NOTICE is hereby given that the Nineteenth Annual General Meeting of BALAJI DISTILLERIES LIMITED will be held at Raghava Kalyana Mandapam, 8/512, Ranganayakupeta, Nellore 524 001, on Saturday, February 28, 2004, at 11.30 a.m. to transact the following business :

#### ORDINARY BUSINESS :

1. To receive, consider and adopt the audited Profit and Loss Account for the period ended on June 30, 2003(i.e. from 01.04.2002 to 30.06.2003), 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 S V Sesha Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Auditors and to fix their remuneration. In this connection, to consider and, if thought fit, to pass with or without modification the following as an ordinary resolution.

"RESOLVED THAT the retiring Auditors, M/s P A Reddy & Co., Chartered Accountants, Nellore and M/s Sridhar & Santhanam, Chartered Accountants, Chennai, be and are hereby appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting on a remuneration as may be decided by the Board of Directors."

#### 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 the following Article No.141A be inserted after Article No.141:

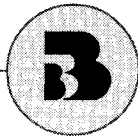
Permanent Chairman 141A "The Directors may appoint any one among them as permanent chairman to preside over the Board Meetings of the company. The Director so appointed as permanent Chairman shall not be liable to retire by rotation of Directors as long as he continues to

hold office as Chairman. The Directors shall have the right to remove such Chairman and appoint another Director as Chairman in his place."

"Provided further that if the Chairman so appointed is not present or could not attend the meeting, then the Directors present shall choose one among them to be Chairman of such meeting."

5. 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 approval 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, consents, 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, Cumulative or Non-cumulative, Redeemable or Convertible Preference Shares of Rs.10/- each for cash at par to financial institutions, banks in view of the Debt Restructuring package sanctioned / to be sanctioned by them 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 on private placement basis for an amount not exceeding Rs.30 crores (Rupees thirty crores only)."

**BALAJI DISTILLERIES LIMITED**

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board be and is hereby authorised to take all such actions and give all such directions, or do all such acts, deeds, matters and things as may be necessary or desirable and settle any question or difficulty that may arise in regard to the issue and allotment of the Preference Shares and further to execute all such deeds, documents and writings as may be necessary."

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

"RESOLVED THAT consequent to the compounding of offence by the Hon'ble Company Law Board under Section 621A of the Companies Act, 1956 and as directed by the Company Law Board, the company do approve and ratify the disbursement of loans/giving of guarantees to the tune of Rs.23491 lakhs already made to or in favour of other bodies corporate in excess of limits prescribed under section 372A of the Companies Act, 1956."

By Order of the Board

Place : Chennai  
Date : January 27, 2004

**G SRIRAMAN**  
Company Secretary

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**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 25.02.2004 to 28.02.2004 (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, dividends for the financial year ended March 31, 1997 and thereafter which remain unclaimed for a period of 7 years will be transferred to the Investor Education and Protection Fund of the Central Government. It may be noted that as per the provisions of Section 205C of the Companies Act, 1956, once the unclaimed dividend is transferred to the Investor Education and Protection Fund, as above, no claim shall lie against the Fund or the Company in respect of such amount. Hence, members who have not encashed their dividend warrant(s) so far, for the financial year March 31, 1997 or any subsequent financial years are requested to make their claims to the Company.
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 S V Sessa Reddy, Director of the Company, retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.  
  
Shri S V Sessa Reddy, 55 years, has been a Director of the Company from May 26, 1999. He is a graduate and has about 30 years of experience in all facets of Liquor Trade including production and marketing. He has been associated with the Company's growth all along. He is also a Director in M/s Prime Distilleries Limited.



## BALAJI DISTILLERIES LIMITED

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

**ITEM NO. 4:**

At present Article 141 of the Articles of Association of the company provides for the appointment of chairman or vice-chairman. Considering the future requirement, it is proposed to insert a new Article 141A to provide for the appointment of permanent chairman who shall not be liable to retire by rotation. This requires the approval of the shareholders by means of a special resolution.

The Directors of the Company recommend the Special Resolution for adoption.

None of the Directors of the company is interested in the special resolution.

**ITEM NO. 5:**

The company approached financial institutions/banks/NBFCs for restructuring of its term loan liabilities. The financial restructuring involves concessional rate of interest, conversion of debt into equity / preference shares and repayment of term loans over 17 years. All the major secured lenders have agreed for the corporate debt restructuring and approvals are expected from others in due course.

As part of the corporate debt restructuring, the Company has to allot 6% - Optionally Cumulative Convertible Redeemable Preference Shares (OCCRP) to banks. This will 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.

In view of the issue of the Preference Shares, it is necessary to pass a Special Resolution under Section 81 (1A) of the Companies Act, 1956.

The Directors recommend the Resolution for adoption by members.

None of the Directors of the company is interested in the special resolution.

**ITEM NO. 6:**

Under section 372A, no Company shall, directly or indirectly, make any loan to any other body corporate, give any guarantee, or provide any security, in connection with a loan made by any other person to, or to any other person by, any body corporate, and acquire, by way of

subscription, purchase or otherwise the securities of any other body corporate, in excess of limits specified therein unless previously authorised by a special resolution passed in a general meeting.

The Statutory auditors have qualified in their report dated September 05, 2002, as follows:

'Non-compliance with the provisions of Section 372A of the Companies Act, 1956 with respect to disbursement of loans/ giving of guarantees in excess of limits specified therein to the tune of Rs. 23491 lakhs.'

The Company as a measure of abundant precaution suo-moto filed a petition before the Company Law Board representing that the Company was under the mistaken impression that the subject transactions being advances to other bodies corporate will not fall under the purview of Section 372A of the Act, as they are not loans with the strict sense of the terms, repayable on demand. Hence the Company had not complied with requirements of provisions of section 372A, namely, shareholders approval and related compliances.

It was not the intention of the management to violate or contravene the provisions of section 372A knowingly or willfully. Also non-compliance of section 372A of the Companies Act, 1956 was purely due to inadvertence and no mala fide intentions are involved and no one was prejudiced by the non-compliance and there is no injury to public interest. The Company requested the Company Law Board to compound the offence.

The aforesaid offence is compoundable as per the provisions of section 621A of the Companies Act, 1956.

The Company Law Board, Southern Region Bench, while compounding the offence vide its order dated 7.5.2003, has directed the company, to file an affidavit to the effect that the company will take necessary steps to obtain shareholders sanction/ confirmation/ratification as the case may be, for the loans, advances and guarantees given in excess of limits prescribed under section 372A of the companies Act, 1956 at the ensuing general meeting.

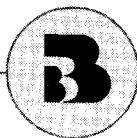
Hence the resolution is put forward before the shareholders for approval. None of the Directors is interested in the resolution.

By Order of the Board

Place : Chennai  
Date : January 27, 2004

**G SRIRAMAN**  
Company Secretary





## BALAJI DISTILLERIES LIMITED

### DIRECTORS' REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of your Company present their Nineteenth Annual Report together with the audited statement of accounts for the 15 months period ended June 30, 2003.

#### PERFORMANCE HIGHLIGHTS

Your Company earned a gross revenue of Rs.74591.93 lakhs during the 15 months period from April 2002 to June 2003 as against the gross revenue of Rs.59128.84 lakhs in the previous financial year 2001-2002(12 months).

#### SUMMARY OF FINANCIAL RESULTS

|                                                     | Rs. in lakhs                                                        |                                                                      |
|-----------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------|
|                                                     | 2002-2003<br>(15 months<br>ending<br>30 <sup>th</sup> June<br>2003) | 2001-2002<br>(12 months<br>ending<br>31 <sup>st</sup> March<br>2002) |
| Profit / (Loss) before depreciation                 | (2801.19)                                                           | (2208.35)                                                            |
| Less: Depreciation                                  | 941.61                                                              | 712.69                                                               |
| Profit / (Loss) before tax                          | (3742.80)                                                           | (2921.04)                                                            |
| Provision for tax for earlier years                 | (17.88)                                                             | (1.58)                                                               |
| Profit / (Loss) after tax                           | (3760.68)                                                           | (2922.62)                                                            |
| Prior period adjustment                             | (7148.40)                                                           | (1802.01)                                                            |
| Deferred Tax                                        | 277.32                                                              | 1499.86                                                              |
| Profit / (Loss) for the year                        | (10631.76)                                                          | (3224.77)                                                            |
| Profit / (Loss) brought forward from previous years | (9098.81)                                                           | (5874.04)                                                            |
| Loss carried forward from Profit and Loss Account   | (19730.57)                                                          | (9098.81)                                                            |
| Less : Transfer from General Reserve                | 5088.81                                                             | 5088.81                                                              |
| Accumulated Loss carried to the balance sheet       | (14641.76)                                                          | (4010.00)                                                            |

#### OPERATING RESULTS

During the 15 months period of the financial year under review, your Company achieved a production of 42,83,376 cases of Indian Made Foreign Liquor (IMFL) (37,58,078 cases in 2001-2002) and sold 42,35,979 cases (37,79,470 cases in 2001-02) of IMFL generating a revenue of Rs.23933.05 lakhs (Rs.19729.99 lakhs in 2001-2002).

Your company has successfully completed the brewery project and commenced commercial operation from

14<sup>th</sup> May 2003. Your company has achieved a production of 2,31,839 cases of Beer (Nil cases in 2001-2002) and sold 2,14,200 cases of beer (Nil cases in 2001-02) generating a revenue of Rs. 379.59 lakhs (Rs. Nil in 2001-2002).

Pending resolution of dispute with Rajasthan State Electricity Board (RSEB), your company has not recognized the Lease Rental Income from RSEB due to which the lease income amounted to Rs.11.32 lakhs (Rs.89.11 lakhs in 2001-2002).

Your Company has suffered a loss of Rs. 10631.76 lakhs for the 15 months period ending June 30, 2003, after taking into account interest, depreciation, extraordinary items and tax as compared to the loss of Rs.3224.77 lakhs for the financial year 2001-02.

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### GENERAL

The Company manufactures Indian Made Foreign Liquor (IMFL) and beer. Both the IMFL and Beer manufacturing facility are situated near Chennai. Both these two products together are some times referred as Alcoholic Beverages.

##### INDUSTRY STRUCTURE AND DEVELOPMENT

Indian Made Foreign Liquor (IMFL) and Beer industries are "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.

In the state of Tamilnadu there are 6 distilleries and 3 breweries and all the products manufactured by these units are sold to Tamilnadu State Marketing Corporation Ltd (TASMAC) and TASMAC in turn sell to the licenced retailers. As a preventive measure to curb the menace of unauthorized movement of liquor from the neighboring states, TASMAC has started purchasing the entire requirement of IMFL and Beer only from the units situated within the state. From the current excise year, the government has taken over the retail distribution of IMFL and Beer and accordingly the entire alcoholic beverages are sold through retail outlets owned by TASMAC. This move is likely to benefit the consumers by way of availability of genuine products at government fixed prices, which in turn is expected to propel the demand of your company's products.





## BALAJI DISTILLERIES LIMITED

IMFL segment has posted a negative growth of around 8.10% over the last year and the beer segment has posted a negative growth of 14.41% over last year. This negative growth is mainly attributable to the change in policy of the State Government with regard to renewal of licence to the retailers. With the renewal of retail licence under threat, the retailers have taken a cautious approach with regard to stocking of IMFL/Beer products, due to which the alcoholic beverage industry has reported a negative growth. However, with all the disputes between the retailers and Government have been settled and with the Government taking over the retail distribution, the IMFL and Beer industry is expected to post positive growth in the coming year.

Even within the IMFL segment, the demand is split between the premium products, medium products and lower end products, which are categorized according to the price band. In terms of volume, the lower end product sells more than the premium and medium products.

This industry is one of the major contributors to the exchequer by way of excise duty, sales tax and vend fee etc.

### OPPORTUNITIES AND THREATS

#### Opportunity

Alcoholic beverages industry, probably is the only industry, which normally 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 products are expected to boom in the years to come. Your company has already made inroads into lower segment.

#### 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 high revenue from this industry and with the lesser opportunity to compensate the loss of huge revenue, we 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 10%. 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 is 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

Your Company has extended the financial year by 3 months so as to end on 30th June 2003 in view of the Brewery Project commissioning and to give full effect to the Corporate Debt Restructuring package sanctioned by lenders. At the request of the Company, the Registrar of Companies has granted extension of time till 28.02.2004 to hold the Annual General Meeting for the year 2003.

The summarised Profit & Loss account of the company is given below:

|                                                      | 2002-2003<br>(15 months<br>ending<br>30 <sup>th</sup> June<br>2003) | Rs. in lakhs<br>2001-2002<br>(12 months<br>ending<br>31 <sup>st</sup> March<br>2002) |
|------------------------------------------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Sales and services                                   | 74133.50                                                            | 59067.83                                                                             |
| Other income                                         | 458.43                                                              | 61.01                                                                                |
| <b>Total income (A)</b>                              | <b>74591.93</b>                                                     | <b>59128.84</b>                                                                      |
| Excise Duty, Sales Tax,<br>Vend Fee and Turnover Tax | 57749.23                                                            | 45810.25                                                                             |
| Cost of Materials                                    | 9901.83                                                             | 8897.82                                                                              |
| Overheads                                            | 6102.19                                                             | 3655.01                                                                              |
| Interest                                             | 3639.87                                                             | 2639.41                                                                              |
| Depreciation                                         | 941.61                                                              | 712.69                                                                               |
| Loss on sale of assets                               | —                                                                   | 334.69                                                                               |
| Prior Year Expenses / Tax                            | 7166.28                                                             | 1803.59                                                                              |
| Total                                                | 85501.01                                                            | 63853.47                                                                             |
| Less : Deferred Tax Credit                           | 277.32                                                              | 1499.86                                                                              |
| <b>Total (B)</b>                                     | <b>85223.69</b>                                                     | <b>62353.61</b>                                                                      |
| Profit / (Loss) Before<br>Taxation (A-B)             | (10631.76)                                                          | (3224.77)                                                                            |
| Provision for taxation                               | —                                                                   | —                                                                                    |
| Profit / (Loss) after Taxation                       | (10631.76)                                                          | (3224.77)                                                                            |



## BALAJI DISTILLERIES LIMITED

### CORPORATE DEBT RESTRUCTURING

The members are aware that during the previous year, the restructuring package which includes concessional rate of interest, conversion of Debt into Equity/ Preference Shares and rescheduling of loans spanning over a period of 17 years, has been implemented in respect of the loans availed from ICICI Bank Limited, IFCI Ltd and L & T Finance Ltd.

During the year Bank of Baroda and Sundaram Finance Limited have also agreed to the restructuring proposal in line with the other lenders. The company has also received the approval from Indian Overseas Bank for the restructuring package, after the balance sheet date.

Though the corporate debt restructuring has given some relief to the cash starved company, yet your company has been experiencing severe cash flow crunches mainly on account of reduced margins and non availability of working capital. With the unremunerative prices for the beer products and steep increase in input cost of raw materials and packing materials of the IMFL products coupled with the lower capacity utilization of the brewery, your company is continuously experiencing mismatches in its cash flow.

### REFERENCE TO BIFR

Your Company proposes to make a reference to the Board for Industrial and Financial Reconstruction (BIFR), as the company is now a sick industrial company within the meaning of Clause (o) of the sub section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 due to erosion of its net worth.

Your Company proposes to come up with a comprehensive package, as may be directed by the Hon'ble BIFR, in consultation with lenders. We are confident of revival of the Company.

### BREWERY PROJECT

The Brewery Project of the Company has become operational and has commenced commercial production from May 2003. The capitalization of Brewery project has been done after taking into consideration the accounting standards on borrowing cost (AS16) issued by the Institute of Chartered Accountants of India.

Your Company has formed two subsidiaries viz., BDL Distilleries Pvt. Ltd. and Chennai Breweries Pvt. Ltd. on 25.7.2003 to have two separate entities for its Distillery and Brewery business. This shall enable the Company to carry out the operational restructuring.

### INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The company has established its own internal control systems and procedures, which ensures maintenance of proper financial and accounting records. The financial institution and banks, as part of the restructuring exercise, have also appointed Concurrent Auditors to strengthen the payment procedures, flow of information etc. Your company review the policies and procedures on a continuous basis for effective internal control.

### MATERIAL DEVELOPMENTS IN HUMAN RESOURCES, INDUSTRIAL RELATIONS FRONT

The 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. The company currently employs 496 employees. Industrial relations at the plants are cordial. Your company has also reached a wage settlement with its workers union.

### 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 the 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 factors, which are beyond the company's control, affecting the views expressed in or perceived from this report.

### SHARE CAPITAL

#### Preference Shares

The paid up Preference Share capital of the Company has increased from Rs.5565.37 lakhs to Rs.5656.09 lakhs due to the allotment of 9,07,200 - 6% Optionally Convertible Cumulative Redeemable Preference Shares (OCCRP) of Rs.10/- each to M/s. Sundaram Finance Limited pursuant to the financial restructuring, by converting part of the existing assistance provided by them.

### DIVIDEND

As the operations of the Company in the current period have resulted in a loss, your directors do not recommend any dividend for the 15 months period ended June 30, 2003.