

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

Report  junction.com

**20th**  
**ANNUAL**  
**REPORT**  
**2003-2004**



## BALAJI DISTILLERIES LIMITED

### TWENTIETH ANNUAL REPORT

#### Board of Directors

Shri M Sreenivasulu Reddy  
Managing Director

Shri S V Sessa Reddy

Shri V Chandrasekhara Reddy

Shri S Srinivasan  
Nominee - ICICI Bank

#### 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

Bank of Baroda  
Indian Overseas Bank  
ICICI Bank  
Citi Bank, N.A.

#### Registered Office

16/1600, Ramamurthy Nagar  
Nellore - 524 003  
Andhra Pradesh

#### Distillery

Bye-Pass Road  
Poonamallee  
Chennai - 600 056  
Tamilnadu

#### Brewery

Mount Tiruvallur High Road  
Aranvoyal Village  
Tiruvallur District  
Pin- 602 025  
Tamil Nadu

#### 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



## BALAJI DISTILLERIES LIMITED

### CONTENTS

	Page
NOTICE	3
DIRECTORS' REPORT	10
CORPORATE GOVERNANCE REPORT	16
AUDITORS' REPORT	22
BALANCE SHEET	27
PROFIT & LOSS ACCOUNT	28
SCHEDULES TO ACCOUNTS	29
BALANCE SHEET ABSTRACT & COMPANY'S GENERAL BUSINESS PROFILE	49
CASH FLOW STATEMENT	50
STATEMENT RELATING TO SUBSIDIARY COMPANIES	52
ANNUAL REPORT OF SUBSIDIARY COMPANIES	53
CONSOLIDATED FINANCIAL STATEMENTS	65



## BALAJI DISTILLERIES LIMITED

### NOTICE

**NOTICE** is hereby given that the Twentieth Annual General Meeting of **BALAJI DISTILLERIES LIMITED** will be held at Raghava Kalyana Mandapam, 8/512, Ranganayakulapeta, Nellore 524 001, on Thursday, September 30, 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 nine months period ended on March 31, 2004 (i.e. from 01.07.2003 to 31.03.2004), 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, offer 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 subject to the Provisions of Sections 198, 269, 309, Schedule XIII and other applicable provisions, if any, under the Companies Act, 1956, and subject to the approval of Central Government as may be required, Shri. M. Sreenivasulu Reddy be and is hereby re-appointed as Managing Director of the Company for a period of 3 years from 1<sup>st</sup> October, 2004 to 30<sup>th</sup> September, 2007 on the following terms and conditions.

**I. Basic Salary** Rs.1,50,000/-  
per month in the scale of  
Rs.1,50,000 - 30,000 - 2,10,000

#### II. Perquisites:

##### Category – 'A'

- i) House Rent Allowance: 40% of basic salary p.m.
- ii) Medical Reimbursement: Reimbursement of the expenses incurred for self and family subject to a ceiling of one month's salary in a year or three month's salary over a period of three years
- iii) Leave Travel Assistance: One month's basic salary for self and family per annum
- iv) Personal Accident Insurance: Annual Premium as per the rules of the company subject to a ceiling of Rs.10,000/- per annum.

##### Category – 'B' – As per Schedule XIII

- i) Provident Fund, Gratuity and Superannuation: As per relevant statutes applicable to the Company and as per rules of the Company.

The aforesaid perquisites stated above shall not be included in the computation of minimum remuneration to the extent these either singly or put together are not taxable under the Income-tax Act, 1961.

- ii) Leave Encashment: Leave and encashment of leave as per the rules of the Company.

##### Category – 'C'

- i) Chauffeur driven, company maintained car
- ii) Telephone at residence
- iii) Mobile phone

(Use of car for private purpose and personal long distance calls on phone shall be billed by the Company)

- iv) Reimbursement of entertainment, traveling and all other expenses incurred for the business of the company as per the rules of the company.

The perquisites, wherever applicable shall be valued as per the Income-tax Act, 1961



## BALAJI DISTILLERIES LIMITED

"RESOLVED FURTHER THAT the perquisites mentioned above shall be interchangeable within the overall ceiling of the annual salary of Shri M Sreenivasulu Reddy, Managing Director."

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.15 crores (Rupees Fifteen Crores only)."

"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 confirm the Postal Ballot resolution vide Postal Ballot Notice dated 16.8.04:

"RESOLVED THAT pursuant to Section 17, 146 and other applicable provisions, if any, of the Companies Act, 1956 and subject to the confirmation of the Central Government on Petition under section 17 of the Companies Act, 1956, clause II of the Memorandum of Association of the Company, be substituted by the following clause.

The Registered Office of the Company will be situated in the State of Tamilnadu."

"RESOLVED FURTHER THAT the aforesaid resolution on becoming effective, the Registered Office of the Company be shifted from 16/1600, Ramamurthy Nagar, Nellore 524 003, Andhra Pradesh to Bye pass Road, Poonamallee, Chennai 600 056, Tamilnadu."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to do or cause to be done all such acts, deeds, matters and other things as may be required or considered necessary for giving effect to the aforesaid resolution and all matters connected therewith or incidental thereto."

By Order of the Board

Place : Chennai  
Date : August 16, 2004

**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 27.09.2004 to 30.09.2004 (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 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, 44 years, has been a Director of the Company from June 29, 2001. He is a Chartered Accountant and has about 13 years of experience in Finance, Accounts and General management. He is a Director of 1) Polar Breweries Limited, 2) Maldeep Investments Private Limited, 3) Star Investments Private Limited, 4) Venkatadri Investments Private Limited and 5) Ador Computers Private Limited.
  10. Approval of the shareholders for the transaction under item no.6 is proposed to be obtained through Postal Ballot. Accordingly, the Postal Ballot Form will be sent separately for your consideration. The Company has appointed Mr.P.Krishnakumar, Practicing Company Secretary, as Scrutiniser for conducting the Postal Ballot process in a fair and transparent manner.  
  
The Scrutiniser, after completion of the scrutiny, will submit his report to the Chairman and the result of the voting by Postal Ballot will be announced by the Chairman at the 20<sup>th</sup> Annual General Meeting to be held on 30.9.2004.



## BALAJI DISTILLERIES LIMITED

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

## ITEM NO. 4:

Shri M Sreenivasulu Reddy's appointment as Managing Director for a period of five years expires on 30.09.2004. The Board of Directors of the company, at its meeting held on 16.08.2004, subject to the approval of the Central Government and Shareholders of the company, have re-appointed him as Managing Director of the Company for a further period of three years with effect from 01.10.2004.

The Remuneration Committee in its meeting held on 16.08.2004 has approved the payment of remuneration to Shri M Sreenivasulu Reddy as mentioned in the resolution.

The Board recommends the re-appointment and remuneration payable to Shri M Sreenivasulu Reddy as Managing Director of the company for a further period of three years commencing from 01.10.2004 to 31.09.2007 to the members for their approval.

Shri M Sreenivasulu Reddy is interested in this resolution. None of the other Directors are interested in this special resolution.

General Shareholders information pursuant to sub-clause (iv) of clause B of section II of Part II of Schedule XIII

I. General Information:

- |   |  |
|---|--|
| (1) Nature of industry:   | Indian Made Foreign Liquor (IMFL) & Beer Manufacturing |
| (2) Date of commencement of commercial production:  | IMFL – 31.01.1985<br>Beer – 14.05.2003                 |
| (3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions, appearing in the prospectus: | Not applicable   |
| (4) Financial performance based on given indicators:  | Not applicable   |
| (5) Export performance and net foreign exchange collaboration:  | Not applicable   |
| (6) Foreign investment or foreign collaborators, if any:  | Not applicable   |

II. Information about the appointee:

- |                         |   |
|-------------------------|---|
| (1) Background details: | <p>Shri Magunta Sreenivasulu Reddy, aged about 51 years is one of the main promoters of the group and has initiated all the expansion ventures of the group. He was actively involved in implementing successfully the projects of IMFL and Beer manufacture. He is an industrialist with over 30 years of experience.</p> <p>He is a Director of 1) Balaji Hotels and Enterprises Limited, 2) Balaji Industrial Corporation Limited, 3) Magunta Hotels Limited and 4) Kalyani Constructions Private Limited.</p> |
|-------------------------|---|



## BALAJI DISTILLERIES LIMITED

- |  |  |
|--|--|
| (2) Past remuneration :  | Basic Salary – Rs.80,000/- p.m. in the scale of Rs.80,000 – 5,000 – 1,00,000/- and Perquisites.  |
| (3) Recognition or awards :  | Nil  |
| (4) Job profile and his suitability :  | Liason with Brand owners and the State Government agencies. Shri M. Sreenivasulu Reddy is engaged in this field for the last 30 years and he is a well known industrialist in the industry circle. |
| (5) Remuneration proposed :  | Basic Salary Rs.1,50,000/- per month in the scale of Rs.1,50,000 - 30,000 - 2,10,000.  |
| (6) Comparative remuneration profile with respective industry, size of the company, profile of the position and the person (in case of expatriates the relevant details would be w.r.t. the country of his origin) : | The remuneration proposed is commensurate with the size of the company, nature of its operations and is in line with the industry standards  |
| (7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any :  | Main Promoter  |

### III. Other information:

- |   |   |
|---|---|
| (1) Reasons of loss or inadequate profits : | <ul style="list-style-type: none"> <li>• Selling price of the products is determined by TASMAL, a government company, to whom all supplies are to be made as per licensing condition.</li> <li>• Constant and continuous increase in the cost of raw materials such as rectified spirit, special spirit, etc.</li> <li>• Increase in rates of packing materials such as bottles, cartons, etc</li> <li>• Increase in labour cost</li> <li>• Increase in cost of personnel</li> <li>• Increase in interest burden</li> <li>• Lack of working capital</li> <li>• Under utilization of capacity due to market conditions</li> <li>• Higher capital investment in brewery project without proportionate earning from the project</li> <li>• Delay in implementation of brewery project resulting in payment of large amounts of interest to financial institutions / banks resulting in over capitalization.</li> <li>• Charging of interest during discontinuance of project implementation in accordance with the accounting standards</li> </ul> |
|---|---|





## BALAJI DISTILLERIES LIMITED

- (2) Steps taken or proposed to be taken for improvement : The company's request for a 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 has been sanctioned and implemented in respect of the loans availed from ICICI Bank Limited, IFCI Ltd, Bank of Baroda, Indian Overseas Bank and L & T Finance Limited. And the company proposes to come up with a comprehensive revival package, as may be directed by the Hon'ble BIFR, in consultation with lenders. We are confident of revival of the company.
- (3) Expected increase in productivity and profits in measurable terms : 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. With the change in distribution policy of the State Government, the IMFL sector has shown appreciable growth. The company continues to enjoy a significant market share in Tamilnadu in respect of IMFL. Barring unforeseen circumstances, the company expects to do well in this line of business, in the coming years.

### ITEM NO. 5:

The company has 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:

As per Section 192A of the Act, read with the Companies (Passing of the Resolutions by Postal Ballot) Rules, 2001, consent of the shareholders is required to be obtained by means of voting by Postal Ballot. The Notice alongwith Postal Ballot Form and self addressed stamped envelope will be despatched separately to the shareholders under certificate of posting.

**BALAJI DISTILLERIES LIMITED**

The Registered Office of the Company is at present situated at 16/1600 Ramamurthy Nagar, Nellore 524 003, Andhra Pradesh. The Managing Director, the Senior Management Executives function from Chennai. The Company's Indian Made Foreign Liquor (IMFL) manufacturing unit (Distillery) and Beer manufacturing unit (Brewery) are situated in and around Chennai, in the State of Tamilnadu. The Assessments of the company under the Income Tax Act, 1961 and TNGST Act, 1959 are done at Chennai. Further the Distillery and Brewery units of the Company are regulated by the concerned Tamilnadu State Government Authorities. As per the Licensing conditions, the Company's entire products are sold to Tamilnadu State Marketing Corporation Limited (A Government of Tamilnadu undertaking). Keeping in view all the above and also in order to have better administrative control, it is felt that it will be advantageous to shift the Registered Office of the Company from Nellore, Andhra Pradesh to Chennai, Tamilnadu.

The resolution has been proposed under Section 146 and 192A of the Companies Act, 1956 read with Companies (Passing of the Resolution by Postal Ballot) Rules, 2001, which require the passing of a Special Resolution for the purpose of shifting the Registered Office under Postal Ballot. Further as the Registered Office would be shifted from the State of Andhra Pradesh to the State of Tamilnadu, confirmation by the Central Government on petition under section 17 of the Companies Act, 1956 is also required.

None of the Directors is interested in the Special Resolution. The Directors recommend the resolution for adoption.

By Order of the Board

Place : Chennai  
Date : August 16, 2004

**G SRIRAMAN**  
Company Secretary