

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

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21ST
ANNUAL
REPORT
2004-2005



BALAJI DISTILLERIES LIMITED

TWENTY FIRST ANNUAL REPORT

Board of Directors

Shri M Sreenivasulu Reddy
Chairman

Shri R Raghuram
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 & Distillery Division

Bye-Pass Road
Poonamallee
Chennai - 600 056
Tamilnadu

Brewery Division

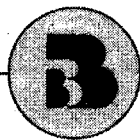
Mount Tiruvallur High Road
Aranvoyal Village
Tiruvallur District
Pin- 602 025
Tamil Nadu

Corporate Office

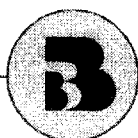
9, Bazullah Road
T. Nagar
Chennai - 600 017
Tamilnadu

Registrar and Share Transfer Agent

Cameo Corporate Services Limited
"Subramanian Building"
No.1, Club House Road
Chennai 600 002

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BALAJI DISTILLERIES LIMITED

NOTICE

NOTICE is hereby given that the Twenty First Annual General Meeting of **Balaji Distilleries Limited** will be held at Balamandir German Hall, No.17, Prakasam Street, T.Nagar, Chennai 600 017, on Friday, the 30th September, 2005, at 10.00 a.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 31st March, 2005, 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 Sessa 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 an Ordinary Resolution:

"RESOLVED THAT Shri R Raghuram, be and is hereby appointed as Director of the Company."

5. 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 R Raghuram, be and is hereby appointed as Managing Director of the Company for a period of 3 years from 22nd February, 2005 to 21st February, 2008 on the following terms and conditions.

- I. Basic Salary** Rs.1,00,000/- per month in the scale of Rs.1,00,000 - 30,000 - 1,60,000

II. Perquisites:

Category - 'A'

- i) Leased Accommodation Rent: Rs.9,900 p.m.
- ii) Medical Reimbursement: Reimbursement of the expenses incurred for self and family subject to a ceiling of one month basic salary in a year or three months basic salary over a period of three years
- iii) Leave Travel Assistance: Rs.25,000/- per annum for self and family
- 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

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

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

"RESOLVED THAT the authorised capital of the Company be increased from Rs.135,00,00,000/- (Rupees one hundred and thirty five crores only) divided into 6,00,00,000 (six crores) equity shares of Rs.10/- each aggregating to Rs.60,00,00,000/-



BALAJI DISTILLERIES LIMITED

(Rupees sixty crores only) and 7,50,00,000 (seven crores fifty lakhs) preference shares of Rs.10/- each aggregating to Rs.75,00,00,000/- (Rupees seventy five crores only) to Rs.225,00,00,000/- (Rupees two hundred and twenty five crores only) divided into 10,00,00,000 (ten crores) equity shares of Rs.10/- each aggregating to Rs.100,00,00,000/- (Rupees one hundred crores only) and 12,50,00,000 (twelve crores fifty lakhs) preference shares of Rs.10/- each aggregating to Rs.125,00,00,000/- (Rupees one hundred and twenty five crores only)."

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

"RESOLVED THAT Clause V of the Memorandum of Association of the Company be substituted with the following new clause:

V. The Authorised Share Capital of the Company is Rs.225,00,00,000/- (Rupees two hundred and twenty five crores only) divided into 10,00,00,000 (ten crores) equity shares of Rs.10/- each aggregating to Rs.100,00,00,000/- (Rupees one hundred crores only) and 12,50,00,000 (twelve crores fifty lakhs) preference shares of Rs.10/- each aggregating to Rs.125,00,00,000/- (Rupees one hundred and twenty five crores only) which may be issued as cumulative or non-cumulative preference shares, redeemable or convertible into equity shares with such percentage of dividend, rights, privileges and conditions attached thereto as may be decided by the Board of Directors and the regulations of the Company for the time being and to vary, modify, alter, cancel or abrogate any such rights, privileges or conditions in such a manner as may be provided by the regulations of the Company, subject to the provisions of the Companies Act, 1956."

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

"RESOLVED THAT Article 5 of the Articles of Association of the Company be substituted with the following new article:

5. The Authorised Share Capital of the Company is Rs.225,00,00,000/- (Rupees two hundred and twenty five crores only) divided into 10,00,00,000 (ten crores) equity shares of Rs.10/- each aggregating to Rs.100,00,00,000/- (Rupees one hundred crores only) and 12,50,00,000 (twelve crores fifty lakhs) preference shares of Rs.10/- each

aggregating to Rs.125,00,00,000/- (Rupees one hundred and twenty five crores only) which may be issued as cumulative or non-cumulative preference shares, redeemable or convertible into equity shares and subject to Clause V of the Memorandum of Association with power to increase or reduce the capital in accordance with the provisions of the Companies Act, 1956."

9. 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.65 crores (Rupees Sixtyfive 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."

By Order of the Board

Place : Chennai
Date : 30.06.2005

G SRIRAMAN
Company Secretary



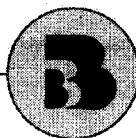
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NOTES

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 26.09.2005 to 30.09.2005 (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 31st March, 1998 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 ended 31st March, 1998 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, 57 years, is a Director since 26.05.1999. He is a graduate and has about 32 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 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 & 5:

Shri R Raghuram was appointed as an additional director on the Board on 22.2.2005. His term of office as Director expires at the beginning of the Twenty First Annual General Meeting of the Company. The Board recommends his appointment as Director in the said Annual General Meeting.

None of the Directors except Shri R Raghuram, is interested in the resolution.

Shri R Raghuram, Executive Vice President - Distilleries & Breweries of the Company has been appointed as Managing Director for a period of 3 years from 22.2.2005 to 21.2.2008 (due to the resignation of Shri M Sreenivasulu Reddy from the post of Managing Director) by the Board of Directors at its meeting held on 22.2.2005, subject to the approval of the Central Government and Shareholders in the ensuing General Meeting.

The Remuneration Committee at its meeting held on 22.2.2005 had approved the payment of remuneration to Shri R Raghuram as mentioned in the resolution.

The Board recommends the appointment and remuneration payable to Shri R Raghuram as Managing Director of the company for a period of three years commencing from 22.2.2005 to 21.2.2008 to the members for their approval.

Application has been made to the Central Government for approval of appointment of the Managing Director and payment of remuneration to Shri R Raghuram. Approval from the Central Government is awaited.

Shri R Raghuram 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
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 R Raghuram, aged about 56 years, is a Science Graduate from the Madras University & Post Graduate in Industrial Fermentation and Alcohol Technology from National Sugar Institute, Kanpur</p> <ul style="list-style-type: none"> ■ Before joining the Company, he had worked with M/s E.I.D. Parry (India) Ltd for a period of 10 years ■ Since 1990, he is working in this company and he had acquired vast experience and knowledge in liquor and beer industry |
|-------------------------|---|



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- (2) Past remuneration:
- (3) Recognition or awards:
- (4) Job profile and his suitability:
- (5) Remuneration proposed:
- (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)
- (7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any:
- Serving as a Secretary for Tamilnadu Liquor Manufacturers Welfare Association
- He is a Director of 1) Pearl Distillery Limited and 2) Paramount Granites Limited
- As Executive Vice President - Distilleries & Breweries of the Company:
- Basic salary – Rs.62,400/- p.m.
- Special allowance – Rs.12,600/- p.m.
- Leased accommodation rent – Rs.9,900/- p.m. and perquisites as per the company rules.
- Nil
- Overseeing of day to day operations, Liason with Brand owners and the State Government agencies. Shri R Raghuram is a professional with over 30 years of experience in the alcohol industry and he is a well known in the industry circle.
- Basic Salary – Rs.1,00,000/-p.m. in the scale of Rs.1,00,000 – 30,000 – 1,60,000/- and Perquisites.
- The remuneration proposed is commensurate with the size of the company, nature of its operations and is in line with the industry standards.
- Nil

III. Other information:

(1) Reasons of loss or inadequate profits:

- Selling price of the products is determined by TASMAL, a government company, to whom all supplies are to be made as per licensing condition.
- Constant and continuous increase in the cost of raw materials such as rectified spirit, special spirit, etc.
- Increase in rates of packing materials such as bottles, cartons, etc
- Increase in labour cost
- Increase in cost of personnel
- Heavy interest burden
- Lack of working capital
- Higher capital investment in brewery project without proportionate earning from the project
- Delay in implementation of brewery project resulting in payment of large amounts of interest to financial institutions/banks resulting in over capitalization.



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- Charging of interest during discontinuance of project implementation in accordance with the accounting standards
- Accounting of impairment loss of fixed assets in accordance with Accounting Standard 28.

(2) Steps taken or proposed to be taken for improvement:

The Company has been referred to BIFR, as the company is a sick industrial company within the meaning of Clause (a) of the sub section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 due to erosion of its net worth and the said Hon'ble BIFR registered the company's reference as case nos.103/2004 and 315/2004.

The Company proposes to come up with a comprehensive restructuring proposal for the revival of the Company as may be directed by the Hon'ble BIFR in consultation with the lenders and it is confident of revival with the support of its lenders.

Hon'ble BIFR is yet to post the case for hearing.

(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 14%. 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. 6, 7 & 8 :

The Company's present capital structure is Rs.135,00,00,000/- (Rupees one hundred and thirty five crores only) divided into 6,00,00,000 (six crores) equity shares of Rs.10/- each aggregating to Rs.60,00,00,000/- (Rupees sixty crores only) and 7,50,00,000 (seven crores fifty lakhs) preference shares of Rs.10/- each aggregating to Rs.75,00,00,000/- (Rupees seventy five crores only). The company is contemplating various proposals viz., conversion of debt into equity, one time settlement to the lenders, allotment of shares to select group of persons, creditors of the Company, etc. In this regard, it is pertinent to increase the authorised capital of the company, which will help for future business operations of the company. Accordingly, the Authorised Capital of the Company is to be increased to Rs.225,00,00,000/-.

The Directors recommend the resolution mentioned in Item No.6 to be passed as an ordinary resolution. None of the Directors is interested or concerned in this resolution.

In pursuance to the proposal of increasing the Authorised Capital of the Company it is necessary to amend the Memorandum and Articles of Association of the Company suitably. Hence the Board recommends the passing of resolutions mentioned in Item Nos.7 & 8 as Special Resolutions. None of the Directors is interested or concerned in these resolutions.

**BALAJI DISTILLERIES LIMITED****ITEM NO. 9:**

The major liabilities of the company have been restructured by the lenders.

As part of the corporate debt restructuring, the Company has to allot Optionally Cumulative Convertible Redeemable Preference Shares (OCCRP) to Financial Institutions / 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.

By Order of the Board

Place : Chennai
Date : 30.06.2005

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G SRIRAMAN
Company Secretary