

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

Report  Junction.com

**22<sup>nd</sup>**  
**ANNUAL**  
**REPORT**  
**2005-2006**



## BALAJI DISTILLERIES LIMITED

## TWENTY SECOND ANNUAL REPORT

Board of Directors	Shri M Sreenivasulu Reddy Chairman
	Shri R Raghuram 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	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

**CONTENTS**

	Page
NOTICE	3
DIRECTORS' REPORT	6
CORPORATE GOVERNANCE REPORT	11
AUDITORS' REPORT	18
BALANCE SHEET	23
PROFIT & LOSS ACCOUNT	24
SCHEDULES TO ACCOUNTS	25
BALANCE SHEET ABSTRACT & COMPANY'S GENERAL BUSINESS PROFILE	45
CASH FLOW STATEMENT	46
STATEMENT RELATING TO SUBSIDIARY COMPANIES	48
ANNUAL REPORT OF SUBSIDIARY COMPANIES	49
CONSOLIDATED FINANCIAL STATEMENTS	61



## NOTICE

NOTICE is hereby given that the Twenty Second 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 29<sup>th</sup> September, 2006, at 12.00 Noon to transact the following business:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Profit and Loss Account for the financial year ended 31<sup>st</sup> March, 2006, 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 resolution 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 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 Sixty five 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 : 29.08.2006

**G SRIRAMAN**  
Company Secretary



## 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 25.09.2006 to 29.09.2006 (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 31<sup>st</sup> March, 1999 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 31<sup>st</sup> March, 1999 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, 46 years, is a Director since 29.06.2001. He is a Chartered Accountant and has about 15 years of experience in Finance, Accounts and General Management. He is also a Director in 1) Polar Breweries Limited, 2) Star Investments Private Limited and 3) Ador Computers Private Limited.

**BALAJI DISTILLERIES LIMITED**

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

**Item No.4**

The major liabilities of the company have been restructured by the lenders and the Company is also discussing with some Financial Institutions / Banks / Creditors for One Time Settlement (OTS) of their dues.

As part of the corporate debt restructuring and OTS, the Company may have to allot Preference Shares to Financial Institutions / Banks / Creditors. 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.

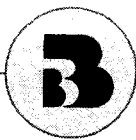
The Directors recommend the Resolution for adoption by members.

By Order of the Board

Place : Chennai

Date : 29.08.2006

**G SRIRAMAN**  
Company Secretary



## BALAJI DISTILLERIES LIMITED

## DIRECTORS' REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of your Company present their Twenty Second Annual Report, together with the audited statement of accounts for the financial year ended 31<sup>st</sup> March, 2006.

## PERFORMANCE HIGHLIGHTS

Your Company earned a gross revenue of Rs.1,09,457.83 lakhs during the financial year ended 31<sup>st</sup> March, 2006 as against the gross revenue of Rs.92,376.57 lakhs in the previous year.

## SUMMARY OF FINANCIAL RESULTS

	Rs. in lakhs	
	2005-2006 (financial year ending 31 <sup>st</sup> March 2006	2004-2005 (financial year ending 31 <sup>st</sup> March 2005
Profit / (Loss) before depreciation	(1,555.91)	(3,374.23)
Less: Depreciation	921.73	920.06
Profit / (Loss) before tax	(2,477.64)	(4,294.29)
Profit / (Loss) after tax	(2,477.64)	(4,294.29)
Prior period/exceptional items adjustment	(21,358.45)	30.40
Provision for fringe benefit tax	(11.15)	—
Profit / (Loss) for the year	(23,847.24)	(4,263.89)
Profit / (Loss) brought forward from previous years	(27,222.46)	(22,958.57)
Loss carried forward from Profit and Loss Account	(51,069.70)	(27,222.46)
Less : Transfer from General Reserve	5,088.81	5,088.81
Accumulated Loss carried to the balance sheet	(45,980.89)	(22,133.65)

## OPERATING RESULTS

During the financial year under review, your Company's Distillery Division achieved a production of 50,42,222 cases of Indian Made Foreign Liquor (IMFL) (46,02,960 cases in 2004-05) and sold 50,36,240 cases (45,86,140 cases in 2004-05) of IMFL generating a revenue of Rs.23,048.28 lakhs (Rs.19,471.83 lakhs in 2004-05) and your Company's Brewery division has achieved a production of 43,83,189 cases of Beer and 21,568 cases of Drought Beer (28,04,055 cases of beer and 6,480 cases of

Drought Beer in 2004-05) and sold 43,38,957 cases of Beer and 21,568 cases of Drought Beer (27,22,415 cases of beer and 6,480 cases of Drought Beer in 2004-05) generating a revenue of Rs.8,570.98 lakhs (Rs.5,341.58 lakhs in 2004-05).

Your Company has suffered a loss of Rs.23,847.23 lakhs for the financial year ended 31<sup>st</sup> March, 2006 as compared to the loss of Rs.4,263.89 lakhs for the financial year ended 31<sup>st</sup> March, 2005, after taking into account interest, depreciation, prior period adjustments and exceptional items.

## MANAGEMENT DISCUSSION AND ANALYSIS

## General

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

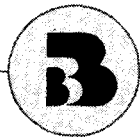
## INDUSTRY STRUCTURE AND DEVELOPMENT

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 through TASMAC owned shops. 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 November 2003, the State 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 benefited the consumers by way of availability of genuine products at government fixed prices, which in turn increased the demand for your company's products.

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.

The Beer industry is highly price sensitive and the growth of the Beer industry is totally dependant on the Government pricing policy.



## BALAJI DISTILLERIES LIMITED

### Contribution to the Exchequer

Alcoholic beverages industry is one of the major contributors to the exchequer by way of State excise duty and sales tax.

During 2005-06, your company has contributed Rs.77,115.78 lakhs to the exchequer of the State Government and during the last five years, your company has contributed Rs.2,89,578.96 lakhs to the Exchequer of the State Government by way of Excise duty, Sales tax, Vend fee, etc.

### 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 products are expected to boom in the years to come. Your company has already made in roads 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 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.

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

### RISK AND CONCERNS THE MANAGEMENT PERCEIVE

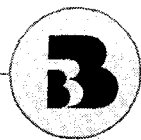
For alcoholic beverages industry, the significant risk factor is the purchasing power of individuals and non existence of brand loyalty. The company is ensuring that its products are available on the shelf at any point of time.

Further the availability of spirit and bottles pose a major threat to this industry. With oil companies move towards blending of ethanol with petrol and the sugar companies opting for supply to the oil companies, the availability of rectified spirit has decreased substantially. This has ultimately resulted in the steep increase in the prices of rectified spirit. The volatility of the prices has a negative impact, especially when the company is not able to pass through the cost of increase in the prices of inputs on regular basis. TASMAL has increased the prices of IMFL by Rs.48/- per case from November, 2004. The full impact of such price increase has been felt during the current year.

### FINANCIAL SUMMARY

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

	Rs. in lakhs	
	2005-2006 (financial year ending 31st March 2006	2004-2005 (financial year ending 31st March 2005
Sales and services	1,08,735.05	92,069.25
Other income	722.78	307.32
<b>Total income (A)</b>	<b>1,09,457.83</b>	<b>92,376.57</b>
Excise Duty, Sales Tax and Turnover Tax	79,222.15	69,039.18
Cost of Materials	19,539.96	16,547.73
Overheads	8,372.65	7,349.38
Interest	3,878.97	2,814.51
Depreciation	921.73	920.06
<b>Total (B)</b>	<b>1,11,935.46</b>	<b>96,670.86</b>
Profit/(Loss) before prior period/exceptional <b>Items (A-B)</b>	<b>(2,477.63)</b>	<b>(4,294.29)</b>
Add/(Less) prior period adjustments	(18.69)	(22.65)
Add/(Less) Exceptional items	(21,339.76)	50.03
Less: Provision for Fringe Benefit Tax	11.15	-
Profit / (Loss) Before Taxation	(23,847.23)	(4,266.91)
Less: Provision no longer required	-	3.02
Provision for taxation	-	-
Profit / (Loss) after Taxation	(23,847.23)	(4,263.89)



## BALAJI DISTILLERIES LIMITED

### REFERENCE TO BIFR:

Your Company has been referred to the Board for Industrial and Financial Reconstruction (BIFR), as the company is 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 and the said Hon'ble BIFR registered the company's reference as case nos.103/2004 & 315/2004.

The first hearing was held on 13.7.2006 and as directed by the Hon'ble BIFR the Company has provided further details to Hon'ble BIFR.

### 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 has 402 employees.

### CAUTIONARY STATEMENT

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

### DIVIDEND

As the operations of the Company in the current year have resulted in a loss, your directors do not recommend any dividend for the financial year ended 31<sup>st</sup> March, 2006.

### 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.

ICICI Bank Limited has withdrawn their nominee director Shri S Srinivasan from the Board and nominated Shri M Guruvayurappan, as their nominee in his place with effect from 8.12.2005.

Subsequently ICICI Bank Limited has withdrawn their nominee Shri M Guruvayurappan from the Board with effect from 24.5.2006.

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

### SUBSIDIARIES

The consolidated financial statements and the Annual Report of the subsidiary companies, viz., BDL Distilleries Private Limited and Chennai Breweries Private Limited, together with statement under section 212 of the Companies Act, 1956 are annexed.

### PERSONNEL

The 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.

### CONSERVATION OF ENERGY, RESEARCH & DEVELOPMENT, FOREIGN EXCHANGE EARNING ETC. (SECTION 217 (1) (e) OF THE COMPANIES ACT, 1956)

The Company has fully absorbed the technology used in the manufacture of the Company's products under the supervision of the Company's Principals. Except for the normal quality control activities no research and development has been carried out. The Company has not earned any foreign exchange. The company has spent foreign exchange equivalent to Rs.241.93 lakhs (Rs. 274.57 lakhs in 2004-2005).

### AUDITORS

M/s. P.A. Reddy & Co., Chartered Accountants, Nellore and M/s Sridhar & Santhanam, Chartered Accountants, Chennai, Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting. The Auditors have furnished a certificate regarding their eligibility for their re-appointment as Company's Auditors pursuant to Section 224 (1B) of the Companies Act, 1956. The Board recommends their re-appointment.



## BALAJI DISTILLERIES LIMITED

With respect to the various Observations of the Auditors in their Report, the Board of Directors wish to express the following views:

- (i) As regards non-disclosure of all the particulars required to be disclosed under clause 32 of the listing agreement, your directors are of the opinion that most of the particulars have already been disclosed by way of transaction with related party. Efforts are being made to provide additional information in the ensuing year.
- (ii) As regards recoverability of residual value of the assets leased to RSEB of Rs.1896.70 lakhs, we are of the opinion that, your company shall be able to adjust the same against equivalent amount of security deposit lying with your company. In view of this, we are of the opinion that the residual value of leased assets are fully recoverable.
- (iii) As regards updating of quantitative details and location of fixed assets, your company has already taken necessary steps for updating the same in the ensuing year.
- (iv) As regards physical verification of leased assets, your company could not verify the same as most of the leased assets are transformers, which are not of very high value and are very large in numbers, situated through out the state of Rajasthan. Hence, in the opinion of your company, it is not feasible to physically verify these transformers.

As regards taking control of these leased assets by the company after expiry of lease period, your company is of the opinion that as the subject matter of "lease" is pending before the Hon'ble Supreme Court of India and as such any attempt to take control of these leased assets may be viewed as a matter of sub-judice. The Hon'ble Supreme Court has already appointed an Arbitrator to resolve the issue. Your company is confident that the entire matter regarding leased assets shall be resolved in the ensuing year.

- (v) As regards loan of Rs.238.96 lacs to a party in earlier years, whose name appear in the Register maintained u/s 301 of the Companies Act, 1956, your company has already written off the said sum as irrecoverable. These loans, when granted were for the general business purposes and hence were not prejudicial to the interest of the company.

- (vi) As regards small delays in sales tax remittances, your company is of the opinion that such delays are mainly on account of mismatch of the cash flow. However, delayed remittances were made within the stipulated period along with interest in accordance with the provisions of the TNGST Act, 1959.
- (vii) As regards non payment of undisputed sales tax amount of Rs.4,548.91 lacs and interest of Rs.1,896.98 lacs thereon, your company could not make these payments mainly on account of incurring of cash losses. Your company shall be approaching the State Government through Hon'ble BIFR for certain relief including deferment and waiver of interest.
- (viii) As regards incurring of cash loss and erosion of net worth, your directors wish to state that efforts are being made to improve the profitability and also to reduce the interest burden. Your directors also wish to draw your kind attention to the fact that your company has already been referred to BIFR and suitable revival package shall be worked out in consultation with the secured lenders as may be directed by the Hon'ble BIFR.
- (ix) As regards default in repayment of certain dues to financial institutions / banks and debenture holders, your directors wish to inform you that all the secured lenders have already extended financial restructuring package to the company. Most of the terms and conditions of the financial restructuring package including payment of interest as per schedule has been complied with. Your company is currently negotiating / discussing with other unsecured lenders for One Time Settlement and is confident of reaching a settlement during the ensuing year. However, interest is being provided at the contracted rates as per their terms of sanction.

### OTHERS

Your directors also wish to state that in the absence of sufficient Earning Before Interest and Depreciation and as your company has already been extended financial restructuring package, your company is not in a position to avail any further financial assistance towards working capital. In the absence of availability of working capital, your company has utilized short term funds for acquisition of assets and also for payment of interest to the institutions / banks.