

BALAJI DISTILLERIES LIMITED

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**23rd
Annual
Report
2006-2007**



BALAJI DISTILLERIES LIMITED

TWENTY THIRD ANNUAL REPORT

Board of Directors	Shri M Sreenivasulu Reddy Chairman
	Shri R Raghuram Managing Director
	Shri S V Sesha 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.



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NOTICE

NOTICE is hereby given that the Twenty Third Annual General Meeting of **Balaji Distilleries Limited** will be held at Balamandir German Hall, No.17, Prakasam Street, T.Nagar, Chennai 600 017, on Wednesday, September 12, 2007, 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, 2007, 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 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 an Ordinary Resolution:

"RESOLVED THAT the existing Authorised Share Capital of the Company be modified and reclassified as follows:

The Authorised Share Capital of the Company is Rs.225,00,00,000/- (Rupees two hundred and twenty five crores only) divided into 15,00,00,000 (fifteen crores) equity shares of Rs.10/- each aggregating to Rs.150,00,00,000/- (Rupees one hundred and fifty 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) 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."

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

"RESOLVED THAT the existing 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 15,00,00,000 (fifteen crores) equity shares of Rs.10/- each aggregating to Rs.150,00,00,000/- (Rupees one hundred and fifty 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) 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."

6. 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 15,00,00,000 (fifteen crores) equity shares of Rs.10/- each aggregating to Rs.150,00,00,000/- (Rupees one hundred and fifty 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) 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



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with power to increase or reduce the capital in accordance with the provisions of the Companies Act, 1956."

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

To amend the Articles of Association of the Company as under:

"RESOLVED THAT, pursuant to section 31 and other applicable provisions, if any, of the Companies Act, 1956 (including statutory modification or re-enactment thereof for the time being in force), the Articles of Association of the Company be amended as under:

Following Articles 7A and 7B be inserted after Article 7.

- 7A. Subject to the provisions of the SEBI (Disclosure and Investor Protection) Guidelines, 2000, as may be applicable from time to time and other applicable laws and with the consent of the members of the Company by Special Resolution at a General meeting or by postal ballot, the Board of Directors of the Company may issue and allot any Financial Instruments including warrants, bonds etc., convertible into Equity Shares or Preference Shares or Depository Receipts evidenced by Equity Shares / Preference Shares at such rate and on such terms and conditions as may be determined at the sole discretion of the Board, to one or more persons, including existing shareholders, general public, or on preferential basis to the promoters, directors, employees, bodies corporate, unincorporated entities, banks, financial institutions, mutual funds, trusts, foreign institutional investors, overseas corporate bodies, qualified institutional buyers, non-resident Indians, persons of Indian origin or such other persons from time to time as it may think fit on receipt of such amount as may be decided by the Board, subject to applicable laws. The Board of Directors of the Company shall be authorised to make provisions as to the allotment and issue of any Financial Instruments including warrants, bonds etc., and in particular may determine to whom the same shall be offered whether at par or at premium subject to the provisions of the Companies Act, 1956, SEBI Guidelines, Rules, Regulations etc., and all other applicable laws.

- 7B. The Company may by special resolution authorise the Board to convert any Financial Instruments including warrants, bonds etc., into equity shares or preference shares or depository receipts at such rates including premium and on such terms and conditions either in a single tranche or otherwise as may be determined by the Board and in accordance with the guidelines issued by the SEBI, Stock Exchange, Central Government and all other applicable laws.

Following Article 35A be inserted after Article 35;

- 35A. The Board may from time to time subject to the terms on which any Financial Instruments including warrants, bonds etc., may have been issued, which are convertible into equity shares or preference shares or depository receipts evidenced by equity shares or preference shares, make call on the holders of the Financial Instruments in respect of the balance amount unpaid on the Financial Instruments held by them in accordance with the terms of issue of Financial Instruments, and in case the terms of such Financial Instruments do not provide for the same, the Board may determine such terms, provided that all payments must be made on or before the date of conversion of the Financial Instruments into equity shares / preference shares / depository receipts evidenced by equity shares or preference shares. In case of failure to make payment thereof in accordance with the terms of issue of such Financial Instruments, or in absence of such terms, in accordance with the terms as may have been determined by the Board, the amount so deposited at that time of allotment of the such Financial Instrument shall be forfeited by the Board."

8. 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, 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



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or sanction(hereinafter referred to as "the Requisite Approvals"), the Board of Directors of the Company (hereinafter referred to as "the Board" to exercise its powers including the powers conferred by this resolution) be authorised on behalf of the Company, to issue and allot upto 9 crores convertible warrants with face value of Rs.10/- each to select group of persons, whether members of the Company or not, under a preferential offer on private placement basis, subject to the Memorandum of Association of the Company, for an amount not exceeding Rs.90 crores (Rupees ninety crores only), excluding such premium as may be determined in accordance with the SEBI (Disclosure & Investor Protection) Guidelines, 2000."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to decide the quantum, terms and conditions of issue of warrants convertible into equity shares and that the price of the said instruments be a price not less than the price

calculated as per the guidelines issued by SEBI for pricing of Preferential Issues. The relevant date for the purpose of issue of warrants be 13th August, 2007."

"RESOLVED FURTHER THAT the resultant equity shares issued on conversion of warrants shall upon allotment have the same rights of voting as the existing shares and be treated for all other purposes pari passu with the existing equity shares of the company."

"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 warrants and further to execute all such deeds, documents and writings as may be necessary."

By Order of the Board

Place: Chennai
Date : August 11, 2007

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 10.09.2007 to 12.09.2007 (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, 2000 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, 2000 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, 59 years, is a Director since 26.05.1999. He is a graduate and has about 34 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.



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ANNEXURE TO THE NOTICE

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

ITEM Nos.4,5&6:

The present Authorised Share Capital of the Company consists of 10,00,00,000 Equity Shares of Rs.10/- each aggregating to Rs.100,00,00,000/- and 12,50,00,000 Cumulative Redeemable Preference Shares of Rs.10/- each aggregating to Rs.125,00,00,000/-. In view of the proposed preferential offer on private placement basis of convertible warrants, which will be converted into equity shares at a later stage, it is necessary to reclassify the authorised share capital of the company. Consequent to the reclassification necessary amendments are to be effected in the Memorandum and Articles of Association of the Company.

None of the Directors of the Company is interested in these resolutions.

The Directors recommend the Resolutions for adoption by members.

Item No.7

Articles of Association of the Company are proposed to be altered suitable by insertion of new clause 7A, 7B and 35A to reflect and to incorporate the provisions relating to the issuance of any Financial Instruments including warrants, bonds etc., convertible into equity shares or preference shares or depositary receipts of the company for which it is required to seek approval of members by way of Special Resolution.

None of the Directors of the Company is interested in the resolution.

The Directors recommend the Resolution for adoption by members.

Item No.8

The Company is contemplating to install plant, machineries, equipments, etc to enhance the capacity of distillery and brewery units. It is also proposed to augment long term and short term resources for the Company, including for the working capital requirements and extinguishment of statutory and other liabilities.

To part fund the future business expansion and for meeting the long term and short term fund requirement including for the working capital requirement and extinguishment of statutory and other liabilities, the Company proposes to issue and allot convertible warrants under a preferential offer on private placement basis.

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

- i. **Objects of the issue:** The object of the issue of convertible warrants under a preferential offer on a private placement basis is towards meeting the future business expansion and for meeting the long term and short term capital requirements including for the working capital requirement and extinguishment of statutory and other liabilities.
- ii. **Intentions of promoters/directors/key management persons to subscribe to the offer:** The promoters/directors/key management persons do not intend to subscribe to the offer.
- iii. **Shareholding pattern before and after the offer:** The present shareholding of the pattern of the company is as under:

Sl.No.	Category	No.of Shares	% to Total Holdings
1.	Promoters, Directors & Associates	20770201	39.18
2.	Financial Institutions & Banks	7255929	13.68
3.	NRIs/OCBs	174319	0.33
4.	Public including Corporates	24817111	46.81
	Total	53017560	100.00

The post issue shareholding pattern and impact on equity will be known only at the time of actual conversion of warrants.



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- iv **Proposed time within which the allotment shall be complete:** The Board proposes to allot the convertible warrants within a period of 15 days from the date of passing of this resolution by the shareholders.
- v. **The identity of the proposed allottees and the percentage of post-preferential issue capital that may be held by them:**

Name of the proposed allottees	No. of warrants	Percentage of the preferential offer
Viki Investments and Properties Private Limited	Upto 3,00,00,000	33.33
Mighty Agro Tech (India) Limited	Upto 3,00,00,000	33.33
Hiwide Enterprises Private Limited	Upto 3,00,00,000	33.33

The percentage of post preferential issue impact will be known only at the time of actual conversion of warrants.

Others:

- Relevant Date:** The relevant date for this purpose shall be 13th August, 2007 being the date, 30 days prior to 12th September, 2007, which is the date of Annual General Meeting.
- Pricing of the issue:** As per clause 13.1.1 of the SEBI (Disclosure & Investor Protection) Guidelines, 2000 pricing of convertible warrants to be issued on preferential basis would not be less than the higher of the following:
 - Average of the weekly high and low of the closing prices of the related shares of the company quoted on the Stock Exchanges during the six months preceding the relevant date
 - Or
 - The average of the weekly high and low of the closing prices of the related shares quoted on the Stock Exchanges during the two weeks preceding the relevant date.

The details of price determined as above, shall be announced at the Annual General Meeting and the requisite auditors certificate shall be laid before the meeting of the Shareholders.
- Currency of warrants:** The convertible warrants proposed to be issued shall have a currency of 17 months and 29 days from the date of allotment. The warrants proposed to be issued shall be convertible into equity shares and each warrant shall be converted into one equity share of the company.
- Lock in period:** The convertible warrants and the equity shares arising out of such conversion shall be subject to lock-in period as per SEBI guidelines.

None of the Directors of the Company is interested in the resolution.

The Directors recommend the Resolution for adoption by members.

By Order of the Board

Place: Chennai
Date : August 11, 2007

G. SRIRAMAN
Company Secretary



BALAJI DISTILLERIES LIMITED

DIRECTORS' REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of your Company present their Twenty Third Annual Report, together with the audited statement of accounts for the financial year ended March 31, 2007.

PERFORMANCE HIGHLIGHTS

Your Company earned a gross revenue of Rs.1,54,211.88 lakhs during the financial year ended March 31, 2007 as against the gross revenue of Rs.1,09,457.83 lakhs in the previous financial year ended 31st March, 2006.

SUMMARY OF FINANCIAL RESULTS

	Rs. in lakhs	
	2006-2007 (financial year ending 31st March 2007)	2005-2006 (financial year ending 31st March 2006)
Profit / (Loss) before depreciation	(117.68)	(1,555.91)
Less: Depreciation	967.40	921.73
Profit / (Loss) before tax	(1085.08)	(2,477.64)
Provision for Tax	Nil	Nil
Profit / (Loss) after tax	(1085.08)	(2,477.64)
Prior period/exceptional items / provision for tax	547.82	(21,369.60)
Profit / (Loss) for the year	(537.26)	(23,847.24)
Profit / (Loss) brought forward from previous years	(51,069.70)	(27,222.46)
Loss carried forward from Profit and Loss Account	(51,606.96)	(51,069.70)
Less : Transfer from General Reserve	5,088.81	5,088.81
Accumulated Loss carried to the balance sheet	(46,518.15)	(45,980.89)

OPERATING RESULTS

During the financial year under review, your Company's Distillery Division achieved a production of 70,61,290 cases of Indian Made Foreign Liquor (IMFL) (50,42,222 cases in 2005-06) and sold 70,89,086 cases (50,36,240 cases in 2005-06) of IMFL generating a net revenue of Rs.32,164.27 lakhs (Rs.23,048.28 lakhs in 2005-06) and your Company's Brewery division has achieved a production of 60,12,799 cases of Beer and 28,576 cases of Drought

Beer (43,83,189 cases beer and 21,568 cases of Drought Beer in 2005-06) and sold 61,36,775 cases of Beer and 28,576 cases of Drought Beer (43,38,957 cases beer and 21,568 cases of Drought Beer in 2005-06) generating a net revenue of Rs.11,842.93 lakhs (Rs. 8,570.98 lakhs in 2005-06).

Your Company has suffered a loss of Rs.537.26 lakhs for the financial year ended 31st March, 2007 as compared to the loss of Rs.23,847.23 lakhs for the financial year ended 31st March, 2006, 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 neighbouring 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 has 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 various products such as Whisky, Brandy, Rum, Gin, Vodka. Within the product segments, the demand is