

BALAJI DISTILLERIES LIMITED

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24TH ANNUAL REPORT 2007-2008


BALAJI DISTILLERIES LIMITED

TWENTY FOURTH ANNUAL REPORT

Board of Directors	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
	M/s PKF Sridhar & Santhanam Chartered Accountants
Bankers	Standard Chartered Bank
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 Fourth Annual General Meeting of **Balaji Distilleries Limited** will be held at Balamandir German Hall, No.17, Prakasam Street, T.Nagar, Chennai 600 017, on Saturday, the 27th September, 2008, at 11.00 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, 2008, 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 and M/s PKF Sridhar & Santhanam, Chartered Accountants, 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 approvals of Central Government as may be required, Shri R Raghuram, be and is hereby re-appointed as Managing Director of the Company for a further period of 3 years from 22nd February, 2008 to 21st February, 2011 on the following terms and conditions.

1. a) Basic Salary : Rs.2,00,000/- per month in the scale of Rs.2,00,000 - 30,000 – 2,60,000
- b) Bonus and Ex-gratia : As per the rules of the Company and on par with bonus and ex gratia as payable to other executives of the Company not exceeding 20% of the basic salary.

II. Perquisites:

Category – 'A'

- i) Leased Accommodation Rent: Rs.15,000 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'

- 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.

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

"RESOLVED THAT the approval be and is hereby given for condoning the omission in providing the details relating to percentage of post preferential issue capital in the explanatory statement to the Notice dated 11.08.2007 calling the 23rd Annual General Meeting held on 12.09.2007 and to take on record the particulars now mentioned in the explanatory statement to the Notice dated



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30.07.2008 convening the 24th Annual General Meeting of the Company."

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

"RESOLVED THAT pursuant to the provisions of Section 293(1)(e) and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force), the Board of Directors of the Company (hereinafter referred to as "the Board") be and is hereby authorised to contribute, from time to time, to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, such amount or amounts, as the Board may in its absolute discretion deem fit PROVIDED

HOWEVER THAT the total amount that may be so contributed in any financial year of the Company shall not exceed Rs.50,00,000/- (Rupees Fifty Lakhs Only) or five percent of the Company's average net profits as determined in accordance with the provisions of Section 349 and 350 of the Companies Act, 1956, during the three financial years immediately preceding, whichever is greater."

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion deem necessary and/or expedient for implementing and giving effect to this resolution and to settle any questions, difficulties or doubts that may arise in this regard on behalf of the Company."

By Order of the Board

Place: Chennai
Date : July 30, 2008

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 22.09.2008 to 27.09.2008 (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. 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.
8. 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, 48 years, is a Director since 29.06.2001. He is a Chartered Accountant and has about 17 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.



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ANNEXURE TO THE NOTICE

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

ITEM No.4:

Shri R Raghuram, was re-appointed as Managing Director of the Company for a further period of 3 years from 22nd February, 2008 to 21st February, 2011 by the Board of Directors at its meeting held on 31.01.2008, subject to the approval of the Central Government and Shareholders in the ensuing General Meeting.

The Remuneration Committee at its meeting held on 31.01.2008 had approved the payment of remuneration to Shri R Raghuram, Managing Director, 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 22.02.2008 to 21.02.2011 to the members for their approval.

Application has been made to the Central Government for payment of remuneration to Shri R Raghuram, as Managing Director. 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 C 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 59 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. ● Serving as a Secretary for Tamilnadu Liquor Manufacturers Welfare Association. ● He is a Director of 1) Pearl Distillery Limited and 2) Paramount Granites Limited |
|------------------------|--|



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- | | |
|---|--|
| 2) Past remuneration: | Rs.2,63,985/- p.m. (all inclusive) as approved by the Central Government |
| 3) Recognition or awards: | Nil |
| 4) Job profile and his suitability: | Overseeing of day to day operations, Liason with Brand owners and the State Government agencies. Shri R Raghuram is a professional with over 36 years of experience in the alcohol industry and he is a well known in the industry circle. |
| 5) Remuneration proposed: | Rs.3,67,365/- p.m. (all inclusive) for the 1st year
Rs.4,16,408/- p.m. (all inclusive) for the 2nd year
Rs.4,65,450/- p.m. (all inclusive) for the 3rd year, subject to approval of the Central Government |
| 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: | Nil |

III. Other information:

- | | |
|---|---|
| 1) Reasons of loss or inadequate profits: | <ul style="list-style-type: none"> • 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 |
| 2) Steps taken or proposed to be taken for improvement: | <p>The Company has already reached One Time Settlement with lenders and has paid the lenders accordingly. This has resulted in lower debt profile.</p> <p>The Company is contemplating for capacity expansion of Distillery and Brewery divisions.</p> <p>The Company is continuously endeavoring for cost reduction.</p> <p>All these measures are expected to improve the profitability in the coming years.</p> |
| 3) Expected increase in productivity and profits in measurable terms: | <p>Today with the acceptance of social drinking, the alcoholic beverages industry is likely to grow with the compounded annual growth rate of 16%. 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.</p> <p>The company continues to enjoy a significant market share in Tamilnadu in respect of IMFL.</p> <p>Barring unforeseen circumstances, the company expects to do well in this line of business, in the coming years.</p> |



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Item No.5

In terms of the clause 13.1A of SEBI (Disclosure & Investor Protection) Guidelines, 2000, the Company has to include certain items in the explanatory statement to the Notice calling the General Meeting in connection with obtaining shareholders approval for the preferential issues of shares/warrants. In our case the percentage of post-preferential issue capital that may be held by the proposed allottees of convertible warrants has not been included in the explanatory statement to the Notice dated 11.08.2007 calling the 23rd Annual General Meeting of the Company held on 12.09.2007 but we have merely stated that the percentage of post preferential issue impact will be known only at the time of actual conversion of warrants.

At the time of obtaining prior in principle approval for issue and allotment of convertible warrants in terms of clause 24(a) of the Listing Agreement, the Company has submitted the same to the Bombay Stock Exchange Limited with an undertaking to ratify the same in the ensuing Extra Ordinary General Meeting/Annual General Meeting of the Company. The shareholding of the proposed allottees is as follows:

Shareholding Pattern of the proposed allottees

Sl.No.	Name of the proposed allottee	Prior to Conversion		Post Conversion	
		No. of shares	% to paid up capital	No. of shares	% to paid up capital
1	Viki Investments and Properties Private Limited	Nil	Nil	30000000	20.98
2	Mighty Agro Tech (India) Limited	Nil	Nil	30000000	20.98
3	Hiwide Enterprises Private Limited	Nil	Nil	30000000	20.98

Note:

Total no. of equity shares – paid up before conversion - 53017560

Total no. of equity shares – paid up after conversion - 143017560

Hence the resolution is put forward before the shareholders for approval/ratification.

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

The Directors recommend the resolution for adoption by members.

ITEM No.6:

Under Section 293(1)(e) of the Companies Act, 1956 ("the Act"), the Board of Directors of a public company cannot, except with the consent of its Members, contribute to charitable and other funds not directly relating to the business of the company or the welfare of its employees, any amounts the aggregate of which will, in any financial year, exceed Rs.50,000/- (Rupees Fifty Thousand Only) or 5% (five percent) of the Company's average net profit as determined in accordance with the provisions of Section 349 and 350 of the Act during the three financial years immediately preceding, whichever is greater.

The Board of Directors of the Company, at its meeting held on 30th July 2008, proposed to obtain the enabling approval of the Members of the Company for making contribution to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, during any financial year, for an amount of upto Rs.50,00,000/- (Rupees Fifty Lakhs Only) or five percent of the Company's average net profit as determined in accordance with the provisions of Section 349 and 350 of the Companies Act, 1956 during the three financial years immediately preceding, whichever is greater.

With an ongoing focus on education, development of children, health for all and assistance to poor people, the Company would like to earmark funds for its 'Social Responsibility Initiatives' and hence the above recommendation for making contribution to charitable and other funds.

Hence the resolution is put forward before the shareholders for approval.

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 : July 30, 2008

G. SRIRAMAN
Company Secretary



BALAJI DISTILLERIES LIMITED

DIRECTORS' REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of your Company present their Twenty Fourth Annual Report, together with the audited statement of accounts for the financial year ended 31st March, 2008.

PERFORMANCE HIGHLIGHTS

Your Company earned a gross revenue of Rs.1,84,518.84 lakhs during the financial year ended 31st March, 2008 as against the gross revenue of Rs.1,54,211.88 lakhs in the previous financial year ended 31st March, 2007.

SUMMARY OF FINANCIAL RESULTS

	Rs. in lakhs	
	2007-2008 (financial year ending 31st March 2008)	2006-2007 (financial year ending 31st March 2007)
Profit/(Loss) before depreciation	1585.74	(117.68)
Less: Depreciation	1088.46	967.40
Profit/(Loss) before tax	497.28	(1085.08)
Provision for Tax	Nil	Nil
Profit/(Loss) after tax	497.28	(1085.08)
Prior period/exceptional items / provision for tax	10109.15	547.82
Profit/(Loss) for the year	10606.43	(537.26)
Profit/(Loss) brought forward from previous years	(51,606.96)	(51,069.70)
Loss carried forward from Profit and Loss Account	(41,000.53)	(51,606.96)
Less: Transfer from General Reserve	5,088.81	5,088.81
Accumulated Loss carried to the balance sheet	(35,911.72)	(46,518.15)

OPERATING RESULTS

During the financial year under review, your Company's Distillery Division achieved a production of 81,67,200 cases of Indian Made Foreign Liquor (IMFL) (70,61,290 cases in 2006-07) and sold 81,67,203 cases (70,89,086 cases in 2006-07) of IMFL generating a net revenue of Rs.38,137.59 lakhs (Rs. 32,164.27 lakhs in 2006-07) and your Company's Brewery division has achieved a production of 78,17,757 cases of Beer and 28,663 cases of Drought Beer (60,12,799 cases beer and 28,576 cases of

Drought Beer in 2006-07) and sold 77,19,325 cases of Beer and 28,663 cases of Drought Beer (61,36,775 cases beer and 28,576 cases of Drought Beer in 2006-07) generating a net revenue of Rs.15,274.92 lakhs (Rs. 11,842.93 lakhs in 2006-07).

Your Company has made a profit of Rs.10606.43 lakhs for the financial year ended 31st March, 2008 as compared to the loss of Rs.537.26 lakhs for the financial year ended 31st March, 2007, 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 major 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 further split between the premium brands, medium brands and lower end brands, which are categorized



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according to the price. In terms of volume, it is the lower end brands sells more than the premium and medium brands.

During 2007-08 TASMAL has sold about 308.84 lakhs cases registering a growth rate of 12.76%.

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

During 2007-08 TASMAL has sold about 198.55 lakhs cases registering a growth rate of 11.55%.

Contribution to the Exchequer

Alcoholic beverages industry is one of the major contributors to the exchequer by way of State excise duty and VAT, Excise Label Fee, etc.

During 2007-08, your company has contributed Rs.1,30,657.07 lakhs to the exchequer of the State Government and during the last five years, your company has contributed Rs.4,28,922.51 lakhs to the Exchequer of the State Government by way of Excise duty, Sales Tax, VAT, Excise Label 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 brands are expected to boom in the years to come. Your company has already made inroads into lower segment.

THREAT

Even though the entry of foreign players was perceived as a threat long back, it is not considered as a threat today due to high price of the foreign brands, which predominantly target the elitist society.

Prohibition is generally perceived as a major threat to this industry. However, with the state governments enjoying high revenue from this industry and with the lesser opportunity to compensate the loss of huge revenue, we do not anticipate any threat on account of prohibition.

OUTLOOK

Today, with the acceptance of social drinking, the alcoholic beverages industry is likely to grow with the compounded annual growth rate 16%. 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. Due to high volatility in international crude oil prices and 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 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.

FINANCIAL SUMMARY

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

	Rs. in lakhs	
	2007-2008 (financial year ending 31st March 2008)	2006-2007 (financial year ending 31st March 2007)
Sales and services	1,84,069.58	1,53,672.91
Other income	449.26	538.97
Total income (A)	1,84,518.84	1,54,211.88
Excise Duty, Sales Tax, TN Vat and Turnover Tax	1,30,657.07	1,11,811.27
Cost of Materials	33,566.74	27,874.90
Overheads	15,644.49	11,129.11
Interest	3,064.79	3,514.28
Depreciation	1,088.47	967.40
Total (B)	1,84,021.56	1,55,296.96
Profit/(Loss) before prior period/exceptional Items (A-B)	497.28	(1,085.08)
Add: Prior period adjustments	2.97	5.47
Add: Exceptional items	10,219.30	636.13