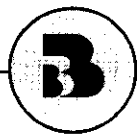


**B A L A J I
I N D U S T R I A L
C O R P O R A T I O N
L I M I T E D**

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15th
ANNUAL
REPORT
1998-1999



BALAJI INDUSTRIAL CORPORATION LIMITED

FIFTEENTH ANNUAL REPORT

Board of Directors

Shri. M. Sreenivasulu Reddy
Chairman

Shri. S.V. Sudhakar Reddy
Managing Director

Shri. V.R. Mehta (Nominee of ICICI Limited)

Shri.M.S. Ganesh

Shri.K.Munivelu Mudaliar

Company Secretary

Shri. G. Sriraman

Auditors

P.A. Reddy & Co.
Chartered Accountants
Nellore - 524 001

S. Viswanathan
Chartered Accountants
Chennai - 600 004

Bankers

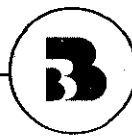
Bank of India
Bank of Baroda
Global Trust Bank Ltd.
HDFC Bank Ltd.
ICICI Banking Corporation Ltd.
IndusInd Bank Ltd.
State Bank of India
Tamilnad Mercantile Bank Ltd.
Times Bank Ltd.
United Western Bank Ltd

Registered Office & Works

Chemudugunta Village
Venkatachalam Mandal
Nellore District
Andhra Pradesh, Pin - 524 320

Corporate Office

9, Bazullah Road
T.Nagar
Chennai- 600 017



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NOTICE OF THE FIFTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Fifteenth Annual General Meeting of BALAJI INDUSTRIAL CORPORATION LIMITED will be held at Raghava Kalyana Mandapam, 8/512, Ranganayakupeta, Nellore - 524 001, on Wednesday, the 29th September, 1999 at 11.30 A.M. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the financial year ended 31st March, 1999 and the Balance Sheet as at that date and the reports of the Directors and the Auditors thereon.
2. To declare dividend on Preference Shares and Equity Shares.
3. To appoint a Director in the place of Shri.M. Sreenivasulu Reddy, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors and authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

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

"RESOLVED THAT Shri.M.S.Ganesh be and is hereby appointed as Director of the Company, liable to retire by rotation."

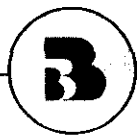
6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ordinary resolution:

"RESOLVED THAT Shri.K.Munivelu Mudaliar be and is hereby appointed as Director of the Company, liable to retire by rotation."

7. 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 approvals 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 approvals, consents, permissions or sanctions (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, in the course of National/International offerings, on private placement basis, right basis or otherwise in Indian/one or more foreign markets, Equity Shares, Cumulative or Non-Cumulative Redeemable Preference Shares, Debentures, Bonds, Debt Instruments and/or securities convertible into Equity Shares at the option of the Company and/or the holders of the securities linked to Equity Shares and/or nonconvertible securities with or without detachable/non-detachable warrants/notes with a right exercisable by the warrants/notes holder to subscribe for Equity Shares at such price and manner and during such period as the Board may decide, and/or any instruments or securities representing Equity Shares or convertible securities either through Global Depository Receipt mechanism / American Depository Receipt mechanism / Eurobonds / Notes / Foreign Currency Convertible Bonds etc. or by an issue to or by private placement with Foreign/Indian investor(s) including Institutional Investors, Banks, Non-Resident Indians, and Overseas Corporate Bodies, and/or Foreign Institutional Investors, whether members of the Company



or not, subject to the memorandum of association of the Company through prospectus and/or offering letter of circular and/or private placement basis for an amount (inclusive of such premium as may be determined) not exceeding Rs.750 crores or equivalent thereof in any other currency(ies), such issue and allotment to be made at such time or times, in such tranche(s), at such price or prices (including at a discount or premium to market price or prices) and in such manner as are in conformity with any guidelines or directions or norms, statutory or otherwise and as may be finalised by the Board, in consultation with the Lead Managers and/or Underwriters and/or other Advisors, and otherwise on such terms and conditions as may be decided and deemed appropriate by the Board."

"RESOLVED FURTHER that without prejudice to the generality of the above, the securities may have all or any terms or combination of terms in accordance with Indian/International norms/ practices including but not limited to terms and conditions in relation to payment of interest, additional interest, premia on redemption, prepayment and any other debt service payment whatsoever, besides terms as to security if any, to be created for any of the securities with such ranking as the Board may determine and including terms for issue of additional Equity Shares or variation of the conversion price of the security during the duration of the securities."

"RESOLVED FURTHER that the Board be authorised to enter into and execute all such arrangements with one or more Lead Manager(s), Manager(s), Arranger(s), Banker(s), Broker(s), Underwriter(s), Guarantor(s), Depository(ies), Custodian(s), Trustee(s) and all such agencies as may be involved or concerned in such offering of securities and to remunerate all such institutions and agencies by way of commission, brokerage fees or fee like and also to seek the listing of such securities in one

or more International Stock Exchange(s) and/ or The National Stock Exchange/Stock Exchanges in India."

"RESOLVED FURTHER that the Company and/ or an agency or body authorised by the Board may issue Depository Receipts representing the underlying Equity Shares in the Capital of the Company or such other securities in registered or bearer form with such features and attributes as are prevalent in Indian/International Capital Markets for instruments of this nature and providing for the tradeability or free transferability thereof as per Indian/International norms, practices and regulations and under the forms and practices prevalent in Indian/International Markets."

"RESOLVED FURTHER that the Board be authorised to issue and allot such number of Equity Shares as may be required to be issued and allotted directly or upon conversion of any securities or as may be necessary in accordance with the terms of offering, all such shares ranking 'pari passu' with the existing Equity Shares of the Company in all respects, excepting the right to dividend as may be declared in the financial year in which such Equity Shares are issued shall be in proportion to the amount paid-up on such shares and pro-rata for the period during which such amount paid-up thereon."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to determine the terms of payment, issue price, premium/discount, interest on Debentures and/or Bonds and/or other securities."

"RESOLVED FURTHER that for the purpose of giving effect to this resolution, the Board be authorised on behalf of the Company to accept and make, in the interest of the Company, all such modifications and alterations to the terms and conditions concerning any aspect of the issue including increases or decreases in the



aggregate value of the issue, retention of over-subscription, rate of premium/discount, interest or other charges payable or any other matter as may be considered necessary or expedient and/or as may be specified in the Requisite Approvals and to take all such actions as may be necessary or desirable to effect such modifications and alterations and to do all such acts, deeds, matters and things as it may at its discretion deemed necessary or desirable for such purpose including without limitation the entering into of underwriting, marketing, depository and custodian/ trustees'/agents' arrangements with power on behalf of the Company to settle any questions, difficulties or doubts that may arise in regard to the offer, issue and allotment of the Equity Shares/securities as it may in its absolute discretion deemed fit."

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

"RESOLVED THAT the existing Article 159 be deleted and the following new Article 159 be substituted :

159. The Company shall have a Common Seal and the Board shall provide for the safe custody of the seal and the seal shall not be affixed to any Document, Deed or Instrument except by the resolution of the Board or any Committee of the Board authorised by it in that behalf and save as provided in Article 25 hereof, except in the presence of One Director who shall sign the same in token thereof and Secretary / Authorised Person who shall countersign the same in token thereof. The Board shall have power, from time to time, to destroy the same and substitute a new seal in lieu thereof and the Board shall provide for the safe custody of the seal for the time being and shall determine the place and manner of use of such seal and confer the authority for its use to such person or persons as they may from time to time determine."

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Registered Office:

Chemudugunta Village
Venkatachalam Mandal
Nellore District - 524 320
Andhra Pradesh.

By Order of the Board

G. SRIRAMAN
COMPANY SECRETARY

Date : 23rd July, 1999

**NOTES**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and on poll, to vote instead of himself. A proxy need not be a member of the Company.
2. 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 hereto.
3. 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.
4. The Register of Members and Share Transfer Books of the company will remain closed from 23.09.1999 to 29.09.1999 (both days inclusive).
5. Dividend will be paid, if approved at the meeting as recommended by the Board of Directors, to those members whose names appear on the Register of Members of the Company on 29.09.1999.
6. Members are requested to notify immediately any change in their address.
7. The unclaimed dividends relating to the Company's financial year ended 31.03.95 have been transferred to the General Revenue Account of the Central Government on 31.08.98 pursuant to Section 205A of the Companies Act, 1956. The Shareholders may prefer their claims for payment to the Registrar of Companies (Andhra Pradesh) by submitting an application in the form prescribed by the Government. Shareholders seeking further details in this regard may also write 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 requisite information can be made available at the meeting.

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

ITEMS NO. 5 & 6:

Shri.M.S.Ganesh and Shri.K.Munivelu Mudaliar were appointed as Additional Directors on the Board on 23rd July, 1999. In accordance with section 260 of the Companies Act, 1956 and Article 120 of the Articles of Association of the Company, they hold office only upto the date of the ensuing Annual General Meeting. As per the requirements of section 257 of the Companies Act, 1956, the

Company is in receipt of notices from two members along with a deposit of Rs.500/- each, signifying their intention to propose the candidature of Shri.M.S.Ganesh and Shri.K.Munivelu Mudaliar for the office of Director liable to retire by rotation. In the best interest of the Company, the Board considers it desirable to continue to avail their services.



None of the Directors except Shri.M.S.Ganesh and Shri.K.Munivelu Mudalliar are concerned or interested in the respective resolution appointing them as Directors.

ITEM NO. 7:

The Shareholders passed a special resolution under section 81(1A) of the Companies Act, 1956, authorising the Board to raise Rs.750 crores by way of public issue of shares/debentures, bonds and/or securities either in Indian and/or in one or more foreign markets at an appropriate time, at the Extra-Ordinary General Meeting held on 20th March, 1999. To renew the validity of the resolution the Directors recommend adopting the resolution afresh at this meeting.

The Directors of the Company may be deemed to be interested in the resolution to the extent of the Equity Shares, Debentures, Bonds and/or other securities that may be taken up and allotted to them in the said issue.

ITEM NO. 8:

The Articles of Association of the Company provides for affixation of Common Seal to any instrument in the presence of any two Directors of the Company who shall sign the same and to be countersigned by the Secretary / an Authorised Signatory. As the agreements entered into by the Company are executed at different places it may not always be possible for two Directors to sign the Documents/ Deeds and other Instruments. Therefore to remove such inconvenience and hardship it is proposed that the Documents/ Deeds and other Instruments be executed by only One Director on behalf of the Company and the same be countersigned by the Secretary of the Company or any other Authorised Person . Such authorisation requires amendments to the Articles of Association of the Company which has to be approved by the Shareholders by passing a Special Resolution.

The Board recommends the adoption of the resolution. None of the Directors of the Company is interested in the resolution.

Registered Office:
Chemudugunta Village
Venkatachalam Mandal
Nellore District - 524 320
Andhra Pradesh.

Date : 23rd July, 1999

By Order of the Board

G. SRIRAMAN
COMPANY SECRETARY



DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors have pleasure in presenting the Annual Report and the audited accounts of the Company for the financial year ended 31st March, 1999.

1. PERFORMANCE HIGHLIGHTS

Your Company's performance during the financial year 1998-99 has been satisfactory. The gross income for the year has been Rs.593.53 crores as against Rs.641.44 crores in the previous year.

2. SUMMARY OF FINANCIAL RESULTS

A. EARNINGS	(Rs.in crores)	
	1998-99	1997-98
1. Profit before depreciation	15.19	25.27
2. Depreciation	9.61	9.39
3. Profit before tax (PBT)	5.58	15.88
4. Provision for tax	0.58	1.67
5. Profit after tax (PAT)	5.00	14.21
6. Excess provision of earlier year written back	—	0.13
7. Prior period Income Tax	(0.72)	—
8. Prior period adjustment	—	0.01
9. Surplus brought forward from previous year	29.87	29.31
Amount available for appropriation	34.15	43.66
B. APPROPRIATION		
(Rs.in crores)		
1. Proposed Dividend - Pref. Equity	2.47	1.94
	1.19	2.38
2. Transfer to General Reserve	9.00	9.00
3. Dividend Tax	0.37	0.47
Balance carried forward	21.12	29.87
	34.15	43.66

3. OPERATIONS

The Company has been continuously striving to improve its performance in all spheres of activities. However, the pace of progress has been slightly sluggish due to the constraints imposed by the fluctuating economic scenario. This has affected the operations resulting in reduced turnover for the year. Nevertheless, it is the constant endeavour of the Company to better its performance in the coming years.

The Company sold 88,134 metric tonnes of Steel Products earning a gross revenue of Rs.207.31 crores.

The Company's distillery division at Hyderabad manufactured 14,76,942 cases and sold 14,93,004 cases generating a gross revenue of Rs.108.43 Crores. Your Directors are happy to inform that the Company is one of

the largest manufacturers in the liquor market in Andhra Pradesh and has carved out for itself a significant market share in respect of Indian Made Foreign Liquor.

The Shipping Division contributed a revenue of Rs.7.05 crores. In spite of the sluggish Freight rates, the division has more or less managed to retain its earnings.

The IMFL Trading Operations were also satisfactory when compared to the previous year. A total of 11,47,494 cases were sold yielding a gross revenue of Rs.236.75 crores.

The Company's profitability has been adversely affected primarily due to reduced turnover in steel operations besides erosion of margins in the IMFL trading operations.

4. SHARE CAPITAL

You have approved the increase in Authorised Capital of the Company from Rs. 75 crores to Rs. 108 crores at the Extraordinary General Meeting held on 24th December, 1998.

You have approved the issue of Bonus Shares at the Extraordinary General Meeting held on 20th March, 1999. Bonus Shares have been allotted in the ratio of one share for every two shares held to those shareholders whose name appeared on the register of members on 5th May, 1999, being the record date for this purpose. With the allotment of 1,18,94,350 Bonus Equity Shares on 5th June, 1999, the paid-up Equity Share Capital of the Company is 3,56,83,050 shares of Rs.10/- each aggregating to Rs.35,68,30,500/-. The Bonus Equity Shares are eligible for dividend on a pro-rata basis for the financial year 1999-2000 from the date of allotment.

5. DIVIDEND

Your Board of Directors recommend a dividend of 5% on 2,37,88,700 paid up Equity Shares of Rs.10/- each, a dividend of 19.5% on 1,00,00,000 19.5% Cumulative Redeemable Preference Shares of Rs.10/- each and a pro-rata dividend of 12.5% in respect of 1,00,00,000 12.5% Cumulative Redeemable Preference Shares of Rs.10/- each for the financial year ended 31st March, 1999.

6. THE YEAR AHEAD

The Company will endeavour to maintain its dominant position in the Liquor Industry in Andhra Pradesh. The future market trend is expected to be favourable to the Company. The Company also expects to improve the performance in all other divisions during the current financial year barring unforeseen circumstances.

7. INDUSTRIAL RELATIONS

The company maintains harmonious industrial relations at all levels of the organisation. It will be the constant endeavour of the Company to continue to maintain the good industrial climate.

**8. ENERGY TECHNOLOGY FOREIGN EXCHANGE**

Information in accordance with the provisions of Section 217(1)(e) of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure.

9. STATUS OF YEAR 2000 (Y2K) PREPAREDNESS

It is a welcome relief to note that not many functional areas of your Company have been affected by the Year 2000 (Y2K) problem. Nevertheless, your Company has taken necessary precautionary steps to ensure that business continuity is not disrupted due to any unforeseen failure of computerised systems. As such, most of the software and hardware used in the recording of financial and other transactions are Y2K compliant. The estimated costs involved in achieving Y2K compliance is not expected to be significant.

10. DIRECTORS

Shri.M.Sudhakar Reddy, Shri.M.Kiran Reddy and Shri.A.Shivkumar Reddy resigned from the Board with effect from 27th May, 1999 due to their pre-occupation. The Board places on record its heartfelt and sincere appreciation for the valuable services rendered by them.

Shri. M. Sreenivasulu Reddy retires by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for reappointment.

Shri.M.S.Ganesh and Shri.K.Munivelu Mudaliar were appointed as Additional Directors on the Board on 23rd July, 1999.

Shri.M.S.Ganesh is a Fellow Member of the Institute of Chartered Accountants of India, having vast experience in the areas of finance, accounts and general administration. He has been associated with the Group for over a decade. Shri.K.Munivelu Mudaliar is an Electrical Engineer having vast experience in both technical and managerial areas. He has been working for the Company since 1990.

The Board recommends their appointment as regular Directors, liable to retire by rotation. Notices together with the requisite deposits have been received from two members signifying their intention to propose their names for the office of directorship.

11. PARTICULARS OF EMPLOYEES

Particulars of employees drawing remuneration attracting the provisions of Section 217 (2A) of the Companies Act,

1956 during the financial year 1998-99 is annexed.

12. LISTING OF SHARES WITH STOCK EXCHANGES

The shares of your Company are listed with the following Stock Exchanges:

The Hyderabad Stock Exchange Limited

The Madras Stock Exchange Limited

The Stock Exchange, Mumbai

The Stock Exchange, Ahmedabad

There is no outstanding amount by way of annual listing fees payable to the above Stock Exchanges.

13. AUDITORS

M/s. P.A. Reddy & Co., Chartered Accountants, Nellore and M/s.S.Viswanathan, Chartered Accountants, Chennai, Auditors of the Company, hold office until the conclusion of the ensuing Annual General Meeting. Your Board recommends their reappointment for the next financial year.

14. AUDITORS' REPORT

The Board of Directors wish to express the following views in relation to the Auditors' observations made in paragraphs 2(e)(i), 2(e)(ii) and 2(e)(iii) respectively:

- (a) The Company has valued its closing stock of work-in-progress at net realisable value which is in line with the valuation as per banking practices.
- (b) It has been a consistent practice of the Company to account for gratuity payments as and when they arise.
- (c) The Company is following a policy of deferring any fluctuation in exchange rates over the period of the loan concerned where the loan is not for acquisition of fixed assets and where their tenor is more than 5 years. In the opinion of the Company this would result in a more appropriate charge to Profit and Loss Account.

15. ACKNOWLEDGEMENT

The Directors acknowledge the support received from various Governments and their Agencies, Financial Institutions, Banks, Shareholders, Debenture holders and Customers. The Directors have pleasure in placing on record their heartfelt appreciation to all the Employees of the Company who strive uncompromisingly to achieve the objectives of your company.

Registered Office:

Chemudugunta Village
Venkatachalam Mandal
Nellore District - 524 320
Andhra Pradesh.

Date: 23rd July, 1999

On behalf of the Board

M. SREENIVASULU REDDY
CHAIRMAN