



HERBERTSONS LIMITED

62ND

ANNUAL REPORT 1998-99



THE UB GROUP



HERBERTSONS LIMITED

DIRECTORS

DR.VIJAY MALLYA.....*Executive Chairman*

K.R.CHHABRIA.....*Vice Chairman and Wholetime Director*

S.D.LALLA.....*Managing Director*

S.K.DIWANJI

S.S.GANDHI

S.R.GUPTA

C.L.JAIN

RITU MALLYA

R.M.PAREKH

V.K.REKHI

N.SRINIVASAN

S.K.BISHWAL

COMPANY SECRETARY

BHARATH RAGHAVAN



REGISTERED OFFICE

Ewart House, 22 Homi Mody Street,
Mumbai 400 023.

MANUFACTORY

201/202, Matsya Industrial Area,
Alwar 301 030, Rajasthan.

AUDITORS

Fraser & Ross, Chennai.

REGISTRARS & SHARE TRANSFER AGENTS

Computech Sharecap Limited
147, Mahatma Gandhi Road,
Mumbai 400 023.

BANKERS

Citibank N.A.
State Bank of Travancore
State Bank of Bikaner and Jaipur
Bank of India





REPORT OF THE DIRECTORS

To the Members

Your Directors submit their Report and the audited Accounts for the year ended 31st March, 1999 as under :

		(Rupees) Previous Year
The working of your Company for the year under review resulted in an operating profit of	120,977,439	119,680,385
From which has to be deducted:		
for Depreciation	36,185,007	29,482,530
for Taxation	<u>35,000,000</u>	<u>40,000,000</u>
	71,185,007	69,482,530
	<u>49,792,432</u>	<u>50,197,855</u>
and to which is added surplus brought forward from previous year	30,356,387	22,849,869
	<u>80,148,819</u>	<u>73,047,724</u>
from which is appropriated		
General Reserve	20,000,000	10,000,000
Debenture Redemption Reserve	-	7,000,000
Prior years' Tax Adjustments	-	495,052
Dividends :		
On Equity Shares (proposed)	23,805,808	23,805,808
Corporate Dividend Tax	<u>2,618,639</u>	<u>2,380,581</u>
Leaving a balance in Profit & Loss Account	<u><u>33,724,372</u></u>	<u><u>30,356,387</u></u>

DIVIDEND

Your Directors recommend payment of dividend at the rate of 25% (previous year 25%) for the year ended 31st March, 1999, on 9,522,323 equity shares of Rs.10/- each.

OPERATIONS

The past year was a good one for your Company, with a growth in sales volume of 14%.

Your Company's flagship brand, Bagpiper Whisky, registered its highest ever sales volume at 5.7 million cases, making it the third largest selling whisky in the world, apart from being the largest spirits brand in the country. Honey Bee Brandy

achieved its highest ever sales volume, recording a sale of 7,44,742 cases, with a growth of 27% over the previous year. Romanov Vodka has set a new record in the Indian Spirits Industry by becoming the first Vodka brand to cross a sale of 100,000 cases during a financial year, recording a whopping 36% growth in volume.

PROSPECTS FOR THE CURRENT YEAR

Your Company continues to be alive to the changes in the market place and the changing demands of the consumers. Your Company engaged the services of a leading design house for development of new packaging and the current year saw the launch of Bagpiper Whisky in new packaging

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in select areas which has been met with an overwhelming response. Your Company will continue to upgrade and innovate as it prepares for the challenges of the new millennium.

DEBENTURES

The proceeds of the Partly Convertible Debentures and the Non-Convertible Debentures issued by your Company in 1992 have been utilised for the purposes for which the Debentures were issued. The second instalment of redemption of Non-Convertible portion (Part C) of the 15% Secured Redeemable Partly Convertible Debentures amounting to Rs.207 lacs and of the 17% Secured Redeemable Non-Convertible Debentures amounting to Rs. 70 lacs (including premium on redemption) were paid on schedule in April 1999.

INFORMATION TECHNOLOGY AND THE YEAR 2000

Your Company has ensured that the various systems in production, operations and other applications are fully Y2K compliant.

Your Company's various suppliers, customers and dealers are, however, not computer reliant.

The costs incurred for achieving Y2K compliance does not have any significant impact on your Company's financial position.

SUBSIDIARY COMPANY

The Accounts of BDA Limited for the year ended 31st March, 1999 despite repeated requests have not yet been received by your Company from the Chairman of BDA Limited and are not annexed. Relevant application under Section 212 (8) of the Companies Act, 1956 to the Central Government is being made.

DIRECTORATE

During the year, the Central Government accorded its approval for the appointment of Dr. Vijay Mallya as Managing Director designated Executive Chairman of your Company. Ms. Ritu Mallya, Mr. S. K. Bishwal and Mr. N. Srinivasan retire by rotation and being eligible offer themselves for re-appointment.

AUDITORS

Messrs. Fraser & Ross retire as Auditors at the ensuing Annual General Meeting and are eligible for re-appointment. The approval of the members is also sought for the re-appointment of Messrs. Nayyar Malik & Co. as Auditors to

audit the accounts of the Sona Distilleries Branch for the financial year 1999-2000.

PUBLIC DEPOSITS

The amount of fixed deposits due and not claimed by 164 claimants as at 31st March, 1999 was Rs.1,665,000/-. Out of this, deposits in respect of 122 claimants amounting to Rs.1,270,000/- have either been renewed or repaid subsequent to 31st March, 1999.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in Annexure 1, forming part of this Report.

PERSONNEL

Relations between the Management and the Employees continued to be cordial.

Particulars of employees required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are given in Annexure II, forming part of this Report.

LISTING AGREEMENT

As required by the amended Listing Agreement with the Stock Exchanges, a cash flow statement is appended.

Your Company's equity shares and debentures are listed on the following Stock Exchanges:

The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 023.

The Stock Exchange
Kamadhenu Complex,
Near Polytechnic, Panjara Pole,
Ahmedabad 380 015.

The Delhi Stock Exchange Association Limited
3 & 4/4B, Asaf Ali Road,
New Delhi 110 002.

Bangalore Stock Exchange Limited
Stock Exchange Towers
51, 1st Cross, J C Road,
Bangalore 560 027.



The Annual Listing Fees for the year 1999-2000 have been paid to the above Stock Exchanges.

AUDITORS' REPORT

With regard to the observations of the auditors in the Auditor's Report the explanations are as follows:

- 1) As regards para f (i) & (ii) of the Auditor's Report regarding non availability of the Accounts of the Subsidiary Company for the year ended 31st March, 1999, non-consideration of the diminution of the value of the investment in the subsidiary and non-availability of the share certificates relating to the subsidiary, the relevant financial note nos. 2A & 2B of Schedule 16 (Notes to Accounts) are self explanatory.
- 2) As regards para f (iii) regarding non-consideration of the diminution in the value of quoted and unquoted investments, in the opinion of the Management the diminution in the value of these investments being temporary in nature, the same need not be taken into account.
- 3) As regards para f (iv) regarding non-provision of certain disputed income tax, sales tax and excise duty demands, the Company has been legally advised that

it has a strong case on merits and is likely to succeed at various stages of appeal.

- 4) As regards para f (v) regarding treatment of overdue debtors, the Management is confident that it can recover the same.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation for the continued support from shareholders, customers, suppliers, investors, banks and financial institutions. Your Directors would also like to express their appreciation for the significant contribution by all the employees of your Company during the year.

By Authority of the Board

Sd/-

VIJAY MALLYA
Executive Chairman

Mumbai, 22nd November, 1999.

ANNEXURE 1

READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 1999.

A. CONSERVATION OF ENERGY

- a) Installation of higher capacity ENA Plant has resulted in an increase in yield thereby saving in Coal consumption.
- b) Effective running of Cooling Tower by recirculation of used water has resulted in conservation of Water & Power. Recycling of hot water as feed water in boiler has further added in saving towards Coal consumption.

B. TECHNOLOGY ABSORPTION

1. RESEARCH & DEVELOPMENT

With modification in the Malt spirit production plant and ENA plants, the quality of spirit produced has improved

significantly and consistently. There has also been an increase in the yield resulting in increased production and reduction in cost.

2. TECHNOLOGY ABSORPTION

Your Company has an on-going system of upgrading its technology keeping in view the latest development in the Industry. Upgradation of the bottling facilities at the Distillery has resulted in increased production capacity and improved quality of finished production and thereby an overall reduction in cost. There has been no Import of Technology during the last five years.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The information regarding total foreign exchange used and earned is contained in Note Nos. 22-25 of Schedule 16 to the accounts.

By Authority of the Board

Sd/-

VIJAY MALLYA
Executive Chairman

Mumbai, 22nd November, 1999.

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ANNEXURE II

STATEMENT UNDER SECTION 217(2A) READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 1999.

Sr. No.	Name of employee	Designation & Nature of duties	Remuneration received (Rs.)	Qualifications	Experience	Date of commencement of employment	Age (Yrs)	Last Employment
(A) Employed for the whole year and in receipt of remuneration of not less than Rs.6,00,000.								
1	Mr. Arora V K	Divisional V P - Sales	1,198,087	B.A. (Hons)	27	15-Apr- 74	47	Sales Representative Chemi Kleen (India) Pvt. Ltd.
2	Mr. Balchandani I M	General Manager HRD	790,550	B.Sc., PGD IR & W	21	22-Feb- 93	45	Regional Manger-Personnel Blue Star Limited
3	Mr. Kapoor Ashok	Exe Vice President Mktg. & Sales	1,385,365	B.A. (Hons), M.B.A.	24	12-May- 92	46	Marketing Manager Godfrey Phillips India Ltd.
4	Mr. Chhabria K R	Vice Chairman & Wholetime Director	1,606,200	B. Com.	25	01-Apr- 95	44	Chairman C M L
5	Mr. Dharmarajan S	General Manager Finance & Taxation	751,324	B.Com., B.G.L., A.C.A.	15	07-Nov- 86	41	Consultant N M Rajji & Co.
6	Mr. Lalla S D	Managing Director	2,934,965	L.C. & S.E., AMIE (Civil)	36	07-Apr- 94	55	President Raychem RPG Ltd.
7	Mr. Mankekar Ram	Senior Manager Communication	749,272	B.A., Dip in Journalism	16	01-Oct- 93	41	Communication Manager United Breweries Ltd.
8	Mr. Medeira Mohan	Sr. Manager Distribution & Mktg Ser	648,325	B.Sc.(H), PGDSM DBMM	20	14-Sep- 92	42	Marketing Services Manager McDowell & Co. Limited
9	Mr. Mokai Arun	Sr. Manager - Admin	621,340	B.Com.	29	01-Oct- 93	42	Manager - Admin (C M D) United Breweries Ltd.
10	Omde Mongia S K	Divisional V P Business Promotion	1,324,388	M.Sc. (Def.Sc)	41	01- Aug- 93	57	Commodore Indian Navy
11	Mr. Padmanabhan N R	General Manager Accounting Services	748,584	B.Com.A.C.A.	15	31-Aug-94	43	Accounts Suprintendent Schrader Duncan Limited
12	Mr. Raghunathan A	Divisional V P Finance	1,107,778	B.Com., A.C.A	24	01- Aug-93	47	G M - Finance & Accounts McDowell & Co.Limited
13	Mr. Santosh K G	Controller - South	648,196	B.Sc.	29	06-Mar-75	52	Junior Salesman J L Morrison & John India Ltd.
14	Capt Sharma V K	Exe Director-CMD	1,927,758	B.Com., M.A., L.L.B.	25	01-Oct-93	56	V P - Administration United Breweries Ltd.
15	Mr. Shekhar Ramamurthy	General Manager Marketing	837,271	B.Tech. (Civil) PGDM	12	01-Jan-97	38	General Manager- Sales McDowell & Co.Limited
16	Mr. Srivastava C B	General Manager Sales - North	703,367	B.Sc.	21	18-Sep-78	43	Field Officer Institute of Productivity & Mgmt T M Chacko & Sons
(B) Employed for the part of the year and in receipt of remuneration of not less than Rs. 50,000 per month - Nil								

NOTES :

1. The appointment of all the employees is contractual.
2. None of the employees is related to any Director of the Company.
3. Remuneration includes salary and allowances, medical expenses, leave travel assistance, commission, bonus, Company's contribution to provident and superannuation funds and also the monetary value of perquisites calculated in accordance with the provisions of the Income-tax Act, 1961, and the Rules framed thereunder.

By authority of the Board

Sd/-

VIJAY MALLYA
Executive Chairman

Mumbai, 22nd November, 1999.



REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the attached Balance Sheet of Herbertsons Limited as at 31st March, 1999 and the annexed Profit and Loss Account for the year ended on that date and report that:

- I. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure, on the basis of such checks as we consider appropriate, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- II. Further to our comments in the Annexure referred to in Para I above we state:
 1. The accounts of the Sona Distilleries Division have been audited by M/s Nayyar Malik & Co., Chartered Accountants and their Report has been considered by us.
 2. a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b) In our opinion, proper books of account as required by law have been maintained by the Company, so far as appears from our examination of those books.
 - c) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account.
 - d) In our opinion, the Profit & Loss Account and Balance Sheet referred to in this report comply with the Accounting Standards referred to in sub-section (3 C) of Section 211 of the Companies Act, 1956, with the exception of recognition of diminution in value of the carrying costs of investments as required by Accounting Standard 13.
 - e) Attention is invited to-
 - i) Note No. 1 regarding carry forward of Deferred Revenue Expenditure of Rs.9.84 mio incurred in an earlier year, taking into consideration the future benefits of such expenditure as explained to us; and
 - ii) Note No. 8 regarding certain Capital advances and Capital work-in-progress pending adjustment for a considerable period of time.
 - f) In our Opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and the Profit and Loss Account, read together with the Schedules, the notes and the accounting policies, give the information required by the Companies Act, 1956, in the manner so required and subject to:
 - i) Non-Availability of the accounts of the subsidiary company for the year ended 31st March, 1999, non-consideration of the diminution in the value of investment in the subsidiary and considering advance of Rs.128.82 mio. to subsidiary (including interest arrears of Rs.23.66 mio.) as good and recoverable, in spite of erosion of its network as per the audited accounts for the year ended 31st March, 1998. The auditors of the subsidiary company, on the accounts so far audited by them, have made a disclaimer in regard to the true and fair view of the state of affairs (Note No.2A).
 - ii) Non-availability of the share certificates of the wholly-owned subsidiary, BDA Limited, with the company for our verification. (Note No.2B).
 - iii) Non-consideration of the diminution in the value of Rs.7.53 mio. of quoted investments and Rs.4.93 mio. of unquoted investments, considering the same as temporary in nature (Note No.3).
 - iv) Non-provision of certain disputed Income-tax, Sales Tax and Excise duty demands Rs.101.74 mio. (Note No.5(f), (g) & (h)).
 - v) Treatment of overdue Debtors amounting to Rs.40.39 mio. and overdue advances of Rs.36.13 mio. as good and recoverable by the Management (Note No.9 and 10 (b) & (c)). and the consequential effect thereof on the profit for the year, assets, liabilities and reserves of the Company, give a true and fair view:
 - (a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 1999 and
 - (b) In the case of the Profit & Loss Account, of the profit of the Company for the year ended on that date.

For FRASER & ROSS

K.N.RAMASUBRAMANIAN
Partner
Chartered Accountants

Mumbai, 22nd November, 1999.



ANNEXURE TO THE REPORT OF THE AUDITORS

To the Members of Herbertsons Limited on the accounts for the year ended 31st March, 1999. [Referred to in our report of even date].

1. The Company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets, except in the case of furniture and fixtures held at Vice-Chairman's office, which are recorded as a block value without quantitative details. Certain assets have been physically verified by the management during the year based on a regular phased programme of verification over a few years. In our opinion, such verification is reasonable having regard to the size of the Company and the nature of its assets. Physical verification of the assets held at the subsidiary and at the Vice-Chairman's office, except Furniture and Fixtures, has been carried out after the year-end. No material discrepancies were noticed on such verification.
2. None of the Fixed Assets have been revalued during the year.
3. The stocks of finished goods, spare parts and raw materials have been physically verified during the year by the management. In our opinion, the frequency of such verification is reasonable.
4. The procedures of physical verification of stocks followed by the management are generally reasonable and adequate in relation to the size of the Company and the nature of its business.
5. The discrepancies noticed on verification of stocks were not material as compared to book records.
6. On the basis of our examination of stock records, we are of the opinion that the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles. The valuation of stocks has been on the same basis as in the previous year. As per past practice, excise duty payable on stocks lying in bond has not been included as cost, as it is not considered as expenditure.
7. The Company has not taken any loan secured/unsecured from Companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. The Company has certified that there are no companies under the same management within the meaning of Section 370 (1-B) of the Companies Act, 1956.
8. No loan has been granted to Companies, firms or other parties listed in the Register maintained under Section 301 of Companies Act, 1956. The Company has certified that there are no companies under the same management within the meaning of Section 370 (1-B) of the Companies Act, 1956.
9. In respect of loans and advances in the nature of loans given by the Company, we state as under:
 - (a) In respect interest-free inter-corporate deposits aggregating Rs.1.26 mio. placed with a Company, as explained to us, no stipulation has been made for repayment of principal.
 - (b) The Company has given interest free advances of Rs. 75.16 mio. and interest bearing advance of Rs. 30.00 mio. to the wholly owned subsidiary in respect of which there is no stipulation as to the repayment of the principal amount. Interest due of Rs. 23.66 mio, which is under dispute, is yet to be received. (vide 2 (f)(i) of our main report).
 - (c) In respect of other loans and advances in the nature of loans given by the Company, including those to employees, the parties are generally repaying the principal amounts as stipulated and are also generally regular in the payment of interest wherever applicable, except certain overdue advances of Rs.4.10 mio.outstanding as on 31st March, 1999.
10. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of stores, materials including components, plant and machinery, equipment and other assets and with regard to the sale of goods.
11. According to the information and explanations given to us, no transactions of purchase of goods materials and sale of goods, materials and services were made in pursuance of contracts or arrangements to be entered in the registers maintained under Section 301 of the Companies Act, 1956.
12. As explained to us, the Company has determined unserviceable or damaged stores, raw materials and finished goods and provision for the loss arising on the items so determined has been made in the accounts.
13. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Section 58A of the Companies Act, 1956 and the rules made thereunder with regard to the deposits accepted from the public.
14. In our opinion, reasonable records have been maintained by the company of the sale and disposal of scrap. As explained to us the company's operations do not generate any realisable by-products.
15. The internal audit is being carried by the UB Group internal audit department, the scope and coverage whereof are commensurate with the size of the Company and the nature of its business.



16. The Central Government has not prescribed maintenance of cost records under section 209(1)(d) of the Companies Act, 1956, for the products of the Company .
17. According to the records of the Company, Provident Fund and Employees' State Insurance dues have generally been regularly deposited with the appropriate authorities.
18. According to the information and explanations given to us, no undisputed amounts payable in respect of Income-tax, Sales-tax, Customs Duty and Excise Duty were outstanding as at 31st March, 1999 in the books for a period of more than six months from the date they became payable.
19. The Company has explained that travel expenses of Rs.0.50 mio.(including Rs.0.36.mio. for foreign travel) of non-wholetime directors have all been incurred for the purpose of the business of the Company. Subject to the above and on the basis of information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
20. The Company is not a sick industrial company within the meaning of Clause (O) of sub-section 1 of Section 3 of the Sick Industrial Companies (Special Provisions) Act,1985.
21. The Company's service activities are such that the question of recording receipts, issues and consumption of material and stores and the allocation of materials, stores and man-hours utilized to the relative jobs does not arise. Consequently, the authorisation and adequacy of internal control on the issue of stores and allocation of stores and labour to jobs does not arise.
22. According to the information and explanations given to us in respect of the Company's trading activity, there were no damaged goods held by the Company requiring provision for the loss to be made in the accounts.

For **FRASER & ROSS**

K.N.RAMASUBRAMANIAN

Partner

Chartered Accountants

Mumbai, 22nd November, 1999.