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HERBERTSONS LIMITED

66<sup>TH</sup>

ANNUAL REPORT 2002-2003



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## 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

### 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, 2003 as under :

	(Rupees) Current Year	(Rupees) Previous Year
The working of your Company for the year under review resulted in an operating profit of	58,038,550	100,416,651
From which has to be deducted:		
for Depreciation	26,906,562	28,287,018
for Taxation (including Deferred Tax (asset)/liability)	<u>10,750,120</u>	<u>27,343,286</u>
	37,656,682	55,630,304
	20,381,868	44,786,347
and to which is added surplus brought forward from previous year	<u>47,967,612</u>	<u>43,587,605</u>
	68,349,480	88,373,952
from which is appropriated		
Towards General Reserve	2,500,000	20,000,000
Towards Contingency Reserve	53,000,000	-
	55,500,000	20,000,000
<u>Add</u> : Prior years' Tax Adjustments	12,927,923	-
<u>Add</u> : Excess Provision for Corporate Dividend	-	3,399,468
<u>Less</u> : Dividends on Equity Shares:		
Proposed final dividend	-	-
Tax on proposed Dividends of earlier years	4,270,167	-
Corporate Dividend Tax on above	-	-
Interim Dividends	19,044,646	23,805,808
Corporate Dividend Tax on above	2,440,096	-
	<u>22,494</u>	<u>47,967,612</u>

### DIVIDEND

The Board of Directors of your Company declared and paid an interim dividend for the financial year 2002 - 2003 @ 20% (previous year 25%). Your Directors have not recommended payment of any final dividend for the financial year 2002-2003.

### OPERATIONS

The alcohol beverage market witnessed increased competition with existing and a slew of new brands fighting

aggressively. Your Company's focus on core brands and emerging new segments helped in consolidating its market share.

Your Company has achieved a volume of 9.04 million cases during the year under review, thereby recording a volume growth of 9.11%, which is higher than the industry growth during the year.

Your Company's flagship brand Bagpiper Whisky continues its dominant position as the largest selling IMFL brand in the country and has recorded a sale in excess of 5.8 million



cases registering a growth of over 8% over the previous year and a 30% market share, a notable performance in view of the cut-throat competition at the market place in the regular whisky segment. The repositioning exercise undertaken by your Company has helped the brand increase both volume and value share. A 360-degree marketing mix plan comprising of an innovative platform of theme communications, exclusive tie-ups with main-stream films like Dum and Hero and above all a Hi-Blitz campaign on the Cricket World Cup has helped the brand improve significantly its top-of-mind and overall preference. Lead-image pack, the quart, was further embellished with the tamper-proof Guala cap, yet another first mover advantage in the regular segment.

Honeybee Brandy continued its status as a "*Millionaire Brand*", once again registering sale in excess of 1.1 million cases and continues to command market leadership in its key markets of Kerala and Goa. The brand was continuously supported through local initiatives. Guala cap has been added to the quarts pack in Goa to fight against spurious products, in your Company's continued endeavor to maintain and be recognized for the quality of its products. The brand's younger imagery was reinforced with the first ever Honey Bee Friendship Football Cup.

Premium Romanov Vodka continued its bull run, registering sales of 2.83 lakh cases, a phenomenal growth of 41.17% over the previous year and now commands 45% market share of the fast growing vodka segment. The brand is clearly the first choice among the trendy consumer. Romanov Party Mania II music album was yet another success and continues to provide a relevant platform for consumer interaction.

Shots is the first India entry into the Ready-to-drink segment and is now available in 5 flavors and its launch has been extended in the key markets. Though nascent this new segment is expected to grow and Shots is well poised to take advantage of this new emerging market.

A detailed Management & Discussion Analysis Report is attached as a part of this report.

#### PROSPECTS FOR THE CURRENT YEAR

During the first half of the current financial year, your Company has recorded an increase of 9.4% in volume and 10% in value terms over the corresponding period in the previous year. This is in spite of sales in the current year being disrupted primarily by the anticipated introduction of VAT and the imposition of a new Tax Collection at Source. Barring unforeseen circumstances, your Company's business is expected to be satisfactory.

In view of the various initiatives taken, your Company is confident that its growth in the current year will be higher

than the last year and will outperform the industry, thereby enhancing value to all the stakeholders.

#### ENTERPRISE RESOURCE PLANNING

Your Company is in the process of implementation of the world's leading ERP Software viz. SAP R/3. Completion of this implementation is expected to bring in the following benefits:

- + Process standardization across regions.
- + Better manageability of business complexities:
  - + Quicker and more accurate information availability.
  - + Effective data backed decision making.
  - + Increased transparency across all levels.
  - + Higher data consistency and integrity.
- + Improved management of Inventories and Receivables.
- + Reduction in Manufacturing cost.

#### SUBSIDIARY COMPANY

The accounts of BDA Limited for the year ended 31<sup>st</sup> March, 2003 have not been received by your Company from BDA Ltd. and are not annexed or consolidated with the accounts of your Company. Necessary application under Section 212(8) of the Companies Act, 1956 to the Central Government is being made.

#### DIRECTORATE

As members will recall, at the Annual General Meeting of your Company on 30/12/1998, the votes cast in respect of the resolutions pertaining to re-appointment of Directors retiring by rotation, resolutions under Section 257 of the Companies Act, 1956 pertaining to appointment of Directors and resolutions under section 284 of the Companies Act, 1956 for removal of Directors and appointment of other Directors in their place were placed in sealed covers without counting and were handed over to the Officer of the Court to be counted only as per further orders of the Court. In the circumstances, it is not possible for your Company to ascertain the Directors who are liable to retire by rotation at subsequent Annual General Meetings.

Mr. S. K. Bishwal has resigned from the Board of Directors of your Company with effect from 18<sup>th</sup> August, 2003.

#### AUDITORS

Messrs. Fraser & Ross were appointed as Statutory Auditors at the Annual General Meeting held on 30<sup>th</sup> December, 1998 to hold office till the conclusion of the next Annual General Meeting. No Annual General Meeting has been held subsequently and as such they continue in office.

Messrs. Nayyar Malik & Co. were appointed as Auditors for auditing the accounts of the Sona Distilleries for the financial





year 1998-1999 at the Annual General Meeting held on 30.12.98. In the absence of any Annual General Meetings subsequently they continue to audit the accounts of Sona Distilleries for subsequent years.

Approval of members for the said appointments will be sought at the relevant Annual General Meetings when convened.

### **PUBLIC DEPOSITS**

The amount of fixed deposits due and not claimed by 130 claimants as at 31<sup>st</sup> March, 2003 was Rs.15.55 lacs. Out of this, deposits in respect of 55 claimants amounting to Rs. 7.42 lacs have either been renewed or repaid subsequent to 31<sup>st</sup> March, 2003.

### **TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND**

In terms of Section 205C of the Companies Act, 1956 an amount of Rs. 151,250,31.51 being the Dividend/ Debentures / Deposits / interest on debentures /deposits remaining unclaimed and unpaid for more than 7 years, has been transferred to the Investor Protection Fund, till date.

### **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 I, 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.

### **CASH FLOW STATEMENT**

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

### **LISTING OF SHARES**

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

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

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

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

Bangalore Stock Exchange Ltd.  
Stock Exchange Towers  
51, 1<sup>st</sup> Cross, J C Road  
Bangalore 560 027

The Annual Listing Fees for the year 2003-2004 have been paid to the above Stock Exchanges.

The application for listing of your Company's shares with the National Stock Exchange of India Limited was rejected during 2001-2002 by the said Exchange as your Company did not satisfy the required criteria for listing.

The application dated 10<sup>th</sup> March, 2000 of your Company to SEBI for exempting your Company from dematerializing its securities is still pending with SEBI. The shares of your Company continue to be traded on "trade for trade settlement" window of the Stock Exchanges.

### **CORPORATE GOVERNANCE**

A report on Corporate Governance is annexed separately as part of the report along with a Certificate of Compliance from the Auditors.

### **AUDITORS' REPORT**

With regard to the observations of the Statutory Auditors in the Auditors' Report the explanations are as follows:

- 1) As regards para 4(i) of the Auditors' Report regarding capital work-in-progress pending adjustment, the relevant financial note no. 4 of Schedule 16 (Notes to Accounts) is self-explanatory.
- 2) As regards para 4(ii) regarding non-availability of the accounts of the wholly-owned subsidiary for the years ended 31<sup>st</sup> March, 2000, 31<sup>st</sup> March, 2001, 31<sup>st</sup> March, 2002 and 31<sup>st</sup> March, 2003, non-consideration of expenses incurred by the wholly-owned subsidiary, non-consideration of diminution in value of investment in the wholly-owned subsidiary and considering advance to wholly-owned subsidiary as good and recoverable in spite of erosion of its net worth, the relevant financial note nos. 2(a), 5(ii)(c) and 7(a)(i) of Schedule 16 (Notes to Accounts) are self-explanatory.
- 3) As regards para 4(iii) regarding non-availability of the share certificates of the wholly-owned subsidiary for



verification, the relevant note no. 2(b) of Schedule 16 (Notes to Accounts) is self-explanatory.

- 4) As regards para 4(iv) 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.
- 5) As regards para 4(v) regarding treatment of overdue debtors & advances, the Management is hopeful of recovering the same.
- 6) As regards para 4(vi) regarding debts and advances receivable from a distillery the ownership of which now vests with the Bihar Government, the relevant note 8 (b) of Schedule 16 (Notes to Accounts) is self-explanatory.

#### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, in relation to financial statements for the year 2002-2003, the Board of Directors reports that:

- a) in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- b) accounting policies have been selected and applied consistently and that the judgments and

estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company as at the end of the financial year and of the profit of your Company for the year ended March 31, 2003;

- c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and
- d) the annual accounts have been prepared on a going concern basis.

#### ACKNOWLEDGEMENTS

Your Directors place on record their sincere appreciation for the continued support from shareholders, customers, suppliers, investors, banks, financial institutions and other business associates. 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/-

Bangalore,  
October 22, 2003

**VIJAY MALLYA**  
Executive Chairman

#### ANNEXURE I

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, 2003

##### A. CONSERVATION OF ENERGY

- a) During the year 2002-03, your Company has successfully generated 4,41,459 units from the Energy Conservation Turbine installed in March, 2001 and upgraded in 2002-2003 by utilization of steam used for the re-distillation process without using any additional fuel. This has resulted in saving of approximately Rs. 20.93 lacs due to non purchase of above units from State Electricity Board.
- b) Installation of Auto Voltage regulator has resulted in reduction in failures of electrical equipment due to voltage fluctuations and thereby reduction in utilization of DG set in case of low/high voltage.
- c) Using energy saving device in cooling water system

by optimizing the use of cooling tower fan with respect to the atmospheric condition resulting in saving in consumption of electricity by 10%.

##### B. TECHNOLOGY ABSORPTION

###### 1. Research & development

Your Company has an ongoing system of evaluation of production techniques in the Malt Spirit production plant and E.N.A. plant to improve the quality, yield, consistency in sensory evaluation and reduction in overall cost of Spirit produced.

###### 2. Technology Absorption

Your Company has an ongoing system of upgrading its technology keeping in view the latest developments in the industry. During the year, your Company has successfully upgraded and installed change parts for Bagpiper Gold Quarts in 150 BPM line, resulting in increased production capacity, efficiency, improvement in quality of finished product and overall reduction in cost.



Your Company has also upgraded its Auto Pints line and Auto Nips line by installation of Multimatic Labelling machines and change parts for switching over of production from Semi-Auto line to Auto lines resulting in increased production capacity, efficiency, improvement in product quality and overall reduction in cost.

Your Company has acquired an additional Godrej Forklift for shifting of finished goods which has resulted in reduction in shifting time and manpower thereby increasing efficiency and reducing cost.

Installation of S. S. flexible pipelines in place of existing MS/PVC pipe lines, has resulted in quality up-gradation of ENA and blend.

### C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The information regarding total foreign exchange used and earned is contained in Note Nos. 21-24 of Schedule 16 to the accounts.

By Authority of the Board

Sd/-

**VIJAY MALLYA**  
Executive Chairman

Bangalore,  
October 22, 2003

## 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, 2003.

Sr. No.	Name of employee	Designation & nature of duties	Remuneration received (Rs.)	Qualifications	Experience	Date of commencement of employment	Age (Yrs)	Last Employment
<b>(A) Employed for the whole year and in receipt of remuneration of not less than Rs. 24,00,000.</b>								
1	Mr. Capoor Ashok	Executive Vice President - Marketing & Sales	3,163,835	B.A.(Hons), M.B.A.	28	12-May- 92	50	Marketing Manager Godfrey Phillips India Ltd.
2	Mr. Lalla S D	Managing Director	4,406,766	L.C. & S.E., AMIE (Civil)	41	05-Apr- 94	59	President Raychem RPG Ltd.
3	Comde Mongia S K	Divisional Vice President - Business Promotion	2,422,872	M.Sc. (Def. Sc)	45	02-Aug-93	61	Commodore Indian Navy
4	Mr. Raghunathan A	Executive Vice President - Finance & Accounts	2,710,475	B.Com., ACA	28	24-Sep-79	51	McDowell & Co. Ltd. General Manager - Finance & Accounts
5	Capt. Sharma V K	Executive Director - Chairman's Office.	3,231,270	B.Com., M.A., L.L.B	29	05-Oct-93	60	Vice President - Administration United Breweries Ltd.

**(B) Employed for part of the year and in receipt of remuneration of not less than Rs. 2,00,000 per month - Nil**

### NOTES :

1. The appointment of all the employees is contractual.
2. None of the the employees is related to any Director of your 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

Bangalore, 22nd October, 2003.





## CORPORATE GOVERNANCE REPORT

### COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Your Company's philosophy on Corporate Governance continues to be the attainment of highest levels of accountability and equity in all its actions and enhancement of value of all its stakeholders. Your Company is totally committed to good Corporate Governance by adopting best corporate practices to achieve excellence in its dealings. Apart from accepting the role of a responsible Corporate representative, your Company recognises the fact that good Corporate Governance is an essential pre-requisite for sustained wealth.

### BOARD OF DIRECTORS

The Board of Directors of your Company is a combination of Executive and Non Executive Directors, comprising eleven directors of whom three are Executive Directors and the balance are Non-Executive Directors.

Reference is made to the Directors' Report under the heading "Directorate". For the reasons explained in the Directors' Report, your Company is, even if required, unable to alter the constitution of the Board of Directors as per requirements of the Corporate Governance provisions. Your Company has accordingly informed the Stock Exchanges where your Company is listed.

During the financial year under review a total of five Board Meetings of your Company were held on 30<sup>th</sup> April, 2002, 24<sup>th</sup> May, 2002, 23<sup>rd</sup> July, 2002, 30<sup>th</sup> October, 2002 and 31<sup>st</sup> January, 2003 respectively.

Attendance of each Director at the Board Meetings during the year under review and details of number of outside Directorships/ Chairmanships (including private limited companies) and Board Committee position(s) held by each of the Directors is given below:

Names of Directors	Category	No. of Board Meetings attended	Total No. of other companies in which Director	Out of which no. of other companies in which Chairman	Total no. of other Board Committees in which Member	Out of which no. of other Board Committees in which Chairman
Dr. Vijay Mallya	Executive Director/ Executive Chairman	4	19	14	1	1
Mr. K. R. Chhabria	Executive Director/ Vice Chairman & Whole-Time Director	3	12	1	None	None
Mr. S. D. Lalla	Executive Director/ Managing Director	4	13	None	None	None
Mr. S. K. Diwanji	Non-Executive Director	1	13	None	8	None
Mr. S. S. Gandhi	Non-Executive Director	1	1	None	None	None
Mr. S. R. Gupte	Non-Executive Director	5	16	None	9	4
Mr. C. L. Jain	Non-Executive Director	4	10	None	9	5
Ms. Ritu Mallya	Non-Executive Director	3	1	None	None	None
Mr. R. M. Parekh	Non-Executive Director	4	2	None	2	None
Mr. V. K. Rekhi	Non-Executive Director	4	5	None	2	None
Mr. N. Srinivasan	Non-Executive Director	5	19	None	9	2

Mr. S. K. Bishwal has resigned from the Board of Directors of your Company with effect from 18<sup>th</sup> August, 2003.

The information provided above pertains to the following committees in accordance with the provisions of Clause 49 of the Listing Agreement:

- 1) Audit Committee
- 2) Remuneration/Compensation Committee
- 3) Investors/Shareholders' Grievance Committee



Your Company has not convened/held any Annual General Meeting subsequent to the provisions of Corporate Governance coming into effect.

### DISCLOSURE REGARDING APPOINTMENT & RE-APPOINTMENT OF DIRECTORS

As members will recall, at the Annual General Meeting of your Company on 30/12/1998, the votes cast in respect of the resolutions pertaining to re-appointment of Directors retiring by rotation, resolutions under Section 257 of the Companies Act, 1956 pertaining to appointment of Directors and resolutions under section 284 of the Companies Act, 1956 for removal of Directors and appointment of other Directors in their place were placed in sealed covers without counting and were handed over to the Officer of the Court to be counted only as per further orders of the Court.

In the circumstances, it is not possible for your Company to ascertain the Directors who are liable to retire by rotation at subsequent Annual General Meetings.

### AUDIT COMMITTEE

The Audit Committee of the Board of Directors of your Company constituted on 17<sup>th</sup> January, 2001 in compliance with the requirements of both the Listing Agreement and Section 292A of the Companies Act, 1956, comprises the following Directors:

Mr. N. Srinivasan (Chairman)	-	Non-Executive Director
Mr. R. M. Parekh	-	Non-Executive Director
Mr. C. L. Jain	-	Non-Executive Director
Mr. S. D. Lalla	-	Managing Director

The Head of Finance, representatives of Internal Audit and Statutory Auditors are invitees to the meetings of the Audit Committee.

The following terms of reference stipulated by the Board of Directors to the Audit Committee covers all matters specified under the Listing Agreement as well as the provisions of Section 292A of the Companies Act, 1956:

- a) Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- b) Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- c) Reviewing with management the annual financial statements before submission to the Board, focusing primarily on;
  - Any changes in accounting policies and practices.
  - Major accounting entries based on exercise of judgment by management.
  - Qualifications in draft audit report.
  - Significant adjustments arising out of audit.
  - The going concern assumption.
  - Compliance with accounting standards.
  - Compliance with stock exchange and legal requirements concerning financial statements.
  - Any related party transactions i.e. transactions of the Company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.
- b) Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
- c) Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting, structure, coverage and frequency of internal audit.
- d) Discussing with internal auditors any significant findings and follow up thereon.
- e) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- f) Discussing with external auditors periodically about internal control systems and also ensuring compliance of internal control systems, before the audit commences, nature and scope of audit including the observations of the auditors and review the half-yearly and annual financial statements before submission to the Board as well as conducting post-audit discussion to ascertain any area of concern.