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HERBERTSONS LIMITED

67TH

ANNUAL REPORT 2003-2004

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HERBERTSONS LIMITED

DIRECTORS

DR.VIJAY MALLYA.....Chairman

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

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

S.S.GANDHI

S.R.GUPTA

C.L.JAIN

RITU MALLYA

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

M/s. Narkar & Associates, Mumbai

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, 2004 as under :

	(Rupees) Current Year	(Rupees) Previous Year
The working of your Company for the year under review resulted in an operating profit of	90,036,777	58,038,550
From which has to be deducted:		
for Depreciation	24,496,018	26,906,562
for Taxation (including Deferred Tax (asset) / liability)	22,098,048	10,750,120
	46,594,066	37,656,682
	43,442,711	20,381,868
and to which is added surplus brought forward from previous year	22,494	47,967,612
	43,465,205	68,349,480
from which is appropriated :		
Towards General Reserve	5,000,000	2,500,000
Towards Contingency Reserve	-	53,000,000
	5,000,000	55,500,000
Add : Prior years' Taxation / Deferred Tax Adjustments	33,497	12,927,923
Less : Dividends on Equity Shares :		
Tax on proposed dividends of earlier years	-	4,270,167
Interim Dividends	19,044,646	19,044,646
Corporate Dividend Tax on above	2,440,096	2,440,096
	17,013,960	22,494

DIVIDEND

The Board of Directors of your Company declared and paid an interim dividend for the financial year 2003 - 2004 @ 20% (previous year 20%). Your Directors have not recommended payment of any final dividend for the financial year 2003-2004 (previous year - Nil).

OPERATIONS

Despite the continuance of the trend of increased

intense competition, including entry of new brands in the Beverage Alcohol Industry, your Company, thanks to its focus on core brands and emerging new segments, continued to perform creditably.

Your Company has achieved a volume of 9.74 million cases during the year under review, recording a volume growth of 9%.

Your Company's flagship brand Bagpiper Whisky

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continued its unchallenged leadership position as the largest selling IMFL brand in the country and has recorded a sale in excess of 6.4 million cases registering a growth of over 10% over the previous year and over 30% market share, a notable achievement indeed in the most competitive segment of the IMFL industry. The packaging of the brand Bagpiper has been redesigned by the International Design House "Claessens International" and has since been introduced in all the core markets. Not only has the new pack been well received, but also has resulted in consolidating consumer loyalty for the brand.

Honeybee Brandy continued its status as a "*Millionaire Brand*", registering sale of approximately 1.2 million cases and continues to command market leadership in its key markets of Kerala and Goa. Plans to increase growth of Honey Bee Brandy through the innovative route of flavoured brandy is underway in Goa and your Company is hopeful that this will further accelerate the brand's growth.

Premium Romanov Vodka continued its bull run, registering sales of 3.79 lakh cases, an impressive growth of 33.92% over the previous year and now commands approximately 40% market share of the fast growing vodka segment.

Your Company's focus on the consumer is now being sharpened by consistently investing in research, which will help to pro-actively make changes and adapt to the changing needs of the consumer.

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

PROSPECTS FOR THE CURRENT YEAR

In view of the various initiatives taken by your Company, your Company is confident that its growth in the current year will be in line with that of the industry. However, the acute shortage of molasses caused by the failure of the sugarcane crop in several parts of the country has led to steep increases in the price of raw material cost.

Despite your Company's efforts to negotiate price increases in both Government and Non-Government markets, the unprecedented increase in raw material cost will have a negative impact on the profitability of your Company for the current year.

ENTERPRISE RESOURCE PLANNING

Your Company has gone live with SAP R/3 at its registered

office. The system will help in managing costs, increasing transparency and consistency of information for both the management and shareholders.

SUBSIDIARY COMPANY

The accounts of BDA Limited for the year ended 31st March, 2004 have not been received by your Company from BDA Limited 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.

Dr. Vijay Mallya's term as Managing Director designated as Executive Chairman without remuneration expired on 30th November, 2003 and with effect from 1st December, 2003 he is Non-Executive Chairman of your Company.

Mr. R. M. Parekh, a Non-Executive Director, expired on 28th January, 2004. The Board of Directors of your Company place on record their appreciation of the valuable guidance given by Mr. R. M. Parekh to your Company, during his long tenure as Director from 1990, and express their sadness at his sudden and unfortunate demise.

Mr. S. K. Diwanji resigned from the Board of Directors of your Company with effect from the Board Meeting held on July 27, 2004, subsequent to the financial year under review.

AUDITORS

M/s. Fraser & Ross expressed their inability to continue as Statutory Auditors of your Company with effect from April 1, 2004. M/s. Narkar & Associates, Mumbai were appointed



as Statutory Auditors of your Company in the casual vacancy arising otherwise than on resignation of M/s. Fraser & Ross, with effect from April 1, 2004. M/s. Narkar & Associates hold office till the conclusion of the next Annual General Meeting.

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.

FIXED DEPOSITS

The amount of fixed deposits from the public and shareholders due and not claimed by 113 claimants as at 31st March, 2004 was Rs. 14.64 lacs. Out of this, deposits in respect of 32 claimants amounting to Rs. 5.89 lacs have either been renewed or repaid subsequent to 31st March, 2004.

TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND

In terms of Section 205C of the Companies Act, 1956 an amount of Rs. 6,41,251.50 being the Dividend/ interest on debentures remaining unclaimed and unpaid for more than 7 years, has been transferred to the Investor Education and Protection Fund, during the financial year under review.

Cumulatively, a total amount of Rs. 1,57,66,283.01 has been transferred to the Investor Education and 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/B, 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, 1st Cross, J C Road
Bangalore 560 027

The Annual Listing Fees for the year 2004-2005 have been paid to the above Stock Exchanges.

The application dated 10th 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 in physical form and 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

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the Auditors' Report the explanations are as follows:

- 1) As regards para 5(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 5(ii) regarding non-availability of the accounts of the wholly – owned subsidiary for the years ended 31st March, 2000, 31st March, 2001, 31st March, 2002, 31st March, 2003 and 31st March, 2004, 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(i)(c) and 7(a)(i) of Schedule 16 (Notes to Accounts) are self-explanatory.
- 3) As regards para 5(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 5(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 5(v) regarding treatment of overdue debtors & advances, the Management is hopeful of recovering the same.
- 6) As regards para 5(vi) regarding assets leased to and debts and advances receivable from a distillery the ownership of which now vests with the Bihar Government, the relevant notes 8(a) & 8(b) of Schedule 16 (Notes to Accounts) are self-explanatory.
- a) in the preparation of the annual accounts, the applicable accounting standards have been followed except Accounting Standard 13 pertaining to recognition of diminution in value of carrying costs of investments and Accounting Standard 21 pertaining to consolidation of subsidiary company accounts, which in the opinion of the management does not have a material impact on the financial statements;
- 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, 2004;
- 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/-

VIJAY MALLYA

Chairman

Mumbai, 27th July, 2004

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, in relation to financial statements for the year 2003-2004, the Board of Directors reports that:



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, 2004

and earned is contained in Note nos. 22-25 of Schedule 16 to the Accounts.

By Authority of the Board

Sd/-
VIJAY MALLYA
Chairman

Mumbai, 27th July, 2004

A. CONSERVATION OF ENERGY

- a) During the year 2003-04, your Company has successfully generated 3,80,522 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. 17.28 lacs due to non-purchase of above units from State Electricity Board.
- b) By implementation of energy saving lighting system, there is a saving in electricity consumption for lighting by 15%.

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 and 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 back label station for Bagpiper Deluxe Quarts in 150 BPM line, resulting in up-gradation of the product. Guala cap has been introduced in Bagpiper Deluxe Quart.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The information regarding total foreign exchange used

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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, 2004.

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. 24,00,000.								
1	Mr. Banerjee D	Senior Vice President	2,432,507	B.Tech(ITT), PGPM (MMC)	23	01-Nov- 96	45	Marketing Manager Jumbo Electronics, Dubai
2	Mr. Capoor Ashok	Executive Vice President	3,371,014	B.A.(Hons), M.B.A.	29	12-May- 92	51	Marketing Manager Godfrey Phillips India Ltd.
3	Mr. Lalla S D	Managing Director	4,367,484	L.C. & S.E., AMIE (Civil)	42	07-Apr- 94	61	President Raychem, RPG Ltd.
4	Mr. Raghunathan A	Executive Vice President - Finance & Accounts	3,279,279	B.Com., ACA	29	24-Sep-79	52	General Manager - Accounts McDowell & Co. Ltd.
5	Capt. Sharma V K	Executive Director - Chairman's Office.	3,402,198	B.Com., M.A., L.L.B	30	01-Oct-93	61	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
Chairman

Mumbai, 27TH July, 2004.

CORPORATE GOVERNANCE REPORT**COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE**

Your Company follows best corporate practices and believes that adopting and adhering to good corporate governance framework is a key element in attaining economic efficiency and growth. Good corporate governance apart from improving the image of your Company builds stakeholders' confidence.

Your Company's Corporate Governance Philosophy recognizes the significance of integrity, transparency, accountability and responsibility and your Company follows these basic tenets in its dealings to achieve sustained business growth and enhancing value to all its stakeholders.

BOARD OF DIRECTORS

The Board of Directors of your Company is a combination of Executive and Non-Executive Directors, comprising nine directors of whom two 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 9 (nine) Board Meetings of your Company were held on April 24, 2003, July 30, 2003, August 18, 2003, September 7, 2003, October 15, 2003, October 22, 2003, January 3, 2004, January 28, 2004 and February 25, 2004 respectively.



Attendance of each Director at the Board Meetings held during the year under review and details of number of outside Directorship /Chairmanship (including private limited companies) and Board Committee position(s) held by each of the Directors in Indian companies 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. other Board Committees in which Member	Out of which no. of other Board Committees in which Chairman
Dr. Vijay Mallya	Non Executive Director/Chairman	5	20	14	1	1
Mr. K. R. Chhabria	Executive Director/ Vice Chairman & Whole-Time Director	5	11	1	None	None
Mr. S. D. Lalla	Executive Director/ Managing Director	8	13	1	1	None
Mr. R. M. Parekh *	Non Executive Director	7	2	None	2	None
Mr. S. K Diwanji **	Non Executive Director	None	11	None	7	None
Mr. S. S. Gandhi	Non Executive Director	5	1	None	None	None
Mr. S. R. Gupte	Non Executive Director	8	16	4	7	2
Mr. C. L. Jain	Non Executive Director	7	8	None	8	4
Ms. Ritu Mallya	Non Executive Director	5	1	None	None	None
Mr. V. K. Rekhi	Non Executive Director	4	5	1	2	None
Mr. N. Srinivasan	Non Executive Director	8	19	None	9	2

* Mr. R. M. Parekh, a Non-Executive Director, expired on 28th January, 2004.

** Mr. S. K. Diwanji resigned from the Board of Directors of your Company with effect from the Board Meeting held on July 27, 2004, subsequent to the financial year under review.

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) Shareholders'/ Investors' Grievance Committee

Your Company has not convened/held any Annual General Meeting subsequent to the provisions of Corporate Governance coming into effect, for reasons stated elsewhere in this Report.

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. The orders of the Courts are still pending. Your Company has also been restrained from holding any further Annual General Meetings by orders of the Bombay High Court / the Hon'ble Supreme Court of India, pending counting of these votes.

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.