

Annual Report

1999-2000

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BESTFOODS
International Bestfoods Ltd.



INTERNATIONAL BESTFOODS LTD.

SALIL PUNOOSE
CHAIRMAN & MANAGING DIRECTOR

DIRECTORS

R.K. HENRY

JULIAN FROST

C. M. MANIAR

A. R. DUDANI (GIC Nominee)

H. K. BILPODIWALA
(Alternate to Mr. R. K. Henry)

B. S. SHAH
(Alternate to Mr. Julian Frost)

SOLICITORS

CRAWFORD BAYLEY & CO.

AUDITORS

S. B. BILLIMORIA & CO.

BANKERS

CITIBANK N. A.
STANDARD CHARTERED BANK
CANARA BANK

REGISTRARS & SHARE TRANSFER AGENTS

INDUSTRIAL INVESTMENT TRUST
CORPORATE SERVICES LTD.

IIT HOUSE, J. B. NAGAR,
ANDHERI (EAST),
MUMBAI - 400 093

TEL : 91 - 22 - 822 55 99

FAX : 91 - 22 - 821 53 52

REGISTERED OFFICE

SHREE NIWAS HOUSE,
H. SOMANI MARG,
MUMBAI - 400 001
TEL : 91 - 22 - 207 23 21 - 22 - 24
FAX : 91 - 22 - 207 61 80

FACTORIES

7 & 7A MIDC INDUSTRIAL AREA,
THANE - BELAPUR ROAD,
P.O. GHANSOLI,
THANE - 400 701.

OFF N. H. NO.8A,
VILLAGE CHOPADVA
TALUKA BHACHAU
KUTCH GUJARAT

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NOTICE

Notice is hereby given that the Sixty-eighth Annual General Meeting of **International Bestfoods Limited**, will be held at M.C. Ghia Hall, Bhogilal Hargovindas Building, 2nd Floor, 18/20, K Dubash Marg, Mumbai - 400 001, on Thursday, 14th December, 2000 at 3.30 p.m. to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider, approve and adopt the audited Balance Sheet as at and Profit and Loss Account for the year ended 31st March, 2000 and the reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. C.M. Maniar, who retires by rotation and, being eligible offers himself for reappointment.
3. To appoint Auditors to hold office from the conclusion of this meeting, until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

SPECIAL BUSINESS :

4. To appoint a Director in the place of Mr. Julian Frost who was appointed as a Director on 30th June, 2000 to fill in the casual vacancies caused by the resignation of Mr. Diego Bevilacqua and holds office upto the date of the Annual General Meeting and in respect of whom Notices as required under Section 257 of the Companies Act, 1956 have been received along with a deposit of Rs. 500/- from several members signifying the candidature of Mr. Frost for the office of the Director of the Company, and to consider, and, if thought fit, to pass, with or without modification(s), the following Resolution as an Ordinary Resolution :

“RESOLVED THAT Mr. Julian Frost be and is hereby appointed as a Director of the Company, who is liable to retire by rotation.”

AND RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to do all such acts, deeds, matters and things as may be considered necessary or desirable to give effect to this Resolution.”

By Order of the Board of Directors
For **INTERNATIONAL BESTFOODS LIMITED**

SALIL PUNOOSE
CHAIRMAN & MANAGING DIRECTOR

12th October, 2000

Registered Offices :
Shree Niwas House,
H. Somani Marg,
MUMBAI 400 001



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NOTES :

- (1) **Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of Resolutions set out under Item No. 4 above is annexed.**
- (2) **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY AND SUCH A PROXY NEED NOT BE A MEMBER OF THE COMPANY. A PROXY MAY BE SENT IN THE FORM ENCLOSED AND IN ORDER TO BE EFFECTIVE MUST REACH THE REGISTERED OFFICE OF THE COMPANY ATLEAST 48 HOURS BEFORE THE MEETING.**
- (3) The Members are requested to notify change in their address, if any, quoting their folio no., to the Registered Office of the Company or to the Registrars and Share Transfer Agents, Industrial Investment Trust Corporate Services Limited, IIT House, J.B. Nagar, Andheri (East), Mumbai 400 093.
- (4) For the convenience of the Members, attendance slip is annexed to the proxy form. Members are requested to fill in and affix their signature at the space provided therein and hand over the attendance slip at the entrance of the place of the meeting. Proxy/Representative of a Member should mark on the Attendance Slip as Proxy or Representative as the case may be.
- (5) As a measure of economy, copies of the annual report will not be distributed at the Annual General Meeting. Members are requested to bring their copies of the annual report to the meeting.

By Order of the Board of Directors
For INTERNATIONAL BESTFOODS LIMITED

SALIL PUNOOSE
 CHAIRMAN & MANAGING DIRECTOR

12th October, 2000

Registered Office :

Shree Niwas House,
 H. Somani Marg,
 MUMBAI 400 001.

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956
Item No. 4

Mr. Julian Frost, was appointed as a Director by the Board of Directors of the Company at its meeting held on 30th June, 2000. Pursuant to Section 262 of the Companies Act, 1956, Mr. Frost holds office only upto the date of the Annual General Meeting of the Company.

Mr. Frost is the Vice President - South West Asia. He has a varied experience in the food processing industry on an international level and would, therefore, be in a position to make significant contribution as a member of the Board of Directors of the Company. Notices as required under Section 257 of the Companies Act, 1956 have been received from several members along with necessary deposit of Rs. 500/-, signifying their intention to propose Mr. Frost's appointment as a Director.

The Board of Directors, therefore, recommend the passing of the Resolution as contained in Item No. 4 of the accompanying notice.

None of the Directors other than Mr. Frost may be considered to be concerned or interested in the proposed Resolution.

By Order of the Board of Directors
For INTERNATIONAL BESTFOODS LIMITED

SALIL PUNOOSE
 CHAIRMAN & MANAGING DIRECTOR

12th October, 2000

Registered Office :

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 H. Somani Marg,
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DIRECTORS' REPORT

Your Directors submit herewith their Annual Report and the Audited results for the year ended 31st March, 2000.

Financial Results :

	Current Year ended 31.03.00	(Rs. In lacs) Previous Year ended 31.03.99
Net Sales/Income from operations	10390.34	4857.33
Other Income	41.42	113.80
Total Expenditure	10499.37	4844.32
Interest	709.31	136.98
Gross Profit/(Loss) after interest and before depreciation & Taxation	(776.92)	(10.17)
Depreciation and Amortisation	684.87	165.87
Profit/(Loss) before Tax	(1461.79)	(176.04)
a. Provision for Wealth Tax	1.65	1.18
b. Provision for Income Tax	1.28	—
Non-recurring Income	113.15	42.20
Net Profit/(Loss)	(1351.57)	(135.02)
Paid-up Equity Share Capital	584.91	344.08
Paid-up Preference Share Capital	—	24.00
Reserves excluding Revaluation Reserves	4605.97	1542.70

Dividend :

Having regard to the accumulated losses of the Company, your Directors regret their inability to recommend any dividend.

Operating Performance :

Overall

Your Company has registered a growth of 114% in turnover over the previous year, which is primarily due to the acquisition of salt business. The results for the period reflect a net loss of Rs. 1351.57 lacs. The major reasons for the larger than planned loss were :

- The acquisition was completed in end January 99. However, our Gandhidham salt factory achieved full production only from July 99 i.e. after installation of balancing equipment was completed and skilled operators were recruited.
- Once production capacities were available, your Company faced severe transportation problems from July 99 to December 99 because of inadequate availability of railway rakes to move salt from Gandhidham to various warehouses. (Road transport is commercially not viable to most destinations). Both the above circumstances compelled the Company to procure salt from third party manufacturers, which affected margins very significantly.
- In the second half of the year, to counter our growing volumes, our competitors dropped prices sharply - by nearly 20%. Your Company was also forced to reduce salt selling prices to restore sales volumes.



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Branded Foods

Knorr continued to hold on to its very dominant share in the soup market. Our strategy is to extend the KNORR brand name to other exciting categories. Knorr Chinese Dry Mixes was successfully test launched in Calcutta and has recently been extended to the other major metros. Thanks to Rex Jelly, Brown & Polson Custard Powder and Skippy Ready to Eat Jelly, we enjoy a strong franchise in the area of desserts. Your Company has further consolidated its presence in this category with the launch of Cake Mix and Kulfi Mix under the Brown & Polson name.

The Company has identified instant beverages as a potential market for exploitation. Skippy Soft Drink Concentrate, (a liquid concentrate which the company was marketing in one part of South India) was extended successfully into some parts of the country during the year by leveraging the substantial gains in distribution coverage achieved through the integration with the Captain Cook salt business.

Caterplan

Your Company continues to build the Caterplan business, which it had identified as a focus area last year. This business addresses the needs of the hotel industry, restaurants and other catering institutions. Operations have been expanded from 2 metros to 5 metros. Sales have steadily increased showing a growth of 41% over last year.

Branded Salt

Since the acquisition of the salt business on January 1999, we have focused on achieving two important milestones.

- a) Regaining Captain Cook volumes after its long absence from the market.
- b) Creating the base for long-term market leadership.

Just prior to acquisition of the salt business, the market had seen new entrants getting stronger due to absence of captain cook salt for most of 1998. The second line of production commenced in July 1999 and your Company restored volumes in July-September 1999 to peak 1997 levels.

The Company has invested a great deal of marketing effort in understanding consumers and competitors. This has enabled your Company to strengthen the Captain Cook brand by developing a stronger advertising proposition and communicating it effectively through compelling TV advertising. Your Company has re-launched Captain Cook successfully and believes that its new brand position places it in a better position than before to gain market share. With improvement in supply chain and effective cost management, your Company is in a process of building a strong and profitable salt business and achieve market leadership in the future.

Future Outlook :

In the coming years, with the strong thrust on branded salt and our strengths in the Knorr culinary range, Desserts and Glucovita, we expect that your Company will be able to grow rapidly.

However, margins will continue to be under pressure in view of the steep increase in excise duty from 8% to 16% on most of our processed food products and with the intense price competition in salt.

Rights Issue :

During the year, your company made a Rights Issue of 2,408,538 equity shares which was oversubscribed. Consequent to the Rights Issue, the parent company's shareholding has increased from 73.19% to 75.38%.



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Comparison of projected performance against actual :

(In accordance with Clause 43 of the Listing Agreement)

<u>Details</u>	(Rs. Lacs) Projected	(Rs. Lacs) Actuals
Total Income	12176.38	10431.76
Profit/(Loss) before Interest, Depreciation & Amortisation, Tax & Extra Ordinary Income	860.76	(67.61)
Profit/(Loss) after tax	<u>(390.35)</u>	<u>(1351.57)</u>

The adverse performance is because of the following reasons :

- Due to intense price competition in Branded Salt, the company lost volumes as we did not drop prices initially.
- Subsequently, the company matched prices and regained volumes. However, the margins dropped by about 30% from the previous levels. Margins continue to be under pressure.
- Due to non-availability of adequate railway rakes, the company had to depend on third party Manufacturers which eroded margins further. Railway rake availability improved substantially from Jan 2000 onward.

Utilisation of Funds :

<u>Details</u>	(Rs. Lacs) Projected	(Rs. Lacs) Actuals
Salt Business	7849.84	7848.31
Cost of Issue	30.00	40.59
Preference Share (including dividend)	57.57	24.00
Working Capital	—	24.51
TOTAL	<u>7937.41</u>	<u>7937.41</u>

The arrears of dividend on Preference Shares included in projection is not payable as per the provisions of the Companies Act, 1956.

Preference Shares :

Your Company has redeemed preference share of Rs. 24 lacs during February 2000. This redemption was made out of the proceeds received from the Rights Issue. The company has, however, not been able to pay dividend on preference shares due to the financial losses suffered by the company.

Bestfoods, USA :

The Parent company, Bestfoods has recorded good performance for the year 1999 with worldwide sales of USD 8.6 billion and profit after tax of USD 717 million.

During the year, our parent Company agreed to give a corporate guarantee to the loans raised by your Company for financing salt business acquisition. This has helped your Company in negotiating better interest rates with the lenders namely, UTI Bank Limited, Rabo India Finance Pvt. Ltd., and GE Capital Services India.

With a view to reduce our interest burden further, the parent company has given USD 2 Million with no interest in the first year and a nominal interest in the 2nd and 3rd year, by way of External Commercial Borrowings.

Recently Bestfoods has announced that they have signed a merger agreement with Unilever subject to, among other things



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the necessary approvals of Unilever and Bestfoods shareholders and regulatory approvals. Further details in respect of impact on your Company are awaited.

Fixed Deposits :

As on 31st March, 2000, the total fixed deposits with the Company were Rs. 21,000/- which included 5 deposits amounting to Rs. 21,000/- which were neither renewed nor claimed for repayment on maturity. As on the date of this Report, no depositor holding such deposits has claimed repayment or renewed his deposits.

Directors :

Dr. D V Rege and Mr. Diego Bevilacqua tendered their resignation as Director of your Company with effect from 30th June, 2000. Mr. Bharat Shah, alternate Director to Mr. Diego Bevilacqua also vacated office with effect from 30th June, 2000. The Board has placed on record its sincere appreciation of the valuable services rendered by them during their tenure as Directors' of the company.

Mr. Julian Frost was appointed as Director to fill in the casual vacancy caused by the resignation of Mr. Diego Bevilacqua as Director. Mr. Bharat Shah was also appointed as alternate Director to Mr. Julian Frost.

Auditors :

Messrs. S.B. Billimoria & Co., Auditors of your Company retire at the conclusion of the ensuing Annual General Meeting and are eligible for reappointment under Section 224(1B) of the Companies Act, 1956 and have indicated their willingness to continue.

Employee Relations :

Employee relations continue to be cordial. A long-term settlement has been signed with the Trade Union at Kalwa.

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 forms part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the Company excluding the Statement of Particulars of Employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of the statement may write to the Secretary at the Registered Office of the Company.

Conservation of Energy :

The particulars requires under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 form part of this report as Annexure 'A'.

Acknowledgment :

The energy, skills and dedication of the employees will continue to be the driving force in achieving the goals set by your Company. With deep gratitude, we recognise their contribution. The Board of Directors of your Company would like to thank our customers, suppliers and bankers for their support and co-operation and our shareholders for their continued confidence. In addition, special recognition is due to our parent Company, Bestfoods, USA for its wholehearted support and guidance.

For and on behalf of the Board of Directors

SALIL PUNOOSE
Chairman & Managing Director

Mumbai : 27th July, 2000



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ANNEXURE "A" TO THE DIRECTOR'S REPORT**ADDITIONAL INFORMATION AS REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.****(A) Conservation of Energy****a) Energy Conservation Measures Taken :**

Various investments and proposals have been implemented for reduction of consumption of energy. For reduction in electricity cost in the salt factory the Company has shifted to GEB power instead of captive power. Resetting of Process parameters/ fuel nozzles have been done to reduce consumption of fuel.

b) Additional Investment and proposals, if any, being implemented for reduction of consumption of energy :

Production Processes are being reviewed to improve energy efficiencies in the manufacture of products.

c) Impact of measures at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production :

Measures taken as above are expected to reduce our energy consumption and consequently the cost of production

d) Total Energy Consumption and Energy Consumption per unit of production in prescribed Form 'A'**FORM - A**

		Current Year	Previous Year	
i)	Power & Fuel Consumption			
1	Electricity			
a)	Purchased Units (KWH)	14,75,588	8,53,028	
	Total Amount (In Rs)	65,42,037	37,35,477	
	Rate/Unit (in Rs)	4.43	4.38	
b)	Own Generation			
	Through Diesel Generator			
	Units (KWH)	27,54,201	2,65,894	
	Units /Litre of Diesel Oil	3.10	3.00	
	Cost / Unit (In Rs)	3.98	3.50	
2	Coal	N.A.	N.A.	
3	Furnace Oil			
	Quantity (In Litres)	13,27,252	1,81,652	
	Total Amount (In Rs)	1,49,99,786	14,45,020	
	Average Rate (In Rs)	11.30/Litre	7.95/Litre	
4	Other Internal Generation	N.A.	N.A.	
ii)	Consumption Per Unit of Production			
		Standard if any	Current Year	Previous Year
Electricity	Product			
	Salt	—	27 KWH/Ton	26 KWH/Ton
	Food Products	—	260 KWH/Ton	304 KWH/Ton
Furnace Oil				
	Salt	—	10.40 Ltrs/Ton	13 Ltrs/Ton
	Caramel, RTE & Soups	—	72 Ltrs/Ton	70 Ltrs/Ton