Parrys Confectionery Ltd

Annual Report 2002 - 2003

THE KING OF SWEETS

Certificate of Approval

Awarded to

PARRY'S CONFECTIONERY LIMITED

CORPORATE OFFICE: 234, NSC BOSE ROAD, DAREHOUSE, CHENNAI – 600 001, INDIA.
FACTORY: NELLIKUPPAM – 607 105, CUDDALORE DISTRICT, TAMIL NADU, INDIA.

Bureau Veritas Quality International certify that the Quality Management System of the above organisation has been assessed and found to be in accordance with the requirements of the quality standards detailed below

QUALITY STANDARDS

ISO 9001:2000

SCOPE OF SUPPLY

DEVELOPMENT, MANUFACTURE, SUPPLY AND TRADING OF SUGAR BOILED CONFECTIONERY PRODUCTS.
MANUFACTURE & SUPPLY OF SWEETENED CONDENSED MILK.

Original approval date: **10TH OCTOBER 2001**

Subject to the continued satisfactory operation of the organisation's Quality Management System, this Certificate is valid for a period of three years from:

14TH JUNE 2003

Date: **23RD JUNE 2003**

Managing Office:
BVQI (India) Pvt. Ltd.,
The Leela Galleria, 5th Floor,
Andheri - Kurla Road, Andheri (East),
Mumbai – 400 059, India.

UKAS QUALITY MANAGEMENT
008

For Bureau Veritas Quality International (Holding) S.A.,
2nd Floor, Tower Bridge Court
224-226 Tower Bridge Road
London SE1 2TX

Certificate No: **131010**

BVQI (Holding) S.A. using UKAS accreditation covered by the accreditation certificate number 008

CONTENTS

1.	**PARRYS CONFECTIONERY LIMITED**	3
	BOARD OF DIRECTORS	4
	VALUES AND BELIEFS	5
	TEN YEARS AT A GLANCE	6
	DIRECTORS' REPORT	7
	CORPORATE GOVERNANCE REPORT	13
	AUDITORS' REPORT ON CORPORATE GOVERNANCE	17
	REPORT OF THE AUDITORS	19
	BALANCE SHEET	22
	PROFIT AND LOSS ACCOUNT	23
	SCHEDULES TO ACCOUNTS	24
	CASH FLOW STATEMENT	42
	BALANCE SHEET ABSTRACT	44
	STATEMENT PURSUANT TO SECTION 212	45
2.	**SHARE HOLDERS INFORMATION**	46
3.	**CONSOLIDATED FINANCIAL STATEMENTS OF PARRYS CONFECTIONERY LIMITED AND ITS SUBSIDIARIES**	51
	REPORT OF THE AUDITORS	53
	BALANCE SHEET	54
	PROFIT AND LOSS ACCOUNT	55
	SCHEDULES TO ACCOUNTS	56
	CASH FLOW STATEMENT	70

PARRYS CONFECTIONERY LIMITED

Board of Directors	M.V. SUBBIAH, Chairman M.M. MURUGAPPAN J. SAHNI K.R. GANAPATHY
Managing Director	N.C. VENUGOPAL
Secretary	S. VENKATASUBRAMANIAN
Registered Office	DARE HOUSE, PARRY'S CORNER CHENNAI
Factory	NELLIKUPPAM, TAMIL NADU
Auditors	LOVELOCK & LEWES CHARTERED ACCOUNTANTS CHENNAI
Bankers	STATE BANK OF INDIA HDFC BANK LTD.
Insurers	UNITED INDIA INSURANCE CO. LTD. CHENNAI THE NEW INDIA ASSURANCE CO. LTD. CUDDALORE

"The fundamental principle of economic activity is that no man you transact with will lose, then you shall not"

— Arthashastra

Values & Beliefs

- Adhere to ethical norms in all dealings with shareholders, employees, customers, suppliers, financial institutions and government.
- Provide value for money to customers through quality products and services.
- Treat our people with respect and concern; provide opportunities to learn, contribute and advance; recognise and reward initiative, innovativeness and creativity.
- Maintain
  - *An organisational climate conducive to trust, open communication and team spirit.*
  - A style of operations befitting our size, but reflecting moderation and humility.
- Manage environment effectively for harnessing opportunities.
- Discharge responsibilities to various sections of society and preserve environment.
- Grow in an accelerated manner, consistent with values and beliefs, by continuous organisation renewal.

TEN YEARS AT A GLANCE

Rs. Lakh

	93-94	94-95	95-96	96-97	97-98	98-99*	99-2000*	2000-01*	2001-02*	2002-03*
OPERATING RESULTS:										
GROSS INCOME	6430.02	9381.32	11093.96	13117.65	15590.98	14165.74	10663.45	10625.42	9963.15	9512.85
PROFIT/(LOSS) BEF DEPN., INTEREST & TAX	544.55	712.15	1116.89	1478.93	1901.11	1493.45	(507.00)	475.68	918.55	423.40
PROFIT/(LOSS) BEFORE INTEREST AND TAX	437.68	562.30	793.87	1044.33	1383.00	815.70	(1236.34)	(180.51)	309.20	(112.93)
PROFIT/(LOSS) BEFORE TAX (PBT)	324.72	461.15	684.48	852.68	1027.95	370.81	(1657.66)	(522.82)	70.20	(286.90)
PROFIT/(LOSS) AFTER TAX (PAT)	169.72	345.15	634.48	742.68	922.95	335.81	(1657.66)	(522.82)	47.67	(118.03)
DIVIDENDS	37.08	43.26	80.75	108.17	162.25	103.49	—	—	—	—
DIVIDEND TAX	—	—	—	10.82	16.23	11.38	—	—	—	—
RETAINED PROFITS/(LOSS)	132.64	301.89	553.73	623.69	744.47	220.94	(1657.66)	(522.82)	47.67	(118.03)
SOURCES AND APPLICATION OF FUNDS:										
SOURCES OF FUNDS:										
SHARE CAPITAL	123.62(a)	123.62	216.34(b)	216.34	216.34	377.13(d)	377.13	377.13	377.13	377.13
RESERVES AND SURPLUS	719.26	1021.15	3104.68	3704.59	4444.51	6660.54	5002.88	4517.91	4503.07	3892.99
TOTAL SHAREHOLDERS' FUNDS	842.88	1144.77	3321.02	3920.93	4660.85	7037.67	5380.01	4895.04	4880.20	4270.12
BORROWINGS	635.57	2532.22	2079.77	2668.33	2953.90	3310.53	2572.65	2140.06	1155.86	1288.34
DEFERRED TAX LIABILITY	—	—	—	—	—	—	—	—	47.19	—
FUNDS EMPLOYED	1478.45	3676.99	5400.79	6589.26	7614.75	10348.20	7952.66	7035.10	6083.25	5558.46
APPLICATION OF FUNDS:										
GROSS FIXED ASSETS	1135.45	2021.64	4436.11	5987.11	7956.08	9268.81	9570.36	9411.79	8931.02	8242.32
DEPRECIATION	475.69	625.29	937.12	1362.25	1874.20	2472.84	3166.81	3669.62	3843.89	4326.84
NET FIXED ASSETS	659.76	1396.35	3498.99	4624.86	6081.88	6795.97	6403.55	5742.17	5087.13	3915.48
CAPITAL WORK-IN-PROGRESS	0.07	1139.94	17.96	27.12	49.31	214.79	57.29	42.79	4.27	4.27
INVESTMENTS	250.02	359.27	434.86	646.17	1050.21	1098.59	971.54	914.04	713.87	686.76
DEFERRED TAX ASSET	—	—	—	—	—	—	—	—	—	355.59
GROSS CURRENT ASSETS	1074.64	1506.00	2641.36	2393.65	2765.35	4357.44	2525.95	2274.36	1722.56	1952.07
CURRENT LIABILITIES & PROVISIONS	506.04	724.57	1192.38	1102.54	2485.16	2270.51	2005.67	1976.11	1526.03	1355.71
NET CURRENT ASSETS	568.60	781.43	1448.98	1291.11	280.19	2086.93	520.28	298.25	196.53	596.36
DEFERRED REVENUE EXPENDITURE	—	—	—	—	153.16	151.92	—	—	81.45	0.00
DEBIT BALANCE IN P & L	—	—	—	—	—	—	—	37.85	—	—
NET ASSETS EMPLOYED	1478.45	3676.99	5400.79	6589.26	7614.75	10348.20	7952.66	7035.10	6083.25	5558.46
RATIOS:										
ROCE (%)	30.92	21.61	17.49	17.42	19.47	9.08	–13.51	–2.41	4.71	–1.95
PBDIT TO GROSS INCOME(%)	8.47	7.59	10.07	11.27	12.19	10.54	–4.75	4.48	9.23	4.45
PAT ON SHAREHOLDERS' FUNDS(%)	20.14	30.15	19.10	18.94	19.80	4.77	–30.81	–10.68	0.98	–2.76
EARNINGS PER EQUITY SHARE(Rs)	13.73	27.92	29.33(c)	34.33	42.66	8.90(c)	–43.95	–13.86	1.26	-3.13
DIVIDEND PER EQUITY SHARE(Rs)	3.00	3.50	4.00	5.00	7.50	2.74	0.00	0.00	0.00	0.00
NET WORTH PER EQUITY SHARE(Rs)	68.18	92.60	153.51	181.24	215.45	186.61	142.66	129.80	129.40	113.23
DEBT EQUITY RATIO	0.75	2.21(e)	0.63	0.68	0.63	0.47	0.48	0.44	0.24	0.30

* Includes merger of Cocoa Products & Beverages Ltd (100% Subsidiary)

a. After considering 1:1 Rights Equity Issue in June '92

b. After considering 3:4 Rights Equity Issue in May '95

c. Earnings per share calculated on diluted capital

d. After considering warrants conversion in May '98

e. After considering Bridge Loan against Rights Issue

DIRECTORS' REPORT

Your Directors' present the Forty-Eighth Annual Report together with Audited Accounts for the year ended 31st March 2003

Financial Results

	(Rs. in Lakh) 2002-2003	(Rs. in Lakh) 2001-2002
Sales and Services	9382.09	9712.49
Profit/(Loss) before Depreciation and Interest	423.40	918.55
Less : Depreciation and Interest	710.30	848.35
Profit/(Loss) before Tax	(286.90)	70.20
Less : Provision for Current Income Tax	—	—
Less : Deferred Income Tax	(168.87)	22.53
Profit/(Loss) after Tax	(118.03)	47.67
Add : Balance brought forward	(1509.34)	(1557.01)
Balance Profit/(Loss) transferred to Balance Sheet	(1627.37)	(1509.34)

No dividend has been recommended owing to loss incurred for the year ended 31st March, 2003. A sum of Rs.520.55 Lakh has been transferred to General Reserve by drawing from Debenture Redemption Reserve being in excess of statutory requirement.

Approval of your Company's proposal for financial restructuring as detailed subsequently in this report, was received from the Honourable High Court of Judicature at Madras on 30th September, 2003. The Board of Directors could finalise the accounts for the year ended 31st March, 2003 only on receipt of the order and necessary approval for delay in holding Annual General Meeting has been obtained from the Registrar of Companies, Tamilnadu.

Review of Operations

The gross sales for the year ending 31st March, 2003 was Rs.9382 Lakh as against Rs.9712 Lakh in the previous year, a decrease of 3.4% over the previous year. The net loss after tax for the year was Rs.118 Lakh as against a profit after tax of Rs.48 Lakh in the previous year. The main reason for the loss for the year is the drop in sales volumes due to a stagnant market. Cash profit for the year is Rs.249 Lakh as against Rs.679 Lakh in the previous year.

The attached Management Discussion and Analysis Report carries a detailed analysis of performance and outlook.

Financial Restructuring

As part of operational restructuring, at its meeting held on 30th April, 2003, the Board after evaluating various options, had approved the disposal of the Plant and Machinery at Manapakkam location (Tamilnadu), which was closed during the year under the due process of law. An independent valuer has provided a fair / realisable value of these assets. The Company also had a deferred voluntary retirement/separation expenditure balance of Rs.73 Lakh incurred at Manapakkam location as on 31st March, 2003. The Company had an accumulated loss of Rs.1642 Lakh as on 31st March, 2003.

The Board at their meeting, had approved a financial restructuring proposal to adjust the estimated loss not exceeding Rs.700 Lakh on the assets held for disposal at Manapakkam location (being an extraordinary item on capital account), Rs.73 Lakh of balance voluntary retirement / separation expenditure incurred at Manapakkam and the accumulated loss of Rs.1642 Lakh as on 31st March, 2003, against the Securities Premium Account. The Shareholders of the Company had approved the scheme at the Extraordinary General Meeting of the Company held on 23rd June, 2003. The High Court of the Judicature at Madras also approved the said scheme as per the order dated 23rd September, 2003 which has been given effect in the Accounts.

This financial restructuring seeks to recognise and write off accumulated losses and un-amortised portion of voluntary retirement / separation expenditure of past years and also certain expected losses on sale of assets against Securities Premium Account in order to reflect the current state of earning assets of the Company. It is expected to enhance shareholders value through improvement in future profitability, increase in EPS and return on capital employed besides enabling the Company to represent improvements in its operational efficiency in the future years, in a more appropriate manner. It does not involve any cash outflow for the Company and thus would not in any way affect the operations of the Company or the interest of its creditors.

Amalgamation

The Board at its meeting held on 12th April, 2003 approved a scheme of amalgamation of Confectionery Specialities Limited (CSL), a wholly owned subsidiary of the Company. This scheme was unanimously approved by the shareholders of the Company at the Court convened meeting held on 23rd June, 2003. This matter is pending for confirmation before the Honourable High Court of Madras.

Subsidiary Companies

Confectionery Specialities Ltd. (CSL), a wholly owned Subsidiary, has recorded sales and other income of Rs.113.22 Lakh for the year ended 31st March, 2003 as against Rs.328.20 Lakh in the previous year. After providing for depreciation and interest, it has incurred a loss of Rs.129.54 Lakh before tax, as against the profit of Rs.0.86 Lakh in the previous year. It has made a provision for reduction in value of Plant and Machinery for Rs.273 Lakh based on an independent valuation by your Company as part of the amalgamation process. The decline in sales is attributable to the stagnation in the organised sugar boiled confectionery business and stiffer competition.

CSL became potentially sick attracting the provisions of Section 23 of Sick Industrial Companies (Special Provisions) Act, 1985, after the adoption of the accounts for the year ended 31st March, 2002 at the Annual General Meeting held on 14th June, 2002. The members of CSL took note of the potential sickness by holding an Extraordinary General Meeting on 22nd July, 2002 and the statutory report in Form C was duly filed with the Board of Industrial and Financial Reconstruction (BIFR).

As a rehabilitation measure, for the potentially sick Company and to reduce cost and gain synergy benefits, the Board of CSL at its meeting held on 12th April, 2003 approved the Scheme of Amalgamation with your Company.

Parrys Confectionery Investment and Finance Company Limited (PIFCO), the other wholly owned subsidiary, has made a profit before tax of Rs.0.55 Lakh during the year ended 31st March, 2003 as against a profit before tax of Rs.6.77 Lakh in the previous year. Investments held in PIFCO has since been disposed off.

Consolidated financial statements of the Company with its two subsidiaries are enclosed along with the Auditors Report thereon. The Company has been exempted from publishing the detailed accounts and information of its subsidiaries under Section 212 of the Companies Act and therefore it is not separately published. However, the accounts of the subsidiary companies and detailed information will be made available to the investors seeking such information at any point of time.