



11TH
ANNUAL
REPORT
2002-2003

Modern Dairies Limited



BOARD OF DIRECTORS

Chairman & Managing Director
Mr. Krishan Goyal

Dr. Bhupendra Nath Mathur
Mr. Amarjit Goyal
Mrs. Alka Goyal
Prof. Satish Kapoor
Mr. Ashok Kumar Grover (Nominee Director)
Mr. Harvinder Singh Oberoi, Director (Operations)

COMPANY SECRETARY

Mr. Arvind Bajoria

AUDITORS

M/s. A. Goel & Associates,
Chartered Accountants

BANKERS

Punjab National Bank
Canara Bank

HEAD OFFICE

SCO 98-99, Sub-City Centre,
Sector 34, Chandigarh-160 022

REGISTERED OFFICE & WORKS

136 KM. G.T. Road,
Karnal - 132 001
(Haryana)

REGISTRARS & SHARE TRANSFER AGENTS

MCS Limited
Srivenkatesh Bhavan,
212-A, Shahpurjat
Behind Panchsheel Club
New Delhi - 110 049

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NOTICE

Notice is hereby given that the 11th Annual General Meeting of the Company will be held at its Registered Office at 136 KM, G. T. Road, Karnal - 132 001 (Haryana) on Monday the 1st September, 2003 at 11.00 A.M. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2003 and Profit & Loss Account for the year ended 31st March, 2003 and the reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Amarjit Goyal, who retires by rotation, and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr. H. S. Oberoi, who retires by rotation, and being eligible, offers himself for reappointment.
4. To appoint Statutory Auditors of the company, who shall hold office from the conclusion of this meeting until the conclusion of next Annual General Meeting, and to fix their remuneration. M/s A. Goel & Associates, Chartered Accountants, retire as auditors in this meeting and they being eligible, have offered themselves for re-appointment.

SPECIAL BUSINESS

5. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ORDINARY RESOLUTION:-
 "RESOLVED THAT pursuant to the provisions of Sections 198, 269 & 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 as amended upto date, consent and approval of the company be and is hereby accorded to the re-appointment of Mr. H. S. Oberoi as Director (Operations) of the company for a period of three years w.e.f. 23rd May, 2003 on a remuneration by way of salary and perquisites as set out in the explanatory statement attached to this notice and with further authority to alter and vary such terms and

conditions including remuneration as agreed by the Board of Directors of the company subject to the conformity with the provisions of the Companies Act, 1956."

6. To consider and if thought fit, to pass the following resolution with or without modification(s) as a SPECIAL RESOLUTION:
 "RESOLVED THAT pursuant to the provisions of section 31 and other applicable provisions, if any of the Companies Act, 1956 clause 121 (b) of the Articles of Association of the Company be and is hereby amended and substituted as follows:
 The Directors shall from time to time authorise and nominate any person being a Director, to act and function as the occupier under the Factories Act, 1948 and consequently having ultimate control, in relation to the said Act, over the affairs of any of the company's factories and in this connection the Directors may delegate any of their powers to such Director as necessary."
7. To consider and, if thought fit to pass, with or without modification, the following Resolution as a SPECIAL RESOLUTION :-

"RESOLVED THAT, subject to the provisions of the Companies Act, 1956, the Securities and Exchange Board of India (De-listing of Securities) Guidelines, 2003 and subject to such other approvals, permissions, conditions, modifications and sanctions, as may be necessary, consent and approval of shareholders of the company be and is hereby accorded to the Board of Directors of the Company to de-list the Company's Shares from all or any of the following Stock Exchanges viz., The Delhi Stock Exchange Association Ltd., at New Delhi and the Ludhiana Stock Exchange Association Ltd., at Ludhiana."

By order of the Board

Place : Chandigarh

ARVIND BAJORIA

Dated : 17th July, 2003 COMPANY SECRETARY

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote instead of himself/herself and the Proxy need not be a member of the Company. Proxy, in order to be effective, must be received by the Company not less than 48 hours before the meeting. A blank proxy form is enclosed.
2. Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of the items of special business is annexed hereto and forms part of this notice.
3. The Share Transfer Books of the Company will remain closed from 25th August, 2003 to 30th August, 2003 (both days inclusive).
4. All documents referred to in the accompanying notice and explanatory statement are open for inspection at the registered office of the company during office hours on all working days upto the date of Annual General Meeting.
5. **MEMBERS ARE REQUESTED TO:**
 - a) Notify promptly any change in their addresses to the Company.
 - b) Send their queries, if any at least ten days in advance of the meeting so that the necessary information can be made available at the meeting.
 - c) Bring their copies of Annual Report at the meeting.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956**ITEM NO. 5:**

Mr. H. S. Oberoi joined the company on 16th April, 1993 as General Manager and was elevated as Director (Operations) of the Company on 23rd May, 1997. His last appointment was made on 23rd May, 2000 for a period of three years. Mr. Oberoi, aged 60 years is Graduate in Dairy Technology from The National Dairy Research Institute, Karnal.

Mr. Oberoi has around 39 years of professional experience, most of which is in the field of Dairy Production, Marketing and Commercial Management. He has been incharge of the company's Works at Karnal since past ten years and in the opinion of the management, he is best suited for the responsibilities assigned to him. The Board of Directors have re-appointed him for a period of three years w.e.f. 23rd May, 2003 on the following terms & conditions including minimum remuneration as per Schedule XIII of the Companies Act, 1956 subject to approval of the shareholders. These terms & conditions including minimum remuneration have also been approved by the Remuneration Committee of the Company.

TERMS & CONDITIONS**A. Salary**

A Salary of Rs. 50,000/- (Rupees Fifty Thousand only) per month.

B. Perquisites

Perquisites shall be allowed in addition to salary and are classified as follows:-

i) House Rent Allowance

40% of the Salary per month

ii) Medical Reimbursement

Expenses incurred for himself and his family subject to the ceiling of one month's salary in a year.

iii) Leave Travel Concession

Leave Travel Concession for self and his family once in a year incurred in accordance with the rules of the Company.

iv) Provident Fund

Contribution towards Provident Fund will be as per Company Rules.

v) Gratuity

Gratuity payable shall not exceed one half month's salary for each completed year of service.



Modern Dairies Ltd.

vi) Car

Provision of Car for use for Company's business purposes. Use of car for private purpose shall be billed by the Company.

vii) Telephone

Provision of Telephone at residence will not be considered as perquisite but personal long distance calls shall be billed by the Company.

MINIMUM REMUNERATION

In the event of loss, or inadequacy of profits, the aforesaid remuneration shall be the minimum remuneration. He shall not be entitled to sitting fees for attending Meetings of the Board or of a Committee thereof.

The appointment can be terminated by the Company giving him a notice of three months of such termination or on payment of three months salary in lieu thereof and vice versa.

For all other terms and conditions not specifically mentioned above, the Rules and Orders of the Company shall apply.

The Explanatory statement together with the Notice be also treated as abstract of the terms of the Agreement and Memorandum of concern of interest under Section 302 of the Companies Act, 1956.

Memorandum of Interest:

Except Mr. H. S. Oberoi, no other Director is either concerned or interested in the aforesaid Resolution.

ITEM NO. 6:

Consequent to the amendment in the Factories Act, 1948 the 'OCCUPIER' of a factory shall be a Director of the company. To remove the anomaly in article no. 121(b) of the articles of association of the company, and to bring the article in line with provisions of The Factories Act, it is proposed to amend and substitute the said article. The resolution is proposed for approval of the members.

Memorandum of Interest :

None of the Directors of the Company is either concerned or interested in this resolution.

ITEM NO. 7:

The Securities & Exchange Board of India (SEBI) has recently notified "De-listing of Securities Guidelines - 2003." As per these guidelines, the company may seek voluntary de-listing of its securities from Stock Exchanges without giving an exit opportunity to the shareholders, provided the securities of the company continue to be listed on Stock Exchange(s) having Nation wide Trading Terminals (i.e. The Stock Exchange, Mumbai, The National Stock Exchange etc). At present, the company's shares are listed at The Stock Exchange (BSE), Mumbai, The Delhi Stock Exchange Association Limited (DSE), New Delhi, The Ludhiana Stock Exchange Association Limited (LSE), Ludhiana. The trading volumes of the shares at DSE and LSE over the years are on decline and has become almost negligible. Also the company's shares are one of the securities, which SEBI has notified for settlement in De-mat Form. Hence looking into these factors and as cost cutting measures, it is proposed to de-list the company's securities from the DSE and LSE. The Board recommends resolution for approval of the Members.

Memorandum of Interest :

None of the Directors of the Company is either concerned or interested in this resolution.

By order of the Board

Place : Chandigarh

ARVIND BAJORIA

Dated : 17th July, 2003 COMPANY SECRETARY

ANNEXURE**INFORMATION PURSUANT TO CLAUSE - 49 (VI A) OF THE LISTING AGREEMENT
REGARDING DIRECTORS SEEKING RE-APPOINTMENT****1. Mr. Amarjit Goyal**

Mr. Amarjit Goyal is Promoter-Director of the Company. He is F.Sc., aged 68 and is a well known personality in the Indian Iron & Steel Industry, having experience in manufacturing, Rolling & marketing of Iron & Steel products. He has rich experience of Management and Administration and is the Chairman-cum-Managing Director of Modern Steels Limited. His other Directorships are in Bharat Forgings Pvt. Ltd., Multimelt Steels Pvt. Ltd., Mala Builders Pvt. Ltd. and Nabha Finance Pvt. Ltd.

He is not the Chairman / Member of any Committees in other companies.

2. Mr. H. S. Oberoi

Mr. H. S. Oberoi, aged 60 years, is graduate in Dairy technology from National Dairy Research Institute, Karnal. Mr. Oberoi has 39 years of professional experience to his credit. He has rich experience in Dairy Industry and particularly in the fields of Dairy Production and overall plant management. He is serving the company since 1993.

Mr. Oberoi is not holding the position of Director in any other company. He is member of shareholder / Investor grievance committee of your company.



DIRECTORS' REPORT

Dear Members,

Your Directors are pleased to their Eleventh Annual Report together with audited accounts of the Company for the year ended 31st March, 2003.

PERFORMANCE

During the year under review, the Company achieved turnover of Rs. 114.75 Crores as against Rs. 103.23 Crores in the previous year.

The fiscal year witnessed uncertain market conditions which prevailed due to the drought-like conditions and failing monsoon in many parts of the country, affecting most of the sectors including the dairy sector. In addition, the company had to bear the burden of milk cess imposed by the Govt. of Haryana.

Your directors report with satisfaction that higher operating profit was achieved inspite of difficult conditions. The operating profit rose to Rs. 304 lacs from Rs. 112 lacs in the previous year and net profit to Rs. 188 lacs against Rs. 66 lacs in previous year after tax provisions. Better performance has resulted in wiping out all accumulated losses of previous years and ending up with positive reserve.

CURRENT OPERATIONS

The current year has begun on a tough note. The company experienced poor availability and high prices of milk due to drought conditions of last year. The first quarter sales have been Rs. 23.80 Crores against Rs. 27.63 Crores last year and operations resulted in a loss of Rs. 21 lakhs against profit of Rs. 32 lakhs last year in the same period.

Management views that due to the onset of a widespread monsoon in the country, good milk availability is expected during the remaining part of this fiscal.

NEW FACILITIES

During the last fiscal, the Company completed its state of the art cheese plant having facilities to manufacture Mozzarella and Cheddar cheese with a capital outlay of Rs. 295 lacs.

The Company also added two new traditional Indian dairy products to its portfolio i.e., Lassi and Paneer (Cottage cheese). These products have been well received in the market.

INSTITUTIONAL SUPPLIES

The Company is regularly supplying to its esteemed corporate buyers i.e., Britannia NewZealand Foods Pvt. Ltd., Glaxo Smithkline Consumer Healthcare Ltd., Domino's India and has improved its position by the addition of a prestigious customer i.e., Nestle India Ltd. for manufacture of Table Butter.

ACCREDITATIONS:

ISO 9001, HACCP AND ISO 14001

Your Company's manufacturing facilities continue to maintain the prestigious ISO 9001 and HACCP certification by DNV Netherlands, a leading International Certification Company.

Your Company also received the prestigious ISO 14001 certification during the year for which the operating team was working since last year. This shows the company's commitment for Quality, Food safety and maintaining Environment Standards.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to section 217 (2AA) of the Companies Act, 1956 the Directors confirm that:

- i. In the preparation of annual accounts for the financial year ended 31st March 2003, the applicable accounting standards have been followed and that there were no material departures;
- ii. The accounting policies selected by them have been applied consistently, and they have made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of the company as on 31st March 2003 and profit of the company for the year ended 31st March 2003.
- iii. They have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- iv. The annual accounts have been prepared on a going concern basis.

CORPORATE GOVERNANCE AND MANAGEMENT DISCUSSION & ANALYSIS

A separate report on Corporate Governance alongwith Auditors Certificate and Management Discussion & Analysis is attached as annexure to this report.

DIRECTORS

Mr. Amarjit Goyal and Mr. H. S. Oberoi, Directors, retire by rotation at the ensuing Annual General Meeting. They being eligible, offer themselves for re-appointment.

AUDITORS

M/s A.Goel & Associates, Auditors of the Company, hold office until the conclusion of forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

Your Directors have appointed M/s. V. Kumar & Associates as Cost Auditors for the year 2003 - 2004 to conduct the cost audit subject to the approval of the Central Government.

DEPOSITS

The outstanding deposits at the end of the fiscal year under review amount to Rs. 328 lacs (previous year Rs. 514 lacs). There are no overdue deposits.

HUMAN RESOURCES

Harmonious employee relations prevailed throughout the year. Your Directors place on record their appreciation to all categories of employees for their hard work and dedication.

The statement showing particulars of employees as required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 as amended is enclosed as annexure 'A' and forms part of this report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNING AND OUTGO

Information as per Section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules 1988, is given in the annexure 'B' and forms part of this report.

APPRECIATION

The Board places on record its sincere appreciation for the continued support from its business associates.

for and on behalf of the Board

Place : Chandigarh
Dated : 17th July, 2003

KRISHAN GOYAL
Chairman & Mg. Director

MANAGEMENT DISCUSSION AND ANALYSIS**INDUSTRY STRUCTURE & DEVELOPMENTS**

India is the largest Milk Producer in the world with production of about 83 million tonnes (March 2002) of milk per annum. The milk is produced by small & marginal farmers and involves as many as 80 million small farming households. The social impact of developing the dairy industry has thus been profound. Only 16% milk produced is handled by organized sector out of which 80% is with co-operative sector.

Modern Dairies Ltd. has emerged as one of leading quality manufacturers of dairy products in the North. More than 80% business of the company is with multinational and prestigious companies of India. It has long term sales arrangements with Britannia New Zealand Foods Pvt. Ltd., Nestle India Ltd. and Domino's Pizza and is main supplier of Milk Powders to Glaxo SmithKline Beecham Consumer Healthcare Ltd.

In the given dairy industry scenario, your company sees an opportunity for growth.

OPPORTUNITIES AND THREATS

Your company is a manufacturer of good quality dairy products and follows good management systems. It has good opportunities for working with prestigious concerns. Modern Dairies is giving thrust on improving supplies of value added products like Cheese and Dairy Whiteners. Besides supply of pasteurized milk in pouches, your company has entered into fresh dairy products like Paneer, Lassi etc.

Due to changing lifestyle, exposure to electronic media and more women joining work force, the demand for these products is on the increase.

There is threat of import of Butter Oil/ SMP into the country because of high export subsidies in the developed countries.

RISKS & CONCERNS

The dairy industry is dependent on the vagaries of nature which affects the production of fodder and calving cycle that ultimately affects the availability and price of milk.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Modern Dairies Ltd. has a proper and adequate system of internal controls to ensure that transactions are properly recorded, authorized and reported.

The company has in place well documented and structured systems and processes in line with best of



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practices and well defined roles and responsibilities for people in all functions at various levels. The company is certified as ISO 9001-2000 (Quality System), HACCP (Food Safety System) and ISO 14001 (Environment System) by DNV, Holland.

There is adequate MIS information flow system to the management. Management review meetings are held periodically to monitor and control functions of the company. Internal audit on regular basis is carried out to ensure proper control.

FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS

During the year under review, the Company achieved turnover of Rs. 114.75 Crores as against Rs. 103.23 Crores in the previous year.

The fiscal year witnessed uncertain market conditions which prevailed due to the drought like conditions and failing monsoon in many parts of the country, affecting most of the sectors including the dairy sector. In addition, the company had to bear the burden of milk cess imposed by the Govt. of Haryana.

Your directors report with satisfaction that higher operating profit was achieved inspite of difficult

conditions. The operating profit rose to Rs. 304 lacs from Rs. 112 lacs in the previous year and net profit to Rs. 188 lacs against Rs. 66 lacs in previous year after tax provisions. Better performance has resulted in wiping out all accumulated losses of previous years and ending up with positive reserve.

HUMAN RESOURCES

The company regards its employees as the most valuable asset and continuously reviews and evolves policies and processes to attract and retain its pool of technical and managerial personnel through a conducive work environment.

CAUTIONARY STATEMENT

The Management Discussion and Analysis report may contain certain statements that might be considered forward looking. These statements are subject to certain risks and uncertainties. Actual results may differ materially from those expressed in the statement as important factors could influence the Company's operations such as Government policies, local, political and economic development, risks inherent to the Company's growth and such other factors.

Annexure 'A' to Directors' Report

Statement pursuant to section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975

Sr. No.	Name	Age (Year)	Designation/ Nature of Duties	Gross Remuneration Rs.	Qualifications	Total Experience (Years)	Date of Commencement of Employment	Previous employment/ position held.
1.	Krishan Goyal	46	Chairman and Mg. Director	18,34,983	B.Com LLB	23	22.04.92	Managing Director Modern Steels Ltd.

- Notes : (1) Gross remuneration comprises salary, allowances monetary value of perquisites, and the Company's contribution to Provident and Superannuation Funds but excludes contribution to Gratuity Fund on the basis of actuarial valuation as separate figures are not available.
- (2) Salary of Mr. Goyal was revised w.e.f. 1st November, 2002.
- (3) Mr. Krishan Goyal was appointed as Whole Time Director in Modern Steels Ltd. in 1980 and was elevated to Managing Director of that company in 1984. He is continuing in the same position.
- (4) The nature of employment is contractual.

Annexure 'B' to Directors' Report

Information as per section 217(1) (e) read with 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.

FORM A**A. POWER & FUEL CONSUMPTION****CURRENT YEAR****PREVIOUS YEAR****2002-03****2001-02****POWER****a) Electricity Power**

Purchase Units (Kwh)

54,82,672

53,95,209

Total Amount (Rs.)

2,15,68,266

2,24,84,755

Rate per unit (Rs.)

3.93

4.16

b) Other Generation**Through Diesel Generators**

Units (kwh)

5,71,126

3,80,254

Total Amount (Rs.)

27,23,021

18,23,867

Unit per litre of Diesel oil

3.40

3.39

Cost/Unit (Rs.)

4.76

4.79

FUEL

Quantity (M.T.)

11,940

13,737

Total Amount (Rs.)

1,67,26,123

1,28,62,966

Rate/Unit (Rs. per M.T.)

1400.84

936.37

B. CONSUMPTION PER UNIT OF PRODUCTION

Products : Liquid Milk, Skimmed Milk Powder, Whole Milk Powder, Dairy Whitener, Pure Ghee, Butter, Paneer & Lassi etc.

Unit per kgs. of milk processed.

1000 Kgs.

1000 Kgs.

Electricity (Kwh)

64.52

66.00

Fuel Quantity (Kgs.)

127.26

156.94

NOTE

As the company manufactures several products, it is impracticable to apportion the utilities to different products. However, consumption of electricity and fuel has been given per thousand Kgs. of milk processed.

FORM B**I RESEARCH & DEVELOPMENT (R & D), TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION**

The scope of activities covers development of new products and processes to improve productivity, quality improvements and better cost management.

II FOREIGN EXCHANGE EARNING AND OUTGO

Particulars with regard to Foreign Exchange earning and outgo appear on the relevant Schedule of the Balance Sheet.

For & on behalf of the Board

Place : Chandigarh

Dated : 17th July, 2003

KRISHAN GOYAL

Chairman & Mg. Director