



PIONEER

PIONEER DISTILLERIES LIMITED

Thirteenth Annual Report
2005-2006



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Company Information**Board of Directors**

Shri K.V. Rajeshwar Rao	Chairman
Shri. K. Sudhir Rao	Vice Chairman
Shri. K. Suhan Rao	Managing Director
Shri. L. Venkateswara Rao	Non Executive Director
Dr. J.K. Devani	Non Executive Director
Shri. V. Subramanian	Non Executive Director
Shri H. Anantha Krishnan	Nominee Director- LIC
Shri D. Sudhakar Rao	Nominee Director- IDBI
Shri. C.V. Kamalaker	Additional Director

Auditors

Alapati Vadde & Co.
8-3-728, Flat # 102, Sai Sandilya Apts
Yellareddyguda, Ameerpet, Hyderabad- 500 073
ANDHRA PRADESH

Senior Executives

Shri. A.N. Kadam	General Manager
Smt. Y. Sailaja	Company Secretary

Registered Office

Balapur Village, Dharmabad Taluk
Nanded District, MAHARASHTRA- 431 809.
Tel: 02465-244782, Telefax: 02645 280688
Email: factory@pioneerdistilleries.com

Corporate Office

7-1-19/3, Kundanbagh, Begumpet
Hyderabad- 500 016, ANDHRA PRADESH.
Tel: 040- 23757654-56, Fax: 040- 23745452
Email: info@pioneerdistilleries.com

Bankers

State Bank of Mysore
(Industrial Finance Branch)
Greenlands, Hyderabad. ANDHRA PRADESH
State Bank of Indore
Triveni Complex, Abids,
Hyderabad. ANDHRA PRADESH

Financial Institutions

Industrial Development Bank of India
Life Insurance Corporation of India

**Registrars and
Share Transfer Agents**

Venture Capital and Corporate Investments Limited
6-2-913/914, III Floor, Progressive Towers
Khairatabad, Hyderabad- 500 004
ANDHRA PRADESH
Tel: 040- 23322262/64, Fax: 040- 23324803

Listed at

The Bombay Stock Exchange Limited
The Pune Stock Exchange Limited

LETTER TO THE STAKEHOLDERS



K.V. RAJESHWAR RAO
Chairman

Dear Stakeholders,

'Pioneer Distilleries Limited' has nurtured growth and development over the last few years. Sound Management practices, robust business plans, restructuring of existing growth engines and contribution by each of our employee have collectively resulted in the growth of our business.

Over the last 7 years of commercial operations your Company has learnt to build sustainable values, remain close to its customers and manage the future by proper anticipation. As you are aware, your Company faced financial stress due to delay in commencement of production owing to extraneous factors beyond the control of management. But the Company has settled out with the term lending institutions and as of now all the payments to the institutions/banks are in accordance with the agreed schedule. Keeping in view the improved operational and financial performance, your company is confident of meeting all the future commitments.

During the year, on the operational front, the Company has achieved a capacity utilisation of 109.45% with a turnover of about Rs. 4441.71 Lakhs. I am happy to inform you that your Company has recorded a net profit of Rs. 134.69 lakhs. We are not going to rest on this achievement and that there will be a continuous endeavour and commitment towards achieving a sustained high growth on all parameters. In the ensuing year, the Company plans to increase its existing Extra Neutral Alcohol (ENA) capacity from 50KLPD to 100KLPD. Project appraisal in this regard is complete and the finance modalities have also been chalked out. Next year, with the capacity being doubled, we expect a much better and improved performance.

Your Company has also been exploring diversification of its business activities by the setting up of Absolute Alcohol and Carbon-di-oxide plant at the factory premises. Commercial production of both the products is on and your management expects an increased share of revenue from both products from next year onwards.

Your Company has a strategic perspective and agenda towards growth and towards future opportunities. I would like to reiterate that it is committed to ensure:

- continuous commitment to value creation.
- uncompromising attitude for quality of the products.
- equal treatment of all stakeholders without any discrimination and this process will be transparent and in accordance with highest norms of corporate governance.

Our satisfaction comes not only from robust financial figures but the fact that the success is built upon core sustainable values. I thank you for the confidence reposed in the Company and for the fact that you have stood by us over the period of transformation.

I have enjoyed continued support from the Board of Directors and I take this opportunity to express my gratitude to the Board, all the shareholders and well wishers for their understanding and abiding confidence.

Very sincerely,

K.V. RAJESHWAR RAO
22nd May, 2006

NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the **Thirteenth Annual General Meeting** of the members of Pioneer Distilleries Limited will be held on **Thursday, the 22nd day of June, 2006 at 12.00 Noon** at the Registered Office of the Company at Balapur Village, Dharmabad Taluk, Nanded District, Maharashtra- 431809 to transact the following business:

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2006 and the Balance Sheet as at that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Dr. Jayendra Kumar Devani, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Shri. L. Venkateswara Rao, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint M/s Alapati Vadde & Co as Statutory Auditor who shall hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix remuneration.

Special Business**Increase in Authorised Share Capital**

5. To consider and, if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution.

"RESOLVED THAT pursuant to Section 94(1)(a) of the Companies Act, 1956, Authorised Share Capital of the Company be increased from Rs.13,50,00,000/- divided into 110,00,000 (One crore ten lakhs) Equity shares of Rs.10/- each and 25,00,000 (Twenty five lakhs) Preference shares of Rs.10/- each to Rs.15,00,00,000/- divided into 125,00,000 Equity shares of Rs.10/- each and 25,00,000 Preference Shares of Rs.10/- each and that Clause V of the Memorandum of Association of the Company be altered accordingly."

6. To consider and, if thought fit, to pass, with or without modifications, the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to Section 31 of the Companies Act, 1956, Articles of Association of the Company be altered by substituting the following Article for Article 3:

The Share Capital of the Company is Rs. 15,00,00,000 (Rupees Fifteen Crores) divided into 125,00,000 (One Crore Twenty Five lakhs only) Equity Shares of Rs.10/- each and 25,00,000 (Twenty Five Lakhs only) Preference Shares of Rs.10/-each."

Preferential Allotment

7. To consider and, if thought fit, to pass, with or without modifications, the following resolution as a Special Resolution.

"RESOLVED THAT in terms of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and in accordance with the enabling provisions of the Memorandum and Articles of Association of the Company, Listing Agreement entered into by the Company with the Stock Exchanges where the shares of the Company are listed and subject to the regulations/rules/guidelines issued by the Securities and Exchange Board of India (SEBI) and all such other bodies/institutions as may be relevant and subject to such conditions and modifications as may be stipulated while granting such permissions and approvals/sanctions and which may be agreed by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee of Directors for the time being duly authorised by the Board to exercise the powers conferred on the Board by this resolution) consent of the Company be and is hereby given to the Board to create, issue, offer and allot to the promoter group members (which term shall include directors, promoter directors, their families, relatives,

friends and associates) and/or non promoters, and to such other persons as may be considered expedient 17,20,000 number of Equity Shares of the Company of the face value of Rs.10/- each at a premium of Rs.9/- per Equity Share, the price whereof is determined on the basis of the valuation report as prepared by M/s. Alapti Vadde & Co, Statutory Auditors in accordance with the provisions of Chapter XIII of SEBI (Disclosure and Investor Protection) Guidelines, 2000.

RESOLVED FURTHER THAT the relevant date for the proposed issue of equity shares shall be **23rd May, 2006** as per the provisions of Chapter XIII of the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution the Board/Committee of Directors be and is hereby authorised to take all such steps and do all such acts, deeds, matters and things and execute all such deeds/documents as may be necessary and settle any query or doubt that may arise with regard to the said issue and allotment of Equity Shares and utilisation of the proceeds of the issue."

Appointment of Sole Selling Agent

8. To consider and, if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution.

"RESOLVED THAT pursuant to the provisions of Section 294 and other applicable provisions, if any, of the Companies Act, 1956, approval be and is hereby accorded to the appointment of SKVM Agencies, Hyderabad as Sole Selling Agents of the Company for the sale of Carbon Di-oxide (Co₂) manufactured by the Company for a period of 3 years from the date of commencement of commercial production of Co₂ on such terms and conditions as contained in the agreement, a copy of which is produced before this meeting and intialled by the Chairman for the purpose of identification."

Appointment of Director

9. To consider and, if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution.

"RESOLVED THAT Shri. C.V. Kamalaker who was appointed as an Additional Director in the meeting of the Board of Directors held on 22nd May, 2006 and who holds office upto the date of the Thirteenth Annual General Meeting and in respect of whom notice has been received under Section 257 of the Companies Act, 1956 from the members signifying intention to propose Shri. C.V. Kamalaker as a candidate for the office of Director of the Company be and is hereby appointed as a Director of the Company."

By the order of the Board
For **PIONEER DISTILLERIES LIMITED**

Date: 22nd May, 2006
Place: Hyderabad

Y. SAILAJA
Company Secretary

NOTES

1. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of item no.5 to item no. 9 is annexed herewith.
2. **A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member. A blank proxy form is enclosed which, to be valid, should be duly completed, stamped and deposited with the Company at least 48 hours before the commencement of the meeting.**
3. Corporate members intending to send their authorized representatives to attend the meeting are requested to send a certified copy of the Board Resolution authorizing their representative to attend and vote on their behalf at the Meeting.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from 16th June, 2006 to 21st June, 2006. *(Both days inclusive).*
5. Members are requested to intimate any change in their addresses to M/s Venture Capital and Corporate Investments Ltd, Registrar and Share Transfer Agents of the Company.
6. Non-Resident Indian Members are requested to inform the Company's Registrars and Transfer Agents, M/s Venture Capital and Corporate Investments Limited, immediately of the change in the residential status on return to India for permanent settlement.
7. Members are requested to bring the attendance slip along with their copy of Annual Report to the Meeting.
8. **Particulars of Directors seeking appointment / reappointment in pursuance of clause 49 of the Listing Agreement entered into with the Bombay and Pune Stock Exchanges:**
 - (1) Dr. Jayendra Kumar Devani, aged about 65 years is a Dental Surgeon and a resident of Nairobi, Kenya. He is BDS (Bom), LDS, RCS (Edin) and a fellow of Academy of Dentistry International (USA). He is one of the main NRI investors in the Company from Kenya. He is a Non-Executive Director on the Board of the Company and retires by rotation. He is not on the Board or the Committee of any other Company in India.
 - (2) Shri. L. Venkateswara Rao aged about 49 years is the Non-Executive Promoter Director of the Company. He is an Engineering graduate and has been actively associated with the Company since incorporation. His contribution to the Company during the construction, and commissioning of the factory has been significant. He retires by rotation and being eligible has offered himself for reappointment on the Board of the Company. He is on the following Committees of the Company:
 - Audit Committee
 - Share Transfer Committee and
 - Investor Redressal and Grievance Committee

Apart from the above he is not a Director on the Board of any other Company.
 - (3) Shri. C.V. Kamalaker aged about 64 years is a post graduate in law from the University of Madras. He is the retired General Manager (Law) from the Industrial Finance Corporation of India Ltd. He has over 37 years of rich experience in corporate laws, property law, personal law, insurance law and banking law. He has dealt extensively with various industries while working in IFCI and later on as consultant in India Law Services Branch at Bangalore. He is on the following Committees of the Company:
 - Audit Committee
 - Remuneration Company.

He is not on the Board of any other Company.

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.**Item No. 5 and 6**

The Company proposes to expand its operations by increasing the existing ENA capacity from 50KLPD to 100KLPD. To meet the funds requirement for the expansion activity, it is considered expedient to increase the Authorised Share Capital of the Company from Rs. 13.50 Crores to Rs.15.00 Crores. The increase in the Authorised Capital requires your approval. Consequent upon the increase in Authorised Share Capital, Memorandum and Articles of Association of the Company require alteration.

None of the Directors is in any way concerned or interested in the resolution except upto the extent of their equity holding in the Company.

Item No. 7

As mentioned in the aforesaid item no.5 and 6, the Company is going in for expansion of its operations by increasing the existing ENA capacity from 50KLPD to 100 KLPD. The expansion will involve installation of additional fermentation and distillation sections, turbine, revamping of 10 TPH Boiler and installation of Bio-gas and Reverse Osmosis plant, additional storage for finished products. The project has been appraised by the State Bank of Mysore (SBM) and State Bank of Indore (SBIIn) and term loan of Rs 14.00 Crores (SBM: Rs.7.00 crores, SBIIn: Rs7.00 Crores) has already been sanctioned in this regard. To part finance the project cost, it is proposed to create, issue, offer, allot equity shares through preferential allotment either to the existing members of the company, to the promoter group members (which term shall include directors, promoter directors, their families, relatives, friends and associates) and/or non promoters, and to such other persons as may be considered expedient.

In accordance with the provisions of Section 81 of the Companies Act, 1956, any increase in the subscribed capital of a Company by a further issue and allotment of shares is to be offered to the existing shareholders of the Company in the manner laid down in the said Section, unless the shareholders decide otherwise in a general meeting. The listing agreement with the stock exchanges also provides, inter alia, that the Company in first instance should offer all the shares and debentures to be further issued for subscription pro rata to the equity shareholders unless the shareholders decide otherwise in a general meeting.

The consent of the shareholders is therefore being sought pursuant to the provisions of Section 81(1A) of the Companies Act, 1956, SEBI (Disclosure and Investor Protection) Guidelines, 2000 and the Listing Agreements entered into with the Stock Exchanges, authorising the Board to raise additional capital by further issue of equity shares to meet the project cost of the proposed expansion.

The information as required under the SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI is given hereunder:

- i.) **Object of issue:** The issue of equity shares vide preferential allotment is to meet the capital expenditure requirements of the proposed expansion of increasing ENA capacity to 100 KLPD. The expansion programme will involve (i) installation of fermentation and distillation sections (ii) installation of turbine (iii) revamping of 10TPH Boiler (iv) installation of Bio-gas and Reverse Osmosis plant (v) Storage facility for finished products at the factory premises.
- ii.) **Allotment to the Promoters:** Promoters along with others intend to subscribe to the offer.
- iii) **Shareholding pattern** of the Company before and after the issue of shares will be as under:

	Category	Pre Issue Holding		Post Issue Holding	
		No. of shares held	% of Share holding	No. of shares held	% of Share holding
A	Promoters Holding				
1	Indian Promoters	4510980	45.166	5084540	43.430
	Foreign Promoters	—	—	—	—
2	Persons acting in Concert	908970	9.101	908970	7.764
	Sub Total	5419950	54.267	5993550	51.194
B	Non Promoter Holding				
3	Institutional Investors				
	-a. SICOM	539925	5.406	539925	4.612
	Sub- Total	539925	5.406	539925	4.612
4	Others				
a.	Private Corporate Bodies	186601	1.868	186601	1.594
b.	Indian Public	2097542	21.001	3243942	27.708
c.	NRI's / OCBs	1718865	17.210	1718865	14.682
d.	Any Other	24717	0.247	24717	0.211
	Sub- Total	4027725	40.327	5174125	44.195
	GRAND TOTAL	9987600	100.00	11707600	100.00

- iv.) **Proposed time of allotment:** The allotment will be complete within 15 days from the approval of the members at this meeting.
- v.) **Identity of proposed allottees:** The promoters viz., Shri K.V. Rajeshwar Rao, Shri K. Sudhir Rao, Shri K. Suhan Rao and Shri L. Venkateswara Rao together with their relatives and persons acting in concert hold 54.267% of the paid up capital before the proposed preferential offer. Their shareholding will be 51.194% of the post preferential offer. The issue of equity shares will be made to the following persons, the details whereof are:

Promoters

- Shri. K.V. Rajeshwar Rao - 70,000 shares
- Shri. K. Sudhir Rao - 2,23,000 shares
- Shri. K. Suhan Rao - 2,24,000 shares
- Shri. L. Venkateswara Rao - 56,600 shares

Non Promoters

- Shri. D. Kishore Kumar - 2,58,000 shares
- Shri.Ch. Anil Rao - 2,98,000 shares
- Shri. D. Anil Kumar - 2,93,400 shares
- Shri. D. Rajender Rao - 2,97,000 shares

The details of the post issue equity shareholding of the allottees will be as given hereunder:

Name	Post-issue equity Holding	% to the total Post issue share capital*
I Promoters		
Shri. K.V. Rajeshwar Rao	6,59,340	5.632
Shri. K. Sudhir Rao	19,11,000	16.323
Shri. K. Suhan Rao	18,51,960	15.818
Shri. L. Venkateswara Rao	4,61,880	3.945
II Non Promoters		
Shri. D. Kishore Kumar	3,28,500	2.806
Shri. Ch. Anil Rao	3,77,850	3.227
Shri. D. Anil Kumar	3,59,500	3.071
Shri. D. Rajender Rao	3,62,000	3.092
Total	63,12,030	53.914

* Paid up share capital will increase from Rs. 9,98,76,000/- consisting of 99,87,600 equity shares of Rs.10/- each to Rs.11,70,76,000/- consisting of 1,17,07,600 equity shares. For the purpose of arriving at shares held by the proposed allottees, the aggregate of existing share capital and share capital arising out of proposed allotment of equity shares through preferential issue has been taken into account as post issue share capital. The details are given below.

No. of shares of Rs.10/- each

(i) Existing Equity share capital	99,87,600
(ii) Equity shares proposed to be allotted	17,20,000
Post issue Equity share capital	<u>1,17,07,600</u>

vi.) **Pricing of the shares:** Pricing of the shares is determined in accordance with the provisions of Chapter XIII of the SEBI (Disclosure and Investor Protection) Guidelines, 2000. Certificate from M/s. Alapati Vadde & Co, Statutory Auditors, will be available for inspection during working hours from 9.30 a.m. to 6.00p.m. on all working days and also at the meeting.

vii.) **Change in control or Composition of the Board:**

There will be no change in the composition of the Board or in the control of the company on account of the proposed preferential allotment.

Your Directors recommend passing of the resolution. None of the Directors of the Company is concerned or interested in the proposed resolution except to the extent of his holding of equity shares and to the extent of his subscribing to equity shares.

Item No. 8

The Company is setting up Carbob-di-oxide (Co₂) plant at the factory premises. Co₂, which emerges as a by-product in the fermentation process will be treated further at the plant to produce commercial grade Co₂.

In this regard the Board of Directors have at their meeting held on 25th January, 2006 approved the agreement with SKVM Agencies, Hyderabad for establishing Co₂ purification and liquification plant at the factory premises. Further, the Board has also approved the appointment of SKVM Agencies as