



Making the right moves



Shaw Wallace & Company Limited

ANNUAL REPORT 2007-2008

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Board of Directors

Dr. Vijay Mallya	-	Chairman
Mr. S D Lalla	-	Managing Director
Mr. S R Gupte	-	Director
Mr. A K R Nedungadi	-	Director
Mr. C L Jain	-	Director
Mr. S G Ruparel	-	Director

Company Secretary

Mr. K. Krishnamoorthy

Auditors

M/s. Lodha & Co.,
Chartered Accountants,
Kolkata.



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Registered Office

Wallace House,
4, Bankshall Street,
Kolkata – 700 001.

Corporate Office

Bank of Baroda Building, 2nd Floor,
3, Walchand Hirachand Marg,
Ballard Estate, Mumbai - 400 038.

Registrar & Transfer Agents:

Kolkata Office:

Intime Spectrum Registry Limited,
59C, Chowringhee Road, 3rd floor,
Kolkata - 700 020.

Mumbai Office:

Intime Spectrum Registry Limited,
C-13, Pannalal Silk Mills Compound,
L B S Marg, Bhandup (W), Mumbai – 400 078.



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SHAW WALLACE & COMPANY LIMITED



Directors' Report

Your Directors have pleasure in presenting herewith their Report and the Statement of Accounts for the Financial Year ended March 31, 2008 together with the Auditors' Report thereon for the said financial year. In compliance with the requirements of Accounting Standard 21 issued by the Institute of Chartered Accountants of India, the consolidated financial statements of your Company are also presented herewith.

FINANCIAL RESULTS

The working of your Company for the year under review resulted in:

(Rs. in Lacs)

	2007- 08	2006 - 07
Net Turnover	19114	13885
Add: Other Income	3315	9330
Total Income	22429	23215
Profit for the year before Depreciation, Interest, Contingency and Taxation.	5919	8985
Less : Depreciation	251	119
Less: Interest	1036	676
Add : Provision for taxation no longer required, written back	1691	-
Add : Contingencies no longer required, written back	1813	3302
Profit before Taxation	8136	11492
Taxation (including Fringe Benefit Tax & deferred tax)	1498	3284
Profit after Taxation	6638	8208
Profit/(Loss) brought forward from previous year	6969	24
Appropriations:		
General Reserve	200	420
Dividend	480	720
Corporate tax on Dividend	82	122
Balance carried to the Balance Sheet	12845	6969
EPS – Basic (Rs.)	13.83	17.10

Dividend

Your Directors have recommended a dividend of Re. 1.00 per share to the equity shareholders of the Company for the financial year ended March 31, 2008, subject to the approval of the shareholders at the ensuing Annual General Meeting.

Operations

Your Company has registered a Turnover of Rs.19114 lacs for the financial year ended March 31, 2008. There has been an increase in Turnover of Rs.5229 lacs compared to the Turnover of Rs.13885 lacs for the previous financial year. The Profit after Tax of your Company during the financial year amounted to Rs.6638 lacs compared to the Profit after Tax of Rs.8208 lacs of the previous financial year.

During the year, your Company continued to focus on premium products while taking a conscious decision to weed out the cheap brands thereby enabling a healthy product mix.

Amalgamation

In terms of a Scheme of Amalgamation ("Scheme"), your Company along with Primo Distributors Private Limited, both subsidiaries of United Spirits Limited, are proposed to be amalgamated with United Spirits Limited with effect from April 1, 2007, being the Appointed Date. While the Hon'ble High Court of Karnataka at Bangalore and the Hon'ble High Court of Judicature at Bombay have sanctioned the Scheme, similar sanction is awaited from the Hon'ble High Court at Calcutta.

Directors

Mr. S.G.Ruparel and Mr. S.R. Gupte, Directors, retire by rotation at this Annual General Meeting and being eligible offer themselves for re-appointment as Directors, liable to retire by rotation.



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Mr. Sammy D Lalla (Mr. Lalla) was appointed as the Managing Director of the Company, without remuneration, for a period of 3 (three) years with effect from June 14, 2005. The Board of Directors, at their Meeting held on April 21, 2008, had re-appointed Mr. Lalla as the Managing Director of the Company, without remuneration, for a further period of one year from June 14, 2008 to June 13, 2009 (both days inclusive), subject to approval of the members at the ensuing Annual General Meeting.

Auditors

M/s. Lodha & Co., Chartered Accountants, who hold office up to the conclusion of this Annual General Meeting, vide their letter dated November 20, 2008, have signified their willingness to be re-appointed as the Statutory Auditors of the Company and have confirmed that their re-appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the Companies Act, 1956. Your Directors recommend their re-appointment at the ensuing Annual General Meeting.

Subsidiaries

Shaw Wallace Financial Services Limited ceased to be a wholly owned subsidiary of your Company on account of its amalgamation with Shaw Wallace Breweries Limited and consequent dissolution.

Shaw Wallace Breweries Limited, Ramanreti Trading & Investment Company Limited and Shaw Wallace Overseas Limited continue to be the Subsidiaries of your Company.

In compliance with the provisions of Section 212 of the Companies Act, 1956, copies of the Balance Sheet as at March 31, 2008, Profit & Loss Account for the year ended on that date and Reports of the Directors and Auditors thereon and other relevant Statements in respect of the aforesaid Subsidiaries of your Company are attached to the Balance Sheet of your Company as on March 31, 2008.

Income Tax

The Company's application for Settlement, for the Assessment Years 2004 – 2005 to 2006 – 2007, has been disposed by the Hon'ble Settlement Commission. The refunds receivable by the Company for the Assessment Years 1996-97 to 2003-04 are pending and the Company has sought adjustment of the demand arising pursuant to the Commission's order, with these refunds.

Your Directors have taken necessary steps including resolving the issues with the Revenue Authorities in a comprehensive manner to protect the interest of the Company as well as its stakeholders.

Public Deposits

The Company has not accepted any deposits from public during the year under review. All matured deposits in respect of which duly discharged receipts were surrendered to the Company, have already been paid in full.

Shifting of Registered Office

Your Directors have decided to withdraw the Application for shifting of Registered Office of the Company from Kolkata to Mumbai filed before the Company Law Board, Eastern Region Bench, Kolkata, in view of the impending amalgamation of the Company with United Spirits Limited. Necessary steps will be taken in this regard in due course.

Dematerialisation

As mentioned in the earlier Annual Reports, since July 24, 2000, the equity shares of the Company are being compulsorily traded in dematerialized form. It is advisable for all shareholders to have their physical shareholding converted into demat form and avail the benefits of holding and dealing in shares in electronic form.

As on November 28, 2008, 96.68% of the total paid up equity shares of the Company was held by shareholders in electronic form.

Annual General Meeting

The Company has obtained from the Registrar of Companies, West Bengal, Kolkata, extension of time upto December 31, 2008 for holding the Annual General Meeting for the financial year ended March 31, 2008.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings & Outgo

(a) Conservation of Energy and Technology Absorption

During the Financial Year 2007-08, a 175 KVA back pressure steam Turbine was installed at the sole Unit of the Company Andhra Winery & Distillery at Hyderabad, to generate own electricity to the tune of 40 % of the total electricity requirement. The Cooling

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Tower was also revamped, which helped your Company to increase the re-distillation plant output, Extra Neutral Alcohol recovery from Rectified Spirit and distillation efficiency.

Your Company has constantly upgraded the equipment in the bottling section like installation of an Automatic labelling machine for bottling of White Mischief Vodka with self adhesive labels on auto line, Air Knife Dryers on all the bottling lines before labelling, in order to improve the productivity & quality of labelling. Material handling system has been upgraded in the unit by introducing Fork lifts, hand pallet trolleys & wooded pallets for movement & storage of Finished Goods. Also replaced 2 Nos of 50 KL Mild Steel Storage Tanks with new Stainless Steel Storage Tanks of same capacity.

(b) Foreign Exchange Earnings and Outgo

(Rs. in Lacs)

Sl. No	Particulars	2007-08	2006-07
1.	Exports & Foreign Exchange earnings	Nil	Nil
2.	Imports / Expenditure in Foreign Currency	2278.77	27.90

(c) Research and Development

Your Company has not incurred any expenditure on Research and Development during the year under review.

Particulars of Employees

Particulars of employees in terms of the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 are attached and form an integral part of this Report.

Directors' Responsibility Statement

In terms of the amended Section 217(2AA) of the Companies Act, 1956, your Directors state as under, in respect of the Audited Accounts of the Company for the financial year ended March 31, 2008:

- That in the preparation of the Annual Accounts, the applicable Accounting Standards have been followed and proper explanations relating to material departures, where required, have been dealt in the respective Notes on Accounts;
- That the Directors have selected such Accounting Policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that year;
- That the Directors 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;
- That the Directors have prepared the Annual Accounts on a going concern basis.

Human Resources

The Industrial Relations scenario at the manufacturing unit remained peaceful with no loss of production.

Corporate Governance

The Corporate Governance Report along with a Certificate of Compliance received from the Statutory Auditors of your Company is annexed hereto and forms part of this Annual Report.

Necessary requirements of obtaining Certification/ Declaration in terms of Clause 49 of the Listing Agreements with the Stock Exchanges have also been complied with.

Management Discussion & Analysis

A Report on Management Discussion & Analysis is annexed to the Directors' Report and forms part of this Annual Report.

Acknowledgement

Your Directors wish to acknowledge the co-operation, understanding and support extended by the Central and State Governments, Local Authorities, Employees, Shareholders, Bankers, Depositors, Creditors, Customers, Distributors and other Stakeholders.

For and on behalf of the Board

Place : Bangalore
Date : November 29, 2008

S D Lalla
Managing Director

C L Jain
Director

Statement of Particulars of Employees as required under Section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975



Sl. No.	Name	Qualification	Designation / Nature of Duties	Remuneration	Age in Years	Years of Experience	Date of Commencement	Previous Employment
1.	<u>Employed throughout the year</u> K. Krishnamoorthy	B.Com (H), LL.B, ACS, Inter ICWA	Asst. Vice President & Company Secretary	Rs. 2,702,176/-	57	37	03.09.1993	Ceeta Industries Limited, General Manager (Corp. Finance) & Company Secretary
2.	Lalit Gupta	B.Sc, LLB, DLL	Vice President-Legal	Rs.3,643,448/-	48	25	01.06.1998	Shriram Foods & Fertilizers Limited – Joint Manager-Legal
3.	Rajiv Suri	B.Com(H), MBA, ACA	Vice President-Finance	Rs.3,625,328/-	51	30	16.05.1994	Reliance Industries Limited Senior Manager-Marketing Finance

Notes :

1. No employee is on contract employment. Other terms and conditions are as per Service Rules of the Company from time to time.
2. None of the above mentioned employees is related to any Director of the Company.
3. Remuneration as shown above includes salary, house rent allowances, Company's contribution to Provident Fund and Superannuation Fund, value of residential accommodation, bonus, medical and other facilities.

For and on behalf of the Board

Place : Bangalore

Date : November 29, 2008

S D Lalla

Managing Director

C L Jain

Director

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Management Discussion And Analysis

A. INDUSTRY OVERVIEW:

The Indian Made Foreign Liquor (IMFL) industry is a sub-sect of the alcoholic beverages industry which comprises in addition to IMFL, Beer, Wine, Bottled In Origin (BIO) alcoholic beverages & Country Liquor. Your Company is the lead player in the IMFL space with a commanding presence in this 190 million case industry which is growing at a CAGR of 14%. Additionally, subsidiaries of your Company operate in the BIO space in Spirits as also in Wines. In fiscal 2007-08, the IMFL industry grew 20%, albeit primarily in the cheaper price segment (at 14%); a large part of this growth is due to the suspension of activity on the Country Liquor front in Karnataka, hitherto a large consumer of the product. The low-priced segment of the industry added on nearly 21 million cases in the current fiscal compared to about 11 million in the upper segment, referred to in industry parlance as 'First Line' products.

Vodka with a 28% growth led a 25% growth in White Spirits. However, the salience of White Spirits (Vodka, Gin & White Rum) to the overall industry continues to be small – under 5%. India continues to be a 'browns' country contrary to global trends, with Whisky at 56%, Rum at 23% and Brandy at 16% - aggregating 95% of the overall pie.

The outlook for the industry continues to be buoyant fuelled by the large and growing number of youth coming into the legal drinking age category. While countries like the USA & China are well past the 'demographic' window, India is comparatively a 'young' country with over half the 1.2 billion population under 25 years of age. This offers considerable potential for buoyant growth in the future. The prohibition of country liquor will only boost growth in other sectors, notably IMFL.

B. REGULATORY ENVIRONMENT:

Regulation and Taxation of the alcoholic beverages industry is a matter placed by the Constitution of India within the jurisdiction of the State Governments and not the Federal Government. While the Federal Government is authorized to license greenfield manufacturing units and levy customs duties on imports, every other activity – relating to production and sale as also revenue-linked activities like taxation are controlled by the State Governments. With over 28 different markets that an organization like your Company operates in, it is a highly challenging and complex network of Regulations and Procedures that it has to contend with; compounding the problem is the fact that these undergo changes ever so often.

C. RISKS & CONCERNS, OPPORTUNITIES & THREATS:

Favourable demographics, increasing prosperity and disposable income coupled with attitudinal changes towards consumption indicate strong and sustained demand for many years ahead. The "feel good" factor among young Indians translates into steady up-trading. The Company has witnessed double digits growth in the 1st line range of products. This trend is expected to continue. There is a clearly visible, though slow process of deregulation taking place and over time it is expected that these will result in increased retail penetration as also elimination of several infructuous regulations that add to the cost of doing business.

The Alcoholic Beverages industry is the favourite whipping boy of the Governments, both Central & State, when they need to balance their budgets. As a result, the industry suffers from the twin impact of over-regulation and excessive taxation. Nearly two-third of the street price of a bottle of alcohol goes to the State and local Governments towards taxes and duties. The unreasonable levels of taxation show no sign of abatement and continue to impede profitability despite continuing growth in market demand.

The Government of India, in keeping with its commitment to the WTO, has been consistently reducing the import tariff on Bottled in Origin (BIO) spirits. During the fiscal year additional Customs Duty on BIO products was removed by the Central Government. The State Governments however, offer some measure of protection to the domestic industry through the levy of countervailing duties on BIO products.

Mention has been made earlier that prices of the Company's key inputs – molasses/spirit have seen an upturn, particularly in the last quarter of fiscal 2008, propelled by policy shifts in some states. The steep rise in the value of the rupee vis-à-vis the US dollar coupled with the increased price of fuel impacted prices of both spirit and glass containers. Through a combination of strategic buying and additional recoveries in the market place, the Company was able to ensure an increase in EBIDTA margin to 21% despite the rise in the prices of inputs. Reduced acreage under sugarcane cultivation and Government policies based on electoral, as compared to economic, rationale are expected to harden prices of spirit in the medium term.

D. PRODUCT-WISE PERFORMANCE:

Antiquity, in the super premium category, is a very dominant player in the market which registered a sale of approximately 2.38 lac cases compared to approximately 1.74 lac cases last year.



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Royal Challenge, a Millionaire and a flag ship brand is a leader in its segment with a dominant market share, selling over 11.71 lac cases compared to 11.16 lac cases registered in the previous year and is considered India's status symbol in alcoholic beverages.

DSP Black, Director's Special and Old Tavern are other Millionaire brands in the Regular Whisky segment, having registered sale of 14.75 lac cases, 37.14 lac cases and 23.14 lac cases respectively.

In the Brandy segment, **John Exshaw** brand sells over 14.74 lac cases against 12.25 lac cases registered last year.

In Rum, **Old Adventurer** brand sells over 11.27 lac cases a year. In Vodka, **White Mischief** brand is the fastest growing Vodka with a registered sales of 12.87 lac cases compared to 11.53 lac cases recorded in the previous year.

E. OUTLOOK:

With over half the volume sold to monopoly Government buying agencies, price increases in the Indian market are not easy to come by. During the year under review, the monopoly buying agency in Tamil Nadu granted a not unreasonable price increase across the board thereby shoring up the viability of the industry considerably. Another large market, Andhra Pradesh, on the other hand continues to deny the industry even reasonable inflation-linked increases, while at the same time boosting its own recoveries from this industry. Sustained efforts to convince the buying agencies to agree to a more rational policy however continue. While the lack of such price increases to even cover inflation has a bearing on the Company's profitability, your Company has judiciously used business strategy and cost control measures to improve profitability.

F. INTERNAL CONTROL SYSTEM:

The company has a robust system of internal control which has been incorporated in the enterprise-wise SAP system.

Additional checks of the Company's systems are carried out by the independent auditors as also by the Company's own Operations Review team and by the UB Group's Internal Audit Department.

G. MATERIAL DEVELOPMENTS IN HUMAN RELATIONS AND INDUSTRIAL RELATIONS:

The Industrial Relations scenario once again remind peaceful with no loss of productivity due to labour related issues. Performance linked settlements signed in previous year(s) are paying positive dividends in terms of higher productivity and reduced cost per case. Though the Company has 216 employees (including workers) in its payroll as on March 31, 2008, it draws the required human resources wherever necessary, from the UB Group of which your Company is a part.

H. FORWARD LOOKING STATEMENTS:

This Report contains forward-looking statements that involve risks and uncertainties. Your Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from these expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. This Report should be read in conjunction with the financial statements included herein and the notes thereto.

For and on behalf of the Board

Place : Bangalore
Date : November 29, 2008

S D Lalla
Managing Director

C L Jain
Director