

# TILAKNAGAR INDUSTRIES LTD.

*Strive to Succeed*



ANNUAL REPORT 2006 - 2007



# TILAKNAGAR INDUSTRIES LIMITED



## 2006-07 ANNUAL REPORT

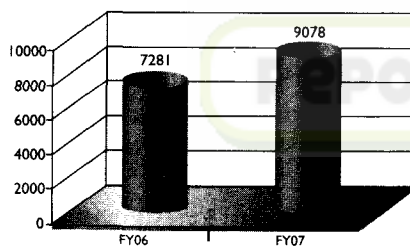
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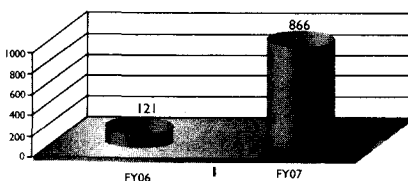
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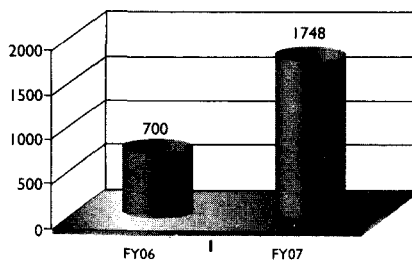
NET SALES (Rs. Lacs)



PROFIT AFTER TAX (Rs. Lacs)



PBDITA (Rs. Lacs)



## Dear Fellow Stakeholders

We commenced the fiscal year 2006-07 with a commitment to deliver performance, both in terms of financials and in positioning the Company to facilitate higher growth in the future. It is with a sense of great pride that I inform you that these commitments have been fulfilled.

Today, we have a higher growth, driven by good brand recall and higher visibility.

Our company currently has presence in Eastern & Western India whereas in Southern India it has a formidable presence on account of earning the respect of customers and distributors which is a very large brandy market.

This is highlighted by the fact that our brand Mansion House Brandy has crossed 1 million cases in sales this year, and that too as the most premium brandy in terms of price and quality. This is nothing but a testament of our focused efforts over the last few years.

## The year that was

Our fulfillment of our commitment to deliver performance is evident in the numbers we have reported as the net sales stood at Rs. 9078 lacs, a jump of 25% over the last year. The Profit before Depreciation, Interest and Tax was Rs. 1748 lacs. The net profits has increased to Rs. 866 lacs.

Our margins at the net level, in line with this improved performance, stood at 9.5 % for the year.

The year 2006-07 has seen Tilaknagar's brandy flavours accounting for as much as 75 % of the total sales. Sales were predominantly from the Southern India and accounted for as much as 80% of our total sales volume.

I would also like to highlight the fact that our Company has been successful in rewarding the shareholders, which is evident by the Return on Net Worth at 44.5% while the Earnings Per Share stood at Rs. 15.13.



## Environmental Responsibilities

Along with managing our performance, we are highly conscious of the hazards posed to the environment by rapid industrialization. It has been our endeavour to deploy the best available modern technologies to minimize any adverse impact on the environment.

It is towards this end, that during the year, the Company has installed a Reverse Osmosis plant. This plant enables the treatment of distillery effluent (which is released as a result of the manufacturing processes). The capacity of the plant is 250m<sup>3</sup>, of which 50% of the input can be returned as reusable water, which in turn, is recycled into the manufacturing process.

A Bio-gas Digester is also being installed by our Company. The said facility is a 250m<sup>3</sup> bio-gas digester. The digester is meant to treat, anaerobically, the spent wash released from the distillery with the end process being the release of methane rich bio-gas.

The Methane rich bio-gas from the bio-gas digesters will then be scrubbed to remove traces of hydrogen sulphide gas. The purified gas thus obtained will then be combusted in bio-gas engines to produce almost 320kW of power in the first phase. These bio-gas engines are to be supplied by a renowned German engine supplier.

## The Road Ahead

Having created a renewed foothold in the industry, we now look forward to expanding the scale of our operations and reach. The company has already established 12 franchise-bottling arrangements across the country to enhance efficiency and coverage of service in the all important local markets.

On the domestic front, there can be no mistaking the fact that India is predominantly a whisky market with the flavour accounting for over 60% of the Indian Made Foreign Liquor (IMFL) segment.

Clearly, opportunities in this segment are abundant and launching new brands in this segment backed by innovative marketing strategies, extensive distribution, a trained and dedicated sales force and sound manufacturing backup would be the order of the day.

That apart, we are planning to foray into the Northern markets by strengthening our marketing and sales efforts backed by the launch of new whiskies across various price segments. Reinforcing our strengths in our strongholds through sustained marketing efforts and regional promotions is an integrated and ongoing part of our strategic initiatives.

At present, our products like Senate Whisky & Classic Whisky are being exported to Western Africa, Middle East, Far East & the Caribbean and we intend expanding our geographical footprints for which concrete steps have been taken.

The Company has acquired in Karnataka a unit which has a molasses based distillery license and bottling plant, to strengthen its foothold there.

The Company is also looking at alliances or collaborations with a number of players from the international arena to address key opportunities that present themselves in the Indian market. We are committed to delivering a harvest of successful growing brands and continued financial performance growth.

I would like to raise a toast to all our valued partners in distribution, marketing, and production, our consumers and the employees who have worked towards the shared pursuit of creating wealth and enhancing shareholder's value. Finally, I would like to thank my wife and Executive Director Mrs. Shivani Dahanukar for her continued support and dedication. A word of thanks for Mr. Anand P. Nair with whom we have shared innumerable brainstorming sessions and who is helping me push my limits. I also thank my Gurus for their continued guidance and the immense love and affection they shower on me everyday. Their blessings are the source of my inspiration and strength.

I thus sign off, assuring shareholders of our best efforts in the times ahead and seeking their much valued continued support.

**Chairman and Managing Director**

**Amit Dahanukar**

## STRENGTH IN NUMBERS

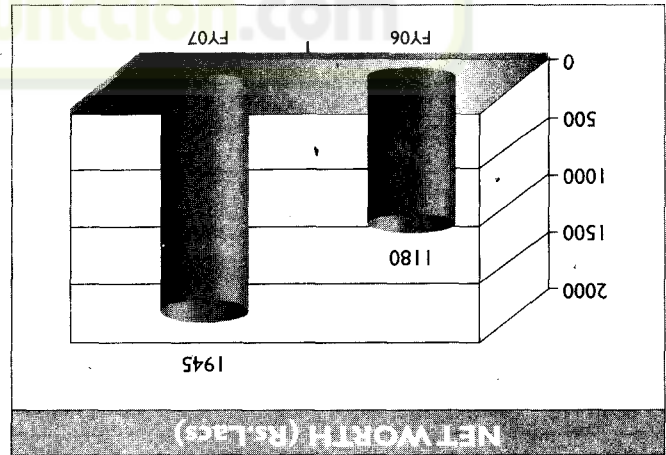
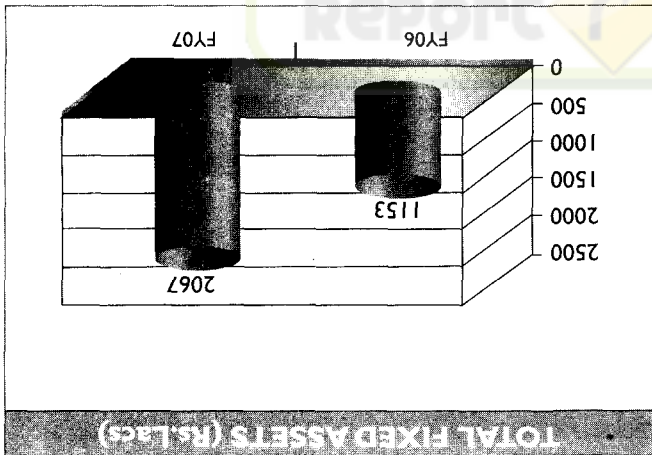
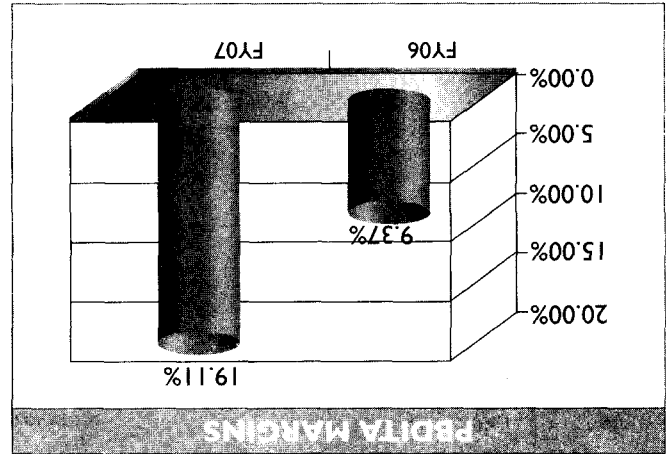
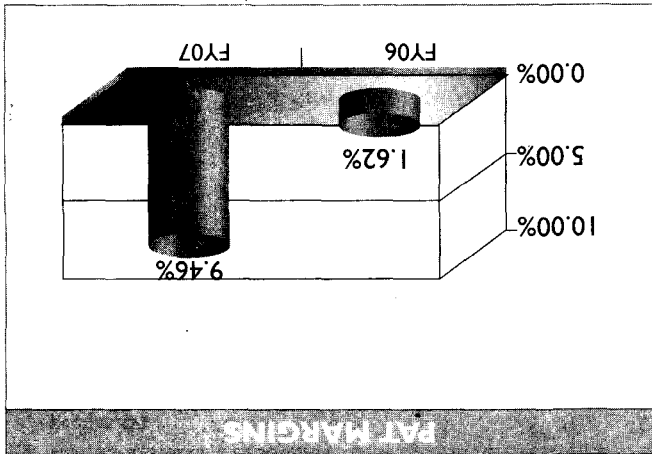
Rs. lacs

Consolidated Profit & Loss Account	FY06	FY07
<b>Income</b>		
Sales	9645	11211
Less : Excise Duty	2364	2133
Net Sales	7281	9078
Other Income	185	73
<b>Total Income</b>	<b>7466</b>	<b>9151</b>
<b>Expenditure</b>		
(Increase) / Decrease in stocks	44	-11
Cost of materials	3198	3195
Employees' remuneration and benefits	447	670
Manufacturing and other expenses	3077	3548
<b>Total Expenditure</b>	<b>6766</b>	<b>7402</b>
<b>PBDITA</b>	<b>700</b>	<b>1748</b>
Depreciation	75	103
Interest	377	343
<b>PBT</b>	<b>248</b>	<b>1302</b>
Tax	128	436
<b>Profit After Tax</b>	<b>121</b>	<b>866</b>

Rs. lacs

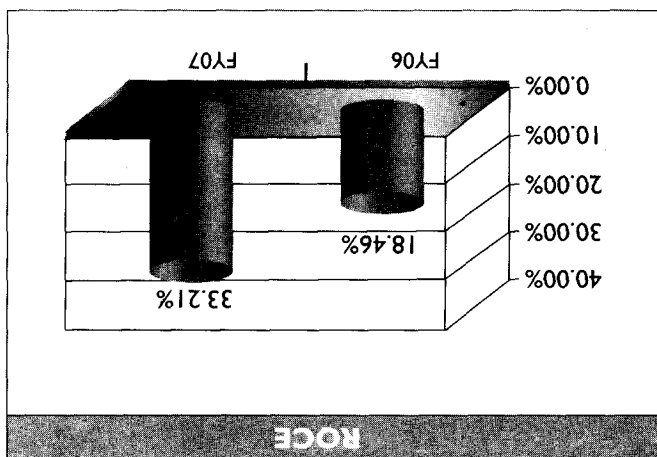
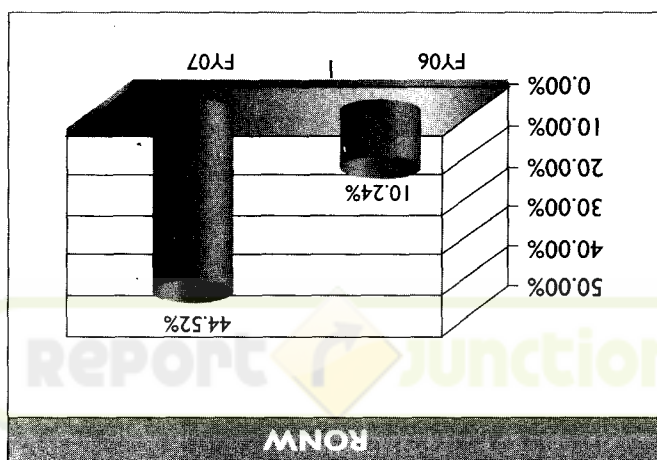
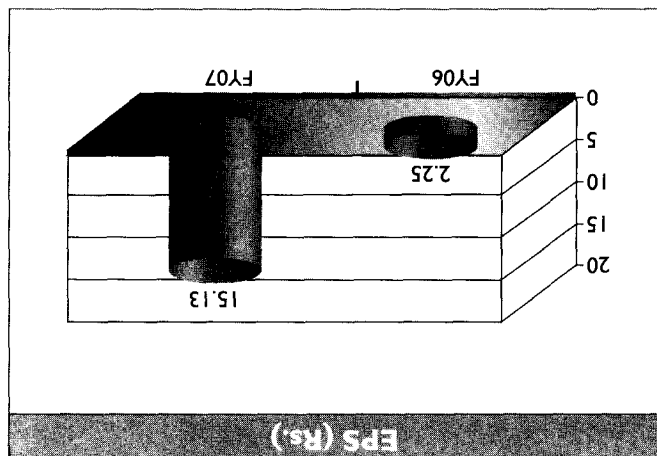
Consolidated Balance Sheet	FY06	FY07
<b>Sources Of Funds</b>		
Equity Share Capital	573	573
Reserves and Surplus	607	1373
<b>Total Shareholder's Funds</b>	<b>1180</b>	<b>1946</b>
<b>Loans</b>		
Secured Loans	1840	2998
Unsecured Loans	502	33
<b>Deferred Tax Liability</b>	<b>270</b>	<b>289</b>
<b>Total Liabilities</b>	<b>3791</b>	<b>5215</b>
<b>Application of Funds</b>		
Goodwill	38	38
Gross Block	1893	2907
Less: Depreciation	761	861
Less: Impairment of Assets	17	17
<b>Net Block</b>	<b>1115</b>	<b>2029</b>
<b>Total Fixed Assets</b>	<b>1153</b>	<b>2067</b>
Investments	2	509
Gross Current Assets	4318	5566
Less: Current Liabilities & Provisions	1740	2905
<b>Net Current Assets</b>	<b>2578</b>	<b>2661</b>
Miscellaneous Expenditure	58	29
<b>Total Assets</b>	<b>3791</b>	<b>5265</b>
<b>Net Worth</b>	<b>1180</b>	<b>1945</b>

Key Ratios	FY06	FY07
Raw Materials / Net Sales	43.92%	35.20%
PBDITA Margins	9.37%	19.11%
Interest / Total Income	5.04%	3.75%
PAT Margins	1.62%	9.46%
Return on Capital Employed (ROCE)	18.46%	33.21%
Return on Net Worth (RONW)	10.24%	44.52%
Debt Equity Ratio (times)	1.99	1.56
Earnings per Share (EPS Rs.)	2.25	15.13

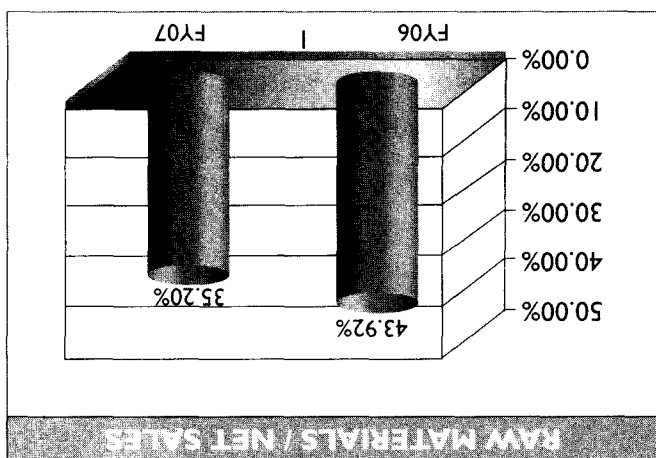
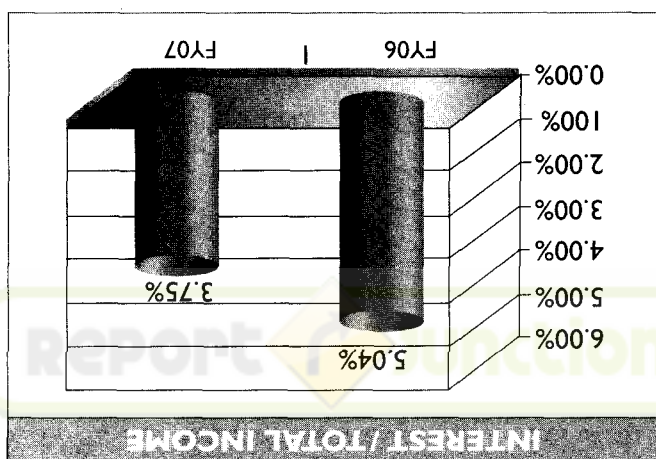
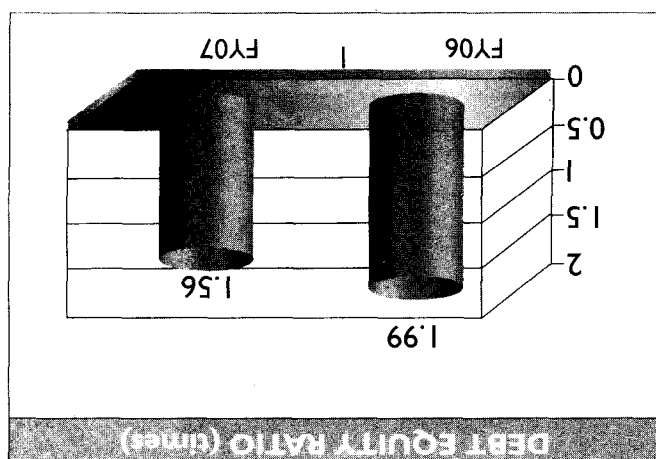


## FINANCIAL HIGHLIGHTS





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## INDUSTRY POTENTIAL

Mythology has it that celestial celebrations were incomplete without what is popularly referred to in northern India today as 'somras'.

In the backdrop of a burgeoning economy supported by favourable demographics, there is a discernible trend towards greater acceptance of liquor as a form of beverage rather than a social taboo. In the last decade, the momentum has picked up and the domestic liquor industry is on a roll, with a northbound journey having commenced.

In India, the Indian Made Foreign Liquor (IMFL) market is a key component of the liquor industry and comprises Whisky, Rum, Brandy, Gin and Vodka. Its main consumers are the middle and the high income groups, primarily in the urban areas. IMFL accounts for nearly half the Indian spirits market. Beer dominates 90% of the non-IMFL market, with wine and imported liquor accounting for the rest. While traditionally successful categories like whisky, gin and beer are growing at a rate of over 10%, vodka and wine are growing even faster, touching the 25% mark.

The paradigm shift in this industry can be attributed to the following reasons :

### ISING DISPOSABLE INCOMES

The Indian economy which was long seen as a potent sleeping giant has now woken up, and is looming large. The Indian GDP growth rate is now within striking range of a double digit figure resulting in higher disposable incomes with its populace. The emergence of a rising affluent middle class has been driving demand for this sector.

### DEMOGRAPHIC IMPETUS

More than half of India's 1.1 billion population is below the age of 25 years. Historically, this has been the most potent target group for alcohol sellers. Against the backdrop of a burgeoning economy, the income levels of people are also on an uptrend. These factors have greatly contributed to the growth of the liquor industry in India. Moreover, the country has witnessed an explosion in the media space resulting in greater global exposure to today's youth, who are now accustomed to a global urban lifestyle.

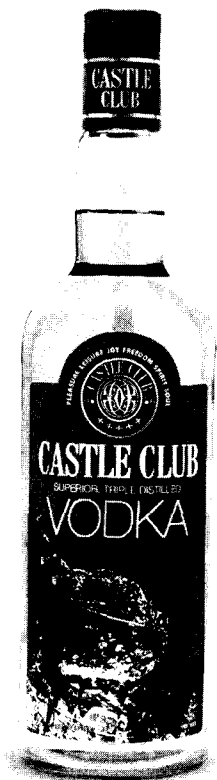
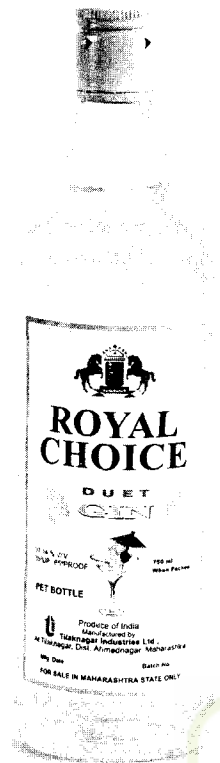
### CHANGING MINDSET

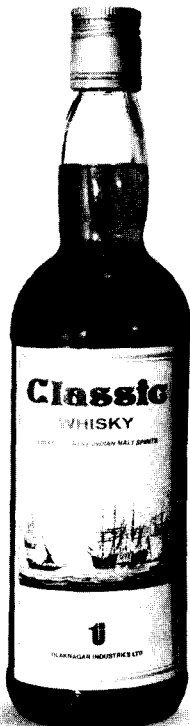
With the fast changing lifestyle, drinking in moderation is no longer a social taboo or looked down upon as disgraceful. The number of women consuming alcohol has also increased. This has resulted into the development of a new consumer market.

There has been a remarkable shift in work ethics; that is striking deals over drinks is the order of the day as against the yesteryear tradition of closed door board room meetings. This has made the liquor industry and its offerings an important part of the corporate world.

### REGULATORY REFORMS

The ban on country liquor in certain states which now encompasses more than half of the aggregate Indian liquor market has been a boon for the organized segment. The increased awareness amongst people, and the easy availability of branded liquor shifted the customers away from the unorganized segment.





## IMFL MARKET

Whisky dominates the Indian IMFL segment with around 60% market share. Recently, India has emerged as the world's largest whisky market, selling 60 million cases, as per the Scotch Whisky Association (SWA). It has exceeded even the US market in terms of volumes.

Indian whiskies comprised 98% of sales for the India market. Besides the domestic market, Indian whiskies sell mostly in the Middle East and in some other Asian markets, but is yet to make inroads into the mature markets in the West.

The whisky market, which has grown at a rate of 8-10%, making it one of the fastest growing markets in the world, is classified into Scotch, Super Premium, Premium, Prestige/Deluxe, Regular, Medium and Cheap segment. Regular whisky is the single largest segment in the whisky market and comprises approximately 40% of the Indian whisky market.

Prestige/Deluxe segment have also recorded impressive growth over the past 3 years and it is expected to remain strong in future.

Rum comprises approximately 5% of the aggregate spirits market and 18% of the IMFL market. It is the fastest growing segment in the IMFL market after Vodka, on account of increased demand from the Southern states of India.

Brandy comprises around 6% of the aggregate spirits market and 15-18 % of the IMFL market. This segment is witnessing slower growth rates as compared to other segments on account of a shift in preferences towards other products. It is also, more often than not, perceived as having medicinal properties and is consumed in that respect.

Vodka comprises 0.3% of the aggregate spirits market and 1% of the IMFL market. It is amongst the fastest growing categories in the IMFL segment on account of increasing acceptance by the youth.

## GOVERNMENT MARKETS

**Wholesaler** - State Governments purchase directly from the company

**Retailer** - These shops are directly owned by government or private players.

## AUCTION MARKETS

The state is bifurcated into smaller areas. The government, at regular intervals (typically annually), auctions the right to distribute and retail liquor in these areas during a specified period, to private parties. This auction is based on the minimum guaranteed tariff payment to the government over the specified period.

**Wholesalers / Retailers** - They are parties who win this auction. They negotiate with the manufacturers for pricing

## OPEN MARKETS

Government intervention absent

**Chain :-** The manufacturers sell liquor to the wholesaler/distributor who in turn sells it to the retail outlets.

**Pricing :-** is free and is determined by market forces. The government issues wholesale/ retail licenses for a fee.