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TILAKNAGAR INDUSTRIES LTD. (TI)

Annual Report 2007 - 08



TILAKNAGAR INDUSTRIES LTD. (TI)

www.tilind.com

High On Growth

It's obvious why we, at Tilaknagar Industries Ltd. (TI) are on a high.

India's high economic growth pattern, sustained over the past decade has triggered a rise in purchasing power for a significant number of the Indian populace. Like other consumer products, the alcoholic beverages industry is also witnessing a surge in demand.

4.21 million

That's the number of cases we sold in 2007-08, compared with 1.31 million cases in 2006-07.

221 per cent

That's how much our sales volumes rose by.

15 states

That's where we are present today.

87 per cent

That's the growth in our post tax profits.

TI's own extraordinary momentum, seen in the perspective of this positive industry scenario is reflected in our robust performance, both qualitatively and quantitatively.

Our vision is now broader. Our goals are bigger. And our resolve, stronger. To make newer highs. To realise newer growth. To always be what we are meant to be.

HIGH ON GROWTH.

Introduction to Tilaknagar Industries Ltd. (TI)



RICH HISTORY. ROBUST FOUNDATION.

TI was founded in the year 1933 by the reputed Dahanukar family of Maharashtra. At that time, the Company was engaged in the process of manufacturing sugar. It was an era where essential commodities were highly priced, due to the lack of indigenous manufacturing facilities. TI was inspired by the personality of the revered freedom fighter Lokmanya Bal Gangadhar Tilak, after whom the Company is named Tilaknagar Industries Ltd (TI). TI was one of Maharashtra's first private sugar factory and served the nation successfully for nearly five decades. However, a change in the government's stance on essential commodities in the 1980s effected a transition into the manufacture of alcoholic beverages in the early eighties. Today, TI is an established player in the alcoholic beverages industry in India.

This diversification into alcoholic beverages was a natural downstream alternative for TI. The key raw material for alcohol is molasses – a sugar by-product. TI benefited from a far-sighted assessment of supply gaps in the industry and addressed a rising market opportunity. Today, TI is a name to reckon with in the Indian alcoholic beverages industry with a strong portfolio of brands and a loyal consumer base.

THE TI TRANSITION

Manufacturing Sugar ► Manufacturing Industrial Alcohol ► Manufacturing & Selling Potable ENA to Industry Players ► Own Aloholic Beverage Brands

TI – ADDRESSING THE MARKET SPECTRUM

TI is today engaged in the manufacturing, marketing and selling of Indian Made Foreign Liquor (IMFL). It addresses the requirements of the entire market through a presence in the entire product range that constitutes the Indian Made Foreign Liquor (IMFL) segment.





Know TI better

WHERE WE MANUFACTURE

TI's primary production facility is located in the sugar rich belt of Shirampur, Maharashtra. This plant has a capacity of 50,000 litres of alcohol per day.

In addition, TI also has two wholly-owned subsidiaries: Surya Organic Chemicals Pvt. Ltd. in the State of Karnataka and Prag Distillery Pvt. Ltd. in the State of Andhra Pradesh where production is expected to commence shortly. TI has also taken many other domestic facilities on lease and has exclusive tie-up arrangements for bottling its products in various other states. At these locations, input material like blends, is provided by TI in strict adherence to quality norms. The working capital for these units is also provided by us. TI's own master-blenders who are stationed at the various bottling units oversee the blending and bottling operations ensuring product consistency and quality compliance.

WHAT WE MANUFACTURE

TI manufactures, markets and sells a wide variety of alcoholic beverages. We have a vast bouquet of products that are offered at various price points catering to requirements across segments and consumer classes.

WHISKY

Senate Royale
Mansion House
SHOT
Classic
Royal Choice
Hottt Silk

BRANDY

Courrier Napoleon
Mansion House

GIN

Royal Choice Duet Gin
Savoy Club - Dry Gin

RUM

Savoy Club
Royal Choice
Madira

VODKA

Classic
Castle Club

WHERE WE SELL

Retail

TI has a very strong presence in the Indian market, reaching out to 15 states through a well knit sales and distribution network. Until recently a major portion of our revenues was derived from Southern India, i.e. the states of Karnataka, Andhra Pradesh, Kerala and Pondicherry. Recent efforts in extending the sales network into other parts of the country are also proving fruitful.

Institutional

Government Co-operations	Andhra Pradesh, Kerala, Orissa, Karnataka, Delhi and Chhattisgarh
Distributors	Maharashtra, Goa, Daman, Silvassa, Pondicherry, Mahe, Karaikal, Yanam, West Bengal, Sikkim, Assam, Meghalaya
Defence	Canteen Stores Department, Border Security Force and Central Reserve Police Force

Export

TI has a strong export presence in major global markets.

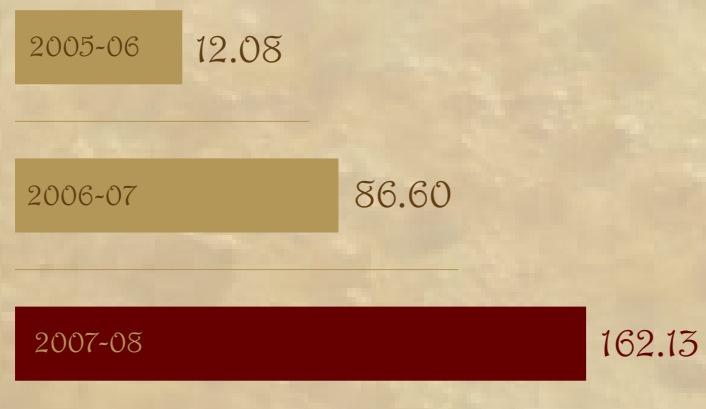


Highlights 2007-08

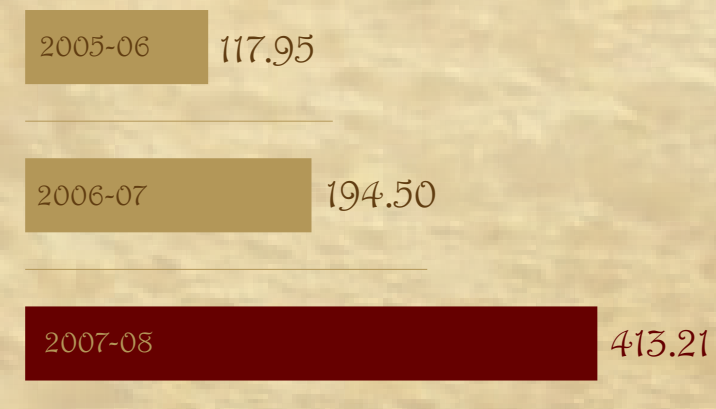
Net Sales (Rs. in million)



Profit after Tax (Rs. in million)



Net Worth (Rs. in million)



Total Fixed Assets (Rs. in million)



EPS (Rs.)



TI Brand Showcase



SENATE - Whisky
Unique blend of finest scotch malts and Indian neutral spirits.



SENATE ROYALE - Whisky
Unique blend of finest scotch malts from Spey and Highland regions and finest Indian spirits.



MANSION HOUSE - Whisky
A unique blend perfected from Indian malts and select scotch whisky.



SHOT - Whisky
A blend of barley matured into drink with notable flavor and smooth taste.



CLASSIC - Whisky
A scotch blend made with finest alcohol.



ROYAL CHOICE - Whisky
A blend of first generation of barley matured into a drink with notable flavour and smooth taste.



MANSION HOUSE - Brandy
A blend of finest quality alcohol produced and blended with matured grape spirit.



COURRIER NAPOLEON - Brandy
A blend made from selected grapes distilled in Cognac pot stills of France.



SAVOY CLUB - Dry Gin
A blend of natural flavored gin Distilled with herbs for pleasant taste.



ROYAL CHOICE - Duet Gin
A blend of natural flavoured gin Distilled with herbs for pleasant taste.



CLASSIC - Vodka
A blend of finest triple distilled alcohol with natural ingredients.



HOTTT SILK - Whisky
A refined peat flavored blend of high quality ENA matured into a drink with notable flavor and smooth taste.



CASTLE CLUB - Whisky
A unique blend perfected from Indian malts and select scotch whisky.



SAVOY CLUB - Rum
Full -bodies and dark blended to perfection and matured in old oak casks.



ROYAL CHOICE - Rum
A blend made of first generation sugarcane juice spirit and matured to a product with notable flavor and smooth taste.



MADIRA - Rum
A blend made of first generation sugarcane juice spirit and matured to a product with notable flavour and smooth taste.





Chairman's Message

Dear Members,

We are a happy Company. In more ways than one.

Our products are partners in happiness. We are where celebration, success, joy, family, mirth, laughter and enjoyment are.

We are also a happy Company because we have performed well. In what is a landmark year in our long and tumultuous history, we have reported the best ever financial results and are poised to continue this momentum into the future.

What prompted this performance in 2007-08?

What enabled us to achieve record increases in off-takes and resultant profits?

What prompted the initiation of a number of debottlenecking measures?

What is the rationale behind the impetus in widening the product profile?

The answer in simple terms: **Getting back to the basics.**

The process was initiated around January 2006, when we set out concrete goals and targets for ourselves. The most important aspect was to professionalise management and marry accountability with responsibility in order that the business be conducted by experts with tangible targets and rewards. We then, had to eliminate the inefficiencies from our manufacturing processes in order that existing capacities be optimised. Once that was done, we tied up regional manufacturing / bottling facilities in order to cater to state level demands. Going hand in hand with capacity augmentation was an impetus on marketing and enhancing the recall value of our brands. This was achieved, through a diversification of the product portfolio and a concerted effort on brand building.

The results, as you will see across the report are encouraging. The question, however, remains – **where do we go from here?**

India's robust economic growth has led to a rise in per-capita spending across most product categories, alcoholic beverages included. Along with this, a significant number of people are being introduced into the consuming class, thereby growing the target group. The speed of this growth and the extent of it's impact has caught many industries unawares and in a lot of cases, capacities are being enhanced rapidly, to catch up with demand.

At TI, we have undertaken several measures to realise the benefits from this changing scenario. We have put in place a plan to expand our ENA manufacturing capacity while continuing to consolidate our position in the markets we serve and the products we have.

The alcohol industry is no exception. It is in the midst of significant structural changes as a result of growing consumption. Regulatory restrictions are being eased. Several states have moved away from auctioning distribution rights to a state-controlled distribution and/or to a free market. It has improved product availability and greater profits for the players.

At TI, we have undertaken several measures to realise the benefits from this changing scenario. We have put in place a plan to expand our ENA manufacturing capacity while continuing to consolidate our position in the markets we serve and the products we have. Our brands are competing effectively in a market which is dominated by a few large players.

As we grow in size, our responsibility towards sustainable initiatives also increases. We are therefore, building a business that is not just financially viable, but also environmentally sound and socially responsible. We are conscious of the impact that our products and processes may have on the environment and thus are investing in contemporary equipment to minimise any harmful effluent or emissions. We actively promote responsible consumption of our products and are working hand in hand with the authorities towards voluntary measures such as rehabilitation of chronic alcoholics.

I am confident that each of these measures outlined above, will collectively contribute towards making TI one of the largest players, in India. The next phase of this growth will be even more challenging because of the increasing competitiveness in the market.

For now though, all of us at TI are high on growth. We invite you to be a part of the celebrations.

Warm regards,

AMIT DAHANUKAR
Chairman and Managing Director



~ Being High on Growth is about ~
Having a mature strategy

Growth is not a flash in the pan. It is a long-term, consistent and steady journey towards superior value creation for all those who are directly or indirectly associated with it. A well thought out, mature strategy is the key to achieving.

Since its founding in 1933, TI has steadily nurtured its appetite for growth. The year 2007-08 marked a milestone in the demonstrated benefits of our strategy.

We are engaging the market with new ideas, exploring and finding better ways to work. We are exploiting every opportunity with greater vigour and much greater efficiency, resulting in significant shareholder value accrual. This is as much by way of major strategic initiatives as the many small tactical steps adding up to something big.

We are widening our franchise in the larger market segments – our core markets – through our proven strategy of delivering higher quality at lower price points. At the same time the TI brand mix is being steadily upgraded to sustain global standards as we make ever deeper inroads into markets abroad. All this, with a very rigorous vigil on manufacturing efficiency and fiscal discipline.

The results are obvious. During 2007-08, sales volume went up to 4.21 million cases from 1.31 million cases in the previous year, a growth of 221%. We are fully geared to build on this momentum. The focus remains on the lucrative IMFL segment, and within it, on whisky, which is expected to grow faster than all other categories, at a CAGR of 10% over the next few years. But we will strongly defend our market shares, volumes and margins on the brandy and other brands.

The changing balance in TI's product mix will fit the evolving consumer preferences to the surest guarantee of a strengthening equity.



~ Being High on Growth is about ~
Selling more of what sells

Great products make good businesses. Great brands sustain great companies. A great brand needs the backing of a good product and an incisive extensive marketing exercise targeted at the right segment and at the right time.

AT TI, we have always invested in developing superior products - blends with each spirit carrying a distinct stamp of exclusivity and refined taste. The uncompromising focus on stringent quality compliance helped us invest in facilities that enable manufacturing premium quality liquor, that has in turn, led to international product acceptability.

As a marketing strategy, we have always focused on employing innovative initiatives to establish a powerful brand story and recall. In 2007-08, we focused on an aggressive marketing approach for our products. The idea was to ensure presence across the target segments through the right price points and regions.

In order to elevate our top line, we identified the opportunity gaps in the segments, in line with market trends for our premium brands. The initiatives went beyond brand and name registration into direct relationships with target segments. These key initiatives include the launch of surrogate brands, local language advertising and co-branding with movies.

Today, we have been successful in creating good brands across product segments of our presence. Our premium brandy Mansion House crossed over one million cases in sales and is the most premium brand of brandy available in terms of price and quality. TI holds more than 65 per cent of the brandy market in South India and Mansion House is the highest selling brand in South India. Our whisky brand SHOT has crossed the one million mark and is one brand that has shot to this level in the shortest time, since launch, making it the fastest growing whisky brand in the domestic market. TI is presently growing at almost 80 per cent across all its brands.

We will continue to focus on creating a favourable recall for our product bouquet in order that we remain the preferred choice for our consumers.



~ Being High on Growth is about ~
Sweating assets better

While revenues accrue as a result of marketing, margins are a function of process efficiency. Only when a company extracts maximum leverage out of its gross block can it be said to be truly growing.

At TI, we have always believed in ensuring the highest standards of production efficiency and utilisation of our resources. In addition, we have also initiated the expansion of our capacities that will enable us to derive considerable advantage relating to economies of scale.

We have religiously invested in automation and superior processes across our units. Our main plant (procured from Praj Industries) is one of the country's most technologically advanced, versatile and able to produce to the highest standards. As a result, we have been able to produce superior quality products with minimal idle time.

As a move to improve quality, we invested in a sophisticated microbiological lab with self yeast propagation system, consisting of Autoclave, Laminar Flow, Yeast Vessels, and Aeration Systems, etc. The fermentation technology was upgraded to achieve 9 to 10% alcohol in fermented wash. Upgradation of Technology has resulted in increased capacity utilisation of Rectified Spirit (RS) and Extra Neutral Alcohol (ENA) Plants and reduction in steam and power consumption.

To ensure better control on process parameters, quality and quantity of raw materials and finished goods, we also procured/installed Electronic Weigh Bridge, Gas Liquid Chromatograph, Bomb Calorimeter for accurate analysis and record.

We are producing captive power through bio gas engines to save on energy costs. We are further reducing our consumption of fossil fuels by upgrading existing and installing new biodigesters and installing condensate and heat recovery systems from the Spent Lees, further reducing coal consumption.

We have taken up manufacturing expansions through both organic and inorganic routes. Besides an envisaged project of doubling our ENA capacity to 100,000 litres a day, TI also acquired two companies in Karnataka and Andhra Pradesh to bolster its manufacturing capabilities and serve growing markets.

Not just in the production, but also in supply chain management, TI ensures a seamless co-ordination of all functions along the supply chain. From tracking market changes in India and abroad, to manufacturing at the highest efficiency and then optimising all the marketing logistics. From sourcing raw materials to delivering finished goods of tested world class quality – operating infrastructure linking 19 distilling and bottling units across 15 states and distribution reaching into the interior.

With a relentless focus on efficiency, we are poised to deliver progressively superior operating performance every year.