

Macdowells & Co. Ltd.

annual report for the year ended 1998-99



McDowell owns forty-two brands in the spirits category, by far the largest among all Indian spirits companies. These brands cover virtually every segment and every flavour in the IMFL industry.

McDowell is the flagship company of the UB Group's Spirits Division - the seventh largest spirits manufacturer in the world. Together with its sister company, Herbertsons Limited, McDowell commands a 36% market share in the Indian spirits business.



McDowell is one of the only two companies in the world to have six million-plus brands.

McDowell brings a host of exciting events, including horse racing, fashion shows, theatre productions and movie premieres. McDowell was the first to root for Leander Paes and Mahesh Bhupathi, now the world's No.1 Doubles Team.

Today, twenty-nine distilleries spread across the country produce McDowell brands, something which no other liquor company in India can claim.

McDowell & Co. Ltd.



DIRECTORS

DR. VIJAY MALLYA,
Chairman

MR. S.R.GUPTA,
Vice Chairman

MR. V.K.REKHI,
Managing Director

MR.D. BASAPPA

MR.M.R. DORAISWAMY IYENGAR

MR.P.K. KAKODKAR

MR.B.M. LABROO

MS. L. MALLYA

MS. P. MALLYA

MS. R. MALLYA

MR.S. RAMANATHAN

MR. VE. RAMANATHAN (upto 3.12.98)

CHIEF FINANCIAL OFFICER
RAVI NEDUNGADI

COMPANY SECRETARY
P.B.MADHAVAN

AUDITORS
FRASER & ROSS, CHARTERED ACCOUNTANTS, BANGALORE

REGISTERED OFFICE
"McDOWELL HOUSE"
3, SECOND LINE BEACH, CHENNAI 600 001

CORPORATE OFFICE
"LE PARC RICHMONDE"
51, RICHMOND ROAD, BANGALORE 560 025



McDowell & Co. Ltd.

CONTENTS

Directors' Report	3-8
Auditors' Report	9-11
Balance Sheet	12
Profit & Loss Account	13
Schedules forming part of Accounts	14-31
Business Profile and Cash Flow Statement	32-34
McDowell Properties Ltd	M1 to M6
Vitari Distilleries Ltd.	V1 to V7

McDowell & Co. Ltd.



REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting the Annual Report of your company and the audited accounts for the year ended 31st March 1999. Your company has achieved excellent results despite a sluggish environment. Key figures on the year's profitability are given below.

FINANCIAL RESULTS

Rupees in Millions

	1998-99 (12 months)	1996-98 (18 months)
The working of your company for the year under review resulted in		
• Profit from operations	380.462	271.053
• Extra-ordinary items	(53.100)	83.604
Less :		
• Depreciation	(78.950)	(139.330)
• Taxation	(60.000)	(95.495)
Profit after tax	188.412	119.832
Surplus from previous period	77.908	27.010
Transfer from Debenture Redemption Reserve		79.050
Excess Income Tax provision relating to earlier years written back	5.524	
Profit available for appropriation	271.844	225.892
Your Directors have made the following appropriations:		
• To General Reserves	(15.000)	(12.500)
• Proposed Dividend	(103.545)	(119.088)
• Corporate tax on Proposed Dividend	(11.390)	(16.396)
Balance carried to the Balance Sheet	141.909	77.908
Your Directors propose a Dividend on equity shares @ 20 %		

PERFORMANCE OF THE COMPANY

For the second consecutive year, your company has recorded strong growth in its sales, enabling it to increase market share in a highly competitive industry.

Profit before Tax from ordinary activities grew by 129% to Rs 302 million reflecting your company's focus on its core businesses and various initiatives for improvement of efficiencies and cost control. This increase in profits has been achieved in a difficult year during which costs in general have risen more sharply than the Sales realisations across the industry.

Your Directors are proud to announce the addition of a sixth millionaire "Kerala Malted Whisky" to McDowell's Golden portfolio of Millionaires, thus reinforcing your company's position as the leading spirits company in the country.

Your company's aggressive growth has not gone unnoticed

internationally. The authoritative international spirits publication, Drinks International, has reported that No.1 McDowell's Whisky and No. 1 McDowell's Brandy with growth rates of 23.6% and 15.21% respectively, ranked 2 and 4 in the list of the fastest growing regional spirits brands during the year 1998.

COST LEADERSHIP

Given the highly regulated and restrictive environment in which the spirits industry has to operate in India, your company has recognised that sustainable future growth will be dependent upon cost leadership.

To achieve the objective of being the least cost producer in the industry, your company has embarked upon a three year capital expenditure plan for revamp and upgradation of its various distilleries. Various projects totalling Rs 190 million have already been initiated during the year. Over the next



McDowell & Co. Ltd.

DIRECTORS' REPORT (Contd.)

two years, your company proposes to invest a further Rs 350 million with a view to improving yields and reducing wastage.

Your company has entrusted Andersen Consulting the assignment to go into all aspects of cost reduction in various areas of your company's operations and it is expected that the study will be completed during the fiscal year 1999 - 2000. The full benefits of implementing these recommendations should be seen in the subsequent years.

MARKETING

As the leader in India's spirits industry, your company has built up several valuable brands over the years. McDowell today has the unique distinction of having six millionaire brands in its portfolio which is a rare achievement even for large international majors.

With a view to enhancing the value of its brands in the future, your company proposes to invest in them through consistent advertising, packaging innovations and new product initiatives. The year under review saw a substantial increase in brand spends over the previous year. Further increases are budgeted in the fiscal year 1999-2000.

With a view to keeping your company's brands fresh and contemporary, McDowell has engaged the services of leading design houses for development of new packaging. The year under review saw the re-launch of Diplomat Whisky in new packaging, all of which have been enthusiastically received by the consuming public. The process of packaging revamps is being carried out on other brands in your company's portfolio during the current fiscal year.

To commemorate 100 years of your company's incorporation, your company launched No.1 McDowell's Centenary Whisky, the first grain based offering in your company's range. This brand is expected to be rolled out nationally during the current year. Additionally, your company launched a range of three pre mixed, ready to drink low alcoholic beverages under the brand name Mixed Doubles, in February 1999. Buoyed by the success in the test marketing phase, this is expected to be rolled out to other locations during the current year.

SALES AND DISTRIBUTION

The spirits industry in India is distribution led. Your company, with its portfolio of dominant brands across all

flavours and geographical locations has further leveraged its strength during the year to enhance penetration in the market. The growth of 24% in the sales of your company's brands is testimony to the selling and distributing skills in McDowell. Your company is presently engaged in re-looking at the various incentive schemes to ensure sustainable growth in reach and penetration of your company's products.

MANUFACTURING

During the year under review capacity utilisation in your company's owned distilleries increased by 15%. The ongoing investment programme at the distilleries will go towards modernisation, upgradation and yields improvement.

FINANCIALS

Your company has introduced stringent financial controls during the year over both capital expenditure and working capital. A significant proportion of sales of your company today are on a "Cash and Carry" basis and efforts are being made to extend this, over time, to other markets as well. Consequently, both inventories and receivables have reduced during the year inspite of the significant increase in business. Your company has reduced its debts considerably. With the visibly improved controls and systems, your company has been able to negotiate extremely fine rates from lenders and the combination of both these factors have contributed to the reduced interest burden on your company.

INFORMATION TECHNOLOGY AND THE YEAR 2000

Your company has been working during the year to address the "Year 2000" issue and expects to be fully "Y2K Compliant" well in time. McDowell is also holding detailed discussions with critical suppliers and customers to ensure that the operations of your company are not hampered by noncompliance at their end. The estimated cost of ensuring compliance is about Rs.25 million. No disruption to the company's operation is envisaged.

Your company recognises that speedy and accurate information is the key to sustained leadership in the technology age. With a view to institute a dependable IT backbone, McDowell has commenced implementation of SAP R/3 which is considered to be one of the world's most sophisticated Enterprise Resource Planning packages available and implementation of this package is expected to bring in the benefits of improved systems benchmarked against "best practices" in the industry.

*McDowell & Co. Ltd.***DIRECTORS' REPORT (Contd.)****HUMAN RESOURCES**

Employee relations remained cordial at all company's locations. Your Directors take this opportunity to record their appreciation for the outstanding contribution of all employees of your company during the year.

Particulars of employees drawing an aggregate remuneration of Rs 6,00,000 or above per annum, as required under Section 217 (2-A) of the Companies Act, 1956 are annexed.

SHAREHOLDER VALUE

Apart from focusing on continued growth and profitability, your Directors recognise the need for proactive steps to enhance shareholder value in multiple ways. With this objective, your company has commenced a process of communicating with the investment community in general. Your company proposes to extend and formalise this process during the current fiscal year.

Several steps have also been taken to improve the presentation of your company's accounts. The layout and information provided will continue to evolve to provide a greater degree of information to shareholders.

Your company has further instituted an Audit Committee to oversee and ensure compliance with the report of the Internal Auditors.

With reference to the remarks made by the Statutory Auditors in their report, the relevant financial notes are self explanatory.

SUBSIDIARIES

The Accounts and Directors' report of Vitari Distilleries Ltd., and McDowell Properties Ltd., (formerly known as Shilton Hotel Ltd.) along with the statement pursuant to Sec 212 of the Companies Act, 1956 are appended.

McDowell Resorts Pvt. Ltd. ceased to be a subsidiary during the year.

DIRECTORS

The Directors report, with regret, the demise of Mr VE. Ramanathan, Director, in December 1998.

Mr S R Gupte, Mr P K Kakodkar and Ms R Mallya are retiring from the Board and being eligible, offer themselves for re-appointment.

AUDITORS

M/s Fraser & Ross, your company's Auditors, retire at the conclusion of the 101st Annual General Meeting and being eligible offer themselves for re-appointment.

LISTING REQUIREMENT

As required by the Amended Listing Agreement with the Stock Exchanges, a cash flow statement is appended.

Your company's equity shares are listed at the Stock Exchanges at Chennai, Ahmedabad, Bangalore, Calcutta, Delhi, Mumbai and National Stock Exchange.

FIXED DEPOSITS

Fixed Deposits from the public and shareholders stood at Rs.62.00 million as at 31.03.1999. This amount included Rs.5.57 million representing matured deposits for which disposal instructions had not been received from concerned depositors. Of this a sum of Rs.1.06 million has been since paid or renewed as per instruction received after the year end.

CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION ETC.

In accordance with the provision of Section 217 (1) (e) of the Companies Act, 1956, the required information relating to Conservation of Energy, Technology Absorption and Foreign Exchange earnings and outgo is annexed.

THANK YOU

Your Directors place on record their sincere appreciation for the continued support from shareholders, customers, suppliers, banks & financial institutions and other business associates. A particular note of thanks to all employees of your company, without whose contribution, your company could not have achieved the year's performance.

By Authority of the Board

Bangalore
July 26, 1999

VIJAY MALLYA
Chairman



McDowell & Co. Ltd.

DIRECTORS' REPORT (Contd.)

ANNEXURE TO DIRECTORS' REPORT

(Additional Information given pursuant to requirement of Section 217(1)(e) of the Companies Act, 1956, issued by the Department of Company Affairs).

CONSERVATION OF ENERGY

Energy Consumption & Cost Reduction

Steps taken to reduce energy consumption & reduce cost of production :

- Utilisation of methane gas, generated in Anaerobic digester, in Boiler alongwith furnace oil.
- Installation of automatic blowdown system and oxymiser in Boiler.
- Installation of steam turbine to produce electricity.

TECHNOLOGY ABSORPTION

Technology imported during the last 5 years:

Technology Imported	Year of Import	Status
None	—	—

FOREIGN EXCHANGE EARNINGS / OUTGO

	1998-99 (12 months)	1996-98 (18 months)
1.Exports & Foreign Exchange earnings	2,904	---
2.Imports/expenditure in foreign currency	72,465	666,918

(Rs. '000)

McDowell & Co. Ltd.

DIRECTORS' REPORT (Contd.)



ANNEXURE TO DIRECTORS' REPORT

STATEMENT OF PARTICULARS OF EMPLOYEES AS REQUIRED UNDER SECTION 217 (2-A) OF THE COMPANIES ACT, 1956 AND COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975

SL NO.	NAME	AGE	DESIGNATION	REMUNERATION Rs.	NATURE OF DUTIES	QUALIFICATION	EXPERIENCE IN YEARS	DATE OF COMMENCEMENT OF EMPLOYMENT	PARTICULARS OF PREVIOUS EMPLOYMENT
1	Alok Gupta	33	General Manager - Marketing	650989	Marketing	B.Com, PGDM	11	21-Feb-95	Dy. General Manager - Marketing, Shaw Wallace & Co. Ltd.
2	Anant Iyer	39	General Manager - Marketing Services	859806	Marketing	M.Sc., M.M.S.	15	1-Apr-95	Controller Marketing, Consolidated Distilleries Ltd
3	Ananthapadmanabhan G	45	General Manager - Accounts	684431	Finance / Accounts	B.Com, AICWA, ACA	21	8-Jun-95	Manager - Finance, Ashok Leyland Ltd.
4	Ashwin Malik	41	Divisional Vice - President - Marketing	1204192	Marketing	B.A. (Eco), MBA	19	1-Apr-95	VP Sales & Mktg, Carew Phipson Ltd.
5	Bagi S A	46	Distillery Manager	638521	Manufacturing	B.Sc., DIFAT, DBM	24	13-Aug-75	First Employment
6	Balasubramanian R	63	General Manager-Administration	662431	Administration	BE	37	23-Nov-89	Chief Aerodrome Manager, HAL
7	Banerjee J K	54	Divisional Vice - President - Manufacturing (West)	998241	Manufacturing	BE(Mech), PGDBM	32	12-Feb-96	Chief Engineer-System, Trng. Tech., Sales Metal Box Ltd.
8	Binod K Maitin Dr.	50	General Manager - Technical	916758	Technical	M.Sc., Ph.D.,	27	14-Dec-88	Sr Research Officer & Head Anal Rese, Shriram Institute for Industrial Research.
9	Bishwal S K	52	Executive Vice - President - Manufacturing	1515610	Manufacturing	B.Sc Engg.(Hons), M.Tech	27	1-Jan-90	Chief Industrial Engineer, Union Carbide India Ltd.
10	Chandrashekar C	45	General Manager - Materials	830485	Materials Management	MBA	23	25-Apr-83	Buyer, Hindusthan Motors Ltd.
11	Debasish Das	42	Controller - Projects	638515	Projects	B Tech	17	1-Apr-95	Graduate Trainee, Britannia Industries Ltd.
12	Dutta M L	53	Divisional Vice - President - Manufacturing (North)	1011101	Manufacturing	B.Sc	29	1-Apr-95	General Manager - Distillery, Carew Phipson Limited.
13	Gahlawat J S	54	Sr Executive - Pilot	729083	Pilot	Higher Sec	32	1-Sep-97	Pilot, India International Airways
14	Gerald G D' Souza	50	Divisional Vice - President - Human Resources	1166302	Personnel/ Admin.	MA, PERS	25	14-Aug-92	General Manager Personnel & Administration, Herbertsons Ltd.
15	Ghosh. T R	65	Divisional Vice - President - Corporate Affairs	1305865	Legal & Corporate affairs	B.Com,FCA,ACS	40	1-Apr-95	V.P. - Corporate Affairs (East), Carew Phipson Ltd
16	Gill R S	52	Sr Executive - Pilot	779313	Pilot	M.Sc.,	32	5-Apr-93	Indian Airforce
17	Gopala Rao N	62	Divisional Vice - President - Aviation	898528	General Management	MA	39	21-Dec-92	Planning Expert, Kuwait Airways
18	Harisha Bhat A	46	Divisional Vice - President - Finance	1051104	Finance / Accounts	B.Com. ACA	21	22-Nov-90	Manager - Treasury, Digital Equipment (I) Ltd
19	Hemchandra Joveri	37	General Manager - Sales	859533	Sales	PGDBM	14	1-Apr-93	Regional Manager (West), Wipro Ltd
20	Jacob K J	59	General Manager - Flavours	750776	Technical	B.sc.,	35	24-Apr-64	First Employment
21	Wg.Cdr. Rajan K.S	55	Chief Pilot	1102419	Pilot	AMAESI	33	6-Apr-89	Indian Air Force
22	Kagdi I L	47	Distillery Manager	643015	Manufacturing	B.Sc.,	37	1-Apr-92	Western India Enterprises Ltd.
23	Luthra V K	57	Executive Vice - President - Sales	1716762	Sales	B.A.	33	17-Nov-94	Sr. V.P.- Liquor Division, Shaw Wallace & Co Ltd.
24	Madhavan P B	58	Divisional Vice - President - Legal & Comp Secy	1169165	Company Secretarial	B Com LLB, FCS,ACIS	38	22-Apr-85	Co. Secretary, Automotive Axles Ltd.
25	Menon N J	62	Executive Vice - President - Technical	1753369	Technical	M.Sc.,Do Acs Bwy	40	1-Jun-59	First Employment
26	Metrani S N *	56	Sr Executive - Pilot	483049	Pilot	Graduate Flying School	33	15-Jul-98	Chief Executive Pilot, Bombay Dying Mfg Ltd.
27	Mittal N K	49	Divisional Vice - President - Manufacturing (South)	877264	Manufacturing	B.Tech, Mech Engg	26	20-Dec-90	General Manager, WIMCO Ltd
28	Mohanty. L N	57	Controller - Sales	630060	Sales	B.A.	36	1-Apr-95	Controller - Sales, Carew Phipson Ltd.
29	Murugan C N	51	General Manager -Distillery	703606	Manufacturing	B.Sc, DMIT	20	1-May-82	Branch Manager, M/s Hegde & Galay Ltd, Bangalore
30	Nair N R K	58	General Manager - Works	918132	Manufacturing	B.Sc.,	35	6-Oct-64	First Employment
31	Namboothiry M G V	58	General Manager - Product & Process Development	756954	Technical	B.Sc.,	35	2-Dec-63	First Employment



McDowell & Co. Ltd.

DIRECTORS' REPORT (Contd.)

SL. NO.	NAME	AGE	DESIGNATION	REMUNERATION Rs.	NATURE OF DUTIES	QUALIFICATION	EXPERIENCE IN YEARS	DATE OF COMMENCEMENT OF EMPLOYMENT	PARTICULARS OF PREVIOUS EMPLOYMENT
32	Palekar S G	58	General Manager - Materials	822063	Materials Management	B.Com., LL.B.,	38	1-Apr-92	Forbes Forbes Campbell Ltd.
33	Poddar P N	47	General Manager - Technical	819669	Manufacturing	M.Tech, DMS	22	1-Jan-88	Production Manager, Union Carbide (I) Ltd
34	Raman K P	49	General Manager - Distillery	778865	Manufacturing	B.Tech.,	23	27-Nov-91	Production Manager, Bakelite Hylam Ltd.
35	Raman Mahaveera	50	Sr Executive - Pilot	778088	Pilot	M.Sc., RMC Dip	5	4-Feb-94	Indian Air Force
36	Rastogi S K	47	General Manager - Quality Assurance	681113	Manufacturing	M.Sc.,	28	14-Nov-82	Jagatjit Industries Ltd.
37	Ravi Nedungadi A K	42	Executive Vice President - Finance & Accounts	1738516	Finance / Accounts	B.Com (Hons), ICWA, CA	20	14-Apr-97	UB International, U.K.
38	Col. Ravinder Singh	52	General Manager - Administration	672226	Personnel / Admin	HSC	30	17-Mar-97	Colonel, Indian Army
39	Reddy P R K	55	General Manager - Distillery	941480	Manufacturing	B.Tech.	28	8-Sep-73	Chemical Engineering Trainee, AP Papers Mills
40	Rekhi V K	54	Managing Director	4020030	Overall Company Management	MA (Eco), MBA IIM(A)	32	1-Sep-96	UB Group
41	Col Robindra Banerji	50	General Manager - Distillery	783781	Manufacturing	BA	31	14-Jun-91	Colonel, Ministry of Defence
42	Sankaranarayana K R	43	Distillery Manager	608630	Manufacturing	M.Sc.,	20	2-Jul-79	First Employment
43	Satsangi R	42	General Manager - Distillery	767175	Manufacturing	B.Tech (Mech)	19	19-Feb-96	Plant Manager, Pepsico India Holdings Ltd
44	Selvaraj K	52	General Manager - Distillery	760928	Manufacturing	AMIE	30	4-Jun-90	Maint Mgr - M/s Auro Food Ltd, Pondicherry
45	Sharma L M	57	Divisional Vice - President - Manufacturing (East)	1041979	Manufacturing	PGDMS DFM, AMIE	37	2-May-88	Works Manager, Tata Constructions & Projects Ltd.
46	Shivendra Singh	46	General Manager - Business Development	1120135	Corporate	B. A.	12	1-Apr-95	GM - Business Development, Carew Phipson Ltd.
47	Siddarth M	43	General Manager - Marketing	674367	Marketing	BE, MBA	20	9-Nov-95	Controller - Marketing, Carew Phipson Ltd.
48	Singhal S C	46	General Works Manager	754066	Manufacturing	B.Sc.,	26	1-Sep-89	Asst. Manager Works SriShadi Lal Enterprises Ltd.
49	Stephen S N	44	Controller - Sensory Analysis	686499	Technical	M.Sc, AIC, Ph.D, Food Sc	23	15-Feb-89	Asst Tea Technologist, UPASI Tea Research Inst, Valparai
50	Subba Rao P V	61	President - Research	1429623	Research	M.Sc, PhD	39	4-Jan-96	Chairman, Dept of Bio-chemistry, Indian Institute of Science
51	Subramanian T K	48	General Manager - Systems	815657	Information Tech	B.Sc., DMS	27	16-Mar-83	Controller - Systems, UBICS Ltd
52	Subramanian T V	44	Sr Manager - Commercial	760272	Sales	M.Com. ICWA	21	16-Jun-86	Decom Marketing Ltd.
53	Suresh Menon I P	42	General Manager - Management Accounts	737447	Finance / Accounts	BA (Hons), MMS	21	1-Apr-90	Secretary & Finance Manager, UB Electronic Instrument Ltd.
54	Taneja V N	53	General Manager - Sales	1052590	Sales	High School	26	1-Apr-95	GM - Sales, Carew Phipson Ltd.
55	Capt Tayal P K	53	Sr Executive - Pilot	720193	Pilot	Intermediate, IAF	33	15-Nov-96	Indian Air Force
56	Tomy K P	57	Divisional Vice - President - Manufacturing	1167956	Manufacturing	SSLC	36	1-May-93	GM - Sales, Herbertsons Ltd
57	Verma M S	56	General Works Manager	869296	Manufacturing	B Sc	27	1-Apr-95	General Works Manager, Carew Phipson Ltd.
58	Vijayaraghavan S *	46	Controller - Sales (S I)	509987	Sales	B Com	25	1-Apr-95	Area Sales Manager, Blaze Enterprises Pvt Ltd

* Employment for part of the year

Notes:

No employee is on contract employment. Other terms and conditions are as per service rules of the company from time to time.

None of the above mentioned employees is related to any Director of the Company.

Remuneration as shown above includes salary, house rent allowance, Company's contribution to PF & Super Annuity Fund, value of residential accommodation, medical, bonus and other facilities.