

SANSO SERVICES Annual Report 2001-2002
The Spirit of Achievement



McDowell & Company Limited

annual report 2001-2002

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been present, your Company has taken steps to participate and get a fair share in this segment as well.



As sales in this range are driven more on the price platform rather than on branding, it was felt that McDowell should participate without making expensive

investments. We have franchise arrangements for a range of labels under the umbrella branding of "Phipsons". Consequently, "Phipsons" products are manufactured and marketed by third party franchisees. McDowell earns a variable income based on volume throughput under these arrangements.

Given this somewhat unyielding external environment, McDowell has initiated a series of measures aimed at improving efficiency and cutting costs.

- Organizational restructuring into Regional Profit Centres is now complete and there has been a consequential right sizing of the organization.
- Continuous investments have been made in the state-of-the-art facilities to ensure that the production facilities remain at the top of the yield curve.
- Aggressive sourcing has led to less than inflationary increases in input costs.

However, the poor monsoons could potentially lead to shortages of molasses which is the main raw material source.

- The recent consolidation witnessed by the glass packaging industry is also likely to increase competition on this vital element of costs.

- Every effort is being made, including evaluation of possible imports, to ensure that costs are kept under control.

The inevitable rationalization of the regulatory environment which is presently strangulating the industry will enable your Company to garner the lion's share of benefits in keeping with the clear leadership status that McDowell enjoys in the industry.

In keeping with India's WTO commitments, it is expected that increasing quantities of scotch at various price points will be imported into the country progressively. McDowell is exploring avenues to participate in this lucrative area. The company also believes that opportunities exist in neighbouring countries and investment opportunities are being evaluated for potential investments.

In conclusion, I believe that the investments made by McDowell over the last several years will pay back through enhanced consumer acceptance and loyalty. The inevitable rationalization of the regulatory environment which is presently strangulating the industry will enable your Company to garner the lion's share of benefits in keeping with the clear leadership status that McDowell enjoys in the industry.

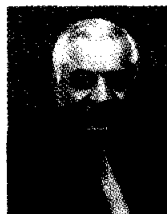
Finally, I would like to record my appreciation to my colleagues on the Board for their support and advice as also the various stakeholders of the Company, including shareholders, banks and financial institutions, distributors, franchisees and employees.

Vijay Mallya
Chairman

the team



V.K. Rekhi



V.K. Luthra



S.K. Bishwal



Navratan Dugar



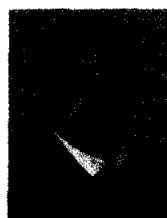
Dr. B.K. Maitin



V.S. Venkataraman



Vivek Prakash



Ravi Nedungadi



Ashwin Malik



Ashok Capoor



Harish Bhat



Gerard S. S. Souza



Alok Gupta



chairman's statement

Dear Shareholders,

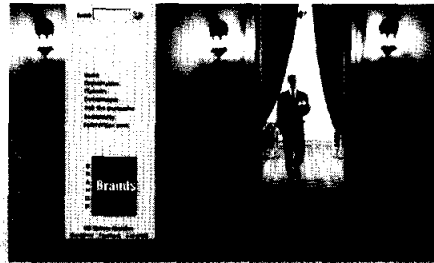
In sharp contrast to the high expectations at the turn of the millennium, the last 12-18 months have been characterized by a gradual economic downturn, slow down of consumer demand and low levels of business confidence.

In these difficult times, McDowell has achieved a creditable growth of about 8% in its business with its first line products registering a growth of 11% and second line products a growth of 6%.

While it is often said that the consumption of alcoholic beverages is recession proof, in reality consumers tend to down trade in difficult times. The year under review was no different with much of the industry growth coming from the lowest priced range of products. Indeed, certain new categories of "near commodity" products have sprung up particularly in Government controlled markets, spurred by blinkered policy.

This dichotomy in Government policy continues to be the biggest challenge that the industry has to face. Caught in a time warp of political and bureaucratic regulations, the beverage alcohol industry has to cope with myriad, whimsical policies which stifle growth and deny economic return. Current policies prevent manufacturers from freely fixing a selling price for their products and cover increasing input costs. The same policies, by encouraging the proliferation of low cost unbranded products on the one hand and cartelisation of distribution on the other, appear to sacrifice quality and public interest on the altar of short term revenue generation and political whim.

Despite these environmental impediments, McDowell has, during the year, continued its committed focus on delivering products of the highest quality to its consumers. The Company's flagship product, McDowell's No. 1 Whisky has once again reaffirmed its position at the top of the market to meet the discerning needs of its consumers. The product has been designed to deliver a consistent quality and taste, and has been produced in accordance with the highest standards of this product.



crossing the 35 million cases mark for the first time.

The company's premier offering in the Rum segment, No. 1 McDowell's Celebration Rum, has been acknowledged to be the second fastest growing non-scotch spirit brand in the world during the calendar year '01 (source: Drinks International, May 2002).

I have personally mandated the management of McDowell to continue its single minded focus on quality and not envisage the slightest sacrifice in this regard in pursuit of short term profits.

We have made a number of representations to Government on the imperatives of aligning policy in the best interests of the consuming public and the need to bring about changes which enable manufacturers to continuously make investments in quality. I have no doubt that good sense will ultimately prevail. Investments that your Company has made in its manufacturing facilities, matured stocks, packaging and brand building have already resulted in a significant franchise for McDowell and its products. Continuing investments in both the offering and in the communication with consumers will, I am sure, result in further enhancement of our brand imagery enabling us to not only sell more volumes than anyone else in the industry but also at the most profitable prices.

Recognizing that in the immediate term, a lot of the growth will take place at the lower end of the price spectrum, McDowell, has not

I have personally mandated the management of McDowell to continue its single minded focus on quality and not envisage the slightest sacrifice in this regard in pursuit of short term profits.

The Spirit of Achievement

McDowell & Company Limited was born in the leadership mould.

Running the Spirits Industry laps with confidence, conviction and consideration, the Company has grown from strength to strength and delivered stakeholder value that has translated into value-added products for customers, a rewarding and empowering work environment for employees and value for shareholders. McDowell has also responded to its conscience with responsibility and care.

Ever marshalling resources, ever reinforcing its brand image.

Ever delivering quality, ever the No. 1.



Power Brands from the McDowell Stable



DIRECTORS

VUAY MALLYA,
Chairman

S.R. GUPTE,
Vice Chairman

V.K. REKHI,
Managing Director

M.R. DORAISWAMY IYENGAR

A.B. GODREJ

P.K. KAKODKAR

B.M. LABROO

GROUP CHIEF FINANCIAL OFFICER
RAVI NEDUNGADI

COMPANY SECRETARY
V.S. VENKATARAMAN

AUDITORS
DELOITTE HASKINS & SELLS, CHARTERED ACCOUNTANTS, BANGALORE

REGISTERED & CORPORATE OFFICE
51, RICHMOND ROAD
BANGALORE - 560 025





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, 2002.

FINANCIAL RESULTS

Rupees in Millions

2001-02 2000-01

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

• Profit from operations	397.965	483.789
Less :		
• Depreciation	(108.787)	(126.045)
• Taxation (including deferred tax liability for 2001/02)	(131.484)	(133.830)
• Profit after tax	157.694	223.914
Profit/(Loss) B/F from previous year	340.445	(0.007)
Transfer from Debenture Redemption Reserve	-	43.800
Taken over on amalgamation	-	173.231
Profit available for appropriation	498.139	440.938
Your Directors have made the following appropriations:		
To General Reserve	(12.500)	(15.000)
Proposed Dividend	(103.440)	(77.580)
Corporate Tax on Proposed Dividend	-	(7.913)
Balance carried to the Balance Sheet	382.199	340.445
EPS (Basic/Diluted) – Rupees	3.05	4.33

Your Directors propose a Dividend on equity shares @ 20%.

Profit for the year was lower mainly on account of provision of Rs. 36.8 million relating to turnover tax levied in Kerala which has been contested by your Company.

CAPITAL

During the year under review the authorised share capital of the Company remained unchanged at Rs. 600,000,000. The issued, subscribed and paid-up capital increased to Rs. 517,200,280 consequent upon the issue and allotment of equity shares on July 09, 2001 to the shareholders of erstwhile McDowell & Co. Ltd. in terms of the Scheme of Amalgamation.

PERFORMANCE OF THE COMPANY

In a year characterised by modest growths your Company has succeeded in recording a volume growth of nearly 8%.

Total production at the Company's 12 distilleries also grew by 7.5% to a record of 11.39 million cases. This has been

augmented by 9.14 million cases sourced from 21 toll manufacturing units. Your Company now has a national network of 33 manufacturing facilities.

The year in review saw your Company, becoming a major supplier of alcoholic beverages to the Canteen Stores Department. From just over 0.138 million cases in 97-98, supplies have now gone up to 1.337 million cases in 2001-02. Some price increases have also been received towards the end of the year.

The 29% growth in sales of No. 1 McDowell's Celebration Rum makes this India's fastest growing brand and it has clocked the distinction of being the 2nd fastest growing brand, internationally.

The roll out of the new packs of McDowell's No. 1 Whisky designed by international design house, Classeans International, received an enthusiastic response, and this flagship brand has crossed sales of 3.5 million cases.

In a bid to develop a foothold in the lower priced economy range of products, your Company has begun to develop franchising arrangements, particularly in South India. A range of such products carrying a new umbrella identity of "Phipsons" has been created to exploit this market segment. Under this arrangement, production, sales and promotion are carried out by the Franchisees and the Company gets a volume based income from these arrangements.

Your Company has made rapid strides in franchising the bottling and sale of McDowell's Purified Water and Soda through 14 franchises, and these products are available in major cities and towns all over the country.

A major organisational change was implemented with the creation of 4 Regional Profit Centres. This has helped to bring the organization closer to the market and with resultant quicker response times and improved focus on profitability.

A Detailed Management Discussion and Analysis Report is attached as part of this Report.

A reconciliation of profits drawn up under US GAAP is also attached.

PROSPECTS

During the first quarter of the current financial year, your Company has recorded a satisfactory increase of about 12% in turnover and 17% in Profit Before Tax. Barring unforeseen circumstances, the Company's business in the rest of the year is expected to be satisfactory.

Your Company, in furtherance of its objectives to enhance its leadership in the Indian Spirits industry, constantly explores avenues for enhanced growth and profits. Some possible initiatives could require investments both in India and overseas with a view to enter into the lucrative Scotch and hitherto unrepresented industry segments.

Enabling resolutions for such possible investments are placed for approval of the members. Your Directors will exercise caution and restraint in choosing the investments to be made so as to ensure value enhancement.



**REPORT OF THE DIRECTORS (Contd.)****ENTERPRISE RESOURCE PLANNING (ERP)**

As reported earlier, your Company is in the process of implementation of the world's leading ERP Software viz. SAP R/3. Completion of this implementation together with re-organization into regional profit centres are expected to bring in the following benefits:

- Process standardization across regions
- Better manageability of the business complexities
 - ◆ Quicker and more accurate information availability
 - ◆ Effective data backed decision making
 - ◆ Increased transparency across all levels
 - ◆ Higher data consistency and integrity
- Improved management of Inventories and Receivables
- Reduction in Manufacturing cost

SUBSIDIARIES

During the year under review Nepal Liquors Limited (NLL), Nepal became a subsidiary of your Company consequent upon the increase in the holdings by your Company to 639,660 equity shares of Nepali Rs. 10/- each. NLL has consolidated the shares of the face value of Nepali Rs. 10/- each to Nepali Rs. 100/- each.

The accounts for the accounting year 2001-02 of NLL, have not been attached to the accounts of your Company for the year ended March 31, 2002 as in terms of the Income Tax Act of Nepal the accounting year of the subsidiary ended after the close of the financial year of your Company. However, the Balance Sheet and Profit & Loss Account of the subsidiary for the year 2000-01, although not required to be attached, have been attached as additional information to the Shareholders alongwith the statement under Section 212 (1) (e) & (f) of the Companies Act, 1956.

For the purpose of compliance under AS-21 "Consolidated Financial Statements", the accounts of NLL has been drawn upto March 31, 2002.

During the current year, McDowell International Brands Limited became a wholly owned subsidiary consequent upon the transfer of beneficial interests in the balance 60 Equity Shares of Rs.10/- each held by the other shareholders to your Company.

The Accounts and Directors Report of McDowell International Brands Limited along with the statement under Section 212 (1)(e) of the Companies Act, 1956 are appended.

McDowell Alcobev Limited became a wholly owned subsidiary of your Company with effect from January 04, 2002 and ceased to be a subsidiary with effect from March 30, 2002, consequent upon the divestment by your Company of its entire holdings in that company.

DEPOSITORY SYSTEM

The trading in the shares of your Company are under compulsory dematerialisation mode. As of date, shares representing 86.5% of the share capital are in dematerialised form. As the depository system offers numerous advantages, members are requested to take advantage of the same and avail of the facility of dematerialisation of the Company's shares.

DIRECTORS

Mr. A.B. Godrej was appointed as an Additional Director on October 31, 2001 and will hold office in terms of Section 260 of the Companies Act, 1956 upto the date of the ensuing Annual General Meeting. A notice has been received by your Company from a member signifying his intention to propose the appointment of Mr. A.B. Godrej at the Annual General Meeting.

Mr. S. Ramanujam did not offer himself for re-election at the last Annual General Meeting and consequently ceased to be a Director. Your Directors place on record their appreciation of the valuable services rendered by Mr. S. Ramanujam during his tenure as Director of the Company.

Dr. Vijay Mallya and Mr. S.R. Gupte retire by rotation and being eligible, offer themselves for re-appointment.

AUDITORS

M/s. Deloitte Haskins & Sells, your Company's Auditors, are eligible for re-appointment at the Annual General Meeting and it is necessary to fix their remuneration.

AUDITORS' REPORT

With regard to the observations of the Statutory Auditors in the accounts for the year ended March 31, 2002 in regard to

- a) dues from toll manufacturers; the Company continues to source substantial volume from these parties. Despite this ongoing relationship, the Company has sought securities which are expected to be in place within the current financial year and also has taken steps to recover the amounts due.
- b) advances to third parties; the Company expects settlement from these parties during the current financial year.



**REPORT OF THE DIRECTORS (Continued.)****LISTING OF SHARES OF THE COMPANY**

Mention was made in the last report that the listing approvals from the Stock Exchanges were awaited. Your Directors are pleased to inform that the Company received the approval for listing from all the seven Stock Exchanges before September 30, 2001 and trading started thereafter.

CORPORATE GOVERNANCE

A report on Corporate Governance is annexed separately as part of the report along with a Certificate of Compliance from the Auditors.

CASH FLOW STATEMENT

A cash flow statement for the year's operation is appended.

FIXED DEPOSITS

Your Company has started accepting Fixed Deposits from the public with effect from June 2002.

Fixed Deposits from the public and shareholders stood at Rs. 404.799 million as at March 31, 2002. The amount included Rs. 6.641 million representing matured deposits for which disposal instructions had not been received from concerned depositors. Of this a sum of Rs. 1.194 million has been since paid as per instructions received after the year end.

HUMAN RESOURCES

Employee relations remained cordial at all Company's locations.

Out of the stock options for 193,750 equity shares offered to eligible key employees in the previous year under the employee stock purchase scheme, a total of 190,900 options were exercised.

Particulars of employees drawing an aggregate remuneration of Rs. 2,400,000 or above per annum or Rs. 200,000 or above per month, as required under Section 217 (2A) of the Companies Act, 1956 are annexed.

EMPLOYEE STOCK OPTION SCHEME

With a view to motivate the employees, retain the best talents and foster a sense of ownership and belonging, your Directors are pleased to introduce an employee stock option scheme titled "McD Employee Stock Option Scheme 2002". The Scheme and the proposed allotment of shares under the Scheme is placed for your approval at this meeting.

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.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, in relation to financial statements for the year 2001-02, the Board of Directors reports that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- accounting policies have been selected and applied consistently and that the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit of the Company for the year ended March 31, 2002;
- proper and sufficient care have been taken 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;
- the annual accounts have been prepared on a going concern basis.

THANK YOU

Your Directors place on record their sincere appreciation for the continued support from shareholders, customers, suppliers, banks and 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 29, 2002

DR. VIJAY MALLIA
Chairman

