



The highway to excellence
is pegged with success



McDowell & Company Limited
ANNUAL REPORT 2003 - 2004

M I L E S T O N E S

The UB Group's Spirits business comprising McDowell & Company Limited, Herbertsons Limited and Triumph Distillers & Vintners Pvt.Ltd. (TDV), achieved the rare distinction of being crowned the world's 4th largest spirits marketer by the prestigious international industry journal, **Impact International**. The Group's sales during the year crossed the 38 million cases mark with McDowell itself contributing over 25 million cases. This compares with total sales of under 15 million cases by the closest competitor.

At McDowell, crossing one more milestone does not bring in complacency. While giving a reasoned cheer, it also gives us a reason to reach for new milestones and new horizons in our passionate quest for excellence, growth and new goals.

Milestones Presenting the 2003-04 Annual Report of McDowell and Company Limited.....

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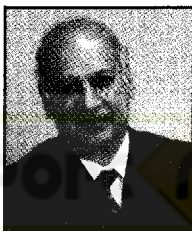
MILLION CASES



BOARD OF DIRECTORS



Dr. Vijay Mallya
Chairman



S. R. Gupte
Vice Chairman



V. K. Rekhi
Managing Director



M. R. Doraiswamy Iyengar



P. K. Kakodkar



B. M. Labroo

MERA No.1



The global distinction achieved during the year is owed in substantial measure to McDowell's flagship umbrella brand – McDowell's No. 1. Under this umbrella are category leaders such as McDowell's No.1 Whisky, McDowell's No. 1 Brandy and McDowell's No. 1 Celebration Rum, which together contributed sales of 13.5 million cases.

True to its positioning as "Mera No. 1", McDowell's No. 1 Whisky sold over 5.4 million cases becoming the first prestige whisky in India to have crossed the 5 million cases mark. This also enabled the brand to achieve the status of the 5th largest Non-Scotch whisky and the 8th largest whisky (including Scotch) in the world.

McDowell's No. 1 Celebration Rum closed the year with 4.3 million cases becoming in the process the 2nd largest Rum in India and the 5th largest Rum in the world. This has particular relevance as an Indian Rum showing global potential for the future.

We are proud that McDowell's No.1 Brandy has been crowned the world's leading Brandy with sales of 3.8 million cases recording a growth of 40%.

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OTHER POWER BRANDS

McDowell's strength has historically been in the breadth of its product portfolio with category leaders across flavors, segments and price points. Some of our other power brands are

Black Dog • The only 12 year old Deluxe Scotch Whisky owned by an Indian Company
Single Malt • The first truly Indian Single Malt Whisky

Signature • Premium Indian Whisky blended with Scotch • On the fast track to growth
Old Cask Rum • India's 3rd largest selling Rum – 1.45 million cases

Blue Riband series* • Brand synonymous with Gin in India • First Indian Gin brand to introduce flavored variants • First millionaire white spirits brand in India.

Gilbey's Green Label Whisky • The star of the 1990's - the fastest millionaire
• Now a part of the TDV stable - sales over 2.7 million cases.

*Includes various

*World Ranking Source – Impact International

Only Indian company to have 3 millionaire brands in the top 100 in the world



NEW PRODUCTS & INNOVATIONS

McDowell was among the first to launch a full range of innovative ready to drink products with a variety of options in both base and flavors.

These products, which have proved highly popular in various countries around the world, are also expected to be engines of future growth. In keeping with McDowell's tradition of packaging innovation and consumer protection, McDowell has launched a series of packaging innovations each designed to add value surety to the consuming public. These include holograms, non-refillable 'guala' caps (an Italian technology) and now the tamper evident and tamper proof tear off caps using German technology.



100% Guaranteed Protection with new German TEAR TAB Sleeves

For the first time in India

Made with the latest International Technology

Three material combination of PVC, PE and Aluminium foil to ensure non-duplication

McDowell's
"World's Smooth Favour"
OFFER

Buy a pack of 6 bags of McDowell's No. 1. You will get 1 additional bag free.

McDowell's No. 1. The world's smoothest and most popular.

With this a pack of 6 McDowell's No. 1. You will get 1 additional bag free.



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MILLION CASES



FINANCIALS

The Company, besides growing revenues, showed an improved profitability ratio as is obvious from the ratio of Earnings Before Interest & Tax (EBIT) to Sales growing from 3.97% to 4.61%

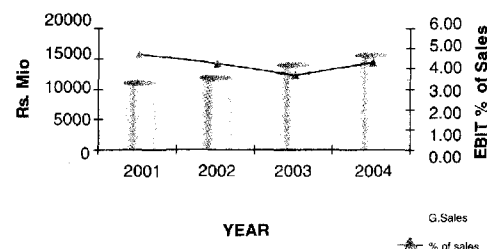
The steady improvement in the Fixed Asset Turnover is a measure of the efficiency with which fixed assets are employed. On an increasing revenue base, the gross block of assets have remained more or less constant over the last four years. The turnover ratio has gone up from 4.89% in FY 2001 to 5.83% in FY 2004.

The Profit Before Tax (PBT) which was static over the last few years, shows an upward movement along with Profit After Tax (PAT).

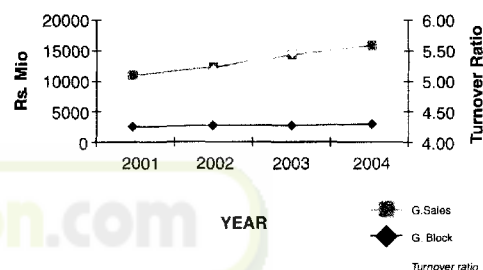
PBT rose to Rs.390 million (PY Rs.291 million) and PAT increased to Rs.213 million (PY Rs.131 million)

The year saw increased revenue, improved utilisation of fixed assets and higher profits leading to enhancement in shareholder value.

EBIT as a % of Sales



Fixed Assets Turnover (times)

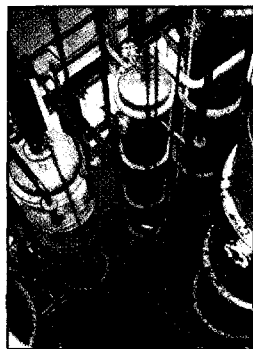


MANUFACTURING

Each day over 350 trucks pass through the gates of the 52 manufacturing units of UB Group's Spirits Division. This is a milestone that is not within the reach of any competitor in the country.

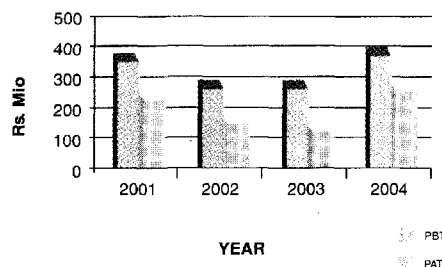
Each of the Group's owned units are ISO 9001 certified and maintain the highest standards of quality.

Over 78 brands being bottled in 13-pack variants, the



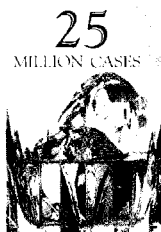
Group has managed its scorching growth with a very tight control on inventories. The Company produces and matures key ingredients such as high bouquet spirit, malt spirit, grape spirit and cane spirit under the strictest quality control conditions to ensure consistency across locations.

PBT and PAT



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MILLION CASES





Dear Shareholders,

It is with particular pride that I draw your attention to this signal achievement of your Company during the financial year ended March 2004. A record sales performance of over 38 million cases by the UB Group's Spirits Business, to which McDowell alone has contributed over 25 million cases, has positioned us as the fourth largest spirits marketer in the world, as listed by the prestigious International industry journal, Impact International.

The McDowell's No.1 range of products comprising Whisky, Brandy and Rum have clocked a stellar performance with sales crossing 13.5 million cases which compares with total sales of just over 14 million cases by our nearest national competitor. McDowell's No.1 Whisky crossed the 5 million cases mark with sales of 5.4 million cases in the year. I am particularly proud that McDowell's No.1 Brandy has been crowned the world's leading brandy with sales growing over 40% to a record 3.8 million cases.

As you are aware, the industry's profitability is highly dependent on government regulations. Given the environment of excessive taxation and harsh, often irrational regulation, the management of your Company has focussed on various aspects of operations, not least, on the quality of sales and control of costs.

In recent times the beverage alcohol industry has been characterised by continuous down trading by consumers in the face of inexorably rising prices, driven by ever increasing levels of tax. For every Rs.100 that a consumer pays at a retail outlet, over Rs.60 goes to the State Exchequer in the form of some tax or levy. The distributive trade, helped by archaic regulation that limits their number, straddles a disproportionate percentage of the value chain and remains inflexible in their margins. The hapless consumer is then left with no choice but to go down the value chain and purchase what he can afford rather than what he would like to consume.

In this backdrop McDowell's achievement of a growth of 22% in its more expensive **first line** products is particularly significant. Taking the industry as a whole, McDowell has a dominant 31% in the first line segment which is reflective not only of management effort but also of the consumer's willingness to pay for a superior product backed by the century old McDowell's name.

In continuing pursuit of your Company's commitment to the consumer, McDowell has invested in world leading technologies to provide tamper proof and tamper evident packaging, thus reinforcing customers' confidence and trust in the Company's product. McDowell is also investing in new and innovative packaging options, which has become important in view of the near monopoly situation in the glass container industry in India. Glass bottles comprise one of the largest components of costs of your Company. A consolidation in the industry has led to unprecedented increases in the cost of glass bottles. Apart from enhanced levels of recycling, your Company will shortly introduce products in new high technology packaging.

This commitment to technology is also a cornerstone of your Company's history of innovation. The brand imagery associated with McDowell and its century old traditions represent a mix of good taste associated with tradition and commitment to contemporary values through the use of modern technology.

Your Company continues investments into brand building through a variety of means. Artistes of international stature and repute have been brought for the first time to India under the umbrella of McDowell's No.1. Recent acts include Bryan Adams and Enrique Iglesias who have all played to standing ovations from sell out crowds at Bangalore, Mumbai and Delhi. More such events are planned in coming years.

The Signature Inter-Club Golf Tournament has introduced an innovative new format and is today one of the most prestigious events on the Indian golfing calendar.

The international design firm, Classens of London, are retained by McDowell to constantly refurbish and revitalise the packaging of your Company's offerings in keeping with McDowell's international standing in the beverage alcohol industry. The continuing aim of management is to provide Indian consumers with world-class choices of both product and packaging.

Changing cultural attitudes towards consumption of beverage alcohol combined with tangible increases in per capita disposable income and, most importantly, willingness of a new generation of young

Chairman's Statement

consumers to spend, all point to healthy growth prospects for the industry. The existence of a large volume of country spirits in the unorganised sector comprising principally of cheap unbranded products offers another engine for future growth as consumers become more sophisticated and are exposed to more information.

Your Company has long provided consumers with a price ladder with product offerings across flavour categories at various price points. In order to exploit opportunities at the lowest end of the product spectrum, McDowell pioneered the concept of brand franchise. Under this scheme, products and packaging are developed by McDowell and then franchised for exploitation to third parties who have a much lower cost base. A fixed income is generated under such arrangements without having to invest in either capacities or working capital.

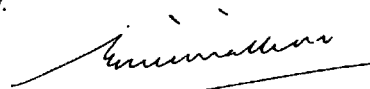
Very recently McDowell has begun to explore the feasibility of entering country liquor markets through judicious branding. Its range of country liquor brands has been created once again relying on the franchise route. These products will offer the consumer a taste of branded, aspirational products, which, over time, will facilitate the graduation to the branded IMFL products, which are the core of McDowell's business.

Distribution continues to maintain its stranglehold over the industry by seeking to retain a disproportionate share of the profit chain. The trade has remained impervious to industry constraints. In order to expand profit opportunities, your Company is now evaluating a possibility of entering into the retail end of the business. An international firm of consultants has been engaged to assist the company in this regard.

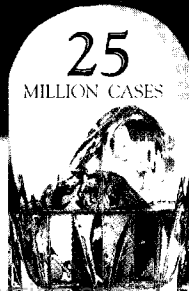
Cyclical impact on sugarcane production has led to the steep increase in the prices of the principal raw material namely Rectified Spirit during the current year. In this context of shortages, the availability is further constrained by government directives to mix ethanol (also produced from the same source) with gasoline. McDowell has been able to partially offset this price increase through judicious build up of inventories decisions taken some months ago. Opportunities to import Molasses / Rectified Spirit are also being explored and a case has been made to the Government for reduction of import tariff in this regard.

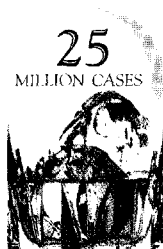
McDowell and other Companies comprising the Spirits Division of the UB Group have achieved world stature on account of their volume performance which itself is reflective of your Company's commitment to quality. Adoption of pioneering technology to prevent tampering with content goes a long way in reinforcing consumer confidence in an industry, which has long been plagued by illicit producers. These steps, along with ongoing commitment to quality and continuing investments into the principal brands, will all drive your Company in the future as well.

In conclusion I wish to thank the Board of Directors, Employees, Suppliers, Customers, Banks and of course, you dear Shareholders for your consistent support to your Company.



Dr. Vijay Mallya
Chairman

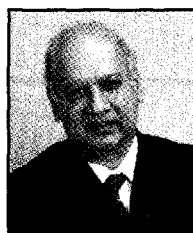




T H E T E A M



Dr. Vijay Mallya
Chairman



S. R. Gupte
Vice Chairman



V. K. Rekhi
Managing Director



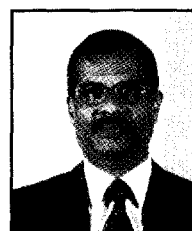
Ravi Nedungadi
President & CFO
The UB Group



Ashwin Malik



Ashok Capoor



P. A. B. Sargunar



D. Banerjee



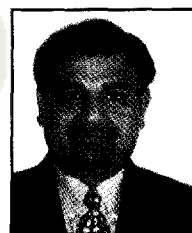
Navratan Dugar



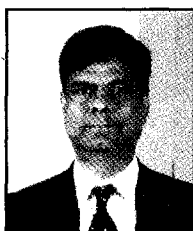
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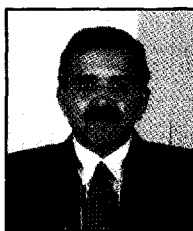
Gerald G. D'Souza



Alok Gupta



Dr. B. K. Maitin



Anant Iyer



I. P. Suresh Menon



Vivek Prakash



T. K. Subramanian



V. S. Venkataraman
Company Secretary



DIRECTORS

VJAY MALLYA,
Chairman

S.R. GUPTE,
Vice Chairman

V.K. REKHI,
Managing Director

M.R. DORAISWAMY IYENGAR

P.K. KAKODKAR

B.M. LABROO

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PRESIDENT & CFO - THE UB GROUP

RAVI NEDUNGADI

COMPANY SECRETARY

V.S. VENKATARAMAN

AUDITORS

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REGISTERED & CORPORATE OFFICE

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BANGALORE - 560 025