



THE **UB** GROUP

# Winsome Foursome

Report Junction



*McDowell & Company Limited*

ANNUAL REPORT 2004 - 2005

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Inspire

## UB Group becomes the world's 2<sup>nd</sup> largest spirits marketer



- Acquisition of Shaw Wallace
- Emergence of United Spirits

### A historic acquisition to deliver maximum value to stakeholders.

The long-awaited acquisition of Shaw Wallace by the Spirits Division of the UB Group saw the culmination of a 20 year old dream: To become one of the top players in distilled spirits in the world arena. The UB Group is now the 2<sup>nd</sup> largest amongst global spirits companies.

The emergence of United Spirits that would consolidate the businesses of McDowell, Herbertsons, TDV and Shaw Wallace will be the first step in the journey towards becoming No. 1 in the world.

And as the new entity is realigning strengths for optimum efficiencies, strategic moves are already under consideration for the acquisition of one of the top Scotch labels in the world...

On that note, we present the 2004-05 Annual Report of McDowell and Company Limited.



## Board of Directors



Vijay Mehta  
Chairman

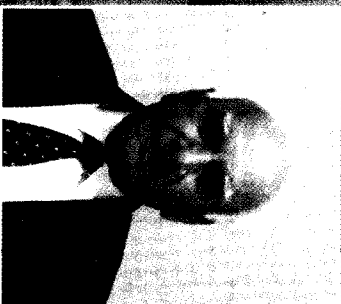
# Motivace



S.R. Gupte  
Vice Chairman



V.K. Rekhli  
Managing Director



M.R. Doraiswamy  
Director



P.K. Kakodkar  
Director



B.M. Labroo  
Director



# Exhilarate

**Four UB brands in the 100 top global brands by retail value**

For the first time, an Indian spirits company has had four of its brands featured among the top 100 global brands by retail value. Impact International, the world's most reputed journal on alcoholic beverages included UB's McDowell's No. 1 Whisky, Bagpipe Whisky, McDowell's No. 1 Brandy and McDowell's No. 1 Celebration Rum in its annual listing.

Of the four UB brands to feature, the three McDowell's No. 1 brands account for 15.4 million cases.

The retail value of these four brands represents 64% of the total retail value of UB Group's spirits brands, which stands at USD 2 billion.

**Is the largest selling brandy in the world.**

**Is India's largest selling IMFL brand. Sells a whopping 7.40 lakh bottles every day.**

**Is the world's fastest moving whisky brand.**

**Joins the successful 5 million club. Is the 4<sup>th</sup> largest selling rum brand in the world.**

## Millionaire Brands

With the acquisition of Shaw Wallace and Company, the UB Group has 15 spirits millionaire brands, as many as the world's largest alcobev company Diageo. According to the prestigious Drinks International Bulletin, six of Diageo's 15 millionaire brands are stagnant, one brand has de-grown and only two brands show double digit growth, whereas 12 of the 15 millionaire brands of the UB Group have shown double digit growth during the calendar year 2004. The growth ranges from 10.6% by Royal Challenge Whisky to 33.9% by No. 1 McDowell's Brandy. Diageo's highest growth rate is only 13.3% for a rum brand manufactured by it\*.



\*Source : Drinks International  
www.reportjunction.com

# Scintillate



- Signature Rare Whisky
- Diplomat Whisky
- Derby Special Whisky
- Kerala Malt Whisky



- Romanov Vodka



- Alcazar Vodka



- Antiquity Rare Whisky
- White Mischief Vodka
- Director's Special Black Whisky

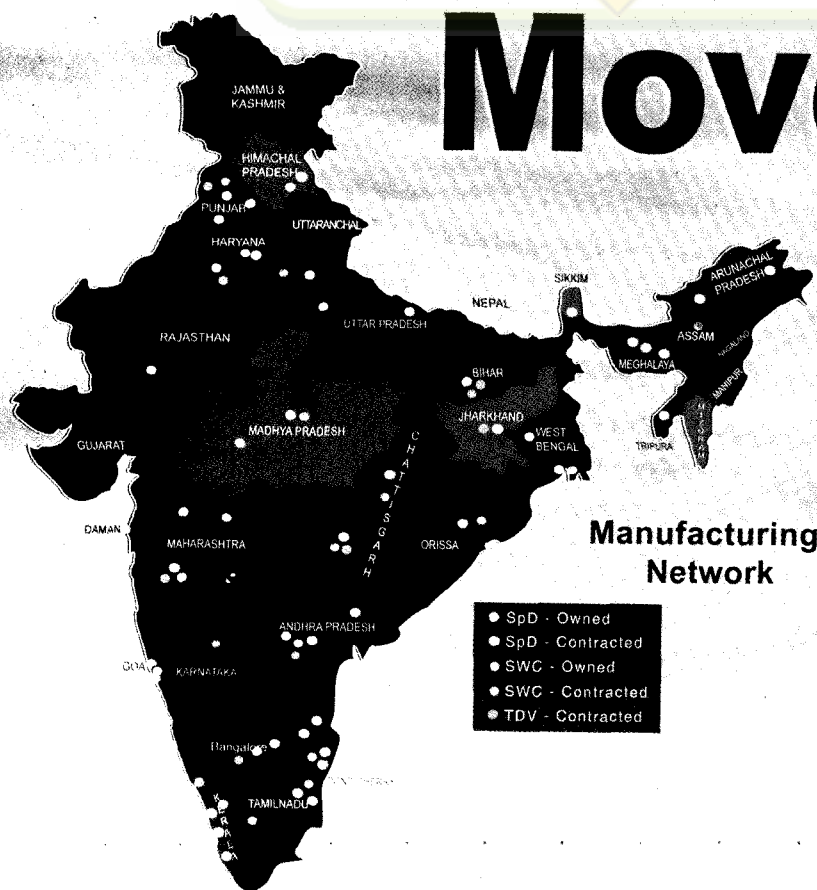
Report  Junction.com

## Other Key Brands



Report [www.foxnews.com](http://www.foxnews.com)

# Move



## Manufacturing Network

<b>Segment</b>	<b>SpD*</b>	<b>TDV</b>	<b>UBG</b>	<b>SWC</b>
Owned	16	NIL	16	12
Contracted	29	10	39	8
<b>TOTAL</b>	<b>45</b>	<b>10</b>	<b>55</b>	<b>20</b>

\*SpD - Spirits Divn-McDowell and Herbertsons



# Ignite



## Show case

The new category pack  
showing off its sleek design



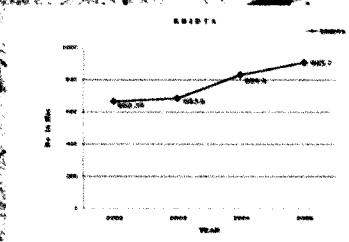
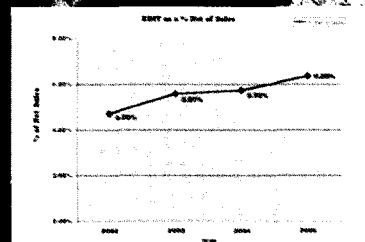
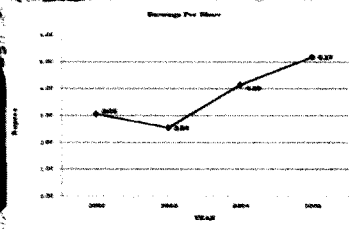
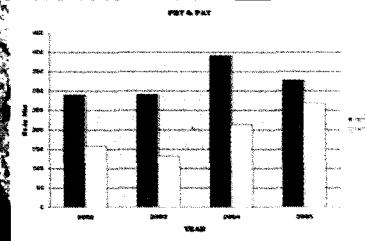
# Stimulate

## HRD -

### Innovation Journey

The Innovation Journey for achieving growth which started in the previous year and attempts a cultural change, continued during the year with a focus on building innovation capabilities in employees, a change in outlook and institutionalising processes and practices aimed at fostering growth.

## FINANCIAL HIGHLIGHTS



# Chairman's Statement



Dear Shareholders,

It has been another extraordinary year for McDowell – a year which will be remembered not only for the significant organic growth in the market but also for various bold initiatives that have led to a number of acquisitions taking the combined UB Group's Spirits Division to the second place among the world's largest spirits companies.

It is with particular pride that I am able to share the historic moment on June 14<sup>th</sup>, 2005, when finally, McDowell was able to complete its acquisition of majority shares in Shaw Wallace & Company which has, for long, been our traditional rival in the market place. The coming together of these two spirits companies heralds a new era for the industry and for the consuming public as we prepare to offer consumers greater choice than ever before while leveraging the combined strengths of marketing, distribution and manufacturing to produce and sell our products more efficiently than ever before.

While the acquisition of Shaw Wallace stands out, particularly given the hard fought battles that went on behind the scenes, a number of other strategic moves were initiated, all of which will contribute to your Company's pre-eminence in the days to come.

After 7 years of battles fought across many courts in the country, an arrangement was worked out with Mr Kishore Chhabria for the purchase of his stake (including the disputed shares) in Herbertsons for a total cost of Rs 131.16 crores. Your Company's wholly owned subsidiary, Phipson Distillery Ltd. acquired 4,672,791 shares from the Chhabria Group representing 49.07% of the paid-up capital of Herbertsons. This gives the UB Group a combined holding of 85.14% in Herbertsons Ltd., of which 61.01% is owned by your Company along with its subsidiaries, while the balance is held by other UB Group companies.

In accordance with the Supreme Court decision and requirements of Securities Regulations in India, an offer for delisting will be made shortly, offering the balance shareholders of Herbertsons an opportunity to dispose off their holdings in the Company. The process has been initiated at the end of August.

This acquisition clears the way for a complete integration of Herbertsons' operations with that of McDowell and other companies of UB's spirits business. It has long been our dream to build up a consolidated United Spirits entity. In pursuance of this goal,



McDowell also exercised its Call Option on the balance 15% shares in Triumph Distillers & Vintners Pvt. Ltd. You will recall that TDV comprised the Indian business of Diageo, the world's largest spirits company.

I have mandated leading Merchant Bankers and other Advisors to take forward the integration of the various spirits companies so that value to all stakeholders can be maximized.

India is going through an unprecedented period of business confidence on the back of sustained growth across all sectors. I am confident that this augurs well for your Company. With nearly 100 million people to reach legal drinking age in the next decade and the opening up of job opportunities, particularly in the services and export sectors, I believe that our industry is set to see vigorous growth. The young citizens of India are plugged into a virtual global economy and share many of the attitudes of their age profile in the developed world. These include among other things, the propensity to spend on items of personal consumption and this is clearly visible in spending patterns in India today which show a dramatic shift away from savings and towards expenditure on food, drink and entertainment.

As India's leading drinks company, your Company stands to benefit both from higher levels of consumption driven by demographics and from the willingness of future consumers to pay a higher price for quality.

The creation of United Spirits will also enable all stakeholders to benefit from the synergies of consolidation as the combined entity will emerge as a major consumer of several items including spirits, glass containers, paper and board etc. Economies of scale and economies of purchase will work towards a structural upward shift in the profitability of our business. Similarly, increased negotiation strength vis-à-vis our often monopolistic customers will also be helpful in this regard.

Your Company has taken on substantial debt to make these acquisitions, but these have been on terms that give us the opportunity to reorganize and integrate, thereby being in a position to deleverage over a two year timeframe. I am confident that we will be able to achieve the required level of deleveraging within the target timeframe through a combination of capital raising and divestment of surplus assets and brands.

All the momentous events of the year cannot eclipse the sterling performance of your Company's brands in the market place. Three of our brands, all under the McDowell's No. 1 umbrella, have made it to the top 100 global alcobev brands by retail value.

McDowell's No.1 Whisky sold 5.5 million cases, McDowell's No.1 Celebration Rum achieved 5.04 million cases and McDowell's No. 1 Brandy reached 4.8 million cases. Additionally, Bagpiper Whisky – a brand of our subsidiary, Herbertsons sold a historic volume of 7.9 million cases making it 1<sup>st</sup> among the 4 UB Group brands in the list.

The promulgation of a Turnover Tax regime in Kerala was confirmed by a decision of the Supreme Court recently giving rise to some potential liabilities in the industry with retrospective effect from 05.01.1999. Although this matter is still under litigation, by way of abundant caution your Company has made an extraordinary provision for Rs 14.66 crores being the estimated balance liability for the past years on account of this regulation. Additionally, your Company has made precautionary provision amounting to Rs 18.29 crores for the dues from a toll manufacturer. While the management continues its efforts towards the recovery of these amounts, the provision has been made in recognition of the fact that this particular manufacturer has come under the aegis of BIFR as a consequence of accumulated losses. These two extraordinary provisions have resulted in a reduction of profits amounting to Rs 32.95 crores. Despite this reduction, the post tax profit for the year did record a growth of 25% which is a reflection of management efforts to deliver consistent value.

Dear Shareholders, I believe that we are on the threshold of a paradigm shift in the industry and your Company is expected to reap the benefits of various initiatives in the near term. However, I cannot underplay the challenges associated with the integration of two entities that have fought against each other for so many years and have evolved under different cultures. We are approaching this exercise with great professionalism as well as great sensitivity to the human elements.

The first Quarter which saw McDowell and Shaw Wallace operating in tandem for the first time, has seen outstanding results and I am sure that this is a pointer to what lies ahead.

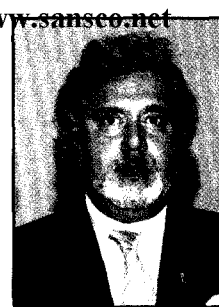
In conclusion, I wish to thank the Board of Directors, Employees, Suppliers, Customers, Bankers and of course, you Shareholders for your consistent support to our Company.



**Dr Vijay Mallya**  
Chairman

## The Team

# Energy



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



P.A. Murali



Alok Gupta



Gerald G. D'Souza



Dr. B. K. Maitin



I. P. Suresh Menon



V. S. Venkataraman  
Company Secretary



T. K. Subramanian



Vivek Prakash