

23rd
Annual Report
1998 - 99


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V H GROUP

**Western
Hatcheries
Limited**



Western Hatcheries Limited is the owner of the popular brand 
 – a name synonymous with processed chicken products.

What is a brand? It is in effect, a trademark which through careful management, skillful promotion and wide use, comes in the minds of consumers to represent an appealing set of values and attributes, both tangible and intangible. It is more than the product itself. To the consumer, it represents a whole host of attributes and a credible guarantee of quality and origin.

Today, the brand  is firmly entrenched in the minds of consumers as embodying both quality and value. It is a brand that has created markets for the Company's processed chicken products, converted the idea of 'luxury' into a 'convenience'. It has offered and delivered value for money. Backed by consumer research and a continuing investment in technology, the brand  has a dominant presence in the market for processed chicken products. Incidentally,  is the only national level brand in chicken based fast food and is a preferred supplier of processed chicken products to multinational fast food restaurants, like KFC, Pizza Hut and Domino's.



INDIAN POULTRY INDUSTRY – FACTS AND PROSPECTS

Western Hatcheries Ltd., a Venkateshwara Hatcheries Group Company, is the largest Poultry Company in India. It is also highly integrated Poultry Company in India whose activities encompass nationwide network of parent farms and hatcheries, production of poultry feed, production of poultry feed supplements, production of specific pathogen free eggs, production of soya cake for poultry feed and processing of poultry. VH Group is also engaged in pureline breeding and genetic research, manufacture of poultry vaccines, poultry equipments and egg powder. VH Group is responsible for upgrading Indian Poultry Industry from the stage of backyard operations into an organised industry. VH Group has taken Indian Poultry Industry on the world poultry map and today India is the fifth largest egg producing country in the world.

The Indian Poultry sector is poised for dramatic growth. Compared with much of the Food Industry, the sector is already of a fairly respectable size of Rs. 7,500 crores. It is just a small forestate of its potential, however. The per capita poultry consumption in India is just 0.44 kg. per year, which is very much lower as compared to developing countries like Pakistan (2.3 kgs), China (4 kgs), Thailand (9 kgs), leave alone developed country like USA (44 kgs). Per capita consumption of eggs in India is 34 while the consumption in developed countries is 306. The National Institute of Nutrition of ICMR has recommended per capita egg consumption of 180 per year to meet the protein requirement.

The Poultry Industry is based in rural areas and generates rural employment. Poultry is the least cost animal protein source and most Indian diets are deficient in proteins. Poultry has the best feed to edible protein conversion ratio : better than even milch cattle. **Thus, the need and the scope for growth of poultry industry in India is tremendous.**

Here are some excerpts from the report of joint study conducted by the Confederation of Indian Industry and McKinsey & Co. on Food Industry in India, which was released in March '97.

"The poultry sector in India has the potential to grow at over 20 per cent a year over the next ten years. This will enable it to atleast quadruple in size growing from Rs. 7,500 crores to approximately Rs. 30,000 crores (in real terms) by 2005. The major driver for overall poultry demand is increasing consumer incomes and the high income elasticity of poultry consumption. Demand for high quality processed poultry will be driven by retailers and should grow very rapidly.

The demand for poultry has the potential to quadruple from 1.4 million tonnes today to at least 6.0 million tonnes by 2005. This growth rate, of over 20 per cent CAGR, is considerably higher than the 13 per cent CAGR witnessed in India since 1980. Even this growth will nowhere begin to saturate demand. The demand potential in this sector is immense."

"Apart from the general wet market demand for poultry, high quality processed chicken is also poised to take off as food retailers enter the market, growing at a rate even faster than the rise in general demand. From today's level of just one per cent of chicken consumption, processed chicken is expected to grow by more than ten times over the next decade to reach as high a proportion as 10 to 15 per cent of total consumption by 2005."

"As poultry players get increasingly cost conscious further integration of the industry can be expected. Integration will help the players aggregate margins, increase control on quality and bio-security, and achieve economies of sale. As in other markets, the integration process will include hatching, feed growing and production, managing farmers, and processing and distribution, but not necessarily breeding. Breeding will become the province of specialist players, who will supply on a contract basis to the processors."

"The domestic markets are not the limit of potential in poultry. Once feed costs are lowered, Indian companies also have the potential to become large poultry exporters. Indian companies will have an inherent advantage because labour costs are a significant component of costs, accounting for at least 20 per cent of the total cost of production in countries like U.S. The other two primary elements of cost (feed and DOCs) are often very similar in internationally competitive countries due to the increasingly global nature of technology and feed input technology."

CONTENTS

Board of Directors	<p>Mrs. Anuradha J. Desai Mr. B. Venkatesh Rao Mr. S. B. Thorat Mr. C. Jagapati Rao Mr. V. N. Dubey Mr. Jitendra M. Desai Dr. G. V. K. Rao Mr. B. G. Deshmukh Mr. B. Balaji Rao Dr. S. Samal</p>	<p><i>Chairperson</i> <i>Vice Chairman</i></p> <p><i>Managing Director</i> <i>(AHP, SPF and Feed)</i> <i>Managing Director</i> <i>(Poultry)</i></p>	<p>Financial Highlights 1994-95 to 1998-99 3</p> <p>Notice 4</p> <p>Directors' Report 8</p> <p>Auditors' Report 12</p> <p>Balance Sheet 14</p> <p>Profit & Loss Account 15</p> <p>Schedules 16</p> <p>Notes to the Accounts 27</p> <p>Balance Sheet Abstract and Company's General Business Profile 34</p> <p>Cash Flow Statement 35</p> <p>Statement Pursuant to Section 212 of the Companies Act, 1956, Relating to Subsidiary Companies 37</p> <p>Subsidiaries : 11th Annual Report of Venkateshwara Management Services Ltd. 39</p> <p>5th Annual Report of VenKeys Foods (India) Ltd. 51</p>
Bankers	<p>State Bank of India Bank of Maharashtra State Bank of Travancore Bank of Baroda Corporation Bank Global Trust Bank Ltd. Cosmos Co-operative Bank Ltd.</p>		
Auditors	<p>Sudit K. Parekh & Co. Chartered Accountants 12-A Suleman Chambers, 2nd Floor 4, Battery Street, Apollo Bunder, Mumbai 400 001.</p>		
Company Secretary	Mr. A. G. Bauskar		
Registered Office	<p>"Venkateshwara House" H. No. 3-5-808 & 808/1, Hyderguda Hyderabad 500 029.</p>		
Corporate Office and Share Department	<p>"Venkateshwara House" S. No. 114/A/2 Pune-Sinhagad Road Pune 411 030.</p>		

Western Hatcheries Limited



FINANCIAL HIGHLIGHTS : 1994-95 TO 1998-99

(Rs. in lakhs)

PARTICULARS	1998-99 Rs.	1997-98 Rs.	1996-97 Rs.	1995-96 Rs.	1994-95 Rs.
OPERATING RESULTS					
Turnover and Other Income	22,306	19,427	16,714	15,533	10,889
Material Cost	13,811	11,770	10,645	9,911	6,494
Personnel Cost	1,450	1,301	1,065	960	635
Interest	810	1,094	1,103	852	453
Other Expenses	3,724	3,236	2,727	2,365	1,959
Depreciation	417	395	367	321	215
Provision for decline in value of investments	107	—	—	—	—
Provision for Contingencies	50	150	—	—	—
Profit Before Tax	1,937	1,480	808	1,124	1,134
Profit After Tax	1,377	1,130	790	1,084	1,069
Dividend (%)	40	35	30	30	30
FINANCIAL SUMMARY					
Assets Employed					
Current Assets	6,866	7,151	6,725	6,547	5,916
Current Liabilities	2,666	2,416	2,284	2,251	2,438
Net Current Assets	4,200	4,735	4,441	4,296	3,478
Net Fixed Assets	7,846	7,441	7,269	7,061	5,774
Investments	375	481	494	416	323
Total Assets	12,421	12,658	12,204	11,772	9,576
Financed by					
Share Capital	770	770	770	770	770
Reserves and Surplus	6,670	6,172	5,394	4,957	4,100
Capital Grants and Subsidies	78	79	11	11	—
Borrowings	4,903	5,637	6,030	6,034	4,706
Total Liabilities	12,421	12,658	12,204	11,772	9,576

NOTICE

NOTICE is hereby given that the Twentythird Annual General Meeting of the members of the Company will be held on Thursday, the 9th September, 1999 at 10.00 a.m. at Hari Hara Kala Bhavan, Sardar Patel Road, Secunderabad - 500 003, to transact the following business :

ORDINARY BUSINESS

- 1) To receive, consider and adopt the Audited Balance Sheet as at 31st March, 1999 and the Profit and Loss Account for the year ended as on that date together with the Auditor's Report and the Directors' Report thereon.
- 2) To declare a dividend.
- 3) To appoint a Director in place of Mr. V. N. Dubey who retires by rotation and, being eligible, offers himself for reappointment.
- 4) To appoint a Director in place of Mr. B. Venkatesh Rao who retires by rotation and, being eligible, offers himself for reappointment.
- 5) To appoint a Director in place of Mr. Jitendra M. Desai who retires by rotation and, being eligible, offers himself for reappointment.
- 6) To appoint Auditors of the Company to hold office from the conclusion of this Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

- 7) To consider and, if thought fit, to pass with or without modifications, the following resolution as a Special Resolution :

"RESOLVED that subject to all the applicable provisions of the Companies Act, 1956, (including any statutory modification or re-enactment thereof and any ordinance promulgated in this regard for the time being in force and as may be enacted from time to time) and subject to such other conditions, approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by the Act or the Rules or Guidelines as the case may be, the consent of the Company be and is hereby accorded to the Board of Directors to buy back the equity shares issued by the Company, from the holders thereof (including employees of the Company) from the open market or otherwise and in market lots or lots smaller

than market lots, to be financed from the free reserves and/or Securities Premium Account of the Company on such terms and conditions and in such manner as may be prescribed by law from time to time, provided that the aggregate of the securities so bought back shall not exceed 20% of the paid up capital of the Company."

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to do all such acts, deeds and things and deal with all such matters and take all such steps in this regard as may be deemed necessary for the implementation of the resolution."

- 8) To consider and, if thought fit, to pass with or without modifications, the following resolution as a Special Resolution :

"RESOLVED that pursuant to section 31 and all other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be and is hereby altered by inserting new Article 14A after the existing Article 14 as follows :

14A DEMATERIALISATION OF SECURITIES :**Definitions**

- (1) For the purpose of this Article :

'Beneficial Owner' means a person or persons whose name is recorded as such with a depository;

'Depositories Act, 1996' shall mean and include any statutory modification or re- enactment thereof;

'Depository' means a company formed and registered under the Companies Act, 1956, and which has been granted a certificate of registration to act as a depository under the Securities and Exchange Board of India Act, 1992 ; and

'Security' means such security as may be specified by SEBI from time to time.

Dematerialisation of securities

- (2) Notwithstanding anything contained in these Articles, the Company shall be entitled to

Western Hatcheries Limited



dematerialise its securities and to offer securities in a dematerialised form pursuant to the Depositories Act, 1996. All the securities held by the depository shall be in fungible form.

Options for Investors

- (3) Every person subscribing to securities offered by the Company shall have the option to receive security certificates or to hold the securities in dematerialised form with the depository. Such a person who is the beneficial owner of such securities can at any time opt out of the depository, in respect of security in the manner provided by the Depositories Act, and the Company shall, in the manner and within the time prescribed under the Depositories Act, 1996, issue to the beneficial owner the required certificates of securities.

If a person opts to hold his security with the depository in dematerialised form, the Company shall intimate such depository the details of allotment of the security and, on receipt of the information, the depository shall enter in its record the name of the allottee as the beneficial owner of the security.

Rights of Depositories and Beneficial Owners

- (4) (a) Notwithstanding anything to the contrary contained in the Act or these Articles, the depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of the beneficial owner.
- (b) Save as otherwise provided

in (a) above, the depository shall not have any voting rights or any other rights in respect of securities held by it.

- (c) Every person holding securities of the Company and whose name is entered as the beneficial owner in the records of the depository shall be deemed to be the member of the Company. The beneficial owner of the securities shall be entitled to all the rights and benefits and be subject to all the liabilities in respect of his securities held in electronic mode which are held by the depository.

Service of Documents

- (5) Notwithstanding anything contrary in the Companies Act, 1956, or these Articles, where securities are held in a depository, the records of the beneficial ownership may be served by such depository on the Company by means of electronic mode or by delivery of floppies or discs, through an authorised agent duly appointed by the Company.

Transfer of Securities

- (6) Nothing contained in section 108 of the Companies Act, 1956, or these Articles shall apply to a transfer of securities effected by a transferor and transferee both of whom are entered as beneficial owners in the records of the depository.

Allotment of Securities dealt with by the Depository

- (7) Notwithstanding anything contained in the Companies Act or these Articles, where securities are dealt with by the depository, the Company shall intimate the details thereof to the

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| | depository immediately on allotment of such securities. | 5. Members who hold shares in identical order of names in more than one folio are requested to write to the Company to enable consolidation of their holdings in one folio. |
| Distinctive numbers of Securities held in the Depository | (8) Nothing contained in the Companies Act, 1956, or these Articles regarding the necessity of having distinctive numbers for securities issued by the Company shall apply to securities held in the depository. | 6. Members desiring any information on Accounts are requested to write to the Company at least seven days before the meeting so as to enable the Management to keep the information ready at the meeting. |
| Register and Index of Beneficial Owners | (9) The Register and Index of beneficial owners, maintained by the depository under the Depositories Act, 1996, shall be deemed to be the Register and Index of Members and security holders for the purpose of these Articles." | 7. Members/Proxies are requested to bring their copies of the Annual Report to the meeting and attendance slip duly filled in for attending the meeting. |
| | | 8. Investors desirous of availing the facility of electronic credit of Dividend are requested to send the form duly filled and attached hereto at page number 57. |
| | | 9. Members who wish to make nominations under section 109A of Companies Act, 1956 for the shares held by them may kindly send the details in the prescribed form attached hereto at page number 59. |

By order of the Board of Directors

Place : Pune
Date : May 28, 1999

A.G. BAUSKAR
Company Secretary

NOTES :

- The relative Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956, in respect of business under items 7 and 8 set out above are annexed hereto.
- A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote instead of himself/ herself and the proxy need not be a member. The proxy in order to be effective, must be lodged at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
- The Register of Members of the Company will remain closed from 20th July, 1999 to 30th July, 1999 (both days inclusive). If a dividend is declared at the meeting, payment of such dividend will be made to those shareholders or their mandate(s) whose names appear in the Company's Register of Members as on 30th July, 1999.
- Members are requested to intimate change in their address, if any, to the Company's Share Department at Pune immediately.
- Pursuant to Section 205A of the Companies Act, 1956, all unpaid dividends upto the financial year ended 31st March, 1994 have been transferred to the General Revenue Account of the Central Government. Members, who have not claimed the dividend for the aforesaid period/s are requested to claim the amount/s from the office of Registrar of Companies, Andhra Pradesh, Kendria Sandan, II Floor, No. 3-5-398, Sultan Bazar, Koti, Hyderabad-500 195, quoting their folio no., shareholdings etc. The unpaid dividend for the financial year ended 31st March, 1995, is being transferred to the General Revenue Account of the Central Government. The unpaid dividend payable to the shareholders from the financial year ended 31st March, 1996 onwards shall be transferred to the prescribed authorities in terms of the newly inserted Section 205C of the Companies Act, 1956, to the credit of the 'Investor Education and Protection Fund' after the seventh year from the date they first become due for payment.
- As already communicated to the shareholders through a circular letter, the Company has entered into an arrangement with National Securities Depository Limited for dematerialisation of its shares. Members are requested to avail of this facility to avoid loss of share certificates in transit, and avail of the benefit in stamp duty exemption, speedy transfer etc. The shareholders have to open a depository account with the Depository Participant.

**EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956, FORMING PART OF THE NOTICE DATED 28TH MAY, 1999.****ITEM NO. 7**

The newly inserted section 77A of the Companies Act, 1956, allows a Company to purchase or buy back its own securities. It is proposed to Buy Back not exceeding 20% of the paid up equity capital issued by the Company. The aforesaid buy back would be made from the existing shareholders on a proportionate basis from the open market and/or from the lots which may be smaller than market lots of the shares (i.e. odd lots) and/or through negotiations or other arrangement as may be permitted by law.

The funds required for the proposed buy back of shares shall be met out of the free reserves of the Company.

Such of the Directors of the Company who hold shares in the Company at the time of buy-back will be deemed to be interested in the resolution.

Your Directors commend passing of the Resolution.

ITEM NO. 8

With the introduction of the Depositories Act, 1996, and the Depositories System, some of the provisions of the Act relating to the issue, holding, transfer, transmission of shares and other securities have been amended to facilitate the implementation of the new system. The Depository System of holding securities in an electronic form is a far safer and more convenient method for holding and trading in the securities of the Company. It is therefore felt appropriate to incorporate the provisions regarding dematerialisation of securities, in the Articles of Association of the Company as set out in the Resolution at Item No.8 to reflect the provisions introduced by the Depositories Act, 1996 and to spell out the modalities of transfer of the securities in such a system.

None of the Directors of the Company is interested in the proposed Resolution.

Your Directors commend passing of the resolution.

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**SHAREHOLDERS MAY PLEASE NOTE
THAT NO GIFTS WILL BE GIVEN AT THE
ANNUAL GENERAL MEETING.**

DIRECTORS' REPORT

To,

The Shareholders,

Your Directors have pleasure in presenting the Twentythird Annual Report and Audited Accounts for the year ended 31st March, 1999.

FINANCIAL RESULTS

(Rs.in Lakhs)

	1998-99	1997-98
Profit before tax	1937.12	1480.45
Less: Provision for taxation	560.00	350.00
Profit after tax	1377.12	1130.45
Less : Tax Provision in respect of earlier years	(274.93)	(32.41)
Add : Transferred from investment Allowance reserve	1.73	1.62
Balance of Profit brought forward	235.20	539.09
Profit available for Appropriation	1339.12	1638.75
Appropriations		
Debenture redemption reserve	100.00	107.10
Transfer to general reserve	800.00	1000.00
Proposed dividend	307.90	269.50
Corporate dividend tax	33.87	26.95
Balance profit carried forward	97.35	235.20
	1339.12	1638.75

DIVIDEND

In view of the improved performance, your Directors are pleased to recommend a higher dividend of Rs.4.00 per share (40%) for the year ended 31st March, 1999.

OPERATIONS

During the year under review the Company turned out an excellent and satisfying performance. The income improved from Rs.194.27 crores to Rs.223.06 crores, registering an improvement of 15%. The profit before tax improved to Rs.19.37 crores showing an increase of 31%. The improved performance is after making a contingency provision of Rs.0.50 crore for various contingencies resulting from the issues under litigation and Rs.1.07 crores for diminution in the value of investments.

As described elsewhere in the Report the excise dispute, the amount in respect of which was included as contingent liability in the previous year, was decided in the favour of the Company. The Income Tax dispute regarding Chapter VI-A deductions on hatchery income has been decided against the assessee and therefore, the tax liability has been recomputed resulting in an additional tax liability of Rs.5.37 crores out of which Rs.2.62 crores has been adjusted against the amalgamation reserves as it relates to merged companies before merger with

Western Hatcheries Limited and the balance Rs.2.75 crores has been charged to Profit & Loss Account. The Company has been paying taxes in excess of provision and therefore, no further outflow is expected. The contingency provision of Rs.0.50 crore has been made out of business prudence. The tax provision at Rs.5.60 crores is higher by 60%, due to increase in profits by 31% and disallowance of new industry benefits to hatchery business as per recent judgement of the Supreme Court.

The Earning Per Share works out to Rs.18. The Cash Earning Per Share works out to Rs.24.7. The Company, during the year, brought down its borrowings by Rs. 7.34 crores and also negotiated better interest rates and consequently interest costs were lower by 26%.

ACCOUNTS

The Accounts read with the Notes thereon are self-explanatory and do not call for further comments.

DIVISIONAL PERFORMANCE**(A) Poultry Division**

Your Company is a franchisee of leading breeds owned by VH Group Companies - VENCOR (broiler) and BV 300 (layer). The Company has farms and hatcheries in the States of Maharashtra and Gujarat catering to Western parts of India and in Northern States of Punjab, Haryana, Uttar Pradesh, Madhya Pradesh and Jammu & Kashmir. The poultry business showed excellent improvement over the previous year. The improved price realisation and reduced feed cost as a result of subdued prices of feed ingredients like soya and maize resulted in significant improvement in poultry profits.

(B) Specific Pathogen Free (SPF) Eggs Division

Your Company's SPF Eggs Division, which is one of the few SPF eggs producing facilities in the world, continues to perform well and reported improved sales and profits. Its Collaborator M/s. SPAFAS Inc., USA continues to provide excellent support. The expansion of production capacity undertaken to cater to the increasing demand for export and domestic market is nearing completion and the birds are expected to be housed in July, 99. The commercial production would be available for sale in the last quarter of the current year.

(C) Feed Division

The poultry feed of the Company is sold under the brand name "Venky's" and is well known for its superior quality.

The Company has three feed units at Osade (Pune), Solapur and Dehradun. Sales and profits of Feed Division maintained its uptrend during the year.

(D) Animal Health Products (AHP)

Your Company has AHP production facilities at Pune and Patvi (Ambala). The Company is a market leader in poultry