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STARCHKEM LIMITED

AN ISO 9002 COMPANY

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8th Annual Report 1998-99

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8th Annual General Meeting

Day	:	Monday
Date	:	27th September, 1999
Time	:	11.00 A.M.
Venue	:	Hotel Deccan Continental, Banquet Hall, Sir Ronald Ross Road (Minister Road), Secunderabad - 500 003.

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BOARD OF DIRECTORS

Shri T V Sandeep Reddy	*Managing Director*
Shri K Banerjee	*Director (IDBI Nominee)*
Shri P S V Mallya	*Director*
Shri C N Gangadaran	*Director*
Shri M V G Rao	*Director*
Shri G Sivakumar Reddy	*Additional Director*

CHIEF EXECUTIVE
Shri G P Ramakrishna

AUDITORS
C B MOULI & ASSOCIATES
Secunderabad

BANKERS
CANARA BANK
Basheerbagh
Hyderabad

CORPORATION BANK
Hyderguda
Hyderabad

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REGISTERED OFFICE & INVESTOR RELATIONS DEPARTMENT
6-3-1090, T S R Towers
Rajbhavan Road
Somajiguda
Hyderabad - 500 082.

FACTORY
NH - 7, Nandikandi Village
Sadasivpet Mandal
Medak District
Andhra Pradesh - 502 306

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NOTICE

NOTICE is hereby given that the 8th Annual General Meeting of the Members of Gayatri Starchkem Limited will be held at the Hotel Deccan Continental, "Banquet Hall", Sir Ronald Ross Road, (Minister Road), Secunderabad - 500 003 on Monday, the 27th September, 1999 at 11.00 A.M., to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 1999 and Profit and Loss Account for the year ended as at that date together with the Reports of the Auditors and the Directors thereon.

2. To appoint a Director in place of Sri P.V.S.Mallya, who retires by rotation and being eligible offers himself for reappointment.

3. To appoint Auditors of the Company.

   To consider and, if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

   "RESOLVED THAT M/s.C.B.Mouli & Associates, Chartered Accountants, 125, M.G.Road, Secunderabad, 500 003, be and are hereby reappointed as Auditors of the Company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting of the Company and that the Board of Directors be and is hereby authorised to fix their remuneration for the period. "

SPECIAL BUSINESS

4. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution.

   "RESOLVED THAT Shri. G. Sivakumar Reddy, be and is hereby appointed as Director of the Company liable to retire by rotation".

5. Allotment of Equity Shares to Promoters, Relatives and their Associates on Preferential basis.

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

   "RESOLVED THAT in accordance with the provisions of the Memorandum and Articles of Association of the Company, Listing Agreements made with the Stock Exchanges where the shares of the Company are listed and Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and also in accordance with the existing guidelines of Securities and Exchange Board of India (SEBI) and subject to such consents and permissions as may be necessary from Central Government Securities and Exchange Board of India and/or such other authorities or Financial Institutions as may be relevant (hereinafter singly or collectively referred to as the "appropriate authorities") and subject to such terms and conditions or such modifications as may be considered appropriate by the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any committee thereof for the time being to which all or any of the powers hereby conferred on the Board by this Resolution have been delegated), consent of the Company be and is hereby accorded to the Board to offer, issue

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and allot 1,04,00,000 Equity Shares of Rs.10/- each at par fully paid up amounting to Rs.10,40,00,000/- (Rs.One thousand forty lacs only) on Preferential basis to Promoters and their Associates by way of conversion of Share Application money brought in by such Promoters and their Associates in proportion to the Capital Paid up or in such manner and to such Promoters and their Associates who may or may not include the persons who at the date of the offer, are the holders of the Equity Shares of the Company."

"RESOLVED FURTHER THAT subject to the conditions mentioned in the preceding Resolution, the Board is hereby authorised to settle all questions and matters arising out of, and incidental to the offer and issue of Equity Shares and to take all steps which the Board, in its absolute discretion considers necessary and expedient for giving effect to the above resolution."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to make on its own accord or to accept such amendments, modifications, variations and alterations as the Government of India, Securities and Exchange Board of India may stipulate in that behalf and to amend, modify, vary all or any of the terms of Preferential Issue on such terms as the Board in its absolute discretion considers necessary but, within the Guidelines of the Securities and Exchange Board of India."

6. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution.

"RESOLVED THAT approval be and is hereby granted for de-listing of shares from The Delhi Stock Exchange Association Limited, The Calcutta Stock Exchange Association Limited & The Stock Exchange, Ahmedabad subject to compliance of the provisions of the Listing Agreement and any other conditions prescribed by the respective Stock Exchanges, SEBI and any other authority notified by the Government in this regard."

By Order of the Board

Date : 31st July, 1999
Place : Hyderabad

T.V. SANDEEP REDDY
Managing Director

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF /HERSELF AND THE PROXY NEED NOT BE A MEMBER.
2. The Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of business under Item no. (4), (5) & (6) of the notice referred above is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will be closed from Thursday, 23.09.1999 to Monday, 27.09.1999 (both days inclusive).
4. The Shareholders are requested to intimate immediately any change in their address to the Company.
5. Shareholders desiring any information as regards the Accounts are requested to write to the Company atleast seven days before the date of the meeting to enable the Management to keep the information ready at the meeting.
6. Members/Proxies are requested to bring their Annual Report to the meeting and the attendance slip duly filled in for attending the meeting. Copies of Annual Reports will not be provided at the meeting.

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EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT 1956.

ITEM NO. 4

Shri. G. Sivakumar Reddy was appointed as an Additional Director under Section 260 of the Companies Act, 1956 and would hold office till the date of the Annual General Meeting i.e 27th September 1999, Shri. G Sivakumar Reddy is the Chairman of the Grand Kakatiya Sheraton Hotel & Towers and has got rich experience in the Industry. Your Company would be immensely benefited from him being on your Board. The Company has received a notice from one of the members signifying his intention to propose Shri. G.Sivakumar Reddy for the office of the Director. The Company has also received deposit of Rs.500/- as required under the said Act.

None of the Directors other than Shri. G. Sivakumar Reddy is in any way concerned or interested in the said resolution.

ITEM NO. 5

At the 4th Annual General Meeting held on 27th September, 1995, members have approved further issue of Share Capital as required under Section 81 of the Companies Act,1956. However, further Issue of Capital could not be undertaken by the Company and in order to implement the Starch Project as a backward integration project to the existing Sorbitol Plant, Promoters have brought in necessary funds for implementation of Starch Project. At the 7th Annual General Meeting held on 28th September, 1998 members have approved for further issue of Share Capital of Rs.8,10,00,000/- on Preferential basis to the Promoters which could not be allotted due to some technical reasons. It is now proposed to allot the Shares, out of Share Application Money brought in by the Promoters of Rs.10,40,00,000/- (Rupees One thousand forty lakhs only) i.e 1,04,00,000 Equity Shares of Rs.10/- each at par and fully paid up, to be offered, issued and allotted to the Promoters and their Associates either in proportion to the Equity Shares held by such Promoters and Associates or in such manner as the Board may decide subject, however, to such approvals, consents, authorisations etc., statutory or otherwise and further subject to the approval of the members.

None of the Directors other than Sri. T V Sandeep Reddy, Managing Director is concerned or interested in the Resolution. The Directors commend the resolution for approval by the members.

ITEM NO. 6

Your Company's Shares are listed in 5 Stock Exchanges i.e. The Hyderabad Stock Exchange Limited, The Stock Exchange, Mumbai, The Calcutta Stock Exchange Association Limited, The Stock Exchange, Ahmedabad & The Delhi Stock Exchange Association Limited. After introducing online trading throughout India by NSE & BSE, Shareholders prefer to sell or buy the Securities through NSE or BSE. Trading of our Company Shares in Delhi, Ahmedabad and Calcutta Stock Exchanges is very low and the number of holders of the Listed Securities in Northern & Eastern Region is so low that it does not justify the Securities to be Listed and the fee payable to the exchanges is burdensome, having regard to the benefits accruing to the Company.

By Order of the Board

Date : 31st July, 1999
Place : Hyderabad

T.V. SANDEEP REDDY
Managing Director

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DIRECTORS' REPORT

To
The Members,

Your Directors present the 8th Annual Report of the Company for the year ended 31st March, 1999 together with Audited Balance Sheet and Statement of Accounts. The financial results are as follows:

FINANCIAL RESULTS

	(Rs.in lacs)	
	31.03.1999	31.03.1998
Income from Operation	**1705.61**	1785.91
Other Income	**8.08**	12.32
	1713.69	1798.23
Total Expenditure	**1716.84**	1558.10
Finance Charges	**479.10**	387.75
Gross Profit/(Loss) after finance charges but before depreciation and taxation	**(482.25)**	(147.62)
Depreciation	**165.77**	130.75
Provision for Taxation	**--**	–
Net Profit/(Loss)	**(648.02)**	(278.37)

PERFORMANCE DURING THE YEAR UNDER REVIEW

Eventhough, there was general slowdown in the economy as a whole, your Company was able to produce 6629.93 MTs of Sorbitol (77.5% of Capacity) and sold 6650.42 MTs of the same. Though the production and Sale Quantity have almost been maintained at the previous year level, but the steep fall in Sale Price has resulted in fall in the realisation to the extent of Rs. 319.75 lakhs, compared to previous year. In addition, there was not much contribution from Starch division, which started its full operations from Feb'99 onwards. Also there is an increase to the extent of Rs.35 lakhs in depreciation due to Capitalisation of Starch Division. As a result of all these factors, the Company incurred losses to the extent of Rs. 648.02 lakhs after interest and depreciation. Consequently, the Company could not achieve the projected profitability as per the prospectus.

However, the silver line is that the Company's products continue to command premium in the market due to their superior quality and are being patronised by many giants in the Industry.

EXPORTS

The Company could not export its products since the prices in international markets continue to be un-remunerative. However, the Company exported 127.74 MT of Sorbitol and earned foreign exchange of Rs. 25.16 lakhs.

OUTLOOK FOR THE CURRENT YEAR

As the Company's product Sorbitol is commanding premium, the Company is able to rope in major customers into its client list. Further, the price of Sorbitol has started looking up. The Company is confident of achieving atleast 90% of its installed capacity during the year 1999 - 2000. In addition, your Company's new product Starch has been well placed in the market. Also all its bye-products are becoming very competitive.

Further, as per the reports received, the maize crop cultivation has considerably gone up and it is expected that the price of Maize will be at a reasonable rate, which will help your Company to achieve better results in Starch Division. Considering all these positive developments, your Directors are hopeful of better results during the year 1999-2000.

LISTING OF SECURITIES

a) The Company's Shares are listed with The Hyderabad Stock Exchange Limited, 3-6-275, Himayathnagar, Hyderabad - 500 029 and The Stock Exchange, Mumbai, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 023.

b) The Annual Listing Fee for the year 1999-2000 has been paid to the Stock Exchanges at Hyderabad and Mumbai.

PREFERENTIAL ALLOTMENT OF SHARES TO PROMOTERS

The members are aware that the company has gone in for backward integration with Starch project and in order to complete the Starch project the promoters have brought in Rs. 1040 lakhs by way of share application money as

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per the means of finance approved by IDBI. The members in the Annual General Meeting held on 28th September 1998 approved the further issue of share capital of Rs. 8,10,00,000 on preferential basis to the promoters out of the Share application money brought in by the promoters. However, the same could not be allotted due to some technical reasons.

Since the Starch Project has been completed and started commercial production, it is now proposed to allot shares of Rs. 10,40,00,000 on preferential basis to the promoters at Rs. 10 per share fully paid up. A resolution is proposed in the notice for approval of the members.

PROMISE Vs PERFORMANCE (IN TERMS OF CLAUSE 43 OF LISTING AGREEMENT)

The Company had given following profitability projections in the prospectus dated 02-03-1994.

(Rs.in.lacs)

	PARTICULARS	PROJECTIONS	ACTUALS
1	Production (Qty)	**6840**	6630
2.	Total Income	**1663**	1705
3.	Other Income	**Nil**	8
4.	Profit before Tax	**299**	(648)
5.	Profit after Tax	**299**	(648)

ISO 9002

Your Company has been awarded ISO 9002 Certificate for Sorbitol division and it is not out of place to mention that yours is the only Sorbitol Company awarded this Certificate in India. The Company is also in the process of implementing ISO 9002 standards for Starch division.

DISCLOSURE UNDER CLAUSE 32 OF THE LISTING AGREEMENT

The Company has taken appropriate and effective steps for ensuring Y2K compliance by November 1999. The expenditure on the above is not expected to be significant.

DIRECTORS

a. Shri P.S.V. Mallya who retires at the ensuing Annual General Meeting is eligible for reappointment and necessary resolution for his re-appointment is given elsewhere in the notice to the members.

b. Shri. T. Subbarami Reddy, Chairman of the Company resigned from the Board due to his pre-occupation with other activities. The Board would like to place on record its appreciation for the invaluable services rendered by him during his tenure as Chairman of the Company

c. IDBI has withdrawn the nomination of Shri B. Krishna Moorthy and appointed Shri. K. Banerjee on your Board. The Board has co-opted Shri. K. Banerjee (IDBI Nominee) as Director in place of Shri. B. Krishna Moorthy. The Board would like to place on record its appreciation for the guidance and suggestions rendered by Shri. B. Krishna Moorthy during his tenure on the Board.

d. Shri. G. Sivakumar Reddy, was co-opted as Additional Director w.e.f. 31st July, 1999. He holds office upto the date of ensuing Annual General Meeting. The Company has received notice from member pursuant to Section 257 of the Companies Act, 1956, signifying the intention to propose the candidature of Shri. G. Sivakumar Reddy, as Director of the Company.

APPOINTMENT OF AUDITORS

M/s.C.B.Mouli & Associates, Chartered Accountants retire as Auditors of your Company and are eligible for reappointment

DEPOSITS

The Company has not accepted any deposits as per Section 58A of the Companies Act, 1956.

PARTICULARS OF EMPLOYEES

None of the employees attract provisions of Section 217 (2A) of the Companies Act, 1956.

CONSERVATION OF ENERGY, TECHNOLOGICAL ABSORPTION, FOREIGN EXCHANGE EARNINGS, ETC.

The information required under Section 217 (1) (e) of the Companies Act 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 with respect to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings/ Outgo is appended hereto and forms part of this report.

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