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STARCHKEM LIMITED
(AN ISO 9002 COMPANY)

ELEVENTH
ANNUAL REPORT
2001-2002

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11th Annual General Meeting

Day : Saturday
Date : 14th December, 2002
Time : 11.00 A.M.
Venue : "K.L.N. PRASAD AUDITORIUM
"FAPCCI" Building, Federation House,
H.No: 11-6-841, Red Hills,
Hyderabad - 500 004.

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BOARD OF DIRECTORS

Shri T V Sandeep Reddy

Chairman & Managing Director

Shri M V G Rao

Director

Shri G Sivakumar Reddy

Director

Shri T G Pandya

Director

Shri J N Karamchetty

Chief Executive

Shri G R K Babu

*Company Secretary &
Sr.G.M.(Finance)*

AUDITORS

C B MOULI & ASSOCIATES

125, M.G. Road,
Secunderabad - 500 003

BANKERS

CANARA BANK

Basheerbagh
Hyderabad

GLOBAL TRUST BANK

Ameerpet
Hyderabad

REGISTERED OFFICE & INVESTOR RELATIONS DEPARTMENT

6-3-1090, 2nd Floor
T S R Towers
Rajbhavan Road, Somajiguda
Hyderabad - 500 082.
Ph: 3323444/3325222, Fax: 3321424
E.Mail: starkem@hd2.dot.net.in

FACTORY

NH - 9, Nandikandi Village
Sadasivpet Mandal
Medak District
Andhra Pradesh - 502 306

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NOTICE

NOTICE is hereby given that the 11th Annual General Meeting of the Members of Gayatri Starchkem Limited will be held at "KLN PRASAD AUDITORIUM", FAPCCI Building, Federation House, 11-6-841, Red Hills, Hyderabad - 500 004 on Saturday the 14th day of December, 2002 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 2002 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 M.V.G.Rao 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 re-appointed as Statutory 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 authorized to fix their remuneration for the period."

By Order of the Board of Directors

Date : 30-10-2002
Place : Hyderabad

T.V. Sandeep Reddy
Chairman and 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. An Instrument of proxy in order to be valid and effective shall be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
2. The Register of Members and the Share Transfer Books of the Company will be closed on Friday the 13th day of December, 2002.
3. The Shareholders are requested to intimate immediately any change in their address to the Company.
4. Shareholders desiring any information as regards the Accounts are requested to write to the Company not less than seven days before the date of the meeting to enable the Management to keep the information ready at the meeting.
5. 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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DIRECTORS' REPORT

To
The Members of
Gayatri Starchkem Limited

Your Directors present the 11th Annual Report of the Company for the year ended 31st March 2002 together with Audited Balance Sheet and Statement of Accounts. The financial results are as follows:

FINANCIAL RESULTS

	31.03.2002	(Rs.in lacs)	31.03.2001
Income from Operation	2169.95		2375.67
Other Income	15.14		17.00
Total :	2185.09		2392.67
Total Expenditure(including Prior period adjustment A/c)	2960.10		2759.04
Finance Charges	602.37		1058.19
Gross Profit/(Loss) after finance charges	(1377.38)		(1424.56)
But before depreciation and taxation			
Depreciation	275.84		271.23
Provision for Taxation	—		
Net Profit/(Loss)	(1653.22)		(1695.79)

PERFORMANCE DURING THE YEAR UNDER REVIEW

As a result of slowdown in the demand coupled with increase in the cost of production the company could not maintain operations in sorbitol division even at the previous year level. The company could produce 4467 mts of sorbitol (equal to 52% of installed capacity) as against 5193 mts produced in the previous year. Even on the price front, there is no improvement and actually the prices have come down further during the year.

As regards starch division the company could crush 21,286 mts of maize as against 23,656 mts of maize crushed during the year 2000-01. In this division also the company could not achieve even the last year performance mainly due to abnormal increase in the price of maize in the months of July & Aug 01 and also due to some mechanical problems. As a result the company could not achieve even 50% of installed capacity and on average the cost of procurement of maize has also gone up.

The turnover of the company fell compared to previous year mainly due to fall in the sale of sorbitol coupled with low realisation but has been off set to some extent by increase in the sale of starch, which was possible mainly because the company procured major quantity of tapioca starch for sorbitol division, instead of depending only starch division, to take advantage of lower prices of tapioca starch. Further since excise duty on starch has been withdrawn the sales have come down by about Rs. 115 lakhs.

EXPORTS

The Company could hardly do any export of its products since the prices in international markets continue to be un-remunerative.

OUTLOOK FOR THE CURRENT YEAR

Your company's products both sorbitol and starch are well accepted in the market and are continuously

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patronized by all major clients. The company is hopeful of achieving at least 60% capacity in this year. The price of maize has gone up suddenly in the months of July and August 2002 and the prices have come down reasonably after the season has started in Sep 2002.

However the company is daunted by the non-availability of working capital and the bankers are permitting only holding on operations. Unless sufficient working capital is available it would be very difficult for the company to turn around and the management is seriously trying to provide the same.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

- a. Industry Structure and Developments.
Sorbitol and Starch industries in India are very much fragmented and scattered through out India. In case of Sorbitol at present only four major players are there and in south India yours is the only company producing sorbitol. When it comes to Starch, nearly 50% of Indian Starch production comes from Gujarat where four major Starch Factories are located.

The growth in demand for Sorbitol is practically not there. Hence the prices continue to be under pressure. When it comes to Starch, since 60% of starch goes for food based industry, the demand is not even throughout the year. Further the industry is also suffering from excess capacity and can be compensated only when the demand picks up continuously.
- b. Opportunities and threats.
The company does not see any opportunities but has been facing the threat of import of sorbitol.
- c. Segment or Product wise performance.
The same has already been furnished else where in this report.
- d. Out look
The outlook for the company products is good but the management feels that the company can have better results if it can achieve its full capacities which is possible only when the company is provided with sufficient working capital.
- e. Risks and Concerns.
Sorbitol and Starch being agro based industries there is no risk of product obsolescence nor steep fall in demand by way of product substitution. Therefore your directors do not foresee any major risks and concerns, except as discussed else where in this report, in the near future.
- f. Internal Control Systems and their adequacy:
The company has developed adequate internal control and reporting systems and are well placed.
- g. Financial / Operational performance:
This has already been discussed else where in this report.
- h. Human Resources / Industrial Relations :
The company employs about 280 people both in Sorbitol and Starch divisions including Head Office. The Company enjoys very cordial relations with the staff, workers and with workers union. The industrial relations continued to be cordial during the year under review.

CAUTIONARY STATEMENT:

Statements in this " Management Discussion & Analysis Report" may be considered to be "forward looking statements" only. Actual results could differ materially from those expressed or implied within the meaning of applicable securities laws or regulations.

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LISTING OF SECURITIES

- (a) The Company's Shares are listed with The Hyderabad Stock Exchange Limited, H.No: 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 2000-2001 has been paid to the Stock Exchanges at Hyderabad and Mumbai.

ISO 9002

Yours is the only Company having been awarded ISO 9002 Certificate for Sorbitol division and is continuously renewed. Efforts are also being made to get ISO 9002 certificate even for Starch Division.

REFERENCE TO BIFR

The net worth of the company was completely eroded as on 31st March 2000 and a reference to BIFR as per the provisions of Sick Industrial Companies (Special Provisions) Act 1985 was made and the Company was registered as Sick industrial Company vide No 263/2000 with BIFR.

The first hearing was held on 15th Nov 2000 in which IDBI was appointed as operating agency. As the present industry scenario is not conducive and since restructuring package could not be made as per the existing RBI guidelines, IDBI is exploring all the possibilities, to infuse new lease of life in to the company. The company is extending all required help to IDBI in this regard.

DIRECTORS

Shri MVG Rao who retires by rotation at the ensuing Annual General Meeting is eligible for reappointment and offered himself for re appointment. Necessary resolution for his re-appointment is given elsewhere in the notice to the members.

APPOINTMENT OF AUDITORS

M/s.C.B.Mouli & Associates, Chartered Accountants retire as Auditors of your Company and are eligible for reappointment. Necessary resolution for their re-appointment is given elsewhere in the notice to the members.

AUDITOR'S REPORT

For the qualifications in the Audit Report necessary explanations were given in the notes to accounts.

COST AUDITORS

The Cost Auditors M/s Narasimha Murthy & Co appointed for the financial year 2000-2001 conducted the cost audit and submitted their report as per the provisions of the Companies Act 1956, and the same has been approved by the Board.

M/s Narasimha Murthy & Co expressed their inability to conduct the cost audit for the financial year 2001-2002 since they are pre-occupied with their other assignments.

In view of this the Board of directors appointed Sri S.P.Sarma Cost Accountant, FFF Quarters, Tanuku Road, Juvvalapalem (post), TADEPALLIGUDEM-534 101.W. G. (Dist), A.P. as cost auditors for the financial year

2001-02 and the same has been approved by the Department of Company Affairs, Ministry of Law, Justice and Company Affairs, Govt. of India.

THE CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a report on Corporate Governance and a certificate from the auditors of the company is given in the Annexure - B and Annexure -C respectively which forms part of this report.

DIRECTOR'S RESPONSIBILITY STATEMENT

According to Section 217 (2AA) of the Companies Act, 1956 your directors state

- (i) That in the preparation of the Annual Accounts, the applicable Accounting Standards have been followed along with proper explanations relating to material departures:
- (ii) That the directors had selected such Accounting Policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period:
- (iii) That your directors had taken proper and sufficient care for maintenance of adequate Accounting Records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities:
- (iv) That your directors had prepared the Annual Accounts on a going concern basis.

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 as annexure - A.

ACKNOWLEDGMENTS

Your Directors would like to place on record their sincere appreciation and gratitude to all Financial Institutions, Company's Bankers, Shareholders, Government Agencies and all the Employees of the Company for their co-operation and support during the year.

By Order of the Board

Date : 30-10-2002
Place : Hyderabad

T.V.Sandeep Reddy
Chairman and Managing Director

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ANNEXURE - A TO DIRECTOR'S REPORT

Disclosure of Particulars with respect to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and outgo as required under the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 and forming part of the report of Board of Directors for the year ended 31st March 2002.

FORM 'A'

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY.

	2001-2002	2000-2001
A. POWER AND FUEL CONSUMPTION		
1. ELECTRICITY		
a. Purchased Units (nos.)	61,25,988	69,15,776
Total Cost (Rs.in lakhs)	278.60	302.44
Rate / Unit (Rs.)	4.55	4.54
b. Own Generation		
Through Diesel Generator		
Units (KWH)	12,320	12,280
Units/Per Litre of - Diesel Oil (KWH)	2.50	3.30
Cost/unit (Rs./KWH)	7.39	4.72
2. FURNACE OIL		
Qty (K.Ltrs)	72.000	1264.716
Total Cost (Rs.in lakhs)	8.62	137.57
Average Cost per Ltr (Rs)	11.97	10.88
3. DIESEL OIL		
Qty (K.Ltrs.)	4.922	5.28
Total Cost (Rs.in lakhs)	0.91	0.82
Average Cost per Ltr. (Rs)	18.55	15.68
4. OTHERS		
Hydrogen Gas		
Qty (M3)	546854	393320
Total Cost (Rs.in lakhs)	96.02	67.74
Rate /Unit (Rs.per M3)	17.56	17.22
FOREIGN EXCHANGE EARNINGS (Rs.in lakhs)	—	—
EXPENDITURE IN FOREIGN CURRENCY (Rs.in lakhs)		
a. Travelling Expenses & Subscription	—	—
b. Capital Goods	—	9.15
c. Raw Materials	—	20.00

For and on behalf of the Board

Date : 30-10-2002
Place : Hyderabad

T.V. Sandeep Reddy
Chairman and Managing Director

CORPORATE GOVERNANCE REPORT

The Securities and Exchange Board of India (SEBI) has introduced a code of Corporate Governance, for implementation by the Listed Companies, by amendment to the Listing Agreement. As per Clause 49 of Listing Agreement, there shall be a separate section on Corporate governance in the Annual Report of the Company, with a detailed compliance report there on.

As per this amended clause your Company is required to implement the code by not later than 31st March 2002.

1. Corporate Governance Philosophy

Even before the aforesaid amendment becomes applicable, your company is the firm believer of corporate governance and attaches immense importance to it. Your Company had been following the Corporate Governance practices like convening the Board meetings with reasonable intervals, Composition of optimum combination of Directors, Constitution of Audit Committee, maintaining friendly relations with Shareholders, Public, Government and other authorities.

2. Board of Directors

(a) Composition:

The Board of Directors consists of four directors - an Executive Chairman & Managing Director, two Non-Executive independent directors and one Non-Executive director.

Board of Directors (as on this report)

Sri T.V.Sandeep Reddy	Executive Chairman & Managing Director
Sri M.V.G.Rao	Non Executive & Independent Director
Sri G.Siva Kumar Reddy	Non Executive Director
Sri T.G.Pandya	Non Executive & Independent Director

The following table shows the composition of directors and their attendance at the board meetings held on the dates below mentioned and the last Annual General Meeting held on 27th September, 2001.

Name	Category	Board Meetings Attended	Attendance at the last AGM	No.of Other Directorships	Committee member ships
Sri. T.V.Sandeep Reddy	Promoter-Chirman & Managing Director	4	Yes	7	2
Sri. G.Shiva Kumar Reddy	Non Executive Director	3	No	4	1
Sri M.V.G.Rao	Non Executive Director	4	No.	9	1
Sri T.G.Pandya	Non Executive Director	4	Yes	NIL	1