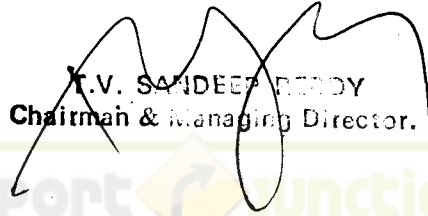




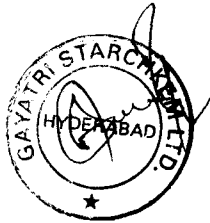
STARCHKEM LIMITED

(AN ISO 9002 COMPANY)

For GAYATRI STARCHKEM LTD.


K.V. SANDEEP REDDY
Chairman & Managing Director.

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13th Annual Report 2003 - 04

GAYATRI STARCHKEM LIMITED**13th Annual General Meeting****Day : Wednesday****Date : 29th September 2004****Time : 11.00 A.M****Venue : "KLN PRASAD AUDITORIUM",
FAPCCI Building, Federation House,
11-6-841, Red Hills, Hyderabad – 500 004****CONTENTS**

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BOARD OF DIRECTORS

Sri T.V. Sandeep Reddy

Chairman & Managing Director

Sri P. Maruthi Babu

Director

Sri T.G. Pandya

Director

AUDITORS

M/s. C.B.Mouli & Associates

Chartered Accountants

125, M.G.Road,

Secunderabad - 500 003.

BANKERS

CANARA BANK

Basheerbagh

Hyderabad

CORPORATION BANK

Hyderaguda

Hyderabad

REGISTERED OFFICE & INVESTOR RELATIONS DEPARTMENT

6-3-1090/C/A/1, 1* floor

Lovely Mansion,

Rajbhavan Road, Somjiguda,

Hyderabad - 500 082.

Ph: 55100111/55100222, Fax: 55100333

E-mail: gayatristarchkem@yahoo.co.in

FACTORY

NH-9, Nandikandi village

Sadasivapet Mandal

Medak District

Andhra Pradesh - 502 306

GAYATRI STARCHKEM LIMITED**NOTICE**

NOTICE is hereby given that the 13th Annual General Meeting of the Members of M/s. Gayatri Starchkem Limited will be held at "KLN PRASAD AUDITORIUM", FAPCCI Building, Federation House, 11-6-841, Red Hills, Hyderabad - 500 004 on **Wednesday the 29th day of September 2004 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 2004 and Profit and Loss Account for the year ended as on that date together with the Reports of the Auditors and the Directors thereon.
2. To appoint a Director in place of *Sri. T.G.Pandya* 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 are hereby authorized to fix their remuneration."

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 Sri. P.Maruthi Babu, be and is hereby appointed as Director of the company liable to retire by rotation."

By Order of the Board

Date : 29-07-2004

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.
3. The Register of Members and the Share Transfer Books of the Company will be closed on Tuesday the 28th September 2004.
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 not less than 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.
7. The Explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of business under item no. 4 is appended below:

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EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT 1956.

ITEM NO.: 4

Shri P.Maruthi Babu, a Graduate in Electrical Engineer, had served the erstwhile APSEB for more than 20 years and CBIP for more than 18 years and an expert in the field of Power and Irrigation, and allied disciplines. The Board of Directors felt that the company would be immensely benefited from his rich experience since electricity being one of the main components of manufacture of Starch, was appointed as an Additional Director of the company by the Board on 17th June 2004. As per Section 260 of the Companies Act 1956 he is vacating his office in this AGM and being eligible for re-appointment.

The company has received a Notice, under section 257(1) of the Companies Act, 1956, in writing from a member proposing the candidature of Sri. P. Maruthi Babu for the office of Director liable to retire by rotation *vide* Article 118 of the Articles of Association of the Company alongwith the deposit of Rs. 500/- as prescribed under the section.

None of the Directors other than Shri. P.Maruthi Babu is in any way concerned or interested in the said resolution.

Date : 29-07-2004

Place : Hyderabad

T.V. Sandeep Reddy
Chairman and Managing Director

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GAYATRI STARCHKEM LIMITED**DIRECTORS' REPORT**

To
The Members of
Gayatri Starchkem Limited

Your Directors present the 13th Annual Report of the Company for the year ended 31st March 2004 together with Audited Balance Sheet and Statement of Accounts. The financial results are as follows:

FINANCIAL RESULTS

	31.03.2004	(Rs. in lacs)	31.03.2003
Income from Operation	1618.55		2129.74
Other Income	10.54		11.17
Total:	1629.09		2140.91
Total Expenditure (including Prior period adjustment A/c)	1894.33		2392.46
Finance Charges	518.44		527.53
Gross Profit/(Loss) after finance charges (But before depreciation and taxation)	(783.68)		(779.08)
Depreciation	273.66		276.28
Provision for Taxation	—		—
Net Profit / (Loss)	(1057.34)		(1055.36)

PERFORMANCE DURING THE YEAR UNDER REVIEW**SORBITOL DIVISION**

The demand for Sorbitol continues to be sluggish and stagnant and as a result the prices have not looked up during the year and also the cost of production continues to remain the same. As a result the production of Sorbitol has further come down and could not be maintained even at the previous year level. The company could produce 1702 MTs. of Sorbitol (equal to 19.90% of installed capacity) as against 3266 MTs. produced in the previous year. The year 2004-05 also appears to be not promising as the prices have not started looking up and the company has closed the plant since April 04 and would be opened as and when the demand picks up

STARCH DIVISION

The operations in this division were also badly hit due to paucity of working capital and the company could crush only 17,896 MTs. of Maize as against 20395 MTs. of Maize crushed during the year 2002-03. The loss has not gone up due to low crushing but remained the same due to fall in the average price of Maize procurement.

The turnovers of the company fell drastically compared to previous year mainly due to steep fall in the sale of Sorbitol and also fall in the crushing of Maize. The company has not procured any Tapioca Starch for its Sorbitol production but has utilized its starch only.

EXPORTS

The Company did not do any exports during the year since the prices in international market continue to be un-remunerative.

OUTLOOK FOR THE CURRENT YEAR

Your company's products continues to be well accepted in the market and are continuously patronized by all major clients. The company is hopeful of achieving at least 65% of its installed capacity in the case of Starch division. The company is trying to start the Sorbitol plant soon after the prices become remunerative and is hopeful of achieving at least the previous year's production. However the company is not hopeful of achieving the Break Even capacities of both the plants in this year. The prices of Maize have suddenly shot up from May 04 onwards and as such the production in Starch Division is also affected.

Due to delay in arrival of monsoon the crop of Maize is expected to be less and as such the prices may not come down but the company is hopeful of doing better due to its locational advantage.

The company continuous to suffer from non-availability of working capital and the bankers are permitting only holding on operations. Since sufficient working capital is essential for turning around the company the management is seriously looking for different avenues to provide the same.

13th Annual Report 2003-2004

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 stagnant. 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's products is reasonably good but the management feels that the Company can achieve better results only if it can reach 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 is 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 221 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" 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.

LISTING OF SECURITIES

- (a) The Company's Shares are listed with **The Hyderabad Stock Exchange Limited**, 6-3-654, Adjacent to Erramanjali Bus Stop, somajiguda, - 500 029 and **The Stock Exchange, Mumbai** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 023.
- (b) The Annual Listing Fee for the year 2001-03 to 2004-2005 has not been paid to the Stock Exchanges at Hyderabad and Mumbai.

REFERENCE TO B I F R

As the net worth of the company had been completely eroded the company was registered, as sick industrial Company vide No 263/2000 with BIFR.

IDBI was appointed as Operating Agency and since 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 into the company. The company is extending all required help to IDBI in this regard.

DIRECTORS

Shri T.G.Pandya who retires by rotation at the ensuing Annual General Meeting is eligible for reappointment and offered himself for re appointment.

GAYATRI STARCHKEM LIMITED

Sri. M V G Rao, Director of the company resigned from the board on 30th January 2004, and G Shiva Kumar Reddy was also resigned from the Board on 8th June 2004, the Board has placed on record its appreciation for the services rendered by them during their tenure as Directors of the Company."

Further the Board has appointed Sri. P. Maruthi Babu, as an Additional Director of the Company by passing Circulation by Resolution U/s 289 of the companies Act, 1956 and the Tenure of the Additional Director will come to an end at the forthcoming Annual General Meeting as per Section 260 of the companies Act, 1956. A proposed notice was received from the Member U/s 257 of the Companies Act, along with the Deposit of Rs. 500/-, about the Candidature of Sri P. Maruthi Babu to appoint him as a 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. 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 Board of Directors appointed Sri S.P. SARMA Cost Accountant, Plot No. 83, Hasthinapuram (south) Hyderabad - 500 079, A.P. as Cost Auditors for the financial year 2003-04

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 Year:
- (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

T.V. Sandeep Reddy
Chairman & Managing Director

Place : Hyderabad
Date : 29-07-04

13th Annual Report 2003-2004**ANNEXURE - 'A' TO DIRECTORS 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 2004.

FORM 'A'**FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY.**

S.No. POWER FUEL CONSUMPTION	2003-2004	2002-03
1. ELECTRICITY		
a) <i>Purchased units (nos.)</i>	46,91,641	62,11,401
Total cost (Rs.in lakhs)	198.73	265.90
Rate / Unit (Rs)	4.24	4.28
b) <i>Own Generation</i>		
Through Diesel Generator		
Units(KWH)	11,400	14,178
Units/Per Liter of – Diesel Oil (KWH)	2.24	2.33
Cost/unit (Rs./KWH)	10.18	8.57
2. FURNACE OIL		
Qty(K.ltrs)	—	—
Total Cost (Rs. In lakhs)	—	—
Average cost per Ltr(Rs)	—	—
3. DIESEL OIL		
Qty (K.ltrs)	7.52	9.69
Total Cost (Rs. In Lakhs)	1.72	1.94
Average cost per Ltr(Rs)	22.80	19.96
4. OTHERS		
Hydrogen Gas		
Qty(M3)	2,54,198	3,26,424
Total Cost (Rs. In lakhs)	46.17	58.96
Rate / Unit (Rs.per M3)	18.16	18.06
FOREIGN EXCHANGE EARNINGS (Rs.in lakhs)	—	—
EXPENDITURE IN FOREIGN CURRENCY (Rs.in lakhs)		
a. Travelling Expenses & Subscription	—	—
b. Capital Goods	—	—
c. Raw Materials	—	—

By Order of the Board

Date : 29-07-2004
Place : Hyderabad

T.V. Sandeep Reddy
Chairman and Managing Director

GAYATRI STARCHKEM LIMITED**CORPORATE GOVERNANCE REPORT FOR THE YEAR 2003-04**

(As per Clause 49 of the listing Agreement entered into with the Stock Exchanges)

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 2004 and the company has implemented the same.

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 Three directors – an Executive Chairman & Managing Director, two Non-Executive independent directors.

Board of Directors (as on this report)

Sri T.V.Sandeep Reddy,

Chairman & Managing Director

Sri P. Maruthi Babu

Non Executive & Independent 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 **29th September 2003**.

Name	Category	Board Meetings Attended	Attendance at the last AGM	No. of Other Directorships	Committee memberships
Sri. T.V.Sandeep Reddy	Promoter-Chairman & Managing Director	5	Yes	7	2
Sri M.V.G.Rao*	Non Executive Director	1	No	6	1
Sri. G.Shiva Kumar Reddy**	Non Executive Director	4	No	4	1
Sri T.G.Pandya	Non Executive Director	5	Yes	NIL	1
Sri. P. Maruthi Babu***	Non-Executive Director	–	–	3	1

* Resigned as Director from the Board 30th January 2004

** Resigned as Director from the Board 8th June 2004

*** Appointed as an Additional Director on 17th June 2004.