



Gayatri

STARCHKEM LIMITED

(AN ISO 9002 COMPANY)

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14th Annual Report 2004 - 05

GAYATRI STARCHKEM LIMITED**14th Annual General Meeting**

Day : Tuesday
Date : 27th September 2005
Time : 11.00 A.M
Venue : "KLN PRASAD AUDITORIUM",
 FAPCCI Building, Federation House,
 11-6-841, Red Hills, Hyderabad – 500 004

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GAYATRI STARCHKEM LIMITED

BOARD OF DIRECTORS

| | |
|-------------------------------|-----------------|
| Sri T.V. Sandeep Reddy | <i>Chairman</i> |
| Sri P. Maruthi Babu | <i>Director</i> |
| Sri T.G. Pandya | <i>Director</i> |

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 DEPT.;

6-3-1090/C/A/1, 1st floor
Lovely Mansion, Rajbhavan Road,
Somajiguda, Hyderabad – 500 082.
Ph: 55100111/55100222, Fax: 55100333
E-mail: gayatristarchkem@yahoo.co.in

FACTORY:

NH-9, Nandikani village
Sadasivapet Mandal
Medak District
Andhra Pradesh – 502 306

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NOTICE

NOTICE is hereby given that the 14th 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 **Tuesday the 27th day of September 2005 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 2005 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. P Maruthi Babu 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. Allotment of Further Issue of Shares

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

"RESOLVED THAT pursuant to the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and subject to the provisions of the Memorandum and Articles of Association of the Company and subject to such other approvals, consents, permissions as may be required, the consent of the Company be and is hereby accorded to the Board of Directors of the Company to issue and allot at par 1,04,00,000 Equity Shares of Rs.10/- each fully paid up to the Promoters and their Associates by conversion of unsecured loans already brought in by them and the said Equity Shares shall rank pari passu with the existing Equity Share Capital of the Company."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to alter, amend and modify the above terms of issue of Equity Shares subject to the provisions of the Companies Act, 1956 and SEBI guidelines/regulations at any time in its absolute discretion and in the Interest of the Company."

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and execute all such deeds, documents and writings as may be necessary, desirable or expedient as it may deem fit."

By Order of the Board

Date : 21-07-2005
Place : Hyderabad

T.V. Sandeep Reddy
Chairman

GAYATRI STARCHKEM LIMITED**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 from 22nd September, 2005 to 26th September 2005(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 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:

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT 1956.**ITEM NO. 4 :****1. Objects of the Issue**

It may be informed that the Company has incurred continuous cash losses right from the inception of the Company and the Company has become sick Industry and it has filed an application with BIFR during the year 2000-01. The promoters have brought in additional funds as an unsecured loans at the instance of the Institutions and working capital banks to finance the cash losses. These unsecured loans are now proposed to convert as Equity Share Capital ranking pari passu with the existing Equity Shares of the Company.

2. Pricing :

The issue of Equity Shares to the promoters and their associates on preferential basis by conversion of the unsecured loans already brought in by the promoters, shall be at par i.e. Rs.10/- per share only subject to the SEBI guidelines as may be applicable in this behalf.

3. Payment and Conversion :

The promoters have already brought in the unsecured loans and the same shall be converted for allotment of 1,04,00,000 Equity shares of Rs.10/- each.

4. Intention of Promoters/Directors/Key Management persons to subscribe to the offer :

It is proposed to convert the promoters existing unsecured loans and the promoters shall be issued and allot the shares as proposed to the full extent.

5. Relevant date:

Relevant date for this purpose is the day 30 days prior to the date of this meeting of the members of the Company.

6. Proposed time within which allotment shall be completed :

The allotment of Equity Shares to the promoters and their associates shall be completed within a period of three months from the date of shareholders approval.

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7. Shareholding Pattern of the Company before and after the Issue :

The pattern of shareholding before and the one likely to emerge after the proposed allotment would be as under : (as on the date of notice)

| Category | Before the Issue | | After the Issue | |
|--------------------------|------------------|--------|-----------------|--------|
| | No of Shares | % | No. of Shares | % |
| Promoters & Associates | 55,99,650 | 38.62 | 1,59,99,650 | 64.25 |
| Gayatri Capital Limited | 25,00,340 | 17.24 | 25,00,340 | 10.04 |
| Mutual Funds and UTI | 15,14,700 | 10.45 | 15,14,700 | 6.08 |
| FIs | 5,000 | 0.03 | 5,000 | 0.02 |
| Private Corporate Bodies | 98,500 | 0.68 | 98,500 | 0.40 |
| Indian Public | 37,66,310 | 25.98 | 37,66,310 | 15.13 |
| NRI/OCB | 10,15,500 | 7.00 | 10,15,500 | 4.08 |
| Total Equity | 1,45,00,000 | 100.00 | 2,49,00,000 | 100.00 |

After the allotment of preferential issue of shares, the promoters and associates holding will be increased to 64.25%.

8. The identity of the proposed allottees and the percentage of the preferential issue that may be held by them :

| Name of the Party | Category | Pre-issue holding | % to Equity | Post issue holding | % of Equity |
|----------------------|------------------------|-------------------|-------------|--------------------|-------------|
| T S R Holdings | Promoters & Associates | Nil | Nil | 20,26,000 | 8.13 |
| Gayatri Fin Holdings | -do- | Nil | Nil | 15,70,950 | 6.30 |
| T. Indira Reddy | -do- | Nil | Nil | 15,10,816 | 6.07 |
| T V Sandeep Reddy | -do- | 55,94,620 | 38.59 | 92,61,854 | 37.20 |
| T Subba Rami Reddy | -do- | Nil | Nil | 16,25,000 | 6.53 |
| T. Sarita Reddy | -do- | 5,000 | 0.03 | 5,000 | 0.02 |
| B.V. Ramana Rao | -do- | 10 | Nil | 10 | Nil |
| V. Mohan | -do- | 10 | Nil | 10 | Nil |
| G.V. Subba Rao | -do- | 10 | Nil | 10 | Nil |

9. Auditor's Certificate :

A Certificate, as required under SEBI Guidelines, certifying that the proposed issue is in accordance with the said Guidelines has been obtained from the Auditor's of the Company.

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10. Lock-In :

The Equity shares to be allotted on preferential basis shall be subject to lock-in as per applicable SEBI Guidelines in this behalf.

11. Change in Management :

The issue of Equity shares as aforesaid will not result in any change in the management or control of the Company. The Company is taking necessary steps to obtain the requisite approvals from regulatory agencies as may be applicable for the proposed allotment.

As per the listing agreement entered into by the Company with various Stock Exchanges where the Company's Equity Shares are listed and the provisions of Section 81(1A) of the Companies Act, 1956 provide inter alia that allotment of further shares, shall be first offered to the existing shareholders of the company for subscription in proportion to their shareholding unless the shareholders otherwise decide in a General Meeting by way of a special Resolution. As it is proposed to issue the shares to other than the existing shareholders of the Company, the above resolution is required to be passed. Hence this Special Resolution is placed before you for approval.

None of the Directors are interested in the above resolutions except Sri T V Sandeep Kumar Reddy, Chairman of the Company.

By Order of the Board

Date : 21-07-2005
Place : Hyderabad

T.V. Sandeep Reddy
Chairman

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DIRECTORS' REPORT

To
The Members of
Gayatri Starchkem Limited

Your Directors present the 14th Annual Report of the Company for the year ended 31st March 2005 together with Audited Balance Sheet and Statement of Accounts. The financial results are as follows:

FINANCIAL RESULTS

| | (Rs. in lacs) | |
|---|---------------|------------|
| | 31.03.2005 | 31.03.2004 |
| Income from Operation | 1,534.53 | 1618.55 |
| Other Income | 9.72 | 10.54 |
| Total: | 1,544.25 | 1629.09 |
| Total Expenditure (including Prior period adjustment A/c) | 1,685.01 | 1894.33 |
| Finance Charges | 514.27 | 518.44 |
| Gross Profit/(Loss) after finance charges (But before depreciation and taxation) | (655.03) | (783.68) |
| Depreciation | 274.30 | 273.66 |
| Provision for Taxation | — | — |
| Net Profit / (Loss) | (929.33) | (1057.34) |

PERFORMANCE DURING THE YEAR UNDER REVIEW

The plant is continuously suffering from inadequate working capital thereby impairing its performance.

SORBITOL DIVISION

The demand for Sorbital continues to be poor which is resulting in low prices. Operating this unit till the market position gets a boost will reduce the cash loss to the Company. Accordingly Sorbital Plant was closed with effect from 01-04-2004 but it is ready to take off as and when the market condition encourage us to do so.

STARCH DIVISION

Even though the performance of this plant is better when compared to previous year, there is still scope for improvement if the market conditions are more conducive and there is enough working capital. The Company crushed 19170 MTS as against 17816 MTC during the previous year, the performance during the last 4 months of the year being substantial hovering around 2500 MT per month. Because of the market conditions and the satisfactory operations the loss during the year was less by more than one crore of rupees.

EXPORTS

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

OUTLOOK FOR THE CURRENT YEAR

It is gratifying to say that the products of this Company are well accepted in the market and are being patronized by the major clients. The Company is hopeful of achieving 65% of the installed capacity. In the case of Starch division

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it can further be increased, if either of the Sorbital plant is brought back into the service, if market conditions permit or diversify the sorbital plant. However the Company is not hopeful of achieving the breakeven capacities during this year.

The maize crop during the year in the state, is good and bumper harvest is expected with this scenario we are hopeful of achieving higher operational levels.

The Company is continuously suffering 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.

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. 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 222 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.

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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 Erramanjil 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 2002-03, 2003-04 and 2004-2005 has not been paid to the Stock Exchanges at Hyderabad and Mumbai.

REFERENCE TO BIFR

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 industrial 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 P Maruthi Babu who retires by rotation at the ensuing Annual General Meeting is eligible for reappointment and offered himself for re appointment.

Shri T V Sandeep Reddy, Chairman and Managing Director of the Company submitted his resignation as Managing Director of the Company however he will be continued as a Director of the Company w.e.f 21st July, 2005.

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 2004-05.

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: