



STARCHKEM LIMITED
(AN ISO 9002 COMPANY)

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12th Annual Report 2002-2003

12th Annual General Meeting

Day : Monday
 Date : 29th September, 2003
 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

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

Shri G R K Babu

AUDITORS

C B MOULI & ASSOCIATES

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

BANKERS

CANARA BANK

Basheerbagh Branch
Hyderabad

CORPORATION BANK

Hyderguda Branch
Hyderabad

REGISTERED OFFICE & INVESTOR RELATIONS DEPARTMENT

6-3-1090/C/A/1, 1st Floor

Lovely Mansion,

Rajbhavan Road, Somajiguda

Hyderabad - 500 082.

Ph: 55100111 / 55100222, Fax: 55100333

E.Mail: starkem@hd2.dot.net.in

FACTORY

NH - 9, Nandikandi Village

Sadasivpet Mandal

Medak District

Andhra Pradesh - 502 306.

NOTICE

NOTICE is hereby given that the 12th 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 **Monday the 29th day of September 2003 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 2003 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 T.G.Pandya who retires by rotation and being eligible offers himself for re-appointment.
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 said period."

By Order of the Board of Directors

Date : 31-07-2003

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 Saturday the 27th day of September 2003.
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.

12th Annual Report 2002-2003**DIRECTORS' REPORT**

To
The Members of
Gayatri Starchkem Limited

Your Directors present the 12th Annual Report of the Company for the year ended 31st March 2003 together with Audited Balance Sheet and Statement of Accounts. The financial results are as follows:

FINANCIAL RESULTS

	31.03.2003	(Rs.in Lakhs)	31.03.2002
Income from Operation	2129.74		2169.95
Other Income	11.17		15.14
Total:	2140.91		2185.09
Total Expenditure			
(including Prior period adjustment A/c)	2392.46		2960.10
Finance Charges	527.53		602.37
Gross Profit/(Loss) after finance charges	(779.08)		(1377.38)
but before depreciation and taxation			
Depreciation	276.28		275.84
Provision for Taxation	—		—
Net Profit / (Loss)	(1055.36)		(1653.22)

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

The demand for sorbitol continuous to be stagnant and as a result the prices have not looked up during the year. Where as there has not been much reduction in the cost of production. As a result the production of sorbitol has further come down and could not be maintained at the previous year level. The company could produce 3266 mts of sorbitol (equal to 38% of installed capacity) as against 4467 mts produced in the previous year. However the year 2003-04 appears to be promising as the prices started looking up and the company has been taking all the necessary steps to seize the opportunity and improve its performance.

STARCH DIVISION

The company could maintain more or less its operations at the previous year level and could crush 20,395 mts of maize as against 21,286 mts of maize crushed during the previous year 2001-02. However there is no improvement in the profitability since the prices of maize continue to be very high and the realization was not commensurate with the cost. As a result the company could not achieve even 50% of installed capacity.

The turnover of the company fell marginally compared to previous year mainly due to fall in the sale of sorbitol but has been offset to a maximum extent by increasing the sale of Starch. The consumption of tapioca starch has been reduced considerably due to very high price of it and the company utilized its starch only for sorbitol production.

EXPORTS

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

OUTLOOK FOR THE CURRENT YEAR

Your company's products continuous 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 of the both plants in the current year. The prices of maize have not gone up very high upto July 03 and are expected to fall in the month of August 03. As per the preliminary reports the crop of Maize is good throughout India and the company is hopeful that the prices will be maintained at a reasonable level.

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.

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 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 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.

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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 Erramanjali Bus Stop, Somajiguda, Hyderabad - 500 029 and The Stock Exchange, Mumbai Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 023.
- (b) The Annual Listing Fee for the year 2001-2002 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.

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 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. 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 re-appointment. 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, FFF Quarters, Tanuku Road, Juvvalapalem (post), Tadepalligudem - 534 101, W. G. (Dist), A.P. as cost auditors for the financial year 2002-03 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.

DIRECTORS' 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 as at 31st March, 2003 and of the profit or loss of the company for the year ending 31st March, 2003:
- 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.

ACKNOWLEDGEMENTS

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

Place : Hyderabad

Date : 31-07-03

T.V. Sandeep Reddy
Chairman and Managing Director

12th Annual Report 2002-2003**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 2003.

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

A. POWER AND FUEL CONSUMPTION	2002-03	2001-02
1. ELECTRICITY		
a) Purchased units (nos.)	62,11,401	61,25,988
Total cost (Rs.in lakhs)	265.90	278.60
Rate / Unit (Rs)	4.28	4.55
b) Own Generation		
Through Diesel Generator		
Units(KWH)	14,178	12,320
Units/Per Litre of - Diesel Oil (KWH)	2.33	2.50
Cost/unit (Rs./KWH)	8.57	7.39
2. FURNACE OIL		
Qty(K.ltrs)	—	72,000
Total Cost (Rs. in lakhs)	—	8.62
Average cost per Ltr(Rs)	—	11.97
3. DIESEL OIL		
Qty (K.ltrs)	9.69	4.92
Total Cost (Rs. in Lakhs)	1.94	0.91
Average cost per Ltr(Rs)	19.96	18.55
4. OTHERS		
Hydrogen Gas		
Qty(M3)	3,26,424	5,46,854
Total Cost (Rs. in lakhs)	58.96	96.02
Rate / Unit (Rs.per M3)	18.06	17.56
B. FOREIGN EXCHANGE EARNINGS (Rs.in lakhs)	—	—
C. EXPENDITURE IN FOREIGN CURRENCY (Rs.in lakhs)		
a. Travelling Expenses & Subscription	—	—
b. Capital Goods	—	—
c. Raw Materials	—	—

For and on behalf of the Board

Place : Hyderabad
Date : 31-07-03

T.V. Sandeep Reddy
Chairman and Managing Director

ANNEXURE - B (TO DIRECTORS' REPORT)**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 thereon.

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

1. Your Company's Philosophy on Corporate Governance

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 14th December 2002.

Name	Category	Board Meetings Attended	Attendance at the last AGM	No.of Other Directorships	Committee memberships
Sri. T.V.Sandeep Reddy	Promoter-Chirman & Managing Director	3	Yes	7	2
Sri. G.Shiva Kumar Reddy	Non Executive Director	2	No	4	1
Sri M.V.G.Rao	Non Executive Director	2	No.	8	1
Sri T.G.Pandya	Non Executive Director	3	Yes	NIL	1