



STARCHKEM LIMITED
(AN ISO 9002 COMPANY)

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15th Annual Report 2005 - 06

GAYATRI STARCHKEM LIMITED**15th Annual General Meeting****Day : Wednesday****Date : 27th September 2006****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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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: 66100111/66100222, Fax: 66100333
E-mail: gayatr starchkem@yahoo.co.in

FACTORY:

NH-9, Nandikandi village
Sadasi vapet Mandal
Medak District
Andhra Pradesh – 502 306

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NOTICE

NOTICE is hereby given that the 15th 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 27th day of September 2006 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, 2006 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."

Place : Hyderabad
Date : 29-07-2006

By Order of the Board

T.V. Sandeep Reddy
Chairman

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF / HER SELF 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, 2006 to 26th September 2006 (both days inclusive).
4. Members are requested to intimate immediately any change, in their address to the Company at the Registered Office or M/s Venture Capital and Corporate Investments Limited, 6-2-913/914, 3rd Floor, Progressive Towers, Khairthabad, Hyderabad – 500 004.
5. Members desirous of obtaining any information concerning the Accounts and operations of the Company 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.

GAYATRI STARCHKEM LIMITED**DIRECTORS' REPORT**

To
The Members of
Gayatri Starchkem Limited

Your Directors present the 15th Annual Report of the Company for the year ended 31st March 2006 together with Audited Balance Sheet and Statement of Accounts. The financial results are as follows:

FINANCIAL RESULTS

	(Rs. in lacs)	
	31.03.2006	31.03.2005
Income from Operation	2,790.58	1,534.53
Other Income	13.61	9.72
Total:	2,804.19	1,544.25
Total Expenditure	2,767.51	1,685.01
Finance Charges	300.85	514.27
Gross Profit/(Loss) after finance charge (But before depreciation and taxation)	(264.17)	(655.03)
Depreciation	(275.36)	(274.30)
Extra ordinary Items	2,658.29	—
Provision for Taxation	(1.79)	—
Net Profit / (Loss)	2,116.97	(929.33)

PERFORMANCE DURING THE YEAR UNDER REVIEW

This year also the plant has continuously suffered from inadequate working capital thereby impairing its performance.

SORBITOL DIVISION

You may be aware that the Sorbital plant was closed with effect from 01-04-2004 due to lack of demand for Sorbital during the year 2004 - 05. Subsequently even if there was demand for Sorbital, we could not produce the same due to lack of working capital. After clearing the outstanding dues with Canara Bank and Corporation Bank, we will apply for fresh working capital. By Operating this unit the market position gets a boost and will increase the cash profit to the Company. But the plant is ready to take off as and when the market conditions and finance position encourages 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 31,331 MTs as against 19,170 MTs during the previous year, the performance during the last 3 months of the year being substantial, exceeding 2500 MT per month. Because of the market conditions and the satisfactory operations the cash profit is Rs. 38.32 lakhs against last year loss of Rs. 139.01 lakhs without considering financial charges.

EXPORTS

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

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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 80% of the installed capacity. In the case of Starch division it can be further increased, if either the Sorbitol plant is brought back into operations or under favourable marketing conditions to diversify the starch plant. However the Company is hopeful for 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 throughout India. In case of Sorbitol at present only four major players are there 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 fluctuating. Presently the prices are encouraging. 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. 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.

d. Risks and Concerns.

Sorbitol and Starch being agro based industries there is no risk of product obsolescence or 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.

e. Internal Control Systems and their adequacy:

The company has developed adequate internal control and reporting systems and is well placed.

f. Financial / Operational performance:

This has already been discussed else where in this report.

g. Human Resources / Industrial Relations :

The company employs about 250 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.

GAYATRI STARCHKEM LIMITED

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 Company paid the outstanding Listing fees along with the Listing fees of 2006-07 to Bombay Stock Exchange Limited. However, Annual Listing Fee from the year 2002-03 to till date has not been paid to the Hyderabad Stock Exchange.

Members are aware that the trading in the Company's equity shares were suspended by the Mumbai Stock Exchange. However, the management has taken initiative to revoke the suspension in trading of equity shares. The Chairman along with the Management Team represented the Company before the Listing Committee of the Mumbai Stock Exchange. The Listing Committee advised that the Company should approach after completion of the OTS and after strengthening the financial position of the Company. Management would like to bring to your kind notice that during the year 2005-06, the Company has paid the One Time Settlement amount to the IDBI, Canara Bank and General Insurance Corporation of India Ltd. The Company is striving to improve the financial performance so as to get the shares listed in the Mumbai Stock Exchange.

REFERENCE TO BIFR:

Members are aware that the net worth of the Company had been completely eroded and the Company was registered as sick industrial Company vide No. 263/2000 with BIFR.

IDBI was appointed as Operating Agency and it could not formulate a rehabilitation scheme and a Joint Meeting of the institutions/banks was held by Operating Agency where in it was decided that the Company should be advised to settle the dues of FIs/Banks individually and independently without linking the payments to sanction of scheme by BIFR. In this regard, the Company paid the One Time Settlement amount to the IDBI, Canara Bank and General Insurance Corporation of India Ltd. The Company is also committed to repay all the outstanding dues to other FIs/Banks in the due course.

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.

APPOINTMENT OF AUDITORS

M/s. C.B.Mouli & Associates, Chartered Accountants, Hyderabad retire as Auditors of your Company at the conclusion of this Annual General Meeting and are eligible for reappointment. They have signified their willingness to accept re-appointment and have further confirmed their eligibility under Section 224 (1-B) of the Companies Act, 1956. The Board recommends their re-appointment.

INDUSTRIAL RELATIONS

The industrial relations continued to be peaceful during the year.

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AUDITORS 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 2005-06.

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.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a report on Corporate Governance, a certificate from the auditors of the company, certificate of the Chairman regarding adoption of Code of Conduct and certificate by the Chairman and Vice president (Operations) in respect of financial reporting is given in the Annexure – B, Annexure – C, Annexure - D and Annexure – E 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 have 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, 2006 and of the profit or loss of the company for the year ended on that date;
- (iii) That your directors have taken proper and sufficient care for the 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 have prepared the Annual Accounts on a going concern basis.

PUBLIC DEPOSITS

The Company has not accepted any deposits from the public as per Section 58A of the Companies Act, 1956 during the year under review.

PARTICULARS OF EMPLOYEES

There are no employees in the Company who are drawing prescribed salary under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended from time to time.

ACKNOWLEDGMENTS

Your Directors would like to place on record their sincere appreciation and gratitude to all Financial Institutions, Company's Bankers, Shareholders, Government Agencies, Suppliers, Customers 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

Place : Hyderabad
Date : 29-07-2006

GAYATRI STARCHKEM LIMITED**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 2006.

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

S.No.	POWER FUEL CONSUMPTION	2005-2006	2004-2005
1.	ELECTRICITY		
a)	<i>Purchased units (nos.)</i>	69,27,600.00	42,83,656.00
	Total cost (Rs.in lakhs)	251.31	187.13
	Rate / Unit (Rs)	3.63	4.37
b)	<i>Own Generation</i>		
	Through Diesel Generator		
	Units(KWH)	8,896.00	7,944.00
	Units/Per Litre of - Diesel Oil (KWH)	1.55	1.70
	Cost/unit (Rs./KWH)	21.05	14.14
2.	HUSK		
	Qty(Mts)	9,165.31	5,212.00
	Total Cost (Rs. In lakhs)	147.32	70.97
	Average cost per Kg (Rs)	1.61	1.36
3.	DIESEL OIL		
	Qty (K.ltrs)	7.95	9.14
	Total Cost (Rs. In Lakhs)	2.59	2.20
	Average cost per Ltr(Rs)	32.57	24.04
	FOREIGN EXCHANGE EARNINGS (Rs.in lakhs)	—	—
	EXPENDITURE IN FOREIGN CURRENCY (Rs.in lakhs)		
a.	Travelling Expenses & Subscription	—	—
	Capital Goods	—	—
c.	Raw Materials	—	—

By Order of the Board

Place : Hyderabad
Date : 29-07-2006

T.V. Sandeep Reddy
Chairman

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ANNEXURE - 'B' TO DIRECTORS' REPORT CORPORATE GOVERNANCE REPORT FOR THE YEAR 2005-06

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

1. Corporate Governance Philosophy

The Company is a firm believer in core values of Corporate Governance Code. The Company fully understands the rights of its shareholders to have intimation on the performance of the Company and considers itself a trusty of its shareholders. The Company is committed to good corporate governance, adherence to Statutory and regulatory prescriptions, care for environment and social responsibility.

The Company has adopted a Code of Conduct for members of the Board and Senior Management, who have all affirmed in writing their adherence to the Code.

2. Board of Directors

(a) Composition:

The Board of Directors consists of three directors – a Chairman and two Non-Executive independent directors.

Board of Directors

Sri T.V.Sandeep Reddy

Chairman

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 was held on 27th September 2005.

Name	Category	Board Meetings Attended	Attendance at the last AGM	No. of Other Directorships held in other Companies	
				Public	Private
Sri. T.V.Sandeep Reddy	Promoter-Chairman	4	Yes	8	13
Sri T.G.Pandya	Non -Executive/ Independent Director	4	Yes	NIL	NIL
Sri. P. Maruthi Babu	Non-Executive/ Independent Director	4	Yes	1	4

(b) Board Meetings held during the year 2005-2006:

The Board meets at least once in a quarter to consider among other business, the quarterly performance of the Company and financial results. During the financial year 2005-2006 the Board held four meetings as follows:

S.No	Date of Board Meeting
1.	30 th June 2005
2.	21 st July, 2005
3.	29 th October, 2005
4.	25 th January, 2006