



Gayatri

GAYATRI SUGARS LIMITED

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ELEVENTH ANNUAL REPORT 2005-2006



Eleventh Annual Report

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the company. Proxies duly stamped and signed must be deposited at the company's Registered Office not less than 48 hours before the time for holding the meeting. Members / Proxies are also requested to bring along with them the Annual Reports being sent to them.
2. Members are requested to notify immediately any change, in their address to the company at the Registered Office.
3. Members desirous of obtaining any information concerning the accounts and operations of the company are requested to send their queries to the company at least 7 days before the date of the meeting, so that the information required by the members may be made available at the meeting.
4. Members holding more than one share certificate in the same name under different folios are requested to apply for consolidation of such folios in one folio and send relevant share certificates to the company's Registrars and Share Transfer Agents M/s Venture Capital and Corporate Investments Limited 6-2-913/914, 3rd Floor, Progressive Towers, Khairthabad, Hyderabad - 500004 Ph: 23322264.
5. Members, who hold shares in dematerialized form, are requested to write their client ID and DP ID Nos and those who hold shares in physical form are requested their folio No in the attendance slip for attending the meeting.
6. The Register of Members and the Share Transfer Registers will be closed from 23.09.2006 to 27.09.2006 (Both days inclusive)
7. Members are requested to intimate the Registrars and share transfer agents of the Company, M/s Venture Capital and Corporate Investments Limited, 6-2-913/914, 3rd Floor, Progressive Towers, Khairthabad, Hyderabad - 500004 Ph: 23322264 immediately of any change in their address.
8. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 is annexed hereto.

11th Annual General Meeting

Day : Wednesday

Date : September 27, 2006

Time : 3.30 P.M

Venue : Dr K L N Prasad Auditorium,
Federation House,
D.No.11-6-841, Red Hills,
Hyderabad – 500 004

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BOARD OF DIRECTORS

Mrs. T Indira Subbarami Reddy
Sri T V Sandeep Kumar Reddy
Sri DK Kambale
Sri V Udhaya Shankar
Sri N Nageswara Rao
Sri T R Rajagopalan
Sri S Venkataswamy
Dr A K Bhattacharya
Mrs. T Sarita Reddy

Chairperson
Vice Chairman & Managing Director
IDBI Nominee
IFCI Ltd Nominee
Director
Director
Director
Director
Director

COMPLIANCE OFFICER

Sri AP Sarma

General Manager (Fin & Accts)

AUDITORS

M/s C.B.Mouli & Associates
Chartered Accountants
Secunderabad

BANKERS

State Bank of India
Bank of Baroda
Andhra Bank
Punjab national bank

REGISTERED OFFICE

DOOR No. 6-3-663/E
FLAT No. 301, Diamond house,
Punjugutta,
Hyderabad – 500 082.
Phone Nos: 23414823/26
Fax No: 23414827
Email: gayatrisugars@sify.com

FACTORY

Adloor Yellareddy Village
Sadasivanagar Mandal
Nizamabad District
Andhra Pradesh
Phone No: (08468) 248558
Fax No: (08468) 248559

Eleventh Annual Report**NOTICE**

NOTICE is hereby given that the **Eleventh Annual General Meeting** of the members of the Company will be held at Dr K L N Prasad Auditorium, Federation House, Door No: 11-6-841, Red Hills, Hyderabad- 500004 on Wednesday the 27th day of September, 2006 at 3.30 P.M to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at 31st March, 2006 and the Profit and Loss Account for the year ended on 31st March, 2006 and the report of Directors and Auditors thereon.
2. To declare dividend on Cumulative Redeemable Preference Shares for the year 2005-2006.
3. To appoint a Director in place of Mr.S.Venkataswamy, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Mr. TR Rajagopalan , who retires by rotation and being eligible offers himself for reappointment.
5. To consider and if thought fit, to pass the following resolution as special resolution.

"RESOLVED THAT M/s. C B Mouli & Associates, Chartered Accountants, Secunderabad be and are hereby reappointed as the Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting on such remuneration as may be mutually agreed to between the Board of Directors and the Auditors".

SPECIAL BUSINESS**6. VOLUNTARY DELISTING OF EQUITY SHARES OF THE COMPANY**

*To consider and if thought fit to pass, with or without modifications, the following resolution as a **Special Resolution**:*

"RESOLVED that pursuant to SEBI (De-listing of Securities) Guidelines 2003 and other applicable provisions of the Companies Act, 1956, Securities Contracts (Regulation) Act, and the Rules framed thereunder, Listing Agreements and all other applicable laws, rules, regulations and guidelines, approval of the Company be and is hereby accorded to the Board of Directors

for voluntary de-listing of the Equity Shares of the company from the Stock Exchange, Hyderabad.

"RESOLVED further that the Board of Directors of the company be and is hereby authorized to take all necessary steps in this regard and do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary in regard to voluntary de-listing of the equity shares from all or any of the aforesaid Stock Exchanges and to do the various acts, deeds and things to give effect to this resolution."

FOR AND ON BEHALF OF THE BOARD

MRS T INDIRA SUBBARAMI REDDY
Chairperson

Place : Hyderabad

Date : 31st July, 2006

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.**Item No.6:**

At present, the Company's securities are listed on Hyderabad, Mumbai Stock Exchanges and the shares of the company are compulsorily traded in dematerialized form by all categories of investors. As The Stock Exchange, Mumbai (BSE) has provided wide networking, investors have access to on-line dealings in the Company's securities across the country. The trading volume at Hyderabad Stock Exchange is negligible as compared to the trade volumes at Bombay Stock Exchange. It is therefore proposed to de-list the Equity shares of the Company as per SEBI (Delisting of Securities) Guidelines 2003 from the Hyderabad Stock Exchange..

Members approval by way of Special Resolution is required, hence this resolution. The exact date on which de-listing will take effect will be suitably notified at that time.

The Directors recommend the resolution for approval of Members.

None of the Directors of the Company is interested in the resolution except as shareholders of the Company.

FOR AND ON BEHALF OF THE BOARD

MRS T INDIRA SUBBARAMI REDDY
Chairperson

Place : Hyderabad

Date : 31st July, 2006

DIRECTORS' REPORT

Dear Members,

Your Directors are pleased to present the Eleventh Annual Report of your company along with the Audited Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS (Rs in lacs)

| Description | 2005-06 | 2004-05 |
|--|---------|----------|
| Sales | 9021.58 | 7589.65 |
| Increase/(Decrease) in stocks | 558.74 | (971.73) |
| Profit/(Loss) before depreciation and interest | 1980.01 | 1652.98 |
| Interest | 628.62 | 752.13 |
| Depreciation | 385.42 | 380.21 |
| Profit/(Loss) before tax | 965.97 | 520.64 |
| Provision for tax | 59.27 | 0.00 |
| Profit/(Loss) after tax | 906.70 | 520.64 |

REVIEW OF OPERATIONS

Performance during the financial year 2005-06

Your Directors are pleased to report that during the year under review, the company has commenced its crushing operations on 27th November 2005. As on 31st March 2006, the company has crushed 3.94 lacs MT of cane with an average recovery of 10.64%.

The company has also processed imported raw sugar of 0.72 lac quintals.

Prospects for the financial year 2006-07

The Company is estimating to crush 5.50 lac MT of sugar cane during the current year. The Company is in the process of setting up of 45KLPD Distillery plant at the existing location of the sugar factory near Kamareddy and is expected to commence commercial production in December, 2006.

DIVIDEND ON PREFERENCE SHARES

As the company has made profit during the year under review, the Directors recommend a dividend of 6% on Cumulative Redeemable Preference Shares for the year 2005 – 2006.

LISTING OF SECURITIES

The company's shares are listed with The Hyderabad Stock Exchange Ltd and The Stock Exchange, Mumbai and the annual listing fee for the year 2006-2007 has been paid to the Stock Exchanges at Hyderabad and Mumbai. The enabling resolution is placed before the shareholders for delisting of Equity shares of the Company from the Hyderabad Stock Exchange Limited, Hyderabad.

DIRECTORS

Mr. S.Venkataswamy and Mr. TR Rajagopalan will retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for reappointment.

PUBLIC DEPOSITS

The Company has not accepted any deposits from the public 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.

AUDITORS

The Auditors M/s. C.B. Mouli & Associates, Chartered Accountants, Secunderabad will retire at the conclusion of the ensuing Annual General Meeting. 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.

COST AUDIT

The Central Government pursuant to Section 233 B of the Companies Act, 1956 has ordered that the company carries out an audit of cost accounts relating to sugar every year. Mr S P Sarma, Cost Accountant was appointed as Cost Auditor of the company for the year 2006-07.

CONSERVATION OF ENERGY, ETC

Information relating to Conservation of energy, Technology Absorption and Foreign Exchange Earnings and Outgo as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of the Particulars in the

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Report of Board of Directors) Rules, 1988 is given in Annexure-A which forms part of this Report.

CORPORATE GOVERNANCE

Pursuant to clause 49 of the Listing Agreement, a report on Corporate Governance and a certificate from the auditors of the company are given in the Annexure – B and Annexure–C respectively, which form part of this report.

DIRECTORS RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217 (2AA) of the Companies Act, 1956 your directors state:

1. That in preparation of the Annual Accounts the applicable Accounting Standards have been followed by the company;
2. That your directors have selected such accounting policies and applied them consistently and made judgments 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 31.03.06 and of the profit or loss of the company for the year ended on that date;
3. That your directors have taken Proper and sufficient care for the maintenance of adequate accounting records in accordance with provisions of the Companies Act, 1956 for safe guarding the assets of the company and for preventing and detecting fraud and other irregularities.

4. That your Directors have prepared annual accounts on a going concern basis.

INDUSTRIAL RELATIONS

The Industrial Relations continued to be peaceful during the year.

ACKNOWLEDGEMENTS

The Board of Directors would like to place on record their appreciation of the assistance and guidance extended by the Financial Institutions/Banks viz, IDBI, IFCI, CDR, SBI, BOB, AB and PNB. Your Directors express their gratitude to the shareholders for the confidence reposed in the management. Your Directors also place on record their sincere appreciation of the total commitment and hard work put in by all the employees of the company.

FOR AND ON BEHALF OF THE BOARD

MRS T INDIRA SUBBARAMI REDDY
Chairperson

Place : Hyderabad
Date : 31st July, 2006

Annexure - A to Directors' Report

Information required under Section 217(1)(e) read with the Companies (Disclosure of Particulars in respect of Board of Directors) Rule, 1988.

A. CONSERVATION OF ENERGY

- | | | | |
|----|---|---|--|
| a) | Energy Conservation Measures | : | 1. Feed automation of balance I No. of Batch Pan and 5 Nos. Pan condensers are completed. 2. Installed 4 Nos. variable frequency drives at the following places. a) Weighted Juice Pump b) Boiler feed water transfer pump c) Mill Imbibition pump d) Centrifugal Super heat wash water pump. |
| b) | Additional Investment and Proposals, if any, being implemented for reduction of Consumption of energy | : | Additional investment Rs150 lacs. The company is planning to replace steam turbines with motors |
| c) | Impact of to measures at (a) and (b) above for reduction of consumption and consequent impact on the cost of production | : | Results in savings of energy, and improves efficiency and quality of the product |
| d) | Total energy consumption and energy consumption pr unit of production as per Form A. | : | Enclosed |

B) TECHNOLOGY ABSORPTION :

- | | | | |
|----|--|---|--|
| e) | Efforts made in technology as per Form B | : | Plant as per standard specifications of Government of India. |
|----|--|---|--|

C) FOREIGN EXCHANGE EARNINGS & OUTGO :

- | | | | |
|----|---|---|---|
| f) | Activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services; and export plans. | : | Nil |
| g) | Total Foreign exchange used | : | Total Foreign Exchange used Rs.Nil Total Foreign Exchange earned -Rs.Nil |

Eleventh Annual Report**FORM A**

(See Rule 2)

FORM OF DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

| | Current year (2005-06) | Previous year (2004-05) |
|--|-----------------------------------|------------------------------------|
| A) POWER AND FUEL CONSUMPTION | | |
| 1) ELECTRICITY | | |
| a) PURCHASED | | |
| Units KWH (lacs) | 4.20 | 4.57 |
| Total Amount (Rs Lacs) | 19.40 | 21.85 |
| Rate/Unit (Rs.) | 4.60 | 4.78 |
| b) OWN GENERATION | | |
| i) Through Diesel Generator | | |
| Units KWH (lacs) | 0.06 | 0.14 |
| Unit per Ltr. of Diesel Oil- KWH | 2.44 | 2.32 |
| Cost/Unit (Rs.) | 13.24 | 11.21 |
| ii) Through Steam Turbine/Generator | | |
| Units KWH (lacs) | 169.98 | 139.93 |
| Units per ton of Bagasse/paddy husk | 150 | 154 |
| Cost/Unit (Rs.) | 2.09 | 1.94 |
| 2) COAL | | |
| Qty. (Tons) | Nil | Nil |
| Total Cost (Rs lacs) | Nil | Nil |
| Average Rate (Rs.) | Nil | Nil |
| 3) PADDY HUSK/FIRE WOOD | | |
| Qty. (Tons) | 2083 | Nil |
| Total Cost (Rs Lacs) | 22.60 | Nil |
| Average Rate (Rs.) | 1085 | Nil |
| 4) BAGASSE | | |
| Qty. (Tons) | 110947 | 90637 |
| Total Cost (Rs Lacs) | 332.84 | 271.91 |
| Cost Per Ton (Rs.) | 300 | 300 |
| 5) FURNACE OIL | | |
| Qty. (Tons) | Nil | Nil |
| Total Cost (Rs lacs) | Nil | Nil |
| Average Rate (Rs.) | Nil | Nil |
| 6) DIESEL OIL | | |
| Qty. (Ltrs) | 2260 | 5860 |
| Total Cost (RsLacs) | 0.73 | 1.52 |
| Average Rate (Rs.) | 32.28 | 25.98 |
| B) CONSUMPTION PER UNIT OF PRODCUTION | | |
| Electricity Per Ton of sugar (KWH) | 198 | 204 |

Annexure - B to Directors' Report

Corporate Governance Report

A. 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 information on the performance of the company and considers itself a trustee 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.

B. Board of Directors

- i) The composition of the Board is well balanced with expertise drawn from Industry, Management, Finance and Agriculture.

The composition of the Board as on 31.03.2006 is as follows:

| Name of the Director | Category | No. of Directorships held in other Companies | |
|-------------------------------|-----------------------------|--|---------|
| | | Public | Private |
| Smt. T Indira Subbarami Reddy | Non Executive Chairperson | 8 | 13 |
| Sri T V Sandeep Kumar Reddy | Executive – Vice Chairman | 8 | 13 |
| Mr. DK Kambale | Independent (IDBI Nominee) | 1 | Nil |
| Sri V Udaya Shanker | Independent (IFCI Nominee) | Nil | Nil |
| Sri N Nageswara Rao | Non Executive / Independent | 1 | 7 |
| Sri T R Rajagopalan | Non Executive / Independent | Nil | 3 |
| Sri S Venkataswamy | Non Executive / Independent | 3 | Nil |
| Dr A K Bhattacharya | Non Executive / Independent | 1 | Nil |
| Smt. T Sarita Reddy | Executive – Director | 5 | 7 |

*Dr. T Subbarami Reddy resigned as Director of the Company w.e.f 21st July 2005 and Mr. NS Venkatesh resigned as IDBI Nominee w.e.f 17th August, 2005.

ii) Changes in the composition of the Board of Directors

During the year Dr. T. Subbarami Reddy resigned as Director of the Company and Mr. DK Kambale has been appointed as Nominee of IDBI Limited in place of Mr. NS Venkatesh.

iii) Meetings held in the Financial Year 2005-2006 and the attendance of Directors.

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 2005-06, the Board held five meetings on 16th June 2005, 21st July 2005, 19th October 2005, 3rd December 2005 and 19th January 2006.

| S.No. | Name of the Director | No. of Board Meetings Attended | Attendance at last AGM Held on 27.09.05 |
|-------|------------------------------------|--------------------------------|---|
| 1 | *Dr. T Subbarami Reddy | 1 | NA |
| 2 | Smt. T Indira Subbarami Reddy | 3 | Present |
| 3 | Sri T V Sandeep K Reddy | 4 | " |
| 4 | *Sri N S Venkatesh (IDBI Nominee) | - | NA |
| 5 | Sri DK Kambale | 2 | Not Present |
| 6 | Sri V Udaya Shankar (IFCI Nominee) | 3 | " |
| 7 | Sri N Nageswara Rao | 4 | " |
| 8 | Sri T R Rajagopalan | 5 | Present |
| 9 | Sri S Venkataswamy | 4 | Not present |
| 10 | Dr A K Bhattacharya | 1 | Present |
| 11 | Smt. T Sarita Reddy | 4 | " |

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*Dr. T Subbarami Reddy resigned as Director of the Company w.e.f 21st July 2005 and Mr. NS Venkatesh resigned as IDBI Nominee w.e.f 17th August, 2005.

C Committees of Directors**i) Audit Committee**

The Audit committee is responsible for overseeing the company's financial reporting process, reviewing with the management the financial statements and adequacy of internal audit function and discuss significant internal audit findings.

The terms of reference fully conform to the requirements of Section 292A of the Companies Act, 1956 and as specified in Clause 49 of the Listing Agreements with the stock exchanges.

The Audit Committee meetings were held three times during the financial year 2005-06, on 16th June 2005, 19th October 2005 and 19th January 2006.

The composition of the Audit Committee and the attendance of each director at these Meetings was as follows:

| S.No. | Members of the Audit committee | No. of meetings Attended |
|-------|------------------------------------|--------------------------|
| 1 | Sri T R Rajagopalan (Chairman) | 3 |
| 2 | Sri V Udhayashankar (IFCI Nominee) | 1 |
| 3 | *Sri T V Sandeep Kumar Reddy | 1 |
| 4 | Smt T Sarita Reddy | 1 |

*Audit Committee was reconstituted with Smt T Sarita Reddy as the member of the committee in place of Sri TV Sandeep Kumar Reddy w.e.f. 19th January 2006.

ii) Remuneration Committee

The Remuneration Committee consists entirely of Non Executive Directors namely:

| S.No. | Members of the committee |
|-------|--------------------------------|
| 1. | Sri T R Rajagopalan (Chairman) |
| 2. | Sri S Venkataswamy |
| 3. | Smt T Sarita Reddy |

One meeting of Remuneration committee was held during the financial year 2005-2006 on 21st July 2005 and all the Directors were present.

The Remuneration policy of the Company is summarized as follows:

i) For Managing Director:

The total remuneration, subject to shareholders approval consists of

- a fixed component consisting of salary, allowances and perquisites and benefits are in line with the Company's rules for senior managerial personnel
- a variable component linked to the performance of the Company as well as the Managing Director consisting of Commission and special allowances as determined by the Remuneration Committee.

ii) For Non Executive Directors

Sitting fees is paid as per the Companies Act, 1956 and the Articles of Association of the Company, for attending meetings of the Board or any committees of the Board. Directors are also reimbursed actual travel costs and incidental expenses incurred for attending such meetings or in connection with the Company's business.