

**ANNUAL REPORT
1998-99**

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KREBS BIOCHEMICALS LIMITED

Krebs

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Krebs Biochemicals Limited Annual Report 1998-99

BOARD OF DIRECTORS

Dr M VENKATARATNAM	CHAIRMAN
IAS (Retd)	
SRI R S VIDYA SAGAR	IDBI Nominee
SRI T DAMODARA REDDY	APIDC Nominee
SRI J JAWAHARLAL	Director & Company Secretary
Dr T KUCHROO	Director
Dr R T RAVI	Managing Director

BANKERS

State Bank of India (Overseas Branch)
Abids, Hyderabad - 500 001.
IDBI Bank Ltd.
Mahaveer House, Basheerbagh Square,
Hyderabad - 500 004.

AUDITORS

Prasad. G.V.L
Chartered Accountant
14, Sunshine Complex, Lakdikapul,
Hyderabad - 500 004.

REGISTERED OFFICE

Krebs Biochemicals Limited,
Unit No. 5 & 6, I Floor, 6-3-713, Amrutha Hills,
Topaz Complex, Punjagutta,
Hyderabad - 500 082.
Tel : 3319281, Fax : 040 3398605
E-mail: krebs@hd1.vsnl.net.in, krebsbio@hd1.vsnl.net.in
Website: <http://www.krebsbiochem.com>

FACTORIES

Unit 1: Regadichelika, Talamanchi Panchayat,
Racharlapadu Post, Nellore Dist : 524 316
Andhra Pradesh.
Tel : 08622 - 75104, 75281, 75282
Unit 2: Kothapalli Village, Vedruparthy Post
Kasimkota Mandal, Near Anakapalli,
Visakhapatnam Dist, Andhra Pradesh
Tel: 08924-28688, 28687, 28600.

KNOW YOUR COMPANY

- Krebs Biochemicals Ltd (KBL) is the largest producer in bulk of Ephedrine and Pseudoephedrine in India and the second largest in the world. These bulk drugs are used in formulations for treatment of cold, cough and other respiratory ailments and infections. A large proportion of the company's turnover is exported to various countries, principally to USA.
- KBL was incorporated in December, 1991 and commenced implementation of the project for establishment of the factory with fermentation facilities at Regadichilaka Village in Nellore Dist. The company made an initial public offer of equity shares in March, 1994 to meet a part of the cost of the project. The factory was originally installed with capacity to produce 60 TPA of Pseudoephedrine HCL. The unit is now expanded to have a capacity of 150 TPA. The actual production is in excess of that limit at present. The factory itself occupies an area of about 12 acres out of the 65 acres of land belonging to the company. It comprises of administrative office laboratory and effluent treatment plant in addition to the main factory building, providing all facilities for the manufacture and convenience of all the 300 persons employed there.
- The company has established its second unit at Kothapalli Village in Visakhapatnam Dist. for the manufacture of Erythromycin and other lines of fermentation products. This is in line with the plan for diversification of the product lines retaining fermentation as its main core. This unit is declared to have come into commercial production of Erythromycin with effect from 22nd Jan, 1999. The same facilities were also proved successful for the production of other fermentation products like Lovastatin, which is a cholesterol reducing drug. Flexibility in production facilities and compliance with International Standards are the major advantages of this unit. The whole of this project is financed by internal accruals and loans from Financial Institutions without additional investment from shareholders.
- Both the units are located in economically backward areas. Both of them are equipped with their own effluent treatment plants and have adequate supply of power from APSEB.
- The shares of the company are listed on Mumbai, National and Hyderabad Stock Exchanges. The market capitalization of the Company as on 31-3-1999 was Rs.9577 lacs with a paid up capital of Rs.460 lacs.
- The stated philosophy of the Krebs management is to deliver excellent long term value to its equity owners and the management is committed to this goal.

POST-BALANCE SHEET EVENTS

The sales during the first quarter of 1999-2000 was not upto the expectations of the management as the sluggish market conditions still persists. The company has been making special efforts to overcome this situation. Results of these efforts started trickling in rather slowly. However, there is a definite reversal of the trend and the markets started looking up once again. The same will be reflected in the results from the second quarter of 1999-2000 onwards.

The company has successfully produced Lovastatin USP and also introduced the same into the market. The product is accepted by the customers both Indian and Foreign. The company has successfully executed the orders. Permission has been received by the company from the Drug Controller of India for export of Lovastatin.

As part of its overall efforts to improve the sales the company started offering Ephedrine HCL in the Indian market from April 1999 onwards.

State of the art extraction machinery obtained from Germany had been commissioned successfully at both the units. The company obtained additional power sanction from APSEB to the extent of 500 KVA at unit 1.



CHAIRMAN'S STATEMENT

This seventh Annual Report of the company carries the accounts for the year 1998-99 along with the reports of Directors and Auditors. It may be noted that the turnover during this year was Rs.36.84 crores which is just 1.84% more than in the year 1997-98. The net profit however, registered a fall by 10.73% over the preceding year.

You may please recall my statement in the previous Annual General Meeting wherein I have alerted the company that the steady growth recorded so far cannot be taken for granted and that continuous efforts are required to maintain the pace. This year unfortunately, there has been a set back in the exports of the company's products compared to last year. This is explained as due to abnormal fall in prices in the international market, aggravated by the financial crisis in South East Asian economies. An earnest effort has however, been made to sustain our price levels by looking for alternative sources. This, I believe, has taken some time resulting in accumulation of stocks.

The unit at Kothapalli village in Visakhapatnam dist. has been completed successfully and the commercial production of Erythromycin is declared from 22nd Jan, 1999, soon after obtaining clearance from Environmental Authorities. Here again, I must say, that we were lucky to envisage the need to establish a multipurpose equipment for fermentation and production of different lines of value added products. Thus even though the company had teething problems regarding the stabilization of the process, the time was not wasted. Having achieved successful production of Erythromycin thiocyanate, considering that some more time is required to complete stabilization of the process, necessary decision was taken to try simultaneously alternative lines of production of high value items taking advantage of the flexibility and versatility of the fermentation equipment installed. Fortunately this initiative is proved successful. But all that effort falls into the current year leaving the year 1998-99 with the burden of expenditure incurred and depreciation charged.

Having said all that, I am glad to report that the overall effect on profitability is not significant. In view of the comfortable position of profits for the year and reserves, directors desired to maintain the same level of dividend as declared last year i.e at Rs.5/- per share of Rs.10/- in the best interests of the shareholders.

Your company is quite conscious of its social responsibilities and interacts continuously with the local inhabitants by extending help and assistance in matters of hygiene and education. Plans are under way to dovetail these efforts into some of the relevant programs of the Government. In consultation with the

Pollution Control Board a long term plan is devised to reduce the pollution effect and this plan is now under implementation.

The management and employees continue to be dedicated and committed to quality and professional competence. The product also has a good standing in the market. I believe strongly, that the company has a bright future contributing its share to the national goal of "Health for All".



REVIEW BY THE MANAGING DIRECTOR**OPERATIONS**

As a result of certain technical studies initiated at the beginning of 1998, the level of production of Ephedrine at unit I has increased towards the fourth quarter of the year. The average monthly production for the last quarter was higher by at least 40% over the average production in say the second quarter of the year 1998-99. Credit must be given to the contribution of the production team of the unit headed by the General Manager. The cost effectiveness of our production at unit I can be claimed now to be perhaps one of the best in the Industry.

There continued to be some anxieties persisted through the year regarding the Pollution caused by our unit I at Nellore. Inspite of trying out several alternate technologies, including the substitution of molasses feedstock by cleaner substrates, we are unable to completely treat the effluent generated. Members recall that in the previous years the company made substantial investment to instal the Effluent Treatment Plant (ETP). However, we are still seeking the right solution to the problem.

Meanwhile Pollution Control Board have identified deficiency in the operation of the ETP installed by the company. They have suggested additional plan of action to bring down pollution which envisages an investment of Rs.80.00 lacs during this year at Nellore. This is now under implementation. But for this there is no plan for any more capital investment during this year. The concentration of management will be on full utilization of the installed capacities and to establish ourselves strongly in the market.

While unit II at Visakhapatnam was completed as a production facility with the necessary infrastructure during the year, no sales has been recorded during the year. By August 98, itself it was fairly well established that Erythromycin Thiocyanate at fully commercial level can be produced at our unit II. In other words, the microbial strain was good, laboratory and pilot plant studies were successful and yields on scale up were satisfactory and comparable to the industry averages. However, there were certain bottlenecks in the down stream processing (DSP) identified initially for processing and purification of Erythromycin Thiocyanate. Necessary DSP equipment were imported and installed by March, 1999. But in the meanwhile, there arose problems due to reduced cashflow which was due to lower sales during the fourth quarter of the year.

Having established good manufacturing processes at both the units, it is now felt that certain structural and engineering modifications are required to be carried out both in unit I and unit II, in order to bring the plants to US FDA standards, specially at unit I. Now, a detailed plan was drawn and are planning for a 8 to 10 week shutdown of unit I at an appropriate time in this financial year (99-2000). This will help in readying the units for US FDA inspection next year.

MARKET

Perhaps a feeling was generated over the years by the growth of company's sales increasing quarter by quarter every year since inception that the trend has only one direction. It might be appropriate to bring to fore once again the risks in running the company whose entire sales depend on a single product. It is a good thing to learn that most bulk drug companies offer more than a dozen products each (some larger companies offer more than 40 molecules) to comprise their turnover and at any given point a significant portion of them may be non moving due to seasonal and other problems.

Unfortunately for our company while negotiations to renew annual contract with our largest customer were going on, the concerns of USFDA have become grave about their plant at Carlstadt, USA and it was almost closed down since the beginning of this calendar year. This sudden development has resulted in virtual piling up of stocks of Ephedrine with us, unsold. Coupled with this is the increased production levels which was a positive development and stock levels as on 31st March, 1999 stood at alarmingly higher levels.

Any changeover by end users of Ephedrine and Pseudoephedrine (for that matter any bulk drug) is a long drawn process of about 6 to 9 months - starting from sampling to execution of commercial orders. I am glad to inform the members that the sluggishness in sales experienced in the fourth quarter of 98-99 and which persisted through the first and second quarters of current year is a thing of past now. Once again the markets have improved and the offtake is improving steadily. Management tried to identify other customers to fill the gap. But the arrangements could not be completed expeditiously in view of the stringent regulations applicable to this line. Moreover we have to ensure that the new customer is really capable of absorbing the required quantities of our material before finalizing any understanding with them.

As mentioned above the company's product from Unit II has good demand both locally and in the export market, specially as our production is cost effective.

While we have just commenced sales of Lovastatin in the spot market, we are seriously negotiating large volume contracts and are confident that by end of third quarter at least one or two contracts will materialize. Patent for this product is to expire next year and demand is expected to grow further. Thus the company is poised for a larger contribution quarter after quarter from third quarter, of 1999.-2000.

Once bitten twice shy. Taking a clue from the market problems experienced as described above, the company has placed right emphasis on market development this year. This will ensure consolidation of both the existing units.

PERSONNEL

An annual bonus of 20% of annual salary was paid to all the employees of the company for the year 1997-98. The company continues to enjoy excellent relations with the employees and not a single man - day was lost due to any personnel problems. As our production units are located in somewhat remote areas, recruitment of specially qualified personnel to take up very specific responsible jobs, is being felt difficult, we arranged to train the employees on jobs through suitable in - house programmes. Outside experts were also involved in this process. Initially Unit II suffered from lack of stability of the unit head but of late, experienced professionals are all in place and are committed to their jobs.

About 122 new employees joined during the year 1998-99 but 83 have chosen to leave the company for a variety of reasons. KBL remains a principal employer in the regions of their respective locations and thus is able to attract best local talents. The company has spent Rs.30.29 lakhs during 98-99 on employee welfare programmes, an increase of Rs.4.96 lakhs over the previous year.

OUTLOOK

The team of employees now working for the company have shown a high degree of commitment to the duties and helped the company reach its targets in production and also to produce new products. The company is now in a better position to accelerate growth with best products and the market arrangements are being finalized. I am sure the downward trend recorded in 1998-99 is now on the reverse direction and we are consolidating our position. Thus the current year may record growth once again, perhaps somewhat compensating the negative growth experienced during 1998-99. Looking beyond, after consolidation phase is over by the current year, the company would like to develop a few new ideas commercially and focus on a rapid increase in turnover. For us at Krebs Biochemicals Ltd, it is the quality of business which is more important but ofcourse the volume of business is bound to grow in future at a faster pace.