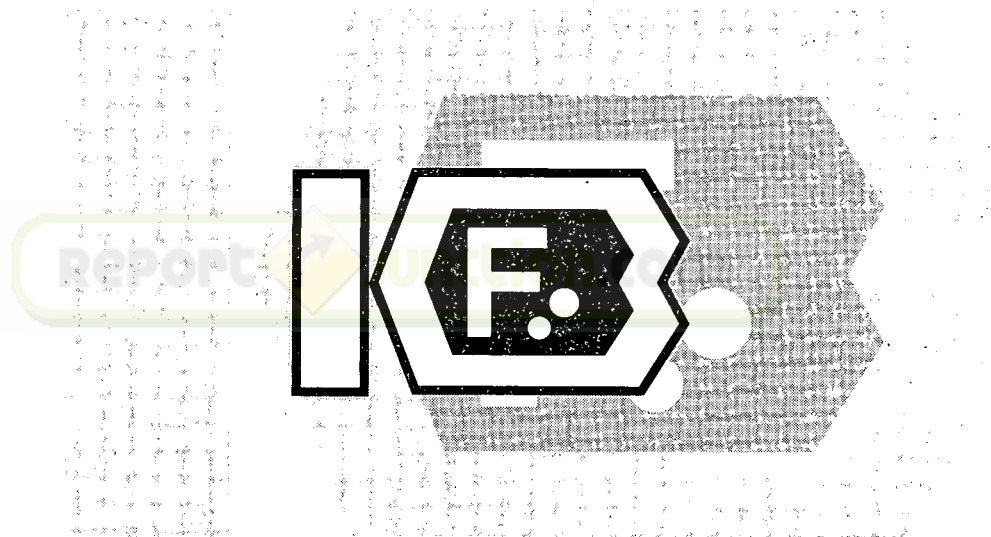


17th
Annual
Report
2006-2007

2006-2007



KOTHARI FERMENTATION AND BIOCHEM LTD.

KOTHARI FERMENTATION AND BIOCHEM LTD.**BOARD OF DIRECTORS**

Motilal Kothari	<i>Chairman & Managing Director</i>
Pramod Kothari	<i>Director</i>
Prasanna Kumar Pagaria	<i>Director</i>
Ratan Lal Dudheria	<i>Director</i>
Mal Chand Sharma	<i>Director</i>

COMPANY SECRETARY / COMPLIANCE OFFICER

Vijay Singh Kathotia

BANKERS

Allahabad Bank
State Bank of Bikaner & Jaipur
Punjab National Bank

AUDITORS

NAHATA JAIN & ASSOCIATES
Chartered Accountants
New Delhi

REGISTERED OFFICE

1st Floor, 16, Community Centre, Saket,
New Delhi - 110 017

FACTORY

Village Rajarampur
Industrial Area, Sikandrabad
Distt. Bullandshar (U.P)

SHARE TRANSFER AGENT

Abhipra Capital Limited
Ground Floor - Abhipra Complex,
Dilkhush Industrial Area, A-387, G.T. Karnal Road,
Azadpur, Delhi - 110 033

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KOTHARI FERMENTATION AND BIOCHEM LIMITED

KOTHARI FERMENTATION AND BIOCHEM LTD.

Regd. Office: 16, Community Centre, 1st floor Saket, New Delhi - 110 017.

NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the SEVENTEENTH ANNUAL GENERAL MEETING of the members of "KOTHARI FERMENTATION AND BIOCHEM LIMITED" will be held on Saturday, the 29th day of September, 2007 at 10 A.M. at "Convention Center" JAMIA HAMDARD, Hamdard Nagar, Near Majidia Hospital, New Delhi-110062, to transact the following businesses:

AS ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit & Loss Account for the year ended on 31st March, 2007 and the Balance Sheet as at 31st March, 2007 together with Reports of Directors and Auditors thereon.
2. To appoint a director in place of Mr. Ratan Lal Dudheria who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint the auditors and to fix their remuneration. M/s Nahata Jain & Associates, Chartered Accountants, New Delhi are retiring at the ensuing Annual General Meeting and are eligible for re-appointment.

NOTES:

1. a) A member entitled to attend and vote at the Annual General Meeting, is entitled to appoint a proxy to attend and vote instead of himself and such a proxy need not be a member of the Company. However, the company shall have the right to fully verify the identity of proxy.
b) Proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before the meeting.
c) Members / Proxies should bring the attendance slip duly filled in for attending the meeting.
2. Members attending the meeting are requested to bring their copy of Annual Report, as extra copies will not be supplied.
3. Members who are holding physical shares in identical names in more than one folio are requested to write to the Company/ Share Transfer Agent to enable the Company to consolidate their holdings in one folio. Further, members are also requested to immediately notify to the Company/Share Transfer Agent any change in their address with the postal area pin code number quoting their folio number.
4. Register of Members of the Company will remain closed from Tuesday, the 11th September 2007 to Sunday, the 30th September 2007 (both days inclusive) for the purpose of Annual General Meeting.
5. All documents referred to in the notice are open for inspection at the registered office of the company between 11.00 a.m. to 1.00 p.m. on any working day prior to the date of meeting.
6. Demat facility: The shares of the company fall under the category of compulsory delivery in dematerialized form by all categories of investors. The company has signed agreements with both the Depositories i.e. National Securities Depository Limited and Central Depositories Services (India) Limited. The company's shares bear ISIN INE991B01010 with both the depositories. The shareholders are requested to get their shares in Demat form.
7. Pursuant to the provisions contained in Section 205A and 205C of the Companies Act, 1956, the company had transferred dividend remaining unclaimed for a period of seven years from the date it first became due for payment, to The Investor Education and Protection Fund (IEPF) constituted by the Central Government and no claim shall lie against the IEPF or the company in respect of individual amount(s) so credited to the IEPF. Further, no amount of dividend etc. is due to be transferred to IEPF during the current year.
8. Shareholders seeking any information with regard to accounts are requested to write to the Company at least ten days in advance so as to enable the Company to keep the information ready at the time of Annual General Meeting.
9. The Management is confident of shareholders' co-operation for smooth conduct of the meeting.



KOTHARI FERMENTATION AND BIOCHEM LIMITED

DETAILS OF DIRECTORS SEEKING APPOINTMENT/ RE-APPONTMENT AS REQUIRED UNDER CLAUSE 49 OF THE LISTING AGREEMENT WITH STOCK EXCHANGES

Mr. Ratan Lal Dudheria aged about 61 years is a Commerce Graduate. He is a businessman in Guwahati. He was appointed as director of the company on 10.03.2003.

By order of the Board
For KOTHARI FERMENTATION & BIOCHEM LTD.

Regd. Office:
1st Floor, 16, Community Centre,
Saket, New Delhi – 110 017

PRAMOD KOTHARI
Director

Dated : 31st August, 2007





KOTHARI FERMENTATION AND BIOCHEM LIMITED

DIRECTORS' REPORT

TO
THE MEMBERS OF
KOTHARI FERMENTATION AND BIOCHEM LTD.

Your directors are pleased to present the 17th Annual Report together with the Audited Accounts for the year ended on 31st March 2007:

1. FINANCIAL RESULTS	(Rs. in lacs)	
	2006-2007	2005-2006
TURNOVER		
— Manufacturing	1965.51	1945.41
PROFIT BEFORE INTEREST & DEPRECIATION	305.14	206.66
INTEREST	57.92	2.27
DEPRECIATION	90.38	90.67
PROFIT BEFORE TAX	156.84	113.72
TAX - Fringe Benefit	3.28	3.06
NET PROFIT/ (LOSS) AFTER TAX	153.56	110.66

2. OPERATIONS

During the year, the company had to incur high cost of molasses i.e. the main raw material used for production of yeast, which is a seasonal product of sugar mills. This had adversely affected the production during the year. The prices of molasses have been settled down during later part of the year. Still the company had achieved production of 5138 MT during 2006-07 as compared to 5198 MT in previous year. The turnover of the company was marginally increased to Rs. 1965.51 Lacs during the year 2006-07 as compared to Rs. 1945.41 Lacs during previous year. The profitability of the company has been increased to Rs. 153.56 Lacs during the year 2006-07 as compared to Rs. 110.66 Lacs during previous year. Dividend for the year has not been proposed due to accumulated losses of previous years.

3. CURRENT YEAR'S OUTLOOK

In view of volatile market of raw material and fluctuations in the prices of molasses, the company has planned to keep sufficient storage of molasses. Due to stability of prices of the product and increased production, it is expected that the profitability of the company shall further improve during current year.

4. FIXED DEPOSITS

The Company has not accepted any deposit from public during the year under review, which would fall under section 58-A of the Companies Act, 1956.

5. DIRECTORS

In accordance with the provisions of the Companies Acts, 1956 and the Articles of Association of the Company, Mr. Ratan Lal Dudheria is retiring from the board by rotation and being eligible offers himself for reappointment.

6. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The statement containing the necessary information 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, is annexed to this report as Annexure.

7. PERSONNEL

Your company keeps harmonious relations with all its employees. No employee is drawing salary more than the limits prescribed under section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

8. AUDITORS

M/s Nahata Jain & Associates, Chartered Accountants, statutory auditors of your company retire and being eligible offers themselves for re-appointment. The Board recommends their appointment as auditors from the conclusion of this meeting to the conclusion of next annual general meeting. The notes on accounts are self-explanatory with regards to auditors' observations.

9. LISTING OF SHARES

The company's shares are listed at Stock Exchanges situated at Delhi, Mumbai, Kolkata, Jaipur and Gauhati. The listing



KOTHARI FERMENTATION AND BIOCHEM LIMITED

at Delhi and Mumbai is continued, and the listing fee has been paid upto date. Action has already been initiated for delisting of shares from stock exchanges at Kolkata, Jaipur, and Gauhati. All the formalities have been complied with in relation to delisting and as such the listing fee to these Stock Exchanges was not paid.

10. CORPORATE GOVERNANCE

The provisions of clause 49 of the listing agreement relating to corporate governance are applicable to the company. So there is a separate section on Corporate Governance in the annual report of the company, with a detailed compliance report on Corporate Governance. The Management Discussion and Analysis Report is attached herewith.

11. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Sec.217 (2AA) of the Companies Act, 1956 the directors hereby report:

- that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- that the 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 at the end of the financial year 2006-07 and of the profit or loss of the company for that year.
- that the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities,
- that the directors have prepared the annual accounts on a going concern basis.

12. ACKNOWLEDGEMENTS

Your directors place on record their sincere appreciation for the wholehearted devotion and commitment extended by the employees at all levels, which has been a source of strength and inspiration to the company.

The directors also wish to thank and deeply acknowledge the cooperation, assistance and support extended by the shareholders, the dealers and vendors of the company, bankers and financial institution.

For and on behalf of the Board

Place : New Delhi

Date : 31st August, 2007

MOTI LAL KOTHARI

Chairman & Managing Director

ANNEXURE TO THE DIRECTORS' REPORT

(I) CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

	FOR THE YEAR ENDED ON 31ST MARCH, 2007	FOR THE YEAR ENDED ON 31ST MARCH, 2006
1. CONSERVATION OF ENERGY POWER AND FUEL CONSUMPTION		
a) Electricity		
Units Consumed	43,47,380	45,61,040
Total Amount (Rs. in Lacs)	186.84	196.99
Rate/Unit Rs.	4.30	4.32
b) Furnace Oil/L.D.O.		
Quantity (litres)	6,41,200	5,75,800
Total Amount (Rs. in Lacs)	123.86	104.81
Average Rate per Ltr. (Rs.)	19.32	18.20
2. RESEARCH AND DEVELOPMENT		
Expenditure on R & D		
a) Capital (Rs. in lacs)	—	—
b) Recurring (Rs. in lacs)	5.20	5.31
c) Total (Rs. in lacs)	5.20	5.31
d) Total R & D expenditure as percentage of turnover	0.26	0.27
3. FOREIGN EXCHANGE EARNINGS AND OUTGO.		
Foreign exchange earnings (Rs.in lacs)	—	—
Foreign exchange outgo (Rs.in lacs)	4.03	7.38



KOTHARI FERMENTATION AND BIOCHEM LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management of Kothari Fermentation & Biochem Ltd. is pleased to present its fifth analysis report covering segment wise performance and out look.

The company has one business segment of Manufacturing Yeast during the year 2006-07.

Industry Structure and Developments

There are three major companies manufacturing yeast in India, the other two companies are multi national companies. These MNCs also have their manufacturing units in the northern region apart from our company, so every company is trying to exploit this market. This has created the situation of more supply and less demand in this region and there is a cut-throat competition in the market.

Opportunities and Threats

The biggest opportunity available in yeast industry in India is that the market has potential to grow due to increase in population. The company is trying to explore the new market. Further, the gas supply is available in the vicinity of company's factory, and the company has sufficient vacant land. If suitable gas based power project is installed in the factory, it would drastically reduce the power cost.

The main threat that the company is facing is that if the company attempts to reach its customers scattered in the country, it has to comply with many legal formalities and obtain registrations before starting operation in other areas. Also, the cost of sales will increase due to the heavy transportation cost, as the product is required to be transported in controlled temperature in distant places. The company needs large investment for the gas based power project and for the modification of E.T.P., for which the promoters are ready to introduce the funds in the form of equity share capital.

Segment wise Performance

There was only one segment in the company during 2006-07, i.e. yeast manufacturing. The comparison of financial data with previous year's data, is provided under the heading "Discussion on Financial Performance with respect to Operational Performance" later in this Report.

Future Outlook

The company is regularly reviewing its whole structure and making changes for future improvements. It is expected that the production would be higher during the current year, which shall increase the profitability of the company. The company has succeeded in obtaining sanction for one time settlement of loans with Allahabad Bank and IDBI, and has cleared all dues of Allahabad Bank and IDBI as on date. The Company had made a reference to the Board for Industrial and Financial Reconstruction (BIFR) in September, 2002 under section 15(1) of the SICA, 1985 and as per Reg. 19 of the Board for Industrial and Financial Reconstruction Regulations, 1987, the company was declared by BIFR a Sick Industrial Company on 9th November, 2005. IDBI was appointed by BIFR as the operating agency to prepare the draft rehabilitation scheme for revival of the company. IDBI has submitted the draft rehabilitation scheme to BIFR in December, 2006 and the approval of the same is likely to be accorded shortly.

Risks and Concerns

The company is facing stiff competition with the multi national companies. These MNCs are able to offload their products at rock bottom prices and extend longer credit facilities because they enjoy the economies of production at bigger scale and their cost per unit is comparatively less. But the company due to its better quality product, lesser overheads and personal attention of the management, is able to sustain in the market.

Yeast manufacturing industry is power intensive. Unscheduled power cuts and load shedding increase the production stops and consequently results in shifting to power generation by DG sets, which is comparatively costly.

The U.P. Trade Tax Department has raised demand by charging trade tax at the rate of 10% treating yeast as unclassified item, and not treating yeast as chemical on which rate of trade tax is 4%. The company and other manufacturers in U.P. state went to H'ble High Court of Allahabad by way of writ petition for challenging the tax demand. The H'ble High Court has passed orders in favour of Govt. of U.P. on 16.4.2007. The company has filed SLP before H'ble Supreme Court against the order of H'ble High Court. The Apex Court has been pleased to stay assessment proceedings in the relevant trade tax cases. The SLP is in progress. In case the matter is decided against the company, there would be a liability of trade tax @ 6% on the sales made in U.P. during March, 2003 to till date, apart from interest liability for the whole period.



KOTHARI FERMENTATION AND BIOCHEM LIMITED

Internal Control System and their adequacy

The company has clearly defined roles and responsibilities at all levels for internal control purposes. Internal checks are carried out by the managers/ supervisors at each level. The top management reviews the internal control system periodically. However there is no documented policy to be followed by the employees. The internal audit of the company is carried out by an independent firm of chartered accountants.

Discussion on Financial Performance with respect to Operational Performance

(Rs. in Lacs)

	2006-07	2005-06
1. Revenue (Rs. in Lacs)	1965.51	1945.41
2. Depreciation	90.38	90.67
3. Interest	57.92	2.27
4. Results (Net)	153.56	110.66

Material Developments in Human Resources/Industrial Relations Front, including number of people employed

Training and development of Human Resources is of paramount importance. The company provides proper on-the-job training to the employees before inducting them to the real work environment. Further, efforts are made to retain the best personnel within the organization for the longest period of time. The company periodically conducts performance appraisals of the employees on the basis of which promotions, increments, transfers, etc. are made. The company continues to keep harmonious relations with all its employees. There were 127 persons directly employed by the company during the previous financial year on average basis.

For and on behalf of the Board

Place : New Delhi
Date : 31st August, 2007

MOTILAL KOTHARI
Chairman & Managing Director



KOTHARI FERMENTATION AND BIOCHEM LIMITED

REPORT ON CORPORATE GOVERNANCE

The Board of Directors of the Company lays great emphasis on the broad principles of Corporate Governance. The report on corporate governance is given below:

1. Company's Philosophy on Code of Governance:

During the last five years, since the requirement of clause 49 of the Listing Agreement became applicable to the company, there has been continuous review of its corporate governance practices to ensure adherence to the latest corporate developments and conform to the corporate governance practices prescribed by the authorities. Effective Corporate Governance must balance individual interest with corporate goals and operate within accepted norms of propriety, equity, fair play and sense of justice. Achieving this balance depends upon the accountability and transparency. Accountability improves decision-making and transparency helps to explain the rationale behind decisions, and thereby builds shareholder confidence.

2. Board of Directors:

(i) The Board of Directors consisted of five directors viz. Mr. Moti Lal Kothari (Chairman), Mr. Pramod Kothari, Mr. Prasanna Kumar Pagaria, Mr. Ratan Lal Dudheria and Mr. Mal Chand Sharma alias Mr. Mali Ram Sharma. Mr. Moti Lal Kothari and Mr. Pramod Kothari are the executive directors and the other three directors are Independent Non-Executive directors. The company, therefore, meets the composition criteria. The appointment of Mr. Moti Lal Kothari & Mr. Pramod Kothari was approved for a period of five years by the shareholders in the AGM held on 30th September 2004. Mr. Moti Lal Kothari looks after finance and overall management of the company, and Mr. Pramod Kothari looks after the technical and marketing functions of the company. The tenure of these two directors shall expire on 31.08.2009.

Composition & Category of Directors

Particulars	Number of Directors	Percentage of composition
Executive Director	2	40%
Non-executive Director	3	60%
Total	5	100%

During the year under review, 6 Board meetings were held and conducted on April 29, 2006, July 28, 2006, September 1, 2006, October 30, 2006, January 30, 2007 and March 30, 2007. The composition of Board of Directors, attendance of directors at the board meetings and Annual General Meeting as also the number of other directorships in Indian Public Limited Companies and memberships of the committees of the Board of such companies are as follows:

Name of the Director	Category of Director	Attendance at last AGM	No. of Board meetings Attended	No. of Other Directorships*	Other Board's Committees	
					Chairman	Member
Mr. Moti Lal Kothari	Executive promoter director	Yes	6	1	NIL	NIL
Mr. Pramod Kothari	—DO—	Yes	5	1	NIL	NIL
Mr. Prasanna Kumar Pagaria	Independent non-executive director	Yes	6	NIL	NIL	NIL
Mr. Mal Chand Sharma	—DO—	No	3	NIL	NIL	NIL
Mr. Ratan Lal Dudheria	—DO—	No	2	NIL	NIL	NIL

*Number of other Directorships held in Public Limited Companies.

3. Committees of the Board

There are three committees of the Board of Directors, which have been delegated adequate powers to discharge their respective functions. These Committees are – (i) Audit Committee, (ii) Remuneration Committee, (iii) Shareholders'/Investors' Grievance Committee. The details of these committees are as follows:

(i) Audit Committee

• Terms of reference:

As per clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956, an Audit Committee exists in the company which has been delegated all the requisite functions and powers. The committee also