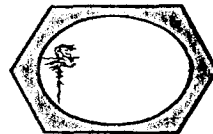


ANNUAL REPORT 1996 - 97

MD	✓			BNC	✓
CS	✓			DEP	✓
RO	✓			DEV	✓
TRA	✓			AC	✓
ACIM	✓	✓		SH	✓
YE	✓	✓	✓		

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KREBS BIOCHEMICALS LIMITED

Krebs Biochemicals Ltd.

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ABOUT THE COMPANY

- KBL commenced business in December '91 and commercial production since July '94.
- KBL is engaged in the manufacture and sale of Bulk Pharmaceuticals used by formulators used in the treatment of cold, cough, asthma and bronchitis.
- About 70% of company products viz., Ephedrine and Pseudoephedrine are exported mainly to the US. They are also exported to Canada, Hong Kong, Thailand, Ghana etc.
- Nearly 400 strong dedicated work force work round the clock (3 shifts) to produce and sell the goods of the company to most exacting customers both in India and abroad.
- Located in industrially remote areas at Regadichilaka Nellore and at Kothapalli Village, Kasimkota Mandal, Vishakapatnam Dist., KBL is striving for social and economic upliftment of rural India.
- KBL offers a distinct blend of technical, industrial and financial skills to develop and succeed.
- The core area business of KBL is in fermentation and its management team works to develop imaginative business opportunities in product and process developments in the field of Biotechnology.
- In all its activities KBL is committed to
 - be commercial and fair.
 - respect the needs of shareholders, employees as well as customers and suppliers.
 - be transparent and maintain integrity and professionalism.
 - work hard for continual improvement and innovation.

CHAIRMAN'S STATEMENT



It gives me immense pleasure to report the healthy working of your Company during 1996-97. Your Company earned a Net Profit of Rs.85.37 million on sales of Rs.256.20 million during the year compared to a Net Profit of Rs.50.28 million on sales of Rs.141.94 million respectively during the previous year, thus registering a growth rate of 80.50% in turnover and 69.80% in Net Profit over the previous year. Further, Earning Per Share

worked out to Rs.18.56 during the year under review compared to Rs.10.93 during the previous year. Your Directors are therefore happy to recommend a dividend of 30% for the year compared to the dividend of 25% declared during the last year. After payment of the recommended dividend the net assets of the company will have risen by Rs. 7.95 million to Rs.138.39 million. In this connection, you are aware that the dividend payable this year will be tax-free in the hands of shareholders. There was an allround improvement in the performance of your company during the year inspite of less favourable market conditions prevailing in the industry for most part of the year.

Yet another successful year has passed with the company's performance surpassing its own targets. This was possible by the outstanding contribution of all concerned with the business of your Company. There is however still much scope and work to be done. Necessary attitudinal orientation is required internally if the Company is to achieve its objectives of becoming truly customer oriented and aggressive in the market place. With a view to achieving substantial reduction in cost of production and significant increase in production and profitability, technology development programme is required to be pursued vigourously. Considering that future belongs, fermentation technology as integral part of Biotechnology, your Company is endeavouring to achieve excellency in this regard. You are already aware that within a short period of three years, your Company has already done a creditable job in successfully managing the sophisticated technology with a view to maintain consistently high quality of products, comparing favourably with international standards. It is the consistent endeavour of your Company to give a major thrust to R & D and technology improvement. Your Company is now poised to launch other fermentation based products with the intrinsic confidence of meeting global competition. Your Company recognises that competition must be fought with competitiveness rather than through protection, particularly in the wake of the liberalised economic policies of the Govt.

Your Company as part of the Indian Corporate Sector, is aware of its social responsibilities in improving the quality of life of the people in rural India. Plans have been drawn up to implement relevant socio-economic programmes in the rural areas around the plant locations, Regadichilaka Village in Nellore Dist. and Kothapalli Village, in Visakhapatnam Dist.

Deeply conscious of the need for environmental protection, planting of trees and full treatment of liquid effluents from the factories will be ensured. It is also the fervent desire of your Company to improve the living standards of its employees.

Your Company is continuing its efforts to the development of more meaningful alliances with the customers, dealers and suppliers.

In sum, product quality, cost competitiveness and customer satisfaction will be the guiding principles governing the management, in chartering its future business plans.

Dear Shareholders, the future looks bright for your Company. The commitment of dedicated people, its technological capabilities and the quality of its products coupled with the corporate determination to change with the changing time will make Krebs one of the vibrant Companies, before long.

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MANAGING DIRECTOR'S REVIEW OF OPERATIONS

During the financial year 1996-97, KBL made good progress. Higher sales and profits were realized. Milestones were reached on introduction of new product range. Although business in the existing products viz. Ephedrine and Pseudoephedrine continue to be under Narcotics Bureau's permit system, exports have been regularly on increase. Market for our products continued to be good and it is felt competition may hot up in the near future. Amidst a general fall in unit prices of most bulk Pharmaceuticals, Ephedrine & Pseudoephedrine prices managed to stay firm during 1996-97.

Manufacture:

We manufactured 44,300 MT of Ephedrine and 65,412 MT of Pseudoephedrine during the year, comprising 73.14% of fully expanded installed capacity (150 MT/YR). There is an increase of 2.88% increase in capacity (90 MT/YR) utilization of the previous years. Continuing this trend, it is expected that current year's (1997-98) figures for capacity utilization will be even higher. From now on increase in production should mainly come from improvements in process technology rather than volume and hardware additions. While the raw materials supply situation had not caused any production bottlenecks during the year, manufacture faced anxious waits to receive supplies of Methanol, Acetic Anhydride and Acetone due to shortages in the country. That the supply position of chief raw materials viz. Molasses and Benzaldehyde throughout the year had been extremely comfortable gave some reprieve. But for the excellent support of our raw material suppliers, there could have been interruptions to production.

Electric power supply from APSEB has been insufficient and irregular, although 100% own generated power is available. The DG sets were meant only as standbys but now are to be used for continuous running and we faced interruptions on a number of occasions, apart from higher power costs. Action is being pursued on our application pending with APSEB for sanction of additional power.

Due to poor water quality and treatment problems there arose immediate need to install an additional 3 MT/hr oilfired boiler as standby at Nellore in January 96. This whole work was done on warfooting in order that manufacture was least affected, about a week's production was lost.

However, with increased production levels in particular, the need for bringing in improvements in the quality of our manufacture is most felt. It is with this

background that a special drive is already initiated to improve Quality Assurance practices in the Nellore plant. This is involving an around effort to equip plant with more sophisticated QC equipment, recruitment of senior quality assurance personnel as well as training to change mindset of all the manufacturing personnel for better quality manufacture. During the current year this programme will be successfully coming to an end.

The need for achieving C GMP Qualifying manufacturing practices need not be over emphasised as over 90% our exports reach the most sophisticated market - the US.

Markets:

During the year the company increased exports in to USA by increased offtake by existing dealers as well as sales through additional dealers. The marketing policy had been consistent in that we assign to each dealer a group of actual users. Over the period this has helped in establishing stronger relationships in the market with dealers as well as actual users. The prices of both Ephedrine & Pseudoephedrine remained steady through out the year.

For the first time, towards the close of the year we ran short of the finished goods for export and kept the customers rationed or worst in wait for Pseudoephedrine Hcl.

Here again one of our weaknesses had been that KBL's products are not made from US FDA approved plant. Efforts are targeted towards achieving US FDA standards in manufacture by March 98. Once approved, Krebs products not only enjoy increased demand, they will also command a decent premium over non-FDA products.

Domestic market front witnessed a slight slide in selling prices (about 1%) due to competitors' offer at lower prices. No new name could be added to existing list of customers during the year. Sale of our Ephedrine was totally stopped during second half in the Indian market due to non-remunerative prices. The dilemma is how much of our total sales must be targeted for the Indian market.

During 1997-98 domestic share in sales might not exceed about 20% of our production for Pseudoephedrine and almost nil for Ephedrine.

At least two of our customers have complained about poor quality of our packaging. Long hauls and number of transshipments resulted in damage to the external

packaging. The reasons were carefully studied, discussed with suppliers of packaging materials, C & F agents and liners and suitable modifications were implemented. Now this problem is behind us, hopefully.

Manpower:

The healthy performance of the company during the year could not be achieved without dedicated hard work of all the employees (men and women) of the company. During the year, 71 employees joined the rolls of the company while 26 have left the company for various reasons. The average cost of the employee was Rs.25,030 for the year 1996-97 compared to Rs.14,552 for the previous year.

Production per employee has been 389 Kgs (Rs.0.61 million) during 96-97 compared to 275 Kgs (Rs.0.47 million) during the previous year. Thus Productivity of employees is also on increase.

However, the emphasis is now rightly focussed on achieving even higher productivity per employee. Suitable HRD and training programmes are slated for the current year. Senior HRD personnel have been employed as a first step in the direction.

I am happy to report on the cordial Industrial relationship that exist in the company. Admittedly management of big workforce is new experience to even some of our officers and managers and due to this there were occasions of some trouble (total stoppage of work - Nil). Every care is taken to make the employees feel proud of being part of Krebs Biochemicals. Total expenditure on employee welfare during the year 96-97 was Rs. 1.27 million which is proposed to increase this year substantially.

Money:

Cash accrued during the year was Rs. 19.00 million and cash surplus from the current year's operations was Rs. 2.65 million.

Due to bunching of exports permits, export to the tune of Rs.57.50 million was done during March 97, last month of the financial year and the amount outstanding as on 31-03-97 was Rs.90.85 million which was realised by May 30th, as per the terms of payment. About Rs.10.92 million of the surplus was spent on capital expenditure at Nellore and Rs. 5.43 million on the new diversification project (MSG) at Kasimkota, near Visakhapatnam during 96-97.

The progress of the new project work at Kasimkota (Vizag) for manufacture of MSG is satisfactory and commercial production is scheduled to commence towards the end of 1997. The civil works are in advanced stage of completion and almost all the machinery had been contracted for. It is proposed that this will be a multipurpose fermentation facility capable of producing a range of fermentation products. Totally about Rs.33.00 million had been spent from internal accruals so far.

Outlook:

Current year 1997-98 started with setback on the export front due to i) transporters strike and ii) delay in implementation of new EXIM Policy by the Govt. There were delays in exports as well as loss in revenue due to this. However, it is gratifying to note that the export prospects are looking up and normalcy was restored in exports by 1st week of June. Internal targets for sales and exports for 97-98 are being set substantially higher levels compared to the year under review.

With increasingly satisfied customers looking for larger supplies from Krebs and our own manufacturing capabilities aided by every year of experience the company's growth and profitability in the near future are good.

At present the company is exploring to develop speciality intermediates for high value added drugs for new market like Japan and this along with the commissioning of our new versatile fermentation facility near Visakhapatnam will make Krebs business broad-based. I have every reason to believe that Krebs business prospects are bright.

CORPORATE FINANCIAL ANALYSIS

For the year ended 31st March

	1995	1996	1997
A. General			
Earnings Per Share (Rs.)	2.24	10.93	18.56
Dividend (%)	12%	25%	30%
Book Value(Rs.)	10.38	18.89	34.53
Return on opening Shareholders funds (%)	21.98	105.32	98.25
Increase in Shareholdrs funds (%)	1.92	82.02	82.80
B. Assets & liabilities			
Debt-equity ratio	1.43	1.15	0.68
Current ratio	1.85	3.07	3.71
Cash and equivalents/total assets	0.67	1.03	3.82
Depreciation for the year/Gross Block(%)	4.95	5.37	6.43
Asset turnover	0.42	0.86	1.00
C. Growth parameters			
Growth in export turnover(%)	NA	112.66	117.56
Growth in sales turnover(%)	NA	269.41	80.50
Growth in total turnover (%)	NA	221.71	64.39
Operating expenses growth(%)	NA	250.67	60.01