

**ANNUAL REPORT  
1999-2000**

Report  junction.com

**KREBS BIOCHEMICALS LIMITED**

**Krebs**

**CONTENTS**

Board of Directors	-	2
Know Your Company	-	3
Corporate Governance	-	4
Mission Statement	-	4
Focus	-	4
Management Responsibility Statement	-	5
Auditors Responsibility Statement	-	5
Concern for Environment	-	6
Concern for safety	-	6
Business Analysis & Management Practices	-	7
Notice to Shareholders	-	12
Directors' Report	-	18
Annexure to the Directors' Report	-	24
Auditors' Report	-	30
Annexure to the Auditors' Report	-	31
Balance Sheet	-	33
Profit & Loss Account	-	34
Schedules to Balance Sheet	-	35
Additional Information	-	49
Cash Flow Statement & Auditors' Certificate	-	50
Appropriation of Retained Earnings	-	52
Value Added Statement	-	52
Significant Ratios	-	53
Shareholders' Information	-	54

Krebs Biochemicals Limited - Annual Report 1999-2000

### 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
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 : 3319281,3315260 Fax : 040 3398605  
E-mail: [krebs@hd1.vsnl.net.in](mailto:krebs@hd1.vsnl.net.in), [krebsbio@hd1.vsnl.net.in](mailto:krebsbio@hd1.vsnl.net.in)  
Website: <http://www.krebsbiochem.com>

### FACTORIES

- Unit I :** Regadichelika, Talamanchi Panchayat  
Racharlapadu Post, Nellore Dist : 524 316  
Andhra Pradesh.  
Tel : (08622) 75104, 75405, 75406
- Unit II :** Kothapalli Village, Vedruparthy Post  
Kasimkota Mandal, Near Anakapalli  
Visakhapatnam Dist, Andhra Pradesh  
Tel: (08924) 28694, 28687,28695.

**KNOW YOUR COMPANY**

Krebs Biochemicals Ltd (KBL) is a Hyderabad based company manufacturing bulk drugs through fermentation process, one among very few in the world to do so promoted Dr. R T Ravi, a technocrat entrepreneur.

KBL was incorporated in December 1991, and commenced its operations at its Regadichelika, Nellore facility in the year 1994 with an installed capacity of 60 TPA of Pseudoephedrine Hcl. KBL went public with an IPO in 1994 for part financing the same. KBL went on to expand this facility to 150 TPA in the year 1996. Products manufactured from the facility are Ephedrine and Pseudoephedrine and its salts which are used for manufacturing formulations for respiratory ailments, anti allergies viz., cough, cold etc.

The company has set up its second unit at Kothapalli Village, Kasimkota Mandal in Visakhapatnam dist. to manufacture a basket of fermentation products viz., Erythromycin and its salts and Lovastatin etc. The company is now successful in producing Lovastatin and the production process is stabilized.

The company's products are accepted and are being preferred in both Domestic and International Market. The company is in the process of finalising the long term supply arrangements with MNC's in India and in foreign countries. At the same time the company has also developed very high value added products viz. Simvastatin and Pravastatin, the former from Lovastatin. Toxicology and histology data are being collected. However, commercialisation will take another 3-4 months.

The manufacturing facilities in the Nellore plant are being upgraded to conform to USFDA approval /standards. Modifications to the plant in fermentation division had been taken up already.

## CORPORATE GOVERNANCE

Corporate Governance is a system by which the various entities are directed to control the entire function of the company. It is a periodic review of activities of the company and put systematic checks and balances between shareholders, directors, auditors and the management.

Corporate Governance is a phrase which implies transparency of the management system in the industry and business

Your company has improved investor protection and governance.

- The Board has met seven times during the year with a clearly defined agenda for each meeting.
- Key information is being provided to the board at regular intervals.
- Information on high and low of share prices of the company are disclosed under the heading **share holders information**. Net worth of the company, book value of the share, earning capacity of the share and movements of share value on different Stock Exchanges are given in detail.
- During the year under review, the share transfer committee had met 24 times for approving the transfer of shares expeditiously.

## MISSION STATEMENT

Krebs Biochemicals Limited is committed to:

- To be a World-class, Research-driven manufacturer of Bulk Actives, intermediates to produce latest quality products.
- To add Ethical Value to the business practices and conduct business with integrity.
- To serve Customers, Shareholders and Society at large.
- To be benevolent towards all Employees.
- To operate in a Safe & Environmental - friendly atmosphere.
- To be a Contributing Partner for cost effective management of Global Health Care needs especially of developing & under-developed countries.

## FOCUS

The focus of Krebs Biochemicals Limited is to achieve the targeted results with its visionary and technical competence to produce high quality products there by to maximize the returns from each corner. The strength of the Krebs Biochemicals Limited is its ability to supply superior quality product, in the core competency to its valued customers thereby

- Consolidating its gains in stabilizing
- Sustaining International product quality and
- Upgrading the facilities to US FDA standards.

**MANAGEMENT RESPONSIBILITY STATEMENT**

Your Management has prepared and is responsible for the accompanying financial Statements. These Statements have been prepared in conformity with the Accounting Standards issued by the Institute of Chartered Accountants of India and are in compliance with the Companies Act, 1956.

The company's accounting system includes in built internal controls designed to provide reasonable assurance of the reliability of its financial records and proper safeguards and usage of its assets. Such controls are based on established policies and procedures and are implemented by trained, skilled personnel with an appropriate segregation of duties. The Internal Controls are complemented by the company's policies and procedures prescribed by the company and all employees are to maintain the highest ethical standards and that its business practices are to be conducted in a manner with most commercial values.

The company's independent auditors have audited the financial statements. Their audit was conducted in accordance with generally accepted auditing standards as indicated in their report.

The Board of Directors exercise its responsibility for these financial statements through its audit committee, composed solely of nonmanagement directors, which meets periodically with the management, the internal auditors and the independent auditors to review matters relating to internal accounting control, auditing and financial reporting etc. The independent auditors and the internal auditors have full and free access to the audit committee.

**AUDITOR'S RESPONSIBILITY STATEMENT**

The Company Law requires the Auditors to form an independent opinion on the financial statements presented by the directors based on their audit and to report their opinion to the shareholders. The Companies Act, 1956 also requires auditors to report to the shareholders whether the following requirements are complied with :

- That the company has maintained proper accounting records;
- That the financial statements are in agreement with the books and records maintained;
- That the financial statements are prepared in compliance with the AS issued by ICAI.
- That the auditors have obtained all the information and explanations required;
- That the company has not violated Companies Act, 1956 or any other law in force ;
- That the financial statements show a true and fair view of what is stated .

The auditors' opinion doesn't encompass the other pages of this annual report.

**CONCERN FOR ENVIRONMENT**

Environmental protection & management is adopted as a fundamental tenet of the Corporate Philosophy.

Protection of environment, health and safety of our employees and the public are accepted as an ethical responsibility because KREBS wishes to be a Good Corporate and also a Good Neighbour.

Therefore, conscious measures have been taken towards Waste Minimisation and Prevention and Environmental Protection and Management and significant budgetary allocation is being made for this purpose.

**Measures taken**

- An integrated system of environmental controls to reduce emissions in to the air, land & water are developed.
- A well conceived, carefully executed, elaborate Effluent Treatment Facilities for biological waste treatment, together with controls are also set up, to ensure that our water discharges are environmentally acceptable.
- Air emission control devices are installed to significantly reduce air pollution.
- Waste minimisation programs are in operation to reduce the amount of disposable waste.
- When disposal is required, it is done in a permitted well operation facilities.

Each location is having well developed green belt area not less than twice the Plant area.

**CONCERN FOR SAFETY**

KREBS recognises its obligation to protect its human, physical and financial resources.

All Krebs employees are aware of their responsibility to perform their jobs in a manner that protect, conserve and effectively utilize these resources.

We anticipate safety measures at all levels, based on two principles.

‘Prevention and Intervention.’

Through prevention, the risk of an accident is reduced to an absolute minimum.

Intervention consists of controlling the consequences of an accident, should one occur.

**Measures Taken**

- To Comply with laws regulating employees safety and health.
- To furnish workplaces that promote health and safety.
- To provide suitable attire and protective gear.
- To hold supervisory and also non-supervisory employees accountable for the safe performance of their activity.
- To monitor periodically the progress towards a safer & healthier environment.

**BUSINESS ANALYSIS & MANAGEMENT PRACTICES**

The Company's financial statements are prepared conforming with the requirements of the Companies Act, 1956 and as per the Accounting Standards issued by the Institute of Chartered Accountants of India and are fully in agreement with the Generally Accepted Accounting Principles.

**Capital Structure:**

The company has only one class of shares - Equity. During the year Share warrants issued on preferential basis to its core promoters and their associates, nominees, on 28th August, 1998 in accordance with the SEBI Guidelines were converted into equity shares. So the total paid up capital has increased to Rs.600 Lakhs from Rs.460 Lakhs.

**Reserves:**

The total reserves of the company consist of the subsidies received from the state government, general reserves and accumulated profits and share premium on 14 lakhs warrants @ Rs.131.65 per share warrant. During the year under review an amount of Rs.7.50 crores has been transferred to general reserve and the dividend is maintained at the same level as in the last year envisaging an outflow of Rs.2.40 crores as dividend and tax of Rs.0.53 crores to the Government.

**Loan Profile:**

During the year under review, the company has taken a Loan of Rs.1.12 crores from IDBI, Chennai, out of the balance loan unavailed sanctioned for Vizag plant. The total outstanding term loans payable to IDBI & ICICI as on 31-03-2000 amount to Rs.26.33 crores including the interest and installments due for the quarter ending March, 2000. The company has availed working capital facilities to the tune of Rs.8.45 crores from SBI Overseas Branch and IDBI Bank Ltd., Hyderabad as consortium member banks. Apart from the above the company has also availed an amount of Rs.45.45 lakhs in the form of interest free sales tax loan under the deferment scheme and Rs.45 lakhs unsecured loan from a private bank.

**Loan Costs:**

Secured Loans drawn from IDBI and ICICI bear a weighted average cost of 18.32% p.a. and the cost of working capital works out to 13% p.a on an average.

**Debt Philosophy:**

The Company's debt-equity ratio is 0.50 as on 31-03-2000. The debt philosophy of the company is to expand out of accruals and debts, the later being sourced at rates as modest as possible according to the prevailing circumstances.

The company is using innovative financing techniques for availing low cost funds in order to maximize its shareholders' holding value.



**Capital Employed:**

The total capital employed during the year 1999-2000 is Rs.103.94 crores as against Rs.68.84 crores in 1998-99. In order to maximize the shareholders' value, the company believes in using its internal accruals for meeting its requirements. The company has plans to make capital investments during the current year to the tune of Rs.8.00 crores for upgrading the plant facilities and to implement the suggestions made by the Pollution Control Board of Andhra Pradesh.

**Gross Block:**

KBL continues to concentrate on building up its fixed assets in various forms with an intention to reap long term benefits that will increase the shareholders' value in the coming years. The additions made during the year under review amount to Rs. 2.36 crores which takes the total Gross Block to Rs.62.93 crores as at 31-03-2000 against Rs.61.60 crores as at 31-03-1999.

Out of the new additions an amount of Rs.1.04 crores is under capital work-in-progress. The company is planning for a forward integration for the purpose of making value added products to improve its bottom line.

**Depreciation Policy:**

The Company has provided Rs.4.16 crores towards depreciation as against Rs.2.04 crores in the previous year, on its assets which is in accordance with the stated accounting policy of the company. There is no change in the depreciation policy of the Company as compared to the previous year. An amount of Rs.3.79 Lakhs has been amortised out of preliminary & public issue expenses.

**Investments:**

The Company's policy is to make its accruals available for its own projects which are selected very carefully, analysed, screened, and monitored closely with an-eye on flexibility so as to avoid any risk. They are all very high yielding projects capable of delivering long term benefits. This policy of the company does not allow the company to maintain and manage any investment portfolio to ensure that the focus of the company does not deviate from its own business

**Sundry Debtors:**

The liquidity of the company prima facie depends on the company's Debtor policy. During the year under review, there has been appreciable increase in the debtors due to the improved sales during the third & fourth quarter of 1999-2000 and also slight increase in the credit period for both domestic and export sales. The average debt collection period during the year under review is 115 days. The debtors are considered as good and realisable, except as stated in the accounts.

Days	% As on 31-03-2000
0-30	22.50
31-60	15.36
61-90	57.51
above 90	4.63

- The overall collection of debtors is satisfactory. As a measure of asset utilisation, the debtors as a percentage of total revenue stood at 26.9% as on 31-03-2000 compared to 10.8% in the previous year.

**Inventory Valuation:**

The inventories consist of raw materials, stores and spares, work-in-process and finished goods. Raw materials and stores and spares are valued at cost, which includes the costs incurred for the purpose of landing the material where they are. The WIP is valued at cost. Finished goods is valued at the lower of cost or net realisable value. Cost for the purpose of WIP includes costs incurred up to the stage wherever they are as on 31-03-2000 and in case of finished goods includes all direct costs and an appropriate share of overheads.

**Inventories:**

The company is continuing its emphasis on better inventory management which will enable the company to balance the risks and rewards. The inventories as at 31-03-2000 is Rs.22.62 crores as against Rs.14.97 crores on 31-03-99. This increase in the inventories are partly due to increase in productivity due to improvements in post fermentation process and simultaneously the inventories from Unit II operations have also been added.

**Loans and Advances:**

Advances are recoverable either in cash or kind which are primarily made towards supply of materials. Apart from the same, it also consists of deposits like MODVAT Receivables, D.E.P.B Credits receivable etc. Other advances consists of advances given to employees and short term loans given to NBFC's.

**Working Capital:**

The Working Capital as at the end of 31-3-2000 utilised for its day-to-day operations is to the tune of Rs.8.50 crores. This is secured by Hypothecation of stocks & debtors. The Working Capital to turnover ratio is at 17.54 as compared to 17.66 in the previous year. The average working capital utilised by the company is Rs.600 lakhs, during 1999-2000.

**Product Profile:**

Ephedrine (EPH) and Pseudoephedrine (PEH) are the principal products of the company manufactured from Unit I of the Company. The said products are produced with different salts like HCL and Sulfate. The company has also started the commercial production of Erythromycin and salts, Lovastatin from its new facility at Unit II in Vizag Dist.