

**KREBS BIOCHEMICALS &
INDUSTRIES LIMITED**



**15th Annual Report
2006 - 2007**

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KREBS OVER THE LAST SIX YEARS

(Rs. In lakhs)

| PARTICULARS | 2001 - 02 | 2002 - 03 | 2003 - 04 | 2004 - 05 | 2005 - 06 | 2006 - 07 |
|----------------------|-----------|-----------|-----------|-----------|------------|-----------|
| Sales | 7,298.00 | 10,150.00 | 10,124.00 | 7,575.00 | 3,189.00 | 4,880.95 |
| Exports | 6,389.00 | 5,203.00 | 4,447.00 | 4,942.00 | 1,352.00 | 1,588.94 |
| Gross Profit | 1,766.00 | 1,919.00 | 1,833.00 | 1,257.00 | (1,538.00) | (852.71) |
| Profit after Tax | 1,488.00 | 1,487.00 | 1,351.00 | 743.00 | (1,424.00) | (767.01) |
| Dividend | 450.00 | 480.00 | 480.00 | 180.00 | - | - |
| Dividend % | 75.00 | 80.00 | 80.00 | 30.00 | - | - |
| E P S (Rs) | 24.13 | 24.79 | 22.52 | 12.39 | (23.74) | (12.60) |
| Share Capital | 600.00 | 600.00 | 600.00 | 600.00 | 600.00 | 855.00 |
| Gross Block | 8,059.00 | 8,988.00 | 13,130.00 | 17,236.00 | 17,601.00 | 15,872.67 |
| Net Block | 6,189.00 | 6,553.00 | 10,063.00 | 13,341.00 | 12,677.00 | 9,912.67 |
| Net Current Assets | 4,696.00 | 6,940.00 | 8,582.00 | 9,521.00 | 7,323.00 | 8,459.38 |
| Net Worth | 7,979.00 | 8,880.00 | 9,709.00 | 10,247.00 | 8,842.00 | 8,619.52 |
| Book Value per Share | 132.98 | 148.00 | 161.82 | 170.78 | 147.37 | 122.26 |

Board of Directors

Dr. M.Venkataratnam. IAS(Retd)
 Dr. B Brahamaiah
 Mrs. Sangeetha Sharma
 Mr. M. Venkateswara Rao
 Dr. Naresh Kumar
 (Additioanl Director)
 Dr. T.Kuchroo
 Mr. G.V.L.Prasad
 Mr. K.S.S.Prasad
 Dr. R.T.Ravi

Chairman
 Nominee – IDBI
 Nominee – Exim Bank
 Nominee – APIDC
 Nominee – Ranbaxy Laboratories Ltd
 Director
 Director
 Director
 Managing Director

Company Secretary

J. Jawaharlal

Bankers

Andhra Bank
 Somajiguda Branch, Hyderabad – 500 082

The Jammu & Kashmir Bank Limited
 J.N.Road Branch, Hyderabad – 500 001

United Bank of India
 Secunderabad Branch, Secunderabad

UCO Bank
 Nellore

Auditors

M/s G P Associates
 Chartered Accountants
 603, 6th Floor, Plot No: 13
 Cyber Heights
 Road No:2, Banjara Hills
 Hyderabad – 500 033

Registered Office

Krebs Biochemicals & Industries Ltd
 401 – 402, 4th Floor, Plot No:13
 Cyber Heights, Road No:2,
 Banjara Hills, Hyderabad – 500 033
 Tel : 040 – 23540415, 23540416, 655593175
 Fax : 040 - 23540320
 E-Mail : krebsho@krebbsbiochem.com
 Website : http://www.krebshiochem.com

Registrars & Share Transfer Agents

M/s Sathguru Management Consultants Pvt.
 Plot No: 15, Hindi Nagar, Panjagutta
 Hyderabad – 500 034
 Tel : 040 – 23356507, 23350586, 23356975
 Fax: 040 - 23354042
 E-Mail : info@sathguru.com



NOTICE FOR THE 15TH ANNUAL GENERAL MEETING OF THE COMPANY

NOTICE is hereby given that the 15th Annual General Meeting of the company will be held at 11.00 a.m. on Thursday the 27th September 2007 at Surana Udyog Hall, FAPCCI Building, Red Hills, Hyderabad-500 004 to transact the following business:

ORDINARY BUSINESS:

1. To consider and if thought fit, to adopt the audited Balance Sheet of the company as on 31st March 2007 and the Profit & Loss Account for the year ended on that date along with the report of auditors thereon;
2. To consider and adopt the report of Directors for the year 2006-2007;
3. To appoint a Director in the place of Dr.T.Kuchroo who retires by rotation at this meeting and being eligible, proposed for reappointment;
4. To appoint auditors and to fix their remuneration:

M/s G.P.Associates, Chartered Accountants, Hyderabad are the auditors retiring at this meeting. They are proposed for reappointment. The following resolution may be considered as an ordinary resolution:

“RESOLVED that M/s G.P.Associates, Chartered Accountants, Hyderabad, retiring as auditors of the company at this meeting be and are hereby reappointed as auditors to the company to hold office until the conclusion of 16th Annual General Meeting of the company.”

“RESOLVED FURTHER that the Board of Directors are hereby authorized to fix remuneration of the auditors.”

SPECIAL BUSINESS:

5. To consider and if thought fit to pass the following resolution, with or without amendments, as an ordinary resolution:

“RESOLVED that Dr.Naresh Kumar, retiring as additional director at this meeting be and is hereby appointed as director subject to retirement by rotation.”

6. To consider and if thought fit to pass the following resolution, with or without amendments, as an ordinary resolution:

“RESOLVED that Mr.K.S.S.Prasad, retiring as small shareholders Director at this meeting be and is hereby reappointed as small shareholders Director as approved by the small shareholders by postal ballot and reported by the Chairman.”

- 7 To consider and if thought fit, to pass the following resolution, with or without amendments, as an ordinary resolution:

"RESOLVED that pursuant to the provisions of sections 198, 269, 309 and 310 of the Companies Act, 1956 read with Schedule XIII and other applicable provisions, if any, of the Act, the company hereby approves the reappointment of Dr.R.T.Ravi as Managing Director of the company for a period of five years from 1st October, 2007 on a remuneration at 5% of net profits of the company for each year calculated as per applicable provisions of the Companies Act, 1956".

"RESOLVED FURTHER that where in any financial year closing on or after 1st April 2007 the company has no profits or if the profits are inadequate the company shall pay to Dr.R.T.Ravi, as Managing Director, the following remuneration by way of salary, perquisites and other allowances except commission, as minimum remuneration, the aggregate of which shall not exceed the limits prescribed under Part II of Section II of Schedule XIII of the Companies Act, 1956:"

1. Salary : Rs.1,00,000/- (Rupees one lakh) per month;
2. Perquisites : In addition to the salary the following perquisites shall be paid subject to a limit of Rs.75,000 per month.:
 - i. House rent allowance not exceeding 50% of salary;
 - ii. Reimbursement of medical expenses incurred for self and family subject to a ceiling of one month's salary in a year or three months' salary over a period of three years;
 - iii. Leave travel concession for self and family once in a year in accordance with the rules of the company;
 - iv. Club fee to a maximum of two clubs, excluding admission and life membership fees;
 - v. Personal accident insurance premium not exceeding Rs.5,000/- p.m.
 - vi. Gratuity calculated at half month's salary for each completed year of service;
 - vii. Contribution to provident fund as per company rules.

"RESOLVED FURTHER that the board of directors of the company be and is hereby authorized to vary and/revise the remuneration of the Managing Director within the overall limits approved herein and to settle any question or difficulties in connection therewith and incidental thereto."

"RESOLVED FURTHER that the Board of Directors and/or the Company Secretary be and are hereby authorized to take necessary steps and do all such acts as may be necessary to give effect to this resolution."

Hyderabad
24-08-2007

for and on behalf of the Board of Directors
J.Jawaharlal
Company Secretary

The explanatory statement as required under Section 173 of the Companies Act, 1956 is enclosed.

Shareholders entitled to vote at the meeting can appoint one or more proxies to attend and vote on their behalf. The proxy forms shall be deposited with the company at the registered office at least 48 hours before the meeting time to be valid.

The register of members and share transfer registers remain closed from 21-9-2007 to 27-9-2007 both days inclusive.



EXPLANATORY STATEMENT TO THE NOTICE FOR 15TH ANNUAL GENERAL MEETING

Item 3. Dr.T.Kuchroo is a technologist and consultant for food and chemical industries. His expertise is useful to your company and he is proposed for reappointment.

Item 4. M/s G.P.Associates, Chartered Accountants, Hyderabad are the auditors of the company and are proposed for reappointment. They are paid remuneration of Rs.70,000/- as audit fee for the year 2006-2007 and Rs.19,000/- for other certificates issued. In addition they are paid Rs.23,240/- for other services during the year 2006-2007. Their reappointment is a statutory requirement which may be considered for approval.

Item 5. After M/s Ranbaxy Laboratories Ltd became the strategic investor in the company, they suggested appointment of a technical expert also as a Director and proposed Dr.Naresh Kumar, Vice-President in Ranbaxy Laboratories Ltd., for the post. He is an expert in biotechnology and associated with pharmaceutical industry since a long time.

He was appointed as an additional Director in the Board meeting held on 22-2-2007 which is effective to the end of this meeting. In order to continue to avail his services it is proposed to appoint him as Director subject to retirement by rotation which may be considered for approval.

Item 6. Under section 252 of the Companies Act, 1956 the company has to appoint a Director from among the small shareholders. The appointment is to be made by election by the small shareholders on postal ballot. He will be on the Board for a period of three years. Accordingly Mr.K.S.S.Prasad was elected in September, 2004. The appointment is valid upto this Annual General Meeting. To continue him as Director, it is proposed to reappoint him subject to approval of small shareholders. Necessary notices were sent separately to the small shareholders for his election. The result of the election will be announced by the Chairman at the meeting. Approval of the resolution is subject to the result of election.

Item. 7 Dr. R.T.Ravi is the chief promoter of the company and is a technocrat entrepreneur. He earned a doctorate in biochemistry from National Dairy Research Institute, Karnal. After getting experience in Applied Biochemical Research and industrial experience, he ventured into the establishment of this company. He was appointed as Managing Director of the company on 16th July, 1997 and later reappointed for a period of five years in the Annual General Meeting held on 28-9-2002.

In the Board meeting held on 27-7-2007 the Directors approved his appointment for a further period of five years from 1st October, 2007 on the same terms and conditions given to him earlier.

Together with the terms and conditions mentioned in the resolution submitted for approval of members, this may be treated as the abstract in terms of section 302 Of the Companies Act, 1956.

Your Directors recommend the resolution for your approval. Except Dr.R.T.Ravi himself, no other Director is interested or concerned in any way in the above resolution.

For and on behalf of the Board

Sd/-

Company Secretary

Director's Report

Dear members,

Your Directors are pleased to present the 15th Annual Report of your Company for the year ended 31st March 2007.

Financial Highlights of performance during the year are as follows:

(Rs. In Lakhs)

| Sl.No. | PARTICULARS | For the year ended | |
|--------|---|--------------------|-----------------------------|
| | | 31st March 2007 | 31 st March 2006 |
| 1 | Net Sales & Other Income | 4,908.11 | 3,109.05 |
| 2 | Operating Profit before interest, Depreciation & Taxes | 1,227.19 | 233.26 |
| 3 | Less : Interest | 1,020.99 | 861.23 |
| | Depreciation | 1,058.91 | 910.48 |
| 4 | Profit before Tax/(Loss) | (852.71) | (1,538.45) |
| 5 | Add : Differed Tax asset | 90.16 | 117.48 |
| | Less: Provision for Tax | — | — |
| | Deferred Tax | — | — |
| | Fringe Benefit Tax | 4.46 | 3.23 |
| | Earlier Years | — | — |
| 6 | Net Profit /(Loss) | (767.01) | (1,424.19) |
| 7 | Earlier year written back | 2.03 | 18.35 |
| 8 | Add : Profit/(Loss) brought forward from previous year | (1,210.98) | 194.87 |
| 9 | Profit/(Loss) Available for Appropriations | (1,975.96) | (1,210.98) |
| | Appropriations Suggested : | | |
| 10 | General Reserve | — | — |
| 11 | Proposed Dividend on Equity Share Capital | — | — |
| 12 | Dividend Tax | — | — |
| 13 | Balance Carried to Balance Sheet | (1,975.96) | (1,210.98) |

OVERALL PERFORMANCE :

The sales of the company during the financial year 2006-07 has been **increased by 58%** compared to sales during the preceding year 2005-06 and the loss has **decreased by Rs. 6.57 Crores**. The carry forward loss restricts your Board of Directors from considering any **dividend** and had to skip dividend payment for the year 2006-07 also.

OPERATIONS :

The adverse conditions that developed in the market during the **previous year** continued to be in play during this year also. However, net sales income during the year was **only Rs. 4,908.11 lakhs** as against Rs. 3,109.05 lakhs in the year 2005-2006. This resulted in **reduction of loss** to Rs. 852.71 lakhs as against a loss of Rs. 1,538.45 lakhs for the year 2005-2006. **After making financial adjustments** the net loss carried to Balance Sheet was Rs. 1,975.96 lakhs as **against net loss** of Rs. 1,210.98 lakhs for the preceding year.



During the year under review, your company had tied up in manufacturing agreement with M/s Ranbaxy Laboratories Ltd., for undertaking at our Nellore Plant a series of exhibit batches for new high value products and successfully completed two product campaigns. Commercial production of the same shall commence after obtaining US FDA approvals.

Nellore Plant:

During the year the capacity utilization of this facility was almost negligible. Your company started exploring opportunities with large pharmaceutical companies for contract manufacturing. We have successfully implemented some of the products for two different customers.

Vizag Plant :

Lovastatin & Simvastatin have received European Certificate of suitability in April 2007, opening the European Market. However the requirement of customers to qualify the company as a supplier means that the rewards for this can be achieved only in the financial year 2007-2008. Even if capacity utilization is low at 40% now, it is likely to improve in the second half of the year 2007-2008 due to arrangements with M/s Ranbaxy Laboratories Ltd.

Sugar Factory :

As known to members, the company filed a special leave petition with the Hon'ble Supreme Court against the judgement of the state High Court. This petition was dismissed by the Supreme Court on 9-5-2007. Claim for compensation from the State Government is under consideration of the company.

Food Division :

During the financial year 2006-07 performance from food division is very poor and has not contributed significantly either to turnover or profit. As a result of this effective measures are already initiated for improvement of this division. Disposal of the unit is also under consideration as one of the options.

STEPS TAKEN FOR IMPROVING THE PERFORMANCE:

In order to improve the outlook of the company, several steps have been initiated. Noteworthy among such measures is the shareholders agreement with Ranbaxy Laboratories Ltd., under which Ranbaxy Laboratories was allotted 10,50,000 equity shares in your company on preferential basis. While all the formalities had been completed and the money was received, the inprinciple approval is yet to be received from NSE before listing the additional equity.

Joint plant operation committee had been formed with Ranbaxy Laboratories Ltd with a view to increase the capacity utilization of Krebs plants at Nellore and Vizag. A few new products to be manufactured at Nellore have been identified. A co-marketing agreement had been signed with Ranbaxy Laboratories Ltd to market Lovastatin and Simvastatin in new European and other markets. Thus, overall the operations are expected to show improvement from 2008-09 onwards.

BOARD OF DIRECTORS:

There have been some changes in the Board of Directors after the previous AGM held on 29th September 2006. Dr. Naresh Kumar was inducted as additional Director with effect from 22/2/2007 as nominee of Ranbaxy Laboratories Ltd. He is now proposed for appointment as Director subject to retirement by rotation.

In terms of section 256 of the Companies Act 1956, Dr. T. Kuchroo is proposed to retire at this meeting. As he is eligible and willing, the Board suggests re-appointment of Dr. T. Kuchroo. Details of his experience and Bio-data are separately enclosed to the notice for general meeting.

Mr K.S.S.Prasad is a Director elected by the small shareholders under section 252 of the Companies Act, 1956 in September, 2004. His term of three years expires with this meeting. He is proposed for

reappointment and necessary notices are issued to small shareholders for his election. The result of election will be announced by the Chairman in the meeting based on which his reappointment will be confirmed.

AUDITORS:

M/s.G.P.Associates, Chartered Accountants are the statutory auditors to the company and they retire at this AGM. They are eligible and willing for reappointment as per the Companies Act, 1956 and their reappointment is also suggested by the Audit Committee. M/s.G.P.Associates is now proposed for reappointment as Auditors to hold office until expiry of the next AGM in 2008.

EMPLOYEE RELATIONS:

The Directors are happy to report that the company has cordial relations with its employees. In spite of many difficulties, the employees have been cooperating with the management and enthusiastically offering their services as required by the management.

STATEMENT OF DIRECTORS RESPONSIBILITIES:

Your Directors confirm in terms of section 217 (2AA) of the Companies Act 1956 on the basis of the documents and information available to them that:

there has been no material departure from the accepted accounting standards in the preparation of financial statements presented to you;

the Directors have chosen only accepted accounting policies and apply them consistently. The judgments and estimates made by them are prudent and reasonable to give a true and fair view of the state of affairs of the Company as on 31st March 2007 and of the results of operation for the financial year;

the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the requirements of the Companies Act, 1956 and to safeguard the assets of the company and to prevent and detect any irregularities and frauds and the accounts presented are prepared on a running concern basis. The properties and assets of your company are adequately covered by insurance policies.

Particulars of employees required to be disclosed in terms of 217 (2A) of the Companies Act 1956 are given below:

| Name, Age, Designation, Qualification and Nature of Duties | Date of Appointment | Experience in years | Remuneration | Previous Employment |
|--|---------------------|---------------------|----------------|---|
| Dr.R.T.Ravi, Managing Director, Age 58 Years. Ph.D (Biochemistry) | 12-10-1992 | 34Years | Rs.16,50,000/- | Managing Partner M/s.Bhavani Fertilizers |

There are no other employees in the company holding 2% of equity shares and hence Sn.217 (2A)(a)(iii) is not applicable.