

# THIRTEENTH ANNUAL REPORT 2005-2006

VG-Caps<sup>®</sup>



**NCL** NATURAL  
CAPSULES  
LIMITED

BANGALORE

**BOARD OF DIRECTORS :** Srirangam Gopalan Chairman  
 Laxminarayan Mundra Whole-time Director  
 Satyanarayan Mundra Whole-time Director  
 C. P. Rangachar Director  
 Dr. C. M. Gurumurthy Director  
 V. Subramony Director  
 Sunil L. Mundra Managing Director  
 Sushil Kumar Mundra Director  
 V. Balaji Bhat Director

**BANKERS & FINANCIAL INSTITUTIONS :** M/s. State Bank of India  
 Bangalore Commercial Branch  
 Hudson Circle  
**BANGALORE - 560 001**

**AUDITORS :** M/s. Gnanoba & Bhat  
 Chartered Accountants  
 211, Commerce House  
 9/1, Cunningham Road  
**BANGALORE - 560 052.**

**REGISTERED OFFICE :** 102, "Shreshta Bhumi"  
 No. 87, K. R. Road,  
**BANGALORE - 560 004.**  
 Tel. No. 080-2667 1571/2667 1573  
 Fax : 080-2667 1562  
 E-mail : [info@naturalcapsules.com](mailto:info@naturalcapsules.com)  
 URL : [www.naturalcapsules.com](http://www.naturalcapsules.com)

**REGISTRAR AND TRANSFER AGENTS :** M/s. Cameo Corporate Services Ltd.  
 Subramanian Building,  
 No.1, Club House Road,  
**CHENNAI - 600 002.**  
 Tel : 91-044-28460390 (5Lines)  
 Fax : 91-044-28460129  
 Grams : CAMEO  
 Email : [cameo@cameoindia.com](mailto:cameo@cameoindia.com)  
 Contact Person : Mrs. G. Lalitha  
 Sr. Manager & Company Secretary  
 ISIN CODE No : INE936B01015

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**NATURAL CAPSULES LIMITED**

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**NATURAL CAPSULES LIMITED****NOTICE**

NOTICE is hereby given to the members of the Company that the Thirteenth Annual General Meeting will be held on Friday, 28th July 2006, at Bangalore Gayana Samaja, K. R. Road, Bangalore - 560 004, at 11.00 a.m to transact the following business :-

**ORDINARY BUSINESS :**

1. To consider and adopt the Audited Accounts for the year ended 31st March, 2006 along with the Directors' and Auditor's Reports thereon.
2. To declare dividend.
3. To appoint a Director in the place of Mr. S. Gopalan, the retiring Director who being eligible offers himself for re-appointment.
4. To appoint a Director in the place of Mr. V. Subramony, the retiring Director who being eligible offers himself for re-appointment
5. To appoint Auditors and to fix their remuneration.  
M/s Gnanoba & Bhat, Chartered Accountants, Bangalore, retire at this annual general meeting and they are eligible for re-appointment.

Date : 29th May 2006  
Place : Bangalore

For and On Behalf of the Board

Sd/-  
Managing Director

**NOTE :**

1. A member who is entitled to attend and vote at the meeting is entitled to appoint a proxy and that proxy need not be a member. A proxy to be effective shall reach the Registered Office of the Company not less than 48 hours before the meeting.
2. Members are requested to bring duly filled-in attendance slips at the time of meeting.
3. The members and transfer registers will remain closed from Thursday 25th July 2006 to Friday, 28th July 2006 (both days inclusive) for determining members entitled to receive dividend for the financial year ended 31-3-2006. Dividends if declared will be paid to those members whose names appear in the register of members as on 28-7-2006.
4. Proxy form is attached.

## THIRTEENTH ANNUAL REPORT 2005-2006

## DIRECTOR'S REPORT

## TO THE MEMBERS

Your directors hereby present the Thirteenth Annual Report together with the Audited Accounts of the company for the year ended 31st March 2006.

## 1. FINANCIAL RESULTS :

The Comparative financial results for the period are as under :

	2005-06 (Rs. In Lacs)	2004-05 (Rs. In Lacs)
Sales & Other Income	1571.26	1199.86
Profit before Depreciation and Interest	464.14	358.63
Depreciation & Preliminary exp	86.64	81.20
Interest	19.65	24.41
Profit/ (Loss) before tax	357.85	253.02
Provision for taxation	120.88	87.00
Deferred tax	(3.00)	19.92
Profit/(Loss) after tax	239.97	146.10

## 2. PREFORMANCE &amp; PROSPECTS :

During the year under review, the company has earned a Net profit (before tax) of Rs.357.85 lacs as against the corresponding Net profit of Rs.253.02 lacs in the previous year; this has enabled the company to plough back an amount of Rs. 105.74 lacs for funding the ongoing expansion at Pondicherry. The export of the company has more than doubled during the year under consideration. Your directors are hopeful of expanding the domestic and export sales as in the previous year.

## 3. DIVIDEND :

Considering the need for conservation of resources for expansion, and the need for funds, your directors are pleased to recommend a dividend of 10% for the year ended 31-3-2006 for the members whose names appear in the register of members as on the date of AGM viz., 28.7.2006

## 4. EXPANSION :

During the year 2004 -2005 company had acquired 5 capsules making machines to be installed at Pondicherry. Out of these 5 machines, 3 machines are already operational and the balance machines will be commissioned during the current year. With completion of this expansion program, the total manufacturing installed capacity of HGCS will be 3.6 billion capsules per annum.

## 5. DIRECTORS :

Mr. S.Gopalan and Mr V.Subramony retire at this Annual General Meeting and being eligible, offer themselves for reappointment.

## 6. DISCLOSURE OF PARTICULARS AS PER BOARD'S REPORT RULES 1988:

## A. CONSERVATION OF ENERGY :

The particulars as per form A is attached to this report.

## B. RESEARCH &amp; DEVELOPMENT AND TECHNOLOGY ABSORPTION :

Company is having an ongoing Research and Development activity to develop value added products.

## C. EXPORTS :

The company has successfully exported Gelatine capsules to mainly South east Asian countries and with second expansion being established at Pondicherry, your directors are hopeful of improving the exports. During the year under review exports growth was more than twice of last year.

## D. FOREIGN EXCHANGE, EARNINGS &amp; OUTGO:

Foreign exchange earning : Rs. 170.23 Lacs  
Foreign exchange outgo : Rs. 1.35 Lacs

## 7. DIRECTOR'S RESPONSIBILITY STATEMENT :

- In the preparation of the annual accounts, the applicable accounting standards have been followed.
- The Directors have selected such accounting policies and applied them consistently and made judgements 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 and of the profit of the company for the period.
- The Directors have taken proper and sufficient care for maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting the fraud and other irregularities.
- The Directors have prepared the annual accounts on a going concern basis.

## 8. AUDITORS :

M/s Gnanoba & Bhat, Chartered Accountants, Bangalore retire at the ensuing Annual General Meeting and they are eligible for re-appointment.

## 9. REPORT ON CORPORATE GOVERNANCE :

As separate report on Corporate Governance is given in the Annexure A&B.

## 10. CLAUSE 49 OF THE LISTING AGREEMENT :

- During the year under report the trading of the company's securities has not been suspended by the Stock Exchanges with which the shares are listed.
- The names and addresses of the Stock Exchanges with which the company's securities are listed are as follows:
  - Bangalore Stock Exchange Ltd, 51, Stock Exchange Towers, 1st Cross, J.C. Road, Bangalore 560 027
  - The Stock Exchange Mumbai, Phirozejeejeebhoy Towers, Dalal Street, Mumbai-400 001

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iii) Coimbatore Stock Exchange Ltd, Stock exchange building, CSX Towers, 683-686, Trichy Road, Singanallur, Coimbatore - 641 005

c) The annual listing fees of the above Stock Exchanges have been paid

#### 11. ACKNOWLEDGEMENTS:

The Management wishes to place on record its sincere thanks and appreciation to State Bank of India for their financial support and guidance, and its appreciation for the excellent co-operation extended by the staff & workers of the Company. Management also wishes to place on record its appreciation for the valuable support extended by various Government agencies at Pondicherry.

For and on behalf of the Board

Place : Bangalore  
Date : 29th May, 2006

Sd/-  
**S. GOPALAN**  
CHAIRMAN

### ANNEXURE TO DIRECTOR'S REPORT

#### FORM A (SEE RULE 2)

Form for disclosure of particulars with respect to conservation of energy

#### A. POWER & FUEL CONSUMPTION:

			Current Year 2005-06	Previous Year 2004-05
1.	Electricity:			
	a) Purchased :	Units(KWH)	32,69,356	22,40,023
	b) Total amount	(Rs.in lac)	117.044	88.54
	c) Rate/Unit	(Rs.)	3.58	3.95
	d) Own Generation:			
	i) Through diesel generator			
	Units	(KWH)		7,22,036
	Unit per Ltr.of diesel oil	(KWH)		3.65
	Oil cost/Unit	(Rs.)		6.45
	ii) Through Steam turbine/generator		-	-
2.	Coal		-	-
3.	Furnace oil		-	-
4.	Other/Internal generations		-	-

#### B. CONSUMPTION PER UNIT OF PRODUCTION

	EHG Capsules			Veg Capsules		
	Stds. (if any)	Current Year	Previous Year	Stds. (if any)	Current Year	Previous Year
Electricity per lac	-	135	177	-	650	723
Furnace oil	-	-	-	-	-	-
Coal	-	-	-	-	-	-
Others	-	-	-	-	-	-

For and behalf of the Board

Sd/-  
**S. Gopalan**  
Chairman

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**ANNEXURE A**  
**REPORT ON CORPORATE GOVERNANCE**

**1. COMPANY'S PHILOSOPHY :**

The company's philosophy is to establish a good corporate governance to ensure accountability, transparency and stakeholder protection.

**2. BOARD STRENGTH AND REPRESENTATION :**

As at 31<sup>st</sup> March, 2006, the Board consisted of nine members. The composition of and the category of Directors on the Board of the Company were as under:

Category	Particulars of the Directors	
Promoter Executive Directors.	1. Sri Sunil L Mundra	- Managing Director
	2. Sri Laxminarayan Moondra	- Wholetime Director
	3. Sri Satyanarayan Mundra	- Wholetime Director
Promoter Non Executive Directors	1. Sri Sushil Kumar Mundra	- Director
Non Executive Independent Directors	1. Sri S.Gopalan	- Chairman
	2. Sri C.P.Rangachar	- Director
	3. Dr C.M.Gurumurthy	- Director
	4. Sri V.Subramony	- Director
	5. Sri V.Balaji Bhat	- Director

**I. Conduct of Board Proceedings:**

The day to day business is conducted by the officers and the managers of Company under the direction of the Managing Director and subject to the control of the Board. The Board holds four to six meetings every year to review and discuss the performance of the company, its future plans, strategies and other pertinent issues relating to the company's operations.

The Board performs the following specific functions in addition to the supervision of the business and the management:

- ♦ Review, monitor and approve major financial and business strategies and corporate actions
- ♦ Assess critical risks facing the company-review options for their mitigation.

**II. Independent Directors:****(a) Tenure of Independent Directors**

Tenure of Independent Directors on the Board of the Company shall be as per provisions of clause 49 of the Listing agreement of Company's Act 1956. Subject to their re-appointment on retirement as per statutory provisions.

**(b) Interaction of Non-Executive, including Independent Directors with the Chairman**

The Chairman regularly interacts with non-executive directors to enable them to freely express their views on various matters concerning the business of the Company.

**3. BOARD MEETING AND ATTENDANCE :**

Details of board meetings held during the year are as follows :

Sl No.	Date of meeting	Board strength	No. of Directors present
1.	26-05-2005	9	8
2	29-07-2005	9	9
3	22-10-2005	9	9
4.	28-01-2006	9	7

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## 4. ATTENDANCE OF DIRECTORS AT THE BOARD MEETING AND AT ANNUAL GENERAL MEETING:

Sl. No.	Director	No. of Board meetings	Attendance at the AGM
1.	S. Gopalan	4	Yes
2.	Dr C.M. Gurumurthy	3	Yes
3.	C.P. Rangachar	4	Yes
4.	V. Subramony	3	Yes
5.	Sunil L Mundra	4	Yes
6.	Laxminarayan Mundra	4	Yes
7.	Satyanarayan Mundra	4	Yes
8.	Sushil Kumar Mundra	4	Yes
9.	V. Balaji Bhat	3	Yes

## 5. OTHER DIRECTORSHIP :

Name of Directors	No. of Directorship including NCL	Membership of committee including NCL	
		Membership	Chairmanship
1. S. Gopalan	4	4	1
2. Dr C.M. Gurumurthy	1	1	-
3. C.P. Rangachar	4	1	-
4. V. Subramony	1	-	-
5. Sunil L Mundra	1	1	-
6. Laxminarayan Mundra	1	1	-
7. Satyanarayan Mundra	1	1	-
8. Sushil Kumar Mundra	1	-	-
9. V. Balaji Bhat	5	-	-

## 6. AUDIT COMMITTEE/ATTENDANCE:

The role of Audit committee is to review the internal control procedures, internal audit system, financial reporting process, accounting policies, annual financial statements placed before the board including other related aspects.

All the members of the Audit Committee have good knowledge of Corporate and Project Finance, Accounts, and Company Law. The Chairman of the committee, an engineer, was formerly the Executive Director of IDBI and has accounting and related financial management expertise. The committee held four meetings during the year. The Audit Committee also advises the management on the areas where internal audit can be improved. The minutes of the meetings of the Audit Committee are placed before the Board. The terms of reference of the audit committee are in accordance with all the items listed in clause 49 (II) (D) and (E) of the listing Agreement as follows:

- i. Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial information is correct, sufficient and credible.
- ii. Approve payment for any other services by statutory auditors.
- iii. Reviewing with management the annual financial statements before submission to the Board, focusing primarily on:
  - a. Matters required to be included in the Directors' responsibility statement included in the report of the Board of Directors:
  - b. Any changes in accounting policies and practices.
  - c. Major accounting entries based on exercise of judgement by management
  - d. Qualifications in draft audit report.
  - e. Significant adjustments arising out of audit
  - f. Compliance with listing and other legal requirements concerning financial statements
  - g. Any related party transactions.



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- iv. Reviewing with the management, the quarterly, financial statements before submission to the Board for approval.
- v. Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
- vi. Reviewing the adequacy of internal audit function.
- vii. Discussions with internal auditors any significant findings and follow up thereon.
- viii. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- ix. Discussion with statutory auditors before the audit commences about nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- x. To review the functioning of the Whistle Blower mechanism,
- xi. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
- xii. Review the following information:
  - a. Management Discussion and Analysis of Financial Condition and Results of Operations
  - b. Internal audit reports relating to internal control weaknesses;
  - c. Management letter/letter of internal control weakness issued by statutory/internal auditors;
  - d. Statement of significant related party transactions and
  - e. The appointment, removal and terms of remuneration of the Internal auditor shall be subject to review by the Audit Committee.

**The Audit Committee has the following powers:**

- i. to investigate any activity within its terms of reference.
- ii. to seek any information from any employee.
- iii. to obtain outside legal and professional advice.
- iv. to secure attendance of outsiders with relevant expertise, if it considers it necessary.

The members of the audit committee are Mr S.Gopalan, Chairman, Mr C.P.Rangachar, and Dr C.M.Gurumurthy.

Details of Audit committee meetings held during the year are as follows:

Sl. No.	Date of meeting	Committee strength	No. of members present
1.	26-05-2005	3	3
2.	29-07-2005	3	3
3.	22-10-2005	3	3
4.	28-01-2006	3	2

Sl. No.	Director	No. of meetings attended
1.	S. Gopalan	4
2.	C.P. Rangachar	4
3.	Dr. C.M.Gurumurthy	3



## NATURAL CAPSULES LIMITED

### 6. REMUNERATION COMMITTEE:

The role of the Remuneration Committee is to fix, review & recommend the remuneration of all the Executive Directors and the members of the Senior Management of the Company.

The Remuneration Committee was constituted on 26-7-2003. The members of the committee are Mr S.Gopalan, Chairman, Dr C.M.Gurumurthy and Mr V.Subramony. There was no circumstance warranting the meeting of remuneration committee during the year under consideration.

### 7. REMUNERATION OF DIRECTORS:

The details of remuneration drawn by the Executive Directors for the year 2005-06 are as follows: (Rs. in lac)

Directors	Sitting fees	Salary and perquisites	Total
Executive Directors :			
1. Sunil L. Mundra	-	5.70	5.70
2. Laxminarayan Mundra	-	5.70	5.70
3. Satyanarayan Mundra	-	5.70	5.70
Non Executive Directors :			
1. S. Gopalan	0.27	-	0.27
2. Dr. C.M. Gurumurthy	0.14	-	0.14
3. V. Subramony	0.13	-	0.13
4. C.P. Rangachar	0.20	-	0.20
5. V. Balaji Bhat	0.15	-	0.15
6. Sushil Kumar Mundra	-	-	-

#### Notes:

1. The salary and perquisites include all fixed elements of remuneration i.e, salary and other allowances and benefits.
2. The company does not pay bonus and any incentives to the Executive Directors.
3. The company has not entered into any pecuniary relationship or transactions with the Non-Executive Directors.
4. The company has so far not issued any stock options to Executive Directors.

#### Details of Service Contract

Names	Current tenure	from	to
Sunil L Mundra	5 years	1.4.2004	31.3.2009
Laxminarayan Mundra	5 years	1.4.2004	31.3.2009
Satyanarayan Mundra	5 years	1.10.2003	30.9.2008

There is no provision for notice period by either side mentioned in the service contract.

### 8. INVESTOR'S GRIEVANCE COMMITTEE:

The Investors Grievance committee of the company was formed on 25/3/2003 to oversee redressal of shareholder and investor grievances. The composition of Grievance Committee is as follows:

1. Dr C.M.Gurumurthy
2. Mr Laxminarayan Mundra
3. Mr Sunil L Mundra

Details of the meeting held and attendance are as follows:

Sl. No.	Date of Meeting	Committee Strength	No. of Members Present
1.	26-05-2005	3	3
2.	29-07-2005	3	3
3.	22-10-2005	3	3
4.	28-01-2006	3	2

Dr. C.M.Gurumurthy, Non Executive Director, is the Chairman of the committee.

Mr B.V. Raghunath, Sr. Manager-Administration, is the Compliance Officer of the Company.

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**9. STATUS OF INVESTOR GRIEVANCE / SHARE TRANSFERS DURING THE YEAR 2005 - 2006**

1. No. of grievances received : 08
2. No. of grievances redressed : 08
3. No. of grievances pending : Nil
4. No. of share transfers pending : Nil

**10. GENERAL BODY MEETINGS :**

Particulars of past three AGMs are as follows :

AGM	YEAR	VENUE	DATE	TIME
10th	2003	Bangalore Gayana Samaj, Bangalore - 4	29-9-2003	10.00 am
11th	2004	Bangalore Gayana Samaj, Bangalore - 4	23-7-2004	10.00 am
12th	2005	Kuvempu Kalashtera, Bangalore - 4	29-7-2005	11.00 am

There was no Special Resolution requiring postal ballot in the last AGM, Similarly there is no Special Resolution requiring postal ballot being proposed before the ensuing AGM.

During the year under review, No Extra-ordinary General Meeting was held.

**11. DISCLOSURES :**

- a) Details of remuneration to Directors are furnished in para 7 above.
- b) Amount paid to M/s Mundra Enterprises, Partnership Firm in which Mr Sunil L Mundra, Managing Director, & Satyanarayan Mundra, Wholtime Director are interested Partners, Rs. 2,16,000/- towards the rental charges for the 1200 SFT of office space rented to the Company.
- c) There were no instances of non-compliance penalties, strictures on the company by Stock Exchange/SEBI/or any Statutory Authority on any matter relating to Capital Markets during the last 3 years.

**12. MEANS OF COMMUNICATION :**

- a) The quarterly and half yearly results are published in leading English and vernacular dailies. The printed Annual Report is dispatched to individual shareholder. The material disclosures are informed to the Stock Exchanges for publication on the announcement by the Board. The Company is having its website posted at **www.naturalcapsules.com**
- b) MDA report which forms part of Annual Report is given in Annexure B.

**13. GENERAL SHAREHOLDER INFORMATION :**

- a) M/s Cameo Corporate Services Ltd. "Subramaniam Building" No.1, Club House Road, Chennai, are the Registrars and Share transfer agents and their registration no. is INE936B01015
- b) The Company's Shares are eligible for trading only in Demat form and therefore the transfers are online.
- c) **Stock Exchange Listing :-**  
The Company's Shares are presently listed on the Mumbai, Bangalore, and Coimbatore Stock Exchanges. The Company has paid annual listing fee to each of these Stock Exchanges.
- d) **Stock Code :**  
Mumbai Stock Exchange Code No. 524654
- e) **Market Price Data :**  
Scrip Code : 524654 Company Name : NATURAL CAPS for the period April 2005 to March 2006.