

# **FOURTEENTH ANNUAL REPORT 2006-2007**

**VG-Caps®**



**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
V. Balaji Bhat	Director
Sunil L. Mundra	Managing Director
Sushil Kumar Mundra	Director

**BANKERS & FINANCIAL** : 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  
URL : 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 (5 Lines)  
Fax : 91-044-28460129  
Grams : CAMEO  
E-mail : cameo@cameoindia.com  
Contact Person : Mrs. Kanthimathi Jayakumar  
Executive - Shares  
ISIN CODE No : INE936B01015

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## NATURAL CAPSULES LIMITED

### NOTICE

Notice is hereby given to all the members of the company that the 14th Annual General Meeting of the Company will be held on Thursday the 26th July, 2007 at Bangalore Gayana Samaja, K.R. Road, Bangalore - 560 004 at 10.00 a.m. to transact the following business :

#### ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Accounts for the year ended 31st March, 2007 along with the Director's and Auditor's Reports thereon.
2. To appoint a director in the place of Mr. Sushil Kumar Mundra retiring director, who being eligible, offers himself for reappointment
3. To appoint a director in the place of Mr. Satyanarayana Mundra, the retiring director, who being eligible offers himself for reappointment.
4. 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 reappointment.

Place : Bangalore  
Date : 29th May, 2007

For & on behalf of the Board,

(Sunil L Mundra)  
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 form to be effective shall reach the Registered Office of the Company not less than 48 hours before the meeting.
2. Members Register and Transfer register will remain closed from 24th July, 2007 to 26th July 2007 (both the days inclusive) for determining members entitled to receive dividend for the financial year ended 31-03-2007. Dividend if declared will be paid to those members whose names appear in the register of members as on 26th July, 2007.
3. Members are requested to bring duly filled in attendance slips at the time of meeting.
4. Proxy form is attached.

## FOURTEENTH ANNUAL REPORT 2006-2007

**DIRECTOR'S REPORT****TO THE MEMBERS**

Your directors hereby present the Fourteenth Annual Report together with the Audited Accounts of the company for the year ended 31<sup>st</sup> March 2007.

**1. FINANCIAL RESULTS:**

The Comparative financial results for the period are as under:

	2006-07 (Rs. In lac)	2005-06 (Rs. in Lacs)
Sales & other income	1782.62	1571.26
Profit before Depreciation and interest	479.36	464.14
Depreciation & Preliminary exp	100.07	86.64
Interest	19.20	19.65
Profit/(Loss) before tax	360.09	357.85
Provision for taxation	110.00	120.88
Deferred tax	2.57	(3.00)
Profit/(Loss) after tax	246.19	239.97

**2. PERFORMANCE & PROSPECTS:**

During the year under review, the company's turnover has increased by 13% and company has earned a net profit (before tax) of Rs.360.09 lacs as against the corresponding net profit of Rs.357.85 lacs in the previous year. Due to unfavourable market conditions and reduction in margins and increase in depreciation, profit has not increased in proportion to sales. The available profit has enabled the company to plough back an amount of Rs. 129 lacs for funding the ongoing expansion at Pondicherry. The exports of the company has increased by 26% during the year under consideration. Due to addition of capacity by commissioning of the balance machineries, your directors are hopeful of further improving the performance in both domestic and export markets, during the current 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 31-3-2007 for the members whose names appear in the register of members as on the date of AGM viz.. 26th July, 2007.

**4. EXPANSION:**

During the year 2004-05 company had acquired 5 capsules making machines to be installed at Pondicherry. Out of these 5 machines, 4 machines have already become operational and the last machine will be operational during the June, 2007. With completion of this expansion program, the total installed capacity of HGCS will be 3.6 billion capsules per annum.

**5. DIRECTORS:**

Mr. Sushil Kumar Mundra and Mr Satyanaryan Mundra 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 & DEVELOPMENT AND TECHNOLOGY ABSORPTION:**

Company is having an ongoing research and development activity to develop value added products.

**C. EXPORTS:**

The company has been exporting Gelatin capsules to many countries. With second expansion being completed at Pondicherry, your directors are hopeful of improving the export turnover. During the year under review exports growth was more than twice of last year.

**D. FOREIGN EXCHANGE, EARNINGS & OUTGO:**

Foreign exchange earning : Rs. 215.83 lacs

Foreign exchange outgo : Rs. 15.82 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 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 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:**

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

## NATURAL CAPSULES LIMITED

**10. Clause 49 of the Listing Agreement:**

- a. 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.
- b. The names and addresses of the Stock Exchanges with which the company's Securities are listed are as follows:
  - i) Bangalore Stock Exchange Ltd, 51, Stock Exchange Towers, 1<sup>st</sup> cross, JC Road, Bangalore 560 027
  - ii) Bombay Stock Exchange Ltd, Floor 25, P.J. Towers, Dalal Street, Mumbai-400 001
  - 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

**Sd/-**  
**(S. Gopalan)**  
**CHAIRMAN**

Place : Bangalore  
Date : 29th May 2007

### 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 2006-07	Previous Year 2005-06
1. Electricity:			
a) Purchased :	Units(KWH)	37,23,963	32,69,356
b) Total amount	(Rs.in lac)	133.07	117.044
c) Rate/Unit	(Rs.)	3.57	3.58
d) Own Generation:			
i) Through diesel generator			
Units	(KWH)	187244	219608
Unit per Ltr.of diesel oil(KWH)		3.23	3.59
Oil cost/Unit	(Rs.)	0.75	0.75
ii) Through Stem turbine/generator		-	-
2. Coal		-	-
3. Furnase oil		-	-
4. Other/Internal generations		-	-

**B. CONSUMPTION PER UNIT OF PRODUCTION:**

	Stds. (if any)	Current Year	EHG Capsules Previous Year	Stds. (if any)	Current Year	Veg Capsules Previous Year
Electricity per lac	-	129	135	-	670	650
Furnace oil	-	-	-	-	-	-
Coal	-	-	-	-	-	-
Others	-	-	-	-	-	-

For and behalf of the Board  
**(S.Gopalan)**  
**Chairman**

## FOURTEENTH ANNUAL REPORT 2006-2007

## 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, 2007, 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 2. Sri Laxminarayan Moondra 3. Sri Satyanarayan Mundra	-Managing Director -Wholetime Director -Wholetime Director
Promoter Non Executive Directors	1. Sri Sushil Kumar Mundra	-Director
Non Executive Independent Directors	1. Sri S.Gopalan 2. Sri C.P.Rangachar 3. Dr C.M.Gurumurthy 4. Sri V.Subramony 5. Sri V.Balaji Bhat	-Chairman -Director -Director -Director -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 five 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 meeting held during the year are as follows:

SL NO	Date of meeting	Board strength	No.of Directors present
1.	29-05-2006	9	6
2.	28-07-2006	9	8
3.	25-10-2006	9	7
4.	29-01-2007	9	6

**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	4	Yes
3.	C.P.Rangachar	2	Yes
4.	V.Subramony	2	Yes
5.	Sunil L Mundra	4	Yes
6.	Laxminarayan Mundra	3	Yes
7.	Satyanarayan Mundra	4	Yes
8.	Sushil Kumar Mundra	3	Yes
9.	V.Balaji Bhat	1	Yes

**5. OTHER DIRECTORSHIP:**

Sl. No.	Name of Directors	No. of Directorship including NCL	Membership of committee including NCL	
			Membership	Chairmanship
1.	S.Gopalan	1	-	1
2.	Dr C.M.Gurumurthy	1	1	-
3.	C.P.Rangachar	4	3	-
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	11	4	-

**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 and are 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 Director's 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, 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.	29-05-2006	3	2
2.	28-07-2006	3	2
3.	25-10-2006	3	3
4.	29-01-2007	3	3

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



## 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 circumstances warranting the meeting of remuneration committee during the year under consideration.

**7. REMUNERATION OF DIRECTORS:**

The details of remuneration drawn by the Executive & Non executive Directors for the year 2006-07 are as follows:

(Rs. In lac)

Directors	Sitting fees	Salary and perquisites	Total
<b>Executive Directors:</b>			
1. Sunil L Mundra	-	6.60	6.60
2. Laxminarayan Mundra	-	6.60	6.60
3. Satyanarayan Mundra	-	6.60	6.60
<b>Non Executive Directors:</b>			
1. S.Gopalan	0.21	-	0.21
2. Dr C.M.GuruMurthy	- 0.22	-	0.22
3. V.Subramony	0.10	-	0.10
4. C.P.Rangachar	0.11	-	0.11
5. V.Balaji Bhat	0.10	-	0.10
6. Sushil Kumar Mundra	-	-	-

**Notes:**

- The salary and perquisites include all fixed elements of remuneration i.e, salary and other allowances and benefits.
- The company does not pay bonus and any incentives to the executive directors.
- The company has not entered into any pecuniary relationship or transactions with the non-executive directors.
- 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	1.04.2004	31.3.2009
Laxminarayan Mundra	5 years	1.04.2004	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. INVESTORS 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:

- Dr C.M.Gurumurthy
- Mr Laxminarayan Mundra
- 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.	29-05-2006	3	3
2.	28-07-2006	3	3
3.	25-10-2006	3	3
4.	29-01-2007	3	3

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Dr C.M.Gurumurthy, non executive director , is the Chairman of the committee.

Mr. V.Lokesh, Sr. Manager-Administration is the Compliance Officer of the company.

**9. STATUS OF INVESTOR GRIEVANCE /SHARE TRANSFERS AS ON 31-3-2007**

- |                                  |       |
|----------------------------------|-------|
| 1. No.of Grievances received     | : 02  |
| 2. No.of Grievances redressed    | : 02  |
| 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
11 <sup>th</sup>	2004	Bangalore Gayana Samaja,Bangalore-4	23-7-2004	10.00 am
12 <sup>th</sup>	2005	Kuvempu Kalakshtera , Bangalore-4	29-7-2005	11.00 am
13 <sup>th</sup>	2006	Bangalore Gayana Samaja,Bangalore-4	28-7-2006	11.00 am

There was no special resolution requiring postal ballot in the last AGM. Similarly there is no special resolution requiring postal ballot proposed before the ensuing AGM.

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

**11. CODE OF CONDUCT :**

The company has introduced code of conduct / Ethical Standard for behaviours for Directors and Senior Management personnel. The details of the same are as follows:

**A. POLICY:**

***We will comply fully with all laws governing our operations and conduct our affairs in accordance with the highest ethical and legal standards.***

Compliance with this policy means not only observing the law but conducting the company's business at all its locations in such a manner as to ensure that NCL is recognized as an ethical, law abiding corporate citizen. The spirit of this Policy demands that the company maintains a high degree of integrity in its interactions with all its constituents-customers, employees, shareholders, suppliers etc.,

**B. ETHICAL STANDARDS OF BEHAVIOUR:****1. Compliance with NCL Values, Policies and Standards should be in letter and in spirit.**

Comply in letter and spirit with the Values, Policies and Standards of the company as mentioned here and in such other documents as may be specified from time to time.

**2. The highest levels of honesty, integrity and confidentiality should be maintained in business dealings with customers, suppliers, fellow employees and all other stakeholders.**

Act in the interest of the company in a fair manner and use discretionary powers and authority for the purposes for which these were conferred and not for personal gain or unjustified benefits for the company. Engage only in business practices that are fair and aboveboard.

**3. All statutory requirements should be complied with in letter and spirit.**

Comply in letter and spirit with relevant legislations.

Disclose in advance, any favourable interpretation not in consonance with the spirit of the law-

- In the case of directors, to the Board of directors
- In the case of Chief Executive, to the Chairman/Managing Director
- In the case of all other employees, to the Chief Executive of the company

**4. Speculative trading in the shares of the companies in the Group should not be done.**

Do not engage in any form of speculative trading in the shares of the company. Lodge immediately for transfer company shares purchased. Do not use knowledge of company's workings for personal gains.