

SEVENTEEN ANNUAL REPORT 2009-2010

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BANGALORE

BOARD OF DIRECTORS : Srirangam Gopalan Chairman
Laxminarayan Moondra 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
45, Annamalai Arcade,
1st Cross, Wilson Garden,
BANGALORE - 560 027.

REGISTERED OFFICE : 102, "Shreshta Bhumi"
No. 87, K. R. Road,
BANGALORE - 560 004.
Tel. No. 080-2667 1571/2667 1573/2667 1581
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

NOTICE

Notice is hereby given to all the members of the company that the 17th Annual General Meeting of the company will be held on Tuesday, the 28th day of September 2010 at the Bangalore Gayana Samaja, K.R.Road, Basavanagudi, Bangalore - 560 004 at 10.00 A. M. to transact the following business :-

Ordinary Business :

- 1 To consider and adopt the Audited Accounts for the period ended 31st March 2010, along with Director's and Auditor's Reports thereon.
- 2 To declare a dividend.
- 3 To appoint a Director in the place of Mr. V. Subramony, the retiring Director, who being eligible, offers himself for re-appointment.
- 4 To appoint a Director in the place of Mr. Sushil Kumar Mundra, 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 AGM and they are eligible for re-appointment.

Special Business :

- 6 To consider and if though fit to pass with or without modification, the following resolution as a Special Resolution :-
"Resolved that pursuant Sec.209(4)(b) and other applicable provisions if any of the Companies Act.1956 and Subject to the approval of Members/Shareholders, remuneration by way of commission not exceeding 1% on the net profits be paid to Non Executive Director's for current financial year 2010-2011 and that Mr. Sunil L. Mundra, Managing Director be authorized to take all step necessary for giving effect to this resolution."

Place : Bangalore
Date : 30-07-2010

For and 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 should reach the Registered office not less than 48 hours before the meeting.
2. Member's Register and Transfer Register will remain closed from 25th September, 2010 to 28th September, 2010 (both days inclusive) for determining members entitled to receive dividend for the financial year ended 31/03/2010.
3. Members are requested to bring duly filled in attendance slips at the time of meeting.
4. Proxy form is attached.
5. Explanatory Statement as per Section 173(2) of the Companies Act 1956 :-

Information about other appointees :-

- A Mr. Subramony is a post graduate in Chemistry from University of Bombay. He gained vast experience by working for well known companies like Glaxo Laboratories, Smith Kline & French laboratories and retired as Executive Vice President from Eskayef during 1994. He has undertaken several overseas assignments in USA, UK, Canada, Belgium, USSR etc. He is also a member of Indian Pharmaceutical Association and other Pharmaceutical Associations. He was also a member of Indian Pharmacopoeia Technical Committee and ISI for various category of materials.
- B Mr. Sushil Kumar Mundra is a Commerce Graduate from Bangalore University. He is the Managing Partner of a firm dealing with pharmaceuticals, raw materials, chemicals and solvent etc. He owns a chemical factory and has practical experience of about 20 years in the trade.
- 6 Explanatory Statement as per Section 172(2) of the Company's Act 1956.
Regarding agenda 6 of Special business, the Board of Directors in their meeting held on 30.07.2010 unanimously decided to recommend a remuneration of not exceeding 1% of net profit to Non Executive Directors including independent Directors in view of their valuable contribution to the progress of the Company over a period of time. The Company owes its present comfortable financial position due to the expert advice, constant interaction and guidance by Non Executive Directors who have got rich experience, qualification and technical expertise. Hence the resolution as stated in the notice is commended for approval of shareholders.

DIRECTOR'S REPORT

TO THE MEMBERS

Your directors hereby present the Seventeenth Annual Report together with the Audited Accounts of the company for the year ended 31st March 2010.

1. FINANCIAL RESULTS :

The Comparative financial results for the period are as under:

	2009-10 (Rs. In lacs)	2008-09 (Rs. In lacs)
Sales & other income	2,948.98	2605.64
Profit before Depreciation and interest	817.41	745.06
Depreciation & Preliminary exp	145.87	118.19
Interest	30.53	9.84
Profit/(Loss) before tax	641.00	616.33
Provision for taxation	205.72	213.72
Deferred tax	8.71	5.12
Profit/(Loss) after tax	426.56	397.51
Amount transferred to reserves	10.66	9.94

2. PERFORMANCE & PROSPECTS :

During the year under review, the company's turnover increased by 13% and the company has earned a Net profit (before tax) of Rs.641.00 lacs as against net profit of Rs.616.33 lacs in the previous year. An amount of Rs.565.00 lacs was ploughed back from profits for funding the ongoing expansion at Pondicherry. The export of the company has increased by 33% during the year under consideration. Though there is drop in sales realization due to rupee appreciation, with the commissioning of new machineries in phases in the current year your Directors are hopeful of maintaining the performance.

3. PERFORMANCE CREDIT RATING:

Your Directors are pleased to inform you that the Company has obtained "CRISIL" rating of "SME-1" indicating HIGHEST PERFORMANCE CAPACITY AND HIGH FINANCIAL STRENGTH for second successive year.

4. DIVIDEND:

While considering the need for conservation of resources for ongoing expansion, your Directors are pleased to recommend a dividend of Rs 1.20 per equity share of Rs 10/- each for the year ended 31-3-2010 for the members whose names appear in the register of members as on the date of AGM viz., 28.9.2010.

5. EXPANSION:

During the year under consideration, the company has already installed one imported machinery at Pondicherry and other 8 machines are in various stages of installation. With the commissioning of all the machines, the installed capacity of company will increase to 7.35 billion capsules per annum.

6. DIRECTORS:

Mr. V.Subramony and Mr Sushilkumar Mundra retire at this Annual General Meeting and being eligible, offer themselves for re-appointment.

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

A. CONSERVATION OF ENERGY :

The particular 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. FOREIGN EXCHANGE, EARNINGS & OUTGO :

Foreign exchange earning	: Rs. 507.90	lacs
Foreign exchange outgo	: Rs. 8.88	,,

8. DIRECTOR'S RESPONSIBILITY STATEMENT:

A) In the preparation of the annual accounts, the applicable accounting Standards have been followed.

B) 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.

C) 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 any fraud or other irregularities.

D) The directors have prepared the annual accounts on a going concern basis.

9. AUDITORS:

M/S. Gnanoba & Bhat, Chartered Accountants, Bangalore retire at the ensuing Annual General Meeting. It is proposed to re-appoint them.

10. REPORT ON CORPORATE GOVERNANCE:

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

11. 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:

- i) Bangalore Stock Exchange Ltd, 51, Stock Exchange towers, 1st cross, JC Road, Bangalore - 560 027
- ii) Bombay Stock Exchange Mumbai, PJ 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.

India, Specialised Commercial Branch, Bangalore-1, for their financial support and guidance, and its appreciation for the excellent co-operation extended by the staff & workers of the company. The Management also wishes to place on record its appreciation for the valuable support extended by various Government agencies at Bangalore and Pondicherry.

For & on behalf of the Board

Place: Bangalore
Date : 22nd May, 2010

S.GOPALAN
CHAIRMAN

ACKNOWLEDGMENTS:

The Management wishes to place on record its sincere thanks and appreciation to State Bank of

ANNEXURE TO DIRECTOR'S REPORT

FORM A (SEE RULE 2)

Form for disclosure of particulars with respect to conservation of energy

POWER & FUEL CONSUMPTION:

		Current Year 2009-10	Previous Year 2008-09
1. Electricity:			
a) Purchased :	Units(KWH)	52,84,711	47,24,716
b) Total amount	(Rs.in lacs)	188.89	162.28
c) Rate/Unit	(Rs.)	3.57	3.43
d) Own Generation:			
i) Through diesel generator			
Units	(KWH)	3,90,754	3,15,636
Unit per Ltr.of diesel oil(KWH)		3.28	3.17
Oil cost/Unit	(Rs.)	0.41	0.65
ii) Through Stem turbine/generator		-	-
2. Coal		-	-
3. Furnase oil		-	-
4. Other/Internal generations		-	-

CONSUMPTION PER UNIT OF PRODUCTION:

	EHG Capsules			Veg Capsules		
	Std. (if any)	Current Year	Previous Year	Std. (if any)	Current Year	Previous Year
Electricity per lac of Capsules (KWH)	-----	134.14	130.55	-----	710	724
Furnace oil	-----	-----	-----	-----	-----	-----
Coal	-----	-----	-----	-----	-----	-----
Others	-----	-----	-----	-----	-----	-----

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 31st March, 2010, 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. Sunil L Mundra-Managing Director 2. Laxminarayan Moondra - Wholetime Director 3. Satyanarayan Mundra- Wholetime Director
Promoter Non Executive Directors	1. Sushil Kumar Mundra-Director
Non Executive Independent Directors	1. S.Gopalan- Chairman 2. C.P.Rangachar – Director 3. Dr C.M.Gurumurthy- Director 4. V.Subramony-Director 5. 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 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 & reviews 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 Companies 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.	30-05-2009	9	7
2.	30-07-2009	9	8
3.	26-10-2009	9	6
4.	23-01-2010	9	8

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

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	3	Yes
4. V. Subramony	1	No
5. Sunil L Mundra	4	Yes
6. Laxminarayan Mundra	4	Yes
7. Satyanarayan Mundra	4	Yes
8. Sushil Kumar Mundra	2	Yes
9. V. Balaji Bhat	2	Yes

SEVENTEENTH ANNUAL REPORT 2009-2010

5. OTHER DIRECTOR SHIP :

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

6. RELATIONSHIP AMONGST PROMOTER DIRECTORS :

Sl. No.	Name of Promoter Director	Other Promoter Directors	Relation between Director and Other Directors
1.	Laxminarayan Moondra	Satyanarayana Mundra Sunil L Mundra Sushilkumar Mundra	Brother Son Son
2.	Satyanarayan Mundra	Laxminarayan Moondra Sunil L Mundra Sushilkumar Mundra	Brother Brother's son Brother's son
3.	Sunil L Mundra	Laxminarayan Moondra Satyanarayan Mundra Sushilkumar Mundra	Father Father's brother Brother
4.	Sushilkumar Mundra	Laxminarayan Moondra Satyanarayan Mundra Sunil L Mundra	Father Father's brother Brother

7. 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 holds 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.

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.
- 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 the 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.
 - e) The appointment, removal and terms of remuneration of the Internal auditor shall be subject to review by the Audit committee.

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.	30-05-2009	3	3
2.	30-07-2009	3	3
3.	26-10-2009	3	2
4.	23-01-2010	3	3

Director	No. of meetings attended
S. Gopalan	4
C.P. Rangachar	3
C.M. Gurumurthy	4

SEVENTEENTH ANNUAL REPORT 2009-2010

8. 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.

9. REMUNERATION OF DIRECTORS :

The details of remuneration drawn by the Executive & Non - executive Directors for the year 2009-10 are as follows:

(Rs. In lacs)

Directors	Sitting fees	Salary and perquisites	Total
Executive Directors :			
1. Sunil L Mundra	----	16.50	16.50
2. Laxminarayan Moondra	----	16.50	16.50
3. Satyanarayan Mundra	----	16.50	16.50
Non Executive Directors :			
1. S.Gopalan	0.80	----	0.80
2. Dr. C.M.GuruMurthy	0.80	----	0.80
3. V.Subramony	0.10	----	0.10
4. C.P.Rangachar	0.60	----	0.60
5. V.Balaji Bhat	0.30	----	0.30
6. Sushil Kumar Mundra	0.20	----	0.20

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	3 years	01.06.2008	31.5.2011
Laxminarayan Moondra	3 years	01.06.2008	31.5.2011
Satyanarayan Mundra	3years	01.06.2008	31.5.2011

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

10.INVESTOR'S GRIEVANCES 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 Moondra
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	30-05-2008	3	2
2	30-07-2008	3	3
3	25-10-2008	3	3
4	30-01-2009	3	3

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