

Twelvth Annual Report 2005-06

report  junction.com

Senbo Industries Ltd.



ANNUAL REPORT

2005 - 2006

• Notice	...	1
• Directors' Report	...	2
• Corporate Governance	...	6
• Auditors' Certificate on Corporate Governance	...	12
• Auditors' Report	...	13
• Annexure to Auditors' Report	...	14
• Balance Sheet	...	16
• Profit & Loss Account	...	17
• Schedules to Balance Sheet	...	18
• Schedules to Profit & Loss Account	...	20
• Notes to Accounts	...	22
• Balance Sheet Abstract	...	28
• Cash Flow Statement	...	29

Corporate Profile

Board of Directors

Mr. Kajal Sengupta	Chairman & Managing Director
Mr. C S Choudhury	Vice-Chairman
Mr Indranil Biswas	Joint Managing Director
Mr P K De	Director
Mr S P Roychowdhury	Director
Mr Pradip Kumar Chakravorty	Director
Dr Saibal Chakravorty	Director
Mr Kingshuk Sengupta	Director

Company Secretary

Mr D K Gupta

Management Team

Mr Bhaskar Sengupta <i>Chief General Manager</i>	Mr S Roychowdhuri <i>Vice-President - Finance</i>
Mr Sutantra Kr Chowdhury <i>General Manager - Materials</i>	Mr Subrata Dasgupta <i>Asst. General Manager - Marketing</i>

Registered Office

87, Lenin Sarani, Kolkata 700 013
Tel. : 033 2244 1395, 2217 8915/8916, Fax : 033 2244 9485
Email : senbo@giascl01.vsnl.net.in
Website : www.senboindustries.com

Works

Karbala, Sonarpur Station Road, Kolkata 700 103
Tel. : 033 2434 7339, Fax : 033 2434 7341
Email : senbo@vsnl.net

Bankers

Bank of India

Auditors

Rajesh Chaturvedi & Associates
Chartered Accountants
643A, New Alipore, "O" Block, Kolkata 700 053

Registrar & Share Transfer Agent

Niche Technologies Pvt. Ltd.
C 444, Bagri Market
71, B R B B Road, Kolkata 700 001

Notice

Notice is hereby given that the Twelfth Annual General Meeting of the shareholders of Senbo Industries Limited will be held at Company's Works at Sonarpur Station Road, Karbala, Sonarpur, Kolkata 700103 on Tuesday the 26th day of September 2006 at 11 A.M. to transact the following business :

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2006 and the Profit & Loss Account for the year ended on that date, together with the Reports of Directors and Auditors thereon.
 2. To appoint a Director in place of Sri S. P. Roychowdhury, who retires by rotation and is eligible for re-appointment.
 3. To appoint a Director in place of Sri Kingshuk Sengupta, who retires by rotation and is eligible for re-appointment.
 4. To appoint Auditors and fix their remuneration.
- M/s Rajesh Chaturvedi & Associates, Chartered Accountants, the retiring Auditors of the Company, being eligible, offer themselves for re-appointment.

Kolkata,
 The 30th June, 2006

By Order of the Board

D. K. Gupta
Company Secretary

REPORT  JUNCTION.COM

Notes

1. The Register of Members and Share Transfer Book will remain closed from 20th September 2006 to 26th September 2006, both days inclusive.
2. A Shareholder entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself / herself and a proxy need not be a shareholder of the Company.
3. Shareholders who are holding Equity Shares in identical order of names in more than one folio are requested to write to the Company to enable the Company to consolidate their holdings in one folio.
4. Shareholders who are holding their DP Account with Depository may send their dematerialisation, transfer and allied advices through their Depository.
5. Shareholders are requested to intimate the Company queries, if any, regarding Report and the Annual Accounts at least ten days before the Annual General Meeting to enable the Management to keep the information ready at the Meeting.

DIRECTORS' REPORT

TO THE MEMBERS

Your Directors have pleasure in presenting their Twelfth Annual Report on the performance of the Company and the audited accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

	Rs. Lacs	
	2005-06	2004-05
Operating Profit/ (Loss) before Finance Charges, Depreciation & Items not related to Operation	30.83	(163.99)
Finance Charges	10.78	222.57
Depreciation	132.07	131.99
Write Off	28.24	164.66
Provision for Doubtful Debts	-	60.51
Net Operating Profit/ (Loss)	(140.26)	(743.72)
Non Operating Income	534.18	-
Net Profit/ (Loss)	393.92	(743.72)
Adjustment relating to Previous Years	(4.46)	-
Accumulated (Loss) brought forward	(2,120.18)	(1,376.46)
Accumulated (Loss) carried forward	(1,730.72)	(2,120.18)

In view of the huge accumulated loss, your Directors do not recommend the payment of dividend for the year and for similar reason, no provision for income tax has been made.

OPERATING PERFORMANCE

As reported to you previously, operating performance improved during the year 2005-06 in pursuance of Contract Manufacturing for Fresenius Kabi India Private Limited (Fresenius). During the year the Company produced 7,414,541 numbers of chargeable bottles (as compared to 121,523 bottles in the previous year) which, though an appreciable increase, signifies capacity utilization from 0.68% to 41.19%.

DEBT RESTRUCTURING

As indicated in our previous Report to you, your Board successfully settled the debts of Industrial Development Bank of India and State Bank of India. This resulted in Non-operating Income of Rs. 501.60 Lacs due to writing back Liabilities on account of Interest on Term Loan waived by IDBI for Rs. 487.36 Lacs and Interest on Working Capital waived by SBI of Rs. 14.24 Lacs. Additionally your Company earned capital profit of Rs. 911.30 Lacs as IDBI waived Rs. 781.30 Lacs of Term Loan and SBI waived Rs. 130.00 Lacs of Principal amount of Cash Credit.

The above restructuring ultimately resulted not only in reduction of accumulated loss by Rs. 390.11 Lacs but also making the negative Net Worth of Rs. 1035.89 Lacs (previous year) positive to Rs. 273.52 Lacs.

FUTURE PLANS

As mentioned in our previous report, your Directors consider that the prime and foremost concern is to consolidate operations of the Company in order to achieve break-even point and to also pay off the dues of its secured creditors.

Your Company now concentrates on on-going process to economize its business operations and to increase productivity and achieve all round efficiency so as to enable it in the long run to successfully chart its path towards consolidation and growth through optimum capacity utilization and diversification.

MANAGEMENT DISCUSSION AND ANALYSIS

1. **INDUSTRY STRUCTURE AND DEVELOPMENTS**

The demand for Intra Venous Fluid (IV Fluid) had been found to be satisfactory after the Company entered into conversion agreement with Fresenius. However, excessive installed capacity in the Industry still deters growth and realizing reasonable profitable margin on its products. In this segment of IV Fluid industry, your Company, like many others of similar nature, faces continuous competition from unregulated SSI units manufacturing IV Fluids packed in ordinary glass bottles. In spite of regular reports on contamination of IV Fluids in Glass Bottles, no penal action or otherwise have been taken by the Government to put a halt to such unwanted activities.

2. **OPPORTUNITIES AND THREATS**

In line with the Government policies, five products of your company viz. 5D, NS DNS, Metronidazole Injection and Ciprofloxacin Injection continue to be regulated under the Drug Price Control Order (DPCO) mechanism. Your Company survived market competition from other IV Fluid manufacturers most of whom resort to price undercutting and price war. Both these factors taken together severely affected the Company's profitability in recent past. The DPCO mechanism combined with excess capacity and unhealthy competition resulted in extinction and/or merger/ takeover/ business combination of a few units. Until and unless specific attention is given by the concerned authority, this industry will continue to suffer because of market imbalances.

In view of the above factors beyond the control of the Company and in view of the emergence of Multinationals in the Pharmaceutical Industry and near-complete erosion of market in respect of Government Hospitals, your Company considered it fit for contract manufacturing on behalf of the Multinationals who have strong presence in the market. This would not necessitate huge marketing set up, nor necessitate enormous marketing expenses, nor involve risks of recovery of sale proceeds on the one hand and huge working capital requirement on the other. This arrangement ensures a reasonable return on your Company's products, provided the capacity utilisation is optimized. Hence, this arrangement has proved to be a safer course considering all constraints. This sort of business process outsourcing arrangement is new and hence balance of convenience is equal for both parties to the arrangement who shares strength of others to foster their respective growth. Hence, opportunities and threats in such an arrangement can be considered as equally balanced.

3. **SEGMENT-WISE / PRODUCT-WISE PERFORMANCE**

The Company primarily deals only in one segment, viz., Intra-venous Fluids. Hence, reporting under sector-wise performance is not considered necessary.

Out of 17 licensed products under the above category, your Company was able to process only 7 products under Contract Manufacturing during the year under review as demanded by Fresenius. More than 91% of its production comprised of four products i.e. 5D, NS, DNS, and RL and less than 9% of the balance consisted of sale of other three products, viz., 10D, IVEOLYTE-P and IVEOLYTE-M.

4. **OUTLOOK**

The existing contract manufacturing arrangement with Fresenius is working well and should go a long way once a balance is reached with fair price supported with high volume production. The current term of agreement expires on 28th February 2007 and your Board looks forward with optimism for renewal and also for introduction of some value added products which may either involve backward and/or forward integration or diversification necessitating moderate capital outlay.

5. **RISKS & CONCERNS**

The major concern of your Company relate to earning a fair margin of profit in order to liquidate existing liabilities over a definite time-frame. It is also concerned about the unhealthy competition and lack of effective government regulation over the manufacture of IV Fluid, DPCO etc. Other aspects of concern of your Company include high investment, low capacity utilization and single unit of production. However plans for successfully increasing the level of production are in the offing.

6. **INTERNAL CONTROL SYSTEM & THEIR ADEQUACY**

Maintenance of proper and adequate system of internal control ensures that all assets are safeguarded and protected against loss from unauthorized use and that all transactions are authorized, recorded and reported correctly. All Large Volume Parenterals (LVP) operations are highly automated and fully integrated with Aseptic FORM-FILL-SEAL (AFFS) technology and through standard operation procedure (SOP) system of ISO 9002 and as per Good Manufacturing Practice (GMP) standards fixed by World Health Organization which ensures high level of system based checks and controls.

An extensive programme of internal and continuous Audit review supplements the internal control system as part and parcel of the Company's documented policies, guidelines and procedures.

7. **FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE**

The Income during the year ended 31st March 2006 was Rs.816.47 Lacs which included Non-Operating Income of Rs.534.18 Lacs and Other Income of Rs.45.48 Lacs. Sales of own products resulted in income of Rs.1.96 Lacs (16,182 bottles) as compared to Rs.10.41 Lacs (100,764 bottles) in the previous year. Processing Income of Rs.229.63 Lacs reflects chargeable contract manufacturing of 7,272,054 bottles as compared to nil income of previous year.

Your Company incurred a net operating loss of Rs.140.26 Lacs. The Net operating loss for the previous year was Rs.743.72 Lacs.

8. **HUMAN RESOURCES & INDUSTRIAL RELATIONS**

Your Company employs 110 workmen. It recognizes the importance and contribution of its employees and is committed to uplift their welfare and to improve the quality of their living standard. Relations during the year between the management and workers were cordial.

Your Company is committed to ensure the health and safety of every employee at its Factory by providing 24 hours free medical check-up by doctor. Your Company is also committed to promoting amongst its employees proper sense of safety, conducting of training program regularly in order to accustom and update the quality of its employees as well as to ensure self-discipline and inculcate in them the need for efficient use of materials, utilities and other resources to maximize productivity. Your Company provides free canteen facilities for its employees at its factory at Sonarpur. The employees have all along accorded unflinching support to the management for effective revival of the company.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors have followed applicable Accounting Standards in the preparation of Annual Accounts.

Your Directors had selected such accounting policies as mentioned in the "Notes to Accounts" 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 31st March, 2006 and of the profit/loss of the Company for the year ending 31st March, 2006.

Your Directors have been taking proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for detecting fraud and other irregularities.

Your Directors have prepared the Annual Accounts on a going concern basis.

PARTICULARS OF EMPLOYEES

Section 217(2A) of the Companies Act 1956 was not applicable since there was no Employee drawing salary during the year in excess of the specified amount.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS & EXPENDITURE

A. CONSERVATION OF ENERGY

1. Power and Fuel Consumption		Current Year	Previous Year
i) Electricity from WBSEB			
Unit	Kwh.	1,024,906	59,952
Total Amount	Rs.	4,940,047	838,134
Rate	Rs. / Kwh.	4.82	13.98
ii) Furnace Oil			
Quantity	Ltr.	2,38,440	6,373
Total Amount	Rs.	47,66,792	88,414
Rate	Rs. / Ltr.	19.99	13.87
2. Consumption per Unit of Production		Current Year	Previous Year
Electricity	Kwh/ Bottle	0.67	14.83
Furnace Oil	Ltr./ Bottle	0.64	0.73

Your Directors are very much conscious of the need for conservation of energy as an ongoing process and for that purpose is continuously attempting or determining ways and means of optimizing on the use of energy.

B. TECHNOLOGY ABSORPTION

Your Company has fully absorbed the Form-Fill-Seal (FFS) technology for its entire range of IV Fluids. Use of indigenous materials for manufacturing process was successfully implemented. Except critical components, some spares have also been developed indigenously for the imported plant. However, for reducing incidence of stoppages in production, your Company had been using imported raw materials, procured and supplied by Fresenius.

C. FOREIGN EXCHANGE EARNING AND EXPENDITURE

(Amount in Rs.)		
	Current Year	Previous Year
Foreign Exchange Earnings	Nil	Nil
Foreign Exchange Expenditure		
- Raw Materials	Nil	Nil
- Spares & Components	1,359,256	Nil
- Travelling	Nil	Nil
- Foreign Delegation Fee	Nil	Nil

AUDITORS AND AUDIT REPORT

Messrs. Rajesh Chaturvedi & Associates, Chartered Accountants, are the statutory auditors of the Company, who retire at the forthcoming Annual General Meeting and being eligible, have consented to act if re-appointed by the members at the Annual General Meeting.

The observations of the auditors in their report on the Company's accounts for 2005-06 are, in our opinion, sufficiently disclosed in the Notes on Account which forms a part of the Accounts and needs no further explanation.

Due to non-availability of accurate data, estimation in related qualified accounts, viz. interest receivable on security deposit is indeed difficult. Bonus, Gratuity and Leave Encashment are treated on cash basis as a matter of consistency. In spite of the best of efforts, balance confirmation from debtors and creditors could not be obtained timely.

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

A certificate from the Auditors of the Company regarding compliance with the Code of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is annexed to this Report.

DIRECTORS

Sri S. P. Roy Choudhury and Sri Kingshuk Sengupta retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

ACKNOWLEDGEMENT

Your Directors place on record their sincere thanks and deep appreciation for solidarity and support of the employees and other stakeholders.

For and on behalf of the Board

Place : Kolkata

Date : 30th June 2006 .

Kajal Sengupta

Chairman & Managing Director

REPORT ON CORPORATE GOVERNANCE

COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Senbo Industries Limited is committed to the objectives of the Company while ensuring accountability in the exercise of power and patronage conferred upon it. The Company is further committed to ensure compliance with the code of Corporate Governance to enhance and protect the interest of all the stakeholders.

BOARD OF DIRECTORS

The composition of the Board of Directors is regulated by the Companies Act, 1956 and the Company's Articles of Association. The Board of Directors of the Company sets the strategic goals based on objectives of the Company, defines its policies and oversees implementation of those policies to facilitate the taking of suitable actions for attainment of its goals.

Currently the composition of the Board of Directors consists of 8 Directors. Shri Kajal Sengupta, the main promoter and the Chairman & Managing Director heads the Board. Shri Kajal Sengupta is B.Sc. (Hons.) graduate and has 27 years valuable experience in hi-tech Construction, Pharmaceuticals and Hotel industry. No remuneration is currently paid to the Chairman & Managing Director.

The Vice-Chairman of the Board is Sri C. S. Choudhury. Shri Choudhury is a graduate in the commerce stream and is also a Fellow member of the Institute of Cost & Works Accountants of India. He has experience of nearly 5 decades covering Engineering, Construction, Steel, Project Management, Tea, Timber as well as Hotel and Pharmaceuticals.

The other Executive Director on the Board is Shri Indranil Biswas who is the Joint Managing Director of the Company. Shri Indranil Biswas was appointed as Joint Managing Director with effect from 1st August, 2004 on a contractual basis for a period of 2 years at a remuneration of Rs. 30,000/- per month and other usual perquisites like provision of car with driver and re-imbursement of telephone charges, club membership fees of one club and entertainment expenses incurred on Company's business. Shri Biswas holds a post graduate master of

commerce degree of the University of Calcutta and is also a fellow member of the Institute of Chartered Accountants of India. Shri Biswas is well known in the corporate sector and has wide and varied experience in the areas of corporate restructuring, finance, accounts, human resources as well as management information system (MIS) based on Information Technology. He is also associated with the IIT, Kharagpur as Adjunct Professor in Strategic Management.

Shri Kingshuk Sengupta is Bachelor of Commerce and has over 13 years experience in high-tech construction, pharmaceuticals and hotel industries. He is due to retire at the ensuing AGM and being eligible offers himself for reappointment.

All Directors other than Shri Kajal Sengupta, Chairman & Managing Director, Shri Indranil Biswas, Joint Managing Director, Shri C. S. Choudhury, Vice Chairman and Shri Kingshuk Sengupta are independent Directors. The representation on the Board of executive vis-à-vis non-executive directors is 4:4 and consists of eminent persons like Shri S. P. Roy Choudhury, a post graduate in law & commerce with additional expertise as "Company Secretary and Cost and Works Accountant". He has wide experience spanning over 3 decades in Government Finance, Audit and Company Law matters. He is due to retire by rotation and being eligible is agreeable to re-appointment at the forthcoming Annual General Meeting.

Shri P. K. De is a retired IAS Officer who during his service career officiated as District Magistrate and for sometime also held the post of Joint Secretary (Labour) to the Govt. of West Bengal. He has wide experience in Administration and Management.

Dr. Saibal Chakraborty, MBBS is a reputed Cardiologist.

Shri Pradip Kumar Chakraborty, a representative of small shareholders of the Company, has nearly 4 decades of business experience.

The Company has not entered into any materially significant transaction with non-executives Directors of the company.

BOARD MEETING

During the year under review five Board meetings were held respectively on 29th June, 29th July, 28th October 2005, 27th January and 29th March 2006.

The last Annual General Meeting of the Company was held on 29th August, 2005 and all Directors attended the said meeting. Details of attendance of the Board meetings, directorship and membership in committees of other companies of each Director of the Company are as follows :

Name of Directors	Attendance at Company's Board Meeting	Attendance at Board's Committee Meetings	Directorship of other Companies	Membership of Committees of other Companies
Shri Kajal Sengupta*	5	4	5*	Nil
Shri C.S. Choudhury	5	25	2	Nil
Shri Indranil Biswas	5	NA	2	Nil
Shri P. K. De	4	28	Nil	Nil
Shri S. P. Roychoudhury	5	4	Nil	Nil
Dr. Saibal Chakravorty	3	2	Nil	Nil
Shri Kingshuk Sengupta	5	NA	4	Nil
Shri Pradip Kumar Chakravorti	5	NA	Nil	Nil

* Shri Kajal Sengupta is Chairman of 2 companies.