

AVT NATURAL PRODUCTS LIMITED



16th Annual Report
2001-2002

SIXTEENTH ANNUAL GENERAL MEETING

Day : Monday
Date : 23rd September 2002
Time : 11.30 a.m.
Venue : Rani Seethai Hall,
603, Anna Salai,
Chennai 600 006.

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AVT NATURAL PRODUCTS LIMITED**BOARD OF DIRECTORS**

Mr. Ajit Thomas, *Chairman*
Field Marshal Sam Manekshaw, MC
Mr.M.A.Alagappan
Mr.Shyam B. Ghia
Mr.Habib Hussain
Mr.M.S.A.Kumar, *Managing Director (w.e.f. 01.08.02)*

AUDIT COMMITTEE

Mr.M.A.Alagappan, *Chairman*
Mr.Shyam B.Ghia
Mr.Habib Hussain

COMPANY SECRETARY

Mr.V.Suresh

AUDITORS

M/s. Suri & Co.,
Chartered Accountants

BANKERS

Bank of Baroda
State Bank of India
South Indian Bank Ltd.

PLANT LOCATIONS

SF. No.234/1, Mysore Trunk Road,
Puduvadavalli,
Sathyamangalam – 638 402.

SF.No. 123/2, Nayanapalli Cross,
Bisibamanepalli (Vil), Lapakshi (Mdl.),
Hindupur – 515 331.

HL No.1182, Harikura Village,
Honavally Hobli, Tiptur Taluk,
Tumkur Dist., Karnataka – 572 202

Vazhakulam, Marampilly P.O.,
Ernakulam District,
Aluva, Kerala – 683 107.

REGISTERED OFFICE

72-E, Chesney Estate,
Ethiraj Salai,
Chennai 600 008.
Tel. 8255063,8222452; Tele fax: 8222452
E-Mail: avtsec@md4.vsnl.net.in

NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the Sixteenth Annual General Meeting of the Company will be held at 11.30 AM on Monday the 23rd September 2002, at Rani Seethai Hall, 603, Anna Salai, Chennai 600 006 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at and the Profit & Loss Account for the year ended 31.03.2002 and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in the place of Mr.Habib Hussain, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in the place of Mr. Ajit Thomas, who retires by rotation and is eligible for re-appointment.
4. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

RESOLVED THAT Mr.M.S.A.Kumar, be and is hereby appointed as a Director of the Company, not retiring by rotation.

6. To consider and, if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

RESOLVED THAT subject to the provisions of Sections 198,269,309 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the previous resolution, consent/approval of the Members be and is hereby accorded for the re-appointment of Mr.M.S.A.Kumar, Whole-time director, re-designated as the Managing Director of the Company for a period of 3 years from 01.08.2002 to 31.07.2005 and during his tenure he shall be paid remuneration, whether or not the company has profits, by way of salary, allowances, benefits and perquisites, as are applicable and as may be decided by the Remuneration Committee and the Board of Directors of the Company from time to time, without further reference, consent or approval of members, within overall limits, specified in Para 1

of Section II of Part II of the Schedule XIII of the Act, as in force from time to time, computed with reference to 'Effective Capital', besides payment of perquisites towards contributions to Provident, Superannuation and Gratuity Funds as specified in Para 2 of Section II of Part II of the said schedule and provision for use of company car for official duties and telephone and other communication facilities at residence for official purposes, which shall not be included in determining the ceiling limits prescribed, without entitlement to sitting fees for meeting of the Board of Directors and/or Committees thereof, attended by him during his tenure of office.

RESOLVED FURTHER THAT Mr.M.S.A.Kumar, Managing Director, be paid the following managerial remuneration from the date of his re-appointment w.e.f. 01.08.2002, until otherwise decided by the Board of Directors:

- a) Salary: Rs.50,000/- (Rupees Fifty Thousand only) per month
- b) Special Allowance : Rs.50,000/- (Rupees Fifty Thousand only) per month
- c) Contribution to Provident Fund on salary, at the rate in accordance with the rules of the company.
- d) Contribution to Superannuation Fund on salary, at the rate in accordance with the rules of the Company.
- e) Gratuity on salary, at the rate in accordance with the rules of the Company.

By Order of the Board
For AVT Natural Products Ltd.,

Place : Chennai
Date : 29th July, 2002

V.Suresh
Company Secretary

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to vote instead of himself and such proxy need not be a member. Proxy forms, complete in all respects, should be deposited at the Registered Office of the Company not later than 48 hours before the commencement of the meeting. Form of proxy is enclosed.
2. The Explanatory Statement pursuant to Sec. 173(2) of the Companies Act, 1956 is enclosed.

3. The Register of Members and the Share Transfer Books of the Company will remain closed from 17.09.2002 to 23.09.2002 (both days inclusive)
4. Members who are holding shares in physical form are requested to intimate changes, if any, in their registered address to the Registered Office of the Company and those who are holding shares in electronic form are requested to do so to their respective Depository Participants.
5. The unclaimed equity dividend upto the financial years 1993-94 have been transferred to the General Revenue Account of the Central Government. Those shareholders, who have so far not claimed their dividend upto the said financial years, may claim the same from the Registrar of Companies, Tamil Nadu at Chennai.
6. It may please be noted that Dividends which remain unclaimed/unencashed over a period of 7 years have to be transferred by the company to "Investor Education and Protection Fund" maintained with Central Government and the shareholders cannot make any claim for the dividends once the unclaimed dividends are transferred to such Fund.
The shareholders are, therefore, advised to claim the unclaimed dividend, if any, immediately.
7. In terms of Clause 49 of the listing agreement with Stock Exchanges, a brief resume of directors who are proposed to be re-appointed at this meeting is given below:

a) **Mr.Habib Hussain**

Mr. Habib Hussain, aged about 49 years, holds a Degree in Electronics Engineering and has a vast experience. He joined AVT group in 1974 and rose to become a Director of this company in 1995. He is the Chief Executive of A.V.Thomas Leather & Allied Products Ltd., He has expertise in business administration.

Mr. Habib Hussain is also a Director in A V Thomas Investments Co. Ltd. Neelamalai Agro Industries Ltd., AVT Infotech Pvt.Ltd., The Nelliampathy Tea & Produce Co.Ltd., The Midland Rubber & Produce Co. Ltd, and IT Must Consultancy Pvt.Ltd.

He is a member of the Audit Committee and the Shareholders and Investors' Grievance Committee of the Company.

b) **Mr. Ajit Thomas**

Mr. Ajit Thomas, aged about 48 years, holds a Bachelor's Degree in Statistics. He is an Industrialist and the Promoter Chairman of the Company. He has expertise in business and management with AVT Group of Companies for the last 25 years.

His other Directorships

Name of the Company	
The Nelliampthy Tea & Produce Co. Ltd,	<i>Chairman</i>
Neelamalai Agro Industries Ltd.,	<i>-Do-</i>
The Midland Rubber & Produce Co. Ltd.	<i>-Do-</i>
AVT McCormick Ingredients Pvt. Ltd.	<i>-Do-</i>
Rusch AVT Medical Pvt. Ltd.	<i>-Do-</i>
Midland Latex Products Ltd.	<i>-Do-</i>
AVT Agrochem Ltd.	<i>-Do-</i>
Sermatech Pvt. Ltd.	<i>-Do-</i>
A V Thomas Leather & Allied Products Ltd.	<i>Director</i>
A V Thomas Exports Ltd.	<i>-Do-</i>
A V Thomas & Co. Ltd.	<i>-Do-</i>
A V Thomas International Ltd.	<i>-Do-</i>
A V Thomas Investments Co. Ltd.	<i>-Do-</i>
Cholamandalam Cazenove AMC Ltd.	<i>-Do-</i>
AVT Infotech Pvt. Ltd.	<i>-Do-</i>

He is the Chairman of the Shareholders/ Investors' Grievance Committee of the Company

c) **Mr.M.S.A.Kumar**

Mr.M.S.A.Kumar, aged about 49 years, is a graduate in Agriculture with an MBA from IIM, Ahmedabad. He has served as a top management executive in several premier organisations like Sandoz (India) Ltd. Bayer (India) Ltd. and Shaw Wallace Co.Ltd. Mr.M.S.A. Kumar's field of expertise includes Sales & Marketing, Product Management etc., He is with the Company since 1995.

He is also the Managing Director of AVT McCormick Ingredients Pvt.Ltd.,

EXPLANATORY STATEMENT

(Pursuant to Sec.173 (2) of the Companies Act, 1956)

ITEM NO. 5

Mr.M.S.A.Kumar was appointed as a Director of the Company in the casual vacancy caused by the resignation of Mr.Dilip Thomas with effect from 20.10.1999. Mr.Dilip Thomas would have retired by rotation, had he been in office, in this Annual General Meeting. Hence, Mr.M.S.A.Kumar holds office only upto this Annual General Meeting. The Company has received a notice under Sec.257 of the Companies Act, 1956 from a member along with a deposit of Rs. 500/-, proposing the name of Mr.M.S.A.Kumar for appointment as a Director of the Company and for that purpose to move the resolution as mentioned in the said notice. The profile of Mr.M.S.A.Kumar appears under note 7 (c) in the Notice above.

The Board considers that the Company will be benefited by induction of Mr. M.S.A. Kumar and in the interest of the Company that he continues to be a Director of the Company. He shall not be retiring by rotation.

None of the Directors, other than Mr.M.S.A.Kumar is concerned or interested in the resolution.

ITEM NO. 6

At the 14th Annual General Meeting held on 07.09.2000, the members had approved the appointment of Mr.M.S.A.Kumar as a Whole-time Director of the Company for a period of three years from 01.06.2000 to 31.05.2003. But on the recommendation of the Remuneration Committee in this regard, the Board of Directors, at their meeting held on 29.07.2002, decided to foreclose his office as the Whole-time Director before the expiry of the term and re-appointed & re-designated him as the Managing Director of the Company for a period of three years from 01.08.2002 to 31.07.2005, subject to the approval of the shareholders at this General Meeting. Mr.M.S.A.Kumar is presently in charge of the entire manufacturing operations and hence the Board considers it advisable to re-appoint him with a change in his

designation as the Managing Director of the Company and hence this resolution.

The remuneration payable to Mr.M.S.A.Kumar, as Managing Director, has not been changed from what he was getting as the Whole-time Director. But in future the remuneration payable to him would be subject to such modification, alterations or variations as may be deemed proper and decided from time to time by the Remuneration Committee constituted in accordance with the Schedule XIII to the Companies Act, 1956 and the Board of Directors at their discretion, so as not to exceed the ceiling limits specified in Para 1 of Section II of Part II of the Schedule XIII to the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for time being in force) or any amendments made thereto.

After the resolution is passed by the shareholders and consequent to passing of the Item No.5 in the Notice, the Board of Directors of the Company shall enter into an agreement with the Managing Director, incorporating therein the terms and conditions of appointment and discharge of functions and duties and for payment of remuneration. A copy of the draft Agreement to be entered into with the Managing Director is available at the Registered Office of the Company, and is open for inspection by the members during office hours on any working day prior to the meeting.

This may be construed as an "Abstract of the terms of appointment and Memorandum of Interest" pursuant to Section 302 of the Companies Act, 1956.

None of the Directors, other than Mr.M.S.A.Kumar is concerned or interested in the resolution.

By Order of the Board
For AVT Natural Products Ltd.,

Place : Chennai
Date : 29th July , 2002

V.Suresh
Company Secretary

DIRECTORS' REPORT

Your Directors have pleasure in presenting their Sixteenth Annual Report together with the Audited Accounts of the Company for the year ended 31st March 2002.

FINANCIAL RESULTS

	(Rs. In lakhs)	
	01-02	00-01
Turnover	3,386.91	6,297.49
Profit/(Loss) for the year	(417.04)	504.41
Profit after tax	-	504.41
Profit brought forward	160.76	140.26
Total amount available for Appropriation	(256.28)	644.67

APPROPRIATIONS

General Reserve	(256.28)	400.00
Proposed dividend	-	76.14
Tax on proposed dividend	-	7.77
Profit carried forward	-	160.76

DIVIDEND

In view of the performance of the Company, your directors express their inability to declare any dividend for the year-ended 31.03.2002.

OPERATIONS

During the year under review, the Company produced 565 MT of Marigold and Spice Oleoresins as against 975 MT last year. The over-supply position in the global market for marigold oleoresin and the consequent lower price realization accounted for the adverse performance of the Company in the last year.

A more detailed account of the operational performance of the Company is given in the Management Discussion and Analysis Report annexed to this report.

FUTURE PROSPECTS

The international market for marigold oleoresin is expected to restore the supply demand balance towards mid 2003. However, your company's performance depends to a great extent on favourable monsoons. 2002 South West monsoon rains are deficient at this point of time. With the expectation of revival of the monsoon and reviewing the current order book position of Marigold & Spice Oleoresins, the

Company is hopeful of recording a better performance in 2002/03 as compared to previous year.

A combination of measures taken by the Company involving reduction of cost, improvement in process efficiency, increased investment in R & D and constant upgradation of facilities would enable it to retain its status as a least cost producer and be more competitive in the world market

FIXED DEPOSITS

As on 31.03.2002, a total sum of Rs.3,54,925 due to 10 fixed deposit holders remained unclaimed. Out of this, deposits for a total sum of Rs. 3,14,925/- were repaid/renewed subsequently.

DIRECTORS

In accordance with the provisions of Companies Act, 1956 and the Articles of Association of the Company Mr.Habib Hussain and Mr. Ajit Thomas, retire by rotation at the 16th AGM and being eligible, offer themselves for re-appointment.

Mr.M.S.A.Kumar was appointed as the Whole-time Director of the Company for a period of three years from 01.06.2000 to 31.05.2003, in the casual vacancy caused by the resignation of Mr.Dilip Thomas from the Board, who would have retired at this meeting if he had continued as the Director. Since Mr.M.S.A.Kumar, was appointed in place of Mr.Dilip Thomas, he retires at this meeting. The Board of Directors at their meeting held on 29.07.02, re-appointed Mr. M.S.A. Kumar for a period of three years with effect from 01.08.02 to 31.07.05 and also re-designated him as the Managing Director of the Company, subject to the approval of the shareholders at this Annual General Meeting. The necessary resolutions in this regard are incorporated in the notice convening the Annual General Meeting.

AUDITORS

M/s. Suri & Co., Chartered Accountants, Chennai 600 006, Auditors of the Company retire at the conclusion of the ensuing AGM and being eligible, offer themselves for re-appointment. They have confirmed that their re-appointment, if made, will be within the limits specified under Sec.224 (1-B) of the Companies Act, 1956.

PARTICULARS OF EMPLOYEES

No employee of the Company was in receipt of remuneration during the financial year 2001-02, exceeding the amount prescribed under Sec.217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975, as amended.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

1. That in the preparation of the accounts for the financial year ended 31st March 2002, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were 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 or loss of the Company for the year under review;
3. That the Directors have taken 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 preventing and detecting fraud and other irregularities;

4. That the Directors have prepared the accounts for the financial year ended 31st March 2002 on a 'going concern' basis.

ANNEXURES TO DIRECTORS' REPORT

The following annexures form part of this Directors' Report.

- (i) Particulars relating to conservation of energy, technology absorption and foreign exchange earnings/outgo under Sec. 217 (1)(e) of the Companies Act, 1956
- (ii) Management Discussion and Analysis Report
- (iii) Corporate Governance Report; and
- (iv) Certificate from the Statutory Auditors regarding compliance of Corporate Governance

ACKNOWLEDGEMENT

Your Directors wish to express their sincere thanks to the Industrial Development Bank of India, Bank of Baroda, State Bank of India and South Indian Bank Ltd., for their continued and positive support to the Company.

Your Directors also wish to express their appreciation for the continued support and co-operation received from our Farmers, Employees and valuable Customers.

For and On behalf of the Board

Chennai-600 008.
29th July, 2002

Ajit Thomas
Chairman



ANNEXURE - I
To the Directors' Report

FORM-A

Disclosure of particulars with respect to conservation of energy

A	Power and fuel consumption	Not Applicable
B	Consumption per unit of production	Not Applicable

FORM-B

Disclosure of particulars with respect to absorption

Research and Development (R & D)	
Specific areas of Research and Development	The expenses incurred for Research and Development include development of Trial Plots / Nursery of Marigold and Spices.
Benefits of R & D	Trial plots and nurseries are developed for improving the net farm returns by increasing productivity and by taking major cultivation practices, yield can be tracked with all relevant parameters like cost, calix petal ratio, xanthophyll and lutein content.
Future Plan of action	The Company will focus in educating the farmers to increase the yield of Marigold and Spices.
Expenditure on R & D	
a) Capital	Nil
b) Recurring	Rs. 3,40,683
c) Total	Rs. 3,40,683
Foreign Exchange Earnings / Outgo	The Company's operations during the year under review has resulted in a foreign exchange inflow of Rs. 31.75 Crores and outflow of Rs. 0.88 Crores.

A N N E X U R E - I I

Management Discussion and Analysis Report

BUSINESS PROFILE

AVT Natural Products Limited operates in the segment of Oleoresins/Extracts, which are primarily the concentrates of active ingredient derived from the agriculture raw materials. The product line caters to the requirements of Feed & Food sectors in the area of natural colours and flavours. The core product line is Marigold Oleoresin, which is the extract from Marigold flowers containing pigments used in the Poultry, Shrimp, Food Colorant and Nutraceuticals industries. Over the last 2 to 3 years, your company has successfully diversified to Spice Oils & Oleoresins.

INDUSTRY SCENARIO AND DEVELOPMENTS

The Global Marigold Oleoresin industry witnessed the supply far outstripping the demand with the increased production from India, China, & Peru. The supply in 2000 was close to double the demand. This oversupply impacted the prices by almost 30 to 35 %. This price drop and the reduced profitability resulted in drop in production in 2001 & 2002 in the major producing countries including India. We expect the global supply demand balance to be restored towards middle of 2003. Spices Oleoresin sales show encouraging trends. However, the gross margins in this segment are very low at 10%, given the surplus capacity in the Indian Industry.

FINANCIAL PERFORMANCE OF THE COMPANY FOR THE YEAR 2001-02

Your company recorded a drop in sales of 46% in 2001/02 i.e. from Rs 63 Crores to Rs 34 Crores. This drop was mainly on account of the key product – Marigold Oleoresins volumes dropping from 905 MT in 2000/01 to 402 MT 2001/02. Whereas the sales of other product range of Spice Oleoresins doubled from Rs 5 Crores in 2000/01 to Rs 10 Crores in 2001/02. The effect of drop in volumes and prices was a loss of Rs 4.09 Crores in 2001/02 as against a profit of Rs 5.04 Crores in the previous year.

OUTLOOK

With the scanty rainfall received in the Marigold growing areas, the outlook for 2002/03 is not very positive. Contingency plans are under implementation in terms of new growing areas with assured irrigation. Though the order book is encouraging, there is tremendous price pressure on our two major products of Marigold and

Paprika Oleoresins. With the expectation of revival of the monsoon and reviewing the current order book position of Marigold & Spice Oleoresins, the Company is hopeful of recording a better performance in 2002/03 as compared to previous year.

For Marigold Oleoresin, we are in the process of building a long term strategic alliance with a leading player in the global market. We are also trying to establish contacts with other key players in the Mexican Marigold market, which contributes 50% of the global market. In spice oleoresin business we have doubled our customer base and strengthening our presence in the important market of Japan.

To utilize the surplus capacity of the plant we have done job processing contracts with reasonable margins. New product development is given the focus and is currently working on 3 to 4 new products, which are under evaluation by our customers.

The mantra for the turn around of the company is in cost reduction. New efficiencies, targets are set and regularly monitored. 2002/03 should see marginal profits.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

We have a good in-built internal control system. We have appointed external auditors for doing the internal audit of our operations and accounts. We have also formed a full-fledged Audit Committee at the Board level headed by a non-promoter director.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCES

With the drop in volumes of Marigold, the company has right-sized its operations with the objective of reducing the fixed costs and thereby the break-even levels. The head count was reduced by 36% from 278 to 177 during 2001/02 financial year. The number of Executives & Managers reduced from 64 to 42. We have shut down the Central India operations of Marigold. All these activities resulted in a fixed cost reduction of 25% from Rs 15 Crores in 2000/01 to Rs 11 Crores in 2001/02. The budgeted fixed costs for 2002/03 is Rs 10 Crores. Despite the retrenchment of staff, the IR climate continues to be healthy.