

NATURAL PRODUCTS LIMITED

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21st Annual Report
2006-2007

AVT NATURAL PRODUCTS LIMITED

BOARD OF DIRECTORS

Mr. Ajit Thomas, **Chairman**
 Field Marshal Sam Manekshaw, MC - upto 29.07.2006
 Mr. M.A. Alagappan
 Mr. Shyam B. Ghia
 Mr. Habib Hussain
 Mr. P. Shankar I.A.S. (Retd.) (w.e.f. 23.06.2007)
 Mr. M.S.A. Kumar, **Managing Director**

AUDIT COMMITTEE

Mr. M.A. Alagappan, **Chairman**
 Mr. Shyam B. Ghia
 Mr. Habib Hussain
 Mr. P. Shankar I.A.S. (Retd.) (w.e.f. 23.06.2007)

AUDITORS

M/s. Suri & Co.,
 Chartered Accountants

BANKERS

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

PLANT LOCATIONS

SF. No. 234/1, Mysore Trunk Road,
 Pudukadavalli,
 Sathyamangalam - 638 401.

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.

C/o Mahesh Industries,
 Plot No.17-18-19-20,
 Haveri Dist., Bydagi - 581 106
 Karnataka.

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

REGISTERED OFFICE

64, Rukmani Lakshmipathy Salai,
 Egmore, Chennai 600 008.
 Tel: 044-28584147 Tele fax: 044-28584147
 E-Mail: avtsec@gmail.com

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NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the Twenty First Annual General Meeting of the Company will be held at **11.00 AM on Friday the 27th July 2007 at REGENCY HALL, 4th Floor, Hotel Ambassador Pallava, No.30, Montieth Road, Egmore, Chennai 600 008** 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 31.03.2007 and the Reports of the Directors and Auditors thereon.
2. To declare dividend.
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 appoint Mr.P.Shankar as a Director**

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

RESOLVED THAT Mr.P.Shankar who was co-opted as an Additional Director of the Company by the Board of Directors and who holds office under Section 260 of the Companies Act, 1956 until the date of the Annual General Meeting and in respect of whom the Company has received a notice in writing proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company liable to retire by rotation.

6. **Increase in Borrowing Powers**

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

RESOLVED THAT in supersession of the resolution passed at the Twelveth Annual General Meeting of the Company held on 9th September 1998 and pursuant to Section 293 (1)(d) and other applicable provisions if any, of the Companies Act 1956, consent of the Company be and is hereby accorded to the Board of Directors to borrow, obtain and/or avail by way of loans and/or advances, any sums of money or moneys (apart from the temporary loans obtained from the Company's bankers in the ordinary course of business) from Banks/Financial Institutions/other Bodies Corporate,

notwithstanding that the total borrowing may exceed the aggregate of the paid-up Capital of the Company and its free reserves (that is to say, reserves not set apart for any specific purpose) provided, however, the aggregate amount so borrowed and/or availed from Banks/Financial Institutions/Other Bodies Corporate shall not exceed at any point of time Rs.75,00,00,000/- (Rupees Seventy Five Crores Only).

By order of the Board
For **AVT Natural Products Ltd.,**

Place : Chennai
Date : 23rd June 2007

Ajit Thomas
Chairman

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 Register of Members and the Share Transfer Books of the Company will remain closed from 20.07.2007 to 27.07.2007 (both days inclusive).
3. The dividend as recommended by the Board, if approved at the meeting, will be payable to those members whose names appear in the Register of Members as on 27.07.2007.
4. Members are requested to intimate changes, if any, in their registered address to the Company immediately.
5. 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.
6. 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 the directors who are proposed to be re-appointed at this meeting is given below.

a). Mr.Ajit Thomas

Mr.Ajit Thomas, aged 53 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 about three decades.

His other Directorships

Name of the Company	
The Nelliampathy Tea & Produce Co Ltd.	Chairman
Neelamalai Agro Industries Ltd.	Chairman
The Midland Rubber & Produce Co.Ltd.	Chairman
AVT McCormick Ingredients P Ltd	Chairman
Teleflex Medical Pvt Ltd.,	Chairman
Sermatech (P) Ltd	Chairman
Midland Latex Products Ltd.,	Chairman
A V Thomas Leather & Allied Products Pvt Ltd.	Chairman
A V Thomas Exports Ltd	Director
A V Thomas & Company Ltd.	Director
A V Thomas International Ltd.,	Director
A V Thomas Investments Co.Ltd	Director
AVT Infotech Pvt Ltd	Chairman
IQ Tech Pvt Ltd	Director
Cholamandalam Cazenove AMC Ltd	Director
AVT Natural Pte Ltd, Singapore	Director
Tonghe AVT Natural Ltd, China	Director
Blue Mountain Development Corp. Canada	Director
Ajit Thomas Holdings Pvt. Ltd.	Director
S.T. Holdings Pvt. Ltd.	Director

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

b). Mr. P. Shankar

Mr. Pejavar Shankar retired as Central Vigilance Commissioner of India in September 2006. He joined the Indian Administrative Service in 1966 after acquiring a post-graduate degree in Economics from Vivekananda College of the erstwhile Madras University.

In the course of a distinguished career he served as the Chief Secretary of Tamil Nadu(2001-02) and as Secretary to Government in Government of India in the Departments/Ministries of Heavy Industry ; Sugar; Food and Public Distribution, and Petroleum.

He has had rich experience in the field of industrial management and administration. His tenure as Chairman and Managing Director of Tamil Nadu Industrial Infrastructure Development Corporation (1992-94) saw the setting up of the Perundurai and Gangaikondan Industrial Areas and the Tirupur Infrastructure Development initiative. He was also Secretary to Government in the Industries Department in Government of Tamil Nadu (1987-89). He was Chief Executive of the Salem Cooperative Sugar Mills (1969-71) and Joint Director of Industries and Commerce (1972-73) in charge of small-scale industries and industrial cooperatives.

A significant part of his service years was spent in the Textiles sector. Among the various assignments held by him were Managing Director ,Tamil Nadu Textile Corporation(1971-72), Director of Handlooms and Textiles TN (1974-78), Additional Development Commissioner of Handlooms. GOI, (1979-82), General Manager ,Handicrafts and Handlooms Export Corporation of India (1982-86) and Joint Secretary, Ministry of Textiles, GOI (1989-91).In this last assignment he was also the Textiles Negotiator in the Uruguay Round of GATT.

EXPLANATORY STATEMENT

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

Item No.5

Mr.P.Shankar, was co-opted as an Additional Director of the Company on 23.06.2007 pursuant to Section 260 of the Companies Act, 1956. He holds office of the Director up to the date of the Annual General Meeting. The Company has received a notice in writing from a member of the Company along with the prescribed fee proposing the candidature of Mr.P.Shankar for the office of the Director under the provisions of Section 257 of the Companies Act, 1956.

None of the Directors of the Company excepting Mr.P.Shankar, are interested in the Resolution.

Your directors, therefore recommend the resolution for your approval.

Item No.6

Under section 293(1)(d) of the Act, the Board of directors cannot, except with the approval of the members in general meeting, borrow monies, in excess of the company's paid

up capital and its free reserves. Given the size and scale of the company's operation and in order to meet funding requirements from time to time, it may be necessary for the company to borrow in excess of its paid up capital and its free reserves. Hence it is considered desirable to raise the present limit of borrowing to Rs.75 Crores. The resolution is purely enabling in character.

Your directors, therefore recommend the resolution for your approval.

None of the directors are in any way concerned or interested in this resolution.

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

Place : Chennai
Date : 23rd June 2007

Ajit Thomas
Chairman

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DIRECTORS' REPORT

Your Directors have pleasure in presenting their Twenty First Annual Report together with the Audited Accounts of the Company for the year ended 31st March 2007.

FINANCIAL RESULTS

	(Rs. In lakhs)	
	06-07	05-06
Turnover	7234.74	7164.43
Other Income	72.56	121.04
Total Income	7307.30	7285.47
Profit before tax for the year	1365.99	1284.89
Less- Provision for taxation		
- Current Tax	485.00	470.00
- Deferred Tax	(4.20)	39.30
- Fringe Benefit Tax	12.00	22.50
Profit after tax	873.19	753.10
Add: Surplus brought forward	173.95	45.42
Total amount available for Appropriation	1047.14	798.52
LESS		
Transfer to General Reserve	500.00	400.00
Preference Dividend and Tax thereon	-	7.52
Proposed Dividend on Equity Shares @ 30%	228.43	190.35
Provision for tax on Dividends	38.82	26.69
Surplus carried Forward	279.89	173.95

OPERATIONS

Your company's Profit After Tax (PAT) improved by 16% from Rs 7.53 Crores in 2005-06 to Rs 8.73 Crores in 2006-07. The Sales at Rs 72.34 crores was slightly more than the previous year. All the product lines – Marigold, Spice Oleo and Value Added Teas – recorded considerable improvement in supply chain efficiencies.

FUTURE PROSPECTS

The capacity utilization of the extraction plant dropped from 9015 Mt in 2005-06 to 7783 Mt in 2006-07. R&D efforts for new Products are being accelerated to fill the extraction plant with new products. Our objective is to improve the capacity utilization of the Extraction Plant in the next 2 to 3 years.

During 2006, your company successfully grew Marigold in Shungyashan City in Heilongjiang province in China. As this location is found suitable for Marigold growing in

North East China, your investment holding company in Singapore has decided to expand Marigold growing area in this location. Consequently, the name and registration of Tonghe AVT Natural Limited, located in Tonghe county is changed to Heilongjiang AVT Bioproducts Ltd located in Shungyashan city. We are putting up a new dehydration plant in Shungyashan Government owned State Farm.

DIVIDEND

Your Directors are pleased to recommend a dividend of 30% on Equity Share capital for the year ended 31.03.2007.

PERFORMANCE OF SUBSIDIARY COMPANY

AVT Natural Pte.Ltd, Singapore together with its subsidiary, Tonghe AVT Natural Ltd China has recorded sales of Rs 5.41 Crores and a loss of Rs 3.75 Lakhs during the period ended December 2006. We expect improved performance in sales and profits of the subsidiary company in 2007 from our Chinese operations.

Pursuant to Sec 212 of the Companies Act, 1956, the Balance Sheet, Profit & Loss Account, Directors' Report and the Auditors Report for the period ended 31st December 2006 of AVT Natural Pte Ltd., Singapore, an overseas subsidiary of your company and its Chinese Subsidiary, Tonghe AVT Natural Products Ltd, have been attached.

FIXED DEPOSITS

As on 31.03.2007, a total sum of Rs. 1,18,000 due to 6 fixed deposit holders remained unclaimed. Out of this, deposit for a sum of Rs. 73,000 was renewed/repaid subsequently.

BONUS SHARES

During the year, the paid-up capital of the Company doubled from Rs.380.71 Lakhs to Rs.761.42 Lakhs consequent on the issue of Bonus shares in the ratio of 1 equity share for every share held by the shareholders, as approved at the last Annual General Meeting.

LISTING ON NATIONAL STOCK EXCHANGE OF INDIA LTD.,

Your Directors are happy to inform you that Company's share got listed on the National Stock Exchange of India with effect from 10th January 2007.

DIRECTORS

In accordance with the provisions of Companies Act, 1956 and the Articles of Association of the Company

Mr. Ajit Thomas, Director, retires by rotation at the 21st AGM and being eligible, offers himself for re-appointment.

Mr.P.Shankar, was co-opted as an Additional Director on 23.06.2007. His appointment requires the approval of the members at the ensuing Annual General Meeting. A notice has been received from one of the shareholders pursuant to Sec 257 of the Companies Act,1956 proposing his candidature, along with the prescribed fees. The necessary resolution for his appointment is being placed before the shareholders for approval.

RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, ENERGY CONSERVATION ETC.

The particulars prescribed by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988 relating to Conservation of Energy, Technology Absorption, Foreign Exchange are furnished in the Annexure-I to this Report.

PARTICULARS OF EMPLOYEES

Particulars of employees in terms of the requirements of Sec 217 (2A) Companies Act, 1956 have been given in Annexure II forming part of this Report.

AUDITORS

M/s. Suri & Co., Chartered Accountants, Chennai 600 034, Auditors of the Company retire at the conclusion of the ensuing AGM and being eligible, offer themselves for reappointment. 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.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, the Management Discussion & Analysis Report, Report on Corporate Governance with Auditors' Certificate on compliance with conditions of Corporate Governance have been annexed to this Report.

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 2007, 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 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 2007 on a 'going concern' basis.

ACKNOWLEDGEMENT

Your Directors wish to express their sincere thanks to the Bankers, Farmers and Valuable Customers for their continued and positive support to the Company.

The Directors also wish to thank all the employees for their contribution, support and continued co-operation throughout the year.

For and On behalf of the Board

Place : Chennai
Date : 23rd June, 2007

Ajit Thomas
Chairman

A N N E X U R E - 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 company is focusing on two areas of R&D- a) Seeds and b) New products
Benefits of R&D	Seed research will benefit farmers by way of increased yield, thereby improving the net farm returns. The company will be benefited by higher active ingredients concentration resulting in lower costs and global competitiveness
Future Plan of action	The focus will be on developing processes for natural extracts for application in food colouring and health food segments. Seed research will concentrate on developing new varieties of Marigold suitable for Indian weather conditions.
Expenditure on R&D	
a) Capital	Rs.37,51,527
b) Recurring	Rs.43,67,230
Total	Rs.81,18,757

Foreign Exchange Earnings / Outgo

The company's operations during the year under review has resulted in a foreign exchange inflow of Rs.55.23 Crores and outflow of Rs.15.90 Crores

A N N E X U R E - II

To the Directors' Report

Information pursuant of Section 217(2A) of Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

Employed throughout the year under review and were in receipt of remuneration in the aggregate of not less than Rs. 24,00,000/- per annum.

Name	Age	Designation	Remuneration (Rs.)	Qualifications	Total Experience (years)	Date of commencement of Employment	Previous Employment
* Mr M S A Kumar	53	Managing Director	37,86,000	B.Sc (Agri) PGDBA (IIM-A)	31	27/9/1995	Vice President Shaw Wallace and Co. Ltd
Mr Suresh Menon	42	C.E.O China Operations	41,37,917	B.Sc PGDM (IIM-A)	16	27/09/2004	General Manager Asia Bioenergy (India) Limited
Mr V Ravikumar	55	Executive Director	35,59,194	M.Tech	34	1/10/1996	Vice President Projects A.V Thomas & Co. Ltd

* The nature of Employment is contractual.

Notes :

- 1 Remuneration includes Salary, allowances and contribution to Provident and other Funds.
- 2 None of the above employees is related to any Director of the Company.

A N N E X U R E - III

Management Discussion and Analysis Report

BUSINESS PROFILE

AVT Natural Products Ltd (AVT NPL) is in the business of **“Solvent Extraction”**. Marigold Oleoresins, Spice Oils & Oleoresins, Green Tea Extracts and Decaffeinated Black Tea are some of the examples of products from solvent extraction using agricultural raw materials. These products are used for **“Natural Coloring and Flavoring”** systems in Feed and Food segments. The value added products serve as raw materials for Nutraceuticals products. For example, Marigold Oleoresin after further processing, finds application in Nutraceuticals market (Lutein for Eye Care), Poultry Pigmentation (Egg Yolk and Chicken Skin coloring) and Food Coloring.

NATURAL SECTOR – INDUSTRY SCENARIO

We observe a major change in the market needs. Consumers world over start preferring “Natural” products over “Synthetic” products. Health consciousness is also on the increase. Though the market for natural and health/wellness products is primarily in the developed world, we will soon witness changes in the developing countries’ markets as well. Another interesting development is the stringent regulatory environment of Food Safety and Food Security by the importing countries in the developed world for Food Ingredients and Nutraceuticals. All these developments point to a significant emerging opportunity for the company in the global market of “Natural Products”. AVT NPL’s R&D efforts are geared towards tapping this new emerging opportunity.

AVT NPL is the pioneer and market leader in the value added Marigold Oleoresin segment for the Nutraceuticals Industry. The key factors in the success of our large scale contract farming lie in our understanding of the customer requirements of food safety and the strong foothold in the field of agri business.

OPERATING AND FINANCIAL PERFORMANCE

In the year under review, the turnover of the company was at Rs 73 Crores. Profit After Tax (PAT) was Rs 8.73 Crores, an increase of 16% over last year.

Though the turnover was at the same level as previous year, AVT NPL could achieve significant improvements in its supply chain efficiencies, resulting in PAT improvements. Improved Marigold Hybrid seeds, Better Product Mix, Higher Processing Yields & Efficiencies and

Tight monitoring & control of Fixed Costs helped the company to lower the costs significantly.

AVT NPL through its Chinese operations now participate in the low value Marigold Oleoresin. The company had a successful growing of Marigold Flowers in China and is planning to expand the area under cultivation in 2007. AVT NPL is also setting up a new dehydration plant for processing Marigold flowers in China. The “Two Country” strategy of AVT NPL with presence in India and China will enable the company to serve the customers in a cost efficient way, apart from mitigating the growing risk. AVT NPL is the only company in the world with a diversified two country growing of Marigold flowers.

OUTLOOK

AVT NPL has decided to grow only the first generation Marigold hybrids during 2007/08 growing season. This decision will give a significant direct cost reduction. The closure of Nagpur unit last year and down sizing of Andhra Pradesh operations this year will result in fixed cost reductions. The order book for 2007-08 for Marigold, Spices and Value added Teas is healthy with stable prices. China operations will see growth in turnover and profits. Monsoon has set in on time and the rainfall in the growing areas has been encouraging so far with indications of a good flower output. Thus the outlook for the consolidated operations of the company is encouraging. We expect to improve the overall performance of the company in 2007-08.

RISK MITIGATION

Risk is inevitable in any business – more so in the agri based processing industry. Five years ago, the company business operated with a single product of Marigold with a single customer. Marigold flower growing then was only in India. AVT NPL today has a well diversified product portfolio with 65 customers across the globe. As mentioned earlier, we now grow Marigold in India and China. These developments are a clear vindication of the success of the “Risk Mitigation” strategy adapted by the company through broad basing of products and markets.

INTERNAL AUDIT

Your company conceptualizes and implements effective systems of internal controls and also ensures that the operating departments are in compliance both with internal

A N N E X U R E - III

Management Discussion and Analysis Report

policies and procedures as well as regulatory, statutory and legal requirements. The Audit Committee of the Board regularly reviews the audit findings as well as the adequacy and effectiveness of internal control measures.

HUMAN RESOURCES

AVT NPL is a "Customer Focused" organization. Our ability to understand the customer needs and satisfy them in the best possible manner is the unique differentiating feature of the 170 strong "Team NPL". It is due to the unstinting and dedicated efforts of this team that the company is able to successfully manage long term strategic

alliances with the overseas partners. In its ongoing endeavor to maintain excellence in quality and service, the company is putting in place a new ERP system during 2007-08. The company is confident that the new ERP system will further improve "Team NPL's" efficiency.

During the year under review, the company conducted 46 training programmes, of which 19 training programs were external. The training programs focused on the areas of Food Safety, Quality Management Systems, Cost Containment, Goal setting and Performance Management Systems. Overall, 548 man days were spent on training programs.

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