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AVANTEL

access to knowledge

ISO 9001

Enable



Enrich

Empower

Annual Report 2001-2002

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The signs of a changing society are quite evident: increasing reliance on everyday objects with embedded intelligence; rise in demand for people with current skills and their global mobility; and the growing value of knowledge relative to the assets.

The direction in which the society is headed is clear: a world where knowledge is the prime resource for wealth generation. It is with this thought in mind that your company has decided to reposition itself around the idea "access to knowledge".

Our Mission : Access To Knowledge

This new line of thinking, we believe, henceforth guide our every policy, procedure and process of business. The initiative taken will form the foundation on which the distinct divisions of the Company - Communications, Software and Multimedia- will operate upon.

The communications division will be at the heart of the strategy and will provide the world with the needed network access products. The software wing will author solutions for both the wired and wireless environment to help diffuse knowledge at the right time on the right device. The multimedia and e-Learn division - the soul of the enterprise- will create education material to help people gain insights into the fundamentals of science in an encouraging way. The purpose of such an endeavour begin to equip people to learn continuously and apply knowledge for the changing needs of the society.

We at, Avantel Softech, are committed to enable an universal access to knowledge through unique and innovative ideas.

Please visit the 'about us' section on our web site www.avanteisoftech.com

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Board of Directors

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AVANTEL SOFTECH LIMITED

Sri A Venkateswara Rao	Chairman
Sri M R Subrahmanyam	Vice-Chairman
Sri A Vidyasagar	Managing Director
Smt A Sarada	Director
Sri Dasaradha R Gude	Director
Sri V Satish	Director
Maj.Gen.(Retd.) S Balakrishnan, VSM	Director
Sri A Dayakar	Alternate Director to Sri Dasaradha R Gude
Sri K B K Moorthi	Additional Director

Company Secretary
G N K Jyothi

Auditors
M/s A Madhusudana & Co.,
Chartered Accountants,
Plot No.9, House No.386,
Aparajita colony, Ameerpet,
Hyderabad - 500 016.

Bankers
Canara bank,
I.F.Branch, S P Road,
Secunderabad - 500 003.

Registered office & Works
200-202, BRT Enclave,
Nacharam, Hyderabad - 500 076.

Registrars & Share Transfer Agents
Karvy Consultants Ltd,
46, Avenue 4, Street No.1,
Banjara Hills,
Hyderabad - 500 034.

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Notice

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Notice is hereby given that the 12th Annual General Meeting of the members of Avantel Softech Limited will be held on **Thursday, 26th of September, 2002 at 3.00 PM** at the Registered Office of the Company at 200-202, BRT Enclave, Nacharam , Hyderabad - 500 076, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at 31st March, 2002 and the Profit & Loss Account for the year ended on that date together with the Report of Auditors and Directors thereon.
2. To appoint a Director in place of Sri M R Subrahmanyam, who retires by rotation and being eligible for reappointment offers himself for reappointment.
3. To appoint a Director in place of Sri V Satish, who retires by rotation and being eligible for reappointment offers himself for reappointment.
4. To appoint Auditors and fix their remuneration by passing the following resolution:

   "RESOLVED THAT pursuant to the provisions of section 224 of the Companies Act, 1956, M/s A Madhusudana & Co, Chartered Accountants, be and are hereby re-appointed as Auditors of the Company , who shall hold office as Auditors from the conclusion of the 12th Annual General Meeting till the conclusion of 13th Annual General meeting at such remuneration as may be decided by the Board of Directors."

SPECIAL BUSINESS

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

"RESOLVED THAT pursuant to Section 257 of the Companies Act, 1956, and all other applicable provisions, if any, Sri K B K Moorthi who was appointed as Additional Director in the meeting of the Board of Directors held on 29th April, 2002 and who holds office as such upto the date of Twelth Annual General Meeting and in respect of whom a notice under Section 257 of the Companies Act, 1956, has been received from a member signifying his intention to propose Sri K B K Moorthi ,as a candidate for the office of Director of the Company, be and is hereby appointed as a Director of the Company, whose period of office shall be subject to retirement by rotation."

BY ORDER OF THE BOARD

Sd/-
G N K Jyothi
Company Secretary

Place : Hyderabad
Date : 29-07-2002

NOTES:

1. **A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such a proxy need not be a member of the company. Proxy forms in order to be effective must be received by the Company not less than 48 hours before the meeting.**
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, in respect of items relating to Special Business is annexed to the Notice of the Meeting.
3. The Register of Members and share transfer books shall be closed from 20th September, 2002 to 26th September, 2002(both days inclusive) for the Annual General Meeting.
4. All documents referred to in the accompanying Notice are open for inspection at the registered office of the company on all working days between 11.00 AM to 1.00 PM upto the date of Annual General Meeting.
5. Members seeking any information with regard to Accounts of the Company, are requested to send their queries so as to reach at least 7 days before the meeting, to enable the management to keep the information ready.
6. Members are requested to notify immediately changes, if any, in their addresses to the Company quoting their folio number.
7. Members who hold shares in dematerialised form are requested to bring their Client ID and DPID numbers for easy identification of members at the meeting.
8. **Shareholders are requested to bring their copy of the Annual Report to the Meeting.**

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EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

ITEM NO. 5

In continuation of the stated policy of the Company with regard to inducting new Directors on the Board, it is proposed to induct Sri K B K Moorthi as Director on the Board. His expertise in the field of Accounting and Financial Management will be of immense use to the Company. He is a commerce graduate and a Fellow of the Institute of Chartered Accountants of India.

He was employed with the Life Insurance Corporation of India and held various senior management positions and retired from LIC on 31.01.1995 as Regional Manager (Marketing), (Zonal manager) from North Central Zone of LIC , Kanpur.

He is a Nominee Director, on behalf of LIC of India, on the Board of Directors of Carbon Everflow Limited, Kolkata from January, 1994. Carbon Everflow Limited was recently amalgamated with Graphite India Limited and its subsidiary companies and is now known as Graphite India Ltd, Kolkata.

He is also a partner in Ramanathan & Co., a firm of Chartered Accountants since 1996. The Board believes that the induction of Sri K B K Moorthi, as Director, would further strengthen the Board. Hence the resolution is commended for your approval.

None of the Directors, except Sri K B K Moorthi, is interested in the said resolution.

By Order of the Board
Sd/-
G N K Jyothi
Company Secretary

Place: Hyderabad
Date : 29-07-2002

Additional Information on Directors retiring by rotation and seeking re-appointment at the Annual General Meeting (Pursuant to clause 49 of the Listing agreement)

Sri M R Subrahmanyam is an Engineering graduate from Andhra University and holds Diploma in French language from Calcutta University. He has vast experience in the field of Electronics & Telecommunications and he holds membership of various professional societies. He is a Fellow of the Institution of Engineers (India), and was the past President of the Institution of Electronics & Telecommunication Engineers, Andhra Pradesh Chapter, Hyderabad. He is a member of the Hyderabad Management Association.

He had served in various senior positions in the Rural and Urban Telecom Sectors with the Government of India. He held the positions of General manager (Bihar State) , General Manager (Hyderabad Telephones) , Chief General Manager (Andhra Pradesh Telecom) and Chief General Manager , Mahanagar Telephone Nigam Limited, Delhi.

He is a Director of your Company and his vast experience in the Telecom Sector will be helpful for the Company in expanding its business operations.

Sri V Satish has done his Masters in Business Administration from Northwestern University, USA. He has been an Associate at McKinsey & Company. He has rich experience in the field of Management Consultancy for IT and Telecom Companies in USA. As an associate based in London, Sri Satish developed a comprehensive growth strategy for one of the largest Chemical/Petrochemical company in the world. As an associate based in Atlanta, Ga, USA, he developed a strategic vision for a large European Telecom Company and identified opportunities in new areas such as data communication, e-commerce, broadband wireless and multimedia access, transport and content.

He is a Director of your company and his vast contacts in US will help your company in the US markets.

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Dear Shareholders,

Your Directors present before you the 12th Annual Report together with the audited accounts for the year ended 31st March , 2002.

FINANCIAL HIGHLIGHTS

The profit and loss account presented to you gives the operational results for the year ended 31st March, 2002. The operations during the year resulted in a loss of Rs. 226.35 Lakhs as compared to previous year profit of Rs. 101.07 Lakhs, as detailed below:

	Current year 2001-2002 Rs. Lacs	Previous year 2000-2001 Rs. Lacs
Sales	**771.80**	1829.92
Other Income	**17.19**	43.85
Total	**788.99**	1873.77
Profit/(loss) Before Tax	**(226.35)**	101.07
Provision for Tax	**——**	8.00
Provision for deferred Tax	**16.09**	—
Deferred tax liability as on 1.04.01	**35.56**	—
Short provision relating to earlier years	**1.38**	—
Profit/(loss) after Tax	**(279.38)**	93.07
Profit & Loss Balance Brought forward	**87.77**	80.63
Profit available for Appropriation/(Loss)	**(191.61)**	173.70
Proposed dividend	**——**	55.29
Transfer to General reserve	**——**	25.00
Profit & Loss balance carried over to Balance Sheet	**(191.61)**	87.77
EPS	**——**	1.65

DIVIDEND

Your Directors regret their inability to recommend any dividend for the financial year under review due to lack of profits. Your directors would like to mention that this is the first time in the history of your company that they are not in a position to recommend payment of any dividend. Your company, as you are aware, had an impeccable track record of being a profit making company since inception and dividend paying company since 1994. Your directors are confident of restoring the dividend paying policy of the company and may also consider recommending payment of interim dividend if the operating results improve drastically in the ensuing months.

MANAGEMENT DISCUSSION & ANALYSIS REPORT

A MACRO-ECONOMIC OVERVIEW:-

The year 2001 has seen major upheavals on the politico-economic front resulting in unprecedented losses in the markets worldwide. The incidents of 11th September has had worldwide ramification on all industries. The IT and telecommunications sectors have been worst hit.

However, the Kargil war in 1999 and the increasing tensions in the sub-continent have in a way helped the Government look differently. The defence sector procurement has been opened up allowing domestic private companies with a maximum capped FDI of 26% to compete with the defence PSUs. Also the events mentioned have added to the urgency in procurement of defence communications equipment including state-of-the-art surveillance and security systems and life saving devices for the soldiers. The private sector industry is coming forward with proposals to complement the work being done by the defence undertakings and PSUs.

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ISRO and its affiliate organisations have been spearheading the satellite communications development in India with indigenously developed satellites and launches. There is an ever-increasing need for satellite ground equipment aimed at data-acquisition, rural communication, tele-education and tele-medicine. Beside ISRO also plans to outsource more and more work on satellite payloads to the industry including testing and acceptance. Ultimately, by 2005 ISRO plans to outsource complete satellite fabrication and launch services to the industry. Besides several satellite operators have already set up business units in India. All these developments augur well for the satcom industry in India.

The telecommunications sector in the country has been looking up with increased investments in both fixed and wireless communications. In most circles, the third and fourth cellular operators have started rolling out their networks. There is intense competition in the basic services too with several private companies bagging licenses to offer basic telephony services including limited mobility. The decision of the government to allow VoIP has given a fillip to the ISPs. However, all these companies including state-owned BSNL and MTNL are focusing their investments in building wireless networks and optical fiber backbones resulting in lesser share for fixed access based on copper. This, coupled with the falling demand for leased circuits from the ISPs and introduction of Managed Leased Services, has resulted in falling procurement levels for copper-based access equipment such as pair-gain systems and leased-line modems.

B ACCOMPLISHMENTS:-

During the year under review, your company was able to execute substantial order from the defence sector. Your company has established itself as a leading vendor for rugged, high power components and sub-systems to defence PSUs and the army workshops. Besides your company has also developed many high power products for defence applications which have helped in import substitution. Your company expects to obtain substantial orders from defence, PSUs and para-military forces for these products after successful completion of field trails. Your company also supplied import substitution products to ISRO.

In the satcom segment, your company has developed and supplied variations of GPS integrated Mobile Satellite Services (MSS) reporting terminals in collaboration with Space Applications Centre, Ahmedabad. It has also developed various earth station equipments like demodulators, down converters, modulators, transmitters, etc in various frequency bands, which are expected to find a fairly good market in the ensuing years.

In the software segment, your company has obtained ISO 9001 certification for its software division.

C OVERVIEW OF OPERATIONS

During the year under review, your company had achieved a turnover of Rs. 777.18 Lakhs as against Rs. 1829.92 Lakhs for the previous year, a decline by over 57.78%. Your company has incurred a loss of Rs. 226.35 Lakhs as against the profit of Rs. 101.07 Lakhs in the previous year. Your company has undertaken various measures to streamline its operations and improve its financial health including profitability. As one of the measures your company has undertaken cost reduction exercise to bring down the overhead costs. Your company expects to bring down the administrative and financial overheads to approximately Rs.1.0 crore as against Rs. 2.8 crores in the previous year.

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Your company could not meet its anticipated turnover both in telecom and software, because of adverse market conditions. Your company's R&D department continued to put efforts and developed import substitution products for defence and mobile satellite service. Your company has also decided to shift focus from low margin and high volume products to technology intensive and low volumes but high margins products for defence and satellite communication market. Your company is very confident of obtaining orders from defence labs, department of space and PSUs like BEL and ECIL. As regards the software department the revenue generated by it is sufficient to meet its direct over heads and this division shall be in a position to generate profits very soon.

Your board of directors are confident of earning profits during the current financial year, as your company is focusing on products with reasonably good profit margin.

Your company obtained ISO 9001 accreditation for software division. As your are aware, the telecom division is ISO 9001 accredited, since 1997.

D PROJECT IMPLEMENTATION

Your company's new premises is nearing completion on the land admeasuring 1196 sq. yards acquired in the Huda Techno Enclave, Phase-III near Cyber Gateway and is expected to be completed by the end of October, 2002. The estimated net permissible Built up area is approximately 20,300 sft. Your company has given notice of vacation of the present leased premises and will move into its own premises by the end of October, 2002. The interiors work in the new building has already commenced and is expected to be complete by October, 2002. The market value of the land and building is expected to be atleast Rs. 4 crores.

The wholly own US subsidiary is in operation, though at a scaled down level. Your company would remit moneys to WOS only on prior approval of RBI and based on the necessity of business, as the present expenses being incurred in the US office is being met with the revenues being generated there. Your company has acquired the infrastructure facilities from its WOS for its Indian operation, during the year under review. Your company's software development centre at Hyderabad is on track and is generating enough revenues to meet its direct overheads.

Your company in the current year had acquired testing and assembling equipment worth Rs.2.5 lakhs, R&D equipment of Rs. 22.5 Lakhs and added computer networks valued at Rs. 7.32 Lakhs, of which approximately Rs. 5.66 Lakhs was on account of purchase of routers and computers from the wholly owned subsidiary.

Your company is home to a variety of platforms running on an array of several high-end servers, powerful work-stations with latest utilities running on Win NT, Linux, SunSolaris platforms, on 24 / 7 basis. Industry standard tools for design, testing, development and configuration management are a part of the development environment.

Your company's R&D center at Hyderabad with its 28 member team of engineers is recognized by the Department of Scientific and Industrial Research (DSIR), Government of India, as a research and development centre for technology development in telecommunications. Your company is actively involved in design and development of products based on high power broad band wireless, satellite communication and broad band access technologies. The design, development and integration of wireless and access products is carried out using standard and proprietary software tools.

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The products developed by your company mirror the best of both the worlds - high quality hardware and software.

E OUTLOOK AND STRATEGY FOR THE CURRENT YEAR

Your company has developed some niche import substitution products for the defence and space-segment. Prominent among these are high power broadband RF amplifiers, MSS Reporting Terminals, UHF Transmitters, etc. The RF amplifiers have been field tested and have been certified to meet the stringent requirements of the defence and have been recommended for use. Further, your company has developed various sub-systems for defence applications to be integrated with the high power products and major orders are expected to be executed in this financial year after completion of field trails in the next few months.

DoT has announced licensing of MSS Reporting services for store-and-forward messaging, vehicle location and fleet management, data acquisition, disaster management, etc. Your company is the only organisation that has successfully developed reporting terminals of different types and hub equipment for offering these services. Your company has also delivered proto-type of data acquisition terminals for collection of weather and oceanic data through satellite. These terminals are being put to field trials during the ensuing monsoon season and thereafter tenders are likely to be called for supply and installation of these terminals, all across the country. Again in this area, your company has taken a lead in developing low-cost import-substitution products which find a ready market.

During the current financial year, your company, besides leveraging the existing product line, will also focus on offering turn-key solutions in establishing satellite based networks for Government departments involved in national security, weather data collection, disaster management, etc.

With reference to the software division, your company has obtained fresh development work from abroad and is expected to achieve cash break-even by the end of the financial year. Your company will continue to focus on enterprise software and e-learning and will be in a position to release some products by the end of the financial year.

F INTERNAL CONTROL SYSTEMS

Your Company adheres to stringent quality control parameters as laid down under the ISO 9001 standards both for its communication and software division and also has a selective team of internal quality auditors for successful implementation of ISO and MIS procedures, verification of data integrity, continuous monitoring and effecting overall improvement in quality.

Your Company has obtained ISO 9001 accreditation for its software division. As you are aware the company has ISO 9001 accreditation for telecom division since 1997. The Company has adequate internal control systems commensurate with the size of its operations and for the purpose of exercising adequate controls on the day to day operations. In addition, the Company has appointed an independent Internal Auditor to carry out internal audits on a regular basis.

G HUMAN RESOURCES / INDUSTRIAL RELATIONS

Your Company has an excellent track record of very cordial industrial relations right from its inception. This year too, the industrial relations in your company have been excellent.

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However due to the downturn in your company business and decrease in its overall profitability during the year under review, your company had to undertake certain steps to reduce its various overheads burden and ensure stricter financial controls on manpower expenses.

As you are already aware, during the previous year, your company had contributed a sum of Rs. 5 Lakhs to the Avantel Softech Limited Employees Welfare Trust to facilitate initiation of welfare measures for the employees by way of providing health insurance, educational facilities, housing schemes, recreational facilities, etc. Unfortunately, your company could not contribute any sum during the year under review on account of lack of profits. Your company shall always have in mind the welfare of its employees and strive to maintain its track record of excellent industrial relations vis a vis its employees.

REPORT ON EMPLOYEES STOCK OPTION SCHEME

In view of the trustees unanimously recommending the scrapping of the ESOP scheme and requesting your company to cancel the shares allotted to the Trust, the members of the company had passed a resolution under Section 78 and 100 and other applicable provisions, if any, of the Companies Act, 1956 in their Annual General Meeting held on 16th of July 2001, according their approval for the reduction of the paid up capital of the company by Rs. 50,00,000 (Rupees Fifty Lakhs only) and securities premium account by Rs. 2,02,50,000 (Rupees Two Crores Two Lakhs Fifty Thousand only), your Company had approached the Honourable High Court of Andhra Pradesh for the reduction of the Share capital along with the corresponding premium, to the extent of 5,00,000 shares of Rs. 10 each issued @ a premium of Rs. 40.50 amounting to Rs. 2,52,50,000 issued and allotted to Avantel Softech Limited Employees Welfare Trust under the scheme. The Honourable High Court of Andhra Pradesh was pleased to issue the order dated 2nd January, 2002, under Section 101 of the Companies Act,1956 vide your Company's petition 130 of 2001 permitting the reduction of the said capital and the corresponding share premium. Hence the Share Capital stands reduced to 51,53,916 number of shares amounting to Rs. 5,15,39,160 and the advance of Rs. 2,52,50,000 lying in the name of the trust also stand reduced. The necessary procedural formalities of filing with the concerned statutory authorities is being completed and followed up.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956 , your Directors state that

- the applicable accounting standards have been followed;
- they had 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 2001-2002 and of the profit or loss of the company for that period;
- they had 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; and
- they had prepared the annual accounts on a going concern basis.

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