



Annual Report 2003 - 2004



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AVANTEL SOFTECH LIMITED

Board of Directors

Sri A.Venkateswara Rao	Chairman
Sri A.Vidya sagar	Managing Director
Smt. A. Sarada	Director
Sri V.Satish	Director (Upto 21.07.04)
Sri Dasaradha R Gude	Director (Upto 21.07.04)
Maj.Gen. (Retd) S. Balakrishnan, VSM	Director
Sri K.B.K. Moorthi	Director

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

Plot No. 16, Sector –III,
Huda Techno Enclave, Madhapur,
Opp. VSNL Buildings,
Hyderabad – 500 081.

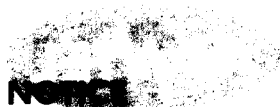
Registrars & Share Transfer Agents

Karvy Computershare P Ltd,
46, Avenue 4, Street No.1,
Banjara Hills,
Hyderabad – 500 034.

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Notice is hereby given ~~that the Fourteenth~~ Annual General Meeting of the members of the Company will be held on **Friday, 10th September, 2004 at 10.00 A.M.** at the Registered office of the Company at Plot No:16, Sector III, Huda Techno Enclave, Opp. VSNL Building, Madhapur, Hyderabad – 500 081 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited balance sheet of the company as at 31st March, 2004 and the profit & loss account for the financial year ended as on that date together with the report of Directors and Auditors thereon.
2. To appoint a director in place of Sri K.B.K. Moorthy, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint auditors and to fix their remuneration.

By ORDER OF THE BOARD

Sd/-

Place : Hyderabad

A.Vidyasagar

Date : 30.07.2004

Managing Director

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. The register of members and share transfer books will remain closed from 07.09.2004

to **10.09.2004** (both days inclusive) for the annual general meeting.

3. 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.
4. Members are requested to notify immediately changes, if any, in their addresses to the company, quoting their folio number.
5. Members holding shares in dematerialised form are requested to bring their Client ID and DPID numbers for easy identification of members at the meeting.
6. Shareholders are requested to bring their copy of the Annual report to the meeting.

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 K.B.K. Moorthi is a commerce Graduate and a Fellow Member of the Institute of Chartered Accountants of India.

He was employed with the Life Insurance Corporation of India (LIC) and held various senior management positions before he retired from LIC in 1995 as Regional Manager (Marketing) (Zonal Manager) from North Central Zone of LIC, Kanpur. He also represented by LIC as Nominee Director.

His expertise in the field of Accounting and Financial Management continue to be of immense benefit to the Company.

DIRECTORS REPORT

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Dear Shareholders,

Your Directors present before you the 14th Annual Report together with the Audited Accounts for the financial year ended 31st March, 2004.

1. FINANCIAL HIGHLIGHTS:

The profit and loss account presented to you gives the operational results for the year ended March 31st, 2004.

The operations during the year resulted in profit of Rs.82.68 Lakhs (before Charging loss of Rs.118.24 lakhs and of Rs.24.43 lakhs on revaluation of assets and discarded assets respectively) as compared to previous year profit of Rs.18.04 lakhs, as detailed below:

Particulars	Current Year 2003-2004 (Rs. in Lakhs)	Previous Year 2002-2003 (Rs. in Lakhs)
Sales	850.67	635.25
Income from Software Development	6.75	26.80
Other income	8.25	13.85
TOTAL	865.67	675.90
Manufacturing and other Expenditure	451.24	314.59
Administrative and other Expenditure	195.49	197.29
Depreciation & Amortisation	73.89	90.10
Financial expenses	62.37	55.88
Profit before extra-ordinary items	82.68	18.04
Extraordinary Items	(142.67)	—
Provision for tax	—	—
Reversal/(Provision) for deferred tax	50.32	(1.29)
Excess /(Short) provision relating to Earlier years	15.07	(0.06)
Profit after tax	5.40	16.68
Profit/(loss) brought forward	—	(191.61)
Balance carried to balance sheet	5.04	(174.93)
Earning per share	0.10	0.32



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2. DIVIDEND:

Your directors regret their inability to recommend any dividend for the financial year under review due to lack of distributable profits.

3. MANGEMENT DISCUSSIONS & ANALYSIS REPORT:

A. MACRO-ECONOMIC OVERVIEW:

The Indian economy with an estimated GDP growth of 6.5 – 7.0 percent highlights the recovery in agriculture and industrial sectors and increased activities in service sector. The proportion of total external debt to GDP has declined from 23.60 percent as at the end of March, 2001 to 20.50 percent as at the end of March, 2003. The recent build up in Indian's foreign exchange reserves, which crossed US \$ 100 billion is an indicator of increasing confidence of international community on the economic fundamentals of the economy.

The telecom reforms introduced through the national telecom policy on May 13th 1994 and its review in 1999 followed by TDSAT resulted in remarkable growth of telecom service. There is vast potential for growth as the penetration rate is still about 7 per hundred. The mobile market reached a subscriber base of about 31 million users and GSM subscribers are about 20.5 millions by the end of March, 2004. So India is one of the fastest growing telecom markets with an average annual growth of about 22% for basic telephones and over 100% for cellular services. The future for sales of products for the cellular service providers is promising. Satellite based services are likely to play a vital role in meeting the requirements of the defence sector for secure communication using Indian satellites. Developments in

broadband access technologies are likely to promote E-governance and services like telemedicine and distance education. So there is a good potential for products used in Wide Area Networking (WAN) and broadband wireless communication.

B. ACCOMPLISHMENTS:

During the year under review, company has developed products to meet the requirements of cellular service providers. They are very well accepted by the customers and we could get export orders for some of the products. The company has successfully completed a prestigious project for the Govt. of AP and BSNL to provide secure broadband connections at four hundred different locations in the state. This is one of the largest wide area networks in the country for e-governance.

C. OVERVIEW OF OPERATIONS:

During the year under review, your company has achieved a turnover of Rs.857.42 Lakhs as against Rs.662.05 Lakhs for the previous year and achieved a profit of Rs. 5.40 Lakhs as against the profit of Rs.16.68 Lakhs during the previous year. Your company has achieved a profit of Rs.82.68 Lakhs excluding the loss of Rs.142.67 Lakhs arising out of discarding of obsolete equipment and revaluation of remaining fixed assets. This revaluation is taken up to reflect the true, fair and reasonable value of the assets keeping in view of the changes in technology and obsolescence of electronic equipment. The increase in the value of assets to the extent of Rs.221.51 Lakhs was transferred to the revaluation reserve and the decrease in the value of equipment and other assets arising out of revaluation is debited to Profit and Loss account as per Accounting Standard 10 "Accounting for fixed assets".



D. OUTLOOK AND STRATEGY FOR CURRENT YEAR:

Your company has developed new products for the mobile communications market and major orders are expected to be executed during this financial year.

The company is also expecting prestigious orders from Defence establishments during the current year, which may be continued for the next two years.

The company is offering satellite based services to meet the requirements of defence sector.

The company is also expecting increase in the volume of exports during the current year.

E. INTERNAL CONTROL SYSTEMS:

Your company adheres to stringent quality control parameters as laid down under the ISO 9001 standards 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.

You are aware the company has ISO 9001 accreditations for telecom division since 1997 and also ISO 9001 accreditation for its software division. 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, it has appointed an independent internal auditor to carry out the internal audit on a regular basis.

F. HUMAN RESOURCES/ INDUSTRIAL RELATIONS:

Your company has had an excellent track record of very cordial industrial relations right from its inception. This year too industrial relations in the company were excellent.

4. DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to Section 217 (2AA) of the Companies Act, 1956, Board of Directors hereby confirm that:-

- i. in the preparation of the Annual accounts, the applicable Accounting Standards have been followed and there is no material departure.
- ii. Appropriate accounting policies have been selected and applied consistently and have 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 ended 31st March, 2004 and of the Profit & Loss of the company for that period.
- iii. Proper and sufficient care has been taken 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 frauds and other irregularities.
- iv. Annual accounts have been prepared on a 'going concern' basis.

5. DEPOSITS:

During the year the company accepted deposits of Rs. 5.50 falling within the provisions of Sec.58 A of the Companies Act, 1956 read with the companies (Acceptance



of the Deposit Rules), 1975, out of which of Rs. 3.50 Lakhs had been repaid by the end of the March.2004 and there were no overdue deposits at the year-end.

6. PARTICULARS OF EMPLOYEES;

The particulars of employees required to be given under Sec 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of employees) Amendment Rules, 2000.

- a. Particulars of employees who are in receipt of Rs.24 lakhs or more per annum- NIL
- b. Particulars of employees employed for a part of the financial year with a salary of Rs.2 lakh or above per month - NIL

7. CONSERVATION OF ENERGY:

The details as required under Sec 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, are given in Annexure-I.

8. CORPORATE GOVERNANCE:

Attention of the members is drawn to Annexure-II to this report dealing with the practices of corporate governance being followed by the company.

9. Delisting of Shares

As approved by the Shareholders at the Annual General Meeting held on 15th September, 2003 the Company's equity shares have been delisted from Hyderabad Stock Exchange and Bangalore Stock Exchange w.e.f. 05-11-2003 and 21-10-2003 respectively in accordance with the delisting guidelines framed by the Securities Exchange Board of India.

10. Setting off of accumulated losses and capitalised R&D Expenditure

As approved by the shareholders at the Annual General Meeting held on 15th September, 2003 the Company has got confirmation from the Hon'ble High Court of Andhra Pradesh vide its order dated 09-01-04 to setoff of accumulated losses and capitalised R&D expenditure against Securities Premium account under Section 101 of the Companies Act, 1956.

11. AUDITORS:

M/s. A.Madhusudana & Co., Chartered Accountants, auditors of the company retires at this ensuing Annual General Meeting and are eligible for re-appointment.

12. DIRECTORS:

Sri K.B.K. Moorthy, director will retire by rotation at this meeting and being eligible for re-appointment, offer themselves for re-appointment.

Sri V. Satish and Sri Dasaradha R Gude had resigned from the Board with effect from 21-7-2004. The Board wishes to place on record its appreciation for their services rendered to your company by them.

11. ACKNOWLEDGEMENT:

Your directors express their sincere appreciation and gratitude to Canara Bank, Technology Development Board for their continued support and to all Employees, Shareholders, Suppliers, Customers and various statutory authorities who have extended their immense support to the company.

By order of the Board

Sd/-

Place : Hyderabad
Date : 30.07.2004

A. Venkateswara Rao
Chairman

Annexure - I to Directors' report

Information pursuant to Section 217 (1) (e) of the Companies Act, 1956, read with the companies (disclosure of particulars in the report of Board of Directors) Rules, 1988.

A. Conservation of Energy : Not applicable

B. Particulars with respect to absorption of Technology, Research and development (R&D) specific areas in which R & D was carried out by the company:

1. The company has successfully developed GSM/CDMA filters for cellular service providers.
2. The company has successfully developed power splitters & tappers for In-Building Solutions (IBS) requirements of cellular service providers.
3. The company has successfully developed various subsystems required for in a project for Indian army.

Benefits derived as a result of the above R & D

The company could design, develop and manufacture products which are import substitutes resulting in saving of valuable foreign exchange for various public sector undertakings and government organisations.

Future plan of Action:

We would further wish to develop import substitut in products for strategic applications, access products for Wide area networks and R.F/Microwave products for wireless communication and export market.

Expenditure on Research & Development:

	Rs. in Lakhs
Capital	—
Recurring	27.81
Total	27.81
Total R & D expenditure %	3.24% of Turnover

C. Foreign Exchange Earnings and Outgo:

The foreign exchange earnings and outgo during the year under review are as follows:

Foreign exchange earnings	: Rs. 114.04 Lakhs
Foreign exchange outgo	
a) Travelling	: Rs. 1.72 Lakhs
b) Purchases	: Rs. 170.07 Lakhs

Annexure - II to Directors' report

Report on Corporate Governance

(Pursuant to Clause 49 of the Listing Agreement)

1. Company's Philosophy on Code of Governance

Your company believes in providing highest transparency and ethical values in corporate governance. It endeavours to fulfil the code of corporate governance by taking into consideration the interests of shareholders, employees, lenders and customers. The company will strive for the adherence to the corporate governance philosophy and contribute to the betterment of all stakeholders along with the betterment of the company.

Attendance of each Director and other details:

Name of the director	Category	No. of Director-ships	No. of Committees	No. of Board meetings attended out of 5	Whether attended last AGM
A.Venkateswara Rao	Promoter Non-Executive	NIL	One- Chairman One- member	5	Yes
A.Vidya Sagar	Promoter Executive	NIL	One-member	5	Yes
A. Sarada	Promoter Executive	NIL	One-member	3	No
Maj. Gen. (Retd) S. Balakrishnan, VSM	Non-Promoter Non- Executive Independent Director	One	One-member	5	Yes
K.B.K.Moorthi	Non-Promoter Non- Executive Independent Director	NIL	One- Chairman One-member	5	Yes
V.Satish *	Non-Promoter Non-Executive Independent Director	NIL	One – member	5	Yes
A. Vidyasagar (Alternate Director)	Promoter Executive				
Dasaradha R Gude *	Non-Promoter Non-Executive Independent Director	NIL	One – member	0	No

* Resigned w.e.f. 21.07.04



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2. Board of Directors:

The board of directors of the company consists of:

Two promoter executive directors

One promoter non-executive director

Two non-promoter, non-executive and independent directors

Number of Board Meetings held during the financial year 2003-2004, along with the dates:

During the financial year 2003-2004, five Board meetings were held on following dates:

1. 29th April, 2003
2. 29th July, 2003
3. 15th September, 2003
4. 28th October, 2003
5. 30th January, 2004

3. Audit committee:

During the financial year 2003-2004, the Audit committee met four times on following dates:

1. 28th April, 2003
2. 28th July, 2003
3. 28th October, 2003
4. 28th January, 2004

The constitution of Audit Committee and Attendance of members is as follows;

S.No.	Name of the director	Category	No. of meetings Attended out of 4
1.	A.Venkateswara Rao	Promoter Non-executive director	4
2.	Maj.Gen.(Retd) S.Balakrishnan, VSM	Non-promoter Non-executive Independent Director	4
3.	K.B.K.Moorthi	Non-promoter Non-executive Independent Director	4

4. Remuneration Committee:

The company constituted a "Remuneration Committee" consisting of the Sri K.B.K.Moorthi, Maj.Gen.(ret'd) S.Balakrishnan, VSM and Sri Dasaradha R. Gude.

Details of remuneration to all the directors for the year:

The aggregate of salary, perquisites, commission and Consultancy Charges paid for the year 2003-2004 to Sri A.Vidyasagar, Managing Director was Rs. 8,64,000/- and to Smt. A.Sarada, Director was Rs.3,00,000/-and Maj.Gen (Retd) S.Balakrishnan was Rs. 1,80,000/-.