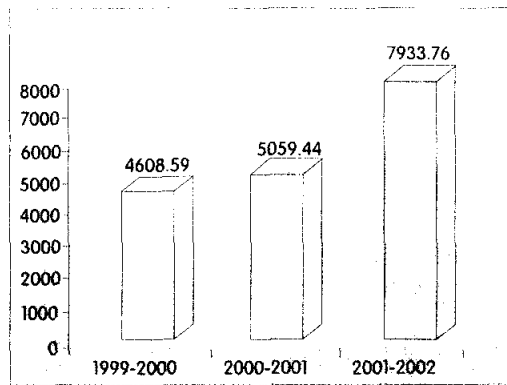


Report  Junction.com

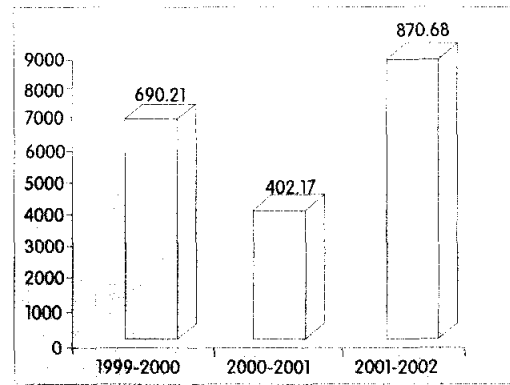
Ninth Annual Report

2001-2002

Sales (Rs.in lacs)



Cash Profit (Rs.in lacs)



FINANCIAL ANALYSIS

(Rs. In lacs)				
Particulars	2001-2002	2000-2001	1999-00	1998-99
Sales	7933.76	5059.44	4608.59	3682.04
Profit before Interest	1707.82	876.28	1137.09	921.01
Financial Charges	837.14	474.11	446.88	420.19
Cash Profit	870.68	402.17	690.21	500.82
Depreciation	414.46	289.35	296.92	297.00
Profit before Tax	456.22	112.82	393.29	203.82
Taxation	30.00	8.50	28.00	21.50
Deferred Tax	35.14	—	—	—
Net Profit after Tax	391.08	104.32	365.29	182.32
Sources of Funds				
Share Capital	930.19	930.19	945.69	732.09
Reserves and Surplus	1294.54	1051.68	931.86	19.13
Long Term Loans	2181.89	2147.46	1115.55	1318.04
Unsecured Loans	186.74	144.42	6.16	137.49
Sales Tax Deferment	680.35	534.60	385.09	225.04
Current Liabilities	3009.50	2133.44	1390.24	945.46
	8283.21	6941.79	4774.59	3377.25
Application of Funds				
Net Fixed Assets	4220.27	4148.46	2460.32	2103.45
Current Assets	4130.09	2789.16	2303.16	1255.75
Misc Expenses not written off	23.19	4.17	11.11	18.05
Deferred Tax Liability	(90.34)	—	—	—
	8283.21	6941.79	4774.59	3377.25
Key Ratios				
Debt : Equity	0.98:1	1.08:1	0.59:1	1.75:1
Total Outstanding Liabilities-Tangible Network	2.72:1	2.50:1	1.54:1	3.50:1
Current Ratio	1.37:1	1.31:1	1.66:1	1.33:1
Net Profit to Sales (%)	4.93	2.06	7.93	4.95
Cash Profit to Sales (%)	10.97	7.95	14.98	13.60
Gross Profit to Sales (%)	21.53	17.32	24.67	25.01
DSCR (Times)	2.04	1.85	2.54	2.19

Avon Organics Limited

BOARD OF DIRECTORS

Sri P.R.Agarwal, Managing Director
 Dr. T.Krishna
 Dr. T.V.Krishna Rao (Alternate Director to Dr. T.Krishna)
 Sri T.Venkateswara Prasad, Director-Finance
 Sri C.K.C.Gupta
 Sri Rajesh Agarwal, Executive Director
 Sri Umesh Agarwal, Director-Marketing
 Sri J.Venkateswarlu, Director

Company Secretary

Ms. Runa Karan

Auditors

M/s Kishore & Sastry
 Chartered Accountants, 11&12, Amrutha Mall,
 Somajiguda, Hyderabad-500 016.

Bankers

State Bank of Hyderabad, IFB, Punjagutta, Hyderabad.
 The Bank of Nova Scotia, Banjara Hills, Hyderabad
 Canara Bank, IFB, S.P Road, Secunderabad.

Financial Institutions

ICICI Bank Limited, Hyderabad.
 IDBI, Hyderabad
 IIBI, Hyderabad

Registered Office

Survey No. 18, Yawapur, Sadasivpet (M),
 Medak Dist. A.P.
 Phone: 911-52290; Fax: 911-51536

Factories : *Diketene Division*

Survey No. 18, Yawapur, Sadasivpet (M),
 Medak Dist. A.P. Phone: 911-52290

Bio-Tech Division

Plot No. E-2, Chincholi Industrial Area
 Solapur, Maharashtra.
 Phone: 0217 - 357738 / 357339

Corporate Office

6-3-865, 4th Floor, Madhupala Towers,
 Opp: Greenland Apts., Ameerpet,
 Hyderabad - 500 016.
 Phone: 040 - 3414432 / 3405042 / 6570445
 Fax: 040 - 3404438

Registrars & Share Transfer Agents

Ikon Visions Private Limited
 Flat No. 33, Sanali Heavens,
 8-3-948, Ameerpet, Hyderabad - 500 073.
 Phone No. (040) 3744356, 3744138.

Avon Organics Limited

NOTICE

NOTICE IS HEREBY GIVEN THAT the 9th Annual General Meeting of Avon Organics Limited will be held on Saturday, the 28th day of September, 2002 at 3.00 p.m. at the Registered Office of the Company at Survey No.18, Yawapur Village, Sadasivpet Mandal, Medak District, Andhra Pradesh to transact the following business:

ORDINARY BUSINESS :

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2002 and the Profit and Loss Account for the financial year ended 31st March, 2002 and the Report of the Directors' and Auditors thereon.
2. To declare dividend on the Equity Share Capital
3. To appoint a Director in place of Dr. T.Krishna, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri J.Venkateswarulu, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Statutory Auditors and to fix their remuneration.

SPECIAL BUSINESS :

6. To appoint Sri G.K.Kabra as a Director liable to retire by rotation, who was appointed as an Additional Director by the Board of Directors and holds office up to the date of the ensuing Annual General Meeting of the Company, and in respect of whom the Company has received a notice in writing from a member under the provisions of Section 257 of the Companies act, 1956, proposing his candidature for the office of a director.

By Order of the Board
for **Avon Organics Limited**

Place : Hyderabad

Runa Karan

Date : 29th June, 2002

Company Secretary

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 proxy need not be a member of the Company.
2. Instrument of proxies in order to be effective must be deposited at the Company's Registered Office not less than 48 hours before the time fixed for the meeting.
3. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of special business is annexed hereto.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from Monday the 23rd day of September, 2002 to Saturday the 28th day of September, 2002 (both days inclusive) for the purpose of payment of dividend.
5. Members are requested to inform any change, in their registered address to the Registered / Corporate office of the Company.
6. Member/Proxies should bring in their attendance slip sent herewith duly filled in for attending the meeting.
7. The shares of the Company are presently listed on the Hyderabad, Mumbai and Calcutta Stock Exchanges and the Company has paid the listing fees to all the above Stock Exchanges.
8. *Members are requested to furnish their bank details by 20th September, 2002 in order to enable to the Company to print the same on the dividend warrants. In respect of members holding shares in electronic mode, bank details as are furnished by the depositories to the Company will be printed on the dividend warrant.*
9. *Members are requested to send Form 15G for payment of dividend without deduction of tax at source if the amount of dividend is more than Rs.1000 and the members overall limit is below the taxable limit. The said form is to be sent to the Registered Office of the Company well in advance so as it reaches us on or before 15.10.2002.*

ANNEXURE TO NOTICE
Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956.
Item No. 6

Sri G.K.Kabra was appointed as an Additional Director of the Company with effect from the 29th day of June, 2002. Pursuant to Section 260 of the Companies Act, 1956, Sri G.K.Kabra will hold office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing from a member proposing the candidature of Sri G.K.Kabra for the office of the Director under the provisions of Section 257 of the Companies Act, 1956.

Sri G.K.Kabra has over 45 years of experience in the Engineering Industry and other related matters and it will be in the interest of the company that Sri

G.K.Kabra be appointed as a Director of the Company.

The Directors recommend this resolution for approval of the shareholders.

None of the Directors except Sri G.K.Kabra is concerned or interested in this resolution

By Order of the Board
for **Avon Organics Limited**

Place : Hyderabad

Date : 29th June, 2002

Runa Karan

Company Secretary

Report  junction.com

DIRECTORS' REPORT

To
The Members

Your Directors have pleasure in presenting the 9th Annual Report together with the Audited Accounts for the Year ended 31st March, 2002.

FINANCIAL RESULTS

	2001-2002 Rs. in Lacs	2000-01 Rs. in lacs
Sales & Operational Income	7933.75	5059.44
Gross Profit before interest, Depreciation	1707.82	910.71
Less: Financial charges	837.14	508.54
Gross Profit after interest but before Depreciation	870.68	402.17
Less: Depreciation	414.46	289.35
Profit before tax	456.22	112.82
Provision for taxation (Regular)	30.00	8.50
Net Profit after Tax	426.22	104.32
Less: Deferred Tax (Current Year)	35.14	—
Profit after deferred tax	391.07	104.32
Brought forward Profit/loss of previous years	471.24	
Less: Deferred tax for previous year	55.19	416.05
Surplus available	807.12	471.24
APPROPRIATIONS		
Proposed Dividend	93.02	
Transfer to General Reserve	400.00	—
Surplus carried to Balance Sheet	314.10	471.24
	807.12	471.24

DIVIDEND

Your Directors have pleasure to recommend a maiden dividend of 10 percent on the equity shares (i.e. Rs. 1/- per Equity Share of Rs. 10/- each) for the year ended 31.03.2002.

PERFORMANCE OF THE COMPANY

Your Company has achieved satisfactory results during the year. The sales and operational income of the Company for the year under review was Rs.7933.75 lacs as against Rs.5059.44 lacs in the previous year, registering an increase of 56.81%. The profit before tax was Rs. 456.22 lacs as against Rs.112.82 lacs registering a growth of 304.37%. The Export sales have increased from Rs.317.43 lacs in the previous year to Rs. 1479.72 lacs in the current year, registering a growth of 366%.

The sales and operational income of Diketene Division for the year under review was Rs. 6512.61 lacs as against Rs.5047.34 lacs registering an increase of 29.03%.

During the first full year of Bio-Tech operations the company has utilized the capacity to the extent of 71% and the quality of the product has been well accepted in the Domestic and International Market. During the year under review, the unit has achieved sales and operational income of Rs. 1421.14 lacs

OPERATIONS AND FUTURE OUTLOOK

During the year under review, the company has utilized the capacities in the Diketene Division to the maximum extent and now focusing to market the products where the value addition and export potential is high. The Arylides business of diketene division is growing at an exceptional rate and during the year under review there was more than 60% growth.

Avon Organics Limited

In the first full year of operations of the Bio-Tech Division, the company utilized the capacities to the extent of 71% and is focussing to achieve 100% capacity utilization in the year 2002-2003. The cost effectiveness, higher yields, best quality have contributed to the increased profits of the Company. Credit must be given to the Executive Director and the production team headed by the General Manager.

The Company has signed two long term export contracts to supply fixed quantities of Pseudoephedrine and is in talks with a few more MNC's for long term contracts.

The Company in its Bio-Tech Division is pursuing USFD approval which will enable it to enter into regulated markets. The Company has initiated steps to scale-up the production facilities as per cGMP Standards. The Company's focus and thrust on compliance with cGMP and USFDA Regulatory procedures will improve the customer profile resulting in increase of sales volumes and realisations.

Every activity of the Company is directed towards making your company more stronger and result oriented and your Directors are confident that the steps initiated in both the divisions will place the company in a strong position in the near future. With no major capex in the offing, the improving cash flows would be used to reduce its gearing.

DEMISE OF OUR CHAIRMAN DR.G.S.SIDHU

It gives us immense pain to inform you of the demise of our beloved Chairman, Dr.G.S.Sidhu.

Dr. Sidhu was a remarkable personality and has won the hearts of everyone with his modest character and affection. We at Avon are very much indebted to his support, without which we would not have achieved the present position. It was our good fortune that we have been associated with a Technologist, very widely revered and reckoned worldwide in the Scientific Community. The void

created by his demise can never be filled. He will always remain in our hearts and may his blessings be with us.

DIRECTORS RESPONSIBILITY STATEMENT

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

- In the preparation of the annual accounts for the year ended 31st March, 2002, the applicable accounting standards have been followed;
- Your Directors have 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 as at 31st March, 2002 and of the Profit and Loss Account for the year ended on that date;
- Your Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the Assets of the company and preventing and detecting fraud and other irregularities and
- The accounts for the year ended 31st March, 2002 have been prepared on a going concern basis.

CORPORATE GOVERNANCE

The company believes that good corporate practices enable the Board to direct and control the affairs of the Company in an efficient manner and to achieve the ultimate goal of maximising shareholder value. The company has commenced compliance with Corporate Governance even though it would be mandatory within the financial year 2002-2003. A detailed report on Corporate Governance forming part of the Directors' Report is enclosed.

DIRECTORS

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

Avon Organics Limited

Association, Dr.T. Krishna and Sri J.Venkateswarulu retire by rotation and being eligible, offer themselves for re-appointment.

AUDITORS

The Statutory Auditors, M/s.Kishore and Sastry, Chartered Accountants hold office until the conclusion of the ensuing Annual General Meeting and are recommended for re-appointment. A certificate has been received from the Auditors to the effect that their re-appointment, if made, would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

EMPLOYEES

Your Directors are pleased to record their appreciation to the sincere and dedicated services of the employees and workmen at all levels. Particulars of employees under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended is given in Annexure -A, as a part of this report.

CONSERVATION OF ENERGY, FOREIGN EXCHANGE ETC.

Your Company strives to make the plants energy efficient to the extent possible and continually reviews various schemes to conserve energy.

Information as required under Section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo is given in Annexure-B attached hereto, which forms part of this report.

PUBLIC DEPOSITS

During the year under review, the company has neither invited nor received any deposits from the public.

ACKNOWLEDGEMENTS

The Board of Directors would like to express their grateful appreciation for the assistance and co-operation received from the banks, Financial Institutions, and various departments of the Central and State Governments.

The Board would like to thank the Company's shareholders, customers, suppliers for the support and the confidence which they have reposed in its management.

Your Directors also express their appreciation for the dedicated and sincere efforts put in by the Company's employees at all levels.

For and on Behalf of the Board of Directors.

Hyderabad
29th June, 2002

P.R.Agarwal
Managing Director

T. Venkateswara Prasad
Director Finance

ANNEXURE - I

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

PERFORMANCE REVIEW

Your Directors are happy to report that the Company has achieved the best ever performance since it commenced operations in 1996. The sales and operational income grew by 56.81% from Rs. 50.59 crores in 2000-01 to Rs. 79.34 crores in 2001-02. The net profit (before deferred tax) grew by 308% from Rs. 1.04 crores to Rs. 4.26 crores during the same period. This has been made possible due to the successful commissioning of the biotech plant in Solapur and significantly improved performance of the diketene derivatives business.

Diketene derivatives business

The sales and operational income of this business segment has grown by 29.03% from Rs. 50.47 crores in 2000-01 to Rs. 65.13 crores in 2001-02. Several factors contributed to this growth:

- a) Increase in sales realizations on some of the products.
- b) Higher contribution from DEAA. This is an intermediate for Phosphomidon, an agrochemical that was banned in 1999 affecting sales of DEAA in 2000-01. The ban was lifted in the second half of 2000-01 and sales of DEAA had resumed from June 2001.
- c) 10 new value added products have been developed as per customer specification for the domestic as well as international market during the year.

Our products cater to three end-user segments: pigments, pharmaceuticals and pesticides. The pesticide segment is cyclical while the other two segments are stable throughout the year. The export prospects for export of derivatives catering to the pigment industry are also very high.

During the year 2001-02, 48% of our revenues came from the pigment industry, 43% from the pesticide industry and the balance 9% from the pharmaceutical industry.

Biotech business

The plant had gone into trial production in March 2001 and commercial production started from April

2001. We are happy to state that the production had stabilized within a few months and yields are better than expected. However, the sales did not grow as rapidly as production and therefore we had built up significant inventory levels by 31st March 2002. This is natural as pseudoephedrine and ephedrine are pharmaceutical intermediates and go through a long process of customer acceptance. You would be pleased to know that both the products have been well accepted in the domestic and international markets enabling us to achieve sales and operational income of Rs. 14.21 crores during the year. Today, many of the top pharma companies in India are our customers and we are also exporting these products to over 15 countries.

OPPORTUNITIES AND FUTURE OUTLOOK

These are uncertain and challenging times. The global markets are going through turbulent times and the Indian industry is yet to recover. The drought factor is another thing that could make things worse. We have had a good year, and we will strive hard to improve upon our performance of the previous year to make your Company stronger. Our strategy for this year is to consolidate and capitalize on the strengths and capabilities that we have built during the last few years.

Diketene business segment

We are very competitive in the diketene business segment, which is dominated by only a few players worldwide. There is a big global outsourcing opportunity of new custom manufactured diketene derivatives from multinational companies. We expect this to drive our efforts in increasing value addition with from existing capacities. We do not see the need to expand our diketene capacity immediately. However, some investments will be needed for building manufacturing facilities for the new derivatives, further enhancing our competitive position in this segment

Biotech business segment

This is a new business segment and we have done

Avon Organics Limited

well to succeed with our manufacturing and marketing of pseudoephedrine and ephedrine. We expect significant improvement to the top-line and bottom-line from this segment in the next two years. The capacity utilization is expected to improve from 71% in the previous year to over 90% in the current year. As mentioned earlier, our products meet the most demanding quality standards and have gained acceptance from several leading pharmaceutical companies both in India and overseas. The plant has been designed to meet USFDA standards. The process of USFDA approval takes time and we working towards achieving compliance with cGMP and USFDA regulatory procedures.

You will be happy to note that the Company has signed two long term export contracts to supply pseudoephedrine and is in talks with a few more multinational companies for long term contracts. We are confident of bringing down the accumulated inventory over the next few quarters.

Further increase in capacity, which can be undertaken with marginal investments, will be taken up as and when the demand for our products picks up.

EXPORTS

The export performance needs special mention, as future growth of your Company will be driven by exports. The diketene derivatives are mainly exported to Europe and the biotech products are mainly exported to the US.

The table below reflects the success of your Company in moving towards international markets.

	(Rs. Crores)		
	2000-01	2001-02	growth
Diketene derivatives	3.07	7.14	132%
Biotech Division	0.10	7.65	NA
Total exports	3.17	14.79	366%
Export / Sales	6.27%	18.65%	—

The Company plans to leverage its technical and

engineering capabilities in custom manufacturing new diketene intermediates for high-performance pigments for some of its customers, thereby increasing the contribution of high-value added products through exports.

Efforts are being made to work with large customers on long-term contracts, and also widen the distribution network to increase export of biotech products.

RESEARCH & DEVELOPMENT

The Company's R&D efforts are focused on developing new diketene based intermediates for high-performance pigments. Almost all the products that have been launched in the last few years were developed in-house. The R&D also works on improving processes to enhance yields and reduce reaction time.

The biotech plant has its own R&D unit, which is focusing on improving yields and developing ephedrine derivatives.

Our ability to develop and manufacture new high-value added products in diketene as well as the biotech segments will play a key role in making your Company become a preferred global outsourcing partner. We are constantly making efforts to strengthen our R&D capabilities.

FINANCIAL POSITION

There has been a considerable improvement in our financial position. The debt-equity ratio has come down from 1.08 as on 31st March 2001 to 0.98 on 31st March 2002. The working capital borrowings from banks have however shot up from Rs. 12.58 crores to Rs. 19.00 crores during the year, primarily because of the substantial increase in inventory levels in the biotech division and also due to increase in sales volume.

We are also exploring opportunities for restructuring our debt with the objective of bringing down the cost of borrowing