



12th Annual Report 2004-2005

Report  Junction.com



 AVON
ORGANICS LTD.
In Tune with Technology

CONTENTS	Page
Notice of Annual General Meeting	3
Directors' Report	4
Manangement Discussion and Analysis Report	10
Report on Corporate Governance	13
Auditors' Report	22
Balance Sheet	25
Profit and Loss Account	26
Schedules 1 to 21	27
Cash Flow Statement	42
Balance Sheet Abstract	44

**BOARD OF DIRECTORS****Board of Directors**

Dr.P.M.Bhargava, Chairman
 Sri P.R.Agarwal, Managing Director
 Sri Rajesh Agarwal, Executive Director
 Sri Umesh Agarwal, Director-Marketing
 Sri T.Venateswara Prasad, Director-Finance
 Dr. T.Krishna, Director
 Dr. T.V.Krishna Rao, Alternate Director
 Sri G.K.Kabra, Director
 Sri C.K.C.Gupta, Director

Company Secretary

Ms Pallavi Hegde

Registered Office

Survey No. 18, Yawapur, Sadasivpet (M),
 Medak Dist. A.P.
 Phone: 911-252290 ; Fax: 911-251536

Corporate Office

6-3-865, 4th Floor, Madhupala Towers,
 Opp: Greenland Apts., Ameerpet, Hyderabad
 Phone: 040 - 23414432 / 23405042 / 55154528;
 Fax: 040 -23404438

Auditors

M/s Shyam Sharma & Co.
 Chartered Accountants, Anand Nagar,
 Khairatabad, Hyderabad-500 004.

Factories**Diketene Division:**

Survey No. 18, Yawapur, Sadasivpet (M),
 Medak Dist., A.P. ; Phone: 911-252290

Bio-Tech Division:

Plot No. E-2, Chincholi , Industrial Area
 Solapur, Maharastra .
 Phone: 0217 - 2357338 / 2357339

Bankers / Financial Institutions

State Bank of Hyderabad
 State Bank of India
 UTI Bank Limited
 UCO Bank
 The Bank of Nova Scotia
 ING Vysya Bank
 ICICI Bank Limited
 IDBI

Registrars & Share Transfer Agents

Ikon Visions Private Limited
 Flat No. 33, Sandli Heavens,
 8-3-948, Ameerpet,
 Hyderabad-500 073.
 Phone no. (040)23744356, 23744138.

NOTICE

NOTICE

NOTICE IS HEREBY GIVEN THAT the 12th Annual General Meeting of Avon Organics Limited will be held on Friday, the 30th day of September, 2005 at 11.00 a.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 audited Balance Sheet as at 31st March, 2005 and the Profit and Loss Account for the financial year ended 31st March, 2005 and the Report of the Directors and Auditors thereon.
2. To appoint a Director in place of Sri Rajesh Agarwal, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Sri Umesh Agarwal, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this Annual General Meeting upto the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

for **Avon Organics Limited**

Place : Hyderabad
Date : 30.06.2005

Pallavi Hegde
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. 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.
2. As there is no special business, the Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, is not annexed.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from Monday, the 26th day of September, 2005 to Friday, the 30th day of September, 2005 (both days inclusive).

4. Members are requested to inform any change, in their registered address to the registered / corporate office of the company.
5. Member/Proxies should bring in their attendance slip sent herewith duly filled in for attending the meeting.
6. 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.

7. Pick up coach facility

For the convenience of members who are desirous of attending the company's Annual General Meeting scheduled on 30th day of September, 2005 at 11.00 a.m., the company will provide transport facility from Corporate office to Sadasivpet (Factory) and back. The pick up coach will leave from Madhupala Towers, Ameerpet, Hyderabad at 9.00 a.m. on the date of the AGM to reach the venue of the AGM in time for the meeting and leave for Hyderabad after the meeting.

Members wishing to avail of this facility may kindly intimate two days in advance and be present in time at the pick-up point at the corporate office in Hyderabad.

8. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividend for the financial year 2001-02, which remains unclaimed for a period of 7 years will be transferred by the company to the Investor Education and Protection Fund (IEPF), established by the Central Government pursuant to Section 205 C of the Companies Act, 1956.

Shareholders who have not encashed the dividend warrant(s) so far for the financial year 2001-02, are requested to make their claim to the company at its Registered Office. It may also be noted that once the unclaimed dividend is transferred to the Investor Education and Protection Fund (IEPF), no claim shall lie in respect thereof.

for **Avon Organics Limited**

Place : Hyderabad
Date : 30.06.2005

Pallavi Hegde
Company Secretary

DIRECTORS' REPORT**DIRECTORS' REPORT**

To
The Members

Your Directors present the 12th Annual Report together with the Audited Accounts for the year ended 31st March, 2005.

FINANCIAL RESULTS

	2004-2005 Rs. in Lacs	2003-2004 Rs.in lacs
Sales & Operational Income	8910.12	8424.75
Gross Profit before interest, Depreciation	1023.54	1598.43
Less: Financial charges	729.04	825.70
Gross Profit after interest but before Depreciation	294.50	772.73
Less: Depreciation	391.86	414.07
Profit/(Loss) before tax	(97.36)	358.66
Less : Provision for taxation		
- current year	—	22.00
- previous years	—	17.00
Less: Deferred Tax	—	15.33
Less: Prior Period Adjustments	11.19	—
Net profit / Loss after tax	(108.55)	304.33
Add : Brought forward Profit/loss of previous years	118.88	314.55
Add: Excess Dividend provision written back	—	—
Surplus available	10.33	618.88
APPROPRIATIONS		
Transfer to General Reserve	—	500.00
Surplus carried to Balance Sheet	10.33	118.88

DIVIDEND

In view of the Net Loss for the year under review the Directors do not propose to recommend any dividend.

PERFORMANCE REVIEW

During the year the company has achieved sales and operational income of Rs. 8910.12 lakhs as against Rs.8424.74 in the previous year. The Net loss was Rs. 108.55 lakhs as against Net Profit of Rs. 304.33 lakhs in the previous year.

The Export sales have increased to Rs. 3481.85 lakhs in the current year from Rs. 2837.04 lacs in the previous year.

Despite increase in sales, the profitability of the company was affected due to abnormal increase in the prices of major raw materials and lower export realizations on account of strengthening of the Rupee against Dollar.

CAPITAL EXPENDITURE:

During the year under review, the company has incurred capital expenditure of Rs. 7.26 crores out of the corporate loan of Rs. 5 crores availed from ING Vysya Bank and the balance by conversion of warrants into equity and also by issue of fresh warrants to promoters.

The company has incurred the above capital expenditure towards expansion of capacity at Biotech division and creation of facilities for addition of high value derivatives, backward integration for some of the finished products, UPS System to counter the increased cost of generated power on account of increase in oil prices and also for various fixed assets at Diketene division.

OPERATIONS AND FUTURE OUTLOOK

During the year under review, the company has started marketing of high value new products in Diketene Division. The Company has installed energy saving devices to counter the increased cost of power and fuel. The company has also taken several cost control measures, for reducing

DIRECTORS' REPORT

the cost of finance and other overheads. The company proposes backward integration for pigment intermediaries of diketene division, which will enable the company to reduce the raw material cost and become more competitive in the market. The company also plans to modernize the Furnace to enable the company to reduce further fuel cost and increase the efficiency of the plant.

During the year under review, the company has increased its production capacity in Biotech Division. Further the company has increased the storage capacity of molasses from 2000 tons to 6000 tons which enables the company to procure and store molasses during the sugar cane crushing season, which will meet 6 months requirements of the Division at lower costs.

Every activity of the Company is directed towards making your company 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.

QUALITY SYSTEMS

Your Company's certificate for quality systems under ISO 9001:2000 continues to be valid.

ISSUE OF PREFERENTIAL SHARE WARRANTS

During the year under review, the company has converted 4,80,000 warrants into 4,80,000 equity shares of Rs.10 /- each on exercise of option by the allottees of warrants, which were issued during the financial year 2003-04 at a premium of Rs. 33/-. During the year under review, the company has received the balance money on the said warrants.

Further, the company has issued and allotted 15,00,000 convertible warrants, on preferential basis, at rate of Rs.70.00 each, to the promoters, with an option to convert the warrants into equity shares of Rs.10.00 each (Premium Rs.60.00) within a period of 18 months from the date of allotment. The company has received application money on the said warrants.

DIRECTORS RESPONSIBILITY STATEMENT

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

- a) In the preparation of the annual accounts for the year ended 31st March, 2005, the applicable accounting standards have been followed;
- b) Your Directors have selected such accounting policies and applied them consistently and made judgments 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, 2005 and of the Profit and Loss Account for the year ended on that date;
- c) 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
- d) The accounts for the year ended 31st March, 2005 have been prepared on a going concern basis.

CORPORATE GOVERNANCE

Your company has complied with all the mandatory provisions of Corporate Governance as prescribed in the Listing Agreement with the Stock Exchanges. A detailed report on Compliance of Corporate Governance and the auditor's certificate, forming part of the Directors' Report is enclosed herewith.

DIRECTORS

During the Year Sri R.Kandaswami ceased to be a nominee Director on the Board of the Company with effect from 5th August 2004 consequent to the withdrawal of nomination by ICICI Bank Limited. Also, Sri J Venkateswarlu resigned from the Board with effect from 30th July 2004 due to his pre occupation. The Board of Directors would like to express its sincere appreciation for the valuable services rendered by Sri R Kandaswami and Sri J Venkateswarlu as Directors of the Company.

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Sri Rajesh Agarwal and Sri Umesh Agarwal retire by rotation and being eligible, offer themselves for re-appointment.

DIRECTORS' REPORT**AUDITORS**

The Statutory Auditors, M/s. Shyam Sharma & Co., 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

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.

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
30/06/2005

Dr. P.M.Bhargava
Chairman

ANNEXURE - 'A '

Information pursuant to Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2005.

Sl No.	Name	Designation	Qualification	Experience (No. of Yrs)	Date of commencement of employment	Age	Gross remuneration (Rs. in Lacs)	Last Employment
1.	P.R.Agarwal	Managing Director	M.S	39 yrs	05.08.1993	66	15.00	Technocrat
2.	Rajesh Agarwal	Executive Director	B.Tech (BITS) MBA (IIM)	17 yrs	01.10.1994	41	15.00	MD of Hyderabad Metchem (P) Ltd.

Notes:

1. Sri P.R.Agarwal, Managing Director and Sri Rajesh Agarwal, Executive Director of the Company are related to each other.
2. The above appointments are contractual.

DIRECTORS' REPORT**ANNEXURE - 'B' TO THE DIRECTORS' REPORT**

Information 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

A. Conservation of Energy :

- a. Energy Conservation Measures taken : **Diketene Division:**
- ◆ 240 KVA Uninterrupted Induction Power Supply (UPS) system of 240 KVA capacity with a stand by time of 10-15 minutes to reduce the DG running cost
 - ◆ 80 m² water pre-heating system installed in Boiler-3 fuel gas to reduce the fuel consumption
- : **Biotech Division:**
- ◆ Maintaining power factor at 1 enables the company to get incentive/discount at 7%.
 - ◆ Heat load on chilled water secondary system was minimized by reducing the Temperature Line Loss by providing additional insulation on pipe lines thereby saving 950 TR/ Day.
- b. Total energy consumption per unit of Production : Details are furnished in Form A

B. Technology absorption : Details are furnished in Form B

C. Foreign Exchange Earnings and Outgo	2004-2005	2003-2004
1. Foreign Exchange Earnings (Rs. In Lacs)	3481.85	2837.04
2. Foreign Exchange outgo (Rs.in Lacs)	1552.42	1214.03
3. Net Foreign Exchange Earnings (Rs. In Lacs)	1929.43	1623.01

DIRECTORS' REPORT**FORM A**

Form for disclosure of particulars with respect to conservation of energy.

	2004-2005	2003-2004
A. POWER AND FUEL CONSUMPTION:		
1. ELECTRICITY :		
a. Purchased Units :	10043547	8463927
Amount (Rs. In lacs)	363.86	319.40
Rate/Unit (Rs.)	3.62	3.77
b. Own Generation :		
Through D.G.Set Units	1380520	2660940
Amount (Rs. In lacs)	128.89	142.65
Rate/Unit (Rs.)	9.34	5.36
2. FURNACE & BOILER (Rs. In lacs)	424.88	497.82
B. CONSUMPTION PER UNIT OF PRODUCTION:		
1. Electricity (Unit / MT) (Rs.)	12640	11097
2. Furnace & Boiler (Unit /MT) (Rs.)	10899	11938

FORM B**A. RESEARCH AND DEVELOPMENT :**

1. Specific areas in which R & D was carried out.

Diketene Division:

- Various derivatives of 2-Aminothiazol-4-yl acetic acid derivatives, which are used in Cephalosporins are under development.
- Developed Dihydropyridine derivatives, which are used as anti-hypertensive and is ready for commercialization
- Custom synthesis is done for reputed organizations.

Biotech Division:

- Fermentation activity increased by 25%
 - Reduction in Catalyst by 60%
 - Statins development are in progress.
2. Benefits derived from above R & D.
- Giving higher yields
- New value added products have been developed.

DIRECTORS' REPORT

3. Future plan of action.
 - a) Commercialisation of various derivatives of 2-Aminothiazol-4-yl acetic acid derivatives, which are used in Cephalosporins.
 - b) Development and marketing of new and high value added products to meet customer requirements.

4. Expenditure on R & D :		(Rs. in lacs)
	2004-05	2003-04
Revenue Expenditure	30.72	21.85
% to Turnover	0.34	0.25

B. TECHNOLOGY ABSORPTION :

1. Efforts in brief made towards technology absorption : The technology for manufacture of Diketene and its derivatives was fully absorbed. The Technology for manufacture of Ephedrine and its derivatives obtained from CDRI was also fully absorbed.
2. Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc. : As a result of technology absorption in Diketene division the company is able to contribute for import substitutes and thereby indirectly saving the foreign exchange outgo.

As a result of technology absorption in Bio-Tech division the company contributes for foreign exchange inflows.
3. In case of imported technology (import during the last 5 years reckoned from the beginning of the year); following information may be furnished.
 1. Technology imported
 2. Year of import
 3. Has technology been fully absorbed