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13th Annual Report

 **AVON**  
**ORGANICS LTD.**  
*In Tune with Technology*



## AVON ORGANICS LIMITED

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**Avon Organics Limited****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.Venkateswara Prasad, Director-Finance  
 Dr. T.Krishna, Director  
 Dr. T.V.Krishna Rao, Alternate Director to  
 Dr.T Krishna  
 Sri G.K.Kabra, Director  
 Sri C.K.C.Gupta, Director  
 Sri. S. Chidambaram, Additional Director

**Company Secretary**

Ms P V Lakshmi Rajani

**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  
 ING Vysya Bank Ltd  
 ICICI Bank Limited  
 IDBI Bank Ltd  
 Punjab National Bank

**Registrars & Share Transfer Agents**

XL Softech Systems Limited, 3, Sagar Society,  
 Road No. 2, Banjara Hills,  
 Hyderabad-500 034.  
 Phone No. 040-23545913, 14, 15.

## NOTICE

NOTICE IS HEREBY GIVEN THAT the 13th Annual General Meeting of Avon Organics Limited will be held on Friday the 29th day of September, 2006 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 audited Balance Sheet as at 31st March, 2006 and the Profit and Loss Account for the financial year ended 31st March, 2006 and the Report of the Directors and Auditors thereon.
2. To appoint a Director in place of Dr. T. Krishna, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Sri C. K. C. Gupta, 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.

**SPECIAL BUSINESS :**

5. To consider and if thought fit to pass with or without modification the following resolution as an Ordinary Resolution.  
"RESOLVED THAT Mr. S Chidambaram appointed as an Additional Director of the Company by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 on 29.12.2005 and who holds office up to the date of ensuing Annual General Meeting be and is here by appointed as Director of the Company liable to retire by rotation."
6. To consider and if thought fit, to pass, with or without modification the following resolution as a Special Resolution.  
"RESOLVED THAT pursuant to Section 163 and other applicable provisions, if any, of the Companies Act, 1956 the company hereby approves that the Register of Members, the index of members and copies of Annual Returns along with the copies of certificates and documents or any or more of them

required to be annexed thereto under Section 160 and 161 of the said Act be kept at the office of the Registrars and Transfer Agents XL Softech Systems Limited, Plot No.3, Sagar Society, Road No.2, Banjara Hills, Hyderabad - 500 034 instead of being kept at Ikon Visions (P) Limited, 33, Sanali Heavens, 8-3-948, Ameerpet, Hyderabad - 500 073 who were the Registrars and transfer agents of the company prior to the appointment of XL Softech Systems Limited."

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

Place : Hyderabad

**P V Lakshmi Rajani**

Date : 30th June, 2006

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. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of special business is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from Monday the 25th day of September, 2006 to Friday the 29th day of September, 2006 (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.

**ANNEXURE TO NOTICE****7. Pick up coach facility**

For the convenience of members who are desirous of attending the company's Annual General Meeting scheduled on 29th day of September, 2006 at 3.00 p.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 1.00 p.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.

**ANNEXURE TO NOTICE**

Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956.

**Item No. 5**

Sri S. Chidambaram was appointed as an Additional Director of the Company with effect from the 29th day of December, 2005. Pursuant to Section 260 of the Companies Act, 1956, Sri S. Chidambaram 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 S. Chidambaram for the office of the Director under the provisions of Section 257 of the Companies Act, 1956.

Sri S Chidambaram, who has rich exposure in the matters relating to Corporate Laws, has an experience of over 10 years and it will be in the interest of the company that Sri S Chidambaram be appointed as a Director of the Company.

The Directors recommend this resolution for approval of the shareholders.

None of the Directors except Sri S. Chidambaram is concerned or interested in this resolution

**Item No. 6**

Under Section 163 of the Companies Act, 1956, documents such as Register of Members and Index

of Members which are normally required to be kept at the Registered office of the Company may be kept at any other place, if such other place has been approved by a Special Resolution passed by the Company in General Meeting. The documents covered by the said section 163 were kept at Ikon Visions Pvt. Ltd, 33, Sanali Heavens, 8-3-948, Ameerpet, Hyderabad - 500 073 till 31st March, 2006.

The Company has appointed XL Softech Systems Limited, Plot No.3, Sagar Society, Road No. 2, Banjara Hill, Hyderabad - 500 034 as the Company's new Share Registrar and Transfer Agent to handle both physical share work and the electronic connectivity work with effect from 4th April, 2006 in place of Ikon Visions Pvt. Ltd.

None of the Directors is interested in the Resolution.

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

Place : Hyderabad  
Date : 30th June, 2006

**P V Lakshmi Rajani**  
Company Secretary

**DIRECTORS' REPORT****DIRECTORS' REPORT**

To  
The Members

Your Directors present the 13th Annual Report together with the Audited Accounts for the year ended 31st March, 2006.

**FINANCIAL RESULTS**

	<b>2005-2006</b> <b>Rs. in Lacs</b>	2004-2005 Rs. in lacs
Sales & Operational Income	<b>9868.73</b>	8910.12
Gross Profit before interest, Depreciation	<b>1660.31</b>	1023.54
Less: Financial charges	<b>893.37</b>	729.04
Gross Profit after interest but before Depreciation	<b>766.94</b>	294.50
Less: Depreciation	<b>369.22</b>	391.86
Profit before tax	<b>397.72</b>	(97.36)
Less : Provision for taxation - current year	<b>24.00</b>	—
- previous year	—	—
Less: Deferred Tax	<b>10.00</b>	—
Less: Prior Period Adjustments	—	11.19
Net profit / Loss after tax	<b>363.72</b>	(108.55)
Add : Brought forward Profit/loss of previous years	<b>10.33</b>	118.88
Add: Excess Dividend provision written back	—	—
Surplus available	<b>374.05</b>	10.33
<b>APPROPRIATIONS</b>		
Transfer to General Reserve	—	—
Surplus carried to Balance Sheet	<b>374.05</b>	10.33

**DIVIDEND**

With a view to conserve and plough back the available resources and thereby strengthen your

company, the directors do not propose to recommend any dividend for the year under review.

**PERFORMANCE REVIEW**

During the year the company has achieved sales and operational income of Rs. 9868.73 lakhs as against Rs. 8910.12 in the previous year. The Net profit was Rs. 363.72 lakhs as against Net Loss of Rs. 108.55 lakhs in the previous year.

The Export sales are Rs. 2774.29 lakhs in the current year, which are around 28% of the total sales.

**CAPITAL EXPENDITURE:**

During the year under review, the company has incurred capital expenditure of Rs. 8.30 crores. The company has incurred the capital expenditure towards creation of facilities for addition of high value derivatives, backward integration for some of the finished products and also for various fixed assets at Diketene division and Bio-tech division

**OPERATIONS AND FUTURE OUTLOOK**

The backward integration of some of the finished products of the Diketene division has started giving results and this enables the Company to produce raw material at lower cost compared to imported sources. Further the addition of high value new products, will contribute to the sales and bottom line. Further, the capacity increase in existing high value added products will also enable the Company to contribute to the bottom line. The Company is in the process of Technology tie-ups and introducing new Cephalosporin intermediates in Bio Tech Division, which will add to the sales from the last quarter of 2006-07 onwards.

With the steps initiated, the Company is confident to achieve good growth in the year 2006-07. 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.

**DIRECTORS' REPORT****PRIVATE PLACEMENT**

To part finance the ongoing expansion projects of the company in both divisions, the company has issued and allotted 21,20,000 equity shares of Rs.10/- each at a premium Rs. 38/- on preferential basis to the non-promoters. The funds so raised have been utilized towards these projects and for Working Capital requirements.

Further, the company has converted 4,89,000 warrants into 4,89,000 equity shares of Rs. 10/- each on exercise of option by the allottees of 15,00,000 warrants which were issued during the financial year 2004-05 at premium of Rs. 60/-. During the year, company has received the balance 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, 2006, 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, 2006 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, 2006 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 Corporate Governance together with the Certificate, from the auditor of the company regarding compliance of the Corporate Governance, also forms part of the Annual Report.

**DIRECTORS**

During the year Mr. S. Chidambaram was appointed as Additional Director on the Board of the Company with effect from 29th December 2005.

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Dr. T. Krishna and Sri C.K.C. Gupta retire by rotation and being eligible, offer themselves for re-appointment.

Mr. G. K. Kabra, Director has resigned from the Board of the Company on 02.04.2006 due to his preoccupation and his resignation was accepted by the Board.

**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.



**DIRECTORS' REPORT****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

**P R Agarwal**  
Managing Director

Place : Hyderabad  
Date : 30th June, 2006

**Rajesh Agarwal**  
Executive Director

**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, 2006.

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	40 yrs	05.08.1993	67	15.00	Technocrat
2.	Rajesh Agarwal	Executive Director	B.Tech (BITS) MBA (IIM)	18 yrs	01.10.1994	42	15.00	MD of Hyderabad Metchem (P) Ltd.

**Notes:**

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:**  
Diketene furnace coil configuration changed to reduce LSHS consumption
- Biotech division:**  
Cooling tower blow downs, boiler blow downs & canteen water are collected separately, treating in IRO system approximately 30 cu.mtr per day and after treated it is sending to Colling tower. The input fresh potable water has come down above said quantity.
- b. Total energy consumption per unit of Production : Details are furnished in Form A

**B. Technology absorption :** Details are furnished in Form B

<b>C. Foreign Exchange Earnings and Outgo</b>	<b>2005-2006</b>	<b>2004-2005</b>
1. Foreign Exchange Earnings (Rs. In Lacs)	<b>2774.29</b>	3481.85
2. Foreign Exchange outgo (Rs.in Lacs)	<b>1615.08</b>	1552.42
3. Net Foreign Exchange Earnings (Rs. In Lacs)	<b>1159.21</b>	1929.43

**FORM A**

Form for disclosure of particulars with respect to conservation of energy

**2005-2006****2004-2005****A. POWER AND FUEL CONSUMPTION:****1. ELECTRICITY :****a. Purchased Units :****12718227****10043547**

Amount (Rs. In lacs)

**446.17****363.86**

Rate/Unit (Rs.)

**3.51****3.62****b. Own Generation :**

Through D.G.Set Units

**560353****1380520**

Amount (Rs. In lacs)

**62.95****128.89**

Rate/Unit (Rs.)

**11.23****9.34****2. FURNACE & BOILER (Rs. In lacs)****543.04****424.88****B. CONSUMPTION PER UNIT OF PRODUCTION:****1. Electricity (Unit / MT) (Rs.)****13525****12640****2. Furnace & Boiler (Unit /MT) (Rs.)****14426****10899****FORM B****A. RESEARCH AND DEVELOPMENT :****1. Specific areas in which R & D was carried out.**

a. Arylides two products backward integration have been commercialized i.e., AABZ &amp; AAOT.

b. AABZ process changed to improve the quality to suit with international standards.

c. Diketene plant Heat Exchanger type changed to reduce the Acetic acid consumption.

**2. Benefits derived from above R & D.**

Giving higher yields

New value added products have been developed.

**3. Future plan of action.**

a) Commercialisation of new derivatives.

b) Development and marketing of new and high value added products.