

14th

ANNUAL REPORT 2006-07

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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
Dr. T.Krishna, Director
Dr. T.V.Krishna Rao, Alternate Director
Sri C.K.C.Gupta, Director
Sri. S. Chidambaram, Director

Chief Financial Officer

Sri. T. Venkateswara Prasad

Company Secretary

Ms Runa Karan

Registered Office

Survey No. 18, Yawapur, Sadasivpet (M),
Medak Dist. A.P.;
Phone: 9949828083/84; Fax: 911-251536

Corporate Office

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

Auditors

M/s Shyam Sharma & Co.
1-10-5, Near Inspector of Factories,
Ashok Nagar, Hyderabad-500 020

Factories

Diketene Division: Survey No. 18,
Yawapur, Sadasivpet (M), Medak Dist., A.P.;
Phone: 99498-28083/84
Bio-Tech Division: Plot No. E-2,
Chincholi Industrial Area Solapur, Maharashtra;
Phone: 0217 - 2357339 / 2357339

Bankers / Financial Institutions

State Bank of Hyderabad
State Bank of India
UTI Bank Limited
UCO Bank
ING Vysya Bank Ltd
Punjab National Bank
ICICI Bank Limited
IDBI Bank Ltd

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 14th Annual General Meeting of Avon Organics Limited will be held on Saturday, the 22nd day of September, 2007 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, 2007 and the Profit and Loss Account for the financial year ended 31st March, 2007 and the Report of the Directors and Auditors thereon.
2. To appoint a Director in place of Dr P M Bhargava, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Sri S Chidambaram who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s Shyam Sharma & Co, Chartered Accountants as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and authorize the Board to fix their remuneration.

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

Place : Hyderabad
Date : 30th June, 2007

Runa Karan
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 Register of Members and the Share Transfer Books of the Company will remain closed from Monday the 17th day of September, 2007 to Saturday the 22nd day of September, 2007 (both days inclusive)
3. Members are requested to inform any change, in their registered address to the registered / corporate office of the company.
4. Member/Proxies should bring in their attendance slip sent herewith duly filled in for attending the meeting.
5. 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.
6. Pick up coach facility
For the convenience of members who are desirous of attending the company's Annual General Meeting scheduled on 22nd day of September, 2007 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.
7. 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.

DIRECTORS' REPORT**DIRECTORS' REPORT**

To
The Members

Your Directors present the 14th Annual Report together with the Audited Accounts for the year ended 31st March, 2007.

FINANCIAL RESULTS

	2006-2007	2005-2006
	Rs. in Lacs	Rs. in lacs
Sales & Operational Income	7743.76	9868.73
Gross Profit before interest, Depreciation	(566.62)	1660.31
Less: Financial charges	879.51	893.37
Gross Profit after interest but before Depreciation	(1446.13)	766.94
Less: Depreciation	456.06	369.22
Profit before tax	(1882.19)	397.72
Less: Provision for taxation	-	24.00
FBT	7.00	-
Less: Deferred Tax	-	10.00
Net profit / Loss after tax	(1889.19)	363.72
Add : Brought forward Profit/loss of previous years	374.05	10.33
Surplus available	(1515.14)	374.05
APPROPRIATIONS		
Surplus carried to Balance Sheet	(1515.14)	374.05

DIVIDEND

In view of the losses, 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.7743.76 lakhs as

against Rs. 9868.73 lakhs in the previous year. The Net loss was Rs.1889.19 lakhs as against Net Profit of Rs.363.72 lakhs in the previous year.

The Export sales are Rs.2494.74 lakhs in the current year, which are around 32% of the total sales.

CAPITAL EXPENDITURE:

During the year under review, the company has incurred capital expenditure of Rs. 7.70 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

During the year 2006-07 the operations of the Company were affected due to the following reasons, consequently affecting the performance of the company:

1. Delay in obtaining Regulatory permissions for Export of Ephedrine & Pseudoephedrine, resulting in uncertainty of export schedules, affecting the sales & performance.
2. Reduction in domestic selling prices of Ephedrine & Pseudoephedrine.
3. Exorbitant increase in Platinum price, which is one of the major raw material (catalyst) for the Bio Tech Division.
4. With the ever increasing crude oil prices in the international market, the domestic petroleum products like Toluene, Benzene, Acetone etc., have also been increasing month after month.
5. The selling prices of the Diketene products are under severe pressure from China resulting in reduction in the sales of the product
6. Appreciation of rupee against dollar also affected the profitability of the Company.

Due to various reasons explained above, the Company has suffered substantial sales loss and consequently profitability and cash flows were affected.

DIRECTORS' REPORT

The company has taken the effective steps to overcome the above problems and is hopeful of increasing the turnover and profitability by addition of new products / increase in capacities of the existing high value products.

The Board of Directors are pleased to inform you that the Company has received USFDA approval for its facilities at Biotech Division, situated at Solapur, Maharashtra for manufacture of Psuedoephedrine. This will enable the Company to enter into regulated markets in US.

QUALITY SYSTEMS

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

CONVERSION OF WARRANTS TO SHARES

The company has converted 3,00,000 warrants into 3,00,000 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.

CANCELLATION OF WARRANTS

During the year under review, the Board of Directors have cancelled 7,11,000 warrants issued to the promoters, for non-payment of allotment money and the amount paid as application money has been forfeited and transferred to the Capital Reserves of the Company.

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, 2007, 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, 2007 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, 2007 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

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Dr P M Bhargava and Sri S Chidambaram retire by rotation and being eligible, offer themselves for re-appointment.

Mr. G K Kabra, Director and Mr T Venkateswara Prasad, Director (Finance) have due to their preoccupation resigned from the Board of the Company on 02.04.2006 and 09.12.2006 respectively, and their resignations were 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.

CLARIFICATION ON AUDITORS' COMMENTS

In view of the huge cash losses and consequent liquidity problems, the Company was irregular in

DIRECTORS' REPORT

honouring the statutory commitments. However, the Management is taking steps to clear the dues at the earliest.

The Company has also defaulted in payment of dues to Banks / Institutions in view of the huge cash losses. The Company has already submitted restructuring proposals to banks / Institutions for rephasing of term loan installments and Working Capital Facilities. The above process of restructuring is in an advance stage and infact sanctions from some of the banks have been received and from other banks the proposals are under process.

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

Place : Hyderabad
Date : 30th June, 2007

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, 2007.

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	41 yrs	05.08.1993	68	15.00	Technocrat
2.	Rajesh Agarwal	Executive Director	B.Tech (BITS) MBA (IIM)	19 yrs	01.10.1994	43	15.00	MD of Hyderabad Metchem (P) Ltd.

Notes:

- Sri P.R. Agarwal, Managing Director and Sri Rajesh Agarwal, Executive Director of the Company are related to each other.
- 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:**
- Cost saving upto 60% on account of usage of APCPDCL instead pf 32 KVA DG Set for Borewell.
 - Reduced transmission losses by increasing the power factor from 0.95 to 0.99
- Biotech division:**
- The secondary circuit motor in the chilled water system was reduced from 60HP to 30HP, thereby reducing the power consumption to 12000 units per month.
- 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	2006-2007	2005-2006
1. Foreign Exchange Earnings (Rs. In Lacs)	2494.74	2774.29
2. Foreign Exchange outgo (Rs.in Lacs)	1130.21	1615.08
3. Net Foreign Exchange Earnings (Rs. In Lacs)	1364.53	1159.21

DIRECTORS' REPORT**FORM A**

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

	2006-2007	2005-2006
A. POWER AND FUEL CONSUMPTION:		
1. ELECTRICITY :		
a. Purchased Units :	10817749	12718227
Amount (Rs. In lacs)	422.51	446.17
Rate/Unit (Rs.)	3.91	3.51
b. Own Generation :		
Through D.G. Set Units	695902	560353
Amount (Rs. In lacs)	111.26	62.95
Rate/Unit (Rs.)	15.99	11.23
2. FURNACE & BOILER (Rs. In lacs)	571.21	543.04
B. CONSUMPTION PER UNIT OF PRODUCTION:		
1. Electricity (Unit / MT) (Rs.) :	24523	13525
2. Furnace & Boiler (Unit /MT) (Rs.)	26244	14426

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

1. Specific areas in which R & D was carried out.
 - a. Backward integration has been commercialized for AABZ
 - b. Phthaloyl Amlodipine has been commercialized.
2. Benefits derived from above R & D.
 - a. Improved yields and quality
 - b. New value added products have been developed
3. Future plan of action.
 - a. Commercialization of new products.
 - b. Development and marketing of new and high value added products.

DIRECTORS' REPORT**4. Expenditure on R & D :**

		(Rs. in lacs)
	2006-07	2005-06
Revenue Expenditure	30.01	26.29
% to Turnover	0.39	0.27

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
 - a Technology imported
 - b Year of import
 - c Has technology been fully absorbed