

ANNUAL REPORT 2007 - 2008

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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
 Mr. P.R.Agarwal, Managing Director
 Mr. Rajesh Agarwal, Executive Director
 Mr. Umesh Agarwal, Director-Marketing
 Dr. T.Krishna, Director
 Dr. T.V.Krishna Rao, (Alternate Director to Dr.T Krishna)
 Mr. C.K.C.Gupta, Director

Company Secretary Mr. Soma V S

Registered Office
 Survey No. 18, Yawapur, Sadasivpet (M),
 Medak Dist. A.P.
 Phone : 9949828084
 Fax: 91-08455-251536

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.
 Chartered Accountants, 1-10-5,
 Ashok Nagar, Hyderabad - 500 020.

- Factories**
1. **Diketene Division :**
 Survey No. 18, Yawapur, Sadasivpet (M),
 Medak Dist., A.P. ; Phone: 9949828084
 2. **Bio-Tech Division :**
 Plot No. E-2, Chincholi Industrial Area Solapur,
 Maharastra.
 Phone: 0217 - 2357738
 Fax-0217-2357339

Bankers
 State Bank of Hyderabad
 State Bank of India
 AXIS Bank Limited
 Punjab National Bank

Registrars & Share Transfer Agents

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

NOTICE**NOTICE**

NOTICE IS HEREBY GIVEN THAT the 15th Annual General Meeting of Avon Organics Limited will be held on Tuesday, the 30th day of September, 2008 at 3.00 p.m at the Registered Office of the Company situated 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, 2008 and the Profit and Loss Account for the financial year ended 31st March, 2008 and the Report of the Directors and Auditors thereon.
2. To appoint a Director in place of Sri C.K.C. Gupta, who retires by rotation and being eligible, offers himself for re-appointment.

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 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 to fix their remuneration.

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

Place : Hyderabad
Date : 30.06.2008

Soma V S
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 commencement of the meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from Wednesday, 24th September, 2008 to Tuesday, 30th September, 2008 (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 Mumbai, Calcutta and Hyderabad Stock Exchanges and the Company has paid the listing fees to all the above Stock Exchanges. However, the Hyderabad Stock Exchange has been de-recognised by SEBI.
6. Pick up coach facility

Meeting scheduled on Tuesday, 30th September, 2008 at 3.00 p.m, the Company will provide transport facility from Corporate office to Sadasivpet (Factory) and back. The pick up coach will start from the Corporate office, i.e. 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 is concluded.

Members who wish to avail this facility may kindly intimate two days in advance and be present on time at the pick-up point as stated above.

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 205C of the Companies Act, 1956.

Shareholders who have not encashed the dividend warrant(s), pertaining to the financial year 2001-02, are requested to present their claims to the Company at its Registered Office or to the Registrars and Share Transfer Agents. 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 the convenience of members who are desirous of attending the Annual General

DIRECTORS' REPORT**DIRECTORS' REPORT**

Dear Shareholders,

Your Directors have pleasure in presenting their Fifteenth Annual Report on the business and operations of the Company and the Financial Audited Accounts for the year ended 31st March, 2008.

FINANCIAL RESULTS

	Rs.in Lakhs	
	2007-2008	2006-2007
Sales & Operational Income	7793.18	7743.76
Gross Profit before Interest, Depreciation and Tax (PBDIT)	603.70	(566.62)
Less: Depreciation	470.63	436.06
Gross Profit before Interest and Tax (PBIT)	133.07	(1002.68)
Less: Financial Charges	976.00	879.51
Profit / (Loss) Before Tax (PBT)	(842.93)	(1882.19)
Less: Provision for Fringe Benefit Tax	7.50	7.00
Net Profit / (Loss) after Tax (PAT)	(850.43)	(1889.19)
Add: Brought forward profit/loss of previous years	(1515.14)	374.05
Carried forward to Balance Sheet	(2365.57)	(1515.14)

DIVIDEND

In view of the losses incurred by the Company, the Directors do not recommend any dividend for the financial year ended 31st March, 2008.

PERFORMANCE REVIEW

During the year under review, the Company has recorded sales and operational income of Rs.7793.18 Lakhs as against Rs.7743.76 Lakhs in the previous year. During the year, the Net Loss has been reduced to Rs.850.43 Lakhs as against Rs.1889.19 Lakhs, recorded in the previous year.

The Export sales were Rs.2943.75 Lakhs during the year under review, which constitute approximately 38 % of the total sales.

CAPITAL EXPENDITURE:

During the year under review, the Company has incurred capital expenditure of Rs.641.46 Lakhs. The capital expenditure incurred, is towards

upgradation of the facilities and creation of additional capacities at both the Diketene division and Bio-tech division

OPERATIONS AND FUTURE OUTLOOK

Due to the change in product mix, introduction of new products, expansion of the capacities of existing high value products and various other cost control measures taken up by the Company, the Net Loss has been reduced to Rs.850.43 Lakhs as against Rs.1889.19 Lakhs, recorded in the previous year. Also, the Company has succeeded in achieving Operating Profit of Rs.603.69 Lakhs as against Operating Loss of Rs.566.62 Lakhs.

During this year the Company has made strategic alliances with the co-manufacturers, which have helped the Company in removing unhealthy marketing competitions. The Company has also succeeded in forging a strategic tie-up with Arch Pharmed Labs Limited for using their Research and Development facilities for development of new products, improvement in processes of existing products, leveraging supply chain efficiencies through collaborative sourcing and increasing marketing base. All these steps initiated, will enable the Company to increase the top line substantially, in the year 2008-09. The Company is also looking forward to enter the Net Profit zone as against as Net Losses incurred in the past two years. The Company is also actively pursuing strategic partnerships with leading formulation companies both in India & abroad to expand the product portfolio at its Bio-Tech division at Solapur which has USFDA approval. The Company firmly believes that such tie-ups and alliances will greatly enhance its manufacturing capabilities and also place it firmly in the outsourcing opportunities.

QUALITY SYSTEMS

Your Company continues to have high quality systems which have enabled it to maintain standards as prescribed by ISO 9001:2000.

ISSUE OF PREFERENTIAL SHARES:

During the year under review, the Company has

DIRECTORS' REPORT

made preferential allotment of 98,09,100 Equity shares of Rs.10/- each, at a premium of Rs.10/- each, aggregating to Rs.19.62 Crores, to Arch Pharmalabs Limited [Arch] which is a Mumbai headquartered Company engaged in the business of manufacturing Pharmaceutical Intermediates and Active Pharmaceutical Ingredients (APIs). This investment in the Company by Arch has succeeded in augmenting the Company's long term financial resources.

Pursuant to the above investment by Arch constituting 43.60% of the total paid-up equity share capital of the Company, the SEBI [Substantial Acquisition of Shares and Takeovers] Regulations, 1997 were attracted and accordingly Arch was required to give an offer to the existing shareholders for acquiring upto 45,00,000 equity shares of Rs.10/- each, constituting 20% of the paid-up capital of the Company.

Accordingly Arch made a Public Announcement on 7th November, 2007 in all editions of Business Standard (English), Hindi Milap (Hindi), Lakshadeep (Marathi) and Andhra Prabha (Telugu).

Subsequently, an offer document for the same was also submitted with SEBI for their approval.

SEBI has sought for certain detailed historical information of Avon Organics Limited. On the clearance of the offer document, we understand that Arch will immediately take necessary steps for completion of their obligations to the shareholders.

DIRECTORS RESPONSIBILITY STATEMENT

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

- a) In the preparation of the annual accounts for the year ended 31st March, 2008, 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, 2008 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, 2008 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 T Krishna and Sri C K C Gupta retire by rotation and being eligible, offer themselves for re-appointment.

Mr. S Chidambaram has resigned from the Board of the Company on 31.03.2008 due to his preoccupation and resignation was accepted by the Board.

Mr. V. S. Soma, a Commerce Graduate, a Chartered Accountant and a Company Secretary by profession, has been appointed as Company Secretary and Compliance Officer of the Company with effect from 10th April, 2008.

AUDITORS

The Statutory Auditors, M/s. Shyam Sharma & Co., Chartered Accountants hold office until the conclusion of the ensuing Annual General Meeting

DIRECTORS' REPORT

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

None of the employees drew remuneration of Rs.24 Lakhs or above per annum / Rs.2 Lakhs or above per month during the year. This information is furnished as required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

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 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

Date : 30.06.2008
Place : Hyderabad

P R Agarwal
Managing Director

Rajesh Agarwal
Executive Director

ANNEXURE 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 | : | <ul style="list-style-type: none"> ➤ Cost saving upto 60% on account of usage of APCPDCL instead of pf 32 KVA DG set for orewell. ➤ Reduced transmission losses by increasing the power factor from 0.95 to 0.99. ➤ The secondary circuit motor in the chilled water system was reduced from 60 HP to 30 HP, there by reducing the power consumption to 12000 units per month. |
| b. Total energy consumption per unit of Production | : | Details are furnished in Form 'A' |

DIRECTORS' REPORT**B. Technology absorption :** Details are furnished in Form B

C. Foreign Exchange Earnings and Outgo	2007-2008	2006-2007
1. Foreign Exchange Earnings (Rs. In Lakhs)	2943.75	2494. 74
2. Foreign Exchange outgo (Rs.in Lakhs)	953.60	1130. 21
3. Net Foreign Exchange Earnings (Rs. In Lakhs)	1990.15	1364. 53

FORM AForm for disclosure of particulars with respect to conservation of energy. **2007-2008** 2006-2007**A. POWER AND FUEL CONSUMPTION:****1. ELECTRICITY :**

a. Purchased Units :	8551777	10817749
Amount (Rs. In lacs)	392.69	422.51
Rate/Unit (Rs.)	4.59	3.91
b. Own Generation :		
Through D. G. Set Units	722085	695902
Amount (Rs. In lacs)	95.73	111.26
Rate/Unit (Rs.)	13.26	15.99
2. FURNACE & BOILER (Rs. In lacs)	290.01	571.21

B. CONSUMPTION PER UNIT OF PRODUCTION:

Electricity (Rs / MT)	28032	24523
Furnace & Boiler (Rs /MT)	16645	26244

FORM B**A. RESEARCH AND DEVELOPMENT :****1. Specific areas in which R & D was carried out.**

RX has been commercialized.

2. Benefits derived from above R & D.

- Improved yields and quality.
- New value added products have been developed.

DIRECTORS' REPORT**3. Future plan of action.**

- a. Commercialization of new products.
- b. Development and marketing of new and high value added products.

4. Expenditure on R & D :

	(Rs. In lakhs)	
	2007-08	2006-07
Revenue Expenditure	26.82	30.01
% to Turnover	0.34	0.39

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. The company is in the process of upgrading and made innovations for further improvements.
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. Product improvement, quality and increase in yields are the benefits derived.
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 : Not applicable.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT**MANAGEMENT DISCUSSION AND ANALYSIS REPORT****Global Industry Structure and Development**

The global pharmaceutical market is estimated to be worth about US \$660 billion and is growing at a rate of about 6% per annum. US, Japan and Europe constitute about 85% of the global pharmaceutical market and are growing at a slower rate of about 5% per annum mainly due to loss of exclusivity and lesser new product approvals.

In contrast, pharmaceutical market of emerging economies like India, Brazil, Mexico, Russia, etc are growing at a much faster rate of over 12% per annum backed by improving per capita income and increased access and rising awareness of modern medicines.

Annual growth in the generic market was 3.8% according to IMS after years of 10-20% increases, due to pricing pressure on generics shortly after patent expiry.

The 3-4% growth rate for a market previously growing at double digit rates, despite several important patent expiries, is indicative of the pricing pressure that continues in the market. Technically complex products including several anti-cancers, which went off patent, saw approvals for as many as six filers on the day of launch, commoditising these generics. We expect this trend to continue now that the likelihood of triple damages is much lower than it was earlier. According to some estimates, such at-risk launches could account for \$22 billion expiry revenue in 2008.

Trends in India :

The domestic formulations market has been witnessing double digit growth in recent years with Indian companies continuing to dominate the market. Population growth, increased healthcare access, increasing affordability and other epidemiology factors are some of the key factors which point to continuing record growth levels. Manufacturing operations are largely concentrated

in excise free zones and compete with low cost of manufacture.

During the financial year, the domestic pharmaceutical market experienced a growth rate of 14.80% (previous year 14.30%), largely driven by volume and new product introductions. As per ORG-IMS data base, the estimated size of the domestic market for FY 2007-08 was approximately Rs.32,000 crores.

Despite the implementation of patent regime new drugs essentially patented prior to 1995 continue to be launched at the same pace as the preceding years. New products continue to be the key revenue driver. Over the coming years, patented products are expected to constitute about 10% of the overall pharmaceutical market.

Currently the Tier II cities (population less than 1 lakh) and rural markets contribute to about 40% of the total market size. Demand in these markets is expected to grow much faster than the rest of the market.

Given the above developments, the critical success factors for the pharmaceutical companies would be differentiated product introductions, expanding the geographical reach by expanded sales and marketing network and aggressive sales promotion.

Indian companies continue to have the distinction of developing cost-effective technologies for manufacturing bulk drugs and intermediates that conform to global standards.

The Industry today is in the front rank of India's science-based industries with wide ranging capabilities in the complex field of drug manufacture and technology. It ranks very high in the third world, in terms of technology, quality and range of medicines manufactured. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type