

17th Annual Report 2009-10



AVON
ORGANICS LIMITED
(AN ARCH ENTERPRISE)

In Tune with Technology

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CORPORATE INFORMATION

| | |
|---|--|
| Board of Directors | <p>Mr. Ajit Kamath, <i>Non Executive Chairman & Managing Director</i></p> <p>Mr. Manoj Jain, <i>Director</i></p> <p>Mr. V.S. Soma, <i>Executive Director & Company Secretary</i></p> <p>Mr. Ramakant Nayak, <i>Non-Executive, Independent Director</i></p> <p>Dr. Shantilal Jain, <i>Non-Executive, Independent Director</i></p> <p>Mr. Sudhir Ghate, <i>Non-Executive, Independent Director</i></p> <p>Mr. Ashit Shah, <i>Non-Executive, Independent Director</i></p> |
| Company Secretary | Mr. V.S. Soma |
| Registered Office | <p>Survey No. 18, Yawapur, Sadasivpet (M), Medak District, Andhra Pradesh Phone: 99498 28084; Fax: 91-08455-251536</p> |
| Corporate Office | <p>1. 6-3-865, 1st Floor, Madhupala Towers, Opp: Greenland Apts., Ameerpet, Hyderabad Phone: 040-30906500/01 Fax: 040-23404438</p> <p>2. H Wing, 4th Floor, Tex Centre, Off Sakivihar Road, Chandivali, Andheri (East), Mumbai - 400 072 Phone: 022-40756789 Fax: 022-28471234/1002</p> |
| Auditors | <p>M/s. Mukesh Mehta & Associates, Chartered Accountants, 3/4A, Hammersmith Industrial Premises, Narayan Pathare Marg, Off Sitladevi Temple Road Mahim (W), Mumbai – 400 016</p> |
| Manufacturing Facilities | <p>1. Survey No. 18, Yawapur, Sadasivpet (M), Medak District, Andhra Pradesh Phone: 99498 28084</p> <p>2. Plot No. E-2, Chincholi Industrial Area, Solapur, Maharastra Phone: 0217-2357738 Fax: 0217-2357339</p> |
| Bankers | <p>State Bank of India AXIS Bank Limited Punjab National Bank Canara Bank Karur Vysya Bank</p> |
| Registrars & Share Transfer Agents | <p>XL Softech Limited 3, Sagar Society, Road No. 2, Banjara Hills, Hyderabad – 500 034 Phone: 040-23545913/14/15.</p> |

NOTICE

NOTICE IS HEREBY GIVEN THAT the 17th Annual General Meeting of Avon Organics Limited will be held on Saturday, 25th September, 2010 at 11.30 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, 2010 and Profit and Loss Account for the financial year ended 31st March, 2010 along with the Report of the Directors and Auditors thereon.
2. To declare dividend on Equity Shares.
3. To appoint a Director in place of Mr. Manoj Jain, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s. Mukesh Mehta & Associates, Chartered Accountants, as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting of the Company on

remuneration to be decided by the Board of Directors of the Company.

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. Ramakant Nayak, who was inducted into the Board as an Additional Director of the Company in accordance to the provisions of Section 260 of the Companies Act, 1956 (the “Act”) effective from 31st October, 2009, holding office upto the conclusion of this Annual General Meeting and in respect of whom the Company has received notice under Section 257 of the Act be and is here by appointed as a Director of the Company”.

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

Sd/-
V.S. Soma
Executive Director
& Company Secretary

Place: Mumbai
Date : 13.08.2010

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 per the requirements of Section 154 of the Companies Act, 1956, the Register of Members and the Share Transfer Books of the Company will remain closed from Wednesday, 22nd September, 2010 to Saturday, 25th September, 2010 (both days inclusive).

The 'Record Date' for payment of Dividend is fixed as Saturday, 25th September, 2010.
3. The final dividend for the financial year ended 31st March, 2010 as recommended by the Board,

if approved at the meeting, will be paid on or after Saturday, 25th September, 2010 (Record Date), to those members whose names appear in the Company's Register of Members as on the book closure dates.

4. Members holding shares in electronic form are hereby informed that bank particulars registered against their respective depository accounts will be used by the Company for payment of dividend. The Company or its Registrars cannot act on any request received directly from the Members holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participant of the Members.
5. Members holding shares in physical form are requested to inform any change, in their registered

address to the registered / corporate office of the company or to X L Softech Limited, Registrar & Share Transfer Agents of the Company.

Members holding shares in electronic form are requested to intimate immediately any change in their address or bank mandates to their Depository Participants with whom they are maintaining their demat accounts.

6. Member / Proxies should bring in their attendance slip sent herewith duly filled in for attending the meeting.
7. Shareholders desiring any information relating to the accounts are requested to write to the Company at an early date so as to enable Management to keep the information ready.
8. Explanatory Statement Pursuant to Section 173 (2) of the Company's Act, 1956, in respect of Item No.5 of the Notice set out, is annexed hereto.
9. The shares of the Company are presently listed

on the Hyderabad, Mumbai and Calcutta Stock Exchanges. However, the same is actively traded at Bombay Stock exchange.

10. Pick up coach facility

For the convenience of members who are desirous of attending the company's Annual General Meeting scheduled on Saturday, 25th September, 2010 at 11.30 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 8.30 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.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956

Item No. 5

Mr. Ramakant Nayak has been appointed as Additional Director of the Company at the meeting of Board of Directors held on 31st October, 2009. As per the provisions of Section 260 of the Companies Act, 1956, the abovementioned Director will hold office of a Director up to the conclusion of Annual General Meeting. The Company has received notice in writing under Section 257 of the Companies Act, 1956, proposing his candidature for the office of the Director.

Mr. Ramakant Nayak has a distinguished career spanning for more than 40 years in commercial banking. His career includes the esteemed positions of Chairman & Chief Executive Officer (CEO) of Lakshmi Vilas Bank from June, 2005 to June, 2007, The Managing Director & Chief Executive Officer (CEO) of erstwhile The Lord Krishna Bank Ltd., merged with Centurion Bank / HDFC Bank Ltd. from January, 2003 to June, 2005 and Chairman of Marathwada Gramin Bank from 1995 till 1997. Mr. Nayak is a Certified Associate of Indian Institute of

Banking (I) and has served as a member on several Indian Banks Association (IBA) committee. He possesses degrees in Science and Law and has Diploma in Marketing and Advertising.

Mr. Ramakant Nayak currently serves on the Board of Sun Capital Advisory Services Pvt. Ltd., Nine Rivers Capital Holdings Pvt. Ltd., Sun Global Investments Ltd. - UK, Sunteck Realty Ltd., Nitin Fire Protection Industries Ltd. and Blend Financial Services Ltd. alongwith Avon Organics Limited.

None of the Directors of the Company, except Mr. Ramakant Nayak, are interested in this resolution.

The Directors recommend the resolution for approval of the shareholders.

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

Sd/-
V.S. Soma
Executive Director
& Company Secretary

Place: Mumbai
Date : 13.08.2010

DIRECTORS' REPORT

To
The Members,

Your Directors have pleasure in presenting their Seventeenth Annual Report on the business and operations of the Company and the Audited Financial Accounts for the year ended 31st March, 2010.

The figures of the previous year have been reclassified to conform to the current classification.

FINANCIAL RESULTS

(Rs. in Lakhs)

| Particulars | Year ended 31.03.2010 | Year ended 31.03.2009 |
|---|--------------------------|--------------------------|
| Sales & Operational Income | 15045.49 | 12228.43 |
| Gross Profit / (Loss) before Interest, Depreciation and Tax (PBDIT) | 2645.33 | 2111.94 |
| Less: Depreciation | 585.10 | 552.00 |
| Gross Profit before Interest and Tax (PBIT) | 2060.23 | 1559.94 |
| Less: Financial charges | 1169.40 | 994.66 |
| Profit / (Loss) before Tax (PBT) | 890.83 | 565.28 |
| Less: Provision for Taxation | | |
| Fringe Benefit Tax | – | 7.00 |
| Short provision for Tax for earlier years | 0.63 | – |
| Net Profit / (Loss) after tax (PAT) | 890.20 | 558.28 |

DIVIDEND

The Directors are pleased to recommend payment of a Dividend of 10% (Re. 1/- per Equity Share of the face value of Rs. 10/- each), which, if approved by the Members at the Annual General Meeting will involve an outflow of Rs. 225 Lakhs towards Dividend and Rs. 38.24 Lakhs as Dividend Distribution Tax resulting in a total outflow of Rs. 263.24 Lakhs.

PERFORMANCE REVIEW

During the year the Company has achieved Net Sales and Operational income of Rs. 15045.49 Lakhs as against Rs. 12228.43 Lakhs in the previous year, registering an increase in sales by 23.04%. During the year the Company has achieved a Net profit of Rs. 890.20 Lakhs as against Rs. 558.28 Lakhs, during the corresponding period in the previous year, resulting in

consistent rise in profits for the 2nd consecutive financial year.

The total sales of the Company includes export sales of Rs. 5081.30 Lakhs during the year under review as against Rs. 2257.46 Lakhs, during the previous year and account for approximately 33.77% of the total sales in the current year as against 18.46% in the previous corresponding period.

A major part of the revenues of our Solapur plant are attributable to the successful launch of the Generic version of Valtrex, with an exclusivity period of 180 days, by Ranbaxy Laboratories Limited. Your company was the supplier of choice of the Active Pharmaceutical Ingredient for the same ie. Valacyclovir. This also helped the Solapur facility from being a single product facility to multiple products and acquire new capabilities.

PERSONNEL

The Board records its appreciation for the support and contribution of all employees towards the growth of the company. Your Company has 472 employees as on 31st March, 2010.

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

CAPITAL EXPENDITURE

In an effort to support future growth, during the year under review, the Company has invested in modernization and enhancement of the facilities and has incurred capital expenditure amounting to Rs. 2611.19 Lakhs, which includes Capital Work-in progress.

QUALITY SYSTEMS

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

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, 2010, 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, 2010 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, 2010 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 Statutory Auditors of the Company regarding compliance of the Corporate Governance, also forms part of the Annual Report.

INCORPORATION OF A SUBSIDIARY COMPANY IN SINGAPORE

Pursuant to the resolution passed at the Meeting of the Board of Directors of the Company, held on 15th May, 2010, a wholly owned subsidiary company has been incorporated in Singapore. The subsidiary will help to facilitate marketing operations, source new technology as well as raw material inputs from the Far East and South East Asian market.

DIRECTORS

The Board has an optimum combination of Executive and Non-Executive Directors with majority of the Board comprising of Non-executive Directors.

As per the requirements of Clause 49 of Listing Agreement, only one-third of the Board should comprise of Independent Directors in case the Chairman of the Board is a Non-Executive Director.

In our Company, the Non-Executive Chairman, being a Promoter Director of the parent Company, more than fifty percent of the Board comprises of Independent Directors, in compliance with the provisions of Clause 49 of the Listing Agreement.

Re-appointment of Mr. Manoj Jain, Non-Executive Director

Mr. Manoj Jain, Non-Executive Director retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Manoj Jain is the Deputy Managing Director in Arch Pharmalabs Limited, the parent company of Avon Organics Limited. He is a Chartered Accountant by qualification and possesses an experience of more than 14 years in the Pharmaceutical industry.

Regularisation of appointment of Mr. Ramakant Nayak, Non-Executive, Independent Director

Mr. Ramakant Nayak was appointed as Additional Director of the Company at the meeting of Board of Directors held on 31st October, 2009. As per the provisions of Section 260 of the Companies Act, 1956, the abovementioned Directors will hold office of a Director up to the conclusion of Annual General Meeting. The Company has received notice in writing under Section 257 of the Companies Act, 1956, proposing his candidature for the office of the Director.

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Mr. Ramakant Nayak currently serves on the Board of Sun Capital Advisory Services Pvt. Ltd., Nine Rivers Capital Holdings Pvt. Ltd., Sun Global Investments

Ltd. - UK, Sunteck Realty Ltd., Nitin Fire Protection Industries Ltd. and Blend Financial Services Ltd. alongwith Avon Organics Limited.

AUDITORS

The Statutory Auditors, M/s. Mukesh Mehta & Co., Chartered Accountants hold office until the conclusion of the ensuing Annual General Meeting and are recommended for re-appointment upto the conclusion of next Annual General Meeting. 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.

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 - A 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.

PROPOSED LISTING WITH NATIONAL STOCK EXCHANGE OF INDIA LIMITED [NSE]

The Management is proposing to list the equity shares of the Company with National Stock Exchange of India Limited [NSE] during the current financial year.

ACKNOWLEDGMENTS

The Board of Directors would like to place on record their sincere appreciation for the support and assistance extended by the Company's suppliers, bankers, financial institutions, employees, business associates and various departments of the Central and State Governments for their continued support and valuable co-operation.

Your Directors also express their gratitude to investors for the support and confidence reposed in the Company and Management.

For and on behalf of the Board

Sd/-

Ajit Kamath

Place: Mumbai

Date : 13.08.2010

Chairman & Managing Director

ANNEXURE 'A' 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 : Reduced transmission losses by increasing the power factor.
- b. Total energy consumption per unit of Production : Details are furnished in Form A

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

| | (Rs. in Lakhs) | |
|----------------------------------|----------------|---------|
| | 2009-10 | 2008-09 |
| 1. Foreign Exchange Earnings | 5081.30 | 2257.46 |
| 2. Foreign Exchange outgo | 1693.24 | 623.82 |
| 3. Net Foreign Exchange Earnings | 3388.06 | 1633.64 |

FORM A

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

| | 2009-10 | 2008-09 |
|--|----------|---------|
| A. POWER AND FUEL CONSUMPTION: | | |
| 1. ELECTRICITY: | | |
| a. Purchased Units: | 10205638 | 8614986 |
| Amount (Rs. in Lakhs) | 482.81 | 340.20 |
| Rate / Unit (Rs.) | 4.73 | 3.95 |
| b. Own Generation: | | |
| Through D.G. Set Units | 1152444 | 993390 |
| Amount (Rs. in Lakhs) | 145.86 | 137.45 |
| Rate / Unit (Rs.) | 12.66 | 13.84 |
| 2. FURNACE & BOILER (Rs. in Lakhs) | 563.61 | 503.90 |
| B. CONSUMPTION PER UNIT OF PRODUCTION*: | | |
| Electricity (Unit / MT) (Rs.) | 72773 | 24794 |
| Furnace & Boiler (Unit / MT) (Rs.) | 65242 | 26156 |

*The change is on account of low volume, high value product mix.

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

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

R&D activity supports the short, medium and long term business needs of the Company, which helps us in competing in the international regulated markets across US / Europe.

R & D activity includes various complex product improvements and process optimization projects which require special skills and technology and offer higher value addition and sustained revenue streams.

2. Benefits derived from above R & D.

Product improvements, process development, standardization of quality control of products have been some of the results of Research and Development which are reflected in the overall performance of the Company.

Development of improved processes results in less quantity of effluent and emission, enabling the company to contribute to the green environment.

3. Future plan of action.

R&D will continue to focus on projects leading to further cost reduction and reduced load on environment and also with a view to adapt products and processes in line with the changing market needs.

4. Expenditure on R & D:

(Rs. in Lakhs)

| | 2009-10 | 2008-09 |
|---------------------|----------------|----------------|
| Revenue Expenditure | 15.64 | 11.03 |
| % to Turnover | 0.10 | 0.09 |

B. TECHNOLOGY ABSORPTION:

1. Efforts in brief made towards technology absorption

The technology imported in 1995 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.

Technology for manufacture of IP-II, a drug intermediate is fully absorbed from our Corporate R & D centre and in house technologies were developed for yield improvements, solvent recovery and reuse methods, and un-desired impurity control.

Investments have been made in creating more research labs, with specific focus on European market requirements and adding experienced scientific and technically skilled manpower (scientists, technologists and engineers), adding equipment and upgrading continuously the facilities of the Company.

The Company is continuously exploring the possibilities of exporting more of its products to different markets.