19th Annual Report 2011-2012

AVON ORGANICS LIMITED
(AN ARCH ENTERPRISE)

In Tune with Technology

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CORPORATE INFORMATION

Board of Directors	Mr. Ajit Kamath, Non Executive Chairman & Managing Director Mr. Manoj Jain, Director Mr. Upkar Singh Kohli, Non-Executive, Independent Director Mr. Sudhir Ghate, Non-Executive, Independent Director Mr. Ashit Shah, Non-Executive, Independent Director
Company Secretary	Ms. Sunipa Ghosh
Registered Office	Survey No. 18, Yawapur, Sadasivpet (M), Medak Dist. A.P.; Phone: 9949828084 Fax: 91-08455-251536
Corporate Office	1. H. No.8-3-1010/32, Unit 401, Vijaya Enclave, Beside Andhra Bank, Srinagar Colony, Hyderabad-500 073. Phone: 040-23731409 Fax: 040-23731370 2. 541/A, Arch House, Marol Maroshi Road, Marol, Andheri (E), Mumbai -400 059 Phone: 022-33089200 Fax: 022-2920 7798
Auditors	M/s Mukesh Mehta & Associates, Chartered Accountants, 3/4A, Hammersmith Ind. Premises, Narayan Pathare Marg, Off Sitladevi Temple Road, Mahim (W), Mumbai - 400 016
Manufacturing Facilities	1. Survey No. 18, Yawapur, Sadasivpet (M), Medak Dist., A.P. Phone: 9949828084 2. Plot No. E-2, Chincholi Industrial Area Solapur, Maharastra. Phone: 0217 - 2357738 Fax-0217-2357339
Bankers	State Bank of India Axis Bank Limited Punjab National Bank Indian Overseas Bank Karur Vysya 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 19th Annual General Meeting of Avon Organics Limited will be held on Friday, 28th September, 2012 at 10.00 a.m. at Hotel Daspalla, Road No. 37, Jubilee Hills, Hyderabad - 500033, Andhra Pradesh to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider, approve and adopt the Profit and Loss Account for the financial year ended 31st March, 2012 and the Audited Balance Sheet as at that date together with the Reports of the Board of Directors and the Auditors thereon.
2. To declare dividend on Equity Shares for the financial year ended 31st March 2012
3. To appoint a Director in place of Mr. Ashit Shah, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Sudhir Ghate, who retires by rotation and being eligible, offers himself for re-appointment.
5. 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.

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

Sd/-
Sunipa Ghosh
Company Secretary

Place: Mumbai
Date: 30th May, 2012

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, and for the purpose of payment of Dividend, the Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, 25th September, 2012 to Friday, 28th September, 2012 (both days inclusive).
3. Members are requested to produce the Attendance Slip duly signed as per the specimen signature recorded with the Company/Depository Participant for admission to the meeting hall.
4. The dividend on Equity shares as recommended by the directors for the year ended 31st March, 2012, when declared at the meeting, will be paid:

i) To those members whose names shall appear in the Register of Members of the Company, after giving effect to all valid share transfers in physical form lodged with the Company/RTA on or before Monday, 24th September, 2012.

ii) To those "Beneficial Owners" in respect of shares held in electronic form, whose names shall appear in the statements of beneficial ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL), at the end of business hours on Monday, 24th September, 2012.

5. For the purpose of payment of Dividend, the members holding shares in electronic form are hereby informed that bank particulars registered against their respective depository accounts will be used by the Company. 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.
6. In terms of Sections 205A and 205C of the Companies Act, 1956, any dividend remaining unpaid for a period of seven years from the due date of payment is required to be transferred to the Investor Education and Protection Fund. Members who have not got their dividend warrants encashed, are requested to write to the Registrars & Share Transfer Agents for issuance of revalidated Demand drafts or Duplicate Dividend warrants.
7. 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 Systems 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.
8. Member/Proxies should bring in their attendance slip sent herewith duly filled in for attending the meeting.
9. A member desirous of receiving any information on the accounts or operations of the Company is requested to forward his/her queries to the Company at least seven working days prior to the meeting, so that the required information can be made available at the meeting.
10. 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.

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting their Nineteenth Annual Report on the business and operations of the Company and the Audited Financial Accounts for the year ended 31st March, 2012.

FINANCIAL RESULTS

Particulars	2011-12 (Rs. In Lakhs)	2010-11 (Rs. In Lakhs)
Sales & Operational Income	**16703.34**	16212.07
Gross Profit /(Loss) before Interest, Depreciation and Tax (PBDIT)	**4175.69**	2945.63
Less. Depreciation	**1086.09**	611.64
Profit before Interest and Tax (PBIT)	**3089.60**	2333.99
Less. Interest & Financial charges	**1954.32**	1347.93
Profit / (Loss) before Tax (PBT)	**1135.28**	986.05
Less Provision for Taxation		
: Provision for tax	**222.00**	200.00
Add: MAT credit	**(222.00)**	(200.00)
: Short provision for Tax for earlier years	**76.76**	-
: Deffered Tax	**51.97**	-
Net Profit / (Loss) after tax (PAT)	**1006.55**	**986.05**

Previous Year's figures have been regrouped/ reclassified wherever necessary to conform to the current year's classification.

DIVIDEND

The Directors are pleased to recommend payment of Dividend @ 10% (Re. 1/- per Equity Share of the face value of Rs. 10/- each), which, if approved by the Members at the forthcoming Annual General Meeting will involve an outflow of Rs. 225 Lakhs towards Dividend and Rs.36.50 Lakhs as Dividend Distribution Tax resulting in a total outflow of Rs. 261.50 Lakhs.

YEAR IN RETROSPECT

During the year under review, the Company has achieved Net Sales and Operational income of Rs. 16703.34 Lakhs as against Rs. 16212.07 Lakhs in the previous year, registering an increase in sales by 3.03%. During the year the Company has achieved a Net profit of Rs. 1006.55 Lakhs as against Rs. 986.05 Lakhs, during the corresponding period in the previous year.

The total sales of the Company includes export sales of Rs. 5202.26 Lakhs during the year under review as against 4223.65 Lakhs, during the previous year and account for approximately 31.15% of the total sales in the current year as against 26.05% in the previous corresponding period.

QUALITY SYSTEMS

The Company being engaged in the pharmaceutical sector strives to maintain higher quality standards and complies with various regulations in relation to the same. The manufacturing facility of the company situated at Solapur, Maharashtra is a cGMP facility and is USFDA inspected. The facility of the company situated at Sadasivpeth is ISO 9001:2008 certified.

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, 2012, the applicable accounting standards have been followed along with proper explanation relating to material departures;
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, 2012 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, 2012 have been prepared on a going concern basis.

CORPORATE GOVERNANCE

The Company's essential character revolves around values based on transparency, integrity, professionalism and accountability. At the highest level, the company continuously endeavours to improve upon these aspects on an ongoing basis and strives to achieve the higher standards of Corporate Governance. The nature of compliances made in order to meet the requirements and to promote transparency and efficient governance, are more specifically detailed in a separate report on Corporate Governance attached herewith, which forms part of the Annual Report. A certificate from Chairman and Managing Director of the Company, inter alia, confirming the correctness of the financial statements, compliance with company's code of conduct, adequacy of internal

control measures and reporting of the matters to the Audit Committee in terms of Clause 49 of the Listing Agreement entered into by the Company with Stock Exchanges, is also enclosed as a part of this Annual Report.

NOTE ON OPERATIONS OF THE SUBSIDIARY COMPANY IN SINGAPORE

The Company's subsidiary company in Singapore, M/s. Regal Pharma Pte. Ltd. is involved in facilitating marketing operations in the overseas market.

During the year under review, the company has infused of Rs. 1076.40 Lakhs as capital in its subsidiary company, Regal Pharma PTE Ltd., Singapore by subscribing to 31,20,000 Equity shares for Singapore $1 each.

CONSOLIDATED FINANCIAL STATEMENT

The Ministry of Corporate affairs vide its General Circular no. 2/2011 dated 8th February, 2011 has granted a general exemption from appending the balance sheet of subsidiary companies to the annual report of the parent company as per Section 212 (8) of the Companies Act, 1956. As required under the circular, the Board of Directors of the Company, has, at its meeting held on 30th May, 2012, passed a resolution issuing consent for not attaching the Balance Sheet of Subsidiary company to this Annual Report. Accordingly, the Balance Sheet, Profit & Loss Account and other documents of the subsidiary company are not being appended to the Balance Sheet of the Company.

The Company will arrange for the Annual Accounts of the subsidiary company and other relevant information in detail, for any shareholder of the Company who may be interested in obtaining the same. The Annual Accounts of the Subsidiary company will also be made available for inspection at the registered offices of both the Company and the subsidiary company..

The consolidated financial statements as prepared in accordance with the requirements of AS 21 and AS 23 issued by ICAI, and a statement pursuant Section 212 of the Companies Act, 1956 are appended to and are forming part of this annual report.

DIRECTORS

The Board comprise of Chairman & Managing Director and Non-Executive Directors with majority of the Board comprising of Non-Executive Independent Directors.

As per the requirements of Clause 49 of Listing Agreement, the Chairman & Managing Director, 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. Sudhir Ghate, Non-Executive Director

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

He is a commerce graduate by qualification and possesses an extensive experience in various commercial and industrial matters. He also owns and manages a premier institution called "The Academy" at Mangalore for over a decade. He is presently a Director in M/s. Magnum Intergrafiks Private Limited, M/s. Mangalore Infotech Solutions Private Limited, M/s. Trichur Heart Hospital Limited, M/s. VRL Logistics Limited and M/s. Kanara Chamber of Commerce & Industry.

Re-appointment of Mr. Ashit Shah, Non-Executive Director

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

He is a practicing Chartered Accountant and proprietor of M/s. Ashit Shah & Co., Chartered Accountants. He has rich experience in commercial matter & laws and have effectively handled cases relating to Direct Tax, Indirect Tax and Assurance Services. He has also authored many books on subjects related to his profession. He is also a Director in M/s. Pears Financial Services Pvt. Ltd.

Resignation of Mr. V. S. Soma, Executive Director & Company Secretary

Mr. V. S. Soma resigned as Executive Director & Company Secretary of the Company with effect from 17th January, 2012 citing his other engagements.

PARTICULARS OF EMPLOYEES:

Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended, requires Companies to list out names of the employees drawing remuneration of more than Rs. 5 Lakhs per month and/or more than Rs. 60 Lakhs Per annum.

We would like to state that, none of the employees of the Company drew remuneration of Rs. 60 Lakhs or above per annum and/or Rs. 5 Lakhs or above per month during the year under review.

STATUTORY AUDITORS

M/s. Mukesh Mehta & Co., Chartered Accountants, Statutory Auditors of the Company, continues to hold office until conclusion of this Annual General Meeting and have been recommended for re-appointment upto the conclusion of next Annual General Meeting. In terms of Clause 41(1)(h) of the Listing Agreement, the Statutory Auditors of the Company are subjected to the Peer Review Process of Institute of Chartered Accountants of India (ICAI), and should hold a valid certificate issued by Peer Review Board of the ICAI. M/s. Mukesh Mehta & Co., Chartered Accountants hold a valid certificate issued by Peer Review Board of the ICAI.

COST AUDITORS

In compliance with the directives issued by Central Government from time to time and in terms of the provisions of Section 233B of the Companies Act, 1956, M/s. D.Z.R. & Co., Cost Accountants were appointed as Cost Auditors of the Company at the meeting of the Board of Directors held on 30th May, 2012 for the manufacturing units of the Company located at Solapur, Maharashtra and Sadasivpet, Andhra Pradesh, respectively. A certificate of eligibility has been received from M/s. D.Z.R. & Co., Cost Accountants, to the effect that their appointment is in accordance with the provisions of Section 224 (1) B of the Companies Act, 1956.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The information relating to Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo as required to be disclosed 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 are set out as an annexure forming 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 take this opportunity to thank the Financial Institutions, Banks, employees, business associates, suppliers, Stock Exchanges, other regulatory authorities and all the stake holders of the Company for valuable sustained support and cooperation in conducting efficient operations of the Company.

For and on behalf of the Board

Sd/-
Ajit Kamath
Chairman & Managing Director

Date: 30.05.2012
Place: Mumbai

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 : The Company is engaged in continuous process of energy conservation through improved operational and maintenance practices.

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)

C. Foreign Exchange Earnings and Outgo	**2011-2012**	**2010-2011**
1. Foreign Exchange Earnings (Rs. In Lakhs)	**5202.26**	4223.65
2. Foreign Exchange outgo (Rs. in Lakhs)	**1250.04**	1560.12
3. Net Foreign Exchange Earnings (Rs. In Lakhs)	**3952.22**	2663.53

FORM A

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

	2011-2012	**2010-2011**
A. POWER AND FUEL CONSUMPTION:		
1. ELECTRICITY :		
a. Purchased Units :	**8816645**	8527104
Amount (Rs. In Lakhs)	**487.78**	412.24
Rate/Unit (Rs.)	**5.53**	4.83
b. Own Generation :		
Through D. G. Set Units	**837074**	948970
Amount (Rs. In Lakhs)	**121.21**	119.96
Rate/Unit (Rs.)	**14.48**	12.64
2. FURNACE & BOILER (Rs. In Lakhs)	**570.86**	708.72
B CONSUMPTION PER UNIT OF PRODUCTION:		
Electricity (Unit / MT) (Rs. in Lakhs)	**204565**	117536
Furnace & Boiler (Unit /MT) (Rs.)	**191756.80**	156519

FORM B

A. RESEARCH AND DEVELOPMENT :

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

   A) New product MAC (Methyl amino crotonate) has been developed and the quality has been found to be of acceptable standards.
   B) DEAA (Di ethyl aceto acetamide) - Laboratory trials are completed and are ready to be implemented in plant.
   C) CEFDINIR intermediate - Laboratory trials are being conducted with the process still under modifications.

2. Benefits derived from above R & D.

   - Commercial production for MAC (Methyl amino crotonate) has been started at the plant level & is being supplied onwards for further use in PAD.(Phthaloyl Amlodipine)

3. Future plan of action.

i) To achieve maximum production of MAC (Methyl amino crotonate) by utilizing additional equipments from DR3 - Production Block.

ii) To achieve the maximum production of PHEEMA by improving yields.

iii) To carry out additional experiments in Lab on Cefdinir intermediate in an effort to reduce production cost. .

4. Expenditure on R & D :

	(Rs. In Lakhs) 2011-12	2010-11
Revenue Expenditure	39.17	25.79
% to Turnover	0.23%	0.16%

B. TECHNOLOGY ABSORPTION :

1.	Efforts in brief made towards technology absorption	: Consistent efforts made towards achieving the required quality of PHEEMA.
2.	Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.	: Cost reduction in PHEEMA.
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	Nil
	b Year of import	Not Applicable
	c Has technology been fully absorbed	Not Applicable

Management Discussion and Analysis Report

GLOBAL PHARMACEUTICAL MARKET

The global pharmaceutical market is changing rapidly and growing more complex. Annual global spending on medicines is expected to rise from $956 billion in 2011 to nearly $1.2 trillion in 2016, representing a compound annual growth rate of 3-6 per cent, as per the IMS Institute for Healthcare Informatics' report, The Global Use of Medicines: Outlook through 2016.

This growth in annual global spending is mainly driven by volume increases in the emerging markets and an uptick in spending in developed nations.

Following several years of slowing growth, the global market for medicines is poised to rebound from an expected low point of 3-4 per cent growth in 2012 to 5-7 per cent in 2016, according to a new forecast issued by the IMS Institute for Healthcare Informatics.

Health systems in emerging markets will nearly double their medicine spending in five years. The increase will be driven by rising incomes, continued low cost for drugs, and government-sponsored programmes designed to increase access to treatments - by limiting patients' exposure to costs and encouraging greater use of medicines. Generics and other products, including over-the-counter medicines, diagnostics and non-therapeutics, will account for approximately 83% of such increase.

Global generic spending is expected to increase from $242 billion in 2011 to $400-430 billion by 2016, fuelled by volume growth in emerging markets and the ongoing transition to generics in developed nations.

Branded formulations could experience a dip pursuant to a peak expiry of patents in 2012 and as well as increased cost-containment actions by payers. The impact of patent expiries primarily will be felt in the US. In Europe, limited savings from expiring patents are prompting policy shifts to encourage greater use of generics and lower reimbursement for these products.

INDIAN PHARMACEUTICAL MARKET

The recent spate of turbulence experienced in the Indian market has resulted in high inflation levels, volatile industrial output and escalated interest rates and have collectively caused a downward revision in the GDP growth rates from 8% to 6.9%.

Even though, the outlook for the pharmaceuticals sector in the country remains positive, the Indian Pharmaceuticals market valued at around US $ 12.3 billion (IMS March MAT 2012) is a highly fragmented market with a large number of players spread across therapy segments.

Regarded as one of the fastest-growing pharma market globally, primarily driven by a large population, evolving patient demographics, increasing health care expenditure, growing urbanisation, rising life expectancy, and active private-sector participation, Indian companies are today regarded as collaborators demonstrating capabilities that match global expectations.

India ranks third in terms of manufacturing pharma products by volume. India's Pharmaceutical industry is gaining its position as a global leader clearly topping the charts among the Indian science based industries with significant expertise in the complex field of drug manufacture and technology. India's pharmaceutical market has registered a strong growth of 16% in 2012.

The Indian pharmaceuticals sector is poised to reach US$ 55 billion by 2020, from US$ 12.6 billion in 2009 (Source: Mckinsey, India Pharma 2020: Propelling access and acceptance realising true potential, 2010).India tops in exporting generic medicines. The Indian pharma industry produces around 20% to 24% of the global generic drugs. Around 40% of the total pharmaceutical produce is exported (55% formulation and 45% APIs). The Indian pharmaceutical market is expected to witness rapid and significant growth on the back of greater acceptance and penetration of generics, enhanced export opportunities, increasing global demand, and a large share of off-patent drugs in the future.

Outlook

India's pharmaceutical industry is at an advantageous position compared to other emerging countries. With the advantage of being a highly organised sector, the Indian pharmaceutical companies are growing at the rate of 8-9% annually.

Risks and Concerns

Some of the keys risks and concerns that are faced by the Company are as follows:

Some of the obvious and identifiable risks include the following: