



Hester Pharmaceuticals Limited



SIXTEENTH
ANNUAL
REPORT
2002-2003

BOARD OF DIRECTORS :

Dr. V. A. Padval	<i>Chairman</i>
Dr. Bhupendra V. Gandhi	<i>Vice-Chairman</i>
Mr. Rajiv D. Gandhi	<i>Managing Director</i>
Mr. Sanjiv D. Gandhi	<i>Executive Director</i>
Mr. Darayus Lakdawalla	
Mr. Ravin Gandhi	
Ms. Bela Gandhi	
Dr. Herry Shinkoi	
Mr. Vimal Ambani	
Mr. A. C. Patel	<i>Nominee Director, G.I.I.C. Limited, Gandhinagar</i>
Mr. Abhinav Shukla	<i>Alternate Director</i>
Dr. Parimal Tripathi	<i>Alternate Director</i>

REGISTERED OFFICE :

Village : Merda Adraj,
Taluka : Kadi,
Dist : Mehsana, Gujarat 382 721

CORPORATE OFFICE :

16/10, Devendra Society,
Naranpura,
Ahmedabad - 380 013.

MANUFACTURING UNIT :

Village : Merda Adraj,
Taluka : Kadi,
Dist : Mehsana, Gujarat - 382 721,

BANKERS :

Bank of India,
Navrangpura Branch,
Ahmedabad - 380 009.

AUDITORS :

M/s. Shah Narielwala & Co
Chartered Accountants
608, 'Shitiratna',
Panchvati, Ellisbridge,
Ahmedabad - 380 006.

REGISTRAR & SHARE TRANSFER AGENTS

M/s. Pinnacle Share Registry Pvt. Ltd.
Near Ashoka Mills, Naroda Road,
Ahmedabad - 380 025.

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NOTICE

NOTICE is hereby given that 16th Annual General Meeting of the Members of Hester Pharmaceuticals Limited, will be held on 30th September, 2003 at 11.00 a.m. at Registered office of the Company at Village : Merda Adraj, Taluka : Kadi, District : Mehsana, Gujarat-382 721 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2003 and Profit & Loss Account for the year ended on that date together with the Directors' Report and Auditors' Report thereon.
2. To appoint a Director in place of Mr. Darayus Lakdawalla, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr. Sanjiv D. Gandhi, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Ravin Gandhi, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors of the Company and fix their remuneration.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Mr. Vimal Ambani who was appointed as an Additional Director of the Company and who ceases to hold office under section 260 of the Companies Act, 1956 from the date of this meeting and in respect of whom the Company has received a notice in writing from a member proposing his candidature for Director be and is hereby appointed as Director of the Company, liable to retire by rotation."

7. To consider and if thought fit, to pass with or without modifications the following resolution as a Ordinary Resolution.

To Appoint Mr. Rajiv Gandhi as Managing Director of the Company

"RESOLVED THAT pursuant to Section 269 and other applicable provisions, if any of the Companies Act, 1956, read with and in accordance with the conditions specified in Schedule XIII of the said Act, the approval of the Company be and is hereby accorded to the appointment of Mr. Rajiv Gandhi as a Managing Director of the Company with effect from 1st January, 2003 for a period of 3 years or till the Managing Director resigns from the office of Directorship, as set out in the Remuneration draft agreement, entered between the Company and Mr. Rajiv Gandhi"

"FURTHER RESOLVED THAT in the event of any statutory amendment or modification under the Companies Act, 1956, Board of Directors be and is hereby authorized to vary, enlarge, increase and modify the remuneration including salary, commission, perquisites, allowances, etc. within such prescribed limit or ceiling and aforesaid remuneration draft agreement between the Company Mr. Rajiv Gandhi, be suitably amended to give effect to such modification, relaxation or variation without any further reference to the Company in General meeting.

"FURTHER RESOLVED THAT Board of Directors be and are hereby authorized to take such steps as may be necessary to give effect to this Resolution."

Date : **29th July, 2003**
Registered Office :
Village : Merda Adraj
Taluka : Kadi
District : Mehsana, Gujarat - 382 721.

for Hester Pharmaceuticals Limited

Rajiv D. Gandhi
Managing Director

NOTES

- Explanatory Statement pursuant to 173(2) of the Companies Act, 1956 is annexed as a part of this Notice.
- 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. Under the provisions of Companies Act, 1956, voting is by show of hands unless a poll is demanded by a member or members present in person, or by proxy, holding at least one-tenth of the total shares entitled to vote on the resolution or by those holding paid-up capital of at least Rs. 50,000/-.
- The Proxies should be deposited at the Registered office of the Company not less than 48 hours before the commencement of the meeting.
- The Register of Members and Share Transfer Books of the Company shall remain closed from 23rd September, 2003 to 30th September, 2003 (both days inclusive).

- Members are requested to note the following :
- The Company has appointed M/s. Pinnacle Shares Registry Pvt. Ltd. as R&T agent for both Demat & Physical share transfer work, hence any documents for share transfer, transmission, transposition, change of bank account details, nomination and other communication regarding shareholding in the company should be addressed to R&T agent, as per following address.

M/s. Pinnacle Shares Registry Pvt. Ltd.
Unit : Hester Pharmaceuticals Limited
Near Asoka Mills, Naroda Road
Ahmedabad 380 025. Gujarat
Ph. 079 - 220 42 26 / 220 0582
Fax : 079 - 220 29 63
e-mail : gautam.shah@psrpl.com
- To quote folio no. / DP ID & CL. ID for any communication for their shareholding.
- To bring the copy of Annual Report at the meeting.
- At the ensuing Annual General Meeting, **Mr. Darayus Lakdawalla, Mr. Sanjiv D Gandhi & Mr. Ravin Gandhi** retire by rotation and being eligible offer themselves for re-appointment. The information or details pertaining to them to be provided in terms of clause 49 of the Listing Agreement with the Stock Exchanges is furnished in the statement of Corporate Governance published elsewhere in this Annual Report.
- The copies of relevant documents can be inspected at the Registered office of the Company on any working day between 11.00 a.m. to 5.00 p.m. up to the date of A.G.M.
- The Company's shares are listed at Ahmedabad and Mumbai Stock Exchanges. The Company has paid listing fees to Mumbai Stock Exchange and Stock Exchange Ahmedabad for financial year 2003-2004.

EXPLANATORY STATEMENT

[pursuant to Section 173(2) of the Companies Act, 1956]

ITEM NO. 6

Mr. Vimal Ambani was appointed as an Additional Director of the Company with effect from 1st February, 2003 pursuant to Articles of Association of the Company read with Section 260 of the Companies Act, 1956 Accordingly his term expire at the ensuing Annual General Meeting.

The Company has received notice from a member alongwith deposit of Rs.500/- for him, as required under Section 257 of the Companies Act, 1956 proposing his name as Director of the Company.

Your Directors consider that the wide experience possessed by him will be in the interest of the Company. Hence your Directors recommend his appointment.

None of the Directors of the Company is concerned or interested in the Resolution.

ITEM NO. 7

Mr. Rajiv Gandhi, Managing Director was appointed by the Company and his terms expires on 31st December, 2002. The Board at its meeting held on 31st January, 2003 has decided to re-appoint him for a further period of 3 years, on the terms and conditions, as mentioned in the Remuneration draft agreement, with effect from 1st January, 2003, subject to approval of the shareholders. The appointment and terms of remuneration payable to Mr. Rajiv Gandhi as a Managing Director of the Company, as mentioned below, are within the permissible limits under schedule XIII of the Companies Act, 1956 The remuneration package will be as follows :

(a) Salary Rs. 62,500/- p.m.

(b) Perquisites : In addition to the salary, the following perquisites shall be allowed to the Managing Director and the total value of perquisites shall be restricted to an amount equal to the annual salary.

CATEGORY - "A"

- i) **Housing** : The Company shall provide furnished accommodation to the Managing Director. If the Managing Director is having his own accommodation, the Company shall pay house rent allowance at the rate of Rs. 10000/- per month, subject to a limit of 20 % of his salary.

The Company shall provide equipments and appliances, furniture, fixtures and furnishing at the residence of the Managing Director at the entire cost of the Company.

The Company shall reimburse the expenses of gas, electricity, water etc. The expenditure on these, valued in accordance with the Income-tax Rules, shall not exceed 10% of the salary.

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- ii) Medical Reimbursement : Medical Expenses actually incurred for self and family shall be reimbursed by the Company under the Mediclaim policy.
- iii) Leave Travel Concession : The Company shall provide leave travel fare for the Managing Director and his family once in a year.
- iv) Personal Accident Insurance : The Company shall pay Personal Accident Insurance upto Rs.5000/- per annum.
- v) Club Fee : The Company shall pay and / or Reimburse Fees and Expenses (excluding admission and Life membership fees) of clubs, subject to a maximum of two clubs.

CATEGORY - "B"

- i) The Company shall contribute towards Provident Fund/Superannuation Fund/Annuity Fund provided that such contributions either singly or put together shall not exceed the tax free limit prescribed under the Income-tax Act.
- ii) The Company shall pay Gratuity at the rate not exceeding half month's salary for each completed year of service.
- iii) Leave on full pay and allowances, as per rules of the Company, but not more than one month's leave for every eleven months of service. However, the leave accumulated but not availed of will be allowed to be encashed at the end of the term as per rules of the Company.

The perquisite under this Category shall not be included in the computation of ceiling on remuneration.

CATEGORY - "C"

- 1. The Company shall provide a Car with Driver at the entire cost of the Company for use for the business of the Company. Use of Car for personal purposes shall be billed by the Company.
- 2. The Company shall provide telephone including mobile phone at the residence of the Managing Director at the entire cost of the Company. Personal long-distance calls shall be billed by the Company.
- 3. The Managing Director shall not be entitled to sitting fees for attending meetings of the Board of Directors or Committees thereof. He shall, however, be reimbursed the actual travelling, lodging and boarding expenses incurred by him for attending meetings of the Board of Directors and/or committees thereof.
- 4. The remuneration referred to above is subject to the limit of 5% of the annual net profits of the Company and subject further to the overall limit of 10% of the annual net profits of the Company on the remuneration of the Managing Director and other Executive Directors of the Company taken together. Provided, however, that in the event of absence or inadequacy of profit, the Managing Director shall be entitled to remuneration mentioned under (a) above and perquisites as above within the minimum remuneration specified in Schedule XIII to the Companies Act, 1956.
- 5. In the event of cessation of office during any financial year, a ratable proportion of the aforesaid remuneration shall be payable by the Company.
- 6. The Managing Director shall be entitled to reimbursement of all expenses incurred in connection with the business of the Company.
- 7. "Family" means the spouse, dependent children and dependent parents of Managing Director.
- 8. Reimbursement of entertainment expenses actually and properly incurred in the course of business of the Company shall be allowed

The Board recommends the resolution for approval of Shareholders. Except Mr. Rajiv Gandhi, himself and Mr. Sanjiv Gandhi, relative of him, none of the other Directors are interested or concerned in this resolution.

Date : **29th July, 2003**
Registered Office :
Village : Merda Adraj
Taluka : Kadi
District : Mehsana, Gujarat - 382 721.

for Hester Pharmaceuticals Limited

Rajiv D. Gandhi
Managing Director

DIRECTORS' REPORT

Dear Shareholders,
Hester Pharmaceuticals Limited,

The Managing Director presents his 16th Annual Report and the Audited Statement of Accounts of the Company for the year ended March 31, 2003.

FINANCIAL RESULTS :

	Current Year	(Rs. In Lacs) Previous Year
Profit before Depreciation & Tax	92.29	67.51
Less : Depreciation	25.35	24.89
Profit after Depreciation & Tax	66.94	42.62
Less : Provision for Tax	21.18	28.90
Prior Period Expenses	0.13	0.00
Add : Extra Ordinary Item	0.00	74.38
Net Profit after Tax	45.63	88.10
Profit & Loss A/c.	(127.79)	(215.89)
General Reserve	65.32	65.32
Balance of Accumulated Loss	(16.84)	(62.47)

REVIEW OF OPERATIONS

The last financial year has seen a total turn around of the company. As evident from the financial results, last year, we had a net profit for Rs. 45.63. Though this is lesser than that in the year 2001-02, it needs to be noted that in the year 2001-02, we had a write-back of Rs. 74.38 lacs against term loan and interest. The last years profit does not include effects of any extra ordinary items.

For the first time, we embarked onto exports. We exported vaccines to West Asia. In the current financial year, we hope to export our products to China and other South-East Asian countries.

As against Rs. 62.47 lacs in 2001-02, the accumulated losses have fallen to Rs.16.84 lacs.

In the early June, 2003, we have terminated our collaboration agreement with Maine Biological Laboratories, USA. The reasons for termination were:

1. Hester's desire to pursue international business opportunities to improve the profitability and to achieve capacity utilization.
2. The technology covered in the agreement was completely absorbed, thereby, in the current scenario, no new technology was available from MBL.
3. Hester has a desire to acquire newer technologies independently, which are more cost effective and profitable.

Financial implications due to this termination of the agreement: Savings of approximately Rs. 15.00 lacs by way of royalty and a savings of Rs. 30.00 lacs by way of not having a need to import raw materials from MBL. This amount saved will be utilized to fortify the ongoing basic R&D in poultry vaccines, to develop immunization programs for the Indian poultry Industry, thereby reducing disease incidences.

The 300,000 equity shares held by MBL have been acquired by NRIs.

In 2002, Hester was appointed as the exclusive Indian distributor by BIOPHARM of Czech Republic, for their coccidiosis vaccine - LIVACOX. Our endeavour is to achieve at market share of 75% for this vaccine by the end of this current financial year.

There has been a continuous process for upgradation of our management systems. We hope to get WHO recognized GMP certification before the end of this financial year. We continue to be an ISO 9001:2000 certified company.

DIVIDEND :

Your directors do not recommend any dividend for 2002-03 in view of the accumulated losses of the company.

ENERGY CONSERVATION :

(Information under section 217(1)(e) of the Companies Act, 1956.)

The company has a continuous focus on energy conservation. Regular studies are conducted to analyse quantitative energy conservation patterns, and variances are rigorously scrutinized. The company regularly benchmarks its energy conservation levels and consistently works towards improving efficiencies, towards getting the cost of energy down for every unit produced.

TOTAL ENERGY CONSUMPTION AND ENERGY CONSUMPTION PER UNIT OF PRODUCTION :

		31.03.2003	31.03.2002
(A) Power and Fuel Consumption:			
Electricity :			
(a) Purchased Units	Kwh	3,51,697.00	3,24,567.00
Total Amount	Rs.	18,35,539.74	16,02,156.50
Rate / Unit	Rs.	5.21	4.94
(b) Own Generation through Diesel Genset			
Units	Kwh	6,390.00	11,930.00
Units per litre of Diesel Oil	Kwh	1.94	2.08
Cost / Unit	Rs.	10.83	9.33
(B) Consumption per unit of production :			
Electricity consumed per vial (in units)		1.30	1.34

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RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION:

During the last financial, we achieved the distinction of becoming self sufficient from imported raw materials. Here on, for all the poultry vaccines licenced to us, we now have no dependency on any imported components. This in it self will reduce our raw material costs by more than Rs. 30.00 lacs.

DIRECTORS :

The Board of Directors have appointed Dr. Parimal Tripathi as an alternate Directors for Mr. Herry Shinkoi & Mr. Abhinav Shukla as an alternate Directors for Mr. Ravin Gandhi and Ms. Bela Gandhi. Mr. B. S. Bhalerao and Mr. James Bigmore have resigned from the Board due to his personal reason, w.e.f. 27th June, 2002. The Board of Directors wish to place on record the valuable guidance extended by both the Directors, during their tenure.

In accordance with the provisions of the Articles of Association and of the Companies Act, 1956, Mr. Darayus Lakdawalla, Mr. Sanjiv D. Gandhi and Mr. Ravin Gandhi, Directors retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

FOREIGN EXCHANGE EARNINGS & OUTFLOW

Foreign exchange earning during the year was Rs. 23.45 lacs (Previous Rs. nil) towards sale of goods. Total outflow of foreign exchange during year was Rs. 43.44 lacs, towards purchase of Raw Materials, Capital items, Traveling expenses, Training expenses, Royalty and Technical know-how fees, as compared to Rs. 75.02 lacs during the previous year.

PUBLIC DEPOSITS :

The company has not invited or accepted any deposits under Section 58A of the Companies Act, 1956, from the public, during the year.

FINANCE :

The working capital requirement and capital expenditure were funded through internal accruals and by banks.

CORPORATE GOVERNANCE :

The Company has adopted Corporate Governance practices and has complied with all the mandatory requirements as specified under clause 49 of the Listing Agreement by SEBI. As required under the listing agreement, a separate Report on Corporate Governance forms part of this Annual Report. The certificate from statutory Auditors of the Company regarding compliance of conditions of Corporate Governance is part of this report and is annexed.

The Board of Directors supports the basic principles of corporate governance. In addition to this, the board lays strong emphasis on transparency, accountability and integrity.

FORMATION OF VARIOUS COMMITTEES :

Details of various committees constituted by the Board of Directors are given in the Corporate Governance Report annexed and forms part of this report.

DEPOSITORIES :

The company's shares are being traded in dematerialised form. The connectivity with NSDL and CDSL has been obtained. Shareholders of the Company, who are still holding the shares in physical form, are requested to dematerialise their shares, immediately.

PARTICULARS OF EMPLOYEES:

Particulars with regard to employees under section 217(2A) of the Companies Act, 1956, is not applicable.

DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to Section 217 (2AA) of the Companies Act, 1956 I would like to state the following:

1. In the preparation of the Annual Accounts, the applicable accounting standards have been followed.
2. The Directors have selected such accounting policies and applied them consistently and made judgements and estimates, that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company, at the end of the financial year ended on 31st March. 2003.
3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. The Directors have prepared the attached statements of accounts for the year ended 31st March, 2003 on a going concern basis.

AUDITORS & AUDITORS REPORT :

M/s. Shah Narielwala & Co.; Chartered Accountants, retire at the forthcoming Annual General Meeting and have confirmed their eligibility and willingness to accept the office, if re-appointed.

Notes forming part of the accounts are self explanatory and therefore, do not require any further comments.

ACKNOWLEDGEMENT:

The Directors sincerely express their deep appreciation to Bank of India, GIIC, Employees at all levels and customers for their sustained support. The directors also appreciate the support extended by Maine Biological Laboratories, USA. Last but not the least, the directors convey their gratitude to the esteemed shareholders whose dauntless support has been the main source of inspiration.

By order of the Board

Rajiv Gandhi
Managing Director

29 July, 2003
Ahmedabad

Management Discussions and Analysis

Outlook for the Industry

The poultry Industry continued to have its sluggish growth due to disease problems as well as problems of over production in broilers. Broiler rates were all time low for a few months. On the other hand, with the organized sector getting into poultry breeding and chicken marketing, the poultry industry is slated to get more organized. We have reasons to believe that in the next few years, investment in the poultry industry will go up in a sizable manner, thereby assuring a better market for poultry vaccines.

With regards to competition, imports of poultry vaccines continue to reduce, more so due to typical disease problems, wherein the requirement is the use of vaccines manufactured from local virus strains, rather than using vaccines manufactured from strains which are found in other countries.

Outlook for the Company

The company's immediate focus is towards paying off its long term debts in this financial year, thereby reducing the heavy interest burden. This will be achieved by allocating revenues for the long term debt payments.

Once the long term debt is cleared, by the end of the third financial quarter of this year, the company hopes to stabilize itself by March 2004, to then aim for a 50% rise in revenues in the next financial year.

Risks & Concerns

International companies tend to offer vaccines at a much lower rate than the prevailing international rates. Though the duty does offset this price advantage, this concern does remain.

Internal Control Systems

The company has budgetary control systems and performance review programs. The organization structure is very compact, thereby enabling the company to have the highest sale: employee ratio amongst other poultry vaccine manufacturers in India.

Financial performance Vs Operational performance

The financial performance of the company for the year 2002-03 is described in the Director's report.

Human Resources

Work Culture programs are regularly embarked upon. The company has continued to give special attention to human resources development.

Industrial relations continued to remain cordial at all levels.