



Hester Pharmaceuticals Limited



SEVENTEENTH
A N N U A L
R E P O R T
2 0 0 3 - 2 0 0 4

ANNUAL REPORT 2003-2004

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. Abhinav Shukla	<i>Alternate Director</i>
Dr. Parimal Tripathi	<i>Alternate Director</i>

REGISTERED OFFICE :

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

CORPORATE OFFICE :

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

MANUFACTURING UNIT :

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

BANKERS :

Bank of India
Navrangpura Branch,
Ahmedabad - 380 009.

AUDIT COMMITTEE

Mr. Darayus Lakdawalla	<i>Chairman</i>
Mr. Sanjiv D. Gandhi	<i>Member</i>
Mr. Vimal Ambani	<i>Member</i>
Dr. Parimal Tripathi	<i>Member</i>

SHAREHOLDERS' GRIEVANCE COMMITTEE

Mr. Darayus Lakdawalla	<i>Chairman</i>
Mr. Sanjiv D. Gandhi	<i>Member</i>

REMUNERATION COMMITTEE

Mr. Darayus Lakdawalla	<i>Chairman</i>
Mr. Vimal Ambani	<i>Member</i>
Dr. Parimal Tripathi	<i>Member</i>

AUDITORS :

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

REGISTRAR & SHARE TRANSFER AGENTS

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

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NOTICE

NOTICE is hereby given that **17th** Annual General Meeting of the Members of Hester Pharmaceuticals Limited, will be held on **Thursday, the 26th August, 2004 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 2004 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 Dr. V. A. Padval, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Dr. Bhupendra V. Gandhi, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors of the Company and fix their remuneration.

SPECIAL BUSINESS

5. To consider and if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution.

"RESOLVED THAT subject to provisions of Securities Contracts (Regulation) Act, 1956, Listing Agreements with the Stock Exchanges and Securities and Exchange Board of India (Delisting of Securities) Guidelines 2003 and all other applicable laws, rules, regulations and guidelines and subject further to such approvals and sanctions as may be required, the Board of Directors (hereinafter referred to as "the Board" which term shall include a Committee of Directors) be and is hereby authorised to de-list the Equity Shares of the Company from the 'The Stock Exchange, Ahmedabad'."

"RESOLVED FURTHER THAT for the purpose of giving effect of the foregoing, the Board be and is hereby authorised to do all such acts, deeds and things as it may consider necessary and to settle any question, difficulty that may arise in regard thereto."

Date : **28th June, 2004**

for **Hester Pharmaceuticals Limited**

Registered Office :

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

Rajiv D. Gandhi
Managing Director

Note

- Explanatory statement pursuant to section 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 **19th August, 2004 to 26th August, 2004** (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 - 2220 0338 / 2220 0582
Fax : 079 - 2220 2963
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, **Dr. V. A. Padval, & Dr. Bhupendra V. 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 **2004-2005**.
- The Company intend to de-list its Equity Shares from the Stock Exchange Ahmedabad, subject to Members' approval.

Explanatory Statement

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

Item No.5

The Securities Exchange Board of India had notified "Delisting of Securities Guidelines - 2003" on 17th February, 2003 ("the Guidelines"). As per the Guidelines, a Company may seek voluntary delisting of its securities from some of the Stock Exchanges, including Regional Stock Exchange and further that exit opportunity is not required to be provided in cases where such securities continue to be listed at a Stock Exchange having nationwide trading terminals i.e. The Stock Exchange, Mumbai or The National Stock Exchange and any other stock exchange(s) that may be specified by SEBI in this regard.

Presently, Equity Shares of the Company are listed at Stock Exchanges at Ahmedabad and Mumbai.

It is proposed to de-list the equity shares of the Company from the 'The Stock Exchange- Ahmedabad', in view of their nil trading on the said exchange. This approval is being sought in view of the new guidelines issued by SEBI.

The proposed voluntary delisting of the Company's shares from the said Stock Exchange will not adversely affect any investor including members located in the regions where the said Stock Exchange is situated. With wide and extensive networking of BSE terminals, the investors have access to online dealings in the company's securities across the country. The proposed delisting would further contribute to the cost reduction initiative taken across various functional areas of the Company.

Consent of members is sought to de-list the Equity Shares of the Company at the 'The Stock Exchange - Ahmedabad', as proposed in the Special Resolution.

The Board recommends the Resolution for approval of members. None of the Directors are interested or concerned in the proposed Resolution.

Date : **28th June, 2004**

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,

It gives me great pleasure in addressing this note to you.

I hereby present the **17th annual report** and the audited statement of accounts of the company, for the year ended 31st March, 2004.

FINANCIAL RESULTS :

	Current year	(Rs. In Lacs) Previous Year
Profit before Depreciation & Tax	221.88	92.29
Less : Depreciation	26.95	25.35
Profit after Depreciation & Tax	194.93	66.94
Less : Provision for Tax		
Deffered Tax	71.04	13.91
Current Tax	16.20	6.00
Earlier Years income tax	0.00	1.27
Less : Prior Period Expenses	0.87	0.13
Net Profit After Tax	106.82	45.63
Profit & Loss Account	(82.16)	(127.79)
General Reserve	65.32	65.32
Reserves & Surplus	89.98	(16.84)

FINANCIAL HIGHLIGHTS**Sales**

Against an estimation of Rs. 5.5 crores, we achieved sales of Rs. 7.68 crores.

Earning per share

There is an almost 3 times increase in the EPS for the financial year ended 31.3.2004 as compared to financial year ended 31.3.2003.

Financial Ratios

The Company registered an impressive 74% growth in sales with an increase of 140 % growth in Cash profit and 191% growth in Profit before Tax.

Net Profit after Tax Ratio improved from 10% of Previous Year to 14% during the year 2003-04.

The Company has progressively reduced its debt exposure and interest burden during the year and has repaid term loan to GIIC. Consequently, the debt: equity ratio has come down from 0.41:1 at the beginning of the year to 0.29:1 at the year end.

Surplus funds generated out of Operation are kept as Preference Share redemption Reserve.

REVIEW OF OPERATIONS

The financial year ending March 2004 has many achievements to boost. A few of them are list below:

1. GMP certification

We received GOOD MANUFACTURING PRACTICES certification from the drug authorities.

2. Received licence to manufacture 5 additional poultry vaccines

In July 2003, the Drug authorities granted us permission to manufacture and introduce 5 additional poultry vaccines, thereby taking our range of licenced vaccines to 40. 3 out of these 5 additional vaccines are import substitutes.

3. Complete pay-off of the term loan with GIIC

We paid off the full amount including the interest and thereby releasing the first charge from them. As seen in our balance sheet, our interest cost has gone down substantially.

4. Increase in reserves and surplus

From a position of having accumulated losses in 2002-2003 of Rs. 16.84 lacs, we now have a surplus of Rs. 89.98 lacs. During this financial year we propose to provide for the redemption of preference equity.

5. Continuance of ISO certification

We continue to be an ISO 9001:2000 certified company.

6. Termination of our technical collaboration with Maine Biological Laboratories

This has resulted in a savings of royalty of 3% which would have been approximately Rs. 20 lacs. It has also allowed us to now explore international markets, which, earlier, we were not allowed to as per the agreement.

As I am addressing this note, we are about to end the first quarter of this financial year, I desire to share with you a few achievements of our first quarter for the financial year 2004 - 05:

1. On 1.4.2004, we signed an exclusive agreement with Merial Inc, USA, wherein we are appointed as their exclusive distributors for their complete range of poultry vaccines. This has now enabled us to increase our vaccine range. During this financial year, we hope to add a turnover of approximately Rs. 2 crores with their product line. Merial is the world's biggest animal health company having a turnover of over Rs. 8100 crores in the last financial year.
2. We would achieve a turnover of a little over Rs. 3 crores in the first quarter ended 30.6.2004, thereby setting a trend towards achieving a turnover of over Rs. 12 crores in this financial year.
3. We have made a substantial addition in the plant and machinery to enhance our capacity, thereby gearing ourselves to achieve a 100% growth rate in this year.
4. Though in a small way, we have started penetrating in the African and Middle East markets. Regular orders are being shipped to a couple of countries, while registration is in progress in quite a few of these countries.

DIVIDEND

In order to redeem our preferential equity, we have created a preferential redemption reserve. We hope to redeem the preferential equity of Rs. 1.40 crores in the first quarter of the next financial year. In such circumstances, we are unable to declare any dividend for the year 2003-04.

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 analyses 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 :

		31.03.2004	31.03.2003
(A) Power and Fuel Consumption :			
Electricity :			
(a) Purchased Units	Kwh	4,69,185.00	3,51,697.00
Total Amount	Rs.	23,32,198.00	18,35,539.74
Rate/ Unit	Rs.	5.12	5.21
(b) Own Genration through Diesel Genset			
Units	Kwh	13,200.00	6,390.00
Unit per liter of Diesel Oil	Kwh	2.26	1.94
Cost/Unit	Rs.	10.64	10.83
(B) Consumption per Unit of Production :			
Electricity consumed per vial (in units)		1.03	1.30

RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION :

We continue to work towards increasing our production yields and reducing production cycles to achieve higher productivity.

FOREIGN EXCHANGE EARNINGS & OUTFLOW :

Foreign exchange earning during the year was Rs.9.27 lacs (Previous Rs.23.45) towards sale of goods. Total outflow of foreign exchange during year was Rs.21.72 lacs, towards purchase of Trading goods, Traveling expenses, as compared to Rs.43.44 lacs during the previous year.

DIRECTORS :

Mr. A. C. Patel , Nominee Director of GIIC Ltd. has resigned from the Board w.e.f. 29th January, 2004, as the Company has repaid full amount to GIIC Ltd. Your Directors record their deep appreciation for the valuable contributions made by him during his tenure.

In accordance with the provisions of the Articles of Association and of the Companies Act, 1956, Dr. V. A. Padval and Dr. Bhupendra V. Gandhi, Directors retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

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.

Annual Report 2003-2004

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:

In the preparation of the Annual Accounts, the applicable accounting standards have been followed.

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, 2004.

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.

The Directors have prepared the attached statements of accounts for the year ended 31st March, 2004 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 express their appreciation to Bank of India, Employees at all levels and customers for their sustained support. The directors also appreciate the past support extended by Maine Biological Laboratories, USA and GIIC.

Last but not the least, the directors convey their gratitude to the esteemed shareholders whose dauntless support has been the main source of inspiration.

28 June, 2004
Ahmedabad

By order of the Board
Rajiv Gandhi
Managing Director

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.

To curtail the disease problems, the Government of India has banned the imports of poultry products including poultry vaccines, since February 2004. This was a bold step taken by the Government to ensure that the industry is well protected from a few diseases, mainly Avian Influenza or Bird Flu disease as commonly known. I need to make a mention of the fact that India is free from Avian Influenza.

The organised sector in the poultry industry is getting bigger, thereby opening up newer opportunities for us.

OUTLOOK FOR THE COMPANY

With the above mentioned on-going ban on the import of poultry vaccines, the company's immediate focus is towards offering import substitutes thereby reducing the dependency of the industry on imported vaccines, even upon the ban being lifted.

Another focus is on redeeming the preferential equity by the beginning of the next financial year.

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 2003-04 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.

REPORT ON CORPORATE GOVERNANCE

The Securities and Exchange Board of India (SEBI) ushered in a formal code of corporate governance practices by introducing the new Clause 49 in the listing agreement with the Stock Exchanges. Clause 49 lays down several corporate governance practices that listed companies are required to adopt. Most of the practices laid down in Clause 49 require mandatory compliance and there are some more provisions which are voluntary for adoption. Your Company had to achieve compliance with the mandatory requirements of Clause 49 by **31st March, 2004**. This report sets out the compliance status of the Company during the financial year **2003-04** with respect to the conditions of corporate governance set out in Clause 49.

PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE :

The Philosophy on Corporate Governance aims at attainment of the highest levels of transparency, accountability and equity in the functioning of the Company vis-a-vis interactions with employees, shareholders, creditors and customers. The objective of the Company is not only to meet the statutory requirements of the code but also go well beyond it by instituting such systems and procedures as are in accordance with the latest global trend of making management completely transparent and institutionally sound.

BOARD OF DIRECTORS :

The Company's board comprises of 11 Directors (including alternate Directors) with a mix of executive/non-executive and promoter / independent directors. The composition of Board complies with the requirements of the Corporate Governance code with more than 50% of the directors being non-executive directors and more than 33% of the directors being independent directors.

5 Board meetings were held during the financial year **2003-2004**. The dates on which Board Meetings held are **27/06/2003, 29/07/2003, 10/10/2003, 31/01/2004 and 29/03/2004**. The **16th** Annual General Meeting was held on **30/09/2003**.

The table below provides the composition of the Board, their attendance at Board meetings & AGM and number of other directorship, chairmanship/membership of other companies.

Name of the Director	Category	No. of other Directorship held in public companies in India	No. of other Board committees of which Member /Chairman	Board meeting attended	Attendance at the last AGM
Mr. V A Padval	Non Executive Independent Director	0	0	0	No
Mr. Bhupendra V Gandhi	Non Executive Non Independent Director	0	0	0	No
Mr. Rajiv D Gandhi	Executive Non Independent Director	5	0	5	Yes
Mr. Sanjiv D Gandhi	Executive Non Independent Director	3	0	0	No
Mr. Darayus Lakdawalla	Non Executive Independent Director	1	0.	5	Yes
Mr. Ravin Gandhi	Non Executive Independent Director	0	0	0	No
Ms. Bela Gandhi	Non Executive Independent Director	0	0	0	No
Dr. Herry Shinkoi	Non Executive Independent Director	0	0	0	No
*Mr. A C Patel	Non Executive Independent Director	4	1	4	Yes
Mr. Vimal Ambani	Non Executive Independent Director	2	0	2	No
Mr. Abhinav Shukla	Non Executive Independent Director	1	0	3	No
Alternate Director					
Dr. Parimal Tripathi	Non Executive Independent Director	0	0	2	No
Alternate Director					

* Resigned w.e.f. 29th January, 2004

Notes

1. This number excludes the directorships/committee memberships held in private companies and also of the Company.
2. As required by the Companies Act, 1956 and Clause 49 of Listing Agreement, none of the directors hold directorship in more than 15 public companies, membership of board committees (audit /remuneration/investors grievance committees) in excess of 10 and chairmanship of board committees as aforesaid in excess of 5.

None of the Non-executive Directors has any pecuniary relationship, except Dr. Bhupendra V. Gandhi, Mr. Ravin Gandhi and Ms. Bela Gandhi who are relative of Managing Director of the Company. Non-executive Directors have no transaction with the company, except receiving sitting fees for attending Board Meetings. The details of sitting fees, commission and remuneration paid to each director appear later under the disclosure relating to Remuneration to Directors.