

Hiran  rgochem Limited

Annual report 2005-06

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Incorporated in 1983, Mumbai-based Hiran Orgochem Limited (hereafter referred to as Hiran) is a leading integrated manufacturer of active pharmaceutical ingredients. Hiran's product basket comprises of Ciprofloxacin and Enrofloxacin. Hiran has two GMP certified plants at Ankleshwar, Panoli, an established chemical industrial area in Gujarat.

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Corporate information

Board of Directors

Mr. Kantilal M. Hiran
Chairman and Managing Director

Mr. Vijay K. Hiran
Whole Time Director

Mr. M. Kailash Kumar
Additional Director (w.e.f. 28th March, 2006)

Mr. H. N. Bafna

Mr. Uttamchand Hiran

Mr. Mukesh Naik

Auditors

M/s. B. L. Dasharda & Associates
Chartered Accountants

Bankers

State Bank of India

Registered Office

E-501 / 502 / 503, Remi Biz Court,
9, Shah Industrial Estate, Off Veera Desai Road,
Andheri (West), Mumbai - 400 053.
email : info@hiranorgochem.com / hiran@vsnl.com
website : www.hiranorgochem.com

Plant

Plot No. 663, GIDC, Panoli, Ankleshwar, Gujarat -
394116.

Registrar and Share transfer agents

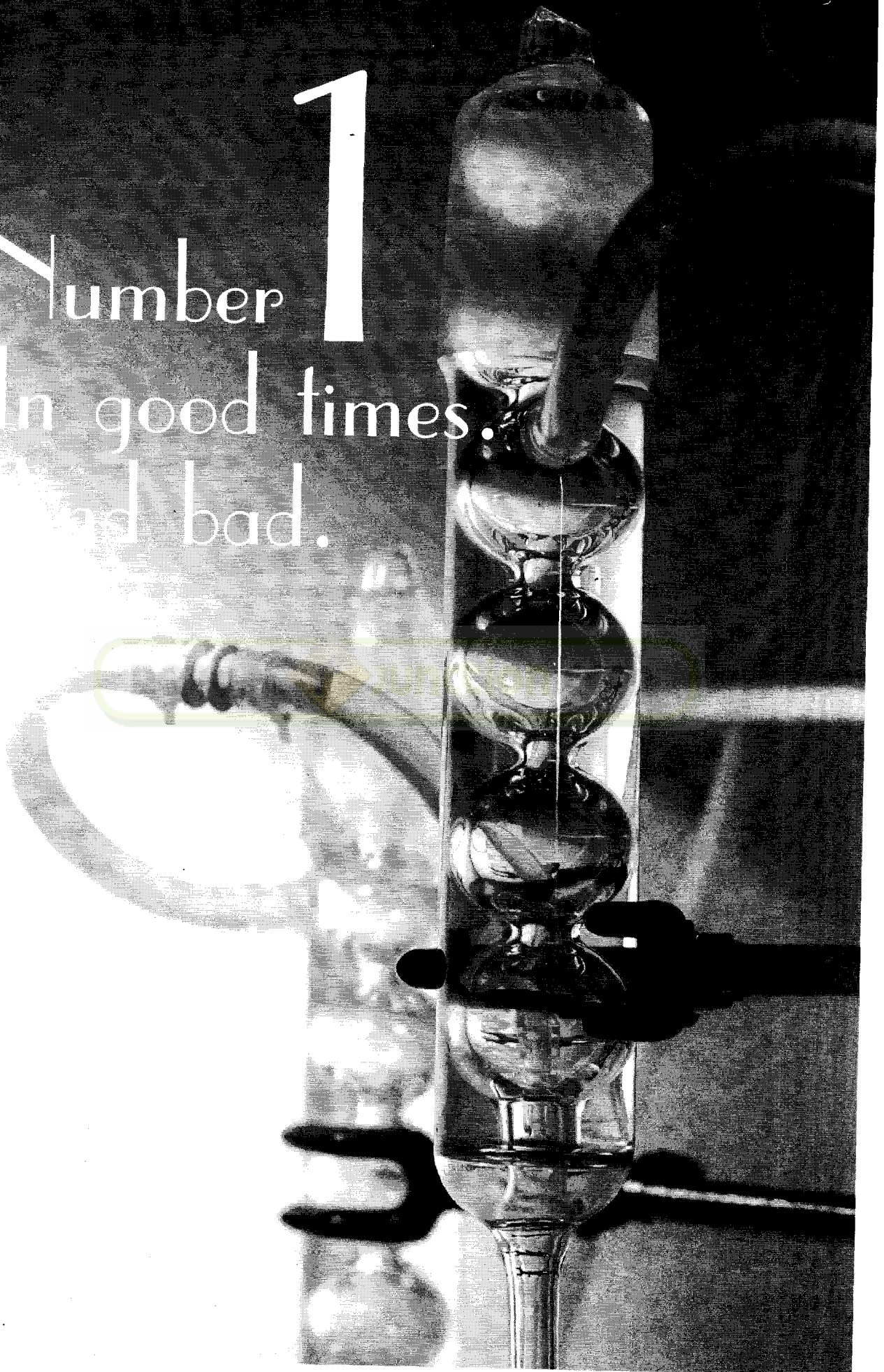
Bigshare Services Pvt. Ltd.
E-2, Ansa Industrial Estate, Sakivihar Road,
Saki Naka, Andheri (E), Mumbai - 400 072.
Tel No. 022-2847 3474 / 2847 0652 / 53.
Fax No.: 022-2847 5207.
Email: bigshare@bom7.vsnl.net.in



Number 1

In good times.

And bad.



Comparison of Ciprofloxacin prices

Quarter	Price (Rs per kg)
Q1 Apr- June, 2005	1410
Q2 July - September, 2005	1730
Q3 October - December, 2005	1475
Q4 January - March 2006	1300

Comparison of DCFA prices in the international market

Quarter	Price (USD per kg)
Q1 Apr- June, 2005	8
Q2 July - September, 2005	12
Q3 October - December, 2005	11
Q4 January - March 2006	7

2005-06 was perhaps the worst ever year for Ciprofloxacin manufacturers across the globe.

Because an industry, where adequate raw material (DCFB and acetophenone) availability usually results in Ciprofloxacin production outstripping demand, thereby fuelling cut-throat competition and aggressive price cuts, for the first time in 2005-06, witnessed, a reversal of the raw material supply situation with the industry nearly strangled due to raw material shortages - a situation which threatened the very fundamentals of this business.

Beginning February 2005, Ciprofloxacin manufacturers received the first feel of the acetophenone supply shrinking with the closure of three principal DCFB manufacturing facilities in China on account of the enforcement of strict pollution control norms in China, subsequent to it signing the WTO agreement in 2003.

This situation further worsened, as the largest Ciprofloxacin manufacturer in China is located proximate to the raw material suppliers. Resulting in a major portion of this scarce raw material being consumed in China.

Result:

1. Acute short-supply of DCFB, a critical component for manufacturing acetophenone, lead to spiraling acetophenone prices from USD 4.6 per kg to over USD 13 per kg.
2. Upward movement of Ciprofloxacin prices: from USD 16 per kg to USD 26 per kg in China, from Rs 850 per kg to Rs 1800 per kg in India and over USD 50 per kg in the other international markets.
3. Ciprofloxacin manufacturers operated at 30 per cent lower capacity utilisation levels, addressing less than 50 per cent of the total prevalent demand across the globe with many manufacturers stopping production altogether.

In such a bleak and challenging environment, only those Ciprofloxacin manufacturers possessing control on the supply of raw materials: DCFB and acetophenone stood to benefit from the growing demand-supply disequilibrium and the zooming Ciprofloxacin prices.

Hiran Orgochem was one such player.

- Who, despite the severe shortage of raw material experienced by other players in the industry received assured quantity of DCFA, on account of it excellent long term tie-ups with suppliers and longstanding relationships with them, its strong negotiation capacity by virtue of its principal player positioning and by prudently resorting to 100 per cent cash payments for its purchase in an industry where 180 day credit period is the norm.
- Who successfully continued production, reported higher utilisation levels than most players and benefited from its expanded capacities.
- For whom, the price for it key raw material (2, 4 Di Chloro 5 Fluoro Acetophenone) increased by only 50 per cent due to the above mentioned initiatives, but realisations for its final product (Ciprofloxacin) increased by 100 per cent.
- And lastly, who not only reported a 100 per cent increase in its revenues, but also successfully capitalised on the rising Ciprofloxacin prices and reported a ten-fold increase in its bottom-line.

AMPLY EXEMPLIFYING THE FACT THAT IT TAKES A NUMBER 1 PLAYER TO NOT ONLY TIDE OVER THE PESSIMISM OF AN INDUSTRY DOWNTURN, BUT ALSO TO LEVERAGE INHERENT COMPETITIVE STRENGTHS AND SUCCESSFULLY GROW ITS BUSINESS IN ADVERSE CONDITIONS.

Report

Dear Shareholders,

THIS HAS BEEN ONE OF THE MOST EVENTFUL YEARS IN HIRAN'S HISTORY.

We fortified our domestic market leadership in our focus area (of manufacturing Ciprofloxacin), continued operating at near full levels due to assured supply of key materials, a direct result of our careful nurturing of relationships over the years with customers and suppliers, leveraged our operational strengths to emerge as a cost efficient and quality producer and successfully expanded capacities in the previous fiscal, the benefits for which were derived in the current year.

While our financial performance for the year was truly exemplary, the numbers only begin to tell the story.

For our results are a testament of the inherent robustness of our business and the drive for performance by everyone at Hiran, reflected in the fact that these results were achieved amidst challenging times and a negative business environment for Ciprofloxacin manufacturers. And it is indeed gratifying to state that our results were not

overshadowed by the prevailing rough times witnessed in the industry with Hiran emerging as a winner all the way.

The theme for our annual report this year celebrates our achievement and retention of the number one position in the domestic market.

Having reached so far, we now propose to take your company to the next stage of its development and endeavour to establish ourselves as a global leader.

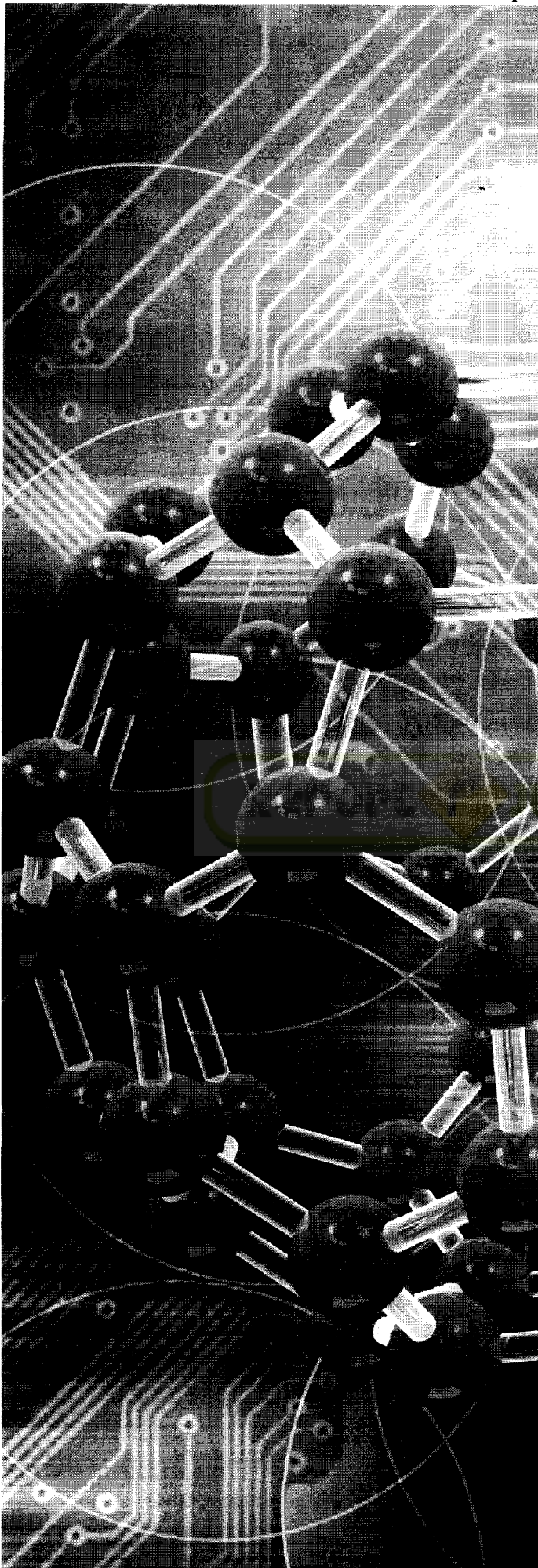
We fully understand that the path to achieving such an ambitious goal will require us to cross significant milestones and we are passionately and strategically working towards it. We plan to begin with the aggressive reinforcement of our capacities from 960 MT per annum to 2000 MT per annum by the next financial year.

Next on the anvil will be our focus on integrating backwards by acquiring a DCFA plant to manufacture key raw materials, a tactical move which will insulate our business from any future raw material shortages, will further improve our cost efficiencies (30 per cent savings on raw materials) and make us the first completely integrated Ciprofloxacin manufacturer with the capability to manufacture right from benzene to Ciprofloxacin under one roof.

With capacities, WHO GMP certification and USFDA approvals for our proposed manufacturing facilities and cost efficiencies in place, we are optimistic of addressing new markets and customers, especially the developed markets of US and UK, where by virtue of deriving better realisations, we are optimistic of improving our profitability even more in the future.

Value chain

Our future plans also comprise a climb up the value chain by entering into the formulation space and concurrently extending our product base within the quinolone family. To drive this plan, our company is in



the process of entering into promising collaborations with trusting third party partners, who are aligned with our objectives and cognizant of our goals. This will give us room to test waters in the formulations segments by initially expanding through a third party without heavily investing in building the capacities. Hiran has plans to set up a new business division (Hiran Life Sciences) to take this move forward. Hiran has set aside a sum of Rs 220 mn for the next 10-12 months on process driven research and development activities.

Operational excellence

Hiran's well-defined focus and strategy, unrivalled pace of activities and quality of progress within the Ciprofloxacin manufacturing space are evenly matched with operational excellence, which has played a pivotal role in establishing Hiran's leadership. We look forward to complementing our future plans with even more superior operational controls.

Hiran understands the pulse of its markets through an energetic marketing team which possesses the skills and ability that not only help the company garner a higher market share but are also constantly on the move across key markets to get a clarity of the best returns, forge the best deals and develop an eye to avoid apparent risks.

No future plan can be achieved without the entrepreneurial spirit, the passion and the exceptional talent of the key management personnel and members of the Board, who bring together a wealth of corporate experience to the table. I look forward to their continued guidance to augment the intrinsic value of Hiran in the coming years. I also take this opportunity to thank each of our employees for their contribution to the company and am confident that they will continue to be my partners in taking Hiran to its next era of growth.

The markets we serve have fantastic growth opportunities for decades ahead. We believe that this is just the beginning of a long journey ahead and we are on our way to a bright and dynamic future and look at augmenting our revenues by at least ten fold over the next five years.

Kantilal M. Hiran
Chairman and Managing Director

NOTICE is hereby given that the Twenty Second Annual General Meeting of the Members of **Hiran Orgochem Limited** will be held at 'Goregaon Sports Club', Link Road, Malad (West), Mumbai - 400 064 on **Friday, the 29th day of September, 2006 at 11:00 A.M.** to transact the following business:

Ordinary Business:

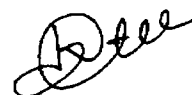
1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March 2006 and Balance Sheet as on that date alongwith the Reports of Directors and Auditors thereon.
2. To declare Dividend on Equity Shares of the Company.
3. To appoint a Director in place of Mr. Vijay Hiran, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Mukesh Naik, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

Special Business:

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

"RESOLVED THAT Mr. M. Kailash Kumar who was appointed as an Additional Director of the Company on 28th March, 2006 pursuant to the provisions of Section 260 of the Companies Act, 1956 read with the Articles of Association of the Company and who would vacate his office at the ensuing Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the said Act, along with necessary deposit from a shareholder proposing the candidature of Mr. M. Kailash Kumar as a Director of the Company, be and is hereby appointed as a Director of the Company whose office shall be liable to retirement by rotation."

For and on behalf of the Board of Directors



Kantilal M. Hiran

Chairman & Managing Director

Place : Mumbai

Dated : 5th May, 2006

Registered Office:

E-501/502/503, Remi Biz Court, 9, Shah Industrial Estate,
Off. Veera Desai Road, Andheri (West), Mumbai - 400 053.

NOTES

1. ***A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL, TO VOTE INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER.***

THE INSTRUMENT APPOINTING PROXY SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY-EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

2. The Register of Members and Share Transfer Books will remain closed from Saturday, 23rd September, 2006 to Friday, 29th September, 2006 (both days inclusive).
3. The payment of dividend, if any, declared at the Annual General Meeting, will be made to those shareholders or their nominees whose names appear as Beneficial Owners as at the end of business hours on Friday, 22nd September 2006 in the lists of Beneficial Owners to be furnished by National Securities Depository Limited and Central Depository Services (India) Limited in respect of the shares held by them in electronic form, and whose names appear as Members in the Register of Members of the Company after giving effect to valid share transfers in physical form lodged with the Company on or before Friday, the 22nd September, 2006. Dividend warrants shall be dispatched within thirty days from the date of the Annual General Meeting.
4. Members are requested to notify immediately any change in their address / bank mandate to their respective Depository Participant (DP) in respect of their electronic share accounts and to the Company's Registrar & Share Transfer Agent at Bigshare Services Pvt. Ltd., E-2, Ansa Industrial Estate, Sakivihar Road, Saki Naka, Andheri (E), Mumbai – 400 072 in respect of their physical share folios.
5. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their queries to the Managing Director, so as to reach the registered office of the Company at least seven days before the date of the meeting, to enable the Company to make available the required information at the meeting, to the extent possible.
6. Members/proxies are requested to bring their copy of Annual Report to the Meeting.
7. Members/proxies are requested to bring the Attendance Slip sent herewith duly filled for attending the Meeting.
8. The Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of Item No. 6 is appended hereto.

**BRIEF RESUME OF PERSONS PROPOSED TO BE APPOINTED / RE-APPOINTED
AS DIRECTORS OF THE COMPANY AT THE ANNUAL GENERAL MEETING:**

Name	Mr. Vijay Hiran	Mr. Mukesh Naik	Mr. M. Kailash Kumar
Age	25	51	33
Qualification	Diploma in Foreign Trade	Bachelor of Chemical Engineer	MBA, Chartered Accountant
Nature of Expertise	Export	Bulk and fine drug manufacturing	Taxation, Financial Planning and Project Appraisal
Experience	7 years	29 years	10 years
Name of other Companies in which also holds Directorship	None	Neutra Plus Product (India) Ltd.	None
Name of other Companies in Committees of which holds Membership / Chairmanship	None	None	None
Shareholding in Hiran Orgochem Limited	N.A.	Nil	Nil

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

Item No. 6:

Mr. M. Kailash Kumar was appointed as an Additional Director of the Company with effect from 28th March, 2006 pursuant to the provisions of Section 260 of the Companies Act, 1956 and Articles of Association of the Company. Pursuant to the provisions of the said section, the term of office of the said Director expires at the ensuing Annual General Meeting of the Company. The Company has received notice under Section 257 of the said Act along with the necessary deposit from a shareholder proposing the candidature of Mr. M. Kailash Kumar for the office of Director of the Company.

The Board recommends the appointment of Mr. M. Kailash Kumar as Director of the Company.

The resolution vide Item No. 6 is therefore proposed for approval of the Members.

Mr. M. Kailash Kumar is concerned or interested in the resolution at Item No. 6 of the Notice for his appointment as Director of the Company. No other Director is interested or concerned in the said resolution.

For and on behalf of the Board of Directors



**Kantilal M. Hiran
Chairman & Managing Director**

Place : Mumbai
Dated : 5th May, 2006