



NAGARJUNA AGRICHEM LIMITED

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ANNUAL REPORT 2004-2005



Nagarjuna Agrichem Limited

BOARD OF DIRECTORS

Dr. Nitish K. Sen Gupta
Chairman

G.S. Raju
Managing Director

Sukhendu Ray

P.K. Mallik

K.S. Raju

D. Ranga Raju

K. Rahul Raju

K. Lakshmi Raju

A.S. Pardha Saradhi
Company Secretary

Registered Office

Plot No.61, Nagarjuna Hills,
Punjagutta, Hyderabad - 500 082

FACTORIES

Arinama Akkivalasa
Etcherla Mandal
Srikakulam - 532 403

Shadnagar
Nandigaon Village
Kothur Mandal
Mahaboobnagar District

Auditors

M. Bhaskara Rao & Co.
Chartered Accountants
5D, Kautilya, Somajiguda,
Hyderabad - 500 082.

Bankers

State Bank of India
HDFC Bank Limited
ICICI Bank Limited
State Bank of Mysore
Indian Overseas Bank

Share Transfer Agents

Big Share Services P Ltd.
G-10, Left Wing,
Amrutha Ville,
Opp: Yashodha Hospital,
Somajiguda, Rajbhavan Road,
Hyderabad - 500 082.
Phone : 040-23374967
Telefax: 040-23370295
e-mail:hyd2_bigshare@yahoo.com

18TH ANNUAL GENERAL MEETING

Day : Friday
Date : 23rd September, 2005
Time : 10 a.m.
Venue : KLN Prasad Auditorium
Federation of Andhra Pradesh
Chambers of Commerce and Industry
Federation House,
11-6-841, Red Hills,
Hyderabad - 500 004.

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Nagarjuna Agrichem Limited

NOTICE

Notice is hereby given that the Eighteenth Annual General Meeting of Nagarjuna Agrichem Limited will be held at 10 a.m on 23rd September, 2005 at Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, P.B. No. 14, Red Hills, Hyderabad - 500 004 to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Audited Balance Sheet as at 31st March, 2005, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in the place of Dr. Nitish K Sen Gupta who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in the place of Mr. Sukhendu Ray who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint M/s. M. Bhaskara Rao & Co., Chartered Accountants, the retiring Auditors as Statutory Auditors of the company 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 pursuant to Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 the mortgage and/or charge created / to be created by the Company on the immovable and movable properties of the Company wheresoever situated, both present and future, and/or conferring power to enter upon to take possession of assets of the company in certain events, to or in favour of

- State Bank of India, Industrial Finance Branch, Hyderabad for securing the Term Loan of Rs. 10 crores and Working Capital Facilities of Rs. 17 crores;
- HDFC Bank Limited, Lakdikapool, Hyderabad for securing the Working Capital Facilities of Rs. 15 crores;
- ICICI Bank Limited, Begumpet, Hyderabad for securing the Working Capital Facilities of Rs. 20 crores;

together with interest, liquidated damages, commitment charges, premium on prepayment or on redemption, costs, charges, expenses be and the same are hereby confirmed, approved and ratified."

By Order of the Board

Place : Hyderabad
Date : 23rd May, 2005

A.S.Pardha Saradhi
Company Secretary

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of himself and such a proxy need not be a member of the company. Proxies (in the annexed form) and power of attorneys, in order to be effective must be received at the registered office of the company not later than 10.00 a.m on the 21st September, 2005.
2. Members holding shares in physical and electronic form are requested to inform immediately the change, if any, in their address to M/s. Bigshare Services Pvt. Ltd, G-10, Left Wing, Amrutha Ville, Opp. Yashodha Hospital, Somajiguda, Raj Bhavan Road, Hyderabad - 500 082.
3. The Register of Members and Share Transfer Books will remain closed from 20th September, 2005 to 23rd September, 2005 (both days inclusive).
4. The Dividend, if declared, will be paid to the members entitled thereto, whose names appear in the Registers of the Company as on 23rd September, 2005.



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5. Members are advised to avail nomination facility as per the amended provisions of Companies Act, 1956, for which nomination forms are available with the Registrars.
6. Consequent upon amendment of Section 205A of the Companies Act, 1956 and introduction of Section 205C, by the Companies (Amendment) Act, 1999, the amount of dividend remaining unclaimed for a period of seven years shall be transferred to the Investor Education & Protection Fund.

The company has declared dividends for the years 2001-2002, 2002-2003, 2003-2004 as also an Interim dividend for the year 2004-2005.

Members who have not encashed their dividend warrants are requested to contact the company immediately.
7. Members who hold shares in dematerialised form are requested to bring their client ID and DPID numbers for easy identification of attendance at the meeting.
8. The company has paid the Listing Fees for the year 2005-2006 to The Stock Exchange, Mumbai where the shares of the Company are listed.
9. **Re-appointment of Directors:**
At the ensuing Annual General Meeting, Dr. Nitish K Sen Gupta and Mr. Sukhendu Ray retire by rotation and being eligible offer themselves for re-appointment. The information or details pertaining to these Directors to be provided in terms of Clause 49 of the Listing Agreement with the Stock Exchange are furnished in the statement on Corporate Governance published in this Annual Report.

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

The Explanatory Statement for Item No. 6 of the accompanying Notice set out hereinabove is as under:

Item No. 6

The Company has borrowed monies from State Bank of India, HDFC Bank Limited and ICICI Bank Limited for meeting its funds requirement. In terms of the agreements entered into with the Bank, the Company had secured / need to secure these borrowings by mortgaging certain fixed assets of the company.

The mortgage and/or charge created by the company as aforesaid may be regarded as a disposal of the Company's undertaking(s) within the meaning of Section 293(1)(a) of the Companies Act, 1956 which requires the approval of the Members of the Company under the said Section 293(1)(a) of the

Act. Accordingly, the Ordinary Resolution at Item No. 6 of the Notice seeking the approval, confirmation and ratification to the creation of the mortgage by the Company in favour of State Bank of India, HDFC Bank Limited and ICICI Bank Limited is submitted for your approval.

A copy of the Agreements with State Bank of India, HDFC Bank Limited and ICICI Bank Limited will be available for inspection by the Members at the Registered Office of the Company between 12.00 Noon and 1.00 P.M on any working day except Saturdays and holidays upto the date of the meeting.

No Director of the Company is directly or indirectly concerned or interested in this resolution.

By Order of the Board

Place : Hyderabad
Date : 23rd May, 2005

A.S.Pardha Saradhi
Company Secretary



Nagarjuna Agrichem Limited

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Eighteenth Annual Report of the Company together with the Audited Accounts for the year ended 31st March 2005.

Operating Results

Your Company's performance during the year as compared with that during the previous year is summarised below:

	Rs. in Lakhs		
	Year ended 2004-05	Year ended 2003-04	Growth (%)
Gross Sales	33812	23088	
Other Income	516	241	
Total Income	34328	23329	47
Profit Before Taxation	3973	1768	125
Less : Provision for Taxation	1521	635	
Profit After Taxation	2452	1133	116
Add : Surplus brought forward	836	305	
Amount available for appropriation	3288	1438	

Appropriations

Your Directors recommend appropriations as under:

Dividend		
Special	224	—
Final (Proposed)	104	179
Corporate Dividend Tax	44	23
Transfer to		
General Reserve	800	400
Surplus Carried Forward	2116	836
Total Appropriations	3288	1438

Dividend

The Board of Directors of the Company at its meeting held on 9th November, 2004 declared a special dividend of Rs.1.50 Ps. for each equity share of Rs.10/-. The dividend was paid to the shareholders on 6th December, 2004.

The Board of Directors are pleased to recommend a final dividend of 7% on the equity Share Capital of the Company for the financial year ended 31st March, 2005.

Performance

During the year under review, Gross Sales increased to Rs 33,812 lakhs, as compared to Rs. 23,088 lakhs during the previous year. This translates to a year-on-year sales growth of 46%. Nagarjuna has been fortunate to have a year of exceptional growth that far exceeds the industry average of about 15%. This increase in sales was primarily due to significant growth in Export sales coupled with increased sales of the company's branded formulations in the Domestic market.

The Profit before Tax for the year under review was Rs. 3,973 lakhs as compared to Rs.1,768 lakhs during the previous year. The Net Profit after Tax for the year under review was Rs. 2,452 lakhs as compared to Rs.1,133 lakhs during the previous year.

Domestic Market

During the year, the demand for Agrochemicals in India was at the highest levels witnessed in more than a decade. Due to uncertainties associated with the Monsoon, the local markets in India had a very inconsistent demand pattern for several years. However, during the year 2004, demand was consistently strong across all Indian states and as a result, Nagarjuna's branded formulations business grew significantly.

In order to further strengthen the retail branded sales business of the company; several new products have been introduced during this year. The expanded product portfolio has helped the company enter new markets and offer its crop protection solutions to a wider range of crops.

The market in India continues to be fiercely competitive. Most generic companies are relentlessly/carelessly driving down product prices in order to either maintain or gain market share. Unfortunately for most generic companies, their only key selling point has become product pricing, as opposed to, product differentiation or brand building. This excessive concentration on lower selling prices as the only business strategy, is going



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to accelerate erosion of margins for Generic companies and lead to further consolidation in the industry. Given the fact that almost 80% of Nagarjuna's sales of agrochemicals come from the Indian market, it will be an interesting challenge for the company to have business strategies that will enable it to get through the tough times ahead and grow in a consolidating market.

Going forward, another area of concern in the domestic market is the cotton crop. Cotton continues to be the major pesticide-consuming crop in India. Due to continued advancements in Seed biotechnology, there is some degree of uncertainty regarding the future role of pesticides in the Cotton crop. Any significant reduction in consumption of pesticides on Cotton, could potentially translate to negative growth in the overall domestic market.

Exports

During the year under review, export revenue has grown to Rs. 5,363 lakhs as compared to Rs.2,037 lakhs during the previous year. This represents a growth of 163%. While such a high growth rate is unsustainable on a consistent basis, the company recognizes that exports will continue to be the best opportunity for business growth in the future. Exports today account for about 20% of Net Sales of the company. It is our long-term intent to ensure that atleast 40% of the sales of the company will come from Export markets. In order to achieve this goal, the company will have to make substantial investments in its Manufacturing Plants, Process Development, Product Registration and Marketing Infrastructure and Human Resources.

New Projects/Expansions

The company is continuing its aggressive investment strategy to significantly upgrade its manufacturing plants and business control/information systems. During the year under review, the company has made capital investments of Rs. 3,300 Lakhs, which is the highest it has ever done in a single year since its inception. Barring some unforeseen downturn in the economy, it is the intent of the company to continue to make substantial capital investments to build world class manufacturing facilities that are comparable in safety and operational efficiencies to the best plants in the world.

Overseas Subsidiary

Nagarjuna Agrichem (Australia) Pty Limited is a Wholly Owned Subsidiary of the company incorporated in Australia. The subsidiary was started primarily for the purpose of applying for and holding product registrations for the company's products in Australia. Due to some recent changes in product registration requirements initiated by the Australian government, it is no longer necessary for overseas manufacturers to have a local office in Australia for holding product registrations. It was therefore decided to close the subsidiary and closure permission was obtained from the Australian Securities and Investments Commission (ASIC) vide their notification dated 25th March, 2005. The audited financial statements of the subsidiary and particulars pursuant to the requirements of Section 212 of the Companies Act, 1956 appear in the annexure hereto.

Environmental Protection

Your company is committed to improve the environment around its area of operations at Srikakulam. It continues to nurture and expand the vast green belt around its factory. It has also participated in various community welfare activities in the neighbouring areas.

Energy Conservation, Technology Absorption and Foreign Exchange earnings and outgo

Disclosures required under the provisions of Section 217 (1) (e) of the Act relating to conservation of energy, technology absorption and foreign exchange earnings and outgo in terms of the Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988, are set out in a separate statement attached hereto and forms part of this report.

Directors

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Dr. Nitish K Sen Gupta and Mr. Sukhendu Ray will be retiring by rotation at the forthcoming Annual General Meeting and are eligible for re-appointment.

As required under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975



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forms part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the reports and accounts are being sent to all the Members without the statement of particulars under Section 217(2A). Any Member interested in obtaining a copy of this statement may write to the Company Secretary at the Registered Office of the Company.

Auditors

M/s. M Bhaskara Rao & Company, Chartered Accountants, Hyderabad, the Company's Auditors, retire at the conclusion of the ensuing Annual General Meeting. They have signified their willingness to accept re-appointment and have further confirmed their eligibility under Section 224(1B) of the Companies Act, 1956.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed that :

- (i) In the preparation of the annual accounts the applicable accounting standards have been followed along with proper explanations relating to material departures;
- (ii) 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 as at 31st March, 2005 and of the profit of the Company for the year ended on that date.
- (iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

- (iv) The Directors have prepared the annual accounts of the Company on a 'going concern' basis.

Consolidated Financial Statements

In accordance with the Accounting Standard AS-21 on Consolidated Financial Statements read with Accounting Standard AS-23 on Accounting for Investments in Associates, your Directors have pleasure in attaching the Consolidated Financial Statements which form part of the Annual Report and Accounts.

Personnel

Industrial relations at the Factory and at Head Office continued to be cordial.

Corporate Governance

A separate section on Corporate Governance and a Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchange forms part of the Annual Report.

Acknowledgement

Your Directors wish to place on record their appreciation of the support, co-operation and assistance received from the Customers, Government authorities, State Bank of India, HDFC Bank Limited, ICICI Bank Limited, State Bank of Mysore, Indian Overseas Bank, Shareholders, Suppliers, Employees and the community in the vicinity of the plant.

On behalf of the Board

Dr. Nitish K Sen Gupta
Chairman

Place : Hyderabad
Date : 23rd May, 2005



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Annexure to the Directors' Report

FORM A

Form for disclosure of particulars with respect to conservation of energy

	Unit	2004-2005	2003-2004
A. Power And Fuel Consumption			
1) Electricity			
A) Purchases			
Unit	KWH	9,998,548	8,477,880
Total Amount	Rs. In Lakhs	354.90	317.20
Rate / Unit	Rs.	3.55	3.74
(B) Own Generation			
(I) Through Diesel Generator	KWH	1,043,541	663,705
Unit Per Liter Of Diesel Oil	Rs.	3.33	2.67
Cost / Unit	Rs.	8.19	6.48
2. Coal(specify Quantity & Where Used)			
	C Rom - Used For Boiler		
Quantity	MT	1121.645	318.090
Total Cost	Rs. In Lakhs	28.52	4.71
Average Rate / MT	Rs.	2542.24	1480.72
3. Furnace Oil			
Quantity	KL	2967.613	1375.000
Total Amount	Rs. In Lakhs	313.18	152.92
Average Rate	Rs	10,553	11,122
4. Others / Internal Generation (Please Give Details)			
Farm Waste			
Quantity	MT	9,742.390	12,048.582
Total Cost	Rs	80.20	102.71
Rate / Unit (Mt)	Rs	823	852
5. Consumption Per Tonne Of Production			
Electricity	KWH	4212	4135
Furnace Oil	KL	1.13	0.62
Coal - Quality: C Rom	MT	0.54	0.14
Others (Specify)	MT	3.72	5.45

FORM B

Form for disclosure of Particulars with respect to technology absorption.

A. RESEARCH AND DEVELOPMENT (R&D)

- | | |
|--|--|
| <p>1 Specific areas in which R&D carried out by the Company</p> <p>2. Benefits derived as a result of the above R&D</p> <p>3. Future plans of action</p> | <p>a. R&D work on the existing processes to make them environmentally friendly and cost effective.</p> <p>b. Indigenous process developments for new products.</p> <p>Increased export business and improved product quality.</p> <p>Introduction of new products through indigenously developed technology.</p> |
|--|--|



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4. Expenditure on R&D
 - a. Capital : Rs.8.01 lakhs
 - b. Recurring : Rs.136.45 lakhs
 - c. Total Expenditure as a percentage of total turnover : 0.42%

B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- 1 Efforts in brief, made towards technology absorption, adaptation and innovation : Increased size of R&D process development, purchase of new equipments and generation of process technical for new products.
2. Benefits derived as a result of the above effort eg. Product improvement, cost reduction, product development, import substitution etc.,
 - a. The plants operate effectively with new addition of products.
 - b. Exports started growing.
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the technical year) following information may be furnished
 - a. Technology imported : None
 - b. Year of import : Not Applicable
 - c. Has technology been fully absorbed : Not Applicable
 - d. If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of actions : Not Applicable

C. PARTICULARS OF FOREIGN EXCHANGE EARNINGS AND OUTGO:

- i. Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services, and export plans

Exports are an important part of Nagarjuna's future growth strategy.
Exports have grown from Rs.2037 lakhs to Rs.5363 lakhs as a result of several initiatives taken by the Company.
- ii. Foreign Exchange Earnings and Outgo

	Rs.Lakhs
Raw Materials	5971.29
Capital Goods	23.53
Traded Goods	323.93
Total	6318.75
Foreign Exchange Earnings (FOB Value)	5011.57



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A. CORPORATE GOVERNANCE

At Nagarjuna we believe in the philosophy of **SERVING SOCIETY THROUGH INDUSTRY.**

This philosophy is backed by principles of concern, commitment, quality and integrity in all its acts and relationships with stakeholders, customers, associates and community at large which has always propelled the Group towards higher horizons.

At Nagarjuna we continue to strive to transform the business environment we operate in. We are also at work transforming the society around us. Our aim is to create an environment which enhances opportunities for all the good things, better health, education and overall quality of living that life has to offer.

B. BOARD OF DIRECTORS

(i) Pecuniary Relationship

Non Executive Directors do not have any pecuniary relationship with the Company.

(ii) Composition

The present strength of the Board of Directors is eight.

Dr. Nitish K.Sen Gupta was appointed as Chairman of the Company with effect from 17th May 1996.

The Board consists of eminent persons with considerable professional expertise and experience in setting up and operating agrochemical manufacturing plants and pesticide formulations and in other fields such as finance, accounts, legal and taxation.

The Company has not entered into any materially significant transactions with its promoters, directors, management or relatives etc., which could have a potential conflict of interest with the Company.

During the year under review, Seven Board Meetings were held on 3rd April, 2004, 24th June, 2004, 23rd July, 2004, 23rd September, 2004, 26th October, 2004, 9th November, 2004 and 27th January, 2005.

The details of the composition of the existing Board of Directors are given below:

Name of Director	Designation	Executive /Non-Executive /Independent	Directorship of other Indian Public Limited and Private Limited Companies	Membership in Committees of other Companies' held	No. of Board Meetings Attended	Attendance at the last AGM held Y/N
Dr.Nitish K.Sen Gupta	Chairman	Independent & Non-Executive	6	-	5	Y
Mr.K.S.Raju	Director	Non-Executive	17	8	4	N
Mr.Sukhendu Ray	Director	Independent & Non-Executive	6	9	5	Y
Mr.P.K.Mallik	Director	Independent & Non-Executive	5	9	5	Y
Mr.D.Ranga Raju	Director	Independent & Non-Executive	2	-	7	Y
Mr.G.S.Raju	Managing Director	Executive	4	-	7	Y
Mr.K.Rahul Raju	Director	Non-Executive	9	18	-	N
Mrs K Lakshmi Raju @	Director	Non-Executive	2	-	1	N

@ Appointed as Director with effect from 24th June, 2004.