

ANNUAL REPORT 2005 - 2006

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NAGARJUNA AGRICHEM LIMITED



Nagarjuna Agrichem Limited

BOARD OF DIRECTORS

| | |
|--------------------------------|---------------------|
| Dr. Nitish K. Sen Gupta | : Chairman |
| Sukhendu Ray | : Director |
| P.K. Mallik | : Director |
| K.S. Raju | : Director |
| D.Ranga Raju | : Director |
| K. Rahul Raju | : Director |
| K. Lakshmi Raju | : Director |
| G. S. Raju | : Managing Director |

A.S.Pardha Saradhi
Company Secretary

Registered Office

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

FACTORIES

Arinama Akkivalasa
Etcherla Mandal,
Srikakulam
Andhra Pradesh.

Shadnagar
Nandigaon Village
Kothur Mandal, Mahaboobnagar,
Andhra Pradesh.

Ethakota P.O. ,
Ravalapalem, East Godavari,
Andhra Pradesh.

19TH ANNUAL GENERAL MEETING

| | |
|-------|--|
| Day | : Friday |
| Date | : 22 nd September, 2006 |
| Time | : 10.00 a.m. |
| Venue | : KLN Prasad Auditorium Federation of Andhra Pradesh Chamber of Commerce and Industry Federation House, 11-6-841, Red Hills, Hyderabad - 500 004. |

Auditors

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

Bankers

State Bank of India
HDFC Bank Limited
ICICI Bank Limited
Punjab National 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

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NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of Nagarjuna Agrichem Limited will be held at 10. a.m. on 22nd September, 2006 at M/s. 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 receive, consider and adopt the 19th Annual Report of the Directors, Balance Sheet as at 31st March 2006, the Profit and Loss Account for the financial year ended 31st March 2006, the Cash Flow Statement for the financial year ended 31st March 2006, and the Report of the Auditors thereon.
2. To declare a dividend on the Equity Shares for the year ended 31st March 2006.
3. To appoint a Director in the place of Mr. K.S. Raju who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in the place of Mr. D. Ranga Raju who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in the place of Mr. K. Rahul Raju who retires by rotation and is eligible for re-appointment.
6. To consider and if thought fit, to pass with or without modification(s) the following resolution which will be proposed as an Ordinary Resolution :

“RESOLVED THAT the retiring Auditors of the company, M/s. M Bhaskara Rao and Co., Chartered Accountants, Hyderabad,

being eligible for reappointment be and are hereby re-appointed as Auditors of the company to hold office from the conclusion of the 30th Annual General Meeting up to the conclusion of the next Annual General Meeting on such terms and conditions as may be fixed by the Board of Directors of the company.”

SPECIAL BUSINESS

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

“RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293 (1)(a) and other applicable provisions, if any, of the Companies Act, 1956 to mortgaging and/or charging by the Board of Directors of the Company of all the immovable and movable properties of the Company wheresoever situate, both present and future, and/or conferring power to enter upon and to take possession of assets of the Company in certain events, to or in favour of ICICI Bank Limited, Singapore (ICICI) to secure the External Commercial Borrowing Facility of USD 10 millions availed from ICICI together with interest thereon at the agreed rates, compound interest, additional interest, liquidated damages, premia on prepayment or on redemption, costs, charges, expenses and other moneys payable by the Company to ICICI under Loan Agreements, Memorandum of Terms and Conditions entered into/to be entered into by the Company in respect of the said financial assistance.



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RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to finalise with ICICI documents for creating aforesaid mortgage and/or the charge and to do all such acts and things as may be necessary for giving effect to this resolution."

8. 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 of 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. 37 crores.
- HDFC Bank Limited, Lakdikapool, Hyderabad for securing Fund & Non Fund Based Working Capital Limits of Rs. 15 crores.
- Punjab National Bank, Banjara Hills Branch, Hyderabad for securing Fund & Non Fund Based Working Capital Limits of Rs. 15 crores.
- ICICI Bank Limited, Begumpet, Hyderabad for Securing Fund and Non Fund Based Working Capital Limits of Rs. 20 crores.
- ICICI Bank Limited, Begumpet, Hyderabad for securing External Commercial

Borrowing Facilities of USD 10 millions for financing the capital expenditure projects of the company;

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."

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

"RESOLVED THAT in supersession of the Resolution passed at the Fifteenth Annual General Meeting held on 12th September, 2002 and pursuant to section 293 (1)(d) of the Companies Act, 1956, and all other enabling provisions, if any, the consent of the company be and is hereby accorded to the Board of Directors of the Company for borrowing from time to time any sum or sums of moneys which, together with moneys already borrowed by the Company (apart from temporary loans obtained or to be obtained from the Company's bankers in the ordinary course of business), may exceed the aggregate for the time being of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided that the total amount of money/moneys so borrowed by the Board shall not at any time exceed the limit of Rupees 250 crores (Rupees Two Hundred and Fifty crores only)".

By Order of the Board

Date : 16th May, 2006
Place : Hyderabad

A.S.Pardha Saradhi
Company Secretary



Nagarjuna Agrichem Limited

Notes:

| Financial Year ended | Date of Declaration of Dividend | Last date for claiming unpaid | Due date for transfer to IEP Fund |
|----------------------------|---------------------------------------|-------------------------------------|---|
| 2001-2002 | 12.09.2002 | 11.09.2009 | 10.10.2009 |
| 2002-2003 | 27.09.2003 | 26.09.2010 | 25.10.2010 |
| 2003-2004 | 23.09.2004 | 22.09.2011 | 21.10.2011 |
| 2004-2005 | 09.11.2004 | 08.11.2011 | 07.12.2011 |
| 2004-2005 | 23.09.2005 | 22.09.2012 | 21.10.2012 |

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 20th September, 2006.
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 19th September, 2006 to 22nd September, 2006 (both days inclusive).
4. 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.
5. Pursuant to the provisions of Section 205A and 205 C of the Companies Act, 1956, the amount of dividends remaining unclaimed for a period of seven years are to be transferred to the Investor Education and Protection Fund. The details of dividend declared / paid for the year 2001-2002 onwards are given below:

Members who have not encashed the Dividend Warrants for the years 2001-2002, 2002-2003, 2003-2004 and 2004-2005 are requested to write to the company for revalidation of dividend warrants before transfer to the Investor Education and Protection Fund.

6. 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.
7. The company has paid the Listing Fees for the year 2006-2007 to The Stock Exchange, Mumbai where the shares of the Company are listed.
8. **Re-appointment of Directors:**

At the ensuing Annual General Meeting; Mr. K. S. Raju, Mr. D. Ranga Raju and Mr. K. Rahul Raju 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.



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Explanatory Statement pursuant to Section 173 Item No. 8
(2) of the Companies Act, 1956

Item No. 7

The Company availed External Commercial Borrowing Facilities of USD 10 millions from ICICI Bank Limited, Singapore. The financial assistance from ICICI has to be secured by mortgage of all the immovable and movable properties of the Company both present and future

Section 293 (1)(a) of the Companies Act, 1956 provides that the Board of Directors of a public company shall not without the consent of the members sell, lease or otherwise dispose of the whole, or substantially the whole of the undertaking the Company. Since the mortgaging by the Company of its immovable and movable properties as aforesaid in favour of ICICI may be regarded as disposal of the Company's properties / undertakings, it is necessary for the members to pass a resolution authorising creation of the said mortgages / charges. The Board commends the resolution for approval of the Shareholders.

A copy of the agreement with ICICI 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 meetings.

No Directors of the Company's directly or indirectly concerned or interested in the resolution.

The Company has borrowed monies from State Bank of India, HDFC Bank Limited, Punjab National Bank and ICICI Bank Limited for meeting its funds requirement. In terms of the agreements entered into with the Bank, the Company had secured / 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. 8 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, Punjab National Bank and ICICI Bank Limited is submitted for your approval.

A copy of the Agreement with State Bank of India, HDFC Bank Limited, Punjab National Bank 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.



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Item No. 9

Pursuant to the provisions of Section 293 (1) (d) of the Companies Act, 1956, the Shareholders of the Company, at an Annual General Meeting held on 12th September, 2002 had authorised the Board of Directors to borrow money, notwithstanding that the moneys to be borrowed by the Company (apart from temporary loans obtained from Company's bankers in the ordinary course of business) may exceed the aggregate of the paid up capital and free reserves of the Company, provided the aggregate money so borrowed does not exceed Rs. 100 crores.

Considering the increase in the level of operations of the Company, it is preferable to increase the existing limit on the borrowing powers of the Board of Directors from Rs. 100 crores to Rs. 250 crores.

By Order of the Board

Date : 16th May, 2006

Place : Hyderabad

A.S.Pardha Saradhi
Company Secretary

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DIRECTORS' REPORT

Your Directors have pleasure in presenting the Nineteenth Annual Report of the Company together with the Audited Accounts for the year ended 31st March 2006.

Operating Results

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

| | (Rs. in Lakhs) | |
|---|----------------|-------------|
| | 2005-06 | 2004-05 |
| Sales | 35152 | 28859 |
| Other Income | 801 | 517 |
| Total Income | 35953 | 29376 |
| Profit Before Taxation | 4183 | 3973 |
| Less : Provision for Taxation | 1383 | 1521 |
| Profit After Taxation | 2800 | 2452 |
| Add : Surplus brought forward | <u>2116</u> | <u>837</u> |
| Amount available for appropriation | 4916 | 3289 |
| Appropriations | | |
| Your Directors recommend appropriations as under: | | |
| Transfer to General Reserve | 500 | 800 |
| Dividend | | |
| - Special Paid | – | 224 |
| - Corporate Dividend Tax | – | 30 |
| - Final (Proposed) | 298 | 104 |
| - Provision for Corporate Dividend Tax | 42 | 15 |
| Surplus Carried Forward | <u>4076</u> | <u>2116</u> |
| Total Appropriations | 4916 | 3289 |

Dividend

The Board of directors of the company are pleased to recommend a dividend of 20% on the equity share capital of the company for the financial year ended 31st March 2006.

Performance

During the year under review, Sales increased to Rs. 352 Crores, as compared to Rs. 289 Crores during the previous year. This translates to a year-on-year sales growth of 22%. This increase in sales was primarily due to significant growth in Exports.

The Profit after Tax for the year under review was Rs. 28.00 Crores as compared to Rs. 24.52 Crores during the previous year. This translates to a year-on-year PAT growth of 14%.

Domestic Market

The local agrochemical market in India experienced an unusually difficult year. Due to a combination of various environmental conditions, there was unusually low pest pressure on most crops. During the year under review, it is estimated that in value terms, the usage of agrochemicals in India has decreased by 15%. For Nagarjuna – there was neither growth nor a reduction in sales in the domestic market, happily there was an overall improvement. We were able to maintain sales at the same level as the previous year primarily due to the introduction of new products.

Reduced local demand led to lower selling prices as companies tried to push more product into an already overstocked market. The Wheat herbicide market followed by the Cotton insecticide markets were probably the most affected by unhealthy price competition. Continuing price erosion due to generic product



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proliferation is causing huge value loss to the industry and the damage in the short to medium term.

The transition by Cotton growers to use BT seed is progressing faster than expected resulting in accelerated decline in pesticide usage on Cotton. It is estimated that over 70% of the Cotton acreage in India has already switched over to seed containing biotechnology induced insect protection. Given the decline in Pesticide in the most important Cotton crop, we do not anticipate the overall agrochemical market in India to show significant short term growth until other crops such as Rice, Vegetables etc. make up for lost sales in the Cotton markets.

Exports

During the year under review, export revenue has grown to Rs.115.40 Crores as compared to Rs.53.63 Crores during the previous year. This represents a growth of 115%. We are pleased to confirm that Nagarjuna has now been recognized by the Government of India as a two star export house. In exports of agrochemicals - Nagarjuna is also now ranked among the top 5 Indian companies.

Exports now account for about 32% of Sales. It is the strategic intent of the company to increase exports so that they will eventually be equal to or even higher than domestic sales. In order to achieve this goal, the company is continuing to make substantial investments into its manufacturing plants, Process development, Product Registration, Marketing infrastructure and Human Resources.

New Projects/Expansions

Based on the fundamental belief that our manufacturing plants are the most valuable strategic assets of the company, we continue to aggressively invest in building new plants, as well as, to update older plants to meet the best

international operational standards. Almost half of the Rs. 20 Crores of assets capitalized during the year – related to up gradation of the Pollution and Environment control systems at the plant. The company today has a wide variety of effluent treatment equipment that will ensure that we will be able to grow our business in the future while being fully compliant with established government standards.

A capital investment of Rs. 35 Crores is also being made to build a new production block at our Srikakulam plant for manufacturing insecticides and fungicides. This new plant is scheduled to start commercial operations in November, 2006.

Our eventual goal is to own and operate the best agrochemical manufacturing plants in India. We are working in this direction and are confident of achieving this distinction before the end of this decade.

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 neighboring 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 outgo and earning, 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.



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Directors

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. K.S. Raju, Mr. D. Ranga Raju and Mr. K. Rahul Raju will be retiring by rotation at the forth coming 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 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 this Annual General Meeting. They have signified their willingness to accept re-appointment and have further confirmed their eligibility under Section 224(1-B) 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, 2006 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.

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, Punjab National Bank, Shareholders, Suppliers, Employees and the community in the vicinity of the plants.

On behalf of the Board

Place: Hyderabad

Date: 16th May, 2006

Dr. Nitish K Sen Gupta
Chairman