

MD	✓		BKC	✓
CS	✓		DPY	NA
RO	✓		DIV	NA
TRA	✓		AC	✓
AGM	✓	✓	SHL	✓
YE	✓	✓		✓

Recon Limited

ANNUAL
REPORT
1997 - 1998

Report  junction.com

RECON
Redefining Excellence

Recon Limited

LOCATIONS

REGISTERED OFFICE 16/2, OVH Road, Basavanagudi,
Bangalore 560 004

Phones 6679182 / 6678142
Fax 080-6610407

MARKETING 429/31, 30th Cross IV Block, Jayanagar,
Bangalore 560 011

Phone 6633197
Fax 080-6635547

MANUFACTURING **Unit 1**
82/A, KIADB Industrial Area, Jigani, Anekal Taluk,
Bangalore District,
Karnataka

Unit 2
Industrial Plot No. 28 Jigani, Anekal Taluk,
Bangalore District,
Karnataka

Unit 3
54/1, NH4, Near 39th Mile Stone,
Boodihal Village, Nelamangala Taluk,
Bangalore District,
Karnataka

R&D CENTRE 32/1, Kalena Agrahara Village,
Begur Hobli, Bannerghatta Road,
Bangalore South Taluk,
Karnataka

Recon Limited

BOARD OF DIRECTORS

S. T. R. MADY	CHAIRMAN
S. JAYAPRAKASH MADY	MANAGING DIRECTOR
H. R. KEDLAYA	DIRECTOR
DR. K. NAGARAJAN	DIRECTOR
A. SURYANARAYANAN	DIRECTOR

FINANCIAL CONTROLLER & COMPANY SECRETARY

P. A. PADMANABHAN

AUDITORS

M/s. RAO & SWAMI
CHARTERED ACCOUNTANTS
2/1, CONNAUGHT ROAD
BANGALORE 560 052

BANKERS

BANK OF BARODA
CORPORATE BANKING BRANCH
RICHMOND ROAD
BANGALORE 560 025

KARNATAKA BANK LTD
S. C. ROAD
BASAVANAGUDI
BANGALORE 560 004

STATE BANK OF TRAVANCORE
INDUSTRIAL FINANCE BRANCH
VAYUDOOOTH CHAMBERS
TRINITY CIRCLE,
BANGALORE 560 001

PUNJAB NATIONAL BANK
INDUSTRIAL FINANCE BRANCH
No.28, 2nd FLOOR, CENTENARY BUILDING
M.G. ROAD, BANGALORE 560 001

Recon Limited

NOTICE

NOTICE is hereby given that the Eighth Annual General Meeting of the members of **RECON LIMITED** will be held at Woodlands Hotel, No. 5, Raja Rammohan Roy Road, Bangalore - 560 025 on Saturday the 26th September, 1998 at 11.00 A.M. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at 31st March, 1998 and the Profit and Loss Account for the year ended as on that date and the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. H.R. Kedlaya who retires by rotation, and being eligible offers himself for re-election.
3. To appoint auditors who shall hold office from the conclusion of this Annual General Meeting to the conclusion of the next Annual General Meeting of the company and to fix their remuneration.

SPECIAL BUSINESS

4. To consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution.
"RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309 read with Schedule XIII of the Companies Act, 1956 (including any modification or reenactment thereof, for the time being in force) and subject to such approvals and sanctions as may be necessary, the Company hereby accords its consent and approval to the re-appointment of Mr. S. Jayaprakash Mady, as Managing Director of the Company for a period of five years from 4th February, 1998 to 3rd February, 2003, upon such terms and conditions as set out in the draft agreement placed before this meeting and initialled by the Chairman for the purpose of identification, which agreement is hereby specifically sanctioned with liberty to the Directors to alter and vary the terms and conditions of the said appointment and/or agreement so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto that the Central Government may make from time to time and that the Board of Directors of the Company be and is hereby authorised to enter into an agreement with Mr. S. Jayaprakash Mady in terms of the said draft of the agreement with such modifications as may be agreed to and acceptable to the Board of Directors and Mr. S. Jayaprakash Mady.

FURTHER RESOLVED THAT the Board of Directors be and is hereby authorised to take such steps as may be necessary and desirable to give effect to the foregoing resolution."

By order of the Board
for **RECON LIMITED**

Regd. Off : 16/2, OVH Road, Basavanagudi,
Bangalore - 560 004
Bangalore, 28.06.1998

P. A. PADMANABHAN
COMPANY SECRETARY

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF, AND A PROXY NEED NOT BE A MEMBER.

Proxies, in order to be effective, must be received by the company not later than 48 hours before the meeting.

2. The relevant Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of item No. 4 is annexed to and forms part of this Notice.
3. Members are requested to notify the change in their address to the Company's Share Transfer agents, Sheshanka Financial Services (P) Ltd, S-702, South Block, Manipal Centre, Dickenson Road, Bangalore -560 042 immediately.
4. All documents referred to in the accompanying Notice and the Explanatory Statement, are open for inspection at the Registered Office of the Company during the office hours on all working days except Sundays between 11.00 A.M and 1.00 P.M. upto the date of the Annual General Meeting.
5. The Register of Members and the Share Transfer Books of the Company will remain closed from 24/09/1998 to 26/09/1998 (both days inclusive).
6. Pursuant to Section 205 (A) of the Companies Act, 1956 an amount of Rs.29,701.82 towards unclaimed dividend for the year ended 31st March, 1994 was transferred to the General Revenue Account of the Central Government, on 28th October 1997. Those

Recon Limited

shareholders who have not encashed their Dividend Warrants for the said year, are requested to claim their amounts from the Registrar of Companies, E Wing, II Floor, Kendriya Sadan, Koramangala, Bangalore - 560 034.

7. Members seeking any information with regard to Accounts are requested to write to the Company immediately so as to enable the management to keep the information ready.

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956.

ITEM NO. 4

Mr. S. Jayaprakash Mady's term of appointment as Managing Director expired on 3rd February, 1998 and the Board of Directors at their Board Meeting held on 29.01.1998 has reappointed him (subject to the approval of shareholders) as Managing Director of the Company for a further period of five years with effect from 4th February, 1998. The abstract of the terms and conditions entered with Mr. S. Jayaprakash Mady has already been circulated to all members as per the requirement of Section 302 of the Companies Act.

The terms and conditions of reappointment are as set out below:

Period of Appointment: From 04.02.1998 to 03.02.2003

Terms of Contract: Subject to the provisions contained in Sections 198, 309 and 310 and other applicable provisions if any, of the Companies Act, 1956, Mr. S. Jayaprakash Mady shall be paid such remuneration by way of salary, commission on profits, performance linked incentive or bonus (hereinafter referred to as remuneration) as may be determined by the Board of Directors from time to time within the maximum limit of Rs.10,50,000/- per annum.

Provided however that:

- (a) In addition to the remuneration Mr. S. Jayaprakash Mady may be paid a commission, performance linked incentive or bonus in respect of the financial year in which the company has adequate profits, the quantum of amount to be decided by the Board at its discretion.
- (b) For the purposes of calculating the above ceiling, perquisites shall be evaluated as per the provision of the Income Tax Rules, wherever applicable. In the absence of such Rules, perquisites and benefits shall be evaluated at actual cost. Provision for use of car for official duties and telephone at residence (including payment for local and long distance official calls) shall not be included in the computation of limits for the purpose of calculating the said ceiling.
- (c) Company's contribution to Provident Fund and superannuation fund or annuity fund, to the extent they are not taxable under the Income Tax Act, 1961, gratuity payable at a rate not exceeding half a month's salary for each completed year of service and encashment of leave at the end of the tenure shall not be included in the computation of limits for remuneration or perquisites aforesaid.
- (d) In the event of any statutory amendment or modification or relaxation by the Central Government to Schedule XIII or other applicable provisions of the Companies Act, 1956, the Board of Directors shall have authority to vary or increase the remuneration including salary, commission, perquisites, allowances etc., within such prescribed limits or ceiling under the said statutory amendment or modification or relaxation without any further reference to the Company in General Meeting.

In terms of the provisions of Section 309 of the Act, the terms of remuneration specified above are being placed before the Members in General Meeting for their approval.

The draft agreement between the Company and Mr. S. Jayaprakash Mady is available for inspection by the Members of the Company at its Registered Office between 11.00 A.M. and 1.00 P.M. on any working day of the Company.

None of the directors of the Company except Mr. S. Jayaprakash Mady, is in any way, concerned or interested in the resolution.

BY ORDER OF THE BOARD
for RECON LIMITED

Regd. Off : 16/2, OVH Road, Basavanagudi,
Bangalore - 560 004
Bangalore, 28.06.1998

P. A. PADMANABHAN
COMPANY SECRETARY

Recon Limited

DIRECTORS' REPORT

Your Directors have pleasure in submitting the Eighth Annual Report on the business and operations of the Company together with Audited Statement of Accounts for the year ended 31st March 1998.

FINANCIAL RESULTS

	For the year ended 31st March, 1998 (Rs. in Lakhs)	For the year ended 31st March 1997 (Rs. in Lakhs)
Income from Operations	5186.51	4943.10
Other Income	19.31	19.00
Total Revenue	5205.82	4962.10
Total Expenditure	4384.71	4407.71
Operating Profits (PBIDT)	821.11	554.39
Interest	602.28	384.51
Depreciation	87.37	41.32
Profit before Taxation	131.46	128.56
Provision for Taxation	14.00	16.60
Profit after Taxation	117.46	111.96
Balance brought forward from previous year	0.37	0.92
Amount available for appropriation	117.83	112.87
APPROPRIATIONS		
Proposed Dividend	Nil	40.00
General Reserve	Nil	68.50
Debenture Redemption Reserve	50.00	Nil
Corporate Dividend Tax	Nil	4.00
Balance carried forward	67.83	0.37

DIVIDEND

Keeping in view the expansion projects in progress and to ensure better utilisation of internal accruals, the Board has decided to plough back whole of the profits earned during the previous year and has not recommended any dividend for 1997-98.

PERFORMANCE REVIEW

The Company has recorded a total income of Rs.5205.82 lacs during 1997-98 as against Rs.4962.05 lacs during the previous financial year.

A comparison of the performance reveals that the Formulations Division has achieved a growth of 5.33% by achieving a turnover of Rs.3797.75 Lacs (including Exports of Rs.126.84 Lacs) as against Rs.3605.71 Lacs during the previous year (including export of Rs.145.96 Lacs). The Bulk Drugs Division has achieved a growth of 38.01% by achieving a turnover of Rs.1333.51 Lacs (including exports of Rs.1096.56 Lacs) as against Rs.966.26 Lacs during the previous year (including exports of Rs.610.47 Lacs). This performance has resulted in a growth in turnover by 12.23% during the previous year.

The Profit before tax (PBT) has increased from Rs.128.56 Lacs to Rs.131.46 Lacs during the 1997-98 after providing for doubtful debts to the extent of Rs.58.98 Lacs. In line with the statutory requirements, provision for MAT has been made to the extent of Rs.14.00 Lacs thus resulting in Profit After Tax (PAT) of Rs.117.46 Lacs for 1997-98 as against Rs.111.96 Lacs for 1996-97.

FORMULATIONS

The formulations operations saw the launch of the products Redclox - a powerful Antibiotic, Remulide Gel - A brand extension of our existing product Redulide and Novil - a muscle relaxant. As during the past, a substantial portion of the formulations turnover has been contributed by NSAIDs which reaffirms our well entrenched position in the NSAID segment. A few products in the Cardiovascular and Anti Bacterial segments are in the anvil. In addition to the above, we are planning for some brand extensions too which will further strengthen our position in the existing therapeutic segments.

Recon Limited

In a move towards restructuring and rationalising our field operations, we have made certain changes which will not only ensure better control and accountability, but will also result in higher productivity through improved efficiency in operations. In the global front, during the year under review, Recon's formulations have made good progress and we have further consolidated our presence in Sri Lanka.

BULK DRUGS

The Bulk Drugs operations has during 1997-98 made significant contribution to the turnover of the company. Although International as well as domestic prices were under pressure, especially during the second half of the year, the margin were higher due to richer product mix and stringent cost control measures. Recon has during the previous year made exports to European countries, South East Asian countries and South American countries where there is a large market for bulk drugs and there is still a lot of market potential lying untapped.

We have also submitted Drug Master Files (DMFs) for various products in North America and in a few European Countries. This will help Recon venture into regulated markets and will fetch premium prices for our products. With continued strong demand for most of the bulk drugs, Recon will constantly strive to expand the output and keep diversifying the range of its major products so as to maintain and improve its market share.

RESEARCH & DEVELOPMENT

Recon has successfully concluded an agreement with National Biochemicals Corporation, Cleveland, Ohio USA for substantial quantities of certain drugs. These drugs are in an advanced stage of clinical trials in USA for a new indication. Recon R & D has developed processes for these drugs and the processes have been transferred to production. DMFs will be filled shortly and inspection and approval by US FDA are expected soon thereafter.

In a significant development towards combating AIDS, our R & D Division has embarked on a collaborative project with the National Chemical Laboratory, Pune to develop a new anti-HIV drug. The project is spread over 2 years and is being funded jointly by Recon and the Department of Science and Technology (DST) of the Government of India. The project envisages development of a reverse transcriptase inhibitor which forms a crucial part of the cocktail therapy, which has been very successful in controlling the spread of AIDS in the west. Work has been on for a few months now and a few compound may soon be sent to the National Institute of Health, US, where a battery of tests will be conducted to check for inhibitory effects on resistant (AZT and Pyridone) strains of HIV 1 and also against HIV 2.

Recon is also engaged to a significant measure on the synthesis of custom chemicals with high value addition.

ISO CERTIFICATION

Recon has embarked on the process of ISO Certification. While the preliminary audits by the external auditors are in progress, Recon is confident of obtaining ISO 9001 certification by Sep 98. Recon believes that this will bring about an overall improvement in the efficiency of its operations.

PROJECT

The Injectable facility at Nelamangala has stabilised its operations during the previous year. While the trial runs commenced during May 1997, viable commercial production could commence only in Jan 1998. This delay was mainly due to poor yields in the trial batches on account of the production process not being standardised. We have managed to successfully tide over the problem and the plant has now fully stabilised. We have also received offers from certain multinationals to have their products manufactured in our plant in addition to our existing loan license activities. We are slowly gearing up to meet this requirement by installing balancing equipment. This will result in further increase in our income without any further investment in working capital. The year 1998-99 will see the fruits of the full years operations of the Injectable facility.

We have also during the previous year as a strategic move to ensure better control on the plant operations, consolidated our Formulations production by shifting our Capsule manufacturing operations to Nelamangala. This has resulted in substantial savings to the company in the form of reduced overheads. Today, our Nelamangala factory houses the injectable as well as Capsule Manufacturing Facilities and both are functioning at their full capacities.

SUBSIDIARIES

By virtue of Section 4(1) (b) of the Companies Act, 1956, Recon Agrotech Limited became the subsidiary of your Company with effect from 1st August, 1997.

The Audited Statements of Accounts of the Subsidiary for the year ended 31st March, 1998 along with the Report of the Board of Directors and Auditors thereon are attached in accordance with the provisions of Section 212 of the Companies Act, 1956.

Recon Limited

JOINT VENTURE AT TANZANIA

Recon (Tanzania) Limited, a Joint Venture Company at Tanzania, has recorded a loss of 12,826,328 Tanzanian Shillings (approx. equivalent to Rs.8,46,538/-) during 1996-97. The Company's holding in Recon (Tanzania) Ltd is 40%.

The loss is mainly due to poor market conditions existing in Tanzania. However the Company is taking all steps to improve the competitive position of Recon (Tanzania) Ltd by adopting effective strategies of Product Repositioning and Brand Promotion. In this respect, the Board envisages further investment in Recon (Tanzania) Ltd in future at the appropriate time subject to the necessary approvals.

PROJECTIONS vs PERFORMANCE

In terms of Clause 43 of the listing agreement, your Directors give below the actual performance for the year 1997-98 as against the projections made in the prospectus.

	Rs. in lakhs	
PARTICULARS	PROJECTIONS	ACTUALS
Income from operations	7681.00	5205.82
PAT	627.00	117.46
Equity Capital	400.00	399.44*
Reserves	2428.00	1569.87
EPS Rs.	15.69	2.94
Book Value (Rs.)	70.70	49.23

*An amount of RS.55,500/- is due from the shareholders towards Equity Capital and an amount of Rs. 4,99,500/- towards Share Premium Account.

The proceeds of the public issue of 10 lakh Equity shares of Rs. 10/- each at a premium of Rs. 90/- per share vide prospectus dated 07/11/1994, have been utilised towards the objects of the issue as stated in the prospectus after making suitable revisions.

ENERGY, TECHNOLOGY, FOREIGN EXCHANGE

Information in accordance with provisions of Section 217 (1) (e) of the Companies Act, 1956, read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules 1988 are set out in Annexure I forming part of the report.

FIXED DEPOSITS

The total amount of deposits accepted by the Company from its shareholders and public and outstanding as on 31st March, 1998 were Rs. 313.89 lakhs. Of these, deposits amounting to Rs.2.17 lakhs had matured but were not claimed for repayment/renewal as on the said date.

PARTICULARS OF EMPLOYEES

Information in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of the Employees) Rules, 1975 are set out in Annexure II forming part of the report.

DIRECTORS

Mr. H.R. Kedlaya retires by rotation and being eligible offers himself for reappointment.

AUDITORS

M/S Rao & Swami, Chartered Accountants, retire at the forthcoming Annual General Meeting and being eligible offer themselves for reappointment.

ACKNOWLEDGEMENT

Your Directors place on record their appreciation and sincere gratitude to the various Departments of the Central and State Governments, Financial Institutions, Bankers, Suppliers, Customers, Depositors, Auditors and Shareholders for their valuable assistance and support. Your Directors also record their appreciation for the sincere and dedicated efforts of all employees and executives at all levels without which the all-round growth and prosperity of the Company would not have been possible.

for and on behalf of the Directors

PLACE: BANGALORE

S.T.R. MADY

DATE: 29/06/1998

CHAIRMAN

Recon Limited

ANNEXURE I

Information as per Section 217(1)(e) of the Companies Act, 1956, regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo:

A. CONSERVATION OF ENERGY

- | | |
|---|--|
| 1. Energy conservation measures taken | The Chemical plant has taken stringent measures to optimise its production planning and utilisation of plant to conserve energy. |
| 2. Additional Investment and proposals if any being implemented for reduction in consumption of energy. | Installing additional fuel efficient boiler to reduce energy consumption. |
| 3. Impact of measures (1) & (2) above for reduction of energy consumption and consequent impact on cost of production of goods. | Enhancement in the Company's productivity and overall reduction in cost of production. |
| 4. Total energy consumption and energy per unit of production | It is not possible to ascertain the total energy consumption per unit of production and hence details in Form A not furnished. |

B. TECHNOLOGY ABSORPTION

[a] Research & Development

- | | |
|---|--|
| 1. Specific areas in which R&D carried out by the company | Research towards development of New Chemical Entities in collaboration with National Chemical Laboratories, Pune.
Process Development for improving the quality and yield of various existing Formulations, Bulk Drugs and Fine Chemicals |
| 2. Benefits derived as a result of the above R & D | Implementation of process for intermediates and formulations. |
| 3. Future plan of action | Basic Research towards New Chemical Entities in Anti-viral and Anti-Inflammatory areas. |
| 4. Expenditure on R&D | (in Rs.) |
| [a] Capital | 28,69,396.00 |
| [b] Recurring | 1,42,68,293.00 |
| [c] Total | 1,71,37,689.00 |
| [d] Total R&D expenditure as a percentage of turnover | 3.34% |

Recon Limited

[b] Technology Absorption, Adaptation and Innovation

- | | |
|---|---|
| 1. Efforts in brief, made towards technology, absorption, adaptation and innovation | Innovative methods of synthesis carried out for new drug molecules and complex synthetic Intermediates developed and scaled up. Emphasis on controlled release technology for various formulations. |
| 2. Benefits derived as a result of the above efforts | Higher quality products resulting in wider acceptance. |
| 3. In case of imported technology (imported during last 5 years from the beginning of the financial year) | Nil |
| [a] Technology imported | Nil |
| [b] Year of Import | Nil |
| [c] Has technology been fully absorbed | Nil |
| [d] If not fully absorbed where they have not taken place, resource thereof and future plans. | Nil |

[c] FOREIGN EXCHANGE EARNINGS AND OUTGO

- | | | | | | | | |
|---|---|---------------------------------|---|----------------|--------|---|---------------------------------|
| 1. Activities relating to exports, initiative taken to increase exports | Currently exporting to Asia, Europe, Africa, South America & North America. Expanding in Poland, Czech Republic, Mexico & Brazil. | | | | | | |
| 2. Total foreign exchange used and earned. | <table border="0"> <tbody> <tr> <td>Used</td> <td>:</td> <td>Rs.419.11 lacs</td> </tr> <tr> <td>Earned</td> <td>:</td> <td>Rs.1,223.40 lacs (c.i.f. basis)</td> </tr> </tbody> </table> | Used | : | Rs.419.11 lacs | Earned | : | Rs.1,223.40 lacs (c.i.f. basis) |
| Used | : | Rs.419.11 lacs | | | | | |
| Earned | : | Rs.1,223.40 lacs (c.i.f. basis) | | | | | |

ANNEXURE - II

INFORMATION AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AS AMENDED AND FORMING PART OF THE DIRECTORS REPORT

Name	Age	Designation	Remuneration in Rs.	Qualification & Experience	Date of commencement	Last employment held
1. Mr.S. Jayaprakash Mady	35	Managing Director	5,45,400	B. Pharm (12)	01.10.90	Recon Pharma
2. Mr. H. R. Kedlaya	63	Wholetime Director	9,01,386	Intermediate (40)	01.09.95	Bangalore Pharmaceutical & Research Laboratory Pvt Ltd.
3. Dr. K. Nagarajan	67	Wholetime Director	6,38,291	Ph.D, FASC., FNA, (47)	01.04.95	Bangalore Pharmaceutical & Research Laboratory Pvt Ltd.
4. Mr. T. V. Anantharaman	61	Vice President-Technical	4,72,450	M.Sc Tech (Chem. Engg.) (39)	16.01.95	Wander Ltd.
5. Mr. K. Kiranshankar	50	Vice President-Marketing	4,82,900	M. Pharm (Admn.)(26)	01.04.95	FDC Ltd.
6. Dr. S. Rajagopalan	56	Vice-President-Corporate Quality Assurance	3,73,047	MSC., Ph.D., F.I.C. (27)	07.06.97	Johnson & Johnson Ltd

Note: Remuneration includes salary, allowances, monetary value of perquisites as per Income Tax Rules and company's contribution to provident fund.