MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS AND OPERATIONAL RESULTS

This report may contain certain statements that the Company believes are, or may be considered to be "forward-looking statements" that describe our objectives, plans or goals. All these forward-looking statements are subject to certain risks and uncertainties, including, but not limited to, Government action, local political or economic development, technological risks, risks inherent in the Company's growth strategy, dependence on certain customers, dependence on availability of technical personnel and other factors that could cause our actual results to differ materially from those contemplated by the relevant forward-looking statements.

The forward-looking statements included in this report are made only as of the date of this report and we undertake no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

Overview

Aksh Optifibre Limited commenced operations in 1986 to manufacture and export PVC and PE insulated Speciality Cables. In the year 1994, the Company diversified into Optical Fibre Cables (OFC). The first Plant was set up in Bhiwadi, Rajasthan, with an installed capacity of 6500 Cable Kilo Meters (ckm) p.a. at a total capital outlay of Rs.910 Lacs.

As a first step towards backward integration, in 1994, we set up a 150,000 Fibre Kilometre (fkm) facility to manufacture Optical Fibre from Quartz Preforms, thus becoming one of the first Indian Companies to set up its own fibre manufacturing unit. This step proved very opportune and insulated the Company against raw material shortages and price fluctuations in the global market. The year also saw a significant cable capacity increase to 13,708 ckm which was further raised to a whopping 33,222 ckm in 1998-99.

1998-99 the Company further realigned its focus and hived off its PVC division, thus concentrating exclusively on the manufacture of Fibre Optics. In continuance of its realigned focus, Aksh also acquired the OFC Plant of CMI, enhancing the cable capacity to 50,358 ckm.

The Company also succeeded in benchmarking quality and innovation standards with achieving the highly coveted certification by the Underwriter Laboratories of the US (UL Certification).

Taking another leapfrog step towards backward integration last year, Telecords (India) Pvt. Ltd. (TIPL) merged with Aksh for the manufacture of FRP Rods with an installed capacity of 100,000 km per annum.

The backward integration strategy has not only helped AKSH become a highly competitive and a significant industry player but has also made it the only integrated Cable, Fibre and FRP Producer worldwide. Add to this, a number of strategic partnerships, value addition through a highly skilled team, and you have a Company that has the capability to deliver its promise of sustained growth with stability, a very critical factor in today's environment.

The current status and growth of AKSH becomes clearer if seen in the light of the industry and the operating environment.

The ongoing reforms in the Telecom Sector coupled with a dynamic and friendly regulatory environment has brought the Optical Fibre Industry at the threshold of a new revolution.

With the huge potential for high bandwidth, low cost rate of information, low mass and the ability to provide a truly integrated convergence scenario, Optical Fibre networks are interlinked with the future of any economy and its people.

Keeping the above in mind, AKSH, a Company committed to benchmarking India's future, is poised towards dynamic growth on its way to becoming a leading global player.

INDUSTRY STRUCTURE AND DEVELOPMENTS:

DEMAND SUPPLY

During the year under review, the Global Optical Fibre (OF) industry, has witnessed a large demand-supply gap, sometimes at 35% of demand. The growth in demand is a direct function of:

- Data traffic having exceeded voice traffic.
- Increased demand for higher data rate fibres.
- Increase in route-km and fibre count.
- Expansion of Optical Fibre closer to the subscriber – Fibre Reaching Homes.

Optical Fibre segment is witnessing a higher growth rate of 92%. The same is expected to rise at an even higher rate in the times to come. While Global demand is likely to grow at a Compounded Annual Growth Rate (CAGR) of over 30%, Indian demand is expected to grow by 42% CAGR in the next 5 years. Reasons for higher domestic demand are:

- Growth in domestic long-distance (DLD) network of BSNL and private telecom service operators. (The DLD segment was opened to private participation in 2000-2001).
- Expected increase of OFC penetration in intra-city networks of BSNL and MTNL, as well as increased installation by providers of broadband access networks, such as ISP's and large cable TV Companies.
- Estimated increase in average fibre count from 17 in 2000-2001 to 31 by 2004-2005.
- The Government has announced the policy to end the monopoly of VSNL in International voice communication services by March 2002.

In 2000-2001, total orders of Optical Fibre Cables, placed by BSNL were lower at 5,40,000 fkm against 8,82,000 fkm in 1999-2000. This was mainly because of the inability of OFC producers to supply the cable due to shortage of optical fibre during the year. In 2000-2001, off-take of OFC by private operators (such as Reliance, PowerGrid, Railways, Bharti, GAIL, etc.) is estimated at 5,04,720 fkm (as compared to 1,96,560 fkm in 1999-2000)

This worldwide increase in demand resulted in a steep rise in OF prices, from approx. US$ 35-40 per fkm in April 2000 to US$ 90-100 in March 2001. This has prompted all the major players to firm up large investment plans. Many cable producers in India have also decided to integrate backwards into the manufacture of Optical Fibre.

With strong demand growth expected in Fibre Optics, there is a major requirement for an expansion in the raw materials for fibre manufacturing. Major players in the free market supply of Preforms, like Shin-Etsu, Japan, and Heraeus of Germany, are expanding their capacities to meet the growing demand. Shin-Etsu is doubling its Preform capacity from 12 mn fkm to 24 mn fkm.

KMI Fibre Optics Marketing Intelligence News, a world leder in Fibre Optics Research, estimates that India will become the fifth-largest consumer of OF by 2003 after US, China, Japan and Brazil.

STRUCTURAL CHANGES IN THE INDUSTRY

The following changes would impact the dynamics of the market in the coming years:

- Corporatisation of BSNL
- Increasing private participation
- Consolidation of ownership among cable companies

SWOT ANALYSIS OF AKSH:

Strengths

- Largest Capacity to manufacture Optical Fibre Cable in India
- Procurement of contracts for Preforms, Nylon-12, Aramid yarn
- Ability to draw Fibre
- Proposed backward integration into Preforms
- Backward integration to manufacture FRP Rods
- World's largest FRP Rod capacity by year 2002
- Lowest cabling cost in India
- Strong relations with the raw material suppliers
- Record of innovations and quality benchmarks
- Ability to attract and retain best talent in the industry
- Sole player in India focusing only on Optical Fibre
- People driven organisation with highly innovative HR practices

Weaknesses

- Absence of capability to manufacture Preforms presently

Opportunities

- Increasing bandwidth demand
- Increasing numbers of fibre per cable due to networks reaching closer to the consumer
- Entry barriers imposed by supply side constraints in Preforms

Threats

- Supply side constraints
- Shortage of trained manpower in the industry
- Numerous Fibre producers with idle drawing capacity

SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

PRICE REALISATIONS:

The price realisations on BSNL's OFC tender applicable to supplies in the last quarter of 2000-01, increased significantly to Rs.8,422 per fkm of cable, as compared to Rs.3,475 per fkm in 1999-2000. For Aksh, price realisation for OFC has increased from Rs.37,742 per ckm, to Rs.51,252 per ckm in the year 2000-01.

For the industry, average prices of Optical Fibre increased significantly from Rs.1,500 per fkm to Rs.4,000 per fkm in 2000-01. For Aksh, price realisation has increased from Rs.2,300 per fkm last year to Rs.3,560 per FKM in the year 2000-01, keeping with the international trends. The prices in the cash market are expected to remain higher than those for contractual purchases.

Aksh Responds to Changing Environment :

Aksh proposes to meet the environmental demands in the following manner :

1. Rapidly scaling up the production capacity for Optical Fibre. A new project for manufacturing 4 million fkm of Optical Fibre as well as 5,00,000 kms of FRP Rods is being put up at Ringus. This represents the largest capacity of FRP rods manufactured worldwide.
2. Long-term Preform contracts have been signed with Shin-Etsu Chemicals Corporation Ltd., Japan, arguably the largest and the best quality manufacturer of Preforms worldwide.
3. Pilot plant for manufacturing Preforms from core-rods has been ordered. Two out of three machines have been received and are operational. The idea is to simultaneously assimilate Preform manufacturing technology.
4. Attempt at opening up Fibre-To-The-Home (FTTH) market is being done so that future demand is driven by this new segment, where Aksh has unique strengths of possessing technology for reducing costs of FTTH phenomenally.

Disclosure Practices :

Aksh has become the first Company in India to present a Monthly Update, drived from Audited financial results of its operations.

RISKS & CONCERNS

- **Supply may catch up with Demand:**

  Global players are increasing their OF Capacities. However, we expect the demand to outplace supply as opticalisation is shifting from a backbone network to Last-mile and other Networks, which would sustain high-demand growth.

- **Price hikes may not sustain:**

  Surge in OF Prices may not grow in future. However, the current demand-supply gap suggests further increases, though in moderate measures. Also, even if prices stabilise at the current levels, it will be beneficial.

- **Project Delays**

  Any delays in the projects would hamper growth prospects. However, at the worst, it can result only in delay in earning growth. Nevertheless, Current Progress suggests that we would be able to stick to the targeted schedule.

- **OF may become a commodity:**

  As technology is changing at a brisk rate, if Technological compatibility is not adhered to, the OF may become like a Product and will suppress the Growth of the Company. However, the Company with its Research & Development and various Innovative measures, will always be inclined towards higher technological products.

We believe that the growth prospects outweigh the risks and the concerns.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Aksh has a proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition, and that transactions are authorised, recorded and reported correctly.

The internal control system is supplemented by an exhaustive programme of internal audits, review by management, and documented policies, guidelines and procedures. The internal control system is designed to ensure that the financial and other records are reliable, for preparing financial statements and other data, and for maintaining accountability of assets.

The Company's business ethics policy is an integral part of the internal control system. The policy sets forth the management's commitment to conduct business with the highest ethical standards and in conformity with applicable laws. The business ethics policy also requires that the documents supporting all transactions clearly describe their true nature and that all transactions be properly reported and classified in the financial records.

DEVELOPMENTS IN HR

During the year, 115 member joined the Aksh family. There was continuous focus on organisational development and various training programmes. Visionary exercises were conducted to ensure that all employees were involved in achieving future goals. Your Company's efforts in the last two years in the area of Human Resource developments, has made Aksh a Preferred Employer, attracting more and more talented professionals. The Company's HR practices are in line with the fast-changing world of today's work environment.

FINANCIAL PERFORMANCE COUPLED WITH OPERATIONAL PERFORMANCE

The Financial Statements have been prepared in compliance with the requirements of the Companies Act, 1956. The Company also had its financial results recast in accordance with U.S.-GAAP, for the years from 1997-98 to 2000-2001, the copy of which can be provided on request, received from any member in writing. The management of Aksh accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgements used therein. In addition to the historical information contained herein, the following discussion includes forward-looking statements which involve risks and uncertainties, including but not limited to, risks inherent in the Company's growth strategy, dependence on certain clients, dependence on availability of qualified technical consultants, and other factors discussed in this report.

A. FINANCIAL CONDITION

1. Share Capital

The Company has, at present, only one class of shares. During the year 91,400 Redeemable preference shares were converted into 18,28,000 Equity Shares of Rs.5/- each. In addition, 3,65,000 Equity Shares of Rs.5/- each were allotted to Aksh Employees Welfare Trust. Further, the Company also came out with the IPO and allotted 59,68,950 Equity Shares of Rs.5/- each. The Shares of the Company are listed on Jaipur Stock Exchange Ltd, the Stock Exchange, Mumbai and National Stock Exchange of India Ltd. The Company has also issued 16,60,942 Equity Shares of Company to the Members of Telecords (India) Pvt. Ltd. consequent to Merger.

2. Reserves and Surplus

The reason for net change in the share premium account of Rs.37,28,60,201 during the year is as per the details given below :

Particulars	No. of Shares	Premium per share	Amount
Public Issue	59,68,950	55	32,82,92,250
RPS (Balance conversion premium at IPO price) ** (Rs.20/- per share received in the last year).	18,28,000	35 **	6,39,80,000
Aksh Employees Welfare Trust	3,65,000	7.50	27,37,500
Transferred from Telecords (India) Pvt. Ltd. on account of Merger	–	–	39,68,000
Sub Total			39,89,77,750
Less : Public Issue expenses written off			2,61,17,549
Total			37,28,60,201

** As per the terms of the issue of RPS, additional premium has been received from RPS holders being differential of conversion price and IPO price.

During the year, the Company transferred the Profit of Rs.1,92,00,000 to the General Reserve, after providing for dividend payment of Rs.5,50,91,352 (Rs.33053460 (Interim) + Rs.22037892 (Proposed Final) and dividend tax of Rs.96,18,628. In addition, Rs.21,33,491 has been transferred from Telecords (India) Pvt. Ltd on account of Merger.

3. Fixed Assets

During the year, the Company capitalised Fixed Assets worth Rs.11,17,73,352 including assets acquired on merger of Telecords (India) Pvt. Ltd. with the Company. At the year end the Gross Block was Rs.10,81,72,096 net of old office Equipment, Plant & Machinery and Vehicles worth Rs.36,01,256.

The capital work-in-progress as on year ended 31st March, 2001 and 2000, represents advances paid towards acquisitions of fixed assets and the cost of assets not put to use.

4. **Investments**

During the year, company has invested an amount of Rs.9045 towards National Saving Certificate (Transferred on account of Merger) and the same stood Rs.3000 during the previous year (transferred on account of acquisition of CMI Ltd, OFC division). The Company has also made a provision of Rs.11,30,129 for diminution in value of quoted investments.

5. **Sundry Debtors**

Sundry Debtors amounts to Rs.29,88,80,589 as at March 31, 2001, as compared with Rs. 14,20,65,877 as at March 31, 2000. These debtors are considered good and realizable. The debtors as a percentage of total turnover is 20.96% for the year ended 31st March, 2001 as compared with 14.18% for the previous year. The increase in the debtors is on account of more sales made in the month of March, 2001.

The classification of debtors is as under.

(Rs. in Lacs)

	Current Year	**Previous Year**
Debts outstanding for a Period exceeding six months		
– Govt.	**153.45**	76.50
– Non Govt.	**4.55**	8.45
Others		
– Govt.	**1898.56**	925.29
– Non Govt.	**932.24**	410.42

6. **Loans and Advances**

Advances recoverable in cash or kind or for value to be received, are primarily towards amounts paid in advance for value and services to be received in future. Loans represent loans to Aksh Employee Welfare Trust amounting to Rs.97,98,539 due to ESPS launched by the Company. Prepaid Taxes amounting to Rs.1,67,72,350 represents advance income tax and TDS.

7. **Current Liabilities**

Sundry Creditors represents the amount payable to vendors for the supply of goods. Creditors for expenses represents the amounts accrued for various other operational expenses. Advances received from customers denotes monies received for the delivery of future services.

8. **Provisions**

Provisions for taxation represents estimated income tax liabilities. The provisions and the advance tax payments would be set off upon assessment. The proposed dividend and provision for tax on dividend represent the final dividend recommended to the shareholders by the Board and would be paid after the Annual general Meeting, upon approval by the shareholders.

B. RESULTS FOR OPERATIONS

1. Turnover

During the current fiscal , the Turnover has increased from 100.17 Crores to Rs. 142.55 Crores, registering a rise of 42.30% per cent. The main drivers for this increase in Turnover are increased price of Optical Fibre Cable, higher demand for Optical Fibre, exports sales and optimum utilisation of in-house fibre.

Miscellaneous Income

During the year, the Company has earned interest on inter corporate and fixed deposits amounting to Rs.1,70,04,178 and duty drawback of Rs.61,51,180 on account of Exports. The miscellaneous income has increased by 18.69% compared to previous year.

2. **Expenditure**

2.1 Manufacturing Expenses

The Manufacturing expenses have decreased as a percentage of sales due to the following:

- Low cost of self-made Fibre.
- Steep rise in prices of optical Fibre Cableparticularly in the fourth quarter.
- In-house production of FRP rods, due to the merger

2.2 Administrative, Selling and Other Expenses

Administrative expenses accounts for 8.8% and 4.71% of total turnover for the year ended 31st March, 2001, and 2000. The expenses have gone up as a % of turnover due to higher expenses being incurred on account of professional charges being paid for creating MIS and Budgetary Control System, creating long term relationship with the suppliers and vendors, building up domestic and export market and new recruitments taking place due to expansion activities.

2.3 Human Resource Cost

The Human Resource Cost (inclusive of Manufacturing and Administrative) represents 3.16 % and 2.51% of total Turnover for the year ended 31st March, 2001 and 2000 respectively.

3. Depreciation

The Company provided a sum of Rs. 2,32,15,475 towards depreciation for the year ended March 31, 2001 as against Rs. 1,48,22,132 in the previous year. This increase is due to the additional plant & machinery brought during the year on account of expansion project.

4. Provision for Tax

The Company has provided for its tax liability. The present Indian Corporate tax rate is 35% plus surcharge of 13%. The Company is entitled for Income Tax benefits under Section 80 IB of the Income Tax Act, 1961, for Plant I & III and under Section 80 HHC of the said Act for export sales.

The Company has provided a sum of Rs.1,80,00,000 and Rs.55,00,000 during the years ended March 31, 2001 and 2000, for the tax liability of earlier years, consequent to the finalization of the tax assessment.

5. Net Profit

The net profit after tax of the Company amounted to Rs. 19,11,50,148 which represents a Net Profit ratio of 13.40 % as against 5.83 % last year. This indicates increase in operating margins and the same can be attributed to the reasons as already specified above.