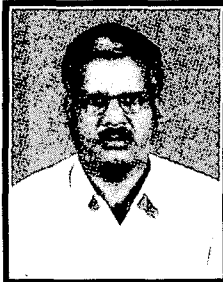




42nd Annual Report 2007-08

MADRAS FERTILIZERS LIMITED

PEOPLE WHO ROTATE THE MFL WHEEL



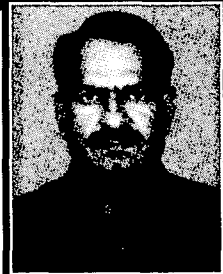
K.Lakshminarayana Rao
GM (F&A)



R.Lawrence
GM (P&A)



S.Muralidharan
CMD



R.Ponnuswamy
GM (M&D)-Acting



P.R. Kosalaram
GM (Plant)-Acting



MADRAS FERTILIZERS LIMITED

BOARD OF DIRECTORS

Chairman & Managing Director

Shri S Muralidharan (from July 23, 2008)
 Shri G S Mangat (from September 05, 2007 to July 23, 2008)
 Shri Sukumar N Oommen (upto September 05, 2007)

Directors

Shri Deepak Singhal, IAS
 Shri Rajesh Agrawal, IAS (upto 31.01.2008)
 Shri H Abbas (from 31.01.2008)
 Shri Mahmood Vaezi
 Shri R Afshin
 Shri Mansoor Rad
 Shri N D Auddy (from 25.01.2008)

Executives

Shri S Muralidharan
 Chairman & Managing Director

Dr R Kannan, IAS
 Chief Vigilance Officer

Board Subcommittee / Management Committee

Shri S Muralidharan
 Shri Deepak Singhal, IAS
 Shri Mahmood Vaezi

Shri K Lakshminarayana Rao
 General Manager (F&A)

Audit Committee

Shri Deepak Singhal, IAS
 Shri Mahmood Vaezi
 Shri Mansoor Rad
 Shri N D Auddy

Shri R Lawrence
 General Manager (P&A)

Shri P R Kosalaram
 General Manager (Plant) - Acting

Shareholders' / Investors' Grievance Committee

Shri S Muralidharan
 Shri Mahmood Vaezi

Shri R Ponnuswamy
 General Manager (Marketing) - Acting


MADRAS FERTILIZERS LIMITED
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Registered Office

Manali, Chennai - 600 068
Tamil Nadu, India

Principal Bankers

State Bank of India
State Bank of Patiala
State Bank of Hyderabad

Auditors

S Venkatram & Co.
Chartered Accountants
" Sri Vigneshwara"
IInd Floor, 218 TTK Road,
Alwarpet, Chennai - 600 018



Madras Fertilizers Limited

Regd Office : Manali, Chennai 600 068.

Notice

NOTICE is hereby given that the 42nd Annual General Meeting of Madras Fertilizers Limited will be held on Tuesday, September 9, 2008 at MFL Training Centre Auditorium (North Gate Entrance), MFL Plant, Manali, Chennai – 600 068 at 3.00 p.m , to transact the following businesses:-

ORDINARY BUSINESS

- 1 To receive, consider, approve and adopt the Audited Balance Sheet as at March 31, 2008 and Profit and Loss Account for the year ended on that date and the Reports of Directors and Auditors thereon.
2. To appoint a Director in the place of Shri Deepak Singhal, IAS who retires by rotation and is eligible for reappointment.
3. To consider and, if thought fit, to pass with or without modification the following resolution as an Ordinary resolution:

“RESOLVED THAT the Board / Audit Committee be and is hereby authorized to fix such remuneration as it may decide for the Statutory Auditors to be appointed / reappointed by Comptroller and Auditor General of India for the year 2008-09 and the Statutory Auditors shall hold office from the conclusion of this AGM till the conclusion of the next AGM”.

SPECIAL BUSINESS

4. To consider and, if thought fit, to pass with or without modification, the following Resolution as an Ordinary Resolution

“ RESOLVED THAT Shri H Abbas be and is hereby appointed as Director of the Company “

By Order of the Board

Date : 21.7.08
Place: New Delhi

G S Mangat
Chairman & Managing Director

Note :

- 1 A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ANOTHER PERSON AS HIS PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. A PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- 2 PROXIES, IN ORDER TO BE VALID, MUST BE LODGED AT THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
- 3 The Register of Members and Share Transfer Books of the Company will remain closed for four days from 06.09.08 to 09.09.08.
- 4 Members are requested to immediately intimate any change in their addresses registered with the Company.
- 5 All correspondence relating to Company's Equity Shares may be addressed to M/s Integrated Enterprises (India) Ltd, 5A, II Floor, Kences Tower, No.1 Ramakrishna Street, Off North Usman Road, T Nagar, Chennai – 600 017, Company's Share Transfer Agent and Depository Registry.
- 6 The relevant records are available for inspection by the Shareholders at the Registered Office of the Company at any time during the working hours till the date of the meeting.
- 7 Members may please be note that **NO GIFTS** will be distributed at the meeting.


MADRAS FERTILIZERS LIMITED
EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 4 : Appointment of Shri H Abbas as Director

Shri H Abbas was nominated by the Government of India for appointment as Director in pursuance of Article 86 read with Article 88 of the Articles of the Association of the Company in place of Shri Rajesh Agrawal. Shri H Abbas was appointed as Director on the Board of the Company by the Board of Directors effective 31.01.2008. As per the provisions of Sec 260 of the Companies Act, 1956 and the Articles of Association of the Company, Shri Abbas, will hold office only up to the date of Annual General Meeting.

A notice under section 257 of the Companies Act, 1956 has been received from a member proposing the appointment of Shri H Abbas as a Director, liable to retire by rotation.

None of the Directors is interested in the resolution, except Shri H Abbas as it concerns his appointment.

The Board recommends passing of the Ordinary Resolution.

By Order of the Board

Date : 21.7.08
Place : New Delhi

G S Mangat
Chairman & Managing Director

Details of Director seeking appointment at the Annual General Meeting

Name of the Director	Shri H Abbas. (Belongs to 1997 batch of IA&AS, Cadre)
Date of Birth	12.11.1972
Date of Appointment on the Board	31.01.2008
List of other Companies in which Directorship held	Gramin Vikas Trust
Present Position	Deputy Secretary, Department of Fertilizers, Ministry of Chemicals & Fertilizers, Government of India



MADRAS FERTILIZERS LIMITED

DIRECTORS' REPORT

The Shareholders

Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 42nd Annual Report together with the Balance Sheet as on March 31, 2008 and the Profit & Loss Account for the year 2007-08.

SUMMARY OF FINANCIAL RESULTS

(Rs Cr)

	2007-08	2006-07
Turnover	1140.06	1210.66
Profit / (Loss) Before Interest, Depreciation, DRE and Tax	(8.76)	15.29
Interest	79.10	80.87
Depreciation	42.84	43.36
Deferred Revenue Expenditure	4.03	5.71
Profit/(Loss) Before Tax	(134.73)	(114.65)
Provision for Tax	0.12	0.13
Profit/(Loss) After Tax	(134.85)	(114.78)
Cash Profit/(Loss)	(87.98)	(65.71)

The Company's operations for the year ended with a loss of Rs.134.85 Cr against loss of Rs.114.78 Cr in the previous year. The total accumulated loss as of 31.3.2008 is Rs.648.55 Cr.

However, due to concerted efforts and various measures taken by the Company to improve the performance, the Company has made a cash profit during January 2008 to March 2008 on a monthly basis.

REFERENCE TO BIFR

The Company has informed the Board for Industrial Financial Reconstruction (BIFR) of the total erosion of net worth and its current negative value. The BIFR has registered the Company as Case No. 501/2007. It has further served notice on stake holders, viz., Banks, Financial Institutions, Workers' Union, etc., for their statements. Further proceeding is in progress.

CAUSES FOR LOSSES

As reported in earlier years, the main reasons for the recurring losses and the sickness of the Company are the high

investments between 1993 and 1998 for the revamp of MFL Ammonia and Urea Plants; and changes in the policies of pricing of Complex and Urea fertilizers.

You are aware that the Price Concession Scheme (PCS) for complex fertilizers did not adequately compensate MFL for the cost of *N* in its flagship product, NPK 17:17:17 from 1.4.2002. The *N* content of this grade is sourced from indigenous Naphtha-based Ammonia and imported Urea. The Tariff Commission, after studying MFL's manufacturing process for its complex fertilizers, recommended cost of *N* from its own Ammonia and imported Urea. However, Government adopted a weighted average cost of *N* for products manufactured by FACT, GNFC and MFL. The under-recovery due to non-adoption of the recommendations of the Tariff Commission amounts to Rs 59.44 Cr from 2002-03 to 2007-08.

Again the New Pricing Scheme (NPS) for Urea was introduced from 1.4.2003, under which the old system of '*unit-based*' calculation of retention price was replaced with '*group-based*' calculation of retention price. The effect of the NPS on MFL is an under recovery of Rs 455.86 Cr from 2003-04 to 2007-08.

The under-recoveries in the cost of production of Complex and Urea, over the years, has severely affected the cash flow. The Company does not have funds to procure critical spares for maintenance of the Plant and also raw materials, such as Urea, MOP and Phos Acid for production of complex fertilizers. Consequently, NPK production has drastically fallen from 51% in 2003-04 to 40% in 2004-05; and further to 25% in 2005-06, to 7% in 2006-07 and to just 4% in 2007-08. The Company is also not in a position to service its debts.

NOTICE FROM FIs / BANKS

The Financial Institutions and Banks have served a notice on MFL in January 2007, reversing the benefits of Corporate Debt Restructuring (CDR) that the Company had negotiated in 2003-04, due to our failure to fulfill the obligations under the CDR. This could entail a forfeiture of benefits amounting to around Rs.82 Cr. The Company had requested FIs and Banks not to take punitive action till such time the DOF decides on the Restructuring Proposal of MFL. For the time being, no action is taken by FIs and Banks.

RECOMMENDATIONS OF BRPSE

Your Directors consider it pertinent to remind you that the Department of Fertilizers had sent a proposal for revival to the Board for Reconstruction of Public Sector Enterprises (BRPSE)



MADRAS FERTILIZERS LIMITED

in March 2005. The BRPSE, at its sitting on March 17, 2005 recommended certain dispensations to MFL which are yet to be considered by GOI.

REVISED PROPOSAL FOR RESTRUCTURING

Based on the outcome of inter-ministerial meetings, the Company engaged M/s Deloitte Touche Tohmatsu India (P) Ltd as consultants for study of MFL and assistance in preparing a revival plan. The scope of the work inter-alia includes:

- ✓ Analysis of reasons for the continued losses during the last five years and an action plan for making the operations of the Company profitable.
- ✓ Review of proposals being considered by the Company for capacity improvements / energy saving / cost reduction.
- ✓ Study of the operational efficiency with specific reference to energy of Ammonia and Urea Plants and viability (Short Term / Long Term) of both Urea and NPK Plants of MFL, and suggesting measures to be taken for improving the operational efficiency considering optimum production level, income generating capacity and contribution in the present / future scenario.
- ✓ Study of the present condition of the Plants and the projected capital expenditure year-wise for the future to sustain optimum production levels.
- ✓ Review of the existing long term loans and offer suggestions for its continuance or otherwise.
- ✓ Review of the cost saving / energy conservation measures being adopted by the Company and identify new areas, if any, for further reduction of costs.

The final report of M/s Deloitte Touche Tohmatsu India (P) Ltd has been received and based on their recommendations, the Company has submitted a restructuring proposal to DOF in July 2008. DOF has initiated action to send the Draft note on Financial Restructuring to Cabinet Committee on Economic Affairs (CCEA) for their consideration.

Even though the Company could sustain its Urea operations with the support of DOF till date, the long-term solution lies in getting the restructuring proposal approved by the CCEA and infusion of funds.

DIVIDEND

In view of the accumulated losses, the Company is not able to consider dividend.

PLANT PERFORMANCE

Capacity Utilization

The capacity utilization of Ammonia, Urea and NPK Plants is as follows:

Plant	Annual Installed Capacity '000 MT	2007 - 2008		2006 - 2007	
		'000 MT	Capacity Utilisation %	'000 MT	Capacity Utilization %
Ammonia	346.50	265.11	76.5	281.31	81.2
Urea	486.75	440.50	90.5	473.36	97.2
NPK	840.00	35.17	4.2	57.13	6.8

Operation Highlights

Production Record

- Urea production of 265929 MT during Oct 2007 – Mar 2008 (6 months period) is the HIGEST-EVER Half-yearly production. (Earlier record: 263063 MT during Oct 2004-Mar 2005).

Quarterly Record

- Specific energy consumption per tonne of Urea during Jan-Mar 2008 is 7.361 Gcal. This is the Lowest energy for a quarter, surpassing the earlier record of 7.396 Gcal achieved during the III quarter of 2004-05.
- Urea Production of 134234 MT the Second Best, the record being 140719 MT made during Oct-Dec 2004.
- On 75 days, out of 90 on-stream days during the quarter, Urea plant crossed the day's installed capacity. This is Second Best for a quarter, the record being 79 days during Oct-Dec 2004.

Annual Record

- Annual naphtha specific consumption of 0.7510 MT/MT is the Lowest since inception (2004-05 : 0.7575 MT/MT)
- Annual water consumption per tonne of Urea at 11.84 KL is the Lowest (2006-07: 12.10 KL/MT)
- Annual specific energy per tonne of Ammonia & Urea at 10.610 Gcal & 7.802 Gcal respectively is the Second Best (the record being 10.411 & 7.769 Gcal/MT achieved in 2004-05).
- On 193 days Urea Plant has crossed the day's installed capacity of 1475 MT which is the Second Best (The best is 229 days in 2004-05, 193 days in 2006-07 also)



MADRAS FERTILIZERS LIMITED

- Annual Urea Production of 440499 MT is the Third Best achievement since inception. (the highest and the second best production are 473363 MT in 2006-07 & 473032 MT in 2004-05)

MARKETING PERFORMANCE

As you are aware, agricultural situation was extremely favourable during the year also, in view of the widespread rains received throughout our marketing territories. The demand for products was unprecedented and all products were sold in good quantities. Company could not take full advantage of this situation unfortunately due to non-availability of Complex Fertilizers. During the year, Company sold a total of 4.90 lakh MT of fertilizers compared to 5.42 lakh MT last year. The 9% drop was mainly due to lower capacity utilization of NPK Plants.

NPK fertilizer availability was only 0.35 lakh MT compared to 0.60 lakh MT during the previous year. Consequently, our market share of NPK complex got reduced to 1% from 2% last year. The lower production of Complex fertilizers has been grossly due to severe cash crunch to arrange raw materials.

4.32 lakh MT of Urea was made available for sale this year as against 4.79 lakh MT during last year, which is 90% sales of CPLY. Consequent to this market share of Urea got reduced from 11% to 9%.

Company continued to embark upon various policies for reduction of marketing costs. Efforts for streamlining logistics operations continued this year also and there was a further reduction of warehousing points by 20%. Thrust was given to Railhead deliveries and 60% was sold ex-railhead.

Rationalisation of territories and Regions and manpower reduction was another area of cost saving. There has been a manpower reduction of 7%.

Marketing Team put up a creditable performance in sales realization by making 99% cash sales. The average realization time has been less than 4 days. 91% of the collection has come within 10 days. Further, it goes to their credit that there has not been a single Bad Debt in this year also.

Agrochemicals, Bio-fertilizers and Carbon-di-oxide Sales:

Company continued to market environment friendly neem based Agrochemicals. A total of Rs.111.01 lakhs of

Agrochemicals were traded for the year 2007-08 Vs the CPLY of Rs.109.52 lakhs.

MFL sold 386 MT of Bio-fertilizers during 2007-08 as against 225 MT in 2006-07, which is 72% increase over CPLY.

Company has sold Carbon-di-oxide valuing Rs.317.96 Lakhs during the year 2007-08 against Rs.171.89 lakhs during the last year, which is 85% increase over CPLY.

Granulated Mixture V 17-17-17

For better utilization of manpower in the field, as a trial basis MFL had marketing agreement with Tungabhadra Fertilizers & Chemicals Company Ltd. (TFCCCL) for Granulated Mixture 17-17-17 and marketed in Karnataka state only. We have sold 12,173 MT of Granulated Mixture 17-17-17.

Marketing of KRIBHCO Imported Urea

MFL entered into an agreement with KRIBHCO for Marketing of their imported granulated Urea in the state of Tamil Nadu and Pondicherry. Agreement executed on 18th December 2007 for the period up to Mar'08 which will be extended on mutual consent of terms & conditions. During Dec'07-Mar'08, MFL sold 6022 MT of KRIBHCO imported Urea.

MARKET DEVELOPMENT AND AGRO-SERVICE PROGRAMS

MFL continued its tradition of conducting informative and educational programs for the farmers and dealers.

In all, 51 promotional programs were conducted benefiting 3.17 lakhs farmers and dealers. MFL continued to have demos on biofertilizers, follow up on soil tests results with farmers and participation in Government exhibitions etc., MFL also undertook a special drive to enroll SC/ST dealers, who now form 26% of our total dealer strength of 6160 Nos.

With the Cost Saving measures undertaken and new business ideas, Marketing Team has become lean, more efficient and more productive.

PUBLIC DEPOSIT

Since the Company could not get necessary approval from the Department of Company Affairs, it could not mobilise any fresh deposits or renew the deposits from the Public during the year 2007-08. The total deposit as of March 31, 2008 is



MADRAS FERTILIZERS LIMITED

Rs 34.80 Cr as against the eligible limit of Rs 61.09 Cr. A sum of Rs 0.88 Cr remains unclaimed at the end of the financial year 2007-08.

ISO

MFL had received ISO 9001: 2001 Renewal Accreditation from IRQS valid till December 29, 2010 towards Quality Management System and had already received ISO 14001 : 2004 Accreditation valid till May 30, 2008 towards Environmental Management System. Second surveillance Audit for ISO 14001 : 2004 was conducted by IRQS during the year.

MEMORANDUM OF UNDERSTANDING

The Company entered into MOU with DOF, GOI for 2008-09 on March 31, 2008 setting out targets for performance of the Company in terms of production, sales and other parameters. The achievements in the MOU are subject to the implementation of the revival package.

VIGILANCE

Preventive vigilance with a stress on adherence to the set rules and procedures and transparency and accountability, is the main theme of the Vigilance Department.

In compliance with the recommendations of the Central Vigilance Commission (CVC),

- Several CTE type inspections were conducted
- A training programme for Line Managers on tendering process was organized as a part of the Vigilance Awareness Week.
- A Booklet on Tendering Process was brought out by the Vigilance Section, which was released by the CMD, for distribution among the Line Managers.
- Property returns of officers were scrutinized.
- Monitoring timely realization of outstanding from dealers due to dishonour of cheques was done.
- Leveraging technology is being implemented.

HUMAN RESOURCES & INDUSTRIAL RELATIONS

Manpower and Training

The total manpower strength of the Company as on 31.3.2008 is 904 as against 976 on March 31, 2007. We conducted in-house training program for 308 Supervisors and 205 Non-Supervisors during the year.

Voluntary Retirement Scheme

15 Employees availed Voluntary Retirement Scheme during 2007-08. The Company plans to reduce the manpower further during the current year through rationalization in all the Functional Groups, except Plant, where shortage of manpower has been noticed.

INDUSTRIAL RELATIONS

During the year 2007-08, the overall Industrial Relation situation in the Company has been normal and cordial during the period. Management, by its pro-active role, maintained a good relationship with the Union and other Associations, with a strong feeling of 'We-We' rather than 'We-They'.

OFFICIAL LANGUAGE IMPLEMENTATION

MFL has been continuously exceeding the target fixed by Department of Official Language for letter correspondence in Hindi and other implementation programmes.

Hindi Fortnight was celebrated during September 2007 at Head Office and Regional Offices and various competitions were organized and prizes distributed to the winners and all participants.

The First Sub-Committee of the Committee of Parliament on Official Language carried out its inspection at our Regional Office, Madurai on Feb 28, 2008, and reviewed the implementation of Official Language at Regional Office, Madurai.

SC / ST WELFARE ACTIVITIES

The Presidential Directives and various guidelines issued by the Government of India relating to the welfare of SCs / STs were scrupulously followed during the year. A Liaison Officer nominated for this purpose ensures implementation of Government Directives.