



**CHAMBAL FERTILISERS
AND CHEMICALS LIMITED**

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**EIGHTEENTH ANNUAL REPORT
2002-2003**

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**DIRECTORS**

Dr. K. K. Birla
Chairman

H.S. Bawa
Vice Chairman

H.C. Grover
Managing Director

Sunil Sethy
Jt. Managing Director

Mohd. Y.A. Al-Roomi
(Alternate: P.J. Batavia)

R.N. Bansal

Dipankar Basu

Shyam S. Bhartia

M.D. Locke
(Alternate: C.S. Nopany)

S.K. Poddar

A.J.A. Tauro

Marco Wadia

SENIOR EXECUTIVES

D.L. Birla
Executive President - BTM

Ajit Chakravarti
Vice President - Corporate HR

Nirmal Jain
President - ISG

Anil Kapoor
Vice President - Strategic Planning

V. Krishnan
Vice President - Corporate Finance

R.D. Mall
Vice President - Operations

S.M. Nadgir
Vice President - Agri-Business

S.K. Patra
Vice President - Marketing

**GENERAL MANAGER - LEGAL
& SECRETARY**

M.S. Rathore

REGISTERED OFFICE

Gadepan,
Distt. Kota, Rajasthan
PIN - 325 208

CORPORATE OFFICE

International Trade Tower
E Block, 14th Floor,
Nehru Place,
New Delhi - 110019

LEGAL ADVISORS

Crawford Bayley & Co.,
Mumbai

AUDITORS

S.R. Batliboi & Co.
Chartered Accountants

BANKERS

Bank of Baroda
Punjab National Bank
State Bank of India
Allahabad Bank
State Bank of Indore
State Bank of Patiala
State Bank of Hyderabad
State Bank of Bikaner & Jaipur

Directors' Report

To

The Members,

Your Directors have pleasure in presenting the 18th Annual Report together with audited accounts for the financial year ended March 31, 2003.

1. Financial Results and Appropriations

(Rs. in Crores)

Particulars	2002-2003	2001-2002
Turnover*	1950.25	1910.20
Gross Profit after interest but before non recurring subsidy items, Depreciation and Tax Depreciation	317.04	295.61
Profit before non recurring subsidy items and tax	175.57	156.10
Non recurring subsidy items	(60.93)	(0.86)
Profit before tax	114.64	155.24
Provision for current taxation	9.03	11.82
Provision for Deferred Tax	16.24	66.24
Profit after tax	89.37	77.18
Balance of Profit brought forward	60.24	196.45
Less: Deferred Tax Liability as on 1st April 2001 adjusted	-	(137.18)
Transferred from Debenture and Debt Redemption Reserve	48.23	68.36
Profit available for appropriation	197.84	204.81
Appropriations:		
• Debenture Redemption Reserve	5.00	13.75
• Debt Redemption Reserve	-	17.76
• Capital Redemption Reserve	-	25.00
• General Reserve	25.00	25.00
• Interim dividend on Cumulative Redeemable Non Convertible Preference Shares	-	1.96
• Tax on Preference Dividend	-	0.20
• Proposed Dividend on Equity Shares	60.90	60.90
• Tax on proposed dividend	7.80	-
Balance carried forward to Balance Sheet	99.14	60.24

* Excluding excise duty

2. Dividend

The Board recommends dividend of Rs. 1.50 per equity share on 40,60,00,000 equity shares of Rs. 10 each (Previous year Rs. 1.50 per share). The total outgo on this account will be Rs. 68.70 crores including dividend tax.

3. Retention Price

Gadepan - I

Urea price is regulated by the Government of India through fixation of uniform Consumer Price and Ex-Factory Retention Price for each manufacturing unit

under the Retention Price Scheme. During the year, the Retention Price support for Gadepan - I plant was accounted on the basis of Retention Prices notified after the implementation of 7th and 8th pricing parameters and further adjusted for input price escalation/de-escalation.

During the year 2001-02, the estimated impact of Final Retention Price and 7th and 8th pricing period was accounted for on the basis of then prevailing norms and policies. Thereafter, there have been changes in the Government Policies in this regard specifically in the matter of Capital Related Charges in respect of certain category of capital expenditure. These changes resulted in lower subsidy receivables from the Government than the earlier estimate.

Whilst the Company is representing to the respective authorities in respect of certain material matters, as a measure of prudent accounting, the difference in estimated income and actual notification has been reversed and shown as "Non recurring subsidy items" in the financial results of the year.

Gadepan - II

During the current year, the Final Retention Price for Gadepan II plant, which commenced commercial production w.e.f October 20, 1999, was notified and accordingly the Retention Price Support has been accounted for on the basis of Final Retention Price further adjusted for escalation / de-escalation of input prices.

4. New Fertiliser Pricing Policy

The Group of Ministers (GoM) was set up in March 2002, which examined the Expenditure Reform Commission's (ERC) recommendations for a Long Term Pricing Policy and submitted their recommendations to the Cabinet Committee on Economic Affairs (CCEA) in December 2002. CCEA cleared the Long Term Pricing Policy w.e.f. April 1, 2003 but left certain issues to be resolved between Department of Fertilisers and the Ministry of Finance.

The full impact of the policy will be known only after each unit's Retention Price is updated based on escalation / de-escalation till March 31, 2003 and after Gokak Committee's recommendations are submitted and accepted by GOI. The Industry is in the process of meeting with the Government to seek more clarity on the above. Your Company and the industry fully realize that a long term uniform policy is necessary but in the process the government must ensure that the long term viability of this core industry is not endangered.

The policy as currently formulated is not expected to negatively impact the Company in the long term.

5. Joint Ventures

(i) Indo Maroc Phosphore S.A., Morocco (IMACID)

IMACID is a 50:50 joint venture between Office Cherifien Des Phosphates, Morocco and your



Company. During the year 2002, IMACID produced 2,76,791 MT of Phosphoric Acid (P_2O_5) with capacity utilization of 84% on normative basis and 101.70% on stream days basis. Sales during the period were 2,82,694 MT of Phosphoric Acid, which included 11,799 MT of Phosphoric Acid, tolled as DAP. The cash profit during the year was Moroccan Dirham (MAD) 118.20 million (US\$ 11.6 million) against MAD 190.6 million (US\$ 18.71 million) in the previous year. Drop in profitability was as a result of unplanned shutdown due to super heater breakdown in the sulphuric acid plant and lower sales realization on sales of P_2O_5 . The breakdown of the equipment and the consequent loss of production are covered by insurance. The claim is being processed by the insurance company.

(ii) Chambal Agritech Limited (CAL)

CAL is a 50:50 Joint Venture between your Company and Technico Pty. Ltd., Australia to produce miniature potato seeds known as TECHNITUBER™. During the financial year 2002-03, CAL produced 15.71 million TECHNITUBER™ Seeds.

CAL sold 124,500 TECHNITUBER™ seeds and 1,534 MT Early Generation seeds during financial year 2002-03. The feedback received from the market is encouraging. CAL will achieve full commercial production of Early Generation Seeds during the year 2003-04.

In order to tap the export market, CAL has signed MOU with Alpha Agro, Bangladesh and Hayleys Agro Product, Sri Lanka.

During the year 2002-03, CAL has incurred cash loss of Rs. 3.82 crores (Provisional). Since, this project has a long gestation period, the losses are mainly on account of early stages of expenditure incurred during the multiplication of seeds, market development and inventories.

(iii) Birla Home Finance Limited (BHFL)

BHFL is a 50:50 joint venture between your Company and BHW Holding AG, Germany. During the financial year 2002-03, BHFL has achieved sanctions and disbursements of Rs. 251 crores and Rs. 172 crores respectively as against Rs. 207 crores and Rs. 142 crores respectively during the year 2001-02. BHFL's sanction and disbursement figures have increased by 21% each during the above period despite the intense competition and successive price cuts in the industry.

BHFL pursues its marketing efforts by directly marketing to prospective clients. It has 11 branches spread all over India and plans to add offices at over 45 locations each of which will be manned by one individual. BHFL has built a strong base of over 13,275 customers. It has launched new product "Easy Home Loan Deposit Scheme" in all its

branches and has received encouraging response from public at large.

During the year 2002-03, the Company has earned Cash Profit of Rs. 2.5 crores (provisional) against Rs. 3.14 crores earned during the year 2001-02.

(iv) NovaSoft Information Technology Corporation (NovaSoft)

Your Company had acquired a stake in US based NovaSoft in November 2001 through US \$ 2 million subscription of convertible preferred stock. The Company has opted to convert preferred stocks into common stocks on April 30, 2003. Consequent upon the conversion, the Company has acquired about 51% equity stake in NovaSoft from this date. The Company further purchased from the promoters, common stocks valued at US\$ 700,000 raising its holding to about 69%.

NovaSoft is directly providing IT consulting services in USA and through wholly owned subsidiaries in United Kingdom, Germany and Singapore. The services offered by NovaSoft include professional services group, solutions group and education. NovaSoft offers its services in manufacturing, financial, health and government sectors. NovaSoft had moved up the value chain in ERP application and key customers in this market were being pursued closely.

The primary objectives of the Company for the year 2002 were to turnaround the operations to make it profitable, achieve better customer focus to establish long-term partnerships and move up the value chain to increase higher margin revenue stream. It has reduced its overheads and re-deployed its team to achieve the aforesaid objectives.

For the year ended December 2002, the provisional revenue and cash profit of Novasoft were US\$ 19.67 million and 0.61 million, respectively.

(v) Technico Pty. Limited (Technico)

Your Company incorporated a new company in Singapore viz. Chambal Biotech Private Limited as a special purpose vehicle (SPV) for its investment in Technico Pty. Limited, Australia.

Your Company and SPV signed the necessary agreements with Technico and its Shareholders on March 17, 2003 in Sydney to acquire 51% stake in Technico by an investment of AUD 18.62 million to be made over a period of 3 years depending upon the funds requirement of Technico. Your Company has made an initial investment of about AUD 5.1 million.

6. Environmental Protection and Safety

Your Company is deeply committed to environmental protection, pollution control & maintenance of ecological balance. The Company has set up "state of the art" environmental protection facilities.

Both Gadepan-I & II plants have been accredited with ISO 14001 for Environment Management Systems by an internationally reputed organization M/s Det Norske Veritas, Netherlands. Environment Management programmes and procedures laid down under ISO 14001 have facilitated to maintain very high standards of Pollution Control, Environment Protection, Safety and improvement in productivity & efficiency.

All through these years, significant efforts have been made towards continuous improvement of ecology with a focused thrust towards tree plantation, landscaping and development of green belt in and around the plant area. As on date, as many as 2.66 lac trees/ shrubs of different species have been planted in the Gadepan complex and neighboring villages resulting in significant improvement in the quality of environment.

7. Conservation of Energy

Your Company strives to make the plants energy efficient to the extent possible and continually reviews various schemes to conserve energy.

The requisite information with regard to conservation of energy, technology absorption and foreign exchange earnings and outgo in terms of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is set out in separate statements attached hereto (Annexure A & B) and forms part hereof.

8. Investor Service Centre

The In-house Investor Service Centre (ISC) of your Company located at New Delhi, continues to provide prompt investor service through quick resolution of investor grievances. ISC has been maintaining its track record of resolving most of the queries and complaints in less than seven days.

During the year, the Company has redeemed third and final tranche of Rs. 33 per debenture on 2,12,00,000 NCDs.

The securities of your Company are listed at National Stock Exchange, BSE and other stock exchanges situated at Kolkata, Delhi, Hyderabad and Jaipur. The Company has paid the annual listing fee to these stock exchanges for the year 2003-04.

The members are requested to refer general shareholders information given in Annexure - "E" relative to Corporate Governance.

9. Fixed Deposits

As on March 31, 2003, your Company had 7290 deposit-holders with fixed deposits of Rs. 1484.03 lacs. 105 deposit-holders have not claimed their FD amount of Rs. 19.54 lacs as on that date. Such deposit-holders are being advised at regular intervals to claim their deposits.

10. Personnel

Information in accordance with section 217(2A) of the

Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, forms part of the Directors' Report for the year ended March 31, 2003 as given in Annexure "C" to this report.

The Board places on record its highest appreciation for the efforts and contribution made by all the employees for continued high level of performance.

11. Social Work and Rural Development

Your Company's commitment towards Corporate Social Responsibility and the community in which it is based and operates, has evolved out of its corporate culture. Your company is equally committed to protect the environment and natural resources.

As a part of these overall objectives, your Company provides medical care, undertakes infrastructure development, promote sports, cultural and social activities. Major initiatives undertaken are :

- Medical care : Uttam Mahila Samiti, which is the ladies wing of the CFCL family, provides medical assistance to nearby villages. They also guide the rural families about health and hygiene.
- Social welfare : Infrastructural development activities in the adjacent villages included installation of new hand pumps, deepening and up-keep of the existing tube wells/ hand pumps, providing motor pumps, piping and water storage tanks.
- Drought relief : To overcome the drinking water crisis due to drought in Rajasthan, your Company has donated hundreds of water storage tanks in the adjoining districts.
- Emergencies : The Company also attends to emergencies by providing ambulances and fire tenders to the villages in its vicinity. The Company associates with local administration / panchayats in promoting welfare schemes.
- Rural development : Your Company has trained educated unemployed youth from a rural background to provide agricultural extension services to farmers in five states.

12. Directors

Information on the directors including those retiring by rotation is provided in the Annexure "E" on Corporate Governance

13. Auditors

The Notes on Accounts appearing in Schedule 19 and referred to in the Auditors' Report are self explanatory and therefore, do not call for any further comments or explanations.

The Auditors M/s. S. R. Batliboi & Co., Chartered Accountants, retire at the conclusion of this Annual General Meeting and being eligible, offer themselves for re-appointment. Re-appointment, if made, will be in accordance with the provisions of section 224 (1B) of the Companies Act, 1956.

**14. Corporate Governance**

Auditor's Certificate on compliance of conditions of corporate governance and separate notes on Corporate Governance are enclosed as Annexure - "D" & "F" and report on Management Discussion and Analysis is attached as Annexure - "E".

15. Directors Responsibility Statement

Your Directors hereby report:

- a) that in the preparation of annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures
- b) that 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 March 31, 2003 and of profit and loss account for the period ended March 31, 2003.
- c) that 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.

- d) that the Directors have prepared the annual accounts on a going concern basis.

16. Acknowledgements

Your Directors wish to place on record their appreciation of the assistance and co-operation that your Company received from the Department of Fertilisers, Government of India, Government of Rajasthan, Financial Institutions, Commercial Banks, Stakeholders and all others whose continued support has been a source of strength to the Company. Your Directors also wish to place on record their sincere appreciation of the devotion and dedicated efforts put in by the employees at all levels.

By order of the Board

New Delhi
May 10, 2003

K. K. Birla
Chairman



**Annexure "A" to Directors' Report
FORM A**

Disclosure of Particulars with respect to Conservation of Energy

Particulars	Unit	Current year	Previous year
A. POWER & FUEL CONSUMPTION			
1. ELECTRICITY			
a) Purchased			
Quantity	MWH	26317.23	20206.11
Total Amount	Rs. Lacs	796.62	726.14
[Incl. Minimum demand (MD) charges]			
Rate/Unit (Excl. MD charges)	Rs./KWH	3.01	3.59
b) Own Generation			
i) Through diesel generator			
Quantity	MWH	27846.272	33377.874
Unit per KL of Furnace Oil	KWH	4.29	4.32
Unit per KL of HSD	KWH	3.33	3.22
Cost/Unit	Rs./KWH	2.83	2.32
ii) Through steam turbine/generator			
Quantity	MWH	143553.01	140890.85
Unit per SM3 of Gas	KWH/SM3	2.29	2.30
Cost/Unit	Rs./Kcal/KW	1.69	1.69
2. OTHER INTERNAL GENERATION			
a) NATURAL GAS (Ammonia- Fuel, Power & Steam)			
Quantity	1000 SM3	191780.63	225667.98
Total Cost	Rs. Lacs	7398.38	8758.26
Average Rate/Unit	Rs./1000 SM3	3857.73	3881.04
b) NAPHTHA (Ammonia- Fuel, Power & Steam)			
Quantity	MT	266732.87	242922.34
Total Cost	Rs. Lacs	38966.21	30083.09
Average Rate/Unit	Rs./MT	14608.70	12383.83
c) FURNACE OIL			
Quantity	KL	5872.77	7141.08
Total Cost	Rs. Lacs	651.54	654.43
Average Rate/Unit	Rs./KL	11094.29	9164.30
d) HSD			
Quantity	KL	842.75	830.33
Total Cost	Rs. Lacs	146.23	128.17
Average Rate/Unit	Rs./KL	17352.03	15436.11
B. CONSUMPTION PER MT OF UREA PRODUCTION:			
1. ELECTRICITY [Incl. Internal consumption]	KWH/MT	86.42	86.21
2. Natural Gas (Ammonia -Fuel, Power & Steam)	SM3/MT	110.88	131.61
3. Naphtha (Ammonia - Fuel, Power & Steam)	KG/MT	154.22	141.67
C. CONSUMPTION PER MT OF YARN PRODUCTION			
1. ELECTRICITY [Incl. Internal consumption]	KWH/MT	4767.20	5042.48
2. Furnace Oil	KL/MT	0.59	0.78
3. HSD	KL/MT	0.07	0.08
D. CONSUMPTION PER MT OF FROZEN VEGETABLES			
1. ELECTRICITY [Incl. Internal consumption]	KWH/MT	320.84	356.95
2. HSD	KL/MT	0.11	0.06



Annexure "B" to Directors' Report FORM "B"

Disclosure of particulars with respect to Technology Absorption

Research and Development (R & D) :

The Company is a manufacturing organisation and is not engaged in any major Research and Development activity. However, continuous efforts are made to improve the quality & efficiency and to develop new product / product mix.

Technology Absorption, Adaptation and Innovation :

- i) Efforts in brief, made towards technology absorption, adaptation and Innovation.
- ii) Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.
 - i and ii: Based on our continuous efforts made towards technology absorption and innovation, the Company could achieve smooth plant operation and high stream efficiency during the financial year 2002-03 as compared to the previous year.
- iii) In case of imported technology (Imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished:
 - a) Technology Imported :
 - Fertiliser Division
Gadepan II Plants based on Low Energy Ammonia process from M/s Kellogg of USA based on Naphtha and / or Gas as feedstock and ACES process for manufacture of Urea from M/s Toyo Engineering Corporation, Japan have been commissioned and commercial production has started from October 20, 1999. The year 2002-03 was a year of sustained operations for these plants.
 1. Year of Import : 1996
 2. Has technology been fully absorbed : Yes.
 3. If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action : Not Applicable.
 - Textile Division
The Company is not using any imported technology. However, the Company has imported and installed several machines with upgraded technology to improve quality of production and increase productivity.

Foreign Exchange Earnings and Outgo

Foreign Exchange used : Rs. 33.90 crores
Foreign Exchange earned : Rs. 25.80 crores

Annexure 'C' To Directors' Report

Information pursuant to Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975

Sl. No.	Name	Designation	Qualification	Age (years)	Experience (years)	Date of commencement of employment	Remuneration received (Rs)	Last Employment	
								Employer's Name	Post held
A. Employees who were employed throughout the year and were in receipt of remuneration in aggregate of not less than Rs. 24,00,000/- for 12 months.									
1.	Grover, H.C.	Managing Director	B.Sc.(Tech.)	70	47	03.10.1985	3,754,990	Krishak Bharti Coop. Ltd.	Managing Director
2.	Sethy, S.	Vice President-Finance Joint Managing Director w.e.f. 01.4.2003)	B.Com., A.C.A.	52	29	15.01.1996	2,606,272	Eternit Everest Ltd.	Director-Finance
B. Employees who were employed for a part of the year and were in receipt of remuneration in aggregate of not less than Rs. 2,00,000 per month									
NIL									

NOTES :

1. In accordance with the clarification given by Department of Company Affairs, remuneration has been computed on the basis of actual expenditure incurred by the Company.
2. None of the above employees is a relative of any Director of the Company.
3. None of the above employees himself or alongwith his spouse and dependent children holds 2% or more Equity Shares of the Company.

Annexure "D" to Directors' Report
AUDITORS' CERTIFICATE

To

The Members of Chambal Fertilisers and Chemicals Limited

We have examined the compliance of conditions of corporate governance by Chambal Fertilisers and Chemicals Limited for the year ended on 31st March, 2003, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Shareholder's Grievance Committee.

We further state that such compliance is neither an assurance as to future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

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S.R. BATLIBOI & CO.
Chartered Accountants
Per

New Delhi
May 10, 2003

RAJ K. AGRAWAL
Partner