



Godavari Fertilisers And Chemicals Limited



ANNUAL REPORT

2003 - 2004





Mr. A.Vellayan, Chairman , Addressing the Senior Executives
at Kakinada Plant

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Godavari DAP in use

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BOARD OF DIRECTORS

Chairman

A Vellayan

Directors

K Srinivasa Gowda

U S Awasthi

Rakesh Kapur

(Alternate Director to U S Awasthi)

M H Avadhani

B V R Mohan Reddy

Partho S Datta

Santosh Reddy

President & Whole-time Director

K A Nair

Company Secretary

P Varadarajan

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Registered Office

Vani Nilayam, 50, Sebastian Road
Secunderabad – 500 003

Factory

Beach Road, Kakinada - 533-001
Andhra Pradesh

Auditors

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

Bankers

State Bank of India
UTI Bank Ltd
Andhra Bank
ICICI Bank Ltd

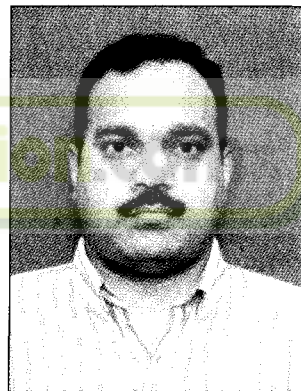


A. Vellayan
Chairman

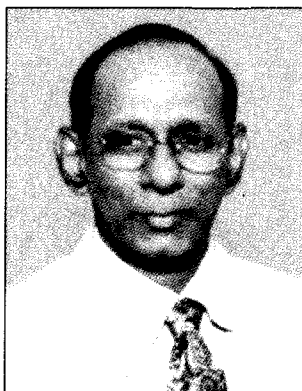
Senior Management Team



K A Nair
President & Whole Time Director



S V Raghavendra
Chief Financial Officer



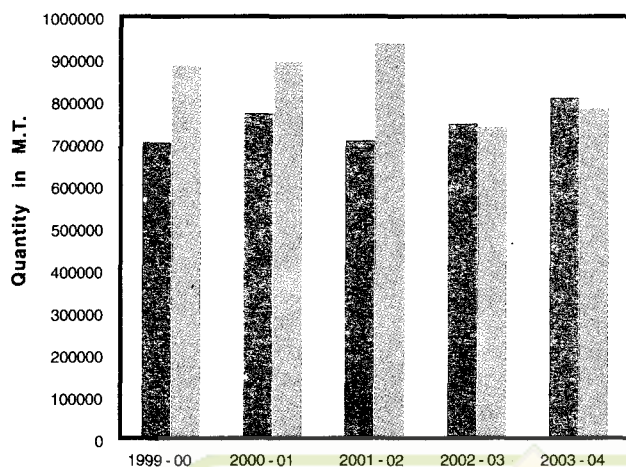
V C Rao
General Manager - Works



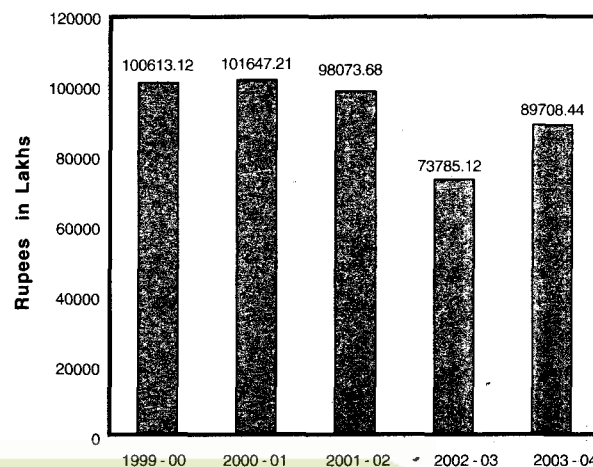
S J Naidu
General Manager - Projects

FIVE YEARS AT A GLANCE

Production & Sales Volume

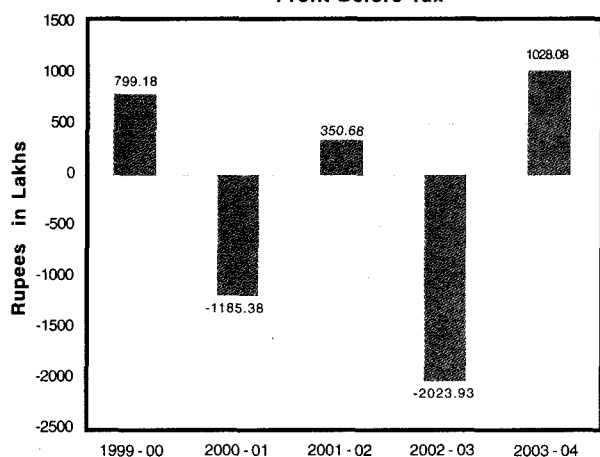


Turnover

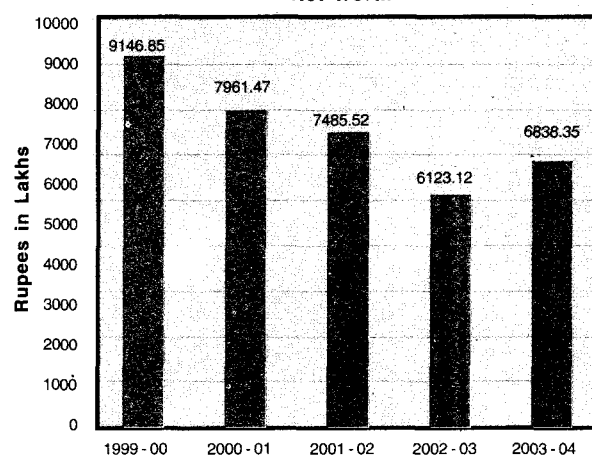


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Profit Before Tax



Net Worth



M/s Karvy Computershare Private Limited
 Karvy House, 46, Avenue 4, Street No.1
 Banjara Hills, Hyderabad – 500034
 Tel.Nos: 91-040-23312454,23320751
 Fax Nos: 91-040-23311968, 23323049
 Email: mailmanager@karvy.com

7. Members who are holding shares under more than one Folio under name(s) in the same order are requested to send the relative Share Certificates to M/s Karvy Computershare Private Limited for consolidation of the entire holdings into one Folio. The Certificates after consolidation will be returned by Registered Post.
8. The Company has declared dividends for the years 1996-97 to 1999-2000. As on 31st March, 2004 following amounts remained unclaimed and are lying in the un-paid dividend accounts.

Sl.No	Year	Unclaimed Dividend in Rs.
1	1996-97	12,29,700
2	1997-98	19,98,150
3	1998-99	18,11,250
4	1999-2000	17,02,600

In terms of Section 205A of the Companies Act, 1956 the amounts in the un-paid dividend accounts of the Company which have remained unclaimed and unpaid for a period of 7 years are required to be credited to the Investor Education and Protection Fund constituted by Central Government. Accordingly, the unclaimed dividend amount pertaining to the year 1996-97 will be transferred to the Investor Education and Protection Fund in the first week of November, 2004. Members who have not encashed their dividend warrants are requested to contact the Company immediately.

9. Explanatory Statement as required under Section 173(2) of the Companies Act, 1956 in respect of items 5 & 6 set out above is annexed hereto.

Annexure to the Notice

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956

Item No.5

Mr. Santosh Reddy was appointed as an Additional Director at the Board Meeting held on 30th March, 2004. Under the provisions of Section 260 of the Companies Act, 1956, he vacates office at the forthcoming Annual General Meeting. The Company has received a Notice from a Shareholder u/s 257 of the Companies Act, 1956 along with prescribed deposit, proposing the appointment of Mr. Santosh Reddy, as Director of the Company at the ensuing Annual General Meeting.

Mr.Santosh Reddy is a Post Graduate in Arts and Director of several companies including M/s Bilt Papers Holdings Ltd., Orient Longman Pvt Ltd., Durandel Foods Pvt Ltd., Concord Containers Pvt Ltd., Masanto Containers Pvt. Ltd and Samanto Laminates Pvt. Ltd. His rich and varied experience will be very useful to the Company. Your Directors recommend the resolution for approval.

None of the Directors of the Company except Mr. Santosh Reddy is concerned or interested in the said resolution.

Item No.6

The Board of Directors at their meeting held on 20th January, 2004, have approved the appointment of M/s. Karvy Computershare Pvt Ltd., Hyderabad, as Registrar and Share Transfer Agent of the Company w.e.f. 1st April, 2004, in place of M/s. XL Softech Systems Ltd., Hyderabad. The Register of Members and other related records can be kept at any place other than the Registered Office of the Company with the approval of the shareholders by way of Special Resolution. The shareholders at the Annual General Meeting held on 17th September, 2003 had approved keeping the said records at the office of erstwhile Registrar & Share Transfer Agent, M/s. XL Softech Systems Ltd. In view of change in Registrar & Share Transfer Agent, shareholders' approval is sought for keeping the said records at the office of M/s. Karvy Computershare Pvt. Ltd.

Your Directors recommend the resolution for approval. None of the Directors is interested or concerned in the said resolution.

DIRECTORS' REPORT

To The Members

Your Directors have pleasure in presenting the Twenty Second Annual Report of the Company together with the audited accounts for the financial year ended 31st March 2004.

Financial Results (Rs. in crores)

	2003-04	2002-03
Net sales and operating revenue	897.08	737.85
Other Income	6.43	5.42
Profit before Interest, Depreciation & Tax	36.69	6.58
Less: Interest	18.91	19.18
Depreciation	7.50	7.64
Profit/ (Loss) Before Tax	10.28	(20.24)
Less: Provision for Tax including deferred Tax	3.13	(6.62)
Profit/(Loss) after Tax	7.15	(13.62)

The net sales and operating revenue of the Company, including subsidy, for the year 2003-04 was Rs.897.08 crores recording a growth of 22% over the previous year. During the year, 100,045 tonnes of DAP was manufactured for IFFCO on tolling basis at a consideration of Rs.9.87 crores, as against 79,433 tonnes at Rs.7.84 crores, in the previous year. The average net realisation per tonne of DAP during the year was Rs.12,232 per tonne as against Rs.11,231 per tonne during the previous year. During the year the MRP of various products have remained at the same level as in the previous year, whereas the subsidy rates have fluctuated in line with the prices of imported raw materials and Rupee/US Dollar exchange rates.

The operations of the Company resulted in Profit Before Tax of Rs.10.28 crores as against loss before tax of Rs.20.24 crores during the previous year. The Profit After Tax was Rs.7.15 crores as against loss of Rs.13.62 crores in the previous year.

During the year, the Company made a provision of Rs.1.77 crores towards doubtful debts and Rs.0.32 crores towards doubtful claims. Further, a sum of Rs.2.57 crores

was deducted from the current year subsidy, towards non-recoverable subsidy relating to earlier years.

The Company has achieved steep reduction in the overall average interest rate from 13.5% to 8.2%. The interest charges have come down to Rs.18.91 crores from Rs.19.18 crores in the previous year, despite increase in the volume of borrowings. The Company resorted to increased borrowings leveraging fixed assets, to pay off the overdues to the suppliers and to re-establish the credit worthiness with the suppliers by timely payment of their dues.

Operations

During the year under review, your Company produced 8.07 lakh MT of DAP and other complex fertilisers, including 1.00 lakh MTs of DAP produced for IFFCO under tolling arrangement, recording a growth of 8.63% over the previous year. Production of 85,921 MT in January, 2004 was an all time highest monthly record.

Your Company has achieved an average through-put of 58.25 MT per hour, per train as against the design rate of 57.5 MT. The productivity was improved through increase in pipe-reactor through-put and process innovation, apart from reduction in material consumption.

Safety, Health and Environment

The operations at the Plant at Kakinada and the Storage Terminal at Vishakhapatnam were in conformity with the safety and environmental standards/regulations prescribed by the statutory authorities. Your Company is implementing the OSHA Process Safety Management System (PSMS) to further strengthen the safety measures and to establish standards and procedures for safe operations. The implementation of this System will be completed by March 2005. Further, ISO 14001 for environmental standards is also being implemented which will be completed by October 2004.

Marketing

During the year under review, your Company has recorded a total sales turnover of 7.80 lakh MT including traded fertilisers as against 7.50 lakh MT sold during the previous year. Your Company's national market share of DAP increased from 8.59% to 11%, despite a marginal drop in consumption of DAP. Manufacture of 17:17:17 and 20:20:0 was discontinued due to higher cost of production and lower margins. During the year under review, your Company introduced new complex grades like 12:32:16 and 10:26:26 in the States of Maharashtra,

Andhra Pradesh and Karnataka and the response for the products was good.

Your Company has improved its market share of DAP in Andhra Pradesh from 66% to 68%, despite the declining trend in consumption of phosphatic fertilisers. The consumption of P_2O_5 in AP, which was at 5.61 lakh MT during 1998-99, reduced to 4.33 lakh MT in 2002-03 and marginally increased to 4.67 lakh MT during 2003-04. Your Company's efforts to reverse the downward trend in the share of DAP in the total phosphatic fertilisers, which had reduced from the level of 50% to 38% over a period of last 4 years, have started yielding desired results and the share of DAP consumption during this year has improved over the previous year. The portfolio of traded products included products like 20:20:0, MOP, Urea, Zinc Sulphate and SSP manufactured by others.

Your Company's sales in other States of Karnataka, Maharashtra and Chattisgarh had also increased. In the farther markets like Uttar Pradesh and Madhya Pradesh also your Company has concentrated in the economically accessible markets and increased sales of DAP and other products. Your Company has relaunched its operations in West Bengal during the Rabi season of 2003-04, by entering into a marketing tie-up with Coromandel Fertilisers Ltd. (CFL) for manufacture and sale of DAP under "Gromor" brand of CFL.

Though the overall monsoon rainfall was normal during 2003-04, certain parts of the country did not receive sufficient and timely rains. Some markets like South Maharashtra and North Karnataka were adversely affected, as were part of Andhra Pradesh i.e. Telangana region and Krishna District.

During the year under review, Government of Andhra Pradesh appointed your Company as a Nodal Agency to distribute Zinc Sulphate to the farmers on 50% subsidy. Your Company has successfully completed sale of over 11,800 MT of Zinc Sulphate to the farmers in the State of Andhra Pradesh under its 'Godavari' brand name and this is expected to give a good mileage for future growth of your Company.

Directors

Consequent to the disinvestment of its shareholding in the Company by the Government of Andhra Pradesh, Mr. Mohan Kanda, IAS, Chairman, Mr. K.R. Kishore, IAS, Managing Director and Mrs. Preethi Sudan, IAS and Mr. S. Bhattacharya, IAS, Directors, had resigned from the

Board with effect from 12th July 2003. The Board of Directors wish to place on record their sincere appreciation of the valuable contribution made by them during their tenure.

Consequent upon repayment of the loan taken from Industrial Development Bank of India Dr. P.L. Sanjeev Reddy, IDBI's Nominee Director on the Board, ceased to be a Director of the Company with effect from 30th December 2003. Mr. K K Pillai, Director resigned from the Board with effect from 9th July 2003. Mr. V Ravichandran and Mr. P Nagarajan, Directors, have resigned from the Board with effect from 17th September 2003. Mr. R.S. Nanda resigned from the Board with effect from 16th February, 2004. The Board of Directors wish to place on record their sincere appreciation of the valuable contribution made by them, during their tenure.

Mr. K.A. Nair was appointed as Director of the Company with effect from 17th September, 2003 and was designated as President & Whole Time Director. The terms and conditions of his appointment were approved by the shareholders at the Extra-Ordinary General Meeting held on 20th October, 2003.

Mr. Partho S Datta was appointed as a Director in the casual vacancy caused by the resignation of Mr. P Nagarajan, with effect from 17 September 2003.

Mr. Santosh Reddy was appointed as Additional Director at the Board Meeting held on 30th March 2004. Under the provisions of Section 260 of the Companies Act, 1956, he holds office till the ensuing Annual General Meeting. A notice under Section 257 of the Companies Act, 1956 has been received from a shareholder, proposing the candidature of Mr. Santosh Reddy as Director of the Company at the ensuing Annual General Meeting. A suitable resolution for his appointment is being proposed in the notice convening the Annual General Meeting.

In accordance with Article 91 of the Articles of Association of the Company read with Sections 255 and 256 of the Companies Act, 1956 Mr. M H Avadhani and Mr. U S Awasthi, Directors, retire by rotation and being eligible offer themselves for re-appointment.

Auditors

M/s. M. Bhaskara Rao & Co., Chartered Accountants, Hyderabad, the present Auditors retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if re-appointed.

Management Discussion and Analysis

A "Management Discussion and Analysis Report" highlighting the industry structure and developments, opportunities and threats, future outlook, risks and concerns etc. has been furnished separately and the same forms part of this Report.

Corporate Governance

As required under the Listing Agreement with Stock Exchanges, a report on Corporate Governance and a certificate from the Auditors on Corporate Governance are annexed.

Employee Relations

Yours Directors would like to place on record the dedication and commitment of all the employees of your Company in achieving satisfactory results. The industrial relations in the Company are very cordial and stable.

General

Information on conservation of energy, technology absorption and foreign exchange earnings / outgo, as required to be disclosed under Sec 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988 is annexed hereto and the same forms part of this report.

Information as required under Section 217 (2A) of the Companies Act, 1956 and the rules made thereunder is annexed hereto and the same forms part of this report.

As required under Section 217(2AA) of the Companies Act, 1956, Directors' responsibility statement is annexed hereto and the same forms part of this report.

Acknowledgements

Your Directors wish to acknowledge and record their appreciation of the support and assistance received by your Company from IDBI, State Bank of India, Andhra Bank, UTI Bank and other Banks and Financial Institutions, IFFCO, CFL, Government of Andhra Pradesh, Government of India and other government bodies both at the Centre and the State.

On behalf of the Board

Place : Hyderabad

Date : 12th May 2004

A. Vellayan

Chairman

Annexure to Directors' Report

Directors' Responsibility Statement

Pursuant to Section 217 (2AA) of the Companies Act, 1956, the Directors confirm that to the best of their knowledge and belief:

- a) in the preparation of the Profit & Loss Account for the financial year ended 31st March, 2004 and the Balance Sheet as at that date (financial statements) the applicable accounting standards have been followed and that there are no material departures there from.
- b) appropriate accounting policies have been selected and applied consistently and judgements and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit of the Company for that period.
- c) Proper and sufficient care has been taken 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. To ensure this, the Company has established internal control systems, consistent with its size and nature of operations, subject to the inherent limitations that should be recognised in weighing the assurance provided by any such system of internal controls. These systems are reviewed and updated on an ongoing basis. Periodic internal audits are conducted to provide reasonable assurance of compliance with these systems. The Audit Committee meets at regular intervals to review the internal audit function.

- d) The financial statements have been prepared on a going concern basis.

On behalf of the Board

Place: Hyderabad

Date : 12th May 2004

A. Vellayan

Chairman