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ANNUAL REPORT

2005 - 06

Godavari Fertilisers And Chemicals Limited





Our Chairman, Mr. A Vellayan, presenting a cheque to one of the beneficiaries of Rural Girl Child Education Program

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Mr. K.A. Nair, Managing Director, receiving the FAI Award for Improvement in Overall Performance for the year 2004-05



Godavari Fertilisers And Chemicals Limited

Godavari Fertilisers And Chemicals Limited, a customer focussed, environmentally conscious, business ethics driven company has been contributing its mite to the prosperity of the Indian farmer by supplying quality fertilizers in time and backing up crop productivity oriented programmes, through its product promotion services.

Our Mission

To enhance the Prosperity of Farmer through Supply of Quality Farm Inputs and Related Service to ensure value for Money.

Sharing our Prosperity with the Indian Farmer and His Family...

After becoming part of the Murugappa Group in 2003, GFCL has raised production steadily from 7.43 lakh tonnes in 2002-03 to reach 10.24 lakh tonnes in 2005-06, simultaneously improving operational efficiency and optimizing product mix. Productivity increased from 1,058 tonnes to 1,813 tonnes per employee. Average cost of borrowings was reduced from 13.5% to 6.2% over a period of 3 years and this was achieved by replacing high cost borrowing with low cost borrowings and by efficient management of funds. Significant reduction in distribution cost was achieved by increasing market share in economic zone of the addressable markets. GFCL continues to maintain its position as market leader in supply of DAP and NPK fertilisers in Andhra Pradesh with a market share of 67% in DAP, 36% in NPK fertilizers, and 37% in terms of all phosphatic nutrient consumed.

GFCL has drawn up sustainable long term plans to improve/uplift the economic condition of the Indian farmers' family through a variety of initiatives including the Rural Girl Child Education Program, Soil Nutrient mapping, emphasis on balanced fertilization and the Rythu Puruskaram Scheme to recognize and disseminate best agricultural practices.

- *A well-educated girl child is an economic and social asset, warding off evils like early marriage, early child bearing, dowry, etc and results in a useful, wealth creating citizen. The company believes that the hand that rocks the cradle rules the world, and in this direction 600 rural girl children have been supported through monetary assistance, during 2005-06.*
- *Soils over much of India have been extensively exploited and have become exhausted. Intensive cropping and continuous mining of nutrients from soil is leading slowly but steadily to dropping yields. Noting this serious anomaly, GFCL has embarked upon micronutrient soil mapping activities starting with 10 districts of AP, so that farmers can be provided with an optimum nutrient cum micronutrient prescription so as to maximize crop yields.*
- *A strong foundation helps a monument to weather all seasons. Similarly, a strong root system can be developed if Phosphorous is used in right quantities. In order to propagate the importance of balanced fertilizer usage, GFCL has started a systematic farmer education program through Project 'P'.*
- *Competition and rewards bring out the best in human beings. To bring out the enterprise and competitive spirit of our farmers, GFCL has launched an ambitious Crop Producing competition in 17 districts of Andhra Pradesh through Godavari Abhodaya Rythu Puraskaram, during the current financial year 2006-07.*

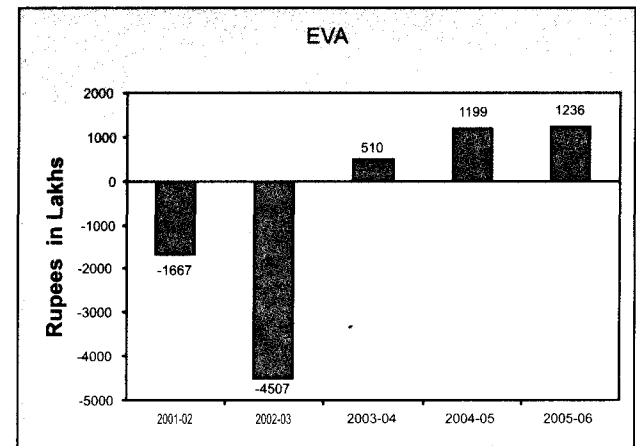
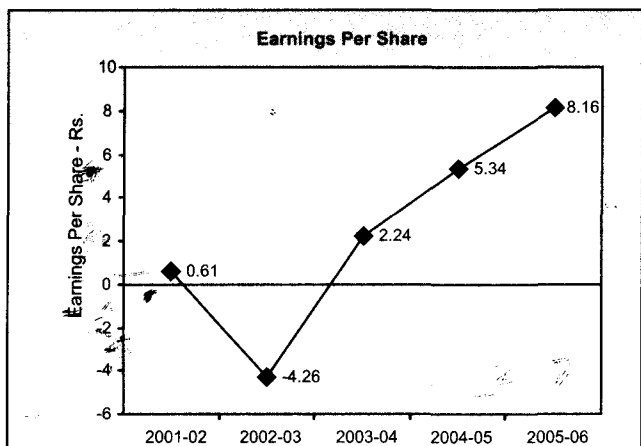
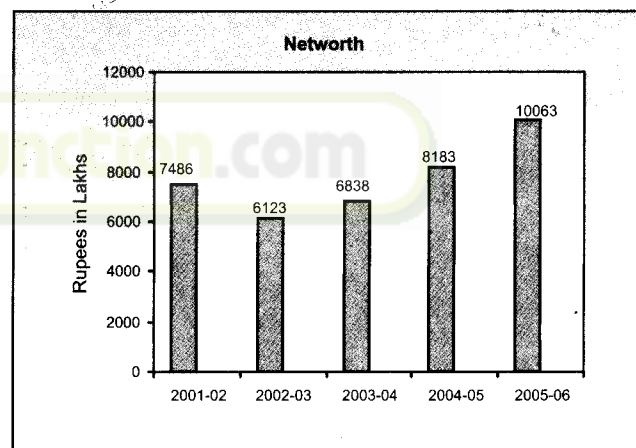
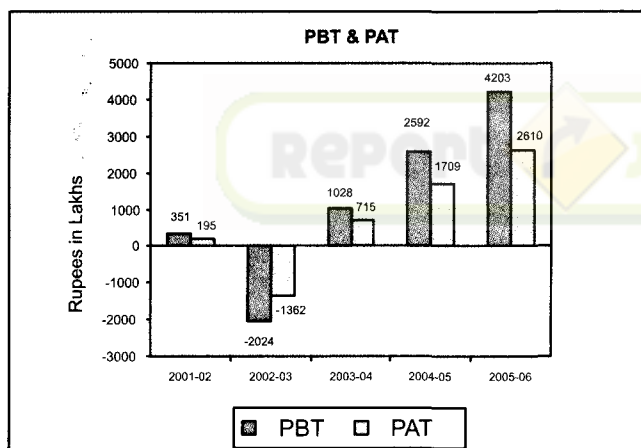
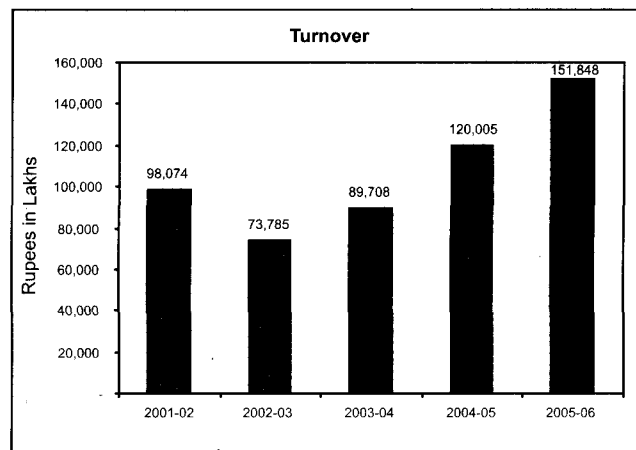
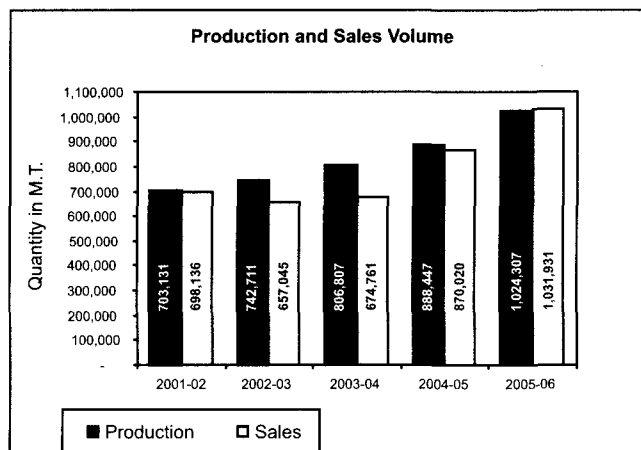
With a comprehensive relationship building exercise through the above schemes, Godavari Fertilisers And Chemicals Ltd shares its prosperity and progress with its loyal and true customer... the Indian farmer...

The journey continues.....



Godavari Fertilisers And Chemicals Limited

PERFORMANCE HIGHLIGHTS



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Board of Directors

Chairman

A Vellayan

Directors

U S Awasthi (Alternate : Rakesh Kapur)

M H Avadhani

B V R Mohan Reddy

Partho S Datta

V Ravichandran

Santosh Reddy

Surinder Kumar Jakhar (Alternate : Sheesh Pal Singh)

Managing Director

K A Nair

Management Team

Dr. G Ravi Prasad
Vice President (Marketing)

S V Raghavendra
Chief Financial Officer

D S Ravindra Raju
Head-Manufacturing

P Varadarajan
Company Secretary

Registered Office

Coromandel House,
1-2-10, S.P. Road,
Secunderabad - 500 003.

Factory

Beach Road, Kakinada - 533 001
Andhra Pradesh.

Auditors

Deloitte Haskins & Sells
Coromandel House
1-2-10, S.P. Road
Secunderabad - 500 003

Bankers

State Bank of India
Andhra Bank
ICICI Bank Ltd
UTI Bank Ltd
IDBI Bank Ltd
HDFC Bank Ltd
Citi Bank



Godavari Fertilisers And Chemicals Limited

NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the **Twenty fourth Annual General Meeting** of the Members of Godavari Fertilisers And Chemicals Limited will be held on Monday, the 17th July 2006 at 10.00 AM at KLN Prasad Auditorium, The Federation of Andhra Pradesh Chambers of Commerce & Industry (FAPCCI), Federation House, 11-6-841, Red Hills, Hyderabad - 500004 to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31st March 2006 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 declare a Dividend.
3. To appoint a Director in place of Mr. B V R Mohan Reddy who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Mr. Santosh Reddy who retires by rotation and being eligible offers himself for re-appointment
5. To appoint Auditors and fix their remuneration.

Special Business

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

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII thereto, consent of the company be and is hereby accorded to the appointment of Mr. K A Nair, as Managing Director of the company from 17th January 2006 to 16th September 2008 (both days inclusive), whose term of office is not liable to retirement by rotation.

RESOLVED FURTHER THAT Mr. K A Nair be paid remuneration by way of salary, allowances, incentive and perquisites upto a maximum of 5% of the net profits of the company computed in the manner prescribed in sections 349 and 350 of the Companies Act, 1956, for each of the financial year, as determined by Remuneration and Nomination Committee of Directors and approved by the Board from time to time.

RESOLVED FURTHER THAT the terms and conditions set out in the agreement dated 17th January 2006 entered into between the Company and Mr. K A Nair be and is hereby approved with specific authority to the Directors, to alter and vary without further reference to the Company in a general meeting, the said terms and conditions of appointment or agreement in such a manner as the Directors may decide and acceptable to Mr. K A Nair, so long as the same do not exceed the limits specified under Schedule XIII to the Companies Act, 1956, or any modification or re-enactment thereof and also to do all such acts, deeds,

matters and things as may be considered necessary, desirable or expedient to give effect to this resolution."

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

"RESOLVED THAT the consent of the Company be and is hereby accorded in terms of section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 to mortgaging and/or charging by the Board of Directors of the Company of all or any of the immovable and movable properties of the Company wheresoever situate, present and future and/or conferring power to enter upon and to take possession of assets of the Company in certain events to or in favour of lenders to secure -

- 1) on first pari-passu/exclusive charge basis in favour of-
 - (a) UTI Bank Limited for its Term Loan aggregating Rs. 50 crore (Rupees fifty crore only) availed by the Company in the financial year 2003-04; and
 - (b) Andhra Bank or any other lender(s) for the proposed project/corporate loan of Rs. 30 crore (Rupees thirty crore only); and
- 2) on second pari-passu charge basis;
 - (a) IDBI Limited for a Term loan of Rs.10 crore (Rupees ten crore only) availed during 2004; and
 - (b) State Bank of India, Andhra Bank, ICICI Bank Ltd., HDFC Bank Ltd., IDBI Ltd. and/or any other Bank or Institution to the extent of financial assistance sanctioned by the respective Bank or Financial Institution, subject to an overall working capital borrowing limit of Rs. 500 crore.

together with interest thereon at the stipulated rates, all other charges and expenses and other monies payable by the Company to the said lenders under the loan agreements/letters of sanction/memorandum of terms and conditions entered into/to be entered into by the Company in respect of the said term loan(s) and working capital facilities.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to finalise with the lenders the documents for creating the aforesaid mortgage and/or the charge and to do all such acts and things as may be necessary and to sub-delegate the powers to Managing Director, Chief Financial Officer or any other executive as deemed fit, for giving effect to the above resolution."

By Order of the Board

Place : Hyderabad
Date : 17th May 2006

P Varadarajan
Company Secretary

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Notes:

1. **A member entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and vote instead of himself and such a Proxy need not be a member of the Company.**
2. Instruments of Proxies in order to be effective must be deposited with the Company at its Registered Office not less than 48 hours before the commencement of the Meeting.
3. Explanatory Statement under Section 173 of the Companies Act, 1956 is annexed hereto.
4. The Register of Members of the Company and Share Transfer Books will remain closed from 1st July 2006 to 17th July 2006 (both days inclusive).
5. Members are requested to intimate to the Company, changes, if any, in their address along with Pincode numbers. Members whose shareholdings are in the electronic mode are requested to send the intimation for change of address to their respective Depository Participants.
6. M/s. Karvy Computershare Private Limited, Hyderabad, are the Registrars and Share Transfer Agents of the Company. Members are requested to send their communications pertaining to their shares to the Registrars.
7. Pursuant to the provisions of Section 205C of the Companies (Amendment) Act, 1999, the amount of dividend remaining unclaimed upto the financial year 1997-98 has been transferred to the Investors Education & Protection Fund.
8. Members attending the Meeting are requested to complete and bring the attendance slip enclosed with the Annual Report and hand over the same at the entrance of the meeting hall, duly signed.
9. As required under Clause 49 of the Listing Agreement with Stock Exchanges, a brief resume of the Directors seeking re-appointment is given below:
 - (a) **Mr. B V R Mohan Reddy**
Mr. B V R Mohan Reddy is a Graduate in Mechanical Engineering from Andhra University and a Gold Medalist for standing first. He also holds a master's degree in Management Engineering from University of Michigan, USA, besides a master's degree in Industrial Engineering from the Indian Institute of Technology (IIT), Kanpur. He is the founder Chairman and Managing Director of M/s. Infotech Enterprises Limited. He is also on the Board of Vizag IT Park Limited, Ocimum Bio-Solutions Ltd and Tele Atlas (India) Pvt Ltd.
 - (b) **Mr. Santosh Reddy**
Mr. Santosh Reddy is a Post Graduate in Arts. He is a Director on the Board of several companies viz., M/s. Global Green Company Ltd., M/s. Orient Longman Pvt Ltd., M/s. Durandel Foods Pvt Ltd., M/s. Concord Containers Pvt Ltd., M/s. Masanto Containers Pvt Ltd., Ilabs Hyderabad Technology Centre Pvt Ltd., and M/s. Samanto Laminates Pvt Ltd.

EXPLANATORY STATEMENT

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 (hereinafter referred to as "the Act").

Item No. 6 - Appointment of Managing Director

Mr. K A Nair was appointed as President & Whole-time Director of the company for a period of 5 years from 17th September 2003 and the said appointment was approved by the members at the Extra-Ordinary General Meeting held on 20th October 2003. Considering the valuable contributions made by Mr. K A Nair in turning around the Company from a loss making one to a profit making and dividend paying company within a short period, the Board of Directors, at their meeting held on 17th January 2006, have appointed Mr. K A Nair as Managing Director of the Company from 17th January 2006 to 16th September 2008, subject to the approval of the members in the general meeting, on the terms and conditions set out in the resolution passed at the said meeting. The company entered into an agreement dated 17th January 2006 with Mr. K A Nair setting out the aforesaid terms of his appointment as Managing Director.

The material terms of the said agreement dated 17th January 2006 referred to in the resolution at Item 6 of the notice are:

1. Mr. K A Nair to be Managing Director of the company with effect from 17th January 2006 to 16th September 2008 subject to his appointment being previously determined in pursuance of any of the provisions of the Agreement.
2. Mr. K A Nair to exercise and perform such powers and duties, as the Board shall from time to time determine.
3. The company to pay Mr. Nair during the continuance of the Agreement, remuneration by way of salary, allowance, incentive and perquisites, amenities and benefits as may be accorded to other senior executives of the company and as may be permitted/approved by the Remuneration & Nomination Committee/Board subject to an overall limit of 5% of the net profits of the company for each financial year computed as per provisions of sections 349 and 350 of the Companies Act, 1956. The company



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to contribute to the Provident Fund, Superannuation Fund and Gratuity as per rules of the Fund/Scheme in force from time to time.

4. In any financial year, during the term of this Agreement, the Company has no profits or its profits are inadequate, Mr. Nair shall be entitled to remuneration, in the aggregate, including salary, allowances and perquisites, as per the limits for such remuneration prescribed in Schedule XIII to the Companies Act, 1956 and the rules made there under or any statutory modifications or re-enactment thereof.
5. Either party shall be entitled to determine this Agreement by giving not less than 180 days notice in writing in that behalf to the other party. Provided, however, that the company shall be entitled to terminate Mr. Nair's employment at any time by payment to him of 6 months remuneration in lieu of such notice.
6. Upon the termination of Mr. Nair's appointment as above, Mr. Nair shall, at the Company's option, vacate his office on the date indicated by the Company, but he will be entitled to the remuneration payable to him until the date of termination of the appointment or until the expiration of the period notice.

An abstract of the terms of appointment of Mr. Nair as Managing Director was sent to all Members on January 30, 2006 in accordance with Section 302 of the Companies Act, 1956.

The above agreement dated 17th January 2006 will be available for inspection of the members at the registered office of the company between 11 A.M. and 1 P.M., on any working day.

Mr. K A Nair is interested in the Resolution at Item No. 6 since it relates to his own appointment and remuneration.

Item No.7 – Approval for creation of charge

Company has availed the following long term and medium term loans to be secured by charge/s on the immovable assets of the Company, as per the terms and conditions stipulated by the lenders.

- (a) Term loans of Rs.50 crore from UTI Bank to meet long-term working capital needs of the Company, required to be secured by first charge on the immovable assets of the company, in addition to second charge on the movable assets of the Company;
- (b) Term Loan of Rs.10 crore from IDBI Bank, repayable over a period of 3 years, to be secured by second charge on the immovable assets of the Company.

In addition to the above, the Company proposes to avail Term Loan(s) aggregating to Rs.30 crore from Banks and / or Financial Institutions, to part fund the capital expenditure on construction of an ammonia tank of 10000 Tonnes capacity at Kakinada. This loan(s) will also have to be secured by first or second charge on the immovable properties of the Company.

Company has also availed / plan to avail working capital facilities from Banks and Financial Institutions, aggregating to Rs. 500 crore, which need to be secured by a second charge on the immovable assets.

Creation of the above said charges on the immovable properties of the Company requires approval of the shareholders under section 293(1)(a) of the Companies Act, 1956, by an ordinary resolution.

None of the Directors is interested in the resolution.

By Order of the Board

Place : Hyderabad
Date : 17th May 2006

P Varadarajan
Company Secretary

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DIRECTORS' REPORT

To the Members

Your Directors have pleasure in presenting the Twenty Fourth Annual Report of the Company, together with the audited accounts for the financial year ended 31st March 2006.

Financial Results

(Rs. in crore)

	2005-06	2004-05
Net sales and operating revenue	1519.98	1200.05
Other Income	5.66	11.41
Profit before Interest, Depreciation and Tax	68.32	50.27
Less: Interest	18.31	16.86
Depreciation	7.98	7.50
Profit Before Tax	42.03	25.91
Less: Provision for Tax [including Deferred Tax]	15.93	8.82
Profit After Tax	26.10	17.09

The net sales and operating revenue of the Company, including subsidy, for the year 2005-06 was Rs.1519.98 crore, representing a growth of 27% over the previous year.

During the year, the Company earned a Profit Before Tax of Rs.42.03 crore as against Rs.25.91 crore in the previous year, representing an increase of 62%. The Profit After Tax was Rs.26.10 crore as against Rs.17.09 crore in the previous year.

Operations

Your Company achieved an all time high production of 10.24 lakh tonnes, recording a growth of 15% over the previous year. Long term contracts with raw material suppliers ensured continued supply of phosphoric acid to your company, when the short supply of it in the international market affected supplies to India. While prices of key raw materials phosphoric acid and ammonia increased substantially during the year, the government subsidy formula has not reckoned this increase fully which resulted in under recovery of input cost. Your Company has optimised its product mix by producing and selling more NPK complex fertilisers and thereby maximized production and contribution. Your company has become the third largest producer of NPK complex fertilisers in the country.

Your Company has achieved an average DAP through-put of 65.2 MT per hour as against the design rate of 57.5 MT per hour and 63.5 MT per hour achieved during the previous year. Fine-tuning of the equipments and de-bottlenecking in certain areas of operations have helped in achieving this.

Your Company has received Award for Improvement in Overall Performance for the year 2004-05 from Fertiliser Association of India.

Capital Expenditure

During the year, your Board has approved a capital expenditure of Rs.19.82 crore for construction of a 10,000 Tonne atmospheric ammonia storage tank at Kakinada Plant. Civil work commenced in February 2006 and the tank is expected to be completed by 31st March 2007.

Safety, Health and Environment

The operations at the Plant at Kakinada and the Storage Terminal at Visakhapatnam were in conformity with the safety and environmental standards and regulations prescribed by the statutory authorities. Your Company has upgraded the certification under ISO14001 from 1996 version to 2004 version and has also implemented Process Safety Management System (PSMS). Quality Management System ISO 9001 has also been implemented. The Company has achieved a continuous accident free record of 3.36 million man-hours by the year end.

Marketing

During the year under review, your Company has recorded highest sales of manufactured products of 10.20 lakh tonnes, including 3.81 lakh tonnes of complex fertilisers, achieving an overall growth of 17% in volume over the previous year's sales, the growth in complex fertilisers being 55%. The market share of Company's DAP was around 11% on all India basis and 68% in Andhra Pradesh. The country had the best ever south-west monsoon in the recent past that improved the irrigation potential and demand for fertilisers. During the year the market and retailer network was further widened, resulting in wider distribution of products in the addressable markets.

The Company has continued its efforts to educate the farmer on the benefits of increased and balanced use of P_2O_5 as nutrient and this has resulted in reducing the imbalance in use of phosphatic and nitrogenous fertilisers. During the year, the Company has started marketing of water-soluble fertilisers, micronutrients and G-Sulphur and the market response is encouraging.

With a large number of irrigation projects under implementation in the States of Andhra Pradesh, Karnataka and Maharashtra, the addressable markets of the Company, demand for Company's products is expected to improve further.

The Company's Rural Girl Child Education Program launched in 6 districts of Andhra Pradesh, under which financial assistance were provided to girl children with good academic record, was very well received and appreciated by the farmers, academicians and government authorities.

Subsidy

The Central Government had appointed a committee under the Chairmanship of Mr. Abhijit Sen to formulate a new policy on fertiliser subsidy. The Committee has submitted its report and recommendations for consideration of the Government.



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Absence of clarity on the subsidy policy has caused uncertainty in the industry and is hampering its growth and profitability. Finally in May 2006 the Government has announced continuation of the existing policy; however, phos acid prices would be determined based on the Abhijit Sen formula on quarterly basis.

Finance

During the year, the Company had to resort to higher level of borrowings on account of non-release of subsidy by Government during the period between November 05 and March 06. This had resulted in higher interest charges during the year. The delayed subsidy was finally released during April - May 2006.

Appropriations

The amount available for appropriation and recommended appropriations are given below:

(Rs. in crore)

Available for appropriation:

Profit After Tax	26.10
Add: Balance brought forward from previous year	10.39

Total	36.49
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Recommended appropriations:

Transfer to General Reserve	15.00
Proposed Dividend (20%)	6.40
Dividend Tax	0.89
Balance carried forward	14.20

Dividend

Your Directors are pleased to recommend a dividend of 20% (Rs.2/- per equity share of Rs.10 each) for the year.

Directors

In accordance with the provisions of Section 255 and 256 of the Companies Act, 1956 read with Article 105 and 106 of the Articles of Association of the Company, Mr. B V R Mohan Reddy and Mr. Santosh Reddy, Directors, retire by rotation and being eligible offer themselves for re-appointment.

Auditors

M/s. Deloitte Haskins & Sells, 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

Company has complied with the applicable provisions of revised clause 49 of the Listing Agreement with the Stock Exchanges. As required under that clause, a report on Corporate Governance and a certificate from the Auditors on Corporate Governance are annexed.

Employee Relations

The industrial relations in the Company continue to be very cordial and stable. Your Directors would like to place on record the dedication and commitment of all the employees of your Company in achieving the good results.

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 State Bank of India, Andhra Bank, ICICI Bank, HDFC Bank, IDBI Bank, UTI Bank and other Banks, IFFCO, Coromandel Fertilisers Ltd, Government of Andhra Pradesh, Government of India and other government bodies both at the Centre and the State.

On behalf of the Board

Place : Chennai
Date : 17th May 2006

A Vellayan
Chairman