

25th ANNUAL REPORT
2006-07



GODAVARI

Godavari Fertilisers
And Chemicals Limited



10,000 MT Atmospheric Ammonia Storage Tank commissioned in March 2007



Godavari Fertilisers And Chemicals Limited

Board of Directors

Chairman

A Vellayan

Directors

K Balasubramanian

B V R Mohan Reddy

Santosh Reddy

N Srinivasan

Managing Director

V Ravichandran

K A Nair [Up to 30-04-2007]

Management Team

G Ravi Prasad

Sr. Vice President (Marketing)

S V Raghavendra

Vice President & Chief Financial Officer

P Varadarajan

GM - Legal & Company Secretary

G S N Reddy

GM - Engineering

A Ramachandra Rao

GM - Projects

Registered Office

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

Factories

Beach Road, Kakinada - 533 001
Andhra Pradesh

Auditors

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

Registrars & Share Transfer Agents

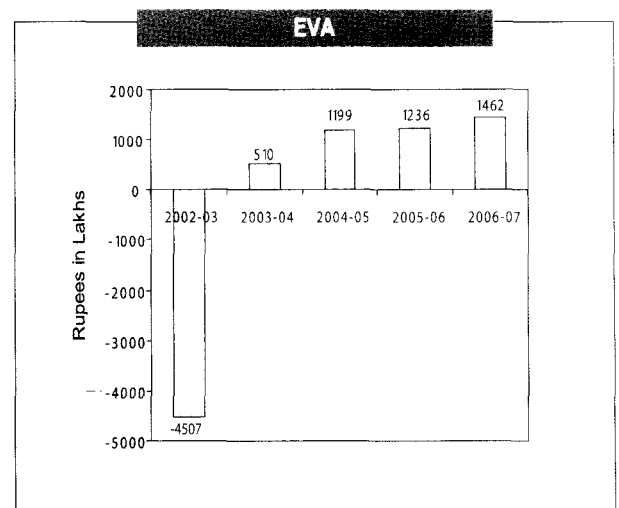
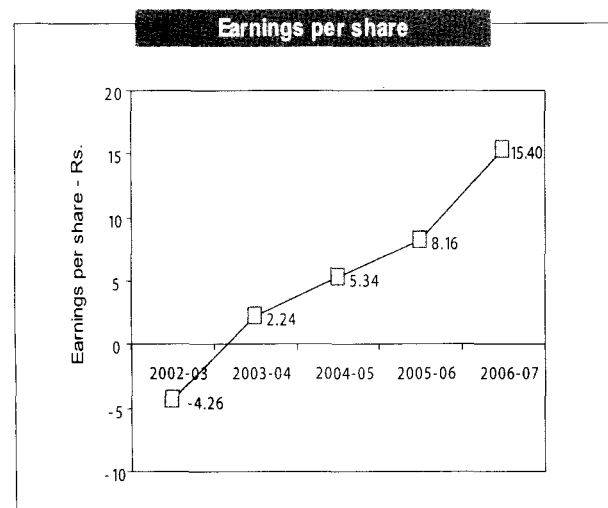
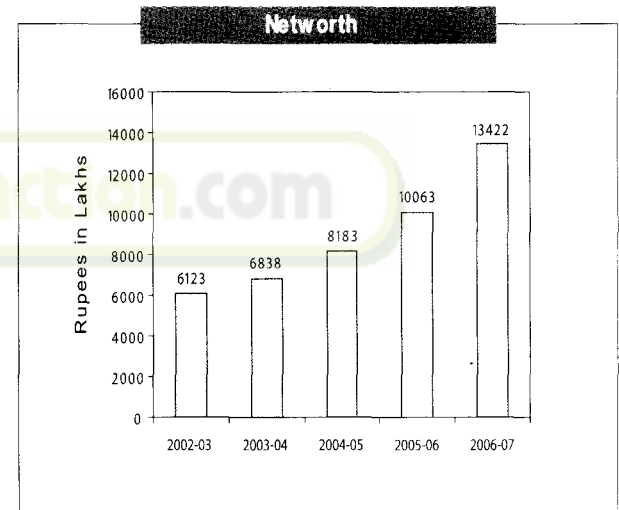
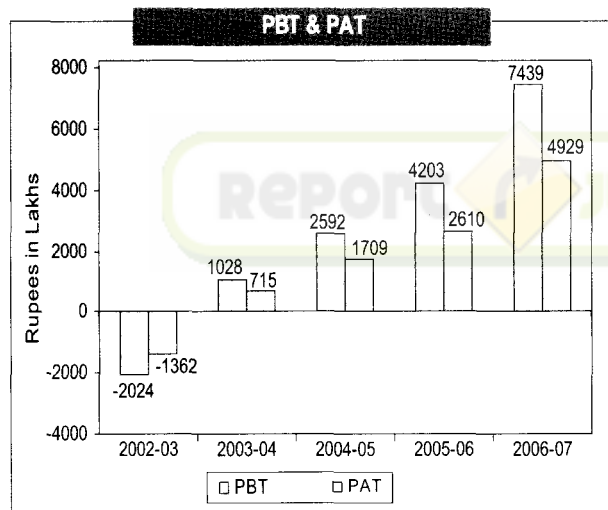
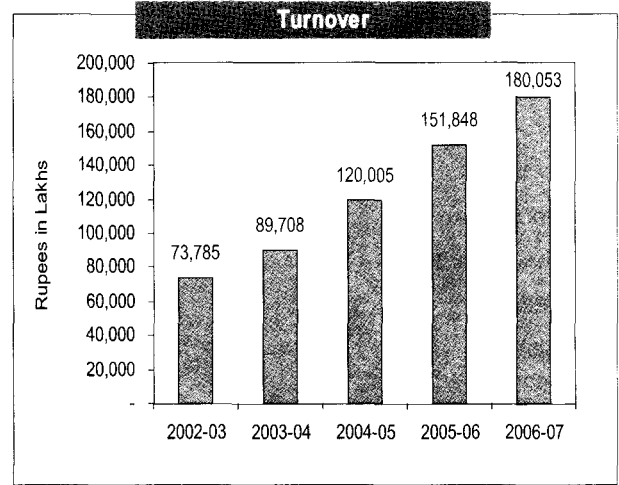
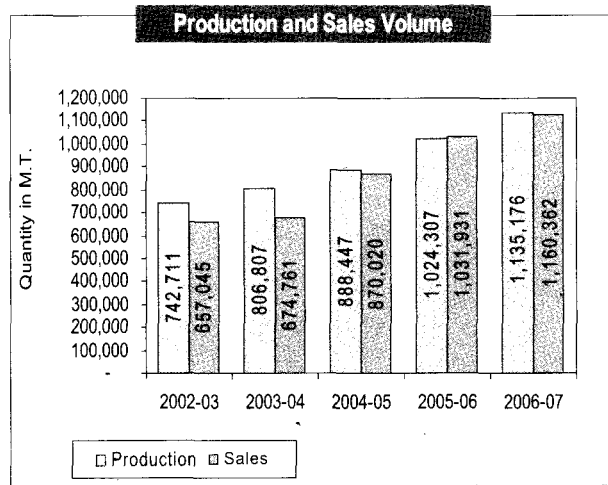
Karvy Computershare Pvt Limited
17-24, Vithal Rao Nagar
Madhapur, Hyderabad - 500 081

Bankers

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



PERFORMANCE HIGHLIGHTS



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NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the **Twenty fifth Annual General Meeting** of the Members of Godavari Fertilisers And Chemicals Limited will be held at 10.00 AM on Friday, the 20th July 2007 at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500003 to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31st March 2007 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. K Balasubramanian who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration 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 224 and other applicable provisions, if any, of the Companies Act, 1956, the retiring Auditors M/s. Deloitte Haskins & Sells, Chartered Accountants, be and are hereby re-appointed as Auditors of the Company, to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting on a remuneration of Rs.6,00,000/- (Rupees Six Lakhs only) plus reimbursement of out of pocket expenses."

Special Business

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

"RESOLVED THAT Mr. N Srinivasan, be and is hereby appointed as Director of the Company whose term of office is liable to retirement by rotation."

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 Sections 269, 316 and all other applicable provisions and Schedule XIII of the Companies Act, 1956, Mr. V Ravichandran, be and is hereby appointed as Managing Director of the Company for a period of three years from 8th May 2007.

RESOLVED FURTHER THAT Mr. V Ravichandran shall not draw any remuneration from the Company.

RESOLVED FURTHER THAT the terms and conditions set out in the agreement dated 8th May 2007 entered into between the Company and Mr. V Ravichandran 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. V Ravichandran, so long as the same is in compliance with Schedule XIII and other applicable provisions of the Companies Act, 1956."

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

"RESOLVED THAT pursuant to Section 31 and other applicable provisions of the Companies Act 1956, the Articles of Association of the Company be and is hereby amended in the manner and to the extent hereinafter set out:

- (i) In the existing Article 1 the definition of IFFCO be deleted.
- (ii) The existing sub-clause (2) of Article 5, sub-clause (b) of Article 71, Article 92, sub-clause (b) of Article 111, Article 116, Article 121 and Article 125 be deleted.
- (iii) The existing sub-clause (a) of Article 113 be substituted with the following new sub-clause:

(a) Subject to provisions of the Act and the Articles the Board of Directors may, when any Director (in this Article called the 'Original Director') has left or is about to leave the State in which the meetings of the Board are ordinarily held for not less than three months, appoint any person to be an Alternate Director during the absence of the Original Director and such appointment shall have effect and such appointee, whilst he holds the office as an Alternate Director shall be entitled to notice of meetings of Directors and to attend and vote thereat accordingly but he shall not require any qualification shares and shall ipso facto vacate office if and when the original Director returns to the State or vacates office as a Director.

- (iv) The existing Article 120 be substituted with the following new Article 120:

120. Subject to the provisions of Section 292 and other applicable Sections of the Act and the Articles, the Board may form such Committee/s consisting of such number of its body as it thinks fit and delegate such powers as it deems fit.

The Board may from time to time, subject to these Articles, revoke and discharge any such committee of the Board whether wholly or in part and either as to persons or purposes but every committee of



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the Board so formed, shall in exercise of the power as so delegated conform to any regulations that may from time to time be imposed on it by the Board. All acts done by any such committee of the Board in conformity with such regulations and in fulfillment of the purpose of their appointment but not otherwise shall have the like force and effect as if done by the Board."

8. 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 under the provisions of Section 293(1)(d) of the Companies Act, 1956 be and is hereby accorded to the Board of Directors of the Company to borrow monies from time to time, notwithstanding that the money or monies to be borrowed, together with monies already borrowed by the Company for the time being (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) may exceed the aggregate of the paid up capital of the Company and its free reserves, that is to say reserves not set apart for any specific purposes, provided however, the total amount so borrowed shall not exceed Rs.350 crore (Rupees Three hundred fifty crore only)"

9. To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to the provisions of Section 81(1A), and all other applicable provisions, if any, of the Companies Act 1956, the Memorandum and Articles of Association of the Company, Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as "SEBI Guidelines") and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions, the consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee, which the Board has constituted to exercise its powers, including the powers, conferred by this resolution), to create, offer, issue and allot at any time to or to the benefit of such person(s) who are in permanent employment of the Company, including any Director of the Company, whether wholtime or otherwise, but excluding Promoter Director(s), options

exercisable into not more than 5% of the Issued Equity Share Capital of the Company, that is 16,00,000 Equity Shares of the Company under one or more Employee Stock Option Scheme (s), in one or more tranches, and on such terms and conditions as may be fixed or determined by the Board in accordance with the provisions of the law or guidelines issued by the relevant Authority; each option would be exercisable for one Equity Share of a face value of Rs.10 each fully paid-up on payment of the requisite exercise price to the Company.

RESOLVED FURTHER THAT in case of any corporate action(s) such as rights issues, bonus issues, merger and sale of division and others, if any additional Equity Shares are issued by the Company to the Option Grantees for the purpose of making a fair and reasonable adjustment to the options granted earlier, the above ceiling of 16,00,000 Equity Shares shall be deemed to be increased to the extent of such additional Equity Shares issued.

RESOLVED FURTHER THAT the Board be and is hereby authorised to issue and allot Equity Shares upon exercise of options from time to time in accordance with the Employee Stock Option Scheme and such Equity Shares shall rank pari passu in all respects with the then existing Equity Shares of the Company.

RESOLVED FURTHER THAT in case the Equity Shares of the Company are either sub-divided or consolidated, then the number of shares to be allotted and the price of acquisition payable by the Option Grantees under the Schemes shall automatically stand augmented or reduced, as the case may be, in the same proportion as the present face value of Rs.10 per equity share bears to the revised face value of the Equity Shares of the Company after such sub-division or consolidation, without affecting any other rights or obligations of the said allottees.

RESOLVED FURTHER THAT the Board be and is hereby authorized to make modifications, changes, variations, alterations or revisions in the said schemes as it may deem fit, from time to time in its sole and absolute discretion in conformity with the provisions of the Companies Act, 1956, the Memorandum and Articles of Association of the Company, SEBI Guidelines and any other applicable laws."

By Order of the Board

Place : Hyderabad
Date : 7th June 2007

P Varadarajan
GM-Legal & 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(2) of the Companies Act, 1956 in respect of Special Business to be transacted at the Meeting is annexed hereto.
4. The Register of Members of the Company and Share Transfer Books will remain closed from 1st July 2007 to 20th July 2007 (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 electronic mode are requested to send the intimation for change of address to their respective Depository Participants.
6. Pursuant to the provisions of Section 205C of the Companies (Amendment) Act, 1999, the amount of dividend remaining unclaimed upto the financial year 1998-99 has been transferred to the Investors Education & Protection Fund.
7. 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.
8. A brief resume of the Directors seeking re-appointment is given in Corporate Governance Report annexed to the Directors' Report

EXPLANATORY STATEMENT

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

Item No.5 - Appointment of Director

The Board of Directors have at their meeting held on 8th May 2007 appointed Mr. N Srinivasan as an Additional Director of the Company. He holds office upto the ensuing Annual General Meeting. The Company has received a notice under Section 257 of the Companies Act, 1956 from a shareholder signifying her intention to propose the candidature of Mr. N Srinivasan as Director of the Company.

None of the Directors except Mr. N Srinivasan is interested or concerned in the said resolution.

Item No.6 - Appointment of Managing Director

Consequent to the demise of Mr. K A Nair on 30th April 2007, the Board of Directors, at their meeting held on 8th May 2007, have appointed Mr. V Ravichandran as Managing Director of the Company for a period of three years from 8th May 2007.

Mr. V Ravichandran, who is also the Managing Director of Coromandel Fertilisers Limited, holding company, shall not draw any remuneration from the Company. The Company has entered into an agreement dated 8th May 2007 with Mr. V Ravichandran setting out the terms of his appointment as Managing Director. The material terms of the said agreement are:

1. Mr. V Ravichandran shall be the Managing Director of the Company for a period of 3 years from 8th May 2007. His appointment as Managing Director is subject to approval of the members at the ensuing Annual General Meeting of the Company.
2. He shall not draw any salary, allowance, perquisites or any other kind of remuneration from the Company. He

will not be entitled to any sitting fee for attending the meetings of the Board or of any Committee thereof.

3. He shall exercise and perform such powers and duties as the Board shall from time to time determine.
4. He shall undertake such travelling in and outside India as may be necessary in the interests of the business of the Company and he shall be entitled to reimbursement of traveling, hotel and all other expenses reasonably incurred by him in India and abroad in connection with such travel.
5. Both Mr. V Ravichandran and the Company are entitled to terminate the agreement by giving not less than 180 days notice in writing in that behalf to the other party.

Mr. V Ravichandran (51) is a Graduate Engineer and did his Post Graduate Diploma from Indian Institute of Management, Ahmedabad. He is also a Cost Accountant and a Company Secretary. He worked with Ashok Leyland Limited and Murugappa Group of Companies in the field of Finance and Marketing for over 2 decades. He is also on the Board of Parry Agrochem Exports Ltd, The Fertiliser Association of India, Parry Chemicals Ltd and Ficom Organics Ltd. Mr. V Ravichandran was the Vice President of the Farm Inputs Division of E I D - Parry (I) Ltd, before joining Coromandel Fertilisers Limited (CFL) in December 2003. At present he is the Managing Director of CFL.

The said agreement will be available for inspection of the members at the registered office of the Company between 11 AM and 1 PM on any working day.

None of the Directors except Mr. V Ravichandran is interested or concerned in the said resolution.

Item No.7 - Approval to amend the Articles of Association.

The Articles of Association of the Company was amended in



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the year 2003 conferring certain rights to Coromandel Fertilisers Ltd (CFL) and IFFCO. As the shareholding of IFFCO in the Company has been acquired by CFL, the relevant Articles need to be deleted / amended. Accordingly, the resolution for amending/deleting the relevant Articles is recommended for approval of the shareholders.

None of the Directors is interested in the resolution.

Item No.8 - Approval under Section 293(1)(d) of the Companies Act, 1956

In the 18th Annual General Meeting held on 18th August 2000, consent of the Members of the Company was obtained to borrow funds to the tune of Rs.200 crore (Rupees two hundred crore only), apart from temporary loans obtained from the Company's bankers in the ordinary course of business. In view of the increased operating capacity the need for long term resources has increased. The existing borrowing limit of Rs.200 crore is not sufficient for meeting additional requirements. It is therefore proposed to increase the borrowing limits from Rs.200 crore to Rs.350 crore. Sanction of the Members is sought u/s 293(1)(d) of the Companies Act, 1956 to borrow upto Rs.350 crore, apart from temporary loans obtained from the Company's Bankers in the ordinary course of business. Your Directors recommend the resolution for your approval.

None of the Directors is interested in the resolution.

Item No.9 - Approval for ESOP Scheme

Employees play a critical role in any organizational growth. In order to appreciate the critical role played by employees of the Company and also to let the employees share the value created by them, it is proposed to introduce an Employees Stock Option Scheme (ESOS) pursuant to Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. This would also foster the culture of employee ownership in the Company and is expected to further enhance the organizational growth. Grant of Options under the ESOS and its conversion to equity shares of the Company requires approval of the Members of the Company under Section 81 (1A) of the Companies Act, 1956. Approval of the shareholders is being sought for issue of stock options to the employees of the Company.

The main features of the employee stock option schemes are as under:

1. Total number of options to be granted:

A total of 16,00,000 options would be available for grant to eligible employees of the Company under Employee Stock Option Scheme. Each option when exercised would be converted into one Equity share of Rs.10 each fully paid-up.

Vested options that lapse due to non-exercise or unvested options that get cancelled due to resignation of the

employees or otherwise, would be available for re-grant at a future date.

SEBI guidelines require that in case of any corporate action(s) such as rights issues, bonus issues, merger and sale of division and others, a fair and reasonable adjustment needs to be made to the options granted. Accordingly, if any additional equity shares are issued by the Company to the Option Grantees for making such fair and reasonable adjustment, the ceiling of 16,00,000 equity shares shall be deemed to be increased to the extent of such additional equity shares issued.

2. Identification of classes of employees entitled to participate in the Employee Stock Option Scheme(s):

All permanent employees of the Company, including the Directors but excluding the promoters of the Company, as may be decided by the Remuneration & Nomination Committee (R & N Committee) from time to time, would be entitled to be granted stock options under the ESOP Scheme(s).

3. Transferability of employee stock options:

The stock options granted to an employee will not be transferable to any person and shall not be pledged, hypothecated, mortgaged or otherwise alienated in any manner. However, in the event of the death of an employee stock option holder while in employment, the right to exercise all the options granted to him till such date shall be transferred to his legal heirs or nominees.

4. Requirements of vesting and period of vesting:

The Options granted shall vest so long as the employee continues to be in the employment of the Company. The R & N Committee may, at its discretion, lay down certain performance metrics on the achievement of which the granted options would vest, the detailed terms and conditions relating to such performance-based vesting, and the proportion in which options granted would vest (subject to the minimum and maximum vesting period as specified below).

The options would vest not earlier than one year and not later than five years from the date of grant of options. The exact proportion in which and the exact period over which the options would vest would be determined by the R & N Committee, subject to the minimum vesting period of one year from the date of grant of options.

5. Exercise Price:

The options would be granted at an exercise price equal to -

- a. Average of the closing price during the period of 60 days prior to the date of the R & N Committee resolution approving the grant.

Or

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- b. Prevailing Market Price of the shares as on the date prior to the date of the resolution of the R & N Committee approving the grant, whichever is lower.

6. Exercise Period and the process of Exercise:

The Exercise period would commence from the date of vesting and will expire on completion of three years from the date of vesting of options.

The options will be exercisable by the Employees by a written application to the Company to exercise the options in such manner, and on execution of such documents, as may be prescribed by the R & N Committee from time to time. The options will lapse if not exercised within the specified exercise period.

7. Appraisal Process for determining the eligibility of the employees to ESOP:

The appraisal process for determining the eligibility of the employee will be specified by the R & N Committee, and will be based on criteria such as role / designation of the employee, length of service with the Company, past performance record, future potential of the employee and/or such other criteria that may be determined by the R & N Committee at its sole discretion.

8. Maximum number of options to be issued per employee and in aggregate:

The number of options that may be granted to any specific employee under the Scheme shall not exceed 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant of options.

9. Disclosure and Accounting Policies:

The Company shall comply with the disclosure and the accounting policies prescribed as per SEBI Guidelines.

10. Method of option valuation

To calculate the employee compensation cost, the Company shall use the Fair Value Method for valuation of the options granted.

In case the Company calculates the employee compensation cost using the Intrinsic Value of the stock options, the difference between the employee compensation cost so computed and the cost that shall have been recognized if it had used the Fair Value of the options, shall be disclosed in the Directors' Report and also the impact of this difference on profits and on EPS of the Company shall also be disclosed in the Directors' Report.

As the employee stock option schemes provide for issue of shares to be offered to persons other than existing shareholders of the Company, consent of the members is being sought pursuant to Section 81(1A) and all other applicable provisions, if any, of the Act and as per clause 6 of the SEBI Guidelines.

None of the Directors of the Company, is in any way, concerned or interested in the resolution, except to the extent of the securities that may be offered to them under the scheme.

By Order of the Board

Place : Hyderabad
Date : 7th June 2007

P Varadarajan
GM-Legal & Company Secretary



Godavari Fertilisers And Chemicals Limited

DIRECTORS' REPORT

To the Members

Your Directors have pleasure in presenting their report together with the audited accounts for the financial year ended 31st March 2007.

Financial Results

(Rs. in crore)

	2006-07	2005-06
Net sales and operating revenue	1800.54	1519.98
Other Income	3.00	5.66
Profit before Interest, Depreciation and Tax	116.95	68.32
Less: Interest	35.91	18.31
Depreciation	6.65	7.98
Profit Before Tax	74.39	42.03
Less: Provision for Tax [including Deferred Tax]	25.10	15.93
Profit After Tax	49.29	26.10
Add: Surplus brought forward	14.20	10.39
Amount available for appropriation	63.49	36.49
Appropriations:		
Transfer to General Reserve	20.00	15.00
Proposed Dividend [including dividend tax]	14.98	7.29
Surplus carried to Balance Sheet	28.51	14.20

Performance

The Company achieved a net turnover of Rs.1800.54 crore, including subsidy, for the year 2006-07, representing a growth of 18.46% over the previous year. The Profit Before Tax was Rs.74.39 crore and Profit After Tax was Rs.49.29 crore. The PBT and PAT increased by 76.97% and 88.85%, respectively, over the previous year. The EPS was Rs.15.40 as against Rs.8.16 in the previous year.

Operations

The production during the year was at an all time high at 11.35 lakh tonnes, recording a growth of 10.8% over the previous year. Phosphoric Acid, one of the key raw materials, was in short supply in the international market. The Company lost approximately 45,000 MTs of potential production due to non availability of phosphoric acid.

The average output of the plant has increased to 72 MT per hour as against 65 MT per hour in the previous year, which was achieved through fine-tuning of equipment and de-bottlenecking in certain areas of operations.

Projects

The Company has successfully completed construction of a 10,000 MT atmospheric ammonia storage tank at the Kakinada Plant, at a cost of Rs.19.25 crore, in March 2007. This would help in improving the ammonia storage capacity and save procurement cost.

During the year, your Board has approved an expansion project to increase the capacity of the Kakinada Plant by 4.25 lakh MT per annum at a cost of Rs.82.41 crore. At a public hearing held by APPCB, as required under the Environmental Regulations, the project proposal was well supported by the participants, including environmentalists. The proposal is pending before the Ministry of Environment & Forests, Central Government, for approval. The project is expected to be commissioned by early 2009.

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. The Company has put in place various systems for operations management, including ISO 9000 for Quality, ISO 14000 for Environment, PSMS for Safety and OHSAS 18000 for Occupational Health & Hygiene.

Marketing

During the year under review, the Company has recorded highest sales of manufactured products of 11.28 lakh tonnes, registering a growth of 10.5% in volume over the previous year. The market share of Godavari DAP was 9% on all India basis and 73% in Andhra Pradesh. Widening of the market network by appointment of retail dealers continued during this year also. During the year, the Company has increased sale of traded products like water-soluble fertilisers, micronutrients and G-Sulphur.

Company's efforts to educate the farmer on the benefits of increased and balanced use of P₂O₅ as nutrient have resulted in reducing the imbalance in use of phosphatic and nitrogenous fertilisers to some extent. Company's market share in terms of 'P' nutrient increased from 37% to 45% in Andhra Pradesh.

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

The Company's Rural Girl Child Education program for extending financial assistance to girl children with good