

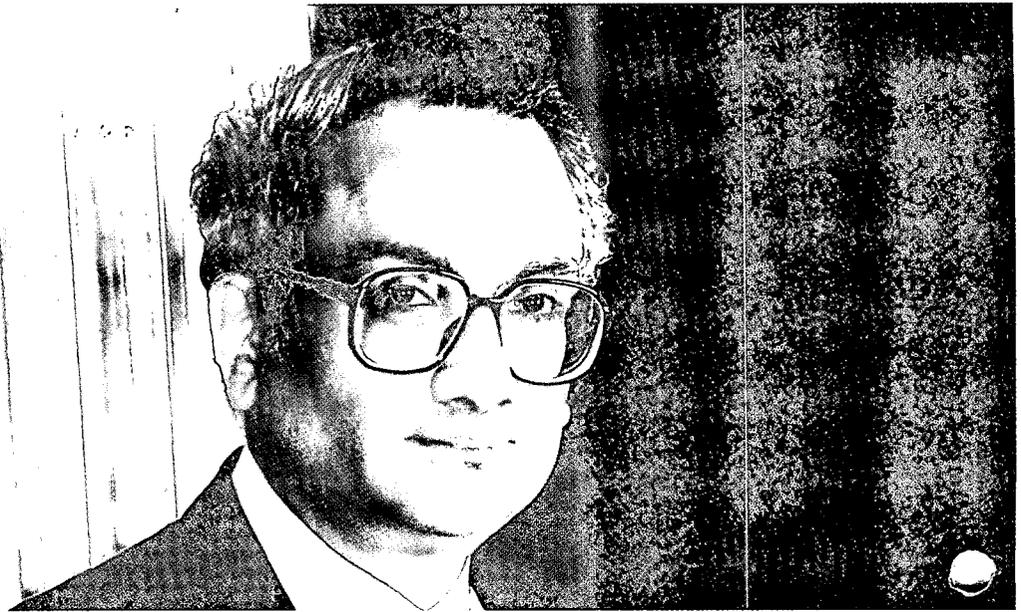
Annual Report | 2003 - 2004

Report  Junction.com



Indo Gulf Fertilisers Limited

IN HOMAGE
TO A LEGEND



“Time and again, the supremacy of the human element cannot be over emphasized. The success or failure of an organisation depends on people, on human beings, on their talent, on their initiative, on their ability to lead, and coordinate with others, to work as a team.

It also depends on the ability of the organisation, to motivate them to greater heights”.

We carry forth his vision of people power.



ADITYA VIKRAM BIRLA
November 14, 1943 - October 1, 1995

INDO GULF FERTILISERS LIMITED

CHAIRMAN	Mr. Kumar Mangalam Birla
DIRECTORS	Mrs. Rajashree Birla Mr. M.C. Bagrodia Mr. Pravir Kumar Mr. V.T. Purswani Mr. V.N. Nadkarni Mr. D.C. Gami Mr. A.R. Gandhi
MANAGING DIRECTOR	Mr. Rakesh Jain
MANAGEMENT	Mr. N.L. Jain Executive President Mr. R.K. Malhotra Sr. Vice President (Finance & Commerce) Mr. C.K. Datta Sr. Vice President (Manufacturing Operations) Mr. J.R. Mohan Sr. Vice President (HRD & Personnel) Mr. Vishnu S. Sharma Vice President (Marketing)
COMPANY SECRETARY	Mr. Suresh C. Dad
AUDITORS	M/s. Lodha & Co. Chartered Accountants, Kolkata
SOLICITORS	M/s. Mulla & Mulla & Craigie Blunt & Caroe, Mumbai
REGISTERED OFFICE	P.O. Jagdishpur Industrial Area, Dist. Sultanpur, Uttar Pradesh, Pin – 227 817, India

CONTENTS

Directors, Executives and Index	1	Shareholders' Information	21
Chairman's Letter to Shareholders	2	Directors' Report	28
Highlights	5	Auditors' Report	37
Management's Discussion and Analysis	6	Balance Sheet	40
Corporate Governance Report	11	Profit & Loss Account	41
Social Report	17	Schedules	42
Environment Report	20	Cash Flow Statement	56

Annual General Meeting on Tuesday, August 10, 2004 at 11.00 a.m. at P.O. Jagdishpur Industrial Area, Dist. Sultanpur (U.P.)

Web Site: www.indo-gulf.com

THE CHAIRMAN'S LETTER TO SHAREHOLDERS



Dear Shareholders,

With the economy having gained its sheen, and surged to 8 per cent during the year backed by a good monsoon, and a resurgence on all fronts, consumer sentiment is naturally revived. These developments at the macro level had a salutary effect on your Company's operations.

Your Company clocked in gross revenues of Rs.578.52 crores and a Net Profit of Rs. 90.27 crores. The previous year's figures do not lend themselves to comparison with the current year's figures, particularly because your Company gained an additional Rs.132.96 crores as subsidy arrears from the earlier years.

On the operational aspects, despite the limitations imposed on account of the inadequate availability of natural gas, apart from a forced shutdown that extended over a fortnight, your Company produced 8.62 lac tons of urea. This is close to a 100% capacity utilization. A truly commendable feat. As in the earlier years, the cap on production continues to shackle your Company's real potential.

The Government's Long Term Fertiliser Policy, recently proclaimed in two parts, has both an upside and a downside for your Company. The downside in the new group pricing policy is the anomaly in formation of Pre-92 Gas based group which is the only heterogeneous group of 3 landlocked and 3 landfall units. Since there is a significant higher pipeline transportation cost of Natural Gas for landlocked units within which your Company falls, it perpetuates inequalities while averaging the pricing amongst the players in Pre-92 Gas based group. I believe the authorities are seized of the inherent aberration and would hopefully set it right.

The Long Term Fertiliser Policy for debottlenecking of existing urea plants, expansions by way of brownfield plants and enhanced capacities, offer new growth avenues. Your Company is exploring how best to leverage it.

Your Company looks forward to a total deregulation of this sector. A decontrolled regime, would spur your Company's growth to new levels.

Going forward, a good monsoon for the current year, as forecasted by the meteorological team, would provide the extra flourish.

Asset sweating, maximizing operational efficiencies and a tight rein on costs wherever possible, continue to be the hallmark of your Company. To amplify the bottom-line, your Company has been increasingly moving towards value-added products that provide innovative customer offerings.

Your Company's laser sharp focus of adding value to the farmer's crop has enhanced "Birla Shaktiman" status manifold and elevated it to a deservedly premium brand. Importantly, by creatively weaving the Six Sigma Scientific approach in their farms, your Company has assisted farmers in ferreting out all inefficiencies. A 15-20% additional yield has added to their delight when a value added product "Neem Coated Urea" was trialed along with Six Sigma process.

Behind your Company's considerable achievements, lies the intellectual and emotional commitment that our people bring to their work. Besides operational efficiency and project management skills, honed under the most demanding and competitive conditions, it is the spirit of entrepreneurship and the way all of our employees bond cohesively with the organisation. I wish to record my genuine appreciation of their contribution.

The Aditya Birla Group in Perspective

Let me now take you through some of the key events of the last year:

- We completed the restructuring of the non-ferrous metals business. Consequently, Hindalco has become a non-ferrous metals powerhouse with global size.
- Consistent with our objective of becoming a world-class, globally competitive, integrated copper player, we forayed into Australia with the acquisition of two copper mines – the Nifty Mines (2002-03) and Mount Gordon in the last year.
- We entered the land of the dragon. We ventured into China, with the acquisition of Liaoning Carbon Black. This 12,000 tonne Carbon Black plant will enhance our global presence in this business. We are now the fourth largest Carbon Black player globally.
- One of the initiatives of the year has been the acquisition of TransWorks, a leading ITES/BPO Company. The BPO sector offers enormous growth potential. This acquisition is a forward step in creating a balanced portfolio of businesses at the Group level, comprising of the knowledge sector and real economy businesses. The Group's forays into the knowledge sector – in specially the branded apparel and insurance sectors, have been encouraging.
- And finally, coming to market capitalization: The market capitalization of the listed Group companies in India increased 97.4% over the past year, far outpacing the rise of 62.7% in the BSE Sensex, over the same period. This measure reflects more than just numbers; it provides a sense of our standing in terms of governance, and the faith investors repose in us, and a recognition – at long last – of our efforts at value creation.

“Asset sweating, maximizing operational efficiencies and a tight rein on costs wherever possible, continue to be the hallmark of your Company. To amplify the bottom-line, your Company has been increasingly moving towards value-added products that provide innovative customer offerings.”

The year that has just gone by has been I believe, a watershed year for our Group. Because, in this year, we have seen the last of the major restructuring initiatives that we needed to undertake. We have emerged stronger, fitter and a leader in many ways. And, now we are at an inflection point. We stand at the threshold of a new phase in the life of our organisation. I do believe that the rest of the decade – from here on - will be marked by a distinctly different theme. The earlier accent - on restructuring and consolidation – will give way to a phase of growth, not just incremental and normal growth, but accelerated growth. So, the dominant theme, from here on, will be aggressive growth.

Focus on People

All these years, our team across the Group, has stretched incessantly to make the Aditya Birla Group a great place to work in. In one sentence, we have sharply focused on creating a meritocracy. For us, this meant putting in place systems to induct the right talent, for spotting and tracking nascent talent, for creating leaders with a cocktail of skills, who have exposure to different functions, businesses and countries.

Working with Hay Consultants, we have carried out an extensive job analysis and evaluation exercise. More than 4500 jobs have been evaluated and competencies mapped. Succession plans are in place too. By and large, our objective is to make sure that the leadership-pipeline is always full of talented individuals who are raring to shoulder responsibilities that our various businesses offer.

To foster a learning culture, at Gyanodaya, the Aditya Birla Institute of Management Learning, which is now looked upon as a benchmark for training, more than 2130 executives were trained in 86 diverse programmes for honing their competencies, both for their current and future roles. A virtual campus has been launched through an e-learning portal. Over 3884 unique users, from top-down and bottom-up have enrolled in these self-learning projects. More than 25,725 man-hours of learning have been logged. Our intent is to provide unrivalled learning opportunities to our people across levels.

Today, our Group is anchored by an extraordinary force of 72,000 employees. More than 70 percent of these are under the age of 40 and over 12,000 of our people are drawn from 20 foreign nationalities. Even as the focus on managerial capability is becoming much sharper, we are building capabilities not for an Indian manager who works internationally, but for a global manager, who happens to be an Indian.

We are positioned in almost all our businesses at the cusp of a great growth opportunity and I believe we can cater to the dreams of our people, given that we are all on the same page. Our people have the passion that brings energy into the organisation.

Best regards,

Yours sincerely,



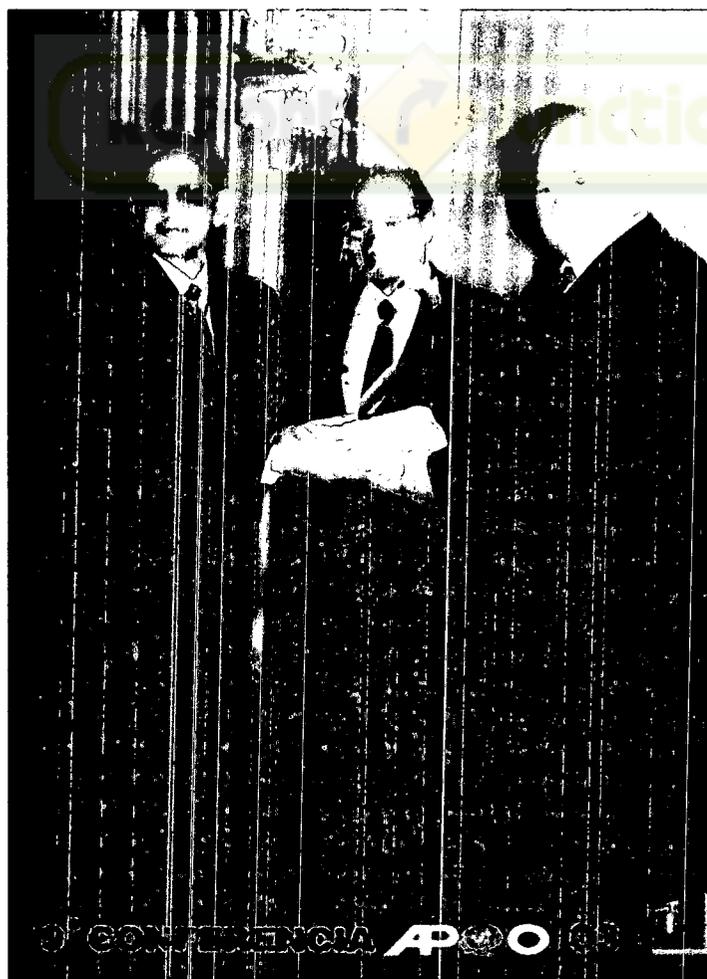
Kumar Mangalam Birla

“All these years, our team across the Group, has stretched incessantly to make the Aditya Birla Group a great place to work in. In one sentence, we have sharply focused on creating a meritocracy. For us, this meant putting in place systems to induct the right talent, for spotting and tracking nascent talent, for creating leaders with a cocktail of skills, who have exposure to different functions, businesses and countries.”

Date: April 27, 2004

HIGHLIGHTS

- Urea sales volumes improved from 8.67 lac tonnes to 8.80 lac tonnes
- Urea production maintained at 100% utilisation at the plant
- Brand repositioned as “**Birla Shaktiman**” connoting Quality, Service and Trust
- Aggregate revenues at Rs.579 crores and Net Profit at Rs.90.3 crores
- Dividend per share increased from Rs.2.60 to Rs.2.80
- Book value per share rises smartly from Rs.107 to Rs.124
- Debt equity falls further from 0.12x to 0.01x
- Several accolades won
 - “**Best Under a Billion**” recognition from Forbes Global USA
 - “**International Asia Pacific Quality Award**” from Asia Pacific Quality Organisation, Mexico for the first time by any company in India
 - “**Best Environment Protection Award**” from Fertiliser Association of India



Mr. N. L. Jain, Executive President receives the “**International Asia Pacific Quality Award**” at 9th Conference of Asia Pacific Quality Organisation held in October '03 in Mexico.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The Company's performance during the year under review has been good. This could be possible due to management's relentless focus on assets productivity, strengthening of internal efficiency, cost consciousness and improved realisation on sales. This achievement is even more gratifying against the backdrop of an adverse change in the policy environment that impacted the retention price and margins.

During the year under review, the Company posted a turnover of Rs.578.5 Crores and earned net profit of Rs.90.3 Crores. This compares with net earnings of Rs.172.8 Crores in 2002-03. However, the financial performance for the year is not comparable with the previous year due to higher subsidy arrears of Rs.132.96 Crores realised during the previous fiscal.

REVIEW OF CURRENT OPERATIONS

The year under review has been a historic year for the Indian agricultural sector, as the country witnessed a good monsoon and uniform spread of rains during the season. This resulted in a bumper food grain production of 212 million tonnes, helping the agricultural sector to record a double digit growth after a gap of 15 years. Helped by such robust agricultural activity, urea demand in the country grew by an estimated 4.3% to 19.57 million tonnes in FY04.

The Company maintained production around 8.62 lac tonnes, reflecting plant utilization of 100% in FY04. This is commendable considering the severe constraints faced on account of the limited availability of Natural Gas and a 16 day forced shutdown in March 2004.

Sales volumes were higher at 8.80 lac tonnes in FY04 and reflected a modest growth of 1.5% over the previous year. The Company exported 0.17 lac tonnes of urea to the neighbouring markets of Nepal.

Though the realization suffered due to the adverse impact of the introduction of the Group Concession Scheme (GCS), the Company has been able to mask the impact through proactive marketing efforts and successful leveraging of the tremendous brand equity of "Birla Shaktiman" in the market place. Consequently, overall profitability has been maintained. A further reduction in energy consumption to globally comparable levels as well as proactive marketing initiatives has contributed significantly towards this end.

MARKETING INITIATIVES

The Government of India introduced partial de-control *vis-a-vis* marketing of Urea, moving away from the total control regime under the Essential Commodities Act (ECA). Under the New Pricing Scheme, the freight subsidy which was earlier given at actual cost basis was ordained to be at the weighted average freight of the previous three financial years for the ECA quantity, and at Rs.100/- per MT less than this weighted average for the free quantity.

During the Khariff '03 season (April '03 – September '03), decontrol to an extent of 25% of production was introduced, which was stepped up to 50% for Rabi 03-04 season (October '03 – March '04).

For Indo Gulf, this was an additional cost burden as the Government of India gave ECA allocations mainly in the distant states of West Bengal, Bihar and Jharkhand, whilst lower quantities were allocated in the home state i.e. Uttar Pradesh.

Unique Marketing Activities

1. Core-Command Area Focus

To contain freight loss arising out of operations under ECA in distant states, the Company did an extensive market restructuring exercise in U.P., wherein the Company identified a core area (0 to 100 Km from its plant) and a command area (101 to 300 Km from its Plant). Even within the core area, two zones namely, Alpha Zone (0 to 40 Km) and Beta Zone (41 to 100 Km) were identified for intensive marketing. The trade network was revamped with a focus on retail coverage and placement.

2. Market Price Leadership

Under the Fertiliser Association of India's (FAI) initiative for improved marketing practices, the Company took up initiatives to pare marketing cost. Accordingly, the Company was not only able to sell its entire ECA quantity much ahead of the schedule but the closing stock at the year end was also low.

3. Brand Positioning & Personification that “Birla Shaktiman” Urea as one who cares for the farming community.

An unrelenting focus on adding value to the farmers' crop has enhanced the brand premium of “Shaktiman”. Indo Gulf has historically positioned the Brand “Shaktiman” connoting “Quality” & “Service”. During the current year, to leverage the group strength, the brand “Birla Shaktiman” has been launched.

Specifically focusing into the core and command area, the Company introduced major brand building initiatives by providing Extension Education Services to the Shaktiman farmers. To serve its end-consumers i.e. the farmers, the Company deployed a Customer Relationship Management Plan. The objective behind this move was to link the consumers emotionally to the brand in a manner that ‘top quality and service’ translates into a purchase decision. This emotional connect came about by continuous demonstration to the farmers of the real economic value generated by adopting improved soil test based farming practices disseminated by the Company’s dedicated marketing, soil testing and agronomy team.

Indo Gulf’s marketing strategy being ‘service centric’, its actions are focused on providing complete agri-solutions to the farmers and service support to the channel partners. The Shaktiman Krishi Sewa Kendras, multi-input retail counters chain, is the fulcrum for conducting these activities. The Company has stepped up soil test based agro-economic education programs and is also monitoring incremental economic value generation of the farmers through the Six Sigma process alongwith the Company’s value added product “Neem Coated Urea”. The initial results have been most encouraging with a 15-20% increase in the yield.

A unique initiative has been the formation of “Shaktiman Farmers Club”, wherein selected Shaktiman farmers are enrolled as Farmers’ Club members. They are trained as change agents/brand ambassadors for further knowledge dissemination with an exponential ripple effect.

To further women’s emancipation and empowerment in the rural heartlands of Uttar Pradesh, Indo Gulf has formed “Shaktiman Farmers Ladies Club”. These clubs are essentially self-help groups, where progressive ladies from rural households in and around the Shaktiman Krishi Sewa Kendras are enrolled as members under the Company’s guidance. They are provided training and support for opening retail counters.

Indo Gulf’s extensive education initiatives are supplemented by social welfare activities such as child vaccination, general health check-up camps, animal health check-up camps etc. All these measures, besides fulfilling its social commitment further bonded the Company with customers and deepened the image that “Shaktiman cares for the farming community”.

LONG TERM FERTILISER POLICY

The Group Concession Scheme (GCS), Pricing Policy announced by the Government of India came into effect from 1.4.2003, replacing the Retention Pricing Mechanism. The Company falls under the group of pre-1992 gas based plants, wherein the group’s weighted average price underlines the concession to the manufacturing entities falling in the Group.

The Company has satisfactorily been able to offset largely the huge negative impact of the GCS during the year under review. This could be possible due to stringent measures adopted by the Company for allround improvement in plant efficiency, better realization consequent to the tremendous brand equity of “Birla Shaktiman” and stringent cost control measures.

The Company is endeavouring to rectify the anomaly in the new Pricing Policy due to heterogeneity in Group formation of pre-92 gas-based units as indicated in the Directors’ Report.

FEEDSTOCK AVAILABILITY

The supply of Natural Gas by GAIL (India) Limited remained inadequate. This continues to be an area of concern for the Company. Notwithstanding the above, the availability of Liquefied Natural Gas (LNG) on the HBJ Gas Pipeline promises a ray of hope to the fertiliser industry. However, the pricing of LNG in the hands of the end-users remains uncertain. The fertiliser industry is hopeful that with the intervention of the Ministry of Fertiliser, LNG would emerge as a viable feedstock for the fertiliser industry in the future.

FINANCIAL REVIEW AND ANALYSIS**Highlights**

(Rs. in Crores)

	2003-04	2002-03
Net Sales	578.52	675.21
Other Income	26.04	25.67
Total Expenditure	433.60	381.25
Operating Profit (PBDIT)	170.96	319.63
Interest	1.65	2.50
Gross Profit	169.31	317.13
Depreciation	40.39	43.45
Profit Before Current Tax	128.92	273.68
Provision for Current Tax	45.00	105.50
Profit After Tax	83.92	168.18
Provision for Deferred Tax	(6.35)	(4.62)
Net Profit	90.27	172.80

Revenues

The Company reported net sales turnover of Rs.578.5 Crores in FY 2003-04.

Operating Profit

Factoring enhanced efficiencies and other income of Rs.26 Crores, operating profits reached the level of Rs.171 Crores.

Interest and Depreciation

Interest charges were at Rs.1.7 Crore, which constitutes only 0.3% of net sales turnover. This could be possible due to optimisation of working capital requirement and 'zero-debt'. Depreciation charges for the year remained low at Rs.40.4 Crores, about 7% of sales turnover.

Provisions for Current and Deferred Taxes

The Company has reported a pre-tax profit of Rs.128.9 Crores. A provision for Rs.45 Crores towards current taxes has been made. In line with the Accounting Standard 22, the deferred tax assets works out to Rs.6.4 Crores and the credit for the same has been taken in accounts.

Net Profit

The Company has reported a net profit of Rs.90.3 Crores. The Earning Per Share (EPS) stands at Rs.20/-, while Cash Earning Per Share (CEPS) is at Rs.29/-.

Dividend

For the current year, the Board has recommended a dividend of Rs.2.8 per share. On approval, it would lead to a cash outflow of Rs.12.63 Crores in addition to corporate tax on dividend of Rs.1.62 Crore.

SECTOR OUTLOOK

The fertilizer industry has promising prospects and offers significant growth potential in the long term. Self-reliance in foodgrain production has been the policy objective of successive governments in the country. Availability of agricultural land being limited, the increasing demand of foodgrain can be met only by enhanced farm productivity, which in turn is achievable through increased use of farm nutrients. Notwithstanding the above, the prevalent low consumption of nutrient per hectare in India compared to other developing countries like China, Japan and Korea and even neighbouring countries like Pakistan and Bangladesh.