

**NDO GULF**



**DITYA BIRLA GROUP**

**ANNUAL REPORT**

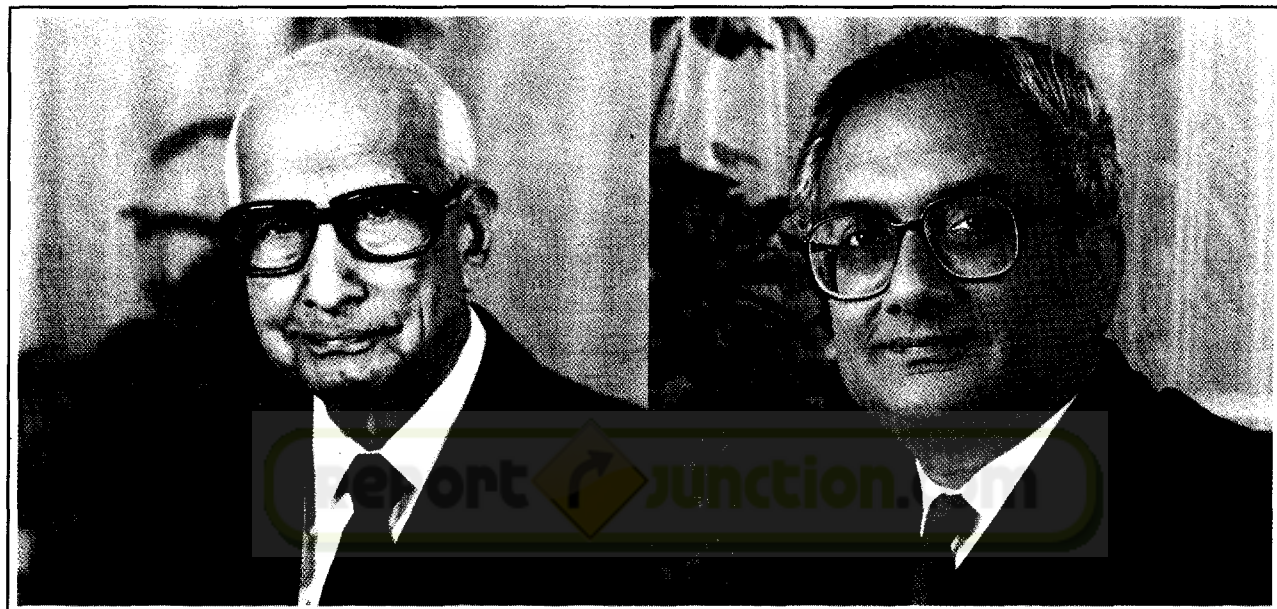
**2004-2005**

Report  Junction.com

**NDO GULF FERTILISERS LIMITED**

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## IN HOMAGE TO OUR LEGENDARY LEADERS



GHANSHYAMDAS BIRLA

ADITYA VIKRAM BIRLA

“WE LIVE BY THEIR VALUES”







## OUR VALUES

Integrity

Commitment

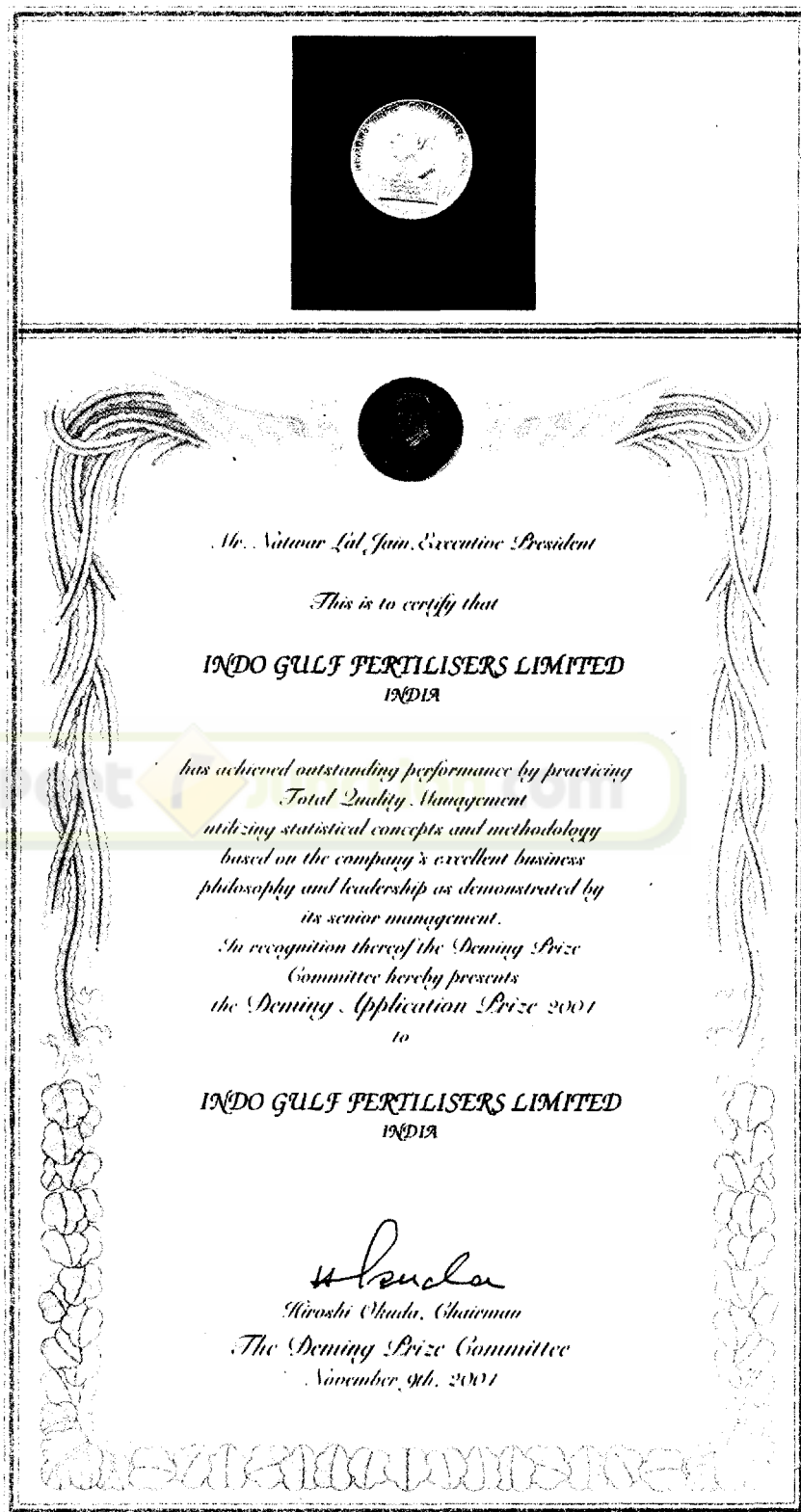
Passion

Seamlessness

Speed

## HIGHLIGHTS

- Urea sales volumes improved to 9.75 lac tonnes.
- Record high onstream days resulted in higher production and 114% utilisation of our plant at Jagdishpur.
- Aggregate revenues moved up 17% to Rs.678 crores; Net Profit at Rs.56.9 crores.
- Book value improved from Rs.124 to Rs.134 per share.
- Several international awards won. Notable ones include:
  - ♦ The prestigious "Deming Application Prize 2004" conferred by The Deming Prize Committee, Japan (Union of Japanese Scientists and Engineers).
  - ♦ The "Golden Peacock Environment Management Award 2004" from the World Environment Foundation.
  - ♦ The "Gold Award 2003-04" from Greentech Foundation.
  - ♦ "National Award for Excellence in Energy Management 2004" from Confederation of Indian Industry.



**DEMING APPLICATION PRIZE 2004**

# INDO GULF FERTILISERS LIMITED

CHAIRMAN	Mr. Kumar Mangalam Birla
DIRECTORS	Mrs. Rajashree Birla Mr. B.N. Puranmalka Mr. V.T. Purswani Mr. V.N. Nadkarni Mr. D.C. Gami Mr. G.P. Gupta
MANAGING DIRECTOR	Mr. Rakesh Jain
MANAGEMENT	Mr. S.N. Jajoo 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 Sr. Vice President (Marketing)
COMPANY SECRETARY	Mr. Suresh C. Dad
AUDITORS	M/s. S.R. Batliboi & Co. Chartered Accountants, Mumbai
SOLICITORS	M/s. Mulla & Mulla & Craigie Blunt & Caroe, Mumbai
REGISTERED OFFICE	P.O. Jagdishpur Industrial Area, Dist. Sultanpur, Uttar Pradesh, Pin - 227 817, India

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Annual General Meeting on Saturday, August 20, 2005 at 11.00 a.m. at Indo Gulf Club at the Registered Office of the Company at P.O. Jagdishpur Industrial Area, Dist. Sultanpur (U.P.) Pin - 227 817.

Website: [www.indo-gulf.com](http://www.indo-gulf.com)



# THE CHAIRMAN'S LETTER TO SHAREHOLDERS



Dear Fellow Shareholders,

India has become the centripetal force of globalisation. The country is attracting capital and companies at an accelerated pace. In the process, it is rewriting the economics of scores of industries. Consolidation is becoming the order of the day. We welcome this trend sparked by globalisation.

Our Company clocked in revenues of Rs.678.35 crores and a net profit of Rs.56.93 crores. The previous year's results are not comparable, as your Company had received Rs.47.02 crores in arrears as Retention Price Support (RPS) from the Government of India under the then pricing scheme.

Your Company has achieved these results in the face of several odds. Your Company had to book a loss of Rs.11.7 crores, consequent to the negative impact of Stage II of the Group Concession Scheme and input costs which spiralled upwards.

A steep incline in production, operational efficiencies and aggressive marketing coupled with better realization riding on the excellent brand equity of Birla Shaktiman, enabled your Company to grow in revenues and sustain earnings.

Your Company produced 9.85 lac tonnes of urea, reflecting a 114 percent capacity utilisation and a far higher level of on-stream days, an accomplishment that calls for applause. You will recall that for quite a while, your Company barely crossed the 8.6 lac tonnes mark, shackled by the regulatory cap on production.

To proactively support the farmers and help them boost the yield and quality of their output, your Company has taken the six-sigma principles to their farms.

While "Krishidev", our neem-coated urea, has been welcomed by the farmers, in the coming year, as a measure of customer responsiveness, your Company will unveil Zincated and Sulphonated urea which are value-added micronutrients.

I would like to apprise you of the policy decisions on the fertilizer sector as these have a bearing on your Company.

In your management's view, the new Pricing Policy that stemmed from the heterogeneity in Group formation of pre-92 gas based-unit, is an aberration. Under this Policy rolled out in April 2003, the Government has clubbed both landlocked and landfall fertilizer units. As you are aware, landlocked units like your Company have to bear a substantively higher transport cost for natural gas. This therefore does not offer a level playing-field and impairs our competitiveness. Your management is pursuing this issue with the authorities and is optimistic that an acceptable solution will emerge, in the best interest of the industry.

I would also like to share with you that a working Group has been constituted under the Chairmanship of Dr Y. K. Alagh to review the effectiveness of Stage I and Stage II of the New Pricing Scheme and to formulate a policy for Urea Units for Stage III. Your Company looks forward to a positive outcome from this move.

Your Company expects a total deregulation of this sector eventually, which would take your Company's growth to a much higher altitude.

I believe, going forward, your Company's future is indeed bright. The farm sector is very prominent on the Government's radar. The monsoon, hitherto, has given good reason to cheer.

Organic and inorganic growth as well as related diversification marks your Company's growth trajectory. Your management has already applied to the Government for debottlenecking of its urea capacity from 2620 MTPD to 3360 MTPD and an additional Greenfield expansion.

We have already submitted this application to the Government in April 2004, and we expect the clearance in the near future.

*To proactively support the farmers and help them boost the yield and quality of their output, your Company has taken the six-sigma principles to their farms.*

*While "Krishidev", our neem-coated urea, has been welcomed by the farmers, in the coming year, as a measure of customer responsiveness, your Company will unveil Zincated and Sulphonated urea which are value-added micronutrients.*

Unrelenting sweating of the assets, a tight rein on costs, extremely prudent financial management, the leadership position that your Company enjoys in the Fertiliser sector and above all, its strong fundamentals, in my view, have a collective propitious impact on your Company's future. This is notwithstanding the challenges that we continue to accost.

I would like to take this opportunity to place on record, your Board and my personal appreciation of the dedication and uncompromising commitment of an overwhelming majority of your Company's employees. They have enabled us build a culture of meritocracy.

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#### The Aditya Birla Group : In Perspective

I am pleased to share that much of the consolidation that we had embarked upon is now behind us. Going forward, our accent is on accelerated growth as we stand at an inflection point: In each of our major businesses, scaling up of capacities and services will be necessary. Our road-map includes exploring further acquisitions and leveraging upon both greenfield and brownfield opportunities. Our plans are well under way.

To take Hindalco's strategic stake in Indal to its logical conclusion, all of the businesses of that Company have been merged into Hindalco, with the exception of its foil business at Kollur.

With the completion of the brown-field expansion in the Copper business, its capacity stands doubled from 250,000 tpa to 500,000 tpa. When fully ramped-up, it will elevate Hindalco into the league of the Top-10 Copper producers in the world. It also positions Birla Copper as the world's single largest Copper Smelter in one location.

The completion of the acquisition of UltraTech (the erstwhile Cement business of Larsen & Toubro), has positioned the Group to the 9<sup>th</sup> largest Cement player in the world. By the turn of the decade, significant additional capacities will also be added.

Our Carbon Black Plant in Egypt has become the largest producer in the world. In China, at the Liaoning Carbon Black Plant, we are scaling up the capacity significantly. Today, we are the fourth largest Carbon Black player in the world, and we hope to rise in the rank.



In essence, our vision as a Group is to be a premium global conglomerate with a clear focus on each business. Our focus is both top-line and bottom-line growth and not growth for the mere sake of growth.

### Focus on People

Being essentially a meritocracy and a people's organization, our attention in the people area remains unwavering. We are enhancing the quality and the pace of the institutionalization of our systems and processes. These now embrace the entire life cycle of the employees' engagement with the organization. Several new initiatives have been taken towards the well-being of our employees, particularly in the area of healthcare, education of their children and other critical aspects that can have a significant bearing on his or her performance.

Our focus on managerial capabilities is getting much sharper. We are proactively addressing the need to build a robust leadership pipeline. International firms have been enlisted by us to assess the talent and the potential in our Group to meet our future growth aspirations. I have also impressed upon our management teams that it is our collective responsibility to spot talent, track it and help spawn leaders.

Let me reiterate, our aspiration is to hone capabilities not for an Indian manager who is posted overseas, but for a world-class manager who simply happens to be an Indian.

Finally, I believe few organizations can take pride in the quality of competence, passion and commitment that we find here. We have the organizational will, discipline and people power to achieve our stretched ambition.

Best regards,

Place : Mumbai

Date : 28<sup>th</sup> April, 2005

*"Our vision as a Group is to be a premium global conglomerate with a clear focus on each business. Our focus is both top-line and bottom-line growth and not growth for the mere sake of growth."*

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Yours sincerely,



Kumar Mangalam Birla



**Mr. Rakesh Jain**  
Managing Director



#### OVERVIEW

It was yet another satisfactory year as production volumes grew impressively after a long gap backed by enhanced efficiencies and productivity. Supported by improved realization on sales and controlled costs, the Company was able to report higher recurring profits.

During the year under review, the Company posted a turnover of Rs.678.35 Crores and earned net profit of Rs.56.93 Crores. This compares with net earnings of Rs.90.27 Crores in 2003-04. However, the financial performance for the year is not comparable with the previous year due to higher subsidy arrears of Rs.47.02 Crores realised during the previous fiscal and a loss of Rs.11.7 Crores in the current year due to implementation of Stage-II of the Group Concession Scheme.

The Company's performance must be viewed in the context of ongoing adverse changes in the policy environment. These put margins under severe pressure for most fertilizer companies, including Indo Gulf.

#### REVIEW OF CURRENT OPERATIONS

During the year under review, Kharif crop suffered due to erratic and shortfall in rains but the impact was largely set off by the favourable weather conditions that prevailed during the Rabi season. Foodgrain production during FY05 was 210 million tonnes against the production of 212 million tonnes during FY04. The growth in agricultural and allied sectors stood at a meagre 1.1%. However, Urea demand in the Country grew by about 4.97% to 20.54 million tonnes in FY05.

It was a rewarding year operationally. The Company witnessed 8% higher onstream days, in case of Urea. Urea onstream days moved up from 329 to 356 in FY05 while at the Ammonia plant the number rose from 331 days to 365 days for the first time since the beginning of operations at our plant in Jagdishpur. On the back of this and increased requirements from the Government, aggregate Urea production grew 14% YoY from 8.62 lac tonnes to 9.85 lac tonnes in FY05. This is significant considering that production had stagnated around 8.5-8.6 lac tonnes in the recent years, though largely due to production restrictions imposed by the Government.

Reflecting higher production and improved demand arising from overall favourable weather conditions, aggregate sales of Urea jumped 11% YoY to 9.75 Lac tonnes in FY05.