

ANNUAL REPORT

2004 - 2005



KHAITAN CHEMICALS & FERTILIZERS LIMITED



KHAITAN CHEMICALS & FERTILIZERS LIMITED

ANNUAL GENERAL MEETING :

Date : 28th July, 2005
 Day : Thursday
 Time : 1.00 P.M.
 Place : Registered Office

BOARD OF DIRECTORS :

Shailesh Khaitan - Chairman & Managing Director
Anil Agrawal - Director
O.P. Bagla - Director
J.L. Jajoo - Director
Dr. P. Goyal - Director

REGISTERED OFFICE :

A.B. Road, Village Nimrani,
 Tehsil Kasrawad,
 District Khargone - 451 569 (M.P.)

PRESIDENT & SECRETARY :

R.S. Vijayvargiya

INDORE OFFICE :

301-308, Apollo Arcade
 1/2, Old Palasia,
 Indore - 452 018 (M.P.)

AUDITORS :

S.S. Kothari Mehta & Company
 146-149, Tribhuvan Complex,
 Ishwar Nagar, Mathura Road, New Delhi-110 065

DELHI OFFICE :

201, Skipper House,
 62-63, Nehru Place,
 New Delhi - 110 019

SOLICITORS :

Khaitan & Partners
 Himalaya House, 23, Kasturba Gandhi Marg,
 New Delhi - 110 001

KOLKATA OFFICE :

46-C, Rafi Ahmed Kidwai Road,
 3rd Floor, Kolkata - 700 016

BANKERS :

State Bank of India
 State Bank of Indore

WORKS :

Fertilizer & Chemicals Division

1. A.B. Road, Village - Nimrani
 Tehsil Kasrawad,
 Dist. Khargone - 451 569 (M.P.)
2. Village Goramachia, Kanpur Road
 Jhansi - 248 001 (U.P.)
3. Village Dhinva, Tehsil Nimbahera
 Dist. Chittorgarh (Rajasthan)

Soya Division (Khaitan Agro)

Disogaon, Industrial Area,
 Ratlam (M.P.)

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LISTING OF SHARES :

The Stock Exchange, Mumbai (B.S.E.)
 Stock Code : 507794
 ISIN No. : INE745B01010 (NSDL & CDSL)

KHAITAN CHEMICALS & FERTILIZERS LIMITED**NOTICE**

NOTICE is hereby given that the "23rd ANNUAL GENERAL MEETING OF KHAITAN CHEMICALS & FERTILIZERS LTD." will be held at the Registered Office of the Company at A. B. Road, Village Nimrani, Tehsil Kasrawad, Dist. Khargone, Madhya Pradesh on Thursday, the 28th day of July, 2005 at 1.00 P.M. to transact there at the following business :

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Accounts for the year ended 31st March, 2005 and the Reports of the Directors and Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Shri O.P. Bagla, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Dr. P. Goyal, who retires by rotation and, being eligible, offers himself for re-appointment.
5. To appoint Auditors and to fix their remuneration.

Registered Office:

A. B. Road, Village-Nimrani,
Dist. Khargone (M.P.)

By Order of the Board
S/d

(R. S. Vijayvargiya)
President & Secretary

Date: 29th day of April, 2005

Place : New Delhi

NOTES :

1. A member entitled to attend and vote is entitled to appoint a proxy and vote instead of himself and such proxy need not be a member of the Company. Proxy Form must reach the Company's Registered Office at least 48 hours prior to the time of holding the meeting.
2. Member(s)/Proxies should bring the attendance slip annexed herewith duly filled in for attending the meeting.
3. The Register of Members and Transfer Book of the Company will remain closed from 16th July, 2005 to 28th July, 2005 (both days inclusive).
4. Members are requested to notify to the Company immediately, quoting Registered Folio No., Change in their Address, if any, with the pin code number.
5. Non-resident members are requested to immediately notify: - (i) change in their residential status on return to India for permanent settlement; and (ii) particulars of NRE account, if not furnished earlier.
6. Members who are holding shares in identical names in more than one folios, are requested to write to the Company/Ankit Consultancy Pvt. Ltd. the Registrar and share transfer agent, to consolidate their holding in one folio.
7. Shareholders who are still holding physical share certificate are advised to dematerialised their shareholding to avail benefit of dematerialisation.
8. The Company has transferred all unpaid/unclaimed equity dividends up to the financial year 1996-97 to the Investor Education & Protection Fund (IEPF) established by the Central Government pursuant to section 205 C of the Companies Act, 1956.
9. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to send their queries to the President & Secretary at least seven days before the date of the meeting so that the required information can be made available at the meeting.



KHAITAN CHEMICALS & FERTILIZERS LIMITED

DETAILS OF DIRECTORS SEEKING RE-APPOINTMENT AT THE ANNUAL GENERAL MEETING (IN PURSUANCE OF CLAUSE 49 OF THE LISTING AGREEMENT)

Name of Director	Shri O. P. Bagla	Dr. P. Goyal
Age	62 years	61 years
Qualification	C.A.	BSc Tech. (Chemicals Engineering) and Ph.D in Chemical Engineering
Date of Appointment	7th March, 1989	16th July, 1999
Expertise	Rich and vast experience in the field of Taxation and Finance.	Excellent General Management Skills & Vast Project Consulting Experience
Other Directorships (excluding Pvt. Companies) as on 31st March, 2005	Nil	Nil
Chairman / Member of the Committees as on 31st March, 2005	1. Khaitan Chemicals & Fertilizers Ltd.: Member: 1. Audit Committee 2. Shareholder's/Investor's Grievances Committee Chairman: 1. Audit Committee 2. Shareholder's/Investor's Grievances Committee.	1. Khaitan Chemicals & Fertilizers Ltd.: Member: 1. Audit Committee 2. Shareholder's/Investor's Grievances Committee

Registered Office:
 A. B. Road, Village-Nimrani,
 Dist. Khargone (M.P.)

Date: 29th day of April, 2005
Place : New Delhi

By Order of the Board
 S/d

(R. S. Vijayvargiya)
President & Secretary

KHAITAN CHEMICALS & FERTILIZERS LIMITED**DIRECTORS' REPORT**

To the members,

Your Directors have pleasure in presenting the 23rd Annual Report of the Company together with Audited Accounts for the year ended 31st March, 2005.

FINANCIAL RESULTS

(Rs. In lacs)

	2004-2005	2003-2004
Surplus before interest and depreciation	1732.32	2099.57
Less: Interest & Financial Expenses	517.75	492.82
Cash Profit before tax	1214.57	1606.75
Less: Depreciation	436.37	406.81
Misc. Expenses Written off	4.59	4.28
Surplus before tax	773.61	1195.66
Prior Period adjustments	11.27	3.05
Profit /(Loss) before taxation	762.34	1192.61
Provision for current tax	(37.92)	(98.75)
Deferred Tax	(304.66)	(441.26)
Profit /(Loss) after taxation	419.76	652.60
Income Tax of earlier year	35.33	(8.50)
Add: Transfer from Capital Subsidy	0.79	0.79
Net Profit/(Loss)	455.88	644.89
Add: Profit/(Loss) B/F from previous year	108.32	(339.27)
Less: Transfer to -		
General Reserve	25.00	35.00
Proposed Dividend @ 15%	143.87	143.87
Corporate Dividend Tax	18.80	18.43
Balance carried to Balance Sheet	376.53	108.32

DIVIDEND

Your Directors are pleased to recommend 15% Dividend on Equity Shares subject to approvals of the Financial Institutions/Banks.

PROJECT & FINANCE

The company has successfully commissioned the Project for manufacturing of 200,000 TPA Single Super Phosphate Plants at Nimbahera (Rajasthan). The project for manufacturing of Granulated Single Super Phosphate has been commissioned in early April, 2005.

The Project to put up a 1000 TPD Soya Processing Plant at the existing location at Ratlam is going on as per schedule and expected to complete by September 2005. We expect that it would be ready for operation well before the next Soya season i.e. October, 2005.

The finance for the Project has been tied up with existing bankers.

During the year the company has paid off the high cost debts taken from the IDBI by availing the FCNRB loan from the State Bank of India. The company has also approached to the IFCI for prepayment of their dues also in the same manner.



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A corporate loan of Rs.500 lacs has been availed from State Bank of Indore for supplementing the Long Term working capital requirements.

State Bank of India and State Bank of Indore is financing the short term working capital requirement on regular basis.

PERFORMANCE & FUTURE PLAN

Though there was good monsoon during the year resulting in good crop of Soybean but due to very low international prices of Soymeal and edible oil, the crushing margin remains negligible through-out the year.

The good monsoon should have resulted in good demand of fertilizer but due to lack of proper policy at center particularly with reference to Single Super Phosphate Fertilizer and non availability of indigenous Rock Phosphate has lead to pressures on margin and consequent under utilization of capacity inspite of good demand.

During the year the financial performance of the Company is quite satisfactory 'inspite of all odds', due to company's basic strength and proper risk management.

The Company's turnover has marginally decreased by 4.42% to Rs. 18486.11 lacs from Rs. 19340.93 lacs mainly on account of low seed crushing. However efficient cost and inventory controls, exploration of the future commodity facility as a hedging as well as supporting tool to the industry and better marketing strategies have helped the Company to achieve satisfactory performance in the otherwise difficult year for both segments of the company.

Your directors are of the firm opinion that the company shall perform better in its both segments of operations in the coming years.

DIRECTORS

Shri O.P. Bagla & Dr. P. Goyal retires by rotation and being eligible offer themselves for re-appointment. Particulars of the retiring Directors are given in the notes forming part of the notice for the ensuing Annual General Meeting.

FIXED DEPOSITS

During the year under review Company has not accepted any deposits from the public, pursuant to the provisions of Section 58A of the Companies Act, 1956 and the Deposit Rules.

AUDITORS & AUDIT REPORT

M/s. S. S. Kothari Mehta & Co., Chartered Accountants, New Delhi, Auditors of the Company hold office till the conclusion of ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

The notes on accounts referred to and the Auditors' Report are self-explanatory and therefore do not call for any explanatory note.

M/s. M. P. Turakhia & Associates, Cost Accountants were appointed as Cost Auditors to conduct cost audit of the accounts maintained by the Company in respect of its Fertilizers and Sulphuric Acid products for the financial year 2005-2006.

GENERATION OF ENERGY AND TECHNOLOGY ABSORPTION

Information as specified U/S 217 (1) (e) of the Companies Act, 1956 is given in Annexure A in Form-A.

Your Directors are of the opinion that the Company has already opted for latest technology for producing Single Super Phosphate Sulphuric Acid, Seed Processing & Oil Refinery. Hence, information specified to be given in Form-B is not applicable.

FOREIGN EXCHANGE EARNING AND OUTGO

The Company has earned Rs. 83.30 lacs on export of goods (Previous year Rs. NIL) and incurred Rs. 1396.14 lacs (Previous year Rs. 1003.04 lacs) on import of Raw Materials, Fees & Subscription, Interest on Foreign Currency Loan and Foreign Traveling Expenses.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217 (2AA) of the Companies (Amendment) Act, 2000, your Directors confirm that:

1. in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the statement of affairs of the Company at the end

KHAITAN CHEMICALS & FERTILIZERS LIMITED



of the Financial year ended 31.03.2005 and of the Profit or Loss of the Company for that period:

3. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. the Directors have prepared the annual accounts on a going concern basis.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

In accordance with the listing agreement, the management discussion and analysis report is given in Annexure - B.

CORPORATE GOVERNANCE

Your Company attaches considerable significance to good Corporate Governance as an important step towards building investors' confidence, improve investors' protection and maximizing long-term shareholder's value. Pursuant to Clause 49 of the Listing Agreement with the Stock Exchange, a Compliance Report on Corporate Governance and Auditors' Certificate regarding compliance of conditions of Corporate Governance is given in Annexure - C.

LISTING OF SHARES

The shares of the Company are listed at The Stock Exchange Mumbai (BSE), which provides wider access to the investor nationwide.

The Company has made all the compliances of Listing Agreement including payment of annual listing fees to the Stock Exchange BSE.

PARTICULARS OF EMPLOYMENT

Information as per the requirement of Section 217(2A) of the Companies Act, 1956 is given in Annexure-A.

ACKNOWLEDGEMENT

Your Directors would like to thank the IFCI, IDBI, the State Bank of India, State Bank of Indore, various Departments/ Agencies of Central/State Govt., Shareholders, Employees and Business Associates of the Company for their continued cooperation received during the year.

For and on behalf of the board

Place : New Delhi

Date : 29.04.2005

(SHAILESH KHAITAN)
CHAIRMAN & MANAGING DIRECTOR



KHAITAN CHEMICALS & FERTILIZERS LIMITED

Annexure 'A'

Form 'A' for disclosure of particulars with respect to conservation of energy and forming part of Directors' Report :

A) POWER & FUEL CONSUMPTION :	CURRENT YEAR	PREVIOUS YEAR
1. Electricity :		
a) Purchased Units	4360395	3317880
Total amount (Rs. in Lacs)	250.46	209.17
Rate/Unit (Rs.)	5.74	6.30
b) Own generation:		
i. Through diesel generator Units	1406597	2172383
Total amount (Rs. in Lacs)	99.45	115.81
Rate/Unit (Rs.)	7.07	5.33
ii. Through steam turbine Units *	11520701	12576323
Total amount	-	-
(* Net of Self Consumption in TG)		
2. Coal:		
Quantity (In MT)	3031	4407
Total Cost (Rs. in Lacs)	79.47	103.91
Rate/Unit (MT) (Rs.)	2622	2358
3. Furnace oil:		
Quantity (K. Lts.)	395	881
Total Amount (Rs. in lacs)	57.61	117.95
Average Rate /Lt.	14.58	13.39

B. Consumption per unit of Production :

Item	Product	Current Year	Previous Year
Electricity (KWH/MT)	S.S.P./G.S.S.P	23	23
	S.A./Oleum/Liquid So3	62	62
	Soya Oil/Doc	44	40
Coal (KG/MT)	Soya Oil/Doc	59	62
Furnace Oil (Ltr.)	G.S.S.P.	11	10

Statement Under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rule 1975 & Forming part of Directors' Report:

S. No.	Name of Employees/ his qualification/ Designation.	Age/No. of years experience	Date of commencement of Employment	Remuneration (Rs. in Lacs)	Last Employment
A.	Employed through out the year. Shri Shailesh Khaitan B.Com (Hons.)/ Chairman & Managing Director	49/25	01-09-84	34.80	Managing Director, M/s. Majestic Packaging (P) LTD. Calcutta.

Remuneration includes salary, commission, leave travel assistance and expenditure incurred by the Company on other perquisites valued in accordance with the Income Tax Rules, 1962.

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Annexure 'B'

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management of the Company is pleased to present its analysis report covering segment-wise performance and outlook. The report contains expectations of the Company's businesses based on the current environment. Many unforeseen and uncontrollable external factors could alter these expectations.

BUSINESS ORGANISATION

The Company is mainly engaged in the manufacturing of Single Super Phosphate (Fertilizer) and Edible Oil. It has three plants of Single Super Phosphate situated at Nimrani (Madhya Pradesh), Jhansi (Uttar Pradesh) and Nimbahera (Rajasthan). It also has a plant of Soya Solvent Extraction Plant/Refinery at Ratlam, (Madhya Pradesh). The Company has an extensive marketing network to support its business activities.

1. INDUSTRY STRUCTURE AND DEVELOPMENTS**Fertilizer Division:**

India is the third largest producer and consumer of fertilizer in the world, as it is predominantly an agricultural country. The Government of India has already decontrolled the phosphatic & potashic fertilizers (including SSP) except allowing some adhoc subsidy.

The Govt. is well aware that the higher subsidy to Urea has led to imbalanced use of fertilizers, which need to be corrected. Thus the further reduction in subsidy to fertilizer industry, which should inter-alia aims to encourage balanced use of fertilizers, shall increase the consumption of phosphatic fertilizers including SSP. However, delays in revision of MRP by the respective State Governments and also the indifferent policy of the central Government with regards to subsidy on the Single Super Phosphate as compared to the Urea and DAP is a matter of concern.

SSP fertilizer is the cheapest source of phosphatic fertilizer with other inputs i.e. Sulphur, Calcium etc. and is poor man's fertilizer and will remain popular among farmers community. The management feels that due to its lower economical value with high distribution cost, there should be no impact of "WTO" as well as "No Subsidy Era".

The gradual reduction of subsidy shall not affect the demand of SSP provided, there is simultaneous reduction of subsidy in other segment of fertilizer. The total subsidy outgo on SSP sector is marginal.

Soya Division

Your Company is engaged in the business of edible oil. Due to lower prices of soya products in the international market, the capacity utilization remains low in the Indian industry. As the seed prices were very low (though not economical due to low parity level) as compared to the last year, the arrival of the seed in the markets were remain very slow throughout the year which also lead to the under utilization of the capacity. However with first forecasting of the normal monsoon in the current year, there is every possibility that acreage and production of soybean shall increase in the current year as the Soybean still remains the profitable as well the most liquid crop for the farmers, which shall certainly increase the capacity utilization of the soya Industry as a whole.

Over the years, the NCDEX, NBOT and MCX (the future commodity exchanges) have appeared as major market force in the edible oil sector. Your company also deals in the same to hedge its oil inventory due to high volatile market conditions and to take position in the oilseeds to overcome the slow arrival of the soyseed in the market. This has benefited to the company by way of satisfactory capacity utilization.

2. OPPORTUNITIES AND THREATS**Fertilizer Division**

The company has commissioned the plant for manufacturing of 200,000 TPA Single Super Phosphate at Nimbahera. The plant for granulated Single Super Phosphate has been commissioned during current year.

There is a lot of scope for increased use of fertilizer and Government's emphasis for balance use of fertilizer to increase the Agriculture production will lead to higher consumption of phosphatic fertilizer.

SSP belongs to partial decontrolled segment and low cost fertilizer with other additional nutrients (i.e. Sulphur and Calcium) and present imbalanced use of fertilizers in favour of highly subsidized urea should lead to growth in SSP in coming years.

The good monsoon has resulted in good demand of fertilizer but due to lack of proper policy at center particularly with reference to Single Super Phosphate Fertilizer and non availability of indigenous Rock Phosphate has lead to pressures on margin and consequent under utilization of capacity inspite of good demand.

The consumption of fertilizer depends on the monsoon conditions. Further ill integrated decision of MRP & Subsidy in relation to cost of production, by State Govt. and Central Govt. respectively may affect the production & profitability of the industry/company.



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Soya Division

The capacity utilization remain low during the year across the industry but the future of the Soya Industry is good as the country is still deficient in oil seed production to meet out the country's requirement. The company hopes that with the additional capacity of 1000 TPD Soyseed available from the current year peak soya season, company would be able to grab the opportunity of higher crushing in the initial high parity months besides the benefits of low overheads and higher efficiency in the operations.

3. SEGMENT-WISE BUSINESS REVEIW

The Company has two business segments viz. Fertilizer and Soya. Segment-wise details of the business are given in the foregoing paragraphs:

Fertilizer Division

The Company has largest SSP manufacturing facilities at one location in India with installed capacity of 400000 MT (Total installed capacity 732000) and having manufacturing facility of Sulphuric Acid, Oleum and Liquid So3.

The summarized performance of Fertilizer Division is as under:

	<u>2004-05</u>	(Rs. In Lacs) <u>2003-04</u>
Sales	10708.84	9511.28
PBIDT	989.67	1045.76

Soya division

The summarized performance of Soya Division is as under:

	<u>2004-05</u>	(Rs. In Lacs) <u>2003-04</u>
Sales	7708.87	9828.85
PBIDT	650.46	1049.53

4. FUTURE OUTLOOK:

Fertilizer Division

Future outlook for Fertilizer Industry is linked with Government's strategic approach to self-sufficiency in Agro products. Additional production of foodgrain will have to come from increased productivity in the farming sector, resulting in higher demand for fertilizers and other Agri-inputs. The Company is of strong conviction that the resurgence of the Indian Economy can be sustained only upon the modernization and revival of the Agricultural sector.

The Company would like to become leader in the areas of its operation i.e. Madhya Pradesh, Rajasthan and Uttar Pradesh. It will also penetrate in the state of Chhattishgarh and Maharashtra.

The performance of the company shall be better in coming year considering its basic strength.

Soya division

The oil seed production for the current year 2005-06 is expected to be better due to forecast of normal rainfall. The expansion shall present a good opportunity for crushing of larger tonnage in peak season.

5. RISKS AND CONCERNS:

The Industry is Agro based and therefore its performance shall always be dependent on vagaries of monsoon. We hope to have normal monsoon in the current year and onwards.

We are continuously repositioning our selves according to changing market scenario and strengthen our competitive position.

6. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY :

The Company has well-establish internal control systems at all levels. Boards take major decisions in all aspects of business. There is an elaborate internal audit system, which is catered to by Krishan Rakesh & Co. They are employing highly qualified and experienced professionals in all fields. The management is reasonably satisfied about the adequacy of these internal control systems. The Company has also put lot of emphasis in the systemization of the various plant operations and has also been accredit with the ISO 9001-2000 certification.

The Company has also initiated departmental internal audit.

The Board of Directors has an Audit Committee, whose Chairman is an Independent Director. The Committee meets periodically to review internal controls, Audit Programmes and Results and Recommendations of the Auditors and Management's Replies to those recommendations.