

ANNUAL REPORT

2005 - 2006



KHAITAN CHEMICALS & FERTILIZERS LIMITED



KHAITAN CHEMICALS & FERTILIZERS LIMITED

ANNUAL GENERAL MEETING :

Date : 31st July, 2006
Day : Monday
Time : 1.00 P.M.
Place : Registered Office

BOARD OF DIRECTORS :

Shailash Khaitan : Chairman & Managing Director
O.P. Bagla : Director
J.L. Jajoo : Director
Dr. P. Goyal : Director

REGISTERED OFFICE :

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

PRESIDENT & SECRETARY:

R. S. Vijayvargiya

INDORE OFFICE :

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

AUDITORS:

S. S. Kothari Mehta & Co.
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
IDBI Bank Ltd.

WORKS :

Fertilizers & Chemical Division:

1. Village Nimrani,
A.B. Road, 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-312 601 (Rajasthan)
4. A-1, UPSIDC Industrial Area,
Village Malwan,
Dist. Fatehpur-212 664 (U.P.)

CONTENTS:

Notice	: 3-5
Directors' Report	: 6-8
Management Discussion & Analysis Report	: 9-11
Corporate Governance	: 12-17
Auditors' Report	: 18-19
Balance Sheet	: 20
Profit & Loss Account	: 21
Schedules to Accounts	: 22-32
Balance Sheet Abstract	: 33
Cash Flow Statement	: 34

Listing of Shares:

Soya Division (Khaitan Agro):

Dosigaon Industrial Area,
Ratlam-457 001 (M.P.)

The Mumbai Stock Exchange (B.S.E.)

Stock Code: 507794

ISIN No.: INE745B01010 (NSDL & CDSL)

KHAITAN CHEMICALS & FERTILIZERS LIMITED**NOTICE**

NOTICE is hereby given that the **TWENTYFOURTH 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 Monday, the 31st day of July, 2006 at 1.00 P.M. to transact the following business :

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Accounts for the year ended 31st March, 2006 and the Reports of the Directors and Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Shri J.L. Jajoo, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS:

5. **To Consider and if thought fit to pass with or without modification(s) the following resolution as Special Resolution:**

"RESOLVED THAT in accordance with the provisions of Section 149 (2A) of the Companies Act, 1956, approval of the Company be and is hereby accorded for commencement of business set out in other objects No. 32 of Memorandum of Association of the Company as under:

"To carry on business of generation, distribution, selling, purchasing, self consumption of electricity and power, generated by any mode such as windmill, gas base plant, steam base plant or any other mode whatsoever used in generation of power".

6. **To Consider and if thought fit to pass with or without modification(s) the following resolution as Special Resolution:**

"RESOLVED that pursuant to Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 (including any modification or re-enactment thereof, for the time being in force), subject to all applicable laws and in accordance with all relevant provisions of the Memorandum and Articles of Association of the Company and the listing agreements entered into by the Company with the stock exchanges where the Company's shares are listed and subject to the Central Government, Reserve Bank of India, Ministry of Finance and/or any other appropriate authorities, including banks, financial institutions or other creditors, and subject to such conditions as may be prescribed by any of them while granting any such approval, consent, permission, or sanction, and which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the "Board") and/or duly authorized persons thereof for the time being exercising the powers conferred by the Board by this resolution, the Company issue, offer and allot, in the course of an international offering to eligible foreign investors (whether or not such investors are members of the Company), by way of circulation of an offering circular or prospectus or by way of private placement, Foreign Currency Convertible Bonds / Global Depository Receipts / American Depository Receipts in the aggregate amount of not exceeding Rs. 1,00,00,00,000/- (Rupees One Hundred Crores Only) (inclusive of such premium as may be determined by the Board) in one or more tranche or tranches (hereinafter referred to as "Securities"), to be subscribed in foreign currency, which, at the option of the holders of the Securities may be converted into equity shares of the Company, such issue and allotment to be made in one or more tranche or tranches, on such terms and conditions as may be decided and deemed appropriate by the authorized persons of the Board at the time of issue or allotment."

"RESOLVED further that without prejudice to the generality of the above and subject to all applicable laws, the aforesaid issue of Securities may have all or any terms or combination of terms in accordance with national and international practices including but not limited to conditions in relation to payment of interest, additional interest, premium on redemption, prepayment and any other debt service payments whatsoever, and all such terms as are provided in issue of securities of this nature internationally including terms for issue of equity shares upon conversion of the Securities or variation of the conversion price of the Securities during the term of the Securities and the Company is also entitled to enter into and execute all such arrangements/agreements as the case may be with any lead managers, managers, underwriters, advisors, depositories and all such agencies as may be involved or concerned in such offerings of Securities and to remunerate all such agencies including the payment of commissions, brokerage, fees or the like, and also, if so deemed fit, to seek the listing of any or all of such Securities or securities representing the same in one or more stock exchanges outside India."

"RESOLVED further that the Securities issued in foreign markets shall be deemed to have been made abroad and/



KHAITAN CHEMICALS & FERTILIZERS LIMITED

or in the international market and/or at the place of issue of the Securities in the international market and may be governed by foreign and / or Indian laws, as applicable."

"RESOLVED further that the Company may enter into any arrangement with any agency or body authorized by the Company for the issue, upon conversion of the Securities, of equity shares of the Company in registered or bearer form with such features and attributes as are prevalent national and / or international capital markets for instruments of this nature and to provide for the tradability or free transferability thereof as per the national and / or international practices and regulations, and under the forms and practices prevalent in the international markets."

"RESOLVED further that the Board or any Committee thereof be and is hereby authorized to issue and allot such number of equity shares as may be required to be issued and allotted upon conversion of any Securities referred to in paragraph (a) above or as may be necessary in accordance with the terms of the offering, all such equity shares being pari passu with the then existing equity shares of the Company in all respects."

"RESOLVED further that for the purpose of giving effect to any issue or allotment of Securities or securities representing the same or equity shares, as described herein above, the Board be and is hereby authorize on behalf of the Company to do all such acts, deeds, matters and things as it may at their discretion deem necessary or desirable for such purpose, including without limitation the utilization of issue proceeds, entering into of underwriting, and marketing arrangement, and with power on behalf of the Company to settle any questions, difficulties or doubts that may arise in regard to any such issue or allotment as it may in its absolute discretion deem fit."

Registered Office:

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

Date: 07.06.2006

By Order of the Board

S/d

(R. S. Vijayvargiya)

President & Secretary

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 24th July, 2006 to 31st July, 2006 (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 1997-98 to the Investor Education & Protection Fund (IEPF) established by the Central Government pursuant to section 205C 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.
10. Explanatory Statement pursuant to the provisions of Section 173(2) of the Companies Act, 1956 is annexed.

KHAITAN CHEMICALS & FERTILIZERS LIMITED**Explanatory Statement : Pursuant to Sec 173 (2) of the companies Act 1956.****Item No. 5**

The Company is in process of putting up Wind Mill unit in the State of Maharashtra, as per other object of the Company. The Members are required to approve the commencement of new business as required U/s 149 (2a) of the companies Act, 1956.

None of the Directors of the Company are in any way, concerned of or interested in the resolution.

The Board recommends the proposed resolution for your approval.

Item No. 6

In dynamic world, the Company wishes to grow both organically and inorganically. To meet out the fund requirement, the consent of the members is sought.

None of the Directors of the Company are in any way, concerned of or interested in the resolution.

The Board recommends the proposed resolution for your approval.

Registered Office:

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

Date: 07.06.2006

By Order of the Board

S/d

(R. S. Vijayvargiya)

President & Secretary

Details of Director seeking re-appointment at the Annual General Meeting (In pursuance of Clause 49 of the Listing Agreement)

Name of Director	Shri J.L. Jajoo
Age	63 years
Qualification	C.A.
Date of Appointment	1st January, 1991
Expertise	Rich and vast experience in the field of Management and finance.
Other Directorships (excluding Pvt. Companies) as on 31st March, 2006	Nil
Chairman / Member of the Committees as on 31st March, 2006	Audit Committee: Khaitan Chemicals & Fertilizers Ltd.



KHAITAN CHEMICALS & FERTILIZERS LIMITED

DIRECTORS' REPORT

To the members,

Your Directors have pleasure in presenting the 24th Annual Report of the Company together with Audited Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

(Rs. in lacs)

	2005-2006	2004-2005
Surplus before interest and depreciation	2293.76	1732.32
Less: Interest & Financial Expenses	757.25	517.75
Cash Profit before tax	1536.51	1214.57
Less: Depreciation	533.56	436.37
Misc. Expenses Written off	2.88	4.59
Surplus before tax	1000.07	773.61
Add : Prior Period adjustments	52.15	(11.27)
Profit /(Loss) before taxation	1052.22	762.34
Provision for current tax	(85.55)	(37.92)
Deferred Tax	(66.98)	(304.66)
Fringe Benefit Tax	(14.97)	-
Profit /(Loss) after taxation	884.72	419.76
Income Tax of earlier year	(0.42)	35.33
Add: Transfer from Capital Subsidy	0.79	0.79
Net Profit/(Loss)	885.09	455.88
Add: Profit/(Loss) B/F from previous year	376.53	108.32
Less: Transfer to -		
- General Reserve	700.00	25.00
- Proposed Dividend	172.64	143.87
- Corporate Dividend Tax	24.21	18.80
Balance carried to Balance Sheet	364.77	376.53

DIVIDEND

Your Directors are pleased to recommend 18% Dividend on Equity Shares subject to necessary approvals.

PROJECT & FINANCE

The project of 1000 TPD Soya processing plant has been started commercial production during the year.

During the year, the company has got corporate loan of Rs. 2000 Lacs from Banks to augment the long term resources for increase need of working capital.

The company is taking action for following projects in the current year:

- Greenfield integrated Single Super Phosphate plant in Andhra Pradesh.
- Value added products of soybeans.
- Wind Energy.

The total capital outgo is estimated around Rs.7000 Lacs

PERFORMANCE & FUTURE PLAN

In spite of good monsoon and resulting good crop the crushing margins remain negligible throughout the year as in previous year, due to very low International price of Edible Oil and Soya meal.

The production of Single Super Phosphate restricted to the extent of availability of indigenous Rock Phosphate from M/s Rajasthan State Mines & Minerals Ltd. and thus under utilisation of capacity. The much awaited hike in adhoc subsidy has been effected w.e.f. September, 2005, but further rise in Rock Phosphate prices & logistic cost put the industry under tremendous pressure.

The company hopes that, sooner or later the Government of India shall consider rational basis of subsidy i.e. nutrient basis.

Your directors are of the firm opinion that, in spite of all odds, your company shall perform better in its both the segments due to its basic strength and shall like to be remain leader in both segments.

KHAITAN CHEMICALS & FERTILIZERS LIMITED



MERGER OF MAHADEO FERTILIZERS LTD.

During the year the company along with Group Company has acquired majority stake in Mahadeo Fertilizers Ltd. (MFL), a BIFR Company. The one time settlement (OTS) proposal submitted by MFL on the strength of Khaitan Chemicals & Fertilizers Ltd. (KCFL) had been accepted by Financial Institutions. The MFL has paid full & final payment to OTS and Banks. After OTS & acquiring of Majority stake the company has submitted merger proposal to the BIFR to revive the MFL.

The BIFR has sanctioned the scheme of amalgamation of MFL with KCFL w.e.f. 01.04.2005. The KCFL's shareholder approved the scheme of merger in their extra-ordinary general meeting held on 10.05.2006. Accordingly the Accounts of KCFL for the year 2005-06 includes the operation of erstwhile Mahadeo Fertilizers Ltd.

The plant of MFL is having installed capacity to produce 1,15,500 TPA SSP, 49,500 TPA Sulphuric Acid and 10000 TPA Oleum. Your directors would like to emphasize that, during the very first year of its operation, the unit of erstwhile MFL has added to the bottom line of the company.

DIRECTORS

Shri J.L. Jajoo retire by rotation and being eligible offer himself for re-appointment. Particulars of the retiring Director is given in the notes forming part of the notice for the ensuing Annual General Meeting.

During the year under review Shri Anil Agrawal, Director of your company has resigned from the board. The Board noted the same. The Board place on record its sincere appreciation for valuable service rendered and contribution made by Shri Anil Agrawal.

Further Board also place on record its sincere appreciation and gratitude towards the Board of Directors of Erstwhile Mahadeo Fertilizers Ltd. (Since merged with the company).

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.

Regarding qualification remark under para VI of the Auditor Reports, the management is of the views that there is no material liability in case of leave pay whereas there is no dues and receivable on account of land revenue and capital subsidy respectively. All other 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 2006-2007.

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. NIL on export of goods (Previous year Rs. 83.30 lacs) and incurred Rs. 1612.17 lacs (Previous year Rs. 1396.14 lacs) on import of Raw Materials, Fees & Subscription and Interest on Foreign Currency Loan.

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 judgments 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 of the Financial year ended 31.03.2006 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.



KHAITAN CHEMICALS & FERTILIZERS LIMITED

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 State Bank of India, State Bank of Indore, the IDBI Bank Ltd., 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: 07.06.2006

(SHAILESH KHAITAN)

CHAIRMAN & MANAGING DIRECTOR

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	7859947	4360395
	Total amount (Rs. in Lacs)	435.22	250.46
	Rate/Unit (Rs.)	5.54	5.74
b)	Own generation:		
i.	Through diesel generator Units	1270903	1406597
	Total amount (Rs. in Lacs)	107.06	99.45
	Rate/Unit (Rs.)	8.42	7.07
ii.	Through steam turbine Units *	14499644	11520701
	Total amount	-	-
	(* Net of Self Consumption in TG)		
2. Coal:			
	Quantity (In MT)	5811	3031
	Total Cost (Rs. in Lacs)	185.74	79.47
	Rate/Unit (MT) (Rs.)	3196	2622
3. Furnace oil:			
	Quantity (K. Lts.)	725	395
	Total Amount (Rs. in lacs)	152.03	57.61
	Average Rate /Lt.	20.96	14.58

B. CONSUMPTION PER UNIT OF PRODUCTION:

Item	Product	Current Year	Previous Year
Electricity (KWH/MT)	S.S.P./G.S.S.P	24	23
	S.A./Oleum/Liquid So3	63	62
	Soya Oil/Doc	45	44
Coal (KG/MT)	Soya Oil/Doc	70	59
Furnace Oil (Ltr.)	G.S.S.P.	10	11

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	50/26	01-09-84	36.92 lacs	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.

KHAITAN CHEMICALS & FERTILIZERS LIMITED

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 four plants of Single Super Phosphate situated at Nimrani (Madhya Pradesh), Goaramachia and Malwan (Uttar Pradesh) and Nimbahera (Rajasthan), and a plant of Edible oil (Solvent Extraction / Refinery) situated 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 second largest populous country in the world. To feed the total population of 1.10 billion, there is need for adequate food grains production in sustained manner. As the population grows we need to harness in the area of food grain production to match the growing population which has been made possible by scientific approach in agriculture, maintaining the idle N.P.K.S ratio in order to get desired result.

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 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 mainly Soya oil. The Indian Soya Industry is growing at an average rate of 14.5 % over the past five years. Global players are now entering the Indian Soya industry.

Different crude edible oils are imported like palm oil etc every year for blending and refining with other edible oil based products. Soya oil shall remain to be an import substitute commodity for many years to come.

Local and global demand of Doc is growing day by day, with increasing shift from Non-veg to Veg cattle feed etc. It has increased by five times from 4.06 lac MT in 1992-93 to 22.99 lac MT in 2003-04 constituting 46 % of the total Doc production.

Soya growing is also gaining popularity in states like Maharashtra and Rajasthan.

Exports of Soya meal have a big potential. For about 75% of production of Soymeal, there is a ready market available in countries like Indonesia, China, Japan, Korea, Pakistan, Nepal, Bangladesh, Middle east and to a lesser extent some European Nations.

India has price advantage, as Indian Soya Meal is still cheaper when compared with the American or Brazilian Soya Meal. Indian Soy meal contains high protein content of around 48%. Moreover, it is not genetically modified (GM). Only India supplies Non-GM Soy meal while the U.S., Argentina and Brazil manufacture only/ mainly GM Soy meal.

With first forecasting of the normal monsoon in the current year, the acreage and production of soybean are expected to increase in the current year as the Soybean still remains the profitable as well the most liquid crop for the farmers.

For last two three years, the NCDEX, NBOT and MCX (the future commodity & derivatives exchanges) have appeared as major market force in the edible oil sector. Your company also deals in the same to hedge its oil inventory to counter the high volatility in the Oil prices and also 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**

India rank 111rd in fertilizer consumption (16.10%) as against china (39.60%) and USA (19.30%) Average consumption of plant nutrient in India is 100 Kg /hectare in the arable land as against 278 kg uses in china and as high as 569 kg in New Zealand.



KHAITAN CHEMICALS & FERTILIZERS LIMITED

To get the higher yields of our Agriculture produce, maintaining the ideal N.P.K.S. ratio is must. Out of the N.P.K.S., the P & S. are supplied by SSP. SSP supplies three nutrients Phosphate, Sulphur and Calcium. The Single Super Phosphate fertilizer is the only efficient means of supply of Sulphur nutrient

Due to imbalance use of fertilizers, Government is promoting the use of Phosphatic fertilizers. The deficiencies of Sulphur across India is another area which is endorsed by the eminent organisation and thus Sulphur carrying fertilizers has to be encouraged

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 the 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 in spite of good demand.

The company hopes that, sooner or later the Government of India shall consider rational basis of subsidy i.e. Nutrient basis.

Soya Division

The capacity utilization remain low during the year across the industry due to negligible crushing margins throughout the year as in previous year, because of very low International price of Edible Oil and Soya meal.

But the future outlook of the Soya Industry remain good as the country is still deficient in oil seed production to meet out the country's requirement. The company hopes that with the availability of additional crushing capacity of 1000 TPD from the day one of the current year, company would be able to grab the opportunity of higher crushing in the period of high parity besides the benefits of low overheads and higher efficiency in the operations.

3. SEGMENT-WISE BUSINESS REVIEW

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 in India with installed capacity of 845500 MT and having manufacturing facility of Sulphuric Acid, Oleum and Liquid SO_3 also.

The summarized performance of Fertilizer Division is as under:

	2005-2006	(Rs. In Lacs) 2004-2005
Sales	13883.26	10708.84
PBIDT	1603.53	989.67

Soya Division:

The summarized performance of Soya Division is as under:

	2005-2006	(Rs. In Lacs) 2004-2005
Sales	10579.25	7708.87
PBIDT	592.71	650.46

4. FUTURE OUTLOOK:

Fertilizers Division

Future outlook for Fertilizer Industry is linked with Government's strategic approach to self-sufficiency in Agro products. Additional production of food grain 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 would also like to increase its presence in more areas of the state of Chhattishgarh and Maharashtra. The Company is also seeing the opportunity to have its presence in the Southern and Eastern states by way of putting up a new plant or acquisition of existing unit.

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 2006-07 is expected to be better due to forecast of normal rainfall. The higher crushing capacity 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 ourselves 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