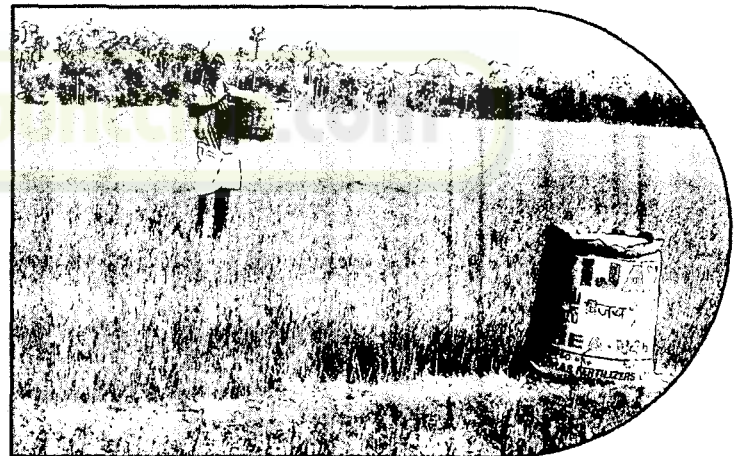
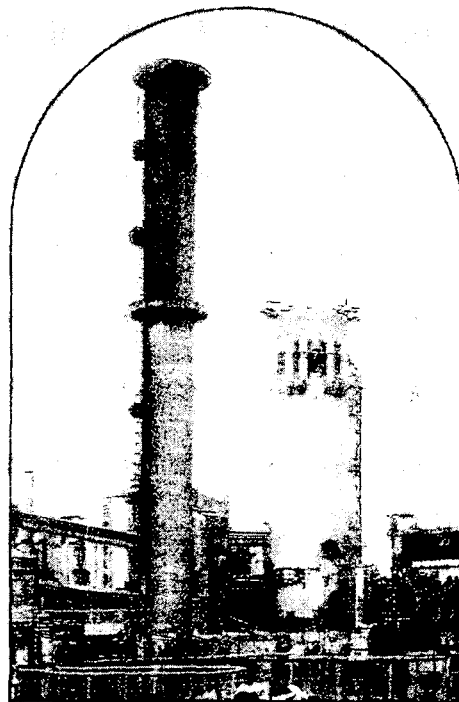


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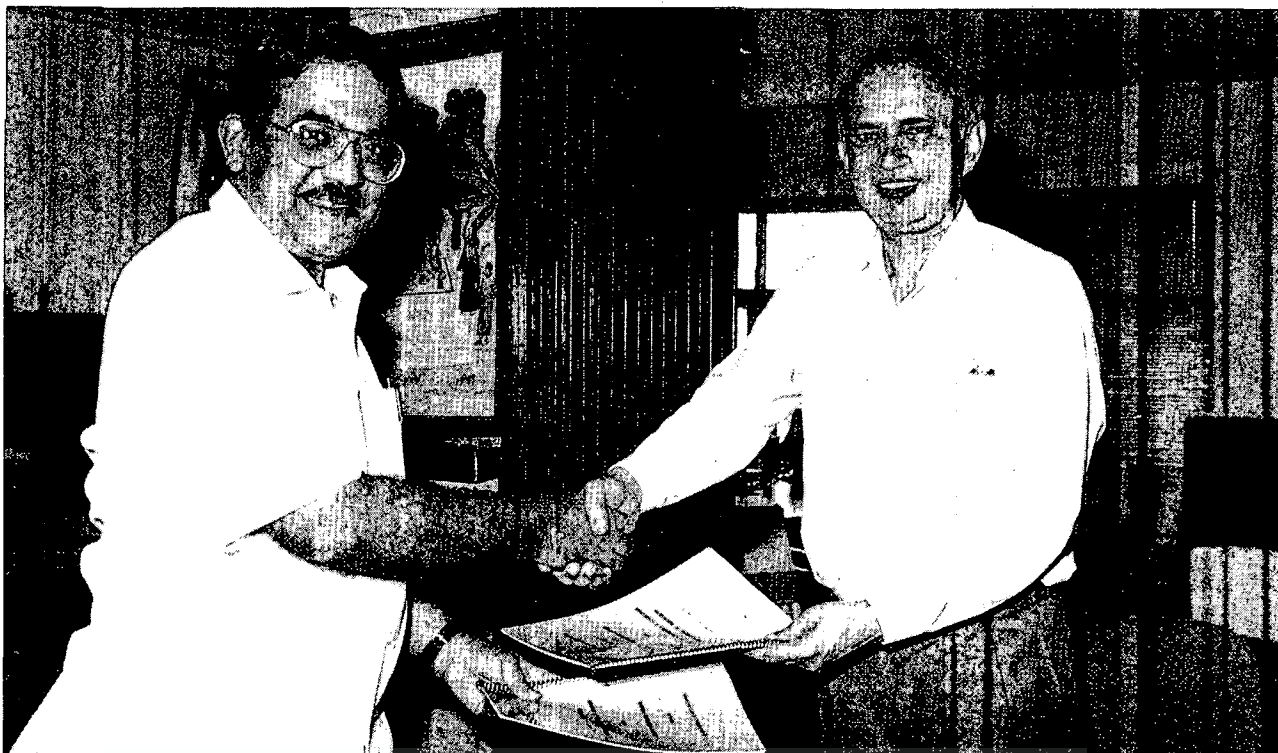


MORE FERTILIZER
FOR
MORE FOOD

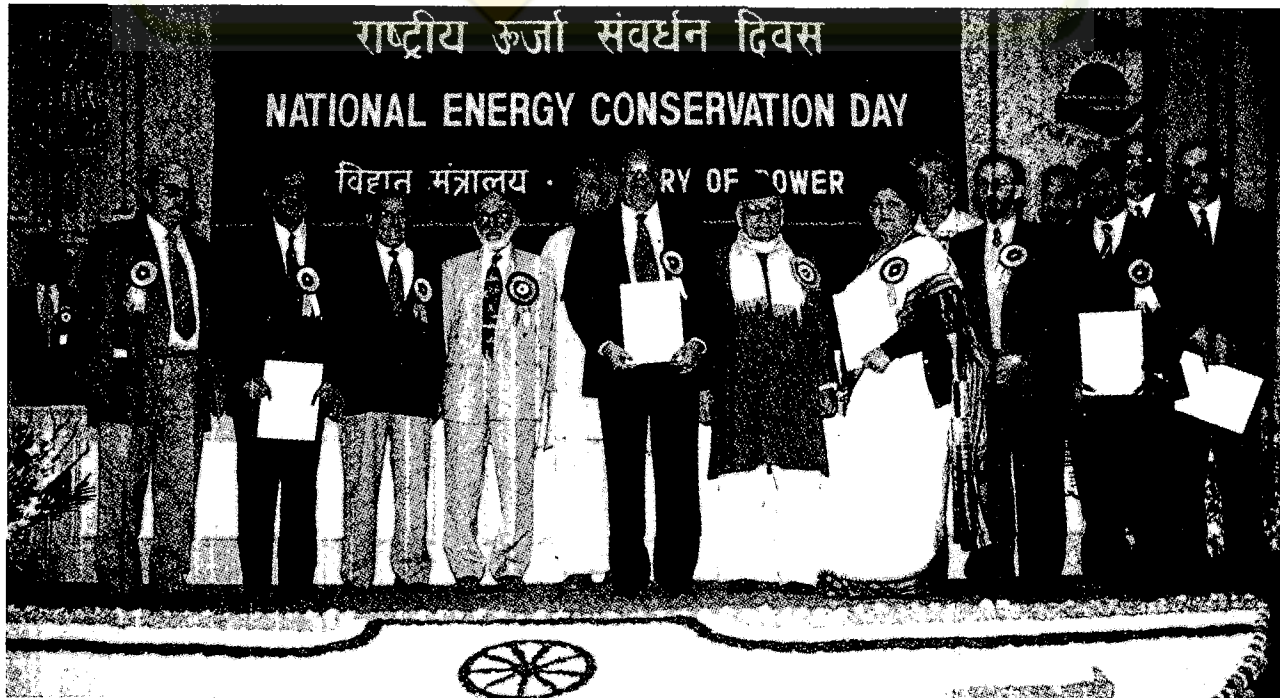
32nd ANNUAL REPORT 1997-1998



MADRAS FERTILIZERS LIMITED



Memorandum of Understanding for 1998-99 signed by Shri Anil Kumar, Secretary, Dept. of Fertilizers, Ministry of Chemicals & Fertilizers, Government of India and Shri N.Y. Mahajan, Chairman and Managing Director of MFL at New Delhi on April 30, 1998.



MFL receiving prestigious Energy Conservation Award for the year 1996-97 from Ministry of Power, Government of India.



BOARD OF DIRECTORS

Chairman & Managing Director

Shri N.Y. Mahajan

Directors

Shri K.K. Jaswal, IAS
Shri S. Kabilan, IAS
Shri N. Athimoolam, IAS
Shri S. Gopalan
Shri S.M.R. Mirhadi
Shri R. Afshin
Shri Kh. Sefati

Executives

Shri N.Y. Mahajan
Chairman & Managing Director
Shri B. Srinivasan
Executive Director - Vigilance
Shri R.R. Pandalai
Executive Director - Personnel & Administration
Shri N. Mahatvaraj
General Manager - Marketing & Distribution
Shri R. Raghunathan
General Manager - Finance & Accounts
Shri S. Periyasamy
General Manager - Commercial & Corp. Planning
Shri P.S. Neelakantan
General Manager - Operations
Shri D. Sadagopan
General Manager - Technical
Shri B. Sukumar
Company Secretary

Registered Office

Manali, Chennai - 600 068

Principal Bankers

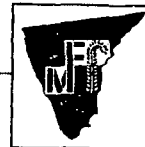
State Bank of India, Chennai
State Bank of Patiala, Chennai

Auditors

Sundaram & Srinivasan
Chartered Accountants
23, C.P. Ramaswamy Road,
Alwarpet, Chennai - 600 018.

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Madras Fertilizers Limited

Regd. Office : Post Bag No. 2, Manali, Chennai - 600 068.

Notice

Notice is hereby given that the 32nd Annual General Meeting of the Company will be held at 2.30 P.M. on Tuesday, the 22nd September, 1998 at Narada Gana Sabha, 254, T.T.K. Road, Alwarpet, Chennai - 600 018, to transact the following businesses :

Ordinary business

1. To receive and adopt the audited Profit & Loss Account of the Company for the period from April 1, 1997 to March 31, 1998 and the Audited Balance Sheet as at March 31, 1998 together with the Directors' Report and Auditors' Report thereon.
2. To appoint a Director in the place of Shri K K Jaswal, who retires by rotation and is eligible for reappointment.
3. To appoint a Director in the place of Shri S Kabilan, who retires by rotation and is eligible for reappointment.
4. To appoint a Director in the place of Shri N Athimoolam, who retires by rotation and is eligible for reappointment.

By Order of the Board

Date : August 21, 1998 B. Sukumar
Place : Chennai - 600 068 Company Secretary

Note :

1. A member entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of himself.
2. A proxy need not be a member of the Company.
3. Proxies, in order to be effective, must be lodged at the Registered Office of the Company not later than 48 hours before the time of holding the meeting.
4. Members/Proxies should bring their attendance slip, duly filled in, to the Meeting.
5. The Register of Members and Share Transfer Books of the Company will remain closed from September 16 to 22, 1998 (both days inclusive).
6. Members are requested to immediately intimate any change in their addresses registered with the Company.

DIRECTORS' REPORT

The Shareholders

Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 32nd Annual Report together with the Balance Sheet as of March 31, 1998 and the Profit & Loss Account for the year 1997-98.

1997-98 . . . A TESTING YEAR WITH HOPES ON FUTURE

During the year 1997-98, the Company went through a major transition. The Ammonia and Urea Plants built during early 1970's, which served MFL for over 26 years were awaiting much needed Revamp and Modernisation. The year witnessed extended Revamp hook-up activities, an unfortunate accident, teething problems and constraints faced during commissioning/stabilisation of the revamped Plants including severe limitation on availability of steam caused by delay in commissioning a new Process Condensate Boiler.

Apart from the above, steep increase in Petro-product prices, weakening of Indian Rupee against US Dollar during the year and these factors not compensated suitably in Selling Price / Ad hoc Concession in respect of Complex Fertilizers resulted in huge under-recoveries. Subsequent reduction in price concession during Rabi 1997-98 for Complex Fertilizers further affected profitability of the Company.

Though the revamped Ammonia/Urea Plants were commissioned during September 1997, owing to initial teething problems and the steam limitation, commencement of commercial production of Urea was delayed to March 3, 1998, when steam was available from the new PC Boiler for regular use. Thus, on March 3, 1998, the Company's major Revamp cum Modernisation and Substantial Expansion Project was completed at the revised cost of Rs. 601.43 Cr.

As a result of the above factors and lower production, the Company suffered a loss of Rs. 55.35 Cr. during 1997-98.

The Plant performance after March 1998 subsequent to availability of steam from the new PC Boiler has been steadily improving and Urea Production of 95% on daily basis and Plant load of over 100% was achieved during June '98. Though the Plants have achieved stability in operation, the alarming liquidity crisis now threatens the very sustenance. Nevertheless, the Company has approached the Government of India (GOI) and Financial Institutions for providing the necessary financial assistance to enable it to turn around.

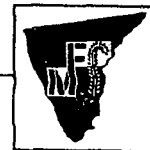
PROSPECTS FOR 1998-99

Though the Company has suffered a major set back, both in the production as well as financial performance, the prospects of turning around during 1998-99 are bright with operation of the revamped Plants having stabilised and anticipated revision in ad hoc concession on Complex Fertilizers. Other favourable factors are :

1. Normal monsoon forecasted for the year 1998-99;
2. Marketing & Distribution set-up fully geared up to achieve targeted sale of 12.20 lakh MT;
3. The Company's plan to step up NPK production in cost effective manner using imported urea;
4. Against back drop of steep increase in input costs, the GOI has entrusted the work of recommending revising the ad hoc concession in respect of Complex Fertilizers for Kharif 1998 to Bureau of Industrial Cost & Prices (BICP). A reasonable and equitable dispensation is expected from BICP.

CHALLENGES TO BE MET

In spite of some positive developments that have taken place from the beginning of the year 1998-99 to the advantage of the Company yet, there are some areas which are causing serious concern. One such area is liquidity position of the Company. The Company never during the past had experienced such financial strain and acute liquidity crisis. Gap in funding of the final project cost and cash losses suffered during 1997-98 has severely affected the working capital and cash flow position of the Company. Building up of current and long term outstanding liabilities is causing serious concern.



The technical problem of Urea prill temperature is evading a solution despite all out efforts on the part of MFL and Process Licensor. The problem was studied by the Structural Engineering Research Institute (CSIR), Chennai and their recommendations were implemented only with marginal improvement. Other reputed Consultants are being contacted to find a permanent and enduring solution to the problem.

Other area requiring immediate attention is to achieve stabilised, sustained and uninterrupted operation of the revamped Plants near their rated capacities and efficiency levels, evolving and adopting appropriate strategies in respect of raw materials, product mix, quality improvements, marketing and trading activities.

FINANCIAL RESULTS

The overall corporate results for the year is a loss of Rs. 55.35 Cr as against a post tax profit of Rs. 13.10 Cr in the previous year as below:

	(Rs. Cr)	
	1997-98	1996-97
Turnover	546.77	666.02
Operating Profit / (Loss)	(60.13)	8.80
Other Income	4.78	4.29
Profit / (Loss) relating to current year	(55.35)	13.09
Prior year income / (Expenditure)	-	0.01
Profit / (Loss) in the year	(55.35)	13.10

The loss of Rs. 58.96 Cr in manufacturing operations was mitigated to some extent by income of Rs.3.61 Cr in trading operations.

CAPACITY UTILISATION

The production performance of revamped Ammonia, Urea and NPK Plants was lower than the previous year due to nearly 6 months extended hook-up shut down followed by teething problems during commissioning and limitation on availability of steam. The comparative position for the years 1997-98 vs 1996-97 is as follows:

	Installed Capacity		Production			
	1997-98@	1996-97	1997-98		1996-97	
	'000 MT	'000 MT	'000 MT	%	'000 MT	%
Ammonia	346.50	247.5	83.60	45	183.06	74
Urea	486.75	292.0	63.71	26	213.48	73
NPK	840.00*	540.0	458.68	63	620.94	115

@ Annual Installed Capacity after Revamp

* Based on all NPK 17-17-17

FERTILIZER SALES

The extended Revamp hook-up activities resulted in limited availability of Complex and Urea Fertilizers. Total sales of Chemical Fertilizers during the year was 6.6 lakhs MT as compared to 7.4 lakhs MT during 1996-97.

The Company sold 4,59,477 MT manufactured fertilizers including Vijay 17-17-17, 14-28-14, DAP and Urea. This was supplemented by 73,233 MT of Imported DAP and 1,26,723 MT of Imported MOP during 1997-98. Sale of 1.27 lakh MT of MOP during the year crossed the previous highest sale of 72,687 MT during 1994-95.

AGROCHEMICALS

During 1997-98, the Company achieved turnover of Rs. 14.58 Cr in Agrochemicals against plan of Rs. 30.20 Cr. Lower turnover was due to failure of season, reduction of area under cotton cultivation which resulted in depressed demand in the market.

The Company also commenced marketing of an eco-friendly neem based pesticide viz. "Vijay Neem" during the year under arrangement with M/s. Fortune Biotech Ltd (FBL), Hyderabad, who commissioned their "The State of Art" plant for the manufacture of Azadirachtin. The Company has invested Rs. 1.25 Cr in the equity of FBL and holds exclusive marketing right in the South India.

BIO-FERTILIZERS

New Bio-Fertilizer Units at Bangalore and Vijayawada crossed their rated capacities and all the three Units together including the one at Manali achieved all-time high production of 323 MT during 1997-98 against the

previous best of 232 MT during 1996-97. In spite of severe competition, MFL could achieve a new peak in sales of 319 MT during 1997-98 against the previous best of 232 MT achieved during 1996-97.

The Company received an additional Grant-in-Aid of Rs. 13.5 lacs from the Govt. of India to further enhance production capacity of Bangalore and Vijayawada Biofertilizer Units from current 100 TPA to 150 TPA each. Work on the capacity enhancement is expected to be completed by end of 1998.

AGRICULTURAL AND PRODUCT PROMOTIONAL ACTIVITIES

During the year the company implemented 12 Area Development Programs. In Thirupudaimarudhur, one of the villages adopted by MFL, in Tirunelveli District (TN), through MFL's earnest efforts two farmers of the village, successfully achieved highest yields in the District level Competition conducted by the Govt. of Tamil Nadu. It is significant that the first prize was won by a farmer belonging to weaker section of the society with an yield of 4020 Kgs/acre of paddy against State average of around 1100 Kgs/acre.

With launching of "Vijay Neem", MFL organised a massive promotional campaign to promote use of ecofriendly Neem based pesticides.

TRIBAL DEVELOPMENT PROGRAMS

In support of Government's program for upliftment of tribals, MFL implemented 2 Tribal Development Programs, one in Tamil Nadu and the other in Andhra Pradesh. The programs covered 24 villages and 2198 Tribal Farmers. During the program, besides imparting knowledge on effective use of fertilizers, free distribution of Fertilizers, Agrochemicals, Hybrid seeds, Saplings of fruit trees were carried out. Social Welfare activities such as free supply of water storage tank, smokeless chulas, school uniforms and medical check-up for the school children were undertaken, besides arranging training programs for the women.

PUBLIC DEPOSIT

Company received Rs. 12.45 Cr. from public during the year 1997-98 and the total deposit outstanding as of March 31, 1998 was Rs. 48.56 Cr. against the eligible maximum limit of Rs. 48.79 Cr. The Company has,

therefore stopped accepting fresh deposits. A sum of Rs. 31.07 lac remains as unclaimed for which action has been initiated for arranging repayment.

PUBLIC ISSUE AND SHAREHOLDING PATTERN

As members are aware during the year your Company floated an issue of 2,86,30,000 Equity Shares of Rs.10/- each at a premium of Rs. 5 per share against which 2,58,09,700 Equity Shares were subscribed and allotted leaving the balance 28,20,300 Equity Shares unsubscribed. The paid up share capital of the Company on 31st March, 1998 stood at Rs. 161.77 Cr as against last year's Rs. 137.37 Cr.

The Equity Shares of the Company are listed at the Chennai and Mumbai Stock Exchanges and the National Stock Exchange. The shareholding pattern of the Company is given hereunder :

	No. of Shares	%
Govt. of India	95851700	58.74
National Iranian Oil Co. (Foreign Co-Promoter)	41516500	25.44
Public	25809700	15.82
Total	163177900	100.00

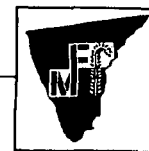
DISINVESTMENT BY GOI

The Disinvestment Commission appointed by the GOI has identified MFL, as one amongst 21 PSUs for disinvesting and reducing GOI's Share by 50% out of its 58% share holding in MFL to a strategic partner selected on global basis.

COMPLETION OF THE REVAMP PROJECT

The Ammonia and Urea Plants were shutdown on March 7, 1997 to commence Revamp hook-up activities. NPK Plants were operated at low capacity using bought Ammonia and Urea.

After completion of hook-up activities, commissioning of the revamped Ammonia Plant was started on August 4, 1997. On August 8, 1997, commissioning of the Ammonia Plant suffered a set back as a manway cover at the Secondary Reformer outlet gas chamber suddenly gave way resulting in blow-out of the process fluids. During the incident, two grievously injured contractor's workmen succumbed to injuries and 23 other contractor's workmen who suffered injuries had to be



hospitalised. The incident also resulted in damage to refractory lining of the chamber. After completion of repairs, the Ammonia Plant was subsequently commissioned and production commenced from September 17, 1997. An Enquiry Committee with an outside technical expert was appointed by the Chairman & Managing Director. Findings of the Committee were presented by the Chairman of the Committee to the Board of the Directors. Based on findings of the Enquiry Committee, a claim has been lodged with the supplier. The Guarantee Test Run of revamped Ammonia Plant was conducted during January 1998 and performance in respect of production rate and energy consumption (Battery limit) per contract was demonstrated by the Consultant.

The Urea Plant revamped with UTIC's Technology was commissioned on September 24, 1997 and Urea production achieved on September 30, 1997. Commercial production of Urea commenced from March 3, 1998 when limitation on availability of steam was overcome with commissioning of the new PC Boiler.

Initial operations of the Revamped Urea Plant suffered frequent interruptions due to teething problems, Steam Limitations and operational constraints (specially in the modified "Cross Flow" Prill Tower and First Absorber) some of which could be attributed to deficiencies in Design, Engineering and Construction supervision. Most of the problems / constraints (except high prill temperature) were rectified by mid December 1997 but steam limitation could be overcome only by March 3, 1998.

The problem of the high prill temperature continues to persist in spite of carrying out several modifications recommended by the Process Licensor, M/s. UTIC-USA and MFL themselves. MFL is now seeking advice of other Consultants to overcome the problem of high prill temperature. Despite the above problems, the revamped Urea Plant has achieved a maximum daily production of 1400 MTPD representing 95% of rated production capacity and reached plant load of 105%.

After completion of revamp works, the revamped NPK plants were taken on commercial production from August 17, 1997 onwards.

The revamped NPK Plants are currently producing at 2000 to 2400 MTPD rate and could achieve maximum daily production rate of 2800 MT.

On August 20, 1997, in a glittering function, MFL's Substantial Expansion and Modernisation Project was dedicated to the Nation by the Hon'ble Union Minister for Finance. The occasion was also graced by Hon'ble Union Minister for Chemicals & Fertilizers and Hon'ble Union Minister for Civil Aviation and Secretary (Fert) Govt. of India. It was a fitting tribute to the Nation during Golden Jubilee year of Independence.

CAPTIVE BERTH AT ENNORE PORT TERMINAL

The Ministry of Surface Transport, GOI has agreed in principle to allot a fertilizer berth to MFL at the proposed Ennore Port Terminal, North of Chennai on "Build, Operate and Transfer" (BOT) basis. However, formal allotment by the GOI will be considered after submission of Techno Economic Feasibility Report (TEFR) by MFL. Work of preparation of TEFR has been awarded to a consultant and the report is expected to be ready during August 1998.

TISSUE CULTURE

MFL had taken possession of land (3.79 acres) at Hosur from SIPCOT on long term lease. However, pending finalisation of technology and Joint Venture tie-ups and in view of current financial constraints, MFL has requested SIPCOT to extend the period upto March 1999 to commence construction.

SULPHURIC ACID PLANT

The project proposal has been deferred subsequent to trial run with Sulphuric Acid which revealed certain limitations in achieving targeted production rates. Further studies are being taken up with the Indian and Foreign Consultants.

MEMORANDUM OF UNDERSTANDING

Per the MoU with the GOI, performance of your Company was rated as "Good" for the year 1996-97.

The MoU for the year 1998-99 was signed with the GOI during April 1998.

ACHIEVEMENTS AND AWARDS

Your Company was selected for the prestigious "Energy Conservation Award" for the year 1996-97 by the Ministry of Power, Govt. of India for implementing various energy conservation schemes.

The Company received "Best Environmental and Ecological Implementation Gold Award" from International Greenland Society for the year 1997-98.

Your Company also received "Best Tax Payer Award" in the category of Employer for the year 1995-96 which was presented by the Hon'ble Union Minister for Finance.

MFL created new records of despatch of 7187 MT/day on Oct 31, 1997 and 107397 MT/month of Vijay products during Jan 1998 surpassing the previous best of 6796 MT/day and 106695 MT/month.

PERSONNEL

The Company recognises importance of developing the skilled, knowledgeable and competent Human Resource through continuous and appropriate training at all levels.

The Company during 1997-98 organised 30 In-house Training Programs to meet training needs of its employees.

RECRUITMENT OF SCs/STs

During the year 1997-98, out of 81 personnel recruited, 14 belong to SC/ST, which works out to 17.28%.

DIRECTORS

Consequent to the superannuation of Mr. R. Ramabadrhan on 28.2.98, Mr. N.Y. Mahajan was appointed as Chairman & Managing Director. Also Mr. K.K. Jaswal, Mr. R. Afshin and Mr. Kh. Sefati were appointed as Directors in place of Mr. Rakesh Kapur, Mr. Mohammed Aghai and Mr. Habibollah Nikbakht respectively.

IDBI, the Lead Financial Institution have nominated Mr. S. Gopalan, Executive Director (Retd.) on the Board of MFL in the place of Mr. S.K. Chakrabarti pursuant to the provisions of the Loan / Guarantee agreement.

GENERAL

The data on Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo in accordance with the provisions of Section 217 (1) (e) of the Companies Act, 1956 are given in the Annexure forming part of this report.

Under sub-section 2A of Section 217 of the Companies Act, no employee was in receipt of remuneration for any part of the year at a rate which in aggregate was more than Rs. 25,000 p.m.

APPRECIATION

The Directors wish to place on record their appreciation of the excellent support received during the year from NIOC, Govt. of India and Govt. of Tamil Nadu and their various Department & Agencies and in particular Financial Institutions, State Bank of India, State Bank of Patiala, Railways, Chennai Port Trust, TNEB, Chennai Metro Water and Sewage Board, Central and State Warehousing Corporations.

The Company acknowledges the services rendered by various Consultants, Vendors and Contractors in support of completion of the Revamp Project and Company's other activities.

The Company is grateful to the farmers and dealers for their unstinted support and continued preference for the Company's product range.

Finally the Directors wish to express their deep appreciation and special thanks to all employees of MFL who were responsible for successful completion of a major Expansion and Modernisation Project besides meeting courageously numerous challenges posed by the most difficult phase of operation of the Company in its history.

By order of the Board

Chennai 68
July 30, 1998

N. Y. Mahajan
Chairman & Managing Director