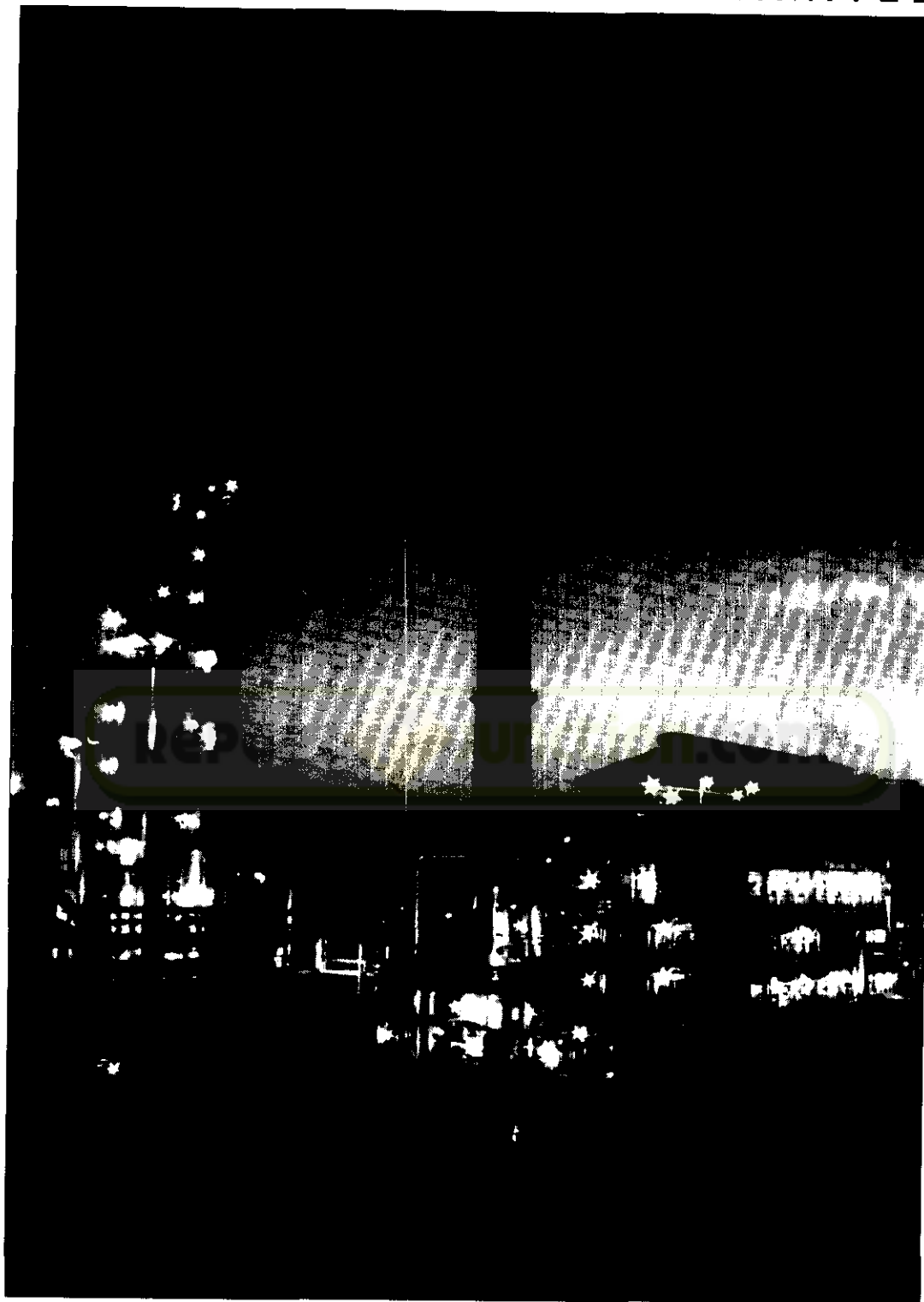


MADRAS FERTILIZERS LIMITED



33rd ANNUAL REPORT 1998-1999



Shri A V Gokak, Secretary, Department of Fertilizers, Government of India, is holding discussions with MFL officials during his visit to Plant on Oct 29, 1998.



Chairman and Members of the Committee on Government Assurances, Rajyasabha and MFL Officials are in a meeting on Jun 7, 1999.



Shri M Kannan and Shri Harinder Singh Khalsa, Members National Commission for SC / ST visited MFL Plant on Apr 6, 1999.

BOARD OF DIRECTORS

Chairman & Managing Director

Shri N Y Mahajan

Directors

Shri Suresh Chandra, IAS
Shri Balvinder Kumar, IAS
Shri N Athimoolam, IAS
Shri S Gopalan
Mr S M Mortazavi
Mr R Afshin
Mr Kh Sefati

Executives

Shri N Y Mahajan
Chairman & Managing Director
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
Shri P S Neelakantan
General Manager - Technical
Shri D Sadagopan
General Manager - Operations
Shri T Radha Krishnan
Chief Vigilance Officer
Shri B Sukumar
Company Secretary

Registered Office

Manali, Chennai-600 068

Principal Bankers

State Bank of India
State Bank of Patiala
State Bank of Hyderabad

Auditors

R G N Price & Co.
Chartered Accountants
861, Mount Road
P.B. No. 335, Chennai - 600 002.

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Madras Fertilizers Limited

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

Notice

NOTICE is hereby given that the 33rd Annual General Meeting of the Company will be held at 3 p.m. on Monday, the 27th March, 2000 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, 1998 to September 30, 1999 and the Audited Balance Sheet as at September 30, 1999 together with the Directors' Report and Auditors' Report thereon.
2. To appoint a Director in the place of Shri. N. Athimoolam, IAS, who retires by rotation and is eligible for reappointment.

Special Business

3. To consider and, if thought fit, pass with or without modification, the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT Shri. Suresh Chandra, IAS, be and is hereby appointed as Director of the Company."
4. To consider and, if thought fit, pass with or without modification, the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT Shri. Balvinder Kumar, IAS, be and is hereby appointed as Director of the Company."
5. To consider and, if thought fit, pass with or without modification, the following resolution as a **Special Resolution**:
"RESOLVED THAT subject to the provisions of Section 31 and other applicable provisions, if any of the Companies Act, 1956, Article 91(b) of the Articles of Association of the Company be and is hereby amended as follows:

Article 91 (b):

The remuneration payable to the Directors of the Company other than full time Directors of the Company or full time employees of the Shareholders or of any State Government or Public Undertaking in India, for attendance at each meeting of the Board of Directors or a Committee thereof shall not exceed the limit prescribed under the Companies Act, 1956 and the Notification issued by Govt. of India from time to time".

By Order of the Board

Date : March 1, 2000
Place : Chennai - 68

B. SUKUMAR
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. A Proxy need not be a Member of the Company.
2. Proxies, in order to be valid, must be lodged at the Registered Office of the Company not later than 48 hours before the commencement of the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed for 5 days from 23/3/2000 to 27/3/2000 (Both days inclusive).
4. Members are requested to immediately intimate any change in their addresses registered with the Company.
5. Company has appointed M/s Integrated Enterprises (India) Ltd, 46/3 Vijayaraghava Road, T. Nagar, Chennai 600 017, as its Shares Transfer Agent and Depository Registry. Hence, all correspondence relating to Company's Equity Shares may be addressed to them.
6. Inspection of Records: The relevant records are available for inspection by the Shareholders at the Registered Office of the Company at any time during the working hours till the date of the meeting.

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Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956**Item No. 3 : Appointment of Shri. Suresh Chandra, IAS as Director**

Shri. Suresh Chandra, IAS, was nominated by the Government of India for appointment as Director on the Board of MFL in pursuance of Article 86 read with Article 88 of the Articles of Association of the Company in place of Shri. S Kabilan, IAS. Shri. Suresh Chandra was appointed as Director on the Board of the Company by the Board of Directors on January 31, 2000. As per the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri. Suresh Chandra will hold office only upto the date of the Annual General Meeting.

A Notice under Section 257 of the Companies Act, 1956 has been received proposing the appointment of Shri. Suresh Chandra as a Director, liable to retire by rotation.

None of the Directors is interested in the resolution, except Shri. Suresh Chandra as it concerns his appointment.

Item No. 4 : Appointment of Shri. Balvinder Kumar, IAS as Director

Shri. Balvinder Kumar, IAS, was nominated by the Government of India for appointment as Director on the Board of MFL in pursuance of Article 86 read with Article 88 of the Articles of Association of the Company in place of Shri. Ravi Mathur, IAS. Shri. Balvinder Kumar was appointed as Director on the Board of the Company by the Board of Directors at their meeting held on September 9, 1999. As per the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri. Balvinder Kumar will hold office only upto the date of the Annual General Meeting.

A Notice under Section 257 of the Companies Act, 1956 has been received proposing the appointment of Shri. Balvinder Kumar as a Director, liable to retire by rotation.

None of the Directors is interested in the resolution, except Shri. Balvinder Kumar as it concerns his appointment.

Item No. 5 : Sitting Fee to Directors

Per Article 91(b) of the Articles of Association of the Company, a Sitting Fee of Rs. 500 is payable for each meeting attended by Directors other than full time Directors of the Company or full time employee of the Shareholders or of any State Government or Public Undertakings in India.

The Companies Act, 1956 provides for a maximum sitting fee of Rs. 2,000 for each Board or Committee Meeting attended by Directors. It is therefore proposed to amend the existing Article 91(b) to have an enabling provision for payment of Sitting Fee not exceeding the limit prescribed under the Companies Act, 1956.

Amendment of Articles of Association requires consent of the Shareholders by Special Resolution.

The Board recommends passing of the Special Resolution.

By Order of the Board

Date : March 1, 2000
Place : Chennai - 68

B. SUKUMAR
Company Secretary

DIRECTORS' REPORT

The Shareholders

Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 33rd Annual Report together with the Balance Sheet as on September 30, 1999 and the Profit & Loss Account for the year 1998-99. The Accounting Year 1998-99 is an 18 month period covering Apr 1998 thru Sep 1999.

FINANCIAL RESULTS

The overall corporate results for the extended Accounting Year 1998-99 is a loss of Rs. 7.09 Cr as against a loss of Rs. 55.35 Cr during the previous year of 12 month period. It is gratifying to note that the Company was able to earn a Cash Profit of Rs. 68.82 Cr. during the period under review against Cash Loss of Rs. 44.62 Cr in the previous year. Thus, a turn-around in the performance of the Company was achieved as can be seen from the table below:

	(Rs. Cr)	
	1998-99 (18 months)	1997-98 (12 months)
Turnover	1754.18	546.77
Profit Before Interest, Depreciation and Tax	240.05	12.80
Interest	186.65	59.00
Depreciation	60.49	9.15
Profit / (Loss) Before Tax	(7.09)	(55.35)
Provision for Tax	—	—
Profit / (Loss) After Tax	(7.09)	(55.35)
Cash Profit / (Loss)	68.80	(44.62)

DIVIDEND

In view of the accumulated loss of Rs. 61.66 Cr as of Sep 30, 1999, your Directors do not recommend dividend for the year 1998-99.

1998-99... A YEAR OF RECOVERY AND CONSOLIDATION

The Year 1998-99 witnessed recovery and consolidation of operations of the Company. Production stabilised gradually and the Company started earning profits from

Dec '98 onwards. The major bottleneck limiting Urea plant load was in the Urea Prill Tower modified per UTIC's design. With MFL's own efforts, the limitation in the Prill Tower was gradually overcome. During the Annual Turnaround of the Plants (Apr - May 99) certain modifications were carried out in the Prill Tower in-house which enabled the Company to achieve the Urea Plant load of 100% on a sustained basis. Performance of Ammonia and Urea Plants with Capacity Utilisation of 110% and 108% respectively during Jul 99 established a new Benchmark for Production and Capacity Utilisation.

A Sub-Committee of Directors was formed in May 98 to closely review periodically Company's Operations and to take decisions required to improve performance in Short Term and Long Term. All round efforts have turned the Company around and changed the whole gamut of its operations. The morale of the employees has been revived and team spirit has been fortified. There is new confidence to set and collectively achieve high goals.

FINANCIAL ASSISTANCE CUM CAPITAL RESTRUCTURING (FACR)

Towards middle of 1998, the Company was facing serious liquidity problem due to Cash Loss of Rs. 45 Cr incurred in 1997-98, expenditure incurred on stabilisation of the Revamped Plant and gap of Rs.75.81 Cr in the Project funding. Due to the above, the Debt Equity Ratio had reached a high level, overdues to various Creditors had mounted and the Company became vulnerable to Cash Deficit and Repayment Defaults.

The Company, therefore, initiated in Jun 98 a proposal seeking Financial Assistance and Capital Restructuring by GOI and Financial Institutions (FIs). The Company, by Dec 98, developed a 'Financial Assistance-cum-Capital Restructuring' (FACR) Proposal in consultation with the lead Financial Institution, Industrial Development Bank of India (IDBI) for approval by FIs and GOI.

The proposal seeks relief from the FIs in terms of reschedulement of repayment of Term Loans, Restructuring of Interest Rates and pre-payment of Foreign Currency Loan. The assistance sought from GOI includes write-off of interest on Plan Loans for two years (1997-99), write-off of a portion of Plan Loans against accumulated losses after the restructuring, conversion of balance Plan Loan into '5% Non-Cumulative

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Redeemable Preference Equity Capital' and permission to sell the Urea Produced by the Company under ECA. Overdues to Madras Refineries Limited (MRL) as on 31.3.99 was to be converted into a Term Loan. Commercial Banks with SBI in the lead, were requested to increase the Cash Credit and L/C Limits for the Company to meet the increased Working Capital requirements.

While the FIs, MRL and Commercial Banks have approved their part of the FACR Proposal, the same is currently under active consideration of GOI.

The gap of Rs.75.81 Cr in the Revamp Project funding was tied up during 1998-99 by Non-Convertible Debentures (Rs 14.81 Cr) and additional Plan Loan from GOI (Rs 61 Cr). It is worthy of mention that the cash profit of Rs 68.80 Cr achieved during the period Apr 98 - Sep 99 has partially eased the Company's liquidity position.

Your Company has entrusted a study on Cost Reduction to M/s S B Billimoria, a reputed firm of Chartered Accountants. Their initial findings are under review.

INCREASE IN AUTHORISED SHARE CAPITAL

During the year under review, the Authorised Share Capital of the Company was increased from Rs175 Cr to Rs365 Cr by addition of 19,00,00,000 Preference Shares of Rs10 each to enable conversion of Govt. of India Loans into Preference Capital and infusion of funds by Govt of India as a part of the FACR Package.

PRICE CONCESSION SCHEME / RETENTION PRICING

In Dec 1998, the Govt of India announced the Revised Concession Rates for various Decontrolled P&K Fertilizers retrospectively from 1.4.98. Your Company was benefited on account of 'N' content being recognised for pro-rating the concession rates in respect of Complex Fertilizers.

The Govt of India also enhanced the MRP of Urea effective 29.1.99 by Rs340/MT from Rs 3660/MT to Rs 4000/MT. Urea continues to be under the Retention Pricing Scheme. The extended Sixth Pricing Period for Urea ended on 30.6.97. The Policy for the Seventh Pricing Period is yet to be announced.

In respect of the Decontrolled P&K Fertilizers, GOI has held the MRPs at the same level from Apr 1997. With

effect from Oct '98, GOI has decided to review Concession Rates for P&K Fertilizers every quarter based on prices of Imported Ammonia, Phos Acid, MOP and Exchange Rates. Currently the 80% on-account Claims are being settled by GOI based on provisional Concession Rates. Final Concession Rates from Oct 1998 onwards are yet to be announced and 20% Concession Claims are yet to be settled by GOI.

UREA PRILL TOWER

The Urea Prill Tower modified as per UTIC's design continues to be a bottleneck with prill temperature around 75 to 85 deg C. Monsanto Enviro-Chem System Inc, USA (MECSI), a Monsanto Company who have acquired in Feb 1999 world-wide rights to license UTIC's Urea Technology, offered to rectify the problems in the Prill Tower on turn-key basis including replacement of fans and re-engineering and modification of the System. The cost of rectification work, estimated at US \$ 1.1 M would initially be borne by MECSI, to be reimbursed by MFL on successful demonstration of the performance of the Prill Tower duly certified by a Third Party. MOU in this regard was signed in Jun '99 and an Agreement concluded on Oct 20, 1999. The rectification Project is expected to be completed by the middle of the year 2000 along with the next Turnaround.

Proposal for installation of a New Natural Draught Prill Tower is also being pursued simultaneously as a fall back arrangement.

CAPACITY UTILISATION

	Annual Installed Capacity	1998-99			Capacity Utiln %	1997-98	
		(Apr 98- Mar 99)	(Apr 99- Sep 99)	(Apr 98- Sep 99)		(Apr 97- Mar 98)	Capacity Utiln %
		12 months	6 months	18 months		12 months	%
Ammonia	346.50	260.06	140.37	400.43	77.0	83.60	44.5
Urea	486.75	327.98	183.15	511.13	70.0	63.71	26.2
Urea for Sale	242.35	260.32	173.03	433.35		62.72	
NPK	840.00	732.91	402.80	1135.71	90.1	458.68	63.0
Products for sale	1082.35	993.23	575.83	1569.06		521.40	

Performance of the plants for the two years is not comparable due to extended hook-up shut-down during the year 1997-98.

Madras Fertilizers Limited

NEW PRODUCTION & MOVEMENT RECORDS

New records in daily, monthly and yearly production and movement were created in 1998-99 as could be seen below:

(MT)

DAY

Production			Movement
Urea	NPK	All Products	
1552	3720	6297	
Jun 18, 1999	Dec 30, 1998	Jul 31, 1998	

(MT)

MONTH

Production			Movement
Ammonia	Urea	Total Products for sale	All Products
31839	43695	116765	124162
Jul 1999	Jul 1999	Jan 1999	Jan 1999

(MT)

YEAR

Production				Movement
Year	Ammonia	Urea	Total Products for sale	All Products
1998-99	260062	327982	993229	1050598
Previous Best	230706	288670	801000	1014247
Year	1980-81	1986-87	1995-96	1990-91

FERTILIZER SALES

MFL achieved an all time record sale of 11.18 lac MT of Fertilizers during the period Apr 1998 to Mar 1999 against the previous best of 10.10 lac MT achieved in 1990-91, despite lower volumes of imported fertilizers handled during the year. The sale of manufactured VIJAY fertilizers including Urea during the period Apr 1998 to Mar 1999 was the highest at 10.56 lac MT, the previous best being 8.53 lac MT achieved in 1994-95. MFL continued this trend and achieved a record sale of 5.41 lac MT during Kharif 1999, surpassing the previous best of 5.13 lac MT achieved in Kharif 1998. Overall, MFL achieved sales of 16.59 lac MT during the extended financial year upto Sep 1999 as could be seen below:

('000 MT)

	1998-99			1997-98
	(Apr 98- Mar 99)	(Apr 99- Sep 99)	(Apr 98- Sep 99)	(Apr 97- Mar 98)
	12 months	6 months	18 months	12 months
Manufactured Products				
Complex / DAP	804.42	384.36	1188.78	405.85
Urea	255.98	144.24	400.22	52.76
Traded Products				
DAP	18.52	—	18.52	73.09
MOP	38.89	12.78	51.67	123.90
Total (Mfd & Traded)	1117.81	541.38	1659.19	655.60

Your Company is aware of the intensive competition in the market consequent to commissioning of new Fertilizer Production Capacities in the country in the recent past and is fully geared up to meet the challenges.

IMPORT OF UREA

GOI granted permission to MFL to import 1.5 lac MT of Urea from Apr 1998 to Mar 1999 and 2.4 lac MT during Apr 1999 to Mar 2000 for use in production of complex fertilizers. This has helped MFL in containing the increasing cost of production of its complex fertilizer NPK 17-17-17. During the 18 months period under review, MFL imported about 2.5 lac MT of Urea. During the period Apr 98 to Sep 99, the price of Naphtha was increased by 58.09% and that of Furnace Oil by 59.91%. A Custom Duty of 5% was levied w.e.f. Feb 28, 1999 on imported Raw Materials like Phos Acid, MOP & Urea. There has been further weakening of Rupee with the parity reaching Rs. 43.5/US \$. There has been no change in MRP of the Complex Fertilizer, however Price Concession was increased by GOI in respect of NPK 17-17-17 by Rs 177/MT.

AGROCHEMICALS

During the 12 months period of Apr 1998 to Mar 1999, the Company achieved a turnover of Rs 7.77 Cr in Agrochemicals as against a plan of Rs 30 Cr. For the period Apr 1999 to Sep 1999, MFL has achieved a turnover of Rs 2.93 Cr. Lower turnover was due to resource crunch faced in procurement of raw material / products from various sources under Loan Licensing Scheme and other trading arrangements.

In 1997-98, the Company commenced marketing of eco-friendly Neem pesticides manufactured by M/s Fortune Bio-tech Ltd., Secunderabad under the Brand Name 'Vijay Neem'. The Company sold 193 KL of Vijay Neem

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during Apr 1998 to Sep 1999 against 50.26 KL sold during Sep 97 to Mar 98 in a developing market against stiff competition from the established brands.

BIO-FERTILIZERS

With the three Biofertilizer Units located at Manali, Bangalore and Vijayawada producing at their rated capacity, production during 1998-99 (18 months) was 520 MT. In spite of stiff competition, sale of Biofertilizers touched a new record at 504 MT during 1998-99. The Company, by utilising additional Grant-in-Aid of Rs. 13.5 lacs provided by Govt of India, increased the Annual Capacity of Bangalore and Vijayawada Units from 100 MT to 150 MT and has requested Govt of India further Grant-in-Aid to enhance the production capacity of the Manali Unit.

AGRICULTURAL AND PRODUCT PROMOTIONAL ACTIVITIES

During the year, MFL has conducted 16 Block Demonstration Programs, each in Tamilnadu, Andhra Pradesh and Karnataka. The program activities involved soil sample collection, lab testing, demonstration and recommendations to the Farmers for suitable fertilizers.

Your Company's Video Film on Package of Practices for Groundnut, titled "Kadalayum Kalyanamum" (Groundnut and Marriage) was adjudged as the best entry for the year 1998 by the Fertilizer Association of India.

TRIBAL DEVELOPMENT PROGRAMS

In order to supplement Government's efforts for upliftment of Tribals, MFL implemented 3 Tribal Development Programs one each in Tamil Nadu, Andhra Pradesh and Karnataka whereby 420 tribal families were benefited. During various programs, Tribal Farmers were oriented on effective use of fertilizers for increasing crop yield. Demonstrations were carried out besides free distribution of Fertilizer Mini-kits, Agrochemicals, Hybrid Seeds and Fruit Saplings. Further, as a Social Welfare measure, MFL arranged free supply of Smokeless Chulas, Water Storage Tanks and Raincoats to the Tribal Farmers. Uniforms, Books and Note-books were also issued to Tribal children and free Medical Check-ups were arranged for them. Also, visits of Tribal Farmers to Agricultural Research Stations were organised to impart them first-hand information on the latest agricultural practices.

PUBLIC DEPOSIT

During the year, the Company obtained special approval from the Dept of Company Affairs, Govt of India to receive Public Deposits upto a maximum limit of Rs. 61.60 Cr till Mar 2001. The approval is subject to the following conditions:

- i. The Company will keep only those deposits where depositors have no objection.
- ii. While obtaining no objections of the depositors, the Company will disclose to the depositors its *financial position and also the fact that deposits are in excess of limits as per Rule 3 of Companies (Acceptance of Deposits) Rules, 1975.*
- iii. The exemption / extension granted will be without prejudice to any legal rights available to any depositor or any shareholder or creditor as per law in force in respect of recovery of any amount which has become due for repayment.
- iv. The exemption / extension would be under Sub-Section (8) of Section 58-A of the Companies Act, 1956 only and such exemption / extension would not convey approval of Central Govt under any other provisions of the Companies Act, 1956 or under any other Law in force.
- v. The above conditions subject to which the *extension of time / exemption is granted should be intimated to the depositors within one month of the receipt of this communication and also indicated in the next report of the Board of Directors and*
- vi. If any of the conditions attached to the exemption / extension granted by the Company Law Board under Section 58A(8) of the Companies Act, 1956 is contravened, the exemption / extension will automatically stand cancelled and the Company will become liable for prosecution.

During the year 1998-99 (18 months), the Company received Rs. 42.15 Cr from public including Rs 26.55 Cr towards fresh deposits and Rs. 15.60 Cr towards renewal. Total deposit with the Company as of Sep 30, 1999 is Rs 54.01 Cr against the approved eligible limit of Rs.61.60 Cr. However, after reckoning the loss of around Rs. 7.09 Cr during the year 1998-99, Company's eligibility for Public Deposits stands revised to Rs 59.17 Cr. A sum of Rs 14.5 lacs remain unclaimed as Sep 30, 1999 for which action has been initiated for repayment / renewal.