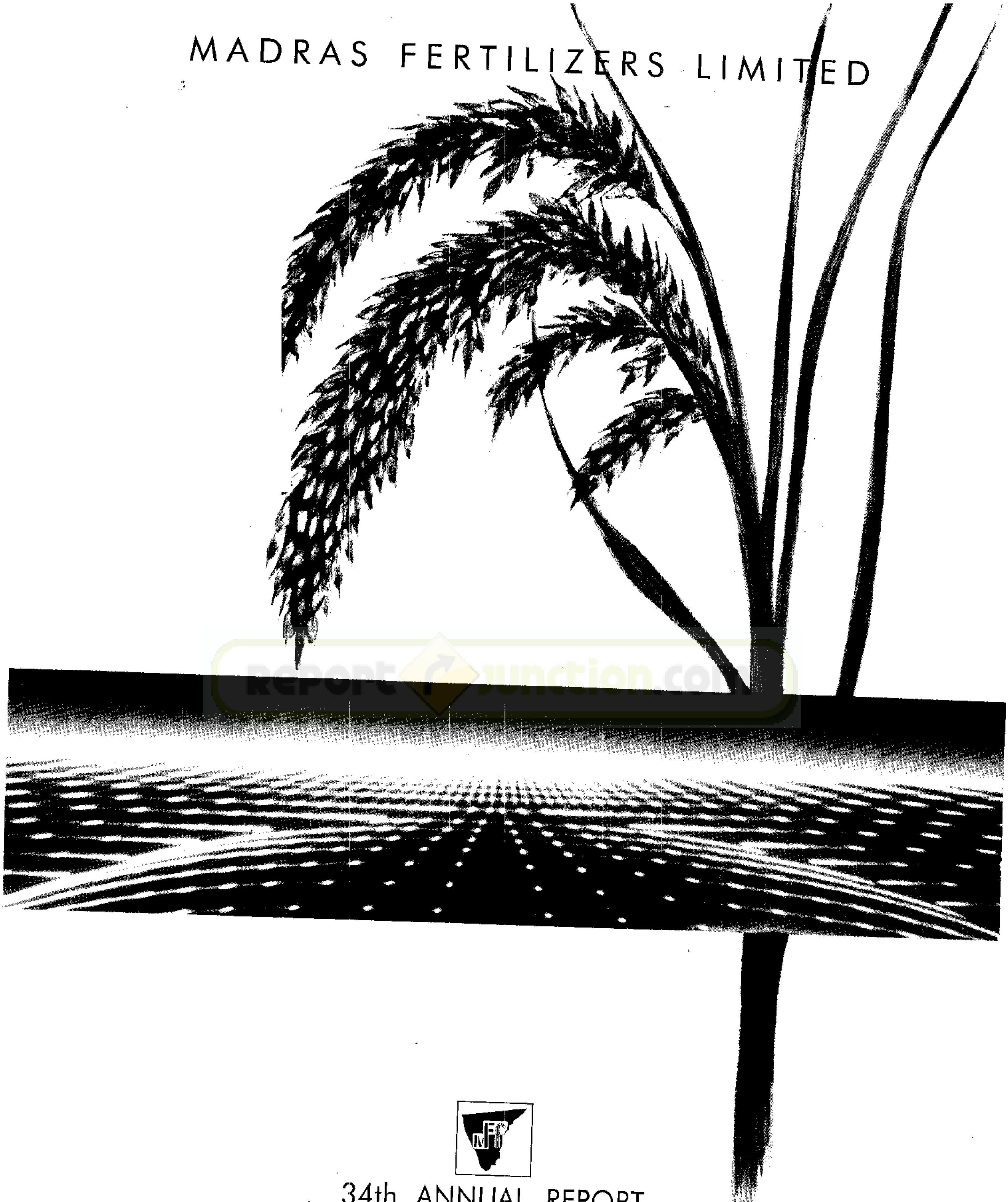
MADRAS FERTILIZERS LIMITED

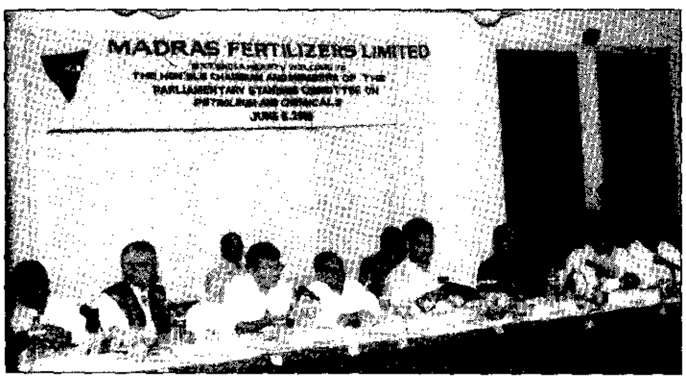


34th ANNUAL REPORT
1999-2000

Memorandum of Understanding for 2000-2001 was signed by Shri A V Gokak, Secretary, (Fert.) Govt. of India and Shri N Y Mahajan, CMD in Mar 2000.

Plant Visit by Estimate Committee, Lok Sabha in Feb 2000

MFL dedicating School Building to TDP Village, Kombaikadu, Tamil Nadu



Discussion with Parliamentary Standing Committee on Petroleum and Chemicals in Jun 2000.

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 M B Samiei Khonsari

Executives
Shri N Y Mahajan
Chairman & Managing Director

Shri T Radha Krishnan, IAS
Chief Vigilance Officer

Shri R R Pandalai
Executive Director (P & A)

Shri N Mahatvaraj
Executive Director (Marketing)

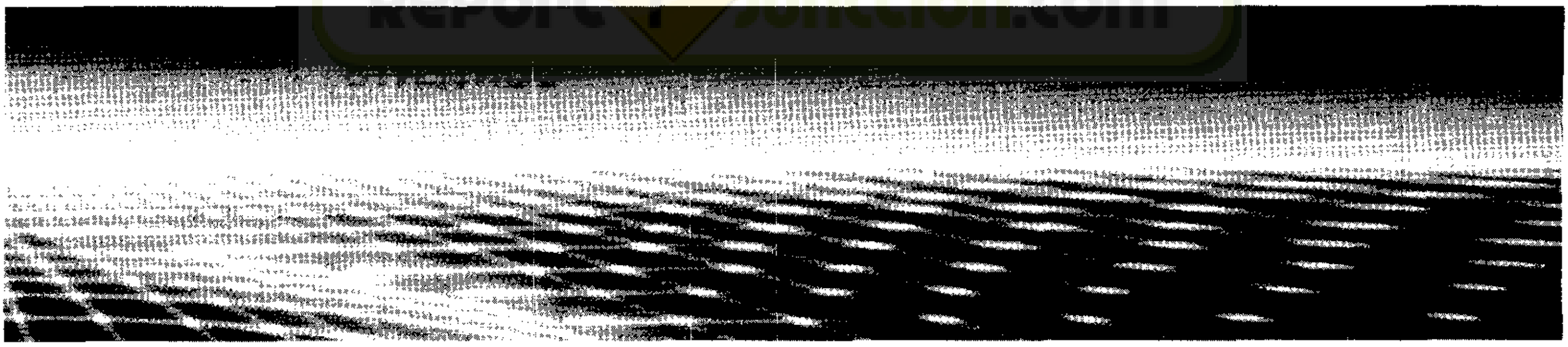
Shri S Periyasamy
Executive Director (Commercial)

Shri P S Neelakantan
General Manager (Technical)

Shri D Sadagopan
General Manager (Operations)

Shri G Natesan
Coordinator (F & A)

Shri B Sukumar
Company Secretary



Registered Office
Manali, Chennai-600 068
Tamil Nadu, India

Principal Bankers
State Bank of India
State Bank of Patiala
State Bank of Hyderabad

Auditors
Padmanabhan Prakash & Co.
Chartered Accountants
5, Smith Road
Chennai-600 002

CONTENTS

Madras Fertilizers Limited

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

Notice

NOTICE is hereby given that the 34th Annual General Meeting of the Company will be held at 3 p.m.on Thursday, Sep 21, 2000 at Image Auditorium, No. 3,Thandavaraya Gramani Street, Behind Iyappan Temple, M R C Nagar, R A Puram, Chennai - 600 028 to transact the following businesses:

Ordinary Business

1. To receive and adopt the Audited Profit & Loss Account of the Company for the period from Oct 1, 1999 to Mar 31, 2000 and the Audited Balance Sheet as at Mar 31, 2000 together with the Directors' Report and Auditors' Report thereon.

2. To appoint a Director in the place of Shri Suresh Chandra, IAS, who retires by rotation and is eligible for reappointment.

3. To appoint a Director in the place of Shri Balvinder Kumar, IAS, who retires by rotation and is eligible for reappointment.

4. To appoint a Director in the place of Shri N. Athimoolam, IAS, who retires by rotation and is eligible for reappointment.

Special Business

5. To consider and, if thought fit, pass with or without modification, the following resolution as a special resolution:

   "RESOLVED that pursuant to Section 293(1) (d) of the Companies Act, 1956 and Article 44 of the Articles of Association of the Company, the Board of Directors be and are hereby authorised to borrow, notwithstanding that monies to be borrowed and already borrowed by the Company (apart from *temporary loans obtained in the ordinary course of* business) may exceed the aggregate of the paid up capital of the Company and the free reserves, that is to say, reserves not set apart for any specific purpose, if any, but subject to the conditions that the total borrowings outstanding at any time shall not exceed Rs. 550 Cr (Rupees Five Hundred and Fifty Crores)

   AND FURTHER RESOLVED that Article 44 of the Articles of Association of the Company be and is hereby amended by substituting Rs. 550 Cr (Rupees Five Hundred and Fifty Crores) in place of Rs. 500 Cr (Rupees Five Hundred Crores)".

By Order of the Board

Date : August 23, 2000 — B. SUKUMAR
Place: Chennai - 68. — Company Secretary

Note:

1. A member entitled to attend and vote at the meeeting 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 6 days from Sep 16 to 21, 2000 (both days inclusive).

4. Members are requested to immediately intimate any change in their addresses registered with the Company.

5. All correspondence relating to Company's Equity Shares may be addressed to M/s. Integrated Enterprises (India) Ltd, 46/3 Vijayaraghava Road, T. Nagar, Chennai - 600 017, Company's Shares Transfer Agent and Depository Registry.

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.

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956

Item No. 5 : Enhancement of Borrowing Power

As per the existing powers delegated to the Board by the Shareholders, the Company can borrow funds upto a maximum of Rs. 500 Cr. The outstanding borrowings as on 31.3.2000 is Rs. 473 Cr.

However, considering the proposed Plan loan of Rs. 25 Cr from GOI during 2000 - 2001 for various ongoing Capital Schemes and to take care of interest accrual in case Financial Assistance cum Capital Restructuring Proposal is delayed, the present borrowing limit of Rs. 500 Cr may not be sufficient. Hence, approval of the Shareholders is being sought for increasing the Borrowing Power of the Company from the existing limit of Rs. 500 Cr to Rs. 550 Cr.

None of the Directors is interested in the Resolution.

By Order of the Board

Date : August 23, 2000
Place: Chennai - 68.

B. SUKUMAR
Company Secretary

DIRECTORS' REPORT

The Shareholders
Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 34th Annual Report together with the Balance Sheet as on March 31, 2000 and the Profit & Loss Account for the year 1999-2000.

COMPANY'S PERFORMANCE

The overall Corporate results for the 6 months accounting period Oct 99 - Mar 2000 is a Net Profit of Rs 6.33 Cr as against loss of Rs 7.09 Cr during the 18 months period 1998-99. Thus in the year 1999-2000, the Company could achieve turnaround after two years of difficult and testing period as could be seen from the table below :

(Rs Cr)

	1999-2000 (6 months)	1998-1999 (18 months)
Turnover	637.02	1754.18
Profit Before Interest, Depreciation and Tax	83.00	240.05
Interest	56.29	186.65
Depreciation	20.38	60.49
Profit / (Loss) Before Tax	**6.33**	**(7.09)**
Provision for Tax	–	–
Profit / (Loss) After Tax	**6.33**	**(7.09)**
Cash Profit / (Loss)	**31.82**	**68.80**

Several new records were established in production which bear eloquent testimony to the determination, commitment, and team spirit demonstrated by MFLers. The Company's production performance during 1999-2000 (Apr 1999 to Mar 2000) was the best ever at 3,01,182 MT of Ammonia, 4,03,760 MT of Urea and 8,11,260 MT of NPK. As the Company had extended the accounting year 1998-99 to 18 months last year (Apr 98 to Sep 99), the year 1999-2000 cover 6 months period Oct 99 to Mar 2000. During the period under review (Oct 99 - Mar 2000), your Company achieved capacity utilisation of the Plants as indicated below on sustained basis:

Plant	Production (MT)	Capacity Utilisation
Ammonia	1,60,811	92.8%
Urea	2,20,614	90.7%
NPK	4,08,460	97.3%

Highest daily Urea Production of 1,559 MT representing 105.7% capacity utilisation was achieved on Jan 16, 2000. An impressive performance was noticed in NPK Plant with 78,325 MT production during Mar 2000 representing capacity utilization of 111.9%.

Sale of 5.10 lac MT was achieved despite failure of monsoon in prime marketing territories in Tamilnadu, Andhra Pradesh and Karnataka and stiff competition in the market due to excess availability of products compared to demand.

DIVIDEND

Though the Company earned a profit of Rs 6.33 Cr during the year, in view of the carried over loss of Rs 54.31 Cr as of March 31, 2000, your Directors do not recommend dividend for the year 1999-2000.

CHALLENGES AHEAD

1. There has been substantial increase in the indigenous production capacity of DAP and Complexes by competitors of MFL.
2. A shift in consumer preference to DAP and NP products has been seen in the South, with the share of Complexes shrinking in terms of P_2O_5.
3. During 2000-01 Company has a formidable task of selling nearly 14 lac MT of fertilizer products including 1.9 lac MT of Inventory carried over from 1999-2000. Proactive and aggressive marketing strategy would have to be adopted to liquidate the high product inventory at the earliest.
4. In the Railway Budget for 2000-01, GOI has announced 48% increase in freight for Complex Fertilizers which has affected MFL profitability by Rs 6.25 Cr. Besides, increase in Excise and Customs Duty announced in Union Budget will put additional burden of Rs 2.5 Cr. These increases are not likely to be compensated by GOI in Subsidy.
5. As the Company has to start repayment of loans to FIs and pay interest at stepped up rates, profitability

and liquidity would be under strain from the year 2000-01.

6. Removal of Quantitative Restrictions specially on Urea as per the provisions of the Agreement of Agriculture (AOA) of WTO from Apr 2001, will expose domestic Urea producers, particularly Naphtha based Plants to competition from imports. Also a wide disparity in cost of energy in the ratio of 1:3 exists in the Country between Gas based and Naphtha based Urea Plants.

7. Phased decontrol of Urea and withdrawal of Retention Price Cum Subsidy System in medium Term by GOI aimed at reducing Fertilizer Subsidy.

MFL has to have multi-pronged strategy for sustaining its viability and achieving growth so as to ensure maximization of Shareholders' value. The immediate thrust would be to improve profitability by stabilizing operation of the Plants at around 100% capacity utilization levels on sustained basis and reducing cost in various areas of Company's Operations.

In order to achieve the above objective, it would be necessary to tie-up cost effective raw materials and increase the volume of production, especially the decontrolled NPK Fertilizers in appropriate product mix with minimum investment to meet the market requirement. This would improve viability and profitability of operations thru utilization of the existing production and marketing infrastructure. Stepping up trading of fertilizer products, Agrochemicals and other Farm Inputs will help to reduce per Unit Overhead Cost and help in effective absorption of Fixed Costs.

Your Company has formed an exclusive Task Force to chalk out Strategy to meet the challenges of WTO and Decontrol of Urea.

OUTLOOK

With the rectification of Urea Prill Tower by Monsanto Enviro Chem System, USA by Dec 2000 and replacement of several critical equipment like Heat Exchangers and implementation of various cost reduction measures including optimisation of manpower and approval of Financial Assistance Cum Capital Restructuring (FACR) proposal by GOI, profitability of the Company's Operations is expected to improve towards consistent growth.

CAPACITY UTILISATION

Plant	Annual Installed Capacity	Oct 1999 - Mar 2000 (6 months)		Apr 1998 - Sep 1999 (18 months)	
		'000 MT	Capacity Utilisation %	'000 MT	Capacity Utilisation %
Ammonia	346.50	160.81	92.82	400.43	77.0
Urea	486.75	220.61	90.65	511.13	70.0
Urea for Sale	242.35	209.07	-	433.35	-
NPK	840.00	408.46	97.25	1135.71	90.1
Products for Sale	1082.35	617.53	-	1569.06	-

CONSERVATION OF ENERGY

Though no additional investment was made towards Conservation of Energy during the year 1999-2000, thru improvement in the capacity utilization and trimming operations of the Plants, a reduction in energy consumption was realized during the year 1999-2000 as could be seen from the table below:

Energy Consumption	Ammonia		Urea	
	Oct 1999 - Mar 2000	Apr 1998 - Sep 1999	Oct 1999 - Mar 2000	Apr 1998 - Sep 1999
Gcal / MT	10.66	11.32	8.29	9.14
Reduction	5.8%		9.3%	

UREA PRILL TOWER MODIFICATIONS

Subsequent to signing of Agreement with Monsanto Enviro-Chem System Inc. USA (MECSI) for rectification of problems in the Urea Prill Tower on Turn key basis including replacement of fans, re-engineering and modification of the system at an estimated cost of US $ 1.1 million, MECSI have placed order for new fans in Feb 2000. Company is taking necessary steps to ensure completion of the modification work by Dec 2000. On implementation of this Project, a major bottleneck limiting Urea production would be overcome resulting in improved capacity utilisation and profitability of the Company.

PRICE CONCESSION SCHEME / RETENTION PRICING

In the Budget for 2000-2001, the GOI has announced upward revision of MRP for Urea, MOP and DAP with effect from 29.2.2000 with consequent reduction in subsidy. MRP have been increased by 15% for Urea and MOP and by 7.2% for DAP. Accordingly, MRP of MFL's Vijay

17-17-17 increased from Rs 7200/MT to Rs 7680/MT (6.6%).

As regards retention prices for Urea, the extended Sixth Pricing ended on 30.6.97 and Seventh Pricing commenced from 1.7.97. GOI is yet to announce the Policy and norms for these periods. Also, FICC is yet to fix the retention price for MFL post-Revamp. Details of accounting of subsidy on Urea pending the above announcement are given in the Accounts.

For two Quarters of Rabi 1998-99 (Oct 98 - Mar 99) final concession rates with reduction in concession rates for Phosphatic Fertilizers were announced on Mar 7, 2000. Accordingly, a reduction in the income of Rs 6 Cr has been reckoned in the accounts. Similarly, for 3 quarters Apr - Dec 99, final concession rates involving yet another reduction were announced by GOI on May 1, 2000. This has affected income to the extent of Rs 9.17 Cr which has also been reckoned in the accounts. The reduction in concession rates were based on variation in international price of Ammonia, Phos Acid and exchange rates. Whereas in case of MFL, margin on NPK 17-17-17 eroded due to steep increase in price of Naphtha and Furnace Oil during this period warranting increase in rate of concession.

(Rs. / MT)

Period	Naphtha	Furnace Oil
Oct 98	7235.75	5604.95
Apr 99	7532.39	5086.97
Oct 99	11860.45	8593.15
Apr 2000	13727.84	11154.35
Increase	89.7%	99%

FERTILIZER SALES

MFL achieved a sale of 5.10 Lac MT of fertilizer products during Oct 1999 - Mar 2000. This is a significant achievement considering failure of season in prime marketing areas. The sales during the period is second best next to 6.02 Lac MT achieved during corresponding period last year.

Sale of 1.92 Lac MT of Vijay Urea during Oct 1999-Mar 2000 is a new record surpassing the previous best of 1.55 Lac MT achieved in Oct 1998 - Mar 1999.

Announcement of increase in MRPs of fertilizers on Feb 29, 2000, instead of at the beginning of Kharif Season i.e. Apr 1 as per established practice, badly affected fertilizer sales during Mar 2000. Further Karnataka Government on Mar 27, 2000 announced withdrawal of 4% ST and 5% Cess on ST for all fertilizers effective Apr 1, 2000 which also affected sale of Vijay 17-17-17, in the State during Mar 2000.

Scanty rainfall in MFL prime marketing territory (TN, AP & KN) also resulted in a change in cropping pattern, which in turn affected off-take of Vijay 17-17-17. All the above factors led to large closing inventory of 1.9 Lac MT as of Mar 31, 2000.

IMPORT OF UREA

For the year 1999-2000, MFL received permission to import upto 2.4 lac MT of Urea for use in Complex Fertilizers. Nearly 2 lac MT of Urea was imported during the year. This has helped MFL in containing the increasing cost of production of NPK 17-17-17.

IMPORTS HANDLING

Urea, MOP and Phosphoric Acid imported by MFL during Oct 1999 thru Mar 2000 are as follows:

Product	No. of Shipments	Quantity (Lac MT)
Urea	7	1.34
MOP	5	1.42
Phos Acid	9	1.37

AGROCHEMICALS

During the 6 months period Oct 1999-Mar 2000, the Company achieved a turnover of Rs 2.68 Cr against a turnover of Rs 9.75 Cr achieved during the 18 months period of the previous year. The lower turnover was due to paucity of funds and season failure.

BIOFERTILIZERS

Sale of 136 MT of Biofertilizers was achieved during the six months period Oct 1999-Mar 2000 compared to 513 MT during 18 months period of 1998-99. The production of 128 MT was restricted to the extent of orders received.

AGRICULTURAL AND PRODUCT PROMOTIONAL ACTIVITIES

MFL conducted 39 Farmer Contact Programs, 21 Block Demonstrations, 18 Audio Visual Van Programs and 13 Crop Seminars for Fertilizers. In respect of Biofertilizers, the Company conducted 64 Demonstrations and 25 Special Campaigns. In respect of Neem products, the Company conducted 21 Jeep Campaigns, 8 Crop Seminars and 106 Demonstrations. The number of beneficiaries of the above programs / demonstrations is around 75,000 of which 4,000 beneficiaries belong to SC / ST.

TRIBAL DEVELOPMENT PROGRAMS (TDP)

Under the TDP Unit in Tamilnadu, MFL distributed school uniforms and other materials to 53 children and helped construction of school building at Kombaikadu in Dindigul District. Besides, MFL distributed school uniforms and other liveries to 91 children to the school attached to TDP Program in Karnataka. Also, MFL distributed fruit saplings to farmers free of cost in the TDP areas.

COST REDUCTION MEASURES

Cost reduction is the hallmark of profitable operations in a competitive business environment. Hence, Company has been striving to achieve cost reduction in all areas of operations. In this direction, recommendations made by the Consultant are under review for implementation. Major area of concern is high interest cost. Besides the FACR proposal, the Company has initiated action for substitution of high cost debts with low interest cost debt.

FINANCIAL ASSISTANCE CUM CAPITAL RESTRUCTURING (FACR)

The FACR Proposal finalised by the Company in consultation with IDBI was submitted in Jan 1999 to GOI for approval. After approval in the Dept of Fertilizer in Aug 1999, the proposal is under consideration in the Ministry of Finance. A decision on the same is expected shortly. The FACR when approved will reduce the interest cost substantially to the Company besides improving Net Worth of the Company. Approval of the FACR proposal will also facilitate the Company in getting much better credit rating and other related benefits.

PUBLIC DEPOSIT

During the year 1999-2000 (6 months period), the Company mobilised a sum of Rs 5.6 Cr as fresh deposits from Public. The total deposit as of March 31, 2000 is Rs 58.77 Cr against the eligible limit of Rs 59.17 Cr. A sum of Rs. 22.42 lacs remains unclaimed as of March 31, 2000 for which action is being taken for repayment/renewal.

DISINVESTMENT BY GOI

Subsequent to the invitation of 'Expression of Interest' from Merchant Bankers in Aug 1999, the appointment of Global Adviser for Disinvestment in MFL is under the consideration of GOI.

MEMORANDUM OF UNDERSTANDING

Per MOU with Govt of India, performance of your Company qualifies for "Very Good" rating for the year 1999-2000 (12 months period Apr 1999 to Mar 2000). The MOU for Apr 2000 to Mar 2001 was signed with GOI on 31.3.2000.

VIGILANCE

The thrust of the Vigilance activities during the year was scrutiny of sensitive areas of operation and review and amendment of Policy Matters pertaining to employees, based on the Guidelines issued by the Central Vigilance Commission, Govt of India and observations made by the Vigilance Cell.

ISO 14001

The Company has initiated action to get ISO 14001 Certification during the year 2000-01. A core team formed has commenced preparation of necessary documents. Selection of a Consultant is in progress.

WTO

As you may be aware though Agreement on Agriculture with WTO may not significantly affect the decontrolled P&K fertilizer segment on removal of Quantitative Restrictions, it is likely to affect the domestic Urea producers especially the Naphtha based Companies. It is hoped that the GOI would take necessary steps to protect the interest of the domestic Urea industry with suitable Tariff Barriers and rationalization of feedstock pricing while meeting the commitments towards WTO.

PERSONNEL

The Voluntary Retirement Scheme (VRS) was reintroduced in Mar 2000 during the 6 months period under review. 10 employees opted for VRS. Thus totally 152 employees