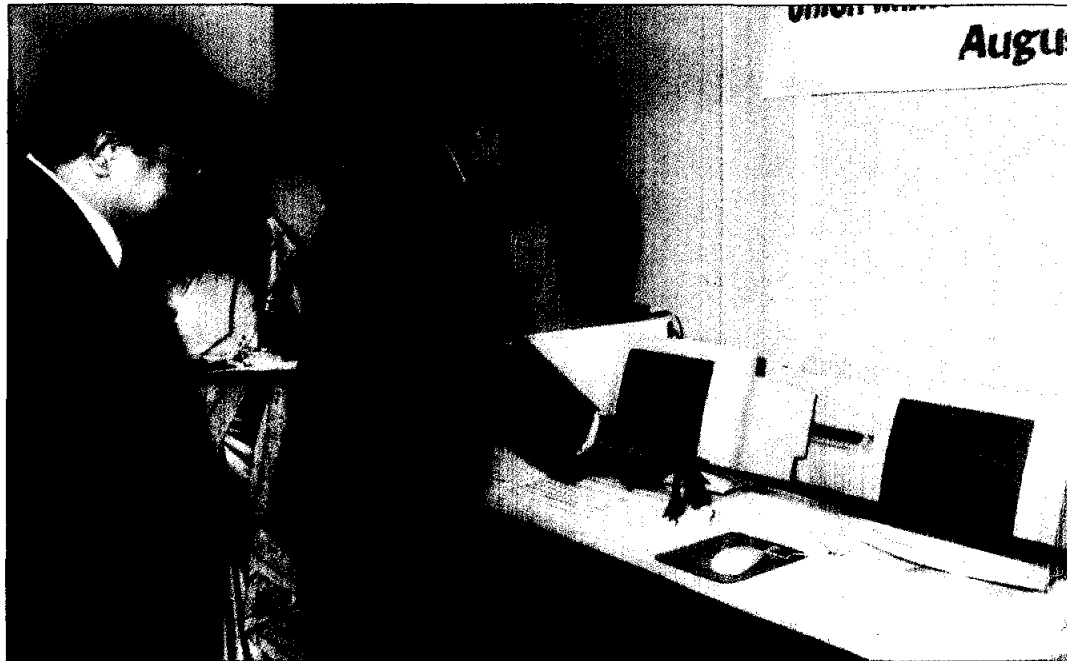


MADRAS
FERTILIZERS
LIMITED





Shri Suresh P. Prabhu, Honourable Minister for Chemicals and Fertilizers launching MFL Website (Aug 28, 2000)



Committee on papers laid on the table, Rajya Sabha holding discussions with Company's Officials (Jan 8, 2001).



Shri A.K. Kundra, Chairman Tariff Commission visiting MFL Plant (Mar 30, 2001).



BOARD OF DIRECTORS

Chairman & Managing Director

Shri U S Jha

Directors

Shri Suresh Chandra, IAS

Shri P K Wadhwa

Shri M B Pranesh, IAS

Shri S Gopalan

Shri P M Kale

Mr S M Mortazavi

Mr M B Samiei Khonsari

Mr R Afshin

Executives

Shri U S Jha

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 D Sadagopan
Executive Director (Operations)

Shri P S Neelakantan
General Manager (Technical)

Shri G Natesan
Coordinator (F & A)

Shri B Sukumar
Company Secretary

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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



Madras Fertilizers Limited

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

Notice

NOTICE is hereby given that the 35th Annual General Meeting of the Company will be held at 3 P.M. on Thursday, the 13th September 2001 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 April 1, 2000 to March 31, 2001 and the Audited Balance Sheet as at March 31, 2001 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 consider and, if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution:

"RESOLVED that a remuneration of Rs 1.25 lacs be and is hereby fixed for the Statutory Auditors to be appointed / reappointed by Comptroller and Auditor General of India for the year 2001-02 and the Statutory Auditors shall hold office from the conclusion of this AGM till the conclusion of the next AGM".

"AND FURTHER RESOLVED that Board of Directors of the Company be and is hereby authorized to fix the remuneration of the Statutory Auditors of the Company for the year 2002-03 and thereafter as recommended by the Audit Committee".

Special Business

4. To consider and, if thought fit, pass with or without modification, the following resolution as an Ordinary Resolution :

"RESOLVED THAT Shri P K Wadhwa 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 an Ordinary Resolution :

"RESOLVED THAT Shri M B Pranesh, IAS be and is hereby appointed as Director of the Company."

By Order of the Board

Date : August 13, 2001
Place : Chennai 600 068

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 4 days from 10.9.2001 to 13.9.2001.
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, 5A, II Floor, Kences Tower, Ramakrishna Street, Off North Usman Road, T Nagar, Chennai – 600 017, Company's Shares Transfer Agent and Depository Registry.
6. 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.
7. Members may please note that NO GIFTS will be distributed at the meeting.

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

Item No. 4 : Appointment of Shri P K Wadhwa as Director

Shri P K Wadhwa was nominated by the Government of India for appointment as Director in pursuance of Article 86 read with Article 88 of the Articles of Association of the Company in the place of Shri Balvinder Kumar, IAS. Shri P K Wadhwa was appointed as Director on the Board of the Company by the Board of Directors at their meeting held on July 1, 2001. As per the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri P K Wadhwa 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 P K Wadhwa as a Director, liable to retire by rotation.

None of the Directors is interested in the resolution, except Shri P K Wadhwa as it concerns his appointment.

The Board recommends passing of the Ordinary Resolution.

Item No. 5 : Appointment of Shri M B Pranesh, IAS as Director

Shri M B Pranesh was nominated by the Government of India for appointment as Director in pursuance of Article 86 read with Article 88 of the Articles of Association of the Company in the place of Shri N Athimoolam, IAS. Shri M B Pranesh was appointed as Director on the Board of the Company by the Board of Directors at their meeting held on July 31, 2001. As per the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri M B Pranesh 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 M B Pranesh as a Director, liable to retire by rotation.

None of the Directors is interested in the resolution, except Shri M B Pranesh as it concerns his appointment.

The Board recommends passing of the Ordinary Resolution.

By Order of the Board

Date : August 13, 2001
Place : Chennai 600 068

B SUKUMAR
Company Secretary



DIRECTORS' REPORT

The Shareholders Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 35th Annual Report together with the Balance Sheet as on March 31, 2001 and the Profit & Loss Account for the year 2000-01.

COMPANY'S PERFORMANCE

During the year 2000-01 the Company has recorded highest Sales Turnover of Rs 1404.81 Cr surpassing the previous highest of Rs 1230.04 Cr during the 12 months period of 1999-2000 (Apr 1999 to Mar 2000). The Turnover for 6 months period of 1999-2000 (Oct 1999 to Mar 2000) is Rs 637.02 Cr. However, the operation during the year 2000-01 resulted in a Net Loss of Rs 29.76 Cr as against a Net Profit of Rs 6.33 Cr during 6 months accounting period Oct 1999 – Mar 2000 and Rs 24.98 Cr during 12 months period Apr 1999 – Mar 2000. The all-round improvements achieved during the year 1999-2000 could not be sustained during the year 2000-01 for various reasons. The main reasons were shortfall in production of Urea and NPK, seasonal failure and reduction in contribution for NPK. The other factors which contributed for the loss were higher specific consumption of raw materials, higher interest cost, exchange rate variation and rebates and discounts.

| | (Rs Cr) | |
|---|------------------------|-------------------------|
| | 2000-01 (12 months) | 1999-2000 (6 months) |
| Turnover | 1404.81 | 637.02 |
| Profit Before Interest, Depreciation and Tax | 142.10 | 83.00 |
| Interest | 130.36 | 56.29 |
| Depreciation | 41.50 | 20.38 |
| Profit / (Loss) Before Tax | (29.76) | 6.33 |
| Provision for Tax | - | - |
| Profit / (Loss) After Tax | (29.76) | 6.33 |
| Cash Profit reckoning DRE | 21.86 | 31.82 |

DIVIDEND

In view of the accumulated loss of Rs 84.07 Cr., dividend is not considered by Directors.

CHALLENGES AND PROSPECTS

The Indian Fertilizer Industry in general and MFL in particular are currently passing through an uncertain and difficult period. A new long term Fertilizer Policy, ultimately leading to total decontrol of Fertilizer Sector by the year 2006 is envisaged by the Govt of India. The new Fertilizer Policy will have significant impact on all Naphtha based Urea producers including MFL. Further, Quantitative Restrictions (QR) on Urea have been removed effective 1.4.2001 pursuant to the provisions of WTO Agreement on Agriculture. Though the way it has been implemented now, it does not affect indigenous urea producers, but in future it will have serious impact on domestic Urea producers especially Naphtha based units like MFL.

In the Union Budget 2001, GOI has announced the proposal for replacement of the Unitwise Fertilizer Price Scheme for Urea by Groupwise Concession Scheme w.e.f. 1.4.2001 as recommended by Expenditure Reforms Commission (ERC). The adverse impact of implementation of ERC recommendation on MFL even in modified form is estimated to be around Rs 1070/MT of Urea which would translate into a loss of Rs 50 Cr per annum. This may pose a major threat to the viability of MFL.

Though various cost reduction measures including some identified by M/s S B Billimoria have been implemented, the balance need to be implemented without any further loss of time. Urea Prill Tower modification by Monsanto (MECSI) scheduled for 2001-02 and implementation of various Annual Plan Schemes are expected to improve capacity utilization and energy efficiency in Ammonia and Urea plants and reduce down-time.

PLANT PERFORMANCE

Capacity Utilisation

| Plant | Annual installed Capacity '000 MT | Apr 2000 – Mar 2001 (12 months) | | Oct 1999 – Mar 2000 (6 months) | |
|-------------------|-----------------------------------|------------------------------------|------------------------|-----------------------------------|------------------------|
| | | '000 MT | Capacity Utilisation % | '000 MT | Capacity Utilisation % |
| Ammonia | 346.50 | 298.00 | 86.0 | 160.81 | 92.82 |
| Urea | 486.75 | 401.57 | 82.5 | 220.61 | 90.65 |
| Urea for Sale | 242.35 | 401.57 | - | 209.07 | - |
| NPK | 840.00 | 731.45 | 87.1 | 408.46 | 97.25 |
| Products for Sale | 1082.35 | 1133.02 | - | 617.53 | - |

While production performance was satisfactory during the second and fourth quarter, poor performance in the first quarter owing to equipment problem and Annual Turn-around of 26 days had adversely affected overall performance of the year. As compared to the targets, there was a shortfall of 36,430 MT in the production of Urea and 1.14 lac MT in NPK. Whereas a major part of the shortfall in Urea production occurred in the first quarter, NPK production had to be restricted during Oct 2000 to Mar 2001 due to high product inventory consequent to monsoon failure.

Owing to limited sales potential for NPK 17-17-17, production of alternate complex grades NPK 19-19-19, 14-28-14 and 20-20-0 to the tune of 1.1 lac MT was taken up during the year, which helped the Company in maintaining production as well as sales volume.

Performance record for the year 2000-01 (Apr 1, 2000 – Mar 31, 2001)

- The highest daily Urea production of 1,615 MT representing 109% capacity was achieved on Aug 13, 2000.
- Urea for sale of 4,01,570 MT during 2000-01 is the highest since inception.
- Ammonia production of 2,98,000 MT during the year was the second best.
- NPK 'B' Train production of 2,38,832 MT during the year was the second best.

CONSERVATION OF ENERGY

The energy consumption has shown improvement in the second and fourth quarters but for the year as a whole, there was increase in energy consumption compared to 1999-2000. With the anticipated consistency in production performance after the scheduled turnaround 2001, the targeted energy consumption efficiency might be achieved.

UREA PRILL TOWER MODIFICATIONS

Installation of New Prill Tower Fans

During the TAR 2001, all the eight Prill Tower Fans along with the Motors were replaced by Monsanto Enviro-Chem System Inc (MECSI) with new Fans procured from M/s Howden Buffalo, USA and Motors procured from

M/s Siemens. In addition, ducting modifications and modifications in the plenum chamber to improve free flow of air to the individual fan were also carried out.

Urea Reactor inspection

In view of MECSI's advice to inspect the Urea Reactors at the next convenient plant outage as Ammonia to CO₂ mole ratio being lower than the design, it has been decided to arrange for inspection of Urea Reactors during this Turn-around.

PRICE CONCESSION SCHEME / RETENTION PRICING

Whereas there has been no revision in the MRP of fertilizer products during the year 2000-01, GOI had announced in Jul 2000 final rates for the quarter ending Mar 2000 with the increase amounting to Rs 0.94 Cr. It may be noted that whereas any increase in price of imported Ammonia and Urea is reckoned in fixing the subsidy dispensation, the increase in cost is not considered in respect of indigenous Ammonia and Urea leading to under recovery.

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. However, an adhoc recovery of Rs 313/MT with effect from 1.4.2000 has been announced by FICC, which has been reckoned in the Accounts for 2000-01, pending fixation of post-Revamp Retention Price.

FERTILIZER SALES

Your Company achieved a record sale of 11.19 lac MT of fertilizer products during 2000-01 despite monsoon failure in Prime Marketing Territory and stiff competition, against a sale of 10.41 lac MT achieved in the previous year.

AGROCHEMICALS

MFL achieved a turnover of Rs 4.84 Cr in Agrochemicals during 2000-01 as against the turnover of Rs 4.74 Cr during the corresponding period last year.

SALE OF CARBON DI OXIDE

Agreements were signed with 4 new buyers for sale of 5,000 TPA of Medium Pressure Carbon Di Oxide and 20,500 TPA of Low Pressure Carbon Di Oxide. During the year 2000-01, the Company has sold Rs 1.85 Cr worth of



Carbon Di Oxide against Rs 1.54 Cr during the corresponding period last year.

BIOFERTILIZERS

MFL achieved a sale of 321 MT of Bio-fertilizers during 2000-01 against a similar sale of 321 MT achieved in the previous year.

MARKETING RECORD

Your Company achieved an all time record sale of 11.19 lac MT of fertilizers during 2000-01 surpassing the previous best of 11.14 lac MT achieved in 1998-99 despite monsoon failure in several parts of MFL Marketing Territory and stiff competition.

Sales of 3.99 lac MT of Urea achieved during the year is the highest against the previous best of 3.36 lac MT achieved in 1999-2000.

MFL also achieved a record sale of 50,800 MT of 19-19-19 against the previous best of 49,300 MT achieved in 1990-91 and also sold 29,300 MT of 20-20-0 during the year.

DISTRIBUTION RECORD

Products handled during the year reached all time high of 12.41 lac MT against the previous best of 12.04 lac MT achieved in 1999-2000. Road movement by the Company of 5.86 lac MT during the year is also the highest, previous best being 4.92 lac MT achieved in 1991-92.

MARKET DEVELOPMENT AND AGRO-SERVICE PROGRAMS

Your Company continued its stress on implementation of various market development and agro-service programs for the benefit of farmers in its Marketing Territory including farmers belonging to weaker sections of the society.

MFL organized three Tribal Development Programs, one each in Karnataka, Andhra Pradesh and Tamil Nadu. These programs together covered 677 tribal families. Several welfare measures were implemented for the economic upliftment of the tribal families, such as, construction of bus shelters, supply of furniture and utensils to schools, supply of rain coats to women labourers, hospital equipments to Public Health Centre, sprayers to local youth club and uniform and stationery to school children.

The Company distributed mini-kits of fertilizers, biofertilizers, neem pesticides and fruit seedlings. Health and Dental Care camps were also conducted by the Company.

MFL organized 24 Compact Block Demonstrations covering 296 acres involving 159 farmers including 26 belonging to SC/ST to demonstrate the importance of fertilizer application, efficient use of fertilizers and adoption of key management practices. The average yield under this program was 2,415 kgs. per acre compared to 1,769 kgs. per acre under control plots. One of the MFL demonstration plot farmers in Tamil Nadu got 6,060 kgs. per acre in paddy and was awarded the First Prize in district level crop yield competition.

Your Company also recognized the key role played by fertilizer dealers in communicating and disseminating knowledge on key agricultural practices to farmers. With this in view, MFL organized 25 Dealers Meet in various parts of marketing territory with participation of over 4,600 active dealers.

MFL achieved a record collection of 21,968 soil samples during the year besides another 6,000 soil samples from the Andhra Pradesh Government. Analysis results with follow-up services were provided to the farmers.

MFL organized 246 field demonstrations on the use of biofertilizers and neem pesticides in its continuing efforts to promote eco-friendly agro inputs to farmers. In addition to this, MFL also organized 304 farmer contact programs to communicate key management practices and effective use of agro inputs like fertilizers, biofertilizers and neem pesticides.

In order to solve specific problems of farmers on management practices or pests and diseases, MFL organized 26 crop seminars involving experts from Universities, Scientists and Specialists from the Agricultural Department.

MFL Audio Visual Vans made a wide coverage of 1,890 villages during 2000-01 and distributed 11.74 lac printed technical literature to farmers, besides audio visual communication through screening of educational films.

Overall, 1.35 lac farmers were covered through various promotional programs organized during 2000-01 against 1.20 lac farmers covered in the previous year.

FINANCIAL ASSISTANCE CUM CAPITAL RESTRUCTURING (FACR)

FACR Proposal finalized by the Company in consultation with the IDBI was submitted in Jan 1999 to GOI for approval. While the Financial Institutions, Chennai Petroleum Corporation Ltd and Commercial Banks have implemented the proposals pertaining to them during 1998-99, the proposal pertaining to Govt of India, in modified form, involving restructuring of interest rate and reschedulement of principal repayment is now under the active consideration in the Ministry of Finance, Govt of India.

PUBLIC DEPOSIT

During the year 2000-01, the Company mobilized a sum of Rs 20.07 Cr as fresh deposits from Public. The total deposit as of March 31, 2001 is Rs 61.05 Cr against the eligible limit of Rs 61.11 Cr. A sum of Rs 41.53 lacs remains unclaimed as of March 31, 2001 for which action is being taken for repayment / renewal. MFL has applied to the Dept of Company Affairs, Govt of India for extending the exemption for a further period of 2 years to accept / renew deposits upto Rs 61.39 Cr under the Companies Act, 1956.

DISINVESTMENT BY GOI

Information Memorandum is under finalisation by Global Advisor viz. ICICI Securities Ltd and Bank of America for disinvestment of 32.74% of Capital of the Company by GOI. 8 parties have responded to the Press Advertisement calling for 'Expression of Interest'.

FORFEITURE OF SHARES

It has been decided to forfeit 20,76,600 Equity Shares of Shareholders who have not paid the Allotment Money due of Rs 7.50 per share. These Shares were subscribed by them in the Public Issue of Shares in May 1997. Consequently, there is a minor change in the Shareholding Pattern effective Apr 24, 2001.

MEMORANDUM OF UNDERSTANDING

The Company entered into with Govt of India an MOU for 2001-02 committing the targets for performance of the Company, relating to Production, Sales, Finance, Projects & other parameters of operational improvement.

VIGILANCE

The major activities taken up by Vigilance were Review of high value contracts, surprise inspection of Field Units and preparation of Vigilance Manual. As per the directive of the CVC, Vigilance Awareness Week was celebrated from Oct 31 to Nov 4, 2000 during which several vigilance oriented programs were organized. Investigation into the shortage of imported Urea was a major work done by Vigilance during the year.

ISO 14001

With the completion of Pre-Certification Audit by M/s IRQS, the ISO 14001 Certification is expected to be achieved shortly.

PERSONNEL

The total manpower strength of the Company as on 31.3.2001 is 1548. Company received Grant-in-aid of Rs 6.54 Cr from the Dept of Fertilizers, Govt of India on Mar 28, 2001 for implementation of VRS. After adjustment of money paid / payable for the earlier 152 VR Optees, the Company proposes to implement the third tranche of Voluntary Retirement Scheme (Gujarat Model) after identification of surplus positions and manpower in the current financial year pursuant to the recommendation of IIMB.

RECRUITMENT OF SC/ST EMPLOYEES

During the period under review, out of 25 employees recruited, 6 employees belong to SC. The number of SC/ST employees as on 31.3.2001 was 277, which constitutes 17.89% of the total number of employees

EMPLOYEE RELATIONS

Industrial Relations were cordial. Govt of India approved revision of Pay Scales, Perquisites and Allowances for both Non-supervisors and Supervisors in Oct 2000 for 10 years period effective 1.1.1997. Wage Agreement was signed with the Madras Fertilizers Staff Union on Dec 6, 2000 and implemented effective 1.4.2000.

OFFICIAL LANGUAGE IMPLEMENTATION

Under Hindi Teaching Scheme, regular Hindi Classes were conducted for the benefit of Hindi-learning employees. So far 77 employees have passed Pragma Examination. Hindi