

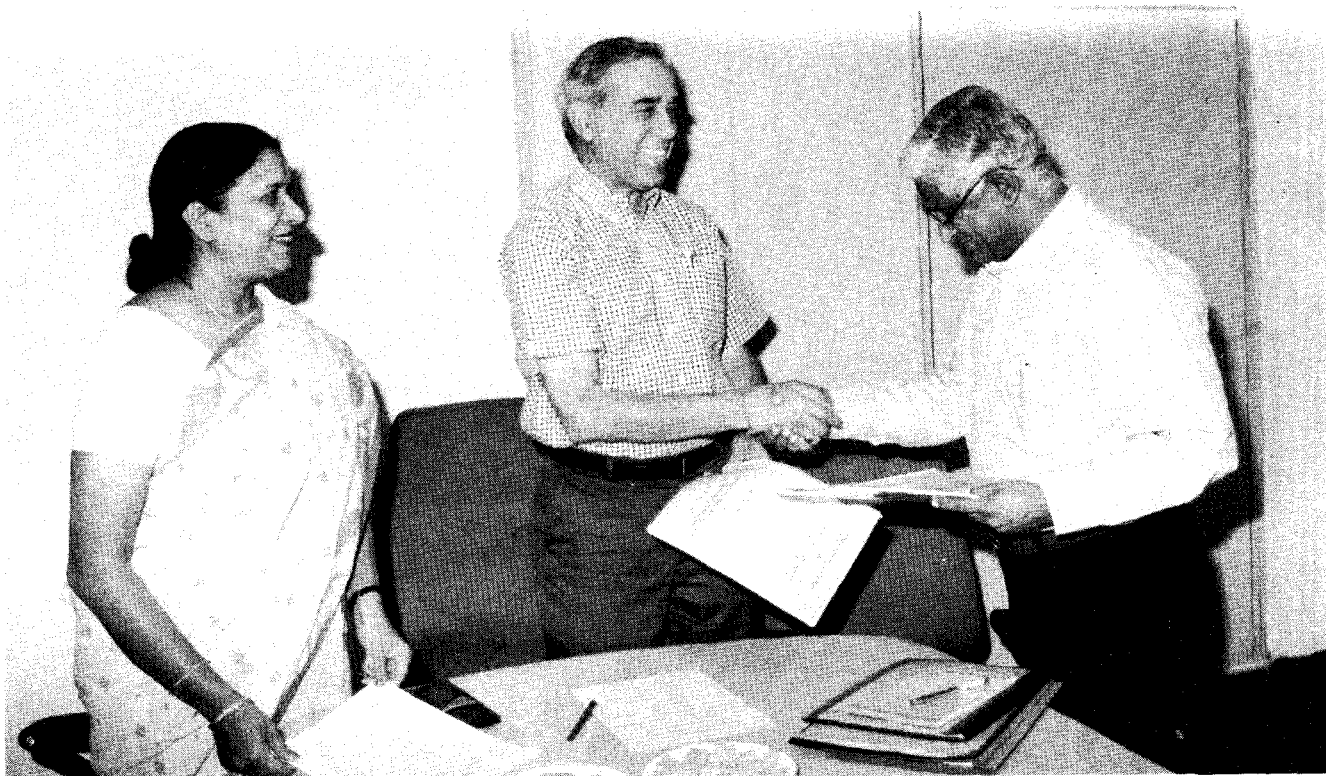


**37th
ANNUAL
REPORT**
2002-2003



MADRAS FERTILIZERS LIMITED

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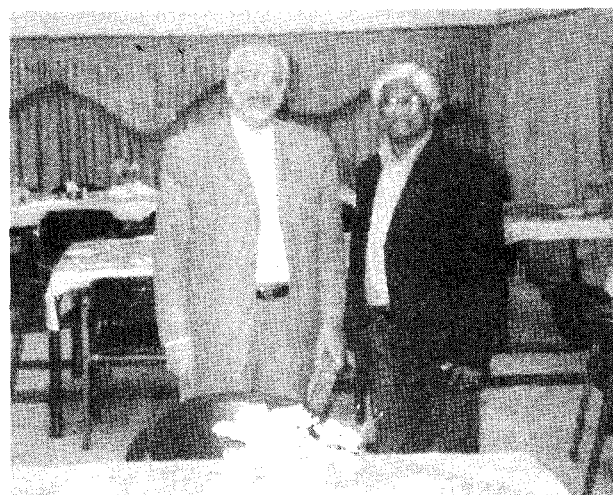
Shri Nirpendra Misra, Secretary, Dept. of Fertilizers and Shri Sukumar N Oommen, CMD, MFL signed MOU for 2003-04 at New Delhi on May 27, 2003.



Parliamentary Joint Committee on Food Management, Lok Sabha visited MFL on Feb. 3, 2003.



Parliamentary Committee on Petroleum and Chemicals visited MFL on Sep. 30, 2002



Shri Sukumar N Oommen, CMD, MFL with Mr. Mohammad Reza Nematzadesh, Hon. Deputy Minister and President, Ministry of Petroleum, Iran during the former visit to Iran in March 2003.



BOARD OF DIRECTORS

Chairman & Managing Director

Shri Sukumar N Oommen, IAS (Retd.)

Directors

Smt Suman Swarup, IAS

Shri Manoj Kumar, IAS

Shri K Kannan

Shri P M Kale

Shri Mahmood Vaezi

Shri M B Samiei Khonsari

Shri R Afshin

Board Sub Committee / Management Committee

Shri Sukumar N Oommen

Smt Suman Swarup

Shri K Kannan

Shri Mahmood Vaezi

Audit Committee

Smt Suman Swarup

Shri K Kannan

Shri M B Samiei Khonsari

Shareholders' / Investors' Grievance Committee

Shri Sukumar N Oommen

Shri K Kannan

Executives

Shri Sukumar N Oommen, IAS (Retd.)
Chairman & Managing Director

Shri S Balaji, IPS
Chief Vigilance Officer

Shri R R Pandalai
Executive Director (P & A)

Shri N Mahatvaraj
Executive Director (Marketing)

Shri P S Neelakantan
General Manager (Plant)

Shri G Natesan
General Manager (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

R Subramanian & Co
Chartered Accountants
Old No. 36, New No. 6,
Krishnaswamy Avenue,
Mylapore,
Chennai – 600 004



Madras Fertilizers Limited

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

Notice

By Order of the Board

NOTICE is hereby given that the 37th Annual General Meeting of the Company will be held at 3 P.M. on September 17, 2003 at Image Auditorium, No. 3, Thandavaraya Gramani Street, Behind Iyappan Temple, MRC Nagar, R.A. Puram, Chennai-600028 to transact the following businesses :

Date : August 1, 2003
Place : Chennai 600 068

B SUKUMAR
Company Secretary

ORDINARY BUSINESS

1. To receive and adopt the Audited Profit & Loss Account of the Company for the period from May 1, 2002 to March 31, 2003 and the Audited Balance Sheet as at March 31, 2003 together with the Directors' Report and Auditors' Report thereon.
2. To appoint a Director in the place of Shri Manoj Kumar, 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 the Board / Audit Committee be and is hereby authorised to fix such remuneration as it may decide for the Statutory Auditors to be appointed / reappointed by Comptroller and Auditor General of India for the year 2003-04 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 2004-05 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 :

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 7 days from 11.9.2003 to 17.9.2003.
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.

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

Item No. 4 Appointment of Smt. Suman Swarup, IAS as Director

Smt. Suman Swarup, IAS 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 Vijay Singh, IAS. Smt. Suman Swarup was appointed as Director on the Board of the Company by the Board of Directors effective April 22, 2003. As per the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Smt. Suman Swarup 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 Smt. Suman Swarup as a Director, liable to retire by rotation.

None of the Directors is interested in the resolution, except Smt. Suman Swarup as it concerns her appointment.

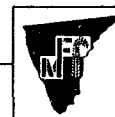
The Board recommends passing of the Ordinary Resolution.

By Order of the Board

Date : August 1, 2003
Place : Chennai 600 068

B SUKUMAR
Company Secretary





DIRECTORS' REPORT

The Shareholders

Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 37th Annual Report together with the Balance Sheet as on March 31, 2003 and the Profit & Loss Account for the year 2002-03.

SUMMARY OF FINANCIAL RESULTS

The Company has earned a pre-tax profit of Rs. 4.12 Cr against a loss of Rs. 66.10 Cr in the previous year. It is heartening to note that the Company is on the recovery path. Summary of results for two years viz 2001-02 (13 months) and 2002-03 (11 months) is shown below :

	(Rs Cr)	
	2002-03 (11 months)	2001-02 (13 months)
Turnover	1139.06	1097.93
Profit Before Interest, Depreciation and Tax	156.16	91.49
Interest	112.84	111.98
Depreciation	39.20	45.61
Profit/(Loss) Before Tax	4.12	(66.10)
Provision for Tax	-	-
Profit/(Loss) After Tax	4.12	(66.10)
Cash Profit/(Loss) reckoning DRE	73.39	(9.53)

The total accumulated loss as of 31.3.2003 amounts to Rs.146.05 Cr. The erosion of net-worth continues to be more than 50%. The Company would, therefore, fall under the review of Sick Industrial Companies (Special Provisions) Act.

DIVIDEND

Though the Company has earned a profit of Rs.4.12 Cr during the year, your Directors do not recommend any dividend in view of carried over loss of Rs.146.05 Cr as on March 31, 2003.

PLANT

The Company encountered a plethora of problems in the Plant until December 2003. This was largely on account of

inefficient operation of the Plant and lack of attention to Maintenance. The problems in major equipments such as Water Cooled Ammonia Condenser, Reformer Tubes, Primary Reformer, 110 ATA Boiler and UPS led to shutdown of 1238 hours in Ammonia Plant and 1707 hours in Urea Plant in 2002-03. The onstream factor of Ammonia and Urea Plants during the year was 90% and 81% respectively. This, however, is an improvement over the performance of the Plant in 2001-02 when Ammonia Plant was shutdown for 1927 hours and Urea Plant 2727 hours. The onstream factor during 2001-02 for Ammonia and Urea Plants was 78% and 68% respectively.

NPK Plant was shutdown for 4064 hours in 2002-03, as against 2870 hours in 2001-02. The Company restricted production of complex fertilizers on account of the inventory that had accumulated in the Field because of the unprecedented drought in 2002 in southern States. The inventory at the end of 2002-03 is 62,807 MT of Urea and 1,05,297 MT of complex fertilizers.

CAPACITY UTILIZATION

Ammonia production of 265011 MT and Urea production of 401249 MT during Apr 2002 to Mar 2003 was the third best performance after revamp. Ammonia Plant recorded 100% onstream in 4 months viz April to June 2002 and February 2003. The capacity utilization of Ammonia, Urea and NPK Plants is as follows :

Plant	Annual Installed Capacity '000 MT	May 2002-March 2003 (11 months)		Apr. 2001 - Apr. 2002 (13 months)	
		'000 MT	Capacity Utilisation %	'000 MT	Capacity Utilisation %
Ammonia	346.50	237.33	74.7	244.50	65.1
Urea	486.75	362.18	81.2	326.00	61.8
Urea for sale	242.35	-	-	326.00	-
NPK	840.00	351.98	45.7	636.20	69.9
Products for Sale	1082.35	714.16	72.0	962.20	-

ENERGY

Your Directors are conscious that the Plant should be more energy efficient.

There have been noteworthy improvements and innovations in the operation of equipments during the year. Some of these are :

- Improvements in CO₂ removal section (MDEA Based) leading to steam/chemical saving and better scrubbing

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efficiency. Monetary benefits in the range of Rs 2 Cr per annum achieved.

- Modified closed loop cooling system for synthesis loop ammonia condenser aimed at improving the exchanger reliability. Benefits estimated are close to Rs 1.3 Cr per annum.
- Improved performance of urea reactors realized at higher operating pressure of 220 Kg/CM².
- Streamlining of hydrolyser stripper operation, leading to improvement in capacity and recovery, a monetary benefit of Rs 1.16 Cr.
- Urea pump valued at Rs 4.0 Cr procured in 1998 was commissioned in 2002, thus permitting reliable operation of Urea Plant.
- Effective use of treated water up to 60% to minimize raw water usage. Raw water usage dropped from 3.25 Million KL in 2000-01 to 2.24 Million KL.

About 300 jobs have been identified during the Turnaround 2003. The manufacturers are being involved in the maintenance and repair of major equipments like K1901 Turbine, 110 ATA Boiler and K-111 CO₂ compressor

All these efforts have infused new confidence. Your Directors have no doubt that the Plant would be energy efficient from July 2003. The energy consumption of Ammonia and Urea Plant is estimated to be around 10.029 Gcal/MT and 7.35 Gcal/MT respectively after the Turnaround.

The Board has also constituted a Technical Committee to periodically review the performance of the Plant. The Company has been acting with promptitude on the recommendations of the Technical Committee.

CONSTRUCTION OF FLUIDIZED BED PRILL COOLING SYSTEM

Your Company is installing a Fluidized Bed Prill Cooling System, downstream of Prill Tower in order to achieve a prill temperature of 55 – 60 Deg Centigrade. The system would be commissioned in July 2003.

SALES

Fertilizers

Your Company could sell only 8.03 lac MT of fertilizer products during 2002-03 as against 9.70 lac MT in the

previous year, due to almost total failure of the monsoon in our Prime Marketing Territory. However, during Rabi 2002-03 a record sale of 2.24 lac MT of Vijay Urea was achieved surpassing the previous best of 2.12 lac MT during Rabi 2000-01. MFL also achieved sales of 3.58 lac MT of Vijay Urea during the year, which was the second highest sales after 3.99 lac MT during 2000-01. Your Company has also achieved the highest sale of 60341 MT of 19-19-19 during the year as against the previous best sales of 51219 MT during the year 2000-01.

Agrochemicals

The sales turnover of Agrochemicals was Rs 2.52 Cr during 2002-03 as against the turnover of Rs 4.49 Cr during the last year.

Biofertilizers

MFL sold 197 MT of Biofertilizers during 2002-03 as against 256 MT sold in the previous year.

Carbon-Di-oxide

During the year 2002-03, the Company has sold Carbon-di-oxide valued at Rs 2.40 Cr against Rs 1.91 Cr during the last year.

MARKET DEVELOPMENT AND AGRO-SERVICE PROGRAMS

MFL organized eight Block Demonstration Programs covering 102 acres of land involving 46 farmers (9 SC/ST farmers) to demonstrate the efficient use of fertilizers, the balanced fertilizer application and adoption of key management practices. Five Crop Seminars were held with the participation of experts from Agricultural Universities and Agricultural Departments of the State Governments.

The average yield of paddy under Demonstration Program was 2656 kg per acre compared to 2370 kg per acre under control plots, an increase of 12%.

Our field officers collected 21,000 soil samples during the year 2002-03.

MFL organized 72 field demonstrations on the use of Biofertilizers in its continuing effort to promote eco-friendly Agro input to farmers. In addition, MFL also organized 254 Farmer Contact Programs to communicate key farm management practices and efficient use of Agro-inputs like Fertilizers, Biofertilizers and Neem Pesticides.



MFL Audio Visual Vans traveled through more than 2,000 villages during 2002-03 and distributed 10 lac printed literature to farmers under various promotional programs.

Overall 1.85 lac farmers were covered through various Promotion Programs organized during 2002-03.

BENEFITS UNDER 7TH AND 8TH PRICING

Retention price of Urea for 7th and 8th pricing periods announced in October 2002 has been favourable to MFL. MFL accounted the retention price of Urea for earlier years on conservative basis pending payment of final retention price. Hence, the announcement during the year had resulted in substantial arrears income for the earlier years apart from increase in retention price in the current year 2002-03.

Simultaneously, a sum of Rs 67 Cr, which was being shown in earlier years as recoverable from FICC has been finally settled.

IMPACT OF GROUP RETENTION PRICING

The Group Retention Pricing for Urea recommended by Expenditure Reforms Commission (ERC) has been implemented with effect from 1.4.2003. MFL has been classified under Pre-1992 Naphtha based units and accordingly the Average Retention Price of the Group will become applicable to MFL.

As we understand the differential between the MFL's Retention Price and Group Average Retention Price is around Rs 4,000/MT, which is more than 20% of the Group Average. MFL has been classified as an "outlier" and is eligible for the outlier benefit of 50% compensation of the differential during the first year of introduction of Group Average Retention Price i.e 2003-04. Thus, MFL's under-recovery with introduction of Group Average Retention Price will be Rs 2,000/MT of Urea during 2003-04 amounting to around Rs 90 Cr on annualised basis and thereafter at around Rs 180 Cr (from 2004-05 onwards when the outlier benefit is withdrawn).

MFL has evolved a two-pronged strategy to meet the challenges arising out of introduction of Group Retention Pricing which are detailed below :

1 In-house Measures

a) Variable Cost

i. Naphtha

The specific consumption of Naphtha recognised under VIII Pricing is 0.466797/MT.

We hope to achieve Naphtha to Ammonia, specific consumption of 0.740/MT and Ammonia to Urea consumption of 0.585/MT. The resultant Naphtha consumption will be 0.4329/MT.

ii. Furnace Oil

The specific consumption of Furnace Oil recognised under VIII Pricing is 0.274092/MT. Again, we hope to achieve Furnace Oil consumption of 0.21356/MT (350 KL x 95% / 1475 MT).

iii. Other Utilities

a) Power

Rationalisation of demand charges is likely to result in savings of Rs 90 lac per annum.

b) Water

The ratio of Costlier Raw Water to Cheaper Sewage Water has improved from 60:40 to 40:60. This would result in reduction in the consumption of Costlier Raw Water thereby increasing the consumption of Cheaper Sewage Water.

b) Conversion Cost

Apart from the above Variable Cost, economy measures as suggested by M/s Billimoria and Company are in the various stages of implementation. The measures taken/proposed are given below:

i. Man Power Reduction

As on 31.03.2003, MFL has Manpower strength of 1364. MFL would by implementing and non-filling of vacancies arising out of normal attrition reduce the strength to 1200 before the end of the year 2003-04. This would result in an average saving of around Rs 6 Cr per annum.

ii. Other Savings and Cost Reduction Measures

- a Reduction in Overtime.
- b Rationalisation of distribution network and reduction in number of storage points.
- c Rationalisation of Transportation.
- d Reduction in interest on Public Deposits.
- e Reduction in Employee Transport Cost.
- f Switching-over from Medical Reimbursement to Medical Insurance (to be implemented).

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c) Capital Related Charges (CRC)**i) Interest Cost**

MFL liquidated the following Term Loans during 2002-03. This will reduce the interest cost by around Rs 32 Cr per annum.

a) National Fertilizers Limited

Term Loan of Rs 65 Cr resulting in an interest saving of around Rs 11 Cr per annum.

b) NIEP – Foreign Currency Loan

The entire outstanding loan of USD 45 Million borrowed for the purpose of Revamp Project has been liquidated in full, resulting in an interest saving of around Rs 14 Cr per annum.

c) CPCL

Term Loan of around Rs 47 Cr has been liquidated in full resulting in an interest saving of around Rs 7 Cr per annum.

ii) Deferred Revenue Expenditure

MFL had incurred an amount of Rs 99.77 Cr towards Deferred Revenue Expenditure (DRE) during 1997-98 when the Revamp Project was under execution. This expenditure was proposed to be amortised over a period of 10 years at the rate of around Rs 10 Cr per annum. Accordingly, the outstanding DRE as on 30.4.2002 was Rs 58 Cr, which was to be amortised over a period of 6 years. However, the Company has written off Rs 28.39 Cr towards Deferred Revenue Expenditure in 2002-03 since it has received revenue of earlier years under the 7th and 8th pricing. MFL proposes to amortise the entire outstanding DRE during 2002-03 and 2003-04 instead of 6 years. This would result in direct savings of Rs 10 Cr per annum from 2004-05.

PUBLIC DEPOSIT

The Company mobilized a sum of Rs 7.62 Cr as fresh deposit from the Public and repaid Rs 9.82 Cr during 2002-03. The total deposits as of 31.3.2003 is Rs 60.97 Cr as against the eligible limit of Rs 61.39 Cr. A sum of Rs 0.91 Cr remain unclaimed/unpaid at the end of the Financial Year. The Company has approached the Department of

Company Affairs to extend the exemption beyond 31.3.2003 to accept new deposits up to Rs 61.44 Cr. The approval from the Department of Company Affairs is awaited.

FINANCIAL ASSISTANCE CUM CAPITAL RESTRUCTURING (FACR)

Your Directors wish to inform that the Company has submitted a proposal to Government of India for Financial Assistance and Capital Restructuring. In brief, the Company has sought :

- Waiver of interest outstanding as on 31.3.2003 amounting to Rs 70.69 Cr
- Swapping of high-cost debt at 15% p.a to low-cost debt at 5% to 8% per annum in respect of total outstanding loan of Rs 219.40 Cr.

Reliefs are expected to be announced by July 31, 2003.

The reliefs from the Government of India need to be supplemented with concessions from FIs and Consortium of Commercial Banks to render MFL a viable unit.

In response to Company's request to the FIs to restructure its debt, the FIs have forwarded a "one-time settlement" (OTS) proposal. The Company could not accept the proposal as it was not in a position to raise funds to discharge its obligations under the first instalment. The Company has therefore, revived its proposal to restructure the debt.

The Company has also sought certain reliefs from Consortium of Commercial Banks.

DISINVESTMENT BY GOI/NIOC

NIOC has agreed on 27.5.2003 to disinvest all its shares in MFL (25.77%) along with a part of GOI shares (33.50%) in the first tranche of disinvestment. GOI has called for "Expression of Interest" from the interested strategic partners. The disinvestment is expected to be completed during the year 2003-04.

MEMORANDUM OF UNDERSTANDING

The Company entered into MOU with GOI for 2003-04 with commitments on targets for performance of the Company, relating to Production, Sales, Finance, Projects and other parameters of operational improvement including implementation of Voluntary Retirement Scheme.