

38th ANNUAL REPORT 2003-2004

Employee Productivity

Consumer Satisfaction

Energy Efficiency



MADRAS FERTILIZERS LIMITED



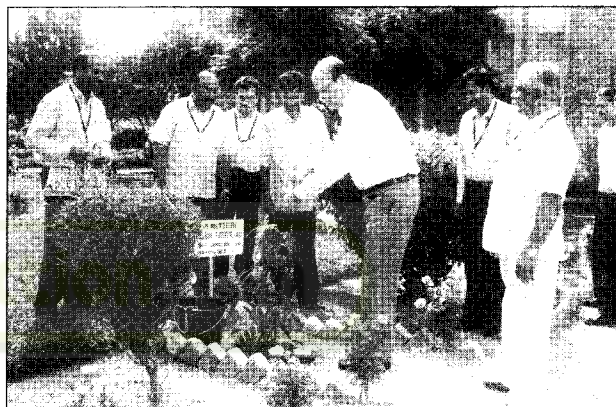
Shri Ram Vilas Paswan, Hon'ble Union Minister for Chemicals & Fertilizers and Steel in discussion with Senior Officials during his visit to MFL on Aug 1, 2004.



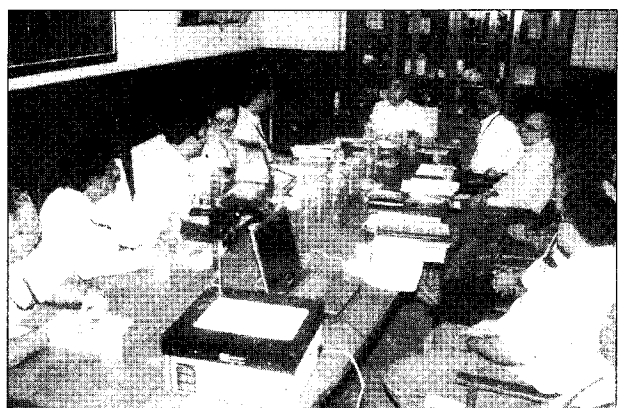
Shri Ram Vilas Paswan, Hon'ble Union Minister for Chemicals & Fertilizers and Steel inspecting products at Plant.



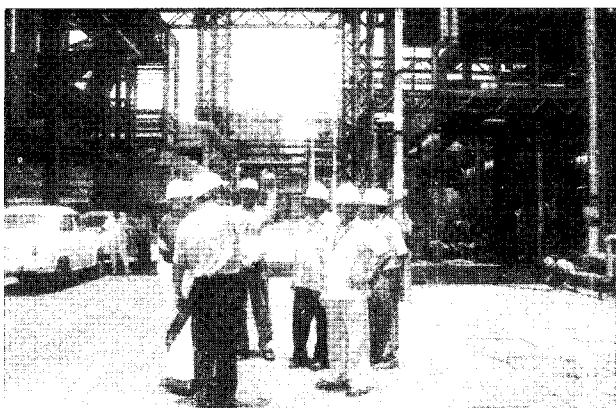
Shri Rahman Khan, Hon'ble Minister of State for Chemicals & Fertilizers visited MFL Plant on June 14, 2004.



Shri Lakshmi Ratan, IAS, Chairman, Tariff Commission planting a sapling in MFL Campus during his visit to MFL plant on Nov 4, 2003.



Shri Nirpendra Misra, IAS, Secretary, Dept. of Fertilizers reviewing MFL Performance on Oct 20, 2003.



Ms Gayathri Ramachandran, IAS, Addl. Secretary & Financial Advisor, Ministry of Chemicals & Fertilizers visited MFL Plant on June 7, 2004.



MADRAS FERTILIZERS LIMITED

BOARD OF DIRECTORS

Chairman & Managing Director

Shri Sukumar N. Oommen, IAS (Retd.)

Directors

Shri Ashok Chawla, IAS

Shri Manoj Kumar, IAS

Shri Mahmood Vaezi

Shri M B Samiei Khonsari

Shri R Afshin

Shri K Kannan

Shri G J Prasad

Shri S Srinivasan

Board Sub Committee / Management Committee

Shri Sukumar N Oommen

Shri Ashok Chawla

Shri Mahmood Vaezi

Shri K Kannan

Audit Committee

Shri Ashok Chawla

Shri M B Samiei Khonsari

Shri K Kannan

Shareholders' / Investors' Grievance Committee

Shri Sukumar N Oommen

Shri Mahmood Vaezi

Shri K Kannan

Executives

Shri Sukumar N Oommen, IAS (Retd.)

Chairman & Managing Director

Shri S Balaji, IPS

Chief Vigilance Officer

Shri P S Neelakantan

Executive Director (Technical)

Shri G Natesan

Executive Director (Finance)

Smt Ribu S Mathew

General Manager (M & D)

Shri P Thangaraju

General Manager (P & A)

Shri B Sukumar

Company Secretary &

Dy General Manager (Legal)

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MADRAS FERTILIZERS LIMITED

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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 and Company
Chartered Accountants
New No. 6, Krishnaswamy Avenue,
Luz, Mylapore, Chennai – 600 004



MADRAS FERTILIZERS LIMITED

Madras Fertilizers Limited

Regd Office: Manali, Chennai 600 068.

Notice

NOTICE is hereby given that the 38th Annual General Meeting of Madras Fertilizers Limited will be held at Kumararaja MAM Muthaiah Hall, (Near Chettinad Vidyashram) MRC Nagar, R A Puram, Chennai 600 028 at 3.00 p.m on Tuesday, December 21, 2004, to transact the following businesses:-

ORDINARY BUSINESS

1. To receive, consider, approve and adopt the Audited Balance Sheet as at March 31, 2004 and Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors 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 authorized to fix such remuneration as it may decide for the Statutory Auditors to be appointed / reappointed by the Comptroller and Auditor General of India for the year 2004-05 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 2005-06 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 Ashok Chawla, IAS be and is hereby appointed as Director of the Company".

5. To consider and, if thought fit, to pass with or without modification, the following Resolution as a Special Resolution:

"RESOLVED THAT pursuant to the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and subject to such approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any committee thereof for the time being exercising the powers conferred on the Board by this resolution), the consent of the Company be and is hereby accorded to the Board to delist the Company's Equity Shares from The Stock Exchange, Mumbai and The Madras Stock Exchange Ltd.

RESOLVED FURTHER that the Company continues listing of its shares / securities with The National Stock Exchange of India Ltd at Mumbai.

RESOLVED FURTHER that the Board be and is hereby authorized to take all necessary steps in this regard in order to comply with the legal and/or procedural formalities, including authorizing any Committee of Directors or any of the Directors / officers of the Company to do all such acts, deeds or things to give effect to the above".

By Order of the Board

B SUKUMAR

Date : November 22, 2004

Company Secretary &

Place : Chennai 600 068

DGM (Legal)

Note:

1. Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of Special Business of the Notice is annexed hereto.
2. 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.



MADRAS FERTILIZERS LIMITED

3. 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.
4. The Register of Members and Share Transfer Books of the Company will remain closed for 9 days from 13.12.04 to 21.12.04.
5. Members are requested to immediately intimate any change in their addresses registered with the Company.
6. All correspondence relating to Company's Equity Shares may be addressed to M/s Integrated Enterprises (India) Ltd, 5A, II Floor, Kences Tower, No.1 Ramakrishna Street, Off North Usman Road, T Nagar, Chennai – 600 017, Company's Share Transfer Agent and Depository Registry.
7. 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.
8. 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 Ashok Chawla, IAS as Director

Shri Ashok Chawla, 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 place of Ms. C R Gayathri, IAS. Shri Ashok Chawla was appointed as Director on the Board of the Company by the Board of Directors effective 1.10.2004. As per the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri Ashok Chawla 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 Ashok Chawla as a Director, liable to retire by rotation.

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

The Board recommends passing of the Ordinary Resolution.

Item No.5 : Voluntary Delisting of the Company's Equity Shares from the Stock Exchange, Mumbai and The Madras Stock Exchange Ltd

Presently the Company's Equity shares are listed on the following stock exchanges:

1. The Madras Stock Exchange Ltd (MSE)
2. The National Stock Exchange of India Ltd (NSE)
3. The Stock Exchange, Mumbai (BSE)

Consequent to technological developments, the shares of the Company are now traded all over India through on-line terminals by The National Stock Exchange of India Ltd (NSE). Trading volume of the Company's shares on the other stock exchanges are considerably low compared to the volumes traded on NSE. The continued listing of shares on the stock exchanges other than NSE no longer confers any advantage to the Shareholders / investors.

The Board of Directors at its Meeting held on October 28, 2004, has therefore decided to apply for the voluntary delisting of the Company's equity shares from all the stock exchanges excluding NSE.

The proposed delisting is in the interest of the Company and the Board recommends the Resolution for acceptance by the Members. None of the Directors of the Company is concerned or interested in the Resolution.

By Order of the Board

B SUKUMAR

Date : November 22, 2004
Place : Chennai 600 068

Company Secretary &
DGM (Legal)



MADRAS FERTILIZERS LIMITED

Details of Director/s seeking reappointment at the Annual General Meeting

Name of the Director	Shri Ashok Chawla, IAS
Date of Birth	08.01.1951
Date of Appointment on the Board	01.10.2004
List of other Companies in which Directorship held as on Sep 30, 2004	Director 1. Krishak Bharati Coop. Limited 2. National Fertilizers Limited
Qualification	M.A. (English Literature) M.A. (Economics) Diploma (Micro-level Planning) Belonged to 1973 IAS batch (Gujarat Cadre)
Present Position	Additional Secretary & Financial Adviser, Ministry of Chemicals & Fertilizers, Govt. of India.
Important Positions earlier held	Chairman & Managing Director, Indian Petrochemicals Corporation Limited. Joint Secretary, Department of Chemicals & Petrochemicals, Ministry of Chemicals & Fertilizers, Govt. of India. Industries Commissioner, Govt. of Gujarat. Managing Director, Gujarat Industrial Investment Corp. Limited. Managing Director, Sardar Sarovar Narmada Nigam Ltd., Gujarat. Economic Counsellor, India Embassy in Washington, USA.

Name of the Director	Shri Manoj Kumar, IAS
Date of Birth	02.10.1961
Date of Appointment on the Board	30.07.2002
List of other Companies in which Directorship held as on Sep 30, 2004	Director Paradeep Phosphates Limited
Qualification	Post-Graduate in Political Science and belonged to IAS 1988 Batch
Present Position	Director, Dept. of Fertilizers, Govt. of India
Important Positions earlier held	CEO, HIM UJRA (Himachala Pradesh Government Energy Development Agency) CEO & Member Secretary - State Council for Science, Technology & Environment. Commissioner, Simla Municipality



MADRAS FERTILIZERS LIMITED

DIRECTORS' REPORT

The Shareholders

Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 38th Annual Report together with the Balance Sheet as on March 31, 2004 and the Profit & Loss Account for the year 2003-04.

SUMMARY OF FINANCIAL RESULTS

The Company's operations for the year ended with a loss of Rs 63.74 Cr against profit of Rs 4.12 Cr in the previous year. The loss is attributable to the anomalies in the New Urea Pricing Policy and the delay in the implementation of the recommendation of the Tariff Commission with regard to the pricing of complex fertilizers. Further, production of complex fertilizers had to be curtailed due to acute liquidity problems and paucity of funds to procure Phos Acid, MOP and Ammonium Sulphate.

Results for 2003-04 and 2002-03 are summarized below:

	(Rs Cr)	
	2003-04	2002-03
	(12 months)	(11 months)
Turnover	1139.75	1139.06
Profit Before Interest, Depreciation and Tax	46.20	156.16
Interest	66.76	112.84
Depreciation	43.18	39.20
Profit/(Loss) Before Tax	(63.74)	4.12
Provision for Tax	-	-
Profit/(Loss) After Tax	(63.74)	4.12
Cash Profit/(Loss)*	12.40	73.39

* reckoning Deferred Revenue Expenditure

The total accumulated loss as of 31.3.2004 stands at Rs 208.79 Cr. This indicates complete erosion of Net Worth. The Company has become sick under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). A reference would accordingly have to be made to BIFR.

IMPACT OF NEW POLICY MEASURES

The New Pricing Scheme for Urea units approved by Govt of India replacing the Retention Pricing Scheme was implemented with effect from April 2003. MFL has been classified under Pre-1992 Naphtha-based units and accordingly the Average Concession Rate of the Group will be applicable to MFL.

As the difference between the MFL's Retention Price and Group Average Retention Price is around Rs 4,006/MT, which is more than 20% of the Group Average, MFL has been classified as an "outlier" and was eligible for the "outlier" benefit of 50% compensation of the differential during the first year of introduction of New Pricing Scheme i.e. 2003-04. Consequently, MFL's under recovery due to the introduction of Group based Concession Scheme was around Rs 2003/MT of Urea during 2003-04 amounting to around Rs 74 Cr.

Thus, the New Urea Pricing Policy implemented by GOI from 1.4.2003 has severely affected the profitability of MFL. Company has represented to DOF that MFL has received inequitable treatment in the New Urea Pricing Policy on

- energy norms adopted for 2003-04.
- inadequate compensation for depreciation on the investment of Rs 601 Cr made for the Revamp during 1993-98.

Added to the losses arising out of New Urea Pricing Policy, MFL had to face the pains of irrational price concession scheme in respect of complex fertilizers. The existing price concession system recognizes 50% of the cost of nitrogen produced through imported ammonia and 50% through captive Ammonia, where Naphtha is used as a feedstock. The cost of nitrogen through use of Urea is not recognized. Further, while computing the cost of nitrogen in captive ammonia, the Government has adopted the lowest price of Naphtha in the industry. It has not taken note of the actual cost of Naphtha charged by our supplier.

Besides these, the price determined by the Government does not consider the nutrient content of the complex fertilizers. Consequently, the cost of nitrogen in 20-20-0 is lower than the cost of nitrogen in 17-17-17. The Pricing Policy is to our disadvantage and has adversely affected



MADRAS FERTILIZERS LIMITED

our sales. MFL has therefore urged GOI to compensate for

- actual cost of Naphtha incurred for production of ammonia
- actual cost of Urea that is consumed in the production of Complex fertilizers
- the actual cost of 'N' in price structure of Complex Fertilizers

Your Directors have urged the Govt of India to revise the Pricing Policies of Urea and Complex Fertilizers. The Govt of India have acknowledged the anomalies in the Policies and are contemplating suitable modifications. Your Directors are hopeful that the policy changes would be announced before the AGM of the Shareholders scheduled to be held during December 2004.

DIVIDEND

In view of the accumulated losses, the Company is not able to consider dividend.

PERFORMANCE OF THE PLANT

Your directors are happy to report commendable improvement in the performance of the Plant in 2003-04.

Major Annual Turnaround

The Company tookup major Turnaround between May 12 and July 7, 2003 during which more than 300 jobs were carried out. The major jobs interalia included attending of Reformer Process Air Compressor (K 1602), Refrigeration Compressor (K 1901), 110 ATA Boiler, PC Boiler, Water Cooled Ammonia Condenser E 1704, Crusher Vessels Exchanger in Ammonia Plant. Similarly, H 151A and B Reactor, High Pressure CO₂ Compressor K 111, Prill Tower were attended in Urea Plant. It is worth noting that in spite of the higher volume of work involved, TAR 2003 was completed in 55 days against 77 days taken during TAR 2001. The actual expenditure involved was Rs 4.29 Cr against budget of Rs. 5.73 Cr.

The Plant has stabilized after the TAR. The mechanical reliability of all the Boilers, Reformers, Urea Reactors and other major rotating equipments and process performance of the major sections of the plants have greatly improved after the Turnaround.

Energy Consumption

The energy consumption of Ammonia reduced from 11.7 Gcal/MT in the first half of the year to 10.4 Gcal/MT in the latter half of the year. Similarly, the specific energy consumption in the Urea Plant improved from 8.834 Gcal/MT in the first half to 7.76 Gcal/MT in the second half of the year. The Urea Plant has thus attained good energy efficiency. The efficiency for the year was 8.020 Gcal/MT, which is better than the norm of 8.337 Gcal/MT specified by FICC.

During the 3rd and 4th quarters, Ammonia Plant attained capacity utilization of 94% and 88% respectively and Urea Plant 99% and 98% respectively. We are happy to mention some of the notable achievements of the Plant during the year:

- Annual specific consumption of Naphtha/MT of Ammonia at 0.776 is the lowest since Revamp.
- Annual average Energy consumption/MT of Urea at 8.020 Gcal is the lowest since Revamp.
- Ammonia Plant recorded an on-stream factor of 100% during January and March 2004. Urea Plant achieved 100% on-stream during January 2004.
- Urea production exceeded the installed capacity of 1475 MTPD on 50 occasions during the 4th quarter. Out of this, on 40 days, the production crossed the 1500 MT level.

Capacity Utilization

The capacity utilization of Ammonia, Urea and NPK Plants is as follows :

Plant	Annual Installed Capacity '000 MT	April 2003-March 2004 (12 months)		May 2002-March 2003 (11 months)	
		'000 MT	Capacity Utilisation %	'000 MT	Capacity Utilisation %
Ammonia	346.50	259.6	74.5	237.33	74.7
Urea	486.75	387.7	79.6	362.18	81.2
NPK	840.00	428.6	51.0	351.98	45.7

Commissioning of Fluidized Bed Prill Cooling System

You would be glad to note that Company was able to commission the Prill cooling System on August 13, 2003



MADRAS FERTILIZERS LIMITED

and achieved Urea Prill Temperature at around 50° C and fines less than 4%. With the commissioning of the Prill Cooling System, the quality problem of Urea product has been resolved as envisaged.

Cooling Water Blow Down Treatment Plant

The Cooling Water Blow Down Treatment Plant, to treat the wasteful blow down of the cooling water system and recycle as make up water, which will cut down the raw water requirement, was implemented during 2003-04. The scheme has been in operation since August 2004. The plant is operating at 160 M³ / hour capacity and is effectively reclaiming the blow down water thereby saving raw water valued Rs 340 lacs per annum after reckoning the operating cost for the Cooling Water Blow Down Treatment Plant.

SALES
Fertilizers

During the year Company sold 5.16 lac tonne of NPK grades as compared to 4.18 lac tonne during the previous year. This indicates an increase of 22% over the last year sales. Market Share of NPK complex has increased from 17.4% to 22.9%. Similarly, in the case of Urea, 4.14 lac tonne has been sold against 3.52 lac tonne. It may be noted that sale during the year is all time high record, the previous best being 4 lac tonne during 2000-01. Market share of Urea has increased to 13.3% from 11.2%. It is also worth mentioning that field inventory of fertilizer products has been brought down to 28,000 MT from the opening inventory of 1,64,000 MT. The above sales performance was achieved with a substantial reduction in rebates and discounts as compared to 2002-03 despite intense competition and adverse seasonal conditions. Company increased direct movement of fertilizers to 3 lac tonne compared to 2.2 lac tonne last year. Similarly, Company reduced the number of field warehouses from 157 to 112 indicating a 20% reduction. Thus the Company was able to achieve cost savings to the tune of Rs 4 Cr. on account of efficient logistics management.

Agrochemicals

MFL made a Turnover of Rs 65 lac in Agrochemicals during 2003-2004 as against the turnover of Rs 238 lac during 2002-03. The shortfall is mainly due to discontinuation of formulation at CFL, Ranipet.

Biofertilizers

MFL sold 126 MT of Bio-fertilizers during 2003-2004 against 180 MT in the previous year.

Carbon-di-oxide

During the year 2003-04, Company has sold CO₂ valued at Rs 218 lacs against Rs 240 lacs during the last year.

MARKET DEVELOPMENT AND AGRO-SERVICE PROGRAMS

MFL organized 150 Nos. of Farmers Level Contact Programs and 11 Nos. of Planter's Contact Program to communicate the latest technology in the agricultural production. 5 Crop Seminars were organized in co-ordination with Agricultural Universities and Dept. of Agriculture in different States. MFL participated and organized exhibitions / stalls on 14 occasions.

MFL collected around 10,000 soil samples during the year 2003-04 which were analysed and results given to farmers. MFL organized 39 field demonstrations on the use of Bio-fertilizers in its continuing effort to promote eco-friendly Agro input to farmers. MFL through Audio Visual Van Program covered 108 villages and distributed the inexpensive handouts and crop booklets to the farming community during the program.

Over 1.80 lac farmers have been benefited through our various programs organized during the year 2003-04.

PUBLIC DEPOSIT

During the year 2003-2004, the Company mobilized a sum of Rs.10.76 Cr as fresh deposits from Public. The total deposit as of March 31, 2004 is Rs. 60.61 Cr against the eligible limit of Rs 61.44 Cr. Out of Rs 80.07 lacs remained unclaimed as of March 31, 2004 a sum of Rs.76.22 lacs has since been repaid by the Company. MFL has applied to the Dept of Company Affairs (DCA), Govt of India for extending the exemption for a further period of 2 years to accept / renew deposits upto Rs 61.44 Cr under the Companies Act, 1956. DCA's approval is awaited.

CORPORATE DEBT RESTRUCTURING (CDR)

Your Directors had pursued the debt restructuring package with Financial Institutions and Banks. We are happy to report that the Company's Proposals have been accepted by these institutions. The CDR package is as follows: