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## ***40th Annual Report 2005-06***



**MADRAS FERTILIZERS LIMITED**



MFL Board of Directors at the 39th AGM held on September 28, 2005



Hon'ble Members of the Standing Committee of Parliament on Chemicals & Fertilizers visited MFL on 24.10.05.  
They are seen interacting with Shri Sukumar N Oommen, our CMD and other Senior Officials



MFL organised KRISHMELA in Hubli Region, Karnataka in Feb 2006



MADRAS FERTILIZERS LIMITED

## BOARD OF DIRECTORS

### Chairman & Managing Director

Shri Sukumar N. Oommen, IAS (Retd.)

### Directors

Ms Swatantra K Sekhon, IAS

Shri Manoj Kumar, IAS

Shri Mahmood Vaezi

Shri R Afshin

Shri Mansoor Rad

### Board Subcommittee / Management Committee

Shri Sukumar N. Oommen, IAS (Retd.)

Ms Swatantra K Sekhon, IAS

Shri Mahmood Vaezi

### Audit Committee

Ms Swatantra K Sekhon, IAS

Shri Mahmood Vaezi

Shri Mansoor Rad

### Shareholders' / Investors' Grievance Committee

Shri Sukumar N. Oommen, IAS (Retd.)

Shri Mahmood Vaezi

### Executives

Shri Sukumar N Oommen, IAS (Retd.)

Chairman & Managing Director

Shri Ajay Mankotia, IRS

Chief Vigilance Officer

Shri P S Neelakantan

Executive Director (Technical)

Shri R Mohan Das

General Manager (P&A)

Shri K Lakshminarayana Rao

General Manager (F&A)

Shri S Devaraj

General Manager (M&D) - Acting

Shri B Sukumar

Company Secretary &

Dy General Manager (Legal)

**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**

M/s. 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 40th Annual General Meeting of Madras Fertilizers Limited will be held on Thursday, September 21, 2006 at Naradha Gana Sabha, 254, TTK Road, Alwarpet, Chennai 600 018 at 3.00 p.m. to transact the following businesses:-

#### ORDINARY BUSINESS

- 1 To receive, consider, approve and adopt the Audited Balance Sheet as at March 31, 2006 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 Ms Swatantra K Sekhon, I A S who retires by rotation and is eligible for reappointment.
- 3 To appoint a Director in the place of Shri Manoj Kumar, I A S who retires by rotation and is eligible for reappointment.
4. 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 by Comptroller and Auditor General of India for the year 2006-07 and the Statutory Auditors shall hold office from the conclusion of this AGM till the conclusion of the next AGM".

By Order of the Board

**B. SUKUMAR**

Company Secretary &  
DGM (Legal)

Date : August 14, 2006  
Place : Chennai

#### 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 6 days from 16-09-06 to 21-09-06.
- 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, No.1 Ramakrishna Street, Off North Usman Road, T Nagar, Chennai - 600 017, Company's Share 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.



# DIRECTORS' REPORT

## The Shareholders

### Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 40th Annual Report together with the Balance Sheet as on March 31, 2006 and the Profit & Loss Account for the year 2005-06.

### SUMMARY OF FINANCIAL RESULTS

The Company's operations for the year ended with a loss of Rs.131.74 Cr. against loss of Rs.58.39 Cr. in the previous year. The losses of the Company are attributable largely to the changes in the policies of pricing of Urea and Complex fertilizers. The Govt of India did not reckon the cost of Urea that is utilized in the manufacture of our Complex fertilizers (NPK 17-17-17 and 19-19-19) since 2002-03. It may be mentioned that the Tariff Commission appointed by the Govt of India had recommended compensation for the cost of Urea used in manufacture of Complex fertilizers. This recommendation was not accepted. Further, the policy of pricing of Urea had been changed to the Company's disadvantage under the New Pricing Scheme from April 2003. The under-recovery on account of the changes in the pricing policies is given below:

(Rs.Cr.)

Year	NPK	Urea
2002-03	3.44	-
2003-04	15.07	29.58
2004-05	17.20	38.30
2005-06	14.76	29.93
Total	50.47	97.81

MFL has requested DOF for corrections in the anomalies in the pricing policies. The proposal for changes was considered by the newly constituted Board for Reconstruction of Public Sector Enterprises (BRPSE) at its meeting held on March 17, 2005. The BRPSE recommended the following:

- Enhancement of outlier benefit under New Pricing Scheme for Urea from existing 50% to 70% from the year 2003-04 and 2004-05.

- Modification of the existing pricing formula for Complex grades 17-17-17 and 19-19-19 by recognizing use of Urea for sourcing 'N' which would benefit MFL, as recommended by Tariff Commission.
- Government guarantee for loans of Rs.150 Cr. to be raised by MFL from the market to solve the liquidity crisis and swap high cost loans.
- Waiver of interest for the year 2003-04 amounting to Rs.16.82 Cr. and for the year 2004-05 of Rs.18.49 Cr. on GOI loans along with penal interest.
- No further plan/non-plan funds may be considered for release by GOI to MFL from 2005-06 onwards.
- MFL would, by implementing VRS and non-filling of vacancies arising out of normal attrition, try to reduce the strength to 1000 in the coming years.
- MFL would not further seek plan/non-plan budgetary support from GOI from 2005-06 onwards for meeting normal capital expenditure on renewal, replacement, modernization etc. and would raise such funds on its own.
- As committed by CMD, MFL before the Board, MFL would achieve a turnover of at least Rs.2000 Cr. per annum from 2005-06 onwards with a net profit of Rs.50 Cr. per annum.

The recommendations of BRPSE have been considered by an inter-ministerial Committee of Secretaries (representing Ministry of Finance, Planning, Heavy Industries, Labour, Commerce, Petroleum and Fertilizers) at its meeting held on March 22, 2006. The Committee did not favour any policy change.

Besides the fall in revenue on account of the changes in the pricing policies, the lead bank of working capital bankers (State Bank of India) has reduced MFL's borrowing limits from Rs.171.60 Cr. to Rs.150 Cr. with effect from February 14, 2006. This has further crippled our activities. MFL operations are in total jeopardy because of the acute shortage of working capital.





## MADRAS FERTILIZERS LIMITED

Results for 2005-06 and 2004-05 are summarized below:

(Rs Cr)

	2005-06 (12 months)	2004-05 (12 months)
Turnover	1084.22	1286.22
Profit Before Interest, Depreciation and Tax	(18.79)	53.80
Interest	67.77	68.59
Depreciation	44.05	43.60
Profit/(Loss) Before Tax	(130.61)	(58.39)
Provision for Tax	1.13	-
Profit/(Loss) After Tax	(131.74)	(58.39)
Cash Profit/(Loss)*	(81.76)	(8.93)

\* reckoning Deferred Revenue Expenditure

The total accumulated loss as of 31.3.2006 has risen to Rs.398.92 Cr. Company had become sick during the year 2003-04 which was reported to BIFR pursuant to the provisions of Sick Industrial Companies (Special Provisions) Act, 1985. The BIFR did not register your Company as a Sick Company because we were hopeful of relief thru policy changes. Now that the Government have rejected our request, your Company would be making a fresh application before the BIFR for registration as a Sick Company under the 'Sick Industrial Companies (Special Provisions) Act, 1985.'

### DIVIDEND

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

### PLANT PERFORMANCE

#### Capacity Utilization

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

Plant	Annual Installed Capacity '000 MT	April 2005-March 2006		April 2004-March 2005	
		'000 MT	Capacity Utilisation %	'000 MT	Capacity Utilisation %
Ammonia	346.50	227.07	65.5	300.89	86.8
Urea	486.75	368.50	75.7	473.03	97.2
NPK	840.00	208.19	24.8	333.48	39.7

- Out of 258 stream days, Urea production exceeded installed capacity of 1475/MTPD on 142 days. This second best achievement has surpassed earlier second best achievement of 103 days out of 288 stream days made in 2003-04.
- Ammonia production was interrupted during November – December 2005 and January 2006 due to requirement of certain Catalysts' replacement and mechanical jobs in Heat Exchangers. Urea production was also affected due to Ammonia Plant shutdown.
- NPK production had to be restricted because of our liquidity problems. Your Company was not in a position to procure raw materials, viz. Ammonia, Muriate of Potash, Phosphoric Acid and Urea. Out of 3 NPK Trains, only one or two trains were operated intermittently.

### SALES PERFORMANCE

#### Fertilizers

As you are aware, agricultural situation was extremely favourable during the year, in view of the widespread rains received throughout our marketing territories. The demand for products was unprecedented and all products were sold in good quantities. Company could not take full advantage of this situation unfortunately due to non-availability of products. During the year, Company sold a total of 5.93 lakh MT of fertilizers compared to 8.5 lakh MT last year. The 30% drop was mainly due to lower capacity utilization of both Urea and NPK Plants.

NPK fertilizer availability was only 2.02 lakh MT compared to 3.45 lakh MT during the previous year. Consequently, our market share of NPK Complex also got reduced to 6% from 14% last year. The lower production of Complex fertilizers was grossly due to non-availability of Phosphoric Acid.

3.87 lakh MT of Urea was made available for sale this year as against 4.83 lakh MT during last year. The lower availability was due to unforeseen production interruptions during the year. Consequent to this, market share of Urea also went down to 9% from 13.6% last year.

Company continued to embark upon various policies for reduction of marketing costs. Inventory holding cost was virtually 'nil' with minimum inventory level throughout the year. Company resorted to Plant Gate / Railhead sales for 91% of products rather than Warehouse sales and attained huge



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savings in inventory carrying cost and warehousing and handling expenses. Efforts for streamlining logistics operations continued this year also and there was a further reduction of warehousing points by 37%. Thrust was given to Railhead deliveries and 78% of total rail movement was sold ex-railhead.

Rationalisation of territories and Regions and manpower reduction was another area of cost saving. There has been a manpower reduction of 15%.

Marketing team put up a creditable performance in sales realization by making 85% cash sales. The average realization time has been less than 4 days. 85% of the collection has come within 7 days. Further, it is noteworthy that there has not been a single Bad Debt during the year.

### Agrochemicals

Your Company continued to market environment friendly neem-based Agrochemicals. MFL made a record turnover of Rs.119.78 lakhs against Rs.89.71 lakhs during last year.

### Biofertilizers

There has been a record production of 235 MT in our Biofertilizer unit at Bangalore. Cost of production of Biofertilizer also has been the lowest during this year. Sales touched an all time high of 235 MT against 213 MT last year.

### Carbon-di-oxide

Your Company has sold Carbon-di-oxide valued Rs.150.95 lakhs against Rs.221.42 lakhs last year.

### Marketing of Insurance Products

Your Company has exceeded targets and all expectations, in generation of Insurance Business by collecting a total premium of Rs.3.92 Cr. You will be happy to note that the Company earned a commission of approximately Rs.1 Cr. without any investment.

### MARKET DEVELOPMENT AND AGRO-SERVICE PROGRAMS

MFL continued its tradition of conducting informative and educational program for the farmers and dealers.

In all, 73 promotional programs were conducted benefiting 2.57 lakh farmers and dealers. Our efforts to promote a Cooperative Society at Krishnapuram, Chittoor District in

Andhra Pradesh, aiming at overall development of 2 mandals (15 villages) fructified with the registration of Cooperative Society during June 2005. MFL organised farmer meeting involving Department officials to educate the farmers and collected 75 Nos. of soil samples. Follow up activities are going on for this project from our side. MFL also undertook a special drive to enroll SC/ST dealers, who now form 23% of our total dealer strength of 6487.

With the cost saving measures undertaken and new business ideas, Marketing Team has become lean, more efficient and more productive.

### PUBLIC DEPOSIT

During the year 2005-06, the Company mobilized a sum of Rs 20.30 Cr as fresh deposits from public and repaid Rs 15.61 Cr to the depositors. The total deposit as of March 31, 2006 is Rs 61.35 Cr against the eligible limit of Rs 61.44 Cr. Unclaimed deposits as of March 31, 2006 is Rs 0.90 Cr. The Company has approached the Department of Company Affairs (DCA), Govt. of India for extending the exemption for a further period of 2 years from 1.4.2006 to accept / renew deposits upto Rs 61.09 Cr under the Companies Act, 1956. The approval from DCA is awaited.

### ISO

As you may be aware that MFL had earlier received ISO 9001 accreditation renewal for 2000 version in December 2004 for 3 years, towards total quality control system.

Following suit, MFL has also received renewal of ISO 14001 certification for 2004 version in 2005 towards environmental protection system which is valid for three years.

### VIGILANCE

Vigilance being an integral part of the management function, the Vigilance Department, with a small team of vigilance officers headed by a Chief Vigilance Officer, provides direction, guidance and supervision over the vigilance efforts of the company without fear or favour.

Preventive vigilance is the main theme of the Vigilance Department. The stress is on transparency and accountability in the working of the company.

'Agreed List of Suspected Officers' and 'List of Officers of Doubtful Integrity' were prepared in time and a close watch is kept on the listed officers. Besides complaints handling, surprise inspections, review of contracts, scrutiny of audit reports,





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property returns, and various claims of employees, monitoring timely realization of the outstandings from dealers due to dishonour of cheques were the other activities carried out by Vigilance.

To sensitize the employees and the public about the evil consequences of corruption, Vigilance Awareness Week was organized by Vigilance during the period Nov 7 – 11, 2005.

### HUMAN RESOURCES & INDUSTRIAL RELATIONS

#### Manpower and Training

The total manpower strength of the Company as on 31.3.2006 is 1058 as against 1126 on March 31, 2005.

366 Supervisors and 274 Non-Supervisors were trained in In-house and External Training Programs during the year 2005-06.

#### Voluntary Retirement Scheme

45 employees availed Voluntary Retirement Scheme during 2005-06. The Company plans to reduce the manpower further so as to take it below 1000 during the current year through rationalization of manpower in all the functional groups except Plant where shortage of experienced manpower has been noticed.

#### INDUSTRIAL RELATIONS

During the year 2005-06, the industrial relation scenario in the Company has been very cordial.

As in the case of Supervisors, a promotion policy for non-supervisors was signed during the year for implementation for a five year period.

The representative bodies acted with responsibility and perfect understanding of the management's priorities.

#### OFFICIAL LANGUAGE IMPLEMENTATION

6 employees have passed Hindi examination held during 2005. MFL has been continuously exceeding the target fixed by Department of Official languages in letter correspondence in Hindi and other implementation programmes.

#### SC / ST WELFARE ACTIVITIES

The Presidential Directives and various guidelines issued by the Government of India relating to the welfare of SCs / STs were scrupulously followed during the year. A Liaison

Officer nominated for this purpose ensures implementation of Government Directives.

As on 31.03.2006, the number of SC / ST employees is 228, which constitutes around 21.6% of the total strength of the employees as could be seen from the table furnished below :

Group	Total Employees	SC Employees		ST Employees	
		Number	%	Number	%
<b>A</b> (Gr E3 & above)	261	24	9.20	3	1.15
<b>B</b> (Gr E1&E2)	290	45	15.52	1	0.34
<b>C</b> (Gr II to V)	501	150	29.94	1	0.20
<b>D</b> (Gr I)	6	4	66.67	-	-
<b>Total</b>	<b>1058</b>	<b>223</b>	<b>21.08</b>	<b>5</b>	<b>0.47</b>
Statutory Requirement			15.0		7.5

Presently MFL is in the process of downsizing its existing manpower thru Voluntary Retirement Scheme. Hence from the year 2002, no major recruitment has been made. However, MFL has been constantly reviewing the vacancies reserved for SC/STs and taking concerted efforts to fill up such vacancies.

Apart from reservation in recruitment / promotions for SC/ STs, to mitigate the sufferings of the SC / ST communities and to improve their socio-economic status, MFL have been organizing special programs in certain Tribal Villages to increase agricultural productivity and to provide necessary infrastructural facilities.

For appointment of dealers under SC/ST category, a scheme has been formulated in MFL. The features are as follows :

- whenever need arises for appointment of dealers, 25% will be reserved for applicants from SC/ST category.
- Minimum experience in fertilizer dealership is waived for SC/ST category.
- No security deposit is collected (for others, it is Rs.5,000/-).
- No minimum purchase norm is insisted on or prescribed. (for others, a minimum of 30-40 MT / year is required to continue dealership).



## MADRAS FERTILIZERS LIMITED

## DIRECTORS

Ms Swatanta K Sekhon IAS, Executive Director – FICC, Dept. of Fertilizers, Govt. of India was appointed as Director on MFL Board effective 23.8.2005 in place of Dr J S Maini, IAS.

Consequent to one time settlement of loan outstandings, ICICI have withdrawn Mr S Srinivasan, their nominee from MFL Board effective 23.06.2005.

IDBI have withdrawn nomination of Shri K Kannan as Director from MFL Board effective 14.11.2005.

Board would like to place on record the valuable contributions made by Dr J S Maini, IAS, Shri K Kannan and Shri S Srinivasan during their tenure as Directors on the Board.

## AUDITORS

The Government of India have appointed M/s R Subramanian and Company, Chartered Accountants, Chennai as Statutory Auditors of the Company for the fourth consecutive year 2005-06.

## STATUTORY INFORMATION

No employee was in receipt of remuneration for any part of the year at a rate which is more than Rs 2 lac per month as provided under Section 217 (2A) of the Companies Act, 1956.

The data on Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo in accordance with the provisions of Section 217 (1) (e) of the Companies Act, 1956 are given in the **Annexure-I** forming part of this report.

Directors' Responsibility Statement as required under Section 217 (2AA) of the Companies Act, 1956 as amended is furnished in **Annexure-II** forming part of this report.

Management Discussion and Analysis Report, as required under Listing Agreement is enclosed as **Annexure-III** forming part of this report.

Certificate received from the Auditors of the Company regarding compliance of Corporate Governance guidelines of SEBI as required under Listing Agreement is enclosed as **Annexure-IV** forming part of this report.

Declaration affirming compliance with the code of conduct pursuant to clause 49 of the Listing Agreement is enclosed as **Annexure V** forming part of this report.

## APPRECIATION

Your Directors place on record their sincere thanks to FIs and Banks for their continued support during the turbulent year. The Company is really indebted to creditors, suppliers, service contractors and contract workers who stood by the company despite their difficulties

The Company is really overwhelmed by the unequivocal patronage being extended by the dealers and farmers who have been patient enough to wait and receive the products in spite of paying money in advance and in the context of alternate products available in the market.

Your Directors wish to record their appreciation of the sincere efforts put in by the employees of the Company despite the demoralising effect of the Plant upsets. Unperturbed of the temporary setbacks, the workforce have worked in unison with the management for ushering in an early turnaround of the company.

We thank GOI and NICO for their continued guidance and support extended to the company.

By Order of the Board

Date : June 29, 2006

Chennai : 600 068

**SUKUMAR N OOMMEN**

Chairman and Managing Director