

MADRAS FERTILIZERS LIMITED



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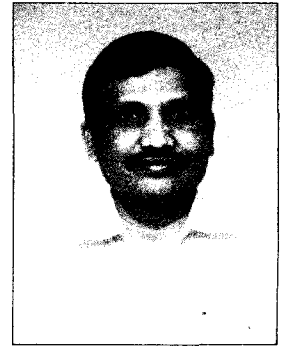


44th Annual Report 2009 - 10

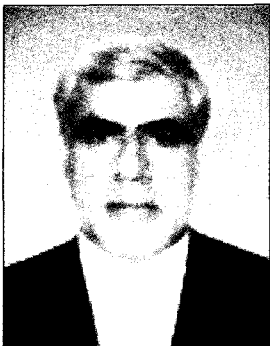
Board of Directors



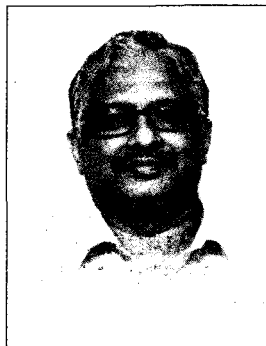
Dr. V. Rajagopalan, IAS
GOI - Nominee Director



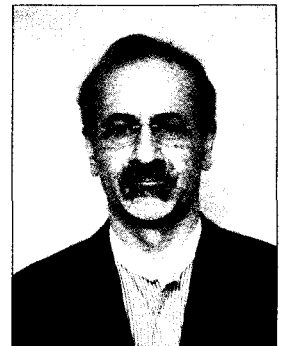
Satish Chandra, IAS
GOI - Nominee Director



Mansoor Rad
NICO - Nominee Director



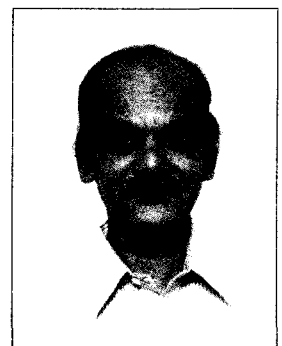
M. Sagar Mathews
CMD (Additional Charge)



Mohammed Hassan Ghodsi
NICO - Nominee Director



Hashem Pouransari
NICO - Nominee Director



P.N. Swaminathan
IFCI - Nominee Director



BOARD OF DIRECTORS

Chairman & Managing Director

Shri M Sagar Mathews
(from February 17, 2010 - holding additional charge)
Shri S Muralidharan (up to February 16, 2010)

Directors

Dr V Rajagopalan, IAS (from May 3, 2010)
Shri Sudhir Bhargava, IAS (up to May 3, 2010)
Shri Satish Chandra, IAS
Shri Mansoor Rad
Shri Mohammed Hassan Ghodsi (from April 25, 2009)
Shri Hashem Pouransari (from April 25, 2009)
Shri P N Swaminathan (from June 27, 2009)
Shri M Sagar Mathews (from August 24, 2009)

Board Sub Committee / Management Committee

Shri M Sagar Mathews (from February 17, 2010)
Shri S Muralidharan (up to February 16, 2010)
Dr V Rajagopalan, IAS (from May 3, 2010)
Shri Sudhir Bhargava, IAS (up to May 3, 2010)
Shri Satish Chandra, IAS
Shri Hashem Pouransari (from April 25, 2009)

Audit Committee

Dr V Rajagopalan, IAS (from May 3, 2010)
Shri Sudhir Bhargava, IAS (up to May 3, 2010)
Shri Satish Chandra, IAS
Shri Mansoor Rad
Shri Hashem Pouransari (from April 25, 2009)
Shri P N Swaminathan (from June 27, 2009)

Shareholders & Investors Grievance Committee

Shri M Sagar Mathews (from February 17, 2010)
Shri S Muralidharan (up to February 16, 2010)
Shri Hashem Pouransari (from April 25, 2009)

Executives

Shri S Muralidharan
Chairman & Managing Director
(up to February 16, 2010)

Shri M Sagar Mathews
Chairman & Managing Director
holding Additional Charge
(from February 17, 2010)

Shri Ajoy Kumar, IAS
Chief Vigilance Officer

Shri M Sagar Mathews
Director – Technical
(from August 24, 2009)

Shri K Lakshminarayana Rao
Executive Director - Finance

Shri R Lawrence
General Manager (HR and M&D)

Shri P R Kosalaram
General Manager – Plant (Acting)

Shri G Alagarsamy
Company Secretary (Acting)



CONTENTS

	Page No
AGM Notice	3
Directors' Report	5
Corporate Governance	17
Review of Accounts by the C& AG	24
Report of the Statutory Auditors	28
Balance Sheet	32
Profit & Loss Account	34
Schedules to Accounts	36
Cash Flow Statement	57
Information to Investors	61

Registered Office

Manali, Chennai – 600 068
Tamil Nadu, India

Principal Bankers

State Bank of India
State Bank of Patiala
State Bank of Hyderabad

Auditors

S Venkatram & Co
Chartered Accountants
“ Sri Vigneshwara ”
IInd Floor, 218, T T K Road
Alwarpet, Chennai – 600 018



Madras Fertilizers Limited

Regd Office: Manali, Chennai – 600 068.

NOTICE

NOTICE is hereby given that the 44th Annual General Meeting of Madras Fertilizers Limited will be held on Tuesday, September 7, 2010 at MFL Training Centre Auditorium, (North Entrance Gate), MFL Plant, Manali, Chennai – 600 068 at 02.30 PM, to transact the following businesses:-

ORDINARY BUSINESS

- 1 To receive, consider, approve and adopt the Audited Balance Sheet as at March 31, 2010 and Profit and Loss Account for the year ended on that date together with the Reports of Directors and Auditors thereon.
2. To appoint a Director in the place of Shri Satish 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 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 Comptroller and Auditor General of India for the year 2010-11 and the Statutory Auditors shall hold office from the conclusion of this AGM till the conclusion of the next AGM”.

SPECIAL BUSINESS

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

“RESOLVED THAT Dr V Rajagopalan, IAS be and is hereby appointed as Director of the Company “

By Order of the Board

Chennai
19.05.2010

M Sagar Mathews
Chairman & Managing Director

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 **THE INSTRUMENT OF 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 from 03.09.2010 to 07.09.2010 (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, II Floor, Kences Tower, No.1 Ramakrishna Street, , 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



MADRAS FERTILIZERS LIMITED

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 4 : Appointment of Dr V Rajagopalan as Director

Dr V Rajagopalan was nominated by the Government of India for appointment as Director in pursuance of Article 85 (a) and 86 read with Article 88 of the Articles of the Association of the Company in place of Shri Sudhir Bhargava. Dr. V Rajagopalan was appointed as Director on the Board of the Company by the Board of Directors effective May 3, 2010. As per the provisions of Sec 260 of the Companies Act, 1956 and the Articles of Association of the Company, Dr V Rajagopalan will hold office only up to the date of Annual General Meeting.

A notice under section 257 of the Companies Act, 1956 has been received from a member proposing the appointment of Dr V Rajagopalan as a Director, liable to retire by rotation.

None of the Directors is interested in the resolution, except Dr V Rajagopalan as it concerns his appointment.

By Order of the Board

Chennai
19.05.2010

M Sagar Mathews
Chairman & Managing Director

Details of Director seeking appointment at the Annual General Meeting

Name of the Director	Dr V Rajagopalan, IAS
Date of Birth	01.09.1954
Qualification	B.Tech (Civil Engg), IIT, Madras M.Tech (Engg. Mech.), IIT, Madras PGDMM, IIM, Bangalore M.Sc (Env. Sci) Faculty of Engg, University of London Ph.D in Air Pollution Modeling, Lucknow
Date of Appointment on the Board	03.05.2010
List of other Companies in which Directorship held	Rashtriya Chemicals and Fertilizers Limited Krishak Bharati Cooperative Limited Hindustan Antibiotics Ltd Hindustan Organic Chemicals Limited Bengal Chemicals & Pharmaceuticals Ltd
Present Position	Additional Secretary & Financial Advisor, Department of Fertilizers, Ministry of Chemicals & Fertilizers, Government of India



DIRECTORS' REPORT

The Shareholders

Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 44th Annual Report together with the Balance Sheet as on March 31, 2010 and the Profit & Loss Account for the year 2009-10.

SUMMARY OF FINANCIAL RESULTS

(Rs. in Cr)

	2009-10	2008-09
Turnover	1302.84	1123.59
Profit Before Interest, Depreciation, DRE and Tax	144.87	(8.39)
Interest	88.45	92.62
Depreciation	41.53	41.63
Deferred Revenue Expenditure	1.21	2.57
01.01.97 Arrears (Employees' Salary)	6.80	-
Profit / (Loss) Before Tax	6.88	(145.21)
Provision for Tax	-	0.17
Profit / (Loss) After Tax	6.88	(145.38)
Cash Profit / (Loss)	49.62	(101.18)

The Company's operations for the year ended with a profit of Rs.6.88 Cr against loss of Rs.145.38 Cr in the previous year mainly on account of implementation of New Pricing Scheme (NPS)-Stage III amendment by GOI restricting the reduction in fixed cost to 10% for 2009-10. The total accumulated loss as of 31.3.2010 is Rs.787.05 Cr.

REFERENCE TO BIFR

Consequent on total erosion of net worth, the BIFR has registered the Company as Case No. 501/2007. It has declared MFL as a Sick Company under the provision of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) in its meeting held on 2.4.2009 and appointed State Bank of India (SBI), Commercial Branch, 232 N.S.C Bose

Road, Chennai 600 001 as Operating Agency (OA) to prepare a Draft Rehabilitation Scheme (DRS) for the Company. BIFR held hearings on 15.10.2009, 12.1.2010 and 22.3.2010. GOI Nominee Directors attended the meeting held on 22.3.2010 and expressed the view that DOF is keen on revival of the Company. On the advice of DOF, M/s Project & Development India Ltd (PDIL) was appointed to undertake a study on rehabilitation proposal for the Company. Accordingly, PDIL submitted its report on Viability Proposal on MFL and the same was forwarded to DOF after obtaining approval from Board. The proposal is under active consideration of GOI for revival of your Company. However, BIFR advised the Company to submit its Viability Proposal at the earliest.

CAUSES FOR ACCUMULATED LOSSES

The main reasons for the recurring losses from 2003-04 and the sickness of the Company are due to cost over run during the revamp of Ammonia and Urea Plants, delay in stabilization of revamped Plants due to technology related problems, high energy consumption and changes in the Pricing Policies of DOF.

Introduction of NPS of Urea from 1.4.2003 had a deleterious effect on the Company as there was an inherent under recovery of about Rs 1995 / MT under New Pricing Scheme (NPS) Stage I and II which has increased to Rs 3991/MT during Stage – III (w.e.f. 1.10.2006) due to withdrawal of outlier benefit. Based on Deloitte Report, the DOF has restricted the reduction in fixed cost in respect of Urea to 10% for 2009-10.

Also, the Price Concession Scheme (PCS) for complex fertilizers applicable from 1.4.2002 did not adequately compensate the Company for cost of 'N' in its flagship product NPK 17-17-17.

The Company does not have adequate funds to procure raw materials for production of complex fertilizers. NPK capacity utilization has drastically fallen from 51% in 2003-04 to 40% in 2004-05 to 4% in 2007-08 and "Nil" in 2008-09.



MADRAS FERTILIZERS LIMITED

However, the Company has started manufacture of NPKS 20-20-0-13 for Indian Potash Limited on tolling basis from March 2010 and produced 7,335 MT during the month.

GOING CONCERN CONCEPT

As future operations do not suggest there would be reduction of debts, increase in flow of revenue and improvement in net worth, your Statutory Auditors have qualified that the Company should not have compiled the accounts on Going Concern basis in their Audit Report for 2009-10.

Whereas the Company accounts for the year 2009-10 was audited by C&AG of India and have cleared the Accounts with 'NIL' comments for the fifth consecutive year.

REVISED PROPOSAL FOR RESTRUCTURING

As per the directives of Department of Fertilizers (DOF), PDIL was engaged in July '09 to undertake a project study of the Company and prepare a Viability study report for making the operations sustainable.

The report submitted by PDIL suggesting short term measures, long term measures and financial restructuring are given below:

- Conversion of GOI loan portion of Rs 293.80 Cr as on 31.3.2009 to equity.
- Continuation of special dispensation in pricing mechanism under New Pricing Scheme Stage III (NPS III) beyond 31.3.2010 and up to the conversion of Natural Gas.
- Cash induction of Rs 346.54 Cr by amendment in NPS III from 1.10.2006 to 31.3.2009.
- Waiver of GOI loan interest amounting to Rs 123.09 Cr as on 31.3.2009 along with penal interest.
- Release of Rs 376.84 Cr through Plan Loan for implementation of the Capital Schemes from 2009-10 to 2013-14.
- Initiate proposal for purchase of NICO shares by GOI.

Based on the report of PDIL, DOF is in the process of finalizing the revised restructuring proposal for submission to BRPSE and BIFR to bail out the Company from sickness.

ONE TIME SETTLEMENT (OTS) WITH FINANCIAL INSTITUTION

The Company entered into One Time Settlement (OTS) with IFCI Ltd for Rs.44.06 Cr as against Rs.91.57 Cr of Principal and Interest as of March 31, 2010. Company made an upfront payment of Rs.20 Cr on 31.03.2010 and balance Rs.24.06 Cr will be paid in monthly installments commencing July to December 2010. Your Company gained Rs.47.51 Cr through the OTS.

DIVIDEND

Though the Company earned a profit of Rs.6.88 Crores during the year 2009-10, Company could not pay Dividend due to accumulated losses.

PLANT PERFORMANCE

- Urea production exceeded the day's installed capacity of 1475 MT on 207 days and 436100 MT of Urea produced during the year is the 4th best since revamp. Also, Urea production of **49261 MT** during Dec 2009 is the 3rd best record.
- Specific Energy consumption of 7.834 Gcal/MT of Urea is the 3rd lowest since revamp.
- Ammonia energy of 9.5372 Gcal/MT and Urea energy of 6.9452 Gcal/MT on December 30, 2009 are the **lowest** ever since revamp.
- Specific Energy consumption of 9.581 Gcal/MT of Ammonia during Dec 2009 is the **lowest** since inception surpassing the previous record of 9.715 Gcal/MT in December 2004.
- Specific Energy consumption of 6.974 Gcal/MT of Urea in Dec 2009 is the **lowest** since inception surpassing the earlier record of 7.199 Gcal/MT in August 2008 and below the derived design energy of 7.004 Gcal/MT of Urea for a full month.



MADRAS FERTILIZERS LIMITED

NPK 'A' train was restarted after 3 years and production of NPKS complex 20-20-0-13 commenced on March 8, 2010 for M/s Indian Potash Limited on tolling basis. During March 2010, 7335 MT of complex fertilizer was produced.

GAS CONVERSION

MFL Ammonia Plant with minor modifications is compatible to use Natural Gas and the Feedstock conversion can be completed in about 12 months time. The requirement of CNG will be 1.54 MMSCMD (Cal. Value 8600 Kcal/SM³) and the requirement may go up to 2.5 MMSCMD. MFL's requirement of 1.54 MMSCMD of Natural Gas has been forwarded by Department of Fertilizers to Ministry of Petroleum & Natural Gas for allocation.

M/s Gas Authority of India Limited (GAIL) has come up with an offer to supply RLNG to your Company at Market Driven Prices, by laying a dedicated branch line (250 km long) from Krishnagiri to Chennai on its Kochi – Kanjironkode – Bangalore / Mangalore pipeline. Similarly, M/s Indian Oil Corporation Ltd (IOCL) evinced interest in supplying LNG to your Company through the Ennore Satellite Port Terminal and requested the Company to sign HoA and initiate action on the subject. IOCL's LNG terminal at Ennore is expected to be ready in 2014-15.

MARKETING PERFORMANCE

Agricultural situation was extremely favourable during the year also in view of the widespread rains received throughout our marketing territories. The demand for products were continued to be high and products were sold in good quantities. During the year, Company sold a total of 4.41 lakh MT of fertilizers compared to 4.15 lakh MT last year. There was an increase of 6% in sale of fertilizers over the last year.

During this year, 4.34 lakh MT of Urea was made available for sale as against 4.15 lakh MT during last year, which is 5% increase over CPLY sales, whereas market share of Urea is maintained at 8% in South India.

Company continued to embark upon various policies for reduction of marketing costs. Efforts for streamlining logistics operations continued this year also and 99% of the products were directly delivered to the dealers whereas it was only 96% during the CPLY.

Rationalisation of territories & regions and manpower reduction was another area of cost saving. There has been a manpower reduction of 4%.

Marketing Team put up a creditable performance in sales realization by making 98% cash sales. 95% of the cheques realized within 7 days. Further, it goes to their credit that there has not been a single bad debt during this year also.

AGROCHEMICALS, BIO-FERTILIZERS AND CARBON-DI-OXIDE

Company continued to market environment friendly neem based Agrochemicals. A total of Rs.1.42 Cr of Agrochemicals were traded during the year 2009-10 as against the CPLY of Rs.1.34 Cr.

MFL sold 435 MT of Bio-fertilizers during 2009-10 as against 463 MT in the previous year.

Company has sold Carbon-di-oxide valuing Rs.3.30 Cr during the year 2009-10 against Rs.2.37 Cr during the last year.

PUBLIC DEPOSIT

The Company had approached the Ministry of Corporate Affairs (MCA), Govt. of India vide application dated 25.2.2009 for extending the exemption for a further period of 2 years from 01.04.2009 to accept / renew deposits up to Rs.61.09 Cr under the Companies Act, 1956, which was approved only on 30.04.2010 with a validity up to 31.3.2010.

Hence, the Company could not accept fresh deposits or renew the existing deposits during the Financial Year 2009-10. The total deposit, including unclaimed, as of March 31, 2010 is Rs.8.66 Cr against the eligible limit of Rs.61.09 Cr.

ISO 9001 / 14001

Internal Quality Audit – VIII & IX for ISO 9001 (Quality Management System) & ISO 14001 (Environmental



Management System) had been conducted between April 20 - 23, 2009 and September 23 - 30, 2009 respectively.

CMD approved Quality Objectives (9001 - 2000) and Environmental Objectives (14001 - 2004) for the year 2009-10 had been communicated to all the Functional Areas for implementation.

A Core Group has been formed by CMD for preparing ISO 9001:2008 Apex Manual / QCPs in the respective Functional Areas for renewal certification which is due by November 2010.

MEMORANDUM OF UNDERSTANDING

The Company entered into MOU with DOF, GOI for the year 2010-11 on March 15, 2010 setting out Targets for Performance of the Company in terms of Production, Sales and other parameters.

VIGILANCE

Preventive vigilance with a stress on adherence to the set rules and procedures and transparency & accountability, is the main objective of the Vigilance Department. Direction / guidance is provided to the Management based on the Circulars / Guidelines received from the Central Vigilance Commission from time to time.

In compliance with the recommendations of the Central Vigilance Commission, the following activities were completed during the year.

- Complaints received were attended and reports submitted
- Vigilance Awareness Week observed
- Property returns of Officers scrutinized
- Outstanding from dealers due to dishonour of cheques monitored
- Implementation of Leveraging Technology / Amendment to Service Policies and Purchase Manual pursued
- Monitoring implementation of Leveraging technology
- High Value Contracts reviewed

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Manpower & Training

The total strength of MFL as on 31.03.2010 is 802 as against 847 for the period ending 31.03.2009. 494 employees have been trained on Behavioural & Technical subjects and 214 employees have been re-trained on the above subjects during the year 2009-10.

Voluntary Retirement Scheme

Two Employees availed Voluntary Retirement Scheme during 2009-10. The Company plans to reduce the manpower further during the current year through rationalization in all the Functional Groups, except Plant, where shortage of manpower has been severe.

INDUSTRIAL RELATIONS

During the year 2009-10, the overall Industrial Relation situation in the Company has been normal and cordial.

OFFICIAL LANGUAGE IMPLEMENTATION

MFL has been continuously exceeding the target fixed by Department of Official Language for letter correspondence in Hindi and other implementation programmes.

Hindi Fortnight was celebrated during September 2009 at Head Office and Regional Offices. Various competitions were organized and prizes were distributed to the winners.

Two batches of Spoken Hindi Classes were conducted during the period April to July 2009 and January to March 2010.

The First Sub-Committee of the Committee of Parliament on Official Language carried out its Inspection at MFL on Oct 29, 2009 and reviewed the implementation of Official Language.

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.