



MCF

Mangalore Chemicals & Fertilizers Limited

MD	✓		BKC	NA
CS	✓		DPY	NA
RO	✓		DIV	NA
TRA	NA		AC	✓
AGM	NA	—	SHI	✓
YE	✓	—		

Annual Report 1997-98



THE UB GROUP



Mr M Arunachalam, Hon'ble Union Minister for Chemicals & Fertilisers, presenting
Mr D P Mehta, Managing Director, the Fertiliser Association of India award for
"Improvement in Overall Performance of a Company" for 1996-97.



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Directors

Vijay Mallya, *Chairman*
 Mehta D P, *Managing Director*
 Gupte S R
 Das B K
 Gundannavar V R
 Narayanaswamy S
 Viswanathan N
 Asvathanarayan G
 Mani Narayanswami

Executives

Sastry G V A, *Senior Vice President (Works)*
 Shetty M B, *Vice President (Marketing)*
 Krishnamurthy A, *Vice President (Finance)*
 Divakara Bhatt, *Vice President (Personnel & Administration)*

Company Secretary

Kannan S

Legal Advisors

King & Partridge

Auditors

Fraser & Ross

Financial Institutions

Industrial Development Bank of India
 Industrial Finance Corporation of India Limited
 Industrial Credit and Investment Corporation of India Limited
 Life Insurance Corporation of India
 Industrial Investment Bank of India Ltd.
 Unit Trust of India
 General Insurance Corporation of India

Bankers

State Bank of India
 Canara Bank
 Punjab National Bank
 State Bank of Mysore
 State Bank of Travancore
 Syndicate Bank
 Bank of Baroda
 Indian Overseas Bank
 Corporation Bank
 Karnataka State Co-operative Apex Bank Limited

Registered Office

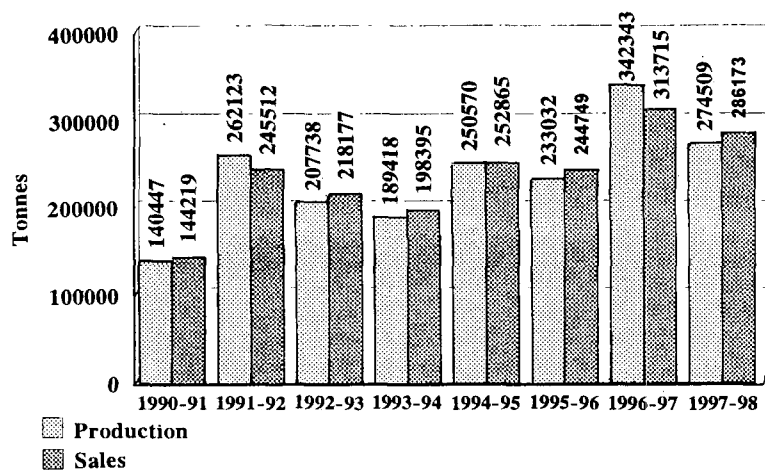
10/2, Kasturba Road
 Bangalore - 560 001

Works

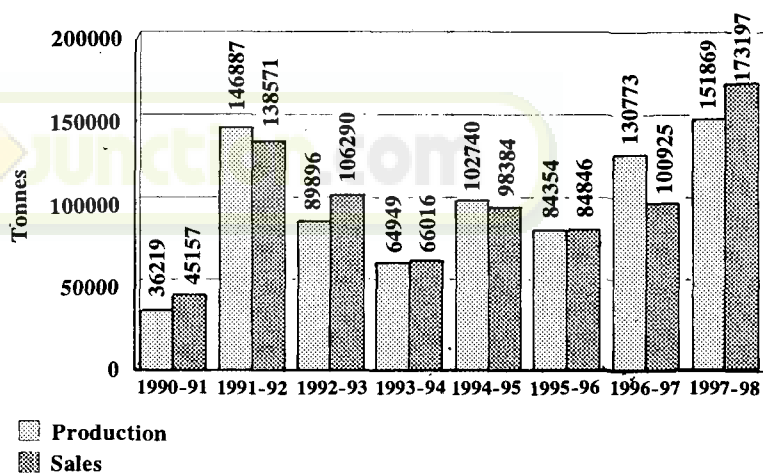
Panambur
 Mangalore - 575 010



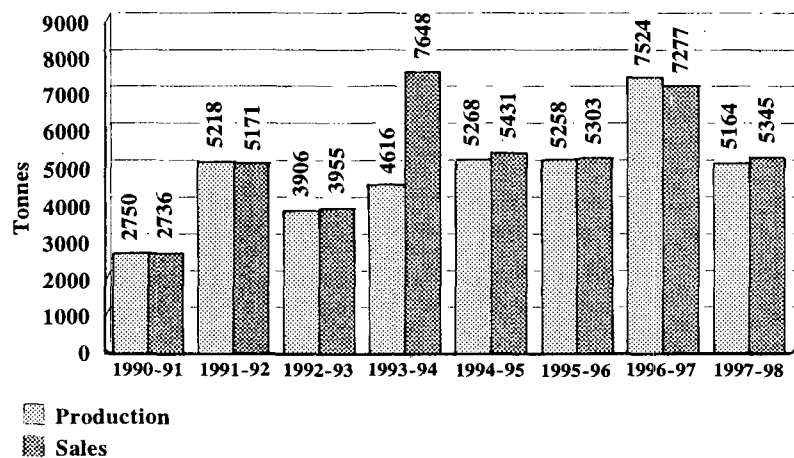
UREA - PRODUCTION vs SALES



DAP - PRODUCTION vs SALES



AMMONIUM BI-CARBONATE - PRODUCTION vs SALES





DIRECTORS' REPORT

Your Directors have pleasure in presenting to you the Thirty-first Annual Report of the Company together with the audited statement of accounts for the accounting year ended March 31, 1998.

CORPORATE RESULTS

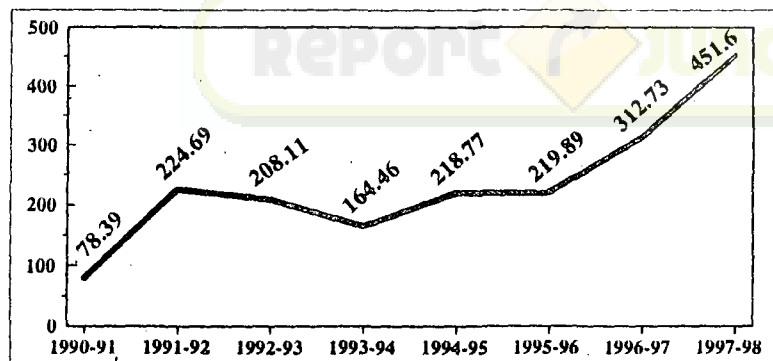
While the operation for the year resulted in a net loss of Rs. 7.41 crores, as at 31-3-1998 there was a net profit of Rs. 17.33 crores, consequent to receipt during the year of Rs. 24.74 crores, of arrears of subsidy for the previous three years, which has been accounted in Net Sales.

	(Rs. in crores)	
	Year Ended	
	1997-98	1996-97
Turnover	426.86	312.73
Operating Profit	21.12	27.88
Interest	20.38	20.20
Depreciation	8.15	7.50
Net Profit/(Loss) for the Year	(7.41)	0.18
VI A Pricing Arrears	24.74	-
Net Profit	17.33	0.18

The Directors regret their inability to declare a dividend due to the carried forward accumulated losses.

TURNOVER

(Rs. in Crores)



PLANT OPERATIONS

High levels of utilisation in the Ammonia and Urea plants could not be achieved on account of repeated unscheduled breakdown of critical equipment in the Ammonia plant. These unscheduled breakdowns resulted in production loss of 64 days during the year. A planned annual turnaround was taken in May and June 1997 for 38 days which got protracted during start up on account of leaks developing in certain equipment in spite of all equipment having been inspected during the turnaround.

As a result, production of Urea was 2.74 lakhs MT at 81% capacity utilisation. However, the per stream day capacity utilisation achieved, when the plants were running, was 104%.

Your Directors are happy to inform you that the Company has produced for the first time the highest ever quantity of DAP of 1.52 lakhs MT equivalent to 110% of the installed capacity. DAP production should have been higher by about 28,000 MT, but for the periodic "go slow" agitation resorted to by the contract workers employed in the loading operations.

Your Directors wish to place on record their continuing anxiety over the fast deteriorating conditions of the plants, especially the front end of the Ammonia plant. The revamp proposed under the rehabilitation package of September 1990, at the time when the UB Group was inducted into the Management of the Company, could not be undertaken due to the non-implementation of the rehabilitation package in its entirety. The plants have severely aged and are in desperate need of immediate attention. Continuous efforts to obtain the release of a part of the Company's own funds, currently totalling Rs. 91 crores, being held by the consortium of Banks and Financial Institutions, to undertake the revamp of the much needed limping front end of the Ammonia plant, have met with no success. Attempts through the BIFR for its release have also yielded no results even though the revamp is absolutely essential and has to be undertaken and is most critical if the Company is to continue to produce Urea.

The Directors cannot ignore the fact that with the increasing frequency of unscheduled breakdowns, further repair of certain critical equipment may not be possible after some time and a protracted shutdown may become inevitable. If this should happen, the production of Ammonia and Urea could get halted for a period upto 24 months till the technical study is completed by a consultant and on account of the long lead time for procurement of the required critical equipment. In such an eventuality, the very revival of the Company could be in jeopardy.

SALES

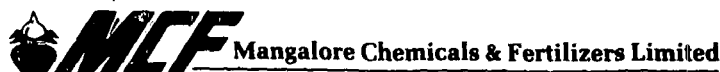
Sale of Mangala Urea during the year under review was 2.86 lakh tonnes as against 3.14 lakh tonnes last year due to the lower production. The Company sold a record 1.73 lakh MTs of DAP, the highest ever achieved after commencement of DAP production, registering an increase of 71% over last year.

Ammonium Bi-Carbonate [ABC] sales suffered on account of the lack of captive ammonia. However, ABC usage in the tanning industry was launched in December 1997 and it met with encouraging results.

Timely announcement of the Maximum Retail Price (MRP) by the Government of India coupled with enhancement in the ad hoc subsidy from Rs. 3,000 to Rs. 3,750 per MT for DAP with effect from 1-4-1997 directly resulted in boosting sales during Kharif '97. However, this price advantage was subsequently offset by the steep depreciation of the Rupee during the year resulting in a high cost push. The adverse conditions were compounded with the announcement by Government of India in February 1998 of the scaling down of the ad hoc subsidy by Rs. 250 per MT with retrospective effect from 1-10-1997. Concerted attempts made by the Fertiliser Association of India to correct the imbalances met with no success. The matter is now before the Delhi High Court.

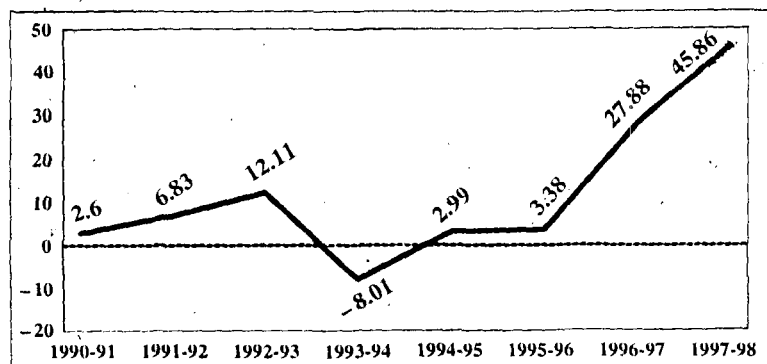
FINANCE

Eventhough the total income for the year at Rs. 453.26 crores was higher by 44% over the previous year, the working results for the year showed a net loss of Rs. 7.41 crores. The main reasons for the net loss were



the steep depreciation of the Rupee, reduction in the ad hoc subsidy on DAP and the lower production of DAP on account of incessant go-slow agitation adopted by contract workmen.

GROSS OPERATING PROFIT (Rs. in Crores)



However, the net profit for the year was Rs. 17.33 crores with the receipt of arrears of subsidy for the previous years. The profitability continued to be affected on account of the high interest charges on the heavy debt base of the Company which is continuing in the absence of implementation of a revival scheme by BIFR.

The debilitating 5% retention by the Banks continues. The total amount retained since June 1994 is Rs. 60.43 crores. All working capital facilities remain frozen severely hindering the operations and causing loss of interest to your Company. Rs. 27.39 crores continues to be retained by IDBI, despite the directives of BIFR to make Rs. 1.50 crores available to undertake the technical study for revamp of the front-end of the Ammonia plant. Considerable amounts are being spent on repairs and maintenance to keep the plants operational. The health of the Captive Power Plant, which was in particularly poor condition two years ago, has systematically been improved with parts replacement on scheduled dates and by undertaking modifications as suggested by the manufacturers. Considerable cost has been incurred for the annual turnaround in May and June 1997, especially to keep the Reformer operational. In spite thereof, the Reformer has given periodic problems and repeated shutdowns have been taken. Regrettably, the repairs carried out are merely "patch-work" and not adequate for efficient and trouble-free operation of the plants. Many downstream critical heat exchangers are in urgent need of replacement and are a source of continuous worry. The resultant cost of shutdown and start-up has been excessive.

Total Foreign Exchange used : Rs. 14497.55 lakhs

Total Foreign Exchange earned : Rs. 15.78 lakhs

INDUSTRIAL RELATIONS

The wage settlement for regular workers for a period of 4 years from 1-4-1996 to 31-3-2000, was signed before the Labour Commissioner by all the Unions for the very first time in the Company.

Negotiations are in progress for a four year wage settlement of the contract workers effective from 1-7-1996. In the meanwhile, a Government of Karnataka notification of April 1997, prohibiting the contract labour in industrial canteens in all industries employing more than 250 workmen, has resulted in serious labour unrest. The entire contract work-force is now demanding

regularisation even though the notification covers only canteen operations. Contract workers have been resorting to go-slow tactics frequently since January 1997 for one reason or another causing serious disruption in production and despatch of fertiliser.

REHABILITATION PACKAGE

Proceedings before the BIFR continue with no end in sight. The bid received from Kribhco against the IDBI advertisement of 12-11-1996 was rejected by BIFR on 5-5-1998 after 18 months as Government of Karnataka did not agree to the substantial reliefs and concessions sought by Kribhco in its proposal. Despite the informal directives from BIFR, the stand-alone proposal submitted by the Company in September 1997 has not been considered by IDBI so far. BIFR, vide its order dated 5-5-1998, has directed release of a third advertisement requiring a deposit of Rs. 5 crores along with each bid. Persistent requests to IDBI/BIFR for consideration of this stand-alone proposal for revival and waiver of the deposit requirement have not met with any success so far. Suitable efforts are continuing to have the Company's request accepted.

ENERGY, TECHNOLOGY & FOREIGN EXCHANGE

The details as prescribed under Section 217 (1) (e) of the Companies Act, 1956, read with Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988 are appended and form part of this report.

HUMAN RESOURCES DEVELOPMENT

Information required under Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the Annexure to the Directors' Report. However, as per the provisions of Section 219 (1) (b) (iv) of the Companies Act, 1956, the Report and the Accounts being sent to all shareholders of the Company do not include the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

Your Company's shares are listed at Bangalore, Mumbai, Chennai and Mangalore Stock Exchanges. The Company has paid up to date listing fee.

DIRECTORS

Mr S Venkataraman, who had been a member of the Board of Directors for more than a decade, passed away suddenly on 27-11-1997. His guidance and contribution which were of immense help to the Company, will now be sorely missed.

Government of Karnataka nominated Mr B K Das, Chairman & Managing Director, Karnataka State Industrial Investment & Development Corporation Limited, with effect from 18-12-1997 in place of Mr C Gopal Reddy. IDBI has withdrawn the nomination of Mr Ashok Kumar Doda, its Chief General Manager at New Delhi, with effect from 6-3-1998 and is yet to appoint its new Nominee Director.

The Board places on record its appreciation for the valuable guidance received from the late S Venkataraman, Mr C Gopal Reddy and Mr A K Doda during their respective tenures as Directors and welcomes the new Director to the Board.

Mr N Viswanathan retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-appointment.

**AUDITORS**

The Auditors of your Company, Messrs Fraser and Ross, hold office until the conclusion of this Annual General Meeting, and being eligible offer themselves for re-appointment.

institutions, banks, suppliers, dealers, the farming community and its customers and shareholders. The Board also appreciates the contribution made by all employees striving to turnaround your Company.

On behalf of the Board of Directors

ACKNOWLEDGEMENT

Your Directors take this opportunity to place on record their appreciation for the support from the State and Central Governments, local agencies, financial

Bangalore
July 13, 1998

Vijay Mallya
Chairman

FORM A (See Rule 2)**CONSERVATION OF ENERGY****A. Power and Fuel Consumption :**

	Unit	Current year 1997 - 98	Previous year 1996 - 97
1. Electricity			
a) Purchased Units	Lakh KWH	94.26	268.42
Total amount	Rs. lakhs	477.36	1196.09
Rate/Unit	Rs.	5.06	4.46
b) Own generation : Through Diesel Generator			
Units	Lakh KWH (Net)	1930.86	2196.83
Units	per litre of Fuel Oil	4.00	3.98
Cost/Unit	Rs.	2.54	2.38
2. Furnace Oil/LSHS (KL):			
Total amount	Rs. lakhs	48272.96	55201.43
Average Rate	Rs./KL	3255.05	3690.95
		6743.01	6686.33

B. Consumption per Unit of Production :

	Unit		
Products (with details)	KWH	712	703
Electricity - Urea	KWH	46	46
DAP	KL	0.095	0.095
Furnace Oil - Urea	KL	0.01	0.01
DAP			

FORM B (See Rule 2)**RESEARCH AND DEVELOPMENT (R & D)**

- Specific areas in which R & D carried out by the Company :
 - Indigenisation of imported spares (i) Gear Box internals of carbamate pump, (ii) Rotor Shaft of turbine, (iii) impeller for vent gas fan in DAP Plant, (iv) Cylinder liner for CO₂ gas compressor and (v) Reformer burner gun spares.
 - Cooling tower fan blades of aluminium material replaced with energy efficient hollow FRP blades.
 - Metal glide coating on casing and impellers of pumps.
- Benefits derived as a result of the above R & D :
 - Savings in energy consumption.
 - Savings in foreign exchange of approx. Rs. 75 lakhs by indigenisation of imported spares.
- Future plan of action :
 - Technical studies for achieving reliability in the plants.
 - Indigenisation of certain imported spare parts.
 - Usage of energy efficient lube oils in pumps and compressors.
 - Installation of soft starter system coupled to heavy duty compressors to restrict peak demand from Karnataka Electricity Board during plant start-up.
- Expenditure on R & D : No separate account is maintained.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- Efforts, in brief, made towards technology absorption, adaptation and innovation : Assessment of existing Ammonia plant performance parameters along with original designers to keep the plant at an optimum level achievable given its age and the need for revamp.
- Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc. : Improvement in per stream day efficiency.
- In case of imported technology following information may be furnished : Not applicable