

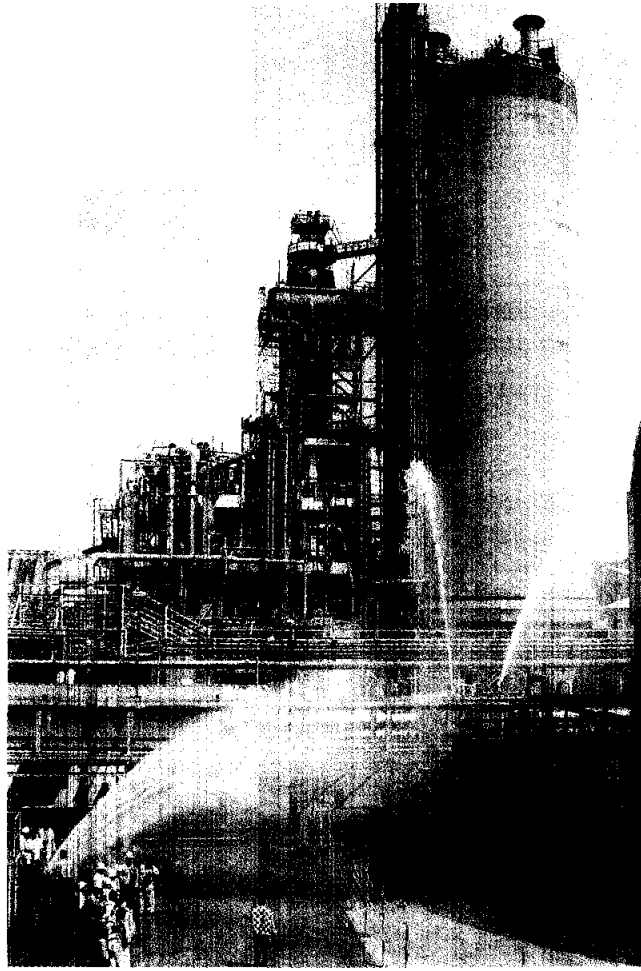


MCF

Mangalore Chemicals & Fertilizers Limited

**Annual Report
2000-2001**





Mock drill on toxic release



Captive power plant control room



Directors : Dr. Vijay Mallya, *Chairman*
 D. P. Mehta, *Managing Director*
 S. R. Gupte, *UB Group Nominee*
 B. S. Patil, *Government of Karnataka Nominee*
 C. K. Neelakanta Raj, *Government of Karnataka Nominee*
 S. Gajendran, *Institutional Nominee*
 G. Asvathanarayan, *BIFR Special Director*
 Mani Narayanswami, *Independent Director*
 P. C. Jain, *Wholetime Director*

Company Secretary : S. Kannan

Financial Institution : Industrial Development Bank of India

Bankers : UTI Bank Limited

Legal Advisers : King & Partridge

Auditors : Fraser & Ross

Registered Office : 10/2, Kasturba Road
 Bangalore – 560 001

Works : Panambur
 Mangalore – 575 010

Contents	Page No.
Notice	2
Directors' Report	4
Auditors' Report	10
Balance Sheet	12
Profit and Loss Account	13
Schedules	14
Cash Flow Statement	25



NOTICE

To

The Members,

NOTICE is hereby given that the Thirty-fourth Annual General Meeting of the Members of the Company will be held at 11.00 a.m. on Monday, September 24, 2001 at Gurunanak Bhavan, No. 6, Jasma Road, Off. Queen's Road, Vasanthnagar, Bangalore - 560 052 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Balance Sheet as at March 31, 2001 and the Profit and Loss Account for the year ended on that date and the reports of the Board of Directors and the Statutory Auditors.
2. To appoint a Director in place of Mr. C. K. Neelakanta Raj, who retires by rotation and, being eligible, offers himself for re-appointment.
3. To appoint Statutory Auditors and, in this connection, to pass, with or without modification, the following resolution as a Special Resolution:

RESOLVED THAT Fraser & Ross, Chartered Accountants, retiring Auditors of the Company, be and are hereby re-appointed Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting, on a remuneration of such sum as may be fixed by the Board of Directors, in addition to reimbursement of travel and out-of-pocket expenses incurred by them for the purpose of Audit of the Company's Accounts.

SPECIAL BUSINESS:

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

"RESOLVED THAT Mr. Padam Chand Jain, who was appointed as an Additional Director of the Company pursuant to Section 260 of the Companies Act, 1956 holds Office upto the date of this Annual General Meeting. The Company has received a notice under Section 257 of the Companies Act, 1956, in writing, proposing the candidature of Mr. Padam Chand Jain for the office of Director, be and is hereby appointed as a Wholtime Director of the Company subject to retirement by rotation under the Articles of Association of the Company.

RESOLVED FURTHER THAT in accordance with the provision of Section 198, 269 and 309 read with Schedule XIII and all other applicable provisions of the Companies Act, 1956 [including any statutory

modification(s) or re-enactment thereof, for the time being in force], the consent of the Company be and is hereby accorded to the appointment of Mr. Padam Chand Jain as a Wholtime Director from May 2, 2001 till the date of his superannuation as per rules of the Company.

RESOLVED FURTHER THAT Mr. Padam Chand Jain shall receive such remuneration from the Company and that his appointment shall be on the terms and conditions as are set out in the agreement entered into between the Company and Mr. Padam Chand Jain, a draft whereof is placed before this meeting which agreement is hereby specially sanctioned with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or agreement so as to be in conformity with Schedule XIII to the Companies Act, 1956 including any statutory modification(s) or re-enactment thereof, for the time being in force and/or any modification(s) that may hereafter be made thereto by the Central Government in that behalf from time to time and the Board of Directors be and is hereby authorised to take such steps as may be necessary to give effect to this resolution.

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

RESOLVED THAT subject to the provisions of the Companies Act, 1956, Securities Contracts [Regulation] Act, 1956 and the rules framed thereunder, Listing Agreement and all other applicable laws, rules, regulations and guidelines and subject further to such approvals, permissions and sanctions as may be necessary, the consent of the Company be and is hereby accorded to the Board of Directors [which term shall include a Committee thereof] to delist the Equity Shares of the Company from the Madras Stock Exchange Limited.

RESOLVED FURTHER THAT the Board of Directors be and it is hereby authorised to do and perform all such acts, deeds, matters and things as may be deemed necessary to give effect to the above Resolution.

By Order of the Board

Bangalore
September 1, 2001

S. Kannan
Company Secretary

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY, TO ATTEND AND VOTE INSTEAD OF HIMSELF, AND SUCH A PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES IN ORDER TO BE VALID AND EFFECTIVE MUST BE DELIVERED AT THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.



2. The relevant explanatory statement pursuant to the provisions of Section 173(2) of the Companies Act, 1956 in respect of Item No. 4 and 5 is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from 22-09-2001 to 24-09-2001 (both days inclusive).
4. Shareholders seeking any information with regard to accounts are requested to write to the Company at an early date to enable the Management to keep the information ready.
5. Members who hold shares in dematerialised form are requested to bring their Client ID and DPID numbers for easy identification of attendance at the meeting.

Abstract of the draft agreement entered into by the Company with Mr. Padam Chand Jain, in respect of his appointment, inter alia, contains the following terms and conditions:

The Board of Directors has, at its Meeting held on April 20, 2001 appointed Mr. Padam Chand Jain, as a Wholtime Director with effect from May 2, 2001 till the date of his superannuation as per rules of the Company. The Agreement entered into by the Company with Mr. Padam Chand Jain in respect of his appointment, inter alia, states that:

1. Mr. Padam Chand Jain shall be entitled to receive remuneration of Rs. 1,20,000 p.m.
Besides salary, he shall be entitled to perquisites and allowances like leased accommodation, house maintenance allowance, medical reimbursement, leave travel concession for self and his family and Company maintained Car as per ceilings prescribed under the rules of the Company and subject to the overall ceiling of remuneration stipulated in Section 198 and 309 of the Companies Act, 1956. The said perquisites and allowances shall be evaluated, wherever applicable, as per the Income Tax Act, 1961 or any rules thereunder [including any statutory modification(s) or re-enactment thereof, for the time being in force].
2. The terms and conditions for appointment may be altered and varied from time to time by the Board of Directors of the Company, as it may, in its discretion, deem fit so as to be in conformity with Schedule XIII to the Companies Act, 1956 [including any statutory modification(s) or re-enactment thereof, for the time being in force], or any amendments made thereto.
3. The agreement may be terminated by either party by giving to the other party three months' prior notice in writing.

The agreement entered into between the Company and Mr. Padam Chand Jain is available for inspection at the Registered Office of the Company during business hours on all working days, excluding Saturday and Sundays between 9.00 a.m. and 1.00 p.m., upto the date of Annual General Meeting.

EXPLANATORY STATEMENT

The Explanatory Statement under Section 173(2) of the Companies Act, 1956 for Item No. 4 and 5 of the accompanying Notice is as under:

Item No. 4

Mr. Padam Chand Jain was appointed by the Board of Directors as an Additional Director on April 20, 2001. Pursuant to Section 260 of the Companies Act, 1956, Mr. Padam Chand Jain will hold office as Additional Director upto the date of the ensuing Annual General Meeting. The Company has received a Notice in writing from a member proposing the candidature of Mr. Padam Chand Jain for the office of Director of the Company under the provisions of Section 257 of the Companies Act, 1956.

Mr. Padam Chand Jain holds a Post Graduate Degree in Mechanical Engineering and has over 29 years experience, most of which was in fertilizer industry and was last working as Vice President-Projects with Nagarjuna Oil Corporation. Mr. Padam Chand Jain joined the Company on May 2, 2001. Keeping in view his rich experience in the field of fertilizers, subject to the approval of Annual General Meeting, the Board of Directors, at its meeting held on April 20, 2001 appointed him as a Wholtime Director of the Company upto the date of the next Annual General Meeting.

The remuneration payable to Mr. Padam Chand Jain has been approved by the Board of Directors and is in accordance with the Act and Rules made thereunder.

The Directors recommend the resolution set out in the Notice for approval of the shareholders.

The above may also be treated as an abstract of the terms of agreement proposed to be entered into between the Company and Mr. Padam Chand Jain, pursuant to Section 302 of the Companies Act, 1956.

Save and except Mr. Padam Chand Jain, none of the Directors of the Company are, in any way, concerned or interested in the Resolution.

Item No. 5

The Equity Shares of the Company are presently listed and traded on the Mumbai, Bangalore, Mangalore and Madras Stock Exchanges. With the extensive networking of the Stock Exchange, Mumbai (BSE) and the extension of the BSE terminals to the other cities, investors have access to online dealings in the Equity Shares of the Company across the country. The bulk of the trading in the Equity Shares of the Company is, in any case, done on the Mumbai Stock Exchange only. In fact, the Equity Shares of the Company were not traded on the Madras Stock Exchange in recent years. It is, therefore, proposed to voluntarily delist the Equity Shares from the Madras Stock Exchange. The proposed delisting of the Equity Shares of the Company from the Madras Stock Exchange, as and when it takes place, will not in any way adversely affect the investors. The delisting will be effected after all necessary approvals, sanctions and consents as are necessary are obtained and after following the prescribed procedure in this regard.

As per SEBI guidelines, voluntary delisting from the Stock Exchanges needs a special Resolution to be passed by the members at the General Meeting. Hence, the resolution, as given in the Notice, is recommended for approval of the Members at the Meeting.

None of the Directors of the Company are, in any way, concerned or interested in the Resolution.



DIRECTORS' REPORT

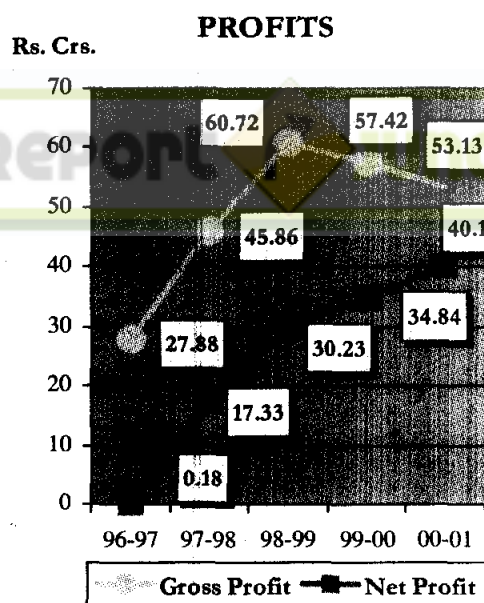
The Directors are very pleased to present your Company's 34th Annual Report together with the audited statement of accounts for the year ended March 31, 2001.

CORPORATE RESULTS

Your Company's performance continued to be satisfactory.

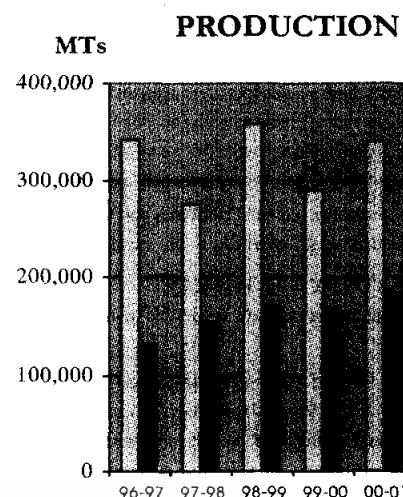
	(Rs. Crores)	
	2000 - 01	1999 - 00
Turnover	680.63	615.65
Operating Profit	53.13	57.42
Interest	5.39	0.81
Depreciation	7.59	21.77
Net Profit (before tax)	40.15	34.84
Net Worth	172.02	120.70

Income-tax of Rs. 3.61 crores has been provided as Minimum Alternative Tax.



The turnover of your Company at Rs. 681 crores has increased by 11% and the net profit

before tax at Rs. 40.15 crores grew by 15% over the previous year. Production of Urea and DAP at 3,40,050 tonnes and 1,80,229 tonnes during the year was at 100% and 131% respectively of the installed capacities. On account of the cap on production imposed by the Government of India, Urea production had to be stopped on March 6, 2001 after achieving the installed capacity. Necessary plant maintenance was carried out till production resumed on April 2, 2001. Record levels of production were achieved during the year in both DAP and ABC.



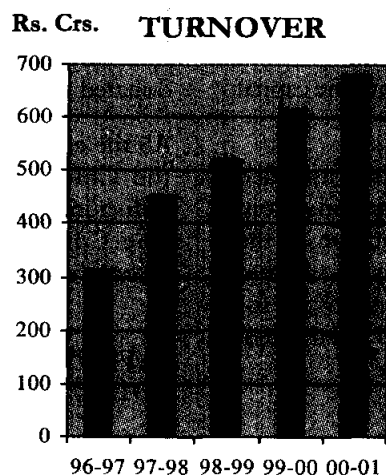
DAP operations continued in loss throughout the year due to the un-remunerative price and concession announcements by the Government of India.

SALES

During the year, the aggregate sales volumes of the different products of 5.7 lakh MTs remained at the level of the previous year. As such, there was no volume growth due to the drop in consumption. One of the main reasons for this was the poor purchasing power of the farmers due to the low agricultural commodity prices. While the monsoon failed in many parts



of the country, the rains were generally good in most of the Company's sale territory.



There has been an improvement and consolidation of the company's presence in granulated fertilizers. The contribution from this activity has been encouraging.

REVIVAL

The Directors are very pleased to inform you that The Board for Industrial & Financial Reconstruction (BIFR) circulated the revival scheme for your Company by its Order of December 1, 2000. This is in recognition of the vastly improved operations and financial health in the last five years.

The scheme is based on the acceptance of the offer of one-time settlement to all the lenders. The total crystallized debt to be repaid to the banks, financial institutions (FIs) and lessors totalled Rs. 210 crores. The loans from Government of Karnataka of Rs. 28.25 crores are deferred for settlement in five equal installments commencing from 2005-06. The capital expenditure to be incurred for the revamp of the plant and equipment in the first five years, commencing from 1999-2000, is Rs. 175 crores.

The remaining amounts have been met through the monies retained with the banks and FIs, additional contribution of Rs. 20 crores by the UB Group and the balance through internal generations.

The implementation of the scheme is on schedule. The Company's net worth turned positive in the very first year - at Rs. 120.70 crores as on March 31, 2000. Rs. 171 crores of the total crystallised dues have already been paid to the consortium of banks and FIs. The balance is due to only one institution should be cleared shortly.

The first phase of the revamp of the Ammonia/Urea plants was completed in April, 2000 at a cost of Rs. 53 crores. The second phase is under implementation and is to be completed by March 31, 2002 at a cost of Rs. 52 crores.

FERTILIZER POLICY

The long-term fertilizer policy announcement of the Government of India is long overdue and anxiously awaited. The resulting uncertainty and, in the interim, the implementation of frequent piecemeal procedural changes, is a cause of great worry not just for your Company, but for the fertilizer industry as a whole. One major change that was enforced in 2000-01 by Government of India was imposing a cap on Urea production. For your Company, the cap was restricted to the rated capacity. For most other plants, the cap was below their rated/re-assessed capacities. Hence, the Ammonia/Urea plants had to be shut down from March 6, 2001 till March end. This did have an impact on profitability.

The Government is considering the acceptance of the recommendations of the Expenditure Reforms Commission which *inter-alia* has recommended dividing the fertilizer industry into distinct groups based on feedstock. Instead of unit-wise retention price announcements, group retention price on the principle of weighted average prices is proposed to be



formulated and implemented. Urea decontrol is planned by 2007 with a gradual annual price increase to the farmer of 7%. In addition, all naphtha-based plants are required to convert to Liquefied Natural Gas (LNG) by 2005 at the latest. There are no indications on the means of funding this conversion and whether the capital cost would be recognized.

In addition, the Government has dismantled the regime of quantitative restrictions from April 1, 2001 with the implementation of the WTO Protocol. While, technically, the barrier on the import of Urea has been removed, for the present, imports are to be canalized through specified government agencies only.

DIVERSIFICATION

In view of the uncertainties facing our industry and the constant attempts to bring down the subsidy bill by imposing frequent changes, your management is identifying strategies to lower dependence on just one line of business.

FINANCE

Stress on tighter working capital management continued to challenge all aspects of the business. High levels of operations were maintained. The war on costs continued and, wherever possible, savings were effected.

HUMAN RESOURCE MANAGEMENT

People remain at the centre stage of the growth strategy. There is a definite commitment to re-train employees at all levels.

In January this year, a second Voluntary Retirement Scheme was concluded. 123 employees exercised their option at a total cost of Rs. 3.28 crores.

SOCIAL WELFARE

The UK-MCF-TGB Gramvikas Trust, set up exclusively for rural development, continuously

undertakes projects that benefit rural communities. During the year, construction of a water supply and distribution system was taken up in a village close to our plant at Mangalore. In addition, a community hall was constructed in Bellary District and medical instruments were donated to a social organization.

All the employees contributed a day's salary to the Chief Minister's Relief Fund for the unfortunate victims of the Gujarat earthquake. The Company, too, donated towards the reconstruction of the ravaged State.

SAFETY, ENVIRONMENT AND POLLUTION CONTROL

The management of safety and the environment continued to receive the highest priority within the organization. All measures suggested by the statutory authorities as well as the different study groups were implemented. Permanent and contract workers are made aware, through repeated training, on handling of safety equipment and the procedures to be followed in the event of an emergency. Mock drills, at regular intervals, are being conducted inside the plant.

CAPITAL MARKETS

Trading in equity shares of your Company has been made compulsory in the dematerialized form with effect from September 27, 2000 under the notification issued by the Securities and Exchange Board of India [SEBI]. Over 52 per cent of the total number of equity shares are now being held in the electronic mode with two depositories.

Your Company's shares are listed on the Bangalore, Mangalore, Mumbai and Madras Stock Exchanges with full compliance of all necessary formalities.

As there is no trading in the Madras Stock Exchange in the last three years, your Directors have recommended for your approval for de-listing in the Madras Stock Exchange.

DIRECTORS' RESPONSIBILITY

Pursuant to the requirement under Section 217 [2AA] of the Companies Act, 1956, your Directors would like to state that :

- the applicable accounting standards have been followed in the preparation of the annual accounts and there are no material departures
- the accounting policies are in line with those generally accepted and have consistently been followed so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and the Profit for the year under review
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies [Amendment] Act, 2000, for safeguarding the assets of the Company and for preventing and detecting fraud and any irregularity
- the Directors have prepared the accounts on a going concern basis.

CORPORATE GOVERNANCE

In compliance with the guidelines of SEBI on Corporate Governance, the shareholders have approved the necessary amendments to the Articles of Association at the last annual general meeting. Action is underway to adhere to the deadline for implementation of the guidelines, i.e. March 31, 2002.

TECHNOLOGY AND FOREIGN EXCHANGE

The details, as prescribed under Section 217 (1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are appended and form part of this Report. During 2000-2001, the Company earned Rs. 0.06 crores and utilized Rs. 235.64 crores in foreign exchange.

PERSONNEL INFORMATION

No employee on the rolls of the Company was in receipt of a remuneration of more than Rs. 1,00,000/- per month or Rs. 12,00,000/- per annum and hence information as required under Section 217 (2A) of the Companies Act, 1956 and the rules made thereunder may be taken as nil.

INDUSTRIAL RELATIONS

While the impressive turn around and growth of the Company is considered unique and has been widely appreciated, regrettably the recalcitrant leadership of the majority trade union continued in its old ways of needless confrontation and indiscipline. Unsuccessful attempts at disrupting the smooth functioning of the plant, to the detriment of the workmen and organizational discipline, continued. Though the other trade unions have realized the need to work in partnership with the management, given the global competition unleashed as a result of the liberalization process gathering momentum throughout the country, the leadership of the majority union in the Company remains unfazed.

The validity of the tripartite wage settlement for regular workers expired on March 31, 2000. The majority union declined to submit a new charter of demands in spite of repeated requests from the management to do so. Eventually, nearly ten months later, a totally unrealistic charter of demands was submitted on January 18, 2001 seeking an increase in the annual wage bill of 275%. On February 1, 2001, the union was advised to resubmit a revised charter of demands along with the proposal of manpower rationalization, as mandated by the BIFR in the Rehabilitation Scheme. Instead of complying, the union served a strike notice on February 8, 2001, within 22 days of submitting a totally unrealistic list of demands. The notice of strike came as a complete surprise to a majority of the workmen as it did not carry their mandate.

From the very start of the agitation, a large number of workmen, across the three unions,