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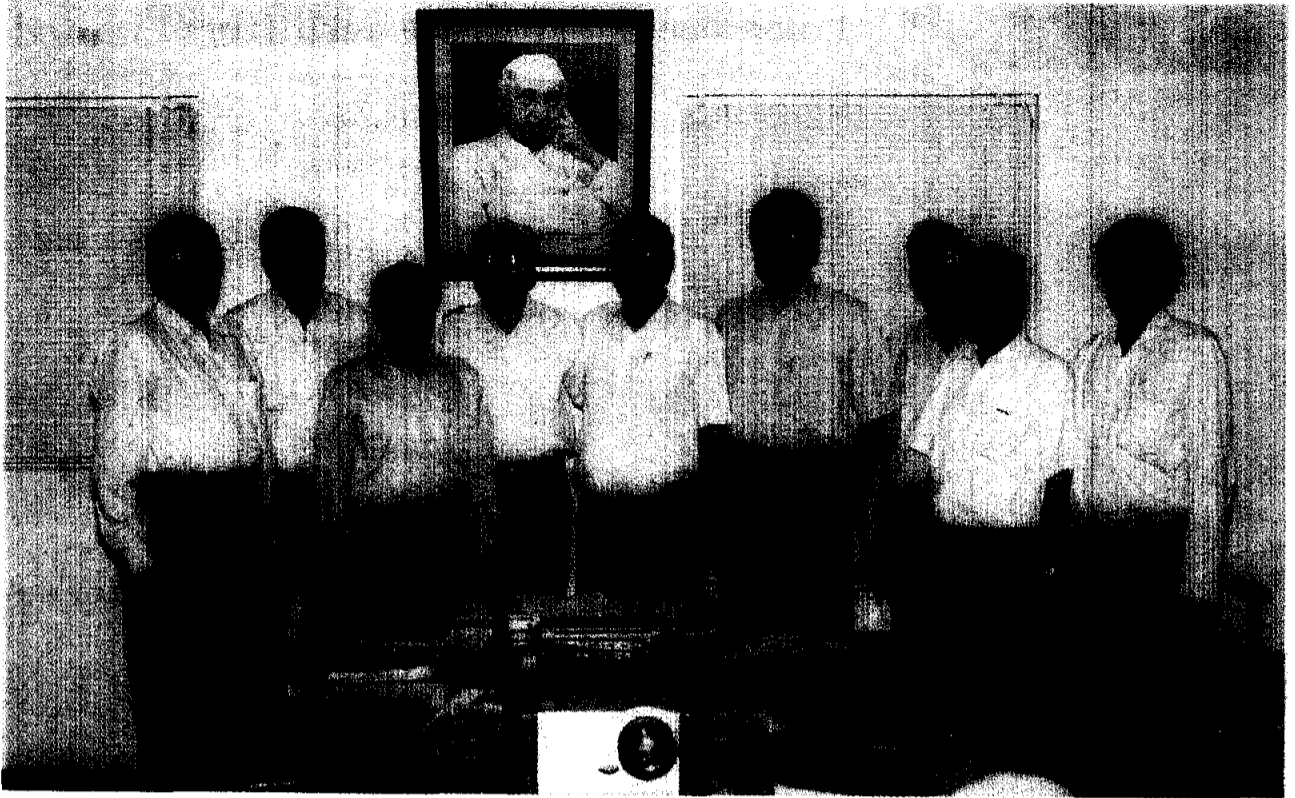
Mangalore Chemicals & Fertilizers Limited

**Annual Report
2001-2002**

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Management Committee



(From Left to Right) H. M. Kshetrapalaiah, General Manager [Marketing], A. S. Vijayakumar, General Manager [Maintenance], A. Rudrachary, Vice-President [Finance], P. C. Jain, Senior Vice-President [Works], G. V. A. Sastry, Technical Advisor, D. P. Mehta, Managing Director, S. Kannan, Company Secretary, B. S. Dattatreya, General Manager [Personnel & Administration], K. Prabhakara Rao, General Manager [Production]



Distributed Control System (DCS) installed for the Urea Plant operations



Directors	: Dr. Vijay Mallya, <i>Chairman</i> D. P. Mehta, <i>Managing Director</i> S. R. Gupte, <i>UB Group Nominee</i> K. K. Misra, <i>Government of Karnataka Nominee</i> S. Swatantra Rao, <i>Government of Karnataka Nominee</i> Pratap Narayan, <i>Independent Director</i> Mani Narayanswami, <i>Independent Director</i> Mahesh C. Verma, <i>BIFR Special Director</i> P. C. Jain, <i>Wholetime Director</i>
Company Secretary	: S. Kannan
Bankers	: UTI Bank Limited
Legal Advisers	: King & Partridge, Bangalore
Auditors	: Fraser & Ross, Bangalore
Registered Office	: 10/2, Kasturba Road, Bangalore – 560 001
Works	: Panambur, Mangalore – 575 010

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TEN YEAR RECORD

Rs. Crores

	01-02	00-01	99-00	98-99	97-98	96-97	95-96	94-95	93-94	92-93
Profit and Loss Account										
Sales	571.18	680.63	615.65	520.11	451.60	312.73	219.33	218.20	164.11	207.78
Other Income	11.76	8.08	2.97	1.79	1.66	0.84	0.41	2.83	4.49	4.10
Interest	7.17	4.61	0.81	22.14	20.38	20.20	20.51	21.23	21.92	23.69
Depreciation	8.96	7.59	21.77	8.36	8.15	7.50	7.31	6.96	6.57	7.66
Net Profit/(Loss)	20.58	40.15	34.84	30.23	17.33	0.18	(21.29)	(36.52)	(57.06)	4.03
Balance Sheet										
Fixed Assets	145.30	108.75	110.91	101.99	95.26	91.98	89.63	94.06	93.46	91.32
Net Current Assets	94.62	122.90	107.46	164.86	120.31	85.92	76.27	82.35	102.95	136.03
Miscellaneous Expenditure	—	—	—	153.65	183.88	201.21	201.39	180.09	143.75	85.07
Total	239.92	231.65	218.37	420.50	399.45	379.11	367.29	356.50	340.16	312.42
Share Capital	123.36	123.36	103.36	103.36	103.36	103.36	103.36	103.36	103.36	101.55
Reserves & Surplus	48.21	48.67	17.34	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Loan Funds	49.52	59.62	97.67	316.97	295.92	275.58	263.76	252.97	236.63	210.70
Deferred Tax Liability	18.83	—	—	—	—	—	—	—	—	—
Total	239.92	231.65	218.37	420.50	399.45	379.11	367.29	356.50	340.16	312.42

SIGNIFICANT FINANCIAL RATIOS

Return on Average Capital Employed	[%]	11.77	19.89	14.70	21.71	19.17	10.87	(1.97)	(0.78)	(4.61)	4.07
Operating Profit to Sales	[%]	4.37	6.50	8.84	11.33	9.79	8.10	1.61	1.22	(4.68)	5.96
Current Ratio	[Times]	1.84	2.46	1.79	1.76	1.53	1.42	1.39	1.43	1.55	2.25
Quick Ratio	[Times]	1.25	1.63	1.32	1.21	1.01	0.65	0.87	0.94	1.15	1.77
Sundry Debtors to Sales	[Months]	1.98	2.54	1.70	1.30	0.65	0.49	1.82	1.06	1.24	2.02
Inventory of Finished Goods to Sales	[Months]	0.27	0.42	0.11	0.47	0.74	2.00	0.48	0.69	0.51	0.60



NOTICE

To

The Members,

NOTICE is hereby given that the Thirty-fifth Annual General Meeting of the Members of the Company will be held at 3.30 p.m. on Thursday, September 26, 2002 at Gurunank Bhavan, No. 6, Jasma Bhavan Road, Vasanthnagar, Bangalore - 560 052 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Balance Sheet as at March 31, 2002 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. S. R. Gupte, 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 M/s 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. Pratap Narayan, who was appointed as an Additional Director of the Company by the Board of Directors and holds office upto the date of this Annual General Meeting pursuant to the

provisions of Section 260 of the Companies Act, 1956 ["the Act"] and is eligible for appointment and the Company has received a notice, under Section 257 of the Act and Article 109 of the Articles of Association of the Company, from a member of the Company proposing his candidature for the office of Director of the Company, and who has consented, if appointed, to act as a Director, be and is hereby appointed a Director of the Company, liable to retire by rotation.

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

RESOLVED THAT in accordance with the provision of Sections 198, 269 and 309, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 ["the Act"] [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 re-appointment of Mr D. P. Mehta as Managing Director from December 23, 2001 for a period of five years on the terms and conditions as set out in the Agreement with the parent Company, i.e. the UB Group, who has seconded his services to the Company, which agreement is hereby specifically approved with liberty to the Board of Directors of the Company to alter and vary the terms and conditions of the said Agreement as may be agreed to between the Board and Mr. D. P. Mehta.

RESOLVED FURTHER THAT the Board be and is hereby authorised to do all such acts, deeds, matters and things as may be considered necessary, usual or expedient to give effect to the above Resolution.

By Order of the Board

S. Kannan
Company Secretary

Bangalore
September 2, 2002

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. An explanatory statement pursuant to the provisions of Section 173(2) of the Companies Act, 1956 is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from 24-09-2002 to 26-09-2002 (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 DP ID numbers for easy identification of attendance at the meeting.
6. The members are requested to:
 - a) consider dematerialising the equity shares held by them.
 - b) check the address printed on the cover of the Annual Report for any discrepancy in the address. If there is any change, members are requested to communicate the correct address including pin code to the Company/depository participant.



- c) quote ledger Folio/DP and Client identity No. in all their correspondence.
- d) approach the Company for consolidation of folios, if physical shareholdings are under multiple folios;
- e) get the shares transferred in joint names, if shares are held in single name to avoid inconvenience;
- f) bring their copy of the Annual Report and the Attendance slip duly filled-in with them at the AGM;
- g) send to the Company duly filled-in form for appointment of nominee for the shares held. The prescribed form for appointment of nominee will be made available on request.

7. Details of Directors seeking appointment/re-appointment at the forthcoming Annual General Meeting are as follows:

[Pursuant to Clause 49 of the Listing Agreement]

Name of the Director	S. R. Gupte	Pratap Narayan	D. P. Mehta
Date of Birth	06-03-1939	11-05-1935	10-03-1951
Date of Appointment	23-12-1996	31-01-2002	23-12-1996
Expertise in Specific functional areas	Retired acting Chairman of Air India and Vice Chairman of the UB Group since 1992.	The first Executive Director of FICC and recently retired as Director General of the Fertilizer Association of India.	A senior Finance Executive of the UB Group. Has been incharge of Finance at MCF for 6 years and was Executive Vice President (Finance) before elevation to the present position.
Qualifications	Chartered Accountant	I.R.T.S. (Retd.)	Chartered Accountant
Directorship in other Public Limited Companies	Asian Age Holdings Ltd. Associated Breweries & Distilleries Ltd. Aventis Pharma Ltd. Aventis CropScience India Ltd. BDA Ltd. Herbertsons Ltd. Inertia Industries Ltd. McDowell & Co. Ltd. McDowell Alcobev Ltd. Rifa Publications Pvt. Ltd. UB-AMS Medical Systems (India) Ltd. UB Electronic Instruments Ltd. UB Engineering Ltd. UB Global Corporation Ltd. United Breweries [Holdings] Ltd.	Nil	Nil
Membership of Committees in other Public Limited Companies	Audit Committee: Aventis Pharma Ltd., Chairman Aventis CropScience India Ltd., Chairman Inertia Industries Ltd., Member McDowell & Co. Ltd., Member UB Engineering Ltd., Chairman Shareholders/Investors Grievance Committee: Aventis Pharma Ltd., Chairman Aventis CropScience India Ltd., Chairman UB Engineering Ltd., Member McDowell & Co. Ltd., Member of the Compensation Committee McDowell & Co. Ltd., Member of the General Committee	Nil	Nil

**MR. S. R. GUPTA:**

At the ensuing Annual General Meeting, Mr. S. R. Gupta, retires by rotation and being eligible, offer himself for re-appointment. The information to be provided for the aforesaid Directors under the code of Corporate Governance is furnished above:

He is the Member of the Audit Committee of the Company.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956**RESOLUTION AT ITEM NO. 4:****MR. PRATAP NARAYAN:**

Mr. Pratap Narayan was appointed by the Board pursuant to Section 260 of the Companies Act, 1956 and Article 112 of the Articles of Association of the Company, as an Additional Director with effect from January 31, 2002.

Mr. Pratap Narayan is an eminent personality in the field of fertilisers, both in India and abroad. He is IRTS (Retd.). Mr. Pratap Narayan was the first Executive Director of the Fertilizer Industry Co-ordination Committee, Government of India and recently retired as the Director General of the Fertilizer Association of India.

The Board of Directors is of the opinion that Mr. Pratap Narayan's vast experience and expertise will be highly beneficial to the Company.

The Company has received a notice from a member signifying his intention to propose the appointment of Mr. Pratap Narayan as Director of the Company. The said notice is accompanied by a deposit of Rs. 500/-, as required by law.

Mr. Pratap Narayan is a member of the Audit Committee & Shareholders Investors' Grievance Committee.

The Resolution is accordingly recommended for the approval of the members.

None of the Directors except Mr. Pratap Narayan is concerned or interested in the resolution.

RESOLUTION AT ITEM No. 5:**Mr. D. P. MEHTA:**

Mr. D. P. Mehta, was appointed the Managing Director of the Company for a term of five years expiring on December 22, 2001. The Board of Directors, at its Meeting held on October 18, 2001, re-appointed Mr. D. P. Mehta as the Managing Director with effect from December 23, 2001 for a period of 5 years, subject to approval of the members in General Meeting.

Mr. Mehta is a senior Finance Executive of the UB Limited and was seconded to the Company on October 1, 1990. He will, therefore, continue to be governed by the terms and conditions of his appointment by United Breweries Limited and will draw a token salary of Re. 1/- per month from the Company.

The appointment will be subject to termination by 3 months' notice in writing by either side.

This may be treated as an abstract pursuant to Section 302 of the Companies Act, 1956.

Save and except Mr. D. P. Mehta, Dr. Vijay Mallya and Mr. S. R. Gupta, none of the other Directors of the Company are, in any way, concerned or interested in the Resolution.

Bangalore
September 2, 2002

By Order of the Board

S. Kannan
Company Secretary



DIRECTORS' REPORT

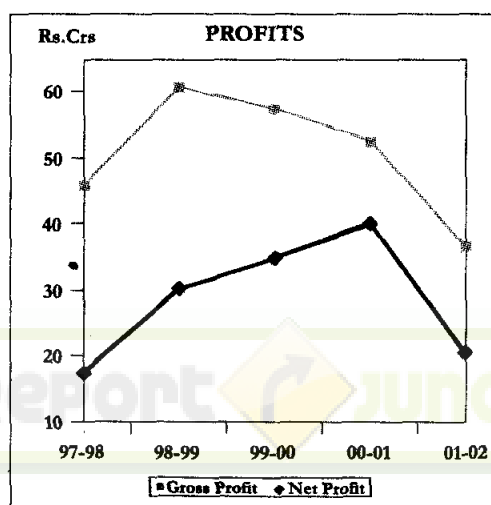
The Directors are pleased to present your Company's thirty-fifth Annual Report together with the audited statement of accounts for the year ended March 31, 2002.

CORPORATE RESULTS

The Financial highlights for the year under review are given below:

	(Rs. Crores)	
	2001 - 02	2000 - 01
Turnover	571.18	680.63
Operating Profit	36.71	52.35
Interest	7.17	4.61
Depreciation	8.96	7.59
Net Profit (before tax)	20.58	40.15
Net Worth	171.57	172.02

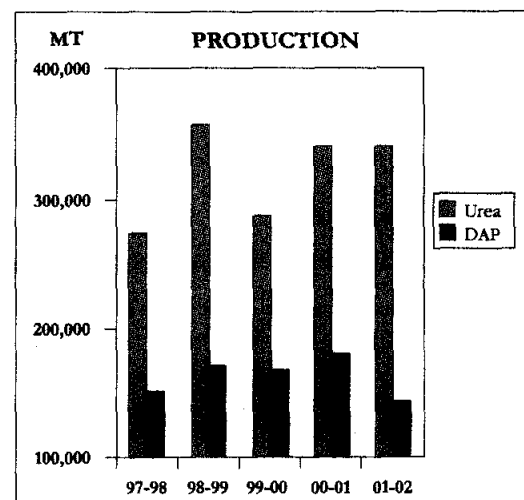
In view of the BIFR sanctioned scheme of revival being implemented, your Directors do not recommend any dividend on Equity Shares.



Minimum Alternative Tax of Rs. 1.57 crores and Deferred Tax of Rs. 8.42 crores have been provided.

While the turnover of your Company at Rs. 571 crores decreased by 16%, the net profit before tax from the year's operations at Rs. 21 crores dropped by 49% over the previous year. Production of Urea and Di-ammonium Phosphate (DAP) at 3,40,002 tonnes and 1,44,642 tonnes during the year was at 100% and 105% respectively of the installed capacities. Record levels of production were achieved in Ammonium Bi-Carbonate (ABC). On account of the cap on production imposed by the Government of India (GOI), Urea production had to be stopped on February 23, 2002 upon achieving the installed capacity.

Given the protracted shutdown necessitated by the cap on production imposed by GOI, Phase 2 revamp programme was taken up and completed by the middle of May 2002. The Ammonia, Urea and DAP plants now stand completely revamped. In addition, all eight engines in the Captive Power Plant are in good condition. High and efficient levels of production can consistently be maintained in all the plants in the years to come.



DAP production and, hence, sales had to be curtailed due to intense competition, drop in consumption and failure of the monsoons. Sale of granulated fertilizers, launched last year, was also affected in view of Government of Karnataka's directive against the use of indigenously manufactured fertilizers in their manufacture.

GOI revised the consumption norms of Naphtha based plants with retrospective effect from April 1, 2000 by a notification dated November 5, 2001. As a result, a recovery of Rs. 72 crores was imposed upon your Company. Given the inability to meet this demand, a writ petition was filed in the Karnataka High Court and an interim stay obtained. Arguments have been concluded and the court order is awaited. Subsidy payments stopped and the amount was adjusted against the monthly bills submitted by the Company to the GOI. Cash flows were severely strained and conservation of resources was another reason for the DAP plant operations having to be closed. Stringent cost reduction measures were enforced throughout the organization to tide over the difficult position.

The scheduled revamp of the Urea plant was commenced immediately after manufacturing the quantity of Urea production permitted by the GOI. The revamp had to be completed as financial commitments had already been made.



Equipment and material were at site. Besides, the revamp was crucial as the urea plant was severely aged and needed major work to be done for ensuring consistent operations in future years.

In May 2002, GOI announced the 7th and 8th pricing policy parameters, including the reduction in consumption norms, effective July 1, 1997. A detailed working, based on the policy, indicates a net loss of Rs. 43 crores to the Company. The revised retention prices are yet to be announced in spite of the lapse of two months.

Uncertainty continues to shroud the announcement of the long-term fertilizer policy. From the indications received from time-to-time, the announcement of the policy is likely to be further delayed and could prove to be highly detrimental to the viability of this vital sector.

SALES

The aggregate sales volume of the different products (5.49 lakh MTs) during the year was lower by 4% over last year. This is mainly due to the failure of the South West monsoon during Kharif 2001 and the consequent fall in consumption of all fertilizers.

Your Company continued trading in Urea and MOP as well as offered material handling services to other organizations.

FINANCE

In view of the GOI's unilateral action of drastically reducing the retention price with retrospective effect from April 1, 2000, working capital management proved to be a challenge. As a result, even more stringent cost reduction and energy saving schemes were

successfully implemented with the co-operation of all employees.

The implementation of the BIFR approved revival scheme is almost complete except Rs. 4.39 crores due to Allahabad Bank against the old DAP 1 lease transaction. Dues of all other creditors have been paid. The repayment of loans to the Government of Karnataka of Rs. 28.32 crores is provided in the scheme in five equal instalments commencing 2005-06.

Your Company's capital expenditure programme is on schedule as per the revival scheme.

REDEMPTION OF PREFERENCE SHARES

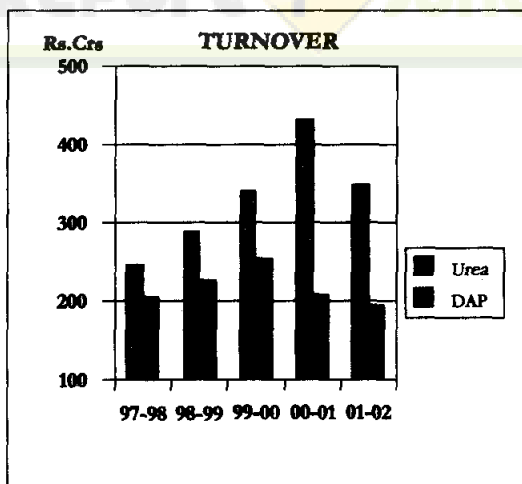
The BIFR Revival Scheme dated December 1, 2000 provides for the redemption of 13% Cumulative Redeemable Preference Shares, along with the payment of arrears of preference dividend, amounting to Rs. 11.06 crores by March 31, 2003.

HUMAN RESOURCE MANAGEMENT

Through the implementation of 5S, Total Productivity Maintenance and Key Result Area initiatives, the work-culture as well as organizational efficiency have improved. These efforts are being further strengthened to ensure they become a way of life.

During the year, 18 employees took voluntary retirement at a total cost of Rs. 48.86 lakhs. The total strength of permanent employees at the end of the year was 888.

With work processes having been redefined manpower productivity has vastly improved.



SOCIAL WELFARE

Under the auspices of the UK-MCF-TGB Gramvikas Trust, Financial Assistance continued to be extended to suitable social causes. A lighting system was set up at Kulanje Village, Udupi District. Construction of classrooms was completed in a residential school in Hebbal Village of Navalgund Taluk. A kitchen and a dining hall were built in the community hall at Nagathi, Basapura Village, Bellary District.

SAFETY, ENVIRONMENT AND POLLUTION CONTROL

During the year, the Company maintained zero liquid effluent discharge by recycling the entire quantity of

treated effluent for process cooling needs, gardening and watering the green belt within the plant premises.

High standards of safety continued inside the factory through continuous training and control measures. Regular mock drills were conducted throughout the year. The outcome of this concerted effort put in is adequately reflected in the maintenance of zero lost time accident status.

DIVERSIFICATION

Project identification work is going on and demand studies are being conducted. It is planned to finalize the selection shortly and then commence execution of the project in the shortest possible time.

CAPITAL MARKETS

Your Company has dematerialized 78% of the total number of equity shares being held in the electronic mode with NSDL and CDSL. A majority of the shares remaining to be dematerialized is with the public shareholders.

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

DIRECTORS' RESPONSIBILITY

Pursuant to Section 217 (2AA) of the Companies Act, 1956, your Directors wish 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 accounts have been prepared on a going concern basis

FIXED DEPOSITS

During the year under review, your Company has not accepted or invited any deposits from the Public.

INSURANCE

All the properties of the company are adequately insured.

CORPORATE GOVERNANCE

Your Company has put into practice a good corporate governance code and has taken action to meet stakeholders' expectations and to enhance stakeholder value. Mandatory provisions of the Securities Exchange Board of India [SEBI] guidelines on corporate governance are being fully complied with. As stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, a separate statement on corporate governance is annexed as part of this Report.

MANAGEMENT DISCUSSION & ANALYSIS

Report annexed.

TECHNOLOGY AND FOREIGN EXCHANGE

The particulars 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 2001-2002, the Company earned Rs. 0.10 crore and utilized Rs. 176.13 crores in foreign exchange.

PERSONNEL INFORMATION

During 2001-02, no employee on the rolls of the Company was in receipt of a remuneration of more than Rs. 2,00,000 per month or Rs. 24,00,000 per annum. 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

Despite repeated counselling to appreciate the serious threat, faced by the fertilizer industry in general and Naphtha based plants in particular, from the drastic actions by the GOI to somehow reduce the subsidy bill, the continued recalcitrant attitude of the majority union is coming in the way of the wage settlement for regular workers. The last settlement concluded on March 31, 2000. The management could have waited for the decision of the Industrial Tribunal where the matter has been referred. Realising the inevitable delay this approach would cause, the management offered good terms of revision, with prospective effect, directly to the workmen. This was done purely in the interest of the workmen. Regrettably, the expected number of acceptances was not received and the offer was withdrawn. As a result, the settlement with the contract workmen is delayed as certain