



MCF

Mangalore Chemicals & Fertilizers Limited

**Annual Report
2002-2003**



THE UB GROUP
FERTILIZER DIVISION



The Chairman, Dr. Vijay Mallya, interacting with farmers during an extensive tour of drought affected North Karnataka districts in Kharif 2003



Mrs. Gangamma, widow of Rajappa Kabbar, a farmer of Kathlagere Village, Davanagere District who died in an accident, receiving financial assistance under the '*Mangala Raitba Suraksha Vima Yojana*', a non-contributory scheme started by the Company in 2001-02. Under this scheme, 1,04,225 farming families have been given life insurance cover against accidental death of the farmer. So far, 9 farming families have received similar benefits.



Directors : Dr. Vijay Mallya, *Chairman*
D. P. Mehta, *Managing Director*
S. R. Gupte, *UB Group Nominee*
Subir Hari Singh, *Government of Karnataka Nominee*
P. Kotilingangoud, *Government of Karnataka Nominee*
Mani Narayanswami, *Independent Director*
Pratap Narayan, *Independent Director*
Padam Chand Jain, *Wholetime Director*

Company Secretary : S. Kannan

Bankers : UTI Bank Limited

Legal Advisers : King & Partridge, Bangalore

Auditors : Fraser & Ross, Bangalore

Registered Office : No. 5 Crescent Road, High Grounds, Bangalore – 560 001

Works : Panambur, Mangalore – 575 010

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TEN YEAR RECORD

Rs. Crores

	02-03	01-02	00-01	99-00	98-99	97-98	96-97	95-96	94-95	93-94
Profit and Loss Account										
Sales	562.79	571.18	680.63	615.65	520.11	451.60	312.73	219.33	218.20	164.11
Other Income	6.55	11.76	8.08	2.97	1.79	1.66	0.84	0.41	2.83	4.49
Interest	3.80	7.17	4.61	0.81	22.14	20.38	20.20	20.51	21.23	21.92
Depreciation	10.25	8.96	7.59	21.77	8.36	8.15	7.50	7.31	6.96	6.57
Net Profit/(Loss)	20.78	20.58	40.15	34.84	30.23	17.33	0.18	(21.29)	(36.52)	(57.06)
Balance Sheet										
Fixed Assets	256.78	145.30	108.75	110.91	101.99	95.26	91.98	89.63	94.06	93.46
Net Current Assets	121.69	94.62	122.90	107.46	164.86	120.31	85.92	76.27	82.35	102.95
Miscellaneous Expenditure	—	—	—	—	153.65	183.88	201.21	201.39	180.09	143.75
Total	378.47	239.92	231.65	218.37	420.50	399.45	379.11	367.29	356.50	340.16
Share Capital	118.55	123.36	123.36	103.36	103.36	103.36	103.36	103.36	103.36	103.36
Reserves & Surplus	167.33	48.21	48.67	17.34	0.17	0.17	0.17	0.17	0.17	0.17
Loan Funds	67.94	49.52	59.62	97.67	316.97	295.92	275.58	263.76	252.97	236.63
Deferred Tax Liability	24.63	18.83	—	—	—	—	—	—	—	—
Total	378.47	239.92	231.65	218.37	420.50	399.45	379.11	367.29	356.50	340.16

SIGNIFICANT FINANCIAL RATIOS

Return on Average											
Capital Employed	[%]	9.60*	11.77	19.89	14.70	21.71	19.17	10.87	(1.97)	(0.78)	(4.61)
Operating Profit to Sales	[%]	5.03	4.37	6.50	8.84	11.33	9.79	8.10	1.61	1.22	(4.68)
Current Ratio	[Times]	2.18	1.84	2.46	1.79	1.76	1.53	1.42	1.39	1.43	1.55
Quick Ratio	[Times]	1.25	1.25	1.63	1.32	1.21	1.01	0.65	0.87	0.94	1.15
Sundry Debtors to Sales	[Months]	2.37	1.98	2.54	1.70	1.30	0.65	0.49	1.82	1.06	1.24
Inventory of Finished Goods to Sales	[Months]	0.84	0.27	0.42	0.11	0.47	0.74	2.00	0.48	0.69	0.51

* Capital employed excludes Revaluation Reserve.



NOTICE

To

The Members,

NOTICE is hereby given that the Thirty-sixth Annual General Meeting of the Members of the Company will be held at 12.00 noon on Monday, September 22, 2003 at Gurunanak Bhavan, No. 6, Jasma Road, Vasanthnagar, Bangalore – 560 052 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Balance Sheet as at March 31, 2003 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. Mani Narayanaswami, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Padam Chand Jain, who retires by rotation and being eligible, offers himself for re-appointment.
4. 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 K. P. Rao & Company, Chartered Accountants, be and are hereby appointed as Auditors of the Company in place of the retiring auditors, for which necessary notice has been received from a member, to hold office from the conclusion of this Annual General 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:

5. To consider and if thought fit, to pass, with or without modification, the following as an **ORDINARY RESOLUTION**:

RESOLVED THAT the consent of the Company be and is hereby accorded under the provisions of Section 293 (1) (a) and other applicable provisions, if any, of the Companies Act, 1956 to mortgaging and / or charging and / or hypothecating by the Board of Directors of the Company in favour of UTI Bank Limited of all the immoveable and moveable properties of the Company wheresoever situate, present and future, and the whole or substantially the whole of the undertaking of the Company as may be agreed to between the Board of Directors and the UTI Bank Limited to secure the loans borrowed from the UTI Bank Limited within the ceilings laid down under Section 293 (1) (d) of

the Companies Act, 1956 and conferring power to enter upon and take possession of the assets of the Company in certain events, to or in favour of the UTI Bank Limited together with interest at the respective agreed rates, compound/additional interest, commitment charges, premium on prepayment or on redemption, costs, charges, expenses and all other monies payable by the Company in terms of respective Loan agreements/heads of agreements/Letters of Sanction/Memorandum of terms and conditions or any other Agreements as may be entered into/to be entered into by the Company, in respect of above loans.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to increase/decrease the amount of loan in respect of UTI Bank Limited.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised for creating aforesaid mortgage and/or create charge (s) and/or hypothecation/create second charge in such manner and in such form upon moveable and immoveable assets of the Company, both present and future and the whole or substantially the whole of the undertaking of the Company together with power to takeover the management of the business and concern of the Company in certain events, in favour of UTI Bank Limited, working capital limits or any other kind of financial assistance as may be deemed necessary, desirable and in the best interest of the Company from time to time and to do all such acts, deeds, matters and things as may be necessary or expedient for giving effect to the resolution".

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to finalise the documents and such other agreements for creation of charge as aforesaid and to do all such acts, deeds, matters and things as may be necessary or expedient for giving effect to the above resolution".

6. 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 [including any statutory amendments] and the rules framed thereunder, Securities and Exchange Board of India [SEBI] [Delisting of Securities] Guidelines, 2003, Listing Agreement and all other applicable laws, rules, regulations and guidelines and subject further to such approvals, permissions and sanctions as may be necessary and subject to such conditions and



modifications as may be prescribed or imposed by any such authority while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company [hereinafter referred as the 'Board'], which term shall include a Committee thereof for the time being exercising the powers conferred by the Board, consent of the Company be and is hereby accorded to the Board to delist the Equity Shares of the Company from the Mangalore and Madras Stock Exchange Limited.

Bangalore
August 29, 2003

RESOLVED FURTHER THAT the Board of Directors be and it is hereby authorized to seek voluntary delisting as above and take all necessary actions in this regard and to do all such acts, deeds, matters and things as may be deemed necessary to give effect to the above Resolution.

By Order of the Board


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. 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 18 to 22-09-2003 (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.

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 No./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.

Details of Directors seeking appointment/re-appointment at the forthcoming Annual General Meeting:

[Pursuant to Clause 49 of the Listing Agreement]

Name of the Director	Mani Narayanswami	Padam Chand Jain
Date of Birth	07-05-1931	03-11-1947
Date of Appointment	23-12-1996	03-05-2001
Expertise in Specific functional areas	Senior retired bureaucrat of the Govt. of Karnataka – has held important portfolios both at State as well as Central Govt.	He has over 31 years experience. He is presently working as Senior Vice-President [Works] and head of the Plant at Mangalore
Qualifications	Indian Administrative Service [Retd.]	Post-Graduate Degree in Mechanical Engineering
Directorship in other Public Limited Companies	United Breweries Holdings Ltd.	–
Membership of Committees in other Public Limited Companies	Member – United Breweries Holdings Ltd. – Audit Committee, Remuneration Committee, Shareholders/Investors Grievance Committee	–



EXPLANATORY STATEMENT PURSUANT TO SECTION 173 [2] OF THE COMPANIES ACT, 1956

RESOLUTION AT ITEM NO. 4:

As more than 25% of the subscribed Share Capital of the Company is jointly held by Government Companies, Financial Institutions, Nationalised Banks and Insurance Companies, a Special Resolution is required for the appointment of Statutory Auditors under Section 224 A of the Companies Act, 1956.

The Company has received a notice under this item from a member under Section 225 of the Companies Act, 1956.

None of the Directors is concerned or interested in this resolution except to the extent of their holdings, if any.

RESOLUTION AT ITEM No. 5:

The Company has approached UTI Bank Limited for financial assistance in the form of Cash Credit, Working Capital Demand Loan and Short Term Loan [for a period of 6 months from March, 2003] in view of cash flow position of the Company was critical in view of the huge recoveries by the Government of India compounded by the poor realisation in the entire sales territory of the Company consequent to the adverse climatic conditions in both Kharif and Rabi.

One of the terms for grant of loans is creation of mortgage and charge on the moveable and immoveable properties of the Company. Under Section 293 (1) (a) of the Companies Act, 1956, provides inter alia, that the Board of Directors of a Public Company shall not, without the consent of such Public Company in general meeting sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking the Company where the Company owns more than one undertaking, of the whole or substantially the whole, of any such undertaking. Since the mortgaging by the Company of its immoveable and moveable properties as aforesaid in favour of the UTI Bank Limited may be regarded as disposal of the Company's properties / undertakings, it is necessary for the members to pass a resolution under this provision before creation of mortgage and charge.

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

RESOLUTION AT ITEM No. 6:

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 on the BSE only. In fact the Equity Shares of the Company were not traded at all on the Mangalore and Madras Stock Exchanges in recent years. Therefore, it is proposed to voluntarily delist the Equity Shares from the Mangalore and Madras Stock Exchanges. The proposed delisting of the Equity Shares of the Company from Mangalore and Madras Stock Exchanges, as and when it takes places, will not adversely affect investors. The delisting will be effected after all such approvals, sanctions and consents as are necessary are obtained and after following the prescribed procedure in this regard.

As per SEBI [Delisting of Securities] Guidelines, 2003 which have been notified recently, the Company can delist its shares from Mangalore and Madras Stock Exchanges without providing an exit opportunity provided that the shares will continue to be listed on a Stock Exchange having nationwide trading terminals, i.e. The Stock Exchange, Mumbai or NSE. The Company's equity shares will be continued to be listed on BSE. As per the Guidelines, delisting from 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.

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

By Order of the Board

S. Kannan
Company Secretary

Bangalore
August 29, 2003



DIRECTORS' REPORT

The Directors are pleased to present your Company's thirty-sixth Annual Report together with the audited statement of accounts for the year ended March 31, 2003.

CORPORATE RESULTS

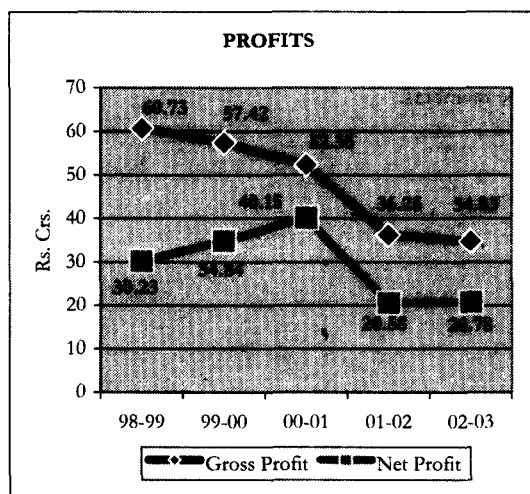
The Financial highlights for the year under review are given below:

	2002 - 03	2001 - 02
Turnover	562.79	571.18
Operating Profit	34.83	36.25
Interest	3.80	6.71
Depreciation	10.25	8.96
Net Profit [Before Tax]	20.78	20.58
Net Worth	285.88*	171.57

* Including Revaluation Reserve of Rs. 106.17.

PROFITABILITY

This has been a very difficult year for the industry at large as well as for your Company. Due to the frequent unilateral changes in policy announcements by the Government of India (GOI), profitability has been badly affected with cash flows under constant pressure. Reserves to tide over a poor season or to meet the demands of an unexpected plant upset and the resultant costly shut down have been completely depleted through the retrospective recovery affected by the GOI for the 7th and 8th pricing periods commencing from 1-7-1997. Lack of a clear fertilizer policy announcement, with GOI taking adhoc decisions, has lead to tremendous uncertainty whereby managing day-to-day operations has become difficult. Profitability of most units has substantially eroded and many of the older Naphtha based plants are under threat of closure.



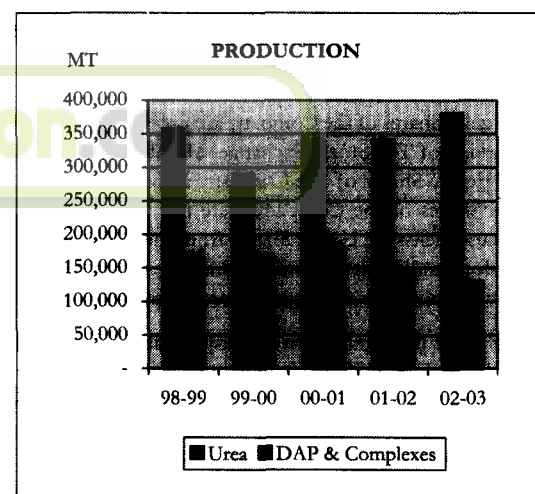
Despite all this, net profit for the year of your Company could be maintained at previous year's level because of the constant improvement in the operations and the continuous cost reduction exercises that have been implemented in the last few years.

Steps are being taken to arrest the decline and to improve the overall profitability of the existing operations.

PRODUCTION

During the year, GOI approved the capacity enhancement of Urea to 3,80,000 MT. Considering that rated capacity was achieved for the first time since inception in 1996-97, this is a significant achievement. After completing the manufacture of Urea to this revised capacity, production had to be stopped on 16-3-2003 to comply with the cap on production imposed under GOI stipulations.

The production of Complex Fertilizers was 1,29,965 MT [59% of the capacity].



11,037 MT of ABC was produced. This, too, is the highest production so far.

Production of DAP and other complexes was stopped for 93 days during the year. This was necessitated for many reasons. At the beginning of the year, the plant revamp was completed. A pipe reactor, a new pre-neutralizer and an efficient de-dusting system were installed. More importantly, the maximum retail prices for phosphatic fertilizers, periodically announced by GOI, resulted in the operations turning most uneconomic. To compound the already adverse situation, the failure of the monsoons in our entire marketing territory and the large quantities of fertilizer stocks in the market lead to unhealthy practices in the field further eroding profitability.

SALES

The total sale of 4,89,063 MT of all products during the current year was lower by 11% over last year. The prime reason for this drop in volume is the failure of the monsoons for two consecutive years. Yet, sale of Ammonium Bi-Carbonate [ABC] and Granulated Fertilizer were higher by 37% and 8% compared to last year. During the year, three new products were launched. Besides two new complexes, viz., 20:20:0 and 16:20:0, Zinc Sulphate - a fertilizer with an important micro-nutrient - was also introduced. These offerings have been well-received by the market as their quality is of a very high order.

FERTILIZER POLICY

The crying need of the fertilizer sector is an acceptable long-term fertilizer policy that ensures adequate supply of this vital input for the farmer at an affordable price with the assurance of a reasonable return to the industry to help sustain its growth. Merely reducing the subsidy paid on fertilizers at any cost cannot logically be an acceptable rationale for the government when prices to the farmers are not being increased on political considerations in spite of the sharp hike in almost all inputs used in the manufacture of the fertilizers.

The change over from the erstwhile unit retention price to the group weighted average price has taken effect from 1-4-2003. The former method was tried and tested for 24 years and brought the country out of dependence on imported food supplies to a status of self-sufficiency. The irony is that to fix the weighted average price of a group first the retention price of the individual units falling within a group have to be fixed! To the average, adhoc bases are adopted merely to reduce the subsidy amount paid to the units within the group. Where a unit's individual retention price is lower than the group average, the former is only permitted. This clearly demonstrates that the intention is not to encourage efficient companies to do even better. On the other hand, inefficient units, making huge losses over the years, are being given all kinds of concessions at the expense of the other efficient units.

Well-run units are being forced into sickness. The greater concern is that such retrograde policies are a move towards giving up self-sufficiency in the indigenous manufacture of fertilizers. This will push the nation back into depending on imports; a sure recipe to self-destruct as, in time, the prices of imported products are bound to increase, as happened some years back. Along with the unfavourable exchange rates, it will mean a far higher burden on the exchequer. At such time the existing subsidy bill will look manageable in comparison. By then, it would be too late. Many efficient units would have been forced to close permanently. The nation's food security would have been jeopardized for want of political will.

The many issues involved have been discussed at some length in the "Management's Discussion and Analysis" appended to this report.

FINANCE

The adverse impact of Government policies, the poor monsoons for two successive years and the adverse market conditions and practices have prevailed throughout the year. As a result, working capital management proved to be a difficult challenge. The position turned critical on many occasions during the year. Yet, with strong financial discipline and stringent control exercised over costs the situation could be effectively managed.

The one-time settlement under the BIFR approved revival scheme has been completed with the deposit of Rs. 4.39 crores in an escrow account with Allahabad Bank, against their old dues, as per the order of the Debt Recovery Tribunal, Chennai. The deferred repayment of the remaining interest free subordinate dues to the state government will be dealt with as provided in the scheme in the coming years.

REDEMPTION OF PREFERENCE SHARES

13% Cumulative Preference Shares (totalling 4,80,750 shares) have been redeemed. Arrears of preference dividend have also been paid.

HUMAN RESOURCE MANAGEMENT

All round improvement in plant safety, equipment reliability and performance was achieved through intensive training programmes and the implementation of 5S and TPM initiatives. The employee suggestion scheme introduced this year has also evoked an enthusiastic response.

The total strength of regular employees at the end of the year was 855.

PERSONNEL INFORMATION

Information required under Section 217 (2A) of the Companies Act, 1956 and the rules made thereunder may be taken as 'nil' as no employee was in receipt of a remuneration more than Rs. 2,00,000 per month or Rs. 24,00,000 per annum.

INDUSTRIAL RELATIONS

The last wage settlement for regular workmen concluded on 31-3-2000. The many constraints faced by the Company from Government actions, to cut down subsidy at any cost, continue to be of no concern to the recalcitrant Unions. The considerable hardship thrust upon the individual workers as a result of the partisan approach to vital issues, followed up by numerous assurances from the



office-bearers, did not elicit a more understanding approach. The Union failed to enter into a negotiated settlement in spite of three attempts made by the management. Though the package offered was summarily rejected by the Union, 245 workers, representing 44% of the workforce, individually accepted the offer and are enjoying the benefits.

This has translated into a stalemate over the settlement with the contract workmen as there are certain important aspects that have a bearing on the settlement with the regular workmen.

SHIFTING OF REGISTERED OFFICE

The registered office of the Company has been shifted to No. 5, Crescent Road, High Grounds, Bangalore-560 001. Besides complying with statutory requirements, the change has been widely announced through a press publication.

SOCIAL WELFARE

UK-MCF-TGB Gramvikas Trust financed the construction of a farmer training center at Kamblihal village, Bagalkot district, providing laboratory equipment and books to a school at Mandarathi, Udupi district, and physiotherapy equipment to Hind Kusta Nivarana Sangha, Suratkal.

Your Company has introduced an innovative Group Accident Insurance Scheme called 'Mangala Raitha Suraksha Vima Yojane' to cover all Mangala farmers. Under this scheme, the nominee of the insured receives a financial assistance up to Rs. 25,000 in the event of partial disablement or accidental death. The premium for the policy is exclusively paid by your Company.

SAFETY, ENVIRONMENT AND POLLUTION CONTROL

Your Company proposes to implement an Environmental Management System in line with ISO 14001:1996. The certification is expected by end December, 2003.

Zero liquid effluent discharge status is strictly being adhered to by recycling the entire quantity of treated effluent for process cooling needs, gardening and watering the green belt within the plant premises.

Extensive training is imparted to all employees, including contract workmen, on rescue operations, use of personal protective equipment and fire fighting aids usage. Regular mock drills are conducted throughout the year. Public awareness programmes are also being conducted to educate the neighbouring populace.

DIVERSIFICATION

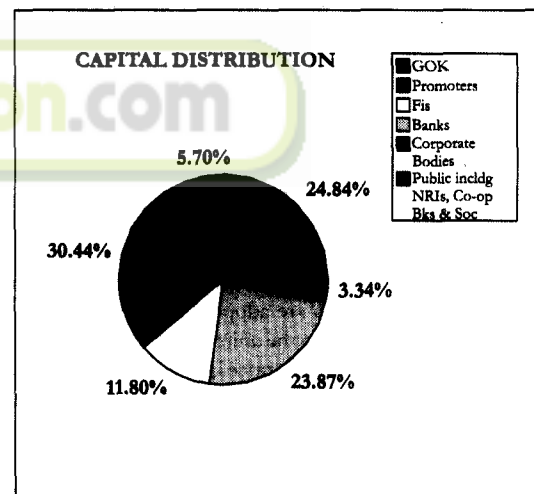
Your Directors are conscious of the fact that the scope for generation of adequate funds to service the huge equity

as also to meet the rising cost of refurbishing / revamp of the plants to ensure reliable and sustained levels of production is limited. The assured return on net worth is no longer an objective under the new long-term policy dispensation. As a consequence, a strategy to move away from a total dependence on the Government yet retaining the position of lead fertilizer manufacturer in the State for service to its farmers is being put in place.

Keeping in view the above objectives, various project studies have been commissioned. Several options are being examined to integrate the new projects with the existing infrastructure and manufacturing facilities to mutual advantage. Proven technologies utilizing fossil fuels are being evaluated and plans should fructify in the next few months.

CAPITAL MARKETS

Your Company has dematerialized 79% of the equity shares being held in the electronic mode with NSDL and CDSL. The shares remaining to be dematerialized are mostly held by the public.



Your Company's shares are listed on the Bangalore, Mangalore, Mumbai and Madras Stock Exchanges. All regulations are fully complied with.

DELISTING OF SHARES

As there is no trading in the Madras and Mangalore Stock Exchanges for several years, your Directors have recommended for your approval the de-listing from these two stock exchanges.

SHARE REGISTRY ACTIVITIES

In pursuance of SEBI's Circular of 27-12-2002, M/s. Cameo Corporate Services Limited, 'Subramanian Building', No. 1, Club House Road, Chennai - 600 002