

MCF

Mangalore Chemicals & Fertilizers Limited

An ISO 14001 Certified Company



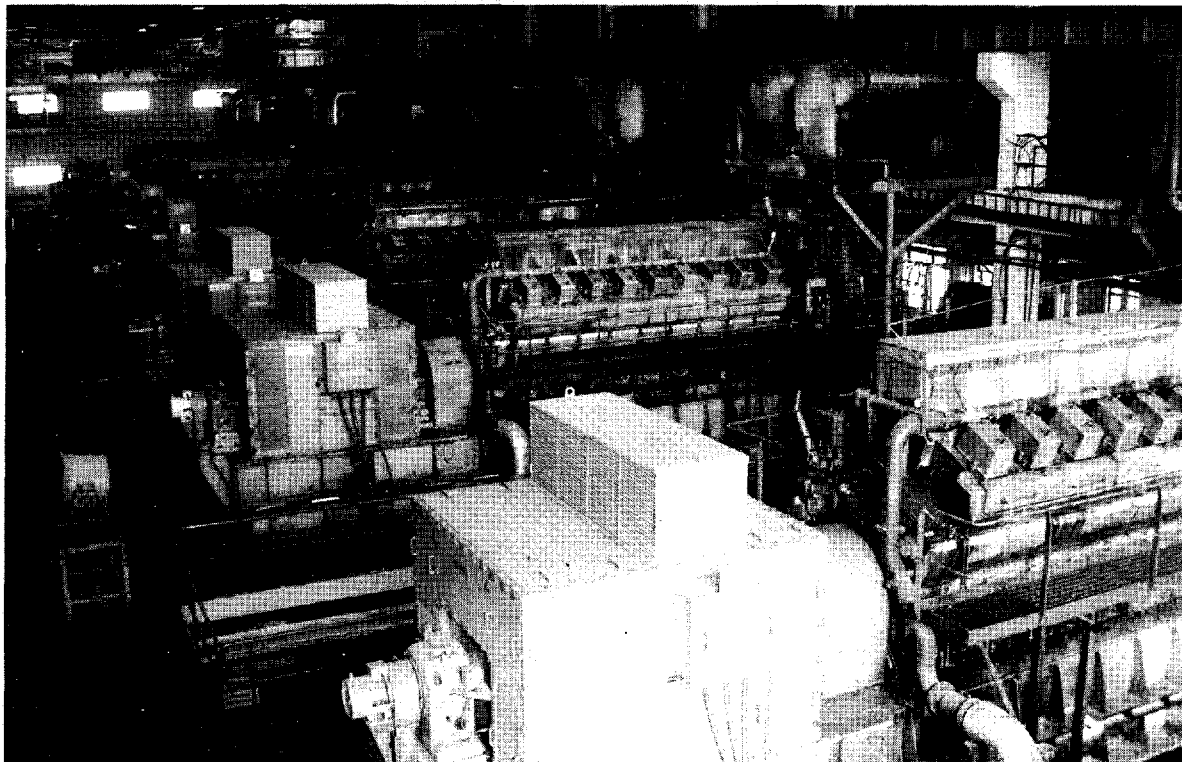
Annual Report

2003 - 2004



THE UB GROUP

FERTILIZER DIVISION



Captive Power plant at Works, Mangalore

Report  junction.com



Managing Committee members – from L to R : H. M. Kshetrapal, *Vice President (Marketing)*, Apollo Fernandes, *General Manager (Personnel & Administration)*, K. Prabhakar Rao, *General Manager (Operations)*, D. P. Mehta, *Managing Director*, P. C. Jain, *Sr. Vice President (Works)*, A. Rudrachary, *Vice President (Finance)*, S. Kannan, *Company Secretary*, A. S. Vijayakumar, *General Manager (Maintenance, Engineering & Reliability)*.



Directors : Dr. Vijay Mallya, *Chairman*
 D. P. Mehta, *Managing Director*
 S. R. Gupte, *UB Group Nominee*
 N. Gokulram, *Government of Karnataka Nominee*
 K. Jairaj, *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

Auditors : K. P. Rao & Company

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

	03-04	02-03	01-02	00-01	99-00	98-99	97-98	96-97	95-96	94-95
Profit and Loss Account										
Sales	614.21	562.79	571.18	680.63	615.65	520.11	451.60	312.73	219.33	218.20
Other Income	5.47	6.55	11.76	8.08	2.97	1.79	1.66	0.84	0.41	2.83
Interest	3.03	3.80	7.17	4.61	0.81	22.14	20.38	20.20	20.51	21.23
Depreciation	10.64	10.25	8.96	7.59	21.77	8.36	8.15	7.50	7.31	6.96
Net Profit/(Loss)	22.45	20.78	20.58	40.15	34.84	30.23	17.33	0.18	(21.29)	(36.52)
Balance Sheet										
Net Fixed Assets	255.89	256.78	145.30	108.75	110.91	101.99	95.26	91.98	89.63	94.06
Net Current Assets	117.18	121.77	94.62	122.90	107.46	164.86	120.31	85.92	76.27	82.35
Miscellaneous Expenditure	-	-	-	-	-	153.65	183.88	201.21	201.39	180.09
Total	373.07	378.55	239.92	231.65	218.37	420.50	399.45	379.11	367.29	356.50
Share Capital	118.55	118.55	123.36	123.36	103.36	103.36	103.36	103.36	103.36	103.36
Reserves & Surplus	178.10	167.33	48.21	48.67	17.34	0.17	0.17	0.17	0.17	0.17
Loan Funds	47.92	68.02	49.52	59.62	97.67	316.97	295.92	275.58	263.76	252.97
Deferred Tax Liability	28.50	24.65	18.83	-	-	-	-	-	-	-
Total	373.07	378.55	239.92	231.65	218.37	420.50	399.45	379.11	367.29	356.50

SIGNIFICANT FINANCIAL RATIOS

	03-04	02-03	01-02	00-01	99-00	98-99	97-98	96-97	95-96	94-95
Return on Average Capital Employed [%]	9.39*	9.60*	11.77	19.89	14.70	21.71	19.17	10.87	(1.97)	(0.78)
Operating Profit to Sales [%]	4.99	5.03	4.37	6.50	8.84	11.33	9.79	8.10	1.61	1.22
Current Ratio [Times]	1.76	2.18	1.84	2.46	1.79	1.76	1.53	1.42	1.39	1.43
Quick Ratio [Times]	1.23	1.25	1.25	1.63	1.32	1.21	1.01	0.65	0.87	0.94
Sundry Debtors to Sales [Months]	1.66	2.37	1.98	2.54	1.70	1.30	0.65	0.49	1.82	1.06
Inventory of Finished Goods to Sales [Months]	0.34	0.84	0.27	0.42	0.11	0.47	0.74	2.00	0.48	0.69

* Capital employed is excluding Revaluation Reserve.



NOTICE

To

The Members,

NOTICE is hereby given that the Thirty-seventh Annual General Meeting of the Members of the Company will be held at 2.30 p.m. on Wednesday, September 29, 2004 at Dr. B.R. Ambedkar Bhavan, Millers Road, Vasanthnagar, Bangalore - 560 052 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Balance Sheet as at March 31, 2004 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 a Director in place of Mr. Pratap Narayan, 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 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 resolution as a SPECIAL RESOLUTION:

RESOLVED THAT pursuant to the provisions of Section 372A and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to the Board of Directors to give guarantee on behalf of MCF INDUSTRIES LIMITED, for an amount not exceeding Rs. 240 Crores.

FURTHER RESOLVED THAT consent of the Company be and is hereby accorded to the Board of Directors to create a *pari passu* charge on the fixed assets of Mangalore Chemicals & Fertilizers Limited by way of additional security towards Term Loan of Rs. 240 Crores sanctioned by the lending institutions to MCF INDUSTRIES LIMITED.

By order of the Board

S. Kannan

Company Secretary

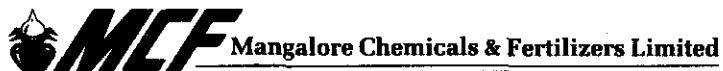
Bangalore
September 4, 2004

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 to 29-09-2004 [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 re-appointment at the forthcoming Annual General Meeting.

[Pursuant to Clause 49 of the Listing Agreement]

Name of the Director	S. R. Gupte	Pratap Narayan
Date of Birth	06-03-1939	11-05-1935
Date of Appointment	23-12-1996	31-01-2002
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 retired Director General of the FAI
Qualifications	Chartered Accountant	I.R.T.S. [Retd.]
Directorship in other Public Limited Companies	Asian Age Holdings Associated Breweries & Distilleries Ltd. Aventis Pharma Ltd. B D A Limited Herbertson Limited Inertia Industries Ltd. McDowell Alcobev Ltd. McDowell & Co. Ltd. United Breweries Ltd. UB Electronic Instruments Ltd. UB Engineering Ltd. UB General Investments Ltd. UB Global Corporation Ltd.	NIL
Membership of Committees in other Public Limited Companies	Chairman: Aventis Pharma Ltd. - Audit Committee - Investors Grievance Committee United Breweries Ltd. - Share Transfer Committee	NIL
	Member: McDowell & Co. Ltd. - Audit Committee - Compensation Committee - Committee of Directors United Breweries Ltd. - Investors Grievance Committee - Remuneration Committee	NIL



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.

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 :

MCF INDUSTRIES LIMITED (MIL) promoted by your Company, is implementing the MetCoke project, promoted by your Company. MIL has finalised the Term Loan requirements for the project. The Banks have asked for a Corporate Guarantee from Mangalore Chemicals & Fertilizers Limited for an amount not exceeding Rs. 240 Crores.

The Board of Directors of your Company at its meeting held on July 26, 2004, has recommended the proposal for adoption by the members. This resolution is placed before the shareholders in pursuance of Section 372 (A) of the Companies Act, 1956.

The Members are requested to approve.

Mr. Daraius P. Mehta, being a Director would be deemed to be interested. No other Director of the Company is, in any way, concerned or interested in the Resolution.

Bangalore
September 4, 2004



By order of the Board

S. Kannan
Company Secretary



DIRECTORS' REPORT

The Directors are pleased to present your Company's thirty-seventh Annual Report together with the audited statement of accounts for the year ended March 31, 2004.

CORPORATE RESULTS

The Financial highlights for the year under review are:

	2003-04	2002-03
Turnover	614.21	562.79
Operating Profit	35.93	34.83
Interest	3.02	3.80
Depreciation	10.64	10.25
Net Profit [Before Tax]	22.45	20.78
Net Worth	296.65	285.88

PROFITABILITY

The Company achieved a turnover of Rs. 614 crores, up 9% over the previous year. This is despite the continuous plant related problems faced throughout the year and the third consecutive year of poor monsoons.

With the revised policy parameters under the new pricing scheme for Urea, many legitimate cost increases are not being recognized and compensated. Ad hoc reduction in some reimbursable costs, viz. freight for the 50% of Urea sold outside the allocated territory, are putting a further burden on the Company.

Reduced retention price of Urea, consequent to the retrospective recovery made by GOI in the recent past, is continuing to impact on the profitability. The Company is left with virtually no reserves to tide over any crisis nor to maintain high plant reliability.

With the continuous thrust to contain subsidy without increasing the price to the farmer, the result is that the burden is falling on the industry. The impression that it is the industry that is the beneficiary of the huge subsidy paid out by the government each year is totally wrong. The real position is that there is a total lack of political will to raise the prices of the different fertilizers to the farmers. With the all round cost increases, either due to world supply/demand or raising of rates for goods and services by other government departments, like Petroleum and Railways, the various subsidies/concessions are actually compensating these increases. Petroleum products constitute the single largest cost component in the manufacture of chemical fertilizers. The farmer is insulated from all such cost increases and keeps getting fertilizers at low prices.

The manner of routing the subsidy through the fertilizer industry is only a pass through mechanism prescribed by the GOI. The fertilizer industry and its units are in no way benefiting from this.

The reality is that with the new pricing scheme being implemented, the fertilizer industry is becoming more and more unprofitable with many plants, both in the public and

private sector, having turned unviable and being forced to shut down completely. These were profitable units till two years back but have been forced out of business because of the revised policies being implemented. Yet others have been pushed to the brink of financial sickness and are somehow keeping the operations alive with great difficulty.

Under these circumstances, your Company continues to be profitable due to the various process improvement and cost reduction initiatives taken by the management over the past five years. Maintaining overall profitable operations is a continuous concern and the management has a strategy carefully planned out.

PRODUCTION

Urea production was at 88% of revised capacity while Di-Ammonium Phosphate [DAP] was at 52% of achievable capacity. The manufacture of Ammonium Bi-Carbonate [ABC], though at a record level, was limited by the stoppages in the Ammonia / Urea plants during the year.

Right through the year, the Ammonia/Urea plants faced a series of unexpected breakdowns. Around 53,321 tonnes of Urea production was lost. During the turnaround taken in April / May 2004, an extensive health check of all the plants has been done. Corrective measures have been taken. It is expected that production will be at satisfactory levels this year.

DAP suffered from poor demand both in Kharif and Rabi due to severe drought conditions throughout our marketing territory coupled with the low rates of concession announced by GOI from time to time. Since the start of the current year, production of DAP and other phosphatic fertilizers is satisfactory.

SALES

Urea sold during Kharif 2003 was a record. The total sale of all products was 5.22 lakh MTs, an increase of 7% over last year. Considering the adverse market conditions that prevailed throughout the year, the record sale of Urea is a singular achievement and reflects the high capability of our marketing team.

Sale of Muriate of Potash [MOP] and Zinc Sulphate increased by 25% and 40% respectively over the last year. Zinc Sulphate marketed by the Company is of the highest quality and has received excellent farmer acceptability. This is an essential micro nutrient in the cultivation of paddy and its use is steadily increasing with farmers realizing the benefits from its application. We are confident that the sale of Zinc Sulphate will steadily go up as more and more farmers reap the benefits. Extensive work is going on to popularize its usage with encouraging results so far.

With the early onset of monsoons in the current year, sale of all our products is very encouraging.

FERTILIZER POLICY

The new pricing policy was implemented on April 1, 2003. The revised norms for capital related charges and energy consumption for two years from 1.4.2004 have also been announced. The new energy norms announced totally disregarded the recommendations of the Gokak Committee set up specifically to suggest these norms. Fortunately, there is no adverse impact on the Company due to the continuous improvement in the operations of the plant.

The new policy initiatives fail to protect the interest of the entrepreneur who wants a reasonable return on the capital invested. Your Directors are not sure whether the new Government at the centre would take a re-look at the policies that are being implemented considering the terrible impact they are having on many of the units which have turned financially unviable. If the slide is not halted, the country will go from self-sufficiency in fertilizer production to a position of scarcity leading to dependence on import of the much needed fertilizers. This will be a rather unfortunate outcome of needlessly altering a well established and proven system which helped take the country from heavy dependence on imported foodgrains to feed its huge population to virtual self-sufficiency.

The poor health of the industry, as a result of the retrogressive policies being followed for this vital sector, is evidenced by many glaring independent facts. There is no interest to invest in this industry from any of the large international players. They have consciously kept away and continue to remain only suppliers of either raw materials, finished products or technology. Their main worry is the unstable and industry unfriendly policies being pursued by the government. There is no new capacity being added as the returns are poor. There is a fear of vacillating policy guidelines which aim only at reducing the quantum of subsidy without really addressing the root cause of the underlying problems.

There is a total lack of support from banks and financial institutions who rate this as a high risk industry. Even the capital markets disregard this sector as being unprofitable, risky and not being investor friendly on account of the poor profitability of most units due to the intense administered control by GOI.

FINANCE

With the unfriendly policies and the poor monsoon, working capital management continued to be a tremendous challenge. The position was effectively managed with continuing strong financial discipline and strict control over costs.

ERP PROJECT

The implementation of the ERP solution SAP R/3 project, code named "Mangala Integrated Information Technology for Efficiency" (M/TE), commenced on October 1, 2003. The implementation included Production, Plant Maintenance, Materials, Sales & Distribution, Finance,

Costing, HR & Payroll and Business Intelligence modules. From commencement to implementation, the project was completed in record time with smooth transition from the legacy systems.

Connectivity between all functional locations, a vital aspect for successful operations, has been established through VSAT links between seven Area Offices and the Works and by a terrestrial leased line between the Works and the Head Office.

The numerous advantages being derived from implementing this world class package are: a single integrated system across the Company, data integrity, enhanced operational efficiencies and improved MIS for better decision making. Besides, there have been economies of scale from integration, real-time systems and enforced information discipline across locations. This has brought about overall productivity gains within the Company.

Continuous improvement is now taking place by adapting the various functionalities available in the package and continuously exploring the vast uncovered areas. Advantages are also being extended to marketing officers and dealers by connecting them to the Company database.

HUMAN RESOURCE MANAGEMENT

Considerable stress was laid on human resource development and to improve the capabilities of our employees. 850 man-days were devoted to training during the year. The total strength of regular employees at the close of the year was 840.

PERSONNEL INFORMATION

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

INDUSTRIAL RELATIONS

Due to the rigid and unreasonable postures of the unions, the stalemate over the wage settlement for regular workmen and the contract labour continued.

Contract workmen had resorted to illegal action in November and December, 2003. The situation was effectively handled by the management without affecting the operations of the Company.

Your Company is working on a strategy to get the workmen to work with the management in achieving organizational goals. The focus will be on effective employee participation through attitudinal change.

SOCIAL WELFARE

The 'Mangala Raitha Suraksha Vima Yojane' now insures 1,11,288 Mangala farmers against accidental death. Since its inception two years ago, the cover has benefited 13



farming families. The number of farmers to be insured is steadily increasing.

The Company has taken up many community development programmes such as helping surrounding villages by providing sanitation systems, organizing health check-ups and the like. Village schools were donated furniture, computers, etc. so as to improve the facilities for the students.

Your Company, along with the UK-MCF-TGB Gram Vikas Trust, continued to undertake projects to improve the socio-economic conditions in selected villages by providing basic infrastructure facilities to orphanages, old age homes, etc. Educational tools are being provided to street and slum children via a charitable organization to enable nearly 10,000 children to attend school regularly.

SAFETY, ENVIRONMENT AND POLLUTION CONTROL

The Directors are happy to announce that your Company has obtained Environment Management System Certificate ISO 14001:1996 from Det Norske Veritas (DNV).

The management is committed to integrate environmental, social and economic aspects in plant operations in strict conformity with the stringent norms underlying this certification.

Your Company continues to train its regular and contract workmen on rescue operations, in the use of personal protective equipment and fire fighting techniques. Regular mock drills are conducted through the year to conform to the onsite emergency plan being followed.

Public awareness programmes were also frequently conducted to educate the neighbouring population.

Your Company continued to maintain 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.

DIVERSIFICATION

The profitability and growth of the indigenous fertilizer industry is directly linked to Government policies on fertilizers. Unfortunately, the profitability of units in the past few years has been severely impacted.

With a view, therefore, to move away from this near total dependence on the Government policies for the fertilizer sector, yet at the same time retaining the lead fertilizer manufacturer position in Karnataka to service the needs of the farming community, your management has formulated plans to diversify the business.

CAPITAL MARKETS

Your Company has dematerialized 83.45% of the equity shares being held in the electronic mode with NSDL and CDSL. The majority of the non-dematerialized shareholding is held by the public.

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

There is complete transparency in the implementation of the statutory regulations in force.

DELISTING OF SHARES

At the 36th Annual General Meeting held on September 22, 2003, the shareholders had approved the delisting of equity shares from Madras and Mangalore Stock Exchanges. While the Madras Stock Exchange has approved the delisting effective from March 3, 2004, approval from Mangalore Stock Exchange is awaited.

INSIDER TRADING

Your Company has adopted a Code of Conduct for Prevention of Insider Trading in the shares of the Company, pursuant to the Securities and Exchange Board of India [Prohibition of Insider Trading] Regulations, 1992. Under this, a separate group has been set up to monitor the compliance as required under the aforesaid regulations.

DIRECTORS' RESPONSIBILITY

Pursuant to Section 217 [2AA] of the Companies Act, 1956, your Directors confirm 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 Act, 1956 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

All mandatory provisions on corporate governance are being fully complied with. A separate report is annexed as part of this Report.