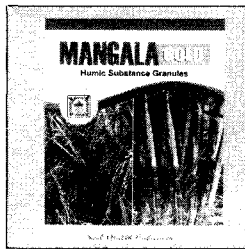
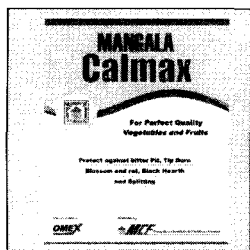
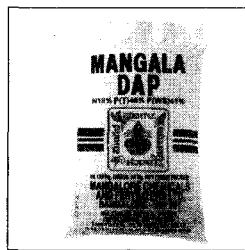
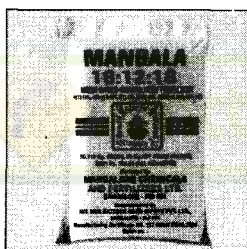
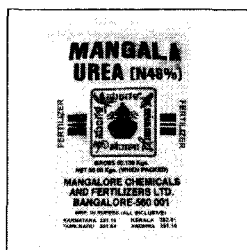
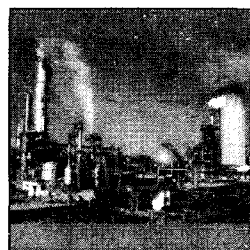




# MCF

## Mangalore Chemicals & Fertilizers Limited

### Annual Report 2005-06



Fertilizers  
Micronutrients  
Speciality Fertilizers  
Soil Health Enhancers





**Management Committee**

From - Left to Right: **Apollo Fernandes**, Vice President - Human Resources,  
**K. Prabhakara Rao**, Vice President - Manufacturing, **H. M. Kshetrapalaiah**, Vice President - Marketing,  
**Deepak Anand**, Managing Director, **A. S. Vijaya Kumar**, Vice President - Projects & Reliability,  
**A. Rudrachary**, Senior Vice President - Finance, **S. Ramaprasad**, Vice President (Legal) &  
Company Secretary



A visit to Demonstration plot at Mandya



**Directors** : Dr. Vijay Mallya, *Chairman*  
 Deepak Anand, *Managing Director*  
 S. R. Gupte, *UB Group Nominee*  
 B. S. Patil, *I.A.S. (Retd.), Independent Director*  
 Pratap Narayan, *Independent Director*  
 Shrikant G. Ruparel, *Independent Director*  
 N. Sunder Rajan, *Independent Director*

**Company Secretary** : S. Ramaprasad

**Bankers** : UTI Bank Limited  
 ICICI Bank Limited  
 Corporation Bank  
 HDFC Bank Limited

**Auditors** : K. P. Rao & Company, 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

	05-06	04-05	03-04	02-03	01-02	00-01	99-00	98-99	97-98	96-97
<b>Profit and Loss Account</b>										
Sales	1,082.32	878.02	614.21	562.79	571.18	680.63	615.65	520.11	451.60	312.73
Other Income	3.81	9.74	5.47	6.55	11.76	8.08	2.97	1.79	1.66	0.84
Interest	6.72	4.33	3.03	3.80	7.17	4.61	0.81	22.14	20.38	20.20
Depreciation	11.35	11.08	10.64	10.25	8.96	7.59	21.77	8.36	8.15	7.50
<b>Profit before Tax</b>	<b>38.66</b>	<b>36.68</b>	<b>22.45</b>	<b>20.78</b>	<b>20.58</b>	<b>40.15</b>	<b>34.84</b>	<b>30.23</b>	<b>17.33</b>	<b>0.18</b>
<b>Balance Sheet</b>										
Net Fixed Assets	299.16	250.71	255.89	256.78	145.30	108.75	110.91	101.99	95.26	91.98
Net Current Assets	278.13	196.41	117.53	121.77	94.62	122.90	107.46	164.86	120.31	85.92
Miscellaneous Expenditure	-	-	-	-	-	-	-	153.65	183.88	201.21
<b>Total</b>	<b>577.29</b>	<b>447.12</b>	<b>373.42</b>	<b>378.55</b>	<b>239.92</b>	<b>231.65</b>	<b>218.37</b>	<b>420.50</b>	<b>399.45</b>	<b>379.11</b>
Share Capital	118.55	118.55	118.55	118.55	123.36	123.36	103.36	103.36	103.36	103.36
Reserves & Surplus	212.07	197.70	178.10	167.33	48.21	48.67	17.34	0.17	0.17	0.17
Loan Funds	213.69	101.50	48.27	68.02	49.52	59.62	97.67	316.97	295.92	275.58
Deferred Tax Liability	32.98	29.37	28.50	24.65	18.83	-	-	-	-	-
<b>Total</b>	<b>577.29</b>	<b>447.12</b>	<b>373.42</b>	<b>378.55</b>	<b>239.92</b>	<b>231.65</b>	<b>218.37</b>	<b>420.50</b>	<b>399.45</b>	<b>379.11</b>

**SIGNIFICANT FINANCIAL RATIOS**

	05-06	04-05	03-04	02-03	01-02	00-01	99-00	98-99	97-98	96-97
Return on Average Capital Employed [%]	10.97*	13.27*	9.39*	9.60*	11.77	19.89	14.70	21.71	19.17	10.87
Operating Profit to Sales [%]	4.89	4.82	4.99	5.03	4.37	6.50	8.84	11.33	9.79	8.10
Current Ratio [Times]	2.33	2.86	1.76	2.18	1.84	2.46	1.79	1.76	1.53	1.42
Quick Ratio [Times]	1.65	1.97	1.23	1.25	1.25	1.63	1.32	1.21	1.01	0.65
Sundry Debtors to Sales [Months]	0.36	0.68	1.66	2.37	1.98	2.54	1.70	1.30	0.65	0.49
Inventory of Finished Goods to Sales [Months]	0.62	0.13	0.34	0.84	0.27	0.42	0.11	0.47	0.74	2.00

\* Capital employed is excluding Revaluation Reserve.



## NOTICE

To

The Members,

NOTICE is hereby given that the Thirty-ninth Annual General Meeting of the Members of the Company will be held at 4.45 p.m. on Tuesday, September 19, 2006 at Dr. B. R. Ambedkar Bhavan, Millers Road, Vasanthanagar, Bangalore – 560 052 to transact the following business:

### ORDINARY BUSINESS:

1. To consider and adopt the Balance Sheet as at March 31, 2006 and the Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and the Statutory Auditors.
2. To declare a dividend.
3. To appoint a Director in place of Mr. S. R. Gupte, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Pratap Narayan, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Statutory Auditors and in this connection, to pass, with or without modification, the following resolution as an **Ordinary 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”.

### SPECIAL BUSINESS:

6. To appoint Mr. Shrikant G. Ruparel (who was appointed as an Additional Director of the Company by the Board of Directors pursuant to Article 112 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956 [the Act] and holds Office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing along with a deposit of Rs. 500/- under Section 257 of the Act from a member signifying his intention to propose Mr. Shrikant G. Ruparel as a candidate for the office of Director) as a Director of the Company and to consider and, if thought fit, to pass the following resolution as an **Ordinary Resolution**:

“RESOLVED THAT pursuant to the provisions of Article 109 of the Articles of Association of the Company and Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Shrikant G. Ruparel be and is hereby appointed as a Director of the Company, liable to retire by rotation.”

7. To appoint Mr. B. S. Patil (who was appointed as an Additional Director of the Company by the Board of Directors pursuant to Article 112 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956 [the Act] and holds Office upto the date of this Annual General Meeting and in respect of whom the Company has received a Notice in writing along with a deposit of Rs. 500/- under Section 257 of the Act from a member signifying his intention to propose Mr. B. S. Patil as a candidate for the office of Director) as a Director of the Company and to consider and, if thought fit, to pass the following resolution as an **Ordinary Resolution**:

“RESOLVED THAT pursuant to the provisions of Article 109 of the Articles of Association of the Company and Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. B. S. Patil be and is hereby appointed as a Director of the Company, liable to retire by rotation.”

8. To appoint Mr. N. Sunder Rajan (who was appointed as an Additional Director of the Company by the Board of Directors pursuant to Article 112 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956 [the Act] and holds Office upto the date of this Annual General Meeting and in respect of whom the Company has received a Notice in writing along with a deposit of Rs. 500/- under Section 257 of the Act from a member signifying his intention to propose Mr. N. Sunder Rajan as a candidate for the office of Director) as a Director of the Company and to consider and, if thought fit, to pass the following resolution as an **Ordinary Resolution**:

“RESOLVED THAT pursuant to the provisions of Article 109 of the Articles of Association of the Company and Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. N. Sunder Rajan be and is hereby appointed as a Director of the Company, liable to retire by rotation.”

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

"RESOLVED THAT the first paragraph of the existing Article 99 of the Articles of Association of the Company relating to payment of sitting fees to Directors, be deleted and substituted by the following paragraph."

"Unless otherwise determined by the Company in the General Meeting, each Director other than Managing or any other Director who is in the wholetime employment of the Company, shall receive such sitting fee for attending meetings of the Board or a

Committee thereof, as may be fixed by the Board from time to time, subject to the limits as per the provisions of Section 310 of the Companies Act, 1956 read with the provisions of Rule 10B of the Companies [Central Government] General Rules and Forms, 1956".

By the order of the Board

Bangalore  
July 26, 2006

**S. Ramaprasad**  
Vice President  
(Legal) & Company Secretary

#### NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from 11.09.2006 to 19.09.2006 (both days inclusive) for the purpose of determination of members who are entitled to receive the dividend for the financial year 2005-06, if approved by the members.
3. Dividend as recommended by the Directors for the financial year ended March 31, 2006, if approved, will be payable to those members whose names appear in the Register of Members, as at the close of business hours of 11.09.2006 and in respect of shares held in demat form as per the list of beneficial owners furnished by NSDL/CDSL.
4. Pursuant to Section 109A of the Companies Act, 1956, members holding shares in demat form may file nomination in the prescribed Form 2B (in duplicate) with the respective Depository Participant and in respect of shares held in physical form, such nomination may be filed with the Company's Registrar and Share Transfer Agent.
5. Members may address all correspondence to the Company's Registrar and Share Transfer Agent at the following address. Members are requested to quote their Registered Folio Number or Demat Account Number & Depository Participant (DP) ID Number in all correspondence.

Cameo Corporate Services Limited  
'Subramanian Building',  
1, Club House Road,  
Chennai - 600 002.

Phone : 91-44-2846 0390 to 94  
Fax : 91-44-2846 0129  
e-mail : cameo@cameoindia.com

6. The equity shares of the Company are mandated by the Securities and Exchange Board of India for compulsory trading in demat form by all investors. The Company's shares have been admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDSL]. The ISIN allotted to the Company's equity shares is INE558B01017.
7. Members holding shares in demat form may please note that bank details as furnished to the Company by the respective Depositories, viz. NSDL and CDSL, will be used for payment of dividend through Electronic Clearing Scheme - ECS (in respect of such locations where the facility of ECS is offered by RBI) and for printing on the dividend warrants for non-ECS cases. Members holding shares in demat form, are therefore requested to notify any change in their addresses, bank details to their respective depository participants.
8. Members / Proxy holders are requested to produce at the entrance of the venue the enclosed admission slip duly completed and signed.
9. The identity/signature of the Members holding shares in demat form is liable for verification with the specimen signatures furnished by NSDL/CDSL. Such Members are advised to bring the relevant identity card, if any, issued by the Depository Participant, to the Annual General Meeting.



## EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956

### RESOLUTION AT ITEM No. 6:

Mr. Shrikant G. Ruparel was appointed as an Additional Director by the Board of Directors of the Company on 26.10.2005, pursuant to Article 112 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956, to hold office upto the date of this Annual General Meeting.

Notice under Section 257 of the said Act has been received from a member along with a deposit of Rs. 500/- signifying his intention to propose Mr. Shrikant G. Ruparel as a candidate for the office of Director.

The brief resume in relation to his experience, functional expertise and memberships on other Boards and Committees as required under Clause 49 of the Listing Agreement, is set out in the Annexure.

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

None of the Directors except Mr. Shrikant G. Ruparel is concerned or interested in the resolution.

### RESOLUTION AT ITEM No. 7 :

Mr. B. S. Patil was appointed as an Additional Director by the Board of Directors of the Company on 31.3.2006 pursuant to Article 112 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956, to hold office upto the date of this Annual General Meeting.

Notice under Section 257 of the said Act has been received from a member along with a deposit of Rs. 500/- signifying his intention to propose Mr. B. S. Patil as a candidate for the office of Director.

The brief resume in relation to his experience, functional expertise and memberships on other Boards and Committees as required under Clause 49 of the Listing Agreement, is set out in the Annexure.

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

None of the Directors except Mr. B. S. Patil is concerned or interested in the resolution.

### RESOLUTION AT ITEM No. 8 :

Mr. N. Sunder Rajan was appointed as an Additional Director by the Board of Directors of the Company on 28.4.2006 pursuant to Article 112 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956, to hold office upto the date of this Annual General Meeting.

Notice under Section 257 of the said Act has been received from a member along with a deposit of Rs. 500/- signifying his intention to propose Mr. N. Sunder Rajan as a candidate for the office of Director.

The brief resume in relation to his experience, functional expertise and memberships on other Boards and Committees as required under Clause 49 of the Listing Agreement, is set out in the Annexure.

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

None of the Directors except Mr. N. Sunder Rajan is concerned or interested in the resolution.

### RESOLUTION AT ITEM No. 9 :

Article 99 of the Articles of Association of the Company provides for payment of sitting fees upto a maximum of Rs. 5,000/- to each non-executive director for every meeting of the Board or a Committee thereof subject to the provisions of Section 310 of the Companies Act, 1956 read with the provisions of Rule 10B of the Companies [Central Government] General Rules and Forms, 1956. Under the said Rule, the Central Government, may revise the sitting fees payable from time to time. The proposed amendment to the articles will enable the Board to revise the sitting fees from time to time, within the limits fixed by the Central Government, considering the additional and onerous responsibilities placed on the non-executive directors in discharge of their functions, especially in the context of Corporate Governance.

All the non-executive directors will be deemed to be interested in the resolution.

By the order of the Board

Bangalore  
July 26, 2006

**S. Ramaprasad**  
Vice President (Legal) & Company Secretary

**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	S. R. Gupte	Pratap Narayan	Shrikant G. Ruparel	B. S. Patil	N. Sunder Rajan
Date of Birth	06.03.1939	11.05.1935	31.12.1940	20.01.1944	17.05.1944
Date of Appointment	23.12.1996	31.01.2002	26.10.2005	31.03.2006	28.04.2006
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 Fertilizer Association of India.	Joined Kolhapur Sugar Mills in 1966 and held the position of Managing Director between 1971 and 1981. He was also in the board of State Bank of India for 18 years. He held Chairmanships of various companies and councils including Indo-US joint Business Council. Indo-France joint Business Council and Indo-Swedish Business School.  Mr. Shrikant G. Ruparel is also on the Advisory Board of Stanford Research Institute and held important position in various other educational centre.	Retired as Chief Secretary to Government of Karnataka and held important assignments. He has wide ranging experience from heading State financial institutions to industrial development. The Industrial and IT development in Karnataka owes a great deal to him for initiating imaginative policies for attracting investments.	Retired Deputy Comptroller and Auditor General of India and has served in various capacities in the Finance Ministry, Ministry of Tourism and Civil Aviation, Lok Sabha Secretariat and the Office of the Director of Audit, Washington D C. He has served on the Boards of Vayudooth Limited, Hotel Corporation of India Limited, Airline and Allied Services Limited. He retired from the Government in May, 2003.
Qualification	Chartered Accountant	M.Sc.	M.A., M.Sc. [London]	Indian Administrative Service [Retd.]	Indian Audit and Accounts Services [Retd.]
Directorships in other Public Limited Companies	1. Associated Breweries & Distilleries Limited 2. Aventis Pharma Ltd. 3. Herbertsons Limited 4. Kingfisher Airlines Ltd. 5. Millennium Beer Industries Ltd. 6. McDowell & Co. Ltd. 7. Shaw Wallace & Co. Ltd. 8. Shaw Wallace Financial Services Ltd. 9. Shaw Wallace Breweries Ltd. 10. Shaw Wallace Distilleries Ltd. 11. UB Electronics Instruments Ltd.	NIL	1. Ruparel Enterprises Ltd. 2. F. S. Advertising Limited 3. Bentley Finance [India] Ltd. 4. UB [Holdings] Limited 5. City IPSS Securities Limited 6. Shaw Wallace & Co. Ltd.	1. The Ugar Sugar Works Ltd. 2. Sadashiv Sugars Ltd. 3. Shetron Limited 4. UB [Holdings] Limited 5. Suprajit Engineering Ltd.	1. Millennium Beer Industries Limited
Membership of Committees in other Public Limited Companies	<b>Chairman:</b> Audit Committee - (1) Aventis Pharma Ltd. (2) Shaw Wallace Distilleries Ltd. Shareholders/Investors' Grievance Committee (1) Aventis Pharma Ltd. (2) Millennium Beer Industries Ltd. <b>Member:</b> Audit Committee - (1) McDowell & Co. Ltd. (2) Shaw Wallace & Co. Ltd. Shareholders/Investors' Grievance Committee of Shaw Wallace & Co. Ltd.	NIL	<b>Member :</b> Audit & Shareholders/ Investors' Grievance Committee of UB [Holdings] Ltd.	<b>Member</b> of Audit Committee of UB [Holdings] Ltd.	<b>Member :</b> Audit & Shareholders/Investors' Grievance Committee of Millennium Beer Industries Ltd.





## DIRECTORS' REPORT

The Directors are pleased to present your Company's thirty-ninth Annual Report together with the audited statement of accounts for the year ended March 31, 2006.

### CORPORATE RESULTS

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

	(Rs. Crores)	
	2005-06	2004-05
Turnover	<b>1082.32</b>	878.02
EBIDTA	<b>56.73</b>	52.09
Interest	<b>6.72</b>	4.33
Depreciation	<b>11.35</b>	11.08
<b>Profit before Tax</b>	<b>38.66</b>	36.68
Provision for Tax	<b>13.51</b>	14.37
<b>Profit after Tax</b>	<b>25.15</b>	22.31
Net Worth	<b>* 330.62</b>	* 316.25

\* includes Revaluation Reserve of Rs. 97.25 crores and Rs. 99.92 crores respectively.

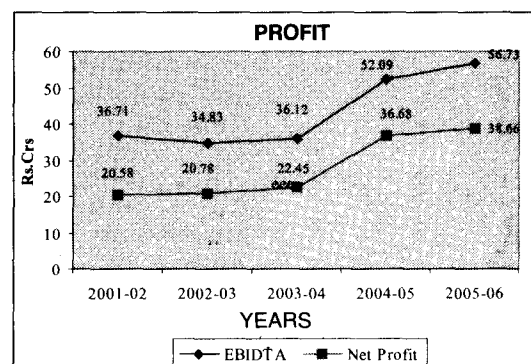
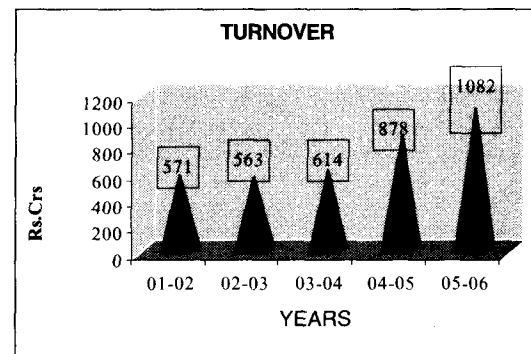
### DIVIDEND

The Board of Directors recommended a dividend of Re. 0.60 per equity share of Rs. 10/- each.

### PERFORMANCE

2005-06 was the year of growth and excellent performance for your Company with the turnover crossing the milestone of Rs.1,000 crores. The turnover for the year

at Rs. 1082.32 crores is up 23 % over the previous year and the Profit after Tax at Rs. 25.15 crores is up 13% over the previous year.



## PRODUCTION

### Urea

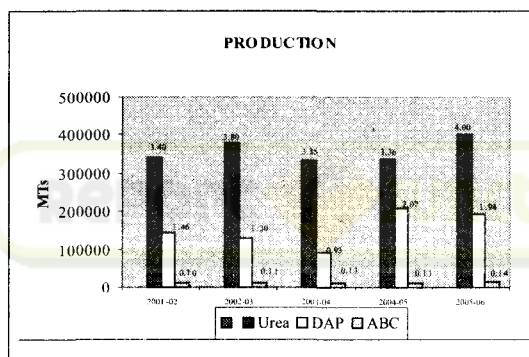
Your Company achieved the highest ever annual production of 4,00,000 MTs of Urea during the year against the reassessed capacity of 3,80,000 MTs with the special approval of the Ministry of Chemicals & Fertilizers for the additional quantity of 20,000 MTs.

### Di-Ammonium Phosphate (DAP) & Complex Fertilizers

1,66,845 MTs of DAP and 27,430 MTs of NP (20:20:0) were produced with a capacity utilisation of 88%. The loss of production, was mainly due to non-availability of Phosphoric Acid for 68 days on account of delay in finalisation of Phosphoric Acid price by the Industry.

### Ammonium Bi-Carbonate (ABC)

Your Company achieved the highest ever production of 14,089 MTs of ABC during the year, with on-stream efficiency of 97%.



## SALES

After years of drought in the entire southern zone, all the states received either excess or normal rainfall during the year 2005-06, leading to a favourable situation for sale of agro inputs both under irrigated as well as rainfed areas resulting in spurt in demand for fertilizer during the Kharif season.

Your Company achieved a record sale of 6.86 lakh MTs of 'Mangala' products viz., urea, phosphatic fertilizers, granulated fertilizers and ammonium bi-carbonate against the previous sale of 6.09 lakh MTs, a growth of over 13%. This was supplemented by trading in fertilizers, which contributed significantly to the company's bottom line.

Recognizing the need for Integrated Nutrient Management, your Company introduced several crop and soil specific blended Granulated Fertilizers and sold its highest ever quantity of 90,000 MTs during the year 2005-06. Your Company's presence in the market place was also increased by introducing micro nutrients and speciality fertilizers, which add significant value. Continuous efforts are on to introduce more and more specialised products, which add value to customers.

Though products are available, there is dearth of transferring knowledge to the farming community, which

is leading to imbalanced use of crop nutrients. Recognizing this fact, your Company has started innovative dealers training programmes to impart training on crop production management with particular reference to integrated nutrient management. This will enable the dealer to become a focal point for transfer of knowledge to the farming community.

## WORKING CAPITAL

The Company has been facing a severe liquidity crunch due to inordinate delays in payment of the monthly concession bills by the Government of India (GOI), especially towards the end of the financial year on account of inadequate budgetary provision. The shortfall in budgetary provision is increasing year after year. Despite several representations made by the industry, this problem has not been addressed. Added to this, steep increases in hydrocarbon prices have further aggravated the situation. Though the New Pricing Policy announced by the GOI provides for recognition of price increases on a quarterly basis, there have been delays of more than a year in recognizing the price increases and notifying the revised rates of concession.

This situation has not only resulted in critical cash flows, but also a heavy interest burden on increased borrowings to meet the working capital requirements of the Company.

## FERTILIZER POLICY

The tenure of stage II of the New Pricing Policy for Urea manufacturing units, which was introduced with effect from 1.4.2003 and the energy norms for the period 1.4.2004 to 31.3.2006 came to an end on 31.3.2006. A Working Group constituted under the Chairmanship of Dr. Y. K. Alagh to review the effectiveness of Stage-I and II of New Pricing Scheme and to formulate a policy for Urea units for Stage-III commencing from 1.4.2006 has submitted its final recommendations to Department of Fertilizers, GOI. The final policy based on the recommendations is yet to be announced by the GOI.

The new policy on phosphatic fertilizers based on the recommendations of Dr. Abhijit Sen Committee has been announced recently by GOI. Though the policy announced in respect of phosphoric acid pricing was on expected lines, certain issues like recognition of increase in conversion costs, increase in railway/road freight, interest burden due to increase in working capital are yet to be addressed. The Fertilizer Association of India (FAI) has already made a detailed representation to the GOI in this regard. The profitability of phosphatic fertilizers would improve, if the representation of FAI is considered favourably.

## SAFETY, ENVIRONMENT AND POLLUTION CONTROL

Your Company has obtained Occupational Health and Safety Management System certification, OHSAS 18001 during the year, in its endeavour and commitment towards continuous improvement. Extensive training programmes including usage of fire extinguishers, personal protective equipments and mock drills were conducted from time to time. Training on first aid was imparted for several