

ANNUAL REPORT 2006-2007



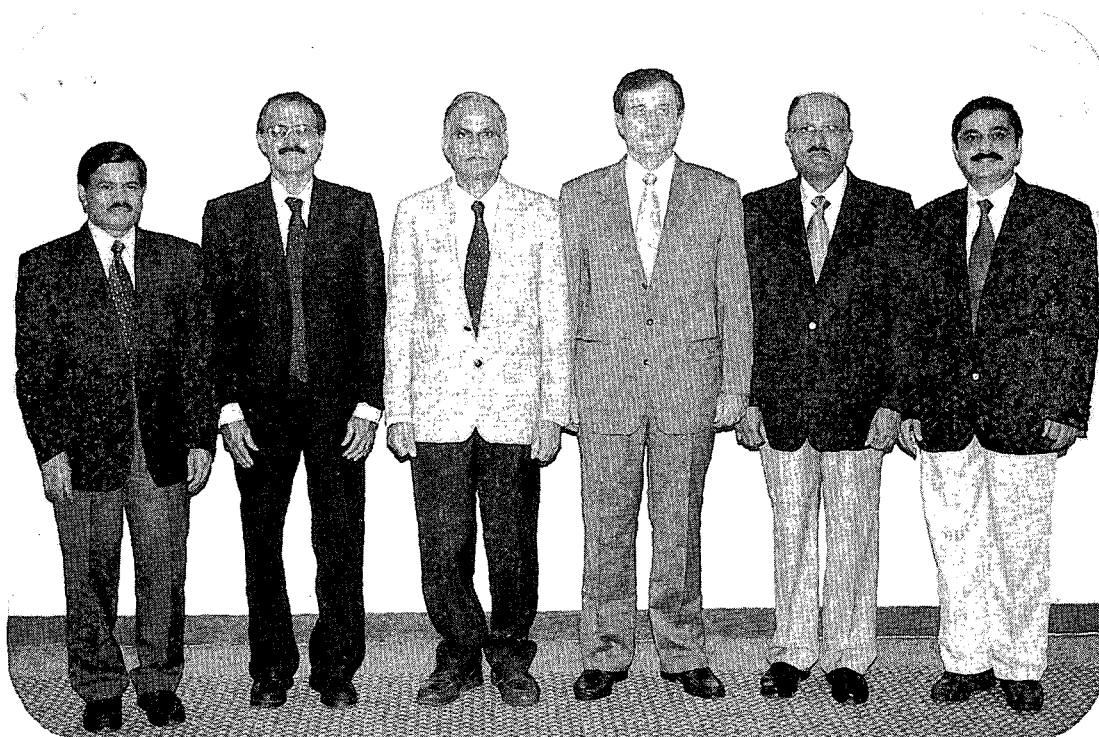
MCF

Mangalore Chemicals & Fertilizers Limited

An ISO 14001 and OHSAS 18001 Company

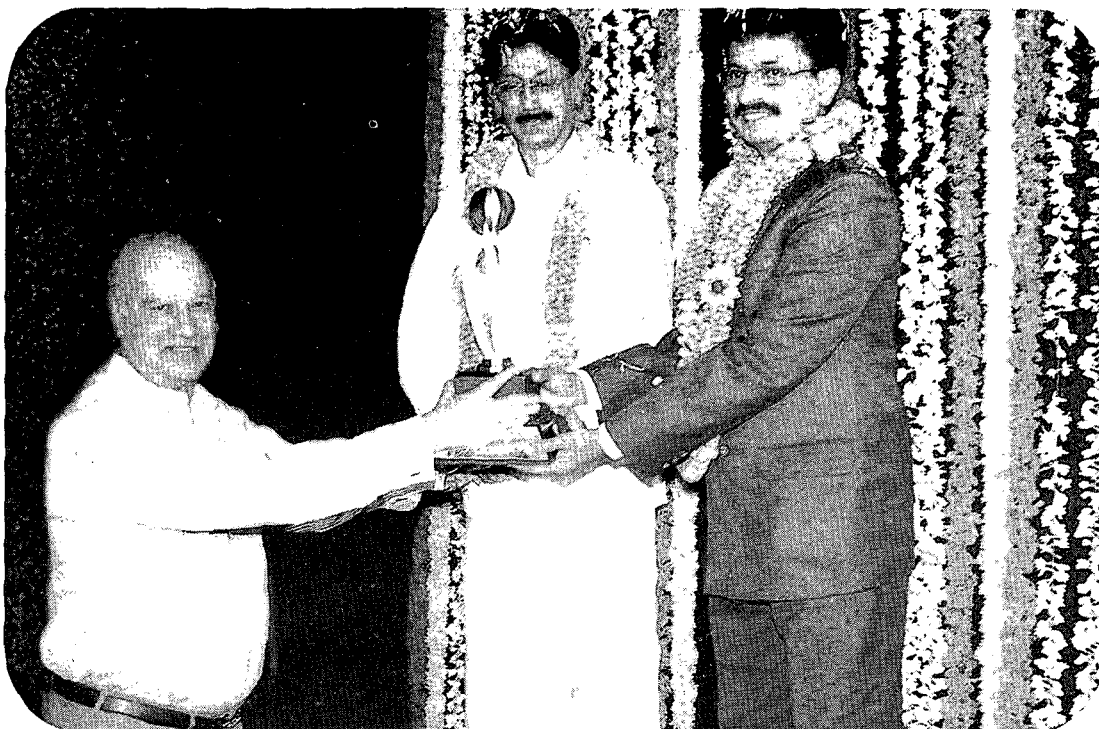


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Management Committee

From- Left to Right: **A. Rudrachary**, Sr. Vice President - Commercial,
K. Prabhakar Rao, Director-Works, **Apollo Fernandes**, Vice President - Human Resources,
Deepak Anand, Managing Director, **H. M. Kshetrपालाiah**, Sr. Vice President - Marketing,
S. Ramaprasad, Vice President (Legal & IT) & Company Secretary



Mr.S.R.Gupte, Vice Chairman, UB Group, handing over the "Mangala Ratna" award to
 Mr. Vijay Natarajan and Mr. Rajesh of Universal Fertilizer Corp., Salem for highest sale of
 Fertilizers for 2004-2005 & 2005-2006

Directors	: Dr. Vijay Mallya, <i>Chairman</i> Deepak Anand, <i>Managing Director</i> S. R. Gupte, <i>Director</i> B. S. Patil, <i>I.A.S. (Retd.), Independent Director</i> Pratap Narayan, <i>Independent Director</i> Shrikant G. Ruparel, <i>Independent Director</i> N. Sunder Rajan, <i>Independent Director</i> K. Prabhakar Rao, <i>Whole-time Director</i>
Company Secretary	: S. Ramaprasad
Bankers	: Corporation Bank HDFC Bank Limited ICICI Bank Limited State Bank of India UTI Bank Limited
Auditors	: K. P. Rao & Company, Bangalore
Registered Office	: No. 5, Crescent Road High Grounds, Bangalore – 560 001 Tel. No. 080-2220 8990, Fax No. 080-2220 8989 e-mail: shares@mangalorechemicals.com
Works Office	: Panambur, Mangalore – 575 010 Tel. No. 0824-2220 600, Fax No. 0824-2407 938
Share Transfer Agents	: Cameo Corporate Services Limited 'Subramanian Building' No.1, Club House Road Chennai – 600 002 Tel. No. 044-2846 0390, Fax No. 044-2846 0129 e-mail: cameo@cameoindia.com

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TEN YEAR RECORD

Rs. Crores

	06-07	05-06	04-05	03-04	02-03	01-02	00-01	99-00	98-99	97-98
Profit and Loss Account										
Sales	1,371.05	1,082.32	878.02	614.21	562.79	571.18	680.63	615.65	520.11	451.60
Other Income	3.44	3.81	9.74	5.47	6.55	11.76	8.08	2.97	1.79	1.66
Interest	16.27	6.72	4.33	3.03	3.80	7.17	4.61	0.81	22.14	20.38
Depreciation	15.22	11.35	11.08	10.64	10.25	8.96	7.59	21.77	8.36	8.15
Profit before Tax	41.97	38.66	36.68	22.45	20.78	20.58	40.15	34.84	30.23	17.33
Balance Sheet										
Net Fixed Assets	307.43	299.16	250.71	255.89	256.78	145.30	108.75	110.91	101.99	95.26
Investments	0.05	—	—	—	—	—	—	—	—	—
Net Current Assets	303.98	278.13	196.41	117.53	121.77	94.62	122.90	107.46	164.86	120.31
Miscellaneous Expenditure	—	—	—	—	—	—	—	—	153.65	183.88
Total	611.46	577.29	447.12	373.42	378.55	239.92	231.65	218.37	420.50	399.45
Share Capital	118.55	118.55	118.55	118.55	118.55	123.36	123.36	103.36	103.36	103.36
Reserves & Surplus	228.87	212.07	197.70	178.10	167.33	48.21	48.67	17.34	0.17	0.17
Loan Funds	228.43	213.69	101.50	48.27	68.02	49.52	59.62	97.67	316.97	295.92
Deferred Tax Liability	35.61	32.98	29.37	28.50	24.65	18.83	—	—	—	—
Total	611.46	577.29	447.12	373.42	378.55	239.92	231.65	218.37	420.50	399.45

SIGNIFICANT FINANCIAL RATIOS

	06-07	05-06	04-05	03-04	02-03	01-02	00-01	99-00	98-99	97-98
Return on Average Capital Employed [%]	11.69*	10.97*	13.27*	9.39*	9.60*	11.77	19.89	14.70	21.71	19.17
Operating Profit to Sales [%]	5.11	4.89	4.82	4.99	5.03	4.37	6.50	8.84	11.33	9.79
Current Ratio [Times]	2.32	2.33	2.86	1.76	2.18	1.84	2.46	1.79	1.76	1.53
Quick Ratio [Times]	1.70	1.65	1.97	1.23	1.25	1.25	1.63	1.32	1.21	1.01
Sundry Debtors to Sales [Months]	0.79	0.36	0.68	1.66	2.37	1.98	2.54	1.70	1.30	0.65
Inventory of Finished Goods to Sales [Months]	0.17	0.62	0.13	0.34	0.84	0.27	0.42	0.11	0.47	0.74

* Capital employed is excluding Revaluation Reserve.

NOTICE

To

The Members,

NOTICE is hereby given that the Fortieth Annual General Meeting of the Members of the Company will be held at 3.00 p.m. on Friday, September 28, 2007, at Good Shepherd Auditorium, Opposite St. Joseph's Pre-University College, Residency Road, Bangalore - 560 025, to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Balance Sheet as at March 31, 2007 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. Shrikant G. Ruparel, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. B. S. Patil, 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 the Fortieth Annual General Meeting until the conclusion of the Forty First Annual General Meeting, on a remuneration of such sum as may be fixed by the Board of Directors".

SPECIAL BUSINESS

6. To consider and if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT the existing proviso under Article 134 of the Articles of Association of the Company be and is hereby deleted and substituted by the following proviso".

"PROVIDED THAT the provisions of this Article relating to non-retirement (by rotation) of the Managing Director shall also apply to a Whole-time Director of the Company".

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

"RESOLVED THAT Mr. K. Prabhakar Rao, who was appointed as an Additional Director of the Company pursuant to Section 260 of the Companies Act, 1956 to hold office upto the date of this Annual General Meeting, be and is hereby appointed as a Director of the Company, not liable to retire by rotation, pursuant to the provisions of Section 257 of the Companies Act, 1956 and that of the Articles of Association of the Company".

"RESOLVED FURTHER THAT pursuant to the relevant provisions contained in the Articles of Association of the Company as also Sections 198, 269, 309, Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 (the Act) consent of members be and is hereby accorded for the appointment of Mr. K. Prabhakar Rao, Vice President (Manufacturing) of the Company as the Whole-time Director of the Company, for a period of 5 years from October 27, 2006, on the terms as to remuneration and otherwise as set out in the agreements dated October 27, 2006 and June 4, 2007".

"RESOLVED FURTHER THAT in the event of loss or inadequacy of profits in any financial year of the Company, during the tenure of Mr. K. Prabhakar Rao as Whole-time Director, subject to the conditions set out in the said Schedule XIII of the Act, the remuneration and perquisites set out in the aforesaid agreements be paid to him as minimum remuneration subject to the respective ceilings provided therefor in Section II Part II of Schedule XIII of the Act".

"RESOLVED FURTHER THAT subject to such approvals as may be required, the Board of Directors be and are hereby further authorized to revise the remuneration payable to Mr. K. Prabhakar Rao from time to time, subject to the limits prescribed by law including Schedule XIII of the Companies Act, 1956 and agreed to between the Board and Mr. K. Prabhakar Rao".

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

"RESOLVED THAT in modification of the resolution passed at the Annual General Meetings held on April 20, 1977 and August 28, 1986 and pursuant to the provisions of Article 124 of the Articles of Association of the Company, Section 293(1)(d) 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 of the Company to borrow any sum



or sums of money for the purposes of the Company at any time or from time to time, notwithstanding that the money or monies to be borrowed together with the monies already borrowed by the Company may exceed the aggregate for the time being of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purposes, provided that the total amount so borrowed by the Company together with the amount already borrowed and outstanding shall not exceed

Rs. 600,00,00,000/- (Rupees six hundred crores only), apart from temporary loans obtained or to be obtained from the Company's bankers in the ordinary course of business".

By the order of the Board

S. Ramaprasad

*Vice President (Legal & IT)
& Company Secretary*

New Delhi
July 27, 2007

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 of the Company will remain closed from September 20, 2007 to September 28, 2007 (both days inclusive) for the purpose of determination of members who are entitled to receive the dividend for the financial year 2006-07.
3. Dividend as recommended by the Directors for the financial year ended March 31, 2007, if declared, will be payable to those members holding shares in physical form, whose names appear in the Register of members of the Company, as at the close of business hours of September 19, 2007 and in respect of members holding shares 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 should address all correspondence to the Company's Registrar and Share Transfer Agent at the following address quoting their Registered Folio Number or Demat Account Number & Depository Participant (DP) ID Number.

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 physical form are requested to notify any change in their addresses, mandates/bank details immediately to the Company's Registrar and Share Transfer Agents, Cameo Corporate Services Ltd., Chennai.
8. Members holding shares in the electronic 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 15 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 immediately notify any change in their addresses, bank details to their respective depository participants.
9. Members / Proxy holders are requested to produce the enclosed admission slip duly completed and signed at the entrance of the meeting venue.
10. Members who have not encashed the dividend warrants for the financial year 2005-06 may send their request to the Company, along with the dividend warrant, for arranging payment.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956**AGENDA ITEM No. 6**

In terms of Article 134 of the Articles of Association of the Company, the Managing Director, while he holds that office, shall not, be subject to retirement by rotation. However, as per the proviso under the Article, the provision of non-retirement by rotation is not applicable to a Whole-time Director. Since the appointment of a Whole-time Director is contractual and is for a fixed period approved by the members of the Company, it is proposed to amend the article to enable a Whole-time Director to hold office pursuant to the provisions of a contract between him and the Company.

Mr. K. Prabhakar Rao may be deemed to be interested in this resolution.

AGENDA ITEM No. 7

The Board of Directors of the Company, at their meeting held on October 27, 2006, appointed Mr. K. Prabhakar Rao, Vice President (Manufacturing), as an additional Director of the Company and also as the Whole-time Director of the Company for a period of five years from October 27, 2006, subject to the approval of the members, on such terms and conditions as per the agreement dated October 27, 2006. Further, the Board, at their meeting held on April 25, 2007, approved, subject to the approval of the members, the revision in the remuneration of Mr. K. Prabhakar Rao w.e.f. April 1, 2007 on such terms and conditions as per the agreement dated June 4, 2007. The abstracts of the above terms of appointment were circulated to the members of the Company pursuant to Section 302 of the Companies Act, 1956.

In terms of Section 260 of the Companies Act, 1956, Mr. K. Prabhakar Rao holds office as Director upto the date of this Annual General Meeting. The Company has received a notice in writing from a member proposing the candidature of Mr. K. Prabhakar Rao for the office of Director of the Company under the provisions of Section 257 of the Companies Act, 1956.

The terms of the appointment of Mr. Prabhakar Rao are set out below:

Particulars	From October 27, 2006 (Rs.)	From April 1, 2007 (Rs.)
Salary	47,250	53,825
Personal Allowance	51,500	72,011
House Rent Allowance	12,000	12,000
Conveyance Allowance	13,000	13,000

- a) Performance Evaluation Payment [PEP] subject to a maximum of 50% of salary per annum as may be approved by the Board of Directors of the Company.
- b) Perquisites:
 - i) Re-imbursement of Medical Expenses for self and family as per Company's rules.
 - ii) Leave on full pay and allowances, as per Company's rules.
 - iii) Leave Travel Allowance of Rs.18,000 per annum.
 - iv) Personal Accident Insurance coverage as per Company's rules.
 - v) Contribution to Provident Fund @ 12% of the salary.
 - vi) Gratuity and Superannuation contribution as per Company's rules.
 - vii) Encashment of leave as per Company's rules.
 - viii) Provision of car, driver, telephone as per Company's rules.
 - ix) Such other amenities, benefits, facilities and perquisites as applicable to senior executives as per the rules of the Company and as permitted by the Board of Directors from time to time.

Salary shall be reckoned at Rs. 53,825 per month for calculation of PEP and other perquisites that are relatable to salary. The above remuneration (including salary, allowances, PEP, perquisites etc.) payable to Mr. K. Prabhakar Rao, shall be subject to Sections 198, 269, 309, 310 & Schedule XIII of the Companies Act, 1956 or any other statutory modifications or re-enactments thereof. There are other usual provisions in his contract such as termination of contract, observing of strict secrecy in respect of business matters etc.

The resolutions are accordingly recommended for the approval of the members. Agreements dated October 27, 2006 and June 4, 2007 will be available for inspection by the members at the registered office of the Company between 11.00 a.m. and 1.00 p.m. on any working day and will also be kept open for inspection of the members during the meeting.

Mr. K. Prabhakar Rao is concerned and interested in the matter.

AGENDA ITEM No. 8

Approval of the members of the company is required under section 293(1)(d) of the Companies Act 1956 (the Act) for Company's borrowings in excess of the paid-up capital and its free reserves. The members had, at the Annual General Meeting of the Company held on August 28, 1986, approved a borrowing limit of Rs. 70,00,00,000/- (Seventy Crores only) pursuant to Section 293(1)(d) of the Act. Considering the fact that the aggregate of paid-up capital and free reserves of the Company as on March 31, 2007 is Rs. 252.51 crores and in view of the various capital infusion initiatives and future expansion plans of the Company, approval of the members by way of an enabling resolution is sought, to increase the borrowing limit upto Rs. 600,00,00,000/- crores. The resolution is accordingly recommended for the approval of the members.

None of the Directors is concerned or interested in the resolution.

By the order of the Board

Place : New Delhi
Date : July 27, 2007

S. Ramaprasad
Vice President - (Legal & IT) & Company Secretary

Details of Directors seeking appointment/re-appointment at the Fortieth Annual General Meeting
(Pursuant to Clause 49 of the Listing Agreement)

Name of the Director	Shrikant G. Ruparel	B. S. Patil	K. Prabhakar Rao
Date of Birth	December 31, 1940	January 20, 1944	July 2, 1955
Date of Appointment	October 26, 2005	March 31, 2006	October 27, 2006
Expertise in specific functional areas	<p>Joined Kolhapur Sugar Mill in 1966 and held the position of Managing Director between 1971 and 1981. He was also on 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.</p> <p>Mr. Shrikant G. Ruparel is also on the Advisory Board of Stanford Research Institute and held important positions in various other educational centers.</p>	<p>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.</p>	<p>Mr. Prabhakar Rao, 52, holds a Degree in Chemical Engineering. He has been working with MCF since 1978 and has handled various responsibilities in the Company. As Director - Works, he is presently responsible for production, maintenance, quality control, technical services, projects, safety and logistics at the Company's plant in Mangalore. Mr. Rao has widely travelled and participated in many national and international symposiums and has attended various Management Development Programs in premier institutions such as IIM Bangalore & Ahmedabad.</p>
Qualification	M.A., M.Sc. [London]	Indian Administrative Service [Retd.]	B.E. [Chemical Engineering]
Directorship in other Public Limited Companies	1. Ruparel Enterprises Ltd. 2. Bentley Finance [India] Ltd. 3. UB [Holdings] Ltd. 4. City IPSS Securities Ltd. 5. Shaw Wallace & Co. Ltd.	1. UB International Trading Co. 2. The Ugar Sugar Works Ltd. 3. Sadashiv Sugars Ltd. 4. Shetron Ltd. 5. UB [Holdings] Ltd. 6. Suprajit Engineering Ltd.	None
Membership of Committees in other Public Limited Companies	Member: Audit & Shareholders/ Investors' Grievance Committee of UB [Holdings] Ltd.	Member: Audit Committee of UB [Holdings] Ltd.	None



DIRECTORS' REPORT

The Directors are pleased to present your Company's Fortieth Annual Report together with the audited statement of accounts for the year ended March 31, 2007.

CORPORATE RESULTS

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

	2006-07	2005-06
Turnover	1371.05	1082.32
EBITDA	73.46	56.73
Interest	16.27	6.72
Depreciation	15.22	11.35
Profit before Tax	41.97	38.66
Provision for Tax	14.51	13.51
Profit after Tax	27.46	25.15
Net Worth	347.42*	330.62*

* includes Revaluation Reserve of Rs. 94.91 crores and Rs. 97.25 crores respectively.

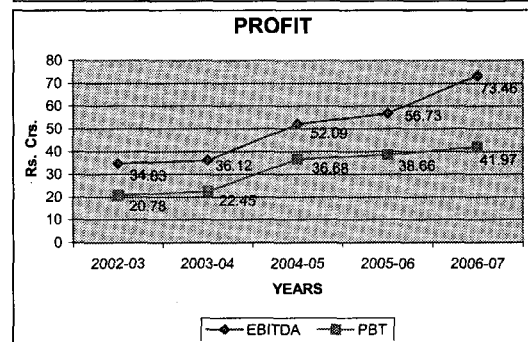
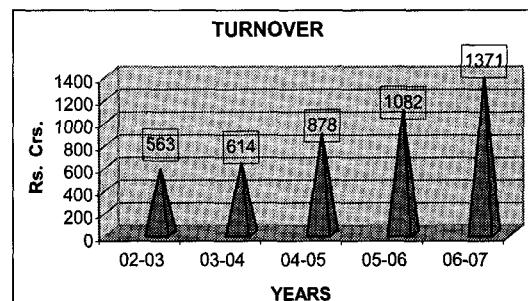
DIVIDEND

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

PERFORMANCE

2006-07 was a year of growth and improved performance, with your Company registering the highest ever sale of phosphatic fertilizers and granulated fertilizers. The turnover for the year at Rs.1371.05 crores was up 27% over the previous year and the Profit after Tax at

Rs. 27.46 crores was up 9% over the previous year. The Profit after Tax would have been significantly higher but for the substantially higher interest liability for the year at Rs.16.27 crores in relation to the previous year (Rs. 6.72 crores) attributable to undue delay in receipt of subsidy from the Government of India.



PRODUCTION

Urea

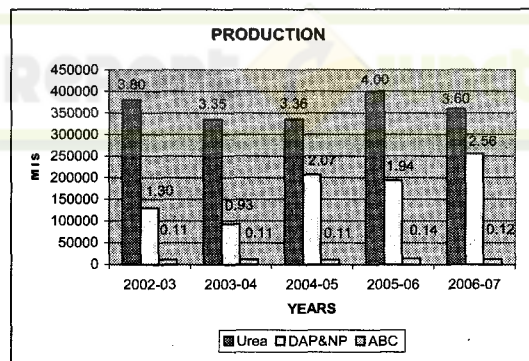
The Urea production for the year 2006-2007 was restricted to 3,60,000 MTs against the installed capacity of 3,80,000 MTs, in view of the additional quantity of 20,000 MTs of Urea produced during 2005-2006 with the special permission of the Government of India which was to be accounted for in 2006-07. This was done to compensate for loss of production due to the major revamp of Ammonia/Urea plants scheduled in April and May, 2006.

Di-Ammonium Phosphate (DAP) and Complex Fertilisers

Your Company reached yet another milestone with the highest ever production of 2,55,500 MTs [P.Y. 1,94,275 MTs] of DAP and NP during the year under review.

Ammonium Bi-Carbonate (ABC)

The production of ABC was lower at 12,002 MTs compared to the previous year at 14,089 MTs. The shortfall in production of ABC was mainly due to non-availability of CO₂, consequent to major revamp and annual turnaround of Ammonia/Urea plants taken up in April and May 2006.



SALES

The sales for the year 2006-2007 were quite encouraging for the manufactured products. The sale of DAP and NP [20:20:0] was higher by 37% and 142% respectively compared to the previous year. The sale of traded products, registered a good growth, especially granulated fertilizers, sales of which increased by 36% over the previous year and contributed significantly to the bottom line.

Increasing demand for food production in the context of population growth, urbanization and industrialization has to be met through efficient use of nutrients both organic and inorganic. Recognizing the need for the development of an Integrated Nutrient Management System, your Company established a separate "Integrated Nutrient Management Unit" at Hassan to undertake R&D to develop crop specific and soil specific grades of fertilizers and to provide extension support to farmers and dealers.

At the field level, product promotion and training to farmers were given major focus during the year. To motivate the dealers, Mangala Dealer Award Function cum Plant visit was organized during February 2007. More than 350 Mangala dealers from all regions participated in the award function and 72 dealers were honored for outstanding sales performance for the years 2004-05 & 2005-06.

WORKING CAPITAL

During the year under review, your Company faced a severe liquidity crunch due to inordinate delays in payment of the monthly concession bills and settlement of quarterly escalation claims by the Government of India. The recurrent problem of inordinate delays would not appear to have been addressed adequately and resolved, despite several representations made by the industry. Added to this, steep increase in hydrocarbon prices has further aggravated the situation. Though the New Pricing Policy announced by the Government of India 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, significantly impacting the bottom line of the Company.

FERTILIZER POLICY

Stage III of the New Pricing Scheme for Urea, was announced by the Government of India in March 2007. The duration of this policy is from October 1, 2006 to March 31, 2010. While the broad policy parameters of the stage I and II have been retained, there are quite a few departures as well. Some of the policy parameters such as tightening of energy consumption norms, capacity utilization and reduction in capital related charges do not augur well for the industry. Another major thrust of the policy is conversion of all existing Naphtha/FO/LSHS based units to gas within a period of three years. On the expiry of this deadline, subsidy will be restricted to the prevalent import parity price or the retention price of the individual unit, whichever is lower. While the policy does not recognise the investment made by the units for conversion, there will be no mopping up of energy efficiency for a fixed period of 5 years for Naphtha/FO/LSHS based units.

The preliminary study required for conversion of the plant to gas has already been conducted and the cost for conversion is estimated to be about Rs. 280 crores. This includes a provision of Rs. 150 crores for gas based captive power plant. Your Company is in constant touch with Petronet LNG for supply of LNG from Cochin and Reliance Industries Limited for supply of gas from KG Basin. Based on the discussions held with Reliance Industries Limited, supply of gas appears likely by 2010.

Though the policy on Phosphatic fertilizers based on the recommendations of Dr. Abhijit Sen Committee has been implemented partially, certain issues like recognition of