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Chemicals Limited - Annual Report 1997-98

Nagarjuna Fertilizers

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Industry In Harmony With Nature



*The Nagarjuna Group symbolises
a dynamic and value based organisation actualising
the concept of "Industry in harmony with nature".
Through its various divisions and multifaceted activities,
the Nagarjuna Group is committed to giving,
rather than taking from society.
A philosophy that is reflected in the Group's mission
"Serving society through industry".*

Board of Directors

Field Marshal Sam Manekshaw, M.C.
Chairman

J B Dadachanji

Enrico Stacul

F J Heredia

Jaykrishna Harivallabhdas

R Krishnan

A Lahiri
IDBI Nominee

N C B Nath

S Padmanabhan
SBI Nominee

P C Parakh, IAS
Government of Andhra Pradesh Nominee

Paul Pothan

S R Ramakrishnan

P P Singh
KRIBHCO Nominee

R L Saha
Alternate to P P Singh

M J Subbaiah
ICI Nominee

Madhav
Director (Finance)

Menon
Director (Technical)

Chairman & Managing Director

Vice President (Legal)
and Secretary
L V V Iyer

Auditors
M Bhaskara Rao & Co.
Chartered Accountants
Hyderabad - 500 082
INDIA

Share Transfer Agents
Nagarjuna Investors Services Limited
Nagarjuna Hills
Hyderabad - 500 082
INDIA

Registered Office
Nagarjuna Hills
Hyderabad - 500 082
INDIA

Factory
Kakinada - 533 003
East Godavari Dist.
Andhra Pradesh
INDIA





Notice of the Twenty Second Annual General Meeting

NOTICE is hereby given that the 22nd Annual General Meeting of Nagarjuna Fertilizers and Chemicals Limited will be held on Monday, September 21, 1998 at 10.00 a.m. at Hari Hara Kala Bhavan, Sardar Patel Road, Secunderabad - 500 003, to transact the following ordinary and special business :

Ordinary Business

1. To receive, consider and adopt the 22nd Annual Report of the Directors, Balance Sheet as at March 31, 1998 and the Profit and Loss Account for the financial year ended March 31, 1998 and the Report of the Auditors thereon.
2. To declare a Dividend on the equity shares for the year ended March 31, 1998.
3. To appoint a Director in the place of Shri J B Dadachanji who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in the place of Shri Paul Pothan, who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in the place of Dr Enrico Stacul who retires by rotation and is eligible for re-appointment.
6. To consider and if thought fit, to pass with or without modification(s) the following resolution proposed as a Special Resolution.

"RESOLVED THAT the retiring Auditors of the Company, M/s. M Bhaskara Rao & Co., Chartered Accountants, Hyderabad, being eligible for reappointment be and are hereby reappointed as Auditors of the Company to hold office from the conclusion of the 22nd Annual General Meeting till the conclusion of the next Annual General Meeting on such terms and conditions as may be fixed by the Board of Directors of the Company."

Special Business

7. To consider and if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution :

"RESOLVED THAT Shri P P Singh who was appointed as an Additional Director of the Company with effect from November 29, 1997 under Article 93 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting, be and is hereby appointed as Director of the Company, liable to retire by rotation.

By order of the Board

Hyderabad
June 27, 1998

M. Ramakanth
Assistant Company Secretary

Notes

1. The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, in respect of the business set out under item 7 is annexed hereto.
2. 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 proxy need not be a member of the Company.
3. Instrument of proxies in order to be effective must be deposited at the Company's registered office at Nagarjuna Hills, Hyderabad 500 082 not less than forty eight hours before the meeting.
4. The Register of Members and Share Transfer Books will remain closed from September 1, 1998 to September 21, 1998 (both days inclusive).

5. The Dividend for the year ended March 31, 1998 as recommended by the Board and approved by the shareholders at the Meeting shall be payable, on or before November 2, 1998 to those members whose names appear on the Company's Register of Members on September 21, 1998.
6. The Company has paid 18% equity dividend in 1994-95 and the dividend remaining unclaimed will be transferred to the General Revenue account of the Central Government in accordance with the Companies Unpaid Dividend (Transfer to General Revenue Account of Central Government) Rules, 1975, by October 29, 1998. Shareholders who have not encashed their dividend warrants are requested to write to Nagarjuna Investors Services Limited, the Company's Transfer Agents, before September 1, 1998 and make necessary application to the Registrar of Companies, Andhra Pradesh, Hyderabad after October 29, 1998 for claiming their Dividend. Individual Notices to members whose dividend remains unclaimed is being issued by the Company.
7. In order to provide protection against fraudulent encashment of Dividend Warrants, Members are requested to provide their Bank Account Number, Name and Address of the Bank / branch to enable the Company to incorporate the same in the Dividend Warrants.
8. Members are requested to inform immediately the change, if any, of address registered with the Company.
9. Members desiring to seek any information on the Annual Accounts are requested to write to the Company at an early date to enable compilation of information.
10. All communication relating to shares are to be addressed to the Company's Transfer Agents, Nagarjuna Investors Services Limited, Nagarjuna Hills, Hyderabad - 500 082.

Explanatory Statement under Section 173 (2) for item No.7 of the Notice for the 22nd Annual General Meeting to be held on Monday, September 21, 1998.

Item No.7

Shri P P Singh, was appointed as an Additional Director at the Meeting of the Board of Directors held on November 29, 1997. He holds office upto the date of the ensuing Annual General Meeting and being eligible, offers himself for appointment as a Director, liable to retire by rotation. Shri P P Singh is the Managing Director of Krishak Bharati Cooperative Limited, one of the largest Fertiliser Manufacturing Companies in India. The Company would benefit by his appointment.

Notice as required under Section 257 of the Companies Act, 1956 together with the requisite deposit has been received from a Member proposing the appointment of Shri P P Singh as Director of the Company. Your Directors commend the resolution for approval. None of the Directors of the Company except Shri P P Singh may be deemed to be concerned or interested in the resolution.

Inspection of Documents

The documents pertaining to special business are available for inspection at the registered office of the Company between 10.30 a.m. and 12.30 p.m. on any working day prior to the Meeting.

Hyderabad
June 27, 1998

By order of the Board
M. Ramakanth
Assistant Company Secretary

NFCL**Report of the Directors**

Your Directors have pleasure in presenting the 22nd Annual Report together with the Audited Accounts of the Company for the year ended March 31, 1998.

Financial Results

Your Company recorded a good performance given the constraints under which it functioned during the year.

The turnover of your Company for the year was Rs.795.88 crores as compared to Rs.922.49 crores for the previous year.

Rs (in crores)

	1997-98 Current Year	1996-97 Previous Year
Turnover	795.88	922.49
Gross Profit (after interest)	136.74	261.71
Depreciation	5.96	76.61
Net Profit before taxation	130.78	185.10
Provision for Tax	8.68	23.90
Net Profit after taxation	122.10	161.20
Profit for the previous year brought forward	254.76	237.56
Transferred to Debenture Redemption Reserve	3.85	3.85
Dividend	59.78*	59.65
Provision for tax on dividend	5.98	5.96
Transferred to General Reserve	50.00	75.00
Profit carried to Balance Sheet	257.25	254.76

Dividend

Your Directors are happy to recommend a dividend of 18% on the equity capital of the Company.

Operations

The second half of the year saw the activities of your company being curtailed to comply with the restrictions of the Government of India on the offtake of Urea to be limited to 115% capacity. The production of Urea was 6.89 lakh MTs against 7.17 lakh MTs during the previous year.

The supply of natural gas was generally satisfactory during the year.

Marketing

Your Company has a national presence and sells fertilisers, pesticides, seeds and other agri related products all over the Country.

During the year your Company sold 8.86 lakh MTs of Urea. Your Company also selectively sells other fertilisers.

The sale of pesticides was Rs. 61.25 crores as compared to Rs. 81.04 crores in the previous year. The lower sales was owing to a general sluggishness in the Pesticides Industry.

The Agri Output Division of your Company has made inroads into assisting the farmers towards improvements in farm management practices.

The Seeds Division of your Company increased its turnover to Rs. 6 crores from Rs. 5.10 crores during the previous year. The brand name 'DHANASAGAR' is gradually becoming popular.

Environment

Your Company continues its unswerving commitment towards preservation and conservation of environment in and around the Plant.

Award

Your Company has received the Indian Chemical Manufacturers Association Award for the year 1996 for Innovative and Purposeful programmes for Social Progress.

Joint Ventures

Nagarjuna Palma India Limited a joint venture company with Palma India Limited of Israel has commenced indigenous manufacture of integral drip lines, at its Plant near Hyderabad.

Nagarjuna Haifa India Limited, a joint venture company with Haifa Chemicals Limited, Israel is gradually establishing itself as a reliable supplier of water soluble fertilisers.

Expansion

Your Company's Expansion Project involving the doubling of its fertiliser manufacturing facilities at Kakinada has been completed within the estimated Project Cost. Commercial production commenced on March 19, 1998. The Project has been financed by internal accruals and loans from Financial Institutions.

Future outlook of the Fertiliser Industry

The Urea segment of the Fertiliser Industry continues to be heavily dependent on Government Policies. The uncertainty of the Governmental Policies in relation to restrictions on production, offtake and subsidy payments need to be addressed by the Government at the earliest.

A High powered Committee set up under the Chairmanship of Prof. Hanumanth Rao to go into the various issues concerning fertiliser industry with specific reference to administration of the Retention Pricing System has presented its report to the Government of India. The report has cast a shadow on the future of the Urea industry in the country. Your Directors hope that the Government would take appropriate decisions taking into account the national imperative of ensuring food security.

Equity Capital

Your Directors, in order to ensure stability and continued direction to the Company, have considered it appropriate to issue warrants on preferential basis to the existing promoters of the Company in accordance with the Securities and Exchange Board of India Guidelines on Preferential Issues. Your Promoters accordingly have subscribed to 6,95,00,000 warrants. The Promoters shall be entitled to convert each warrant of Rs. 15.71 into one equity share of Rs.10/- each



within eighteen months from the date of allotment of the warrants.

Diversification

In view of the synergy of operations, your Company has decided to establish a world class refinery conforming to international standards. The Refinery is being set up at Cuddalore in Tamil Nadu through Pennar Refineries Limited alongwith Tamil Nadu Industrial Development Corporation. The Project envisages a configuration to refine 6.5 million tonnes per annum at a cost of Rs. 3200 crores. The Project is being set up with the financial assistance from Indian and Overseas Financial Institutions and Banks.

Nagarjuna Power Corporation Limited which is undertaking the implementation of the proposed 1000 MW Power Plant at Mangalore is in the process of finalising the EPC Contract and Power Purchase Agreement.

Subsidiary Companies

Jaiprakash Engineering and Steel Company Limited and Pennar Refineries Limited are subsidiaries of your Company and a Statement of the Holding Company's interest in the Subsidiary Companies in accordance with Section 212(2)(a) of the Companies Act, 1956, is enclosed.

Personnel

Your Company continues to enjoy cordial relations with employees at all levels.

Directors

Shri P P Singh was nominated by Krishak Bharati Co-operative Limited as their nominee Director on the Board of the Company in place of Shri S Kabilan. He was appointed as an Additional Director on November 29, 1997 and shall hold office upto the date of the forthcoming Annual General Meeting.

The Company has received a Notice under Section 257 of the Companies Act, 1956, from a Member proposing the candidature of Shri P P Singh as a Director at the forthcoming Annual General Meeting.

Shri R L Saha was appointed as an alternate Director to Shri P P Singh on November 29, 1997. He vacates office at the conclusion of the forthcoming Annual General Meeting.

The Industrial Development Bank of India withdrew the nomination of Dr. K C Varshney and has appointed Shri Arindrajit Lahiri, Executive Director, IDBI, as their Nominee Director on the Board of the Company with effect from March 6, 1998.

The Industrial Credit and Investment Corporation of India Limited has appointed Shri M J Subbaiah, General Manager,

as their nominee on the Board of the Company with effect from February 9, 1998.

Your Directors place on record their appreciation of the services rendered by Dr. K C Varshney and Shri S Kabilan during their tenure as Directors of your Company.

In accordance with the Articles of Association of the Company, Shri J B Dadachanji, Dr. Enrico Stacul and Shri Paul Pothen retire at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment.

Disclosures

Disclosures in terms of Companies (Particulars of Employees) Rules, 1975 and Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 in respect of Conservation of Energy, Technology Absorption, Earnings and Outgo of Foreign Exchange are attached and forms part of this Report.

Auditors

M/s. M Bhaskara Rao & Co., Chartered Accountants, Hyderabad, the Company's auditors retire at the conclusion of the ensuing Annual General Meeting. They have signified their willingness to accept re-appointment and have further confirmed their eligibility under Section 224 (1B) of the Companies Act, 1956.

Acknowledgement

Your Directors place on record their appreciation of the continued assistance and co-operation extended to the Company by the Government of India, Government of Andhra Pradesh, Government of Karnataka, Government of Tamil Nadu, Industrial Development Bank of India, other participating financial institutions, State Bank of India and other participating commercial banks, Gas Authority of India Limited, Snamprogetti, S.p.A., Italy, Haldor Topsoe A/S, Denmark, Projects and Development India Limited, Krishak Bharati Co-operative Limited, Tamil Nadu Industrial Development Corporation, Caltex Petroleum Corporation, the large family of shareholders, debenture holders and depositors of your Company, the dedicated employees and all others who are continuing to assist your Company.

On behalf of the Board of Directors

Hyderabad
June 27, 1998.

Field Marshal Sam Manekshaw, M.C
Chairman.

NFCL

FORM - A**Form for disclosure of particulars with respect to Conservation of Energy**

	Unit	Current year ended 31-03-1998	Previous year ended 31-03-1997
A. Power & Fuel Consumption			
1. Electricity			
a) Purchased			
Quantity	1000 KWH	223.92	389.99
Total Amount	Rs.Lakhs	11.38	15.84
Rate/KWH	Rs.	5.08	4.06
b) Own Generation			
i) Through Gas Turbine Units	1000 KWH	94,630.11	88,581.84
Quantity - Unit / SM3	KWH	4.03	3.94
Cost of gas per Unit of Power generated	Rs/KWH	0.71	0.64
2. Fuel			
(including Ammonia - fuel, Steam & Power)			
Quantity - Natural Gas	1000 SM3	201,140.63	208,261.48
NG LHV	KCal/SM3	8,606.81	8,452.01
Total Cost	Rs.Lakhs	5,807.87	5,312.19
Rate Per Unit of Gas	Rs./1000 SM3	2,887.47	2,550.73
Quantity - Naphtha	MT	1,096.37	---
Total Cost	Rs.Lakhs	89.30	---
Rate Per Unit of Naphtha	Rs./MT	8,145.40	---

B. Consumption per MT of Urea Production

	Unit	Standards	Current Year ended 31-03-1998	Previous Year ended 31-03-1997
Electricity (including internal generation)	KWH	132.80	137.02	124.11
Naphtha	KG	---	0.70	---
Natural Gas (fuel) at 8168 KCal/SM3	SM3	297.41	306.58	300.60

FORM - B**Form for disclosure of particulars with respect to technology absorption,
Research and Development (R & D)****A. Research & Development**

1. Specific in which R & D carried out by the Company

1. Inhouse Efforts :

Modification of tube passes in Medium Pressure Condenser (E-107) in Urea plant from 2 to 1 and direct supply of cooling water from Auxillary Cooling water Pumps.

2. Adopting latest technologies for energy conservation viz.,

- a) Replacement of solid GRP blades with energy efficient hollow FRP blades for 3 fans in Ammonia Plant Cooling Towers.
- b) Replacement of Tuttle T Series prill bucket with Tx series prill bucket for improving product quality.

2. Benefits derived as a result of the above R & D :

Considerable savings in natural gas consumption, better capacity utilisation, reduction in overall specific energy consumption of Urea and reduction in pollutant discharge.



3. Future plan of action :
- Pursue improvements in the same areas by
1. Modification to the recirculator wheel of Ammonia Synthesis gas Compressor.
 2. Modified scrubbing system to improve ammonia recovery is in the final stages of implementation in the Urea Plant.
 3. Replacement of all GRP blades with energy efficient hollow FRP blades in cooling tower fans.
4. Expenditure on R & D
- No separate record of the expenditure incurred on R & D is maintained.
- a) Capital
 - b) Recurring
 - c) Total
 - d) Total R & D expenditure as a percentage of total turnover.

B) Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation & innovation :

Inhouse efforts :

 1. Interconnection of Ammonia and Urea Cooling Towers
 2. Direct routing of liquid Ammonia to Urea Plant without operating Ammonia Transfer pump.
 3. Change over of a few Auxiliary pumps from Turbine to Motor driven for energy conservation.
2. Benefits derived as a result of the above efforts, e.g., product improvement, Cost reduction, product development, import substitution etc.,

Reduction in overall energy consumption was achieved in 1997-98
3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year), following information may be furnished

An expansion project was undertaken and Ammonia and Urea plants of identical capacity as the existing ones have been installed and commissioned in March, 1998

 - a) Technology imported
 - i) Haldor Topsoe low energy ammonia production technology
 - ii) Snamprogetti's Ammonia stripping technology for Urea Production and
 - iii) Giammarco-Vetrocoke process for CO₂ separation in the Ammonia Plant.
 - b) Year of Import

1996-97
 - c) Has technology been fully absorbed ?

Yes
 - d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action

Not applicable

Particulars of Foreign Exchange Earnings and Outgo

(Please refer Rule 2 (C))

- A. Activities relating to exports, initiatives taken to increase exports; development of new export markets for products and services, export plans
- Planning to increase the activity in export of Agri-related products
- B. Foreign Exchange Outgo and Earnings:
- | | Rs.lakhs |
|-----------------------------------|----------|
| 1) Foreign Exchange Outgo | |
| - Technical Know-how (Net of tax) | 674.24 |
| - Interest | 504.38 |
| - Dividend | |
| - Equity | 155.66 |
| - Preference | --- |
| - Others | 691.15 |
| 2) Foreign Exchange Earnings | 65.59 |

NFCL**Report of the Auditors to the Members**

To

The Members of

Nagarjuna Fertilizers & Chemicals Limited

We have audited the attached Balance Sheet of Nagarjuna Fertilizers and Chemicals Limited as at 31st March, 1998 and the Profit and Loss Account of the Company for the year ended on that date annexed hereto and report that:

1. As required by the Manufacturing and other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. Further to our comments in the Annexure referred to in paragraph 1 above, we report that:
 - a) We have obtained all the information and explanations which, to the best of our Knowledge and belief, were necessary for the purposes of our audit.
 - b) In our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of such books.

c). The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account.

d). In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with Note 6 of Schedule 16, regarding the change in the rates of depreciation with retrospective effect and Note 8 of Schedule 16, credit for retention price support which has been accounted on the basis of notified provisional retention price, and other notes thereon and accounting policies, give the information required by the Companies act, 1956, in the manner so required and give a true and fair view:

(i) in so far as it relates to the Balance Sheet, the state of the affairs of the company as at 31st March, 1998 and

(ii) in so far as it relates to Profit and Loss Account, the profit for the year ended on that date.

For **M Bhaskara Rao & Co.**
Chartered Accountants

Hyderabad
June 27, 1998

K R Ratnam
Partner

Annexure to the Auditors' Report

(Referred to in paragraph 1 of our report of even date)

- i. The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. According to the information and explanations given to us, the fixed assets have been physically verified by the management during the year in a phased periodical manner which in our opinion is reasonable, having regard to the size of the Company and the nature of the assets. No material discrepancies were noticed on such verification.
- ii. The fixed assets of the company have not been revalued during the year.
- iii. The stocks of finished goods, stores, spare parts, trading material and raw materials except stock in transit and lying with third party have been physically verified during the year by the Management. In our opinion the frequency of the verification is reasonable.
- iv. In our opinion and according to the information and explanations given to us, the procedures of physical verification of stocks followed by the Management were reasonable and adequate in relation to the size of the Company and nature of its business.
- v. The discrepancies noticed on verification between the physical stocks and records were not material

in relation to the operations of the company and the same have been properly dealt with in the books of account.

vi. In our opinion and on the basis of our examination, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the previous year.

vii. The Company has not taken any loan, secured or unsecured from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956. We are informed that there are no companies under the same management within the meaning of sub-section (1-B) of Section 370 of the Companies Act, 1956 during the year.

viii. The Company has not given any loan to Companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956. We are informed that there are no companies under the same management within the meaning of sub-section (1-B) of Section 370 of the Companies Act, 1956 during the year.

ix. In respect of loans and advances in the nature of loans, given by the Company, the parties are repaying the principal and interest, where applicable, as stipulated.