

ANNUAL REPORT 2003 - 04

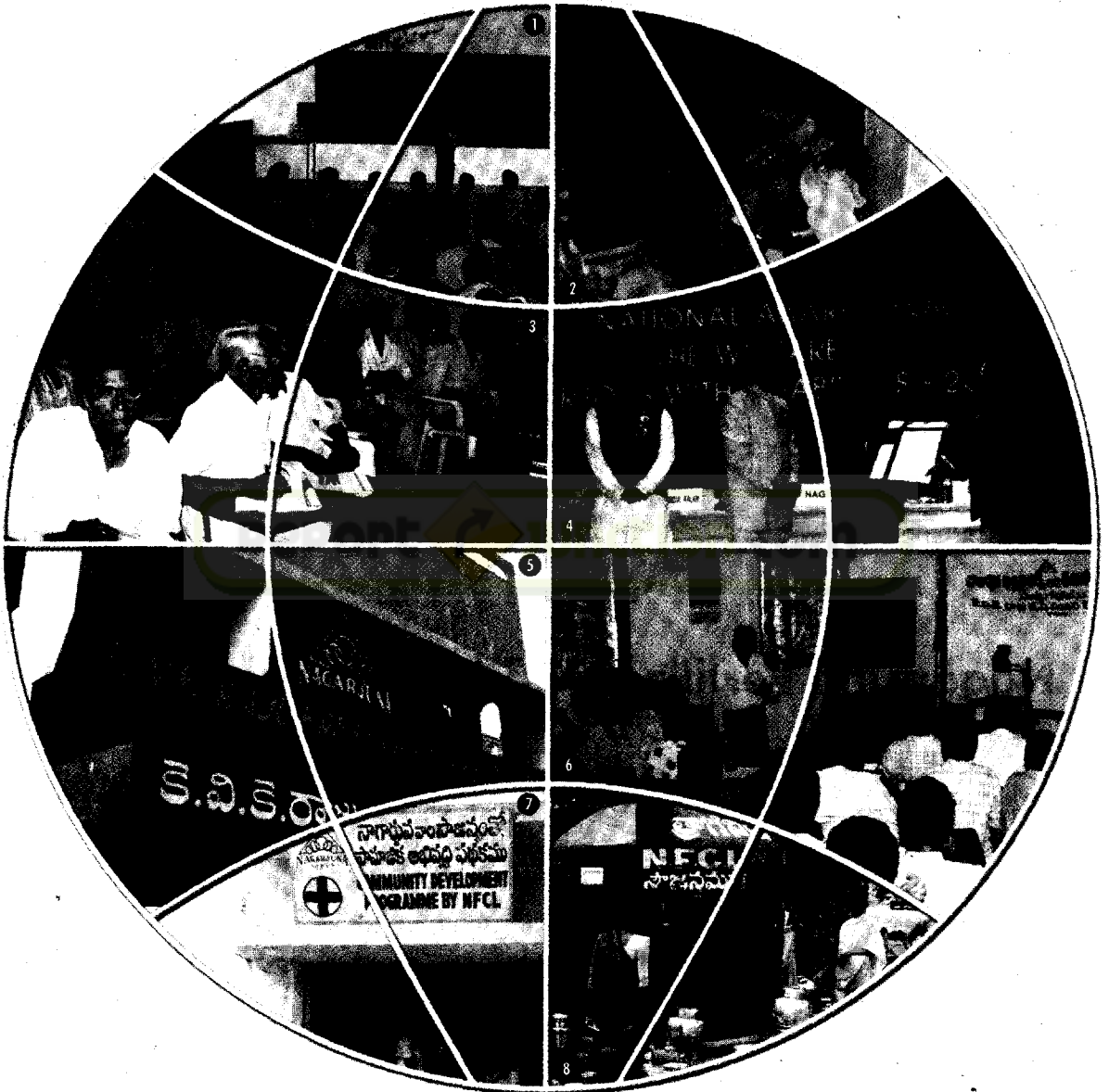


Nagarjuna Fertilizers and Chemicals Limited



Nagarjuna World

Community Development Program



- ❶ Primary school providing free education at Kondelpet village
- ❷ Supporting early intervention project taken up by Uma Manovikas Kendra for welfare & training of mentally challenged children
- ❸ Imparting training to farmers on Scientific agricultural practices.
- ❹ The President of India Dr. A P J Abdul Kalam giving away the National Award for the year 2003 to the Uma Manovikas Kendra for its outstanding efforts.
- ❺ & ❻ K V K Raju Krishi Vigyankendram
- ❼ Primary medicare provided to inhabitants of the adjoining villages.
- ❽ Supply of potable water to the Kondelpet village.

Board of Directors

Field Marshal Sam Manekshaw, M.C.

Chairman

Ashok Chopra

Snamprogetti Nominee

Chandra Pal Singh Yadav

KRIBHCO Nominee

R K Chavali

IFCI Nominee

Jainder Singh, IAS

Government of Andhra Pradesh Nominee

R Krishnan

K M Jaya Rao

ICICI Nominee

N C B Nath

M P Radhakrishnan

SBI Nominee

V N Rai

Alternate to Shri Chandra Pal Singh Yadav

S R Ramakrishnan

R Sathyamurthi

IDBI Nominee

P P Singh

Director (Technical)

R S Nanda

Director & Chief Operating Officer

K Rahul Raju

Director - Business Development & Strategic Planning

K S Raju

Vice Chairman & Managing Director

Secretary

M Ramakanth

Auditors

M Bhaskara Rao & Co.,

Chartered Accountants

Hyderabad - 500 082

INDIA

Registered Office

Nagarjuna Hills

Hyderabad - 500 082

INDIA

Factory

Kakinada - 533 003

East Godavari Dist.

Andhra Pradesh

INDIA

NOTICE

NOTICE IS HEREBY GIVEN THAT THE TWENTY EIGHTH ANNUAL GENERAL MEETING OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED WILL BE HELD AT 10.00 A.M ON SEPTEMBER 22, 2004, AT SRI SATYA SAINIGAMAGAMAM, 8-3-987/ 2, SRINAGAR COLONY, HYDERABAD - 500 073, TO TRANSACT THE FOLLOWING BUSINESS :

ORDINARY BUSINESS :

1. To receive, consider and adopt the 28th Annual Report of the Directors, Balance Sheet as at March 31, 2004, the Profit and Loss Account for the financial year ended March 31, 2004, the Cash Flow Statement for the financial year ended March 31, 2004, and the Report of the Auditors thereon.
2. To appoint a Director in the place of Field Marshal Sam Manekshaw, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in the place of Dr N C B Nath, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in the place of Shri R Krishnan, who retires by rotation and is eligible for re-appointment.
5. To consider and if thought fit, to pass with or without modification(s) the following resolution which will be proposed as a Special Resolution :

"RESOLVED THAT the retiring Auditors of the Company, M/s. M Bhaskara Rao and Co., Chartered Accountants, Hyderabad being eligible for reappointment be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of the 28th Annual General Meeting upto 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

6. To consider and if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution :

"RESOLVED THAT subject to Sections 198, 269, 309 and Schedule XIII and other applicable provisions of the Companies Act, 1956 Shri P P Singh, be and is hereby re-appointed as Director (Technical) of the Company for a period of two years with effect from February 24, 2004 subject to the necessary approvals of the Financial Institutions and the Central Government".

"RESOLVED FURTHER THAT Shri P P Singh, be and is hereby paid the following remuneration and perquisites during the term of his office and the same also be paid as minimum remuneration in the event of inadequacy or absence of profits in any financial year, during his term of office."

1. **Salary :**
Rs.1.5 lakhs p.m. including Dearness Allowance and other allowances
2. **Perquisites :**
Perquisites shall be restricted to an amount equal to the annual salary.
3. **Housing :**
 - a. The expenditure incurred by the Company on hiring furnished accommodation will be subject to a ceiling of 60% of the salary; or
 - b. In case the accommodation is owned by the Company, ten per cent of the salary shall be deducted by the Company; or
 - c. In case no accommodation is provided by the Company, Shri P P Singh shall be entitled to house rent allowance subject to the ceiling laid down in clause (a).

Explanation : The expenditure incurred by the Company on gas, electricity, water and furnishings

shall be valued as per the Income-tax Rules, 1962, subject to a ceiling of ten per cent of the salary.

ii. Medical Reimbursement :

Reimbursement of the expenses incurred for self and family subject to a ceiling of one month's salary in a year or two months' salary over a period of two years.

iii. Leave Travel Concession :

Leave Travel Concession for self and family once in a year, incurred in accordance with the rules of the Company.

Explanation : Family for (ii) and (iii) means the spouse, the dependant children and dependant parents.

iv. Club Fees :

Fees of clubs subject to a maximum of two clubs. No admission and life membership fee shall be paid.

v. Personal Accident Insurance :

Personal accident insurance of an amount, the annual premium of which does not exceed Rs.10,000/- per annum.

- vi. a. Company's contribution towards Provident Fund as per the rules of the Company.
- b. Gratuity as per the rules of the Company.
- c. Company's contribution towards Superannuation Fund as per the rules of the Company.

The aforesaid perquisites stated in (vi)(a), (vi)(b) and (vi) (c) shall not be included in the computation of minimum remuneration to the extent these either singly or put together are not taxable under the Income-tax Act, 1961-

vii. Earned Leave :

On full pay and allowances and perquisites, as per the rules of the Company. Encashment of leave at the end of the tenure shall not be included in the computation of the minimum remuneration.

viii. Car for use on Company's business and telephone at residence (for official purpose) shall not be considered as perquisites".

"RESOLVED FURTHER THAT the remuneration specified above for Shri P P Singh, Director (Technical) may, subject to overall ceiling specified above and subject to Schedule XIII of the Companies Act, 1956, be modified as may be agreed to by the Company and Shri P P Singh, Director (Technical)".

"RESOLVED FURTHER THAT the perquisites mentioned above shall be interchangeable within the overall ceiling of the annual salary of Shri P P Singh, Director (Technical)".

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

"RESOLVED THAT Shri R S Nanda who was appointed as an Additional Director of the Company with effect from June 26, 2004 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."

"RESOLVED FURTHER THAT subject to Sections 198, 269, 309 and Schedule XIII and other applicable provisions of the Companies Act, 1956, Shri R S Nanda, be and is hereby appointed as Director and Chief Operating Officer of the

Company for a period of three years with effect from June 26, 2004 subject to the approval of the Financial Institutions and the Central Government".

"RESOLVED FURTHER THAT Shri R S Nanda, be and is hereby paid the following remuneration and perquisites during the term of his office and the same also be paid as minimum remuneration in the event of inadequacy or absence of profits in any financial year, during his term of office."

1. Salary :

Rs.1.75 lakhs p.m. including Dearness Allowance and other allowances

2. Perquisites :

Perquisites shall be restricted to an amount equal to the annual salary.

3. i. Housing :

a. The expenditure incurred by the Company on hiring furnished accommodation will be subject to a ceiling of 60% of the salary; or

b. In case the accommodation is owned by the Company, ten per cent of the salary shall be deducted by the Company; or

c. In case no accommodation is provided by the Company, Shri R S Nanda shall be entitled to house rent allowance subject to the ceiling laid down in clause (a).

Explanation : The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income-tax Rules, 1962, subject to a ceiling of ten per cent of the salary.

ii. Medical Reimbursement :

Reimbursement of the expenses incurred for self and family subject to a ceiling of one month's salary in a year or three months' salary over a period of three years.

iii. Leave Travel Concession :

Leave Travel Concession for self and family once in a year, incurred in accordance with the rules of the Company.

Explanation : Family for (ii) and (iii) means the spouse, the dependant children and dependant parents.

iv. Club Fees :

Fees of clubs subject to a maximum of two clubs. No admission and life membership fee shall be paid.

v. Personal Accident Insurance :

Personal accident insurance of an amount, the annual premium of which does not exceed Rs.10,000/- per annum.

vi. a. Company's contribution towards Provident Fund as per the rules of the Company.

b. Gratuity as per the rules of the Company.

c. Company's contribution towards Superannuation Fund as per the rules of the Company.

The aforesaid perquisites stated in (vi)(a), (vi)(b) and (vi) (c) shall not be included in the computation of minimum remuneration to the extent these either singly or put together are not taxable under the Income-tax Act, 1961.

vii. Earned Leave :

On full pay and allowances and perquisites, as per the rules of the Company. Encashment of

leave at the end of the tenure shall not be included in the computation of the minimum remuneration.

viii. Car for use on Company's business and telephone at residence (for official purpose) shall not be considered as perquisites".

"RESOLVED FURTHER THAT the remuneration specified above for Shri R S Nanda, Director and Chief Operating Officer may, subject to overall ceiling specified above and subject to Schedule XIII of the Companies Act, 1956, be modified as may be agreed to by the Company and Shri R S Nanda, Director and Chief Operating Officer".

"RESOLVED FURTHER THAT the perquisites mentioned above shall be interchangeable within the overall ceiling of the annual salary of Shri R S Nanda, Director and Chief Operating Officer".

8. To consider and if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution :

"RESOLVED THAT subject to Sections 198, 269, 309, 314(1B), Schedule XIII and other applicable provisions of the Companies Act, 1956, Shri K Rahul Raju, be and is hereby appointed as Director - Business Development & Strategic Planning of the Company, for a period of five years with effect from June 26, 2004 and Shri K Rahul Raju, be and is hereby paid the following remuneration from the period commencing June 26, 2004 upto the date of approval of the Central Government, subject to the approval of the Financial Institutions and Central Government.

A. 1. Salary:

Monthly consolidated remuneration of Rs.50,000/- (all inclusive)

2. Commission - NIL

3. Perquisites :

a. Company's contribution towards Provident Fund as per the rules of the Company.

b. Gratuity as per the rules of the Company.

c. Company's contribution towards Superannuation Fund as per the rules of the Company.

The aforesaid perquisites stated in (3)(a), (3)(b) and (3) (c) shall not be included in the computation of minimum remuneration to the extent these either singly or put together are not taxable under the Income-tax Act, 1961."

B. "RESOLVED FURTHER THAT, on and from the date of approval of the appointment by the Central Government under Section 314(1B) of the Companies Act 1956, Shri K Rahul Raju be paid the following salary and perquisites for a period of three years and the same be paid as minimum remuneration in the event of absence or inadequacy of profits during any financial year during the currency of tenure of office of Shri K Rahul Raju, subject to the approval of the Financial Institutions and the Central Government, pursuant to the provisions of Section 198, 309, Schedule XIII and other relevant provisions of the Companies Act, 1956:

1. Salary

Salary (including dearness and all other allowances) Rs.50,000/- per month

2. Commission - NIL

3. Perquisites :

Perquisites shall be restricted to an amount equal to the annual salary.

i. Housing :

a. The expenditure incurred by the Company on hiring furnished accommodation will be subject to a ceiling of 60% of the salary; or

b. In case the accommodation is owned by the Company, ten per cent of the salary shall be deducted by the Company; or

c. In case no accommodation is provided by the Company, Shri K Rahul Raju shall be entitled to house rent allowance subject to the ceiling laid down in clause (a).

Explanation: The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income-tax Rules, 1962, subject to a ceiling of ten per cent of the salary.

ii. Medical Reimbursement:

Reimbursement of the expenses incurred for self and family subject to a ceiling of one month's salary in a year or three months' salary over a period of three years.

iii. Leave Travel Concession:

Leave Travel Concession for self and family once in a year, incurred in accordance with the rules of the Company.

Explanation: Family for (ii) and (iii) means the spouse, the dependant children and dependant parents.

iv. Club Fees:

Fees of clubs subject to a maximum of two clubs. No admission and life membership fee shall be paid.

v. Personal Accident Insurance:

Personal accident insurance of an amount, the annual premium of which does not exceed Rs.10,000/- per annum.

vi. a. Company's contribution towards Provident Fund as per the rules of the Company.

b. Gratuity as per the rules of the Company.

c. Company's contribution towards Superannuation Fund as per the rules of the Company.

The aforesaid perquisites stated in (vi)(a), (vi)(b) and (vi) (c) shall not be included in the computation of minimum remuneration to the extent these either singly or put together are not taxable under the Income-tax Act, 1961.

vii. Earned Leave:

On full pay and allowances and perquisites as per the rules of the Company. Encashment of leave at the end of the tenure shall not be included in the computation of the minimum remuneration.

viii. Car for use on Company's business and telephone at residence (for official purpose) shall not be considered as perquisites.

"RESOLVED FURTHER THAT the remuneration specified above for Shri K Rahul Raju as Director - Business Development & Strategic Planning may, subject to overall ceiling specified above and subject to Schedule XIII of the Companies Act, 1956, be modified as may be agreed to by the Company and Shri K Rahul Raju, Director - Business Development & Strategic Planning".

"RESOLVED FURTHER THAT the perquisites mentioned above shall be interchangeable within the overall ceiling of the annual salary of Shri K Rahul Raju, Director - Business Development & Strategic Planning".

b. To consider and if thought fit to pass with or without modification(s) the following resolution as a Special Resolution

"RESOLVED THAT pursuant to Section 293(1)(e) and other applicable provisions, if any, of the Companies Act, 1956, the consent of the company be and is hereby accorded to

the Board of Directors of the Company to make contributions during any financial year to charitable and other funds or trusts up to an amount not exceeding Rs.25 lakhs (Rupees Twenty Five Lakhs only)".

By Order of the Board

Hyderabad
June 26, 2004

M. Ramakanth
Secretary

NOTES

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of himself and such a proxy need not be a member of the Company.
2. Instrument of proxies in order to be effective must be deposited at the Company's registered office not less than 48 hours before the meeting.
3. Members are requested to notify immediately the change, if any, of the address registered with the Company.
4. 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.
5. The Company has transferred unclaimed dividend for the year 1995-96 to the Investor Education and Protection Fund. The unclaimed dividend for the year 1996 - 97 shall be transferred to the Investor Education and Protection Fund during November 2004.
6. The Securities and Exchange Board of India has notified your Company's equity shares for compulsory trading in the dematerialised form for Institutional Investors from June 26, 2000 and for other investors, from August 20, 2000. Shareholders may also avail of the facility of trading in the demat form and may contact the Company in this regard.
7. The Register of Members and the Share Transfer Books will remain closed from September 1, 2004 to September 22, 2004 (both days inclusive).
8. The Company's equity Shares are now traded only on the National Stock Exchange of India Limited (NSE) and The Stock Exchange, Mumbai (BSE). The Company's securities have been delisted by the following Stock Exchanges, i.e., The Hyderabad Stock Exchange Limited, The Delhi Stock Exchange Association Limited, Madras Stock Exchange Limited and The Stock Exchange, Ahmedabad.
9. The Company has paid the Listing Fees for the year 2004 - 2005 to The Stock Exchange, Mumbai and The National Stock Exchange of India Limited, Mumbai where the securities of the Company continue to be listed.
10. Shareholders are requested to furnish their E-mail ID's to enable the Company forward information in relation to the Company.
11. All communication relating to shares are to be addressed to the Company or the Company's Share Transfer Agent, Nagarjuna Investors Services Limited, Nagarjuna Hills, Hyderabad - 500 082.

Explanatory Statement under Section 173 (2) for Item Nos. 6 to 9 of the Notice for the 28th Annual General Meeting to be held on September 22, 2004.

Item No. 6

Shri F P Singh was appointed as Director (Operations) of the Company on February 24, 2001. His term of office expired on February 23, 2004. The Board of Directors of the Company at their meeting held on January 31, 2004 approved the reappointment of Shri P P Singh as Director (Operations) of the Company for a further period of two years with effect from February 24, 2004.

Shri Singh has contributed immensely during the previous three years to the successful running of the Plants of the Company, despite severe financial constraints and it is necessary to extend the term of office of Shri P P Singh for a further period of two years effective February 24, 2004.

In view of the experience and expertise of Shri P P Singh, it would be necessary to pay him the proposed remuneration, as a minimum remuneration, which means that he would receive the proposed remuneration even in a year when the Company may suffer a loss. Approval of the Central Government is necessary to pay remuneration to Shri P P Singh in this manner, as the remuneration, which is sought to be paid, would be in excess of the permissible ceiling limits up to which a Company may pay according to Schedule XIII of the Act, when there is a loss.

Shri P P Singh has since been re-designated as Director (Technical) with effect from June 26, 2004. He shall look after the expansion plans and technology related issues of the Company.

Your Directors commend the reappointment of Shri P P Singh as Director (Technical) of the Company for a further period of two years effective February 24, 2004 on the terms and conditions stated in the notice.

None of the Directors of the Company except Shri P P Singh may be deemed to be concerned or interested in this resolution

Item No. 7

Shri R S Nanda was appointed as Director and Chief Operating Officer of the Company at the Meeting of the Board of Directors held on June 26, 2004. He holds office upto the date of the ensuing Annual General Meeting and being eligible, offers himself for appointment as Director, not liable to retire by rotation.

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 R S Nanda as Director and Chief Operating Officer of the Company.

Shri R S Nanda is a Mechanical Engineer with Distinction from Agra University. He was formerly the President & Managing Director of Coromandel Fertilizers Limited. Prior to his association with Coromandel Fertilizers Limited, Shri R. S. Nanda held senior positions in various companies in India.

His vast experience and expertise would immensely benefit the Company.

In view of the experience and expertise of Shri R S Nanda, it would be necessary to pay him the proposed remuneration, as a minimum remuneration, which means that he would receive the proposed remuneration even in a year when the Company may suffer a loss. Approval of the Central Government is necessary to pay remuneration to Shri R S Nanda in this manner, as the remuneration, which is sought to be paid, would be in excess of the permissible ceiling limits up to which a Company may pay according to Schedule XIII of the Act, when there is a loss.

Your Directors commend the resolution for approval. None of the Directors of the Company except Shri R S Nanda may be deemed to be concerned or interested in this resolution.

Item No. 8

Shri K Rahul Raju was appointed as Director of the Company at the meeting of the Board of Directors held on February 24, 2001.

He is currently heading Bijam Biosciences Limited, a company involved in basic and developmental Research Projects in the fields of Life Sciences.

To provide focus and strengthen the Management team, it is desirable to appoint Shri K Rahul Raju as Director – Business Development & Strategic Planning.

It is proposed to pay Shri K Rahul Raju the proposed remuneration, as a minimum remuneration, which means that he would receive the proposed remuneration even in a year when the Company may suffer a loss. Approval of the Central Government is necessary to pay remuneration to Shri K Rahul Raju in this manner, as the remuneration, which is sought to be paid, would be in excess of the permissible ceiling limits up to which a Company may pay according to Schedule XIII of the Act, when there is a loss.

Your Directors commend the resolution for approval.

Shri K Rahul Raju may be deemed to be concerned or interested in this resolution.

Shri K S Raju, Vice Chairman & Managing Director, being related to Shri K Rahul Raju, may be deemed to be concerned or interested in the appointment and payment of Remuneration.

Statement of disclosure pursuant to Schedule XIII to the Companies Act, 1956, in relation to Item Nos. 6, 7 and 8 of the Notice.

The following disclosures are being made in relation to the re-appointment and remuneration of Shri P P Singh as Director (Technical), Shri R S Nanda as Director and Chief Operating Officer and Shri K Rahul Raju as Director – Business Development and Strategic Planning :

I. General Information:

1. Nature of the Industry

The Company is engaged in the business of manufacture and marketing of Urea and marketing of other fertilizers.

The Company has two Fertilizer Plants in Kakinada, East Godavari District, Andhra Pradesh. Plant – I of the Company has a capacity to manufacture 900 Tons per day of ammonia and 1,500 Tons per day of Urea. The total annual capacity is 2,97,500 Tons of Ammonia and 4,95,000 Tons of Urea. The capacity of Plant II for manufacture of both Ammonia and Urea is identical to the capacity of Plant-I.

Urea contributes more than 95% of the Annual Turnover of the Company and is a commodity, the production and marketing of which is controlled under the Essential Commodities Act, 1955.

The selling price of Urea is fixed by the Government of India. The Retention Price of Urea payable to the manufacturers for each unit is fixed by the Fertilizer Industry Co-ordination Committee (FICC) which is a body set up by the Government of India.

2. Date of Commencement of Commercial Production

The Plant I of the Company commenced commercial production in August 1992 while Plant II commenced commercial production in March 1998.

3. Foreign investments or collaborators

Technical Collaborators: The Company's Ammonia and Urea Plants were established with the Foreign Technical Collaboration. The Ammonia Plants were established with the technical collaboration of Haldor Topsoe, Denmark and the Urea Plants were established with the technical collaboration of Snamprogetti, SpA, Italy. Snamprogetti holds 40 lakhs equity shares of Rs.10/- each aggregating to Rs.4 crores.

As on March 31, 2004 out of the total paid up equity capital of Rs.416.61crores, Foreign Institutional Investment accounts to 0.02% while Non Resident Indians contribute 2.80% of the total paid up equity capital.

II. Information about the appointee:

Shri P P Singh

Shri P P Singh is a graduate in Mechanical Engineering and a Fellow of the Institute of Engineers. Shri P P Singh was previously the Managing Director of Krishak Bharati Cooperative Limited (KRIBHCO).

Shri P P Singh has over 39 years of experience in fertilizer companies.

Shri P P Singh was nominee of KRIBHCO on the Board of Directors of the Company and was appointed as Whole-time Director of the Company with effect from February 24, 2001 and was designated as Director (Operations).

Shri P P Singh was appointed as Director (Operations) at a monthly salary of Rs.1.5 Lakhs and perquisites not exceeding

his annual salary. The term of office of Shri P P Singh expired on February 23, 2004 and he was re-appointed as Director (Operations) of the Company for a further period of two years with effect from February 24, 2004 by the Board of Directors at their meeting held on January 31, 2004.

Shri P. P. Singh has since been re-designated as Director (Technical) with effect from June 26, 2004. He shall look after the expansion plans and technology related issues of the Company.

Shri P P Singh is proposed to be paid a monthly salary of Rs.1.5 Lakhs and perquisites not exceeding his annual salary.

The remuneration proposed to be paid to Shri P P Singh is commensurate with the size of the Company, nature of its operations and is in line with the industry standards.

Shri P P Singh besides receiving remuneration for his services as Director (Technical) of the Company does not receive any other monetary or non-monetary benefit from the Company. Shri P P Singh is an Independent Director on the Board of the Company.

Shri R S Nanda

Shri R S Nanda is a Graduate in Mechanical Engineering with distinction from Agra University. He was formerly the President & Managing Director of Coromandel Fertilizers Limited. Prior to his association with Coromandel Fertilizers Limited, Shri R.S. Nanda held senior positions in various companies in India.

Shri R S Nanda was appointed as Director and Chief Operating Officer at a monthly salary of Rs.1.75 Lakhs and perquisites not exceeding his annual salary.

Shri R S Nanda shall be in charge of the overall operations of the Company.

The remuneration proposed to be paid to Shri R S Nanda is commensurate with the size of the Company, nature of its operations and is in line with the industry standards.

Shri R S Nanda besides receiving remuneration for his services as Director and Chief Operating Officer of the Company does not receive any other monetary or non-monetary benefit from the Company. Shri R S Nanda is an Independent Director on the Board of the Company.

Shri K Rahul Raju

Shri Rahul Raju was co-opted on the Board of Directors of the company with effect from February 24, 2001. He is currently heading Bijam Biosciences Limited, a company involved in basic and developmental Research Projects in the fields of Life Sciences.

Shri K Rahul Raju was appointed as Director – Business Development & Strategic Planning effective June 26, 2004.

- i. at a monthly salary of Rs.50,000/- (consolidated) from June 26 '2004 upto the date of the approval of Central Government.
- ii. on and from the date of approval of the Central Government under section 314(1B) of the Companies Act 1956, Shri K Rahul Raju would be paid salary of Rs.50,000/- p.m. plus perquisites not exceeding his annual salary.

Shri K Rahul Raju shall be in charge of Business Development and Strategic Planning.

The remuneration proposed to be paid to Shri K Rahul Raju is commensurate with the size of the Company, nature of its operations and is in line with the industry standards.

Shri K Rahul Raju besides receiving remuneration for his services as Director – Business Development & Strategic Planning, of the Company does not receive any other monetary or non-monetary benefit from the Company.

Shri K Rahul Raju may be deemed to be concerned or interested in this resolution.

Shri K S Raju, Vice Chairman & Managing Director, being related to Shri K Rahul Raju may be deemed to be concerned or interested in the appointment and payment of Remuneration.

III. Other Information:

The Company has recorded a loss of Rs. 18.24 Crores before tax, for the year ended March 31, 2004 and registered a profit of Rs. 17.44 Crores as on March 31, 2004, owing to credit of deferred tax.

The Company's Plants continue to operate efficiently and the fertilizer operations of the Company are viable and profitable. The Company proposes to improve profitability, by taking various measures for better efficiency and profitability.

Details of remuneration proposed to be paid to Shri P P Singh, Shri R S Nanda and Shri K Rahul Raju, is provided in the draft resolution Nos.6, 7 and 8 of the Notice convening the 28th Annual General Meeting.

Item No. 9

The Shareholders of the Company at their 18th Annual General Meeting held on July 29, 1994 approved the proposal of the company to contribute during any financial year to charitable and other funds or trusts upto an annual amount of Rs.50,00,000 (Rupees fifty lakhs only) or 5% of the average net profits of the Company as determined in accordance with the provisions of Section 349 and 350 of the Companies Act, 1956.

Approval of the shareholders is being sought to authorise the Board of Directors of the Company to make contributions to charitable and other funds and trusts upto an amount not exceeding Rs.25 lakhs during any financial year.

Your Directors commend the resolution for approval.

None of the Directors of the company is, in any way, concerned or interested in this 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.

By Order of the Board

Hyderabad
June 26, 2004

M. Ramakanth
Secretary

Addendum to the Notice convening the 28th Annual General Meeting to be held on September 22, 2004.

SPECIAL BUSINESS :

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

"RESOLVED THAT in accordance with Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and in accordance with the Guidelines of the Securities and Exchange Board of India (SEBI) on Preferential Issues dated August 4, 2000 and amendments thereof and subject to such conditions and modifications as may be imposed and accepted by the Board of Directors of the Company (hereinafter referred 'The Board', which term shall include any Committee which the Board of Directors of the Company may constitute or may hereafter constitute) the consent of the Company, be and is hereby accorded to the Board to offer / issue / allot to Financial Institutions, 37,20,372 0.01% Coupon Optionally Cumulative Convertible Redeemable Preference Shares of Rs.100/- each aggregating Rs.37,20,37,200 on private placement basis pursuant to the terms and conditions of the letter No.BY.CDR(AG)/No./2003-04 dated March 16, 2004 issued by the Corporate Debt Restructuring (CDR) Cell at Industrial Development Bank of

India and based on the options exercised for Preference Shares convertible into Equity Shares by the various Financial Institutions as follows :

- a. The Issue Price of the Preference Shares convertible into equity shares, of Face Value of Rs.100/- each aggregating Rs.37,20,37,200/- shall be in accordance with the SEBI Guidelines on Preferential Issues dated August 4, 2000 and amendments thereof.
- b. The Board be and is hereby authorised to allocate the equity shares comprised in the said issue amongst the Financial Institutions and upon such allocation shall issue to the Financial Institutions, Preference Shares convertible into equity shares, setting out the principal terms and conditions of the Offer of shares as laid down by SEBI Guidelines on Issue of Preference Shares dated August 4, 2000 and amendments thereof and the procedure by which the holders of the said Preference Shares convertible into equity shares may take delivery of the equity shares of the Face Value of Rs.10/- each after payment of the total debt liabilities in 2016, to which they are entitled in exchange for the Preference Shares convertible into equity shares.

"RESOLVED FURTHER THAT the Board be and is hereby authorised to issue 37,20,372 0.01% Coupon Optionally Cumulative Convertible Redeemable Preference Shares, to the Financial Institutions, pursuant to the options exercised for Preference Shares convertible into equity shares by the various Financial Institutions and pursuant to the terms and conditions of the letter No.BY.CDR(AG)/No./2003-04 dated March 16, 2004 issued by the Corporate Debt Restructuring (CDR) Cell at Industrial Development Bank of India".

"RESOLVED FURTHER THAT the Board be and is hereby authorised to settle all questions and matters arising out of, and incidental to the proposed offer and issue the equity shares and take all steps which the Board, in its absolute discretion, considers necessary, proper or expedient for implementing this resolution".

"RESOLVED FURTHER THAT the Board be and is hereby authorised to make on its own accord or to accept such amendments, modifications, variations and alterations as the Government of India, Securities and Exchange Board of India and / or Financial Institutions, may stipulate in that behalf and to amend, modify, vary or alter all or any of the terms of the issue on such terms as the Board may in its absolute discretion decide in accordance with the SEBI Guidelines on Preferential Issues dated August 4, 2000 and amendments thereof".

By Order of the Board

Hyderabad
July 24, 2004

M. Ramakanth
Secretary

Explanatory Statement under Section 173 (2) for Item No. 10 of the Addendum to the Notice for the 28th Annual General Meeting to be held on September 22, 2004.

Item No. 10

Your Company had approached the CDR Cell at Industrial Development Bank of India for restructuring its debt profile. The CDR Cell at IDBI had vide letter No.BY.CDR(AG)/No. /2003-04 dated March 16, 2004 approved the restructuring of the debt profile which involves substantial reduction of interest and rescheduling of loans with effect from April 1, 2003.

The CDR Package envisages issue on private placement basis 0.01% Coupon Optionally Cumulative Convertible Redeemable Preference Shares and debentures to the Financial Institutions / Banks, based on the options exercised by various Financial

Institutions and Banks. The conversion is to be carried out after the entire debt liabilities are fully repaid.

It is therefore necessary to issue 37,20,372 0.01% Coupon Optionally Cumulative Convertible Redeemable Preference Shares of the Face Value of Rs.100/- each aggregating Rs.37,20,37,200 based on the options exercised by the Financial Institutions.

This issue is in accordance with the SEBI Guidelines on Preferential Issues dated August 4, 2000 and amendments thereof.

The issue of 37,20,372 0.01% Coupon Optionally Cumulative Convertible Redeemable Preference Shares is towards the sacrifice of interest made by the lenders on account of differential interest rates.

In accordance with the Guidelines,

- a. the percentage of Shareholding of the following categories of shareholders would be as follows :

Name	Before the Offer as on June 30, 2004	After the Offer
Promoters / Associates	36.69	33.68
Financial Institutions / Banks	15.06	22.01
NRIs / OCBs / FIIs	0.87	0.80
Public	40.64	37.32
Other Corporate Bodies	6.74	6.19

- b. The percentage of Shareholding of the institutions, who are members of the CDR Cell, before and after the offer will be as follows :

Name of the Institution	Before the Offer	After the Offer
Industrial Development Bank of India	7.79	12.52
IFCI Limited	1.63	2.41
Life Insurance Corporation of India	1.37	1.82

- c. In accordance with the present Guidelines of Issue of Preferential Shares, the shareholders shall provide necessary approval for issue of Preference Shares, but the allotment of Preference Shares convertible into equity will be made only at the time of conversion i.e., 2016, in accordance with the approval of CDR.
- d. The Company is now seeking approval of the shareholders for issue of 0.01% Coupon Optionally Cumulative Convertible Redeemable Preference Shares and allot the preference shares to the Financial Institutions after the entire debt liabilities of the Company are fully repaid, i.e., any time after 2016.
- e. The pricing of the preference shares would be as per the relevant date at that time and pursuant to the guidelines issued by Securities and Exchange Board of India.
- f. After the Offer, the existing shareholdings of the Financial Institutions shall increase from the present 15.06 % to 22.01 % of the enhanced capital.

Your Directors commend the resolution for approval.

None of the Directors of the Company except Shri R Sathyamurthi, Nominee of IDBI and Shri R K Chavali, Nominee of IFCI Limited, may be deemed to be concerned or interested in this 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.

By Order of the Board

Hyderabad
July 24, 2004

M. Ramakanth
Secretary

REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting the 28th Annual Report together with the Audited Accounts of your Company for the year ended March 31, 2004.

Particulars	Rs. in Crores	
	2003 – 2004 Current year	2002 – 2003 Previous Year
Net Sales / Income from Operations	1072.62	899.85
Other Income	33.89	16.42
RPS adjustments	-	(151.20)
Remission of principal amount of loan	8.41	-
Total Expenditure		
a. (Increase) / decrease in Stock	117.69	(36.76)
b. Consumption of Raw Materials	231.35	216.43
c. Staff Cost	29.76	29.10
d. Purchases – Traded Products	30.57	43.71
e. Power and Fuel	187.13	128.51
f. Marketing, Operating and Administrative Expenses	159.28	168.64
Total	755.78	549.63
Interest	255.74	266.87
Depreciation	121.64	119.09
Profit before extraordinary item and tax	(18.24)	(170.52)
Deferred Tax	35.68	43.05
Profit (loss) after Tax	17.44	(127.47)
Paid Up Equity Share Capital (Face Value of Rs.10/- per share)	416.61	416.61
Reserves excluding revaluation reserve	359.02	341.58
Basic & Diluted Earning per share (not annualised) – in Rs.	0.42	(3.06)

GOVERNMENT POLICY

The New Group Pricing Policy introduced with effect from April 1, 2003, envisages fixing of the retention price as per group weighted average shall have adverse impact on the companies which do not have access to efficient and adequate supply of the required feedstock.

Your Company is highly efficient but suffers from the disadvantage on account of shortage of natural gas in the region as one plant uses naphtha as feed stock. To counter the adverse impact of the new group pricing policy, your company is taking initiatives to tie-up the procurement of additional natural gas, which is expected to bring down the cost of production, substantially.

The New Pricing Policy for urea manufacturers envisages a sharing of the profits which is a deterrent to higher levels of production resulting in lower efficiency of operations.

DEBT RESTRUCTURING

Your Company, during the previous years, in view of changes in the Government Policies on Urea, sluggishness in off-take of urea, subsequent cap on production, investments in various core sector projects faced a severe financial stress on account of higher debt liabilities of the Company. Your Company also had borrowed at higher rates of interest in the then prevailing market and considered it appropriate to seek reduction of interest rate. All the above factors contributed to your Company considering Restructuring of its debt

profile. Your Company accordingly approached the Corporate Debt Restructuring (CDR) Cell at the Industrial Development Bank of India (IDBI) who after considering the debt profile of the Company and being concerned of the need for restructuring of the debt profile of the Company, approved restructuring of the debt profile of the Company. The rationale of the decision for approving the restructuring has been the Company's Plants being comparable to the most energy efficient Plants in the world, the large market share and brand image of the Nagarjuna Urea, the various initiatives taken by the Company to reduce cost and over-heads for achieving high levels of efficiency.

The impact of the debt restructuring approved by the CDR Cell, at IDBI will result in substantial reduction in interest and re-scheduling of loans with effect from April 1, 2003. The actual benefits of the restructuring package would accrue to your Company during the Financial Year 2004-05.

PLANT OPERATIONS

The two Plants of your Company continue to perform at high level of efficiency. The Plants are energy efficient and comparable to the best in the world. Your Company also has set high standards of safety and has received commendation for the same. During the year, your company manufactured 11.94 lakh MTs of Urea as against 11.87 lakh MTs in the previous year.

The supply of natural gas and Naphtha was satisfactory throughout the year.

Your company has also been taking various initiatives to reduce cost and overheads by achieving high efficiency levels. The identification of natural gas reserves in Andhra Pradesh by various companies is also an encouraging sign for your company, which will enable the company to fully operate the second plant on natural gas and be more efficient, especially at a time when the existing reserves of natural gas are depleting.

During the year under review your company's plant received ISO 9001:2000 upgraded certification for Quality Management System and ISO 14001:1996 re-certification for Environmental Management System.

Your company also received the Certificate of Participation from TERI on "Corporate Social Responsibility Awards 2002-03, given in recognition of corporate leadership for good corporate citizenship and sustainable initiatives amongst large corporate bodies.

MARKETING

Your company, during the year, registered an all time record annual Urea sale of 14.30 lakh Mts, on account of a well planned strategy to sell during the Rabi and Kharif crops. The record Urea sale was on account of normal to good monsoon in all states, higher sales in the states of West Bengal and Orissa and entry in new areas such as Chattisgarh.

Your company during the year, was a leader with increased market share for Urea in Andhra Pradesh, West Bengal and Orissa. The market share increased to 45% in the State of Orissa, upto 27% in the State of West Bengal and upto 51% in the State of Andhra Pradesh.

Your Company sold pesticides amounting to Rs.51.0 crores during the year against Rs.41.20 crores during the previous year.

Your company, in line with its Vision Statement, during the year 2004-05 proposes to establish and strengthen itself in Plant Nutrition business and in this direction is increasing its presence in Specialty Fertilizers Sector.

Your Company always had considered the needs of farmers and in this direction aimed to provide better quality Urea. Your Company is in the process of improving the Urea standard in areas of Prill quality, absorption of humidity, anti lumping and caking.

PUBLIC DEPOSITS

Your Directors have to place on record that the Company has been repaying its public deposits on maturity without any delay. The total amount of deposits outstanding as on March 31, 2004, is