

Annual Report 2004-05



Nagarjuna Fertilizers and Chemicals Limited

Board of Directors

Field Marshal Sam Manekshaw, M.C.
Chairman

Ashok Chopra
Snamprogetti Nominee

B K Batra
IDBI Nominee

Chandra Pal Singh Yadav
KRIBHCO Nominee

R K Chavali
IFCI Nominee

K M Jaya Rao
ICICI Nominee

R Krishnan

N C B Nath

M P Radhakrishnan
SBI Nominee

V N Rai
Alternate to Shri Chandra Pal Singh Yadav

S R Ramakrishnan

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





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NOTICE

NOTICE IS HEREBY GIVEN THAT THE TWENTY NINTH ANNUAL GENERAL MEETING OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED WILL BE HELD AT 10.00 A.M ON SEPTEMBER 26, 2005 AT SRI SATYA SAI NIGAMAGAMAM, 8-3-987/2, SRINAGAR COLONY, HYDERABAD - 500 073, TO TRANSACT THE FOLLOWING BUSINESS :

ORDINARY BUSINESS :

1. To receive, consider and adopt the 29th Annual Report of the Directors, Balance Sheet as at March 31, 2005, the Profit and Loss Account for the financial year ended March 31, 2005, the Cash Flow Statement for the financial year ended March 31, 2005, and the Report of the Auditors thereon.
2. To declare a dividend on Preference Shares for the period October 9, 2004 to March 31, 2005.
3. To appoint a Director in the place of Shri Ashok Chopra, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in the place of Shri Chandra Pal Singh Yadav, who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in the place of Shri S R Ramakrishnan, 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 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 29th Annual General Meeting up to 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, the following resolution as a Special Resolution :

"RESOLVED THAT in part modification of resolution passed at the 28th Annual General Meeting of the company, appointing Shri K Rahul Raju as Director - Business Development and Strategic Planning for a period of five years, with effect from June 26, 2004, approval be and is hereby accorded for payment of the following remuneration to Shri K Rahul Raju, for a period of three years, with effect from April 01, 2005, subject to the provisions of Section 269, 198, 309, 310, 311 and Schedule XIII 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 shall not be considered as perquisites".

"RESOLVED FURTHER THAT the remuneration specified above for Shri K Rahul Raju as Director - Business Development and Strategic Planning be also paid to him as minimum remuneration, in the event of absence or inadequacy of profits during any financial year, during the currency of his tenure of office as Director - Business Development and Strategic Planning."

"RESOLVED FURTHER THAT the remuneration specified above for Shri K Rahul Raju as Director - Business Development and 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".

"RESOLVED FURTHER THAT the perquisites mentioned above shall be interchangeable within the overall ceiling of the annual salary of Shri K Rahul Raju".

8. 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 pursuant to Section 17 and other applicable provisions, if any of the Companies Act, 1956, "the other objects" of the Memorandum of Association of the company be and is hereby altered by inserting the following clause :

Clause 10

To undertake, promote, maintain, support, collaborate for research and development in fertilizers and their mixtures, formulations of all kinds, chemicals, source materials, ingredients, mixtures, derivatives and compounds thereof, agro chemicals of all kinds, pesticides, insecticides, seeds, chemicals, organic and inorganic chemicals, heavy chemicals, alkalies, acids, drugs, tannins, essence, fumigators, disinfectives, fats, dips, vermifides, research into agricultural crops either commercial or non commercial, fruit growing, horticulture gardening, vegetables, seeds, through conventional breeding or chemical engineering, genetic engineering, bio-chemistry, water management, agriculture implements, all areas of life sciences and more particularly in the fields of agricultural biotechnology, industrial and environment, medical, food and marine biotechnology through conventional, chemical and genetic engineering and biochemistry for biological control and improvement of plant, animal and human health and prevention of environment degradation in any manner and whatsoever nature and to develop products, processes, technologies, applications and solutions using conventional methods, processes and practices and to commercially exploit such products, processes, technologies (computational and genetic engineering techniques) and solutions through manufacturing, marketing, selling, licensing for improved agricultural, commercial, health and nutrition, industrial and environment applications.

By Order of the Board

New Delhi
April 21, 2005

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 1996 - 97 to the Investor Education and Protection Fund. The unclaimed dividend for the year 1997 - 98 shall be transferred to the Investor Education and Protection Fund during November '2005.
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, 2005 to September 26, 2005 (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).
9. The company has paid the Listing Fees for the year 2005 - 2006 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, XL Softech Systems Limited, Plot No. 3, Road No. 2, Sagar Society, Banjara Hills, Hyderabad - 500 034.

Explanatory Statement under Section 173 (2) for Item Nos. 7 and 8 of the Notice for the 29th Annual General Meeting to be held on September 26, 2005

Item No. 7

Shri K. Rahul Raju was co-opted as Director on the Board of the company at the meeting of the Board of Directors held on February 24, 2001. The appointment of Shri K. Rahul Raju as Director was approved by the shareholders of the company at the 25th Annual General Meeting held on June 10, 2002.

Shri K. Rahul Raju was appointed as Whole-time Director of the company and designated as Director – Business Development and Strategic Planning by the Board at its meeting held on June 26, 2004. The appointment and remuneration payable to Shri K. Rahul Raju as Director – Business Development and Strategic Planning was approved by the Remuneration Committee, Board of Directors and members of the company for a period of five years with effect from June 26, 2004.

The remuneration payable to Shri K Rahul Raju is indicated below :

- a) Consolidated monthly salary of Rs.50,000/- effective June 26, 2004 till the appointment is approved by the Central Government under Section 269 and 314(1B) of the Companies Act, 1956.
- b) With effect from the approval of the Central Government under Section 269 and 314(1B) of the Companies Act, 1956, for a period of 3 years, monthly salary of Rs.50,000/- and perquisites not exceeding his annual salary.

The Central Government vide its letter dated November 30, 2004 approved the appointment of Shri K. Rahul Raju for a period of five years with effect from June 26, 2004 and payment of remuneration of Rs.50,000/- (all inclusive), for a period of three years effective June 26, 2004. The Central Government while approving the appointment also suggested passing of separate resolution for payment of salary of Rs.50,000/- and perquisites not exceeding his annual salary, under Section 269 of the Companies Act, 1956.

In view of the above, it is proposed that with effect from April 1, 2005, for a period of three years, Shri K. Rahul Raju be paid a monthly remuneration of Rs.50,000/- and perquisites not exceeding his annual salary.

The remuneration proposed to be paid to Shri K Rahul Raju, is the remuneration which the shareholders of the company had approved at the 28th Annual General Meeting for a period of three years effective the approval of the Central Government under Section 314 (1B) of the Companies Act, 1956.

The remuneration of Rs.50,000/- and perquisites not exceeding his annual salary proposed to be paid to Shri K. Rahul Raju had been approved earlier by the Financial Institutions.

As the remuneration proposed to be paid to Shri K Rahul Raju is within the limits specified under Sections 198, 309 and Schedule XIII of the Companies Act, 1956, as amended by notification No. GSR36 (E) dated January 16, 2002, the payment of remuneration does not require approval of the Central Government.

Your Directors commend the resolution for approval.

None of the Directors of the company except Shri K Rahul Raju and Shri K S Raju, Vice-Chairman and Managing Director may be deemed to be concerned or interested in this resolution.

Item No. 8

To give a major fillip to your company's mission to be global leaders in plant nutrition and to provide the farmer with quality agricultural inputs, your company is planning to take up research activity. This would be synergistic with the business of the company and long term benefits would accrue to the company.

In view of the above it is proposed to amend the Memorandum of Association of the company by inserting a new Clause No.10 under the 'Other objects' which would enable your company to undertake research activity as detailed in the said clause.

Your directors commend the resolution for approval.

None of the Directors of the company is, in any way, 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.

By Order of the Board

New Delhi
April 21, 2005

M. Ramakanth
Secretary

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REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting the 29th Annual Report together with the Audited Accounts of your company for the year ended March 31, 2005.

FINANCIAL RESULTS

Rs. in Crores

Particulars	2004-2005 current year	2003-2004 previous year
Net Sales / Income from Operations	1266.39	1072.62
Other Income	17.67	33.89
Remission of principal amount of loan	14.65	8.41
Total Expenditure		
a. (Increase) / decrease in Stock	(18.78)	117.69
b. Consumption of Raw Materials	376.26	231.35
c. Staff Cost	32.37	29.76
d. Purchases – Traded Products	101.53	30.57
e. Power and Fuel	282.03	187.13
f. Marketing, Operating, Administrative and other Expenses	205.90	159.28
Total	979.31	755.78
Interest	142.79	255.74
Depreciation	121.36	121.64
Profit before tax	55.25	(18.24)
Provision for tax	5.02	-
Deferred Tax	(20.70)	35.68
Profit/loss after Tax	29.53	17.44
Dividend – Preference Shares*	0.0018	-
Balance C/d to Balance Sheet	140.22	116.60
Paid Up Equity Share Capital (Face Value of Rs.10/- per share)	416.61	416.61
Reserves excluding revaluation reserve	385.64	359.02
Basic & Diluted Earning per share (not annualised) – in Rs.	0.33	0.42

* proposed

DIVIDEND

Your Directors recommend 0.01% dividend to the Preference shareholders of the company on a pro-rata basis amounting to Rs.0.18 lakhs.

DEBT RESTRUCTURING

During the previous year, your company's debt had been restructured by the lenders consisting of Financial Institutions and Banks through a Corporate Debt Restructuring Scheme (CDR). This resulted in the interest rates being reduced and the repayments of the loans re-phased. The benefits of the re-structuring package have started accruing to your company as reflected in the Accounts for the Financial Year 2004-05.

Your company is presently complying with the schedule of repayments and meeting all the financial commitments and related compliances.

PLANT OPERATIONS

During the year, your company manufactured 13.93 lakh MTs of Urea as against 11.94 lakh MTs in the previous year, which was an all time high. The two Plants of your company continue to perform at high levels of efficiency and have achieved the best ever energy efficiency.

Your company has been operating at optimum efficiency levels and has exceeded its production and manufacturing capacity, keeping in line with good business practices.

The supply of natural gas and Naphtha was satisfactory throughout the year though, the availability of additional quantity of natural gas would have been beneficial to the company.

The British Safety Council conducted an audit of your company's plants at Kakinada and awarded Five Star Rating for the Plants. Your company during the year has registered cumulative accident free days of 388 days as on March 31, 2005. Your company also has set high standards of safety and has received commendation for the same.

Your company has taken various initiatives to reduce cost and overheads by streamlining its operations to achieve high efficiency levels. Your company is exploring plans to revamp its plants and increase its production capacity and/or diversify the product mix in future, while continuing to focus its attention on businesses like Specialty Fertilizers and Micro Irrigation.

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.

MARKETING

Straight Nutrition Business

Your company, during the year, in view of favourable seasonal conditions and a well planned strategy to sell during the Rabi and Kharif crops registered an all time record annual Urea sale of 15.63 lakh MTs, as against the previous years Urea sale of 11.94 lakh MTs.

Your company during the year handled 2.01 lakh MTs. of imported Urea on behalf of the Government of India. This helped increase the market share of your company and resulted in substantial increase in contribution to the bottom line.

Your company during the year, was a leader with increased market share for Urea in Andhra Pradesh, West Bengal and a major market share in Orissa. Your company's market share has increased significantly in the state of West Bengal from 27% during the year 2003 to about 35% during the year 2004. The market share in the State of Andhra Pradesh has increased marginally from 51% during the previous year to about 53.5% during the current year. Your company continues to have a market share of 46% in the State of Orissa.

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, etc.

Nutrition Solution Business

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

Your company, with a view to educate the farmers and to build and promote the company brand, had during the year carried out various campaigns, including screening of crop technology films, promoting crop specific fertilizers for various crops like, sugarcane, tea and vegetable crops etc.,

Your company has been able to continue its area of operations and has been able to market specialty fertilizers in the states of Maharashtra, Gujarat and certain select markets. Your company has registered Rs.12.20 crores of turnover arising out of the sale of Specialty Fertilizers.

The impetus given to micro irrigation and the involvement of your company with the programmes initiated by the Government of Andhra Pradesh, Gujarat and other states helped achieve a higher turnover of Rs.11.54 crores during the year.

PUBLIC DEPOSITS

Your Directors take pride and places on record that the company has been repaying its public deposits on maturity without any delay. As on date, your company has no outstanding deposits apart from unclaimed deposits. The company has repaid all deposits from an all time high of about Rs.250 crores, in spite of experiencing severe financial crunch and liquidity problems.

ENVIRONMENT

Your company in its effort to maintain the ecological balance in and around the Plant, has developed and nurtured a Green Belt spreading over 740 Acres. The animal and the marine life in the water bodies in the green belt is fed with treated effluents from the Plant.

AMALGAMATION

During the year, the Board of Directors of your company had approved a Scheme of Amalgamation of Nagarjuna Palma India Limited (NPIL), an unlisted subsidiary of your company with your company. Consequently to the Amalgamation, the whole of the business and undertaking of NPIL has been merged with your company.

Your Directors consider the amalgamation beneficial to your company, in view of both your company and NPIL catering to common markets, the impetus given to micro irrigation based on the recommendations of the National Task Force constituted by the Government of India, the fillip given by the various State Governments and the growing need for better water management practices. The financial strength, marketing capabilities, excellent sales network built by your company shall benefit the growing micro irrigation business.

Your Directors carried out a revaluation of the Plant and Machinery forming part of the manufacturing facilities at Kakinada by engaging the services of a reputed valuer and an independent agency conducted a comprehensive review of the Sundry Debtors, Loans and Advances.

Accordingly, the manufacturing facilities at Kakinada have been revalued at Rs.243350.02 lakhs against Rs.102401.15 lakhs showing an increase in the value of the Fixed Assets by Rs.140948.87 lakhs. The Sundry Debtors, Loans and Advances (including FICC dues) based on the Opinion furnished by an independent agency have been restated. FICC's dues have been restated in view of the rejection of the company's representations and claims by FICC, consequent to the decision of the Honourable High Court of Andhra Pradesh in the Writ Petition filed by the company against FICC and also FICC holding the view that no dues are payable.

CORPORATE GOVERNANCE

Your company has been proactive in the area of Corporate Governance and continues to pursue the same vigorously. A detailed Report appears in the Annexure to the Directors' Report.

DIRECTORS

In accordance with the Articles of Association of the company, Shri Ashok Chopra, Shri Chandra Pal Singh Yadav and Shri S R Ramakrishnan retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

Shri Jainder Singh, I.A.S., ceased to be a Director of the company. The Board placed on record its appreciation of the services rendered by him during his tenure of office.

The Central Government has approved the appointment of Shri P P Singh, Director (Technical), Shri R S Nanda, Director

and Chief Operating Officer and Shri K Rahul Raju as Director – Business Development and Strategic Planning. The Central Government while approving the appointment of Shri Rahul Raju also suggested passing of separate resolution for payment of salary of Rs.50,000/- and perquisites not exceeding his annual salary, under Section 269 of the Companies Act, 1956. The proposal for payment of Remuneration to Shri K Rahul Raju of Rs.50,000/- per month and perquisites not exceeding his annual salary is being placed before the shareholders of the company at the ensuing Annual General Meeting.

AUDITORS AND AUDIT REPORT

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.

In relation to the matters dealt with by the Auditors in the Audit Report, we have to state :

- Accounting for Investments - the Directors do not consider it appropriate to make any provisioning towards diminution in the value of investments made in subsidiary companies as they perceive that substantial returns are expected from the subsidiary companies in future.

The investments made in the equity shares including Share Application Money in subsidiary companies are long term investments meant to be held permanently, as these investments have been made in projects of long gestation period. Your Directors perceive that such diminution in value is of temporary nature which occurs during the setting up of every project. The change in the nature of the diminution would stand reversed on the projects becoming operational.

- Pursuant to Clause 8.4 of the Scheme of Amalgamation approved by the High Court of Andhra Pradesh, your Directors engaged a reputed valuer to revalue the Plant and Machinery forming part of the manufacturing facilities at Kakinada as at March 31, 2005 and engaged an independent agency to review the Sundry Debtors and Loans and Advances.

In accordance with the scheme sanctioned by the Hon'ble High Court of Andhra Pradesh, the adjustment being the effect of such restatement has been adjusted in the Revaluation Reserve.

This was to reflect a fair value of the assets and liabilities of the company, by giving necessary credit to Revaluation Reserve and also restating the value of Sundry Debtors and Loans and Advances.

Your Directors have made appropriate disclosures in the Notes on Accounts on the matter.

COST AUDIT

Shri A Ramachandra Rao, Cost Accountant, resigned as the Cost Auditor of the company.

Shri Dantu Mitra, Cost Accountant, has been appointed as Cost Auditor of the company for the year 2005 – 06.

ISSUE OF SHARES AND DEBENTURES

Pursuant to the compliance of the Corporate Debt Restructuring scheme, your company had during the year, issued 37,20,372 0.01% Coupon Optionally Cumulative Convertible Redeemable Preference Shares of Rs.100/- each to certain of the company's lenders and 33,49,36,238 Zero Coupon Debentures of Re.1/- each to certain other lenders. The Preferential Issue of preference shares had been made in accordance with the Securities and Exchange Board of India (SEBI) Guidelines on Preferential Issues.

Your company during the ensuing year shall issue and allot 1,11,61,228 equity shares of Rs.10/- each, to the equity shareholders of Nagarjuna Palma India Limited (NPIL),



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pursuant to the Scheme of Amalgamation between NPIL and your company. Out of the above mentioned equity shares, 79,30,252 equity shares shall be issued and allotted in favour of Nagarjuna Employees Welfare Foundation, a Section 25 company, registered under the Companies Act, 1956, towards the shares that were held by your company.

DISCLOSURES

Disclosure 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.

SUBSIDIARY COMPANIES

A statement of the holding company's interest in the Subsidiary Companies i.e., Jaiprakash Engineering and Steel Company Limited (JESCO), Nagarjuna Power Corporation Limited (NPCL) and Nagarjuna Oil Corporation Limited (NOCL), is enclosed in accordance with Section 212 (2) (a) of the Companies Act, 1956.

Nagarjuna Palma India Limited (NPIL), that became a subsidiary of your company during the year was amalgamated with the company with effect from October 01, 2004 pursuant to the Order of the High Court of Andhra Pradesh, and accordingly information relating to NPIL is not required to be provided and incorporated into the accounts from the effective date on October 1, 2004.

In accordance with the approval granted by the Central Government, the Balance Sheet and Profit and Loss Account, Report of the Directors' and Auditors Report of subsidiary companies i.e., Nagarjuna Oil Corporation Limited, Nagarjuna Power Corporation Limited and Jaiprakash Engineering and Steel company Limited are exempted from being appended to the Annual Report. Any shareholder seeking information may write to the company to enable the same to be forwarded.

PROJECTS

Nagarjuna Oil Corporation Limited (NOCL) the wholly owned subsidiary of your company is involved in implementing the Refinery Project at Cuddalore in Tamil Nadu. NOCL has obtained necessary approvals for the implementation of the Project and is in the process of tying up the balance of equity for achieving financial closure. NOCL has entered into a Memorandum of Understanding with a leading Consultancy company for Project Management, operations and maintenance management etc, and with an established oil company for domestic marketing of the products on commissioning.

The Government of Tamil Nadu, besides participating in the equity of the company to the extent of 5%, has also approved various incentives. Your company in view of its commitment to the Project has invested over 51% of the equity of the Project as on March 31, 2005.

Nagarjuna Power Corporation Limited (NPCL), a subsidiary of your company, is implementing the 1015 MW Power Plant at Mangalore in Karnataka. NPCL is in the process of signing a revised Power Purchase Agreement with the Karnataka Power Transmission Corporation Limited to be in line with new Tariff guidelines of Ministry of Power/ Central Electricity Regulatory Commission. Your company invested around Rs.67.86 crores in the Power Project as on March 31, 2005.

Your company has made substantial investments in its subsidiaries which are yet to yield dividend. These projects being long gestation projects are expected to show results only in the long run.

SOCIAL RESPONSIBILITY

The KVK Raju Krishi Vignana Kendram (KVK Kendram) at Kakinada was set up by your company in the year 1995 with an objective to improve farm productivity through

Technology Transfer by imparting Best Agricultural Practices, Integrated Pest Management and Integrated Nutrition Management. The Kendram is well equipped with Library, reading room, Museum, a classroom with all audio visual aids in addition to the residential accommodation facility for 40 trainee farmers.

The KVK Kendram within a short span has made its presence felt among farming community through extensive off-campus and intensive on-campus training programs. The efforts of KVK Kendram are well appreciated by Agricultural Universities / Research Bodies / Government and thousands of farmers who have benefitted from the training programmes.

During the year 2004 -05, the KVK Kendram has provided training for over 500 farmers. An exclusive training program was also conducted for 40 Women farmers selected from Krishna District.

Your company has always made contribution towards community development. In furtherance of its commitment to the society, your company is continuing to support various social causes by providing potable water, basic medical facilities, minimum education to people in the adjoining villages. Your company continues its efforts towards 'Green Kakinada' by developing and upkeep of parks and avenue plantation in the town. Your company continues to fully support, financially, the 'Early Intervention Project' undertaken by a Non-Government Organisation, Uma Manovikasa Kendram for imparting training to physically and mentally challenged children, below the age of six, to enable them to attend to their own basic needs.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the Companies (Amendment) Act, 2000, the Directors' Responsibility Statement is included in this report.

Your Directors hereby report:

- that in the preparation of Annual Accounts for the year ended March 31, 2005, the applicable accounting standards have been followed alongwith proper explanation relating to material departures, if any.
- that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at March 31, 2005 and of profit and loss account for the period ended March 31, 2005.
- that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- that the Directors have prepared the Annual Accounts on a 'going concern basis'.

ACKNOWLEDGEMENT

Your Directors place on record their appreciation of the continued assistance and co-operation extended to your company by the Government of India, Government of Andhra Pradesh, Government of Karnataka, Government of Tamilnadu, Industrial Development Bank of India, other participating Financial and Investment Institutions, State Bank of India and other participating commercial banks, Gas Authority of India Limited, Hindustan Petrochemicals Corporation Limited, Snamprogetti, S.p.A., Italy, Haldor Topsoe A/S, Denmark, Projects and Development of India Limited, Krishak Bharati Co-operative Limited, Tamilnadu Industrial Development Corporation, Krupp Uhde GmbH, financial institutions and banks, the large family of shareholders and depositors of your company, the dedicated employees and all others who are continuing to assist your company.

On Behalf of the Board

New Delhi
April 21, 2005

Field Marshal Sam Manekshaw, M.C
Chairman

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I. Urea

FORM - A

Form for disclosure of particulars with respect to conservation of energy

PARTICULARS	Unit	Year ended		
		31.03.2005	31.03.2004	
Power & Fuel Consumption				
1. Electricity				
a) Purchased				
Unit	1000 KWH	2836.4068	3030.224	
Total Amount	Rs. Lakhs	217.61	233.56	
Rate/ KWH	Rs./KWH	7.67 *	7.71 *	
b) Own Generation	1000 KWH			
Through Gas Turbine Units	1000 KWH	210771.8	178917.173	
KWH per SM³ of Gas		5.249**	4.691	
Cost of gas per Unit of Power generated	Rs./KWH	0.817	0.892	
2. Fuel				
(Including Ammonia-fuel, steam & power)				
Quantity - Natural Gas	1000 SM³	298604.75	287394.69	
NG LHV	KCal/SM³	8817.849	8765.155	
Total Cost	Rs. Lakhs	12799.92	12028.86	
Rate per Unit of Natural Gas	Rs./1000 SM³	4286.58	4185.49	
Quantity - Naphtha	MT	67907.33	41766.792	
Naphtha LHV	KCal/kg	10504.4	10500.000	
Total Cost	Rs. Lakhs	13157.72	6141.95	
Rate per Unit of Naphtha	Rs./MT	19376.00	14705.35	
Quantity - LSHS	MT	10461.514	Nil	
LSHS LHV	KCal/kg	9583.170	-	
Total Cost	Rs. Lakhs	1481.64	-	
Rate per Unit of LSHS	Rs./MT	14162.73	-	
3. Consumption per MT of Urea Production (including Ammonia - fuel, steam & power)				
Particulars	Unit	Standard	Year ended	
			31.03.2005	31.03.2004
Electricity (Incl. Internal Generation)	KWH	132.8	153.39	152.39
Naphtha at 10500KCal/kg	Kg	64.5	48.78	34.98
LSHS at 9583.17 KCal/kg	Kg	Nil	7.513	Nil
Natural Gas (Fuel)*** at 8168 KCal/SM³	SM³	251	231.492	258.31

* This amount is paid towards purchased power to APTRANSCO.

** Efficiency is more because of higher power and steam generation *** 8168 KCal per SM³ is as per design norms.

Against the design of running the units in steam intensive mode, the units are being run in electric power intensive mode to optimise these networks and lower the specific energy. This is reflected in high specific power consumption and lower specific steam consumption. Achieved specific energy consumption of 5.718 GCal/MT urea compared to 5.756 GCal/MT urea in 2003-04.

II. Micro Irrigation

Particulars		Unit	Year ended 31.03.2005
Electricity			
a) Purchased Unit	1000 KWH		329.443
Total Amount	Rs. In Lakhs		14.75
Rate/KWH	Rs./KWH		4.47
b) Own Generation			
Diesel	1000 KWH		42.850
Total cost in lakhs	Rs. In Lakhs		2.19
Rate per unit (KWH)	Cost of diesel per unit of power generation		5.11
Fuel	NA	NA	
Consumption per meter of Lateral			
Particulars	Unit	Standard	Year ended 31.03.2005
Electricity (incl. Internal Generation)	KWH	-	0.0479

Data for Micro Irrigation provided separately in view of the merger of NPIL with NFCL with effect from 1-10-2004.

FORM-B**Form for disclosure of particulars with respect to technology absorption for the year 2004-05.****A. Research and Development (R & D):****1. Specific areas in which R & D was carried out by the company:**

R&D activities are more in application research than in the basic research area. However, the engineers engaged in Process, Production, General Engineering and Maintenance departments undertake activities, which are aimed at improvements in following areas:

- Energy Conservation
- Capacity Utilization
- Environmental Protection
- Improvement in Safety
- Reliability of the plant and on-stream availability.

2. Benefits derived as a result of the above efforts :

- Better capacity utilization and cost reduction.
- Overall specific energy consumption of Urea reduced and treated effluent generation and discharge has been reduced.
- Specific energy consumption during 2004-05 is 5.718 Gcal/MT, which is the lowest ever achieved in our plants.
- Raw water consumption has come down to 6.04 M³/MT urea from 6.256 M³/MT of urea previously.

3. Future Plan of Action:

A number of schemes have been identified for implementation during the next financial year.

Expenditure on R & D:

The company had incurred an expenditure of Rs.38.87 lakhs on R&D work carried out through NARDI, a group company. A new R&D department is being set up during the next year to carryout R&D internally.

B. Technology Absorption, Adaptation and Innovation:**1. Efforts, in brief, made towards technology absorption, adaptation and innovation:**

- Comprehensive energy audit was conducted by CII (Confederation of Indian Industry) and many

energy conservation schemes have been identified.

- Gas Turbine -B frequency was reduced from 50 Hz to 49 Hz to conserve energy as an in house effort.
 - CO₂ removal section optimized by modifying process conditions as an in house effort.
 - Low-pressure steam system was interconnected between the two units for optimum utilization of steam.
 - Primary reformer burner on line repair has been done successfully
 - PL machinery has been converted to produce micro tubes also.
 - Process waste is being used to manufacture micro tubes.
- 2. Benefits derived as a result of the above efforts eg. Product Improvement, Cost Reduction, Product Development Import Substitution etc.**
Benefits realized are mentioned under item A.2 above.
- 3. In case of import technology (imported during the last five years reckoned from the beginning of the financial year), following information may be furnished:** -Not Applicable-

FORM - C**Particulars of Foreign Exchange Earnings and Outgo for the year 2004 - 05**

A. Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services, export plans.

B. 1. Foreign Exchange Outgo	Rs.Lakhs
a. Technical Know-how (Net of Tax)	Nil
b. Interest	Nil
c. Dividend	
- Equity	Nil
- Preference	Nil
d. Others	118.48
2. Foreign Exchange Earnings	Nil

Statement of particulars of Employees Pursuant to the Provisions of Section 217(2A) of the Companies Act, 1956 and forming part of the Directors Report for the year ended 31st March, 2005.

Name	Age	Qualifications	Designation	Date of Commencement of Employment	Years of Experience	Remuneration Received (Rs)	Previous Employment before joining the company
Employed for the year :							
Raju K S	55	B.E (Mech)	Vice Chairman and Managing Director	01-07-1987	30	5672477	Managing Director Nagarjuna Finance Ltd
Singh P P	64	FIE	Director (Technical)	24-02-2001	40	3330996	Managing Director M/s. KRIBHCO
Shri Mahalingam J	51	B.A., ACA	Vice President(Finance)	01-10-1990	26	2828503	DGM (Finance) Andhra Cement Company Limited
Employed for the part of the year :							
Nanda R S	61	B.Sc. Engg.(Mech.)	Director & COO	26-06-2004	38	3136507	President & Managing Director Coromandel Fertilisers Ltd.
Stalin S	55	B.E. (Chem.)	Executive Director	13-05-2004	33	2503317	President Chambal Fertilizers & Chemicals Limited

- Notes : 1. All the above employees are regular employees of the company governed by the normal rules and regulations of the company applicable to them from time to time.
2. Remuneration includes Salary, Perquisites and company's contribution to Provident Fund, Gratuity and Superannuation Fund.
3. None of the above employees holds 2% or more of the equity shares of the company within the meaning of sub-clause (iii) of sub-section (2A) of Section 217 of the Companies Act 1956.