



Nagarjuna Fertilizers and Chemicals Limited

Annual Report 2005-06

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## NFCL

### Board of Directors

**K S Raju**

Chairman & Managing Director

**Field Marshal Sam Manekshaw, M.C.**

Chairman Emeritus

**Ashok Chopra**

Nominee of Shamprometti

**B K Batra**

Nominee of IDBI

**Chandra Pal Singh Yadav**

Nominee of KRIBHCO

**R K Chavali**

Nominee of IFCI

**K M Jaya Rao**

Nominee of ICICI

**Lakshmi Parthasarathy**

Nominee of Government of Andhra Pradesh

**N C B Nath**

**M P Radhakrishnan**

Nominee of SBI

**S R Ramakrishnan**

**Vishwanath Mathur**

Nominee of UTI

**P P Singh**

Director (Technical)

**R S Nanda**

Director & Chief Operating Officer

**K Rahul Raju**

Director – Business Development & Strategic Planning

**Secretary**

M Ramakanth

**Auditors**

M Bhaskara Rao & Co.,

Chartered Accountants

Hyderabad - 500 082

INDIA

**Registered Office**

Nagarjuna Hills

Hyderabad - 500 082

INDIA

**Website**

www.nagarjunafertilizers.com

**Factory**

Kakinada - 533 003

East Godavari Dist.

Andhra Pradesh

INDIA

## NOTICE

**NOTICE IS HEREBY GIVEN THAT THE THIRTIETH ANNUAL GENERAL MEETING OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED WILL BE HELD AT 10.00 A.M ON SEPTEMBER 28, 2006 AT SRI SATYA SAI NIGAMAGAMAM, 8-3-987/2, SRINAGAR COLONY, HYDERABAD - 500 073, TO TRANSACT THE FOLLOWING BUSINESS :**

### ORDINARY BUSINESS :

- To receive, consider and adopt the 30<sup>th</sup> Annual Report of the Directors, Balance Sheet as at March 31, 2006, the Profit and Loss Account for the financial year ended March 31, 2006, the Cash Flow Statement for the financial year ended March 31, 2006, and the Report of the Auditors thereon.
- To declare a dividend on Preference Shares for the year ended March 31, 2006.
- To appoint a Director in the place of Dr. N C B Nath, who retires by rotation and is eligible for re-appointment.
- To appoint a Director in the place of Shri R S Nanda, who retires by rotation and is eligible for re-appointment.
- To appoint a Director in the place of Shri K Rahul Raju, who retires by rotation and is eligible for re-appointment.
- To consider and if thought fit, to pass with or without modification(s) the following resolution which will be proposed as an Ordinary 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 30<sup>th</sup> 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

- To consider and, if thought fit, to pass with or without modification(s), the following resolution which will be proposed as an Ordinary 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 further period of one year with effect from February 24, 2006 subject to the necessary approval of the financial institutions".

"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 :

Salary (including dearness allowance and all other allowances) – Rs.1.5 lakh per month

#### 2. Commission :- Nil

#### 3. Perquisites :

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

##### i. Housing :

- The expenditure incurred by the company on hiring furnished accommodation will be subject to a ceiling of 60% of the salary; or
- In case the accommodation is owned by the company, 10% of the salary shall be deducted by the company; or
- 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 10% 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.

- Company's contribution towards provident fund as per the rules of the company.
- Gratuity as per the rules of the company.
- 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 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)".

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

"RESOLVED THAT subject to Sections 198, 269, 309, 310, 311 and Schedule XIII and other applicable provisions of the Companies Act, 1956 Shri K S Raju, Vice Chairman and Managing Director, be and is hereby paid the following remuneration and perquisites for the balance period of two years of his appointment with effect from April 1, 2006 and the same also be paid as minimum remuneration in the event of inadequacy or absence of profits in any financial year during the balance term of his office, subject to necessary approvals of the financial institutions."

**1. Salary :**

Salary (including dearness allowance and all other allowances) – Rs.2 lakhs per month

**2. Commission :**

0.5% of the net profits of the company computed in accordance with Section 349 of the Companies Act, 1956, limited to his annual salary.

**3. Perquisites :**

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

**i. Housing :**

- The expenditure incurred by the company on hiring furnished accommodation will be subject to a ceiling of 60% of the salary; or
- In case the accommodation is owned by the company, 10% of the salary shall be deducted by the company; or
- In case no accommodation is provided by the company, Shri K S 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 10% 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 S Raju may, subject to overall ceiling specified above, be modified as may be agreed to by the company and Shri K S Raju, Vice Chairman & Managing Director".

"RESOLVED FURTHER THAT the perquisites mentioned above shall be interchangeable within the overall ceiling of the annual salary of Shri K S Raju, Vice Chairman & Managing Director".

By Order of the Board

Hyderabad  
April 27, 2006

M. Ramakanth  
Secretary

# NFCL

## 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 1997 - 98 to the Investor Education and Protection Fund. The unclaimed dividend for the year 1998 - 99 shall be transferred to the Investor Education and Protection Fund during November '2006.
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 15, 2006 to September 28, 2006 (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 2006 - 2007 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 30<sup>th</sup> Annual General Meeting to be held on September 28, 2006

#### Item No. 7

Shri P P Singh was appointed as Director (Operations) of the company with effect from February 24, 2001 for a period of three years. He was re-appointed for a further period of two years with effect from February 24, 2004 and was re-designated as Director (Technical).

The Board of Directors of the company at their meeting held on January 24, 2006 approved the reappointment of Shri P P Singh as Director (Technical) of the company for a further period of one year with effect from February 24, 2006, based on the commendation of the Remuneration Committee.

Shri Singh has contributed immensely during the previous 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 one year effective February 24, 2006.

Shri P P Singh 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 one year effective February 24, 2006 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. 8

The Board of Directors of the company at their meeting held on April 25, 2003 re-appointed Shri K S Raju as Vice Chairman & Managing Director for a period of five years effective April 1, 2003 subject to necessary approvals.

In view of the company not having registered profits in 2002 - 2003 and the company being required to comply with the Notification No.G.S.R.36(E) dated January 16, 2002 issued by the Government of India (Dept. of Company Affairs) amending the Schedule XIII to the Companies Act, 1956, which provides that the remuneration could be fixed only for a period of three years though appointment could be for a period of five years, and necessary approvals for payment of remuneration to Shri K S Raju was obtained for a period of three years. The three years period expires on March 31, 2006.

The shareholders at their meeting held on July 28, 2003 approved the re-appointment of Shri K S Raju, Vice Chairman & Managing Director for a period of five years with effect from April 1, 2003 and also approved the remuneration payable to Shri K S Raju for a period of three years effective April 1, 2003.

It is now necessary to approve the remuneration payable to Shri K S Raju, Vice Chairman & Managing Director for the balance of two years.

The Board of Directors of the company at their meeting held on January 24, 2006 approved the payment of remuneration to Shri K S Raju for the balance two years of his term of re-appointment based on the commendation of the Remuneration Committee of Directors.

Shri K S Raju has been associated with the company since 1985 and has made significant contributions to the progress of the company. His experience and expertise would be of immense value to the company.

Your Directors commend the payment of remuneration for the balance of two years to Shri K S Raju, Vice Chairman & Managing Director, with effect from April 1, 2006 to March 31, 2008 on the terms and conditions stated in the notice.

None of the Directors of the company except Shri K S Raju and Shri K Rahul Raju (being related to Shri K S Raju) 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  
April 27, 2006

M. Ramakanth  
Secretary

# NFCL

## REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting the 30<sup>th</sup> Annual Report together with the Audited Accounts of your company for the year ended March 31, 2006.

The Financial Results and the Consolidated Financial Results of the company for the year ended March 31, 2006 are as under :

## FINANCIAL RESULTS

Rs. in Crores

Particulars	2005-2006 current year	2004-2005 previous year
Net Sales / Income from Operations	1452.95	1266.39
Other Income	20.44	17.67
Remission of principal amount of loan	-	14.65
Total Expenditure		
a. (Increase) / decrease in Stock	5.84	(18.78)
b. Consumption of Raw Materials	481.11	376.26
c. Staff Cost	39.33	32.37
d. Purchases – Traded Products	78.56	101.53
e. Power and Fuel	332.44	282.03
f. Marketing, Operating, Administrative and other Expenses	230.51	205.90
<b>Total</b>	<b>1167.79</b>	<b>979.31</b>
Interest	130.99	142.79
Depreciation	121.05	121.36
Profit before tax	53.56	55.25
Provision for tax	41.59	5.02
Deferred Tax	56.47	(20.70)
Fringe Benefit Tax	1.58	-
Profit / (loss) after Tax	66.86	29.53
Dividend – Preference Shares	0.0037*	0.0018
Balance C/d to Balance Sheet	135.06	140.22
Paid Up Equity Share Capital (Face Value of Rs.10/- per share)	427.96	416.61
Reserves excluding revaluation reserve	452.49	385.64
Basic & Diluted Earning per share (annualised) – in Rs.	1.56	0.70

\* Proposed

## CONSOLIDATED FINANCIAL RESULTS

Rs. in Crores

Particulars	2005 -2006 current year	2004 -2005 previous year
Net Sales / Income from Operations	1452.95	1266.39
Other Income	20.44	17.67
Remission of principal amount of loan	-	14.65
Total Expenditure		
a. (Increase) / decrease in Stock	5.84	(18.78)
b. Consumption of Raw Materials	481.11	376.26
c. Staff Cost	39.33	32.37
d. Purchases – Traded Products	78.56	101.53
e. Power and Fuel	332.44	282.03
f. Marketing, Operating, Administrative and other Expenses	230.51	205.90
<b>Total</b>	<b>1167.79</b>	<b>979.31</b>
Interest	130.99	142.79
Depreciation	121.05	121.36
Profit before tax	53.56	55.25

Provision for tax	41.59	5.02
Deferred Tax	56.47	(20.70)
Fringe Benefit Tax	1.58	-
Profit / (loss) after Tax	66.86	29.53
Dividend – Preference Shares	0.0037*	0.0018
Balance C/d to Balance Sheet	135.06	140.22
Paid Up Equity Share Capital (Face Value of Rs.10/- per share)	427.96	416.61
Reserves excluding revaluation reserve	452.49	385.64
Basic & Diluted Earning per share (annualised) – in Rs.	1.56	0.70

\* Proposed

## DIVIDEND

Your directors after careful consideration of the accounts of the company have not recommended any dividend to the equity shareholders of the company.

Your directors recommend 0.01% dividend to the preference shareholders of the company for the year ended March 31, 2006 amounting to Rs.0.37 lakhs.

## SHARE CAPITAL

Your company had issued 37,20,372 0.01% coupon optionally cumulative convertible redeemable preference shares of Rs.100/- each to the financial institutions in June 2004. The 0.01% coupon optionally cumulative convertible redeemable preference shares shall now remain as ordinary preference shares.

During the year the company allotted 1,11,61,228 equity shares of Rs.10/- each at par to the shareholders of erstwhile Nagarjuna Palma India Limited which was amalgamated with the company with effect from October 1, 2004 pursuant to the scheme of amalgamation approved by the Honourable High Court of Andhra Pradesh.

## PLANT OPERATIONS

### (i) Straight Nutrition Business

Your company during the year manufactured 13.79 lakh MTs of Urea as against 13.93 lakh MTs in the previous year. Both the plants of your company continue to perform at high levels of energy efficiency with the overall energy being below that of the previous year.

The supply of natural gas and naphtha was satisfactory during the year though your company would benefit from availability of additional natural gas.

Your company has taken various initiatives to improve energy efficiency, enhance plant reliability, improve product quality and reduce costs. In order to maximise the stream days and avoid unforeseen shut downs to the plant, your company as a regular feature had been conducting plant health checks to ascertain the condition of the various equipments. Your company has been assisted by acclaimed consultants in the area and based on their recommendation, your company has initiated remedial actions. The action taken has yielded results, which can be seen in the adequate stability in the plant operations of the company.

Your company subject to the approval of the Government of India is proposing to revamp the plants in order to facilitate increase in capacity and improve energy efficiency. Your company has engaged the services of Haldor Topsoe for ammonia plant and Snamprogetti for urea plant to undertake a study on the techno-economic-feasibility for the proposed revamp of the plants.

### ii. Nutrition Solution Business

Your company in line with its vision statement has made forays into new businesses like micro irrigation and speciality fertilizers.

#### Micro Irrigation

Your company in the past has faced hardships in relation to recoveries in view of the Micro Irrigation business being government subsidy driven. Under these pressing circumstances, there has been stability in operations of the Micro Irrigation business.



Your company has been attempting to increase its exposure to the non-subsidy sector, which is highly competitive with pressures on margins.

Your company would consider repositioning itself in the Micro Irrigation business, keeping in view the returns expected out of this business.

### **Speciality Fertilizers**

Your company has taken the initiative of educating and providing necessary support to the farmers in Andhra Pradesh, of the benefits of utilising speciality fertilizers. In this regard, your company has demonstrated in its pilot projects, the practices to be followed to achieve higher production through the application of fertilizers by adopting standard operating practices as well as benefiting from the use of non traditional speciality fertilizers.

The combination of providing micro irrigation systems coupled with speciality fertilizers would help to meet the scarce water resources in the country and increase farm productivity.

## **MARKETING**

### **a. Straight Nutrition Business**

During the year under review, your company recorded urea sale of 14.67 lakh MTs as against the previous years urea sale of 15.63 lakh MTs.

Your company during the year handled 38,418 MTs of imported urea on behalf of the Government of India.

Your company taking advantage of the favourable agri climatic conditions and good rainfall has been able to market all its manufactured and imported urea. The good seasonal conditions resulted in the inventory levels being regularly negligible, putting the market channel to tremendous strain.

Your company keeping in line with the corporate vision, launched a major initiative in the direction of supplying micro nutrients in various forms to the farmers.

Your company also successfully launched 'Zeta', a high value micro nutrient and also marketed Zinc Sulphate, MOP and other fertilizers.

### **b. Nutrition Solution Business**

#### **Micro Irrigation**

Your company has during the year increased its sales in Andhra Pradesh, Gujarat and other states and achieved a turnover of Rs.16.66 crores (previous half year Rs.6.82 crores from date of amalgamation) consequent to the fillip given to micro irrigation business in the country.

Your company has also during the year launched various new micro irrigation products to meet the demands of the farmers and commenced operations in Madhya Pradesh, Rajasthan and Kerala.

#### **Speciality Fertilizers**

During the year under review, your company has sold 5543 MTs of speciality fertilizers registering Rs. 24.24 crores of turnover (previous year Rs.10.01 crores), which shows a growth rate of 142% compared to the previous year.

Your company, during the year launched the Nagarjuna "Double Ox" brand to sell the various non-urea products of the company namely MAP, MKP, CN-FG, SOP and CN-SG.

## **ENVIRONMENT, SAFETY AND AWARDS**

### **Environment**

Your company's concern for protection of the environment is a well acknowledged fact. The green belt has developed into a man-made forest with animals living in harmony with nature in the green belt.

### **Safety**

Your company during the year has implemented the Process Safety Management Systems (PSMS) and adopted the Code of Practice by Occupational Safety and Health Administration (OSHA), USA.

Your company continues to maintain high standards of performance in the areas of safety, environment and health and has received commendation for the same. During the year, your company registered a record 701 maximum accident free man-days equivalent to 3.152 million man-hours in the year 2005.

### **Awards**

Some of the prestigious awards received by your company during the year are

1. FAI Environment Protection Award in the Nitrogenous Fertilizers Plants category for the year 2004-05.
2. Award for excellence in natural gas conservation in the fertilizer sector category for the outstanding contribution to natural gas conservation during the year 2004-05 from Gas Authority of India Ltd.
3. Commendation prize awarded on the occasion of First National Convention on "Energy Conservation Initiatives", organised by Andhra Pradesh Productivity Council, Hyderabad.
4. Highest possible rating of 5 Star in the OHS Audit conducted by British Safety Council, U.K.

### **CORPORATE GOVERNANCE**

Your company has adopted the best corporate governance practices and has also taken steps to understand the interest of its stakeholders so that the needs of the stakeholders could be met.

A detailed Report alongwith a certificate of compliance appears in the Annexure to the Directors' Report.

### **DIRECTORS**

In accordance with the articles of association of the company, Dr. N C B Nath, Shri R S Nanda and Shri K Rahul Raju retire at the forthcoming annual general meeting and being eligible, offer themselves for re-appointment.

Industrial Development Bank of India Limited has nominated Shri B K Batra, Chief General Manager, Industrial Development Bank of India Limited (IDBI), Mumbai, as their Nominee on the Board of Directors of the company in the place of Shri R Sathyamurthi.

The Government of Andhra Pradesh has nominated Smt. Lakshmi Parthasarathy, IAS, Principal Secretary to Government & Commissioner for Industrial Promotion, Industries & Commerce Department as their Nominee on the Board of the Company in the place of Shri Jainder Singh, IAS.

Shri R Krishnan ceased to be the director of the company with effect from November 5, 2005.

The Board of Directors at their meeting held on January 24, 2006 re-appointed Shri P P Singh as Director (Technical) of the company for a period of one year with effect from February 24, 2006. The re-appointment of Shri P P Singh is being placed before the shareholders at the forthcoming Annual General Meeting.

UTI Asset Management Company Private Limited has nominated Shri Vishwanath Mathur as a nominee of The Administrator of the Specified Undertaking of Unit Trust of India, on the Board of the Company.

Field Marshal Sam Manekshaw ceased to be a Director and Chairman with effect from April 27, 2006. The Board of Directors at their meeting held on April 27, 2006 unanimously acknowledged the significant contribution made by Field Marshal during his long tenure as Director and Chairman and appointed Field Marshal Sam Manekshaw as 'Chairman Emeritus' of the company, not being a member of the Board of Directors of the company.

Consequent to the resignation of Field Marshal Sam Manekshaw as Chairman, Shri K S Raju, formerly Vice Chairman and Managing Director was unanimously appointed as Chairman and Managing Director of the Company by the Board of Directors of the Company.

Shri V N Rai, Alternate Director to Shri Chandra Pal Singh Yadav, resigned from the Board of Directors of the Company, consequent to his term of appointment with KRIBHCO expiring by July 8, 2006.

## NFCL

The Board of Directors placed on record their deep appreciation of the services rendered by Field Marshal Sam Manekshaw, Shri R Krishnan, Shri R Satyamurthi, Shri Jainder Singh, IAS. and Shri V N Rai during their tenure of office.

### 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 by the Auditors in the Audit Report in relation to the investments made by the company with subsidiaries i.e., Nagarjuna Power Corporation Limited (NPCL) and Jaiprakash Engineering and Steel Company Limited (JESCO), your directors do not consider it appropriate to make any provisioning towards diminution in the value of the investments made in the above subsidiaries as they perceive that there is no diminution in the latest book value as compared to the cost of investments.

Your directors perceive that the investments made in NPCL and JESCO are long term investments meant to be held permanently and the diminution in the value is of temporary nature. The change in the nature of diminution would stand reversed in future, if necessitated.

### COST AUDITOR

Shri Dantu Mitra, Cost Accountant, continues to be the Cost Auditor of the company for the year 2006 – 07.

### 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.

### HUMAN RESOURCE

Your company during the year has taken various initiatives with the assistance of renowned consultants to introduce and implement best HR practices that meet global standards.

### SUBSIDIARY COMPANIES

A statement of the holding company's interest in the subsidiary companies viz., 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.

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 viz, 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 on any of the subsidiary companies may write to the company to enable the same to be forwarded.

### PROJECTS

#### A. Nagarjuna Oil Corporation Limited (NOCL)

NOCL, the wholly owned subsidiary of your company is involved in implementing the Refinery Project at Cuddalore in Tamil Nadu. Substantial progress has been made during the year under review. The highlights are given below :

- Equity is fully tied up.
- IDBI's appraisal of the project has been completed and a formal Letter of Intent has been issued sanctioning a Rupee Term loan of Rs.500 crores.
- MOUs / Agreements have been signed for crude requirement, marketing tie ups, etc.
- All government clearances and approvals have been obtained and are valid and subsisting.

#### B. Nagarjuna Power Corporation Limited (NPCL)

NPCL, a subsidiary of your company is implementing the 1015 MW imported coal fired thermal power project through Nagarjuna Power Corporation Limited (NPCL) in Karnataka. All clearances, both statutory and non-statutory have been obtained including site clearance from Karnataka State Pollution Control Board and environment clearance from Ministry of Environment and Forest.

The Central Electricity Regulatory Commission (CERC) has approved the project cost and tariff related matters, which are in line with the new tariff guidelines of The Electricity Act, 2003.

The Government of Karnataka has also approved the Power Purchase Agreement (PPA) to be entered into with five electricity supplying companies from Karnataka State. The PPA with Kerala State Electricity Board is pending finalisation.

The equity closure for the project has been completed and the company has also received in-principle approval from REC, HUDCO and Power Finance Corporation for financing the project.

### CORPORATE SOCIAL RESPONSIBILITY

Your company has always been a responsible corporate citizen and has made significant contributions towards community development. Your company supports various social causes by providing potable water, basic medical facilities, minimum education to people in the adjoining villages. Your company takes active interest in environmental issues and is continuing to assist the local administration in Kakinada towards 'Green Kakinada' by developing and upkeep of parks and avenue plantation in the town. Your company has also been assisting the surrounding community with primary health programmes.

### DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, Your Directors hereby report:

- a. that in the preparation of Annual Accounts for the year ended March 31, 2006, the applicable accounting standards have been followed alongwith proper explanation relating to material departures, if any.
- b. 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, 2006 and of profit and loss account for the period ended March 31, 2006.
- c. 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.
- d. 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, Snampromgetti, 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 investors of your company, the dedicated employees and all others who are continuing to assist your company.

On Behalf of the Board

Hyderabad  
July 28, 2006

K S Raju  
Chairman & Managing Director



NFCL

## FORM-A

## Form for disclosure of particulars with respect to conservation of energy

## I. Urea

Particulars	Unit	Year ended	
		31.03.2006	31.03.2005
<b>Power &amp; Fuel Consumption</b>			
<b>1. Electricity</b>			
a) Purchased			
Unit	1000 KWH	2897.981	2836.4068
Total Amount	Rs. Lakhs	214.03	217.61
Rate/ KWH	Rs./KWH	7.39 *	7.67 *
b) Own Generation			
Through Gas Turbine Units	1000 KWH	205476	210771.8
KWH per SM <sup>3</sup> of Gas		5.484	5.249
Cost of gas per Unit of Power generated	Rs./KWH	0.840	0.817
<b>2. Fuel</b> (Including Ammonia-fuel, steam & power)			
Quantity - Natural Gas	1000 SM <sup>3</sup>	285591.63	298604.75
NG LHV	Kcal/SM <sup>3</sup>	8819.277	8817.849
Total Cost	Rs. Lakhs	13157.45	12799.92
Rate per Unit of Natural Gas	Rs./1000 SM <sup>3</sup>	4607.09	4286.58
Quantity - Naphtha	MT	70112.510	67907.33
Naphtha LHV	Kcal/kg	10543.244	10504.4
Total Cost	Rs. Lakhs	18171.24	13157.72
Rate per Unit of Naphtha	Rs./MT	25917.26	19376.00
Quantity - LSHS	MT	6370.32	10461.514
LSHS LHV	Kcal/kg	9133.790	9583.170
Total Cost	Rs. Lakhs	1156.64	1481.64
Rate per Unit of LSHS	Rs./MT	18156.72	14162.73
<b>3. Consumption per MT of Urea Production (Including Ammonia - fuel, steam &amp; power)</b>			

Particulars	Unit	Standard	Year ended	
			31.03.2006	31.03.2005
Electricity (Incl. Internal Generation)	KWH	132.8	151.1	153.39
Naphtha at 10500kcal/kg	Kg	64.5	51.04	48.78
LSHS (At actual calorific value)	Kg	Nil	4.619	7.513
Natural Gas (Fuel)** at 8168 Kcal/SM <sup>3</sup>	SM <sup>3</sup>	251	223.578	231.492

\* This amount is paid towards purchased power to APTRANSCO.

\*\* 8168 KCal per SM<sup>3</sup> is as per Design Norms.

## II. Micro Irrigation

Particulars	Unit	Year ended	
		31.03.2006	31.03.2005 *
<b>Electricity</b>			
a) Purchased	1000KWH	989.964	329.44
Total Amount	Rs. In lakhs	40.08	14.75
Rate/ KWH	Rs./KWH	4.048	4.47
b) Own Generation			
Diesel	1000KWH	83.024	42.850
Total cost in lakhs	Rs. In lakhs	3.09	2.19
Rate per unit (KWH)	cost of diesel per unit of power generation	3.71	5.11

## Consumption per meter of Lateral

Particulars	Unit	Standard	Year ended	
			31.03.2006	31.03.2005 *
Electricity (incl. Internal Generation)	KWH	-	0.0402	0.0479

\* for the period from 01.10.2004 to 31.03.2005

# NFCL

## FORM-B

**Form for disclosure of particulars with respect to technology absorption for the year 2005-06.**

### 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 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 :

- Overall specific energy consumption of Urea and treated effluent discharge have been reduced as given below.
- Complex specific energy consumption during 2005-06 is 5.662 Gcal/MT, the previous best being 5.718 Gcal/MT during 2004-05.
- Raw water consumption has come down to 5.545 M<sup>3</sup>/MT urea from 5.998 M<sup>3</sup>/MT of urea achieved previously.
- In addition, improvement in product quality and cost reduction by import substitution has been realized.

#### 3. Future Plan of Action:

A number of actions have been planned to improve reliability as well as to reduce the specific energy consumption further, as mentioned below :

- Fluid coupling installation for Ammonia-I Primary Reformer Induced Draft Fan.
- Ammonia-I Primary Reformer Tubes and Catalyst replacement partially.
- Ammonia-I Low Temperature Shift Catalyst replacement.
- Ammonia-I cooling tower fan blades replacement with energy saving blades.
- Advance Process Control for Ammonia plant-II.
- Change of insulation in Heat Recovery and Steam Generation Unit "C" and Ammonia-I Primary Reformer roof.
- Refurbishment has been planned for IDL-01 line to enhance the existing production capacity in MI plant.

### Expenditure on R & D:

Expenditure relating to Capital items is debited to Fixed Assets and depreciated at applicable rates. Revenue expenditure is charged to Profit & Loss account of the year in which they are incurred.

	Rs. In lakhs
Revenue Expenditure	408.94
Capital Expenditure	240.75
<b>Total Expenditure on R &amp; D in 2005-06</b>	<b>649.69</b>

### B. Technology Absorption, Adaptation and Innovation:

#### 1. Efforts, in brief, made towards technology absorption, adaptation and Innovation:

- The conventional Titanium tube High Pressure stripper in Urea-I has been replaced with latest version of bimetallic stripper in April 2005.
- Schemes identified through energy audit are being implemented in a phased manner.
- Replacement of Methanator inlet isolation valve from globe to ball valve has reduced the pressure drop in the front end of Ammonia plant-I.
- GT-C up rating with improved version of sealing system and change in operating methodology have resulted in energy savings.
- Ammonia Refrigeration Compressor turbine, Synthesis Gas Compressor turbine and CO<sub>2</sub> Compressor turbine hot well condensate pump drives have been changed over from turbine to motor.
- Re-Installing Process Air Pre-heater coil in E-202A and 7 Nos. of Catalyst Tubes in Primary Reformer have reduced the pressure drop in front end and led to energy savings in Ammonia plant-I.
- In MI plant, new line for producing plain lateral has been converted to produce both HDPE sprinkler pipes and plain laterals. New moulds have been developed for online & threaded drippers. PL machinery has been refurbished & enhanced the production capacity to 100%.

#### 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 2005 -06

#### 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	392.77
<b>2. Foreign Exchange Earnings</b>	<b>Nil</b>