



38th Annual Report

Our Mission

NFL's mission is to be a market leader in fertilizers and a significant player in all its other businesses, reputed for customer satisfaction, reasonable reward to shareholders, ethics, professionalism and concern for ecology & the community

Contents

Management Team	03
Board of Directors	04
Performance at a Glance	05
Directors' Report	06
Management Discussion & Analysis Report	15
Balance Sheet	25
Statement of Profit & Loss	26
Cash Flow Statement	27
Notes to Financial Statements	28
Auditors' Report	58
Comments of C&AG	61
Corporate Governance Report	64
Directors' Profile	79
Certificate of Auditors on Corporate Governance	81
Particulars with respect to conservation of Energy & Technology Absorption	82
Report on Sustainable Development	85
Report on Corporate Social Responsibility	87
Information of persons belonging to SCs/STs/OBCs/PHs	90
Notice of Annual General Meeting	91
Forms of ECS, Proxy, Attendance Slip, etc.	97

Management Team

BOARD LEVEL

Sham Lal Goyal

Chairman & Managing Director

Neeru Abrol

Director (Finance)

Rajesh Kumar Aggarwal

Director (Technical)

Capt. Pavan Kumar Kaul

Director (Marketing)

CORPORATE HEADS

Vigilance

Finance & Accounts

Materials Management

Projects

Technical

Human Resource & Public Relations

Marketing

Management Services

Company Secretariat & Legal

Internal Audit

Ajoy Kumar

Rakesh Sahai

Rajiv Johri

B. P. Kumar

Devendra Kumar

S.K. Ghai

N. R. Satyapalan

A.K. Asija

J. M. Kapoor

Tek Chand

S. L. Basran

Chief Vigilance Officer

Executive Director

Chief General Manager

Chief General Manager

Chief General Manager

General Manager

General Manager

General Manager

General Manager

Company Secretary

Dy. General Manager

UNIT HEADS

Nangal

Panipat

Bathinda

Vijaipur I & II

B. G. Singh

R. K. Bhatia

K. B. Verma

S. M. H. Rizvi

General Manager I/c

Executive Director

Executive Director

Executive Director

BANKERS

State Bank of India

State Bank of Hyderabad

State Bank of Patiala

Bank of India

Punjab National Bank

Union Bank of India

Oriental Bank of Commerce

AUDITORS

Thakur, Vaidyanath Aiyar & Co.

Chartered Accountants,

New Delhi

DSP & Associates,

Chartered Accountants,

New Delhi

REGISTRAR & TRANSFER AGENTS

Mas Services Limited,

T-34, IInd Floor,

Okhla Industrial Area-II,

New Delhi - 110020

Board of Directors

Shri Sham Lal Goyal	Chairman & Managing Director
Ms. Neeru Abrol	Director (Finance)
Shri. R. K. Aggarwal	Director (Technical)
Capt. Pavan Kumar Kaul	Director (Marketing)
Shri Satish Chandra	Director
Shri S.C. Gupta	Director
Shri. Munikoti Niranjana Rao	Director

Performance at a Glance

Financial Highlights

(₹ in crore)

Particulars	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004	2002-2003
Sales (Gross)	1978	1886	1704	1697	1640	1664	1647	1745	1749	1608
Subsidy	5363	3918	3396	3444	2518	2217	1957	1748	1657	2060
Turnover (Gross)(incl. Subsidy)	7341	5804	5100	5141	4158	3881	3604	3493	3406	3668
Earnings before depreciation, interest and tax (EBDITA)	342	302	365	293	262	387	312	357	329	688
Interest and Finance Charges	67	9	11	41	17	17	8	22	34	72
Depreciation	91	89	94	96	89	106	125	120	176	168
Profit before Tax	184	204	260	156	156	264	179	215	119	448
Profit after Tax	127	139	172	97	109	176	116	161	85	286
Gross Fixed assets	2958	2930	2924	2906	2925	2903	2897	2862	2846	2839
Net Fixed Assets	550	599	666	734	809	871	963	1050	1153	1322
Current Assets, Loans & Advances	3206	2244	2082	1524	1443	1693	1272	1007	1147	1476
Current Liabilities & Provisions	1600	998	794	885	816	692	553	601	372	746
Working Capital	1606	1246	1288	639	627	1001	719	406	775	730
Borrowings	2985	613	403	265	525	327	227	60	618	754
Net Worth	1754	1672	1582	1471	1408	1371	1256	1186	1080	1027
Capital Employed (Net Fixed Assets + Working Capital)	2156	1845	1954	1373	1436	1872	1682	1456	1928	2052
Production (Urea) (Lakh MT)	34.01	33.80	33.30	33.44	32.68	33.51	33.44	34.32	32.50	32.12
Capacity Utilisation (Urea) (%)	105.3	104.6	103.1	103.5	101.1	103.7	103.5	106.2	100.6	99.4
Sales (Urea) (Lakh MT)	33.89	33.59	33.78	33.77	32.38	33.54	33.63	34.73	33.87	32.89
Employees (Nos.)	4515	4699	4760	4868	4910	4736	4862	4853	4940	5404

Key Indicators

EBDITA/ Turnover (%)	4.66	5.20	7.17	5.71	6.33	10.01	8.69	10.28	9.71	18.83
Return on Net Worth (%)	7.24	8.31	10.87	6.59	7.74	12.84	9.24	13.58	7.87	27.85
Return on Capital Employed (%)	5.88	7.51	8.78	7.10	7.56	9.41	6.92	11.06	4.41	13.95
Earning per Share of ₹10 (₹)	2.58	2.82	3.50	1.99	2.21	3.59	2.37	3.28	1.73	5.84
Debt/Equity	1.70 : 1	0.37 : 1	0.25 : 1	0.18 : 1	0.37 : 1	0.24 : 1	0.18 : 1	0.05 : 1	0.57 : 1	0.74 : 1
Current Ratio	2.00 : 1	2.25 : 1	2.62 : 1	1.72 : 1	1.76 : 1	2.45 : 1	2.30 : 1	1.67 : 1	3.09 : 1	1.98 : 1
Value Added per Employee (₹ in Lakhs)	26	23	23	20	19	19	17	18	17	24
Dividend (₹ in Crores)	38.27	41.70	51.51	29.43	32.60	52.83	40.74	48.27	25.51	300.00
Dividend as % of Equity	7.80	8.50	10.50	6.00	6.65	10.77	8.30	9.84	5.20	61.15

Directors' Report

To,

Dear Members,

On behalf of the Board of Directors of your Company, I have the pleasure in presenting the 38th Annual Report on the business and operations of the Company together with the Audited Financial Statements for the Financial Year 2011-2012.

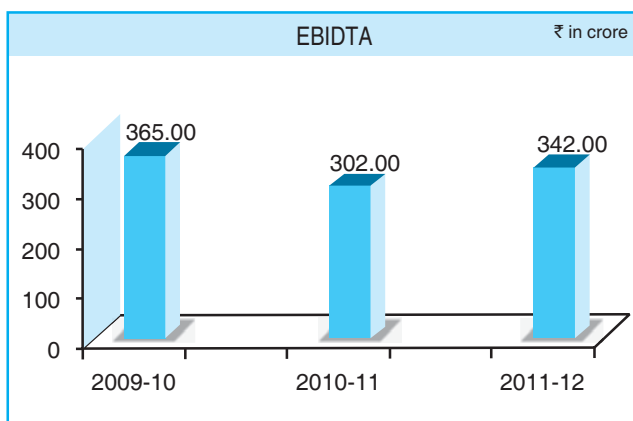
Your Company was incorporated in the year 1974 for implementation of two fertilizer plants at Panipat and Bathinda with annual installed capacity of 5.11 lakh tonnes of urea each. The commercial production from these plants commenced in 1979. In April, 1978, the Nangal Group of Plants of Fertilizer Corporation of India Limited (FCIL) were transferred to NFL consequent upon reorganization of NFL-FCIL. The Government of India (GoI) in 1984 entrusted the Company to execute the country's first inland gas based urea project at Vijaipur in Madhya Pradesh, which commenced commercial production w.e.f. 1st July, 1988. Expansion of Vijaipur Plant was taken up in the year 1993 for doubling its capacity.

Presently, the Company has five urea production plants, one each at Panipat, Bathinda and Nangal and two plants at Vijaipur with a total installed capacity of 32.31 lakh tonnes and has grown to the status of being the second largest producer of urea in the country. Your Company has undertaken revamp of fuel-oil based plants at Nangal, Bathinda and Panipat for changeover of feedstock from Fuel-oil to Natural Gas, which on scheduled completion during 2012-2013 will reduce the cost of production and the subsidy outgo from the GoI substantially. This would also contribute to clean environment. The revamp projects undertaken at Vijaipur-I & II would reduce energy consumption and augment the installed production capacity of the Company by 10.4% to 35.68 lakh tonnes.

FINANCIAL HIGHLIGHTS

During the year under review, your Company achieved a turnover of ₹7341 crore (including subsidy of ₹5363 crore) as compared to ₹5804 crore (including subsidy of ₹3918 crore) in the previous year, registering an increase of 26%. The increase in turnover is due to higher sales of urea and industrial products and increase in subsidy due to escalation in prices of inputs i.e. petroleum products and natural gas.

The earnings before interest, depreciation and tax (EBIDTA) at ₹342 crore was higher than ₹302 crore achieved in previous year inspite of higher salaries and wages, repairs & maintenance, etc. mainly due to higher production/sale of urea and industrial products. The profit before tax was ₹184.20 crore (previous year ₹ 203.92 crore) and profit after tax was ₹126.73 crore (previous year ₹138.50 crore). The reduction in net profit was due to higher incidence of interest expenditure of ₹ 66.24 crore (previous year ₹ 9.15 crore) mainly attributed to higher utilization of working capital and short term loans arising out of delay in receipt of subsidy and increase in input prices and interest rates. Interest amounting to ₹75.09 crore was capitalized during the year.



BORROWINGS

For Ammonia Feedstock Changeover Projects (AFCP) at Panipat, Bathinda and Nangal, Rupee term loan of ₹3850 crore has been arranged from consortium of 13 Banks with State Bank of India as lead Bank. As on 31st March, 2012, long term loans of ₹1342 crore were outstanding for the AFCP capital scheme. In terms of GoI Policy notified on 6th March, 2009, the Company is entitled to capital subsidy after successful commissioning of AFCP projects over a period of five years towards project cost, interest on borrowed capital and return on own funds. For financing Urea Capacity Enhancement Projects at Vijaipur, ₹80.96 crore of Buyers Credit, ₹100.40 crore through Bonds and ₹77.45 crore through External Commercial Borrowings (ECBs) have been utilized. The short-term borrowings of the Company as at 31st March, 2012, stood at ₹ 1383.82 crore, including cash credit utilization, short-term loans, working capital demand loan, etc. (₹421.84 crore as at 31st March, 2011). Delay in timely receipt of urea subsidy and hike in the prices of inputs (Gas/FO/LSHS) lead to higher working capital borrowings. For identifying and managing the foreign exchange and interest risks, Company has put in place Foreign Currency and Interest Rate Risk Management Policy.

DIVIDEND

Your Company has a consistent track record of dividend payment. So far, your Company has disbursed cumulative dividend of ₹981.74 crore to the shareholders. The Board of Directors have recommended payment of dividend @ 7.8% (₹0.78 per share) for the year 2011-12. The total dividend pay out would be ₹44.48 crore (including dividend tax of ₹6.21 crore), and a sum of ₹12.67 crore has been transferred to the General Reserves.

CAPITAL & RESERVES

The Paid-up Capital and Reserves and Surplus as at 31st March, 2012 were ₹491 crore and ₹1264 crore respectively.

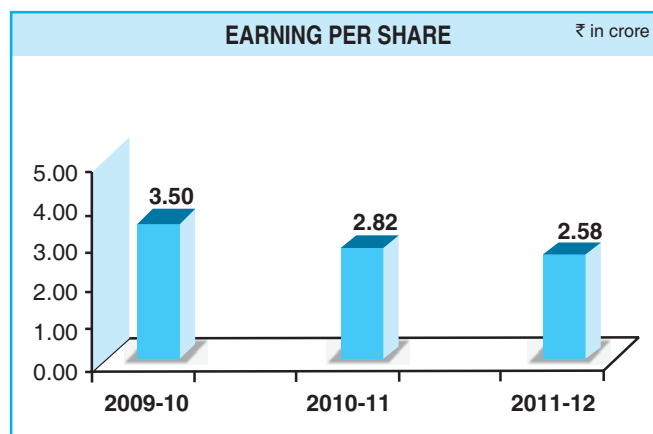
OPERATIONS

Production

During the year, your Company produced 34.01 lakh tonnes of Urea compared to 33.80 lakh tonnes in the previous year. This included ever best neem coated urea production of 6.4 lakh tonnes compared to 1.2 lakh tonnes in the previous year. The overall urea capacity utilization was 105.3%. Vijaipur Plants registered ever-best production of 19.14 lakh tonnes surpassing previous best of 18.71 lakh tonnes achieved in 2004-05. Extra production from Vijaipur Plants over and above the installed capacity was 1.85 lakh tonnes. Vijaipur-I and Vijaipur-II units achieved ever-best Ammonia production of 5.44 lakh tonnes and 5.86 lakh tonnes respectively, surpassing previous best of 5.29 lakh tonnes and 5.60 lakh tonnes in 2005-06 and 2006-07 respectively. Vijaipur-II plant achieved ever-best urea production of 10.12 lakh tonnes surpassing previous best of 9.74 lakh tonnes in 2006-07.

Due to operational problems, there was a production shortfall of urea at Panipat and Bathinda against the rated capacity, which was partially compensated by additional production of 25.1 thousand tonnes from Nangal.

Company in its endeavour to optimally utilize surplus ammonia from Vijaipur Unit and to produce cost effective/competitive industrial products at Nangal, achieved ever-best production of industrial products during the year.



Input Availability

During the year, Company had to procure spot gas intermittently up to December, 2011 to meet additional requirement of gas at Vijaipur-II after partial retrofitting in April, 2011 and shortfall arising out of reduced availability of Administered Pricing Mechanism (APM)/Panna Mukta Tapti (PMT) Gas. Supply of additional gas commenced from December, 2011 against allocation made by Gol for Vijaipur. Poor coal quality continues to be an area of serious concern, one of the factors responsible for higher energy consumption at Panipat, Bathinda and Nangal Units, for improvement of which continuous efforts are being made.

SALES & MARKETING

Urea

Company's prime business is production and sale of urea. It sold 33.89 lakh tonnes of Urea (including 6.4 lakh tonnes of Neem coated Urea) against 33.59 lakh tonnes (including Neem Coated Urea of 1.21 lakh tonnes) in the previous year.

Industrial Products

Sales performance in the Industrial Products segment, which include Nitric Acid, Ammonium Nitrate (Lumps & Melt) has been significant at ₹171 crore vis-à-vis ₹122 crore in the previous year, registering a growth of 40%. This included, sales worth ₹38 crore of Ammonium Nitrate (Melt), a new product marketed this year.

Bio-Fertilizers

During the year Bio-fertilizers (powder and liquid) worth ₹2.59 crore were sold against ₹0.87 crore in the previous year.

Agri-Business

The Company has been making foray into diverse agri-based business viz. Seeds, Compost, Micorhizza and Bentonite Sulphur. During the year, turnover of ₹22.72 crore was achieved compared to ₹10.28 crore in the previous year primarily on account of sale of seeds.

Promotion of balanced use of fertilizers

During the last three decades, the Company has been working closely with farming community by ensuring supply of quality fertilizers and other agri-inputs. Company believes in marketing its products and services through extensive field demonstrations coupled with an effort to build relationships with the end users, the farmers. To promote Company's "Kisan Urea" as a household name, various promotional activities including 100 farmers education programmes, 40 dealers/retailers orientation programmes, 415 field days, 120 block and front line demonstrations were organized during the year. Company participated in 44 kisan melas in its marketing territory spread across 18 states.

Company has four Mobile Soil Testing units attached to Nangal and Vijaipur Units and Lucknow and Bhopal Zonal Offices. It also has five static Soil Testing Laboratories at Nangal, Panipat, Vijaipur, Bhopal and Barabanki. One more static Soil Testing Laboratory is being set up at Balasore in Odisha. Micro Nutrient's Labs at Nangal, Vijaipur and Panipat Units are also being set-up. During the year, 48276 Samples for macro nutrients and 766 samples for micro nutrients were analyzed. 15 Trials on non-pressure Urea Ammonium Nitrate solution have been laid out at Punjab Agriculture University, Ludhiana. 33 Trials on use of Liquid Bio-Fertilizers were conducted at Kisan Vikas Kendras in the marketing territory of the Company.

MODERNIZATION AND EXPANSION PROJECTS

Revamp of fuel-oil based plants at Nangal, Bathinda & Panipat

The Company has undertaken capital schemes for change over of feedstock from Fuel-oil to Natural Gas at Panipat, Bathinda and Nangal involving a total investment of ₹4066 crore with a completion period of 36 months from the Zero date i.e. 29th January 2010. The commissioning of the project at Nangal is scheduled by the end of December, 2012 and that of Panipat and Bathinda by January, 2013. Capital expenditure of ₹1546.17 crore towards these projects has been incurred upto 31st March, 2012.

These Projects are being implemented on Lumpsum Turnkey (LSTK) basis. Panipat and Bathinda projects are being implemented by M/s. Larsen & Toubro (L&T) with process licence from M/s. Halder Topsoe Associates. Nangal Project is being implemented by consortium of M/s. Tecnimont SPA Italy and M/s. Technimont ICB, Mumbai with process licence from M/s. KBR. M/s. Projects & Development India Limited (PDIL) has been engaged as Project Management Consultant for all the three projects.

Gas Pipeline

Firm allocation of gas from Gol is awaited to meet the gas requirement after completion of feedstock conversion projects. Company is following up for allocation of indigenous gas, alternatively RLNG shall be utilized for feed. The natural gas pipelines have already been laid and commissioned for Nangal and Bathinda units. Last mile connectivity to Panipat unit is in progress.

Capacity Augmentation & Energy Saving Project (ESP) at Vijaipur

The Company has undertaken Capacity Augmentation of Ammonia & Urea plants at its Vijaipur-I & II units, including installation of Carbon Dioxide Recovery (CDR) plant at an investment of around ₹650 crore. Commissioning of capacity augmentation of Ammonia and Urea Plants was earlier planned for November, 2011, however, due to delay in supply of certain equipment, the same has been undertaken in April/July, 2012. Ammonia and Urea Revamp Projects of Vijaipur-I have been commissioned on 24th April, 2012. Carbon Dioxide Recovery (CDR) Plant was commissioned on 23rd May, 2012 and Ammonia and Urea Revamp Projects at Vijaipur-II are likely to be commissioned in July, 2012. The capital expenditure of ₹426.26 crore has been incurred upto 31st March, 2012.

JOINT VENTURES

Joint Venture with M/s. KRIBHCO & M/s. RCF

Company has a Joint Venture “Urvarak Videsh Limited” with M/s. KRIBHCO and RCF as promoters. The main object of the joint venture company is to explore investment opportunity abroad and within the country in nitrogenous, phosphatic and potassic sectors and to render consultancy services for setting up projects in India and abroad.

Revival of closed units of M/s. FCIL

Government of India on nomination basis has allotted NFL & Engineers India Limited (EIL) and NFL & Steel Authority of India Limited (SAIL) for revival of closed units of FCIL at Ramagundam and Sindri respectively. Separate MoUs have been entered with EIL and SAIL and pre-project activities have been undertaken. First Stage clearance of BIFR for these projects is awaited.

HUMAN RESOURCE

Amongst the three Ms, management of human resource is most important for success of any organization. NFL continues to strive for development of its human resource for realization of its full potential. The total Manpower

strength of the Company as on 31st March, 2012 was 4515 comprising of 1942 Executives and 2573 Non Executives. The total manpower includes 242 women employees of which 104 are in Executive cadre.

Various HR initiatives for the benefit of employees have been undertaken including implementation of Defined Contribution Superannuation Pension Scheme, Review of Performance Management System and implementation of Performance Related Pay.

Training Initiatives

During the year, to hone the skills and instill behavioral and personality development traits in all supervisory staff and managerial cadre, Company achieved 18,250 mandays training for employees with the aid of in-house and external training programmes. Training programmes were identified by systemizing organizational needs with individual needs through Performance Management System.

To give exposure to technology change in connection with Ammonia Feed Stock Change over Project being undertaken at Company's three Units, 41 personnel were sent to Copenhagen, Denmark for training principally on Halder Topsoe Technology, which is being put to use at Panipat and Bathinda Units. On site training at KRIBHCO, Hazira for 50 persons was arranged to expose them to the KBR technology being used for Nangal Revamp. Training on Distributive Control System/Emergency Shutdown System at Honeywell Works, Pune was also arranged.

Industrial Relations

Industrial relations in the Company continued to be harmonious during the year. Continuous interaction between the Management and Employees' representatives contributed in maintaining the harmony.

IMPLEMENTATION OF OFFICIAL LANGUAGE

Your Company is continuously making efforts for the propagation and successful implementation of the Official Language Policy of the Union of India. The Official Language Implementation Committees at Unit and Corporate Level regularly held their quarterly meetings to monitor and review the progress made in achieving the targets fixed as per the annual programme of Department of Fertilizers (DoF).

In order to increase the use of Hindi in office work, 32 Hindi workshops were organized during the year in which 710 employees participated. Hindi Pakhwara, on the occasion of Hindi Divas (14th September), was observed in all the Offices/Units of the Company. Various Hindi competitions/programmes were organized during the Hindi Pakhwara in which 325 employees participated. Winners of Hindi Competitions were suitably awarded. 59 Employees were awarded cash prize under the Cash Incentive Scheme for doing maximum work in Hindi. Panipat Unit and Zonal Office Bhopal have been awarded Raj Bhasha Shield by respective Town Official Language Implementation Committees for outstanding work in Hindi.

Information Technology (IT) is being widely used to promote the official language in the various offices of the Company. Bilingual software was provided across the Units to impart working knowledge of Hindi as well as computer training programmes were extensively held to enable employees to use the software.

REPRESENTATION OF SCs/STs, OBCs AND PHYSICALLY DISABLED

Your Company has been implementing reservation policies of GoI for SCs/STs/OBCs/Persons with Disabilities. Representatives of SCs/STs categories are associated in Recruitment of Departmental Promotion Committees. A statement showing representation of employees belonging to Scheduled Castes / Scheduled Tribes / Backward Classes / Physically Disabled categories is appended as Annexure-VIII to this report.