

30th Annual Report 2007-08

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Ashtriya Chemicals and Fertilizers Limited

(A Government of India Undertaking)



Rashtriya Chemicals and Fertilizers Limited

(A Government of India Undertaking)

"Priyadarshini", Eastern Express Highway, Sion, Mumbai - 400 022.

ANNUAL REPORT 2007-08

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Rashtriya Chemicals and Fertilizers Limited

Board of Directors:

1. **Shri U.S. Jha**
Chairman and Managing Director
2. **Shri H.S. Karangle**
Director (Technical)
3. **Shri J. Kohareswaran**
Director (Marketing)
4. **Shri Gautam Sen**
Director (Finance) (from 14.7.2008)
5. **Shri Mathew C. Kunnumkal, IAS**
Addl. Secretary and Financial Advisor
Department of Fertilizers, New Delhi (from 5.2.2008)
6. **Shri Deepak Singhal, IAS**
Jt. Secretary, Department of Fertilizers, New Delhi
7. **Shri I.C. Srivastava, [IAS Retd.]**
4 ka- 26, Jawahar Nagar, Jaipur - 302 004
8. **Prof. Ashok Misra**
Director, IIT, Powai, Mumbai - 400 076
9. **Shri Anil Agrawal**
Chartered Accountant
B-139, Kalkaji, New Delhi - 110 019
10. **Shri M. Sundararaman**
Director (Finance) (upto 13.6.2008)
11. **Dr. J.S. Maini**
Addl. Secretary and Financial Advisor
Department of Fertilizers, New Delhi (upto 28.8.2007)

VISION

RCF shall be a well respected world class corporate with progressive growth in core and non-core areas achieving highest standards in efficiency, profitability, environment protection and Corporate Social Responsibility through operational excellence and ethical business culture. It will strive to provide world class services to its customers and continually enhance shareholder values.

Company Secretary	: Shri K.C. Prakash
Registered Office	: "Priyadarshini", Eastern Express Highway, Sion, Mumbai - 400 022. Tel.: 24045024
E-mail address	: investorcommunications@rcfltd.com
Website address	: www.rcfltd.com
Bankers	: State Bank of India Swastik Chamber Chembur, Mumbai.
Statutory Auditors	: M/s. Batliboi & Purohit, Mumbai M/s. K.S. Aiyar & Co., Mumbai
Share Transfer Agent	: M/s. Intime Spectrum Registry Ltd. C-13, Pannalal Silk Mills Compound L.B.S. Marg, Bhandup Mumbai - 400 078
Contact Person	: Mr. Mahesh Masurkar / Mr. Vikrant Kamble Tel. : 022-25946970-25946978 E-mail : mt.helpdesk@intimespectrum.com

Mission

RCF's mission is to achieve continuous improvement in existing operations and strive for all round growth through expansion, diversification, innovation and productive research and development. We shall imbibe exemplary work culture and shall have highest degree of commitment to customers and stakeholders.



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RASHTRIYA CHEMICALS AND FERTILIZERS LIMITED

Registered Office: "Priyadarshini", Eastern Express Highway, Sion, Mumbai - 400 022.

Notice**THIRTIETH ANNUAL GENERAL MEETING**

NOTICE is hereby given that the **THIRTIETH ANNUAL GENERAL MEETING OF THE MEMBERS OF RASHTRIYA CHEMICALS AND FERTILIZERS LIMITED** will be held at Yogi Sabhagruh, Behind Swaminarayan Mandir, Dadar (E), Mumbai- 400 014 on Wednesday the 24th day of September, 2008 at 3 p.m. to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Profit & Loss Account for the year ended 31st March, 2008 and Balance Sheet as at that date together with the Reports of Directors and Auditors thereon.
2. To declare dividend.
3. To fix remuneration of Auditors.
4. To appoint a Director in place of Shri Deepak Singhal who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Shri Anil Agrawal, Director, who retires by rotation and being eligible, offers himself for reappointment.
6. To appoint Dr. Ashok Misra, Director who retires by rotation and being eligible offers himself for re-appointment.

SPECIAL BUSINESS:

7. To appoint Shri Mathew C. Kunnumkal, as Director of the Company and to consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to Sections 255, 257 and other applicable provisions of the Companies Act, 1956, if any, Shri Mathew C. Kunnumkal, be and is hereby appointed as Director of the Company who shall be liable to retire by rotation".

8. To appoint Shri Gautam Sen, as Director of the Company and to consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to Sections 255, 257 and other applicable provisions of the Companies Act, 1956, if any, Shri Gautam Sen, be and is hereby appointed as Director of the Company who shall be liable to retire by rotation".

9. To consider and if thought fit with or without modification the following resolution as special resolution to amend the Articles of Association of the Company:

"RESOLVED THAT subject to section 31 of the Companies Act, 1956 and other applicable provisions, if any, thereof and further subject to the approval of the Government and / or any authorities as may be applicable approval is hereby accorded to delete the existing Article No. 85(2) and 85(25) and in its place substitute the following:

Article 85 (2)

To approve all capital projects undertaken by the Company and to incur capital expenditure on new projects undertaken by the Company estimated not exceeding Rs.500 crore or equal to net worth of the Company, whichever is less, for each project, and to modernize, purchase equipment, issue contracts etc.

However, approval of President of India would be required to incur capital expenditure if the estimated cost of the individual project exceeds Rs. 500 crore.

Article 85 (25)

To establish Joint Ventures and subsidiaries in India with an equity investment in such Joint Ventures and subsidiaries not exceeding 15% of the net worth of the Company or Rs.500 crore whichever is lower and that the total investment in all such Joint Ventures and subsidiaries put together shall not exceed 30% of the net worth of the Company.

However, approval of President of India would be required if the investment, either individually or overall for all investments exceed the limits specified hereinabove".

By order of the Board of Directors

Date : 29.07.2008
Place : Mumbai

K.C. Prakash
Company Secretary

Notes:

1. A Member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of himself and that the said proxy need not be a Member of the Company. The instrument appointing the proxy shall be deposited at the Registered Office of the Company not later than forty-eight hours before the time fixed for holding the meeting.
2. Register of Members and Share Transfer books will be closed from 11th to 24th September, 2008 [both days inclusive].
3. Members are requested to notify immediately any changes in their address to the Company or its Transfer Agents: M/s. Intime Spectrum Registry Ltd., C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (W), Mumbai - 400 078.
4. Any clarifications needed by the members of the Company may be addressed to the Company Secretary at the



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Registered Office of the Company or through e-mail investorcommunications@rcfltd.com at least seven days prior to the date of Annual General Meeting.

5. Pursuant to the provisions of Section 205 A (5) of the Companies Act, 1956, dividend which remain unclaimed for a period of 7 years will be transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956.

Members who have not so far encashed the dividend warrant(s) are requested to seek issue of duplicate warrant(s) by writing to the Company or to the Registrar and Transfer Agents, M/s. Intime Spectrum Registry Limited, immediately. Members are requested to note that no claims shall lie against the Company or the said Fund in respect of any amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any claims.

The following Explanatory Statement sets out the material facts referred to in Items No. 7, 8 and 9 of the Notice convening the 30th Annual General Meeting:

Item No. 7

Shri Mathew C. Kunnumkal, aged 57 years, who has been appointed by President of India as a Director on the Board of the Company w.e.f. 5.2.2008, pursuant to Section 260 of the Companies Act, 1956 and Article 81(5) of Articles of Association of the Company, will hold the office till the date of 30th Annual General Meeting.

Notice Under Section 257 of the Companies Act, 1956 has been received by the Company, from a shareholder signifying his intention to propose the candidature of Shri Mathew C. Kunnumkal, for the office of Director of the Company.

Shri Mathew C. Kunnumkal, is an Indian Administrative Services (IAS) officer and is presently, Addl. Secretary and Financial Advisor to Government of India, Ministry of Chemicals & Fertilizers, Department of Fertilizers. Shri Mathew C. Kunnumkal has varied and rich experience not only as an IAS Officer but also being on the Board of several companies. Presently, he is a director on the Boards of Fertilizers and Chemicals Travancore Limited [FACT], Krishak Bharati Co-operative Limited [KRIBHCO], National Fertilizers Limited [NFL], Hindustan Antibiotics Limited [HAL] and Hindustan Organic Chemicals Limited [HOCL].

Shri Mathew C. Kunnumkal by being on the Board of Directors contributed significantly to the performance of the Companies through his business acumen. Considering, his in-depth experience not only as an IAS Officer but also running business, your Directors commend for his appointment as Director.

None of the Directors, other than Shri Mathew C. Kunnumkal, is interested in the above Resolution.

Item No.8

Shri Gautam Sen is M.Com. Chartered Accountant and Cost Accountant. Shri Gautam Sen has vast experience in Finance and Accounts discipline in Private and Public Sector organizations. Prior to his joining of RCF, he was working with Bharat Earth Movers Limited (BEML) Bangalore as Executive Director (Finance). Before joining BEML, Shri Sen had worked for a period of 12 years with GSFC Ltd., Baroda where he worked as Executive Director (Finance) for the last 3 years.

Shri Gautam Sen has contributed significantly to the performance of the Companies he has worked. Considering his in-depth experience, your Board of Directors commend for his appointment as Director.

None of the Directors other than Shri Gautam Sen is interested in the above Resolution.

Item No. 9

Government of India has accorded the Company 'Miniratna Category-I'. According to the guidelines issued by Government of India, Department of Public Enterprises [DPE], the status of Miniratna Category-I entitles the Company, without obtaining approval of the Government, to incur capital expenditure on new projects not exceeding Rs.500 crore or equal to the net worth of the Company, whichever is lower in each case. The Company is also entitled to establish Joint Ventures and subsidiaries with investment not exceeding 15% of the networth or Rs.500 crore whichever is less in each case and the overall ceiling on such investment in all projects put together shall be 30% of the net worth. Presently the Articles of Association of the Company provide a limit of Rs.100 crore subject to an investment in each case of a maximum of 5% of the net worth of the Company and over all ceiling of 15% of net worth of the Company. The Company has, on its anvil, several large projects which would be taken up jointly with other Companies by forming Joint Venture Companies. The JVC with Rajasthan State Mines and Minerals Limited [RSMML] for putting up DAP project in Rajasthan is in very advanced stage, which would require investment by Company exceeding Rs.100 crore. Other projects on the anvil such as revival of sick units like Talcher, Durgapur, Sindri etc. would also be taken up through Joint Venture Companies which also need equity participation exceeding Rs.100 crore in each case. The proposed amendment in the Article provide greater autonomy to the Company in carrying out the business and hence will be advantageous. It is, therefore, recommended to the members to pass the resolution.

None of the Directors are interested in the above resolution.

By order of the Board of Directors

Date : 29.07.2008
Place : Mumbai

K.C. Prakash
Company Secretary



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Directors' Report

To the members:

The Directors of your Company have pleasure in presenting this 30th Annual Report on the working of your Company together with the Audited Accounts for the year ended 31st March, 2008.

1.0.0 FINANCIAL PERFORMANCE:**Summary of financial performance:**

Particulars	Rs. Crore	
	2007-2008	2006-2007
Sales including Subsidy	5228.97	3559.62
Other Income	96.09	83.53
Total Income	5325.06	3643.15
Cost of Sales	4936.45	3279.63
Operational Profit	388.61	363.52
Depreciation	83.18	75.42
Interest (Net)	59.32	46.93
Prior year adjustment	4.04	(0.07)
Profit / (Loss) before tax	242.07	241.24
Provision for Tax (including deferred Tax liability / Asset)	83.92	92.50
Net Profit / (Loss)	158.15	148.74
Appropriations:		
Dividend Proposed @ 10%	55.17	55.17
Tax and Educational cess on Dividend	9.38	9.38
Balance Transferred to General Reserve	93.60	84.19

1.1.0 Highlights for the year 2007-2008:

Your Company's overall performance was highly satisfactory during the financial year 2007-08. Your Company achieved highest ever turn over of Rs.5228.97 crore. The total income from operations was Rs.5325.06 crore as against Rs.3643.15 crore during the previous year registering a growth of 46.17%. Your Company achieved a Gross Profit of Rs.388.61 crore as against Rs.363.52 crore during the previous year, thus recording an increase in the operational profits by 6.90%. Your Company undertook substantial trading activity, especially that of imported Urea. This has helped in increasing Company's market share and brought tremendous Strategic advantage, even though profitability has not increased in that proportion. The profit margin in trading is very low. The net Profit before Tax at Rs.242.07 crore as against Rs.241.24 crore

registered an increase of 0.34%. However, the Profit after Tax during the current year, is higher at Rs.158.15 crore as against Rs.148.74 crore in the previous years an increase of 6.33% over previous year. The net Interest cost during the year has increased to Rs.59.32 crore compared to Rs.46.93 crore during the previous year since the borrowing for working capital has gone up, largely due to the delayed subsidy payments by Government and also receiving part of the same in the form of Government Bonds. However, considering the substantial increase in the turnover, the increase of interest cost by only Rs.12.39 crore reflects the efficient manner in which the working capital of your Company has been managed in the year under consideration.

Your Company's operations remained highly satisfactory despite being affected due to constraint in the availability of feedstock gas and increased input costs and delay in subsidy re-imburements. In spite of all these set backs your Company's performance has been laudable.

1.2.0 Dividend:

Net Profit After Tax for the year under report is Rs.158.15 crore. Your Company has lined up a number of capex programmes which will entail substantial expenditure and, in order to fund these programmes, it is necessary to plough back its profits. In view of this, your directors propose to maintain the dividend rate at 10%. The total out go works out to Rs.64.55 crore including dividend distribution tax and education cess.

1.3.0 Appropriation to General Reserves:

Your Company earned a net Profit after Tax of Rs.158.15 crore. The dividend pay out along with Tax/cess is Rs.64.55 crore. The balance amount of Rs.93.60 crore is transferred to General Reserves.

2.0.0 MANAGEMENT DISCUSSION AND ANALYSIS:**2.1.0 OPERATIONAL RESULTS:****2.1.1 PRODUCTION:****2.1.2 Fertilizers:**

Your Company produced 23.00 lakh MT of fertilizers during the year as against 23.71 lakh MT produced in the previous year and achieved overall capacity utilisation of 85.30% as against 88% during the previous year. The capacity utilisation of the Urea plants was to the extent of 86.96% only, since the plant at Trombay was not operated due to gas limitation and Thal Plant underwent scheduled shutdown. As regards complex fertilizers, Suphala [15:15:15] plant produced to the extent of 156.07%. In terms of nutrients, your Company produced 9.13 lakh MT of Nitrogen (N), 0.70 lakh MT of Phosphate (P₂O₅) and 0.70 lakh MT of Potassium (K₂O) during the year as compared to 9.32 lakh MT of



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N, 0.79 lakh MT of P₂O₅ and 0.72 lakh MT of K₂O during the previous year.

The production was affected due to the constraint in feedstock gas supply. The performances of the units are given below:

2.1.2.1 Thal Unit:

Thal unit produced 18.32 lakh MT of Urea during the year compared to 18.53 lakh MT produced in the previous year. The unit achieved a capacity utilisation of 107.35% as compared to 108.57% during the previous year. The unit produced 10.55 lakh MT of Ammonia compared to 10.79 lakh MT during previous year. The energy consumption per MT of Urea was 6.561 Gcal and for Ammonia produced, the consumption was 9.334 Gcal. In terms of nutrients the unit produced 8.43 lakh MT of N during the year compared to 8.52 lakh MT during the previous year.

2.1.2.2 Trombay Unit:

Trombay Unit produced 4.68 lakh MT of Suphala 15:15:15 during the year under report compared to 5.18 lakh MT of complexes produced (4.83 lakh MT of Suphala 15:15:15 and 0.35 lakh MT of Suphala 20:20:0) during the previous year. The unit, during the year, did not produce Urea due to the constraint in the availability of feed stock gas. Presently ANP plant is being re-engineered and major work is being undertaken and hence the unit did not produce Suphala 20:20. The unit achieved an overall capacity utilization of 47.25% compared to 52.27% during the previous year. In terms of Nutrient values, the unit produced 0.7 lakh MT of N during the year (previous year 0.79 lakh MT), and produced 0.72 lakh MT P₂O₅ (previous year 0.79 lakh MT) and 0.72 lakh MT K₂O (previous year 0.72 lakh MT).

2.1.3 Industrial Products:

For chemicals also your Company is one of the major manufacturers in the country producing several Industrial Chemicals at the two units. During the year, your Company produced 1.34 lakh MT of various major Industrial Chemical products compared to 1.32 lakh MT during the previous year. Your Company produces, amongst others, Methanol, Methylamines and derivatives, Ammonium Nitrate, Sodium Nitrate / Nitrite, Ammonium Bi-Carbonate, Formic Acid etc.

2.2.0 MARKETING PERFORMANCE:

2.2.1 Fertilizer Division:

Your Company took a quantum Jump in the sales of Fertilizers to 40.50 lakh MT during 2007-08 as compared to 25.67 lakh MT in the previous year. Your Company sold 17.67 lakh MT of Urea, 4.91 lakh MT of Suphala 15:15:15, and 17.92 lakh MT of bought out products such as Urea, DAP, MOP, etc. compared to 17.76 lakh MT of Urea, 4.59 lakh MT of Suphala 15:15:15, 0.54 lakh MT of Suphala 20:20 and 2.78 lakh MT of bought out products during the previous year.

Your Company did not sell Suphala 20:20:0 during the year under reference, due to shutdown of the plant.

At the level of 31.01 lakh MT, urea sales have been the highest ever achieved in any year. Your Company has emerged as the largest supplier of urea in the states of Maharashtra, Karnataka & Tamil Nadu. Your Company's market-share of urea has also gone up from 7.5% in 2006-07 to 12% in 2007-08.

Sales of traded products constituted 43% of the total sales volume of the Company marking a shift toward the changing market trends. All states registered impressive increase in market share over the previous years. In order to increase its product range, the Company entered into the marketing of Sulphur and Rajphos to its customers.

2.2.2 Industrial Products Division:

The Industrial Products Division achieved a record sale of Rs.655.80 crore during the year, compared to Rs.561.64 crore during the previous year, achieving a growth rate of 16.77% despite persistent fierce competition both from domestic and international players.

2.2.3 Exports :

The Export turnover for the year 2007-08 was Rs.0.13 crore as against Rs.0.67 crore achieved during the previous year. Considering the products line of your Company and realisation from domestic market, scope for exporting and earning foreign exchange is very limited.

2.2.4 NEW INITIATIVES ADOPTED:

In its commitment to service the farming community, the Company continued Strategic alliance with major Companies like ITC e-choupal and Godrej Aadhar which are active in promoting rural retail as well as other services to the farmers to improve the farm productivity. Marketing through channels like e-choupal has tremendously increased the reach of the Company. More than 4000 field demonstrations were carried out during the year in association with ITC's e-choupal.

2.3.0 The Fertilizer Industry:

Your Company is manufacturing nitrogenous and phosphatic fertilizers. While Urea is under price and movement control, the phosphatic fertilizers continue to be under the indirect control of the Government. Government of India has notified the NPS Stage-III policy for Urea which would be applicable from 1/10/2006 and valid upto 31/3/2010. The FICC is in the process of working out the concession rates for Urea units based on the new policy. The main features of NPS stage-III are as follows:

- o The same grouping as was followed during the NPS-I & II would continue.
- o Reduction in capital related charges by Rs.50/- PMT for pre-92 naphtha and FO/LSHS units, Rs.75/- PMT for all other units.



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Resource, legal, Information etc as to the degree of impact financially and also the likely effect on the assets, facilities and third parties.

(ii) **Risk Control:**

In order to mitigate losses arising out of perceived risks, the procedures being adopted to contain the risks, as also the practices adopted during emergencies, including the communication system and mode of disseminating information are periodically reviewed and updated to minimise the impact on the Company.

To safeguard against major breakdown at the data centre, if any, your Company has installed another server at Administrative Building, which replicates the data on production server and can be available to ERP users.

(iii) **Reporting:**

The detailed reporting structure, periodicity of reviews and reporting on revisions required in the policy/ procedures etc., form part of the policy.

2.7.0 Future plans of fertilizer marketing:

Your Company has plans to further increase its sales from 40 lakh MT in 2007-08 to 45 lakh MT in 2008-09. In addition, your Company also intends to market 180 MT of biofertilizers, 80 KL of Microla (liquid micronutrients) and about 2500 MT of Sujala (both drip and foliar grade).

Your Company is also exploring the possibility of marketing the products such as Single Super Phosphate (SSP) and Ammonium Sulphate (AS) manufactured through tie-ups. This would add to your Company's product line to ensure that the Customers have better and wider choice.

2.8.0 MAJOR EXPANSION AND DIVERSIFICATIONS:

During the year, your Company has taken up several projects of importance to improve energy efficiency, increase production and reduce cost. The projects are constantly reviewed and monitored to ensure timely completion. Projects which have been implemented, being implemented and under active consideration are listed below:

2.8.1. On going Projects

1. **Methanol Revamp Project**

Methanol plant is being revamped with an objective to increase the production up to 220 MTPD from the existing 172 MTPD and to reduce energy consumption from 9.09 to 7.96 MKCal/MT (as per option IV of HTAS /PDIL TEFR report). RCF has engaged M/s. HTAS as process licensor and Basic Engineering consultant and M/s PDIL as Detailed Engineering consultant. The Plant is to be commissioned in June, 2009.

2. **Argon Recovery Plant**

An Argon recovery plant is being set up at Thal unit to produce Argon from the tail gases of the membrane separator unit of the existing Hydrogen gas recovery unit (HGRU) of Ammonia plant. The job for design, engineering, procurement, supply, construction, erection and commissioning has been undertaken by M/s BHPV on LSTK basis.

3. **Ammonium Nitro Phosphate Granulation Project - Trombay**

Considering the damage to the prilling tower and subsequent discontinuation of production of complex fertilizer 20:20:0, your Company has taken up ANP Granulation plant Project of 900 MTPD capacity by using the slurry prepared in the wet section (Front end) of ANP plant.

4. **Rapid wall Project - Trombay**

Rapid wall Project is being set up with an objective to utilize Phospho Gypsum produced as by-product in Trombay. Rapid wall is a revolutionary and environmental friendly, load-bearing, low cost, prefabricated and glass fibre reinforced walling system with broad construction applications. RCF has engaged M/s. Rapidwall Building Systems Pty. Ltd. Australia (RBS) for supply of technology for setting up manufacturing facility at Trombay. The plant after completion will produce 1.4 million Sq meters of rapidwall panels, 40,000 MT of wall plaster and 6,000 MT of wall putty on full load.

2.8.2 New Projects :

1. **Joint Venture DAP Project, Rajasthan**

Your Company has incorporated a Joint Venture Company, Rajasthan Rashtriya Chemicals & Fertilizers Ltd., with M/s. Rajasthan State Mines & Minerals Limited (RSMML), at Jaipur. This JV Company is set up to undertake the projects for manufacturing of DAP 850 MTPD. The two partners would harness their resources. Rock Phosphate will be supplied by RSMML while your Company with its vast marketing network shall supply Ammonia and market the entire DAP produced. Your Company will have 51% equity while the balance will be with RSMML with debt equity of 2:1. Estimated cost of this project is approx. Rs.825 crore.

2. **Thal De-bottlenecking Project**

Your Company has identified schemes for de-bottlenecking the existing ammonia plants at Thal wherein capacity of each of the ammonia plants will be enhanced to 1750 x 2 MTPD. Apart from enhancing the capacity, the schemes also aim at reducing the energy and increasing the life of the plant. The study for ammonia has been completed



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- o Capacity utilization norms increased to 93% for pre-92 naphtha and FO/LSHS units and 98% for all other units.
- o Inputs for manufacture of fertilizers such as gas, naphtha and FO/LSHS to be declared goods of special importance for concessional rate of Sales Tax.
- o Cost of bags, which was frozen during NPS-I and II, would be allowed based on 3 years moving average.
- o All functional non-gas based units to get converted to gas within a period of 3 years.
- o A committee under the chairmanship of Secretary (Petroleum and Natural gas) to oversee the aspects of supply, connectivity and pricing of gas to fertilizer units.
- o The concept of de-bottlenecking has been abolished. No permission would be required from the Government for production beyond 100% of reassessed capacity. Government to make merit order procurement of production between 100% and 110% and would be incentivized on the net gain sharing formula of 65:35 where 65% would go to the Government. For production beyond 110%, the unit gets its own concession rates or the import parity price whichever is lower.
- o Decontrol the distribution of urea upto 50% of reassessed capacity. States would be required to allocate the entire quantity of planned Urea arrivals i.e. both under ECA and non-ECA in a district-wise, supplier-wise and month-wise manner. Freight subsidy to the units would be reimbursed based on conformity to planned movement up to the district level for both ECA as well as Non-ECA quantity.
- o Primary freight would be reimbursed based on the actual leads for Rail Movement. For the Road component of the primary freight, road leads would be as per actual distance to the primary godowns and would be suitably escalated based on the composite road transport index. One time enhancement of 33% would be granted on the road component of primary freight.
- o Units which are currently not in operation such Duncans, RCF Trombay and FACT would be allowed to resume production based on natural gas/LNG/CBM/Coal gas. Upon resumption, the base concession rate of these units would be the stage-III concession rate of the group to which they belong, or their own concession rate updated till 31/3/2003; whichever would be lower. No outlier benefit would be available to any unit.

Generally the policy is favourable to your Thal unit. However, the policy is not favourable to the Trombay unit since the unit would be considered under 'pre-92 gas group'. The outlier benefit which was available to Trombay unit would no longer be available. Your Company has represented to the Government to consider a separate policy for Trombay unit, since it is a producer of low cost urea. A favourable dispensation is expected from the Government shortly.

Government of India vide its notification dated 12th June, 2008 has introduced nutrient based pricing and has

notified new MRPs for all P&K fertilizers based on its nutrient content. These new MRPs are effective from 18th June, 2008. As a result of this notification the prices of these fertilizers have gone down by about Rs.474/- PMT to about Rs.2296/- PMT. The reductions in the MRPs will lead to higher payment of subsidy.

The rationalization of MRPs based on the nutrient content is desirable. Now farmer has to pay for the nutrients in any product. This will avoid skewed Competition in various products and nutrients.

2.4.0 Strength and Weakness:

Your Company's major business is in the field of manufacturing and marketing fertilizers. Your Company has manufacturing units, some of which were commissioned as far back as in 1965. The plants have been maintained with utmost care to ensure that the plants can operate at optimum capacities. Your Company produces low cost Urea and shall be able to face domestic and international competition if the Government takes a decision to completely free the industry from controls. The manufacturing units have the advantage of proximity to major seaports, as the raw materials for manufacturing the fertilizers are imported. With the recent gas finds in both west and east coasts as well as in Rajasthan, the availability of feed gas is likely to be available in less than a year.

Your Company's market depends upon monsoon, as its primary market is rain dependent States of Maharashtra, Tamil Nadu, Karnataka and Andhra Pradesh. Your Company has increased its market presence in other markets as well.

2.5.0 IMPACT OF GOVERNMENT POLICIES ON FERTILIZER MARKETING:

The year was characterized by strengthening of the Fertilizer Monitoring System of the Dept. of Fertilizers (DOF). Supplies to various districts had to be in line with a predetermined plan of the DOF month-wise with penalties in case of over supply. Subsidy payments for indigenous urea were linked to compliance vis-a-vis plan. The subsidy on decontrolled fertilizers continued to be disbursed on sale basis which is likely to be made on receipt basis.

2.6.0 Risk Management:

Your Company has put in place Risk Management System with the objective to evolve a strategy to have a balanced approach towards business plan and to mitigate the associated risks through better management practices, resulting in greater degree of confidence amongst various stakeholders and adhering to good Corporate Governance practice.

The Risk Management practice covers:

(i) Assessment :

Assessment of each of the risks such as operational, Environmental, financial, Human