
BOARD OF DIRECTORS

Chairman & Managing Director

Shri Sukumar N. Oommen, IAS (Retd.)

Directors

Ms Swatantra K Sekhon, IAS

Shri Manoj Kumar, IAS

Shri Mahmood Vaezi

Shri R Afshin

Shri M B Samiei Khonsari

Shri K Kannan

Board Subcommittee / Management Committee

Shri Sukumar N. Oommen, IAS (Retd.)

Ms Swatantra K Sekhon, IAS

Shri Mahmood Vaezi

Shri K Kannan

Audit Committee

Ms Swatantra K Sekhon, IAS

Shri M B Samiei Khonsari

Shri K Kannan

Shareholders' / Investors' Grievance Committee

Shri Sukumar N. Oommen, IAS (Retd.)

Shri K Kannan

Shri Mahmood Vaezi

Executives

Shri Sukumar N Oommen, IAS (Retd.)
Chairman & Managing Director

Shri S Balaji, IPS
Chief Vigilance Officer

Shri P S Neelakantan
Executive Director (Technical)

Smt Ribu S Mathew
General Manager (M & D)

Shri R Mohan Das
General Manager (P & A)

Shri K Lakshminarayana Rao
General Manager (F & A)

Shri B Sukumar
Company Secretary &
Dy General Manager (Legal)



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Registered Office

Manali, Chennai – 600 068
Tamil Nadu, India

Principal Bankers

State Bank of India
State Bank of Patiala
State Bank of Hyderabad

Auditors

R. Subramanian and Company
Chartered Accountants
New No. 6, Krishnaswamy Avenue,
Luz, Mylapore, Chennai – 600 004



Madras Fertilizers Limited

Regd Office: Manali, Chennai 600 068.

Notice

NOTICE is hereby given that the 39th Annual General Meeting of Madras Fertilizers Limited will be held on Wednesday, September 28, 2005 at Naradha Gana Sabha, 254, TTK Road, Alwarpet, Chennai 600 018 at 3.00 p.m., to transact the following businesses:-

ORDINARY BUSINESS

1. To receive, consider, approve and adopt the Audited Balance Sheet as at March 31, 2005 and Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in the place of Shri Manoj Kumar, IAS who retires by rotation and is eligible for reappointment.
3. To consider and, if thought fit, to pass with or without modification the following resolution as an ordinary resolution:

"RESOLVED THAT the Board / Audit Committee be and is hereby authorized to fix such remuneration as it may decide for the Statutory Auditors to be appointed / reappointed by Comptroller and Auditor General of India for the year 2005-06 and the Statutory Auditors shall hold office from the conclusion of this AGM till the conclusion of the next AGM".

SPECIAL BUSINESS

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

"RESOLVED THAT Ms Swatantra K Sekhon, IAS be and is hereby appointed as Director of the Company"

By Order of the Board

B SUKUMAR

Date : August 29, 2005
Place : Chennai 600 068

Company Secretary &
DGM (Legal)

Note:

1. Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of 'Special Business' of the Notice is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ANOTHER PERSON AS HIS PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. A PROXY NEED NOT BE A MEMBER OF THE COMPANY.
3. PROXIES, IN ORDER TO BE VALID, MUST BE LODGED AT THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
4. The Register of Members and Share Transfer Books of the Company will remain closed for 3 days from 26.09.05 to 28.09.05. (Both days inclusive)
5. Members are requested to immediately intimate any change in their addresses registered with the Company.
6. All correspondence relating to Company's Equity Shares may be addressed to M/s Integrated Enterprises (India) Ltd, 5A, II Floor, Kences Tower, No.1 Ramakrishna Street, Off North Usman Road, T Nagar, Chennai – 600 017, Company's Share Transfer Agent and Depository Registry.
7. The relevant records are available for inspection by the Shareholders at the Registered Office of the Company at any time during the working hours till the date of the meeting.
8. Members may please be note that **NO GIFTS** will be distributed at the meeting



MADRAS FERTILIZERS LIMITED

**Explanatory Statement pursuant to Section
173(2) of the Companies Act, 1956**

**Item No.4 : Appointment of Ms Swatantra K Sekhon, IAS
as Director**

Ms Swatantra K Sekhon, IAS was nominated by the Government of India for appointment as Director in pursuance of Article 86 read with Article 88 of the Articles of Association of the Company in place of Dr. Jivtesh Singh Maini, IAS. Ms Swatantra K Sekhon, IAS was appointed as Director on the Board of the Company by the Board of Directors effective 23.8.2005. As per the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Ms Swatantra K Sekhon will hold office only upto the date of the Annual General Meeting.

A Notice under Section 257 of the Companies Act, 1956 has been received proposing the appointment of Ms Swatantra K Sekhon as a Director, liable to retire by rotation.

None of the Directors is interested in the resolution, except Ms Swatantra K Sekhon as it concerns her appointment.

The Board recommends passing of the Ordinary Resolution.

By Order of the Board

B SUKUMAR

Date : August 29, 2005
Place : Chennai 600 068

Company Secretary &
DGM (Legal)



Details of Director seeking appointment at the Annual General Meeting

Name of the Director	Ms Swatantra K Sekhon, IAS (Belongs to 1974 batch of IAS, Gujarat Cadre)
Date of Appointment on the Board	23.8.2005
List of other Companies in which Directorship held	CMD, Fertilizer Corporation of India Director, ICS Senegal
Present Position	Executive Director, Fertilizer Industry Coordination Committee (FICC)
Positions earlier held	GOI representative, OMIFCO Principal Secretary to Government of Gujarat Secretary, Youth Affairs & Sports, Government of Gujarat



DIRECTORS' REPORT

The Shareholders Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 39th Annual Report together with the Balance Sheet as on March 31, 2005 and the Profit & Loss Account for the year 2004-05.

SUMMARY OF FINANCIAL RESULTS

The Company's operations for the year ended with a loss of Rs.58.39 Cr against loss of Rs.63.74 Cr in the previous year. As informed earlier, the loss was mainly due to the anomalies arising out of implementation of New Pricing Policy for Urea and non-implementation of the recommendations of the Tariff Commission in the pricing of Complex Fertilizers. Production of Complex Fertilizers at lower capacity due to non-availability of Phos Acid also affected profitability during the year.

Results for 2004-05 and 2003-04 are summarized below:

	2004-05	2003-04
		(Rs Cr)
Turnover	1286.22	1139.75
Profit Before Interest, Depreciation and Tax	53.79	45.95
Interest	68.59	66.51
Depreciation	43.59	43.18
Profit/(Loss) Before Tax	(58.39)	(63.74)
Provision for Tax	-	-
Profit/(Loss) After Tax	(58.39)	(63.74)
Cash Profit/(Loss)*	(8.93)	12.40

* reckoning Deferred Revenue Expenditure

The total accumulated loss as of 31.3.2005 stands revised at Rs.267.18 Cr. Company had already become sick during the year 2003-04 which was reported to BIFR under the Sick Industrial Companies (Special Provisions) Act, 1985. As informed to the shareholders earlier, Company represented to Govt of India the anomalies arising out of the Policy measures which have been duly acknowledged

by the Government who have initiated necessary remedial measures.

BRPSE and its recommendations

As you may be aware the Govt of India (GOI) has set up a Board for Reconstruction of Public Sector Enterprises (BRPSE) for reviving / restoring of Public Sector Units which are not doing well. On a review of MFL performance, and based on the discussions with the Company, BRPSE have sent following recommendations to GOI for their approval:

- i. Enhancement of outlier benefit under New Pricing Scheme for Urea from existing 50% to 70% from the year 2003-04 and 2004-05.
- ii. Modification of the existing pricing formula for complex grades 17:17:17 and 19:19:19 by recognizing use of urea for sourcing 'N' which would benefit MFL as recommended by Tariff Commission.
- iii. Government guarantee for loans of Rs.150 Crore to be raised by MFL from the market to solve the liquidity crisis and swap high cost loans.
- iv. Waiver of interest for the year 2003-04 amounting to Rs.16.82 Cr and for the year 2004-05 of Rs.18.49 Cr on GOI loans along with penal interest.
- v. No further plan/non-plan funds may be considered for release by GOI to MFL from 2005-06 onwards.
- vi. MFL would be implementing VRS and will not be filling up vacancies arising out of normal attrition and strive to reduce the strength to 1000 in the coming years.
- vii. MFL would not further seek plan/non-plan budgetary support from GOI from 2005-06 onwards for meeting normal capital expenditure on renewal, replacement, modernization, etc. and would raise such funds on its own.
- viii. MFL would achieve a turnover of at least Rs.2000 Cr per annum from 2005-06 onwards with a net profit of Rs.50 Cr per annum.

As BRPSE is only a Recommendatory Body, the proposals are to be finally approved by the Union Cabinet. It is understood the recommendations of BRPSE are in the



advanced stage of processing by Dept of Fertilizers. On approval, the implementation of measures would result in substantial benefits to the Company and Company would cease to be a sick industrial Company.

DIVIDEND

In view of the accumulated losses, the Company is not able to consider dividend.

PERFORMANCE OF THE PLANT

Your directors are happy to report commendable improvement in the performance of the Plant in 2004-05.

Capacity Utilization

The capacity utilization of Ammonia, Urea and NPK Plants is as follows :

Plant	Annual Installed Capacity '000 MT	April 2004-March 2005		April 2003-March 2004	
		'000 MT	Capacity Utilisation %	'000 MT	Capacity Utilisation %
Ammonia	346.50	300.89	86.8	259.62	74.5
Urea	486.75	473.03	97.2	387.68	79.6
NPK	840.00	333.48	39.7	428.61	51.0

Record achievement in Production and Energy Efficiency

- Annual Urea Production of 4,73,032 MT (97.2% capacity utilisation) is the highest ever since 1997 surpassing the earlier record production of 4,03,760 MT (83% capacity utilisation) during 1999-2000.
- Urea production of 1,40,719 MT made during Oct – Dec 2004 is the highest ever achievement excelling the previous best production of 1,20,210 MT during the third quarter of 2003-04.
- Urea production of 48,918 MT in Dec 2004 is the highest monthly production since inception surpassing the earlier record of 45,630 MT in Mar 2002.
- Annual average specific consumption of Naphtha/MT of ammonia at 0.7575 is the lowest since Revamp (Previous best was 0.7783 MT/MT in 2003-04).

- Annual average Energy Consumption / MT Ammonia at 10.411 Gcal and /MT of Urea at 7.766 are the lowest since Revamp (Previous best was 10.674 Gcal/MT of Ammonia and 8.020 Gcal/MT of Urea in 2003-04).
- Annual Ammonia Plant onstream of 340 days is the highest since revamp, the earlier record being 335 days in 1999-2000.
- Annual Urea Plant onstream of 320 days is the highest after Revamp, the previous achievement being 317 days in 1999-2000.
- On 229 days (out of 320 onstream days) during the year, urea production exceeded the day's installed capacity (103 days out of 288 onstream days in 2003-04).
- Urea Plant has achieved a record 1,480 MT per onstream day during the year exceeding the day's installed capacity of 1,475/MT (Previous record : 1,276 MT per OSD in 1999-2000).

SALES

Fertilizers

During the year Company sold 3.53 lac tonne of NPK grades as compared to 5.16 lac tonne during the previous year indicating a reduction of 32 % over the last year sales. Market share of NPK complex has reduced from 23.8 % to 14.3 %. The lower sales of Complex Fertilizers is due to non-availability of Phos Acid and consequent lower production.

In the case of Urea, 4.83 lac tonne has been sold against 4.14 lac tonne, which is an all time high. Market share of Urea has increased to 13.6 % from 13.5 % . Field inventory remained almost 'Nil' throughout the year. The closing inventory was just 7,100 MT as of 31.3.2005. It is worth noting that the above sales performance was achieved with the substantial reduction in rebates and discounts. It is significant to note that 70% of the sales was done through cash compared to 5% last year.

As you may be aware that the Company reduced the number of warehouses from 157 in 1.4.2003 to 112 as of 31.3.2004. This was further reduced to 81 as of 31.3.2005 (a reduction of 28%).



Besides, only a minimum warehouse space was booked by giving thrust to direct delivery from Plant. The total space reservation was only 1.13 lac tonne during the year compared to 10.95 lac tonne during 2003-04. Company moved 2.63 lack MT of material by rail out of which 66% was sold ex-railhead compared to CPLY of 12%. Company was able to effect drastic reduction in selling cost by 36% compared to last year. 57% of supplies were made directly from plant compared to CPLY of 40% effecting avoidance in double handling and warehousing. 75% of sales in Tamilnadu was directly from Plant.

Agrochemicals

MFL made a turnover of Rs 89.70 lacs in Agrochemicals during 2004-05 as against Rs 56.86 lacs in 2003-04.

Biofertilizers

MFL sold 213 MT of Biofertilizers during 2004-05 as against 126 MT in 2003-04.

Carbon-di-oxide

During the year 2004-05 Company has sold CO2 valued at Rs 221.42 lacs against Rs 217.96 lacs during the last year.

MARKET DEVELOPMENT AND AGRO-SERVICE PROGRAMS

MFL continued its tradition of conducting informative and educational program for the farmers and dealers.

In all, 114 agro promotional programs were conducted benefiting 4.48 lac farmers and dealers. Efforts are on to promote and register a Cooperative Society at Krishnapuram, Chittoor District in Andhra Pradesh, aiming at overall development of 2 mandals (15 villages). MFL also undertook a special drive to enroll SC / ST dealers, who now form 20% of our dealer strength of 7200.

INSURANCE PRODUCTS

In order to generate additional income and to have better utilization of available manpower, MFL entered the foray of insurance marketing and in a 10 months period operations collected an impressive premium worth Rs 1 Cr. The performance of MFL has been appreciated by insurance partner M/s ING VVSYA.

PUBLIC DEPOSIT

During the year 2004-2005, the Company mobilized a sum of Rs.4.88 Cr as fresh deposits from Public. The total deposit as of March 31, 2005 is Rs. 55.13 Cr against the eligible limit of Rs 61.44 Cr. Unclaimed deposits as of March 31, 2005 is Rs.27.11 lacs. MFL had obtained approval from the Dept of Company Affairs (DCA), Govt of India for extending the exemption for a further period of 2 years till 31.3.2006 to accept / renew deposits upto Rs 61.44 Cr under the Companies Act, 1956.

The approval in subject to the following conditions specified in the order :

- i. The Company will keep only those deposits where depositors have no objection.
- ii. While obtaining no objection letters from the depositors, the Company will disclose to the depositors its financial position and also the fact that the deposits are in excess of the limit as per Rule 3 of Companies (Acceptance of Deposits) Rules, 1975.
- iii. The exemption granted will be without prejudice to any legal rights available to any depositor or any shareholder or creditor per law in force in respect of recovery of any amount, which has become due for repayment.
- iv. The exemption will be under sub-section (8) of Section 58A of the Companies Act, 1956 only and such exemption would not convey approval of Central Government under any other provisions of Companies Act, 1956 or under any other law in force.
- v. The above conditions subject to which the exemption is granted shall be indicated in the next report of the Board of Directors.
- vi. If any of the conditions attached to the exemption granted by the Central Government under Section 58A(8) of the Companies Act, 1956 is contravened, the exemption will automatically stand cancelled and the Company will become liable for prosecution.

ONE TIME SETTLEMENT WITH ICICI

Company in anticipation of subsidy receivables and policy ameliorative measures invited proposals for one time settlement from FIs viz. IDBI, IFCI and ICICI. ICICI offered substantial waiver of principal and interest outstanding as



of 31.3.2005. MFL was totally benefited to the tune of Rs 18.95 Cr. The proposals were accepted by MFL and the same has been reckoned in the accounts for the year 2004-05.

MEMORANDUM OF UNDERSTANDING

The Company entered into MOU with GOI for 2004-05 with commitments on targets for performance of the Company, relating to Production, Sales, Finance, Projects and other parameters of operational improvement including implementation of Voluntary Retirement Scheme. Provisional results indicate "FAIR" rating for the performance during the year despite the adverse impact of policy changes.

ISO

MFL has been awarded with renewal certificate for ISO 9001 (2000 version) by IRQS, valid upto Dec 2007. In respect of ISO 14001 (2004 version), audit has been completed and MFL has been recommended for renewal certification.

VIGILANCE

Surprise inspections inside the Plant area as well as in the field, system study in areas where MFL is incurring heavy expenses, review of audit paras, monitoring timely realization of outstanding dues due to dishonour of cheques by dealers, study on transport rebate allowed to dealers on door delivery of products were the major activities during the year.

HUMAN RESOURCES & INDUSTRIAL RELATIONS

Manpower and Training

The total manpower strength of the Company as on 31.3.2005 is 1126 as against 1195 on March 31, 2004. SC/ST employees numbering 232 constitute 20.6% of the total strength.

365 Supervisors and 259 Non-Supervisors were trained in In-house and External Training Programs during the year 2004-05.

Voluntary Retirement Scheme

15 employees availed Voluntary Retirement Scheme during 2004-05. The Company plans to reduce the manpower

further so as to contain it within 1000 during the current year through rationalization of manpower in all the functional groups.

Employee Productivity

The employee productivity is 983 MT during the year 2004-05 as compared to 900 MT during the last year. Similarly, the value of production per employee amounted to Rs 110.52 lac during the year when compared to Rs 87.24 lac in last year. The introduction of revised Incentive Policy during the year had a salutary effect on employee productivity and energy savings. Whereas Company has implemented new Promotion Policy for Supervisory employees, discussions are still held with the Union on the proposed new Promotion Policy for non-supervisory employees.

Industrial Relations

During the year 2004-05, the industrial relation scenario in the Company has been very peaceful. The employees have been highly committed in the industrial way of life towards achieving higher productivity. The Management, on its part, has played a crucial role in leading, maintaining and promoting a harmonious labour-management relation without giving any room for industrial strifes.

The representative bodies also played a constructive role in extending cooperation and acted with a sense of maturity in helping the management's endeavour to sustain production besides resolving many issues concerning employee matters.

OFFICIAL LANGUAGE IMPLEMENTATION

12 employees have passed Hindi examination held during 2004. MFL has been awarded the second position in Govt. Undertakings (Big) category for the best performance in progressive use of Official Language in Chennai during the year 2003-04.

DIRECTORS

Dr. Jivtesh Singh Maini, IAS, Additional Secretary and Financial Adviser, Dept. of Fertilizers, Govt. of India was appointed as Director on MFL Board effective 5.5.2005 in place of Shri Ashok Chawla, IAS, who has joined Dept. of Economic Affairs, Ministry of Finance, GOI.



IFCI have withdrawn nomination of Shri G J Prasad as Director from MFL Board effective Mar 14, 2005.

Board would like to place on record the valuable contributions made by Shri Ashok Chawla, IAS, and Shri G J Prasad during their tenure as Directors on the Board.

AUDITORS

The Government of India have appointed M/s R. Subramanian and Company, Chartered Accountants, Chennai as Statutory Auditors of the Company for the year 2004-05.

STATUTORY INFORMATION

No employee was in receipt of remuneration for any part of the year at a rate which is more than Rs 2 lac per month as provided under Section 217 (2A) of the Companies Act, 1956.

The data on Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo in accordance with the provisions of Section 217 (1) (e) of the Companies Act, 1956 are given in the **Annexure-I** forming part of this report.

Directors' Responsibility Statement as required under Section 217 (2AA) of the Companies Act, 1956 as amended is furnished in **Annexure-II** forming part of this report.

Management Discussion and Analysis Report, as required under Listing Agreement is enclosed as **Annexure-III** forming part of this report.

Certificate received from the Auditors of the Company regarding compliance of conditions of Corporate Governance as required under Listing Agreement is enclosed as **Annexure-IV** forming part of this report.

APPRECIATION

Your Directors place on record their sincere thanks to FIs and Banks for their support in a difficult financial year which was affected both in profitability and liquidity. The Company is really indebted to creditors, suppliers, service contractors and contract workers for their understanding and appreciation of Company's position and willingly discharged their obligation without expectation.

The Company salutes millions of farmers and dealers who were steadfast in exhibiting their loyalty towards Company's products and services.

Your Directors wish to record their appreciation of the excellent efforts put in by the employees of the Company in creating better still better records in all spheres of operation, unmindful of the fortunes that beset the Company. We thank GOI and NIOC for their continued guidance and support for the uninterrupted operations of the Company.

By Order of the Board

Date : June 23, 2005

SUKUMAR N.OOMMEN

Chennai : 600 068

Chairman and Managing Director

Note : Government of India has appointed Ms Swatantra K Sekhon, IAS as Director on MFL Board in the place of Dr. Jivtesh Singh Maini, IAS effective 23.8.2005



ANNEXURE - I

THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF DIRECTORS) RULES, 1988

FORM - A

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

		Current year (Apr 04 – Mar 05) <u>2004-2005</u>	Previous year (Apr 03 - Mar 04) <u>2003-2004</u>
A. Power and Fuel Consumption			
1. Electricity			
(a) Purchased			
Unit (lakhs)*		1089.462	970.069
Total amount (Rs. in lakhs)		4846.445	4495.054
Rate/Unit		4.45	4.63
* includes Power consumed at TTP, Kodungaiyur.			
(b) Own Generation			
(i) Solar			
Unit (lakhs)		137.009	122.789
Diesel consumption (KL)		7374.460	6907.817
Units per ltr. of diesel oil		1.858	1.778
Cost/Unit		14.40	12.57
(ii) Diesel Generators			
Units (lakhs)		124.300	138.570
Diesel consumption (KL)		3288.870	3792.983
Units per ltr. of diesel oil		3.782	3.653
Cost/Unit		7.09	6.12
2. Coal			Not applicable
3. Furnace Oil & LSHS			
Quantity (tonnes)		123522	112906
Total cost (Rs. in lakhs)		16639.0004	13842.820
Average Rate (Rs. per tonne)		13470.48	12260.48
B. Consumption per unit of production			
	FICC Norm	Current year Apr 04 - Mar 05	Previous year Apr 03 - Mar 04
(a) Product : Ammonia			
Electricity (KWH)	115.000	123.942	122.833
Fuel oil + LSHS (MT)	0.2341	0.2095	0.2127
Naphtha (MT)	0.7829	0.7575	0.7783
(b) Product : Urea			
Electricity (KWH)	202.000	171.494	177.553
Fuel oil + LSHS (MT)	0.1309	0.1177	0.1324
(c) Product : NPK			
Electricity (KWH)	43.410	49.966	52.307
Fuel oil + LSHS (MT)	0.0069	0.0145	0.0147



FORM - B**DISCLOSURE OF PARTICULARS WITH RESPECT TO RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION****RESEARCH & DEVELOPMENT**

1	Specific areas in which R&D carried out by the Company	
2	Benefits derived as a result of the above R&D	
3	Future plan of action	
4	Expenditure on R&D	NIL
	A Capital	
	B Recurring (in lacs)	
	C Total (in lacs)	
	D Total R&D expenditure as a percentage of total turnover	

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1.	Efforts in brief made towards technology absorption, adaptation and innovation	NIL
2.	Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution, etc.	NIL
3.	Details of imported technology (imported during the last 5 years reckoned from the beginning of the financial year):	NIL

FOREIGN EXCHANGE EARNINGS AND OUTGO**2004-2005**

1.	Activities relating to export	NIL
2.	Total Foreign Exchange used	(Rs Cr)
	a) Raw Materials	255.54
	b) Components & Spare Parts	11.14
	c) Books & Periodicals	0.00
	d) Travels	0.00
	e) Catalyst Lease Rental	0.42
	Total	267.10
3.	Total Foreign Exchange earned	NIL



ANNEXURE - II

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed

- that in the preparation of the annual accounts for the financial year ended March 31, 2005, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- that the Board had selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period.
- that the Board had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- that the Board had prepared the annual accounts on a going concern basis.



MANAGEMENT DISCUSSIONS AND ANALYSIS**BUSINESS**

Madras Fertilizers Limited (MFL) incorporated in the year 1966 is a PSU under the administrative control of the Department of Fertilizers (DOF), Ministry of Chemicals & Fertilizers, Govt of India. MFL is engaged in the manufacture of Ammonia, Urea and Complex Fertilizers (NPK) at Manali, Chennai. MFL is also engaged in manufacturing Biofertilizers and marketing Fertilizers and Agrochemicals under the brand name 'Vijay'.

INDUSTRIAL SCENARIO 2005-06

Currently, the consumption of major nutrients in South India is as follows:

N	-	2,200
P	-	950
K	-	700

If the South West monsoon is normal as forecast and the North East monsoon also brings adequate rains, the consumption will be more or less achieved.

Following the very good agriculture season during the last year and supplies just matching the demand, the carry forward inventory with dealers is very limited. It is expected that the Urea market situation will be comfortable with the major manufacturers being able to supply their allocation. In addition to this, OMIFCO has proposed to supply 8.25 lakh tonne of granular Urea in South India. This is likely to tilt the market into a buyer market unless major breakdowns are experienced by manufacturers like NFCL, MFL, SPIC, etc.

M/s Dunkan are expected to commence production of Urea from their plant from July 2005. Additional availability of Urea may permit some of the manufacturers from West / North India to move their Urea to South India. The broad picture is that there is unlikely to be shortage of Urea during 2005-06

The situation with regard to phosphatic fertilizers is not comfortable with most of the major basal products being in short supply even now. There is very little carry forward inventory of basal products with manufacturers / dealers. As the phos acid contract is still inconclusive due to stalemate reached in finalising the price there could be a reduction in supply of phosphatic products. This problem is made more complex by the reduced availability of Single Super Phosphate. Many of the SSP units have stopped production and even the 60 odd units that are in production are operating at very low capacities as can be seen from the fact that the capacity of the units in production is 61.28 lacs per annum while the actual production is only 25 lac tonne per annum. This will result in added pressure on DAP and other complexes. It can be safely concluded that the phosphatic products will either be in short supply or be just able to match the demand. The other factor that will affect the availability of phosphatic products is the subsidy in PCS. As there is likely to be an increase of around USD 50/MT in the price of phos acid, the economics of production will also have a bearing on the total production of phosphatic units.

The entire requirement of K_2O is met through imports and there are already indications that the overseas suppliers will insist on an increase of at least 15 – 20 USD per tonne of MOP over the present price of USD 202.20. It is also anticipated that the imports under the new contract will start coming in from Aug 2005 only. However, the available inventory will be sufficient for meeting the requirements of direct application of K_2O and for production of complexes.

CHALLENGES AND CONSTRAINTS

The outlook for the year 2005-06 portray more of challenges and constraints calling for all out efforts and efficiency to put up a sustained operations and profitable performance. The phase II stage of New Pricing Scheme for Urea which commenced



on Apr 1, 2004 would continue to apply till 31.3.2006. MFL would continue to be extended the outlier benefit during this stage also. Even with the receipt of outlier benefit, Company will be facing huge under-recovery in the Urea price realization to the extent of around Rs 2003/MT which would amount to around Rs 92.74 Cr during 2005-06.

Similarly, the existing anomaly in Price Concession Scheme and consequent inadequate compensation in respect of Complex Fertilizers continues. The under-recovery is on account of

- reckoning only 50% of Ammonia that too at a lower price of Naphtha than what MFL incurs and
- not reckoning 'N' sourced through bought Urea.

The DAP and NPK complex market segments are steadily growing. However, in view of the restricted 22% market share for complex fertilizers in Southern India (since DAP accounts 78% of the market share), MFL has to face severe competition from other complex manufacturers. Further, to enlarge the product mix under competitive market conditions MFL proposes to produce and market the following Complex Fertilizers during 2005-06:

	MT
NPK - 17-17-17	5,62,000
- 19-19-19	70,000
- 20-20-0	40,000

However, manufacturing of the above NPK grades is subject to the availability of Phos Acid and funds for procurement of raw materials.

MFL's Production Plan for the year 2005-06 is 4,63,000 MT of Urea (95% of capacity), and 6,72,000 MT of Complex Fertilizers (80% of capacity).

As stated supra, BRPSE while recommending benefits for MFL had recommended that turnover may be raised to Rs 2000 Cr from the present Rs 1500 Cr. It is therefore proposed to trade substantial quantities of MOP and DAP in addition to sale of 11.35 lac MT of Fertilizers during 2005-06. However, the trading in MOP and DAP will depend upon funds availability / market conditions and viability of operations.

To stay competitive and viable, MFL will continue to strive during 2005-06 to

- a) improve energy efficiency further
- b) optimize capacity utilization on a consistent basis
- c) Effect utmost economy in overhead expenditure through stringent cost control measures.



ANNEXURE - IV**AUDITORS' REPORT ON CORPORATE GOVERNANCE**

To

The Members of Madras Fertilizers Ltd

1. We have examined the compliance of conditions of Corporate Governance by Madras Fertilizers Ltd for the year ended Mar 31, 2005 as stipulated in Clause 49 of listing agreement of the said Company with stock exchanges.
2. The compliance of condition of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring compliance with the conditions of the corporate governance. It is neither an audit nor an expression of opinion of the financial statements of the Company.
3. In our opinion and to the best of our information and according to the explanations given to us and representations made by directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned listing agreement.
4. As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that based on the information received from the Company's Registrars and Share Transfer Agents and as per the records maintained by the Investors' Grievance Committee, no investor grievance is pending for a period exceeding one month against the Company.
5. We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency and effectiveness with which the management has conducted the affairs of the Company.

For R Subramanian and Company
(Chartered Accountants)

Place : Chennai
Date : June 23, 2005

A. GANESAN
Partner



REPORT ON CORPORATE GOVERNANCE

(Pursuant to Clause 49 of the Listing Agreement)

Company's Philosophy

The Company adopts well-established corporate governance principles and practices developed over a period of time, which are constantly updated in the ever-changing scenario. The Company's charter provides for transparency, integrity and accountability in all spheres of corporate functions.

Board of Directors**Composition**

At present the strength of the Board comprises 8 members with varied and rich experience. Chairman and Managing Director is an Executive Director and all other Directors are Non-Executive Directors. The Board of Directors comprise of 3 Directors including CMD nominated by the Government of India, 3 Directors nominated by the Naftiran Intertrade Co. Ltd., Co-Promoter and the remaining 2 Directors nominated by the Financial Institutions.

Meeting

Five Meetings of Board of Directors were held during the year Apr 2004 – Mar 2005. The dates of the Board Meetings are:

15/4/2004 27/7/2004 28/10/2004 21/12/2004 27/1/2005

In addition, a meeting of Management Committee of Directors has taken place on 30.4.2004 to review Company's operations.

Management Committee

Management Committee comprises M/s Sukumar N. Oommen, Jivtesh Singh Maini, K Kannan and Mahmood Vaezi. This Committee meets to consider any urgent matter and to review the Company's operations.

Directors' attendance at the Meetings of the Board / Committees held during the year 2004-05 and at the last AGM on 21.12.2004 are as under:

Director	Category	No. of Other Directorships*	No. of Board Meetings Attended	Attendance at the last AGM	No. of Board Committees of Other Companies as Chairman*	No. of Board Committees of Other Companies as Member*
Mr Sukumar N. Oommen	CMD / Independent Executive Director	2	5	Yes	–	–
Dr Jivtesh Singh Maini @ Mr Ashok Chawla** Ms C R Gayathri**	Independent Non-Executive Director	2	4	Yes	–	–
Mr Manoj Kumar	Independent Non-Executive Director	1	3	–	–	–



Director	Category	No. of Other Directorships*	No. of Board Meetings Attended	Attendance at the last AGM	No. of Board Committees of Other Companies as Chairman*	No. of Board Committees of Other Companies as Member*
Mr K Kannan	Independent Non-Executive Director	7	3	–	1	4
Mr S Srinivasan#	Independent Non-Executive Director	3	4	Yes	–	2
Mr G J Prasad#	Independent Non-Executive Director	–	3	Yes	–	–
Mr Mahmood Vaezi	Independent Non-Executive Director	4	5	Yes	–	1
Mr R Afshin	Independent Non-Executive Director	1	4	Yes	–	–
Mr M B Samiei Khonsari	Independent Non-Executive Director	1	4	Yes	–	1

* Furnished for the present Directors

** Predecessor

ceased to be a Director

@ Government of India has appointed Ms Swatantra K Sekhon, IAS as Director on MFL Board in the place of Dr. Jivtesh Singh Maini, IAS effective 23.8.2005. Consequently she would hold the Committee Membership as held by her Predecessor.

Audit Committee

The Audit Committee functions and exercises the powers as per the provisions of the Companies Act, 1956 and Listing Agreement.

The Audit Committee comprises 3 independent non-executive directors viz M/s Jivtesh Singh Maini (GOI Nominee Director), K Kannan (IDBI Nominee Director) and M B Samiei Khonsari (NICO Nominee Director). The Committee has met 4 times during the year Apr 04 – Mar 05 on the following dates:

- 1) 30/4/2004
- 2) 27/7/2004
- 3) 28/10/2004
- 4) 27/1/2005



Name of the Audit Committee Member	Status	No. of Meeting Attended
Dr. Jivtesh Singh Maini Mr Ashok Chawla* / Ms C R Gayathri *	Chairman	4
Mr K Kannan	Member	4
Mr M B Samiei Khonsari	Member	4

* Predecessor

B. Sukumar, Company Secretary & DGM (Legal) acts as the Secretary to the Audit Committee.

Remuneration Committee

Being a Central Public Sector Undertaking, the Managerial Remunerations for the executives are fixed by the Government of India. Hence, the constitution of remuneration committee does not arise.

Details of Remuneration to the Directors

Payment of remuneration to the Chairman and Managing Director is as per the terms and conditions of appointment by the Government of India and approved by the Board.

The aggregate value of the salary, incentives, perquisites and other benefits paid to Mr. Sukumar N Oommen, CMD for the year is Rs.7,24,983.

No remuneration is paid to non-executive directors other than Sitting Fees to institutional nominee directors for attending the Board / Committee meetings.

Name of the Director	Sitting Fees paid during the year (Rs)
Mr K Kannan	12000
Mr S Srinivasan	12000
Mr G J Prasad	9000

Shareholders' / Investors' Grievance Committee

Investors' Grievance Committee meeting was held on 27/7/04 and 21/12/04. The Committee comprises Mr. Sukumar N Oommen, Mr. K Kannan and Mr Mahmood Vaezi as members. The scope of function of the Committee is per provisions of the Listing Agreement.

The details of the attendance of members of the Committee are given as under:

Name of the Director	Status	No. of meeting attended
Mr. K Kannan	Chairman	2
Mr. Sukumar N Oommen	Member	2
Mr. Mahmood Vaezi	Member	2

The Board has delegated power for approval of the share transfer and other related matters to the Share Transfer Committee comprising Company Executives Mr R Mohan Das, G M (P&A), Mr. K Lakshminarayana Rao, GM (F&A), and B Sukumar, Company Secretary & DGM (Legal). Any two members would constitute quorum for the meeting.

During the year, 24 Share Transfer Committee Meetings have been held to consider share transfer and other share related matters.



Total number of complaints redressed by the Company and Share Transfer Agents during the period were 191 which includes recording of change of address, attending non-receipt of fully paid stickers, general queries etc. There was no pending complaint for redressal as on March 31, 2005

Compliance Officer : Mr. B Sukumar, Company Secretary and DGM (Legal)

General Body Meetings

The Venue and the starting time of the last 3 Annual General Meetings were :

Year	Venue	Date	Time
2001-2002	Image Auditorium MRC Nagar, Chennai - 600 028.	4/12/2002* (Wednesday)	3 P.M
2002-2003	Image Auditorium MRC Nagar, Chennai - 600 028.	17/9/2003 (Wednesday)	3 P.M.
2003-2004	Kumararaja MAM Muthaiah Hall MRC Nagar, Chennai - 600 028.	21/12/2004* (Tuesday)	3 P.M.

* Approval was obtained from Dept. of Company Affairs, New Delhi extending time for holding AGM during the year.

During the year under review, no special resolution was passed by postal ballot per Companies Act, 1956 and Listing Agreement.

Disclosures

There were no significant related party transactions or transactions of material nature with the promoters, directors, management or relatives which may have potential conflict with the interests of the Company.

There were no instances of non-compliance by the Company on matters related to the capital market during the last three years and there were no penalties, strictures imposed by Stock Exchanges or SEBI or any statutory authority.

Means of Communication

Whether half-yearly report sent to each household of shareholders : No.

Quarterly Financial Results :

Quarterly Financial results are published in one national Daily and one regional Daily. The financial results are made available on the Company's website: www.madrasfert.nic.in and SEBI's website : www.sebidifar.nic.in

Whether any presentation made to institutional investors or to the analyst : No.

General Shareholders Information

Annual General Meeting, Date, Time and Venue :

AGM Date : September 28, 2005
Time : 3 P.M
Venue : Naradha Gana Sabha, 254, TTK Road
Alwarpet, Chennai 600 018
Financial Year : April 2004 – March 2005
Book Closure Date : 26.9.05 to 28.9.05
Dividend Payment : Nil

Whether Management Discussion and Analysis is part of this report : Yes.



Listing on Stock Exchanges

National Stock Exchange of India Ltd

The Company has paid the listing fees to the stock exchange in time.

Stock Code / Symbol :

National Stock Exchange of India Ltd : MADRASERT

Delisting :

During the year, the Company has applied for voluntary delisting of its equity shares from Madras Stock Exchange Ltd and The Stock Exchange, Mumbai per shareholders resolution passed at the last AGM held on 21/12/2004. Subsequently the shares have been delisted from BSE w.e.f 13 Apr, 2005 and from MSE w.e.f 28 Apr, 2005.

High / Low share prices during the year Apr 1, 2004 to Mar 31, 2005

National Stock Exchange of India Ltd

Month	NSE High	NSE Low	S & P CNX Nifty Index High	S & P CNX Nifty Index Low	Quantity	Value Rs in Lacs
Apr 2004	18.15	14.40	1912.35	1771.45	2077139	338.62
May	18.55	10.20	1837.95	1292.20	3560096	566.70
Jun	16.00	11.15	1566.50	1437.90	1058499	146.06
Jul	16.35	12.65	1638.90	1472.55	1822029	260.18
Aug	13.90	12.05	1658.90	1573.70	1507155	195.51
Sep	16.20	13.00	1760.80	1619.90	4241340	611.00
Oct	17.75	14.05	1829.45	1737.85	3974828	639.24
Nov	18.15	14.05	1963.80	1776.70	5826734	958.31
Dec	19.90	15.05	2088.45	1944.50	7843432	1354.71
Jan 2005	18.70	13.60	2120.15	1894.40	3688716	613.67
Feb	17.50	14.30	2110.15	2036.60	4549167	739.52
Mar	15.80	11.10	2183.45	1971.15	3016721	423.12



The Stock Exchange, Mumbai

Month	BSE High	BSE Low	Sensex High	Sensex Low	Quantity	Value Rs in Lacs
Apr 2004	17.95	14.00	5979.25	5599.12	513109	83.75
May	18.50	10.20	5772.64	4227.50	962730	155.47
Jun	16.30	11.10	5012.52	4613.94	239233	33.54
Jul	16.45	12.70	5200.85	4723.04	384354	54.81
Aug	14.75	12.00	5269.22	5022.29	434179	56.22
Sep	16.50	13.00	5638.79	5178.57	1617726	236.49
Oct	17.70	14.30	5803.82	5558.14	2001583	325.41
Nov	18.10	14.10	6248.43	5649.03	1900359	315.51
Dec	19.80	15.05	6617.15	6176.09	3533437	617.08
Jan 2005	18.55	13.50	6696.31	6069.33	1715267	286.75
Feb	17.40	14.40	6721.08	6508.33	1696766	275.18
Mar	15.75	11.00	6954.86	6321.31	1464313	201.44

Share Transfer System :

M/s Integrated Enterprises (India) Ltd (IEL), a SEBI Registered Registrar & Share Transfer Agent has been assigned the Share Transfer and Depository Registry related works. Share Transfer Committee attends to share transfer formalities every fortnight.

Share Transfer Agent & Depository Registry : M/s Integrated Enterprises (India) Ltd
Kences Towers, 1, Ramakrishna Street, T Nagar, Chennai 600 017.
Phone 091 - 044 - 2814 0801 to 803

Dematerialisation of Shares:

MFL has connectivity with both NSDL and CDSL

ISIN No : INE 414A01015

59072950 equity shares reckoning (36.67%) of total shares have been dematerialized as of March 31, 2005. In terms of number of shareholders, 57.53% of shareholders have dematted their shares.



Distribution of Shareholding :

The distribution of shareholding as on March 31, 2005 is as follows :

Category	No. of Shareholders	No. of Shares held (Physical)	% of Share holding	No. of Shareholders	No. of Shares held (Electronic)	% of Share holding	Total No. of Shares	Total % of Share holding
Upto 500	8471	2514650	1.56	10205	2682748	1.67	5197398	3.23
501-1000	2716	2655700	1.65	3112	2882925	1.79	5538625	3.44
1001-2000	303	552600	0.34	1221	2054048	1.28	2606648	1.62
2001-3000	63	179100	0.11	393	1063261	0.66	1242361	0.77
3001-4000	11	39100	0.02	151	553830	0.34	592930	0.36
4001-5000	22	109900	0.07	218	1060954	0.66	1170854	0.73
5001-10000	12	101600	0.06	239	1800533	1.12	1902133	1.18
10001 & Above	3	95875700	59.52	176	46974651	29.15	142850351	88.67
Total	11601	102028350	63.33	15715	59072950	36.67	161101300	100.00

Category of Shareholders as on March 31, 2005 is as follows :

Category	No. of Shareholders	No. of Shares held (Physical)	% of Share holding	No. of Shareholders	No. of Shares held (Electronic)	% of Share holding	Total No. of Shares	Total % of Share holding
GOI (Promoter)	7	95851700	59.50	-	-	-	95851700	59.50
NICO (Associate to Co-promoter NIOC)	-	-	-	1	41516500	25.77	41516500	25.77
FIs / Banks	14	42600	0.03	4	187098	0.12	229698	0.15
Mutual Funds	1	2400	0.00	-	-	-	2400	0.00
Corporate Bodies	93	181200	0.11	702	4162555	2.58	4343755	2.69
Public	11486	5950450	3.69	15008	13206797	8.20	19157247	11.89
Total	11601	102028350	63.33	15715	59072950	36.67	161101300	100.00



Shareholding Pattern :

Type	No. of Shares	%	No of Shareholders	%
Physical	102028350	63.33	11601	42.47
Electronic	59072950	36.67	15715	57.53
Total	161101300	100.00	27316	100.00

Category	No. of Shares	%
Govt. of India (Promoter)	95851700	59.50
NICO (Associate to Co-Promoter NIOC)	41516500	25.77
Others	23733100	14.73
Total	161101300	100.00

Plant Location : Manali, Chennai - 600 068.

The Address for correspondence is

Company Secretary & DGM (Legal)
Madras Fertilizers Limited,
Manali, Chennai - 600 068.
Tel : 044 - 25941001 / 25941201
Fax : 25941010
Email : cs@madrasfert.com



COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF MADRAS FERTILIZERS LIMITED, CHENNAI FOR THE YEAR ENDED 31ST MARCH, 2005.

Balance Sheet

**Loans and advances Rs. 305.12 Crore - Schedule 9
- Claims Recoverable Rs. 285.26 Crore.**

This includes Rs. 1.36 Crore being the claims made by the Company with Customs Authorities, which have not been accepted by them and are pending for more than 15 years. Accounting of these disputed claims as recoverable has resulted in overstatement of this account by Rs. 1.36 Crores and understatement of accumulated losses to the same extent.

CLARIFICATION TO THE COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 217(3) OF THE COMPANIES ACT, 1956.

MFL imports phosphoric acid from different countries for captive consumption, which was subject to Customs Duty till August 1992. The rate of Customs Duty was 15%.

A concessional rate of Customs Duty was allowed at 12% for import from Morocco and Tunisia with effect from 01.09.89, vide GOI Notification No. 236/89-CUS dated September 01, 1989.

In respect of import of 12 shipments of Phosphoric Acid during 1989-90, Customs Department collected the duty at 15% from MFL instead of 12%. MFL had preferred the refund claim in time. Customs Department have not made the refund applying the 'Doctrine of Unjust Enrichment'. Supreme Court in its judgment in the matter of Solar Pesticides Limited held that the Doctrine of Unjust Enrichment applies for items captively consumed also. In the light of the above judgment, MFL has been continuously following up with Customs Department for early refund. MFL's claim was neither rejected nor refused by Customs Department. Hence, in the opinion of MFL, the claim is legitimate and tenable.

U. SANKAR

Principal Director of Commercial Audit and
Ex-Officio Member Audit Board
Chennai, August 17, 2005

By Order of the Board

Date : August 29, 2005

Chennai : 600 068

SUKUMAR N.OOMMEN

Chairman and Managing Director



REVIEW OF ACCOUNTS OF MADRAS FERTILIZERS LIMITED, CHENNAI FOR THE PERIOD ENDED MARCH 31, 2005 BY THE COMPTROLLER AND AUDITOR GENERAL OF INDIA.

(Review of Accounts has been prepared without taking into account comments of C&AG under Section 619(4) of the Companies Act, 1956 and qualifications contained in the Statutory Auditors' Report).

1. FINANCIAL POSITION :

The table below summarises the financial position of the Company for the last three periods

	Rupees in Crore		
	2002-2003 (11 months)	2003-2004 (12 months)	2004-2005 (12 months)
LIABILITIES			
a) Paid up Capital			
i) Government	95.85	95.85	95.85
ii) Others	66.29	66.29	66.29
b) Reserves and Surplus			
i) Free Reserves and Surplus			
a) Investment Allowance Reserve	1.00	0.00	0.00
b) Balance of the P&L A/c	0.00	0.00	0.00
ii) Share Premium Account	12.39	12.39	12.39
iii) Capital Reserves	0.00	0.00	0.00
c) Borrowings from			
i) Government of India	219.97	241.41	253.34
ii) Financial Institutions	155.17	171.43	144.42
iii) Foreign Currency Loans	14.26	0.00	0.00
iv) Cash Credit	166.75	186.90	240.36
v) Others	98.62	89.69	72.16
vi) Interest accrued and due	57.11	18.74	40.59
d) i) Current Liabilities and Provisions	515.07	410.05	419.37
ii) Provision for Gratuity	0.00	0.00	0.00
e) Deferred Tax Liability	0.00	0.00	0.00
Total	1402.48	1292.75	1344.77
ASSETS			
f) Gross Block	861.25	871.71	880.93
g) Less : Cumulative Depreciation	301.79	343.77	387.12
h) Net Block	559.46	527.94	493.81
i) Capital Work-in-Progress & Dismantled Assets	5.92	7.39	2.23
j) Investments	1.65	1.65	1.65
k) Current Assets, Loans and Advances	649.60	530.55	568.97
l) Deferred Tax Asset	0.00	0.00	0.00
m) Miscellaneous expenditure to the extent not written off	39.80	16.43	11.74
n) Accumulated Loss	146.05	208.79	267.18
Total	1402.48	1292.75	1344.77
o) Working Capital (k-d(i)-c(vi))	77.42	101.76	109.01
p) Capital Employed (h+o)	636.88	629.70	602.82
q) Net Worth (a+b(i)+b(ii)-m-n)	(10.32)	(50.69)	(104.39)
r) Net Worth per rupee of Paid Up Capital (in Rupees)	N.A.*	N.A.*	N.A.*

*Since negative networth this ratio is not applicable.



2. SOURCE AND UTILISATION OF FUNDS :

Funds amounting to Rs. 69.70 Crores from Internal and External sources were realised and utilised during the period under review as given below :

SOURCE OF FUNDS

	(Rupees in Crore)	
a) Increase in Borrowed Cost		20.85
b) Decrease in Investment		0.81
c) Depreciation	43.35	
Deferred revenue expenditure written off during the period	4.69	48.04
Total		69.70

UTILISATION OF FUNDS

a) Increase in Working Capital	7.25
b) Increase in Fixed Assets including Capital work in progress	4.06
c) Loss for the year	58.39
Total	69.70

3. RATIO ANALYSIS :

Some important financial ratios on the financial health and working of the Company at the end of last 3 periods are as under :

	(In percentage)		
	2002-2003 (11 months)	2003-2004 (12 months)	2004-2005 (12 months)
A. Current Ratio (Current Assets to Current Liabilities & Provisions & Interest Accrued and Due excluding Provision for gratuity) [k/d(i)+c(vi)]	113.53	123.73	123.70

Compared to 2003-2004 there is a decrease in Current ratio for 2004-05 to the extent of 0.02%.

B. Debt Equity Ratio :

(Long term Debt to Equity) [c(i to v)] excluding short term loans /q

*Since negative networth this ratio does not arise.

C. Profitability Ratios :

	2002-2003 (11 months)	2003-2004 (12 months)	2004-2005 (12 months)
a) Profit before Tax to			
i) Capital Employed	0.65	Loss*	Loss*
ii) Net Worth	**	Loss*	Loss*
iii) Sales	0.36	Loss*	Loss*
b) Profit after Tax to Equity	2.54	Loss*	Loss*
c) Earning per share (Rupees)	0.26	Loss*	Loss*

* Loss (ratio not applicable)

** In view of negative networth, this ratio is not applicable

4. WORKING CAPITAL :

The Working Capital (i.e. Current Assets, Loans and Advances less Current Liabilities and Provisions) has increased from Rs. 101.76 Crore in 2003-04 to Rs. 109.01 Crore in 2004-05. The percentage of working capital to sales decreased from 8.93 to 8.48 in 2004-05.

Similarly there was an increase in percentage of working capital to inventories from 44.40 in 2003-04 to 51.91 in 2004-05.



5 WORKING RESULTS :

The Working Results of the Company for the last three periods is compared below :

	(Rupees in Crore)		
	2002-2003 (11 months)	2003-2004 (12 months)	2004-2005 (12 months)
a) Sales (including price support subsidy)	1139.06	1139.75	1286.22
b) Profit / (Loss) before Tax	4.12	(63.74)	(58.39)
c) Profit/ (Loss) after Tax	4.12	(63.74)	(58.39)
d) Value of closing stock of finished goods	132.27	31.54	7.99
e) Percentage of finished goods to sales	11.61	2.77	0.62
f) Value of Production per month	52.43	55.10	53.74
g) Value of finished products in terms of number of months productions (d/f)	2.52	0.57	0.15

Value of Finished products in terms of number of months production has decreased from 0.57 in 2003-2004 to 0.15 in 2004-2005 due to decrease in finished stock holding from Rs. 31.54 Crore to Rs. 7.99 Crore.

6. SUNDRY DEBTORS AND TURNOVER :

The following table indicates the volume of book debts and sales as on the dates given below :

As on	(Rupees in Crore)				
	Sundry Debtors considered good	Sundry Debtors Considered doubtful	Total	Sales (less Price Support Subsidy)	Percentage of Sundry debtors to sales
30.04.2003	83.63	1.13	84.76	618.30	13.71
31.03.2004	80.24	1.33	81.57	742.61	10.98
31.03.2005	12.06	1.52	13.58	664.37	2.04

There is a decrease in percentage of Sundry Debtors from 10.98 in 2003-04 to 2.04 in 2004-05.

Chennai
August 17, 2005

U. SANKAR
Principal Director of Commercial
Audit and Ex-Officio Member
Audit Board, Chennai



<p>COMMENTS OF THE STATUTORY AUDITORS M/S R SUBRAMANIAN AND COMPANY, CHARTERED ACCOUNTANTS, CHENNAI ON THE ACCOUNTS OF MADRAS FERTILIZERS LIMITED FOR THE YEAR 2004-05</p>	<p>THE COMPANY'S REPLIES UNDER SECTION 217 (3) OF THE COMPANIES ACT, 1956</p>
<p>2 f(i) Note No. 20 B (iii) regarding accounting of a sum of Rs.122.83 crores towards escalation in input prices. Adjustment may arise in future in respect of the above, on final receipt of the subsidy, the impact of which on the current year results of the company is not ascertainable at this stage.</p>	<p>FICC, vide notification No. 12012/2/2005-FPP dated 31.5.2005, announced revision of quarterly escalation rates on provisional basis for the quarters ending upto 31.12.2004 and to continue the same rate till further notifications. Accordingly, MFL has lodged the claim and received the settlement in full.</p>
<p>2 (e) Non-compliance of Accounting Standards AS (2) on "Valuation of Inventories" and AS (29) on "Provisions, Contingent Liabilities and Contingent Assets"</p> <p>2 f(ii) Note No 20(B) (ii) regarding usage of indigenously produced Urea for complex production and subsequent replenishment. Since the Company has neither replenished nor contracted the quantity of Urea at a firm price till date, we are of the opinion that the cost of manufactured Urea consumed for production of Complex fertilizers should have been absorbed as current year revenue. The accounting treatment given by the Company has the effect of understatement of consumption of manufactured Urea by Rs.13.11 crores, overstatement of inventory of Urea by Rs.13.11 crores and understatement of current year loss and accumulated loss by the same amount.</p> <p>2 f(iii) Note No.20 B (xi) regarding a sum of Rs.0.66 crores deposited with ESI authorities for which in our opinion a provision should have been made. The current year loss and accumulated losses are understated and the loans and advances are overstated to the same extent.</p> <p>2 f (iv) Note No.20 B (xii) regarding a sum of Rs.1.02 crores paid as interim award towards gratuity to past employees, for which in our opinion a provision should have been made. The current year loss and accumulated losses are understated and loans and advances are overstated to the same extent.</p>	<p>It is the policy of the Company to absorb loss/gain in the year of occurrence on a going concern concept. Accordingly, the cost will get absorbed in the year of the actual replenishment.</p> <p>MFL has challenged the order of ESI authorities in the Madras High Court and has deposited the said sum at the direction of the Court. As the matter is pending before High Court, provisioning at this stage is considered not necessary as opined by our Legal Counsel.</p> <p>The Madras High Court directed MFL to pay 50% of the differential Gratuity to the employees pending disposal of the case. The separated employees are eligible for pay revision (per directive of GOI) only if the Company earns certain profit. Therefore, they are not eligible for the same presently. As the matter is pending before High Court, provisioning at this stage is considered not necessary as opined by our Legal Counsel.</p>



<p>2 f (v) Note No.20 B (xiii) regarding a sum of Rs.0.78 crores retained under claims recoverable in respect of which in our opinion a provision should have been made. The current year loss and the accumulated losses are understated and "loans and advances" overstated to the same extent.</p>	<p>Since the matter is subjudice, no provision was considered necessary, in the opinion of our Legal Counsel.</p>
<p>Annexure to Auditors' Report 6 The Company has however maintained liquid assets only partially and up to June 12, 2004. The order of the Company Law Board with regard to informing the individual deposit holders about the holding of deposits beyond the permissible limits and also the fact of the Company incurring losses has not been communicated to the deposit holders.</p>	<p>Due to delayed receipt of dues from Govt of India, the Company was able to maintain liquid assets only partially. The Company has subsequently communicated through press advertisement and in the printed application form about this.</p>
<p>7 The Company has an in house internal audit system, which need to be adequately strengthened commensurate with the size of the Company and nature of its business.</p>	<p>The Company has since strengthened the Internal Audit Department with the induction of extra manpower including from Technical side. However, the observation of Audit is taken note of.</p>
<p>9 (a) Based on our review, it is noticed that there has been a delay in remittance of undisputed statutory dues viz. Provident Fund, ESI, Income tax, Electricity generation tax, Service tax and Sales Tax.</p>	<p>Due to delayed/non-receipt of dues from GOI, the delay in remittance has intermittently arisen. However, the statutory liabilities as of 31st March 2005 have since been discharged.</p>
<p>11 The Company has defaulted in payment of interest to Financial institutions. As on 31st March 2005 the overdue interest due to Financial Institutions amounting to Rs. 12.08 Cr. The period of default ranging from 1 to 10 months.</p>	<p>Due to delayed/non-receipt of dues from GOI, there was delay in payment of interest to Financial Institutions. The outstanding dues will be discharged on fund availability.</p>

For R Subramanian and Company
Chartered Accountants

For and on behalf of the
Board of Directors

A GANESAN
Partner

SUKUMAR N. OOMMEN
Chairman & Managing Director

Chennai
June 23, 2005

Chennai
June 23, 2005



MADRAS FERTILIZERS LIMITED

REPORT OF THE AUDITORS

The Shareholders
Madras Fertilizers Ltd.
Chennai.

We have audited the attached Balance Sheet of M/s. MADRAS FERTILIZERS LIMITED, Chennai as at 31st March 2005 and also the Profit and Loss Account and Cash Flow Statement for the year ended on the date annexed thereto. These Financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our Audit.

We conducted our Audit in accordance with Accounting Standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in paragraph 1 above :
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b) In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of those books.
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.

- d) The Department of Company Affairs has clarified that the provisions of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956 are not applicable to the Directors nominated by the Government of India and Financial Institutions. On the basis of written representation received from the Directors (other than Directors nominated by Government of India and Financial Institutions) and taken on record by the Board of Directors, we report that none of the Directors is disqualified from being appointed as director in terms of clause (g) of sub section (1) of section 274 of the Companies Act, 1956.
- e) **The Company has not complied with Accounting Standard on valuation of inventories (AS-2) and Accounting Standard on provisions, contingent liabilities and contingent assets (AS-29). The impact of the above non-compliance is detailed in Para f(ii) to f(v) below.** Subject to the foregoing, in our opinion, the Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Section 211 (3c) of the Companies Act, 1956.
- f) **Attention is invited to the following:**
 - i) **Note No.: 20 (B) (iii) regarding accounting of a sum of Rs. 122.83 crores towards escalation in input prices. Adjustment may arise in future in respect of the above, on final receipt of the subsidy, the impact of which on the current year results of the company is not ascertainable at this stage.**
 - ii) **Note No.: 20 B (ii) regarding usage of indigenously produced Urea for complex production and subsequent replenishment. Since the company has neither replenished nor contracted the quantity of Urea at a firm price till date, we are of the opinion that the cost of manufactured urea consumed for production of complex fertilizer should have been**



absorbed as current year revenue. The accounting treatment given by the Company has the effect of understatement of consumption of manufactured urea by Rs. 13.11 Crs, over statement of inventory of urea by Rs. 13.11 Crs and understatement of current year loss and accumulated loss by the same amount.

- (iii) Note No.: 20B (xi), regarding a sum of Rs. 0.66 crores deposited with ESI authorities for which in our opinion a provision should have been made. The current year loss and accumulated losses are understated and the loans and advances are overstated to the same extent.
- (iv) Note No.: 20B (xii) regarding a sum of Rs. 1.02 crores paid as interim award towards gratuity to past employees, for which in our opinion a provision should have been made. The current year loss and accumulated losses are understated and loans and advances are overstated to the same extent.
- (v) Note No.: 20B (xiii) regarding a sum of Rs. 0.78 crores retained under claims recoverable in respect of which in our opinion a provision should have been made. The current year loss and the accumulated losses are understated and "loans and advances" overstated to the same extent.

The effect of Para f (i) on the accounts is not ascertainable and para f (ii) to f (v) above has the effect of understatement of Current Year loss by Rs. 15.57 crores, accumulated losses by Rs. 15.57 crores, overstatement of Inventory by Rs. 13.11 crores and overstatement of loans and advances by Rs. 2.46 crores.

- (g) In our opinion and to the best of our information and according to the explanations given to us and **subject to our comments in para "e" & "f" above**, the said Balance Sheet and Profit & Loss Account give information required by the Companies Act, 1956 in the manner so required and give a true and fair view:
- a) In case of Balance Sheet, the state of affairs of the Company as at 31st March 2005;
- b) In case of Profit & Loss Account, the Loss of the Company for the year ended on that date; and
- c) In case of Cash Flow Statement, of the Cash Flows for the year ended on that date.

For R. SUBRAMANIAN AND COMPANY
Chartered Accountants

A. GANESAN
Partner
M. No. 21438

Chennai
June 23, 2005



ANNEXURE TO THE AUDITORS' REPORT

With reference to the Annexure referred to in paragraph 1 of the report of the Auditors to the Members of the M/s. Madras Fertilizers Ltd on the accounts for the year ended 31st March 2005, we report that :

1. a) The Company is maintaining proper records showing particulars including quantitative details and situation of fixed assets, **other than location details in respect of furniture and fixtures and office equipments.**
- b) As informed to us, the fixed assets have been physically verified under a phased programme (i.e.) once in the three years by an independent firm of Chartered Accountants which in our opinion is reasonable having regard to the size of the Company and nature of its assets. We have been informed that discrepancies noticed on physical verification of fixed assets as compared to the book records were not material.
- c) During the year, the Company has not disposed off a substantial part of its fixed assets.
2. a) Physical verification of inventories inside factory premises has been carried out by the management at reasonable intervals and the physical verification of stocks of stores and spare parts has been conducted by an independent outside agency in a phased manner so as to complete the verification of all items over a period of three years. Finished goods and other inventory stored outside the factory premises are taken as per warehousing certificates and third party confirmation respectively. In our opinion, the frequency of verification of inventory is reasonable. Third party confirmation has not been received in few cases, which however is not significant in value.
- b) In our opinion and according to the information and explanations given to us, the procedures for the physical verification of inventory followed by management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- c) The Company is maintaining proper records of inventory. In our opinion, discrepancies noticed

on physical verification of stocks were not material in relation to the operations of the Company and the same have been properly dealt with in the books of account.

3. As per the information furnished, the Company has not granted or taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Hence reporting under clause 4 (iii) (b)/(c)/(d)/(e)/(f) and (g) of the Order is not applicable to the Company.
4. In our opinion, and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and nature of its business with regard to purchase of inventories and fixed assets and for the sale of goods and services. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have been informed of any instance of major weakness in the aforesaid internal control procedure.
5. According to the information and explanations given to us, there are no transactions that need to be entered into a register in pursuance of Section 301 of the Companies Act, 1956. Accordingly clause 4(v) (a) and 4(v) (b) of the Order is not applicable.
6. In our opinion, the company has complied with the provisions of section 58A and other relevant provisions of Act with regard to deposits accepted from public. The company has obtained approval from Department of Company Affairs - Government of India to accept and renew deposits beyond the permissible limit upto a maximum of Rs. 61.44 Crores. **The Company has however maintained liquid assets only partially and upto June 12, 2004. The order of the Company law Board with regard to informing the individual deposit holders about the holding of deposits beyond the permissible limits and also the fact of company incurring losses has not been communicated to the deposit holders.**

Based on records produced to us there has not been any default on payment of deposits and hence provisions of Section 58AA of the Companies Act is not attracted.
7. **The Company has an in house internal audit system, which needs to be adequately strengthened**



commensurate with the size of the company and nature of its business.

8. We have broadly reviewed the books of account maintained by the Company in respect of its product Fertilizers pursuant to the order of Central Government for maintenance of cost records prescribed under Section 209(l)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained. However we are not required to and have not carried out any detailed examination of such records.

9. a) **Based on our review, it is noticed that there has been a delay in remittance of undisputed statutory dues viz. Provident fund, ESI, Income Tax, Electricity Generation Tax, Service Tax and Sales Tax. Excise Duty,**

Cess and Customs Duty have generally been remitted in time. We are informed that the company has no liability towards wealth tax and Investor Education and Protection fund.

b) According to information and explanations given to us, no undisputed amount payable in respect of Income tax, Wealth tax, Service tax, Sales tax, Customs duty, Excise duty and cess were in arrears as at 31st March 2005 for a period of more than six months from the date they become payable.

c) Based on reievw, the dues of Sales-tax, Income-tax, Customs duty, Wealth tax and Excise Duty, which have not been deposited on account of disputes and the forum where the dispute is pending are as given below;

SI No.	Name of the Statute	Nature of the Dues / demand	Period of dispute	Amount Rs. in lacs	Forum where Dispute is pending
1	Income Tax Act, 1961	Levy of interest u/s 220 of the Income Tax Act. Tax liability arose on Supreme Court upholding the validity of retroactive amendment. Immediately upon which the company paid the tax. Interest has been levied for the interim period.	Assessment years : 1979-80, 1980-81 and 1981-82	152.00	Madras High Court
2	Income Tax Act, 1961	Income tax department disallowed Unabsorbed depreciation claimed by the company for the purpose of computation of MAT and also levied interest u/s 234 B and 234C of the Act. Company paid the disputed tax applied for waiver of interest before Chief Commissioner of Income tax.	Assessment year 1997-98	79.21	Chief Commissioner of Income Tax
3	Surtax Act	Adjustment to the Capital base in respect of i) difference between book and Income tax depreciation ii) short provision of income tax.	Assessment year 1983-84	99.22	Madras High Court
4	Central Excise Act, 1944	With regard to dispute on levy of Excise duty for the period from 5.3.76 to 29.7.77.	1976	258.00	Madras High Court
5	Tamil Nadu General Sales Tax Act 1959	Levy of additional tax @ 1% u/s 3(4) of TNGST Act. 1995-96 and 96-97.	Dec. 2003	99.86	Sales Tax Appellate Tribunal



10. The Company has accumulated losses at the end of the financial year which is more than 100% of its net worth and has incurred cash losses during the financial year ended 31st March 2005. There was cash loss in the immediately preceeding financial year also.
11. **The Company has defaulted in payment of interest to Financial Institutions. As on 31st March 2005 the overdue interest due to Financial Institutions amounted to Rs. 12.08 Crores. The period of default ranges from 1 to 10 months.**
12. Based on our examination of the records and information and explanations given to us, the Company has not granted any loans and/or advances on the basis of security by way of pledge of shares, debentures and other securities.
13. Clause 4(xiii) of the Order is not applicable to the Company as the Company is not a chit fund company or nidhi/mutual benefit fund/society.
14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the order are not applicable to the Company.
15. According to the information and explanations given to us, the Company has not given any guarantee for loan taken by others from banks or financial institutions.
16. According to the information and explanations given to us, the term loans raised during the year have been applied for the purpose for which they were raised.
17. According to the information and explanations given to us and on an overall examinations of the balance sheet of the company, we report that short-term funds have not been used for long term uses.
18. The Company has not made any preferential allotment of shares during the year.
19. The Company has not created any security for issue of bonds to the extent of Rs. 1.80 Cr. We are informed by the company that security or charge need not be created as the debentures issued are for less than 18 months maturity. However, debentures valuing Rs. 1.30 Cr. have been discharged subsequently.
20. The Company has not raised any money by public issues during the year covered by our report.
21. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For R. SUBRAMANIAN AND COMPANY
Chartered Accountants

Chennai
June 23, 2005

A. GANESAN
Partner
M. No. 21438



BALANCE SHEET

As at March 31, 2005

(Rs. in Crores)

	Schedule	March 31 2005	March 31 2004
SOURCE OF FUNDS			
Shareholders Fund			
a. Share Capital	1	162.14	162.14
b. Reserves and Surplus	2	12.39	12.39
		<u>174.53</u>	<u>174.53</u>
Loan Funds			
a. Secured Loans	3	401.86	372.80
b. Unsecured Loans		349.01	335.37
		<u>750.87</u>	<u>708.17</u>
		<u>925.40</u>	<u>882.70</u>
APPLICATION OF FUNDS			
Fixed Assets :			
a. Gross Block	4	880.93	871.71
b. Less : Depreciation Reserve		387.12	343.77
c. Net block		<u>493.81</u>	<u>527.94</u>
d. Capital Work in progress		2.05	7.39
e. Dismantled assets		0.18	0.35
		<u>496.04</u>	<u>535.68</u>
Investments	5	0.84	1.65
Current Assets			
Inventories	6	209.98	228.83
Debtors	7	12.06	80.24
Cash and Bank Balances	8	41.81	30.94
		<u>263.85</u>	<u>340.01</u>
Loans and Advances			
Loans	9	2.99	3.72
Advances and Deposits		16.87	26.63
Claims Recoverable		285.26	159.84
		<u>305.12</u>	<u>190.19</u>
Total Current Assets		568.97	530.20



BALANCE SHEET

As at March 31, 2005 (Contd.)

(Rs. in Crores)

	Schedule	March 31 2005	March 31 2004
	b/f	568.97	530.20
Less : Current Liabilities and Provisions	10	<u>419.37</u>	<u>410.05</u>
Net Current Assets		149.60	120.15
Miscellaneous Expenditure (To the extent not written off or adjusted)			
- Deferred Revenue Expenditure	11	11.74	16.43
Profit and Loss Account		<u>267.18</u>	<u>208.79</u>
		<u>925.40</u>	<u>882.70</u>

Schedules 1 to 25 annexed hereto form part of these Accounts.

SUKUMAR N OOMMEN

Chairman and
Managing Director

June 23, 2005

J S MAINI

Director

B SUKUMAR

Company Secretary &
DGM - Legal

K LAKSHMINARAYANA RAO

General Manager
Finance & Accounts

As per our Report of even date

for R. SUBRAMANIAN AND COMPANY
Chartered Accountants

Chennai

Date : June 23, 2005

A. GANESAN

Partner



MADRAS FERTILIZERS LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended March 31, 2005

	Schedule	2004-05	(Rs. in Crores)	2003-04
SALES	12	664.37		742.61
UREA CONCESSION		621.85		397.14
INCOME FROM OPERATIONS		<u>1,286.22</u>		<u>1,139.75</u>
Less: Raw Materials	13	775.79	629.52	
Power, Water & Fuel		263.92	225.35	
Stores, Spares and Packing Materials		28.60	25.42	
Repairs and Maintenance	14	21.31	22.06	
Transportation and Warehousing	15	45.90	55.67	
Salaries and other benefits to employees	16	45.57	46.89	
Interest and Financing Charges	17	68.59	66.51	
Bought Potash & Ammonium Sulphate		16.01	8.18	
Agrochemical Purchase		0.71	0.48	
Volume/Special Rebate		5.70	11.11	
Depreciation		43.59	43.18	
Other Expenses	18	27.80	28.23	
Deferred Revenue Expenses Written off				
– Share Issue Expenses		0.34	0.34	
– Revamp hook-up expenses		–	28.38	
– VRS Compensation and Incremental Gratuity		<u>5.53</u>	<u>4.24</u>	
OPERATING EXPENSES		1,349.36		1,195.56
Add : (Accretion)/Decretion in inventory				
Opening Stock		121.55	202.94	
Less: Closing Stock		<u>102.09</u>	<u>121.55</u>	
		19.46		81.39
COST OF SALES		<u>1,368.82</u>		<u>1,276.95</u>
OPERATING PROFIT/(LOSS)		(82.60)		(137.20)
Add : Other Income	19	<u>10.70</u>		<u>23.49</u>
		(71.90)		(113.71)
Provision for Bad and Doubtful Debts		(0.20)		(0.20)
Provision for Bad and Doubtful Debts - Written back		–		–
Provision for erosion in investments		(0.81)		–
Prior Period Adjustment		<u>(0.13)</u>		<u>–</u>
PROFIT/(LOSS) FOR THE YEAR c/o		(73.04)		(113.91)



PROFIT AND LOSS ACCOUNT

For the year ended March 31, 2005 (Contd.)

(Rs. in Crores)

	Schedule	2004-05	2003-04
b/f		(73.04)	(113.91)
Extraordinary / Exceptional Items			
Principal waiver - ICICI		14.65	-
Interest waiver on FACR		-	50.17
		<u> </u>	<u> </u>
PROFIT/(LOSS) FOR THE YEAR BEFORE TAX		(58.39)	(63.74)
TAX PROVISION FOR THE YEAR		-	-
		<u> </u>	<u> </u>
PROFIT/(LOSS) FOR THE YEAR AFTER TAX		(58.39)	(63.74)
Transfer from Investment Allowance Reserve		-	1.00
Add: Debit Balance in Profit & Loss Account			
B/F from previous year		(208.79)	(146.05)
		<u> </u>	<u> </u>
DEBIT BALANCE IN PROFIT AND LOSS ACCOUNT (C/o to Balance Sheet)		<u>(267.18)</u>	<u>(208.79)</u>
EARNINGS PER SHARE			
Profit / (Loss) available to members (Rs. Cr.)		(58.39)	(63.74)
Weighted Average Number of Equity Shares used as denominator for calculating EPS		16,11,01,300	16,11,01,300
Basic and Diluted earnings per share (of Rs. 10 each)			
- Before extraordinary / exceptional items (Rs.)		(4.53)	(7.07)
- After extraordinary / exceptional items (Rs.)		(3.62)	(3.96)

Schedules 1 to 25 annexed hereto form part of these Accounts.

SUKUMAR N OOMMEN

Chairman and
Managing Director

June 23, 2005

J S MAINI

Director

B SUKUMAR

Company Secretary &
DGM - Legal

K LAKSHMINARAYANA RAO

General Manager
Finance & Accounts

As per our Report of even date

for R. SUBRAMANIAN AND COMPANY
Chartered Accountants

Chennai

Date : June 23, 2005

A. GANESAN

Partner



MADRAS FERTILIZERS LIMITED

SCHEDULES TO ACCOUNTS

	(Rs in Crores)	
	March 31, 2005	March 31, 2004
1. SHARE CAPITAL		
AUTHORISED		
17,50,00,000 Equity Shares of Rs. 10 each	175.00	175.00
19,00,00,000 Preference Shares of Rs. 10 each	190.00	190.00
	<u>365.00</u>	<u>365.00</u>
ISSUED		
16,59,98,200 Equity Shares of Rs. 10 each fully paid up	166.00	166.00
SUBSCRIBED AND PAID-UP		
16,11,01,300 Equity Shares of Rs. 10 each fully paid up	161.10	161.10
Add : Shares Forefeited (20,76,600 Equity Shares of Rs. 5 paid up)	1.04	1.04
	<u>162.14</u>	<u>162.14</u>
2. RESERVES AND SURPLUS		
Share Premium Account	12.39	12.39
	<u>12.39</u>	<u>12.39</u>



		(Rs in Crores)	
		March 31, 2005	March 31, 2004
3. LOAN FUNDS			
SECURED			
Cash Credit from Banks		240.36	186.90
	Secured by hypothecation of Inventories and book debts including GOI subsidy receivable with second mortgage and charge on all immovable properties at Manali both present and future subject to prior charge created in favour of IFCI (ECS Scheme).		
Other loans :			
— IFCI	(Secured by an exclusive charge on the specific equipment)	—	4.32
— SASF (IDBI)	Principal	68.20	68.22
	Interest accrued and due	6.68	3.76
		74.88	71.98
— IFCI	Principal	47.15	42.79
	Interest accrued and due	4.55	2.25
		51.70	45.04
— IIBI	Principal	2.04	2.04
	Interest accrued and due	0.40	0.40
		2.44	2.44
— LIC	Principal	2.21	2.04
	Interest accrued and due	0.45	0.51
		2.66	2.55
— GIC	Principal	0.27	0.27
	Interest accrued and due	—	0.06
		0.27	0.33
— UIIC	Principal	0.30	0.30
	Interest accrued and due	—	0.04
		0.30	0.34
— NIC	Principal	0.20	0.20
	Interest accrued and due	—	0.05
		0.20	0.25
— OIC	Principal	0.21	0.20
	Interest accrued and due	—	0.05
		0.21	0.25
— NIA	Principal	0.34	0.34
	Interest accrued and due	—	0.07
		0.34	0.41
— ICICI BANK	Principal	23.50	50.71
	Interest accrued and due	—	1.36
		23.50	52.07

Secured by

1. First mortgage and 'pari passu' charge in favour of Debenture holders on all immovable properties at Manali both present and future subject to prior charge created in favour of IFCI (ECS Scheme).
2. First charge by way of hypothecation of all movables (except Book Debts) including Machinery, Machinery spares, tools and accessories present and future subject to prior charges created in favour of Institutions referred to in (1) above and Bankers.



	(Rs in Crores)	
	March 31, 2005	March 31, 2004
— 15% Secured Redeemable Bonds in the nature of Non-Convertible Debentures of Rs. 1 lac each privately placed.	—	5.92
<p>(Secured by exclusive mortgage and charge on the immovable property of the Company in the State of Gujarat and a 'pari passu' charge with FIs on the Immovable property of the Company at Manali.)</p> <p>(The redemption will be at par in three instalments of 30%, 30% and 40% at the end of 4th, 5th & 6th year, viz July 1 of 2002, 2003 and 2004 respectively.)</p>		
	156.50*	185.90
— Other Banks Principal	5.00	
Interest accrued and due	—	5.00
(Secured by exclusive mortgage of immovable property situated at Chennai)	401.86	372.80
* Due within one year - Rs. 81.49 Cr (Previous year Rs. 5.92 Cr)		
UNSECURED		
GOI Principal	253.34	241.41
Interest accrued and due	28.51	10.19
Housing Development Finance Corporation Ltd	4.84	5.24
8% Bonds in the form of Promissory Notes — payable at par in 4 equal instalments on March 2, April 2, May 2 and June 2, 2005 respectively.	0.98	1.30
7% Bonds - Face value of Rs 1 lac each — Payable in two equal instalments at the end of 16th and 17th months	0.50	—
LIC Housing Finance Ltd	1.89	1.97
Banks	3.82	13.65
Others	—	1.00
PUBLIC DEPOSITS	55.13	60.61
Due within one year - Rs. 31.83 Cr (Previous year Rs. 10.25 Cr)	349.01	335.37
	750.87@	708.17

@ Includes Interest accrued and due - secured loans Rs. 12.08 Cr & unsecured loans Rs. 28.51 Cr
(Previous Year - secured loans Rs. 8.55 Cr & unsecured loans Rs. 10.19 Cr)





4. FIXED ASSETS

(Rs. in Crores)

ASSET	GROSS BLOCK AT COST			DEPRECIATION UPTO		NET BLOCK AS ON	
	Mar 31, 2004	ADDITION	DEDUCTION	Mar 31, 2005	Mar 31, 2005	Mar 31, 2005	Mar 31, 2004
LAND *	1.68	—	—	1.68	—	1.68	1.68
ROAD, BRIDGES AND OTHER FACILITIES	2.30	—	—	2.30	0.63	1.67	1.71
RAILWAY SIDING **	1.05	—	—	1.05	0.96	0.09	0.10
BUILDINGS	14.16	—	—	14.16	5.03	9.13	9.49
PLANT & MACHINERY	834.26	8.54	0.62	842.18	366.71	475.47	509.59
AUTOMOTIVE & SERVICE EQUIPMENT	9.08	—	0.11	8.97	7.02	1.95	2.49
LAB EQUIPMENT	2.18	—	—	2.18	1.04	1.14	1.23
OFFICE EQUIPMENT	4.70	1.43	0.02	6.11	4.00	2.11	1.00
FURNITURE & FITTINGS	1.39	—	—	1.39	1.17	0.22	0.27
AIR CONDITIONERS & WATER COOLERS	0.91	—	—	0.91	0.56	0.35	0.38
	871.71	9.97	0.75	880.93	387.12	493.81	527.94
CAPITAL WORK-IN-PROGRESS (AT COST) \$	7.39	4.69	10.03	2.05	—	2.05	7.39
DISMANTLED ASSETS \$	0.35	—	0.17	0.18	—	0.18	0.35
TOTAL	879.45	14.66	10.95	883.16	387.12	496.04	535.68
PREVIOUS PERIOD	867.17	25.42	13.14	879.45	343.77		

* Includes

- Payments for 297.75 acres out of 329.40 acres handed over to the Company by the Tamilnadu Government and is subject to communication of final value by the Government.
- Rs 0.35 Cr being the cost of about 78 grounds of land allotted by Chennai Metropolitan Development Authority, the title for which has not yet been passed to the Company.
- Rs. 0.05 Cr being the payment made towards cost of 2288 sq.mt. land at Jigani Industrial Estate, Bangalore acquired under Sale cum Lease Agreement subject to communication of final value by Karnataka Industrial Area Development Board.

** Includes Rs 0.08 Cr representing 5/24 share of total cost of the Railway Siding commonly used by Chennai Petroleum Corporation Limited, Madras Fertilizers Limited, Madras Petrochem Limited, Steel Authority of India Limited and Rashtriya Ispat Nigam Limited.

\$ Deduction includes Rs.0.36 Cr and Rs.0.14 Cr write off against CWIP & Dismantled Assets respectively.

	(Rs in Crores)	
	March 31, 2005	March 31, 2004
5. INVESTMENTS AT COST - LONG TERM (NON - TRADE)		
UNQUOTED		
Indian Potash Limited (5,28,000 Equity Shares of Rs. 10 each fully paid-including 1,32,000 Bonus shares and 3,52,000 Rights Shares)	0.40	0.40
Fortune Bio-Tech Ltd (12,50,000 Equity Shares of Rs. 10 each fully paid)	1.25	1.25
Less : Provision	0.81	-
	0.44	1.25
	0.84	1.65
6. INVENTORIES		
(As certified by Management)		
STORES AND SPARES		
On Hand	55.45	46.32
In Transit	12.60	5.52
	68.05	51.84
PACKING MATERIALS	5.80	3.25
CATALYSTS	3.06	3.80
TOOLS	0.20	0.20
	9.06	7.25
STOCK IN TRADE		
Raw Materials		
On Hand	30.78	48.19
Work-in-Process	94.10	90.01
Finished Products		
Manufactured Stock		
- Fertilizers	7.23	31.52
Bought out Stocks		
- Agrochemicals	-	0.02
- Potash	0.76	-
- Ammonium Sulphate	-	-
	132.87	169.74
	209.98	228.83



	(Rs in Crores)	
	March 31, 2005	March 31, 2004
7. DEBTORS		
Debts due for more than six months		
- Considered Good in respect of which Company is fully Secured	1.37	0.40
- Considered Good in respect of which Company holds no Security other than the debtor's personal security	5.08	5.56
- Considered Doubtful - Unsecured	1.52	1.32
Other Debts		
- Considered Good in respect of which Company is fully Secured	2.40	22.11
- Considered Good in respect of which Company holds no Security other than the debtor's personal security	3.21	52.17
	<u>13.58</u>	<u>81.56</u>
Less: Provision for Doubtful Debts	1.52	1.32
	<u>12.06</u>	<u>80.24</u>
8. CASH AND BANK BALANCES		
Cash on hand	0.09	0.10
Remittances in transit	1.36	8.65
Balances with scheduled banks		
In Current Account	36.19	9.62
In Term Deposit	4.17	12.57
	<u>41.81</u>	<u>30.94</u>
9. LOANS AND ADVANCES (Unsecured and considered good unless otherwise stated)		
LOANS		
Secured	2.99	3.72
	<u>2.99</u>	<u>3.72</u>
ADVANCES AND DEPOSITS		
Advances recoverable in Cash or in kind or for value to be received	6.66	17.68
Balances with Customs, Port Trust and Excise Authorities	2.20	1.93
Deposits with Government Departments and Others	8.01	7.02
	<u>16.87</u>	<u>26.63</u>
CLAIMS RECOVERABLE	285.26	159.84
	<u>305.12</u>	<u>190.19</u>



	(Rs in Crores)	
	March 31, 2005	March 31, 2004
10. CURRENT LIABILITIES AND PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors		
– Small Scale Industrial Undertakings	6.37	4.50
– Other Creditors	323.93	308.69
Investor Education and Protection Fund		
– Unclaimed Deposits	0.27	0.80
Advances from Marketers/Dealers	7.84	4.46
Interest accrued but not due on loans	13.90	13.74
Other Liabilities	67.06	77.86
	<u>419.37</u>	<u>410.05</u>
PROVISIONS		
Provision for Income Tax	–	–
	<u>419.37</u>	<u>410.05</u>
11. DEFERRED REVENUE EXPENDITURE		
1. Public Issue Expenses	1.01	1.35
Less : Written off during the year	<u>0.34</u>	<u>0.34</u>
	0.67	1.01
2. VRS Compensation and Incremental Gratuity	15.42	10.07
Add : Additions during the year	1.18	9.59
Less : Written off during the year	<u>5.53</u>	<u>4.24</u>
	<u>11.07</u>	<u>15.42</u>
	<u>11.74</u>	<u>16.43</u>
12. SALES	2004-05	2003-04
PRODUCT SALES LESS RETURNS		
Manufactured Products :		
Urea & NPK Complex	643.67	728.71
Biofertilizers	0.57	0.35
Pesticides		0.10
Less : Excise Duty	–	<u>0.01</u>
Carbon-di-oxide	2.21	2.18
Bought Products :		
Potash	17.01	9.13
Agro Chemicals	0.90	0.57
Ammonium Sulphate	0.01	1.58
	<u>664.37</u>	<u>742.61</u>



		(Rs in Crores)	
		2004-05	2003-04
13. RAW MATERIALS CONSUMED			
FERTILIZER			
Opening Stock		48.04	33.29
Material Loan		8.93	3.35
Purchases		749.54 *	640.86
		<u>806.51</u>	<u>677.50</u>
Closing Stock		30.72	48.04
	(A)	<u>775.79 *</u>	<u>629.46</u>
PESTICIDES			
Opening Stock		0.14	0.19
Purchases		-	0.01
		<u>0.14</u>	<u>0.20</u>
Closing Stock		0.05	0.14
Cost of sales		-	0.06
Inventory written off		0.09	-
	(B)	<u>-</u>	<u>0.06</u>
Total Consumption	(A)+(B)	<u>775.79 *</u>	<u>629.52</u>
* Includes differential cost of bought urea replenished Rs. 15.99 Cr. (Previous year : Nil)			
14. REPAIRS AND MAINTENANCE EXPENSES			
Plant and Machinery		20.24	21.30
Buildings		0.83	0.43
Other Assets		0.24	0.33
		<u>21.31</u>	<u>22.06</u>
15. TRANSPORTATION AND WAREHOUSING EXPENSES			
Transportation and Warehousing		37.55	46.79
Secondary Freight		7.34	4.26
Warehouse Rent		1.01	4.62
		<u>45.90</u>	<u>55.67</u>
16. SALARIES AND OTHER BENEFITS TO EMPLOYEES			
Salaries, Wages and Bonus		30.19	33.08
Contribution to Provident Fund, Superannuation and Gratuity		9.13	7.09
Staff Welfare Expenses		6.25	6.72
		<u>45.57</u>	<u>46.89</u>



	(Rs in Crores)	
	2004-05	2003-04
17. INTEREST AND FINANCING CHARGES		
INTEREST ON		
Term Loans		
GOI Loan	18.69	16.82
Financial Institutions & HDFC	14.28	15.97
Other Borrowings		
Bank Borrowings	15.06	7.98
Public Deposits	5.77	7.00
Others	9.97	13.25
Financing Charges	0.26	0.05
Cash Discount	4.97	5.84
	<u>69.00</u>	<u>66.91</u>
Less: Transfer to Staff Welfare Expenses - interest subsidy on Housing Loans	0.41	0.40
	<u>68.59</u>	<u>66.51</u>
18. OTHER EXPENSES		
Rent	0.34	0.28
Rates and Taxes	5.71	5.17
Insurance	4.59	4.92
Directors' Travelling Expenses	0.10	0.11
Directors' Sitting Fees (April 04-Mar 05:Rs.33,000;Apr 03-Mar 04:Rs.20,500)	0	0
Audit Fees:		
– Statutory Audit (April 04-Mar 05:Rs.2,20,400;Apr 03-Mar 04:Rs.2,16,000)	0.02	0.02
– Tax Audit (April 04-Mar 05:Rs.55,100;Apr 03-Mar 04:Rs.54,000)	0.01	0
– Certification (April 04-Mar 05:Rs.4,60,050;Apr 03-Mar 04:Rs.3,22,380)	0.05	0.03
Agro Services/Information Expenses	0.17	0.30
Advertising and Publicity	0.12	0.16
Miscellaneous Expenses	16.69	17.24
	<u>27.80</u>	<u>28.23</u>



	(Rs in Crores)	
	2004-05	2003-04
19. OTHER INCOME		
Dividend (TDS - Nil : Previous Year - Nil)	0.08	0.06
Interest from Banks and Others	3.42	2.49
Profit on Sale of Assets	0.24	0.30
Miscellaneous Income	6.71	18.62
Insurance claims	0.14	2.02
Agency Commission - Insurance	0.11	-
	10.70	23.49

20. (A) SIGNIFICANT ACCOUNTING POLICIES**1. GENERAL :**

The financial statements are prepared under the historical cost convention and on going concern basis. These statements have been prepared in accordance with applicable mandatory Accounting Standards and relevant presentational requirements of Companies Act, 1956.

2. FIXED ASSETS :

Fixed Assets are stated at cost of acquisition/construction less accumulated depreciation.

Cost is inclusive of freight, installation, duties, other incidental expenses, allocated Expenditure during Construction, initial catalysts, mandatory/insurance spares acquired along with the machinery and interest on borrowed funds attributable to construction or acquisition for the period upto the capitalisation of the respective asset as reduced by liquidated damages.

Borrowing costs that are directly attributable to the acquisition/construction of an asset is capitalized as part of the cost of that asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably.

Assets acquired under Hire Purchase Agreements are capitalised to the extent of Principal value, while Hire charges are charged to revenue in the year in which they are payable.

Expenditure on Fixed Assets on revamp/expansion are capitalised when the respective Plants are ready for commercial production (viz. when the Plant achieves 50% capacity utilisation) and in respect of other assets when they are put to use.

3. DEPRECIATION :

Depreciation on Fixed Assets is provided for in conformity with the provisions of Schedule XIV to the Companies Act, 1956 on Straight Line Method by leaving a residual value of 5% in respect of Plant & Machinery and Re.1 in respect of other fixed assets.

Assets costing not more than Rs.5,000 each are depreciated in full in the year of addition by leaving a residual value of Re.1.

4. INVESTMENTS :

Long term Investments are stated at cost. Any diminution in the value of Long term Investments, other than temporary in nature, are provided for.

5. EXPENDITURE DURING CONSTRUCTION - EXPANSION SCHEMES :

All expenditure during construction till the Plant is ready for commercial production net of income are allocated to the respective fixed assets on completion of construction/erection. Expenditure during construction awaiting allocation to Fixed Assets is included under Capital Work in Progress.



6. GRANTS :

Grants from Government are shown as a deduction from the Gross Value of fixed assets/capital work in progress.

7. INVENTORY VALUATION :

- (i) Raw materials and packing materials are valued at cost on FIFO basis.
- (ii) Stores, spares and catalysts are valued at cost on monthly moving weighted average basis.
- (iii) Catalysts in process are valued based on the estimated life of each catalyst.
- (iv) Loose tools and reconditioned spares are revalued on WDV basis annually.
- (v) Finished products are valued at lower of cost or net realizable value including latest price concession and estimated price concession for the unannounced period.

Net realizable value is taken as under :

Complex Fertilizers

- Field warehouse inventories: Least of selling price fixed by MFL to Marketers / Dealers plus estimated/final price concession.
- Field warehouse inventories to be brought back to Plant for reprocessing: The least of selling price fixed by MFL to Marketers / Dealers plus estimated/final price concession less estimated reprocessing costs and freight.
- Inventories in transit : The least of selling price fixed by MFL to Marketers / Dealers plus estimated/final price concession less estimated warehousing expenses.
- Inventories at Plant ready for sale : The least of selling price fixed by MFL to Marketers / Dealers plus estimated/final price concession less estimated freight and warehousing expenses.

Urea

- Field warehouse inventories: Least of selling price to Marketers / Dealers.
- Inventories in transit : The least of selling price to Marketers / Dealers less estimated warehousing expenses.
- Inventories at Plant ready for sale : The least of selling price to Marketers / Dealers plus estimated/final concession less estimated freight and warehousing expenses.
- Bulk Urea at Plant : Least of selling price to Marketers / Dealers plus estimated/final concession less estimated bagging, freight and warehousing expenses.

Warehousing expenses have been distributed over sales and closing stock.

MFL has adopted FIFO method of valuation of raw materials and packing materials content in the inventory of finished products.

Ammonia is valued at cost as the same is captively consumed.

- (vi) Off-spec products intended for disposal are valued at estimated realizable value. Off-spec products intended for reprocessing are valued at applicable cost less expenses to be incurred for bringing it to Plant and reprocessing costs. Off-spec products at Plant are valued at cost at Plant less reprocessing cost.
- (vii) Inventory of traded products are valued at lower of location specific cost or net realizable value. Agrochemicals inventory is valued on FIFO method, which includes purchase cost and other related expenses.
- (viii) Inventory of Pesticides manufactured and lying at factory under Loan Licensing Scheme are valued at cost excluding Excise Duty.
- (ix) Goods in Transit / Under Inspection are valued at cost.

8. DEBTORS/LOANS AND ADVANCES :

Sundry Debtors, Loans and Advances are reviewed periodically and provision is made for debts considered doubtful of recovery.



9. SALES :

Sales excludes sales return, dealers'/marketers' margin and Sales Tax but includes Price Concession for Complex Fertilizers.

10. UREA CONCESSION UNDER NEW PRICING :

Urea Concession is accounted on clearance of finished goods from the factory as per procedure prescribed by the Government. Credit/Debit for Annual Escalation/De-escalation in input prices is considered in the concession based on realistic estimates pending issue of notification by the Government. Adjustments are effected in respect of difference, if any, in the year of receipt.

11. FOREIGN CURRENCY TRANSACTIONS :

All transactions made during the year in foreign currency are recorded in the reporting currency by applying to the foreign currency amount the exchange rate on the initial recognition date. Foreign currency transactions settled after initial recognition date and other transactions remaining unsettled at the end of the accounting period are translated at the exchange rate on the date of settlement or prevalent at the end of accounting period as the case may be. Gains and losses relating to foreign exchange transactions are recognised in the profit and loss account.

12. RETIREMENT BENEFITS :

Employer's Contribution to Provident Fund at rates fixed by the Government from time to time is accounted on accrual basis.

Gratuity benefits due to the employees are secured by a master policy issued by LIC of India. Contributions to the Fund are provided annually based on advice from LIC of India.

Pension benefits to employees are secured by a Superannuation Fund maintained by the Company through LIC of India. Provision for annual contribution for each year is accounted as expenditure of that year.

Provision for value of unutilised leave due to employees on retirement is made on the basis of actuarial valuation.

13. CLAIMS :

- (i) Claims by the Company on Underwriters are accounted as income on acceptance, pending settlement.
- (ii) Claims on Railways towards transit loss are accounted on settlement.
- (iii) Claims for liquidated damages against suppliers/contractors are accounted for on recovery of the same from their bills and adjusted to the cost of assets or to the materials/works as the case may be.

14. PRIOR PERIOD ADJUSTMENTS :

Income/Expenditure which arise in the Current Year as a result of errors or omissions in the preparation of financial statements of earlier years are treated as Prior Period Adjustments.

15. MISCELLANEOUS / DEFERRED REVENUE EXPENDITURE :

- a. Share Issue expenses are treated as deferred Revenue Expenditure and written off over a maximum period of 10 years.
- b. Voluntary Retirement compensation under Voluntary Retirement Scheme (VRS) payable to employees and incremental Gratuity arising out of such VRS are written off over a period of sixty months from the date of retirement or over a period of the number of months of compensation received by the respective employees whichever is earlier.

16. CONTINGENT LIABILITY :

Depending on facts of each case and after due evaluation of relevant legal aspects, claims against the company not acknowledged as debts are disclosed as contingent liabilities.



20. (B) NOTES ON ACCOUNTS**(i) DEPRECIATION**

Details of Depreciation provided during the year:

	2004-05 Rupees	2003-04 Rupees
Roads, Bridges and other facilities	3,74,449	3,74,449
Railway Siding	1,56,706	1,56,706
Buildings	35,68,917	35,68,917
Plant and Machinery	42,17,71,154	41,74,38,672
Automotive & Service Equipment	53,52,014	58,46,834
Laboratory Equipment	8,30,731	8,30,731
Office Equipment	30,97,878	28,08,656
Furniture & Fittings	4,64,704	4,63,670
Air Conditioners & Water Coolers	3,47,660	3,47,714
	43,59,64,213	43,18,36,349

(ii) BOUGHT UREA

GOI has permitted MFL to import / procure Urea indigenously at Import Parity Price for use in the manufacture of Complex Fertilizers. Accordingly, MFL has been using Urea bought / imported in the production of Complex Fertilizers. However, due to time lag between requirement for consumption and actual receipt of Bought Urea, it has been the practice to use manufactured urea in Complex production, which will later be replenished on receipt of Bought Urea. During the year 2004-05 the Company received 1,01,618 MT of Urea including 15,833 MT from BVFCL. However the Urea so used but yet to be replenished as on March 31, 2005 is 42,767 MT.

The difference between the amount provided in the books and cost of manufactured urea as on balance sheet date amounting to Rs.13.11 Cr (Previous year Rs.4.08 Cr) for the quantity to be replenished has not been provided for, and as per consistent practice will be charged to P & L account during subsequent year.

(iii) CONCESSION UNDER NEW PRICING SCHEME FOR UREA

Escalation/De-escalation in input prices is subject to annual revision based on the actual prices.

Accordingly, a sum of Rs.122.83 Cr (Previous year Rs.17.05 Cr) has been reckoned as income for the year 2004-05 towards annual cost escalation of input prices.

(iv) PRICE CONCESSION SCHEME

The claims preferred during the year 2004-05 under the Price Concession Scheme in respect of Phosphatic and Potassic Fertilizers aggregate to Rs.151.05 Cr (Previous year Rs. 132.42 Cr). Settlement received during the year is Rs. 141.52 Cr (Previous year Rs. 134.61 Cr). Claims to be settled as on March 31, 2005 amounting to Rs. 52.49 Cr (Previous year Rs.42.96 Cr) is included under 'Claims Recoverable'.

(v) EXCHANGE RATE FLUCTUATION

Exchange rate fluctuation included under other income is Rs.2.05 Cr. (Previous year - Rs.11.20 Cr).

(vi) FINANCIAL INSTITUTIONS – CDR PACKAGE

Consequent to the approval of Corporate Debt Restructuring by Financial Institutions, the net difference of Rs. 3.64 lacs has been written off arising out of reconciliation of accounts with Financial Institutions. Accordingly, the requisite adjustments have been made to reflect /reposition the reconciled balances of principal and accrued interest of respective financial institutions.



(vii) FINANCIAL INSTITUTIONS – ONE TIME SETTLEMENT

The Company invited offers for One Time Settlement from all the Financial Institutions, requesting their quotes by end-March 2005. Only ICICI Bank had responded and a settlement was entered into with them. The ICICI Bank had agreed to waive principal amounting to Rs.14.65 Cr subject to MFL settling Rs.34.50 Cr towards full and final settlement in three instalments – Rs.11.00 Cr on 31.3.2005, Rs.11.75 Cr on 20.4.2005 and Rs.11.75 Cr on 20.5.2005 which have since been paid fully.

The interest accrued and unpaid for the current year amounting to Rs.4.30 Cr has also been waived.

The principal waiver of Rs.14.65 Cr has been credited to P & L A/c and reflected as extraordinary/exceptional item.

(viii) VOLUNTARY RETIREMENT SCHEME (VRS)

Voluntary Retirement compensation of Rs.1.18 Cr (Previous year Rs.9.59 Cr) paid during 2004-05 has been treated as Deferred Revenue Expenditure to be written-off over a period 60 months from the date of retirement or over a period of the number of months of compensation received by the respective employees, whichever is earlier. The amount written-off during the year including gratuity is Rs.5.53 Cr (Previous year Rs.4.24 Cr).

ix) Sundry Creditors include Rs.2.43 Cr (Previous year Rs.4.49 Cr) dues to the following Small Scale Industrial Undertakings beyond 30 days:

Sipani Fibres Ltd
Jhaveri Polymers Ltd
Klene Paks

x) Provision towards redundant stores and spares as on 31-03-2005 amounts to Rs. 0.85 Cr. (Previous year Rs. 0.60 Cr.) including Rs. 0.25 Cr. more in the current year.

xi) Advances include a sum of Rs.65.81 lacs deposited with ESI authorities being employer contribution to ESI as per the direction of Hon. Madras High Court. Pending disposal of the case by the Hon. Madras High Court, the amount is shown under deposits as of 31.3.2005.

xii) The case filed by separated employees with Hon. Madras High Court for differential Gratuity arising on account of Pay Revision is still pending. Pending disposal of the case, the amount of Rs.1.02 Cr paid on interim basis, as per the order of the Asst. Labour Commissioner to the ex-employees is treated as 'Claims Recoverable' as of 31.3.2005.

xiii) Claims Recoverable include Rs.78.23 lacs recoverable from Seashore Logistics Limited, ex C & F agent of the Company. The Company has filed a suit in the Hon. Madras High Court against the above C&F agent. Pending disposal of the case, the amount is retained under Claims Recoverable as of 31.3.2005.

xiv) No adjustment towards impairment losses as per AS 28 (Accounting for Impairment of Assets) is considered necessary as on 31.3.2005 based on independent valuer's assessment.

xv) During the year, the Company has leased out its Bio-fertilizer Plant at Vijayawada, having a Gross Block of Rs. 49.05 lacs and accumulated depreciation of Rs.15.68 lacs. The lease rent received during the year is Rs.0.51 lacs (Previous Year - 'Nil').

The depreciation recognized in the books during the year for the above asset is Rs.2.28 lacs. The future lease rental receivable under non-transferable operating lease for each of the following periods are :

a) Within 1 year	-	Rs.1.20 lacs
b) Later than 1 year and not later than 5 years	-	Rs.4.86 lacs
c) Later than 5 years	-	NIL



xvi) OTHER DISCLOSURES:

- i) The amount of borrowing costs capitalized for the year April 2004 - March 2005 is 'NIL' (Previous year 'NIL') per AS 16 (Borrowing Costs).
- ii) Fertilizer manufacturing being the only main segment and trading operations being less than 10% of the total revenue, there is no segment reporting in MFL as per AS 17 (Segment Reporting).
- iii) During the year there were no transactions with related parties as defined in AS 18 (Related Party Disclosures). The data relating to key managerial personnel viz. Mr Sukumar N Oommen - Chairman and Managing Director is furnished under Note 21.
- iv) The Company has not entered into joint venture activities as defined in AS 27. Accordingly AS 27 on "Financial Reporting of Interest in Joint Venture" is not applicable to the Company at present.
- v)
 - a) The company is not liable for payment of Income-Tax for the current year considering the current year and carry forward losses and allowances available for set off and hence no provision is made for current year tax.
 - b) Deferred tax asset (Net) as at 31st March 2005 has not been recognized as there is no virtual certainty that the company would earn taxable profits in future periods with reasonable certainty for setting off the carry forward loss and depreciation benefits available under the Income-Tax Act.

21. INFORMATION ON REMUNERATION TO DIRECTORS

	2004-05 Rupees	2003-04 Rupees
Remuneration to Chairman & Managing Director		
Salary and Allowances	5,05,753	4,72,800
Contribution to Provident & Other Funds	1,48,513	1,42,722
Other Perquisites	70,717	80,138
TOTAL	7,24,983	6,95,660
Loans and Advances 'Nil'.		

22. INFORMATION ON GOODS MANUFACTURED AND TRADED**(a) Capacities: (Per Annum)**

	2004-05 Installed MT	2003-04 Installed MT
Ammonia	3,46,500	3,46,500
Urea	4,86,750	4,86,750
NPK	8,40,000	8,40,000
Bio fertilizers	400	400

(b) Production:

Ammonia	3,00,886	2,59,622
Urea	4,73,032	3,87,678
NPK 17-17-17	3,15,720	3,28,542
NPK 19-19-19	7,560	54,361
NPK 20-20-0	6,665	31,880
NPK 18-46-0	-	10,829
NPK 20-0-10	3,530	3,000
Bio fertilizers	213	126
Pesticides (Litres) CFL	-	4,030



	2004-05		2003-04	
	Quantity	Amount	Quantity	Amount
	MT	Rupees	MT	Rupees
(c) Purchases:				
Ammounium Sulphate	14	65,209	2,882	1,34,13,203
Bought Potash	17,612	16,00,37,731	10,942	6,83,85,887
Agro Chemicals	-	70,83,205	-	47,45,174
		<u>16,71,86,145</u>		<u>8,65,44,264</u>
(d) Sales:				
Manufactured Products	Quantity	Amount	Quantity	Amount
	MT	Rupees	MT	Rupees
Urea	4,83,142	224,66,13,194	4,13,959	192,48,78,530
NPK 17-17-17	3,28,636	393,84,42,653	4,17,861	432,13,36,904
NPK 14-28-14	1,287	1,60,01,920	577	65,96,239
NPK 19-19-19	8,208	10,43,69,754	56,636	63,00,63,199
NPK 20-20-0	10,463	10,83,32,446	28,096	27,05,19,848
NPK 20-0-10	4,245	2,29,51,790	2,281	1,23,26,783
NPK 18-46-0	-	-	10,828	13,09,66,232
Carbon-dioxide*	10,080	2,21,41,858	10,288	2,17,96,259
Bio fertilizers	213	56,76,554	126	35,35,394
Pesticides	-	-	-	8,49,851
Bought Potash	16,787	17,01,06,567	12,691	9,13,32,283
Amm. Sulphate	22	1,21,089	2,874	1,58,16,007
Agrochemicals	-	89,70,970	-	56,86,271
Less : Sales Returns				
NPK 17-17-17	-	-	1,006	(85,92,344)
NPK 14-28-14	-	-	-	(9,81,389)
		<u>664,37,28,795</u>		<u>742,61,30,067</u>
* By-product				
(e) Stocks:				
(i) Opening Stock	Quantity	Amount	Quantity	Amount
	MT	Rupees	MT	Rupees
(a) Finished Products				
Manufactured Products				
Urea	21,945	13,80,70,859	62,807	28,23,14,999
NPK 17-17-17	13,217	11,83,45,086	97,993	95,71,45,820
NPK 14-28-14	1,295	1,39,20,959	4,256	4,03,63,512
NPK 19-19-19	713	66,52,945	3,028	3,13,72,627
NPK 20-20-0	3,803	3,46,48,097	20	1,24,203
NPK 20-0-10	719	36,21,704	-	-
Amm. Sulphate	8	38,677	-	-
Pesticides	-	-	-	29,802
Bought Potash	-	-	1,749	1,13,55,849
Agrochemicals	-	1,70,603	-	25,660
		<u>31,54,68,930</u>		<u>132,27,32,472</u>
(b) Work-in-Process				
Manufactured Products				
Ammonia	7,290	15,16,32,708	8,476	16,51,22,785
Urea - bulk	51,749	74,84,42,682	38,539	54,15,93,192
		<u>90,00,75,390</u>		<u>70,67,15,977</u>



ii) Closing Stock		2004-05		2003-04	
(a)	Finished Products	Quantity	Amount	Quantity	Amount
	Manufactured Products	MT	Rupees	MT	Rupees
	Urea	13,536	7,01,35,740	21,945	13,80,70,859
	NPK 17-17-17	171	21,29,097	13,217	11,83,45,086
	NPK 14-28-14	–	–	1,295	1,39,20,959
	NPK 19-19-19	–	–	713	66,52,945
	NPK 20-20-0	2	21,612	3,803	3,46,48,097
	NPK 20-0-10	4	21,046	719	36,21,704
	Amm. Sulphate	–	–	8	38,677
	Bought Potash	825	76,24,427	–	–
	Agrochemicals	–	24,434	–	1,70,603
			<u>7,99,56,356</u>		<u>31,54,68,930</u>
(b)	Work-in-Process				
	Manufactured Products				
	Ammonia	8,302	17,94,52,613	7,290	15,16,32,708
	Urea - bulk	47,851	76,15,22,825	51,749	74,84,42,682
			<u>94,09,75,438</u>		<u>90,00,75,390</u>
(c)	Stock Losses/(Gains) - Quantities reckoned in accretion/decretion in inventory				
		MT	MT		
	NPK 17-17-17	82 *		188	
	NPK 14-28-14	8 *		2,384	
	NPK 19-19-19	65 *		29	
	NPK 20-20-0	3		1	
	Urea	255 *		38	
* Includes 8 MT of NPK 14-28-14 and 58 MT of NPK 19-19-19 and 180 MT of Urea consumed in NPK Production (Previous Period 2,384 MT of NPK 14-28-14 and 19 MT of NPK 19-19-19). The above figures reckon 52 MT of 17-17-17 reprocessing loss (previous year 3,804 MT reprocessing gain) but do not reckon 1,938 MT Urea used in NPK mixture manufacture (Previous Year 1,320 MT).					
(d)	Offspec Disposed - Quantities	MT		MT	
	NPK 17-17-17	48		79	
	NPK 19-19-19	–		11	
	Urea	4		13	
	DAP	–		1	



	%	Quantity MT	2004-05 Amount Rupees	%	Quantity MT	2003-04 Amount Rupees
(f) Consumption						
(i) Basic Raw Materials						
Imported						
Phosphoric Acid		49,166	92,31,36,599		74,388	125,10,27,543
Potash		97,681	77,89,68,931		1,16,530	73,13,35,997
Urea		85,785	97,42,03,363		43,974	34,14,82,986
Ammonia		3,260	7,25,96,622		9	76,769
Ammonium Sulphate		4,145	1,91,63,595		14,576	6,79,66,357
	<u>36</u>		<u>276,80,69,110</u>	<u>38</u>		<u>239,18,89,652</u>
Indigenous						
Naphtha		2,27,918	449,36,28,148		2,02,076	306,41,38,841
Bought Urea		9,564	28,28,31,839 *		71,493	63,99,44,530
Pesticides		—	—		—	5,52,233
Ammonium Sulphate		—	—		1,924	78,02,813
Phosphoric Acid		7,203	13,93,32,087		7,030	11,60,44,847
Ammonia		3,808	6,51,00,627		4,851	6,06,06,084
Others		—	89,15,992		—	1,41,69,854
	<u>64</u>		<u>498,98,08,693</u>	<u>62</u>		<u>390,32,59,202</u>
	<u>100</u>		<u>775,78,77,803</u>	<u>100</u>		<u>629,51,48,854</u>
(ii) Components and Spares						
Imported	27		5,51,58,512	31		5,58,44,900
Indigenous	73		14,70,04,581	69		12,20,26,042
	<u>100</u>		<u>20,21,63,093</u>	<u>100</u>		<u>17,78,70,942</u>

* Includes Rs. 15,99,35,852 being differential cost of Bought Urea replenished against previous year consumption.

23. INFORMATION ON IMPORTS AND FOREIGN CURRENCY/EXCHANGE TRANSACTIONS

	2004-05 Rupees	2003-04 Rupees
(a) Imports (CIF Value)		
Raw Materials	255,54,44,681	241,35,97,290
Components and Spare Parts	11,14,07,782	6,88,25,666
	<u>266,68,52,463</u>	<u>248,24,22,956</u>
(b) Other Expenditure incurred in Foreign Currency		
(i) Catalyst Lease Rental	41,57,280	—
(ii) Books and Periodicals	50,808	1,48,798
(iii) Travels (Business, Seminar, Conference etc.,)	23,310	—
	Apr 2004 to Mar 2005	Apr 2003 to Mar 2004
No. of persons	1	—
Foreign Currency US Dollars	525	—
(iv) Interest & Financing Charges	—	3,84,538
	<u>42,31,398</u>	<u>5,33,336</u>



24. CONTINGENT LIABILITIES, CAPITAL COMMITMENTS AND L/Cs OUTSTANDING	2004-05 Rupees	2003-04 Rupees
(a) Contingent Liabilities in respect of claims against the Company not acknowledged as debts in respect of Income Tax, Excise Duty, Sales Tax and Others (Includes Rs. 1.98 Cr on Capital Account of which Rs. 0.23 Cr is interest)	15,97,76,015	15,60,89,577
(b) L/Cs Outstanding	38,74,38,433	69,62,53,455
(c) Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (after adjusting advance made therefor)	6,76,55,924	9,71,16,828
(d) ESI Liability not provided for the period Oct. '99 thru Sep. 2000 based on Court's Interim Injunction and Interest for the earlier period.	45,35,003	45,35,003

25. GENERAL INFORMATION

- a. SALARY/WAGE REVISION: GOI have approved Salary/Wage revision effective January 1, 1997 for Supervisors and Non-Supervisors vide OM No. 118/3/2000-HR-1 dated October 12, 2000 and the same had been implemented effective April 1, 2000. However, arrears for the period January 1, 1997 to March 31, 2000 shall be paid in 8 installments subject to the Company making a minimum profit of Rs. 10.50 Cr. The installments will be spaced to the extent of a maximum of 50% of the profit shall be permitted to be appropriated for payment of arrears.
- b. Confirmation of balances has not been received in respect of Loans from Financial Institutions, debtors, creditors, claims recoverable and other parties included under Loans and advances.
- c. Figures for the previous year have been regrouped wherever necessary to conform to Current Year's classification.
- d. Additional information as required under Part IV of Schedule VI to the Companies Act, 1956 is furnished in Annexure.

SUKUMAR N OOMMEN
Chairman and
Managing Director
June 23, 2005

J S MAINI
Director

B SUKUMAR
Company Secretary &
DGM - Legal

K LAKSHMINARAYANA RAO
General Manager
Finance & Accounts

As per our Report of even date

for R. SUBRAMANIAN AND COMPANY
Chartered Accountants

Chennai
Date : June 23, 2005

A. GANESAN
Partner



MADRAS FERTILIZERS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2005

(Rs. in Crores)

	2004-05	2003-04
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax and Extraordinary Items	(73.04)	(113.91)
Adjustments for		
Depreciation	43.59	43.18
Provision for Bad and Doubtful Debts	0.20	0.20
Provision for erosion in investments	0.81	—
Deferred Revenue Expenditure written off	5.87	32.96
Dividend Income	(0.08)	(0.06)
Interest Income	(3.42)	(2.49)
Profit from sale of Fixed Assets	(0.24)	(0.30)
Exchange Rate Fluctuation	(2.05)	(11.20)
Interest Expenses	68.59	66.51
Operating Profit Before Working Capital Changes	40.23	14.89
Adjustments for		
Deferred Revenue Expenditure - VRS	(1.18)	(9.59)
Trade & Other Receivables	67.98	3.19
Inventories	18.85	84.69
Other Current Assets		
Loans & Advances	(114.93)	43.79
Trade Payables	11.21	(89.51)
Cash generated from Operations	22.16	47.46
Direct taxes paid	—	—
Cash Flow before Extraordinary Items	22.16	47.46
Extraordinary Items	—	—
Net Cash from Operating Activities	22.16	47.46
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(4.98)	(13.31)
Sale of Fixed Assets	0.76	0.48
Dividend Received	0.08	0.06
Net Cash used in Investing Activities	(4.14)	(12.77)



CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2005 (Contd.)

(Rs. in Crores)

	2004-05	2003-04
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share Capital	-	-
Interest Paid	(65.04)	(57.64)
	(65.04)	(57.64)
Proceeds from Loan Funds	88.53	120.59
Repayment of Loan Funds	(30.64)	(84.82)
Dividend Paid	-	-
Net Cash used in Financing Activities	(7.15)	(21.87)
Net increase in Cash & Cash Equivalents	10.87	12.82
Cash & Cash Equivalents as at 1st April 2004	30.94	18.12
Cash & Cash Equivalents as at 31st March 2005	41.81	30.94

Note : Figures in brackets represent cash outflows

SUKUMAR N OOMMENChairman and
Managing Director

June 23, 2005

J S MAINI

Director

B SUKUMARCompany Secretary &
DGM - Legal**K LAKSHMINARAYANA RAO**General Manager
Finance & Accounts**AUDITORS' REPORT**

We have examined the above cashflow statement of M/s. Madras Fertilizers Limited for the year ended 31.03.2005. The Statement has been prepared by the Company in accordance with the requirements of the listing agreement with the stock exchanges and is based on and derived from the Audited Accounts of the Company for the year ended 31.03.2005.

For R. SUBRAMANIAN AND COMPANY
Chartered Accountants

Chennai

June 23, 2005

A. GANESAN

Partner

**MADRAS FERTILIZERS LIMITED**

ANNEXURE

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.
 Balance Sheet Date
Date Month Year State Code

II. Capital raised during the year (Amount in Rs. Thousands)

Public Issue
 Bonus Issue
 Rights Issue
 Private Placement

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities
 Total Assets
Source of Funds
 Paid-up Capital
 Secured Loans
 Reserves & Surplus
 Unsecured Loans
Application of Funds
 Net Fixed Assets
 Net Current Assets
 Investments
 Accumulated Losses
 Misc. Expenditure

IV. Performance of Company (Amount in Rs. Thousands)

Turnover
 Profit/Loss Before Tax
 Total Expenditure
 Profit/Loss After Tax
 Earning per share in Rs.
 Dividend rate %

(Please tick appropriate box + for profit, - for loss)

V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)
 Product Description

 Item Code No. (ITC Code)
 Product Description
 Item Code No. (ITC Code)
 Product Description

