



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 Mansoor Rad

Board Subcommittee / Management Committee

Shri Sukumar N. Oommen, IAS (Retd.)

Ms Swatantra K Sekhon, IAS

Shri Mahmood Vaezi

Audit Committee

Ms Swatantra K Sekhon, IAS

Shri Mahmood Vaezi

Shri Mansoor Rad

Shareholders' / Investors' Grievance Committee

Shri Sukumar N. Oommen, IAS (Retd.)

Shri Mahmood Vaezi

Executives

Shri Sukumar N Oommen, IAS (Retd.)

Chairman & Managing Director

Shri Ajay Mankotia, IRS

Chief Vigilance Officer

Shri P S Neelakantan

Executive Director (Technical)

Shri R Mohan Das

General Manager (P&A)

Shri K Lakshminarayana Rao

General Manager (F&A)

Shri S Devaraj

General Manager (M&D) - Acting

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

M/s. R. Subramanian and Company
Chartered Accountants
New No. 6, Krishnaswamy Avenue,
Luz, Mylapore, Chennai - 600 004



MADRAS FERTILIZERS LIMITED

40th Annual General Meeting

Chennai

September 21, 2006



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

Ladies & Gentlemen,

It is with mixed feelings that I address you on this 40th Annual General Meeting of your Company. While I have great pleasure in welcoming you to this meeting, I confess that I have considerable sorrow in announcing the results of the operations of your Company and the forecast for the future.

The Directors' Report along with the audited accounts for the year 2005-06 are with you. With your leave, I take them as read. You will be further pleased to note that the Comptroller and Auditor General has certified our accounts without any comments. This is a good testimony of the Accounting Standards and corporate practices being followed assiduously in your Company. The Statutory Auditors have qualified the accounts for the year 2005-06. In their opinion, your Company is no longer a *"going concern"*.

It is a *"gone concern"*. I shall elaborate on this aspect a little later. I take this opportunity to convey our gratitude to the Statutory Auditors and to the Auditors in the Office of the Comptroller and Auditor General for their cooperation and guidance.

Fertilizer Industry Scenario
Production and Consumption

The production of both 'N' and 'P' posted impressive growth during 2005-06. The production of 'N' increased from 11.305 Million Tonnes during 2004-05 to 11.332 Million Tonnes during 2005-06. The production of 'P' increased from 4.028 Million Tonnes during 2004-05 to 4.179 Million Tonnes during 2005-06. The total production of all fertilizers stood at 34.92 Million Tonnes compared to 33.95 Million Tonnes, last year.



A near normal monsoon during 2005-06 resulted in an increase in fertilizer consumption. Consumption of total nutrients (N+P+K) increased by about 11.14% from 18.14 Million Tonnes in 2004-05 to 20.16 Million Tonnes during 2005-06. The total consumption of all products stood at 41.74 Million Tonnes compared to 37.92 Million Tonnes of last year. South India's consumption was 10.3 Million Tonnes of fertilizers, out of which your Company's share was 5.7% against last year share of 9.5%.

Plant Performance

The capacity utilization of Ammonia and Urea Plants during the year was 66% and 76% respectively. Production of Urea was affected between November 2005 and January 2006 on account of failure of Catalysts and critical Heat Exchangers. NPK production was only at 25% capacity for want of Muriate of Potash and Phosphoric Acid. Your Company could not procure these raw materials because of the severe liquidity crisis.

I must mention in this connection an inherent imbalance in our operations; 80% of specific energy of Urea is Ammonia energy. Ammonia Plant needs to be operated at 100% capacity to attain specific energy consumption of 7.1 GCal per Metric Ton of Urea, to generate profits. However, we are not in a position to run the Ammonia Plant at 100% capacity because of the high cost of our feed stock, viz. Naphtha. With the cost of Naphtha at Rs.31000/- per Kilo Liter, the cost of production of Ammonia at MFL would be around Rs.27,000/- per Metric Ton, as against imported Ammonia, the cost of which ranges between Rs.18500/- and Rs.19000/- per Metric Ton. Therefore it is only prudent that production of Ammonia should be restricted to attain 100% capacity utilization of Urea

Plant. By operating the Ammonia Plant between 80% and 85%, we could achieve 100% capacity utilization of Urea Plant. Energy of Urea Plant, however, would be in the range of 7.4 to 7.5 GCal per Metric Tonnes. This has an adverse effect on our profitability.

Marketing Performance

Though rainfall was almost normal in the entire South, your Company could not exploit the good monsoon because of the shortfall in the production of fertilizer. We could sell only 3.87 lac Metric Tonnes of Urea during the year as against 4.8 lac Metric Tonnes during the previous year. Consequently the market share of Vijay Urea fell from 13.6% to 9%. Similarly the market share of Complex fertilizers fell from 14% of previous year to 6% with only 2.02 lac Metric Tonnes of NPK being available for sale. The loss on account of lower sales volumes has been compensated to some extent by reduction in marketing costs. Warehousing costs were reduced by 32% and manpower costs by 15%. The sale of Agrochemicals and Biofertilizers was an improvement over the previous year. Again your Company exceeded the targets and all expectations in realization of commission of approximately Rs.100 lacs thru marketing of insurance products of ING Vysya.

Financial Performance – 2005-06

The Company's operations for the year ended with a loss of Rs.131.74 Cr. against the loss of Rs.58.39 Cr. in the previous year. The losses of the Company are attributable largely to the changes in the policies of pricing of Urea and Complex fertilizers. The Govt of India did not reckon the cost of Urea that is utilized in the manufacture of our Complex fertilizers



(NPK 17-17-17 and 19-19-19) since 2002-03. It may be mentioned that the Tariff Commission appointed by the Govt of India had recommended compensation for the cost of Urea used in manufacture of Complex fertilizers. This recommendation was not accepted. Further, the policy of pricing of Urea had been changed to the Company's disadvantage under the New Pricing Scheme from April 2003. The under-recovery on account of the changes in the Pricing Policies of NPK amounts to Rs.50.47 Cr. from 2002-03 to 2005-06 and Rs.97.81 Cr. in respect of Urea for the years 2003-04 to 2005-06.

You may recall that I had informed at our last meeting on September 28, 2005 that the Board for Restructuring of Public Sector Enterprises, as early as in March 2005, had recommended correction in the anomalies in the Pricing Policies. The recommendations of the BRPSE were considered by an inter-ministerial Committee of Secretaries at its meeting held on March 22, 2006. This Committee has not supported the recommendations of the BRPSE. All our hopes for revival are now in jeopardy.

The accumulated loss of your Company as of March 31, 2006 has risen to Rs.398.92 Cr. Your Company had become sick during the year 2003-04 which was reported to BIFR pursuant to the provisions of Sick Industrial Companies (Special Provisions) Act, 1985. The BIFR did not register your Company as a Sick Company because we were hopeful of relief thru policy changes. Now that the Government has rejected our request, your Company would be making a fresh application before the BIFR for registration as a Sick Company under the 'Sick Industries Companies (Special Provisions) Act, 1985.'

I mentioned earlier that the Statutory Auditors have qualified your Company as a "gone concern." In their opinion, there was a steady deterioration in the Company's performance because of the policies of the Govt from 2003-04. The Company had ceased to be a "going concern" in 2004-05 itself. They had withheld such qualification in the last accounts because the Management had led them to believe that the Govt of India would restructure the capital and make necessary changes in Pricing Policies. As these proposals had not materialized, the Auditors have confirmed that the Company is no longer a "going concern". Their conclusion is in conformity with the Accounting Standards. They have emphasized that the Company is now undeniably a "gone concern" for reasons as follows:

- Company had been consistently making losses;
- Its Net worth was fully eroded as on 31.3.2004;
- Losses would increase as volumes increase because of the adverse effect of the Pricing Policies;
- The operations of the Company offered no hope of
 - reduction of debt;
 - increase in flow of revenue to meet debt obligations and to sustain operations;
 - improvement in Net Worth and finally,

The promoters have no plans for infusion of funds.

Your Directors considered the report of the Statutory Auditors at their meeting on June 29, 2006. They have recommended an early meeting of the promoters to decide on the fate of the Company.



Your Directors have also suggested a possible take over of the Company by another Public Sector Unit or a Cooperative. I wish to inform you that National Fertilizers Ltd, Gujarat State Fertilizers & Chemicals Ltd and Krishak Bharati Cooperative Ltd have visited MFL Plant and conducted a limited due diligence. We have not had any response after their visits.

Future Forecast

We have projected 100% capacity utilization for Urea Plant and 25% for NPK Plant during the current year. Our operations for 2006-07 within the existing policy environment would result in a loss of about Rs.100 Cr. We sincerely hope the promoters would take cognizance of the unviability of our operations and take suitable measures.

New Pricing Scheme

Stage III of the New Pricing Scheme for Urea was to commence from April 2006. There is no mention

about extension of outlier benefit under Stage III. If the outlier benefit is not extended, your Company would lose about Rs.2000/- per Metric Ton which was available under Stages I & II. Stage III is likely to be introduced with effect from October 2006.

Conclusion

The Company's operations are in a precarious condition, at present. The situation has gone beyond Company's control. I have no doubt, the employees will put in their best efforts as hitherto without losing the morale.

I take this opportunity to thank all my colleagues on the Board, Financial Institutions, Contractors, service providers, and our valued customers for their patronage and continued support. We pray that we shall witness the resurrection of your Company from ashes to glory; yes indeed from glory to greater glory!!

Thank you



Madras Fertilizers Limited

Regd Office : Manali, Chennai 600 068.

Notice

NOTICE is hereby given that the 40th Annual General Meeting of Madras Fertilizers Limited will be held on Thursday, September 21, 2006 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, 2006 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 Ms Swatantra K Sekhon, I A S who retires by rotation and is eligible for reappointment.
- 3 To appoint a Director in the place of Shri Manoj Kumar, I A S who retires by rotation and is eligible for reappointment.
4. 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 by Comptroller and Auditor General of India for the year 2006-07 and the Statutory Auditors shall hold office from the conclusion of this AGM till the conclusion of the next AGM”.

By Order of the Board

B. SUKUMAR

Date : August 14, 2006
Place : Chennai

Company Secretary &
DGM (Legal)

Note :

- 1 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.
- 2 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.
- 3 The Register of Members and Share Transfer Books of the Company will remain closed for 6 days from 16-09-06 to 21-09-06.
- 4 Members are requested to immediately intimate any change in their addresses registered with the Company.
- 5 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.
- 6 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.
- 7 Members may please note that **NO GIFTS** will be distributed at the meeting.



DIRECTORS' REPORT

The Shareholders Madras Fertilizers Limited

Your Directors have pleasure in presenting herewith the 40th Annual Report together with the Balance Sheet as on March 31, 2006 and the Profit & Loss Account for the year 2005-06.

SUMMARY OF FINANCIAL RESULTS

The Company's operations for the year ended with a loss of Rs.131.74 Cr. against loss of Rs.58.39 Cr. in the previous year. The losses of the Company are attributable largely to the changes in the policies of pricing of Urea and Complex fertilizers. The Govt of India did not reckon the cost of Urea that is utilized in the manufacture of our Complex fertilizers (NPK 17-17-17 and 19-19-19) since 2002-03. It may be mentioned that the Tariff Commission appointed by the Govt of India had recommended compensation for the cost of Urea used in manufacture of Complex fertilizers. This recommendation was not accepted. Further, the policy of pricing of Urea had been changed to the Company's disadvantage under the New Pricing Scheme from April 2003. The under-recovery on account of the changes in the pricing policies is given below:

(Rs.Cr.)

Year	NPK	Urea
2002-03	3.44	-
2003-04	15.07	29.58
2004-05	17.20	38.30
2005-06	14.76	29.93
Total	50.47	97.81

MFL has requested DOF for corrections in the anomalies in the pricing policies. The proposal for changes was considered by the newly constituted Board for Reconstruction of Public Sector Enterprises (BRPSE) at its meeting held on March 17, 2005. The BRPSE recommended the following:

- 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 Cr. 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, by implementing VRS and non-filling of vacancies arising out of normal attrition, try 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) As committed by CMD, MFL before the Board, 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.

The recommendations of BRPSE have been considered by an inter-ministerial Committee of Secretaries (representing Ministry of Finance, Planning, Heavy Industries, Labour, Commerce, Petroleum and Fertilizers) at its meeting held on March 22, 2006. The Committee did not favour any policy change.

Besides the fall in revenue on account of the changes in the pricing policies, the lead bank of working capital bankers (State Bank of India) has reduced MFL's borrowing limits from Rs.171.60 Cr. to Rs.150 Cr. with effect from February 14, 2006. This has further crippled our activities. MFL operations are in total jeopardy because of the acute shortage of working capital.



Results for 2005-06 and 2004-05 are summarized below:

(Rs Cr)

	2005-06 (12 months)	2004-05 (12 months)
Turnover	1084.22	1286.22
Profit Before Interest, Depreciation and Tax	(18.79)	53.80
Interest	67.77	68.59
Depreciation	44.05	43.60
Profit/(Loss) Before Tax	(130.61)	(58.39)
Provision for Tax	1.13	-
Profit/(Loss) After Tax	(131.74)	(58.39)
Cash Profit/(Loss)*	(81.76)	(8.93)

* reckoning Deferred Revenue Expenditure

The total accumulated loss as of 31.3.2006 has risen to Rs.398.92 Cr. Company had become sick during the year 2003-04 which was reported to BIFR pursuant to the provisions of Sick Industrial Companies (Special Provisions) Act, 1985. The BIFR did not register your Company as a Sick Company because we were hopeful of relief thru policy changes. Now that the Government have rejected our request, your Company would be making a fresh application before the BIFR for registration as a Sick Company under the 'Sick Industrial Companies (Special Provisions) Act, 1985.'

DIVIDEND

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

PLANT PERFORMANCE

Capacity Utilization

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

Plant	Annual Installed Capacity '000 MT	April 2005-March 2006		April 2004-March 2005	
		'000 MT	Capacity Utilisation %	'000 MT	Capacity Utilization %
Ammonia	346.50	227.07	65.5	300.89	86.8
Urea	486.75	368.50	75.7	473.03	97.2
NPK	840.00	208.19	24.8	333.48	39.7

- Out of 258 stream days, Urea production exceeded installed capacity of 1475/MTPD on 142 days. This second best achievement has surpassed earlier second best achievement of 103 days out of 288 stream days made in 2003-04.
- Ammonia production was interrupted during November – December 2005 and January 2006 due to requirement of certain Catalysts' replacement and mechanical jobs in Heat Exchangers. Urea production was also affected due to Ammonia Plant shutdown.
- NPK production had to be restricted because of our liquidity problems. Your Company was not in a position to procure raw materials, viz. Ammonia, Muriate of Potash, Phosphoric Acid and Urea. Out of 3 NPK Trains, only one or two trains were operated intermittently.

SALES PERFORMANCE

Fertilizers

As you are aware, agricultural situation was extremely favourable during the year, in view of the widespread rains received throughout our marketing territories. The demand for products was unprecedented and all products were sold in good quantities. Company could not take full advantage of this situation unfortunately due to non-availability of products. During the year, Company sold a total of 5.93 lakh MT of fertilizers compared to 8.5 lakh MT last year. The 30% drop was mainly due to lower capacity utilization of both Urea and NPK Plants.

NPK fertilizer availability was only 2.02 lakh MT compared to 3.45 lakh MT during the previous year. Consequently, our market share of NPK Complex also got reduced to 6% from 14% last year. The lower production of Complex fertilizers was grossly due to non-availability of Phosphoric Acid.

3.87 lakh MT of Urea was made available for sale this year as against 4.83 lakh MT during last year. The lower availability was due to unforeseen production interruptions during the year. Consequent to this, market share of Urea also went down to 9% from 13.6% last year.

Company continued to embark upon various policies for reduction of marketing costs. Inventory holding cost was virtually 'nil' with minimum inventory level throughout the year. Company resorted to Plant Gate / Railhead sales for 91% of products rather than Warehouse sales and attained huge



savings in inventory carrying cost and warehousing and handling expenses. Efforts for streamlining logistics operations continued this year also and there was a further reduction of warehousing points by 37%. Thrust was given to Railhead deliveries and 78% of total rail movement was sold ex-railhead.

Rationalisation of territories and Regions and manpower reduction was another area of cost saving. There has been a manpower reduction of 15%.

Marketing team put up a creditable performance in sales realization by making 85% cash sales. The average realization time has been less than 4 days. 85% of the collection has come within 7 days. Further, it is noteworthy that there has not been a single Bad Debt during the year.

Agrochemicals

Your Company continued to market environment friendly neem-based Agrochemicals. MFL made a record turnover of Rs.119.78 lakhs against Rs.89.71 lakhs during last year.

Biofertilizers

There has been a record production of 235 MT in our Biofertilizer unit at Bangalore. Cost of production of Biofertilizer also has been the lowest during this year. Sales touched an all time high of 235 MT against 213 MT last year.

Carbon-di-oxide

Your Company has sold Carbon-di-oxide valued Rs.150.95 lakhs against Rs.221.42 lakhs last year.

Marketing of Insurance Products

Your Company has exceeded targets and all expectations, in generation of Insurance Business by collecting a total premium of Rs.3.92 Cr. You will be happy to note that the Company earned a commission of approximately Rs.1 Cr. without any investment.

MARKET DEVELOPMENT AND AGRO-SERVICE PROGRAMS

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

In all, 73 promotional programs were conducted benefiting 2.57 lakh farmers and dealers. Our efforts to promote a Cooperative Society at Krishnapuram, Chittoor District in

Andhra Pradesh, aiming at overall development of 2 mandals (15 villages) fructified with the registration of Cooperative Society during June 2005. MFL organised farmer meeting involving Department officials to educate the farmers and collected 75 Nos. of soil samples. Follow up activities are going on for this project from our side. MFL also undertook a special drive to enroll SC/ST dealers, who now form 23% of our total dealer strength of 6487.

With the cost saving measures undertaken and new business ideas, Marketing Team has become lean, more efficient and more productive.

PUBLIC DEPOSIT

During the year 2005-06, the Company mobilized a sum of Rs 20.30 Cr as fresh deposits from public and repaid Rs 15.61 Cr to the depositors. The total deposit as of March 31, 2006 is Rs 61.35 Cr against the eligible limit of Rs 61.44 Cr. Unclaimed deposits as of March 31, 2006 is Rs 0.90 Cr. The Company has approached the Department of Company Affairs (DCA), Govt. of India for extending the exemption for a further period of 2 years from 1.4.2006 to accept / renew deposits upto Rs 61.09 Cr under the Companies Act, 1956. The approval from DCA is awaited.

ISO

As you may be aware that MFL had earlier received ISO 9001 accreditation renewal for 2000 version in December 2004 for 3 years, towards total quality control system.

Following suit, MFL has also received renewal of ISO 14001 certification for 2004 version in 2005 towards environmental protection system which is valid for three years.

VIGILANCE

Vigilance being an integral part of the management function, the Vigilance Department, with a small team of vigilance officers headed by a Chief Vigilance Officer, provides direction, guidance and supervision over the vigilance efforts of the company without fear or favour.

Preventive vigilance is the main theme of the Vigilance Department. The stress is on transparency and accountability in the working of the company.

'Agreed List of Suspected Officers' and 'List of Officers of Doubtful Integrity' were prepared in time and a close watch is kept on the listed officers. Besides complaints handling, surprise inspections, review of contracts, scrutiny of audit reports,



property returns and various claims of employees, monitoring timely realization of the outstandings from dealers due to dishonour of cheques were the other activities carried out by Vigilance.

To sensitize the employees and the public about the evil consequences of corruption, Vigilance Awareness Week was organized by Vigilance during the period Nov 7 – 11, 2005.

HUMAN RESOURCES & INDUSTRIAL RELATIONS

Manpower and Training

The total manpower strength of the Company as on 31.3.2006 is 1058 as against 1126 on March 31, 2005.

366 Supervisors and 274 Non-Supervisors were trained in In-house and External Training Programs during the year 2005-06.

Voluntary Retirement Scheme

45 employees availed Voluntary Retirement Scheme during 2005-06. The Company plans to reduce the manpower further so as to take it below 1000 during the current year through rationalization of manpower in all the functional groups except Plant where shortage of experienced manpower has been noticed.

INDUSTRIAL RELATIONS

During the year 2005-06, the industrial relation scenario in the Company has been very cordial.

As in the case of Supervisors, a promotion policy for non-supervisors was signed during the year for implementation for a five year period.

The representative bodies acted with responsibility and perfect understanding of the management’s priorities.

OFFICIAL LANGUAGE IMPLEMENTATION

6 employees have passed Hindi examination held during 2005. MFL has been continuously exceeding the target fixed by Department of Official languages in letter correspondence in Hindi and other implementation programmes.

SC / ST WELFARE ACTIVITIES

The Presidential Directives and various guidelines issued by the Government of India relating to the welfare of SCs / STs were scrupulously followed during the year. A Liaison

Officer nominated for this purpose ensures implementation of Government Directives.

As on 31.03.2006, the number of SC / ST employees is 228, which constitutes around 21.6% of the total strength of the employees as could be seen from the table furnished below :

Group	Total Employees	SC Employees		ST Employees	
		Number	%	Number	%
A (Gr E3 & above)	261	24	9.20	3	1.15
B (Gr E1&E2)	290	45	15.52	1	0.34
C (Gr II to V)	501	150	29.94	1	0.20
D (Gr I)	6	4	66.67	-	-
Total	1058	223	21.08	5	0.47
Statutory Requirement			15.0		7.5

Presently MFL is in the process of downsizing its existing manpower thru Voluntary Retirement Scheme. Hence from the year 2002, no major recruitment has been made. However, MFL has been constantly reviewing the vacancies reserved for SC/STs and taking concerted efforts to fill up such vacancies.

Apart from reservation in recruitment / promotions for SC/ STs, to mitigate the sufferings of the SC / ST communities and to improve their socio-economic status, MFL have been organizing special programs in certain Tribal Villages to increase agricultural productivity and to provide necessary infrastructural facilities.

For appointment of dealers under SC/ST category, a scheme has been formulated in MFL. The features are as follows :

- (a) whenever need arises for appointment of dealers, 25% will be reserved for applicants from SC/ST category.
- (b) Minimum experience in fertilizer dealership is waived for SC/ST category.
- (c) No security deposit is collected (for others, it is Rs.5,000/-).
- (d) No minimum purchase norm is insisted on or prescribed. (for others, a minimum of 30-40 MT / year is required to continue dealership).



DIRECTORS

Ms Swatanta K Sekhon IAS, Executive Director – FICC, Dept. of Fertilizers, Govt. of India was appointed as Director on MFL Board effective 23.8.2005 in place of Dr J S Maini, IAS.

Consequent to one time settlement of loan outstandings, ICICI have withdrawn Mr S Srinivasan, their nominee from MFL Board effective 23.06.2005.

IDBI have withdrawn nomination of Shri K Kannan as Director from MFL Board effective 14.11.2005.

Board would like to place on record the valuable contributions made by Dr J S Maini, IAS, Shri K Kannan and Shri S Srinivasan 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 fourth consecutive year 2005-06.

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 Corporate Governance guidelines of SEBI as required under Listing Agreement is enclosed as **Annexure-IV** forming part of this report.

Declaration affirming compliance with the code of conduct pursuant to clause 49 of the Listing Agreement is enclosed as **Annexure V** forming part of this report.

APPRECIATION

Your Directors place on record their sincere thanks to FIs and Banks for their continued support during the turbulent year. The Company is really indebted to creditors, suppliers, service contractors and contract workers who stood by the company despite their difficulties

The Company is really overwhelmed by the unequivocal patronage being extended by the dealers and farmers who have been patient enough to wait and receive the products in spite of paying money in advance and in the context of alternate products available in the market.

Your Directors wish to record their appreciation of the sincere efforts put in by the employees of the Company despite the demoralising effect of the Plant upsets. Unperturbed of the temporary setbacks, the workforce have worked in unison with the management for ushering in an early turnaround of the company.

We thank GOI and NICO for their continued guidance and support extended to the company.

By Order of the Board

Date : June 29, 2006
Chennai : 600 068

SUKUMAR N OOMMEN
Chairman and Managing Director



ANNEXURE - 1

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 05 - Mar 06) 2005-2006	Previous year (Apr 04 - Mar 05) 2004-2005	
A. Power and fuel consumption			
1. Electricity			
(a) Purchased			
Unit (lakhs) *	922.257	1089.462	
Total amount (Rs. in lakhs)	4190.793	4846.445	
Rate / unit	4.54	4.45	
* Includes power consumed at TTP, Kodungaiyur			
(b) Own generation			
(i) Through diesel generator (Solar make Gas Turbine sets)			
Unit (lakhs)	118.410	137.009	
Diesel consumption (KL)	6216.415	7374.460	
Units per ltr. of diesel oil	1.905	1.858	
Cost/Unit	16.64	14.40	
(ii) Through diesel generators			
Units (lakhs)	75.700	124.300	
Diesel consumption (KL)	1947.625	3288.870	
Units per ltr. of diesel oil	3.887	3.782	
Cost/unit	8.43	7.09	
2. Coal	Not applicable	Not applicable	
3. Furnace oil & LSHS			
Quantity (tonnes)	104668	123522	
Total cost (Rs.in lakhs)	20844.116	16639.004	
Average rate (Rs per tonne)	19914.51	13470.48	
4. Others/generation:	Nil	Nil	
B. Consumption per unit of production			
	FICC Norm	2005 - 06	2004 - 05
(a) Product : Ammonia			
Electricity (KWH)	115.000	146.610	123.942
Fuel oil + LSHS (MT)	0.2341	0.2488	0.2095
Naphtha (MT)	0.7829	0.7613	0.7575
(b) Product: Urea			
Electricity (KWH)	202.000	180.800	171.494
Fuel oil + LSHS (MT)	0.1309	0.1226	0.1177
(c) Product: NPK			
Electricity (KWH)	43.410	56.290	49.966
Fuel oil + LSHS (MT)	0.0069	0.0145	0.0145



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 yrs reckoned from the beginning of the financial year)	Nil

FOREIGN EXCHANGE EARNINGS AND OUTGO

	2005-2006
1. Activities relating to export	Nil
2. Total Foreign Exchange used	(Rs Cr)
a) Raw Materials	163.47
b) Components & Spare Parts	12.17
c) Books & Periodicals	0.02
d) Travels	0.00
e) Catalyst Lease Rental	0.17
Total	<u>175.83</u>
3. Total Foreign Exchange earned	Nil



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, 2006, 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 judgments 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'.

OUTLOOK, CHALLENGES AND CONSTRAINTS : 2006-07

Prospects for marketing of our products appear extremely favourable in the current year, as it was last year. Normal monsoon has been predicted and agricultural scenario is expected to be bright. Indigenously produced fertilizer availability may not match demand and hence imports have already been planned by Government of India to meet the gap. We are confident that we can continue to promote and market our products.

The outlook of 2006-07 indicate more constraints and challenges with commencement of Stage III of New Pricing Scheme for Urea which will be in operation for a 4 year period. The most important factor causing concern is that there is no specific mention about extension of concession to outlier units. This means that the present dispensation of 50% concession amounting to Rs.1,996/MT – as outlier benefit during Stage 1 & Stage 2 may be withdrawn for MFL. This in effect would impact the Profit and Loss Account to the extent of Rs.92.42 Cr during the year 2006-07.

As far as phosphatic fertilizer is concerned, inadequate compensation in PCS would continue this year also. This implies under recovery on account of

- reckoning only 50% of captive Ammonia that too at a lower price of Naphtha than what MFL actually incurs
- non-recognition of 'N' sourced through bought urea

Another worrying factor is the non-availability of Phosphoric Acid in international market which is expected to be scarce and in high demand.

To optimize product mix under competitive market conditions, MFL proposes to produce and market the following complex fertilizers during 2006-07 subject to the availability of phosphoric acid and funds required to procure the raw materials.

	MT
NPK - 17-17-17	562000
- 19-19-19	70000
- 20-20-0	40000
Total	672000

Similarly, Ammonia required for Urea and Complex fertilizers would be mostly met out of captive production and balance quantity is proposed to be met out of imports to take advantage of the cost economics.



AUDITORS' REPORT ON CORPORATE GOVERNANCE

To

The Members of Madras Fertilizers Ltd

We have examined the compliance of conditions of Corporate Governance by Madras Fertilizers Ltd for the year ended March 31, 2006 as stipulated in Clause 49 of Listing Agreements of the said Company with Stock exchanges.

The compliance of condition of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof. It is neither an audit nor an expression of opinion of the financial statements of the Company.

In terms of Listing Agreements, the composition of Board of Directors is to be reconstituted{ clause 49(IA)}, Audit Committee is to be reconstituted with Qualified and Independent members{ clause 49(IIA)} and Risk management policy is to be formulated. Subject to the forgoing, 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 Agreements.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that as per the records maintained and Certified by the Registrars and Share Transfer Agents of the Company, there were no investors grievances remaining unattended / pending for more than 30 days as at 31st March 2006.

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 28, 2006

R.Rajaram
Partner



ANNEXURE V

DECLARATION AFFIRMING COMPLIANCE WITH THE CODE OF CONDUCT PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

The Board had laid down a code of conduct for all Board Members and Senior Management of the Company. The code of conduct is posted on the website of the company.

All Board Members and Senior Management personnel affirmed compliance with the code for the financial year 2005-06.

Place : Chennai
Date : June 29, 2006

Sukumar N Oommen
Chairman & Managing Director



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 citizen 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 6 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. The Company is a Government of India Undertaking under the control of Ministry of Chemicals and Fertilizers, Dept of Fertilizers (DOF), Government of India. For appointment of independent directors, the Company has taken up the matter with DOF, the administrative ministry. It is understood that a search committee has been engaged to identify and appoint suitable persons as Independent Directors. DOF's communication on appointment of independent directors is awaited

Meetings

Six Meetings of Board of Directors were held during the year Apr 2005 – March 06. The dates of the Board Meetings are:

23-06-2005 30-07-2005 28-09-2005 28-10-2005 30-01-2006 29-03-2006

Management Committee

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

Directors' attendance at the Board Meetings held during the year 2005-06 and at the last AGM on 28.09.2005 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 / Executive Director	2	6	Yes	-	-
Ms Swatantra K Sekhon / Dr Jivtesh Singh Maini /**	Non-Executive Director	2	5	Yes	-	-
Mr Manoj Kumar	Non-Executive Director	2	6	Yes	-	-
Mr K.Kannan #	Non-Executive Director	-	3	Yes	-	-

**MADRAS FERTILIZERS LIMITED**

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 Mahmood Vaezi	Non-Executive Director	2	6	Yes	-	1
Mr R.Afshin	Non-Executive Director	1	6	Yes	-	-
Mr M Rad / Mr M B Samiei Khonsari **	Non-Executive Director	2	4	Yes	-	1

*Furnished for the present Directors

** Predecessor

ceased to be a director

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 non-executive directors viz M/s Swatantra K Sekhon, GOI Nominee Director, Mahmood Vaezi and Mansoor Rad, NICO Nominee Directors. The Audit Committee will be reconstituted on appointment of Independent Directors by GOI.

The Committee has met 4 times during the year Apr 05 – Mar 06 on the following dates:

- 1) 23/06/2005
- 2) 30/07/2005
- 3) 28/10/2005
- 4) 30/01/2006

Name of the Audit Committee Members	Status	No. of meetings attended
Ms Swatantra K Sekhon / Dr Jivtesh Singh Maini **	Chairman	3
Mr K Kannan #	Member	2
Mr Mahmood Vaezi	Member	1
Mr Mansoor Rad / Mr M B Samiei Khonsari **	Member	4

** Predecessor

ceased to be a director

Mr 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.7,76,964/-

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	10,500

Shareholders' / Investors' Grievance Committee

Investors' Grievance Committee meeting was held on 23/06/05 and 28/10/05. The Committee comprises Mr. Sukumar N Oommen 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

ceased to be a Director

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 169 which includes attending non-receipt of fully paid stickers, general queries etc. There was no pending complaint for redressal as on March 31, 2006

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

General Body Meetings

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

Year	Venue	Date	Time
2004-2005	Naradha Gana Sabha, 254, TTK Road, Alwarpet, Chennai 600018	28/09/2005 (Wednesday)	3 P.M
2003-2004	Kumararaja MAM Muthaiah Hall, MRC Nagar, Chennai 600 028	21/12/2004* (Tuesday)	3 P.M
2002-2003	Image Auditorium M R C Nagar, Chennai 600 028	17/9/2003 (Wednesday)	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.



MADRAS FERTILIZERS LIMITED

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, Financial Express and one regional Daily Makkal Kural. 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 21, 2006
Time : 3 P.M
Venue : Naradha Gana Sabha
254, TTK Road
Alwarpet, Chennai 600 018

Financial Year : April 2005 – March 2006

Book Closure Date : 16-09-06 to 21-09-06

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 : MADRASFERT

High / Low share prices during the year Apr 1, 2005 to Mar 31, 2006

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 2005	14.30	12.10	2084.90	1896.30	1542435	206.48
May	17.70	12.50	2099.35	1898.15	3940023	622.41
Jun	18.75	14.10	2226.15	2061.35	3584123	594.95
Jul	24.50	14.30	2332.55	2171.25	12471361	2567.00
Aug	28.45	20.50	2426.65	2294.25	13825584	3485.72
Sep	26.00	17.60	2633.90	2382.90	6406681	1432.01
Oct	19.90	14.40	2669.20	2307.45	2011565	341.67
Nov	17.50	14.00	2727.05	2366.80	3343256	521.08
Dec	17.80	15.50	2857.00	2641.95	2111605	342.62
Jan 2006	18.25	14.60	3005.10	2783.85	2001918	328.47
Feb	21.20	13.55	3090.30	2928.10	10025106	1867.29
Mar	18.20	13.55	3433.85	3064.00	3720654	560.00



Share Transfer System

M/s Integrated Enterprises (India) Ltd, a SEBI Registered Registrar & Share Transfer Agent has been assigned the Share Transfer and Depository Registry related functions. 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 91-044 - 2814 0801 to 803

Dematerialisation of Shares

MFL has connectivity with both NSDL and CDSL

ISIN No : INE 414A01015

59812323 equity shares (representing 37.13 % of total shares) have been dematerialized as of March 31, 2006. In terms of number of shareholders, 56.60 % of shareholders have dematted their shares.

Distribution of Shareholding :

The distribution of shareholding as on March 31, 2006 is as follows :

Category	Physical			Electronic			Total	
	No. of share holders	No. of shares	% of share holding	No. of share holders	No. of shares	% of share holding	No. of shares	% of share holding
Upto 500	7784	2286577	1.42	9252	2309656	1.43	4596233	2.85
501-1000	2346	2289700	1.42	2584	2406875	1.49	4696575	2.91
1001-2000	266	483000	0.30	912	1541033	0.96	2024033	1.26
2001-3000	52	149500	0.09	296	795267	0.49	944767	0.58
3001-4000	9	32500	0.02	116	427751	0.27	460251	0.29
4001-5000	19	94900	0.06	171	832832	0.52	927732	0.58
5001-10000	12	101600	0.06	182	1466570	0.91	1568170	0.97
10001 & above	1	95851200	59.50	164	50032339	31.06	145883539	90.56
Total	10489	101288977	62.87	13677	59812323	37.13	161101300	100.00

**MADRAS FERTILIZERS LIMITED**

Category of Shareholders as on March 31, 2006 is as follows :

Category	Physical			Electronic			Total	
	No. of share holders	No. of shares	% of share holding	No. of share holders	No. of shares	% of share holding	No. of Shares	% of share holding
GOI (Promoter)	7	95851700	59.50	-	-	-	95851700	59.50
NICO (Co-promoter)	-	-	-	1	41516500	25.77	41516500	25.77
FIs / Banks	14	36600	0.02	5	428598	0.27	465198	0.29
Mutual Funds	1	2400	0.00	0	0	0.00	2400	0.00
Corporate Bodies	89	173400	0.11	483	4527822	2.81	4701222	2.92
Public	10378	5224877	3.24	13188	13339403	8.28	18564280	11.52
Total	10489	101288977	62.87	13677	59812323	37.13	161101300	100.00

Type	Shares		Shareholders	
	No.	%	No.	%
Physical	101288977	62.87	10489	43.40
Electronic	59812323	37.13	13677	56.60
Total	161101300	100.00	24166	100.00

Category	No. of shares	%
GOI	95851700	59.50
NICO	41516500	25.77
Others	23733100	14.73
Total	161101300	100.00

Plant Location : Manali, Chennai 600 068

The Address for correspondence :

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

40th Annual Report 2005-06



**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 2006**

I have to state that the Comptroller and Auditor General of India has no comment upon or supplement to the Auditors' Report under Section 619 (4) of the Companies Act, 1956 on the accounts of Madras Fertilizers Limited, Chennai for the year ended 31st March 2006.

Place : Chennai - 600 034
Date : August 11, 2006

(U.SANKAR)
PRINCIPAL DIRECTOR OF COMMERCIAL AUDIT AND
EX-OFFICIO MEMBER AUDIT BOARD, CHENNAI



COMMENTS OF THE STATUTORY AUDITORS M/S R SUBRAMANIAN AND COMPANY, CHARTERED ACCOUNTANTS, CHENNAI ON THE ACCOUNTS OF MADRAS FERTILIZERS LIMITED FOR THE YEAR 2005-06	THE COMPANY'S REPLIES UNDER SECTION 217 (3) OF THE COMPANIES ACT, 1956
2 f (i) Note No. 20 B (iii) regarding accounting of a sum of Rs.74.67 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.	FICC have not announced revision of quarterly escalation rates for the II, III and IV quarters of 2005-06. Hence the Company has realistically estimated the escalation as disclosed under the Significant Accounting Policies – Schedule 20 (A) 10.
2 (e) Non-compliance of Accounting Standards AS (2) on “Valuation of Inventories” and AS (29) on “Provisions, Contingent Liabilities and Contingent Assets” 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.22.26 crores, overstatement of inventory of Urea by Rs.22.26 crores and understatement of current year loss and accumulated loss by the same amount. 2 f (iii) Note No.20 B (x) regarding a sum of Rs.0.63 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. 2 f (iv) Note No.20 B (xi) regarding a sum of Rs. 1.18 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. 2 f (v) Note No.20 B (xii) 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.	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. MFL has challenged the order of ESI authorities in the Madras High Court and has deposited the said sum on the direction of the Court. As the matter is subjudice, provisioning at this stage is considered not necessary as opined by our Legal Counsel. 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 subjudice, provisioning at this stage is considered not necessary as opined by our Legal Counsel. Since the matter is subjudice, no provision is considered necessary, in the opinion of our Legal Counsel.



<p>2 f (vi) Claims recoverable include a sum of Rs.1.36 Crores towards customs duty refund and a sum of Rs.0.19 Crores from S & G Engineers which are pending for a long time. In our opinion, these claims are no longer tenable and hence to be written off. The current year loss and the accumulated losses are understated and claims recoverable overstated to the same extent.</p>	<p>Regarding Customs Duty refund, Company proposes to approach the concerned Ministry thru DOF for obtaining refund. Further action will be taken based on the outcome of above.</p> <p>As regards S&G Engineers, Company would consider the proposal in 2006-07 after necessary follow up.</p>
<p>2 g In our opinion the concept of 'GOING CONCERN' is no more valid as far as this Company is concerned having regard to the following:</p> <ul style="list-style-type: none">(i) The Company has incurred a net loss of Rs.131.74 crores and a cash loss of Rs.81.76 crores in the current year.(ii) The accumulated losses as at 31.3.2006 stands at Rs.398.92 crores as against the net owned shareholders funds of Rs.174.53 crores.(iii) The net worth has been fully eroded and the Company has been consistently making significant losses in the past few years.(iv) The Company's reference to BIFR has been rejected on the ground that revival plans of the company is under consideration of Government of India (GOI). However, to the best of our knowledge and on the basis of information provided to us, there appears to be no firm proposal restructuring the operations of the Company.(v) The viability of the Company appears to be doubtful as the Company is not in a position to recover even the variable cost in respect of its major product NPK Complex Fertilizer. <p>In view of the above, we are of the opinion that the company's accounts should have been compiled on "GONE CONCERN" basis. Had the Company not followed GOING CONCERN ACCOUNTING, there would have been significant adjustments to the assets and liabilities as on 31st March 2006, resulting in further erosion in the net worth of the company. The impact of above on the accounts is not ascertainable at this stage.</p>	<p>The Company has represented to the GOI that the policy on pricing of NPK since Apr 2002 and on Urea from Apr 2003 have adversely affected its profitability. It has been urging the GOI to make suitable corrections.</p> <p>Consequently, the Company is making huge losses and the networth was fully eroded as of 31-03-2004.</p> <p>Hence, the DOF referred the Company to BRPSE. BRPSE recommended certain relief measures. Had the BRPSE benefits been accepted, there would have been benefit of Rs 204 Crores to the Company.</p> <p>In the current environment, the Company would be able to achieve 100% Urea production and 25% NPK production during 2006-07. The loss for the year 2006-07 would be around Rs 90 Crores.</p>



MADRAS FERTILIZERS LIMITED

<p>2 h In our opinion and to the best of our information and according to the explanations given to us, in view of the adverse opinion formed by us vide para (f) & (g) above, the said Balance Sheet and Profit & Loss Account does not give the information required by the Companies Act, 1956 in the manner so required and also does not give a true and fair view:</p> <p>a) In case of Balance Sheet, the state of affairs of the Company as at 31st March 2006;</p> <p>b) In case of Profit & Loss Account, the loss of the Company for the year ended on that date; and</p> <p>c) In case of Cash Flow Statement of the Cash Flows for the year ended on that date.</p>	<p>Same as above. However, as the Accounts are prepared under "Going Concern" basis, in our opinion, they give a true and fair view.</p>
Annexure to Auditors' Report	
<p>2 a The Company has included in its inventory 41,980 MT of Urea which has been used in the manufacture of Complex Fertilizers, pending replenishment of the same out of Bought Urea, thereby overstating the inventory by Rs.22.26 Crores and understating the loss by the same amount.</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>6 The Company has however maintained liquid assets only partially from 24th March 2006.</p>	<p>Due to delayed receipt of dues from Govt of India, the Company was able to maintain liquid assets only partially.</p>
<p>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.</p>	<p>The Company has already strengthened the Internal Audit Department with the induction of manpower including from Technical side. Hence in our opinion, the strength is adequate.</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>The delay in remittance has arisen due to delayed receipt of dues from GOI. However, these have since been remitted.</p>
<p>11 The Company has defaulted in payment of interest to Financial institutions. As on 31st March 2006 the overdue interest due to Financial Institutions amounting to Rs. 25.58 Crores. The period of default ranging from 1 to 22 months.</p>	<p>The default had arisen due to the Cash loss situation and non availability of funds. Also the cash crunch situation has driven the Company to take care of essential payments only in order to continuously run the Urea Plant.</p>

For R Subramanian and Company
Chartered Accountants

A Ganesan
Partner

Chennai
June 29, 2006

For and on behalf of the Board of Directors

Sukumar N Oommen
Chairman & Managing Director

Chennai
June 29, 2006



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 2006 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 (Auditor's 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 (vi) 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. 74.67 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 from current year revenue. The accounting treatment given by the Company has the effect of understatement of consumption of manufactured Urea by Rs. 22.26 Crores over statement of inventory of urea by Rs.22.26 Crores and understatement of current year loss and accumulated loss by the same amount.**
 - (iii) **Note No : 20 B (x), regarding a sum of Rs. 0.63 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 : 20 B (xi) regarding a sum of Rs. 1.18 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 : 20 B (xii) 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.
- (vi) Claims recoverable include a sum of Rs. 1.36 Crores towards customs duty refund and a sum of Rs. 0.19 Crores from S & G Engineers which are pending for a long time. In our opinion, these claims are no longer tenable and hence to be written off. The current year loss and the accumulated losses are understated and claims recoverable overstated to the same extent.
- The effect of Para f (i) on the accounts is not ascertainable and Para f (ii) to f (vi) above has the effect of understatement of Current Year loss by RS. 26.40 crores, accumulated losses by Rs. 26.40 crores, overstatement of Inventory by Rs.22.26 crores and overstatement of loans and advances by Rs. 4.14 crores.
- (g) Attention is also invited to Note No : 20 (A) (1), Significant accounting Policies of the Company, wherein it is stated that the Company's financial statements have been prepared on "GOING CONCERN" basis. In our opinion, the concept of "GOING CONCERN" is no more valid as far as this Company is concerned having regard to the following :
- (i) The company has incurred a net loss of Rs. 131.74 crores and a cash loss of Rs. 81.76 crores in the current year.
- (ii) The accumulated losses as at 31.3.2006 stands at Rs. 398.92 crores as against the net owned shareholders funds of Rs. 174.53 crores only.

- (iii) The net worth has been fully eroded and the Company has been consistently making significant losses in the past few years.
- (vi) The Company's reference to BIFR has been rejected on the ground that revival plans of the company is under consideration of Government of India (GOI) However to the best of our knowledge and on the basis of information provided to us, there appears to be no viable proposal for restructuring the operations of the company.
- (v) The viability of the Company appears to be doubtful as the Company is not in a position to recover even the variable cost in respect of its major product NPK Complex Fertilizer.

In view of the above, we are of the opinion that the Company's accounts should have been compiled on "GONE CONCERN" basis. Had the Company not followed GOING CONCERN ACCOUNTING, there would have been significant adjustments to the assets and liabilities as on 31st March 2006, resulting in further erosion in the net worth of the company. The impact of above on the accounts is not ascertainable at this stage.

- (h) In our opinion and to the best of our information and according to the explanations given to us, in view of the adverse opinion formed by us vide para (f) & (g) above, the said Balance - sheet and Profit & Loss Account does not give the information required by the Companies Act, 1956 in the manner so required and also does not give a true and fair view in conformity with the accounting principles generally accepted in India :
- (a) In case of Balance-sheet, the state of affairs of the Company as at 31st March 2006 ;
- (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

Place : Chennai
Date : June 29, 2006



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 Limited**, on the accounts for the year ended 31st March 2006, 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 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.

The company has included in its inventory 41,980 M. Tons of Urea which has been used in the manufacture of Complex Fertilizers, pending replenishment of the same out of Bought Urea, thereby overstating the inventory by Rs. 22.26 crores and understating the loss by the same amount.

- 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 within 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 up to a maximum of Rs. 61.44 crores. **The Company has however maintained liquid assets only partially from 24th March 2006.**
Based on records produced to us there has not been any default on payment of deposits and hence provisions of Section 58 AA 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.**



MADRAS FERTILIZERS LIMITED

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 (1)(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 2006 for a period of more than six months from the date they became payable.

c. Based on review, 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 :

Sl. 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, 80-81 and 81-82	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 234 C of the Act Company paid the disputed tax and applied for waiver of interest before Chief Commissioner of Income Tax.	Assessment year 1997-98	101.99	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	112.45	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 (Notn.25/70)	1976	258.00	CESTAT
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 its net worth and has incurred cash losses during the financial year ended 31st March 2006. There was cash loss in the immediately preceding financial year also.
11. **The Company has defaulted in payment of interest to Financial Institutions. As on 31st March 2006, the overdue interest due to Financial Institutions amounted to Rs. 25.58 crores. The period of default ranges from 1 to 22 months.**
12. Based on our examination of the records and the 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 examination of the balance sheet of the Company, we report that short-term funds have not been for long term uses.
18. The company has not made any preferential allotment of shares during the year.
19. The company has not issued any debentures during the year.
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

A GANESAN
Partner
M.No. 21438

Place : Chennai
Date : June 29, 2006



MADRAS FERTILIZERS LIMITED

BALANCE SHEET

As at March 31, 2006

	Schedule	(Rs. in Crores)	
		March 31 2006	March 31 2005
SOURCE OF FUNDS			
Shareholders Fund			
a. Share Capital	1	162.14	162.14
b. Reserves and Surplus	2	<u>12.39</u>	<u>12.39</u>
		174.53	174.53
Loan Funds			
a. Secured Loans	3	353.38	401.86
b. Unsecured Loans		<u>380.31</u>	<u>349.01</u>
		<u>908.22</u>	<u>925.40</u>
APPLICATION OF FUNDS			
Fixed Assets :			
a. Gross Block	4	881.06	880.93
b. Less : Depreciation Reserve		<u>428.41</u>	<u>387.12</u>
c. Net block		452.65	493.81
d. Capital Work in progress		1.35	2.05
e. Dismantled assets		<u>0.18</u>	<u>0.18</u>
		454.18	496.04
Investments	5	0.40	0.84
Current Assets			
Inventories	6	202.47	209.98
Debtors	7	2.82	12.06
Cash and Bank Balances	8	15.14	41.81
		<u>220.43</u>	<u>263.85</u>
Loans and Advances			
Loans	9	2.33	2.99
Advances and Deposits		16.00	16.87
Claims Recoverable		<u>237.29</u>	<u>285.26</u>
		<u>255.62</u>	<u>305.12</u>
Total Current Assets		476.05	568.97

**MADRAS FERTILIZERS LIMITED****BALANCE SHEET**

As at March 31, 2006 (Contd.)

	Schedule	(Rs. in Crores)	
		March 31 2006	March 31 2005
	b/f	476.05	568.97
Less : Current Liabilities and Provisions	10	430.56	419.37
Net Current Assets		45.49	149.60
Miscellaneous Expenditure (To the extent not written off or adjusted)			
- Deferred Revenue Expenditure	11	9.23	11.74
Profit and Loss Account		398.92	267.18
		<u>908.22</u>	<u>925.40</u>

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

SUKUMAR N OOMMEN
Chairman and
Managing Director**SWATANTRA K SEKHON**
Director**B SUKUMAR**
Company Secretary &
DGM - Legal**K LAKSHMINARAYANA RAO**
General Manager
Finance & Accounts

June 29, 2006

As per our Report of even date

For R SUBRAMANIAN AND COMPANY
Chartered AccountantsChennai
Date : June 29, 2006**A GANESAN**
Partner
M.No. 21438

**MADRAS FERTILIZERS LIMITED****PROFIT AND LOSS ACCOUNT**

For the year ended March 31, 2006

	Schedule	(Rs. in Crores)	
		2005-06	2004-05
SALES	12	454.13	664.37
UREA CONCESSION		630.09	621.85
INCOME FROM OPERATIONS		<u>1,084.22</u>	<u>1,286.22</u>
Less: Raw Materials	13	647.85	775.79
Power, Water & Fuel		289.60	263.92
Stores, Spares and Packing Materials		27.52	28.60
Repairs and Maintenance	14	27.25	21.31
Transportation and Warehousing	15	29.49	45.90
Salaries and other benefits to employees	16	42.64	45.57
Interest and Financing Charges	17	67.77	68.59
Bought Potash & Ammonium Sulphate		-	16.01
Agrochemical Purchase		0.93	0.71
Volume/Special Rebate		0.53	5.70
Depreciation		44.05	43.59
Other Expenses	18	25.11	27.80
Deferred Revenue Expenses Written Off			
- Share Issue Expenses		0.34	0.34
- VRS Compensation and Incremental Gratuity		5.59	5.53
OPERATING EXPENSES		1,208.67	1,349.36
Add: (Accretion)/Decretion in inventory			
Opening Stock		102.09	121.55
Less: Transfer to Manufacturing		0.02	-
		<u>102.07</u>	<u>121.55</u>
Less: Closing Stock		88.44	102.09
		13.63	19.46
COST OF SALES		<u>1,222.30</u>	<u>1,368.82</u>
OPERATING PROFIT/(LOSS)		(138.08)	(82.60)
Add: Other Income	19	5.77	10.70
		<u>(132.31)</u>	<u>(71.90)</u>
Provision for Bad and Doubtful Debts		(1.60)	(0.20)
Provision for Bad and Doubtful Debts - Written back		0.01	-
Provision for erosion in investments		(0.44)	(0.81)
Prior Period Adjustment		(0.03)	(0.13)
PROFIT/(LOSS) FOR THE YEAR c/o		<u>(134.37)</u>	<u>(73.04)</u>

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**MADRAS FERTILIZERS LIMITED****PROFIT AND LOSS ACCOUNT**

For the year ended March 31, 2006 (Contd.)

	(Rs. in Crores)	
Schedule	2005-06	2004-05
b/f	(134.37)	(73.04)
Extraordinary/Exceptional Items		
Excess Provision Written back	3.76	-
Principal waiver - ICICI	-	14.65
PROFIT/(LOSS) FOR THE YEAR BEFORE TAX	(130.61)	(58.39)
TAX PROVISION FOR THE YEAR	-	-
PROVISION FOR FRINGE BENEFIT TAX (FBT)	(1.13)	-
PROFIT/(LOSS) FOR THE YEAR AFTER TAX	(131.74)	(58.39)
Add : Debit Balance in Profit & Loss Account B/F from previous year	(267.18)	(208.79)
DEBIT BALANCE IN PROFIT AND LOSS ACCOUNT (C/o to Balance Sheet)	<u>(398.92)</u>	<u>(267.18)</u>
EARNINGS PER SHARE		
Profit / (Loss) available to members (Rs. Cr)	(131.74)	(58.39)
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.)	(8.41)	(4.53)
- After extraordinary/exceptional items (Rs.)	(8.18)	(3.62)

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

SUKUMAR N OOMMEN
Chairman and
Managing Director**SWATANTRA K SEKHON**
Director**B SUKUMAR**
Company Secretary &
DGM - Legal**K LAKSHMINARAYANA RAO**
General Manager
Finance & Accounts

June 29, 2006

As per our Report of even date

For R SUBRAMANIAN AND COMPANY
Chartered AccountantsChennai
Date : June 29, 2006**A GANESAN**
Partner
M.No. 21438

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SCHEDULES TO ACCOUNTS

	(Rs. in Crores)	
	March 31 2006	March 31 2005
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 Forfeited (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 2006		March 31 2005	
3. LOAN FUNDS					
SECURED					
Cash Credit from Banks -		177.60		240.36	
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.					
Other loans :					
-	SASF (IDBI)	Principal	68.20		68.20
		Interest accrued and due	<u>14.74</u>	82.94	<u>6.68</u> 74.88
-	IFCI	Principal	47.15		47.15
		Interest accrued and due	<u>9.99</u>	57.14	<u>4.55</u> 51.70
-	IIBI	Principal	2.04		2.04
		Interest accrued and due	<u>0.40</u>	2.44	<u>0.40</u> 2.44
-	LIC	Principal	2.21		2.21
		Interest accrued and due	<u>0.45</u>	2.66	<u>0.45</u> 2.66
-	GIC	Principal	-		0.27
-	UIIC	Principal	-		0.30
-	NIC	Principal	-		0.20
-	OIC	Principal	-		0.21
-	NIA	Principal	-		0.34
-	ICICI BANK	Principal	-		23.50
Secured by					
1. First mortgage on all immovable properties at Manali both present and future.					
2. First charge by way of hypothecation of all movables (except Book Debts and Inventories) including Machinery, Machinery spares, tools and accessories present and future subject to prior charge created in favour of Bankers.					
		145.18		156.50	

**MADRAS FERTILIZERS LIMITED**

	(Rs. in Crores)	
	March 31 2006	March 31 2005
- Other Banks (No interest accrued and due) (Secured by exclusive mortgage of immovable property situated at Chennai)	10.00	5.00
- Buyers Credit (No interest accrued and due) 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.	20.60	-
	<u>353.38</u> *	<u>401.86</u>
* Due within one year Rs.85.93 Cr (Previous year Rs.81.49 Cr)		
UNSECURED		
GOI - Principal	262.83	253.34
- Interest accrued and due	<u>48.31</u>	<u>28.51</u>
	311.14	281.85
Housing Development Finance Corporation Ltd	4.07	4.84
8% Bonds in the form of Promissory Notes - payable at par in 4 equal instalments on Mar 2, Apr 2, May 2, and June 2, 2005 respectively.	-	0.98
7% Bonds - Face value of Rs 1 lac each - payable in two equal instalments at the end of 16th and 17th months from 29th Aug 2006	2.81	0.50
LIC Housing Finance Ltd	1.76	1.89
Banks	0.08	3.82
PUBLIC DEPOSITS	60.45	55.13
Due within one year - Rs. 21.38 Cr (Previous year Rs. 31.83 Cr)		
	<u>380.31</u>	<u>349.01</u>
	<u>733.69</u> @	<u>750.87</u>

@ Includes Interest accrued and due - secured loans Rs. 25.58 Cr & unsecured loans Rs. 48.31 Cr
(Previous Year - secured loans Rs. 12.08 Cr & unsecured loans Rs. 28.51 Cr)



ASSET	(Rs. in Crores)					
	GROSS BLOCK AT COST			DEPRECIATION UPTO		NET BLOCK AS ON
	Mar 31,2005	ADDITION	DEDUCTION	Mar 31,2006	Mar 31,2006	Mar 31,2005
LAND *	1.68	-	0.03 #	1.65	-	1.68
ROAD, BRIDGES AND OTHER FACILITIES	2.30	-	-	2.30	0.67	1.67
RAILWAY SIDING **	1.05	-	-	1.05	0.98	0.09
BUILDINGS	14.16	-	-	14.16	5.38	9.13
PLANT & MACHINERY	842.18	3.22	0.65	844.75	409.02	475.47
AUTOMOTIVE & SERVICE EQUIPMENT	8.97	0.05	1.48	7.54	6.12	1.95
LAB EQUIPMENT	2.18	-	-	2.18	1.12	1.14
OFFICE EQUIPMENT	6.11	0.17	1.13	5.15	3.33	2.11
FURNITURE & FITTINGS	1.39	0.01	0.01	1.39	1.21	0.22
AIR CONDITIONERS & WATER COOLERS	0.91	0	0.02	0.89	0.58	0.35
CAPITAL WORK-IN-PROGRESS (AT COST)	880.93	3.45	3.32	881.06	428.41	493.81
DISMANTLED ASSETS	2.05	3.03	3.73	1.35	-	2.05
TOTAL	882.98	6.48	7.05	882.41	428.41	496.04
PREVIOUS YEAR	879.10	14.66	10.78	882.98	387.12	

* Includes

(a) 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.

(b) 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.

(c) Rs. 0.05 Cr being the payment made towards cost of 2,288 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.

Stamp duty excess capitalised on acquisition of Land reduced.

**MADRAS FERTILIZERS LIMITED**

(Rs. in Crores)

March 31
2006

March 31
2005

5. INVESTMENTS AT COST - LONG TERM (NON-TRADE)**UNQUOTED**

Indian Potash Limited [7,92,000(Previous year 5,28,000) Equity Shares of Rs 10 each fully paid-including 3,96,000 (Previous year 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	1.25	0.81
	<u>0.40</u>	<u>0.44</u>

6. INVENTORIES

(As certified by Management)

STORES AND SPARES

On hand	59.13	55.45
In Transit	3.69	12.60
	<u>62.82</u>	<u>68.05</u>

PACKING MATERIALS

5.22

5.80

CATALYSTS

8.37

3.06

TOOLS

0.20

0.20

13.79

9.06

STOCK IN TRADE**Raw Materials**

On hand

37.42

30.78

Work-in-Process

84.07

94.10

Finished Products

Manufactured Stock

- Fertilizers

4.36

7.23

Bought out Stocks

- Agrochemicals

0.01

-

- Potash

-

0.76

125.86

132.87

202.47

209.98



MADRAS FERTILIZERS LIMITED

	(Rs. in Crores)	
	March 31 2006	March 31 2005
7. DEBTORS		
Debts due for more than six months		
- Considered Good in respect of which Company is fully Secured	0.07	1.37
- Considered Good in respect of which Company holds no Security other than the debtor's personal security	2.10	5.08
- Considered Doubtful - Unsecured	3.11	1.52
Other Debts		
- Considered Good in respect of which Company is fully Secured	0.14	2.40
- Considered Good in respect of which Company holds no Security other than the debtor's personal security	0.51	3.21
	<u>5.93</u>	<u>13.58</u>
Less: Provision for Doubtful Debts	3.11	1.52
	<u>2.82</u>	<u>12.06</u>
8. CASH AND BANK BALANCES		
Cash on hand	0.05	0.09
Remittances in transit	2.78	1.36
Balances with scheduled banks		
In Current Account	5.71	36.19
In Term Deposit	6.60	4.17
	<u>15.14</u>	<u>41.81</u>
9. LOANS AND ADVANCES		
(Unsecured and Considered good unless otherwise stated)		
LOANS		
Secured	2.33	2.99
	<u>2.33</u>	<u>2.99</u>
ADVANCES AND DEPOSITS		
Advances recoverable in Cash or in kind or for value to be received	6.13	6.66
Balances with Customs, Port Trust and Excise Authorities	1.16	2.20
Deposits with Government Departments and Others	8.71	8.01
	<u>16.00</u>	<u>16.87</u>
CLAIMS RECOVERABLE	237.29	285.26
	<u>255.62</u>	<u>305.12</u>

**MADRAS FERTILIZERS LIMITED**

	(Rs. in Crores)	
	March 31 2006	March 31 2005
10. CURRENT LIABILITIES AND PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors		
- Small Scale Industrial Undertakings	4.78	6.37
- Other Creditors	282.87	264.44
Investor Education and Protection Fund		
- Unclaimed Deposits	0.90	0.27
- Amount to be transferred to Investor Education and Protection Fund	-	-
Advances from Marketers/Dealers	8.46	7.84
Interest accrued but not due on loans	12.92	13.90
Other Liabilities	119.71	126.55
	<u>429.64</u>	<u>419.37</u>
PROVISIONS		
Provision for Income Tax	-	-
Provision for Fringe Benefit Tax	0.92	-
	<u>430.56</u>	<u>419.37</u>
11. DEFERRED REVENUE EXPENDITURE		
1. Public Issue Expenses	0.67	1.01
Less: Written off during the year	0.34	0.34
	<u>0.33</u>	<u>0.67</u>
2. VRS Compensation & Incremental Gratuity	11.07	15.42
Add: Additions during the year	3.42	1.18
Less: Written off during the year	5.59	5.53
	<u>8.90</u>	<u>11.07</u>
	<u>9.23</u>	<u>11.74</u>
	2005-06	2004-05
12. SALES		
PRODUCT SALES LESS RETURNS		
Manufactured Products :		
Urea & NPK Complex	449.54	643.67
Biofertilizers	0.69	0.57
Carbon-di-oxide	1.51	2.21
Bought Products :		
Potash	1.19	17.01
Agro Chemicals	1.20	0.90
Ammonium Sulphate	-	0.01
	<u>454.13</u>	<u>664.37</u>



	(Rs. in Crores)	
	2005-06	2004-05
13. RAW MATERIALS CONSUMED		
FERTILIZER		
Opening Stock	30.72	48.04
Material Loan	1.31	8.93
Purchases	<u>653.24</u>	<u>749.54</u>
	685.27	806.51
Closing Stock	<u>37.42</u>	<u>30.72</u>
	(A) 647.85	775.79
PESTICIDES		
Opening Stock	0.05	0.14
Purchases	<u>-</u>	<u>-</u>
	0.05	0.14
Closing Stock	<u>-</u>	<u>0.05</u>
Cost of sales	-	-
Inventory written off	0.05	0.09
	(B) -	-
Total Consumption	(A)+(B) <u>647.85</u>	<u>775.79</u>
14. REPAIRS AND MAINTENANCE EXPENSES		
Plant and Machinery	26.13	20.24
Buildings	0.91	0.83
Other Assets	<u>0.21</u>	<u>0.24</u>
	<u>27.25</u>	<u>21.31</u>
15. TRANSPORTATION AND WAREHOUSING EXPENSES		
Transportation and Warehousing	27.07	37.55
Secondary Freight	2.05	7.34
Warehouse Rent	<u>0.37</u>	<u>1.01</u>
	<u>29.49</u>	<u>45.90</u>
16. SALARIES AND OTHER BENEFITS TO EMPLOYEES		
Salaries, Wages and Bonus	29.40	30.19
Contribution to Provident Fund, Superannuation and Gratuity	7.48	9.13
Staff Welfare Expenses	<u>5.76</u>	<u>6.25</u>
	<u>42.64</u>	<u>45.57</u>



	(Rs. in Crores)	
	2005-06	2004-05
17. INTEREST AND FINANCING CHARGES		
INTEREST ON		
Term Loans		
GOI Loan	19.82	18.69
Financial Institutions & HDFC	14.74	14.28
Other Borrowings		
Bank Borrowings	16.66	15.06
Public Deposits	5.28	5.77
Others	9.46	9.97
Financing Charges	0.24	0.26
Cash Discount	1.84	4.97
	<u>68.04</u>	<u>69.00</u>
Less: Transfer to Staff Welfare Expenses - interest subsidy on Housing Loans	0.27	0.41
	<u>67.77</u>	<u>68.59</u>
18. OTHER EXPENSES		
Rent	0.28	0.34
Rates and Taxes	4.71	5.71
Insurance	5.14	4.59
Directors' Travelling Expenses	0.09	0.10
Directors' Sitting Fees (April 05-Mar 06:Rs. 10,500;Apr 04-Mar 05:Rs.33,000)	0	0
Audit Fees:		
- Statutory Audit (April 05-Mar 06:Rs.2,47,950;Apr 04-Mar 05:Rs.2,20,400)	0.02	0.02
- Tax Audit (April 05-Mar 06:Rs.61,987;Apr 04-Mar 05:Rs.55,100)	0.01	0.01
- Certification (April 05-Mar 06:Rs.7,30,050;Apr 04-Mar 05:Rs.4,60,050)	0.07	0.05
Agro Services/Information Expenses	0.07	0.17
Advertising and Publicity	0.09	0.12
Miscellaneous Expenses	14.63	16.69
	<u>25.11</u>	<u>27.80</u>



	(Rs. in Crores)	
	2005-06	2004-05
19. OTHER INCOME		
Dividend (TDS - Nil ; Previous Year - Nil)	0.09	0.08
Interest from Banks and Others	1.13	3.42
Profit on Sale of Assets	0.22	0.24
Miscellaneous Income	3.50	6.71
Insurance claims	0.06	0.14
Agency Commission - Insurance (TDS Rs.16,08,872 ; Previous Year - Nil)	0.77	0.11
	<u>5.77</u>	<u>10.70</u>

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 capitalised 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 realisable value including final price concession or estimated price concession for the unannounced period.

Net realisable 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:	2005-06 Rupees	2004-05 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	42,49,92,435	42,17,71,154
Automotive & Service Equipment	53,07,528	53,52,014
Laboratory Equipment	8,30,731	8,30,731
Office Equipment	44,86,062	30,97,878
Furniture & Fittings	4,61,620	4,64,704
Air Conditioners & Water Coolers	3,47,976	3,47,660
	<u>44,05,26,424</u>	<u>43,59,64,213</u>

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 the Company has used 60,650 MT of Urea in the manufacture of Complex Fertilizers, out of which 41,980 MT of Urea is yet to be replenished as on 31.3.2006 (Previous year 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.22.26 Cr (Previous year Rs. 13.11 Cr) for the quantity to be replenished has not been provided for.

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.74.67 Cr (Previous year Rs. 122.83 Cr) has been reckoned as income for the year 2005-06 towards annual cost escalation of input prices.

iv) PRICE CONCESSION SCHEME

The claims preferred during the year 2005-06 under the Price Concession Scheme in respect of Phosphatic and Potassic Fertilizers aggregate to Rs.108.86 Cr (Previous year Rs. 151.05 Cr). Settlement received during the year is Rs.109.44 Cr (Previous year Rs. 141.52 Cr). Claims to be settled as on March 31, 2006 amounting to Rs.51.91 Cr (Previous year Rs. 52.49 Cr) is included under 'Claims Recoverable'.

v) EXCHANGE RATE FLUCTUATION

Exchange rate fluctuation included under other income is Rs.0.31 Cr.(Previous year - Rs.2.05 Cr).

vi) CENTRAL EXCISE 25/70 NOTIFICATION

Consequent upon the judgment of the Supreme Court dismissing the appeal filed by the Company, the amount of Rs. 5.84 Cr representing the balance duty payable on the NPK Complex Fertilizers for the period 5/3/76 to 2/7/77 was fully paid by December 1995. This order of Supreme Court has already taken cognizance of Rs. 3.10 Cr representing the duty on input used in the manufacture of NPK Complex Fertilizers for the same period. However, the Central Excise Department has been demanding Rs.3.10 Cr additionally.



Aggrieved by the above demand, MFL went on appeal to the Madras High Court and the case was remanded to the Appellate Commissioner (Appeals) to dispose off the appeal on merits. Further, as per Madras High Court orders, a Bank Guarantee of Rs. 3 Cr was furnished. As the appeal was rejected by the Appellate Commissioner (Appeals), MFL has preferred an appeal before CESTAT, which has directed MFL to obtain fresh clearance from High Power Committee for furtherance of the issue, which has since been complied with. Accordingly, no provision is considered necessary in the books.

vii) **VOLUNTARY RETIREMENT SCHEME (VRS)**

Voluntary Retirement compensation of Rs.3.42 Cr (Previous year Rs. 1.18 Cr) paid during 2005-06 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 incremental gratuity is Rs.5.59 Cr. (Previous year Rs.5.53Cr).

- viii) Sundry Creditors include Rs.2.20 Cr (Previous year Rs. 2.43 Cr) due to M/s Sipani Fibres Ltd, a Small Scale Industrial Undertaking beyond 30 days.
- ix) Provision towards redundant stores and spares as on 31-03-2006 amounts to Rs.1.11 Cr. (Previous year Rs. 0.85 Cr.) including Rs. 0.26 Cr. made in the current year.
- x) Advances include a sum of Rs.63.09 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 31.3.2006.
- xi) 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.1.18 Cr paid on interim basis, in line with the order of the Asst. Labour Commissioner to the ex-employees is treated as 'Claims Recoverable' as of 31.3.2006.
- xii) 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 31.3.2006.
- xiii) No adjustment towards impairment losses as per AS 28 (Accounting for Impairment of Assets) is considered necessary as on 31.3.2006 based on independent valuer's assessment.
- xiv) The Company has leased out its Bio-fertilizer Plant at Vijayawada, having a written down value of Rs.31.09 lacs. The lease rent received during the year is Rs.1.20 lacs (Previous Year – Rs.0.51 lacs).

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 :

		(Previous Year)
a) Within 1 year	- Rs. 1.20 lacs	Rs.1.20 Lacs
b) Later than 1 year and not later than 5 years	- Rs. 3.09 lacs	Rs.4.29 Lacs
c) Later than 5 years	- NIL	NIL

xv) **OTHER DISCLOSURES**

- i) The amount of borrowing costs capitalised for the year 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).



MADRAS FERTILIZERS LIMITED

- 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 2006 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 :

	2005-06 Rupees	2004-05 Rupees
Remuneration to Chairman & Managing Director		
Salary and Allowances	5,34,785	5,05,753
Contribution to Provident & Other Funds	1,61,893	1,48,513
Other Perquisites	80,286	70,717
	<u>7,76,964</u>	<u>7,24,983</u>
TOTAL		
Loans and Advances 'Nil'.		

22. INFORMATION ON GOODS MANUFACTURED AND TRADED

	2005-06 Installed MT	2004-05 Installed MT
(a) Capacities: (Per Annum)		
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	2,27,066	3,00,886
Urea	3,68,500	4,73,032
NPK 17-17-17	2,05,042	3,15,720
NPK 19-19-19	-	7,560
NPK 20-20-0	-	6,665
NPK 20-0-10	3,151	3,530
Bio fertilizers	235	213



MADRAS FERTILIZERS LIMITED

	2005-06		2004-2005	
	Quantity	Amount	Quantity	Amount
	MT	Rupees	MT	Rupees
(c) Purchases:				
Ammounium Sulphate	-	-	14	65,209
Bought Potash	-	-	17,612	16,00,37,731
Agro Chemicals	-	93,38,656	-	70,83,205
		<u>93,38,656</u>		<u>16,71,86,145</u>
(d) Sales				
Manufactured Products				
Urea	3,85,965	179,47,39,401	4,83,142	224,66,13,194
NPK 17-17-17	2,01,959	268,48,89,775	3,28,636	393,84,42,653
NPK 14-28-14	-	-	1,287	1,60,01,920
NPK 19-19-19	-	-	8,208	10,43,69,754
NPK 20-20-0	-	-	10,463	10,83,32,446
NPK 20-0-10	2,912	1,57,44,961	4,245	2,29,51,790
Carbon-di-oxide*	6,656	1,50,94,928	10,080	2,21,41,858
Bio fertilizers	235	68,86,003	213	56,76,554
Bought Potash	798	118,82,722	16,787	17,01,06,567
Amm. Sulphate	-	-	22	1,21,089
Agrochemicals	-	1,19,78,109	-	89,70,970
		<u>454,12,15,899</u>		<u>664,37,28,795</u>
* By Product				
(e) Stocks:				
(i) Opening Stock				
	Quantity	Amount	Quantity	Amount
	MT	Rupees	MT	Rupees
(a) Finished Products				
Manufactured Products				
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>



MADRAS FERTILIZERS LIMITED

(ii) Closing Stock	Quantity MT	2005-06		2004-2005	
		Amount Rupees	Quantity MT	Amount Rupees	
(a) Finished Products					
Manufactured Products					
Urea	200	9,48,294	13,536	7,01,35,740	
NPK 17-17-17	3,237	4,27,05,902	171	21,29,097	
NPK 20-20-0	-	-	2	21,612	
NPK 20-0-10	-	-	4	21,046	
Bought Potash	-	-	825	76,24,427	
Agrochemicals	-	99,136	-	24,434	
		<u>4,37,53,332</u>		<u>7,99,56,356</u>	
(b) Work-in-Process					
Manufactured Products					
Ammonia	1,921	5,39,39,874	8,302	17,94,52,613	
Urea - bulk	42,070	78,67,03,952	47,851	76,15,22,825	
		<u>84,06,43,826</u>		<u>94,09,75,438</u>	
(c) Stock Losses/(Gains) - Quantities reckoned in accretion/decretion in inventory					
		2005-06 MT	2004-05 MT		
NPK 17-17-17		17 *	82		
NPK 14-28-14		-	8		
NPK 19-19-19		-	65		
NPK 20-20-0		2 *	3		
NPK 20-0-10		243 *	-		
MOP		27 *	-		
Urea		1,264 *	255		
* Includes 4 MT of NPK 17-17-17, 2 MT of NPK 20-20-0, 243 MT of NPK 20-0-10 and 27 MT of bagged Imp. MOP consumed in NPK manufacture and 1,185 MT of bagged Urea converted into bulk stock (Previous Year 8 MT of NPK 14-28-14, 58 MT of NPK 19-19-19 and 180 MT of Urea), but do not reckon 1,571 MT of urea used in NK mixture manufacture (Previous year 1,938 MT) .					
(d) Offspec Disposed - Quantities		MT	MT		
NPK 17-17-17		-	48		
Urea		2	4		


MADRAS FERTILIZERS LIMITED

		2005-06		2004-05		
	%	Quantity MT	Amount Rupees	%	Quantity MT	Amount Rupees
(f) Consumption						
(i) Basic Raw Materials						
Imported						
Phosphoric Acid		15,172	32,44,32,656		49,166	92,31,36,599
Potash		62,246	61,00,26,715		97,681	77,89,68,931
Urea		60,650	78,43,92,068		85,785	97,42,03,363
Ammonia		1,431	2,60,74,772		3,260	7,25,96,622
Ammonium Sulphate					4,145	1,91,63,595
	<u>27</u>		<u>174,49,26,211</u>	<u>36</u>		<u>276,80,69,110</u>
Indigenous						
Naphtha		1,72,875	428,50,47,226		2,27,918	449,36,28,148
Bought Urea		-	-		9,564	28,28,31,839
Phosphoric Acid		20,611	44,27,29,341		7,203	13,93,32,087
Ammonia		-	-		3,808	6,51,00,627
Others			57,79,190		-	89,15,992
	<u>73</u>		<u>473,35,55,757</u>	<u>64</u>		<u>498,98,08,693</u>
	<u>100</u>		<u>647,84,81,968</u>	<u>100</u>		<u>775,78,77,803</u>
(ii) Components and Spares						
Imported	33		7,25,93,780	27		5,51,58,512
Indigenous	67		14,52,48,073	73		14,70,04,581
	<u>100</u>		<u>21,78,41,853</u>	<u>100</u>		<u>20,21,63,093</u>

23. INFORMATION ON IMPORTS AND FOREIGN CURRENCY/EXCHANGE TRANSACTIONS

		2005-06 Rupees	2004-05 Rupees
(a) Imports (CIF Value)			
Raw Materials		163,47,04,585	255,54,44,681
Components and Spare Parts		<u>12,17,14,775</u>	<u>11,14,07,782</u>
		<u>175,64,19,360</u>	<u>266,68,52,463</u>
(b) Other Expenditure incurred in Foreign Currency			
(i) Catalyst Lease Rental		16,33,125	41,57,280
(ii) Books and Periodicals		2,17,507	50,808
(iii) Travels (Business, Seminar, Conference, etc.,)		30,348	23,310
	Apr 2005 to Mar 2006	Apr 2004 to Mar 2005	
No. of persons	2	1	
Foreign Currency US Dollars	675	525	
		<u>18,80,980</u>	<u>42,31,398</u>



MADRAS FERTILIZERS LIMITED

	2005-06 Rupees	2004-05 Rupees
24. CONTINGENT LIABILITIES, CAPITAL COMMITMENTS AND L/Cs OUTSTANDING		
(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)	17,99,37,399	15,97,76,015
(b) L/Cs outstanding	58,63,40,045	38,74,38,433
(c) Estimated amount of contracts remaining to be executed on Capital Account and not provided for (after adjusting advance made therefor)	5,56,84,172	6,76,55,924
(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

- 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.
- 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.
- Figures for the previous year have been regrouped wherever necessary to conform to Current Year's classification.
- 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

SWATANTRA K SEKHON
Director

B SUKUMAR
Company Secretary &
DGM - Legal

K LAKSHMINARAYANA RAO
General Manager
Finance & Accounts

June 29, 2006

As per our Report of even date

For R SUBRAMANIAN AND COMPANY
Chartered Accountants

Chennai
Date : June 29, 2006

A GANESAN
Partner
M.No. 21438

**CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006**

(Rs. in Crores)

	2005-06	2004-05
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax and Extraordinary Items	(134.37)	(73.04)
Adjustments for		
Depreciation	44.05	43.59
Provision for Bad and Doubtful Debts	1.59	0.20
Provision for erosion in investments	0.44	0.81
Deferred Revenue Expenditure written off	5.93	5.87
Dividend Income	(0.09)	(0.08)
Interest Income	(1.13)	(3.42)
Profit from sale of Fixed Assets	(0.22)	(0.24)
Exchange rate fluctuation	(0.31)	(2.05)
Interest Expenses	67.77	68.59
Operating Profit Before Working Capital Changes	(16.34)	40.23
Adjustments for		
Deferred Revenue Expenditure – VRS	(3.42)	(1.18)
Trade & Other Receivables	7.65	67.98
Inventories	7.51	18.85
Loans & Advances	49.50	(114.93)
Trade Payables	15.32	11.21
Cash generated from Operations	60.22	22.16
Direct taxes paid	(0.21)	-
Cash Flow before Extraordinary Items	60.01	22.16
Extraordinary Items	-	-
Net Cash from Operating Activities	60.01	22.16
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(2.74)	(4.98)
Sale of Fixed Assets	0.77	0.76
Dividend Received	0.09	0.08
Interest Income	1.13	3.42
Net Cash used in Investing Activities	(0.75)	(0.72)

**MADRAS FERTILIZERS LIMITED****CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006(Contd.)**

(Rs. in Crores)

	2005-06	2004-05
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share capital	-	-
Interest Paid	(68.75)	(68.46)
	<u>(68.75)</u>	<u>(68.46)</u>
Proceeds from Loan Funds	113.01	88.53
Repayment of Loan Funds	(130.19)	(30.64)
Dividend Paid	-	-
	<u>-</u>	<u>-</u>
Net Cash used in Financing Activities	(85.93)	(10.57)
Net increase in Cash & Cash Equivalents	(26.67)	10.87
Cash & Cash Equivalents as at 1st April	41.81	30.94
Cash & Cash Equivalents as at 31st March	15.14	41.81

Note: Figures in brackets represent cash outflows

SUKUMAR N OOMMEN
Chairman and
Managing Director**SWATANTRA K SEKHON**
Director**B SUKUMAR**
Company Secretary &
DGM - Legal**K LAKSHMINARAYANA RAO**
General Manager
Finance & Accounts

June 29, 2006

AUDITORS' REPORT

We have examined the above cash flow statement of M/s Madras Fertilizers Limited for the year ended 31.03.2006. 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 31.03.2006.

For R SUBRAMANIAN AND COMPANY
Chartered AccountantsChennai
Date : June 29, 2006**A GANESAN**
Partner
M.No. 21438

