

Management Discussion and Analysis

Macro-economic scenario

The year that went by saw unprecedented volatility in all facets of the economy, be it commodity prices, forex or equity markets.

The Indian economy, on an average, grew 8-9 percent during the period 2003-08 with a GDP growth of 6.7 percent in 2008-09. While inflation touched 12 percent, today it stands below 1 percent. The capital market was extremely volatile, adversely affecting share prices, but recovered substantially during the last couple of months. Global growth rate during January 2009 was 0.5 percent. Advanced economies showed a negative growth of 2 percent while emerging economies showed a positive growth of 3.3 percent during the same period. India continued to target a growth rate of about 7 percent.

Capital inflows came down from USD 82 billion between April-December 2007 to USD 15.3 billion for the same period in 2008. During 2007-08 net inflows from FII stood at a positive USD 20.3 billion while in 2008-09 fell to a negative 15.3 billion. However, with the equity market showing bullish trends, FII inflow is expected to increase over the near future. A contraction in the capital flow affected financing to corporates during the year 2008-09 as compared to the previous year. On the positive side, riding on domestic demand, the growth of the Indian economy continues to be robust. Oil prices which touched around USD 150/barrel, declined to less than USD 40/barrel and are hovering around USD 70/barrel currently. Strengthening of rupee against US dollar reversed and rupee depreciated by more than 25 percent against the USD.

During the year 2008-09, commodity prices peaked. DAP, Phosphoric Acid, Ammonia, Urea and Sulphur touched peak price levels but are down to almost normal at present.

Export-intensive industries faced serious problems with consequent job losses in the sector post the global economic meltdown. However, the weakening of the rupee against the USD slightly improved the situation.

The economy provided challenging opportunities for Indian companies to demonstrate their competitive advantages and competencies.

Going forward, India stays strongly on the global map with its relatively strong domestic demand and healthy growth prospects and thus remains an attractive investment destination.

Macro-linkages to your Company

Oil and gas

The rising trend in global oil prices witnessed during 2008 reversed in 2009. Prices of Naphtha, Fuel Oil and Propylene also declined. However, reduced input costs could not fully compensate the fall in finished goods' prices, which are now in the recovery mode.

The massive flow of RIL's KG basin gas brought a new era in the Indian hydrocarbon industry. Additional gas allocation to various sectors has begun. 40 mmscmd gas from KG basin in the first phase will ensure easy availability of gas to all sectors. While your Company could tie-up with some cost-competitive RLNG/PMT gas suppliers, the positive recommendations on priority allocation of KG basin gas are awaiting final clearances. In the meanwhile, your Company is closely examining further offers of RLNG and enhanced ONGC gas supplies.

With these positive developments, your Company is confident about the availability of gas for sustaining full capacity utilisation. Gas from new sources will be priced at the market rate and its impact would be partially passed on to the customers and partially compensated by

enhancing capacity utilisation, increasing efficiency and replacing costly liquid fuel by gas.

Mining and infrastructure

Your Company has been the market leader in India for Technical Ammonium Nitrate (TAN), an oxygenator for explosives, consumption of which is closely linked to construction, infrastructure, coal mining and mining of other minerals/ores. The growing demand for coal production for meeting power generation targets and additional cement capacities requiring more limestone would further the growth in the mining sector and propel the demand for TAN. In addition, the increased demand for higher quality explosives would sustain a demand pattern towards TAN even at a reasonably premium price.

Agri-business

Improving farm economics holds the key to Indian economic development as more than 66 percent of the population depends on agriculture. Organised retail of grocery is expected to grow and will thus need a robust supply chain for fruits and vegetables. The ever increasing demand for these products, both in the domestic and international markets provides an excellent opportunity for the Company. Keeping this scenario in mind, your Company initiated an integrated nutrient and crop management thrust for farmers, including the manufacturing of customised fertilisers by implementing the license obtained to manufacture. In the meanwhile, your Company would continue its various initiatives taken through its Mahadhan Saarthie Centres for rendering advisory services to farmers to enhance quality and productivity for achieving global competitiveness. The Company has begun earnest work with farmers enabling several Mahadhan Saarthie members to acquire GlobalGAP certification ensuring

healthy agri practices. A growing body of farmers are today getting fully convinced about the support provided by the Company on various fronts to improve both the quality and the quantity of yield from their land and the prices obtained for the end produce.

Owing to a significant rise in international fertiliser prices in 2008-09, the subsidy burden on the Government had increased many fold and the Government issued fertiliser bonds to help manage its liquidity constraints. With the substantial fall in global fertiliser prices now, it is expected that the Government will not resort to further bonds to defray subsidy payments.

Chemicals business

The customs duty on chemicals remained static at 7.5 percent. Your Company is the market leader in Iso Propyl Alcohol (IPA), Nitric Acid and an important player in Methanol and CO₂. Your Company's customer relationships, loyalty and ability to service the market through domestic geographical advantages are proving to be key strengths.

Internationally, the prices of most bulk chemicals have been highly volatile. Global Methanol prices too remained highly volatile and went below USD 200/MT during 2009. More than 50 percent of the domestic demand for methanol was met through imports. On account of natural gas constraints, both in terms of price and availability, no new domestic capacities in methanol were added in the recent past.

Prices of IPA have been fluctuating in the international market. Following the global meltdown impact, resulting in a downward trend in the market prices, your Company faced stiff challenges from low priced imports. Your Company has received the US Pharmacopoeia certification under the excipient verification programme for its IPA

product and enjoys the distinction of being the first company in the world to have received this certification. Your Company also developed cosmetic grade IPA, which is being test marketed and the reports received are encouraging. Both these measures will help place some of your Company's products in the premium segments. Your Company's Nitric Acid enjoys a good market, being used in dyes, intermediates and pharma sectors.

Retail and value-added real estate (VARE) business

The retail sector began the year on a very robust note. During the meltdown, there was a distinct slow down in discretionary consumer spending which affected categories like furniture, durables and home products among others. However, during the last couple of months, a distinct pick up has been noticed across key consumer categories with a gradual rise in discretionary spending. Consumer confidence is on the mend. As such, per capita income is expected to rise around 3 percent over the next two years.

Detailed financial and operational analysis

Financial analysis

The total revenue increased 34 percent from Rs. 1081.31 crores in 2007-08 to Rs. 1448.10 crores in 2008-09. Profit before tax increased 40 percent from Rs. 151.51 crores in 2007-08 to Rs. 212 crores in 2008-09 and net profit grew 48 percent from Rs. 100.27 crores in 2007-08 to Rs. 148.70 crores in 2008-09. Earnings per share improved by 48 percent from Rs. 11.37 in the previous year to Rs.16.86 in 2008-09. This growth was achieved by taking advantage of market opportunities through in-house manufacturing and strategic outsourcing.

Your Company's financial position continues to remain sound. The average debt cost stood at 8.31 percent for 2008-09 as against 7.45 percent for 2007-08. During 2008-09, long term funds of Rs. 104 crores were borrowed for part-financing the project cost. In addition, there was a short term borrowing of Rs. 120 crores. The Company also raised Rs. 125 crores by issuing 10.80 percent privately placed NCDs. In 2007-08, while the outstanding debt stood at Rs. 349.38 crores, during

2008-09 debt rose to Rs. 607.75 crores. Interest for the funds raised for project/ capex items were capitalised. The debt-equity ratio stood at 0.55 in 2008-09 as compared to 0.37 in the previous year. The current ratio, including liquid investments, was at 2.28 in 2008-09 as compared to 1.81 in the previous year.

Forex management emerged as a challenge in 2008-09 and appropriate measures were taken in response. Your Company has had no exposure to the derivative product volatilities during the year.

Operational analysis

Overall, during the year, shortage of natural gas at the Taloja plant continued and was partially compensated by purchasing LNG and outsourcing Ammonia for maintaining down-stream products. The prices of fuel oil, used for generating process steam, initially went up but subsequently came down. The price of precious metals used as catalysts also came down. The capacity of AN plant was increased from 90,000 MTPA to 1,32,000 MTPA, requiring a plant closure for 59 days for hook up. The capacity of Liquid CO₂ was also increased from 16,500 MTPA to 33,000 MTPA during the year. During 2008-09, Sulphur Bentonite plant started operations and the product was well received in the market.

Production and sales

The total bulk fertiliser sales volume for 2007-08 was 3,18,680 MT and 2,99,270 MT in 2008-09. The non-availability of Phosphoric Acid and the sharp increase in international prices impacted volume of own manufactured Nitro Phosphate Fertilisers. The availability of mixture fertilisers was low due to the shortage of input material to these manufacturers. Sales of traded bulk fertilisers grew from Rs. 229.70 crores in 2007-08 to Rs. 337.44 crores in 2008-09.

Sales volume of industrial chemicals dropped from 2,83,260 MT in 2007-08 to 2,70,896 MT in 2008-09, but sales in value terms grew 4.37 percent. The details of production and sales during 2007-08 and 2008-09 are as follows:

Production

Product	Quantity (MT)	
	2008-09	2007-08
Ammonia	88,800	67,700
Methanol	12,200	31,500
Iso Propyl Alcohol	51,200	49,400
Propane	9,300	9,800
Dilute Nitric Acid	2,36,000	2,17,300
Concentrated Nitric Acid	85,000	80,500
Technical Ammonium Nitrate	1,17,400	1,17,800
Nitro Phosphate Fertiliser	57,400	29,900
Liquid Carbon Dioxide	21,500	15,500
Windmill Power (KWH)	1,63,42,400	91,77,700

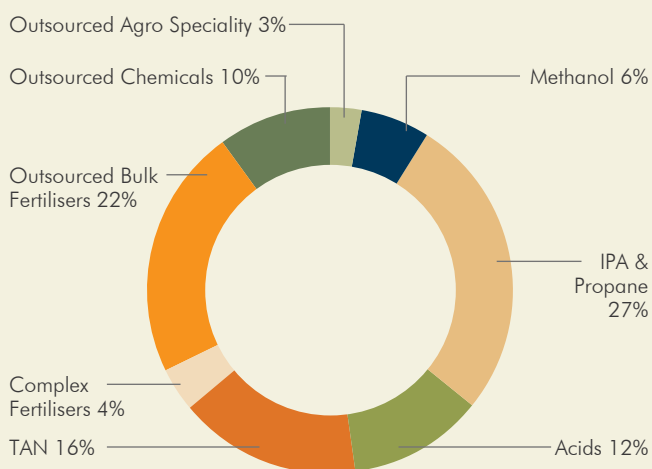
Figures are rounded-off to the nearest 100

Sales

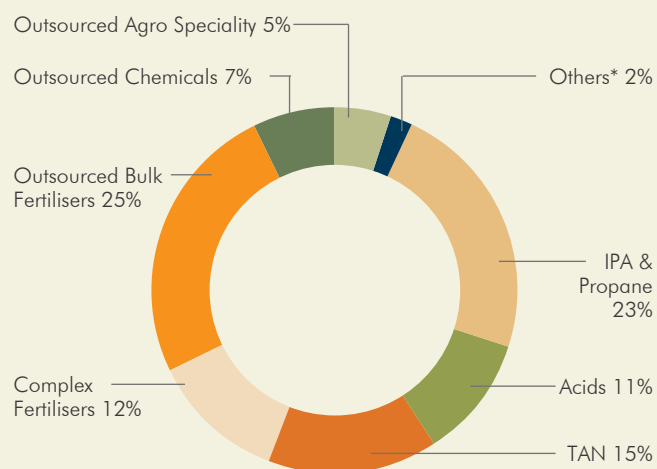
Product	Quantity (MT)	
	2008-09	2007-08
Methanol	65,200	89,100
Iso Propyl Alcohol	51,300	52,200
Propane	9,400	9,700
Dilute Nitric Acid	29,700	29,100
Concentrated Nitric Acid	85,200	80,500
Technical Ammonium Nitrate	1,16,900	1,17,900
Fertilisers	2,99,300	3,18,700
Liquid Carbon Dioxide	21,500	15,500
Hydrogen (by-product)	3,100	2,800
Ammonia	1,100	–
Bulk and Speciality Chemicals	3,100	3,300
Speciality Fertilisers	35,800	13,500
Fruits and Vegetables	1,100	300
Windmill Power (KWH)	1,57,58,000	87,38,300

Figures are rounded-off to the nearest 100

The revenue mix from various products FY 2007-08



The revenue mix from various products FY 2008-09



*Others include: Methanol, Windmill Power

Segment-wise and product-wise business review

Agri-business

The total revenue for the agri-business segment stood at Rs. 576.80 crores in 2008-09 as against Rs. 298.19 crores in 2007-08.

The agri-business continued its focus on integrated nutrient management and providing advisory services to the farmers, through Mahadhan Saarrthie Centres, for enhancing quality and farm productivity. The total number of Mahadhan Saarrthie Centres as on March 31, 2009, stood at nine with around 5,000 hectares of cultivable land and a total membership of 5,500 farmers. The success of Mahadhan Saarrthie initiatives and the excellent marketing strategies adopted by your Company, resulted in an increase of around 144 percent in speciality fertilisers sales from Rs. 28.06 crores in 2007-08 to Rs. 68.53 crores in 2008-09. Your Company successfully commenced exporting fruits and vegetables to the Middle East and the European markets was worth Rs. 3.84 crores.

Chemicals segment

The total revenue for the chemical segment stood at Rs. 811.49 crores in 2008-09 as against Rs. 752.43 crores in 2007-08.

Methanol

During the year, due to non-availability of feedstock and uneconomical international prices, Methanol production was restricted to 12,207 MT as compared to 31,548 MT of the previous year. Traded Methanol grew by about 4 percent at 54,218 MT as against 52,351 MT of the previous year. The prices dropped to an all time low in the second half of the year with some improvement during the latter part of the year.

IPA

During the year, your Company recorded the highest production of IPA and the highest sales of drummed IPA. Your Company's product was well accepted in the domestic

and international market leading to market leadership in this product. The total production of IPA was 51,217 MT as compared to 49,447 MT in the previous year. During the year, the sales volume was 51,264 MT (including exports of 4,080 MT) when compared with 52,239 MT (including exports of 9,329 MT) of the previous year.

Acids

The sales volume of Nitric Acid of different grades was 1,09,544 MT in 2007-08 and 1,14,862 MT in 2008-09. Your Company also recorded the highest production of CNA in 2008-09.

Technical Ammonium Nitrate

Production of Ammonium Nitrate remained stable during the year. The sales volume of Technical Ammonium Nitrate came down marginally from 1,17,907 MT in 2007-08 to 1,16,724 MT (including 200 MT of re-export) in 2008-09, following the plant closure for hook-up of the retrofitted capacities. However, on account of better price realisations, the sales value increased by 30 percent from Rs. 165.11 crores in 2007-08 to Rs. 214.72 crores in 2008-09.

Liquid CO₂

Total sales volume of CO₂, a by-product of Ammonia, improved by 39 percent as compared to the previous year. Demand for this product remained reasonably robust.

Hydrogen

Sales volume of hydrogen, a by-product of Ammonia, grew by 12 percent when compared to the previous year.

Exports

During 2008-09, exports of Ammonium Nitrate increased from Rs. 5.48 crores in 2007-08 to Rs. 17.16 crores (including Rs. 0.70 crores of re-export). Export of IPA was curtailed to Rs. 20.31 crores as against Rs. 41.51 crores in 2007-08 on account of strong domestic demand. Export of other products came down from Rs. 15.63 crores in 2007-08 to Rs. 9.70 crores in 2008-09.

Retail and value-added real estate

During 2008-09, Ishanya – India’s largest design centre and speciality mall – became operational. More than 50 stores under one roof provide excellent facilities to the customers for acquiring home improvement products. Over 5,000 brands are available. Ishanya has witnessed nearly 1.5 million footfalls since its opening and has a record 35 percent conversion, making it one of the most successful retail destinations in its category. Ishanya has been able to leverage its brand and in addition to normal retail spaces, it has increased revenue from specially designed areas like the amphitheatre, a seminar hall, exhibition spaces and advertising spaces among others.

Current and future projects

Ammonia storage tank

The 15,000 MT Ammonia storage tank project undertaken by your Company at JNPT to facilitate imports has been completed except for small auxiliary work.

Dilute nitric acid

Erection and commissioning of the 450 TPD DNA plant undertaken by your Company is in progress. The main components of the plant as well as supplementary equipment have been acquired. It is expected that by the second quarter of 2009-10, the plant will be put to commercial use.

Technical Ammonium Nitrate

Basic engineering and major portion of detailed engineering have been completed for your Company’s new project to set up 3,00,000 MTPA TAN plant at Taloja. Civil engineering contract was awarded and erection of some of the equipment started. Long delivery items have been ordered and the project is expected to be completed by the third quarter of 2010-11.

Internal controls

Your Company has a robust internal audit system ensuring effective internal controls. The concept of ‘Control

Effectiveness Index’ (CEI) is being used for each functional area to benchmark control and performance levels. The internal Auditors’ Reports are regularly reviewed by the Audit Committee of the Board. Your Company has also adopted COSO system of internal control. SAP is used for better control, MIS and effectiveness. In addition, your Company has also taken other initiatives to make it an innovative, competitive and strong organisation fully capable of meeting global competition.

Enhanced value to the shareholders

Your Company enjoys strong competitive advantages across the sectors and markets in which it operates. Besides enjoying a strong brand pull for its products, its marketing network and relationships give it a formidable strength in the market. The Company leverages its intellectual capital acquired through long years of familiarity and expertise in operating chemicals and fertiliser plants well, as evidenced through its ability to enhance capacity at relatively low costs and high skill. Its ability to ride on the country’s macro-economic trends and to fully exploit the markets that it competes in, arises both from its marketing and technology-led intellectual capital.

Your Company continues its thrust to achieve credible corporate growth through transparent financial management and took a number of initiatives to enhance shareholder value. Besides, continual business investments will help further strengthen shareholder value over the long term.

Cautionary statement

Statements in this report, particularly those which relate to Management Discussion and Analysis, describing the Company’s objectives, projections, estimates and expectations, may constitute “forward looking statements” within the meaning of applicable laws and regulations. Actual results might differ from those either expressed or implied.