

Management Discussion and Analysis

THE MACRO-SCENARIO

The future is both exciting, and challenging!

According to most forecasts, Indian economy is likely to slowdown with growth at 8.7% for FY08 after a growth of 9.6% for previous year. The rising inflation needs careful watching, especially the prices of iron and steel and crude oil. The volatility in the capital markets though not unexpected is expected to continue for sometime into FY09. Liquidity in the market is still considered to be reasonable, though interest rates are rising.

On the positive side, relative to the global scenario, India's growth story continues. Domestic demand continues to show a buoyant trend. It is heartening to note these facts particularly coupled with the news that industries of significance like cement will see substantial capacity growth during the financial year 2008-09.

Globally however, the situation will call for careful watching with oil prices already having touched US\$ 135/barrel. There is a danger of global stagflation with a looming recession and persistent inflation. However, the growth in the Indian economy with demand remaining consistent should help India weather storms. The strengthening of the dollar against the rupee will help export realisations increase, though the oil import bills will continue to hang as a longer-term threat.

This scenario provides a uniquely challenging opportunity for Indian companies and particularly your Company.

MACRO-LINKAGES TO YOUR COMPANY

Oil and Gas

The rise in global oil prices has impacted all refinery products like Naphtha, Fuel Oil and Propylene, being used by your Company. However, the gas position in the Indian context is likely to witness a positive change with the KG Basin gas likely to flow by the last quarter of FY09.

The gas pipeline grid is broadly in place and in particular, the Dahej-Uran pipeline has been commissioned upto your Company's plant and the connectivity for LNG has been established. Your Company has purchased and transported a consignment of LNG during FY08. Regular and consistent supplies are expected to be available by end-2008.

All these developments will ensure an adequate supply of gas to the Company's plant at Taloja and shortages should be an issue of the past. Whilst gas from the new sources could be priced at market rates, this will be partly passed on to the customer and partly compensated by enhancing capacity utilisation and efficiency.

Mining and Infrastructure

The consumption of Ammonium Nitrate, an oxygenator for industrial explosives, in India, is closely linked to construction, infrastructure, coal mining and the mining of other minerals and metals.

The mining sector is witnessing a global boom and global majors in mining have evinced an interest in setting up shops in India. Added to this, are the growing



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needs for limestone in the cement sector. This sector coupled with minerals and metals has propelled a strong demand for commercial explosives and in turn, for Ammonium Nitrate. Moreover, the capacity creation in the thermal energy sector through coal based plants will see a further growth in mining.

Thus, the AN growth is sustainable over the long-term for your Company. The increase in gas price in Russia and some CIS Countries has hardened the price of fertiliser grade AN, being used for some commercial explosives resulting into pressure on the availability of the product. Supply side dynamics therefore present positive pricing opportunities, besides widening the demand-supply gap.

THE AGRI-BUSINESS

With organised retail expected to grow to 16% of all retail by 2011 from the current 4%, the developments in the supply chain for fruits and vegetables are very positive with the high level of acceptance of organised retail by Consumer further propelling the growth in demand for these products. These products are gaining a further impetus as India becomes an export hub. In turn, this will give a boost to customised fertilisers, specialty fertilisers and agri-services and opens up major business opportunity for the Company.

Your Company has been granted a license to manufacture customised fertilisers. Now, the Company's Mahadhan Saarthie Centres, providing knowledge and nutrient know-how and advisory services at a reasonable fee to farmers, will have an enhanced opportunity to create value for the farmers and make them globally competitive. The Company has been rendering all possible assistance to farmers for getting the required certification to export their products to European markets in addition to selling in the organised retail sector.

The international prices of fertilisers have risen substantially compared to previous years and the rise is expected to continue. This will increase the government subsidy to the sector and to reduce this financial burden, ultimately, a part of the increased fertiliser price may be passed on to the farmer. The rising subsidy bill and the consequential fiscal problems will have to be watched closely. In order to make farm economics viable, the farmer needs to be trained in integrated input management to minimise his input cost. These opportunities provide an excellent opening for the agri-business sector to build relationships with farmers by getting their products to the retail chain.

The pricing mechanism of fertilisers may undergo some change. However, the mechanism for providing adhoc concession/subsidy is getting fine-tuned in a manner that will now make it attractive for fertiliser companies to consider further cost-effective investments. There has been a change in the policy relating to adhoc price concession on marketing of SSP. The price concession/subsidy given to the SSP manufacturers will fully compensate them for the increased price of sulphur and rock phosphate.

Finally, the additional gas and ammonia availabilities will boost the manufactured component in your Company's product basket.

THE CHEMICALS BUSINESS

The customs duty on chemicals stays at 7.5%. Internationally the prices of most bulk chemicals have been volatile.

With the general growth in the economy, the chemical sector has also shown growth especially in pharmaceuticals, solvents, intermediates and across end-use industries. Global price hikes have supported better price realisations in India.

The Company has a basket of products which provide flexibility to manage commodity market cycles efficiently. The Company is one of the leaders in the bulk chemical market for products like Methanol, Iso Propyl Alcohol, Nitric Acid etc.

The Company's customer relationships, the loyalty and its ability to service its market through its domestic geographical advantage are proving excellent entry barriers.

The global Methanol market has been volatile. During the winter of 2007-08, international prices touched US\$ 600 per MT. Prices have now come down to close to normal levels with the domestic demand for Methanol consistently growing. Today, over 50% of domestic demand is met through imports owing to natural gas constraints.

IPA, too, has seen a fluctuation in international prices with recent uptrends. Being a key supplier catering to the country's IPA needs, your Company offers scale advantages in the domestic market with strong customer loyalty.

The Company remains a leader in Nitric Acid. Growth in the dyes, intermediates and pharma sectors have ensured that demand is rising.

DEEPAK FERTILISERS AND PETROCHEMICALS CORPORATION LIMITED

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During the year under review, your Company has received ISO 9001:2000 certification for Methanol, IPA, Propane, LDAN, CO₂, Nitric Acid and Ammonia.

RETAIL AND VALUE-ADDED REAL ESTATE

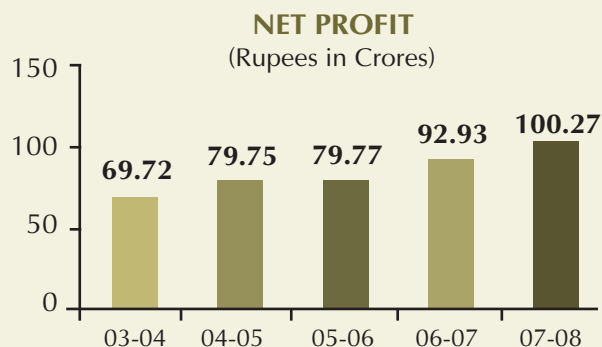
The increasing disposable income of the middle class and its aspirations for better living space around them has boosted the demand for better designed homes and offices. Ishanya, India's largest Design Centre and Specialty Mall developed by your Company, is in the ideal position and environment to capitalise on this scenario.

Ishanya will also be uniquely placed to improve revenues by leveraging its brand and from specifically designed areas like the amphitheatre, a seminar hall, exhibition spaces, advertising spaces etc. beyond normal retail spaces. With a fundamentally strong business model, actual footfalls and customer responses have been very good.

DETAILED FINANCIAL AND OPERATIONAL ANALYSIS

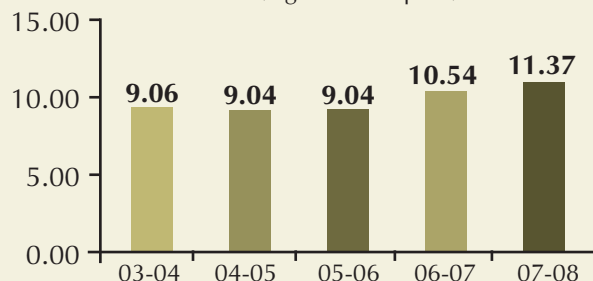
Financial Analysis

Total revenues for the financial year 2007-08 jumped to Rs.1,081.31 crores from Rs. 869.43 crores of the previous year. Profit before tax increased to Rs. 151.51 crores as compared to Rs. 128.15 crores in the previous year. The net profit for the year FY08 stood at Rs. 100.27 crores as compared to Rs. 92.93 crores of the previous year. Earnings per share has gone up to Rs. 11.37 as compared to Rs. 10.54 of the previous year. This growth has been achieved by taking advantage of market opportunities through in-house manufacturing and strategic outsourcing.



EARNINGS PER SHARE

(Figures in Rupees)



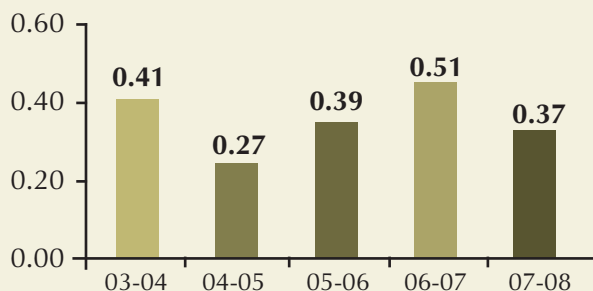
Your Company's financial position continues to remain sound. The debt cost stood at 7.45% for FY08 against 7.49% in FY07. Additional short term borrowing made during the year 07-08 was Rs. 87 crores.

With the business growth, the outstanding debt in the Company's books for FY08 has reached Rs. 349.38 crores as compared to Rs. 325.31 crores of the previous year. The interest cost, including financial charges, in FY08 is Rs. 15.95 crores against Rs. 11.49 crores for the previous year.

Interest for the funds raised for project/ capex items has been capitalised.

DEBT TO EQUITY

(Figures in Times)



The debt-equity ratio stood at 0.37 as compared to 0.51 in the previous year. The current ratio, including liquid investments, is at 1.81 as compared to 2.75 of the previous year.

Forex operations have been suitably managed by your Company with appropriate measures taken to de-risk foreign exchange fluctuations and minimise their impact.



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Operational Analysis

Eventhough, the supply of Natural Gas to Taloja plant fell short of requirements for the year, the same was partially met through purchase of LNG and outsourcing of Ammonia for maintaining the production of downstream products. The prices of Naphtha, used for generating steam and of precious metals used as catalysts shot up considerably. The Ammonia plant saw a shut down for 57 days on account of retrofitting to increase capacity to 1,25,000 MTPA from 90,000 MTPA.

Overall Production and Sales

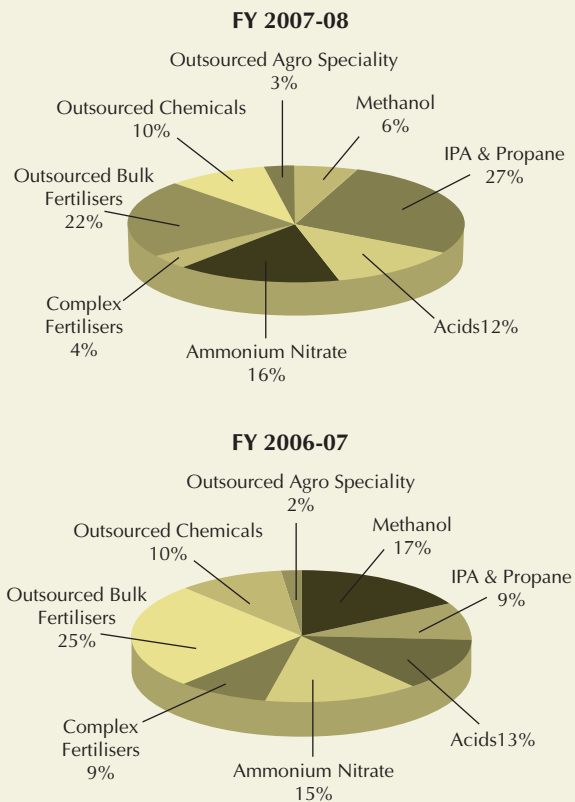
The total fertiliser sales volumes for FY08 stood at 3,18,680 MT against 3,68,723 MT in the previous year. The non-availability of phosphoric acid and the sharp increase in international prices of material for outsourcing affected sales of manufactured fertilisers.

Sales volumes of industrial chemicals grew to 2,83,260 MT in FY08 as compared to 2,64,006 MT in FY07. The industrial chemicals sales have been driven by IPA as well as Ammonium Nitrate. The details of production and sales during FY 2007-08 and 2006-07 are given below:

PRODUCTION		
Product	Quantity (MT)	
	2007-08	2006-07
Ammonia	67,700	78,800
Methanol	31,500	67,800
Iso Propyl Alchohol (IPA)	49,400	15,900
Propane	9,800	3,400
Dilute Nitric Acid	2,17,300	2,31,600
Concentrated Nitric Acid	80,500	84,100
Ammonium Nitrate	1,17,800	1,07,600
Nitro Phosphate Fertiliser	29,300	66,000
Liquid Carbon Dioxide	15,500	18,600
Windmill Power (KWH)	91,77,700	23,05,900

SALES (including outsourced products)		
Product (incl. trading)	Quantity (MT)	
	2007-08	2006-07
Methanol	89,100	1,10,400
Iso Propyl Alchohol	52,200	12,500
Propane	9,700	3,300
Dilute Nitric Acid	29,100	30,600
Concentrated Nitric Acid	80,500	84,200
Ammonium Nitrate	1,17,900	1,08,400
Fertilisers	3,18,700	3,68,700
Liquid Carbon Dioxide	15,500	18,600
Hydrogen (by-product)	2,800	3,600
Bulk & Specialty Chemicals	3,300	500
Windmill Power (KWH)	87,38,300	21,02,000
Specialty Fertilisers	13,500	5,400

THE REVENUE MIX



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SEGMENT-WISE AND PRODUCT-WISE BUSINESS REVIEW

AGRI-BUSINESS

The agri-business is focusing on integrated nutrient management, including micro-nutrients, coupled with advisory services to the farmers for enhancing quality and farm productivity. Your Company has assisted farmers obtain the Eurogap certificate for the production of grapes and pomegranate. This has helped them increase price realisations. The total number of Mahadhan Saarthie Centres as on 31st March, 2008 stood at six with 5079 hectares of cultivable land.

There has been an improvement in the sale of specialty fertilisers, which has increased to Rs. 28.53 crores in FY08 from Rs. 14.45 crores in the previous year showing the success of the Mahadhan Saarthie initiative.

CHEMICALS SEGMENT

Methanol

Methanol production was optimised during the year keeping in view feedstock availability and higher naphtha prices. The availability of traded Methanol improved by 7% to 52,351 MT as compared to 48,805 MT in the previous year. Overall, there has been reduction in Methanol sales volume on account of lower in-house production. Methanol prices dropped in the first half of the year. However, the price increased in the second half but started stabilising at realistic levels by the end of the year. Methanol demand continues to show a positive and healthy growth trend.

IPA

The IPA plant achieved high capacity utilisation and the Company became market leader in domestic market in the very first full year of operations. Total production of IPA during the year 2007-08 was 49,447 MT and the total sales volume was 52,239 MT including exports of 9,329 MT. The Company's product is well accepted in the domestic and international market.

Acids

Sale volumes of acids during the year 2007-08 were optimised in order to maximise contributions. The overall sales value grew by 28% riding on better price realisations.

Ammonium Nitrate

The sale volumes of Ammonium Nitrate grew by 9% and the sales value by 32% on account of better realisation. The Company has been able to sell higher volumes of value added products.

Liquid Carbon Dioxide

Total sales volume of CO₂, a by-product of Ammonia, was lower by 17% as compared to the previous year in view of the non-availability of carbon dioxide during the shutdown of the Ammonia plant for retrofitting. Demand for this product remains reasonably robust.

Hydrogen

The sales volume of Hydrogen, a by-product of Ammonia, was lower as compared to the previous year on account of the shutdown of the Ammonia plant for retrofitting.

Exports

Your Company continues its thrust on exports. Overall, there was growth of 164% in exports. Export of IPA stood at Rs. 41.51 crores as compared to Rs. 5.68 crores in the previous year. Export of Ammonium Nitrate during the year FY08 was curtailed to Rs. 5.48 crores as compared to Rs. 12.41 crores of previous year riding on strong domestic demand. Export of other products during FY08 was Rs. 15.63 crores, as compared to Rs. 5.66 crores in the previous year.

Retail and Value Added Real Estate

Nearly 3,00,000 sq. ft. of space in Ishanya has become operative out of leasable area of approx. 5,50,000 sq.ft. spread over 10 acres. As of date, over 5,000 brands spread across 21 tenants are available. The Amphitheatre has been commissioned in FY08 and started operating. Ishanya's balance tenants are now in the process of completing fitments and the Specialty Mall is expected to be fully operational in the current year.

CURRENT AND FUTURE PROJECTS

Ammonium Nitrate

With regard to your Company's plans of tripling Ammonium Nitrate capacity, whilst the progress in the



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green field Ammonium Nitrate project at Paradip has been slow on account of many local issues in Orissa, technology tie-ups have been completed and detailed engineering is in progress. Some of the long-delivery equipment has been ordered. In view of the growing demand, the Company is committed to creating this additional capacity of Ammonium Nitrate and is, to this end, exploring all avenues to speedily complete the project.

Ammonia Storage Tank

As the Company's existing ammonia storage capacities are not enough to take care of all its downstream requirements, your Company has undertaken a project to build an Ammonia storage facility at the JNPT port to facilitate imports.

Work on this 15,000 MT Ammonia Storage Tank at JNPT is progressing well. The civil construction has been completed. The tank fabrication is on and most items required have been procured. Environmental clearances have been obtained. The Ammonia pipeline work from Jetty to the tank is now in progress.

Dilute Nitric Acid Plant

Keeping in view the additional requirement of Dilute Nitric Acid to take care of downstream products, your Company has decided to set up another 450 TPD Dilute Nitric Acid plant at Taloja. The main components of the plant are being relocated and procurement of supplementary equipments is in progress. It is expected that the plant will be commissioned during the 1st quarter of FY10.

INTERNAL CONTROLS

Your Company has a robust internal audit system which ensures effective internal controls. A concept of 'Control Effectiveness Index' (CEI) developed by the internal auditor is being used for each functional area to benchmark control and performance levels. As per the valuation given by the Internal Auditor, the overall CEI is in the range of 85% which is termed to be exemplary. The Company is upgrading SAP for better control, MIS

and effectiveness. An upgraded version MySAP is under implementation.

Internal productivity and employee engagement efforts like Kaizen and Small Group Activity and Housekeeping have given good results. All these will help Company in metamorphosing into a strong globally competitive, innovative learning organisation, fully capable of meeting global competition.

ENHANCED VALUE TO SHAREHOLDERS

Your Company continues with an innovative approach to improve efficiency in operations, enhancing margins and profitability. This is being done by increasing the overall competitiveness and optimising resources. The Company is upgrading systems and processes for continuous improvement to realign to customer needs.

The Company is continuously re-visiting and evaluating its corporate strategy, business strategy and business models to create the best value proposition for the customers to retain customer loyalty and drive better profits. The Company's initiatives in improving culture and creating competence in the organisation with an innovative approach will strengthen intellectual assets, which would enhance the shareholders' value and also benefit all the stakeholders of the Company.