



## THE MACRO-SCENARIO

India's economic outlook remains strong. The country was amongst the first to overcome the global recession, achieving a GDP growth of 7.4% in 2009-10. This was largely driven by improvement in industrial growth. Manufacturing output spurted to 10.8% from the start of the fiscal, indicating firmly that India had regained the momentum lost during the global financial crisis.

Unlike in 2009-10, the composition of aggregate demand will now change from government consumption to private consumption and investment. Several major capacity expansion plans in key sectors like cement, steel, aluminium, coal, automobiles, power, highways etc. are envisaged. Urban consumption will be strongly driven by rising levels of consumer confidence. The positive outlook has led to improved capital inflows, led by the return of the FII's to the equity markets during the year.

Given DFPCL's product and customer profile – the Indian farmer, the mining sector, the chemicals sector and the urban consumer – the emerging trends clearly point towards a robust and positive outlook.

## THE MICRO-SCENARIO

### Raw Materials

Some of the major raw materials for your Company are Natural Gas and its derivative Ammonia. Natural Gas in India is now also available from a choice of sources including the KG basin, RLNG, ONGC (C-Series) and the Panna Mukta Tapti basin. Your Company, over the past year, has replaced costly liquid fuels like Naphtha and Fuel Oil with Natural Gas. It now has firm supply contracts in place with key producers. Prices of Natural Gas are expected to remain range-bound in 2010-11 and should place your Company in a favourable competitive position. Ammonia prices are also expected to be fairly stable in 2010-11. Your Company has signed quantity contracts for Ammonia with an overseas supplier. The supply of this crucial raw material should commence later in the financial year 2010-11 based on the needs of its downstream expansion.

### Agri-business

Horticultural production in India's agri-products basket is rising almost twice as fast as other products. According to APEDA, India's agri-export turnover is expected to double in the next four years to nearly US\$ 18 billion by 2014.

These trends are positive for your Company's current product profile, both manufactured in-house and outsourced. Your Company should now be well-placed with its strong brands, robust distribution networks and emerge as a partner of choice for farmers.



## Management Discussion and Analysis

The Saarrthie business, which provides yield-improving, value-added, knowledge driven services and output management, will create significant customer value.

Going forward, sulphur prices are expected to be stable. This should benefit your Company's Sulphur Bentonite business. Key inputs like Phosphoric Acid should remain favourably priced globally and available in adequate quantities.

Internationally, fertiliser prices have recovered from the lows of 2008-09. The Nutrient-Based Subsidy (NBS) regime is now effective from April 1, 2010 and should benefit all players in the fertiliser sector, including your Company. A full assessment of its impact should be possible in 2010-11. While the increase in APM prices will impact margins, overall profitability is expected to improve due to better capacity utilisation on the back of full Gas availability.

The next phase of expansion in this business will be three-fold. At the first level, your Company will expand its markets geographically and penetrate deeper into customer segments with a clear focus on adding superior value.

At the second level, your Company will strengthen its product basket by expanding into customised fertilisers, in keeping with the strategy of offering soil-specific, crop-specific fertilisers.

At the third level, with its Saarrthie concept taking firm root, your Company is now evaluating various business models to make inroads into output management.

## THE CHEMICALS BUSINESS

### Technical Ammonium Nitrate (TAN)

Forecasts for the Indian mining and infrastructure sectors are robust, driven mainly by domestic demand. Business Monitor International (BMI) has forecast that the Indian mining industry will now grow at an average of 8% annually in real terms. Coal mining contributes to nearly 70% of Indian mining. Vast reserves of mineable coal have been identified. Captive coal blocks have been allocated. Coal production estimates are favourable with the increasing demand for power across India. Several thermal power projects are now being readied for commencement. An annual GDP growth rate of about 8% will necessitate a 9-10% growth rate in the Indian power sector.

Globally, the mining sector is poised for expansion. A clear demand-supply gap for TAN exists, especially in East and South-

East Asia, the Middle East and South Africa. Your Company expects to exploit these demand-supply gaps in the coming years.

Capital investment in infrastructure projects is on the rise. Key benchmark industries, like cement, which are vital customers for TAN, have shown good growth and the outlook remains positive.

With these demand drivers coming into place, the demand for TAN is expected to grow around 8% per annum over the next 5-7 years. Currently about 50% of the domestic market comprises low-grade imports which do not enable the end-customer derive cost or process efficiencies. With the new 3,00,000 MTPA plant for TAN to become operational during the year, your Company will be ready with both scale and world-class quality to replace these low-grade imports. It is currently working closely with potential customers to analyse their needs and help manage them cost-efficiently. Your Company's brand strengths, coupled with its scale and its technical knowledge, strengthen its competitive advantages in the domestic market.

### Industrial Chemicals

The outlook for your Company's range of industrial chemical products viz. Iso Propyl Alcohol (IPA), Nitric Acid, Methanol and CO<sub>2</sub> remains favourable. Your Company is the market leader for IPA and Nitric Acid and an important player in Methanol and CO<sub>2</sub>. It is the only manufacturer of IPA in India and is one of the very few companies in the world with a US Pharmacopeia certification for IPA, making it the supplier of choice for the pharmaceutical industry. Your Company will also emerge as Asia's largest manufacturer of Nitric Acid by 2010-11.

Demand in the Indian pharmaceutical industry and across other sectors like dyes, acetic acid, formaldehyde etc. continues to be robust. The Nitric Acid downstream segments have good growth trajectories forecast, resulting in an increased demand for various grades of Acid in the coming years. Your Company's customer relationships and its ability to offer world-class service with its domestic geographical advantages are proving to be key strengths. Your Company shall appropriately augment capabilities and capacities in its Chemicals business to maintain the growth momentum.

On the global front, crude oil prices are expected to be in the US\$ 85-100 range in the coming year. Consequently, Refinery



Grade Propylene and LPG prices could be equally range-bound. Your Company is confident that its customer segments should be able to absorb any increase in the price line.

### VALUE-ADDED REAL ESTATE

Consumer spending is on the increase. There are clear indications that the Indian retail industry is poised for another phase of high growth. Your Company's mall venture, Ishanya, has emerged as a strong destination brand among consumers in its primary geographical catchment in Western Maharashtra. Brand awareness is at a high 90%.

Ishanya is now entering a new phase by expanding its basket of offerings to include lifestyle and accessories, fashion, entertainment and food. The new expanded format, called High Street Ishanya, should make the mall the destination of first choice.

volumes of its own manufactured products. This was due to both the improved availability of Natural Gas and Propylene from various sources and better operating efficiencies.

Total Revenue for 2009-10 stood at Rs. 1,332.88 crores against Rs. 1,448.10 crores in 2008-09. The lower revenues were largely on account of lower volumes and price realisations for the outsourced products of your Company, especially bulk fertilisers. With bulk fertiliser prices witnessing a sharp drop globally, your Company decided to reduce the volume of outsourced bulk fertilisers like MOP and SSP.

Sales for the agri-business stood at Rs. 439.18 crores in 2009-10 against Rs. 574.57 crores in 2008-09 while sales for the chemicals business stood at Rs. 824.13 crores in 2009-10 against Rs. 807.76 crores in 2008-09.



ISHANYA - THE PLACE TO SHOP SMART FOR HOME DECOR AND MORE.

This augmentation calls for some structural change in order to make the available infrastructure perfect for the demands of the new product categories. Your Company is confident that the resultant capital investments will yield improved returns from the project and enhance the business and brand value of Ishanya.

### DETAILED FINANCIAL AND OPERATIONAL ANALYSIS

#### Financial Analysis

During the year 2009-10, your Company saw a strong growth in

Profit Before Tax increased to Rs. 237.78 crores in 2009-10 from Rs. 212.00 crores in 2008-09, while Net Profit stood at Rs. 172.05 crores in 2009-10 against Rs. 148.70 crores in 2008-09. Earnings Per Share went up to Rs. 19.51 compared to Rs. 16.86 in the previous year.

Higher capacity utilisations resulting from greater raw material availability, prudent cost management and process efficiencies enabled your Company improve its operating margins to 21.62% in 2009-10 against 19.27% in 2008-09.

Your Company's financial position continues to remain sound. The average debt cost stood at 9.88% for 2009-10 against 8.31% for 2008-09. During 2009-10, long-term funds of Rs. 241 crores were borrowed for part-financing project costs. As a prudent corporate policy, internal accruals have been well-utilised by your Company to fund its capital expenditure.

In addition, there were a short-term borrowings of Rs. 122.16 crores. For 2009-10, the outstanding debt stood at Rs. 731.20 crores against Rs. 607.75 crores in 2008-09. Interest for the funds raised for project/capex items was capitalised. The debt-equity ratio stood at 0.65 as compared to 0.47 in previous year. The current ratio, including liquid investments, is at 2.71 in 2009-10 against 2.28 in 2008-09.

Forex was managed well. There was a net gain of Rs. 13.45 crores during 2009-10 against loss of Rs. 28.23 crores in the previous financial year.

#### Operational Analysis

About 0.582 mmsm<sup>3</sup> per day of Natural Gas (NG) was available on an average during the year under review, compared to 0.387 mmsm<sup>3</sup> per day of NG during 2008-09. The higher gas availability enabled the replacement of high cost fuel oil and naphtha, which were earlier used for heating and steam generation, improving overall operating margins by running the plants more efficiently at higher loads.

Ammonia requirements for the year were met through both in-house manufacture and outsourcing. Production levels of Ammonia increased during the year under review to 1,00,851 MT against 88,810 MT in 2008-09.

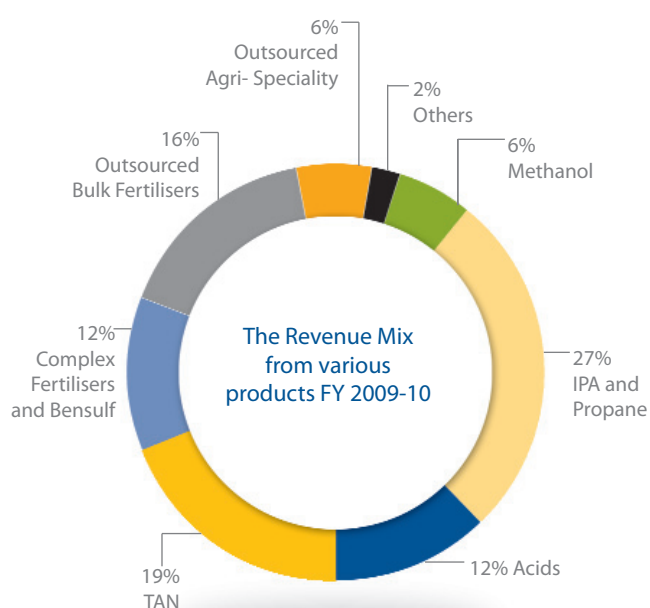
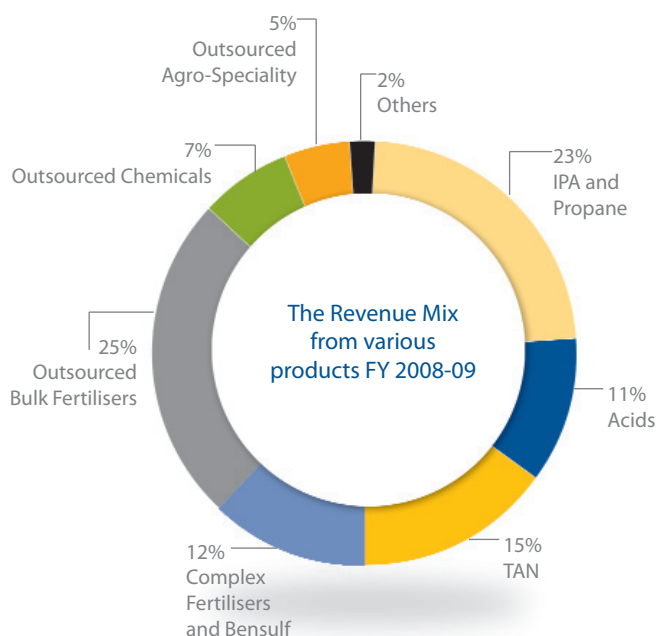
The details of production and sales during 2009-10 and 2008-09 are as under:

#### Production

Product	Quantity (MT)	
	2009-10	2008-09
Ammonia	1,00,851	88,810
Methanol	65,647	12,207
Iso Propyl Alcohol	61,619	51,217
Propane	9,231	9,298
Dilute Nitric Acid	2,60,162	2,35,964
Concentrated Nitric Acid	87,596	84,971
Technical Ammonium Nitrate	1,32,337	1,17,366
Nitro Phosphate Fertiliser	1,00,284	57,378
Sulphur Bentonite Fertiliser	10,191	554
Liquid Carbon Dioxide	29,132	21,516
Windmill Power (KWH)	2,00,27,398	1,63,42,395

#### Sales

Product	Quantity (MT)	
	2009-10	2008-09
Methanol	72,584	65,166
Iso Propyl Alcohol	61,671	51,264
Propane	9,316	9,361
Dilute Nitric Acid	23,187	29,667
Concentrated Nitric Acid	87,653	85,195
Technical Ammonium Nitrate	1,33,043	1,16,924
Fertilisers	2,61,655	2,99,137
Liquid Carbon Dioxide	29,176	21,473
Hydrogen (by-product)	3,312	3,127
Ammonia	-	1,063
Bulk and Speciality Chemicals	158	3,137
Speciality Fertilisers	54,539	35,889
Fruits and Vegetables	1,727	1,110
Windmill Power (KWH)	1,92,85,646	1,57,58,009



## PRODUCT-WISE BUSINESS REVIEW

### Agri-business

The total bulk fertiliser sales volume for 2009-10 was 2,61,655 MT against 2,99,137 MT for 2008-09 for the reasons explained earlier. Total revenue for the agri-business stood at Rs. 442.07 crores in 2009-10 against Rs. 576.80 crores in 2008-09. Production volumes of Nitro-Phosphate Fertiliser (NP) 23:23:0 rose to 1,00,284 MT from 57,378 MT while Sulphur Bentonite production volumes rose to 10,191 MT in 2009-10 against 544 MT in 2008-09. Sales of outsourced speciality fertilisers in terms of volumes saw an increase of around 28%. The export of fruits and vegetables to the Middle East and European markets was encouraging.

The agri-business continued its focus on integrated nutrient management and providing crop specific, soil specific advisory services to the farmers, through its Saarthie Centres, to build brand loyalty, enhance produce quality and farm productivity. Since inception, the Saarthie Centres have cumulatively serviced about 5,440 hectares of cultivable land. By the financial year end 2009-10, the Saarthie Centres had 7,189 farmer members. Your Company also expanded its geographical footprint by moving into states like Punjab & Haryana in addition to the traditional markets of Maharashtra, Gujarat, Karnataka and Goa.

### Industrial Chemicals segment

The total revenue for the chemicals segment increased to Rs. 852.46 crores in 2009-10 against Rs. 827.30 crores during 2008-09. The sales volume of industrial chemicals rose to 2,90,647 MT in 2009-10 from 2,70,896 MT in 2008-09.

#### Methanol

Methanol production during the year under review increased substantially to 65,647 MT as compared to 12,207 MT of the previous year. Methanol prices for most of 2009-10 remained favourable. However, given the volatile tendency of Methanol prices, your Company chose to trade in the product only at opportune times during the year under review.

#### Iso Propyl Alcohol (IPA)

During the year, your Company recorded the highest production and sale of IPA with the increased availability of propylene.

Your Company enjoys a nearly 75% market share in this product. The total production of IPA was 61,619 MT as compared to 51,217 MT in the previous year. During the year, the sales volume was 61,671 MT (including exports of 2,035 MT) as compared to 51,264 MT (including exports of 4,080 MT) of the previous year. Export of IPA was curtailed because of strong domestic demand and better price realisation.

#### ■ Acids

With relative price stability, the sales volume of Nitric Acid of different grades was 1,10,840 MT in 2009-10 against 1,14,862 MT in 2008-09. Your Company recorded the highest production of all Nitric Acid put together, including the highest production of 87,596 MT of CNA in 2009-10, surpassing the earlier high of 84,971 MT in the previous financial year.

year. The sales volume of TAN increased to 1,33,043 MT (including 11,859 MT of exports) in 2009-10 from 1,16,724 MT (including 6,207 MT of exports) in 2008-09. Prices remained fairly stable. Your Company enjoys a 30% market share in the domestic market.

#### ■ Liquid CO<sub>2</sub>

Demand for this product, a by-product of Ammonia, was robust. Total sales volume improved by 36% to 29,176 MT in 2009-10 from 21,473 MT in 2008-09.

#### Value-Added Real Estate

Total revenues from this segment stood at Rs. 13.99 crores in 2009-10 against Rs. 15.92 crores in 2008-09. This business remained under pressure with the continued effects of the global downturn and the consequent impact on domestic consumer spending especially on the real estate, home and



INDIA'S ONLY ISO PROPYL ALCOHOL (IPA) PLANT LOCATED AT TALOJA, NEAR MUMBAI. THE IPA PRODUCED HERE IS US PHARMACOPEIA CERTIFIED, MEETING THE STRINGENT REQUIREMENTS OF THE COSMETIC, PHARMACEUTICALS, FINE SPECIALITY CHEMICALS AND OTHER INDUSTRIES.

Your Company has also successfully commissioned its 4th Dilute Nitric Acid plant with a capacity of 1,48,500 MT per annum. This should considerably strengthen your Company's position both in the Nitric Acid and downstream products segments. Currently, your Company's market share of DNA, CNA and SNA in the Indian market are approx. 37%, 46% and 60% respectively.

#### ■ Technical Ammonium Nitrate (TAN)

During the year under review, with prices remaining stable, both the production and sales volumes of TAN increased by 13% and 14% respectively when compared to the previous

interiors categories through most of the year. The positive response to the new High Street Ishanya strategy should help reverse this trend in future. With the High Street Ishanya strategy coming into place, your Company has begun a rationalisation of the tenant mix. Post-Diwali 2009, a positive rebound has begun and consumer spending at Ishanya is on the increase. The Food Court at Ishanya has been launched and its concept of "Flavours of Pune" is a success across its catchment areas.



### TECHNICAL AMMONIUM NITRATE PROJECT

Your Company's new 3,00,000 MTPA TAN project at Talaja, with Ammonia as its raw material, should be ready for commissioning in 2010-11. With the plant coming on-stream, your Company will be the fifth largest manufacturer of TAN in the world. The 15,000 MT Ammonia storage tank project at JNPT is complete. The benefits from these investments will be realised from 2010-11.

### INTERNAL CONTROLS

Your Company has a robust internal audit system ensuring effective internal controls. A Control Effectiveness Index (CEI) is used for each functional area to benchmark control and performance levels. The internal audit reports are regularly reviewed by the Audit Committee of the Company. Your Company has also adopted the COSO system of internal control.

formidable entry barriers. Your Company has a proven ability to build brands and penetrate markets strongly. Its technology-led intellectual capital, acquired through long years of familiarity and expertise in operating both chemicals and fertiliser plants to global standards, enabled it enhance capacities through retrofitting and build its new TAN plant at globally competitive costs. All these advantages are the basis of your Company's ability to exploit the markets that it competes in.

Your Company enjoys the distinction of having shared wealth with its shareholders by paying dividend continuously every year for the last 12 years. This, coupled with a consistently climbing Book Value for your Company's shares, has led to accretion of shareholder wealth.

Your Company is committed to the highest standards of ethics



A BIRD'S EYE VIEW OF DFPCL'S PLANT AT TALOJA NEAR MUMBAI.

The augmentation of SAP in 2010-11 will further improve control and operating efficiency. In addition, your Company has also taken a number of other initiatives to make it an innovative, competitive and strong organisation, capable of meeting global competition.

### ENHANCED VALUE TO THE SHAREHOLDERS

Your Company enjoys competitive advantages across the sectors and markets it operates in. It has strong brands and its advantages of scale, distribution network and relationships are

and transparent financial management. Continuing business investments will strengthen shareholder value over the long term.

### CAUTIONARY STATEMENT

Statements made 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.