

MADRAS FERTILIZERS LIMITED

50th Annual General Meeting

Chennai

28th September 2016

CHAIRMAN'S SPEECH



A B KHARE

Chairman & Managing Director

**My dear Shareholders,
Ladies & Gentlemen**

Very Good Afternoon to all of you!

It is a great honour and privilege for me to address all of you on behalf of the Board of Directors and I am delighted to welcome all the shareholders to the 50th Annual General Meeting of your Company. Your large presence, in this important meeting, is the testimony of your strong support and faith in us and this inspires us to achieve further new milestones of success.

The Annual Report for the year ended 31st March, 2016 along with the AGM Notice, Directors' Report and the Audited Annual Accounts of the Company have already been circulated to you. With your permission, I take them as read. Before I could touch upon the performance of the Company, I would like to briefly narrate the economic scenario under which the Company operated during the year and the challenges faced by the Company and industry.

Economic Scenario

During the year 2015-16, the Indian economy started with a positive note with significant impact in the market and business sentiments. The Government has taken several steps to improve operating environment and has announced several reforms. The creation of "Make in India" is a step towards the direction - a shift to alter fundamentally the emphasis in economy in the country towards more production-driven manufacture. In fertilizer segment, the Government has introduced production of 100% Neem Coated Urea - the major reform in fertilizer sector. These measures are expected to positively influence the economic conditions in times to come. There has been a thrust on improving governance, enhancing the ease of doing business, creating a favourable environment for investment by both industrial and domestic participants and adopting a stable and prudent fiscal policy.

Industrial Scenario

The poor agricultural season during the year 2015-16, had its impact on the performance of the Fertilizer manufacturing units in South India. The Fertilizer Industries started the financial year 2016-17, with huge inventory of 1.3 Million Tonnes of Neem coated Urea in South India wherein MFL marketing territory falls. This led to huge financial burden on Fertilizer Industries and in order to liquidate the available inventory and to consume the current production lot of pricing strategy has been introduced to improve financial inflow through sales.

The International Naphtha, Oil and Gas price helped the Fertilizer Units to reduce their production cost. In general the raw materials for Fertilizer industry is available at cheaper rate when compared to previous years. This resulted in reducing the MRP of P&K fertilizers thus benefiting the farmers in the current season.

The huge variation in price between Urea and P&K fertilizer leads to serious nutrient imbalance and the Industry as a whole, request the GOI to set right this in the interest of Indian Food security and the Farmers as well.

Operational, Marketing and Financial Performance

During the year 2015-16, your Company's urea production was 4.07 lakhs MT (83.7% capacity) with energy consumption of 7.645 Gcal/MT. Your Company is producing 100% neem coated urea since June 2015.

The main reason for lower production and higher energy consumption is due to shutdown of Plants from April 17, 2015 to June 15, 2015 owing to GOI Policy of denying subsidy to fertilizer plants using naphtha as feed stock. This apart, the plant was shut down during the period from 1st December 2015 to 27th December 2015 due to heavy rain and consequential floods in MFL complex.

With respect to NPK 17-17-17 production, your Company has produced 0.35 lakh MT during 2015-16 as against 0.74 lakh MT produced during previous year.

As regards the Marketing Performance of your Company, I am proud to state that it sold 3.90 lakh MT of fertilizers despite the adverse seasonal conditions prevailed in South India, unfavourable GOI Policy, as well as cut-throat competition in the market during 2015-16. Cash order through RTGS payment accounted for 97.90% of total order. There has not been a single case of Bad Debt for this year.

As a part of Prime Minister's mission of Swachh Bharat Abhiyan, your Company has also started marketing of City Compost to develop and sustain the eco-friendly agricultural environment.

Due to change in Government Policy of not extending subsidy to Urea Plants which are using Naphtha as feed stock and due to heavy floods, the Plants were not in operation for nearly 3 months resulting in the Company's operations for the current year ending with a loss of ₹189.54 Cr.

I am pleased to inform you that your Company Accounts were audited by the Comptroller and Auditor General of India, who have certified them with 'NIL' comments. This is the eleventh consecutive year that the Accounts have been cleared with 'NIL' comments. This is a remarkable achievement to prove our clear adherence to the statutes strictly in true letter and spirits.

Feed Stock Conversion

As per Government of India directives, your Company has already initiated action for conversion of feed stock from Naphtha to Natural Gas and had entered into a Heads of Agreement with IOCL to source RLNG from their proposed Ennore LNG terminal with 5 MMTPA capacity, which would become operational by June 2018. It is learnt from IOCL that they had completed 13% of the overall project work at Ennore Port. The Company has also entered MoU with IOCL for gas transmission agreement on May 29, 2016.

Corporate Social Responsibility (CSR)

Your Company is concerned about Corporate Social Responsibility (CSR) for the upliftment of farmers and society. Your Company has undertaken regular supply of potable water for about 500 families through pipelines from MFL to Harikrishnapuram (Manali), a neighbourhood village. Further, during recent heavy floods in Chennai during December 2015, your Company conducted food camp, distributed food packets and medical camp to around 1000 people in Salaimanagar Village, Manali adjoining MFL Plant premises.

Draft Rehabilitation Scheme (DRS)

As you are already aware, the Board for Industrial and Financial Reconstruction (BIFR) has declared MFL as a Sick Company under the provisions of Sick Industrial Companies Act, 1985 and appointed State Bank of India, Chennai, as Operating Agency to formulate a fully tied up Revival Package to bring back the Company operations on a sustainable manner.

Accordingly, your Company has submitted a Draft Rehabilitation Scheme to BRPSE through DoF comprising among other things waiver of outstanding loan liabilities comprising of principal amount of ₹ 554.24 Cr. and interest of ₹ 454.47 Cr. as on 31.3.2016 payable to Gol. In the meantime, BRPSE has been dismantled by GOI and based on GOI direction, the Company has appointed PDIL

as a consultant for drawing of business, operational and financial restructuring plans for revival of the Company.

Future Outlook

Dear Shareholders, in order to ensure the revival of the Company and to help it for sustaining its operations in the years to come, the Company has drawn up a road map attaining its path of progress. The schemes of revival comprising short term, medium term and long term plans in unison will ensure the survival and growth of the Company.

Further, to augment additional revenue, your Company is examining the feasibility of diversification of business by way of setting up of environmental friendly Pollution free Modern Logistic Park containing Container Freight Station, Godowns, Warehouses etc. In this regard the Consultant appointed for studying the feasibility and economics of the Modern Logistic Park has submitted a Detailed Project Report (DPR). In the DPR the project envisages an internal rate of return 15.77 % to the Private Operator for minimum revenue share of 11% payable to MFL. Apart from an one-time payment of ₹ 116.59 Cr as upfront premium to MFL towards leasing of land, the selected operator has also to pay a minimum revenue share every year. The approval of the Board for this project has been obtained in its meeting held on 10.8.2015 and the proposal has been sent to GOI for its in-principle approval for utilization of surplus land after which the tender process will be started for selection of the Private Operator.

Induction of New Directors

During the year Shri A K Padhee, IAS has been appointed as Government Nominee Director in the place of Shri Heera Lal Samaria on 14.01.2016. Similarly, Shri Piyush Srivastava, IES has been appointed as Government Nominee Director in the place of Shri Rajiv Yadav on 14.01.2016. As a part of Corporate Governance enshrined in the Companies Act 2013 and per SEBI Guidelines, the Government of India has appointed four independent Directors on the Board of MFL viz. Smt. Vanathi Srinivasan, Shri Sunil Vashisht, Dr Hemant A Thakore and Shri C Ramesh on 06.06.2016.

Acknowledgement

The road ahead is full of challenges but the Company armed with the passion and the indomitable spirit of its employees is determined to overcome the same successfully as it has done in the past. To conclude, I, on behalf of the Company and the board of directors, express my sincere thanks to our stakeholders, bankers, financial institutions, vendors and service providers for their valuable support and unstinted co-operation. To my colleagues on the board, I owe a great deal of gratitude for their prudent counsel and continued guidance. My special thanks and appreciation goes to the employees of the Company at all levels for their hard work, dedication and continued commitment. I also take this opportunity to thank all the shareholders for the unstinted support in all our endeavours.

Thank you,

A B Khare
Chairman & Managing Director