



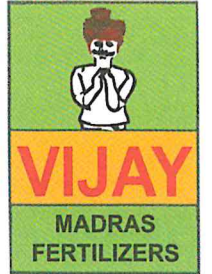
मद्रास फर्टिलाइज़र्स लिमिटेड Madras Fertilizers Limited

(भारत सरकार का उपक्रम / A Government of India Undertaking)

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Website : www.madrasfert.nic.in email : gmpasec@madrasfert.co.in

CIN : L3220 1TN 1966 GO1005469

GSTIN - 33AAACM5198E1ZK



CS/NSE/2020/870
December 05, 2020

M/s. National Stock Exchange of India Ltd
Plot No.C/1, G Block
Bandra-Kurla Complex
Bandra (E),
Mumbai – 400 051

CODE : MADRASFERT

Dear Sir,

Sub: Comments of the Comptroller and Auditor General of India under Section 143(6) (b) of the Companies Act, 2013 on the financial statements of Madras Fertilizers Limited for the year ended 31st March 2020 along with the Management's Reply thereon.

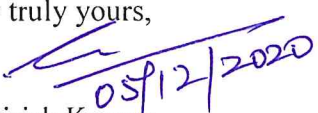
This is with reference to our Letter No. CS/NSE/2020/869 dated December 04, 2020, regarding the 54th Annual General Meeting (AGM) of the Members and Book Closure. In this connection we have filed our Annual Report with NSE on December 04, 2020.

Now, we are forwarding herewith the Comments of the Comptroller and Auditor General of India under Section 143(6) (b) of the Companies Act, 2013 on the financial statements of Madras Fertilizers Limited for the year ended 31st March 2020 along with the Management's Reply thereon.

The said document is being sent to the shareholders and uploaded in our website www.madrasfert.co.in.

Thanking you,

Very truly yours,


Dr Girish Kumar
Company Secretary

Enc : a/a



Annexure to 54th Annual Report for the FY 2019-20 of Madras Fertilizers Limited, Manali, Chennai 600068

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF MADRAS FERTILIZERS LTD FOR THE YEAR ENDED 31 MARCH 2020

The preparation of financial statements of Madras Fertilizers Limited for the year ended 31 March 2020 in accordance with the financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the Management of the Company. The Statutory Auditors appointed by the Comptroller and Auditor General of India under Section 139(5) of the Act are responsible for expressing opinion on the financial statements under section 143 of the Act based on independent audit in accordance with standards on auditing prescribed under Section 143(10) of the Act. This is stated to have been done by them vide their Revised Audit Report dated 9 October 2020 which supersedes their earlier Audit Report dated 28 August 2020.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit of the financial statements of Madras Fertilizers Limited for the year ended 31 March 2020 under Section 143(6)(a) of the Act. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and Company personnel and a selective examination of some of the accounting records. The Audit Report has been revised by the statutory auditor to give effect to some of my audit observations raised during supplementary audit.

In addition, I would like to highlight the following significant matters under Section 143(6)(b) of the Act which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related audit report:

A. Comments of Financial Position

(1) Assets

Current Assets

Other Financial Assets

Claims Recoverable (Note 5D) : ₹ 556.04 Crore

The above includes claims recoverable on account of subsidy receivables from Government of India (GoI) after adjusting revision in subsidy rates for 2019-20 based on de-escalation of input prices of Urea. The adjustment of ₹ 144.46 crore for de-escalation was made on the basis of rates notified by GoI on 26 February 2020. However, Company did not consider the subsequent notification of 30 June 2020 issued by GoI carrying revised rates for escalation / de-escalation claim for 2019-20. Since notification of 30 June 2020 was issued by GoI before date of approval of financial statements by Board of Directors of the Company (i.e. 28 August 2020), the adjustment for de-escalation in input prices should have been made based on rates specified in latest notification of June 2020 instead of February 2020. The de-escalation claims based on rates notified in 30 June 2020 notification comes to ₹ 129.32 crore.

Non consideration of revised rates of June 2020 notification to calculate de-escalation for 2019-20 has violated provisions of Ind As-10 and Company's significant accounting policy – 3 (f). This has resulted in understatement of 'Claims Recoverable (GoI Subsidy)' and overstatement of 'Loss after Tax' by ₹ 15.14 crore (₹ 144.46 crore less ₹ 129.32 crore).



(2) Equity and Liabilities

Current Liabilities

Other Current Liabilities (Note –14) : ₹ 47.94 Crore

The above does not include an amount of ₹ 4.40 crore being payable to Central Industrial Security Force (CISF) on account of penal interest upto March 2020 on delayed payment of cost of deployment. Company had shown the amount under 'Contingent Liabilities'. As the Company was liable to pay penal interest as per instructions and CISF had also reiterated its claim for penal interest on 2 April 2020, Company should have made provision for liability for penal interest in books instead of showing the same under 'Contingent Liabilities'.

Non-provision of liability for penal interest payable has resulted in understatement of 'Other Current Liabilities' and 'Loss after Tax' by ₹ 4.40 crore. Further 'Contingent Liabilities' are overstated by ₹ 4.40 crore.

**B. Comments on Disclosure
Notes to Financial Statements**

- (i) **Revenue from Operations (Note-15) :** As per procedure prescribed by Department of Fertilizer (DoF), Gol vide letter No.D(FA)/2016/DBT dated 17 March 2017, Direct Benefit Transfer systems entails 100 per cent payment of subsidy to the fertilizer manufacturing / importing companies on the basis of actual sales of the fertilizers by the retailers/ wholesalers to the beneficiary. The fertilizer subsidy claims settlement is done by Gol on the basis of actual quantity sold to beneficiary.

The 'Revenue from Subsidy' includes an amount of ₹ 107.86 crore which represents subsidy receivable from Gol for Fertilizer stock issued to dealers with transfer of title and risk of products delivered but remained unsold to beneficiary as on 31 March 2020. Though according to DoF letter dated 17 March 2017, subsidy became due and settled after actual sales to beneficiary. The facts that 'Revenue from Subsidy' includes an amount of ₹ 107.86 crore for which subsidy would be due and released by Gol after actual sales to beneficiary, has not been disclosed by the Company in 'Note-15 to Financial Statements'. Thus 'Note-15 to Financial Statements' is deficient to the extent.

- (ii) Department of Public Enterprises (DPE), Gol vide OM dated 3 August 2017 issued instructions for pay revision of Board level and below Board level Executives and non-unionised Supervisors of central public sector enterprises w.e.f. 1 January 2017. Para 5 of the OM provides that in respect of sick CPSEs, the revision of pay scales should be in accordance with rehabilitation packages approved by the Government after providing for the additional expenditure on account of pay revision in these packages. The Company has not implemented pay revision for its employee as it rehabilitation packages has not been approved till date. As per Notes to Financial Statements 43(f), Company was pursuing legal options to file the revival proposal to National Company Law Tribunal. Company has also submitted financial restructuring proposal to Department of Fertilizers, Gol for consideration.

Company has not disclosed the facts in 'Notes to Financial Statements' the pay revision of employees in pursuance of DPE OM dated 3 August 2017 has not been implemented due to pending approval of revival / financial restructuring proposal. This 'Notes to Financial Statements' are deficient to the extent.

**For and on the behalf of the
Comptroller & Auditor General of India**

Place : New Delhi
Date : 04.12.2020

Sd/-
(Amitabh Prasad)

**Principal Director of Audit
(Agriculture, Food & Water Resources)**



MADRAS FERTILIZERS LIMITED

REPLIES TO THE COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF MADRAS FERTILIZERS LTD FOR THE YEAR ENDED 31 MARCH 2020

COMMENTS OF C&AG	REPLY
A. Comments of Financial Position (1) Assets Current Assets Other Financial Assets Claims Recoverable (Note 5D) : ₹ 556.04 Crore The above includes claims recoverable on account of subsidy receivables from Government of India (Gol) after adjusting revision in subsidy rates for 2019-20 based on de-escalation of input prices of Urea. The adjustment of ₹ 144.46 crore for de-escalation was made on the basis of rates notified by Gol on 26 February 2020. However, Company did not consider the subsequent notification of 30 June 2020 issued by Gol carrying revised rates for escalation / de-escalation claim for 2019-20. Since notification of 30 June 2020 was issued by Gol before date of approval of financial statements by Board of Directors of the Company (i.e. 28 August 2020), the adjustment for de-escalation in input prices should have been made based on rates specified in latest notification of June 2020 instead of February 2020. The de-escalation claims based on rates notified in 30 June 2020 notification comes to ₹ 129.32 crore. Non consideration of revised rates of June 2020 notification to calculate de-escalation for 2019-20 has violated provisions of Ind As-10 and Company's significant accounting policy – 3 (f). This has resulted in understatement of 'Claims Recoverable (Gol Subsidy)' and overstatement of 'Loss after Tax' by ₹ 15.14 crore (₹ 144.46 crore less ₹ 129.32 crore).	Per NPS policy subsidy is accounted based on the estimated Retention Price (Concession Price) after considering actual input costs incurred during the year 2019-20. The Final Notification of Concession Price is not yet received by MFL from FICC. Hence, the subsidy income for 2019-20 is calculated and accounted based on the estimated concession price by MFL on accrual basis. The notification dated 30-06-2020 is not the final one and is based on the input prices up to the III quarter of 2019-20 only. The final notification is awaited based on the input prices of IV quarter. The exact de-escalation amount will be known after receipt of the final notification. MFL have already made provision of ₹ 144.46 Cr. towards the de-escalation claims in the books of accounts based on the reduction in input prices of raw materials during the year 2019-20 based on notification dated 29-02-2020. However, the notification dated 30-06-2020 as referred by the Audit considers the reduction input prices for the period from April to December 2019 only and the reduction for balance three months had not been notified yet, the impact of which is estimated at ₹ 15.14 Cr. As per Company's Significant Accounting Policy of revenue recognition given in note, for the rates yet to be notified due to escalation /de-escalation, subsidy has been accounted on estimated basis which is in line with the Industrial Practice and the Company consistently following the same for the past two decades. As the Company, has accounted the de-escalation of the entire year 2019-20, in our opinion there is no understatement of 'Claims Recoverable (Gol Subsidy)' and overstatement of 'Loss after Tax' by ₹ 15.14 Cr, and the accounting of the same reflects a "true and fair view".



(2) Equity and Liabilities Current Liabilities Other Current Liabilities (Note – 14) : ₹ 47.94 Crore The above does not include an amount of ₹ 4.40 crore being payable to Central Industrial Security Force (CISF) on account of penal interest upto March 2020 on delayed payment of cost of deployment. Company had shown the amount under 'Contingent Liabilities'. As the Company was liable to pay penal interest as per instructions and CISF had also reiterated its claim for penal interest on 2 April 2020, Company should have made provision for liability for penal interest in books instead of showing the same under 'Contingent Liabilities'. Non-provision of liability for penal interest payable has resulted in understatement of 'Other Current Liabilities' and 'Loss after Tax' by ₹ 4.40 crore. Further 'Contingent Liabilities' are overstated by ₹ 4.40 crore.	The Company is taking all efforts for one time settlement of CISF dues including penal interest. As the matter is still under active negotiation between both the parties, and has not been concluded yet, the Company has not made any provision for penal interest. However, the penal interest has been included and exhibited separately under Contingent Liability.
B. Comments on Disclosure Notes to Financial Statements (i) Revenue from Operations (Note-15) : As per procedure prescribed by Department of Fertilizer (DoF), Gol vide letter No.D(FA)/2016/DBT dated 17 March 2017, Direct Benefit Transfer systems entails 100 per cent payment of subsidy to the fertilizer manufacturing / importing companies on the basis of actual sales of the fertilizers by the retailers/ wholesalers to the beneficiary. The fertilizer subsidy claims settlement is done by Gol on the basis of actual quantity sold to beneficiary. The 'Revenue from Subsidy' includes an amount of ₹ 107.86 crore which represents subsidy receivable from Gol for Fertilizer stock issued to dealers with transfer of title and risk of products delivered but remained unsold to beneficiary as on 31 March 2020. Though according to DoF letter dated 17 March 2017, subsidy became due and settled after actual sales to beneficiary. The facts that 'Revenue from Subsidy' includes an amount of ₹ 107.86 crore for which subsidy would be due and released by Gol after actual sales to beneficiary, has not been disclosed by the Company in 'Note-15 to Financial Statements'. Thus 'Note-15 to Financial Statements' is deficient to the extent.	Audit comment on disclosure is noted. To give a clear picture without any ambiguity, a disclosure in this regard will be made in the subsequent years.



MADRAS FERTILIZERS LIMITED

(ii) Department of Public Enterprises (DPE), Gol vide OM dated 3 August 2017 issued instructions for pay revision of Board level and below Board level Executives and non-unionised Supervisors of central public sector enterprises w.e.f. 1 January 2017. Para 5 of the OM provides that in respect of sick CPSEs, the revision of pay scales should be in accordance with rehabilitation packages approved by the Government after providing for the additional expenditure on account of pay revision in these packages. The Company has not implemented pay revision for its employee as it rehabilitation packages has not been approved till date. As per Notes to Financial Statements 43(f), Company was pursuing legal options to file the revival proposal to National Company Law Tribunal. Company has also submitted financial restructuring proposal to Department of Fertilizers, Gol for consideration. Company has not disclosed the facts in 'Notes to Financial Statements' the pay revision of employees in pursuance of DPE OM dated 3 August 2017 has not been implemented due to pending approval of revival / financial restructuring proposal. This 'Notes to Financial Statements' are deficient to the extent.	Audit comment on disclosure is noted. A disclosure that the wage revision is due from 1.1.2017 and has not been implemented due to pending approval of revival / financial restructuring proposal will be made by the Company in the subsequent years.
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**For and on the behalf of the
Comptroller & Auditor General of India**

(AMITABH PRASAD)
Principal Director of Audit
(Agriculture, Food & Water Resources)

Place : New Delhi
Date : December 04, 2020

For and on behalf of the Board of Directors

U SARAVANAN
Chairman & Managing Director

Place : Chennai
Date : December 05, 2020