



DCM SHRIRAM

DCM SHRIRAM INDUSTRIES LTD.

Annual Report 2005-06

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DCM SHRIRAM INDUSTRIES LIMITED

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|-----------------------------|------------------------|--|
| Board of Directors | Shri Tilak Dhar | <i>Chairman and Managing Director</i> |
| | Shri Alok B. Shriram | <i>Dy. Managing Director</i> |
| | Shri Madhav B. Shriram | <i>Whole-Time Director</i> |
| | Shri G. Kumar | <i>Director – Sugar Operations</i> |
| | Shri Atam Parkash | |
| | Shri P.R. Khanna | |
| | Dr. V.L. Dutt | |
| | Shri K.K. Mudgil | <i>UTI Nominee</i> |
| | Shri S.P. Arora | <i>IFCI Nominee</i> |
| Company Secretary | Shri B.P. Khandelwal | <i>Executive Director</i> |
| Principal Executives | Shri D.C. Mittal | <i>President</i> |
| | Shri Anil Gujral | <i>Chief Executive Officer (Chemicals / Alcohol)</i> |
| | Shri K.N. Rao | <i>Chief Operating Officer (Rayons)</i> |
| | Shri P.V. Bakre | <i>Sr. Vice President</i> |
| | Shri V.K. Jhington | <i>Sr. Vice President and Resident Head (Rayons)</i> |
| | Shri N.K. Jain | <i>Chief Financial Officer</i> |

| | |
|----------------|---|
| Bankers | State Bank of India |
| | Punjab National Bank |
| | Oriental Bank of Commerce |
| | State Bank of Bikaner & Jaipur |
| | Punjab & Sind Bank |
| | The United Western Bank Ltd. |
| | The Hongkong and Shanghai Banking Corporation Limited |
| | Karnataka Bank Limited |
| | Syndicate Bank |

| | |
|-----------------|----------------------------------|
| Auditors | A.F. Ferguson & Co. New Delhi |
|-----------------|----------------------------------|

| | | |
|--------------------------|------------------------|--------------------------------|
| Registered Office | Kanchenjunga Building, | Tel. No. : (011) 2375 9300 |
| | 6th Floor, | Fax No. : (011) 2335 0765 |
| | 18, Barakhamba Road, | e-mail : dsil@dcmsr.com |
| | New Delhi - 110 001 | Website : http://www.dcmsr.com |

DCM SHRIRAM INDUSTRIES LIMITED

Registered Office : Kanchenjunga Building,
18, Barakhamba Road,
New Delhi - 110 001.

NOTICE

The 15th Annual General Meeting of the Company will be held on Friday, the 18th August, 2006 at 10.00 A.M. at the Air Force Auditorium, Subroto Park, New Delhi - 110 010 for transacting the following business :

1. To consider and adopt the Directors' Report, the Audited Balance Sheet as at 31st March 2006, and the Profit & Loss Account for the year ended on that date.
2. To note the payment of interim dividend.
3. To appoint a Director in place of Shri Alok B. Shriram, who retires by rotation and being eligible, offers himself for re-appointment.
4. To consider and, if thought fit, to pass the following resolution, with or without modification, as an Ordinary Resolution :

"Resolved that Shri Gyanendra Kumar, who was appointed as a Director in a casual vacancy in terms of Section 262 of the Companies Act, 1956, and holds such office until this Annual General Meeting, be and is hereby appointed as a Director of the Company liable to retire by rotation."

5. To consider and, if thought fit, to pass the following resolution, with or without modification, as an Ordinary Resolution:

"Resolved that Messrs A.F. Ferguson & Co., Chartered Accountants, be and are hereby re-appointed auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company, at a remuneration to be fixed by the Board of Directors plus reimbursement of travelling and other incidental expenses, if any, incurred in connection with the audit."

6. To consider and, if thought fit, to pass the following resolution, with or without modification, as an Ordinary Resolution:

"Resolved that, pursuant to Sections 198, 269 and 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such approvals, as may be required, approval of the Company be and is hereby accorded to the appointment of Shri Gyanendra Kumar as Whole-time Director of the Company for a period of 3 years, with effect from 01.02.2006 on the terms and conditions and remuneration as set out in the Explanatory Statement."

"Resolved further that the Board of Directors be and is hereby, authorised to alter/increase, vary or modify from time to time, the said terms including as to remuneration in such manner as it may deem fit within the limit in that regard contained in Schedule XIII or other Sections of the said Act and any statutory modifications thereof."

7. To consider and, if thought fit, to pass the following resolution, with or without modification, as a Special Resolution:

"Resolved that pursuant to Section 163 and other applicable provisions, if any, of the Companies Act, 1956 and in supersession of Resolution No. 13 passed at the Annual General Meeting held on 23.08.1991, approval be and is hereby accorded to keep the Register and Index of Members and Debenture-holders and copies of all Annual Returns together with Certificates and documents required to be annexed there to at the office

in New Delhi of M/s. Karvy Computershare Pvt. Ltd., 105-108, Arunachal Building, 19, Barakhamba Road, New Delhi - 110 001, who are the Registrar & Share Transfer Agents of the Company and that the foregoing Registers, Certificates and documents be kept open for inspection at that place between 11.00 A.M. to 1.00 P.M. on all working days of the Company, except when such Registers are closed under law."

8. To consider and, if thought fit, to pass the following resolution, with or without modification, as an Ordinary Resolution :

"Resolved that, pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded for mortgaging and/or charging, on such terms and conditions and at such time or times, and in such form or manner, as it may deem fit, the whole or substantially the whole of the Company's any one or more of the undertakings or all the undertakings including the present and/or future properties, whether movable or immovable comprised in any existing or new undertaking or undertakings of the Company except those excluded specifically, as the case may be, in favour of the following Banks for securing the term loans/working capital facilities mentioned against each of them below, or any future enhancement thereof together with interest or any other charges, expenses and other monies payable to them :-

| Banks | Nature of facility | Amount (Rs./Cr.) | Type of Security |
|-------------------------|--------------------|---------------------|--|
| State Bank of Hyderabad | Term Loan | 15.00 | 1st charge on the fixed assets of the Company, except Daurala Organics Unit, ranking pari passu with the existing similar charges. |
| UTI Bank Ltd. | - do - | 20.00 | - do - |
| State Bank of Mysore | - do - | 15.00 | - do - |
| Karnataka Bank Ltd. | Working Capital | 20.00 | 2nd pari passu charge on immovable assets of Sugar Division of Company's Unit Daurala Sugar Works. |
| Syndicate Bank | - do - | 20.77 | - do - |

and that the security to be created in the manner aforesaid in favour of the said Banks to secure the said financial facilities shall be by way of first or second charge as the case may be, ranking pari passu in all respects with similar charges, if any, already created or to be created on the said properties to secure the existing and/or future borrowings."

"Resolved further that the Board of Directors or a Committee thereof be and is hereby authorised to finalise agreements and other documents and deeds for creating the aforesaid mortgage/charge and to do all such acts, deeds, matters and things as may be considered necessary, desirable or expedient for implementing this resolution and to resolve any question or doubt which may arise in relation thereto or otherwise considered by the Board of Directors or a Committee thereof in the best interest of the Company."

"Resolved also that the Board of Directors or a Committee thereof be and is hereby authorised to approve the execution of any documents to extend the charge/s created pursuant to this resolution in favour of any other Bank/s to secure working capital facilities which may be extended by them in future without requiring a fresh resolution of the Shareholders."

NOTICE (Continued)

"Resolved further that the mortgage/charge created/to be created and/or agreements/documents executed/to be executed and all acts done in connection with creation of security in the manner stated above by and with the authority of the Board of Directors or a Committee thereof be and are hereby confirmed and ratified."

By order of the Board
for DCM SHRIRAM INDUSTRIES LIMITED



(B.P. Khandelwal)

Executive Director & Co. Secretary

New Delhi
14th June, 2006

NOTES:

1. Explanatory Statement, as required under Section 173(2) of the Companies Act, 1956, is attached.
2. Shareholders are requested to get multiple folios merged.
3. Please notify change of address if any. Shareholders who have not received the share certificate/s against the shares held in the erst-while Daurala Organics Limited may write to the Registrar M/s. Karvy Computershare Pvt. Ltd., 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034 or 105-108, Arunachal Building, 19, Barakhamba Road, New Delhi - 110 001
4. The Register of Members and the Share Transfer Books of the Company shall remain closed from 08.08.2006 to 18.08.2006 (both days inclusive).
5. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY FORM IS ATTACHED.
6. At the ensuing Annual General Meeting Shri Alok B. Shriram retires by rotation and being eligible offers himself for re-appointment. (Item No. 3)

Shri Alok B. Shriram, aged 45 years, has over 22 years of experience in various management positions. He has done his Graduation from Shriram College of Commerce. He is presently Dy. Managing Director of the Company and is looking after the Rayons Division. He is also the Chief Executive Officer of DCM Hyundai Limited.

Shri Alok B. Shriram holds 26966 equity shares in the Company.

He is a Member of the Shareholders' Committee and the Committee for approving Borrowings of the Company and is a director on the following other companies:

1. Hi-Vac Wares Pvt. Ltd., 2. Quick Lithographers Pvt. Ltd., 3. Pee Kay Alkalies Pvt. Ltd. and 4. Labels International Pvt. Ltd.

ANNEXURE TO NOTICE

[Explanatory Statement under Section 173(2) of the Companies Act, 1956]

ITEM NO. 4&6

Shri Gyanendra Kumar, aged 64 years, was appointed by the Board of Directors in their meeting held on 30.01.2006 in the casual vacancy caused by the retirement of Shri S.D. Nigam, as a director liable to retire by rotation and has been appointed as Whole-time Director of the Company subject to such approvals as may be necessary for 3 (three) years from 01.02.2006. As per Section 262 of the Companies Act, 1956, he holds office until the ensuing Annual General Meeting. Notice u/s 257 of the Companies Act, 1956, has been received from a member signifying his intention to propose his candidature for the office of director at the forthcoming Annual General Meeting.

He is a Post Graduate Engineer from IIT. He joined the Company in 1965 and is responsible for the day to day working of Sugar Operations of the Company. He is not a Director in any other company and does not hold any shares in the Company.

He is a member of the Audit Sub-Committee.

The terms and conditions and the remuneration proposed for the WTD as per recommendation of the Remuneration Committee of the Board are set out below:

Salary (Per Month) - Rs. 60,000 in the grade of Rs. 60,000-5,000-70,000

Reward - Not exceeding 50% of annual salary, as may be decided by the Board.

Perquisites :

Housing - Suitable accommodation will be provided. In case no accommodation is provided, WTD shall be entitled to house rent allowance @ 60% of the salary.

Gas, electricity, water and furnishing - Actuals.

Medical - Reimbursement of medical expenses incurred for self and family, subject to a ceiling of one month's salary in a year or 3 months' salary in a period of 3 years.

Leave Travel Concession - As per Company Rules.

Club Fees - Fees of Clubs, subject to a maximum of two clubs, admission and life membership fees not being allowed.

Personal Accident Insurance - Premium not to exceed Rs. 4,000 per annum plus service tax as applicable.

Provident Fund/Gratuity - As per Company rules.

Leave - As per Company Rules.

Car - Provision of a chauffeur driven car.

Telephone - Free telephone facility at residence, personal long distance calls to be paid for by him.

NOTICE (Continued)

Entertainment - Reimbursement of entertainment expenses actually and properly incurred in the course of legitimate business of the Company.

Other terms applicable to the Appointment

Remuneration to WTD shall not exceed 5% of the net profits computed in the manner laid down in Section 309(5) of the Companies Act, 1956. Remuneration for part of the year will be computed on pro-rata basis.

In the event of absence or inadequacy of profits in any financial year WTD will be paid the above remuneration subject to the overall ceilings laid down in Section II of Part 1(A) of Part II of Schedule XIII of the Companies Act.

(In that event contribution to the Provident Fund, to the extent this is exempt under the Income-tax Act, 1961 and gratuity payable at a rate not exceeding half a month's salary for each completed year of service and encashment of leave at the end of tenure will not be included for computing the ceiling on perquisites).

The appointment may be terminated by either party giving to the other three calendar months' notice in writing or lesser notice as may be agreed to.

Except Shri Gyanendra Kumar, none of the other directors of the Company is interested in the resolution.

ITEM NO. 7

The Company has appointed M/s. Karvy Computershare Pvt. Ltd., 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034 as Registrar w.e.f. 01.04.2006. Accordingly the Registers of Members/Debenture holders and other allied records will be kept at their New Delhi office at 105-108, Arunachal Building, 19, Barakhamba Road, New Delhi - 110 001. As per Section 163 of the Companies Act keeping such records at a place other than the Registered Office of the Company requires the approval of the shareholders by special resolution. As required under the Section an advance copy of the proposed special resolution has been sent to the Registrar of Companies, New Delhi.

ITEM NO. 8

The Company avails working capital / term loan facilities from Banks from time to time. Such borrowings in addition to charge on moveable assets, are required to be secured by a charge on the immovable assets of the Company. Creation of charge as proposed, subject to the approval of the existing charge holders, requires approval of shareholders u/s 293(1)(a) of the Companies Act.

None of the directors is concerned with or interested in the resolution.

Interest

Except as indicated under the respective items none of the directors is interested in any of the aforementioned resolutions.

Inspection

Copy of Board Resolution dated 08.03.2006 (Item No. 6) containing terms and conditions of appointment of Shri Gyanendra Kumar, WTD will be open for inspection at the Registered Office of the Company at 6th Floor, Kanchenjunga Building, 18, Barakhamba Road, New Delhi - 110 001 on all working days between 11.00 A.M. to 1.00 P.M.

DIRECTORS' REPORT

The Directors have pleasure in presenting the Annual Report and the Audited Accounts for the year ended 31st March 2006.

2005-06 was a year of stabilisation and further consolidation after amalgamation of Daurala Organics Limited with the Company and completion of financial and debt restructuring.

FINANCIAL RESULTS

As will be seen from the financial results the Company posted its best ever results. The turnover for the year including other income was Rs.719 cr. compared to Rs.555 cr. in the previous year. The Gross Profit and the Net Profit were higher at Rs.63 cr. and Rs.29 cr. compared to Rs.41 cr. and Rs.25 cr. respectively in the previous year. Exports of the Company at Rs.186 cr. against Rs.139 cr. in the previous year were an all time high.

After payment of dividend and transfer of Rs.6 cr. to General Reserve (previous year - nil), the balance carried forward in the Profit & Loss Account will be Rs.61 cr. which include Rs.32 cr. brought forward from previous year and Rs.8 cr. Debenture Redemption Reserve written back.

DIVIDEND

The Board of Directors had, keeping in view the improved performance, declared an interim dividend of Re.1 per share (10%) in March, 2006 involving an out flow of Rs.1.74 cr. including dividend tax of Rs.0.21 cr. Keeping in view the substantial requirement of funds for meeting the financial obligations as per the debt restructuring terms stipulated by the financial institutions and the need to plough back resources for strengthening the Company operations further, the Board of Directors has decided to maintain the interim dividend as the dividend for the year.

OPERATIONS

Sugar

The overall performance of the business was better due to improved managerial inputs and market conditions.

The Country's sugar production and consumption during the year were more or less balanced. This coupled with exports resulted in lower inventories and sugar prices remaining firm. International sugar prices have also firmed up.

During the year, Daurala's cane crushing at 13.6 lac MT and sugar production at 1.32 lac MT were marginally lower than the previous year due to lower reservation of cane area as a result of establishment of new sugar factories around our plant. Due to early start of factories in the region and late rains, sugar recovery was lower than usual in Western U.P. as a whole and Daurala was no exception. Efforts are being made to improve cane availability this year.

The first phase of the project for expansion of cane crushing capacity and modernisation was implemented during the year by adding 2000 TCD capacity, taking the expanded crushing capacity to 10,000 TCD. The second phase of the project to add another 2000 TCD crushing capacity and modernisation of the sugar plant and the powerhouse is in progress. To provide further stability to the operations and achieve value addition, enhancing co-generation of power and other cost reduction measures are under active consideration.

Alcohols

Production and sale of alcohols were stable. Margins were under pressure due to reduced availability of molasses and resultant volatility in its price. Supplies of Anhydrous Alcohol to oil companies, which remained suspended through most part of the year due to unattractive prices offered by the oil companies, resumed in the last quarter on reaching an agreement with them. The prospects for the current year are encouraging. In case it is made mandatory for oil companies to admix 5% ethanol with petrol, demand could rise significantly.

DIRECTORS' REPORT (continued)

Chemicals

During the first full year of operation of the chemical business after amalgamation of Daurala Organics, there was all round improvement. Year on year growth in income was higher and exports during the year also registered an increase over the previous year. In the phase of a continuing competitive market situation, the growth is indicative of better customer confidence in the Company and its products.

Efforts are on to improve efficiencies and increase the level of value addition, to counteract the increase in some raw material prices which are driven by rising global commodity prices.

Rayon

Rayon operations were upgraded with the addition of 500 TPA capacity and installation of state of the art Airjet looms for improving the fabric quality.

Exports grew in spite of a weak Euro during the year. Operational margins, however, suffered during the year on account of increased raw material prices, high energy costs and relatively weak Euro.

The Unit has installed a 3.2 MW back pressure turbine and is taking steps to install a high efficiency multi-fuel boiler. These steps are expected to reduce energy costs significantly and keep the Unit more competitive in the international market. This Project will also promote "clean" fuel usage. Steps are also being taken to upgrade the dipping facility to meet value added products required by customers.

The Unit, for the 10th time since 1992-93, received the award for highest exports from Synthetics and Rayon Export Promotion Council for the year 2004-05.

Nylon

Nylon chafer market continued on a limited scale on account of availability of cheaper imported material.

PROMOTED COMPANIES

DCM Hyundai Ltd.

The Company's efforts for diversification from traditional shipping containers to production and sale of special containers have achieved some break through. It is expected that the operations will improve further.

To supplement its efforts at arriving at a workable revival plan through the Hon'ble BIFR, the Promoter Company has taken over the debt of one of the two large creditors of the Company through a one time settlement. Efforts are being made to arrive at a settlement on the remaining issues, to be able to revive the Company.

Others

During the year Daurala Foods & Beverages Pvt. Ltd. continued to earn a small operating profit. DCM Shriram Leasing & Finance Limited continued its efforts in recovering its dues as last year. However, recoveries have slowed down due to lengthy legal processes.

RESEARCH & DEVELOPMENT

R & D continues to receive high priority, in order to explore new avenues to upgrade quality and improve efficiency for remaining competitive.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, your Directors state:

- While preparing annual accounts the applicable accounting standards had been followed.

- The Company had selected such accounting policies and applied them consistently and made judgements that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for the period.
- That the Company had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- That the Company had prepared the annual accounts on a going concern basis.

AUDITORS' OBSERVATIONS

The explanations/ information in respect of the observations of the Auditors in their Report are given in detail in Note 2(b) of Notes to Accounts. This Note read with the relevant Audit observations are self-explanatory.

CORPORATE GOVERNANCE

Corporate Governance and Management Discussion and Analysis Reports are given in Annexure-I.

DIRECTORS

Shri S.D. Nigam, Whole-time Director, retired on 31.1.2006 and Shri G. Kumar has been appointed as a Whole-time Director from 1.2.2006 for a period of 3 years on the terms as set out in the relevant explanatory statement in the Notice of the Annual General Meeting for approval by the shareholders of the Company.

Shri Alok B. Shriram and Shri G. Kumar retire by rotation at the forth-coming Annual General Meeting and being eligible offer themselves for reappointment.

OTHER INFORMATION

The information required under Section 217(2A) of the Companies Act, 1956 and the Rules framed thereunder relating to particulars of employees is given in Annexure-II to this Report.

The information pursuant to Section 217(1)(e) of the Companies Act on conservation of energy, technology absorption and foreign exchange earnings/outgo is given in Annexure - III.

ACKNOWLEDGEMENT

The Directors acknowledge the continued co-operation and support received from the financial institutions, banks and various Government agencies, and all our business associates.

The directors also place on record their appreciation of the contribution made by employees at all levels.

For and on behalf of the Board



CHAIRMAN

New Delhi

14th June 2006