dhampur

Dhampur Sugar Mills Limited

POWERED BY INTEGRATION

2008-09 ANNUAL REPORT

dhampur

Dhampur Sugar Mills Limited
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Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expect', 'project', 'intend', 'plan', 'believe' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

What's inside?

Corporate information

Board of Directors

Mr. V.K. Goel, *Chairman*
Mr. A.K. Goel, *Vice Chairman*
Mr. Gaurav Goel, *Managing Director*
Mr. Gautam Goel, *Managing Director*
Mr. A.K. Gupta
Mr. M.P. Mehrotra
Mr. Harish Saluja
Mr. Rahul Bedi
Mr. J.P. Sharma
Mr. Priya Brat
Mr. B.B.Tandon
Ms. Romi Chakravorty,
Nominee – *IDBI Bank Limited*
Mr. S.P.Arora,
Nominee – *IFCI Limited*
Mr. Amit Dhawan,
Nominee – ICICI Bank Limited

Executive President (Finance) and Secretary

Mr. Arhant Jain

Auditors

S. Vaish & Company
Chartered Accountants, Kanpur

Mittal Gupta & Company
Chartered Accountants, Kanpur

Internal Auditors

T.R.Chadha & Company
Chartered Accountants, New Delhi

Bankers

Punjab National Bank
Bank of Baroda
State Bank of India
Axis Bank
J&K Bank
State Bank of Travencore
ICICI Bank Limited
IDBI Bank Limited
IFCI Limited

Registrar and Share Transfer Agent

M/s Alankit Assignments Limited
'Alankit House'
2E/21 Jhandewalan Extension
New Delhi – 110055

Registered office

Dhampur Sugar Mills Limited
Dhampur (N.R.)
District Bijnore – 246761 (UP)

Corporate office

241, Okhla Industrial Estate
Phase–III, New Delhi – 110020

Works

Dhampur, District Bijnore (UP)
Mansurpur, District Muzaffarnagar (UP)
Asmoli, District Moradabad (UP)
Rajpura, District Budaun (UP)

Powered by integration

1 Company

3 Revenue streams
Businesses

Dhampur Sugar Mills Limited

POWER OF THREE

SUGAR POWER CHEMICALS

(including ethanol)

2.3 KW per ton

Downstream surplus power capacity with respect to cane crushed, one of India's largest

6.8 litres per ton

Downstream chemical processing capacity with respect to cane crushed, one of India's largest

15,000 TCD; 65 MW; 170 KLPD

Installed sugarcane crushing, cogeneration and distillery capacity at the Dhampur unit (Central UP)

9,000 TCD; 40 MW; 100 KLPD

Installed sugarcane, cogeneration and distillery capacity in subsidiary at the Asmoli unit (Central UP)

Our financial numbers, 2008-09

- Income from operations increased 31.99% to Rs. 990.82 cr
- Operating profit surged 44% to Rs. 204.68 cr
- Operating profit margin strengthened 597 basis points to 24%
- Cash profit grew 107% to Rs. 117.76 cr
- Post-tax profit enhanced 1,461% to Rs. 56.19 cr
- Book value per share enlarged 12% to Rs 93
- Declared a dividend of 15% (Rs. 1.50 per equity share of face value of Rs. 10)

8,000 TCD; 28 MW

Installed sugarcane, cogeneration and distillery capacity at the Mansurpur unit (West UP)

7,500 TCD; 12 MW

Installed sugarcane and cogeneration capacity at the Company's Rajpura unit (Central UP)

150,000 farmers

Number of farmer-suppliers to Dhampur's enhanced sugarcane crop management and procurement

Our sugar business

- Accounted for 83.51% of revenues (70.91% in 2007-08) and 64.51% of EBIDTA (43% in 2007-08)
- Reported 255 lac quintals of cane crushing – a 30% decline over 2007-08 – in the face of a 44% decline in cane crushing across India and Uttar Pradesh
- Witnessed average recovery decline from 9.98% in 2007-08 to 9.26% in 2008-09, still one of the highest in Uttar Pradesh
- Derived 56% of sugar revenue from white sugar and 44% of sugar revenue from value-added refined sugar (capacities 22,500 TCD and 17,000 TCD respectively)
- Manufactured 2.54 lakh tons of sugar including raw sugar; sold 3.73 lakh tons including raw sugar
- Achieved average sugar realisation of Rs. 21,582 per ton (41% higher than the average realisation for 2007-08)
- Held substantial inventory of raw sugar for conversion into refined sugar as on 1st October, 2009

Our power business

- Accounted for 13.31% of revenues (14.45% in 2007-08) and 32.29% of EBIDTA (40.71% in 2007-08)
- Reinforced integration through our 145-MW capacity (80 MW for sale round the year),one of the highest cogeneration capacities in India
- Sold of 1,655.80 lac units of power at an average Rs. 3.25 per unit
- Incorporated 105 kg/sq.cm pressure boilers-first in the Indian sugar industry- to maximise energy generation at a lower fuel consumption
- Consumed bagasse, biomass and coal in our multi-fuel boilers, making it possible to generate thermal power from the most economically available fuel

Our chemicals business

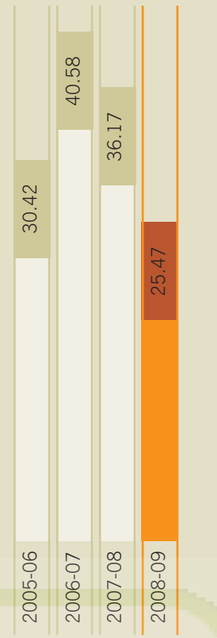
- Accounted for 3.18% of revenues (14.64% in 2007-08) and 3.20% of EBIDTA (16.29% in 2007-08)
- Featured among the few Indian sugar companies to maximise the output of value-added chemicals (ethyl acetate and acetic anhydride consumed in the paint / pharmaceutical industry)
- Leveraged its 270-KLPD distillery capacity, to emerge as one of the largest Indian manufacturers of ethanol and sugarcane derivatives
- Entered into a joint venture (under Dhampur Sugar Distillery Private Limited) for distillery assets of 100 KLPD at our Asmoli plant

How our divisions performed, 2008-09

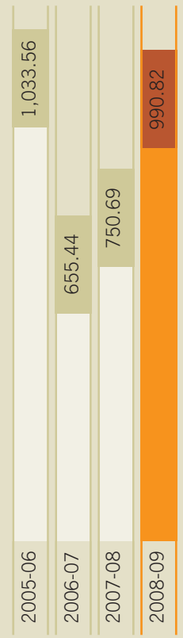
Business segment	Gross revenue (Rs cr)	Percentage of gross revenue	Revenue change vis-à-vis 2007-08	Reason
Sugar	Rs. 976.14 cr	83.51	54.56% ↑	■ Growing volumes ■ Enhanced average realisation of Rs. 21.58 per kg ■ Liquidation of historical stock at enhanced realisations
Co-generation	Rs. 155.52 cr	13.31	20.80% ↑	■ Surplus power capacity of 80 MW ■ Attractive average per unit realisation of Rs. 3.25
Distillery	Rs. 37.17 cr	3.18	(71.49%) ↓	■ Firm price of molasses, a key component of chemicals manufacture ■ Decline in realisations of chemicals on account of a sharp correction in crude prices

Challenging past
Exciting present
Promising future

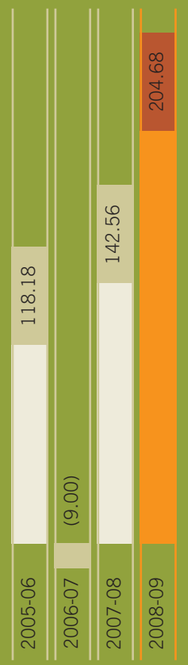
Sugarcane crushed (lac tons)



Income from operations (Rs. cr)

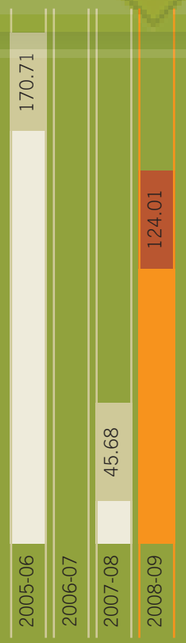


Operating profit (Rs. cr)

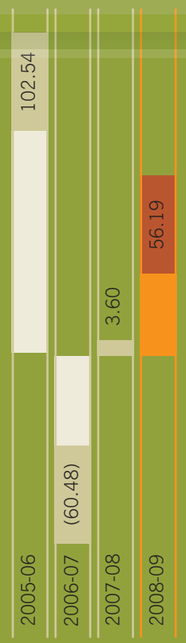


Operating profit margin (%)

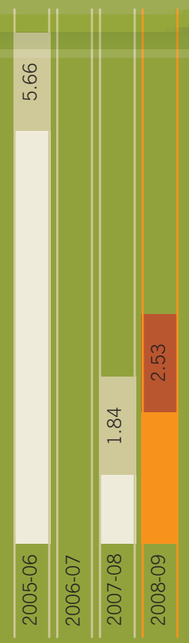
Cash profit (Rs. cr)



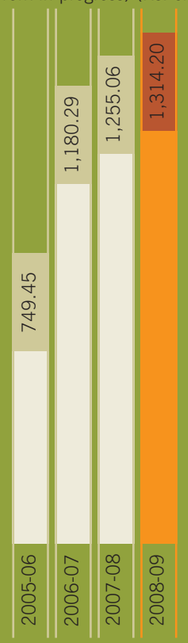
Post-tax profit (Rs. cr)



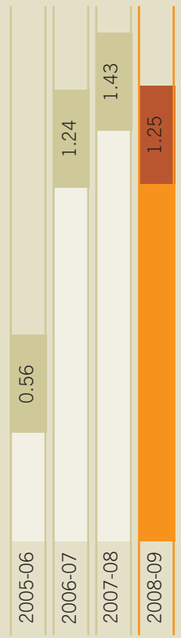
Interest cover (times)



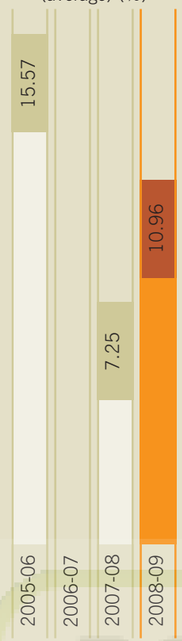
Gross block (including capital work in progress) (Rs. cr)



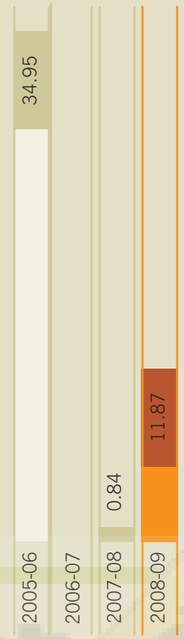
Debt-equity ratio



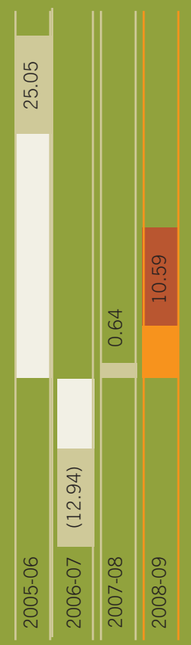
Return on capital employed (average) (%)



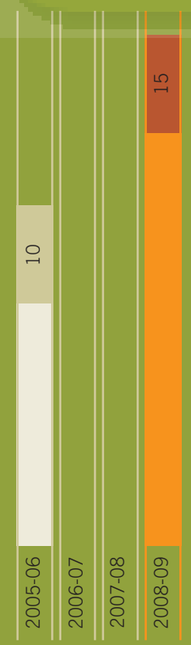
Return on net worth (average) (%)



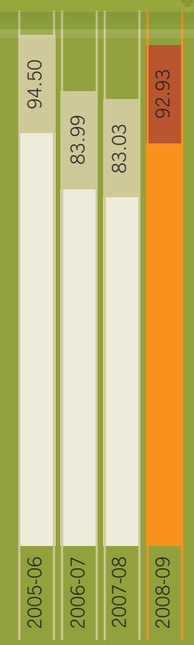
Earnings per share (basic) (Rs.)



Dividend per share (%)



Book value per share (Rs.)



Promoters' message

Dear Stakeholders,

We are at a stage when we are not just managing our viability for the year but are also engaged in reinforcing our sustainability for the long-term.

We were powered by three businesses and now ventured into synergic extensions – thermal power generation and raw sugar processing.

Power sector attractiveness

India owns the world's fifth largest thermal coal resources; India's peak energy deficit is nearly 12%. Total peak shortage was 15,175 MW as of December 31, 2008 *(source: Central Electricity Authority)* and going ahead, India will need to add 73 GW assuming 8% GDP growth by 2012 *(source: IEP Report)*.

India's peak and normative power deficit

Period	Peak				Normative			
	Requirement	Availability	Shortage		Requirement	Availability	Shortage	
	(MW)	(MW)	(MW)	(%)	(MW)	(MW)	(MW)	(%)
Fiscal Year 2003	81,492	71,547	9,945	12.2	545,983	497,890	48,093	8.8
Fiscal Year 2004	85,574	75,066	9,508	11.2	559,264	519,398	39,866	7.1
Fiscal Year 2005	87,906	77,652	10,254	11.7	591,373	548,115	43,258	7.3
Fiscal Year 2006	93,255	81,792	11,463	12.3	631,757	578,819	52,938	8.4
Fiscal Year 2007	100,715	86,818	13,897	13.8	690,587	624,495	66,092	9.6
Fiscal Year 2008	108,866	90,793	18,073	16.6	739,345	666,007	73,338	9.9
Fiscal Year 2009	109,809	96,685	13,124	12	774,324	689,021	85,303	11

Source: CEA, 'Power Scenario at a Glance'

Sectoral opportunities

The Electricity Act 2003 and subsequent reforms created the following opportunities for the country's power sector:

- Liberalisation and de-licensing in the power generation sector and doing away with the requirement of techno-economic clearances for thermal power projects, which expedites the thermal power project development process
- Power trading recognised as a distinct activity
- Distribution licensees can procure power by developing power projects through a process of international competitive bidding, which presents attractive opportunities for efficient power generation
- Power generation companies can now market power to any distribution licensee, or where allowed by the state regulatory commissions, directly to consumers. The market has evolved for merchant sales, which allows for the supply of peak power at premium rates
- Power generation companies can have open access to transmission lines to facilitate the direct sale of power to distribution and trading licensees
- 100% FDI is permitted in the power sector

Regional demand–supply overview

The following table displays the peak and normative power shortages in India for the periods indicated across the northern and western regions in India.

India's peak and normative power deficit

Period	Peak				Normative			
	Requirement	Availability	Shortage		Requirement	Availability	Shortage	
	(MW)	(MW)	(MW)	(%)	(MW)	(MW)	(MW)	(%)
North								
April 2008–February 2009	33,034	29,504	3,530	10.7	205,839	183,963	21,876	10.6
West								
April 2008–February 2009	37,240	29,603	7,637	20.5	232,022	194,428	37,594	16.2

Source: CEA, 'Power Scenario at a Glance'

As evident in the table, energy deficit varies widely across India, with the western region having the highest peak and normative energy shortages followed by the northern region. India's peak demand will reach around 152,746 MW and by 2017 fiscal, peak demand is expected to reach 218,209 MW with an energy requirement of 1,392 billion units. A lag between projected and actual capacity addition indicates room for more power generators.

Financial year	Target capacity	Achieved capacity
2008	16,335 MW	9,263 MW
2009	11,061 MW	3,453 MW

Source: CEA; Installed generation capacity

Dhampur's focus

Dhampur owns one of India's largest merchant co-generation power capacities (80 MW). It was the first sugar Company in Uttar Pradesh to market power through the short-term open access facility (post-balance sheet development from 1st October, 2009), which will lead to complete open-access. We believe that this encouragement will not only help India bridge its power deficit, but also enable merchant power producers to grow profits through remunerative realisations derived from power trading.

The conducive environment makes it imperative to create integrated assets and capacities that maximise generation through enhanced flexibility. An instance was the commissioning of multi-fuel boilers by our Company. These boilers use bagasse and thermal coal, making it possible to run during the sugar season and beyond on the one hand and optimise fuel as per the prevailing economics on the other.

How Dhampur is narrowing India's production–consumption skew

India is the world's second largest sugar consumer (23 million tons in 2008-09), growing at a CAGR of 2%. A growing deficit of sugarcane production, catalysed by declining acreage and arrears, moderated sugar production from about 26.3 million tons in 2007-08 to around 14.7 million tons in 2008-09. A modest increase is projected; sugar output is estimated at only around 15 to 16 million tons in the 2009-10 season.

This reality prompted the government to allow Indian manufacturers to import raw sugar, convert into refined sugar and market in the domestic market. Dhampur is attractively placed to capitalise on this policy; we enjoy the twin advantage of processing India's largest refining capacity (1,700 TCD) and one of India's lowest conversion cost structures that leverage the availability of thermal power during the off-season.

In October 2009, we possessed a healthy inventory of raw sugar that will run our operations for at least six months. As an opportunity-focused corporate, we liquidated 0.6 million tons to capitalise on market buoyancy, generating an attractive profit. Going ahead, our decision to import raw sugar will depend on the available arbitrage between international and domestic sugar prices.

Overview

The result will be a more than 50% revenue growth and substantial profitability increase in 2009-10 derived from a progressively sustainable business model.

V.K. Goel, Chairman

A.K. Goel, *Vice Chairman*