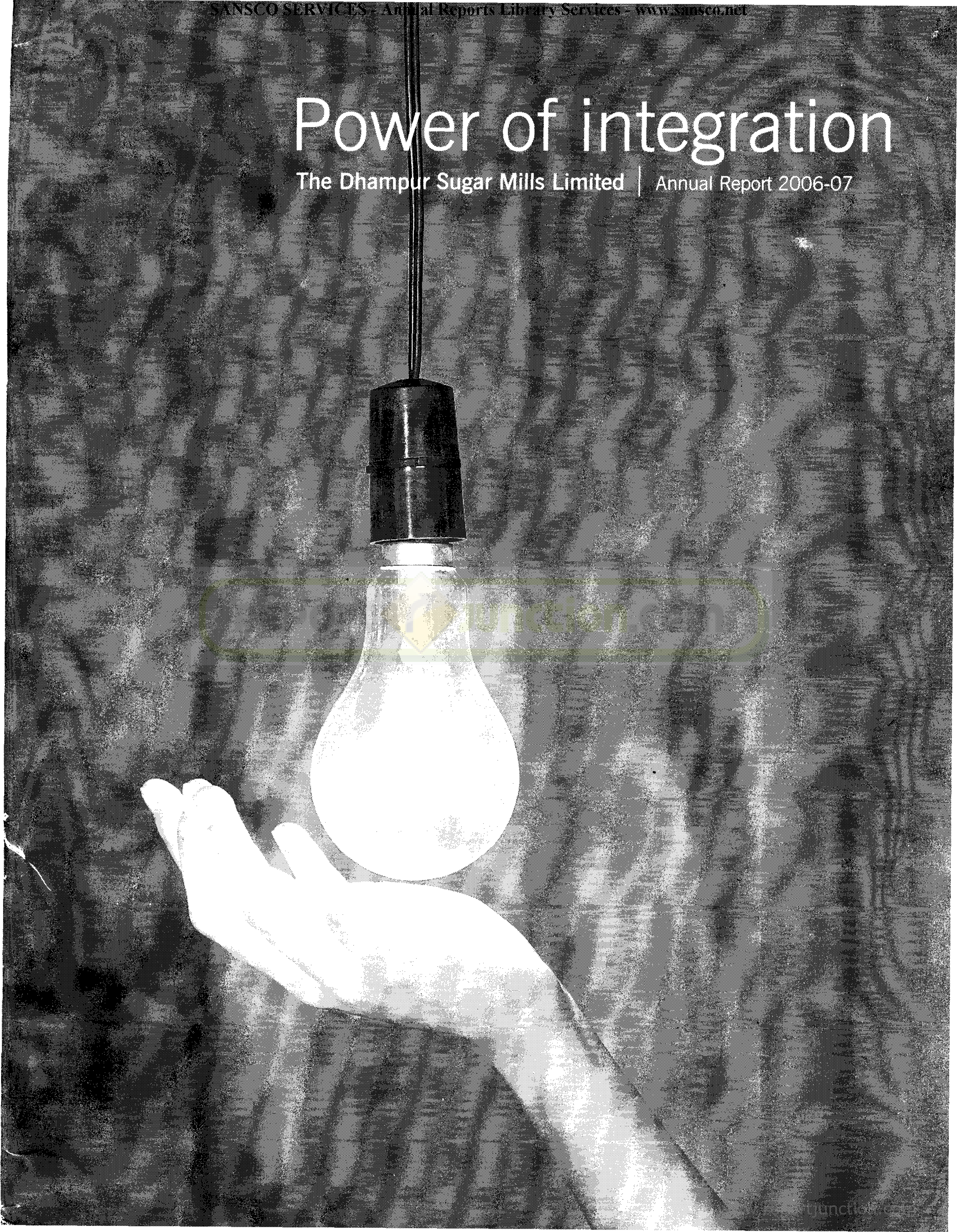
Power of integration

The Dhampur Sugar Mills Limited | Annual Report 2006-07



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', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realized, 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 materialize, 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.

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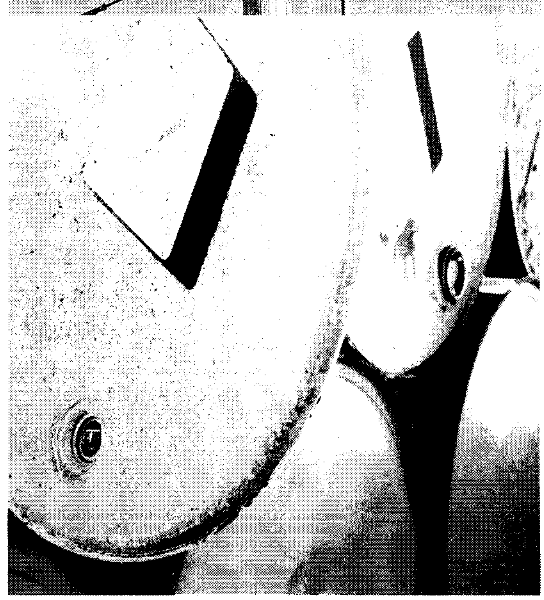


One industry. Three opportunities.

In sugar, co-generation and ethanol.

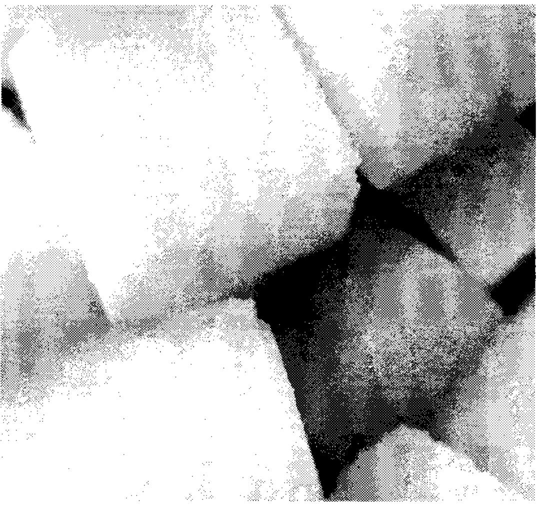
One company integrated them all.

Dhampur.

Dhampur was the first Indian sugar company to think beyond the cube for two reasons:

- To diversify and protect the bottomline during industry downturn.
- To provide energy alternatives to an energy-starved country through co-generation and ethanol.

In 2006-07, Dhampur's co-generation capacities closely matched the capacities of India's largest sugar mills. Going ahead, the Company aims to progressively de-risk its business by deriving a significant portion of its revenues from the co-generation business. Emphasising the power of integration.



Dhampur Sugar is a responsible and integrated sugar manufacturer with a significant presence in Uttar Pradesh.

Our lineage

Established in 1933, Dhampur remains one of the oldest and largest producers of sugarcane products in India.

Our de-risking philosophy

- To re-establish ourselves as the most efficient sugar company in India.
- To become a global sugar company by leveraging our rich technical expertise.
- To optimise the utilisation of cane and cane residue in the most eco-friendly manner; to become an integrated player with co-generation and alcohol capabilities along with sugar plants.
- To continuously bring down the cost of conversion.
- To optimise the value of stakeholder investments with a continuous improvement in financial performance.
- To attain the highest level of accountability, corporate governance and shareholder value.

Our pioneering initiatives

At Dhampur, we pride ourselves on a rich legacy of seven decades of pioneering initiatives.

Sugar

- First in India to install a sugar refinery in 1993.
- First in India to launch sulphurless sugar in consumer packs in 2000.

Cane preparation

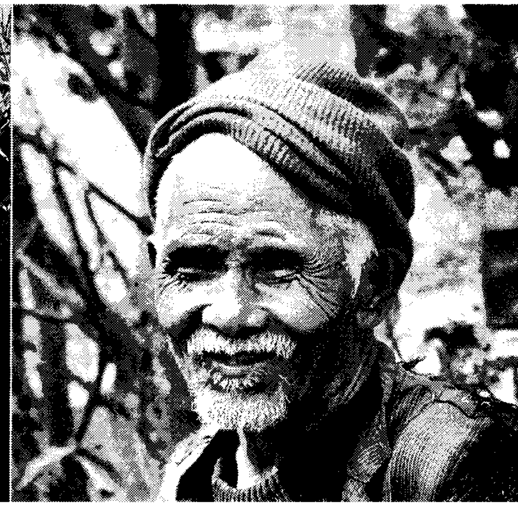
- Use of the revolutionary fibrizors for cane preparation at the Dhampur unit with a split cane carrier system.
- Development of the in-house Pressure Feeder Technology at the Dhampur unit, followed by a majority of mills now in India.
- Introduction of an eight roller pressure feeder mill at the Dhampur unit with the highest capacity of 15,000 TCD from a single tandem.

Boiling house

- Pioneering use of a pressure evaporation system with falling film type evaporator bodies.
- Design, development and installation of vertical continuous pan.

Co-generation

- First sugar manufacturer in India to commission co-generation facilities and market surplus power in 1994.



- First sugar company to install high pressure boilers of 105 kg per sq. cm (G) and 170 tonnes per hour capacities.

Ethanol and other chemicals

- First sugar company to produce alcohol in 1992 through the Encillium Process developed by the National Physical Laboratory, Pune.

Our product range

Sugar

- Plantation white sugar
- Refined sugar
- Retail sugar (branded as Dham*pure*)

Power

- 75 MW of grid-interactive power.

Ethanol and other chemicals

- Ethanol
- Ethyl acetate
- Acetic anhydride
- Acetaldehyde
- Acetic acid
- Rectified spirit
- Extra neutral alcohol (ENA)

Our locations

Dhampur (Central U.P.)

- One of the oldest integrated sugar mills in India, with production capacities of 15,000 TCD for plantation white sugar.
- 140 KLPD for ethanol and other chemicals.
- 45 MW power co-generation capacity.

Asmoli (Central U.P.)

- Greenfield project in 1994.
- Refined sugar capacity at 9,000 TCD.
- 40.MW power co-generation capacity.

Mansurpur (West U.P.)

- Takeover by Dhampur in 1985.
- 8,000 TCD capacity for refined sugar.
- 28 MW power co-generation capacity.

Rajpura (Central U.P.)

- Commissioned in 2007, the plant possesses a 7,500 TCD capacity for plantation white sugar.
- 12 MW power co-generation capacity.

Reviewing our performance in 2006-07

Gross block addition

- Installed high pressure boilers of 105 kg per sq. cm (G) and 170 tonnes per hour capacities for co-generation plants, a first in the sugar industry.
- 30 MW plant in Dhampur.
- 30 MW plant in Asmoli.
- 28 MW plant in Mansurpur.
- Commissioning a greenfield 7,500 TCD project at Rajpura.

Manufacturing efficiencies

- 33.08 per cent increase in cane crushing from 304.16 lac quintals in 2005-06 to 404.79 lac quintals in 2006-07.
- 24.04 per cent increase in sugar production from 31.41 lac quintals in 2005-06 to 38.96 lac quintals in 2006-07.
- 26.10 per cent increase in production of ethanol and other chemicals in 2006-07.
- Commissioned the Rajpura plant with a production of 3.80 lac quintals in 2006-07.
- Commissioned production with an expanded capacity of 140 KLPD.

Corporate developments

- In April, 2007, the Board of Directors approved a joint venture with Falck SPA (Italian company) for a 100 KLPD distillery in Asmoli, Moradabad (Uttar Pradesh).
- Consequent to the preferential allotment of 10,00,000 equity shares by Kashipur Sugar Mills on June 28, 2007, the holding of the Company in Kashipur Sugar Mills declined from 51.82 per cent to 48.5 per cent. Kashipur Sugar Mills is no more a subsidiary of the Company.
- DSM Hitech Products Ltd., a wholly owned subsidiary of Dhampur Sugar Mills, was merged with the holding company in September, 2007, with effect from 1st April, 2007.

Financial performance

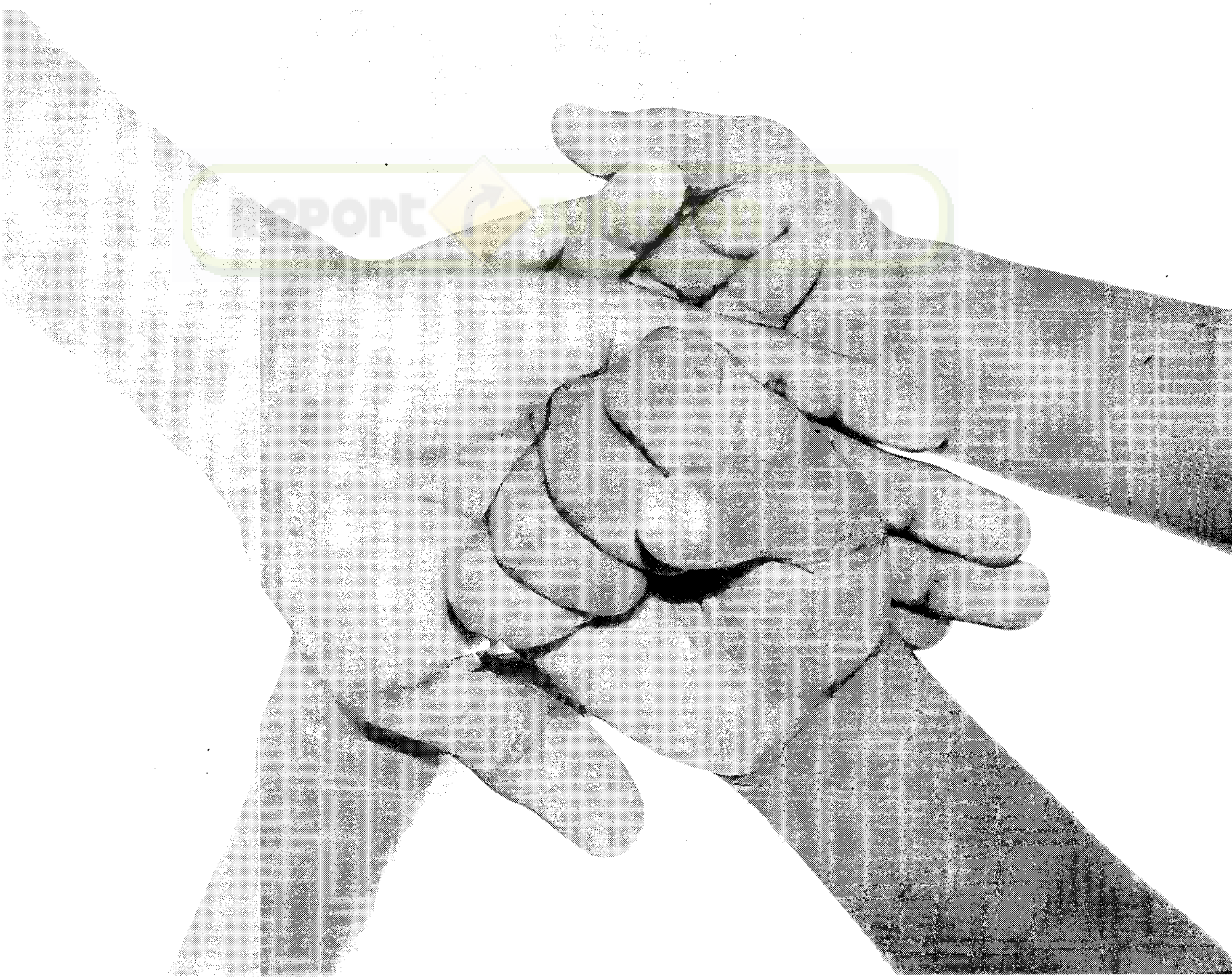
- A net loss of Rs. 60.67 crore in the Company as a result of low sugar prices.
- Rs. 32.94 crore net profit derived from the ethanol and other chemicals business.

Performance indicators

(Rs. in crores)

Parameters	2004-05	2005-06	2006-07
Revenues	777.62	1033.56	661.90
EBDITA	129.20	118.18	(2.53)
PAT	55.68	102.54	(60.67)
Reserves and surplus	67.84	389.42	351.88
Gross block	403.68	416.00	779.42
Debt-equity ratio (including working capital finance)	3.12	0.64	1.64

The sugar industry and us at Dhampur



At Dhampur, we are leveraging the integrated nature of our business model to generate revenues from other products and de-risk ourselves from the industry downturn.

IN THE LAST FEW YEARS, VARIOUS STATE GOVERNMENTS ANNOUNCED INCENTIVES FOR SUGAR MANUFACTURERS TO INVEST IN FRESH CAPACITY AND PRODUCTS.

The sugar manufacturers announced large expansions; farmers planted more cane; sugar output increased sharply; output far exceeded demand; realisation declined; manufacturers' bottomline eroded.

This industry scenario was aggravated by two features:

- The Uttar Pradesh government retaining sugarcane prices (SAP) at Rs. 125 per quintal.
- Banning of exports.

The result was more than just a decline in margins and profits; most sugar manufacturers could not pay the farmers on time for the sugarcane purchased from them, resulting in arrears.

The government finally responded to the situation: export restrictions on sugar were removed in late January 2007; a five mn tonne buffer stock was created to remove excess sugar from the market; a transport subsidy on late crushing reduced logistics costs; an interest subsidy on excise helped improve working capital availability.

To improve the liquidity position of sugar factories, the Central Government has announced a Scheme for Extending Financial Assistance to Sugar Undertakings, 2007. This will enable sugar factories to clear cane price arrears of the 2006-07 sugar season and cane price for the 2007-08 sugar season related to SMP for the respective sugar season.

At Dhampur, we are leveraging the integrated nature of our business model to generate revenues from other products and de-risk ourselves from the industry downturn.

10 minutes with the MDs

"Despite an operating loss in our sugar business, we reported a Rs. 32.94 crore profit in our ethanol and other chemicals businesses, vindicating our de-risked business approach."

Mr. Gaurav Goel and **Mr. Gautam Goel**, *Managing Directors*, evaluate the Company's performance in the current industry situation.

How would you evaluate the current industry environment?

During the 2006-07 sugar season, the Indian sugar industry reported a surge in cane production as a result of favourable weather conditions, capacity expansion by mills and profitable cane cultivation. A record cane production of 345.31 mn tonnes resulted in a surplus of around 80 mn tonnes of sugar at the end of the 2006-07 sugar season.

Since Uttar Pradesh accounts for nearly 30 per cent of the domestic sugar production, the impact of the demand-supply skew was largely felt among sugar companies operating in the state. Concurrently, companies based in Uttar Pradesh were compelled to pay Rs. 125/quintal for cane (as per the State Advised Price (SAP)).

How did the Company protect its interests in this challenging environment?

Our sugar production increased by 24.04 per cent, while sugar prices declined by an average 25.41 per cent, resulting in a loss of Rs. 66.30 crore in our sugar business. Although our realisations declined from an average of Rs. 1841.28 per kg in 2005-06 to Rs. 1468.17 per kg in 2006-07, we were able to cap overhead costs across a larger production volume.

We are encouraged to state that the decline in margins will be offset by the integrated nature of our business model and economies of scale. Our consistent capacity expansion, even in the face of an industry downturn, will enable us to secure profits from ethanol and other chemicals.

How does the Company intend to protect shareholder value if the current situation persists?

We realised that the sugar industry – owing to its cyclical nature – will face a downturn every three to five years. While our competitors expanded their sugar capacities with a modest focus on ethanol and co-generation, we increased more than 50 per cent of our capex in co-generation projects.

Our increased ethanol capacity insulated us from the industry downturn to a large extent. A high cane production translated into the production of a larger quantity of molasses than in the previous year which, in turn, represented a large raw material base for the production of ethanol. With crude prices inching towards US$100 a barrel, we foresee a demand surge for ethanol, enhancing our profitability. By the same yardstick, bagasse production provided higher