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# Caneeconomics!

Annual Report 2007-08

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 realised, although we believe that we have been prudent in such 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.

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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. Suman Chaudhury,  
*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

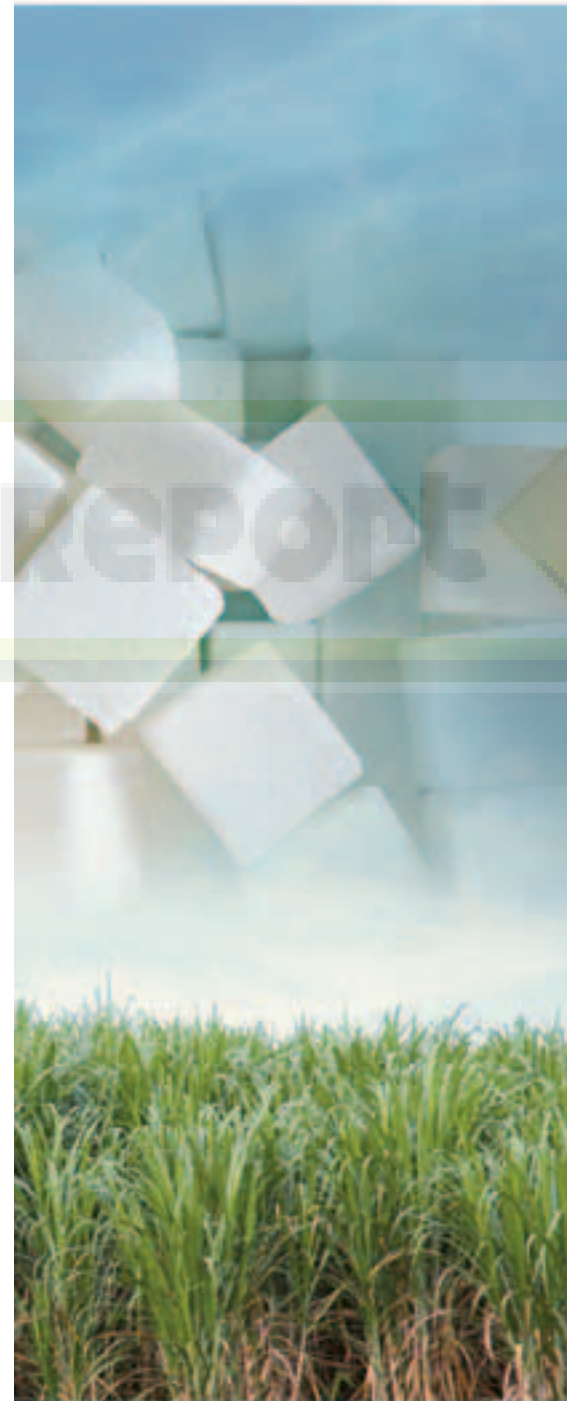
Dhampur Sugar Mills Limited  
Dhampur (N.R.)  
District Bijnore – 246761 (UP)

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)



**More kgs per tonne +  
More litres per tonne +  
More MW per tonne =  
More tonnes per tonne**



# One resource. Multiple businesses.

It is with this single-minded approach that we invested in our business model over the last decade.

To reinforce. To insulate. To derisk.

The result is that we have now leveraged a singular resource (sugarcane) into attractive revenues across the businesses of sugar, power, ethanol and value-added chemicals.

We enjoy one of the highest ratios of power generating capacity of 2.03 KW and a ratio of 6.84 LPD of distillery capacity per tonne of our installed cane crushing capacity.

## At Dhampur, there is a specific word for this consistent strategy. Caneconomics.



**Over the years, caneconomics has transformed Dhampur's presence from a standalone sugar business into a sugar cum power cum speciality chemicals company.**

**Limiting its profit decline in bad years. And accelerating its profit rebound in periods of sectoral recovery.**

#### Big picture

- Dhampur is leveraging the availability of sugarcane to grow the sugar, energy and value-added chemical businesses.
- Our businesses enjoys the benefits of scale: while our installed capacity for sugar is 39,500 tonnes crushed per day (TCD), our power and distillery assets possess installed capacities of 145 MW and 270 kilo litres per day, respectively.
- We reported a Rs. 3.60 cr post-tax profit in 2007-08.

#### Manufacturing locations

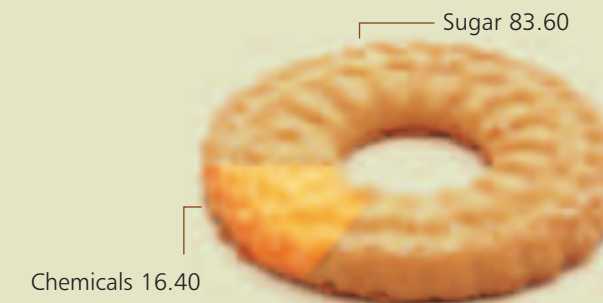
- We have four integrated manufacturing facilities in Uttar Pradesh (Central and West), one of the most abundant sugarcane belts in India.
- We enjoy an enduring relationship with more than 150,000 farmers, derisking our business from inadequate cane availability.

Plant location	Sugar installed capacity (TCD)	Cogeneration installed capacity (MW)	Distillery installed capacity (KLPD)
Dhampur, Uttar Pradesh	15000	65	170
Mansurpur, Uttar Pradesh	8000	28	N.A.
Asmoli, Uttar Pradesh	9000	40	100
Rajpura, Uttar Pradesh	7500	12	N.A.

#### Pioneering value-addition

- First in the Indian sugar industry to incorporate 105 kg pressure boilers and maximise energy generation at a lower fuel consumption.
- First in the Indian sugar industry to maximise the export of co-generated power (80 MW out of an installed capacity of 145 MW).
- First in the Indian sugar industry to introduce refined sugar (branded as Dhampure), which enjoys a large and reputed institutional customer base leading to premium realisations.
- First in the Indian sugar industry to maximise the output of value-added chemicals (ethyl acetate and acetic anhydride consumed in the pharmaceutical industry), which typically command better realisations.

Product-wise revenue, 2006-07 (Percent)



Product-wise revenue, 2007-08 (Percent)



#### Our key numbers

We reported a 14.53 percent growth in total income from Rs. 655.44 cr in 2006-07 to Rs. 750.69 cr in 2007-08.

The ratio of income derived from our sugar and non-sugar business evolved from 84:16 in 2006-07 to 71:29 in 2007-08.

EBIDTA turned into positive from Rs. (0.83) cr in 2006-07 to Rs. 124.53 cr in 2007-08.

EBIDTA margin strengthened from nil in 2006-07 to 16.59 percent in 2007-08.

Post-tax profit rebounded from a loss of Rs. 60.48 cr in 2006-07 to a profit of Rs. 3.60 cr in 2007-08.

Cash flow altered from a net outflow of Rs. (20.15) cr in 2006-07 to Rs. 8.04 cr in 2007-08.

# A view from the senior management

It would be futile to sugar-coat the reality of a challenging 2007-08, when we were required to manage politically motivated raw material pricing on the one hand and enhance value for shareowners on the other.

Given this reality, our performance was creditable: a net profit of Rs. 3.60 cr, following a net loss after tax of Rs. 60.48 cr in 2006-07.

Given this industry inflection point, shareholders would be most likely seeking answers to not only what transpired in 2007-08, but also what they can now expect. This report communicates our optimism about an imminent improvement in sugar realisations, the growing choice of bagasse as an alternative energy source as well as an increasing preference for cane-derived ethanol and other value-added chemicals.

## Rise in sugar realisations

We write to you from a point of optimism because sugar prices that were depressed for the large part of 2006-07 and a part of 2007-08

appear to have climbed out of an extended trough. Since Dhampur Sugar derives 70.91 percent of its realisations from sugar, any improvement in the sweetener's realisation will lift the corporate average.

Historically, sugar prices have been inversely linked with sweetener production. Lower cane acreage in SY 2008-09 will result in a lower production of sugar from around 26 million tonnes in SY 2007-08 to below 20 million tonnes for SY 2008-09. Once you factor in a projected domestic consumption of around 23 million tonnes for SY 2008-09, the reality is that a large proportion of the incremental demand will be met by the sugar inventory. There will be a significant moderation in the closing stock to around six million tonnes, estimated at a little more than three months of consumption. The net result is that realisations had strengthened in October 2008, compared with the corresponding period in the previous year.

## Bagasse as an exciting fuel

Over the years, we consciously invested in bagasse-centric power generation for important reasons: we transformed an available commodity surplus into a product with a growing deficit, assured sale at protected, realisations and an accompanying tax hedge. Our intent is visible in the numbers: we enhanced the proportion of revenues derived out of power sale from nil in 2006-07 to 14.45 percent in 2007-08.

The prospects of this business segment continue to be optimistic for a number of reasons. According to the Central Electricity Authority, India's power deficit (around 10 percent of the total demand) is set to rise. The Government has been actively exploring various options to bridge the demand-supply gap. It is in this context that the export of surplus co-generated power has emerged as a profitable opportunity. Within this, bagasse-based power generation is one of the most

promising energy creation centres with a number of advantages: a shorter gestation of cogeneration assets, effective utilisation of a by-product, cost-effective power generation, environment-friendly operations, tax rebates and interest-free loans. The fact that mills are now permitted to market merchant power directly, instead of selling it to state electricity boards means that they can select credible power trading companies and recover their proceeds faster. What makes this space interesting is that as per industry estimates, the potential for bagasse-based cogeneration is as high as 3,500 MW, of which only a small proportion has been realised so far. Even for companies like Dhampur, which are already selling excess power, there is a potential to market more.

## Increasing ethanol manufacture

Perhaps no segment of the business is more environmentally relevant, with robustly sustainable prospects, than ethanol manufacture. The use of cane-derived ethanol is substituting high cost fossil fuel. There is an added incentive of

generating ethanol from renewable crop sources year after year, since fossil fuel is finite and depleting. The economics of ethanol production from sugarcane represents the most viable alternative and also positively contributes to climate change management through lower greenhouse gas emissions.

As a progressive organisation, we have responded to this reality with speed and surety.

## A more sustainable business model

At Dhampur, we are excited by the possibility of deriving more gain per cane. We are proud to report that we are among the few in our industry to have taken a call of enhancing non-sugar capacities, achieving a lower conversion cost, reporting sustainable cash flows and a direct pass-through to the bottomline.

This sustainable model has been centered around economics of scale: we are one of the most extensively integrated sugarcane complexes, with one of the highest ratios of exportable power and distillery capacity of 2.03 KW

and 6.84 LPD, respectively per tonne of our installed cane crushing capacity.

We are moving towards the higher end of the value chain through the following initiatives:

■ We are one of the largest refined sugar manufacturer in India with an installed capacity of 17,000 TCD. Our refined sugar, branded as Dhampure, is retailed to prominent beverage, confectionary and food companies at attractive realisations.

■ A flexible product mix enables us to swing between alcohol, fuel grade ethanol and value-added chemicals, depending on realisations.

## Overview

Through this single-minded approach, we are geared to create enhanced value in the hands of all those who own our Company in 2008-09 and afterwards.

Sincerely,

V.K. Goel,  
Chairman

Dhampur Sugar Mills Limited

A.K. Goel,  
Vice Chairman



# Caneeconomics = Growth



Income from operations (Rs. cr)



EBIDTA (Rs. cr)



EBIDTA margin (Percent)



Post-tax profit (Rs. cr)



Gross block (including capital work in progress) (Rs. cr) As on 30th September



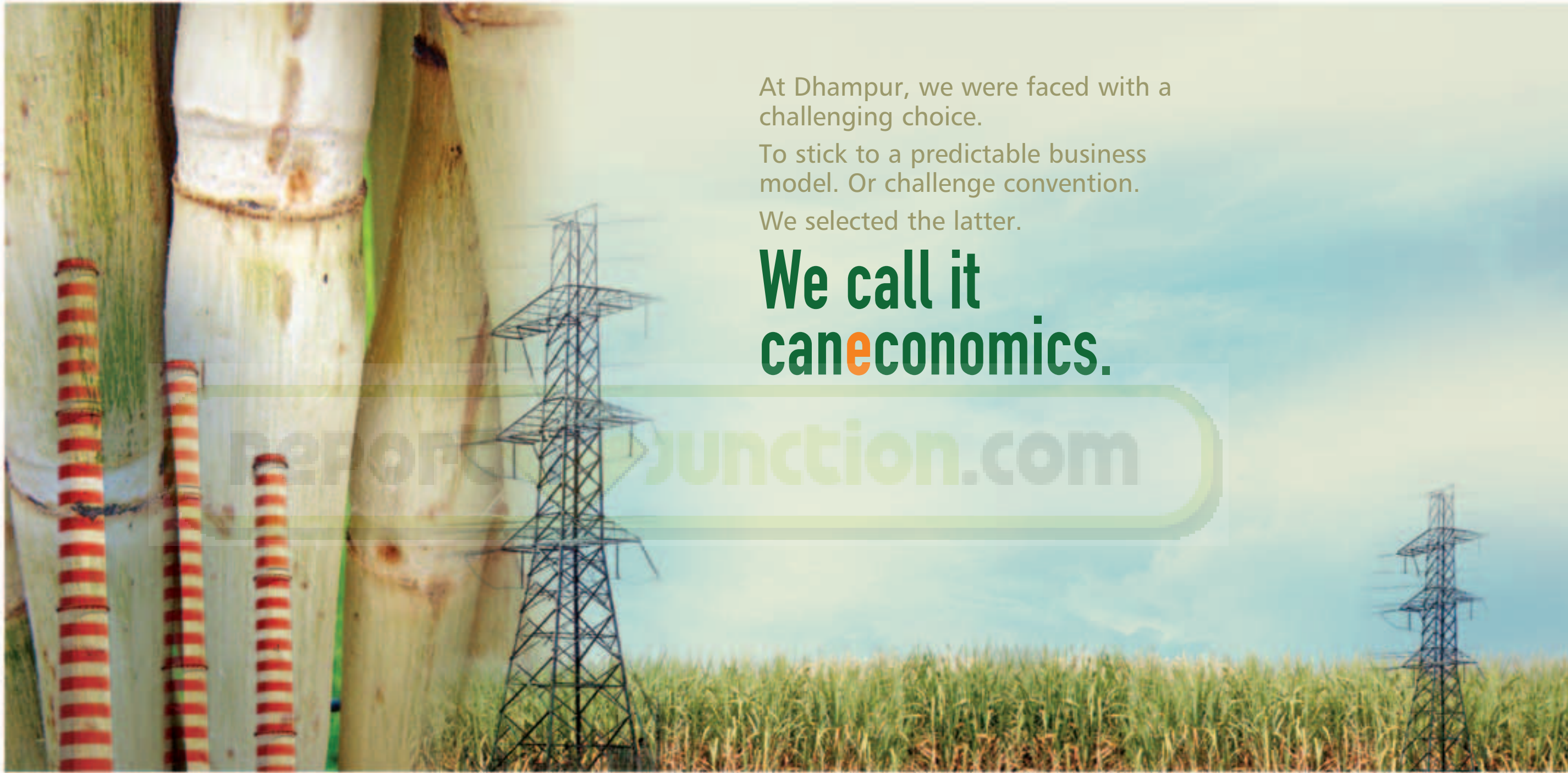
Debt-equity ratio As on 30th September



Earnings per share (basic) (Rs.)







At Dhampur, we were faced with a challenging choice.

To stick to a predictable business model. Or challenge convention.

We selected the latter.

**We call it  
caneconomics.**

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➤ The conventional sugar industry practice: expand sugar capacities.  
Dhampur's contrarian caneconomics: enhance downstream capacities for more sugar, more power and more chemicals.

➤ Result: Dhampur now possesses one of the largest merchant cogeneration power plants in India and is one of the largest producers of value-added chemicals.

➤ This integration – one of the most extensive in India's sugar industry - will protect profitability across industry cycles.

➤ There is evidence at hand: even as the industry went through a difficult 2007-08, Dhampur reported an after-tax profit of Rs 3.60 cr.

➤ Caneconomics as a concept is no longer an exception. The proposition has clearly arrived.



Ozone layer depletion. Emissions.  
Contamination. Pollution. Global  
warming. Climate change.  
At Dhampur, we could have shrugged  
off our responsibility.

# Instead, we responded with caneconomics.

Addressing air quality. Green energy.  
Renewable resources. Sustainable prospects.



- At Dhampur, we consider sugarcane (our key input resource) to be nature's bounty. One of the most versatile natural resources.
- Treat the juice and you have sugar. Process the bagasse and you have power. Process the molasses and you have ethanol and value-added chemicals.
- Green energy circumvents the need for fossil fuels and finite natural resources. Ethanol partially substitutes automotive fuel. Other value-added chemicals (ethyl acetate and acetic anhydride) represent critical pharmaceutical inputs.
- Going one step ahead, we are pursuing certification of our projects with United Nations Framework Convention on Climate Change for carbon credits
- Clearly, green business is good business.

The strength of our business model can be measured by the strength of our relationships. We were living the 'inclusive growth' philosophy even before it became fashionable.

# This is caneconomics at Dhampur.

Through relationships with more than 150,000 farmers. Through securing the careers of our employees. Through sensitive community building. Through a commitment to enhance the overall quality of life.



- At Dhampur, we provide farmers with high-yielding subsidised cane varieties, seeds and support, that accelerate their payback. We engage in research related to crop planting to benefit farmers.
- We support farmers' livelihood by buying every stick of cane offered to us.
- Our robust human resource practices align personal goals with the professional, creating a defined career path, as well as a harmonious working environment.
- We are an equal opportunity employer.
- We promote community development through employment, infrastructure creation, education, health and hygiene interventions.