

# **DHARANI SUGARS AND CHEMICALS LIMITED**



**FIFTEENTH ANNUAL REPORT  
2001 - 2002**

Report  Junction.com



| CONTENTS                          | Page Nos. |
|-----------------------------------|-----------|
| Board of Directors                | 2         |
| Notice to Shareholders            | 3         |
| Directors' Report                 | 4         |
| Annexure to the Directors' Report | 10        |
| Report on Corporate Governance    | 11        |
| Auditors' Report                  | 18        |
| Balance Sheet                     | 21        |
| Profit and Loss Account           | 22        |
| Schedules                         | 23        |
| Notes on Accounts                 | 30        |



**BOARD OF DIRECTORS**

|                               |                            |
|-------------------------------|----------------------------|
| <b>Dr Palani G Periasamy</b>  | — Executive Chairman       |
| <b>Mr R Natarajan</b>         | — Vice Chairman            |
| <b>Dr C K Dheenan</b>         |                            |
| <b>Dr K N Sivasubramanian</b> |                            |
| <b>Mr A Sennimalai</b>        |                            |
| <b>Dr K C Reddy</b>           | — Nominee Director – IREDA |
| <b>Mr M Ramalingam</b>        | — Director (Technical)     |

**Company Secretary** : Mr E P Sakthivel

**Auditors** : M/s Srinivasan & Shankar  
Chartered Accountants  
Chennai – 600 018

**Bankers** : Indian Bank  
State Bank of India  
Bank of India  
The Federal Bank Limited  
The South Indian Bank Limited  
Central Bank of India  
Corporation Bank  
Canara Bank  
Union Bank of India

**Registered Office** : "PGP House", No 57 Sterling Road,  
Nungambakkam, Chennai – 600 034.  
Phone No.831 1313 – 820 7480/81/82  
Email : pgpcorp@eth.net

**Factories** : **Dharani I**  
Dharani Nagar 627 760  
Tirunelveli District, Tamil Nadu  
Ph: (04636) 441370, 441371  
: **Dharani II**  
Karaipoondi Village  
Chetput Road, Polur Taluk  
Tiruvannamalai Dist. – 606 803  
Tamil Nadu  
Ph: (04181) 23161, 23162

Report Junction.com

**NOTICE TO SHAREHOLDERS**

**NOTICE** is hereby given that the **FIFTEENTH** Annual General Meeting of the Members of the Company will be held at "Sathguru Gnanananda Hall", Narada Gana Sabha, New No 314 T T K Road, Alwarpet, Chennai - 600 018 on **Wednesday the 25th September 2002, at 10.30 A.M.**, to transact the following business.

**ORDINARY BUSINESS**

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2002 and Profit and Loss Account for the year ended on that date and consider the reports of the Directors and Auditors.
2. To appoint a Director in place of Dr C K Dheenani, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Shri M Ramalingam, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors and to authorise the Board of Directors to fix their remuneration.

**NOTES**

**A MEMBER ENTITLED TO ATTEND AND VOTE AT THIS ANNUAL GENERAL MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.**

1. The proxy form, in order to be effective must be duly completed, stamped and lodged with

the Registered Office of the Company not less than forty-eight hours before the commencement of the meeting.

2. The Register of Members and Share Transfer Books of the Company will remain closed from 16th September 2002 to 25th September 2002 both days inclusive.
3. Members/ Proxy holders must bring the Attendance Slip duly signed to the meeting and hand it over at the entrance. Xerox copy/ torn attendance slips will not be accepted.
4. Members are requested to quote their Registered Folio numbers in all correspondence with the Company and notify the Company immediately of change, if any, in the Registered Address and/ or of their mandates.
5. All documents referred to in the above notice are open for inspection at the Registered Office of the Company between 2.00 P.M and 4.00 P.M on any working day.
6. Pursuant to Section 205 A (5) of the Companies Act, 1956, all dividends which remain unpaid or unclaimed for a period of seven years, will be transferred to the Investor Protection Fund. Members who have not encashed their dividend warrant for the year 1995-96 may write to Registered Office with Folio details for revalidation or for obtaining Duplicate Warrants.
7. Members are requested to bring their copies of Annual Report to the Meeting.

By order of the board

for Dharani Sugars and Chemicals Limited

Place : Chennai - 600 034  
Date : 22.06.2002

**E P SAKTHIVEL**  
Company Secretary

**DIRECTORS' REPORT**

Dear Members,

Your Directors present herein the Fifteenth Annual Report on the operations of your Company and the Audited Statement of accounts for the year ended 31st March, 2002.

**FINANCIAL RESULTS**

| Particulars   | (Rs. in lakhs)           |                          |
|---|--------------------------|--------------------------|
|   | Year ended<br>31.03.2002 | Year ended<br>31.03.2001 |
| Sales   | 15159.81                 | 15086.24                 |
| Profit before interest,<br>Depreciation and tax           | 3540.31                  | 3846.93                  |
| Interest and Finance charges                              | 2967.16                  | 3116.68                  |
| Depreciation  | 556.67                   | 551.42                   |
| <b>PROFIT BEFORE TAX</b>                                  | <b>16.48</b>             | <b>178.83</b>            |
| Prior period Expenses                                     | —                        | 3.71                     |
| Amortisation of USAID Grant                               | 47.80                    | —                        |
| Diminution in the Value<br>of Investments                 | (12.51)                  | —                        |
| Income Tax  | —                        | —                        |
| Current Tax   | —                        | —                        |
| Deferred Tax (Asset)                                      | 49.67                    | —                        |
| <b>PROFIT AFTER TAX</b>                                   | <b>101.44</b>            | <b>175.12</b>            |
| Transfer from General Reserve                             | —                        | 451.00                   |
| Profit/(Loss) carried forward<br>from last year           | (751.05)                 | (1377.17)                |
| <b>PROFIT/(LOSS) carried<br/>forward to Balance Sheet</b> | <b>(649.61)</b>          | <b>(751.05)</b>          |
| <b>APPROPRIATIONS</b>                                     | <b>Nil</b>               | <b>Nil</b>               |

**MANAGEMENT DISCUSSION & ANALYSIS****Report Product wise performance  
(Operational & Financial)**

During the year under review the gross turnover of the Company by sale of sugar and by-products was Rs.15159.81 lakhs, a marginal increase over the last year's sales of Rs.15086.24 lakhs. During the year, the Company has exported sugar for Rs.1376.45 lakhs. The Gross Operating Profit for the year was Rs.3540.31 lakhs as compared to Rs.3846.93 lakhs in the previous year. Due to

reduction in the volume of inventory, the financial charges came down from Rs.3116.68 lakhs to Rs.2967.16 lakhs. After adjusting interest and depreciation the profit works out Rs. 16.48 lakhs. Taking into account, the deferred tax asset of Rs.49.67 lakhs and amortisation of USAID grant of Rs.47.80 lakhs as also the diminution in the value of investments of Rs.12.51 lakhs, the Net Profit after tax comes to Rs.101.44 lakhs against Rs.175.12 lakhs in the previous year.

The total quantity of cane crushed in the year was 10.29 lakh tons as against 12.17 lakh tons in the previous year. The reduced availability of cane was due to severe drought conditions prevailing in the cane growing area of both the units. The total sugar produced was 9.44 lakh qtls as against 10.72 lakh qtls in the previous year. However the average sugar recovery rate has registered an improvement from 8.81 % to 9.19 %. This was made possible due to various developmental activities carried out by the Company for improving the quality and variety of the cane.

The total quantity of sugar sold was more or less the same as in the last year being 9.84 lakh qtls against 9.77 lakh qtls for the last year.

The Co-generation plant continues to function efficiently. However due to lesser quantity of cane crushed on account of reduced availability, power generation came down from 599.50 lakh units to 520.70 lakh units. Valuedwise, power exported registered an income of Rs.848.29 lakhs against Rs.951.38 lakhs in the previous year. The company has taken various steps to reduce power consumption as also to increase power produced per unit of cane crushed.

The production of Industrial Alcohol registered a substantial increase from 40.08 lakh ltrs to 59.08 lakh ltrs. Consequently sales improved from 47.64 lakh ltrs to 61.26 lakh ltrs realising an income of Rs.648.49 lakhs against Rs.429.62 lakhs in the previous year.

The Company has negotiated with the Financial Institutions for reduction of the interest rate and has also taken recourse to low cost financing by availing FCNR(B) loans. These efforts alongwith the increased export of sugar are expected to reduce the interest cost in the coming years and increase the profitability of the Company.



### Industry Structure, Developments & Outlook

India has emerged as the largest producer of sugar after Brazil has moved down to the second place. The Rs.25000 crore Sugar Industry in India occupies a status of being the second largest Agro-based Industry involving 45 million sugar cane farmers with their families.

India is high on the list not only in the production of sugar but also in consumption in the world due to the large size of the population. However, the per capita consumption in India is much below the level in developed countries. Though domestic consumption is steadily growing, it is still not enough to match the increasing production levels. In 1999-2000 season, the country consumed 147 lakh tons. It went up to 160 lakh tons in 2000-01 season. This year 2001-02, season consumption is likely to touch 165 lakh tons mark. As per the task force constituted by Government of India to formulate future development programmes for Indian Sugar Industries for the 9th Five Year Plan period 1997-1998 to 2001-2002, the production should reach a level of 19.4 millions or 194 lakh tons by 2001-02. The Sugar production during the season 2000-2001 was 185.11 lakh tons. For the current season 2001-2002 it is expected to be around 175 lakh tons with an opening stock of 100.10 lakh tons and consumption of 165 lakh tons. The season is expected to end with a closing stock of 107 lakh tons.

Consequent to the removal of restrictions on export of sugar, the total export for the country during the season 2000-01 was 12.44 lakh tons and for the current season 2001-2002 the export is estimated to be around 15 lakh tons. Due to low international price, the volume of export has been lower than domestic sales. A section of the industry is however optimistic and believes that a correction in prices and stock will come within the next one year. Export can pick up only when the international price improves. Government has come to the rescue of the industry by providing assistance by way of inland transport subsidy. The export subsidy on inland transport alone is expected to be in the order of Rs.50 Crores to be met out of the Sugar Development Fund (SDF). With this, Indian sugar will be able to become a little more competitive in the world market.

Sugar and sugar products are likely to be covered under the voluntary certification scheme of the Bureau of Indian standards. The quality of sugar exported by your company was well accepted by the importers. Certification by the Bureau of Indian Standards would give the sugar industry an advantage in the international market. It is imperative for the sugar industry to adopt a comprehensive policy after the WTO agreement and in order to compete in the global market. For improving exports, the industry will have to meet stringent international standards.

In order to establish total decontrol, the Government has given approval for setting up future trading in sugar. Once operational, trading in sugar futures would pave the way for the much-awaited decontrol of sugar sector promised by the Government. It is likely to take sometime for the future trading to stabilize.

The three steps that the Government announced in the month of June 2002 viz., Transport subsidy, Formal clearance for the country's first commodity specific exchange for sugar industry and Re-introduction of monthly quota system against the expected move to a gradual phase out of the quota system for a smooth way for total decontrol of the industry may be of help. Decontrol of the industry hinges very much on the success of the sugar futures. While a section of the industry is against decontrol, another section wants decontrol of not just of the industry but also of sugar cane pricing which, according to them, should be decided by the market forces.

More clarity is needed on the policy front on upstream product sugarcane prices and the movement of downstream products bagasse, ethanol and molasses all of which are entangled in State and Central Government policies.

While these policy changes will certainly bode well for the future of the industry, the immediate problem of glut need to be addressed before emerging opportunities can be capitalised. In order to make the sugar industry viable, the Government of India has permitted mixing of Ethanol up to 5 % with Petrol. Pilot plants have already been set up in Maharashtra, Uttar Pradesh and Andhra Pradesh. Implementation in Tamil Nadu is expected to be completed by end of this year, for which neces-



sary action is being taken by the Oil Companies in consultation with the industry. Government has already signed a Memorandum of Understanding with Brazil for sharing of technology, information, experience and consultancy in blending of ethanol with petrol and diesel. We are planning to set up Anhydrous Ethanol Plant to produce Ethanol from molasses and supply to the Oil companies. It is expected that the oil companies will set up the Depots and related infrastructure in the next few months. In this scenario of surplus production, it will not be too far when India starts converting the excess sugar directly to Ethanol. This new avenue of marketing for the sugar mills and the distilleries is seen as a major development for the sugar mills that have been hit by surplus production and low prices.

During the past few months, prices of sugar stocks have risen by around 35 - 40 %. Hopes of prospects improving for the industry with the restoration of monthly release quotas, futures trading and the availability of transport subsidy seem to have fuelled expectations of investors in this sector.

#### Risks & Concerns

Sugar mills are also facing a crisis similar to the Food Corporation of India in the matter of inadequate off take of foodgrains from its godowns for the public distribution system. Certain State Governments are not lifting their allotted levy sugar quantities. The value of the unlifted stocks in one State alone comes to Rs.500 crores. The cost would be higher if one were to account for the interest borne for the period during which, the stocks lay unsold in the mill premises. Sugar mills have to bear this extra cost as they have very little room for manoeuvre on this count.

World sugar prices will be under renewed pressure with the arrival of 2002 - 03 crops. These market realities are unlikely to change in a hurry because global supplies will only increase further as the new sugar production season of many major sugar exporting countries is about to begin. On the domestic front also, going by the pace and extent of fresh sugar cane planting, production is likely to remain high.

Sugar cane is a crop requiring large amount of water. As most of the sugar cane growing areas in

our country depend upon rains for availability of water, availability of cane will therefore depend upon a good & timely monsoon. If nature plays truant, sugar factories will be left without sufficient cane to crush, which will have direct impact on the profits of the mills. Despite these uncertainties, there is progressive increase in area of sugar cane planting.

#### DIVIDEND

The Company is posting profits for the fourth year in succession. However on account of the need for building up the Company's resources to wipe out the losses of the earlier years, the Board of Directors have felt compelled not to recommend dividend for the year 2001-2002.

#### RESERVES

A sum of Rs. 833.05 lakhs has been transferred to General Reserves on account of the Deferred Tax Asset as of 31.03.2001 in line with Accounting Standard 22 (AS22) issued by ICAI which has become mandatory with effect from 01.04.2001.

#### FIXED DEPOSITS

A sum of Rs. 241.36 lakhs was collected as deposits during the year 2001-2002. Your Company has complied with the provisions of Section 58 A of the Companies Act, 1956 and the rules prescribed thereunder.

Your Company has no unpaid deposits, which were due or repayable as on 31st March 2002. Your Company has not defaulted in repayment of the deposits on the due dates. But as on the date of this report, there are some unclaimed deposits amounting to Rs 10.69 lakhs. The Company is following up with the depositors concerned for early disposal.

#### DIRECTORS RESPONSIBILITY STATEMENT.

In terms of Section 217 (2AA) of Companies Act, 1956 your directors state as follows.

- (i) That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures,
- (ii) That the directors had selected such accounting policies and applied them consistently and made judgments and



estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period.

- (iii) That the directors 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.
- (iv) That the directors had prepared the annual accounts on a going concern basis.

#### DIRECTORS

Dr C K Dheenan and Shri M Ramalingam are retiring by rotation at the ensuing Annual General Meeting and are eligible for reappointment. Necessary resolutions are placed before the shareholders for their approval.

The Company has received a letter from ICICI on 20.06.02 withdrawing the nomination of Shri N Ramesh as Director. Board recorded its appreciation of his services rendered to the Company as a Director.

#### Reappointment of Directors

A brief resume of the Directors who are proposed for re-appointment is given below in terms of clause 49 of the Listing Agreement.

|                             |                              |
|-----------------------------|------------------------------|
| <b>Name</b>                 | : Dr C K Dheenan             |
| <b>Age</b>                  | : 67 years                   |
| <b>Qualification</b>        | : M.D. F.A.C.S., F.R.C.S.(C) |
| <b>Date of appointment</b>  | : 30.06.1988                 |
| <b>Experience</b>           | : More than 35 years         |
| <b>Other Directorships</b>  | : Nil                        |
| <b>Member of Committees</b> | : Nil                        |

He is one of the NRI members closely associated with the promotion of the company since 1987, contributing to its capital and holding shares 0.69 %.

|                            |   |
|----------------------------|---|
| <b>Name</b>                | : Shri M Ramalingam                       |
| <b>Age</b>                 | : 60 Years                                |
| <b>Qualification</b>       | : B.E. (Mech.) A.M.I.E.                   |
| <b>Date of appointment</b> | : 25.06.1994                              |
| <b>Experience</b>          | : More than 30 years<br>in Sugar Industry |

|                             |  |
|-----------------------------|--|
| <b>Other Directorships</b>  | : Nil  |
| <b>Member of Committees</b> | : Management Committee & Shareholders<br>Grievance Committee |

He has been with the organisation since 1988, was directly involved in the setting up of the first sugar factory at Dharani Nagar and the 2nd unit at Polur.

#### AUDIT COMMITTEE

In due compliance with Section 292 A of the Companies Act, 1956 an Audit Committee has been formed with members Shri N Ramesh, Shri R Natarajan and Shri A Sennimalai. The nomination of Shri N Ramesh was withdrawn by ICICI. Dr K C Reddy (Nominee Director from IREDA) has been nominated in place of Shri N Ramesh and he is the present chairman.

#### AUDITORS

The Auditors of the Company M/s Srinivasan and Shankar, Chartered Accountants, Chennai retire at the ensuing Annual General Meeting and are eligible for reappointment. Necessary declarations have been obtained from them.

#### COST AUDIT

As per the directions of the Government of India Shri G Suryanarayanan, a Cost Accountant has been appointed as the Cost Auditor for the financial year ended 31st March 2002.

#### CORPORATE GOVERNANCE

A report on Corporate Governance, in line with the SEBI prescribed format incorporated in the Listing Agreement, is attached herewith. A certificate from the Statutory Auditors on compliance of conditions of Corporate Governance has been obtained and copy enclosed to this report.

According to clause 49 of the Listing Agreement entered into with Stock Exchanges & as per SEBI directives, your company has to implement the principles and conditions of Corporate Governance within the financial year 2001 - 02 but not later than March 31, 2002. Your company has implemented the same fully and the enclosed report gives the details thereon.



**EMPLOYEES**

Your Directors are thankful to the employees of the Company for their wholehearted co-operation and unstinted dedication to duty. The industrial relations remained cordial during the year under review.

There are no employees covered by of Section 217 (2A) of the Companies Act, 1956, read with the Companies (particulars of Employees) Rules 1975 and hence this report is NIL.

**ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE**

Information relating to the conservation of energy, technology absorption and foreign exchange earnings and outgo as required to be furnished under the provisions of Section 217 (1) (e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988 is given as Annexure I to this report.

**ACKNOWLEDGMENTS**

The Board of Directors places on record its appreciation of the support, assistance and co-operation received from the Central

Government, Government of Tamil Nadu, various governmental agencies, the All-India Financial Institutions, the Company's bankers, Indian Bank, State Bank of India, South Indian Bank, Bank of India, Central Bank of India, Federal Bank, Corporation Bank, Canara Bank and Union Bank of India.

The Board of Directors also wishes to place on record its appreciation for the cane growers without whose help and support it could not achieve the progress that has been made so far. With our encouragement and their initiative, we hope to maintain adequate cane availability for the ensuing year.

Further we are thankful and grateful for the continuing co-operation to the management from the shareholders family since inception and confident this partnership will sustain for ever.

For and on behalf of the Board

Place : Chennai-34      **Dr PALANI G PERIASAMY**  
Date : 22.06.2002      *Executive Chairman*

**ANNEXURE - I**

Information as required under Section 217 (i) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

**A. Conservation of Energy****a) Energy Conservation Measures taken**

- 1) Installation of V F D for boiler 5A Fan Motors.
- 2) Installation of V F D for sulphited Juice dump motors.
- 3) Replacement of hydraulic drive with DC drive for the 4th mill.

b) Additional investments and proposals, if any, being implemented for reduction of steam and energy:

- 1) Spray injection system with auto control for Evaporator and fan condensing system.
- 2) Replacement of Buffer Resistances with Auto slip regulators for fibrizer motors
- 3) Replacements of hydraulic Drive with DC drive for the remaining three mills.

c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods.

The Cost of energy saving per MT of Cane is Rs.4.40

d) Total Energy consumption and Energy per unit of production are given in Form 'A' enclosed.

**B. Technology Absorption****a) Research and Development**

Efforts made in Technology absorption.

- 1) Replacement of Old, low sucrose Cane varieties with newly breded high sucrose varieties from sugar cane breeding institute.
- 2) Following NEERI advice, the activities on bio-compost is improved and used for soil enriching to improve the soil fertility.

**C. Foreign Exchange earning and outgo.**

Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans.

Consequent to removal of restrictions on export of sugar, the company has exported 1.13 lakh qtls during the year, earning a revenue of Rs.1376.45 lakhs. As Government has agreed to provide inland transport subsidy, your company is exploring possibilities of increasing the volume of exports. Already it is in touch with importers in Srilanka, Thailand, Bangladesh and other eastern countries.

| Earnings               | 2001-2002      | 2000-2001 |
|------------------------|----------------|-----------|
|                        | (Rs. in lakhs) |           |
| Foreign Exchange       |                |           |
| Earned during the year | 1376.45        | —         |
| Outgo during the year  | 235.78         | 209.85    |