

DHARANI SUGARS AND CHEMICALS LIMITED

Report  Junction.com

SIXTEENTH ANNUAL REPORT
2002-2003



| CONTENTS | Page Nos. |
|-----------------------------------|------------------|
| Board of Directors | 2 |
| Notice to Shareholders | 3 |
| Directors' Report | 4 |
| Annexure to the Directors' Report | 10 |
| Report on Corporate Governance | 12 |
| Auditors' Report | 21 |
| Balance Sheet | 27 |
| Profit and Loss Account | 28 |
| Schedules | 29 |
| Notes on Accounts | 36 |
| Cash Flow Statement | 47 |
| Balance Sheet Abstract | 49 |

**BOARD OF DIRECTORS**

| | |
|-------------------------------|----------------------------------|
| Dr Palani G Periasamy | - Executive Chairman |
| Mr R Natarajan | - Vice Chairman |
| Dr C K Dheenani | |
| Dr K N Sivasubramanian | |
| Mr A Sennimalai | |
| Dr K C Reddy | - Nominee Director – IREDA |
| Mr M Ramalingam | - Executive 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 Union Bank of India |
| Registered Office | : "PGP House", No 57 Sterling Road, Nungambakkam, Chennai – 600 034. Phone No.2831 1313 – 2820 7480/81/82 E.mail:pgpcorp@eth.net |

| | |
|------------------|---|
| Factories | : Dharani I Dharani Nagar 627 760 Tirunelveli District, Tamil Nadu Phone: (04636) 2441370 – 72 |
| | : Dharani II Karaipoondi Village Chetput Road, Polur Taluk Tiruvannamalai Dist. – 606 803 Tamil Nadu Phone:(04181)223161-62, 223170 |



NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the **SIXTEENTH** Annual General Meeting of the Members of the Company will be held at "Sathguru Gnanananda Hall", Narada Gana Sabha, No 314 T T K Road, Alwarpet, Chennai - 600 018 on **Thursday the 25th September 2003, 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 2003 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 Shri R Natarajan, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Dr K N Sivasubramanian, 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

Dharani Sugars and Chemicals Limited

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 2003 to 25th September 2003 (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/ ID Nos. 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 dividends for the year 1995-96, which remain unpaid or unclaimed for a period of 7 years, will be transferred to the Investor Protection Fund.
7. Members are requested to bring their copies of Annual Report to the Meeting.

By Order of the Board

E P SAKTHIVEL
COMPANY SECRETARY

PLACE : Chennai - 34
DATE : 28.06.2003

**DIRECTORS' REPORT**

Dear Members,

Your Directors present herein the Sixteenth Annual Report on the operations of your

Company and the Audited Statement of accounts for the year ended 31st March, 2003.

FINANCIAL RESULTS

| Particulars | Year ended 31.03.2003 | Year ended 31.03.2002 |
|---|--------------------------|--------------------------|
| | (Rs. in Lakhs) | |
| Sales | 14070.88 | 15159.81 |
| Profit before interest | | |
| Depreciation and tax | 894.71 | 3540.31 |
| Interest and Finance charges | 2905.43 | 2967.16 |
| Depreciation | 571.64 | 556.67 |
| PROFIT / (LOSS) BEFORE TAX | (2582.36) | 16.48 |
| Amortization of USAID Grant | 11.25 | 47.80 |
| Diminution in the Value of Investments | — | (12.51) |
| Income Tax - Current Tax | — | — |
| - Deferred Tax | 1002.59 | 49.67 |
| PROFIT / (LOSS) AFTER TAX | (1568.52) | 101.44 |
| Profit/(Loss) carried forward from last year | (649.61) | (751.05) |
| PROFIT/(LOSS) CARRIED FORWARD TO BALANCE SHEET | (2218.13) | (649.61) |

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 Rs14070.88 lakhs a decrease over the last year's sales of Rs.15159.81 lakhs. During the year, the Company has exported sugar for Rs.1808.75 lakhs. The Gross Operating Profit for the year was Rs 894.71 lakhs as compared to

Rs.3540.31 lakhs. Due to reduction in the volume of inventory, the financial charges came down from Rs2967.16 lakhs to Rs 2905.43 lakhs. After adjusting interest and depreciation the Loss works out Rs.2582.36 lakhs. Taking into account, the deferred tax asset of Rs1002.59 lakhs and amortisation of USAID grant of Rs.11.25 lakhs the Net Loss after tax comes to Rs1568.52 lakhs against the profit of Rs.101.44 lakhs in the previous year.



Dharani Sugars and Chemicals Limited

The severe drought in the state and the sharp fall in the free sale sugar price, had affected the profitability of the Company.

The total quantity of cane crushed in the year was 8.17 lakh tons as against 10.29 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 7.64 lakh qtls as against 9.45 lakh qtls in the previous year. However the average sugar recovery rate has registered an improvement from 9.19 % to 9.36%. This was mainly 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 slightly high in the current year being 10.06 lakh qtls against 9.84 lakh qtls for last year.

The Co-generation plant continues to function satisfactorily. However due to lesser quantity of cane crushed on account of reduced availability, power generation came down from 520.70 lakh units to 445.66 lakh units. Valuedwise, power exported recorded an income of Rs. 728.27 lakhs against Rs.848.29 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 59.08 lakh ltrs to 69.73 lakh ltrs. Consequently sales improved from 61.26 lakh ltrs to 69.12 lakh ltrs realising an income of Rs 793.39 lakhs against Rs.648.49 lakhs in the previous year.

The Company is negotiating 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 are expected to reduce the interest cost in the coming years and increase the profitability of the Company.

Your Directors are happy to inform you that your company has successfully commissioned ethanol plant at Unit I, Dharani Nagar and commenced production on 19th May 2003. However, the ethanol supplies to the Oil Companies are yet to start. With the encouragement of the State Government of Tamil Nadu, the price negotiations are being discussed with Oil Companies and the State Government. We hope to commence the supply shortly. Government of India has proposals to increase ethanol mix with petrol from 5% to 10%. Also there is a suggestion to implement similar scheme in diesel. This when introduced is expected to improve the profitability of all sugar companies including your company.

Industry Structure, Developments & Outlook

Due to abnormal increase in sugar production in the four preceding seasons, excess release of sugar and poor demand for the product in the open market, the rates for sugar has crashed to the lowest level ever seen in the last five years. There is a 15% fall in the sugar price over the prices in 2001 - 2002. In addition to this, sugar factories will have to carry sugar stocks for over 12 months, putting an additional burden of Rs 180 per qtl, on the industry by way of interest.



Dharani Sugars and Chemicals Limited

Pursuant to the orders of Allahabad High Court and Mumbai High Court the sugar market had been flooded with sugar which resulted in lower price for sugar.

In order to control the Sugar release, Government of India has decided to amend the Essential Commodities Act 1955 to bring the release mechanism that governs the quantum of sugar, mills are allowed to sell in the open market in a particular month directly under the Act's purview. This is expected to offer much relief to the Sugar Industry.

Apart from the DEPB benefits and reimbursement of Inland Transport Subsidy, Govt. of India has decided to reimburse ocean freight to Sugar Factories at the rate of Rs 350 per Metric Ton of sugar export. This is expected to improve the Export market of Sugar in the near future.

In order to help the Sugar factories having surplus stock of sugar, Govt. of India has created a buffer stock of 20 Lakhs tonnes of Sugar for a period of one year from 18.12.2002 to 17.12.2003 and Govt. of India will reimburse the interest, storage and insurance charges on a quarterly basis. This will improve the Sugar Market at present and may arrest the sugar prices going down further.

According to International Sugar Organisation there is possibility of a small

world sugar surplus in 2003 – 2004. On account of this, the World Sugar Price may continue to be lower.

Govt. of India has approved the online Sugar Future Trading and when it starts operating will improve the Sugar Market in the coming years.

Lower out put during the 2003 – 2004 is likely to pull the International Sugar Market/ Domestic Market out of the depressed conditions prevailing since March 2002.

Govt. of India had taken steps to provide ISI Certification for Sugar Products soon. This will help the Sugar Industry to compete in the International Market.

Risks & Concerns

1. Due to poor rainfall and drought in the Cane growing areas, Cane Acreage has declined. This may result in lower production in the next year.
2. Due to increased production and decreased consumption the Sugar prices has gone to a lower level. It will take some time for the market to pick up.
3. Due to decontrol of Sugar the open markets are flooded with Sugar at lower prices.
4. State Govt. & other Govt. Agencies do not lift the levy quota sugar promptly



which resulted in huge storage cost, interest cost and insurance charges.

5. Sugar Industry has not been recognised as priority sector.
6. Cost of production of sugar remains high whereas selling prices have fallen to lowest level.
7. International Market for Sugar does not look so good with most of the countries likely to produce more sugar this year.

DIVIDEND

Due to heavy loss incurred in the current year, the Board of Directors are unable to recommend dividend for the year 2002-2003.

RESERVES

No amount is being transferred to Reserves.

FIXED DEPOSITS

A sum of Rs.294.05 lakhs was collected as deposits during the year 2002-2003. 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 2003. 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 24.14 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**
Dharani Sugars and Chemicals Limited
Reappointment of Directors

Shri R Natarajan and Dr K N Sivasubramanian 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.

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

| | |
|-----------------------------|---|
| Name | : Shri R Natarajan |
| Age | : 58 years |
| Qualification | : D C R E |
| Date of appointment | : 04.06.1987 |
| Experience | : More than 35 years |
| Other Directorships | : Appu Hotels Limited Dharani Finance Limited Dharani Credit & Finance (P) Ltd., |
| Member of Committees | : Management Committee, Audit Committee & Remuneration Committee |

He is one of the members closely associated with the promotion of the Company since 1987, contributing to its capital and holding shares 0.37 %.

| | |
|-----------------------------|---|
| Name | : Dr K N Sivasubramanian |
| Age | : 58 Years |
| Qualification | : M.B.B.S., F.A.AP., A.B(PED), A.B (NEO) USA |
| Date of appointment | : 04.06.1987 |
| Experience | : More than 30 years. |
| Other Directorships | : Nil |
| Member of Committees | : Nil |



AUDIT COMMITTEE

In due compliance with Section 292 A of the Companies Act, 1956 an Audit Committee has been formed with members Dr K C Reddy, Shri R Natarajan and Shri A Sennimalai. Dr K C Reddy (Nominee Director from IREDA) is the Chairman of the Committee.

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. They have conveyed their consent for reappointment and have furnished the required declaration under Sec 224 of the Companies Act, 1956.

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 2003.

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.

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 Section 217 (2A) of the Companies Act, 1956, read

Dharani Sugars and Chemicals Limited

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 viz., Indian Bank, State Bank of India, South Indian Bank Limited, Bank of India, Central Bank of India, Federal Bank Limited 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 improved cane availability for the ensuing years.

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 : 28.06.2003 EXECUTIVE CHAIRMAN