

Dharani Sugars and Chemicals Limited

Annual Report



SANSKO GROUP

Dharani Sugars and Chemicals Limited

CONTENTS	Page Nos.
Board of Directors	2
Notice to Shareholders	3
Directors' Report	7
Annexure to the Directors' Report	12
Report on Corporate Governance	14
Auditors' Report	21
Balance Sheet	26
Profit and Loss Account	27
Schedules	28
Notes on Accounts	36
Cash Flow Statement	45
Balance Sheet Abstract	46



BOARD OF DIRECTORS

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

Company Secretary : Mr E P Sakthivel

Auditors : M/s Srinivasan & Shankar
Chartered Accountants
Chennai – 600 028.

Bankers : ICICI Bank Limited
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: pgpsecretarial@hotmail.com

Factories : **Dharani I**
Dharani Nagar – 627 760
Tirunelveli District, Tamil Nadu
Phone: (04636) 2441370 – 72

: **Dharani II**
Karaipoondi Village
Chetput Road, Polur Taluk
Tiruvannamalai District – 606 803
Tamil Nadu
Phone:(04181)223161-62, 223170



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Dharani Sugars and Chemicals Limited**NOTICE TO SHAREHOLDERS**

NOTICE is hereby given that the **SEVENTEENTH** 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 **Tuesday the 27th July 2004**, at **10.00 A.M.**, to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2004 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 Dheenar, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Shri A Sennimalai, 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.

SPECIAL BUSINESS

5. To consider, and if thought fit, to pass with or without modification, the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED THAT pursuant to Section 198,269,309,314 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to such other approvals or consents as may be necessary, Mr M Ramalingam be and is hereby appointed as a whole time director designated as "Director -

Technical" for a period of five years from 25.06.2004 to 24.06.2009 on the following terms and conditions.

1 Salary - Rs. 65,000/- per month in the scale of

Rs.65,000-5,000-85,000.

2 Perquisites - Perquisites as per Schedule XIII of the Companies Act, 1956 shall be allowed. It shall however be restricted to an amount equal to the annual salary. Perquisites, other than contribution to Provident Fund, Superannuation Fund, Gratuity, as admissible according to existing regulations, are presently classified as follows:

Part A

Housing I - The expenditure incurred by the Company on hiring unfurnished accommodation will be subject to the following ceilings:

At Bombay, Calcutta, Delhi and Chennai 60% of salary, over and above, 10% payable by the Executive Director.

The expenditure incurred by the Company on gas, electricity, water and furnishings will be valued as per the Income Tax Rules, 1962. This will, however, be subject to ceiling of 10% of the salary.

Housing II - In case accommodation is owned by the Company, 10% of the salary of the Executive Director shall be deducted by the Company.

Housing - III - In case no accommodation is provided by the Company, the Executive Director shall be entitled to House Rent



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Dharani Sugars and Chemicals Limited

Allowance subject to the ceiling laid down in Housing I.

Part B

He will be entitled to Leave Travel Allowance as per Company Policy. He will also be entitled to reimbursement of Medical expenditure as per the Company Policy.

However Leave Travel Allowance and Medical reimbursement will each be restricted to one month's salary.

Part C

Provision of a car with driver and telephone at residence provided that personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to the Executive Director.

In the event of absence or inadequacy of profits in any financial year of the Company during the period of appointment, the salary and other allowances aforementioned shall be regulated in accordance with Section II of Part II of Schedule XIII of the Companies Act, 1956.

6. To consider and, if thought fit to pass with or without modification, the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED THAT pursuant to Section 198,269,309,314 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to such other approvals or consents as may be necessary, Dr Palani G Periasamy be and is hereby appointed as a whole time director designated as "Executive Chairman", not subject to retirement by rotation, for a period of five years from 25.06.2004 to 24.06.2009 on the following terms and conditions.

- 1 Salary - Rs. 1,00,000/- per month
(Fixed)

2 Perquisites - Perquisites as per Schedule XIII of the Companies Act, 1956 shall be allowed. It shall however be restricted to an amount equal to the annual salary.

Perquisites, other than contribution to Provident Fund, Superannuation Fund, Gratuity, as admissible according to existing regulations, are presently classified as follows:

Part A

Housing I - The expenditure incurred by the Company on hiring unfurnished accommodation will be subject to the following ceilings:

At Bombay, Calcutta, Delhi and Chennai 60% of salary, over and above, 10% payable by the Whole Time Director.

The expenditure incurred by the Company on gas, electricity, water and furnishings will be valued as per the Income Tax Rules, 1962. This will, however, be subject to ceiling of 10% of the salary.

Housing II - In case accommodation is owned by the Company, 10% of the salary of the Whole Time Director shall be deducted by the Company.

Housing - III - In case no accommodation is provided by the Company, the Whole Time Director shall be entitled to House Rent Allowance subject to the ceiling laid down in Housing I.

Part B

He will be entitled to Leave Travel Allowance as per Company Policy. He will also be entitled to reimbursement of Medical expenditure as per Company Policy.

However Leave Travel Allowance and Medical reimbursement will each be restricted to one month's salary.



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Dharani Sugars and Chemicals Limited**Part C**

Provision of a car with driver and telephone at residence provided that personal long distance calls on telephone and use of car for private purposes shall be billed by the Company to the wholetime Director.

In the event of absence or inadequacy of profits in any financial year of the Company during the period of appointment, the salary and other allowances aforementioned shall be regulated in accordance with Section II of Part II of Schedule XIII of the Companies Act, 1956.

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. Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of the Special Business

set out against items 5 & 6 is annexed herewith.

3. The Register of Members and Share Transfer Books of the Company will remain closed from 16th July 2004 to 27th July 2004 (both days inclusive).
4. 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.
5. 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.
6. 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.
7. Members are requested to bring their copies of Annual Report to the Meeting.

By Order of the Board

Place : Chennai - 34
Date : 28th May 2004

E.P. SAKTHIVEL
Company Secretary



EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956.

Item No 5.

Shri M Ramalingam was appointed as a Wholetime Director designated as **Executive Director – Technical** at the 12th Annual General Meeting held on 05.08.1999 for a period of five years with effect from 25.06.1999 to 24.06.2004. He is an Engineering graduate with specialisation in Sugar Technology. He had been directly involved in the setting up the sugar factory at Dharani Nagar and Polur. He has an overall experience of 30 years in the Sugar Industry. Considering the dedicated services rendered by Shri M Ramalingam, the Board felt that the Company will be benefited by continuing him as Executive Director (Technical) for some more time. Accordingly the Board has decided to re-appoint him as Wholetime Director designated as **Executive Director – Technical** on the terms and conditions detailed in the notice.

The Directors recommend the resolution for the approval of the shareholders.

None of the Directors of the Company except Shri M Ramalingam, is, in any way, concerned or interested in the resolution.

Item No 6

Dr Palani G Periasamy, the promoter of the

Dharani Sugars and Chemicals Limited

Company was appointed as a Whole time Director designated as Executive Chairman at the 12th Annual General Meeting held on 05.08.1999 for a period of five years from 25.06.1999 to 24.06.2004. His term of office comes to a close by 24.06.2004. Considering his substantial contribution to the progress and development of the Company, the Board of Directors felt that the services of Dr Palani G Periasamy should continue to be available to the company and that he should continue to lead the Company to progress further. Accordingly it was resolved in the meeting of the Board of Directors held on 26.02.2004 to appoint Dr Palani G Periasamy as a Whole time Director, designated as Executive Chairman for a further period of five years with effect from 25.06.2004 subject to the approval of the Central Government and the Shareholders, on the terms and conditions set out in the notice. The remuneration proposed is well within the limits prescribed by the Act. Article 104 of the Articles of Association of the Company provide that Whole time Directors shall not be liable for retirement by rotation for the period decided by the Company in General Meeting.

The Directors recommend the resolution for the approval of the shareholders.

None of the Directors of the Company except Dr Palani G Periasamy and Shri R Natarajan, is in any way, concerned or interested in the resolution.



Dharani Sugars and Chemicals Limited

DIRECTOR'S REPORT

Dear Members,

Your Directors present herein the Seventeenth Annual Report on the operations of your Company and the Audited Statement of accounts for the year ended 31st March, 2004.

FINANCIAL RESULTS

Particulars	Year ended 31.03.2004	Year ended 31.03.2003
	(Rs. in Lakhs)	
Sales	8728.42	14070.88
Profit before interest } Depreciation and tax }	1921.00	894.70
Interest and Finance charges	1936.04	2905.42
Depreciation	583.37	571.64
PROFIT / (LOSS) BEFORE TAX	(598.41)	(2582.36)
Amortization of USAID Grant	11.25	11.25
Income Tax - Current Tax	—	—
- Deferred Tax (Asset)	442.69	1002.59
PROFIT / (Loss) AFTER TAX	(144.47)	(1568.52)
Transfer from General Reserve	—	—
Profit/(Loss) carried forward From last year	(2218.13)	(649.61)
PROFIT/(LOSS) carried forward to Balance Sheet	(2362.60)	(2218.13)

Management Discussion and Analysis Report**Product-wise performance (Operational and Financial)**

During the year under review, the gross turnover of the Company was Rs.8728.42 lakhs as against Rs.14070.88 lakhs during the last year. Current year sales are down by 38% over the last year's sales. During the year, the Company has not exported sugar, due to steep fall in international sugar price. The Gross Operating Profit for the year was Rs.1921.00 lakhs as against Rs.894.70 lakhs during the last year. Due to reduction in the volume of inventory and reduction of interest to 10% from the existing rate as per CDR Package, the financial charges came down from Rs.2905.42 lakhs to Rs.1936.04 lakhs this year.

The loss after adjusting interest and depreciation works out to Rs.598.41 lakhs. Taking into account of amortisation of USAID grant of Rs.11.25 lakhs, and deferred tax asset of Rs.442.69 lakhs, the net loss after tax comes to Rs.144.47 against the loss of Rs.1568.52 lakhs in the previous year.

Profitability of the Company was affected mainly due to severe drought that prevailed in the State and steep fall in the sugar price. The total quantity of cane crushed in the year was 5.87 lakh tons as against 8.17 lakh tons in the previous year. Severe drought conditions prevailed in the cane growing area of both units and hence the cane availability for crushing was reduced sharply. The total sugar produced was 5.64 lakh quintals as against 7.64 lakh quintals in the previous year. However, the average sugar recovery rate has registered an improvement from 9.36% to 9.59%. This was mainly due to various developmental activities carried out by the Company for improving the quality and variety of cane. The total quantity of sugar sold was 5.31 lakh quintals against 10.06 lakh quintals for the last year.

The Co-generation plant continues to function satisfactorily. However, due to lesser quantity of cane crushed on account of reduced availability of cane, power generation came down from 445.66 lakh units to 320.01 lakh units. Power export recorded an income of Rs.628.66 lakhs against Rs.728.27 lakhs in the previous year. The Company has also taken all possible steps to reduce power consumption and also to increase power produced per unit of cane crushed.

The production of Industrial Alcohol registered a substantial increase from 69.73 lakh litres to 87.12 lakh litres. Consequently sales improved from 69.12 lakh litres to 80.61 lakh litres realizing an income of Rs.1187.31 lakhs against Rs.793.39 lakhs in the previous year.

The Company was able to get approval of CDR Package from the CDR cell and accordingly the interest rate was reduced to 10% from the



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existing rate. All the participating financial Institutions and Banks have reduced the interest rate to 10% and also released the Working Capital Term Loan (WCTL) and Funded Interest Term Loan (FITL) as per the approval of CDR Package. As a result, the expenditure towards interest and financial charges is expected to go down and this will help the Company to improve its profitability in the coming years.

Your Directors are happy to inform you that your Company has successfully started the Ethanol sales during the month of April 2004. Also Government of India has proposals to increase Ethanol mix with petrol from 5% to 10% and there is a proposal to implement similar scheme in diesel. These when actually implemented are expected to improve the profitability of your Company.

In order to effectively utilize the investment of Rs.5000 lakhs in the Co-generation facilities, your Company has decided to continue the power generation during off-season also by using coal. This will help the Company to run this plant throughout the year and increase its earnings from power generation.

Also the Company has plans to import raw sugar and process at its facilities at Polur and Dharani Nagar during the off-season. This also would improve the profitability of the Company.

Industry Structure, Development and Outlook

The All India Sugar Production for the current season 2003-2004 is expected to be substantially low at 150 to 155 lakhs tons. This reduction is mainly on account of severe drought prevailing in the major sugar producing states like Maharashtra, Karnataka and Tamil Nadu.

For the season 2004-2005 also it is not expected to be more than 140 to 150 lakh tons. All the southern states are severely affected by drought. This is likely to result in a major shortage of sugar and the sugar price is likely to increase.

Government of India has constituted a committee for revitalization of sugar industry under the Chairmanship of the Food and Public Distribution Secretary. The Committee will review the present status of the sugar industry in the country, identify the problems faced by it and suggest a package for re-vitalisation of the Industry to make it vibrant, self sustaining and globally competitive.

According to a study by the CMIE the Industry pays the highest interest rate on Bank Loans among the agro-based industries. Therefore, the industry expects Banks and Financial Institutions to lower the interest rate to PLR levels.

The World sugar consumption may reach 136 millions tones in 2004 on annual growth rate of 2.4% driven by strong economic growth. This would create demand for sugar in future.

ISMA has urged the Government of India to provide a direct grant of Rs.7.50 per quintal to sugar cane growers for the cane supplied by them to factories during the current 2003-2004 crushing season.

There would be a wide scope for growth in the world demand as well as exports in the future, especially with the fastest consumption growth in the developing countries.

The current usage of ethanol is 300 million litres, but has the potential to go up to 6000 million litres with the right policy support.

Government of India had promised that it would soon insert Schedule IX in the amended Act barring sugar mills to move courts for seeking permission to sell extra sugar above the stipulated quota, which will help the market to improve further.

Further the Government of India have extended the Buffer Stock of 20 lakhs tones of sugar for a further period of one year from 18.12.2003 to 17.12.2004 and Government of India will reimburse the interest, storage and insurance charges on quarterly basis, which will also add



improvement in the sugar market in the near future.

Risks and Concerns

1. Due to severe drought conditions that prevailed in the cane growing areas, cane availability has declined and this may result in lower production in the next year.
2. Due to decreased production and increase in consumption, the sugar price has improved considerably. It will improve the profitability of the Company in the coming years.
3. Due to delay in inserting Schedule IX in the amended act, the sugar mills started dumping sugar in the market after seeking fresh orders from High Court in many states.
4. State Government and other Government Agencies do not lift the levy quota of sugar promptly which resulted in storage cost, interest cost and insurance charges.
5. Cost of Production of sugar remains high when compared to present selling price.

DIVIDEND

Due to loss incurred in the current year, the Board of Directors is unable to recommend dividend for the year 2003-2004.

RESERVES

No amount is being transferred to Reserves.

FIXED DEPOSITS

A sum of Rs.147.45 lakhs was collected as deposits during the year 2003-2004. Your Company has complied with the provisions of Section 58A and 58AA 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 2004.

Dharani Sugars and Chemicals Limited

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 20.25 lakhs. The Company is following up with the depositors concerned for early disposal.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the 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 judgements 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 A Sennimalai 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. ICICI Bank have withdrawn their nomination of Shri Manas Ranjan Pani with effect from 28th May 2004 and have nominated Shri M Guruvaurappan in his place.