

DHARANI SUGARS AND CHEMICALS LIMITED



18th

**ANNUAL REPORT
2004 - 2005**



PSP GROUP

Dharani Sugars and Chemicals Limited

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Dharani Sugars and Chemicals Limited

BOARD OF DIRECTORS

Dr Palani G Periasamy	— Executive Chairman
Mr R Natarajan	— Vice Chairman
Dr K N Sivasubramanian	
Dr. C.K. Dheenan	
Mr A Sennimalai	
Dr K C Reddy	— Nominee Director — IREDA
Mr M Guruvayurappan	— Nominee Director - ICICI Bank Ltd
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 The South Indian Bank Limited Central Bank of India The Federal Bank Limited 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) 241370 - 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 **EIGHTEENTH ANNUAL GENERAL MEETING** of the Members of the Company will be held at "Sathguru Gnanananda Hall", Narada Gana Sabha, No.314, TTK Road, Alwarpet, Chennai - 600 018 on Tuesday the **30th August 2005 at 10.45 A.M.**, to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2005 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 K N Sivasubramanian, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint Mr. P.S. Gopalakrishnan who has consented to act as a Director, if appointed, as a Director of the Company to fill the vacancy caused by the retirement of Mr. R. Natarajan, on rotation, in respect of which vacancy the Company has received a notice in writing pursuant to Sec 257 (1) of the Companies Act, 1956, from a member of the Company proposing the appointment of Mr. P.S. Gopalakrishnan as a director of the Company and that Mr. P.S. Gopalakrishnan's period of office shall be liable to determination by the retirement of Directors by rotation.
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 20.08.2005 to 30.08.2005 (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. Members are requested to bring their copies of Annual Report to the Meeting.

By order of the Board

For Dharani Sugars and Chemicals Ltd.

Place : Chennai - 34.

Date : 15.06.2005

E.P. SAKTHIVEL

Company Secretary



DIRECTORS' REPORT

Dear Members,

Your Directors present herein the Eighteenth Annual Report on the operations of your Company and the Audited Statement of accounts for the year ended 31st March 2005.

FINANCIAL RESULTS

Particulars	Year ended 31.03.2005	Year ended 31.03.2004
	(Rs. in Lakhs)	
Sales	16925.97	8728.42
Profit before Interest)		
Depreciation and tax)	2599.10	1921.00
Interest and Finance charges	1902.87	1936.04
Depreciation	595.17	583.37
PROFIT / (LOSS) BEFORE TAX	101.06	(598.41)
Amortization of USAID Grant	11.25	11.25
Income Tax - Current Tax
-Deferred Tax (Asset)	442.69
PROFIT / (LOSS) AFTER TAX	112.31	(144.47)
Transfer from General Reserve
Profit / (Loss) carried forward	(2362.60)	(2218.13)
From last year		
PROFIT/(LOSS) carried forward	(2250.29)	(2362.60)
to Balance Sheet		

Management Discussion and Analysis Report

Product-wise performance (Operational and Financial)

During the year under review, the gross turnover of the Company is Rs.16925.97 lakhs as against Rs 8728.42 lakhs during the last year. Current year sales increased by 94% over the last year's sales. This is mainly because of processing of Imported Raw Sugar at both the units. The Gross Operating Profit for the year

is Rs.2599.10 lakhs as against Rs 1921.00 lakhs during the last year representing a satisfactory increase of 35.30%. The profit after adjusting interest and depreciation works out to Rs. 101.06 lakhs. Taking into account amortisation of USAID grant of Rs.11.25 lakhs, the net profit after tax comes to Rs.112.31 lakhs as against the loss of Rs.144.47 lakhs in the previous year.

The total quantity of cane crushed during the year was 2.77 lakh tons as against 5.87 lakh tons in the previous year. The reduction was mainly due to severe drought which prevailed in the cane growing area of both units, and hence the cane availability for crushing was reduced sharply. The total sugar produced was 9.32 lakh quintals as against 5.64 lakh quintals in the previous year. Sugar production increased during the year due to processing of Imported raw sugar at both the units in addition to cane. However, the average sugar recovery rate has decreased from 9.59% to 8.69% due to poor quality of cane. The total quantity of sugar sold was 8.18 lakh quintals as against 5.31 lakh quintals for the last year.

The Co-generation plant continues to function satisfactorily during the year. However, due to lesser quantity of cane crushed, the Company also used Biomass and Coal for power generation. Consequently power generation increased from 320.01 lakh units to 825.04 lakh units. Power export recorded a higher income of Rs.1927.60 lakhs as against Rs.628.66 lakhs in the previous year. The Company is taking all possible steps to reduce power consumption and also to increase power produced per unit of cane crushed.

Production of Industrial alcohol decreased from 87.12 lakh litres to 83.84 lakh litres. As a result sales came down from 80.61 lakh litres to 76.05 lakh litres though the income realized was higher at Rs.1666.35 lakhs as against Rs.1187.31 lakhs in the previous year due to higher price.



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Programme of blending ethanol with petrol to the extent of 5%, received some temporary setback. The basic incentive intended to promote ethanol blending was discontinued from March 2003. Recently government has reiterated its intention to carry forward the programme by designating ISMA as the Nodal agency and committing to sort out the problems.

A long-term pricing formula and mutually obligatory off-take tie up is now under active discussions between the user (Oil) and producer (sugar) industries. State Governments are loathe in promoting ethanol as it seeks to reduce molasses availability for potable alcohol, a proven major revenue earner for most States.

Import duty on molasses is slashed by 5% while doubling the excise duty on the same to Rs.1000/-per metric tonne in the Union Budget 2005-06. Subsequently ED on molasses has been reduced to Rs.750/-per metric tonne. A financial package for restructuring ailing mills with two year moratorium on both interest and principal has been promised, besides to reset interest rates. Interest rate on SDF Loan is reduced to 2% below Bank Rate for both old and new loans. VAT implementation is yet to take off in some States and Additional Excise Duty on sugar in lieu of sales tax continues for one more year.

During the year your Company had imported 116083 metric tons of Raw Sugar under advance licensing Scheme with the future export obligation of 95.24% of the total imports within the prescribed period. The Company is confident of meeting its Export obligations.

During the year Government of Tamil Nadu sanctioned a sum of Rs. 22.45 Crores through Tamil Nadu Industrial Investment Corporation Limited as soft loan towards clearing of cane arrears for the season 2002 -03. The loan carries an interest rate of 4% per annum and is repayable over a period of 10 years with an

initial moratorium period of 5 years. This is expected to reduce the interest cost of the Company substantially and it will improve the bottom line of the Company. The Loan is expected to be availed very shortly.

Industrial Structure, Development and outlook

For the first time in several years, 2004 saw the country consuming more sugar than it produced. While sugar demand in the country is healthy as ever, supply seems to be under duress. Import of raw sugar and their processing and sale in India helped in tiding over this temporary shortage of sugar in the country. Thus, prices of sugar in the market remained within reasonable limits. The situation of lower production helped the Companies to wipe out the excess stocks that had accumulated over the years. On account of this the country's closing stock at the end of the season 2004-2005 is expected to be around 45 lakh tonnes which is the lowest in the last 10 seasons. Favourable sugar prices enabled Companies to improve their cash flow and strengthen their balance sheets.

In the past one year, sugar prices are already up by 35%. Cane prices have seen a 12% rise this season. Sugar companies have been making timely payment to farmers due to buoyant sugar prices. This year the production and carry over stock should be just enough to meet the consumption which means prices will remain firm or rise. Short supply in India will trigger a movement upward in international sugar prices. Overall the industry is expected to be in a much favourable situation in the current year. But monsoon will be the determining factor. And there are differing estimates of the expected rainfall from a 10% to 15% shortfall during the year. Cane availability will naturally depend on this



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INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The company has proper and effective internal control systems commensurate with the nature of business and size of operation to ensure that all controls and procedures function satisfactorily and ensures compliance with all policies and procedures. Recently an Internal Audit system has been instituted which will carry out continuous check on a going concern basis.

Risks and Concerns

1. Performance of Sugar Industry is subject to the cyclical nature of monsoon. Severe drought condition in the last 3 years have affected the cane availability.
2. The price for the main Raw material cane is fixed by the Central Government for every season without considering the actual realisation of free sale sugar in the market.
3. Sugar is subject to 10% levy obligations and the monthly flow of the free sale sugar is regulated by the release mechanism of the Government.
4. The high level of Subsidy given by the European Countries affects the International sugar price.
5. Export Subsidies have been withdrawn due to reduced production. In the absence of these subsidies, export competitiveness gets affected.
6. Your company has future export obligations of 95.24% of the total quantity of raw sugar imported within the prescribed period. Volatile changes in the international prices in the future will affect the Company's ability to meet this commitment.

DIVIDEND

As the profits in the current year are inadequate, the Board of Directors regret their inability to recommend dividend for the year 2004-2005.

RESERVES

No amount is being transferred to Reserves.

FIXED DEPOSITS

A sum of Rs.95.87 lakhs was collected as deposits during the year 2004-2005. Your Company has complied with the provisions of Section 58 (A) and 58 (AA) 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 2005. Your Company has not defaulted in repayment of the deposits on the due dates. As on the date of this report, there are some unclaimed deposits amounting to Rs 19.57 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 confirm 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



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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 K N Sivasubramanian is retiring by rotation at the ensuing Annual General Meeting and is eligible for reappointment. His name is proposed for reappointment. Mr. R. Natarajan is also retiring by rotation. However, it is proposed to recommend the name of Mr. P.S. Gopalakrishnan for appointment as Director in this vacancy. Necessary resolutions are placed before the shareholders for their approval.

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

Reappointment of Director

Name	: Dr K N Sivasubramanian
Age	: 60 years
Qualification	: MB.B.S,FA,AP,AB(PED),AB(NEO),USA
Date of appointment	: 30.06.1998
Experience	: More than 30 years in Medicine
Other Directorships	: Nil
Member of Committees	: Nil

Appointment of New Director

Name	: P.S. Gopalakrishnan
Age	: 69 years
Positions held	: Former Chairman of IFCI, TFCI, IOB.
Experience	: More than 35 years in Development Financial Institutions

AUDIT COMMITTEE

The Audit Committee formed in due compliance with Section 292 A of the Companies Act, 1956 consists of members Dr K C Reddy, Shri M. Guruvayurappan (Nominee Director from ICI Bank Limited) and Shri A Sennimalai. Dr KC 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.

Auditors have observed in the annexure to their report against Para 9(a) and 11 that there were some outstanding payment of statutory dues of cane cess. Your directors furnish herein their explanation for the same.

In view of cash flow problem faced by the Company, your Company has requested the Directorate of Sugar for additional time for payment of Cane Cess. The Director of sugar has also permitted the Company to clear the Cane Cess payment during the year 2005-2006.

COST AUDIT

As per the directions of the Government of India Shri G Suryanarayanan, a Cost Accountant has been appointed as Cost Auditor for the financial year ended 31st March 2005.



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CORPORATE GOVERNANCE

A report on Corporate Governance, in line with 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

There are no employees covered by 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, ICICI Bank Limited, IREDA, the Company's bankers, Indian Bank, State Bank of India, The South Indian Bank Limited, Bank of India, Central Bank of India, The Federal Bank Limited, Union Bank of India and Tamilnadu Industrial Investment Corporation Limited.

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 for improved cane availability for the ensuing years.

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

The Board is thankful and grateful for the continuing co-operation to the management from the shareholders family since inception and is confident that this partnership will sustain forever.

For and on behalf of the Board

Place : Chennai - 34

DR. PALANIG PERIASAMY

Date : 15.06.2005

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

Energy Conservation Measures :**a) Utilization of Heat Energy**

The boiler make up feed water from the DM plant, having ambient temperature, is heated up by the second body condensate having 95° C through a plate type heat exchanger to raise the temperature of the DM water to around 85° C. Instead, to achieve this temperature in the deaerator about 1 ton of steam per hour has to be used. The conservation of steam in deaerator enables the unit to produce additional power of around 35 units per hour.

b) Technology Absorption

Installation of Melt Clarification System :

The raw sugar melt, having higher ICUMSA, when crystallized in the pans, the sugar crystal will have a trace of yellowish colour which in turn will affect the keeping quality of sugar. Therefore, the melt clarification system is installed.

This system has the following advantages:-

- ❖ Reduction in colour and viscosity of the melt.
- ❖ Increase in purity of the melt.
- ❖ Sugar with better colour having less ICUMSA.
- ❖ Improvement in the keeping quality of sugar.
- ❖ Better price in the market.

Solar evaporation of Distillery Spent Wash :

On a daily basis, nearly 30,000 litres of spent wash has to be disposed by spraying the spent wash over pressmud or transporting through tanker lorries for a long distance for use in the farmers field as ferti-irrigation thus incurring expenditure on labour and diesel. To reduce this, the Distillery spent wash is now spread over a concrete floor area used for bio-compositing. Due to solar evaporation, the spent wash is disposed of at a much lower cost reducing consumption of diesel.

c) Foreign Exchange Earnings and Outgo

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

Earnings & Outgo	2004-2005	2003-2004
	(Rs. in lakhs)	
Foreign Exchange earned during the year	Nil	Nil
Outgo during the year	25.84	92.00