

DHARANI SUGARS AND CHEMICALS LIMITED



PGP GROUP

19th

***ANNUAL REPORT
2005-2006***



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Dharani Sugars and Chemicals Limited

BOARD OF DIRECTORS

Dr Palani G Periasamy	- Executive Chairman
Dr C K Dheenan	
Dr K N Sivasubramanian	
Mr A Sennimalai	
Mr P S Gopalakrishnan	
Dr K C Reddy	- Nominee Director - IREDA
Mr Ashok Alladi	- 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. 2631 1313 - 2820 7480/81/82 E-mail: pgpsecretarial@hotmail.com

Factories	: Dharani I Dharani Nagar 627 760 Tirunelveli District, Tamil Nadu Phone: (04638) 2441370 - 72
	: Dharani II Karalpoondi Village Chelput Road, Polur Taluk Tiruvannamalai Dist. - 606 803 Tamil Nadu Phone: (04181) 223181-82, 223170



Dharani Sugars and Chemicals Limited

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the **NINETEENTH 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 23rd August 2006 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 2006 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 Mr A Sennimalai, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint Dr C K Ramachandran 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 Dr C K Dheenani, 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 Dr C K Ramachandran as a Director of the Company and that Dr C K Ramachandran'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 **16-8-2006 to 23-8-2006** (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 Follo 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

PLACE: Chennai - 34 **E.P. SAKTHIVEL**
DATE : 22-04-2006 COMPANY SECRETARY



Dharani Sugars and Chemicals Limited

DIRECTORS' REPORT

Dear Members,

Your Directors present herein the Nineteenth Annual Report on the operations of your Company and the Audited Statement of accounts for the year ended 31st March 2006.

FINANCIAL RESULTS

(Rs. in Lakhs)

Particulars	Year Ended 31.03.2006	Year Ended 31.03.2005
Sales	32742.29	16925.97
Profit before Interest, Depreciation and Tax	4035.63	2599.10
Interest and Finance Charges	1624.67	1902.87
Depreciation	555.04	595.17
Profit before Tax	1855.92	101.06
Amortization of USAID Grant	11.25	11.25
Income Tax - MAT	100.58	—
- Deferred Tax	1049.63	—
- Fringe Benefit Tax	4.35	—
Profit After Tax	712.61	112.31
Transfer from General Reserve	833.05	—
Profit/ (Loss) carried forward from last year	(2250.29)	(2362.60)
Profit/ (Loss) carried forward to Balance Sheet	(704.63)	(2250.29)

Management Discussion and Analysis Report
Product-wise performance (Physical and Financial)
Physical Performance

Your Company has shown substantial improvement in its performance during the year. During the year under review, the company has crushed 6.10 Lakh tonnes of cane as against 2.77 Lakh tonnes of cane in

the previous year. The increase in cane crushing is mainly due to good rainfall in the cane command areas of both the units. The company has processed 0.86 Lakh tonnes of raw sugar as against 0.75 Lakh tonnes in the previous year. The total sugar production was 13.39 lakh Qtls as against 9.32 Lakh Qtls in the previous year showing an improvement of 44%. The sugar recovery from cane was 9.01% as against 8.69% in the previous year. The Company has also achieved record sales by selling 16.90 lakh qtls as against 8.18 lakhs qtls in the previous year, the increase being more than 106%.

The Co-generation plant continues to function satisfactorily. During this period the total generation was 843.70 lakh units as against 825.04 lakh units in the previous year. However, export to the TNEB grid was slightly lower at 594.94 lakh units as against 641.16 lakh units in the previous year. This was due to company crushing higher volume of cane vis-a-vis the raw sugar processing, consuming more power thereby. Accordingly, the total value of the power exported to the grid came down marginally to Rs.1838.76 lakhs from Rs.1927.60 lakhs in the previous year.

The production of Industrial Alcohol was 76.65 lakh liters as against 83.84 lakh liters in the previous year. The reduction in the production was on account of Company taking up maintenance work for replacing one of the distillation column. However, Sales has improved to 87.07 lakh litres as compared to 76.05 lakh litres in the previous year, thus reducing the closing stock. The total sale was Rs.1878.51 Lakhs as against Rs. 1668.35 Lakhs in the previous year.



Financial Performance

During the year under review, the company has achieved a record sales turnover of Rs. 32742.29 lakhs as against Rs.16925.97 lakhs in the previous year achieving a growth of 93.44%. The Gross Operating Profit increased to Rs.4035.63 lakhs as against Rs.2599.10 lakhs in the previous year. The profit after adjusting interest and depreciation works out to Rs.1855.92 lakhs, as against Rs.101.06 lakhs in the previous year. Taking into account the amortisation of USAID grant of Rs.11.25 lakhs, minimum alternative tax (MAT) of Rs.100.58 lakhs, Deferred Tax of Rs.1049.63 lakhs and Fringe Benefit Tax of Rs.4.35 lakhs, the net profit after tax comes to Rs.712.61 lakhs as against Rs.112.31 lakhs in the previous year. This substantial improvement in the profit was mainly on account of the company processing raw sugar and improvement in the free sale sugar price. The average free sale sugar price for the year 2005-06 has gone up to Rs.1633.68 per quintal as against the previous year's average price of Rs.1522.34 per quintal. A sum of Rs. 833.05 lakhs available under general reserves was transferred to Profit & Loss Account. The accumulated losses have come down from Rs. 2250.29 lakhs on 31.03.2005 to Rs. 704.63 lakhs as on 31.03.2006.

Raw Sugar Imports

During the year, Company had imported 51000 Tonnes of Raw Sugar under advance licensing Scheme and with this the total import of raw sugar was 1,67,063 tonnes. Against this, the export obligation would be 1,59,130 tonnes. The company has processed 162490 MTs of sugar upto 31st March 2006 and the balance quantity is being processed. The company has exported 11,751 tonnes during this financial year. The company has also contracted for another shipment of 8580 tonnes to be shipped in

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April 2006. In fact the average realisation of the export price is higher by about 5% as compared to the domestic price. Considering this and the international sugar scenario, the Company is confident of meeting the export obligation well within the time.

Expansion of Polur Unit

Considering the growth potential in the Sugar Industry including the demand for Ethanol and the availability of cane at the company's command area, the company proposes to expand the crushing capacity of Polur to 4000 TCD to take advantage of the favourable trend. In addition to this, the Company also proposes to replace the existing Hydraulic System with DC Drive in order to reduce the power consumption and to minimize the maintenance cost. The Company also proposes to install spray injection system and VFDs to reduce the power consumption. The saving on power consumption alone is expected to be around Rs.3.0 crores per year.

The total cost for the expansion and the modernization is estimated to be around Rs.28.60 crores. It is proposed to be funded by Term Loan from Banks, Loan from Sugar Development Fund and internal accruals. The expansion is expected to be completed by November 2006 before the next crushing season commences.

Reduction in Interest Cost

The sugar industry has gone through serious financial crisis during the last few years and is just coming out of the past problems. However, on account of the earlier problems of the industry, Company's units had incurred heavy losses making it necessary to restructure the loans through the CDR mechanism and to borrow additional loans for making cane payment to the farmers on due dates. The Company is slowly coming



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(Qty. in Lakh Tons)

out of its problems and has been servicing its debt as per the terms of the sanction.

In the light of the favourable sugar scenario, the performance of the company has improved and it is expected that the present trend will continue in the coming years. The company is servicing all its debts as per the approved program. In order to reduce the interest cost further and to improve the performance, the company is discussing with the existing lenders for reduction in interest rate or alternatively convert the existing loan into foreign currency loan. ICICI and Bank of India have already reduced interest rate and the Company is hopeful of getting a similar response from other Banks. The average utilisation of working capital was also maintained at lower levels to reduce the interest cost.

During last year the Government of Tamil Nadu sanctioned a sum of Rs. 22.45 Crores through Tamil Nadu Industrial Investment Corporation Limited (TIIC) as soft loan. The Loan is repayable over a period of 10 years with an initial moratorium of 5 years. However, the company is still in the process of availing this loan as certain terms and conditions were modified by TIIC for which necessary approvals are expected from Government of Tamil Nadu.

With these measures, the company hopes to exit from the CDR. This will help the company to further improve the performance and its image.

Indian Sugar Scenario

Production, consumption and stock details for the last 4 seasons with Estimates for the current season are given below:-

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06 Estimated
OP Stock	106.63	113.17	116.14	85.00	48.00
Production	185.29	201.40	139.95	127.00	190.00
Imports	-	0.41	4.00	21.00	-
Total	291.92	314.98	260.09	233.00	238.00
Consumption	167.81	183.84	172.85	185.00	185.00
Exports	10.94	15.00	2.24	-	15.00
Closing Stock	113.17	116.14	85.00	48.00	38.00
Stock as % of consumption	67%	63%	49%	26%	21%

From the above, it may be seen that the percentage of closing stock in terms of consumption has drastically reduced to 21% as compared to a high level of 67% in 2001-02. On account of this and the reduced production, the free sale sugar price has substantially improved. Sugar prices are expected to remain buoyant in the next few years.

To comply with the rules of the WTO, the EU countries have agreed to reduce the subsidies on sugar by May 2006. This will mean a substantial reduction of about 50 lakh tonnes in exports from these countries. On account of this and the usage of ethanol as a major alternate auto fuel, the international price of both raw sugar and white sugar has already increased substantially and the present price is about USD 450-460 per ton. This will help the Indian sugar industry to export the surplus in the coming years at very attractive rates, which will in turn maintain the domestic price at an attractive level. It is also reported that the Government is considering a proposal to ease sugar export rules in anticipation of a bumper crop due to satisfactory rainfall and encouraged by higher world prices.



Ethanol

India's import bill largely consists of import of crude. The crude prices are ruling high. US dollar has also become costly against the Rupee. Petrol consumption is also growing. Though blending of 5 % Ethanol in petrol was made compulsory in 9 states, its implementation was very slow. There is universal demand for ethanol. In India ethanol will be in demand in the future as long as crude prices are high. If the Central Government can ensure the implementation, it is a good policy and will continue to grow in India, as it is farmer friendly and good for the sugar industry as well.

INTERNAL AUDIT

Constitution of Interfat Audit Group

On the recommendations of the Audit Committee, an internal Audit system has been instituted which carries out continuous check on an on-going basis. It was noted that though the Act does not require a Company necessarily to have an Internal Audit System, it was felt that having such an internal audit group will help in adding value and improving the effectiveness of risk management control and governance process of the organisation.

The company has proper and effective internal control systems commensurate with nature of business and size of operation to ensure that all controls and procedures function satisfactorily and ensure compliance of all policies and procedures.

Risks and concerns

1. The industry is exposed to agro climatic risks. Performance of Sugar Industry is subject to the cyclical nature of monsoon. Severe drought condition in the last 3 years had affected the cane availability.

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2. The sugar industry is highly regulated with the govt exercising control over pricing of sugar cane, allocation of area for sugar units, sugar release and off take and pricing of by-product such as alcohol and power.

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. Export Subsidies have been withdrawn due to reduced production in the last few years. In the absence of these subsidies, export competitiveness gets affected.
5. Your company has future export obligations of 147379 MT of the total quantity of raw sugar imported within the prescribed period. Volatile changes in the international prices in the future might affect the company's ability to meet this commitment.

DIVIDEND

As the profits in the current year are inadequate, the Board of Directors regrets its inability to recommend any dividend for the year 2005-2006.

RESERVES

During the year Rs. 833.05 lakhs is transferred from General Reserve to Profit & Loss Account which had the effect of reducing the carry over loss.



FIXED DEPOSITS

A sum of Rs.82.75 lakhs was collected as deposits during the year 2005-2006. Your Company has complied with the provisions of Section 58 (A) and 58 (AA) of the Companies Act, 1956 and the rules prescribed there under.

Your Company has no unpaid deposits, which were due or repayable as on 31st March 2006. 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. 38.24 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 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.

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DIRECTORS

Dr C K Dheenan and Mr A Sennimalai are retiring by rotation at the ensuing Annual General Meeting. Dr C.K.Ramachandran an NRI investor is being proposed for appointment as Director in place of Dr C.K. Dheenan while Mr A. Sennimalai is being proposed for reappointment. 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.

RE-APPOINTMENT OF DIRECTOR

Name	Mr A Sennimalai
Age	64 Yrs
Qualification	M.Sc., M.B.A.,
Date of Appointment	04/06/1987
Experience	20 years
Other Directorships	1. Appu Hotels Limited 2. Dharani Credit & Finance (P) Ltd.
Member of Committees	Management, Audit & Remuneration
No of Shares held	18802

APPOINTMENT OF NEW DIRECTOR

Name	Dr C K Ramachandran
Age	67 years
Qualification	M.D. Ortho Surgeon
Date of Appointment	Now Proposed
Experience	36 years in the Medical field in USA
Other Directorships	Nil
Member of Committees	Nil
No of Shares held	538249



The name of Mr. M Guruvayurappan, Nominee Director of ICICI Bank Ltd. was withdrawn and in his place Mr Ashok Alladi was nominated with effect from 30.11.2005. Mr. R. Natarajan retired by rotation on 30th August 2005.

TRANSACTIONS

During this period Mr A.Sennimalai Non-Executive Director had acquired 18499 Equity Shares by transmission / transfer within family.

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, (Nominee Director from IREDA), Shri P.S. Gopalakrishnan, Independent Director and Shri A Sennimalai. Dr K C Reddy 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 Surayanarayanan, a Cost Accountant has been appointed as the Cost Auditor for the financial year ended 31st March 2006

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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 and Union Bank of India.