PGP GROUP

DHARANI SUGARS AND CHEMICALS LIMITED

21st

ANNUAL REPORT 2007 - 2008

BOARD OF DIRECTORS

Dr Palani G Periasamy	-	Executive Chairman
Mr M Ramalingam	-	Managing Director
Dr C K Ramachandran		
Dr K N Sivasubramanian		
Mr A Sennimalai		
Mr P S Gopalakrishnan		
Mr T Ramabhadran		
Dr K C Reddy	-	Nominee Director - IREDA
Mr Ashok Alladi	-	Nominee Director - ICICI

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 IDBI Bank Ltd
Registered Office	-	"PGP House", No 57 Sterling Road, Nungambakkam, Chennai - 600 034. Phone No. 2831 1313 - 2820 7480 / 81 / 82 E-mail:secretarial@dharanisugars-pgp.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 Dist. - 606 803 Tamil Nadu

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the **TWENTYFIRST 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 **Monday the 29th September 2008 at 10.20 A.M.**, to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2008 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. Ramachandran, who retires by rotation and being eligible offers himself for re-appointment.

3. To appoint a Director in place of Mr. 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.

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 **25.09.2008 to 29.09.2008** (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 holding shares in physical form are requested to quote their Registered Folio numbers and those holding shares in demat form to quote their ID Numbers in the attendance slips and in all correspondence with the company and notify the company/ Registrar & Transfer agent immediately of change, if any, in their 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 : 29.05.2008

E.P. SAKTHIVEL
COMPANY SECRETARY

DIRECTORS' REPORT

Dear Members,

Your Directors present herein the **TWENTYFIRST Annual Report** on the operations of your Company and the Audited Statement of accounts for the year ended 31st March 2008.

FINANCIAL RESULTS

(Rs. in Lakhs)

Particulars	Year Ended 31.03.2008	Year Ended 31.03.2007
Gross Sales	**20692.59**	28314.98
Profit before Interest, Depreciation and Tax	**575.95**	4466.82
Interest and Finance Charges	**1577.51**	1802.91
Depreciation	**677.85**	558.05
Profit / (Loss) before Tax	**(1679.41)**	2105.86
Amortization of USAID Grant	**11.25**	11.25
Income Tax - MAT	**-**	238.22
- Deferred Tax / (Assets)	**(888.79)**	486.88
- FBT	**7.28**	5.90
MAT Entitlement (including previous year credit of Rs.100.58 lakhs)	**-**	(338.80)
Profit / (Loss) after Tax	**(786.65)**	1724.91
Carried forward from last year	**1020.28**	(704.63)
Profit carried forward to Balance Sheet	**233.63**	1020.28

Management Discussion and Analysis Report

Product-wise performance

Sugar: During the year under review, the company has achieved a record crushing of 15.07 lakh tonnes of cane as against 14.16 Lakh tonnes of cane in the previous year. The increase in cane crushing is mainly due to good rainfall in the cane commanding areas of the both the units and the Cane Developmental work carried out by your Company.

The total sugar production was 13.83 Lakh Qtls as against 13.14 lakh Qtls in the previous year. The sugar recovery from the cane was 9.17 % as against 8.98% in the previous year. The company has sold 13.16 lakh qtls as against 13.81 lakh qtls in the previous year. The reduction in the sale was on account of the lower volume of exports due to uneconomic prices in the international market.

Power: During this period, the total generation was 620.32 lakh units as against 707.36 lakh units. The decrease is on account of Alternator break down during the month of July 2007, resulting in the Company not being able to export to the grid for about 70 days. Consequently, the export to the TNEB grid was lower at 335.29 lakh units as against 430.21 lakh units in the previous year. Accordingly, the total value of the power exported to the grid was lower at Rs.1027.25 lakh as against Rs. 1255.39 lakh in the previous year.

Distillery: The production of industrial Alcohol was 95.03 lakh liters as against 98.83 lakh liters in the previous year. The Company was able to sell the entire production of Alcohol and the sale was 95.27 lakh liters as against 104.63 lakh liters in the previous year. The previous year's sale was higher as it included the previous year's carry over stock. Value of the total sales during the current year was Rs.2377.76 lakhs as against Rs.2441.82 lakhs in the previous year.

Financial Performance

During the year, the gross turnover was Rs.20692.59 Lakhs as against Rs.28314.98 lakhs in the previous year. The Gross operating profit came down sharply to Rs. 575.95 lakhs from Rs.4466.82 lakhs in the previous year. After adjusting interest and depreciation, the operations resulted in a loss of Rs.1679.41 lakhs, as against the profit of Rs 2105.86 lakhs. Taking into account the amortization of USAID grant of Rs.11.25 lakhs, Deferred Tax asset of Rs

888.79 lakhs, Fringe Benefit Tax of Rs. 7.28 lakhs, the net loss after tax comes to Rs. 786.65 lakhs as against the profit of Rs. 1724.91 lakhs in the previous year.

The loss was mainly on account of the steep fall in the free sale sugar price and the lower international market price due to surplus production in the world, contributed mainly by India. The average free sale sugar realisation for the year 2007-08 was Rs. 1258 per qtl. as against Rs. 1691 per qtl. in the previous year. The average export realization was Rs.1268/- per qtl. Including the export benefit.

Status of Export Obligation

During the earlier years, the company had imported 167083 tonnes of raw Sugar. Against this, the Company has to export 159130 tonnes of White Sugar. The company has so far exported 89789 tonnes of white sugar (including 9614 tonnes in the current year) and the balance quantity to be exported is 69341 tonnes. Consequent to the steep fall in the international price, the Government of India has extended the export obligation period by the period equivalent to the ban (196 days) and further extended by one year. The company is confident of fulfilling its export obligation.

Expansion of the Distillery

The existing Distillery at Dharani Nagar is being expanded to 60 KLPD from the present capacity of 30 KLPD. The expanded capacity will have the facility to produce Industrial Alcohol/ ENA/ Ethanol. The estimated cost of the expansion is about Rs.29.00 Crores. The Project is expected to be completed by December 2008.

New Project at Sankarapuram

Your Company is happy to inform that the Company has finalised its earlier proposal to set up another Integrated Sugar Complex at Kalayanallur Village, Sankarapuram at a cost of Rs. 303 Crores. The Company is setting up a Sugar Plant with a crushing capacity of 3500 TCD expandable to 5000 TCD, 22 MW Power Plant, and 100 KLPD Distillery to produce Alcohol, ENA/Ethanol. The Company is in the process of obtaining necessary clearance from Government of India / Government of Tamil Nadu. The Company has acquired 150 acres of land for its plant and Research and Development activities. Loans from Banks have been tied up and the Company will also be applying for Soft loan from the Sugar Development Fund. The project is expected to be completed by November, 2009.

Clean Development Mechanism (CDM)

CDM is an arrangement under the Kyoto Protocol allowing the developed industrialized countries, which have been emitting carbon dioxide and other green house gases resulting in global warming, to reduce their emission to a pre-arranged level by the year 2012. A Company has two ways to reduce such emission (i) it can reduce the gases by adopting new technology or (2) improve upon the existing technology to attain the new norms for emission of gases.

The developed countries have also been allowed to purchase certified emission reductions (CERs) popularly known as Carbon credits from developing countries to achieve their reduction commitment of greenhouse gases. India, being a developing country, can take advantage of the new technologies to reduce the global warming. In line with this ultimate aim, your Company has recognized its responsibility and has taken measures for reducing its carbon dioxide emission by adopting energy saving higher technology.

Your Company proposes to install a High Pressure Co-Generation Power Plant with one number 110 TPH capacity Boiler with Super heater outlet Steam Parameters of 110ata. and 540°C. and one number extraction cum condensing Turbo Generator of 22 MW in the new Sankarapuram Project.

Though your Company will be using the renewable fuel viz., Bagasse and Bio mass, it proposes to install high efficiency Co-Generation system albeit high cost, in order to generate maximum power from the given quantity of bagasse.

The high efficiency Co-Generation of power project involves very high level of investment and hence your Company needs to avail the carbon credit under the Clean Development Mechanism to make the project vialable. The boilers in the existing factories will also be replaced by such high efficiency system over a period of time.

Sugar Scenario

After achieving a record production of 283 lakh tonnes of sugar for the season 2006-07, the production for the season 2007-08 is expected to be 265 lakh tonnes showing a reduction of about 6%. This production is expected to come down further in the coming years to around 220 lakh tonnes. The summary of the opening stock, production, consumption, closing stock for the last two seasons and the expected production for the next 2 seasons are given below:

Summary (Figures in Lakh tonnes)

Sl.No.	Particulars	2006-07	2007-08E	2008-09P	2009-10P
1	Opening stock	36.37	92.37	92.37	57.37
2	Production	283.28	265.00	220.00	200.00
3	Total Supply	319.65	357.37	312.37	257.37
4	Domestic consumption	210.00	225.00	230.00	235.00
5	Exports	17.28	40.00	25.00	-
6	Total Demand	227.28	265.00	255.00	235.00
7	Closing stock as on 30th Sep. '08	92.37	92.37	57.37	22.37
8	Stock as % of off take	44%	41%	25%	9%

From the above it may be seen that the Sugar production and closing stock in the coming years are getting substantially reduced. The area under sugar cane cultivation has declined as farmers are shifting their interest from sugar cane to other more remunerative crops like wheat, paddy and corn. In fact, based on the expected reduction in production of sugar, prices both in domestic and international market have already started increasing. Experts have projected that India is likely to become a sugar importer by 2010-11.

In view of the increasing demand for Ethanol, Brazil, the number one producer of cane in the world is converting about 55% of the cane into ethanol and only 45% of the cane is used to produce sugar. This conversion is further expected to go up to 59% for the coming season 2008-09, thereby further reducing the availability of sugar.

The Government of India is unlikely to meet its deadline of October 2008 for increasing the level of blending of Ethanol from 5% to 10%. Even the 5% blending is not fully implemented throughout the Country. However, on account of the expected decrease in sugar production and increase in the demand for Ethanol, the cyclical scenario of Sugar Industry is likely to change. The production of sugar and ethanol is expected to be balanced depending upon the price level of these products.

Buffer Stock

In order to improve the free sale sugar price and to help the sugar industry to tide over the cash flow constraints, Government of India had created buffer stock of 20 lakh tonnes for a period of one year from 1st May 2007 to 30th April 2008. In addition to that Government of India has created buffer stock of another 30 lakh tonnes for a period of one year from 1st August 2007 to 31st July 2008. Government of India is reimbursing 12% interest for buffer stock and 1.5% for storage and insurance. This helps the sugar industry to improve the financial position of the sugar companies.

INTERNAL AUDIT

Constitution of Internal Audit Group

An Internal Audit system is in position, which carries out continuous check on an on-going basis.

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 monitor compliance of all policies and procedures.

Risk and Concerns

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

2. 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.

3. Sugar industry has not been recognized as priority sector.

4. Cost of production of sugar remains high whereas selling prices have fallen to lowest level.

5. Substantial increase in the price of alternate crops as compared to sugarcane have resulted in the farmers switching to other crops like wheat, soya, paddy and maize. This trend is likely to affect the cane availability in the coming years.

6. Your company has to export of 69339 MT of Sugar against the import of Raw Sugar in the earlier years to be completed within the prescribed period, Government restrictions on exports/ Volatile changes in the international prices in the future might affect the company's ability to meet this commitment.

DIVIDEND

Due to loss incurred in the current year, the Board of Directors is unable to recommend any dividend for the year 2007-08.

RESERVES

No amount is being transferred to Reserves due to the same reasons.

FIXED DEPOSITS

A sum of Rs.23.62 lakhs was collected as deposits during the year 2007-2008. 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 2008.

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 25.47 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 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 Ramachandran and Mr A Sennimalai are retiring by rotation at the ensuing Annual General Meeting and are eligible for reappointment. Dr. C. K. Ramachandran is one of the promoters of the Company and has a sizeable holding of more than 2%.

A brief resume of the Directors, who are proposed for re-appointment, is given below in terms of clause 49 of the Listing Agreement. Necessary declarations have been obtained.

REAPPOINTMENT OF DIRECTOR

Name	**Dr. C K Ramachandran**
Age	69
Qualification	M.D Ortho Surgeon
Date of Appointment	23.08.2006
Experience	More than 30 years in Medical field in USA
Other Directorships	Nil
Member of Committees	Nil
No of Shares held in this Company	536249
% of Shares	2.11%

Name	**Mr A Sennimalai**
Age	66
Qualification	M.Sc., M.B.A
Date of Appointment	04.06.1987
Experience	42 years
Other Directorships	a. Appu Hotels Limited b. Dharani Credit & Finance (Private) Limited
Member of Committees	Management, Audit & Remuneration
No of Shares held in this Company	15903
% of Shares	0.07%

TRANSACTIONS

During this period there were no transactions relating to purchase / sale of shares by Executive / Non-Executive Directors of the Company.

AUDIT COMMITTEE

The Audit Committee formed in due compliance with Section 292 A of the Companies Act, 1956 and clause 49 of the Listing Agreement with Stock Exchanges, consists of members Dr K C Reddy, (Nominee Director from IREDA), Mr P. S. Gopalakrishnan, Independent Director and Mr 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 close of 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

COST AUDIT

As per the directions of the Government of India Mr G Surayanarayanan, a Cost Accountant has been appointed as the Cost Auditor for the financial year ended 31st March 2008 with the approval of Government of India.

LISTING WITH STOCK EXCHANGES

The Company's securities are at present listed at the following stock Exchanges.

1. Bombay Stock Exchange Ltd. Floor 25, P.J. Towers, Dalal street, Mumbai 400 001.

2. National Stock Exchange of India Ltd, Exchange Plaza, Bandra Kurla Complex Bandra (East) Mumbai-400 051.

3. Madras Stock Exchange Ltd.,

The Listing Fees for the Bombay Stock Exchange and National Stock Exchange have been paid upto date. Shareholders had in the last Annual General Meeting held on 17th September 2007, approved a Special Resolution for de-listing from Madras Stock Exchange. Accordingly, the Company had taken the prescribed steps for de-listing. The Company had submitted all the papers to the Madras stock Exchange Ltd. The Stock Exchange has not officially communicated its approval. The Company has been reminding them periodically. Listing fees for the year 2008-09 have not been paid in view of the decision on de-listing. The Company has also reported the fact of non-reply from the Stock Exchange to SEBI.

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 IDBI Bank Ltd.

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 PALANI G PERIASAMY**
Date : 29.05.2008 Executive Chairman