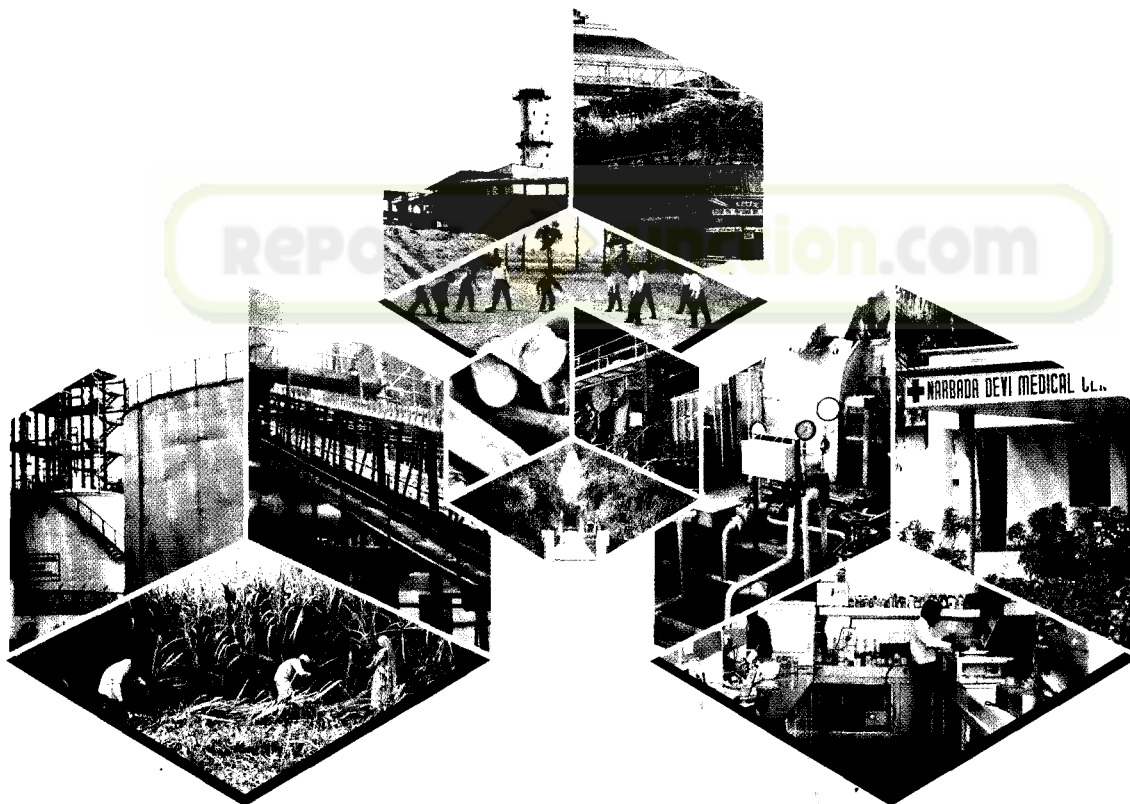
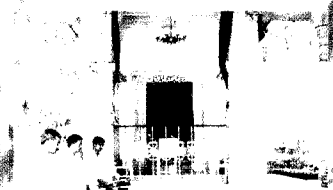
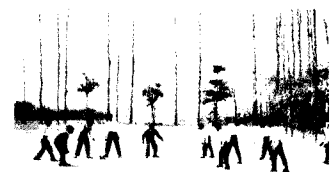
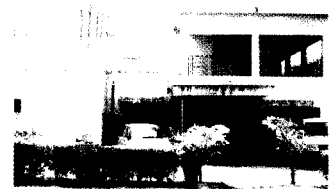
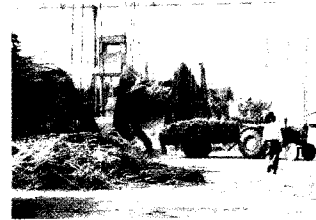


# DWARIKESH SUGAR INDUSTRIES LIMITED

12<sup>th</sup> ANNUAL REPORT  
2004 - 2005



"In our endeavour to be the torch-bearers of the Indian sugar industry, we are specially committed to our farmers, workforce and shareholders. It is our endeavour to provide our farmers the agreed price in time and to provide a transparent system of sugar cane procurement. We also seek to provide a congenial atmosphere and work place for the employees of the company, who are our lifeline. Adherence to the best corporate governance practices and a deep-rooted commitment to excellence is our resolve. All this culminates in our permanent effort to enhance shareholder value and wealth through growth of the company."



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## *From the desk of the CHAIRMAN*

*With the aspiration of being a torchbearer of the sugar industry in India and the desire to re-write the rules of running the sugar business, it gives me great pleasure to present the 12th Annual Report to you, our Primary shareholder.*

### **The Road Traversed during the year :**

The sugar sector in India has passed through certain structural changes in terms of improved cane utilisation, capacity expansion, cane acreage and production. Lower production in the preceding two seasons helped the industry to liquidate surplus inventory.

During 2005, the total sugar production in the country touched 135.46 lakh tonne, a fall of 32% when compared to the previous two years. Sugar prices have risen sharply in recent months, both in medium- and small-grade sugar. After a recent peak in the month of January-February 2005, at Rs 19-20 a kg range, currently the prices are flat and hovering at Rs 17-18 a kg. Low production of sugar has resulted into lower inventory.

Your company is expanding its crushing capacity with a new greenfield plant of 5500 TCD expandable to 7500 TCD and co-generation of power of 9 MW for captive consumption in Bijnor district (UP) at a cost of Rs. 1.35 billion which is expected to be operational by November, 2005. We estimate a turnover of Rs5 billion for the financial year ending September 2007 with PAT crossing Rs1 billion. With sugar prices estimated to remain stable in the next few months, we expect an enhancement of sales and profitability in the year ahead.

### **Inventory and Imports :**

For the season ending 2006, sugar production is expected to touch 175- 180 lakh tonne. While the demand is expected to be at around 185-190 lakh tonne, the closing stock may remain at 40-42 lakh tonne. The level of closing stock to sales has comedown drastically from 69% in 2002-03 to 27% in 2004-05.

Although the production will increase considerably by around 38-40%, it will still fall short of the demand in the country, and the carry-forward stock for the next year. To maintain the required level of inventory, India has continued to resort to substantial sugar import. The Government has announced various initiatives and provided longer periods to fulfill export obligation. Imports have gone up from 5.5 lakh tonne in 1999-00 to 20 lakh tonne in 2004-05 and is expected to be at 15 lakh tonne for the 2005-06 season.

### **Benefitting from By-products**

Against the backdrop of a shortage in cane production over the last two sugar-seasons, prices of sugar as well as the by-product have spiralled, and helped companies to improve their margins. The improved outlook for by products such as industrial alcohol, power and molasses has added significantly to revenue of your company.

Prices of molasses, used in alcohol have risen sharply from a level Rs 1,000 per tonne to Rs 3,100 per tonne currently. Your company's co-generation revenues has almost tripled yoy as surplus power exported has increased to 7.5 MW from 2 MW. During the the forthcoming year (FY-9/06) we plan to increase its cogeneration capacity to 41 MW from the present 17 MW.



### ***Exploring new growth areas : Ethanol-blending***

The Government has made it mandatory to blend 5% ethanol in nine states and four union territories. Currently, according to the programme, 5% ethanol will be blended in petrol, and going forward the government is keen to make it 10%, which presents a huge demand potential for ethanol in India.

The Indian sugar mills under the guidance of the Sugar Mills Association will be supplying ethanol to oil companies at Rs 18.75 per litre. Globally, the ethanol blending programme has been a huge success due to the fact that it is environment friendly and the cost advantage that it enjoys over gasoline. This would indeed be a new growth area for your company.

### ***IPO SUCCESS : MILESTONE***

Your company made its Initial Public Offer [IPO] of 50,04,285 Equity Shares at Rs. 65/- per Equity share including a premium of Rs. 55/- per Equity Share in the month of November, 2004 aggregating Rs.32.53 Crore. I am pleased to inform you that the issue received an overwhelming response and was oversubscribed 23 times. Out of the said issue proceeds, your company has spent a sum of Rs. 30.62 Crores towards the funding of distillery plant, balancing of equipment in existing unit at Dwarikesh Nagar, meeting public issue expenditure and for setting up of new green field sugar project of 5500 TCD expandable to 7500 TCD with 9 MW co-generation at Dwarikesh Puram Unit. The balance unspent amount of Rs. 1.91 crores has been earmarked for usage in the forthcoming accounting year.

Thus so far, we have achieved our objective of maximizing shareholder wealth, both in the form of capital appreciation as well as dividend payouts. On behalf of our Board and management team I take this opportunity to reassure you that we are on track to fulfil our vision of becoming a large sugar conglomerate with interests in synergistic business

### ***Winning with Financials :***

It is with great pride that I inform you that the Year under review has been one of the company's best years thus far. We recorded a quantum jump in profits, primarily on account of higher realisation of finished goods and by-products, as also better efficiency in the working of the plant. Whereas our revenue increased by 8.2% from Rs 14354.4 Lacs in fiscal year 2004 to Rs 15532.1 Lacs in fiscal year 2005, our net profit was Rs. 2659.9 Lacs in 2005 as compared to Rs 976.1 Lacs in 2004, an increase of Rs. 1683.8 Lacs which amounted to a staggering 172.50 %. Also noteworthy here is our EBITDA which was Rs.4666.9 Lacs during the year ended September 30, 2005, as compared to Rs. 2258.6 Lacs for year ended September 30, 2004. This was primarily on account of higher selling prices for all products. Sales of sugar, power, rectified spirit and molasses accounted for approximately 88.10%, 3.39%, 1.55% and 4.92 % of our total revenue in fiscal year 2005, respectively.

### ***Sugar Trail Ahead :***

Our Green Field Project at Dwarikeshpuram is likely to be commissioned by November, 2005. This Dwarikeshpuram project involves the setting up of a 5500 TCD Sugar Plant expandable to 7500 TCD plant with 9 MW Co-generation. The Company also intends to expand its co-generation capacity at Dwarikeshpuram in the year 2006-07 by installing an additional 15MW power plant.





We believe that the financial year 2005-06, should witness a remarkable growth on account of expected buoyancy in price of sugar. It is expected that the production in 2005-06 would be in the region of 18 Million Ton with an opening Stock of 4.5 Million ton and an expected import of 1.5 Million Ton as against which, consumption is likely to be around 19 million Ton which would result into closing stock of 4.5 Million Tons. The Stock levels would be low as compared to the normal stock level of around 8 months consumption the country is normally required to carry, the expected closing balance of 4.5 Million Ton roughly works out to 3 months stock.

We also expect that the production from our Distillery of rectified spirit or ethanol for the full year will provide good margins and boost our bottom line.

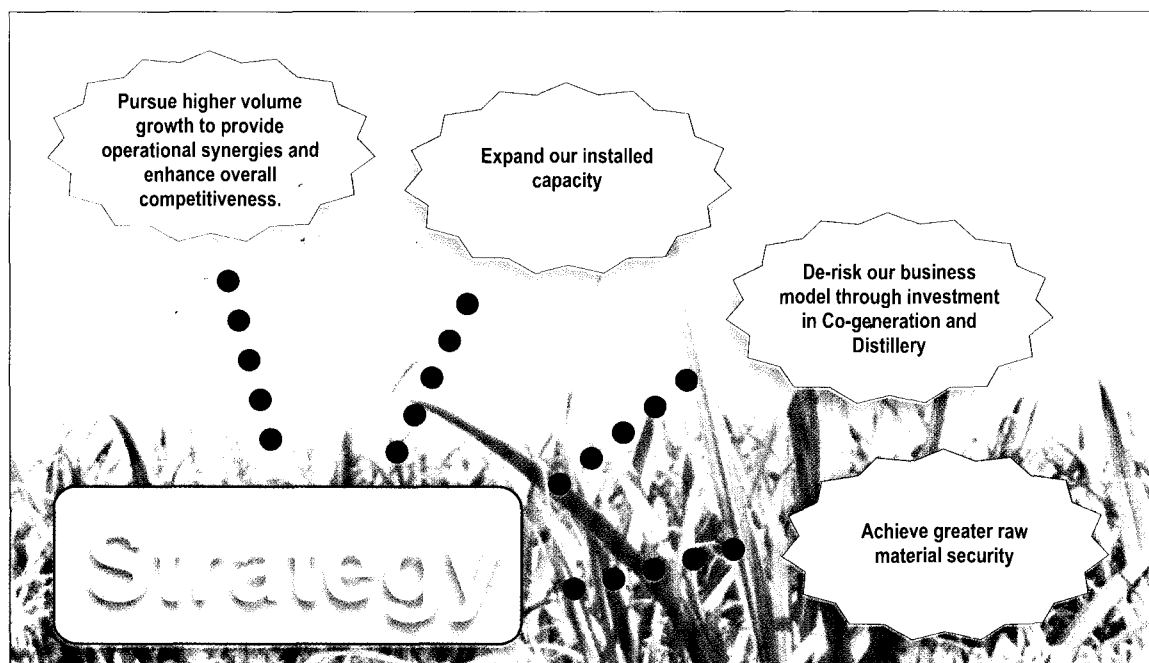
Furthermore, revenue from co-generation of around 8 MW being supplied to state grid from its existing unit at Dwarikesh Nagar at the optimum capacity for the full year would also add to the bottom line.

### **Sign Off :**

With these good tidings and the prospect of a better year ahead, I sign off, with the re-assurance that shareholders rank foremost in our minds and every effort is being and will be made to perform optimally and enhance shareholder wealth.

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**Mr. Gautam Morarka**  
(Chairman and Managing Director)





## OPERATIONAL OVERVIEW

### GLOBAL SUGAR SCENARIO

Brazil and India are the largest sugarcane and sugar producing countries followed by the European Union (EU), China, USA, Thailand, Australia, Mexico and South Africa. Sugar production in the world has increased at the rate of 2-3 % in the last 10 years with higher contribution from Brazil and some Asian countries.

World sugar output for the period from October 2004 to September 2005 has been estimated at 145 mln tonnes, raw value, up from last season's level of 144 mln tonnes. The current sugar season seems to be dominated by Brazil and Australia. On the debit side this is the second consecutive year of production decrease in India. The forecast of the world sugar balance for the period from October 2004 to September 2005 shows that world production will be 3 mn tonnes lower than world consumption.

World consumption is estimated at 148 mln tonnes, raw value, up 2.1% from the previous season. The world's largest consumers of sugar are India, EU, China, Brazil, USA, Russia, Mexico and Indonesia. The consumption of sugar in Asian countries has increased at a faster rate as a direct result of increasing population, lower sugar prices and increased availability. Since 1985, production in the 4 Asian countries China, India, Thailand and Pakistan increased by 141 % exports increased by 225%, consumption grew by 92 % and ending stocks grew by 206 %.

World trade in raw sugar is typically around 22 Mn tons and white sugar around 16 Mn tons. The largest exporters of white sugar are the EU and Brazil, followed by Australia, Thailand and India. The largest importers are the Gulf states, the Middle East, North Africa, Nigeria and Indonesia.

### INDIAN SUGAR SCENARIO :

India is the largest producer of sugar including traditional cane sugar sweeteners, khandsari and Gur equivalent to 26 million tonnes raw value followed by Brazil in the second place at 18.5 million tonnes. Even in respect of white crystal sugar, India has ranked No.1 in 7 out of last 10 years. At the prevailing sugar cane price, the total sugar cane produced in the country value at about Rs.24000 crores per year.

The Government de-licensed the sugar sector w.e.f. 11.9.1998. Entrepreneurs have been allowed to set up sugar factories or expand the existing sugar factories as per the techno-economic feasibility of the project. However, they are required to maintain a distance radius of 15 kms from an existing sugar factory.

### DSIL's PRESENT BUSINESS OPERATIONS :

The company is currently engaged in the business of manufacture and sale of Sugar, the Co-generation of Power and Industrial Alcohol.

### Sugar Division :

The Company has a sugar manufacturing facility in Bijnor district of UP. The present capacity of the plant is 6500 TCD. The company manufactures and sells three grades of sugar viz. L, M, and S. The company sells sugar in Bulk to wholesalers/ agents. It has recently started selling its sugar in small



pouches of 1 kg and 5 kgs in the retail market in Northern India on a trial basis. The company's sugar is recognized in the market by the name "Bundki" which is original name of the place where the factory is located or by the name "Dwarikesh"

#### **Power Co-generation :**

The Company is also engaged in Co-generation of Power. The Company has a power plant with a capacity of 17 MW and is using 9 MW for captive consumption in manufacture of Sugar and balance 8 MW is supplied to SEB viz. Uttar Pradesh Power Corporation Limited (UPPCL). During the crushing season 2004-05, the company sold Power worth Rs. 527.12 lacs to the SEB. Co generation capacity of the company is 17 MW, to highlight an investment positive is that Co-generation revenue cost is less than 10% of the sale price.

#### **Industrial Alcohol / (Ethanol) :**

The Company has a ready capacity of 30 KLPD distillery for the manufacture of Industrial Alcohol. Capex to set up a Greenfield sugar plant with 5500 TCD expandable to 7500 TCD with 9 MW co-generation for captive consumption started with target to commission production with start of crushing season 2005-06.

#### **MEASURES TAKEN BY DSIL FOR CANE DEVELOPMENT**

DSIL follows an extensive cane development process, assisted by the Cane Development Councils. The main objectives of DSIL's cane development measures are listed below:

- Production of improved and early varieties of Sugarcane.
- Increase in per acre yield so that farmers can maximize their earnings and DSIL is assured of an increased supply.
- Providing seeds, fertilizers and pesticides to farmers through the six Kisan Seva Kendras at different locations, covering the command area of DSIL, so that their crop is not vulnerable to diseases etc.
- Procurement of cane seeds from Sugarcane Research Station, and distribution of seeds to growers for raising foundations and primary nurseries.
- Financial assistance for raising and maintenance of nurseries.
- Conducting training seminars for farmers at the Research Station, at DSIL's expense.
- Road development in the respective council areas as well as repair and maintenance of different link roads.
- Conducting trial demonstrations on plots and cane seed treatment programs through M.H.A.T.

#### **EXISTING MARKETING AND SELLING ARRANGEMENTS**

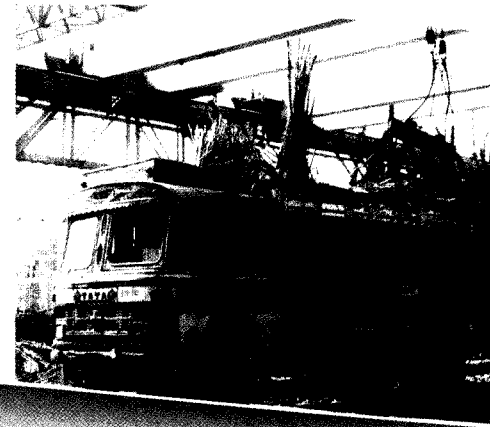
Presently, 10% of the sugar produced is released to the Government as levy sugar. The remaining 90% can be sold in the open market. However, the actual quantity that can be sold in the open market is controlled by the Government through a system called Monthly Release Mechanism (MRM). The price of the sugar sold in the open market depends on market forces, the factories can sell sugar in open market only such quantities that are released by the Government of India every month for each factory.

The Company sells free sale sugar through a network of agents, who in turn sell to wholesalers. Trade settlements are usually on cash terms. Besides, the Company also sells its sugar in Central & West UP, part of West Bengal, Bihar, Jharkhand, Assam, Punjab, Haryana, and Rajasthan & Delhi.

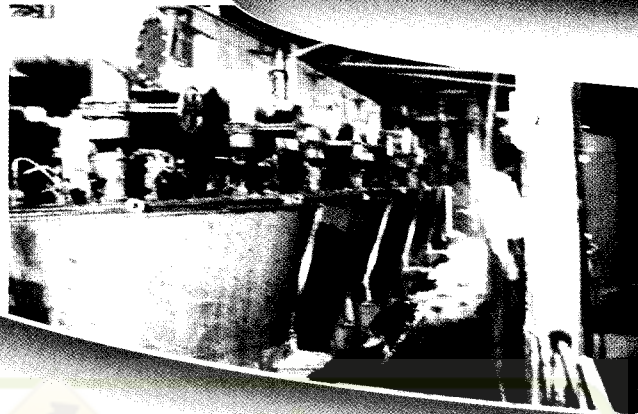
## A VIRTUAL TOUR OF DSIL'S PLANT & MANUFACTURING PROCESS



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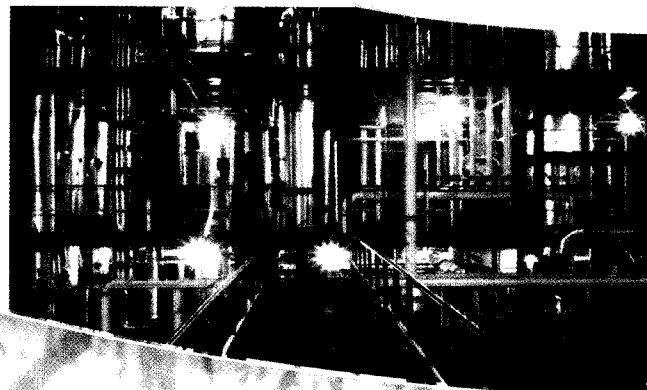


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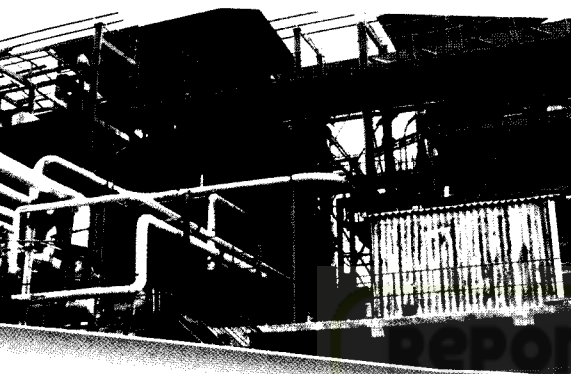
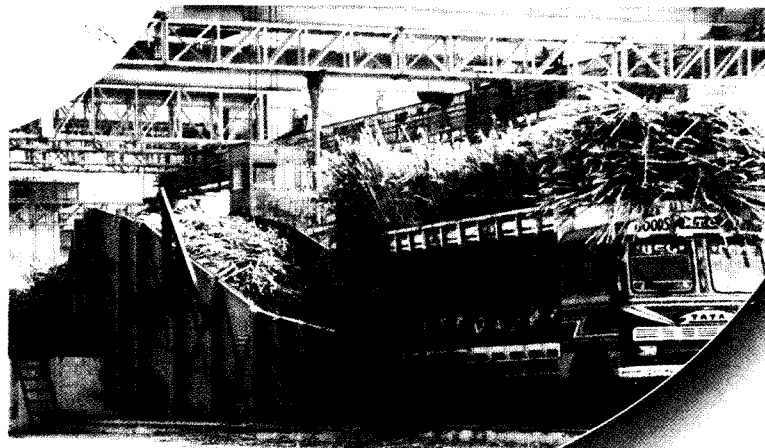


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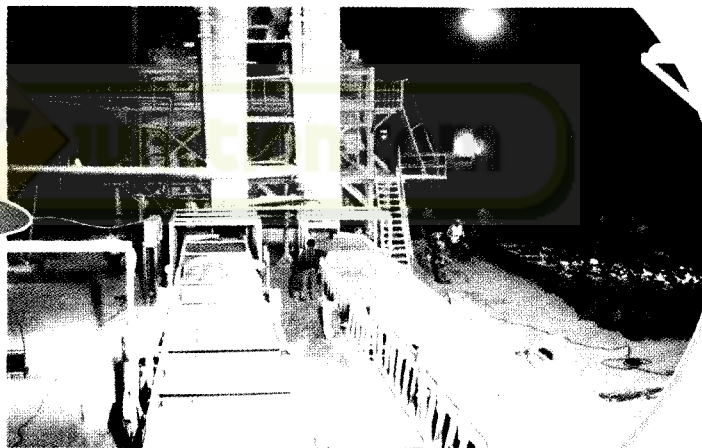
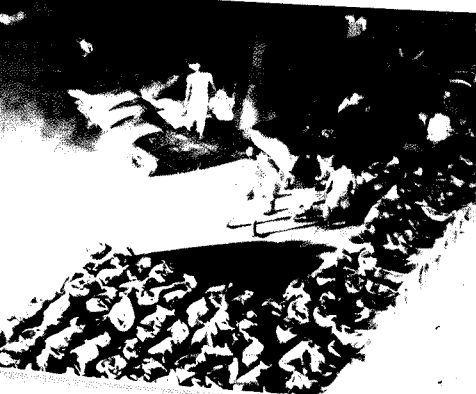




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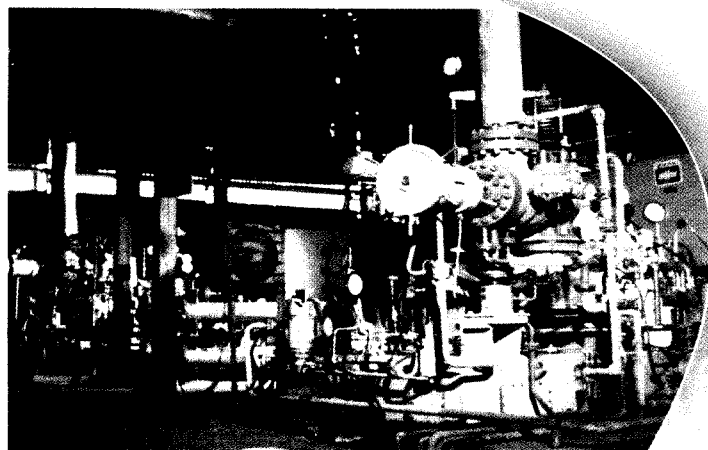
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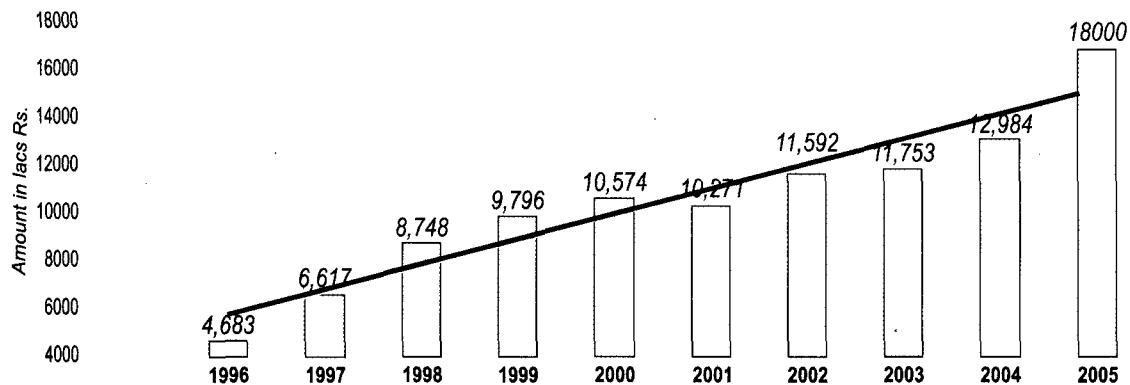
1. Loading of Truck carrying sugar cane on the Truck Tippler
2. Unloading of sugar cane from the truck by unloaders into cane carrier.
3. The Sugar cane fibres after being cut taken by elevators to the sugar mills for crushing.
4. Syrup receiving Station.
5. Boiler Station.
6. Sugar crystals being cooled in hopper.
7. Final product (sugar being bagged).
8. Sugar Gowdon.
9. 30 KLPD Distillery.
10. Co-generation of power



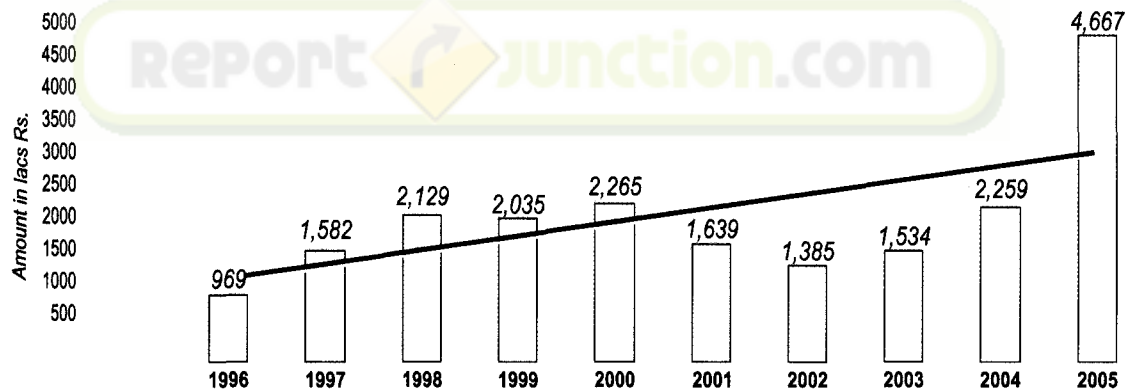
Annual Report 2005-06

## WHAT THE NUMBER SAY

### Turnover for the year ending 30th September



### EBDIT for the year ending 30th September



### PAT for the year ending 30th September

