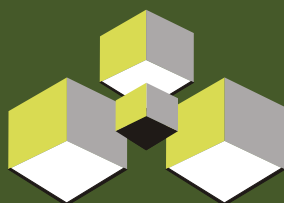




We can because we think we can



Dwarikesh Sugar Industries Limited

Annual Report 2006 - 2007

# Mission Statement

“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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ANNUAL REPORT 2006-2007

DIRECTORS

SK Neotia

MG Diwan

SS Vaidya

KP Medhekar

LN Heda

Balkumar Agarwal

Milind J Vichare IDBI Nominee Director

Ravindra Gupta IREDA Nominee Director w.e.f. 24<sup>th</sup> September, 2007

GR Morarka Chairman & Managing Director.

REGISTERED OFFICE

Dwarikesh Nagar - 246 762

District: Bijnor, Uttar Pradesh

FACTORY UNITS

Unit I: Dwarikesh Nagar - 246 762

District: Bijnor, Uttar Pradesh

Unit II: Dwarikesh Puram - 246 722

Tehsil Dhampur, District Bijnor

Uttar Pradesh

Unit III: Dwarikesh Dham - 243 503

Tehsil Faridpur, District Bareilly

Uttar Pradesh

CORPORATE OFFICE

511, Maker Chambers - V

221, Nariman Point

Mumbai - 400 021

SOLICITORS

Mulla & Mulla & Craigie Blunt & Caroe

Kanga & Co.

BANKERS

Punjab National Bank

IDBI Bank Ltd

VICE PRESIDENT [TAXATION]  
& COMPANY SECRETARY

BJ Maheshwari

CHIEF FINANCIAL OFFICER

VS Banka

CHIEF GENERAL MANAGER -  
WORKS - DN UNIT

MN Agarwal

CHIEF GENERAL MANAGER -  
WORKS - DP UNIT

RK Goel

CHIEF GENERAL MANAGER - CANE

Nagendra Singh Shekhawat

CHIEF GENERAL MANAGER-  
COMMERCIAL

KP Gadia

AUDITORS

SS Kothari Mehta & Co.

Chartered Accountants



## DWARIKESH SUGAR INDUSTRIES LIMITED

### BOARD OF DIRECTORS

Meet the Directors:

**Gautam Morarka : Chairman & Managing Director**

A commerce graduate and ICWA Inter, he is a dynamic entrepreneur with close to two decades of experience. The son of late Mr. Radheshyam Morarka who was an eminent parliamentarian for over two decades, Gautam Morarka started his career by overseeing the family run Pampasar Distillery Limited (PDL), which he subsequently divested in favour of Shaw Wallace. The proceeds were invested in setting up a sugar plant called Dwarikesh for 2500 TCD, which was set up in record period of 14 months and there has been no looking back thereafter. He has successfully set up another plant of 7500 TCD with 9 MW cogeneration at Dwarikesh Puram in a record time of 10 months. He is recipient of Indira Gandhi Priyadarshini Award for Management. He has also been honoured with "Bhamasha award" for the year 2006 by Rajasthan State Government for social service in the field of education.

**Suresh Neotia – Promoter Director**

A Law graduate from Kolkata University, he is the co-founder and Chairman of Ambuja Cements Ltd., a leading cement manufacturing company in India.

**S.S. Vaidya - Independent Professional Director**

An advocate and solicitor, who has been associated as a Partner with M/s. Kanga & Company for past two decades. The Company benefits from his rich experience and expertise in legal matters pertaining to Company and Property Law.

**M.G. Diwan - Independent Director**

With a Masters Degree in Science and Fellowship of the Institute of Actuaries, London (F.I.A.), fellowship of Actuarial Society of India, Mumbai (F.A.S.I.) and Fellowship of the Insurance Institute of India, Mumbai (F.I.I.I.), he was the Chairman & Managing Director of Life Insurance Corporation of India.

**K.P. Medhekar - Independent Director**

After a distinguished career in the India Police Services, he retired in 1985 after 37 years of service as Director General of Police, Maharashtra. At present, he is a Corporate Management Consultant in HRD, Disaster & Crisis Management & Remuneration Policy.

**Milind Vichare - Independent Nominee Director**

Engaged as a Deputy General Manager with Industrial Development Bank of India [IDBI], he has been appointed as the Nominee of IDBI.

**L.N. Heda - Independent Director**

A post graduate in Commerce, with several years of management experience, he oversees the accounting and administrative functions of the Company.

**Balkumar Agarwal - Independent Director**

An IAS Officer of the 1967 batch, he retired as Additional Chief Secretary, Govt of Maharashtra in August, 2002. He was a Representative of the Government of Maharashtra on the Board of Bombay Stock Exchange from 1994-1995. He has also been on the Board of Industrial Investment Bank of India, SIDBI and SICOM and was also Managing Director of the Maharashtra State Financial Corporation. He also holds degrees in Commerce and Law.

**Ravindra Gupta –Nominee Director**

An IAS officer & a nominee Director of IREDA. Mr Gupta has extensive experience and expertise in the field of Industry, Information Technology & Civil Aviation both in the National and International arena. He was Chairman of Board of Industrial and Financial Reconstruction. He joined the Indian Administrative Service in 1966 and served with distinction in UP and the Government of India (GOI), finally retired as Secretary, GOI in April, 2002.



## From the Desk of Chairman

Dear fellow stakeholders

It gives me immense pleasure to present the 14<sup>th</sup> Annual General Report.

Road traversed - macro view:

The year 2006-07 was perhaps one of the most difficult years witnessed in the recent history of sugar industry in the country. Both at global levels and at the domestic levels, sugar production touched a record high thereby adversely impacting price of sugar and other by products.



Internationally Brazil was a dominant partner in the world trade, exporting more than 50% of its sugar production. Australia also participated in the world trade by exporting a significant percentage of its sugar production. India, inspite of producing a record 28.5 million tons of sugar and consuming only 20 million tons of sugar could hardly register its presence in the global sugar trade, mainly because of its higher cost of production.

Indian sugar industry is a high cost producer of sugar, not because it is high cost producer at the plant levels, but because its procurement cost of sugarcane is higher. Bewildering policy of political appeasement followed year after year has resulted in sugarcane price reaching levels at which Indian sugar industry will find it impossible to compete with sugar manufacturers of countries such as Brazil and Australia. In years when there is bumper production of sugar, Indian sugar industry will have to depend on Government largesse and doles to survive. The Government is operating a number of schemes and subsidies to offer succor to the beleaguered sugar industry, in the process causing a drain on the National exchequer. Government can do away with all the doles and subsidies, provided it allows a level playing field to the sugar industry where the sugarcane price is market driven rather than being driven by political compulsions.

If the induced cyclicity of the sugar industry is to be negated, what the Government needs to do is to simply emulate the policies followed in countries such as Brazil where sugarcane price is a derivative of sugar price. Giving a meaningful fillip to the ethanol blending program would help enable the industry to adjust its production to shift in global demand of sugar and ethanol. This would also ensure sustainable advantage to the industry. The Government can then gradually do away with buffer stock subsidy, transport subsidy and instead of using the money for the survival of the industry use the same for the evolution and growth of the industry.

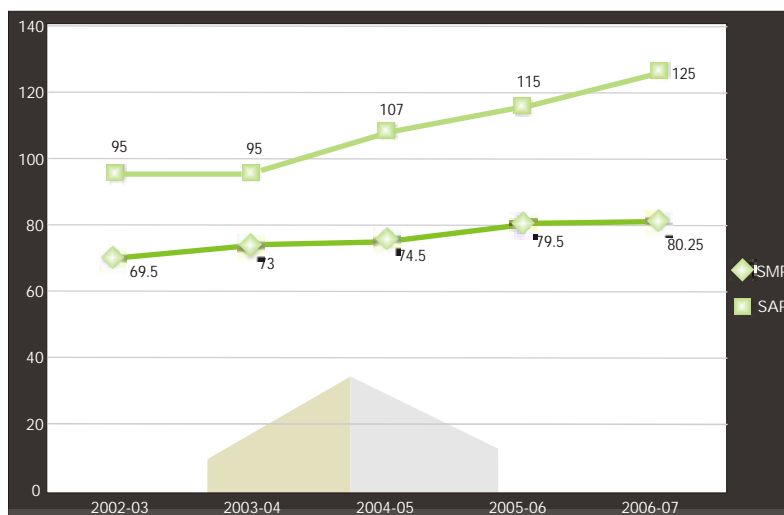
The statistics for the year 2006-07 are glaring. While production was at an all time high of 28.5 million tons, closing stock of sugar at the end of season 2006-07 was 11.1 million tons which translates to nearly 6.6 months of country's consumption. Against the back drop of such high inventory the outlook for the coming year can be anything but encouraging, unless some structural corrections are made in pricing the sugarcane.



## DWARIKESH SUGAR INDUSTRIES LIMITED

### Sugarcane price – litigations galore:

The pricing of sugarcane has from several years remained the crux of the problem for the sugar industry in the State of Uttar Pradesh. The State Administered Price (SAP) applicable in the State of Uttar Pradesh has risen sharply in contrast to the rise in the Statutory Minimum Price (SMP) over the years. Following chart is illustrative of the SMP – SAP anomaly.



As is evident while the SMP over the last five years has gone up by Rs. 10.75 per quintal, during the same period SAP has risen by Rs. 30 per quintal.

While the Honourable Supreme Court has upheld the power of the State Government to determine the SAP in the landmark judgement passed in the year 1994, it perhaps did not envision the blatant use of the power by the successive State Governments for short term political gains.

Driven to despair, the sugar industry filed suits before the High Court challenging the arbitrariness on the part of state Government in determining the SAP. In a matter relating to the sugarcane price for the season 2007-08, the High Court has passed an interim order fixing the sugarcane price at Rs. 110 per quintal. The same is vis-à-vis SAP of Rs. 125 per quintal announced by the State Government. A final decision on the same would eventually decide the fate of the industry. In another judgement relating to the sugarcane price payable for the crushing season 2006-07 the High Court has quashed the SAP of Rs. 125 and has ordered constitution of a Committee consisting of representatives of all stakeholders in the sugar industry and fixed a timeframe of 3 months for the Committee to determine a rationale sugarcane price. What indeed is heartening is that the judiciary has become aware of the arbitrariness followed in fixing the SAP.

The spectrum of litigation would not come to an end with the final orders that would be passed by the High Court as the aggrieved party would then knock at the doors of the Supreme Court. An all win solution, sans-litigation is not in sight.



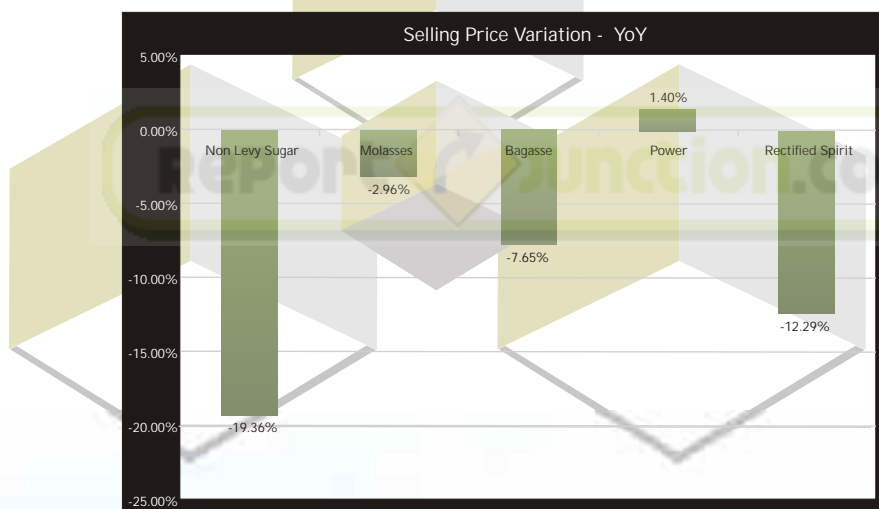
#### Micro analysis:

During the year 2006 -07, the sugar production at Dwarikesh Nagar unit was 886,127 quintals with recovery of 10.58% and the Sugar production at Dwarikesh Puram was 895,500 quintals with recovery of 10.07%. The recovery clocked at Dwarikesh Nagar was the highest in State of Uttar Pradesh.

During the year 7,625,121 Litres of Industrial Alcohol and 3,677,066 Litres of Ethanol was produced in the distillery at Dwarikesh Nagar Unit. 26,177,020 units of power was also sold to UPPCL from Dwarikesh Nagar Unit.

#### Financials – choppy waters:

For the first time in its history the company had to face the discomfiture of posting losses although the saving grace was that no cash losses were incurred. This was in spite of loftiest standards of operating efficiency being achieved and tightening the leash on the costs. We were hamstrung in surmounting the factors responsible for the losses as they were beyond our control. The main reasons for the losses were movement of sugarcane price and price of sugar and by-products in divergent directions. While the mandated cost of sugarcane went up by Rs. 10 per quintal, the price of sugar and other by-products were on downward spiral. The chart herein under is illustrative of the steep fall in the price of sugar & by-products over the last year:



#### Expansion Plans:

The execution of our expansion plans is as per schedule. We have commenced crushing at our Greenfield plant of 7,500 tons per day (TCD) (expandable up to 10,000 TCD) at Faridpur, in District Bareilly, Uttar Pradesh. With the commencement of production in this plant, our transformation from a single sugar mill complex in 1994 to a conglomerate with multiple composite facilities for manufacture of sugar, power and ethanol is complete. We now have a combined capacity to crush 21,500 TCD. We are also equipped to supply 56 megawatts of power to the State grid after meeting all our captive requirement of power. The capacity to manufacture ethanol is 30,000 litres per day. We intend to scale up this capacity in the near future.



Going forward:

Outlook for the year 2007-08 is better and it appears that the worst is behind us. While the standalone sugar mills will still find the going tough, companies such as ours who have forayed into power generation and ethanol will do better. We have already incurred capital expenditure to put our assets in place and are now poised to reap the benefits. Where as, the cost side is already reflected in numbers, the revenue side is about to unfold. The commencement of the new Greenfield project is in line with our long term strategy of growth in areas of our core competence. We are now among the leading manufacturers of sugar in the country. Going forward, we should reap the benefits of economies of scale.

Optimization in use of By-Products:

Realizations from sale of by-products such as molasses and bagasse have helped sugar companies to combat the adverse cyclic conditions. However over a period some revolutionary technologies have helped sugar companies to add value to the byproducts, maximize their yields and provide additional streams of revenue to the sugar companies. These are giant steps in the direction of mitigation of risks associated with sugar business. Bagasse which hitherto was largely sold to paper mills is now being used to generate green power. Similarly molasses is subjected to further processes for manufacture of spirits and wonder fuel ethanol. Some pragmatic and well intended policies are under way and if executed in the right earnest will provide impetus for manufacture and use of ethanol. The capacities for manufacture of ethanol in the country are in place and are certainly scalable, if warranted. We are geared up to align our production capacities and grab the emerging opportunities.

Clean Development Mechanism

Sugar mills are entitled to sell carbon credit becoming available to them on sale of power generated by using bagasse. I am pleased to inform that one of the projects for supplying 24 megawatts of power the state grid is already registered with UNFCCC and the process of registration of the second project for supply of another 24 megawatts of power is underway. Registration of these projects would help us generate additional revenue and would be a matter of immense pride as it would bear testimony of the fact that we are committed to generating green power by using environment friendly fuel.

Sign Off:

I thus sign off, assuring fellow stakeholders of our best efforts in the times ahead in our battle against derisive cyclic forces and our commitment in orchestrating an early resurrection. The interest of the shareholders rank foremost in our minds and we are committed to performing optimally and enhancing your wealth.

Gautam R Morarka  
(Chairman and Managing Director)

Place : New Delhi

Date : 1<sup>st</sup> January, 2008



## OPERATIONAL OVERVIEW

### PRESENT BUSINESS OPERATIONS:

The Company is currently engaged in the business of manufacture and sale of Sugar, Cogeneration of Power, Industrial Alcohol and Ethanol.

#### Sugar Division:

The Company has 2 sugar manufacturing units in Bijnor District of UP. The present capacity of the plants is 14000 TCD. The 3<sup>rd</sup> Unit is expected to commence during 2007-08. The Company manufactures and sells three grades of sugar viz. L, M and S. The Company sells sugar in Bulk to wholesalers / Agents. The Company's sugar is recognized in the market by the name "Bundki" which is the 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 State Electricity Board (SEB) viz. Uttar Pradesh Power Corporation Limited (UPPCL). During the crushing season 2006-07, the company sold Power worth Rs. 75.86 million to the SEB.

#### Industrial Alcohol / Ethanol:

The Company has a ready capacity of 30 KLPD distillery for the manufacture of Industrial Alcohol / Ethanol. During 2006-07, company sold Industrial Alcohol of Rs. 82 million and Ethanol of Rs. 94 million.

### MEASURES TAKEN BY DSIL FOR CANE DEVELOPMENT:

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

- Production of improved and early varieties of sugar cane.
- Increase in per acre yield so that farmers can maximize their earnings and the company is assured of an increased supply.
- Providing seeds, fertilizers and pesticides to farmers through Kisan Seva Kendras at different locations, covering the command area of the company, 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 the company's expenses.
- Road development as well as repair and maintenance of different link roads in the respective command areas.

#### Existing market 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 settlement are usually on cash terms. Besides, the company sells its sugar in Central & Western UP, part of West Bengal, Bihar, Jharkhand, Assam, Punjab, Haryana, Rajasthan & Delhi.

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



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