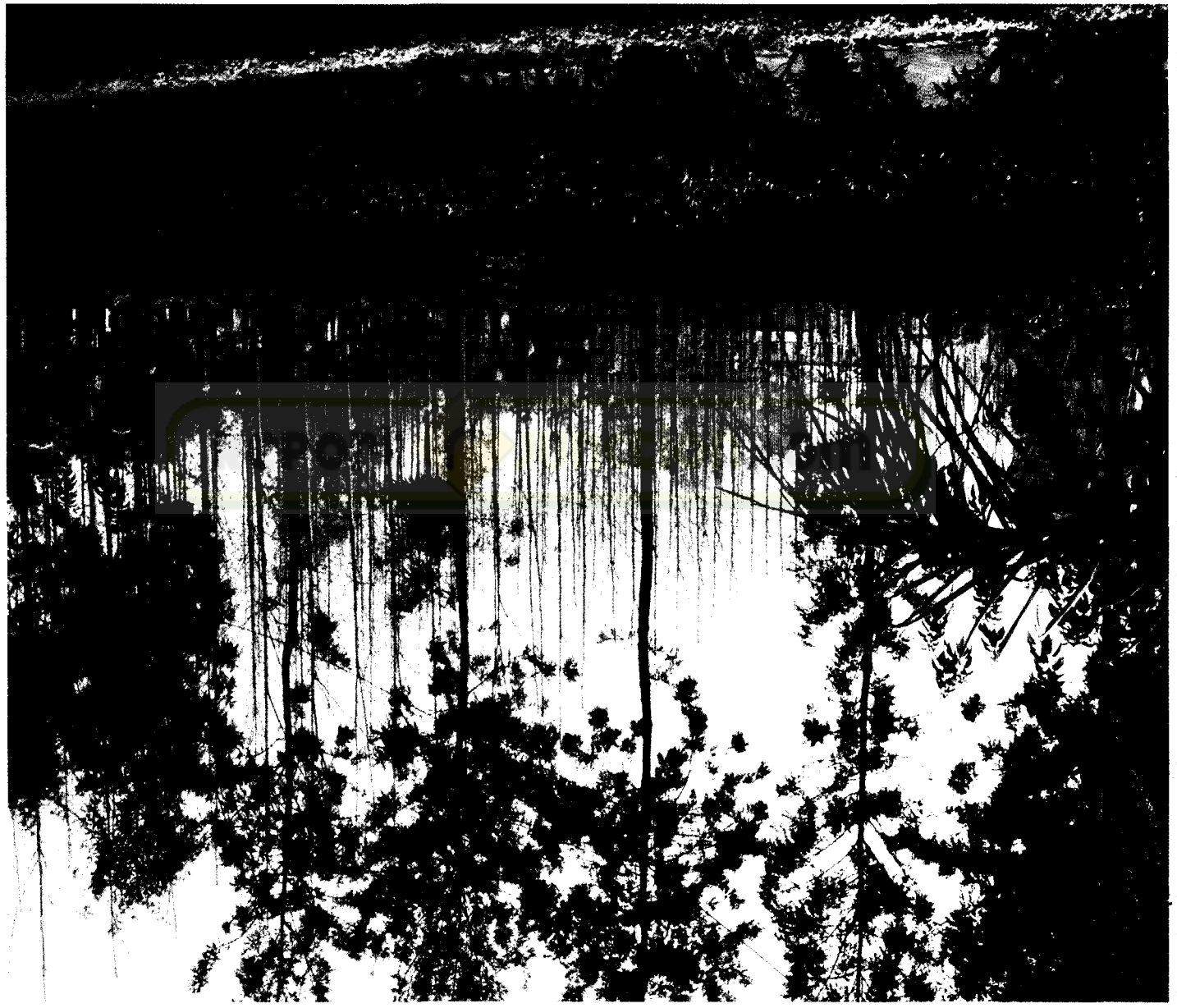
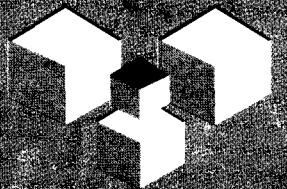


Annual Report 2007 - 2008

Our greatest glory is not in never falling,  
but in rising every time we fall.



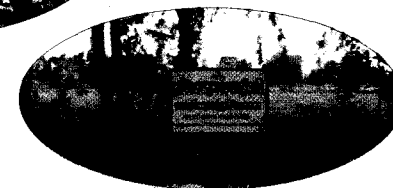
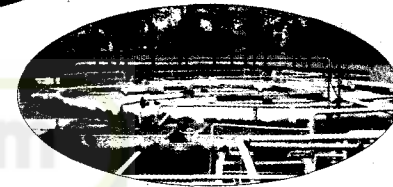
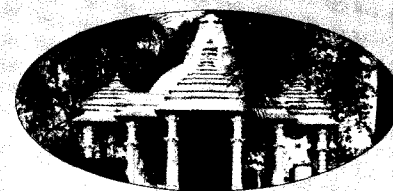
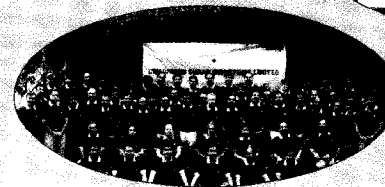
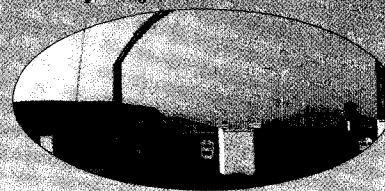
Dwarikesh Sugar Industries Limited





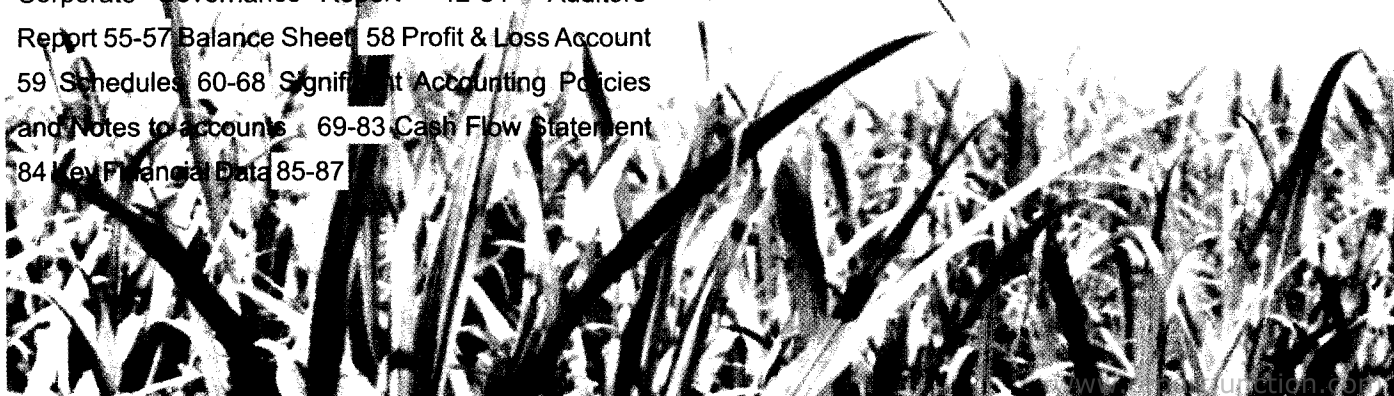
## Mission Statement

"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."



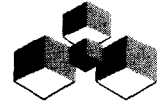
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# 15<sup>th</sup> ANNUAL REPORT

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## ANNUAL REPORT 2007-2008

### DIRECTORS

S K Neotia  
M G Diwan  
S S Vaidya  
K P Medhekar  
L N Heda  
Balkumar Agarwal  
Milind J Vichare IDBI Nominee Director (ceases w.e.f. 08th September, 2008)  
Suvarna Kamath IDBI Nominee Director (appointed w.e.f. 08th September, 2008)  
Ravindra Gupta IREDA Nominee Director (ceases w.e.f. 01st October, 2008)  
G R Morarka Chairman & Managing Director.

### REGISTERED OFFICE

Dwarikesh Nagar - 246 762  
District: Bijnor, Uttar Pradesh

### VICE PRESIDENT [TAXATION] & COMPANY SECRETARY

B J Maheshwari

### 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

### CHIEF FINANCIAL OFFICER

Vijay S Banka

### CHIEF GENERAL MANAGER - WORKS - DN UNIT

M N Agarwal

### CORPORATE OFFICE

511, Maker Chambers - V  
221, Nariman Point  
Mumbai - 400 021

### CHIEF GENERAL MANAGER- COMMERCIAL

K P Gadia

### SOLICITORS

Mulla & Mulla & Craigie Blunt & Caroe  
Kanga & Co.

### AUDITORS

S S Kothari Mehta & Co.  
Chartered Accountants

### BANKERS

Punjab National Bank  
IDBI Bank Ltd



## 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 more than 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 at Dwarikesh Nagar for 2,500 TCD which was set up in record period of 14 months and later expanded to 6,500 TCD and there has been no looking back thereafter. He has successfully set up Dwarikesh Puram sugar plant of 7,500 TCD with 9 MW cogeneration in a record time of 10 months. Under his dynamic leadership, he has also successfully set up Dwarikesh Dham sugar plant of 7,500 TCD with 36MW of co-generation and expanded co-generation capacity at Dwarikesh Puram from 9MW to 33MW.

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 – Independent Director**

A Law graduate from Kolkata University, he is the co-founder and Chairman of Gujarat Ambuja Cements, 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 the 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.), fellow ship 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 Indian 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.

#### **Smt Suvarna S Kamath - Independent Nominee Director**

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

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

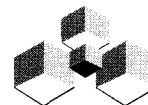
A post graduate in Commerce, with several years of management experience, he oversees the accounting and administration functions of the Company.

#### **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.

# 15<sup>th</sup> ANNUAL REPORT

## 2007 - 2008



### CMD Speak

#### Dear fellow stakeholders

Let me present the 15<sup>th</sup> Annual General Report to you all.

The year 2008 just concluded had a gory climax. The dastardly act of terrorists in Mumbai sent shockwaves not only throughout the country but tremors were felt in all parts of the world. The city of Mumbai was virtually under seize for more than 72 hours as the terrorists chose to strike at the iconic structures of Mumbai city. The act of the terrorists and their patrons is condemnable and the courage and sacrifice displayed by the policemen, the military, the navy, the commandos, the media and the hotel staff is commendable. The citizens of the country reacted strongly and the rage, seething anger, and simmering discontentment reached a crescendo and the politicians of all hues and cries bore the brunt of public anger. The spirit of solidarity displayed by United States of India was heartening. This could prove to be a defining moment point in the history of our country. With the sustenance of public awakening, the political system and the bureaucracy is expected to be more accountable and responsible. We sincerely wish that terrorism is rooted out from the world.



#### Financial Tsunami

World over, the year 2008 was also financially a very turbulent year

Financial tsunami has swamped the world as one financial institution after another has collapsed due to sub-prime mortgage crisis that has rocked the United States and the global economy. It is no brainer to be a financial sceptic these days. The crisis that has engulfed the financial markets in recent months has buried the Wall Street and humbled the United States. The near one trillion dollar bailout of troubled financial institutions that the US treasury has had to mount makes emerging market meltdowns – such as Mexico peso crisis in 1994 or the Asian financial crisis of 1997-98 look like foot notes by comparison.

The tremor of equal gravity is felt in Indian Financial sector also. It looks like a rare instance of generalised organ failure. The capital market index which had peaked in early January, 2008 crashed to levels least expected. Cynicism is yet, the order of the day and doomsayers predict that the pain surfaced so far is only a tip of the iceberg and the real pain is yet to surface. However the economists are unanimous in their belief that India, with its inherent strength will bounce back sooner than other economies. Maintaining a GDP growth rate of more than 7% though, as of now, looks like a Herculean task.

#### Sugar industry - macro view:

The year 2007-08 was the most difficult year faced by the Indian sugar industry. The year started with a huge carried over stock of sugar. The burden of such huge carried over stock was phenomenal and industry continued to reel under the same. Sugar production was lower not only in India but across the globe. The domestic industry suffered in spite of lower production because it had to cope up with the legacy of huge carried forward stock.

To begin with, the industry expected it to be yet another year of record production. The original estimate of domestic production was in excess of 30 million tons. However the arrears of sugarcane in the earlier year, unfavorable climatic conditions and better prices for alternative crops had a telling impact on the sugarcane area under cultivation. Estimates were revised a couple of times and finally India ended up producing 26.3 million tons, significantly less than the originally estimated number.





## DWARIKESH SUGAR INDUSTRIES LIMITED

Last two years, globally were characterized by higher production and lower consumption. Going forward though, the imbalance in production and consumption is expected to be corrected. Estimate of production of sugar in India is around 20 to 21 million tons, a significant drop as compared to the previous year.

In the ensuing years, global consumption is expected to exceed production on account of lower production in India and in Brazil, two of the major sugar producing geographies. While the reasons for downfall in production in India are obvious, Brazil is expected to divert more than 60% of its sugarcane for production of ethanol. The international prices of sugar are therefore expected to remain buoyant.

In spite of being the second largest producer of sugar in the world, Indian sugar industry is largely insulated from the world trade. Its export performance is not noteworthy because it is high cost producer of sugar, mainly because of the high price paid for sugarcane. Export subsidies and reliefs doled out by the Government have only caused a drain on the National exchequer and have not served any useful purpose. India does not import sugar because there are barriers such as higher import duty. Another important point that I desire to make is that the fortunes of sugar industry are not directly proportional to the fortunes of the economy in general. While the economy was booming and all other businesses were doing well in 2006-07, sugar industry was languishing and incurred unprecedented losses. In the year 2007-08 though, the sugar industry did badly and so did the economy in general. In the coming years notwithstanding the performance of economy in general, the sugar industry should do well.

However I must hasten to add that sugar industry can do well if and only if there is revival of sugar prices. Sugar prices which had shown signs of resurrection in August, 2008 have again hit roadblock. There are already a number of negative factors at play such as:

- Higher sugarcane price: In yet another bewildering move, the State Government of Uttar Pradesh has announced a price (SAP) of Rs. 140 per quintal for the general variety of sugarcane. This is as compared to the SAP of Rs. 125 per quintal announced for the earlier year and a price of Rs. 110 per quintal for the last year paid and accounted for by Sugar Industry in Uttar Pradesh in pursuance of a Court order.
- Lesser availability of sugarcane: The national estimate of sugar production is around 20 million tons and there would be clamor for procurement of sugarcane. Reckless expansion of capacities based on the incentive scheme announced by the erstwhile Government of Uttar Pradesh has further complicated matters and mills are expected to operate at less than optimum capacity.

Another dangerous trend that has emerged is that while sugar mills in Uttar Pradesh and some northern States are paying a higher sugarcane price announced by the respective State Governments, Southern States and the State of Maharashtra are paying much lower price (SMP). This resultant disparity is injurious to the health of the sugar industry in the State of Uttar Pradesh and certainly not in the National interest.

The myopic policies followed by the State of Uttar Pradesh in respect of sugar industry are baffling, more so when the sugar industry is the mainstay of the State. When things go totally out of control, revolution is round the corner and a possible revolution will lead to the renaissance of the sugar industry. Only when the industry will start sinking, perhaps there would be total awakening on the part of all concerned.

### **Sugarcane price – litigations continue:**

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.

For the crushing year 2007-08 the State Government of Uttar Pradesh had announced SAP of Rs. 125 per quintal. Left with no option, the sugar industry filed suit before the High Court challenging the arbitrariness on the part of state Government in determining the SAP. Honourable High Court has passed an interim order fixing the sugarcane price at Rs. 110 per quintal. While there was set back in a subsequent judgement of the High Court, the Honourable Supreme Court has in the interim, upheld that sugar mills will continue to pay for the sugarcane purchased at Rs. 110 per quintal. A final decision on the matter is awaited. Most of the sugar mills have paid for and accounted for the sugarcane purchase during the season at Rs. 110 per quintal.

# 15<sup>th</sup> ANNUAL REPORT

## 2007 - 2008



Meanwhile the State Government has dealt another cruel blow to the Industry by announcing SAP of Rs. 140 per quintal for the crushing season year 2008-09. While the sugar prices are on the ascendency, the increase in sugar price cannot absorb such higher SAP. This move would lead to rapid deterioration in the health of sugar industry which is already in the casualty ward. Aggrieved by the said order, the industry Association filed a writ before the High Court of Allahabad which has in a recent order dismissed the writ.

The end to the spectacle of litigations is also not discernible as the aggrieved industry will certainly knock at the doors of Supreme Court.

### Company specific analysis:

Your company has significant footprint in the State of Uttar Pradesh and is among the top ten manufacturers of sugar in the State. From a humble beginning in the year 1994, it has traversed many a miles, crossed many a milestones and has now reached a position of fortitude. It has earned reputation of being an efficient performer in the business and has unsullied reputation for the integrity of its operations. Your Company derives its income from manufacture and sale of sugar, Industrial alcohol, ethanol and generation & distribution of power. Besides, your company also sells its surplus by-products viz. molasses & bagasse. Your company has added another stream of revenue to its repertoire and in future would be able to sell CER (Certified Carbon Reductions).

Your company has been constantly investing not only in adding capacities but also technologically upgrading the plants and automating them.

During the year 2007-08, your Company recorded a recovery of 10.64% at its Dwarikesh Nagar unit which was the second highest recovery recorded in the State of Uttar Pradesh. At its Dwarikesh Puram unit, a recovery of 10.33% and at its Dwarikesh Dham unit, a recovery of 10.27 % was clocked during the same period. Recovery of 10.27% recorded at DD plant in its maiden year of operation is impressive.

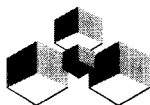
Metrics of cane crushed, sugar produced and recovery recorded is given herein under:

Units	Sugar capacity (TCD)	Cane crushed in MT	Sugar produced in quintals	Recovery in %
Dwarikesh Nagar (DN)	6,500	721,911	768,075	10.64
Dwarikesh Puram (DP)	7,500	712,989	736,265	10.33
Dwarikesh Dham (DD)	7,500	504,217	517,759	10.27
<b>Total</b>	<b>21,500</b>	<b>1,939,117</b>	<b>2,022,099</b>	<b>10.42</b>

During the year, 5,684,611 Litres of Industrial Alcohol and 4,075,725 Litres of Ethanol was produced in the distillery at Dwarikesh Nagar Unit. 24,387,540 units of power were also sold to UPPCL from Dwarikesh Nagar Unit, 22,586,640 units were sold from DP unit and 18,909,600 units were sold from DD unit.

### Financials – nothing to cheer about:

For the second time in its history the company had to face the discomfiture of posting losses although yet again 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. The main reasons for the losses were lower realisation on sale of sugar and higher interest & depreciation cost. EBIDTA earned during the year was higher than that in the earlier years. The higher EBIDTA is on account of lower procurement cost of sugarcane.



## DWARIKESH SUGAR INDUSTRIES LIMITED

The following chart is illustrative of the impact of depreciation and interest on the profitability of the Company:

Particulars	Year 2007-08 Rs. in crores	Year 2006-07 Rs. in crores
Gross Income	343.10	297.41
EBIDTA	49.57	18.90
EBDTA	0.10	0.44
EBTA	(29.33)	(12.87)
Profit after tax	(24.78)	(6.28)

Higher interest cost is on account of following reasons:

- Rise in stock levels: The stock levels rose by nearly 4 lac quintals on the year end date over the stock level on the closing date of last year.
- Rise in term loans: All projects were executed with recourse to loan funds. Consequently interest cost on term loans has seen a steep escalation.
- Higher interest rates.

In view of the late start of the cogeneration plants and early closure of crushing at DD plant, the assets were not optimally utilised. The interest cost includes interest for the off season when the assets were not in use.

### Expansion Plans:

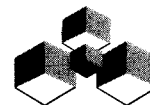
During the year, Greenfield plant of 7,500 tons per day (TCD) (expandable up to 10,000 TCD) at Faridpur, in District Bareilly, Uttar Pradesh commenced production. During the year, power evacuation from DP plant and DD plant at 24 megawatts capacity each also commenced, albeit the evacuation got delayed because of delay in laying of power distribution lines by UPPCL. With the commencement of production in DD plant and power evacuation from DD and DP plants, 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 the capacity to generate power and distill ethanol in future.

### Going forward:

Outlook for the year 2008-09 is better as the estimated sugar production in the country is lesser and price of sugar has already shown signs of resurgence. 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. Year 2008-09 would be the first full year when the assets of your company would be optimally utilised. The incidence of depreciation cost and interest cost per quintal of sugar produced would therefore be lesser. Accelerated release of sugar on the back of lower production of sugar in the country will result in lower inventory levels and consequently lower interest cost on working capital.



# 15<sup>th</sup> ANNUAL REPORT 2 0 0 7 - 2 0 0 8



## Clean Development Mechanism

Sugar mills are entitled to sell carbon credit becoming available to them on sale of power generated by using bio-degradable fuel viz. bagasse. I am pleased to inform that both DP and DD projects for supply of supplying of 24 megawatts each of power to the state grid are already registered with UNFCCC and the process of issuance of (Certified Emission Reduction) CERs is in advanced stage. The power projects were operational during the year gone by for a limited number of days. However in the coming year when the power generation would be optimal, we would be able to generate significant revenue from sale of CERs. The sale of CER would thus be an important stream of revenue in the coming years.

## Sign Off:

Permit me to sign off with an assurance to fellow stakeholders that our best efforts in the times ahead in our combat against odds will continue spiritedly and we shall surmount the odds and emerge triumphant. The interest of the shareholders rank foremost in our minds and we are committed to enrich your worth.

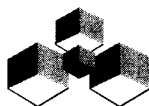
**Gautam R Morarka**

(Chairman and Managing Director)

Place : Mumbai

Date : 1<sup>st</sup> January, 2009

Report  junction.com



## DWARIKESH SUGAR INDUSTRIES LIMITED

### OPERATIONAL OVERVIEW

#### PRESENT BUSINESS OPERATIONS:

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

#### Sugar Division:

The Company has two sugar manufacturing units in Bijnor District of UP & one Sugar Unit in Bareilly District. The present capacity of the plants is 21,500 TCD. The 3<sup>rd</sup> Unit at Dwarikesh Dham was commissioned 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 original name of the place where the factory's first plant 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 at it's Dwarikesh Nagar Unit, out of which 9 MW is used 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 2007-08, the company also commissioned additional 24 MW at it's Dwarikesh Puram Unit for sale of power to State Grid. Further the Company also commissioned 36 MW of Co-generation, besides the Sugar Unit at Dwarikesh Dham, out of which 24 MW is for sale to State Grid. During the year, the Company sold Power worth Rs. 187.53 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 2007-08, company sold Industrial Alcohol of Rs. 128.84 million.

### MEASURES TAKEN BY THE COMPANY 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 covering the command area of the company, so that their crop is not vulnerable to disease 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 difference link roads in the respective command areas.