



Dwarikesh Sugar Industries Limited

Annual Report 2009 - 2010



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

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 these culminate in our permanent effort to enhance shareholder value and wealth through growth of the company."



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CORPORATE INFORMATION

DIRECTORS

G. R. Morarka	Chairman & Managing Director
B. J. Maheshwari	Whole Time Director & Company Secretary cum Chief Compliance Officer
Vijay S. Banka	Whole Time Director & Chief Financial Officer
M. G. Diwan	Independent Director
S. S. Vaidya	Independent Director
K. P. Medhekar	Independent Director
L. N. Heda	Independent Director
Suvarna Kamath	IDBI Nominee Director (Ceased w.e.f. 26.03.2010)
K. L. Garg	IDBI Nominee Director (Appointed w.e.f 26.03.2010)
Balkumar Agarwal	Independent Director
Harshvardhan Neotia	Independent Director
K. N. Prithviraj	Independent Director

REGISTERED OFFICE & UNIT 1

Unit I: Dwarikesh Nagar - 246 762.
District: Bijnor,
Uttar Pradesh.

CORPORATE OFFICE

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

OTHER UNITS

Unit II: Dwarikesh Puram - 246 722.
Tehsil Dhampur, District: Bijnor,
Uttar Pradesh.

Unit III: Dwarikesh Dham - 243 503.
Tehsil Faridpur, District: Bareilly,
Uttar Pradesh.

VICE PRESIDENT (WORKS) – DN UNIT

M. N. Agarwal

VICE PRESIDENT – COMMERCIAL

K. P. Gadia

CHIEF GENERAL MANAGER (WORKS) – DD UNIT

R. K. Gupta

SOLICITORS

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

BANKERS

Punjab National Bank
IDBI Bank

AUDITORS

S. S. Kothari Mehta & Co.
Chartered Accountants

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BOARD OF DIRECTORS

Meet the Directors:

Gautam Morarka : Chairman & Managing Director

A visionary and a dynamic entrepreneur with more than two decades of experience, he started his career by overseeing the family-run Pampasar Distillery Limited (PDL), which he subsequently divested in favour of Shaw Wallace. This son of late parliamentarian Shri Radheshyam Morarka, Gautam Morarka launched his own business by setting up a sugar plants at Dwarikesh Nagar, Uttar Pradesh in a record period of 14 months. With his far-sighted vision and strategic thought, he then expanded his business by setting up the Dwarikesh Puram and Dwarikesh Dham sugar plants and co-generation plant.

A Commerce graduate and ICWA Inter, Shri Gautam R. Morarka is the 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.

S.S. Vaidya - Independent Director

Shri S. S. Vaidya brings to the table extensive and rich experience and expertise in legal matters pertaining to Company and Property Law. An advocate and solicitor, he has been associated as a Partner with M/s. Kanga & Company.

M.G. Diwan - Independent Director

Former Chairman & Managing Director of LIC of India, Shri M. G. Diwan holds a Masters Degree in Science, besides Fellowships of major institutes in London and Mumbai.

K.P. Medhekar - Independent Director

Having retired as Director General of Police, Maharashtra, after 37 years in IPS service, Shri K. P. Medhekar is currently a Corporate Management Consultant in HRD, Disaster & Crisis Management and Remuneration Policy.

K. L. Garg - Independent Nominee Director

Shri Garg is a science graduate and having degree in Law and he has also done his CAIIB and PG Diploma in Disaster Preparedness and Rehabilitation. He has 30 years of experience of working in various departments of IDBI including Corporate Finance, Administration, Recovery and Rehabilitation.

L. N. Heda - Independent Director

Armed with extensive management experience, Shri L. N. Heda, a post graduate in Commerce, oversees the Accounting and Administration functions of the Company.

Balkumar Agarwal - Independent Director

A former representative of the Government of Maharashtra on the BSE Board, Shri Balkumar Agarwal is an IAS officer who retired as Additional Chief Secretary, Govt. of Maharashtra. This Commerce and Law graduate has also been on the Boards of Industrial Investment Bank of India, SIDBI and SICOM, besides being Managing Director of the Maharashtra State Financial Corporation.

Harshvardhan Neotia - Independent Director

Awarded the Padmashri by Government of India in 1999, and also honoured with YPO Legacy of Honour Award in 2005, he is on the Board of many reputed organizations, including the Ambuja group, Ganpati Parks Limited and GGL Hotel & Resort Company Limited. Shri Harshvardhan Neotia is also associated with many societies, cultural & diplomatic associations, business chambers and other associations. An alumni of the eminent Harvard Business School, from where he did his Owner President Management Program (OPM), he is a Commerce graduate with strong management skills.

**K. N. Prithviraj - Independent Director**

As Independent Director of various Boards, he contributed significantly to the growth of many entities, such as Surana Ind. Ltd; Falcon Tyres Ltd; Brickwork Ratings India Pvt. Ltd. Shri K. N. Prithviraj is Masters in Economics, was also a Research Fellow of Department of Economics, University of Madras. He has also done his CAIIB (II) and is associated with organizations of repute like OBC, UBI, PNB, Oriental Insurance Company.

B. J. Maheshwari – Whole Time Director & Company Secretary cum Chief Compliance Officer

A qualified Chartered Accountant and Company Secretary, he has been inducted on the Board in May, 2009 and has been appointed as "Whole Time Director & Company Secretary (CS) & Chief Compliance Officer (CCO); associated with the Company since 1994, Shri B. J. Maheshwari has more than 26 years of relevant experience spanning Legal, Taxation, Secretarial and Administrative matters.

Vijay S. Banka – Whole Time Director & Chief Financial Officer

A qualified Chartered Accountant, he has been inducted on the Board in May, 2009 and has been appointed as "Whole Time Director & Chief Financial Officer", associated with the Company since the past three years, Shri Vijay S. Banka has nearly two decades of rich experience in handling Finance and Strategy.





LETTER FROM THE CMD

Dear Fellow Stakeholders,

I have great pleasure in presenting to you the 17th annual report of your Company.

The year that went by has been generally uneventful. Though USA is on the path of recovery, unemployment and other problems, still plague the country. Europe has had its share of worries with financial meltdown in PIIGS countries hounded the entire Global economy, albeit temporarily. Growth of Asian economies and their fast paced turnaround is heartening and holds hope for all concerned.

Indian story though is spectacular. GDP growth is heart-cockling and India is seen as a rising super power in the times to come. However, the growth is uneven. While a few states are doing extremely well, there are a few states who are laggards and are languishing. What India needs is an all round inclusive growth and not the growth in few pockets of society. The surfacing of scams of huge magnitudes recently is a matter of shame and regardless of who they are, the guilty must be exposed and should be handed over exemplary punishment.

Sugar Industry:

The sugar industry globally is on a roller-coaster ride. After two years of deficit production, sugar stocks stand depleted. The global sugar balance continues to be tight and weather has impacted sugar production in key sugar geographies. Volume of sugarcane milled may not reach the ambitious projection made earlier. Production in India holds the key for world sugar balance. Policies of Indian Government in allowing export of sugar out of India would play a significant role.

Let me jog your memory and recapitulate chronologically the unfolding of events during the year which saw wild swings in the fortunes of those associated with the Industry.

Heavy rainfall in South Central region Brazil had already dented the sugarcane production in Brazil. Indian sugar season started with a prediction of sugar production of 15 million tons. The Union Government also introduced path breaking concept of Fair & Remunerative price (FRP) for sugarcane in lieu of the historical SMP. The intention of Government was noble as SMP over a period of time had lost its relevance and for many states it was merely a number. Central Government announced F & R P of ₹ 129.84 linked to a recovery of 9.50%. However State government of Uttar Pradesh in the meantime announced SAP of ₹ 165 per quintal. The farmers launched an agitation and virtually laid a siege over the national capital demanding price of ₹ 280 per quintal.

The Uttar Pradesh Sugar Manufacturers Association in the meantime announced a price of ₹ 190 per quintal which included incentive of ₹ 25 per quintal. Though crushing started what followed thereafter was an act of virtual hara-kiri by sugar mills as mills competed with one another to pay higher price for cane procured.

Production estimate of 15 million tons gained credence and was considered sacrosanct. Domestic Sugar prices zoomed to a high of ₹ 4,200 per quintal in January, 2010 while international price of raw sugar skyrocketed to a historical high of 33 cents per pound as India was seen as a potentially big importer.

Threat of lower sugarcane availability, higher international prices and higher domestic prices resulted in frenzied clamor for sugarcane and all mills competed with one another in paying higher and higher price for sugarcane. Unscrupulous poaching of sugarcane from areas of other sugar mills became rampant. Mere rumor that the price has been increased by one sugar mills sparked further price war and the effect was cascading. Eventually, sugarcane prices stayed put at elevated levels. While higher sugarcane price got established, the domestic prices started tumbling. It dawned on the country that the production of sugar was in fact not so low but reasonable. Unabated import sugar also flooded the sugar market. More importantly Central Government fearing political backlash on account of higher food inflation indulged in political posturing and initiated a series of measures which dealt brutal blow to the market sentiments and the price of sugar were on a downward spiral thereafter.



When the crushing season ended, actual production numbers were at huge variance with the estimates. Indian Sugar production was 18.8 million tons, more than 25% of the estimated production of 15 million tons. Import of raw sugar couple with higher production tilted the Indian Sugar balance and in what was expected to be deficit year turned out to be not deficit at all. While the sugar price fall gathered momentum, sugarcane price had already fastened at a level of ₹ 250 per quintal. Resultantly the pockets of sugar industry developed huge fissures and their economics are in a state of disarray.

Few developments have been thought provoking and needs industry's introspection. Firstly, the authenticity of the estimates: Year after year, it has been proved the production estimates are not credible and have more often than not gone haywire. Secondly, the lack of discipline on the part of industry: Little did the industry realize the high sugarcane price payment started in the middle of season was irreversible. Thirdly, poaching of sugarcane is a myopic strategy: Eventually, cane development alone will bear sustainable benefits. There are lessons for those of us in the industry to learn, to do soul searching and see that the gaffes are not repeated least they will torment the industry for all times to come. There is no grudging the fortune of farmers who have received higher price for their produce. In fact their interests and their development & prosperity are integral and crucial for the growth of industry. Without the well being of farmers, the industry cannot thrive. However, what is required is long term cohesive policy and not spurts of high payments in one year and defaults in another year.

It is difficult to prophesize the outcome of the season 2010-11. While the Global sugar balance is again expected to be tight as the production of sugar in most countries has suffered for one reason or the other, there is buoyancy in India. Production in India is estimated to be about 25.5 million and tons and the Indian Sugar balance comfortable. Global sugar prices though are on a high and breached all historical highs. Prices which had touched a high of 33 cents per pound in January, 2010 started falling rapidly. However, there is resurgence in sugar price globally and the price presently prevailing is again 33 cents per pound for raw sugar and in excess of 800 USD per ton of white sugar. In the meantime, the State Government of Uttar Pradesh has announced SAP of ₹ 205 per quintal for the year 2010-11.

There indeed is a strong case for allowing exports. In the absence of credible estimates of sugar production for the year 2010-11, Government wanted to tread cautiously and therefore made a small yet decisive beginning by announcing export of 500,000 tons of sugar. However, the recent rise in price of onions and tomatoes and food inflation in excess of 18% has once again compelled to the Government to rethink on allowability of exports. Least the export of sugar stokes domestic sugar prices and thereby fuel further inflation, the Government has kept the matter of import in abeyance and has referred the matter to Empowered Group of Ministers.

In the aftermath of food inflation, the issue of deregulation is once again swept under the carpet, though the time was most opportune for implementing deregulation. From the industry perspective, the business of sugar has become fait-accompli business. On the buy side, State Government decides at what price sugarcane will be produced and what will be the area from which sugarcane will be procured. On the sell side, Central Government decides the quantity of sugar that each sugar mill will sell every month. The industry operates in a water tight situation. The situation is complicated by the requirement that industry must subsidize the sale of sugar in Public Distribution system. 10% of production of every sugar mill is required to be offered for PDS at significantly below cost of production. There is neither scope for smart buying nor scope for smart selling. Sugar perhaps remains the only regulated industry in the Country.

Certain factors assume critical importance for the growth of the industry. They are:

1. Having credible estimates of production so that policy makers can frame policies for the growth of the industry.
2. Stopping diversion of sugarcane for alternative sweeteners such as Jaggery and Khandasari. While production of Jaggery and Khandasari sugar are a national waste and cause huge drag on the national exchequer, diversion of sugarcane to them leads to misleading estimates of sugar production
3. Doing away with the requirement of subsidizing sugar for PDS.



4. Deregulation: Deregulation of industry is the only long-lasting solution for the problems engulfing the industry. While deregulation will encourage efficiency, it will separate the chalk from cheese as the inefficient sugar companies will be weeded out from business. Industry will then be able to plan long term and execute the plans accordingly.
5. Linking of sugarcane price to that of sugar: This is a time tested formula followed successfully in many countries. It needs to be replicated in India.
6. Focus on cane development: Mills should focus on cane development and should channelize their resources for enduring benefits rather than frittering them away for short term gains, such as poaching of sugarcane from neighboring sugar mills.
7. Improve efficiency at plant levels and increase recovery and help farmers improve yield of sugarcane at farm levels. Improvement in farm yields will help sugar industry to optimally utilize their capacity. Interests of sugar mills and farmers are complementary to each other. Together they can prosper and not at the cost of one another.

DWARIKESH PERFORMANCE:

The year gone by was a difficult year. While it started on a promising note it ended on a dismal note. A very simple number crunching will succinctly sum up the operations of the year. Your Company crushed 1.9 million tons of sugarcane. While the SAP announced was ₹ 165 per quintal, UPSMA decided to pay ₹ 190 per quintal. However, eventually industry ended up paying on an average ₹ 250 per quintal of sugarcane. Extra payment made per quintal of sugarcane when translated for the total quantity of sugarcane crushed out to a mind boggling number and sums up the story very candidly.

Financial results of your company are as follows:

Particulars	Lacs ₹ 2009-10	% Net Sales	Lacs ₹ 2008-09
Net Sales	55,507	100.00	46,188
EBIDTA	6,500	11.71	12,598
EBDTA	1,870	3.37	6,433
EBT	(1,336)	(2.41)	3,138

Quarterly results have witnessed wild swings. While the first quarter was the best, the last quarter exactly the opposite. Factors and circumstances were beyond control and only thing under control was efficiency and it is a matter of pride that we have been efficient in operating our plants. DN plant once again held the coveted position of clocking the highest recovery in the State of Uttar Pradesh. Recovery at DP plant also is among the highest. Efforts are made on large scale to improve the recovery at DD plant. While the plant is among the best in the country, the varietal sugar balance is being changed and efforts are made to help farmers grow improved variety of sugarcane. Efforts and resources are dedicated to DD unit so that it is also in the same league as other plants.

Your Company is continuing to focus on power generation and is developing power as an important driver its business module. There is already a paradigm shift in the business module of the Company and contribution power revenue in revenue stream of the Company is handsome.

CONCLUDING NOTE

I take this opportunity to thank all our members of the staff, our bankers and all officials for their co-operation extended during the year. On behalf of the Board, let me assure all stakeholders that we continue to strive hard with shareholders' interest in the forefront and I am confident of enriching your worth in the years to come.

Thank you.

Gautam R. Morarka

(Chairman and Managing Director)



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 3rd 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 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 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 ₹ 5,571 lacs to the SEB.

Industrial Alcohol / (Ethanol):

The Company has a ready capacity of 30 KLPD distillery for the manufacture of Industrial Alcohol & Ethanol. During 2009-10, company sold Industrial Alcohol of ₹ 128.84 millions.

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.

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

A VIRTUAL TOUR OF THE COMPANY'S PLANT & MANUFACTURING PROCESS



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