

DWARIKESH SUGAR INDUSTRIES LIMITED



Annual Report 2010-11

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 (Ceased w.e.f 23.07.2011)
S. S. Vaidya	Independent Director
K. P. Medhekar	Independent Director (Ceased w.e.f 01.06.2011)
L. N. Heda	Independent Director
K. L. Garg	IDBI Nominee Director
Balkumar Agarwal	Independent Director
Harshvardhan Neotia	Independent Director
K. N. Prithviraj	Independent Director

REGISTERED OFFICE & UNIT I

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

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

CHIEF GENERAL MANAGER (WORKS) – DD UNIT

R. K. Gupta

BANKERS

Punjab National Bank
IDBI Bank
Sarva UP Gramin Bank Limited

CORPORATE OFFICE

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

VICE PRESIDENT – COMMERCIAL

K. P. Gadia

SOLICITORS

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

AUDITORS

S. S. Kothari Mehta & Co.
Chartered Accountants



BOARD OF DIRECTORS

Meet the Directors:

G. R. 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 Mr. Radheshyam Morarka, G. R. Morarka launched his own business by setting up a sugar plant 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, Mr. G. R. Morarka is the recipient of Indira Gandhi Priyadarshini Award for Management. He has also been honoured with "Bhamasha Award" for the year 2006 and again in the year 2011 by Rajasthan State Government for social service in the field of education. He has also been awarded "Indira Gandhi Sadbhavna Award" in the year 2011. He has recently been awarded "Swami Krishnanand Saraswati Purashkar".

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.

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 31 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, Mr. L. N. Heda, a post graduate in Commerce, having expertise in the field of Accounting and finance.

Balkumar Agarwal - Independent Director

A former representative of the Government of Maharashtra on the BSE Board, Mr. Balkumar Agarwal is an IAS officer who retired as Additional Chief Secretary, Govt. of Maharashtra. This Commerce and Law graduate was also 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. Mr. 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. Mr. K. N. Prithviraj was also a Research Fellow of Department of Economies, University of Madras. Masters in Economics, he has also done his CAIIB (I) and is associated with organizations of repute like Axis Bank Ltd., PNB Investment Services Ltd., Falcon Tyres Ltd. to name a few.

**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 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 27 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 been appointed as "Whole Time Director & Chief Financial Officer", associated with the Company since the past four years, Mr. Vijay S. Banka has nearly two decades of rich experience in handling Finance and Strategy.



LETTER FROM THE CMD

Dear fellow stake holders

The year gone by

The Indian economy is expected to grow further, although the estimates of GDP growth have been scaled down to 6.9% in the third quarter of 2011. Monsoon has been near or above normal and this is something to cheer about. One big worry is inflation. The other concern is that of depreciating Rupee vis-à-vis other currencies. It would provide a shot in the arm to exports.

In order to tame inflation Reserve Bank of India has tweaked the interest rates many times during the last year, however, this policy is found to be rather ineffective. Policy makers have the onerous task of galvanising the economy on the path of sustained growth on one hand and moderating inflation on the other.

Another worrying development is the industrial sickness and dreadfully low growth of IIP. Sectors such as textile are maimed and battered. Power sector is burdened by escalating costs as coal availability has become scarce and difficult. Sugar sector has been crying hoarse for releasing it from the shackles of control so as to somehow survive. Many other sectors are limping and resultantly the Banking sector is also facing the heat due to potential defaults and non-performing assets.

The Capital market isn't performing greatly with market cap of mid-cap and small cap companies significantly eroded. Decline in domestic equity prices is also attributable to significant outflows by FII's, driven largely by Global risk aversion. Government and RBI may have to initiate a series of bailout options for the bleeding sectors.

Sugar Industry: 2010-11

- ❖ Sugar production in the country for the season 2010-11 is estimated at 24.4 million tons as against 18.8 million tons in the previous season.
- ❖ Higher area under sugarcane partly responsible for increase in production.
- ❖ Higher sugarcane price resulted in lower diversion to unorganized sectors.
- ❖ Levy obligation restored to 10% from 20% in the previous year.
- ❖ Sugar prices continued to remain depressed due to various restrictions on exports, stocking of sugar and higher free sale releases.

Sugar industry in Uttar Pradesh: 2010-11

- Mills in U.P. pay State Advised Price (SAP) for sugarcane which is significantly higher than the Fair and Remunerative Price (FRP) paid by sugar mills in Southern States.
- Increase in SAP to ₹ 205 per quintal for the general variety from ₹ 165 per quintal in the season 2009-10, a whopping increase in excess of 24%.
- Recovery fractionally lower than the recovery recorded in the previous season
- Yield at farm level lower than last year on account of incessant rains.
- Production of sugar 5.9 million tons as compared to 5.2 million tons in the previous season
- Many mills operated at sub-optimal capacity.
- Few mills of the co-operative and corporation sector privatised.
- Multiple barriers on sale of molasses adversely impacted the cash-flows.

Higher cane price paid for 2010-11 has encouraged the farmers to plant more sugarcane. This has resulted in increased sugar production but lower sugar sales realisation, thereby causing heavy losses to the sugar industry.

Dwarikesh Sugar Industries: 2010-11

The overall negative environment prevailing in the industry impacted the working of your Company as well. The levy sugar obligation, higher sugarcane cost, lower sugar price realisation together pulled the performance down. Throughout the year price of free sale sugar hovered in the band of ₹ 2,700 to ₹ 2,800 per quintal. Considering 10% sugar offered for levy sale at a price of ₹ 1,900 per quintal average realisation on sale of total quantity is lesser by ₹ 100 per quintal.

Highlights 2010-11

Salient features of the crushing operations in Dwarikesh are listed herein under:

- Sugarcane crushing marginally lower
- Production of sugar down by 2.29%
- Recovery of sugar lower at DP and DD plants
- Satisfactory utilisation of Co-generation capacity



Particulars	2010-11	2009-10	% Change
Crushing (Lac Quintals)	188.58	189.53	-0.50%
Recovery (%)	DN -10.30 DP - 9.47 DD - 8.55	DN - 10.31 DP - 9.77 DD - 8.77	
Production (Lac Quintals)	17.90	18.32	-2.29%

In totality, crushing and production was in line with the production and crushing last year, although crushing & production at DP units was lower. The command area of DP unit was ravaged by floods which resulted in damage to the crop and lower recovery. DN plant maintained its highest standards of manufacturing efficiencies and clocked the best recovery in the State. Recovery at DD plant though is lower and is a cause of concern. Massive cane development efforts have been embarked upon in the Command Area of DD unit that are aimed at bringing varietal change, planting of more and more sugar cane and better farming practices. Efforts are aimed at not only to increase the area under sugarcane cultivation, but also to incentivise farmers to shift from rejected varieties to better varieties. It is expected that in a couple of years crushing and recovery at DD plant would improve by leaps and bounds.

Unit-wise performance

Particulars	DN	DP	DD
Crushing(Lac Quintals)	68.82	58.70	61.06
Recovery (%)	10.30	9.47	8.55
Total Losses (%)	1.85	1.93	2.07

Recovery clocked at DN plant is the highest in the State of Uttar Pradesh. The process losses recorded at DN and DP unit are among the lowest in the sugar industry in Uttar Pradesh.

Lac ₹

Cogeneration		
Power Exported	2010-11	2009-10
DN	867	773
DP	2,212	2,541
DD	2,490	2,257
Total	5,569	5,571

Near stagnant revenue from sale of power is mainly on account of lower number of crushing days at DP plant. Consequently power generation at DP plant was adversely impacted.

Financial Score Card

Particulars	2010-11 Lac ₹	%	2009-10 Lac ₹	%
Net Sales	58,404	100.00	55,507	100.00
EBIDTA	7,488	12.82	6,500	11.71
EBDTA	1,510	2.59	1,870	3.37
EBT	(1,762)	(3.02)	(1,336)	(2.41)

Depressed sugar market conditions impacted the prices which continued to be on the lower side throughout the year. EBIDTA margin though is better than last year. The main drag on the profitability was caused by higher interest cost. Higher working capital requirement and several hikes in the interest rates resulted in higher finance costs (up from ₹ 47 crores to ₹ 60 crores), though the Company earnestly tried to rationalise the same.

On account of operational efficiencies at plant level EBIDTA margin compares favorably with margins of other companies in the peer group. Comparatively better EBIDTA margins bears testimony of overall efficiencies and lower cost of production. Plant configuration and share of power income in the total revenue stream has also played a major role in improvement of EBIDTA margins. The bottom-line of the Company is under stress because of higher interest cost. In spite of several odds the Company has managed to earn cash profits during the year.

TRENDZ: 2011-12

- As per industry estimates, sugar production is expected at about 26 million tons.
- Area under sugarcane acreage is up by 5% at 5.14 million hectares as compared to 4.9 million hectares last year.
- Central Government announced a FRP of ₹ 145 per quintal linked to a recovery of 9.5%. However FRP has no relevance in the State of Uttar Pradesh.



- State Government of Uttar Pradesh issued a direction to the sugar mills asking them to start crushing in the first week of November even without issuing the cane reservation orders and the cane price. Generally, mills start crushing in 2nd or 3rd week of November, this resulted into lower recovery.
- SAP of ₹ 240 per quintal was announced for the general variety of sugarcane and ₹ 250 per quintal for the early maturing variety, a whopping increase of ₹ 35 and ₹ 40 respectively over the previous year.
- Whereas price of sugarcane has been increased by about 46% in a span of past two years, the price of sugar has not increased correspondingly.
- Aggrieved by the steep and unreasonable hike in price of sugarcane (SAP), the industry Association has filed a writ petition in the Allahabad High Court at Lucknow bench on 15th November 2011. The case has been heard and the Judgment has been reserved.
- A steep hike in the SAP may result in the accumulation of cane price arrears as sugar prices are ruling far below the cost of production.
- A recent order by the Apex Court on 17th January, 2012 has put additional liability of about ₹1100 crores on the U.P. sugar industry as a part of the differential cane price for the seasons 2006-07 and 2007-08. This has further aggravated the problem by creating the financial crisis for the U.P. sugar mills.
- Meanwhile, levy sugar price has recently been increased by ₹ 58 per quintal this year.
- **Only silver lining is that the Central Government recognised the problem of the sugar sector and has appreciably taken some proactive steps:**
 - Stock holding limit on bulk consumers has been removed with effect from August 2011. The stock holding and turn over limits on dealers of sugar has also been removed from December 2011. This would improve the off take of sugar in the domestic market.
 - The Government allowed one million ton sugar export in December 2011. Decision regarding further export of sugar will be taken soon.
 - Hon'ble Food Minister has assured that the Department of Food would consider the possible changes in the release mechanism.
 - Matter pertaining to cane price formula is being examined by the EAC to the Prime Minister, which may be finalised in due course.
 - Hon'ble Prime Minister has recently constituted a high level Expert Committee headed by Dr. C. Rangarajan to examine the issue pertaining to the decontrol of the sugar sector.

Going forward

Sugar production in India is likely to be about 26 million tons in the current season while domestic consumption is estimated at about 22 million tons. Therefore, sugar production in India is likely to comfortably exceed the consumption in 2011-12, the question remains how much and when Government of India will issue export orders in this season. Depreciating Indian Rupee against U.S. dollar offers an added advantage to exports. Meanwhile, the world sugar economy is facing a season with a nearly 4.5 million tons surplus. The expected losses in Brazil are likely to be offset by Australia, EU, Thailand and India. The market is likely to remain mired between conflicting developments.

Thus, uncertainty prevails in the industry. Economic slowdown, incredible production estimates and pressure of higher food inflation do not offer leeway to the Central Government to introduce industry friendly policies. It is only the export of sugar which may help in moving excess sugar out, clearing cane price dues and also adjust the local demand and supply, thereby stabilising the domestic sugar sector in the short term.

However, a level playing field is required where interest of all the three stake holders i.e. farmers, consumers and millers, need to be considered. Additional sugar exports, creation of buffer stock, soft loans and other concessional measures are needed to mitigate the immediate crisis. Further, levy sugar and release mechanism need to be abolished. Scrapping the levy obligation alone would inject around ₹ 3,000 crores a year into the mills. Cane price needs to be linked with sugar sales realisation as is the practice in other major sugar producing and exporting countries. The potential for expanding sugar production in India exists and can be fully exploited if adjustments are introduced to ensure a market driven relationship between sugarcane and sugar prices. Deregulation is the imperative key solution to overcome the infamous cyclicity of boom and bust. This will ensure better ROI by which we may be able to focus on improving productivity and production, the benefit of which will be available to all concerned including millions of sugarcane farmers.

Summing up

I would like to take this opportunity to thank you for all your support. I seek your continued support in our endeavor to achieve better results in future. I would also like to use this opportunity to thank all our business associates, our employees, our farming brethren who have reposed immense confidence in us, our Banks and Financial Institutions who have proved to be our reliable and trustworthy friends, various Government agencies and last but not the least the illustrious members of our Board who have provided their valuable guidance whenever required.

G. 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 and Industrial Alcohol.

Sugar Division:

The Company has three sugar manufacturing units, out of which 2 units are located in Bijnor District of Uttar Pradesh (UP) & one Sugar Unit in Bareilly District, UP. The present Sugar cane crushing capacity of the 3 plants is 21,500 TCD, out of which Dwarikesh Nagar, Dist: Bijnor, UP has 6500 TCD, Dwarikesh Puram, District Bijnor, UP has 7500 TCD & Dwarikesh Dham, District Bareilly, UP has 7500 TCD. 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). Further, the Company has capacity of 33 MW at it's Dwarikesh Puram Unit, out of which 24 MW is used for sale of power to State Grid and balance 9 MW for captive consumption. Further the Company has 36 MW of Co-generation at it's Dwarikesh Dham Unit, out of which 24 MW is for sale to State Grid & balance 12 MW for captive consumption. During the year, the Company sold Power worth ₹ 5,569 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 2010-11, company sold Industrial Alcohol of ₹1183.28 lacs.

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 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 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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