DWARIKESH SUGAR INDUSTRIES LIMITED

Annual Report 2011-12

Content

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."

CORPORATE INFORMATION

DIRECTORS

G. R. Morarka	Chairman & Mananging Director
B. J. Maheshwari	Whole Time Director & Company Secretary cum Chief Compliance Officer
Vijay S. Banka	Whole Time Director & Chief Financial Officer
S. S. Vaidya	Independent Director (Ceased w.e.f 09.08.2012)
L. N. Heda	Independent Director (Ceased w.e.f 21.11.2011)
K. L. Garg	IDBI Nominee Director
Balkumar Agarwal	Independent Director
Harshvardhan Neotia	Independent Director (Ceased w.e.f 14.05.2012)
K. N. Prithviraj	Independent Director

REGISTERED OFFICE & UNIT I

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

CHIEF GENERAL MANAGER (WORKS) – DD UNIT
R. K. Gupta

BANKERS

Punjab National Bank
IDBI Bank
Sarva UP Gramin Bank Limited
Zila Sahkari Bank

VICE PRESIDENT – COMMERCIAL
K. P. Gadia

SOLICITORS
Kanga & Co.

AUDITORS

S. S. Kothari Mehta & Co.
Chartered Accountants

BOARD OF DIRECTORS

Meet the Directors:

G. R. Morarka - Chairman & Managing Director

Shri G. R. Morarka is 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, 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”.

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 32 years of experience of working in various departments of IDBI including Corporate Finance, Administration, Recovery and Rehabilitation.

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.

K. N. Prithviraj - Independent Director

As Independent Director on 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 28 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

It is my pleasure to present to you the 19th Annual Report of your company.

As you know, managing growth and price stability are the major challenges of macroeconomic policymaking. In 2011-12, India found itself in the heart of these conflicting demands. Meanwhile, the Indian economic growth rate is recently further downgraded to 6.2 per cent from the earlier estimate of 6.5 per cent after having grown at the rate of 8.4% in each of the two preceding years. This indicates a slowdown which can be attributed almost to weakening industrial growth. Inflation as measured by the WPI remained high during most of the current fiscal year, though by the year end there was a clear slowdown. Food inflation, in particular, has come down to around zero, with most of the remaining WPI inflation being driven by non-food items. Monetary policy was tightened by the RBI during the year to control inflation. The global economic environment, which has been tenuous at best throughout the year, turned sharply adverse in September 2011 owing to turmoil in euro zone. However, for the Indian economy, the outlook for growth and price stability at this juncture looks more promising and a gradual upswing is imminent.

GLUT IN SUGAR MARKET

Sugar production in the country has been estimated at 26.2 million tons in the season 2011-12 as against 24.4 million tons in the previous season. Higher sugarcane price resulted in lower diversion to unorganized sectors like Gur and Khandsari and also led to an increase in the cane area, cane production vis-a-vis sugar production. Besides, carryover stocks of about 5.5 million tons of sugar from the previous season created a glut in the domestic sugar market. Meanwhile, domestic consumption remained at about 22 million tons. Similar situation prevailed in the world sugar market due to which India could hardly export about 3.4 million tons of sugar. In the given scenario, domestic sugar prices continued to remain depressed largely on account of the excessive releases in the domestic market whereas the cane price was record high. This resulted into heavy losses even to the best performing units. Obligation to supply 10% levy sugar further aggravated the problem.

SUGAR KNOWS NO GEOGRAPHICAL BARRIERS

Mills in UP pay SAP for sugarcane which is significantly higher than the FRP paid by sugar mills in Southern/Western States. On account of agro-climatic conditions, the average recovery in Maharashtra is around 11-12% and above whereas the same is around 9.25% in UP. Taking into consideration the recovery difference, the cane cost per qtl. of sugar in the SAP States of Uttar Pradesh, Uttarakhand, Bihar, Haryana and Punjab works out to be higher by Rs. 700 to Rs. 800 per qtl. as compared to the non-SAP States. Clearly, the cost of sugar produced in Southern States is lower than the sugar produced in North.

Beside that state of U.P. has an excess capacity which cannibalized on account of the incentive policy announced by the then Government in 2006. The policy was subsequently scrapped by the incumbent Government. Excess capacity has not only reduced the number of crushing days, but has resulted in mills competing with one another for their raw material requirement. As compared, the average crushing days for mills in Western and Southern states are 175 to 200 days as against 100 to 150 days in UP. In other words, the mills in Maharashtra and Southern India have much better asset turnover ratio and the capital employed is more optimally utilised.

The transportation cost from South and Maharashtra to Northern Market is hardly about Rs. 200/- per qtl. Therefore, clearly there is a Rs. 500/- per qtl. marketing advantage for Southern mills vis-a-vis their Northern counterparts. Since there are no geographical barriers, low cost sugar produced there, makes inroads into the Northern markets, causing a dent in the margins of the mills in North, who are already victims of a much higher cane cost. Beside that Southern/ Western mills have locational advantage being near to the ports, which increases their export and import competitiveness.

CHALLENGES AHEAD

The SAP for sugarcane was increased by a whopping 17% to Rs. 240 per quintal for the general variety from Rs. 205 per quintal in the season 2010-11. Higher cane price has encouraged the farmers to plant more sugarcane and divert more sugarcane to the sugar factories as compared to the unorganized sector like Gur and Khandsari. This has led to an increase in sugar production in U.P. to 6.9 million tons in the season 2011-12 as against 5.9 million tons in the previous season. It is estimated that production of sugar in U.P. in the crushing season 2012-13 would be around 8.0 million tons. Excessive sugar production amidst excessive releases has softened the sugar prices. While cane price is increasing, sugar price is not following the trend due to dual control on the raw material as well as the finished product. Thus viability of the sugar sector has been affected.

However, mills face a yet another big challenge. Rejected and low recovery variety of sugarcane is still thriving in the command area of many mills. That's why yield and average recovery is still lower. It will require gigantic effort on the part of sugar mills to eradicate such variety. Some help from the Government is also required. New varieties with better yield and recovery should be encouraged for plantation.

DWARIKESH SUGAR INDUSTRIES: 2011-12

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 sales realisation together pulled the performance down. Throughout the year price of free sale sugar hovered in the range of Rs. 2,700 to Rs. 3,000 per quintal. However, domestic sugar prices started reviving from July, 2012 and are currently hovering around Rs. 3200-3300 per quintal. Considering 10% sugar offered for levy sale at a price of Rs. 1,950 per quintal average realisation on sale of total quantity is lesser by Rs. 100 per quintal.

DWARIKESH – HIGHLIGHTS: 2011-12

On the operational side, I am happy to inform you that DN plant maintained its highest standards of manufacturing efficiencies and clocked the best recovery in the State. Another notable achievement of your company for the season was that the process losses recorded at DN and DP unit are among the lowest in the sugar industry in Uttar Pradesh. In totality, crushing and production was in line with the expectation and was quite comparable at all the three units.

Recovery at DD plant is significantly better than the recovery recorded last year. Massive cane development efforts have been embarked upon in the Command Area of DD unit and it is expected that in a couple of years crushing and recovery at DD plant would improve by leaps and bounds.

I am pleased to inform you that your company excelled in cogeneration of power. We exported cogenerated power worth Rs. 7315 lakh to the state grid in the season 2011-12 against Rs. 5569 lakh in the previous season. However, multiple barriers on sale of molasses adversely impacted the top-line and cash-flows of sugar companies including your company as well.

FINANCIAL SCORE CARD

Particulars	**2011-12 (Rs. Lacs)**	**%**	**2010-11 (Rs. Lacs)**	**%**
Net Sales	68,887	100.00	58,404	100.00
EBIDTA	9,611	13.95	7,488	12.82
EBDTA	1,725	2.50	1,510	2.59
EBT	(1,564)	(2.27)	(1,762)	(3.02)

Depressed sugar market conditions impacted the prices which continued to be on the lower side for most part of the year. The prices revived only during the last quarter of the year. EBIDTA margin though is better than last year. The drag on the profitability was caused by lower realisations on sale of sugar for most part of the year, higher SAP announced by the State Government, additional sugarcane price liability pertaining to the crushing season 2007-08 and higher interest cost. In spite of best efforts to rationalise the interest cost, the same has shot up to Rs. 79 crores from Rs. 60 crores in the previous year. A heartening feature of the year was increased revenue from sale of power. EBIDTA margin and EBIDTA in % terms is better than the figures clocked during the previous year.

TRENDZ: 2012-13

Sugar production in the country is estimated to be in excess of domestic consumption by about 2 million tons due to an increase in cane area. However, the cane acreage is lower in Maharashtra and Karnataka but higher in case of U.P. and Tamil Nadu. Sugarcane yield has also been affected in Maharashtra and Karnataka due to lower rainfall.

Owing to lower production in Maharashtra and Karnataka, few millers and traders have imported the substantial quantity of raw sugar due to lower sugar prices in the world market, lower import duty @ 10% and appreciating Rupee. Import of cheap sugar will crash the prices in the domestic market and the mills may not be in position to clear the cane price payment in the season 2012-13. This may lead to shift of the cane area in favour of other crops and India risks being a perennial importer of sugar from the season 2013-14 at a much higher cost, thereby affecting all the stake holders including millions of sugarcane farmers, consumers and the millers as well.

Central Government announced a FRP of Rs.170 per quintal linked to a recovery 9.5% for the season 2012-13. FRP has no relevance in the State of U.P. and the SAP for the season 2012-13 has been announced at Rs. 275, 280 and 290 per quintal for rejected, normal and early maturing varieties, which is quite high in view of the prevailing low price of sugar. This does not make a good economic sense and the sugar industry is likely to suffer heavy losses, which may lead to accumulation of cane price arrears, thereby affecting millions of sugarcane farmers. It is tad ironical that India, inspite of being the largest sugar consuming nation and the second largest sugar producing nation, has a continuously bleeding sugar industry.

GOING FORWARD

Sugar has been classified as an essential commodity under the Essential Commodity Act and hence it has been regulated across the entire value chain. However, fundamental changes in the consumer profile and demonstrated ability of the sector to continuously ensure availability of sugar for domestic consumption has diluted the need for sugar to be considered as an essential commodity.

Various expert committees set up in the past like Mahajan Committee, Tuteja Committee and Thorat Committee have recommended for decontrol of the sugar sector. Recently, a High Power Committee headed by Dr. C. Rangarajan, Chairman, E.A.C. to Hon'ble Prime Minister has recommended complete decontrol of the sugar sector. The Committee has asked the government to remove levy sugar obligation and to do away with the regulated release mechanism immediately beside rationalization of sugarcane pricing and liberalization of sugar trade to be introduced over a two to three year period, in a calibrated and phased manner.

If the recommendations are implemented, it will completely transform the crisis ridden beleaguered sugar industry. An appropriate environment is already there and time is now overripe for removal of sugar from the ambit of essential commodities and deregulation of the sugar sector in the interest of all the three stake holders i.e. consumers, farmers and millers.

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)

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

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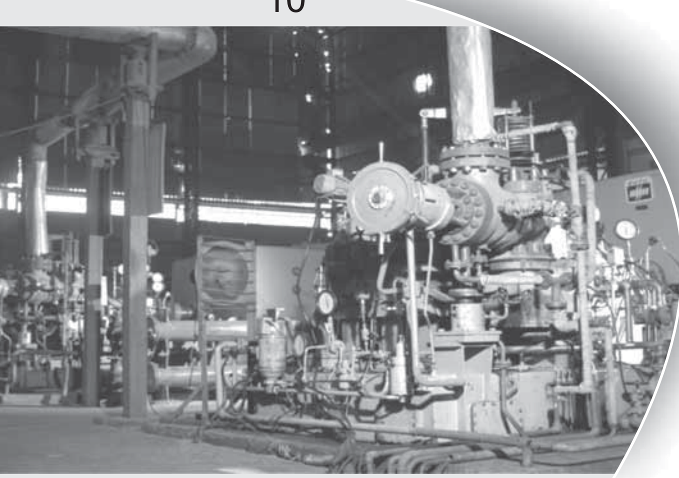

1. Loading of Truck carrying sugar cane on the Truck Tippler
2. Unloading of sugar cane from the truck by unloaders into cane carrier.
3. Sugar cane fibres after being cut taken by elevators to the sugar mills for crushing.
4. Syrup receiving Station.
5. Boiler Station.
6. Sugar crystals being cooled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

WHAT THE NUMBERS SAY