

48<sup>th</sup> Annual Report 2008 - 09



**Kothari Sugars & Chemicals Limited**

**CORPORATE INFORMATION**

<b>Board of Directors</b>	:	B.H.Kothari - Chairman & Managing Director Dr.P.S.Mani Sundaram P.S.Gopalakrishnan V.R. Deenadayalu N.Chandramouli
<b>Company Secretary</b>	:	PR.Ramanathan
<b>Statutory Auditors</b>	:	R.Subramanian and Company Chartered Accountants, Chennai - 600 004
<b>Internal Auditors</b>	:	K.R.Sarangapani & Co. Chartered Accountants, Chennai - 600 083 V.P. Mukundan & Associates Chartered Accountants, Chennai - 600 004
<b>Legal Advisors</b>	:	S.Ramasubramaniam & Associates Advocates, Chennai - 600 004
<b>Registered Office</b>	:	"Kothari Buildings" No.115, Mahatma Gandhi Salai Nungambakkam Chennai - 600 034 Phone Nos.044-30225507, 30225616 Fax No.044-28334560
<b>Registrar &amp; Share Transfer Agents</b>	:	M/s. Cameo Corporate Services Limited Subramanian Buildings No.1, Club House Road Chennai - 600 002 Phone Nos.: 044 - 28460390 to 28460394 Fax No.: 044 - 28460129
<b>Listing</b>	:	The National Stock Exchange of India Limited (NSE), Mumbai
<b>Stock Code</b>	:	<b>KOTARISUG</b> - ISIN No.INE419A01022

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**Manufacturing Units**

Kattur	Kattur Railway Station, Lalgudi Taluk, Trichy District, Tamilnadu - 621 601
Sathamangalam	Sathamangalam Village, Vetriyur Post, Via - Keezhapalur, Ariyalur Taluk, Perambalur District, Tamilnadu - 621 707

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Notice is hereby given that the 48th Annual General Meeting of Kothari Sugars & Chemicals Limited will be held on Thursday, 24-September-2009 at 11.00 A.M. at The Music Academy, Mini Hall, Old No.306, New No.168, T.T.K. Road, Chennai - 600 014 to transact the following businesses :

## Ordinary Business

1. To receive, consider and adopt the audited Accounts for the year ended March 31, 2009 together with Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in the place of Mr. P.S. Gopalakrishnan, who retires by rotation and being eligible offers himself for re-appointment.
3. Appointment of Auditors.

To consider and if thought fit to pass with or without modification the following resolution as an Ordinary Resolution:

"RESOLVED that subject to the provisions of Sections 224 and other applicable provisions, if any, of the Companies Act, 1956, Messrs R. Subramanian and Company, Chartered Accountants, Chennai, the retiring Auditors be and are hereby appointed as Auditors of the Company, to hold Office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as shall be fixed by the Board".

By order of the Board  
for **Kothari Sugars and Chemicals Limited**

Place: Chennai  
Date: July 24, 2009

**PR.Ramanathan**  
Company Secretary

## Notes

1. **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY SHALL NOT BE ENTITLED TO VOTE EXCEPT ON A POLL. PROXIES SHOULD BE LODGED AT ANY TIME NOT LESS THAN 48 HOURS BEFORE THE TIME FIXED FOR THE MEETING.**
2. A member or proxy should fill the enclosed attendance slip and deposit the same at the entrance of the meeting hall.
3. All correspondence concerning change of address, transfer of shares etc, may be made to the Registrars and Transfer Agents, M/s. Cameo Corporate Services Limited, No.1, Club House Road, Chennai- 600 002.
4. Share Transfer books and Register of Members will remain closed from Friday, 18-September-2009 to Thursday, 24-September, 2009, (both days inclusive).
5. Members are requested to bring copies of their Annual Reports, as no additional copies will be provided.

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**ANNEXURE TO THE NOTICE**

THE INFORMATION IN RESPECT OF ITEM NO. 2 PURSUANT TO SEBI CODE FOR CORPORATE GOVERNANCE ABOUT DIRECTORS SEEKING RE-APPOINTMENT IN THIS ANNUAL GENERAL MEETING ARE FURNISHED HEREUNDER

Particulars	Item No. 2
Name of the Director	Mr. P.S. Gopalakrishnan
Date of Birth	23-08-1935.
Date of Appointment	12-06-1995.
Qualification	B.Com, LLB.
Experience in specific functional areas	He has wide experience in the Banking Industry. He was formerly the Chairman of leading Financial Institutions such as (1) The Industrial Finance Corporation of India, (2) The Tourism Finance Corporation of India, (3) Indian Overseas Bank and (4) Oriental Bank of Commerce. He was an Executive Trustee of Unit Trust of India.
List of other Companies in which Directorship held	1. Dharani Sugars & Chemicals Limited. 2. Shriram General Insurance Co. Limited. 3. Sakthi Finance Limited.
Chairman/ Member of the Committee of the Board of Director of the Company	He is the Chairman of the Audit Committee as well as Share Transfer Cum Shareholders Grievances Committee.
Chairman/ Member of the committee of the other companies in which he is a Director	1. Dharani Sugars & Chemicals Limited - Member of Audit Committee/ Management and Remuneration Committee. 2. Shriram General Insurance Co. Ltd - Chairman of Investment Committee.

Place : Chennai  
Date : 24th July, 2009

By Order of the Board  
for **Kothari Sugars & Chemicals Limited**

**PR. Ramanathan**  
Company Secretary

**To the Members**

The Directors present the 48th Annual Report of the Company together with the audited statement of accounts for the year ended March 31, 2009.

The performance highlights of the Company for the year are summarised below.

**Financial Highlights**

(Rs. in Lakhs)

<b>Description</b>	<b>2008-2009</b>	<b>2007-2008</b>
Profit/(Loss) before Interest and Depreciation	<b>2385.69</b>	2592.04
Interest	<b>545.71</b>	487.72
Depreciation	<b>1297.67</b>	954.36
Profit / (Loss) Before Exceptional Items	<b>542.31</b>	1149.96
Exceptional items	<b>427.52</b>	---
Profit/(Loss) Before Tax	<b>114.79</b>	1149.96
Tax Adjustments	<b>13.32</b>	131.03
Fringe Benefit Tax	<b>17.30</b>	17.87
Profit / (Loss) after Tax	<b>84.17</b>	1001.06
Transfer to Debenture Redemption Reserve	<b>75.00</b>	75.00
Transfer to Capital Redemption Reserve	<b>9.17</b>	58.12
Profit / (Loss) after Appropriation	<b>--</b>	867.94
Balance brought forward from previous year	<b>--</b>	(867.94)

Your Directors are pleased to report that the company has made a profit after tax of Rs.84.17 Lakhs.

**Operations and Performance****Performance**

The Company achieved a turnover of Rs.275.68 Crores for the year ended March 31, 2009 and profit after tax of Rs.84.17 Lakhs compared to Rs.1,001.06 Lakhs, of last year.

**a. Sugar**

Fall in overall sugar production in the country had shifted India from "Exporter of sugar" during 2007-08 to "Importer of sugar" in 2008-09. The main reasons for this significant fall in sugar production are reduction in cane acreage, reduction in agricultural yield, large number of farmers switching to more remunerative crops and also reduction in industrial yield.

The Plant at Kattur had crushed 4,52,491 MTs in 2008-09 with a recovery of 10.27% as against 7,72,232 MTs in 2007-08 with a recovery of 9.57%.

The Plant at Sathamangalam crushed 5,93,134 MTs in 2008-09 with a recovery of 10.46% as against 2,69,340 MTs in 2007-08 (first year of operations) with a recovery of 9.79%.

Pandavapura unit (leased from PSSK Ltd.) at Karnataka crushed 2,64,581 MTs with a recovery of 8.58% as against 5,56,867 MTs with a recovery of 9.27% in 2007-08. In view of unviability, the company has suspended operations in Pandapura plant and is in dialogue with Government of Karnataka for cancellation of lease.

Due to Steep increase in sugar prices from last quarter of the financial year 2008-09 the prospects seem more promising. Still, cane availability would be the key driver for profit growth. Necessary actions had already been initiated to address the competition for cane from other crops.

**b. Cogeneration**

The 24 MW cogeneration power plant at Sathamangalam had helped to some extent. However, non-availability of adequate cane has affected the availability of adequate Bagasse, which is the key input material, for Cogeneration of Power.

Total power exported at Kattur was 11,455 MWH during 2008-2009 as against 24,458 MWH during 2007-2008, and at Sathamangalam power exported was 51,439 MWH during 2008-2009 as against 67,698 MWH during 2007-2008.

To capitalize on the demand for power in Tamil Nadu, we have installed coal handling system to generate power through coal.

**c. Distillery**

Alcohol production during the year 2008-09 was 15,695 KL as against 13,511 KL in 2007-08. We have successfully expanded our capacity from 45 KLPD to 60 KLPD during 2008-09 which actually helped to increase production.

**Dividend**

The Directors do not recommend dividend for this year, in view of no distributable surplus.

**Directors**

Mr.P.S.Gopalakrishnan, Director is retiring by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

Mr.V.R.Deenadayalu was appointed as a director in the casual vacancy caused due to the resignation of Mr.P.N.Devarajan on April 27, 2009.

**Directors' Responsibility Statement**

The Directors confirm

- i. that in the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii. that they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and profit of the company for that period;
- iii. that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv. that they have prepared the Annual Accounts on a going concern basis.

**Corporate Governance**

The reports of the Corporate Governance together with the Auditor's Certificate are attached hereto as an Annexure.

**Public Deposits**

The Company has not accepted any public deposit during the year and there was no outstanding public deposit anytime during the year.

**Re-appointment of Auditors**

The Auditors, M/s.R.Subramanian and Company, Chartered Accountants, Chennai, retire at the ensuing Annual General Meeting and have confirmed their eligibility to accept office, if re-appointed.

**Cost Auditor**

The Company's Cost records with respect to product 'Sugar' are being audited by Mr K.Suryanarayanan, Cost Auditor, appointed by the Board.

**Disclosure under Section 217(2A) and 217(1)(e) of the Companies Act, 1956**

As required under the provision of sub-section (2A) of the Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, particulars of employees are required to be set out in the annexure to the Directors' Report. However, as per provision of Section 219(1)(b)(iv) of the Companies Act, 1956, the report and the accounts are being sent to all the shareholders excluding the aforesaid information. Any shareholder desirous of obtaining the same may write to the Company Secretary. Information required under Section 217(1)(e) of the Companies Act, 1956 is appended.

**Subsidiary Companies**

Pursuant to the order issued by the Ministry of Corporate Affairs, New Delhi, attaching the Balance Sheet of the subsidiary company Kothari International Trading Limited is exempted.

**Acknowledgement**

Your Directors thank the Banks, Customers, Debenture Holders, Farmers, Financial Institutions, Government Authorities, Suppliers and Shareholders for their continued support. Your directors also place on record their appreciation for the committed services by the employees of the Company.

On behalf of the Board  
for **Kothari Sugars and Chemicals Limited**

Place : Chennai  
Date : July 24, 2009

**B.H.Kothari**  
Chairman and Managing Director

**FORM A**
**PARTICULARS AS PER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956**
**A. POWER AND FUEL CONSUMPTION**

Sl. No.	Particulars	Kattur		Sathamangalam	Pandavapura
		Sugar & Cogen	Distillery	Sugar & Cogen	Sugar
1.	<b>Electricity</b>				
	a. Purchased Unit	1006000	1018769	828099	572206
	Total Amount Paid (Rs.)	7424437	5169609	5720189	2916796
	Rate per unit (Rs.)	3.50per unit	3.50per unit	6.91	5.10
		/ 5.00 per unit –	300.00 Per KVA MD		
		during Off Season	Charges		
		300.00 Per KVA MD			
		Charges			
	b. Own Generation through Diesel				
	Generated Unit in KWH	114030		15616	61383
	Unit per Litre of Diesel	2.8 units	NA	2.87	3.05
	Cost per Unit (Rs.)	13.00		11.517	11.47
	c. Power generated through				
	Steam turbine Unit in KWH	30536126	1171819	73679000	9733256
	Unit per ton of fuel	255.30	-	392.95	141.91
	Cost per unit (Rs.)	3.15	3.15	3.15	
2.	<b>Coal (specify quantity and where used)</b>	NA	NA	NA	NA
	Quantity (tonnes)				
	Total cost (Rs.)				
	Average Rate (Rs.)				
3.	<b>Fuel Oil</b>	NA		NA	NA
	Quantity (tonnes/kiloliters)		955.150 tons		
	Total Cost (Rs.)		30535180		
	Average Rate/ litre (Rs.)		31.97		
4.	<b>Natural Gas</b>	NA	NA	NA	NA
	Quantity M3				
	Total Cost (in Rs.)				
	Average Rate per M3 (Rs.)				
5.	<b>Consumption per unit of production</b>				
	Total in-house consumption (unit)	17693356	4166683	22952985	10365345
	Products (Sugars) in Quintal	440450	13397474 Litres of	566720	222330
			Alcohol		
	Electricity (Unit per quintal)	40.17	0.311 unit per Litre	40.50	46.62
			of Alcohol		

Notes: N.A. - Not Applicable

**B. TECHNOLOGY ABSORPTION**
**FORM B**
**(Form for disclosure of particulars with respect to Technology Absorption)**
**Research and Development (R & D)**

The Company adopts the following R &amp; D measures:

High Sugar variety cane development activities are being implemented to increase the sugar recovery.

**Expenditure on R & D** : Nil

**Technology absorption, adoption and innovation** : Nil

**C. FOREIGN EXCHANGE EARNINGS AND OUTGO**

(Rs. in Lakhs)

a.	Total Foreign Exchange earned	1,796.07	b.	Total Foreign Exchange outflow	20 64
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**MANAGEMENT DISCUSSION AND ANALYSIS****“2008-09” Industry Structure & Development**

2008-09 was a testing time for industries all over the world with many countries facing a downtrend. There is strong need to put in place proper systems and controls. Fortunately India has not been affected to the extent many other countries have been, due to tight regulatory mechanism. Nonetheless, the global economic slow down had its impact on India too.

In addition to credit crunch, Indian sugar industry also went through the cyclical recession. The profitability of most of the sugar mills was worst hit during 2008-09. Overall sugar production in India during 2008-09 was 14.5 million tons as against 21 million tons forecast at the beginning of the year and is 45% less than the last year's production of 26.4 million tons. Maharashtra, Uttar Pradesh, Karnataka and Tamil Nadu which together hold 75% to 80% of the country's sugar production have been greatly affected during the year. Though there are several reasons for this huge drop, the key reasons are significant fall in cane acreage (20% reduction), reduction in agricultural yield (down by 9%) and industrial yield (down by 7%).

Since the production dropped by 45% over last year and consumption increased by 3%, substantial import is required to contain prices and also to avoid drastic reduction in stock. In anticipation of a tight situation, the government has already taken several measures, the most important being total removal of import duties on both raw and white sugar until 31st July. The down trend in sugar production has converted India from “Exporter of sugar” during 2007-08 to “Importer of sugar” in 2008-09.

**OPPORTUNITIES & THREAT****Opportunities**

- o Uptrend in the Sugar & by-products prices is a positive development.
- o High demand from industrial, food grade and fuel alcohol led to high alcohol realizations.
- o Heavy demand for electricity has resulted in firming up of prices.
- o Import of raw sugar at zero duty and without future export obligations.
- o Removal of the 60% import duty on white sugar.

**Threat**

- o Significant fall in cane area resulting from the large number of farmers switching to more remunerative crops such as Paddy, Wheat, Cotton, Corn, etc.
- o Reduced agricultural yield due to lack of fertilizers & inadequate monsoon rains during the critical cane growth period.
- o Low Industrial recovery.
- o Though consumption of sugar has increased, there is a significant drop in sugar production.
- o India has faced two consecutive years of production shortage.
- o Unusually low stocks for last two years.
- o The key issue will be the weather pattern which will determine the effective number of harvesting days and production.
- o Raw sugar import margins have been lowered drastically to contain price inflation internationally and this may discourage imports.

**OUTLOOK SUMMARY****Industry Outlook**

Steep increase in sugar as well as its by-product prices during the last quarter of the financial year 2008-09 holds promising outlook. Still, cane availability would be the key driver of profit growth. Other than cane availability, Govt./Court action in fixing the Statutory Minimum Price (SMP) in line with sugar price,

increased cost of production, increased competition for cane cultivation from other more remunerative crops like rice, wheat etc will also play major role in the coming year. The positive developments like uptrend in the price of by-products, strong demand for electricity are expected to offset the gap created by factors mentioned above.

India will start the year 2009-10 with unusually low stock of sugar (approx.4.7 million MTS) and any production shortage during the next crop season will again require substantial imports since the consumption is expected to grow by 5%(22.5 million MTS to 23.5 million MTS). The price trends in international markets would also be a key determinant for the future profitability of Indian Sugar Industry. The Indian sugar market will also be dependent on Brazilian expansion. India, which has been a strong competitor for Brazilian sugar will ironically become its main dependent. Brazil is on track to register its largest ever increase in sugar production (32.2 million MTS) and should strongly regain its market share due to the exclusion of India. Despite the credit crunch and the financial crisis, the strong rise in Brazilian exports (30% increase) is expected to meet the increased world-wide demand (mainly from India).

To summarize, availability of Cane acreage will have a key influence on both agricultural yields and industrial recovery. If the next crop comes in below 20 million Tons of sugar production, India will once again require substantial imports. It is hoped that the upward trend in sugar and its by-products prices will take care of the bottom line of the sugar mills. Overall the domestic market outlook for the next year appears favourable, yet very early to predict.

#### **Company's Outlook**

Upward trend in prices of sugar as well as its by-products (especially Alcohol prices) is a positive sign. Still, cane availability and cane price would be the key determinants. Actions have already been initiated to prevent switching from cane to crops like Paddy, sunflower etc by introducing high yield cane varieties, announcing subsidy to farmers for cane cultivation, arranging cane developmental schemes through banks and addressing their basic demands. As discussed above, if there is a drop in sugar production level, India again needs to import raw sugar (may be at zero duty and without future export obligations) which will be a positive sign. We are well equipped to process raw sugar and will take it forward if found viable. Reduction in Cost of Production is the need of the hour and we are in the process of "Creative Cost Cutting" without sacrificing quality. Heavy demand for electricity, especially in Tamil Nadu, has resulted in firming up of prices. To capitalize this opportunity, we have entered into an agreement with Power Trading Corporation (PTC) to supply around 135,00,000 KWH power per month (i.e.150% more than 2008-09 average supply per month to TNEB) with 50% higher price. With all the above, we expect 2009-10 to be a good year.

#### **RISKS AND CONCERNS**

##### **Raw Material risk:**

Significant fall in cane area resulting from the large number of farmers switching to crops such as Paddy, Wheat, Cotton, Corn, etc. Reduced agricultural yield due to lack of fertilizers & inadequate monsoon rains during the critical cane growth period and Low Industrial recovery.

##### **Risk Mitigation:**

As stated earlier, we have already started our initiative to stop farmers to switching over to other crops. To improve their yield, we are recommending the right variety crops and also providing timely "monetary as well as technology" support.

##### **Product price risk:**

Sugar, being essentially a controlled commodity, its price is controlled by the Government.

##### **Risk Mitigation:**

From the last quarter of financial year 2008-09, the prices of Sugar and its by-products show an increase. As discussed above, the demand for sugar during 2009-10 will be high and the prices are expected to be in upward trend.