

THE ANDHRA SUGARS LIMITED

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59th ANNUAL REPORT 2005-2006



THE ANDHRA SUGARS LIMITED

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2005 - 2006

BOARD OF DIRECTORS :

Dr. Mullapudi Harischandra Prasad
Chairman & Managing Director

Dr. B. B. Ramaiah
Managing Director (Tech.)

Justice G. Ramanujam

Sri A. Ranga Rao

Sri P. Narendranath Chowdary, B.Sc.
Joint Managing Director

Sri M. Narendranath, B.Sc.(Ag.)
Joint Managing Director

Sri M. Thimmaraja, B.Tech., M.B.A.(Florida)
Joint Managing Director

Sri P. Achuta Ramayya, B.Com., M.B.A.(New York)
Executive Director

Dr. A.V. Rama Rao

Dr. P. Kotaiah

Sri V. S. Raju

Dr. Alapaty Appa Rao

Dr. Anumolu Ramakrishna

Sri P.S.R.V.K. Ranga Rao, B.Com.,
Executive Director

COMPANY SECRETARY :

Sri M. Bulli Abbayi, B.Sc., B.L., F.C.S.

VICE PRESIDENT (Finance) :

Sri T. Krishnaiah, B.A., F.I.C.W.A., F.C.S.

BANKERS :

Andhra Bank
State Bank of India
State Bank of Hyderabad
Bank of Baroda
Indian Bank

STATUTORY AUDITORS :

M/s. Brahmayya & Co.,
Chartered Accountants
Vijayawada.

COST AUDITORS :

M/s. Narasimha Murthy & Co.,
Cost Accountants
Hyderabad.

REGISTERED OFFICE :

Venkatarayapuram,
Tanuku - 534 215,
West Godavari District,
Andhra Pradesh.

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THE ANDHRA SUGARS LIMITED

Registered Office: Venkatarayapuram, TANUKU - 534 215
West Godavari District, Andhra Pradesh.

NOTICE TO SHAREHOLDERS

Notice is hereby given that the FIFTY NINTH Annual General Meeting of THE ANDHRA SUGARS LIMITED will be held at the Registered Office of the Company, Venkatarayapuram, Tanuku on Wednesday the 20th day of September, 2006 at 3.00 P.M. to transact the following business:

1. To receive, consider and adopt the audited Profit & Loss Account for the year ended 31st March, 2006 and the Balance Sheet as at that date together with the Reports of Board of Directors and Auditors thereon.
2. To declare Dividend for the year 2005-2006.
3. To appoint a Director in place of Justice G. Ramanujam who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Sri V. S. Raju who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Dr. Alapaty Appa Rao who retires by rotation and being eligible offers himself for re-appointment.
6. To appoint Auditors for the year 2006-07 and fix their remuneration. The present Auditors of the Company, M/s Brahmayya & Co., Chartered Accountants, Vijayawada retire at this Annual General Meeting and are eligible for re-appointment.

SPECIAL BUSINESS :

7. To consider and if thought fit to pass with or without modifications, the following Resolution as a Special Resolution.

"RESOLVED THAT pursuant to Section 31 of the Companies Act, 1956 and other applicable provisions, if any, the Article 120 of the Articles of Association of the Company be altered by substituting the figure 10,000/- in place of figure 5,000/- appearing in the 1st line thereof.

(BY ORDER OF THE BOARD)

Venkatarayapuram
TANUKU
22-07-2006

For THE ANDHRA SUGARS LIMITED
Dr. MULLAPUDI HARISCHANDRA PRASAD
Chairman & Managing Director

NOTES:

1. A Member entitled to attend and vote may appoint a proxy to attend and vote instead of himself on poll and that a proxy need not be a member.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from Saturday the 16th September, 2006 to Wednesday the 20th September, 2006 (both days inclusive).
3. The dividend recommended by Directors, if approved at the meeting, will be paid to the Shareholders whose names are on the Register of Members as on 20th September, 2006. **In respect of the shares held in Demat Mode, the above dividend will be paid on the basis of beneficial ownership as at end of business hours of 15th September, 2006 as per the details furnished by the Depositories for this purpose.**
4. Shareholders are requested to notify their change of address if any to the Company.
5. Shareholders are requested to furnish their Bank Account Number in order to enable the Company to print their Bank Account on the Dividend Warrants.

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6. As per the provisions of Investors Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001, the un-claimed Dividend in respect of Dividend for the year 1997-98 have been transferred to Investors Education and Protection Fund as envisaged in Section 205C of the Companies Act, 1956.
7. Explanatory Statement under Section 173(2) of the Companies Act, 1956 is attached.
8. **Information about the Directors seeking re-appointment at the 59th Annual General Meeting as required under Corporate Governance.**

The information or details to be provided in respect of Directors seeking re-appointment at the 59th Annual General Meeting as required by Corporate Governance are given as under:

Justice G. Ramanujam joined as a Director on the Board on 30-01-2002.

Justice G. Ramanujam is the retired Chief Justice, Madras High Court. He has considerable experience in industrial and legal field. He is a Director on the Board of the Companies viz., Lakshmi Machine Works Ltd., Lakshmi Mills Co. Ltd., The Andhra Petrochemicals Ltd., Viswapriya Financial Services and Securities Ltd., Viswapriya Gold Hire Purchase Ltd., and Madras Stock Exchange Ltd. He is the Chairman of the Audit Committee constituted by the Board of Lakshmi Machine Works Ltd., Lakshmi Mills Co. Ltd. and The Andhra Petrochemicals Ltd. He is also a Member of Shareholders/Investors Grievance Committee constituted by the Board of Lakshmi Machine Works Ltd., & Lakshmi Mills Co. Ltd. Justice G. Ramanujam does not hold any equity shares in the company.

Sri V.S. Raju joined as a Director on the Board on 29-10-2003.

Sri V.S. Raju is former Registrar of Companies, Andhra Pradesh, Hyderabad and Karnataka, Bangalore. He also held the position of Secretary and Deputy Secretary in the Department of Company Affairs, New Delhi. He is practicing as an Advocate at Hyderabad and is eminent in Company Law matters. He is a Director on the Board of the Companies viz., JOCIL Ltd., Intensive Air Systems Ltd., Visual Soft Technologies Ltd., and Vishnu Chemicals Ltd. He is the Chairman of the Audit Committee constituted by the Board of JOCIL Ltd., Intensive Air Systems Ltd., Visual Soft Technologies Ltd., and Vishnu Chemicals Ltd. Sri V.S. Raju does not hold any equity shares in the company.

Dr. Alapaty Appa Rao joined as a Director on the Board on 30-04-2004.

Dr. Alapaty Appa Rao holds Ph.D. from Madras University and has long standing experience in the field of Agricultural Sciences. He served as Vice Chancellor of Andhra Pradesh Agricultural University. He is a Director on the Board of Usha Kiran Movies Ltd., Heritage Foods (India) Ltd. He is a Chairman of Audit Committee constituted by the Board of Usha Kiran Movies Ltd. and Member of Audit Committee constituted by the Board of Heritage Foods (India) Ltd. He is also a Member of Remuneration Committee constituted by the Board of Heritage Foods (India) Ltd. Dr. Alapaty Appa Rao does not hold any equity shares in the company.

ANNEXURE TO NOTICE

Explanatory Statement Pursuant to Section 173(2) of the Companies Act, 1956.

ITEM NO. 7

As permitted by Article 120 of the Articles of Association of the Company, your company is presently paying a sitting fee of Rs. 5,000/- to each Director for attending each Meeting of the Board or Committee thereof. Your Board of Directors consider it advisable to increase the Sitting Fee payable from Rs. 5,000/- to Rs. 10,000/- for which purpose it is necessary to alter Article 120 of the Articles of Association of the Company.

Your Board of Directors recommend the necessary Resolution for your approval.

Non-whole-time Directors shall be deemed to be interested or concerned in the Resolution.

(BY ORDER OF THE BOARD)

Venkatarayapuram
TANUKU
22-07-2006

For THE ANDHRA SUGARS LIMITED
Dr. MULLAPUDI HARISCHANDRA PRASAD
Chairman & Managing Director

DIRECTORS' REPORT

To
The Shareholders

Your Directors have pleasure in presenting this FIFTY NINTH ANNUAL REPORT along with the audited Statement of Accounts for the year ending 31st March, 2006.

FINANCIAL RESULTS :

(Rupees in lakhs)

	This Year	Previous Year
Sales	54177.80	45778.88
Other Income	2980.63	2552.68
	57158.43	48331.56
Profit for the year	10984.55	8486.59
Depreciation	2505.33	2022.25
Profit after depreciation	8479.22	6464.34
Add: Income Tax refund received	4.25	2.83
Excess provision of Income-tax credited back	224.89	----
	8708.36	6467.17
Less: Short provision for Income-tax	----	1.95
	8708.36	6465.22
Less: Provision for Current Tax	1500.00	1200.00
Provision for Fringe Benefit Tax	50.00	----
Provision for Deferred Tax	1124.99	900.28
Provision for Wealth Tax	2.00	2.00
Profit after Tax	6031.37	4362.94
Add: Balance brought forward from last year	1433.72	2050.37
Profit available for appropriation	7465.09	6413.31
APPROPRIATIONS:		
Transfer to General Reserve	2400.00	3125.05
Proposed Dividend on Equity Shares @ 75% (Last Year Dividend on Equity Shares @ 60%)	2033.04	1626.43
Tax on distributable profits	285.13	228.11
Balance carried forward to next year	2746.92	1433.72
	7465.09	6413.31

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PERFORMANCE:

Your Directors are glad to report that 2005-06 was another year of impressive performance. Sales increased by 18% at Rs. 541.78 Crores from Rs. 457.79 Crores. Gross profit increased to Rs.84.79 Crores from Rs. 64.64 Crores. Profit after tax increased by 38% at Rs. 60.31 Crores as compared to profit of Rs. 43.63 Crores achieved last year. Higher operating efficiency coupled with increased volume and price of the major products like Sugar and Caustic Soda, contributed to the increased profits. Your Company continues to focus its strategy on expansion to avail the benefit of emerging business opportunities and building a strong business around its core sectors, Sugar and Caustic Soda.

DIVIDENDS:

For the year 2004-05 a Dividend of 60% on Equity Shares was paid. Based on the commendable performance of the Company, your Directors are pleased to recommend a Dividend of 75% on Equity Shares for the year 2005-06. The out-flow towards Dividend payment including tax on distributable profits would amount to Rs. 23.18 Crores. The Dividend if approved by the Shareholders will be paid to all the eligible Shareholders.

CAPITAL & RESERVES:**Authorised and Paid Up Capital**

The Authorised Capital of the Company is Rs.30 Crores and the Paid-up Capital is Rs. 27.11 Crores.

Reserves

With the transfer of Rs. 24.00 Crores during the year under report, the total Reserves as on 31.3.2006 stand at Rs. 203.22 Crores against Rs. 166.08 Crores as on 31.3.2005.

REVIEW OF OPERATIONS:**SUGAR UNITS:**

Your Directors are glad to report that the three Sugar Units in aggregate crushed 12,25,565 M.T. of cane during the 2005-06 season against 9,18,586 M.T. crushed during the previous season. The crushing operations and cane price paid to the cane suppliers for the 2005-06 season are :-

	SUGAR UNIT – I TANUKU		SUGAR UNIT – II TADUVAI		SUGAR UNIT-III BHIMADOLE	
	Season 2005-06	Season 2004-05	Season 2005-06	Season 2004-05	Season 2005-06	Season 2004-05
(A) Crushing details:						
Total cane crushed (MT)	4,73,869	4,33,111	5,41,118	4,22,517	2,10,578	62,958
Total No. of days crushed	114	104	163	128	123	58
Total Sugar produced(MT)	51,354	49,534	61,960*	51,314	22,195	7,037
Average Recovery	10.84%	11.46%	11.41%	12.05%	10.54%	10.97%
(B) Cane price:						
Statutory Minimum						
Cane price (per M.T.)	1015.00	973.80	1067.80	1017.80	971.00	—
Cane price paid (per M.T)**	1160.00	1060.00	1184.00	1094.00	1160.00	1060.00

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* operations carried on beyond 31.3.2006. Sugar produced upto 31.3.2006 is 57067 MT.

** inclusive of Purchase Tax of Rs.60/- per M.T.

- Cane crushed by each Unit was higher than during the previous season.
- Each Unit has crushed more number of days as compared to previous season.
- Keeping in view the need to give the farmers a better income and a more remunerative price compared to that from other crops, for the 2005-06 season your Company opted to pay a cane price higher than the statutory minimum price fixed by the Government.
- Sugar Unit – II, Taduvai achieved the highest recovery in the state.
- Sugar produced was also higher as compared to the previous season.
- Overall performance of the three Units was better than the previous season.

POWER GENERATION :

During the year under report the Power Generation Unit at Taduvai generated 2,30,03,940 Units against 1,97,40,340 Units generated in the previous year.

PERFORMANCE OF CHEMICAL DIVISIONS:

Performance of the Chemical Divisions continues to be impressive with satisfactory capacity utilisation being achieved. Production of Caustic Soda at Kovvur was discontinued in line with the directions of the APPCB. With the expanded capacity coming into operation and with higher capacity utilisation, the Caustic Soda Unit at Saggonda, which is one of the major contributor to the profit, performed well, achieving a profit of Rs.5,142.79 lakhs after depreciation against Rs.2449.49 lakhs after depreciation achieved in the previous year.

WIND POWER UNITS:

The Power generated at Ramagiri during the year is 23,51,600 Units against 26,01,702 Units generated in the previous year.

Your Directors are glad to report that your Company has set up four Wind Generators of 1.65 MW each, supplied by NEG Micon, totalling to 6.60 MW at the Wind Farm located at Veeranam in Tirunelveli District of Tamil Nadu at an investment of Rs.38.60 Crores. This region is endowed with natural advantage of having high velocity wind during most of the year that enables higher Power generation. All the four Wind Generators were commissioned as per the schedule during the year under report. Completion Certificate has been received from Tamil Nadu Electricity Board (TNEB). The Power generated is sold to TNEB as per the agreement entered into with them. The annual maintenance Contract has been awarded to NEG Micon. Upto 31st March, 2006, Power generated was 41,147 Units. In view of the encouragement given by the Central & State Governments for green energy, wind energy is expected to have a promising future being renewable and a clean source of energy. The Pay Back Period is long due to low Plant Load Factor (PLF) and high capital intensity. However, considering the revenues expected from the sale of Certified Emission Reductions (CERs), the project would be financially viable.

PROJECTS:

Your Directors are glad to report that the various projects undertaken by your Company were completed within the time schedule.

The 350 TPD expanded capacity of the Caustic Soda Plant at Saggonda enabled your Company to increase production of Caustic Soda to cater to the increased market demand.

A 300 TPD Sulphuric Acid Plant was installed at Saggonda during the year under report to meet the current market requirements and the future demand potential.

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Having received the USFDA and EDQM (European Directorate for Quality Medicines) approval, your Company exported Aspirin to US and other European Countries. Your Directors are glad to report that the quality of Aspirin meets the overseas customers' requirement. This enabled your Company to export to U.S., Mexico, Taiwan and Australia. Your Company is in the process of firming up further export orders. As the International market is expected to provide better opportunity for Aspirin, the capacity of the Plant is proposed to be increased from 1000 TPA to 2500 TPA on obtaining the required statutory approvals.

Liquid Propellant System Centre (ISRO) awarded a contract to your Company for the establishment of a Plant for the production and supply of Liquid Hydrogen. Your Directors are glad to report that this Plant has been successfully commissioned. The product meets the requirement of ISRO. In respect of supply of UH-25 and MMH, your Company continues to meet the requirement of ISRO.

Conversion of the Mercury Cell based Caustic Potash plant to a Membrane Cell Plant at Kovvur is in progress. It is expected to be commissioned in the current year. With the commissioning of this conversion project, the old Mercury Cell Technology will be replaced by Environmental Friendly, Energy Efficient Technology for the manufacture of Chloro-Alkali products.

The present 2500 TCD capacity Sugar Plant at Taduvai is proposed to be expanded to 5,500 TCD capacity. Applications have been made to the relevant statutory authorities for approvals. Orders have been placed for the machinery and steps are being initiated for civil and erection works. The expanded capacity plant is expected to be come into operation from the 2006-07 season.

In view of the encouraging sugarcane plantation trend, it is proposed to go in for immediate expansion of Sugar Unit-III at Bhimadole with an addition of one Boiler, a Turbine Generator Set and additional equipment to enable this plant to handle 3500 TCD in the 2006-07 Sugar season. All the related activities required for this expansion are in progress to ensure that the plant is ready for the 2006-07 season. Since this Unit is located in an area with excellent potential for cane plantation, the capacity of this Sugar Plant is proposed to be increased to 6000 TCD in a phased manner in line with the expansion in cane area.

These projects are expected to accelerate further growth besides generating revenue.

CURRENT YEAR OUT LOOK

Performance during the first quarter of the current year indicates that your Company will continue to do well. Keeping in view the favourable trend in the growth of Sugarcane plantation, the plant capacity at Sugar Unit – II and III are being increased. Aluminium, Paper, Pulp, Drugs and Pharmaceuticals which are the end users of Caustic Soda, have continued to perform well enhancing the demand for your Company's Chloro-Alkali Products. Your Company is constantly devising new measures to operate all its Plants fully and optimally. With an expected continued up-ward trend in Sugar and Caustic Soda prices and the prospects of International market for Aspirin indicating considerable business opportunity, the prospect for the current year augurs well for your Company.

DEMATERIALISATION OF EQUITY SHARES

As of 31st March, 2006, Equity Shares representing 37.17% of the Share Capital have been dematerialised.

DIRECTORS' RESPONSIBILITY STATEMENT:

Your Directors confirm:

- i. that in the preparation of the Annual Accounts, the applicable Accounting Standards have been followed, in the opinion of the Board of Directors.
- ii. that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are responsible 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 ended 31st March, 2006 and of the profit of the Company for that year;
- iii. that the Directors have taken proper and sufficient care for the maintenance of adequate Accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. that the Directors have prepared the Annual Accounts on a going concern basis.

CORPORATE GOVERNANCE:

As per the amended provisions of the Listing Agreement, a Report on Corporate Governance along with Management Discussion and Analysis forming part of the Directors' Report is annexed.

COMPLIANCE CERTIFICATE OF THE AUDITORS:

The Statutory Auditors have certified that the Company has complied with the conditions of Corporate Governance as stipulated in the Listing Agreement with the Stock Exchanges and the same is annexed to the Report of Directors.

DIRECTORS:

In terms of Article 123 of the Articles of Association of the Company, Directors Justice G. Ramanujam, Sri V. S. Raju and Dr. Alapathy Appa Rao retire by rotation at the ensuing 59th Annual General Meeting, and being eligible, they offer themselves for re-appointment.

AUDIT COMMITTEE:

Audit Committee comprises of three non Whole-time Independent Directors, Sri A. Ranga Rao, Dr. P. Kotaiah and Sri V.S. Raju. Sri A. Ranga Rao is the Chairman of the Committee.

INDUSTRIAL RELATIONS:

The relations with the employees continued to be cordial and harmonious during the year under report.

PARTICULARS OF EMPLOYEES:

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, regarding employees is given in Annexure "A" forming part of this Report.