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19th Annual Report 2003

Planned continuous growth



BANNARI AMMAN SUGARS LIMITED

Sincerity in the discharge of one's chosen profession/work is duty. Every work attains nobility when it is performed with devotion and sincerity. Let us devote ourselves to the duties allotted to us or chosen by us.

– Bhagavadgita (Chapter 18 Verses 45 & 46)

OUR MOTTO AND OBJECTIVES

Motto

Strive to perform best at all times

Objectives

Our endeavour is to:

- ♦ identify and improve the processes to have a continuous upgradation of the quality of the end products.
- ♦ serve in the best interest of cane growers and shareholders.
- ♦ maximise productivity by optimising all inputs.
- ♦ expand and diversify utilising by-products in a planned manner.

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Profile

Bannari Amman Sugars Limited has two sugar manufacturing units located at Tamilnadu and Karnataka. In Tamilnadu sugar unit, the expansion of installed capacity to 4000 TCD has been completed. The installed capacity of Karnataka unit is 5000 TCD. In Tamilnadu, 20MW co-generation plant has been commissioned. In Karnataka, the installed capacity of the co-generation plant is 16MW. The company has also a distillery and bio-compost unit both located in Tamilnadu. The company also has a granite processing unit adjacent to its Tamilnadu sugar unit.

Report

The expansion of installed capacity of co-generation plant in Karnataka from 16MW to 36MW is in progress.

Bannari Amman's strategy is to produce high quality finished products, optimum utilisation of by-products and also be cost effective. The consistent endeavour is to pursue profitable growth strategies for the benefit of all concerned.

BOARD OF DIRECTORS



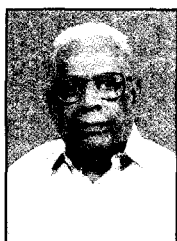
Sri S V Balasubramaniam
Chairman & Managing Director



Sri V Venkata Reddy
Vice Chairman



Sri S V Alagappan



Sri K S Ramaswamy



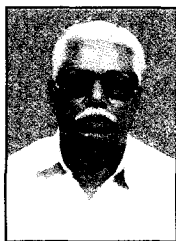
Sri S G Subrahmanyam



Sri P L Sivanappan



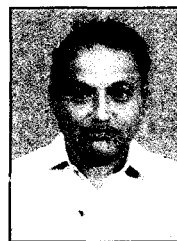
Dr K S Thirumalaiswamy



Sri A K Perumalsamy



Sri S V Arumugam



Sri E P Muthukumar



Sri B Saravanan
Jt. Managing Director

Management Team

Sri S V Balasubramaniam
Chairman & Managing Director

Sri V Venkata Reddy
Vice Chairman

Sri B Saravanan
Joint Managing Director

Sri V Narayan
Senior Vice President (Sugar Unit-II)

Sri N Solairajan
Vice President (Head Office)

Sri P Dharmalingam
Vice President (Sugar Unit-I)

Sri V Haridas
Vice President (Granite)

Sri R Murugesan
General Manager (Finance)

Sri V L Rajagopal
General Manager (Technical)

Sri R Ramgopal
General Manager (Sugar Unit-II)

Sri A Ramaswamy
General Manager (Distillery Division)

Sri K Sundaramoorthi
General Manager (Distillery Factory)

Sri S Venugopalan
Company Secretary

Auditors

M/s P. N. Raghavendra Rao & Co.
Chartered Accountants

Internal Auditors

M/s Srivatsan & Gita
Chartered Accountants

Registered Office

252 Mettupalayam Road
Coimbatore 641 043
Tamilnadu

Phone : 91-422-2450045

Fax : 91-422-2431199

E-mail : bascoe@vsnl.com

Website : <http://www.bannari.com>

Manufacturing Facilities

Sugar Unit-I, Granite Processing & Co-generation

Alathukombai

Erode District

Tamilnadu

Sugar Unit-II & Co-generation

Alaganchi

Mysore District

Karnataka

Distillery

Sinnapuliyur

Erode District

Tamilnadu

Bio-Compost

Modur

Erode District

Tamilnadu

Bankers

Punjab National Bank

Bank of Baroda

Canara Bank

Union Bank of India

Indian Overseas Bank

State Bank of Travancore

State Bank of India

The Federal Bank Limited

The Karur Vysya Bank Limited

The Lakshmi Vilas Bank Limited

Registrars and ShareTransfer Agents

M/s Cameo Corporate Services Ltd

Subramanian Building, V Floor

1, Club House Road, Chennai - 600 002.

Performance Highlights – 2002-2003

Operational Highlights

Sugar Division

	Tamilnadu Unit		Karnataka Unit	
	2002-2003	2001-2002	2002-2003	2001-2002
Installed Capacity (TCD)	4000	2500	5000	5000
Crushing Period (Days)	304	324	270	267
Cane Crushed (Lakh Tonnes)	9.21	10.20	13.21	12.61
Recovery Rate (%)	10.71	10.95	10.87	10.71
Sugar Production (Lakh Qtls)	9.85	11.20	14.40	13.50

Distillery Division

	2002-2003	2001-2002
Installed Capacity (Million Ltrs)	16.33	16.33
PRODUCTION (B Ltrs)		
Rectified Spirit	13,90,313	38,19,721
Neutral Spirit	1,09,03,164	91,82,358

Co-generation Division

	Tamilnadu Unit *	Karnataka Unit	
	2002-2003	2002-2003	2001-2002
Installed Capacity (MWH)	20	16	16
Power Generated (Lakh Units)	618.11	903.71	745.74
Power Exported to Grid (Lakh Units)	408.74	746.98	587.37

* The Tamilnadu co-generation plant has been commissioned on 26th August, 2002.

Granite Division

	2002-2003 (in Sq.m)	2001-2002 (in Sq.m)
GRANITE SLABS		
Installed Capacity	50000	50000
Production	29827	25260
GRANITE TILES		
Installed Capacity	10000	10000
Production	11061	3662
MONUMENTS		
Production	3022	2906

Financial Highlights – Company as a whole

(Rs in Lakhs)

	2002-2003	2001-2002
Gross Sales	36040.44	40750.38
PBIDT	5567.55	6569.60
Interest	1137.58	1841.97
Depreciation	2160.88	1652.41
PBT	2269.09	3075.22
Income Tax	302.35	346.89
PAT	1966.74	2728.33
Dividend (%)	30	33
Net Worth	14219.93	13250.54
Total Capital Employed	40573.23	35649.17



Chairman's Letter

Coimbatore
25.8.2003

Dear Shareholders,

The adverse business conditions which I referred to in my previous letter persisted throughout the year. The Indian sugar industry is presently passing through a crisis situation with sustained high production, burgeoning stocks, weak sugar prices and unrealistically high sugarcane prices crippling the industry's finances. Against this background, our performance during 2002-03 was encouraging. Sales, at Rs. 360.40 crores, were 11 % lower than in the previous year. During the year, we benefited from our focus on extending into complementary value-added businesses - especially co-generation of power - which helped mitigate, to an extent, the combined effect of the lower releases and the sharp fall in free sale sugar realisations. Given the circumstances, our pre-tax profit during the year, at Rs. 22.69 crores was respectable.

Some of the other highlights for the year under review include:

- Total cane crushed, at 22.42 lakh tonnes, was in line with expectations.
- Both the sugar units continued to maintain high recovery rates, in excess of respective state averages.

- The co-generation plant at Tamil Nadu, with an installed capacity of 20MW, was commissioned on 26th August 2002.
- The expansion of capacity of our sugar unit in Tamil Nadu from 2500 TCD to 4000 TCD was completed in March 2003.
- Interest costs were further lowered due to our innovative financial management.
- The company continues to avail cash credit facilities from its bankers at their Prime Lending Rates or even at Sub-PLR.

During the year, while India retained her position as the world's second largest sugar producer, there was no respite for the industry from the effects of sustained high production levels and mounting inventories. The 2001-2002 (October to September) season ended with record sugar production of 185.27 lakh tonnes, in line with the expectation communicated in my previous letter. We are now headed for a fifth successive season of high production. The current sugar season 2002-2003, which began with carry forward stock of 109 lakh tonnes, is estimated

to end with a closing stock of 124 lakh tonnes, which equals more than 9 months domestic consumption, on account of a bumper sugar production, estimated at 201 lakh tonnes.

The global production of sugar in 2002-03 is estimated at 147.74 million tonnes, 9% higher than in the previous year. Brazil, the world's largest producer and exporter of sugar, is likely to see a bumper production of 23.65 million tonnes. With growth in global sugar production continuing to outpace growth in consumption, international sugar prices were weak for most of the year restricting the scope for increased exports. Domestic free sale sugar prices, already weak when the year began, sank further lower during the year, to touch a six-year low. Since 1997-98, the ex-factory free sugar prices have declined by over Rs.200 per quintal to around Rs.1100. With free sale sugar prices dropping below the levy sugar prices, the levy sugar was not lifted, adding to the industry's inventories. Making matters worse, of course, is the irrational rise - with no logical link to market prices of sugar - in the regulated cane prices during the period. Between 1997-98 and 2002-03, the Government has raised the

Statutory Minimum Price (SMP) for sugar cane, linked to 8.5% recovery, from Rs.484.50 per tonne to Rs. 645 per tonne. The SMP was hiked for the second time during 2002-03, to Rs. 695 per tonne, in an unprecedented and inexplicable move, which has been challenged by the industry. The financial burden on account of the escalating inventories only adds further to the industry's woes.

The Finance Minister in his Union Budget 2003-04 speech had promised that the Ministry of Food and the Ministry of Finance would jointly propose a comprehensive scheme to address the problems of the sugar industry. The industry eagerly awaits the same. In the meanwhile, reacting to the industry's persistent representations, the Government has responded with some positive measures. The Government has agreed to the creation of a buffer stock of 20 lakh tonnes of sugar for one year from 18.12.2002 and will reimburse storage, insurance and interest costs on the same. The Government has also extended various subsidies and incentives to the industry to shore up the country's sugar exports. While the programme to blend 5 percent of ethanol with petrol in 9 States and 4 Union Territories from January 1, 2003 had to be deferred in most parts on account of implementation issues, the move remains a very positive one for

the industry. The level of blending is likely to be increased from 5% to 10% in due course.

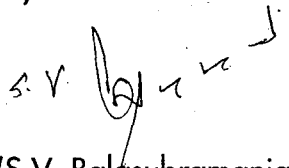
The Government has also decided to defer complete decontrol of sugar until October 2005. Also, it has strengthened the sugar release mechanism by making it legally enforceable, by amending the Essential Commodities Act (ECA). It is hoped that by bringing the release mechanism directly under the ECA, greater discipline in adhering to allocated releases will be enforced. On the vexatious issue of cane pricing, however, much remains to be done.

Given the challenging operating conditions, we maintain a cautious stance on expectations for the current year. I had shared my views on the impact of continuing drought spell and inadequate monsoons in our reserved cane areas, in my last year's letter.

During 2003-04, we expect to crush 7.75 lakh tonnes of cane in our Tamil Nadu unit. On account of the severe drought conditions prevailing during the last two years, recovery rates could be lower as well. In our Karnataka unit, we expect to crush 12.75 lakh tonnes. We expect our co-generation plants in Tamil Nadu and Karnataka to continue to make a significant contribution to our performance.

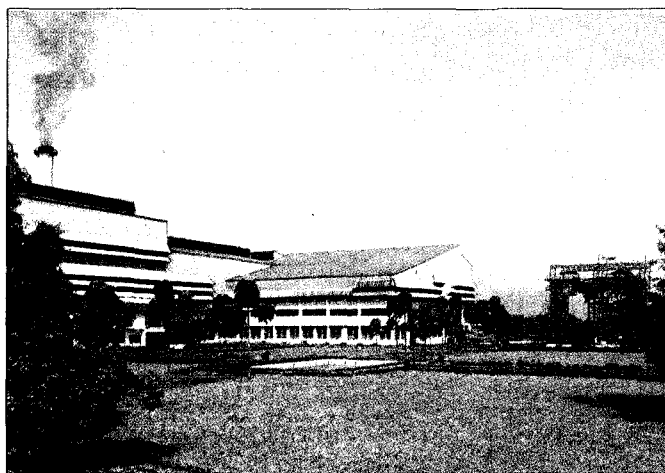
Overall, we remain focused on our core objectives. We value immensely the goodwill we enjoy with our constituents. We continue to pursue our strategies to enhance efficiency gains and improve our cost structure even as we are making good progress in growing our core business. Even after the expansion of capacity, and the setting up of a new co-generation plant at our Tamil Nadu unit in 2002-03, our Balance-Sheet remains solid. In the current year, we are implementing the project to expand co-generation capacity in Karnataka from 16MW to 36MW. Our value-oriented growth strategy aims to make our Company more competitive and generate profitable growth, thus benefiting all our stakeholders.

In closing, I would like to thank our cane growers, our bankers, financial institutions, Government of India, Governments of Tamil Nadu and Karnataka, Karnataka Power Transmission Corporation Limited and Tamil Nadu Electricity Board for their co-operation and support. I would also like to thank you, our shareholders, for your continued confidence and trust in our Company.


(S V Balasubramaniam)
Chairman & Managing Director



Overall operational review



Sugar Division

Tamilnadu Factory

- Started with an installed capacity of 1250 TCD in the year 1986 and expanded to 2500 TCD in the year 1997 and 4000 TCD in the year 2003.
- Aggregate cane crush since commencement of production till 31.3.2003 is 97.65 lakh tonnes.
- Aggregate sugar production since commencement of production till 31.3.2003 is 97.50 lakh quintals.
- Over 93 % cane growers have taken up cultivation of high yield and high recovery sugar cane viz. Co86032.
- Capacity utilisation of over 100 % since inception.
- Having ISO 9002 accreditation.
- Consistently produce sugar of 60-70 ICUMSA* (higher whiteness and high quality sugar)

Karnataka Factory

- Started with an installed capacity of 2500 TCD in the year 1992 and expanded to 5000 TCD in the year 2000.
- Aggregate cane crush since commencement of production till 31.3.2003 is 74.87 lakh tonnes.
- Aggregate sugar production since commencement of production till 31.3.2003 is 76.32 lakh quintals.
- Consistently produce sugar of 60-70 ICUMSA* (higher whiteness and high quality sugar).

* ICUMSA – International Commission for Uniform Methods of Sugar Analysis.

