

**36TH  
ANNUAL REPORT  
FOR THE PERIOD  
APRIL 2006 – SEPTEMBER 2006**



**BAJAJ HINDUSTHAN SUGAR AND INDUSTRIES LIMITED**  
(Formerly The Pratappur Sugar & Industries Limited)



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## **BOARD OF DIRECTORS**

Kushagra Nayan Bajaj, Chairman

Dr. S.S. Kothari

Manish Dokania

P.L. Dadheech

Dr. Sanjeev Kumar

Pradeep Parakh

## **COMPANY SECRETARY**

Kausik Adhikari

## **BANKERS**

Central Bank of India

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## **AUDITORS**

DALAL & SHAH

Chartered Accountants

The Regency, Office No. 11 & 12

1st Floor, National Library Road

Bandra (W), Mumbai-400050

## **REGISTERED OFFICE**

Bajaj Bhawan, 2nd Floor,

Jamnalal Bajaj Marg,

226, Nariman Point

Mumbai - 400 021

## **FACTORY**

P.O. Pratappur

Dist.: Deoria

Uttar Pradesh

# Bajaj Hindusthan Sugar and Industries Limited

(Formerly The Pratappur Sugar & Industries Limited)

## Notice to Shareholders

NOTICE is hereby given that the Thirty-sixth Annual General Meeting of the Members of Bajaj Hindusthan Sugar and Industries Limited will be held on Thursday, March 29, 2007 at 11.00 A.M at Kamalnayan Bajaj Hall, Bajaj Bhawan, Jamnalal Bajaj Marg, 226, Nariman Point, Mumbai- 400 021, to transact the following business: -

1. To receive, consider and adopt the Profit and Loss Account and Cash Flow Statement for the six months period ended on September 30, 2006 and Balance Sheet as at that date and the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Pradeep Parakh, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Dr. Sanjeev Kumar, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s. Dalal & Shah, retiring Auditors as Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

By Order of the Board of Directors

Place: Mumbai

Dated: February 9, 2007

Kausik Adhikari

Company Secretary

### NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/ HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENT APPOINTING THE PROXY, IN ORDER TO BE EFFECTIVE, SHALL BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. The Register of Members and the Share Transfer Books of the Company shall remain closed from Saturday, March 24, 2007 to Thursday, March 29, 2007 (both days inclusive) for thirty-sixth Annual General Meeting of the Company.
3. Members holding shares in identical order of names in more than one folio are requested to write to the Company's Registrar & Share Transfer Agent enclosing their share certificates to enable them to consolidate their holdings in one folio.
4. Members are requested to send all communications relating to shares to the Registrar and Share Transfer Agent of the Company at the following address:

By Post/ Courier/ Hand Delivery

M/s. S.K.Computers  
Unit : Bajaj Hindusthan Sugar and Industries Limited  
(Formerly The Pratappur Sugar & Industries Limited)  
34/1A, Sudhir Chatterjee Street,  
Kolkata - 700 006  
Tel. No.: (033) 22196797  
Fax No.: (033) 22194815  
Email: agarwalskc@rediffmail.com

5. Pursuant to the provisions of Sections 205A to 205C of the Companies Act, 1956, all dividend for the years 1998-99 and thereafter that remains unclaimed/ unencashed for a period of 7 years, has to be transferred by

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the Company to "The Investor Protection and Education Fund" constituted by the Central Government and no claims shall lie against the said Fund or the Company in respect thereof.

The details of Dividends paid by the Company and the corresponding due dates for transfer of unencashed dividend to the aforementioned Fund constituted by the Central Government are furnished hereunder:

Dividend for the year	Date of Declaration of Dividend	Due Date of transfer to The Investor Protection and Education Fund
1998-99	23.03.2000	11.05.2007
1999-00(interim)	10.04.2000	29.05.2007
2000-01	10.04.2002	15.05.2009

Shareholders who have not encashed the dividend warrant(s) so far in respect of the dividend(s) in respect of the above financial years, are therefore, requested to make their claims to the registered office of the Company.

6. The Company has been maintaining, inter alia, the following statutory registers at its registered office at Bajaj Bhawan, 2nd Floor, Jamnalal Bajaj Marg, 226, Nariman Point, Mumbai - 400 021 which are open for inspection by members and others as prescribed in the respective Sections of the Companies Act, 1956:-

- Register of Contracts with companies and firms in which directors are interested under Section 301 of the Companies Act, 1956;
- Register of Directors' Shareholding under Section 307 of the Companies Act, 1956;

during office hours on all working days except Saturdays between 11.00 a.m. and 1.00 p.m. at the Registered Office of the Company during the period beginning fourteen days before the date of the ensuing Annual General Meeting and ending three days after the date of its conclusion.

7. Disclosure pursuant to Clause 49 of the Listing Agreement with respect to the Directors seeking re-appointment at the forthcoming Annual General Meeting is given below: -

Name of Director	Brief Resume & Functional Expertise	Appointment/ Re-appointment	Directorship held in other Companies	Committee positions held in other Companies
Mr. Pradeep Parakh	A Director of the Company since 28.09.2005 as one of the representatives of holding Company Bajaj Hindusthan Limited (BHL) is presently a Vice President & Company Secretary of BHL. He holds a Bachelors of Commerce (Honors) degree since 1987. He has been a Chartered Accountant since 1987 and a Company Secretary since 1991. Mr. Parakh has 18 years of professional experience with key strengths in the areas of Corporate Law, Corporate Governance and Finance.	Re-appointment on retirement by rotation	None	None

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Dr. Sanjeev Kumar	<p>A Director of the Company since 30.01.2006 as one of the representatives of holding Company Bajaj Hindusthan Limited (BHL) is presently a Group President (Corporate &amp; Legal Affairs) of BHL. He obtained a Masters in Commerce degree in 1979, a Doctorate in 1996, an LL.B. in 2001, and a Diploma in Intellectual Property Rights Laws in 2001. In addition, Dr. Kumar has been a Cost Accountant since 1981 and a Company Secretary since 1982. Dr. Kumar has over 26 years of professional experience.</p>	<p>Re-appointment on retirement by rotation</p>	<p>1) Pisces Portfolios Private Limited</p>	<p>None</p>
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# Bajaj Hindusthan Sugar and Industries Limited

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## Directors' Report

### Introduction

The Directors present their Thirty-Sixth Annual Report and the Audited Statement of Accounts for the six months period ended September 30, 2006.

The financial year ending date was changed during the year from 31st March to 30th September with effect from this year, primarily considering the seasonal nature of the sugar manufacturing operations of the Company. Consequently, the annual accounts for financial year under the report have been drawn up for the period comprising of 6 months. The summarised results presented below are therefore not comparable with that of the last year.

### Financial Results

	Period ended 30th September 2006 (6 months) (Rs. Million)	Year ended 31st March 2006 (12 months) (Rs. Million)
Sales and other income	440.84	702.79
Gross profit/ (loss) before interest, depreciation and extraordinary items	31.43	(7.45)
Interest and Finance Charges	10.52	42.95
Depreciation	10.75	32.40
Profit before tax and Extraordinary Items	10.16	(82.80)
Extraordinary Item:		
Cane Price Difference	-	7.00
Less withdrawn from General Reserve	-	7.00
Profit before tax	10.16	(89.80)
Provision for taxation	-	-
Provision for deferred tax	3.40	(24.60)
Provision for fringe benefit tax	0.20	0.50
Profit after tax	6.56	(65.70)
Transfer to reserve for construction of molasses reserve	0.06	0.11
Balance carried to balance sheet	(65.19)	(71.69)

### Dividend

Your Directors have not recommended any dividend on equity shares for the financial period under review.

### Share Capital

The Authorised Capital of the Company has been, increased from Rs. 25,05,00,000 Shares of Re. 1/- each divided into 25,00,00,000 Equity Shares of Re. 1/- each and 5,00,000 Preference Shares of Re. 1/- each to Rs. 40,00,00,000 Shares of Re. 1/- each divided into 40,00,00,000 Equity Shares of Re. 1/- each as per shareholders resolution dated 29.12.2006.

After allotment of 60,00,000 shares to PSIL Employees' Stock Options and Welfare Trust the paid up capital of the Company increased to Rs. 4,20,00,000 divided into 4,20,00,000 equity shares of Re. 1/- each.

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## Expansion Plans and Procurement of Fund for the Purpose

The Company had undertaken strategic growth plan to increase its sugarcane crushing capacity from 3200 tonnes crushed per day (TCD) to 40000 TCD involving a capital outlay of approx. Rs. 1230 crore. Accordingly, the capacity of its only existing plant at Pratappur has been enhanced from 3200 TCD to 6000 TCD. Another 34,000 TCD is being added by establishing three greenfield plants in Uttar Pradesh - 7000 TCD plant at Rudauli in Basti District, 12000 TCD plant at Utraula in Balrampur District and 15000 TCD plant at Kunderki in Gonda District, aggregating to 34,000 TCD. The Company which does not have any distillery at present is also setting up a distillery with capacity of 160 KL per day in Rudauli in Basti District of Uttar Pradesh along with facility to manufacture ethanol.

This estimated capital outlay of Rs. 1230 crore was proposed to be funded as under:

1. Equity contribution by Holding Company	Rs. 330 crore
2. Preferential issue to an FII and a Domestic Corporate Body	Rs. 65 crore
3. Issue of GDR/ ADR/ FCCB or debt or a combination thereof	Rs. 835 crore
	<b>Rs. 1230 crore</b>

Out of the above proposed committed funding up to Rs. 330 crore by the holding company - Bajaj Hindusthan Ltd. (BHL), the Company pursuant to the resolution passed by the shareholders at the Extra-ordinary General Meeting held on 19.06.2006 has already subscribed to 38,00,000 convertible warrants at a price of Rs. 500 per warrant aggregating to Rs. 190 crores, which have been allotted to BHL on 18.07.2006. Each Warrant entitles BHL to apply for and receive 10 equity shares of Re. 1 each at a price of Rs. 50/- per share. A sum of Rs. 171 crores being ninety percent of the aggregate value of the aforesaid warrants has already been received by the Company from BHL and BHL has informed the Company that the balance will be paid at the time of exercise of option for conversion of warrants, any time within 18 months from the aforesaid date of allotment. The balance amount of Rs. 140 crores, is being offered now in the form of further preferential issue of the Company, subject to compliance with applicable laws. Negotiations and finalisation of terms for remaining equity and debt funding are in progress.

The Company has received further funding commitments aggregating to US\$ 52.8 Million from J.P. Morgan Securities (Asia Pacific) Ltd. and/or its affiliates ("JPMorgan") (based on USD 1 = 44.50 INR) equivalent to approx. Rs. 235 crores by way of Foreign Currency Convertible Bonds.

The Company has approached to various other investors for the balance funding requirements of Rs. 600 crores.

## Expansion Plans:

Production has been commenced at the existing plant at Pratappur, Dist. Deoria (UP) for the sugar season 2006-07 with enhanced capacity of 6000 TCD as against 3200 TCD up to last sugar season.

Ongoing project of setting up following three greenfield sugar plants and one distillery are in progress as per schedule:

Unit	Location	Capacity
Kunderki Sugar Plant	Tehsil: Kunderki, Dist.: Gonda (UP)	15000 TCD
Rudauli Sugar Plant	Tehsil : Rudauli, Dist.: Basti (UP)	7000 TCD
Utraula Sugar Plant	Tehsil : Utraula, Dist.: Balrampur (UP)	12000 TCD
Rudauli Distillery	Tehsil : Rudauli, Dist.: Basti (UP)	160 KL per day

The sugar plants are scheduled to be commissioned by around November 2007 and the distillery is expected to be commissioned in February 2007.



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## Employee Stock Option

In accordance with the shareholders' resolution passed at the Extra-ordinary General Meeting held on 19.06.2006 the Board of Directors had granted 11,00,000 options of face value of Rs. 10/- to the eligible employees of the holding company. The Management Committee of Directors at its meeting held on 06.12.2006 allotted 60,00,000 shares to the Employees Stock Options and Welfare Trust created for the purpose.

The information required to be disclosed in terms of the provisions of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 is enclosed as per Annexure A to this report.

## Operations

Pursuant to the change in the financial accounting year from April -March period to October-September period, the financial year ended on 30th September, 2006 comprised of a period of 6 months only. The crushing operation for the sugar season 2005-2006 continued only upto 31st March 2006. Accordingly only 878 M. Tonnes of sugar was produced during the financial year commencing on 1st April, 2006 out of the material in process after end of crushing season.

During last sugar season 2005-2006 (upto 31st March, 2006) the Company crushed 410,992 M. Tonnes of sugarcane and produced 40,582 M. Tonnes of sugar.

## Management Discussion and Analysis Report

### Industry Structure and Development:

After two consecutive years of low sugar production, sugar prices had increased and India continued to draw down on its inventories. Increased sugar prices meant timely payment to farmers and the attractive remuneration for cane prompted increased planting and sugar production jumped 51% to 19.2 million tonnes in 2005-06 compared to 12.7 million tonnes in 2004-05. The increase of 6.5 million tonnes is also the highest ever recorded in any single year in India. Maharashtra and Uttar Pradesh together accounted for 57% of the total sugar production in India.

What is pertinent is that the increase was due to much higher conversion of sugarcane to sugar and relatively lower diversion to artisan sugars viz. gur and jaggery. Area under cane increased only by 16% from 3.66 million hectares in 2004-05 to 4.25 million hectares in 2005-06. Here again increase was mainly in Maharashtra and Uttar Pradesh.

The demand-supply balance translated into stable wholesale sugar prices during the first half of the year at around Rs. 18.50 per kilogram (Delhi). Prices increased to Rs. 21 per kilogram by February 2006 and remained at these levels till May 2006. The Central Government fearing further price spirals and in a bid to reign in inflation (sugar has a disproportionate weight in the wholesale price index at 3.63) imposed a ban on sugar exports in June 2006 and at the same time allowed duty free imports of white sugar. This acted as an effective dampener and prices started declining steadily thereafter and receded back to Rs. 18.5 per kilogram.

### Government Policies:

Both the Central and State governments continue to play a significant role in the Indian sugar industry. The State Advised Price (SAP) for U.P. based sugar mills was further increased to Rs. 1,250 per tonne for 2006-07.

The imposition of the export ban has caused irreparable damage to the domestic sugar industry. Sugar producers have completely lost out on the opportunity to take advantage of the rise in international prices during the period June to August 2006 wherein international prices were ruling at over US\$ 410 per MT. The ban has not only resulted in a lost opportunity but has also pulled down domestic prices to levels where most of the industry would incur losses. At current international price of around US\$ 340 per MT, exports are no longer remunerative.

In 2005, the Uttar Pradesh state government announced an incentive policy to promote and attract investments in the sugar sector. The incentives under the U.P. Sugar Policy comprises of fixed concessions in form of Capital subsidy @ 10% of capital investment and Remission in stamp duty and registration charges on land purchase and

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variable concessions in the nature of cane transportation expenses - re-imbursement, cane society commission - reimbursement, cane purchase tax - exemption, entry tax on sugar - exemption, sugar transportation expenses - reimbursement, administrative charges on molasses - exemption, trade tax on molasses - exemption. The eligibility criteria comprises of - (i) a minimum investment of Rs. 350 crore by 31st March 2008, (ii) commencement of commercial production by 31st March 2008 and (iii) direct employment of at least 1000 persons. The overall concession will be limited to the extent of new investments made and will be available for a period of 10 years in case investments are in excess of Rs. 500 crore and for 5 years if investment is between Rs. 350 crore to Rs. 500 crore.

After considerable delay, the Central Government has mandated a 5% ethanol blending across the country. Unlike in the past, the oil manufacturing companies have agreed to long term contracts. The price has been fixed at Rs. 21.50 per litre relative to the earlier Rs. 18.75 per litre.

## Outlook:

While 2005-06 saw the rebound of cane crop and increased sugar production, it also meant additional planting. With crushing capacity augmentation especially in Uttar Pradesh and the revival of most of the mills in the co-operative sector, India is likely to reach a historic peak production of 22.5 to 23 million tonnes in 2006-07 driven by Maharashtra and Uttar Pradesh each at around 7 million tonnes. With consumption at around 19.5 million tonnes, India is likely to add around 2.5 million tonnes to inventory after considering exports of 1 million tonne under the ALS commitment. Given the current surplus situation in the international markets, any move by India to export would further dampen international prices.

The by-product - Ethanol on the other hand also has a good potential as an environment friendly and economical fuel additive. Rising environmental concern and changes in the prescribed emission levels under the Kyoto Protocol are expected to contribute significantly to the increase in demand for fuel ethanol. The Government of India has proposed mandatory blending of 5% ethanol in motor vehicle fuel. With ever increasing global fuel prices, ethanol holds very good potential. India's projected ethanol demand is estimated at 627 kilo litres in 2006-07, 734 kilo litres in 2007-08 and 795 kilo litres in 2008-09.

## Opportunities, Threats/Risk and Concerns:

Sugar Industry in India primarily faces the following risks: -

- a. Raw Material
- b. Sugar Price
- c. Regulatory

### a. Raw Material

Sugarcane is the principal raw material used for the production of sugar. Sugar industry, therefore depends on the availability of sugarcane and any shortage of sugarcane may adversely affect the results of operations. Sugarcane and hence sugar production is influenced by climatic vagaries. Sugarcane by nature is a weather resistant crop and mostly remains unaffected by moderately high or low rainfall. The Company has sought to mitigate raw material availability risk by diversifying into multiple locations within Uttar Pradesh. Its holding Company at the same time has an impeccable record of cordial relationship with farmers and timely payments to farmers, which will help the Company to a great extent.

### b. Sugar Price

The market price for sugar and its by-products may be affected by general economic conditions. The prices, the Company is able to obtain for the sugar that it produces depend largely on prevailing market prices in India. Fluctuations in demand and supply and as a result, the price of its products, occur for various reasons. The Company has a detailed system of monitoring prices and the booking of orders so as to mitigate price volatility and optimize returns. The Company has also addressed this issue to an extent with its expansion plans whereby, the Company along with its holding company has become the largest sugar producer in India