bajaj hindusthan ltd

SEVENTY FIRST ANNUAL REPORT 2001-2002

CONTENTS

CHAIRMAN'S LETTER

Shishir Bajaj
Chairman and Managing Director

Further improvements in operational efficiencies on all the fronts have been taken up in a major way as a "mantra for survival".

Dear Shareholders,

Integrity, Leadership, Teamwork and 'Fire in the Belly'. These are the four pillars on which your company stands and due to which, even in difficult times your company is able to excel. These past 18 months have been one of the worst period for the Indian sugar industry, especially over the last 25 years. Increasing sugar cane prices due to the lob sided government policies and the continuous fall in sugar prices have left most, if not a majority of the private sugar manufacturers of India and especially those of Uttar Pradesh in the red. Over and above this, the general slow down of the Indian economy as a whole has taken its visible toll on the markets. Inspite of such severe pressure on margins, your company has still been able to maintain profits and dividend.

Bajaj Hindusthan continues to be one of India's oldest, largest, most profitable and efficient sugar manufacturers. Its continued quest to increase operational size and *reduce cost of production* is reflected through its solid financials and consistent dividend payments over the years. For any sugar manufacturer, recovery; i.e. the amount of sugar extracted from every stick of sugarcane; is one of the main indicators of operational efficiency. Despite very difficult conditions prevailing in the sugar industry, Bajaj Hindusthan has performed exceptionally well in 2001-02. Sugarcane crushing was a record high at both its sugar mills – 161 lakh quintals at Gola and 119 lakh quintals at Palia an increase of 15% and 45% respectively. Total sugar produced by the company during this season was also an all time high at 26.9 lakh bags (an increase of 25% over the previous year's 21.6 Lac bags) that accounts for 1.5% of total sugar produced in India and 5% of sugar produced in Uttar Pradesh, which we plan to increase to double digits in the coming years. During the sugar season 2001-02, your company achieved 9.88% recovery at its Gola plant and 9.26% at its Palia plant.

Further improvements in operational efficiencies on all the fronts have been taken up in a major way as a "mantra for survival". Results of these are already evident from the up to-date recovery achieved in the current season 2002-03. A recovery of 10.30% at Gola and 9.90% at Palia has already been achieved even though a majority of the crushing season is still to be completed. All this has been achieved without any investment on expanding capacity and mainly through de-bottlenecking activities at both the plants.

On the financial front a number of strategic as well as proactive steps have been taken by your company to increase shareholder value and make it's working more transparent. It was decided to change the corporate financial year ending date of the company from 31st

March to 30th September with effect from this year. This would make the reporting of your company more transparent, by including only one crushing season in every annual report. Consequently, the annual accounts for this financial year 2001-02 ending on 30th September 2002 have been drawn up for a period of 18 months.

Profit before Tax and Extraordinary item, on an annualised basis, during this period, was up by 36% - Rs.18.77 crores against Rs.9.19 crores in the previous year, resulting primarily from improved operational efficiencies and cost reduction measures taken up by the company. Interest and Finance Charges (Net) during the period were Rs.16.66 crores (for 18 months) against Rs.20.17 crores (for 12 months) in the previous year down by 45% on annualised basis. Net profit for the period (for 18 months) after charging compensation under VRS Rs.6.15 crores (previous year Rs.0.47 crores) and provision for taxation Rs.2.26 crores (previous year Rs.0.44 crores) was Rs. 10.36 crores as against Rs.8.28 crores last year - a drop of 17%. The drop in net profit was mainly because of full charge of VRS compensation Rs.6.15 crores as per accounting policy of the company. But for the full VRS charge, the net profit after tax of the company for the period would have been higher at Rs.14.31 crores as against Rs.8.59 crores, which would have reflected a healthy annualised growth of 11%.

It is expected that sooner than later the importance of global sizes, world class quality a greater role of free market dynamics, globally competitive cost of production and consolidation of industry will be realised. Bajaj Hindusthan is working towards and will achieve global size of operation and cost of production, if it were to survive in a liberalised and globalised sugar industry of tomorrow.

The Government of India had made it "compulsory" for oil marketing companies to sell petrol mixed with 5 percent ethanol from January 1st, 2003 in nine States in India in the first phase. In the second, this is proposed to be applied in the rest of the country, while the percentage of ethanol is proposed to be increased to 10 per cent. The overall annual demand for ethanol on this account is expected to be in millions of Kilolitres. In view of additional demand of ethanol, the capacity of ethanol plant is being modified by 60,000 litres per day by February 2003 by setting up an ultra modern plant to be commissioned within three months' time against usual time of six months making your company India's largest producer of Ethanol at 85,000 liters per day enabling it to garner a substantial market-share in this area. This is another step taken by Bajaj Hindusthan to ensure that it's among the first and largest producers of this value added product.

A bit about the Indian Sugar Industry. 7% – 8% of India's population is, directly or indirectly, dependent for their livelihood upon the Indian sugar industry. Hence the industry is highly political in nature with both the price of its raw material (sugarcane) as well as

...... making the Company India's largest producer of Ethanol at 85,000 litres per day.

I strongly believe that with sugarcane prices remaining at the same level as last year and the prevailing depressed prices for Sugar, the sugar industry will face a shake out. I consider this to be a positive aspect, as it will help bring demand-supply equilibrium in the industry, which is poised for a phase of consolidation and growth.

its end product are controlled by the Central Government.

The cost of its main raw material, sugarcane, is yearly increasing as per the Statutory Minimum Price (SMP) and State Advised Price (SAP) announced by the Central and State Governments respectively. For the ensuing season, the Government of India increased the SMP to Rs.64.50 per quintal, at 8.5% recovery, reflecting an increase of Rs. 2.45 per quintal. On 19th December 2002, the Prime Minister of India announced in Parliament, a further increase of Rs.5 in SMP. On the other hand, the price of sugar kept on declining throughout the year across all the markets in the country. The domestic sugar prices in your company's markets have declined by about 18% - from about Rs.1400 per bag to about Rs.1150 per bag – during last one year. This fall in sugar prices, we anticipate, will continue and prices are expected to remain under pressure during the current financial year.

Another major problem associated with sugar industry is the high amount of unpaid sugarcane price to farmers. The aggregate sugarcane arrears for about 40 out of 51 private manufacturers in the State of Uttar Pradesh alone, where both the sugar mills of Bajaj Hindusthan are located, are over Rs.200 crores. However, Bajaj Hindusthan is one of the rare few private manufacturers in the State, which do not have any sugarcane dues outstanding in its name at the start of the sugar season 2002-03, reflecting the strong foundation of the company on financial front.

This year, the rest of the sugar manufacturers of Uttar Pradesh started crushing three weeks later than planned because of the ongoing uncertainty of price of sugarcane. However your company was the only private sugar mill in all of Uttar Pradesh to have started production, as scheduled, in the 2nd week of November 2002, irrespective of the uncertainties, reflecting your company's strong relationship, goodwill and management capabilities with the farmers, as well as the administrative machinery and government.

I strongly believe that with sugarcane price remaining at the same level as last year and the prevailing depressed price for sugar, the sugar industry will face a shakeout. I consider this to be a positive aspect, as it will help bring demand-supply equilibrium in the industry, which is poised for a phase of consolidation and growth. India in the next couple of years is bound to become a net importer as against present position of net exporter of sugar, if such a scenario were to continue.

Last but by no means the least, even though your company is in a commodity business, customer relationship management is of primary importance to us. Whether to produce crystal white sugar or sugar of larger grain size or if sugar is to be packed in 50 kg bag with PVC lamination to avoid quality deterioration – everything is being done in order to deliver what the customer wants, when he wants it and where he wants it and at the same time getting a premium on price for the product. This is the first step your company has taken towards 'branding' sugar, which if implemented in its entirety, under the present market conditions is not viable.

Before ending, I would like to acknowledge the efforts put in by all the stakeholders of Bajaj Hindusthan to continue to excel on all fronts in their quest to achieve greater efficiency, improving quality, reducing costs and working together as a team to not only continue to build on a strong foundation but take Bajaj Hindusthan to where it truly deserves to be- right at the top - and then some more.

I further urge one and all in the Company to put in even greater effort in the years to come to surpass and transform all our dreams into realties of tomorrow.

Warm Regards,

Shishir Bajaj
Mumbai, December 27, 2002

Everything is being done in order to deliver what the customer wants, when he wants it and where he wants it.

BOARD OF DIRECTORS

Shishir Bajaj
Chairman & Managing Director (Promoter)

I D Mittal
Executive Director
(from 19.10.2002)

D S Mehta
Non-Executive Director

Niraj Bajaj
Non-Executive Director (Promoter)

M L Apte
Non-Executive Director

R V Ruia
Non-Executive Director

D K Shukla
Non-Executive Director
(Representing Life Insurance Corporation of India)

Suresh A Kotak
Non-Executive Director
(from 27.12.2002)

Uday S Kotak
Non-Executive Director
(up to 12.11.2002)

R C Singhal
President & Whole-time Director
(up to 31.8.2002)

Company Secretary

Pradeep Parakh

Auditors

Dalal & Shah
Chartered Accountants

Cost Auditors

B.J.D. Nanabhoy & Co.
Cost Accountants

Bankers

State Bank of India

Punjab National Bank

Registered under the
Indian Companies Act VII of 1913

Registered Office

Bajaj Bhawan, 2nd Floor
Jamnalal Bajaj Marg
226, Nariman Point
Mumbai - 400 021

Plant Locations

Sugar Mills

Golagokarannath & Palia Kalan
District: Lakhimpur Kheri
Uttar Pradesh

Distillery

Golagokarannath,
District: Lakhimpur Kheri
Uttar Pradesh

MANAGEMENT DISCUSSIONS & ANALYSIS

OVERVIEW

- The year under review comprises the working results for a period of 18 months as the Company decided to change its corporate accounting year ending date from 31st March to 30th September. This was primarily done keeping in mind the seasonal nature of business of the Company with a view to reflect the financial results for an entire season in the balance sheet. Consequent to the above, the annual accounts of the Company have been drawn up for a period comprising of 18 months, namely, from 1st April 2001 to 30th September 2002.

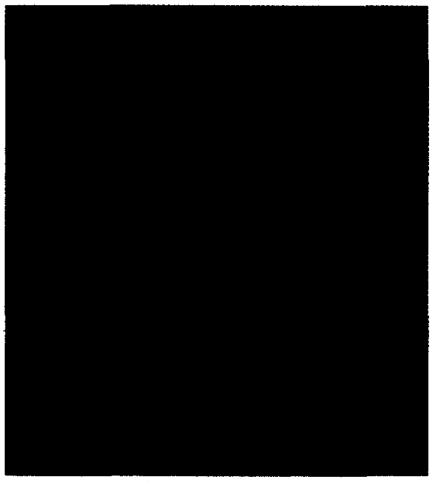
- The production of sugar during the season 2001-02 was 26.9 lac bags as against 21.6 lac bags in the previous season, an increase of 25%. Production of Industrial Alcohol was also up from 11970 Kilolitres in previous year to 18374 Kilolitres during 18 months' period in 2001-02. Sales during the current financial year were Rs. 620.45 crores as against Rs.329.51 crores in the previous year - up by 26% on annualised basis. Profit before Extraordinary item and Taxation during 2001-02 was Rs.18.77 crores as against Rs.9.19 crores in the last year - a jump of 36% on annualised basis.

- The emphasis during the year was on reduction of costs - which could be achieved to a great extent. Net interest and finance charges were brought down substantially - Rs.16.66 crores against Rs.20.17 crores in the previous year - an impressive reduction of 45% on annualised basis. Other production and administrative overheads also were brought down substantially - from Rs.41.06 crores for 12 months in 2000-01 to Rs.51.30 crores for 18 months in 2001-02 - an annualised drop of 17%.

With an objective to rationalise the human resources and to cut down the costs further, the Company has implemented Voluntary Retirement Schemes (VRS) during the year. A total of 334 employees opted to exit. An average compensation of Rs.1.84 lacs per employee aggregating to a total compensation of Rs.6.15 crores was paid - which have been entirely written off during the year itself as against the normally prevailing practice of deferring it over a period of five years. This will have an impact of reducing the annual wage bill by Rs.2.50 crores approx.

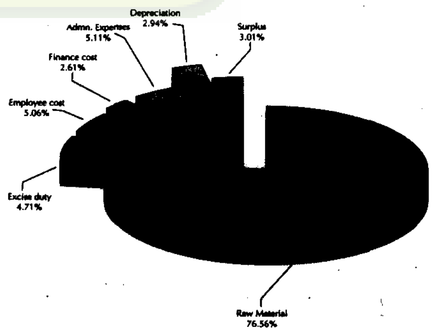
The aforesaid extraordinary item has impacted the Net profits of the Company, which stood at Rs. 10.36 crores as against Rs.8.28 crores last year - an annualised drop of 17%. But for this, the net profit after tax would have been higher at Rs.14.31 crores as against Rs.8.59 crores during the previous year, reflecting an annualised growth of 11%.

The Company also settled an old dispute of stamp duty liability pertaining to sale of erstwhile 'Udaipur Cement Works' unit of the Company sold to J.K.Udaipur Udyog Ltd. way back in 1993. The Company, during the period opted

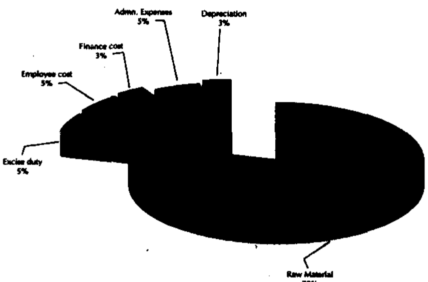


Kushagra Nayan Bajaj
Chief Executive

Distribution of Revenue 2001-02



Break up of Total Cost 2001-02



for the amnesty scheme offered by the Government of Rajasthan and paid the final liability of Rs.4.05 crores as assessed by the Stamp Duty authorities.

OPERATIONS

Crushing and Recovery at Gola and Palia

The Company has achieved the highest ever crushing aggregating to 279.68 lac quintals during the season 2001-02. Individually also crushing at both Gola and Palia was highest ever achieved in this units since inception.

1. Crushing at Gola, during the season 2001-02 has been 160.72 lac quintals (previous season 140.23 lac quintals – an increase of 14.61%) with recovery of 9.88% as against 9.73% in the last season.

2. Crushing at Palia, during the current season has been higher at 118.96 lac quintals than 81.86 lac quintals in the previous season - an increase of 45.32%. However, the recovery has been lower at 9.26% as compared to 9.72% in the last season.

For the ensuing season, it has been announced to increase the Statutory Minimum Price of cane from Rs.62.05 per quintal to Rs.64.50 per quintal reflecting an increase of Rs.2.45 per quintal. Recently the Government of India has announced a further increase of Rs.5 per quintal in the Statutory Minimum Price of cane.

For the season 2001-2002, the Government of Uttar Pradesh increased the State Advised Price of cane from Rs.90 per quintal to Rs. 95 per quintal for the general varieties and Rs. 100 per quintal for the varieties designated as early ones. The Government of Uttar Pradesh for the first time has introduced a separate price of Rs.92.50 per quintal for certain varieties designated as rejected.

The prices of main raw material sugarcane are increased year after year by Central/State Governments. On the other hand price of finished product- sugar has fallen considerably during last one year, severely affecting the financial position of all the sugar manufacturers and consequently resulting in non-payment of sugarcane price to farmers. The sugarcane arrears at the start of current season were in excess of Rs.200 crores in the state of Uttar Pradesh alone. However, your Company was one amongst very few private companies in Uttar Pradesh who have paid the entire amount towards sugarcane price up to the last season.

TABLE 1: Production Summary

	2001-2002		2000-2001	
	Accounting year (18 months)	**Season 2001-2002**	Accounting year	Season 2000-2001
I. Sugar Division				
a) Gola Unit:				
Sugarcane crushed (Lac Quintals)	**176.57**	**160.72**	156.52	140.23
Recovery (%)	**9.97**	**9.88**	9.71	9.73
Sugar Production (Lac bags)	**17.81**	**15.88**	15.22	13.64
b) Palia Unit:				
Sugarcane crushed (Lac Quintals)	**118.96**	**118.96**	105.14	81.86
Recovery (%)	**9.26**	**9.26**	9.63	9.72
Sugar Production (Lac bags)	**11.04**	**11.01**	10.26	7.95
II. Distillery Division				
Industrial Alcohol Production (Kilo Litres)	**18,374**	—	11,970	—

Distillery

The distillery produced 18,374 Kilolitres spirit as against the production of 11,970 Kilolitres spirit in the previous year. The sales have been at 16,890 Kilolitres as against 14,596 Kilolitres in the previous year. In value terms the sales of Industrial Alcohol during the year 2001-02 were Rs.21.40 crores as against Rs.16.77 crores in the previous year out of which Ethanol sales accounted for 2,207 Kilolitres amounting to Rs.3.52 crores (previous year – Nil).

INDUSTRY SCENARIO & DEVELOPMENT

Economy and Business Environment of Indian Sugar Industry

India is the largest consumer and also the largest producer of sugar in the world. With 506 sugar factories located throughout the country, the sugar industry is amongst the largest agro processing industries in India. India is presently a dominant player in the global sugar industry along with Brazil in terms of production. Given the growing sugar production and the structural changes witnessed in the Indian sugar industry, India is all set continue its domination at the global level.

There were 506 installed sugar factories in the country as on 30.9.2002. The Sector-wise break-up is reflected in Table 2.

In the past, Government permitted only small sized units of 1250 TCD and 2500 TCD and expansions for 5000 TCD and above were discouraged. As a result, the industry has grown horizontally. Government de-licensed sugar sector in August 1998. It is now open to entrepreneurs to set up sugar mills without a license but at a distance of 15 kms away from the existing factory. Sugar units are now free to expand their capacity and also put up higher capacity new units. This should help the units to consolidate and expand their capacities wherever cane potential exists.

Indian sugar industry is highly fragmented with organised and unorganised players. The unorganised players mainly produce gur and khandsari, the less refined forms of sugar. The Government had a controlling grip over the industry, which has slowly yet steadily given way to liberalisation.

Government Policies and Control

Sugar comes under the purview of the Essential Commodities Act, 1955 and is also controlled by the Sugarcane Control Order, 1966. As your sugar units are in U.P., the U.P. Cane Act, 1953 and Cane Societies Act are also applicable. Cane area reservation is done by the U.P. Government on a yearly basis for each factory in the State.

The Government determines the price of the major input sugarcane, decides the quantity of sugar that can be sold in the open market, fixes the prices of the levy quota sugar and determines maximum stock levels for wholesalers, etc.

The Sugar industry has been de-licensed since 1998 and exports

I. D. Mittal
Executive Director

TABLE 2: Sector-wise break-up of Sugar Factories in India

Sector	Number of factories	%
(i) Private	158	31%
(ii) Public	67	13%
(iii) Cooperative	281	56%
Total	**506**	**100%**