bajaj hindusthan ltd.

Seventy Second Annual Report 2002-2003

Contents

Board of Directors

Shishir Bajaj
Chairman & Managing Director (Promoter)

I. D. Mittal
Executive Director

D. S. Mehta
Non-Executive Director

Niraj Bajaj
Non-Executive Director (Promoter)

M. L. Apte
Non-Executive Director

Suresh A. Kotak
Non-Executive Director

R. V. Ruia
Non-Executive Director

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

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 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

Chairman's Letter

Shishir Bajaj
Chairman & Managing Director

Dear Shareholders,

Welcome to the new Bajaj Hindusthan Limited. As indicated to you last year, we have achieved whatever we set out to do. We believe, under the circumstances, last year was an excellent year for the Company.

This year we will scale newer horizons. Our brown field sugar expansion was completed in a record time at globally competitive cost. Our new distillery is also on stream. Lastly we have decided on setting up a new state-of-the-art 7,000 TCD sugar plant, which will be up and running in a record time of 11 months.

All these factors will enable us to be –

1. The largest sugar manufacturer in India with a capacity of 31,000 TCD.
2. The largest ethanol manufacturer in India with a capacity of 145 KLD.

We would not be stopping here. Our efforts to grow have only just begun. Our team is in place, our thinking is clear and we know what to do, how to do it.

My approach, personally, is to take Bajaj Hindusthan now to a new level of Social Responsibility. Whether it is timely payment to farmers (we have in our 73 years existence never defaulted on cane payment to farmers), greater return and confidence to our shareholders through stronger financials and setting higher corporate governance standards, or doing the correct things at the correct time and building on the "bajaj" name, is what I endeavour for.

Honesty, ethics and fairness is what the "bajaj" name stands for. We will continue to conduct ourselves on the basis of what "bajaj" stands for in all our dealings.

Warm regards,

Shishir Bajaj

Mumbai, 12 February 2004

Kushagra Nayan Bajaj
Chief Executive

Dear Shareholders,

This is my first communication to all of you. At the outset, I sincerely thank all of you for your continuous support which has enabled Bajaj Hindusthan reach this pre-eminent position in the sugar industry in India.

Much has been said about the sugar industry being maligned and political. I disagree. The industry has as much or as little political and or Governmental influence as any other industry in India.

As you are aware, sugar cane prices have been on the increase and the industry has been resisting each increase. However, it must be noted that this increase is applicable to all and clearly sets the basis of competition. Such a policy does inherently force the industry to focus on efficiencies as every player starts on the same footing in terms of raw material pricing.

It is also not so well known that sugar has the lowest incidence of government levies such as excise duty and other statutory levies unlike several other industries wherein levies are much higher.

It is also to be noted that the Government has maintained a prudent sugar inventory level at the same time provided some protection to the industry by way of control on imports. Further, imports are not a threat as around 70% of sugar produced globally is consumed in the very same country of production. As such, it is a misconception that the sugar industry is highly political.

Much has been said about the sugar industry being maligned and political. I disagree. The industry has as much or as little political and or Governmental influence as any other industry in India.

The present condition of the industry is self created and not due to any governmental interference or intervention or coercion. Much of the woes can be attributed to the industry itself.

For example, most of the players in the industry have not ever maintained their plants, modernised or expanded. The industry has hardly seen any new investments by the existing players or new entrants. Taking recourse to the perennial complaint that increase in cane price is affecting the industry adversely without focusing on operational efficiencies, is, in my view, the single major cause of the present state of the industry wherein over 95% of the players are incurring losses and may continue to do so unless industry changes its myopic outlook and mindset.

Further, ever increasing cane overdues will eventually force cane growers to switch to other crops to the detriment of the whole industry. We are already witnessing this phenomenon in several cane growing areas. Unless we appreciate the symbiotic relationship that exists between the sugar manufacturers and the cane growers, sugar industry in India will have inherent systemic problems which if not nipped in the bud will ultimately reach uncontrollable proportions.

India is fast integrating with world economies and the time has come for us to look at global sizes for in this industry, as with any other commodity industry, size matters.

It is my sincere hope that given the natural climatic conditions that are conducive to growing cane and with a large domestic market to fall back upon, India can become a leading sugar player globally. All it needs is the determination and a change in the mindset. Unless the industry takes the initiative, economic compulsions will force harsh decisions and irreparable damage.

"Taking recourse to the perennial complaint that increase in cane price is affecting the industry adversely without focusing on operational efficiencies, is, in my view, the single major cause of the present state of the industry."

We at Bajaj Hindusthan have recognised the changing trends and are initiating several steps such as an accelerated growth plan through green field expansions and possible acquisitions in order that Bajaj Hindusthan attains a pre-eminent position and strengthen it in the years to come. I am sure that we will continue to have your unequivocal support in our endeavours.

Sincerely

Kushagra Nayan Bajaj

Mumbai, 9 February 2004

Management Discussion And Analysis

Overview

Keeping in mind the seasonal nature of the business, the previous accounting year was changed from March ending to September ending. Due to this, the previous year's accounts were for a period of 18 months, where as the current year's accounts are for 12 months. Therefore, the figures of current year are not strictly comparable with the figures of previous year.

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956 and Generally Accepted Accounting Principles in India. The management of Bajaj Hindusthan Ltd. accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates/judgements used in preparation of these statements. The estimates and/or judgements have been made on a consistent, reasonable and prudent basis to reflect true and fair picture of the state of affairs and profit of the Company.

Continuous efforts by the Company in vital areas such as cane development and replacement of varieties, cane procurement and management, plant maintenance, reduction in process losses, process optimisation, higher recovery and crushing for longer duration have resulted in higher production of sugar and industrial alcohol during the year. Efforts are being made to ensure that on all counts, the leadership position of the Company is maintained and strengthened further.

TABLE 1: Production

	Unit	2002-03 (12 months)	2001-02 (18 months)	Annualised % Increase
Sugar	Quintals*	34.76	28.85	81
Industrial Alcohol	Kiloliters	19873	18374	62

* 1 Quintal = 100 kilograms

Unitwise as well as the total crushing during the year was highest ever achieved by the Company. Gola unit is the first factory ever in the history of the state of Uttar Pradesh (UP) to crush over 20 Million quintals of cane in one crushing season. Inspite of highest ever crushing and running the plant up to middle of June, the recovery at Gola unit was highest in Eastern UP and second highest in whole of the UP.

TABLE 2: Cane Crushing and Sugar Recovery

	Unit	2002-03 (12 months)	2001-02 (18 months)
Cane Crushing	Lac Qtls		
Gola		200.18	176.57
Palia		140.41	118.96
Total		**340.59**	**295.53**
Sugar Recovery	%		
Gola		10.56	9.97
Palia		9.71	9.26
Total		**10.20**	**9.76**

Results of Operations

Continued focus on reduction of manufacturing and other costs was maintained, as result of which, despite pressure on the selling prices during major part of the year, the *Company achieved substantial increase in* profits.

TABLE 3: Summarised Financial Results

Particulars	2002-03 (12 months) Rs. million	2001-02 (18 months) Rs. million	Annualised Increase/ (Decrease) %
Total Revenue	4662.47	6244.72	12
Earnings before interest depreciation and tax (EBIDTA)	565.51	538.57	57
Interest	67.36	166.57	(39)
Cash Profit	498.15	372.00	101
Depreciation	135.10	184.26	10
Extraordinary item – Compensation under VRS	14.40	61.50	(65)
Profit before Tax	348.65	126.24	315
Current and Deferred Tax	65.14	22.60	331
Profit after Tax	283.51	103.64	310
Earning per Share (Rs.)	32.46	11.87	310

Turnover

Despite all round improvement in the efficiencies, due to pressure on the selling prices of sugar, the annualised turnover increased by 12% only. Prices bottomed out in the month of June 2003 and improved from July 2003 onwards. Sales realisation of alcohol was better due to increased off-take of ethanol by the oil companies.

Analysis of Sales

Gross sales for the year was Rs. 4,582.67 million against Rs. 6,204.49 million during the previous year. On annualised basis the sales revenue increased by 10.8%. The depressed selling prices of sugar restricted the growth in sales revenue. The break-up of sales revenue is given in Table 4.

TABLE 4: Sales Revenue

	Unit	2002-03 (12 months)			2001-02 (18 months)		
		Qty	Value Rs. Million	% of sales	Qty	Value Rs. Million	% of sales
Sugar	Lac Bag	32.97	4168.59	91.0	41.24	5835.17	94.1
Alcohol	KL	21919	317.03	6.9	16890	214.02	3.4
Molasses	MT	76913	97.06	2.1	116327	155.30	2.5

Other Income

Other income for the year was Rs. 79.82 million against Rs. 40.23 million during the previous period. A major portion of this, Rs. 59.93 million is on account of write-back of provisions made in the earlier years and appropriation of old credit balances, Rs. 17.28 million on account of miscellaneous receipts and balance on account of dividend income on investments and surplus on sale of assets.

Other Expenses

Other expenses during the year were Rs. 47.53 million against Rs. 51.76 million during the previous period. Due to higher production of sugar by 81% and higher production of alcohol by 62%, the annualised other expenses for the year were higher by 38%.

Earnings before Interest, Depreciation, Tax and Amortisation (EBIDTA)

Due to improvement in operational efficiencies, reduction in direct and indirect costs, improved realisation of alcohol, reduction in net landed cost of cane due to payment to cane suppliers on SMP formula as decided by the Central Government etc. the annualised EBIDTA was higher by 57%. Had the sugar prices not fallen to the lowest level of last 20 years, the increase in EBIDTA would have been higher.

Interest

Despite increased scale of operations the Company achieved an annualised reduction of 39% in interest and finance charges. This saving was achieved due to optimum utilisation of resources, borrowing at competitive rates and reduction in lending rates for working capital finance.

Depreciation

Net addition of Rs. 145.37 million to the fixed assets during the year resulted in increase in annualised charge of depreciation by 10%. The net addition was on account of increase in ethanol manufacturing capacity in distillery at Gola from 25 kiloliters per day to 85 kiloliters per day and installation of miscellaneous equipment required for improvement in efficiency at Gola and Palia unit.

Extraordinary item – Compensation under Voluntary Retirement Schemes (VRS)

With an objective to further rationalise human resources and to cut down costs, the Company implemented another VRS during the year and 75 employees opted for the same. An average compensation of Rs. 0.19 million per employee aggregating a total compensation of Rs. 14.4 million was paid. The entire amount Rs. 14.4 million, as per the accounting policy of the Company, has been charged to the Profit and Loss Account against the normally prevailing practice of deferring such expenses over a period of five years. As a result, the annual wage bill has gone down by Rs. 7.0 million.

Provision for Tax

Higher profits have resulted in an annualised increase in total tax provision by 331%.

Balance Sheet

The summarised Balance Sheet as at 30 September 2003 is as under:

TABLE 5: Summarised Balance Sheet

Particulars	2002-03 Rs. Million	2001-02 Rs. Million
Source of Funds		
Shareholder's Funds		
Capital	87.33	87.33
Reserves and Surplus	1131.66	877.71
Sub Total	**1218.99**	**965.04**
Loan Funds	1798.40	865.66
Deferred Tax Liability	284.66	245.06
Total	**3302.05**	**2075.76**
Application of Funds		
Fixed Assets, Net Block	1892.50	1108.07
Investments	13.26	21.51
Current Assets, Loans & Advances	1837.42	1374.73
Less: Current Liabilities & Provisions	441.13	428.55
Net Current Assets	1396.29	946.18
Total	**3302.05**	**2075.76**

Share Capital

There was no change in Share Capital of the Company during the year.

Reserves and Surplus

Excellent working for the year resulted in additions to the Reserves and Surplus by Rs. 253.95 million after payment of dividend Rs. 26.20 million to the shareholders. In order to take care of contingent and unforeseen items and as a matter of prudence, the Company has decided to create a reserve for contingencies to the extent of Rs. 30.00 million.

Secured Loans

To part finance expansion of crushing capacity from 17,000 TCD to 24,000 TCD, during the year the Company has borrowed long term funds to the extent of Rs. 565.94 million. The borrowings have been made partly in Rupees and partly in US Dollar. Further, due to increase in stock and debtors as compared to the previous year by Rs. 293.61 million and increase in unrealised drafts and cheques, the utilisation of working capital finance at the year-end was higher by Rs. 368.27 million.

Operating Working Capital

Strict control on working capital borrowings and receivables helped the Company utilsation. The requirement of operating working capital at the end of year increased to Rs. 1,517.44 million compared to Rs. 1,061.66 million at the end of previous period. Despite higher requirement of operating working capital at the end of the year, the interest cost of working funds was down by 39%.

Unsecured Loans

Unsecured loans represents fixed deposits accepted by the Company from farmers supplying cane to the Company and employees working at Gola and Palia. Normally the Company does not accept fixed deposits but on repeated requests, accepted the same as a social responsibility. Timely repayment has been made to the deposit holders.

Fixed Assets

The increase in gross fixed assets includes net capitalisation of Rs. 145.37 million for increasing ethanol manufacturing capacity from 25 kiloliters per day to 85 kiloliters per day at Gola and installation of miscellaneous equipment required for improvement in efficiency of sugar units. Capital work in progress of Rs. 788.30 million is on account of increasing total crushing capacity from 17,000 TCD to 24,000 TCD.

The enhanced crushing capacity at Gola and Palia has become operational in November 2003 and new distillery at Palia would be in production by February 2004. The total capital expenditure on the above would be approx. Rs. 1,150 million.

Investments

The Company has further rationalised its investment portfolio during the year. Most of the remaining investments of Rs. 13.26 million are strategic investments of the Company.

Inventories

Finished goods inventory at the end of the year was equivalent to 126 days of sales, compared to 208 days in the previous period. Looking to the seasonal nature of the industry and other regulatory requirements, management feels that the same is well within control.

Debtors

The debtors at the end of the year were equivalent to 18 days of sales as compared to 1 day sales during the previous year. The increase has taken place due to ethanol sales to oil companies and selective credit to sugar customers. The entire amount has been realised subsequently as per the agreed terms.

Reduction in per unit manufacturing expenses

Continuous cost cutting has resulted in substantial reduction in per unit manufacturing cost. The areas where major cost reduction has been achieved are given in Table 6.

TABLE 6: Major Cost Reduction

Particulars	2002-03 (12 Months) Rs. Million	2001-02 (18 Months) Rs. Million	Reduction Rs. per bag
Salary and Wages	64.78	109.75	44.97
Interest and Finance Charges	19.38	57.74	38.36
Depreciation	38.86	63.87	25.01
Other Expenses	136.72	179.40	42.70

Significant non-recurring income and expenditure items

Income

During the period the Company wrote back Rs. 59.93 million towards old provisions and old credit balances no longer required against Rs. 16.88 million during the previous year.

Expenditure

During the year the cost of Voluntary Retirement Scheme Rs. 14.4 million has been charged to Profit and Loss account as per accounting policy of the Company against Rs. 61.50 million during the previous year. It is the policy of the Company to charge such expenses in the year in which are incurred.

Control Measures for Cane Procurement

Due to requirement of fresh cane, cane management activity has become the key success factor for any sugar unit. Systematic indenting, fresh and regular supplies by the farmers and smooth running of the factory critically affect profitability. Keeping this in mind, the Company takes all possible precautions to ensure that it gets regular and fresh cane from the farmers. The Company has a comprehensive system of cane procurement, which is closely monitored by senior management as this single activity determines the fortunes of the Company.

RATIO ANALYSIS

Profitability Ratios

The following table details the key profitability ratios of the Company.

Table 7-A: Key Profitability Ratios

PARTICULARS	18 months ended September 2002	12 months ended September 2003
PROFITABILITY RATIOS		
PBDIT/Sales (%)	8.68	12.34
PAT/Sales (%)	1.67	6.19
PAT/Net Worth (%) (ROE)	7.16	22.71

The operating margin of the Company has increased substantially during financial year 2002-03 primarily on account of higher crushing of cane, improved recoveries and higher sugar production. Consequently, post tax profits as well a return on equity (ROE) have also increased from 1.67% and 7.16% in financial year 2001-02 to 6.19% and 22.71% in the current year respectively.

Capitalisation Ratios

Some of the key capitalisation ratios are detailed below.

Table 7-B: Key Capitalisation Ratios

PARTICULARS	18 months ended September 2002	12 months ended September 2003
CAPITALISATION RATIOS		
Total Debt/Equity ratio	0.90	1.44
Long Term Debt/Equity Ratio	0.02	0.47
Total Outside Liabilities/Total Net Worth	2.05	1.77
Net Fixed Assets/Total Net Worth	1.15	1.52
Net Fixed Assets/Turnover (*)	0.18	0.41

* *annualised*

With increased level of operations and ongoing capital expenditure for the expansion of sugar capacities and installation of a new distillery, the overall debt of the Company has increased and the total debt/equity ratio as at 30 September 2003 was 1.44 times. However, it is pertinent to note that a significant portion of the debt is for working capital. The long term debt/equity ratio at 0.47 times is very comfortable reflecting the conservative approach to external borrowings of the Company.

Coverage Ratios

The following table sets out the interest coverage ratios of the Company.

Table 7-C: Interest Coverage Ratios

PARTICULARS	18 months ended September 2002	12 months ended September 2003
COVERAGE RATIOS		
PBDIT/Finance costs (Interest coverage)	2.52	7.78
PBIT/Finance costs	1.66	5.92

The Company's interest coverage has improved significantly on account of improved profitability at the operating level as well as lower interest burden. Interest cover has increased from 2.52 times in 2001-02 to 7.78 times in 2002-03. Even after providing for depreciation, interest cover post depreciation is also very healthy at 5.92 times.