


**ANNUAL
REPORT
FOR THE
YEAR ENDED
30TH JUNE
2007**

 **Eastern Sugar & Industries Limited**



Eastern Sugar & Industries Limited

ANNUAL REPORT

2006 - 2007

Board of Directors

Shri B. K. Nopany, *Chairman*

Shri M. P. Dhandhanian

Shri D. Y. Manawwar

Shri K. L. Darak

Auditors

M/s. Vivek Jaiswal & Co.

Chartered Accountants

2, Ganesh Chandra Avenue,

Kolkata-700 013

Compliance Officer & Company Secretary

Shri M. L. Lahiri

BANKERS :

BANK OF INDIA

REGISTERED OFFICE :

P. O. : Hanuman Sugar Mills

Motihari - 845401

Dist. East Champaran

Bihar

Registrar & Share Transfer Agent :

MCS Ltd.

77/2-A, Hazra Road,

Kolkata - 700 029

Phone : 033-2454-1892/1893



Eastern Sugar & Industries Limited

NOTICE

NOTICE is hereby given that the Annual General Meeting of the Members of Eastern Sugar & Industries Limited will be held on Saturday, the 29th day of December, 2007, at 1:00 P.M. at the Registered Office of the Company at P.O. Hanuman Sugar Mills, Motihari, Dist East Champaran, Bihar - 845401 to transact the following business :

1. To receive, consider and adopt audited Annual accounts for the year ended 30th June, 2007 and Profit & Loss Account for the year ended 30th June, 2007 along with Reports of the Auditors and Directors thereon.
2. To appoint a Director in place of Mr. M. P. Dhandhanian, who retires by rotation at this meeting and being eligible offers himself for re-appointment.
3. To appoint an Auditors in place of M/s. Vivek Jaiswal & Co. Chartered Accountants, Kolkata, who retires and being eligible offers himself for re-appointment.
4. To transact any other business with the permission of the chairman.

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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 and a proxy need not be a member of the company. Proxies in order to be effective must be received by the company not less than 48 hours before the time fixed for the commencement of the meeting.
2. The members are requested to intimate the Company about any change in their registered address quoting their registered Folio No.
3. Members/ Proxies should bring their Attendance Slip duly filled in, for attending the meeting.
4. All documents referred to in the Notice are open for inspection at the Regd. Office of the Company on all working days up to the date of meeting.



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5. The Register members and Share transfer Books shall remain closed from the 23rd December, 2007 to 29th December, 2007 (both day inclusive).
6. Members desirous of obtaining any information as regards to Accounts and operations of the company are requested to write at least one week before the meeting, so that the same could be compiled in advance.
7. Members desirous of making a nomination in respect of their shareholding in the company as permitted under Section 109A of the Companies Act, 1956, are requested to write to the company for prescribed Form 2B.
8. As per SEBI directive, shares of all the companies have to be traded compulsorily in dematerialised form by all investors, The Company has appointed M/s. MCS Ltd. of 77/2A, Hazra Road, Kolkata - 700 029 as common agency to act as Registrars for the purpose of electronic connectivity for effecting dematerialisation of shares as well as for transfer of physical shares.

For & on Behalf of the Board

M. L. Lahiri
Company Secretary

Place : Kolkata
Date : 28.09.2007



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DIRECTORS' REPORT

TO THE MEMBERS

Your Directors have pleasure in presenting their Report together with the audited Statement of Accounts for the year ended 30th June, 2007.

FINANCIAL RESULTS :

	(In lac of Rupees)	
	Year ended 30 th June'07	Year ended 30 th June'06
Profit Before Interest, Depreciation. & Tax	1099.86	108.77
Less : Interest	49.35	49.35
Profit before Depreciation & Tax	1050.51	59.42
Less : Depreciation.	3.13	4.57
Profit Before Tax	1047.38	54.85
Less : Provision For Taxation (including FBT)	.29	.34
Profit After Tax	1047.09	54.51
Add : Balance brought forward from Previous Year	-1001.19	-1055.70
Balance Carried to Balance Sheet	<u>45.90</u>	<u>-1001.19</u>

REVIEW OF OPERATION AND FUTURE OUTLOOK :

No manufacturing activities were carried on during the year. The income from operation shown in the above financial result was from trading activities. The Sugar Mill of the Company is ready for production and the Management is hopeful of starting to get returns from the use of the Company's Fixed Assets from the ensuing season. The Management also proposes to set up an Ethanol plant in near future.

DIVIDEND :

In view of inadequate profit your directors express their inability to declare any dividend for the year.

DIRECTORS :

During the year Mr. M. P. Dhandhanias, Director of the Company retires from the Board by rotation and being eligible offers himself for reappointment.



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AUDITORS :

The Auditors of the company, M/s. Vivek Jaiswal & Co., Chartered Accountants, retire at the conclusion of the forthcoming AGM and have confirmed their eligibility and willingness to accept the office, if reappointed. The Notes to the accounts referred to in the Auditors' Report are self explanatory and therefore do not call for any further comments.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217(2AA) OF THE COMPANIES ACT, 1956.

The Directors hereby confirm

- i) that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable 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 and of the profit of the Company for that period;
- iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) that the directors had prepared the annual accounts on a going concern basis.

PARTICULARS OF EMPLOYEES:

There was no employee who was in receipt of remuneration exceeding the limits specified under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975, as amended.

CORPORATE GOVERNANCE:

Your company has taken adequate steps to ensure that all the provisions of Corporate Governance as prescribed under the amended listing Agreement of the Stock Exchanges with which the shares of the Company are listed are complied with. Pursuant to clause 49 of the Listing Agreement with Stock Exchange, a section on management discussion and analysis is given in Annexure A attached hereto and forms part of this Report.

Pursuant to clause 49 of the Listing Agreement with Stock Exchange, a report on Corporate Governance is given in Annexure B attached hereto and forms part of this Report.

SEGMENT REPORTING :

The Company operates only in one segment and hence the segment reporting under As 17 is not applicable.



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CONSERVATION OF ENERGY, RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO :

Since there was no production during the year and the company was facing financial crunch statement containing particulars in respect of Conservation of Energy, technology Absorption and Foreign Exchange Earnings and Outgo as required U/s 217(1)(e) of the Companies Act, 1956 is not given.

ACKNOWLEDGEMENT:

Your Directors record their sincere appreciation for the valuable co-operation and support extended by the Financial Institution, Bankers to the Company, Central and State Governments and the Sugar Directorate. The Directors are thankful to the Indian Sugar Mills Association for the dynamic role it has been playing on behalf of the Sugar Industry. The Directors also place on record their appreciation of the devoted services rendered by the workers, staff and executives of the Company who have largely contributed to its efficient management.

For and on behalf of the Board

12, Govt. Place East
Kolkata – 700 069

Dated 28th September, 2007

K. L. Darak

Director

Eastern Sugar & Industries Limited

ANNEXURE "1" TO THE DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS:

A. Sugar

Indian Sugar Overview

Industry Scenario

- India is the largest consumer and second largest producer of sugar in the world. The Rs. 500 billion Indian sugar industry is also the second largest in the country's agro-processing sector.
- It is a fragmented sector (499 operational sugar factories) with the largest private sector player accounting for a mere 3 per cent of the market.
- There are 571 installed sugar mills in the country with a production capacity of 28 million tones (MT) of sugar during 2006-07.
- India, as the world's second largest producer of sugarcane (after Brazil), accounts for around 17 per cent of the global sugar production.
- Although export restrictions and duties have gradually been relaxed, the government still largely controls the industry, particularly the pricing of sugarcane and allocation of land designated for cane growing.
- More than 50% of the area of sugarcane cultivation is located in UP.
- Cane cultivation acreage in UP increased from 2.03 million hectares in 2003-04 to 2.5 million hectares in 2006-07.

Factors affecting the Indian Sugar Industry

The board dynamics that affect the Indian Sugar Industry revolve around certain parameters.

1. **Capacity growth :** The Indian Sugar Industry has grown horizontally with a large number of small-sized plants being set up throughout the country. The government granted licenses to new units with an initial capacity of 1,250 tonnes crushing per day (TCD) in the 1980s, which was increased to 2,500 TCD. Subsequently, de-licensing of the industry in 1998 provided a growth impetus to the country's sugar units.
2. **Production :** Sugar production in India has been driven by factors like cane acreage, yield per hectare, drawal (cane crushed by the plant/total cane produced in plants cultivable area) and recovery percentage which in turn depend on rainfall and competitive advantage over other crops. Currently around 4 million hectares of land i.e., around 2.7 per cent of the cultivated area, is under sugarcane production. The average recovery is around 10 per cent.
3. **Consumption :** Sugar consumption depends on population growth and per capita consumption. Sugar consumption in India increased at a CAGR of 4 per cent in the last five years and is expected to grow at the same pace in the coming years. The per capita consumption of sugar at the lowest income level is at 2.2 kgs per month and at the highest income level at 5.11 kgs per month.



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4. **Production & consumption statistics** : The difference between production and consumption reduced inventory from 11.3 MT in FY2001-2002 to a projected 3.9 MT in 2006-07. Also, the stock-to consumption ratio, which was around 67 per cent in FY2001-02, declined to 21.38 per cent in FY2005-06 and gone up to 54.00 per cent in FY2006-07.

Year	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Stock	11.32	11.62	7.67	4.00	3.90
Production	20.14	14.00	12.69	19.27	28.50
Imports	0.04	0.40	2.14	-	-
Total supply	31.50	26.02	23.34	23.27	32.80
Consumption	18.38	18.13	18.50	18.24	20.00
Exports	1.50	0.22	-	1.13	2.00
Closing stock	11.62	7.67	4.00	3.90	10.80
Closing stock/consumption	63.17%	49.18%	21.62%	21.38%	54.00%

Bihar, the next sugar destination in India

In 1940, Bihar accounted for 32 sugar units out of 148 sugar units in India (over 20 per cent), while presently Bihar is left with only nine functional units out of a total of 480 sugar mills in India. The state's contribution to the total sugar produced by the country declined from 28 per cent in the 1930s to below 2 per cent. But according to a comprehensive study by the Bihar Industries commission, this scenario could correct following various initiatives that the State Government has already embarked upon.

1. **Infrastructure revival** : Bihar's per capita expenditure on infrastructure of Rs. 44.60 (as against a national average of Rs. 118) and irrigation cum flood control of Rs. 104.40 (compared to a national average of Rs. 200) is expected to correct faster than ever before in view of the new State Government and a stated emphasis on infrastructure expansion.
2. **Central grant** : A grant of Rs. 8250 crores was made to Bihar by the Central Government on 14th February, 2006 under the Annual Plan for 2006-07 which includes an additional Central assistance of Rs. 50 crores of priority schemes to be initiated in the State.
3. **Unexplored room** : At a time when there is a severe competition for cane in the other parts of the country, a mere four cane growing districts have been explored in Bihar (out of 15), offering an attractive opportunity for sustainable expansion.
4. **Fiscal incentives** : The Bihar government announced several incentive programmes, which include a capital subsidy of 10% or Rs. 10 crores, whichever is less, on the total investment made on plant and machinery, reimbursement of excise duty on the production of sugar, exemption from the payment of purchase tax on the purchase of sugarcane and from the payment of stamp duty and registration fee on the purchase of land etc. These incentives will be available for a period of five years from the date of commencement of production.



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Sugarcane Pricing

In India, the government announces a minimum support price of sugarcane. The price announced by the central government is termed as Statutory Minimum Price (SMP). The central government fixed the SMP for sugarcane at Rs. 80.25 per quintal linked to a recovery of 9 per cent for the sugar season 2006-07. An additional payment of 88 paise had to be made for every additional 0.1 per cent recovery over the base rate of 9 per cent.

Furthermore, factories are required to pay an additional price under Clause 5A of Sugarcane (Control) Order, 1966, which is calculated by the Government based on any additional sugar price realised by the factories. Basic SMP of sugarcane for Motihari, Bihar has been fixed @ Rs. 80.25/- per qtl. for the year 2006-07.

Industry Outlook

The long-term outlook for the industry appears stable due to a sustainable increase in demand, rising population and increased per capita consumption. The balanced demand and supply position in the global industry for the next couple of years should support a stable medium-term price outlook.

Sugar Manufacturing strategy

- Expansion of Installed capacity
- Achieve greater raw material security
- Continuously improve technology in sugar mills.

B. ETHANOL AND INDUSTRIAL ALCOHOL

Sugarcane is an energy crop, as its derivatives can be used to produce ethanol – fuel and electricity. Ethanol has been a resounding success especially at times of high and volatile crude oil prices. Countries like Brazil and USA have made ethanol a national priority.

The demand for ethanol is expanding worldwide. Ethanol is a real-world petroleum substitute that is likely to emerge as a complete energy solution in countries like India over the years. To prepare for this eventuality, the Company is expanding its distillery at Seohara from 55 KLPD to 100 KLPD, which will be fully operational during the 2006-07 to meet the increased demand of ethanol from major oil companies.

Outlook

With the price of fossil fuels (oil and gas) rising to unprecedented levels, the use of substitute fuels (bio-fuels, ethanol) is rapidly increasing. The Government of India re-started its ethanol programme last year in a few states only. An increase in doping of fuel with ethanol to 10% is expected to double the demand for this petroleum substitute significantly over the long term. An estimated ethanol requirement would be 587 million litres and 1100 million litres at 10 % blending. Such quantities will be available indigenously. With molasses and bagasse both being transformed into energy sources (as a substitute for motor fuel and conventional power respectively), the sugar industry is poised to emerge as an important energy player.