

**JK SUGAR LTD.**

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**ANNUAL REPORT 2004 - 05**

## BOARD OF DIRECTORS

**Bharat Hari Singhania**  
Chairman

**P. K. Jain**

**Gautam Khaitan**

**Vikrampati Singhania**

**A. K. Kinra**

**R. C. Singhal**  
Whole-time Director

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### **Auditors**

S. S. Kothari Mehta & Co.  
Chartered Accountants

### **Registered Office**

7, Council House Street,  
Kolkata - 700 001

### **Bankers**

Bank of India  
Dena Bank  
The Bank of Rajasthan Ltd.  
UTI Bank Ltd.

### **Plant**

Sindhauli Road,  
Meerganj,  
Bareilly (U.P.)

### **Vice President (Finance) & Secretary**

S. A. Bidkar

### **Administrative Office**

Link House,  
3, Bahadurshah Zafar Marg,  
New Delhi-110 002.

## DIRECTORS' REPORT

### TO THE MEMBERS

The Directors have pleasure in presenting the Annual Report and Audited Accounts for the Financial Year ended 31<sup>st</sup> March 2005.

### OPERATIONS

During the year under review, the Company achieved a turnover of Rs.100.06 crore as against Rs.85.55 crore during the previous year. The Operating Profit during the year more than doubled from Rs.12.64 crore to Rs.29.46 crore. The cash profit also increased by over eight times from Rs.1.96 Crore to Rs.18.81 crore during the current year. After providing for depreciation but before exceptional expenses, there was a net profit of Rs 14.18 crore during the year as against a net deficit of Rs. 2.53 crore during the previous year.

During the year, pursuant to a judgement of Hon'ble Supreme Court, the U.P State Government announced the State Advisory Price (SAP) for purchase of cane for the season for 2003-04 with retrospective effect and demanded the cane price differential between the SAP and the Statutory Minimum Price (SMP) for the past years 1996-97, 2002-03, and 2003-04. The Company had to provide for this cane price differential amounting to Rs 17.12 crore as an exceptional item in the current year.

After providing for the above exceptional expense of Rs. 17.12 crore, there was a net profit of Rs 9.15 crore after taxes, for the year ended 31<sup>st</sup> March 2005. An amount of Rs 1.14 crore has been transferred to Debenture Redemption Reserve Account.

Shorter sugar cane season across the State of U.P & the country, at large, and diversion of our cane area to another mill, resulted in lower crushing during the year at 5.75 MT for the Company with sugar production of 57,496 M.T. Consequently, the sale of power during the year was also affected and stood at 244 lac Kwh.

Due to the lower sugar cane crop through out the country again this year, sugar production in the country dropped for the second consecutive year. Due to lower carried over inventory and steady demand, prices of finished goods during the year increased. However, much of the gains of a higher sales realization was wiped out by the increase in the input cost of the main raw material, sugarcane, due to a higher SAP announced by the State Government. Some of the gap between production and consumption was also met through the imports of raw sugar under advance license scheme, which was converted into white sugar by a number of mills in the industry including yours.

### CANE DEVELOPMENT

Your Company continues to focus its attention on cane development in its command area and has a programme in place to not only increase the area under cane, but also improve its varietal balance. It is making efforts to promote new area and high sugared varieties while eradicating unsuitable and older varieties. Special efforts in the coming years are being made to reduce distance of collection, so as to bring down harvest to crush time, enabling improved recoveries. The Company has also worked with some of the Banks to provide advance to farmers at concessional rates of interest for helping them to purchase seeds and other agricultural inputs.

### SCHEME OF ARRANGEMENT AND RESTRUCTURING

With a view to improve its long term financial health by reducing the debt burden and increasing the networth, your Company had filed a Scheme of Arrangement and Restructuring (the Scheme) in the Hon'ble Calcutta High Court under Section 391 of the Companies Act 1956. The Scheme has since been sanctioned by the said Court on 22<sup>nd</sup> June 2005 and has become effective on 20<sup>th</sup> July 2005. Pursuant to the Scheme, the terms of the Non Convertible Bonds (NCBs) of Rs. 15 crore been restructured by converting NCBs of Rs. 13.48 crore into equity and balance NCBs of Rs 1.52 crore into a term loan. Further the terms of Zero Coupon Preference Shares of Rs 13.50 crore were restructured whereby their redemption period was deferred from 9, 10 & 11 years to 17, 18, & 19 years from the date of their allotment. The Scheme is operative from 1<sup>st</sup> Oct.2004, (the appointed date) and its impact has been given in the Annual Accounts for the year under review.

### SHARE CAPITAL

On 6<sup>th</sup> March, 2005 15,00,000 fully paid up Equity Shares of Rs. 10 each were issued to J.K. Industries Ltd. (JKIL) consequent upon the conversion of Rs.10 each of the 15,00,000 Zero Coupon Preference Shares of Rs 100 each as per the terms thereof. Further on 28<sup>th</sup> July 2005, to give effect to the said Scheme, 36,21,790 Equity Shares of Rs. 10 each were issued and allotted at a premium of Rs. 30 per Share in lieu of NCBs of the aggregate value of Rs. 13.48 crore held by JKIL and the interest accrued (net of TDS) from 1<sup>st</sup> April 2004 to 30<sup>th</sup> September 2004 on the NCBs of Rs. 1500 lacs amounting to Rs 1,01,11,600.

### CONSERVATION OF ENERGY

The details as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988 are annexed.

**DIRECTORS**

Shri P.K. Jain retires by rotation and being eligible, offers himself for reappointment.

Shri A.K. Kinra, who was appointed as a Director of the Company w.e.f. 4<sup>th</sup> September 2003, in a casual vacancy pursuant to Section 262 of the Companies Act 1956, retires at the ensuing Annual General Meeting and being eligible, offers himself for reappointment.

The Company has received from Members notices pursuant to Section 257 of the Companies Act 1956, proposing the candidature of Shri A.K. Kinra for appointment as Director, liable to retire by rotation.

The Board recommends the appointments.

**AUDITORS**

M/s S.S. Kothari Mehta & Co., Chartered Accountants, Auditors of the Company retire and are eligible for re-appointment. The observations of the Auditors in their report on Accounts read with the relevant notes are self-explanatory.

**PARTICULARS OF EMPLOYEES**

During the year under review, there were no employees covered under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

**CORPORATE GOVERNANCE**

Your Company reaffirms its commitment to the good corporate governance practices.

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, Management Discussion and Analysis, Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of Corporate Governance are made a part of this Annual Report.

**DIRECTORS' RESPONSIBILITY STATEMENT**

As required under Section 217(2AA) of the Companies Act 1956, your Directors state that:

- (i) in the preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) the accounting policies selected and applied are consistent and judgments and estimates made 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 or loss of the Company for that period;

- iii) proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the said Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, and
- iv) the annual accounts have been prepared on a going concern basis.

**ACKNOWLEDGEMENTS**

Your Directors wish to acknowledge, the continued support and cooperation received from valued Customers, Dealers, Suppliers, Farmers, Shareholders, Banks, Financial Institutions, and various Central and State Government Agencies.

Your Directors also acknowledge and appreciate the commitment and dedication of the employees at all levels.

On behalf of the Board

The 30<sup>th</sup> July, 2005  
New Delhi

B. H. Singhania  
Chairman

**ANNEXURE TO THE DIRECTORS' REPORT****A. CONSERVATION OF ENERGY**

(a) Steps taken by the Company for conservation of energy are as under:-

1. Secondary Air Injection System was installed in WIL boiler for optimization of bagasse combustion.
2. Auto feed control system was installed for all vacuum pans.
3. Auto drain valve was installed in compressors.
4. DC drive were installed for newly installed Zero Mill.

(b) Specific areas of additional investment and proposals.

1. State of art single entry multi-jet condensers planned installed with fully automatic water entry control. With this installation energy will be saved upto 0.3 MW power every hour.
2. HP gland sealing fins of steam turbine No.1 will be replaced to reduce steam loss.

3. Mixing of Agrowaste (Rice Husk) with bagasse for increasing the co-generation working days in a year.

(c) The required data with regard to conservation of energy is furnished below:-

Power and Fuel Consumption	2004-05	2003-04
1. a) Purchased Units (Lac Units)	7.12	4.88
Total amount (Rs. in Lacs)	22.87	15.06
Rate / Unit (Rs.)	3.21	3.08
b) Own Generation		
i) Through Diesel Generation		
Sets (Lac Units)	0.91	0.83
Unit/Ltr. Of Diesel oil (KWH)	2.33	2.41
Cost/Unit (Rs.)	9.39	7.36
ii) Through Steam Turbine/Generator (Lac Units)	199.72	265.97
Unit per MT of Bagasse Cost/Unit	Steam produced by use of own bagasse	Steam produced by use of own bagasse.
2. Consumption per unit of Production Electricity Units per MT of Sugar Production)	337	349

## B. RESEARCH AND DEVELOPMENT

Following development activities were undertaken by the Company.

1. Improved varieties of cane seed being provided to cane growers through seed nurseries for varietal replacement.
2. Input distribution such as DAP, Zinc, Microfood, Neem Cake and other pesticide were distributed among the growers for yield improvement and pest control.
3. To Improve cultivation practices, implements such as tractor drawn, ridgers and sprayers were distributed among the growers.
4. Newly released improved sugar cane varieties such as CoS96275, 97261, 0097, Ashok and Shahjahan has been sown in our JK Sugar Mill Farm.
5. About 1.20 Lac qtls of improved variety seed were distributed during spring Planting.

## C. TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION.

Leaf filter is working satisfactory to filter oiler filterate juice and directly mixing with clear juice.

# MANAGEMENT DISCUSSION AND ANALYSIS

## SUGAR INDUSTRY SCENARIO

Sugar Industry in India is the second largest agro based industry in the country with about 453 operative factories located through out the country. India is the largest consumer of sugar in the world and its production, which is second largest in the world, accounts for about 15% of the global sugar production. The Industry also provides direct and indirect employment to millions of people in rural areas. The Annual Tax contribution to the national exchequer from the Industry is over Rs. 2000 Crs.

Sugar Industry is, primarily, a cyclic Industry in nature and sugar cycle generally comprising of two-three bumper years, two-three normal years and one-two short years. This sugar cycle of 5 to 7 years has been repeating itself for the last so many years. After witnessing bumper production years upto 2002-03 with the production reaching an all time high of 201 Lac MT, the production cycle moved on the downward curve with production during 2003-04 dropping to 140 Lac MT and is further expected to slide down to 125 - 130 Lac MT during 2004-05.

The demand for sugar in the country, which is currently at about 180 Lac MT continues to grow at about 2-3 percent per year. This gap between the production and the consumption has been met by liquidation of backward inventories of the industry as well as import of raw sugar under advance licence scheme. This raw sugar has been imported duty free with an export obligation in the future.

## AVERAGE SIZE OF SUGAR FACTORIES

Sugar industry in India highly fragmented with large number of small sized sugar plants set up through out the country as opposed to the consolidation of capacity in the rest of the important sugar producing countries, where greater emphasis has been laid on larger capacity of sugar plants. The average cane crushing capacity in India, Brazil and Thailand is given below:

Country	Avg. Capacity (TCD)
Thailand	10300
Brazil	9200
India	3500

Source: ISMA

A number of sugar mills, especially in Brazil, also produce Ethanol so as to add value to its operations.



## CANE ACREAGE & PRODUCTION

Sugarcane occupies about 2.7% of the total cultivated area and it is one of the most important cash crops in the country. The area under sugarcane has gradually increased over the years mainly because of much larger diversion of land from other crops to sugarcane by the farmers for economic reasons. The cane area has, however, declined in the year 2003-04 mainly due to drought. The Sugarcane production is expected to come back to the earlier levels by 2006-07.

## SUGAR CANE PRICING

The Government of India regulates and fixes Statutory Minimum Price (SMP) for cane, which sugar mills have to pay to the cane grower. In a recent judgement, Hon'ble Supreme Court of India, upheld the powers of U.P. State Government to fix its own State Advised Price (SAP) much higher than the SMP fixed by the Central Government. While the SMP fixed by the Central Government is linked to the recovery of the mill, the SAP announced by the U.P. State Government is payable irrespective of the mill's recovery. After announcement of this judgement, the UP State Government announced SAP of Rs. 95 per qtl. for the season 2003-04 with retrospective effect as against the SMP of Rs. 73 per qtl. (based on recovery of 8.5%) announced by the Central Government for the season 2003-04. The U.P. State Government also claimed from the sugar mills the differential between SMP & SAP in respect of 2003-04 as well as for the earlier years 1996-97 and 2002-03.

## U.P. GOVERNMENT SUGAR POLICY

In order to attract large investments in Sugar Industry UP Government has announced a scheme of liberal incentives. The eligibility for this scheme is a minimum investment of Rs. 350 crores to claim incentives for 5 years and Rs. 500 crores to claim these for 10 years.

While this policy will encourage a few large players, majority of the sugar units may not be able to avail the incentives under this policy and this will place them at a competitively disadvantageous position vis-a-vis a selected few who are able to avail the incentives under this policy. However, if the policy is broad-based, it shall immensely benefit the Industry and shall be in long term interest of all the stake-holders of sugar Industry in U.P.

## OUTLOOK

Sugar Industry in India, witnessed two short years 2003-04 & 2004-05. However, it shall take at least a couple of years before the sugar cycle corrects itself and sugar production in the country exceeds demand. During the year 2005-06, sugar production is expected to go up from 125 Lac MT to about 170-175 Lac MT against the domestic demand of about 190 Lac MT. As such the prospects for the sugar industry during the next one or two years are expected to remain buoyant.

The Ethanol programme initially announced by the Government, which could not kickstart in the past, is expected to gather momentum with the fixation of price for Ethanol. Under this programme, oil companies are expected to buy 350 millions liters of Ethanol to supply petrol blends in 9 states across the country. This will throw open new opportunities for the down stream products.

In order to add value to the sugar business, the Power Co-generation is expected to remain a focused area in the coming years. Power Generation by use of fossil fuel and other Biomass fuel should be encouraged. The Company continues to lay emphasis on increased power generation in the off-season by use of alternative Biomass fuel. This shall certainly result in higher export of power in the coming years.

The Company also continues to strive for increasing cane crush and remains focused in the cane development area. It has taken new initiatives to educate the farmers for improving the yield and varital balance of sugarcane through proper use of fertilizers, pesticides and by adopting improved agricultural practices in respect of irrigation, use of pesticides etc. The Company is keenly engaged in developing long term relationship with farmers by arranging for them seed loans at concessional rates through Banks. Full benefits of these programmes would bear fruits in the coming years.

The international prices have also improved due to favourable global demand – supply situation. There is also pressure from the WTO on the European Union to reduce export subsidies in the area of sugar, amongst other commodities. In the event of this happening, the international prices may further improve and India could stand to gain from this.

## HUMAN RESOURCES

The Company considers its Human Resources as its most valuable asset. It puts a great deal of efforts in

creating an atmosphere, where all employees can work upto their true potential. Employees are well empowered to enable them to move smoothly on their career growth ladder availing opportunities for training and development. The Company has a full fledged and well documented goal setting and appraisal system to reward high performers. Involvement of employees at all levels is ensured through Cross Functional Teams to tackle and address any issue.

### THREATS AND CONCERNS

Sugar is a cyclic agro-based industry and is directly affected by the extraneous factors like climatic conditions and vagaries of weather. Apart from the natural factors, the availability of the sugarcane is also affected by areas getting allocated to other Mills by the State Government and its diversion to alternative crops. The setting up of a number of large green field sugar mills could lead to rampant poaching of the cane as well as over production in the state of U.P in short run.

The Sugar Industry is also a highly regulated Industry with cane price being directly and sugar prices, being indirectly, regulated by the Government through release mechanism. However, the Government has expressed its interest to dismantle this mechanism and slowly move to a de-controlled regime.

The talk of renegotiation of power tariff and fixation of procurement price for Ethanol at an unremunerative level could be another concern to the industry.

Overall uncertainties in the policies and regulations have always been the concern for the Sugar Industry.

### FINANCIAL PERFORMANCE

The Financial Results for the year ended 31<sup>st</sup> March 2005 are summarised below:

(Rs. in Crs.)		
Particular	2004-05	2003-04
1. Sales and Other Income	100.26	85.55
2. Profit Before Interest, Depreciation & Tax	29.46	12.64
3. Profit Before Depreciation	18.81	1.96
4. Profit Before Tax & Exceptional Expenses	14.18	(2.53)
5. Profit Before Tax	10.97	(2.53)
6. Profit After Tax	9.15	(2.53)

### INTERNAL CONTROLS SYSTEM

The Company has a well defined Internal Control System, in place and this is being directly followed to ensure that the assets and the interests of the Company are safeguarded. The Company also has an Internal Audit System and all the areas of operations are covered at least once during the entire year. A details of Department wise Internal Audit Programme is drawn and the observations of the Internal Audit are discussed in detail and at length periodically in the Audit Committee Meeting. Action Taken Reports are placed before the Committees to monitor the steps being taken in removing deficiencies, if any.

The Company also has a budgetary control system, wherein the Department wise budgets are made and are converted into Annual Plans. The Annual Plans are further broken down to Monthly Plans. The actuals are monitored with Budget on monthly basis through Monthly Review Meetings and detailed variance analysis is done to analyse and control the variation.

### CAUTIONARY STATEMENT

"Management's Discussion and Analysis Report" contains forward looking statements, which may be identified by the use of words in that direction, or connoting the same. All statements that address expectations or projections about the future, including, but not limited to statements about the Company's strategy for growth, product development, market position, expenditures and financial results are forward looking statements. The Company's actual results, performance or achievement could thus differ materially from those projected in any such forward-looking statements. The Company assumes no responsibility to publicly amend, modify or revise any onward looking statements, on the basis of any subsequent development, information or events.

## CORPORATE GOVERNANCE REPORT

### 1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE :

Corporate Governance is an integral part of values, ethics and the best business practices followed by the Company. The core values of the Company are:

- Commitment to excellence and customer satisfaction
- Maximising long term shareholders' value
- Socially valued enterprise and

- Caring for people and environment.

In a nutshell, the philosophy can be described as observing of business practices with the ultimate aim of enhancing long term shareholders' value and commitment to high standard of business ethics. The Company has in place a Code of Corporate Ethics and Conduct reiterating its commitment to maintain the highest standards in its interface with stakeholders and clearly laying down the core values and corporate ethics to be practised by its entire management cadre.

### 2. BOARD OF DIRECTORS :

The Board of Directors presently consists of six Directors, out of which one is Executive Director, five Non-Executive Directors (NED) three of whom are Independent Directors (IND). Other details are as given hereunder:

Director	Category	Number of Board Meetings Attended	Whether last AGM attended (held on 10.9.2004)	No. of other directorships and Committee Memberships/Chairmanships		
				Other Directorships §	Committee Memberships*	Committee Chairmanships*
Shri Bharat Hari Singhania, Chairman	NED	6	Yes	3	1	—
Shri Vikrampati Singhania	NED	6	Yes	2	2	—
Shri A.K. Kinra	IND	6	Yes	4	3	—
Shri Gautam Khaitan	IND	3	No	6	1	1
Shri P.K.Jain	IND	6	Yes	3	—	1
Shri R.C. Singhal	Executive	6	No	—	—	—

§ As per Section 275 read with Section 278 of the Companies Act, 1956

\* Only covers Memberships/Chairmanships of Audit Committee, Remuneration Committee and Shareholders/Investors Grievance Committee

NUMBER AND DATES OF BOARD MEETINGS HELD :- Six Board Meetings were held during the financial year 1<sup>st</sup> April 2004 to 31<sup>st</sup> March 2005 on 27<sup>th</sup> May 2004, 30<sup>th</sup> June 2004, 26<sup>th</sup> July 2004, 28<sup>th</sup> October 2004, 25<sup>th</sup> January 2005 and 28<sup>th</sup> February 2005.

### 3. AUDIT COMMITTEE :

The Company has an Audit Committee of Directors which consists of three Directors, all being Non-Executive Independent Directors namely Shri P.K. Jain (Chairman of the Committee), Shri Gautam Khaitan and Shri A.K. Kinra.

The 'Terms of Reference' of the Audit Committee are in conformity with the provisions of Section 292A of the Companies Act, 1956 and also Clause 49 of the Listing Agreement.

Three meetings of the Audit Committee were held during the year 2004-05 on :

Date of Meeting	No. of Members attended
30 <sup>th</sup> June, 2004	2
28 <sup>th</sup> October, 2004	3
25 <sup>th</sup> January, 2005	2

### 4. SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE :

The Company has Shareholders/ Investors Grievance Committee at the Board level, which consists of three Directors namely Shri Vikrampati Singhania (Chairman of the Committee), Shri Gautam Khaitan and Shri A.K. Kinra all being Non-Executive Directors.

Four Meetings of the said Committee were held during the year 2004-05:

Date of Meeting	No. of Members attended
27 <sup>th</sup> May, 2004	3
26 <sup>th</sup> July, 2004	2
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Shri S.A. Bidkar, Vice President (Finance) & Secretary is the Compliance Officer.



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Shri A.K. Kinra	IND	6	Yes	4	3	—
Shri Gautam Khaitan	IND	3	No	6	1	1
Shri P.K.Jain	IND	6	Yes	3	—	1
Shri R.C. Singhal	Executive	6	No	—	—	—

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Shri S.A. Bidkar, Vice President (Finance) & Secretary is the Compliance Officer.

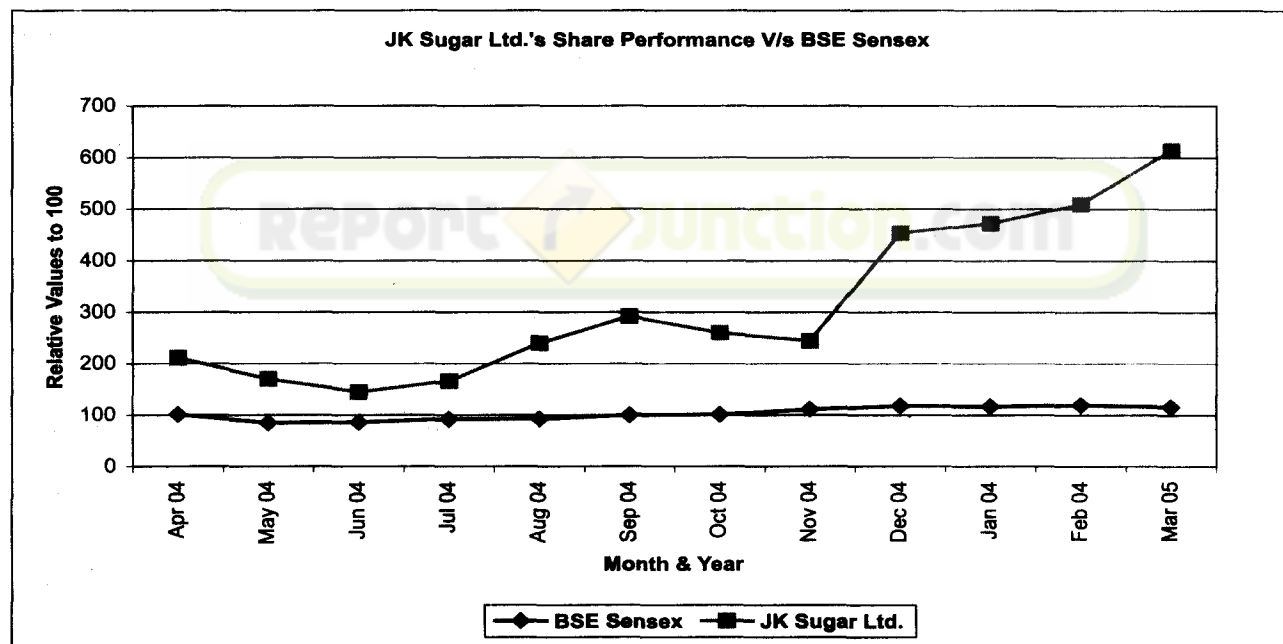
**Stock Market Price Data**

Month	The Stock Exchange, Mumbai (BSE)	
	High (Rs.)	Low (Rs.)
April 2004	21.70	9.41
May 2004	24.95	12.65
June 2004	16.30	12.65
July 2004	16.83	11.81
August 2004	23.20	15.05
September 2004	28.25	21.00
October 2004	30.00	21.60
November 2004	26.85	20.60
December 2004	42.70	22.10
January 2005	49.35	37.00
February 2005	52.75	42.25
March 2005	65.35	48.65

**Distribution of Shareholding :**

No. of Equity Shares Held	No. of Shares		Shareholders	
	Number	% of Total	Number	% of Total
1 - 250	3,58,062	3.46	14,284	96.44
251 - 500	92,093	0.89	231	1.56
501 - 1000	90,234	0.87	110	0.74
1001 - 5000	2,83,610	2.74	117	0.79
5001 - 10000	1,83,557	1.77	24	0.16
10001 & above*	93,52,029	90.27	45	0.31
<b>Total</b>	<b>1,03,59,585</b>	<b>100.00</b>	<b>14811</b>	<b>100.00</b>

\* Includes 36,21,790 fully paid Equity shares of Rs.10 each, allotted on 28-07-2005 pursuant to the Scheme of Arrangement and Restructuring sanctioned by the Hon'ble High Court of Calcutta w.e.f. 1-10-2004.

**Comparison with BSE Sensex****SHARE TRANSFER SYSTEM**

The transfer/ transmission of shares in physical form is normally processed and completed within a period of 20 to 25 days from the date of receipt thereof. In case of shares held in electronic form, the transfers are processed by NSDL/CDSL through the respective Depository Participants.

**DEMATERIALIZATION OF SHARES AND LIQUIDITY**

Trading in the Equity Shares of the Company is permitted on Stock Exchanges only in

dematerialised form. Shareholders may dematerialise their holdings in physical form with any one of the Depositories namely, NSDL and CDSL. As on 31<sup>st</sup> March 2005, 54.03% of the Equity Shares were held in dematerialised form. The Equity Shares of the Company are actively traded on the Stock Exchange, Mumbai. In respect of shares held in dematerialised form, all the requests for nomination, change of address, change of bank mandate/bank particulars and rematerialisation of shares etc. are to be made only to the Depository Participant with whom the shareholders have opened their Demat Account.