

JK SUGAR LTD.



ANNUAL REPORT 2005-06

BOARD OF DIRECTORS

Bharat Hari Singhania
Chairman

P. K. Jain

Gautam Khaitan

J. R. C. Bhandari

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

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 31st March 2006.

OPERATIONS

During the year under review, your Company recorded a turnover of Rs. 146.74 crores as against Rs. 100.06 crores recorded in the previous year. However, increase in raw material cost resulted in the erosion of margins and Operating Profit during the year under review stood at Rs. 22.04 crores as against Rs. 29.46 crores achieved last year. The profit before tax during the year was Rs. 9.26 crores as against Rs. 10.97 crores achieved in the previous year. After making provision for tax, the net profit was Rs. 5.22 crores, out of which a sum of Rs. 0.06 crores has been transferred to Molasses Storage Maintenance Reserve Fund. In order to augment long-term resources of the Company, your Directors, express their inability to recommend any dividend on the Equity Shares for the year under review.

Your Company increased its cane crush from 57.7 lacs quintals to 61.7 lacs quintals during the year under review and also marginally improved its recovery. This is in the back-drop that majority of the mills had a lower recovery compared to the previous year which was caused by intermittent and unseasonal rains resulting in damage to the standing sugarcane crop. Despite these increases, the sharp rise in cane prices and other input costs coupled with higher carrying cost of the opening stock resulted in lower profitability during the year.

Due to sustained efforts, the performance of the power export, co-generated by using bagasse, has substantially gone up by 30% during the current year in comparison to the previous year. This has been possible due to a number of technical improvements as well as increased usage of alternative bio-mass like Rice Husk and Dried Cane Trash to supplement bagasse.

CANE DEVELOPMENT

Cane development activities continued to be the focus area of attention of the Company. The cane development efforts this year included improvement in the varietal balance of sugar cane in our reserved areas and also educating farmers for the use of better agro practices for improving their overall yield. The Company's efforts in arranging finances for the farmers at concessional rate of interest from Banks

gained momentum during the year and more and more farmers have started availing these facilities from the Banks.

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 Gautam Khaitan and Shri R.C. Singhal retire by rotation and being eligible, offer themselves for reappointment.

Shri J.R.C. Bhandari was appointed as an Additional Director with effect from 31st January 2006.

The Company has received notice from Members pursuant to Section 257 of the Companies Act, 1956, proposing the candidature of Shri J.R.C. Bhandari for appointment as Director, liable to retire by rotation. The Board recommends the appointment.

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;

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL SUGAR INDUSTRY SCENARIO

Sugar production in the world during 2005-06 (October/September) is projected at 148.8 million MT (raw sugar equivalent), which is about 3% or 4.75 million MT higher than in 2004-05. As against this, the world sugar consumption in 2005-06 is expected to increase by 2.27 million MT to 147.55 million MT. The current season is estimated to end with a stock of 57.84 million MT, which would be lower than the last year's stock of 59.50 million MT. The closing stock would reflect 39.20% of estimated consumption as against 40.96% last year. (Source ISMA)

SUGAR INDUSTRY SCENARIO IN INDIA

India is the largest consumer of sugar in the world and lags only Brazil in production. Upto the year 2002-03, sugar production in India had been continuously increasing and in fact it reached record levels of 201 lacs MT. Subsequently, due to adverse climate and drought conditions in some parts of the country, production fell to 127 lacs MT in the year 2004-05. On the other hand, domestic demand has been constantly increasing at 4% annually to reach a level of 185 lacs MT in 2004-05. As a result of this gap, the huge carry forward stocks came down over a period of time from a level of 8-10 months' consumption at the end of the year 2002-03 to less than 3 months' level currently. This led to some upward movement in prices of sugar.

Also, to overcome the situation, the Government allowed duty free import of raw sugar under advance license scheme during the year 2003-04 and 2004-05.

During the current year 2005-06, sugar output in the country is expected to bounce back to the level of 185-190 lacs MT and is likely to cross 200 lacs MT during the year 2006-07. However, in the next 18 odd months, nearly 30 lacs MT of sugar that came under the advance license scheme earlier needs to be exported to fulfill the export obligation undertaken by the mills.

OPPORTUNITIES & THREATS

With increased focus on renewable sources of energy and availability of carbon credits, the attractiveness of cogeneration of power from Bagasse and other bio-mass has increased.

With rising petroleum prices, use of ethanol made from molasses, the by-product of sugar industry, is likely to increase. In fact, Brazil has diverted portions of their sugar cane crop to production of ethanol even at the cost of restricting sugar production. The Indian government's renewed focus on implementation of blending ethanol with petrol is likely to increase prospects of the sugar industry.

Further, the proposed cut in the subsidies by the EU

to Sugar Producers could lead to firmer international prices of sugar.

The latest announcement of the government to allow duty free import of sugar is an area of concern. However, based on current international prices, there is no immediate threat.

OUTLOOK

With the continuous focus on the cane development by the mill owners across the country blessed with expected good monsoons, the sugar production in the country is likely to increase further in the coming years.

Meanwhile, your Company continues to pursue cane development activities with strong focus on improvement in varietal composition, increase of cane area in the Company's reserved zone and educating the farmers to adopt better agro practices. Concerted efforts were successfully made to achieve these objectives during autumn as well as spring plantation programmes of the year under review. The positive impact of these planned development activities have started showing results and full benefits of these activities will fructify in the coming years.

HUMAN RESOURCES

The performance of the Company is a true reflection of the quality and the dedication of its human resources. Therefore, to improve the overall performance of the Company, management of its human resources is as critical as managing its other tangible assets. In your Company also, a lot of emphasis is placed on the development of its employees through their continuous trainings designed for improving their competence with the ultimate objective of harnessing their true potential. The Company has an effective performance based appraisal system wherein the employees at all levels are induced to put in their best for the achievement of overall Organizational goals. In order to improve the participation of the employees, the Company has introduced frequent open houses, works committees, shop floor meetings and spot grievance handling system etc.

RISK & CONCERNS

Sugar industry is a highly cyclic in nature and being agro-based, its fortunes are linked to the adequacy of monsoons in the country. The sugar output in the country was badly affected during 2003-04 and 2004-05 due to poor monsoon in some parts of the country.

Apart from being cyclic, sugar industry is highly regulated industry as well. Even though the Statutory Minimum Price (SMP) for cane procurement announced by the Central Government is linked to the recovery of the unit, the State Advised Price (SAP) is arbitrarily fixed without there being any scientific basis.

Absence of any scientific basis for fixation of cane price and unpredictability on long term policy measures has always been a cause of concern for the sugar industry.

The UP Government had announced an incentive scheme for investment into sugar and sugar related businesses wherein the Companies investing upto Rs.350 crores or upto Rs. 500 crores are to be given liberal concessions and other incentives for a period of 5 to 10 years. This shall certainly put the mills who are able to avail of these incentives at an advantageous position vis-à-vis others.

Further, the State Government, as part of its industrial policy, has announced incentive schemes for investments of Rs.100 crores and above in the form of rebates of sales tax and capital subsidy, etc. Similarly, the Bihar Government has also announced an attractive policy to encourage setting up of new sugar capacity within the State of Bihar, which is inline with the earlier announced incentive scheme by UP Government. This could lead to additional capacity in that region.

FINANCIAL PERFORMANCE

The Financial Results for the year ended 31st March 2006 are summarised below:

(Rs. in Crs.)

Particular	2005-06	2004-05
Sales and Other Income	146.74	100.26
Profit before Interest, Depreciation & Tax	22.04	29.46
Profit before Depreciation	14.05	18.81
Profit before Tax & Exceptional Expenses	9.26	14.18
Profit before Tax	9.26	10.97
Profit after Tax	5.22	9.15

During the year under review your company achieved cane crushing of 61.7 lac quintal against last year of 57.7 lac quintal. Quantum jump of 30% in power export was achieved from 244.47 lac units in 2004-05 to 317.12 lac units in 2005-06. The power generation and export to the State grid continued even after the crushing operations had stopped. The extended run of the power plant was possible as the company succeeded in organising planned purchases of additional biomass fuel comprising rice husk and cane trash at economical rates. The recovery in the State of U.P., particularly in Western and Central U.P., remained generally low as compared to previous year. The drop has been of the order of 0.5 to 1 percent, which is primarily attributed to erratic pattern of rainfall and adverse climatic conditions in these regions. Despite downward trend in the region, the recovery, in case of your Company, marginally improved from 9.23% in the previous year to 9.26% during the year under review which could happen because of strong focus laid in the strategy of cane development activities

to achieve improved varietal composition of cane during previous year.

During the year under review, your Company recorded a turnover of Rs.146.52 crores as against Rs. 100.06 crores recorded in the previous year. The operating profit however, during the year was affected due to overall increase in cane price announced by the Government and low margins available on sale of carry over stock due to their higher carrying cost and also since the sugar prices had remained under pressure upto Dec.'05. The prices started improving only from Jan'06. This shall have positive impact in the coming financial year.

INTERNAL CONTROL SYSTEM

The Company has an appropriate internal control system for its various functions with the ultimate objective of improving the efficiency of operations, better financial management and compliance with all regulations and applicable laws. All operating parameters are well defined and monitored periodically. The Company also has a well-defined internal audit system wherein all functions are covered twice a year. The detailed Internal Audit Reports are discussed at length at Unit level and also at CEO level. These reports are also placed in the Audit Committee and subsequent Actions Taken Reports on the basis of findings of these reports, are periodically monitored by the Audit Committee.

The Company has a system of a budgetary control wherein annual budgets are drawn and are further broken down into monthly plans. The monthly plans further broken down to weekly plans and these are monitored on a daily basis during the season and on a monthly basis during the off-season. Monthly Operational Reports are monitored and actual performance is mapped against the monthly plans. A detailed variance analysis is made to see the reasons, which could be due to internal or external factors. Efforts are made to set correction in place and remove all possible internal factors responsible for variations.

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 seven Directors, out of which one is Executive Director, six Non-Executive Directors (NED) three of whom are Independent Directors (IND). Four Board Meetings were held during the financial year 1st April 2005 to 31st March 2006, on 28th April 2005, 30th July 2005, 28th October 2005 and 31st January 2006. Attendance and other details are given below:

Director	Category	Number of Board Meetings Attended	Whether last AGM attended (held on 15.9.2005)	No. of other Directorships And Committee Memberships/ Chairmanships		
				Other Directorships\$	Committee Memberships*	Committee Chairmanships*
Shri Bharat Hari Singhania, Chairman	NED	4	Yes	3	1	-
Shri Vikrampati Singhania	NED	4	Yes	2	2	-
Shri A.K. Kinra	NED	4	No	7	3	-
Shri Gautam Khaitan	IND	1	No	7	3	-
Shri P.K. Jain	IND	4	Yes	4	-	1
Shri J. R.C. Bhandari, Appointed as Additional Director w.e.f. 31-01-2006	IND	1	NA	3	1	2
Shri R.C. Singhal, Whole-time Director	Executive	4	Yes	-	-	-

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

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

The Board periodically reviews Compliance reports of all laws applicable to the Company and has put in place procedure to review steps to be taken by the Company to rectify instances of non-compliances, if any.

The Company already has been having for the last three years a Code of Conduct in position for Management Cadre Staff (including Executive Director). In terms of the new provision of Clause 49 of the Listing Agreement and contemporary practices of good corporate governance, the Board has laid down a Code of Conduct for all Board members and Senior Management of the Company. All the Board Members and Senior Management Personnel have affirmed compliance with the Code.

3. AUDIT COMMITTEE :

The Company has an Audit Committee of Directors which consists of four Directors, three of whom are Non-Executive Independent Directors namely Shri P.K. Jain (Chairman of the Committee), Shri Gautam Khaitan & Shri J. R. C. Bhandari and Shri A.K. Kinra, Non-Executive Director. All the four members of the

Audit Committee are Financial literate and three of them posses accounting expertise.

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.

Four meetings of the said Committee were held during the year 2005-06 on:

Date of Meeting	No. of Members attended
28 th April 2005	2
30 th July 2005	2
28 th October 2005	3
31 st January 2006	3

Vice President (Finance) & Secretary regularly attends the meetings and acts as the Secretary of the Committee. The Statutory Auditors attended all the four meetings.

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 2005-06 on:

Date of Meeting	No. of Members attended
28 th April 2005	2
30 th July 2005	2
28 th October 2005	3
31 st January 2006	2

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

The Company has not received any complaint from shareholders, during the year under review. As on date, there are no complaints pending. The Board has delegated the power of share transfer to a Committee of Directors and the share transfer formalities are attended to as required. There are no transfers of shares, which are held in physical form, pending for more than 20 days.

5. REMUNERATION PAID TO DIRECTORS:

- Whole-time Director : The aggregate value of salary, perquisites and contribution to Provident Fund and Superannuation Funds for the Financial year ended 31st March, 2006 to Shri R.C. Singhal, Whole-time Director is Rs. 21.25 lacs. No Commission was paid during the year.

The Company does not have any Stock Option Scheme. In the case of Whole-time Director notice period is three months.

- Non-Executive Directors: The Company has paid sitting fees aggregating to Rs. 1.18 lacs to all the Non-Executive Directors for attending the meetings of the Board and its Committees.

The Sitting fees paid to the Non-Executive Directors, including independent Directors were fixed by the Board of Directors of the Company in terms of Department of Company Affairs Notification dated 24th July 2003 and also pursuant to the authority contained in the Articles of Association of the Company.

No other payments were made to Non-Executive Directors and such Directors did not have any other pecuniary relationship or transactions vis-à-vis the Company during the year except as stated above. The number of Equity Shares held by Non – Executive Directors are given below:

Shri Bharat Hari Singhania–28,183* shares, Shri Vikrampati Singhania–10,298# shares, Shri A. K. Kinra –45 shares, Shri Gautam Khaitan–Nil shares, Shri P. K. Jain–Nil and Shri J. R. C. Bhandari–Nil. The Company does not have any outstanding convertible instruments.

* includes 8,550 shares held as Karta of HUF.

includes 8,437 shares held as Karta of HUF.

6. GENERAL BODY MEETINGS :

Location and time for the last three Annual General Meetings (AGM) :

Year	Location	Date	Time
2002-2003	7, Council House Street, Kolkata – 700 001	25.06.2003	11.30 AM
2003-2004	Shripati Singhania Hall, Rotary Sadan, 94/2, Jawahar Lal Nehru Road (Chowringhee Road), Kolkata – 700 020	10.09.2004	12.15 PM
2004-2005	Shripati Singhania Hall, Rotary Sadan, 94/2, Jawahar Lal Nehru Road (Chowringhee Road), Kolkata – 700 020	15.09.2005	11.30 AM

Details of Special Resolutions passed at last three AGMs :

A Special Resolution was passed at AGM held on 10th September 2004 for amendment of certain Articles in the Articles of Association of the Company as required by the Stock Exchanges.

A Special Resolution was passed at AGM held on 15th September 2005 under Section 81 of the Companies Act, 1956 for further issue of Share Capital.

Resolution passed through Postal Ballot :

During the year under review, a Special Resolution for approval under Section 372A of the Companies Act, 1956 to give guarantees to Banks, which provide direct lending facilities to the farmers supplying sugarcane to the Company's Sugar factory, was put through postal ballot, in accordance with the procedure prescribed therefor.

The Postal Ballot process was conducted in a fair and transparent manner by Shri R. Suryanarayanan, a Company Secretary in Whole-time Practice having over 40 years of experience, who was appointed as scrutiner for conducting the postal ballot process. The result of the postal ballot was declared by the Chairman at the Annual General Meeting of the Company held on 15th September, 2005. The resolution was passed with requisite majority.

7. DISCLOSURES :

- (a) Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the directors or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large : None. Suitable disclosure as required by Accounting Standard 18 has been made in the Annual Report.
- (b) Details of non-compliance by the Company, penalties, strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years : There were no cases of non-compliance on any matter related to capital markets during the last three years.
- (c) The Company has strengthened its risk management system and has further laid down procedures to inform Board members about risk assessment and minimization procedures. These procedures are being periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

8. MEANS OF COMMUNICATION :

Quarterly, half-yearly and annual results are normally published in leading English Daily Business Standard and Bengali Newspaper Bartaman, Kolkata and promptly furnished to the Stock Exchanges for display on their respective websites. As the results are published in newspapers having wide circulation quarterly and half-yearly results are not sent separately to each shareholder.

Management Discussion & Analysis forms part of the Annual Report.

9. GENERAL SHAREHOLDERS' INFORMATION :

- | | |
|---|---|
| (i) Registered Office | 7, Council House Street, Kolkata – 700 001 |
| (ii) Annual General Meeting (AGM) Date, Time & Venue | Please refer to Notice for the AGM being sent along with the Annual Report. |

As required under clause 49IV(G)(i) of the Listing Agreement, brief resume and other particulars of the Directors who are proposed to be appointed / re-appointed by the shareholders at the aforesaid AGM are given in the Notice convening the said Meeting.

(iii) Financial Calendar (tentative)

Financial Reporting for the quarter ending :

1 st Quarter ending 30 th June 2006	By end of July, 2006
2 nd Quarter ending 30 th September 2006	By end of October, 2006
3 rd Quarter ending 31 st December 2006	By end of January, 2007
4 th Quarter ending 31 st March 2007	By end of May/June, 2007
Annual General Meeting for the financial year 2006-07	Between August and September, 2007

- | | |
|----------------------------------|---|
| (iv) Date of Book Closure | Please refer to Notice for the AGM being sent along with the Annual Report. |
|----------------------------------|---|

- | | |
|---------------------|-----|
| (v) Dividend | Nil |
|---------------------|-----|

- | | |
|---|---|
| (vi) Listing of Equity Shares on Stock Exchanges (including Security Code) | The Equity Shares of the Company are listed on 'Bombay Stock Exchange Ltd.' (BSE) and 'The Calcutta Stock Exchange Association Ltd.' (CSE). The annual listing fee for the financial year 2006- |
|---|---|

07 has been paid to both the Stock Exchanges.

Security Code for Company's Equity Shares on Stock Exchanges are BSE-532519 & CSE-10020254 and the ISIN number of the Equity Shares is INE210G01014

(vii) Stock Market Price Data

Month	Bombay Stock Exchange Ltd. (BSE)	
	High (Rs.)	Low (Rs.)
April 2005	65.30	54.60
May 2005	63.00	53.70
June 2005	71.80	55.80
July 2005	75.00	62.00
August 2005	82.50	57.50
September 2005	95.00	62.00
October 2005	73.00	44.30
November 2005	57.00	48.50
December 2005	70.00	50.00
January 2006	93.85	62.40
February 2006	77.00	60.10
March 2006	77.00	56.00

(ix) Distribution of Shareholding :

No. of Equity Shares Held	No. of Shares		Shareholders	
	Number	% of Total	Number	% of Total
1- 250	5,22,709	5.05	14169	91.99
251- 500	2,57,552	2.49	639	4.15
501-1000	2,25,296	2.18	268	1.74
1001- 5000	5,57,460	5.38	237	1.54
5001-10000	2,69,600	2.60	37	0.24
10001 & above	85,26,968	82.30	52	0.34
Total	103,59,585	100.00	15,402	100.00

(x) 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.

(xi) Dematerialisation 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 31st March 2006, 89.28% of the Equity Shares were held in dematerialised form.

(viii) Comparison with BSE Sensex

