

JK SUGAR LTD.



ANNUAL REPORT 2006-07

BOARD OF DIRECTORS

Bharat Hari Singhania
Chairman

P. K. Jain

Gautam Khaitan

J. R. C. Bhandari

Vikrampati Singhania

A. K. Kinra

A. K. Jain
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.)

Asstt. Company Secretary

Pronamika Hazarika

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 2007.

OPERATIONS

During the year under review, the Company achieved a sales turnover of Rs.125.11 Crores as against Rs.146.74 Crores last year. Sales realisation during the year especially during the last quarter saw a sharp drop with prices falling from a peak of over Rs.1900 per Qtl in May-June, 2006 to less than Rs.1300 per Qtl by March, 2007. All input costs, including prices of cane have gone up by about 9% during the year. This combination of increase in input costs and reduction in sales realisation has adversely impacted profitability during the year.

On the other hand operating parameters of the Company improved without which the impact of the above mentioned factors could have been far more. Cane crushed during the year increased from 61.73 lakh Qtls to 68.54 lakh Qtls and recovery improved from 9.26 % last year to 9.68 % this year. The power export during the year also increased from 317 lakh KWH to 349 lakh KWH.

The selling prices of Sugar at the present level are much below their cost of production. As a result, the inventories at the year end had to be written down to their realisable value resulting in a loss of Rs.11.62 crores. After considering the impact of all the above factors, the Operating Profit during the year under review was Rs.3.44 Crores. After providing for Interest and Depreciation, the Net Loss during the Current Year, was Rs.8.14 Crores.

CANE DEVELOPMENT

The cane development has been an area of prime focus for the Company. The continuous and sustained efforts made by the Company in the past have started bearing fruits and have resulted in increased cane acreage leading to higher crush volume. While increasing the volume special attention has been paid to improve varietal balance of cane, resulting in an improved recovery from 9.26% to 9.68%. The efforts of the cane development team, like providing direct lending facility to the farmers through banks at concessional rates and education of farmers for better crop practices, continues to be an ongoing effort.

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 and Shri A.K.Kinra retire by rotation and being eligible, offer themselves for reappointment.

Shri R.C.Singhal, Whole-time Director has resigned from the Board of Directors effective from 1st June 2007 and Shri A.K.Jain has been appointed as a Whole-time Director effective from the said date for a period of 3 years thereby also filling up the casual vacancy in the Board caused by the resignation of Shri R.C.Singhal.

The Board places on record its appreciation of the valuable services rendered by Shri R.C. Singhal, during his tenure as a Whole-time Director.

AUDITORS

M/s S.S.Kothari Mehta & Co., Chartered Accountants, Auditor of the Company retires and is 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

Information in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 as amended regarding employees is annexed to this Report. However, as per the provisions of Section 219 (1) (b) (IV) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the Company excluding aforesaid information. Any shareholder interested in obtaining such particulars may write to the Secretary at the Company's New Delhi address.

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 judgements 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

Date: 31st May 2007
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. Mixing of Bio-Mass based such as dried cane leaves were used to supplement the fuel requirement of Boilers.
 2. Thermact - B, a chemical developed by technical collaboration with IIT - Bombay has been used in Boilers alongwith bagasse. The addition of this chemical has improved Boiler efficiency by around 3%.
 3. Evaporator bodies condensate flash were used in subsequent body to utilize the flash thereby minimizing steam consumption.
- b. Specific areas of reduction in energy & process steam consumption by following proposed methods:
 1. Replacing the corroded blade of Turbine no.2 to improve the efficiency of turbine and specific steam consumption.

2. To install capacitors in power house to improve the power factor.

c. The required data with regard to conservation of energy is furnished below:

Sl.No.	Particulars	2006-07	2005-06
1.	Power and Fuel Consumption		
	Electricity		
	a) Purchased		
	Unit (Kwh In Lacs)	6.60	6.61
	Total Amount (Rs. Lacs)	21.79	21.61
	Rate/Unit (Rs.)	3.30	3.27
	b) Own Generation		
	i) Through Diesel Generator		
	Units (Kwh In Lacs)	1.09	0.99
	Unit/Ltr. of Diesel Oil (Kwh)	2.41	2.40
	Cost/Unit (Rs.)	12.29	11.32
	ii) Through Turbo Generator		
	Unit (Kwh In Lacs)	234.59	206.49
	Unit per MT of Bagasse	Steam	Steam
	Cost/Unit	produced by use of own bagasse	produced by use of own bagasse
2.	Consumption per Unit of Production		
	Electricity (Kwh/Mt) -	306	326

B. RESEARCH & DEVELOPMENT:

Following Cane development activities were undertaken:

1. Trench planting through tractor drawn planter to increase the yield per unit area by decreasing cost of cultivation.
2. Distribution of cane seed of improved early and general varieties (CoS 96268, CoS 95255, CoJ 85, CoS 8436, CoS 88230, CoS 98231, CoS 767, CoS 8432, CoS 97264, CoS 96275, CoS 97261, CoS 96269, CoS 99259, CoS 95422) to maintain varietal balance in reserved Zone.
3. Distribution of D.A.P., Neem Cake, Zinc Microfood and other micro-nutrients alongwith pesticides and bio-fertilizers for better yield of sugarcane.
4. Ratoon management of improved varieties harvested in the month of December 2006 & January 2007.
5. Planting of sugarcane with wheat crop (as companion crop) to increase cane area and better production of sugarcane.

C. TECHNOLOGY ABSORPTION, ADAPTION & INNOVATION:

Thermact-B, a chemical developed by technical collaboration with IIT-Bombay has been used in Boilers along with bagasse. The addition of this chemical has improved Boiler efficiency by around 3% and working satisfactory.

D. FOREIGN EXCHANGE EARNINGS AND OUTGOINGS:

NIL

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL SUGAR INDUSTRY SCENARIO

During the past year, global sugar production has increased substantially with varying estimates from different sources. As per ISMA, world sugar production during 2006-07 (October/September) is projected at 160.20 million MT (raw sugar equivalent), which is about 5% or 7.50 million MT higher than in 2005-06. Against this, the world sugar consumption in 2006-07 is expected to increase by 3.23 million MT to 153.00 million MT. The current season is estimated to end with a stock of 62.87 million MT, which would be higher than the last year's stock of 60.06 million MT. The closing stock would reflect 41.09% of estimated consumption as against 40.10% last year. The International Sugar Organisation (ISO) has also estimated a higher global sugar surplus of 7.2 million tonnes for the year 2006-07.

After a long time, it is interesting to note, that a number of countries in the world including Brazil, India and China are seeing concurrent growth in production of sugar. Further, due to reduction of petroleum prices from its peak, Brazil has reduced off-take of sugarcane for production of ethanol thereby increasing sugar production.

SUGAR INDUSTRY SCENARIO IN INDIA

India continues to be the second largest producer of sugar in the world while on the consumption front it is the leader. Sugar output this year is expected to be about 26 million Tonnes setting an all time high. The consumption has marginally gone up to about 19 million Tonnes thereby creating a huge surplus. After considering a further carry-over stock from the previous season (2005-06) it is estimated that nearly 10 million Tonnes of sugar will lie as carry-forward stock. This overhang has led to suppression in prices of sugar.

SUGAR CANE PRICE

Sugarcane constitutes a very high percentage of raw material cost in the manufacturing of sugar the pricing of which is determined by the Government. Being a politically influenced crop and keeping elections in mind, the State Government increased the State Advised Prices of sugarcane in UP from Rs.115 to Rs.125 per qtl.

These prices are paid irrespective of recovery of sugar from the cane and are fixed arbitrarily without any scientific methodology. Hence the Indian sugar industry pays the highest price for the cane in the

world, while realizing the lowest sugar prices. At these prices, sugar cane is a very profitable crop for the farmers leading to a bumper crop and forcing mills to crush cane even at un-remunerative selling prices.

At these prices it was even un-remunerative for alternate sweeteners producers like Khandsari and Gur to buy cane, hence the traditional usage of sugar cane for these sweeteners reduced and was diverted to production of sugar.

SELLING PRICES

High output of sugar has put a huge pressure on prices as result of which prices have declined to the current levels of between Rs.12500 per MT to Rs.13000 per MT. The last two quarters have witnessed a sharp decline in prices representing a fall of nearly 34 percent from prices in June 2006. The export ban and allowance of duty free import of sugar coupled with the strengthening of the Rupee has led to continued pressure of pricing on finished sugar.

IMPACT OF THE EXPORT BAN

The imposition of the export ban including the temporary ban of material imported under advance license scheme has had a severe impact on the current fortunes of the sugar industry. The Industry has missed the opportunity to take advantage of the rise of international sugar prices during the period June – August, 2006 when international prices was approximately USD 410 per MT. Subsequently the ban has been lifted but on current international prices of USD 250 per MT, it does not make economic sense for exports either. Further strengthening of the Rupee has added to the worsening of the prospects of exports from the country. These combinations of untimely policy changes, i.e., of loss of exports and increased sugarcane prices have led to the current dire situation of the sugar industry.

OPPORTUNITIES

The opportunity lies in the uniqueness of the sugar industry where the by-products of the sugar industry add value to the process and in fact sometimes counter-balances the cycles of the sugar industry. Molasses produced during the process can be converted into alcohol and its subsequent downstream chemicals as well as ethanol. With recent focus of the Government of India on the Ethanol Doping Programme (EDP), there are opportunities to add value to the molasses produced at the sugar mill. Recently the Government has recommended

5% mixing of ethanol with petrol and plans to take it up to 10% as the programme stabilizes. This could generate an additional demand of 550 Mn Ltrs of value added Molasses. Interestingly countries like Brazil have mandated 20-25% of mixing of ethanol with petrol without any change in engine configuration for motor vehicles. This could mean a large opportunity for the sugar industry in improving its long term profitability.

Amongst other things, Bagasse also produced as a by-product during the extraction of sugar, is used in power cogeneration. With the current shortage of power, and the increased industrial activities, substantial value addition could be done to the operations of the sugar mills by taking advantage of this renewable source of energy. Currently, your mill generates nearly 8% of revenues from this activity. The Government also recognizes the importance of promoting renewable sources of energy on a top priority basis. Interestingly both these sources of energy, i.e. ethanol and cogeneration of power are relatively "Green" and are renewable sources of energy without drawing upon depleting sources of fossil fuels. Hence there is huge potential as the nation becomes ecologically cost conscious.

THREATS, RISKS & CONCERNS

Sugar season 2006-07 has witnessed the bumper cane crop resulting in record production of sugar. Further, capacity addition plans announced by sugar companies particularly in Uttar Pradesh, higher production is expected for the next year as well. With production expected to exceed supply over the next two years, it would continue to keep prices depressed. This would keep the margins under tremendous pressure.

While the government is taking steps to reduce the problems prevailing in the sugar sector, these moves cater only to the medium term scenario. Thus, expectations of a further increase in production next season will continue to remain a cause for concern going forward.

With the situation on the domestic front not improving and the prospects for the sector looking bleak, the government approved a package of incentives to sugar mills to step up exports. The government has also announced transport, freight and other subsidies to sugar factories. This will be at a flat rate of Rs.1350 per tonne for sugar factories located in coastal states and Rs.1450 for units in the northern states. Margins on exports were negative due to low export realization and subsidies are now expected to offset the losses partly. Though profits may not be visible

yet, export will most likely help stabilise domestic prices.

The government had decided to create a 2 million tonne sugar buffer stock for a year till April, 2008 in the wake of surplus availability and falling prices. This would help in avoiding the build-up of cane price arrears and stabilize sugar prices and liquidate excess stocks of sugar. The government expects 1.5 MT of sugar exports this year.

OUTLOOK

Based on the present Demand & Supply scenario in the country, the Outlook for the Sugar Industry in India for the short term does not appear to be very positive. The Sugar Industry in India is presently saddled with excess production. The Industry is also facing a unique situation wherein the sales realisation are based on demand & supply scenario, while the cane price is fixed by the Government without any regard to the ability of sugar mills to bear the cane price. In fact, at this time, sales realisation is less than the raw material cost. World over, cane price is generally determined based on sharing of sugar sales realisation. There is a need for long term sugar policy de-linking it from politics and by de-regulating the sugar sector. In this direction, the Government may free the pricing of sugar cane while lifting the levy obligation and withdraw the sales release mechanism. At the same time, healthy competition can be ensured by maintaining radial distances between two sugar mills and evolving a systematic policy of reservation of cane areas on a long term basis. This will ensure not only survival, but also the growth of sugar industry to meet growing domestic and international demands of not only sugar, but also value added products like ethanol and power.

HUMAN RESOURCES

The Company regards its Human Resources as a valuable asset. It endeavors to increase the skills of its manpower through a well-defined Training & Development Programme for its employees at all levels. It strives to provide a congenial atmosphere for its employees and offers adequate empowerment at all levels to enable the employees to take independent decisions with the ultimate objective of involving them in the overall growth of the Company. The Company also has a very detailed and well-defined Performance Appraisal System wherein the performance of all the Executives across the organization is monitored regularly and the increments/incentives are based on their actual performances. However, in the current year costs have gone up substantially inline with shortage of

talent across the industry. The Company has also started Open House Sessions and CFTs to increase the involvement of employees in other functional areas.

FINANCIAL PERFORMANCE

The Financial Results for the year ended 31st March 2007 are summarised below:

(Rs. in Crs.)

Particular	2006-07	2005-06
Sales and Other Income	125.11	146.74
Profit before Interest, Depreciation & Tax	3.44	22.04
Profit before Depreciation	(-)3.27	14.05
Profit before Tax	(-)8.14	9.26
Profit after Tax	(-)5.90	5.22

During the year under review your Company achieved cane crushing of 68.54 lac quintals against last year of 61.73 lac quintals. Quantum jump of 10% in power export was achieved from 317 lac units in 2005-06 to 349 lac units in 2006-07. The recovery in the State of U.P., particularly in Western and Central U.P., remained generally higher as compared to previous year. The increase has been of the order of 0.5 to 1 percent, which is primarily attributed to better cane crop and varietal composition of cane. The recovery, in case of your Company, marginally improved from 9.26% in the previous year to 9.68% 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.125.11 Crores as against Rs. 146.74 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.

INTERNAL CONTROL SYSTEM

The Company has in place adequate systems of internal control commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from unauthorised use or losses, executing transactions with proper authorisation and ensuring compliance of corporate

policies. The Company also has an Internal Audit System commensurate with the size of business and its activities. All the areas of operations are reviewed by the Internal Audit Team at least once during the year. A detailed department wise Internal Audit programme is drawn and the observations of the Internal Audit are discussed in detail and at length periodically by the Senior Management and summarised observations are placed before the Audit Committee meeting. Action taken Reports are reviewed by the Committee to monitor the steps being taken in improving systems and controls wherever necessary. The Company has a well defined delegation of power with authority limits for approving revenue as well as capital expenditure. Processes for formulating and reviewing annual and long-term business plans have been laid down. The yearly business plans are broken down into Monthly Plans and the actuals are monitored with Budgeted on monthly basis to analyse the reasons of variance and immediate actions are taken to control variance.

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 Company reaffirms its commitment to the good Corporate Governance practices. 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). Five Board Meetings were held during the financial year 1st April 2006 to 31st March 2007, on 26th May 2006, 29th June 2006, 26th July 2006, 30th October 2006 & 11th January 2007. Attendance and other details are given below:

Director	Category	Number of Board Meetings Attended	Whether last AGM attended	No. of other Directorships and Committee Memberships/ Chairmanships		
				Other Directorships\$	Committee Memberships*	Committee Chairmanships*
Shri Bharat Hari Singhania, Chairman	NED	5	No	3	1	-
Shri Vikrampati Singhania	NED	5	Yes	2	2	-
Shri A.K. Kinra	NED	5	Yes	8	3	-
Shri Gautam Khaitan	IND	1	No	7	1	1
Shri P.K. Jain	IND	5	Yes	4	-	1
Shri J. R.C. Bhandari	IND	5	No	4	3	3
Shri R.C. Singhal, Whole-time Director	Executive	5	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 four years a Code of Conduct in position for Management Cadre Staff (including Executive Director). In terms 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.

This Report contains a declaration to this effect signed by the Whole Time Director.

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 financially literate and three of them possess 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 with Stock Exchanges.

Five meetings of the said Committee were held during the year 2006-07 on:

Date of Meeting	No. of Members attended
26 th May 2006	3
29 th June 2006	3
26 th July 2006	3
30 th October 2006	3
11 th January 2007	4

Vice President (Finance) & Secretary regularly attends the meetings and acts as the Secretary of the Committee. The Statutory Auditors attended 3 meetings.