

JK SUGAR LTD.



A N N U A L   R E P O R T   2 0 0 9 - 1 0

# Remembering A Visionary

The Company is celebrating the birth centenary of its Founder, Lala Lakshmipat Singhanian, one of the key architects of JK Organization. As a true visionary, he laid the foundation for taking the Organization to new heights in the journey of building a self reliant India. He was a dynamic leader who championed the cause of domestic industry with Indian ownership and management.

The JK Organization became one of the top four private sector Groups in the country during his lifetime. He pioneered the manufacturing of many products, for the first time in India. Through a plant set up in West Bengal in 1944, he started the production of aluminium metal in India from Indian Bauxite for the first time. This metal was further converted into complete range of aluminium products including aluminium foils. The company, Aluminium Corporation of India Limited, was one of the few integrated Aluminium plants in the world.

Lala Lakshmipat Singhanian set up many successful companies in different parts of the country, which provided thousands of job opportunities, particularly in the backward areas of rural India. These include, Straw Products Ltd in Bhopal in 1938 which commenced production of straw boards and later on paper boards. Production of high quality writing and printing paper was started in 1962 in Orissa and the company is now operating under the name of JK Paper Limited, known for its high value added products. He was also instrumental in setting up various other plants for the manufacture of Automobile Tyres (JK Tyre & Industries Ltd.) and Cement (JK Lakshmi Cement Ltd.), amongst many other initiatives of the group.

He was the Chairman of National Insurance Company for several years. The Company covered both life and general insurance activities. He made it grow as the 3rd largest insurance company of the country with largest overseas network. Unfortunately Insurance – Life and General as well as Aluminium were nationalized in India as a matter of the then policy of the government.

He was the guiding spirit for the JK Group to set up several medical and educational institutions across the country including scores of primary schools in the rural areas

Lala Lakshmipat Singhanian embodied the rare qualities that transcend time through their single-minded purpose, simplicity, vision and the constant working of an enquiring mind that rejects the status quo. Apart from being a philanthropist entrepreneur he believed in upliftment of the society at large. He has left behind a value system based on Trust, Nationalism and Care which serves as a beacon for the Group Companies to charter their course into future. The core values are:

- Caring for people
- Integrity including intellectual honesty, openness, fairness and trust
- Commitment to Excellence

# *Centenary Year*



**LALA LAKSHMIPAT SINGHANIA**  
**1910 - 1976**

**KEY ARCHITECT OF JK ORGANISATION**

*"We seek a society which is proud of its past,  
conscious of the present and full of hope for the future."*

## **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

### **Auditors**

S. S. Kothari Mehta & Co.  
Chartered Accountants

### **Registered Office**

7, Council House Street,  
Kolkata - 700 001

### **Bankers**

Bank of India  
Axis Bank  
IDBI Bank  
Dena Bank

### **Plant**

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

### **Company Secretary**

Pumit Kumar Chellaramani

### **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, 2010.

The Company is observing this year as the Birth Centenary Year to pay humble respects to late Lala Lakshmipat Singhania (1910-1976), who had been a great Visionary and a Key Architect of JK Organisation. He believed in the philosophy of inclusive growth encompassing all sections of the Society.

## OPERATIONS

During the year under review, your Company recorded a turnover of Rs.103.27 Crores as against Rs.130.08 Crores during the previous year. Profit before interest, depreciation & Tax reduced to Rs. 8.05 Crores against Rs.12.46 Crores in the previous year and Profit before depreciation stood at Rs.2.30 Crores (previous year Rs. 3.58 Crores). Net Loss during the period was Rs.2.70 Crores against a loss of Rs.1.37 Crores last year.

The prices of sugar widely fluctuated between a high of Rs.42,000 per MT to the low of Rs.30,000 per MT during the year 2009-10 with an average sales realisation of Rs.27,770 per MT as against Rs.16,115 per MT during the previous year. During the year, the State Government of Uttar Pradesh announced a State Advised Price (SAP) for cane at Rs.165 per quintal, an increase of approximately 18% over the last year's price of Rs.140 per quintal. The Central Government switched to a mechanism of Fair and Remunerative Price (FRP) for cane which stood at Rs.129.85 per quintal against the earlier practice of fixing Statutory Minimum Price (SMP) of Rs.81.18 per quintal, representing an increase of around 60%. However due to overall shortage of cane, sugar mills were forced to pay a huge premium over SAP which in turn led to substantial increase in the cost of production. During the year, looking at the shortage of production the Government also increased the levy quota from 10% to 20%, further weakening the sugar producers.

In spite of these circumstances your company increased its crushing to 45.15 lacs quintals this year as against 35.40 lacs quintals during previous year.

## CANE DEVELOPMENT

As mentioned in the past, sugar cane is the primary raw material for this business and constitutes majority of the cost. The company continues to emphasise on the development of this important element of business by deploying a large number of people who

work in close association with the farming community around the sugar mill in helping them develop better varieties of sugar cane. The company distributes better varieties of seeds, insecticides as well as pesticides and other agri products to help them improve the yields of cane around the mill.

The company organises visits and seminars to educate the farmers by demonstrating newer and innovative techniques of production of sugarcane. The company also runs a number of adult literacy programs to educate the women folk, who in turn contribute to better bonding with the farming community.

## 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 J.R.C. Bhandari and Shri Gautam Khaitan retire by rotation and being eligible, offer themselves for re-appointment at the ensuing Annual General Meeting.

## AUDITORS

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

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 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

New Delhi  
Date: 15<sup>th</sup> May 2010

**B. H. SINGHANIA**  
**Chairman**

## ANNEXURE TO THE DIRECTORS' REPORT

### A. CONSERVATION OF ENERGY

- a. Steps taken by the company for conservation of energy during the season 2009-10 are as under :
  1. Raw water consumption reduced to half by using excess cold condensate for maceration at mills.
  2. Inter-connection of ducting of ID fans of Boiler No.1 and 2 resulted in power saving.
  3. Replacement of dust collector pump by gravity flow operation resulted in power saving.
  4. Installation of new capacitor at power house resulted in improving the power factor.

- b. Proposed specific areas of reduction in energy and steam consumption.

- 1) Installation of M/s Spray Engineering Devices in boiling house to reduce steam consumption.
- 2) Installation of variable frequency drives at primary cane carrier, secondary rack carrier, raw juice pumps and injection pumps in boiling house for energy conservation.

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

Sl.No.	Particulars	2009-10	2008-09
1.	<b>Power and Fuel consumption</b>		
	Electricity		
	a) Purchased		
	Unit (Kwh In Lacs)	8.46	9.18
	Total Amount (Rs. Lacs)	36.84	31.16
	Rate/Unit (Rs.)	4.35	3.39
	b) Own Generation		
	i) Through Diesel Generator		
	Units (Kwh In Lacs)	0.16	0.66
	Unit/Ltr. of Diesel Oil (Kwh)	1.99	2.89
	Cost/Unit (Rs.)	16.16	12.26
	ii) Through Turbo Generator		
	Unit (Kwh In Lacs)	173.23	135.28
	Unit per MT of Bagasse	Steam	Steam
	Cost/Unit	produced by use of own bagasse	produced by use of own bagasse
2.	<b>Consumption per unit of production Electricity (Kwh/Mt)</b>	346	351

### B. RESEARCH AND DEVELOPMENT

In order to increase the area and production of Early & Promising variety of cane, following activities have been carried out:

1. Seed of five Promising variety of sugarcane newly released i.e. Co-0238, Co-0239, Co-0118, Co-0242 & CoS-98259 have been distributed among farmers of our gate area from Nucleus seed nursery of our farm.
2. The technique of trench planting have been widely propagated. Over 125 demonstration plots have been laid out with the total cane area of about 300 acres.
3. In order to maximize farmers earning, companion cropping of sugarcane with wheat, urad, potato, garlic etc. have been successfully implemented.
4. To control insects and diseases, pesticides, insecticides and other micro nutrient have been distributed among farmers for obtaining better yield and quality of sugarcane.

### C. TECHNOLOGY ABSORPTION, ADAPTION & INNOVATION

Conservation of Energy by up-gradation of spray Engineering software for injection water.

### D. FOREIGN EXCHANGE EARNINGS AND OUTGO:

Nil



# MANAGEMENT DISCUSSION AND ANALYSIS

## GLOBAL SUGAR INDUSTRY SCENARIO

As the year 2009-2010 started, demand of Sugar seemed to be higher than production. Global production was estimated to be 160 million tonnes against an estimated consumption of 167 million tonnes. Production in Brazil, India, and European Union was estimated to be lower than their potential. However, as the year progressed this trend was reversed and production in all the above mentioned countries increased more than anticipated. Brazil reduced production of Ethanol and switched to Sugar while India got higher yields which led to a substantial increase in production compared to earlier estimates. Initially, due to an estimated lower production and expected large imports by India, global prices soared. As India allowed duty free import of raw and white sugar, initially large quantities of sugar were contracted by the traders, millers as well as industrial consumers, leading to overall buoyancy. However, as the year progressed, production went up and imports into India decreased causing global sugar prices to rapidly come down.

Due to above factors, global prices of sugar during the year saw a wide variation from a low of about 580 USD per MT in November 2009 to high of about 750 USD per MT in January 2010 which again came down to 470 USD by April 2010.

## SUGAR INDUSTRY SCENARIO IN INDIA

The sugar industry witnessed a lot of turbulence in the year gone by. In India too prices of sugar fluctuated widely during the year. The industry, after a long lull period, was expecting reasonable profits, but the Government played a pivotal role in curbing sugar prices at the expense of the sugar industry. While the Industry was left in the lurch, the consumers benefitted from Government policies and the farmers gained from all time high sugarcane prices.

In the beginning of the year, Sugar production in India was estimated to be 14 million tonnes against the estimated consumption of over 22.5 million tonnes. This sent alarm bells ringing and sugar prices went up steadily. However, as the year progressed this trend was reversed due to a number of factors, leading to a sharp decline in sugar prices.

As the sugar crushing season progressed, lower diversion of cane to alternate uses as well as better

production yields of sugarcane led to substantially higher production of sugar which is estimated to cross 18.5 Million tones, an increase of 32% over the earlier estimates.

With a view to keep sugar prices in check, the Government took the following measures :

- Duty free import of raw as well as white sugar was allowed, leading to import contracts of over 5 million tones.
- Increased the levy obligations on sugar mills from 10% to 20% making more sugar available in the PDS system at subsidised prices.
- To complicate matters further, the Government also banned forward trading of Sugar on NCDEX and reduced the stock holding limit for bulk consumers.
- Imposed a weekly release mechanism for free sale of sugar as against the earlier monthly release mechanism. This measure forced the mills to liquidate their stocks in a rapid progression increasing overall availability in the markets.

This changing production scenario as well as the above factors caused a sea-saw effect on pricing. Prices of sugar which were hovering around Rs.23,000 per MT during April 2009 steadily rose to all time high of over Rs.42,000 per MT in the month of January 2010. However, industry witnessed a sharp reversal with prices dropping below Rs.30,000 per MT by end of March 2010.

Even on the sugarcane prices front, the Central Government announced Fair and Remunerative Prices (FRP) in place of the old mechanism of Statutory Minimum Price (SMP), while the State Government of Uttar Pradesh continued to announce a State Advised Price (SAP). For the year, FRP was fixed at Rs.129.85 per quintal, an increase of 60 percent over the previous year's SMP. Similarly, the SAP was fixed at Rs.165 per quintal, increase of 18 percent over previous year. In fact, industry in UP was forced to offer incentives to farmers over and above the SAP to ensure availability of cane.

Power, which is generated by bagasse, a by-product, is an important ingredient in the economics of the sugar business. Due to the relatively low production of sugarcane, the bagasse generation was restricted and prices were buoyant. In spite of power shortage in the country, sugar units in UP are restricted from

selling power on a merchant basis, which incidentally fetches higher prices. However, considering the above factors, the Government of UP increased the price of power from Rs.2.97/kwh to Rs.3.81/kwh, giving some respite to the sugar industry.

Ethanol, a by-product made from molasses also has the potential to contribute to the profitability significantly. As ethanol is cheaper than petrol, Central Government announced blending of 5% ethanol with petrol. During the year preceding the last, the global prices had declined and mixing of ethanol proved to be an uneconomical proposition. However, with the rise in crude oil prices the mixture of ethanol is encouraged and is predicted to be a profitable venture.

Recently, the ethanol manufacturers have welcomed the Empowered Group of Ministers' (EOGM's) decision to fix price of Rs.27 per litre for ethanol. However, the price has been fixed for only six months as against industry demand for three years.

## **OPPORTUNITIES**

The sugar industry in last few years started balancing itself by not only producing sugar but also by adding value to its by products like bagasse, molasses, and press-mud. The industry offers the opportunity of producing ethanol, extra neutral alcohol, rectified spirit, organic manure and most importantly in today's context co-generated power.

India is a power starving nation even after 53 years of Independence. We have a severe shortage of electricity in all most every nook & corner of the country. Huge investment is required by the Power sector to fulfill the ever growing demand of energy. Therefore, a right and conducive environment should be created to encourage investment in this sector.

One of the key steps in this direction would be to allow sugar mills in the State of UP to sell its entire power at merchant rates and should be offered some incentive for setting up co-generating power plants. This would certainly encourage sugar mills to come forward for setting up large co-generating plants. The biggest advantage of encouraging sugar mills vis-à-vis a normal power producer is that sugar sector generates Bio mass based power which is considered green and pollution free unlike thermal.

Molasses, another key by-product, is the raw material for the production of alcohol, ENA and ethanol.

Ethanol is a cheap oxigenate admixed in petrol. Increasing the threshold of 5% has long been under discussion, however, no final decisions has still been announced. Higher production of ethanol will help the country reduce its dependence on the import of petroleum.

During the year, the Government has increased levy sugar quota from 10% to 20%, which contributed to losses incurred by your Company. Industry is expecting that not only levy quota would be rolled back to 10%, but the levy price would also be raised to a level which would cover atleast the cost of production. Such measures would help in arresting the falling fortune of the sugar industry and give it a much needed respite.

Industry and the Government should work together to create stability in sugar production in the country. One mechanism would be to link the prices of sugarcane with the prices of sugar, i.e., which allows for all stakeholders in the value chain to be aligned. This will allow the long term sustainability for both the miller as well as the farmer.

## **THREATS AND CONCERNS**

Year after year, the apathy of Government towards the industry has led to a situation where most of the sugar mills continue to struggle to keep themselves afloat. As experience shows, during the year gone by, the Government has encouraged import of bulk duty free raw and white sugar at the expense of Indian Sugar Industry. Over reliance on imports by the Government flooded the Indian market with imported sugar, which in turn contributed to a significant fall in the sugar prices. This myopic view of the Government not only has enriched the sugar industries of other nations but also impaired the capacity of the Indian Sugar Industry to pay a remunerative price to the farmers on a sustainable basis. This move of the Government, may prompt the elimination of the medium and small players leading to loss of livelihood of the families of thousands of workers employed in the sugar industry.

Another aspect which needs to be highlighted here is that by encouraging the import of sugar the Government has deprived the sugar companies from making some reasonable profits on which it would have paid tax to the Exchequer. This would have also allowed mills to plough back some part of earnings in the business, which is vital for the long term survival of the industry.



## OUTLOOK

The sugar industry in the forthcoming sugar season is likely to witness a spurt in the production of cane. With all the resurgent activities as well as high cane prices paid by the industry, the farmers are lured to switch to cultivating cane in comparison to any other alternative crop. On the other hand, in the back drop of higher prices paid during the year, the sugarcane procurement price is likely to stay at higher levels even during the forthcoming sugar season 2010-2011. However, the selling price of sugar may not be in sync with the cane price expected to be paid to farmers. This situation would again expose the sugar industry to the vulnerability of running uneconomic operations.

To bring back viability to operations, the industry has been pushing the Government to decontrol the sugar industry as well as impose duty on imported sugar.

## HUMAN RESOURCES

The employees of the Company are valuable assets of an organisation. Their right fitment, timely recognition and a well-defined growth path keeps them retained and gets the best out of them. The employee output is an essential ingredient for the growth of the Company. Your Company takes utmost care of the human resources as it applies the best of HR policies and practices. Their needs and concerns are valued; timely performance appraisals, growth based on merit and experience, reward and performance recognition, training and development, are to name a few of the Company's Human Resource practices adopted by the Company. The organisation gives space to the views and opinions of the employees; their freedom of speech is counted and infact their ideas are welcomed and even implemented.

## FINANCIAL PERFORMANCE

The Financial Results for the year ended 31<sup>st</sup> March, 2010 are summarized below :

(Rs. in Crore)

Particular	2009-10	2008-09
Turnover	103.27	130.08
Profit before Interest, Depreciation & Tax	8.05	12.46
Profit before Depreciation	2.30	3.58
Profit before Tax	(-)2.70	(-)1.37
Profit after Tax	(-)2.70	(-)1.37

During the year under review, the turnover of your Company was at Rs. 103.27 crores as against

Rs.130.08 crores in the previous year. Financial performance faced pressure due to steep fall in sugar prices from Rs. 42,000/MT in January 2010 to Rs. 30,000/MT in March 2010, resultantly PBIDT dipped from Rs. 12.46 crores last year to Rs. 8.05 crores during the year ended 31<sup>st</sup> March, 2010.

The quantity of cane crushed during the year under review was 28% higher at 45.15 lacs quintal against 35.40 lacs quintal in the previous year. However, the adverse climatic condition contributed to low recovery at 8.81% as against 9.16% last year. The Power export marginally increased to 122 lacs unit during the year as against 119 lacs unit in the previous year. The year under review remained quite challenging and we hope that the performance of the Company will improve in the following year.

## INTERNAL CONTROL SYSTEM

The Company has a strong and an effective internal control system within the organisation. The internal control system in your organisation primarily comprises of an internal audit function which continuously and vigilantly carries out the internal audit function ensuring that every financial activity is scrutinized properly. The internal audit team reports its findings to the Audit Committee in its meeting held atleast once in a quarter. The Audit Committee consists of independent Directors as its members and they make sure that each such findings of the Internal Audit team are discussed at length and the suggestions of the internal audit team are timely implemented. The Audit Committee of the Company, also conducts the periodic review of effectiveness of the internal systems and process and take corrective action wherever required.

## 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.