

**ANNUAL REPORT
&
ACCOUNTS
1998 - 99**

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**THE OUDH SUGAR
MILLS LIMITED**



Dr. K. K. Birla, Chairman

The Oudh Sugar Mills Limited

BOARD OF DIRECTORS

Dr. K. K. Birla, M.P., *Chairman*
 Shri C. S. Nopany, *Mg. Director*
 Shri S. V. Muzumdar
 Shri Pravinchandra V. Gandhi
 Shri Rajaram Muchhal
 Shri Ashvin C. Dalal
 Shri M. V. Subaraman (Nominee - IDBI)
 Shri D. S. Shekhawat
 Shri S. M. Agarwal
 Shri C. B. Patodia

EXECUTIVES

Shri R. R. Agrawal - *Secretary*
 Shri P. K. Lakhotia - *Executive President, Hargaon*
 Shri M. S. Sharma - *Executive President, Narkatiaganj*
 Shri C. L. Giria - *Executive President, Rosa*
 Shri S. K. Premi - *General Manager, Allahabad Canning Co.*

AUDITORS

S. R. Batliboi & Co.
 Calcutta

REGISTERED OFFICE

Industry House
 159, Churchgate Reclamation
 Mumbai - 400 020

SUGAR MILLS

1. Hargaon, Dist. Sitapur, (U.P.)
2. Rosa, Dist. Shahjahanpur, (U.P.)
3. Narkatiaganj, Dist. W. Champaran, (Bihar)

DISTILLERY

1. Hargaon, Dist. Sitapur, (U.P.)
2. Narkatiaganj, Dist. W. Champaran, (Bihar)

OIL MILLS & SOLVENT EXTRACTION PLANT

Sitapur, (U.P.)

CANNING FACTORY

P. O. Bamrauli, Allahabad

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The Oudh Sugar Mills Limited**Performance at a Glance**

(Rs. in lakh)

	1994-95 (nine months)	1995-96	1996-97	1997-98	1998-99
Turnover	7853.76	14744.16	15597.38	18699.96	20331.05
Operating Profit	1069.39	2583.05	2379.75	3022.71	3096.67
Interest (net)	657.42	1465.45	1746.34	2054.70	2122.06
Depreciation	323.31	430.97	489.97	623.92	684.52
Profit before Tax	88.66	686.63	143.44	344.09	290.09
Profit after Tax	87.66	685.63	123.44	305.59	250.05
Net Worth	3733.20	7796.38	7728.49	7884.98	7911.68
Net Worth per Ordinary Share (Rs.)	1078.37	750.68	74.41*	75.92*	76.18*
Dividend per Ordinary Share (Rs.)	25.00	25.00	2.00*	2.00*	2.00*
Earning per Ordinary Share (Rs.)	25.32	66.02	1.19*	2.94*	2.41*

* On Ordinary Share of Rs. 10



Crushing at sugar factories & production at different units of the Company

	During the year ended 31st March, 1999	During the season 1998-99	During the year ended 31st March, 1998	During the season 1997-98
Sugar Cane Crushed : (lakh qtls.)				
Hargaon	60.77	65.64	67.17	59.31
Rosa	38.85	40.29	32.15	29.88
Narkatiaganj	38.60	39.07	39.40	36.38
	<u>138.22</u>	<u>145.00</u>	<u>138.72</u>	<u>125.57</u>
Recovery : (%)				
Hargaon	8.81	9.04	9.28	9.36
Rosa	8.32	8.37	9.05	9.02
Narkatiaganj	8.64	8.62	9.76	9.73
Sugar Produced : (lakh qtls.)				
Hargaon	5.57	6.07	6.22	5.51
Rosa	3.15	3.30	2.91	2.68
Narkatiaganj	3.29	3.37	3.86	3.54
	<u>12.01</u>	<u>12.74</u>	<u>12.99</u>	<u>11.73</u>
Power Alcohol & Spirit : (lakh ltrs.)				
Hargaon	43.15		53.79	
Narkatiaganj	42.50		70.27	
	<u>85.65</u>		<u>124.06</u>	
Canned Fruits & Vegetables (lakh Rs.)				
	<u>472.28</u>		<u>371.24</u>	
Own Farm Cane : (tonnes)				
Hargaon	1,172		1,300	
Narkatiaganj	1,259		1,178	
	<u>2,431</u>		<u>2,478</u>	

The Oudh Sugar Mills Limited

NOTICE

NOTICE is hereby given that the Sixty-seventh Annual General Meeting of The Oudh Sugar Mills Limited will be held at M. C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, Kaikhushru Dubash Marg, (Rampart Row), Mumbai - 400 023 on Thursday, the 22nd July, 1999 at 2.00 P.M. to transact with or without modifications, as may be permissible, the following business :

1. To consider and adopt the Report of the Directors and audited Accounts of the Company for the year ended 31st March, 1999.
2. To sanction the declaration of dividend on Ordinary Shares for the year ended 31st March, 1999.
3. To appoint a Director in place of Dr. K. K. Birla, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Shri Ashvin C. Dalal, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Shri D. S. Shekhawat, who retires by rotation and being eligible offers himself for re-appointment.
6. To appoint Auditors and fix their remuneration.

As Special Business

To consider and if thought fit to pass with or without modifications, the following Resolutions as Ordinary Resolutions :

7. "Resolved that pursuant to Section 258 and all other applicable provisions, if any, of the Companies Act, 1956, the number of Directors of the Company in office for the time being do stand reduced from 10 to 9 (excluding the IDBI Nominee)".
8. "Resolved that consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, for mortgaging and/or charging by the Board of Directors of the Company of all the immovable and movable properties of the Company, wheresoever situate relating to its Hargaon Sugar and Distillery Units situate at Hargaon, Dist. Sitapur (U.P.), present and future, to-

gether with power to take over the management of the business and concern of the Company's said units in certain events, to or in favour of Industrial Development Bank of India (IDBI) to secure Corporate Loan not exceeding Rs. 1000 lacs (Rupees One thousand lacs only) lent and advanced/agreed to be lent and advanced by IDBI to the Company, together with interest thereon at the agreed rates, compound interest, additional interest, liquidated damages, premia on prepayment, costs, charges, expenses and other monies payable by the Company to IDBI under its Loan Agreement/Letter of Sanction/Memorandum of Terms and Conditions entered into/to be entered into by the Company in respect of the said Corporate Loan.

Resolved further that the Board of Directors of the Company be and is hereby authorised to finalise with IDBI the documents for creating the aforesaid mortgage and/or charge and to do all such acts and things as may be necessary for giving effect to the above resolution."

Registered Office :

Industry House

159, Churchgate Reclamation,

Mumbai - 400 020.

Dated, the 21st May, 1999

By Order of the Board

R. R. AGRAWAL

Secretary

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.
2. The dividend when sanctioned will be made payable on or after 23rd July, 1999, to those shareholders whose names stand on the Register of Members on the 8th July, 1999.
3. The Register of Members of the Company will remain closed from the 8th July, 1999 to the 22nd July, 1999, both days inclusive.
4. Shareholders are requested to notify any change of address failing which the dividend warrants will be posted to their addresses as registered with the Company.



5. The unclaimed dividends for the financial year ended 30th June, 1994 and previous years declared by the Company have been transferred to the General Revenue Account of the Central Government in terms of Section 205A of the Companies Act, 1956. Shareholders who have not encashed the dividend warrants for the aforesaid years are requested to claim the amount from the Registrar of Companies, Maharashtra, Hakoba Mills Compound, Dattaram Lad Path, Kalachowki, Mumbai 400 033.
6. The Ordinary Shares of the Company are listed at The Stock Exchange, Mumbai, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001, National Stock Exchange of India Ltd., Trade World, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013 and the Uttar Pradesh Stock Exchange Association Ltd., Padam Towers, 14/113, Civil Lines, Kanpur - 208 001. The annual listing fee has been paid to each of the above Stock Exchanges.

Annexure to the Notice

Explanatory Statement as required by Section 173 of the Companies Act, 1956.

Item No. 7

The number of Directors in office at the last Annual General Meeting was 10 excluding the nominee of Industrial Development Bank of India (IDBI). Shri Naresh Mohan and Shri M. S. Nagraha have resigned as Directors of the Company. Shri S. M. Agarwal has been appointed in the casual vacancy caused by the resignation of Shri Naresh Mohan. Thus, the number of Directors in office, excluding the nominee of IDBI, would be 9. The resolution under Item No. 7, though not strictly necessary is being proposed for your approval in view of Section 258 of the Companies Act, 1956, by way of abundant caution.

Item No.8

The Industrial Development Bank of India (IDBI) has sanctioned to the Company, Corporate Loan of Rs. 1000 lacs (Rupees One thousand lacs only). The said loan from IDBI has to be secured by first mortgage/charge on all the immovable and movable assets, present and future, of the Company relating to its Hargaon Sugar and Distillery units situate at Hargaon, Dist. Sitapur (U.P.), ranking pari-passu with the existing charges created in favour of the financial institutions.

Section 293(1)(a) of the Companies Act, 1956, provides, inter alia, that the Board of Directors of a public company shall not, without the consent of such public company in general meeting, sell, lease or otherwise dispose of the whole, or substantially the whole of the undertaking of the Company or where the Company owns more than one undertaking the whole or substantially the whole of any such undertaking.

Since the mortgaging by the Company of its immovable and movable properties, as aforesaid, in favour of IDBI may be regarded as disposal of the Company's properties/undertakings, it is necessary for the members to pass a resolution under Section 293 (1)(a) of the Companies Act, 1956 before creation of the said mortgage/charge and hence the resolution is submitted for your approval.

Copy of Letter of Intent No. IDBI.ERO.No.11604/PFD.712 dated 30th March, 1999 received from IDBI and copies of relevant documents/correspondence between IDBI and the Company are open for inspection at the Registered Office of the Company between 11.00 A.M. to 1.00 P.M. on any working day prior to the date of the meeting.

None of the Directors of the Company is interested in the resolution.

Registered Office :

Industry House

159, Churchgate Reclamation,
Mumbai - 400 020.

Dated, the 21st May, 1999

By Order of the Board
R. R. AGRAWAL
Secretary

The Oudh Sugar Mills Limited

DIRECTORS' REPORT

To
The Shareholders,

Your Directors have pleasure in presenting their Report and the audited Accounts of the Company for the year ended 31st March, 1999.

Financial Results (Rs. in lakh)

2. Sales during the year 20,331.05

Gross Profit before
Depreciation 974.61

To which is added :

Balance brought forward from the previous year	241.51	
Debenture Redemption Reserve no longer required written back	125.00	
Dividend on fractional shares not payable written back	0.02	<u>366.53</u>

Making a total of 1,341.14

Out of this provisions have been made for :

Depreciation	684.52	
Taxation	40.04	
Dividend Tax	22.85	
General Reserve	18.75	<u>766.16</u>

Leaving a balance available for disposal of 574.98

The Directors recommend payment of Dividend on 1,03,85,790 Ordinary Shares of Rs. 10 each @ Rs. 2.00 per share 207.72

Balance carried to Balance Sheet 367.26

Sugar Season 1998-99

3. The season 1998-99 has probably been one of the worst in the history of the sugar industry where nature created havoc. The El Nino and the La Nina weather conditions found its way to India resulting in unprecedented rainfall in the whole of North India. Against a normal rainfall in UP and Bihar of around 40 inches, UP experienced around

64 inches of rain whereas Bihar experienced around 70 inches of rain during 1998 causing widespread floods. This had a two fold impact on the sugarcane crop. Firstly, the yield was adversely affected resulting in lesser cane being available to the sugar mills than expected. Secondly, stagnating water hampered the sucrose formation in the cane resulting in lower recovery of sugar. In fact, recovery was lower by around 0.75% varying from region to region.

4. The sugar mills in UP also faced an additional setback caused by large-scale diversion of sugarcane to gur and khandsari units. The khandsari units enjoy an unfair advantage over the sugar mills as they are exempted from any obligations of levy sugar, monthly releases and fixed sugarcane prices.
5. The world sugar market remained weak during the year under review primarily due to increased world production of sugar and sharp devaluation of the currency of Brazil - a major exporter of sugar. Compounding the woes of the sugar industry, the Government of India continued to allow import of sugar despite the surplus stocks in the country. While the industry persistently requested for an increase in the import duty on sugar from 5% to 44% plus countervailing duty, the Government finally increased the duty to 27.5% with a countervailing duty of Rs. 850 per tonne. As expected, this hardly had any impact on the quantum of imports from Brazil and Pakistan with the latter immediately increasing its subsidy on sugar export. The industry is continuing to request the Government to increase the custom duty to the levels that is imposed by the other countries.
6. The production of sugar in India during the season 1998-99 is likely to be higher at 155 lakh tonnes as against 129 lakh tonnes during the season 1997-98. This increase in production is primarily due to a bumper sugarcane crop in the southern states particularly Maharashtra. The stock of sugar at the start of the season was around 54 lakh tonnes resulting in a total availability of 209 lakh tonnes excluding sugar imported during the year. Against this, the total consumption for season 1998-99 is estimated at 145 lakh



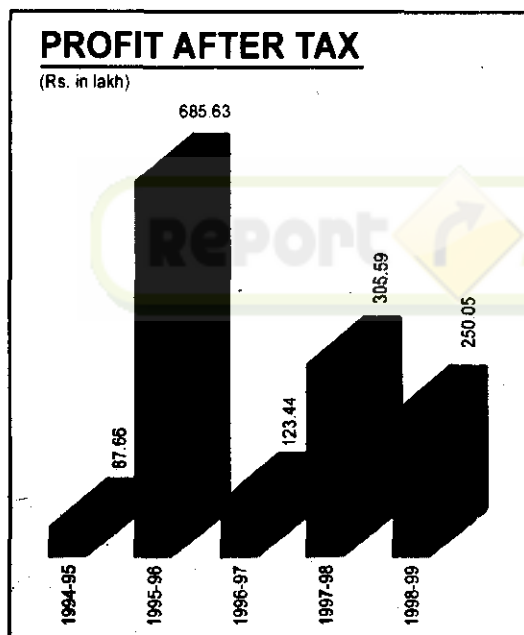
DIRECTORS' REPORT (Contd.)

tonnes leaving a surplus of 64 lakh tonnes of domestic sugar. The total import of sugar for the current season is estimated at 6 lakh tonnes which leaves a surplus of 70 lakh tonnes of sugar for the Indian market. This mismatch of demand and supply witnessed low levels of sugar prices throughout the year.

7. During the season 1998-99 the sugar industry in U.P. and Bihar paid price of Rs. 80.00 and Rs. 77.50 per quintal of sugarcane respectively, inclusive of advance against liability under Clause 5A of the Sugarcane (Control) Order against Rs. 75.00 and Rs. 73.50 per quintal during the season 1997-98. The State Government of U. P. has announced a remission of Re. 1 per quintal in cane purchase tax for the seasons 1998-99 and 1999-2000.

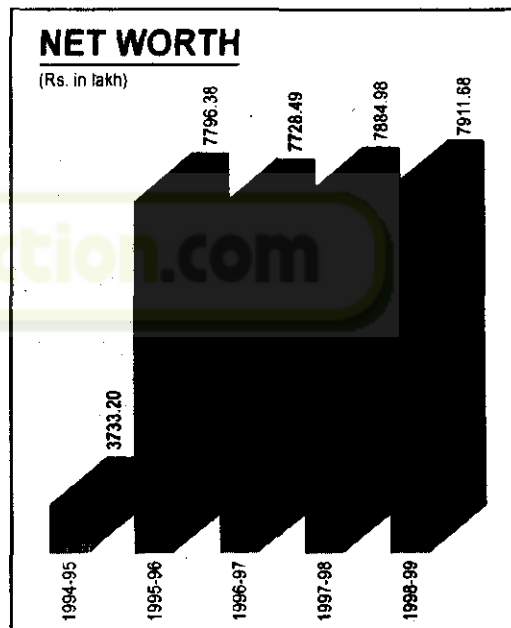
supply of sugarcane to the sugar mills a minimum distance of 15 KM has to be maintained between the existing mill and a new mill. The industry, however, has represented to the Government to increase this distance to 25 KM since 15 KM is not adequate. The Government is yet to take a final view on all other recommendations of the Mahajan Committee.

9. The dual pricing policy of sugar under which 40% of sugar is requisitioned by the Government as levy sugar and balance 60% is allowed to be sold in the open market continued for the season 1998-99 as well.
10. The statutory minimum price of sugarcane for the season 1998-99 was fixed by the Government at Rs. 52.70 per quintal as against Rs. 48.45 for the previous season linked to a base recovery of 8.5%. In the



Sugar Policy

8. Pursuant to the Mahajan Committee Report that had recommended sweeping changes for the sugar industry, the Government has implemented the recommendation of delicensing the industry so far. However, in order to avoid unhealthy competition among the sugar factories and to ensure assured



case of Hargaon, Rosa and Narkatiaganj factories, the statutory minimum price was fixed at Rs. 58.90, Rs. 57.66 and Rs. 60.76 per quintal as against Rs. 52.05, Rs. 51.45 and Rs. 55.65 per quintal respectively for the previous season. The price of levy sugar produced by Hargaon, Rosa and Narkatiaganj factories was maintained at Rs. 1045.55, Rs. 1012.61 and Rs. 1125.81 per quintal

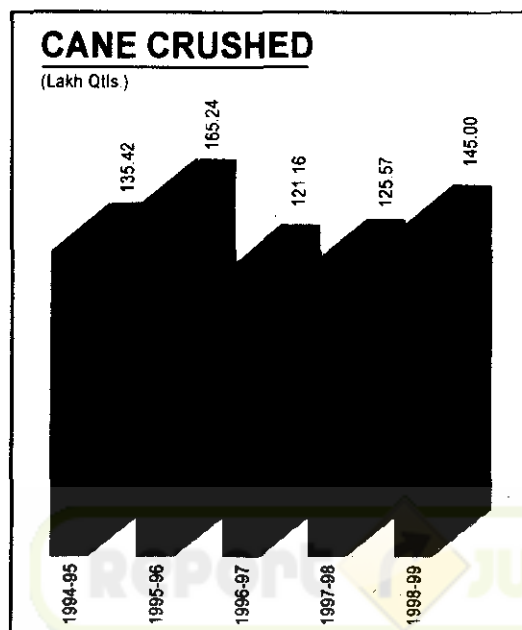
The Oudh Sugar Mills Limited

DIRECTORS' REPORT (Contd.)

respectively as fixed for the season 1997-98. The revised price of levy sugar for the season 1998-99 is yet to be announced by the Government.

Molasses Policy

11. The Government of UP continued its molasses policy under which the sugar mills are to supply 40% of their production to chemical units in UP, 20% to country liquor manufacturers and the balance 40% could be freely sold in the open market. In Bihar, the earlier policy of free pricing with distribution controlled by the State Government continued for the current year also.



Operations

12. The crushing of sugarcane by your Company during the season 1998-99 was substantially higher at 145.00 lakh quintals as against 125.57 lakh quintals during the season 1997-98. The production of sugar was 12.74 lakh quintals during the season 1998-99 as against 11.73 lakh quintals during the season 1997-98. The production of sugar would have been much higher had it not been for the low recovery of sugar due to adverse climatic conditions.

13. The working of both the distilleries at Hargaon and Narkatiaganj remained under pressure during the year under review. Large-scale imports of chemicals resulted in poor off take of industrial alcohol by the chemical industry, which is one of the major consumers. Furthermore, the decision by the Government of UP not to allow export of industrial alcohol outside the State of UP resulted in surplus alcohol in the State. In Bihar, the working of the distillery was also affected by the continuous strike by the officers in the Government of Bihar responsible for the distribution of alcohol.
14. The production and sales of Fruits & Vegetable Canning factory during the year under review were much better as compared to the preceding year. Due to vigorous sales drive undertaken by the Company, the brand name "MORTON" is establishing its image resulting in increased civilian sales. The margins, however, continued to remain under pressure due to keen competition and increased cost of production without a corresponding increase in the selling price. During the current year both sales and profitability are expected to further improve.

