

2001 ANNUAL REPORT & ACCOUNTS 2002



THE OUDH SUGAR MILLS LIMITED

**CHAIRMAN EMERITUS**

Dr. K. K. Birla

BOARD OF DIRECTORS

Shri C. S. Nopany

Chairman-cum- Mg. Director

Shri S. V. Muzumdar

Shri Pravinchandra V. Gandhi

Shri Rajaram Muchhal

Shri Ashvin C. Dalal

Shri S. M. Agarwal

Shri M. Ghosh (Nominee - IDBI)

Shri C. B. Patodia

EXECUTIVESShri R. R. Agrawal - *Secretary*

Shri P. K. Lakhotia

Executive President, Hargaon

Shri M. S. Sharma

Executive President, Narkatiaganj

Shri M. N. Agarwal

Executive President, Rosa

Shri S. K. Premi

*Executive President, Allahabad Canning Co.***AUDITORS**

S. R. Batliboi & Co.

Kolkata

REGISTERED OFFICE

P.O. Hargaon

Dist. Sitapur (U.P.)

Pin - 261 121

CORPORATE OFFICE

Industry House

159, Churchgate Reclamation,

Mumbai - 400 020.

HEAD OFFICE

9/1, R.N. Mukherjee Road,

Kolkata - 700001.

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)

CANNING FACTORY

P.O. Bamrauli, Allahabad (U.P.)

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The Oudh Sugar Mills Limited**PERFORMANCE AT A GLANCE**

	(Rs. in lakh)				
	1997-98	1998-99	1999-2000 (15 Months)	2000-01	2001-02
Turnover	18699.96	20331.05	26640.39	23898.84	26075.23
Operating Profit	3022.71	3096.67	4449.75	3601.85	3000.61
Interest (net)	2054.70	2122.06	3288.01	3340.31	3531.98
Depreciation	623.92	684.52	1087.21	1044.51	1062.60
Profit/(Loss) before Tax	344.09	290.09	74.53	(782.97)	(1593.97)
Profit/(Loss) after Tax	305.59	250.05	71.92	(785.32)	(949.04)
Net Worth	7884.98	7911.68	7986.78	5015.51	5371.33
Net Worth per Ordinary Share (Rs.)	75.92	76.18	76.91	48.30	51.72
Dividend per Ordinary Share (Rs.)	2.00	2.00	—	—	—
Earning per Ordinary Share (Rs.)	2.94	2.41	0.69	—	—



NOTICE

Notice is hereby given that the Seventieth Annual General Meeting of **The Oudh Sugar Mills Limited** will be held at Meeting Hall, Oudh Sugar Mills Complex, Hargaon, Dist. Sitapur, Uttar Pradesh, Pin - 261 121, on Friday, the 29th November, 2002 at 11.00 A.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 30th June, 2002.
2. To appoint a Director in place of Shri S.V. Muzumdar, who retires by rotation and being eligible offers himself for re-appointment.

3. To appoint a Director in place of Shri Ashvin C. Dalal, who retires by rotation and being eligible offers himself for re-appointment.

4. To appoint Auditors and fix their remuneration.

Place : Mumbai

Dated, the 12th September, 2002

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 Register of the Members of the Company will remain closed from the 21st November, 2002 to the 29th November, 2002, both days inclusive.

3. Members are requested to notify any change in their addresses to the Company.

4. In all correspondence with the Company, the members are requested to quote their account/folio numbers and in case their shares are held in the dematerialised form, they must quote their Client ID Number and their DP ID Number.

5. Under the provisions of Section 205A of the Companies Act, 1956 all unclaimed/unpaid dividends upto the financial year 1993-94, have been transferred to the General Revenue Account of the Central Government. Members who have so far not claimed their dividends for the said period may claim the same by submitting an application in prescribed form to the Registrar of Companies, Uttar Pradesh, West-Cott Building, The Mall, Mahatma Gandhi Road, Kanpur - 208 001.

Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, dividends remaining unclaimed/unpaid for a period of seven years shall be transferred to the Investor Education and Protection Fund and thereafter no claim shall lie against the Fund or the Company. Therefore, members who have not encashed the dividend warrant(s) so far for the financial year 1994-95 and any subsequent year may make their claim to the Company immediately.

6. The Ordinary Shares of the Company are listed at Uttar Pradesh Stock Exchange Association Ltd., Padam Towers, 14/113, Civil Lines, Kanpur - 208 001, The Stock Exchange, Mumbai, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 and National Stock Exchange of India Ltd., Exchange Plaza, Plot No. C-1, G-Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051. The listing fee for the year has been paid to each of the above Stock Exchanges.

Place : Mumbai

Dated, the 12th September, 2002

By Order of the Board

R. R. Agrawal

Secretary

The Oudh Sugar Mills Limited

DIRECTORS' REPORT

To

The Shareholders,

Your Directors take pleasure in presenting their Report and the audited Statements of Account of the Company for the year ended 30th June, 2002.

Financial Results

	(Rs. in lakh)	
	<u>2001-02</u>	<u>2000-01</u>
2. Turnover	<u>26075.23</u>	<u>23898.84</u>
Gross Profit (Loss) before Depreciation	(531.37)	261.54
To which is added/deducted :		
Balance brought forward from the previous year	45.08	580.40
Refund of Income Tax/ excess provision for taxation written back	8.64	—
Debenture Redemption Reserve no longer required written back	—	250.00
Deferred Tax Assets for the year	637.54	—
Transfer from General Reserve	<u>1000.00</u>	<u>—</u>
Leaving a balance of	<u>1159.89</u>	<u>1091.94</u>
Out of this provisions have been made for :		
Depreciation	1062.60	1044.51
Taxation	<u>1.25</u>	<u>2.35</u>
Balance carried to Balance Sheet	<u>96.04</u>	<u>45.08</u>

Financial Performance & Dividend

- The financial performance of the Company has been severely affected due to a sharp fall in the prices of sugar during the year under review by over Rs.2000 per tonne. Profitability was further affected due to an uneconomic increase in the sugarcane prices announced by the State Governments. A detailed report has been given in the Management Discussions and Analysis Report, which is attached as a separate annexure and forms a part of this Report.
- As there is no distributable profit as per the provisions of the Companies Act, 1956, your Directors are not in a position to recommend any dividend for the year.

- In terms of Accounting Standard 22, 'Accounting for Taxes on Income' issued by the Institute of Chartered Accountants of India which has become mandatory in respect of the accounting period commencing on or after 1st April, 2001, net deferred tax assets of Rs. 1297.31 lakh has arisen upto 30th June, 2001 which has been recognised as reserves in the accounts of the Company for the year under review. The net deferred tax assets amounting to Rs. 637.54 lakh for the year has been recognised as credit to the Profit & Loss Account.

Corporate Governance

- A separate report on Corporate Governance pursuant to Clause 49 of the Listing Agreement



DIRECTORS' REPORT (Contd.)

with the Stock Exchanges is attached as a separate annexure and forms a part of this Report.

Directors

7. Dr. K. K. Birla resigned from Chairmanship and Directorship of the Company due to his advancing age with effect from 16th August, 2002. Dr. Birla became Director of the Company in 1952 and was appointed Chairman in 1963. Under his distinguished leadership and guidance the Company developed manifold. The Directors placed on record their high appreciation of the valuable guidance received and contribution made by Dr. Birla as Chairman and Director of the Company. In recognition of his contribution, Dr. Birla has been conferred the status of "Chairman Emeritus" with effect from 2nd September, 2002 by the Board of Directors of the Company so that the Company can continue to receive his guidance and advice from time to time.
8. Shri C. S. Nopany, Deputy Chairman, has been appointed Chairman of the Board of Directors of the Company.
9. Shri S. V. Muzumdar and Shri Ashvin C. Dalal retire from the Board by rotation and are eligible for re-election.

Directors' Responsibility Statement

10. Your Directors confirm that —
 - i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
 - ii) they have selected such accounting policies and applied them consistently and made judgements and estimates that 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 loss of the Company for that year;
 - iii) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
 - iv) they have prepared the annual accounts on going concern basis.

Auditors

11. The Notes on Accounts appearing in Schedule 22 and referred to in the Auditors' Report are self explanatory and therefore, do not call for any further comments or explanations.
12. The Auditors, Messrs S. R. Batliboi & Co., Chartered Accountants, retire and are eligible for re-appointment.
13. Messrs D. Radhakrishnan & Co., Cost Accountants, have been appointed as Cost Auditors relating to Sugar and Industrial Alcohol for the current year, subject to approval of the Central Government.

Subsidiary Companies

14. The audited Accounts of Narkatiaganj Farms Ltd., Rajpur Farms Ltd., Champaran Marketing Company Ltd., OSM Investment & Trading Company Ltd. and Hargaon Investment & Trading Company Ltd., subsidiaries of the Company, for the year ended 31st March, 2002 are attached as required by Section 212 of the Companies Act, 1956.

Statutory Requirements

15. There was no employee who was in receipt of remuneration as prescribed under Section 217(2A) of the Companies Act, 1956.
16. Particulars in respect of conservation of energy, technology absorption and foreign exchange earnings and outgo as required under Section 217(1)(e) of the Companies Act, 1956 is attached as a separate annexure and forms a part of this Report.

Acknowledgements

17. Your Directors take this opportunity of recording their appreciation of the financial institutions and bankers for extending their support to the Company. Your Directors are also grateful to the various ministries in the Central and State Governments, the Sugar Directorate and the Sugar Development Fund for their continued support to the Company. The Directors also place on record their appreciation of the valuable contribution made by the employees at all levels.

For and on behalf of the Board
C. S. NOPANY

Mumbai

Dated, the 12th September, 2002

*Chairman-
cum-Mg. Director*

The Oudh Sugar Mills Limited

MANAGEMENT DISCUSSIONS & ANALYSIS REPORT

The Management of The Oudh Sugar Mills Ltd. (OSM) is pleased to present its report analysing the Company's operations in various segments and its future prospects based on the current prevailing market conditions.

The activities of OSM include the manufacture and sale of sugar, industrial alcohol and fruits & vegetable products. Sugar, which constitutes 88.17% of sales, is produced at OSM's three sugar factories situated at Hargaon and Rosa in Uttar Pradesh and Narkatiaganj in Bihar. Industrial Alcohol is produced at its two distilleries at Hargaon and Narkatiaganj and Fruits & Vegetable products at Allahabad Canning Co., Allahabad (U.P.). The by-products of the sugar factories i.e. molasses and bagasse are partly sold and partly consumed internally by the Company. A segmentwise analysis is presented below :

A. Sugar

1. World Sugar Scenario

- a) The Sugar Industry had been suffering worldwide from surplus production of sugar since last four years. The international sugar markets that had improved somewhat towards the end of 2000-01 came under tremendous pressure during the year under review. A sharp jump in the production at Brazil followed by an increase in their exports coupled with a weak real led to a fall in international prices of sugar. During the year 2001-02 Brazil exported around 11.379 million tonnes against 7.414 million tonnes during 2000-01. Sugar production in Brazil increased to 19.871 million tonnes during 2001-02 from 17.036 million tonnes.
- b) Sugar prices are expected to remain low during 2002-03 due to over production and a supply glut in the international markets. Production is expected to increase to 141.7 million tonnes raw value during 2002-03 as against 135.9 million tonnes during 2001-02. Higher production anticipated in Brazil, European Union, Turkey, South Africa, USA and Australia has affected the sentiments of the international markets adversely despite reports of widespread damage to sugarcane crop in Cuba, anticipated increase in sugar imports by Russia and China and low sugar recovery in Europe.
- c) The UN Food and Agriculture Organisation (FAO) has predicted an increase in sugar consumption

due to strong economic growth in various sugar consuming countries. However, this may be insufficient to make any significant impact in the short term due to the increase in production.

2. Indian Sugar Scenario

- a) The crisis in the Indian Sugar Industry worsened during the year under review with prices of sugar remaining at abysmally low levels. Sugar production remained high largely due to the generous price hike announced in favour of the sugarcane farmers by the State Government in U.P. The problem was further compounded by the decision of the Government of India to decontrol the sugar release mechanism after the successful introduction of futures market. This decision was opposed by the industry and is contrary to the recommendations of the high-powered committee under the Chairmanship of Shir B.B. Mahajan. Anticipating the withdrawal of the release mechanism, several factories started selling sugar beyond the quantity released by the Government. This indiscipline in the market led to an over-supply followed by a sharp fall in prices to levels not seen after the mid-nineties.
- b) The estimated sugar production during the sugar season 2001-02 is expected to be around 184.50 lakh tonnes, which is at the same level of last season's production of 185.12 lakh tonnes. Increase in the production of Uttar Pradesh to 52.60 lakh tonnes as against 43.94 lakh tonnes in the previous year was the major contributory despite a fall in the production in Maharashtra during the year under review. As the sugar industry was already carrying a huge inventory of 102.00 lakh tonnes at the beginning of the season, this increased production further aggravated the difficulties being faced by the sugar industry.
- c) The domestic consumption as estimated by trade circle during the current season 2001-02 is about 175.00 lakh tonnes as compared to 162.78 lakh tonnes during the season 2000-01 reflecting a growth of 7.51%. Exports during the season 2001-02 suffered a setback and is likely to be only around 9.50 lakh tonnes as against 12.44 lakh tonnes achieved during the season 2000-01. The main reason for lower exports can be attributed to the low prices of sugar prevailing in the international markets. Delay in announcing the internal transport subsidy for



MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

encouraging export of sugar by the Government has also contributed to lower exports during the year under review. The sugar season of 2001-02 is likely to close with an inventory at 102.00 lakh tonnes, equivalent to almost eight months' consumption.

d) Estimated Demand & Supply of Sugar in India

	2001-02 (In lakh tonnes)	2000-01 (In lakh tonnes)
Opening Stock as on 1st October	102.00	92.10
Production during the season (October-September)	184.50	185.12
Total availability	286.50	277.22
Domestic consumption	175.00	162.78
Exports	9.50	12.44
Closing Stock as on 30th September	102.00	102.00

3. Government Policies

- In pursuance of the recommendations of the Mahajan Committee for decontrol of sugar, the Government reduced the ratio of levy sugar and free sugar from 15:85 to 10:90 with effect from 1st March, 2002. This relaxation has been welcomed by the industry.
- The long awaited amendment to the Sugar Development Fund Act, for defraying expenditure incurred by the sugar factories on transportation of sugar for export from factory upto the point of shipment has been notified by the Government on 21st June, 2002. Keeping in view the sharp decline in the prices of sugar in the international markets the industry has requested the Government to subsidize ocean freight on export of sugar that is within the provisions of WTO. In order to further boost the sugar export the Government has also increased the deferment benefit for adjustment of release of free sale sugar made for export purpose from 12 months to 18 months.
- The Government had amended the Jute Packaging Order restricting the mandatory packing of sugar to the extent of 90% of production in jute bags which was valid upto 30th June, 2002. Subsequently, by another Notification, the Government relaxed the

restriction with effect from 12th July, 2002 that 75% of sugar production is to be packed in jute bags upto 30th June, 2003 and thereafter only 50% of the total production of sugar is to be packed in jute bags upto 30th June, 2004. The Government also required the sugar factories to pack sugar in 50 Kg. bags as against 100 kgs. at present. However, on the representation of the industry, the Government has allowed the sugar factories to continue to pack in 100 kg. jute bags till 28th February, 2003.

- The Government has permitted futures trading in sugar. The Government has approved three companies to set up future exchanges and these are expected to be operational by October, 2002.
- The Government has also issued a notification to the effect that sugar dealers will not require any permit or licence under the Essential Commodities Act and they may freely buy, stock, sell, transport, distribute, dispose, acquire, use or consume any quantity of sugar.
- The retail issue price of levy sugar distributed through the Public Distribution System has been increased from Rs. 13.25 to Rs. 13.50 per kg. with effect from 1st March, 2002.

4. Sugarcane Pricing

- The Statutory Minimum Price (SMP) of sugarcane for the season 2001-02 was fixed by the Government at Rs. 62.05 per quintal as against Rs. 59.50 per quintal for the previous season linked to a base recovery of 8.5% or less. The SMP in respect of the Company's sugar factories was fixed as below :

	Season 2001-02	Season 2000-01
Statutory Minimum Price (Rs. per quintal)		
Hargaon	70.81	66.50
Rosa	69.35	63.70
Narkatiaganj	67.16	65.80

- On the advice of the U.P. Government, the sugar industry in U.P. paid a price of Rs. 92.50 per quintal of sugarcane for normal variety and Rs. 90.00 per quintal for rejected variety for the season 2001-02 as against Rs. 90.00 per quintal for the previous season. The Government of U.P. also announced a

The Oudh Sugar Mills Limited

MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

concession of Rs. 1.75 per quintal in cane purchase tax and Re. 0.75 per quintal in society commission and equal amount of the concession was paid by the State Government to sugarcane suppliers through the sugar mills in addition to the above mentioned cane price. The deduction on account of transportation charges for out centre cane purchase was also increased from Rs. 4.00 to Rs. 5.00 per quintal. However, the sugar industry in Bihar paid the same cane price of Rs. 86.00 per quintal as it paid during the last season.

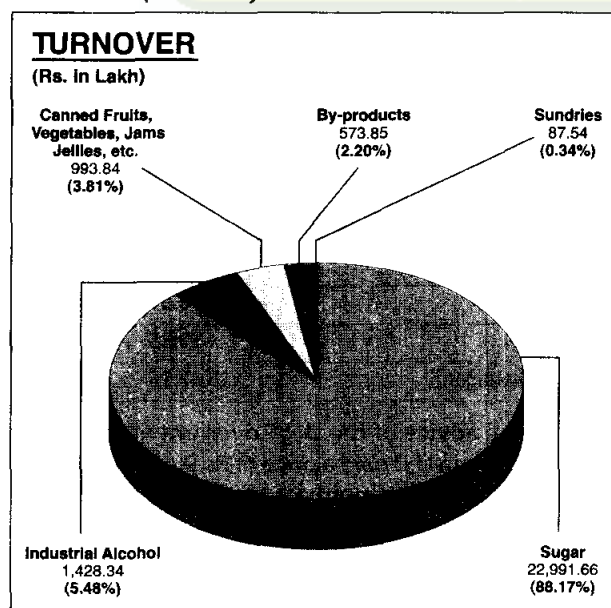
5. Levy Sugar Prices

The Government fixed the prices of levy sugar for the Company's sugar factories as follows :

	Season 2001-02	Season 2000-01
Levy Price (Rs. per quintal)		
Hargaon	1303.33	1263.48
Rosa	1224.87	1160.81
Narkatiaganj	1217.67	1165.24

6. Operations

- a) The turnover of the Company, during the year under review, increased from Rs. 238.99 crores to Rs. 260.75 crores, an increase of 9.10% as compared to the previous year.



- b) The crushing operations of the Company improved significantly as compared to the previous year. Total crushing of sugarcane by the Company during the season 2001-02 was higher at 210.81 lakh quintals as against 165.83 lakh quintals during the season 2000-01. The production of sugar was also substantially higher at 20.33 lakh quintals as against 15.67 lakh quintals during the season 2000-01.
- c) The crushing and recovery at Hargaon factory was at a record high due to efficient working of the plant. The factory worked for 194 days as against 168 days during the previous season.
- d) The crushing at Rosa factory was also significantly higher as compared to the previous season. The recovery was also higher as compared to the previous season due to better cane management and improved technical performance of the plant. The factory worked for 166 days as against 139 days during the previous season.
- e) The crushing of sugarcane at Narkatiaganj factory was much higher as compared to the previous season. The recovery was also slightly higher. The crushing and recovery would have been much higher had it not been for the adverse climatic conditions, excess rains and decrease in area under sugarcane. The factory worked for 107 days as against 100 days during the previous season.
- f) The comparative operational figures of the sugar factories for the last two seasons are given below :

	Season 2001-02	Season 2000-01
Sugarcane Crushed (lakh quintals)		
Hargaon	94.95	77.82
Rosa	60.47	42.90
Narkatiaganj	55.39	45.11
	210.81	165.83
Recovery (%)		
Hargaon	10.00	9.72
Rosa	9.60	9.35
Narkatiaganj	9.15	9.13

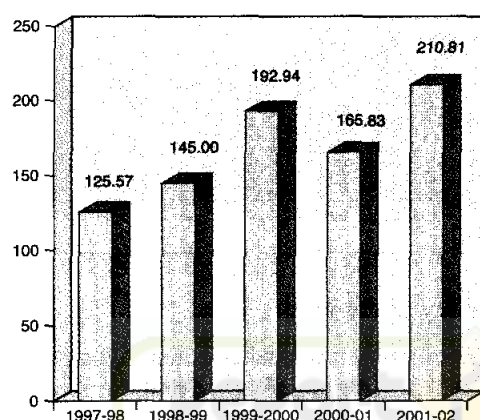


MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

	Season 2001-02	Season 2000-01
Sugar Produced (lakh quintals)		
Hargaon	9.48	7.56
Rosa	5.78	3.99
Narkatiaganj	5.07	4.12
	20.33	15.67

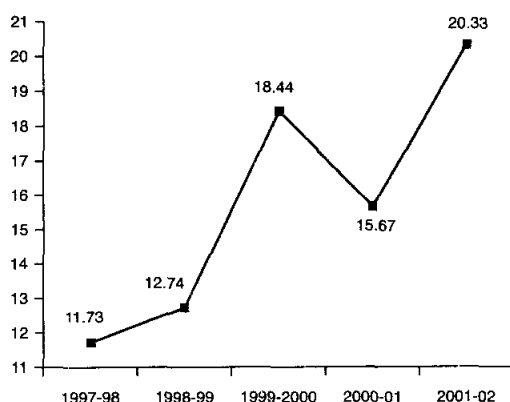
CANE CRUSHED

(Lakh Qtls.)



SUGAR PRODUCED

(Lakh Qtls.)



7. Future Outlook

- India has been affected by one of its worst droughts ever with 320 districts out of 524 districts experiencing much lower than normal rainfall. This has had its implications in the agricultural sector particularly paddy and sugarcane. The yields of the sugarcane crop in both Maharashtra and U.P. are likely to be affected significantly. A clearer position will emerge only later during the year.
- The sugar industry is likely to be under pressure during the next one year as it is still holding large inventories. However, there may be a correction due to an expected fall in production during 2002-03 coupled with increased consumption due to exports and offloading of inventories by the industry. The possible creation of buffer stock and an independent sugarcane pricing mechanism would help the industry to a large extent.

B. Industrial Alcohol

- The Government of U.P. continued with its molasses policy for the season 2001-02 under which all restrictions on sale of molasses were removed. The factories were also allowed to export 10% of their production to other states as usual.
- The production and sales at Hargaon Distillery for the year under review were lower as compared to the previous year due to lower demand of Alcohol. The Company has successfully launched organic fertilizers under the brand "Oudh Shakti" during the year under review. This is produced at the Company's Bio-compost plant installed at Hargaon during the year 2000-01 in which press mud (a by-product of sugar mill) and effluent water of the distillery is processed to produce organic fertilisers. This new product has been well accepted by the farmers as it increases the yield at a much lower cost and improves the quality of the soil due to its organic nature.
- The production and sales at Narkatiaganj Distillery slightly improved during the year as compared to the previous year.
- The Government permitted the blending of Ethanol with petrol to produce "gasohol" during the year under review to the extent of 5% on trial basis. Gasohol is an efficient and an environment friendly