

ANNUAL REPORT 2003-2004

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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 Rajaram Muchhal

Shri Ashvin C. Dalal

Shri S. M. Agarwal

Shri Rohit Kumar Dhoot

Smt. Madhu Vadera Jayakumar

Shri M. Ghosh (Nominee - IDBI)

Shri C. B. Patodia

EXECUTIVES

Shri C. C. Chhaya - *Secretary*

Shri P. K. Lakhotia
Executive President, Hargaon

Shri M. S. Sharma
Executive President, Narkatiaganj

Shri V. P. Singh
Executive President, Rosa

Shri S. K. Premi
Executive President, Allahabad Canning Co.

AUDITORS

S. R. Batliboi & Co.
Chartered Accountants

BANKERS

State Bank of India

Punjab National Bank

REGISTRAR & SHARE TRANSFER AGENT

Intime Spectrum Registry Ltd.
C-13, Pannalal Silk Mills Compound
L.B.S. Marg, Bhandup (West)
Mumbai - 400 078

REGISTERED OFFICE

P.O. Hargaon, Dist. Sitapur (U.P.)
Pin Code - 261 121

CORPORATE OFFICE

Industry House, 159, Churchgate Reclamation
Mumbai - 400 020
Tel. No. : 91-22-2287 5987
Fax No. : 91-22-2284 5485
e-mail : birlasugar@birla-sugar.com

HEAD OFFICE

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Kolkata - 700 001
Telephone No. 91-033-2243 0497/8
Fax : 91-033-2248 6369
e-mail : birlasugar@birla-sugar.com
Website : www.birla-sugar.com

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)

	1999-2000 (15 months)	2000-01	2001-02	2002-03	2003-04
Turnover	26640.39	23898.84	26075.23	31331.65	35435.52
Operating Profit	4449.75	3601.85	3000.61	2257.30	6853.10
Interest (net)	3288.01	3340.31	3531.98	3107.86	3536.87
Depreciation	1087.21	1044.51	1062.60	1072.72	1097.79
Profit/(Loss) before Tax	74.53	(782.97)	(1593.97)	(1923.28)	2218.44
Profit/(Loss) after Tax	71.92	(785.32)	(949.04)	(1176.53)	1412.47
Net Worth	7986.78	5015.51	5371.33	4203.64	5332.77
Net Worth per Equity Share (Rs.)	76.91	48.30	51.72	40.48	51.35
Dividend per Equity Share (Rs.)	—	—	—	—	2.50
Earning per Equity Share (Rs.)	0.69	—	—	—	13.60



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, 2004.

(Rs. in lakh)

Financial Results

	2003 - 04	2002 - 03.
2. Turnover	35435.52	31331.65
Profit/(Loss) before Depreciation	3316.23	(850.56)
To which is added/deducted :		
Balance brought forward from the previous year	(401.31)	96.04
Excess provision for taxation written back	0.19	0.22
Deferred Tax Asset/(Liability) for the year	(776.81)	747.78
Transfer from General Reserve	—	679.18
Leaving a balance of	2138.30	672.66
Out of this provisions have been made for :		
Depreciation	1097.79	1072.72
Taxation	29.35	1.25
Surplus/(Deficit) available for appropriation	1011.16	(401.31)
Appropriations :		
Proposed Dividend	259.65	—
Dividend Tax	33.94	—
Transfer to General Reserve	150.00	—
Balance carried to Balance Sheet	567.57	(401.31)

The Oudh Sugar Mills Limited

DIRECTORS' REPORT (Contd.)

Financial Performance & Dividend

3. The financial performance of the Company for the year under review has significantly improved as compared to the previous year. A detailed analysis of the Company's operations, future expectations and business environment has been given in the Management Discussions & Analysis Report, which is attached as a separate annexure and forms a part of this Report.
4. The Directors have recommended a dividend @ Rs. 2.50 per Equity Share for the year ended 30th June, 2004, subject to necessary approvals. The dividend tax including surcharge on the amount of dividend shall be payable by the Company. The total outflow on this account shall be Rs. 293.59 lakh.

Capital Projects

5. The Company is in the process of expanding the capacity of its sugar factory at Hargaon from 5000 tcd to 7500 tcd and install a 24 MW co-generation plant. Further the capacity of the distillery unit at Narkatiaganj is also proposed to be increased from 30 KLPD to 50 KLPD. These capital projects are estimated to cost approximately Rs. 155 crores in aggregate.

Corporate Governance

6. A separate report on Corporate Governance pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges is attached as a separate annexure and forms a part of this Report.
7. Pursuant to the Company's application for voluntary delisting under Securities & Exchange Board of India (Delisting of Securities) Guidelines, 2003, the Equity Shares of the Company have been delisted from The Uttar Pradesh Stock Exchange Association Ltd., Kanpur with effect from 28th November, 2003.

Directors

8. Shri S. M. Agarwal and Shri S. V. Muzumdar retire from the Board by rotation and are eligible for re-election.

Directors' Responsibility Statement

9. 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) such accounting policies have been selected and applied consistently 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 of the Company for that year;
 - iii) proper and sufficient care has been taken 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) the annual accounts have been prepared on a 'going concern' basis.

Auditors

10. The Notes on Accounts appearing in Schedule 24 and referred to in the Auditors' Report are self-explanatory and therefore, do not call for any further comments or explanations.
11. The Auditors, Messrs S. R. Batliboi & Co., Chartered Accountants, retire and are eligible for re-appointment.
12. Pursuant to the directives of the Central Government under Section 233B of the Companies Act, 1956, Messrs D. Radhakrishnan & Co., Cost Accountants, have been appointed as Cost Auditors to audit the cost accounting records relating to Sugar and Industrial Alcohol for the current year, subject to approval of the Central Government.

Subsidiary Companies

13. During the year under review, Hargaon Properties Limited became subsidiary of Hargaon Investment & Trading Company Ltd., a wholly owned subsidiary of the Company.



DIRECTORS' REPORT (Contd.)

14. The audited Accounts of Narkatiaganj Farms Limited, Rajpur Farms Limited, Champaran Marketing Company Limited, OSM Investment & Trading Company Limited, Hargaon Investment & Trading Company Limited and Hargaon Properties Limited, subsidiaries of the Company, for the year ended 31st March, 2004 are attached as required by Section 212 of the Companies Act, 1956.

Statutory Requirements

15. As required under the Listing Agreement with Stock Exchanges, Consolidated Financial Statements conforming to the Accounting Standard 21 issued by the Institute of Chartered Accountants of India are attached.
16. There was no employee who was in receipt of remuneration as prescribed under Section 217(2A) of the Companies Act, 1956.
17. 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

18. 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

Chairman-cum-

Mg. Director

Kolkata

Dated, the 16th August, 2004

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 its various business segments and its future prospects based on the current prevailing market conditions. Its main business segments includes manufacturing of sugar and its by-products, industrial alcohol and fruits & vegetable products. Sugar, which constitutes 85.34% OSM's total sales, is produced at 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.). A segmentwise analysis is presented below :

A. SUGAR

1. World Sugar Scenario

- a) World sugar prices continued to remain below the cost of production in most producing and exporting countries during the larger part of the year under review. However, the prices in the international markets have started firming up due to a much needed correction in the demand and supply position. Reports of a substantial drop in production in India, China and Thailand has seen a rise in international prices by over 20%, despite a record crop in Brazil. The world sugar production for the season 2003-04 is estimated at 142.93 million tonnes raw value as against 148.94 million tonnes raw value during 2002-03. Brazil's production is estimated at 26.53 million tonnes raw value, which is the highest in the world, showing an increase of 2.88 million tonnes over the previous season's production. Brazilian sugar is expected to dominate the international market as exports in 2003-04 is expected at 15.06 million tonnes, appreciably higher than last season's figure of 13.93 million tonnes. According to the latest estimate, sugar production in United States of America in 2003-04 is expected at 8.95 million tonnes raw value i.e. 0.57 million tonnes raw value higher than the production in 2002-03. Pakistan has achieved a record high production of 4 million tonnes of sugar in 2003-04. Other countries where production is expected to decline substantially are France, Australia, Germany and South Africa.

2. Indian Sugar Scenario

- a) The Indian Sugar Industry, second largest sugar producer in the world and the second largest agro based industry in India providing direct employment to over 5 crore sugarcane farmers has been suffering from problems of plenty since the later half of 1990. After half a decade of excessive production, sugar production during the season 2003-04 has recorded a steep decline primarily due to drought in the cane growing belts of Maharashtra, Tamil Nadu and Karnataka coupled with a destruction of crop by parasites. This sharp decline in production has helped mills in reducing their inventories and they have stopped dumping sugar in the domestic markets. This is now leading to a much overdue correction of sugar prices. However, duty free imports of raw sugar under Advance Licence Scheme, with obligation to re-export white sugar within 18 months, may keep sugar prices subdued. Around 5 lakh tonnes of raw sugar has already been imported and around 3-5 lakh tonnes have been contracted and are expected in the next few months.
- b) After five consecutive seasons of excessive production, the production of sugar for the season 2003-04 is expected to be significantly lower at about 138 lakh tonnes which is about 63 lakh tonnes, (31.34%) less than the last season's production of 201 lakh tonnes. The major reason for this decline was inadequate rainfall causing drought conditions in the major sugarcane producing States of Maharashtra, Tamil Nadu and Karnataka. A severe attack of woolyaphides, a sucking pest, pushed down the yields by 20-50 percent and sugar recovery down by 1 percent in Maharashtra and parts of Karnataka. In Maharashtra, which is the largest producer of sugar in the country, the sugar output declined to 32 lakh tonnes as against 62 lakh tonnes during the previous season, a dramatic decline of about 50% in one single season. In Tamil Nadu the production dropped about 45.5%. In Uttar Pradesh, the major sugar producing state in Northern India, the sugar production declined by about 20% to 45.25 lakh tonnes due to lower yield of cane primarily due to inadequate rainfall and lower cultivatable area under sugarcane. Large scale diversion to alternate sweeteners reduced the availability of sugarcane for the sugar mills.



MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

c) Estimated Demand & Supply of Sugar in India

(in lakh tonnes)

	2003-04*	2002-03
Opening Stock as on 1st October	116.14	113.17
Production during the season (October - September)	138.00	201.40
Import	7.00	0.41
Total availability	261.14	314.98
Domestic consumption	175.00	183.84
Exports	3.00	15.00
Closing Stock as on 30th September	83.14	116.14

*Estimates of the Government of India.

3. Government Policies

- The Government continued with its previous season's policy under which the ratio of levy and free sale sugar for the season 2003-04 remained at 10:90.
- In order to compensate the carrying cost of inventory of sugar of the industry, the Government has extended the maintenance of the existing buffer stock of 20 lakh tonnes of sugar for further one year, effective from 18th December, 2003.
- The Supreme Court in its 3:2 majority judgement dated 5th May, 2004 has upheld the right of the U.P. State Government to fix the State Advised Price (SAP) of sugarcane at levels higher than the Statutory Minimum Price (SMP) prescribed by the Central Government under the Sugarcane (Control) Order, 1966, thereby setting aside the Order of the Allahabad High Court which had held SAP to be untenable. As regards other states like Bihar, Punjab, Haryana, the orders of the respective High Courts have been set aside and the writ petitions have been remitted back to the respective High Courts for fresh consideration in accordance with the applicable laws of those states. However, the U.P. Sugar Mills Association has filed a Review Petition before the Supreme Court against the said judgement.
- The subsidies notified by the Government to encourage exports on transportation of sugar for export from factory upto the port of shipment and on ocean freight has been discontinued in respect

of sugar export shipments made on or after 21st June, 2004. The subsidy of Rs. 500 per tonne as handling and marketing charges on sugar exported on or after 3rd October, 2003 is still continuing.

- The Government vide Notification under Section 3(1) of the Jute Packaging Material (Compulsory Use in Packing Commodities) Act, 1987 had notified that from 1st July, 2004 to 31st July, 2004 50% of sugar production to be packed in jute bags instead of the existing 90%. Since, the said Notification has been quashed by the Calcutta High Court, the Central Government has moved the Supreme Court against the order of the Calcutta High Court.
- The Government of India has recognized the fact that the sugar industry shackled with multiple controls needs to be revitalized. With this objective, a high powered committee under the Chairmanship of the Food Secretary, Shri S.K. Tuteja has been formed to suggest measures for the revitalization of the sugar industry. The industry expects the Tuteja Committee to make wide ranging recommendations regarding cane pricing issues, release controls, debt restructuring, etc.

4. Sugarcane Pricing

- The SMP of sugarcane for the season 2003-04 was fixed by the Government at Rs. 73.00 per quintal linked to a base recovery of 8.5% with a premium for higher recovery as against Rs. 69.50 per quintal for the previous season. The SMP in respect of the Company's sugar factories was fixed as below:

	Season 2003-04	Season 2002-03
Statutory Minimum Price (Rs. per quintal)		
Hargaon	89.15	81.80
Rosa	83.20	79.34
Narkatiaganj	80.65	75.24

- The Government of U.P. has granted a subsidy of Rs. 2.50 per quintal of sugarcane to the farmers in the form of remission in cane purchase tax @ Rs.1.75 per quintal and rebate in society commission @ Re. 0.75 per quintal for the season 2003-04. This subsidy has been paid by the sugar mills to the sugarcane farmers by way of increased

The Oudh Sugar Mills Limited

MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

sugarcane price. Accordingly, the actual price for sugarcane paid by the Company's sugar factories for the season 2003-04 is as under:

	Season 2003 - 04	Season 2002 - 03
Actual Cane Price (Rs. per quintal)		
Hargaon	91.65	85.80
Rosa	85.70	83.34
Narkatiaganj	80.65	75.24

- c) The Government of Bihar has issued a notification dated 9th March, 2004 abnormally enhancing the cane commission from 15 paise per quintal to 1.80% of cane price actually paid by the sugar mills with immediate effect. As our sugar factory at Narkatiaganj, Bihar continued crushing operations only upto 28th February, 2004, there is no impact of the said notification on the working of the said factory for the year under review. However, the industry has challenged the above notification before the Hon'ble Patna High Court and same is still pending.

5. Levy Sugar Prices

The Government has not yet announced the price of levy sugar for the season 2003-04 and as such the price fixed for the season 2002-03 is still continuing. The price of levy sugar produced by the Company's sugar factories for the season 2002-03 was fixed as under :

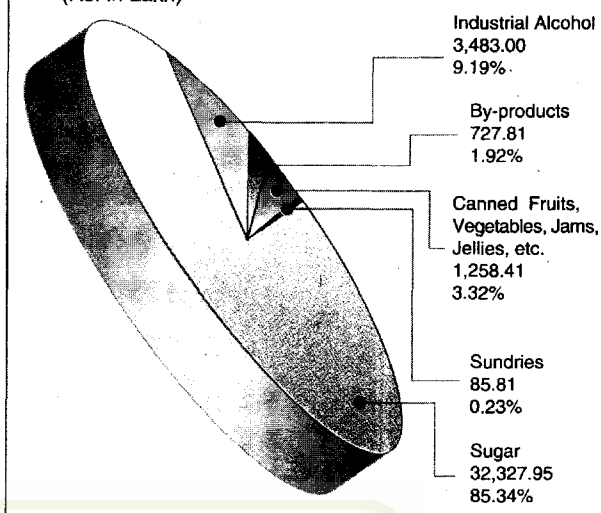
Levy Price (Rs. per quintal)	
Hargaon	1327.52
Rosa	1293.04
Narkatiaganj	1325.21

6. Operations

- a) The turnover of the Company, during the year under review, increased from Rs. 313.32 crores to Rs. 354.36 crores, an increase of 13.10% as compared to the previous year.
- b) The crushing operations of the Company were adversely affected during the season 2003-04 due to lower availability of sugarcane. The cane crop was affected on account of lower yield and large scale diversion to alternate sweeteners i.e. gur and

TURNOVER

(Rs. in Lakh)



khandsari units. The crushing of sugarcane by the Company during the season 2003-04 was lower at 168.96 lakh quintals as against 244.54 lakh quintals during the season 2002-03. Consequently, the production of sugar was also lower at 16.91 lakh quintals as against 23.59 lakh quintals during the season 2002-03.

- c) The performance of all the units improved significantly due to better efficiencies and cane development activities. The recoveries were significantly higher at Hargaon and Narkatiaganj. Hargaon had the distinction of recording the highest recovery in U.P. during the season 2003-04.
- d) The comparative operational figures of the sugar factories for the last two seasons are given below:

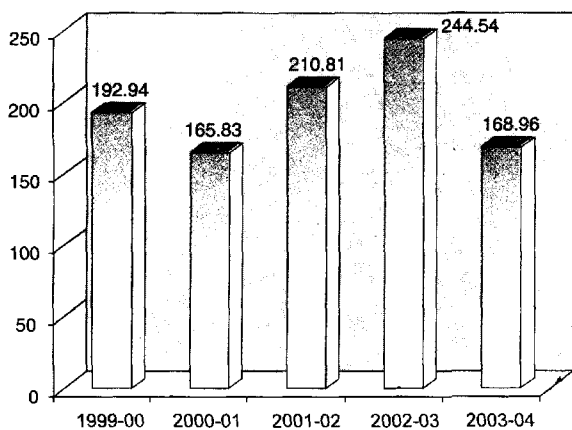
	Season 2003-04			Season 2002-03		
	Hargaon	Rosa	Narkatiaganj	Hargaon	Rosa	Narkatiaganj
Sugarcane Crushed (lakh quintals)	74.85	46.13	47.98	100.53	65.54	78.47
Recovery (%)	10.85	9.46	9.38	10.21	9.54	9.03
Sugar Produced (lakh quintals)	8.13	4.35	4.43	10.26	6.25	7.08
No. of days factory worked	151	131	91	200	178	157



MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

CANE CRUSHED

(Lakh Qtls.)



prices to revive from abysmally low levels but has also helped the industry to reduce its carrying cost of inventory considerably and bring about the much needed correction in the demand and supply position.

- b) While it is still early to predict the sugar production for the season 2004-05, preliminary indications are that production of sugar in the States of Maharashtra, Karnataka, Tamil Nadu, Gujarat and Andhra Pradesh are expected to record a further fall from their 2003-04 season's production level. The sugar production in Uttar Pradesh is also expected to be marginally lower. Thus, with a lower opening inventory, declining production and sustained consumption the overall sugar situation is expected to remain evenly balanced in 2004-05.

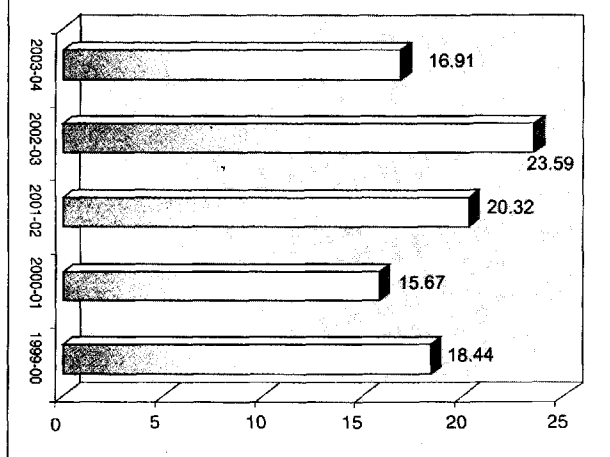
B. Industrial Alcohol

1. During the season 2003-04 the Government of U.P. discontinued with its Molasses Policy of the previous season under which factories were allowed to export 20% of their production to other states. From 9th June, 2004 the Government of U.P. announced a new Molasses Policy under which 20% of the stock as on 15.04.2004 had to be reserved for distilleries making country liquor. Export of molasses to other states has been banned.

2. The administrative charges payable to the Government of U.P. on purchase of molasses has been increased from Rs. 8.00 per quintal to Rs. 11.00 per quintal with effect from 23rd July, 2004 and the Sales-tax has been reduced from 8% to 2.5%.
3. The blending of fuel petrol with 5% of ethanol has been made mandatory with effect from 1st October, 2003 in nine states and four union territories. The Government's intention is to increase the level of blending of ethanol with fuel petrol from 5% to 10%. Blending of ethanol with diesel would be the subsequent stage and this process is under examination.
4. To meet the increasing demand of ethanol, the ethanol producing plant installed at the distillery

SUGAR PRODUCED

(Lakh Qtls.)



7. Future Outlook

- a) The substantial decline in the production of sugar during the season 2003-04 has helped the industry to liquidate its huge inventory of sugar accumulated over the years due to excess production. This has not only helped the sugar