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Annual Report

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THE OUDH SUGAR MILLS LIMITED



Dr. K.K. Birla, Chairman Emeritus



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 Viney Kumar (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

AUDITORS

S. R. Batliboi & Co.
Chartered Accountants

BANKERS

State Bank of India

REGISTRAR & SHARE TRANSFER AGENT

Intime Spectrum Registry Ltd.
C-13, Pannalal Silk Mills Compound
L.B.S. Marg, Bhandup (West)
Mumbai – 400 078
Tel. No. : 91-22-2592 3837
Fax : 91-22-2567 2693
e-mail : isrl@vsnl.com

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 : 91-22-2284 5485
e-mail : birlasugar@birla-sugar.com

HEAD OFFICE

9/1, R. N. Mukherjee Road
Kolkata – 700 001
Tel. No. 91-33-2243 0497/8
Fax : 91-33-2248 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)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Turnover	23898.84	26075.23	31331.65	35414.34	35604.57
Operating Profit	3601.85	3000.61	2257.30	6853.10	8011.97
Interest (net)	3340.31	3531.98	3107.86	3536.87	2701.54
Depreciation	1044.51	1062.60	1072.72	1097.79	1251.28
Profit/(Loss) before Tax	(782.97)	(1593.97)	(1923.28)	2218.44	1821.70
Profit/(Loss) after Tax	(785.32)	(949.04)	(1176.53)	1412.47	1116.04
Net Worth	5015.51	5371.33	4203.64	5332.77	9756.79
Net Worth per Equity Share (Rs.)	48.30	51.72	40.48	51.35	53.69
Dividend per Equity Share (Rs.)	—	—	—	2.50	2.50
Earning per Equity Share (Rs.)	—	—	—	10.07 *	7.05 *

* After considering the impact of Rights Issue of Equity Shares during the year.



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, 2005.

(Rs. in lakh)

Financial Results

	<u>2004 - 05</u>	<u>2003 - 04</u>
2. Turnover	35,604.57	35,414.34
Profit before Depreciation and Exceptional Items	5,310.43	3,316.23
Less : Exceptional Items (differential cane price for earlier years)	2,237.45	—
Profit before Depreciation	3,072.98	3,316.23
To which is added/(deducted) :		
Balance brought forward from the previous year	567.57	(401.31)
Excess provision for taxation written back	0.08	0.19
Excess provision for Dividend & Tax written back	0.03	—
	567.68	(401.12)
Leaving a balance of	3,640.66	2,915.11
Out of this provisions have been made for :		
Depreciation	1,251.28	1097.79
Taxation including Rs. 5.04 lakh for earlier years	170.29	29.35
Fringe Benefit Tax	4.50	—
Deferred Tax	530.95	776.81
	1,957.02	1,903.95
Surplus available for appropriation	1,683.64	1,011.16
Appropriations :		
Proposed Dividend	454.36	259.65
Dividend Tax	63.72	33.94
Transfer to General Reserve	200.00	150.00
	718.08	443.59
Balance carried to Balance Sheet	965.56	567.57

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. 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, 2005 on the enhanced capital. 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. 518.08 lakh as compared to Rs. 293.59 lakh in the previous year.

Rights Issue

5. During the year, the Company issued and allotted 77,88,780 Equity Shares of Rs. 10 each at a premium of Rs. 40 per share aggregating Rs. 3,894.39 lakh on Rights basis in the ratio of 3 Equity Shares for every 4 Equity Shares. The proceeds of the Rights Issue have been utilised as per the objects of the Issue.

Capital Projects

6. The expansion of the sugar factory at Hargaon from 5000 tcd to 7500 tcd at a cost of about Rs. 60.50 crores is progressing as per schedule. The expanded capacity will go on stream during the season 2005-06. The sugar factory at Hargaon is being further expanded from 7500 tcd to 10000 tcd with a co-generation plant of 6 MW at an estimated cost of Rs. 96 crores and is likely to be completed at the start of the season 2006-07.

Corporate Governance

7. 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.

Directors

8. The term of Shri C.S. Nopany as Managing Director of the Company expired on 30th June, 2005. He has been re-appointed as Managing Director for a further period of three years with effect from 1st July, 2005.
9. Shri Viney Kumar has been nominated on the Board of Directors of the Company by Industrial Development Bank of India Limited in place of Shri M. Ghosh with effect from 19th May, 2005. The Board placed on record its high appreciation of the valuable advice received from Shri M. Ghosh during his tenure as a Director of the Company.
10. Shri Ashvin C. Dalal and Shri C.B. Patodia retire from the Board by rotation and are eligible for re-election.

Directors' Responsibility Statement

11. 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

12. The Notes on Accounts appearing in Schedule 24 and referred to in the Auditors' Report are



DIRECTORS' REPORT (Contd.)

self explanatory and therefore, do not call for any further comments or explanations.

13. The Auditors, Messrs S. R. Batliboi & Co., Chartered Accountants, retire and are eligible for re-appointment.
14. 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

15. During the year under review, Rajpur Farms Limited and Narkatiaganj Farms Limited ceased to be the subsidiaries of the Company.
16. The audited accounts of Champaran Marketing Company Limited, OSM Investment & Trading Company Limited, Hargaon Investment & Trading Company Limited, subsidiaries of the Company and Hargaon Properties Limited, a subsidiary of Hargaon Investment & Trading Company Limited, for the year ended 31st March, 2005 are attached as required by Section 212 of the Companies Act, 1956.

Statutory Requirements

17. 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.

18. There was no employee who was in receipt of remuneration as prescribed under Section 217(2A) of the Companies Act, 1956.
19. 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

20. 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 22nd August, 2005

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, bio-compost and fruits & vegetable products. Sugar, which constitutes 85.28% of OSM's total sales, is produced at three sugar factories situated at Hargaon and Rosa in Uttar Pradesh and Narkatiaganj in Bihar. Industrial Alcohol and Bio-Compost (organic fertilizers) are produced at its distilleries at Hargaon and Narkatiaganj. Fruits & Vegetable products are produced at Allahabad Canning Co., Allahabad (U.P.). A segmentwise analysis is presented below :

A. SUGAR

1. World Sugar Scenario

- a) The world sugar production during the sugar season 2004-05 is expected to increase to 146.18 million metric tonnes raw value (mtrv) compared to 143.70 mtrv during the previous season 2003-04. Sugar consumption is expected to increase in 2004-05 to around 144.48 million metric tonnes as compared to the consumption of 142.77 million metric tonnes in 2003-04. Despite the increase in sugar production in 2004-05 which is being set off by a higher consumption, the carried forward inventory is expected to decrease to the level of 65.10 million metric tonnes as compared to 66.38 million metric tonnes in 2003-04. The anticipated overall reduction in sugar stocks will enable the sugar prices in the international market to remain firm. Most of the increase in sugar consumption would be driven by demand from developing countries due to population and economic growth. Sugar consumption in developed countries is projected to remain relatively stable at 48.5 million tonnes as per capita consumption has already reached the peak of 35 kgs in these countries, compared to an average 21 kgs in the rest of the world.
- b) India, China, Pakistan and Thailand are all expected to record lower production during the season 2004-05 as compared to the previous season. According to the latest estimate of USDA, sugar production in the United States in 2004-05 is expected at 7.28 million short tonnes raw value which is lower by 0.75 million short tonnes raw value than the production in 2003-04. Pakistan which achieved a record high production of about 4.30 million tonnes of sugar in 2003-04 produced

only 3.10 million tonnes of sugar in 2004-05, prompting the Government to lift all import restrictions to facilitate import of sugar. Mexico is expected to produce a record high harvest in the season 2004-05 with total production projected to reach at 5.70 million tonnes of mostly semi refined standard sugar up 13.3% from 2003-04 output of 5.03 million tonnes. By 2008 China is expected to become the world's leading sugar importer because of its growing consumption and dwindling production. The average annual sugar consumption of China is expected to grow at a rate not less than 5% which would be higher than the rate of growth of its domestic production. The output for this season is estimated at 10.98 million metric tonnes, as compared to 10.78 million metric tonnes in the season 2003-04. Brazil's production estimated at 31.28 million mtrv is the highest in the world showing an increase of 5.37 million mtrv over the previous season's production.

- c) The USDA in its semi-annual report of world sugar markets has projected that world sugar production in 2005-06 is expected to rise substantially from the previous year due to higher crops in India, Brazil and China.

2. Indian Sugar Scenario

- a) Season 2004-05 provided the much needed respite to the Indian Sugar Industry, which is the largest agro-based industry located in rural India employing about 7.5% of the rural population. The severe drought conditions in Southern and Western India coupled with attack of parasites led to a further decline of about 9.25% in the production of sugar for the season 2004-05 compared to previous season's production. This decline in production allowed the much needed correction between demand and supply imbalance caused due to excessive production of sugar during the seasons 1998-99 to 2002-03. Consequently, the free sale prices of sugar improved to more reasonable levels during the season 2004-05.
- b) From an era of excessive production, high surpluses and virtually unmanageable stocks, India turned into an importer of raw sugar to bridge the gap between demand and supply of sugar during the season 2004-05. The Government on its part provided a forward looking policy by permitting duty free import of raw sugar under Advance License Scheme with obligation to export the same quantity after adjusting processing losses within a period of 24 months. The import of



MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

raw sugar with export obligation has not only helped to crossover the period of aberrations in a manner that has protected all the three major stake holders – sugarcane farmers, sugar industry as well as the consumers but is also expected to ensure long-term stability of free sale sugar prices.

- c) For the second consecutive season the production of sugar has recorded a decline to about 127 lakh tonnes for the season 2004-05 and is the lowest since the season 1993-94 and is about 9.25% lower than the previous season's production of 139.95 lakh tonnes. This steep decline in production was primarily due to scanty rainfall for the second consecutive season causing drought conditions in major sugarcane producing States of Maharashtra, Tamil Nadu and Karnataka. The yields in these States were severely affected due to the attack of a parasite called 'Woolly Aphids'.

d) Estimated Demand & Supply of Sugar in India

(in lakh tonnes)

	2004-05*	2003-04
Opening Stock as on 1st October	85.00	116.14
Production during the season (October - September)	127.00	139.95
Import	18.00	4.00
Total availability	230.00	260.09
Domestic consumption	185.00	172.85
Exports	—	2.24
Closing Stock as on 30th September	45.00	85.00

*Estimates of the Government of India.

3. Government Policies

- a) The Government continued with its previous season's policy under which the ratio of levy and free sale sugar for the season 2004-05 was maintained at 10:90.
- b) In view of reduction in the inventory of sugar, the Government has discontinued the maintenance of buffer stock of sugar with effect from 18th December, 2004.
- c) The Central Government has withdrawn incentives on export such as inland freight subsidy, ocean freight subsidy, marketing and port handling expenses with effect from June, 2004.

- d) The Government has decided to raise the base recovery rate for fixation of Statutory Minimum Price (SMP) from 8.5% to 9% effective from season 2005-06.

- e) The Review Petition filed by the U.P. Sugar Mills Association before the Supreme Court against its judgement dated 5th May, 2004 upholding the right of the U.P. State Government to fix the State Advised Price (SAP) of sugarcane at levels higher than the SMP prescribed by the Central Government under the Sugarcane (Control) Order, 1966 has been dismissed. This in effect meant that sugar mills in Uttar Pradesh had to pay sugarcane price for the previous seasons 1996-97, 2002-03 and 2003-04 based on SAP instead of SMP. The Company's liability for the said previous seasons amounting in aggregate to Rs. 2,237.45 lakh has been paid in full.

- f) The High Powered Committee constituted by the Government under the Chairmanship of the Food Secretary, Shri S. K. Tuteja, to make recommendations to resolve the problems confronting the sugar industry, submitted its report to the Government on 4th December, 2004. The Committee has recommended sweeping changes which includes dispensing with the release mechanism for free sale sugar with effect from 1st October, 2005, increasing the radial distance between an existing factory and new factory from 15 km to 25 km, financial package / relief for sugar mills and farmers in drought and flood affected States, continuance of payment to sugarcane farmers as per SMP, reschedulement of loans, etc. The Government has implemented only a few of the recommendations of the Committee so far.

- g) During the year, the Government has allowed futures trading in sugar on National Commodity and Derivative Exchange (NCDEX) since October, 2004. The setting up of this Exchange has been welcomed by the sugar industry as it is expected to provide a more effective tool of price discovery and transparent transactions. The industry has made its representations to the Forward Markets Commission and the relevant authorities for further improvements in the rules of the NCDEX.

- h) The Government has accepted a long pending demand of the industry by reducing the rate of interest on loans taken from Sugar Development Fund 2% below the bank rate with effect from 21st October, 2004.

MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

4. Sugarcane Pricing

- a) The SMP of sugarcane for the season 2004-05 was fixed by the Government at Rs.74.50 per quintal linked to a base recovery of 8.5% with a premium for higher recovery as against Rs.73.00 per quintal for the previous season. The SMP in respect of the Company's sugar factories was fixed as below:

	Season 2004-05	Season 2003-04
Statutory Minimum Price (Rs. per quintal)		
Hargaon	95.62	89.15
Rosa	83.30	83.20
Narkatiaganj	82.42	80.65

- b) The Government of U.P. has announced remission @ Rs. 1.75 per quintal in cane purchase tax and @ Re. 0.75 per quintal in society commission for the season 2004-05.
- c) In deference to the wishes of the State Government, the sugar industry in Uttar Pradesh had to pay a price of Rs. 107.00 per quintal of sugarcane for the season 2004-05 as against Rs. 95.00 for the previous season.
- d) In case of Company's sugar factory at Narkatiaganj, on the basis of mutual understanding between farmers and millers in Bihar, cane price was paid at Rs. 95.00 per quintal for the season 2004-05 as against Rs. 80.65 for the previous season inclusive of advance against liability under Clause 5A of the Sugarcane (Control) Order, 1966.

Accordingly, the actual price for sugarcane paid by the Company's sugar factories for the season 2004-05 is as under:

	Season 2004-05	Season 2003-04
Actual Cane Price (Rs. per quintal)		
Hargaon	107.00	95.00
Rosa	107.00	95.00
Narkatiaganj	95.00	80.65

- e) The Writ Petition filed by the Bihar Sugar Mills Association challenging the Notification dated 9th

March, 2004 issued by the Government of Bihar abnormally enhancing the cane commission from 15 paise per quintal to 1.80% of cane price actually paid by the sugar factories has been allowed and the Notification has been quashed by the Hon'ble Patna High Court.

5. Levy Sugar Prices

The Government has not yet announced the price of levy sugar for the season 2004-05 and as such the price fixed for the season 2003-04 is still continuing. The price of levy sugar produced by the Company's sugar factories for the season 2003-04 was fixed as under :

Levy Price (Rs. per quintal)	
Hargaon	1383.41
Rosa	1330.77
Narkatiaganj	1409.30

6. Operations

- a) The turnover of the Company, during the year under review, marginally increased from Rs. 354.14 crores to Rs. 356.05 crores, as compared to the previous year. Although the physical quantity of sales has decreased, the increase in turnover has been primarily due to higher sales realisation during the current year as compared to the previous year.
- b) During the year under review the Company imported 75,000 quintals of raw sugar under Advance Licence Scheme.
- c) Despite the fact that the country witnessed an overall decline in the availability of sugarcane, the Company achieved the distinction of crushing higher quantity of sugarcane at 182.00 lakh quintals as against 168.96 lakh quintals crushed during the season 2003-04, an increase of about 7.72%. This increase was due to significantly higher crushing at the Hargaon factory due to higher capacity utilization and increased availability of sugarcane. The crushing operations at Rosa and Narkatiaganj factories were adversely affected during the season 2004-05 due to lower availability of sugarcane, which was mainly on account of lower yield and large scale diversion