



Report  Junction.com

Annual Report

2007-08

The Oudh Sugar Mills Limited



LATE DR K.K. BIRLA-CHAIRMAN EMERITUS
(1918-2008)

A TRIBUTE TO DR K.K.BIRLA



Industrialist. Parliamentarian. Educationist. Writer. Philanthropist.
Above all, humanist.

Dr K.K. Birla, our Chairman emeritus, was many men in one man. Born to the legendary industrialist G.D. Birla in Pilani on 11th November 1918, Dr Birla established one of India's largest business conglomerates, encompassing 40 companies across diverse sectors like sugar, fertilizers, heavy engineering, textiles, media and shipping.

A committed educationist, Dr. Birla was also instrumental behind the growth of the reputed Birla Institute of Technology, an institution of academic excellence. He also served as a guide to Indian industry, while heading institutions of repute like the Federation of Indian Chambers of Commerce and Industry (FICCI), the Indian Sugar Mills Association (ISMA) and the International Chambers of Commerce (ICC). Dr Birla's holistic vision of growth helped establish the K. K. Birla Foundation, which recognizes contributions in many fields, focusing especially on the achievements of the rural population.

A staunch supporter of India's economic liberalisation, Dr Birla felt that the country's economic reforms would trigger social empowerment and wellbeing. A keen observer of national and international events, he provided important, though discreet, contributions to public policy. An outstanding social engineer, he believed in industry's attempt to emerge as a change agent in a country plagued by poverty, illiteracy and disease. A three-time Member of Parliament, Dr Birla enjoyed an excellent rapport with

top leaders across India's political spectrum.

Dr. Birla's autobiography, "Brushes with History" is replete with vignettes of Birla family's close ties with historical personalities like Mahatma Gandhi, Rajendra Prasad, B. C. Roy, Jayaprakash Narayan and Morarji Desai, among others. The autobiography captures a vibrant era in the nation's existence, which influenced Birla's personal credo and later achievements. He had also written "Indira Gandhi: Reminiscences and Partners in Progress: Collection of Selected Speeches and Writings". Besides, he regularly contributed articles on his foreign travels to the Hindustan Times, of which he was the Chairman.

Dr. Birla's legacy reconciles wealth creation with social engineering and nation-building, an inspiring ideal for the business community. Although he was a deeply religious Hindu and a noted patron of temples in Kolkata and Delhi, he believed deeply in secularism as India's answer to a world fraught with sectarian violence.

Death can only rob us of his physical presence; his legacy will remain alive and continue to inspire.

"The great men of earth are the shadow men, who, having lived and died, now live again and forever through their undying thoughts. Thus living, though their footfalls are heard no more, their voices are louder than the thunder, and unceasing as the flow of tides or air."

Henry Ward Beecher



CONTENTS

Corporate Information	2
Financial Highlights	3
Chairman's Message	4
Directors' Report	6
Management Discussion and Analysis	10
Report on Corporate Governance	18
Auditors' Report	27
Balance Sheet	30
Profit and Loss Account	31
Cash Flow Statement	32
Schedules to Accounts	33
Auditors' Report on Consolidated Financial Statements	61
Consolidated Financial Statements	62
Subsidiary Companies Financial Statements	86

CORPORATE INFORMATION

BOARD OF DIRECTORS

Shri C. S. Nopany, Chairman-cum- Mg. Director
 Shri S. V. Muzumdar
 Shri Ashvin C. Dalal
 Shri C. B. Patodia
 Shri Rohit Kumar Dhoot
 Smt. Madhu Vadera Jayakumar
 Shri Haigreave Khaitan
 Shri J.N. Godbole

COMMITTEES OF DIRECTORS

Finance & Corporate Affairs Committee

Shri C.S. Nopany
 Shri S.V. Muzumdar
 Shri Ashvin C. Dalal
 Smt. Madhu Vadera Jayakumar

Audit Committee

Shri Ashvin C. Dalal
 Shri C.B. Patodia
 Shri S.V. Muzumdar
 Shri Rohit Kumar Dhoot

Investors' Grievance Committee

Shri S.V. Muzumdar
 Shri Rohit Kumar Dhoot
 Smt. Madhu Vadera Jayakumar

Remuneration Committee

Shri S.V. Muzumdar
 Shri Ashvin C. Dalal
 Shri Rohit Kumar Dhoot

EXECUTIVES

Shri Sanjay Mukherjee, Secretary
 Shri V. P. Singh, Executive President, Hargaon
 Shri Chandra Mohan Singh, Executive President, Narkatiaganj
 Shri B. K. Malpani, Executive President, Rosa
 Shri S. K. Premi, Executive President, Allahabad
 Shri P. K. Saini, Executive President, Hata

AUDITORS

S.R. Batliboi & Co.
 Chartered Accountants

ADVOCATES & SOLICITORS

Khaitan & Co.

BANKERS

State Bank of India
 IDBI Bank Ltd.
 Axis Bank Ltd.
 State Bank of Hyderabad
 Union Bank of India

REGISTRAR & SHARE TRANSFER AGENT

Intime Spectrum Registry Ltd.
 (Unit : The Oudh Sugar Mills Limited)
 C-13, Pannalal Silk Mills Compound
 L.B.S. Marg, Bhandup (West)
 Mumbai - 400 078
 Tel. No. : 91- 022 – 2596 3838
 Fax No. : 91- 022 – 2594 6969
 e-mail : isrl@intimespectrum.com

REGISTERED OFFICE

P. O. Hargaon, District – Sitapur, (U. P.)
 Pin Code – 261 121

CORPORATE OFFICE

Unit No. 210/212, Solaris - 1, 'A' Wing, 2nd Floor
 Saki Vihar Road, Opp : L&T Gate No. 6,
 Andheri (East), Mumbai – 400 072.
 Tel. No. : 91- 022 – 2847 0249
 Fax No. : 91- 022 – 2847 0275
 e-mail : oudhsugar@mtnl.net.in

HEAD OFFICE

9/1, R.N. Mukherjee Road, Kolkata – 700 001
 Tel. No. : 91-033-2243 0497/8
 Fax No. : 91-033-2248 6369
 e-mail : birlasugar@birla-sugar.com
 Website : www.birla-sugar.com/osugar

SUGAR MILLS

1. Hargaon, Dist. Sitapur, (U. P.)
2. Rosa, Dist. Shahjahanpur, (U. P.)
3. Narkatiaganj, Dist. West Champaran, (Bihar)
4. Hata, Dist. Kushinagar (U.P.)

DISTILLERIES

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

CANNING FACTORY

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

CO-GENERATION POWER PLANT

1. Hargaon, Dist. Sitapur, (U. P.)
2. Narkatiaganj, Dist. West Champaran, (Bihar)
3. Hata, Dist. Kushinagar (U.P.)

FINANCIAL HIGHLIGHTS

Report  junction.com

(Rs. in Lacs)

PERFORMANCE AT A GLANCE					
	2003-04	2004-05	2005-06	2006-07	2007-08
Gross Turnover	37925.12	37628.42	52864.92	46812.06	35393.59
Operating Profit	6853.10	8096.94	10297.66	129.80	5280.58
Interest & Finance Charges (net)	3536.87	2786.51	1684.79	2044.23	3677.82
Depreciation	1097.79	1251.28	1558.68	2028.67	2229.68
Profit/(Loss) before Tax	2218.44	1821.70	7054.19	(3943.10)	(626.92)
Profit/(Loss) after Tax	1412.47	1116.04	4536.51	(2689.55)	(451.27)
Net Worth	5332.77	9756.79	13329.60	10603.02	10083.42
Net Worth per Equity Share (Rs.)	51.35	53.69	73.35	58.34	55.48
Dividend per Equity Share (Rs.)	2.50	2.50	4.50	--	--
Earning per Equity Share (Rs.)	10.07	7.05	24.96	(14.80)	(2.48)
Cane Crushed (Season) (In lac Qtls.)	168.96	182.00	233.59	290.04	237.06



CHAIRMAN'S MESSAGE

Message from **Mr. C. S. Nopany**,
Chairman and Managing Director

Report  Junction.com

Dear Shareholders

The last six months have witnessed a lifetime of dramatic twists and turns and the next few months also promise more turbulent times. The global economy is in turmoil with commodities taking a huge hit on the face of a looming global slowdown. These are indeed testing times but I am confident that the Indian economy will bounce back and return to its high growth trajectory.

I would like to share with you the highlights of your Company, The Oudh Sugar Mills Limited for the year 2007-08. Let me begin by saying that your Company has come out stronger from its experiences, faced during the down turn of the sugar industry. The industry has weathered a severe recession, and your Company came out better placed, competitively.

WHAT CHALLENGES DID WE FACE, AND HOW DID WE RESPOND ?

While the macro economic fundamentals of the sugar industry continue to strengthen with the global sugar surplus slowly disappearing, the Indian economy witnessed a marked change in its growth pattern: GDP growth rate of only 8.7 per cent and falling, was comparatively lesser than projections. That, of course, impacts the whole economy.

The sugar industry was trapped between high sugarcane prices and low sugar prices and the absence of a stable and comprehensive

sugar policy, made things tougher. But we were successful in turning the constraints into enablers. We took advantage of the cyclicity of the industry. Your Company used this downturn to streamline operations, augmented capacities and widened the business base, thus abstaining from any relapse in the long term.

The astronomical rise in the crude prices, marked its presence on every economy and the world woke up to the urgent call, for a substitute fuel. The volatility in the crude prices had a positive impact on the sugar industry. Ethanol from sugarcane, blended with gasoline, helped to soften the impact on fuel costs, while opening up a timely new product line for the sugar industry and consequently weathering its cyclicity.

Brazil, the world's leading sugar producer, has been diverting its attention to ethanol production. This translates into a cut down on the global sugar output, resulting into attractive sugar prices.

Brazil and USA, have already mastered ethanol technology and economics. The Indian Government too, has taken the initiative to introduce progressive blending of petrol with ethanol. This has boosted the importance of ethanol in an increasingly fuel-peaking scenario. The Government's push to the ethanol programme is a big help for sugar companies: besides lifting profitability, it will help reduce dependence on the industry's cyclicity.

Meanwhile, your Company has, as I said earlier, distributed its business, thus minimising risks. Today, your Company's main

“
The global market called for a new protocol as Brazil began to shift focus to ethanol. But the situation had the upside of speeding up the end of the sugar surplus phase and leading to the next one.
”



business focus remains on what it does best, manufacture of sugar and at the same time, it is paying adequate attention to the canes derivatives industrial alcohol to name one. Your Company has built up on its captive power generation capacity, utilising the crushed canes waste product bagasse, as a revenue generating stream.

The global market called for a new protocol as Brazil began to shift focus to ethanol. But the situation had the upside of speeding up the end of the sugar surplus phase and leading to the next one.

WHAT IS THE OUTLOOK FOR OUDH SUGAR ?

Your Company has completed an aggressive expansion plan, parts of which are already visible. Putting our strategy into practice, with imagination and sustained effort, it should help us compete effectively in the foreseeable future. With technology upgraded, your Company has made a strategic shift upwards on the value chain.

Our expansion strategy entails both green field and capacity augmentation projects. A new sugar mill will start production in the current season and a Rs. 100 crore expansion of our Hargaon plant with zero effluent discharge technology will facilitate an increase in distillery capacity.

While we were always energy independent, in the sense that we are generating power from bagasse, we have become an exporter of surplus power. This has become an important source of revenue for us which will continue to grow.

Our partner in our progress has always been and will continue to be our large family of farmers. They are the backbone of the sugar industry and with emphasis on Research & Development on better varieties and yields of sugarcane and more efficient farming techniques we will be able to both upgrade and upscale the cane crop. Only that will make a sustainable product portfolio for us, and the sugar industry as a whole.

With warm regards,

C. S. Nopany

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, 2008.

(Rs. in Lacs)

FINANCIAL RESULTS

	2007-08		2006-07	
2. Gross Sales		35,393.59		46,812.06
Profit/(Loss) before Depreciation and Tax		1,602.76		(1,914.43)
To which is added/(deducted) :				
Balance brought forward from the previous year	29.96		1,569.51	
Deferred Tax Asset	212.12		1,285.20	
Income Tax Provision no longer required written back	0.60		-	
Transfer from General Reserve	500.00	742.68	1,150.00	4,004.71
Leaving a balance of		2,345.44		2,090.28
Out of this provisions have been made for :				
Depreciation	2,229.68		2,028.67	
Taxation [including Wealth tax Rs. 3.00 Lacs (Rs. 2.15 Lacs)]	3.00		29.65	
Minimum Alternative Tax (MAT) credit entitlement/ Reversal	3.93		(25.50)	
Fringe Benefit Tax	30.14	2,266.75	27.50	2,060.32
Balance carried to Balance Sheet		78.69		29.96

FINANCIAL PERFORMANCE & DIVIDEND

- There is a marked improvement in the financial performance of the Company for the year under review where losses have been substantially reduced. The Allahabad High Court, in a landmark judgment has quashed the State Advised Price of sugarcane and has directed the State Government to reassess the price on the basis of economic criteria. As per the directions of the Supreme Court, all the sugar factories have paid a price of Rs 110/qlt for sugarcane. This has substantially reduced the losses of the sugar industry. A detailed analysis of the Company's operations, future expectations and business environment has been given in the Management Discussion and Analysis Report, which is attached as a separate annexure and forms a part of this Report.
- In view of losses, the Board of Directors do not recommend any dividend for the year.

RIGHTS ISSUE

- Your Company has offered 39,98,240 Equity Shares of Rs. 10 each to the Members of the Company as Rights Shares in the

ratio of 22 Equity Shares for every 100 Equity Shares held on 2nd July, 2008 (being record date) at a premium of Rs. 50 per Equity Share aggregating to Rs. 60 per share. For every one Equity Share allotted on Rights basis, the allottee will receive one Detachable Warrant which shall be converted into one Equity Share on such date as your Directors may decide within a period between 6 months and 48 months from the date of allotment of the aforementioned Equity Shares. The Issue was opened on 31st July, 2008 and will be closed on 29th August, 2008.

CAPITAL PROJECTS

- The Company successfully completed the capacity expansion of its Distillery at Hargaon to 100 klpd during the year under review.

The Construction of Company's Greenfield Integrated Sugar Project of 7000 TCD with a sugar refinery and Co-Generation plant at Hata, Kushinagar, Uttar Pradesh is progressing satisfactorily and will be commissioned at the beginning of the crushing season 2008-09.

CORPORATE GOVERNANCE

7. A separate report on Corporate Governance and a declaration by all members of the Board and Senior Management Personnel, pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, are attached as separate annexure and forms a part of this Report.

DIRECTORS

8. Shri C. S. Nopany was appointed as the Managing Director of the Company for a period of 3 years with effect from 1st July, 2005 and he has been re-appointed as the Managing Director for a further period of 3 years with effect from 1st July, 2008, subject to approval of the shareholders.
9. Shri Ashvin C. Dalal and Shri C. B. Patodia 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) such accounting policies have been selected and applied consistently 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 loss 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

11. The Notes on Accounts appearing in Schedule 23 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. In accordance with the directives of the Central Government

under Section 233 B 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.

SUBSIDIARY COMPANIES

14. 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, 2008 are attached.

STATUTORY REQUIREMENTS

15. As required under the Listing Agreement with Stock Exchanges, Consolidated Financial Statements conforming to the Accounting Standard 21 are attached.
16. Particulars of employees as required under Section 217(2A) of the Companies Act, 1956 is attached as a separate annexure and forms part of this Report.
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 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 of Uttar Pradesh and Bihar, 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-Managing Director

Place : New Delhi,

Dated : 26th August, 2008