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ANNUAL REPORT

2013-14

THE OUDH SUGAR MILLS LIMITED

## FORWARD LOOKING STATEMENT

In this Annual Report, we have disclosed forward looking information to enable investors to comprehend our prospects and take investment decisions. This report and other statements – written and oral – that we periodically make contain forward looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward looking statements will be realized, although we believe we have been prudent in our assumptions. The achievements of results are subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any forward looking statement, whether as a result of new information, future events or otherwise.

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# Corporate Information

## BOARD OF DIRECTORS

Mr Chandra Shekhar Nopany,  
Chairman-cum- Mg. Director

Mr Anand Ashvin Dalal

Mr Chand Bihari Patodia

Mr Rohit Kumar Dhoot

Mr Aniket Agarwal

Mr Nirad Kant Bagla

Mr Yashwant Kumar Daga

Mr Pradeep Kumar Sarkar,  
Nominee of State Bank of India

Mr Umesh Jain,  
Nominee of IDBI Bank Ltd.

## COMMITTEES OF DIRECTORS

### Finance & Corporate Affairs Committee

Mr Chandra Shekhar Nopany - Chairman

Mr Rohit Kumar Dhoot

Mr Nirad Kant Bagla

### Audit Committee

Mr Anand Ashvin Dalal - Chairman

Mr Chand Bihari Patodia

Mr Rohit Kumar Dhoot

Mr Nirad Kant Bagla

Mr Yashwant Kumar Daga

### Stakeholders' Relationship Committee

Mr Nirad Kant Bagla – Chairman

Mr Yashwant Kumar Daga

Mr Aniket Agarwal

### Nomination and Remuneration Committee

Mr Rohit Kumar Dhoot - Chairman

Mr Chand Bihari Patodia

Mr Anand Ashvin Dalal

### Risk Management Committee

Mr Chand Bihari Patodia - Chairman

Mr Yashwant Kumar Daga

### Corporate Social Responsibility Committee

Mr Chandra Shekhar Nopany - Chairman

Mr Chand Bihari Patodia

Mr Yashwant Kumar Daga

## EXECUTIVES

Mr Dilip Patodia – President (Finance) & Chief Financial Officer

Mr Vijay Pal Singh – Executive President, Hargaon

Mr Chandra Mohan Singh – Executive President, Narkatiaganj

Mr Bal Kishore Malpani – Executive President, Rosa

Mr Pit Ram. Singh – Executive President, Hata

Mr M P Singh – Executive Vice President, Allahabad

## AUDITORS

S.R. Batliboi & Co., LLP  
Chartered Accountants

## ADVOCATES & SOLICITORS

Khaitan & Co., LLP

## BANKERS

State Bank of India

IDBI Bank Ltd.

State Bank of Hyderabad

Union Bank of India

## REGISTRAR & SHARE TRANSFER AGENT

Link Intime India Private Limited  
(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 : mumbai@linkintime.co.in

## REGISTERED OFFICE

P. O. Hargaon District – Sitapur, (U. P.)  
Pin Code – 261 121  
Tel. No. : (05862) 256220, Fax No. : (05862) 256225  
e-mail : birlasugar@birla-sugar.com  
Website : www.birla-sugar.com  
CIN – L15432UP1932PLC025186

## CORPORATE & HEAD OFFICE

Birla Building  
9/1, R.N. Mukherjee Road, 5th Floor  
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

## MUMBAI OFFICE

Solaris Building no. 1, 'D' Wing, 6th 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

## SUGAR MILLS

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

## DISTILLERIES

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

## CO-GENERATION POWER PLANT

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

## FOOD PROCESSING FACTORY

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

# Chairman's Communique



The real turnaround of the Indian sugar industry will depend primarily on the full implementation of the Rangarajan Committee's recommendations, especially the sugarcane price-sugar price linkage formula.

## Dear Shareholders,

Sugar consumption in India is growing at a rate higher than the average global consumption rate. India contributes 14% to the global production and has the largest agro-based industry, employing nearly six million farmers. Sugarcane is cultivated across 5 million hectares, constituting around 3% of India's gross cultivable area.

The sugar industry is cyclical in nature; besides, climate, sugarcane pricing and the export-import policy play a significant role in deciding the industry's future outlook. Recent reforms in the sugar sector, which involved the removal of levy sugar and restrictions on sugar sale are expected to encourage new investments in the long term.

However, sugar production was hampered by a deadlock between the industry and the Uttar Pradesh government over reforms in cane price rationalisation. On the other hand, Maharashtra and Karnataka saw impressive growth after implementing cane pricing reforms in their states. This increase in their production resulted in a downward pressure on sugar prices.

The sugarcane pricing policy has had a serious impact on the average recovery in sugarcane, which has been declining for the last few years. The pricing model being followed at present by the UP government has encouraged the plantation of the low sucrose variety, which has further hampered the fortunes of the industry. Not surprisingly, cane production in UP has declined, which has also reduced the production of the by-products of ethanol and bagasse.

As the sugar industry grapples with huge losses, the farmers also reel under the significant rise in cane arrears, a major dampener for sugarcane plantation.

Some of the laudable reforms initiatives undertaken by the central government to revive the sugar industry, are:

- To make export competitive in the global market, export subsidy was introduced in February, 2014. The subsidy will be given for the export of raw sugar for the industry.
- The recently proposed hike in the import duty on sugar will boost domestic prices.
- Further, a hike in ethanol blending requirements will also augment the profitability of the sugar companies.
- Interest subvention of 12% on additional loans to clear the arrears of sugarcane farmers.

Despite these measures, the revival of the industry still depends on a suitable regulatory environment. For a robust business model, the unscientific method of fixation of the state administered price or SAP, has to be replaced by a more realistic system of linking the sugarcane procurement price with the price of sugar. Thus, the real turnaround of the Indian sugar industry will depend primarily on the full implementation of the Rangarajan Committee's recommendations, especially the sugarcane price-sugar price linkage formula.

### **OUR PERFORMANCE IN 2013-14**

Your Company recorded a net revenue of ₹ 1,15,658.09 lacs (inclusive of other income aggregating to ₹ 436.84 lacs) during the financial year ended 31st March, 2014. The Company's revenue from operations (gross) stood at ₹ 1,19,298.28 lacs. During the year under review, sugar production was lower as sugarcane crushing operations were delayed in Uttar Pradesh by a month due to the industry stalemate on cane pricing.

### **GOING FORWARD**

India might prove to be a major determining factor in the global sugar market in the foreseeable future. Despite challenges, India's sugarcane production is estimated to touch 345 million tonnes in 2014-15 compared to 348 million tonnes in 2013-14. Even this can be achieved only through proactive policy initiatives.

The risk that actual cane harvest may fall short of the target is real. A marginally lower production (compared to last year's) or even one on the same lines and a rising consumption is sure to result in tightening of the stock and firming up of prices.

### **APPRECIATION**

I am grateful to the Board of Directors of Oudh Sugar Mills Ltd and wish to take this opportunity to thank the Company's shareholders, farmers, investors, customers, business associates and the regulatory authorities for their ongoing support. I extend my gratitude to the management and staff of Oudh Sugar for their efforts, even during the most testing times.

Best wishes,

**Chandra Shekhar Nopany**

Chairman-cum-Managing Director

# Directors' Report

To

The Members,

Your Directors take pleasure in presenting their report as a part of the 82nd Annual Report and the audited accounts of the Company for the financial year ended 31st March, 2014.

## 2. FINANCIAL RESULTS AND APPROPRIATIONS

	Year ended 31st March, 2014	Nine Months Period ended 31st March, 2013
<b>Revenue from Operations (Gross)</b>	1,19,298.28	98,817.36
Profit before Finance Costs, Depreciation & Amortisation and Tax	9,049.66	16,015.52
Less: Depreciation & Amortisation Expenses	4,173.81	3,185.61
Finance Costs	13,198.47	8,528.87
<b>Profit/(Loss) Before Tax</b>	(8,322.62)	4,301.04
Less: Provision for Tax:		
Deferred Tax Charge/(Credit)	(2,862.64)	1,393.02
<b>Profit/(Loss) After Tax</b>	(5,459.98)	2,908.02

### OPERATING PERFORMANCE

- A detailed analysis of the Company's operations, future expectations and business environment has been given in the Management Discussion & Analysis which is made an integral part of this Report and marked as Annexure "A".

### FINANCIAL PERFORMANCE 2013-14

- The Company had recorded Net Revenue of ₹ 1,15,658.09 lacs (including other income aggregating to ₹ 436.84 lacs) during the financial year ended 31st March, 2014. The Revenue from Operations (Gross) of the Company for the year 2013-14 stood at ₹ 1,19,298.28 lacs.
- The Profit before Finance Costs, Depreciation & and Tax (PBITD) for the year under review stood at ₹ 9,049.66 lacs representing 7.82% of the net revenue. The decline in PBITD of the Company during the period under review is mainly attributed to subdued sugar sales realisation and high cane prices.
- During the period under review Sugar production was lower as sugarcane crushing operations were delayed in Uttar Pradesh by a month due to a stalemate between the industry and the State Government on cane pricing.

- The Government of India raised the Fair and Remunerative Price (FRP) of sugarcane to ₹ 210/- per Quintal up from ₹ 170/- per Quintal of sugarcane for the immediately previous season.
- In Uttar Pradesh the State Advised Price has not changed and remained the same as per last year i.e. ₹ 280/- per Quintal. Millers were allowed to pay the Cane Price in two installments. ₹ 260/- to be paid in 1st installment and balance ₹ 20/- to be paid after closure of the Crushing Season. State Government has also provided Subsidy of ₹ 11.03 per quintal of cane on account of Purchase Tax, Society Commission and Entry Tax on Sugar. State Government has also assured to provide ₹ 8.97 p per quintal of cane for which a Committee has also been constituted which will give their recommendation as to how much amount out of ₹ 8.97 p. shall be paid by the State Government. The sugar industry of Bihar in consultation with its State Government fixed a price of ₹ 255 per Quintal similar to the last year. To maintain last year's cane price State Government of Bihar has also provided subsidy of ₹ 10.83 per Quintal of cane including cash Subsidy of ₹ 5/- per Quintal, ₹ 1.75 p. per quintal for cane tax and ₹ 4.08 per quintal for ZDC.



9. The performance of the Industrial Alcohol division and the renewable Power divisions of the Company improved during the year due to better availability of molasses and bagasse. Supply of Ethanol to Oil Marketing Companies has helped to improve the profitability of Distillery.

## RESEARCH & DEVELOPMENT

10. During the year under review the Company has undertaken Research & Development initiatives with an intention to improve the sugar recovery ratio and to educate the cane growers to cultivate improved variety of sugarcane and to otherwise increase the sucrose contents in their produce.

A detailed note on the initiative taken by the Company towards Research & Development appears in the attachment marked as Annexure 'B' to this Report.

## DIVIDEND

11. In view of the losses the Board of Directors does not recommend any dividend for the year under review.

## CORPORATE GOVERNANCE

12. Pursuant to Clause 49 of the Listing Agreement, Management Discussion & Analysis, Statement in respect of Conservation of Energy, the Report on Corporate Governance, Declaration of Managing Director on Code of Conduct and Auditors' Certificate on compliance of conditions of Corporate Governance are all attached to and form an integral part of this Report and are annexed to this Report as Annexure "A", "B", "E", "F" and "G" respectively.

## DIRECTORS

13. The Company has eight Non Executive Directors having experience in varied fields and a Chairman cum Managing Director.
14. Mr Ashvin Chinubhai Dalal ceased to be the Director of the Company with effect from 31st January, 2014. The Board places on record its deep appreciation for the services rendered by him during his tenure as a Director of the Company.
15. IDBI Bank had replaced their nominee Director Mr Inder Pal Singh Kalra with Mr Umesh Jain with effect from 8th October, 2013.
16. Pursuant to the provision of Section 161 of the Companies Act, 2013, Mr Anand Ashvin Dalal was appointed as an Additional Director on 31st January, 2014 and accordingly

he would hold office upto the date of the ensuing Annual General Meeting. The Company has received a notice in writing under Section 160 of the Companies Act, 2013 from a member proposing the candidature of Mr Anand Ashvin Dalal.

17. Pursuant to the provisions of Section 149 of the Companies Act, 2013 the Board of Directors at its meeting held on 13th May, 2014, designated Mr Rohit Kumar Dhoot, Mr Yashwant Kumar Daga, Mr Nirad Kant Bagla, Mr Aniket Agarwal and Mr Anand Ashvin Dalal as independent directors and recommended to the shareholders for their appointment for a period of five consecutive years with effect from the date of the ensuing Annual General Meeting.

18. Mr Chand Bihari Patodia shall retire from the Board by rotation at the ensuing Annual General Meeting and is eligible for re-appointment.

The tenure of Mr Chandra Shekhar Nopany as Managing Director expires on 30th June, 2014. The Board of Directors has re-appointed Mr Chandra Shekhar Nopany as Managing Director for a period of three years with effect from 1st July, 2014, subject to the approval of the shareholders at the ensuing Annual General Meeting and such other approvals as may be required.

19. Other information on the Directors including required particulars of Directors retiring by rotation and being re-appointed are given in the Annexure to the Notice, under the head Information Pursuant to Clause 49 of the Listing Agreement.

## COMMITTEES OF DIRECTORS

20. The Board of Directors have aligned the existing Committees of the Board with the provision of Companies Act, 2013 (Act). Accordingly, the Company has renamed its existing Remuneration Committee as Nomination and Remuneration Committee and have delegated to it powers as required under Section 178 of the Act. The existing Investors' Grievance Committee has been renamed as "Stakeholders' Relationship Committee"

The scope of Audit Committee has also been widened so as to bring it in accordance with the requirement of the Section 177 of the Companies Act, 2013.

The Company has also constituted a Corporate Social Responsibility (CSR) Committee as required under Section 135 of the Companies Act, 2013.

### INTERNAL COMPLAINTS COMMITTEE (ICC)

21. An Internal Complaints Committee was constituted by the Company in terms of Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 which had come into force from December, 2013. The Act aims at protecting women's right to gender equality, life and liberty at workplace to encourage women's participation in work.

The Committee meets all the criteria including its composition as mentioned in the Act and its relevant rules. No complaint has been received by the Committee during the year.

### DIRECTORS' RESPONSIBILITY STATEMENT

22. Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors state as follows:

- (i) That in the preparation of the annual accounts for the financial year ended 31st March, 2014 all the applicable accounting standards had been followed along with proper explanation relating to material departures, if there be any;
- (ii) That the Directors had selected such accounting policies and applied them consistently and made judgments 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 profit or loss of the Company for that period;
- (iii) That proper and sufficient care was 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.

To ensure this, the Company has established internal control systems, consistent with its size and nature of operations, in weighing the assurance provided by any such system of internal controls and in recognising its inherent limitations. These systems are reviewed and updated on an ongoing basis. Periodic internal audits are conducted to provide reasonable assurance of compliance with these systems. The Audit Committee meets at regular intervals to review the internal audit functions;

- iv) That the Directors had prepared the annual accounts on a 'going concern' basis.

### AUDITORS, AUDIT QUALIFICATIONS AND BOARD'S EXPLANATIONS

23. The Auditors' Report is self-explanatory. However, the Auditors have made an observation regarding recognition of Deferred Tax Assets (net) of ₹ 9,001.60 lacs (including ₹ 2,862.64 lacs for the year) up to March 31, 2014. In view of partial decontrol of sugar industry as well as strengthening of market prices of Company's by products, the Company is certain that there would be sufficient profit to claim the above deferred tax credit.
24. The Auditors, Messrs S.R. Batliboi & Co. LLP, Chartered Accountants, retire at the forthcoming Annual General Meeting and are eligible for re-appointment. According to the certificate submitted to the Company by the said firm of Auditors the said appointment, if made by the Shareholders, will be well within the limits prescribed under the Companies Act, 2013.
25. The Board, on the recommendation of the Audit Committee, proposed that Messrs S.R. Batliboi & Co. LLP, Chartered Accountants, be appointed as the Statutory Auditors of the Company for a period beginning the conclusion of the ensuing Annual General Meeting of the Company and ending on the conclusion of the Annual General Meeting to be held next thereafter.

### COST AUDITORS

26. In accordance with the provisions of Section 148 of the Companies Act, 2013, the Board of Directors, on the recommendation of the Audit Committee, appointed M/s D Radhakrishnan & Co, Cost Accountants, as the Cost Auditors of the Company for the financial year 2014-15. In terms of Section 148 of the Companies Act, 2013, read with the Rules thereof, the remuneration payable to the Cost Auditor for the year ending March 31, 2015 is being placed for ratification by the shareholders at the ensuing Annual General Meeting.
27. Cost Audit Reports for all the applicable products for the nine months period ended 31st March, 2013 were filed on 18th September, 2013 with cost audit cell of Ministry of Corporate Affairs department within specified due dates.



## SUBSIDIARY COMPANIES AND CONSOLIDATED FINANCIAL STATEMENTS

28. The Company has three direct subsidiaries and one step down subsidiary as per detail given below:
- Hargaon Investment & Trading Company Limited
  - Champan Marketing Company Limited
  - OSM Investment & Trading Company Limited
  - Hargaon Properties Limited – step down subsidiary
29. The Audited statement of Accounts alongwith the Report of the Board of Directors, and Auditors relating to the Company's subsidiaries and step down subsidiary are not annexed hereto. In compliance with General Circular No. 2/2011 of Government of India, Ministry of Corporate Affairs and the Board Resolution passed by the Board of Directors, the Company has opted to avail the exemption provided under Section 212(8) of the Companies Act, 1956. However, the Consolidated Financial Statements conforming to the Accounting Standard 21, 23 and 27 and including inter alia the financial performance of the said subsidiary forms an integral part of the annexed Audited statement of Accounts. A statement pursuant to Section 212 of the Companies Act, 1956 is attached and marked as Annexure "D".
30. The Annual Accounts of the subsidiary companies and step down subsidiary will be available for inspection by any shareholder at the Registered Office of the Company and will also be available on the website [www.birla-sugar.com](http://www.birla-sugar.com). Furthermore, a hard copy of the detailed account of these subsidiaries will be furnished to any shareholder on demand at any point of time.

## PARTICULARS OF EMPLOYEES

31. Particulars of Employees as required under Section 217(2A) of the Companies Act, 1956 is attached as a separate Annexure "C" and forms an integral part of this Report.

## TRANSFER OF UNPAID/UNCLAIMED DIVIDEND AMOUNTS TO INVESTOR EDUCATION AND PROTECTION FUND

32. During the year under review, the Company has credited ₹ 5,05,494 lying in the unpaid / unclaimed dividend account, to the Investor Education and Protection Fund (IEPF) pursuant to Section 205C of the Companies Act, 1956 read with the Investor Education

and Protection Fund (Awareness and Protection of Investors) Rules, 2001 for the year 2005-06.

## ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO

31. Particulars in respect of conservation of energy, technology absorption, R&D initiatives and foreign exchange earnings and outgo as required under Section 217(1)(e) of the Companies Act, 1956 are as per Annexure "B" and form part of this Report.

## FIXED DEPOSITS

32. As on 31st March, 2014 your Company had no outstanding fixed deposits. The Company has not accepted any fixed deposits during the period under review.

## CEO/CFO CERTIFICATION

33. Mr Chandra Shekhar Nopany, the Chairman cum Managing Director and Mr Dilip Patodia, President (Finance) & CFO have submitted certificates to the Board as contemplated in Clause 49 of the Listing Agreement.

## ACKNOWLEDGEMENTS

34. Your Directors take this opportunity of recording their appreciation of the shareholders, financial institutions, bankers, suppliers and cane growers for extending their support to the Company. Your Directors are also grateful to various ministries in the Central Government 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 recognise the valuable contribution made by the employees at all levels towards Company's progress.

For and on behalf of the Board

Place : Mumbai

**Chandra Shekhar Nopany**

Date: 13th May, 2014 Chairman-cum-Managing Director

# Management Discussion & Analysis

## ANNEXURE A

### GLOBAL ECONOMY

The global economy struggled at a 2.5% growth in the first half of 2013. The US Federal Reserve's announcements regarding the quantitative easing programme resulted in turmoil and flight of capital from emerging markets. The IMF's latest outlook pegs growth in 2014 at 3.6% and a steady recovery to 3.9% in 2015.

For China and India, structural reforms are expected to play a pivotal role to drive their economic growth engines. In China, reform in reducing excess supply capacity is one of the key areas that the Government will look into. In addition, with stronger policy initiatives in the developing world along with a sustained take-off in the developed world, the world economy is poised to recover and gain strength. There are both improved prospects and important risks to contend with.

### INDIAN ECONOMY

India's economy is expected to grow at 4.9% in 2013-14. (Source: Reuters, February 7th, 2014). The Indian rupee

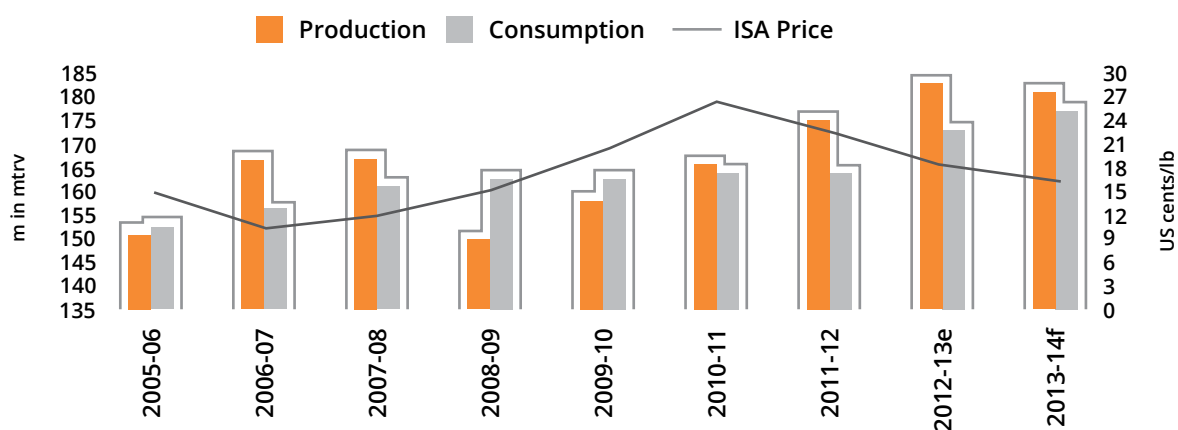
has depreciated from ₹ 54/US\$ (in March 2013) to ₹ 60.17/US\$ (in April 2014). GDP growth projections stood at 4.6% against 1.4% a year earlier, driven by good farm output. The Government worked on lowering macroeconomic fundamentals like fiscal deficit, current account deficit and inflation. The next Government will have to address a turnaround in manufacturing, infrastructural development and structural innovation.

India's economic growth is estimated to be 5.4% and 6.2% as per IMF and World Bank projections, respectively. Better exports, lower inflation, project clearances translating into investment and expectations of an improved business environment mark the outlook for 2014-15.

### GLOBAL SUGAR INDUSTRY

The sugar output is expected to reduce for the first time since 2008-09 for 2013-14. The world sugar balance in 2013-14, is anticipated to grow by 2.32%, up 4.017 million tonnes from the previous season.

**FIGURE A1 : WORLD PRODUCTION, CONSUMPTION AND ISA PRICES**



(Source: International Sugar Organisation, February 2014)

### Production and Consumption

The international sugar market continues to be volatile for sugar producers. The cyclical nature of the industry and the large swings in production and prices continue to be challenges for the industry.

Global sugar production is estimated to be 181.3 million tonnes in the sugar season (SS) 2013-14. Excess supplies and declining prices was observed in the last three sugar seasons. The third quarter of the FY 2013-2014 witnessed a drop in sugar supply even as consumption demand expanded, reducing the sugar surplus.