

ANNUAL REPORT 2005-06



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RIGA SUGAR COMPANY LIMITED

RIGA SUGAR COMPANY LIMITED**Annual Report : 2005-2006**

Board of Directors : Shri O. P. Dhanuka – Chairman & Managing Director
Shri J. J. Bhagat
Shri G. Bhattacharya (Nominee ICICI Bank Ltd.)
Dr. I. K. Saha
Dr. Gora Ghose
Shri Pankaj Tibrawalla
Shri Rahul Pasari
Shri S. Borar
Shri S. K. Goenka

Company Secretary : Shri S. Prasad

Auditors : K. N. Gutgutia & Co.
Chartered Accountants
Kolkata

Bankers : Bank of India
Union Bank of India

Registered Office : 14, Netaji Subhas Road
2nd Floor
Kolkata-700 001

Works : Dhanuka Gram
P. O. Riga
Dist. Sitamarhi
Bihar-843 327

Registrars & Share Transfer Agent : S. K. Computers
34/1A, Sudhir Chatterjee Street
Kolkata-700 006

Shares Listed at : The Calcutta Stock Exchange Association Ltd.
7, Lyons Range,
Kolkata-700 001

The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai-400 001

NOTICE

NOTICE is hereby given that the Twentysixth Annual General Meeting of the Members of RIGA SUGAR COMPANY LIMITED will be held on Thursday, the 15th March, 2007 at 4.30 P.M. at SITARAM SEKSERIA SABHAGAR (Auditorium), Bharatiya Bhasha Parishad, 36A, Shakespeare Sarani, Kolkata-700 017 to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended 30th September, 2006 and the reports of the Directors and Auditors thereon.
2. To declare a Dividend.
3. To appoint a Director in place of Mr. S. Borar, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. S. K. Goenka, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS :

6. To consider and if thought fit, to pass with or without modification(s), the following Resolution as an **ORDINARY RESOLUTION :**

"RESOLVED that Dr. I. K. Saha, who was appointed on 12th April, 2006 by the Board of Directors as Additional Director of the Company and who holds office upto the date of the ensuing Annual General Meeting, being eligible for appointment and in respect of whom notice in writing under Section 257 of the Companies Act, 1956 has been received from a member, be and is hereby appointed as a Director of the Company, liable to retire by rotation".

7. To consider and if thought fit to pass, with or without modification(s), the following Resolution as an **ORDINARY RESOLUTION :**

"RESOLVED that Dr. Gora Ghose, who was appointed on 4th November, 2006 by the Board of Directors as Additional Director of the Company and who holds office upto the date of the ensuing Annual General Meeting, being eligible for appointment and in respect of whom notice in writing under Section 257 of the Companies Act, 1956 has been received from a member, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

8. To consider and if thought fit to pass, with or without modification(s), the following Resolution as **SPECIAL RESOLUTION :**

"RESOLVED THAT pursuant to Section 269, 309 and 198 read with Schedule XII and other applicable provisions, if any of the Companies Act, 1956 and subject to such other approvals, if any, as may be required, the consent and approval of the company be and is hereby accorded for revision of remuneration of Mr. O. P. Dhanuka, Managing Director, as mentioned in the Explanatory Statement annexed hereto."

"RESOLVED FURTHER that pursuant to section 198 and all other applicable provisions of the companies Act, 1956, the remuneration as set out in the enclosed Explanatory Statement be paid as

minimum remuneration to Mr. O. P. Dhanuka notwithstanding that in any financial year of the Company during his tenure as Managing Director, the Company has made no profits or profits are inadequate"

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorized to alter or vary the terms of appointment of the appointee including relating to remuneration, as it may, at its discretion, deem fit from time to time so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956, (including any statutory modification or re-enactment thereof for the time being in force) or any amendments made thereto".

Registered Office :
14, Netaji Subhas Road
2nd Floor
Kolkata-700 001
Dated : 31st January, 2007

By Order of the Board

S. PRASAD
Company Secretary

NOTES :

1. The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in annexed.
2. A Member entitled to attend and vote is entitled to appoint a Proxy to attend and vote on poll instead of himself and the Proxy need not be a member of the Company. The enclosed Proxy Form, if intended to be used, should reach the Registered Office of the Company, duly completed, not less than fortyeight hours before the scheduled time of the Meeting.
3. The Register of Members and the Register of Transfer will remain closed from 13th March, 2007 to 15th March 2007 (both days inclusive).
4. The Dividend as recommended by the Board, if approved by the Shareholders, will be payable to those shareholders whose name appear on the Register of Members of the Company as on 15th March, 2007.
5. The dividend in respect of shares held in electronic form will be payable to the beneficial owners of shares as on the closing hours of business on 12th March, 2007 as per details furnished by National Securities Depository Ltd. and Central depository Services (India) Ltd. for this purpose. The said beneficial owners are requested to intimate to their Depository Participants (DP) all changes with respect to their Bank details, mandate, nomination, power of attorney, change of address, change in name etc. These changes will be automatically reflected in company's records, which will help the Company to provide efficient and better service to the members.
6. The Securities and Exchange Board of India has made it mandatory for all Companies to use the Bank Account details furnished by the depositories for depositing Dividend through Electronic Clearing Service (ECS) to investors wherever ECS and Bank details are available. In the absence of ECS facilities the Company will print the Bank Account details, if available, on the payment instrument for distribution of Dividend.
7. Members intending to require information about accounts to be explained at the meeting are requested to write to the Company at least ten days advance of the Annual General Meeting.
8. Please bring your copy of the Annual Report to the Meeting.
9. The Equity Shares of the Company is under compulsory dematerialisation and the same have been activated in demat form on both the Depositories i.e. NSDL and CDSL. Members are advised to get their Shares dematerialised. The ISIN No. is INE 909 C01010.
10. Members are requested to notify any change in their address to the Company's Registered Office.
11. Members holding Shares in Physical Form and desirous of making a nomination in respect of their Share Holding in the Company, as permitted under Section 109A of the Companies Act, 1956 are requested to submit to the Company's Registered Office.

12. Appointment/Re-appointment of Directors :

Mr. S. Borar and Mr. S. K. Goenka, Directors of the Company, retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

Dr. I. K. Saha was appointed as Additional Director of the Company by the Board of Directors and it is proposed to appoint him as Director liable to retire by rotation at the ensuing Annual General Meeting.

Dr. Gora Ghose was appointed as Additional Director of the Company by the Board of Directors and it is proposed to appoint him as Director liable to retire by rotation at the ensuing Annual General Meeting.

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, following information is furnished about the Directors proposed to be appointed/re-appointed :

Mr. S. Borar 44 years old a Chartered Accountant having vast knowledge in Accounting finance and Corporate Management

Mr. S. K. Goenka 57 years old, B. Com(H), L.L.B., is presently Director in Eastern Ganges Corp. Pvt. Ltd., O. P. Vanyija Ltd., Bharat Product Co. Ltd., Vimla Mercantile Pvt. Ltd. and Hanuman Supply Chain Pvt. Ltd.

Dr. I. K. Saha 71 years old B.A.(Hons), L.L.B., diploma in Social Service Adm.(T.I.S.S., Mumbai) presently Director in Hindustan National Glass & Industries Ltd.

Dr. Gora Ghose 59 years old, Ph.D., M.B.A., L.L.B., M.B.I.M., F.B.I.M., is a practicing Management & Economic Consultant, presently Director in Polar Pharma India Ltd., Steel Products Ltd., Indessa Gases Pvt. Ltd. and Managing Director in Conem Management Consultants Pvt. Ltd.

ANNEXURE TO THE NOTICE :**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956 :**

ITEM NO. 6 :

Dr. I. K. Saha was appointed as Additional Director of the Company on 12th April, 2006. Accordingly he is liable to retire at the ensuing Annual General Meeting. The Company has received a Notice in writing under Section 257 of the Companies Act, 1956 from a member proposing the appointment of Dr. I. K. Saha as a Director liable to retire by rotation.

The Board recommend his appointment as a Director.

Except Dr. I. K. Saha, no other Directors of the Company are concerned or interested in the aforesaid Resolution.

ITEM NO. 7 :

Dr. Gora Ghose was appointed as Additional Director of the Company on 4th November, 2006. Accordingly he is liable to retire at the ensuing Annual General Meeting. The Company has received a Notice in writing under Section 257 of the Companies Act, 1956 from a member proposing the appointment of Dr. Gora Ghose as a Director liable to retire by rotation.

The Board recommends his appointment as a Director

Except Dr. Gora Ghose, no other Directors of the Company are concerned or interested in the aforesaid Resolution.

ITEM NO. 8 :

The remuneration and perquisites of Mr. O.P.Dhanuka, Managing Director of the Company, was decided to revise by the Remuneration Committee of the Company at its Meeting held on 20th December, 2006 with effect from 1st January, 2007, the Board of Directors of the Company approved the same at their Meeting held on 26th December, 2006.

The remuneration and perquisites shall be :

- (a) Salary : Rs.75,000/- (Rupees seventy five thousand only) per month.
- (b) Allowance and Perquisites :
1. Furnished Accomodation/House Rent Allowance upto 50% of the salary.
 2. Free Gas, Electricity and water supply
 3. Actual Medical Expenses incurred for self and family members shall be reimbursed, subject to ceiling of one month's salary in a year or 3 months salary over a period of 3 years.
 4. Leave Travel concession for self and family once in a year. in accordance with the Rules of the Company.
 5. Fees of Club, subject to maximum of two Clubs, but excluding admission and/or Life Membership Fee.
 6. Payment towards Personal Insurance Policies, subject to annual premium of Rs. 4,00,000/-
 7. Contribution towards Provident Fund, Pension and/or Superannuation Funds as per Rules of the Company. However, the above will not be included in the computation of the ceiling on perquisites to the extent these, either singly or put together, are not taxable under the Income Tax Act, 1961.
 8. Gratuity not exceeding half month's salary for each completed year of service, subject to the ceiling as prescribed under the payment of Gratuity Act, 1972 as amended from time to time.
 9. Chauffer driven Car for Company's business.
 10. Free Telephone at residence excluding personal long distance calls.
 11. Actual and properly incurred entertainment expenses in the course of business shall be reimbursed.
 12. Leave Encashment on expiry of service as per Rules of the Company.

In the event of absence or inadequacy of profit in any Financial year. he will be paid salary and Perquisites not exceeding the limit specified under Section II and III of part-II of Schedule XIII of the Companies Act, 1956.

Except Mr. O. P. Dhanuka and Mr. Pankaj Tibrawalla relative of Mr. O. P. Dhanuka, no other Directors of the Company are concerned or interested in the aforesaid Resolution.

The Explanatory Statement together with Resolution under item No. 8 accompanying the Notice should be treated as abstract under Section 302 of the Companies Act, 1956.

The revised Appointment letter is available for inspection at the Registered office of the company on any working day during working hours.

Registered Office :
14, Netaji Subhas Road
2nd Floor
Kolkata-700 001
Dated : 31st January, 2007

By Order of the Board

S. PRASAD
Company Secretary

DIRECTORS' REPORT

To

The Shareholders,

Your Directors have pleasure in presenting their Report and audited Accounts of the Company for the financial year ended 30th September, 2006.

FINANCIAL & OPERATIONAL RESULTS

FINANCIAL RESULTS

| | (Rs. in Lacs) | |
|---|---|---|
| | For the Financial Year ended 30th September, 2006 | For the Financial Year ended 30th September, 2005 |
| (a) Operating Profit before Interest and Depreciation | 1872.40 | 1334.37 |
| (b) Interest | 637.10 | 633.13 |
| (c) Cash Accruals | 1235.30 | 701.24 |
| (d) Depreciation | 402.50 | 379.46 |
| (e) Profit before Tax | 832.80 | 321.78 |
| (f) Provision for Tax | | |
| – Current Tax (MAT) | 69.88 | (25.52) |
| – Deferred Tax | 22.47 | 47.20 |
| – Fringe Benefit Tax | 6.13 | 2.00 |
| – Tax of earlier years | — | 0.18 |
| (f) Net Profit after Tax | 734.32 | 246.87 |
| (g) Balance brought forward from last year | 370.05 | 213.61 |
| | 1104.37 | 460.48 |
| Appropriations : | | |
| (a) Transfer to General Reserve | 500.00 | 20.00 |
| (b) Proposed Dividend on Equity Shares | 61.34 | 61.77 |
| (c) Corporate Tax on Proposed Dividend | 8.60 | 8.66 |
| (d) Balance Carried to Balance Sheet | 534.43 | 370.05 |
| | 1104.37 | 460.48 |

DIVIDEND :

Keeping in mind future expansion and diversification plan your Directors recommend payment of dividend @ 12.5 percent on equity share capital i.e. Rs. 1.25 per share.

OPERATIONAL RESULTS :

SUGAR UNIT :

The comparative figures in regard to duration of season, cane crush and sugar recovery for the year/season 2005-06 and 2004-05 in respect of the Sugar Factory of your Company are given below :-

| | Financial Year ended 30th September, 2006 | Financial Year ended 30th September, 2005 |
|--|---|---|
| 1. Duration of crushing (gross days) | 156 | 93 |
| 2. Cane crushed (Lac Qtls.) | 52.07 | 28.75 |
| 3. Recovery (%) | 9.35 | 9.35 |
| 4. Production (Lac Qtls.) – From Sugarcane | 4.87 | 2.69 |
| – From Raw Sugar | 0.10 | 0.56 |
| 5. Total Production | 4.97 | 3.25 |

The company have exported 59,000 Qtls. of sugar under advance license obligation and the balance 7670 Qtls. will be exported when ban on export will be lifted which was imposed by the government in June, 2006. After 2 consecutive years of lower production of sugar in India in season 03-04 & 04-05 followed by equilibrium production in 05-06 which balanced demand and supply, which resulted in steady price of sugar during the year under review and thus realization improved.

DISTILLERY UNIT

The Distillery Unit of your company produced 62.55 lacs B.L. of Industrial Alcohol during the financial year 05-06 as against 49.10 Lac B.L. during previous year.

The company has achieved newly prescribed Zero Discharge norms of CPCB by adopting following measures :

- (a) Increased the capacity of Bio-Composting which uses distillery effluent which not only result into zero discharge but also produce bio-fertiliser whose marketing is on increasing trend.
- (b) Tied-up with Rajendra Agriculture University, Pusa for one time controlled application of effluent on land.

Besides the company is in the process of installation of membrane filtrate System and RO system for treatment of distillery effluent which will commence operation very soon.

With aforesaid measures company will achieve full capacity utilization and thus will increase production which will also be used for production of proposed ethanol.

INDUSTRY STRUCTURE

Sugar Industry, is seasonal in nature and directly dependent on monsoons for availability of adequate sugar cane for production. India is the largest consumer and second largest producer of sugar in the world, contributing over 15 percent of the world's sugar production through over 450 sugar factories situated in different parts of the country. The sugar Industry is second largest agro based industries in India. This industry also provides valuable by-products like bagasse, molasses and press mud. The availability of these by-products had led to setting up of Alcohol/Ethanol/co-generation of Power and Organic Manure. Over 4 Crore farmers and their families besides large mass of agricultural labour are involved in sugarcane cultivation and its harvesting operations. The growth of sugar industry has a powerful impact on the rural economy. It enjoys annual turnover of Rs. 30,000 Crore and contribute about Rs. 2300 Crore to the Government Exchequer every year by way of Taxes and Duties. Sugar Industry accelerates rural development through farm employment as well as business opportunities in transport and communication.

The swings in production of sugar have been not only caused by the uncertainty of the climate but also the price of sugar cane and its timely payment to the farmers, which in turn is determined by the extent of sugar surplus or deficit and consequent sugar realizations. As such there should be balance between price of sugarcane and realization from sugar sales.

Sugar has been declared as an 'essential commodity' under the Essential Commodities Act, 1955. Under Sugarcane (Control) Order 1966, the Government of India fixes the Statutory Minimum Price (SMP) for sugarcane every year based on the recommendations of the Commission on Agricultural Costs & Prices. The Government of India has also been following a dual pricing policy for sugar, whereas 10% is "levy sugar" for distribution to consumers through Fair Price shops under Public Distribution System. The rest of the sugar, referred to as "free sale sugar", though allowed to be sold in the open market, is regulated through monthly release mechanism, whereby the Government determines the quantum of sugar that can be released and sold in the open market every month. This is done by Government to maintain balance in sugar availability in the country through out the year at reasonable level at fair market price to the consumer as the sugar is made in season during 5-6 months but consumed throughout the year.

The government procure levy sugar at price well below those prevailing in the open market for distribution to BPL family. Moreover the sizable quantity of levy sugar lifted by state government nominee is diverted by unscrupulous traders in the open market and not actually goes to intended poor family. As such Industry demand that government should directly procure sugar from open market like other crops and sell to the

BPL consumers as it is their responsibility and the industry should not be compelled to extend subsidy. Movement and distribution of Molasses and Alcohol (co-products) are governed by the State Governments.

CANE & SUGAR POLICY

- The ratio of levy and free sale sugar remained unchanged at 10:90.
- The Statutory Minimum Cane Price (SMP) for the season 05-06 was fixed by the Central Government at Rs. 79.50 per Qtl. linked with basic recovery of 9.0% against Rs. 74.50 per qtl. for the previous season 04-05 linked with basic recovery of 8.5% thereby actual hike of Re. 0.60 per qtl. In the case of the sugar factory of your Company, the SMP was fixed at Rs. 83.02 per Qtl. as against Rs. 80.66 per Qtl. for the season 04-05. However your company paid cane price of Rs. 108 to encourage farmers for increased supply of sugarcane against Rs. 95 in previous season.
- The price of levy sugar for the season 05-06 has been fixed at Rs. 1409.30 per Qtl. which was repeat of previous 2 seasons. The Government's assurance to revise the Levy Price is still awaited.
- The government of India prohibited export of sugar with effect from 22.06.2006 for temporary period.
- The Ministry of Petroleum and Natural Gas has extended the 5% ethanol doped petrol programme on all India basis from 1st November, 2006, and increasing it to 10% from 07-08.

INDUSTRY OVERVIEW

The sugar year 05-06 opened with a stock of 48 lac M/T against 85 lac M/T in 04-05. The production for the season 05-06 was estimated at 193 lac M/T as against 127 lac MT during previous season. The domestic consumption of sugar for 05-06 is estimated at 185 lac M/T. The total import including raw sugar was Nil against 21 lac MT in 04-05. The export of sugar was 11 Lac MT against negligible in previous year. The closing stock is expected at 45 lac MT which is equivalent to about 3 months of Domestic consumption which is most ideal level.

OPPORTUNITIES AND THREATS

OPPORTUNITIES

Sugar

By giving remunerative cane prices and timely payments to the farmers it is expected to result in vastly improved cane availability and higher capacity utilization at the Company's factories as compared to the past years.

Alcohol

Spiraling crude prices and the Central Government's renewed resolve to make the Ethanol Blending Programme a success will give the Distillery operations a boost.

Bio-Compost Fertiliser

The bio-compost and vermi-compost fertilizer being produced by the company have got immense scope of demand in all major agriculture cultivation as it not only preserve the soil from excessive use of chemical fertilizer but also increase its fertility. The company is using distillery effluent and press mud from sugar and other agricultural waste to produce bio-compost which is very cost efficient. Thus the company apart from treatment of effluent and zero discharge adding value and thus expect good cash flow in near future.

Bio-Diesel

The company is carrying out R&D on plantation of bio-diesel plant namely Jatropha around the factory area whose climatic condition is favorable. The bio-fuel have immense potential as renewal source of energy.

THREATS

Sugar

The present policy of fixing Statutory Minimum Price for sugarcane without regard to economic realities could affect the cash flows and squeeze the profit margin, once demand – supply equilibrium is restored. Unless a rational sugarcane pricing policy is evolved, the long-term outlook for the industry will be little

shaky. The sugar industry, being cyclical in nature, realization get affected during downturn, thereby affecting bottomline.

SEGMENT-WISE PERFORMANCE :

In 05-06, sugar segment contributed 90 percent of net sales of the company whereas Industrial Alcohol accounted for 10 percent. The company identified two business segments in line with the Accounting Standard on Segment Reporting, Segment-wise Revenue, Results and Capital Employed is stated in Note No.14 of Schedule 14 of Audited Accounts enclosed with the Annual Report.

FUTURE PROSPECTS/OUTLOOK

Thanks to new addition of capacity, good monsoon rains, higher cane prices and timely payment of sugarcane price by the factories to farmers on the back of excellent sugar industry performance during 05-06 season, all India sugar production during the 06-07 season is expected to reach all time high of 230 Lac MT. The consumption is estimated at around 190 Lac MT during 06-07, with opening stock of 44 Lac MT the closing stock is expected to be at 84 Lac MT which is equivalent to 5 months consumption. This increase in stock have put pressure on sugar price which is showing declining trend in recent time.

The Government of India, with a view to keep overall inflation under check, have imposed a ban on export of Sugar in the month of June, 2006 which has accelerated the problem. The Government have been talking about lifting the ban on sugar export and if it materializes 20-30 Lac MT million tons of Sugar may be exported for which the current international price is still attractive, which will bring equilibrium in demand and supply of sugar besides price stabilization. The consistent policy of the government on export front will stabilize India as long term player in international market.

The increase in production will result in sufficient availability of molasses at reasonable price and better prospects for the distillery since it will procure raw material at lower cost for production of Alcohol and Ethanol.

The compulsory blending of ethanol of 5% ethanol in petrol on all India basis from 1st November, 2006, and increasing it to 10% from 07-08 will boost the sugar industry as whole as it will generate additional revenue and reduce the cyclical nature of sugar business. Ethanol is eco-friendly alternate fuel which will also save country's precious foreign exchange by saving on petroleum import.

With above scenario the long term outlook of the industry is bright.

Global Scenario:

The exit of one of large sugar exporter, the European Union (EU), is set to have far reaching implications on the world sugar market. EU exports were highly subsidized and are about to change due to the WTO regulations, which came into effect after May 2006. This has compelled the EU to undertake reduction in cross-subsidized exports of sugar. EU export's would be restricted under WTO regulations from 06-07 onwards. The global demand-supply situation for sugar will continue to be evenly posed despite 3% higher production in 05-06. Higher production from Brazil and other countries including India would be offset by lower production in Europe 06-07 following its exit from the export market.

Global sugar inventory levels have declined from 38.38 million tons in 2003-04 to 30.97 million tons in 05-06. Sugar consumption continues to increase by about 2% per annum and is expected to sustain its growth momentum with rising affluence in emerging nations such as China. China's sugar consumption has been steadily rising and has increased by 50% in the last 10 years.

ETHANOL FACTOR:

It is expected that the global Ethanol demand will act as catalyst in keeping sugar prices firm in the long term. Ethanol as an alternative fuel would result in more cane being diverted to produce Ethanol, thus keeping a sustained upward pressure on sugar prices. Even a 1% Ethanol blending anticipated globally by 2010 would require more than the entire sugar cane output of Brazil.

Thus during medium to long term the Global sugar price expected to remain firm driven by global demand-supply mismatch, increased demand and increased diversion to by-products.