ANNUAL REPORT
2006 - 2007

RIGA SUGAR COMPANY LIMITED
An ISO 9001 & 14001 Certified Company

RIGA SUGAR COMPANY LIMITED
Annual Report : 2006-2007

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 ICICI Bank Ltd.
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
Legal Advisor and Soliciator	:	Khaitan & Co. Emerald House 1B, Old Post Office Street Kolkata-700 001

NOTICE

NOTICE is hereby given that the Twentyseventh Annual General Meeting of the Members of RIGA SUGAR COMPANY LIMITED will be held on Tuesday, the 19th February, 2008 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, 2007 and the reports of the Directors and Auditors thereon.

2. To appoint a Director in place of Mr. J. J. Bhagat, who retires by rotation and being eligible, offers himself for re-appointment.

3. To appoint a Director in place of Mr. Rahul Pasari, who retires by rotation and being eligible, offers himself for re-appointment.

4. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS :

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

   "RESOLVED that consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 for mortgaging and/or charging by the Board of Directors of the Company, of all immovable and movable properties of the Company wheresoever situated, present and future, and the whole of undertaking of the Company and/or conferring power to enter upon and to take possession of the assets of the Company in certain events, to in favour of Bank of India by way of First pari-passu mortgage/charge to secure their Term Loan aggregating to Rs. 1125 Lac (Rupees one thousand one hundred twenty five lac only) lent and advanced by Bank of India together with interest thereon at the respective rates, compound interest, additional interest, liquidated damages, commitment charges, premia on prepayment, costs, charges, expenses and other monies payable by the Company in respect of the said Term Loan from Bank of India and in favour of Union Bank of India by way of First pari-passu charge on fixed assets to secure their Term Loan aggregating to Rs.375 Lac (Rupees three hundred seventy five lac only) lent and advanced by Union Bank of India together with interest thereon at the respective rates, compound interest, additional interest, liquidated damages, commitment charges, premia on prepayment, costs, charges, expenses and other monies payable by the Company to Union Bank of India under the Loan Agreement(s)/Letter of Sanction(s) entered into by the Company in respect of the said Term Loan."

Registered Office :
14, Netaji Subhas Road
2nd Floor
Kolkata-700 001
Dated : 31st December, 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 is 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 forty eight hours before the scheduled time of the Meeting.
3. The Register of Members and the Register of Transfer will remain closed from 15th February, 2008 to 19th February, 2008 (both days inclusive).
4. Members intending to require information about accounts to be explained at the meeting are requested to write to the Company at least ten in days advance of the Annual general Meeting.
5. Please bring your copy of the Annual Report to the Meeting.
6. 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.
7. Members are requested to notify any change in their address to the Company's Registered Office.
8. 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.
9. Appointment/Re-appointment of Director :

   Mr. J. J. Bhagat and Mr. Rahul Pasari, Directors of the Company, retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

   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. J. J. Bhagat 59 years old, is presently Mission Director of Sugar Technology Mission, Dept. of Science & Tech. Government of India and Director of M/s. Renuka Sugar Ltd.and Spray Engineering Devices Ltd.

   Mr. Rahul Pasari 31 years old, M.B.A. is presently Director of PDP Steels Ltd., Tirupati Niryat Ltd., Kamakhya Plastics Pvt. Ltd., Ivest Securities Pvt. Ltd., Lingraj Pipes Pvt. Ltd., North East Roofing (P) Ltd. and Swarn Mayur Bonds & Holding (P) Ltd.

ANNEXURE TO THE NOTICE :

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

ITEM NO. 5 :

The Company was sanctioned Term Loan of Rs. 1125 Lac by Bank of India and Term Loan of Rs. 375 Lac by Union Bank of India to meet expansion project of Sugar Factory. The said Term Loan is secured inter-alia by way of first pari-passu mortgage/charge on all the immovable and movable assets of the Company in favour of Bank of India and Union Bank of India.

Under the provision of section 293(1)(a) of the Companies Act,1956 the creation of such mortgage/charge requires approval of the Company in the General Meeting by an Ordinary resolution. Hence the resolution is proposed.

None of the Directors of the Company may be deemed to be concerned or interested on the said resolutions.

Registered Office :
14, Netaji Subhas Road
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Kolkata-700 001
Dated : 31st December, 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, 2007.

FINANCIAL & OPERATIONAL RESULTS

FINANCIAL RESULTS

(Rs. in Lacs)

		For the Financial Year ended 30th September, 2007	For the Financial Year ended 30th September, 2006
(a)	Operating Profit(Loss) before Interest and Depreciation	(28.60)	1872.40
(b)	Interest	623.12	637.10
(c)	Cash Accruals	(651.72)	1235.30
(d)	Depreciation	429.60	402.50
(e)	Profit(Loss) before Tax	(1,081.32)	832.80
(f)	Provision for Tax – Current Tax (MAT)	(10.38)	69.88
	– Deferred Tax	(222.69)	22.47
	– Fringe Benefit Tax	7.25	6.13
(f)	Net Profit(Loss) after Tax	(855.50)	734.32
(g)	Balance brought forward from last year	534.43	370.05
		(321.07)	1104.37
	Appropriations :		
(a)	Transfer to General Reserve	—	500.00
(b)	Proposed Dividend on Equity Shares	—	61.34
(c)	Corporate Tax on Proposed Dividend	—	8.60
(d)	Balance Carried to Balance Sheet	(321.07)	534.43
		(321.07)	1104.37

DIVIDEND :

Keeping in mind loss incurred by the company your Directors do not recommend payment of dividend.

OPERATIONAL RESULTS :

SUGAR UNIT :

The comparative figures in regard to duration of season, cane crush and sugar recovery for the year/ season 2006-07 and 2005-06 in respect of the Sugar Factory of your Company are given below :-

	Financial Year ended 30th September, 2007	Financial Year ended 30th September, 2006
1. Duration of crushing (gross days)	202	156
2. Cane crushed (Lac Qtls.)	62.42	52.07
3. Recovery (%)	8.05	9.35
4. Production (Lac Qtls.) – From Sugarcane	5.07	4.87
– From Raw Sugar	—	0.10
5. Total Production	5.07	4.97

During the year under review the company exported the balance 7,670 Qtls. of sugar under advance license obligation after lifting of ban on sugar by the government.

After equilibrium production in 05-06 of 192 Lac MT which balanced demand and supply, sugar production during the season 06-07 touched an all time high of 283 Lacs MT, equivalent to 18 months consumption which resulted into drastic fall in sugar prices by about 30%. On the other hand sugarcane price which accounts for more than 70% of the cost of production of sugar were allowed to increase. These factors led to huge losses to sugar Industry across the board and resulted into massive sugarcane price arrears.

The Government's ban on export of sugar (from July, 06 to Jan, 07), specially when the international sugar prices were bullish, added woe to industry leaving no outlet for surplus sugar. During this period of 6 months the international sugar prices fell from US$ 450 to US$ 330 per MT, thus Indian Sugar Industry lost the opportunity to sell and make profit.

The Sugar Factories based in Bihar faced another problem of drastic fall in recovery by about 0.8% during the season 06-07. But your factory had to suffer sharpest decline in sugar recovery from 9.35% in earlier season to 8.05% in the season 06-07 due to longer duration of crushing season stretched through hot summer months in May and June when factory had to operate at day temperature of 43°C.

The Bihar sugar Industry had demanded cane price subsidy from state government in view of lower recovery, fall in sale price and higher cane price. The Government of Bihar after careful consideration announced later announced cane price subsidy for the sugar season 06-07 payable by the company to farmers for their sugarcane supply and the company has recognized the said subsidy in its books of account.

Expansion of Sugar Plant Capacity

The expansion project of sugar factory from 3500 TCD to 4500/5000 TCD has been completed and will operate in ensuing season 07-08 and expected to stabilize the production at enhanced capacity of 5000 TCD in 08-09.

DISTILLERY UNIT

The Distillery Unit of your company produced 91.64 lacs B.L. of Industrial Alcohol during the financial year 06-07 as against 62.55 Lac B.L. during previous year.

The New Ethanol Plant of the factory commenced commercial operation from 4th April, 2007 and have supplied during the year 4.20 Lacs B.L. to Oil companies at different locations in Bihar and Jharkhand for admixing with Petrol.

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

(a) Installing R.O. Membranes Plant for filtration of Digester treated effluent from Distillery thus reducing BOD/COD level.

(b) Increased the capacity of Bio-Composting which uses distillery treated effluent which not only result into zero discharge but also produce bio-fertiliser whose marketing is on increasing trend.

The fresh water generating from effluent treatment is recycled/ reused. With aforesaid measures company have achieved full capacity utilization and thus have been able to increase production substantially.

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 Plants. 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 Indian sugar industry is characterized by cycle of high and low sugar production, typically resulting in surplus and deficit over a period of 5-7 years. This cyclicality is broadly of two types viz. Natural cyclicality comprising climatic variation, water availability and pest attacks. The other is induced cyclicality which have sequence of- Higher sugar production- Decline in sugar prices & Lower profitability- higher sugarcane arrears- decline in area under cultivation & Lower cane production- Lower sugar production- lower sugar availability & increase in sugar prices- improved profitability & low cane arrears- Higher cane production- Higher sugar production and so on. Every time the cyclicality reaches its low government have to step in to provide Fiscal support in the form of Export subsidy, Buffer Stock creation, Interest Free Loans etc.

The Industry feel for long term development of the industry there is need to:

- Minimize the government intervention for managing cyclicality
- Operate through market interventions rather than regulatory interventions
- Enable mills to pay the SMP to farmers by supporting the sugar price
- Minimize the need for subsidies and support for the industry
- Enable sale of excess production in export markets for surplus production
- Minimize the need for imports in case of deficit production

The "strategic stock" could be an alternate policy mechanism that can help achieve these objectives and could pave the way for subsequent de-control of the industry. This can be done through creation of SPV.

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. However the states government intervention to fix higher cane price arbitrarily causes distortion in the industry. 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 aviability 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 fixed price for distribution to BPL family. But during the period when open market price is higher than levy price 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 compel to extend subsidy. When the market price fall below Levy price during current downtrend the allotted levy were not lifted by the government nominees and thus factories were affected adversely.

Movement and distribution of Molasses and Alcohol (co-products) are governed by the State Governments. Here also due to lack of clear cut cohesive policy which varies from state to state it take considerable time to even allot the own sugar factory's molasses to Distillery and allotment of finished goods of Alcohol due to several bureaucratic hurdles. The permission to produce Ethanol out of alcohol also takes considerable time from state authority due to perceptible fear of losing revenue and meeting state requirement for potable. These impediments put the Distillery of own state at disadvantageous position whose benefit are exploited by distillery outside state. There should be uniform policy all over India regarding molasses allotment, Alcohal and Ethanol.

KPMG, a leading global consultancy firm came out with research study report on sugar industry in June, 07,has demolished some long standing myths like that of impact of higher sugar prices on the lower income & BPL consumers- it has clearly established the fact that about 70% of sugar consumption is led by institutions & not by households. It has thus proven that when the Government attempts to depress sugar prices in the interest of lower income group of consumers, what it effectively ends up doing is rewarding the institutions and bulk consumers with lower sugar cost and larger profits. The present very high weightage for sugar in WPI has itself, thus, become incongruous, requiring a steep downward changes. KPMG report has also illustrated the irrationality of fixing increasingly higher mandatory sugarcane prices without any linkage to the sugar price. The report also advocate decontrol of industry to facilitates natural and competitive growth and suggest sugar mill to develop co-generation and ethanol facilities for de-risking the industry from sugar cycle. The Government in August, 07 has appointed a Group of Expert headed by Dr. Vijay Kelkar to examine various options available for the growth and development of the sugar economy and to suggest a blue print of action.

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 06-07 was fixed by the Central Government at Rs.80.25 per Qtl. linked with basic recovery of 9.0% against Rs.79.50 per qtl. for the previous season 05-06 thereby hike of Re. 0.75 per qtl. In the case of the sugar factory of your Company, the SMP was fixed at Rs. 83.85 per Qtl. as against Rs. 83.02 per Qtl. for the season 05-06. However your company paid 3 tier cane price of Rs.120 (Early variety), Rs.115 (Normal variety) and Rs.111 (Rejected variety) for season 06-07 against uniform price of Rs.108 in previous season. For out-centre supply of cane the company deducted Rs.8.50 per qtl.
- The price of levy sugar for the season 06-07 has been fixed at Rs. 1409.30 per Qtl. which was repeat of previous 3 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 which was finally lifted on 10th January, 2007.
- Government announced transport assistance on sugar export till April, 2009 and dispensed with the release order requirement for export of sugar.
- The Government created Buffer Stock of 20 Lac Qtls. w.e.f. 01.05.07 and additional 30 Lac Qtls. from 01.08.2007 for period of 1 years from respective date of creation. The Government further notified that maximum rate of interest allowable on such Buffer disbursement will be 12% apart from Storage and Insurance charges of 1.5% p.a.
- The Government of India vide Notification dated 7th December 2007 has announced a "Scheme for extending financial assistance to Sugar Undertakings" by the Banks. According to scheme the Banks will grant interest free loans equivalent to the notional Central Excise Duty payable on total production

of sugar during season 2006-07 and 2007-08 seasons. The purpose of the loan is for payment of cane price for the seasons 2006-07 and 2007-08. The loan will be for a duration of 4 years including 2 years' moratorium and repayable in 24 equal installments. Full interest subvention on the loan will be provided to all scheduled commercial banks by the Central Government, subject to a limit of 12% per annum. For the purpose Nodal Agency Banks have been appointed with whom the claim of interest subvention will be filed by the lending Bank(s). Security against the said loan will be residual charges on the fixed assets of the Sugar Undertaking and personal guarantee of the Promotor. This loan will be over and above the existing Cash Credit limit(s) provided by the Bank(s).

- The Government has mandated doping of 5% ethanol from 1st October, 2007, and increased the level to 10% from 1st October, 2008.

INDUSTRY OVERVIEW

The sugar year 06-07 opened with a stock of 39 lac M/T against 40 lac M/T in 05-06. The production for the season 06-07 was at 283 lac M/T as against 193 lac MT during previous season. The domestic consumption of sugar for 06-07 is estimated at 190 lac M/T. The export of sugar was 17 Lac MT against 11 Lac MT in previous year. The closing stock is at 115 lac MT which is equivalent to more than 7 months of Domestic consumption.

OPPORTUNITIES AND THREATS

OPPORTUNITIES

Sugar

Inspite of lower international sugar price export of sugar is continued unabated and sizable quantity of export has been taking place. India has also started exporting raw sugar which has major international market. This will reduce the domestic inventory and will help to firm the price.

Alcohol

The mandatory provision of ethanol doping of 5% and its proposed increase to 10% will definitely boost up the demand and strengthen bottom-line of the sugar companies.

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.

THREATS

Sugar

The expected further record production of sugar in season 07-08 near to level of last season 06-07 are likely to add further woe to the sugar industry as the inventory level will become very high.

SEGMENT-WISE PERFORMANCE :

In 06-07, sugar segment contributed 77 percent of net sales of the company whereas Distillery (with newly added Ethanol) accounted for 23 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.15 of Schedule 14 of Audited Accounts enclosed with the Annual Report.

FUTURE PROSPECTS/OUTLOOK

The record production for next season 07-08 near to level of last season 06-07 is reason for worry. However export is continued to pick up fast on the back of gradually firming international market and government support and thus inventory can be manageable. Moreover such higher production of sugar will have positive impact by way of utilization of by-products for production of Alcohal, Ethanol and Power. The Government's move to allow the factories to convert juice into ethanol would still take some time before it could bail out the industry in reaping additional revenues. Fall in Indian output expected for 2008-09 which will firm up the realisation.

Global Scenario :

Fundamentally, the market remained oversupplied and weak. The bearish fundamentals are, however, masked by a continuing weakness of USD, on the one hand, and booming commodity markets in general, on the other hand.

World sugar production in 07-08 is expected at 169 Millions MT i.e 2.4 Million MT higher than 06-07. World sugar consumption in 07-08 is expected to rise by 3.8 Million MT to 156 Million MT. The season 06-07 is expected to close with a stock of 85 Million MT which is 10.5 Million MT higher than last year. This stock amount to 55% of estimated consumption, which is quite high.

For season 07-08 Brazil's sugar output is anticipated to decrease. The ISO expect that India will overtake Brazil as the world's largest sugar producer. Brazil, the world's largest grower of sugar cane, is using less of the crop to make sweeteners as it accelerates production of ethanol to keep pace with surging demand for alternative-fuel cars.

Australia, one of the world's largest raw sugar exporters is expected lower production this year due to drop in harvesting due to seasonal factor.

Indonesia may not need to import white sugar next year due to high sugar stocks and an expected increase in domestic output.

New record high outputs are foreseen in China, Indonesia, Pakistan, the Philippines, and Vietnam. Thailand's production is expected to be near last record.

The reform of the EU sugar regime and the consequent drastic reduction of volumes of European white sugar delivered to the channels of international trade, and even possible cessation of EU exports is not so distant future, represent an important structural change in the world sugar economy.

Substantial weakening of the US Dollar pushing down the world price of sugar in real terms.

In 2008-09, India is likely to enter the downward phase in its production cycle. This alone would remove some part of the bearish pressure from the market although it will take time to ward off surplus stocks. First tentative indications show that next season's 08-09 gap between world production and consumption may disappear and even a small (less than 1 mln tonne) global deficit comes into view.

Company's Plan :

SUGAR

The expansion of sugar factory will ensure higher production by the company with increase in recovery. This will also increase the production of molasses which will help to produce higher alcohol and Ethanol and reduce the dependence on molasses from outside factory.

For the season 07-08 the cane price has been reduced by about Rs. 22 per Qtls. that will have significant impact on reduction of cost of production of sugar. The Government's decision to extent interest free loan