

ANNUAL REPORT

2014



RIGA SUGAR COMPANY LIMITED

An ISO 9001:2008 & ISO 14001:2004 Certified Company

RIGA SUGAR COMPANY LIMITED

Annual Report : 2014

Board of Directors	:	Shri O. P. Dhanuka - Chairman & Managing Director Shri N. C. Majumdar Shri Pankaj Tibrawalla Shri S. Borar Shri Sarad Jha Shri S. K. Goenka
CEO & 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 Phone : 2231 3414/15
Works	:	Dhanuka Gram P.O. Riga Dist. Sitamarhi Bihar - 843 327
Registrars & Share Transfer Agent	:	S. K. Infosolutions Pvt. Ltd. 34/1A, Sudhir Chatterjee Street Kolkata - 700 006 Phone : 2219 4815
Shares Listed at	:	The Calcutta Stock Exchange Ltd. 7, Lyons Range Kolkata - 700 001 Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai - 400 001
Legal Advisor and Solicitor	:	Khaitan & Co. Emerald House 1B, Old Post Office Street Kolkata - 700 001

DIRECTORS' REPORT**To****THE SHAREHOLDERS**

Your Directors have pleasure in presenting their Report and audited Accounts of the Company for the financial year ended 31st March, 2014.

FINANCIAL & OPERATIONAL RESULTS**FINANCIAL RESULTS**

	(Rs. in Lacs)	
	Financial Year 31st March, 2014	Financial Year 31st March, 2013
(a) Gross Turnover	16,472.34	19,999.76
(b) Operating Profit Before Finance Cost & Depreciation	1,637.29	1979.14
(c) Finance Cost	1,318.29	1,559.36
(d) Cash Accruals	319.00	419.78
(e) Depreciation & Amortization	591.18	679.53
(f) Profit (Loss) before extraordinary items	(272.18)	(259.75)
(g) Extraordinary Item of Exp.	—	90.83
(h) Profit (Loss) Before Tax	(272.18)	(350.58)
(i) Provision for Tax		
-!Deferred Tax	23.68	(29.25)
- Income Tax of earlier year	0.02	(0.42)
(j) Profit (Loss) After Tax	(295.88)	(320.91)
(k) Balance Brought Forward from last year	(732.15)	(411.24)
(l) Transfer from General Reserve	130.92	—
(m) Profit (Loss) Carried Forward to Balance Sheet	<u>(897.11)</u>	<u>(732.15)</u>

DIVIDEND :

In view of losses company is unable to pay Dividend.

OPERATIONAL RESULTS**SUGAR UNIT**

The comparative figures in regard to duration of season, cane crush, sugar recovery and production for the year ended 31st March, 2014 vis-a-vis previous financial year ended 31st March, 2013 in respect of the Sugar Factory of your Company are given below :-

	Financial Year 31st March, 2014	Financial Year 31st March, 2013
1. Duration of crushing (gross days)	110	115
2. Cane crushed (Lac Qtls.)	48.42	46.85
3. Recovery (%)	9.16	8.91
4. Production (Lac Qtls.) – From Sugarcane	4.43	4.17
5. Production from Raw sugar	—	0.24
6. Total Production of Sugar	4.43	4.41

There was severe storm and heavy rainfall in the 3rd week of October, 2013 in certain areas of North Bihar due to effect of "Phailin Cyclone", which caused extensive damages of cane and standing crops in certain districts of Bihar like Sitamarhi, Sheohar and Muzaffarpur from where sugarcane is supplied to our factory by sugarcane growers. The strong wind hit the standing sugarcane crop, which fell down on the ground that retarded growth and sucrose formation in cane. Due to the severe impact of Phailin, our sugar factory got weak and sticky cane with low sucrose content and as a result recovery fell down. The magnitude of additional loss of sugar recovery was 0.30%. If this 0.30% loss is converted into money terms the estimated loss is valued at about Rs. 4.5 Crores. A team of State Cane Department visited our factory for assessment of the losses due to Phailin Cyclone but the relief is awaited.

The net sales of sugar unit decreased from Rs.158 Cr. to Rs. 123 Cr. i.e. decrease of 22%. The sales were down due to lower sales quantity of sugar and calculated decision of the management to hold sugar so as to sale the sugar in expected firming market ahead.

There has been three years of continuous surplus production of sugar in the country. In spite of that import of sugar is continued. This has created glut in the domestic market, pushing sugar price down. Throughout the year 2013-14 the sugar price remains subdued. In spite of surplus availability of sugar the government of India allowed import of sugar by reducing import duty progressively from 60% to 10%, which subsequently increased to 15%. Due to reduction of import duty raw and white sugar is being imported into the country which is further depressing the sugar price in the domestic market, much below cost of production. So far as per port data about 30 Lac MT of raw and white sugar has already been imported into the country.

During the year Global sugar prices were ranges bound with downward trend due to excess supply. World production of sugar in 2013-14 has been estimated by FAO at 180 Millions tones compared to 175.2 millions tones last year. Consequently international prices declines from USD 416/tonnes to USD 388/tones in first half of the year 2013, which prompted import of sugar by Indian Importer.

But sugar production in Brazil is expected to be lower in current season owing to prolong dry spell. This lower production and possible higher mix of ethanol with gasoline mandate could strengthen international sugar prices.

The FRP for the season 2013-14 were increased by Central Government from Rs. 170 per qtl. to Rs. 210 per qtl. linked with basic recovery of 9.5%. However State governments continued to interfere in determination of sugarcane price, which is much higher than FRP, disregarding the sugar price realization in the market. This sugarcane price forced on sugar factories by state government has no link with sugar price and is disproportionately very high.

In Bihar the cane Price for the season 2013-14 was maintained at Rs. 255 per qtl. for normal varieties, Rs. 245 per qtl. for lower varieties and Rs. 265 for premium Variety. Transport rebate on out center cane remains at Rs. 15 per qtls. The government of Bihar during the year provided some relief to sugar industry of Bihar like incentive of Rs. 5/- per qtl. on sugarcane, exemption of purchase tax on sugarcane for the season 2012-13 and 2013-14 and reduction of Zonal Development Commission on sugarcane from 1% to 0.20% for 2012-13 and 2013-14. However these relief proved insignificant in view of wide gap between lower sugar price realization in comparison to cost of production due to higher cane price.

The molasses price in Bihar during the year was fixed by the state government at 187.50 per qtls.

The continued higher interest rate during the year impacted the profitability. Due to negative outlook of sugar industry the Bank downgraded the rating of sugar companies and thus cost of funds increased.

Therefore higher cane price, lower sales realization and increase of interest burden impacted the profitability the company and industry.

DISTILLERY UNIT :

	Financial Year 31st March, 2014	Financial Year 31st March, 2013
1. Production of Industrial Alcohol (Lac BL)	121.49	129.87
2. Sale of Industrial Alcohol/ Transfer for Country Liquor (Lac BL)	111.34	140.47
3. Supply of Ethanol (Lac BL)	2.00	—

The Rectified Spirit price has been revised by Bihar Government from Rs. 24.55 to Rs. 28.00 per BL after a gap of four years.

ETHANOL :

The company participated in Tender floated by Oil Marketing Companies (OMC) and got LOI for supply of ethanol to the depot of OMC in Bihar. During the year the state government of Bihar made policy to allow 5% of total molasses production in the state for manufacture of Ethanol by the state distilleries, which can increase to 10% depends on availability of molasses and requirement of rectified spirit for production of country liquor in the state. Thus after gap of two years company has been able to supply Ethanol to Oil Marketing companies, although very little quantity in comparison to capacity of Ethanol.

The Basic ethanol supply price is Rs. 37 per BL. as per last tender.

COUNTRY LIQUOR :

The company has made foray in making and supplying country liquor made out of Rectified Spirit being produced by the company's Distillery and hitherto supplied to other license holders. This is value addition to the company's product and contributing to bottom line of the company.

The manufacturing and supply of Country Liquor in sachets performed well during the year.

The company's distillery during the year got exclusive License for manufacture and supply of Country Liquor in Pet Bottle to Bihar State Beverage Corporation Limited for a period of 5 years starting from 1st April, 2014.

SEGMENT-WISE PERFORMANCE :

During the reporting period sugar segment contributed 77 percent of net sales of the company whereas Distillery 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.32 of financial statement enclosed with the Annual Report.

INDUSTRY STRUCTURE & POLICY :**Structure :**

Sugar Industry, is seasonal in nature and directly dependent on monsoon for availability of adequate sugar cane. 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 600 sugar factories situated in different parts of the country. The sugar Industry is the 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 5 Crore farmers, large number of agricultural labourer are involved in sugarcane cultivation and its harvesting operations. The growth of sugar industry has a powerful impact on the rural economy. Integrated Sugar Industry (comprising sugar, molasses, alcohol, power and bio-fertilizer) enjoys annual turnover of about Rs. 85,000 Crore and contribute about Rs.3,000 crore to the Central Government Exchequer by way of central excise duty every year beside state taxes on sugarcane and hefty taxes collected by state as excise and VAT on sale of spirit in the state which run an estimated Rs.10,000 crores annually. Beside the direct taxes by way of income tax is additional source of revenue to the government from sugar industry. Sugar Industry accelerates rural development through farm employment as well as business opportunities in transport and communication.

Sugar has been declared as an 'essential commodity' under the Essential Commodities Act, 1955. Under Sugarcane (Control) Order, 1966, the Government of India fixes cane price called Fair and Remunerative Price (FRP) for sugarcane every year based on the recommendations of the Commission on Agricultural Costs & Prices. However

many state government fixes higher cane price for the sugar factories in their state which is about 25% higher than FRP.

Sugar Cycle :

The Indian sugar industry is characterized by cycle of high and low sugar production. This cycle of 3-4 years is broadly of two types viz. Natural comprising climatic variation, water availability and pest attacks. The other is induced cyclicity which have sequence like – higher sugar production and accumulation of stock – decline in sugar prices & profitability – higher sugarcane arrears – decline in area under cultivation & Lower cane production – lower sugar production – lower sugar availability and stock and thus increase in sugar prices – improved profitability & low cane arrears – higher cane production – higher sugar production and so on. Every time the cyclicity 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. This cycle has broken and India is having higher production of sugar for last four consecutive years.

The fundamental problem of the Indian Sugar Industry is that there is no parity between the price of raw material i.e. sugarcane and its finished goods i.e. Illogical intervention of state government cause wide economical distortion in sugar industry. In almost all major sugar producing countries of the world the price of cane paid to the farmers depends on realization from sugar.

Rangrajan Committee Report-Linkage of Raw Material Costs and Sugar Realization :

The main recommendation of Rangrajan Committee report of the year 2012 regarding linkage of cane price with sugar price and its by products has not been implemented so far. The committee has suggested for revenue sharing model under which 70% of sugar value and each of its major three by-products would be paid to farmers. Rangrajan Committee has indicated a derived cane price formula. It indicates that cane price will not be an absolute but linked to another variable. Cane price will be linked to the price of sugar in the market place. The higher the sugar realizations, the greater will be the cane price. This is an internationally tested model. This ensures that any increase in sectors profitability is equitably shared between its manufactures and growers. The cane grower will not be treated outsider, but as partner of entire value chain. The Rangrajan committee has gone a step further in this proposed linkage; it has proposed a sharing percentage at a level higher than what is practiced abroad, which more than secures the interest of farmers.

Maharashtra and Karnataka Government have established Control Board to address market linked cane pricing over a period of time. But until these Board become fully operational and other key states also creates a similar mechanism for cane price, India will remain among the few major markets where the price of cane is not linked with market price of sugar. Consequently cost of production is often higher than the market price of sugar, creating losses to sugar mills and cane price arrears to the farmers.

Distillery & Ethanol :

Movement and distribution of Molasses and its finished products Alcohol are governed entirely by the State Government. The ethanol blending program has suffers in most of the state as they are reluctant to allow permission for allocation of alcohol for production of ethanol. The state authority put hurdles on ethanol production due to perceptible fear of losing revenue and meeting state requirement for potable.

Co-Gen of Power :

The Company has set-up co-generation Plant for producing additional 3 MW of Electricity. The Company has received all statutory approvals toward this, but Power Purchase Agreement (PPA) could not be signed during the season 2013-14. The power supply to grid will start from sugar season 2014-15. This forward integration will significantly contribute to the profitability of the company.

CANE & SUGAR POLICY :

- The Fair and Remunerative Price (FRP) price of sugarcane for the season 2013-14 was fixed at Rs. 210 per qtl. (last year Rs.170) linked with basic recovery of 9.5%, subject to premium of Rs.2.10 per qtl. for every 0.1% increase.
- The government announced subsidy for export of raw sugar up to 4 million tonnes during 2013-14 and 2014-15 marketing years (October-September) and accordingly fixed the subsidy at Rs.13,300 per tonne for February-March, 2014 and decided to review it every two months.

- The central government, with a view to improve liquidity position of sugar factories for enabling them to clear cane price arrears of previous seasons and timely settlement of cane price of current season, notified "the scheme for extending financial assistance to sugar undertakings 2014," The Loan is equivalent to last three year central excise duty paid on sugar and is for total period of five years with 2 years moratorium. The central government will bear interest subvention to the extent of 12% over five years period.

OPPORTUNITIES AND THREATS :**OPPORTUNITIES :****Sugar :**

India is largest consumer and second largest producer of sugar in world. Sugar is an essential item of mass consumption and with increase in income and spending power the consumption pattern of rural India is changing. The consumption of sugar is on increasing trend and there are huge scope for further increase in demand as India is still lagging behind from many advanced countries in respect of per capita consumption of sugar. Thus there are opportunity in production and consumption of higher quantity of sugar in coming period.

Distillery :

The consistent increase of demand of Rectified Spirit /Ethyl Alcohol in varied segment and mandatory provision of ethanol doping of 5% and its proposed increase to 10% will have strong support for growth of sugar industry. Ethanol production improves oil security and contributes to environmental protection. The increase in ethanol price to Rs. 37 per BL during the year and proposed parity price with petroleum will have positive impact on sugar sector.

Power :

Sugar Industry offer immense scope for renewal energy project on co-generation basis, which provide clean energy. Due to this the increased demand of surplus bagasse has added imputes to revenue generation.

Bio-Compost Fertiliser :

The bio-compost and vermi-compost fertilizers being produced by the company has 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 :

- The sugar sector is exposed to political intervention.
- Unreasonable increase in cane price in comparison to sugar selling price.
- Industry cyclicity.

FUTURE PROSPECTS/OUTLOOK :

The Indian sugar industry has had three consecutive surplus sugar years between 2010-11 to 2012-13. Over and above the sugar year 2013-14 is also going to be surplus year. The sugar year 2013-14 opened with a stock of 93 lac M/T against 66 lac M/T in 2012-13. The production for the season 2013-14 expected at 243 Lac M/T against 251 lac MT during previous season. The domestic consumption of sugar for 2013-14 expected at 237 lac M/T against 228 Lac M/T last year. The export of sugar for 2013-14 expected at 22 Lac M/T, whereas import as per port data is whopping 30 Lac MT against 7 Lac MT last year. The closing stock thus estimated at 107 Lac MT, is more than 5 months domestic consumption.

Prices of by-products such as bagasse and molasses continue to remain remunerative driven by healthy demand by consuming sectors such as power, paper and alcohol. Higher realizations for fuel ethanol will result in improved returns from by-products. Forward integration into distilleries, country liquor, power generation, bio-fertilisers gives value addition. A significant part of profitability of the integrated sugar mills comes from by-products. It is believed that forward integration will remain crucial for improving profitability and riding thorough the cyclicity of the sugar industry.

RISK AND CONCERN :**SUGAR :**

- (a) Delay in evolving a rational Sugarcane Pricing Policy having link with sugar price is detrimental to growth of the industry.
- (b) The output of sugar, an agro-based product, is influenced by climatic vagaries.
- (c) Sugar Industry being cyclic in nature, the growth is hampered during downtrend.

DISTILLERY :

- (a) Lack of clear cut policy of the State Government and time consuming regulation of the movement, distribution and pricing of molasses and Industrial Alcohol are major concerns in respect of Distillery operations.
- (b) Inconsistent policy of the State government in the implementation of the Ethanol Blending Programme is matter of concern.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY :

Your Company has adequate systems and internal control procedures to safeguard the assets of the company and to ensure maintenance of proper accounting records. Computerized Information System is available to capture, present and analysis the data for management information and decision-making. The company has installed ERP system for entire factory operation including sugarcane, raw material, store, manpower, sales, accounting. The company has implemented GPS system for survey and measurement of cane area which gives authentic figures. The management and control of factory operation is also under computerization and automation. There is also an Internal Audit System in place which reviews the key business and controls and also test checks on routine transactions and reports deviations. Besides, an Audit Committee periodically reviews the functioning of the entire system. The company has surveillance systems at critical places to control.

CHANGE IN SHARE CAPITAL :

The company during the year allotted outstanding 14,50,000 equity share warrants of Rs.10/- each at a price of Rs.17.20 per warrant convertible into equity share of Rs. 10/- and premium of Rs. 7.20 each on preferential allotment basis as per SEBI (ICDR) Regulations, 2009. The said amount were used for strengthen the financial parameter of the company.

The company during last 6 years brought Rs. 13.56 Cr. as equity

FIXED DEPOSITS :

The company is complying with Fixed Deposit Rules. There is no overdue Fixed Deposit or interest thereon at the end of the year.

AUDITORS' REPORT :

The Notes on the Financial Statement referred to in the Report of the Auditors have been suitably explained by way of 'Notes on Accounts'.

COST AUDIT :

Cost Audit of Accounts of the Company for the year ended 31st March, 2014 in respect of Sugar and Industrial Alcohol are being conducted by M/s. Mani & Co., Cost Accountants, Kolkata, and necessary Report will be submitted to the Ministry of Corporate Affairs, Government of India.

The cost audit report for the financial year ended 31st March, 2013 was filed by the cost auditors with respect to sugar unit of the company on 19.09.2013, which is well within stipulated time.

DIRECTORS :

Mr. Pankaj Tibrawalla , Director who retires by rotation at the ensuing Annual General Meeting and being eligible offer himself for re-appointment.

Mr. N. C. Majumdar, Mr. Suyash Borar, Mr. Sarad Jha and Mr. S. K. Goenka are the independent Directors, whose period of office is liable to determination by retirement of directors by rotation under the erstwhile applicable provisions of the Companies Act, 1956. In terms of Section 149 and other applicable provisions of the Companies Act, 2013,

Mr. N. C. Majumdar, Mr. Suyash Borar, Mr. Sarad Jha and Mr. S. K. Goenka are being eligible and offer themselves for appointment as Independent Directors for five consecutive years for term upto 38th Annual General Meeting of the company. The company received declaration from all the independent Directors of the company confirming that they meet the criteria of Independent as prescribed under section 149(6) of the Companies Act, 2013.

DIRECTORS' RESPONSIBILITY STATEMENT :

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, as amended, with respect to the Directors' Responsibility Statement, it is hereby confirmed :

- (i) That in preparation of accounts for the financial year ended 31st March, 2014 , the applicable accounting standards have been followed;
- (ii) That the Directors of the Company have 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 as at 31st March, 2014 and of the loss of the Company for the year ended 31st March, 2014.
- (iii) That the Directors of the Company have taken proper and sufficient care 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) That the Directors of the Company have prepared the accounts of the Company for the year ended 31st March, 2014 on 'going concern' basis.

CORPORATE GOVERNANCE :

The Corporate Governance form an integral part of this Report and are set out as separate annexures to this Report. The certificate from the Auditors of the company certifying compliance of condition of Corporate Governance stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges is also annexed to Report on Corporate governance.

PERSONNEL :

There was no employee of the Company getting remuneration so as to attract the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended as on date.

LISTING OF SHARES :

The Shares of the Company are listed on the Stock Exchanges of Calcutta and Mumbai. The Company has been regularly paying the Listing Fees to each Stock Exchanges.

CONSERVATION OF ENERGY :

Particulars in respect of conservation of energy, technology absorption and Foreign Exchange earning and outgo as required under Section 217(1)(e) of the Companies Act, 1956 are given in a separate annexure hereto and forming part of this report.

AUDITORS :

M/s. K. N. Gutgutia & Co., Chartered Accountants, Kolkata, Auditors of the Company, retire and being eligible offer themselves for re-appointment.

APPRECIATION :

Your Directors express their appreciation for the support and contribution by Cane Growers, Bankers, Central and State Government, Suppliers, Customers and the valuable services rendered by the Employees at all levels.

Kolkata,

Dated : 29th May, 2014

For and on behalf of the Board,

O.P. Dhanuka
Chairman & Managing Director

Information pursuant to the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the period ended 31st March, 2014 :

A. CONSERVATION OF ENERGY :

Energy Conservation measures taken :

- a) Your Company continues to give priority to conservation of energy on an ongoing basis.
- b) Total energy consumption and energy consumption per unit of production – Given separately in Form 'A' annexed hereto.

B. TECHNOLOGY ABSORPTION :

Research & Development (R & D) :

- a) Specific areas in which R & D is being carried out by the Company :

Agriculture Development :

- 1) Soil Analysis and Nutrition
- 2) Soil Testing Lab
- 3) Tissue Culture
- 4) Microbial Culture Laboratory
- 5) Biological Control of Cane Crop
- 6) Heat Treatment Therapy to treat Sugarcane Seeds
- 7) Pest Control Measures to protect Sugar Cane from diseases.
- 8) Multiplication of foundation Cane Seeds by rearing in Nurseries
- 9) Ratoon Management for Sugar Cane crops.

Manufacturing Process :

- 1) Increasing the per day crushing rate.
- 2) Increase in operational efficiency of the Plant
- 3) Reduction of Sugar losses in process
- 4) Reduction in Steam consumption and power saving
- 5) Improvement in Sugar quality

Utilisation of by-products :

Manufacture of Bio-Compost & Vermi- Compost by using Pressmud and Distillery Effluents and co-gen of power from bagasse.

- b) Benefits derived as a result of above R & D :

- 1) By the measures under caption "Agricultural Development" :
Availability of high yielding disease-free cane and higher financial return to the Cane Growers.
- 2) By the measures under caption "Manufacturing Process" :
Improvement in production efficiency and reduction in steam consumption and co-gen.