Shree Renuka Sugars Limited

Annual Report 2005-06

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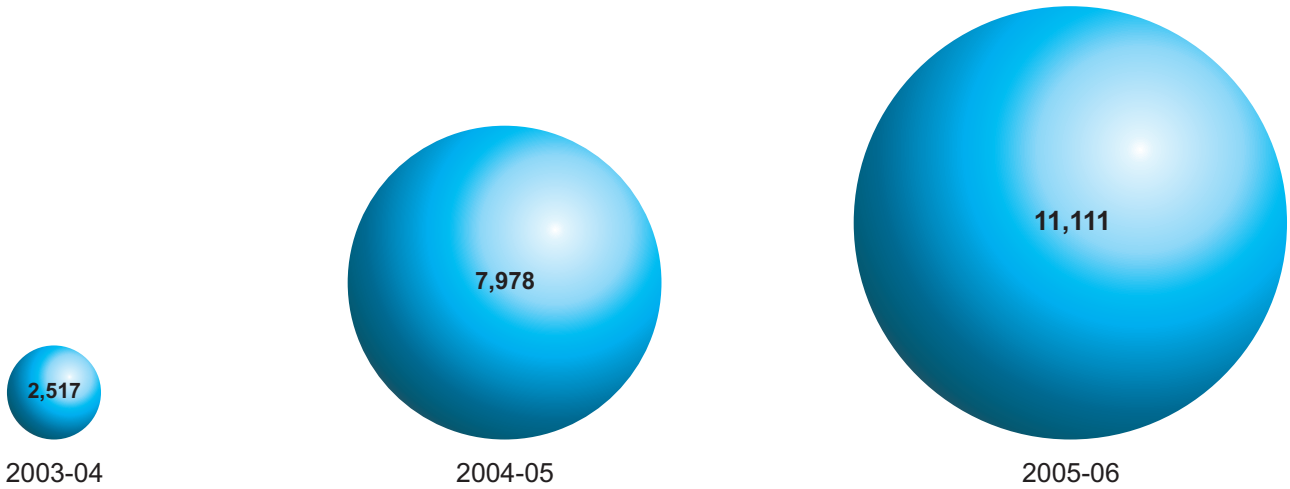

Consolidated Revenue Rs. Million.

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Board of Directors :

Mrs. Vidya M. Murkumbi	-	Executive Chairperson
Mr. Narendra M. Murkumbi	-	Managing Director
Dr. B.P. Baliga	-	Director
Mr. J.J. Bhagat	-	Director
Mr. Sanjay K. Asher	-	Director
Mr. Nandan V. Yalgi	-	Director
Mr. Robert Taylor	-	Director
Mr. S.M. Kaluti	-	Director
Mr. Jonathan Kingsman	-	Additional Director w.e.f. May 29, 2006
Mr. Hrishikesh Parandekar	-	Additional Director w.e.f. November 13, 2006

Auditors :

M/s. Ashok Kumar, Prabhashankar & Co.
Chartered Accountants Bangalore.

Registered Office :

BC 105, Havelock Road, Camp, Belgaum-590 001.
Tel.: 91-831-2404000 (7 Lines) Fax: 91-831-2404961.

Corporate Office :

7th Floor, Devchand House, Shiv Sagar Estate,
Dr. Annie Besant Road, Worli, Mumbai-400 018.
Tel: 91-22-2497 7744 Fax: 91-22-2497 7747.

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Plant Locations :

Unit -I
Sugar, Distillery, Co-generation and Sugar Refinery
at Munoli, Taluka Saudatti, District: Belgaum

Unit -II Sugar
Gavase, Taluka Ajara, District Kolhapur

Unit –III Sugar, Co-generation and Distillery
At Mohannagar, Taluka Miraj, District Sangli

Unit –IV Sugar, Distillery and Co-Generation
At Kokatnur, Taluka Athani,
District Belgaum

Unit - V Sugar
Havalga, Tal: Afzalpur, Dist: Gulbarga

Unit -VI Sugar
Bhusanoor, Tal: Aland, Dist: Gulbarg

Unit -VII Sugar Refinery
Haldia, Kolkata, West Bengal

Bankers :

State Bank of India
Standard Chartered Bank
ABN AMRO
UTI Bank Limited
ING Vysya Bank
ICICI Bank
IDBI Bank

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NOTICE

NOTICE is hereby given that the **Eleventh Annual General Meeting** of **Shree Renuka Sugars Limited** will be held on **Thursday, the 28th December, 2006 at Maratha Mandir Hall, Near Railway Over Bridge, Khanapur Road, Belgaum at 9.30 a.m. to** transact the following business :

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at 30th September, 2006 and the Profit and Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in place of Mrs. Vidya M. Murkumbi who retires by rotation, and being eligible, offers herself for re-appointment.
4. To appoint a Director in place of Mr. J. J. Bhagat who retires by rotation, and being eligible ,offers himself for re-appointment.
5. To appoint Auditors and to 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 Mr. Jonathan Kingsman, who was appointed as an Additional Director of the Company by the Board of Directors, pursuant to Section 260 of the Companies Act, 1956 and who holds office upto the date of this General Meeting and in respect of whom notice in writing from a member proposing his candidature for the office of Director under Section 257 of the Companies Act, 1956, who is eligible for appointment to the office of Director, 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 Mr. Hrishikesh Parandekar, who was appointed as an Additional Director of the Company by the Board of Directors, pursuant to Section 260 of the Companies Act, 1956 and who holds office upto the date of this General Meeting and in respect of whom notice in writing from a member proposing his candidature for the office of Director under Section 257 of the Companies Act, 1956, who is eligible for appointment to the office of Director, 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 a Special Resolution :

   "RESOLVED THAT pursuant to the provisions of Sections 16, 94 and all other applicable provisions, if any of the Companies Act, 1956 (including statutory modification or re-enactment thereof for the time being in force), Sub clause (b) of Clause V of the Memorandum of Association of the Company be amended by deleting the words "2% Cumulative Redeemable Preference Shares" and substituting thereof the words "Preference Shares".
9. To consider and if thought fit to pass with or without modification(s) the following resolution as a Special Resolution :

   "RESOLVED THAT pursuant to the provisions of Sections 16, 94 and all other applicable provisions, if any, of the Companies Act, 1956 (including statutory modification or re-enactment thereof for the time being in force) and in terms of Article 8 of the Articles of Association, the authorised share capital of the Company be increased from Rs. 40,00,00,000/- to Rs.105,00,00,000/- by creation of 6,50,00,000 Preference Shares of Rs. 10 each ranking for dividend and in all other respects pari passu with the existing authorised Preference Shares in the Company and that the existing sub clause (b) of Clause V in the Memorandum of Association of the Company be deleted and the following new sub clause V (b) be substituted thereof.

   (b) 7,00,00,000 (Seven Crores) Preference Shares of Rs.10/- (Rupees Ten Only) each".
10. To consider and if thought fit to pass with or without modification(s) the following resolution as a Special Resolution.

    "RESOLVED THAT, pursuant to Section 31 and all other applicable provisions, if any of the of the Companies Act, 1956 (including statutory modification or re-enactment thereof for the time being in force), the existing sub Article (b) of the Articles of Association be deleted and following new Article 5 (b) be substituted thereof.

    (b) 7,00,00,000 (Seven Crores) Preference Shares of Rs.10/- (Rupees Ten Only) each".
11. To consider and if thought fit, to pass with or without modification(s), the following resolutions as Special Resolution :

    "Resolved that pursuant to the provision of Section 81(1A) and other applicable provision if any of the Companies Act, 1956, (including any modification or re-enactment thereof for the time being in force), and in accordance with the provision of the Memorandum and Articles of Association of the Company and the regulations/guidelines, prescribed by Securities and Exchange Board of India or any other relevant authority, from time to time, to the extent applicable and subject to such approvals, consents, permissions and sanctions, as may be required, and subject to such conditions as may be prescribed by any of them while granting such approvals, consents, permissions and sanction, which the Board of directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any Committee constituted/to be constituted by the Board to exercise its powers including the powers conferred by this Resolutions) is hereby authorized to accept, the Board be and is

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hereby authorized on behalf of the Company to create, offer, issue and allot, to or for the benefit of such person(s) as are in the permanent employment and the Directors (including the whole-time directors) of the Company, at any time, equity shares of the company and /or warrants (whether attached to any security or not) with an option exercisable by the warrant-holder to subscribe for equity shares/equity linked securities and/or bonds, debentures, preference shares or other securities convertible into equity shares at such price, in such manner, during such period, in one or more tranches and on such terms and conditions as the Board may decide prior to the issue and offer thereof, for or which upon exercise or conversion could give rise to the issue of a number of equity shares of the company, from time to time, on the date(s) of the grant of option(s) under Shree Renuka Sugars Employees Stock Option Scheme (ESOS), as placed at the Meeting.

Resolved Further that subject to the terms stated herein, the equity shares allotted pursuant to the aforesaid Resolution shall in all respects rank pari passu inter se as also with the then existing equity shares of the Company.

Resolved Further that ESOS may operated by the Trustees of any ESOS Trust(s) established by the company and containing such terms as the Board while establishing the trust(s), deem appropriate.

Resolved Further that for the purpose of giving effect to any creation, offer, issue or allotment of equity shares or securities of instruments representing the same, as described above, or for the purpose of settling any ESOS Trust(s), the Board be and is hereby authorized on behalf of the company to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable for such purpose, and with power on behalf, of the Company to settle all questions, difficulties or doubts that may arise in regards to such issue(s) (including to amend or modify any of the terms of such issue or allotment), as it may, in its absolute discretion deem fit, without being required to seek any further consent or approval of the Members.

Resolved Further that the Board be and is hereby authorized to vary or modify the terms of ESOS in accordance with a guidelines or regulations that may be issued, from time to time, by any appropriate authority unless such variation, modification and alteration is detrimental to the interest of the employees/Directors(including the whole-time Directors).

Resolved Further that the Board be and is hereby authorized to delegate all or any of the powers herein conferred to any Committee of Directors, or Chairperson of the Company."

The releavant explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 setting out material facts is annexed hereto.

Place: Mumbai
Date: 13th November, 2006

By Order of the Board

Regd. Office
B.C. 105, Havelock Road
Camp, Belgaum – 590 001

Narendra Murkumbi
Managing Director

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NOTES :

1. **A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and proxy need not be a member of the Company. The proxy form duly completed must reach the registered office of the Company not less than 48 hours before the commencement of the meeting.**

2. An Explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 in relation to the items of Special business to be transacted at the meeting is annexed hereto.

3. All documents referred to in the accompanying notice and the explanatory statement are open for inspection at the Registered office of the Company on all working days between 11.00 a.m. to 1.00 p.m. upto the date of Annual General Meeting.

4. The dividend on equity shares for the year ended 30th September, 2006, if declared, will be paid :

   i) to those members, holding shares in physical form, whose names appear in the Register of members as on 28th December, 2006.

   ii) in respect of shares held in electronic mode, on the basis of beneficial ownership , as per details furnished by National Securities Depositories Limited (NSDL) and Central Depository Services (India) Limited (CDSL), as on 28th December, 2006.

5. The Register of Members and the Share transfer books of the Company will remain closed from Monday, 18th December, 2006 to Thursday, the 28th December, 2006 (both days inclusive).

6. Members, holding shares in physical form are requested to advise about change of address to Karvy Computershare Private Limited. Members holding shares in electronic form are requested to intimate their respective Depository Participants (DP) about any change of address or Bank mandate and NOT to the Company or Registrar and Transfer Agents.

7. Member / proxies should bring their attendance slip, duly completed for attending the meeting.

8. Members who have not yet encashed their dividend warrants for the year 2003-04 and 2004-05 are advised to forward such warrants to the Registered Office for revalidation. Pursuant to the provisions of the Section 205-C of the Companies Act, 1956 dividend which remains unclaimed for a period of seven years will be transferred to the Investor Education and Protection Fund of the Central Government.

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ANNEXURE TO NOTICE

Explanatory Statement

(Pursuant to Section 173(2) of the Companies Act, 1956)

Item No.6.

The Board of Directors appointed Mr. Jonathan Kingsman as an Additional Director of the Company with effect from 29th May, 2006. Pursuant to Section 260 of the Companies Act, 1956, he holds office up to the date of ensuing Annual General Meeting.

The Company has received a notice in writing from a member along with deposit of Rs.500/- proposing candidature of Mr. Jonathan Kingsman for the office of Director under Section 257 of the Companies Act, 1956.

Mr. Kingsman is a world leading independent analyst and commentator on sugar and ethanol markets. He has secured Masters Degree in Economics from Cambridge. After completing his education he started his career in the sugar business with Cargill Inc. In the year 1990, he started his own sugar brokerage company in France and soon developed a reputation as an eminent market analyst and report writer. He is also editor of the sugar trading manual and is a regular speaker at international conferences. He is having rich knowledge and experience in sugar industry especially world markets. His appointment as Director on the Board will be in the interest of the Company. The Board therefore recommends his appointment as Director.

Mr. Kingsman is entitled to the sitting fee for attending each meeting of the Board or committee thereof.

No Director other than Mr. Jonathan Kingsman is concerned or interested in the resolution.

Item No.7.

The Board of Directors appointed Mr Hrishikesh Parandekar as an Additional Director of the Company with effect from 13th November, 2006. Pursuant to Section 260 of the Companies Act, 1956, he holds office upto the date of ensuing Annual General Meeting.

The Company has received a notice in writing from a member along with deposit of Rs.500/- proposing candidature of Mr. Hrishikesh Parandekar for the office of Director under Section 257 of the Companies Act, 1956.

Mr. Hrishikesh Parandekar is a Commerce graduate from the Bombay University He also has a Masters Degree in Business Administration (MBA) from IIM, Ahmedabad, where he was awarded the Gold Medal for graduating at the top of his class. He is the Founder and Managing Director of the India Rising Fund, which invests in private equity, real estate, and venture capital managers in India. Before founding the Fund, Mr. Parandekar had a distinguished business career working for Morgan Stanley and McKinsey in India and the US. At Morgan Stanley, he was Managing Director and Head of the Latin American Private Wealth and the International Retail Businesses. Before heading the businesses, he was responsible for strategic planning for the global private client business. Prior to joining Morgan Stanley, Mr. Parandekar was a Senior Consultant with McKinsey, starting in Mumbai and with stints in the Firm's offices in Abu Dhabi, Chicago, Kuala Lumpur, and New York. He specialized in serving investment houses, banks, and insurers, on issues related to strategy, investing, and product management.

Mr. Parandekar resides in New York but divides his time between New York and Mumbai.

His appointment as Director on the Board will be in the interest of the Company. The Board therefore recommends his appointment as Director.

Mr Hrishikesh Parandekar is entitled to the sitting fee for attending each meeting of the Board or committee thereof.

No Director other than Mr Hrishikesh Parandekar is concerned or interested in the resolution.

Item No 8 & 9

1. The Existing Cumulative Redeemable Preference Shares are 2% Cumulative Redeemable Preference Shares of Rs.10/- each. The words "2% Cumulative Redeemable Preference Shares" binds the company to pay only 2% dividend to the holders thereof which is not commensurate with the prevailing market and far less than the dividend paid to the equity shareholders so far. The fixed rate of 2% dividend will make it difficult to get the subscription for the said shares. Further the words "Cumulative Redeemable" will prohibit the Company from issuing Preference Shares other than Cumulative Redeemable Preference Shares It is therefore proposed to delete the words "2% Cumulative Redeemable" leaving the Board of Directors

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to fix the rate of dividend to be paid to the holders of Preference Shares and to decide the class of Preference Shares at the time of issue. After redemption of 2% Cumulative Redeemable Preference shares there is no holder of 2% Cumulative Redeemable Preference shares. The provisions of Section 106 of the Companies Act, 1956 are therefore not attracted.

2. The present authorised capital of the company is Rs. 40,00,00,000. It is proposed to increase the authorised capital of the company to Rs. 105,00,00,000 by creation of 6,50,00,000 Preference Shares of Rs. 10 each in order to enable the company to raise required share capital having different class rights bearing with or without fixed dividend as decided by the Board at the time of issue and also an absolute right to decide all other terms including tenure, redemption etc for augmenting capex and corporate restructuring plans of the company. The power of increasing authorised capital of the company is required to be exercised by the company in General Meeting.

3. The members of the Company through Postal Ballot authorised the Board for the issue of various securities in terms of Section 81 and all other applicable provisions of the Companies Act, 1956 to decide the terms of issue in its absolute discretion and also to decide at the time of issue of securities including but not limited to terms and conditions relating to payment of interest, tenure, dividend, premium on redemption, at the option of the Company and/or holders of any securities, or option(s) for early redemption of securities etc".

Special Resolution is proposed in the interest of the company.

None of the Directors of the Company is concerned or interested in the resolution.

Item No.10

Consequent to the amendment of the capital clause i.e. Clause V of the Memorandum of Association Article 5 of the Articles of Association is required to be amended.

None of the Directors of the Company is concerned or interested in the resolution.

Item No. 11 :

The human resource plays a vital role in the growth and success of any organization. The board has identified the need to reward the employees and to enable them to participate in the future growth and financial success of the Company, has proposed to offer the employees an option to acquire the equity shares of the Company under Shree Renuka Sugars Employee Stock Option Scheme (ESOS)

In view of the above, the Board has formulated an ESOS in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 under which the maximum number of equity shares of the company that could be created, offered issued and allotted under ESOS should not exceed two percent of the issued equity shares of the Company, as on the dates(s) of the grant of option(s) under ESOS. The Board has accordingly decided to seek the approval of the Members for the same.

The salient features of the ESOS are set out below:

Total number of options/shares that could be issued under ESOS: Upto Two per cent of the aggregate of the number of issued equity shares of the Company, from time to time, on the date(s) of grant of option(s) to Eligible employee (being employee/Director (including whole-time director) of the Company, its subsidiary companies and holding company, if any

The options which lapse/expire or are forfeited will be available for grant to other Eligible employee(s).

Grant Date: The date of the Meeting of the Board/Committee approving the grant of option(s).

Eligibility for grant of options:

a) Persons as are in the permanent employment of the Company, its subsidiary companies and holding company in such grade and with such experience/association with the Company, as may be decided by the Board/Committee.

b) Directors (including whole-time Directors) of the Company, its subsidiary companies and holding company at any time.

Employees not eligible for grant of options:

An employee who is a promoter or belong to the promoters group or a director who either by himself or through any body corporate, directly or indirectly holds more than 10 per cent of the outstanding equity shares of the Company at the time of granting of option shall not be eligible to participate in ESOS.

Vesting, requirements of vesting and maximum period of vesting: The vesting period shall commence on the expiry of one year from the Grant Date and may extend upto Five years or such further or other period as the Board/Committee may determine, from the Grant Date.

The options may vest in tranches subject to the terms and conditions as may be stipulated by the Board/Committee, which may include satisfactory performance of the employees/Directors and their continued employment with the Company, as the case may be ,unless such employment is discontinued on account of death, permanent /total disability or on retirement.

If the employee/Director (including whole time Director) voluntarily terminates employment , the options to extent not vested shall lapse/expire and be forfeited forthwith. However, this shall not be applicable to the employee/Director(including whole-time Director)

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of the company who has resigned or who may resign from time to time to join companies, approved by the Board/Committee, that have been established or promoted or set up (whether solely or jointly with any other entity) by the Company.

Exercise Price:

The exercise price shall be the average of the daily closing price of equity shares of the Company on the Stock Exchange which records the highest trading volume in the Company's equity shares on the date prior to the date of the meeting of the Board/committee at which options are granted or such price as the Board /committee may determine on the date(s) of grant of option(s) .

Exercise Period and the process of Exercise:

The exercise period would commence from the date of vesting and will expire on completion of three years from the date of vesting of options or five years from the date of Grant Date, whichever is later. The options will be exercisable by the eligible employees by a written application to the Company / its present and future subsidiaries to exercise the options in such manner, and on execution of such documents subject to the payment of exercise price in the manner prescribed by the Remuneration / Compensation Committee from time to time. The options will lapse if not exercised within the specified exercise period.

Appraisal Process for determining the eligibility of the employees to ESOP:

The appraisal process for determining the eligibility of the employee will be specified by the Remuneration / Compensation Committee, and will be based on criteria such as seniority of employee, length of service, past performance record, merit of the employee, future potential contribution by the employee and/or such other criteria that may be determined by the Remuneration / Compensation Committee at its sole discretion.

Maximum number of options to be issued per employee and in aggregate:

The maximum number of options that may be granted to any eligible employee under ESOP 2006 shall not exceed 0.1 percent of the aggregate of the number of issued equity shares of the Company from time to time on the date(s) of grant of option(s). The aggregate of all such options granted shall not exceed Two Percent of the aggregate of the number of issued equity shares of the Company, from time to time, on the date(s) of grant of option(s).

Disclosure and Accounting Policies:

The Company shall comply with the disclosure and the accounting policies prescribed by concerned Authorities from time to time.

Method of option valuation:

To calculate the stock-based compensation, the Company shall use the Intrinsic Value Method for valuation of the options granted. The difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if the Company had used the fair value of the options, shall be disclosed in the Directors' Report and also the impact of this difference on profits and on earning per share (EPS) of the Company shall also be disclosed in the Directors' Report. The fair value would be determined using the Black-Scholes model/ such other appropriate method.

The Remuneration / Compensation Committee will formulate the detailed terms and conditions of the said ESOP 2006, as well as monitor the administration and superintendence thereof. The aggregate number of options to be offered to the eligible employees of the Company as well as its present and future subsidiaries shall be within the aforesaid overall limit of , not exceeding in aggregate , two percent of the aggregate of the number of issued equity shares of the Company, from time to time, on the grant of option(s). Approval of the shareholders is being sought for ESOP 2006, for all the eligible employees of the Company and its present and future subsidiaries, by way of separate special resolutions pursuant to the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. As ESOP 2006 provides for issue of equity shares of the Company to be offered to persons other than existing shareholders of the Company, consent of the shareholders is sought pursuant to the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 and as per the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

The Managing Director & CEO and Chairperson of the Company and the Managing Director/s and Whole time Director/s of its present and future subsidiaries, as would be eligible to avail the benefit of the ESOP 2006 subject to the threshold limit of 0.1 percent of the aggregate of the number of issued equity shares of the Company from time to time on the date(s) of grant of option(s , may be deemed to be concerned or interested in the resolution only to the extent of grant of options and allotment of equity shares of the Company to them. The Board of Directors accordingly recommend the resolution set out at Item No. 11 of the accompanying Notice for the approval of the Members. Your approval is sought for the approval of the Scheme.

All the directors of the Company may be deemed to be concerned or interested in the said resolution, to the extent of their holdings in the Company.

The Board commends the resolution for approval of the members.

Mumbai
Date : 13th November, 2006

By Order of the Board

Regd. Office
B.C. 105, Havelock Road
Camp, Belgaum – 590 001

Narendra Murkumbi
Managing Director

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DIRECTOR'S REPORT

The shareholders of
Shree Renuka Sugars Limited

This is a historic year for the company as the ten billion rupee (Rs 1111 crores) consolidated revenue mark was achieved. The Directors are pleased to present their report on the business and operations of your company together with the audited financial statements for the year ended 30th September, 2006.

Financial Results :

(Rs. in Millions)

Particulars	2005-2006	2004-2005
Net Revenues	**8065.91**	6,415.46
Profit before financial expenses and depreciation	**1021.21**	704.13
Interest	**187.84**	133.64
Depreciation and Amortization	**87.84**	79.97
Profit before provision for tax	**745.53**	490.52
Provision for taxation – current	**166.44**	76.15
Deferred tax	**16.39**	7.03
Net Profit	**562.70**	407.34
Prior period item (Net)	**6.90**	72.71
Profit brought forward	**180.65**	9.06
Profit available for appropriation	**736.45**	343.69
Transfer to General Reserves	**300.00**	100.00
Transfer to Capital Redemption Reserve	**-**	8.50
Dividend on Preference shares	**-**	0.12
Dividend on Equity shares	**47.62**	47.72
Dividend tax	**6.68**	6.70
Balance carried over	**382.15**	180.65
Basic and diluted earnings per share (Rs.)	**23.98**	23.79
Basic and diluted earnings per share (Rs.) Not annualized	**23.63**	20.37

Financial Performance :

Total Revenues increased by 25.73% from Rs. 6415.46 Millions to Rs. 8065.91 Millions. The EBIDTA increased by 45.03% from Rs. 704.13 Millions to Rs. 1021.21 Millions.

The Profit after tax increased by 38.14% from Rs. 407.34 Millions to Rs. 562.70 Millions.

Earning per share (EPS) is increased from Rs. 20.37 to Rs. 23.63 (Not Annualized).

Business :

The past year has been marked by both new horizons and increased volatility. World sugar prices rose to 25 year highs in the first quarter of 2006. The entire industry paradigm is being transformed from a single commodity focus on sugar to a more durable and exciting market which encompasses the buoyant biofuels market. Growing importance of ethanol worldwide as a bio-fuel is driving demand growth. This is still a very early stage in the development of a global biofuel market and we see it growing to the same size as the world sugar industry within the next 6 years.

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