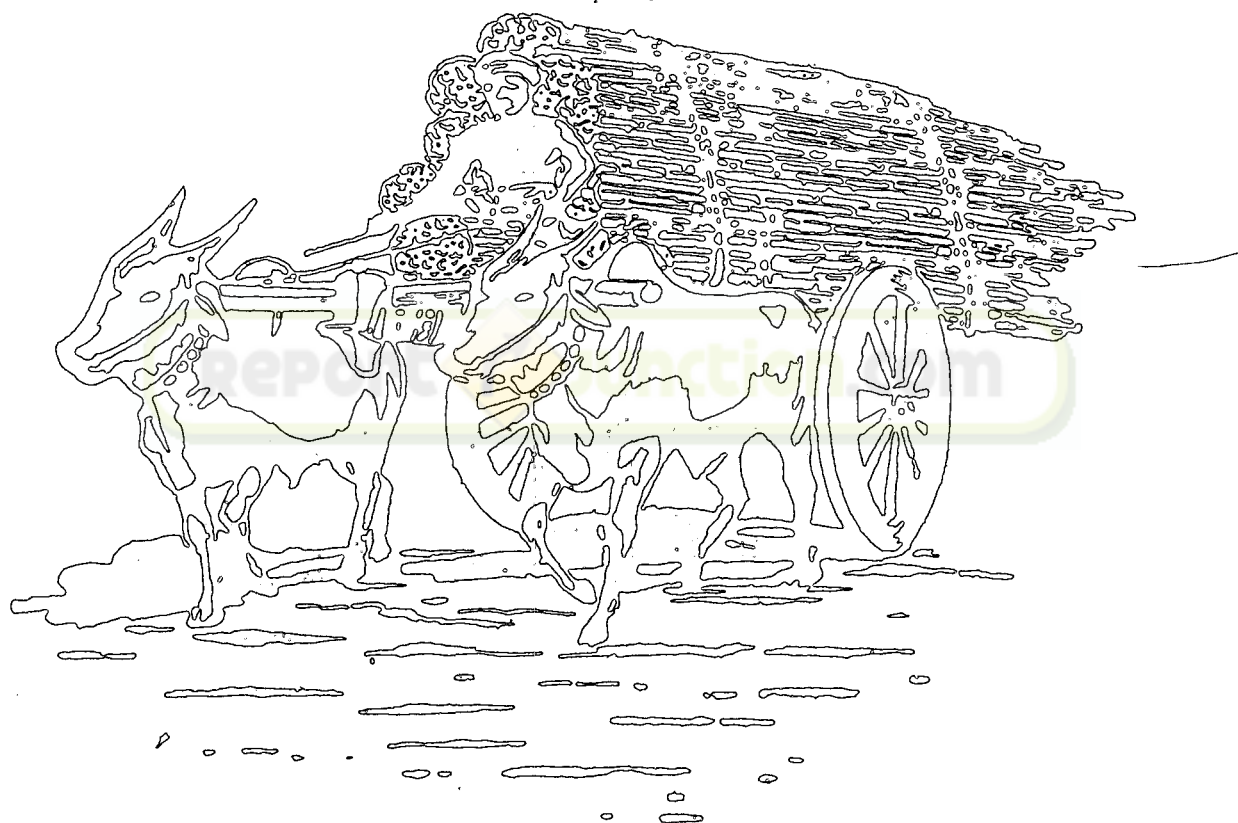
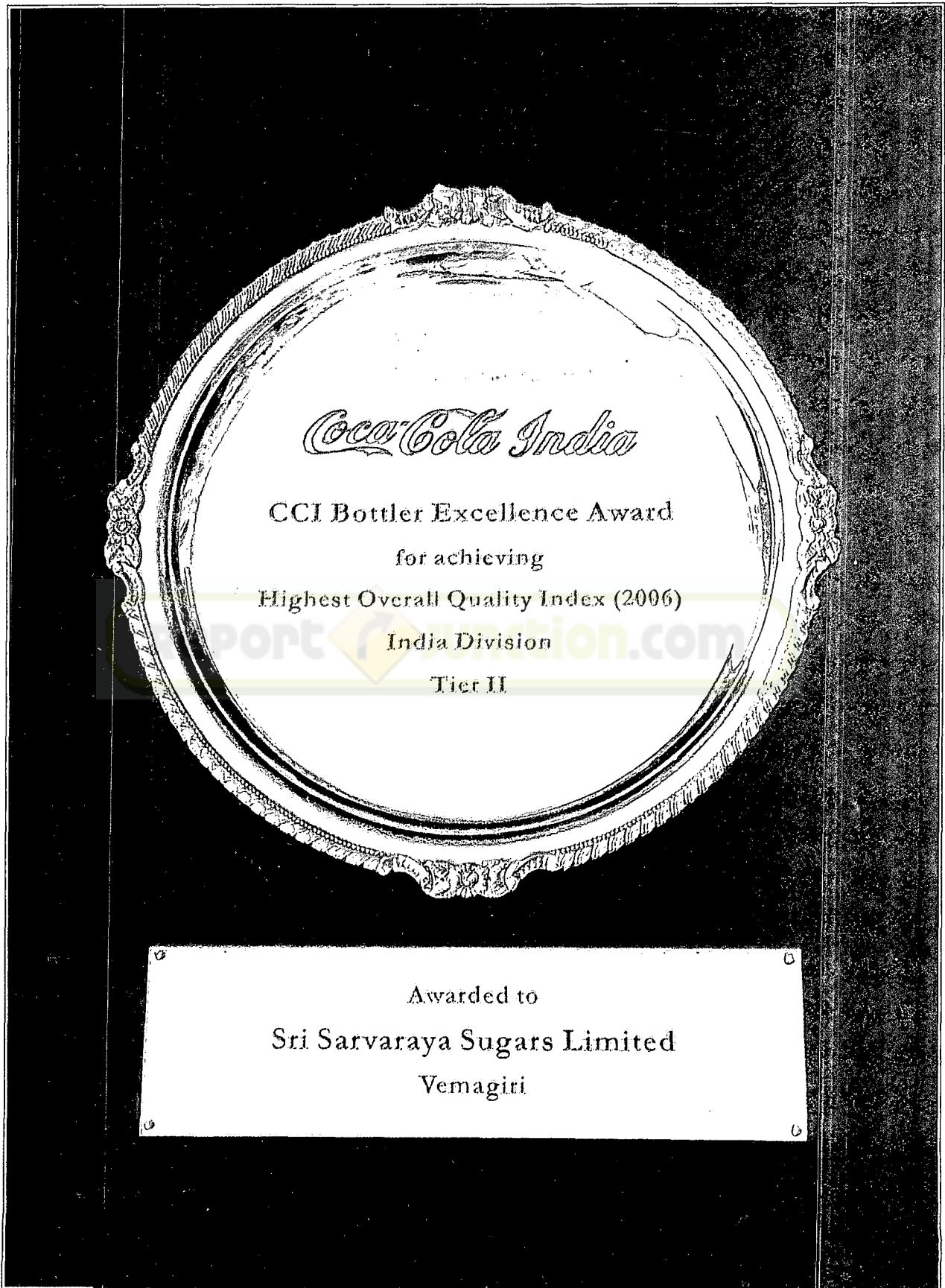


Sri Sarvaraya Sugars Limited



**Annual Report
2005 - 2006**



Coca-Cola India

CCI Bottler Excellence Award

for achieving

Highest Overall Quality Index (2006)

India Division

Tier II

Awarded to

Sri Sarvaraya Sugars Limited

Vemagiri

Sri Sarvaraya Sugars Limited

Registered Office: 12, Ethiraj Salai, Egmore, Chennai 600 008

Board of Directors:

Dr.N.R.Sivaswamy
Dr.B.B.Ramaiah
Sri.S.B.P.B.K.Satyanarayana Rao
Sri.K.Ramachandra Rao
Sri.M.Subbarayudu
Smt.Usha Sarvarayalu
Smt.S.B.Rajarajeswaramma (Managing Director)
Sri.S.B.P.Anand Mohan

Chief Executive:

Sri .R.Sudhakar Choudary

General Manager – Finance:

Sri.S.Venkatesan

Auditors:

Messrs.Brahmayya & Co
Chartered Accountants
Vijayawada

Cost Auditor:

Sri.P.Parankusam
Vijayawada

Legal Adviser:

Sri.A.K.Mylsamy

Bankers:

Bank of Baroda, Kakinada, Chelluru, Ramachandrapuram, Rajahmundry and Chennai
Indian Bank, Kakinada, Chennai
Central Bank of India, Rajahmundry
State Bank of India, Commercial Branch, Kakinada
Bharat Overseas Bank Ltd., Chennai
Corporation Bank, Chennai
Andhra Bank, Kakinada

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Sri Sarvaraya Sugars Limited

Registered Office: No.12, Ethiraj Salai, Egmore, Chennai 600 008

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Forty Ninth Annual Report and Audited Accounts of the Company for the year ended 30th September, 2006.

Financial Results:

	Rs. (lakhs)	Rs. (lakhs)
Gross Profit for the year (before providing for Interest, Depreciation and Taxes)		4127.65
Less: Interest & Finance Charges	979.95	
Depreciation	<u>767.30</u>	
Profit before Tax		<u>1747.25</u> 2380.40
Provision for Taxation – Current	819.43	
Deferred Tax Liability	115.85	
Fringe Benefit Tax	<u>18.18</u>	
Net Profit		<u>953.46</u> 1426.94
Add: Balance of Profit & Loss Account brought forward from previous year		1544.99
Less: Income Tax paid for earlier years		<u>2.34</u>
Profit available for appropriation		2969.59
Appropriations:		
1. Transfer to General Reserve	2061.56	
2. Provision for Dividend	101.60	
3. Tax on Proposed Dividend	<u>14.25</u>	
		<u>2177.41</u>
Balance carried forward to next year		792.18

Dividend:

Subject to your approval your Directors recommend payment of Dividend of Rs.5/- and a Golden Jubilee Special Dividend of Rs.5/- per equity share for the year ended 30.09.2006 to absorb Rs.101.60 lakhs.

Review of Operations:

Sugar Division:

During the season, 5.65 lakh tonnes of Sugar cane (previous season 5.49 lakh tonnes) was crushed. The sugar recovery was 10.62% (previous season 11.84%). 6.00 lakh quintals of sugar (previous season 6.34 lakh quintals) was produced. For the 2006-2007 crushing season, about 5.80 lakh tonnes of cane is expected to be available.

Distillery Division:

During the year under review, 81.31 lakh Bulk Litres of Rectified Spirit was produced, as against 71.53 lakh Bulk Litres during the previous year.

Bottling Division:

The Vemagiri and Kesavaram Units sold 65.42 lakh cases of Carbonated and Non-Carbonated Soft Drinks as against 69.21 lakh cases during the previous year.

Packaged Drinking Water:

The Sathupally Unit sold 10.31 lakh cases of Packaged Drinking Water as against 10.99 lakh cases during the previous year.

Accounts:

With regard to Item No.4(e) of the Auditors' Report, the explanation given in Item No.3 of Notes on Accounts in Schedule 18B is self-explanatory.

Capital and Reserves:

As on 30.09.2006 the Share Capital stood at Rs.101.60 lakhs and the Reserves and Surplus stood at Rs.5292.56 lakhs.

Fixed Deposits:

As on 30.09.2006 Deposits which have matured but not been claimed are Rs.6.07 Lakhs by 11 depositors.

Sri Sarvaraya Sugars Limited

Directors:

Under Clause 87 of the Articles of Association of the Company, Sri.S.B.P.B.K.Satyanarayana Rao, Sri.M.Subbarayudu and Dr.N.R.Sivaswamy, Directors, retire by rotation and being eligible, offer themselves for re-appointment.

Auditors:

M/s. Brahmayya & Company, Chartered Accountants, Vijayawada are to retire at the conclusion of the 49th Annual General Meeting and are eligible for re-appointment.

Cost Auditors:

Sri.P.Parankusam, Cost Accountant, conducted the Cost Audit of the Accounts of the Sugar and Distillery Divisions for the year ended 30.09.2006.

Particulars of Employees:

Statement under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975, as amended, is given in the Annexure forming part of this Report.

Directors' Responsibility:

Statement under Section 217 (2AA) of the Companies Act, 1956, is given in the Annexure forming part of this Report.

Compliance Certificate:

In accordance with the provisions of Companies (Compliance Certificate) Rules 2001, a Compliance Certificate from a Practising Company Secretary is annexed forming part of this Report.

Corporate Governance:

As required under Clause 49 of the Listing Agreement, Reports on Management Discussion and Analysis on Corporate Governance together with the Certificate of Auditors on Corporate Governance are given separately, which form part of this Annual Report.

Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo:

As required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988, the information is furnished in the Annexure forming part of the Report.

Industrial Relations:

Industrial Relations continued to remain cordial during the year. The Directors express their appreciation for the cooperation and contribution made by the employees at all levels for the successful operations of the Company during the year.

Acknowledgement:

The Directors thank the various Departments of the Central and State Governments, Bank of Baroda, Indian Bank, Central Bank of India, State Bank of India, Bharat Overseas Bank Limited, Corporation Bank, Andhra Bank, IFCI Ltd., and Sugar Development Fund for the support and cooperation extended throughout the year.

For and on behalf of the Board

Chairman

Chennai
29.1.2007

Sri Sarvaraya Sugars Limited

ANNEXURE TO DIRECTORS' REPORT

Statement showing particulars of Employees of the Company as required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 30th September, 2006

Sl. No.	Name	Qualifications	Experience (Years)	Designation/ Nature of Duties	Age (Years)	Date of Employment with the company	Remuneration Rs.	Previous Employment
1	Smt. S.B.Raja rajeswaramma	Matriculation	36	Managing Director	80	21.10.1999	1,24,65,425	Managing Partner Southern Agencies

Notes:

(1) Remuneration includes salary, commission, house-rent allowance, Company's contribution to Provident Fund, Gratuity and the monetary value of perquisites provided to the employee.

(2) Nature of employment is contractual.



DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217 (2AA) OF THE COMPANIES ACT, 1956.

That in the preparation of the Annual Accounts, the applicable Accounting standards had been followed and there were no material departures there from;

That the Directors had selected such Accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year ended 30th September, 2006 and of the profit of the Company for that year;

That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

That the Directors had prepared the Annual Accounts on a going concern basis.

Sri Sarvaraya Sugars Limited

ANNEXURE TO DIRECTORS' REPORT

FORM - A (See Rule 2)

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY
SUGAR UNIT

Particulars	Units	For the year ended 30.09.2006	For the year ended 30.09.2005
(A) POWER AND FUEL CONSUMPTION			
1. Electricity			
a) Purchased Units			
Quantity	kWh	1,50,273	2,70,893
Cost per Unit	Rs.	8.45	6.28
Total Amount	Rs.	12,69,693	17,00,825
b) Own Generation			
i) Through Diesel Generator			
Quantity	kWh	5,05,488	1,67,560
Units per litre of Diesel Oil	kWh	3.34	2.98
Cost per Unit	Rs.	9.15	8.34
ii) Through Steam Turbine / Generator			
Quantity	Units	1,64,11,869	1,72,91,078
Units per Tonne of Firewood / Bagasse	kWh	119.18	108.10
Cost per Unit	Rs.	0.59	0.59
2. Coal (Specify quality & where used)			
Quantity	Tonnes	Nil	Nil
Total Cost	Rs.	Nil	Nil
Average Rate	Rs.	Nil	Nil
3. Furnace Oil:			
Quantity	Litres	Nil	Nil
Total Amount	Rs.	Nil	Nil
Average Rate	Rs.	Nil	Nil
4. Others / Internal Generator			
Firewood			
Quantity	Tonnes	Nil	1500.00
Total Cost	Rs.	Nil	9,89,999
Rate per unit	Rs.	Nil	660.00
(B) CONSUMPTION PER UNIT OF PRODUCTION FOR SUGAR			
Products	Standards (if any) Sugar	Current year	Previous year
Electricity	kWh	15.90	15.02
Furnace Oil		Nil	Nil
Coal (specify quantity)		Nil	Nil
Others (specify)		Nil	Nil

Sri Sarvaraya Sugars Limited

FORM B

(See Rule 2)

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION

Research and Development (R & D)

- 1 Specific areas in which R & D carried out by the Company : Farm trials with Sugarcane varieties 96A3, 96A136, 97R383 and 95O20 have been found to be promising. These varieties have been supplied during current planting season for commercial multiplication. New varieties such as 96006, 96008 and 97A85 are being screened at the company's farm for their adoption.
- 2 Benefits derived as result of the above R & D : Supply of Enriched Press Mud Cake (Organic Manure) at subsidised rates resulted in a 20% reduction in usage of Inorganic Fertilizer.
- 3 Future Plan of Action : A) On the advice of Senior Scientist, RARS, Anakapalli, we plan to raise Poly Bag Seedlings of all varieties and supply to growers for filling gaps in ratoons at nominal cost to maintain purity of cane varieties.
: B) The production of Vermi Compost is under process and is expected to be hastened this year for supply to growers on commercial basis.
: C) Trials are being conducted to control soil borne diseases such as Wilt, with different biological organisms, in coordination with Sugarcane Breeding institute, Coimbatore.
- 4 Expenditure on R & D
a) Capital : Nil
b) Recurring : Rs.288.47 lakhs
c) Total : Rs.288.47 lakhs
d) Total R & D expenditure as a percentage of total turnover : 1.48%

Technology absorption, adaptation and innovation :

- 1 Efforts in brief, made towards Technology absorption, adaptation and innovation : Installed (i) DC Drive for 1st Tandem 2nd Mill in place of Hydraulic drive, (ii) Vapour line Juice heaters on Evaporator last body to heat raw juice, (iii) 1750 A-Batch centrifugal machine (1 No.) in place of old damaged low capacity machine and (iv) 4Nos. 250A capacity Air Circuit Breakers.
- 2 Benefits derived as a result of the above technology absorption adaptation and Innovation : Increased the crushing rate of 1st Tandem. Steam consumption at Evaporators has reduced. Boiling time has reduced. Quality of sugar has improved.
- 3 In case of imported technology (imported during the last 5 years reckoned from the beginning of the Financial year), following information may be furnished.
a) Technology imported : Nil
b) Year of import :
c) Has technology been fully absorbed :
d) If not fully absorbed, areas where this has not taken place, reasons therefore and future plan of action. :
- 4 Foreign exchange earnings and duties :
a) Activities relating to exports, initiatives taken to increase exports. Development of new export markets for production and services and export plans. : Nil
- 5 Total Foreign exchange used and earned :
1. Used :
a) Capital Goods Import : Rs.75,30,187/-
b) Stores, Spares & Components : Nil
c) Travel Expenses : Nil
2. Earned : Nil

Sri Sarvaraya Sugars Limited

ANNEXURE TO DIRECTORS' REPORT

CORPORATE GOVERNANCE

MANAGEMENT'S ANALYTICAL REPORT

An Overview

The Company is engaged in the business of manufacture of White Crystal Sugar, Industrial Alcohol, Aerated Water under the brand names of Coca-Cola, Fanta, Sprite, ThumsUp and Limca and Non-Aerated Fruit Drink under the brand name of Maaza and Packaged Drinking Water under the brand name of Kinley. Press Mud is processed and converted into bio-fertilizer for direct application in fields. Bagasse which is the residue after extraction of juice for the production of sugar is used to generate steam which in turn is used for the operation of the Sugar Mill and the Distillery during the off season.

Industry Structure and Development

During the Sugar Season 2005-2006 the total production of sugar in India was 190.00 lakh metric tons. For the 2006-2007 season it is estimated to be 200.00 lakh metric tons. During the current year, sugar production would have been better but for the excess rain fall and flooding of cane fields in some parts of our sugar cane zone. The current average realization of free sale sugar indicates a declining trend vis-à-vis the last two years.

Opportunities and Threats

The Policy of the Central Government in fixing the Statutory Minimum Sugar Cane Price for the season 2005-2006 with the basic recovery at 9%, was reasonable. 5.80 lakhs MTs of sugar cane are expected to be available for 2006-2007 season. The sugar prices in the domestic market have declined appreciably, with the decline being more than Rs.250/- per quintal. The future would be challenging, as it does not hold promise for stable and reasonable sugar prices as in the previous year. This is due to the expected much higher sugar production in the coming season 2006-2007. The Government has also lifted the ban on Sugar exports. The effect of this on international and domestic sugar prices remains to be seen. The Government is also likely to further increase the price to be paid for sugar cane to be consistent with its policy in recent years.

Segment-wise and Product-wise Performance

Segment-wise results are given in the Accounts for the year ended 30.09.2006. Product-wise performance is furnished in the Directors' Report.

Financial performance with respect to Operational Performance

The gross income for the year under review is Rs.19967.73 lakhs. The year ended with a gross profit of Rs.4127.65 lakhs (previous year Rs.4321.35 lakhs). After providing Rs.979.95 lakhs for interest and Rs.767.30 lakhs for depreciation, the profit before tax for the year is Rs.2380.40 lakhs. After providing for Income Tax Rs.819.43 lakhs, Deferred Tax Liability Rs.115.85 lakhs and Fringe Benefit Tax of Rs.18.18 lakhs the Net Profit for the year is Rs.1426.94 lakhs.

Internal Control System

M/s.C.V.Ramana Rao & Co., Chartered Accountants, Visakhapatnam were appointed as the Internal Auditors of the Company. They regularly conduct audit and submit their quarterly reports, which are reviewed by the Audit Committee. Internal control procedure is commensurate with its size and nature of business.

Human Resources Development

The company continuously reviews and monitors its manpower requirements to ensure that it has adequate human skills commensurate with its needs. Industrial relations of the company continued to be cordial. As on 30.09.2006 in all its Units, the company has 1076 employees.

REPORT ON CORPORATE GOVERNANCE

Company's Philosophy

The Company's philosophy on corporate governance endeavours attainment of the highest levels of transparency, accountability and equity in all facets of its operations and in all the interactions with its shareholders, employees, cane growers, customers, lenders and the Government.