

19th
Annual Report
2003-2004

CERTIFIED TRUE COPY

For Shree Vaani Sugars And Industries Ltd.

Report

[Signature]
Compliance Officer



**SHREE VAANI SUGARS
AND INDUSTRIES LTD**

BOARD OF DIRECTORS

Sri D.K.Audikesavulu	Chairman & Managing Director
Sri D.A.Srinivas	Joint Managing Director
Dr. P.L.Sanjeeva Reddy	Director – (Nominee of IREDA)
Dr. M.G.G.Naidu	Director
Sri N.V.Varadarajulu	Director
Sri G.Ramachandraiah	Director
Sri T.Suryachandra Rao	Director
Sri D.V.Ramanaiah	Finance Manager

AUDITORS

M/s. C.Ramachandram & Co.,
Chartered Accountants
3-5-45/6/2, Edenbagh
Ramkote, HYDERABAD – 500 001.

BANKERS

State Bank of India
State Bank of Mysore
ING Vysya Bank Ltd.,

REGISTERED OFFICE & FACTORY

Mudipapanapalle, Sugalimitta (Post)
Punganur, Chittoor District,
Andhra Pradesh
Pin: 517 247

SHARE TRANSFER AGENTS & DEPOSITORY REGISTRARS

M/s. CIL Securities Limited
208, Raghava Ratna Towers
Chirag Ali Lane, Abids, HYDERABAD – 500 001.
Phone: 23203155 / 23202465
Fax. 040 – 55661267 / 23203028
e-mail: advisors@cilsecurites.com

NOTICE

Notice is hereby given that the 19th Annual General Meeting of the Company will be held on Saturday the 31st July, 2004 at 3.00 P.M. at the registered office of the Company at Mudipapanapalle, Punganur, Chittoor Dist. to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2004 and the Balance Sheet as at that date along with the relevant schedules, the report of Auditors and Directors report thereon.
2. To appoint a Director in place of Dr. M.G.G.Naidu, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri G. Ramachandraiah, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and fix their remuneration and in this regard to consider and if thought fit to pass with or without modification, the following resolution as an ordinary resolution.

"RESOLVED THAT M/s. C.Ramachandram & Co., Chartered Accountants the retiring Auditors, be and are hereby re-appointed as Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting on such remuneration as shall be fixed by the Board of Directors, in addition to reimbursement of out of pocket expenses if any incurred by them for the purpose of Audit of the Company's Accounts".

SPECIAL BUSINESS :

5. 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 81 (1A) of the Companies Act, 1956 and the relevant guidelines of the Securities and Exchange Board of India (SEBI) and any other applicable provisions / guidelines, the consent of the Company be and is hereby given to the Board of Directors to convert share application money provided by the promoters Shri D.K.Audikesavulu and his Associates amounting to Rs.2,65,00,000/- into equity capital and to issue/ offer of 26,50,000 equity shares of Rs.10/- each fully paid-up on preferential basis to the promoters and their associates whether or not such persons are holders of equity shares of the Company as on the date of offer of the said shares and that the aforesaid shares shall rank pari-passu in all respects with the existing equity shares of the Company".

"RESOLVED FURTHER THAT for the purpose of giving affect to the above resolution, the Board be and is hereby authorized to do all such things and acts as may be necessary and to settle any matter that may arise in connection therewith".

By Order of the Board
For SHREE VAANI SUGARS AND INDUSTRIES LTD.,

D.K.AUDIKEASVULU
Chairman & Managing Director

Place: HYDERABAD
Date : 28.05.2004

Notes :

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a member. The instrument of proxy should however be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
2. The Register of Members and Share Transfer books of the Company will be closed from 26.07.2004 to 31-07-2004 (both days inclusive).
3. Members are advised to bring their copies of Annual Reports to the meeting as there will be no supply of additional copies.
4. Members are requested to notify immediately any change in their address to the Registered Office of the Company by quoting their folio number.

EXPLANATORY STATEMENT

Annexure to and Forming Part of the Notice convening the 19th Annual General Meeting of the Company, pursuant to section 173(2) of the Companies Act, 1956.

On Item NO.5:

Sri D.K.Audikesavulu and his associates have contributed an amount of Rs.3,44,00,000/- towards share capital money as stipulated by the IREDA while sanctioning the 6 MW Bio-mass Power Plant. The aforesaid promoters have brought in Rs.3,26,69,800/- during the year 2002-2003 and the balance amount of Rs.17,30,200 in the year 2003-04 which together aggregates to Rs.3,44,00,000/-. As such it is proposed to allot 26,50,000 equity shares of Rs.10/- each for cash at par to the aforesaid promoters on preferential basis.

Sri D.K.Audikesavulu and Sri D.A.Srinivas being Promoter Directors are interested in the above resolution.

The existing promoters held 49.96% in the paid-up capital of the Company and the same would after the proposed preference allotment would increase to 54.94% of the paid-up capital. There would be no change in the management or control of the Company after the proposed allotment. The share holding pattern of the Company before and after the preferential allotment would be as under:

Category	Pre-Issue		Post-Issue	
	No. of Shares	Percentage to paid-up capital	No. of shares	Percentage to paid-up capital
Promoters	1,19,91,118	49.96%	1,46,41,118	54.94%
Public	1,20,09,652	50.04%	1,20,09,652	45.06%
Total	2,40,00,770	100.00%	2,66,50,770	100.00%

DIRECTOR'S REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the 19th Annual Report together with the Audited Accounts for the year ended 31st March 2004.

FINANCIAL RESULTS :

The Financial Results for the year ended 31st March 2004 are summarized below :

(Rs. in Lakhs)

Particulars	2003-2004			2002-2003		
	Sugar Division	Power Division	Total	Sugar Division	Power Division	Total
Sales and Other Income	4250.27	217.45	4467.72	4191.38	—	4191.38
Profit / (Loss) before Depreciation, Interest & Taxes	503.31	73.87	577.18	(285.68)	—	(285.68)
Depreciation	182.86	31.43	214.29	181.25	—	181.25
Interest	507.54	83.18	590.72	606.03	—	606.03
Profit / (Loss) for the period	(187.09)	(40.74)	(227.83)	(1072.96)	—	(1072.96)
Prior Period expenses	—	—	—	6.68	—	6.68
Profit / (Loss) before tax	(187.09)	(40.74)	(227.83)	(1079.64)	—	(1079.64)
Provision for tax	—	—	—	—	—	—
Provision for Deferred tax Asset / Liability	81.73	—	81.73	397.24	—	397.24
Profit / (Loss) after tax	(105.36)	(40.74)	(146.10)	(682.40)	—	(682.40)
Profit / (Loss) brought down from previous year	(917.19)	—	(917.19)	(234.79)	—	(234.79)
Profit / (Loss) carried to Balance Sheet	(1022.55)	(40.74)	(1063.29)	(917.19)	—	(917.19)

DIVIDEND :

Your Directors do not recommend any dividend due to losses incurred during the year under review.

PERFORMANCE OF THE YEAR UNDER REVIEW :

SUGAR DIVISION :

The Sugar Division crushed 97933.325 MTs of Sugar Cane for the current season as against 348698 MT for the previous season. The recovery rate was 10.19% compared to 9.82% for the previous season. Sales for the year was Rs.4452.74 lakhs as against Rs.4164.20 lakhs for the previous year.

POWER DIVISION :

Power division during the year did well but the reduction in the power tariff announced by

APERC from Rs.3.48 ps to Rs.2.65 ps with PLF ceiling of 55% and the increase in the prices of the biomass and restrictions in the use of coal is a major concern for this division. The industry has petitioned to the High Court of Andhra Pradesh against the reduction of tariff to this extent, which would make the division unviable. Also AP Transco is restricting the purchase to the number of units mentioned in the DPR as capacity production whereby the efficiency of the unit in producing more units with the same plant is being penalized.

CURRENT YEAR OUTLOOK :

SUGAR DIVISION :

The proposed decontrol of sugar is now deferred and the industry is back in the release order mechanism for the sale of sugar. The Central Government has now decided to terminate the maintenance of the buffer stock with immediate effect i.e., from 18-05-2004. The production and carryover stocks are very less during the season 2003-2004 comparatively for the previous season 2002-2003. Sugar prices have started improving which will be reflected in the finance statement of the current year only.

POWER DIVISION :

Good performance of the Power Division is expected to continue, but the increase in the prices of the Biomass and restrictions in the use of coal is a major concern for power division.

The purchase price as per the PPA is scheduled for revision from April 2004 and the industry is concerned that the new purchase price of power as per PPA would be below the cost of generation. This would bring pressure in the power division profitability from current year onwards. The Industry is representing to the Government to keep the purchase price in line with MNES guidelines.

MANAGEMENT DISCUSSION AND ANALYSIS :

a) Industry Structure and Developments :

SUGAR DIVISION :

The Sugar Industry in India is a controlled industry wherein the government of India is controlling the release of Sugar in the open market by way of monthly quota for each sugar mill besides fixing the cane price. There are over 436 sugar mills in India, which produces a little over 180 lakhs tons of sugar every season.

The sugar industry is also besieged with excess inventory. Due to high inventory levels with the domestic sugar mills and also because of the controlled release mechanism, many sugar mills could not meet the statutory commitment of payment to the cane farmers on time. To overcome the payment problem many sugar factories approached their respective high courts, who have permitted additional sales over and above monthly release quotas. This has helped most of sugar factories including your company. On account of these sales, it has resulted in a pressure on selling prices.

During the year, the availability of cane for sugar production was affected because of unseasonal rains / storm and draught. This in turn has reduced the sugar production in India. Now since most of the mills have sold off their piled up inventory and also the production during the sugar season is lower than expected, the sugar prices have slowly started to look up.

POWER DIVISION:

Government of India has encouraged the Sugar plants to set up Bio mass based co-generation power plants with the bagasse generated from the sugar mill as fuel with supply to the grid under Power Purchase Agreement (PPA).

The power division of your company commenced the commercial operations with effect from 08.08.2003. There were teething problems during the off season when the Bagasse was not sufficient and alternative Biomass products had to be used. There was a general increase in the Bio-mass prices as most of the sugar manufacturing units had set up Co-generation plants thereby increasing the demand for the bio-mass available. This has brought the co-generation plants under a lot of pressure and the cost of generation per unit of power currently more than the selling price of unit.

The APERC has issued notification for reducing the power tariff from Rs.3.48 per unit to Rs.2.65 per unit with effect from 01.04.2004. The industry has approached the High Court of Andhra Pradesh against this unjust reduction in the power purchase tariff. Also AP Transco has abstained from paying for the efficient running of your company by limiting the purchase to only the installed production capacity as mentioned in the DPR and not paying for the units generated more than envisaged in the DPR.

b) Opportunities and threats:

Mixing of Ethanol with petrol has improved demand for molasses, which is positive factor for sugar industries. Which is expected to grow further. However, excess capacities in the Sugar Industry are cause for concern.

c) Segment wise performance information:

The segment wise information is given separately in note no.10 in the schedule 'Q', Notes on Accounts for the year ended 31st March 2004. As per accounting standard 17 issued by the institute of Chartered Accountants of India.

d) Out Look:

Division-wise out look has already been furnished elsewhere in this Report.

e) Risks and Concerns:

The sugar and power industries being core industries, there is no risk of product obsolescence nor steep fall in demand by way of product substitution or otherwise and therefore, your Directors do not foresee any major risks and concerns, in the near future except as discussed elsewhere in this Report.

f) Internal Control Systems:

Your company is having proper and adequate internal control systems in order to ensure that assets are safeguarded against loss from un-authorised use or disposition and that all transactions are checked verified, recorded and reported correctly. Regular internal checks are carried out to ensure that the responsibilities are executed effectively.

The Board of Directors have constituted an Audit Committee chaired by an independent director. The Committee meets periodically with the Management and statutory auditors to review audit plans and results.

g) Financial / Operational performance:

The operational profits / (loss) as compared to the previous year has been discussed separately in this Director's Report.

CAUTIONARY STATEMENT:

The management Discussion and Analysis report containing Company's objectives, projections, estimates and expectations may constitute certain statements, which are forward looking within the meaning of applicable laws and regulations. Actual results may differ materially from those expressed or implied in the statement. The Company's operations may interalia affect with the supply and demand situations, input price and the availability, changes in the government regulations, Tax Laws and other factors. Company cannot

guarantee the accuracy of the assumptions and perceived performance of the Company in future. The investors should bear the above in mind.

FIXED DEPOSITS :

During the year under review, your company has neither invited nor accepted any fixed deposits from the public as per provisions of Section 58 A of the Companies Act, 1956.

INSURANCE :

All the properties of the Company including its Buildings, Plant & Machinery and Stocks where ever required have been adequately insured.

PARTICULARS OF EMPLOYEES:

None of the Employees in the Company is drawing remuneration in excess or the limits prescribed under section 217 (2A) read with the Companies. (Particulars of Employees) Rules 1975 during the year ended 31st March 2004.

INDUSTRIAL RELATIONS:

Employees Relations during the period under review were cordial and harmonious.

AUDITORS:

M/s. C.Ramachandram & Co., Chartered Accountants, Hyderabad the Auditors of the Company retire at the conclusion of this Annual General Meeting and they are eligible for re-appointment.

COST AUDIT:

The Central Government had ordered audit of cost accounts relating to manufacture of sugar. For the year ended 31st March 2004, with the approval of Central Government Sri. E.Vidya Sagar, Cost Accountant, Hyderabad was appointed to conduct the Cost Audit.

DIRECTORS:

Dr. M.G.G.Naidu and Sri. G.Ramachandraiah, Directors retire by rotation at this Annual General Meeting and being eligible, offer themselves for re-appointment.

CORPORATE GOVERNANCE:

Pursuant to clause 49 of the Listing Agreement, a report on Corporate Governance and Company's Auditors Certificate for the due compliance of code of corporate governance are annexed to and forms part of this report.

DIRECTORS RESPONSIBILITY STATEMENT:

Pursuant to Section 217 (2A) of the Company's Act, 1956 and on the basis of explanation given by the executives of the Company and also subject to disclosures in the Annual Accounts your Directors confirm as under:

1. In the preparation of the Annual Accounts the applicable Accounting Standards had been followed along with proper explanations relating to material departures.
2. The Directors had 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 on 31st March 2004 and Profit & Loss Account of the Company for the year ended as on 31st March 2004.
3. The Directors had 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.
4. The Accounts were prepared on a going concern basis.

ACKNOWLEDGEMENTS:

Your Directors wish to place on record their sincere appreciation of the continued assistance, support and co-operation extended to your company during the period under review by the Government of India, The Government of Andhra Pradesh, Indian Renewable Energy Development Agency Limited, State Bank of India, State Bank of Mysore, ING Vysya bank Limited, Co-Operative Banks, Andhra Pradesh Industrial Development Corporation Limited, Non-Conventional Energy and Development Corporation of Andhra Pradesh Ltd., Andhra Pradesh Electricity Regulatory Commission, APTRANSCO, Commissioner and Director of Sugar and Cane Commissioner of Andhra Pradesh, the share holders, the farmers and various other agencies.

Your Directors also appreciate the cane suppliers and transport operators for their co-operation extended in supplies and expect the same during the current season.

Your Directors also appreciate the efforts put in by the employees of your company at all levels in the operations during the year under review and look forward to achieve better working results during the current year.

For and on behalf of the Board

D.K.AUDIKESAVULU

Chairman & Managing Director

Place: HYDERABAD

Date : 28.05.2004

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ANNEXURE TO DIRECTORS' REPORT :

Statement pursuant to section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988.

A. CONSERVATION OF ENERGY :

The following high tech advanced equipment were installed in our factory during the year 2003-2004.

Double extraction cum condensing steam turbo generator of 6 MW capacity alongwith protection system and switch yard were installed. This is mainly for generation of power for export to grid. By this we were able to reduce the steam consumption from 8 kg/kwh to 5 kg/kwh when operating at 100%. Condensing made and 5 to 6 kg/kwh of power when operating on condensing cum extraction made. With this we are able to produce more power per unit bagasse, the equipment already installed and also in service is listed below:

1. Double effect raising film Evaporators are being used to conserve steam.
2. Third body bleeding to heat raw juice adopted for steam saving.
3. Single entry S.S. condensers employed to achieve good vacuum in evaporator and pan which in turn improve boiling and sugar quality. This also reduces the cooling water requirement and thus pave way for power saving.
4. Power factor in the electrical network was improved to 0.95 to achieve power saving.

B. ADDITIONAL INVESTMENT AND PROPOSAL IF ANY BEING IMPLEMENTED FOR REDUCTION OF CONSUMPTION OF ENERGY :

1. Flow meter and integrator of ABB make installed in condensate line to identify the consumption of steam and vapour to have control on consumption.
2. To improve the boiler efficiency and to attain good capacity utilization boiler instrumentation has been upgraded with digital equipment as under:
3. Single element drum level controller, which is not efficient has been replaced by 3 elements digital controller of M/s. A.B.B.make.
4. Now, M/s. A.B.B. make Co2 digital analyzer has been installed to increase combustion efficiency of the boiler
5. Digital steam flow indicator cum totalizer and feed water flow indicator integration and recorder (paper less) were installed. Multi point temperature indicator cum scanner installed to read temperature of superheater steam, air heater in and outlet, temperature, fuel gas temperature and feed water temperature before and after economizer etc., to improve the efficiency.

Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of productions of goods normally sugar industry has a power installed pattern of 1 KW / 1 Ton of cane crushed against which our units installed ratio is 0.85 KW / Ton of cane crushed.

- C. We enjoyed higher return of the excess bagasse when we convert it to power and sold to APTransco.
- D. Total energy consumption and energy consumption per unit of production is as per prescribed Form "A" Enclosed.