down to

THIRU AROORAN SUGARS LIMITED
CORPORATE STATEMENT 1996-97

Contents

'Speak to the earth,
and it shall teach thee.'

- Old Testament : Job, chapter 12, verse 8

DOWN TO EARTH

The earth holds only finite supplies of a number of natural resources that we use in our daily lives. One can produce practically anything from the substances lying below the earth's surface. However, if we continued to do that, we would be depleting the earth of its resources. Thus, while enriching our lifetimes, we would be depriving future generations of the bounties of the earth.

The challenge of the day is to produce without depleting natural resources. Without disturbing the ecology - and to be able to do it repeatedly. The emphasis is on 'renewable'.

Thiru Arooran prides itself on being able to live up to this philosophy : the molasses generated as a by-product from the manufacture of sugar is converted into alcohol which, in turn, is used to produce chemicals that would otherwise be manufactured through the petrochemical route; it can also be used as an additive to petrol in motor vehicles, thus enabling the conservation of limited crude resources. Further, the by-produce bagasse, from the manufacture of sugar, is used to generate power thereby reducing the consumption of fossil fuels in the generation of power. Even the effluent from the production of alcohol is composted with the by-product pressmud from the sugar factory to produce an organic manure which is used by farmers to restore the organic content in the soil - in the process, returning to the soil what is taken out of it. All these activities at Thiru Arooran are truly 'renewable' and can be sustained as long as we continue to grow sugarcane.

To grow in our business we need to be down to earth. In more senses than one.

Corporate Description

- Thiru Arooran Sugars Limited (TASL) is one of the most integrated sugar manufacturers in India today. The company's operations were earlier spread over two locations - Vadapathimangalam and Tirumandankudi. However, the management has decided to relocate the sugar operations from Vadapathimangalam to Kollumangudi, a more central location for the supply of cane. This relocation is expected to be completed by December 1997. Meanwhile, the capacity of the plant at Tirumandankudi has been doubled.

- As a result, TASL will have a 5000 tcd capacity at Tirumandankudi and a 2500 tcd capacity at Kollumangudi by the start of the 1997-98 season. Adjoining its sugar factory at Tirumandankudi, the company has an alcohol producing unit with an installed capacity of 60 kl per day of rectified spirit and 30 kl per day of extra neutral alcohol.

- At Tirumandankudi, the company has also an installed capacity for co-generation aggregating to 28.5 MW - capable of generating 23 MW during the season and 19 MW during the off-season. In May 1997, the company commissioned another co-generation module of 19 MW capacity at Kollumangudi capable of generating 13.5 MW during the season. The aggregate installed co-generation capacity now stands at 47 MW - capable of generating 37 MW during the season and 38 MW during the off-season.

- What makes Thiru Arooran an interesting sugar play in addition to its increasing cane-crushing capacity, is its conscious attempt to captively utilise its byproducts and add value. The byproduct molasses is processed to make alcohol; the byproduct bagasse is utilised for the generation of power which is commercially exported to the Tamil Nadu grid. This degree of horizontal integration is perhaps the widest in the Indian sugar industry and is expected to reduce the cyclicality in the company's performance down the years.

- The company has a strong geographic focus with its existing and proposed units all lying within close proximity of one another. The area has a rich agricultural tradition with favourable agro-climatic conditions, a fertile soil and abundant ground water. The plants are also linked by road and rail to Madras and Tuticorin, enabling the export of sugar in a glut. The proximity to lignite at Neyveli is a major advantage for the multi-fuel co-generation projects.

- The promoters of Thiru Arooran hold a 40 per cent stake in the company. The company's shares are listed on the Madras, Mumbai and National Stock Exchanges.

Corporate Objectives

- Create a core competence out of the production of sugar and the successful harnessing of the potential in its byproducts with an eye to reducing the impact of the cyclicality inherent in the Indian sugar economy.

- Balance the crushing capacity of cane with adequate conversion capacities for its byproducts.

- Expand the production base of the company through greenfield projects to manufacture sugar and co-generate power.

- Take the unpredictability out of the sugar business by investing aggressively in the utilisation of the byproducts.

Director Profile

- Mr R V Tyagarajan, Chairman and Managing Director. A graduate in Chemical Engineering from the IIT Madras and a Master of Science in Management from the Sloan School of Management at the MIT, Cambridge, Massachusetts, USA. Also a Director at Tube Investments of India Ltd., South Asian Financial Exchange Ltd., and a Trustee of the Kothari Pioneer Mutual Fund (among others). Looks after policy decisions and day-to-day management of the company.

- Mr C.C. Ganapathy, Director. A retired member of the Indian Revenue Service and former member of the Settlement Commission. Also a Director at KCP Ltd., Indian Organic Chemicals Ltd., Sri Saravaraya Sugars Ltd. and Lakshmi Finance and Industrial Corporation Ltd. Advises the company on corporate law and taxation matters.

- Mr V. Karthikeyan, Director. An erstwhile member of the Indian Administrative Service and former Chief Secretary to the Government of Tamil Nadu. Also a Director in Thiagarajar Mills Ltd. and S&S Industries and Enterprises Ltd. Advises the company on government policies and regulations.

- Mr V. Thirupathi, Nominee Director of ICICI. Presently the Managing Director of ICICI Credit Corporation Ltd. Also a Director in Bannari Amman Sugars Ltd., Aruna Sugars and Enterprises Ltd., TI Diamond Chain Ltd. and Kothari Industrial Corporation Ltd. Advises the company on corporate finance.

- Dr A. Ramachandran, Director. Chairman of the Advisory Committee and R&D Committee in the Ministry of Non-conventional Energy Sources. Also a Director in ILFS Trust Ltd. and Maxworth Country India Ltd. Has formerly held the positions of Under-Secretary General and Executive Director of the United Nations Centre for Human Settlements (Habitat), Director General of the CSIR, and Secretary to the Government of India in the Ministry of Science and Technology. Advises the company on policy matters and technology.

- Ms Malathi Ram Tyagarajan, Director. Represents the promoter shareholders.

- Mr Harish Bhargava, Nominee Director of IREDA. Professionally a corporate advisor, also holds directorships in JK Chemicals Ltd. and Kirloskar Oil Engines Ltd. Formerly, a Vice President in charge of the sugar division of EID Parry (India) Ltd. Advises the company on all aspects of sugar and co-generation.

Board of Directors

R.V.TYAGARAJAN
(Chairman & Managing Director)
C.C. GANAPATHY
V. KARTHIKEYAN
V.THIRUPATHI
(Nominee of I C I C I)
Dr. A. RAMACHANDRAN
MALATHI RAM TYAGARAJAN
HARISH BHARGAVA
(Nominee of I R E D A)

Secretary

N. SRINIVASAN

Bankers

STATE BANK OF INDIA,
I C I C I BANKING CORPORATION LIMITED,
HONGKONG & SHANGHAI BANKING CORPORATION LIMITED,
CENTURION BANK LIMITED,
I D B I BANK LIMITED

Auditors

M/s S.N.S ASSOCIATES

Registered Office

ELDORADO
(Fifth Floor)
112, Nungambakkam High Road
Chennai - 600 034
Phones : 827 6001, 827 0915, 827 8267
Fax : 044 - 827 0470

'Let me tell you the secret that has led me to my goal. My strength lies solely in my tenacity.'
- Louis Pasteur

NEXT RESULTS

The unaudited results of Thiru Arooran Sugars Ltd. for the first half of 1997-98 will be made public in November 1997. The company expects to announce its annual working for 1997-98 in June 1998.

OUTLOOK FOR 1997-98

• Completion of the relocation, expansion (to 2500 tcd) and commissioning of the sugar plant at Kollumangudi is expected by December 1997. The expansion of the unit at Tirumandankudi (to 5000 tcd) is also expected to be completed before the start of the crushing season in 1997-98. This cumulative increase in its crushing capacity is expected to help Thiru Arooran conclude its crushing for the 1997-98 season earlier than in the preceding years, resulting in a higher recovery.

• In May 1997 Thiru Arooran commissioned its second co-generation plant at Kollumangudi with a capacity of 19 MW and fuelled initially with bagasse procured from the other sugar mills. The plant will be fully operational with captively available bagasse from the start of the 1997-98 crushing season upon the completion of the relocation.

• A stronger operating synergy is expected from the current financial year onwards following the commissioning of the expanded sugar capacities tied in with the peripheral capacities for byproduct utilisation.

• The transformation in the income profile is likely to be marked more strongly than before with a higher proportion of income coming from power, followed by alcohol and sugar.

• The company is actively exploring the possibility of repaying high-cost domestic debt and replacing the same with cheaper international sources of finance. This is expected to help the company trim its interest cost in 1997-98 and thereafter.

• In the light of the increased investment made in the co-generation of power and the accompanying tax incentive, Thiru Arooran expects to stay at MAT levels for 1997-98 - as well as the foreseeable future.

OVERVIEW

'START OF A TURNAROUND IN THE INDUSTRY'

A drop in the production of sugar in 1996-97 has signalled the start of a turnaround in the industry. The production, which was 16.4 million tonnes in 1995-96, has dropped to around 12.8 million tonnes in 1996-97. In 1997-98, the production is expected to drop further to between 10.5 and 11.0 million tonnes. As a result, free sale prices have started to climb back to a semblance of respectability. What Thiru Arooran sold for Rs.1140 a quintal in January 1997 fetched Rs.1380 per quintal six months later.

This improvement could not have come at a better time for the industry. A number of mills were soaked with losses. This made it difficult for them to pay the farmers on time for the supply of cane and, in some cases, made it difficult for the farmers to be paid at all. Worse still, many mills defaulted on their interest and principal dues to the financial institutions, affecting the credit rating of the industry. The entire process of graduating to higher economies of scale - to lower the cost of production - was stymied.

More pertinently, the improvement in the price of sugar could not have come at a more opportune time for Thiru Arooran either. We experienced our worst year in 1996-97 in a long time. Sugar recovery and output dropped for reasons which were climatic and specific to us and mills in our vicinity. Had this not transpired, the company would have produced a larger quantity of sugar for sale at increasingly remunerative prices.

The molasses and alcohol markets were depressed and for a large part of the season it made sense to sit on the inventory of molasses rather than sell it cheap. To compound our problems, the co-generation plant which had suffered a major breakdown in March 1996 was not operational for the first four months of the financial year under review. The impact of each of these factors resulted in a year when the liquidity was strained, resulting in a higher interest outgo.

PROJECTED SUGAR DEMAND AND SUPPLY POSITION IN INDIA

Season	*1996-97*	*1997-98*	*1998-99*
Opening stock (Oct. 1)	7.90	6.20	2.40
Production estimate	12.80	11.00	13.50
Imports	-	-	-
Total availability	20.70	17.20	15.90
Internal consumption	14.10	14.80	15.54
Exports	0.40	-	-
Total offtake	14.50	14.80	15.54
Closing stock (30 Sept.)	6.20	2.40	0.36
Cl. stock as % of prospective consumption	42.18	15.44	2.21

Note: Imports have not been considered at all Internal consumption is projected to grow at 5% per annum. All figures are in million / tonnes

But nightmares too have to come to an end. The current financial year has started with a strong corporate rebound. The interesting point to note is that the contribution from the sugar business towards this improvement has been only marginal; the increased profits have come largely from the alcohol and co-generation divisions. Had we not contemplated this diversification years in advance, we would have been compelled to take a huge loss on our books in 1996-97.

This evolving income profile is clearly a vindication of our strategy to move away from the vicissitudes of sugar and add a lot more stability from the utilisation of the by-products. Once we progress on the learning curve in the latter segments, we hope that the reality of 1996-97 would have been erased to nothing more than a remote memory.

Ram Tyagarajan, *Chairman and Managing Director*

'EVERYTHING THAT COULD GO WRONG ACTUALLY DID !'

Ram Tyagarajan, CMD of Thiru Arooran Sugars Limited, identifies the problems that plagued 1996-97

Q : You must be disappointed with the company's performance in 1996-97 ?

A : 'Disappointed' is an understatement. To couch it in the Queen's Latin, it was truly an 'Annus Horibilis' (horrible year). We registered the lowest profits in the last five years and just about everything that could go wrong between April 1996 and January 1997 actually did. This was extremely frustrating for a number of reasons : we had our assets in place, we were poised to vindicate the expectations that our investors and lenders had placed on us - and suddenly things just went awry and fell apart.

Q : What were the reasons behind the drastic fall in performance ?

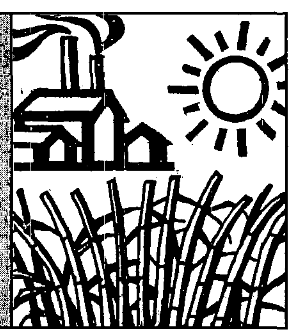
A : It all started when we had a major breakdown at our co-generation plant in March 1996. This was a totally unexpected thing to happen because we had shortlisted reputed equipment suppliers of the calibre of ABB, Ansaldo, GE, GEC Alsthom and Skoda before the final selection was made. A lot of care had gone into the exercise and we had consciously opted for an imported turbo-generator (TG) for increased reliability. So when we ran into problems, we were most surprised and shocked. To make matters worse, by an eerie coincidence, the standby Turbo-Generator, which could have supported the sugar operations, also suffered a major break down at the same time!

Q : Did this have a big impact on the company's working ?

A : It did - for the reason that the co-generation facility was totally integrated into the sugar production process. The exhaust steam from the co-gen plant was designed to be fed back to cater to the requirements of the sugar manufacturing operations. Since neither steam nor power could be fed from the co-gen unit due to the breakdown and since the standby TG set was also down for nearly six weeks, the cane-crushing operation was affected. We were crushing upwards of 3000 tcd before the co-gen plant and standby TG set went out of operation. Immediately thereafter, we had to reduce the feed to around 2000 tcd, resulting in the backlogging of cane until the standby unit was recomissioned. Even after this unit was put back into service, the backlog could be cleared only progressively with the result that we ended up crushing over-mature cane for the rest of the season. So, whereas we should have finished crushing all the cane from our command area by July, we could eventually finish only by the middle of September. The recovery during the last few months of the season was around 5.5 per cent, which clearly implied a loss in our sugar production during that period. So the co-gen breakdown as well as that of the standby TG set had an impact which spilled into sugar production as well, though the connection may not be apparent.

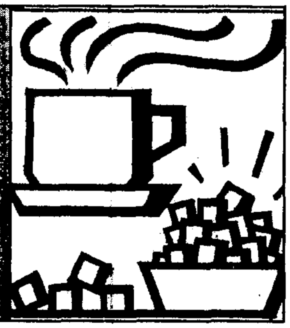
Q : Thiru Arooran also crushed cane that belonged to the command area allotted to a neighbouring sugar co-operative. Since this was crushed at a time when the recovery had dropped to 5 per cent, it resulted in a clear loss. Why did the company agree to crush this ?

We had a major breakdown at our co-generation plant in March 1996. This was an unexpected thing to happen



A : The decision was based entirely on strategic considerations. A part of the area from where cane was diverted to our mill is slated to be the command area for our third unit planned to be commenced a year-and-a-half from now. There has been an interesting fallout of our

The profits - however minimal - that we registered should be looked upon as some sort of a miracle...



decision to crush that cane which would otherwise have gone abegging: some of the farmers in that area were not too enthusiastic about our entry a few years ago. After we lifted their cane last season and saved them from the prospect of huge losses, the mood has changed. All the farmers in that area are now literally hounding us to commission our third unit at the earliest. We perceive that when we do set up our plant in that area, cane availability will not be a problem at all. So we are inclined to see the loss that we consciously took on our books in 1996-97, on account of crushing low sucrose cane in the unfavorable part of the season, as a developmental expenditure, an investment in goodwill.

Q : But the company's problems did not seem to end there.

A : No ! In fact it turned out to be a really trying year. Shortly after we commenced crushing for the 1996-97 season, our command area experienced a freak stationary cyclone over the Bay that just stayed put and refused to blow over. It rained non-stop for nearly 10 days. I have not seen anything like this in my career in the company. This cyclone dumped just too much rain - over 65 cms in ten days - and the water couldn't drain away because the Cauvery river was flowing to the brim; as a result, the cane fields remained water logged and the soil was laden with moisture for 6 weeks thereafter with a disastrous impact on our recovery. From a pre-cyclone recovery of 7 plus per cent, we dropped to nearly 5 per cent following the rains and the differential carried through for the major part of the season. There was another unintended problem arising from the integration of the operations which manifested itself as a result of these rains. From April 1996 onwards, we were compelled by the Pollution Control Board to operate our distillery on the basis of a zero-discharge of effluents. To effect the same, we installed a plant to concentrate the effluent before composting the same with pressmud from the sugar plant. However, since the composting was designed to be done under aerobic conditions in the open yard, the heavy rains and prolonged water logging of the composting yard did not permit any composting operations. As a result, the distillery could not be operated at more than 25-30% of its capacity. As a consequence, the schedule for manufacturing alcohol was affected and the production for the year ended up being far lower than in the previous year.

Q : To what extent did these problems set the company back ?

A : Very substantially and to an undigestable extent! We had diversified into byproduct utilisation on the assumption that even if one unit out of the three - sugar, alcohol and co-gen - did not do well, the company's profits would still be protected. We hadn't bargained for the eventuality that all the three units would get hit in 1996-97. To this extent, the profits - however minimal - that we registered should be looked upon as some sort of a miracle. We are truly thankful for small mercies !

Q : What is the safety net that this might not transpire again ?

A : For one thing, we have tried to ensure that the co-gen plant works without a hitch, as this can trigger a chain reaction which would be a problem to control. To this end, we are procuring an adequate inventory of critical spares for the TG sets. We are also providing certain redundancies to ensure that adequate steam and power continues to be available for maintaining the sugar operations, even in the event of any unforeseen problems in the co-gen plant. On the positive side, the co-gen plant, once modified and rectified, has turned in an increasingly reliable performance, clearly vindicating our decision to go in for it. In retrospect, I would say that we had probably underestimated the time required for stabilisation and overestimated the slope of the learning curve. We had undoubtedly been too optimistic that we could go in and pump power from the co-gen unit from the word 'go' ! It just did not happen - and perhaps could not have happened. While we would dearly love to erase the memory of 1996-97, we can ill afford to forget the lessons the year has taught us.

Q : What is the visible trend in 1997-98 ?

A : When things correct themselves, they always seem to with a vengeance. Because sugar exports from Tamil Nadu during the past two seasons had driven down the carry-forward position, the fall in sugar output in 1996-97 has had an instantaneous strengthening impact on prices. Despite heavy rains in Kerala, demand in the south has been robust in the last few months. In the face of lower monthly releases for the region, the price increase has been sharper in Tamil Nadu than in neighbouring states and the North. From an ex-factory level of Rs 11.40 per kg at the start of 1997, prices have risen to around Rs 14 per kg in August 1997. Better still, molasses prices have rebounded sharply from Rs 600 per tonne to Rs 1500 per tonne - and we are sitting pretty with perhaps the largest molasses inventory among sugar producers in Tamil Nadu.

Q : What is likely to be the highlight of the current financial year ?

A : The sugar operations are expected to turn in only an average performance due to a lower crush in the first half - and that too at a low recovery. The commissioning of the second co-gen module of 19 MW will increase the revenues from this division especially after the relocation of the sugar plant is completed in December. But the highlight, we believe, is going to be the alcohol division. Large quantities of molasses were exported from the state during the last year resulting in a low carry-forward. While exports were taking place at distress prices, we took a conscious decision not to export but to store whatever we had and sit on the stocks instead. With falling production and low inventories in the state, we have been handsomely vindicated through higher realisations on alcohol resulting from a shortage of molasses : both rectified spirit and extra neutral alcohol have more than doubled in price during the past six months and are expected to move up further. The recovery in the alcohol division should lead the corporate profits at Thiru Arooran in 1997-98.

THE FUTURE

'SUGAR AND CO-GEN TO BE THRUST AREAS'

What kind of a company can Thiru Arooran grow into ?

Q: With the company having invested aggressively in assets over the last few years, investors might want to know the direction in which the company is headed.

A: Sugar and co-generation of power are going to emerge as the thrust areas. Sugar will continue to be the core focus because it is a business that we know well, because demand will outstrip supply over the foreseeable future and because the company is strategically located to exploit emerging opportunities .

Q : Can you describe this strategic location ?

A : The locations of our existing and proposed units are very central to the availability of cane in their respective command areas. We had, in fact, taken a conscious decision to shift our sugar operations from Vadapathimangalam to Kollumangudi to get closer to the main sources of our raw material viz. sugar cane. At Vadapathimangalam more than 80% of our cane supplies had to be drawn from beyond 40 kms. We realised that this was becoming a major impediment to increasing our cane supplies: daunted by the distance over which the cane would have to be carried to the plant - there were serious apprehensions about the prompt offtake of harvested cane and adequate extension services - the farmer was moving away from the planting of cane. This represented a long-term threat to our growth. So we decide to relocate our operations to Kollumangudi, almost 40 kms. away. As a result, 80 to 90 per cent of the cane will now be available to us within 15-20 kms. of the new location. We have, thus, effectively shifted our operations to the centre of gravity of cane availability and cane potential in our command area. Two benefits are likely to result: we will incur a much lower transportation cost in getting the cane into our factory and secondly, the proximity will induce the farmers to grow more cane than before. The locations of our existing and proposed units are also strategically placed to