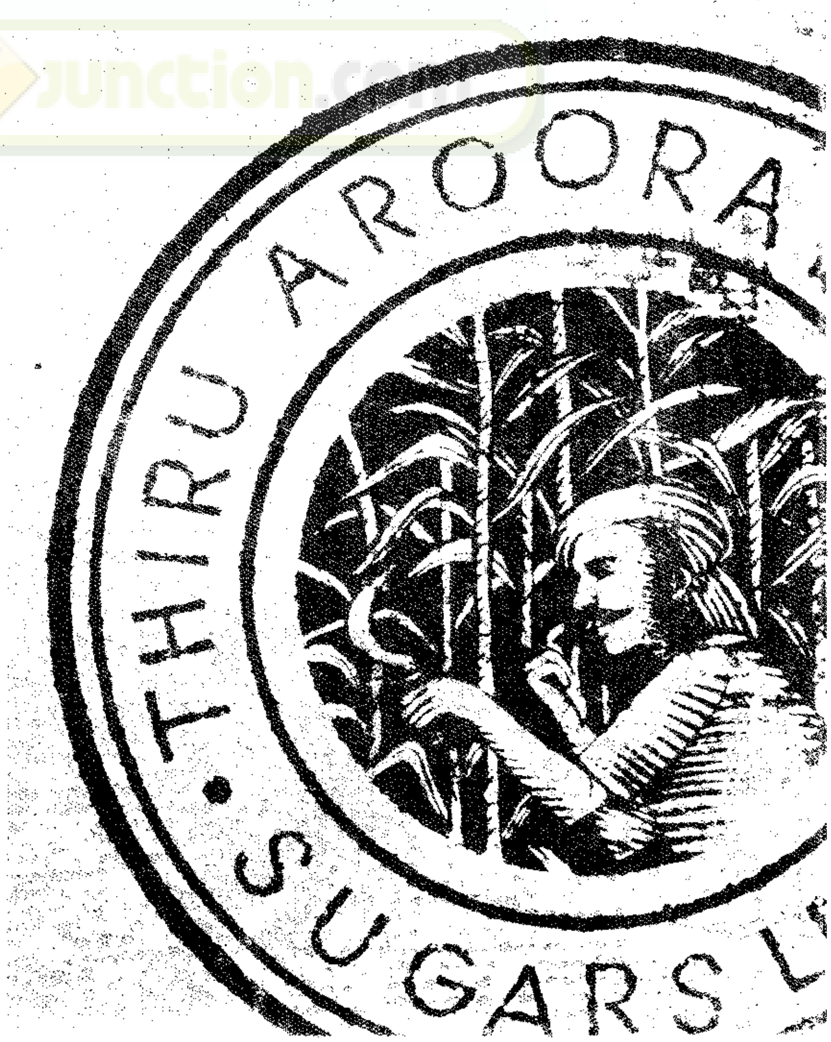
down to earth

THIRU AROORAN SUGARS LIMITED
CORPORATE STATEMENT 1998–99



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What is Thiru Arooran Sugars?

- Thiru Arooran Sugars Limited (TASL) is one of the most integrated sugar manufacturers in India. The company's operations are spread over two locations: at Kollumangudi (2500 TCD) and Tirumandankudi (5000 TCD) in Tamil Nadu.

- Both plants of Thiru Arooran are located in the fertile Cauvery delta of Thanjavur District. This area has a rich agricultural tradition with favourable agro-climatic conditions, fertile soil and adequate ground water. The plants are also linked by road and rail with Chennai and Tuticorin, facilitating the export of sugar during times of excess production.

- The molasses generated by this aggregate 7500 TCD capacity feeds the company's alcohol producing distillery. This distillery has an installed capacity of 60 kl per day of rectified spirit and 60 kl per day of extra neutral alcohol.

- What makes Thiru Arooran different from most sugar manufacturers in India is its investment in co-generation. The company has an aggregate co-generation capacity of 47 MW. During the sugar season when bagasse is available as a co-product, the plant is capable of generating 36 MW; in the non-sugar season, the capacity is 38 MW. The proximity to lignite at Neyveli is a major advantage for the multi-fuel co-generation facilities.

- Thiru Arooran has a strong commitment to the environment and converts effluents generated in the various processes at its factories to make soil-enriching organic manure, liquid fertilisers and aqua feed. The company has also invested heavily in pollution control facilities, which has helped keep effluent discharge and particulate emissions well below the levels specified by the regulatory agencies.

- Shree Ambika Sugars Ltd. (SASL), a subsidiary promoted by TASL has sugar operations spread over two locations : at Kottur (2500 TCD) and at Pennadam (5000 TCD) in Tamil Nadu. The distillery at Pennudam which was acquired along with the sugar unit from Aruna Sugars & Enterprises Ltd. has an installed capacity of 60 Kl per day of rectified spirit and 10 Kl per day of extra neutral alcohol, and the same proposed to be relocated soon to a more environmentally suitable site.

- What sets Thiru Arooran apart is its integrated programme to maximise value-addition by utilising its co-products. Apart from the manufacture of sugar, which is a core operation, the co-product molasses is used to make alcohol; the co-product bagasse is used in the generation of electricity which is then commercially exported to the Tamil Nadu electricity grid. This degree of horizontal integration is perhaps the widest in the Indian sugar industry, helping the company insulate itself to a large extent from the cyclicality of the sugar industry.

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

Our vision

To achieve enhanced, sustainable, long-term shareowner value in responsible partnership with the environment.

Our mission

- To maximise value from cane through core and downstream operations.
- To pursue efficient solutions through front-line technologies for delivering value.
- To be recognised as the industry proxy for balanced growth.
- To be respected as a credible and dependable partner with its stakeholders - the farmers, customers and employees.
- To remain committed to the highest standards of conduct which includes a respect for the laws of the land, the production of an output of acceptable quality, protection of the environment in which the company operates and fairness in dealings with its stakeholders.

Our Stakeholder philosophy

To provide :

- *Our* shareowners with a superior long-term return for their investment in the company
- *Our* farmers with a remunerative price;
- *Our* consumers with a consistently high quality of output;
- *Our* employees at all levels with challenging and satisfying work that includes continuing opportunities for personal development, and
- *Our* society with an exemplary demonstration of social responsibility and citizenship at the corporate level.

Our quality policy

The objective of Thiru Arooran Sugars is to evolve and consistently maintain a Quality Management System across all departments so as to conform to national and international standards in all its end products.

Our quality objectives

To identify and improve farming methods to produce quality cane and continuously improve on the same through in-house Research and Development as well as through a continuous interaction with farmers and institutions.

To identify, improve and follow the process of continuous upgradation of the end products.

To improve productivity by adopting preventive maintenance of the plant and machinery.

To improve work methods for increasing efficiency at various levels of operations, thus meeting quality standards and reducing cost.

To develop a long-term relationship with suppliers for ensuring better values and quality in a manner that is mutually satisfactory with no conflict of interest.

To run operations within each parameter of pollution and environmental standards to the satisfaction of all relevant stakeholders.

To create a culture of quality through continuous training and educational programmes for employees at all levels in the organisation.

Corporate theme

The management and preservation of the environment is a prime and challenging responsibility of business today. The expansion of commercial interests has so degraded the living environment that the big question is whether we can at all hand the earth down to succeeding generations in a form which enables them to live and prosper in dignity.

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

Thiru Arooran prides itself on making an honest effort: on being able to live up to this philosophy. The molasses generated as co-product from the manufacture of sugar is converted into alcohol which, in turn, is used to produce chemicals that would otherwise be manufactured through non-renewable resources. Some of these co-products can also be used as an additive to petrol in motor vehicles, thus enabling the conservation of limited crude resources. The other co-product bagasse, derived from the crushing of sugarcane, is used to generate power, thereby reducing the use of fossil fuels.

The effluent from the production of alcohol is composted with the co-product pressmud from the sugar factory to produce an organic manure which is used by farmers to improve the organic content in the soil. This enables the farmers to return to the soil what they take out of it.

All these activities at Thiru Arooran are truly renewable and can be sustained as long as we continue to grow sugarcane.

Next results

Thiru Arooran has drawn out the following schedule for the announcement of its working results for 1999-2000 :

- Second quarter : Last week of October 1999.
- Third quarter : Last week of January 2000.
- Fourth Quarter : Last week of May 2000.

1998-99 in a nutshell

- The performance of the sugar division continued to suffer due to low recovery, higher inventories and unremunerative price of free sale sugar.
- Distillery operated to its capacity and alcohol prices remained stable at around remunerative levels throughout the year.
- Co-generation division performed exceedingly well with the aggregate power export during the year touching an all-time high of 184.86 million units resulting in the billing of Rs. 480.42 million.
- The good performance of the Distillery and Co-generation divisions was however overshadowed by the poor performance of the Sugar division.

The outlook for 1999-2000

Sugar

The outlook for this division is not promising for the following reasons :

- Unrestricted imports are still flooding the markets, causing a severe pressure on free market prices.
- The increase in cost of production coupled with huge inventory carrying costs are likely to erode profit margins.
- Though the company is confident of improving its recovery performance to normal levels in the coming 1999-2000 season, the financial impact of the same will be felt only in the following financial year.

Alcohol

- During the current year, alcohol prices have come under pressure due to excess supply and prices have declined by around 10% as compared to the previous year. This is expected to impact margins.

Co-generation

- This division is expected to maintain its performance.

Board of Directors

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 MIT, Cambridge, Massachusetts, USA. Also a Director of Tube Investments of India 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. 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., Advises the company on government policies and regulations.

Mr. V Thirupathi,
Nominee Director of ICICI.

Senior Executive in ICICI Limited. Advises the Company on matters relating to 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 Limited. 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.

Mr. R Vijayaraghavan,
Director.

Professionally an advocate, also holds directorships in Uma Maheswari Mills Ltd., Amrutanjan Ltd., Kunal Engineering Ltd., Sanco Trans Ltd and Fenner (India) Ltd. Advises the company on all legal and tax matters.

Ms. Malathi Ram Tyagarajan,
Director.

Represents the promoter shareholders.

President & Company Secretary

N Srinivasan

Bankers

- State Bank of India
- ICICI Banking Corporation Limited
- IDBI Bank Limited
- Punjab National Bank
- Union Bank of India
- Canara Bank

Auditors

M/s. S.N.S.Associates

Registered Office

El Dorado, Fifth floor,
112, Nungambakkam High Road
Chennai - 600 034
Phones: 827 6001, 827 8267
Fax: 044-827 0470

'Government's inaction on imports threatens the survival of the Indian sugar industry'

If there is one factor which stands between the turnaround of the Indian sugar industry and its continuning to remain in the doldrums, it is the government's indecision and indifference on the issue of unrestricted imports of sugar into the country.

The government's waver on sugar imports represents its ambivalent stand on the issue of providing Indian industry a level-playing field to compete globally. As things stand today, the government's inaction has exposed the Indian sugar manufacturers unfairly to the brunt of imports, threatening the ability of many to survive even over the short-term and most on the medium term.

This is the case :

- Imports of sugar into India attract a customs duty of 27.5 per cent only. This is considerably lower than the bound rate of 150 per cent for sugar allowed to India under the WTO agreement.
- The 27.5% customs duty fails to take into account the rapadly declining sugar prices on the international market due to a world wide glut as well as the obligation to supply levy sugar at prices below the cost of production, necessitating much higher prices in the open market.
- The 27.5 per cent customs duty is much lower than the import tariffs on sugar imposed by countries that export sugar aggressively into India.
- The aggressive dumping of sugar into India is often supported by heavy subsidies provided by various governments to their sugar producers; the Indian government has failed to recognise this and provide an adequate defence for Indian producers.
- Imported sugar has displaced indigenous sugar to an extent causing accretion of large unmanageable stocks with heavy carrying and storage costs.

More than this, the Indian government has failed to recognise and provide for the following :

- The imported sugar is permitted to be sold entirely in the freesale market; whereas, Indian producers are required to surrender 40 per cent of their production as levy to the PDS at a price well below the cost of production.
- The imported sugar can be sold at any time by the importing agency, operating outside the purview of the freesale release mechanism; sales by Indian producers are controlled and only a specified quantity is permitted to be sold in specified periods in the freesale market.

The result of this blatant inequity is that traders operating in the global market have found it most convenient and profitable to dump their excess sugar in the most lucrative market of the world, whereas manufacturers with a long-term commitment to this market are being taken to the cleaners.

The critical point is this : due to the dual pricing mechanism in vogue for the last three decades which helped in keeping prices low, Indian manufacturers helped India emerge not only as the biggest market for the sugar in the world - but also the fastest growing market. India's annual increase in consumption of 5-6% is more than that of almost all countries in the world.

If the benefit of this growth is now being encashed not by the people who helped create it - the Indian manufacturers - but by global traders with a short-term perspective, then a bigger price will soon have to be paid by the country and its consumers : if Indian manufacturers are unable to pay farmers, and farmers in turn are compelled to shift to alternative crops, then there will come a time when India will need to import sugar on a long-term basis to meet its requirements.

Soon.

R V Tyagarajan
Chairman and Managing Director