

Sixty Ninth
Annual Report
2003-2004

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Triveni
ENGINEERING & INDUSTRIES LIMITED

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INFORMATION ON COMPANY'S BUSINESS LOCATIONS

REGISTERED OFFICE

Deoband, District Saharanpur
Uttar Pradesh -247 554
STD Code : 01336
Phone : 222497, 222185, 223791
Fax : 222220

CORPORATE OFFICE

"Kailash", 2nd Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
STD Code : 011
Phone : 23310021 (4 Lines)
23714460 (3 Lines)
Fax : 23310117

SHARE DEPARTMENT/ INVESTORS' GRIEVANCES

Jeevan Tara Building,
Gate No.4, 1st Floor
5, Parliament Street
New Delhi - 110 001
STD Code : 011
Phone : 23362522 (7 Lines)
Fax : 23362525
Email : shares@trivenigroup.com

REGISTRAR AND SHARE TRANSFER AGENTS

For Equity Shares held in Physical & Electronic Mode
and for Preference Shares held in Electronic Mode Only
M/s Alankit Assignments Ltd
205-208, Anarkali Market
Jhandewalan Extension
New Delhi 110 055
STD Code : 011
Phone : 23610220-24, 23546001
Fax : 23552001
Email : alankit@alankit.com

TURBINE BUSINESS GROUP

12-A, Peenya Industrial Area,
Peenya, Bangalore-560 058
STD Code : 080
Phone : 28394721 (4 Lines), 28394843
28394771 & 28395276
Fax : 28395211

GEARS DIVISION

1,2,3 Belagola Indl.Area
Metagalli, K.R.S.Road, Mysore - 570 016
STD Code : 0821
Phone : 2582807, 2582148
Fax : 2582694

FIXED DEPOSIT SECTION

Accounts Department
Jeevan Tara Building, Gate No.4, 1st Floor
5, Parliament Street, New Delhi - 110 001
STD Code : 011
Phone : 23362522 (7 Lines)
Fax : 23362525
Email : hoaccts@trivenigroup.com

PROJECTS & ENGG. BUSINESS GROUP

D-196, Okhla Industrial Area, Phase-1,
New Delhi - 110 020
STD Code : 011
Phone : 26811878, 26819015, 26812930, 26811895
Fax : 26812280, 26818216

KHATAULI SUGAR UNIT

Khatauli, Distt. Muzaffarnagar,
U.P.- 251 201
STD Code : 01396
Phone : 272561, 272562
Fax : 272543

DEOBAND SUGAR UNIT

Deoband
Distt. Saharanpur, U.P. - 247 554
STD Code : 01336
Phone : 222497, 222185, 222866, 223791
Fax : 222220

RAMKOLA SUGAR UNIT

Ramkola
Distt. Kushinagar, U.P. - 274 305
STD Code : 05567
Phone : 222218, 226021, 226071,
226072, 226243
Fax : 226248

SUBSIDIARY COMPANIES

1. TRIVENI SRI LIMITED

"Kailash", 2nd Floor
26, Kasturba Gandhi Marg
New Delhi - 110001
STD Code : 011
Phone : 23310021 (4 Lines)
23714460 (3 Lines)
Fax : 23310117

2. TRIVENI POWER GENERATION LIMITED

1560, H.I.G., Ground Floor, Sector 70, Mohali
Punjab 160 062

CHAIRMAN & MANAGING DIRECTOR

Mr. Dhruv M. Sawhney

BOARD OF DIRECTORS

Mr. F.C. Kohli

Mr. M.V. Subbiah (Resigned w.e.f. 14.7.2004)

Mr. S.K. Seth

Lt. Gen. K.K. Hazari (Retd.)

Mr. M.K. Daga

Mr. R.C. Sharma

Mr. V. Venkateswarlu (IDBI Nominee)

**GROUP GENERAL MANAGER (LEGAL) &
COMPANY SECRETARY**

Mr. V.P. Ghuliani

BANKERS

Punjab National Bank

Central Bank of India

Canara Bank

Oriental Bank of Commerce

Union Bank of India

Standard Chartered Bank

State Bank of Travancore

AUDITORS

M/s J.C. Bhalla & Co.

BRANCH AUDITORS

M/s Virmani & Associates

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Report of the Directors

TO THE MEMBERS

Your Directors have pleasure in presenting the 69th Annual Report on the business and operations of your Company and the Audited Financial Statement for the financial year ended 31st March, 2004. Information on subsidiary companies required under section 212 of the Companies Act, 1956 is given in Annexure C to this Report.

FINANCIAL RESULTS

	Rupees in Crores	
	2003-04	2002-03
Sales (Gross)	637.9	703.5
Operating profit	64.7	54.0
Interest and other financial charges	22.4	31.3
Amortisation	6.5	4.9
Depreciation	10.3	9.9
Profit Before Tax	25.5	7.9
Tax liability	3.0	0.7
Net deferred tax charge	4.7	2.4
Profit After Tax	17.8	4.8
Surplus Brought Forward	10.4	8.8
Available for appropriation	28.2	13.6

APPROPRIATIONS

Proposed Equity Dividend (incl Tax)	2.8	2.1
Interim Dividend Paid on Preference shares (incl Tax)	0.5	-
Transfer to Molasses Reserve	0.2	0.1
Transfer to General Reserve	17.0	1.0
Surplus Carried Forward	7.7	10.4
Total	28.2	13.6
Earnings per share – basic (Rs)	20.7	3.9

PERFORMANCE

Sales decreased by Rs 65.6 crores from the previous year due to lower sugar despatches and major restructuring of our projects division. Operating profit increased by 20% from Rs. 54 crores to Rs 64.7 crores, but the increase in profit after tax (PAT) by 270%, from Rs 4.8 crores to Rs 17.8 crores was truly commendable and is an all time record for the company.

Sugar stocks as on 31st March, 2004 were much higher than the previous year and necessitated larger working capital debt. However, with the usage of different financing instruments, and lower interest rates from our current lenders, interest and financing charges have decreased by 30% from Rs 31.3 crores in the previous year to Rs 22.4 crores. In the financial year 2001-2002 interest and financing charges were Rs 50 crores. The cumulative impact of better realizations from sugar sales, and reduced interest expense, mainly contributed to the turnaround in the company's financial position and operating performance. With substantial modernisation and diversification programmes being

undertaken at all the company's business units, finance charges will rise in the next few years. However, this will be sufficiently compensated by higher sales and operating profits.

Segment reporting about the various businesses of the Group for the year ended 31st March 2004 is given in the Schedule of Notes to the consolidated financial statements. Detailed comments on the performance of various divisions are given in the Management Discussions and Analysis in Annexure-D to this report.

DIVIDEND

Your Directors approved and paid an interim dividend of 12% on 39,73,995 – 12% Redeemable Cumulative Preference Shares of Rs. 10/- each involving the payment of Rs 0.5 crore including dividend tax for the financial year ended 31st March, 2004. The interim dividend on Preference Shares shall, with the approval of the shareholders at the forthcoming Annual General Meeting, be treated as final dividend.

Your Directors recommend a dividend of 30% i.e. Rs 3 per equity share involving payment of Rs 2.8 crores including dividend tax for the financial year ended 31st March 2004, which if approved by shareholders at the forthcoming Annual General Meeting, will be paid to :

- those equity shareholders holding shares in physical form and whose names appear on the Register of Members of the Company as on 18th August 2004; and
- those equity shareholders holding shares in demat form and whose names appear as beneficial owners as at the end of business hours on 17th August, 2004 as per lists to be furnished by the depositories viz. NSDL/CDSL.

PART REDEMPTION OF PREFERENCE SHARES

Pursuant to and in terms of the Scheme of Arrangement duly sanctioned by the Hon'ble High Court of Judicature at Allahabad vide its Order dated 27th March 2003, the first instalment @ Rs. 21/- per share (Rs 5 redemption amount plus Rs 16 as premium) was paid to the holders of 39,73,995 - 12% Redeemable Cumulative Preference Shares of Rs 10/- each on 1st April, 2004. With payment of the first instalment of redemption money as aforesaid on 1st April, 2004, the residual paid up value of each Preference Share has automatically, and without any further act or deed either on the part of the Preference Shareholders or on the part of the Company, become Rs 5/-. The second and final instalment of redemption is due and payable on 1st April, 2005.

TECHNOLOGY

The development of new tapered twisted blade by the Turbine Business Group in association with Impact Technologies, U.S.A., is nearing completion. We will be integrating these blades into our manufacturing



Report of the Directors (Contd.)

programme in 2005-2006. We have started an association with Skoda Energo of the Czech Republic, for the marketing in India of turbines over 20 MW. We have also initiated a joint development programme for a new range of turbines in the capacity of 10-20 MW, which would be partly manufactured in the Czech Republic and partly at Triveni's facility at Bangalore, and marketed in Europe and Asia respectively by each organisation.

The sugar units are continuously upgrading their technology. We have recently installed state of the art Syrup Clarification System at Khatauli and Deoband in association with SRI International, Australia, for producing world class plantation white sugar.

HUMAN RESOURCES

The Company believes that human resources are vital and it continues to lay due emphasis on the development of all employees. Training is imparted through in-house and external programmes. 1667 mandays of training were imparted to the employees in the last financial year. Family development programmes for their spouses, and career counselling workshops for their children were conducted.

QUALITY AND ENVIRONMENT

An integral part of the vision of your company is to provide customer satisfaction through the best product and service quality. Your Bangalore and Mysore units have embarked on a Six Sigma programme to achieve quality and service in line with international standards.

CORPORATE GOVERNANCE

Your Company strives to achieve appropriate standards for good corporate governance. A separate report on Corporate Governance is given in Annexure-E along with the Auditors' statement on its compliance in Annexure-F.

AUDITORS

M/s J.C. Bhalla & Co., Chartered Accountants, Auditors of the Company who retire at the conclusion of the forthcoming Annual General Meeting, have consented to continue in office, if appointed. They have confirmed that their appointment, if made, will be in accordance with the limits specified in Section 224 (1B) of the Companies Act, 1956.

COMMENTS ON AUDITORS QUALIFICATIONS

The comments of the Auditors in para 11 of the Annexure to the Auditors' Report are self-explanatory and relate to a few minor instances. The Board has given instructions for the timely payment of all financial institution and bank dues.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, your Directors confirm that :

- i. In the preparation of the Annual Accounts, the applicable accounting standards have been followed.
- ii. Appropriate accounting policies have been selected and applied consistently, and they have made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the statement of affairs of the company as on 31st March, 2004 and of the profit of the Company for the period 1st April, 2003 to 31st March, 2004.
- iii. Proper and sufficient care has been taken for the maintenance of adequate accounting records, in accordance with the provisions of the Companies Act, 1956, for safeguarding and detecting fraud and other irregularities.
- iv. The Annual Accounts have been prepared on a going concern basis.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS AND OUTGO.

The particulars required under Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors), Rules, 1988 are given in Annexure-A to this Report.

DIRECTORS

Mr R C Sharma and Mr M K Daga retire by rotation, and being eligible, offer themselves for reappointment.

Mr J B Dadachanji retired during the year. Your Directors would like to place on record their gratitude and appreciation for the guidance and support extended by Mr Dadachanji during his tenure on the Board.

DEPOSITS

As on 31st March, 2004, deposits amounting to Rs 38.67 lacs remained unclaimed of which Rs 20.21 lacs has since been repaid/renewed as on 30th June, 2004.

APPRECIATION

Your Directors gratefully acknowledge the support given by our customers, shareholders, employees, farmers, the Central, Uttar Pradesh and Karnataka Governments, financial institutions and banks, and all other stakeholders, and we look forward to their continued support and encouragement.

For and on behalf of the Board of Directors,

DHRUV M. SAWHNEY
Chairman &
Managing Director

Place : New Delhi
Date : June 30, 2004

Annexure to the Report of the Directors

ANNEXURE-A

Additional Information as required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988

(A) CONSERVATION OF ENERGY

(a) Energy conservation measures

- Replacement of micro processor based auto cane feeding at the new mill to a PLC based system at Khatauli, resulting in an increase in primary extraction from 73 % to 75% and a reduction in maceration levels from 39% to 36% on cane.
- Installation of one DC Motor Driven 1750 Kg./charge fully automatic centrifugal machine for A-masseccuite at Deoband, which reduced the power consumption.

(b) Additional investments and proposals for reducing energy consumption

- A continuous Vacuum Pan for C-masseccuite and automation of the injection water system are being proposed at Khatauli to reduce steam and power consumption.
- Installation of DC motors on another 3 centrifugal machines at Deoband to reduce power consumption and increase machine capacity.
- Installation of Auto Combustion control in the 65 TPH boiler at Deoband to increase the efficiency of the boiler and reduce fuel and power consumption.

(c) Impact of the above measures

With the above measures, the conservation of energy, steam and water will improve efficiencies of both sugar plants.

FORM A

Disclosure of particulars with respect to conservation of Energy

I. POWER AND FUEL CONSUMPTION

	2003-04	2002-03
1 Electricity		
a) Purchased		
Units (000's KWH)	3,660	3,429
Total Amount (Rs. in lakhs)	188.57	166.74
Rate (Rs./Unit)	5.15	4.86
b) Own generation		
i) Through Diesel Generators		
Units (000's KWH)	2,081	2,520
Unit per litre of Diesel Oil	3.07	3.09
Cost/Unit (Rs.)	6.06	5.58
ii) Through Steam Turbine/ Generator		
Steam produced (000's of Units by use of our own bagasse)	1,00,711	74,999
Bagasse bought (qtls:)	-	3,881
2 Furnace Oil		
Quantity (K Ltrs)	154	168
Total Amount (Rs./lakhs)	23.76	24.06
Rate (Rs./K Ltrs)	15,429	14,321
3 Fire Wood		
Quantity (MT)	-	276
Total Amount (Rs./lakhs)	-	6.58
Rate/Unit (Rs./MT)	-	2,381

II. CONSUMPTION PER UNIT OF PRODUCTION

	2003-04 (PER MT)	2002-03 (PER MT)
SUGAR		
Electricity (KWH)/MT	238.22	242.21
Bagasse (MT)/MT	2.58	2.70
Fire Wood (MT)/MT	-	0.01

In the case of the other business groups no standard products are manufactured, and hence their figures have not been incorporated.



Annexure to the Report of the Directors (Contd.)

FORM B

Disclosure of particulars with respect to technology absorption.

(A) RESEARCH & DEVELOPMENT (R&D)

1. Specific Areas in which R&D was carried out by the company

- a) Development of twisted and tapered blade.
- b) Development of Sugar Cogeneration turbine models for 8 - 16 MW which have been successfully commercialized. Validation of rotor dynamics of the above model was completed by shop test.
- c) Development of healthy cane crop and the promotion of early maturing varieties at our cane development facility, and in other selected areas.

2. Benefits as a result of the above R&D

- a) Filling the gap in our range of turbines with improved efficiencies and reliability.
- b) Meeting specific requirements of our turbine and gear customers.
- c) Higher yield and recovery at our sugar unit.

3. Future plan of action

- a) Enhancing capacity range of turbine models upto 18 - 22 MW with improved efficiency and reliability.
- b) Development by scaling up principle and integration of twisted and tapered blading for the range upto 18 - 22 MW based on the development of first size twisted and tapered blades.
- c) Optimisation of axial gaps between stationary and rotating blades.
- d) Achieving cane recoveries which are the best in our zone.
- e) Joint research and development with Skoda Energo for more efficient and cost effective models in the power range of 10-20 MW.

4. Expenditure on R&D

	(Rs. in lacs)
a) Capital	—
b) Recurring	289.35
c) Total	289.35
d) Total R&D expenditure as a percentage of turnover	0.45

(B) TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Efforts made and the benefits derived have been given under Technology Absorption earlier in this Annexure.

Information regarding technology imported during the last 5 years.

	Year	Has Technology been fully Absorbed
1) Steam Turbine models in the higher power range.	1999	Yes
2) Manufacture and process engineering for Water & Waste Water equipment.	2001	Yes
3) Gears and Gearboxes above 7.5MW.	1998	Yes

(C) FOREIGN EXCHANGE EARNINGS AND OUTGO

	(Rs. in lacs)
	2003-04
1) Earnings in Foreign Exchange	
Value of exports on F.O.B. basis	2,136.70
Others	33.97
2) Foreign Exchange Outgo	1,017.76
(Includes raw materials, components, spare parts, royalty, and other expenditure in foreign currency including royalty).	

Annexure to the Report of the Directors (Contd.)

ANNEXURE - B

PARTICULARS OF EMPLOYEES

PURSUANT TO SECTION 217 (2A) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975

NAME	DESIGNATION	REMUNE- RATION	QUALIFICATION	EXP- (Yrs.)	DATE OF JOINING	AGE (YEARS)	PREVIOUS POST	PREVIOUS EMPLOYMENT
(A) EMPLOYED THROUGHOUT THE YEAR								
D.M. SAWHNEY	CHAIRMAN & MANAGING DIRECTOR	49,93,749	M. ENGG. CAMBRIDGE MBA (WHARTON) D.M.S.	37	01.04.1974	60	GENERAL MANAGER	MAHALAXMI SUGAR MILLS CO. LTD.
ARUN MOTE	CHIEF EXECUTIVE	30,64,435	M. TECH, M.B.A.	28	27.11.1999	51	PRESIDENT & C.E.O.	MAGNETI MARELLI INDIA LTD.
A.K. TANWAR	VICE PRESIDENT (SUGAR)	31,22,568	B.E.(ELECT.) A.N.S.I. (SUGAR ENGG)	24	22.07.1996	48	GENERAL MANAGER	DHAMPUR SUGAR MILLS LIMITED
DEVEN KHANNA	VICE PRESIDENT (CORPORATE FINANCE & PLANNING)	30,90,177	B.COM.(HONS.) F.C.A.	19	10.06.1988	43	-	-
TARUN SAWHNEY*	CORPORATE VICE PRESIDENT	29,54,324	M.A., (CAMBRIDGE) M.B.A. (WHARTON)	5	09.08.2002	30	SENIOR ASSOCIATE	A.K. KEARNEY U.K.
V.P. GHULIANI	GROUP GENERAL MANAGER (LEGAL) & COMPANY SECRETARY	25,81,647	B.A.,LL.B., F.C.S.	41	12.12.1977	65	COMPANY SECRETARY	UNITED SHIPPERS & DREDGERS LTD.
B) EMPLOYED FOR PART OF THE PERIOD								
MANGAL SINGH	CHIEF EXECUTIVE CUM TECHNICAL ADVISOR	8,15,723	B.SC., A.N.S.I. (SUGAR TECH.)	48	19.06.2000	71	ADVISOR, CHIEF EXECUTIVE & EXECUTIVE DIRECTOR	BAJAJ HINDUSTAN LIMITED

* Mr. Tarun Sawhney, Corporate Vice President, is the son of Mr. Dhruv M. Sawhney, Chairman & Managing Director.

Notes :-

- 1) Remuneration includes salary, bonus, other allowances, rent paid, medical expenses and Company's contribution to Provident Fund and Pension Fund and gratuity on the basis of actuarial valuation except for Mr. D.M. Sawhney where it has been considered as per Govt.'s approval.
- 2) The above employees are whole time employees of the Company.

ANNEXURE - C

STATEMENT PURSUANT TO SECTION 212 OF COMPANIES ACT, 1956

SUBSIDIARY COMPANIES		TRIVENI SRI LTD.	TRIVENI POWER GENERATION LTD.
1	Financial Year ended	31st March'2004	31st March' 2004
2	Extent of holding company's interest at the end of financial year of the subsidiary.	100%	100%
3	The net aggregate amount of the subsidiaries Profit/(Loss), so far as it, concerns the members of the holding company and is not dealt with in the company's accounts (Rs. In lacs)		
	a) For the financial year ended 31.03.04 of the subsidiary company.	(5.15)	(1.28)
	b) For the previous financial years of the subsidiary since it became the holding company's subsidiary.	(3.15)	(0.69)
4	a) The net aggregate amount of the subsidiary's Profit/(Loss), for the financial year or years of the subsidiary so far as those Profit/(Loss) are dealt within the holding company's accounts.	NIL	NIL
	b) The net aggregate amount of the subsidiary's Profit/(Loss), for the previous financial years of the subsidiary since it became the holding company's subsidiary so far as those Profit/(Loss) are dealt within the holding company's accounts.	NIL	NIL
5	Changes in the holding company's interest in the subsidiary between the end of the financial year of the subsidiary and holding company.	NA*	NA*
6	Material changes which have occurred between the end of the subsidiary company's financial year and at the end of the holding company's financial year in respect of :		
	I) The subsidiary's fixed assets	NA*	NA*
	II) Its investments	NA*	NA*
	III) The money lent by it	NA*	NA*
	IV) The money borrowed by it for any purpose.	NA*	NA*

* Accounting year of the two subsidiary companies and the holding company ends on 31st March'2004



Annexure to the Report of the Directors (Contd.)

ANNEXURE - D

MANAGEMENT DISCUSSIONS & ANALYSIS

The two main business segments of Triveni are sugar and small industrial steam turbines, which account for 75% and 21% of turnover respectively of the company's aggregate turnover. Other operations consist of high speed gears, water & waste water treatment equipment and specialized sugar machinery.

FINANCIALS

In the season 2002-03, the company had a higher crush and a better recovery than in the season 2001-02. Coupled with a lower cane price, this contributed to a significant reduction in the cost of sugar produced and a majority of this sugar was in the opening stock for 2003-04. Open market sugar prices were quite depressed in the first quarter of 2003-04, but went up appreciably in February/March 2004. Both these factors improved operating margins at the sugar units and were a major contributor to the years results.

SUGAR

INDUSTRY SCENARIO & DEVELOPMENT

We had estimated sugar production in India for the year 2002-03 at 195 lac tonnes, but the year ended with a

production of 201.4 lac tonnes. Currently, the estimate of all India sugar production for 2003-04 is 135-136 lac tonnes, which is a drop of 33 % over last year. This is the lowest production in the last six years and has completely changed the industry scenario. Sugar stocks at this time last year were very high and prices were at a record low. Today, open market sugar prices are 20% higher.

We expect imports of raw sugar of around 7 lac tonnes by September 2004, and the export of 2.7 lac tonnes of plantation white sugar took place in the early part of the current year. With a domestic consumption of 180 lac tonnes in 2003-04, a closing stock of 75 lac tonnes is projected, which is still 5 months consumption. The bearish sentiment in the sugar market over the past few years has changed, and in the short space of six months, India has turned from being a net exporter to being a net importer of sugar. The largest fall in cane production, of almost 50%, was in Maharashtra. In Uttar Pradesh sugar production did not suffer as badly, and the decline was 17%.

A very large power plant is being put up by the Reliance group in Western U.P. However, the viability of co-generated power from sugar factory bagasse in U.P. remains good, and the move for sugar factories to become agro complexes is increasing.

COMPANY PERFORMANCE

The performance of the company's sugar units for the past two sugar seasons is given in the table below :

Sugar Unit	2003-2004				2002-2003			
	Khatauli	Deoband	Ramkola	Total	Khatauli	Deoband	Ramkola	Total
Capacity(TCD)	12,500	11,400	3,500	27,400	11,750	10,000	3,500	25,250
Stoppages excluding cane (percent)	4.15	1.37	2.93	2.82	3.56	2.02	3.80	3.13
Crush(lac qtls)	175.38	148.40	30.33	354.11	175.19	162.14	50.45	387.78
Recovery (%)	10.20	10.46	9.98	10.29	10.10	10.13	9.13	9.99
Sugar production (Net – lac qtls)	17.89	15.52	3.03	36.44	17.69	16.43	4.61	38.73
% increase (Dec) over previous year	1	(5)	(34)	(6)	(2)	17	11	6

Your company is one of the largest producers of sugar in the country, and at the Khatauli unit, sugar production in 2003-04 was amongst the top three in the country and the highest in Uttar Pradesh – a notable achievement. Recovery at Deoband was an all time record, and at Ramkola, it was the highest in the past 15 years. Cane crushed in Khatauli was the same as last year, but there was a steep 40% drop in Ramkola owing to very low yields in their area, a phenomena which was common to all units in Eastern U.P. Crushing operations closed at Ramkola in March, at Deoband in April, and at Khatauli in early May. Engineering stoppages were well within budgeted targets, and our enhanced crushing capacities could not be fully utilized owing to the shortage of cane. Your Company plans to establish new sugar Factories and has taken steps in this regard.

Annexure to the Report of the Directors (Contd.)

Sugar units in U.P. agreed to pay the revised Government announced Statutory Minimum Price (SMP) under protest, as was done in the season 2002-03. The Government has increased the SMP from Rs 69.50 to Rs 73.00 per quintal linked to a recovery of 8.5%. The U.P. Government gave a concession on cane commission and cane purchase tax of Rs 2.50 per quintal, which was passed on to the farmers as cane price.

The modernisation and co-generation projects at Deoband are proceeding well, and we expect to commission the co-generation unit in September 2004. Part of the modernisation project will be completed in the current off season, and the balance in 2005.

The Company launched a new branded sugar division in September 2003. Under the brand name 'Shagun', the company has made a foray into this developing market. This initiative will leverage the growing consumer revolution and the growth of branded commodities. Shagun sugar has been launched in Delhi, Chandigarh, Haryana, Punjab and U.P., and there are plans to launch the product in the remaining northern Indian states by the end of this financial year.

Shagun is currently packed in 1 kg and 5 kg SKU's and we will be looking at other formats, based on consumer feedback and demand. The potential for growth in this nascent market is significant and Shagun is well placed to take advantage of the growing demand for branded sugar. We expect to be able to capture additional margins through consumer-pull demand, as a result of our advertising campaign. Interestingly, our radio advertisement for Shagun won a Bronze medal (no silver or gold medals were awarded) in the 'creative' category at the 2004 Radio Mirchi Awards.

Your company has decided to enter into the agricultural products and extension services business. The launch of this business in December 2004 will help leverage the sugar units relationship with farmers and further strengthen ties with the farming community. In addition to providing a farmer with his entire basket of farming goods and services, the agracentres will provide a host of high-value extension services.

GOVERNMENT POLICY

It is unfortunate that even though Indian industry has generally been liberalized, this is not the case with the sugar industry. Numerous controls still exist at the Central and State levels on the growing of sugarcane and the manufacture and sale of sugar. In the present scenario of reduced domestic production, we do not foresee much change in the next few years. The

Government has formed a high level committee under the chairmanship of Shri S K Tuteja, Secretary, Ministry of Consumer Affairs, Food and Public Distribution. This committee will review the present status of the sugar industry, identify problems, and suggest a package for revitalization of the industry to make it "vibrant, self-sustaining and globally competitive". It is scheduled to submit its report by end September 2004.

The issue whether the Government of U.P. had any statutory power or right to fix the sugarcane price over and above the Statutory Minimum Price (SMP) fixed by the Central Government, came up for hearing before a bench of five judges of the Supreme Court (along with similar petitions of a few other States viz. Bihar, Haryana, Punjab, Andhra Pradesh & Tamil Nadu) and vide a majority judgement of 3 : 2 dated 5.5.2004, it was held that the State Government in U.P. in exercise of its regulatory power as contained in the U.P. Sugarcane (Regulation of Supply & Purchase) Act of 1953, could fix the price of sugarcane. The Industry Association (ISMA) in consultation with leading Supreme Court lawyers, has filed a review petition before the Supreme Court highlighting the inconsistencies with an earlier unanimous decision of a 5 judge bench of the Supreme Court of 1956 in Ch. Tikaramji's case, and other specific constitutional points on account of which review is justified. The Indian Sugar Mills Association petition challenging the SMP for the year 2002-03 has been, at the request of the Central Government, transferred to the Supreme Court. The petition challenging the SMP for '03-04 is before the Delhi High Court.

The Allahabad High Court on 14.5.2003 upheld the U.P. Cane Commissioner's directions to cane societies to charge a commission based on the SMP of individual factories instead of on the basic SMP at 8.5% recovery. This order has been challenged by the Regional Industry Associations by way of an SLP in the Supreme Court and the matter is yet to come up for hearing. In the interim, all private factories in U.P. paid society commission on the basic SMP as in the past.

OUTLOOK

It is difficult to predict cane production in the season starting 1st October 2004 as a lot will depend on the monsoon in the next few months. Current expectations are that All India sugar production in 2004-05 will be lower than that of the current year, and could go below 130 lac tonnes. As consumption will be around 180 lac tonnes, we expect the import of 2/2.5 million tonnes of raw sugar to bridge the gap, and are hopeful that we will be successful in avoiding the import of white sugar.

