

ANNUAL REPORT & ACCOUNTS 1999-2000

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**Upper Ganges Sugar
& Industries Limited**

**BOARD OF DIRECTORS**

Dr. K. K. Birla, M.P., Chairman
 Smt. Nandini Nopany, Mg. Director
 Shri C. S. Nopany
 Shri R. K. Choudhury
 Shri Sudhir Jalan
 Shri G. K. Bhagat
 Shri Bhaskar Mitter
 Shri M. K. Mookerjee
 Lt. Gen. K. Chiman Singh (Retd.)
 Shri S. P. Sen Gupta
 Shri R. N. Mody
 Shri A. V. Lodha
 Shri S. C. Das (IDBI - Nominee)
 Shri G. Dhurka

EXECUTIVES

Shri C. B. Patodia, Advisor
 Shri S. K. Poddar, Secretary
 Shri B. K. Malpani, Executive President (Seohara)
 Shri S. D. Shukla, Executive President (Morton)
 Shri B. K. Sureka, Sr. Executive Vice President (Sidhwalia)
 Shri S. S. Binani, Executive Vice President (Tea Garden)

AUDITORS

S. R. Batliboi & Co., Chartered Accountants

ADVOCATES & SOLICITORS

Khaitan & Co.

BANKERS

State Bank of India

REGISTERED OFFICE

P.O. Seohara, Dist. Bijnor (U.P.)
 Pin Code : 246 746

CORPORATE & HEAD OFFICE

9/1, R. N. Mukherjee Road,
 Calcutta - 700 001

SUGAR MILLS

1. Seohara, Dist. Bijnor (U.P.)
 2. Sidhwalia, Dist. Gopalganj (Bihar)

DISTILLERY

Seohara, Dist. Bijnor (U.P.)

MORTON CONFECTIONERY & MILK PRODUCTS FACTORY

Marhowrah, Dist. Saran (Bihar)

CINNATOLIAH TEA GARDEN

Lakhimpur North (Assam)

CONTENTS

Directors' Report	3
Auditors' Report	13
Balance Sheet	16
Profit & Loss Account	17
Schedules to Accounts	18
Subsidiary Companies' Accounts	39

UPPER GANGES SUGAR & INDUSTRIES LIMITED

Performance at a Glance

	(Rs. in lakh)					
	1994-95 (nine months)	1995-96	1996-97	1997-98	1998-99	1999-2000 (fifteen months)
Turnover	10,895.90	13,909.27	16,563.92	20,625.62	22,662.62	24,868.09
Operating Profit	1,703.22	2,164.38	2,924.26	3,614.18	3,858.61	3,463.99
Interest (net)	284.18	874.70	1,696.98	1,920.48	1,882.57	2,238.80
Depreciation	227.57	336.58	467.86	628.96	607.97	798.76
Profit before Tax	1,191.47	953.10	759.42	1,064.74	1,368.07	426.43
Profit after Tax	451.47	773.10	629.73	904.74	1,154.81	357.53
Net Worth	5,842.30	6,474.60	6,966.70	7,915.59	8,768.23	9,136.36
Net Worth per Ordinary Share (Rs.)	125.46	139.05	149.63	109.12 *	121.33 *	126.61 *
Dividend per Ordinary Share (Rs.)	3.50	3.50	3.50	3.00 *	3.00 *	3.00 *
Earning per Ordinary Share (Rs.)	9.70	16.62	13.53	12.55 *	16.01 *	5.12 *
Cane Crushed (Season) (In Lakh Qtls.)	129.13	157.87	124.18	134.44	149.38	160.33

* After Bonus issue



DIRECTORS' REPORT

To

The Shareholders,

Your Directors take pleasure in presenting their Report and the audited Statements of Account of the Company for the period ended 30th June, 2000.

Financial Results

	(Rs. in lakh)	
	1999-2000	1998-1999
2. Turnover	24868.09	22662.62
Gross Profit before Depreciation	1225.19	1976.04
To which is added :		
Balance brought forward from the previous year	142.96	112.19
Investment Allowance Reserve no longer required written back	137.41	280.37
Making a total of	1505.56	2088.23
Out of this provisions have been made for :		
Depreciation	798.76	607.97
Taxation	68.90	213.26
Debenture Redemption Reserve	—	250.00
Surplus available for appropriation	637.90	1071.23
Appropriations (subject to necessary clarification/approval) :		
Proposed Dividend	256.26	246.88
Dividend Tax	56.38	27.16
Transfer to General Reserve	200.00	600.00
Balance carried to Balance Sheet	125.26	142.96

3. The above financial results are for a period of fifteen months as the Company has changed its financial year from March ending to June ending. Your Directors are glad to report that during the period under review crushing of sugarcane and recovery at both the sugar factories were better as compared to the previous season. The profits would have been higher had it not been for huge build-up of inventory of finished goods due to increased production, increase in raw material cost and depressed sugar prices prevailing during the period under review. A detailed report on operations of all the units of the Company has been given in the Management Discussions & Analysis Report which is attached as a separate annexure and forms part of this Report.

4. The Institute of Chartered Accountants of India has amended the Accounting Standard (AS 2) regarding Valuation of Inventories effective 1st April, 1999 under which interest cost usually is not to be included as a part of cost for valuation of inventories. Exceptions have been made by the Institute in respect of certain industries like wine, timber, etc. where storage of inventory is a necessity. As sugar is a seasonal industry, where production takes place during a few months only while sales are distributed over a period of 12-15 months under the monthly release mechanism. Since monthly releases are controlled by the Government, the Company has compulsorily, to hold high inventories of sugar. Your Company has been following consistently

UPPER GANGES SUGAR & INDUSTRIES LIMITED

DIRECTORS' REPORT (Contd.)

the practice of valuing the inventory of sugar at lower of market price or cost inclusive of interest and is continuing to do so. Necessary application/representation has been made to exempt the Company from the requirement of AS 2 so far as the valuation of inventory of sugar is concerned and also to approve the payment of dividend to shareholders.

Dividend

5. The Directors have recommended a dividend @ 12.50 % per annum on Preference Shares (pro rata for a period of 15 months) and @ Rs. 3.00 per Ordinary Share for the period ended 30th June, 2000, subject to necessary clarification/approval as stated in Para 4, for consideration of the shareholders at the ensuing Annual General Meeting.

Capital Projects

6. The Company is expanding and modernising its sugar factory at Sidhwalia (Bihar) from 1750 tcd to 2500 tcd at an estimated cost of Rs. 30 crores. The expanded capacity is likely to go on stream during the season 2001-2002.

Dematerialisation of Shares

7. The Securities & Exchange Board of India (SEBI) has made it mandatory for all the investors to trade in the equity shares of the Company on the Stock Exchanges only in demat form with effect from 28th August, 2000. Your Company has entered into agreements with both the depositories i.e. National Securities Depository Ltd. and Central Depository Services (India) Ltd. to facilitate the investors to trade in the equity shares of the Company in dematerialised form.

Corporate Governance

8. SEBI has made certain provisions mandatory for listed companies by insertion of Clause 49 in the Listing Agreement. The Company believes that good corporate practices enable the Board to direct and control the affairs of the Company in an efficient manner and to achieve its ultimate goal of maximising shareholders' value. Your Company has constituted an Audit Committee and an Investors' Grievance Committee which would be meeting periodically.

Directors

9. The term of Smt. Nandini Nopany as Managing Director of the Company expired on 30th September, 2000. She has been re-appointed as Managing Director for a further period of five years with effect from 1st October, 2000.

10. Shri R. K. Choudhury, Shri Sudhir Jalan, Shri G. K. Bhagat and Shri S. P. Sen Gupta retire from the Board by rotation and are eligible for re-election.

Auditors

11. The qualification in the Auditors' Report for non compliance of AS 2 has been duly explained in note no. 9 and the other notes are self explanatory and therefore do not call for any further comments.

12. The Auditors, Messrs S. R. Batliboi & Co, Chartered Accountants, retire and are eligible for re-appointment.

Subsidiary Companies

13. The audited accounts of Uttar Pradesh Trading Company Ltd. and Saran Trading Company Ltd., subsidiaries of the Company, for the year ended 31st March, 2000 are attached as required by Section 212 of the Companies Act, 1956.

Statutory Requirements

14. Particulars of employees as required under Section 217(2A) of the Companies Act, 1956 is attached as a separate annexure and forms a part of this Report.

15. Particulars in respect of conservation of energy, technology absorption and foreign exchange earnings and outgo as required under Section 217(1)(e) of the Companies Act, 1956 is attached as a separate annexure and forms a part of this Report.

16. As the Company had taken adequate measures for compliance of Y2K, the transition into the year 2000 was smooth.

Acknowledgements

17. Your Directors take this opportunity of recording their appreciation of the financial institutions and bankers for extending their support to the Company. Your Directors are also grateful to the various ministries in the Central and State Governments, the Sugar Directorate and the Sugar Development Fund for their continued support to the Company. The Directors are thankful to the Indian Sugar Mills Association for the dynamic role it has been playing on behalf of the sugar industry. The Directors also place on record their appreciation of the valuable contribution made by the employees at all levels.

For and on behalf of the Board

Calcutta - 700 001

Dated, the 23rd October, 2000

K. K. BIRLA
Chairman



MANAGEMENT DISCUSSIONS & ANALYSIS REPORT

The management of Upper Ganges Sugar & Industries Ltd. is pleased to present its report analysing the Company's operations in various industry segments and its future expectations based on the current market conditions.

The activities of the Company include various industries such as sugar, industrial alcohol, tea and confectionery products. Sugar, which constitutes 84.43% of sales, is produced at two sugar factories located at Seohara in Uttar Pradesh and Sidhwalia in Bihar. Industrial Alcohol is produced at its distillery at Seohara, tea at Cinnatolliah Tea Garden in Assam and confectionery products at Marhowrah in Bihar. Molasses and bagasse which are by-products of the sugar factories are partly sold and partly consumed internally by the Company. An industrywise analysis is presented below :

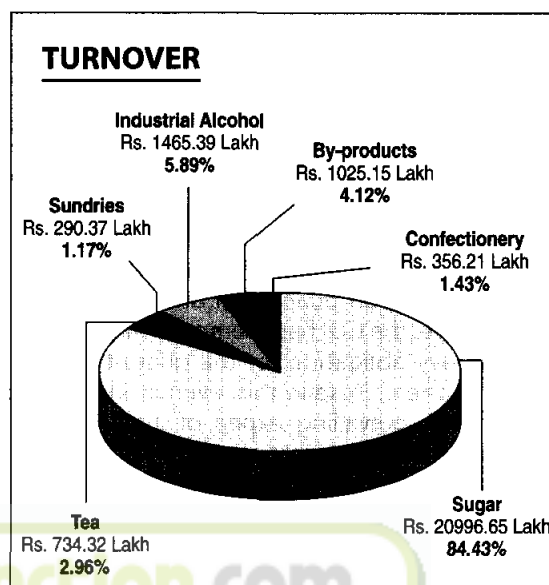
A. SUGAR

1. World Sugar Scenario

(a) The sugar industry had been suffering world over from surplus production of sugar since the year 1998-99. The gap between world production of 134.75 million tonnes in 1998-99 against a consumption of 130 million tonnes marginally narrowed down in 1999-2000 with production at 132.76 million tonnes against a consumption of 130.5 million tonnes. However, easy availability of sugar kept sugar prices at depressed levels throughout 1999.

(b) The first quarter of 2000 started with similar depressed prices like in 1999. However, since the second quarter of 2000 there was a marked change in market sentiment. Brazil is estimating a drop in its production from 19.3 million tonnes achieved in 1999-2000 to around 14.5 million tonnes in 2000-2001. A major player in the export market, Brazil is likely to export only 8 million tonnes during 2000-2001 as against 12 million tonnes exported during 1999-2000. The European Union, another major player in the world market, has also estimated a lower production for the year 2000-2001 at 16.951 million tonnes against 19.546 million tonnes achieved in 1999-2000. Australia is also reporting a fall in production from 5.481 million tonnes in 1999-2000 to 5 million tonnes in 2000-2001. Pakistan and China are also expecting lower production during the season 2000 - 2001.

(c) This anticipated change in the world scenario of sugar production has had its impact on sugar prices. The London daily price which was hovering around US\$ 170 during the first quarter of 2000 has risen appreciably to around US\$ 280 during August 2000. The futures are also being quoted at similar levels.



2. Indian Sugar Scenario

(a) The Indian Sugar Industry, suffering from problems of plenty, was plagued by imports throughout 1999 despite a record production. After repeated demands by the industry, the Government of India (GOI) finally increased import duty from 27.5% (including surcharge) to 40 % effective 1st January 2000 and then to 60% effective 9th February 2000 with countervailing duty remaining unchanged at Rs. 850 per tonne. Unfortunately, by then the damage had already been done as about 25 lakh tonnes of sugar had already been imported into the country since 1997-98. In a further effort to provide a level playing field to the domestic industry, the GOI imposed a levy obligation of 30% on imported sugar and also brought all imported sugar under the monthly release mechanism. All these measures have provided an important check to imports. Ironically the sugar industry is now looking to export sugar in significant quantities.

UPPER GANGES SUGAR & INDUSTRIES LIMITED

MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)**(b) Demand & Supply of Sugar in India**

(In lakh tonnes)

	1999-2000	1998-1999
Opening stock as on 1st October	68.91	54.04
Production during the season (October-September)	182.02	155.41
Imports	4.04	10.03
Total availability	254.97	219.48
Domestic consumption	154.25	150.35
Exports	0.45	0.22
Closing stock as on 30th September	100.27	68.91

(c) The huge sugar inventory is now a serious problem facing the industry. In order to correct this mismatch between demand and supply, export of sugar is a must. The GOI is now seized of the problem and has announced an export quantity of one million tonnes. As an incentive, the GOI has exempted sugar factories from their levy obligation for the quantity of sugar exported by them. Despite this, even at international prices currently prevailing, export of sugar is a losing proposition. The industry through the Indian Sugar Mills Association (ISMA) and the Indian Sugar & General Export Import Corporation (ISGEC) is looking forward to export at least 2 million tonnes even at a loss.

(d) The large inventory being carried by the sugar industry has naturally resulted in a sharp increase in finance charges, storage costs and insurance costs. The industry has represented to the GOI to provide a buffer stock subsidy of 2 million tonnes. In similar situations in the past, the GOI had created buffer stock in order to provide relief to the industry.

(e) In an important move, the GOI has exempted the sugar industry from fulfilling the jute packaging order to the extent of 10% of its production for the season 1999-2000. The industry welcomed this step as packing in jute bags affects the quality of sugar over time and is also very costly. It is hoped that the sugar industry is exempted from the jute packaging order completely.

Government Policies**3. Mahajan Committee Report**

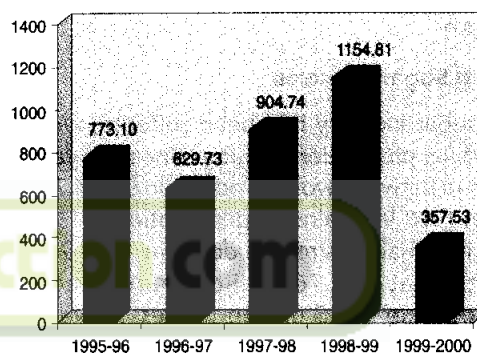
(a) Under the Orders of the Allahabad High Court, the GOI had constituted a Committee under the Chairmanship of Shri B. B. Mahajan to make recommendations to resolve the problems of the sugar industry. This Committee had recommended sweeping changes that include complete decontrol of sugar, de-

licensing, constitution of Sugarcane Pricing Board and discontinuation of supply of sugar through the Public Distribution System. The GOI has yet to take a final view on all the recommendations of this report, though, it has partially implemented some of the recommendations.

(b) In accordance with the recommendations of the Mahajan Committee, the GOI has reduced the levy quota of the sugar industry from 40% to 30% effective 1st January 2000. This bold step has been welcomed by the entire industry. The Mahajan Committee had recommended total de-control of sugar from levy obligations in a phased manner.

PROFIT AFTER TAX

(Rs. in Lakh)

**4. Sugarcane Pricing**

(a) The Statutory Minimum Price (SMP) of sugarcane for the season 1999-2000 was fixed by the GOI at Rs. 56.10 per quintal as against Rs. 52.70 for the previous season linked to a base recovery of 8.5%. The SMP in respect of your sugar factories was fixed as below :

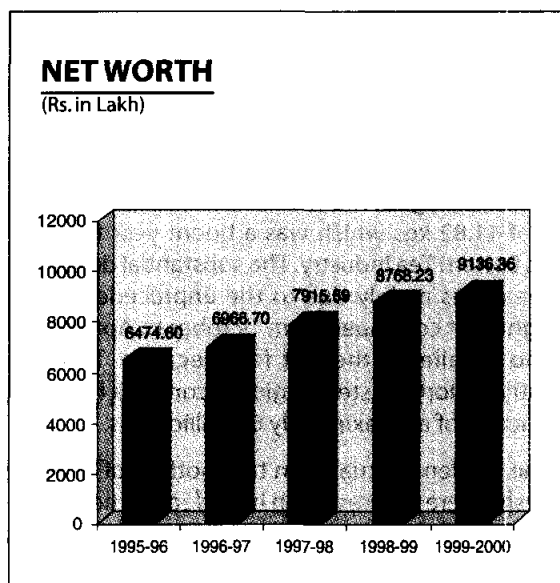
	Season 1999-2000	Season 1998-1999
Statutory Minimum Price (Rs. per quintal)		
Seohara	60.06	58.90
Sidhwalia	56.10	59.52

(b) During the season 1999-2000, the sugar industry in U. P. and Bihar paid a price of Rs. 85.00 and Rs. 82.50 per quintal of sugarcane respectively as against Rs. 80.00 and Rs. 77.50 per quintal during the season 1998-1999. The



MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

State Government of U.P. has announced a remission of Re. 1.00 per quintal in cane purchase tax for the season 1999-2000 and a ceiling on society commission at Re. 1.00 for the season 1999-2000 which otherwise would have been around Rs. 1.68 per quintal.



5. Levy Sugar Prices

(a) The GOI as late as in end November 1999 announced the price of levy sugar for the season 1998-1999. The GOI has also fixed the price of levy sugar for the season 1999-2000. The price in respect of levy sugar produced by your factories has been fixed as below :

	Season 1999-2000	Season 1998-1999
Levy Price (Rs. per quintal)		
Seohara	1075.41	1049.09
Sidhwalia	1085.43	1171.51

(b) Since the industry was disappointed with the fixation of levy sugar prices as aforesaid it has challenged the GOI's order in the Allahabad and Patna High Courts.

6. Operations

(a) The operations of the Company improved significantly as compared to the previous year. The crushing of sugarcane by the Company during the season 1999-2000 was higher at 160.33 lakh quintals as against 149.38 lakh quintals during the season 1998-1999. The production of sugar was 14.67 lakh quintals during the season 1999-2000 as against 13.25 lakh quintals during the season 1998-1999.

(b) Seohara factory is one of the single largest factories in the country in terms of daily cane crushing. However, cane availability is limited due to keen competition from gur and khandhari units as well as from neighbouring sugar factories. Furthermore, during the season 1999-2000 the cane crop was badly damaged due to severe attack by an insect called Pairala throughout Western Uttar Pradesh. Despite this, cane crushing and recovery were higher during the season 1999-2000. The working of Sidhwalia factory was satisfactory and cane crushing and recovery for the season was higher as compared to the previous season. The comparative operational figures for the last two years are given below :

	During the period ended 30th June, 2000	During the season 1999- 2000	During the year ended 31st March, 1999	During the season 1998- 1999
Sugarcane Crushed (lakh quintals)				
Seohara	139.87	135.61	129.84	129.53
Sidhwalia	24.72	24.72	19.85	19.85
	164.59	160.33	149.69	149.38
Recovery (%)				
Seohara	9.22	9.18	8.92	8.93
Sidhwalia	9.15	9.15	8.47	8.47
Sugar Produced (lakh quintals)				
Seohara	12.89	12.45	11.59	11.57
Sidhwalia	2.22	2.22	1.68	1.68
	15.11	14.67	13.27	13.25

7. Future Outlook

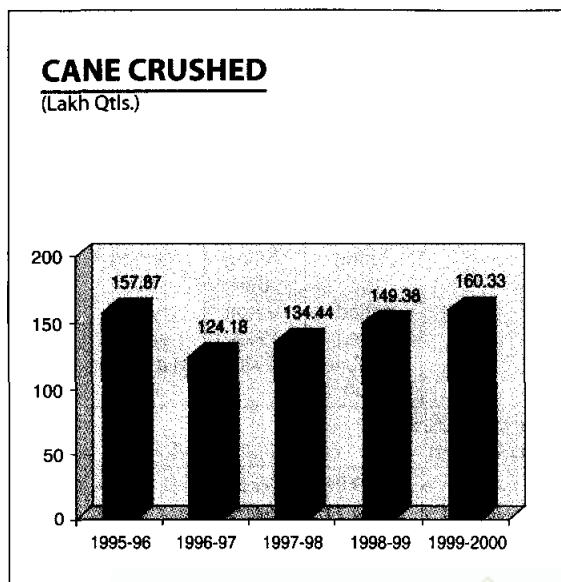
(a) The outlook of the sugar industry for the season 2000-2001 will be dependent on several factors. How the government and the industry tackle the problem of huge inventories and spiralling interest costs will determine the fate of the industry. Export of sugar coupled with creation of buffer stock is essential for the survival of the industry.

(b) Preliminary reports indicate that the plantation of sugarcane is lower in U.P. and Bihar as compared to the previous season though the percentage of ratoon cane has increased significantly. Unprecedented heavy rains during the month of June are likely to affect the yield of the plant crop this season. Despite this setback, the total production of sugar is likely to be marginally lower than

UPPER GANGES SUGAR & INDUSTRIES LIMITED

MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

the last season but will be much higher than the estimated domestic consumption. A clearer picture in respect of the season 2000-2001 will be available only by December, 2000. The GOI has not yet announced the sugar policy for the season 2000-2001.

**B. INDUSTRIAL ALCOHOL**

(a) The industrial alcohol sector continued to suffer from over-production and limited demand throughout 1999-2000. Low realisations and poor sales forced distilleries to cut back their production.

(b) The Government of U. P. modified its molasses policy to allow sugar factories to freely sell 80% of their production in the open market and the balance 20% to be reserved for country liquor manufacturers.

(c) The production and sales at Seohara Distillery improved significantly. In view of the difficult market conditions, the performance of the Seohara distillery can be considered satisfactory.

The comparative figures of production and sales are as under :

	1999-2000	1998-1999
Industrial Alcohol (lakh litres)		
Production	111.96	63.72
Sales	119.50	62.79

(d) The alcohol market sentiment has also undergone a change during the last couple of months. Demand has improved though prices have yet to show an upward trend. The demand for alcohol in the international markets has improved substantially particularly in Korea. The Indian industry is now looking forward to export alcohol in significant quantities.

C. TEA

(a) The production of tea at the Cinnatolliah Tea Garden was 9.51 lakh kgs of made tea, as compared to last year crop of 11.82 kgs which was a boom year for crop in North Eastern Tea Industry. The substantial drop in crop this year was mainly due to the unprecedented long drought that continued from October to April end and has no parallel in the last few decades. The entire industry in North Eastern region recorded a huge fall in production of approximately 65 million kgs.

(b) The garden is situated in the foothills of Arunachal Pradesh where deforestation has affected the quality of the soil. As the garden is situated on sandy soil it had suffered severely due to high temperature and loss of humidity during drought. In fact, substantial area under tea was burnt and uprooted which resulted in a reduction of area under production. Furthermore, certain areas have yet to fully recover from the effects of the drought and are likely to be restored within the next couple of years.

(c) Improved cultivation and soil correction measures is resulting in an all-round improvement. While early rains and timely irrigation will improve the production of tea, higher cost of production and a sluggish tea market are causes of concern. Your garden has, however, maintained its upward trend in production and higher realisations during the year.

D. CONFECTIONERY

The manufacturing activities at Morton Confectionery & Milk Products Factory were suspended from 21st April, 1999. The plant at Marhowrah was no longer viable due to sluggish sales and over-saturation in the confectionery market. As confectionery was not a core business of the Company and had an uncertain future, it was considered prudent to exit from this line of business.

**Particulars of Employees as required under Section 217 (2A) of the Companies Act, 1956
and forming part of the Directors' Report for the period ended 30th June, 2000.**

Name	Designation	Remuneration Rs.	Nature of Duties	Qualification	Experience (years)	Age (Years)	Date of commen- cement of employment	Last employment held
Employed throughout the period :								
Smt. Nandini Nopany	Mg. Director	11,76,000	Overall management of the affairs of the Company	I.C.S.E.	27	53	October, 1995	None
Shri C. B. Patodia	Advisor	15,62,866	Advisory	Intermediate	32	51	February, 1990	The New Swadeshi Sugar Mills Ltd., Narkatiaganj
Shri T. K. Mitra	Technical Advisor	7,54,093	Technical Advisory	B.Sc (Engg.)	34	57	July, 1991	Kanoria Industries Ltd., Captainganj

- Notes :
1. The remuneration includes salary, Company's contribution to provident fund and perquisites but does not include contribution to gratuity fund.
 2. All appointments except of the Managing Director are non-contractual.
 3. Other terms and conditions are as per rules of the Company.
 4. Smt. Nandini Nopany is a relative of Dr. K. K. Birla and Shri C.S. Nopany, Directors of the Company. No other employee is a relative of any Director of the Company.

