

UPPER GANGES SUGAR & INDUSTRIES LIMITED



**ANNUAL REPORT & ACCOUNTS
2000-2001**

**BOARD OF DIRECTORS**

Dr. K. K. Birla, M.P., Chairman
Smt. Nandini Nopany, Dy. Chairperson cum 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 R. N. Mody
Shri A. V. Lodha
Shri S. Sahoo (IDBI - Nominee)
Shri G. Dhurka

EXECUTIVES

Shri C. B. Patodia, Advisor
Shri S. K. Poddar, Secretary
Shri B. K. Malpani, Executive President (Seohara)
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,
Kolkata - 700 001.

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SUGAR MILLS

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

DISTILLERY

Seohara, Dist. Bijnor (U.P.)

CINNATOLLIAH TEA GARDEN

Lakhimpur North (Assam)

UPPER GANGES SUGAR & INDUSTRIES LIMITED

Performance at a Glance

	(Rs. in lakh)				
	1996-97	1997-98	1998-99	1999-2000 (15 months)	2000-2001
Turnover	16,563.92	20,625.62	22,662.62	24,868.09	21,081.25
Operating Profit	2,924.26	3,614.18	3,858.61	3,463.99	2,823.58
Interest (net)	1,696.98	1,920.48	1,882.57	2,238.80	1,856.71
Depreciation	467.86	628.96	607.97	798.76	655.67
Profit before Tax	759.42	1,064.74	1,368.07	426.43	311.20
Profit after Tax	629.73	904.74	1,154.81	357.53	241.70
Net Worth	6,966.70	7,915.59	8,768.23	9,136.36	7,985.84
Net Worth per Ordinary Share (Rs.)	149.63	109.12	121.33	126.61	110.12
Dividend per Ordinary Share (Rs.)	3.50	3.00	3.00	1.00 *	—
Earning per Ordinary Share (Rs.)	13.53	12.55	16.01	5.12	3.46
Cane Crushed (Season) (In Lakh Qtls.)	124.18	134.44	149.38	160.33	154.02

* Proposed



NOTICE

Notice is hereby given that the Sixty-ninth Annual General Meeting of Upper Ganges Sugar & Industries Limited will be held on Tuesday, the 11th December, 2001 at 11.00 A.M. at the Registered Office of the Company at Sugar Mills Complex, P.O. Seohara, Dist. Bijnor (U.P.), Pin - 246746 for the following purposes :

1. To receive and consider the Report of the Directors and to adopt the audited Accounts of the Company for the year ended 30th June, 2001.
2. To elect a Director in place of Smt. Nandini Nopany who retires by rotation and being eligible offers herself for re-election.
3. To elect a Director in place of Shri C. S. Nopany who retires by rotation and being eligible offers himself for re-election.

4. To elect a Director in place of Shri Bhaskar Mitter who retires by rotation and being eligible offers himself for re-election.
5. To elect a Director in place of Lt. Gen. K. Chiman Singh (Retd.) who retires by rotation and being eligible offers himself for re-election.
6. To appoint Auditors and fix their remuneration.

Kolkata,
Dated, the 15th October, 2001

By Order of the Board
S. K. PODDAR
Secretary

NOTES :

1. **A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.**
2. The Register of Members of the Company will remain closed from the 4th December, 2001 to the 11th December, 2001, both days inclusive.
3. Members are requested to notify any change in their addresses to the Company.
4. In all correspondence with the Company, the members are requested to quote their account/ folio numbers and in case their shares are held in the dematerialised form, they must quote their Client ID Number and their DP ID Number.
5. Under the provisions of Section 205A of the Companies Act, 1956 all unclaimed/unpaid dividends upto the financial year 1993-94, have been transferred to the General Revenue Account of the Central Government. Members who have so far not claimed their dividends for the said period may claim the same by submitting an application

in prescribed Form No. II to the Registrar of Companies, Uttar Pradesh, West-Cott Building, Mahatma Gandhi Road, Kanpur- 208 001.

Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, dividend remaining unclaimed/unpaid for a period of seven years shall be transferred to the Investor Education and Protection Fund. Members who have not encashed the dividend warrant(s) so far for the financial year 1994-95 and any subsequent year may make their claim to the Company.

6. The Ordinary Shares of the Company are listed at Uttar Pradesh Stock Exchange Association Ltd., Padam Towers, 14/113, Civil Lines, Kanpur - 208001, The Stock Exchange, Mumbai, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001, National Stock Exchange of India Ltd., Trade World, Senapati Bapat Marg, Lower Parel, Mumbai-400013 and The Calcutta Stock Exchange Association Ltd., 7, Lyons Range, Kolkata - 700001. The listing fee for the year has been paid to each of the above Stock Exchanges.

UPPER GANGES SUGAR & INDUSTRIES LIMITED

DIRECTORS' REPORT

To

The Shareholders,

Your Directors take pleasure in presenting their Report and the audited Statements of Account of the Company for the year ended 30th June, 2001.

Financial Results

(Rs. in lakh)

	2000-2001	1999-2000 (15 months)
2. Turnover	21081.25	24868.09
Gross Profit before Depreciation	966.87	1225.19
To which is added :		
Balance brought forward from the previous year	637.90	142.96
Less : Proposed dividend for the year 1999-2000	116.67	
Provision for Dividend Tax	11.90	
	509.33	
Refund of Income-tax/excess provision for taxation written back	9.18	—
Investment Allowance Reserve no longer required written back	—	137.41
	518.51	280.37
Making a total of	1485.38	1505.56
Out of this provisions have been made for :		
Depreciation	655.67	798.76
Taxation	69.50	68.90
Debenture Redemption Reserve	85.00	—
Balance carried to Balance Sheet	675.21	637.90

3. As reported last year, The Institute of Chartered Accountants of India (Institute) introduced Accounting Standard 2 (AS 2) effective 1st April, 1999 under which interest cost is not to be included as a part of cost for valuation of inventories except in certain cases. The Company, which consistently considered interest as a part of cost of the inventory of sugar in the past,

represented along with other members to the Institute for exemption from this requirement, as sugar is a seasonal industry in which storage of inventories for long periods is a part of the normal business activity. The Institute, however, differed and did not exempt the sugar industry from including interest as a part of cost for valuation of inventories.



DIRECTORS' REPORT (Contd.)

4. Accordingly, the Company has now changed its method of valuation of inventories under which interest has not been considered as a component of cost for the purpose of valuation during the year under review. In order to present a correct picture of the current year, the interest component has also been removed from the valuation of opening inventory of sugar as it relates to the previous period and Rs. 1283.38 lakh has been reduced directly from the General Reserve. It is further clarified that this is only an accounting adjustment under which recognition of profit gets deferred till the inventories are actually sold. Had the Company continued with its earlier practice of valuing of inventories at lower of market rate or cost including the interest component, the profit for the year would have been higher by Rs. 145.42 lakh and the Reserves would have been higher by Rs. 1428.80 lakh.

5. The Board of Directors had recommended a dividend @ 12.50% per annum on Preference Shares for a period of 15 months and @ Rs. 3.00 per Ordinary Share for the period ended 30th June, 2000 subject to the approval/clarifications of appropriate authorities. As the opinion of the Institute was not received till the time of holding the Annual General Meeting, the agenda item for declaration of dividend was adjourned sine-die. In view of the opinion of the Institute the matter was reconsidered by the Directors and they subsequently recommended dividend on Preference Shares @ 12.50% per annum for a period of 15 months and @ Re. 1.00 per Ordinary Share out of the past profits in terms of the Companies (Declaration of Dividend out of Reserves) Rules, 1975 for the period ended 30th June, 2000.

Dividend

6. As there is no distributable profit as per the provisions of the Companies Act, 1956, your Directors are not in a position to recommend any dividend for the year.

Capital Project

7. The Company's project for expansion-cum-modernisation of its sugar factory at Sidhwalia (Bihar) to 2,500 tonnes crushing daily is progressing satisfactorily and is expected to be completed during the season 2001-2002.

Dematerialisation of Shares

8. The Ordinary Shares of your Company are tradable compulsorily in electronic form with effect from 28th August, 2000. The Company has established connectivity with both the depositories i.e. National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL). In view of numerous advantages of the depository system, members are requested to avail of the facility of dematerialisation of Company's shares on either of the depositories, as stated above. As on 30th June 2001, 30.19% of total Ordinary Shares had been dematerialised.

Corporate Governance

9. A separate report on Corporate Governance pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges is attached as a separate annexure and forms a part of this Report. Although this clause is mandatory for the Company from the year 2001-2002, the Company has voluntarily implemented most of the major stipulations of the Corporate Governance Code from this year itself.

10. A detailed report on operations of all the units of the Company has been given in the Management Discussions and Analysis Report which is attached as a separate annexure and forms a part of this Report.

Directors

11. Shri S. P. Sen Gupta resigned from the Directorship of the Company. The Board placed on record its high appreciation of the valuable services rendered by him during his tenure as a Director of the Company.

12. Shri S. Sahoo has been nominated on the Board of Directors of the Company by Industrial Development Bank of India in place of Shri S. C. Das with effect from 28th August, 2001. The Board placed on record its high appreciation of the valuable advices rendered by Shri S. C. Das as a Director of the Company.

13. Smt. Nandini Nopany, Shri C. S. Nopany, Shri Bhaskar Mitter and Lt. Gen. K. Chiman Singh (Retd.) retire from the Board by rotation and are eligible for re-election.

UPPER GANGES SUGAR & INDUSTRIES LIMITED

DIRECTORS' REPORT (Contd.)**Directors' Responsibility Statement****14.** Your Directors confirm that —

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that year;
- iii) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) they have prepared the annual accounts on going concern basis.

Auditors

15. The Notes on Accounts appearing in Schedule 24 and referred to in the Auditors' Report are self explanatory and therefore, do not call for any further comments or explanations.

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

Subsidiary Companies

17. The audited Accounts of Uttar Pradesh Trading Company Ltd. and Saran Trading Company Ltd.,

subsidiaries of the Company, for the year ended 31st March, 2001 are attached as required by Section 212 of the Companies Act, 1956.

Statutory Requirements

18. 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.

19. 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.

Acknowledgements

20. 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 Government and State Governments of Uttar Pradesh, Bihar and Assam, the Sugar Directorate and the Sugar Development Fund for their continued support to the Company. 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

Kolkata - 700 001
Dated, the 12th September, 2001

K. K. BIRLA
Chairman



MANAGEMENT DISCUSSIONS & ANALYSIS REPORT

The management of Upper Ganges Sugar & Industries Ltd. (UGS) is pleased to present its report analysing the Company's operations in its various divisions and its future prospects based on the current prevailing market conditions.

The activities of UGS include the manufacture and sale of sugar, industrial alcohol and tea. Sugar, which constitutes 82.91% of its sales, is produced in UGS's two sugar factories situated at Seohara in Uttar Pradesh and Sidhwalia in Bihar. Industrial Alcohol is produced at the Company's distillery at Seohara. The Cinnatolliah Tea Garden is located at Lakhimpur North in Assam. The by-products of the sugar factories i.e. molasses and bagasse are partly sold and partly consumed internally by the Company. An Industrywise analysis is presented below :

A. SUGAR

1. World Sugar Scenario

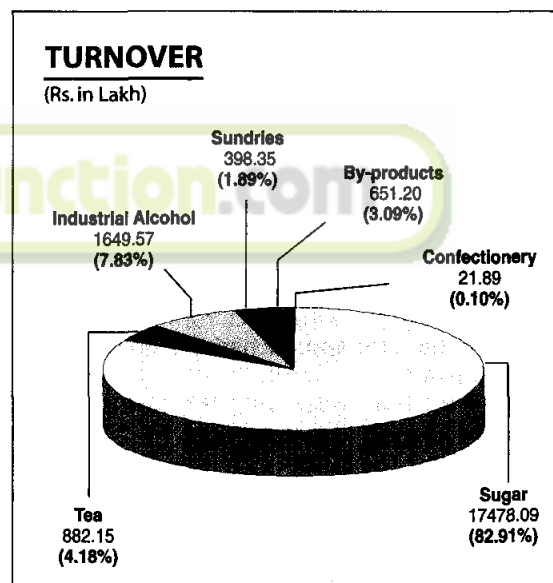
(a) The international sugar markets witnessed a lot of volatility during the year 2000-2001. International sugar prices that remained bearish throughout 1999-2000 improved appreciably during the current year. This improvement was the result of several factors that included additional demand from Pakistan, Indonesia, Sri Lanka and the African nations and a reduction in production and exports from Brazil and Australia.

(b) A much-needed correction in the global demand supply equation was seen during the year. Production dipped to 129.24 million tonnes raw value during 2000-2001 as against 131.27 million tonnes during 1999-2000. Lower production in Brazil, Australia, Pakistan and China has eased the glut situation that was prevailing till last year. Sugar prices responded favourably to this fall in world output.

(c) However, the situation has changed again. Sugar prices, which dropped to a low of \$228 in March 2001 and improved to around \$275 by June 2001 has again weakened from August 2001. Sugar production in Brazil is expected to increase to 17.18 million tonnes during 2001-2002 from 16.221 million tonnes last year and exports are expected to increase by around half million tonnes. Importers in Indonesia have also reduced their purchases due to the uncertainty in the exchange value of its currency. Pakistan has banned the import of sugar from India while the demand from Sri Lanka, Bangladesh and the African nations has also softened. One silver lining is the anticipated fall in production in the European Union, which may neutralize the effect of the increase of exports that is anticipated from Brazil.

2. Indian Sugar Scenario

(a) The Indian Sugar Industry is continuing to pass through difficult times due to large surplus stocks of sugar prevailing in the country. Sugar prices continued to prevail at abnormally low levels due to large quantities of sugar being released by the Government. This problem was further compounded by orders issued by various courts permitting certain mills to sell sugar in excess of their release entitlements. Furthermore, during the year under review, the Government removed all those consumers from the Public Distribution System who were not Below the Poverty Line (BPL). Consumers of around 20 lakh tonnes of sugar were no longer entitled to buy sugar at subsidized rates. While this was a welcome step, consumption in this segment of consumers has been affected adversely to some extent due to a high degree of price elasticity prevailing in this segment. A combination of all these factors resulted in lower prices and poor demand of sugar throughout the current year.



(b) Contrary to expectations, sugar production increased to around 185 lakh tonnes during the season 2000-2001 as against 182 lakh tonnes recorded during the season 1999-2000. The major reason for this increase was an unexpected higher production in Maharashtra where the yield was expected to be poor due to inadequate rainfall. Domestic consumption is estimated to increase by 3.3% to about 159 lakh tonnes excluding exports during the season 2000-2001. The year is

UPPER GANGES SUGAR & INDUSTRIES LIMITED

MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

expected to close with sugar inventories at 115 lakh tonnes that is equivalent to almost nine months' consumption.

(c) The industry has responded positively and is likely to exceed the Government's target of 10 lakh tonnes of sugar export. Around 10 lakh tonnes of sugar has already been shipped and it is expected that another one lakh tonne, orders for which have already been contracted, will be shipped by the end of the current season in September 2001. The exports would have been much higher had it not been for the ban by Pakistan on the import of sugar from India.

(d) Estimated Demand & Supply of Sugar in India

(In lakh tonnes)

	2000-2001	1999-2000
Opening Stock as on 1st October	100.10	68.91
Production during the season (October-September)	185.00	182.02
Imports	—	4.04
Total availability	285.10	254.97
Domestic consumption	159.00	154.25
Exports	11.00	0.45
Closing Stock as on 30th September	115.10	100.27

3. Government Policies

(a) In accordance with the recommendations of the Mahajan Committee for complete decontrol of sugar in a phased manner, the Government reduced the ratio of levy sugar and free sugar from 30:70 to 15:85 with effect from 1st February, 2001. This relaxation has been welcomed by the entire sugar industry.

(b) In order to give a boost to export of sugar, the Government has removed all the quantitative restrictions on exports with effect from 16th May, 2001. The industry has also approached the Government to subsidize the transportation costs within the provisions of WTO to provide a level playing field for Indian sugar.

(c) Another major development has been the introduction of "gasohol" as a more efficient and environment friendly form of fuel. In this process a small percentage of ethanol is combined with petrol. The resultant fuel is less polluting and has proved to be a big success in Brazil. The Ministry of Petroleum has been promoting this concept and has set up three pilot plants to test this product. This proposal will be of great benefit to the country as alcohol is produced from molasses, a by-product of sugar, which will save precious foreign exchange by reducing the import bill of the petroleum products.

(d) The Government is also considering the proposal to create a Buffer Stock of one million tonnes of sugar under which it will reimburse the storage and holding costs including interest to the sugar industry.

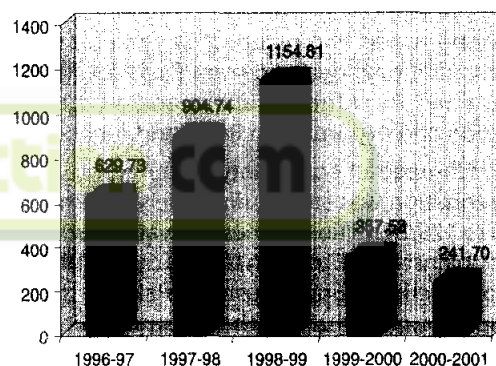
(e) As per directions of Ahmedabad High Court, the Government had exempted the sugar industry from Jute Packaging Order to the extent of 10% of its production upto 31st August, 2001. By a fresh notification, which is valid upto June, 2002, the Government has made it compulsory for packing of entire production of sugar in jute bags except the sugar to be exported. The industry has, however, represented to the Government to exempt sugar from this unnecessary requirement.

(f) The Government has allowed forward and futures trading in sugar. This is a welcome step, as this will reduce the volatility of the sugar market.

(g) The Government has withdrawn restrictions on stock holding limits applicable to recognised sugar dealers and turnover period limit of 30 days with effect from 20th August, 2001.

PROFIT AFTER TAX

(Rs. in Lakh)

**4. Sugarcane Pricing**

(a) The Government has fixed the Statutory Minimum Price (SMP) of sugarcane for the season 2000-2001 at Rs. 59.50 per quintal linked to a base recovery of 8.5% as compared to Rs. 56.10 per quintal for the previous season. The SMP in respect of the Company's sugar factories was fixed as follows :

	Season 2000-2001	Season 1999-2000
Statutory Minimum Price (Rs. per quintal)		
Seohara	64.40	60.06
Sidhwalia	65.10	56.10



MANAGEMENT DISCUSSIONS & ANALYSIS REPORT (Contd.)

(b) In accordance with the wishes of the State Governments, the sugar industry in Uttar Pradesh (U.P.) and Bihar paid a price of Rs. 90.00 and Rs. 86.00 per quintal of sugarcane respectively for the season 2000-2001 as against Rs. 85.00 and Rs. 82.50 per quintal for the previous season. As the increase in the sugarcane price was exorbitant and uneconomical, the Government of U.P. reduced Cane Purchase Tax and Society Commission by Rs. 2 per quintal and Re. 0.70 per quintal approximately respectively for the year 2000-2001.

5. Levy Sugar Prices

The Government fixed the prices of levy sugar for the Company's sugar factories for the season 2000-2001 as follows :

	Season 2000-2001	Season 1999-2000
Levy Price (Rs. per quintal)		
Seohara	1160.81	1075.41
Sidhwalia	1165.24	1085.43

6. Operations

(a) The gross turnover of the Company, during the year under review, increased by 5.97% as compared to the previous year on an annualised basis.

(b) The crushing of sugarcane by the Company during the season 2000-2001 was lower at 154.02 lakh quintals as against 160.33 lakh quintals during the season 1999-2000. The production of sugar during the season was 14.38 lakh quintals as against 14.67 lakh quintals during the season 1999-2000.

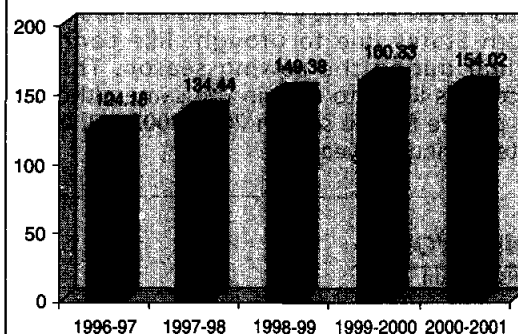
(c) The crushing at Seohara factory, which is one of the single largest factory in the country in terms of daily cane crushing, was slightly lower as compared to the previous season. The supply of cane too was lower as the crop was damaged due to abnormally excessive rainfall during the year. Against an average rainfall of 45 inches, rainfall in the command area of Seohara factory was around 82 inches that adversely affected both the yield and the sucrose content in the cane. Increased competition from neighbouring factories due to additional capacities also reduced the availability of cane to Seohara factory. Despite these adverse factors, the Seohara factory performed satisfactorily during the season 2000-2001.

(d) The performance of Sidhwalia factory was also seriously affected due to erratic weather conditions. Unseasonal rainfall coupled with increased competition severely affected cane supply as well as the sucrose content in the cane. Throughout the State of Bihar, the yield of sugarcane plant crop was lower by almost 50% than the normal due to excessive rains during the months of May-June 2000. The expansion project of the Sidhwalia factory is progressing as per schedule and the

expanded capacity of 2500 tcd is expected to be commissioned during the season 2001-2002.

CANE CRUSHED

(Lakh Qtls.)



(e) The comparative operational figures of the sugar factories for the last two seasons are given below :

	During the season 2000- 2001	During the season 1999- 2000
Sugarcane Crushed (lakh quintals)		
Seohara	133.47	135.61
Sidhwalia	20.55	24.72
	154.02	160.33
Recovery (%)		
Seohara	9.40	9.18
Sidhwalia	8.93	9.15
Sugar Produced (lakh quintals)		
Seohara	12.54	12.45
Sidhwalia	1.84	2.22
	14.38	14.67

7. Future Outlook

(a) The profitability of the highly regulated sugar industry largely depends on the policies formulated by the Central as well as the State Governments. The fate of the sugar industry is dependent on several factors such as the demand supply equation and how the Government is able to cope with the surplus stocks, the sugarcane price to be paid for the next season and sugar