



Sugar and **more**

Upper Ganges Sugar & Industries Ltd. | Annual Report 2007-08

“In this world it is not what we take up, but what we give
up, that makes us rich”

Henry Ward Beecher



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Late Dr K.K. Birla-Chairman Emeritus
(1918-2008)

A TRIBUTE TO Dr K.K.BIRLA

Industrialist. Parliamentarian. Educationist. Writer. Philanthropist.

Above all, humanist.

Dr K.K. Birla, our Chairman emeritus, was many men in one man.

Born to the legendary industrialist G.D. Birla in Pilani on 11 November 1918, Dr Birla established one of India's largest business conglomerates, encompassing 40 companies across diverse sectors like sugar, fertilizers, heavy engineering, textiles, media and shipping.

A committed educationist, Dr Birla was also instrumental behind the growth of the reputed Birla Institute of Technology, an institution of academic excellence. He also served as a guide to Indian industry, while heading institutions of repute like the Federation of Indian Chambers of Commerce and Industry (FICCI), the Indian Sugar Mills Association (ISMA) and the International Chambers of Commerce (ICC). Dr Birla's holistic vision of growth helped establish the K. K. Birla Foundation, which recognises contributions in many fields, focusing especially on the achievements of the rural population.

A staunch supporter of India's economic liberalisation, Dr Birla felt that the country's economic reforms would trigger social empowerment and wellbeing. A keen observer of national and international events, he provided important, though discreet, contributions to public policy. An outstanding social engineer, he believed in industry's attempt to emerge as a change

agent in a country plagued by poverty, illiteracy and disease. A three-time Member of Parliament, Dr Birla enjoyed an excellent rapport with top leaders across India's political spectrum.

Dr. Birla's autobiography, *Brushes with History* is replete with vignettes of Birla family's close ties with historical personalities like Mahatma Gandhi, Rajendra Prasad, B. C. Roy, Jayaprakash Narayan and Morarji Desai, among others. The autobiography captures a vibrant era in the nation's existence, which influenced Birla's personal credo and later achievements. He had also written *Indira Gandhi: Reminiscences* and *Partners in Progress: Collection of Selected Speeches and Writings*. Besides, he regularly contributed articles on his foreign travels to the *Hindustan Times*, of which he was the Chairman.

Dr. Birla's legacy reconciles wealth creation with social engineering and nation-building, an inspiring ideal for the business community. Although he was a deeply religious Hindu and a noted patron of temples in Kolkata and Delhi, he believed deeply in secularism as India's answer to a world fraught with sectarian violence.

Death can only rob us of his physical presence; his legacy will remain alive and continue to inspire.

"The great men of earth are the shadow men, who, having lived and died, now live again and forever through their undying thoughts. Thus living, though their footfalls are heard no more, their voices are louder than the thunder, and unceasing as the flow of tides or air."

Henry Ward Beecher

Corporate Information

Board of Directors

Smt. Nandini Nopany - *Chairperson cum Mg. Director*
Shri C.S. Nopany
Shri R.K. Choudhury
Shri G.K. Bhagat
Lt. Gen. K. Chiman Singh (Retd.)
Shri Gaurav Swarup
Shri Supriya Gupta
Shri Sunil Kanoria
Shri I.P. Singh Roy
Shri P.K. Lakhotia

Committees of Directors

Finance & Corporate Affairs Committee

Smt. Nandini Nopany
Shri C.S. Nopany
Shri G.K. Bhagat
Lt. Gen. K. Chiman Singh (Retd.)

Audit Committee

Lt. Gen. K. Chiman Singh (Retd.)
Shri R.K. Choudhury
Shri G.K. Bhagat
Shri Supriya Gupta

Investors' Grievance Committee

Shri G.K. Bhagat
Shri C.S. Nopany
Shri I. P. Singh Roy

Remuneration Committee

Shri I.P. Singh Roy
Shri G.K. Bhagat
Shri Gaurav Swarup

Executives

Shri C.B. Patodia - Advisor
Shri S.K. Poddar - Secretary
Shri Sukhvir Singh, Executive President (Seohara)
Shri B.K. Sureka, Executive President (Sidhwalia)
Shri R.K. Gupta, Executive Vice-President (Hasanpur)
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
Punjab National Bank
IDBI Bank Ltd.
ICICI Bank Ltd.
AXIS Bank Ltd.

Registrar & Share Transfer Agent

Intime Spectrum Registry Ltd.
59C, Chowringhee Road, 3rd Floor, Kolkata -700 020
Telephone : 91-033-2289 0540
Fax : 91-033-2289 0539
e-mail : kolkata@intimespectrum.com

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
Telephone : 91-033-2243 0497/8
Fax : 91-033-2248 6369
e-mail : birlasugar@birla-sugar.com
Website : www.birla-sugar.com/upperganges

Sugar Mills

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

Distillery

Seohara, Dist. Bijnor (U.P.)

Co-generation

24 MW, Co-generation plant, Seohara
18MW, Co-generation plant, Sidhwalia

Tea Garden

Cinnatolliah Tea Garden
Lakhimpur North (Assam)

Our visiting card

Legacy

Established in 1932, Upper Ganges Sugar and Industries Ltd, is one of the oldest sugar companies of the renowned K.K.Birla Group of Companies. The group has a diverse presence across the fertilizer, chemical, heavy engineering, textile, shipping and media sectors.

Presence

- Corporate office located at Kolkata.
- Three sugar mills located in Seohara

(Bijnor district, Uttar Pradesh), Sidhwalia (Goplaganj district, Bihar) and Hasanpur (Samastipur district, Bihar) with a consolidated capacity of 17,500 TCD.

- Distillery unit with a capacity of 100 KPLD of industrial alcohol/ethanol and a 24-MW co-generation plant at Seohara.
- Bio-compost plant located in Shyamabad (near Seohara, Uttar Pradesh).
- Tea-garden located in Cinnatoliah (North Lakhimpur, Assam).

- Shares are listed on the Bombay Stock Exchange, the National Stock Exchange and the Calcutta Stock Exchange.

Products

- Sugar
- Industrial alcohol
- Ethanol
- Power
- Organised fertilizers
- Tea

Philosophy

- To fulfill the expectations of customers, employees, financiers and society at large
- To maximise shareholder's return through continuous value-addition, integration and expansion
- To abide by the principles of good Corporate Governance through transparency, empowerment, accountability, independent monitoring and environment consciousness.

Values

To strive and excel in our core area of competence – manufacture of sugar and allied products – and provide every opportunity to employees and business associates to fully realise their potential.

Performance at a glance

(Rs. in lacs)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--------------------------------------|----------|----------|----------|-----------|----------|
| Gross Turnover | 28852.26 | 37938.50 | 44330.68 | 35225.82 | 32841.21 |
| Operating Profit / (Loss) | 5882.50 | 7980.12 | 7049.81 | (1959.00) | 4151.49 |
| Interest & finance charges (net) | 2272.50 | 1978.29 | 1381.52 | 1190.98 | 2963.87 |
| Depreciation | 834.88 | 858.42 | 936.40 | 1098.32 | 2051.46 |
| Profit/(Loss) before tax | 2775.12 | 1915.00 | 4731.89 | (4248.30) | (863.84) |
| Profit/(Loss) after tax | 1681.40 | 1369.44 | 2862.29 | (2826.13) | (629.24) |
| Net worth | 6977.68 | 7950.85 | 10088.18 | 13923.62 | 13251.19 |
| Net worth per equity share (Rs.) | 99.98 | 113.92 | 144.03 | 120.47 | 114.66 |
| Dividend per equity share (Rs.) | 3.00 | 4.00 | 5.00 | – | – |
| Earning per equity share (Rs.) | 24.09 | 19.57 | 40.86 | (25.15) | (5.44) |
| Cane crushed (season) (In lac qtls.) | 166.31 | 169.16 | 186.60 | 241.40 | 164.53 |



Smt. Nadini Nopany,
Chairperson cum Managing Director,

Capitalising on the rebound

In 2007-08, the financial year under review, we passed what was without doubt the most challenging year in the history of our 76 year existence. Cane prices increased, sugar realizations declined, production strengthened. The result of this combination was that the more cane we crushed, the bigger deficit we reported. The result was that at some juncture during this challenging period, the

cost of our sugar cane was higher than our realizations of sugar, eliminating any incentive to expand or invest in the business. In view of these circumstances, the fact that we reported a net loss of Rs 629.24 lacs and a cash profit of Rs 1,141.34 lacs must be appraised favourably by our shareholders. It represents an index of our competitive capability that helped mitigate the impact of an adverse environment.

Industry scenario: output

In 2007-08, India witnessed an interesting divergence in the manufacture of sugar cane. During the early part of the season, there was a visible optimism that farmers who had banked on an unprecedented increase in cane price would have planted considerably more cane could result in increased production for 2007-08.

However, this optimism could not be sustained. As soon as it became evident that a number of sugar manufacturers would not be able to remunerate farmers for the cane delivery, the earlier optimistic cane forecasts were revised downwards. Correspondingly, India eventually finished a sugar production of no more than 263 lac tonnes for 2007-08 (sugar season), starting what we believe is the beginning of the downtrend in sugar production and an industry correction.

At the close of the sugar year under review, the country finished with an inventory of 90 lac tonnes, equivalent to five months of consumption. In our opinion, this pipeline is reasonable and should not be the basis of starting a nationwide panic about an impending shortage of sugar.

Industry scenario: prices

The sharp increase in cane costs initially encouraged farmers to plant more cane. This triggered a sugar oversupply, drove down sugar prices and affected the bottomlines of most sugar companies, suffering from an overproduction on the one hand and a steep meltdown in realizations on the other.

A cyclical perspective

Over the years, it has been our conviction that while it is in the interests of the sugar industry to pay an increasingly remunerative price to cane growers, it is the smoothness of this

increase that protects the interests of the grower, crusher and community. Any abrupt or exaggerated increase only affects this equilibrium, resulting in an unreasonable gain during a limited period by one of the three with serious consequences to their interests over the foreseeable future.

This is precisely what transpired during the season under review. While it was beginning to get evident at the close of the 2006-07 season that the sharp increase in cane prices (as dictated by the state government) would result in a corresponding inability of the sugar manufacturers to remunerate on time (or at all), by the middle of the 2007-08, this fear was confirmed. There was perhaps no sugar mill in Uttar Pradesh, India's premier sugar manufacturing state, which did not have arrears on its books; besides, the farming community suffered significant unpaids as a result. The result was that most farmers resolved to plant less cane and cut their losses, starting the downtrend in the country's sugar production in 2007-08 (sugar season) and thereafter.

Our response

In an environment where there was absolutely no incentive to keep our sugar production lines running and where we were bleeding with every quintal of cane being crushed, the company leveraged all the available operational factors under its control to mitigate the loss.

For instance, the company leveraged the investments that it had made in its 24-MW co-generation capacity. The result was that the company generated Rs 2,706.36 lacs from sale of power to the state electricity grid with a high profitability.

Besides, the company leveraged the production of ethanol as an effective de-risking initiative. The company increased the production of ethanol/ alcohol by 74.40 per cent during 2007-08 at attractive realizations, an effective hedge against declining sugar realizations.

The combination of these two initiatives served as an effective de-risking from an excessive dependence on sugar realizations. For one, the combination of these products as a proportion of the company's revenues increased from 9.72 per cent in 2006-07 to 25.59 per cent in 2007-08; the cumulative proportion of

profits as a percentage of the overall EBIDTA of the company increased significantly over 2006–07. The performance of the company's by-product utilisation initiatives vindicated the company's investment in them, serving counter-cyclical objectives in a cyclical business.

Outlook

At Upper Ganges, even as we look forward to better days ahead, our optimism is guarded for the following reasons:

Cane price: There is no clarity on the cane price that will be advised by the Uttar Pradesh government for an election season. Any significant increase from the prevailing levels could set mutual prospects – grower and crusher – back in 2008-09, while a marginal increase could service mutual interests. A closer linking of the sugar realization to the cane price could result in shared prosperity between grower and crusher and set the basis for a sustainable win-win growth without any interrupting aberrations.

Realizations: The realizations of sugar in India are driven completely by market sentiment and influenced by a sharp decline in sugar output in 2008-09 and beyond. As soon as the sceptre of a decline in sugar output became visible, realizations strengthened sharply and raising visions of an improved performance over the foreseeable future. So even as the output of sugar in 2008-09 is expected to be lower than in the previous year, disproportionately higher realizations are expected to more than compensate for the difference.

Decontrol: While the government has indicated a complete

decontrol of sugar from 1st October, 2008, the scenario appears unlikely in a holistic view of the sharp increase in the prices of vegetable and food items. In the event of a decontrol, there could be a temporary decline in prices as the levy material is liquidated in the higher realization free market following which the market would tend to find its own level and financially stronger companies with a capacity to nurse inventories over time would stand to benefit.

Our competitive position

At Upper Ganges, we recognize that our principal priority is to maximize sugar output in a sugar-challenged 2008-09 on the one hand and utilize the accruals in repaying our debt and strengthening our balance sheet. This progressive draw-down of debt and interest outflow will enhance our credit rating and help us counter the general increase in working capital cost. In turn, this will strengthen our prospects to generate sustainable growth with smoother profit variations during the coming years. We are attractively placed to make this a reality: our enhanced crushing capacity – 16,750 TCD to 18,000 TCD – will go on stream at the start of the 2008-09 sugar season.

At Upper Ganges Sugar, we are attractively placed to capitalize on the industry rebound as we enjoy credible bank linkages on account of our Group strength, resulting in timely availability of cash to pay farmers, crush more, capitalise on attractive sugar realizations and retire debt. Interestingly, it is this competitive ability to mobilise debt that could result in the company retiring debt with speed over the coming months.

In view of these realities, I am optimistic that we have seen the worst and possess the capability to reinforce our corporate rebound in 2008-09 and beyond.