

Upper Ganges Sugar & Industries Limited

Annual report, 2009-10



Contents

Corporate Information	01
About us	02
Financial Highlights	03
Chairperson cum Managing Director's Review	04
Directors' Report.....	08
Management Discussion and Analysis Report	12
Report on Corporate Governance	27
Auditors' Report	41
Balance Sheet	44
Profit and Loss Account	45
Cash Flow Statement	46
Schedules	48
Balance Sheet Abstract	75
Consolidated Accounts	76
Subsidiary Company's Accounts	104

Corporate Information

Board of Directors

Mrs. Nandini Nopany - *Chairperson cum Managing Director*
 Mr. Chandra Shekhar Nopany
 Mr. R.K. Choudhury
 Mr. G.K. Bhagat
 Lt. Gen. K. Chiman Singh (Retd.)
 Mr. Gaurav Swarup
 Mr. Sunil Kanoria
 Mr. I.P. Singh Roy
 Mr. P.K. Lakhotia

Committees of Directors

Finance & Corporate Affairs Committee

Mrs. Nandini Nopany
 Mr. Chandra Shekhar Nopany
 Mr. G.K. Bhagat
 Lt. Gen. K. Chiman Singh (Retd.)

Audit Committee

Lt. Gen. K. Chiman Singh (Retd.)
 Mr. R.K. Choudhury
 Mr. G.K. Bhagat
 Mr. I. P. Singh Roy

Investors' Grievance Committee

Mr. G.K. Bhagat
 Mr. Chandra Shekhar Nopany
 Mr. I. P. Singh Roy

Remuneration Committee

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

Executives

Mr. C.B. Patodia, Advisor
 Mr. S.K. Poddar, Company Secretary
 Mr. Sukhvir Singh, Executive President (Seohara)
 Mr. B.K. Sureka, Executive President (Sidhwalia)
 Mr. R.K. Gupta, Executive President (Hasanpur)
 Mr. 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 and Share Transfer Agent

Link Intime India Pvt. Ltd.
 59C, Chowringhee Road, 3rd Floor, Kolkata -700 020
 Telephone : 91-033-2289 0540
 Fax : 91-033-2289 0539
 e-mail : kolkata@linkintime.co.in

Registered office

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

Corporate and 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

Co-generation plant, Seohara
 Co-generation plant, Sidhwalia

Tea garden

Cinnatolliah Tea Garden
 Lakhimpur North (Assam)

Drawing on its rich experience in farmer relationships, cane management, capacity utilisation and quality production.

Presence

- Headquartered in Kolkata, India
- Sugar mills in Seohara (Bijnor district, Uttar Pradesh), Sidhwalia (Goplaganj district, Bihar) and Hasanpur (Samastipur district, Bihar) with a consolidated crushing capacity of 18000 TCD
- Distillery (ethanol production capacity 100 KLPD) and a congregation plant (24 MW) at Seohara and another 18-MW congregation plant at Sidhwalia
- Bio-compost plant at Shyamabad near Seohara (Uttar Pradesh)
- Tea garden in Cinnatolliah (North Lakhimpur, Assam)
- Listed on the Bombay Stock Exchange, National Stock Exchange and Calcutta Stock Exchange
- Part of the famed K.K. Birla Group of Companies with diverse business interests in chemicals, heavy engineering, textiles, shipping and media, among others

Products

Sugar Ethanol Power Organic fertiliser Tea

Corporate philosophy

- To fulfil the expectations of customers, employees, financiers and society at large
- To maximise shareholders' return through continuous value-addition, integration of diverse business and product 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

Financial highlights (performance), 2009-10

	2005-06	2006-07	2007-08	2008-09	2009-10
Gross turnover	44,330.68	35,225.82	32,841.21	46,106.33	41,873.69
Operating profit/(loss)	7,049.81	(1,959.00)	4,151.49	7,657.75	1,223.11
Interest and finance charges (net)	1,381.52	1,190.98	2,963.87	4,219.94	4,293.27
Depreciation	936.40	1,098.32	2,051.46	2,596.69	2,632.04
Profit/(loss) before tax	4,731.89	(4,248.30)	(863.84)	841.12	(5,702.20)
Profit/(loss) after tax	2,862.29	(2,826.13)	(629.24)	626.94	(3,906.64)
Net worth	10,088.18	13,923.62	13,251.19	13,717.59	9,760.63
Net worth per equity share (Rs.)	144.03	120.47	114.66	118.69	84.45
Dividend per equity share (Rs.)	5.00	–	–	1.20	–
Earning per equity share (Rs.)	40.86	(25.15)	(5.44)	5.42	(33.80)
Cane crushed (season) (in lakh quintals)	186.60	241.40	164.53	116.30	147.93

Mills	Sugar crushing capacity (TCD)	Ethanol production capacity (KLPD)	Congregation plant (MW)
Seohara (Bijnor district, Uttar Pradesh)	10,000	100	24
Sidhwalia (Goplaganj district, Bihar)	5,000	–	18
Hasanpur (Samastipur district, Bihar)	3,000	–	–
Total	18,000	100	42

Chairperson's review

Dear Shareholders,

My last communication to you was one of hope and optimism. My communication to you on this occasion is of caution in the midst of industry peculiarities. During the financial year gone by, the industry saw a major swing as a direct result of the fastest cyclical changes in the industry's recorded existence in this country.

Performance review, 2009-10

The first half of the last financial year was marked by the hardening of sugar prices as the country suffered a decline in cane output and corresponding sugar production coupled with supply-demand mismatch.

However, there were two factors that worked against the industry at that juncture: significantly higher cane prices and a consequently greater willingness to plant more cane transformed the country from a cane deficit to a probable cane surplus in 2010-11, marking a diametrical reversal of the then prevailing industry trend.

The sugar industry is strongly driven by the sentiment of what can be. As soon as it became evident that the cane crop was reviving and there would be a larger quantity of sugar available in the following season, accompanied by a significantly higher cost of cane required to be paid immediately, freesale sugar realisations started declining sharply and continuously from January, 2010. The fall continued unabated till August, 2010.

The result was a significant distortion of our averages: while our average freesale realisations increased from Rs. 1,920.90 per quintal in 2008-09 to Rs. 2,892 per quintal in 2009-10, the quantum of free sale sugar came down sharply from 19,51,000 quintals in 2008-09 to 9,80,000 quintals in 2009-10 and our average raw material cost increased 92.10% as a direct result of an increase of the principal raw material, namely cane from Rs. 152.67 per quintal in 2008-09 to Rs. 251.93 per quintal in 2009-10. These two factors taken together contributed significantly to a sharp decline in the profit of the Company.

In absolute terms, our net profits and net margins declined from Rs. 841.12 lakh in 2008-09 to a net loss of Rs. 5,702.20 lakh in 2009-10 and from 17.55% in 2008-09 to 3.04% in 2009-10, respectively.

The more cane we crushed, the higher our loss. Even the higher share of the by-products (ethanol) and congregation of power in the total income viz. from 4.43% in 2008-09 to 10.43% in 2009-10 and 2.96% in 2008-09 to 3.94% in 2009-10, respectively, could not contribute significantly to the bottomline due to lower capacity utilisation.

The performance of the tea segment, however, was quite encouraging. A mere 33.10% increase in the revenue from tea resulted in a 93.31% increase in the profit derived from the said business due to higher yield and better realisation of the end product. Revenue from the tea business accounted for 4.57% in 2009-10 as against 3.14% in 2008-09.

Industry review

Global: Even as global sugar production grew 4.63% in 2009-10 to 158.83 million tonnes after a significant production decline in 2008-09, the sugar consumption in absolute terms outperformed production. The result was a year-based deficit of 4.95 million tonnes. Consequently, global sugar prices firmed in the first half of the sugar season 2009-10. But once increased production was evident in Brazil (17%) and that India

would import less (now beginning to experience a sugar surplus), global realisations softened from over USD 700 per tonne in January, 2010 to under USD 500 per tonne by April, 2010.

India: Following a massive production decline in 2008-09, India's sugar production is expected to increase from 14.54 million tonnes to around 18.75 million tonnes in 2009-10 compared with the domestic annual consumption requirement of around 21.5 million tonnes in the sugar season of 2009-10. Improved cane realisations resulted in acreage growth from 44.1 lakh hectares in 2008-09 to 44.4 lakh hectares in 2009-10 and a projected 52.8 lakh hectares in 2010-11.

For the sugar season 2010-11, India's sugar production is expected to be 25 million tonnes compared with annual domestic consumption requirement of around 22.5 million tonnes. Higher cane availability is expected to result in higher capacity utilisation and a higher production of by-products.

The year under review was marked by the following significant factors that affected our industry health:

* The government came down heavily on food inflation, including a number of measures to rein in sugar realisations.

* Even as the Government of India replaced the statutory minimum price (SMP) with a fair and remunerative price (FRP) structure resulting in an increase in

cane prices paid from Rs. 81.18 per quintal in 2008-09 to the FRP of Rs. 129.84 per quintal in 2009-10 (except in case of Seohara where the FRP fixed was Rs. 135.32 per quintal), millers ended up paying an average cane price of Rs. 220 per quintal, easily the highest cane price in the world. The sharp increase in raw material cost could not be covered by higher product realisations.

* In 2009-10, sugar prices touched an unprecedented Rs. 40,000/tonne and thereafter declined to Rs. 28,000/tonne following an upward revision in sugar production estimates, a drop in international realisations and lower imports to India.

Stock increase

As per the Indian Sugar Mills Association (ISMA), India's sugar stocks are estimated at 5.9 million tonnes by September, 2010 (3.2 million a year earlier). India's sugar availability, when combined with the domestic output, opening stock balance of 3.2 million tonnes and estimated imports of 5.3 million tonnes, could be an estimated 27.3 million tonnes in 2009-10, higher than the projected consumption of 22.5 million tonnes.



Mrs. Nandini Nopany,
Chairperson cum Managing Director

The Indian sugar industry outlook is dependent on government policy. If the government formulates a policy to deregulate the industry, the decision could benefit sugarcane farmers as well as the mills in the long-run as it will liberate the industry from adhoc politics-induced decision making.

* To control prices, the government permitted sugar imports with an unrestricted tenure of holding by bulk consumers – they account for around two-thirds of the entire domestic sugar consumption – whereas this facility was limited to ten days for those who purchased sugar from domestic manufacturers. This inequity prompted most Indian bulk sugar consumers to import their requirements, which further weakened sentiment and realisations. Besides, the quantity of freesale sugar that Indian mills could not sell within the stipulated period was transferred to the levy quota and liquidated. The result was that for the first time in memory, Indian sugar realisations declined below international realisations.

* High sugar prices prompted a postponement of consumption, resulting in the piling of stocks among domestic sugar mills and corresponding arrears in liquidating farmers' dues.

* The government also increased the proportion of levy sugar from 10% to 20%, which implied a reduction in the quantum of sugar on which the mills could earn normal profit.

* There was a crisis of sales volume as well; traded volumes declined from February to August, 2010, which when combined with a growing production, accelerated the stock pile up and decline in realisations.

Corporate response

The adverse domestic sugar industry scenario impacted all sugar companies in India and Upper Ganges was no exception. Despite an increase in average realisations from Rs. 1,920.9 per quintal

in 2008-09 to Rs. 2,892 per quintal in 2009-10, our deficit expanded owing to higher cane prices paid to farmers and lower offtake of free sugar.

■ Crushed 147.93 lakh quintal of sugarcane against 116.30 lakh quintal in 2008-09

■ Paid an average cane price of Rs. 237.36 per quintal against the FRP of Rs. 129.84 per quintal

■ Achieved an average capacity utilisation of 76.64%. Achieved an average recovery of 9.52% against 9.54% in 2008-09

The relative unavailability of molasses and bagasse impacted our ethanol and congregation businesses. During 2009-10, the Company produced 189.38 lakh litres of spirit and sold 412.77 lakh units of power, contributing 10.43% and 3.94% to the Company's revenue (4.43% and 2.96% during 2008-09).

Industry outlook

The Indian sugar industry outlook is dependent on government policy. If the government formulates a policy to deregulate the industry, the decision could benefit sugarcane farmers as well as the mills in the long-run as it will liberate the industry from ad hoc politics-induced decision making.

The deregulation will translate into the following implications:

* Removal of the levy sugar obligation that mills must provide to the country's public distribution system, which will have a long-term benefit.

* Removal of the release mechanism by which any producer is free to sell whenever and at whatever price it wants,

will drag down realisations to start with at a time when the country's production is rising, but which could thereafter stabilise the market

* Marketplace economics will prevail over short-term political considerations, which will provide millers with the confidence to reinvest in their businesses

* Removal of cane area reservation will encourage the mills to poach cane from command areas of other mills, affecting their raw material security and incentive to invest in cane development

The need of the hour is deregulation with adequate checks and balances, transparency and profit-sharing conceptions, whereby a certain pre-agreed percentage of realisation of the end product shall be the basis of rewarding the farmers. In our estimation, such a proposal, if implemented, will transform farmers from vendors to partners with a vested stake in a mill's success – and vice versa.

Road ahead

A projected 19% increase in cane acreage and a corresponding increase in projected sugar production to 25 million tonnes in 2010-11 are expected to be more than sufficient for India's consumption of 22.5 million tonnes. Consequently, India's sugar pipeline is expected to increase from about three months of consumption to five months, which could contain India's sugar realisation between Rs. 23.50 and Rs. 27 per kg while a 7.15% increase in cane FRP to Rs. 139.12 per quintal for the 2010-11 sugar season could continue to pressurise mill margins.

The government approved the proposal for 5% mandatory ethanol blending program

with an adhoc price of Rs. 27 per litre across the country, providing optimism for the by-product segment. Any apprehended reduction of ethanol price shall strain our margins.

Given these realities, our focus will be on increasing production, raising our capacity utilisation from 76.64% to 90%, achieving a better output of our by-product programmes, surpassing the break-even point, repaying our debts and enhancing the strength of our balance sheet.

We expect a better year for our by-products following the enhanced sugarcane availability. This shall strengthen our overall margins.

The management of the Company is seized of the challenges lying ahead and the urgency to achieve break-even and thereafter return the Company to profitability without raising our corporate risk.

Regards,

Nandini Nopany

Chairperson-cum-Managing Director

Four ways in which the Company expects to improve performance in 2010-11

1. Crush more cane: Following the projected increase in cane availability, we expect to crush 209 lakh quintals of sugarcane in 2010-11 against 147.93 lakh quintals during 2009-10. This will provide the Company with a larger output of sugar and by-products.
2. Production efficiency: The Company intends to reduce the use of steam (and resultantly the cost) in production and enhance capacity utilisation.
3. Capital expenditure: The Company will minimise capital costs.
4. Debt repayment: The Company will utilise cash flows to reduce debt and correct its gearing.

The relative unavailability of molasses and bagasse impacted our ethanol and congregation businesses. During 2009-10, the Company produced 189.38 lakh litres of spirit and sold 412.77 lakh units of power, contributing 10.43% and 3.94% to the Company's revenue (4.43% and 2.96% during 2008-09).

Directors' Report

To
The Members,
Your Directors take pleasure in presenting their report and the audited accounts of the Company for the year ended 30th June, 2010.

2. Financial results and appropriations

	(Rs. in lakhs)	
	2009 – 10	2008 – 09
Net revenue	40,173.54	43,623.78
Gross profit/(loss) before depreciation and interest	1,223.11	7,657.75
Less: Interest	4,293.27	4,219.94
Depreciation	2,632.04	6,925.31
Profit/(loss) before tax	(5,702.20)	841.12
Less: Provision for tax:		
– Current	117.00	92.70
– Deferred tax charge/(credit)	(1,988.21)	179.36
– MAT credit (entitlement)/reversal	104.55	(66.40)
– Income Tax provisions no longer required written back	(28.90)	(3.34)
– Fringe benefit tax	–	11.86
Profit/(loss) after tax	(3,906.64)	626.94
Add: Surplus brought forward	559.19	110.19
: Transfer from General Reserve	3,500.00	–
Amount available for appropriation	152.55	737.13
Appropriations		
– Transfer to General Reserve	–	15.68
– Dividend	–	138.69
– Dividend tax (net)	–	23.57
Balance carried to Balance Sheet	152.55	559.19

Performance

3. The Company recorded a net revenue of Rs. 40,173.54 lakh (including other income of Rs. 425.41 lakhs) for the year ended 30th June, 2010. The Gross sales (inclusive of excise duty among others) of the Company for the year 2009-10 declined by 9.04% to Rs 41,873.69 lakh from Rs 46,034.56 lakh in the year 2008-09.

The earning before interest, depreciation, tax for the year under review stood at Rs. 1,223.11 lakh representing 3.04% of the net revenue and showed a decline of 84.02% over previous year's Rs. 7,657.75 lakhs. The decline in the profits in sugar was fuelled by lower than expected realization and decline in sales volume during the year under review.

Sugar sales decreased from Rs 40,520.34 lakh to Rs 35,435.39 lakh in 2009-10, showing a decline of 12.55%.

However, sale of industrial alcohol increased by 115.28% as a direct result of increased generation of molasses. Likewise, revenue from bagasse based power recorded an increase of 40%.

The performance of sugar segment of the Company was marked with oscillating operations. While the first half of the current year under review witnessed higher demand of sugar and lower availability of the principal raw material namely the sugarcane and at unprecedented high rate resulting in compressed production, the second half was affected by considerably lower realization of sugar prices due to variety of measures undertaken by the Government of India. The profit performance of the Company was also impacted due to doubling of the quota of levy sugar and low recovery.

The performance of tea segment was, however, encouraging. The production of tea increased from 12.45 lakh kg in the immediately preceding year to 13.16 lakh kg in the year under review, the average realization also increased from Rs. 112.37

per kg in 2008-09 to Rs 144.60 per kg in 2009-10 indicating an increase of 28.68%.

4. A detailed analysis of the Company's operations, future expectations and business environment has been given in the Management Discussions & Analysis Report, which is attached and is an integral part of this report.

R & D

5. During the year under review the Company incurred a sum of Rs. 270.81 lakh on account of Research & Development with an intention to improve the recovery ratio and in educating the cane growers to cultivate improved variety of sugar cane.

Dividend

6. The Board of Directors did not recommend any dividend for the year under review.

Corporate Governance

7. Pursuant to Clause 49 of the Listing Agreement, Management Discussion & Analysis Report, statement in respect of conservation of energy, the report on Corporate Governance, Declaration of Managing Director on Code of Conduct and Auditors' Certificate on compliance of conditions of Corporate Governance are all attached to and form integral part of this Report and are annexed to this Report as Annexure "A", "B", "E", "F" and "G" respectively.

Directors

8. The Company has eight Non-Executive Directors having experience in varied fields and a Chairperson-cum-Managing Director. Two Directors Mr. Chandra Shekhar Nopany and Lt. Gen. K Chiman Singh retire from the Board by rotation and are eligible for re-appointment.

The term of Mrs. Nandini Nopany, Chairperson cum Managing Director of the Company would expire on 30th September, 2010.

She has been reappointed as a Chairperson cum Managing Director for a further period of 3 years w.e.f 1st October, 2010 subject to approval of the shareholders.

9. Other information on the directors including required particulars of Directors being reappointed and retiring by rotation is provided in the Report of Corporate Governance annexed to this Report as Annexure "E".

Directors’ Responsibility Statement

10.Your Directors confirm that -

- i) In the preparation of the annual accounts the applicable accounting standards were followed and there is no material departures;

ii) Such accounting policies were selected and applied consistently and judgments and estimates made were 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 loss of the Company for that year;

iii) Proper and sufficient care was taken 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. To ensure this, the Company established internal control systems, consistent with its size and nature of operations, in weighing the assurance provided by any such system of internal controls and in recognizing its inherent limitations. These systems are reviewed and updated on an ongoing basis. Periodic internal audits are conducted to provide reasonable assurance of compliance with these systems. The Audit Committee meets at regular intervals to review the internal audit functions;

iv) The financial statements were prepared on a going concern basis.

v) The annual accounts were prepared on a ‘going concern’ basis.

Auditors, Audit Qualifications and Board’s Explanations

- 11.The Auditors’ Report is self-explanatory. However, the Auditors made an observation regarding recognition of Deferred Tax Assets amounting to Rs 1363.27 lakh upto the year 2009-10. The Company’s projections are that there would be sufficient taxable income in the future to claim credit of Deferred Tax Assets. With regard to the Auditors observation for adopting different accounting period in relation to Cinnatolliah Tea Garden, it is said that due to the seasonal nature of the tea industry a different accounting period continues to be followed for tea business.

12.The Auditors, Messrs S. R. Batliboi & Co, Chartered Accountants, retire and are eligible for re-appointment. According to the certificate submitted to the Company by the said firm of Auditors the said re-appointment, if made, will be in accordance with the provisions of Section 224(1B) of the Companies Act, 1956.

The Board, on the recommendation of the Audit Committee, proposed that Messrs S. R. Batliboi & Co, Chartered Accountants, be re-appointed as the Statutory Auditors of the Company and to hold office till the conclusion of the next Annual General Meeting of the Company.

Cost Auditors

13. In accordance with the directives of the Central Government under Section 233 B of the Companies Act, 1956, Mr S. N. Mukherjee, cost accountant, was appointed as cost auditor to audit the cost accounting records relating to Sugar and industrial alcohol units situated at Seohara and Sugar unit at Sidhwalia and M/s. D. Radhakrishnan & Co., cost accountants were appointed as cost auditor for Sugar unit at Hasanpur for the current year.

Subsidiary Company

14.The audited accounts of Uttar Pradesh Trading Company Ltd., a subsidiary of the Company, for the year ended 31st March,

2010 are attached. In this regard, the statement pursuant to Section 212 of the Companies Act, 1956 is also attached and is marked as Annexure "D".

Consolidated Financial Statements

15.As required under the Listing Agreement with the Stock Exchanges, Consolidated Financial Statements, conforming to the Accounting Standard 21, 23 and 27 are attached.

Particulars of Employees

16.Statement containing particulars of employees as required under Section 217(2A) of the Companies Act, 1956 is attached as a separate Annexure “C” and forms an integral part of this Report.

Energy conservation, technology absorption and foreign exchange earnings and outgo

17. Statement containing 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 per Annexure “B” and forms part of this Report.

Fixed Deposits

18.As on 30th June, 2010, your Company had 1339 depositors with fixed deposits of Rs. 1,326.54 lakhs. 3 depositors

have not claimed their fixed deposits amount of Rs. 13.81 lakh as on that date. The depositors are being advised at regular intervals to claim their deposits. Efforts are being made to contact all such depositors to facilitate the refund of the dues to them.

CEO/CFO Certification

19.Mrs. Nandini Nopany, the Chairperson-cum-Managing Director and Mr. S. K. Maheshwari, CFO have given a certificate to the Board as contemplated in Clause 49 of the Listing Agreement.

Acknowledgements

20.Your Directors take this opportunity of recording their appreciation of the shareholders, financial institutions, bankers, suppliers and cane growers 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 recognise the valuable contribution made by the employees at all levels to the Company’s progress.

For and on behalf of the Board

Nandini Nopany

Kolkata,

Dated: 25th August, 2010

Chairperson-cum- Managing Director

Management Discussion and Analysis Report

Annexure A

Business review Our business of sugar

Global sugar overview

Given that India is one of the largest producers and consumers of sugar in the world, it impacts the global sugar industry in a big way and vice versa, thus making it necessary to discuss the global sugar industry.

Global sugar production in 2009-10 grew 4.23% to 158.2 million tonnes even as consumption is expected to grow at a rate

significantly lower than the 10-year average (1.7%) to 166.7 million tonnes. The reasons for this can be ascribed to strong world sugar prices and effects of the 2008-09 global meltdown on consumption growth. Despite this reality, the point of interest is that overall consumption was still higher than the global production of sugar, resulting in a deficit of 8.5 million tonnes for 2009-10 according to ISO (May 2010).

World Sugar Balance

Particulars	2009-10	2008-09	Change	
	(million tonnes, raw value)		in million tonnes	in %
Production	158.2	151.8	6.4	4.2
Consumption	166.7	164.0	2.7	1.7
Surplus/deficit	(8.5)	(12.2)		
Import demand	52.9	50.2	2.7	5.4
Export availability	52.3	49.2	3.1	6.2
End stocks	52.8	60.7	(7.9)	(13.0)
Stocks/consumption ratio in%	31.7	37.0		

Global realisations softened from over USD700 per tonne in January, 2010 to under USD 500 per tonne by April, 2010 primarily owing to increased production in Brazil (17%) and lower imports going into India (now beginning to experience a sugar surplus). Besides, EU sugar companies were among the largest beneficiaries of Europe's Common Agricultural Policy (CAP) payments. This aid allowed European exporters to remain competitive by compensating for the EU's higher prices compared with the world markets. Sugar prices in Australia will increase in 2010-11, leading to a 7% increase in cane acreage. It is expected that the Thailand's sugar exports will drop to 3.5-3.7 million tonnes in 2010-11 to satisfy rising domestic demand.

Indian sugar overview

India is the world's largest consumer and second-largest producer of sugar after Brazil. With over 600 mills across India in the public, private and co-operative sectors, it is the only industry providing subsidised sugar to below poverty line (BPL) families via a nationwide public distribution system.

India's sugar industry is the second-largest domestic agro-processing industry after cotton textiles, accounting for around 13% of the global sugar production. The industry contributed about Rs. 1,700 crore to the central and state exchequer, generated employment for around 2 million skilled/semi-skilled rural workers. Besides, about 50 million sugarcane farmers and their families and many agricultural labourers (about 7.5% of the rural population) are involved in sugarcane cultivation and auxiliary activities.

India's per capita sugar consumption at 20 kg, is lower than Brazil's (58 kg), but higher than China's (14 kg) with 3.75%

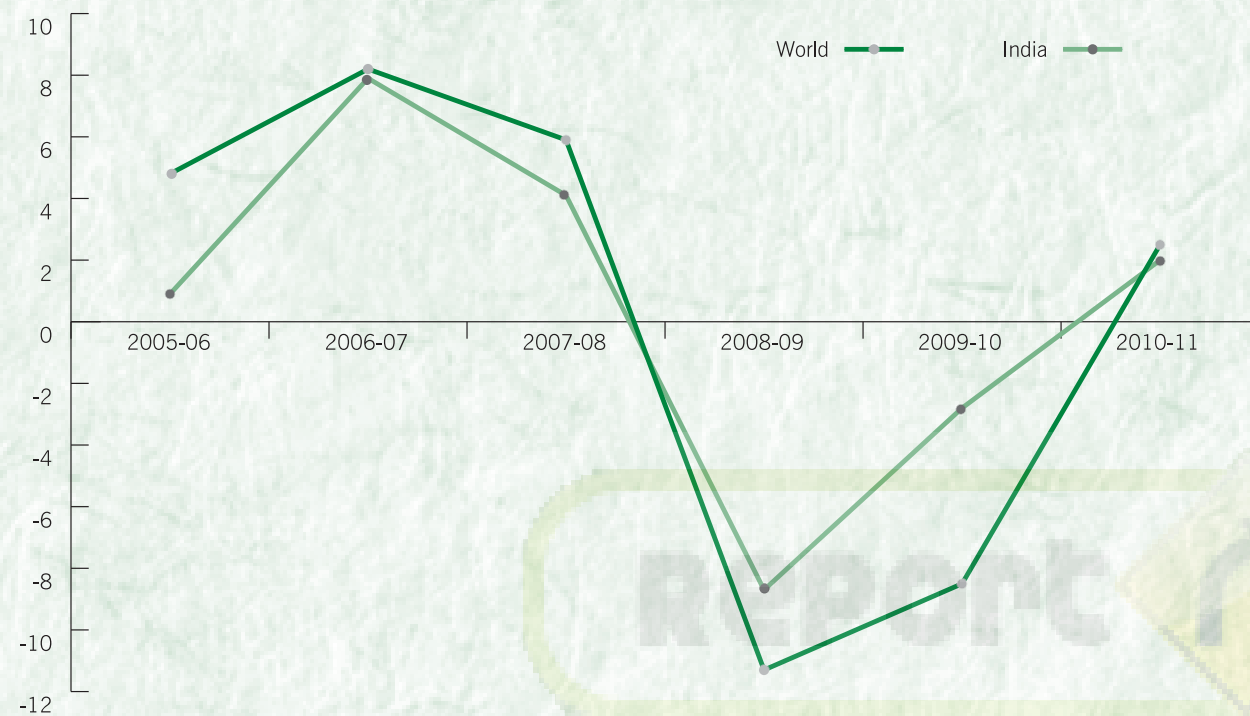
year-on-year growth. India's sugarcane and sugar production typically follows a 6-8 year cycle, wherein 3-4 years of glut are followed by 2-3 years of deficiency. After two consecutive years of declining sugar production (2007-08 and 2008-09), production surged in 2009-10.

India's sugar production is subject to high volatility with its share of world production ranging from 10-18% across the last decade. The value of the output of sugar at current prices increased from Rs. 10,670 crore in 1994 to Rs. 29,500 crore in 2009. The share of sugar in the value of output from agriculture declined from 5.1% in FY2004 to 4% in FY2009.

Production: India's sugar production in the recent season (October 2009-September 2010) was estimated at 18.8 million tonnes against 14.5 million tonnes in 2008-09, growing 29.65% owing to a better harvest. Acreage rose 13.3% to 4.74 million hectares in 2009-10. Consumption is projected at 21.5 million tonnes, reflecting a 2.7-million tonne deficit.

Sugar production in Uttar Pradesh, India's largest sugar producing state, is expected to increase from 51.6 lakh tonnes in 2009-10 to 60-67 lakh tonnes in 2010-11 following an increase in average yield to 8-10 tonnes per hectare. The industry is estimated to crush 115 lakh quintals of sugarcane in the 2010-11 season, incentivised by a higher cane remuneration of Rs. 220 in 2009-10 (Rs. 150-155 per quintal in 2008-09). Consequently, cane acreage is expected to increase from 1.79 million hectares in 2009-10 to 2.15 million hectares in 2010-11. The average crushing duration during 2009-10 was 150 days compared with 120 days last season with an average recovery of 10.3% (10% in the previous year).

Sugar – Surplus/Deficit (million tonnes raw value)



India's Sugar Balance

Sl. No	For the season 2008-09	For the season 2009-10	For the season 2010-11
	October, 2008 to September, 2009	October, 2009 to September, 2010 (Estimated)	October, 2010 to September, 2011 (Estimated)
1. Opening stock as on 1st October	100.72	44.00	58.50
2. Production during the season	145.38	187.50	250.00
3. Imports	25.00	42.00	5.00
4. Total availability	271.10	273.50	313.50
5. Domestic consumption	225.00	215.00	225.00
6. Exports	2.00	–	10.00
7. Closing stock	44.00	58.50	78.50

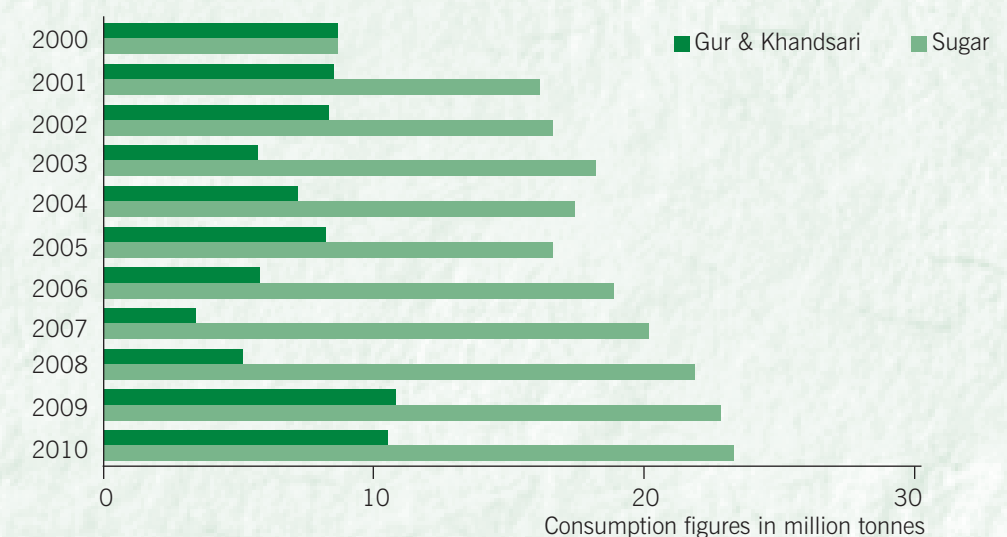
Region-wise average realisation (excluding excise duty and cess) from non-levy sugar sale during 2009-10 (up to April, 2010)

Region	Average realisation during the season (2008-09)	October, 2009	November, 2009	December, 2009	January, 2010	February, 2010	March, 2010	April, 2010	Average realisation during the season upto, April, 2010
Tropical region	2,015.76	2,743.74	3,106.34	3,139.30	3,586.16	3,402.08	2,968.43	3,081.58	3,081.58
Sub-tropical region	2,090.61	2,687.80	2,949.64	3,315.09	3,834.23	3,637.90	3,193.85	2,849.80	3,144.56
Total (All India)	2,034.87	2,730.81	3,083.74	3,160.23	3,618.57	3,433.46	2,999.87	2,695.59	3,090.82

Realisations: There was a strong correction in sugar prices after the peak prices early in 2010, although there was a tight stock position. Sugar prices reached a peak of around Rs. 40,000/tonne in early 2010, falling to Rs. 28,000/tonne by April, 2010 owing to an upward revision in production estimates, a significant drop in international prices and lower dependence on imports by India in the current sugar season (October 2009-September, 2010), followed by higher output. Besides, measures taken by the government to curb sugar prices also played a role, including a continued zero duty on imports allowing bulk consumers to import sugar freely, tight inventory restrictions imposed on buyers and changes in release norms (from monthly to weekly) for free sugar sale.

Consumption: India is the world's largest consumer, accounting around 15% of global consumption. Despite production fluctuations, India's sugar consumption increased at an annual 3.5% over the past decade. Driven by the continuing switch from the consumption of gur to sugar, rising incomes and growing population, India's sugar consumption is projected to increase at 2.5-3% annually well into the medium term. Moreover, the growth of sugar demand by food industries and other non-household users, estimated to account for about 60% of total consumption, could provide an additional impetus to longer-term market growth. Sugar consumption was estimated at 21.50 million tonnes in 2009-10. Per capita sugar consumption increased from 19.9 kg in 2008-09 to 20 kg in 2009-10, while that of gur and khandsari declined from 9.3 kg to 8.9 kg.

Sugar and gur & khandsari consumption



Industry highlights

- Sugarcane crop occupied merely 2.2-2.7% of India’s cultivable land
- The sugar industry contributed 0.7% to India’s GDP in 2009
- Around 2/3rd of the sugar produced in India is consumed by soft-drink manufacturers, *mithai* makers and other confectioners, among others
- Sugarcane has a long growth period; it stays in the field for 11 to 15 months
- Cane crushing starts around October and keeps crushers occupied for up to six months. The operating year in the context of sugar – the sugar season – is October to September
- Around 20% of sugar mill production is procured by the government at a predetermined price for subsidised sale through the public distribution system (PDS)
- Each tonne of cane yields 300 kg of bagasse and 1.2 barrels of petroleum equivalent

Cane costs: For season 2009-10, the Fair and Remunerative Price (FRP) set by the Centre was Rs. 129.84 per quintal at a 9.5% recovery rate, against Rs. 81.18 per quintal in 2008-09 based on a recovery rate of 9%. However, the industry paid around Rs. 220 per quintal to farmers.

Exports: India’s sugar export balance was nil during 2009-10 from 0.2 million tonnes in the last year. The country expects to export in 2010-11 following a rise in sugar production in 2009-10 and a projected surplus in 2010-11 (October 2010–September 2011).

Imports: To contain sugar prices, the government permitted sugar imports at zero customs duty. For the sugar season October 2009–September 2010, imports were estimated at 4.2 million tonnes after taking into account the opening inventory of 1.2

million tonnes of raw sugar. Indian sugar millers cancelled a number of import contracts owing to a decline in domestic prices and are unlikely to sign new deals following expectations of a surge in local output.

Government initiatives: In April, 2010, the Central Government raised FRP to be paid by mills to farmers by 7% to Rs. 139.12 per 100 kgs of sugar for the sugar season 2010-2011.

Outlook: India’s sugar production for 2010-11 has been estimated at 25 million tonnes following higher cane planting, better yield and attractive statutory minimum price. Sugar consumption is forecast at 22.5 million tonnes on account of an increase per capita incomes, growing population (at 1.38% per year) and sustained economic growth. Consequently, sugar realisations are expected to decline.

Operational review

The Company produced 14.10 lakh quintals of sugar in 2009-10, an increase of 17.11% from 12.04 lakh quintals in 2008-09. However, realisation per tonne (net of excise) of free

sugar increased from Rs. 19,209 per tonne in 2008-09 to Rs. 28,922 per tonne in 2009-10.

Fair and remunerative prices

(Rs. per quintal)

	2007-08	2008-09	2009-10
Seohara	89.28	92.88	135.32
Sidhwalia	81.18	81.18	129.84
Hasanpur	–	81.18	129.84

Note: With effect from 2009-10, the term ‘Statutory Minimum Price (SMP)’ was replaced by ‘Fair and Remunerative Price (FRP)’.

Highlights 2009-10

- The Company crushed 147.93 lakh quintals of sugarcane, an increase of 27.20%, from 116.30 lakh quintals in 2008-09.
- The Company produced 189.38 lakh litres of spirit in 2009-10, a 162.61% increase from a mere 72.11 lakh litres produced in 2008-09.
- The Company marketed 412.77 lakh units of power from two of its plants compared with 397.11 lakh units sold in 2008-09.

The comparative operational figures

	Year 2008–09				Year 2009–10			
	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total
Sugarcane crushed (lakh quintals)	89.18	16.34	10.78	116.30	113.66	21.64	12.63	147.93
Recovery (%)	9.88	8.51	8.25	9.54	9.65	9.11	9.09	9.52
Sugar produced (lakh quintals)	9.85	1.36	0.83	12.04	10.98	2.02	1.10	14.10
Crushing days (gross)	121	67	68		134	69	58	

Growing acreage

Following higher incentives in 2009-10, sugarcane acreage is expected to increase from 44.5 lakh hectares in 2009-10 to 52.8 lakh hectares in 2010-11 resulting in a sugar production of 25 to 28 million tonnes (10.2% recovery), which should be comfortable to meet the country’s demand of 22 to 23 million tonnes.