

Upper Ganges Sugar & Industries Limited

Annual Report 2010-11



Beyond **sugar**

Disclaimer

In this Annual Report, we have disclosed forward-looking information to help investors to comprehend our prospects and take informed investment decisions. This report is based on certain forward-looking statements that we periodically make to anticipate results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe that we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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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. Lakhota
Mr. D.K. Mandal, Nominee of IDBI Bank Limited

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. Birinder Singh, Executive President (Hasanpur)
Mr. S.S. Binani, Executive Vice-President (Tea Garden)
Mr. S K Maheshwari, Chief Financial Officer

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 plants

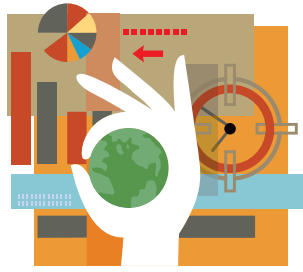
Co-generation Plant, Seohara
Co-generation Plant, Sidhwalia

Tea garden

Cinnatollah Tea Garden
North Lakhimpur (Assam)

Upper Ganges Sugar and Industries Limited.

- Part of the renowned K.K. Birla Group of Companies
- Rich eight-decade sugar industry presence
- Product basket comprising sugar, ethanol, power, fertilisers and tea



Philosophy

- To fulfill the expectations of customers, farmers, employees, financiers and the society at large
- To maximise shareholders' return through continuous value-addition, consolidation of gains, integration of diverse businesses and product expansion
- To abide by the principles of good corporate governance through transparency, empowerment, accountability, independent monitoring and environmental consciousness

Values

To strive and excel in our core area of competence – manufacture of sugar and allied products – and provide every opportunity to employees, farmers and business

associates to fully realise their potential

Businesses

- **Sugar:** Three manufacturing facilities with a cumulative sugarcane crushing capacity of 18,000 tonnes per day (TCD)
- **Ethanol:** A 100 kilo litre per day (KLPD) industrial alcohol/ethanol distillery
- **Power:** 42 MW capacity cogeneration power plants (2)
- **Fertiliser:** Bio-compost plant at Shyamabad (near Seohara), producing organic fertilisers marketed under the Uttam Jaivik Khad brand
- **Tea:** Cinnatolliah Tea Garden covering 746 Ha in North Lakhimpur (Assam)

Facilities	Capacities
Seohara, Bijnor (Uttar Pradesh)	<ul style="list-style-type: none">■ 10,000 TCD crushing capacity■ 100 KLPD ethanol capacity■ 24 MW cogeneration capacity
Sidhwalia, Gopalganj (Bihar)	<ul style="list-style-type: none">■ 5,000 TCD crushing capacity■ 18 MW cogeneration capacity
Hasanpur, Samastipur (Bihar)	<ul style="list-style-type: none">■ 3,000 TCD crushing capacity

Our success is not measured by a year but a period of time



(Rs. in lacs)

	2006-07	2007-08	2008-09	2009-10	2010-11
Gross Turnover	35,225.82	32,841.21	46,030.56*	41,873.69	66,825.04
Operating Profit/(Loss)	(1,959.00)	4,151.49	7,657.75	1,231.70*	6,271.94
Interest & Finance Charges (net)	1,190.98	2,963.87	4,219.94	4,301.86*	5,402.31
Depreciation	1,098.32	2,051.46	2,596.69	2,632.04	2,612.62
Profit/(Loss) before Tax	(4,248.30)	(863.84)	841.12	(5,702.20)	(1,742.99)
Profit/(Loss) after Tax	(2,826.13)	(629.24)	626.94	(3,906.64)	(1,220.28)
Net Worth	13,885.50*	13,202.59*	13,667.27*	9,760.63	8,540.35
Net Worth per Equity Share (Rs.)	120.14*	114.24*	118.26*	84.45	73.90
Dividend per Equity Share (Rs.)	—	—	1.20	—	—
Earning per Equity Share (Rs.)	(25.15)	(5.44)	5.42	(33.80)	(10.56)
Cane Crushed (Season) (In lac Qtls.)	241.40	164.53	116.30	147.93*	176.65

* Figures have been regrouped

Chairperson's review

"The big picture at the Company will be to enhance asset utilisation, maximise our surplus and repay debt."

Mrs. Nandini Nopany, Chairperson-cum-Managing Director reviews the Company's performance of 2010-11 and looks ahead



We reported a significant growth in our revenues, but owing to the industry scenario, the Company is still not out of the woods.

Our performance

- The Company recorded a net revenue growth of 59.68% to Rs. 64,150.23 lacs
- Gross sales increased 59.59% to Rs. 66,825.04 lacs from Rs. 41,873.69 lacs in 2009-10
- EBITDA stood at Rs. 6,271.94 lacs against Rs. 1,231.70 lacs in the previous year, increasing 409.21%
- PAT stood at Rs.(1,220.28) lacs against Rs.(3,906.64) lacs in 2009-10

The Company's performance during 2010-11 comprised the high cost brought forward sugar inventory from the 2009-10 season (reflecting the impact of volatile cane costs and 20 per cent levy sugar for a part of the year) on the one hand and high sugar production costs of 2010-11 on the other. The result of this combination was that the performance of the Company was poor in the first two quarters of the financial year under review and improved in the subsequent quarters. The bottom line is that the Company is still not out of the woods even though there was a decline in the overall cane cost from Rs 230 a quintal to Rs 205 a quintal.



Even though there was a rationalisation in the exposure of sugar in the overall product mix, the reality is that the Company still derived a majority of its revenues from sugar. The harsh reality is that sugar manufacture continues to be relatively unviable and even though cane crushing improved from 50 per cent utilisation to 75 per cent in 2010-11, it was still way below the level that ensures industry viability. In turn, this had a downstream impact in terms of a low output of by-products, increasing the Company's break-even point.

Optimism for the year ahead

The industry is optimistic that a decontrol from 2011-12 could possibly shift the incidence of subsidy from the industry to the government on the one hand and the absence of the monthly release mechanism could possibly enhance the industry's marketing flexibility.

From a state-level perspective, we recognise that the impending elections in Uttar Pradesh in the first quarter of 2012 may not soften cane prices and improvements may need to be derived from internal efficiencies. We expect to maintain our 2010-11 recovery of 9.8 per cent, which was higher than the Uttar Pradesh average, while we will increase average capacity utilisation from 75 per cent to 90 per cent in 2011-12.

Expectations from the projected decontrol on sugar prices:

We expect sugar prices to decline, because with complete decontrol there will be no obligation to provide levy sugar and resultantly a number of manufacturers will be inclined to liquidate their stocks as free sale. This answers the general fear of an increase in sugar prices should decontrol happen. As a result, the decontrol will most likely improve the government's position on countering inflation. Having said that, let me indicate that the impact the subsequent price discovery will have on the performance of the sugar companies will depend on how they capitalise on the emerging situation which in turn will depend on the strength of their balance sheets – while strong companies will possess the patience to resist selling during price declines, the weaker ones may be tempted to liquidate.

Indian demand for sugar: One cannot escape the reality that there has been a consistent increase in India's consumption of sweeteners (gur, khandsari and sugar) by 2 to 2.5 per cent. As the country modernises, the proportion of gur and khandsari will decline and that of sugar will increase. So from a demand perspective, the prospects of sugar are fairly secure.

Realisations over the foreseeable future:

The country's sugar inventory is about three months consumption which is significantly lower than the nine months' consumption inventory that we witnessed in the past. As a result, market prices are likely to remain firm. Besides, international sugar prices are robust and a level of Rs. 28 a kg in the retail market is likely to be sustained given the country's labour costs, cultivation spread, cane output and interest rate.

Outlook

The Company intends to increase revenues by 25-30 per cent annually. Therefore, 2011-12 will be a turnaround year for the Company. The big picture at the Company will be to consolidate gains, enhance asset utilisation, maximise surplus and repay costlier debts. We intend to shrink our balance sheet size and make up for two years of lost time during the industry downtrend. Besides, we intend to enhance the exposure of cogeneration and ethanol which are comparatively more rewarding, strengthening our non-sugar exposure and reducing our dependence on the cyclical impact of our product mix. This is expected to reinforce our performance in the foreseeable future.

Directors' Report

Dear members

Your Directors take pleasure in presenting their report as a part of the 79th Annual Report and the audited accounts of the Company for the year ended 30th June, 2011.

2. Financial results and appropriations

(Rs. in lacs)

	2010-11		2009-10	
Gross Sales		66,825.04		41,873.69
Gross profit/(loss) before Interest, Depreciation and Taxation		6,271.94		1,231.70
Less: Interest & Finance Charges	5,402.31		4,301.86	
Depreciation	2,612.62	8,014.93	2,632.04	6,933.90
Profit/(loss) before tax		(1,742.99)		(5,702.20)
Less: Provision for taxation:				
- Current Tax	102.59		117.00	
- MAT credit reversal	–		104.55	
- Deferred tax credit	625.30		1,988.21	
- Income Tax provisions no longer required written back	–	(522.71)	(28.90)	(1,795.56)
Profit/(loss) after tax		(1,220.28)		(3,906.64)
Add: Surplus brought forward from previous year	152.55		559.19	
Transfer from General Reserve	1,100.00	1,252.55	3,500.00	4,059.19
Amount carried to Balance Sheet		32.27		152.55

Operating Performance

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

Financial Performance 2010-11

4. The Company had recorded a Net Revenue of Rs. 64,150.23 lacs (including other income and Agricultural Profit aggregating

to Rs. 232.60 lacs) for the year ended 30th June, 2011. The Gross Sales (inclusive of Excise Duty) of the Company for the year 2010-11 increased by 59.59% to Rs. 66,825.04 lacs from Rs. 41,873.69 lacs in the year 2009-10.

5. The earning before interest, depreciation and tax for the year under review stood at Rs. 6,271.94 lacs representing 9.78% of the net revenue and showed an increase of 409.21% over previous year's Rs. 1,231.70 lacs. The improvement of EBIDTA of



the Company during the year under review can be attributed to better capacity utilisation due to more availability of sugarcane during the year under review.

6. The sugar industry continued facing difficulties on account of the negative policies of the Government during the year under review. Sugar prices remained under severe pressure during the year largely due to measures taken by the Central Government in its overall policy of controlling inflation. Sentiment in the free sugar market continues to be bearish with the continued imposition of ban on exports, stockholding limits on sugar, impending increase in sugar production and large releases by the government under the monthly release mechanism.

7. The State Government fixed an exorbitant price of Rs. 205/qlt of sugarcane based on political criteria. On one hand sugar prices plummeted and remained under pressure while on the other hand sugarcane price was increased by Rs. 40/qlt by the State Government which resulted in huge losses for the industry as a whole.

8. The performance of the industrial alcohol division and the renewable power divisions of the Company improved during the year due to better availability of molasses and bagasse. The prices of the raw materials continued to be firm during the year due to strong demand by these two sectors.

9. The performance of tea segment continued to be strong during the year under review. Though the production of tea decreased from 13.16 lac kgs in the immediately preceding year to 12.61 lac kgs in the year under review, the average realisation increased from Rs.144.62 per kg in 2009-10 to Rs. 151.69 per kg in 2010-11 indicating an increase of 4.89%.

R&D

10. During the year under review the Company incurred a sum of Rs. 179.65 lacs on account of Research & Development with an intention to improve the sugar recovery ratio and in educating the cane growers to cultivate improved variety of sugarcane.

Dividend

11. The Board of Directors does not recommend any dividend for the year under review in view of the losses.

Corporate Governance

12. Pursuant to Clause 49 of the Listing Agreement, Management Discussion & Analysis, 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", "D", "E" and "F" respectively.

Directors

13. The Company has nine Non-Executive Directors having experience in varied fields and a Chairperson-Cum-Managing Director. During the year under review, three Directors, Mr. Gaurav Swarup, Mr. I P Singh Roy and Mr. P K Lakhota retire from the Board by rotation and are eligible for re-appointment. Mr. Dilip Kumar Mandal, a Nominee of IDBI Bank Limited was taken on the Board of the Company with effect from 28th September, 2010.

14. 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 "D".

Directors' Responsibility Statement

15. 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 recognising 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 annual accounts were prepared on a 'going concern' basis.

Auditors, Audit Qualifications and Board's Explanations

16. The Auditors' Report is self-explanatory. However, the Auditors made an observation regarding recognition of Deferred Tax Assets amounting to Rs. 1,988.57 lacs for the year. The Company's projections are that there would be sufficient taxable income in the future to claim credit of Deferred Tax Assets.

17. The Auditors, Messrs S. R. Batliboi & Co. Chartered Accountants, retire at the forthcoming Annual General Meeting 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 by the Shareholders, will be well within the limits prescribed in Section 224(1B) of the Companies Act, 1956.

18. 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 for the period beginning the conclusion of the ensuing Annual General Meeting of the Company and ending on the conclusion of the Annual General Meeting to be held next thereafter.

Cost Auditors

19. In accordance with the directives of the Central Government under Section 233B of the Companies Act, 1956, Mr S. N. Mukherjee, Cost Accountant, was appointed as cost auditor to audit the cost accounting records relating to products Sugar and Industrial Alcohol at Seohara unit and Sugar at Sidhwalia unit. M/s D Radhakrishnan & Co., Cost Accountants were appointed as cost auditor for the product Sugar at Hasanpur unit and also for the product 'Power' for Seohara and Sidhwalia units of the Company for the current year.

20. Cost Audit Reports for all the applicable products for the year ended 30th June, 2010 were filed on 7th December, 2010 and 8th December, 2010 with cost audit cell of Ministry of Corporate Affairs department within due dates viz., 31st December, 2010.

Subsidiary Company and Consolidated Financial Statements

21. The Company has an Indian Subsidiary viz., Uttar Pradesh Trading Company Limited. In compliance with General Circular No. 2/2011 of Government of India, Ministry of Corporate