

THE OUDH SUGAR MILLS LTD.

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT FOR THE QUARTER ENDED 31ST MARCH, 2007

1. The sugar scenario all over the world is witnessing complete change for the season 2006-07. For the 2005-06 (October/September) season, the world sugar economy is facing a balanced demand and supply position after two consecutive seasons of global production shortfall vis-à-vis world consumption. It is expected that October/September crop circle would be a surplus year. It is estimated that the world production of the season 2006-07 would be at a record level at 160.203 million tonnes raw value (mtrv) as compared to 152.710 mtrv for the season 2005-06. The world production would be higher by 7.493 million tonnes than the world consumption.
2. The expected world production for the year 2006-07 is expected record an increase of 4.91% over the pervious year 2005-06. As a result, the spot price for raw sugar which was 12.20 cents/lb at the end of November'06 slid to 10.22 cents/lb by the first week of February, the lowest in 17 months since min-September 2005.

3. **World Sugar Balance (mln tonnes, raw value)**

	2006 - 07	2005 – 06	Change in mln t in %	
Production	160.203	152.710	7.493	4.91
Consumptions	153.008	149.782	3.226	2.15
Surplus/Deficit	7.195	2.928	-	-
Import demand	43.724	46.678	-2.954	-6.33
Export availability	48.108	46.691	1.417	3.03
End Stocks	62.873	60.062	2.811	4.68
Stocks/Consumption ratio in %	41.09	40.10		

4. **Indian Sugar Scenario**

Indian Sugar production is expected to increase from around 19 million tonnes during the previous season to 26 million tonnes during the season 2006-07. Due to ban on export of sugar, domestic prices of sugar have rapidly fallen since the first quarter of sugar season 2006-07. Sugarcane prices in UP and Bihar have increased significantly by 8.70% & 7%, respectively, whereby the margins are under pressure. In December, 2006 the Govt. of India has notified complete lifting of the ban on sugar export which was imposed on 04th July, 2006.

5. **Indian Sugar Balance**

(Lakh Tonnes)

		For the season 2005-06 October, 2005 to Sept. 2006	For the season 2006-07 October, 2006 to Sept. 2007
1	Opening Stock as on 1st October	48.25	44.62
2	Production During the Season	192.67	260.00
3	Imports	0.00	0.00
4	Total availability	240.92	304.620
5	Domestic Consumption	185.00	195.00
6	Exports	11.30	15.00
7	Closing Stock	44.62	94.62

6. **Operations**

Crushing of sugarcane by the Company during the 2006-07 has commenced during the first half of November, 2006. The comparative figures of canes crushed and sugar produced by three units of the Company are given below:

A. Crushing & Production (lacs qtls.)

		Season 2005 - 2006				Season 2006 - 2007							
		Total Season				Up to 31-03-2006				Up to 31-03-2007			
		Hargaon	Rosa	Narkati-aganj	Total	Hargaon	Rosa	Narkati-aganj	Total	Hargaon	Rosa	Narkati-aganj	Total
1	Total cane crushed	105.45	57.25	70.89	233.59	92.38	57.11	70.89	220.38	117.87	61.17	69.89	248.93
2	Average recovery %	10.56	9.23	9.30		10.47	9.26	9.30	-	10.53	9.26	8.38	-
3	Sugar production	11.18	5.34	6.59	23.11	9.63	5.29	6.68	21.60	12.23	5.92	5.60	23.75
4	Crushing started	12.11.05	24.10.05	14.11.05						11.11.06	04.11.06	20.11.06	

5	Crushing stopped	23.04.06	01.04.06	22.03.06								
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B. Industrial Alcohol (lacs ltrs.)

		Season 2005 - 2006						Season 2006 - 2007		
		Total Season			Up to 31-03-2006			Up to 31-03-2007		
		Hargaon	Narkatiaganj	Total	Hargaon	Narkatiaganj	Total	Hargaon	Narkatiaganj	Total
1	Alcohol Produced	93.29	84.23	177.52	69.17	66.47	135.64	86.94	54.38	141.32
2	Recovery %	22.22	21.41		22.50	21.08		23.52	23.00	

C. Canning (Lac qtls.)

		Season 2005 - 2006		Season 2006 - 2007
		Total Season	Up to 31-03-2006	Up to 31-03-2007
		Allahabad	Allahabad	Allahabad
Canned Fruits & Vegetables Produced		0.43	0.21	0.23

7. Ethanol

The ethanol programme has finally restarted in India with the oil industry inviting tenders to blend 5% with effect from November 2006. This is likely to be increased to 10% by June 2007. The total requirement is estimated at 580 million litres for 5% blending and 1.1 billion litres for 10% blending. The oil industry has started lifting ethanol at a basic price of Rs 21.50/litre.

8. Statutory Minimum Price & State Advisory Price

The Central Government has fixed the Statutory Minimum Price (SMP) of sugarcane for 2007-08 season at Rs.80.25 per quintal linked with a basic recovery of 9% subject to a premium of Rs.0.88 for every 1% point increase in the recovery level over the base. The State Advisory Price (SAP) is at Rs.125/- per qtl. for common variety, Rs.130/- per qtl. for early maturing variety and Rs.122.150 for non-standard variety.

9. **Incentives announced by Government of India**

The Government of India has announced export incentive for Rs.1350/- per m.t. for costal factories and Rs.1450/- per m.t for other areas. The Company's all units fall in other areas.

The Government of India has announced buffer stock creation but notification is likely to be issued in May, 2007.

10. **Growth Initiatives**

The Company has undertaken expansion programme at its centres of production with emphasis on co-products such as ethanol and co-generation of power.

The expansion of Hargaon Sugar Mills, Hargaon (U.P.) from 7500 tcd to 10000 tcd with a co-generation power plant of 8 MW at a capital outlay of about Rs.116 crores has been completed & is currently operational.

The sugarcane crushing capacity of New Swadeshi Sugar Mills, Narkatiaganj (Bihar) has been increased to 7500 tcd with a co-generation power plant of 5 MW at a cost of Rs.37 crores.

The Company is increasing the capacity of Hargaon Distillery, Hargaon, Dist. Sitapur, Uttar Pradesh to 100 klpd at an estimated cost of Rs.100 crores approximately and the capacity at Narkatiaganj Distillery from 30 KLPD to 60 KLPD at an estimated cost of Rs.12.06 crores.

Further, the Company is in the process of setting up a greenfield sugar unit at Hata, Gorakhpur (U.P.) at an estimated cost of Rs.336 crores with a capacity of 7000 tcd and co-generation power plant of 35 MW. The plant will be operational by November, 2008 during sugar season 2007-2008..

After completion of all the expansion programmes, The Oudh Sugar Mills Limited will have a consolidated crushing capacity of 28,700 tcd, captive power generation of 48 MW and two distilleries of 160 klpd.

11. **Outlook:**

The sentiment in the sugar market is bearish in anticipation of a record sugar production during the season 2006-07 and likely strong production 2007-08. It is expected that sugar plantation for 2008-09 will fall substantially due to cane arrears and low price of sugarcane being paid in the states like Maharashtra, etc. The operations in co-generation and ethanol is likely to provide some support to the sugar industry. Sugar prices are likely to remain under pressure but should recover once sugar exports accelerate.

12. CAUTIONARY STATEMENT

Any statement made in the Management Discussion and Analysis Report relating to Company's objectives, projections, outlook, expectations, estimates etc. may constitute 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ from such expectations, projections etc., whether express or implied. Several factors could make a significant difference to the Company's operations. These include climatic conditions, economic conditions affecting demand/supply, Government regulations and taxation, natural calamity etc. over which the Company does not have any direct control.