

GOBIND SUGAR MILLS LTD.

Management discussion and analysis

The Management of Gobind Sugar Mills Limited presents the performance analysis of the Company for the period ended 30th June, 2007 and its outlook for the future. The main product of the Company is sugar. The sugar factory is situated at Aira, Dist. Lakhimpur Kheri in Uttar Pradesh (UP).

SUGAR

Global Sugar Scenario

The global sugar industry has undergone a complete transformation characterised by a significant excess in global production over consumption. The gap between production and consumption has increased to a record high of 10.288 million tonnes. Brazil and India are two of the largest sugar producing countries in the world with India as the largest consumer in the world. Brazil maintained its position of largest manufacturer and exporter of sugar in the world but is likely to be overtaken by India during the current year. International sugar prices touched a 10 year high of USD 480/MT before crashing to USD 279 in August 2007. The world sugar trade accounts for around 36% of the global sugar production.

An estimated detail of world sugar balance for Sugar Year (SY) 2006-07 is given below

World sugar balance (million tonnes, raw value)

	2006-07	2005-06	Change	
			Million tonnes	Percentage
Production	165.508	152.079	13.43	8.83
Consumption	155.220	149.859	5.36	3.58
Surplus/deficit	10.288	2.220	8.07	
Import demand	45.952	46.676	-0.72	
Export availability	45.939	46.689	-0.75	
End stocks	67.229	59.764	7.45	12.46
Stock/consumption ratio (%)	43.30	39.880		

As the world's largest producer of sugarcane, changes in supply of Brazil have a direct effect on global prices. As Brazil is also a leading supplier of ethanol, sugar prices depend on how Brazil splits its sugarcane production into ethanol and sugar. The industry sources in Brazil have indicated that while record production is

expected in Brazil, the percentage of cane crop devoted to ethanol is being increased from 50% to 55% during 2007-08. Record high production is foreseen in Indonesia, China, Pakistan and Thailand. EU has cut production by 3.185 mln tonnes in the new sugar regime which came into force in mid 2006 and further cuts are anticipated during 2007-08.

The Indian Sugar Industry

The Indian sugar industry is the country's second-largest agro-processing industry and the largest sugar market in the world. India is also the second largest sugar producing nation. It remains a key growth driver for world sugar and an important driver of rural development, supporting India's economic growth. This industry supports over 50 million farmers and their families, along with workers and entrepreneurs of almost 500 mills, apart from a host of wholesalers and distributors spread across the country.

The political importance of this industry has resulted in it being actively regulated by the Government. There are regulations regarding sugarcane price, sugarcane procurement, sugar production and sale of sugar by mills in domestic and international markets.

Government Policies

Sugar is regulated both at the Central level and at the State level. Under the policy, the State government fixes the State Advised Price (SAP) at which sugar factories are required to purchase sugarcane from farmers. Further, a certain percentage of sugar produced by sugar factories is to be given to the

Government at a price fixed by the Government. The quantity of sugar to be sold by sugar factories is regulated by the Central government through a monthly release mechanism in an effort to regulate sugar prices. The price of levy sugar for the sugar year 06-07 was fixed at Rs. 1332.34 per quintal and has not yet been revised since the last 3 years. The ratio of levy and free sale sugar for the SY 2006-2007 was maintained at 10:90. The government has created a buffer stock of sugar of 50 lakh tonnes under which the holding costs are reimbursed to the industry.

Production

India achieved a record production of sugar estimated at 28.5 mln MT in SY 2006-07 against an estimated consumption of 20 mln tonnes. Exorbitantly high sugarcane prices, favorable monsoons and incentive policies of the Government has witnesses a significant rise in sugar production which has resulted in increase in inventories and a collapse in sugar prices world over. Storage capacity has also become a serious issue. The inventory at the start of the SY07-08 is expected to be equivalent to almost seven months consumption.

Demand & Supply of sugar in India

(in mln tonnes)

		Season 2006-2007 *	Season 2005-2006
1	Opening stock as on 1 st October	3.90	4.00
2	Production during the season	28.50	19.27
3	Total availability	32.80	23.27
4	Domestic consumption	20.00	18.24
5	Exports	2.00	1.13
6	Closing stock	10.80	3.90

* Estimated

Consumption

According to a nation wide survey, nearly 75 percent of the total non-levy sugar is consumed by industrial, small business and high-income household segments. Sugar consumption in urban area is higher compared to the rural area. Further, industrial consumption for sugar is also growing. Urbanization and fast growing income have introduced a whole new culture of soft drink and processed consumption. In the current year, consumption is expected to grow to 20.0 mln tonnes. Domestic sugar prices have fallen by about 33% in the last six months primarily due to a glut in the sugar market.

Exports

The untimely ban on export of sugar imposed in June 2006 was lifted in January, 2007. The Government made a u-turn to its earlier policy and is now actively encouraging Indian exporters to move abroad as much sugar as possible. In fact today, Indian sugar mills are free to export as much sugar as they wish without

having to obtain a permit from the Government. India is likely to export 2 million tonnes of sugar during SY 2006-07. Further, in accordance with the WTO norms, the government has also agreed to reimburse cost of transportation of sugar to the extent of Rs. 1450 per ton for exports. India has the potential to export white sugar to major Indian Ocean markets, due to freight competitiveness with respect to key competitor Brazil. This apart, Indian sugar mills will also look to export significant quantities of raw sugar during SY 2007-08.

Operations

The comparative operational figures of the Company for the last two seasons are given below:

	Season 2006-2007	Season 2005-2006
Sugarcane crushed (lac Quintals)	113.00	106.00
Recovery (%)	9.65	9.62
Sugar produced (lac Quintals)	10.90	10.19
Crushing days	180	183

The SMP in respect of Company's sugar factory was fixed as below:

(in Rupees)

Season 2006-2007	Season 2005-2006
85.65	84.78

Figures of Production, Sales and Closing Stock during the year under review.

(Thousand quintals)

	Production	Sales	Closing stock as on 30th June, 2007
Sugar	209	305	527
Molasses	157	154	150

Financial Performance

Rising cane prices and low sugar prices have reduced margins for Indian producers. India's domestic sugar prices in August have reached its lowest level since January, 2004. In fact, the current sugar prices are not even able to recover the cost of raw materials. As a result, the sugar industry in North India is make substantial cash losses.

Future Outlook

World sugar prices have been under continuous bearish pressure during most of 2007. The significant excess of global production over consumption has depressed sentiments leading to a sharp fall in sugar prices during the year. It is estimated that sugar production will further increase by 4.1 mln tonnes during 2007-2008 which would only accentuate the problem. World sugar production is expected to reach a new record of 169.584 mln tonnes against a consumption estimated at around 158.784 mln tonnes during 2007-08 with a surplus of 10.80 mln tonnes.

The Indian sugar industry is poised for an even higher sugar production in SY 2007-08 with a production estimate of more than 30 mln tonnes and the domestic sugar demand is expected to be around 21 mln tonnes. It is expected that India will overtake Brazil as the world's largest sugar producer in the SY 2007-2008.

Even the world production is expected to rise primarily on account of a strong Indian production. The only silver lining is that plantation scheduled in November-February is likely to fall due to delay in payment of sugarcane dues and strong prices in alternate food crops such as paddy and wheat. Part of sugarcane acreage is likely to be diverted to other food crops. By products, productivity improvements and product innovations combined with price risk management tools and international trade would help improve the industry's profitability and reduce the volatility in the production cycles. Apart from catering to the largest sugar consuming population in the world, the industry can emerge as a significant source of electric power through co-generation as well as of fuel ethanol for blending with petrol through the E5 program and beyond. The co-generation opportunity can add 9700 MW power capacity to meet almost 6% of additional power requirement by 2017 and generate almost 48 million carbon credits.

KPMG in its detailed report on the sugar industry based on analysis of past ten years has projected that in coming years India would need to target its production in excess of domestic consumption. Sugar consumption is projected to grow by around 3-5% a year as rising income and lower sugar prices make sugar more affordable, particularly in Asia where person consumption of sugar remains low relative to the world average. Consumption is likely to grow strongly in the Middle East and Africa as a result of rising incomes and population growth. With surplus production of sugar

and ban on sugar export being lifted by Government, it is estimated that India would become a regular exporter in the coming years. Given the growing sugar production and the structural changes witnessed in Indian sugar industry, India is all set continue its domination at the global level.

Cautionary Statement

The statements in the Management Discussions & Analysis Report detailing the Company's objectives, projections, estimates, expectations or predictions may be forward looking within the meaning of applicable securities laws and regulations. As these statements are based on certain assumptions and expectations of future events, actual result could differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include economic conditions affecting global or domestic demand and supplies, political and economic developments in India or other countries, government regulations and taxation policies, prices and availability of raw materials, prices of finished goods , abnormal climate and geographical conditions, etc. The company assumes no responsibility in respect of forward looking statements that may be revised or modified in the future on the basis of subsequent developments, information or events.