

GOBIND SUGAR MILLS LTD.

Management Discussion and Analysis Report

The Management of Gobind Sugar Mills Limited presents the performance analysis of the Company for the year ended 30th June, 2008. The main product of the Company is sugar. The sugar factory is situated at Aira Estate, Dist. Lakhimpur Kheri in Uttar Pradesh (UP).

GLOBAL SUGAR SCENARIO

The world sugar economy is facing the second consecutive season of a surplus between world sugar production and consumption. World Sugar production for 2007-2008 is estimated by International Sugar Organisation (ISO) at 7.812 million tonnes higher than world consumption. World output of sugar is expected to reach a record of 168.734 million tonnes mainly due to significant levels of production in India and Brazil. World consumption is estimated at 160.922 million tonnes, about 3.695 million tonnes higher than that of 2006-2007. Consequently year end stock is estimated at 66.693 million tonnes compared to 62.192 million tonnes in the year 2006-2007. Only one-third of all sugar produced in the world is exported, the rest being consumed in the countries where it is produced. Each year around 40 million tonnes of raw sugar are traded on the world market.

This trend is now reversing as sugar production figures are being revised downwards. Strong prices of crude oil are seeing an increase in demand for ethanol and consequent diversion of Brazilian crop away from sugar production. This apart, Indian production is on a downward trajectory. All these factors combined have seen a smart rally in both international and domestic sugar prices.

An estimated detail of world sugar balance for sugar year (SY) 2007-08 is given below:

World Sugar Balance (million tonnes, raw value)

	2007- 08	2006-07	Change	
			Mln.M T	In %
Production	168.734	165.419	3.315	2.00
Consumption	160.922	157.227	3.695	2.35
Surplus/deficit	7.812	8.192		
Import demand	44.907	46.096	-1.189	-2.58
Export availability	48.218	47.064	1.154	2.45
End stocks	66.693	62.192	4.501	
Stock/consumption ratio (%)	41.44	39.56		

Source: ISO May'08

Major producers of sugar in the world are Brazil, India, EU, China, USA, Thailand, Mexico, Australia, Cuba and Pakistan, which together account for 68 % of world production. Brazil, India and EU are the top three producers of sugar and accounts for almost one third of followed by China, Thailand and USA. Brazil, being the dominant producer of sugar and ethanol, strongly influences world prices.

INDIAN SUGAR ECONOMY

The Indian Sugar industry is the second largest agro-processing industry in the country, next only to cotton textiles. Sugar industry covers around 7.5% of total rural population and provides employment to half a million people. This industry utilizes around 4 million hectares of land for sugarcane cultivation with about 45 million farmers engaged in sugarcane cultivation in India.

Government Policies

The sugar industry in India is subject to numerous controls at various levels starting from procurement of sugarcane to sugar distribution, pricing and the use of end-product sugar. Sugar prices are closely monitored by the government and controlled by a set of measures like the release mechanism and levy allocation. The sugarcane prices are fixed by the Central or State Governments to ensure a remunerative return to the farmers. The Government of India fixes Statutory Minimum Price (SMP) for sugarcane. Moreover, certain State Governments like Uttar Pradesh insist for an even higher payment in the form of State Advised Price (SAP).

In the seasons 2006-07 and 2007-08 sugar production skyrocketed to record levels due to the irrational and unchecked increase in sugarcane prices by the State Government in U.P. due to political considerations. A unique situation existed where the cost component of raw materials was more than the selling price of sugar. The industry challenged the methodology used by the State Government at the High Court in Allahabad and Lucknow Bench of Allahabad High Court for both the seasons. While the Allahabad High Court ruled in favour of the industry by quashing the SAP for the seasons 2006-07 and 2007-08, the Lucknow bench of Allahabad High Court upheld the SAP for the season 2007-08. This matter is now pending at the Supreme Court.

Acknowledging the financial difficulties being faced by the sugar industry, the Government of India took a number of initiatives to help the industry tide over the present crisis:

- The Government of India extended interest free loans to the sugar mills equivalent to the excise duty payable in the seasons 2006-07 and 2007-2008 on sugar for payment of cane arrears and other statutory liabilities.
- In order to encourage export of sugar, the government agreed to offset the higher freight costs incurred by the Indian sugar industry by extending subsidy of Rs 1,350 per tonne to mills located in the coastal areas and Rs 1,450 per tonne to mills situated in the interiors till

September, 2008. As a result, India is exporting about 4.2 MT of sugar in 2007-08 compared with 1.7 MT of the previous year. .

- The Government of India created a buffer stock of five million tonnes in the year 2007 to ensure availability of sugar in the domestic market. However, with effect from 1st May 2008, 2 million tonnes has been liquidated and the remaining stock of 3 million tonnes has ceased to exist from 31st July 2008.

Production

After a massive increase in sugar production in 2005-06 and 2006-07, sugar production upward trend reversed in 2007-08 and was lower at 26.50 million tonnes. The reasons for the reversal of trend can be attributed to the dispute in sugarcane price, large sugarcane arrears, delay in crushing and lower yields. This downward trend in sugar production is likely to continue during 2008-09 as the area under plantations has fallen significantly and poor monsoons in Maharashtra. India's sugar production is expected to fall as much as 20% as growers are reducing agricultural inputs as well as shifting to other crops.

Demand & Supply of sugar in India

(In million tonnes)

		Season 2007-2008 *	Season 2006-2007
1	Opening stock as on 1 st October	9.20	3.60
2	Production during the season	26.50	28.33
3	Total availability	35.70	31.93
4	Domestic consumption*	22.50	21.00
5	Exports	4.20	1.73
6	Closing stock	9.00	9.20

* Estimated

Exports

India is exporting around 4.23 million tonnes of sugar in 2007-08. This year, for the first time, sizeable quantities of raw sugar was exported by India. Major destinations were Dubai, Bangladesh, Malaysia and China. Though India is second largest sugar producer in the world, it is not a regular exporter of sugar due to the famous Indian sugar cycles and sharp volatility in production levels.

OPERATIONS

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

	Season 2007-2008	Season 2006-2007
Sugarcane crushed (lac Quintals)	76.12	113.00

Recovery (%)	9.58	9.65
Sugar produced (lac Quintals)	7.30	10.90
Crushing days	118	180

The SMP in respect of Company's sugar factory was fixed as below:
(In Rupees)

Season 2007-2008	Season 2006-2007
87.48	85.65

However, the company has paid State Advised Price (SAP) of Rs. 110 per quintal for the season 2007-08 in terms of Hon'ble Allahabad High Court's (Lucknow Bench) interim order dated 15th November, 2007.

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

	(Thousand quintals)		
	Production	Sales	Closing stock as on 30 th June, 2008
Sugar	730	687	569
Molasses	413	448	518

FINANCIAL PERFORMANCE

There is a marked improvement in the financial performance of the company for the year under review where losses have been substantially reduced. This was due to a lower cost of sugarcane paid as per the directions of the courts and a recovery in the price of the sugar.

FUTURE OUTLOOK

The sugar industry seems to be finally coming out of the worst ever recession that it had seen over the past few decades. After successive years of surplus production and uninhibited capacity addition, the sugar output in India has started declining. While it may be still premature to comment on the production estimates for 2008-09, it is evident that production will not exceed consumption as area under sugarcane plantation has fallen significantly. This development has witnessed a smart rally in sugar prices that have come back to the levels that were prevailing in 2006. There is still uncertainty about the sugarcane prices as the matter is under litigation and will have a significant impact on the profitability of the industry. The sugarcane price for 2008-09 is yet to be determined. Furthermore, with the fall in sugarcane production, prices of byproducts such as molasses and bagasse have also started strengthening.

The growth of sugar demand by food industries and other non-household users, estimated to account for about 45% of total consumption, could provide additional impetus to longer-term market growth. Although gur and khandsari are still consumed in rural areas, demand for white sugar is expected to continue to increase. Indian sugar industry can be a global leader provided it

comes out of the vicious cycle of acute shortages and surplus of sugarcane. A stable long term policy is needed in which the shackles are removed which constrain this industry from growing in a healthy manner. Against the backdrop of skyrocketing crude prices policymakers have become aware of sugarcane as an energy crop and are encouraging mills to go integrated and produce ethanol and power.

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.