

# THE OUDH SUGAR MILLS LTD.

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

[For the quarter ended 30th September, 2009]

The management of The Oudh Sugar Mills Limited is pleased to present its assessment of the prevailing industrial scenario for the quarter ending 30th September, 2009.

### 1. World Sugar Market

After a season of large statistical deficit the World sugar economy is facing a second consecutive year of significant gap between world consumption and production. In its first assessment of world sugar market for the season 2009-2010 International Sugar Organization (ISO) estimates World sugar production at 159.042 million tonnes up by 4.817 million tonnes from the last season. Global consumption in 2009-10 is estimated to grow at the rate of 1.73% per annum to reach a level of 167.446 million tonnes raw value thus leaving a shortfall in supply of 8.404 million tonnes as against a shortfall of 10.368 million tonnes projected in sugar season 2008-2009.

A summary of the first assessment for the world sugar balance in 2009-2010 is provided in the table below.

#### World Sugar Balance (million tonnes, raw value)

	2009/10	2008/09	Change	
			In Mln ton	In %
<b>Production</b>	<b>159.042</b>	<b>154.225</b>	<b>4.817</b>	<b>3.12</b>
<b>Consumption</b>	<b>167.446</b>	<b>164.593</b>	<b>2.853</b>	<b>1.73</b>
<b>Surplus/Deficit</b>	<b>-8.404</b>	<b>-10.368</b>		
<b>Import Demand</b>	<b>51.930</b>	<b>50.962</b>	<b>0.968</b>	<b>1.90</b>
<b>Export Availability</b>	<b>51.964</b>	<b>50.903</b>	<b>1.061</b>	<b>2.08</b>
<b>End Stocks</b>	<b>53.234</b>	<b>61.672</b>	<b>-8.438</b>	<b>13.68</b>
<b>Stocks / Consumption ratio in %</b>	<b>31.79</b>	<b>37.47</b>		

### 2. Indian Sugar Industry

In India domestic sugar prices have risen by 65% in the September, 2009 as compared to last September. Last year India experienced the worst decline in the sugar production in history. Sugar production in India collapsed by an estimated 14.5 million tones or 41.% as compared to season 2007-08 primarily due to lesser availability of sugar cane. It is anticipated that huge gap between domestic production and demand will

remain in the coming sugar season. Uttar Pradesh the largest sugarcane producer and second largest sugar producing state in India has suffered the most due to delayed monsoon and various other factors. Earlier it was expected that production will rebound in the season 2009-10. However, poor and delayed monsoon together with decline in sugarcane area in the state, as well as severe competition for sugar cane procurement from the manufactures of Gur and Khandsari has severely dented the production of sugar in the season ended 2008-09. Lower cane availability had forced the mills to end crushing earlier than expected.

In India sugar consumption is expected to grow by 2.07 %.

### **Indian Sugar Equation**

	<b>2009-10 Estimated</b>	<b>2008-09 Actual</b>
Opening Stock as on 1st October	26.50	100.00
Production During the Season	160.00	145.50
Imports	73.50	13.00
Total availability	260.00	258.50
Domestic Consumption	230.00	230.00
Exports	-	2.00
Closing Stock	30.00	26.50

### **3. Prices**

The Central Government vide its notification on 13<sup>th</sup> October, 2009 has asked the private sugar mills to sell 20 per cent of their output ( as against the 10 percent in the sugar season 2008-09) as levy sugar with effect from 1<sup>st</sup> October, 2009 on sugar produced in sugar season 2009-10 to Central Government or as directed by the central government under the Levy Sugar Supply (control) Order, 1979, as amended from time to time.

For the season 2009-10 the present system of SMP is proposed to be replaced by a newly introduced system of FRP across the country. Should the statement Government proposes a higher SAP then the incremental liability towards the sugar cane growers shall be met by the state government from out of its own resources. The UP Government has very recently advised a SAP of Rs 165/- Per Quintal for normal variety of sugar cane and Rs 170/- for early variety and Rs 162.50 for rejected variety of sugar cane.

#### 4. Exports / Imports

In 2009-10 world export availability is expected to increase. Exporter's output this season is forecasted at 79.194 mln tonnes as against 77.342 mln tonnes in the previous crop cycle. Export availability is put at a new record 51.964 mln tonnes raw value compared to 50.903 mln tonnes estimated for the previous crop year.

World import demand is expected to grow and reach a new record at 51.930 million tonnes raw value, as against 50.962 million tonnes estimated for 2008-09.

Due to lower sugar production and low opening stock India is expected to import more sugar in the season 2009-10. It is certain that India will remain a leading importer of sugar from the world market in the forthcoming season. The Central Government has also taken a number of measures to tide over the shortage of sugar.

#### 5. Operations

As the factories have been closed for the off season, there has been no production during this period. The operations at the company's various plants are as follows :

#### **Crushing & Production (lac qtls)**

	Season 2008-09										Season 2009-10				
	Total Season					3 months ended From 01.07.08 to 30.09. 08					3 months ended From 01.07.08 to 30.09.09				
	Hargaon	Rosa	Narkati aganj	Hata	Total	Hargaon	Rosa	Narkati aganj	Hata	Total	Hargaon	Rosa	Narkati aganj	Hata	Total
1. Total cane crushed	71.67	29.55	45.16	1.45	147.83	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
2. Average recovery %	9.34	8.59	9.02	8.00	9.08	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
3. Sugar Production	6.69	2.54	4.07	0.12	13.42	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
4. Crushing Started	24.11.08	24.11.08	01.12.08	21.01.09											
5. Crushing stopped	05.03.09	18.02.09	11.02.09	13.02.09											

#### 6. Ethanol / Industrial Alcohol

Global fuel ethanol production and consumption growth is forecasted to more than halve in 2009, growing by 12% to reach 73.5 billion litres. This compares to average annual growth of 28% over the prior 3 years.

Fuel ethanol production in India this year is constrained by the sharp contradiction in molasses output and consequent high prices for the key feedstock. India's fuel ethanol consumption is forecast to rise to 335 mln litres in 2009, as against 270 mln litres in the previous year.

The production of industrial alcohol including Ethanol by the company during the quarter is as follows:

		Year 2008-09 (full year ended June 30,2009)			Year 2008-09 ( 3 months ended September, 2008)			Year 2009-10 (3 months ended September 30, 2009)		
		Hargaon	Narkatia ganj	Total	Hargaon	Narkatia ganj	Total	Hargaon	Narkatia ganj	Total
1.	Average Recovery %	21.03	23.02	21.89	23.01	24.00	23.05	NIL	NIL	NIL
2.	Alcohol Produced (lac qtls)	131.11	102.15	233.26	0.18	5.16	5.34	NIL	NIL	NIL

## 7. Co – Generation

The Company has bagasse based co-generation power plants at Hargaon and Narkatiaganj. The export of power to State Grid by the company during the quarter is as follows:

Production (in lacs of Units)

		Year 2008-09 (full year ended June 30,2009)			Year 2008-09 ( 3 months ended September, 2008)			Year 2009-10 (3 months ended September 30, 2009)		
		Hargaon	Narkatia ganj	Total	Hargaon	Narkatia ganj	Total	Hargaon	Narkatia ganj	Total
1	Power Exported (units)	155.65 228	36.32760	191.97 988	NIL	NIL	NIL	NIL	NIL	NIL

Presently, sugar mills in UP can sell the power produced from bagasse to the State Grid only. There is no development regarding UP sugar industry's request to Uttar Pradesh Electricity Regulatory Commission to permit them to sell cogenerated power in the open market to private traders and users.

## 8. Cautionary Statement

The statements in the Management Report detailing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable securities laws and regulations. As these statements are based on certain assumptions and expectations of future events, actual results could differ materially from those expressed or implied. The Company assumes no responsibility in respect of such forward looking statements which may be revised or modified in the future on the basis of subsequent developments, information or events.