

UPPER GANGES SUGAR & INDUSTRIES LTD.

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT

[for the quarter ended 31st March, 2007]

WORLD SUGAR SCENARIO:

1. The world sugar market economy has entered a distinctively surplus phase, characterized by a significant excess of global production over consumption as well as export availability considerably higher than projected import demand. 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 mid-September 2005. New revisions have further increased the gap between production and consumption from 5.808 mln tonnes projected in November to 7.195 mln tonnes, raw value (mtrv). World production in 2006/07 has been revised upward by 1.903 mtrv to a record 160.203 mtrv. World consumption is projected to grow by a healthy 2.15%, only a fraction down from the 10-year average of 2.29%. In 2006/07 global use of sugar is expected to reach 153.008 mtrv. World export availability is projected to exceed import demand by more than 4 mtrv. If the import projections are validated by the end of this season, the unsold sugar will be added to stocks. At present the closing stocks are expected to grow by 2.8 mtrv, but if the unsold sugar has to be added, the total rise of stocks by the end of the season can be as high as 7.2 mtrv. Hence, the closing stocks could grow to 67.3 mtrv or 44.0% of global consumption.
2. The combination of recently improved crude oil prices and record-high prices for corn may return sugar to the "energy" league. Last year showed, however, that the link between crude oil and sugar prices was indirect and centred in Brazil – via the fleet of flex-fuel vehicles for which the volume of ethanol consumed was sensitive to the relative domestic prices for ethanol and gasoline. Currently, energy and sugar markets are delinked by the existing and projected ample availability of sugar both globally and in Brazil.

World Sugar Balance (mln tonnes, raw value)

	2006-07	2005-06	Change	% Change
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		

INDIAN SUGAR SCENARIO:

1. Two consecutive seasons of normal monsoon coupled with prompt payments for cane and increased production capacities has resulted in a quick recovery of Indian sugar production with estimates of around 26 million tonnes for the season 2006-07. With consumption pegged at 19.5 million tonnes and an inexplicable export ban, domestic prices of sugar have come under tremendous pressure. The Government has since relaxed the export ban, announced export incentives and decided to create a buffer stock in its attempt to arrest the falling sugar prices. However, these measures are yet to make any impact on the dipping sugar price.

Indian Sugar Balance (mln tonnes, raw value)

	2006-07	2005-06
Opening Stock as on 1st October	4.462	4.825
Production During the Season	26.000	19.267
Imports	0.000	0.000
Total availability	30.462	24.092
Domestic Consumption	19.500	18.500
Exports	1.500	1.130
Closing Stock	9.462	4.462

2. Sitting on a huge surplus and softening of the domestic and international prices, the Indian sugar industry is confronted with many problems including timely payment of sugarcane price to the farmers. Root cause of this problem is the persistent sharp increases in the statutorily enforced sugarcane price. Currently, the Indian sugar industry pays the highest cane price in the world while realising the lowest sugar price.
3. The Central Government has fixed the Statutory Minimum Price (SMP) of sugarcane for 2007-08 season at Rs.81.18 per quintal linked with a basic recovery of 9% subject to a premium of Rs.0.90 for every 1% point increase in the recovery level over the base. The corresponding figures for the previous season are Rs.80.25 per quintal linked with a recovery of 9% and an additional payment of Rs.0.88 for every 0.1% recovery over the base rate of 9%.
4. The Uttar Pradesh Government declared Rs.10 per quintal increase in the State Advised Price (SAP) for the sugarcane during the ongoing 2006-07 crushing season (October-September). Sugar Mills would have to pay Rs.125 per quintal for common variety of cane and Rs.130 per quintal for early maturing varieties of cane besides Rs.122.50 per quintal for nonstandard varieties during the current season. During the 2005-06 season, the per quintal SAP was fixed at Rs.112.50 for non-standard cane, Rs.115 for normal and Rs.120 for early maturing varieties, while these were Rs.104.50, Rs.107 and Rs.112 in 2004-05 and Rs.92.50, Rs.95 and Rs.100 in the preceding three seasons.

OPERATIONS:

With the 2006-07 crushing season nearing its conclusion, the comparative figures of canes crushed and sugar produced by three units of the Company are given below:

Crushing & Production (lacs qtls.)

	Season 2005-06								Season 2006-07			
	Total Season				Up to 31.03.2006				Up to 31.03.2007			
	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total
1. Total cane crushed	139.67	34.25	12.68	186.6	134.57	33.53	12.68	180.78	132.50	36.90	24.22	193.62
2. Average recovery	9.57%	9.31%	9.40%		9.52%	9.44%	9.40%		10.07%	9.25%	8.69%	
3. Sugar production	13.35	3.19	1.18	17.72	12.72	3.09	1.18	16.99	13.19	3.15	2.10	18.44
4. Crushing started	26.10.05	21.11.05	28.11.05						11.11.06	10.11.06	04.11.06	
5. Crushing stopped	12.04.06	05.04.06	12.02.06									25.03.07

ETHANOL:

The 5% ethanol-doping programme (EDP) has been extended to the country as a whole, with the annual doping requirement estimated at 550 million litres of ethanol. The Government further intends to increase the ethanol doping to 10% from June 2007, thereby increasing annual demand to about 1100 million litres. Already a capacity of about 1300 million litres has been established in major sugarcane producing states, which is sufficient to meet this scale of ethanol doping requirement. The oil industry has started lifting ethanol at a basic price of Rs 21.50/litre.

The Seohara Distillery's stock, production and sales figures of ethanol and industrial alcohol for the quarter ended 31st March, 2007 are as follows:

	Opening Stock 01.01.2007	Production	Sales	(thousand litres) Closing Stock 31.03.2007
Ethanol	317	796	936	177
Industrial Alcohol	325	4045	3757	613

The capacity of the Seohara Distillery is being expanded from 55 KLPD to 100 KLPD.

COGENERATION OF POWER:

Indian sugar industry is amongst the most diversified industry in the world, with an installed capacity to produce 900 MW co-generated power against a potential of 7000 MW. 50 more units with a capacity of 1000 MW are in the process of putting up plants. The Government of India today recognises this potential and has committed itself to promote renewable sources of energy.

The Company is in the process of setting up of cogeneration power plants at each of its three units at Seohara, Sidhwalia and Hasanpur. The Seohara Power Plant, which is expected to commence generation shortly, will have installed capacity of 24 MW. Power Purchase Agreement has been entered into with Paschimanchal Vidyut Vitaran Nigam Ltd. for supply of power and tariff rates have been finalised till 2010. The setting up of the Sidhwalia Power Plant of 18 MW capacity is progressing as per schedule. The Board of Directors have, at their meeting held on 27th April, 2007 accorded their approval for setting up of a 10 MW Cogeneration Power Plant at Hasanpur.

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 program of Seohara Distillery from 55 KLPD to 100 KLPD along with a Cogeneration Power Plant of 24 MW at a capital outlay of Rs. 136.50 crores is expected to be completed shortly. The expansion of crushing capacity at Sidhwalia from 2,500 TCD to 5,000 TCD with a Cogeneration Power Plant of 18 MW capacity at Rs. 137.67 crores and the increase of crushing capacity at Hasanpur from 1,750 TCD to 5,000 TCD at Rs. 130.00 crores are progressing as per schedule. Steps are being taken for setting up of a 10 MW cogeneration power plant at Hasanpur within the approved capital outlay of Rs.130 crores.

CLEAN DEVELOPMENT MECHANISM (CMD)

The cogeneration power plant at Seohara has been registered with United Nations Framework Convention on Climate Change (UNFCCC) for obtaining CMD benefits. The Company is in process of obtaining registration for the Seohara Distillery and the cogeneration power plants at Sidhwalia and Hasanpur. It is expected that the four projects would in aggregate generate about 250,000 Certified Emission Reduction (CER) Units per annum.

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 sugarcane 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 are likely to provide some support to the sugar industry. Sugar prices are likely to remain under pressure but should recover once sugar exports accelerate.

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.