

Management Discussion and Analysis

Annexure - A

Business review

Sugar

Global overview

Global sugar production in 2009-10 grew to 157.99 million tonnes and is expected to grow 5.67% to 166.95 million tonnes in 2010-11. Consumption of sugar was at 162.61 million tonnes in 2009-10 and is expected to improve to 166.17 million tonnes in 2010-11. Global sugar realisations softened from over USD 700 per tonne in January 2010 to under USD 500 per tonne by April 2010, primarily owing to increased production in Brazil and lower imports into India.

World total exports are put now at 51.29 million tonnes, but still falling short by a significant 2.95 million tonnes or 5.40% decrease from the previous year's record of 54.24 million tonnes. World total import demand has been revised to 50.42 million tonnes, raw value compared to estimated imports of 53.78 million tonnes in 2009-10.

World Sugar Balance

Particulars	2010-11*	2009-10	Change	
	(million tonnes, raw value)		in million tonnes	in %
Production	166.958	157.994	8.964	5.67
Consumption	166.179	162.619	3.560	2.19
Surplus/Deficit	0.779	(4.625)		
Import demand	50.422	53.776	(3.354)	(6.24)
Export availability	51.287	54.236	(2.949)	(5.44)
End stocks	56.159	56.199	(0.040)	(0.07)
Stocks/ Consumption ratio in %	33.79	34.56		

*Estimates for 2010-11

(Source: ISO Quarterly market outlook, May 2011)

Highlights of the major producers across the Globe

Brazil, India, Thailand, and China account for 53% of the world sugar production while Brazil, Guatemala, Thailand and Australia account for 73% of the world sugar exports (Source: US department of agriculture).

Brazil: Brazil is the world's largest sugar producer and exporter; it's production was 603 million tonnes of cane and 36.40 million tonnes of sugar in 2009-10. Brazil is likely to see a year-on-year production increase of 39.40 million tonnes in 2010-11 on the back of higher planted area in the country's centre-south region (accounts for 90% of Brazil's production). Average estimated



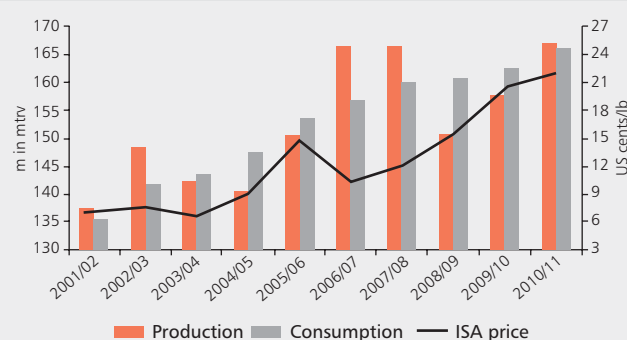
yield of 77.80 tonnes per hectare is expected to decline 4.6% from the 2009-10 season (Source: Indian Sugar Mills Association), although Brazil exported 24.30 million tonnes of sugar in 2009-10 and is likely to export 28.40 million tonnes in 2010-11. By 2011-12, sugar production in Brazil is estimated to increase 19% to over 40 million tonnes (Source: Bloomberg, June 22, 2011).

Thailand: Thailand is the world's second biggest exporter (10 million tonnes in season 2009-10 with an increased area under cane plantation from 1 million hectare in 2009-10 to 1.10 million hectares in 2010-11 (Source: Indian Sugar Mills Association). Sugarcane yield increased 10% to 11%.

Australia: Australia harvested 27.40 million tonnes of cane in 2010-11 against an expected quantity of 33 million tonnes owing to rains affecting harvesting (Source: Indian Sugar Mills Association). Queensland (90% of Australia's overseas sugar sales) was hit by a tropical cyclone leading to decline in potential output area by about 50% in the previous year. This is likely to keep exports from the world's third biggest supplier at a two-decade low of 2.2 million tonnes in 2011. Australian output is estimated at a downgraded 7,00,000 tonnes owing to 25% of crop destruction following a cyclone (Source: Bloomberg February 20, 2011). A mere 4.8 million tonnes of sugar production is expected in 2010-11.

China: China's sugar output is expected to decline by 300 thousand tonnes owing to cold weather damaging the sugar cane crop. Snow frost damaged about 1.9 million mu (1,26,667 hectares) of cane in China. China's output is pegged at a lower 11-11.50 million tonnes for season 2010-11 (Source: Indian Sugar Mills Association). Consumption is expected at 13.90 million tonnes, indicating a deficit of 2.60 million tonnes.

World production, consumption and ISA prices



Indian sugar industry

The Indian sugar industry (the second-largest agro-processing industry in the country) accounted for 2.70% of India's cropped area. It contributed around 0.70% to India's GDP and produced 13% of the global sugar. The industry contributed an estimated Rs. 1,700 crore annually to the national exchequer and various State Governments by way of excise duty and cane purchase tax. The Indian sugar industry is the second largest in the world (after Brazil).

Production: The Indian sugar industry typically follows a six to eight year cycle, wherein 3-4 years of higher production are followed by 2-3 years of lower production. The 2010-11 season witnessed a production surge for the second consecutive year with an estimated production of about 24-25 million tonnes (18.80 million tonnes in 2009-10). The area under cane cultivation increased to 50.80 lac hectares in 2010-11 (42.02 lac hectares in 2009-10).

Consumption: India's sugar consumption in 2010-11 is pegged at around 22-23 million tonnes, catalysed by a growing

population, higher disposable income level and business investments by bulk consumers (bakeries, confectioners and beverage manufacturers, who account for about 60% of mill sugar demand).

Trade: India emerged as a net sugar importer, importing 2.80 million tonnes and 4.50 million tonnes of sugar in 2008-09 and 2009-10 respectively owing to a shortfall in domestic sugarcane and sugar production. In 2010-11, Indian sugar imports are forecast to be lower at 1.20 million tonnes owing to improved domestic supplies. The Government approved export of 1 million tonnes for the season ended September 30, 2011.

Cane production: Sugarcane is planted round the year while the crop is harvested in September-October. In 2009-10, sugarcane production was 274 million tonnes and is expected to increase by 10% in 2010-11 owing to improved cane acreage and superior yield. Relatively strong cane prices vis-a-vis last year and competing food crops (rice, wheat, pulses) supported higher cane acreage (around 13% to 4.80 million hectares in 2010-11).

Sugar prices: Sugar prices corrected downwards from a peak of Rs. 40 per kg in January 2010, owing to an improvement in global and domestic production and tightening measures introduced by the Government (e.g. weekly sales quota, decrease in stock-keeping limits for bulk consumers and removal of import duty on white sugar). The international sugar prices during 2009-10 hovered around \$ 585 per tonne for white sugar. It went up to \$ 800 per tonne during February-March 2011 but has come down to around \$ 600 to \$ 640 per tonne in May 2011.

Outlook: With reports of a good monsoon, sugar production in 2011-12 is projected at around 26-26.50 million tonnes followed by an increase in sugarcane plantation by about 10% (*Source: ISMA, 28th June, 2011*). For 2011-12, the Government announced FRP at Rs. 145 per quintal linked to a basic recovery of 9.5%, against Rs. 139.12 per qtl fixed for 2010-11. Since FRP takes into account the profit and risk element, it is supposed to be remunerative for farmers. Sugar consumption for 2011-12 is expected to increase at 25.30 million tones.

SCOT Analysis

Strengths

- India is the second-largest producer of sugar in the world after Brazil
- Provides direct employment (including ancillary activities) to about 50 million workers
- Supports downstream industries by providing raw material (by products in the form of alcohol, ethanol and cogeneration)
- Catalyses socio-economic development in rural India

Opportunities

- Potential to enhance sugar production and sugar recovery
- 5% ethanol blending in fuel and remunerative price of Ethanol will enhance industry viability
- High value of by-products for down stream industries
- Huge potential to increase the productivity of cane and sugar recovery rate
- Technology upgradation, and new advanced technology available for the byproduct utilisation

Challenges

- Cyclical nature of the industry
- High production cost owing to under-utilised crushing capacities
- Farmers may find alternative crops more profitable

Threats

- Sugar sector is vulnerable to political maneuvering.
- Low ground water availability for irrigation
- Quality of soil deteriorates due to overdose of fertiliser and pesticides to increase sugarcane yield
- Most factories use legacy technology



Operational review

The Company produced 17.00 lac qtls of sugar in 2010-11 against 14.10 lac qtls in 2009-10, an increase of 20.57%. Realisation per quintal (net of excise) of free sugar in indian market decreased from Rs. 2892.20 in 2009-10 to Rs. 2738.25 in 2010-11. The Company crushed 176.65 lac qtls of sugarcane in 2010-11, an increase of 19.41% from 147.93 lac qtls during the previous season.

Comparative operational figures

Particulars	2010-11			Total	
	Seohara	Sidhwalia	Hasanpur	2010-11	2009-10
Capacity -TCD	10,000	5,000	3,000	18,000	18,000
Sugarcane crushed (lac quintals)	116.10	39.64	20.91	176.65	147.93
Recovery (%)	9.78	9.31	9.31	9.62	9.52
Sugar produced (lac quintals)	11.34	3.68	1.98	17.00	14.10
Crushing days (Gross)	137	101	78	316	261
Sales (Rs. in lacs)	39,813.06	5,928.50	9,203.96	5,49,445.52	32,153.87

Financial performance

Sugarcane and sugar production in India typically follows a cyclical pattern. The 2010-11 season witnessed a production surge for the second consecutive year. The Company's operations have resulted in a turn over of Rs. 64,150.23 lacs, registering a handsome growth of 59.68% over the previous year. The Company reported a loss after tax of Rs. (1,220.28) lacs against Rs. (3,906.64) lacs in the previous year.

The sugar division of the Company reported a 74.04% growth in sales volume from 11,48,713 quintals in 2009-10 to 19,99,235 quintals in 2010-11. Average realisation of free sugar of the Company is as follows :

Average Realisation of Free Sugar

Particulars	2010-11			2009-10		
	Quantity In Quintals	Value Rs. in lacs	Average Per Quintal	Quantity In Quintals	Value Rs. in lacs	Average Per Quintal
Indian Market	15,73,175	43,077.52	2,738.25	9,80,100	28,346.48	2,892.20
Export	1,86,937	5,741.16	3,071.17	–	–	–
Total	17,60,112	48,818.68	2,773.61	9,80,100	28,346.48	2,892.20

The Company reported 2,09,18,300 litres of spirit sales, registering a growth of 14.18%. The revenue earned from this division increased 16.28% from Rs. 4,154.64 lacs in 2009-10 to Rs. 4,830.91 lacs in 2010-11.

In the co-generation segment, the Company sold 7,35,69,180 units in 2010-11 against 4,12,77,098 units in 2009-10. The sales from cogeneration of power increased 59.73% from

Rs. 3,255.58 lacs in 2009-10 to Rs. 5,200.11 lacs in 2010-11.

Tea sales of the Company decreased 4.92%, to 11,96,371 kg against 12,58,247 kg in the previous year. The sales value stood at Rs. 1,811.09 lacs in 2010-11, a 0.25% increase from Rs. 1,815.69 lacs in 2009-10. The average realisation stood at Rs. 151.69 per kg against Rs. 144.62 per kg in 2009-10.

Business review

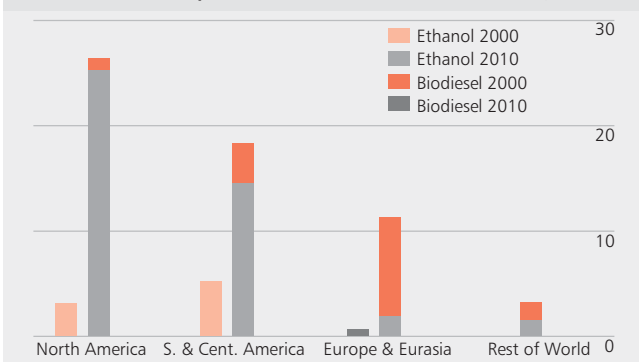
Ethanol

Global overview

Even as global bio fuel production increased 13.80% in 2010, bio fuel accounted for only 0.50% of the global primary energy consumption. The growth was largely driven by North America (+17.70%) and South and Central America (+14.20%); these two regions accounted for three-quarters of the global biofuels production. Ethanol accounted for nearly three-quarters of the global biofuels production.

Ethanol production accelerated by 16% compared with 9% in 2009, while biodiesel growth slowed to 9% compared with the 24% growth in the previous year. US and Brazil continue to dominate global ethanol production with market shares of 56% and 32% respectively. Growth rates accelerated in 2010, growing 21% in US (18% previous year) and 8% in Brazil (4% decline in previous year). *Source: BP Statistical Review of World Energy 2010*

World biofuels production (Million tonnes oil equivalent)



Indian ethanol

Since India's sugarcane production is cyclical, ethanol and industrial alcohol production in India depends on the availability of sugar molasses (a byproduct of domestic sugar production). Lower sugar molasses availability and consequently higher

molasses prices impacted ethanol production cost, thereby disrupting the ethanol supply at pre-negotiated ethanol prices.

India's 330 distilleries produce over 4 billion litres of rectified spirit (alcohol) a year. Around 120 distilleries possess the capacity to distil 1.80 billion litres (an additional annual ethanol production capacity of 365 million litres was built up in the last three years following Government funding for sugar mills) of conventional ethanol a year to address the demand for 5% blending with petrol. India produces conventional bio-ethanol from sugar molasses while production of advanced bio-ethanol is in a nascent phase (research and development).

Indian Government has renewed its focus on a nationwide 5% ethanol blending programme in petrol on the back of vastly improved sugarcane and molasses production in 2010-11 and likely to maintain the trend in 2011-12. However, consumption will be constrained to local production levels. The volume required to meet a nationwide E5 blend is put at 860 million litres. For the September 2010- October 2011 period, tenders were issued by the Oil Marketing Companies for 1 billion litres of fuel ethanol, of which 710 million litres have already been contracted, according to sugar industry sources. *(Source: ISO, May, 2011)*

Production: Inadequate sugar molasses supplies in the preceding years constrained ethanol production and consequent higher cane prices made it unviable to supply ethanol to petroleum companies at the negotiated prices. Higher sugarcane and sugar production in 2010-11 raised ethanol production and improved total ethanol supply to offset short (opening) stocks.

Consumption: Strong ethanol consumption across the chemical industry, the potable liquor industry and EBP (Ethanol Blending Programme) are expected to raise the total ethanol consumption



over 2 billion litres in 2011-12. According to industry and trade sources, ethanol availability during 2011-12 is forecast at 300 million litres against the target of 1 billion litres set by the industry. Ethanol consumption for EBP in 2010-11 increased 200 million litres from 50 million litres in 2009-10, owing to improved molasses supply and steady ethanol demand from competing industries.

Trade: India imports ethanol only to address demand shortfalls during years of low sugar production. Ethanol is largely

consumed in the potable liquor and chemical industries and not for fuel blending. Ethanol exports are negligible.

Operational review

The Company's distillery in Seohara possesses a capacity to produce 100 KLPD of industrial alcohol/ethanol per annum. The Company produced 211.61 lac litres of spirit in 2010-11 against 189.38 lac litres in 2009-10, registering a 11.74% increase.

Comparative operational figures

	2010-11	2009-10	Growth (%)
Distillery Capacity	100 KLPD	100 KLPD	–
Distillery capacity utilisation %	70.54	63.13	11.74
Spirit produced (lac litres)	211.61	189.38	11.74
Average realisation (Rs. per litre)	22.66	22.20	2.07
Sales (Rs. in Lacs)	5,220.76	4,383.54	19.10

Why India must push for ethanol-blended petrol

- Petroleum is a precious natural resource; India and China will account for 45% of the increase in the global primary energy demand by 2030
- India's oil consumption rose from 6,43,000 barrels of oil daily in 1980 to 3.3 million barrels daily in 2009, making it the world's fourth biggest oil consumer
- India is the world's fourth largest ethanol producer; its production could potentially leave sugar prices unaffected
- As per a report by Institute of Defence Studies and Analysis, around 80 million litres of petrol could be saved annually by blending petrol with 10% ethanol

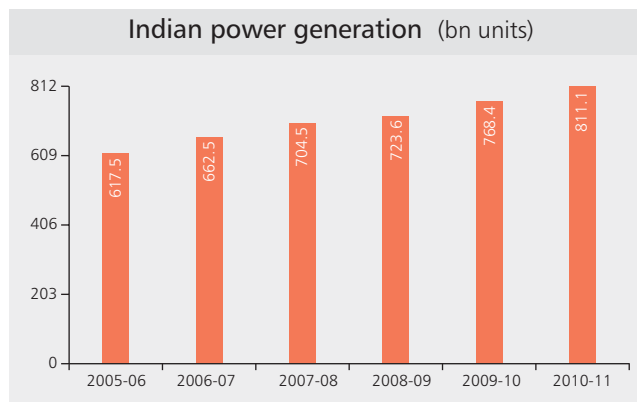
Business review

Cogeneration

The sugar industry utilises bagasse as fuel to produce electricity and steam through cogeneration. The potential of power generation through bagasse-based cogeneration through the country's 550 sugar mills has been estimated at 5,000 MW (Source: MNRE). India expects to add around 1,700 MW of power from biomass and bagasse power projects by the end of the Eleventh Year Plan (2007-12), more than twice the actual addition of around 750 MW in the Tenth Five Year Plan. This will include 1,200 MW bagasse-based cogeneration projects and around 500 MW from biomass power projects that run on agro-waste material. Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra and Uttar Pradesh enjoy a leadership position in the implementation of bagasse cogeneration projects. There are around 149 cogeneration projects in Indian sugar mills with an installed capacity aggregating 1,562 MW. Around 70 cogeneration projects are under implementation aggregating around 700 MW (Source: MNRE).

Sectoral opportunities

As on 31 March 2011, India's installed capacity (excluding captive plants) was 173,626 MW, largely dominated by thermal sources (65%). The Indian power sector added its highest-ever annual generation capacity of 12,160 MW in 2010-11, 27% higher than 2009-10. However, this was still short of the 21,441 MW target for 2010-11.



(Source: CEA, IBEF)

Faced with acute power shortage, the Government chalked out a plan to produce power through co-generation under the Public-Private-Partnership (PPP). The Government provides various subsidies and incentives to companies which generate power through agro waste and supply it to the State electricity grid.

Operational review

The Company possesses two co-generation power plants with a total capacity of 42 MW. The Company marketed 735.69 lac units of power from its plants compared with 412.77 lac units sold in 2009-10.

Comparative operational figures

Particulars	2010-11		Total	
	Seohara	Sidhwalia	2010-11	2009-10
Capacity	24	18	42	42
Captive power consumption (As % of total power produced)	34.00	31.67	33.37	44.01
Power generated (units)	80791930	29630000	110421930	73838502
Power supplied to State grid (Rs. in Lacs)	2,117.50	830.86	2,948.36	1,564.72
Average realisation (per kwh)	4.02	4.18	4.07	3.84



Business review

Tea industry

The global tea industry is largely dominated by India (second-largest producer and largest consumer) followed by China, Sri Lanka, Kenya and Indonesia. India accounts for 30% of the world's production; the combined production of Sri Lanka, Kenya and Indonesia was lower than India's.

Indian overview

India is the second-largest tea producer after China. The tea industry's total turnover is estimated at around Rs. 10,000 crore; tea production since independence grew over 250%, while land area grew only 40%. The country offers a variety of products – original Orthodox, CTC, Green tea, Darjeeling tea, Assam tea and Nilgiri tea.

Production: India's tea output declined 1.30% to 966.40 million kg in 2010 following a drop in Assam's output (accounts for

50% of country's tea production), following adverse weather and pest attack. However, during the January-June period of the 2011 calendar year, tea production rose to 358.32 million kg from 338.96 million kg in the corresponding period of 2010.

Realisations: Indian tea prices strengthened on account of a global shortage. Tea prices moved up faster than the rate of production decline, benefiting tea producers:

Between 2007 and 2010, Indian tea production declined 0.34% CAGR whereas tea realisations increased 14.68% CAGR.

Consumption: India's tea consumption grew 1.8% CAGR in four years, increase in prices notwithstanding (at the rate of 14.68% CAGR). According to Indian Tea Association (ITA), domestic tea consumption is expected to grow at the conventional rate of 3% per annum, irrespective of an increase in prices.

SWOT analysis of Tea

Strengths

- Strong domestic market, consuming nearly 80% of the production in India
- In most countries, tea is the second most popular beverage after water
- Wide range of teas – Black, (CTC, Orthodox), Green tea and Organic tea produced by India
- Favourable financing schemes by the Government of India
- Labour welfare laws protecting workmen
- Emerging small grower sector with young plantation profiles

Opportunities

- Growing awareness regarding the healthy attributes of tea
- Increasing consumption in major producing countries
- Emerging tea flavours, blends and varieties
- Growing awareness regarding the loose leaf tea flavours
- Expansion in the value-added reseller network for quality loose tea

Weaknesses

- The gardens' old age leading to low efficiency
- Stagnant tea exports from India although global demand is expected to increase around 2% a year
- Unorganised small growers with fragmented and scattered holdings produce poor quality tea

Threats

- Decline in India's exports following enhanced competitiveness of Sri Lanka and Kenya and the entry of Vietnam and Indonesia
- Around 38% of Indian tea bushes are more than 50 years of age

Outlook

India's shortage of Tea is estimated at 80-100 million kg in the new season beginning April 2011. Besides, tea production in India, Kenya and Sri Lanka is not expected to rise significantly next year either, even as Black tea consumption is expected to increase the world over.

Operational review

With 587.68 Ha of area under cultivation, the Company sold 11,96,372 kg of tea in 2010-11 (12,58,247 kg in 2009-10). Average realisation increased from Rs. 144.62 per kg in 2009-10 to Rs. 151.69 per kg in 2010-11.

Internal Control System

The internal control system of the Company is aimed at proper utilisation and safeguarding the Company's resources and also at promoting operational efficiency. The internal audit of the Company is conducted by various firms of Chartered Accountants. The findings of the internal audit and consequent corrective actions initiated and implemented from time to time are placed before the Audit Committee. The Audit Committee reviews such audit findings and the adequacy of internal control system.

Human Resource Development/Industrial Relations

Continuous learning is the cornerstone of the Company's human resource policy. The Company's human resource policy is structured to meet the aspirations of the employees as well as of the organisation. The Company adopted a progressive policy of continuous development of its human resources by training and motivating its employees to attain greater efficiency and competency.

The current strength of management staff is 58 and non-management staff is 1821. Industrial relations in all the units were cordial throughout the year under review.

Risk Management

The Company has a risk management policy, which lays down the process for identification and mitigation of risks. This Policy has been approved by the Board of Directors of the Company. The Board of Directors reviews the risk management and mitigation policy from time to time, the last such review having been made on 26th October, 2010.