

UPPER GANGES SUGAR AND INDUSTRIES LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

[For the quarter ended 30th September, 2007

WORLD SUGAR SCENARIO

1. The International Sugar Organisation (ISO) has maintained its earlier estimate of global sugar surplus of 10.288 million tonnes for the year 2006-07. Global sugar output is estimated at 165.508 million tonnes against a consumption demand of 155.220 million tonnes. World consumption is projected to grow by 2.4%, only a fraction down from the 10-year average of 2.3%.

World sugar balance (million tonnes, raw value)

	2006-07	2005-06	Change	
			In million tonnes	In %
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	39.88		

2. International sugar prices that traditionally rise in September as the northern summer begins to wane have not done so and continue to remain under bearish pressure in wake of a bumper production being recorded in Brazil and India. Raw sugar prices continue to hover around 10.15 cents/lb and the futures also do not show any significant change.

THE INDIAN SUGAR SCENARIO

3. Domestic sugar prices have continued to remain under pressure during this quarter and offtake has been sluggish. This is primarily due to an anticipated higher production during 2007-08. On the positive side, exports reached a record high of approximately 2 million tonnes during 2006-07. Further, the Government of India's decision to create a buffer stock of 5 million tonnes helped to reduce the pressure on the domestic prices that has stopped the free fall of sugar prices stabilizing it at around Rs 13,000/ton ex-factory.
4. While the monsoons have been more or less normal all over the the country, higher precipitation in Nepal and Bihar has resulted in devastating floods in Eastern U.P. and Bihar severely affecting the sugarcane crop. However, crop in the rest of the country is expected to be good.
5. The State Governments that have fixed high and uneconomic prices of sugarcane during the year 2006-07 have not yet announced their pricing for the season 2007-08.
6. The huge losses in the sugar industry continue due to the above mentioned factors.
7. The Government of India has also approved to extend an interest free loan against the excise duty paid in the seasons 2006-07 and payable in 2007-2008 on sugar to the cash strapped sugar industry for payment of cane arrears and other statutory liabilities.

ETHANOL

8. The Government of India has made the blending of petrol with 5% ethanol mandatory. It has also decided in favour of 10% blending of petrol with ethanol with effect from October, 2008. In effort to further boost the ethanol programme the Government has decided to allow sugar companies to produce ethanol directly from sugarcane juice. However, the offtake by the oil companies have

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been intermittent due to several logistic issues and different local taxes being levied by different states. In a bid to streamline ethanol blending by the oil companies, the GOI plans to bring ethanol under 'goods of special importance' category and impose a uniform tax across the country to restrain states from imposing their own levies.

OPERATIONS

9. The maintenance work during the off season of 2006-07 was satisfactory. The operations for the sugar season 2007-08 are likely to commence during November 2007. As a result, there was no production of sugar during the July-Sept quarter. The distilleries worked for approximately 30 days and produced 23.47 Lac litres of industrial alcohol including ethanol during this quarter. However, as required by law, the distillery had to be closed for 60 days during the rainy season during which repairs and maintenance was carried out. The co-generation plant operated for 38 days during this quarter but then had to be closed due to the off-season.

CAPITAL PROJECTS AND EXPANSION :

10. The Company has successfully completed the installation of a 24 MW Co-generation Plant at Seohara. The capacity of the distillery at Seohara has been enhanced from 55 kilo litres per day (klpd) to 100 klpd.

The expansion of the crushing capacity of Hasanpur Sugar Mills, Samastipur (Bihar) from 1750 tonnes crushing daily (TCD) to 5000 TCD at a capital outlay of about Rs. 130 crores is progressing satisfactorily.

The project for expansion of the crushing capacity of Bharat Sugar Mills, Sidhwalia (Bihar) from 2500 TCD to 5000 TCD with a sulphur free Sugar Refinery and a Co-generation Plant of 18 MW at a capital outlay of about Rs.125 crores is in progress and is expected to be completed during the current fiscal.

OUTLOOK

11. 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. The country is set to witness a record production of sugar in the current season.

12. Even the world production is expected to rise primarily on account of a strong Indian production. However, plantation scheduled in November-February is likely to suffer 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.

CAUTIONARY STATEMENT

The statements in the Management 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 results could differ materially from those expressed or implied. 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.