UPPER GANGES SUGAR & INDUSTRIES LIMITED.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

[For the quarter ended 31st December, 2009]

The management of Upper Ganges Sugar & Industries Limited is pleased to present its assessment of the scenario of the Sugar industry for the quarter ended 31st December, 2009.

1. World Sugar Market

World sugar economy is facing a second consecutive deficit year with a significant gap between world consumption and production. The first revision of the world sugar balance for October, 2009 to September, 2010 puts world sugar production at 159.887 million tonnes, raw value up by 6.911 million tones of 4.5 % when compared with the last season. World consumption is expected to grow at a rate significantly lower than the long term 10 year average. Global consumption of sugar is expected to reach a level of 167.134 million tonnes thus keeping the supply – demand deficit figure at 7.247 million tonnes as against 8.404 million tonnes projected in September 2009. This deficit phase is expected to continue for at least 9 more months

A summary of the revised 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 %
Production	**159.887**	**152.976**	**6.911**	**4.52**
Consumption	**167.134**	**164.316**	**2.818**	**1.71**
Surplus/Deficit	**-7.247**	**-11.340**		
Import Demand	**52.072**	**48.180**	**3.892**	**8.08**
Export Availability	**52.079**	**48.250**	**3.829**	**7.94**
End Stocks	**53.471**	**60.725**	**-7.254**	**-11.95**
Stocks / Consumption ratio in %	**31.99**	**36.96**		

A forecasted limited growth in sugar output in Brazil, a modest production recovery in India after last seasons' unprecedented shortfall, and a higher sugar crop in the EU have all become the three major supply features of 2009-10.

2. Indian Sugar Industry

Sugar output in the season 2009-10 that began on October, 2009 is expected to be 15.5 million tonnes which is lower than the preliminary forecasts. The second year of short production is primarily due to reduction in sugarcane plantation, low recovery due to erratic rainfall and adverse weather conditions particularly in Uttar Pradesh. This apart the buoyant international and domestic sugar prices have resulted in lower than anticipated imports and large-scale diversion of sugarcane to alternate sweeteners like gur and khandsari producers. The consumption level of sugar is expected to remain at 23 Million Tonnes.

The Central Government through Ministry of Consumer affairs, Food & Public Distribution amended the Sugar Cane (Control) Order 1966, in which the phrase "Statutory Minimum Price" has been substituted by the word "Fair and Remunerative Price" (FRP) and clause 5A of Sugar Cane (Control) Order 1966 regarding 50% sharing of the extra realization have been omitted. In the said amended notification, a new clause 3B was inserted which specified that in case any authority or the State Government fixes any price above Fair and remunerative price fixed by the Central Government, the difference between the price so fixed by the state Government and the fair and remunerative price fixed by the Central Government, will be paid by the State Government to the growers or to the sugarcane growers' cooperative society. However, the Government was forced to roll back this provision due to political agitation.

Further, The Central Government has also issued Essential Commodities (Amendment and validation) Ordinance 2009 on 21.10.2009 amending section 3 of Essential Commodities Act 1955 according to which the levy Sugar Prices will also be fixed on the basis of the Fair and Remunerative Prices w.e.f. 1st October 2009. This ordinance also stipulates that for the period prior to 1st October 2009 the levy prices will be based on only FRP and will not include the additional cane price payable under clause 5A of Sugarcane (Control) Order 1966 and the SAP fixed by any State Government or any agreed prices. This has effectively negated the effect of the Supreme Court's decision dated 31.03.2008 in case of Mahalakshmi Sugar Mills Co. Ltd in which had laid down the principle that the State Advised Price (SAP) will have to be taken into consideration for fixation of levy sugar prices.

Indian Sugar Equation (lac tones)

	2008-09 Actual	2009-10 Estimated
Opening Stock as on 1st October	100.00	31.50
Production During the Season	145.50	150.00
Imports	13.00	68.50
Total availability	258.50	250.00
Domestic Consumption	225.00	225.00
Exports	2.00	0.00
Closing Stock	31.50	25.00

3. Prices

The Central Government increased the levy quota for the sugar industry to 20 per cent of their output from 1st October, 2009 in view of the shortfall in the country's production to meet the requirements of the Public Distribution System. However, the price to be paid by the Central Government for this levy obligation is yet to be notified.

The Uttar Pradesh Government on October 23, 2009 declared State Advised Price (SAP) of sugarcane for 2009-10 crushing season. The price for the common variety is Rs.25 more than that of the last year. Now, SAP stands at Rs.165 per quintal for the common variety, Rs. 170 for early variety and Rs. 162.50 for the rejected variety. However due to scarcity of sugarcane the factories had paid higher prices over and above SAP announced by the U.P Government. Similarly in case of Bihar also the agreed price for purchase of sugar cane was increased in multifold.

4. Exports / Imports

World import demand is expected to grow and reach a new record at 52.072 million tonnes raw value, as against the actual import of 50.962 million tonnes during the year 2008-09. The main contributing factor for such spurt in import is a significant growth of import demand by India,

In the sugar season 2009-10, the crisis of cane availability is a major worry for the industry. India will be forced to import not less than 7 million tonnes of sweetener in 2009-10. The Government has extended the period of duty free import of the refined sugar till December, 2010. Nevertheless, sugar prices are expected to remain firm for the remainder of this season. The UP Government is not allowing imported raw sugar to enter the state for the purpose of processing by the domestic sugar mills which has further increased sugar prices in the country.

India, Indonesia and Pakistan have openly declared their shortages and compulsions to import.

5. Company's Operations

The gross sales of the Company stood at Rs. 6543.53 lacs for the quarter ended 31st December 2009 as against Rs.13,212.07 lacs for the corresponding quarter in the previous year. The EBIDTA was Rs 1158.48 lacs during this quarter as against Rs. 2227.64 lacs for the corresponding previous quarter and Profit/(Loss) After Tax was Rs. (282.27) lacs as against Rs 456.94 lacs achieved during the previous quarter. Due to the acute shortfall in production during the season 2008-09, the inventories were exhausted by November 2009 resulting in a fall in revenues during this quarter. This apart the sugar industry delayed its crushing operations due to late monsoons which reduced production during this quarter. All these factors have contributed to lower profitability during this quarter. Due to the seasonal nature of the industry, the quarterly results do not reflect the likely results of the year.

The operations at the company's various plants during the quarter ended 31st December, 2009 are as follows:

Crushing & Production (lac qtls)

	Season 08-09								Season 2009-10			
	Total Season				3 Months ended 31.12.2008				3 Months ended 31.12.2009			
	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total
1. Total cane crushed	89.18	16.34	10.78	116.30	42.93	6.79	0.42	50.15	34.95	5.88	4.89	45.72
2. Average recovery %	9.88	8.51	8.25		9.68	8.20	7.50		9.26	8.85	8.83	
3. Sugar Production	9.85	1.36	0.84	12.04	3.98	0.41	-	4.39	3.05	0.42	0.36	3.83
4.Crushing Started	20.11.08	07.12.08	23.12.08		20.11.08	07.12.08	23.12.08		26.11.09	10.12.09	12.12.09	
5. Crush-ing stopped	21.03.09	11.02.09	28.02.09		Continued	Continued	Continued		Continued	Continued	Continued	

6. Ethanol / Industrial Alcohol

Global ethanol production is forecasted to grow by 12% to reach around 84.3 billion liters in 2010. If achieved, this will mean a growth of 14 % when compared with the last year. Brazil's ethanol output could increase again in 2010 on the presumption that there will be sufficient growth in cane area and a return of normal seasonal conditions.

In the year 2002 the Government of India initiated ethanol doping petrol programme in 9 states and 4 union territories. The implementation of the programme in last 7 years has made consumers' accepting 5% mixing of ethanol with petrol. However, the decision of cabinet to implement 10% ethanol doping from October, 2008 is yet to take off. The policies pursued by some state Governments in this regard are either restrictive or not conductive to the ethanol blending programme. It is proposed that ethanol be included in the list of declared goods for smooth interstate movement of ethanol. A modest fall in ethanol enriched fuel output is forecasted for the season 2009-10.

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

		Year 2008-2009 (Full year ended 30.06.2009)	Year 2008-2009 (3 Months ended 31.12.2008)	Year 2009-2010 (3 months ended 31.12.2009)
1.	Average Recovery %	23.33	22.77	22.85
2.	Alcohol Produced (lac qtls)	72.11	31.54	30.04

7. Co – Generation

The Company has bagasse based co-generation power plants at Seohara and Sidhwalia. The production and 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 30.06.2009)			Year ended 2008-09 3 months ended 31.12.2008			Year ended 2009-10 3 months ended 31.12.2009		
	Seohara	Sidhwalia	Total	Seohara	Sidhwalia	Total	Seohara	Sidhwalia	Total
1. Power Generated	532.59	121.79	654.38	221.76	45.85	267.61	154.15	41.91	196.06
2. Power Exported	331.22	65.89	397.11	140.06	25.07	165.13	80.98	19.51	100.49

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.