**UPPER GANGES SUGAR & INDUSTRIES LIMITED.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

[For the quarter ended 31st December, 2010]

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, 2010.

## 1. World Sugar Market

International sugar Organization (ISO) in its first assessment of the world sugar trade balance for the sugar season 2010-11 indicates different scenarios for the raw and white sugar segments. While in the case of raw sugar there is a clear trade surplus (export availability exceeds import demand by nearly 1.9 mln tonnes), white sugar export availability is practically equal to import demand. If there are any currently unforeseen reductions in production and, hence, lower export availability or higher import demand, the market may face a physical supply tightness of white sugar.

For the sugar season 2010-11 world sugar production is estimated at 170.375 million tonnes, raw value up by 11.545 million tones or 7.27 % when compared with the last season. World consumption is expected to grow at a significant lower rate. Global consumption of sugar is expected to reach a level of 167.154 million tonnes thus keeping the supply – demand difference at 3.221 million tonnes.

A summary of the revised world sugar balance in 2010-11 is provided in the table below.

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

| | 2010-11 | 2009-10 | Change | |
|---|---|---|---|---|
| | | | In Mln ton | In % |
| **Production** | **170.375** | **158.830** | **11.545** | **7.27** |
| **Consumption** | **167.154** | **163.779** | **3.375** | **2.06** |
| **Surplus/Deficit** | **3.221** | **-4.949** | | |

| | | | | |
|---|---|---|---|---|
| **Import Demand** | **48.625** | **52.722** | **-4.097** | **-7.77** |
| **Export Availability** | **50.557** | **52.688** | **-2.131** | **-4.04** |
| **End Stocks** | **56.192** | **54.903** | **1.289** | **2.35** |
| **Stocks / Consumption ratio in %** | **33.62** | **33.52** | | |

## 2. Indian Sugar Industry

Sugar output in the season 2010-11 that began on October, 2010 is expected to be 25.50 million tonnes which will be in excess of the domestic consumption of about 22.50 million tonnes. Sugar production in excess of domestic off take would depress sugar prices. However, in view of tight world sugar market due to bad weather on many sugar producing countries like Brazil, the country may be able to export the sugar. In view of high FRP/ SAP paid to the sugarcane farmers in the last season cane area for sugarcane has increased considerably. As a result of this sugar production is estimated to increase by 6.50 million tonnes in 2010-11 over the last season.

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) .

**Indian Sugar Equation (lac tones)**

| | **2009-10** | **2010-11 Estimated** |
|---|---|---|
| Opening Stock as on 1st October | 44.10 | 56.72 |
| Production During the Season | 188.95 | 250.00 |
| Imports | 40.80 | 5.00 |
| Total availability | 273.85 | 311.72 |
| Domestic Consumption | 215.00 | 220.00 |

| | | |
|---|---|---|
| Exports | 2.13 | 12.00 |
| Closing Stock | 56.72 | 79.72 |

## 3. Prices

The Central Government had increased the levy quota for the sugar industry from 10 per cent 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, with effect from 01.10.2010 the said limit was again brought down to 10 percent.

The Uttar Pradesh Government on October 02.11.2010 declared State Advised Price (SAP) of sugarcane for 2010-11 crushing season. Now, SAP stands at Rs.205/- per quintal for the common variety, Rs. 210/- for early variety and Rs.200/- for the rejected variety. Similarly in case of Bihar also the agreed price for purchase of sugar cane was increased in multifold.

The Government of India , Directorate of sugar has released 17.08 lakh tonnes of sugar for the month of December, 2010

## 4. Exports / Imports

Faced with high food inflation, the Government exempted sugar imports from customs duty till March, 31, 2011. In April 2009, the government had abolished import duty on sugar as domestic output had declined sharply to nearly 15 million tonnes against the annual domestic demand of 23 million tonnes. The zero-duty regime lapsed on December 31, 2010, bringing into effect the earlier duty structure of 60 per cent. A fresh notification issued by the Central Board of Excise and Customs (CBEC) dated January 8 has again brought down the import duty on sugar to zero till March 31, 2011.

The Centre permitted exports under Open General License (OGL) to the extent of 5 lakh tonnes and thus mills are asked to fulfill the necessary obligations by January 31, 2011. Sugar mills have been allowed to export raw, white and refined sugar, but no export subsidy will be given.

## 5. Company's Operations

The gross sales of the Company stood at Rs. 17471.40 lacs for the quarter ended 31st December 2010 as against Rs. 6501.25 lacs for the corresponding quarter in the previous year. The EBIDTA was Rs.2509.29 lacs during this quarter as against Rs. 1128.54 lacs for the corresponding previous quarter. Profit/(Loss) After Tax was Rs. 393.36 lacs as against Rs (282.27) lacs during the previous quarter.

The performance of the company has improved during the quarter, due to better utilization of the capacity on account of good availability of sugarcane. Margins however, continued to be under pressure due to various measures being taken by central Government to curtail sugar demand and high food inflation. There has been better performance so far as the operation of the company is concerned with production of sugar as well as industrial alcohol and cogeneration of power. Significant rain and adverse weather climate during the quarter adversely affected sugar recovery and sugarcane. 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, 2010 are as follows:

**Crushing & Production (lac qtls)**

| | **Season 09-10** | | | | | | | | **Season 2010-11** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Total Season** | | | | **3 Months ended - 31.12.2009** | | | | **3 Months ended - 31.12.2010** | | | |
| | Seohara | Sidhwalia | Hasanpur | **Total** | Seohara | Sidhwalia | Hasanpur | **Total** | Seohara | Sidhwalia | Hasanpur | **Total** |
| **1. Total cane crushed** | 113.65 | 21.64 | 12.63 | **147.93** | 34.95 | 5.88 | 4.89 | **45.72** | 38.78 | 13.31 | 7.97 | **60.06** |
| **2. Average recovery %** | 9.65 | 9.11 | 9.09 | **9.52** | 9.26 | 8.85 | 8.83 | **9.16** | 9.39 | 9.13 | 8.98 | **9.28** |
| **3. Sugar Production** | 10.98 | 2.02 | 1.10 | **14.10** | 3.05 | 0.42 | 0.36 | **3.83** | 3.48 | 1.08 | 0.69 | **5.25** |
| **4.Crushing Started** | 26-11-09 | 10-12-09 | 12-12-09 | | 26-11-09 | 10-12-09 | 12-12-09 | | 19-11-10 | 27-11-10 | 04-12-10 | |
| **5. Crush-ing stopped** | 09-04-10 | 16-02-10 | 08-02-10 | | Continued | Continued | Continued | | Continued | Continued | Continued | |

## 6. Ethanol / Industrial Alcohol

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 8 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 2010-11.

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

| | | Year 2009-10 (Full year ended 30.06.2010) | Year 2009-2010 (3 Months ended 31.12.2009) | Year 2010-2011 (3 months ended 31.12.2010 |
|---|---|---|---|---|
| 1. | Average Recovery % | 23.69 | 22.85 | 24.09 |
| 2. | Alcohol Produced (Lac Ltrs) | 189.38 | 30.04 | 35.91 |

## 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 Units)

| | **Year 2009-10 (Full Year ended 30.06.2010)** | | | **Year ended 2009-10 3 months ended 31.12.2009** | | | **Year ended 2010-11 3 months ended 31.12.2010** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Seohara** | **Sidhwalia** | **Total** | **Seohara** | **Sidhwalia** | **Total** | **Seohara** | **Sidhwalia** | **Total** |
| 1. Power Generated | 56560830 | 17277672 | 73838502 | 15414600 | 4191288 | 19605888 | 21799270 | 11498896 | 33298166 |
| 2. Power Exported | 33468398 | 7808700 | 41277098 | 8098042 | 1950500 | 10048542 | 13839297 | 6485300 | 20324597 |

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.