UPPER GANGES SUGAR & INDUSTRIES LIMITED.

MANAGEMENT DISCUSSION AND ANALYSIS

[For the quarter ended 31st March, 2011]

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 March, 2011.

1. World Sugar Market

International sugar Organization (ISO) in its third 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 168.045 million tonnes, raw value up by 7.476 million tones or 4.66 % when compared with the last season. World consumption is expected at 167.849 million tonnes thus keeping the supply – demand difference at 0.196 million tonnes.

A summary of the third assessment of the 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	**168.045**	**160.569**	**7.476**	**4.66**
Consumption	**167.849**	**164.549**	**3.300**	**2.01**
Surplus/Deficit	**0.196**	**-3.980**		
Import Demand	**50.309**	**53.393**	**-3.084**	**-5.78**
Export Availability	**50.496**	**53.023**	**-2.527**	**-4.77**
End Stocks	**58.808**	**58.799**	**0.009**	**0.02**
Stocks / Consumption ratio in %	**35.04**	**35.73**		

2. Indian Sugar Industry

Sugar output in the season 2010-11 that began on October, 2010 is expected to be 24.20 million tonnes which will be in excess of the domestic consumption of about 22.00 million tonnes. Sugar production in excess of domestic off take would depress sugar prices. However, in view of the 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 had increased considerably. As a result of this sugar production was estimated to increase by 5.29 million tonnes in 2010-11 over the last season. However, Uttar Pradesh (UP) a major sugarcane producing state estimated fall in the production of sugar by 3.3%. Output in UP reduced to nearly 6 million tonnes in 2010-2011 from an earlier estimate of 6.5 million tonnes as a result of extended rainfall in October-November, dry weather after that and the short cold wave hit the quality of sugar cane substantially. The sucrose content has declined drastically, resulting in factories crushing more cane for less sugar. 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)

	2010-11 Estimated	**2009-10**
Opening Stock as on 1st October	49.80	43.64
Production During the Season	242.00	189.12
Imports	5.00	40.80
Total availability	296.80	273.56
Domestic Consumption	220.00	218.28
Exports	20.00	5.48
Closing Stock	56.80	49.80

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

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, 2011 again brought down the import duty on sugar to zero till March 31, 2011.

The Centre proposed to permit exports under Open General Licence (OGL) to the extent of 5 lakh tonnes and mills were asked to fulfill the necessary obligations by January 31, 2011. However, in view of maintaining sugar stock the said proposal was dropped. On 22nd March, 2011 the Centre had taken decision to allow exports under OGL though company wise allocation of the said quota is yet to be worked out by the Government. Mills have been allowed to export raw, white and refined sugar, but no export subsidy will be given to the exporters. The Centre has permitted only advance licence holders to export sugar.

5. Company's Operations

The gross sales of the Company stood at Rs. 25892.35 lacs for the quarter ended 31st March, 2011 as against Rs. 11626.93 lacs for the corresponding quarter in the previous year. The EBIDTA was Rs 4416.59 lacs during this quarter as against Rs. 159.37 lacs for the corresponding previous quarter. Profit/(Loss) After Tax was Rs. 1528.80 lacs as against Rs (1087.09) lacs during the previous quarter.

The performance of the Company has shown significant improvement during the current quarter as compared to the corresponding quarter in the previous year due to better utilization of crushing capacity and overall cost reduction. The co-products of industrial alcohol and co-generation of power have also contributed to the bottom line. The tea sector has also continued to perform satisfactorily.

Although there is an improvement compared to the previous year, the sugar industry continues to be affected by pressure on its margins due to the lower sugar prices that are prevailing in comparison to the high cost of cane declared by the State Governments. Furthermore, cane availability and recovery were adversely affected due to uneven distribution of rainfall during the year.

The operations at the company's various plants during the quarter ended 31st March, 2011 are as follows:

Crushing & Production (lac qtls)

	Season 09-10								**Season 2010-11**			
	Total Season 2009-10				**3 Months ended 31.03.2010**				**3 Months ended 31.03.2011**			
	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total
1. Total cane crushed	113.65	21.64	12.63	147.93	73.13	15.77	7.74	96.64	74.99	26.33	12.95	114.27
2. Average recovery %	9.65	9.11	9.09	9.52	9.77	9.20	9.25	9.64	10.00	8.95	9.51	9.70
3. Sugar Production	10.98	2.02	1.10	14.10	7.24	1.60	0.74	9.58	7.52	2.60	1.29	11.41
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	16.02.10	08.02.10		Continued	07.03.11	20.02.11	

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 conducive 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 ethanol producing sugar factories are still waiting for the orders from Public Sector companies to start supply of ethanol.

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

		Year 2009-2010 (Full year ended 30.06.2010)	Year 2009-2010 (3 Months ended 31.03.2010)	Year 2010-2011 (3 months ended 31.03.2011)
1.	Average Recovery %	23.69	24.50	25.11
2.	Alcohol Produced (lac ltrs)	189.38	73.43	91.19

7. Co – Generation

The Company has bagasse based co-generation power plants at Seohara and Sidhwalia. The 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 31.03.20010			Year ending 2010-11 3 months ended 31.03.2011		
	Seohara	Sidhwalia	Total	Seohara	Sidhwalia	Total	Seohara	Sidhwalia	Total
1. Power Generated	56560830	17277672	73838502	33268730	13086384	46355114	45893500	23598904	69492404
2. Power Exported	33468398	7808700	41277098	19333519	5858200	25191719	28220758	13760800	41981558

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.