UPPER GANGES SUGAR & INDUSTRIES LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS
[For the quarter ended 31st December, 2011]

The management of Upper Ganges Sugar & Industries Limited is pleased to present its assessment of the Sugar industry for the quarter ended 31st December, 2011.

1. World Sugar Market

International Sugar Outlook (ISO) in its first formal assessment of the global fundamentals for the season started in October 2011 suggested a modest global surplus.After two years of a large statistical deficit (2008-09 & 2009-10) and a season with neatly balanced world production and consumption (2010-11), the world sugar economy is facing a season with a 4.213 mln tonne gap between world production and consumption. The first forecast of the world sugar balance for the period from October 2011 to September 2012 puts **world production** at a new record of 172.370 mln tonnes, raw value, up by 6.689 mln tonnes or 4.037% from the previous season and 4.213 mln tonnes higher than world consumption. The main supply feature of 2011-12 is drop in projected output in Brazil, the world's dominant producer and exporter. However, in many other major producers the new season is expected to bring significantly higher production than 2010-11. **World consumption** is expected to grow to 168.157 mln tonnes. Thus, consumption will grow by 2.014% as against 0.68% only in 2010-11.

A summary of the first assessment of the world sugar balance in 2011-12 is provided below:

World sugar balance (million tonnes, raw value)

	2011-12	**2010-11**	**Change from 2010-11 to 2011-12**	
			In mln Tonne	**in %**
Production	172.370	165.681	6.689	4.037
Consumption	168.157	164.838	3.319	2.014
Surplus/Deficit	4.213	0.843		
Import demand	48.447	51.599	-3.152	-6.109
Export availability	52.160	51.816	0.344	0.6639
End Stocks	57.514	57.014	0.500	0.8770
Stocks/Consumption ratio in%	34.20	34.59		

2. Indian sugar overview

Indian Sugar Mills Association, (ISMA) has not revised its sugar production estimate for the current sugar season 2011-12. ISMA stands by its earlier sugar production estimate of 260 lakh tonnes. India's sugar output rose by 17 per cent to 2.16 million tonne in the first two months of the 2011-2012 seasons, even though crushing operations were delayed in Maharashtra, as informed by ISMA .

India, the world's second-largest sugar producer and biggest consumer, had produced 1.84 million tonnes of the sweetener in the same period last year.Sugar mills in India, the world's top consumer and the biggest producer behind Brazil, produced 3.9 million tonnes during the year-ago period.

Higher output could boost the chances of more sugar exports by the government which has already allowed one million tonnes of overseas sales in the 2011-12 season. India's sugar season starts from October 1.

3. Price

The Uttar Pradesh Government announced a hike in sugarcane SAP for the current crushing season by Rs. 40 per quintal. In the last crushing season, the Government had fixed the SAP at Rs. 205 per quintal for regular and Rs. 210 per quintal for early maturing variety.

The price of Rs. 240 per quintal is substantially higher than the Central Government`s FRP of Rs. 145 per quintal of cane.

The SAP hike is a blow to the millers in U.P., who are already making a loss of almost Rs. 2-3 a kilo due to higher cost of production of sugar. Presently the ex -mill price of sugar is hovering around Rs. 28.50 a kg. in U.P. If mills have to pay a price of Rs. 240 per quintal to the farmers, then the ex-mill price will have to be somewhere between Rs. 33-34 a kg.

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4. Operational review

The Company produced 17.00 lac quintals of sugar in 2010-11.

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

Crushing & Production (lac qtls)

	3 Months ended From 01-10-2011 to 31.12.2011				3 Months ended 31.12.2010				Total Season 2010-2011			
	Seohara	**Sidhwalia**	**Hasanpur**	**Total**	**Seohara**	**Sidhwalia**	**Hasanpur**	**Total**	**Seohara**	**Sidhwalia**	**Hasanpur**	**Total**
1. Total cane crushed	48.55	9.08	5.92	63.55	38.78	13.31	7.97	60.06	116.10	39.64	20.91	176.65
2. Average recovery %	8.79	8.90	8.92	8.82	9.39	9.13	8.98	9.28	9.78	9.31	9.31	9.62
3. Sugar Production	4.08	0.68	0.47	5.23	3.48	1.08	0.69	5.25	11.34	3.68	1.98	17.00
4.Crushing Started	12.11.11	12.12.11	11.12.11		19.11.10	27.11.10	04.12.10		19.11.10	27.11.10	04.12.10	
5. Crush-ing stopped	Continued	Continued	Continued		Continued	Continued	Continued		04.04.11	07.03.11	20.02.11	

5. Performance Review

The profit performance of the Company has declined during the quarter, due to provisioning of Rs. 18.91 Crores towards incremental liability in relation to arrear cane payments for the sugar season 2007-08 as also lower offtake of the Company's products. Loss after tax and after the said provision had been increased to Rs. 2026.79 lacs as compared to a profit of Rs.393.36 lacs during the corresponding quarter of the previous year. Margins continued to be under pressure due to steep rise in the price of sugar cane announced by the state government (SAP)

6. Ethanol

Growth in global fuel ethanol production and consumption in 2011 has been reduced. Global production is forecast to rise by less than 3% to 87.5 bln litres, compared to average annual growth of 21% over the prior 5 years.

India's ethanol program is based on producing ethanol from sugar molasses, a by-product of the sugar industry and not directly from sugarcane or corn as in most countries. India has an indigenous installed capacity to produce over 400 crore liters of rectified spirit/alcohol and over 150 crore liters of fuel ethanol, which is sufficient to meet requirement for 7-8% ethanol blending with petrol. At a 10% blending level, ethanol demand is expected to ramp to 1,859 million litres by 2011-12. The national bio-fuel policy, approved by the Government, has plans for a 20% ethanol blending programme by 2017.

The production of industrial alcohol including Ethanol by the company's Seohara unit during the quarter ended 31-12-2011 is as follows:

		Year 2011-12 (3 months ended 31.12.2011)	**Year 2010-11 (3 Months ended 31.12.2010)**	**Full year ended 30.06.2011**
1.	Alcohol Produced (lac Ltrs.)	36.95	35.91	211.61
2.	Average Recovery %	23.13	24.09	23.87

7. Co – Generation

The Company has bagasse based co-generation power plants at Seohara and Sidhwalia. The production and sell of power to State Grid by the Company during the quarter is as follows:

	Year 2011-12 **3 months ended 31.12.2012**			**Year ended 2010-11** **3 months ended 31.12.2011**			**Year 2010-11** **(Full year ended 30.06.2011)**		
	Seohara	Sidhwalia	Total	Seohara	Sidhwalia	Total	Seohara	Sidhwalia	Total
Power Generated (Lac Units)	267.23	60.32	327.55	217.99	114.99	332.98	807.92	296.30	1104.22
Power Sold (Lac Units)	166.41	14.12	180.53	138.39	44.24	182.63	533.23	202.46	735.69

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.