

THE OUDH SUGAR MILLS LTD.

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT FOR THE QUARTER ENDED 31ST DECEMBER, 2006

1. The sugar scenario all over the world is witnessing complete change for the season 2006-07. For the 2005-06 (October/September) season, the world sugar economy is facing a balanced demand and supply position after two consecutive seasons of global production shortfall vis-à-vis world consumption. It is expected that October/September crop circle would be a surplus year. It is estimated that the world production of the season 2006-07 would be at a record level at 158.30 million tonnes raw value (mtrv) as compared to 152.472 mtrv for the season 2005-06. The world production would be higher by million tonnes than the world consumption.
2. The expected world production for the year 2006-07 would record an increase of 3.82% over the pervious year 2005-06 due to sharp increase in world sugar price in about last 18 months. Presently the sugar prices have started coming down to around US \$ 335 from US \$ 415.

3. **World Sugar Balance (mln tonnes, raw value)**

	2006 - 07	2005 – 06	Change in mln t in %	
Production	158.300	152.472	5.828	3.82
Consumptions	152.492	149.760	2.732	1.82
Surplus/Deficit	5.808	2.712	-	-
Import demand	44.914	46.678	-1.764	-3.78
Export availability	47.685	46.659	1.026	2.20
End Stocks	62.915	59.878	3.037	5.07
Stocks/Consumption ratio in %	41.26	39.98		

4. **Indian Sugar Scenario**

Indian Sugar production is expected to increase from around 24 million tonnes during the previous season to 28 million tonnes during the season 2006-07. Due to ban on export of sugar, domestic prices of sugar have rapidly fallen since the first quarter of sugar season 2006-07. Sugarcane prices in UP and Bihar have increased significantly by 8.70% & 7%, respectively, whereby the margins are under pressure. In December, 2006 the Govt. of India has notified complete lifting of the ban on sugar export which was imposed on 04th July, 2006. This had a positive effect on the trade sentiment hence the fall in sugar prices was arrested. It is expected that sugar prices would rise to a reasonable level by the start of the summer, 2007.

5. **Indian Sugar Balance**

(Lakh Tonnes)

		For the season 2005-06 October, 2005 to Sept. 2006	For the season 2006-07 October, 2006 to Sept. 2007
1	Opening Stock as on 1st October	48.25	44.62
2	Production During the Season	192.67	235.00
3	Imports	0.00	0.00
4	Total availability	240.92	279.62
5	Domestic Consumption	185.00	195.00
6	Exports	11.30	15.00
7	Closing Stock	44.62	69.62

6. **Operations**

Crushing of sugarcane by the Company during the 2006-07 has commenced during the first half of November, 2006. The comparative figures of canes crushed and sugar produced by three units of the Company are given below:

A. Crushing & Production (lacs qtls.)

		Season 2005 - 2006								Season 2006 - 2007			
		Total Season				Up to 31-12-2005				Up to 31-12-2006			
		Hargaon	Rosa	Narkati- aganj	Total	Hargaon	Rosa	Narkati- -aganj	Total	Hargaon	Rosa	Narkati- aganj	Total
1	Total cane crushed	105.45	57.25	70.89	233.59	32.32	25.12	28.01	85.45	33.30	24.92	21.18	79.40
2	Average recovery %	10.56	9.23	9.30		9.70	8.52	9.01	-	9.84	8.93	8.07	-
3	Sugar production	11.18	5.34	6.59	23.11	3.18	2.14	2.52	7.82	3.28	2.23	1.71	7.22

4	Crushing started	12.11.05	24.10.05	14.11.05						11.11.06	04.11.06	20.11.06	
5	Crushing stopped	23.04.06	23.03.06	01.04.06									

B. Industrial Alcohol (lacs ltrs.)

		Season 2005 - 2006						Season 2006 - 2007		
		Total Season			Up to 31-12-2005			Up to 31-12-2006		
		Hargaon	Narkatiaganj	Total	Hargaon	Narkatiaganj	Total	Hargaon	Narkatiaganj	Total
1	Alcohol Produced	93.29	84.23	177.52	36.14	45.73	81.87	44.12	34.60	78.72
2	Recovery %	22.22	21.41		21.67	20.40	-	23.29	22.79	

C. Canning

		Season 2005 - 2006		Season 2006 - 2007
		Total Season	Up to 31-12-2005	Up to 31-12-2006
		Allahabad	Allahabad	Allahabad
Canned Fruits & Vegetables Produced		0.43	0.11	0.14

7. Ethanol

The ethanol programme has finally restarted in India with the oil industry inviting tenders to blend 5% with effect from November 2006. This is likely to be increased to 10% by June 2007. The total requirement is estimated at 580 million litres for 5% blending and 1.1 billion litres for 10% blending. The oil industry has started lifting ethanol at a basic price of Rs 21.50/litre.

8. Growth Initiatives

The Company has undertaken expansion programme at its centres of production with emphasis on co-products such as ethanol and co-generation of power.

The expansion of Hargaon Sugar Mills, Hargaon (U.P.) from 7500 tcd to 10000 tcd with a co-generation power plant of 8 MW at a capital outlay of about Rs.116 crores has been completed & is currently operational.

The sugarcane crushing capacity of New Swadeshi Sugar Mills, Narkatiaganj (Bihar) has been increased to 7500 tcd with a co-generation power plant of 5 MW at a cost of Rs.37 crores.

The Company is also increasing the capacity of Hargaon Distillery, Hargaon, Dist. Sitapur, Uttar Pradesh to 100 klpd at an estimated cost of Rs.100 crores approximately.

Further, the Company is in the process of setting up a greenfield sugar unit at Hata, Gorakhpur (U.P.) at an estimated cost of Rs.336 crores with a capacity of 7000 tcd and co-generation power plant of 17 MW. The plant will be operational by November, 2008.

After completion of all the expansion programmes, The Oudh Sugar Mills Limited will have a consolidated crushing capacity of 28,700 tcd, captive power generation of 30 MW and two distilleries of 130 klpd.