

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Industry structure and developments**

The sugar industry in India is dominated by the Cooperative sector in terms of number of units. But with private players going in for major expansions, the gap between the private and cooperative sector is expected to narrow down in future in terms of installed capacity.

Decontrol of release mechanism slated for the sugar season 2005-06 has been postponed by one year by the Central Government.

The Ministry of Petroleum and Natural Gas has signed an MoU with ISMA for the required supply of ethanol for one year. Under the ethanol blending programme, the oil companies have started lifting of ethanol from December 2005.

The Government has ruled out sugar import in the season 2005-06.

The Government has allowed sugar exports by mills who have export obligation to be fulfilled. And those who do not have export obligation, the shipments have to be channeled only through State Trading Corporation.

### **Opportunities and threats**

The cogen projects registered under CDM with UNFCCC will be eligible for carbon trading in future. Carbon trading will create a new revenue generating stream for sugar mills.

In view of soaring world crude oil prices and to encourage environment friendly fuel, the Government is proposing to make mandatory mixing of 5% ethanol with petroleum throughout the country from October 2006. This is expected to result in higher demand for ethanol.

In Brazil more cane is being diverted to ethanol. With EU agreeing to cut its sugar subsidies in compliance with the WTO ruling, there is expected to be higher demand for sugar in the international market. Looking at the demand supply scenario and the ruling international prices, India has the opportunity to export in future in case of surplus situation in India.

### **Segment wise performance**

The segment wise performance is furnished under the Notes to accounts.

## **Outlook**

The outlook for the Company is furnished in the Directors' Report.

## **Risks and concerns**

The Indian sugar industry is highly regulated by Government in terms of distribution of sugar and also the sugarcane price. Any policy change in favour of farmers by increasing sugarcane prices will impact on the operating margins of the companies in the sugar industry. The ethanol sales of the industry is dependent upon the Government's policy towards the usage of ethanol blended fuel.

## **Internal control systems and their adequacy**

The Company has installed proper internal control systems for the various functional areas. The checks and control measures are effective and adequate.

## **Financial performance and operational performance.**

The details of financial performance and operational performance is mentioned in the Directors' Report.

## **Cautionary statement**

Statements in this Report describing the Company's objectives, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.