

## Annexure A

# Management Discussion and Analysis

### CAUTIONARY STATEMENT

Some statements in the Management Discussion and Analysis describing the Company's objectives, predictions, expectations and the macro-economic estimates may be "forward-looking statements". Actual results may differ from the forward looking statements contained in this document due to various uncertainties. These uncertainties may be due to various factors affecting global supply-demand and export-import trend, macro-economic policy fluctuations, new regulations and pricing. The Company does not assume responsibility for any of the forward looking statements contained in this report as the same may be altered in future due to the subsequent development and events.

### GLOBAL ECONOMY

The global growth was expected to grow at 3.2% in 2015-16 mainly driven by geopolitical tensions, sharper-than-expected slowdown in China; a return of financial turmoil in emerging markets; failing political solidarity in Europe; and a persistent slump in oil prices. Growth in advanced economies remained modest effected by weak demand, partly held down by uncertain crisis legacies, as well as unfavourable demographics and low productivity growth. In the United States, the growth is expected to be flat at 2.4%, with a modest uptick in 2017. In the Euro area, low investment, high unemployment, and weak balance sheets weigh on growth. In Japan, both growth and inflation remained weaker than expected, reflecting in particular a sharp fall in private consumption.

Global Growth	(%)			
	Projections			
Particulars	2014	2015	2016	2017
World Output	3.4	3.1	3.2	3.5
Advanced Economies	1.8	1.9	1.9	2.0
United States	2.4	2.4	2.4	2.5
Euro Area	0.9	1.6	1.5	1.6
Japan	0.0	0.5	0.5	-0.1
United Kingdom	2.9	2.2	1.9	2.2
Other Advanced Economies *	2.8	2.0	2.1	2.4
Emerging and Developing Economies	4.6	4.0	4.1	4.6
China	7.3	6.9	6.5	6.2

\*Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and Euro area countries.

Source: International Monetary Fund (IMF)

### INDIAN ECONOMY

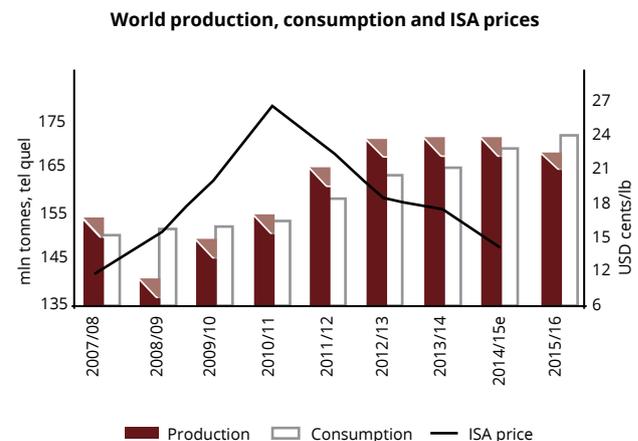
The strong macro-economic factors such as lower fiscal deficit and Current Account Deficit (CAD), falling oil prices and benign inflation lent improved business confidence in the Indian economy. India has emerged as the fastest growing major economy in the world as per the Central Statistics Organisation (CSO) and International Monetary Fund (IMF). According to the Economic Survey 2015-16, the Indian economy will continue to grow more than 7% in 2016-17.

The economic reforms introduced by the government, a stable macroeconomic environment and the falling commodity prices are some of the factors that have helped India achieve strong economic growth estimates. India's trade deficit withered to \$5.1 billion in March 2016, a five year low. This was on the back of a sharp 21.6% fall in India's imports. The trade deficit stood at \$118.5 billion in 2015-16. This was 14% lower than the deficit in the previous year. Consumer price inflation fell to a six-month low of 4.8% in March 2016 from 5.3% in the previous month.

### GLOBAL SUGAR INDUSTRY

The sugar output is expected to reduce by 1.969 million tonnes in 2015-16. The market is expected to be influenced by developments in three sugar giants – Brazil, China and India. Brazil's ever intricate sugar-ethanol equation will be further complicated by the weakness of the Brazilian real and a tight ethanol market.

(Source: International Sugar Organisation(ISO))



(Source: International Sugar Organisation)

## PRODUCTION AND CONSUMPTION

The international sugar market continues to be volatile for sugar producers. The cyclical nature of the industry and the large swings in production and prices continue to be challenging for the industry.

World production is expected to be at 169.371 million tonnes, down 1.969 million tonnes or 1.15% from 2014-15. Exporting countries are expected to produce 117.688 million tonnes, showing an increase of 1.763 million tonnes from estimated production in the previous season. In comparison to exporting countries, production in importing countries is projected to decrease significantly. Their output is put at 51.683 million tonnes as against 55.415 million tonnes in 2014-15.

World consumption is projected to grow by 2.21% to 172.898 million tonnes. The highest growth rate of consumption is projected for the Indian subcontinent (3.24%) and Middle East and North Africa (3.17%). These two regions are currently accountable for more than 30% of world sugar use.

### Main Production Falls and Rises in 2015-16

Falls	Changes from 2014-15 in million tonnes	Rises	Changes from 2014-15 in million tonnes
EU	-3.079	Brazil	+1.805
India	-2.800		
Ukraine	-0.800		

Source: International Sugar Organisation

## PRICES

In China, sugar domestic prices reinforced in recent months due to growing expectations of tighter supply for the 2015-16 season. Prices also firmed in India, where the expectation of sizeable exports and a consequential drop in domestic sugar stocks lent support to the market. In Brazil, sugar prices hit multi-year highs in October as dropping plunging local currency made export sales more attractive. In the US, Mexico and Russia, prices displayed a more stable behaviour in recent months. The EU bucked the trend, with prices returning to all-time lows in June, before recovering slightly in August.

### World Sugar Balance

Particulars	2015-16	2014-15	Change	
	In million tonnes	In million tonnes	In million tonnes	In %
Production	169.371	171.340	-1.969	-1.15
Consumption	172.898	169.160	3.738	2.21
Surplus/Deficit (+/-)	-3.527	2.180		
Import demand	57.010	55.484	1.526	2.75
Export availability	57.049	55.530	1.519	2.74
End stocks	81.788	85.354	-3.566	-4.18
Stock/Consumption ratio(%)	47.30	50.46		

(Source: International Sugar Organisation, 2015)

## OUTLOOK

Both export availability and import demand are expected to decrease slightly year-on-year going forward. According to ISO, the possible changes in production and projected consumption growth, a deficit of about 6 million tonnes maybe on the horizon, indicating the continuation of the deficit phase in the world sugar cycle for at least one more season. Prospective fuel ethanol developments are unlikely to change the medium term outlook for sugar.

## INDIAN SUGAR INDUSTRY

India is the world's second largest sugar producer after Brazil and the largest consumer of sugar. As compared to 366 sugar mills which were working on March 31, 2015, 215 sugar mills continue to crush sugarcane in the current season on March 31, 2016. India is expected to produce 25.50 million tonnes in 2015-16, about 2.80 million tonnes less than 2014-15 due to lower sugar production.

Source: Indian Sugar Mills Association (ISMA)

### SUGAR Manufacturing Process

- Extracting juice by crushing sugarcane
- Boiling the juice and get crystals
- Creating raw sugar by spinning crystals in extractors
- Taking raw sugar to a refinery for filtering and washing to discard residue
- Crystallising and drying sugar
- Packaging the ready sugar

## REGIONAL UPDATE

Sugarcane acreage has decreased in Maharashtra (by 14% over last year), Uttar Pradesh increased (by 3% over last year) and Karnataka lower (by 5%) and Tamil Nadu increased (by 6%). (Source: ISMA)

### Cane Production in States

State	in lac tonnes	
	2015-16	2014-15
Maharashtra	82	93.6
Uttar Pradesh	65.7	63.4
Karnataka	40.16	42.47
Tamil Nadu	8	7.53

Source: ISMA

## CANE PRICES

The Tamil Nadu State government has fixed the State Advised Price (SAP) of sugarcane for the 2015-16 season at ₹ 2,850 per tonne. Uttar Pradesh has maintained the SAP of last year i.e. ₹ 2800 per tonne which is much higher to other states like Maharashtra, Karnataka, Gujarat etc. where payments are being made on the basis of Fair Remunerative Price (FRP) only.

## SUGAR PRICES

Sugar prices rallied during the year due to expectations that the current crop production will be low than initially forecasted and effect of the El Nino event caused lower rainfall and even drought in some areas.

## DEMAND DRIVERS FOR SUGAR INDUSTRY

- **Rising per capita consumption:** Sugar consumption is expected to be the highest in Asia and within Asia, India is estimated to have 18.8% of global consumption.
- **Demographics:** As per Census of India, India's growing population (estimated to reach 1.3 billion by 2020) is likely to intake more sugar in the future. Sugar users such as soft drink manufacturers, bakeries, confectionary, hotel and restaurant consumers account for 60% of milled sugar demand in India.
- **Rising incomes and urbanisation:** People demand more processed food (high on sugar content) as incomes rise and dietary habits change.
- **Deregulation:** Government initiatives in cane price rationalisation and levy on sugar imports will augur well for the domestic industry.
- **Urgent need for renewable biofuels:** Unprecedented opportunities emerge from diversifications like electricity and ethanol for sugar millers (ethanol from molasses). Supportive government policies in both these by-products can drive demand for sugar millers.

## EXPORTS AND IMPORTS

India's sugar industry exported more than 1 million tonnes of low-quality whites between October 2015 and March 2016, below the target of 3.2 million tonnes.

## Trade Flow for India

Unit lac tonnes		
Trade Flow for India during 2009-10 and 2014-15		
Year	Export	Import
2009-10	0.42	25.51
2010-11	17.11	11.98
2011-12	27.38	0.99
2012-13	27.91	11.21
2013-14	24.60	8.81
2014-15	19.54	15.38
2015-16 (April-Jan)	29.95	16.0

Source: Department of Commerce

## GOVERNMENT POLICIES

### Ethanol blending Mandate

In January 2013, the Cabinet Committee on Economic Affairs (CCEA) notified the Fuel Ethanol Mandate, requiring the Oil Marketing Companies (OMCs) to sell 5% ethanol blended petrol across the country. However, due to various reasons, the mandated 5% blending on an all India basis has not been achieved. Recently, ethanol blending programme has received a major boost as OMCs have come up with the largest tender ever for the requirement of 1,560 million litres for supply between November 2014 and October 2015.

### Exports under Tariff Rate Quota (TRQ)

Traders can export sugar to the EU and the US under the TRQ, a quota wherein lower tariff shall be imposed on Indian sugar in the US market. The quota for the EU is 10,000 tonnes and 8,000 tonnes for the US. The government has designated Indian Sugar Exim Corporation, formed by two sugar associations - Indian Sugar Mill Association (ISMA) and National Federation of Cooperative Sugar Factories Limited (NFCSF) - to facilitate this. After the quota is exhausted, India's exports will attract a higher tariff in the overseas countries. Export of preferential quota sugar to the EU and the USA has become 'Free' subject to (certain) conditions (Source: Directorate General of Foreign Trade (DGFT)).

### Export Subsidy

On November 18, 2015, the Government of India's (GOI) Cabinet Committee on Economic Affairs (CCEA) approved a sugarcane production subsidy of ₹ 4.50 per quintal for sugarcane crushed during MY 2015/16 (October-September). This will ensure timely payment to farmers by mills and reduce their cost of procurement. The production subsidy will be provided to farmers on behalf of the sugar millers which are indebted to cane farmers for old crop sales. Qualifying sugar millers must have exported at least 80% of the indicative sugar export quota, and achieved 80% of respective targets of ethanol production.

**ETHANOL**

**Global Scenario**

World fuel ethanol production is expected to increase by 0.4% to reach 97.0 billion litres in 2016. Output in the US is anticipated to fall, whereas in Brazil it is expected to rise. In the EU production is set to consolidate. At the same time several smaller scale producers such as Argentina, India, Philippines and Thailand will likely post gains.

Global consumption is forecast to rise from 96.4 billion litres in 2015 to a record 97.2 billion litres in 2016 – an increase of 0.8%. Demand for ethanol will remain high in Brazil but growth will be much lower than in 2015. There will not be much growth seen in US. In the EU, consumption is slated to consolidate at the 2015 level. Despite the ongoing low oil price environment, gains in consumption are expected in several smaller consumers such as Argentina, Colombia, India, Japan Philippines and Thailand.

**India**

According to Government data, Ethanol production is estimated to decline at 290 crore litres in 2015-16 as against 306 crore litres in the previous year. Under Ethanol Blending programme (EBP), the central government has scaled up blending targets from 5% to 10% to promote blending of ethanol with petrol and its use as alternative fuel. The production of ethanol is linked to the production of molasses which is a by-product during production of sugar.

With a view to increase production of ethanol, the government is also providing soft loans of upto 40% of the project cost to sugar mills for setting up ethanol projects.

To augment supplies of ethanol to oil marketing companies (OMCs) under EBP, the policy for procurement of ethanol

has been modified to smoothen the entire ethanol supply chain to provide remunerative price of ethanol. Further, excise duty on ethanol has been waived off for supply under EBP for the current sugar season 2015-16.

Source: Economic Times

**MOLASSES PRODUCTION**

Currently, alcohol is produced from molasses which contains fermentable sugars that cannot be economically recovered by mills. For every tonne of sugarcane that is crushed, mills produce 95 kg of sugar and 45 kg of molasses yielding about 10.8 litres of ethanol.

In India molasses output is unlikely to fall significantly from 2014-15 level of 12.2 million tonnes. In 2015, there is a chance that not all of the additional molasses supplies (+1.3 million tonnes) will be used for fuel ethanol production. Between January and July India's molasses exports reached 187,500 tonnes, more than double the 81,500 tonnes recorded for the same period last year. With only a slight fall in molasses output forecast for 2015-16, exports are likely to decline in 2016 with improved use by distillers for the domestic fuel ethanol program. The withdrawal of excise duty on domestic fuel ethanol has served to underpin domestic demand for molasses for ethanol production.

**COGENERATION**

After the sugarcane crushing process, bagasse is the residue left which is used to generate steam. This is used as a bio fuel to supply all needs of the sugar mill. The remainder energy is used in cogeneration (produce both thermal and electric energy simultaneously) to supply electricity to power grids. Being produced from a waste residue, this energy is eco-friendly and reduces greenhouse gas emissions besides also bringing additional revenue to the sugar industry.

**SCOT analysis of Indian Sugar industry**

Strengths	Challenges
<ul style="list-style-type: none"> <li>Huge demand for domestic consumption and also for several value-added products like cogeneration, ethanol, industrial alcohol</li> <li>Strong cane management systems (efficient sugar cane harvesting and best practices being followed)</li> </ul>	<ul style="list-style-type: none"> <li>Bearish prices of sugar and increasing FRPs to farmers has raised pressure on sugar manufacturers</li> <li>Sugar recovery rate in India is 10 %, much lower than 11.5% of the global scenario. There is scope for improvement here</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Ethanol blending policy mandated OMCs to blend 5% ethanol with gasoline, boosting demand for sugar</li> <li>Increase in ethanol demand from alcoholic beverage makers which makes it lucrative for sugar millers to invest in ethanol production capacity- Sugar mills have already entered into long-term supply contracts with potable alcohol manufacturers for ₹ 42-46 a litre, against the ₹ 42 a litre base price of ethanol</li> </ul>	<ul style="list-style-type: none"> <li>Outstanding cane arrears (₹ 13500) for farmers</li> </ul>

**Opportunities**

- GOI's export incentive(announced for current SS) of ₹ 4,000 per tonne for shipments of 1.4 mn tonnes
- Opportunities to make potable alcohol and also molasses' exports
- Export opportunities opening with Trans-Pacific Partnership with Australia to enhance trade shall augur well for sugar exports from India into Australian markets

**Threats****ABOUT OSML**

The Oudh Sugar Mills Limited (OSML) belongs to the K.K. Birla Group of sugar companies. The Company began operations in 1932. Recognised for its commitment across various stakeholders-farmers, employees and the community around its mills, OSML has a vibrant presence in India's history. Key products include sugar, ethanol, molasses, bagasse and power. The Company has been serving the real economy (of India) with industry-best capabilities that help it to adapt to market challenges. It has successfully grown from a single unit sugar manufacturing company to four sugar manufacturing units with an aggregate crushing capacity of 28700 tonnes of sugarcane per day, two distilleries

having capacity to produce 160 kilo litre per day (KLPD) of industrial alcohol/ethanol, three Co-generation Power Plants with a total capacity of 60 MW Power and one Bio-Compost plant producing organic fertilisers and food & fruit processing unit.

The Company operates through 4 highly efficient mills located across Uttar Pradesh and Bihar. It educates farmers to adopt high-yielding practices in their fields. This is because the Company believes in enhancing revenues from sugar, increasing the proportion of value-added products and creating a shared sense of purpose even as it consolidates its sugar business.

**OPERATIONAL HIGHLIGHTS****Sugar Production**

Sugar Season 2015-16	Sugar Season 2015-16					Sugar Season 2014-15				
	Hargaon	Rosa	Narkatiaganj	Hata	Total	Hargaon	Rosa	Narkatiaganj	Hata	Total
Sugarcane Crushed (lac quintals)	130.33	30.45	75.84	43.12	<b>279.74</b>	145.00	38.85	82.09	61.81	<b>327.75</b>
Recovery (%)	11.91	10.68	10.00	10.08		10.30	9.56	9.32	9.00	
Sugar produced (lac quintals)	15.52	3.25	7.58	4.34	<b>30.69</b>	14.93	3.71	7.64	5.50	<b>31.78</b>
Crushing Days	138	88	107	86		151	103	116	102	

**Alcohol Production (including Ethanol)**

Particulars	Financial Year 2015-16			Financial Year 2014-15		
	Hargaon	Narkatiaganj	Total	Hargaon	Narkatiaganj	Total
Alcohol produced (lac litres)	277.04	121.52	398.56	256.65	167.80	424.45
Recovery (%) (litres per quintal)	23.12	20.78		22.21	22.45	
No. of days the Distillery worked	258	237		256	280	

**Power Generated, Consumed and Sold**

Particulars	Financial Year 2015-16				Financial Year 2014-15			
	Hargaon	Narkatiaganj	Hata	Total	Hargaon	Narkatiaganj	Hata	Total
Power Generated	559.92	196.60	399.67	1,156.19	464.93	250.64	618.68	1,334.25
Power Sold to Grid	380.70	100.81	510.31	991.82	364.12	125.79	743.13	1,233.04
(units in lac)								
No. of days worked	169	107	106		151	152	102	

**Financial Highlights**

Particulars	Year ended	
	31st March 2016	31st March 2015
	(₹ in lacs)	
Revenue from Operations (Gross)	1,21,501.26	1,42,965.29
Other Income	212.98	173.11
Profit before Finance Cost, Depreciation & Tax	14,142.04	4,569.59
Finance Cost	10,774.46	12,887.11
Depreciation	2,649.66	2,847.29
Tax Expenses - Deferred Tax (Credit)	94.81	(3,777.71)
Net Profit/Loss	623.11	(7,387.10)

**HR AND IR**

In 2015-16, the Company continued to maintain good industrial relations at each of its mills. The current management resource strength is 82. It employs a total of 2149 workers in the Hargaon sugar mills, Rosa Sugar Works, New India Sugar mills in UP and New Swadeshi Sugar Mills in Bihar.

The Company organises several training activities for employee development.

**COMMUNITY DEVELOPMENT**

The Company invests in enhancing the capabilities of its employees. Besides this, it also enables education for underprivileged children, by giving free books and running an inter-level college. It also organises regular health check up camps and gives free medicines and emergency medical equipment to the needy.

**INTERNAL CONTROL AND COMPLIANCE**

The Company follows a robust internal control system to track financial transactions and to assist departments to comply with financial discipline and statutory rules and regulations besides enabling operational efficiency. The Company also uses a strong accounting and internal reporting system with SAP package. SARVAM

& ASSOCIATES, a chartered accountant firm, conducts audits and submits reports to the Audit committee on a quarterly basis. The Audit committee is the final authority to oversee the control system at the Company and point out corrective measures that are then institutionalised.

**RISK MANAGEMENT**

The risk committee comprises members of the Board of Directors. The committee has prepared a complete Risk Management policy that is imbibed at the operations level to curb internal and external risk challenges. The committee also spreads awareness among employees about various risks associated with the market. An enterprise-wide risk identification, management and reduction programme helps OSML take risk-eliminating actions more proactively and in advance.

The Committee implements measures to counter all risks. Structural risks like sugar price volatility, low sugar recovery, State Advised Price fixation by Government and other industry risks are mitigated through R&D, organising seminars to educate farmers about efficient harvesting practices and adopting operational efficiency at the facilities. These help increase cane yields, improve sugar recovery and help the Company navigate various industry risks and challenges.