
Annexure to the Report of the Directors (Contd.)

ANNEXURE-D

MANAGEMENT DISCUSSIONS & ANALYSIS

Triveni has two main business segments Sugar and Small Steam Turbines, which account for 77% & 17% of turnover respectively. Other operations consist of High Speed Gears and Gear Boxes, Specialized Sugar Machinery, Water & Waste Water Treatment Equipment & Projects and Micro Hydel Turbines.

FINANCIALS

Profit before tax and non-recurring income was Rs.7.7 crores as compared to Rs.12.8 crores last year. Owing to the increase in the cost of cane in the sugar season 2001-02, the cost of production of sugar in our opening stock as on 1st April'2002 was much higher than the cost in the opening stock of the previous year. If we had not had the benefit of a record production of sugar at our Deoband and Khatauli Units in the season 2001-02, the increase in cost of production in the year under review would have been even higher. Owing to the record stocks of sugar in the country during the past year, all the sugar units were forced to substantially increase their sugar sales in order to keep their operations viable. This led to a steep slump in sugar prices and for the latter part of the year under review, open market prices were lower than even the zonal levy prices. This combination of higher cost of production for the sugar which was sold in the year under review and lower sales realizations, seriously eroded margins at our sugar units. Such a drop in sugar prices has never occurred in the past and this has had a major impact on the profitability of sugar units all over the country.

Sales & Profitability at our engineering units at Bangalore & Mysore were better than the previous year. Other business sales were almost the same as last year but profitability improved. An increased tax liability, specially the charges for deferred taxes, also impacted the profit after tax when compared to the previous year.

Cash from the divestments in fixed assets and shares made in the year 2001-2002 reduced the company's long term borrowings at the end of the 2001-02 financial year. This improved financial position, and the general decrease in interest rates in the market, reduced interest cost substantially for the year under review. In the latter half of the year, your Company's commercial paper was rated by ICRA as A1, and this will further reduce interest costs in 2003-04. However, while the average rate of

interest is expected to be lower in 2003-2004, because of the record production of sugar in the season which has just closed and regulated sugar releases by Government of India, the closing stock of sugar and total interest expense is expected to increase. Addition to fixed assets was Rs.9.4 crores and expenses on mainly software, technology & VRS which were amortized were Rs.4.6 crores. Basic earnings per share is Rs.3.9 and the book value per share is Rs. 89.7.

SUGAR

INDUSTRY SCENARIO & DEVELOPMENT

In 2002-2003 with an expected production of 195 lac tonnes, India will again be the largest producer of sugar in the world after Brazil. India's production constitutes 22% of the world sugar cane production and 14% of the total world sugar (cane & beet) production. There are over 450 lac cane growers including their dependants in this industry which is the 2nd largest Agro Processing Industry in the country. 43 lakh hectares of land are under sugarcane and an all India yield of 70 tonnes per hectare gives a cane production of 3010 lakh tonnes. Even with a much lower yield of 59 tonnes per hectare, U.P. is the largest producer of sugarcane with a cane production of over 1200 lakh tonnes. Sugar production in U.P. in 2002-03 will be a record at 55 lakh tonnes. Maharashtra is still the largest producer of sugar at around 62 lakh tonnes.

The lowest cost producer of sugar in the world is Brazil followed by Australia and Thailand. Our sugarcane productivity is one of the best in the world and if we have a reasonable sugarcane pricing policy and expand & modernize our plants, sugar production costs in India can compete with at least Thailand. Effective plant capacity is still under 3000 tonnes cane crushed per day which is about 25% of the average capacities in Brazil & Thailand.

The sugar industry is the growth engine for the rural economy and has the potential to transform this sector into a mass revenue generator for the nation and raise the standard of living and quality of life for the rural population. However, the industry is still subject to a variety of Government controls which are hindering its efficiency & growth.

Exports of sugar in 2002-03 are expected to be around 18 lac tonnes. This year Brazil will raise its exports from 100 lac tonnes to over 120 lac tonnes thereby depressing world market sugar prices further.



Annexure to the Report of the Directors (Contd.)

The sugar industry in Western U.P. where your Deoband & Khatauli units are located, are prone to diversion of cane to the alternate sweeteners gur & khandsari. Owing to low sugar prices, diversion of cane to gur & khandsari was much less this year and factories were able to crush through the month of May with record productions. On an all-India basis, 66% of cane comes to the sugar factories, 23% is consumed by the Gur and Khandsari industry and 11% is used for chewing & seed. In Western U.P., the drawl rate is around 45%, while in your sugar units it varies between 55% & 60%. Historically, the industry has experienced large sugar cycles of surpluses & shortages. However, for the last five years production has exceeded demand, something which has not happened for the past 50 years. With the gradual liberalization of the sugar industry and the globalization of our economy, we expect a much flatter sugar cycle in the future.

Around 55%-60% of sugar production in India is controlled by the Cooperative & State Government sugar factories. These factories are subsidized by the State Exchequer which enables them to pay high cane prices and allows the Government to coerce the private sector to do the same. Without annual State Government cash advances, many of them would have closed down.

With the recent liberalization in fuel policy, there is a movement of sugar factories to become agro complexes, producing high quality sugar, co-generating power from their baggasse and using their own molasses to produce ethanol for mixing with petrol. This is one of the biggest growth opportunities for this sector.

GOVERNMENT POLICY

In a judgement delivered in December'96 by a Division Bench of the Hon'ble Allahabad High Court in a writ petition by the West UP Sugar Mills Association, it was held that the Statutory Minimum Cane Price (SMP) can only be fixed by the Central Government and that there is no statutory provision permitting the State Government to fix the State Advised Cane Price (SAP)

In an appeal filed before the Hon'ble Supreme Court against the aforesaid decision, an interim order was passed by the Supreme Court in January'97 recording their prima facie view that State Government is not empowered to fix the SAP. However, the Lucknow Bench of the Allahabad High Court gave a contrary decision, holding that the price fixed by the State Government was the agreed price. On an appeal by the sugar mills association, this order was stayed by the Supreme Court.

Both the appeals are pending before the Supreme Court, and have been referred to a five judges bench which is yet to be constituted.

Pre-empting announcement of the SAP, even for the cooperative and corporation factories for 2002-03 sugar season, our sugar mills association filed a Writ Petition in the Allahabad High Court praying that the U.P. Government be restrained from announcing any SAP in violation of the earlier decision of the Allahabad High Court. While the petition was before the Court and a day before it was heard by the Division Bench, the State Government went ahead and issued an order fixing the SAP – This was done through a press release on 12.11.02.

The Court heard the matter on 13.11.02 and stayed the operation of the State Government's Order of 12.11.02 mentioned above and directed the State Government to desist from fixing the SAP till further orders in view of the judgement of Allahabad High Court itself of 1996 and the interim order of the Supreme Court of 1997. However, the factories of the U.P. Sugar Corporation and the U.P. Cooperative Federation Ltd. individually announced last year's cane price of Rs.95/- per quintal, saying that this was not as per the State Government's directives, but as a result of a dialogue with their growers.

The SMP for 2002-03 was announced at Rs.64.50 per quintal linked to a recovery of 8.5%. On the Prime Minister's initiative and under pressure from the U.P. Government, within a few weeks from the announcement of factorywise SMP on 12.12.02, the SMP for 2002-03 was revised. On 9.1.03 a revised SMP of Rs.69.50 per quintal linked to a recovery of 8.5% with a higher increase of Rs.0.82 per quintal for every 0.1% increase in recovery was notified.

This increase in the SMP was challenged by the UP Sugar Mills Association in a Writ Petition before the Delhi High Court. At a hearing on 4.2.03, the Additional Solicitor General, appearing on behalf of the Union of India, gave an assurance to the Court that no coercive steps to recover the increased SMP will be taken till the next date of hearing of the petition. This assurance stands. Similar petitions were also filed by Tamil nadu, Karnataka, & Andhra Pradesh associations in their respective High Courts. The Central Government has moved an application in the Supreme Court to transfer all these petitions to the Supreme Court. The matter will be listed for hearing after the summer vacation.

The Central Govt. has been following the regulated release mechanism for free sale sugar by issuing orders

Annexure to the Report of the Directors (Contd.)

under the Sugar (Control) Order, 1966 promulgated under the provisions of the Essential Commodities Act, 1955 (ECA '55). The Allahabad High Court in an interim order on 19.3.02 in the case of Shamkumbari Sugars, held the restriction on sale of free sugar as wholly arbitrary and illegal and violative of Articles 14 & 19 (1)(g) of the Constitution. The Central Government's Special Leave Petition (SLP) against this decision was also not entertained by the Supreme Court, and the SLP was dismissed on 12.7.2002.

In order to overcome this legal hurdle and with a view to strictly enforce the regulated release mechanism, the Central Government has brought in an amendment to the ECA'55 titled ECA (Amendment) Bill '2003 which incorporates the provisions of the Sugar (Control) Order, 1966 in the parent Act itself. This Amendment Act has just come into force and will help to reverse the steady decline in sugar prices over the past year.

COMPANY PERFORMANCE

The performance of the Company's sugar units for the past two sugar seasons are shown in the table below :

Sugar Unit	2002-2003				2001-2002			
	Khatauli	Deoband	Ramkola	Total	Khatauli	Deoband	Ramkola	Total
Capacity (TCD)	11,750	10,000	3500	25,250	11,750	10,000	3500	25,250
Crush (lac qtls)	175.19	162.14	50.45	387.78	177.17	141.11	45.69	363.97
Recovery (%)	10.10	10.13	9.13	9.99	10.20	9.95	8.86	9.93
Sugar production (Net – lac qtls)	17.69	16.43	4.61	38.73	18.13	14.10	4.15	36.38
% Increase (Dec) over previous yr.	(2)	17	11	6	10	4	25	9

Your Company is the third largest producer of sugar in the country, and the Deoband and Ramkola units achieved record levels of cane crushed and sugar produced in the past year. The Khatauli & Deoband sugar mills closed crushing operations in the last week of May and Ramkola a few days earlier.

Almost all the private sugar units in the State decided not to accept the SAP and agreed to start the factories only on the revised Central Government notified SMP or on an advance towards this latter price. Some are trying to only pay the original SMP. Negotiations in this respect took quite long and delayed crushing operations for over a month. All our three sugar units started at the end of November/early December. Had we started on time, sugar production at Khatauli and Deoband would have been even higher.

The Central and State Governments are asking the industry to pay last year's cane price notwithstanding the legal position. However, this is not possible given the extremely low sugar price realizations in the past year and which are still prevalent in the market today. As a matter of abundant caution, we have taken the cane price applicable to our sugar units on the basis of the revised SMP of Rs.69.5 per qtl linked to a recovery of 8.5%, announced by the Honorable Prime Minister

of India. If we are successful in our court appeal against this price, then the difference between this SMP and the original SMP for 2002-03, which in our case comes to around Rs.5.9 per qtl., will be treated as income at that time.

The Government of U.P. gave concessions to the industry in the form of a reduction in purchase tax and society commission to the extent of Rs.2.50 per quintal of cane. The introduction of entry tax on our operations in U.P. was also delayed and these combined benefits which came to Rs.4.0 per quintal of cane, have been passed on to the farmers as cane price payments over and above the SMP.

There is a move in the Cane Department of Uttar Pradesh to allocate cane areas on a 5 year instead of a 1 year basis to each sugar unit. This will be a very welcome liberalization, and allow us to intensify our cane development efforts and achieve sustained improvement in cane yields and recoveries for the benefit of both the farmer and the factory.

Your company has embarked on a substantial Co-generation & Modernization Project costing Rs.84 crores, a substantial portion of which will be commissioned during the season 2004-2005. Most of



Annexure to the Report of the Directors (Contd.)

the old boilers and turbines are being replaced with new, efficient, high pressure boilers and turbo alternator sets. Steam would be generated at a pressure of 87 atmospheres and at a temperature of 515°C, which is one of the highest in the world for boilers operating on bagasse. We expect to export substantial quantities of electricity to the State grid during the season as well as during the off-season and we will run the co-generation plant for over 270 days on captive bagasse. This diversification will provide financial stability of Deoband unit and increase profits for the Company as a whole. Funding is being arranged through the Sugar Development Fund, ICICI and other bankers at competitive rates. The co-generation plant will be located on separate premises at Deoband and would have its own management.

OUTLOOK

Sugar production in the country in the sugar year 2002-03 which ends on 30th Sept.'03, is expected to cross 19.5 million tonnes versus 18.5 million tonnes last year. Exports are expected to increase from 1.1 million tonnes last year to 1.8 million tonnes in the year 2002-03. The increased despatches of sugar in the last year and better exports, will just about compensate for the increase in sugar production and closing stock at the end of the coming year on 30th September 2003 will not be appreciably lower than what it was last year. This will have a bearish impact on sugar prices.

However, once the regulated monthly sugar release mechanism comes into effect, we expect sugar realizations to improve and this impact will be felt in the second half of the current financial year. Area under cane at our units is expected to be about the same next year, but cane yields and recoveries will of course depend on the rainfall pattern in the next few months. Cane development efforts have increased at all the sugar units, and the Deoband Unit seems to have the best potential for a change in our cane varietal balance, and providing a better recovery.

TURBINES

Triveni is the predominant player in the steam based small power generation market. Steam Turbines are used either to drive rotating machinery such as sugar mills, pumps and compressors, or for power generation. The steam is delivered through boilers which run on a variety of conventional and non-conventional fuels such as sugarcane bagasse, rice husk etc. Triveni caters to

the small power generating sector, and has a complete range of Impulse Back Pressure, Condensing and Extraction Condensing Turbines.

INDUSTRY SCENARIO & DEVELOPMENT

This sector of the capital goods industry was the first to be opened to international competition, and has one of the lowest rates of import duties amongst all industries in India today. In fact, for supplies to the fertilizer and refining sectors, there is zero duty on imports, while we are subject to excise duties & sales tax. Under the EPCG Scheme where buyers must export a certain percentage of their savings in customs duty, the import duties are only 5%, and a number of industries are availing of this facility. The current 3-tier import duty structure is also skewed against the finished product, and import duties on complete turbines are less than for the raw material and components used in their manufacture. We have been continuously appealing to Government to remove these anomalies, and provide the capital good industry a level playing field with imports, but unfortunately, we have not had much success.

The power generation market in India is dominated by the public sector company Bharat Heavy Electricals Ltd. (BHEL) who can produce steam turbines from 6 to 500 MW. Alstom, whose turbine business is now part of Siemens and Belliss & Morcom are the other main local competitors. Toyo Denki of Japan, and Kaluga of Russia, have won orders with their imported turbines.

COMPANY PERFORMANCE

Triveni's Turbine Business Group (TBG) has been able to retain its predominance in the small power segment. A few years ago TBG took a conscious decision to move away from its traditional market of the sugar industry, to develop products for the bio-mass based independent power producers and others using co-generated power. This decision has stood us in good stead, as even though the sugar market for turbines declined very steeply last year, TBG recorded its highest ever turnover of Rs.119 crores. Besides developing suitable models, TBG has positioned itself to provide energy solutions rather than merely supplying Turbo Generators. Various initiatives such as Operation & Maintenance and Annual Maintenance Contracts aim at providing operational comfort and "upfront" assurance to those industries totally new to co-generation. A notable achievement last year was an order for a 15.3 MW Extraction Condensing Turbo Alternator set for a large paper factory

Annexure to the Report of the Directors (Contd.)

in Karnataka and this has been recently commissioned.

Exports were started in earnest in the year under review and our efforts have found a most encouraging response. We have completed supplies for a 9 MW T.G. Set to Kenya and are proud to have received an export order from Wartsila for a power plant order they are executing in Finland. We were selected from nineteen international competitors to be one of their two nominated sub-vendors. TBG expects its export sales of turbines to pick up substantially in the next two years.

OUTLOOK

Our initiatives to provide the best efficiencies benchmarked against our international competition is continuing. We expect to conclude our development of state of the art tapered and twisted blades in association with a leading design institute in the USA. We are also taking the help of well known consultants in this field in the UK and India.

When the electricity bill becomes an Act and power trading without the back-up of Power Purchase Agreements comes into effect, we expect many more small to medium sized independent power plants to come up. Returns in this sector are already good, and TBG is positioning itself to meet the increased demand when it materializes.

OTHER BUSINESS SEGMENTS

The Mysore Unit which produces high speed gears and gear boxes increased its sales by over 40% and its profitability by a larger percentage, both of which are records for the unit. The main reason for this excellent performance came from the sale of gears produced under license from Lufkin Industries of the USA. Some of these gears were designed and supplied by the Mysore Unit, and others followed a joint manufacturing programme with the internals coming from Lufkin. We have made good inroads into the retrofitting business for both Lufkin licensed and Triveni products. We hope to sustain a good rate of growth in sales for this Unit in the next 3-4 years, by when we expect Triveni Mysore to have become a substantial force for gear manufacturing in the Asian region.

We are having discussions with Lufkin Industries for the renewal of our Collaboration Agreement and expect this to be concluded in the coming year. We are also looking to upgrade and replace our existing Maag gear

hobber and gear grinder. This will entail fairly substantial capital expenditures in the next two years. We have started our export operations which are expected to grow in the next few years.

The sugar project at Athani which was commissioned during the end of last year is performing satisfactorily. Sales of SRI licensed products have been slow owing to reduced profitability in the sugar industry. Though sales have started picking up, we do not expect substantial growth till 2004-2005. We supplied a number of Micro Hydrel turbines for a private developer in Punjab and to APGENCO for their Kakatiya project in Andhra Pradesh. However, we are not seeing much future in this business line primarily because our efforts for technology alliance to expand our range of turbines to cater to the larger market have not fructified. We would like to concentrate our resources on the mini hydrel BOO sites we have in Punjab. The Punjab State Electricity Regulatory Commission viz. PSERC on 08.04.03 approved the signing of the Power Purchase Agreements, which we will now execute with the State Electricity Board. In the coming year, we propose to initiate construction at these sites subsequent to the achievement of financial closure.

We shall be renewing our license agreement with U.S. Filter/Envirex of the USA, which is a part of the Vivendi Group of France, for municipal water and sewage treatment projects and products. We also propose to expand our market reach in other sectors of municipal & industrial water & waste water treatment business.

RISKS & CONCERNS

Risks & concerns and sustainable growth opportunities have been covered under the various business segments in the management discussions given above.

HUMAN RESOURCES

Your company continues investing, energizing and developing people across all levels of the workers, staff and management. The main Directors' Report also refers to our initiatives in the Human Resources. As on 31st March'2003 our total employee strength was 3643 which includes seasonal employees at our sugar units. 12.7% are officers and the average age is 39 years. 2.4 days of training per officer and 3.4 days per supervisor were given during the year. Apart from training for employees, developmental programmes are conducted for spouses and the children of employees.



Annexure to the Report of the Directors (Contd.)

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The system of internal control comprises those controls established in order to provide reasonable assurance of :-

- a) Safeguarding assets against unauthorized use or disruption and
- b) Maintenance of proper accounting records and the reliability of financial information used within the business.

The key elements of the system are as follows :-

- a) Clearly defined organization structures and limits of authority.
- b) Corporate policies for financial reporting, accounting, information security, project appraisal and corporate governance.
- c) Annual budgets and long term business plans for all operating units, identifying key risk opportunities.
- d) An Internal Audit Department which reviews key business processes and control, including performing annual reviews.
- e) An Audit Committee, which approves audit plans and deals with significant control issues raised by internal and external audit.

Reports are circulated to senior management and action

taken to strengthen control where needed. The Internal Audit is carried out by a department internally and also by an independent agency, M/s Ernst & Young Pvt. Ltd. These reports and also the annual budgets, operating plans, projected appraisals, and corporate governance issues are reviewed by the Audit Committee which met 9 times during the past financial year.

BRANCH AND COST AUDITORS

For the year 2002-03 Virmani & Associates were the Branch Auditors for Bangalore, Mysore & Projects Division. M/s Rishi Mohan Bansal, Cost Accountant, were the Cost Auditor for the three sugar units – Khatauli, Deoband & Ramkola. The Branch Auditors & Cost Auditor were appointed by the Board. Central Government approved the appointment of the Cost Auditor.

Statements in this “Management Discussion and Analysis” describing the Company’s objectives, expectations and assessments etc. may be forward looking within the meaning of applicable laws and regulations. Actual results may differ from the statements expressed therein. Important factors that could influence the Company’s operations include demand and supply conditions affecting selling prices of finished goods, availability of inputs & their prices, change in Government policy, legislation and tax rates; political, defence and economic developments within and outside the country and other factors such as litigation and industrial relations.