



Gayatri

GAYATRI SUGARS LIMITED

**THIRTEENTH ANNUAL REPORT
2007-08**

Thirteenth Annual Report

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF / HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES DULY STAMPED AND SIGNED MUST BE DEPOSITED AT THE COMPANY'S REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE MEETING. Members / Proxies are also requested to bring along with them the Annual Reports being sent to them.
2. Members are requested to notify immediately any change, in their address to the company at the Registered Office.
3. Members desirous of obtaining any information concerning the accounts and operations of the company are requested to send their queries to the company at least 7 days before the date of the meeting, so that the information required by the members may be made available at the meeting.
4. Members holding more than one share certificate in the same name under different folios are requested to apply for consolidation of such folios in one folio and send relevant share certificates to the company's registrars and share transfer agents M/s Venture Capital and Corporate Investments Limited.
5. Members, who hold shares in dematerialized form, are requested to write their client ID and DP ID Nos and those who hold shares in physical form are requested their folio No in the attendance slip for attending the meeting.
6. The Register of Members and the Share Transfer Registers will be closed from 27.09.2008 to 30.09.2008 (Both days inclusive).
7. Members are requested to intimate the Registrars and share transfer agents of the Company, M/s Venture Capital and Corporate Investments Limited, House No. 12-10-167, Bharat Nagar, Hyderabad - 500018 Ph: 23818475, 23818476 immediately of any change in their address.
8. An Explanatory Statement pursuant to Section 173(2) of the Companies Act 1956 is annexed hereto.

13th Annual General Meeting

Day : Tuesday

TIME : 11.30 A.M.

Venue : Bharatiya Vidya Bhavan,
Kulapati Munshi Sadan,
5-9-1105, Basheerbagh,
Hyderabad – 500 029.

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BOARD OF DIRECTORS

Smt T Indira Subbarami Reddy	Chairperson
Sri T V Sandeep Kumar Reddy	Vice Chairman & Managing Director
Sri Abhay Soi	RLPL Nominee
Sri DK Kambale	IDBI Nominee
Sri V Udhaya Shankar	IFCI Nominee
Sri T R Rajagopalan	Director
Sri S Venkata Swamy	Director
Dr A K Bhattacharya	Director
Smt. T Sarita Reddy	Executive Director

COMPLIANCE OFFICER

Sri Chinna Gurappa	Vice President (Finance & Accounts)
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AUDITORS

M/s C.B.Mouli & Associates
Chartered Accountants
Secunderabad

BANKERS

State Bank of India
Bank of Baroda
Andhra Bank
Punjab National Bank

REGISTERED OFFICE

Door No. 6-3-663/E
Flat No. 301, Diamond House,
Panjagutta,
Hyderabad – 500 082.
Phone Nos: 23414823/26
Fax No: 23414827
E-mail: gayatrisugar@sify.com

FACTORY

Adloor Yellareddy Village
Sadasivanagar Mandal
Nizamabad District
Andhra Pradesh
Phone No: (08468) 248558
Fax No: (08468) 248559

NOTICE

NOTICE is hereby given that the **Thirteenth Annual General Meeting** of the members of the Company will be held at Bharatiya Vidya Bhavan, Kulapati Munshi Sadan, 5-9-1105, Basheerbagh, King Koti Road, PB no.1088, Hyderabad – 500 029 on Tuesday the 30th day of September, 2008 at 11.30 A.M to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at 31st March, 2008, the Profit and Loss Account and Cashflow Statement for the year ended on 31st March, 2008 and the reports of Directors and Auditors thereon.
2. To appoint a Director in place of Sri TR Rajagopalan who retires by rotation and being eligible offers himself for reappointment.
3. To appoint a Director in place of Sri S Venkataswamy, who retires by rotation and being eligible offers himself for reappointment.
4. To consider and if thought fit, to pass the following resolution as special resolution.

“RESOLVED THAT M/s. Deloitte Haskins & Sells, Chartered Accountants, Secunderabad be and are hereby appointed as the Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting on such remuneration as may be mutually agreed to between the Board of Directors and the Auditors”.

SPECIAL BUSINESS

5. **To Consider for creation of security in favour of IDBI Trusteeship Services Limited**

To consider and if thought fit to pass with or without modification, the following resolution as Special Resolution.

“RESOLVED THAT the consent of the board of directors is hereby accorded in terms of section 293(1)(a) and other applicable provisions if any of the Companies Act, 1956 to mortgage and / or charging by the Board of Directors of the Company all the immovable and movable properties of the company wheresoever situate,

both present and future, and/or conferring power to enter upon and to take possession of assets of the company in certain events, to or in favour of the IDBI Trusteeship Services Limited (ITSL) the Trustees to secure an amount of Rs.35 crores Non Convertible Debentures (NCDs) subscribed by Rajasthan Leasing Private Limited (RLPL) together with interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, premium on repayment or on redemption, costs charges, expenses and other moneys payable by the company to RLPL under debenture agreement entered into/to be entered into by the company in respective of the said financial assistance.

FURTHER RESOLVED THAT for the purpose of giving effect to this resolution, the Board hereby authorized to do all such acts/deeds/matters in its absolute discretion as it may deem necessary and to settle any doubt/question of difficulty that may arise in creation of such mortgage/charges or hypothecation or disposal in favour of any lender as aforesaid and to finalise, executive any such deeds, agreements or documents as may be required or desirable or deem fit”.

6. **To consider the increase in the remuneration to Smt.T Sarita Reddy, Executive Director**

To consider and if thought fit to pass with or without modification the following resolution as a Special Resolution.

“Resolved that subject to the provisions of sections 198, 269 and 310 read with Scheduled XIII and other applicable provisions if any of the Companies Act, 1956, the remuneration of Smt. T. Sarita Reddy, Executive Director be and is hereby revised as follows:

- a. **Salary**
The monthly remuneration payable shall be Rs.2,25,000/- (Rupees Two Lakhs and Twenty Five Thousands only) per month.
- b. **Perquisites**
 - i. **Housing:**
If required, free furnished residential accommodation with all facilities and amenities including Gas, Electricity, Water, Furniture/Fittings etc., the monetary value of which may be evaluated as per Rule 3 of the Income Tax Rules, 1962. The

expenditure incurred by the Company on Gas, Electricity, Water and Furnishings shall be subject to a ceiling of 10% of the Salary. In case where the Company does not provide accommodation, House Rent Allowance shall be paid at the rate of 25% of the Salary.

ii. Medical Reimbursement:

Expenses incurred for herself and her family subject to a ceiling of one month's salary in a year or 3 months salary over a period of 3 years.

iii. Leave Travel Concession:

One month salary per year for herself and her family.

iv. Club Fees:

Subject to a maximum of two clubs. This will not include admission and Life membership Fees.

v. Personal Accident Insurance:

Premium not to exceed Rs.4,000/- per annum.

vi. Provident Fund:

Company's contribution towards Provident Fund at 12% of her salary or at any rate applicable from time to time.

vii. Gratuity:

Gratuity not exceeding half a month's salary for each completed year of service.

viii. Leave:

Entitled to one month's leave, as per the rules of the Company on full pay, for every 11 months of service. Encashment of leave at the end of the tenure will not be included in computation of the ceiling on perquisites.

ix. Telephone:

Free telephone facility at the residence for the use of the Company's business.

x. Car

Use of Company's Car on Company's business with Driver and all expenses on repairs & maintenance and cost of petrol

(Provision of Car for use of Company's business and telephone at residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose to be billed by the Company to Executive Director).

Any other perquisites that may be allowed as per the guidelines issued by the Central Government from time to time.

"Resolved Further that in the event of loss or inadequacy of profit in any financial year of the Company during the term of her office as Executive Director, the remuneration and perquisites set out above be paid or granted to Smt. T Sarita Reddy as minimum remuneration stipulated in Section II of part II of Scheduled XIII of the said Act or such other amount and perquisites as may be provided in the said Scheduled XIII as may be amended from time to time or any equivalent statutory re-enactment(s) thereof".

"Resolved Further that the Board of Directors be and is hereby authorised to alter, vary such salary, commission and perquisites as may be permitted by any applicable law from time to time during the said period of office and as may be agreed to by the Board of Directors of the Company and Smt. T Sarita Reddy".

7. To appoint Sri Abhay Soi as Director of the Company.

To Consider and, if thought fit, to pass with or without modifications the following resolution as an ordinary resolution:

"RESOLVED THAT Sri Abhay Soi, who was appointed as an additional Director as per Section 260 of the Companies Act, 1956 and Article 98 of the Articles of Association of the company who holds office up to the date of this meeting, be and is hereby appointed as a Director of the Company."

Item No.8: To modify the Articles of Association (AA)of the company

To Consider and, if thought fit, to pass with or without modifications the following resolution as an ordinary resolution:

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“RESOLVED THAT pursuant to Section 31 of the Companies Act, 1956, the Articles of Association be and hereby altered as per terms and conditions of the Debenture Agreement dated 30.03.2008 signed with M/s. Rajasthan Leasing Private Limited as given below :

2. Interpretation of AA:- Addition of these clauses

- z) “Investment Amount” shall have the meaning ascribed in the Debenture Agreement dated 30.03.2008.
- aa) “Investor” shall have the meaning ascribed in the Debenture Agreement dated 30.03.2008
- bb) “Lien” means any mortgage, charge, pledge, hypothecation, security interest, encumbrance, or any other similar monetary obligation having similar effect.
- cc) “Fixed Assets” mean the assets of the Company as detailed in Annexure A of the Debenture Agreement and shall include any future assets of the Company.
- dd) “Securities” shall mean The Debentures stipulated in the Debenture Agreement dated 30.03.2008 which shall be secured by the Company as mentioned therein.
- ee) “Management Personnel” shall mean and include all such employees of the Company who have the designation of a manager or any higher designation in the Company.
- ff) “Debentures” means 350 (three hundred and fifty) number of 14% non convertible debentures of Rs. 1,000,000/- (Rupees One Million each) which are issued to the Investor under the terms of the Debenture Agreement pursuant to the Investment Amount extended by the Investor to the Company.
- gg) “Redemption Schedule” shall be as described in Annexure C of the Debenture Agreement.
- hh) “Breach” means any act or omission or untrue, inaccurate or misleading statement or negligent act or misrepresentation that constitutes a material breach of an obligation, representation, warranty or covenant including by way of a fraud, by the Company and the Promoters and includes the failure of the Company and the Promoters to perform their respective

obligations the Debenture Agreement and the term “Breached” would be construed accordingly.

- ii) “Penal Interest” means penal interest at the rate of 1.5% (one and half percent) per month which the Company agrees to pay to the Investor if the Debenture is not redeemed in accordance with the Redemption Schedule and Interest accruing and becoming due under the Debenture Agreement and not paid on the Due Date.

- jj) “Due Date” means, in respect of :

Debentures - the date on which redemption is to be effected in accordance with the Redemption Schedule; and

Interest including Penal Interest the date on which such Interest or Penal Interest falls due.

120. QUORUM :The clause is modified as follows:-

The quorum for a Board Meeting of the Company shall be any 3 (three) directors, whether present in person or through an alternate director both at the beginning and throughout the Board Meetings including at the beginning or throughout any adjourned meeting. The attendance of the director nominated by the Investor shall be necessary to constitute the quorum for any meeting of the Board of Directors of the Company.

130A. MATTERS REQUIRING APPROVAL OF THE INVESTOR (Addition of these Clauses) :

The Company shall not and the Promoters shall cause the Company to not, decide the following matters without the prior written approval of the Investor or the Investor nominated director:

- a) Create or permit any Lien on or transfer or alienate, in any manner any of the Fixed Assets of the Company provided as a Security for the Debentures.
- b) Create any liabilities relating to any “cane areas”.
- c) Declare dividends or make any shareholder advances.
- d) Alter the capital structure of the Company or issue any equity or equity linked securities.

- e) Undertake or permit any joint venture, merger, consolidation, reorganization of capital structure, scheme of arrangement, or compromise with its long term creditors excluding creditors in the ordinary course of business or shareholders, or effect any scheme of amalgamation or reconstruction.
 - f) Undertake any project for modernization, diversification or substantial expansion of any projects.
 - g) Undertake any public offering including decisions of fixing the issue price.
 - h) Change the composition of the Board of Directors.
 - i) Alter the Charter Documents of the Company.
 - j) Take on any further debt (including but not limited secured or unsecured loan, debentures, working capital loans and deposits).
 - k) Issue any guarantees or encumber the Fixed Assets of the Company.
 - l) Acquire, sell, lease, transfer or otherwise dispose off, whether by one transaction or by a series of transactions, any asset or create any security interest on any of the Company's assets.
 - m) Appoint or terminate the employment of the Key Management Personnel.
 - o) Engage in any related party transactions.
 - p) Change the remuneration of the executive directors or of the Promoters of the Company.
 - q) Alter any material contracts entered into by the Company or execute or renew any material contracts by the Company.
 - r) Incur capital expenditure which exceeds Rs. 5,000,000/- over and above the capital expenditure approved under Annexure H as per Debenture Agreement dt. 30.03.08.
 - s) Create new subsidiaries or further invest in existing subsidiaries or affiliate companies.
 - t) Acquire shares of any listed or unlisted company.
 - u) Transact arrangements involving any guarantee to be given in favour of the Promoters.
 - v) Commence, compromise or discontinue any legal or arbitration proceedings.
 - w) Maintain a current ratio of a minimum of 1.15.
 - x) Enter into or vary in any material respect any transaction otherwise than in the ordinary course of trading and on arm's length terms.
 - y) Engage in any new business activities.
 - z) Contract arrangements between the Company and the Promoters.
 - aa) All matters not specified in the agenda for meetings of Board of Directors.
134. DEBENTURE DIRECTOR : The articles to be altered as follows:
- The Investor shall have the right to appoint 1 (one) nominee as director on the Board of Directors of the Company, and shall also have the right to appoint 1 (one) nominee as alternate director. Further, the Investor shall have the right to have its nominee director or alternate director be appointed to any committees or sub committees of the Board of Directors. Therefore, a quorum of the committees and sub committees of the Board of Directors shall exist only if the nominee director or alternate director of the Investor is present at their meetings.
- 134A. EVENTS OF DEFAULT (Addition of these Clauses) :
- If one or more of the events specified below (hereinafter referred to as the "Event of Default"), happen(s), the Investor may, declare that the secured amounts to be due and payable forthwith, subject to a written notice of thirty (30) days ("Cure Period"), provided by the Investor to the Company to remedy such breach:
- a. Default has occurred in redemption of the Debentures in accordance with the Redemption Schedule and/or default in payment of Interest on the Due Date and the Investor has not given any written approval for extending the Due Date.

- b. Default has occurred with respect to other lenders. With respect to the cross default as mentioned herein, the Event of Default with respect to the Investor would be deemed to have occurred 1 (one) day prior to the occurrence of such default vis-à-vis the other lenders.
- c. In the opinion of the Investor breach has been committed by the Company in respect of any Detailed Warranties and Representation.
- d. Default has occurred in the performance of any other covenant, condition precedent or subsequent or agreement on the part of the Company under this Agreement and/ or any other agreement.
- e. If the Fixed Assets offered to the Investor as security for the Debentures have not been kept insured by the Company or depreciate in value to such an extent that, in the opinion of the Investor further security to the satisfaction of the Investor should be given and on advising the Company to that effect such security has not been given to the Investor within one (1) month from the date of intimation.
- f. Default to pay any liabilities, contingent or otherwise, relating to the period before Closing.

Notwithstanding the above, the occurrence of the following events shall also be construed as Events of Default for which there shall be no Cure Period and the Investor shall not be obligated to provide any notice to the Company.

- a. If any proceedings for taking the Company into liquidation, either voluntarily or compulsorily, have been commenced against the Company.
- b. The Company has voluntarily or involuntarily become the subject of proceedings under any bankruptcy or insolvency law or the Company voluntarily or involuntarily is dissolved.
- c. The Company is unable under Section 434 of the Companies Act, 1956, to pay its debts or has admitted in writing its inability to pay its debts as they mature.
- d. A receiver or liquidator has been appointed or allowed to be appointed for all or any part of the undertaking of the Company.
- e. An attachment or distraint has been made on the Fixed Assets of the Company.
- f. Delay in initiating the process for creation of security on assets as detailed in Clause 3 and in the event of acquisition of any new assets, delay in the process for initiating creation of security on the new assets in excess of 60 (sixty) days from date of acquisition.
- g. If, without the prior written approval of the Investor, any Fixed Assets charged to the Investor are sold, disposed of, charged, encumbered or alienated or removed, pulled down or demolished.
- h. The Company ceases to carry on its business or gives notice of its intention to cease.

If any Event of Default or any event, which after the notice, or lapse of time, or both, would constitute an Event of Default, has happened, the Company shall, forthwith give notice thereof to the Investor in writing specifying the nature of such Event of Default, within 5 (five) days of such event. This notice is without prejudice to the notice that may be provided by the Investor to the Company under Clause 9.1.

134B. CONSEQUENCES IN EVENT OF DEFAULT (Addition of these Clauses) :

- 1. A penalty of 1.5% (one and half percent only) per month on the Investment Amount along with Interest shall be charged during the course of the Event of Default, which shall be paid to the Investor distinct from any other amounts payable to the Investor by the Company.
- 2. The Investor shall have the right to put the Debentures on the Promoters by issuing a notice to that effect to the Promoters. Upon issue by the Investor of the notice intimating the Promoters of its intention to put the Debentures, the Promoters shall within seven (7) days from the receipt of such notice purchase the Debentures for a consideration, which shall not be less than the aggregate of the following:
 - (a) Outstanding amount relating to the unredeemed Debentures on the date of exercise of the put option;

- (b) Interest outstanding as on the date of exercise of the put option; and
- (c) Penal Interest outstanding as on the date of exercise of the put option.
3. If the Event of Default remains uncured beyond the Cure Period, the Investor shall be entitled to enforce the Securities created herein, in a manner as determined by the Investor, in its sole discretion.
4. Notwithstanding the foregoing, the Investor shall have the right to force redemption, on the Company and the Promoters, individually or severally at the discretion of the Investor, of the Debentures, Interest and Penal Interest due along with enforcing the Securities under this Agreement.
5. In the event the Company is unable to redeem the Debentures, Interest and Penal Interest, the Investor shall have the right to call such number of the Promoters' shares in both the Company and GSR Sugars Private Limited ("Call Shares") as is required by the Investor at an aggregate purchase price Re. 1 (Rupee One only). The Investor shall be entitled to sell the Call Shares to any third party, without restriction, to enable the Investor to recover the unredeemed Debentures and unpaid Interest and/or Penal Interest. However, the Investor will permit the Promoters to exercise a first right of refusal over the Call Shares. In the event the Promoters do not exercise their first right of refusal over the Call Shares or do not respond to the Investor's offer of the Call Shares within seven (7) days from the date the Investor offers to sell the Call Shares, the Investor shall be free to sell the Call Shares to any third party without further notice to the Promoters. This right is without prejudice to the rights of the Investor to enforce the Securities pledged in its favour.

For and on behalf of the Board

T Indira Subbarami Reddy
Chairperson

Place : Hyderabad

Date : 30th August 2008

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

Item No. 5:

Company has availed an amount of Rs.35 crores as debentures from the Rajasthan Leasing Private Limited (RLPL) to repay the term loan of IDBI and IFCI who has waived off Rs. 6.20 crores. The debentures from RLPL has to be secured by way of mortgage of all the immovable and movable properties of the company both present and future in favour of the Debenture Trustee namely IDBI Trusteeship Services Limited (ITSL). Section 293(1)(a) of the Companies Act 1956, provides that the Board of Directors of a public limited company shall not without the consent of the members sell, lease or otherwise dispose off the whole or substantially the whole of the undertaking of the company. Since, the mortgaging by the company of its immovable properties as aforesaid in favour of ITSL may be regarded as disposal off the company's properties/undertakings it is necessary for the members to pass a resolution authorizing creation of said mortgage/charges which includes the power to sale/dispose of the fixed assets of the company, the approval of shareholders are required for creation of the security in favour of the debenture trustee. Therefore, the shareholders are requested to give their consent for creation of security in favour of ITSL to secure the debentures subscribed by RLPL.

The Board commends the resolution for the approval of the members. None of the Directors except Sri Abhay Soi Nominee Director of RLPL is interested in the above resolution.

All the documents/correspondence referred to in the notice and the explanatory statement are available for inspection at the Registered Office of the Company between 10.30 AM and 1.00 PM on any working day prior to the meeting.

Item no. 6:

Smt. T Sarita Reddy has been appointed as the Executive Director with effect from 27th October 2006. After her taking over the management of the company, she has planned for starting of the distillery unit, as the same was required to improve the company's financials. The project

was implemented in the month of May 2007 and the distillery division is making reasonable profits. The salary of Smt. T Sarita Reddy has been fixed at very low while appointing her in October 2006 and the salaries for the managerial personnel in the similar industry/ other industries are much higher. As the company is having the accumulated losses as on 31.03.2008, the salary & perquisites can be fixed within the guidelines given in the Part II of the Schedule XIII of the Companies Act, 1956.

Accordingly the board of directors has approved the increase in the remuneration w.e.f. 1st September 2008 as set out in the resolution subject to the approval of the shareholders at their General Body Meeting.

None of the directors are interested in the said resolution except Smt. T Indira Subbarami Reddy, Sri. T V Sandeep Kumar Reddy and Smt. T Sarita Reddy

Item No.7:

Board of Directors of the company at their meeting held on 28.04.2008 approved the appointment of Sri Abhay Soi, as an Additional Director of the company who holds office upto the date of this Annual General Meeting.

Sri Abhay Soi is MBA (Finance), Bachelor in Arts (Economic and History) was worked as Head Corporate Finance Restructuring at Earnst & Young India (P) Ltd and Corporate Finance at KPMG & Corporate Finance at Arthur Andersen.

Notice under Section 257 of the Act, has been received from a member proposing the appointment of Shri Abhay Soi as director of the company.

The board of directors commends the resolution for your approval.

None of the directors except Sri Abhay Soi is interested or concerned in the resolution.

A copy of the board resolution dated 28.04.2008 and a copy of the Memorandum and Articles of Association of the company are available for inspection at the Registered office of the company between 10.00 AM to 1.00 PM on any working day.

Item no. 8

As per the terms and conditions of the debentures agreement with Rajasthan Leasing Private Limited (RLPL) for availing the Non-Convertible Debentures (NCDs) amounting to Rs.35 crores, company has to alter the Articles of Association (AA) incorporating certain points from the debenture agreement. As required by the RLPL and on the advise of the legal consultants some of the clauses are to be included and to be modified in the AA .

The board of directors commends the resolution for your approval.

None of the directors except Sri Abhay Soi, the nominee director of RLPL is interested or concerned in the resolution.

For and on behalf of the Board

T Indira Subbarami Reddy
Chairperson

Place : Hyderabad

Date : 30th August 2008

DIRECTORS' REPORT

Dear Members,

Your Directors are pleased to present the Thirteenth Annual Report of your company along with the Audited Accounts for the year ended 31st March 2008.

FINANCIAL RESULTS	(Rs in Lakhs)	
Description	2007-08	2006-07
Sales	7033.66	10056.82
Increase/(Decrease) in stocks	1216.61	262.45
Profit/(Loss) before depreciation and interest	75.66	1344.69
Interest	1064.05	617.42
Depreciation	515.04	382.37
Profit/(Loss) before tax	(1503.43)	344.90
Non-Recurring Income – Remission of FITL	619.69	—
Provision for tax	4.42	35.73
Profit/(Loss) after tax	(888.16)	309.17

REVIEW OF OPERATIONS

Performance during the financial year 2007-08

Your Directors are pleased to report that during the year under review, the company's crushing operations for the season 2006-07 has continued till 12th May 2007. The crushing operations for the season 2007-08, has commenced on 14th November 2007. As on 31st March 2008, the company has crushed 4.74 Lakh Tonnes of sugar cane with an average recovery of 10.04% during the year.

The operations of 50KLPD Distillery Unit has started on 28.05.2007 and produced to the extent of 66.42 Lakh Litres of Rectified Spirit (RS)/Extra Neutral Alcohol (ENA) till 31.03.2008. Company has sold 51.94 Lakh Litres of RS/ENA with an average realization of Rs.19.57 per litre.

Prospects for the financial year 2008-09

Company has crushed 0.71 Lakh tones of sugar cane from 1st April 2008 to 14th May 2008 with average recovery of 9.28%. The Company is estimating to crush 4.50 lakh tones of sugar cane during the

current year. The Company is estimated to produce RS/ENA around 75 Lakh litres during the current accounting year.

DIVIDEND ON PREFERENCE SHARES

As the company incurred losses during the year under review, the Directors have not recommend dividend of 6% on Cumulative Redeemable Preference Shares.

LISTING OF SECURITIES

The company's shares are listed with Stock Exchange, Mumbai and the annual listing fee for the year 2008-09 has been paid to the Stock Exchanges at Mumbai. The de-listing of Equity shares of the Company from the Hyderabad Stock Exchange Limited, Hyderabad has been submitted to the stock exchange and a time period of more than one year has elapsed since making the application, the de-listing is deemed to have been accepted & implemented by Stock Exchange, Hyderabad.

DIRECTORS

Sri TR Rajagopalan and Sri S Venkataswamy will retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for reappointment.

Sri N Nageswara Rao has resigned as the Director of the company and the board has appreciated the services of Sri N Nageswara Rao during his tenure as director.

During the year Sri Abhay Soi has been appointed as Nominee Director on the Board of your company representing the Rajasthan Leasing Private Limited (RLPL).

PUBLIC DEPOSITS

The Company has not accepted any deposits from the public during the year under review.

PARTICULARS OF EMPLOYEES

There are no employee in the company who are drawing prescribed salary under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

AUDITORS

The Auditors M/s. C.B. Mouli & Associates, Chartered Accountants, Secunderabad will retire at the conclusion of the ensuing Annual General Meeting. As per the requirement of the RLPL, company's directors have recommended for appointing M/s. Deloitte Haskins & Sells, Chartered Accountants, Secunderabad as the Statutory Auditors of the company from the ensuing Annual General Meeting. They have signified their willingness to accept appointment and have further confirmed their eligibility under Section 224 (1-B) of the Companies Act, 1956.

COST AUDIT

The Central Government pursuant to Section 233 B of the Companies Act, 1956 has ordered that the company carries out an audit of cost accounts relating to sugar every year. Sri S P Sarma, Cost Accountant was appointed as Cost Auditor of the company for the year 2008-09.

CONSERVATION OF ENERGY, ETC

Information relating to Conservation of energy, Technology Absorption and Foreign Exchange Earnings and Outgo as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of the Particulars in the Report of Board of Directors) Rules, 1988 is given in Annexure-A which forms part of this Report.

CORPORATE GOVERNANCE

Pursuant to clause 49 of the Listing Agreement, a report on Corporate Governance and a certificate from the auditors of the company is given in the Annexure – B and Annexure–C respectively, which forms part of this report.

MERGER

Your directors are proposing to merge the M/s GSR Sugars Private Limited (group company) with the company for consolidation of the business and for future growth of the company. A merger committee has been formed at the Board Meeting held on 29.07.2008, with two directors from the company and one director from M/s. GSR Sugars Private Limited to evaluate, discuss and finalize the scheme of merger.

DIRECTORS RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217

(2AA) of the Companies Act, 1956 your directors state:

1. That in preparation of the Annual Accounts the applicable Accounting Standards have been followed by the company;
2. That your directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the company as at 31.03.08 and of the profit or loss of the company for the year ended on that date;
3. That your directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with provisions of the Companies Act, 1956 for safe guarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. That your Directors have prepared annual accounts on a going concern basis.

INDUSTRIAL RELATIONS

The Industrial Relations continued to be peaceful during the year.

ACKNOWLEDGEMENTS

The Board of Directors would like to place on record their appreciation of the assistance and guidance extended by the Financial Institutions/Banks viz, IDBI, IFCI, IOB, CDR cell, SBI, BOB, AB and PNB. Your Directors express their gratitude to the shareholders for the confidence reposed in the management. Your Directors also place on record their sincere appreciation of the total commitment and hard work put in by all the employees of the company.

For and on behalf of the Board

T Indira Subbarami Reddy
Chairperson

Place : Hyderabad

Date : 30th August 2008

Annexure - A to Directors' Report

Information required under Section 217(1)(e) read with the Companies (Disclosure of Particulars in respect of Board of Directors) Rule, 1988.

A. CONSERVATION OF ENERGY

- | | | |
|---|---|---|
| a) Energy Conservation Measures | : | <ul style="list-style-type: none"> i. Common condensate and Flash system are provided to Evaporators. This has reduced the power consumption to the extent of 20HP. There is a steam saving of around 1.5% on cane in view of the provision of Flash system. ii. One multijet condenser is replaced by single entry SS condenser has resulted in saving of power. |
| b) Additional Investment and Proposals, if any, being implemented for reduction of Consumption of energy | : | <p>Company is spending around Rs. 11 crore and adding the following equipments for the conservation of energy by using the bagasse in effective manner at distillery unit:-</p> <ul style="list-style-type: none"> i. 16 Tonne per hour capacity boiler. ii. 1.0 MW Turbine for power generation. iii. Evaporators for evaporation of spent wash. |
| c) Impact of the measures at (a) and (b) above for reduction of consumption and consequent impact on the cost of production | : | <p>The above measures will result in the following advantages:-</p> <ul style="list-style-type: none"> i. Steam & power required will be met from new boiler & turbine instead from the sugar unit saves 3.50 tonnes bagasse / hour. ii. Sugar factory can be operated at rated capacity of 3500 TCD. iii. Spent wash quantity will be reduced to 20% of the volume and reduce the pollution control problems. |
| d) Total energy consumption and energy consumption per unit of production as per Form A. | : | Enclosed |

B) TECHNOLOGY ABSORPTION:

- | | | |
|---|---|--|
| e) Efforts made in technology as per Form B | : | Plant as per standard specifications of Government of India. |
|---|---|--|

C) FOREIGN EXCHANGE EARNINGS & OUTGO:

- | | | |
|--|---|---|
| f) Activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services; and export plans. | : | Nil |
| g) Total Foreign exchange used | : | Total Foreign Exchange used Rs. Nil
Total Foreign Exchange earned – Rs.Nil |

FORM A

(See Rule 2)

FORM OF DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

	Current year (2007-08)	Previous year (2006-07)
A) POWER AND FUEL CONSUMPTION		
1) ELECTRICITY		
a) PURCHASED		
Units KWH (Lakhs)	6.14	4.25
Total Amount (Rs.Lakhs)	30.37	20.19
Rate/Unit (Rs.)	4.95	4.74
b) OWN GENERATION		
i) Through Diesel Generator		
Units KWH	5100	4788
Unit per Ltr. of Diesel Oil- KWH	1.92	2.08
Cost/Unit (Rs.)	17.57	17.21
ii) Through Steam Turbine/Generator		
Units KWH (lacs)	248.52	247.48
Units per ton of Bagasse/paddy husk	155.09	152.19
Cost/Unit (Rs.)	1.93	1.97
2) COAL		
Qty. (Tons)	Nil	Nil
Total Cost (Rs lacs)	Nil	Nil
Average Rate (Rs.)	Nil	Nil
3) PADDY HUSK		
Qty. (Tons)	Nil	48.00
Total Cost (Rs Lacs)	Nil	0.44
Average Rate (Rs.)	Nil	921.81
4) BAGASSE		
Qty. (Tons)	160234	162609
Total Cost (Rs Lacs)	480.70	487.83
Cost Per Ton (Rs.)	300	300
5) FURNACE OIL		
Qty. (Tons)	Nil	Nil
Total Cost (Rs lacs)	Nil	Nil
Average Rate (Rs.)	Nil	Nil
6) DIESEL OIL		
Qty. (Ltrs)	2655	2300
Total Cost(Rs Lacs)	0.90	0.82
Average Rate (Rs.)	33.75	35.84
B) CONSUMPTION PER UNIT OF PRODUCTION		
Electricity Per Ton of sugar (KWH)	336*	188

*Consumption per unit has increased on account of running of the plant with 100% Electrification as compared to the previous year, which was partially running with direct steam from the Boiler.

Annexure - B to Directors' Report

Corporate Governance Report

A. Corporate Governance Philosophy

The Company is a firm believer in core values of Corporate Governance Code. The company fully understands the rights of its shareholders to have information on the performance of the company and considers itself a trustee of its shareholders. The company is committed to good corporate governance, adherence to Statutory and regulatory prescriptions, care for environment and social responsibility.

The Company has adopted a code of conduct for members of the Board and senior management, who have all affirmed in writing their adherence to the code.

B. Board of Directors

i) The composition of the Board is well balanced with expertise drawn from Industry, Management, Finance and Agriculture.

The composition of the Board as on 31.03.2008 is as follows:

Name of the Director	Category	No. of Directorships held in other Companies	
		Public	Private
Smt. T Indira Subbirami Reddy	Non Executive Chairman	5	19
Sri T V Sandeep Kumar Reddy	Executive Vice Chairman & MD	11	19
Sri DK Kambale	Independent (IDBI Nominee)	1	Nil
Sri V Udhyha Shanker	Independent (IFCI Nominee)	Nil	Nil
Sri N Nageswara Rao	Non Executive / Independent	3	5
Sri T R Rajagopalan	Non Executive / Independent	1	3
Sri S Venkata Swamy	Non Executive / Independent	Nil	3
Dr A K Bhattacharya	Non Executive / Independent	2	1
Smt. T Sarita Reddy	Executive Director	5	11

There have been no changes in the composition of the Board of Directors. However Sri. N Nageswara Rao, has resigned w.e.f 28.04.2008 and Sri. Abhay Soi has been appointed as Nominee Director representing Rajasthan Leasing Private Limited w.e.f. 28.04.2008.

ii) Meetings held in the Financial Year 2007-08 and the attendance of Directors.

The Board meets at least once in a quarter to consider among other business, the quarterly performance of the company and financial results. During the financial year 2007-08, the Board held 6 meetings on 30th April 2007, 31st July 2007, 14th September 2007, 31st October 2007, 31st January 2008 and 25th March 2008.

Sl. No.	Name of the Director	No. of Board Meetings Attended	Attendance at last AGM Held on 14.09.2007
1	Smt. T Indira Subbirami Reddy	2	Present
2	Sri T V Sandeep K Reddy	6	Present
3	Sri DK Kambale (IDBI Nominee)	3	Not Present
4	Sri V Udhayashankar (IFCI Nominee)	3	Not Present
5	Sri N Nageswara Rao	2	Not Present
6	Sri T R Rajagopalan	5	Present
7	Sri S Venkata Swamy	6	Present
8	Dr A K Bhattacharya	5	Present
9	Smt. T Sarita Reddy	6	Present

C. Audit Committee

i) Brief Description of terms of reference

The Audit committee is responsible for overseeing the company's financial reporting process, reviewing with the management the financial statements and adequacy of internal audit function and discuss significant internal audit findings.

The terms of reference of the Audit Committee covered most of the aspects stipulated by SEBI in the year 2000. The terms of reference fully conform to the requirements of Section 292A of the Companies Act, 1956 and as specified in Clause 49 of the Listing Agreements with the stock exchanges.

ii) Meetings held in the Financial Year 2007-08 and the attendance of Directors.

The composition of the Audit Committee and the attendance of each director at these Meetings was as follows:

S.No.	Members of the Audit committee	No.of meetings Attended
1	Sri T R Rajagopalan (Chairman)	5
2	Sri V Udhayashankar (IFCI Nominee)	3
3	Smt T Sarita Reddy	5

The Audit Committee meetings were held five times during the financial year 2007-08, i.e on 30th April 2007, 31st July 2007, 14th September 2007, 31st October 2007 and 31st January 2008.

D. Remuneration Committee

i) Composition of the members, Meetings held in the Financial Year 2007-08 and the attendance of Directors

The Remuneration Committee consists entirely of Non Executive Directors and the composition is as follows:

1.	Sri T R Rajagopalan (Chairman)
2.	Sri S Venkataswamy
3.	Sri. V. Udaya Shankar

One Remuneration Committee meeting was held on 30th April 2007 during the financial year 2007-08 and all the directors were present.

ii) The Remuneration policy of the Company is summarized as follows:

i) For Managing Director:

The total remuneration, subject to shareholders approval consists of

- a fixed component consisting of salary, allowances and perquisites and benefits are in line with the Company's rules for senior managerial personnel
- a variable component linked to the performance of the Company as well as the Managing Director consisting of Commission and special allowances as determined by the Remuneration Committee.

ii) For Non Executive Directors

Sitting fees is paid as per the Companies Act, 1956 and the Articles of Association of the Company, for attending meetings of the Board or any committees of the Board. The Directors are also reimbursed actual travel costs and incidental expenses incurred for attending such meetings or in connection with the Company's business.

iii) Remuneration and sitting fees paid to the directors during the financial year 2007-08.

Name of the Director	Category	Remuneration payable/paid	
		Salary & Perks (Rs. Lakhs)	Sitting fees (Rs.)
Smt. T Indira Subbirami Reddy	Non Executive Chairman	—	2,000
Sri T V Sandeep Kumar Reddy	Executive Vice Chairman & Managing Director	—	1,000
Sri DK Kambale	Independent-IDBI Nominee	—	3,000
Sri V Udhayshankar	Independent-IFCI Nominee	—	7,000
Sri N Nageswara Rao	Non Executive / Independent	—	2,000
Sri T R Rajagopalan	Non Executive / Independent	—	11,000
Sri S Venkata Swamy	Non Executive / Independent	—	7,000
Dr A K Bhattacharya	Non Executive / Independent	—	5,000
Smt. T Sarita Reddy	Executive Director	16.19	—

E. Shareholders Grievance Committee

- i) The composition of Shareholders / Investors grievance committee and attendance of the directors at these meetings was as follows:

S.No.	Members of the committee	No. of meetings attended
1	Sri S Venkataswamy (Chairman)	Nil
2	Sri T V Sandeep Kumar Reddy	Nil
3	Smt T Sarita Reddy	Nil

There was no meeting held by Shareholders / Investors' Grievances Committee on account no complaints from the shareholders.

- ii) Sri Chinna Gurappa, Vice President (Finance & Accounts) is the Compliance Officer of the Company.
 iii) The status of investors queries / complaints is as under:-

No. of Investor queries / complaints received in the year 2007-08	Pending at the end of the year 2007-08	No. of pending share transfers
Nil	Nil	Nil

F. General Meetings

- i) The Annual General Meetings of the company (AGMs) have been held at the following places during the last three years.

Year	Venue	Day and Date	Time
2006-07	Dr K L N Prasad Auditorium, Federation House, Door No 11-6-841, Red Hills, Hyderabad-500004.	Friday the 14 th day of September 2007	10.30 AM
2005-06	Dr K L N Prasad Auditorium, Federation House, Door No 11-6-841, Red Hills, Hyderabad-500004.	Wednesday the 27 th day of September 2006	3.30 PM
2004-05	Dr K L N Prasad Auditorium, Federation House, Door No 11-6-841, Red Hills, Hyderabad-500004.	Tuesday, the 27 th day of September, 2005	3.00 P M

All the Special Resolutions placed before the shareholders at the above meetings were approved. There were no resolutions requiring approval through Postal Ballot.

G. Disclosures

i) Disclosures on materially significant related party transactions

There have been no materially significant related party transactions with the Company's Promoters, Directors, the Management, their subsidiaries or relatives which may have potential conflict with the interests of the company. The necessary disclosures regarding the transactions with Related Parties are given in the Notes to the Accounts.

ii) Risk Management

Business risk evaluation and management is an ongoing process with the organization.

iii) Details of Non-compliance by the company, penalties, strictures imposed on the company by the Stock Exchanges, SEBI or any Statutory Authorities or any matter related to capital markets.

The company has complied with all the requirements of the listing agreement with the stock exchanges as well as regulations and guidelines of SEBI. No penalties or strictures imposed by SEBI, Stock Exchanges or any Statutory Authorities on matters relating to the capital markets during the last three years.

iv) Means of Communication

The quarterly, half yearly un-audited financial results and the annual audited financial results are published in leading News Papers namely Business Standard and Andhra Bhoomi.

H. Management's Discussion and Analysis Report

i) Management's discussion and Analysis

Overall review:

The Company has crushed 4.74 lakh tonnes (previous year 5.68 lakh tonnes) of sugar cane with an average recovery of 10.04% (previous year 9.83%). The Company has sold 4.33 lakh quintals (previous year 5.28 Lakh quintals) of sugar. The company's average sales realization of sugar has decreased to Rs.1191/- per quintal during the current year as compared to Rs.1580/- per quintal in the previous year on account of downturn in the sugar market. Company has incurred loss on account of lower selling prices and higher cane price during the previous year.

Sugar Industry Analysis:

The sugar production in India has touched 26.5 million tonnes in the season 2007-08 was slightly lower than the previous season sugar production of 28.5 million tonnes. This fall in production of sugar during the sugar season 2007-08 will result in firming up of the sugar prices in future as the sugar stocks are also getting reduced due to increased export of sugar, which is expected to touch around 4.2 million tonnes. The expected sugar consumption in India is around 21 million tonnes per annum. The expected sugar production in India for the next sugar season 2008-09 would be around 21.50 million tonnes on account of fall in sugarcane due to un-remunerative sugar cane rates.

In view of the situation Government of India has withdrawn the buffer stock created during the previous sugar season and allowed the industry to sell the sugar held in buffer stock in phases to control the sugar price. Indian Sugar Mills Association is pursuing with Government of India to decontrol the sugar industry, to get the long term export policy to get the higher realization, to assist the sugar exporting factories to mitigate the losses in export, to mandate the blending of ethanol at 10% with petrol and also aim at the final target at 25% as was done in Brazil. Also pursuing to reduce the weightage of sugar in wholesale price index, to advise the state utilities to pay remunerative price for energy export by the Co-generation plants in India.

Production:

The company has achieved a sugar production of 47564 tonnes during the year as compared to the production of 55878 tonnes during the previous year.

Revenue:

Turnover during the year was lower at Rs. 70.34 crores as compared to Rs.100.57 crores during the previous year.

I Compliance Certificate by the Auditors

Certificate by the Statutory Auditors has been obtained on the compliance of the conditions of Corporate Governance in terms of Clause 49 of the Listing Agreement with Stock Exchanges and the same is annexed.

J General Shareholders' information

a) Annual General Meeting

Day, Date and Time	Tuesday the 30 th day of September, 2008 at 11.30 A.M
Venue	Bharatiya Vidya Bhavan, Kulapati Munshi Sadan, 5-9-1105, Basheerbagh, King Koti Road, PB no.1088, Hyderabad – 500 029.

b) Profile of Directors seeking reappointment/appointment

Brief resume of Directors and nature of their expertise in functional areas	Directorships / Committee Memberships in other companies	Shareholding in the Company
a. Sri TR Rajagopalan is a MA, MSc, CAIIB. He is a Retd. GM SBI and has experience of 41 years and aged about 68 years. He is the chairman of the Audit Committee and Remuneration Committee.	He is nominee director in three private limited companies representing IRDA	Nil
b. Sri S Venkata Swamy is BSc., ANSI, MA, LLB has versatile experience of over 47 years and aged about 74 years. He is member in the remuneration committee and Chairman of the Shareholders Grievance Committee.	He is on the Boards of Eco Boards Limited, Prabulingaswaer SSK Limited, Jagruthi Co-Op Urban Bank Limited.	Nil
c. Sri Abhay Soi is MBA (Finance), Bachelor in Arts (Economic and History) aged about 35 years. He worked as Head Corporate Finance Restructuring at Earnst & Young India (P) Ltd and Corporate Finance at KPMG & Corporate Finance at Arthur Andersen	Managing Director in Halcyon Resources & Management Pvt.Ltd and Director in Rajasthan Leasing Pvt.Ltd, Halcyon GB Holdings Pvt. Ltd, Gandak Pvt.Ltd, Sports Station India Ltd, SSIPL Retail Pvt. Ltd, and Neo Legno Products Pvt.Ltd	Nil

c) Financial calendar

Annual General Meeting	September 2008
Un-audited results for the	
quarter ending 30 th June 2008	July 2008
quarter ending 30 th September 2008	October 2008
quarter ending 31 st December 2008	January 2009
Audited results for the quarter ending 31 st March 2009	Before end of May 2009

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- d) Book Closure date : 27.09.2008 to 30.09.2008
 e) Dividend Payment date : Not Applicable

f) Listing on Stock Exchanges

The Company's equity Shares are listed on the Stock Exchanges located at: - Mumbai (Listing fees have been paid for the year 2008-09 on all the above Stock Exchanges)	Address of the Stock Exchanges: The Stock Exchange, Mumbai (BSE) P J Towers, Dalal Street, Mumbai – 400 001.
ISIN No. for the Company's equity shares in Demat Form	INE 622 E01015
Depositories Connectivity	NSDL and CDSL

g) Stock market data

Month	High Rs.	Low Rs.	Volume (Nos)
April 2007	8.60	7.00	1886416
May 2007	8.80	6.90	1705082
June 2007	7.79	6.52	1550509
July 2007	7.80	6.30	1697629
August 2007	7.10	5.61	1560055
September 2007	9.34	6.42	5423904
October 2007	8.89	6.15	3255967
November 2007	7.95	6.35	2161887
December 2007	15.02	6.81	14574943
January 2008	15.07	7.60	4353207
February 2008	9.61	7.10	983131
March 2008	8.20	5.10	1474185

h) Shareholding Pattern

Equity Shares of Rs.10/- each

Shareholders	As on 31 st March, 2008		As on 31 st March, 2007	
	No. of Shares	%	No. of Shares	%
Promoters	15319668	35.64	15319668	35.64
Financial Institutions and Banks	4407820	10.25	4407820	10.25
Private corporate bodies	3146068	7.32	3511894	8.17
Indian Public	19971969	46.45	19503462	45.36
NRI/OCB	147615	0.34	250296	0.58
Total	42993140	100.00	42993140	100.00

g) Distribution of Shareholding as on 31st March, 2008

Nominal Value (Rs.)	Holders		Amount	
	No	% to Total	In Rs.	% to Total
Upto 5000	13089	64.40	3,48,96,960	8.12
5001-10000	3887	19.12	3,52,89,230	8.21
10001-20000	1729	8.51	2,88,08,090	6.70
20001-30000	540	2.66	1,44,15,150	3.35
30001-40000	251	1.23	93,09,630	2.17
40001-50000	289	1.42	1,39,89,860	3.25
50001-100000	311	1.53	2,41,82,710	5.62
100001 and above	229	1.13	26,90,39,770	62.58
TOTAL	20325	100.00	42,99,31,400	100.00

j) Dematerialization of shares and liquidity

Shares of the Company can be held and traded in electronic form. As stipulated by SEBI, the shares of the Company are accepted in the Stock Exchanges for delivery only in dematerialized form.

Status of Dematerialization of shares as on March 31, 2008.

Held in NSDL: 26151348 shares

Held in CDSL: 16617454 shares

k) ADR's / GDR's

As on date, the Company has not issued GDRs, ADRs or any other Convertible Instruments and as such, there is no impact on the Equity share capital of the Company.

l) Principal Transfer Agents and Registrar

Physical and Demat Share Transfer Agents and Registrars

Venture Capital and Corporate Investments Limited,

House No. 12-10-167, Bharat Nagar, Hyderabad - 500018 Ph: 23818475, 23818476

m) Address for correspondence

Registered Office :

Gayatri Sugars Limited

Door No. 6-3-663/E, Flat No.301, Diamond House, Punjagutta, Hyderabad – 500 082.

Contact Person :

Sri C. Gurappa, Vice President (Finance & Accounts) & Compliance Officer

Phone: 23414823, Fax : 23414827

Email : gayatrisugars@sify.com

For and on behalf of the Board

T Indira Subbarami Reddy
Chairperson

Place : Hyderabad
Date : 30th August 2008

Annexure – C to Directors’ Report

**Auditors’ Certificate on compliance of conditions of corporate governance
as per Clause 49 of the Listing Agreement with the Stock Exchanges.**

To
The Members of
Gayatri Sugars Limited

We have examined the compliance of conditions of corporate governance by Gayatri Sugars Limited (“the Company”) for the year ended 31st March, 2008, as stipulated in clause 49 of the Listing Agreement of the Company with the Stock Exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

We certify that the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We have been explained that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **C.B. Mouli & Associates**
Chartered Accountants

Place: Hyderabad
Date: 30th August, 2008

M Premchand
Partner

DECLARATION BY CEO OF THE COMPANY ON CODE OF CONDUCT

I, TV Sandeep Kumar Reddy, Vice Chairman & Managing Director, hereby declare that as provided under Clause 49 of the Listing Agreement with the Stock Exchanges, the Board Members and the senior management personnel have confirmed compliance with the Code of Conduct and Ethics for the year ended 31st March 2008.

For **Gayatri Sugars Limited**

Hyderabad
30th August, 2008

T V Sandeep Kumar Reddy
Vice Chairman & Managing Director

CEO CERTIFICATION

As required by sub- clause V of Clause 49 of the Listing Agreement with the Stock Exchanges, we have certified to the Board that for the financial year ended 31st March 2008, the Company has complied with the requirements of the said sub-clause.

For **Gayatri Sugars Limited**

Hyderabad
30th August, 2008

T V Sandeep Kumar Reddy
Vice Chairman & Managing Director

AUDITORS' REPORT

To
The Members
Gayatri Sugars Limited,
Hyderabad

1. We have audited the attached Balance Sheet of **GAYATRI SUGARS LIMITED**, Hyderabad as at 31st March, 2008, the Profit and Loss Account and the Cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) Order. (Amendment) 2004 issued by the Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph - 3 above, we report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - c) The balance sheet, the profit and loss account and the cash flow statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report, comply with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956;
 - e) On the basis of the written representations received from the directors, as on 31st March, 2008, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2008 from being appointed as a director in terms of Clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2008;
 - ii) in the case of the Profit and Loss Account, of the loss of the Company for the year ended on that date and
 - iii) in case of the Cash Flow Statement, of the Cash Flows for the year ended on that date.

For **C.B. Mouli & Associates**
Chartered Accountants

Place: Hyderabad
Date: 30th August, 2008

M. Premchand
Partner
M. No. 211745

ANNEXURE TO THE AUDITORS' REPORT:

(Referred to in paragraph 3 of our report of even date)

1. (a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
(b) As explained to us the fixed assets have been physically verified by the management during the year in a phased periodical manner, which in our opinion is reasonable, having regard to size of the company and nature of its assets. No material discrepancies were noticed on such physical verification.
(c) In our opinion the Company has not disposed off substantial part of fixed assets during the year and the going concern status of the company is not affected.
2. (a) As explained to us, inventories have been physically verified during the year by the management. In our opinion the frequency of verification is reasonable.
(b) In our opinion, and according to the information and explanations given to us, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
(c) In our opinion the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3. The company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
4. In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.
5. (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to Sec 301 of the Act have been entered in the register required to be maintained under that section and
(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
6. The Company has not accepted any deposits from the public within the meaning of Sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed there under.
7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
8. We have broadly reviewed the books of accounts maintained by the company where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section of (1) of Section 209 of the Companies Act, 1956 and are of the opinion that prima-face the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
9. (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, employees' State insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it and there

- are no arrears of outstanding statutory dues as at 31st March, 2008 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us, there are no dues of income tax/sales tax/wealth tax/service tax/customs duty/ excise duty/ cess which have not been deposited on account of any dispute.
10. The company has accumulated losses of Rs. 2613.21 lakhs as at 31st March, 2008. The Company has incurred cash losses in the financial year under report and had not incurred cash losses in the immediately preceding financial year.
 11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to financial institutions, banks or debenture holders.
 12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
 13. In our opinion, the Company is not a chit fund or a Nidhi mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.
 14. The Company is not dealing or trading in shares, debentures and other investments.
 15. In our opinion and according to the information and explanations given to us, the Company has given guarantee for loans taken by farmers from banks for a sum of Rs.769 lakhs. However, the terms and conditions whereof are not prejudicial to the interest of the company.
 16. In our opinion, the term loans have been applied for the purpose for which they were raised.
 17. According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that no funds raised on short-term basis have been used for long-term investment.
 18. According to the information and explanations given to us, the Company has not made preferential allotment of shares to promoters covered in the register maintained under Section 301 of the Act during the year.
 19. The Company has not issued any debentures during the year. However, debenture application money of Rs. 3478.13 lakhs was received on 31.03.08 for which allotment was subsequently made on 28.04.08. These funds were utilized for repayment of term loans to financial institutions under One Time Settlement (OTS) scheme.
 20. The Company has not raised any money by way of public issue during the year.
 21. In our opinion and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our Audit.

For **C.B. Mouli & Associates**
Chartered Accountants

Place: Hyderabad
Date: 30th August, 2008

M. Premchand
Partner
M. No. 211745

BALANCE SHEET AS AT 31ST MARCH, 2008

Particulars	SCH No	As at 31.03.2008 (Rs.)	As at 31.03.2007 (Rs.)
SOURCES OF FUNDS			
1. SHAREHOLDERS FUNDS			
a) Share Capital	A	52,52,20,530	52,52,20,530
b) Reserves & Surplus		—	—
		<u>52,52,20,530</u>	<u>52,52,20,530</u>
2. LOAN FUNDS			
a) Secured Loans	B	89,70,66,442	85,61,14,470
b) Unsecured Loans		16,95,52,133	8,02,03,202
		<u>106,66,18,575</u>	<u>93,63,17,672</u>
TOTAL		<u><u>159,18,39,105</u></u>	<u><u>146,15,38,202</u></u>
APPLICATION OF FUNDS			
1. FIXED ASSETS			
a) Gross Block	C	1,17,26,20,491	81,57,87,814
b) Less: Depreciation		37,05,56,264	31,90,51,996
c) Net Block		<u>80,20,64,227</u>	49,67,35,818
Add: Capital Work in Progress		—	27,12,04,799
TOTAL		<u><u>80,20,64,227</u></u>	<u><u>76,79,40,617</u></u>
2. INVESTMENTS			
—			
3. CURRENT ASSETS, LOANS & ADVANCES			
a) Inventories	D	53,52,68,237	40,94,77,948
b) Sundry Debtors		4,66,68,675	5,80,51,129
c) Cash and Bank Balances		1,96,90,294	2,83,88,295
d) Loans and Advances		14,59,98,550	18,84,37,738
		<u>74,76,25,756</u>	68,43,55,111
Less: Current Liabilities & Provisions	E		
a) Liabilities		21,26,47,664	15,70,76,256
b) Provisions		65,24,611	67,48,504
		<u>21,91,72,275</u>	<u>16,38,24,760</u>
NET CURRENT ASSETS		<u><u>52,84,53,481</u></u>	52,05,30,350
4. MISCELLANEOUS EXPENDITURE			
a) MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	F	—	5,61,631
b) Profit & Loss Account		26,13,21,397	17,25,05,604
TOTAL		<u><u>159,18,39,105</u></u>	<u><u>146,15,38,202</u></u>

The Schedules referred to above and Notes to Accounts form an integral part of Balance Sheet as referred in Schedule.

K

As per report of even date
For **C B Mouli & Associates**
Chartered Accountants

For and on behalf of the board

M Premchand
Partner

T Indira Subbarami Reddy
Chairperson

T V Sandeep Kumar Reddy
Vice Chairman & Managing Director

Place: Hyderabad
Date : August 30, 2008

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2008

PARTICULARS	SCH No.	Year Ended 31.03.2008 Rs.	Year Ended 31.03.2007 Rs.
INCOME:			
Income from Operations	G	69,76,28,554	99,93,85,576
Less: Excise Duty		6,36,15,675	667,34,645
Net Income from operations		63,40,12,879	93,26,50,931
Other Income	H	57,38,365	17,48,921
Increase/(Decrease) in Stock	I	12,16,61,392	2,81,97,410
Total		76,14,12,636	96,25,97,262
EXPENDITURE:			
Cost of Raw Materials		55,96,37,858	68,04,63,497
Manufacturing, Administrative & Selling Expenses	J	19,36,14,792	15,12,60,390
Interest		10,64,37,647	6,17,42,451
Depreciation	C	5,15,04,267	3,82,36,605
Preliminary & Capital Issue Exp.written off		5,61,631	7,48,840
Total		91,17,56,195	93,24,51,783
Profit/(Loss) Before Taxation		(15,03,43,559)	3,01,45,479
Minimum Alternative Tax		—	33,82,373
Fringe Benefit Tax		4,41,574	6,71,187
Profit / (Loss) after taxation		(15,07,85,133)	2,60,91,919
Provision for Preference Dividend		—	57,22,088
Corporate Dividend Tax		—	8,02,523
Profit/(Loss) before Extra-ordinary items		15,07,85,133	1,95,67,308
Non-Recurring Income - Remission of Funded Interest Term Loan		6,19,69,340	—
Net Profit / (Loss) after taxation		(8,88,15,793)	1,95,67,308
Balance brought forward from previous year		(17,25,05,604)	(19,20,72,912)
Profit / (Loss) carried to Balance Sheet		(26,13,21,397)	(17,25,05,604)
Earnings per share (Rs.)			
Basic		(2.07)	0.46
Diluted		(2.07)	0.46
No.of shares used in computing Earnings per share			
Basic		4,29,93,140	4,29,93,140
Diluted		4,29,93,140	4,29,93,140

The Schedules referred to above and Notes to Accounts form an integral part of Profit & Loss A/c as referred in Schedule K

As per report of even date
For **C B Mouli & Associates**
Chartered Accountants

For and on behalf of the board

M Premchand
Partner

T Indira Subbarami Reddy
Chairperson

T V Sandeep Kumar Reddy
Vice Chairman & Managing Director

Place: Hyderabad
Date : August 30, 2008

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2008

Particulars	Year Ended March 31,2008 Rs.	Year Ended March 31,2007 Rs.
A CASHFLOW FROM OPERATING ACTIVITIES		
Net Profit before tax and extra-ordinary items	(15,03,43,558)	3,01,45,924
Adjusted for:		
Depreciation	5,15,04,267	3,82,36,605
Interest Expense	9,75,43,643	5,59,14,803
Miscellaneous Expenses Written off	5,61,631	7,48,840
Interest Suspense Written off	88,94,004	58,27,648
Advances written off	—	—
Interest Income	—	—
Operating Profit before Working capital changes	81,59,986	13,08,73,820
Adjusted for		
Trade and other receivables	5,38,21,642	(4,61,89,839)
Inventories	(12,57,90,289)	(3,50,11,664)
Trade Payables	5,55,71,408	5,56,01,562
Bank borrowings for Working Capital	5,05,25,150	5,51,76,632
Cash generated from operations	4,22,87,897	16,04,50,511
Interest paid	(10,64,37,647)	(6,17,42,451)
Direct Taxes paid	(6,65,467)	(54,19,435)
Cashflow before extra-ordinary items	(6,48,15,216)	9,32,88,625
Extra - ordinary items	6,19,69,340	—
Net Cashflow from Operating activities	(28,45,876)	9,32,88,625
B CASHFLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assests	(8,56,27,878)	(26,95,89,382)
Sale of Fixed Assests	—	—
Purchase of Investments	—	—
Sale of Investments	—	—
Interest received	—	—
Dividend Received	—	—
Net Cashflow from investing activities	(8,56,27,878)	(26,95,89,382)
C CASHFLOW FROM FINANCING ACTIVITIES		
Proceedings from issue of share capital	—	—
Proceeds from Long Term borrowings	41,74,91,934	16,57,27,772
Repayment of Term loans	(42,70,65,112)	(3,84,80,057)
Receipt of Unsecured Loans	8,93,48,931	8,02,03,202
Dividend Paid	—	(65,24,611)
Net Cashflow from financing activities	7,97,75,753	20,09,26,306
D NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	(86,98,001)	2,46,25,549
Cash & Cash equivalents at beginning of the year	2,83,88,295	37,62,746
Cash & Cash equivalents at end of the year	1,96,90,294	2,83,88,295

NOTES: 1 The above Cash flow statement has been prepared by using the indirect method as per Accounting Standard 3 - Cash flow statement issued by the Institute of Chartered Accountants of India.
2 Previous year's figures have been regrouped/rearranged wherever necessary to confirm to current year's classification.

As per report of even date
For **C B Mouli & Associates**
Chartered Accountants

For and on behalf of the board

M Premchand
Partner

T Indira Subbarami Reddy
Chairperson

T V Sandeep Kumar Reddy
Vice Chairman & Managing Director

Place: Hyderabad
Date : August 30, 2008

SCHEDULES FORMING PART OF THE ACCOUNTS

PARTICULARS	As At 31.03.2008 Rs.	As At 31.03.2007 Rs.
SCHEDULE A : SHARE CAPITAL		
EQUITY SHARE CAPITAL		
Authorised:		
4,30,00,000 Equity Shares of Rs.10/- each	43,00,00,000	43,00,00,000
1,00,00,000 Preference Shares of Rs.10/- each	10,00,00,000	10,00,00,000
	<u>53,00,00,000</u>	<u>53,00,00,000</u>
Issued, Subscribed & Paid-up:		
4,29,93,140 Equity Shares of Rs.10/- each fully paid-up	42,99,31,400	42,99,31,400
Less: Calls in Arrears	79,000	79,000
	<u>42,98,52,400</u>	<u>42,98,52,400</u>
Add:		
95,36,813 6% Cumulative Redeemable Preference Shares of Rs.10/- each	9,53,68,130	9,53,68,130
	<u>52,52,20,530</u>	<u>52,52,20,530</u>
SCHEDULE B : SECURED LOANS		
Debenture Application Money	34,78,13,439	—
Term Loans from		
I D B I	—	20,00,00,000
I F C I	—	10,32,00,000
Indian overseas Bank	16,91,00,000	16,57,27,772
Working Capital Term Loan		
SBI	4,50,00,000	—
PNB	1,40,00,000	—
BOB	4,32,00,000	—
AB	3,04,00,000	—
Term Loan - SEFASU		
SBI	2,72,00,000	—
BOB	2,61,00,000	—
PNB	84,00,000	—
Interest Accrued & Due on IOB TL	17,98,265	—
Interest Accrued & Due on WCTL	10,29,420	—
CITI BANK	50,810	—
Funded Interest on Term Loans :		
I D B I	—	7,82,00,840
I F C I	—	4,39,36,500
Working Capital Loan from scheduled Banks	18,29,74,508	26,50,49,358
	<u>89,70,66,442</u>	<u>85,61,14,470</u>

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE - C : FIXED ASSETS

Amount in Rupees

DESCRIPTION	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	AS AT 01.04.2007	ADDITIONS	DELETIONS	AS AT 31.03.2008	UP TO 01.04.2007	FOR THE YEAR 2007-08	UP TO 31.03.2008	AS AT 31.03.2008	AS AT 31.03.2007
Land	1,10,34,658	1,00,53,487	9,91,898	2,00,96,247	—	—	—	2,00,96,247	1,10,34,658
Buildings	18,64,82,812	2,90,81,820	—	21,55,64,632	4,46,77,133	61,71,007	5,08,48,140	16,47,16,492	14,18,05,679
Plant & Machinery	60,71,52,362	31,85,84,383	—	92,57,36,745	26,71,31,154	4,46,53,260	31,17,84,415	61,39,52,330	34,00,21,207
Vehicles	61,41,131	—	—	61,41,131	28,83,465	5,83,407	34,66,872	26,74,259	32,57,666
Furniture & Fixtures	15,25,937	—	—	15,25,937	9,16,084	96,592	10,12,675	5,13,262	6,09,853
EDP Equipment	34,50,914	1,04,885	—	35,55,799	34,44,161	—	34,44,161	1,11,638	6,753
Total	81,57,87,814	35,78,24,575	9,91,898	117,26,20,491	31,90,51,997	5,15,04,267	37,05,56,264	80,20,64,227	49,67,35,818
Previous year	81,50,28,729	7,59,085	—	81,57,87,814	28,08,15,391	3,82,36,605	31,90,51,996	49,67,35,817	53,42,13,339

SCHEDULES FORMING PART OF THE ACCOUNTS

PARTICULARS	As At 31.03.2008 Rs.	As At 31.03.2007 Rs.
SCHEDULE D: CURRENT ASSETS LOANS AND ADVANCES		
1. Inventories (as valued & certified by the Management)		
Stores Chemicals & Others	2,35,48,563	1,94,19,667
Finished Goods	51,17,19,674	39,00,58,281
	<u>53,52,68,237</u>	<u>40,94,77,948</u>
2. Sundry Debtors (unsecured and considered good)		
Debtors outstanding more than six months	4,13,62,767	—
Other Debtors	53,05,908	5,80,51,129
	<u>4,66,68,675</u>	<u>5,80,51,129</u>
3. Cash and Bank Balances		
Cash in Hand	98,811	99,294
Balances with Scheduled Banks:		
In Current Accounts	89,74,967	2,82,89,001
In Deposit Accounts	1,06,16,516	—
	<u>1,96,90,294</u>	<u>2,83,88,295</u>
4. Loans & Advances(Unsecured & considered good)		
Advances recoverable in cash or in kind or value to be received	14,29,09,232	17,28,75,078
Deposits with		
Government	17,04,806	54,03,144
Others	13,84,512	12,65,512
Interest Suspense	—	88,94,004
	<u>14,59,98,550</u>	<u>18,84,37,738</u>
SCHEDULE E: CURRENT LIABILITIES & PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors - Capital items	1,11,25,803	16,58,801
Sundry Creditors - Supplies	13,89,97,035	14,24,31,903
Sundry Creditors - Services	6,25,24,826	1,29,85,552
	<u>21,26,47,664</u>	<u>15,70,76,256</u>
PROVISIONS		
Provision for Corporate Dividend Tax	8,02,523	8,02,523
Provision for Preference Dividend	57,22,088	57,22,088
Provision for Fringe Benefit Tax	—	2,23,893
	<u>65,24,611</u>	<u>67,48,504</u>
SCHEDULE F: MISCELLANEOUS EXPENDITURE (to the extent not written off or Adjusted)		
Preliminary Expenses	—	74,909
Capital Issue Expenses	—	4,86,722
	<u>—</u>	<u>5,61,631</u>

SCHEDULES FORMING PART OF THE ACCOUNTS

PARTICULARS	Year Ended 31.03.2008 Rs.	Year Ended 31.03.2007 Rs.
SCHEDULE G: INCOME FROM OPERATIONS		
Sale of -		
Sugar -Domestic	57,07,33,778	82,17,81,302
Sugar - Export	—	8,05,66,875
RS/ENA	10,16,40,429	—
Molasses	59,53,419	5,79,10,805
Power	1,93,00,928	3,91,26,594
	<u>69,76,28,554</u>	<u>99,93,85,576</u>
SCHEDULE H: OTHER INCOME		
Interest Income	8,74,947	—
Misc.Sales	28,38,498	16,81,436
Scrap Sales	20,24,920	67,485
	<u>57,38,365</u>	<u>17,48,921</u>
SCHEDULE I: INCREASE / (DECREASE) IN STOCKS		
Closing Stock		
Finished Goods	50,12,03,197	37,93,30,281
Stock in Process	1,05,16,477	51,17,19,674
	<u>51,17,19,674</u>	<u>1,07,28,000</u>
Opening stock		
Finished Goods	37,93,30,282	35,50,69,371
Stock in Process	1,07,28,000	67,91,500
	<u>39,00,58,282</u>	<u>36,18,60,871</u>
	<u>12,16,61,392</u>	<u>2,81,97,410</u>
SCHEDULE J: MFG., ADMINISTRATIVE & SELLING EXPENSES		
Consumption of Chemicals		
Stores & Consumables	8,28,88,663	4,67,15,092
Power & Fuel	30,36,850	24,42,140
Watch & Ward	12,72,283	9,92,852
Salaries & Wages	4,25,91,521	3,96,45,562
Contribution to P.F & E.S.I	39,10,408	37,99,200
Staff Welfare	16,04,325	4,81,06,254
Rates & Taxes	11,55,463	13,72,280
Travelling Expenses	18,81,741	7,13,211
Vehicle Repairs & Maintenance	12,05,206	34,62,673
Rent	5,89,036	9,45,687
Printing & Stationery	3,53,777	5,91,305
Postage, Telegram & Telephones	11,00,034	3,14,522
Office Maintenance	11,03,440	10,35,570
Consultancy & Professional Fee	31,73,408	5,78,610
Audit Fee	3,50,000	10,30,665
Directors sitting fees	31,000	3,50,000
Insurance	16,72,525	39,000
Advertisement	1,08,552	20,34,907
Listing Fee	89,250	1,75,137
Repairs & maintenance	64,17,818	89,250
Bank Charges	31,26,998	45,18,640
Miscellaneous Expenses	65,04,590	25,26,239
Freight & Handling charges	2,71,22,148	66,10,853
Selling Expenses	23,25,756	3,01,11,005
	<u>19,36,14,792</u>	<u>11,65,990</u>
	<u>19,36,14,792</u>	<u>15,12,60,390</u>

SCHEDULES FORMING PART OF ACCOUNTS

SCHEDULE – K: SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the important accounting policies is set out below:

1. BASIS OF ACCOUNTING:

The Company has adopted the accrual system of accounting and accounts have been prepared under historical cost convention.

2. TANGIBLE FIXED ASSETS:

Fixed assets are recorded at cost. Cost includes all costs incidental to acquisition, installation, commissioning and related Pre-operative Expenses including interest paid on funds borrowed during construction period until the assets are ready for commercial use. Income earned from investment of surplus funds during construction/ trial run period and income/expenditure arising out of trial run is adjusted with Pre-operative Expenses.

3. CAPITAL WORK-IN-PROGRESS:

All expenditure, including advances given and interest cost during the project construction period, are accumulated and shown as Capital Work-in-progress until the assets are ready for use. Assets under construction are not depreciated.

4. CENVAT:

CENVAT claimed on Capital Goods is credited to Plant & Machinery Account / Capital Work-in-Progress Account. CENVAT on purchases of Raw materials and other materials is deducted from the cost of such materials.

5. METHOD OF DEPRECIATION:

Depreciation is provided on Straight Line Method in accordance with the rates prescribed under Schedule XIV of the Companies Act, 1956. However, in the case of sugar works rollers, eligible depreciation under Schedule XIV is 100% but the depreciation on the same has been considered at 5.28%. Depreciation on additions to/ deletions from fixed assets made during the year is provided on pro-rata basis from/up to the date of such addition/deletion as the case may be.

6. PRELIMINARY & DEFERRED REVENUE EXPENSES:

Preliminary expenses will be written off in the year in which they are incurred.

Share Issue Expenses are amortized over a period of ten years from the year of commencement of commercial production.

Cane Development Expenses, the benefit of which is spread over a number of years are amortized over subsequent years on the basis of the benefit derived in each year.

7. STOCKS:

Raw Materials, Stores, Spares & Consumables are valued at cost on FIFO basis. Cost includes applicable taxes, duties, transport and handling costs.

Finished Goods are valued at lower of cost or net realisable value. Cost is average cost and includes all material costs, direct and indirect expenditure and inclusive of excise duty.

Work-in-Progress is valued at cost inclusive of factory overheads.

By-Products are valued at estimated net realisable value as the cost is not ascertainable.

8. SALES:

Sales representing invoice value of goods sold as reduced by quality claims and rebates but include excise duty. Sale of goods is recognised on transfer of property of goods, as per agreed terms.

9. RETIREMENT BENEFITS:

Company's contribution to Provident Fund is charged to Profit & Loss Account. The accrued liability for gratuity and Leave encashment to employees as at the year end is ascertained on the basis of actuarial valuation and provided in the accounts and not funded.

10. IMPAIRMENT OF ASSETS:

An asset is treated as impaired when the carrying cost of assets exceeds the recoverable value. An impairment loss is charged to the Profit and Loss Account in the year in which an asset is identified as impaired. The

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impairment loss recognised in prior accounting periods is reversed if there has been a change in the estimate of recoverable amount.

B) NOTES FORMING PART OF ACCOUNTS:

1. Secured Loans:-

- a. Term Loan from Indian Overseas Bank (IOB) is secured by a exclusive first charge on the buildings and plant & machinery of the distillery unit both present and future and second charge on the fixed assets of the sugar unit on pari-passu basis with working capital banks.
- b. Debenture agreement has been signed with the Rajasthan Leasing Private Limited on 30.03.2008 to subscribe for Non-Convertible debentures (NCDs) amounting to Rs.35 crores. An amount of Rs.34,78,13,439/- have been received on 31.03.2008 and an amount of Rs.21,86,561/- has been received on 02.04.2008. The amount received on 31.03.2008 has been shown under Debenture Application Money pending allotment of debentures. The debentures for an amount of Rs.35 crores have been issued on 28. 04.2008. These NCDs are to be secured by a exclusive first charge on all the Company's immovable properties, both present and future and a first charge by way of hypothecation of movable properties (excluding the inventories & book debts) both present and future. The charge on security has not been created yet due to delay in getting the requisite approvals from the other lenders.
- c. Working Capital Term Loan are secured by a Pari-passu first charge on all the Company's immovable properties, both present and future and a first charge by way of hypothecation of movable properties (excluding the inventories & book debts) both present and future. The security has not been created as on date.
- d. Term Loan - SEFASU are secured by a Pari-passu residual charge on all the Company's immovable properties, both present and future and a pari-passu residual charge by way of hypothecation of movable properties (excluding the inventories & book debts) both present and future. The security has not been created as on date.
- e. Working Capital Loan from banks are secured by way of Pari-passu first charge on all current assets of the company i.e. Raw Materials, Stock in Process, Finished Goods, Stores & Spares, book debts etc. and also secured by way of Pari-passu second charge on the company's immovable and movable properties.
- f. Term Loan, NCDs and Working Capital Loan, are guaranteed by the promoter directors of the company.

2. Contingent liabilities not provided for in respect of:

- a. The Company has given guarantee of Rs.7.69 Crores to Union Bank of India, against crop loans extended to the farmers.

3. Sundry Debtors, Creditors (including Creditors for capital goods) and Loans and Advances are subject to confirmation.

4. Additional Information as required pursuant to Para 3 & 4 (C&D) of the Part II of the Schedule VI of the Companies Act, 1956.

a. Particulars regarding capacity (as certified by the Management)

		2007 - 08	2006 - 07
i. Sugar			
Licensed	TCD	5000	5000
Installed	TCD	3500	3500
Actual Production	QTL	475640	558780
ii. Distillery			
Licensed	KLPD	50	—
Installed	KLPD	50	—
Actual Production	Litres	6642347	—
iii. Molasses			
Actual Production	MT	24153	26733
iv. Power			
Licensed	MW	9	9
Installed	MW	9	9
Actual Production	KWH	24851688	24748156

b. Sales and Stock

	Unit	Qty	2007-08 Value (Rs.in lakhs)	Qty	2006-07 Value (Rs.in lakhs)
i. Opening Stock					
Sugar	QTL	268583	3367.27	237682	3223.26
RS/ENA	Litres	—	—	—	—
Molasses	MT	17078	364.17	11069	280.28
Bagasse	MT	20619	61.86	15607	47.15
TOTAL			3793.30		3550.69
ii. Sales					
Sugar - Domestic	QTL	433356	5707.34	484910	8217.81
Sugar - Export	QTL	—	—	42969	805.67
RS/ENA	Litres	5193845	1016.40	—	—
Molasses					
- Sales	MT	3494	59.53	20724	579.11
- Transfer to Distillery	MT	19083	—	—	—
Power	KWH	64,56,448	193.01	1291640	391.27
TOTAL			6976.28		9993.86
iii. Closing Stock					
Sugar	QTL	310867	4123.90	268583	3367.27
RS/ENA	Litres	1448502	233.64	—	—
Molasses	MT	18654	610.45	17078	364.17
Bagasse	MT	12582	44.04	20619	61.86
TOTAL			5012.03		3793.30

	Unit	Qty	2007-08 Value (Rs.in lakhs)	Qty	2006-07 Value (Rs.in lakhs)
c. Details of Materials Consumed					
i. Sugarcane	MT	473625	5491.16	568238	6804.63
ii. Molasses	MT	7951	105.22	—	—
iii. Others			828.88	—	467.01
TOTAL			6425.26		7271.64

d. Value of imported and indigenous materials consumed:

i. Raw material					
- Imported			—		—
- Indigenous		100%	5596.38	100%	6804.63
			5596.38		6804.63
ii. Stores, Spares & Consumables					
- Imported			—		—
- Indigenous		100%	828.88	100%	467.01
TOTAL			828.88		467.01

5. REMUNERATION TO AUDITORS:

a. Statutory Audit fee			2.50		250
b. Tax Audit fee			0.50		0.50
c. Other Matters			0.50		0.50
TOTAL			3.50		3.50

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	Unit	Qty	2007-08 Value (Rs.in lakhs)	Qty	2006-07 Value (Rs.in lakhs)
6. Directors' Remuneration:					
a) To Managing Director					
Salary			—		13.50
Allowances			—		3.31
TOTAL			—		16.81
b) To Executive Director					
Salary			14.75		5.16
Allowances			1.44		0.62
TOTAL			16.19		5.78

As there is a loss during the accounting year and there is accumulated loss as on 31.03.2008, the workings u/s 198 of the Companies Act, 1956 is not required to be done.

7. FOREIGN EXCHANGE EXPENSES: Rs. Nil (Previous Year Rs.Nil)

8. SEGMENT REPORTING:

There are two reportable Segments in the company namely Sugar and Distillery under Accounting Standard – 17 on 'Segment Reporting' issued by the Institute of Chartered Accountants of India. The segment results are given below:-

(Rs. Lakhs)

Sl. No.	Particulars	Year Ended 2007-08	Year Ended 2006-07
1	Segment Revenue (net sales/income from each segment)		
	a. Sugar	5973.12	9343.98
	b. Distillery	1016.40	—
	Sub-total	6989.52	9343.98
	Less: Inter-segment Revenue	592.01	—
	Net Sales / Income from Operations	6397.51	9343.98
2	Segment Results {Profit (+) / Loss (-) before Tax & Interest from each segment}		
	a. Sugar	(618.01)	918.86
	b. Distillery	178.95	—
	Sub-total	(439.06)	918.86
	Less: (i) Interest (net)	1064.37	617.41
	(ii) Other un-allocable expenditure net of un-allocable income	—	—
	Profit Before Tax & Extra-Ordinary Items	(1503.43)	301.45
3	Capital Employed (Segment Assets – Segment Liabilities)		
	a. Sugar	6625.97	6449.40
	b. Distillery	1414.10	—
	Sub-total	8040.07	6449.40

9. EARNINGS PER SHARE:

Particulars	Units	Year Ended 31.03.2008	Year Ended 31.03.2007
Net Profit / (Loss) attributable to shareholders	Rs Lakhs	(888.16)	195.67
Weighted Average no.of Equity shares in issue	Lakh Nos	429.93	429.93
Basic Earning per share of Rs.10/- each	Rs.	(2.07)	0.46

10. DEFERRED TAXATION:

Breakup of Deferred Tax Liability/Asset:

Rs in Lacs

Particulars	As on 31.03.08	As on 31.03.07
Deferred Tax Asset		
On unabsorbed depreciation	1701.23	1461.78
On carry forward losses	293.90	166.55
On deferred expenditure	104.12	105.46
On unavailed MAT credit	86.64	86.64
Total	2185.88	1820.43
Deferred Tax Liability		
On fiscal allowance on fixed assets	1182.06	1117.68
Total	1182.06	1117.68
Net Deferred Tax Asset	1003.81	702.75
Tax rate applied	33.99%	33.99%

The net Deferred Tax Asset on account of carried forward business losses and unabsorbed depreciation have not been recognised on grounds of prudence.

11. RELATED PARTY TRANSACTIONS:

The related party transactions for the company during the year under audit as per Accounting Standard 18 (AS-18) issued by The Institute of Chartered Accountants of India are as under:

Remuneration paid to Directors has been disclosed in Note No.5

12. PREFERENCE DIVIDEND:

The Company has not made provision for preference dividend for the financial year 2007-08 on 6% Cumulative Redeemable Preference Shares (CRPS) on account of incurring losses during the accounting year and no Corporate Dividend Tax provided accordingly.

13. Based on the available information and declarations given by the creditors as to their Small Scale Industrial Undertaking (SSI) and Micro & Small Enterprise (MSE) status, there are no amounts outstanding to SSIs and MSEs at the end of the year outstanding for more than 30 days and 45 days respectively.

14. PROVISION FOR TAX:

No provision for tax (including MAT) has been made as there are no taxable profits for the year. However, Fringe Benefit Tax has been provided and paid.

15. IMPAIRMENT OF ASSETS:

In the opinion of the management and based on the valuation report there are no impaired assets requiring provision as per Accounting Standard-28 (AS-28) issued by the Institute of Chartered Accountants of India.

16. Interest on Term Loan – SEFASU has not been provided as the same is under interest subvention as per the scheme of the Government of India.

17. Remission of Funded Interest Term Loan

Company has settled the Funded Interest Term Loan of Rs.1221.37 Lakhs pertain to IDBI & IFCI with an amount of Rs.601.68 Lakhs under One Time Settlement (OTS). The benefit on account of OTS has been considered under Extra-Ordinary Income as Remission of Funded Interest Term Loan.

18. As a part of initiatives towards the consolidation of the business and future growth, management of the company is proposing to merge M/s GSR Sugars Private Limited (group company) with the Company. A merger committee has been formed at the Board Meeting held on 29.07.2008, with two directors from the Company and one director from M/s. GSR Sugars Private Limited to evaluate, discuss and finalize the scheme of merger.

19. Previous year's figures have been regrouped or restated so as to compare them with current year figures wherever necessary.

20. Figures have been rounded off to the nearest Rupee.

Signature to Schedule A to K

As per report of even date
For **C B Mouli & Associates**
Chartered Accountants

For and on behalf of the board

M Premchand
Partner
M. No: 211745

T Indira Subbarami Reddy
Chairperson

T V Sandeep Kumar Reddy
Vice Chairman & Managing Director

Place: Hyderabad
Date: 30th August 2008.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration details

Registration No.

State Code

Balance Sheet Date
Date Month Year

II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue

Rights issue

Bonus Issue

Private placement

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities

Total Assets

SOURCES OF FUNDS

Paid-up Capital

Reserves & Surplus

Secured Loans

Unsecured Loans

APPLICATION OF FUNDS

Net Fixed Assets

Investments

Net Current Assets

Misc. Expenditure

Accumulated Losses

IV. Performance of Company (Amount in Rs. Thousands)

Turnover

Total Expenditure

+ - Profit/Loss Before Tax

+ - Profit/Loss After Tax

(Please tick Appropriate box + for Profit, — for Loss)

+ - Earning Per Share in Rs.

Dividend Rate %

V. Generic Names of Three Principal Products/Services of Company (As per monetary terms)

Item Code No. (ITC Code)

Product Description

GAYATRI SUGARS LIMITED

D.No. 6-3-663/E, Flat No. 301, Diamond House,
Punjagutta, Hyderabad - 500 082. Andhra Pradesh

FORM OF PROXY

I/We of

being a member/members of Gayatri Sugars Limited hereby appoint

..... of

failing him of

as my/our proxy to vote for me/us and of my/our behalf at the 13th Annual General Meeting to be held at 11.30 a.m. on Tuesday, the 30th September, 2008 or at any adjournment thereof.

Signed this day of of 2008

Affix
Re. 1/-
revenue
stamp

Regd Folio No. _____

No of Shares _____

ATTENDANCE SLIP 13th Annual General Meeting

(To be handed over at the entrance of the Meeting Hall)

Name of the Member :

Members Folio No :

No of shares held :

Name of Proxy :

(in case of Proxies only)

I hereby record my presence at the 13th Annual General Meeting of the Company on Tuesday, the 30th September, 2008.

.....
*Member/Proxy Signature

*to be signed at the time of handing over the slip.

**PRINTED MATTER
BOOK - POST**

If undelivered, please return to :

**Unit : GAYATRI SUGARS LIMITED
Venture Capital and Corporate Investments Limited**

H.No. 12-10-167, Bharat Nagar,
Hyderabad - 500 018.

Ph: 2381 8475, 2381 8476