

**GOBIND SUGAR MILLS LIMITED**  
**Management Discussion and Analysis Report**

**[For the year ended 30th June, 2009 ]**

The Management of Gobind Sugar Mills Limited presents the performance analysis of the Company for the year ended 30<sup>th</sup> June, 2009. The main product of the Company is sugar. The sugar factory is situated at Aira Estate, Dist. Lakhimpur Kheri in Uttar Pradesh (UP).

**World Sugar Scenario**

After two consecutive seasons of surplus between world sugar production and consumption, World Sugar economy is now facing a significant supply-demand imbalance. There will be fall in global sugar production. The world consumption of sugar is forecasted to grow by 1.73% to 167.446 mln tones. World production is expected to increase by 4.817 million tonnes, which is 8.404 million tonnes lower than world consumption.

World export availability is expected to rise due to projected growth in output in exporting countries. World export availability for season 2009-10 is expected to be 51.964 million tonnes, as against 50.903 million tonnes in the previous season.

An estimated detail of world sugar balance for sugar year (SY) 2009-10 is given below:

**World Sugar Balance (million tonnes, raw value)**

	2009-10	2008-09	Change	
	(million tonnes, raw value)		in million tonnes	in %
Production	159.042	154.225	4.817	3.12
Consumption	167.446	164.593	2.853	1.73
Surplus/Deficit	-8.404	-10.368		
Import demand	51.930	50.962	0.968	1.90
Export availability	51.964	50.903	1.061	2.08
End Stocks	53.234	61.672	-8.438	-13.68
Stocks/Consumption ratio in%	31.79	37.47		
<i>Source: ISO quarterly market outlook, September, , 2009</i>				

A significant production shortfall in India and China, as well as a further contraction of production in the EU, on the other hand and a continuing expansion of sugar output in

Brazil, on the other hand are the four major supply features of Sugar season 2008-2009.

### **Indian Sugar Economy**

The sugar industry is the largest agro-based industry and India is the Second largest producer of sugar in the world next only to Brazil. Sugar industry in India is headed for a rough patch during the current sugar year ending September 30, 2009. India plays a crucial role in the world's sugar output. Indian sugar industry is controlled by the Government. Starting from cane price to the price of sugar, everything is under the hands of the Government. The Statutory minimum Price (SMP) of sugarcane is fixed by the Central Government to support the cane farmers. However, states like U.P., Haryana and Uttarakhand are free to fix their own price known as State Advisory Price (SAP), which is usually higher than SMP.

### **India's Production**

The Country's sugar output touched a three year low. Sugar production in 2008-09 season is set to fall by 44% from the previous season. In sugar season 2008-09, production has declined to 147.50 lacs tones compared to production of 263.28 lac tonnes in the year, 2007-08. One major reason for this is the shrinkage in the sugarcane growing area in last couple of years due to delay in cane payment and confusion over the price, less area of ratoon in this season and poor monsoon in some parts of the country. The sugar industry is cyclical in nature. It is dependent upon monsoons for both its production and price realisation. Such a shortfall in sugar production has posed a serious threat to inventory on hand. Drop in cane output may lead to increase in cost of production for sugar companies and hit their profit margins in 2009.

### **Government Policies**

Rising prices of sugar has caused concern to the Government and it has intervened substantially to control the prices of the sugar, because it is one of the essential commodities. The Government brought in measures such as weekly quota for free sale, weekly reporting mechanism to monitor sugar dispatches and sale, liberalized raw sugar import under Advance Authorization Scheme [with change in export obligation norm from 'grain-to-grain' to 'tonne-to tonne' basis] and finally the facility to import raw

sugar without export obligation as well as import of white sugar upto 10 lakh tonnes by Government agencies, both at zero% customs duty. The Centre is also planning to bring back Gur under the Sugarcane (control) order, 1996 to ensure adequate cane supplies to sugar mills.

### Demand & Supply of sugar in India

(In million tonnes)

		Season 2008-2009 *	Season 2007-2008
1	Opening stock as on 1 <sup>st</sup> October	80.00	92.00
2	Production during the season	147.50	263.28
3	Imports	25.00	--
4	Total availability	252.50	355.28
5	Domestic consumption*	220.00	225.72
6	Exports	2.00	49.56
7	Closing stock	30.50	80.00

\* Estimated

### Imports

India, the biggest sugar consumer in the world, has turned a net importer in 2008/09 due to a sharp drop in the output. India may import about 4.1 million tonnes in the year starting from 1<sup>st</sup> October, 2009.

### Operations

The comparative operating performance of the Company for the last two seasons is given below:

	Season 2008-2009	Season 2007-2008
Sugarcane crushed (lac Quintals)	53.00	76.12
Recovery (%)	8.72	9.58
Sugar produced (lac Quintals)	4.74	7.30
Crushing days	92	118

The SMP in respect of Company's sugar factory was fixed as below:

(In Rupees)

Season 2008-2009	Season 2007-2008
86.58	87.48

Figures of Production, Sales and Closing Stock during the year under review.

(Thousand quintals)

	Production	Sales	Closing stock as on 30 <sup>th</sup> June, 2009

Sugar	462.23	929.10	101.65
Molasses	269.66	311.94	68.65

### **Financial Performance**

There is a marked improvement in the financial performance of the Company for the year under review when the Company has earned a profit (before Depreciation and Tax) of Rs. 1611.57 lacs as against loss of Rs. (956.03) lacs during the immediately preceding financial year. A sharp fall in the sugar production in the country has resulted in a revival of sugar prices and has improved profitability.

### **Future Outlook**

The sugar industry seems to be finally coming out of the worst ever recession that it had seen over the past few decades. After successive years of surplus production and uninhibited capacity addition, the sugar output in India has started declining. While it may be still premature to comment on the production estimates for 2008-09, it is evident that production will not exceed consumption as area under sugarcane plantation has fallen significantly. This development has witnessed a smart rally in sugar prices that have come back to the levels that were prevailing in 2006. There is still uncertainty about the sugarcane prices as the matter is under litigation and will have a significant impact on the profitability of the industry. Furthermore, with the fall in sugarcane production, prices of byproducts such as molasses and bagasse have also started strengthening.

The growth of sugar demand by food & beverage industries and other non-household users, estimated to account for about 45% of total consumption, could provide additional impetus to longer-term market growth unless in the meantime the Government allows the food & beverage industry to import its sugar requirement directly and putting a ceiling on their stock holding. Although gur and khandsari are still consumed in rural areas, demand for white sugar is expected to continue to increase. Indian sugar industry can be a global leader provided it comes out of the vicious cycle of acute shortages and surplus of sugarcane. A stable long term policy is needed in which the shackles are removed which constrain this industry from growing in a healthy manner. Against the backdrop of skyrocketing crude prices policymakers have become aware of sugarcane as an energy crop and are encouraging mills to go integrated and produce ethanol and power.

### **Cautionary Statement**

The statements in the Management Discussions & Analysis Report detailing the Company's objectives, projections, estimates, expectations or predictions may be forward looking within the meaning of applicable securities laws and regulations. As these statements are based on certain assumptions and expectations of future events, actual result could differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include economic conditions affecting global or domestic demand and supplies, political and economic developments in India or other countries, government regulations and taxation policies, prices and availability of raw materials, prices of finished goods , abnormal climate and geographical conditions, etc. The company assumes no responsibility in respect of forward looking statements contained in this Report as the same may be revised or modified in the future on the basis of subsequent developments, information or events.