

HIGHLIGHTS FOR APRIL' 2008

BIRLA SUGAR

SNAP SHOTS

Important developments that has taken place in the Sugar Industry and in the business of the other players

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Maharashtra, the country's largest sugar producer, may make about 20% less next year than previously forecast because of a reduction in cane acreage and as farmers shift to other crops.

A first shipment of Indian raw sugar headed to Saudi Arabia, and is believed to be destined for Savola Group's plant in Jeddah, the Middle East's second largest sugar refinery. The cargo was believed to be the first shipment of Indian raw sugar for Saudi Arabia, and was likely to be followed by further cargos of Indian raw sugar for the Gulf country.

Government may set sugar free- The government may decontrol sugar in one stroke. Earlier it had planned for a phased approach. Scrapping all curbs at once will let Indian sugar mills compete more efficiently from next season itself. The liberalization would mean mills would be able to sell sugar freely in the market, no cane area reservation, and get more direct linkage between the price of cane and sugar. The matter is now under the consideration of the prime minister. The decontrol of sugar industry in one go may be well timed. The sugar industry is banking on prices climbing again in 2009 as lower cane planting and lower sugar production globally would reduce the overhang of excess supply.

SAP to come under tax net for sugar mills- In a set back to the sugar mill owners, the Supreme Court ruled that the state advised price (SAP) paid by them formed a part of the purchase price paid to the sugarcane growers and therefore was to be included in their turnover for computation of tax.

Cane farmers may reap a sweet harvest on high support- Now, for the first time in the history of sugarcane price support, the government may be gearing up to actually include a profit margin to cane growers over the bare floor. CACP is yet to finalize it but indications are that the support price could now be above Rs 100 per quintal. The price has been calculated for the first time by including new criteria, including a profit margin in the cost of production formula such as land rental at prevailing market price, a 10 per cent managerial cost, risk factor, transportation charges from field to factory and the like.

Sugar production likely to fall by 14% in 2008-09- Sugar production for the season 2008-09 is expected to fall around 14% to 21.7 million tonne, as there could be a shift in acreage from sugarcane to other crops. The next season may start with marginal higher opening stocks of 9.85 million tonne. Total supply would be around 32.04 million for the season 2008-09 down from 35.40 million tonne in 2007-08.

COMPETITION

Fx derivatives: Sundaram Brake, Rajshree Sugars await ruling- Sundaram Brake Linings Ltd, and Rajshree Sugars & Chemicals Ltd, based in Coimbatore, are among the nearly dozen companies that have filed cases in the Madras High court against their banks for losses suffered by them in foreign exchange derivatives contracts. The companies have argued that the contract that the banks entered into them were illegal, in violation of RBI guidelines, opposed to public policy and unenforceable, and not binding on them.

Fitch downgrades Rajshree Sugars & Chemicals- Fitch today downgraded the rating of Rajshree Sugars & Chemicals' (RSCL) Rs 60 crore commercial paper programme from 'F1 (ind)' to 'F2 (ind)' due to potential losses on account of its derivatives exposure and

poor financial performance in the third quarter. The F2 rating indicates a satisfactory capacity for timely payment of financial commitments relative to other issuers or issues in the same country.

Court restraints Axis Bank in Rajshree derivate case- The Madras High Court passed an interim order restraining Axis Bank from enforcing the forex derivatives contract sold to its client Rajshree Sugars and Chemicals. An injunction was passed to maintain the status quo on dispute by withholding its enforcement. The Coimbatore-based sugar manufacturer had taken Axis Bank to court for selling exotic forex derivative products.

Satara sugar co-op, German firm tie-up for CNG production- Satara based Veer Kisan Ahir Sugar Cooperation (VKASCL) has recently inked a memorandum of understanding (MoU) with the German bio-fuel company, Biogas-Nord, to set up the country's first plant to produce compressed natural gas (CNG) from spentwash, a byproduct.

Bajaj Hind net jumps over 11-fold- Riding on better realizations, Bajaj Hindustan, the country's largest sugar producer, has registered a net profit of Rs 43.03 crore for the quarter ended March 31, 2008, jumping over 11-fold, compared with Rs 3.66 crore in the corresponding previous quarter. Net sales however dipped marginally to Rs 490.28 crore.

Bajaj Hindustan to diversify- India's top sugar maker Bajaj Hindustan is planning to manufacture speciality chemicals from alcohol as part of its strategy to diversify into non-sugarcane business.

INDIAN SUGAR INDUSTRY

Sugar output may drop 10%- The country's sugar production is estimated to decline about 10 per cent this year due to low yield and a late start to the crushing season (October-September). Total output is estimated at 260 lakh tonnes during the current season as compared with 285 lakh tonnes last year. Harvesting in Maharashtra and Uttar Pradesh, the two largest sugar producing states, started with a delay of about 45

days and 35 days respectively. The yield in Maharashtra is likely to decline by 16-18 per cent to 62-63 tonnes per hectare as against 73 tonnes per hectare last year. The per hectare output in Uttar Pradesh is set to fall by 12-15 per cent to 58 tonnes from 65 tonnes last year.

SMP for sugarcane may be raised- The government is likely to raise the statutory minimum price (SMP) for sugarcane to over Rs 120 per quintal for the 2008-09 season. The Commission for Agricultural Costs and Prices (CACP) in its recent supplementary report has suggested this hike with a view to bridge the wide gap between the SMP for canes and the minimum support prices (MSPs) for wheat and paddy.

Cane farmers may reap a sweet harvest on high support- Now, for the first time in the history of sugarcane price support, the government may be gearing up to actually include a profit margin to cane growers over the bare floor. CACP is yet to finalize it but indications are that the support price could now be above Rs 100 per quintal. The price has been calculated for the first time by including new criteria, including a profit margin in the cost of production formula such as land rental at prevailing market price, a 10 per cent managerial cost, risk factor, transportation charges from field to factory and the like.

Govt to release non-levy sugar- In a bid to control prices of sugar, the government has decided to release 44 lakh tonnes of non-levy (free sale) sugar during the first quarter of the fiscal. In addition, more than 1.87 lakh tonnes will be released under the levy sugar to be distributed through public distribution system for the month of April. The government has allocated a quota of 17 lakh tonnes for the month of April and for the month of May and June; the quota would be around 27 lakh tonnes.

Controls on 2 mt sugar may go- In an unprecedented move, the government may allow sugar mills to sell 2 million tonne freely in the local market without any controls. This quantity would be in addition to the normal monthly quota announced for this quarter. For mills, this may be their first taste of decontrol in a bullish market. But for the government, it would be simply part of the fight against inflation. The extra 2 mt is equal to a month and a half's consumption in India. Mills would be

free to sell this quantity to encash rising prices or to improve their cash flow, whichever seems more attractive.

UP to challenge HC order on cane prices- The Uttar Pradesh government is likely to file a special leave petition (SLP) in the Supreme Court challenging the Allahabad High Court order that allowed the Bajaj Group and Basti sugar mills to pay cane farmers the price fixed by the centre for crushing season 2007-08. The centre has fixed the statutory minimum price (SMP) of Rs 81 a quintal, whereas the UP government has fixed a state advised price (SAP) of Rs 125. The government would first study the HC order and consult the law department on the issue before filing the SLP.

Cut in sugar output estimates positive- Expectations in the 15 per cent fall in domestic sugar output to 220 lakh tonnes, estimated for the next sugar season 2008-09 (October-September), may be positive for sugar producers over the medium term. The perceived fall in sugar output may lend some support to domestic sugar prices. This drop in sugar output, if it materializes, will follow an 8 per cent decline in sugar output for the ongoing season for which output is estimated at about 260 lakh tonnes. This is already well below the original expectations of 310 lakh tonnes.

NCDEX to kickstart carbon credit futures on April 10- NCDEX, the leading agri-commodity exchange, said it will launch futures contract in carbon credits on April 10. The centre notified carbon credits as tradable on commodity exchanges in January this year. Buyer and sellers of certified emission reduction will now be able to do price discovery and hedge their price risk on NCDEX.

Govt extends sugar export sops till September 30- The government has extended sugar freight export subsidy till September 30 to bail out mills from the supply glut. India provides transport subsidy to sugar mills on exports at Rs 1350 per tonne for coastal areas, while the subsidy is Rs 100 more for non-coastal areas. The subsidy, which came into effect on July 27, 2007, expires on April 18. The Central government has decided to extend the period of eligibility up to September 30, 2008. India's year to September is expected to be around 26 million tonnes as against 28.4 million tonnes in the previous year. The likely output is much higher than the annual domestic

consumption of around 20-21 million tonnes. India is expected to export around 3 million tonnes sugar in 2007-08 higher than 1.7 million tonnes a year ago.

Sugar prices may rule firm on good summer demand- sugar spot prices in domestic market may rule firm in the next few days due to on-going strong summer demand from bulk consumers despite government's announcement of higher free sale quota of 17 lakh tonnes for the current month. Spot prices of small grade (S-30) are ruling around Rs 1498-1550 per quintal while medium grade (M-30) prices are hovering around Rs 1550-1630 per quintal on continued local buying interest from outstation buyers. Sugar consumption normally increases during the summer season.

Bitterness awaits sugar industry- There is more bad news for the sugar industry, which is already reeling under a surplus. This year, ending September 2008, is also likely to result in the surplus of the sweetener, bringing the commodity's price under pressure adding to the woes of the sugar mills that are sitting on huge arrears due to cane growers.

SAP to come under tax net for sugar mills- In a set back to the sugar mill owners, the Supreme Court ruled that the state advised price (SAP) paid by them formed a part of the purchase price paid to the sugarcane growers and therefore was to be included in their turnover for computation of tax.

SC to look into plea for tax on sale of levy sugar- The Supreme Court has decided to examine the revenue department's plea seeking income tax (I-T) from sugar mills from earning arising from sale of levy sugar. Mills have been denying tax liabilities on such sales on the grounds that amounts realized on such sale cannot be treated as capital receipts.

Carbon credit futures kickstart on NCDEX- Futures trading in carbon credits kickstarted on a positive note on Thursday on the leading agri-commodity bourse in the country's National Commodity and Derivative Exchange (NCDEX). December contract was trading up by 1.21% at Rs 1007 per certified emission reduction (CER). The spot prices stood at Rs 1010.04 per CER.

Maharashtra sugar production to decline- Maharashtra, the country's largest sugar producer, may make about 20% less next year than previously forecast because of a reduction in cane acreage and as farmers shift to other crops. Production is forecast at 6.8 million metric tonnes in the season ending September 30, 2009, compared with 8.5 million tonne forecast either.

Sugar subsidy to rise on increased output- The State government's sugar subsidy bills are set to rise this year as it would have to compensate for the expected rise in sugar production. The state had given subsidy worth Rs 457 crore to the sugar industry in the last financial year. It has paid compensation to Rs 132 crore to the farmers for unbrushed sugar and around Rs 75 crore to the sugar factories towards the under-recoveries.

Sugar export seen at 3 mt this season- Sugar export in the current season, which ends on September 30, is likely to touch barely 3 million tonnes (mt). The export estimate of 3 mt is well below the 5 mt export target set by the government for mills. The country has already exported nearly 2 mt sugar so far and could export a maximum of 1 mt more.

Raw sugar prices may more than double: Morgan Stanley- The prices of raw sugar could more than double to 28-30 cents/lb within two years. Sugar prices which were historically cheap may increase due to increased demand for sugarcane based ethanol and falling sugar output in India.

Sugar production likely to fall by 14% in 2008-09- Sugar production for the season 2008-09 is expected to fall around 14% to 21.7 million tonne, as there could be a shift in acreage from sugarcane to other crops. The next season may start with marginal higher opening stocks of 9.85 million tonne. Total supply would be around 32.04 million for the season 2008-09 down from 35.40 million tonne in 2007-08.

Bitter Truth? - According to an affidavit filed in the Supreme Court this week, it seems that the sugar mills might be duping the farmers in Uttar Pradesh. From the evidence in the affidavit, which shows the balance sheet of some of the biggest mills in the state, it appears that while the mills are telling the courts that they are

incurring losses and hence they cannot pay the farmers, they might actually be making profits.

Indian raw sugar heads for Saudi- A first shipment of Indian raw sugar is heading to Saudi Arabia, and is believed to be destined for Savola Group's plant in Jeddah, the Middle East's second largest sugar refinery. A cargo of 40,000-45,000 tonne of raw sugar has been chartered by Cargill and was believed to have departed from Mundra port for Jeddah on April 15 or April 16. The cargo was believed to be the first shipment of Indian raw sugar for Saudi Arabia, and was likely to be followed by further cargos of Indian raw sugar for the Gulf country.

India gets delivery for London-traded sugar- India, for the first time was given delivery for sugar contracts traded at London's Euronext-Liffe exchange, the world's top market place for sugar, at Kandla. This opens a new route for exports and risk management by Indian sugar companies. With 24 million tonne sugar lying in godowns across the country at present, finding the cash to carry it is the top priority for the sugar mills.

TN Sugar Board plans co-generation plant - The Tamil Nadu sugar board has taken steps for installing co-generation plant for producing power using bagasse, at Kurunkulam Anna Government sugar mills in Thanjavur district.

Rice & sugar exports increase, wheat slips in April - Dec'07 - Exports of rice and sugar have increased during the April-December period of last fiscal, while that of wheat, pulses and oil meals dropped. Sugar export was over 29.86 lakh tonne during the period against 16.36 lakh tonne in the previous year.

Maha sugar co-operative plans to go for futures trade - Over 170 cooperative sugar factories in Maharashtra which contribute 45% to the country's sugar production, in a serious bid to tackle the possible slide in sugar prices, plan to go in for futures trading through National commodities and Derivatives Exchange [NCDEX]. The move is crucial when there has been a strong demand from the UPA alliance partners to ban future trading in agriculture commodities.

Investors line up for sugar stock - with the sugar industry likely to see a revival in the next crushing season beginning October, institutional investors are sharply scaling their holdings in top sugar companies like Bajaj Hindusthan, Balrampur Chini and Triveni Engineering. These investors include mutual funds, banks, insurance companies and foreign institutional investors. While domestic sugar output was set to decline to 25-26 million tonnes in this year as against 28.4 million tonnes in the previous year, production next season is expected to decline further to 21-22 million tonnes owing to a sharp decline in sugarcane plantations.

Government may set sugar free- The government may decontrol sugar in one stroke. Earlier it had planned for a phased approach. Scrapping all curbs at once will let Indian sugar mills compete more efficiently from next season itself. The liberalization would mean mills would be able to sell sugar freely in the market, no cane area reservation, and get more direct linkage between the price of cane and sugar. The matter is now under the consideration of the prime minister. The decontrol of sugar industry in one go may be well timed. The sugar industry is banking on prices climbing again in 2009 as lower cane planting and lower sugar production globally would reduce the overhang of excess supply.

CAG pulls up government for not taking action against sugar mills- The Comptroller and Auditor (CAG) has slammed the Maharashtra government and the Commissioner for sugar for their failure to take action against the erring managements of the cooperative sugar factories (CSFs) in the state. CAG mentioned that despite all assistance given by the center and the state government, of the 202 gistered CSFs as of March 2006, 116 CSFs were incurring losses of which, 74 CSFs registered negative net worth as of June 2006 and 31 CSFs had to be brought under liquidation during 1987-2006. CAG's observations are crucial when state sugar units contribute over 45% to the all over sugar production.

Al Khaleej's India plans face policy hurdles- Though the country does not face shortage of sugar, the government is reluctant to allow trading in sugar. Such is the sensitivity attached to sugar trading that the Foreign Investment Promotion Board (FIPB) has put India investment plans of multinational sugar giants Al Khaleej Sugar on hold for months together. One of the key factors in al Khaleej case pertains to the

flexibility in sugar trading policy described as ‘ton-ton’ basis of link between imports and exports.

NCDEX volumes in carbon trading peak- National Commodity and Derivates Exchange Board (NCDEX) has recorded total volumes of Rs 174.66 crore in the first fortnight of trading in certified emission reduction (CER). The total number of CERs traded contracts was 3396 during this period, making the contract one of the largest in the world.

113 sugar mills remain closed- The government said the total number of closed sugar mills in the country has increased to 113 this season from 105 last year. While in a majority of the states, the number of closed sugar mills remained static or rather declined, in Uttar Pradesh, it surged from 14 in 2006-07 to 23 in 2007-08 season.

Sugar output may fall 14%- The country’s sugar export is estimated to decline by 14 per cent at 22.8 million tonnes in 2008-09 on forecast of lower sugarcane production, the US department of agriculture said. Sugar export is pegged at 1.2 million tonnes in 2008-09, against 3.45 million tonnes in this season.

Dues to sugarcane growers top Rs 3,900 crore- A total of over Rs 3,900 crore is the amount outstanding from sugar mills arrears for sugarcane procured from growers as of January 15, this year. The dues cover the sugar season till 2007-08. The share of the private sector mills is the largest at Rs 2321 crore representing close to 60 per cent of the total arrears of Rs 3922.15 crore, while the cooperative sector with arrears of Rs 1474.15 crore accounts for slightly less than 40 per cent. The rest is owed by the public sector.

ETHANOL

Ethanol- According to industry estimates, there are remote possibilities of crude oil prices falling below \$90-100 per barrel in the medium term. To overcome the pressure, many countries like Brazil, are converting a big chunk of their sugar into ethanol for blending it with auto fuels.

Praj Industries- One of the beneficiaries in the growth potential in the ethanol space is engineering major, Praj Industries, the leader in ethanol manufacturing technology. The company has made an entry into the fastest growing ethanol markets, Brazil, through a joint venture with Brazilian Engineering.

Existing vehicles not ready for 10% ethanol blending- The mandatory 10 per cent ethanol blending in petrol may not happen for the existing 101 million vehicles on the Indian roads without introducing technical changes in them.

INTERNATIONAL NEWS

Al Khaleej to buy Indian raw sugar- Al Khaleej Sugar Co, the world's biggest sugar refiner, said it agreed to buy one million tonnes of raw sugar from India and 1.5 from Brazil. The Dubai-based company has the option to take delivery of Brazilian sugar, sell it to another party or sell the contract on commodity exchanges. Al Khaleej said in February it may increase production 43 per cent this year to 2 mt using only raw sugar from India.

EU sugar producers sell back 8.48 lakh tonnes more quota- Europe's sugar producers have applied to sell back an additional 8,48,000 tonnes of subsidized production quota for 2008-09, deepening the marketing year's output cut to help trim a huge surplus, data showed on Friday. A key element of the EU's 2005 sugar reform was a carrot and stick approach to offer generous cash payments over several years to producers and farmers for selling back their annual quotas to Brussels, thereby overall supply.

Sugar refinery- Al Khaleej's proposal to bring in foreign investment to set up a sugar refinery in India has been turned down by the foreign investment promotion board.
