

## HIGHLIGHTS FOR AUGUST, 2007

### BIRLA SUGAR

#### DIRECT NEWS

***Banks shy of financing sugar industries-*** Banks and other lending institutions are shying away from financing expansion projects in the sugar industry, which is already in doldrums. The Oudh Sugar Mills Ltd, a part of the K K Birla group has been forced to put the Gorakhpur project on hold due to the norms imposed by the financial institutions/banks.

[However, since the news was incorrect, a corrigendum has been issued by the publication which has appeared on the 3<sup>rd</sup> of September, 2007]

#### SNAP SHOTS

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

The performance of the sugar sector over the last two quarters shows that low sugar prices due to glut in the domestic markets and continued rise in the sugarcane prices have hit the margins. However, the sugarcane cultivation will have to be increased in order to derive more ethanol since petrol in India will have a 10 per cent component of blended ethanol. The sugar prices are likely to remain low and margins under pressure unless inventories can be released in the coming quarters.

***Low prices hit sugar cos' margins in Q1-*** Sugar companies across the board have either slipped into the red or find their profits slashed in the first quarter of 2007-08, an indicator of what is in store for the current year.

***'No hike in buffer sugar stocks'***- The government is not considering any proposal to raise buffer stock of sugar from the current limit of 50 lakh tonnes. The Centre has created a buffer stock of 20 lakh tonnes to be maintained between May 1, 2007 and

April 30, 2008 while another 30 lakh tonnes would be kept during August 1, 2007 and July 31, next year.

***Sugar sector seeks early clearance of subsidy claims-*** The sugar sector is awaiting notification from the Union Govt on the method of how buffer stock allocation will be determined and methodology for submission of export subsidy claims.

## OTHER PLAYERS

***Sugar firms plans expansions-*** Shree Renuka Sugars India's Largest ethanol producer will invest Rs 273 crore in various organic and inorganic projects, which include expansion of existing capacities and the acquisition of backward integration projects.

***Balrampur Chini: weak realization-*** Low sugar realizations put pressure on Balrampur Chini's financial in the June 2007 quarter. Since the sugar realizations reduced 28 per cent y-o-y to Rs 13.41 per kilo, net sales declined 7.1 per cent to Rs 365 crore.

***Renuka Sugars subsidiary-*** Shree Renuka Sugar on Friday said that it will set up a wholly-owned subsidiary in Sharjah International Free Zone (SAIF zone). The Board of Directors at its meeting held approved the setting up of the 100% subsidiary in the SAIF zone- Shree Renuka Biofuels holding FZE the company said.

***Rana Sugar to set up ethanol plant-*** Rana Sugar has decided to set up a new plant for producing ethanol in Uttar Pradesh with an estimated investment of 50-60 crore. The proposed plant will have a capacity of 1.8 lakh kilo liters per annum and the entire production would be procured by the Govt under buy-back arrangement.

***Triveni signs pact with Chinese firm-*** Triveni Engineering and Industries, which manufactures sugar and engineered-to-order mechanical equipment has signed agreement with Beijing Beizhong Steam Turbine Generator (BZD) for distributing and marketing its products

## INDIAN SUGAR INDUSTRY

***Sapped Up: UP sugar industry on verge of collapse on high cane cost-*** Sugar units in UP are facing a threat of bust this season on the back of an asphyxiatingly bumper production and a bigger production estimate for the next year. Faced with this, the biggies in the industry are desperately pushing Mayawati Govt to push down the state advised prices for cane to statutory minimum price levels.

***'Ban futures trade in sugar'***- The government should ban futures trading in sugar, according to the Bombay Sugar Merchants Association (BSMA). The association has requested the Forward Market Commission (FMC) to ban futures trading in sugar for at least one year till the end of the next season 2008-09.

***15 lakh tonnes sugar exported-*** India has exported 1.5 million tonnes of white sugar since January, when a ban on overseas sales was lifted, and is unlikely to strike new deals before the crop year ends this September.

***Levy sugar piles up in Maharashtra-*** For the first time in 25 years, nearly 10 lakh tonnes of levy sugar are lying with mills in Maharashtra and the Govt seems to be happy to keep its hands off. There are no takers for the sweetener as it is cheaper in the local market due to widespread glut.

***Low prices hit sugar cos' margins in Q1-*** Sugar companies across the board have either slipped into the red or find their profits slashed in the first quarter of 2007-08, an indicator of what is in store for the current year. Low sugar prices, poor realization in the markets and a forecast of high production in the 2007-08 season on the back of a glut in the current season mean that there is no immediate sign of relief.

***India sugar stocks swells world surplus-*** Consultancy Kingsman raised its forecast for the global sugar surplus in 2007-08 to 11.16 million tonnes from its earlier forecast of 9.48 million tonnes. In a statement consumption was forecast to increase only slightly while its expectations for production jumped notably due to India.

***Sugar glut impacts UP khandsari units-*** High sugarcane prices together with lower khandsari price has dealt a severe blow to the khandsari industry in UP. Between the sugar years 2005-06 and 2006-07 when the number of sugar mills in the state increased from 131 to 149, the number of khandsari units went down from 468 to 366. High sugarcane prices have affected both these industries.

***Panel suggests measures to prop up sugar sector-*** The Central government-appointed committee led by the Nabard's executive director SK Mitra has made slew of recommendations to provide much-needed relief to the industry. The recommendations include increasing the moratorium period up to March 2010; reschedule term loan to 7-8 years from 5 years and to give aid to the units that started crushing after 2002-03.

***Sugar to get lower weightage in new WPI-*** Sugar is unlikely to turn bitter for inflation-watchers this year. Or the next. Or even the year after. For one with output pegged at nearly 28.5 million tonnes for 2006-07 and commodity firms projecting carry over stocks of atleast 3.3 million tonne, prices would be down.

***Sugar producers bank on co-generation-*** Co-generation and distilleries are emerging as the growth drivers for sugar producers across the country, off-setting the negative trend in revenues for their core sugar production activity.

***Panel for more sugar exports to avoid glut-*** Council indicated that sugar will be able to export white and raw sugar up to 35 lakh tonne during 2007-08. The new global markets are available following the withdrawal of EU subsidy.

***India amends rules on sugar export subsidies-*** India has modified rules governing freight subsidies paid to domestic sugar mills looking to export the sweetener. The new statement says firms exporting by road or rail to neighbours will be paid their actual costs or the earlier mentioned subsidy on which is the lower.

***Allahabad HC stays UP move to privatize sugar mills-*** In a set back of sorts to the Uttar Pradesh government's plan to privatize all its state owned and cooperative sugar mills, the Allahabad High Court has ordered an interim stay of the entire sale process.

***Rlys may ferry cement, steel & sugar for less-*** It could be a bonanza for the cement, sugar and steel sector. These segments would not be required to pay the busy season surcharge of 15% on their freight charge.

***Sugarcane farmers may switch loyalty-*** It is surely a problem of plenty sharp fall in the prices of sugar following higher sugar production this year in the country, including Gujarat has triggered fears among sugar industry players that many sugarcane farmers may switch on to other crops to have higher returns

***Govt changes sugar subsidy-*** Under pressure from various sugar exporting countries for providing a direct subsidy to assist export of sugar which does not comply with WTO norms the government has changed its subsidy structure on sugar exports. The new law states that the subsidy on export made by road or rail will be made on the basis of actual expenditure incurred.

***Sugar industry resents Govt move on jute packing-*** The sugar industry will pay close to Rs 1,000 crore to the jute industry over next one year. The Govt has made it mandatory for the industry to package its produce in jute bags. This is compulsory except for the small consumer packs of 25 kgs and export packing.

***'No hike in buffer sugar stocks'***- The government is not considering any proposal to raise buffer stock of sugar from the current limit of 50 lakh tonnes. The Centre has created a buffer stock of 20 lakh tonnes to be maintained between May 1, 2007 and April 30, 2008 while another 30 lakh tonnes would be kept during August 1, 2007 and July 31, next year.

***Sugar mills owe cane growers Rs 5,000 crore-*** Sugar mills in the country owe cane growers almost Rs 5,000 crore in payment arrears, according to the Union Minister of State for Consumer Affairs, Food and Public Distribution.

***Single support price for sugarcane likely-*** The Central government may do away with the current system of having two support prices for sugarcane and have one central

price. A government official from UP said that the industry had agreed on a SAP of Rs 125 per quintal for 2006-07.

**Glut drags sugar prices down-** The country's sugar output for the season ending September is seen at a record of 28.5 million tonnes and nearly 30 million tonnes next year. International Sugar Organization in its monthly report pegged the surplus for the next year over 10 million tonnes compared with 9.1 million tonnes for the year ending September.

**Pak to import Indian Sugar-** Indian mills are likely to sell around 200,000 tonnes of sugar to Pakistan in the next few months after striking deals in August to export about 12,000 tonnes. Indian sugar is all set to hit the local market here in a big way as two consignments of 12,000 tonnes are reaching Pakistan in the next two to three days.

**UP BJP warns of stir if sugarcane dues are not paid-** Terming the Mayawati government's agriculture policy as "anti-farmer", the Uttar Pradesh BJP will start a statewide agitation if the government failed to pay the dues of sugarcane farmers by the end of the month.

**Carbon credit market up 41% in 6 months to Euro 15 bn-** Global greenhouse gas emission trade in the first six months of 2007 totaled up to Euro 15.8 billion up 41 per cent from the year ago period.

**Govt goes slow on levy sugar buy-** Almost 50 per cent of the levy sugar has not been lifted by the Union government as levy sugar rates are ruling above open market prices. The domestic sugar production in the current season is estimated at 28 million tonnes, up 45 per cent from 19.2 million tonnes produced in the last season.

**Sugar futures witness long liquidation-** Sugar futures witnessed long liquidation in the commodity futures market on account of contract expiry. August contract on National Commodity and Derivative Exchange of India closed at Rs 1,282 per quintal down for the previous close of Rs 1,308 per quintal.

***Sugar beet sweetens India's prospects-*** In the semi-arid farmlands east of Mumbai is a small ethanol plant that represents a global first. Syngenta, a Swiss-based company is entering commercial production for the first time in this plant.

***Sugar output to jump 15% next year: Sharad Pawar-*** The sugar output may rise 15% in the next year as the farmers boosted planning of tropical crop, the Agriculture Minister confirmed.

***Corn, sugar lure investors as sub prime hurts metals, oil-*** Commodity investors may have a better time buying corn, cotton, sugar instead of oil and copper. Sugar the world's primary source of ethanol is the cheapest it has ever been relative to crude oil.

***Sellers, European buyers argue over carbon credit-*** The wide difference of prices of the European Union Allowances (EUA) for this year and the next year has resulted in a face-off between some Indian carbon credit sellers who had agreed to sell carbon credits at a price linked with the EUA prices are now trying to postpone the sale to next year.

***Sugar cos bank on Big Bull's theory for funds-*** The sugar companies are now talking about the 'Replacement Cost Theory' with vigor. Of late, large investors have been moving away from the counters and at such time the sugar investors have been overheard to use the theory to attract fresh investments.

***Maharashtra sugar mills set for revival -*** As many as 19 closed sugar mills are likely to see a new lease of life in Maharashtra in the forthcoming sugar year. The move comes in the wake of sugar mills across the country continuing to reel under losses.

***More sops for raw sugar exports-*** India is likely to give more incentives to raw sugar exporters. The Govt will reimburse 4 per cent of the value of raw sugar exported to the traders under a duty draw-back plan, the Commerce ministry said.

***Sugar sector seeks early clearance of subsidy claims-*** The sugar sector is awaiting notification from the Union Govt on the method of how buffer stock allocation will be

determined and methodology for submission of export subsidy claims. Due to the aggressive export by the mills in the private sector the buffer allocation for the private mills is said to be lower.

***Shreyans gains on carbon credit talk-*** Shreyans industries, engaged in production of writing papers with capacity of 66,000 tonnes, is soon to receive the benefit of carbon credit under UN's clean development mechanism.

***Pakistan detains Indian sugar dispatch on health grounds-*** India's attempt to resume sugar exports to Pakistan have received a setback with the land customs authorities at Wagah detaining the first rail rake of 2,400 tonne entering there on Saturday. Pak importers have so far contracted 20,000 tonnes from Indian sugar mills. Festive sugar may push Pak sugar prices further up.

***Sugar exports cross 2 million tonne-*** Indian sugar exports have crossed 2 million tonne in the crop year to September 30, well up on earlier forecasts, and could have risen further next year. Exports in 2007-08 could reach 5 million tonnes if aided by the weakness in the rupee.

***Debt restructuring package for glut-struck sugar sector-*** In what may come as a big relief to the glut-struck sugar industry, the Govt is set to extend a debt-restructuring package that would provide more time to cooperative sugar factories to clear their outstanding dues.

***Banks hit green patch with carbon credits-*** In recent times the banks are discovering that there is lots of money to be made in protecting the environment. They have woken up to the fact that India and Brazil will be the largest players in the carbon emission market by 2010, when the market for carbon trading will be around \$5 million.

***Concessions to sugar industry likely-*** The Govt is likely to give more concessions to the sugar industry which is bearing the brunt of over production that has led to a crash in the retail prices. The price development could lead to major crisis wherein the mills would not be in a position to clear the sugarcane arrears of the farmers.

***More sugar during festival season-*** People living below poverty line will get more sugar during the festival season as Jammu & Kashmir Govt has increased the sugar quota by 1 kg for each family.

***Pulses, oil may bite into wallet, sugar to be sweet-*** The country's best and only insurance in the festive season is the fact that acreage under kharif pulse has increased, up to mid August, by almost 12%. The availability of sugarcane for sugar production is expected to be up by 7.3% over the last year, according to a Kotak briefing.

***Cantor CO2e to launch auction facility for issued carbon credits-*** CANTORCO2E, a leading global financial services provider is introducing an auction platform for the issued carbon credit from the third week of September.

## ETHANOL

***Costly crude makes industry turn to corn-based ethanol-*** With crude prices hovering over \$75 a barrel during the last one month, search for fuel alternatives is gathering pace. In India the consumers have not looked beyond gasohol- a mixture of petrol and ethanol in the ratio of 95:5. Ethanol is derived from molasses got from crushing sugarcane.

***Oil firms fall shy of ethanol-*** Ever since the 5% ethanol blending programme began in November last year the oil marketing companies, Indian Oil Corporation, Hindustan Petroleum Corporation, Bharat Petroleum Corporation have only lifted 100 million liters of ethanol from the distilleries of sugar mills.

***Firms to focus on ethanol-*** Gujarat based sugar factories would focus on ethanol and raw sugar production in 2007-08, the managing director of Gujarat Sugar Industries Federation said. The prospects of raw sugar exports to refineries in Saudi Arabia, Egypt and Indonesia have increased in the recent past.

***'Ethanol demand, production costs may fuel sugar prices'***- Sugar may average 12.7 cents a pound in the year ending Sept 30, 2011. Concentration of output in a few countries ups risks of weather related supply disruption. Brazil has turned more than half its crop this season into ethanol.

***10 per cent ethanol plan godsend for sugar units-*** The beleaguered sugar industry could double its annual earnings from ethanol to Rs 714 crore if the mandatory 10 per cent blending of ethanol (from October 2008), recommended by the group of ministers on sugar, comes into effect. Crops like maize and sweet sorghum could be used to produce ethanol. The recommendation is yet to get a nod from the cabinet.

***Ethanol blending 'lagging behind'***- India's petroleum companies have used only 100 million tonnes of ethanol in fuel production this year, despite the Govt's requirements to use over five times as much. Officials believe that the policy to promote ethanol usage always lags behind. A key issue slowing the use of ethanol in traditional fuel is the price of ethanol, which producers and gasoline companies have yet to agree on.

## INTERNATIONAL NEWS

***Sugar to rise on smaller Brazil cane crop, says Biagi-*** Sugar prices will rise in the coming months as Brazil, the world's biggest producer of the sweetener, harvests less cane than previously expected. Brazil sugarcane harvests this year will fall 7-10 million tonnes short of expectations.

***Mexican trade pact looms large over US sugar industry-*** the US sugar industry is facing huge crisis and the shadow of free trade in sweeteners with Mexico looms on horizon in 2008.

***Sugar gains on speculation-*** Sugar may gain in London on speculation declines that have driven prices lower in 21 months will lure buyers to the market. Iraq bought 100,000 tonnes of white sugar, a sugar trader reported.

***Global sugar surplus seen rising-*** The International Sugar Organization (ISO) forecast a 2007-08 global sugar surplus of Rs 10.8 million tonnes, up from a surplus of Rs 10.288 million in 2006-07.

***Speculators boost short positions in sugar by 65%-*** Speculators boosted their net short, or bearish, positions in New York raw sugars futures by 65 per cent fro the week ended August 21 as the prices hit two-month lows.

***Indonesia to raise raw sugar imports by 40 per cent-*** Indonesia, now the world's second-largest importer of raw sugar, is set to increase its import of raw sugar by an extra 40 per cent in the coming years as new refining capacity comes on tap.

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