

## HIGHLIGHTS FOR FEBRUARY' 2008

### BIRLA SUGAR

#### **DIRECT NEWS - UGSIL & OSML**

**Oudh Sugar Q2 result:** The financial result of OSML for the second quarter was issued in the month of January. Two remaining coverage appeared in February in the following publication:

- Dainik Jagran
- Dainik Vishwamitra

#### **SNAP SHOTS**

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

*The sugar industry, hit by problems of plenty, is in for more trouble with forecasts of a bumper crop for the second consecutive year. Sugar output in the year starting October could exceed 28 million tonnes (mt), 1mt more than the projected record production this year.*

*The country's sugar exports crossed one million tonnes till January and are expected to reach three million tonnes in 2007-08 financial year as a result of increased demand of sugar in the overseas market.*

*Ethanol is expected to be classified as a declared good which would give the ethanol blended petrol programme an impetus and would ensure a uniform levy on the product across the country.*

**Bajaj Hindustan Sugar & Industries Ltd-** Bajaj Hindustan Sugar & Industries Ltd has said that the company's new 12,000 TCD plant at Utraula in district Balrampur in eastern Uttar Pradesh, has commenced operations. With this new plant, the aggregate operating capacity of the company during the current sugar season has increased to 40,000 TCD from the earlier capacity of 28,000 TCD.

***Additional release on sugar to keep prices on leash-*** The Centre's move to release additional sugar under the free sale quota for February and March is likely to keep physical prices of the sweetener under control. The Centre initially released 13 lakh tonnes each for January and February and 15 lakh tonnes for March. Apart from this, 2 lakh tonnes were to be available each month for sale through the public distribution system or ration shops from January to March.

***Sugar co-ops may take in marketing consultants-*** Cooperative sugar factories have finally woken up to the reality that aggressive marketing is a must for realization of prices and reduction of losses. Sugar factories now want to take the help of marketing consultants for exploring avenues such as online trading and the futures markets. The Maharashtra State Cooperative Sugar Factories Federation, the Vasantdada Sugar Institute and the Sugar Commissionerate will jointly appoint a marketing consultant to cooperative sugar factories.

***RIL, HPCL to take charge of Bihar sugar units-*** The Bihar government will issue letters of intent (LoI) to Reliance Industries and Hindustan Petroleum Corporation (HPCL) among others for the revival of five sick sugar mills belonging to the Bihar state sugar Corporation. The state will soon put out advertisements for the remaining 10 mills for which no bids were received.

***IBA meet to chalk out revival package for ailing sugar industry-*** The rehabilitation package for farmers will be the top most priority of banks when the managing committee meeting of Indian Banks' Association (IBA) meets on February 15 in Mumbai. A committee has already been formed by the government early this year under the leadership of former Nabard chairman and managing director, YSP Thorat. The committee will recommend various measures to revive the ailing sugar industry in the country.

***India holds key to global sugar prices-*** India holds the key to global sugar prices, says a report on World Sugar Outlook 2008 by Rabo India Finance Ltd. India currently owns much of the global stocks accumulated since 2005-06 (October-September). "If there is a prompt increase in export offers from India in the face of rallying prices in the

first half of 2008, expectations of global export availability for 2008 will be revised downwards, providing fundamental support for any rally”, the report said.

## OTHER PLAYERS

**Balrampur Chini net loss at Rs 6 lakh** - Balrampur Chini reported a net loss of Rs 6 lakh for the 3<sup>rd</sup> quarter ended 31<sup>st</sup> December’07 on a standalone basis. This Kolkata based company had reported a profit of Rs 19.18 crore in the quarter of the last year.

**Misplaced policies bog sugar makers in UP-** Despite its impressive track record and versatile business model, Balrampur Chini, which claims to be among the “most globally competitive sugar groups”, is making losses, a trend followed by other sugar makers in Uttar Pradesh. To shield against inherent risks in the cyclical sugar business the company has developed power generation and ethanol-making capacity using cane byproducts. However, the company posted a maiden loss in the year ended September 2007.

**Dwarikesh Sugar to supply 44MW to UP grid for 20 years-** Dwarikesh Sugar industries on Monday said it has signed agreements with Uttar Pradesh Power Corp to supply over 44MW electricity to the State grid for 20 years from its two biomass based plants. The two plants at Bareilly and Bijnore were set up at a cost of about Rs 225 crore and have also been registered with United Nations Framework Convention on Climate Change (UNFCCC) to avail carbon credits under the carbon developments mechanism.

**Dwarikesh Sugar-** PINC has recommended buy on Dwarikesh Sugar in its Feb 18 report. Although the sugar cycle is expected to turnaround on back of lower production estimates and exports, DSIL’s profitability in FY08 will be impacted on accounted on delay in commissioning of 48MW power plants. However, a full year’s contribution from 56 MW will substantially improve the profitability of the company and cash flows going forward.

***Bajaj Hindustan's Rs 150 cr stock seized-*** The Uttar Pradesh government has seized stocks from three sugar mills owned by Bajaj Hindustan, the country's largest sugar produce, for non-payment of the last season's sugarcane price to farmers. Of Rs 580 crore that sugar mills in the state owe to cane growers for the last season (October-September), Bajaj accounts for almost Rs300 crore.

***Bajaj Hindustan Sugar & Industries Ltd-*** Bajaj Hindustan Sugar & Industries Ltd has said that the company's new 12,000 TCD plant at Uttraula in district Balrampur in eastern Uttar Pradesh, has commenced operations. With this new plant, the aggregate operating capacity of the company during the current sugar season has increased to 40,000 TCD from the earlier capacity of 28,000 TCD.

***Shree Renuka Sugars Ltd-*** Shree Renuka Sugars Ltd has entered into a lease agreement for a period of 5 years with Balaghat Shetkari Sahakari Sakhar Karkhana Ltd, Latur, Maharashtra, having a plant capacity of 2500 tcd (tonnes of crushing per day).

## INDIAN SUGAR INDUSTRY

***Free sale sugar quota up*** - The Centre released 14 lakh tonnes (lt) of non-levy or free sale sugar for February, up 7.7 % from the previous tentative allocation. In December, government had tentatively allowed millers to sell 13 lt in February. For the January - March quarter, the centre had allowed sale of 41 lt. it later raised the quantity under the January quota by 97,096 tonnes to nearly 1.4 mt.

***Rate-free loans to sugar mills stalled-*** The disbursement of interest-free loans to sugar mills against excise payments is getting delayed owing to the lack of clear guidelines from the Reserve Bank of India.

***Current sugar season negative for firms: Fitch-*** the current sugar season (October 2007-September 2008) will have a negative impact on companies according to rating agency Fitch. Despite sugar prices gaining ground, uncertainty surrounding the issue of

cane prices and the reinstatement and terms of the UP sugar policy will have a direct bearing on a producer's profitability.

***Sugar export subsidy temporary-*** India may end subsidy to exporters after the domestic glut of the sweetener is absorbed. The Government had, in March last, announced a freight subsidy of as much as Rs 1450a tonne to run down stock piles after output reached a record.

***Production may beat government forecast-*** India may produce more of the sweetener this year because of higher yields. Production may total 27 million metric tonnes in the year ending September 30, compared with 26 million tonnes estimated last month.

***Outlook negative for 2007-08 season-*** The outlook for the Indian sugar industry is negative for the season 2007-08 (October-September) mainly due to the uncertainty surrounding the issue of cane pricing, which has a direct bearing on a producer's profitability as well as the reinstatement and terms of the UP sugar policy. It is estimated that India may produce 28 million tonne of the sweetener compared with the 31 million tonne initially forecast.

***Global sugar surplus may reach 1 mt in 2008-09-*** The sugar market will post a 1 million tonne surplus in the 2008-09 season, extending two consecutive years of oversupply. Sugar output will total 163.86 million tonne in the season ending September 2009, led by 5.9% increase from Brazil.

***Maharashtra mills post 50 bps increases in sugar recoveries-*** mills in Maharashtra have recorded an over 50 basis point increase in sugar recovery rates, thereby partially neutralizing the lower levels of cane crushing so far during the current 2007-08 season (October-September).

***Additional release on sugar to keep prices on leash-*** The Centre's move to release additional sugar under the free sale quota for February and March is likely to keep physical prices of the sweetener under control. The Centre initially released 13 lakh tonnes each for January and February and 15 lakh tonnes for March. Apart from this, 2

lakh tonnes were to be available each month for sale through the public distribution system or ration shops from January to March.

***Sugar output seen at last year's level of 283 lakh tonne-*** The sugar output of India, the world's second largest producer of the sweetener, in the 2007-08 season is expected to remain around last year's level at 280 lakh tonne.

***Sugar traders say bigger surplus possible in 2008-09-*** Forecasts for a near flat global sugar balance in 2008-09 may need to be revised if growers respond to rising prices by planting more sugarcane or beet. Traders attending the February 3-5 Dubai 2008 sugar conference, a gathering of 400 leading industry participants, said a price rally since the start of the year could set off planting of sugar instead of alternative crops.

***Sugar co-ops may take in marketing consultants-*** Cooperative sugar factories have finally woken up to the reality that aggressive marketing is a must for realization of prices and reduction of losses. Sugar factories now want to take the help of marketing consultants for exploring avenues such as online trading and the futures markets. The Maharashtra State Cooperative Sugar Factories Federation, the Vasantdada Sugar Institute and the Sugar Commissionerate will jointly appoint a marketing consultant to cooperative sugar factories.

***Sugar output declines 11% in October-January-*** Sugar output dropped as much as 11% in the first four months of the season that began in the biggest cane growing states delayed crushing. Production fell to between 11 million metric tonne and 11.2 million tonne in the October-January period from 12.3 million tonne a year earlier.

***Sugar waste kills thousands of fish in Kolhapur, Sangli rivers-*** Untreated sugar waste discharged by sugar factories like the Shri Tatyasaheb Kore Warana Cooperative Sugar Mill and Vishwas Cooperative Sugar Mill into rivers flowing through Sangli and Kolhapur districts have proved lethal for aquatic life with fish dying by thousands this week. The cause of the pollution was scum, a by-product of local sugar mills which is released into the river.

***UP khandsari units face closure-*** The inability to compete with sugar mills and diversity has forced more than 51 khandsari units to shut down in Uttar Pradesh in the last one year. According to data from the state cane commissioner's office, only 315 khandsari units are in operation in the current sugar season (October-September) in UP against 366 units last year.

***India's sugar exports may touch 3mt in FY 08-*** The country's sugar exports crossed one million tonnes till January and are expected to reach three million tonnes in 2007-08 season on the back of increased demand of raw sugar overseas. India exported about 1.8 million tonnes in 2006-07 season. The sugar season starts from October and ends in September.

***RIL, HPCL to take charge of Bihar sugar units-*** The Bihar government will issue letters of intent (LoI) to Reliance Industries and Hindustan Petroleum Corporation (HPCL) among others for the revival of five sick sugar mills belonging to the Bihar state sugar Corporation. The state will soon put out advertisements for the remaining 10 mills for which no bids were received.

***Sugarcane output estimate revisions cost industry, growers dear-*** Official statistical data being subjected to upward or downward revisions is considered an acceptable practice, so long as it does not lead to any marked divergence between the original and final numbers. But in case of the Agriculture Ministry's estimate of sugarcane production, the first advanced estimate of September 15, 2006, the Ministry has assessed the size of the 2006-07 crops at 283.4 million tonnes (mt). This figure has been successfully revised upwards till the final estimate which was released on Thursday put it at 355.52 mt. In other words, a difference of over 72 mt or more than a quarter of the initial projection.

***IBA meet to chalk out revival package for ailing sugar industry-*** The rehabilitation package for farmers will be the top most priority of banks when the managing committee meeting of Indian Banks' Association (IBA) meets on February 15 in Mumbai. A committee has already been formed by the government early this year under the leadership of former Nabard chairman and managing director, YSP Thorat.

The committee will recommend various measures to revive the ailing sugar industry in the country.

***Implement sugar package Chidambaram tells banks-*** Finance Minister P Chidambaram today asked public sector banks to implement the interest-free loan package announced for sugar mills “in letter and spirit” and submit a report by February 22. Punjab National Bank and Indian Bank have implemented the package. Others have been advised to complete the exercise soon.

***Cane yield to drop 18%-*** The sugarcane yield in Maharashtra, the country’s largest sugar producing state, is likely to decline by 16-18 per cent this year likely because of unfavourable climate during the crop maturing period. The fortnightly estimate compiled by the Sugar Commissioner of Maharashtra indicate that the average yield in Maharashtra will slump to 62-63 tonnes per hectare compared with 73 tonnes per hectare during the last season.

***Maha 2008-09 sugar output-*** Maharashtra is likely to produce 6 million tonnes of sugar in the year ending September 2009, a drop of about 30% against a revised production estimate for the current year. The likely drop in output is mainly due to lower area under cane crop and a possible diversion of sugarcane directly to ethanol production. In the current year from October 2007 to February 11, 2008, the state has produced about 4.6 million tonne.

***Domestic sugar intake will reach 24mt soon-*** India’s sugar consumption will reach 24 million tonne per annum in the next few years from the present 19 MT, owing to the fall in the prices of sweetener and shift in the consumption pattern from the cheaper jaggery. Sugar prices have eased in the domestic wholesale market in India due to slackness in demand. With the reducing price gap between sugar on the one hand and jaggery on the other, the preference for the white sugar would go up.

***Maharashtra sugar industry, Govt differ over sugar output estimates-*** There seems to be have been a trade off between the Maharashtra government and the ailing sugar industry over the projection of production for the crushing season 2007-08. Although the state government committee in September last had projected a record sugar

production of 97 lakh tonnes due to availability of 844 lakh tonnes of cane for crushing during the current season, the Sugar Commissionerate is now claiming that only 86 lakh tonnes of sugar by crushing 760 lakh tonnes is possible, with a recovery rate of 11.60%.

***Sugar production on the decline-*** Sugar production in India, the world's second largest producer of the sweetener, is estimated to have declined by nine lakh ton in the first quarter of 2007-08 season due to delay in start of sugarcane crushing by mills. The total sugar production is estimated at 6.4 million tons during October-December of 2007-08 season, as compared to 7.3 million tons in the corresponding period of the previous season.

***ICRISAT to promote sweet sorghum as feedstock for bioethanol-*** While the global debate ranges on whether biofuel revolution is causing imbalances in food security systems and increasing the emissions of greenhouse gases, the smart biofuel crops developed, utilized and promoted by the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) is claimed to ensure energy and environmental security.

***Sugar body says output to beat forecast-*** Sugar output is seen at about 27 million tonne in the season ended September, director general of the Indian Sugar Manufacturers' Association said. The latest industry output projection for the year is at least a million tonnes higher than the government's forecast of 26 million tonnes. Largest sugar producing state Maharashtra's output was seen at about 8.8 to 9 million tonnes as against 9.2 million tonnes a year ago.

***Sugarcane: The much maligned crop-*** Sugarcane, unlike many other crops, suffers from an image problem. For the historian, it epitomizes the worst excesses of colonialism: From Fiji, Java and Mauritius right across to the Caribbean Islands, Surinam, Cuba and Brazil, sugarcane plantations were originally worked by slaves or indentured labour brought in from Africa or India. In India, cane producers are predominantly peasant-proprietors with holdings of one hectare and less. Yet sugar mills per se are seen to be controlled either by mofussil politicians or rapacious barons. There is no industry to which the suffix lobby seemingly attaches more effortlessly than sugar, just as no commodity is more political and subject to controls

than sugar. Sugarcane scores over most crops in the efficient use of solar energy and water for biomass conversion, implying that its environmental damage potential is not as serious as often presumed.

***India's first online sugar futures exchange closes down-*** The country's first online sugar futures exchange - Esugarindia, promoted by leading sugar producer Bajaj Hindustan, has closed down after its derecognition by the Forward Markets Commission for carrying on futures trading. The Shishir Bajaj promoted exchange was permitted to run for a period of five years till May 2007. As per the rules, the company should have sought the approval of commodity market regulator FMC for extending the license.

***Cold weather to hit jaggery output-*** Colder than usual climate this year is likely to hit jaggery output. The availability of the sweetener is set to decline 15 per cent on yield losses despite abundance of cane available for crushing. Since the sector is largely controlled by unorganized players, no authentic data is available yet. Veteran traders in Uttar Pradesh, India's largest jaggery producing state, estimate a total output of 10 million tonnes as against 11.5 million tonnes last year. Harvesting of sugar cane was delayed as temperatures were lower this time round in January. Sugarcane starts losing juice content, referred to as yield, if harvesting is delayed for mature crop.

***301 tonnes sugar inked for export-*** India has contracted to export around 30 lakh tonnes of sugar so far this crop season and has shipped out 11 lakh tonnes since October 1, the President of the Indian Sugar Mills Association said. India is expected to export more than 35 lakh tonnes this year. Most of the sugar, that is being sold both whites and raws, heads to the West Asia or Bangladesh.

***Don't force sugar mills to pay up, SC tells UP-*** The Supreme Court has asked the Uttar Pradesh government, the country's second largest sugar producer, not to take coercive action against private millers with cane arrears for 2006-07 season. Shares in most sugar firms with mills in the state rose between 3 per cent and 4.94 per cent touching intra-day highs after the news.

***Sugar industry seeks special status for ethanol-*** As the government is becoming proactive biofuel programme in the country; the sugar industry is eagerly waiting for a reduction in excise duty in molasses, which is currently high in Rs 750 a tonne. The sugar industry has also sought for placing ethanol in the “special category of goods” under Clause 5A of the Central Sales Tax Act, so that the state government will not impose local taxes on this commodity.

***Global sugar surplus forecast at 2.86 m tonnes-*** The world will produce a surplus of 2.86 million tonnes of sugar in 2008-09 (April-March), analysts at Societe J Kingsman said in a quarterly report on Friday. It appears that even conservative assumptions will result in a surplus next year. In October 2007, Kingsman had been looking for a slight deficit for the 2008-09 season, but said current prices ensure sugarcane farmers will be working to expand production.

***Govt. pushes for sugar exports to avoid glut-*** The Union Agriculture and Food Minister Sharad Pawar has called a meeting of the country’s top sugar companies tomorrow to expedite exports. The meeting comes at a time when domestic sugar prices have firmed up by about Rs 100 a quintal on lower output projects and mills are reluctant to undertake exports. Some mills are also understood to have defaulted on exports contract since domestic prices have significantly increased after the contracts were entered.

***Govt gives in to pressure on sugar exports-*** The government will extend the sugar export sops till October 1 against its earlier decision to extend it by one year to April 19, 2009. The review of the earlier decision is said to be done under pressure from sugar exporting countries claimed the incentive to be noncompliant with the World Trade Organization norms.

***India holds key to global sugar prices-*** India holds the key to global sugar prices, says a report on World Sugar Outlook 2008 by Rabo India Finance Ltd. India currently owns much of the global stocks accumulated since 2005-06 (October-September). “If there is a prompt increase in export offers from India in the face of rallying prices in the first half of 2008, expectations of global export availability for 2008 will be revised downwards, providing fundamental support for any rally”, the report said.

***UP based sugar stocks fall on court orders-*** An interim order by Supreme Court on Wednesday that sugar mills in Uttar Pradesh pay growers Rs 115-123 a quintal led to a fall in shares of companies based in the Northern State. Shares of companies took a beating due to this and Bajaj Hindustan Ltd was the worst hit due to the order. The fall in stock prices came even as sugar prices touched a 15-month high in the global market. Indian sugar is seen as holding the key to global market prices since higher exports from the country could have cooling effect.

***Sugars surplus forecast pruned-*** The International Sugar Organization cut its forecast for the market's supply surplus by more than a 16 per cent because of the lower production in India, the largest grower. Global production for October 2007 to September 2008 may outstrip consumption by 9.309 million tonnes. The ISO downgraded Indian production by 3.25 million tonne to 29.9 tonne of raw sugar.

***Sugar stocks may top 18 m tonnes-*** Stockpiles of sugar in India, the world's biggest producer, may swell to 18 million tonnes this year, enough to meet demand for more than 10 months. Consumption may total 20 mt in the year ending September 30, while output may fall 3.6 per cent to 27 mt, the finance ministry said before the budget announcement. The forecast surplus combined with stocks of 11 mt on October 1 would swell reserves 67 per cent to 18 mt.

***Excise duty on sugar raised by Rs 9 a quintal-*** The Centre has increased the excise duty on sugar by Rs 9 a quintal. The levy will come into effect from March 1 and has nothing to do with the Budget being presented in the Parliament on Friday. The additional duty will now make the total excise levy at Rs 95 a quintal. Together with special educational cess of three per cent, the burden will be Rs 97.85 a quintal.

## ETHANOL

***Sugar may gain 15% by July on ethanol demand-*** Sugar prices may gain 15% by July as demand for ethanol increases and agricultural commodities advance, Grupo

Copersucar, the world's largest exporter of sugar and ethanol, said. Sugar is expected to trade at as high as 14 cents a pound.

**Ethanol demand in US adds to food, fertilizer costs-** The US plans to replace 15 per cent of gasoline consumption with crop-based fuels, including ethanol, are already leading to some unintended consequences as food prices and fertilizer costs increase. While advocates say ethanol is cleaner than gasoline, a Princeton University study this month says it causes more environmental harm than fossil fuels.

**Oil PSUs eye sugarcane acreage-** Oil fields and coal mines are passé. India is poised to make its first overseas acquisition of sugarcane acreage in search of energy security. Three state-owned oil marketing companies will jointly pump in \$600 million, or Rs 2,400 crore, in Brazil to buy/lease plantations and related units for producing ethanol, a by product of sugarcane industry blended with petrol to make ethanol.

**Industry expects declared good status for ethanol-** With the D-Day for the Union Budget 2008-09 inching closer, expectations are running high among the stake holders that the government may classify ethanol as a declared good which would give the ethanol blended petrol programme an impetus. Grant of declared good status would ensure a uniform levy on the product across the country. The government may also consider reduction in the current 16 per cent Central excise duty on ethanol for the programme.

## INTERNATIONAL NEWS

**Pak may curb sugar exports-** Pakistan, Asia's third-largest sugar consumer, may restrict exports to augment domestic supplies and prevent an increase in prices. Pakistan may export as much as 300,000 metric tonne of sugar this year as supply exceeds demand.

**Al Khaleej may import 1.5 mt-** Al Khaleej sugar company, the world's biggest sugar refiner, may increase the production by as much as 43 per cent this year, using only

raw sugar from India. The Dubai-based company may produce as much as 2 million metric tonnes, most of which will be exported to West Asia and far East.

***Sugar drops on oversupply-*** Sugar declined for a fourth consecutive day in London as funds liquidated their contracts on forecasts that a supply glut will extend for a third straight season. White sugar for March delivery fell \$ 3.10 or 0.9 per cent to \$ 327.10 a tonne on the LIFFE exchange in London.

***EID Parry jt. venture sugar output-*** Cargill Inc, the largest US agricultural company, will begin sugar production at its first Indian refinery early next year to tap the world's second largest sugar producer. Cargill's venture with EID Parry (India) Ltd will process 6 lakh tonnes of sugar a year from the first quarter of 2009.

***Bulog buys Indian white sugar-*** Indonesia state procurement agency Bulog has bought 4,000 tonnes of white sugar from India at \$388 a tonne on a c&f basis. Trading house Agrocrop International will deliver the sugar between March-April. The sugar is part of a plan to import a total of 110,000 tonnes of white sugar as buffer stock. Bulog has been assigned to buy 20,000 tonnes while sugar state trading firm Perusahaan Perdagangan Indonesia will import the rest.

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