

## HIGHLIGHTS FOR MARCH 2009

### BIRLA SUGAR

#### SNAP SHOTS

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

In order to meet the shortfall in the domestic market and check the rising prices, the centre was considering a proposal to allow imports of refined sugar at zero duty, However, with the Indian Sugar Mills Association (ISMA) opposing to duty-free import of white sugar into the country and also the local prices falling slightly, India may not require white sugar imports at zero duty and imports of raws may be lower than earlier expected. Since domestic sugar output has been very low this season a lot of sugar mills have contracted import of raw sugar. The Maharashtra Government's successful implementation of the centre's sugar development programme has attracted 50 mills in less than two months and the number is likely to double by the end of May.

#### DIRECT NEWS

***Rush to import raw sugar over possible price rise:*** A number of Uttar Pradesh based mills have contracted import of raw sugar(at nil duty) from Brazil in hope of additional revenues since domestic sugar output is likely to be at a four-year low of 16 mn tonnes in the current season. ***Rush to import raw sugar over possible price rise:*** Leading firms like Dhampur Sugars, Simbhaoli Sugars, **KK Birla Group** and Dalmia(Bharat) have contracted imports. This is in addition to the import by mills in Maharashtra and Southern India located close to the ports. Dhampur has contracted the import of 28,000 tonnes of raw sugar while Simbhaoli has contracted the import of 20,000 tonnes; **KK Birla Group** has contracted import of 25,000 tonnes.

## COMPETITION

***JM Fin cuts stake in Balrampur Chini:*** Mutual fund house JM financial mutual fund has cut its stake in the sugar producer Balrampur Chini mills to 3.05 % through open market selling.

## INDIAN SUGAR INDUSTRY

***Mills likely to go for more raw sugar imports:*** The centre's move to extend the obligation for sugar mills to export refined sugar for importing raw sugar under advance licence to three years from two years is likely to result in shipments of another five lakh tonnes raw sugar into the country.

***Sugar body lowers output estimate:*** The Indian Mills Association has trimmed its sugar output forecast for the current season to 16 million tonnes from its previous estimate of 17-18 million tonnes.

***Commercial intelligence failure has led to sugar crisis:*** The country's sugar sector has by now become a classic example of how delayed government intervention can distort the market rather than bring order. Given the long crop cycle, cane gives advance signals about the crop size. The competence of the government to estimate cane yields and output is suspect.

***India's lower sugar output to hit global consumers:*** A sharp decline in India, the world's second biggest sugar producer 2008-2009 crop years is likely to result in global shortfall and then may lead to higher prices.

***EC may vote for zero-duty sugar:*** The centre is considering a proposal to allow imports of refined sugar at zero duty to meet the shortfall in the domestic market and check prices. The decision to import refined sugar instead of raw sugar has also begun impacting global markets. Traders are apprehensive that refined sugar imports will hit raw sugar demand.

***Cane crisis shuts 91 UP sugar mills:*** With 91 out of 132 mills already closed by the end of February and the remaining 41 expected to close down by the Middle of March, the sugar producing season is about to see an unprecedented early end in the second largest cane producing state in the country.

***Slowdown hits carbon credits earned by Indian cos:*** The economic slowdown seems to be affecting the ability of companies to generate carbon credits. The number of carbon credits that are issued to the ITC group, Reliance Industries Ltd, Jindal and Tata group of companies from 2002 onwards has seen a sharp decline in the last one or two years.

***Govt mandates sugar stock limit of 200 tonne:*** The government on Thursday ordered a trader cannot stock more than 200 tonne of sugar. However Kolkata traders can keep 1,000 tonne because they also supply sugar to the northeastern states. The dealers will have to turn over their stocks within 30 days from the date of receipt.

***India eyes 2 mt sugar import:*** The Indian Government is keen to import 2 million tonne of duty-free white sugar in the next six months and has sought the Election Commission's approval to go ahead.

***Imported sugar not to attract stock limits:*** Imported sugar will not be covered under the Centre's order allowing State Governments and Union Territories to impose stock holding and turnover limits on the commodity.

***Sugar imports, even at zero duty, unviable:*** Sugar imports- both raws and whites even at zero duty have become unviable in the present scenario where the centre is going all out to ensure that prices do not cross the Rs 25 a kg at the retail end in the run-up to elections .Processing costs: A sugar mill in peninsular India importing these raws would incur port handling and transport charges of about Rs 1500 and another 2000 as cost pf refining.

***State agencies should import white sugar for PDS:*** In a few short months, domestic prices have galloped from around Rs 1500- 1600 to over Rs 2100 a quintal. Retail prices are higher at 24-25 a kg. The system of government purchase of 10 per cent of sugar

production at low rates must go. For sugar supply under PDS, the government must use a combination of purchasing from mills through a tender process and importing white sugar through government parastatals.

***Decline in industrial production hits carbon credit market:*** A decline in industrial production in the European economies has led to a fall in carbon credit prices by more than 58% in the last eight months. Carbon credit for delivery in June 2009 on the national commodity and derivatives exchange (NCDEX) declined dramatically to Rs 712.20 tonne on March 12 from a high of 1698.40 a tonne on July 11, 2008, one month before Lehman Brother's collapse. In India, sugar companies have been a big generator of carbon credit but, of late the sugar production is on decline and so is the by-product, including bagasse and electricity.

***Sugar output may jump 25% on plantings:*** Sugar output in India may rebound by 25 % next year as farmers boost sugarcane plantations to benefit from a rally in prices, reducing the nation's reliance on imports.

***Maharashtra 118 sugar mills close ops:*** Dwindling cane supply has forced 83% sugar mills in the western state of Maharashtra to close operations and remaining are likely to end crushing for the season in two weeks.

***Sugar prices to fall; Pakistan and Bangladesh to import:*** Expectations that sugar prices in India, will fall further in the next few days will discourage imports of both raws and whites. Local prices have fallen about 6% in the past two weeks. Analysts estimate 2008-2009 global sugar deficits at 6 million tonne. Close on the heels of duty-free raw sugar imports by India; Pakistan and Bangladesh are also planning overseas purchases.

***50 sugar mills show interest in centre's development scheme:*** The Maharashtra Government's successful implementation of the centre's sugar development programme has attracted 50 mills in less than two months and the number is likely to double by the end of May. These companies have evinced interest in taking all out efforts to raise incremental output of 50 tonnes in 1,000 hectare (ha) of identified potential area.

***Sugar output in Maharashtra decline 35%:*** Sugar output in Maharashtra declined 34.50 per cent so far this season on early closure of crushing mills due to unavailability of Sugarcane. In addition to the lower acreage under sugarcane, the decline in sugar output can be attributed to the over one and a half month delay in the commencement of crushing during the current season.

***Sugar prices lose calories, fall below production cost:*** For the first time in India, whole-sale sugar prices have dipped below the industry's cost of production at a time when the output is far below domestic consumption-155 lakh tonnes vs 220 lakh tonnes in 2008-09 and 200 lakh tonnes(estimated) vs a comparable level of demand in 2009-10. The government has indicated it will allow import of around 40 lakh tonnes of raw sugar in 2009-10.

***Industry opposes zero duty import of white sugar:*** The Indian Sugar Mills Association (ISMA) has opposed duty-free import of white sugar into the country, claiming that factories are incurring losses despite a significant improvement in realizations. ISMA said it will result in less area under sugarcane in the post-monsoon season. The government is contemplating reducing the import duty on refined sugar to zero from 60 percent in view of the rising sugar prices in the domestic market.

***I-T dept mulls tax on carbon credits:*** The Income-Tax department is mulling tax on carbon credit trade, estimated to yield for the exchequer an estimated Rs 1,000 crore.

***Duty- free import of refined sugar proposal cleared:*** The Election commission is believed to have cleared a food ministry to allow duty free import of refined sugar in order to ease the supply crunch. The government is considering a proposal to allow duty-free import of refined sugar to ease the supply crunch arising from a sharp fall in 2008-09 sugar output.

***Karnataka mills plan steps to raise cane output:*** Faced with a severe shortage of sugarcane during the present sugar season (Oct-08 to Sept 09), sugar mill in Karnataka have launched intensive cane development programmes to ensure adequate supply for the next sugar season, beginning Oct 09.

**India may not import white sugar as prices dip:** India may not need white sugar imports at zero duty and imports of raws may be lower than earlier expected as local prices have fallen. Soaring local prices ahead of general elections scheduled in April and May had encouraged India to ease import rules for raw sugar last month. Sugar in the physical markets of Maharashtra, the top producer, has retreated 9 % from this year's peak of Rs 2,181 per 100 kg. If the situation continues, it is not required to import white sugar.

**White sugar may outperform gold, oil in 2009:** White sugar could lead a recovery in commodities in 2009 because of tight supplies and importers delaying buying decisions on raw sugar. India is expected to consume around 22.5mt of sugar this year, while its domestic crop production is forecast at 15.5 mt, according to the Indian Sugar Mills Association.

## INTERNATIONAL NEWS

**Rising crude buoys sugar futures:** Liffe white sugar futures traded higher buoyed by rising oil process. New York's most-active raw sugar futures were up 8 points, or 0.6%, at 13.96 cents a pound.

**1.5 lakh t raw sugar heading for India:** A trading house has taken delivery of about 3,50,000 tonnes of raw sugar against its position for the expired March contract in New York, of which 1,50,000 tonnes will head for India. India is expected to buy up 4.5 million tonnes of sugar in the year to September 2009, due to shortfall in output.

**Weakness persists in Coffee; buying supports sugar:** ICE futures increased slightly, supported by light speculative buying related to a weak dollar and firm crude oil futures. ICE may sugar was up 3 points at 12.86 cents a pound.

**World sugar demand likely to fall:** World sugar demand should fall by at least 2 percent in 2009. The Dubai based refinery had hoped to see some demand for white-sugar imports in Feb. White sugar demand is expected to pick up later this year but this will depend on governments in importing countries providing cash to fund subsidies. Traditional export markets for Al khaleej are Iran and Iraq but this year

India and Pakistan are also expected to need additional sugar supplies due to domestic shortages.

**Raw, white sugar duty set to go:** The food ministry has forwarded a proposal to slash import duty on both white and raw to zero for the Union cabinets consideration. The proposal has received the Election commission's nod. Still, imports are seen unviable as domestic prices are lower than landed costs of imports. so the decision likely to be delayed despite election panel nod.

**Sugar futures rule soft a tad:** Liffe white sugar futures were slightly softer and the volatile conditions of last week appear to have eased for the time being. Notes expectations of a more plentiful 09-10 Brazilian harvest are keeping the market under pressure, while the absence of Indian buyers 'isn't helping.' New York's most active raw sugar futures were down 5 points at 12.57 cents a pound.

## Ethanol

**Sops on ethanol import to help green fuel: Plan pan:** The Planning Commission on Monday said the government should consider providing incentives to encourage companies to acquire sugarcane plantations abroad and bring ethanol into the country. This ethanol can then be utilized as an environment-friendly fuel alternative and also help reduce the country's soil import bill. Incentives for ethanol import could include reduction of import duty on industrial ethanol from 7.5% to 5%. Countries bringing ethanol into the country may be given carbon credits.

**Alternative fuels:** Growing environmental concerns and unstable oil prices are forcing governments globally to diversify energy sources and explore alternative ways to meet energy needs. The government is currently implementing an ethanol-blending programme and considering initiatives in the form of mandates for bio diesel. Since ethanol is produced from plants that harness the power of the sun, it is also considered as a renewable fuel. The main criticism for ethanol is the diversion of viable agricultural land from production of food crops to fuel crops, which may lead to spiraling of food prices.