

HIGHLIGHTS FOR MAY' 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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Incentives for crushing excess sugarcane- The Maharashtra Cabinet has decided to give several incentives, including transport subsidy to sugar factories crushing excess sugarcane crop in the state, for the 2007-08 crushing season. The State Government would pay a transport subsidy of Rs 2 a tonne per km for sugarcane crushed after stipulated days of the beginning of the crushing season.

Sugarcane biofuel becomes second energy source- Biofuel and other derivatives from sugarcane have for the first time overtaken hydroelectric power as an energy source in Brazil. Ethanol and pulp from sugarcane in 2007 accounted for 16 per cent of Brazil's

total energy output, up from 14.5 per cent in the previous year, the National Energy Evaluation showed.

AP looks to produce Chinese machinery for sugar mills- The Andhra Pradesh government is seeking the support of the Chinese government for the modernization, expansion and co-generation of co-operative sugar mills in the state.

Government may withdraw export subsidy on sugar- The government may withdraw export subsidies on sugar as the country has already reached sugar exports of 30 lakh tonne during the current season as the limit set by the finance ministry. The export subsidies announced by the Centre early last year is valid till September 2008. The government also said that the export subsidy may discontinue once the export figure reaches 30 lakh tonne.

COMPETITION

Balrampur net up 229% on back of power, distillery- Balrampur Chini Mills Ltd has reported a net profit of Rs 65.65 crore on a total income of Rs 311.16 for the quarter to March 31, 2008, against a net profit of Rs 19.97 crore on income of Rs 399.12 crore for the same period of the previous year. The 229% increase in net profit was powered by co-generation of power from n bagasse, the distillery business and to some extent sugar. During the quarter, Balrampur sold 35 crore units of surplus power to the grid.

Sweeter numbers from sugar companies- Unexpectedly strong earnings from sugar major Balrampur Chini Mills have given rise to optimism on the road to the recovery of the sugar mills. The company's net profit for the March 2008 quarter has grown 3 fold on Rs 65.6 crore, though the sales actually declined by 22 per cent compared with the same period last year.

Praj Ind reiterates presence in Europe- Praj Industries appears to be strengthening its presence in the Europe market. BioCergy Europa BV which is the company's 60 per cent joint venture with the Netherlands based Aker Kvaerner, has recently won a

contract for the supply of key equipment to Vivergo Fuels, a leading supplier of renewable fuels in UK. The plant will be designed to produce approximately 400 million litres of fuel ethanol a year from wheat sourced from within Europe.

INDIAN SUGAR INDUSTRY

Raw sugar exports zoom this season- For the first time ever, the country's raw sugar export has overtaken the export of plantation white sugar. During the current sugar season (October-September), the country has shipped 1.6 million tonnes of raw sugar so far, significantly higher than the 900,000 tonnes of white sugar.

Vegetable oil, sugar futures trade in a rut- There is a palpable nervousness in the futures market as vegetable oil and sugar traders to the nearest exit before the government bolts the door. Money flowing into these major cash commodities has slowed to a trickle as hedgers and punters unwind positions to avoid getting locked into losses. Trading volumes and open interest in sugar and the soybean complex have dropped to multi-month lows, signaling wide-spread disinterest in futures trading.

Maharashtra sugar mills face poor recovery- Sugar mills in Maharashtra, the country's largest sugar producing state, are operating at an alarmingly low recovering rate of 4-5 per cent following the government's threat of stern action in case they leave crop untouched in their allocated cane area. Generally, it is unviable to crush cane below 9.5 per cent recovery at sugar mills. Such cane is usually diverted for jaggery and khandsari manufacturing in addition to juice making.

Sugarcane price: Food Ministry seeks farm costs panel comment- The Food Ministry has sought the commission for Agricultural Costs and Prices' (CACP) clarifications on its recent supplementary report recommending a basic statutory minimum price of Rs 125 a quintal plus a Rs 30 bonus component payable by the centre for the 2008-09 sugar season.

Maharashtra to take private help in cane processing- Even though power-starved Maharashtra's efforts to encourage bagasse-based co-generation project is yet to gather momentum, the private sector has evolved a new concept-integrated cane processing project (ICPP)- which envisages simultaneously generation of electricity and ethanol, either from molasses or directly from cane juice. Maharashtra, which faces a daily power shortfall of around 4000 mw, has the potential of 1500mw of bagasse based cogeneration. However, against this potential, at present, around 194 mw of bagasse-based co-generation projects are under operation.

Traders seek ban on gold, silver and sugar- The government's decision on ban for more commodities from futures market has spawned a demand for suspension of forward trading in gold, silver and sugar as industry blames speculation for volatility for prices.

Sugarcane biofuel becomes second energy source- Biofuel and other derivatives from sugarcane have for the first time overtaken hydroelectric power as an energy source in Brazil. Ethanol and pulp from sugarcane in 2007 accounted for 16 per cent of Brazil's total energy output, up from 14.5 per cent in the previous year, the National Energy Evaluation showed.

Maharashtra sugar output at 86 mt- Sugar production in Maharashtra, the country's largest producer, has touched 86 lakh tonnes and the state is expected to produce another 1.5 lt till May, when the season ends. Maharashtra produced 90.75 lakh in 2006-07 season. The crushing in the state started late by six weeks in 2007-08 season, which has caused decline in the production.

Bitter battles in sugar fields- There is season for harvesting sugar crops and the laws have defined a crushing season in the sugar mills. However, it is not widely noticed that there is a perennial harvest of litigation in the high courts over the statutory minimum price fixed by the central governments, the market price, purchase tax and other levies. There was an extremely rich crop of such litigation over these in the Supreme Court in recent weeks. The lack of rationalization of prices and a coordinated policy leads to a rich harvest of litigation.

Depreciation rupee makes exports lucrative for sugar companies- After a lull of about a month, exports have again emerged as an attractive option for most sugar mills with the dollar surging against the rupee. The rupee has fallen to 42.18 to a dollar, the lowest level in over a year, on high demand for a greenback from oil companies.

Supplies to sugar mills may be hit as cane area shrinks- The country's two leading sugar producing states- Uttar radish and Maharashtra- may see significant reductions in cane availability during the ensuing 2008-09 crushing season (October-September). The plantings are down this year by about 15 per cent. The area is lower by 10 per cent in Western UP, 15 per cent in Central and 20 per cent in the eastern region.

Pay cane farmers Rs 110 a quintal, SC tells UP sugar mills- In an interim arrangement in the dispute over the sugarcane price in Uttar Pradesh, the Supreme Court told mills to pay the rate fixed by the Lucknow bench of the Allahabad High Court within three weeks. The Lucknow bench has fixed Rs 110 a quintal I November 2007. The rate is apparently higher than the one fixed by the main branch of the Allahabad High Court. The Supreme Court will review the order in July's, by which time the judgment of the Allahabad High Court on the sugarcane price is fixed.

SC asks UP mills to pay Rs 110/qtl for cane in 3 weeks- The Supreme Court's order on Thursday requiring sugar mills in Uttar Pradesh to pay growers of Rs 110 per quintal within three weeks for cane purchased during the 2007-08 season (October-September) would entail their making disbursements of over Rs 2300 crore. During the recent season, UP mills had procured cane from farmers, against which Rs 8164.86 crore was payable at the rate of Rs 110 per quintal fixed by the Lucknow Bench of the Allahabad High Court on November 15, 2007.

AP looks to produce Chinese machinery for sugar mills- The Andhra Pradesh government is seeking the support of the Chinese government for the modernization, expansion and co-generation of co-operative sugar mills in the state.

Now, sugar sector on CCI's radar- After steel, the sugar industry has come on the radar of anti-trust regulator Competition Commission of India that has called a

meeting of sugar associations next week to ensure that they do not violate the competition law.

Sugar output dips on crushing delay- The country's sugar production in October-April (2007-08) has declined 4.74 per cent to 24.1 million tonnes on account of delayed crushing and diversion to gur and khandsari units, particularly in Uttar Pradesh. The sugar season runs from October to September. Industry estimates that the final output figure for the whole season could see a drop of nearly 9 per cent from the previous season's 28.3 million tonnes.

NCDEX carbon credits futures up- NCDEX carbon credit futures prices on Wednesday rose by close to 9% on soaring crude oil prices and strengthening of euro against the US dollar. Carbon credits are traded as certified emission reduction on NCDEX and December delivery rose by 9% to RS 1155 per certified emission reduction.

Sugar prices set to surge next season- The global sugar market has been rather dormant for sometime now, with the underlying weakness preventing hectic activity. For 2007-08, the market is clearly in surplus; there is simply too much sugar and few takers. But the large surplus may soon give way to a more finely balanced market in 2008-09. This surely will have implications on the world sugar prices. Once again the situation in Brazil and India needs to be watched carefully.

Incentives for crushing excess sugarcane- The Maharashtra Cabinet has decided to give several incentives, including transport subsidy to sugar factories crushing excess sugarcane crop in the state, for the 2007-08 crushing season. The State Government would pay a transport subsidy of Rs 2 a tonne per km for sugarcane crushed after stipulated days of the beginning of the crushing season.

Carbon credit value rises on high crude- The value of carbon credit futures that were recently launched on the Indian commodity bourses have risen by nearly 10% in the last month due to high prices of crude.

Government may withdraw export subsidy on sugar- The government may withdraw export subsidies on sugar as the country has already reached sugar exports of 30 lakh

tonne during the current season as the limit set by the finance ministry. The export subsidies announced by the Centre early last year is valid till September 2008. The government also said that the export subsidy may discontinue once the export figure reaches 30 lakh tonne.

UP to disinvest in all sugar mills- Winds of privatization are blowing in the sugar industry of Uttar Pradesh, it seems. The UP government has decided to sell its equity in all the sugar mills of the UP State Sugar Corporation Ltd (UPSSCL) and has accordingly invited global tenders. This may herald privatization of the country's second largest sugar producing state.

Govt denies withdrawal of transport subsidy on sugar export- The government clarified that there was no plan to withdraw the transport subsidy on sugar exports anytime before September 30. In a statement the government said that the newspaper reports that it may withdraw the subsidy or discontinue it once exports reach 3 million tonnes are incorrect.

Sugar co-ops told to organize free shows of film on farmers' suicides- The Maharashtra government has asked sugar cooperatives across the state to organize free shows of a Marathi film for local farmers to deter them from committing suicide.

Sugar plays no part in inflation drama - Decontrol does not appear imminent, but the country's sugar industry is most likely looking comfortably at an upward bias from here to the next sugar year. And not the least reason for the optimism may be the fact that sugar, the usual suspect, has little role to play in this year's inflation theatrics. Retail prices for sugar, which has a weightage well above its importance in the WPI (3.62%) in the week ended May 8 for instance, was Rs 16.50 per kg. this dropped to Rs 16.25 per kg in the week ended May 15, even though the inflation shot up to a high of 7.83% in the 12 month period up to a high of 7.83% in the 12 month period up to May 3, compared lower 7.61 % the previous week. Sugar, thankfully, has not contributed to inflation spike this time./on normal circumstances, it is the fist victim to the government's anti-inflation strategy.

Sugar surplus outlook pegged at 3.2 million t - The world will produce a surplus of 3.29 million tonnes of sugar (raw value) in 2008-09 (April - March), Switzerland based analysts at Societe J Kinsman said in a quarterly report. Global sugar output for 2008-09 was forecast at 166.3 mt, up from the previous forecast of 165.9mt.

ETHANOL

Make ethanol at home to fuel your car- A new company hopes drivers will kick the oil habit by brewing ethanol at home that won't spike food prices. E-Fuel Corp unveiled the MicroFueller touting it as the world's first machine that allows homeowners to make their own ethanol and pump the brew directly into their cars.

Can India produce enough ethanol in the coming year? - With crude oil within a whisker of \$ 150 a barrel, biofuels have a fresh lease of life. International Energy Agency says biofuels produced in United States and Europe over the last three years have cut crude oil consumption by one million barrels a day. At today's prices that's a savings of more than \$120 million per day. In India, the demand for petrol to move people and cargo is rising 10% annually. India is expected to produce 24 mt sugar next year or 2.4 billion liters ethanol by fermenting molasses. Of this, the industrial and potable alcohol industry will buy 1.8 billion liters. The rest 600 mn liters will be sold to oil companies for blending as gasohol.

Ethanol prices unlikely to skyrocket soon - Though oil is nudging \$ 150/barrel, punters betting on India sugar as an energy crop may be in for a reality check. Local ethanol prices are unlikely to start spiraling out of control anytime soon. With a sugar output of 27 million tonne in 2007-08, India had the potential to produce 2.7 billion liters ethanol from byproduct molasses.

American ethanol isn't up to Brazilian smackdown - Ethanol made in US, mainly from corn, and ethanol from Brazil derived from sugarcane. These are popularly

referred as Ethacorn & Ethacane respectively. Ethacane does not produce a fraction of the negative economic, environmental & social problems that Ethacorn does, as international food process soar and environmental concerns mount, both are being thrown into the same piñata to get hammered. Ethacorn deserves the beating, not Ethacane.

Dhonider swarthier kotha bhebei joibojwalani (Bio-fuel is targeted at the rich people) - Very soon the government will imply the rule of mixing 10% ethanol in the fuel. Following the steps of Brazil, the government is contemplating vehicles run by 100 % ethanol. This would lessen the dependency on the oil countries as well as would strengthen the sugar industry in the country.

INTERNATIONAL NEWS

Global sugar surplus will cause market correction- The global sugar surplus will inevitably catch up with the sugar market and be reflected by lower price. Unprecedented fund activity at the start of the year saw sugar prices in London and New York surge, despite the International Sugar Organization forecasting a 9.3 million-tonne (mt) surplus of sugar in 2007-08.

ISO sees 2008-09 sugar deficit- The international Sugar Organization has said there will be a deficit in the 2008/09 world sugar supply, but its impact will be limited given the massive surpluses posted the last two seasons.

Global sugar surplus seen- The global sugar surplus is set to fall to 1.6 million tonnes in 2008/09 from a surplus of 11 mt in 2007/08, largely due to lower production seen in the European Union and India. The London-based merchant estimated 2007/08 global cane and beet sugar production at 173.3 mt, up from 168.2 mt in 2006/07.
