

HIGHLIGHTS FOR MAY 2009

BIRLA SUGAR

SNAP SHOTS

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

One of the major developments affecting the sugar industry is the suspension on sugar futures trade until December. The decision to suspend sugar futures trade was taken by the agriculture ministry in consultation with FMC. The immediate impact was on NCDEX that hit an intra-day low of Rs 2,215, before closing at Rs 2,266 a quintal (100kg), down Rs 41 over the previous close. The decision has hit investors, hedgers and speculators who were long on the commodity. Sugar stocks reacted negatively countrywide to the futures-ban and is expected to go down further. Also India has exempted sugar mills from an obligation to sell 10% of their output processed from imported raw sugar at low prices. The centre is likely to extend the duty-free import of White Sugar by public sector trading firms STC, MMTC and PEC by three months till October and could allow import of up to 15 lakh tonnes of the sweetener.

DIRECT NEWS

Sugar stocks may turn sour on futures ban: Sugar stocks are likely to react negatively to the ban on futures trading of the commodity. According to analysts, speculative activity would no longer influence the price of the commodity. Sugar stocks are likely to go down, as margins are likely to remain restricted. Bajaj Hindustan finished down 4.4%, Balrampur Chini was down 5.43 %, Renuka Sugars dropped 6 %. Dharanai sugars meltd 5%.Sakthi Sugars fell by 1.16%, Upper Ganges lost 0.75% and Gayatri Sugars 1.31%.

COMPETITION

Dhampur Sugar to set up overseas unit: Dhampur Sugar Mills will set up a wholly owned subsidiary overseas for trading in commodities, including sugar. On Friday, shares of Dhampur Sugar Mills closed up 4.94 per cent at Rs 52 on the BSE.

Simbhaoli buys back FCCBs: Simbhaoli Sugars announced buyback of foreign currency convertible bonds (FCCBs) worth \$25.11 million to improve the company's debt equity ratio and indicated to buy back \$7.89 million FCCBs in future. The leading sugar company had issued FCCBs worth \$33 million in 2006, which were to mature on March 2011, to partially finance its expansion plans

INDIAN SUGAR INDUSTRY

Sugar up on high demand: Sugar prices rose by nearly Rs 150 per quintal on frantic buying by stockists and bulk consumers amid restricted supply. Market men said heavy buying by bulk consumers such as soft drink and ice-cream makers mainly pushed by the sugar prices. Lower output estimates by sugar industry further fuelled the uptrend.

Sugar may touch Rs 2,550/qtl: Sugar prices are expected to remain firm in the medium term and may touch Rs 2,500- 2,550 per quintal level by next month. Domestic sugar prices are currently trading around Rs 2,280 per quintal.

Show-cause notices to 291 sugar mills: With sugar prices going up by almost 40 percent in the last seven months, the food ministry has issued show-cause notices to 291 sugar mills owned by cooperative sector and major private companies for not furnishing their sales data.

More vigil for sugar exports: The Government has asked the customs authorities to strictly monitor sugar exports amid a sharp rise in prices and low production estimates for the 2008-09 season

Sugar mills exempted from 10% sale obligation: India has exempted sugar mills from an obligation to sell 10% of their output processed from imported raw sugar at low prices. The decision was expected after mills had cut purchases of raw at low prices. The Government buys 10% of domestic output as nearly half the cost of production and decides the price for remaining 90%. The levy obligation will not be applicable until August 1 for sugar processed from imported raws. State-run trading firms have contracted to import an additional 30,400 tonnes of white sugar from Brazil and Thailand.

New method to grow sugarcane with less water: The sugarcane Industry can now take a drip method for cultivating the water-intensive crop, reducing input costs and also get higher yields. Agricultural scientists have taken a cue from the SRI (System of Rice Identification) cultivation, which caught the imagination of progressive farmers as it consumed less water and yielded more, and applied the vital principles to the sugarcane Industry. The method is expected to increase yields by at least 20 percent and reduce consumption by 30 per cent and chemical inputs by 25 %.

Sugar futures slip: Sugar futures turned weak and shed 0.18% in early trade on the National Commodity Derivatives Exchange (NCDEX) on profit-taking by speculators at existing higher levels. On the NCDEX, sugar for the most-active May contract declined by 0.18 % to Rs 2,268 per quintal in a trading volume of 6,650 lots. Similarly the sweetener for the June-month contract fell by 0.17% to Rs 2,403 per quintal with a trading volume of 4,280 lots and the July-month contract slid by 0.16% to Rs 2,504 per quintal, clocking 760 lots.

NCDEX revises sugar limit: Leading agri-commodity bourse NCDEX has reduced the position limit for clients in near-month sugar contracts to 6,000 tonnes from 7,500 tonnes to curb excessive speculation in the sweetener. The reduced limit will be effective from May 21. With a cut in near-month limits, traders are curtailed to trade beyond 6,000 tonnes, a month before the expiry of the contract.

Sugar deficit of 7.5-7.8 mt: A global sugar deficit of 7.5 million to 7.8 million tonne is expected in 2008-09 up from a previous estimate of a 4.3 million tonne shortfall. The

International sugar organization said it was making the revision due to expected lower production in India and China.

Sugar mills bet on a better season: Sugar mills are betting on a better crop yield in the next season (beginning Oct), as farmers intensify their efforts on the sugarcane crop to reap better profits. There has been an increase in sugarcane planting which may led to 25% improvement in the yield.

Duty-free sugar imports till October: India may permit duty-free imports of the raw variety beyond August 1 to bolster supplies and control domestic prices. Purchases may be allowed at least until October. Sugar producers are seeking an extension as a shortfall in cane supplies may persist in the new season starting Oct 1. The cabinet had earlier allowed STC, PEC, MMTC and NAFED to import 1 million tonnes of Sugar at zero duty by August 1. Purchases by the government may total less than the forecast of 3 million tonnes, as mills will run out of Bagasse.

Pvt Traders may also benefit: The government may soon allow private traders to import 800,000 tonnes of sugar at zero duty to augment the domestic availability. The commerce ministry has requested the food ministry to allow private sector participation in the import of the refined sugar at zero duty since the public sector undertakings (PSU's) have expressed unwillingness to meet the targeted 1 million tonnes import by August 1.

Nafed debarred from importing white sugar: The Government has decided not to allow co-operative major Nafed to import white sugar, restricting the job of shipping in the product to only three public-sector trading firms PEC, STC and MMTC.

Mills to resume sugar imports as global prices dip: Sugar producers in India may resume imports of raw sugar after global prices declined the most in six weeks. Resumption of Indian imports may help bolster the 19% gain in raw sugar prices this year.

Sugarcane output drops 17%: The Agriculture Ministry has said that India is estimated to have produced 289.23 million tonnes of sugarcane in 2008-09 season, which is

nearly 17% less than the output a year ago. The sugarcane production is pegged at 289.23 million tonnes.

Sugar SMP likely to be higher at Rs 107/qtl : The Prime Minister's Economic Advisory Council(PMEAC) is believed to have suggested sugarcane support price to be fixed at Rs 107 a quintal for 2009-10 season. The Food Ministry will move the Cabinet with the PMEAC recommendation soon after the new government is formed. The ISMA has urged the government to notify the SMP for the 2009-10 season soon due to apprehensions that the farmers may otherwise shift to other crops, affecting the output of the sweetener.

Higher Gur prices benefit sugarcane farmers: Jaggery prices have almost doubled compared with last year, on a 30 percent drop in production. In Uttar Pradesh, the gains have gone to sugarcane farmers who were paid prices as high as Rs 250 a quintal, well above the state advised price of Rs 140-145 a quintal. The jaggery producers started a price war with sugar mills for sugarcane, paying Rs 150-160 a quintal against the SAP of Rs 140 a quintal. Notably jaggery prices have ruled well above sugar so far in the current season. While retail sugar is selling around Rs 20-30 a kg, jaggery prices range between 34-35 a kg.

20 lakh tonne of raw sugar imported: Sugar mills have contracted about 20 lakh tonne of raw sugar since February, while public sector trading firms STC, MMTC and PEC have entered into a contract for 56,000 tonne. In April the centre permits mills to import duty-free raw sugar till Aug 1 under open general licence. Public sector trading firms STC, MMTC and PEC were asked to import up to 10 lakh tonne of duty-free white sugar by August 1 and sell in the open market.

Duty- free sugar import till Oct: The centre is likely to extend the duty-free import of White Sugar by public sector trading firms STC, MMTC and PEC by three months till October and could allow import of up to 15 lakh tonnes of the sweetener. In order to increase the availability of sugar in the domestic market and curb rise in prices, the government may also extend the duty free import of raw sugar by mills till December this year from the present deadline of August 1.

Sugar falls on ample supply: Sugar prices today declined further by Rs 50 per quintal in the national capital due to increased supply from mills triggered by fall in buying from stockists and bulk consumers, pulled down sugar prices.

India exports over 1 lakh tn sugar even in deficit: India exported over 100,000 tonnes of sugar in the current season even as the government has allowed imports of 1 million tonne at zero-duty to increase domestic availability. The sugar export estimated at 1,37,000 tonnes in the first six months of the 2008-09 season adding these shipments under the advance license scheme (ALS). Under the ALS, traders and mills are allowed to import raw sugar at zero-duty when there is a shortage in the country.

Govt unlikely to relax export ban on sugar, wheat- Pawar: The near 50 percent jump in sugar prices since October 2008 on a 45 per cent drop in production is a problem this year. The government might consider extending the duty-free raw sugar import deadline beyond August 1 to improve domestic availability. However, the government was not in favour of encouraging import of refined sugar. Public sector undertakings- MMTTC, PEC and STC- have been allowed import of one million tonne refined sugar at zero duty by August 1.

Sugar futures suspended till December: Commodity markets regulator Forward Markets commission (FMC) on Tuesday suspended futures trade in sugar until December. This means food processing companies like biscuit and confectionary manufacturers will be unable to hedge their sugar requirements by booking them at current prices. Hedging takes place when companies expect the price of a commodity to rise. The decision to suspend sugar futures trade was taken by the agriculture ministry in consultation with FMC. The Ban may hit importers who might miss the platform for hedging their price risk. Wholesale sugar traders welcome the ban.

Sugar futures ban hits NCDEX volumes: A day after commodities exchange regulator FMC barred new contracts in sugar till December and suspended the initiation of fresh position in running contracts; the front month contract on NCDEX hit an intra-day low of Rs 2,215, before closing at Rs 2,266 a quintal (100kg), down Rs 41 over the previous

close. The decision has hit investors, hedgers and speculators who were long on the commodity.

Sugar industry shifts blame on traders for price spiral: questions Govt data on prevailing prices: The sugar industry today blamed wholesalers and retailers for the sharp rise in sugar prices and pointed out the discrepancies in the price data compiled by the government for major cities. Sugar prices have risen sharply over the last two months and are ruling at Rs 27-28 in most cities. In Lucknow, sugar is available at Rs 26-27 a kg while the government data shows the price to be Rs 30 a kg. Production in 2008-09 seasons is estimated at 14.8 million tonnes, down 44 per cent from previous season.

Mills may slow raw sugar imports as prices rise: Sugar mills in India may reduce overseas purchases of raw sugar as global prices increase. Imports may total as much 2.5 million metric tonne in the year ending September 30, from an earlier estimate of 3 million tonne.

Sugar plummets on futures ban: Sugar prices have plummeted anywhere between Rs 15 and Rs 30 per quintal countrywide post the futures-ban effected up to December 31, 09. While in Delhi the commodity plunged by Rs 30/qtl to the Rs, 360-2,440/qtl level, in Mumbai, too prices plunged. Prices of the commodity are expected to go down further over the next week both on the spot and the futures market primarily on the back of rapid selling by the traders immediately before and after the futures ban.

Cane acreage may rise 7-10% on higher price: Higher prices offered by Indian Sugar millers may prompt farmers to increase acreage under cane by 7-10% this year but output may rise by a quarter due to better nourishment. The area under cane may rise by 7.33% to 717,000 hectares in the upcoming kharif season in Maharashtra, who expects yields to rise 25% after the monsoon rains came in earlier than expected. But in UP, most of cane planting takes place between Feb to May, while rest in Sept- Oct period. Farmers in Karnataka may increase their planting area by up to 15% from last year, while yield may also improve with timely rains.

INTERNATIONAL NEWS

Sugar deficit likely at 4.5-5 mt: World sugar production can fall short of consumption by 4.5-5 million tonnes raw value in 2009-10, assuming India increases its production, the International Sugar Organization said.

Sugar Rises on light buying: Liffe white sugar futures traded slightly higher on light buying activity, boosted by a rising New York market. Output estimated for Brazil may be too optimistic, due to reduced use of inputs such as fertilizer and switching from sugar production to ethanol, which could further tighten supplies. New York's most-active raw sugar futures were up 21 points, or 1.4%, at 15.16 cents a pound.

Pakistan buys 50,000 t Sugar: Pakistan bought 50,000 tonnes of white sugar from Dubai's Al-Khaleej Sugar Co. to bolster supplies and reduce prices. It invited bids for last month. Trading corp. of Pakistan bought the sugar at \$474 a tonne, including freight costs.

Ethanol

Petrol-ethanol fusion caught in tax mix-up: The government may set aside the mandatory clause for blending petrol with ethanol due to a shortage of the fuel additive and a tax structure that makes it costly for non-sugarcane-producing states. The cabinet committee on economic affairs (CCEA) had made blending petrol with 5% ethanol mandatory and 10% ethanol optional from October 2007 in 20 states and four union territories.

Govt plans duty cut to boost Ethanol blending: The petroleum ministry has proposed a reduction in the customs duty on denatured alcohol and molasses to stabilize the 5 % ethanol-blending programme in petrol. The programme has been hit due to a dip in the sugarcane output in the current year. The oil marketing companies have been unable to take up blending in states like Tamil Nadu and Kerela due to the taxation policy of the governments of these states and other procedural bottlenecks.