

# THE OUDH SUGAR MILLS LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

[For the quarter ended 31<sup>st</sup> March, 2010]

The management of The Oudh Sugar Mills Limited is pleased to present its assessment of the scenario of the Sugar industry for the quarter ending 31<sup>st</sup> March, 2010.

### 1. World Sugar Market

For the Sugar season 2009-10 International Sugar Organisation (ISO) forecasts a widening gap between the world sugar production and world sugar consumption. World sugar production is estimated at 157.160 million tonnes raw value up by 4.678 million tonnes or 3.07 % from the last season. World consumption is expected at 166.585, million tonnes which is significantly lower than the long term 10 year average. The lower growth rate of consumption is attributed to soaring world market prices as well as some lingering effect of 2008-09 global recession on sugar consumption growth rates. Global sugar stock will reduce by 7.300 million tonnes. A continuing decrease in the level of sugar stocks is also estimated during the current season.

A summary of the revised world sugar balance in 2009-2010 is given below.

#### World Sugar Balance (million tonnes, raw value)

	2009/10	2008/09	Change	
			In Mln ton	In %
<b>Production</b>	<b>157.160</b>	<b>152.482</b>	<b>4.678</b>	<b>3.07</b>
<b>Consumption</b>	<b>166.585</b>	<b>164.153</b>	<b>2.432</b>	<b>1.48</b>
<b>Surplus/Deficit</b>	<b>-9.425</b>	<b>-11.671</b>		
<b>Import Demand</b>	<b>54.281</b>	<b>50.068</b>	<b>4.213</b>	<b>8.41</b>
<b>Export Availability</b>	<b>52.156</b>	<b>50.070</b>	<b>2.086</b>	<b>4.17</b>
<b>End Stocks</b>	<b>53.068</b>	<b>60.368</b>	<b>-7.300</b>	<b>-12.09</b>
<b>Stocks / Consumption ratio in %</b>	<b>31.86</b>	<b>36.78</b>		

There has been a dramatic turnaround in the global sugar markets in the last few months. Raw Sugar prices that were prevailing around USc/lb 27 in the month of January 2010 have crashed to USc/lb 15.69 in April 2010. Increased production trends from India and a strong crop in Brazil is seeing the deficit phase as its end as the sugar economy is now slowly moving to the surplus phase.

## 2. Indian Sugar Industry

India is expected to produce approximately 18.5 million tonnes of sugar in the current season 2009-10 as against 14.6 million tonnes last year. Consumption is expected to be lower at around of 21.5 million tonnes. For the second consecutive year sugar consumption is projected to be higher than production. However, timely imports of raw and white sugar and increase in domestic production have ensured adequate availability of sugar in the country..

The availability of sugarcane was extremely limited during the entire season due to poor plantation and poor yield. Furthermore, soaring sugar and gur prices saw keen competition amongst sweeteners resulting in soaring sugarcane prices. In fact the industry has paid Rs 19,000 crore higher than the Fair and Remunerative Price announced by the Central Government.

The free sale sugar market has been volatile throughout the year with prices reaching record levels. In response to high food inflation and mounting pressure from the opposition, the government took drastic steps to control the rise in sugar price. Firstly, the government increased levy sugar obligation from 10% to 20% for distribution through PDS which the industry has contributed at a staggering loss. Secondly, stock limitations were imposed on consumers for domestic sugar thereby curbing consumption. Thirdly, white sugar imports were allowed at zero duty leading to abundant availability of sugar in the country. Finally, the monthly release system was to a weekly system. All these measures have seen a collapse in the domestic sugar prices leading to huge cash losses for the sugar industry.

### Indian Sugar Equation (lac tones)

	<b>2008-09 Actual</b>	<b>2009-10 Estimated</b>
Opening Stock as on 1st October	100.72	44.10
Production During the Season	145.38	185.00
Imports	25.00	50.00
Total availability	271.10	279.10
Domestic Consumption	225.00	215.00
Exports	2.00	-
Closing Stock as on 30 <sup>th</sup> September	44.10	64.10

### 3. Prices

The Central Government increased the levy obligation for the sugar industry from 10% to 20 per cent of their output from 1st October, 2009 in view of the projected shortfall in the country's production to meet the requirements of the Public Distribution System. Recently, the government introduced weekly sugar release mechanism and directed the mills to sell non-levy quota on a stipulated weekly basis.

For the season 2009-10 The Central Government fixed "Fair and remunerative price" of Rs.129.84 per quintal. U.P Government has fixed the State Advised Price at Rs. 165 per quintal. However, due to shortage of cane, farmers were paid around Rs.260-265 per quintal in Uttar Pradesh. Faced with tough situation, sugar industry through the Indian Sugar Mills' Association (ISMA) has asked government for tariffs on imports of raw or refined sugar, a reversal of stock and trade limit orders and other help to ensure viability in the next season.

### 4. Exports / Imports

For the first time in India import of white refined sugar is expected to exceed purchases of raw sugar. The government allowed duty free import of refined / raw sugar without any obligation for fulfillment of re-export as was allowed in the year 2004-2005. The Government has extended the period of duty free import of the refined sugar till December, 2010. The industry in private sector imported 2.5 million tonnes in 2008—09 out of which 1.20 million tones of raw sugar has been carried forward to the current season 2009-10. India became the largest importer of sugar this year.

### 5. Company's Operations

The operations at the company's various plants during the quarter ended 31<sup>st</sup> March 2010 are as follows:

#### **Crushing & Production (lac qtls)**

	Season 2008-09					Season 2009-10									
	Total Season- 2008-09					3 months ended 31.03.2009					3 months ended 31.03.2010				
	Hargaon	Rosa	Narkati Aganj	Hata	Total	Hargaon	Rosa	Narkati Aganj	Hata	Total	Hargaon	Rosa	Narkati Aganj	Hata	Total
1. Total cane crushed	71.67	29.55	45.16	1.45	147.83	38.76	29.55	23.520	Nil	91.83	72.77	30.58	34.292	12.87	150.50
2. Average recovery %	9.34	8.59	9.02	8.00		9.56	8.59	9.13	Nil		9.57	8.51	9.65	9.72	
3. Sugar Produced	6.69	2.54	4.07	0.12	13.42	3.31	2.54	2.147	Nil	8.00	6.97	2.60	3.308	1.25	14.12

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4. Crushing Started	24.11.08	24.1.1.08	01.1.2.08	21.0.1.09		01.01.2009	24.11.2008	01.01.2009	--		27.11.2009	23.11.2009	07.12.2009	18.11.2009
5. Crushing stopped	05.03.09	18.0.2.09	11.0.2.09	13.0.2.09		05.03.2009	18.02.2009	11.02.2009	--		26.03.2010	22.02.2010	27.02.2010	10.02.2010

## 6. Ethanol / Industrial Alcohol

Global ethanol production is forecasted to grow by 12% to reach around 84.3 billion liters in 2010. If achieved, this will mean a growth of 14 % when compared with the last year. Brazil's ethanol output could increase again in 2010 on the presumption that there will be sufficient growth in cane area and a return of normal seasonal conditions.

In the year 2002 the Government of India initiated 5% mixing of ethanol with petrol in 9 states and 4 union territories. However, the decision of cabinet to implement 10% ethanol doping from October, 2008 is yet to take off. The policies pursued by some state Governments in this regard are either restrictive or not conducive to the ethanol blending programme.

The government has constituted a panel of Group of Ministers, headed by Finance Minister Shri Pranab Mukherjee to resolve issues over blending of ethanol with petrol. This step was necessary because of the differences among ministries over mandatory blending of ethanol in petrol.

The viability of ethanol manufacturing was severely affected during the current year due to shortage of molasses and the high prices of molasses. The production of industrial alcohol including Ethanol by the company during the quarter is as follows:

		Year 2008-09 (full year ended June 30,2009)			Year 2008-09 ( 3 months ended March 31, 2009)			Year 2009-10 (3 months ended March 31,2010)		
		Hargaon	Narkatiaganj	Total	Hargaon	Narkatiaganj	Total	Hargaon	Narkatiaganj	Total
1.	Average Recovery %	21.03	23.02	21.89	20.20	22.39	21.21	23.53	21.29	22.69
2.	Alcohol Produced (lac qtls)	131.33	102.06	233.39	46.01	39.72	85.73	65.11	36.14	101.25

## 7. Co – Generation

The Company has bagasse based co-generation power plants at Hargaon and Narkatiaganj. It has also commissioned its co-generation plant at its

greenfield plant in Hata, U.P. During the current season, availability of bagasse was extremely limited due to the shortfall in sugarcane production. As a result, downtime increased significantly for want of fuel. The export of power to State Grid by the Company during the quarter is as follows:

Production (in lacs of Units)

	Year 2008-09 (Full year ended June 30, 2009)				Year 2008-09 (3 months ended March 31, 2009)				Year 2009-10 (3 months ended March 31, 2010)			
	Hargaon	Narka- tiaganj	Hata	Total	Hargaon	Narkat- iaganj	Hata	Total	Hargaon	Narkat- iaganj	Hata	Total
1. Power Exported	155.65	36.33	NIL	191.98	111.80	19.98	NIL	131.78	179.99	26.44	45.77	246.20

Presently, sugar mills in UP can sell the power produced from bagasse to the State Grid only. There is no development regarding UP sugar industry's request to Uttar Pradesh Electricity Regulatory Commission to permit them to sell cogenerated power in the open market to private traders and users.

**8. Cautionary Statement**

The statements in the Management Report detailing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable securities laws and regulations. As these statements are based on certain assumptions and expectations of future events, actual results could differ materially from those expressed or implied. The Company assumes no responsibility in respect of such forward looking statements which may be revised or modified in the future on the basis of subsequent developments, information or events.