

# UPPER GANGES SUGAR AND INDUSTRIES LIMITED

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

[For the quarter ended 31<sup>st</sup> December, 2007]

The management of Upper Ganges Sugar and Industries Limited is pleased to present its assessment of the prevailing industrial scenario for the quarter ending 31<sup>st</sup> December 2007.

### WORLD SUGAR SCENARIO

1. As reported in the earlier analysis, the world sugar market is in a surplus phase, characterized by a significant excess of global production over consumption as well as higher export availability than projected import demand. During the sugar season 2006-2007, production exceeded consumption by over 11.045 million tonnes. World Sugar production for 2007-2008 is estimated by ISO at 170.308 million tonnes, 4.278 million tonnes higher than that in 2006-2007 mainly due to significant increases in production in India and Brazil. Consumption is estimated at 159.169 million tonnes, about 4.184 million tonnes higher than that of 2006-2007. Consequently year end stock is estimated at 74.716 million tonnes compared to 67.849 million tonnes in the year 2006-2007.

#### World sugar balance (million tonnes, raw value)

	2007- 08	2006-07	Change	
			In million tonnes	In %
Production	170.308	166.030	4.278	2.58
Consumption	159.169	154.985	4.184	2.70
Surplus/deficit	11.139	11.045		
Import demand	45.496	46.070	-0.574	-1.25
Export availability	49.768	46.077	3.691	8.01
End stocks	74.716	67.849	6.867	10.12
Stock/consumption ratio (%)	46.94	43.78		

2. However, there has been a change in sentiment over the last one month which has seen a rally in international prices due to a lower anticipated production in

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India and the elimination of the surplus balance by 2008-09. However, production estimates emerging from Brazil look strong and one has to see whether this rally is sustainable.

### **INDIAN SCENARIO**

3. India's sugar output was originally forecasted at a record high of more than 32 mln tonnes for the sugar season 2007-2008. It was expected that India will overtake Brazil as the world's largest sugar producing nation in this crop year. It is now expected that the production in India will be substantially lower than what was originally estimated.
4. The Indian Sugar industry has seen the worst of times last year as record production due to arbitrarily fixed high sugarcane prices that resulted in a free fall of prices. Reporting of losses for four quarters in a row and the inability to settle cane bills without the government's help sum up the state of the industry. This prompted the industry to challenge the methodology of fixing sugarcane prices. The Allahabad High Court ruled on 19.12.2007 that the State Government fixed sugarcane prices without any methodology and quashed the price fixed for the season 2006-07. The High Court directed the State Government to re-consider the prices on economic criteria and suggested that the State Government constitute an expert committee to determine prices for the future. However, this matter is now in the Supreme Court who has stayed the order of the Allahabad High Court.
5. Simultaneously, the sugarcane price for the season 2007-08 was also challenged. While the matter is still being heard, the Lucknow Bench has directed sugar mills to pay an interim price of Rs 110/qtl till final judgment. In view of uncertain cane price, the commencement of crushing was delayed.

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6. The Government of India lifted the ban on sugar export during the last season, as a result of which mills are now free to export sugar without obtaining a permit. Exporters have sold 1.6 million tonnes of sugar abroad since the beginning of October and may sell another 1.4 million tonnes by September.
7. Acknowledging the financial difficulties being faced by the sugar industry, the Government of India has approved to extend an interest free loan against the excise duty paid in the seasons 2006-07 and payable in 2007-2008 on sugar for payment of cane arrears and other statutory liabilities. Furthermore, the Government has also created a buffer stock of 5 million tonnes in two installments under which the industry would be reimbursed finance and holding costs.

### Indian Sugar Balance

(mln tonnes, raw value)

All Figures (lakh tonnes)			
		<u>Estimates for the season 2007-08</u>	<u>Actual for the season 2006-07</u>
1.	Opening Stock as on 1st October	114.74	39.02
2.	Production	265.00	283.00
3.	Imports	0.00	0.00
4.	Total availability	379.74	322.02
5.	Domestic Consumption	200.00	190.00
6.	Exports	30.00	17.28
7.	Closing Stock	149.74	114.74

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### **ETHANOL**

8. World Ethanol production and consumption is expected to grow by 27% in 2008. While the USA and Brazil continue to dominate the world production, the strongest growth is forecast in the European Union. The Government of India has announced its intention to make the blending of petrol with 5% ethanol mandatory. It has also decided in favour of 10% blending of petrol with ethanol with effect from October, 2008. However, prices of ethanol and industrial alcohol have come under pressure domestically and internationally.

### **OPERATIONS**

9. Crushing operations was delayed this season due to the uncertainty of sugarcane prices. The factory at Seohara started crushing on 26<sup>th</sup> November, 2007 while the Sidhwalia unit commenced crushing on 8<sup>th</sup> January, 2008. There were extensive floods in Bihar which has severely damaged the sugarcane crop at Hasanpur and Sidhwalia. The expansion of Sidhwalia has been completed. The management decided not to operate the Hasanpur factory due to the devastating floods that has destroyed around 80% of the sugarcane crop. As the factory expansion is under progress, the entire standing crop is to be used as seed for plantation for the season 2008-09 by which time part capacity expansion will be completed.
10. The ethanol plant and the co-generation plant are fully operational and have worked 80 days and 74 days respectively.

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Crushing & Production (lacs qtls.)

	Season 2006-07								Season 2007-08			
	Total Season				Up to 31.12.2006				Up to 31.12.2007			
	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total
1. Total cane crushed	176.35	40.83	24.22	241.40	51.56	14.14	10.72	76.42	35.14	-	-	35.14
2. Average recovery %	9.93	8.86	8.69	-	9.70	8.26	8.30	-	9.81	-	-	-
3. Sugar production	17.48	3.61	2.10	23.19	4.83	1.09	0.86	6.78	3.26	-	-	3.26
4. Crushing started	11.11.06	10.11.06	04.11.06						26.11.07	-	-	
5. Crushing stopped	18.05.07	19.04.07	25.03.07									

### **CAPITAL PROJECTS**

- The Company's expansion of crushing capacity of Bharat Sugar Mills, Sidhwalia (Bihar) from 2500 TCD to 5000 TCD with a sulphur free Sugar Refinery and a Co-generation plant of 18 MW will come into production during the current quarter. The expansion of the Hasanpur plant to 5000 TCD has been divided into two phases in view of the damage to the sugarcane crop due to floods. Part expansion will be completed by start of season 2008-09 and the balance by 2009-10 depending upon the availability of sugarcane.

### **OUTLOOK**

- India's production is now estimated to be lower due to lower yields, diversion of sugarcane due to cane arrears by millers. Plantation is likely to be severely affected which would further reduce sugarcane production for the season 2008-2009. While it may be too early to accurately determine the production levels, the sugar markets have responded with improvement in realizations and the future markets are also firm. However, despite a fall in production, India will still be holding substantial amount of inventory which will continue to put pressure on sugar prices. Exports will continue to be a major determinant of the sugar price levels.

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### **CAUTIONARY STATEMENT**

12. The statements in the Management Report detailing the Company's objectives, projections, estimates, expectations or predictions may be forward looking 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 forward looking statements that may be revised or modified in the future on the basis of subsequent developments, information or events.