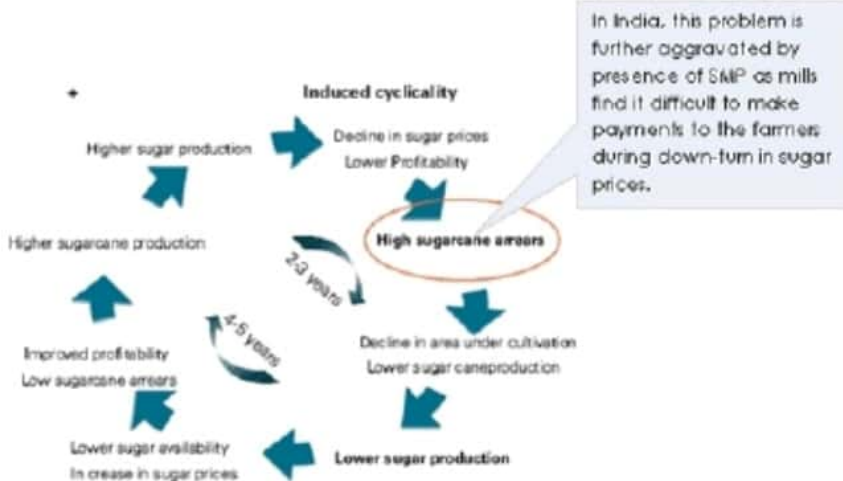


Indian Sugar Industry – Concept & Terminologies

- In India, it is classified under essential commodities which makes it vulnerable to regulatory policies by the regime.
- The quantum of sugar produced by a mill is determined by the factors like daily crushing capacity, duration of crushing season and percentage of sugar recovery. [Tones Crushed per Day (TCD), 180 days and 10-12%]
- The Sugar Year (SY) is from October to September
- At present, sugar mills are required to provide 10 per cent of their total production as levy sugar (Rs 13 / kg) for the Public Distribution System (PDS)
- Sugar is a cyclic industry which follows a three year cycle.



SMP is the Govt. determined price at which sugar manufacturers purchase cane from farmers whereas SAP is the price at which sugar manufacturers sell sugar in the free market.

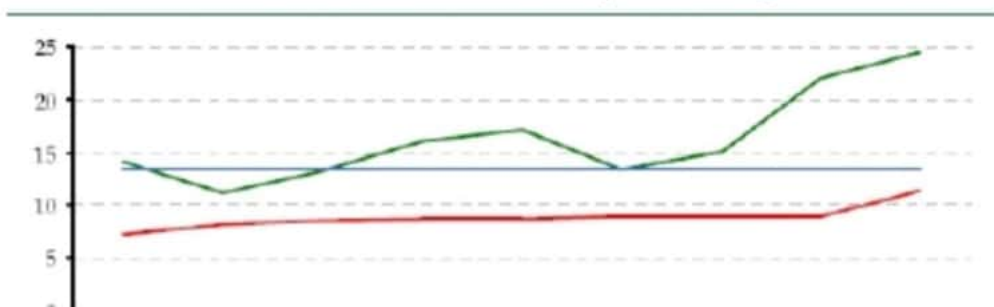
2 Source: ISMA, various databases & News article

Indian Sugar Industry – An Overview

- India is the second largest producer of sugar cane after Brazil.
- On the domestic front, the Indian sugar industry has a turnover of **Rs. 700 billion** per annum (US \$ 14.6 billion)
- There are 553 installed sugar mills in the country with a production capacity of 180 lakh MT of sugar.
- These mills are located in 18 states of the country, with Maharashtra contributing over one-third of it. About 60% of these mills are in the co-operative sector, 35% of the total are in the private sector and rest in the public sector.
- Until the mid 50s, the sugar industry was almost wholly confined to the states of Uttar Pradesh and Bihar. After late fifties or early sixties the industry dispersed into Southern India, Western India and other parts of Northern India.
- Almost 75% of the sugar available in the open market is consumed by bulk consumers like bakeries, candy makers, sweet makers and soft drink manufacturers.
- The crushing season in the country starts from October and reaches its peak in January before finally ending in March or April of the next year.
- Mr. Samir S Somaiya is the current President of Indian Sugar Mills Association (ISMA) and Managing Director of Godavari Sugar Mills Ltd

Raw Material (Sugar cane)

- In India, sugarcane is the key raw material, planted once a year during January to March. It being an agricultural crop is subject to the unpredictable vagaries of nature, yielding either a bumper crop or a massive shortfall in its cultivation from year to year.
- The sugarcane growing areas may be broadly classified into two agro-climatic regions:
 - Subtropical - UP, Bihar, Punjab, Haryana
 - Tropical – Maharashtra, AP, Tamil Nadu, Gujarat, Karnataka
- Maharashtra and UP are the main cane producing states.



Demand-Supply Mismatch

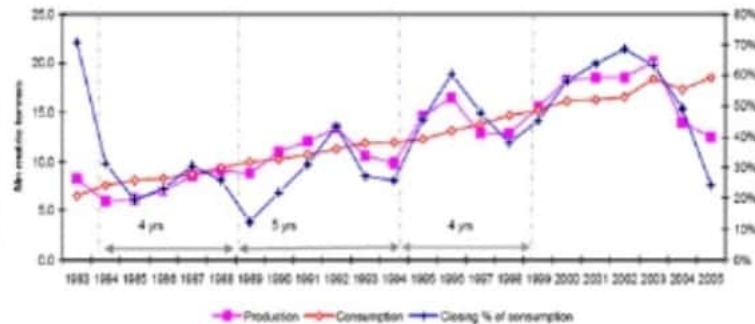
DEMAND DRIVERS

- 30% of the total consumption is used directly by households, while 70% is used indirectly.
- Sugar consumption is expected to grow at the rate of 4-4.5% because of
 - Steady growth in population by 1.3-1.4% p.a.
 - Growth of per capita income by 6.5-7.5% p.a.

SUPPLY CONSTRAINTS

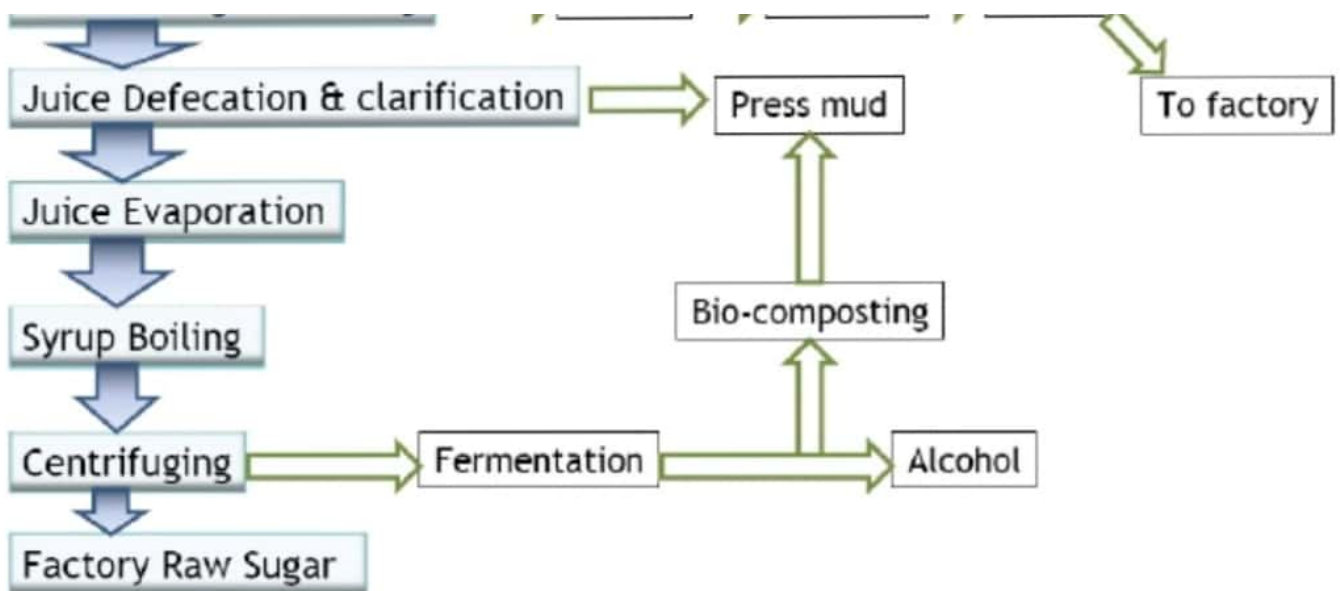
- Reduction in cultivation area by about 17% during SY 2008-09, would result in reduction in production of sugarcane to approx. 280.5 MT.
- Farmers are shifting to alternate crops like wheat, jowar, sweetcorn, bajra, etc. which are more profitable.


India's sugar scenario (mn tonne)					
Sugar yr Oct.-Sept.	2006-07	2007-08	2008-09E	2009-10E	2010-11E
Opening stock	3.7	9.5	8.9	2.5	2
Production	28	26.3	14.5	19	25
Imports	0	0	2	4	0
Total Availability	31.7	35.8	25.4	25.5	27
Domestic Consumption	20.5	21.9	22.8	23.5	24.3
Exports	1.7	5	0.1	0	0
Total Offtake - Consumption	22.2	26.9	22.9	23.5	24.3
Closing Stock	9.5	8.9	2.5	2	2.7
Closing Stock/Domestic consumption (%)	46.3	40.6	11	8.5	11.1



Government Policies and Interventions

1. **Statutory Minimum Price (SMP) and State Administered Price (SAP)** – As sugar falls under essential commodities, it is being regulated by the state government in coordination with the Center. For the season 2009-10, the regime is under tremendous pressure for declaring SMP as this crop has fallen from surplus to deficit category.
2. **Subsidies** – The Govt. has given transportation subsidy to sugar exporters in order to release excess stocks piled up at millers end, but this has ended last September.
3. **Huge Capex** - During 2004-05 (Mulayam Singh) government had flooded sops for inviting investments in UP which have seen overwhelming response. The state was able to garner around Rs 30,000 crores in form of various investments. The sugar millers have also undergone huge debt lead expansion based on the investment slabs dictated by regime. It is these debts only which the millers are still tackling.
4. **Levy sugar** – The govt. is planning to increase levy quota (for BPL under PDS) from current 10% to 20-25% due to concern of increasing sugar price.
5. **Stock limits** – Sugar may be subject to stock limits this whole year, which are being imposed in essential commodities in India.





Competitors – High
With around 500 units
engaged in production of
sugar, Industry is highly
fragmented

STRENGTHS

- **Higher End Product Prices:**-Sugar is the main product of sugar mills, which is most likely to fetch record prices this year. The mills that are able to secure cane supply will be the biggest beneficiaries. In recent past the mills have undergone capacity expansion, which will increase their processing capacity leading to higher productivity.
- **Favorable policy:**- Like any other industry, sugar companies too have liquidity crunch which can be met through Sugar Development Fund of the Government of India under special case schemes.

OPPORTUNITIES

WEAKNESSES

- **Fall in derivatives:**- The fall in prices of derivatives like ethanol, baggase, waste or manure etc. will also have adverse impact on almost all the companies.
- **Currency risk:**- Most of the companies which have exposure in form of overseas loans, imports etc. will be vulnerable to the forex losses in advent of rupee depreciation.

THREATS

Outlook and Emerging Trends

OUTLOOK

Based on the past ten years' growth in consumption and estimates from various independent sources, it is expected that in 2017, the domestic sugar consumption would be approximately 28.5 million MT. Given the high cost of imports and the strategic importance of food security, India would need to target its production in excess of domestic consumption. Given the past trend in production cyclicalities, sugar equivalent to 1.5 months of consumption i.e. an additional 3.5 million MT of sugar would need to be produced by 2017. Therefore the sector has huge investment potential.

In the near term (Sugar Season 2009-10), prices are expected to go up as most mills had reduced their production due to low sugar prices.

EMERGING TRENDS

The new plants which are being constructed are integrated complexes. This would help in de-risking from sugar downturns and benefit from untapped potential of ethanol and cogeneration. For instance, while sugar capacities are set to grow by 58%, Cogeneration and ethanol capacities are planned to grow by 175% and 217% respectively.