

Sweet days still away from Sugar Industry; major reforms warranted

Sugar Industry is the second largest agro-based industry after textiles in India and provides livelihood to over 50 million farmers and their families. The industry occupies an important place among organized industries in the country, in terms of its contribution to the net value added by manufacturing. It's not only a key driver of rural development, supporting India's economic growth, but also makes significant contribution to India's export earnings.

The sugar industry is one of the world's major agro-based industries. Around 75% of the global sugar production comes from the top 10 producers, of which the top three (Brazil, India and the European Union) contribute 40% of the total. Domestically, sub-tropical region (Uttar Pradesh) contributes almost 60% of India's total sugar production, while the balance comes from the tropical region, mainly from Tamil Nadu, Karnataka, Maharashtra and Madhya Pradesh.

Heavily regulated Indian sugar sector continues to remain in limelight for not so good reasons, with the latest being the long pending tussle between the UP sugar mills and the state government, with the former even rejecting the assistance of Rs 6 per quintal of cane offered by the latter as inadequate, citing it as insufficient enough to aid conditions.

The industry, overall, presently is going through a tough time as the issue of mounting dues that mills have to pay sugarcane farmers would have a substantial impact on the industry. Besides, surplus in the market along with weakness in overseas prices also has been weighing on the industry.

However, in a bit of a positive for the industry, the domestic sugar prices are firming up. But, problems such as short-term supply constraints, seasonal demand and slide in global prices are posing a threat to a recent recovery in exports from the world's second-biggest producer of the sweetener.

Performance of the Industry

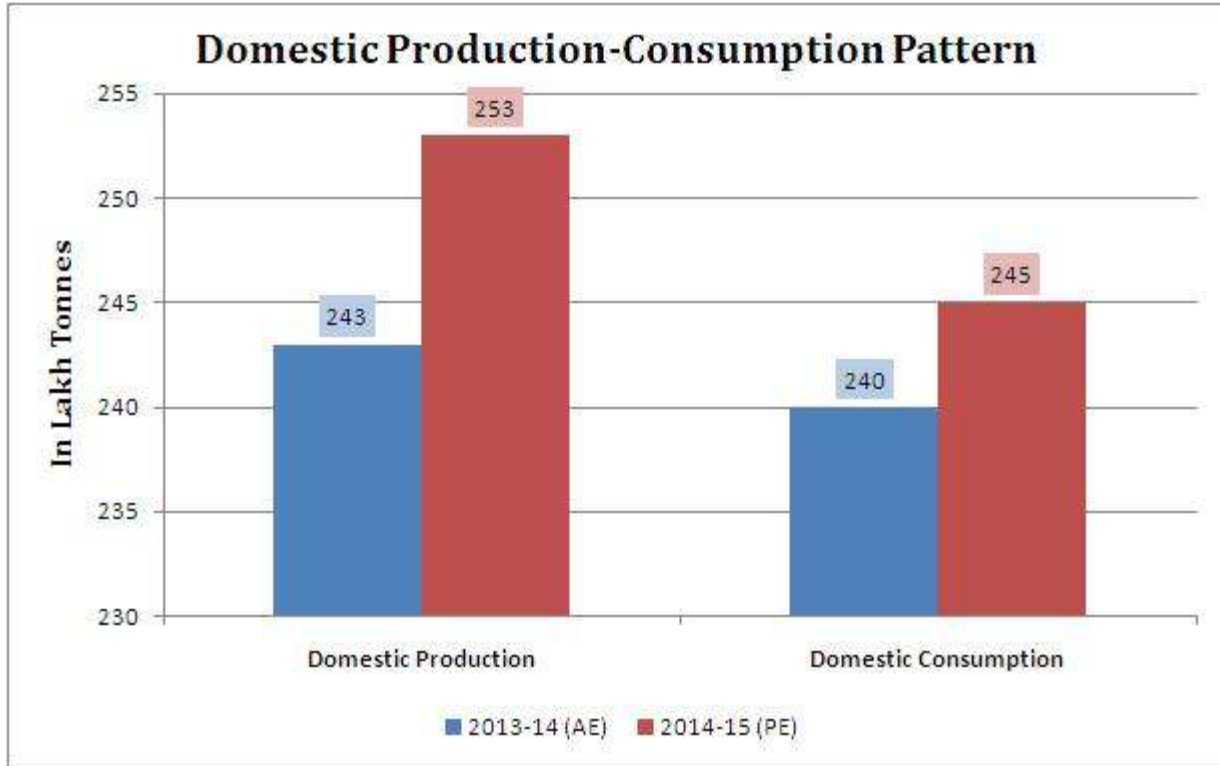
Domestic Production & Consumption Trend:

According to Indian Sugar Mills Association (ISMA)'s preliminary estimates, Sugar Industry is expected to produce and consume more Sugar in the coming Sugar Season (SS) 2014-15 (October 2014 to September 2015) as compared to the one which just draws to an end.

Based on the acreages, estimated yields and sugar recovery, as well as drawal of sugarcane by the sugar industry and current rainfall progression and availability of water in the reservoirs, the preliminary estimates of Indian Sugar Mills Association (ISMA) for sugar production in 2014-15 sugar season, works out to around 253 lakh tonnes of sugar, which is marginally higher by 4.12% than the estimated sugar production of around 243 lakh tonnes in SS 2013-14.

On the domestic consumption side, the industry is estimated to have an opening balance of sugar of around 75 lakh tonnes, as on October 1, 2014 for the next sugar season and the estimated

sugar production is expected to take care of domestic requirement, of around 245 lakh tonnes next year, which is little higher than 240 lakh tonnes consumed in the SS 2013-14.



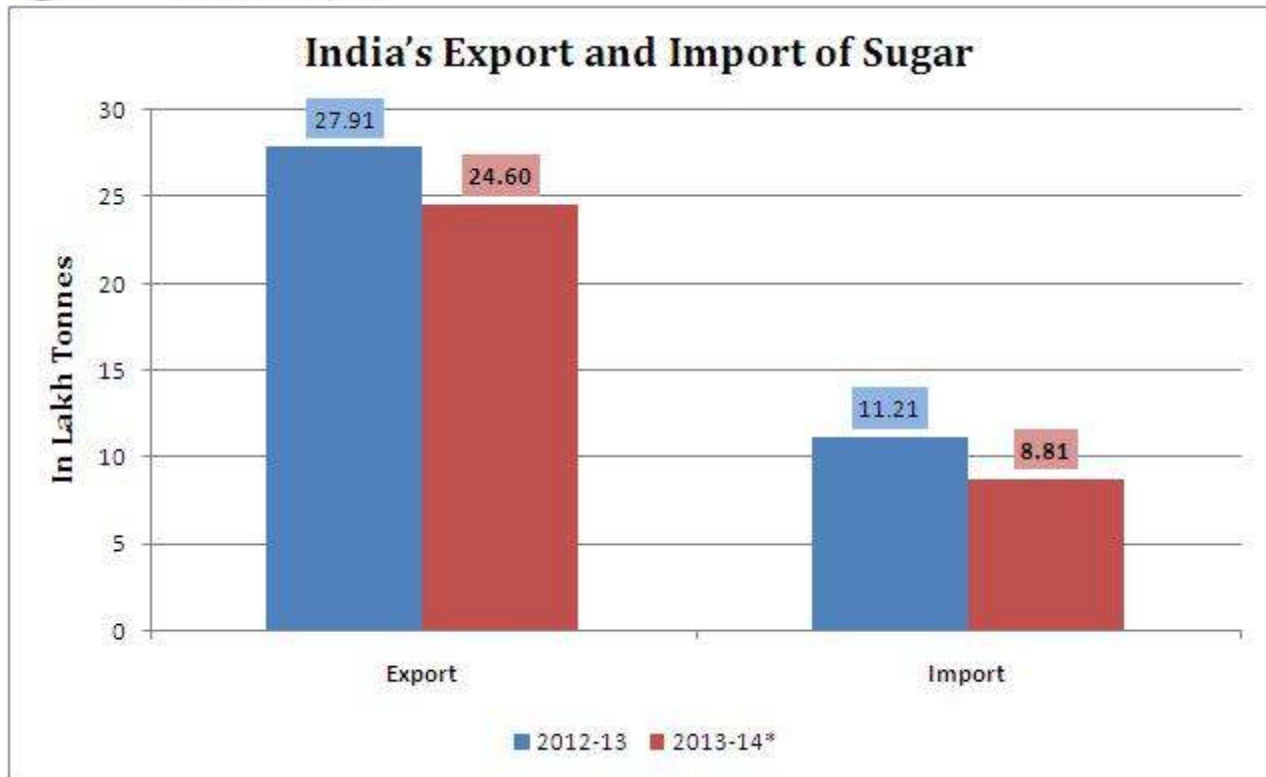
***indicates estimated figures**

Export-Import Pattern:

Sugar exports for the current season ending this September is estimated at 24.60 lakh MT, down from 27.91 lakh MT last season, according to Indian Sugar Mills Association (ISMA). However, the pace of sugar exports slowed down because of the unreasonable and unexpected reduction of the export incentive from Rs 3300 per tonne to Rs 2277 per tonne by the Food Ministry.

To help the cash-starved industry to pay arrears to sugarcane farmers, the previous government fixed the subsidy at Rs 3,300 per tonne for February-March and decided to review it every two months. However for April-May, the subsidy was reduced to Rs 2,277 per tonne for raw sugar shipments.

On the flip side, India which is not only the second-biggest producer after Brazil, but also world's biggest consumer of sugar, is estimated to have imported 8.81 lakh MT of sugar for SS2013-14 as compared to 11.21 lakh MT in the previous sugar season, which is about of 21.41% lower.



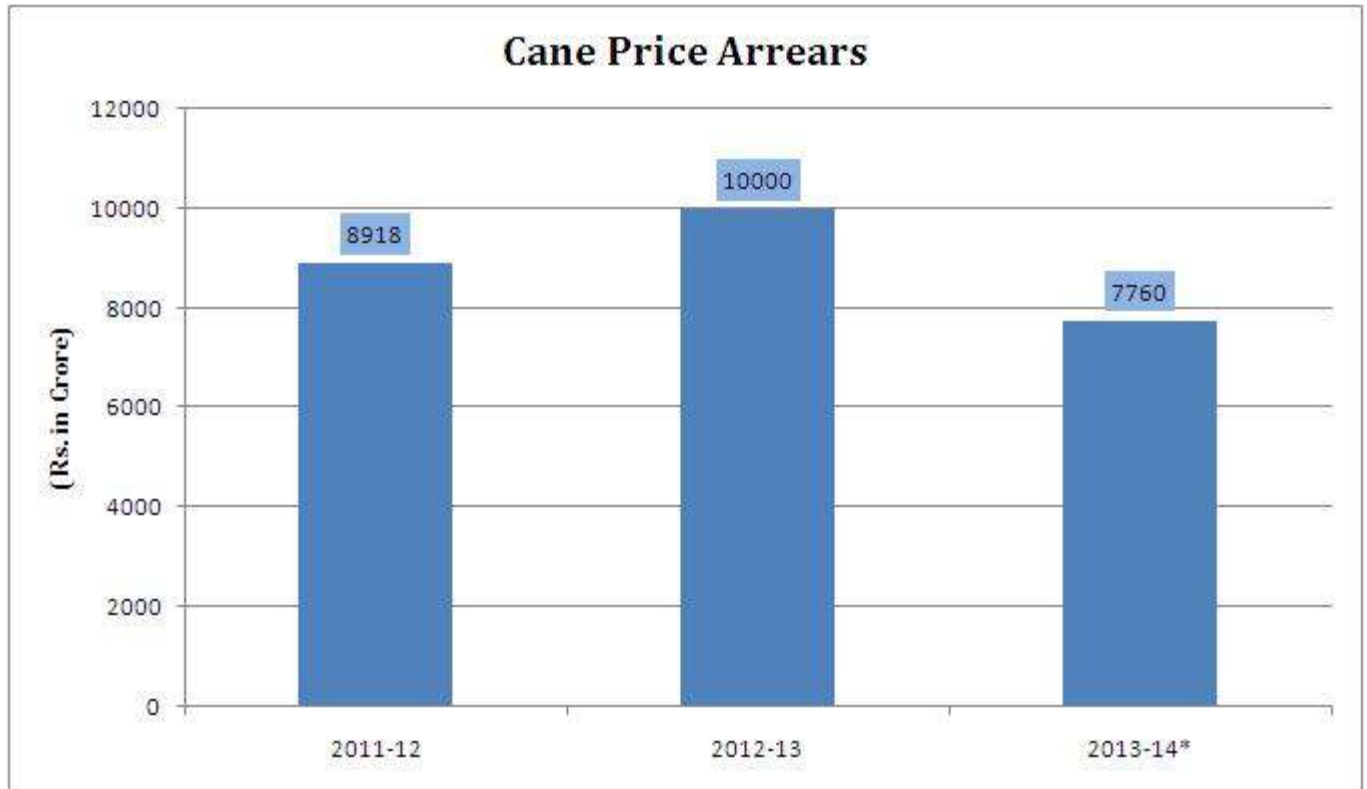
Cane Arrears:

Cane price arrears is one of the major reform requirement for the sector. The cane arrears, which were just Rs 8919 crore in 2011-12, have surged to around Rs 14,000 crore in 2013-14, before finally cooling down to Rs 7,760 crore in SS2013-14, however the situation still remains grave, despite slew of efforts taken by the government to clear the issue.

In June, after an inter-ministerial meeting, the Centre had decided to offer additional loans at a 12% interest subvention, if mills give an undertaking they would clear cane arrears at the earliest. Among other decisions taken in June, the government has decided to raise the import duty on sugar to 40% from 15% earlier, to curb cheaper inflows from overseas and renewed the commitment to make mandatory blending of ethanol with petrol at a 5:95 ratio, which in later dates would be raised to the 10:90 ratio, to fetch more buyers and ensure competitive prices for the cane by-product. However, this was only if the sugar mills laid out a roadmap on how they would be clearing off their dues to the farmers.

Out of the total sugar cane arrears, Sugar mills in UP, the country's second largest sugar producer; owe Rs 4,560 crore to farmers for purchasing cane in 2013-14. Mills blame high state-fixed price of cane for their inability to pay, and have been asking the government to link cane and sugar prices, as is the case in top producer Maharashtra and Karnataka. Late in August, the UP government had announced a rebate of Rs 6 per quintal to millers provided they clear their

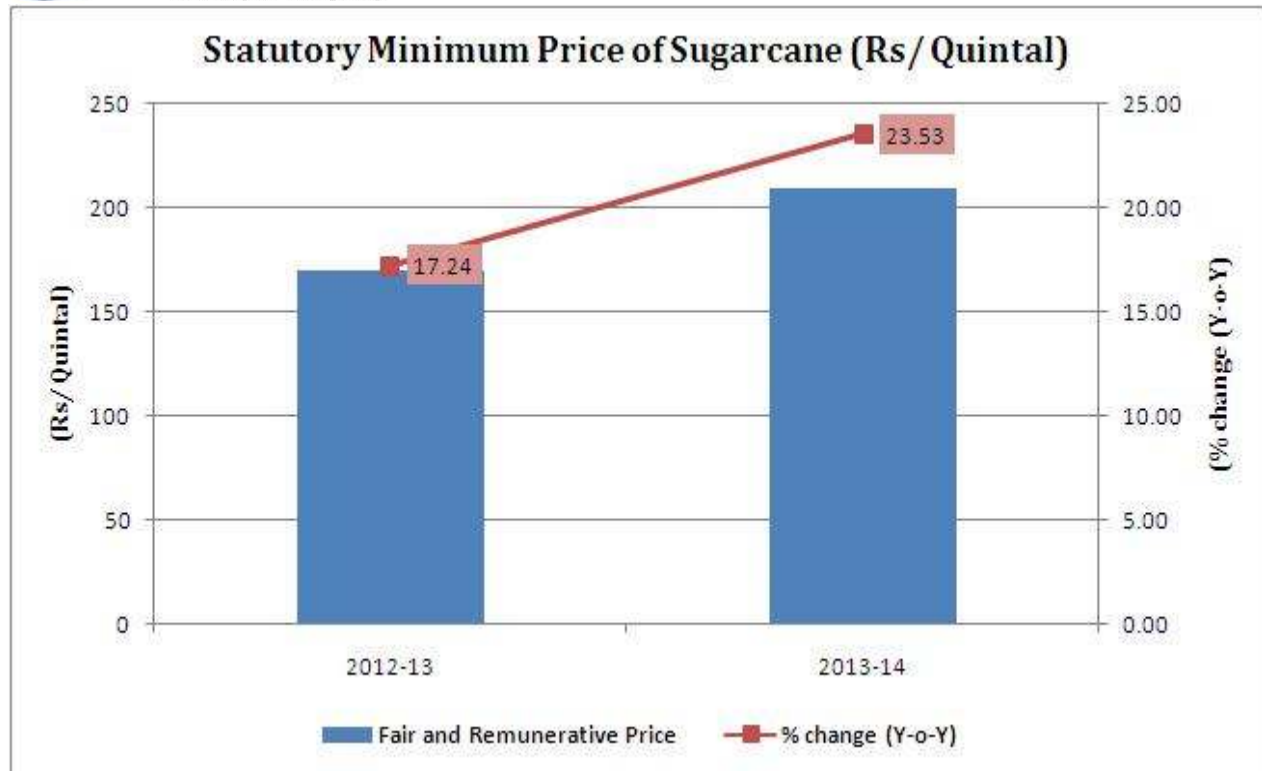
entire arrears towards farmers by September 30, however, private mills had refused to take the offer, citing this as too low to aid their condition.



Challenges facing Sugar Industry:

Unreasonably high sugarcane prices: Despite being partially decontrolled, government policies, rather than economic considerations influence sugarcane and sugar prices. The Centre raised sugarcane prices that mills have to pay to farmers by 23.5% to Rs 210 per quintal for the year starting October 2013, up from Rs 170 in the marketing year 2012-13.

Meanwhile, the continuous acceleration in sugarcane prices across the country is influenced or gets directly fixed by the governments, leading to high costs of production of sugar for second largest sugar producing-state and home to some of the biggest sugar companies, Uttar Pradesh (UP).



While, the central government raised the FRP of sugarcane 23.53% for SS2013-14, the State Advisory Price (SAP) in Uttar Pradesh, the home to some of the biggest sugar companies, for the 2013-14 season was fixed at Rs 280 a quintal, 34% more than the FRP.

Unviable Exports: With global prices ruling down, exports have become unviable at present even with the subsidy support, furthermore, the government is yet to take a call on whether to continue the scheme for the 2014-15 season starting next month. The subsidy on export was fixed at Rs 3,300 a tonne for February-March, Rs 2,777 a tonne for April-May, Rs 3,300 for June-July and Rs 3,371 for August-September.

Despite this, India's raw sugar continues to be more expensive as compared to its international counterpart and the exports will be viable only if the global sugar prices range from 18-19 cents per pound, which looks unlikely in the near future.

Further, the Food and Agriculture Organisation (FAO) of the United Nations has pegged the global sugar surplus for SS2014 at 5mmt. However, so far the depreciation in the currencies of the major sugar producing countries, especially Brazil has cushioned their domestic sugar producers against the fall in global sugar prices. In addition, respective government support (such as minimum support prices, incentives) has prevented any correction in sugar supply adjustment as warranted by the fall in prices.

Liquidity Woes: The sugar industry has been facing a cash crunch due to higher cost of production and lower selling prices in the wake of surplus output over the past few years. Both UP and south India-based mills continue to be exposed to liquidity pressures to clear farmers'

dues at the earliest, providing limited inventory holding power. Currently, sugarcane arrears stand at about Rs 11,000 crore across the country, with the maximum of Rs. 7,200 crore in Uttar Pradesh till date.

Delay in achieving Ethanol Blending Targets: India's ethanol program is based on producing ethanol from sugar molasses, a by-product of the sugar industry and not directly from sugarcane or corn as in most countries. Ethanol Blending Programme (EBP), which was launched to promote green fuel and reduce the oil import bill, still remains a far cry.

Although, the government has announced its intention of doubling ethanol blending with petrol to 10% from 5% earlier, to boost ethanol demand and increase the income of the mills that produce it from molasses, its implementation seems difficult in near term given that even current 5% ethanol blending target has not been fully met in many parts of the country.

Subvented loan scheme for sugar industry to end this season: In what could be a trouble for Sugar industry, the government has decided not to extend the financial assistance to sugar undertakings through interest subvented loan beyond this current season. In fact, even for impending applications made for the loans, the disbursements have tapered off since payments of arrears are already through in many parts except for Uttar Pradesh mostly.

Back in December 2013, the centre had doled out Rs 6,600 crore to the sugar industry to enable it to pay cane arrears to farmers. The loans were subsidized up to 12% interest subvention which worked out to around Rs 2750 crore to be met from the Sugar Development Fund under the Food Ministry.

The sugar industry has paid Rs 47,852 crore to cane farmers till July 31 of the current marketing year ending September. The outstanding amount of sugarcane farmers of the country on sugar mills is Rs 9,252 crore which is about 16.20% of total amount payable during the current sugar season 2013-14. Out of Rs 9,252 crore arrears, Uttar Pradesh millers owe maximum to cane farmers at Rs 5,741.74 crore, followed by Karnataka mills at Rs 1,794.68 crore and Tamil Nadu mills at Rs 504.40 crore.

The Sugarcane (Control) Order, 1966 stipulates payment of cane price within 14 days of supply, failing which interest at the rate of 15% per annum on amount due for the delayed period is payable. However, the powers for enforcing this provision lie with the States/UTs.

Recent/ Positive Developments

Sugar export subsidy raised to Rs 3,371 per tonne: The raw sugar export subsidy for August-September has been upped to Rs 3,371 per tonne, from Rs 3,300 in June-July, after the industry lobbied for its continuation. The central government declared that the incentive towards marketing and promotion services of raw sugar production for the period beginning from August 1 and ending on September 30 would be at the rate of Rs 3,371 per tonne.

In February, the Cabinet Committee on Economic Affairs (CCEA) had approved a subsidy on the export of raw sugar for shipments of up to 4 million tonnes of raw sugar to bail out the cash-

strapped industry. The subsidy was fixed at Rs 3,300 a tonne for February-March. In April-May, the sugar directorate had lowered it to Rs 2,277 a tonne and then increased it to Rs 3,300 for June-July.

However, the government would be taking a call on the issue of renewing the raw sugar export subsidy for the 2014-15 (October-September) season later this month. About 25,000 tonnes of raw sugar could be exported in August-September.

Govt raises sugar import duty to 25% from 15%: Providing relief to beleaguered millers, the government raised the import duty on raw sugar and refined or white sugar to 25% from 15%. Higher import duty would basically force refiners to purchase from domestic mills, which collectively owe sugarcane farmers close Rs 9,000 crore. This would also be applicable to bulk consumers who import raw sugar.

However, this hike is way lower than the one reported earlier by Food Minister Ram Vilas Paswan, who in June, underscored that import duty could be raised to 40% from 15%, if mills pay farmers' dues, estimated at nearly Rs 5000 crore.

Food Ministry proposes to seek CCEA nod on new sugar export subsidy formula: The Food Ministry has moved a proposal to seek CCEA's approval for ratification of a new formula to fix a subsidy on the export for raw sugar.

The Cabinet Committee on Economic Affairs (CCEA), back in February 2014, had approved a subsidy on the export of raw sugar for shipments of up to 4 million tonnes of raw sugar to bail out the cash-strapped industry. The subsidy was to be reviewed every two months considering the exchange rate.

However, the ministry later felt that it was necessary to consider global sugar prices along with the exchange rate of rupee vis-a-vis dollar while arriving at a subsidy component. It began to fix the subsidy based on a new formula.

Outlook:

Sweet days are still away from the sugar industry as the recent government measures would provide temporary relief to the industry and not a permanent solution. This is because the government still hasn't provided a solution to the contentious issue - the price of cane, which still continues to be decided by the state and something which is necessary for the mills to adhere to, even as they find no direct connect with the market prices of sugar.

The only solution to the sector's several problems lies in well-planned reforms, not in piecemeal measures that provide temporary relief. Real reforms include ending state-advised cane prices, enforcing the Rangarajan committee's recommendation of revenue sharing between sugar producers and sugarcane growers, and complete decontrol.

Companies Financial Data In Industry

COMPANY NAME	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
DCM Shriram Industries Ltd.	149.25	259.67	128.48	2.35	21.83	6.84
Bannari Amman Sugars Ltd.	1210.00	1384.20	835.88	1.03	18.83	64.26
Piccadily Agro Industries Ltd.	36.75	86.67	56.37	0.00	8.77	4.19
E.I.D. Parry (India) Ltd.	222.30	3908.36	70.97	0.00	4.11	54.11
KCP Sugar & Industries Corporation Ltd.	20.00	226.77	21.32	4.25	1.99	10.06
KM Sugar Mills Ltd.	3.86	35.51	2.95	0.00	1.37	2.81
Shree Hanuman Sugar & Industries Ltd.	8.20	15.17	40.91	3.66	1.26	6.49
Dhampure Specialty Sugars Ltd.	14.35	10.28	25.87	5.57	0.94	15.20
Balrampur Chini Mills Ltd.	49.60	1214.78	49.56	0.00	0.53	92.94
Kothari Sugars & Chem Ltd.	8.60	71.28	14.63	5.81	0.34	25.58
Eastern Sugar & Industries Ltd.	1.61	4.69	15.55	0.00	0.21	7.59
Indian Sucrose Ltd.	9.02	13.95	31.49	0.00	0.12	75.39
Monnet Project Developers Ltd.	31.10	23.05	73.57	0.00	0.06	501.15
Piccadily Sugar & Allied Industries Ltd.	4.45	10.35	6.51	0.00	0.02	178.42
Dollex Industries Ltd.	2.58	9.23	10.31	0.00	-0.06	0.00
Ugar Sugar Works Ltd.	10.75	120.94	7.63	1.86	-0.46	0.00
Rana Sugars Ltd.	3.21	49.30	12.10	0.00	-0.88	0.00
Riga Sugar Company Ltd.	11.04	11.75	14.40	0.00	-2.00	0.00
Ponni Sugars (Erode) Ltd.	177.80	152.88	139.70	0.34	-2.07	0.00
Triveni Engineering & Industries Ltd.	20.90	539.11	30.40	0.00	-4.65	0.00
Khaitan (India) Ltd.	16.00	7.60	23.28	0.00	-4.90	0.00
Shree Renuka Sugars Ltd.	16.20	1504.67	19.08	0.00	-5.20	0.00
Gayatri Sugars Ltd.	2.73	11.93	-8.73	0.00	-7.72	0.00
Upper Ganges Sugar & Industries Ltd.	38.25	44.21	43.41	0.00	-9.16	0.00
Dwarikesh Sugar Industries Ltd.	32.40	52.86	59.61	0.00	-9.36	0.00
Uttam Sugar Mills Ltd.	16.30	62.17	4.30	0.00	-9.55	0.00
Dhampur Sugar Mills Ltd.	45.15	258.33	65.45	0.00	-11.58	0.00
Parrys Sugar Industries Ltd.	22.00	43.92	-23.46	0.00	-12.29	0.00
Dharani Sugars & Chemicals Ltd.	22.05	64.80	27.86	4.54	-14.07	0.00
Oudh Sugar Mills Ltd.	21.55	55.85	-23.34	0.00	-14.83	0.00
Thiru Arooran Sugars Ltd.	53.85	60.94	104.30	0.00	-14.94	0.00
Sakthi Sugars Ltd.	16.75	161.16	-0.38	0.00	-16.13	0.00
Empee Sugars & Chemicals Ltd.	4.20	17.63	-31.23	0.00	-16.21	0.00
Rajshree Sugars & Chemicals Ltd.	23.40	55.67	37.98	0.00	-20.26	0.00
Bajaj Hindusthan Ltd.	17.45	1115.75	37.52	0.00	-22.98	0.00



Sector Sugar Industry

Jeypore Sugar Company Ltd.	73.20	33.19	97.94	0.00	-50.42	0.00
Sir Shadi Lal Enterprises Ltd.	31.00	16.28	-48.68	0.00	-54.84	0.00
Simbhaoli Sugars Ltd.	13.85	39.10	-81.54	0.00	-57.09	0.00
Mawana Sugars Ltd.	10.90	42.64	-70.63	0.00	-63.04	0.00
Kesar Enterprises Ltd.	37.20	37.20	-77.81	0.00	-77.76	0.00
Ravalgaon Sugar Farm Ltd.	4805.00	32.67	1079.79	0.00	-1598.97	0.00

Source – Ace Equity

Disclaimer

This report is for private circulation within the Indira Group. This report is strictly confidential and for information of the selected recipient only and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form. This report should not be construed as an offer or solicitation to buy or sell any securities or any interest in securities. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or any such factor. The information, opinions estimates and forecasts contained here have been obtained from, or are based upon, sources we believe to be reliable, but no representation of warranty, express or implied, is made by us to their accuracy or completeness. Opinions expressed are our current opinions as of the date appearing on this material only and are subject to change without notice.