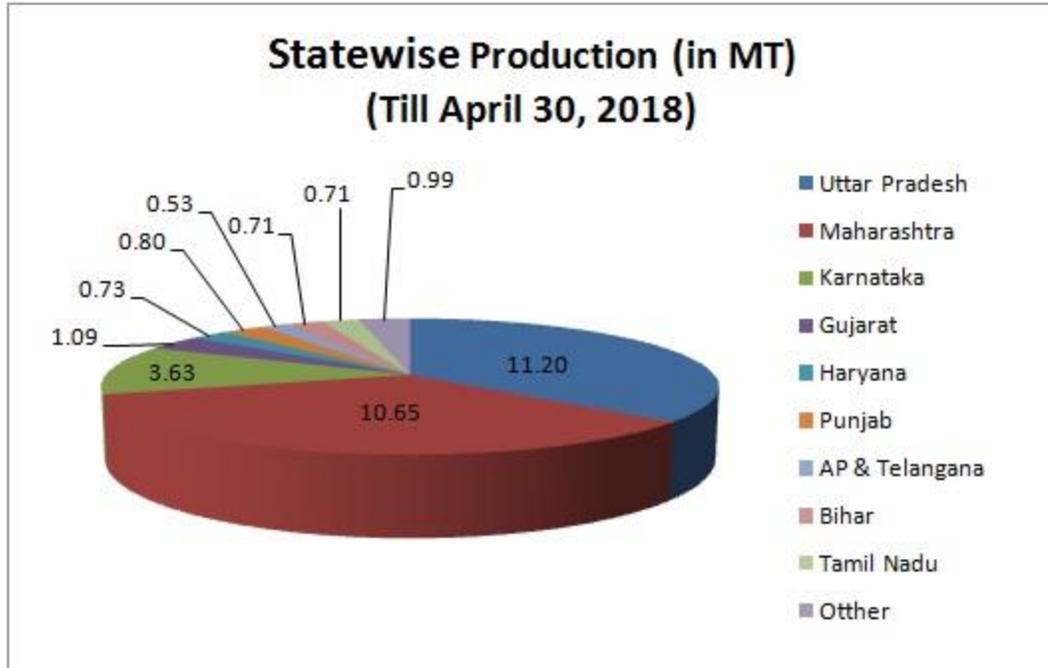


The sugar industry is an essential part of Indian agriculture. Sugar industry is the second-largest agro-based industry in India and it supports livelihoods of about 50 million sugarcane farmers and their families, and provides direct and indirect employment to around 5 lakh people, making significant contribution towards socio-economic development in the rural areas of the India. The production of sugarcane is cyclical in nature. Hence the sugar production is also cyclical as it depends on the sugarcane production in India. Indian sugar industry can be broadly classified in to two sub sectors, the organized sector i.e. sugar factories and the unorganized sector i.e. manufacturers of traditional sweeteners like gur and khandsari. Since the sugar industry in the country uses only sugarcane as an in input, sugar companies have been established in large cane growing states like Uttar Pradesh, Maharashtra, Tamil Nadu, Karnataka, Punjab and Gujarat. Sugar is produced in two main areas, the Northern part (Uttar Pradesh, Bihar, Haryana, Uttarakhand, Punjab) with subtropical conditions, and the Southern part (Maharashtra, Karnataka, Tamil Nadu, Gujarat, Andhra Pradesh, Madhya Pradesh), with tropical ones. Uttar Pradesh contributes more in the country's total sugar production and Maharashtra is the second largest contributor in the production. India is the world's second largest producer of sugar after Brazil.

### **Production**

Sugar production in India has surpassed the government's sugar production estimates for 2017-18 SS (October 2017 - September 2018) in the first seven months till April 2018. The production from October 2017 to April 2018 was 31.04 million tonnes (MT), higher as compared to estimation of 29.5 MT. The rise was mainly supported by higher sugar cane output in Maharashtra, Karnataka and Uttar Pradesh. Maharashtra and Karnataka reported highest ever sugarcane yields of around 100 tonnes per hectare and 91 tonnes per hectare respectively in the current year. This was mainly on account of extended rains during the latter half of the monsoon season. Sugar output of India stood at 20.3 MT in the 2016-17 marketing year. Besides, domestic consumption is estimated at 25 MT.

State-wise, sugar production for the current year in UP, Maharashtra and Karnataka was 11.2 MT, 10.65 MT and 3.63 MT, respectively. Sugar production in Bihar, Punjab and Haryana during the current season has reached record levels in their history at 7.10 lakh tons, 8 lakh tons and 7.25 lakh tons, respectively. While all mills in Bihar have stopped crushing, few mills in Punjab and Haryana were still operating. Other States like Gujarat, Tamil Nadu, Andhra Pradesh & Telangana have produced 10.90 lakh tons, 7.10 lakh tons and 5.30 lakh tons, respectively.



### Sugar cane FRP

The government has increased fair and remunerative price (FRP) of sugarcane by Rs 25 per quintal to Rs 255 for 2017-18 season beginning October, linked to a basic recovery rate of 9.5% subject to a premium of Rs 2.68 per quintal for 0.1% point increase in recovery above that level. The hike in FRP has been taken place after two years. This is around 10% higher than price of Rs 230 per quintal in the year 2016-17. The government had kept prices unchanged at Rs 230 per quintal in last two years. This revision in price is the seventh increase since 2010-11, marking a 96% increase. The FRP is the minimum price that sugarcane farmers are legally guaranteed. However, state governments are free to fix their own state advised price (SAP) and millers can offer any price above the FRP. Higher rate has been fixed for 2017-18 taking into account the rise in cost of production and millers' capacity to pay the rate in view of better sugar prices. FRP is the minimum assured price that farmers get. Besides, the UP government has raised the SAP of sugarcane by Rs 10 per quintal for both common variety and early maturing varieties at Rs 315 per quintal and Rs 325 per quintal respectively.



### Sugar cane arrears

Sugar mills owe Rs 13,899 crore to sugarcane growers as of March 21 of the current marketing year ending September. Uttar Pradesh mills have maximum cane price arrear at Rs 5,136 crore, followed by Karnataka at Rs 2,539 crore and Maharashtra at Rs 2,348 crore. Out of total cane dues payment of Rs 55,553 crore for 2017-18 season, an amount of Rs 41,654 crore has been cleared and Rs 13,899 crore is pending as on March 21, 2018. Liquidity position of mills has been affected due to downward trend in sugar prices in view of higher production in the 2017-18 marketing year. This has resulted in delay in cane payment to growers. Mill owners are unable to pay cane prices to the farmers on time because of decrease in sugar prices. In order to stabilise domestic prices, the government has doubled import duty on sugar to 100%, scrapped the export duty and also imposed stock limits on sugar mills for two months.

Season	Position as on	Total Price Payable (Rs in crore)	Total Price Paid (Rs in crore)	Arrears (Rs in crore)	% of Arrears on Price Payable
2015-16	15/03/2016	45301.91	30962.78	14339.13	31.65
2014-15	15/03/2015	48710.67	30460.90	18249.77	37.47
2013-14	15/03/2014	43747.18	25312.13	18435.05	42.14
2012-13	15/03/2013	48585.22	36278.97	12306.25	25.33
2011-12	15/03/2012	40125.05	31207.02	8918.03	22.23

### Retail prices

The average retail prices of sugar in India have fallen more than 10% in the period December 2017 to June 2018, as mills were aggressively selling the sweetener to make cane payments to farmers. The highest price the sugar touched was Rs 43.48 per kg in the month of September 2017. After that prices came down continuously and now hovering around Rs 40-37 per kg mark.



### Exports and imports

With estimated rise in sugar production during the current sugar season, India is likely to export more sugar than previously forecast as higher yields in some key growing regions are expected to boost output. The country's exports of sugar showed volatile trend in last 3-4 years, as in 2014-15 India exported 1952703 MT sugar, which is lower than the figure of 2476876 MT exported in the 2013-14. However, exports jumped to 3824010 MT in 2015-16 and again edged lower to 2545061 MT in 2016-17. Besides, in the year 2017-18 the country has exported 1758036 MT of sugar, while for the 2018-19 (April-May) export stood at 349717 MT. Besides, the government has scrapped export duty on raw and refined sugar. The export duty on raw, white and refined sugar has been reduced from 20% to nil. This will help to boost the exports in the country.

India's sugar imports were increasing continuously from the last three years. During 2014-15, 2015-16 and 2016-17, imports of sugar were 1538635 MT, 1943125 MT and 2146153 MT respectively. In the year 2017-18 and 2018-19 (April-May), imports stood at 2402978 MT and 140763 MT respectively. Besides, hike in import duty on sugar in the country may restrict the further import of sugar. The government has doubled import duty on sugar to 100% from 50% earlier, in order to protect domestic farmers.



### Government initiatives and recent developments

- In order to help sugar mills to clear cane dues of farmers, the Government has decided to provide financial assistance of Rs 5.50 per quintal of cane crushed in sugar season 2017-18 to sugar mills to offset the cost of cane. In order to stabilise sugar prices at reasonable level and to improve liquidity position of mills thereby enabling them to clear cane price dues of farmers, the Centre has issued orders for extending assistance to clear the dues of sugarcane farmers. The domestic sugar prices have remained depressed since the commencement of the season, due to higher sugar production against the estimated consumption during the current sugar season 2017-18. As a result, accumulated dues of farmers have reached to over Rs 20,000 crore.
- In order to clear surplus stocks and improve cash flow to millers for making payment to sugarcane farmers, the government has allowed export of two million tonnes of sugar until the end of the 2017-18 marketing year. The government has also allowed export of white sugar till September 2018 under the Duty Free Import Authorisation (DFIA) scheme, under which exporters are allowed to import sugar at zero duty within three years. As per the government's order, mills can export the quota or get it exported by other mills on mutually agreeable conditions. The export quota would be over and above the obligations under the Advance Authorisation Scheme.
- With a view to boost shipments and lift domestic prices of sugar, the government has scrapped export duty on raw and refined sugar, as the country is all set to produce a record 29.5 million tonnes of the sweetener in the current 2017-18 marketing season. The Central Board of Excise and Customs in a notification stated that export duty on raw, white and refined sugar has been reduced from 20% to nil. This 20% export duty was in force since June 2016.
- In a move to protect domestic farmers, the government has doubled import duty on sugar to 100%. Earlier, customs duty or import tax on sugar was 50%. The move is aimed at curbing cheaper imports and ensures remunerative prices to domestic growers. The notification issued by the Central Board of Excise and Customs (CBEC) seeks to increase

import duty on all types of sugar (raw sugar, refined or white sugar) from the present 50% to 100%. The higher tax has been imposed with immediate effect and without an end date.

- The government has decided to increase the minimum price sugar mills pay to cane growers by Rs 20 per quintal, with the new price being Rs 275 per quintal for the next marketing year starting October. The decision to increase the Fair and Remunerative Price (FRP) of sugarcane for the 2018-19 marketing year was taken by the Cabinet Committee on Economic Affairs (CCEA). The FRP, which is the minimum price that sugar mills have to pay to sugarcane farmers, is Rs 255 per quintal for the 2017-18 season. At present, the FRP price is linked to a basic recovery rate of 9.5%, subject to a premium of Rs 2.68 per quintal for every 0.1% increase in recovery rate.
- In a move to boost sugar industry, the government hiked the price of ethanol produced from C-molasses by Rs 2.85 per litre to Rs 43.70 for the new season starting December 2018. For the first time, the government has also fixed the price of ethanol produced from B-molasses at Rs 47.49 per litre. So far, the price was only fixed for ethanol produced from C-molasses.

### Outlook

Outlook for Indian sugar industry looks promising in near future with higher sugar production and government initiatives. Rising output and falling prices have prompted the Indian government to allow white sugar exports under the duty-free import plan, while separately asking sugar mills to ship 2 million tons overseas under a minimum indicative quotas program that allocates mandatory export quotas to sugar mills. This will help industry to grow at a faster rate. Besides, the government's push to exports will generate extra cash flows to the sugar mills, which in turn, will improve cane price payments to the sugarcane farmers and will reduce the cane price arrears. In turn it will also support the growth of the overall sugar industry. Keeping in mind the interest of sugarcane farmers, the government hiked the FRP of sugarcane for the next marketing year (October 2018 - September 2018) by Rs 20 per quintal to Rs 275 per quintal, to provide appropriate price to the farmers for their cane, though this will be too high and unaffordable for crisis-ridden sugar mills. The government also decided to provide financial assistance to sugar mills. Moreover, India is one of the major sugar producers in the world and will likely continue to play the role of a surplus producer.

**Companies Financial Data In Industry**

Company Name	CMP	MCAP	BOOK VALUE	DIV. YIELD %	TTM EPS	TTM PE
Upper Ganges Sugar & Industries Ltd.	379.00	438.02	55.34	0.00	99.79	3.80
Avadh Sugar & Energy Ltd.	349.00	349.32	426.86	0.29	90.53	3.86
Vishnu Sugar Mills Ltd.	3978.40	95.48	2132.80	0.00	69.33	57.38
Bannari Amman Sugars Ltd.	1476.00	1850.86	907.97	0.68	67.65	21.82
Oudh Sugar Mills Ltd.	130.75	338.87	-17.87	0.00	56.80	2.30
Magadh Sugar & Energy Ltd.	82.85	83.39	422.61	1.21	39.88	2.08
DCM Shriram Industries Ltd.	169.05	294.12	249.41	2.37	33.72	5.01
Dhampur Sugar Mills Ltd.	87.75	582.55	155.59	3.42	18.29	4.80
Dalmia Bharat Sugar & Industries Ltd.	62.65	507.08	85.38	3.19	15.11	4.15
Uttam Sugar Mills Ltd.	83.05	316.74	58.84	0.00	11.11	7.47
Balrampur Chini Mills Ltd.	72.30	1651.61	70.78	3.46	10.14	7.13

Sorted with TTM EPS (High to Low)

**Source – Ace Equity**

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