

Chairman's Insight



Dear Shareholders,

After years of significant challenges, India's sugar industry witnessed a cautious recovery during the year. The El Nino effect and consequential drought in Maharashtra resulted in a fall of output; and the stock position is at a comfortable position. The overall industry scenario is showing unmistakable signs of positivity, with the Government's initiatives to support the sugar sector. The industry is gradually moving towards a firm footing and sustainable growth.

GLOBAL SCENARIO

The global sugar output is expected to decline by 1.969 million tonnes during FY 2015-16. The market was largely influenced by developments in three major sugar-producing countries, including Brazil, China and India. Although primary exporting countries showed

an increase in production, importing countries saw a significant decrease. During the year, India continued to remain one of the world's largest sugar producers and a sugar surplus country. On the consumption front as well, the country remained a frontrunner in the global stage.

In China, domestic sugar prices strengthened in recent months owing to growing expectations of tighter supply during the year. Prices firmed in India and hit multi-year highs in Brazil in October 2015. While prices in the US, Mexico and Russia showed a stable behaviour, EU witnessed a marginal recovery only after August 2015.

DOMESTIC SCENARIO

As India continues to be the world's major sugar producer and consumer, any imbalance in the sugar scenario in the country is likely to lead to global imbalance. After five years of surplus sugar production, domestic sugar production in FY 2016 was marginally lower vis-à-vis domestic consumption. An aggressive sugar-export strategy coupled with declining domestic production gave the much needed upward lift to domestic prices.

Lower production along with exports of around 2 million MT, is likely to bring down the closing stocks to around 7.6 million MT in the sugar season 2016 from around 9.5 million MT in the corresponding season of 2015. The decline in sugar stocks is a positive; and has resulted in an improvement in domestic sugar realisations since August 2015.

Interest-free loans from the Government of India and cash subsidy from UP and Bihar governments have also benefited the industry. At present, sugar pricing is at a balanced position and prominent players are expected to perform well in future.

After successive years of staggering losses, the industry seems to be slowly recovering. Even today it is saddled with huge debts and tight liquidity. Undoubtedly, the cane arrears to farmers have reduced considerably as compared to a year ago although it is yet to be eradicated.

The long-term prices and profitability of Indian sugar companies is likely to remain cyclical and reliant on domestic and international supply-demand trends. It would also hinge on agro-climatic conditions in the

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major sugar producing countries and the trends in crude oil prices.

Going forward, we hope the Government would usher in reforms in this sector and restore the health of the sector to ensure cane payment as the present opaque and unbalanced cane pricing is adversely impacting the sugar industry. This will benefit industry players, consumers and millions of farmers.

ENCOURAGING PERFORMANCE

After years of instability, FY 2015-16 turned out to be a positive year for the Company. Our revenue from operations stood at 1,21,501.26 lacs, compared to ₹ 1,42,965.29 lacs in the previous fiscal. The profitability of the Company stood at 623.11 lacs on better sugar yield despite lower crushing of sugarcane and sugar realisations.

The consumption has been steadily increasing by 2-2.5% annually with significant growth in bulk sugar and unbranded generic sugar. We have been supported by the Government as well as bankers to continue operations in a hassle-free manner. Farmers have, to a very large extent, received their payments and the overall scenario is improving compared to the last few years.

STRATEGIC FOCUS

We are restructuring our two businesses to bring in fiscal flexibility and facilitate operational efficiency. The UP unit will be under Avadh Sugar & Energy Limited and Bihar unit will be under Magadh Sugar & Energy Limited. The restructuring process is awaiting regulatory approvals and the entire process is expected to be completed by September-October 2016.

Going forward, we will consolidate and improve our own internal capabilities. Our focus will continue to be on enhancing efficiencies for further cane development. We are expecting sugar production to be lower in FY 2016-17. The fall in production can be attributed to drought in cane-growing areas of Maharashtra.

Sugar has historically been classified as an essential commodity and has been regulated across the value chain. The heavy regulations in the sector artificially impact the demand-supply forces resulting in market imbalance.

While the Government has supported sugar mills by providing interest-free loans to clear cane dues and mandating compulsory exports to tackle the high sugar stocks in the domestic market, the primary aspect of linking sugar and by-product realisations with cane costs is yet to be fully addressed. We expect more firm steps in that direction.

WAY FORWARD

With possible changes in production and projected consumption growth, a deficit of about 6 million tonnes is likely on the global industry horizon. This indicates the continuation of the deficit phase in the world sugar cycle for at least one more season.

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 and which provides the sector huge investment potential.

We are fortunate to have a high-morale team, who continue to remain equally committed, despite challenges. I seek the support and guidance of all our stakeholders in charting a positive roadmap for the Company, and to create enduring value for the community at large.

With regards,

Chandra Shekhar Nopany
Chairman