

MANAGEMENT DISCUSSION AND ANALYSIS

INDIAN ECONOMIC OVERVIEW

India's positive GDP growth indicates that the economy is expanding as against the subdued economic growth in the developed countries and other parts of Asia. One more reason for India doing well is that oil and commodity prices have plummeted. Besides this, the country is largely a consumption-driven economy that is not too dependent on foreign trade. Initiatives like 'Make in India', plans to set up a dedicated freight corridor and developing a low-carbon economy by laying a keen emphasis on generating renewable energy have brightened long-term prospects for the country's economy. The Indian economy has been riding high since last year and in purchasing power parity terms has made its way among the top five countries in the world.

SUGAR INDUSTRY -

Global overview Sugar is one of the most used commodities in the world. Sugarcane, besides the main source of sugar, is generally regarded as one of the most significant and efficient sources of biomass for bio-fuel (ethanol) production. Strong linkages between world sugar and oil prices have emerged in recent years, driven in part by the relationships between sugar as the primary ethanol feedstock in Brazil, the dominant producer and exporter of both sugar and ethanol in the world.

GROWTH PROSPECTS

The higher demand in the domestic market was a result of the increase in the mandated percentage of ethanol blending in gasoline from 25 to 27% and the increase in federal and state taxes for gasoline. India is the world's largest consumer and second-largest producer of sugar. China's production is projected at 10.6 million tonnes, down by 400,000 tonnes on account of a decline in planted area due to high production costs. (Source: usda.gov)

The primary reason for the global sugar industry's bullish outlook stems from a prospective increase in demand. Moreover, small changes in the import needs of multiple countries will also lead to a significant spike in demand for sugar. This bullish trend in the global sugar markets will lead to a rise in the price of sugar in India as well. This means that the world's second-largest supplier will sell more in the domestic market and less abroad. So, while expectations for Indian exports were bearish for the market six months ago, the estimates are being lowered.

INDUSTRY ANALYSIS AND TRENDS

During the five years leading to 2017, the global sugar manufacturing industry had to contend with unstable production and price levels. Adverse weather conditions and increasing diversion of stocks to ethanol production reduced sugar production, therefore inflating the price of the commodity. This benefited the industry until 2012, when prices crashed due to high global production and healthy stock-to-use ratio. Prices continued to decline throughout the period, thereby pushing revenues down, which resulted in minimal industry growth. Till 2020, the industry is expected to prosper due to rising demand for renewable energy, growing global sugar consumption and favourable governmental policies.

INDUSTRY INVESTMENTS

The global sugar industry is labor and capital-intensive. However, the introduction of new technologies and the adoption of greater automation have reduced manual intervention. This is particularly true in sugar refining, where, in the past decade, high-speed production lines have dramatically increased throughputs. This has allowed manufacturers to raise production levels significantly without requiring corresponding increase in manpower

INDIAN SUGAR INDUSTRY AT A GLANCE

The Indian sugar industry has contributed a lot to the rural economy of India. The sector has by commercializing rural resources for meeting the large domestic demand of sugar and generating surplus energy to meet the ever-increasing energy needs of India. With an annual production capacity of over 30 million metric tonnes, the Indian sugar industry is the second largest producer in the world. It is also the second-largest agro-based industry in the country (after cotton). The sugar industry supports 50 million farmers and their families.

OUTLOOK

According to ISMA, from the beginning of the current sugar season till 30th of April 2016, sugar mills have produced 11% lower sugar. And even though most of the mills have stopped crushing cane, 48 are still continuing their crushing activity as compared to 97 that were operating last year. Due to this drop in production, India will have a low output of sugar but the sufficient stock will ensure that demands are met. On the consumption side, strong domestic demand from soft drink manufacturers, confectionaries, hotels, bakeries and ice cream manufacturers will support higher levels of off take. India's relatively strong economic growth, stable political situation, rising incomes, a young population and changing consumer consumption patterns are envisaged to be the key drivers, encouraging higher sugar consumption. However, strong domestic demand will limit the extent of price correction. Thus the Indian sugar industry has turned around and has recovered the long pending dues that were owed to farmers. The mills have been able to pay the farmers back due to the strong policy initiatives undertaken, which includes an increase in blending ethanol with petrol that has saved the country from nearly \$300 million worth of oil imports.

(Source: Care Ratings, KPMG, Economic Times, ISMA)