

CARE expects pressure on profitability margins of Sugar mills in SS 2011-12

Contacts

Arindam Saha

Asst General Manager - Ratings
Tel- +91- 033-40181631
arindam.saha@careratings.com

Yatin Padia

Manager – Corporate Communication
Tel- +91-22-67543499
yatin.padia@careratings.com

January 30, 2012

Visit us at: www.careratings.com

Sugar output in the current sugar season (SS 2011-12) is estimated to be about 26 million MT on account of higher sugar cane production on the back of higher cane acreage. With an opening stock of 5.6 million MT and an estimated annual domestic consumption of 22 million MT, the industry is expected to have a surplus of 9.6 million MT at the end of SS 2011-12. It will create an oversupply situation leading to moderation in sugar prices. Increase in SAP of sugarcane from Rs.205 per quintal to Rs.240 per quintal in U.P., the largest sugarcane producing state in the country, has further put pressure on the cost structure of the sugar mills, particularly the UP based mills. This coupled with high interest rates and thereby high inventory carrying cost is likely to put pressure on debt servicing capability of non-integrated sugar mills. For integrated players the situation is expected to be relatively better with realisations from ethanol and co-generation offsetting losses from sale of sugar.

On the global front, the situation is likely to remain flat with closing stock expected to remain at the same level as that of last season. Surplus production in Australia and India are likely to offset lower supply from Brazil. Despite higher output, Government of India has so far allowed export of only one million tonne of sugar. Further allowance of export by the government by two to three million tonne may ease the excess inventory situation resulting in improvement in the domestic sugar prices.

Higher carry over inventory, high sugarcane prices and unattractive sugar prices is currently acting as a dampener to the industry. Thus, timely allowance of exports is critical to the performance of the sugar mills.

**HEAD OFFICE - MUMBAI
CREDIT ANALYSIS & RESEARCH LTD**

4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway,
Sion (East), Mumbai - 400 022.
Tel: +91-022- 6754 3456
e-mail: care@careratings.com

Regional Offices

Unit No. O-509/C, Spencer Plaza, 5th
Floor, No. 769, Anna Salai,
Chennai 600 002
Tel: 2849 7812/2849 0811

3rd floor, B-47, Inner Circle,
Near Plaza Cinema,
Connaught Place,
New Delhi - 110 001.
Tel: +91- 011- 2331 8701/ 2371 6199

3rd Floor, Prasad Chambers
(Shagun Mall Building),
10A, Shakespeare Sarani,
Kolkata - 700 071
Tel: +91-033- 2283 1800/ 1803, 2280 8472

32 TITANIUM
Prahaldnagar Corporate Road,
Satellite,
Ahmedabad - 380 015.
Tel.: (079) 4003 5587 / 6631 1821 / 22

Branch Offices

401, Ashoka Scintilla
3-6-520, Himayat Nagar
Hyderabad - 500 029
Tel.: (040) - 6675 8386, 98491 74030

Unit No. 8, I floor,
Commander's Place
No. 6, Raja Ram Mohan Roy Road,
Richmond Circle,
Bangalore - 560 025.
Tel.: (080) - 2520 5575, 9886024430

Disclaimer

“CARE Ratings proposes, subject to receipt of requisite approvals, market conditions and other considerations, to make an initial public offer of its equity shares through an offer for sale and has filed a draft red herring prospectus (“DRHP”) with the Securities and Exchange Board of India (“SEBI”). The DRHP is available on the website of SEBI at www.sebi.gov.in as well as on the websites of the Book Running Lead Managers at www.investmentbank.kotak.com, www.dspml.com, www.edelweissfin.com, www.icicisecurities.com, www.idbicapital.com, and www.sbcaps.com. Investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, see the section titled “Risk Factors” of the DRHP. This press release is not for publication or distribution to persons in the United States, and is not an offer for sale within the United States of any equity shares or any other security of CARE Ratings. Securities of CARE Ratings, may not be offered or sold in the United States absent registration under U.S. Securities Act of 1933, as amended, unless exempt from registration under such act.”