

**THE INDICATOR****Sugar not so Sweet in the near term**

International Sugar prices are trading nearly at eighteen-month lows. Prices have recovered slightly on the back of strong demand from Russia and expected production drop in Mexico. But the recovery failed to sustain as the International Sugar Organisation has upwardly revised its world sugar surplus forecast to 8.5 million tons for the Sugar Season (SS) 2006-07.

**Supply**

Global sugar production is expected to reach 162 million tons this year, up 11% from previous year. Sugar output in Brazil, the biggest producer, will rise 1.2% to 33.1 million tons from the previous year and production in China will increase 22% to more than 11 million tons. The International Sugar Organization forecasted 47% rise in world sugar surplus to 8.5 million tons.

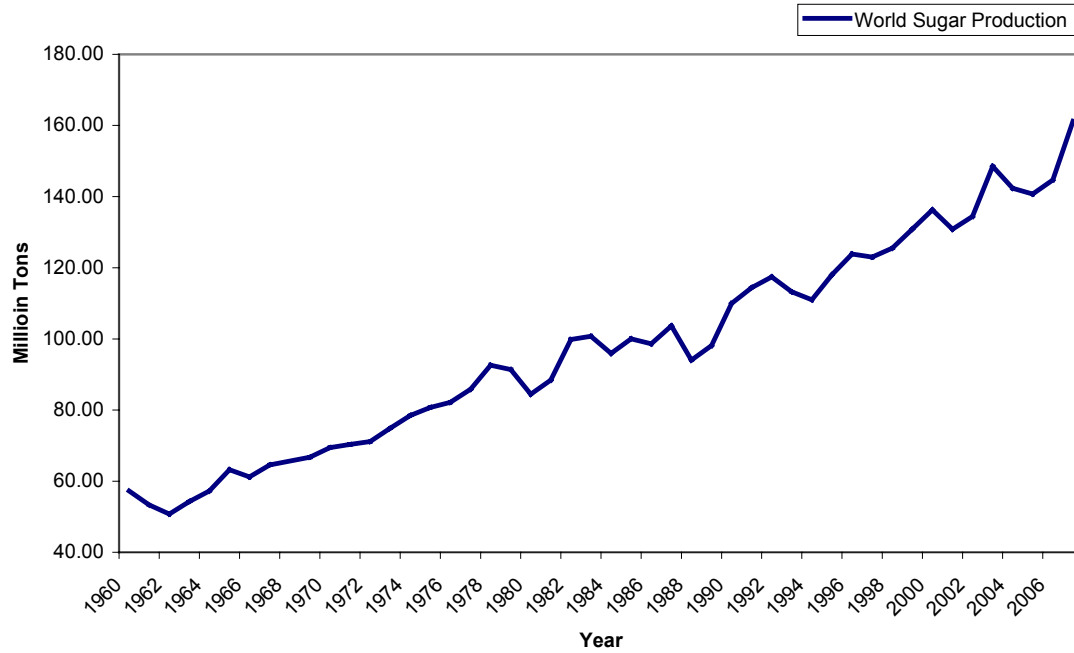
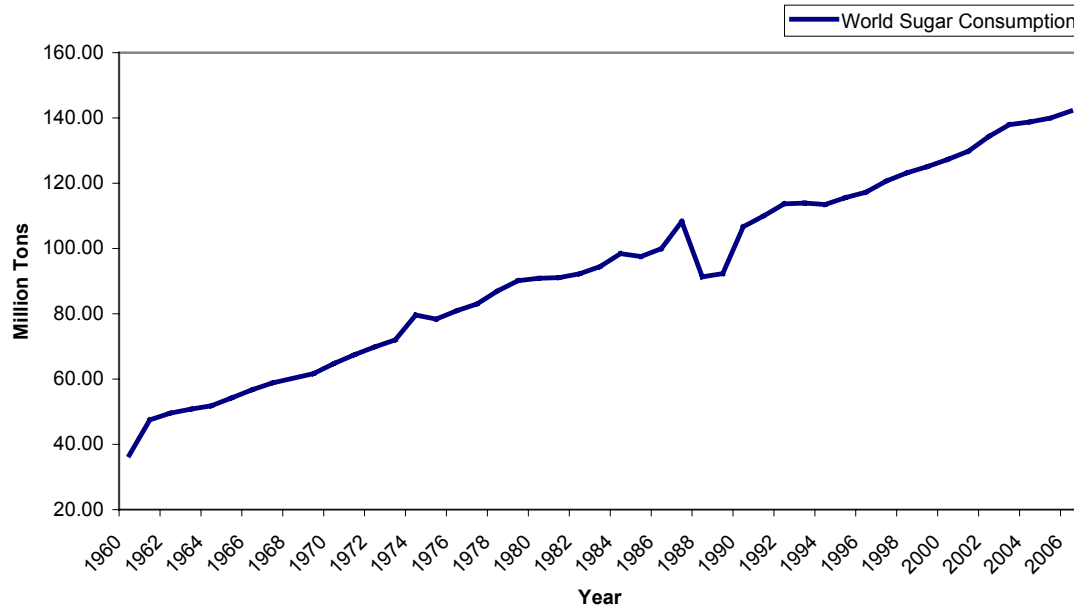
According to the latest estimate by Indian Sugar Mills Association, India's sugar production may reach a record 25 million tons (up 21% from last year) this year, which is 1 million ton more than earlier forecasted.

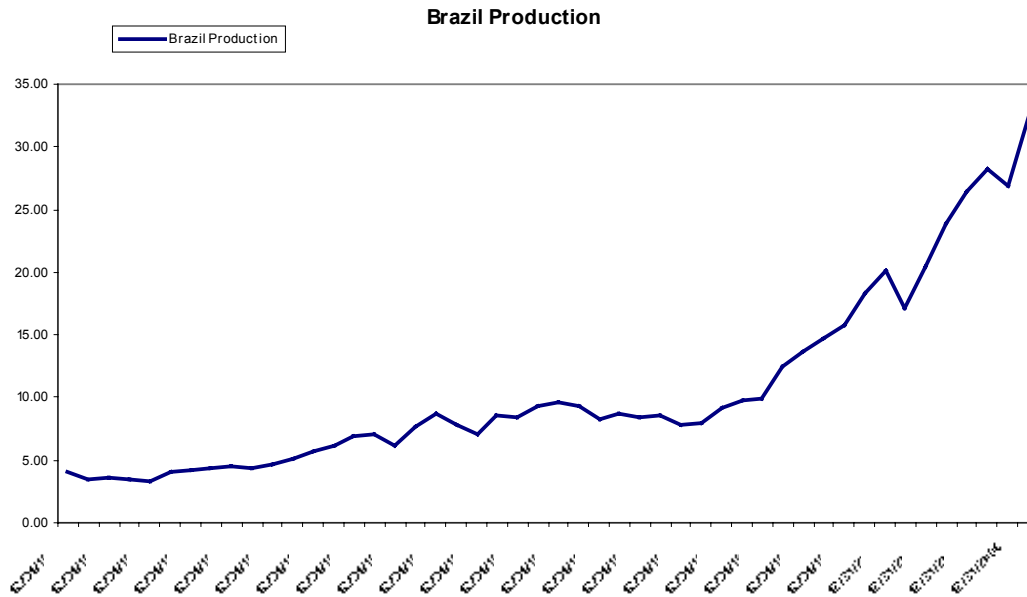
**Production (in Million tons)**

Year	Brazil	India	EU	China	Mexico	Pakistan
Dec-01	17.10	20.48	18.52	6.85	5.22	2.65
Dec-02	20.40	20.48	16.15	8.31	5.17	3.45
Dec-03	23.81	22.14	18.68	11.38	5.23	3.94
Dec-04	26.40	15.15	17.13	10.73	5.33	4.05
Dec-05	28.18	14.17	21.65	9.83	6.15	3.12
Dec-06	27.00	21.07	21.85	9.45	5.60	2.62

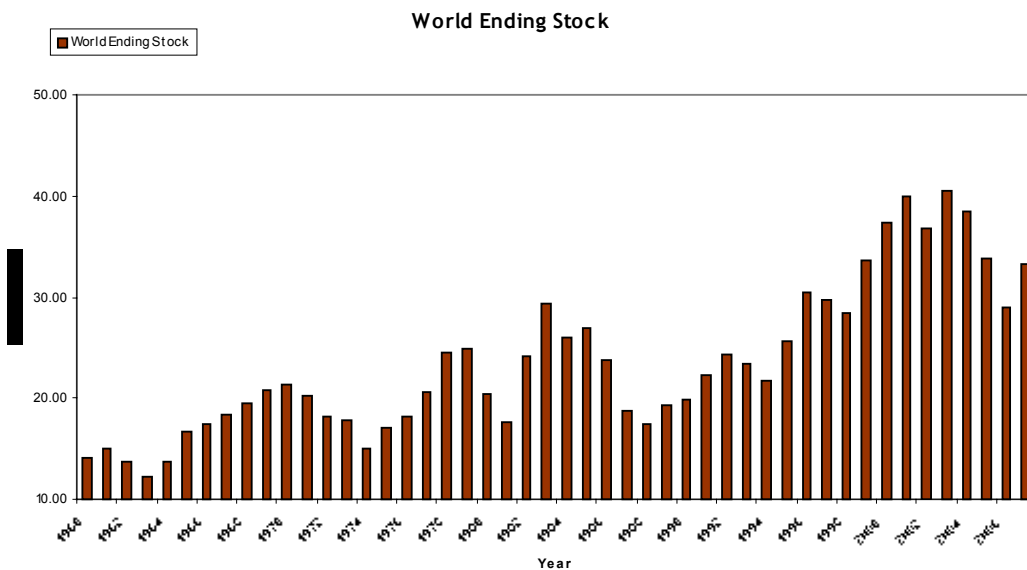
**Demand**

World sugar consumption is also expected to rise 8.5% this year to 154 million tons. Demand from India is expected to be around 20 million tons, while demand from China will be around 11 million tons, up 17%.

**THE INDICATOR**
**World Sugar Production**

**World Sugar Consumption**


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**Ending Stock**

Sugar ending stocks are rising and having negative correlation with the prices, it will adversely impact prices. World ending stock is expected to be around 35 million tons this year against the 45 years average of 24 million tons.



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**Recent Development**

To step up exports and support sugar industry, Government has approved a package of Rs.850 cr as an incentives to sugar mills. The measures include subsidy Rs.1.30/kg to exporters from coastal states while a subsidy of subsidy of Rs1.40/kg for north based mills and creation of buffer stock of 2mn tons over two years.

**Impact on Sugar Sector**

Recent announcement of bailout package may temporarily keep prices steady but in the medium term it will not have much impact due to falling international prices.

**Outlook**

Excessive supply projection for the next two years will keep sugar prices under pressure. In addition there still is no clear direction on Ethanol policy by the government. They are not increasing the blending beyond 5%; even in case of 5% blending there has been no uniform lifting by the oil companies. So betting on ethanol by the sugar companies will not be fruitful at least in the short run.

We had earlier upgraded our view on the sugar sector issuing an accumulate rating. Being stocks-specific, our recommendation of Balrampur Chini is yielding 22% return. However, on the back of ISO's forecast of higher surplus, coupled with falling sugar prices, we advise to book profits at current levels.

**Financials**

COMPANIES	Q3FY07		YOY (%)		QOQ (%)		TTM EPS	P/E
	SALES	NP	SALES	NP	SALES	NP		
Bajaj Hindustan	286.64	17.28	4.10	-28.71	-22.14	-54.76	13.44	15.49
Balrampur Chini	337.11	19.18	17.43	-51.92	-13.17	-40.45	7.97	9.15
Dhampur Sugar	152.79	2.86	-36.96	-82.88	-29.36	-52.01	8.59	9.61
EID Parry	150.90	3.53	-28.20	-72.42	-5.15	-86.58	10.08	12.42
Mawana Sugars	137.80	-4.60	-30.50	PL	52.73	LL	NEG	--
Oudh Sugar Mills	105.00	1.68	-16.71	-86.79	-4.63	888.24	16.13	4.09
Rajshree Sugars	108.71	-9.59	51.87	PL	11.11	PL	14.94	3.56
Sakthi Sugars	154.08	6.04	-18.77	-69.70	-18.77	-39.29	27.33	4.05
Shree Renuka Sug	122.70	7.80	-27.89	-52.64	-48.66	-20.25	20.00	23.25

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**RATING INTERPRETATION**

**Buy** Expected to appreciate more than 20% over a 12-month period  
**Accumulate** Expected to appreciate up to 20% over a 12-month period  
**Hold** Expected to remain in a narrow range  
**Avoid** Expected to depreciate up to 10% over a 12-month period  
**Exit** Expected to depreciate more than 10% over a 12-month period

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