

# Simbhaoli Sugars Limited

## Corporate Office

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## Investor Update

**For the period ended on June 30, 2008**

**(Third quarter FY 2008)**

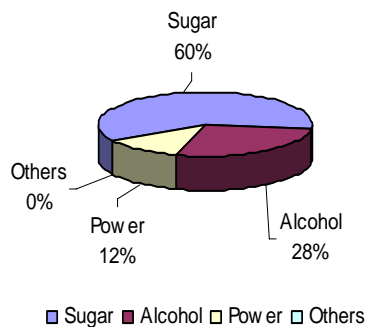
- Revenues at Rs.1040 million
- Power segment profits at Rs. 57.5 million
- Ebidta turned positive to 88.69 million
- Loss before tax expense at Rs. 113.7 million
- Net Loss after tax at Rs. 124 million

## Financial highlights (Rs. million)

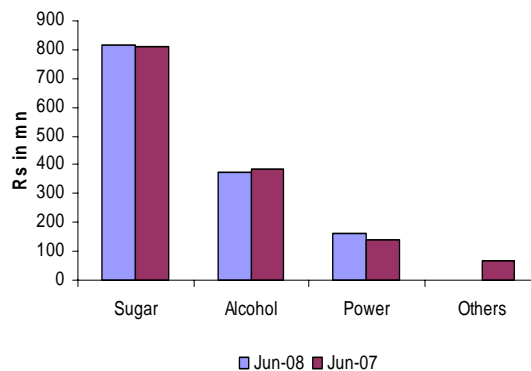
Particulars	Quarter ended June 30, 2008	Quarter ended June 30, 2007	% shift
Net revenue	1079.01	1123.76	4
PBIDT	88.69	(135.49)	165
PBT	(113.71)	(263.11)	57
PAT	(124.32)	(133.39)	7

Segments	Quarter ended June 08	% of total revenue	Quarter ended June 07	% of total revenue
Sugar	816.29	60	811.89	58
Alcohol	374.82	28	383.34	27
Power	164.04	12	142.32	10
Others	0.15	-	68.10	5
Total	1355.30	100	1405.65	100

**Product wise sales**



**Sales for the quarter**



### Capacity expansion of Rs. 4.6 bn (2004-2008)

- Focus of completion of ongoing expansion remained on de-risking of the sugar centric business model by involving diversification of the business in the fields of sugar, alcohol /ethanol and power. The non sugar revenue has gone up to 40%, which is completely in line with the derisking strategy of the Company
- Increase in sugar manufacturing capacity from 11300 tcd to 20100 tcd; alcohol/ ethanol distillation capacity from 75 kld to 210 kld; cogeneration of surplus power from 8 mwh to 30 mwh; will be available from next crushing season.
- The Company has taken extensive cane development programs and Agri-initiatives to procure adequate quantities of sugar cane regularly for its sugar capacities.

*All projects are completed except for Brijnathpur ethanol plant and Phase II of Chilwaria cogeneration, which are expected to be commissioned in next crushing season from November 2008 onwards*

## Salient Features of the financial results

- Sugar, one of the major businesses of the Company, is a part of seasonal industry. Therefore, the results of the quarter/ period are not indicative of the likely performance of entire accounting year.
- The lower free sale sugar price continues to affect the business operations. The EBITDA margins at Rs 88.69 Million turned positive, but overall profitability remained negative. During the quarter under review, the Company has incurred a net loss before tax of Rs. 113.7 million (Rs 23 million cash loss) as against loss of Rs 263 million (Rs.212 million cash loss) of corresponding quarter previous year.
- 90% increase in the PBIT from sugar business at Rs (38.3) million in the third quarter of current fiscal as compared to Rs (397.6) million in the corresponding quarter last year
- 35% increase in revenue from the power segment to Rs 57.6 million in Q3 FY08 from Rs 42.7 million in the corresponding quarter last fiscal
- Interest cost is higher on account of full utilisation of working capital credit facilities, and higher term loan interest post capitalisation of projects.
- In the current quarter, being off-season period, the inventory carrying cost has been higher. The inventory level is 2.8 lacs qtl higher than the same in the last year.
- Pursuant to a recent opinion issued by the Expert Advisory Committee of the ICAI in respect to Revised AS11-“Accounting for the Effect of Foreign Exchange Fluctuation” and AS 16 “Borrowing Cost”, the Company has written back exchange fluctuation gain (net of exchange differences considered as an adjustment to interest cost), earlier abated from construction cost of Capital Project's.
- Pending completion of the legal proceedings, the cane purchase for sugar season 2007-08 continues to be accounted for at Rs. 110/- per quintal in terms of the earlier interim orders of the Allahabad High Court and Supreme Court. Necessary provision, if any, for the consequential differential disputed cane purchase liability aggregating Rs 254 mn will be made in accordance with the order(s) of the Supreme Court in the matter.
- Depreciation has gone up by Rs. 40 million due to completion of new projects.
- Power sale continued during the part of off- season by using saved baggase; which shows Company's ability to utilise all its resources optimally even during off season and reducing the impact of sugar and sugar cane cyclicity on business.
- The Limited Review has been completed by the Statutory Auditors and the Limited Review Report for the quarter and nine months ended June 30, 2008 does not have any impact on the above results except in respect of sugarcane pricing matter.

## Performance Overview (Rs. million)

### Sugar

Particulars	Quarter ended June 30, 2008	Quarter ended June 30, 2007	% shift
Total income	816.29	811.89	1
EBIDTA	20.41	(355.74)	106
EBIDTA (%)	2.50	(43.82)	

- The improved prices of sugar have resulted in achieving 106% higher margins at Rs 20.41 million as against a loss of Rs 355.74 million in the June quarter last year
- The cost of production of sugar at the Simbhaoli Sugar plant remained the lowest amongst all the three plants on account of better recovery. Sugar cane price accounting has been made @ Rs. 1100 PMT. During the quarter, sugar capacities operated for few days only because of early fall in the sugar cane supplies.
- Sugar sales have gone up by 4100 MT on account of ongoing export activities and average sales realisation has been higher by Rs.1250 per MT.

### Power

Particulars	Quarter ended June 30, 2008	Quarter ended June 30, 2007	% shift
Total income	164.03	142.32	15
EBIDTA	76.51	42.70	79
EBIDTA (%)	46.64	30.00	

- The Cogen segment has contributed Rs. 76.5 million towards the profits exhibiting a 79% increase over the corresponding quarter in last year
- The Simbhaoli co-gen unit has accounted for the value of CERs accredited in this quarter

### Alcohol

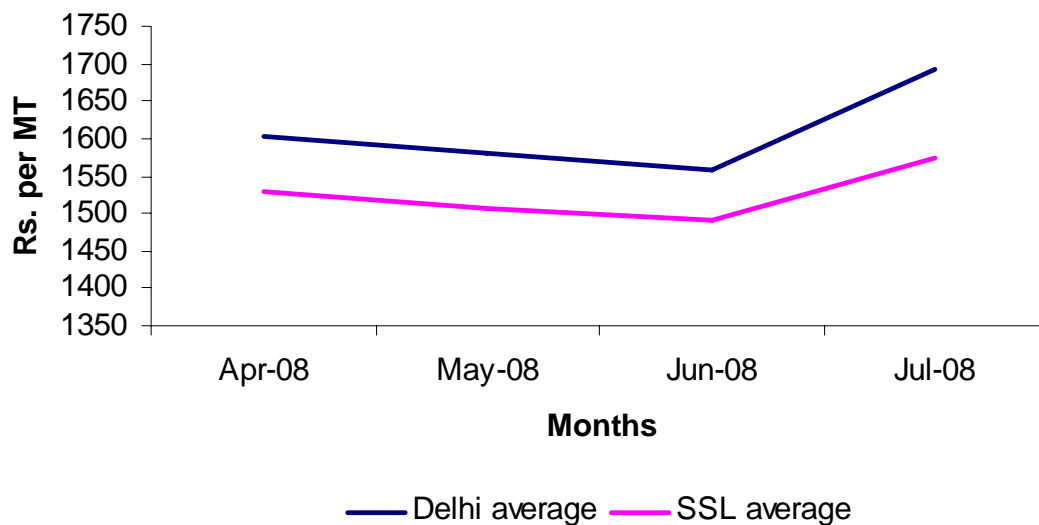
Particulars	Quarter ended June 30, 2008	Quarter ended June 30, 2007	% shift
Total income	374.82	383.34	(2)
EBIDTA	32.91	134.97	(76)
EBIDTA (%)	8.78	35.21	

- There has been a fall in the profits from the alcohol segment by 76%, though the revenue remained flat. The segment consisting of Simbhaoli distillery and Chilwaria ethanol earned a profit of Rs. 8 million as against profit of Rs. 121 million in corresponding quarter last fiscal.
- Alcohol segment margins have been impacted adversely on account of continued higher prices of molasses, lower availability and capacity utilization.
- The sale of IMFL has gone up significantly with 23% increase in number of cases sold in line with business strategy of the Company. IMFL has been introduced in three more states during this quarter.

## Future Outlook

- With lower sugar production anticipated sugar prices are likely to remain firm. At present they are at the level of around Rs. 17000 per MT. However ample sugar is available in the country as inventory, which will check further increase in prices.
- Export of sugar may reduce on account of expected lower production in next season- however coastal factories will continue to export.
- Alcohol may remain expensive because of all time high raw material prices. The Petrol marketing companies should re-look their ethanol purchase price policy So that business should earn positive to the distillers.
- Sugar prices, after end of the quarter have gone upto Rs. 1250 per MT meaning an increase in the realisable value of inventory. This is also evident from the following graph:

### Sugar Prices: Delhi bs SSL average



## Legal update (Sugarcane pricing)

### UP State Sugarcane Price Issues

#### Story till now....

The Hon'ble Supreme Court of India vide its order dated May 5, 2004 in the matter of UP Cane Union Federations Vs. West UP sugar mills association and others upheld the powers and authority of the state government to fix cane price for the purchase of sugarcane by the sugar factories in its regulatory power under the provisions of UP Sugarcane (Regulation of Supply and Purchase) Act, 1953 and directed that state government is empowered to fix State Advised Price (SAP) in those states which are having their independent legislation with regards to regulation and control of cane price. Under this order UP has been empowered to fix the cane price but authority is expected to be exercised with the normal prudence and consultative process.

#### Current status...

- Hon'ble Allahabad High Court (Lucknow Bench) vide its interim order dated 15/11/2007 directed millers to pay sugarcane price of Rs. 110/qtl for 2007-08 season. Accordingly millers have made payments to the farmers.
- This petition was dismissed by the Hon'ble High Court vide its order dated 07/07/2008, upholding the State fixation of SAP at 125/qtl, without looking into the process of fixation of price in details and ordered to pay cane price @ Rs. 125/- per qtl for 2007/08 season within two months from the date of order.
- Aggrieved by this order, the U.P. sugar industry filed an appeal before the Hon'ble Supreme Court of India by way of Special leave Petition.
- In respect of cane season 2006/07, Hon'ble High Court of Allahabad vide order dated 19/12/07 quashed the SAP of Rs 125 per qtl. This order however has been stayed by the Hon'ble Supreme Court by its interim order and directed the millers to pay an interim cane price @ Rs. 118/qtl for general variety for 2006-07. However, SSL had already paid in full @ Rs. 125/qtl to its farmers in accordance with SAP. No cane liability is due/ outstanding for the sugar season 2006-07 and decision in respect of adjustment of excess payment of Rs 7 per qtl is pending from the Hon'ble Supreme Court in the case.
- The Hon'ble High Court, in another case has ordered for deduction for transport of sugar cane from purchasing centers to factory at Rs. 10.58 per qtl instead of Rs. 5.75 per qtl for 2007-08 season. This matter is with Supreme Court and Company is also a party to it. No such deduction is made by the Company as it has so far paid a flat price of Rs 110 per qtl to farmers for this season
- In case the sugar cane liability crystallizes at Rs 125 per qtl, the Company will have to make an additional provision of Rs. 254.4 million towards differential cane price.

## Industry Update \*

### Indian Sugar Industry

- Sugar season 2007-08 is likely to close with a production of approx 27 MMT (last season 28.5 MMT). For season 2008-09, production is estimated to be lower at 22 MMT on account of:
  - Deficient rains in cane growing areas in Maharashtra and Southern India.
  - Shift in farming to other crops because of improved realizations/margins.
  - Lower and irregular payment in sugar cane price in last season by the millers because of fall in sugar prices.
- The sugar inventories in the country at 10 MMT plus level are very comfortable and we will not witness any shortage of sugar like other food grains in future.
- The crop cycle so is sugar cycle is turning out to be shorter because huge variations in sugar cane availability, world prices of sugar and information flow to farmers.
- Indian sugar industry emerged as a raw sugar export first time in 2007-08 and exported around 2 MMT of raw. It has also up scaled its production of refined sugar (below 45 ICUMSA) for domestic and export market. The export from the country is likely to touch 4.0 MMT, a historical record for 2007/08 season
- Free sale sugar price has shown an upward movement with an increase of around Rs. 1250 per MT in last 4/6 weeks.
- NCDEX December 2008 reference price are above Rs. 18500 per MT for M31 grade of sugar.
- Indian demand growth is expected to be 4% annually from earlier estimate of 3%. This 1% increase is due to Improvement in per capita income which leads to better standard of living
- Per capita consumption in India is 19 kg per person per year which is still lower than those of other developing countries.
- With lower production and improved utilisation, molasses price have touched to Rs. 3500 per MT. It kept alcohol prices higher and distillers incurred losses in respect of fixed price contracts particularly fuel ethanol to Petrol marketing cos.
- Usage of E5 in various States could not be implemented. Proposed usage of E 10 from Nov, 2008 looks difficult.
- Power has become a significant contributor to revenue and bottom line. The ethanol/ power/ sugar plant utilization factor will be a major revenue driver for the sugar industry

## International Sugar Industry

- The International Sugar Organization cut its forecast for the market's supply surplus by more than 16% because of lower output in India
- Global production for October 2007 to September 2008 may outstrip consumption by 9.3 million tons (revised downward from surplus of 11.1 million tons in Nov 07)
- World consumption is projected to grow @ 2.4 to 2.5 percent annually
- Indian exports in current year will be over 4 MMT, a historical high, as against expectation of 3 MMT
- The prices of white sugar are showing an upward trend with the Mar09 contract on the white sugar futures trading above USD 420 PMT
- Brazil the major sugar producer is diverting more towards ethanol production (61 % of cane at present) due to rising crude prices. An impressive 88% of new car sales in Brazil have been in the flex fuel vehicle (ffv) category and Brazilian demand for ethanol has grown 3 to 3.5 mn cubic meters. Brazilian sugar production is down YoY by 1 MMT.
- EU's export program curtailment is in line-with the 2005 decision of EU. It's leading to reduction in production in number of EU countries impairing total availability. In a few years the EU will change from the second largest exporter of sugar after Brazil, representing a large shift of 8 to 9 MMT.
- However, we are not seeing any shortage of sugar because of an overhang from the bumper supplies of sugar globally over the past few years.
- The sugar market is evolving from a clear surplus to an unclear deficit. The progress of Brazil's Center South crop plus India's monsoon and export policy will remain key determinants for the world market in the next few months.

*\*Based on the information compiled by Simbhaoli research Team from various sources.*

## Summary of Un- audited Financial Results

For the Quarter/ Nine Months ended June 2008 (Rs. in million)

Sl. No.	Particulars	Quarter ended June 30, 2008	Quarter ended June 30, 2007	Nine Months ended June 30, 2008	Fifteen months ended June 30, 2007	Eighteen months period ended September 30, 2007
		Unaudited	Unaudited	Unaudited	Unaudited	Audited
1	Net Sales/Income from operations	1,040.49	1,054.78	3,188.19	5,650.72	6,564.65
2	Other Income	38.52	68.98	79.68	124.34	112.97
3	Total Income	1,079.01	1,123.76	3,267.87	5,775.05	6,677.62
4	Expenditure		-	-	-	-
	a) Decrease/(Increase) in stock in trade	375.36	13.60	(793.42)	(292.55)	258.00
	b) Consumption of raw materials	299.94	845.59	2,594.01	3,933.54	4,024.08
	c) Consumption of Stores, oils & Chemicals	100.86	125.64	364.30	533.48	612.67
	d) Purchase of traded goods	1.31	76.51	5.56	623.27	670.15
	e) Employees cost	74.11	67.11	223.50	309.91	361.45
	f) Depreciation (net of revaluation reserve)	90.72	51.01	233.18	196.82	246.39
	g) Other expenditure	297.64	130.79	707.14	581.91	777.17
	Total	<b>1,239.95</b>	<b>1,310.26</b>	<b>3,334.28</b>	<b>5,886.38</b>	<b>6,949.91</b>
5	Interest	111.68	76.61	284.32	287.99	363.88
6	Exceptional item (Exchange Gain)	158.91	-	158.91	-	-
7	(Loss) before tax	(113.71)	(263.11)	(191.82)	(399.32)	(636.17)
8	Tax expense	-	-	-	-	-
	- Deferred	8.81	(130.73)	20.13	(133.94)	(0.17)
	- FBT	1.80	1.01	4.70	4.51	6.27
9	(Loss) after tax	(124.32)	(133.39)	(216.65)	(269.89)	(642.27)
10	Paid up Equity Share capital (face value Rs.10/- each)	206.41	198.95	206.41	198.95	198.95

### Segment Wise Results (Rs. in mn)

S · n o	PARTICULARS	Quarter ended June 30, 2008	Quarter ended June 30, 2007	Nine Months ended June 30, 2008	Fifteen months ended June 30, 2007	Eighteen months period ended September 30, 2007
		Unaudited	Unaudited	Unaudited	Unaudited	Audited
1	Segment Revenue: Sugar	816.29	811.89	2,697.19	4,837.64	5,501.34
	Distillery	374.82	383.34	974.10	1,483.28	1,775.23
	Power	164.04	142.32	702.25	609.13	593.64
	Others	2.42	7.70	13.93	20.35	20.35
	Unallocated Income	(2.27)	60.41	5.26	83.65	57.53
	Net Segment Revenue	1,355.30	1,405.65	4,392.73	7,034.05	7,948.08
	Less: Inter Segment Revenue	276.29	281.89	1,124.86	1,259.00	1,270.46
	Net Sales/Income from operations	1,079.01	1,123.76	3,267.87	5,775.05	6,677.62
2	Segment Results: Sugar Profit/(loss) (before unallocated expenditure, Interest and tax)	(38.28)	(397.64)	(119.44)	(548.53)	(617.16)
	Distillery	21.13	127.12	75.86	277.99	322.87
	Power	57.55	42.70	231.00	155.88	82.63
	Others	(0.54)	1.12	(1.39)	(1.26)	(1.34)
	Total	39.85	(226.71)	186.04	(115.91)	(213.00)
	Add: Other un-allocated income	(200.79)	40.21	(252.45)	4.59	(59.29)
	Total	(160.94)	(186.50)	(66.41)	(111.33)	(272.29)
	Less: Interest	111.68	76.61	284.32	287.99	363.88
Add: Exceptional item (refer note 3)	158.91	-	158.91	-	-	
	Total Profit/(loss) before Tax	(113.71)	(263.11)	(191.82)	(399.32)	(636.17)
3	Capital Employed: Sugar	4,050.05	3,382.44	4,050.05	3,382.44	2,800.68
	Distillery	1,426.20	1,252.22	1,426.20	1,252.22	1,267.78
	Power	2,049.33	1,265.91	2,049.33	1,265.91	1,773.01
	Others assets	4.25	4.57	4.25	4.57	4.48
	Capital Employed	7,529.84	5,905.14	7,529.84	5,905.14	5,845.96
	Unallocated assets/(liabilities) (net)	(199.83)	(72.86)	(199.83)	(72.86)	(42.89)
	Total Capital Employed	7330.01	5832.27	7330.01	5832.27	5803.07

## About Simbhaoli Sugars

Simbhaoli Sugars Limited (SSL) is one of India's leading producers of high quality sugar and operates one of the largest integrated sugar complexes in India. It produces and sells international standard refined, pharmaceutical-grade and specialty sugars to the retail and bulk institutional consumer segments. Its sugar brand, *Trust*, commands a significant share of the north Indian market. SSL is a major supplier to a multinational and domestic customer base that includes Coca-Cola, Heinz, PepsiCo, GlaxoSmithKline, Haldiram's, Oberoi Hotels, Taj Group of Hotels, Indian Railways and all Airlines. Currently, SSL operates three technologically advanced sugar-manufacturing facilities in Simbhaoli, Brijnathpur and Chilwaria, all located in Uttar Pradesh. The Company's facilities have a total installed sugarcane crushing capacity of 20,100 TCD and are capable of manufacturing up to 300,000 MTPA of sugar. The Company also utilizes a significant proportion of the by-products from the sugar production process to co-generate power and manufacture ethanol, high quality alcohol and bio-manure for sale to third parties. It is creating additional capacity to produce upto 210 KLPD of alcohol/ Extra Neutral Alcohol, and upto 30 MW/hr of exportable surplus power.

### Forward Looking Statement

*Certain statements in this document with words or phrases such as "will", "should", etc., and similar expressions or variation of these expressions or those concerning our future prospects are forward looking statements. Actual results may differ materially from those suggested by the forward-looking statements due to a number of risks or uncertainties associated with the expectations. These risks and uncertainties include, but are not limited to, our ability to successfully implement our strategy and changes in government policies. The company may, from time to time, make additional written and oral forward looking statements, including statements contained in the company's filings with the stock exchanges and our reports to shareholders. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company*

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