

Fundamental analysis of sugar industry

Business



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Preface Indian sugar industry, second largest agro-based processing industry after the cotton textiles industry in country, has a lion's share in accelerating industrialization process and bringing socio-economic changes in under developed rural areas. Sugar industry covers around 7.

5% of total rural population and provides employment to 5 lakh rural people. About 4.5 crore farmers are engaged in sugarcane cultivation in India. Sugar mills (cooperative, private, and public) have been instrumental in initiating a number of entrepreneurial activities in rural India.

Present paper is an attempt as to review progress of sugar industry in India, understand its problems and challenges in context of ongoing liberalization process. Indian sugar industry can be a global leader provided it comes out of the vicious cycle of shortage and surplus of sugarcane, lower sugarcane yield, lower sugar recovery, ever increasing production costs and mounting losses.

It needs quality management at all levels of activity to enhance productivity and production. Attention is required on cost minimization and undertaking by product processing activities.

India is the second largest producer of sugar in world, after Brazil. Sugar industry occupies an important place among organised industries in India. Sugar industry, one of the major agro-based industrial in India, has been instrumental in resource mobilization, employment generation, income generation and creating social infrastructure in rural areas.

Indeed, sugar industry has facilitated and accelerated pace of rural industrialization. Most of the sugarcane produced in India is a 10-12 month crop planted during January to March.

In northern Maharashtra and parts of Andhra Pradesh and Karnataka, there is also an 18 to 20 month crop. In most areas, the 12-month crop is followed by just one ratoon crop that is, a new crop grown from the stubble of the harvested crop. At present, sugarcane is being cultivated throughout the country except in certain hilly tracts in Kashmir, Himachal Pradesh, etc.

The sugarcane growing areas may be broadly classified into two agro-climatic regions 1) Tropical region 2) Sub-tropical region

The major sugarcane producing states in the tropical areas of India includes Maharashtra, Andhra Pradesh (AP), Tamilnadu (TN), and Gujarat. Subtropical regions include U. P, Bihar, Punjab and Haryana. Indian sugar industry is highly fragmented with organized and unorganized players. The unorganized players mainly produce Gur and Khandari, the less refined forms of sugar.

The government had a controlling grip over the industry, which has slowly yet steadily given way to liberalization. At present, there are 553 registered sugar factories having capital investment of Rs. 0, 000 crores and annual production capacity of 180 lakh metric tonnes. The annual turnover of industry is to the tune of Rs. 25, 000 crores. The central and state governments receive annually Rs.

2500 crore as excise duty, purchase tax, and cess. More than 4. 50 core farmers are engaged in sugarcane cultivation and about 5 lakh rural people

have got direct employment in the industry. Sugar industry has brought socioeconomic changes in rural India by way of facilitating entrepreneurial activities such as dairies, poultries, fruits and vegetable processing, and providing educational, health and credit facilities.

Dual Pricing System is adopted in the Indian sugar industry, which includes sugar price in Public distribution system and the free sale sugar price. An analysis has been provided on the relationship between Indian and international sugar prices.

As the industry is a fragmented one, even leading players do not control more than 4 percent market in India. However, the situation is changing and player's off late are striving to increase their market share either by acquiring smaller mills or by going for green field capacity additions.

Another notable trend is the shift from Gur and Khandsari to sugar in the rural areas. This should further increase the per capita consumption of sugar in India (currently around 15.6 kg). Besides the Indian urban market is slowly moving towards branded sugar.

The potential in this segment seems to be very high. These trends along with the other trends like increase in the production of by-products have been captured in detail. The market shares of the leading players and financials of following players are given in the report.

INTRODUCTION TO FUNDAMENTAL ANALYSIS

Fundamental analysis is the examination of the underlying forces that affect the well being of the company, industry groups and companies. As with most

analysis the goal is to develop a forecast of future price movement and profit from it.

At the company level, fundamental analysis may involve examination of financial data, management, business concept and competition. At the industry level there might be an examination of supply and demand forces of the products. For the national economy fundamental analysis might focus on economic data to assess the present and future growth of the economy.

Fundamental analysis is a method of evaluating a security by attempting to measure its intrinsic value by examining related economy, financial and other qualitative and quantitative factors. Fundamental analysis attempts to study every thing that can affect the securities value including macro economic factors and individual specific factors.

Three phases of the fundamental analysis
A. Understanding of the Macro Economic environment and developments (Economy analysis)
B. Analyzing the prospectus of the industry to which the firm belongs (Industry analysis)
C.

Assessing the projected performance of the company (Company analysis)

ECONOMY ANALYSIS A wise man once said, “ No man is an island”. No person can work and live in isolation.

External forces are constantly influencing an individual’s actions and affecting him. Similarly, no industry or company can exist in isolation. It may have splendid managers and a tremendous product. However, its sales and

its costs are affected by factors, some of which are beyond its control – the world economy, price inflation, taxes and a host of others.

It is important, therefore, to have an appreciation of the politico-economic factors that affect an industry and a company.

The economy is like the tide and the various industry groups and individual companies are like boats. When economy expands most industry groups and companies benefits and grows. When the economy decline, most sectors and companies usually suffer. The stock market does not operate in a vacuum it is an integral part of the whole economy of a country, more so in a free economy that of United States and to some extent in mixed economy like ours.

To gain an insight into the complexities of stock market.

One needs to develop a sound economic understanding and be able to interpret the impact of important economic indicators on stock markets.

Indian Economy Analysis Gross Domestic Product (GDP) The sum of all goods and services produced either by domestic or foreign companies. GDP indicates the pace at which a country's economy is growing (or shrinking) and is considered the broadest indicator of economic output and growth. The Gross Domestic Product (GDP) in India expanded at an annual rate of 8.60 percent in the last quarter.