

Management Discussion and Analysis

SUGAR BUSINESS

Indian Sugar Industry

Indian Sugar Industry Overview

India has the distinction of being the largest consumer and the second-largest producer of sugar in the world. A significant contributor to the country's economy, the Indian sugar industry provides employment and creates significant value for over 50 million farmers.

As an ecologically sustainable crop, sugarcane produces sugar and generates a variety of by-products, such as bagasse, molasses, filter cake (commonly known as press mud) etc. These by-products have economic value, and also a strong potential as a feedstock for the production of biofuels/ bioenergy, such as power, bioethanol, biogas, etc.

Over the years, the industry has undergone modernisation and diversification, and has become more sustainable and profitable as a result of effective exploitation of the potential of its by-products to generate additional revenue streams. This has made the sugar industry more viable and valuable in the country's economic growth landscape.

Since sugar and sugarcane are essential commodities under the Essential Commodities Act, the Government regulates various aspects pertaining to the industry. Sugarcane pricing, sugarcane procurement through land demarcation, sale of sugar by mills in the domestic and international markets, diversion of sugarcane/sugar for other uses such as production of alcohol/bioethanol etc. are the key Government intervention areas.

Recent years have also seen the sugar sector emerge as a major contributor to the alcohol industry through bioethanol production, in view of the Government impetus to the Ethanol Blended Petrol (EBP) programme, which includes a stated target of 20% EBP for the year 2025-26. The EBP programme aims to reduce import dependency while minimising the environmental footprint of vehicular emissions, conserving foreign exchange, and further boosting the agriculture sector.

Government initiatives have eradicated the cyclicity of the Indian sugar industry

Once saddled with cyclicity and huge sugarcane arrears, the industry has come a long way in the last 10 years. The transition has been driven by a series of favourable and supportive Government policy measures, aimed at facilitating



timely payments of outstanding dues to the sugarcane farmers. These measures include:

- Fixing Fair and Remunerative Price (FRP) of sugarcane
- Fixing Minimum Selling Price (MSP) of sugar to prevent fall in ex-mill sugar prices & accumulation of sugarcane arrears
- Diversion of surplus sugar to production of ethanol, leading to improved financial conditions of the sugar mills
- Progressive export policies, such as export subsidies and timely evacuation of surplus sugar stocks at remunerative prices

Sugar season 2023-24 reported the lowest pending cane arrears in the history of the sugar sector, with 99.5% cane dues of the previous sugar season 2022-23 and 99.9% of all other sugar seasons already paid to the farmers. India has the unique distinction of being the highest sugarcane price payer to its farmers, while still being efficient enough to make profits and operate in a self-sufficient manner without any financial assistance from the Government.

Indian Sugar Industry: Balance Sheet

The total acreage under sugarcane in the country is estimated to be around 59.81 lakh hectares in Sugar Season (SS) 2023-24, which is almost at a similar level as that for SS 2022-23.

The all-India sugar production estimate for SS 2022-23 (after diversion to ethanol) was 32.8 million tonnes. This took into account diversion of about 4.1 million tonnes of sugar equivalent to ethanol, implying a gross production estimate of 36.9 million tonnes for the season.

For SS 2023-24, however, there was a wide divergence in production estimates throughout the season. Preliminary estimates in August 2023 had projected all-India sugar production at 31.7 million tonnes after diversion of 4.5 million tonnes for ethanol, implying a gross production estimate of 36.2 million tonnes for the season. By October 2023, expectations for gross sugar production had declined considerably to 33.7 million tonnes, driven by projections of substantially lower crush in Maharashtra and Karnataka.

On December 15, 2023, the Department of Food and Public Distribution (DFPD), Government of India, issued directions that in view of the lower expected sugar production in the country (with major drop in Maharashtra & Karnataka), the sugar industry should restrict the sugar sacrificed for ethanol through the B-heavy & sugarcane juice/syrup route to 1.7 million tonnes vs 4.1 million tonnes in the previous season.

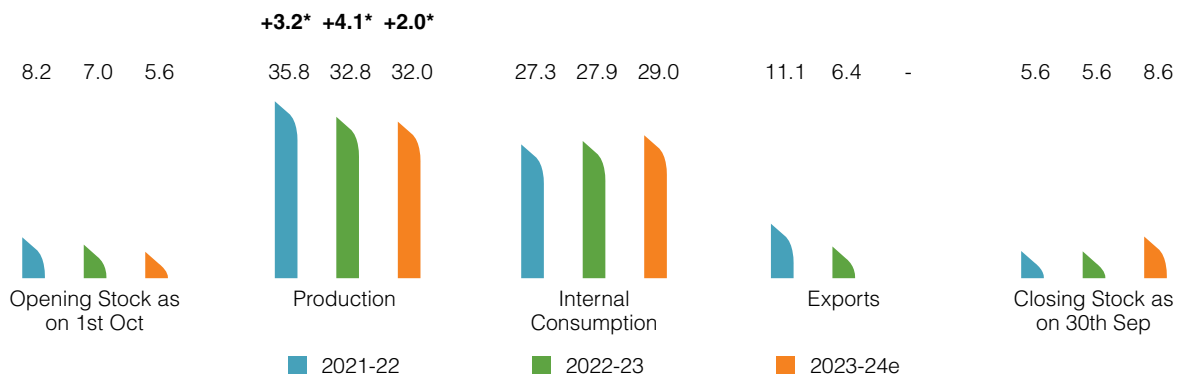
In March 2024, the sugar production estimates were revised upwards to 34 million tonnes, owing mainly to higher sugarcane yields expected in Maharashtra and Karnataka. Assuming 2 million tonnes for production of ethanol via sugarcane juice / B-heavy molasses for Ethanol Supply Year (ESY) 2023-24, it implies net sugar of around 32 million tonnes.

In terms of state-wise split, sugar production in Maharashtra is estimated to increase to 11 million tonnes this season, up from 10.53 million tonnes in the previous season. Production in Karnataka is estimated at 5.26 million tonnes, lower than last season's 5.8 million tonnes but above the initial estimates. Uttar Pradesh is expected to produce around 10.3 million tonnes sugar, marginally up from the previous season but below the initial estimates.

Healthy closing stocks of 8.6 million tonnes for SS 2023-24

With an opening balance of around 5.6 million tonnes as on October 1, 2023, net sugar production of around 32 million tonnes, and domestic sales of around 29 million tonnes, the closing stock is expected at 8.6 million tonnes. This translates into approximately three months of consumption. The net sugar production measure takes into consideration diversion of about 2 million tonnes of sugar equivalent into ethanol (as stated above).

(in million tonnes)



*sugar diversion to ethanol production in million tonnes

Note: Opening stock for SS 2022-23 revised as per GOI numbers

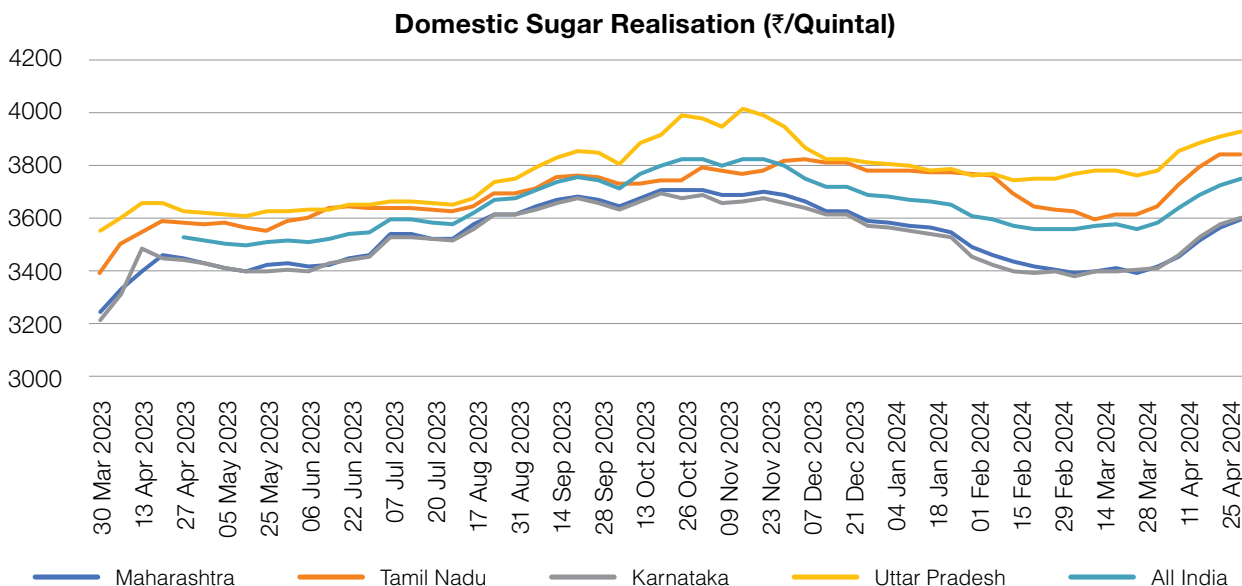
Indian Sugar Industry: Market Updates

- Restrictions on use of sugarcane-based feedstocks for production of ethanol:** On December 15, 2023, the Department of Food and Public Distribution (DFPD), Government of India, issued directions that in view of the lower expected sugar production in the country (with major drop in Maharashtra & Karnataka), the sugar industry should restrict the sugar sacrificed through the B-heavy & sugarcane juice/syrup route for ethanol to 1.7 million tonnes vs 4.1 million tonnes in the previous season. It directed sugar units countrywide to operate on C-heavy process. This was done to ensure sufficient sugar stock availability in the country to meet internal consumption requirements. At the end of April 2024, the Government allowed sugar mills to convert their existing stocks of 6,70,000 tonnes of B-heavy molasses into ethanol.
- Hike in Fair and Remunerative Price (FRP):** The Central Government fixed the FRP of sugarcane for SS 2024-25 at ₹ 340 per quintal. This was linked to a basic recovery of 10.25% and subject to a premium of ₹ 3.32 per quintal for every 0.1% increase of recovery, over and above 10.25%, and also linked to reduction in FRP at the same rate for each 0.1% decrease in the recovery rate till 9.5%. With a view to protecting the interests of farmers, the Government has decided that there shall be no deduction where recovery is below 9.5%; such farmers will get ₹ 315.1 per quintal for sugarcane. The FRP for SS 2024-25 was 8% higher than the previous sugar season.

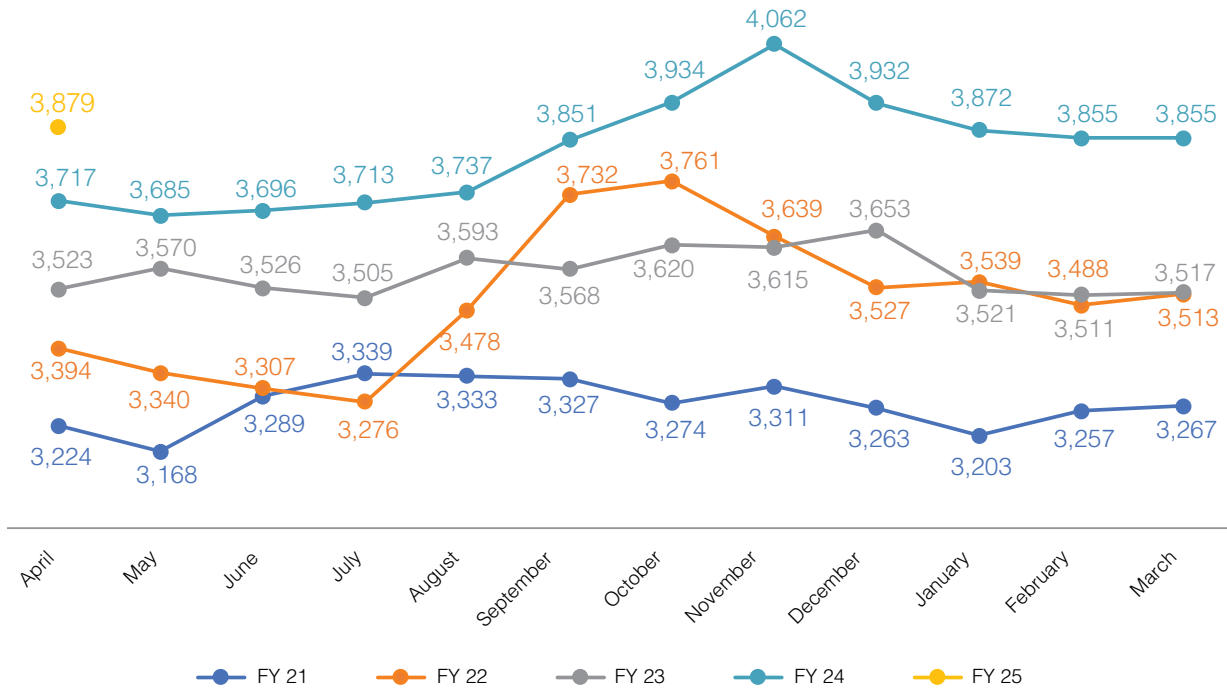
- Hike in State Advised Price (SAP):** On January 18, 2024, the Government of Uttar Pradesh revised the State Advised Price (SAP) of sugarcane for Sugar Season 2023-24 as follows:
 - Sugarcane price for Early Variety was revised from ₹ 350 to ₹ 370 per quintal
 - Sugarcane price for General Variety was revised from ₹ 340 to ₹ 360 per quintal
 - Sugarcane price for Rejected Variety was revised from ₹ 335 to ₹ 355 per quintal
 - The society commission rate was maintained at ₹ 5.50 per quintal
 - There was a revision in the transportation rebate for lifting of sugarcane from outside centres to ₹ 9 per quintal - up from the previous ₹ 8.35 per quintal. The slab rate within the transport rebate was adjusted to ₹ 0.45 per quintal per km from the earlier ₹ 0.42 per quintal per km
- Minimum Selling Price (MSP) remains unchanged:** Despite increase in sugarcane procurement costs, i.e. SAP in the case of Triveni, the MSP fixed by the Government in February 2019 at ₹ 31/kg remains unchanged. It is imperative that the MSP of sugar and ethanol prices undergoes enhancement in a coordinated manner, along with input costs.

Domestic Sugar Prices

Sugar prices in India moved up by 5-7% on an average in FY 24. Since April 2024, the domestic prices have inched up 3-4%, due to higher demand during the peak summer season.



Triveni Sugar Realisation (Domestic) (₹/Quintal)



International Sugar Industry

International Sugar Industry: Balance Sheet

As per recent estimates, the global sugar balance is estimated to be in surplus of ~1.89 million tonnes in 2023-24, and over 6 million tonnes in 2024-25. This is on account of improved supplies from key producing nations, such as Brazil and Thailand, along with sufficient production in India.

Sugar production in Brazil's Centre South (CS) region is expected to improve in this year's sugar season due to rains in late March and early April. As per recent reports, Brazil's CS sugarcane crop for 2024-25 is projected to be in a range between 620 million tonnes and 630 million tonnes. The sugar production is estimated at 42.5-44.5 million tonnes, with a crop target of 43.8 million tonnes, which would nearly equal the record production seen in the previous crop.

The sugar mills in Brazil are boosting their sugar production capacity as much as 10% in the new season from April, to take advantage of the relatively high sugar prices and relatively lower returns in ethanol.

Expectations from Thailand have also improved with the overall sugar production of ~9 million tonnes, up from initial estimates of 8 million tonnes. For next year, the crop is expected to further improve, with an estimated production of ~10-11 million tonnes.

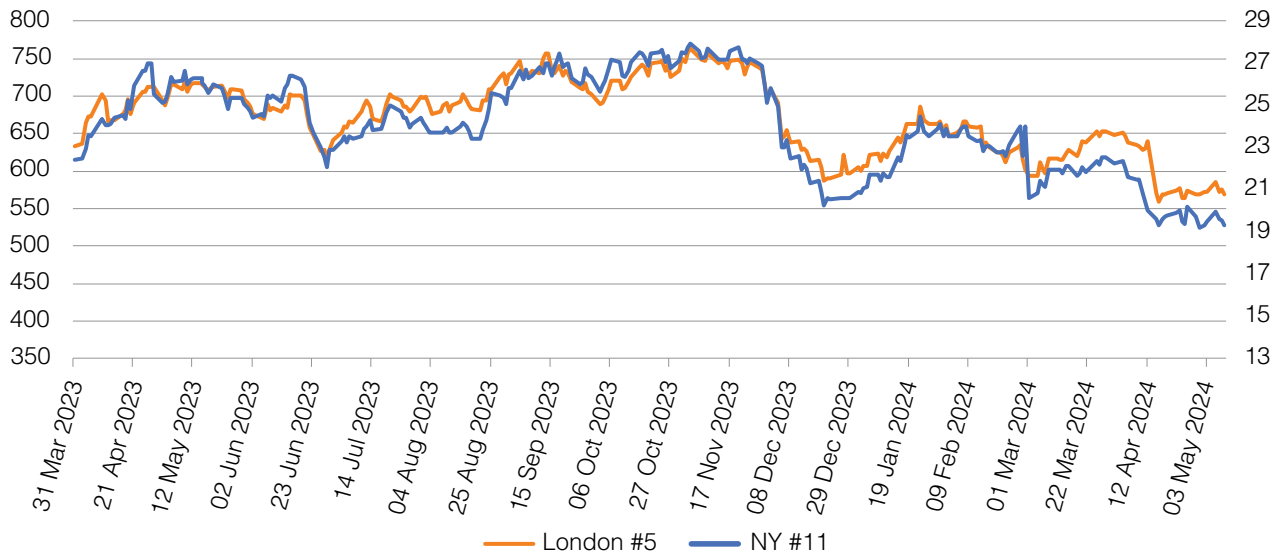
International Sugar Prices

On an average, the international sugar prices increased by 20-25% during FY 24. However, most of this outperformance was during the early part of the financial year. In November 2023, the NY #11 raw sugar futures front month contract nearly broke the US 28.00 cents/lb threshold, driven by global supply concerns due to lower production expectations. London White Sugar #5 also peaked at USD 763.40 per tonne. Prices have trended downwards since then, with emergence of news of higher production in Brazil and Thailand. In mid-March 2024, London White Sugar #5 front month contract was trading at USD 611.60 tonne, whereas the New York Sugar #11 front month contract was trading at US 21.72 cents/lb.

As on May 10, 2024, the NY #11 front month contract was trading at US 19.3 cents/lb, while London #5 was trading at USD 569.3 per tonne.

The global sugar balance is estimated to be in surplus of ~1.89 million tonnes in 2023-24, and over 6 million tonnes in 2024-25.

NY#11 & London#5 Price Trend



Note: London #5 on left hand side (LHS) in USD/tonne; NY #11 on right hand side (RHS) in US cents/lb

Triveni Sugar Business

Triveni Sugar Business: Overview

One of the largest integrated sugar producers in India, Triveni has a production footprint spanning seven state-of-the-art sugar manufacturing facilities, spread strategically across the state of Uttar Pradesh (UP). All units are located in well irrigated and fertile areas suitable for sugarcane cultivation. While Khatauli (District Muzaffarnagar), Deoband (District Saharanpur), Sabitgarh (District Bulandshahr) are located in Western UP, Chandanpur (District Amroha), Rani Nangal (District Moradabad) and Milak Narayanpur (District Rampur) are located in Central UP. One unit, namely Ramkola (District Kushinagar), is located in Eastern UP.

The Company's diverse product profile comprises plantation white sugar as well as refined sugar. The latter currently constitutes ~70% of the total sugar production and realises a premium over normal crystal sugar realisation. The Company also produces different grades of pharmaceutical (pharma) sugar that can be customised as per the user requirements. Refined and pharma sugar is supplied to high grade end-users, thereby creating a niche customer profile for Triveni. The Company also supplies high quality crystal sugar from some of its non-refinery units to large institutions, securing a high premium for it.

In addition, Triveni Sugar has a contract manufacturing business for private label sugar in North India, and is focussing on branded sugar for growth. All the seven sugar units of

the Company are FSSC 22000 certified, and pursue the highest standards in terms of manufacturing processes and quality. The Company supplies sugar to major multinational soft drink companies, leading confectionery manufacturers, breweries, pharmaceutical companies, dairies, top ice cream producers, etc.

Triveni Sugar Business: Performance

Key financial highlights of our Sugar business performance in FY 24:

- During FY 24, the Company's Sugar segment reported revenues of ₹ 3,858 crore, lower by 11.6% on a year-on-year basis. The decline was the outcome of 16.4% lower overall dispatches, both domestic and international. The Government did not announce any export programme for SS 2023-24, and the only sugar exported during the financial year was a balance of 14,531 tonnes from the previous year's programme
- Blended sugar realisations improved 5.8% y-o-y to ₹ 38,175/tonne, mitigating some of the impact of lower dispatches and cost increases
- Segment PBIT was largely flat y-o-y at ₹ 306 crore, with margins enhancing by ~90 bps to 7.9% in FY 24

Key operational highlights of our Sugar business performance in SS 2023-24:

- **Reduced crush due to water logging, crop submergence, and red-rot disease:** During SS 2023-24, there was a general trend of lower crush across Uttar