RUSSIA'S AGRICULTURAL GIANT - PRODIMEX

Prodimex is one of the principal agricultural holdings in Russia. The group incorporates a large number of enterprises in different parts of the country.

History of development

Prodimex has been established as a trading company in 1992. Three major stages of development can be distinguished in company's history. The formation of the company coincided with severe economic, political and social changes. New economic relations were accompanied by government's withdrawal from active economic life. The established industrial and economic connections between enterprises and entire regions were broken. The private businesses that were emerging basically had to restore and re-establish former economic ties. During the Soviet times large share of the consumption volume of white sugar was delivered to Russian from Ukraine. Since 1993, the Prodimex company started delivering white sugar to Russia. In the period from 1994 to 1996, the company became the major importer of white sugar from Ukraine. In 1996 Prodimex purchased its first sugar mills. At that point, it became obvious that if the company was to develop and achieve the desired results it needed to start building a manufacturing basis and invest in production. Within five years, till 2001, the company acquired 11 sugar mills, as well as 8 agro-enterprises, with over 60 hectares of land. Today, after 18 years of successful development, the company owns 16 sugar mills located in three regions of Russia: the company has 12 sugar mills in the Central Chernozem Region, 3 sugar mills in the Southern Federal District, and one factory in the Republic of Bashkortostan, also the company has citric acid plant, which is the only one in Russia that produces citric acid. The production capacity of all sugar factories is over 75 thousand tones of beets per day. The 16th plant was acquired in the end of 2010 after finalization of the M&A deal with one of the leading providers of sugar and molasses – British ED&F Man. The Prodimex group acquired a controlling interest Liski sugar factory, which is one of the two sugar factories in Russia, producing high quality sugar that meets the requirements of Coca-Cola and Pepsi-Cola. In 2005 the company began a massive investment program aimed at increasing the production capacity of the plants and reducing production losses. The accent was made on four factories located in three native zones. As a fact the investments achieved a result: these factories have capacity to process more than 36 thousand beet per day. Basing on the actual processing season 2010, Uspensky sugar factory (in the South region) is the biggest one in CIS. Particular attention was devoted to the efficient energy use and reduction of energy consumption. Currently, the Prodimex company is the largest producer of sugar in Russia with the market share of about 22 %. The company started investing in agro-business already in 2001, at the end of 2011, the land bank of the company will amount to 0.5 million hectares, 20 % of the land bank is under beet processing. The aim of the company is provide 50% of the beets for sugar production by the own growing. This involves continuous investment in land, harvesting equipment and logistics, which will allow timely deliveries of the sugar beets from the fields to the production factories. It is also a good way to guarantee quality and safety of raw materials. These conditions created by the current regime of customs regulation of the market, which allows us to develop our own production of sugar beets, and have thus profitability above the average for other crops.

Competitive advantage

There are several factors that form the company's competitive advantage, the first on is the Team. Management team of Prodimex combines many years of successful experience of Russian managers with advanced European knowledge and competence. Tree years ago the number of European specialists in sugar and agricultural businesses jointed the company, among them Achim Lukas (CEO of the Prodimex Group) and Werner Kuester (The Head of the Sugar division) – well know European specialists with great experience in industry. Today, the company employs more than 12 thousand people. Prodimex takes pride in having kept many of the employees since the company was established in 1992. Other factors include vertical integration and territorial diversification. Vertical integration allows to understand the entire chain of different business processes and to react quickly to external changes. Moreover, vertical integration produces the effect of synergy and increases profitability of all operations. The added value of all production and business processes starting with growing crops through production of sugar to marketing of the finished products remains in the company. Territorial diversification
allows Prodimex to reduce the risks associated with weather conditions. The network of trading dealers in different regions of the country is yet another important factor of the company’s competitive advantage. The system allows the company to respond quickly to requests from end-users of sugar and price fluctuations. Thanks to reliability and openness the company was able to achieve respect and trust of the customers. The company values all customers and focuses on long term cooperation, building strong business relationships with its partners. Currently only one of the company’s plants is certified according to ISO 22000:2005 standard. The company is planning to conduct certification at other plants that undergone modernization. The company managed to establish and maintain stable, long-term partnerships with leading enterprises that use sugar as a raw material for their production. This is yet another confirmation of the quality of sugar produced by Prodimex.

**Products**

The company produces white sugar from sugar beets and sugar cane. Beet pulp and molasses are by-products of sugar beet production. Beet pulp is used as additive in the animal fodder. Nowadays beet pulp is dried and granulated to preserve its qualities. About 90% of all beet pulp produced in Russia is exported. The main consumers are Western European countries such as the Netherlands, Germany and Italy. Molasses is also a highly demanded raw material used in the production of alcohol, yeast and food acids. Belgorod Citric Acid Plant is the only plant that produces citric acid on the territory of Russia. It is necessary to mention that Prodimex group is one of the three largest Russian producers of grain. The company has the potential of becoming a leading producer and trader of grain. Also it’s really needed to mention our Desugarisation molasses project. We finalized the project and are now planning that this new factory to achieve the planned production capacity by the end of 2011. The aim of the project is to produce the products (sugar, betaine) with high added value than molasses and also by this way to diversify our activity and take with betaine the part of the European and Asian markets.

**Financials and further development**

Prodimex forecasts revenue for 2010 to exceed 1 billion dollars. The consolidated profits for 2010 will be a little bit lower than budgeted because of unfavorable weather conditions - drought. At the same time, it should be noted that the territorial diversification of the business and the insurance policy allowed the company to carry on the extreme weather condition much smoother. Also the high growth of internal market price due to reaching world sugar price the 30 years record level and also deficit of beet sugar offer in Russia compensated our losses. The group considers in future the possibility of launching an IPO on one of the European markets in order to attract a strategic investor capital. Prodimex seeks to strengthen its leading position in agricultural production and to remain a reliable supplier and manufacturer of white sugar. The company focuses on economic development in regions where the company operates, and strives to help its employees to fulfill their potential. The major near-term goal of the company is to produce at least 30% of beet sugar on the Russian market. The long-term strategy includes is the diversification of production. The company models its strategy on the experience of European sugar producers, which have diversified production lines, manufacturing sugar for further use in the products that use sugar as raw material. Moreover, as a company with high agricultural potential, Prodimex is interested in production of environmentally friendly fuel.
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