SUGAR INDUSTRY IN INDIA:

STATUS AND POLICY NEEDS

INDIAN SUGAR MILLS ASSOCIATION, NEW DELHI

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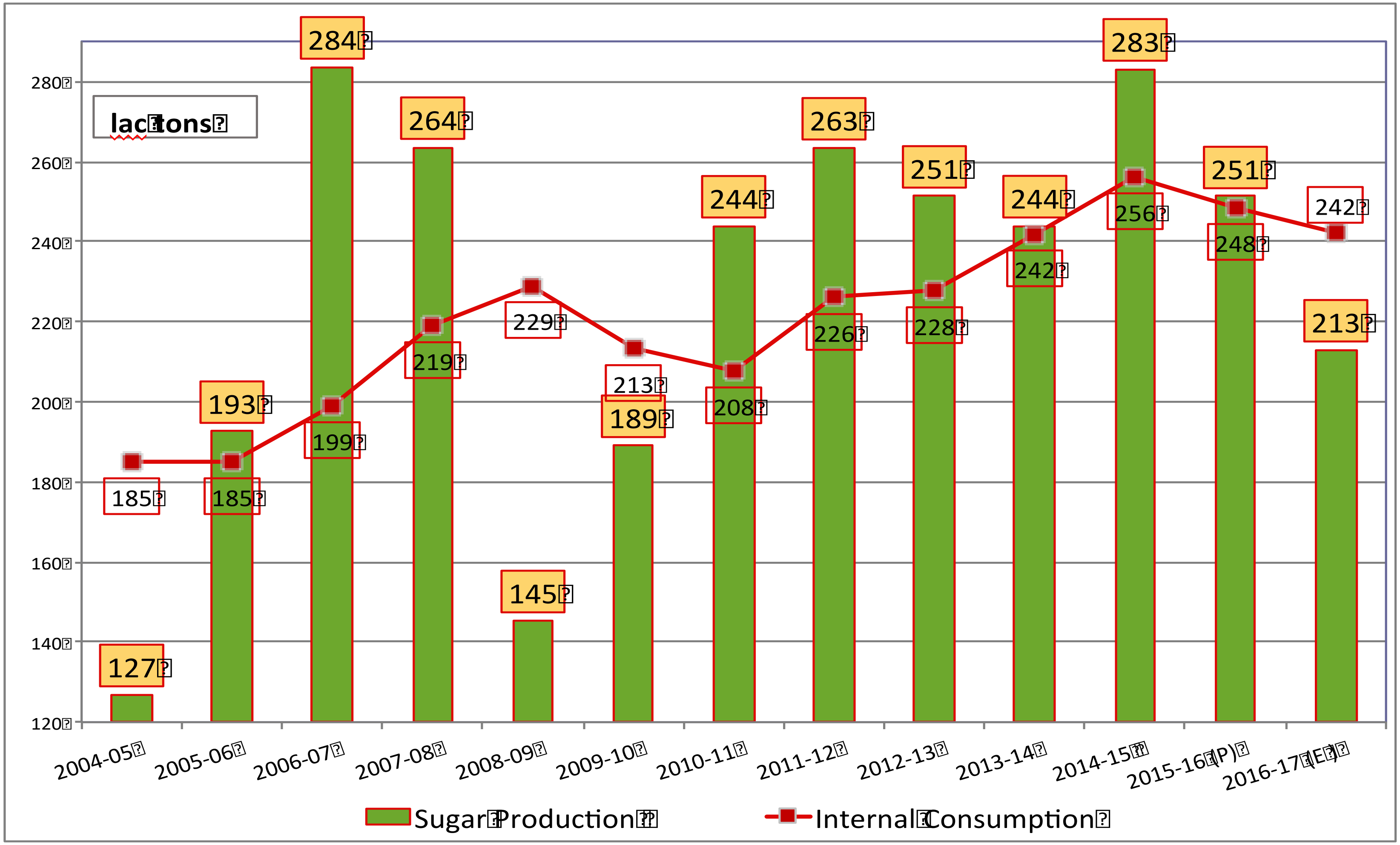
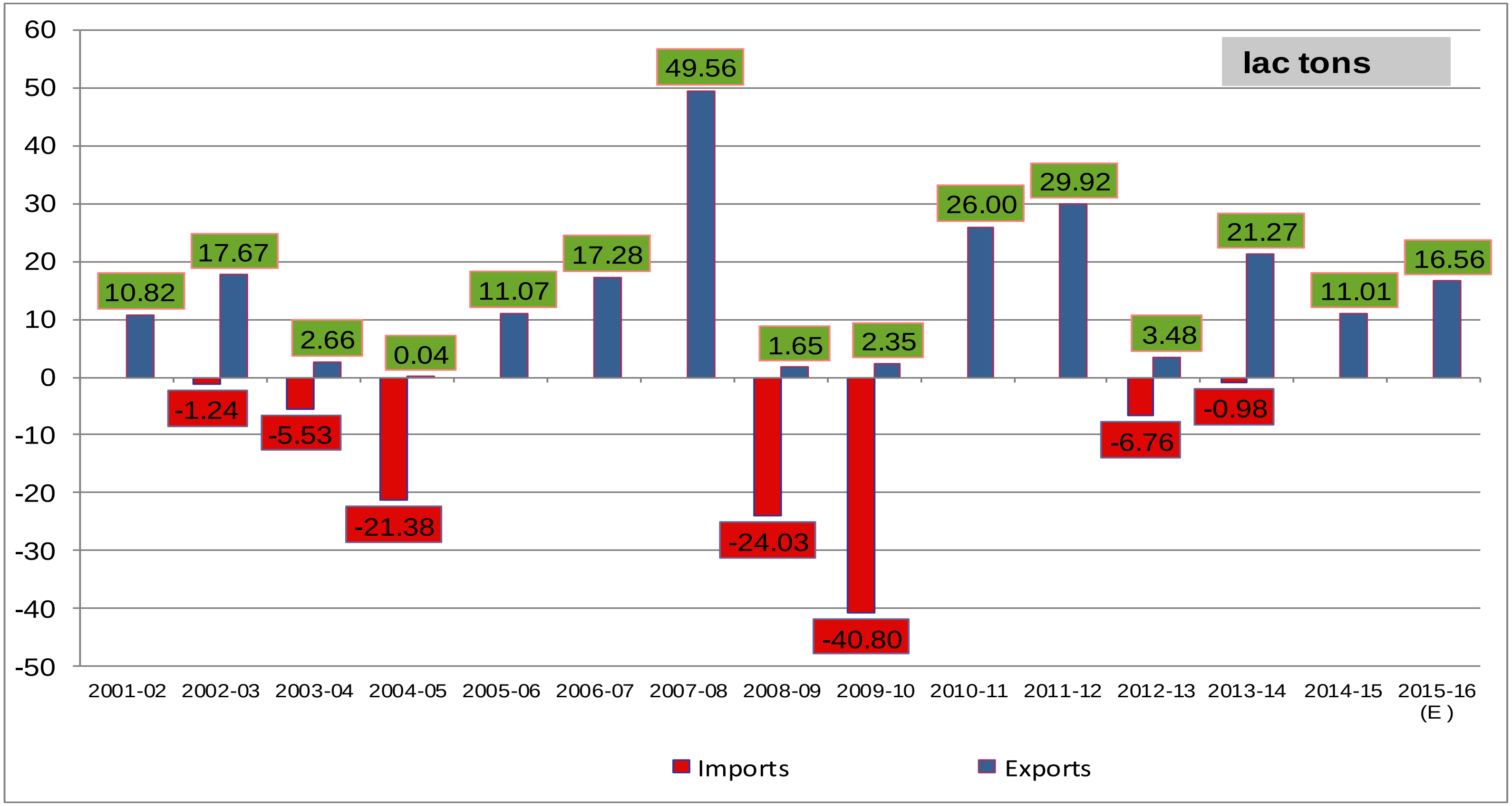
Sugar Production & Consumption



Production in surplus over consumption continuously for 6 years since 2010-11

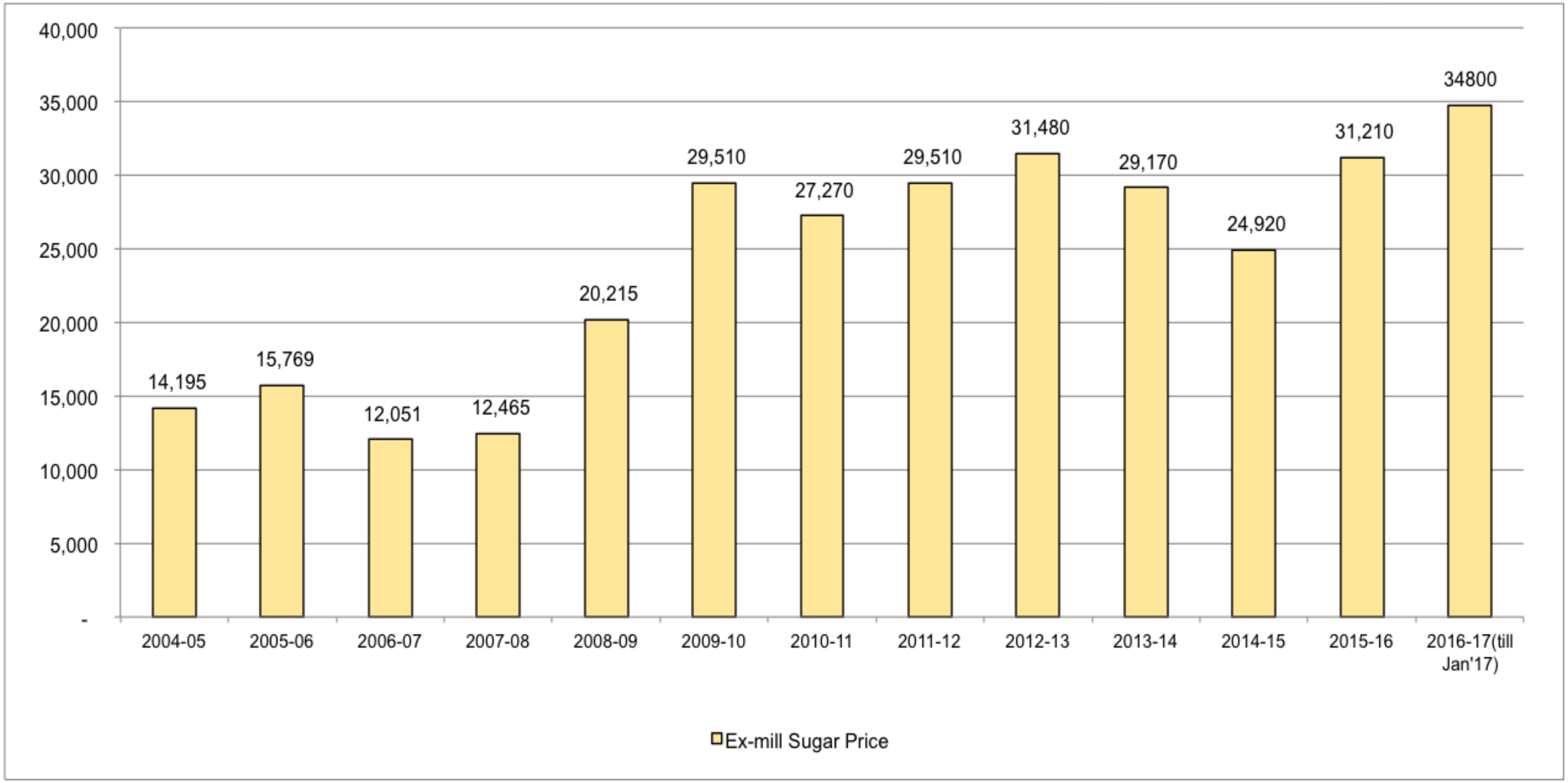
Sugar trade from & to India



Forcing India to export sugar in last 6 years, even to an unviable global market.

Important to note that India still imported 7.75 lakh tons in the midst of surplus.

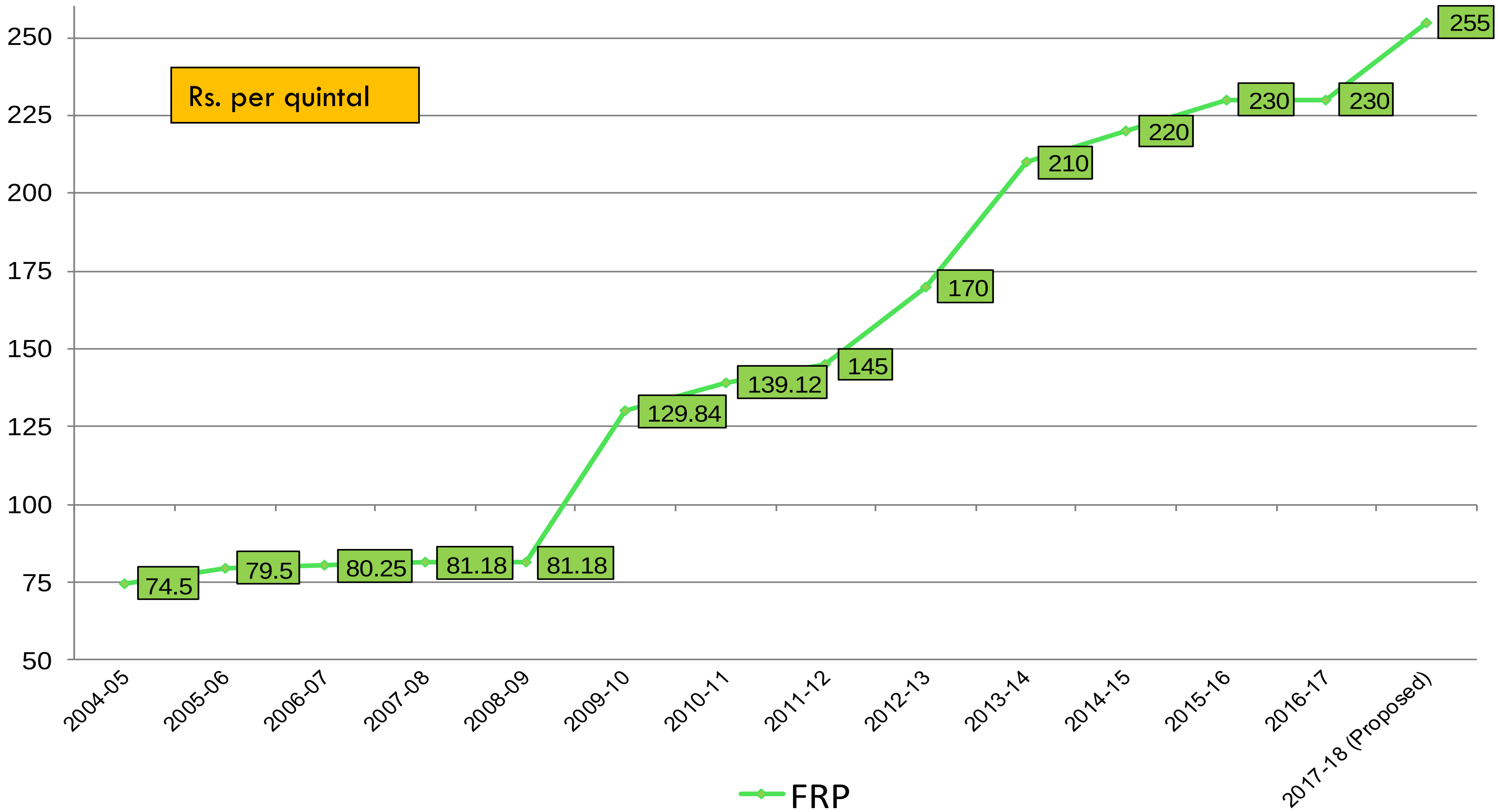
Average domestic sugar prices



7.75 lakh tons of imports in the midst of surplus in 12-13 & 13-14, got stuck in domestic market, further depressing the already low domestic sugar prices, for the next 2 years in 13-14 and 14-15.

Recovery could happen only after 16 lakh tons exported with production subsidy from Govt. in 2015-16

Cane Price fixed by Government of India

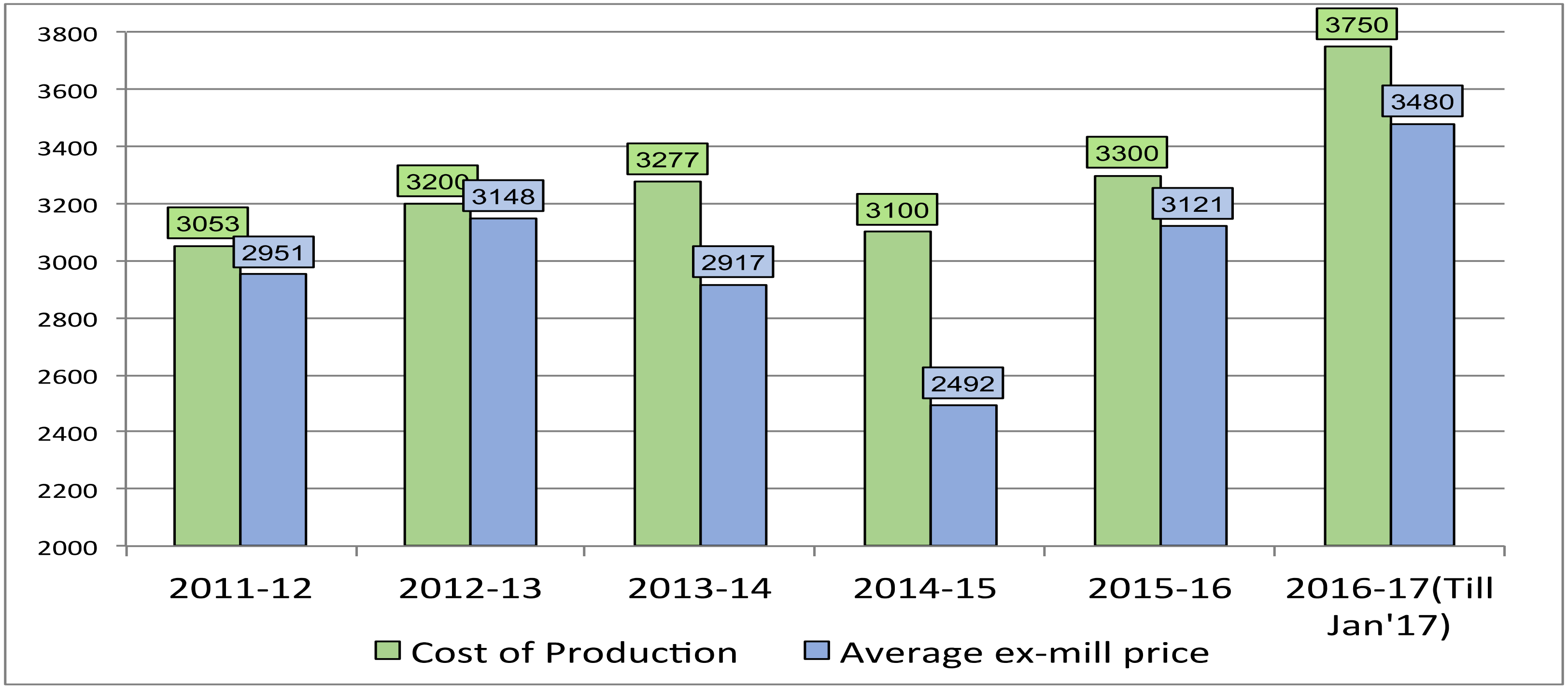


FRP has increased very steeply 3 times in 09-10, 12-13 and 13-14, which made FRP also unaffordable for the industry.

The mistake seems to be getting repeated for 2017-18 SS

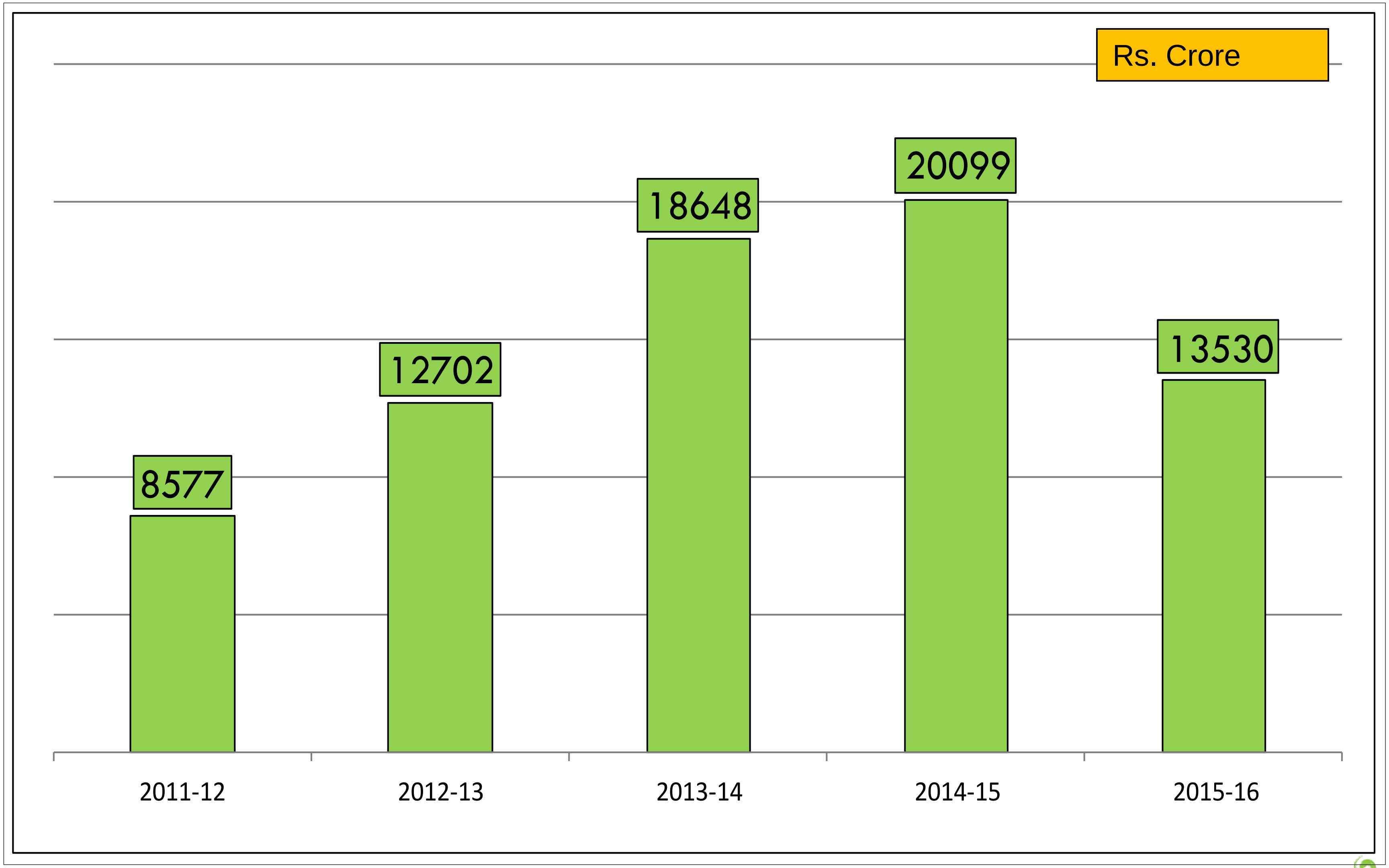
Cost of production vs. Average ex-mill prices

Rs./quintal



- Cane prices increased steeply in 09-10, 12-13 & 13-14
- Increasing cost of production
- Ex-mill sugar prices were depressed, thanks to surplus sugar, due to both high domestic production as also imports
- Sugar prices much lower to cost of production from 2013-14 to 2015-16
- The Industry incurred massive losses

Cane price arrears accordingly reached record levels

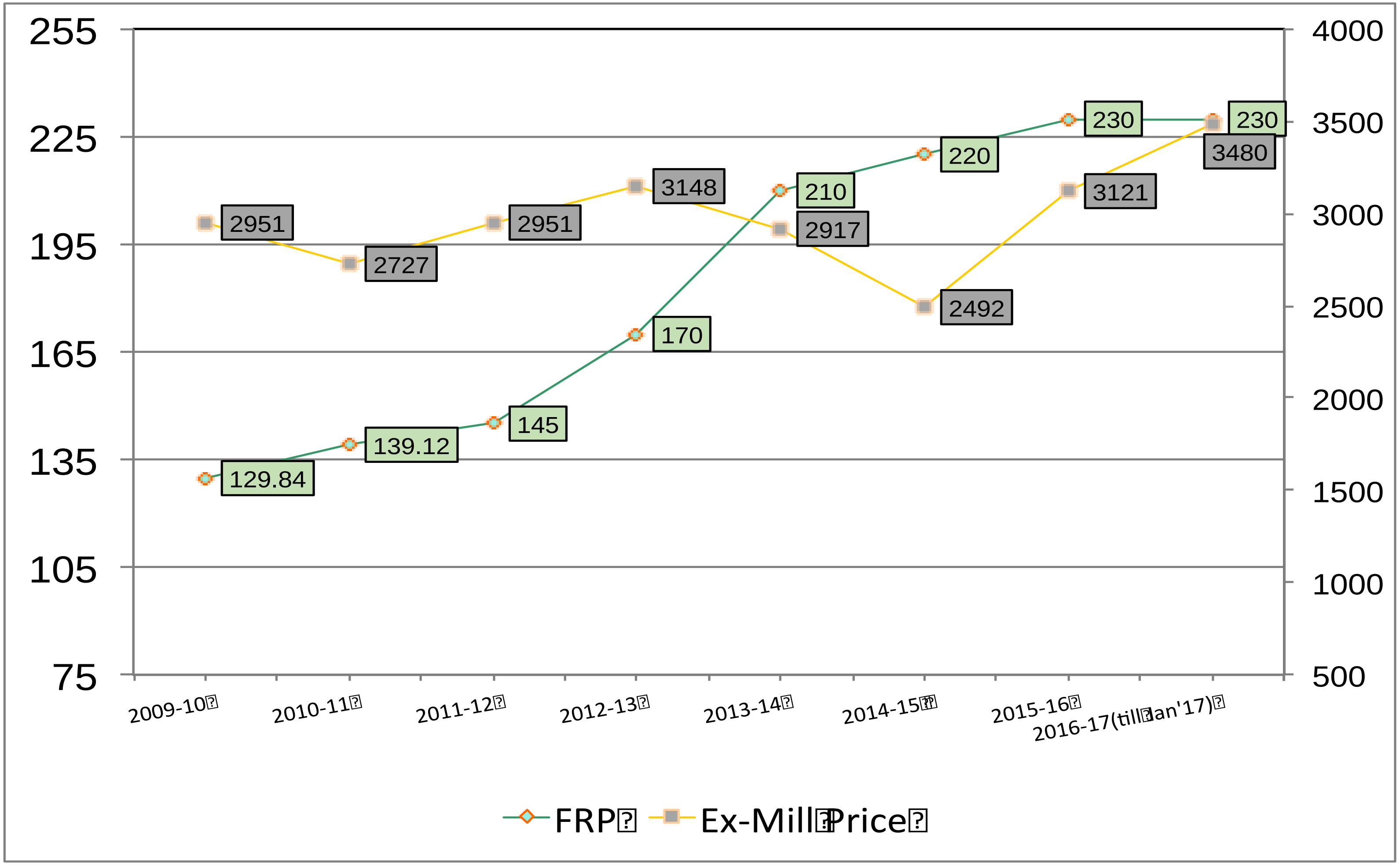


Mismatch between sugar prices and cane prices

- Currently FRP is fixed by GOI, and SAP by 5 States
  - No link between cane and sugar prices/revenue realisation
  - Cane price sometimes crosses even 90-100% of revenue realisation, leaving nothing for other liabilities
- In last 8-9 years, FRP has increased by almost 100%
- Sugar prices not kept pace at 20-25%; have even fallen in some years
  - FRP has become unaffordable to sugar mills
- Other countries have a cane price – sugar price linkage
  - Cane price generally at 62 - 65% of revenue realised in those countries

FRP v/s average ex-mill price in last 5 years

Rs. per quintal



FRP of Sugarcane Vs MSP of Paddy & Wheat

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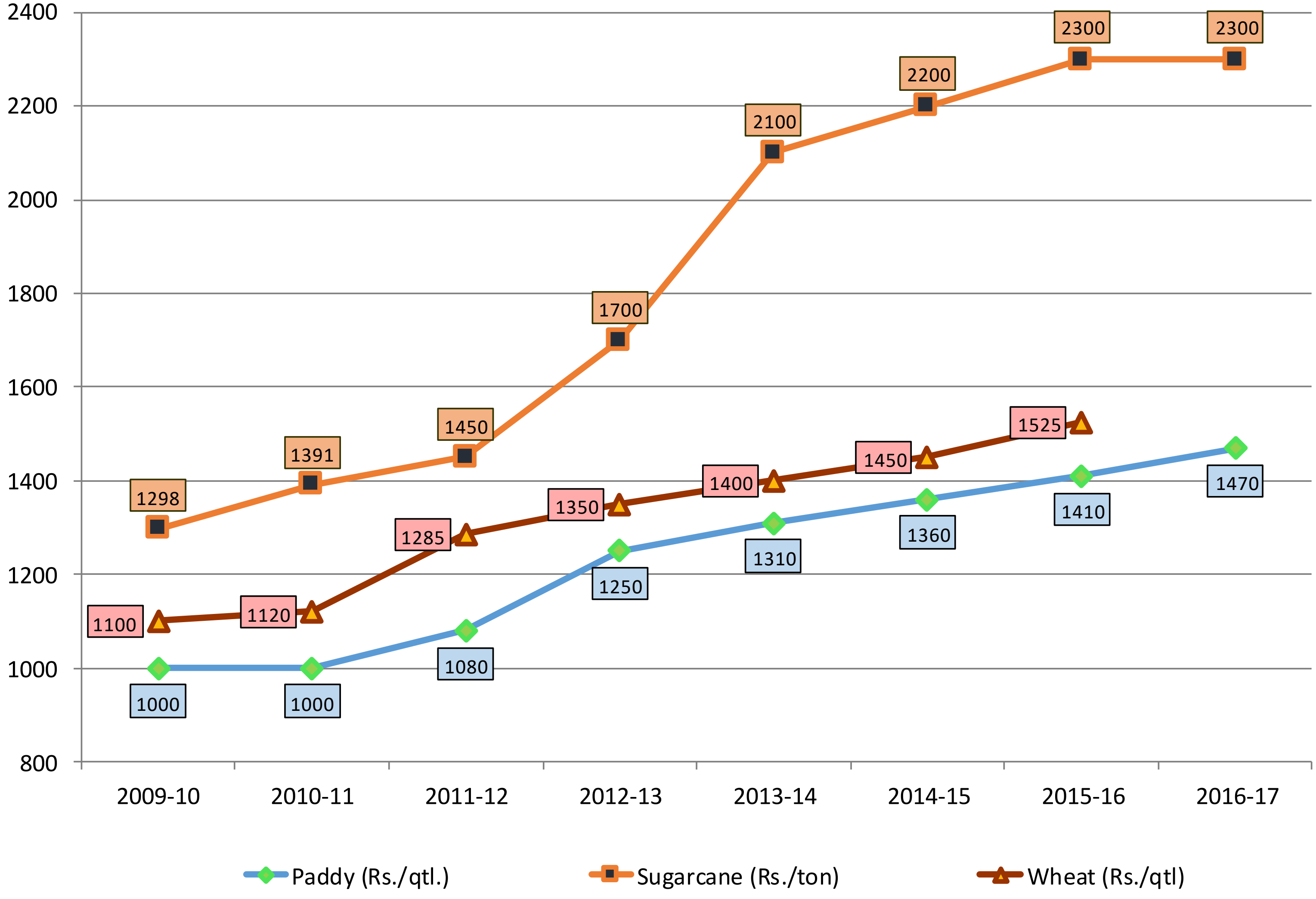

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Rangarajan Committee recommendations

- Cane price should be automatically determined as per a linkage or revenue sharing formula (RSF), at:
  - 70% of revenue from sugar & primary by-products or

    75% of revenue from sugar alone
  - Farmers to be guaranteed a minimum FRP as 1st instalment
  - If RSF is above FRP, a 2nd instalment paid at end of the season

Implementing RR Committee recommendations

- GOI allowed States to decide on the recommendations
- Maharashtra and Karnataka adopted RSF
  - Working well for last 2 years or so
- U.P., Punjab, Haryana, Uttarakhand & Tamil Nadu continue to fix SAP unilaterally, at much higher levels
- CACP in last 3 years, has continuously recommended that
  - Liability of mills be restricted at Revenue Sharing Formula
  - And yet guarantee farmers to get at least FRP
  - Hence, in years of low sugar prices, gap between FRP and RSF be filled from a Price Stabilisation Fund (PSF) created by Government

Price Stabilisation Fund (PSF): ISMA's suggestions

- Source of funds: Cess on sugar
  - Instead of cess going to SDF, can use it for PSF

    or SDF can be exclusively used for cane price shortfall
- Cess can be levied when ex-mill sugar prices are depressed
  - Consumers will still pay retail price less than or equal to normal years
  - Will also ensure a more stable retail price
  - Win win for all stakeholders, including Government
- Re.1 per kilo cess will give Govt. Rs.2500 crore annually
  - Equivalent to Rs.10 per quintal of cane price
- The payment from PSF can be made directly to farmers

Sugar mills need time to recover

- Losses incurred during last 3-4 years
  - Mills had to borrow money to fund losses, including to pay cane price of farmers
- Debt burden jumped from Rs.12,000 cr in 2007-08 to Rs.50,000 crore now
- The Rs.10,000 crore of Soft/SEFASU loans given (with interest subvention by Government) is due for repayment now
- Industry unable to service all debt burden simultaneously
- Companies becoming sick or becoming NPA accounts

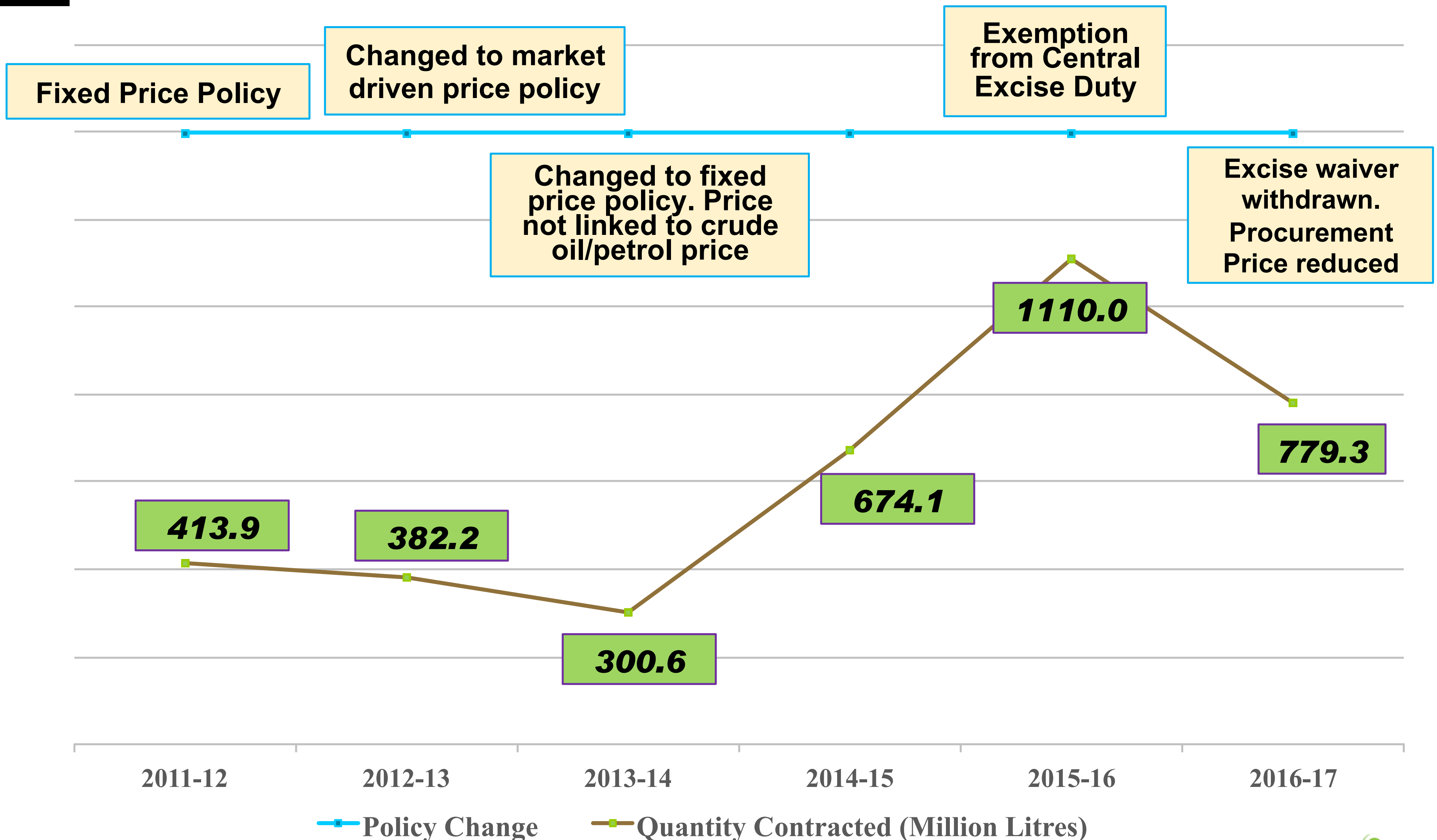
Debt Restructuring

- S4A scheme of RBI allows restructuring of debt
  - For major industries with debt over Rs.500 crore and above
  - Allows coversion of upto 50% debt into various instruments including non-convertible debentures etc.
- Request to get S4A scheme extended to sugar industry too
  - Only modification required is reduction of threshold limit to Rs.100 crore since most sugar companies are in small/medium level
- This will give time to sugar industry to recover its losses and get back on its feet

Fuel grade ethanol

- At 10% blending with petrol, 280 crore litres of ethanol reqd.
- Last year requirement was 266 crore litres
  - Supplies were 111 crore litres @4.3% blending
- Against 280 crore litres reqt., 2 Rounds of EOI has given 78 crore litres of contracts for 2016-17 (Dec - Nov)

Policy changes and supplies



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Positive policies on ethanol & withdrawal later

- There has been a flip-flop on ethanol policies and pricing
- Dec 2014 Cabinet decision is an important milestone
  - Modi Govt. decided on a fixed pricing policy for ethanol
  - Linked ethanol price to sugar price and delinked from crude oil price
- In July 2015, another positive decision taken to exempt ethanol from central excise duty of 12.5%
- However, these two positive decisions were suddenly reversed
  - Ethanol prices reduced by Rs.2-3 per litre
  - Excise duty waiver withdrawn in middle of contract period
  - Has resulted in much lower ethanol offers for 2016-17 period

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Ethanol supply constraints

- Feedstock availability
  - B-heavy molasses can be diverted from sugar to ethanol to give enough for even 15% blending, but require encouraging prices
- Ethanol production capacity
  - Only 130 out of 530 mills have ethanol capacities
- Ethanol movement
  - Taxes & duties by States and insistence of excise permits incorrect
  - Reiterated by GOI by amending IDR Act in 2015
- Stable policies, pricing and incentives required
  - To attract investments as also ensure more feedstock for the purpose

Policy requests for ethanol

- Restore excise duty waiver on ethanol and pass on benefit to sugar companies/ethanol manufacturers
- Ethanol price should be fixed not only to cover its producing cost, but should also give credit to
  - Ethanol's property to control pollution and improve air quality
  - Also that it improves returns of farmers
  - And that it reduces net oil import bill

GST for sugar industry: Industry’s requests

- On sugar, currently taxes & duties are around 2.5%
  - GST on sugar should therefore, be at the lowest rate of 5%
- On sugarcane, no central tax or duty
  - To ensure returns of farmers don’t get affected, sugarcane be exempted
- Current excise duty on ethanol is 12.5%
  - But considering its several benefits, including reducing air pollution, tax on ethanol should be minimal: GST on ethanol at lowest rate of 5%
- Cess on sugar currently at Rs.124 per quintal
  - Cess be used for cane payment/ PSF; if not, should be subsumed

Current year 2016-17 sugar balance sheet

Opening balance (as on 1st Oct, 2016)	77.5 lakh tons
Estimated sugar production	213 lakh tons
Sugar availability during the season	290.5 lakh tons
Estimated sugar consumption	242 lakh tons
Closing balance (as on 30th Sept, 2017)	**48.5 lakh tons**

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Domestic requirement/ sugar sales

- Sugar despatches in Oct-Dec 2016 lower by 5.5 lakh tons than the sales last year Oct-Dec 2015
- Field reports suggest sugar sales in Jan. '17 slow, and therefore will be lower to the 25 lakh sold in Jan '16
- Last sugar season 2015-16, 248.5 lakh tons was sold
- Beverages, sweet makers etc. reporting lower sales/ growth Considering, 5.5 + less sales in Jan '17 + similar sales in balance 8 months, sugar desptaches in 16-17 at 242 lakh tons

What is a good opening stock of sugar on 1st Oct??

- Traditional norm was 3 months sales i.e. for Oct-Dec months
  - Oct-Dec 2016 it was 65.3 lakh tons, Oct-Dec 2017 was 59.8 lakh tons
- But that was under regulated release mechanism
  - When there was a lag of at least 45 days between production and sale
  - Production reported after month got over, & ROs issued for next month
  - Nov. production was therefore available for sale only in January
- **With no release mechanism, no lag b/w production & sale**
  - **Sugar produced in Nov. is now available for sale in Nov itself**
  - **In current season, 28 lakh tons produced in Oct-Nov**
  - **New sugar is available in market from Nov. itself in full swing**

Surplus sugar production expected next season

- Good initial sowing reports, good rainfall & water availability
  - Indicate surplus sugar production in 2017-18
- Sugar production to be in full swing from end of Oct' 17
  - 30 lakh tons of new sugar expected in market in Oct-Nov '17
- Sales in Oct-Nov in past has been 37-40 lakh tons
  - Whereas OB on 1st Oct '17, expected at 48.5 lakh tons (equivalent to 2.5 months consumption requirement)

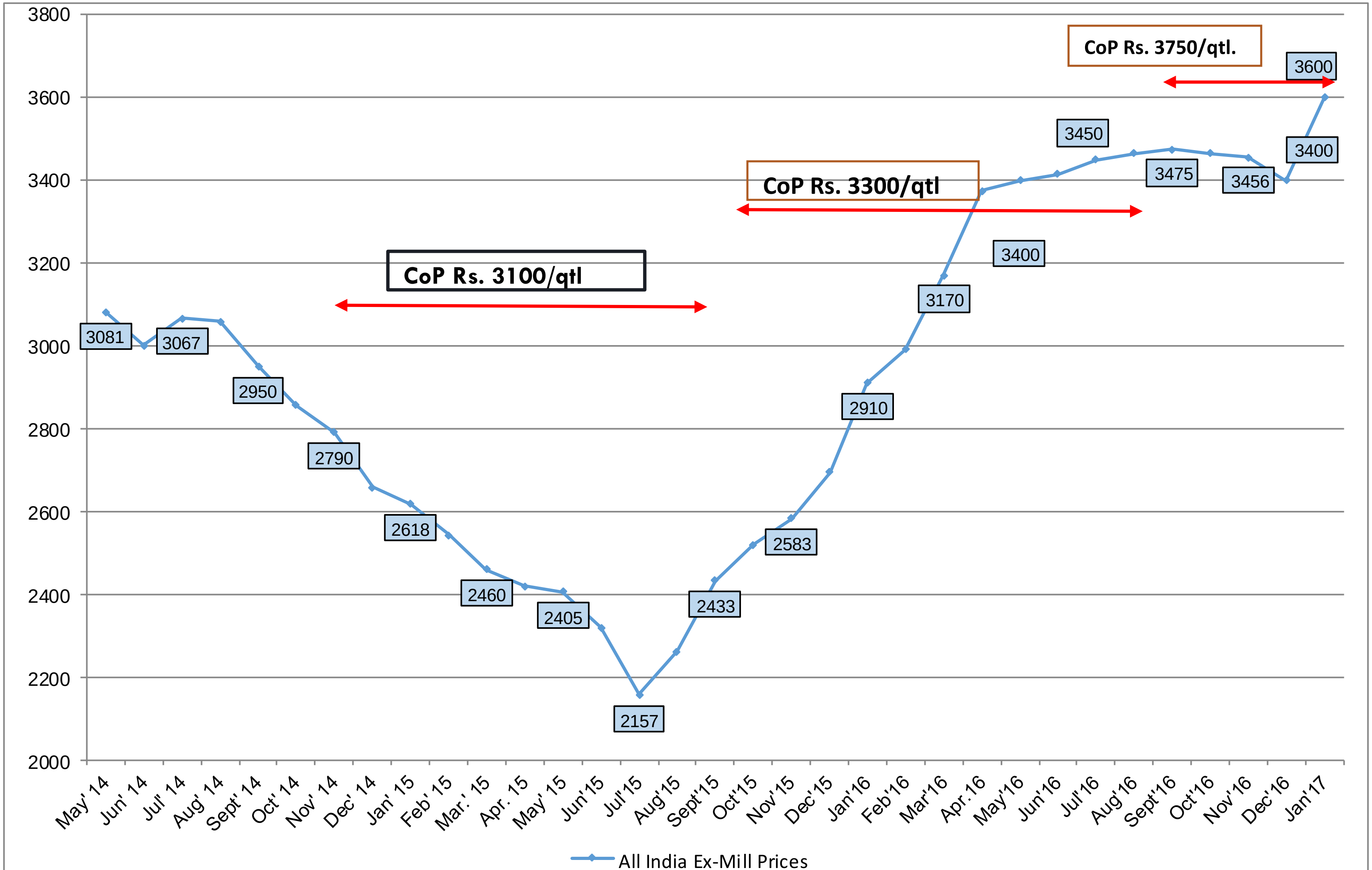
ISMA will suggest on imports, if & when need arises

- No need for any sugar import or change in import duty now
  - Final production nos. for 16-17 will be available by March-April
  - Enough time of 4-5 months to decide on imports to supplement OB
- Imports would be required only if production and consumption numbers are significantly different to estimates
- **Unrestricted and unnecessary imports will burden industry and farmers for several years as seen in past**
- **ISMA will be in constant touch with Government to**
  - **To decide to import as & when the need arises,**
  - **As also to decide on quantity and methodology of imports**

Cost of production higher in current year 2016-17

- Higher SAP for cane in North India
  - Increased by States by 10-15%
- Drought in West and South India
  - Lower production and sugar recovery means higher per unit cost
- **As compared to cost of sugar of Rs.33 per kilo last year, the costs are therefore, higher at Rs.37.5 per kilo currently**
  - At these costs, retail sugar prices would also be higher
  - Otherwise, cane price and bank loan repayments will fall in arrears
- **Plus, FRP for next year proposed to be increased by 10%**
  - **Will increase costs by another 10% next year**

All India average ex-mill price of sugar vis-à-vis Cost of Production of sugar



Concluding ….

1. Cane price be determined as a Revenue Sharing Formula
   - If it is below FRP, the gap be filled up from a Fund like PSF,
   - Which in turn could be funded through a sugar cess
2. Debt of sugar industry be restructured under S4A
   - By modifying threshold limit to Rs.100 crore
3. Ethanol price and excise duty waiver be restored
   - States be convinced against State duties and excise permit requirement
   - Can be started from BJP ruled States: Maharashtra, Haryana, Gujarat
4. GST: sugar & ethanol at 5%, cane exempted, Cess for PSF

Concluding…..

5. Adequate sugar availability in current 2016-17 season

- With healthy carry forward of 48.5 lakh tons for next season
- Enough for 2.5 months consumption requirement
- New season's sugar would be available in full swing by end Oct '17
- No need of any imports or reduction in import duty

6. Cost of production of sugar is higher this year

- Retail prices would therefore be higher to last year by 10-15%
- Need to accept that costs will be higher next year by another 10% due to an increase in FRP for 2017-18
- Hence sugar prices this year and next year will be higher

Thank you