



THE INDIAN SUGAR INDUSTRY: CURRENT STATUS & WAY FORWARD

- ABINASH VERMA,

DIRECTOR GENERAL, INDIAN SUGAR MILLS ASSOCIATION

Indian sugar production: an overview

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- ❖ World's 2nd largest sugar producer at 28 million tons
- ❖ Around 5 million hectares of land under sugarcane
 - ❖ 50 million cane farmers and their dependants
- ❖ Around 700 sugar mills installed
 - ❖ 530 operational
- ❖ World's largest consumer of sugar
 - ❖ Usually consume all sugar produced domestically
- ❖ **62-65% of sugar consumed directly by bulk users**

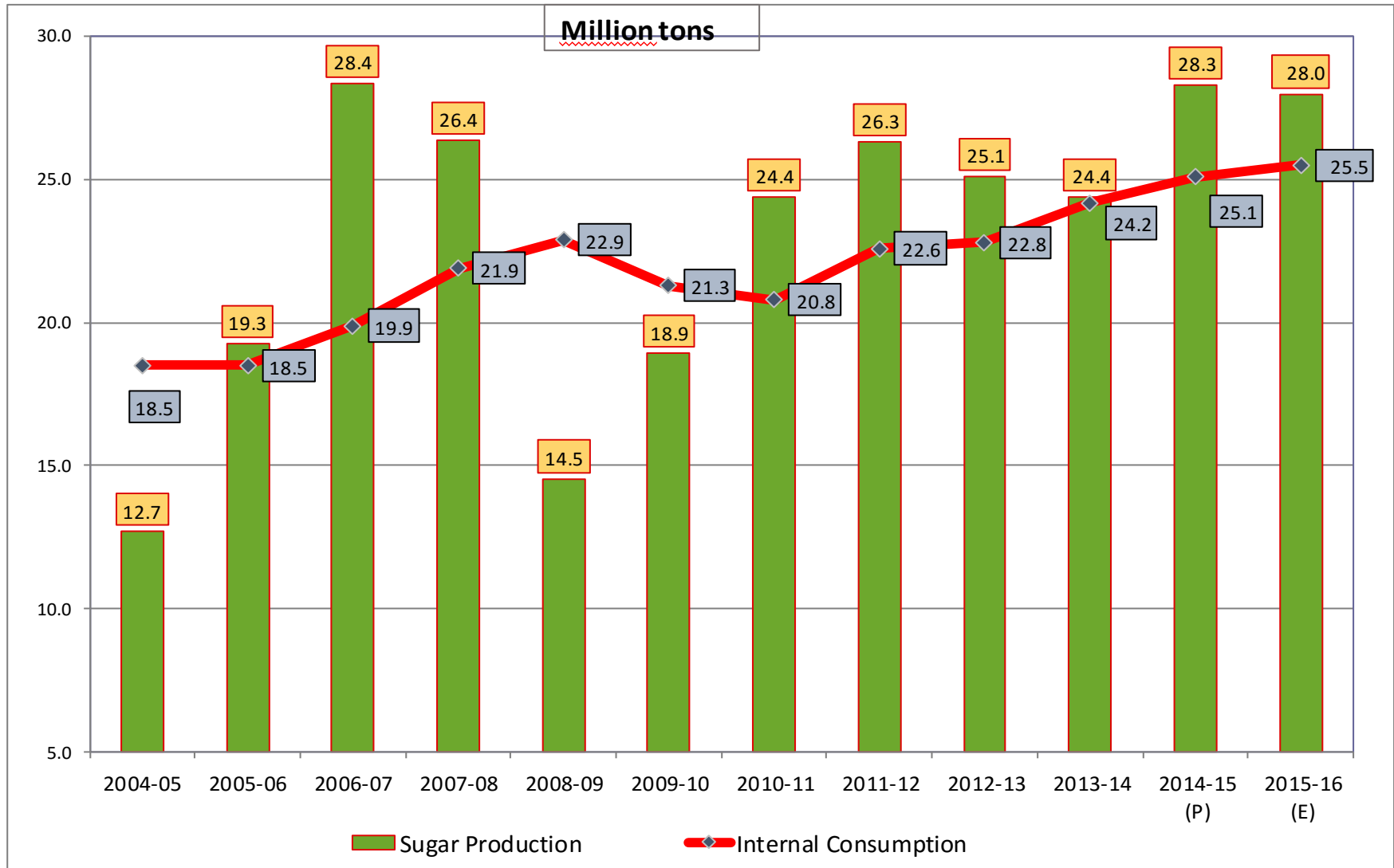
Infamous Indian production cycle

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- Previously there was a 5 year sugar production cycle
 - 3 years of surplus sugar, followed by 2 years of deficit
 - Large scale net exporter or importer of sugar
- Deficit sugar production acted as a self correcting mechanism and controlled surplus sugar
- **But in last 5 years, India has continuously produced surplus sugar**
 - **Surplus expected again next season, 6th year in a row**

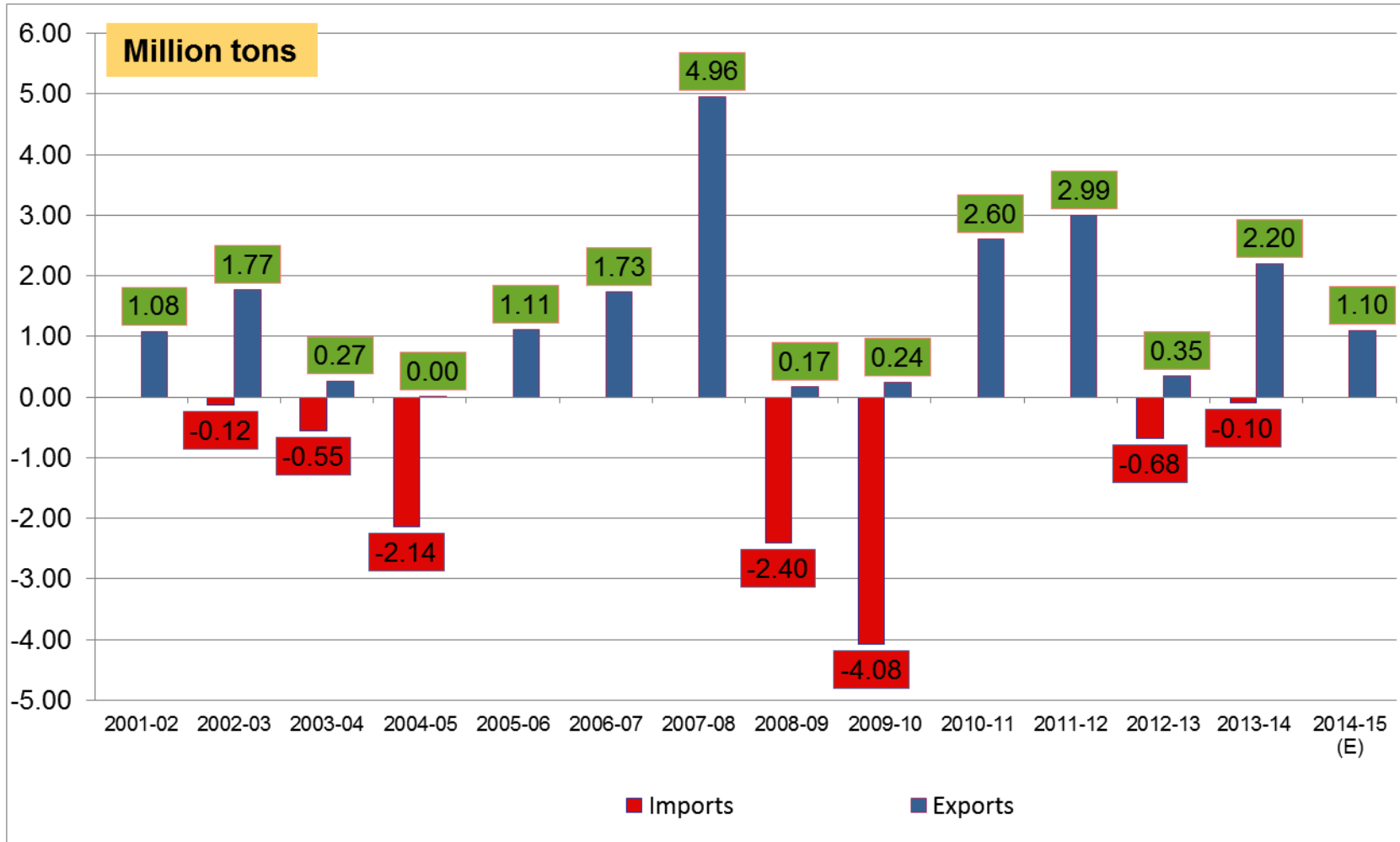
Sugar Production & Consumption

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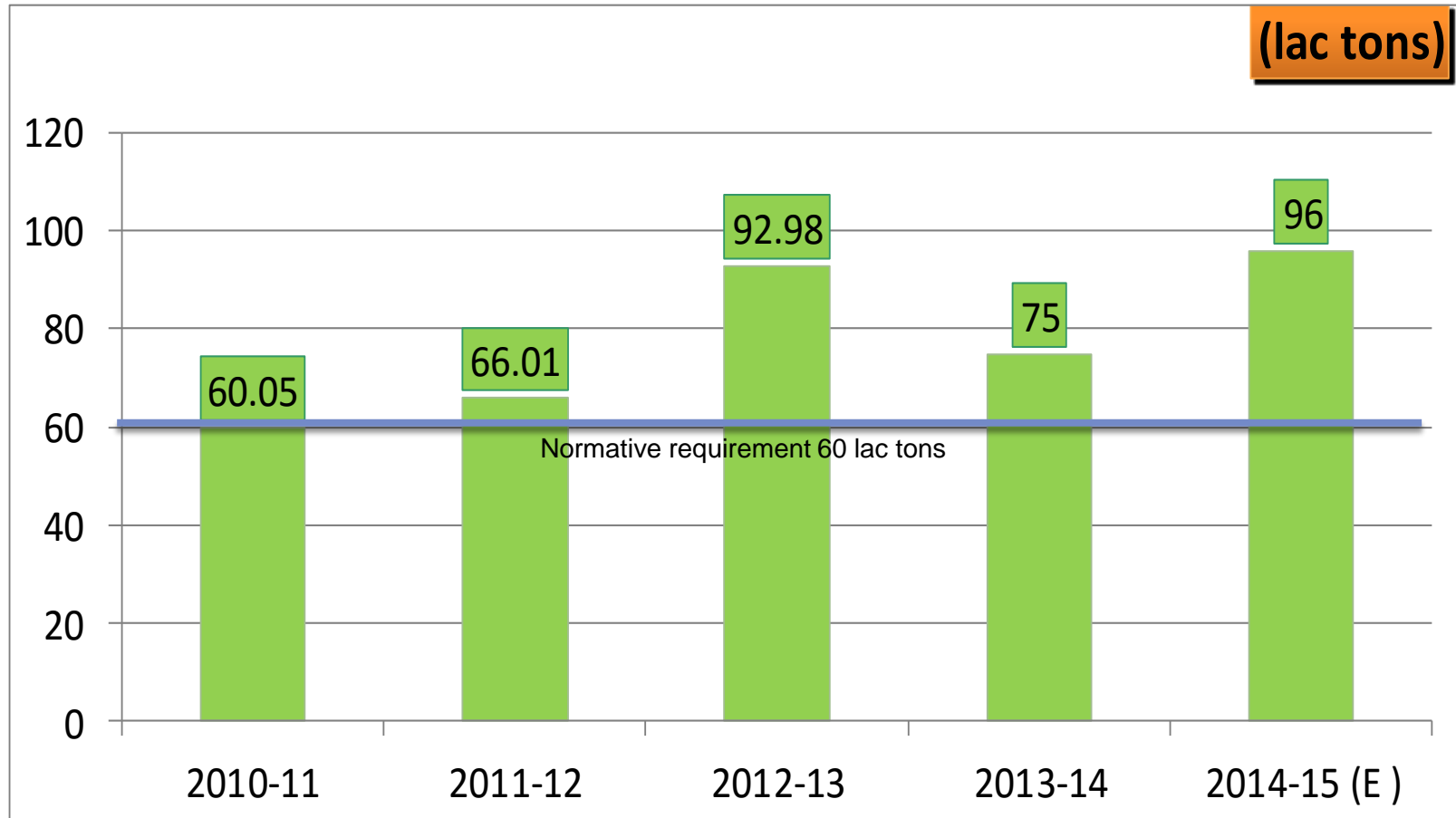


India of & on an exporter or importer

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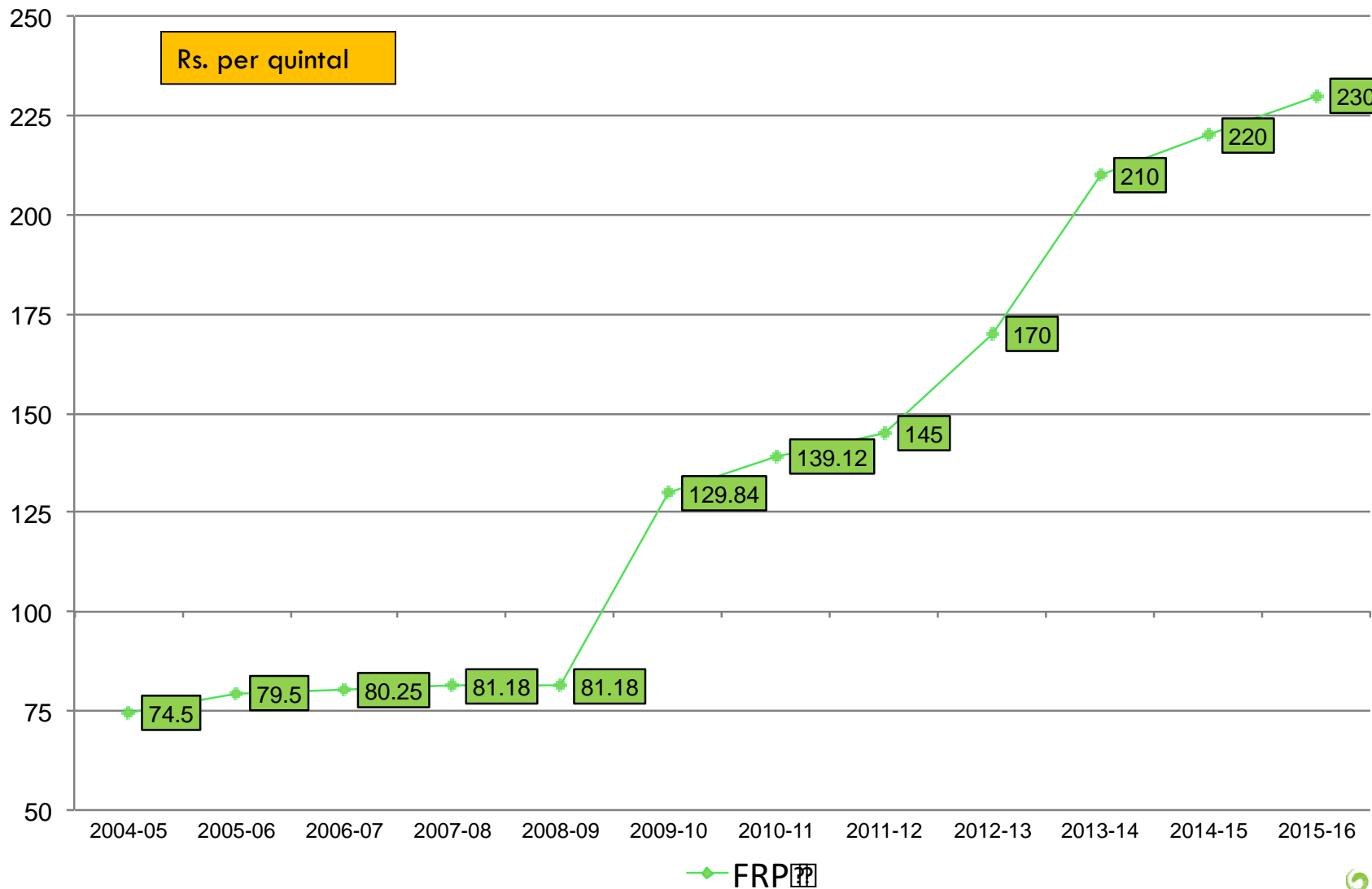
Carry forward sugar stocks increasing....



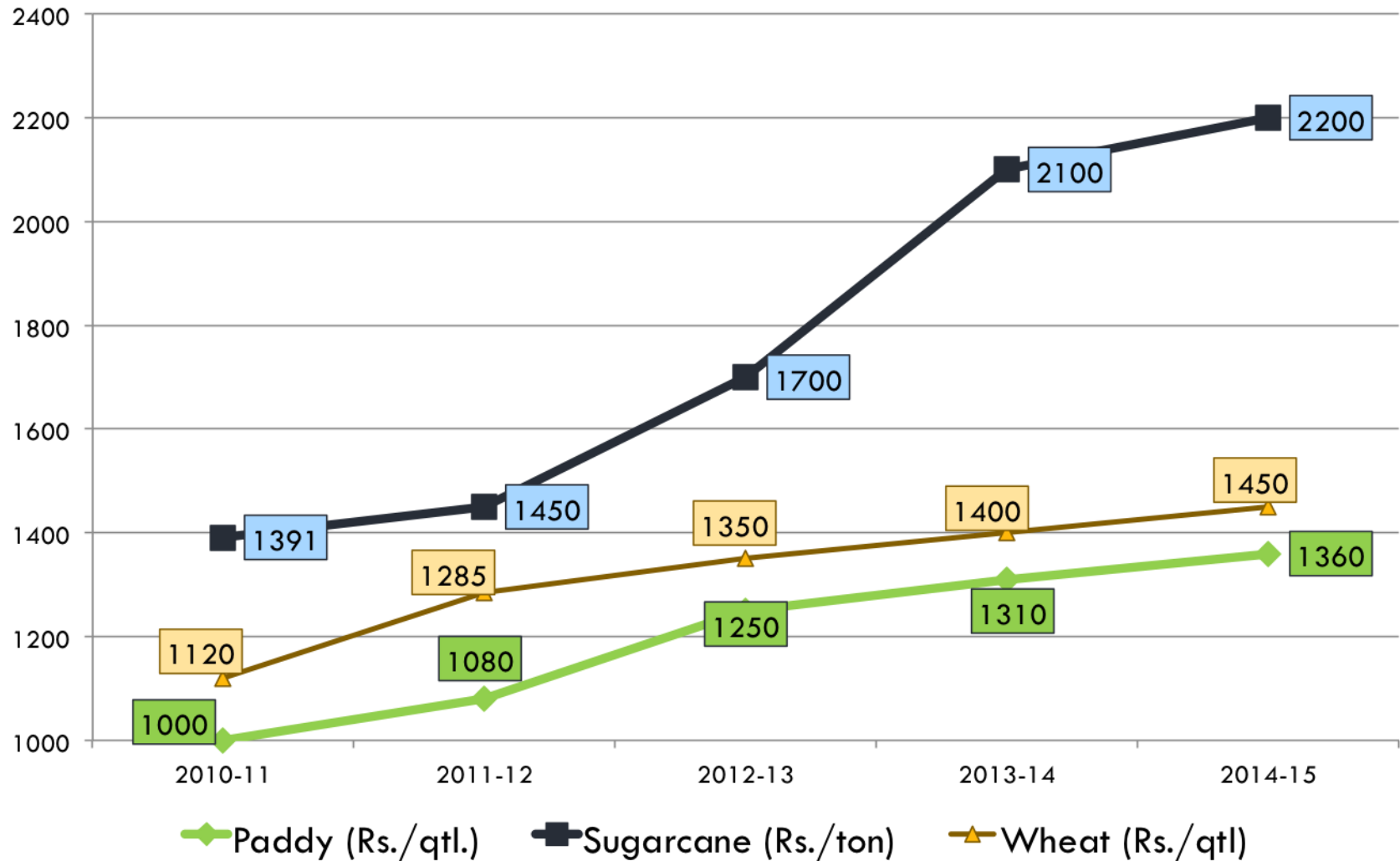
Every 10 lac tons of sugar **BLOCKS** Rs.3000 crore of working capital

Cane Price fixed by Government of India as SMP/FRP

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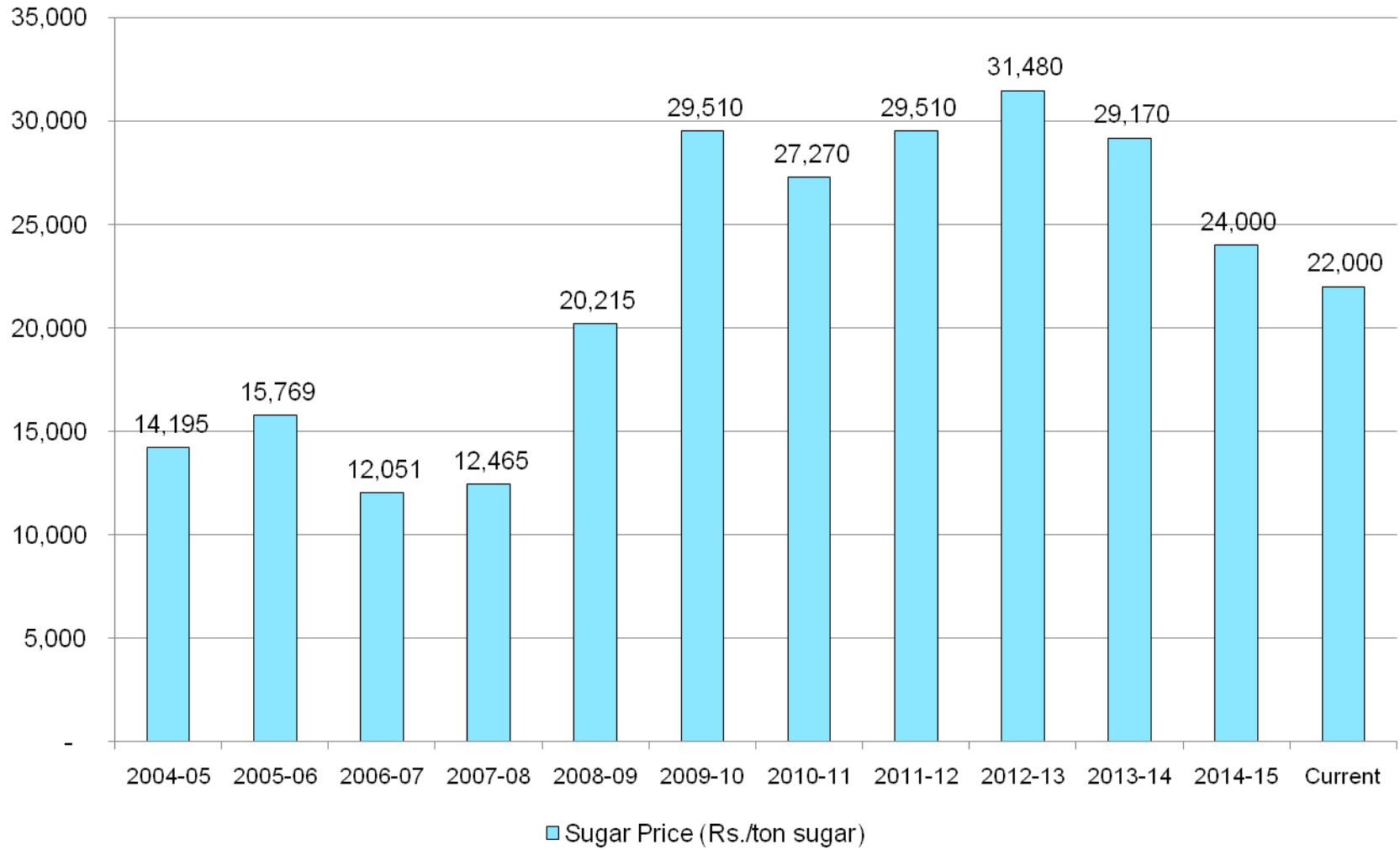


FRP of Sugarcane Vs MSP of Paddy and Wheat

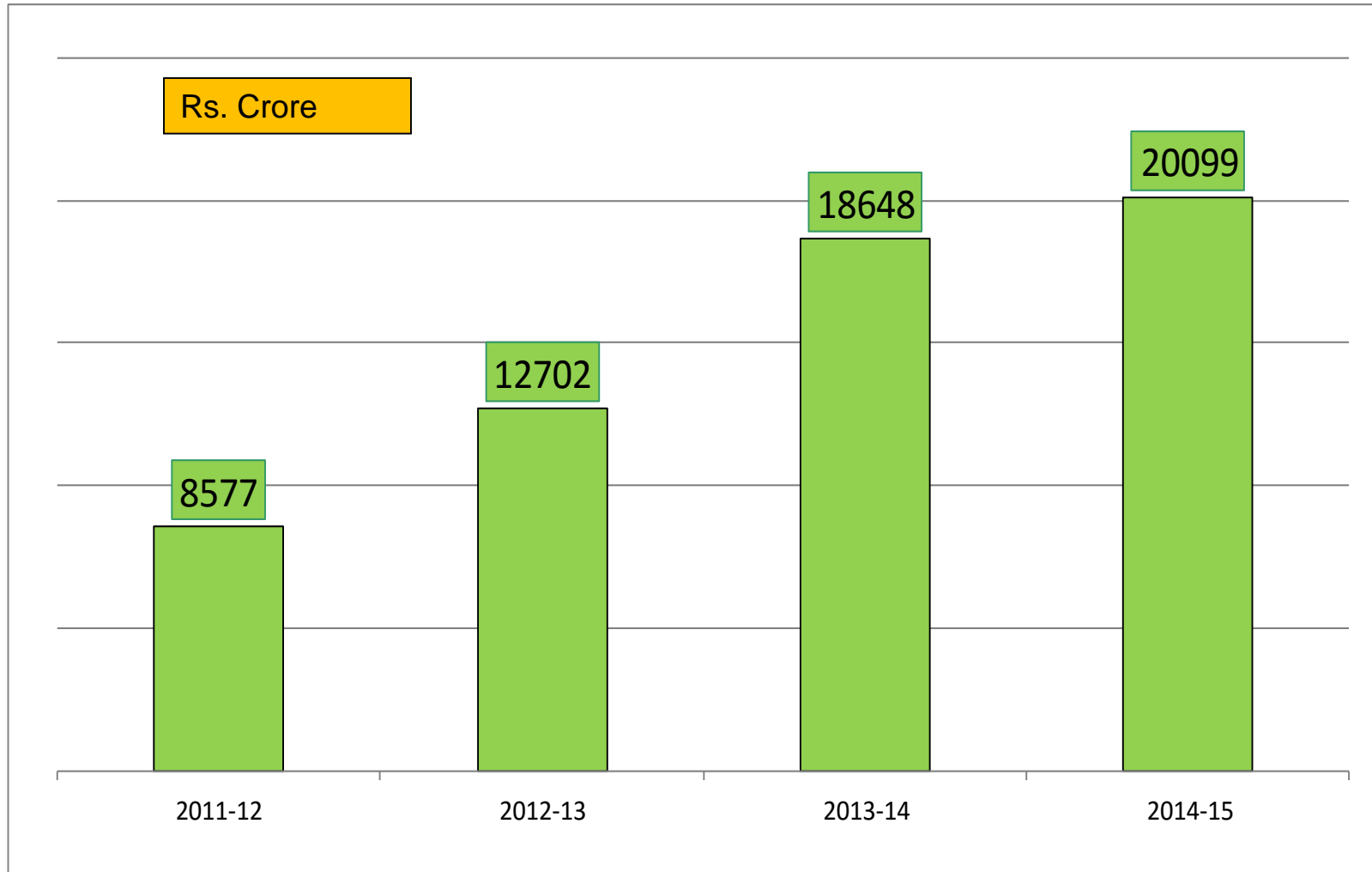


Average domestic sugar prices have been falling

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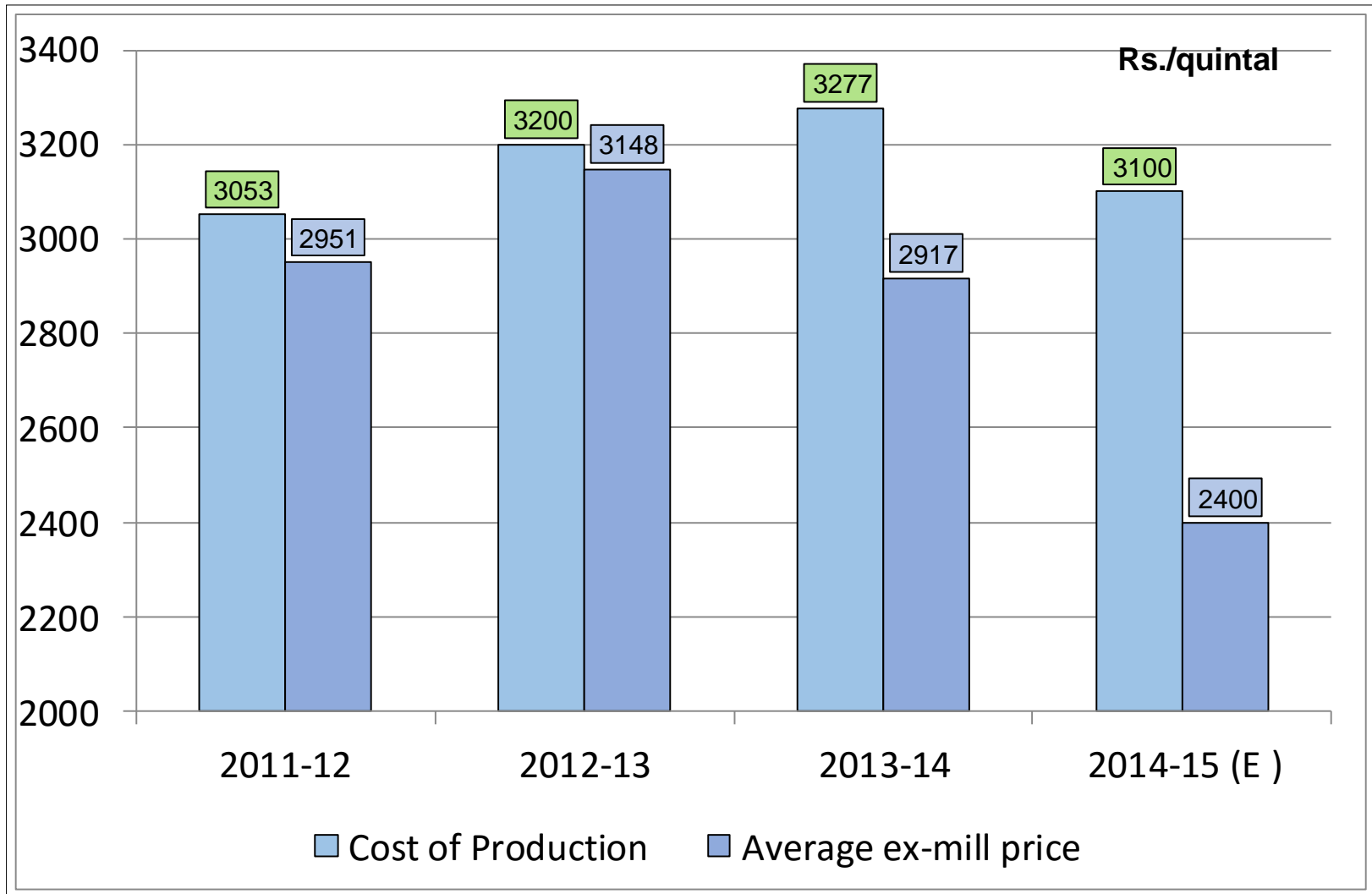


Cane price arrears as on 31st March

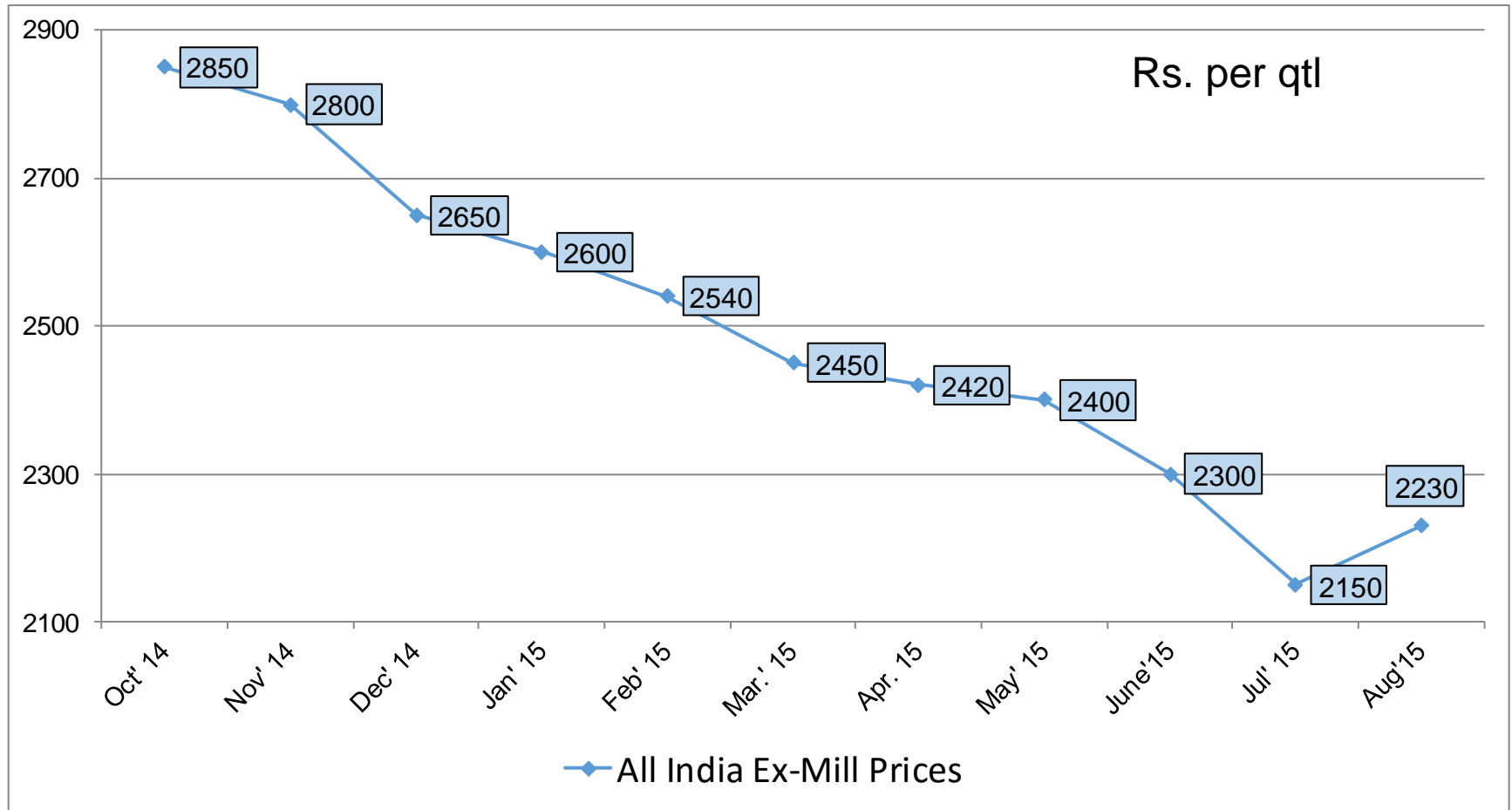


Cost of production vs. Average ex-mill prices

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All India Ex-mill prices in 2014-15 SS



Economics in 2015-16 SS

- All India average FRP at 10.3% recovery- Rs.249/qtl.
- Ex-mill sugar price may remain at same level – Rs.2500/qtl.
- Cane price as per revenue sharing formula of 75% – Rs.193/qtl.
- Gap between PRSF and FRP would be around Rs.15,000 crore

Adequate sugar price to pay FRP next year

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| Ex-mill price (Rs. per quintal) | PRSF @ 75% |
|---------------------------------|------------|
| Rs. 2400 | Rs. 185 |
| Rs. 2500 | Rs. 193 |
| Rs. 2600 | Rs. 201 |
| Rs. 2800 | Rs. 216 |
| Rs. 3000 | Rs. 232 |
| Rs. 3200 | Rs. 247 |

Sugar balance sheet in 2014-15 and 2015-16 SS

| In lac tons | | | |
|-------------|--------------------------------|---------|---------|
| S.No | Particulars | 2014-15 | 2015-16 |
| 1 | Opening Stock as on 1st Oct. | 75 | 96 |
| 2 | Production(Estimated) | 283 | 280* |
| 3 | Imports | ---- | --- |
| 4 | Total Availability | 358 | 376 |
| 5 | Off-take | | |
| | I) Internal Consumption | 251 | 255 |
| | ii) Exports | 11 | ? |
| | Total offtake | 262 | 255 |
| 6 | Closing Stock as on 30th Sept. | 96 | 121 |

* This includes 97 lac tons of sugar production in Maharashtra (105 lac tons of production in 2014-15 SS). ISMA will revise estimates of Maharashtra on account of lower rainfall and low water in reservoirs on 28th September, 2015 after considering retreating monsoon.

Government policies in the past

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- Sugar sales
 - Regulated release mechanism to control sugar supplies and prices
 - Levy sugar obligation on sugar mills
 - Direct control on sugar export quantities
 - Import controls also through import tariff

- Sugarcane side
 - Cane price fixed by Central Government; also by few States
 - Cane area reservation for each sugar factory
 - Minimum distance between two sugar factories

Changed Govt. policies since April, 2013

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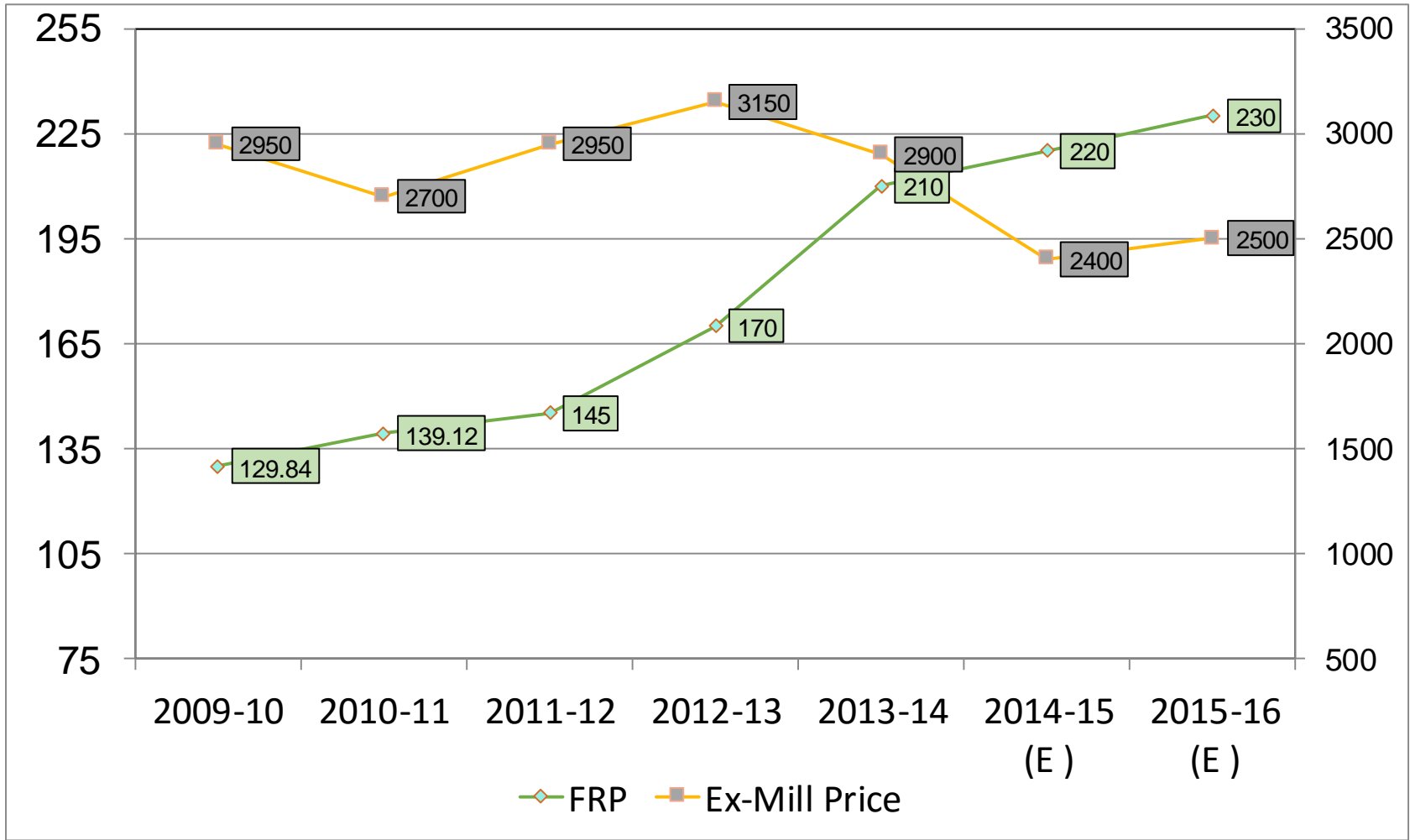
- Controls on sugar sales withdrawn in April, 2013
 - Factories have full freedom to sell as per need and market conditions
 - Sugar sales and sugar prices are therefore, market determined
 - Freedom to export and import, **only control is on import duty**
- But sugarcane price and quantity still controlled
 - Which is not market determined, but politically fixed
 - Mismatch between cane price and sugar price
- Cane area reservation and minimum distance between factories remain

Current Government policies

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- Sugar sales and sugar prices are market determined
- But sugarcane price and quantity controlled
- Mismatch between cane price and sugar price

FRP v/s average ex-mill price in last 7 years



Cost of production of sugar in India is high

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- Making Indian sugar uncompetitive
- Making Indian exports unviable
- Surplus sugar in India depresses sugar prices
- Resulting in massive losses to millers and cane price arrears of farmers

What has changed is

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PREVIOUSLY

- 5 year sugar cycle: 3 years of surplus sugar and 2 of deficit
- India sugar industry was forced to export or import sugar

NOW

- Surplus sugar continuously in 6 years, incl. in 2015-16
- India is therefore no longer experiencing the cycle
- Indian industry becoming structurally a surplus producer
- With high sugarcane price, surplus expected in future too

Competitiveness of Sugar Industry

- Main reason for an uncompetitive sugar industry is
 - High cost of production of sugar
 - Which is in turn only because of an unrealistically high cane price
 - Sugar mills in India pay the highest cane price in the world
 - No other crop as remunerative, resulting in surplus sugarcane every year
- **Therefore, to make Indian sugar industry competitive,**
 - **Rationalise cane pricing policy, at par with norms across the world**
 - **Mechanism to export the surplus sugar**
 - **Use ethanol blending programme to balance surplus sugar**

Rationalised sugarcane pricing policy

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- Currently FRP is fixed by GOI, and SAP by 5 States
 - No link between cane and sugar prices
 - Cane price has crossed 100% of revenue realisation, leaving nothing for other liabilities
- All sugar producing countries have a cane–sugar price linkage
 - Cane price generally at 62 to 65% of revenue realised across the world
- Rangarajan Committee recommended for a linkage formula
 - Cane price @ 70% of revenue from sugar & primary by-products or @75% of revenue from sugar alone
 - With a minimum guaranteed FRP and in two instalments

Cane price-sugar price linkage formula

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- In last 3-4 years, FRP has increased by over 50%
- Sugar prices have not kept pace. It has decreased to lowest in last 6 years
 - FRP has become unaffordable to sugar mills
- Maharashtra & Karnataka have adopted the formula
 - With FRP as the minimum
 - But depressed sugar prices and higher FRP, mills unable to afford FRP
- **CACP has suggested for a system where mills will pay cane price as per linkage/formula**
 - **And gap between this and FRP has to be filled up from a Fund**

Addressing the problem of surplus sugar

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A combination of:

- Exports, including mandatory exports
- Strategic reserve
- Conversion into ethanol

Ethanol blending programme

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- Use the ethanol blending programme to balance surplus sugar
- Recent Government steps are encouraging
 - Fixed pricing system
 - Removal of excise duty from ethanol
- Some more steps needed
 - Easier inter-State movement of ethanol and molasses
 - Capacity build up for ethanol & faster environmental clearances
 - Stop States from imposing taxes/duties on ethanol
 - Longer distance transportation needs to be adequately covered

Concluding Way forward....

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- Linkage between cane and sugar price only way forward
- A vibrant ethanol blending programme
- Sustainable mechanism to dispose off the surplus sugar

Creation of Price Stabilisation Fund

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- CACP has recommended as follows for 2015-16 SS
 - Rs.230 per quintal of cane price as FRP
 - Sugar mills pay as per revenue sharing formula (RSF)
 - If price as per RSF is lower to FRP, the gap be filled by Government, for which Govt. should create a Price Stabilisation Fund (PSF)
- Industry feels that this is the only long term solution, at least till such time the distortion in prices between sugarcane and other crops is corrected.

Assistance from banking sector

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- Debt burden has increased from Rs.11,500 crore in FY 2007-08 to Rs.44,000 crore in FY 2012-13
 - Main reasons for increased borrowing has been to fund the losses
- Under current circumstances, it has become difficult to pay cane price of farmers and also service the debt
 - Need to therefore, restructure industry's debt including re-schedulement of repayment period to 10-12 years, with few years of moratorium, and conversion of part of working capital loans to term loans

Thank you

dgisma@indiansugar.com