

**Sugar Outlook
for India:
Sugar Production and
Trade**



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AGENDA



Demand & Supply



**Indian Sugar Sector:
Post De-regulation**

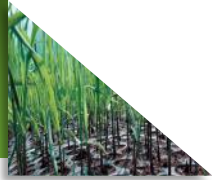


**Sugar Situation in
Coming Years**





Indian Sugar Industry – An Overview



01

World's largest consumer of sugar at 25-26 million tonnes p.a.

02

World's 2nd largest sugar producer at 25-28 million tonnes p.a.

03

Annual output ~ Rs. 80,000 crore

04

Around 530 sugar mills under operation

05

Around 5 lakh workers directly employed in sugar mills

06

About 50 million Sugarcane farmers

07

Around 5 million hectares of land under sugarcane

08

About Rs. 65,000 crore cane price payment annually

09

Per capita consumption is low at around 20 kilo

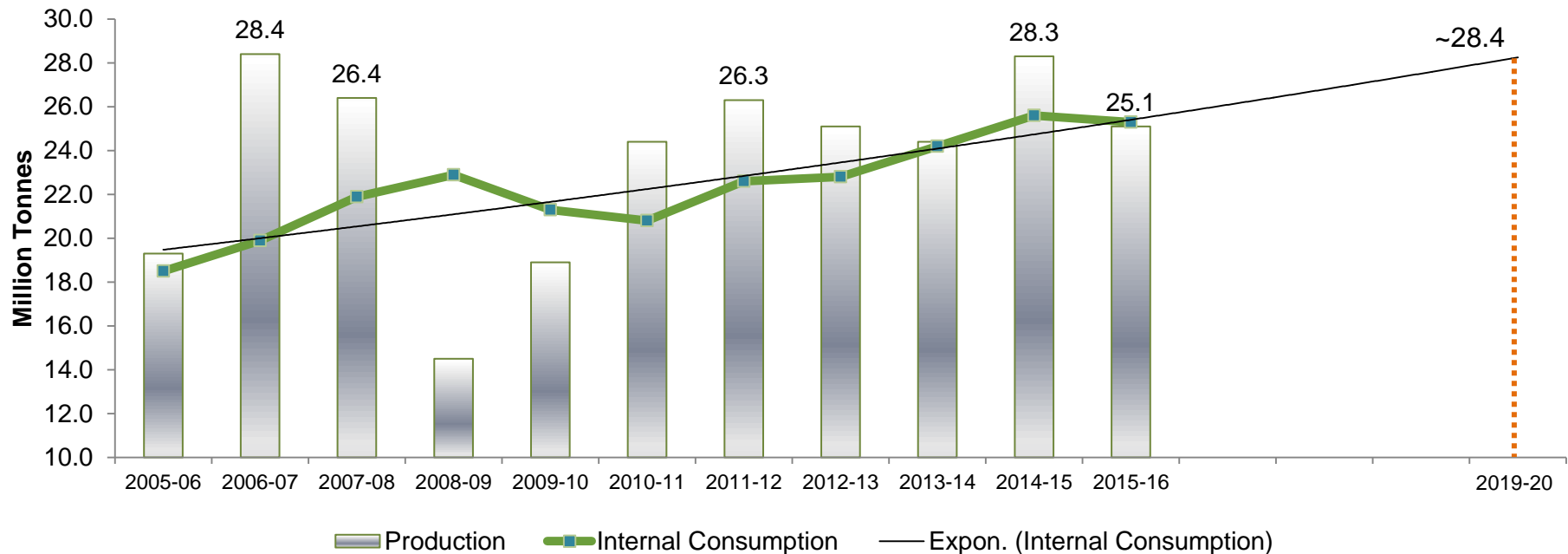
Demand & Supply



- ✓ Indian sugar production & consumption
- ✓ India off & on an Exporter or Importer
- ✓ Month-wise domestic sales
- ✓ Consumption pattern of sugar in India
- ✓ Carry forward sugar stocks

Demand & Supply

1 Indian Sugar Production & Consumption

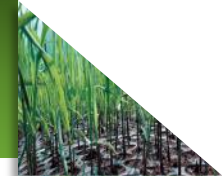


- Even though the real consumption is increasing y-o-y due to various factors
- There has been fluctuations in consumption as it is derived from production and change in inventory, not on real consumption data

A growth of 3% y-o-y in consumption will result in reaching the country's peak production in 4 years time

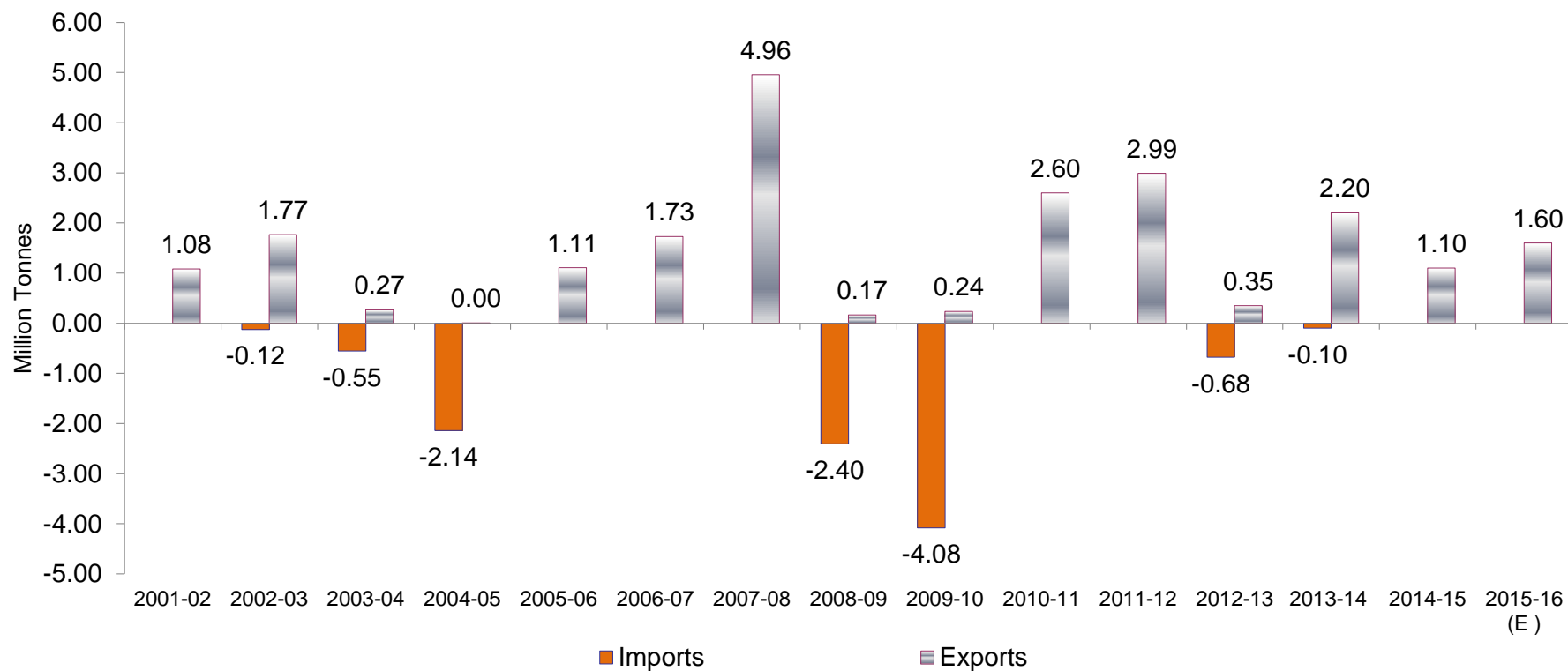


Demand & Supply



2

India off & on an Exporter or Importer



- Climatic factors and sugarcane pricing policy results in uneven sugarcane production making India an inconsistent exporter or importer
- Being the largest consumer and inconsistent exporter or importer, India is one of the key influencers in international sugar price movement

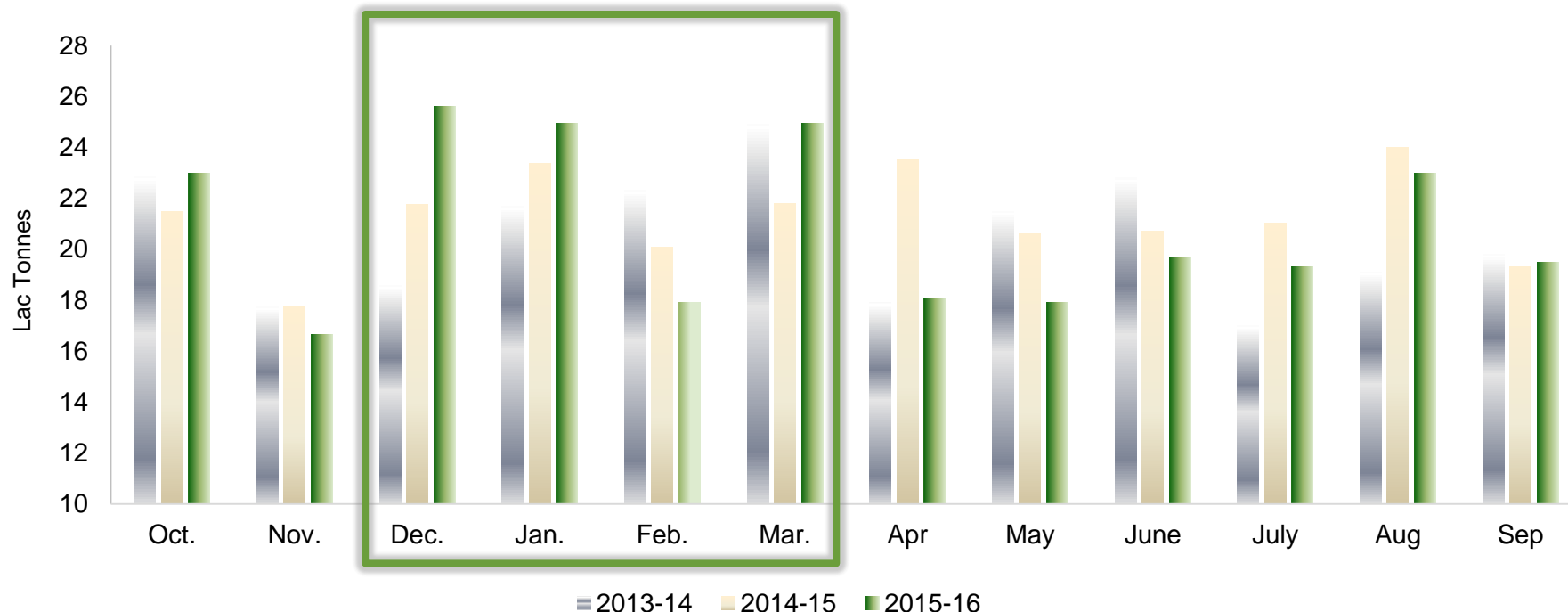


Demand & Supply



3

Month-wise Domestic Sales



- Common Perception – Demand is high during festive season Oct – Nov
- In reality, domestic sales is highest between Dec – Mar due to:
 - ✓ Institutional buyers purchase sugar in preparation for the summer season
 - ✓ Sugar mills sell more sugar in order to clear cane payments



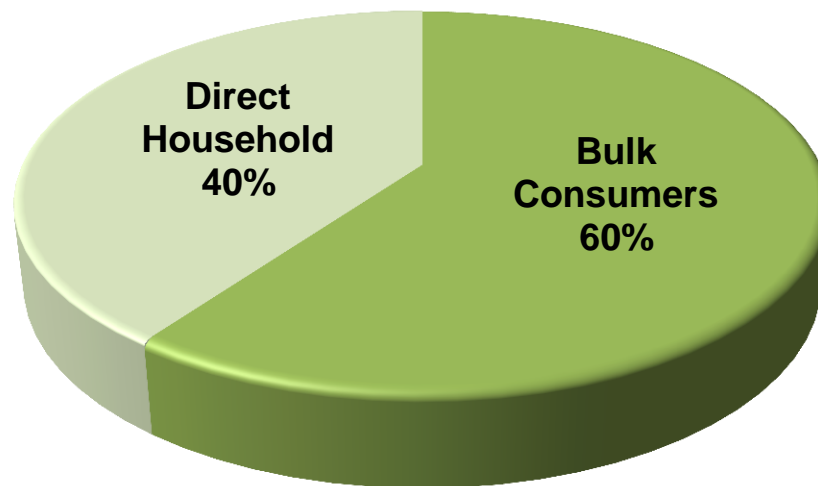
Demand & Supply



4 Consumption Pattern of Sugar in India

- Two major sources of sugar demand – Bulk Buyers & Direct Household
- Supply is linked to domestic sugar production, imports and exports
- Contrary to the public perception, the price impact on inflation and monthly household budget is minimal as bulk of sugar is consumed indirectly

Sugar Demand



4 Consumption Pattern of Sugar in India

- All India per capita Direct Household Consumption of sugar is estimated at 804 gms/ month
- As the % consumption of sugar in monthly household is only 2-3%, an increase of sugar price of Rs. 5/kg in a month, will have only an impact of 0.5% on the overall food budget of any household

Monthly/capita expense on Food (Rs.) : All India 2011-12

Item	Rural	Urban	% of total food - Rural	% of total food - Urban
Cereals & Pulses	196	229	26	20
Milk, egg etc	183	280	24	25
Vegetables, fruits etc.	136	212	18	19
Edible oil	53	70	7	6
Sugar	21	25	3	2
Salt & spices	55	69	7	6
Beverages etc	113	236	15	21
Total Food	756	1121	100	100

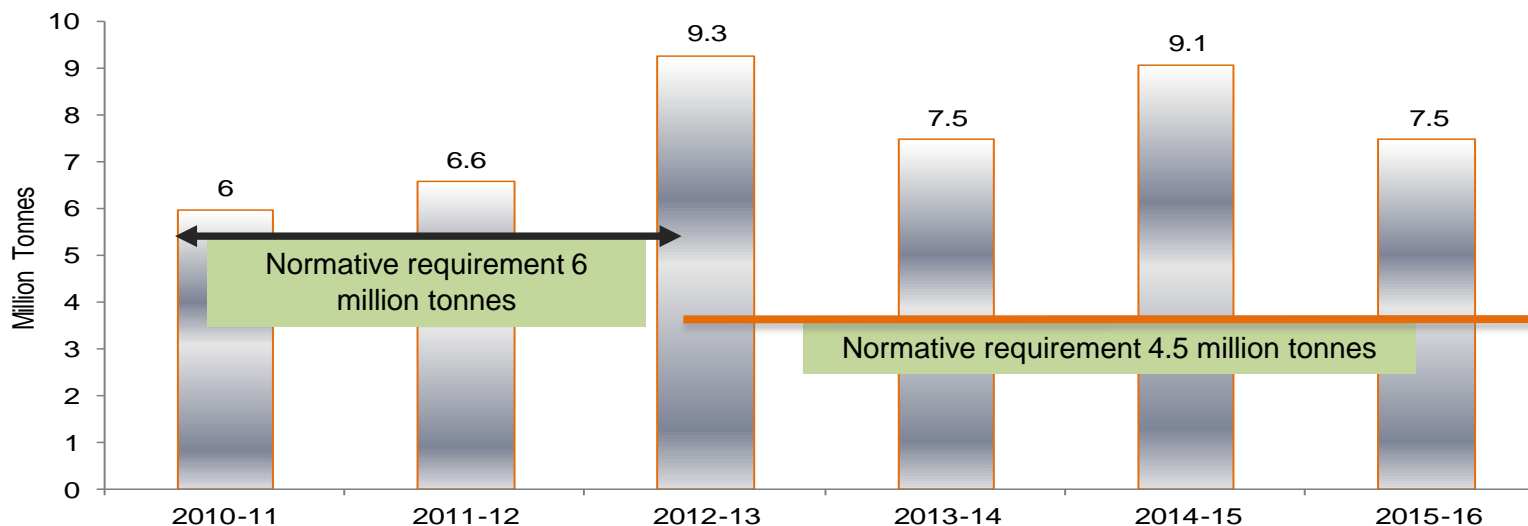


Demand & Supply



5

Carry Forward Sugar Stocks



- 2010-12 (Pre-control period) – As the consumption and sales data was not available on time with the Government ~ 6 million tonnes of stocks were maintained
- 2012-13 onwards (Post decontrol period) – As the supplies are controlled by market forces/demand, stocks are maintained at normal levels of ~ 4.5 million tonnes

Every 1 million tonnes of sugar blocks Rs. 3000-3200 crore working capital

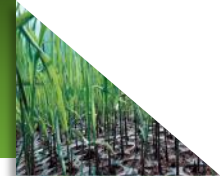
Indian Sugar Sector: Post De-regulation



- ✓ Changed Govt. policies since April, 2013
- ✓ Cane Price fixed by Government of India
- ✓ All India Average ex-mill sugar prices
- ✓ India's Retail price v/s other key countries
- ✓ Cane price comparison to major exporting countries
- ✓ Global Per Capita consumption of Sugar
- ✓ Current situation in Indian sugar sector



Indian Sugar Sector Post De-regulation



1 Changed Govt. policies since April, 2013

**Output
Decontrolled**

Controls on sugar sales withdrawn in April, 2013

- Full freedom to sugar mills to sell as per need and market conditions
- Sugar sales and sugar prices are therefore, market determined
- Recently, GoI imposed stock holding limits on mills for two months
- Control on imports and exports through duty

But sugarcane price and quantity still controlled

- Which is not market determined, but politically fixed
 - Mismatch between cane price and sugar price

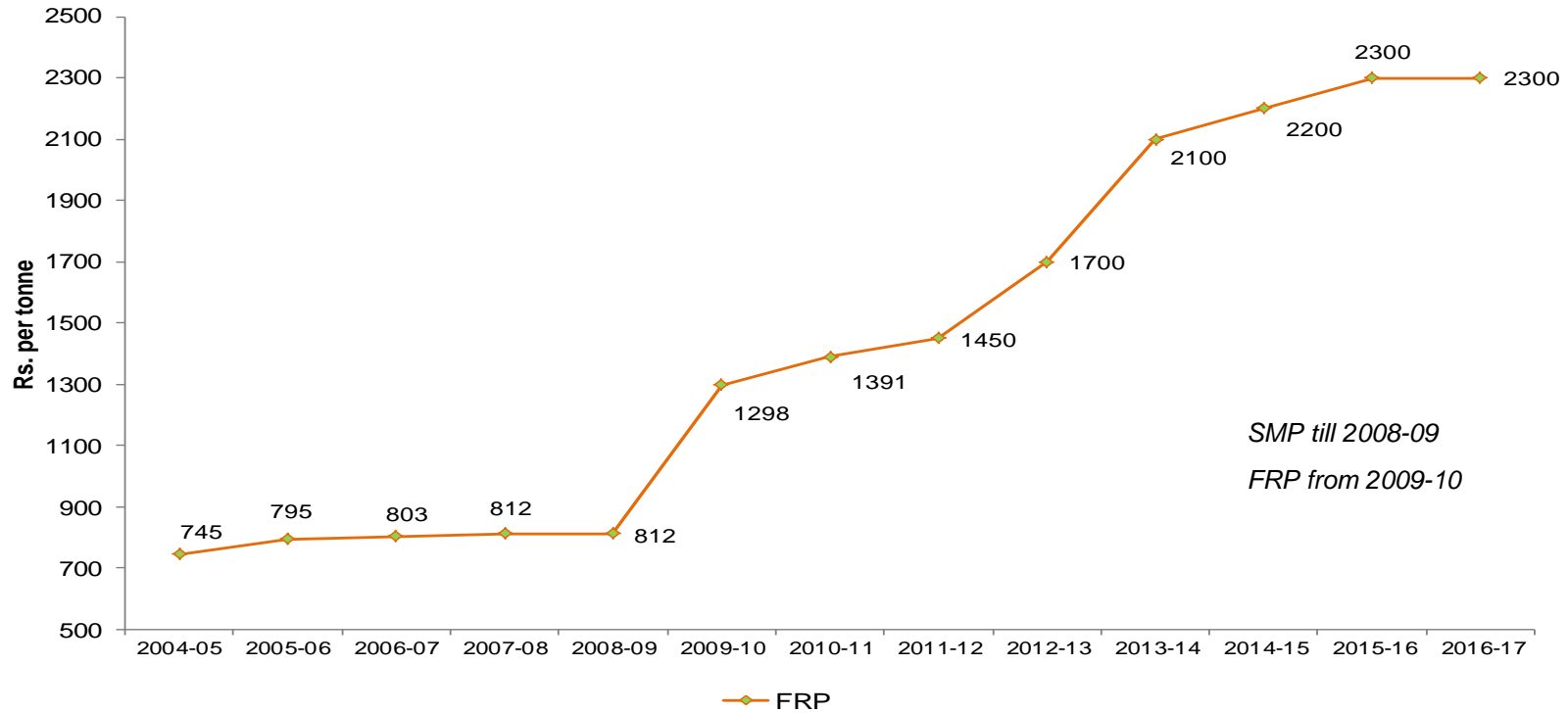
Cane area reservation and minimum distance between factories remain

**Input still
controlled
by the
Government**

Partial decontrol leading to unrealised potential of the sector

Indian Sugar Sector Post De-regulation

2 Cane Price fixed by Government of India



9% increase
from 2004-05 to 2008-09

79% increase
from 2008-09 to 2011-12

59% increase
from 2011-12 to 2015-16

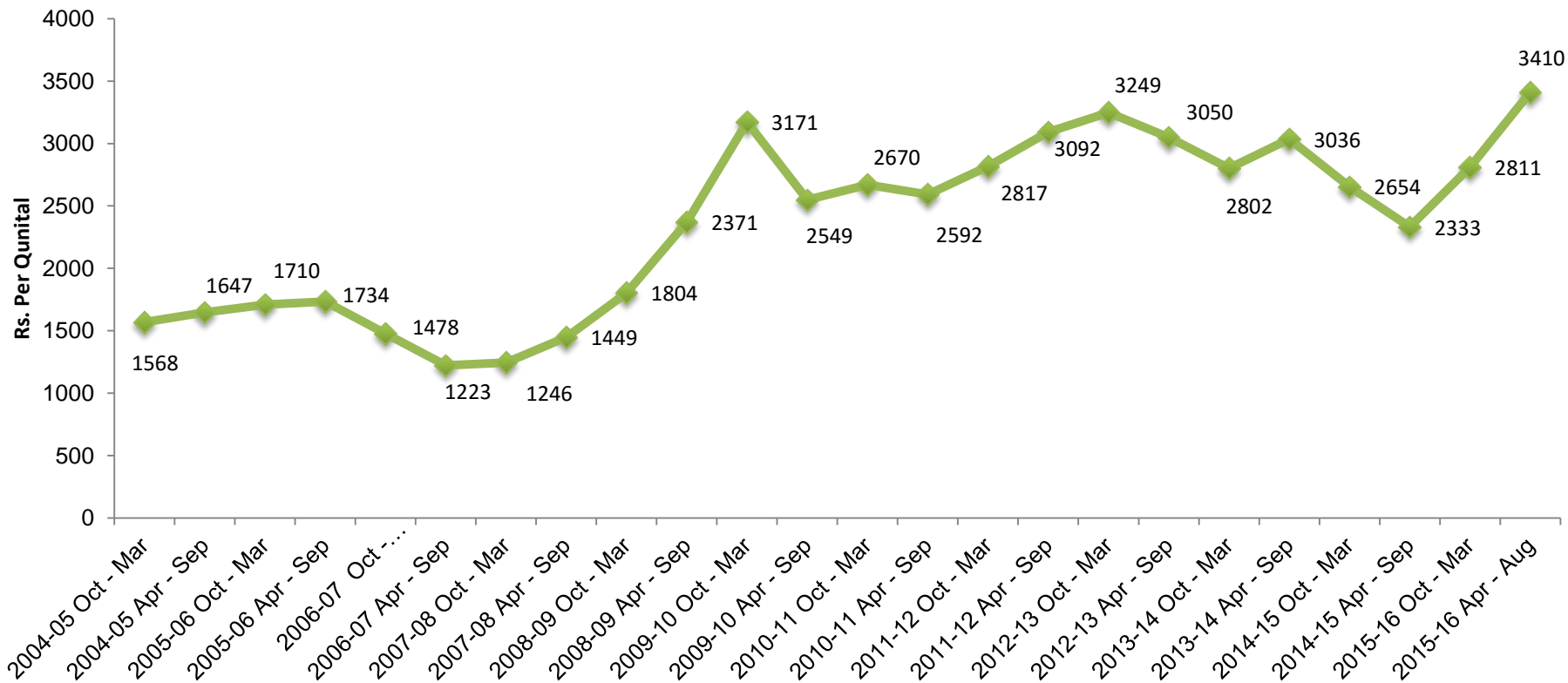


Indian Sugar Sector Post De-regulation



3

All India Average Ex-Mill Sugar Price



30% increase
from 2004-05 to 2008-09



42% increase
from 2008-09 to 2011-12



5% increase
from 2011-12 to 2015-16



Indian Sugar Sector Post De-regulation



4 India's Retail price v/s other key countries (USD/ton)

Country	2014	2015	2016
USA	1343	1441	1429
Philippines	1131	1175	1200
Brazil	840	584	802
Mexico	688	665	685
Russia	960	870	680
Thailand	673	606	658
India	573	474	560

India has the lowest retail price of sugar in comparison to other key sugar consuming countries



Indian Sugar Sector Post De-regulation



5 Cane price comparison to major countries

Cane price paid as per RSF in 3 exporting countries and India having fixed FRP

Year	Cane price paid (Rs. per tonne)				
	Brazil	Australia	Thailand	India	
				FRP	Average recovery
2011-12	1946	1692	1530	1565	10.25%
2012-13	1734	1947	1625	1795	10.03%
2013-14	1641	1631	1710	2261	10.23%
2014-15	1623	1733	1683	2402	10.37%
2015-16	1179	1442	1683	2580	10.65%

India has highest cane price with lowest retail price of sugar



Indian Sugar Sector Post De-regulation



6 Global Per Capita consumption of Sugar

	(Kilograms)				
Countries	2011	2012	2013	2014	2015
Brazil	64.10	61.20	58.70	54.30	53.60
Australia	44.90	45.70	44.40	46.60	48.20
Thailand	38.10	39.60	42.00	43.10	42.70
Argentina	37.70	39.00	39.30	39.60	38.10
Russian	39.30	39.30	39.30	36.90	37.50
EU	35.20	36.00	37.10	37.90	35.20
South Africa	36.60	36.60	36.70	35.30	34.10
USA	31.00	30.80	32.50	31.60	33.70
Sri Lanka	31.00	31.10	31.60	31.80	32.10
Turkey	28.50	30.70	29.60	30.50	28.30
Pakistan	25.20	25.30	25.40	25.60	25.70
India	16.50	18.10	17.90	18.60	19.80
World Average	21.70	22.70	22.80	22.90	23.00

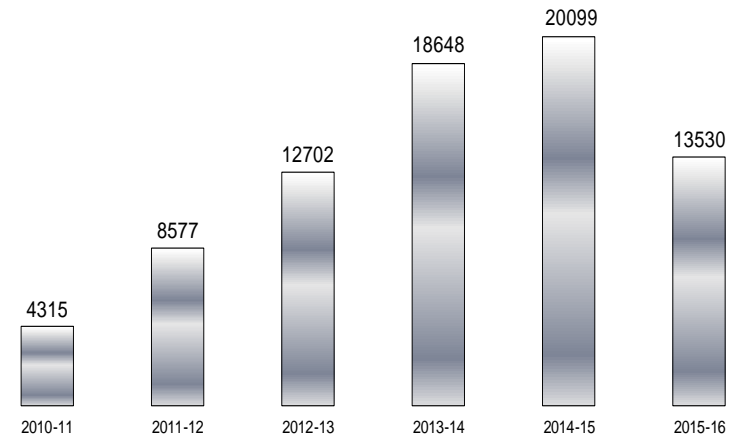
**India has lowest per capita consumption of sugar as compared to world average
Potential to grow due to increased per capita income**

Indian Sugar Sector Post De-regulation

7 Current situation in Indian sugar sector

- Sugarcane has become the most remunerative crop
 - ✓ Leading to surplus sugarcane and surplus sugar
- Cost of production of sugar in India is high
 - ✓ Making Indian sugar uncompetitive
 - ✓ Making Indian exports unviable
- FRP for SS 2016-17 fixed at Rs. 2300/tonne
- Sugar mills under huge financial stress due to 4 years of losses
- Ex-mill sugar price realization should be atleast Rs. 3600/qtl. to pay above FRP

Cane price arrears in March at All India level (Rs. Crore)



Total estimated debt of the industry ~ Rs. 50,000 crore

More than Rs. 10,000 crore p.a. of interest burden on the industry

Capital investment in the sugar sector possible only when industry makes profit on a continuous basis

Even at current sugar prices, large no. of sugar mills still make marginal profits only

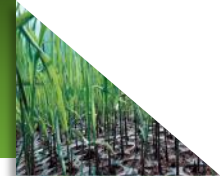
Sugar Situation in Coming Years



- ✓ Situation in SS 2016-17
- ✓ SS 2017-18 to be bumper/surplus
- ✓ Policy suggestions

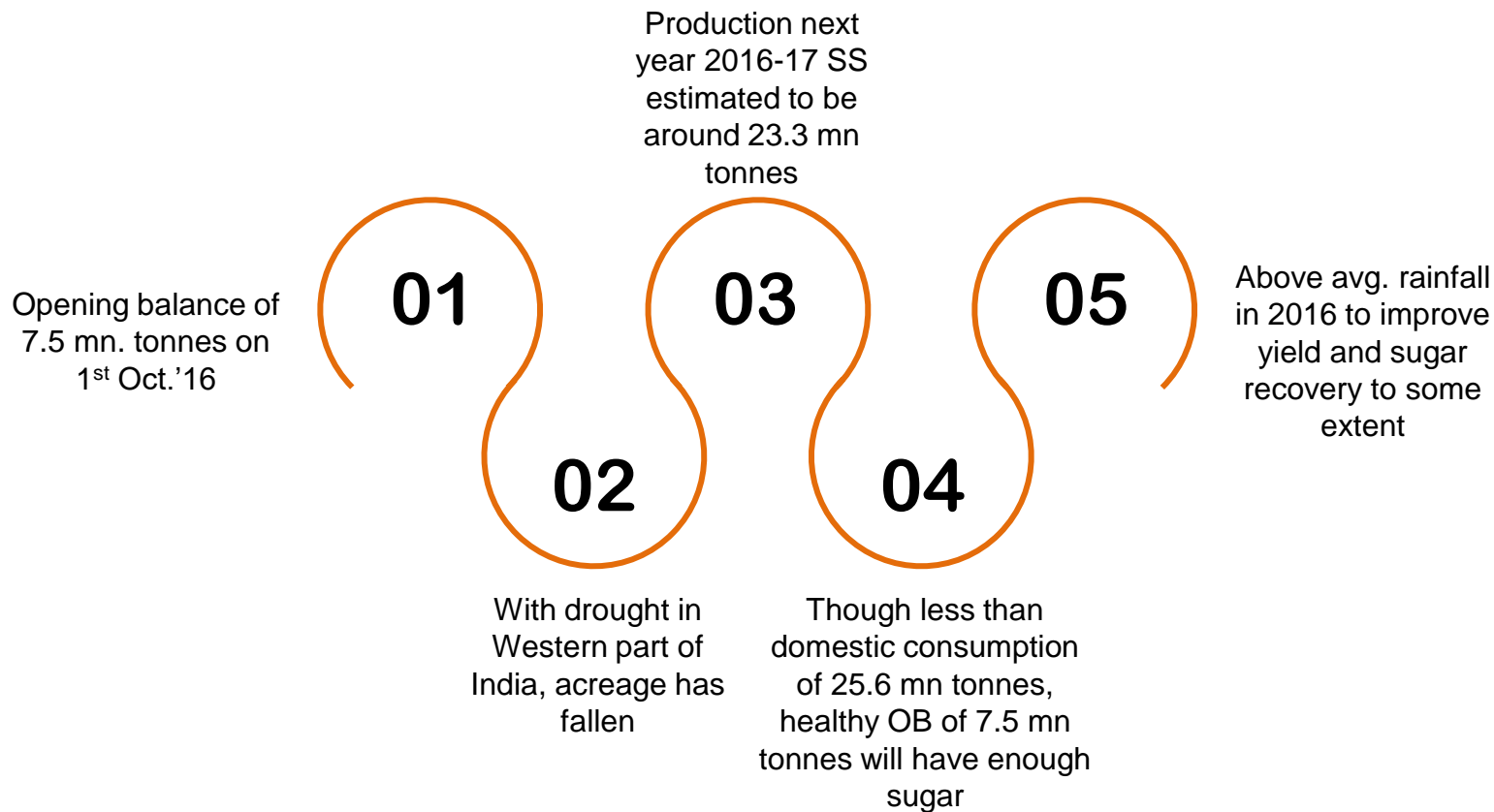


Sugar Situation in Coming Years



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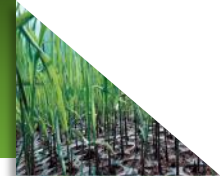
Situation in SS 2016-17



Adequate inventory is available – No import required



Sugar Situation in Coming Years



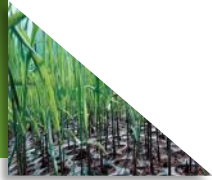
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SS 2017-18 to be bumper/surplus

- Cane area across the country will be much better, due to:
 - ✓ Better monsoon and water availability in reservoirs
 - ✓ Possibility of higher and timely cane price payments because of strong competition amongst millers in SS 2016-17
- Better yields and recovery
 - ✓ Due to more area under 15 and 18 month crops
 - ✓ Better care of crop including irrigation, by farmers
- No other crop giving equivalent returns
 - ✓ In fact, despite arrears, farmers are still growing 'surplus' sugarcane
 - ✓ Now with better and timely payments, they will increase area further
- Experts feel return of bumper/surplus cane crop in SS 2017-18
- OB estimated at 5.2 mn. tonnes for 2017-18 but supply from new season will be enough to meet the shortfall in Q1 of SS 2017-18



Sugar Situation in Coming Years



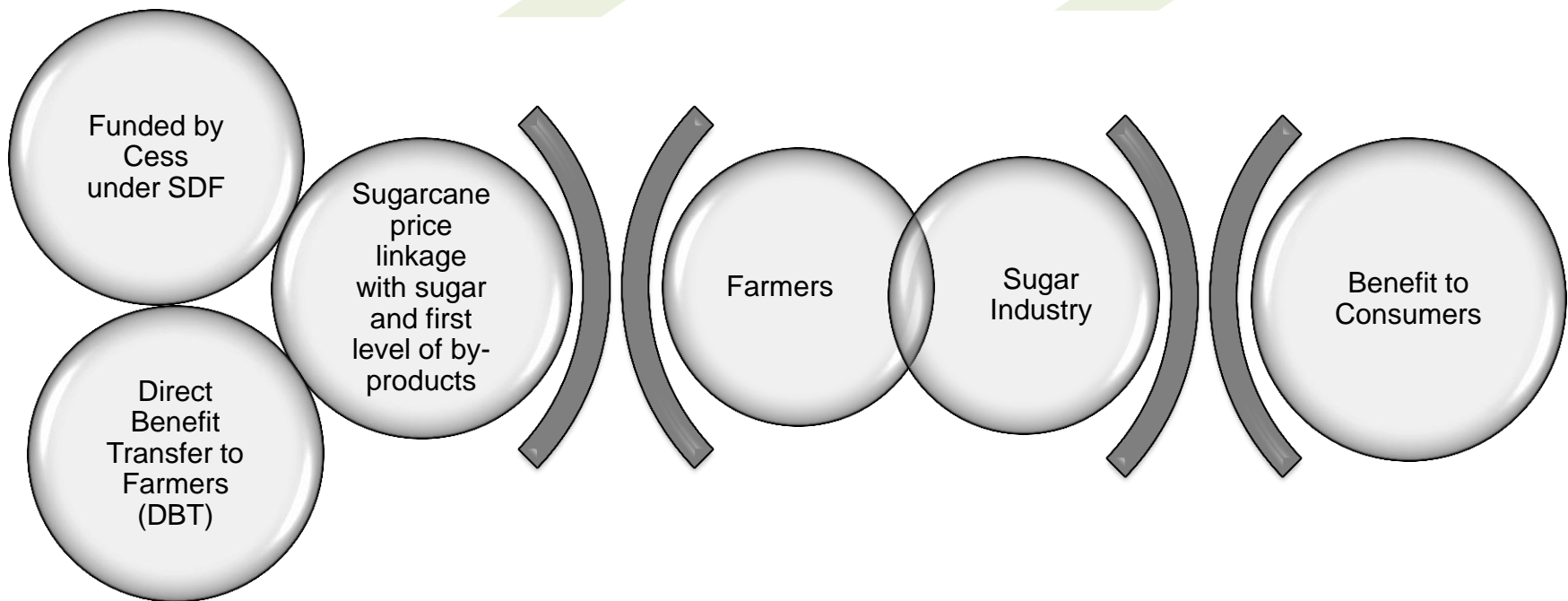
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Policy suggestions

Single Sugarcane Price formula across the country

Stable & viable Sugar Industry

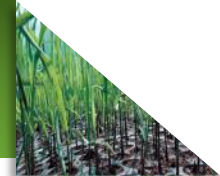
Steady supply of Sugar leading to stable sugar prices



Win-Win for Farmers, Sugar Industry and Consumers



Sugar Situation in Coming Years



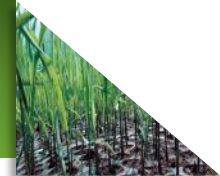
3 Policy suggestions

Single Sugarcane Price formula across the country

- In 2015-16 report, CACP recommended that under the Revenue Sharing Formula (RSF), the Total Revenue Pot (TRP) generated from the cane-sugar value chain, which is the value of sugar and its first stage by-products, be shared between the farmers and the millers in the ratio of their relative costs in producing cane at farm level and converting that cane into sugar and its by-products at factory level
- Based on the Commission's in-depth study undertaken earlier, this ratio works out to 75:25 at 10.31 recovery rate
- However, arrangement under RSF needs to be aligned with FRP to protect the farmers in the event of any downward movement in prices of sugarcane. The FRP would serve as the floor price which the farmers would receive even when sugar prices fall to a level which leads to prices lower than FRP
- In-line with the recent Sugarcane Acts of Karnataka & Maharashtra



Sugar Situation in Coming Years



3 Policy suggestions

Single Sugarcane Price formula across the country

- It is recommended that if price determined on a revenue sharing formula is less than FRP, the difference be financed by the Cess Fund under SDF
- The Central government has already passed the Sugar Cess (Amendment) Bill to allow enhancement in the ceiling of the sugar cess from the current Rs 0.25 to Rs 2/kg
- The proceeds from which will be used to facilitate liquidation of cane payment dues to farmers
- This will help in creating a Sugar Reserve (SR) which can be used for making cane payments to farmers when sugar realisation is lower than FRP
- The funds from SR to the farmers can be transferred directly through Direct Benefit Transfer route (DBT)
- The DBT route has been successfully implemented during 2014-15 season by UP Government for distribution of cane arrears to millions of farmers' accounts directly and Central Government subsidy of Rs. 45/ tonne would also be transferred through this route
- The cess can be levied in a graded manner depending on sugar prices so that it will not have any impact on the consumer
- A cess of Rs. 4/ kg can create a SR of Rs. 10,000 crore without impacting consumers



Sugar Situation in Coming Years



3

Policy suggestions

Farmers

- Stable Returns
- Consistent cash flow

- Cane development
- Adopt latest agricultural practices

Industry

- Reasonable Returns for conversion
- Long term policy & visibility of cane cost

- Mills get funds
- Ability to invest in new capacity/ improve operations & efficiencies

Consumers

- Stable Pricing
- Ability to hedge/ forecast prices

- NCDEX to get depth
- Resets in price possible
- Reduce volatility in pricing

Advantage - Government

- Long term pricing formula
- Limited volatility in prices – can control sugarcane and sugar prices linked with inflation
- No cost to ex-chequer

ONE PRICE FORMULA FOR THE COUNTRY

Thank You

