



INDIA'S SUGAR MARKET DYNAMICS:

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AN OVERVIEW OF INDIAN SUGAR INDUSTRY

Products and production

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- ❖ Annual sugar production is in the range: **25-28 million tons**
 - ❖ **World's second largest producer of sugar**
- ❖ Annual domestic consumption 16-17 SS: **26 million tons**
 - ❖ **World's largest consumer of sugar**
- ❖ 5000 MW of surplus green power from bagasse exported to grid (potential to go upto **8000 MW**)
- ❖ 12 mn tons of molasses being produced
 - ❖ Which gives **3 billion litres** of alcohol
 - ❖ Including 1.3 billion litres of ethanol to replace 5% petrol consumption

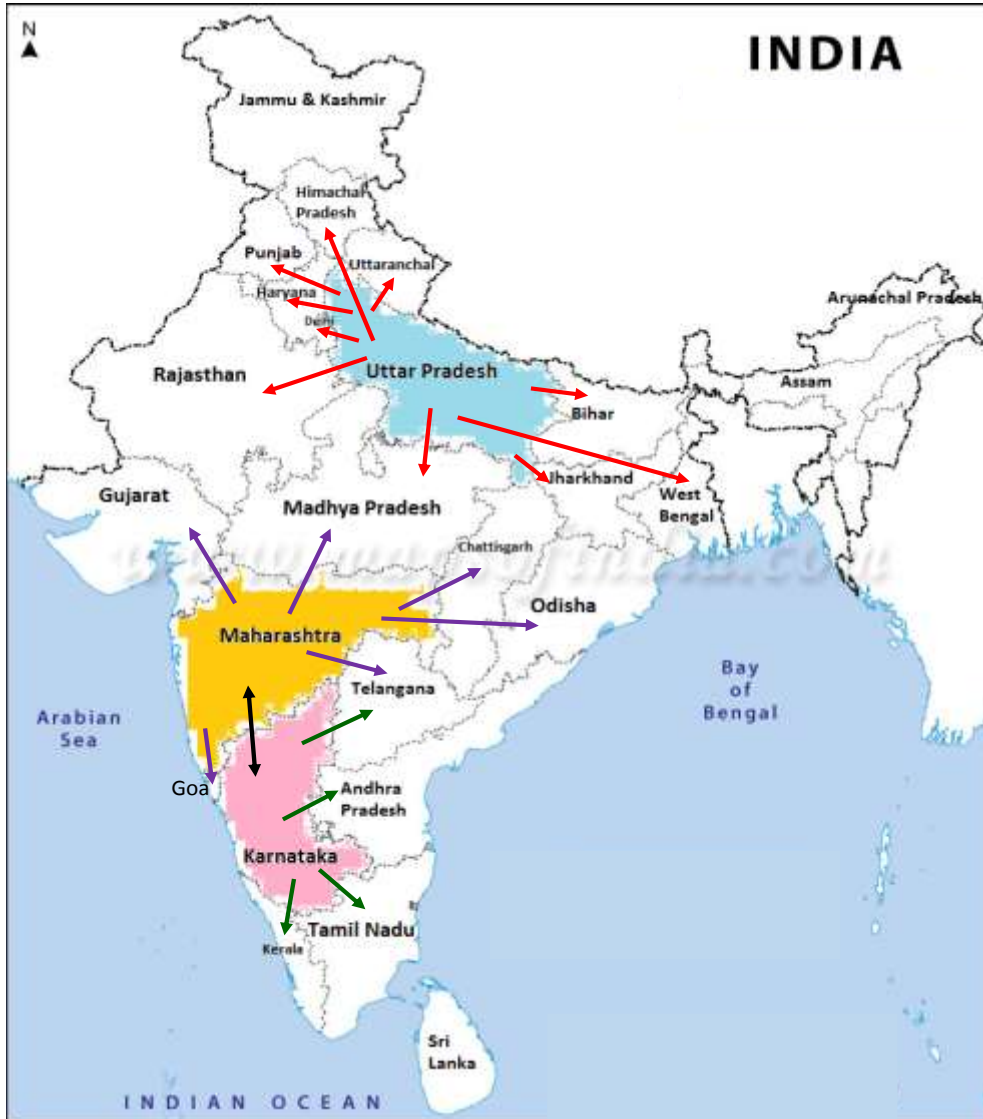
Contribution to Indian economy

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- ❖ 40-50 million farmers and their families are directly dependent
 - ❖ Over 10 billion US dollars of cane price paid annually
 - ❖ Around \$ 40-45 per ton of sugarcane is paid as cane price
- ❖ Direct & indirect employment to 2 million people
- ❖ Enough sugar is produced to fully take care of domestic requirement
 - ❖ Sometimes, surplus is exported: foreign exchange earner too
- ❖ Direct positive impact on rural economy
 - ❖ Mills located in villages
- ❖ Annual direct & indirect contribution of over 11 billion US dollars to the Government Exchequer

A fragmented industry

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Around 75 to 80% of sugar & ethanol produced in 3 States

37% production by cooperative sector and 63% by private sugars

530 sugar mills operating

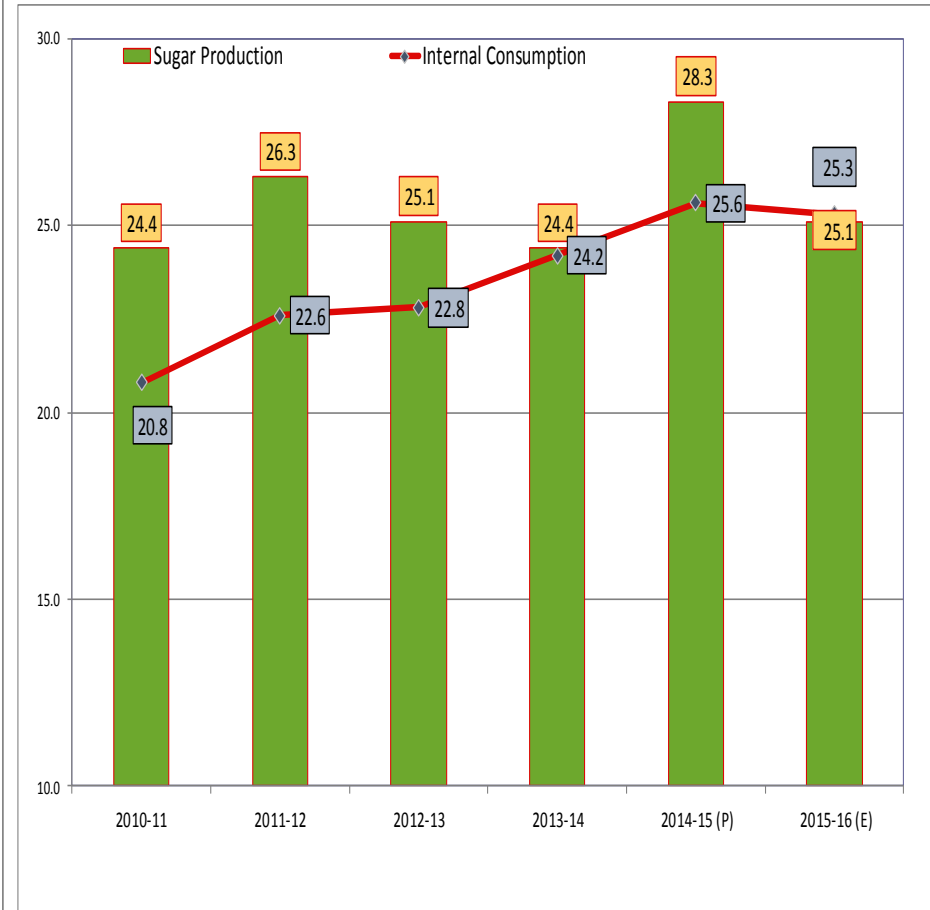
Half of them have a capacity of upto 2500 tcd

Largest sugar company has a market share of 4% only

Sugar Production & Consumption

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Million tons

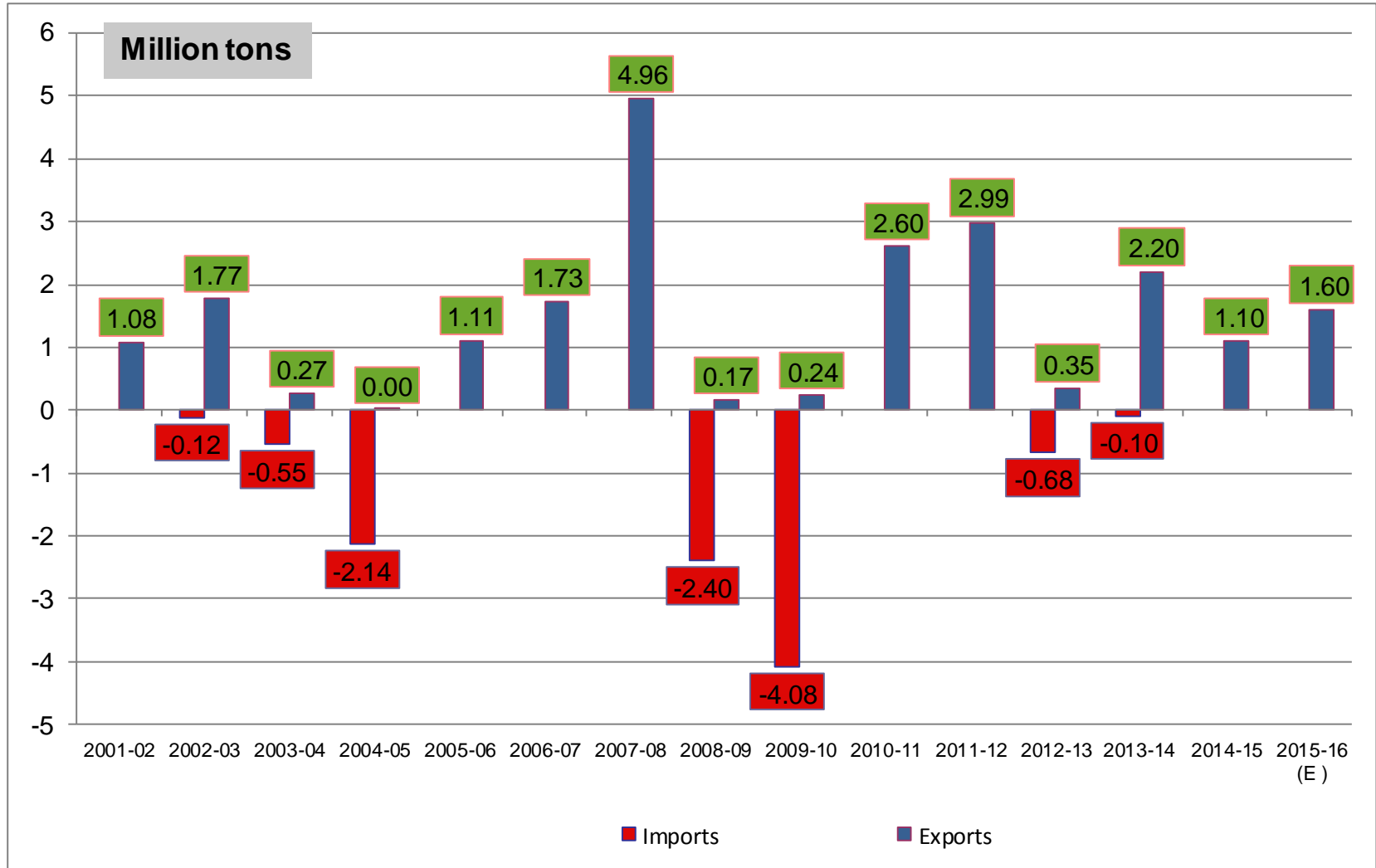


Infamous cane and sugar production cycle was a self-correcting mechanism to surplus sugar and shortages.

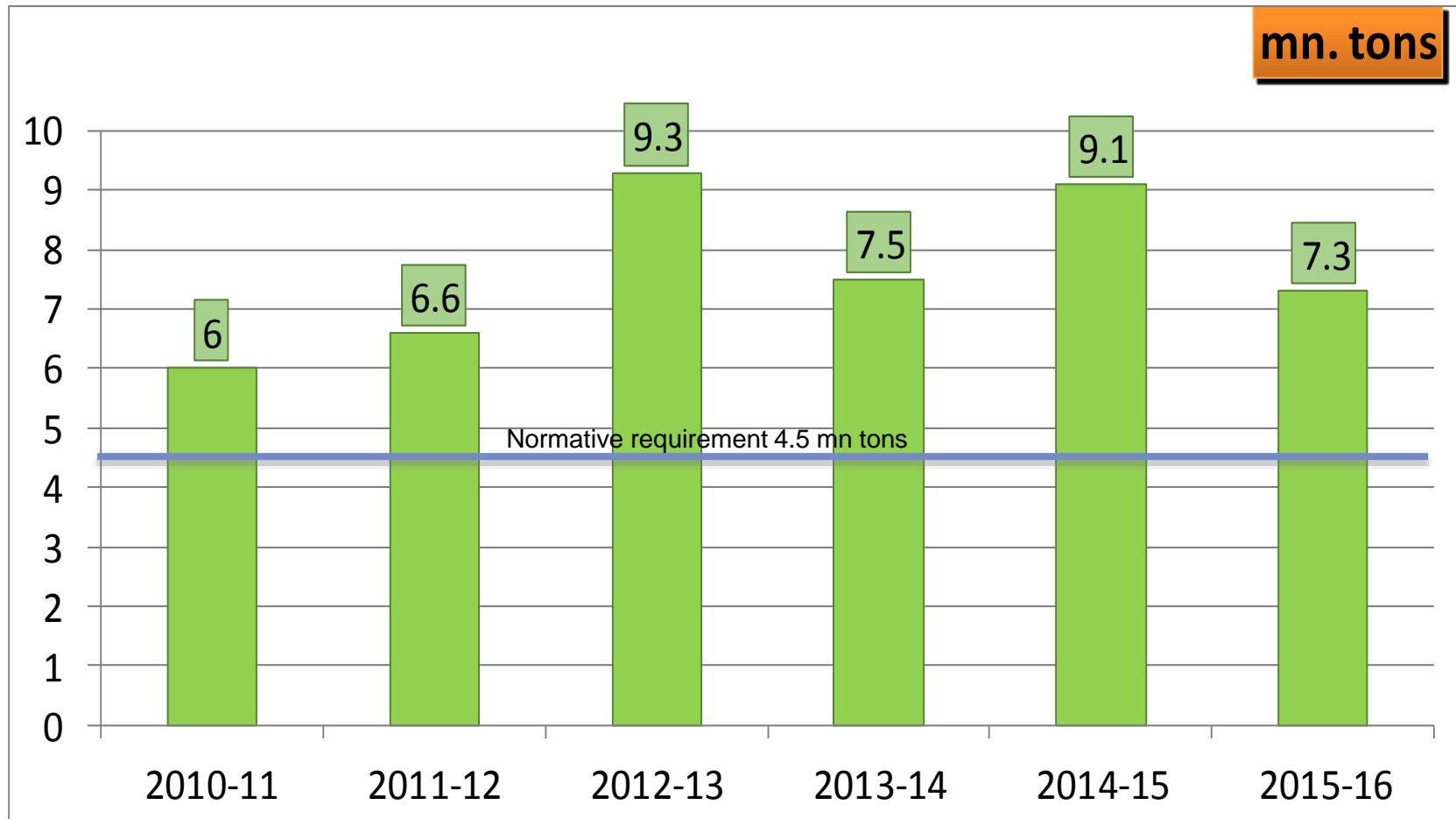
High prices of sugarcane has resulted in surplus sugarcane, which in turn, has caused continuous surplus sugar production for 6 years in a row.

India of & on an exporter or importer

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Carry forward sugar stocks pretty high in last 6 years



Every 1 mn. tons of sugar **BLOCKS** 45 million USD of working capital

Government Policies & Controls

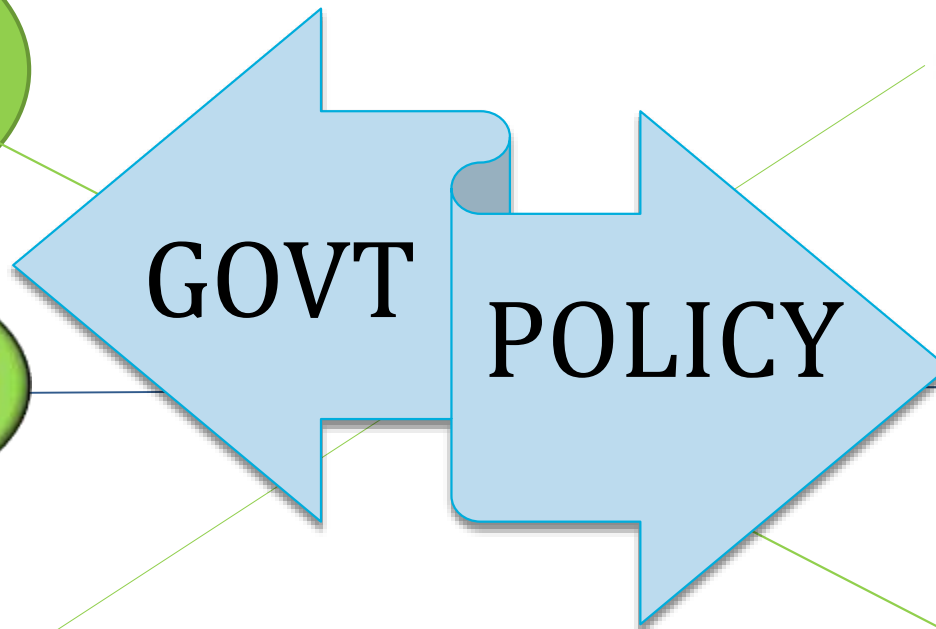
Prior to 2013

CANE SIDE CONTROLS

**Cane Area
Reservation**

**Minimum distance
of 15/25 kms
between two mills**

**Dual Cane
Pricing:
Centre/State**



SUGAR SIDE CONTROLS

**Regulated
Monthly
Release
Mechanism**

**Levy Sugar
Obligation on
mills**

**Import and
Export of
sugar**

After partial decontrol in 2013

CANE SIDE CONTROLS

Cane Area
Reservation

Minimum distance
of 15/25 kms
between two mills

Dual Cane Pricing:
Centre/State
**Revenue sharing model
in 2 States**

GOVT

POLICY

SUGAR SIDE CONTROLS

~~Regulated
Monthly
Release
Mechanism~~

~~Levy Sugar
Obligation on
mills~~

Import and
Export of
sugar

Current regulations and freedom

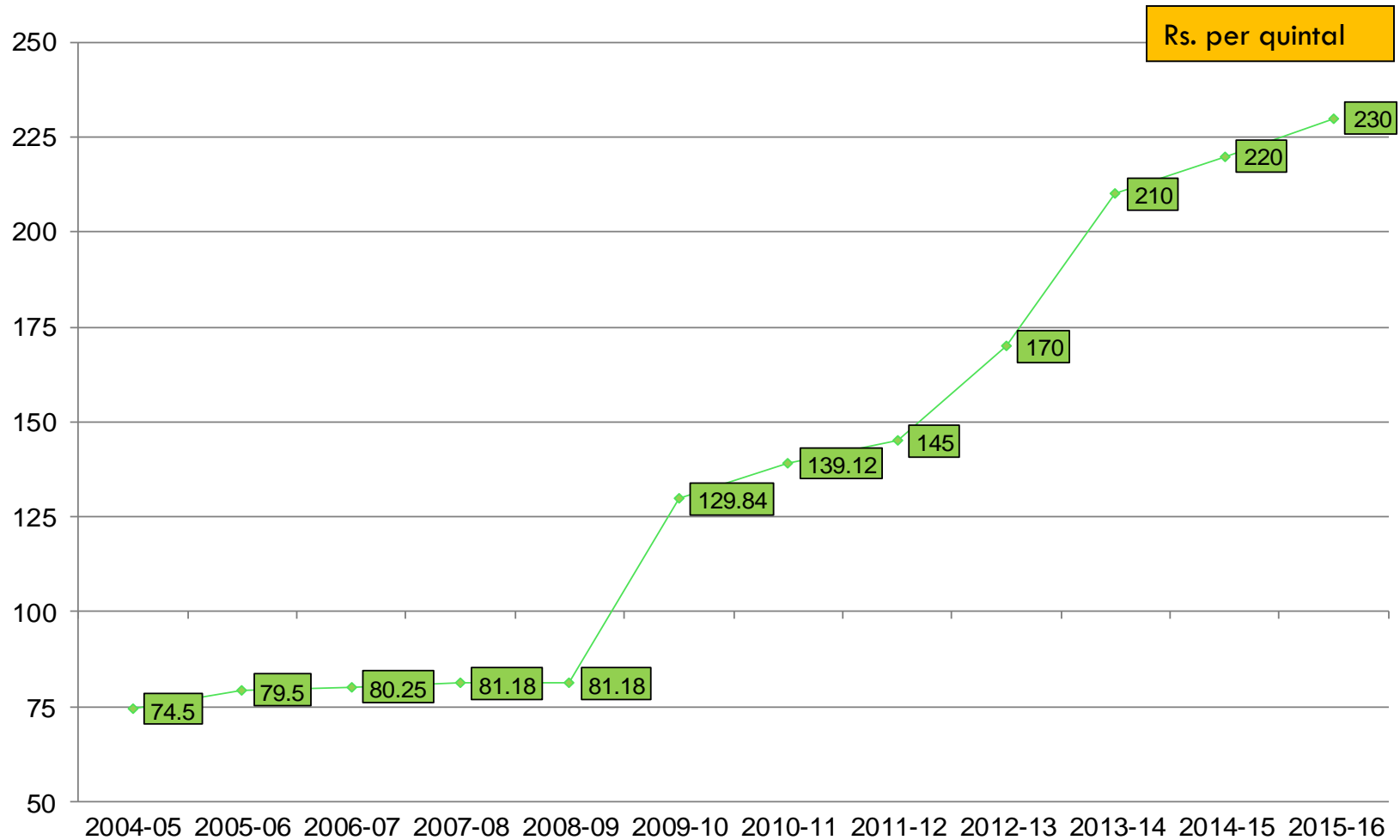
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- Sugar side largely deregulated and free
 - No restriction or control on sugar sales
 - No burden for sugar supplies for Public Distribution System
 - **Import and export being controlled through tariff rates**
- Sugarcane side though continues to be controlled
 - **Cane prices still fixed** by Federal Govt., with no direct linkage to sugar prices or revenue realised
 - Though 2 States viz. Maharashtra & Karnataka adopted revenue sharing formula for their States
 - However, minimum distance and cane area reservation continue

IMPACT OF CANE PRICING POLICY

Sugarcane prices by Federal Govt. increased steeply

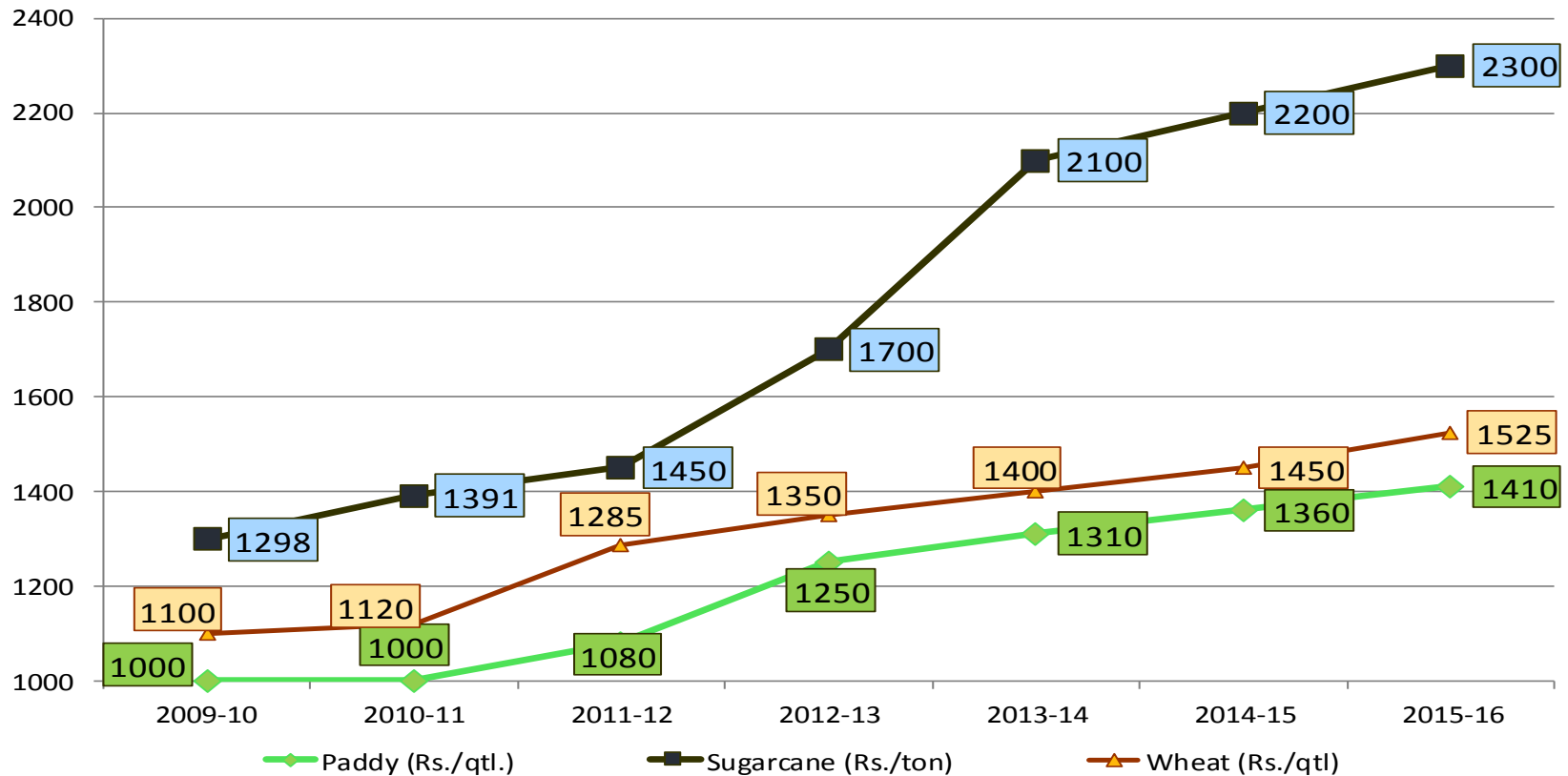
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- **Steep increase in the cane price fixed by Govt from 2009-10 SS has made cane price unaffordable.**

FRP of Sugarcane Vs MSP of Paddy and Wheat

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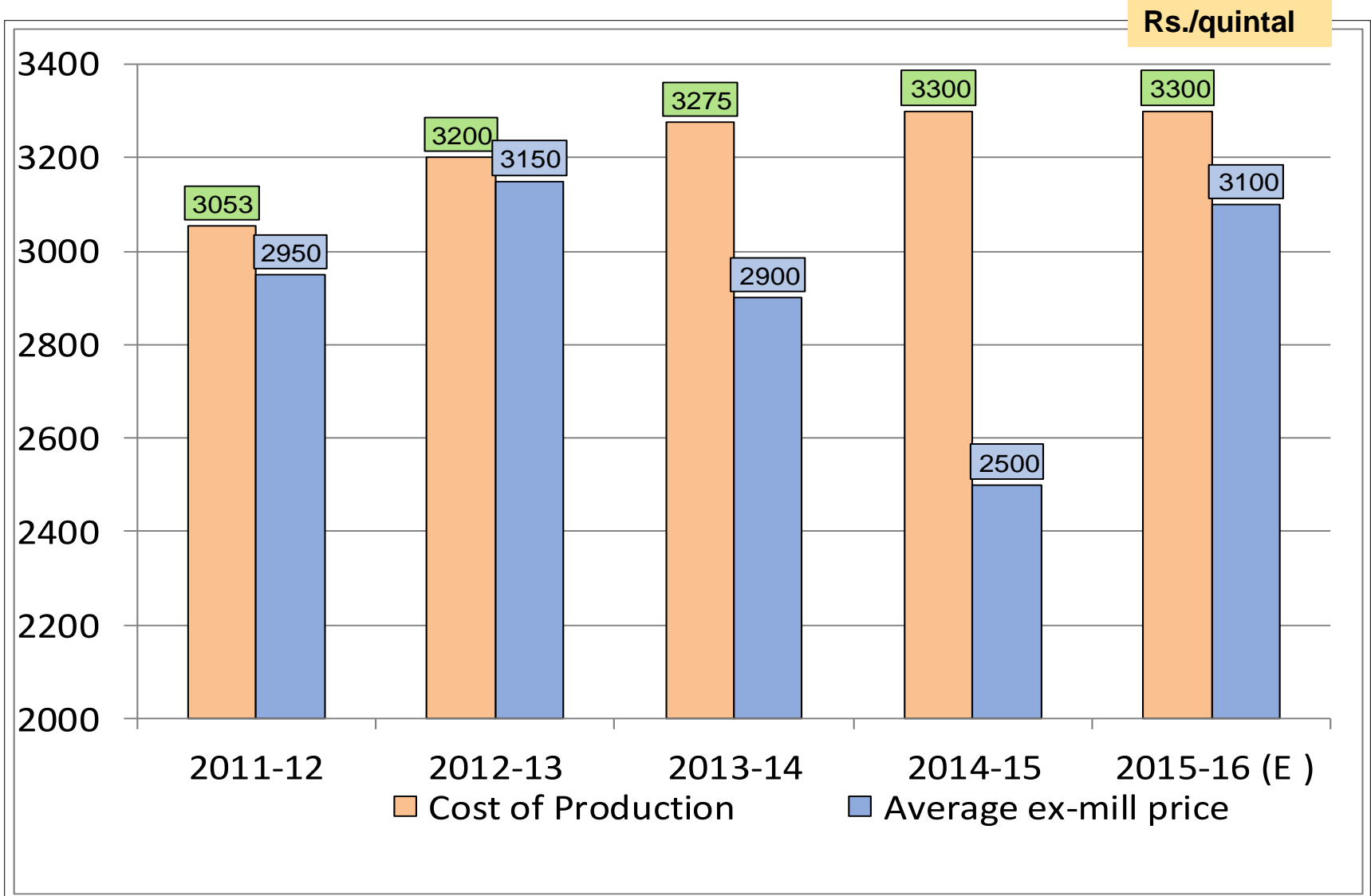


The steep increase in FRP for sugarcane from 2009-10 onwards was not matched by similar increase in competing crops.

It has led to 50 to 60% higher returns from sugarcane over other crops resulting in farmers shifting hugely to sugarcane. With Governments guaranteeing price payments, farmers have not left sugarcane despite delays.

Cost of production vs. Average ex-mill prices

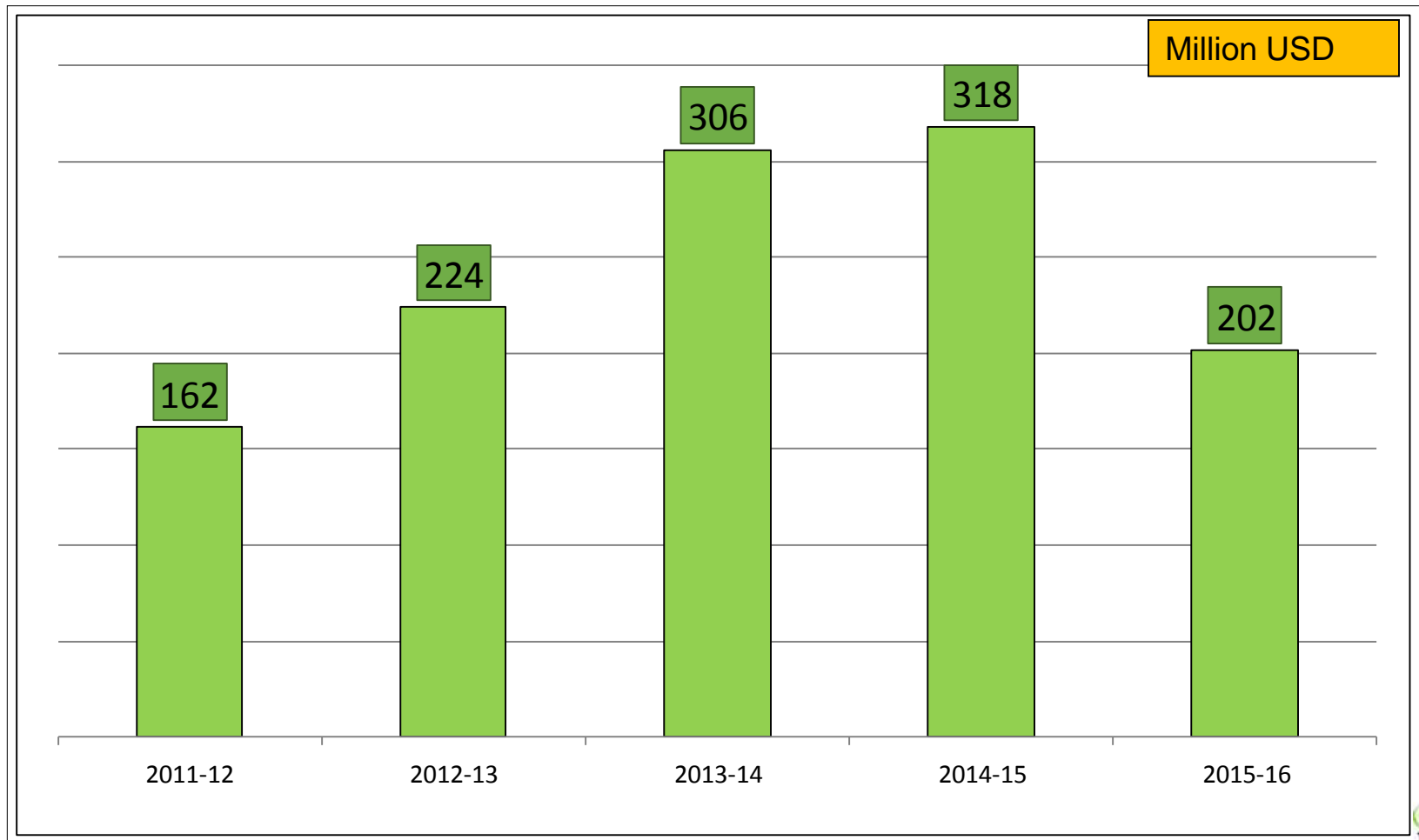
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Cane price arrears as on 31st March

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Under current circumstances, it has become difficult to pay cane price of farmers



Current situation and next couple of years

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- High OB of 9.1 mn tons for 2015-16 SS, with production almost matching domestic consumption,
 - And exports of 1.6 mn tons, carry forward stocks of 7.3 mn tons
- With drought in Western part of India, acreage has fallen, but
 - Production next year 2016-17 SS estimated to be around 23.3 mn tons
 - Though less than domestic consumption of 26 mn tons, healthy OB of 7.3 mn tons will give enough sugar and yet leave comfortable CB
- Above normal monsoon and reservoirs getting filled up
 - Sowing for 2017-18 SS picked up, and may reach normal levels
 - 2017-18 SS expected to be surplus production again

India has enough sugar

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- With 7.3 mn tons OB expected on 1st Oct, 2016, there is enough sugar in next 12-14 months of 2016-17 SS
- Doubt being raised:
 - *“is the OB of 4.5 mn tons for 2017-18 SS adequate?”*
 - With no regulated release mechanism, new season’s sugar comes into the market immediately on production
 - Peak sugar production in India starts from Nov end
- Hence, India will not need to import sugar

Government policies currently in India

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- Sugarcane price fixed by Federal Government for 2016-17 SS at Rs.2300 per ton of cane at 9.5% sugar recovery,
 - With premium of Rs.242 per ton for every 0.1% recovery above 9.5%
- Cane area reservation in all States except Maharashtra
- Minimum distance between two mills at 15 or 25 kms
- Import duty of 40% and export duty of 20%
- Stock holding limit on sugar traders
- Sugar mills also told to have sugar stocks below 37% and 24% of sugar availability in 15-16 on 30 Sept and 31 Oct 16

ETHANOL BLENDING IN INDIA

Objective of ethanol blending in India

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- Current Government reiterated its objectives behind the ethanol blending with petrol programme in India;
 - To directly benefit millions of sugarcane farmers
 - Help in reduction of net oil import bill
 - Will reduce environmental pollution
- Current policy of Government is to produce fuel grade ethanol from domestic sources
 - And also from non food items

Current policy

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- Fixed price for fuel grade ethanol of 99.6% purity
 - Rs.48.50 to 49.50 per litre delivered at the oil company depot
- Oil companies given target to blend upto 10% with petrol
- 1.3 bn litres of ethanol supply contracts finalised in 2016-17
 - Equivalent to 5% blending with petrol
- Govt. of India planning to encourage 2G ethanol production
- Tax benefit allowed on fuel grade ethanol for oil companies from Nov, 2015, withdrawn in Aug, 2016

Hurdles and constraints

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- To move to 10% ethanol blending with petrol, India will need to divert some sugar into ethanol
 - Or look at other sources and feedstock
- State Governments still not encouraging ethanol
 - Few not giving permissions to produce ethanol
 - Others imposing taxes and duties on movement of ethanol
 - Excessive controls/ permissions on ethanol movement, esp. inter-State
- Need a stable and long term ethanol policy, tax incentives and ethanol pricing policy

Thank you