



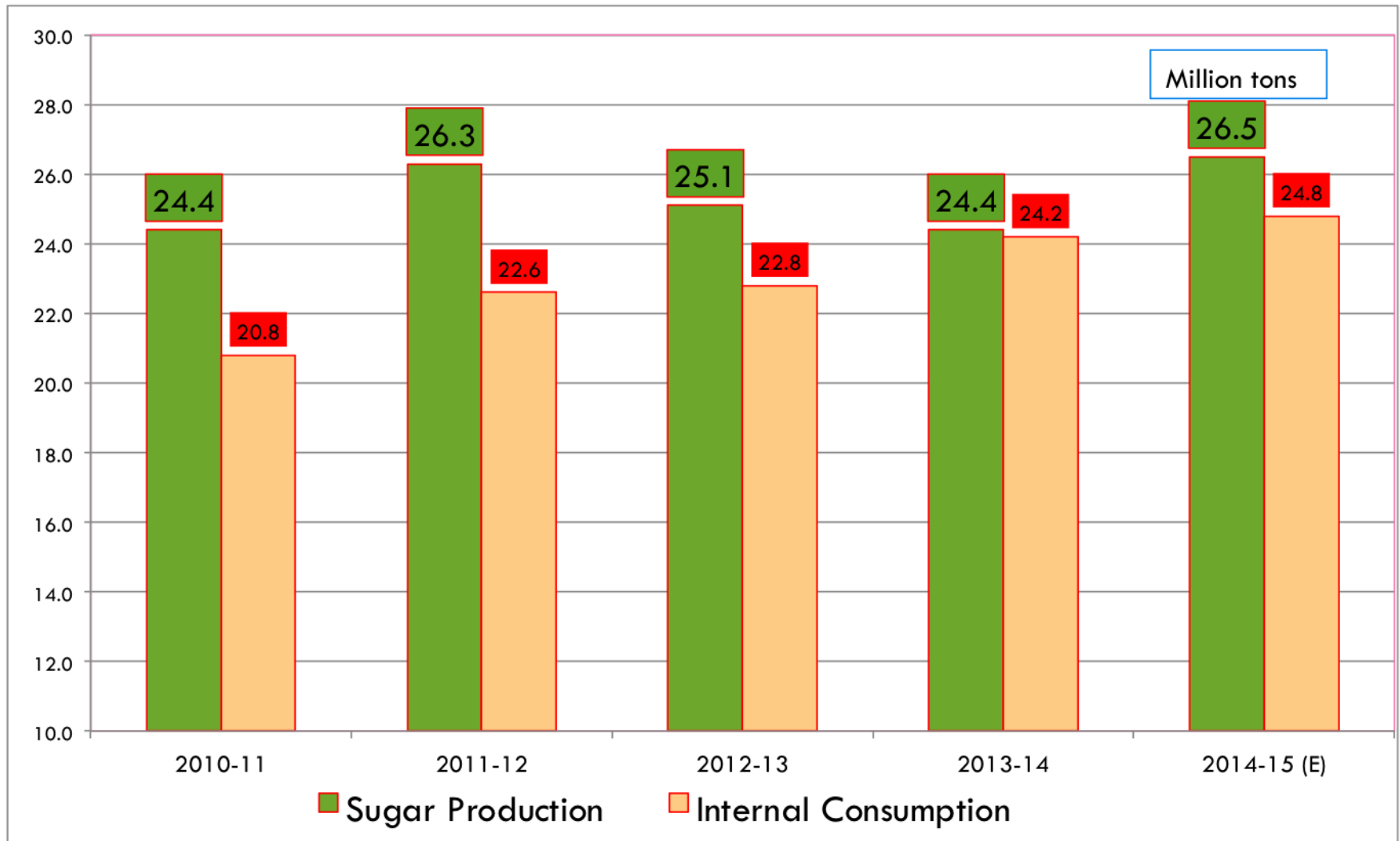
STATUS OF SUGAR INDUSTRY IN INDIA,

INCL. IN TAMIL NADU

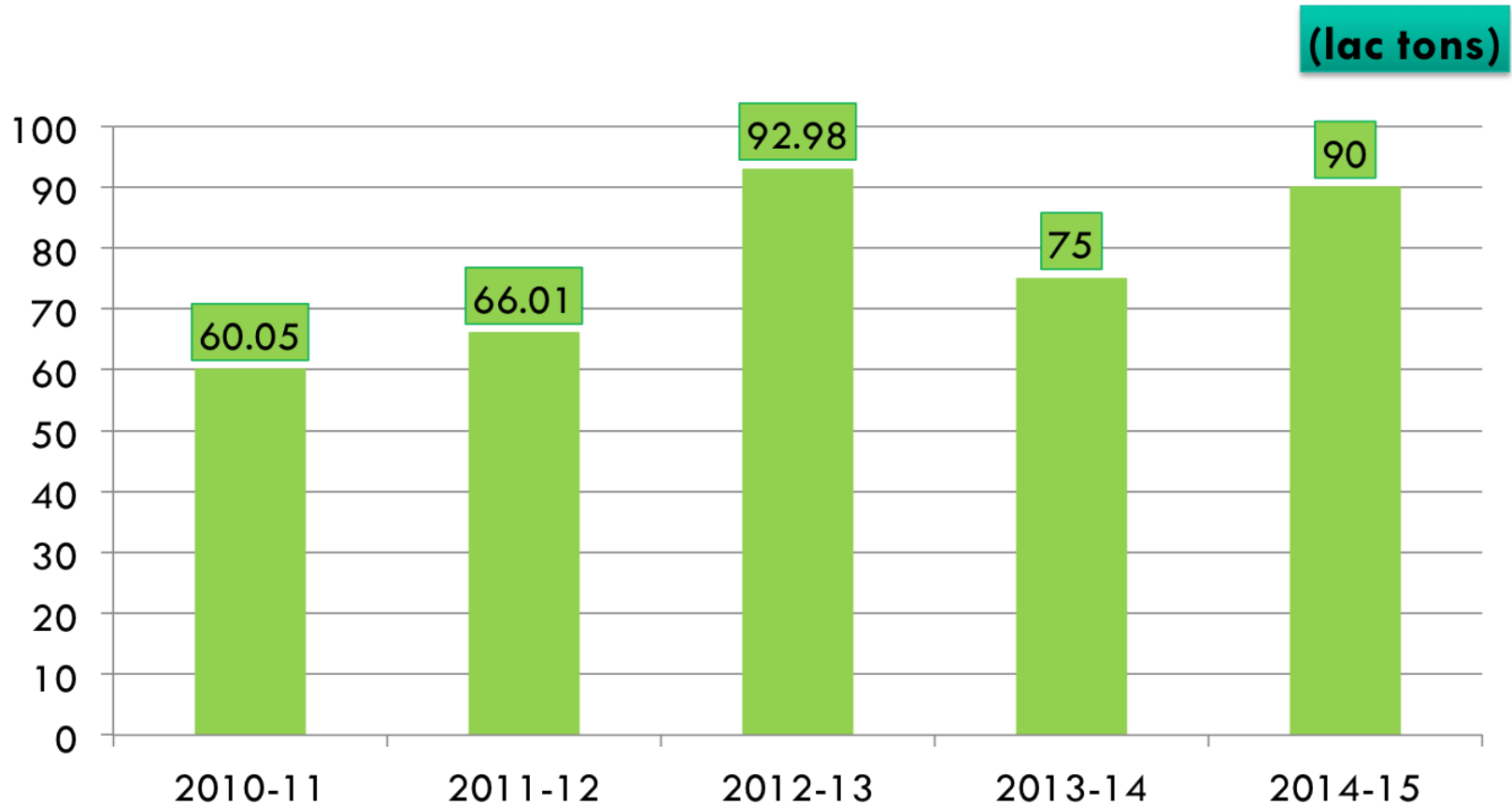
ABINASH VERMA, DIRECTOR GENERAL,

INDIAN SUGAR MILLS ASSOCIATION

Indian Production and Consumption



Carry forward sugar stocks increasing every year



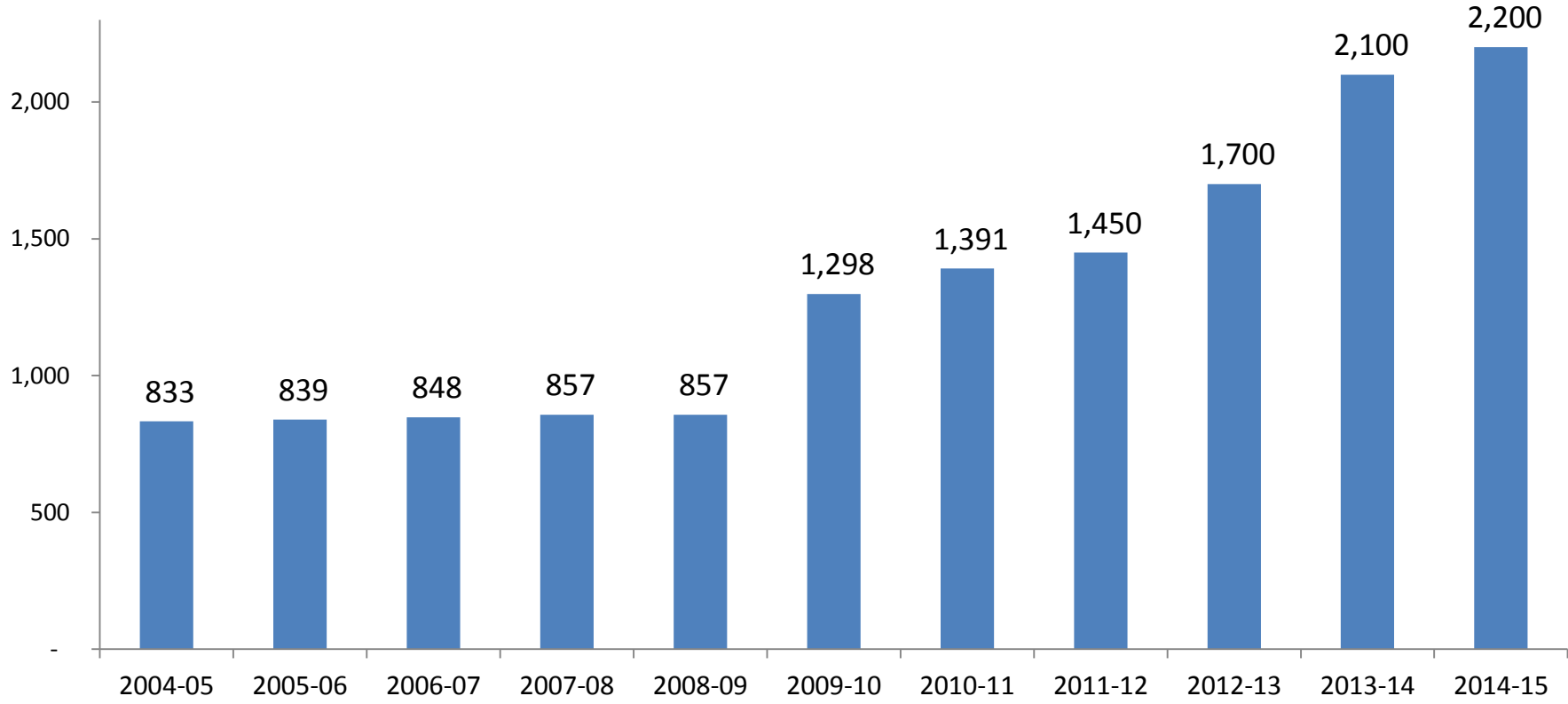
Every 10 lac tons of sugar **BLOCKS** Rs.3000 crore of working capital

Average domestic sugar prices have been falling



SMP/FRP for sugarcane has been increased by Central Govt.

Cane Price SMP/FRP (Rs./ton cane)



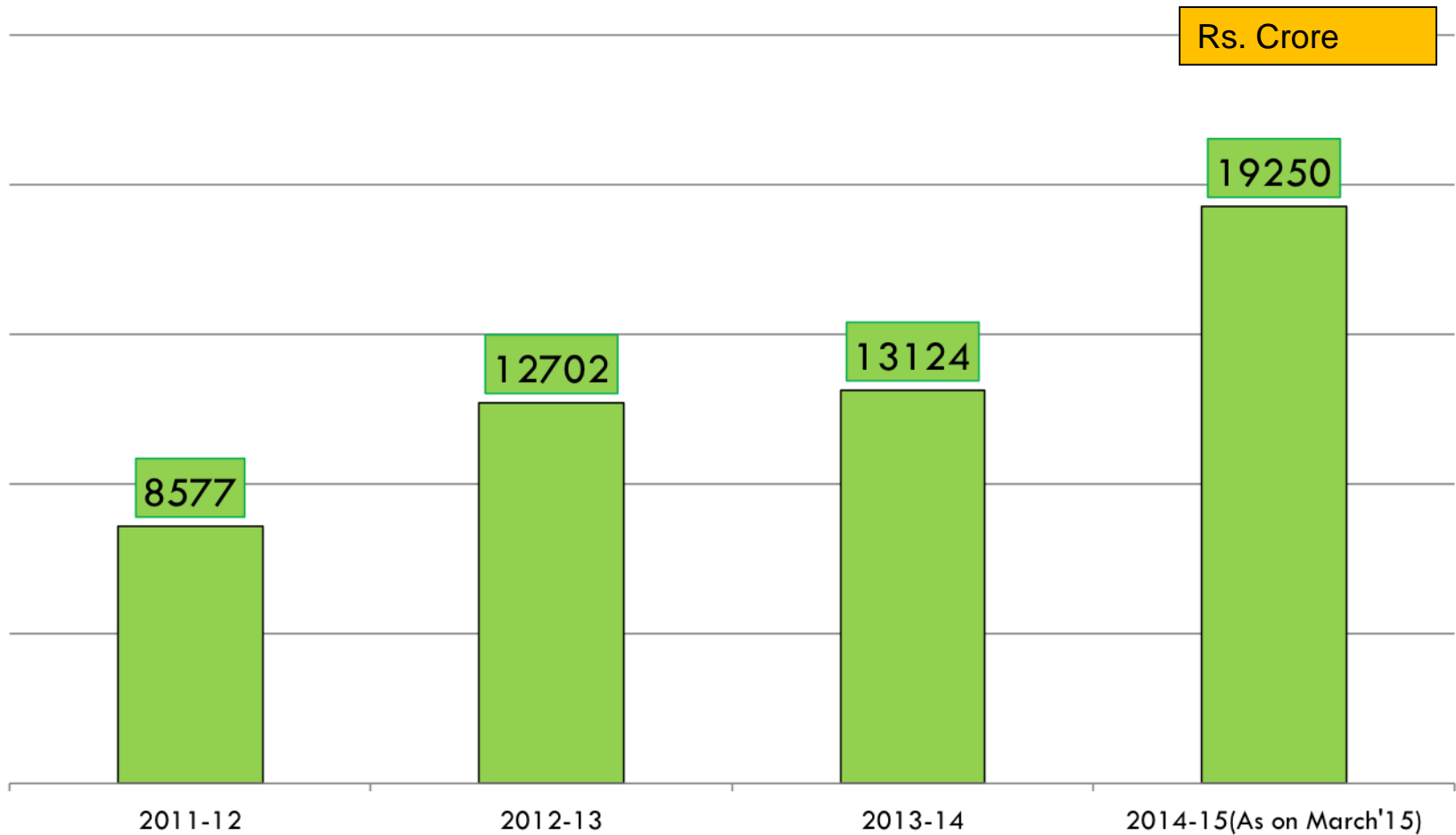
Yet, 5 States incl. TN, have still fixed higher SAP

FRP of Central Govt. accounts for:

- Basic cost of production of sugarcane, including
 - Imputed value of family labour and imputed value of own land
 - Interest on capital borrowed
- Insurance premium for the crop
- Cost of transportation of cane to factory gate
- An element of profit to the farmers
- An element to cover risks of farmers

Yet, 5 States incl. TN, have still fixed higher SAP

Cane price arrears as on 31st March

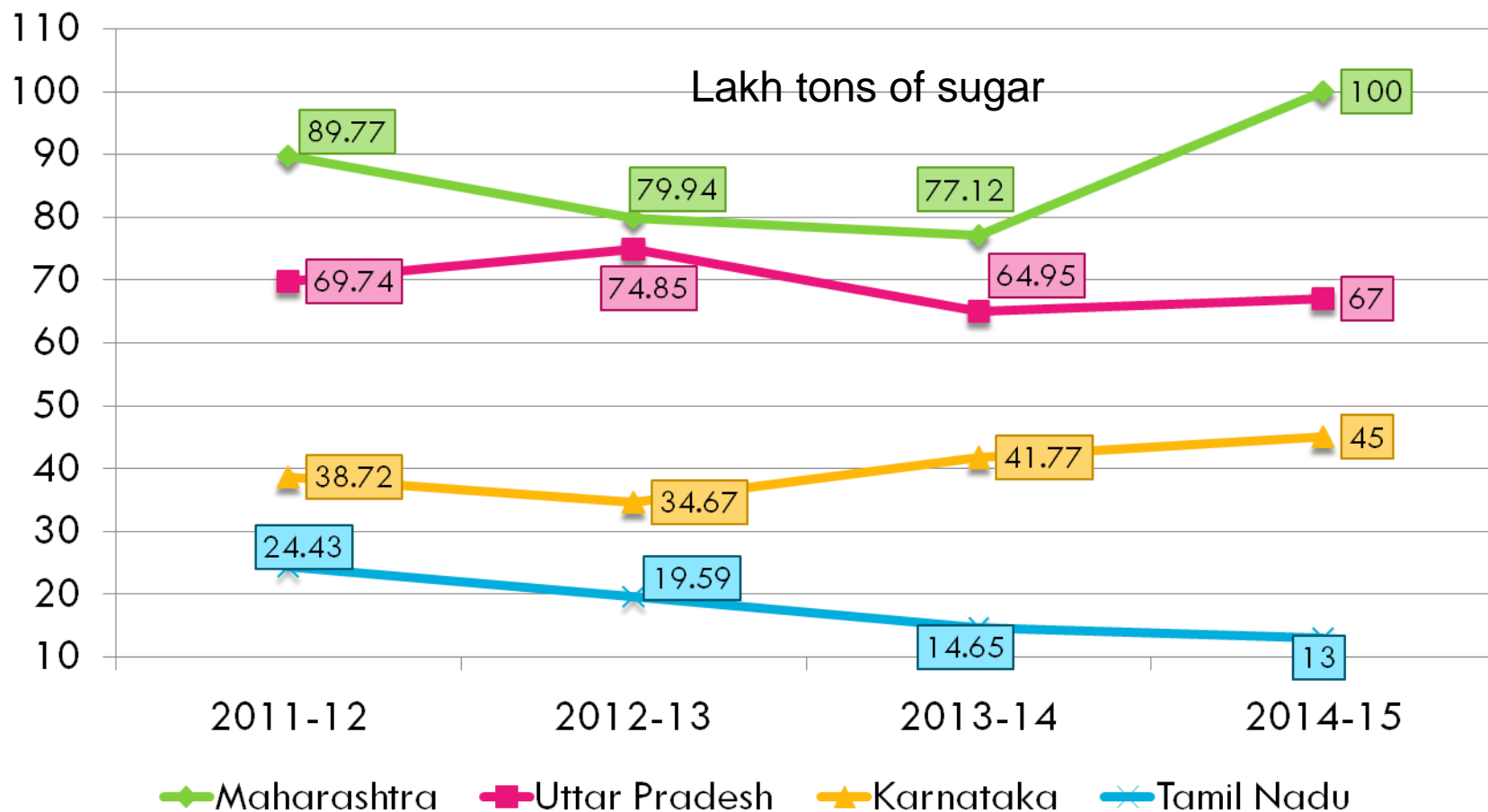


The Tamil Nadu sugar sector

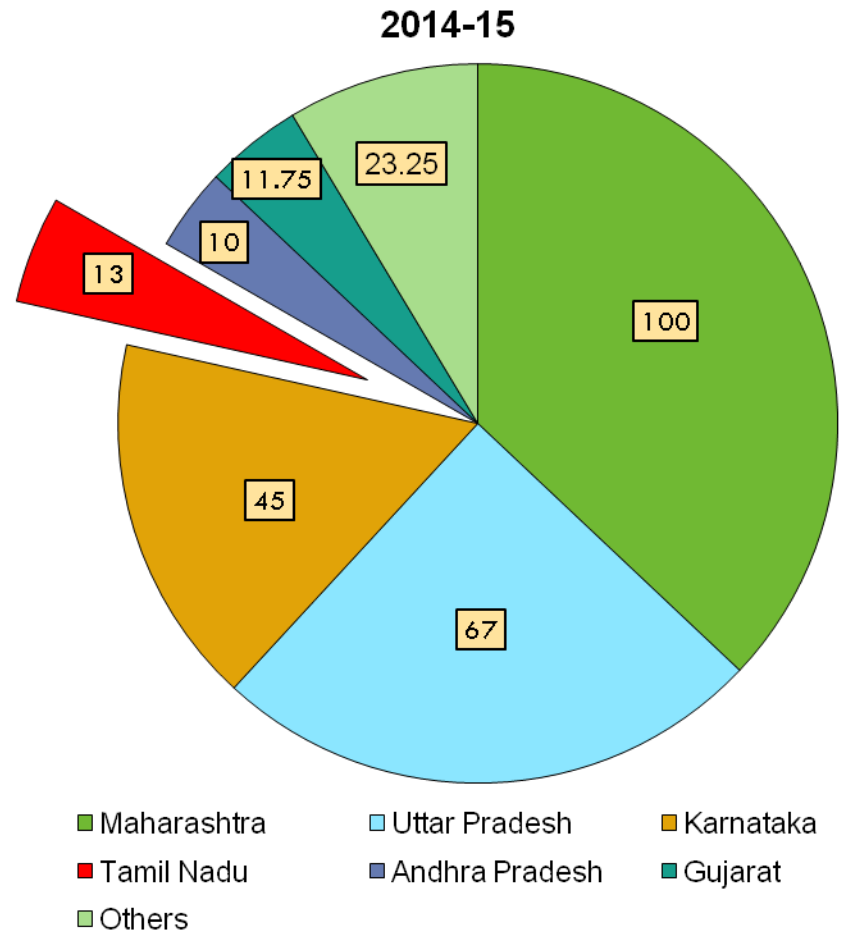
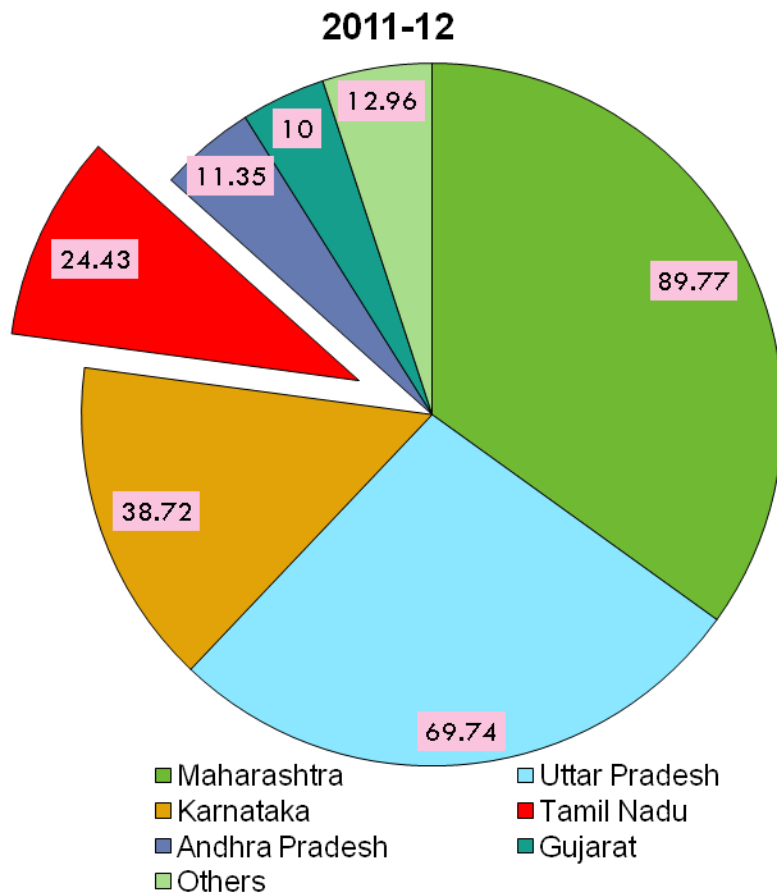
4th largest sugar producing State in the country

	2014-15 SS	2011-12 SS
Cane farmers (in lac)	3.25	4.25
Cane area (lac ha.)	2.55	3.35
Cane production (lac tons)	217	353
Yield per ha.	85	105
Sugar mills	44	45
Sugar production (lac tons)	13	24.43
Recovery %	9.00	9.33

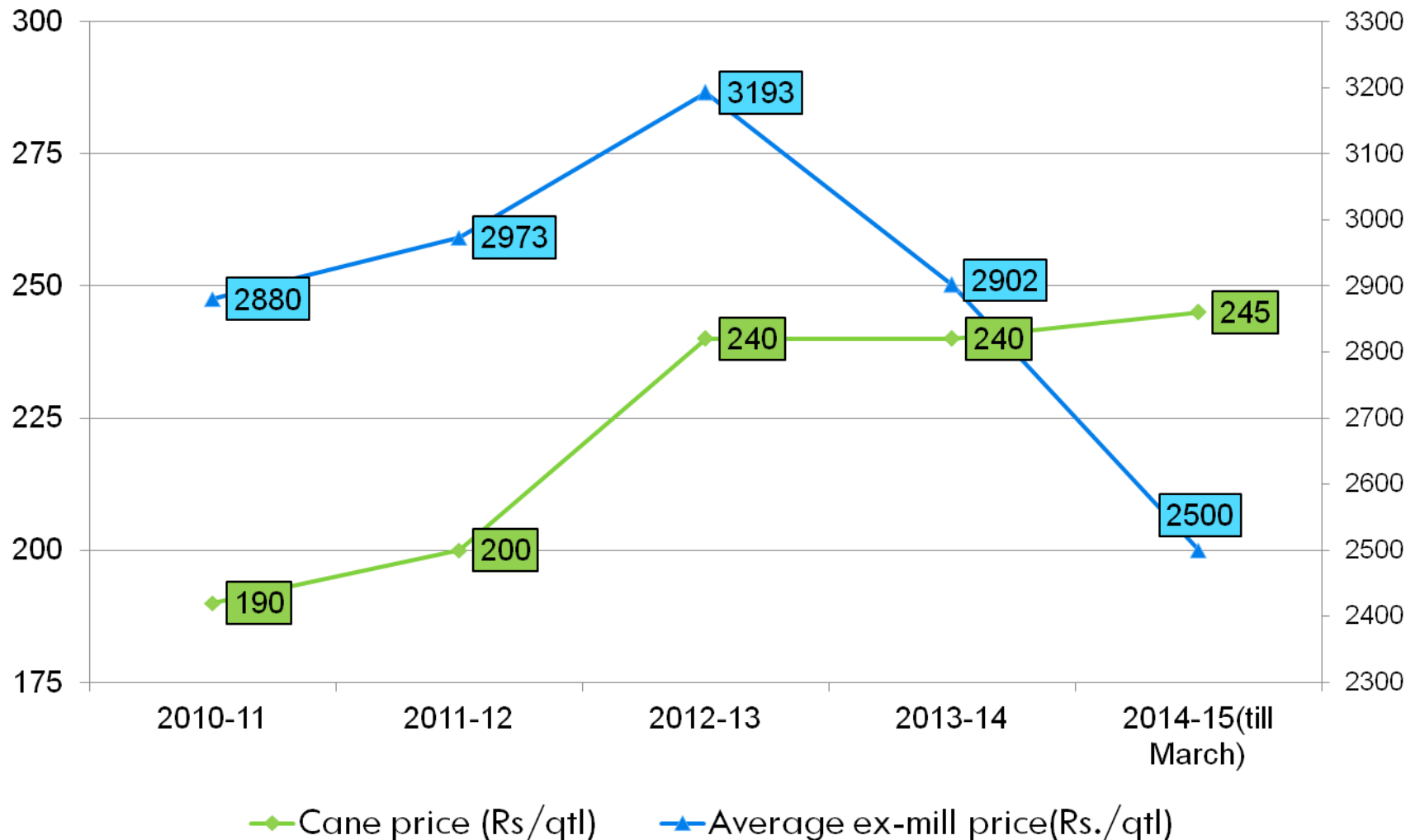
Graphical presentation of sugar production of top 4 States



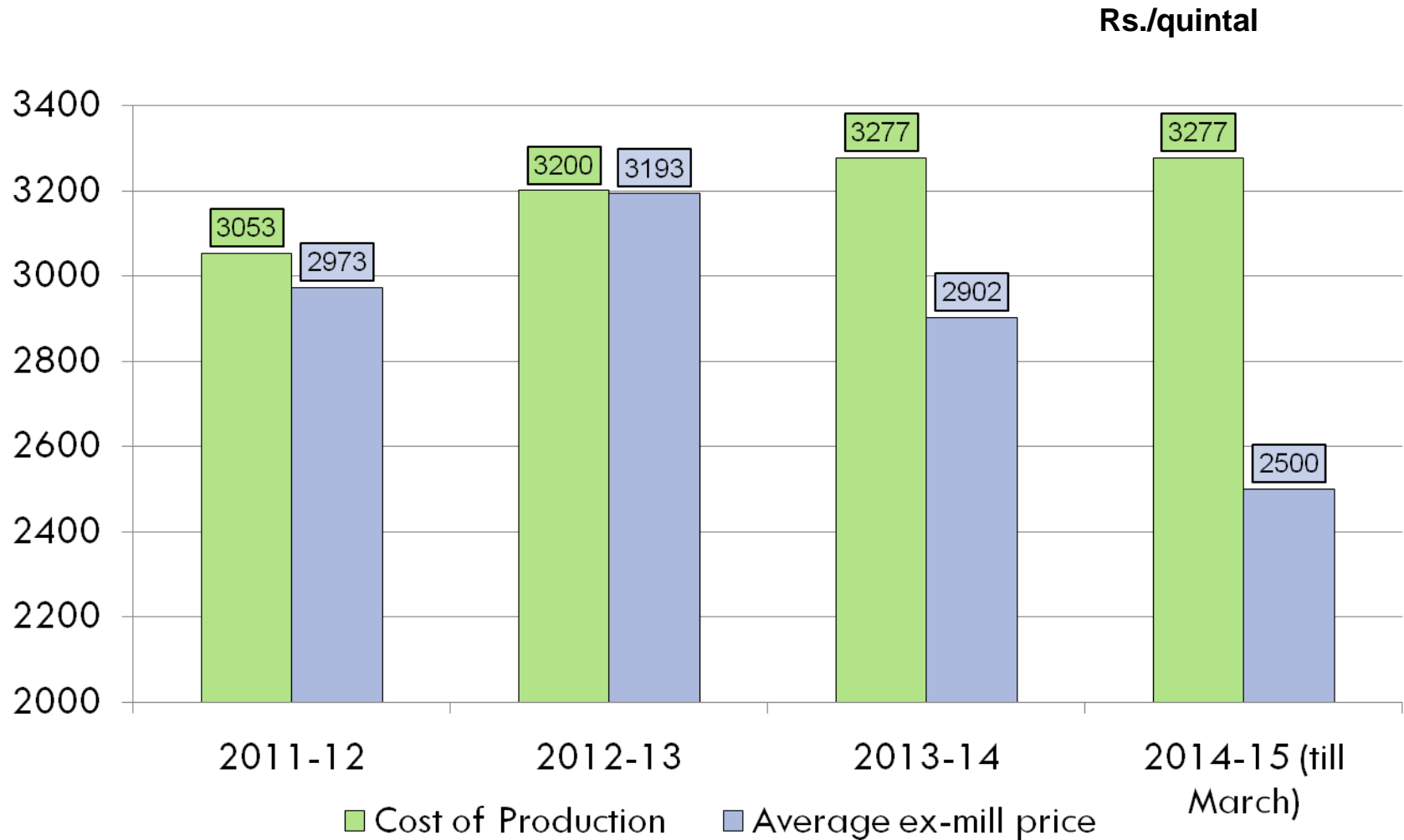
Sugar scenario in 2011-12 vs. 2014-15 SS (lac tons)



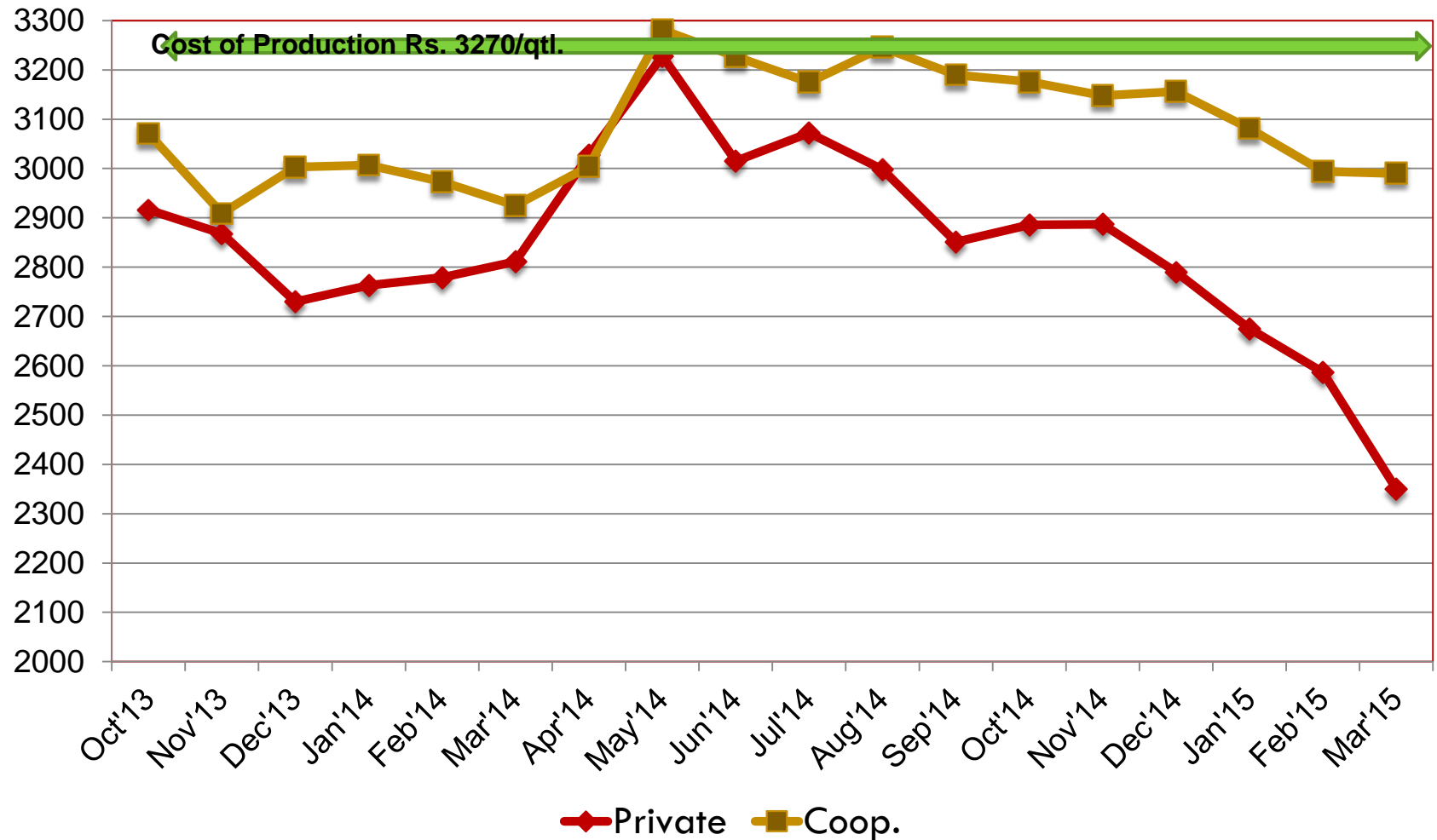
Cane price paid and avg. ex-mill price in last 5 years (TN)



Cost of production vs. Average ex-mill prices



Cost of Production vs. ex-mill price of sugar



Some adverse State policies for TN mills

- Unreasonably high cane prices mandated by State
- 5% VAT on sugar
- 14.5% VAT on RS and ENA
- One of the lowest tariff for cogenerated power

The above is making Tamil Nadu mills uncompetitive

Unviable cane price in TN

- FRP for 2014-15 is Rs.2200/ton of cane at 9.5% sugar recovery
- So, FRP for mills in TN is Rs.2200 per ton of cane
 - Average sugar recovery of 9% should be paying
- At current year's avg. ex-mill sugar price of Rs.2500 per qtl.
 - **Mills can barely afford to pay Rs.1900 per ton of cane**
- Paying FRP is a challenge in itself, yet mills have agreed to pay Rs.2450 per ton of cane
- But TN Govt's State Advised Price is Rs.2650 per ton (incl transportation cost)

TN cane pricing in tabular form

(Rs. Per ton of cane)	FRP fixed by Govt. of India	FRP payable by mills in Tamil Nadu	Cane price/ SAP fixed by TN Govt.	Cane price as per Rangarajan Committee formula (based on current ex-mill sugar price of Rs.2500/ qtl.)	Mills in TN have decided to pay
Cane price (per ton) at 9.5% basic recovery	2200	2200	2650	1900	2450

Rationalised cane pricing for country's 50% sugar

- Maharashtra and Karnataka Governments have adopted the Rangarajan Committee formula for determining price of cane
 - At 70% of revenue realised from sugar and primary by-products (bagasse, molasses & press mud) or

At 75% of revenue realised from sugar alone (giving 5% weightage to by-products)
 - 1st instalment as FRP, as fixed by Central Government
 - 2nd instalment at end of season, for the difference between FRP and the formula

Sugar produced by TN mills uncompetitive

- High cane cost means high cost of producing sugar
- 50% of country's sugar as per revenue sharing formula
 - But TN mills pay higher cane price
 - **TN sugar has become uncompetitive**
- Therefore, if State wishes to give higher cane price to farmers, difference between FRP and SAP be borne by State
 - This is the practice in case of wheat, paddy etc. where bonus above MSP of Central Govt. is given by State
 - **This will only bring TN mills at par with other States**

VAT on sugar

- 5% VAT levied by TN Govt. from Nov, 2014
- At current year's average ex-mill price of sugar of Rs.25/kg
 - The VAT works out to Rs.1.20 per kg.
- However, no CST on sugar for inter-State movement
 - Disadvantage only to TN sugar
- Hence, either TN sugar more expensive due to the VAT or the returns to mills lower by that amount
- None of the important sugar producing States impose VAT
 - VAT on sugar by only TN, AP & Telengana

VAT on rectified spirit/ alcohol

- TN State imposes 14.5% VAT on Rectified Spirit/Extra Neutral Alcohol (RS/ENA)
- Whereas, there is 2% CST on RS/ENA coming into TN from other States
- Makes RS/ENA made by TN distilleries uncompetitive
- States of Karnataka and UP do not impose any VAT

Ethanol blending with petrol

- 5% mandatory ethanol blending with petrol
- TN Government not encouraging ethanol production
- Ethanol from other States re also not allowed
- Ethanol can give adequate returns to justify conversion of surplus sugar into ethanol
 - Cash flows to mills
 - Better remuneration to farmers
 - Reduces environmental pollution
 - Net earner of foreign exchange

Low rates for exported power to grid

- Karnataka: Rs.4.83 per unit
- Maharashtra: Rs.6.07 to 6.27 per unit*
- U.P.: Rs.4.68 to 5.67 per unit*
- Tamil Nadu: Rs.3.67 to 4.15 per unit*

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
- Urgent need to rationalise the cane pricing policy
 - Link the cane price to revenue realisation
 - Adopted in Maharashtra & Karnataka
 - Followed world over
- Use ethanol blending programme to balance surplus sugar

Tamil Nadu mills need to become competitive

- TN Government should adopt revenue sharing model for determining cane price (like Mah & Karn)
 - Similar to UP, Karn, Mah. And Bihar, subsidies be given by TN Govt to help industry pay cane price to farmers or pay subsidy directly to farmers
- VAT on sugar and alcohol should be removed
- Encourage ethanol in the State
- Better rates for cogen power

THANK YOU