

STATSGURU

Sugar's bitter harvest



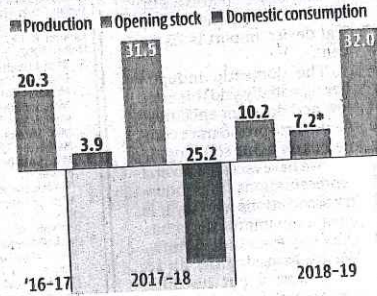
FIFTY MILLION sugarcane farmers, 500,000 mill workers and many others involved in ancillary activities are affected by the sugar industry's

ever-fluctuating fortunes. The story remains the same, as Chart 1 bears out. With each bumper harvest, the stock of sugar grows far in excess of domestic consumption. This is what has happened over the last sugar season (2016-17) and the current one (2017-18); the situation is expected to worsen in 2018-19. With international prices also plummeting, as shown by Chart 2, thus ruling out exports as a remedy, the sharp fall in domestic market prices, as shown in Chart 3, meant that farmers ended up facing an all-time high of ₹220 billion in unpaid arrears from the millers. The government has introduced a buffer stock of 3 million tonnes but even then, next season's opening stock is likely to be almost double of this year's.

The key problem is that there is no link between the market prices of the final product (sugar and its by-products) and the administered minimum prices for the input (sugarcane). Both the Fair and Remunerative Price (FRP), announced by the Central government, and the State Administered Price (SAP) are far in excess of what the market would dictate. Chart 4 shows how the FRP and SAP raise the cost of production. Chart 5 shows how rapidly the FRP has grown over the years — the SAPs tend to be higher still. The government has set a new minimum procurement price for farmers at ₹29 a kg. But even this is higher than the market price for sugar. As such, the mismatch continues. Lastly, the government has raised the target for ethanol blending from 5 per cent to 10. But, as Chart 6 shows, the actual blending achieved in 2016-17 was just 4.3 per cent.

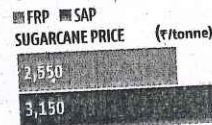
UDIT MISRA

1: SUGAR STOCK IN THE COUNTRY (million tonnes)

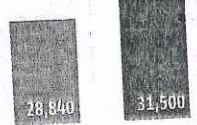


*After new buffer stock norms

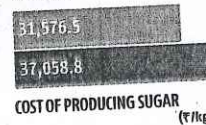
4: COST OF SUGAR PRODUCTION CONSIDERING FRP AND UTTAR PRADESH SAP



TOTAL COST OF CANE FOR PRODUCING ONE TONNE OF SUGAR



SUGAR PRICE CONSIDERING RAW MATERIAL COST AT 85% OF TOTAL EXPENSES

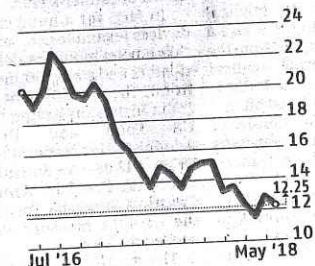


COST OF PRODUCING SUGAR (₹/kg)



Source: CARE Ratings

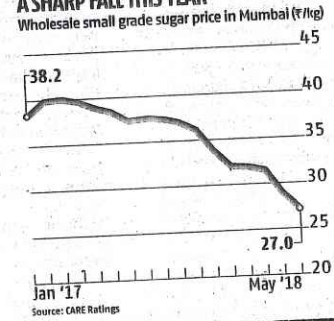
2: INTERNATIONAL PRICES OF SUGAR CONTINUE TO GO DOWN (cents per pound)



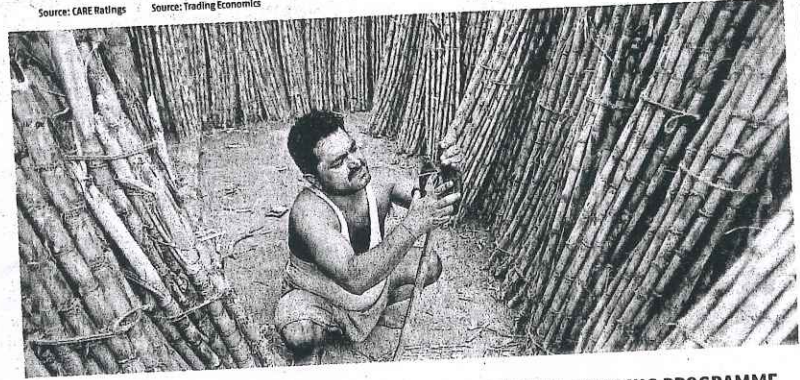
Source: CARE Ratings

Source: Trading Economics

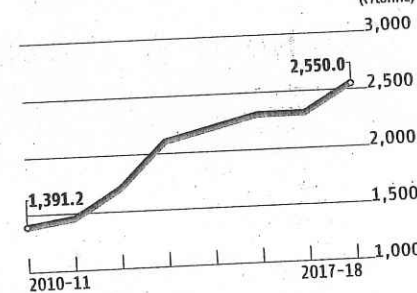
3: DOMESTIC PRICES HAVE REGISTERED A SHARP FALL THIS YEAR



Source: CARE Ratings

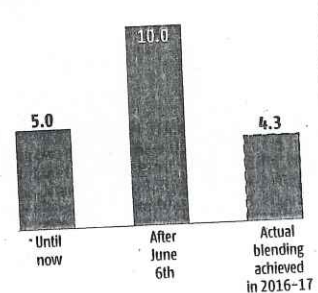


5: RISING FAIR AND REMUNERATIVE PRICES



Source: Indian Sugar Mills Association

6: ETHANOL BLENDING PROGRAMME TARGET RAISED (%)



Compiled by BS Research Bureau

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