Taking Stock

Bitter relief measures for sugar mills

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The relief package announced for cane mills has turned a damp squib.

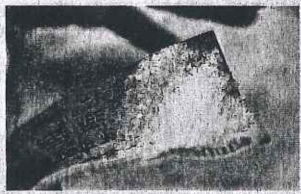
The promise of a 3-million-tonne buffer stock (for a year), fixing sugar floor price at ₹29/kg and incentivising ethanol capacity additions, have not cheered up sugar mills.

Not enough

Though the cost of the entire relief package comes to ₹8,500 core, half of this (₹4,440 crore) is on soft loan to sugar mills to build their ethanol capacity. Another ₹1,332 crore is for interest waiver on the loans. However, given the precarious situation the mills are in, it is doubtful whether they would want to grab this opportunity to set up distillery plants.

The move to create a buffer stock is a good one. But the government will not be bearing the entire cost of the stock, only the carrying cost.

The sugar buffer will remain in the godowns of the mills for a year. The carrying cost of the stock (towards interest, storage and insurance charges), of ₹1,175 crore, will be borne by the government. Again, this will be paid only in instalments, and directly to the farmer.



Too sweet

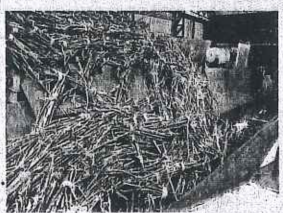
In the 2017-18 sugar season, sugar production is estimated to be around 31 million tonnes and consumption 25 million tonnes. With an opening stock of 4 million tonnes, the year will close with a total stock of 10 million tonnes that will be carried forward to the 2018-19 sugar season.

So even after removing 3 million tonnes of sugar for the buffer, the 2018-19 season will open with a large stock of 7 million tonnes.

Strings attached

Last month, the Centre had announced a subsidy of ₹5.5/quintal on cane crushed for exports. But it came with many strings attached, including a retrospective stock-holding requirement, straight away removing 30-40 per cent of the mills from benefiting from the move.

The rest of the mills, too, however, could not use it, given the sharply low international prices. Prices in the international markets are still 20-25 per cent lower than that in the domestic market due to a surplus, higher cane production in Asia and Europe.



Brazil, the largest cane producer in the world, is the wild card now. If the country switches to making more ethanol than sugar, given the rally in crude prices, sugar prices might firm up as the amount of excess cane will come down. In such a case, the mills in India may start to export, which can bring a demand-supply balance in the 2018-19 season.

The MSP (minimum support price) of ₹29/kg is also no big deal as even at this price, the mills will continue to make loss. The cost of just the cane for producing 1 kg of sugar comes to ₹27/kg (assuming a recovery rate of 10.8 per cent and an FRP (fair and remunerative price) of ₹290/kg). Adding other costs of production, the total cost comes to ₹34-35/kg for the mills.

Abinash Verma, Director General, Indian Sugar Mills Association, said: "Over the next four months, mills will realise around ₹3,360 crore by sale of sugar (at the price and amount fixed by the government).

"So by the end of September, cane arrears will come down from ₹23,000 crore to ₹19,640 crore. Money made from sale of by-products, say another ₹3,000 crore, will also be available; this will reduce the arrears a little more. But there is no way cane price arrears can come below ₹15,000 crore by the end of September — even if sugar prices go up to ₹30-31 per kg."

Business Line
11/6/18