




INDIA: END OF THE SUGAR CYCLE?

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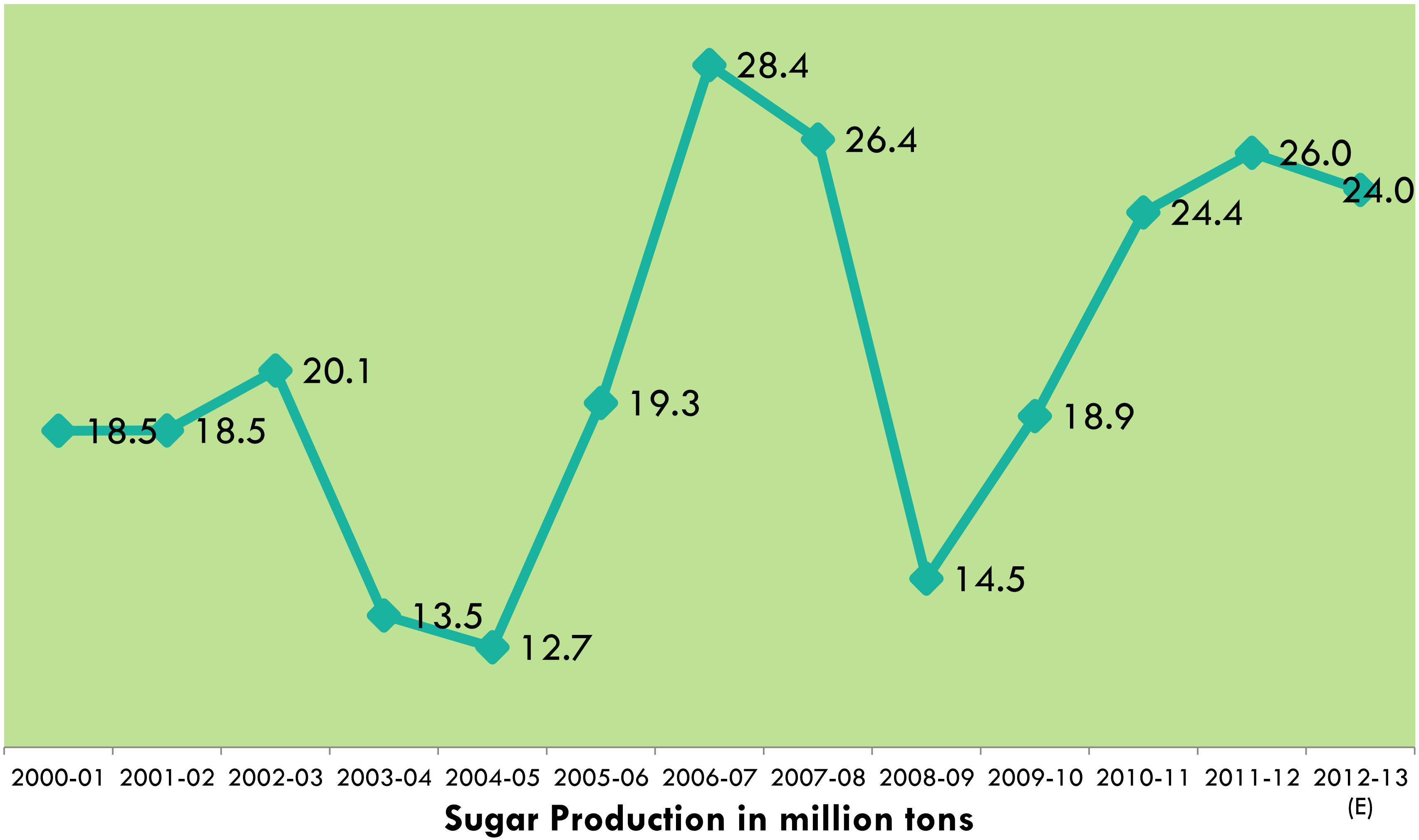
isma
indian sugar mills association

Outline of Presentation

- The Indian Sugar Cycle
- Factors impacting the Cycle
- Do we see an end to the Cycle?
- Can the Cycle be better Managed?
- 2012-13 and 2013-14 seasons

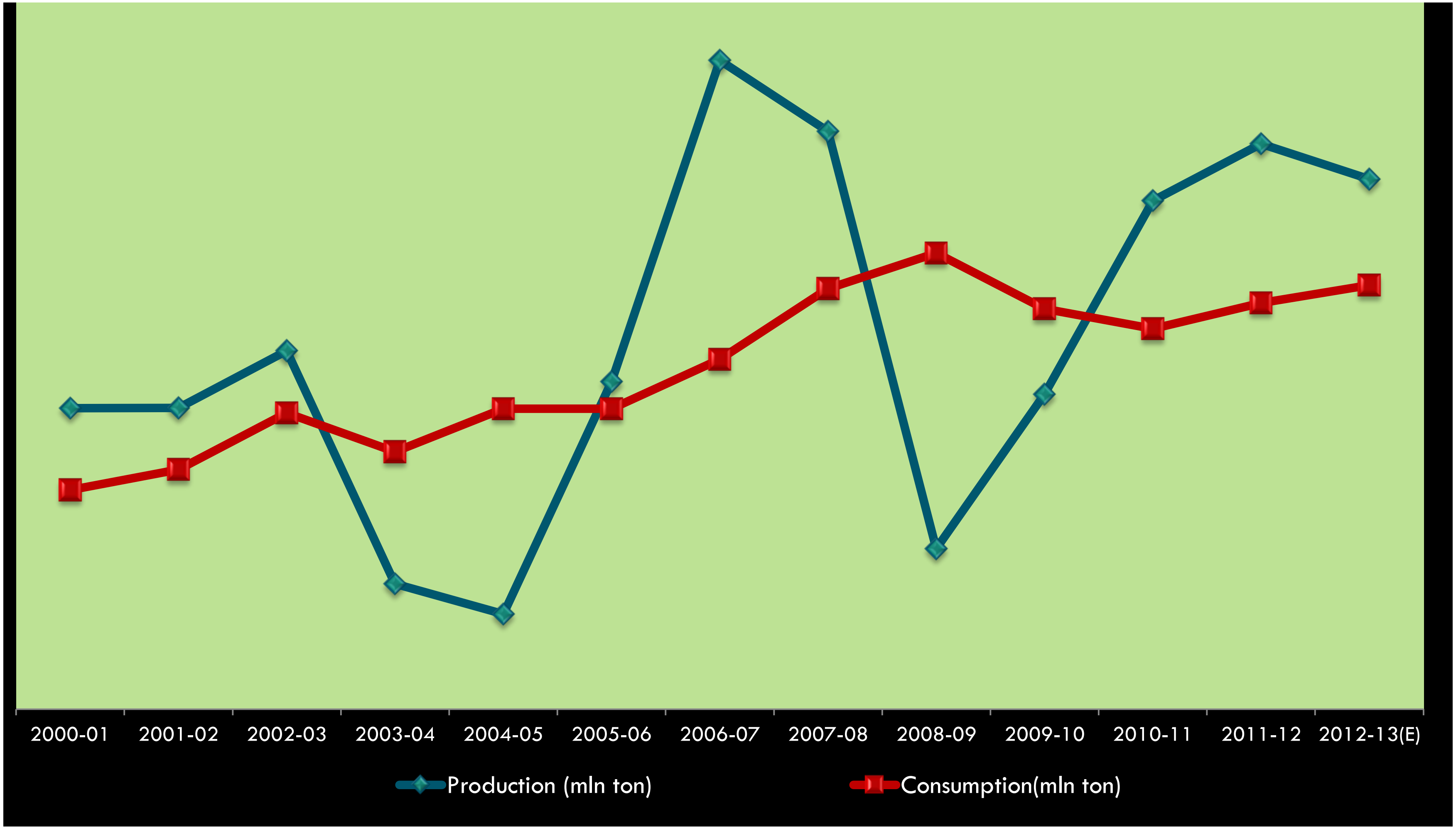
Sugar Production Cycle in last 10 years



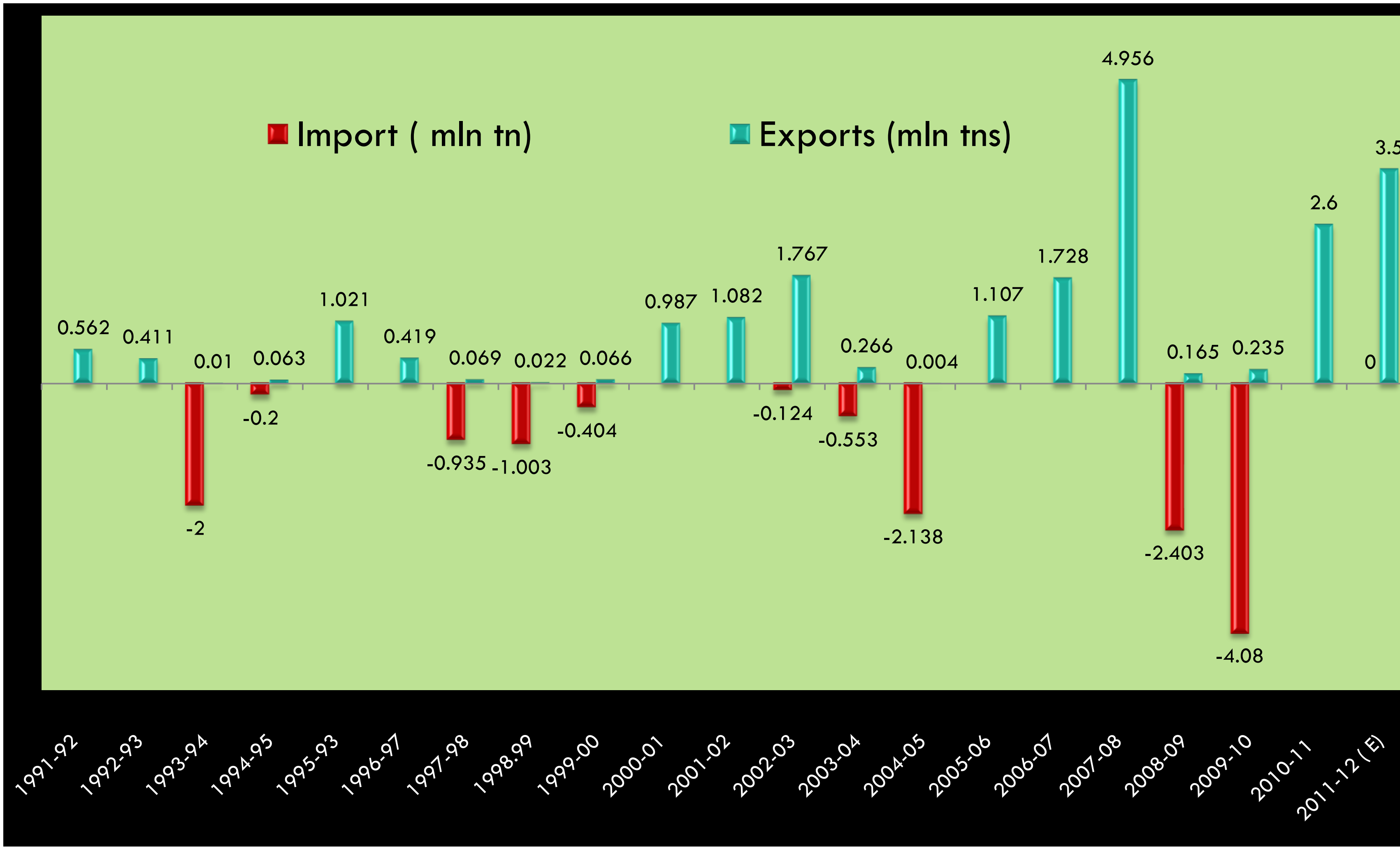
The year-wise swings: Since 2000-01

Period	No. of seasons	Range (mn tons)	Swing from previous high/low (mn tons)	Swing %
00-01 to 02-03	3	18.5 to 20.1		
03-04 to 04-05	2	13.5 to 12.7	(-) 6.6	(-)33%
05-06 to 07-08	3	19.3 to 28.4	(+) 6.6	(+)52%
08-09 to 09-10	2	14.5 to 18.9	(-) 11.9	(-)42%
10-11 to 12-13	3	24.0 to 26.2	(+) 5.5	(+)29%

Production–Consumption in last ten years



Cyclical sugar trade in last 20 years…….



Therefore, The Cycle is …………

- Indian sugar production follows a 5 year cycle
  - 2 to 3 year of high production; followed by
  - 2 to 3 years of low production; and vice versa ….
- Consumption growth is linear
- Results in huge swings in the sugar equation

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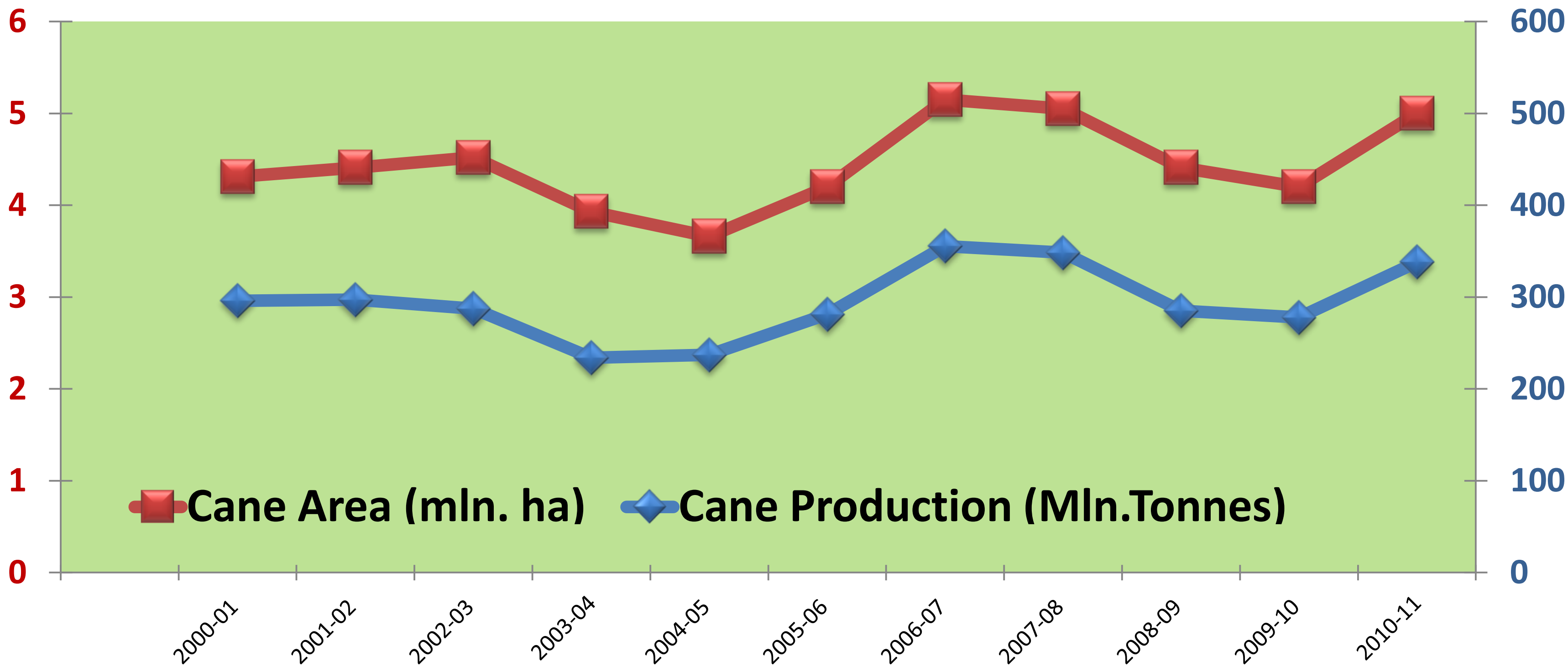
Sugar production dependant on …..

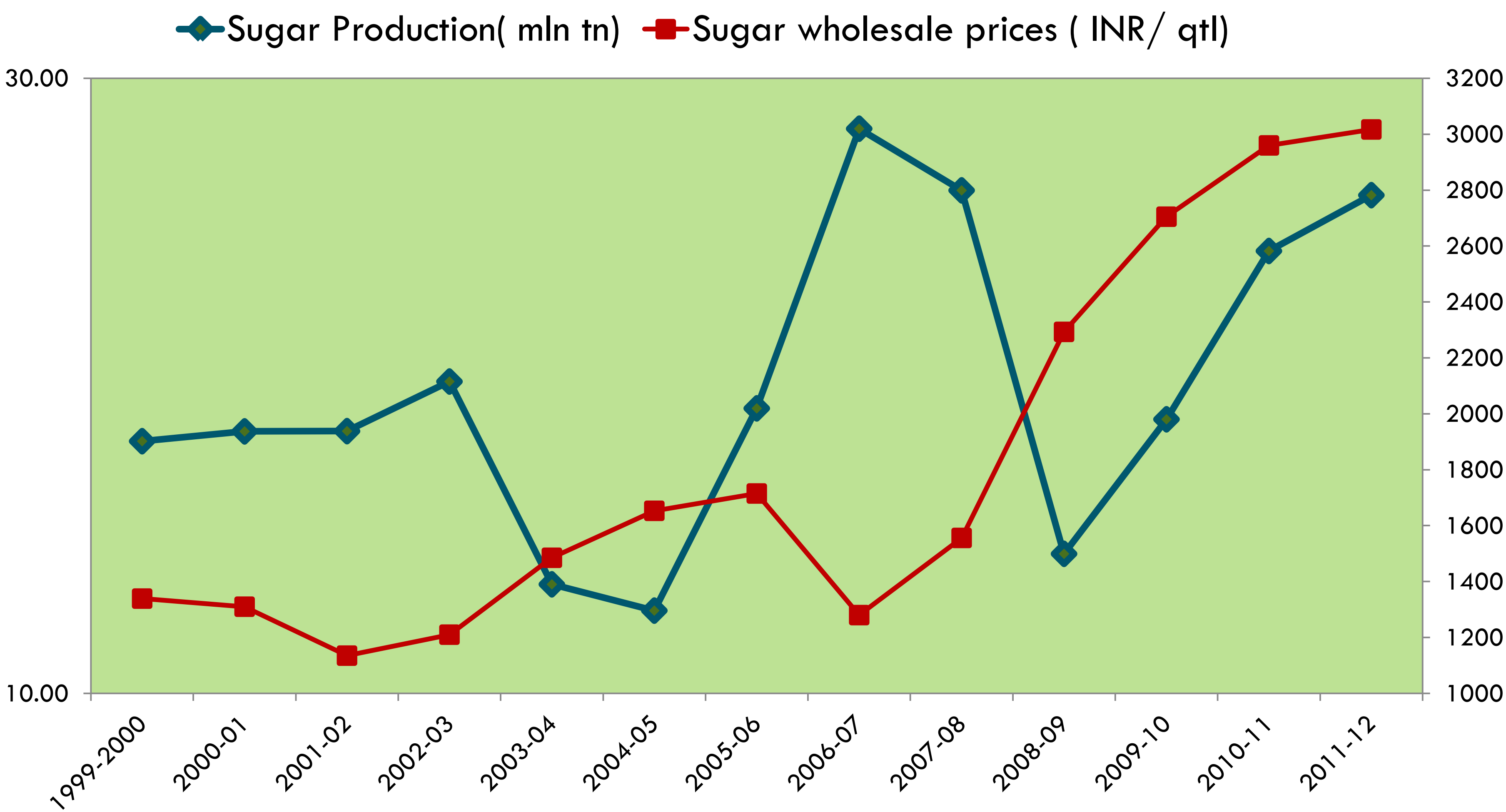
1. **Cane production**
   - **Area under sugarcane**
   - Weather & Rainfall
2. **Cane drawal by sugar industry**
   - Price of cane offered by sugar industry
   - Diversion into gur, khandsari etc.
3. **Government policies**

Fluctuations in cane area and production

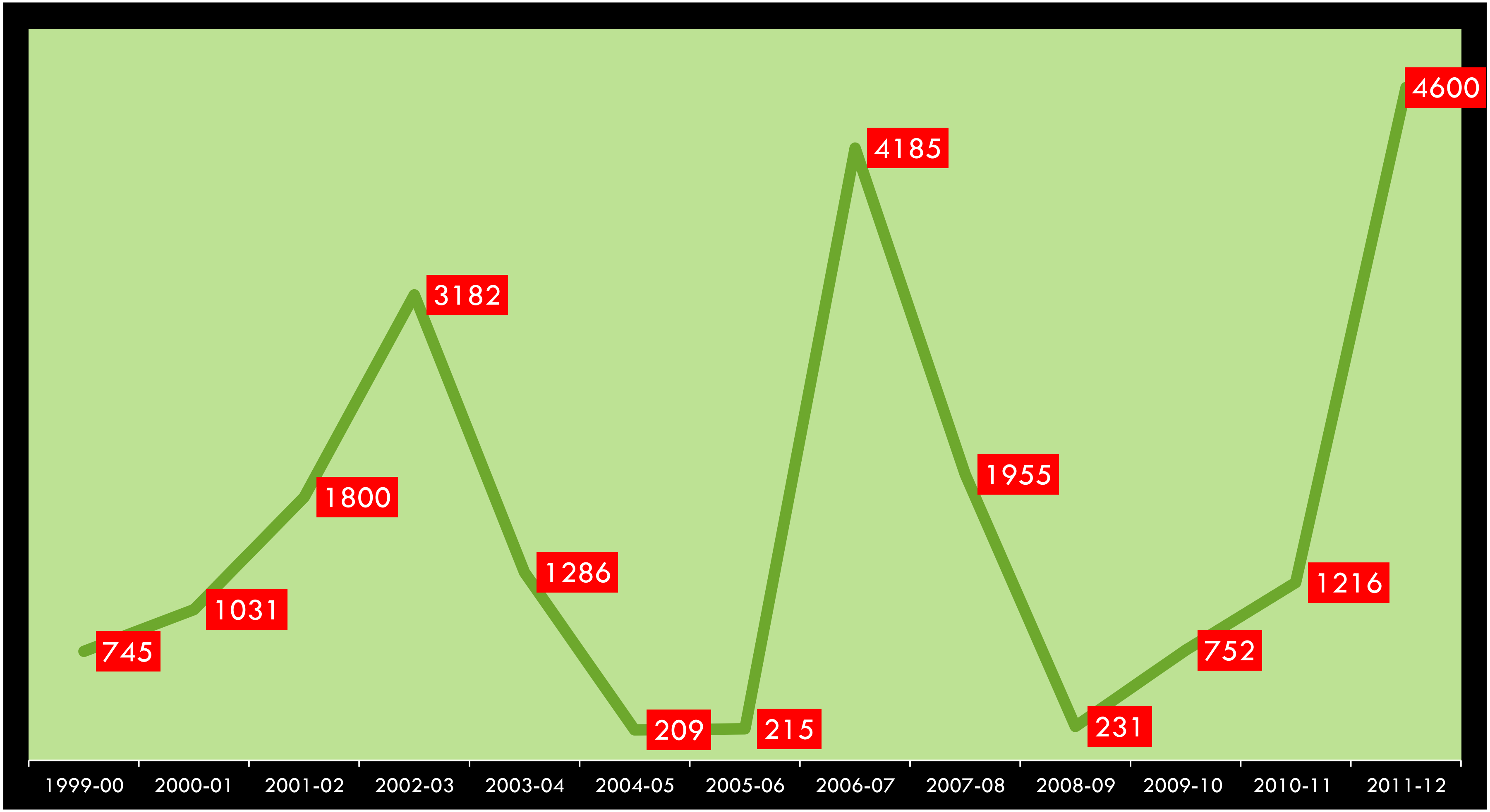


- Price for cane and Arrears of farmers
- Returns from alternative crops like wheat, paddy, cotton, turmeric etc.

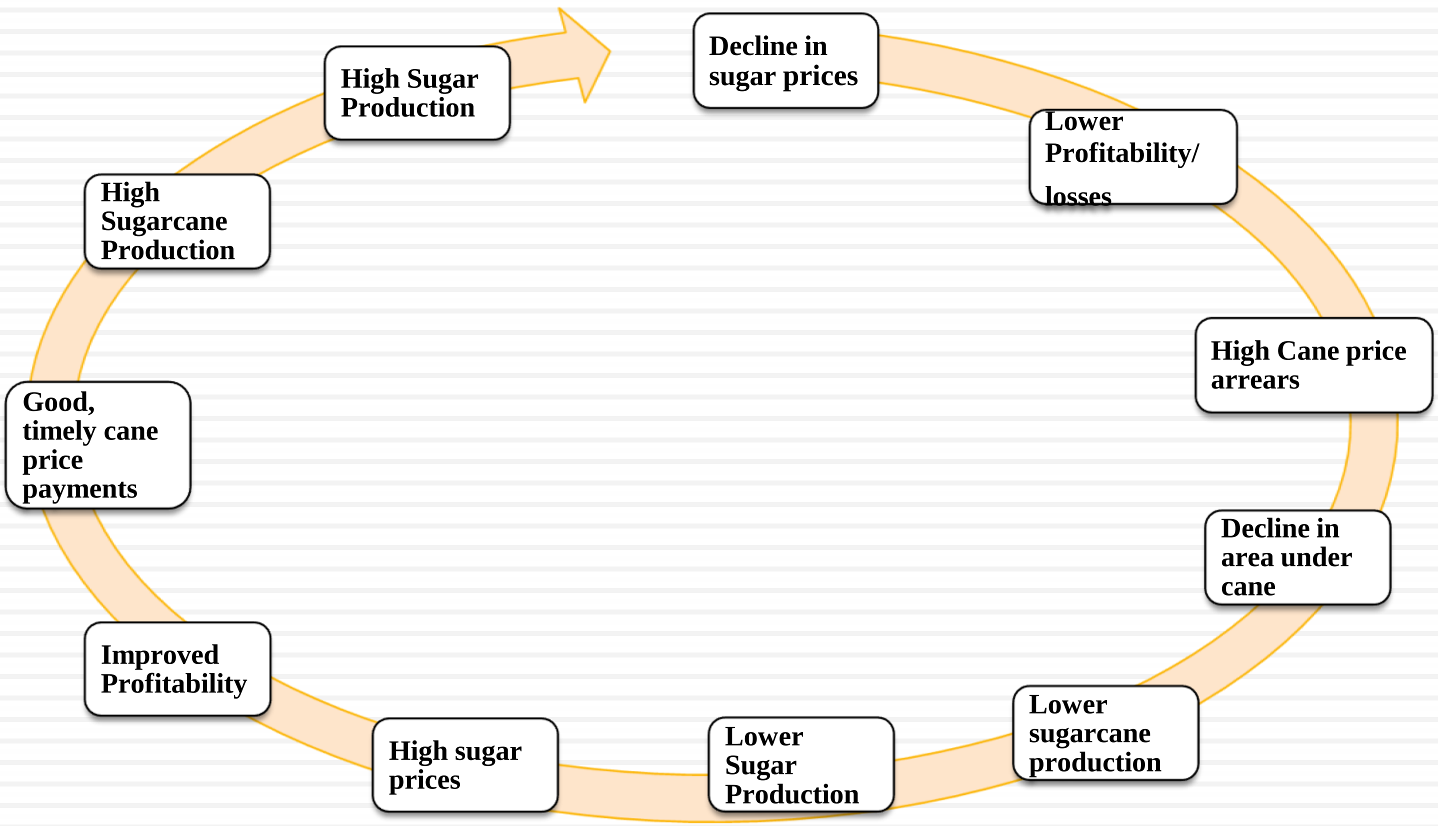
Sugar Production & Sugar Price

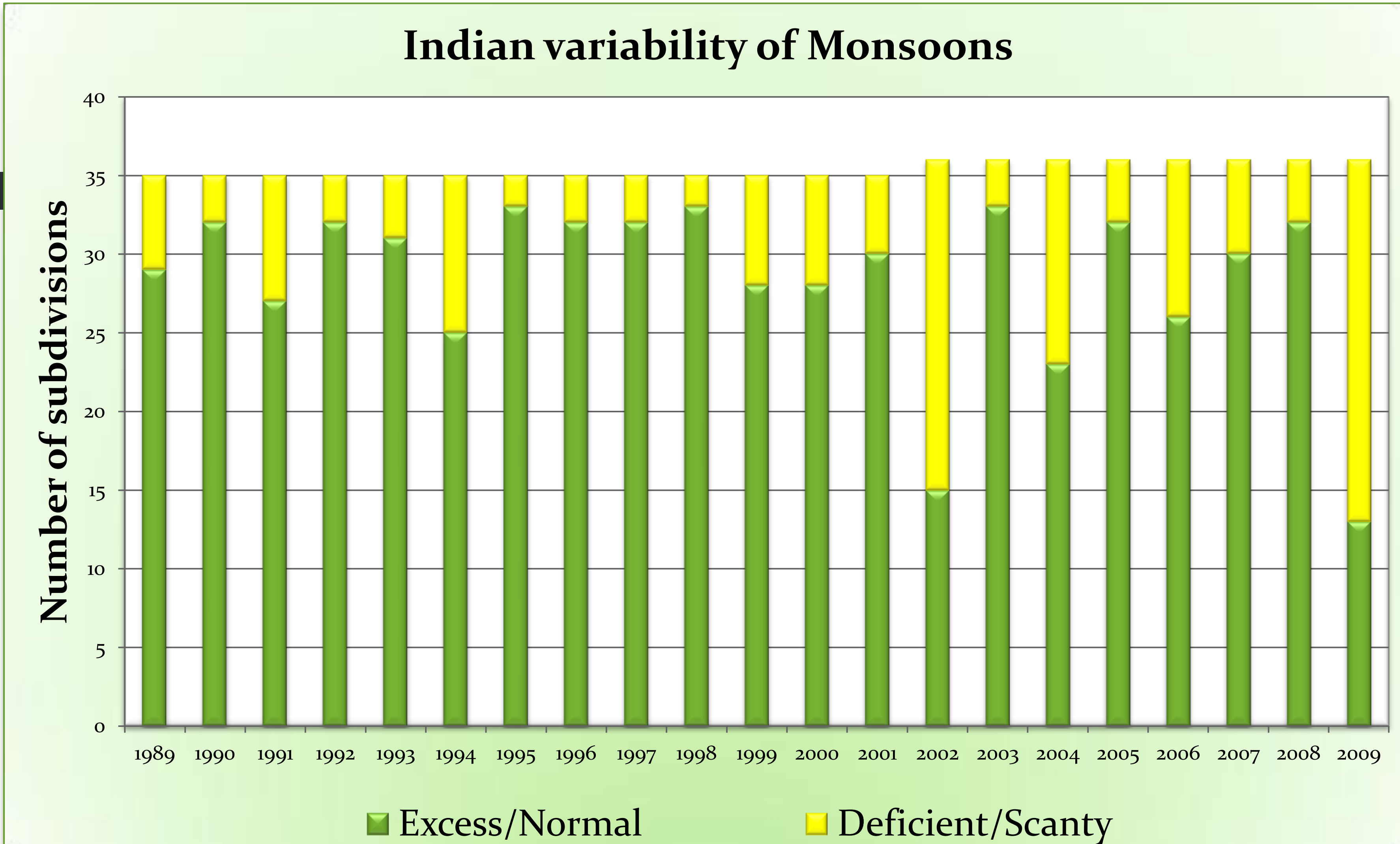


Cane Price Arrears (as on 30th June in Rs. crore)



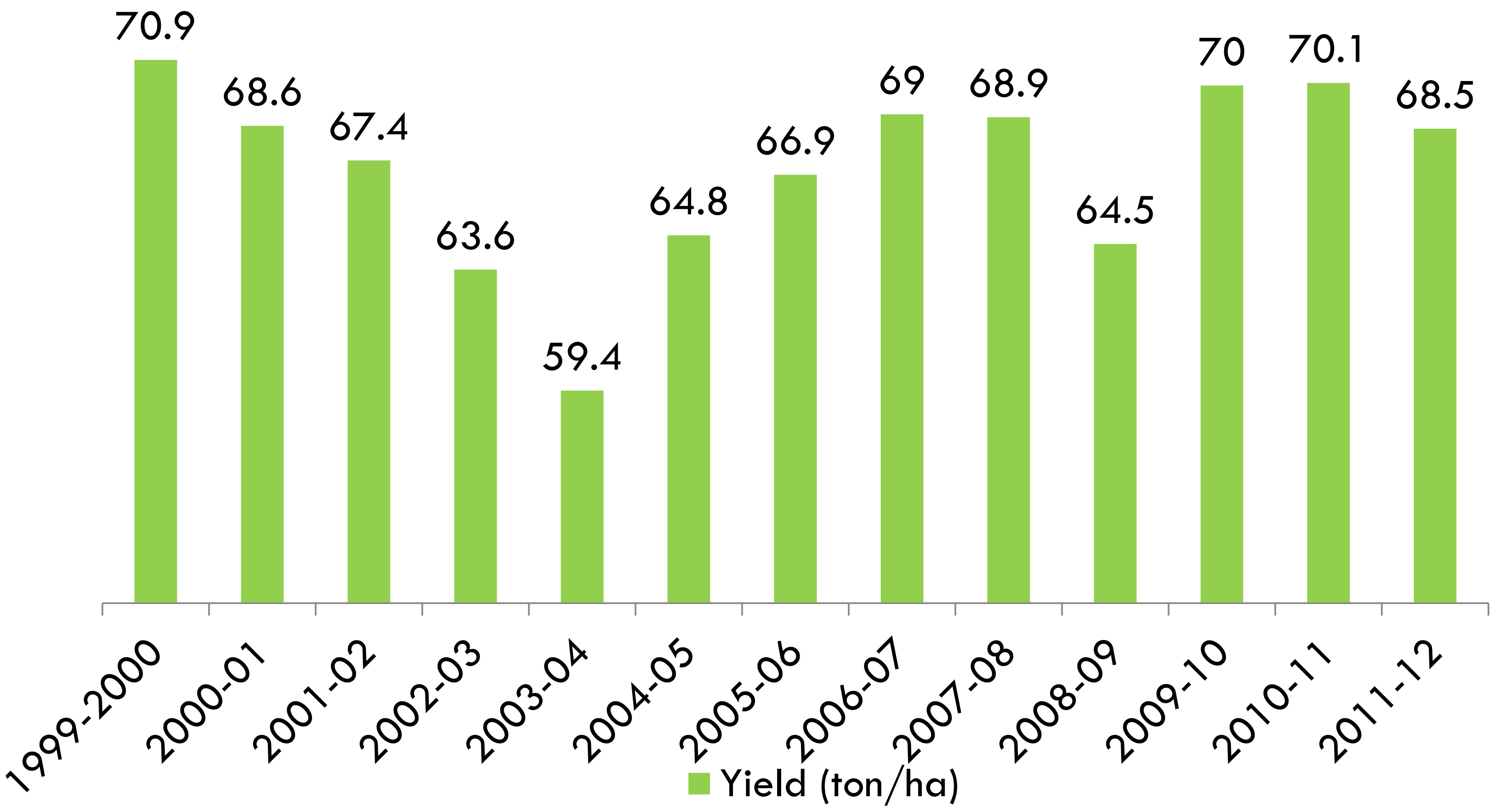
The Indian Sugar Cycle



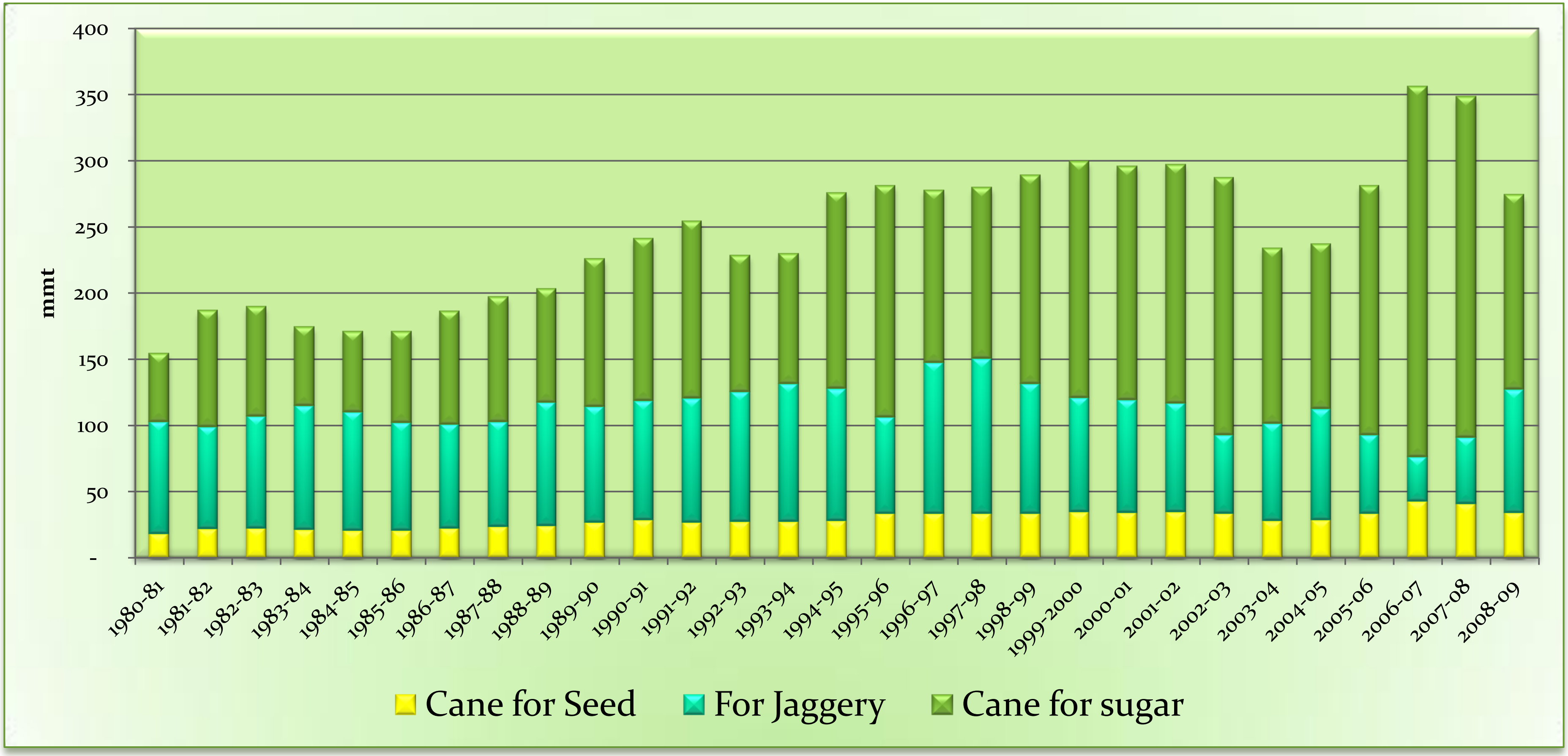


- Although 93% of India's cane crop is irrigated, performance of the 4 month (Jun-Sept) monsoon season has a significant impact on crop output
- This affects yield as well as sucrose formation impacting sugar recovery

Cane Yield


70.9
68.6
67.4
63.6
59.4
64.8
66.9
69
68.9
64.5
70
70.1
68.5
1999-2000
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
Yield (ton/ha)

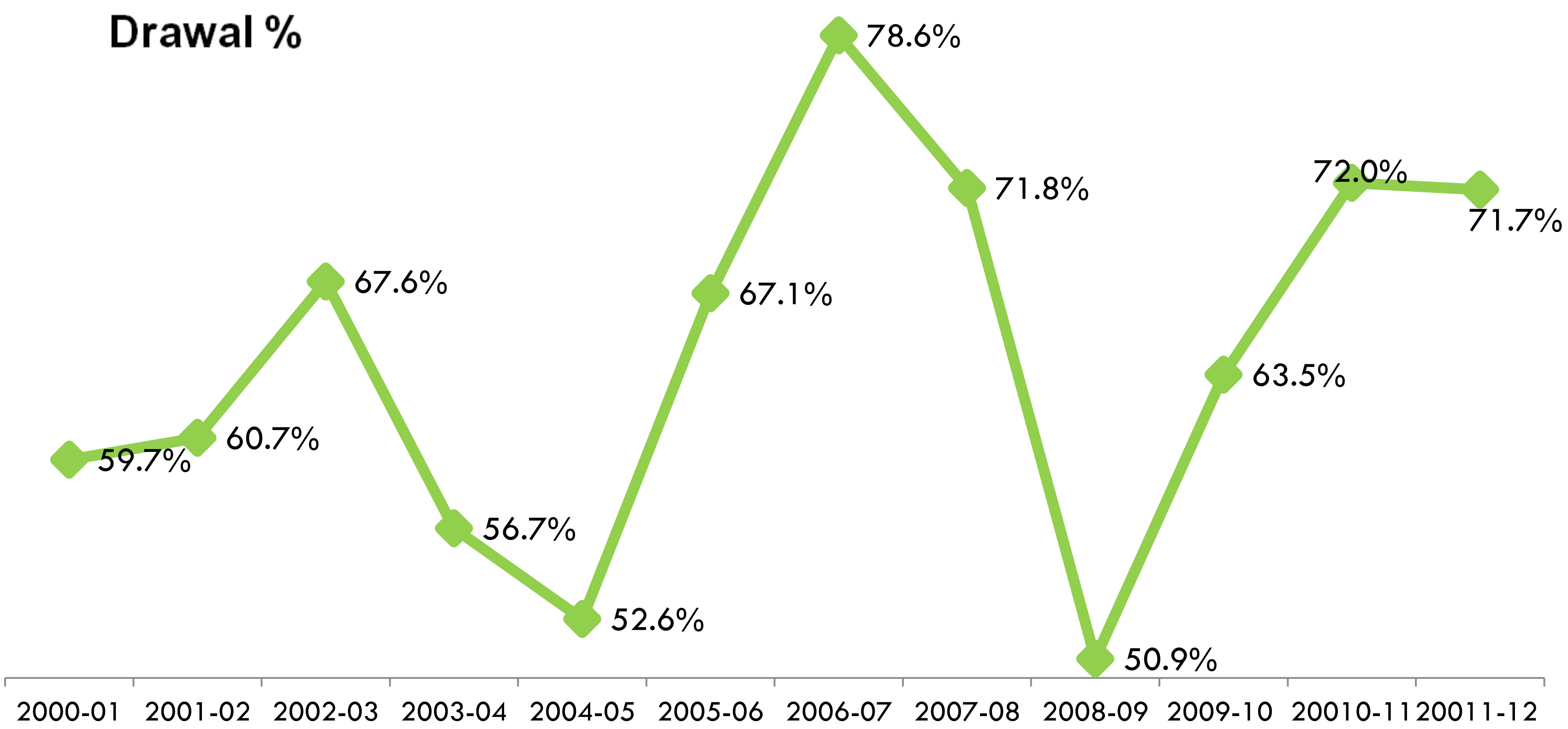
Cane diversion for alternate sweeteners



Substantial variation in yearly drawals

- Higher drawals in low production years and lower in high production years

Cane drawal by sugar industry



Policy Contribution to the Cyclicality

- Regulated Release Mechanism
  - Control on sugar prices & Blockage of working capital
- Levy Sugar Obligation on mills
  - Carry forward of levy sugar, blockage of capital
- Export-Import of Sugar
  - Timing and quantity permissions
- Cane Price
  - Unreasonably high and no linkage with sugar price

Cane Price Arrears vis-à-vis Sugar Inventory

- Cane price arrears directly related to sugar inventory which industry forced to carry
- Industry has no control on cash flow which are need to pay cane price to farmers during crushing season.

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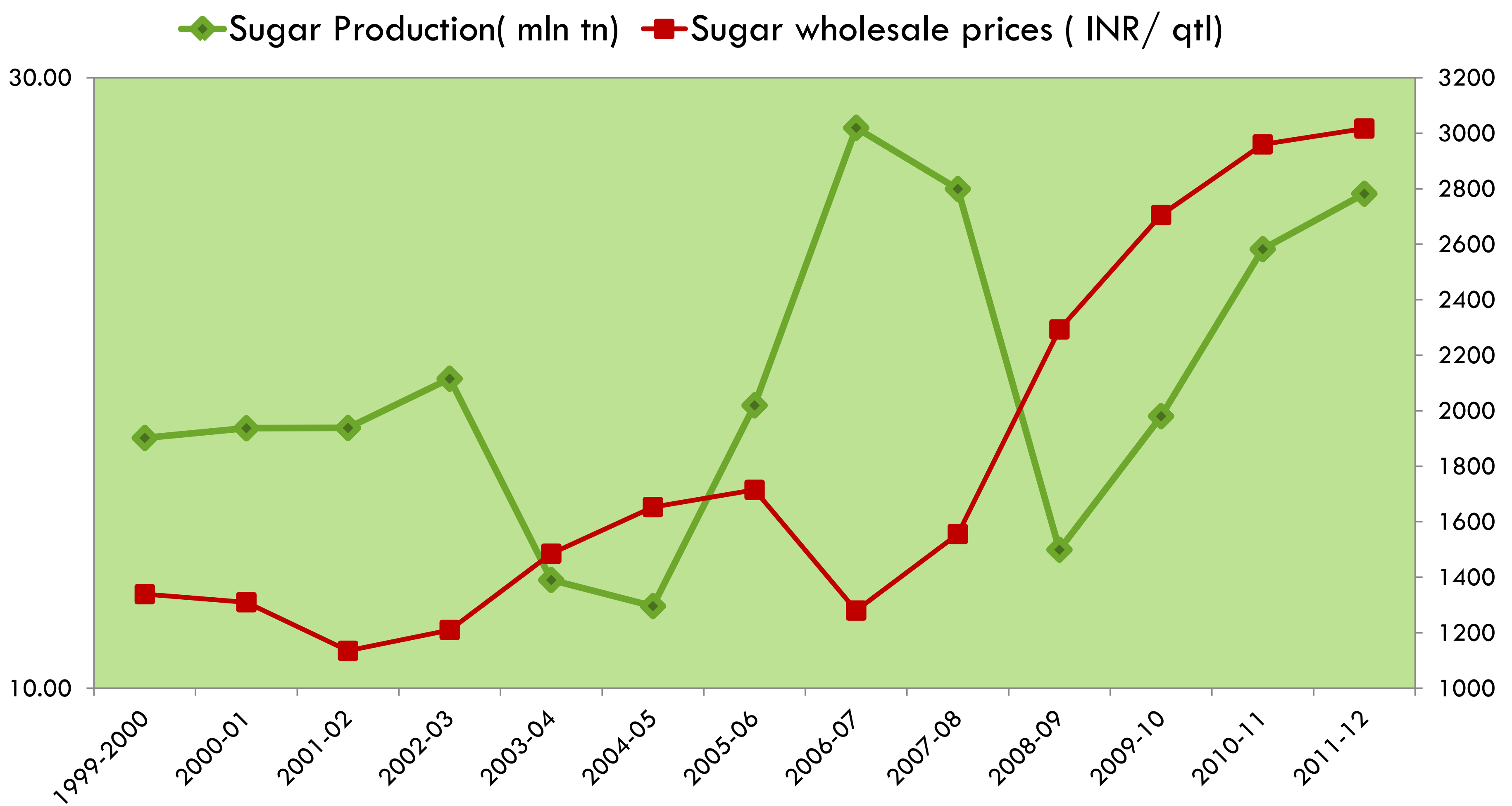
Production–Consumption in last ten years

Production–Consumption in last ten years

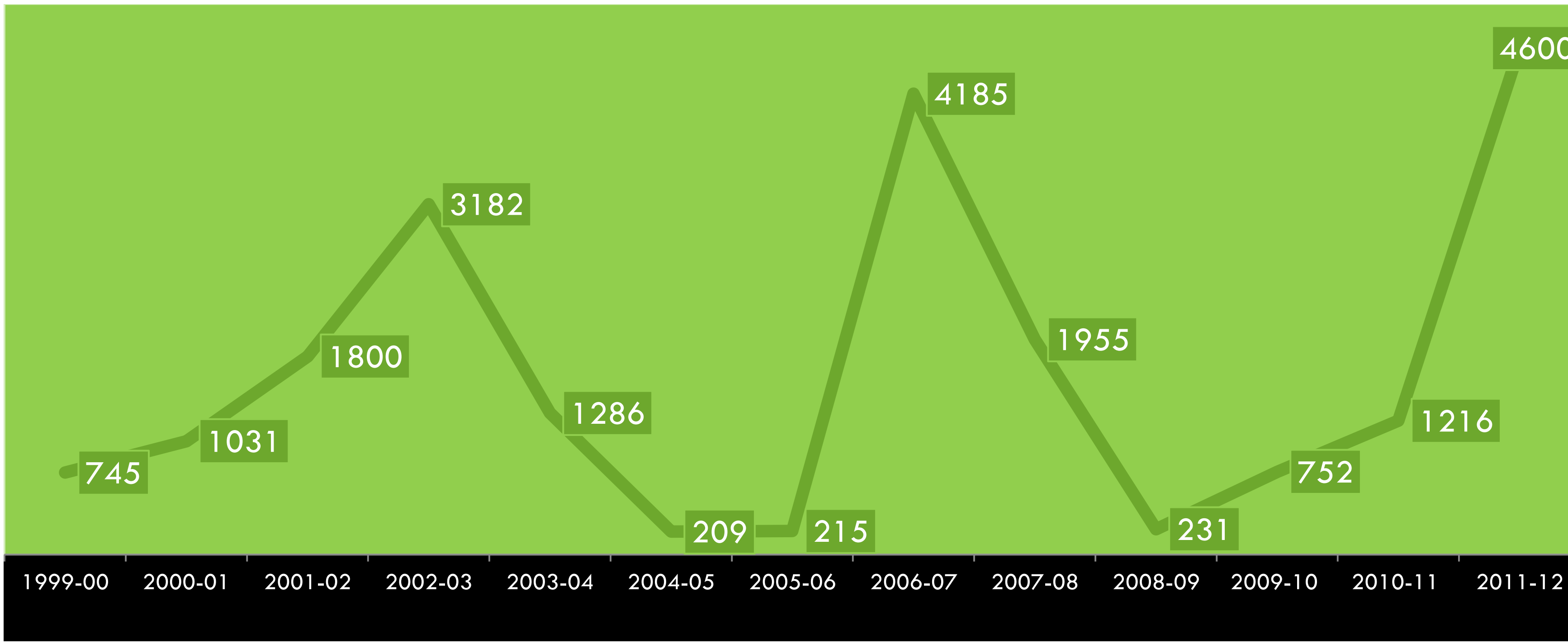
Policy front …….

- Permissions in last 2 years for exporting the surplus
  - Timing and Quantities
  - Market for Indian sugar
- Cash Flow needs better met
  - Quarterly release mechanism
  - Levy sugar: Conversions and 'Carry forward' rule
- Sugar price vis-à-vis cost of production
  - Government and public awareness and acceptance

Sugar Production & Sugar Price



Cane Price Arrears



- High Cane Price Arrears are <u>usually</u> followed by fall in Cane Acreage and fall in sugar production
- It is not expected to happen in <u>2012-13</u>

Diversion of cane and area

- Price of competing crops
  - Returns to farmers from wheat, paddy, cotton, turmeric etc.
- Cane drawal for gur, jaggery, khandsari etc.
  - Price offered by alternate sweetener manufacturers

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Management of the Surplus: suggestions

- Freedom from Government controls
- Cane price – sugar price linkage
- Freer trade policy
- Diversion of surplus cane into ethanol
- Diversion to alternate sweeteners

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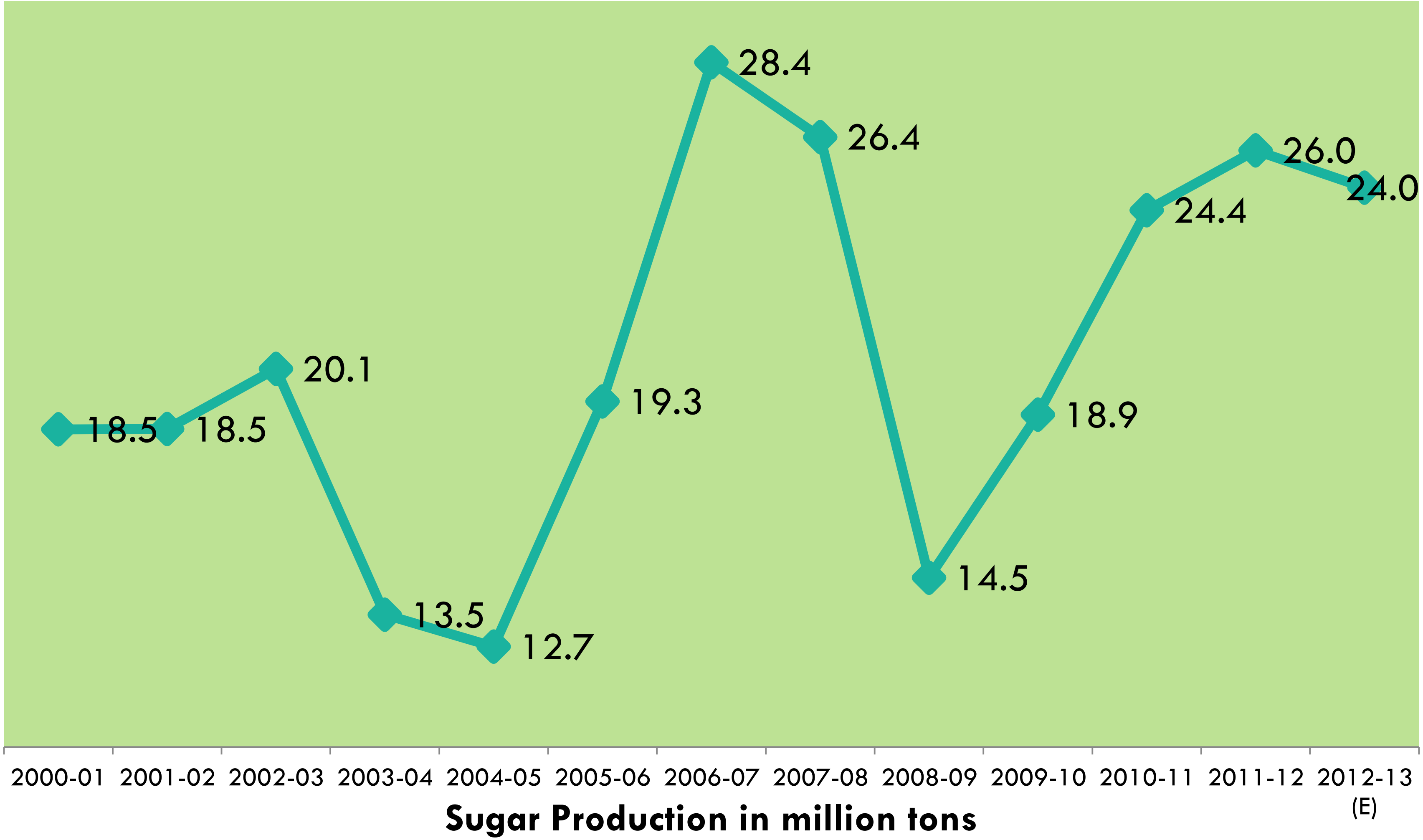

2012-13 and 2013-14: Will the Cycle come back?

- 2012-13:
  - Very good cane price in 2011-12
  - Cane area higher by 4% over previous 2 seasons
  - Doubts regarding rainfall in Maharashtra and Karnataka
  - Rains have picked up in last 2 weeks
  - Highest ever cane area in Uttar Pradesh
  - Estimated sugar production of 24.0 million tons

2012-13 and 2013-14: Will the Cycle come back?

- 2013-14:
  - Price for competing crops vis-a-vis cane price
  - Cane price arrears in 2012-13?
    - Sugar prices covering cost of production
  - Surplus sugar in 2012-13 not as large as in previous years
  - With some late rainfall and the outcome of retreating monsoon, reservoirs in Maharashtra and Karnataka may have more water
    - 18 month crop in Maharashtra showing signs of picking up
  - However, still very early to estimate, but indications as of now do not indicate a swing in cane area or fall in sugar production

Thank You