PRESENTATION TO

"TASK FORCE ON SUGARCANE & SUGAR INDUSTRY"

INDIAN SUGAR MILLS ASSOCIATION

21.01.2019

Flow of presentation

- General overview of Indian sugarcane & sugar sector
- Immediate/ short term problems and suggestions
- The problem of high cane prices
- Balancing sugar production through ethanol
- Long term and structural policy needs

Indian Sugar Industry – An Overview

01

World's largest consumer of sugar at 26 million tonnes p.a.

02

World's largest sugar producer at 31 million tonnes p.a.

03

Annual turnover ~ Rs. 1 lakh crore

04

Around 530 sugar mills under operation

05

Around half a milion workers directly employed in sugar mills

06

About 25-30 million sugarcane farmers

07

Around 5 million hectares of land under sugarcane

08

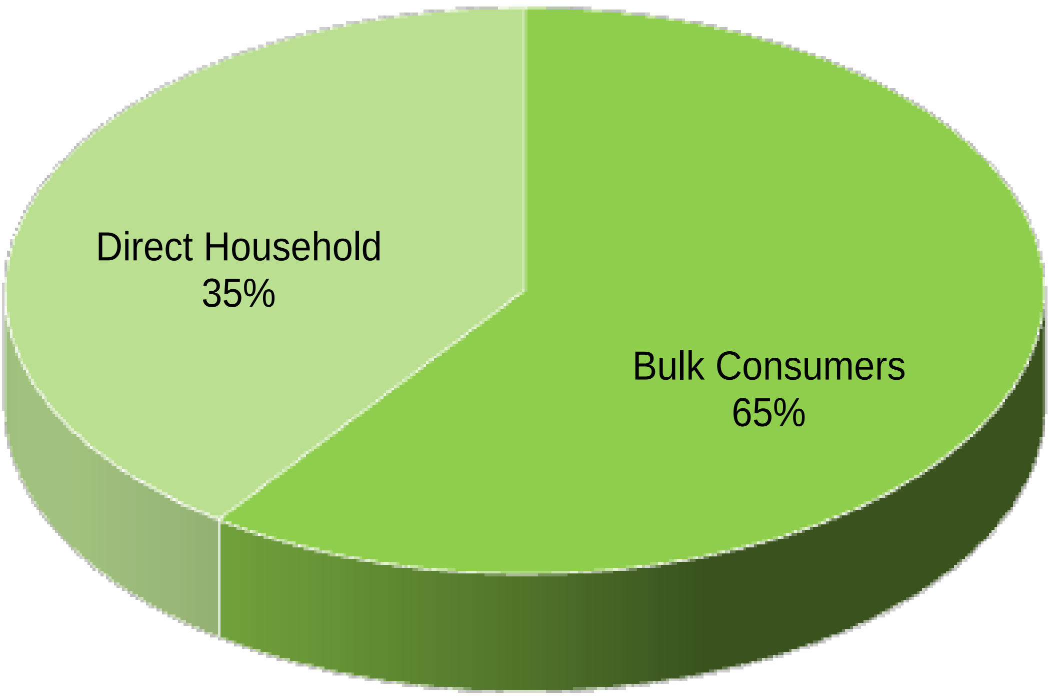
About Rs.85,000 crore cane price payment annually

09

Per capita consumption is low at around 20 kilo

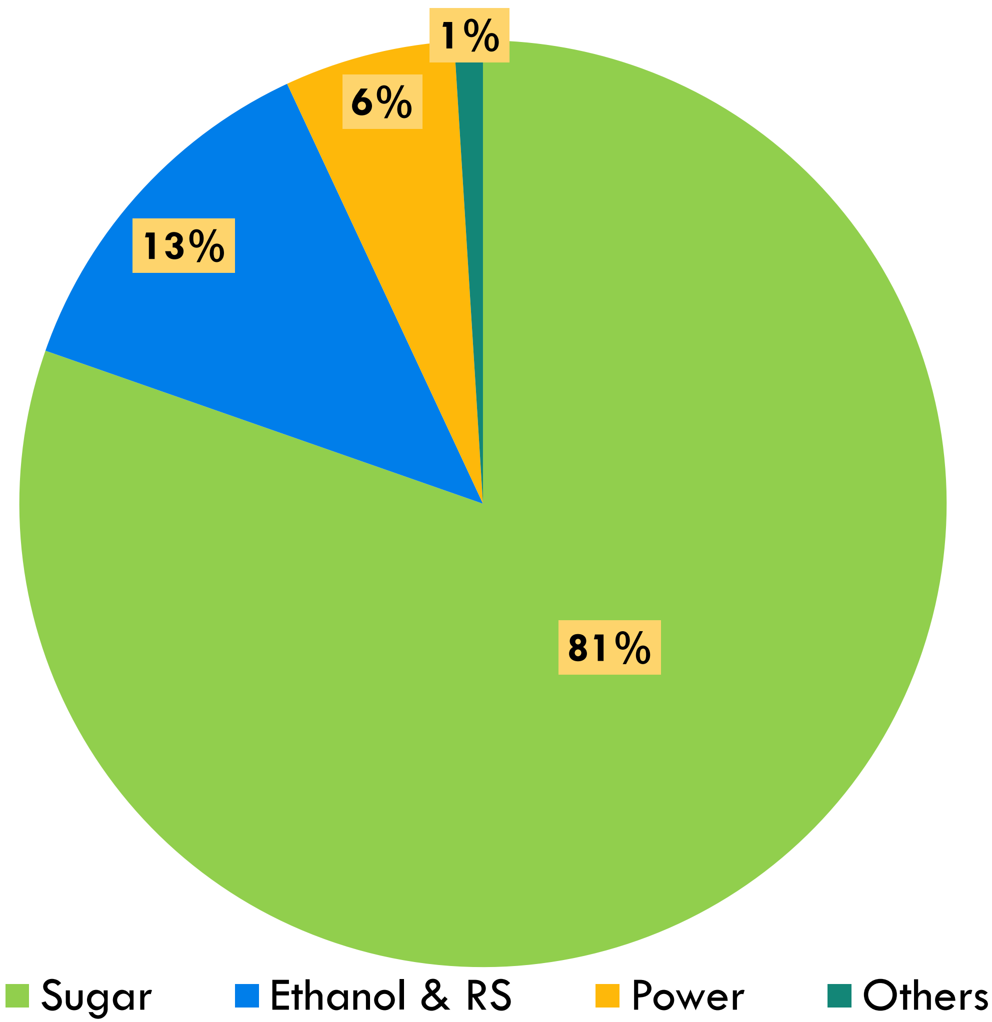
Consumption Pattern of Sugar in India

- **Two sources of sugar demand – Bulk Buyers & Direct Household**



Revenue realisation from sugar & by-products

Total estimated revenue realisation in 2018-19 SS is about Rs. 1 lac crore.
Sugar constitutes 81% Ethanol and other by products constitute 19%.



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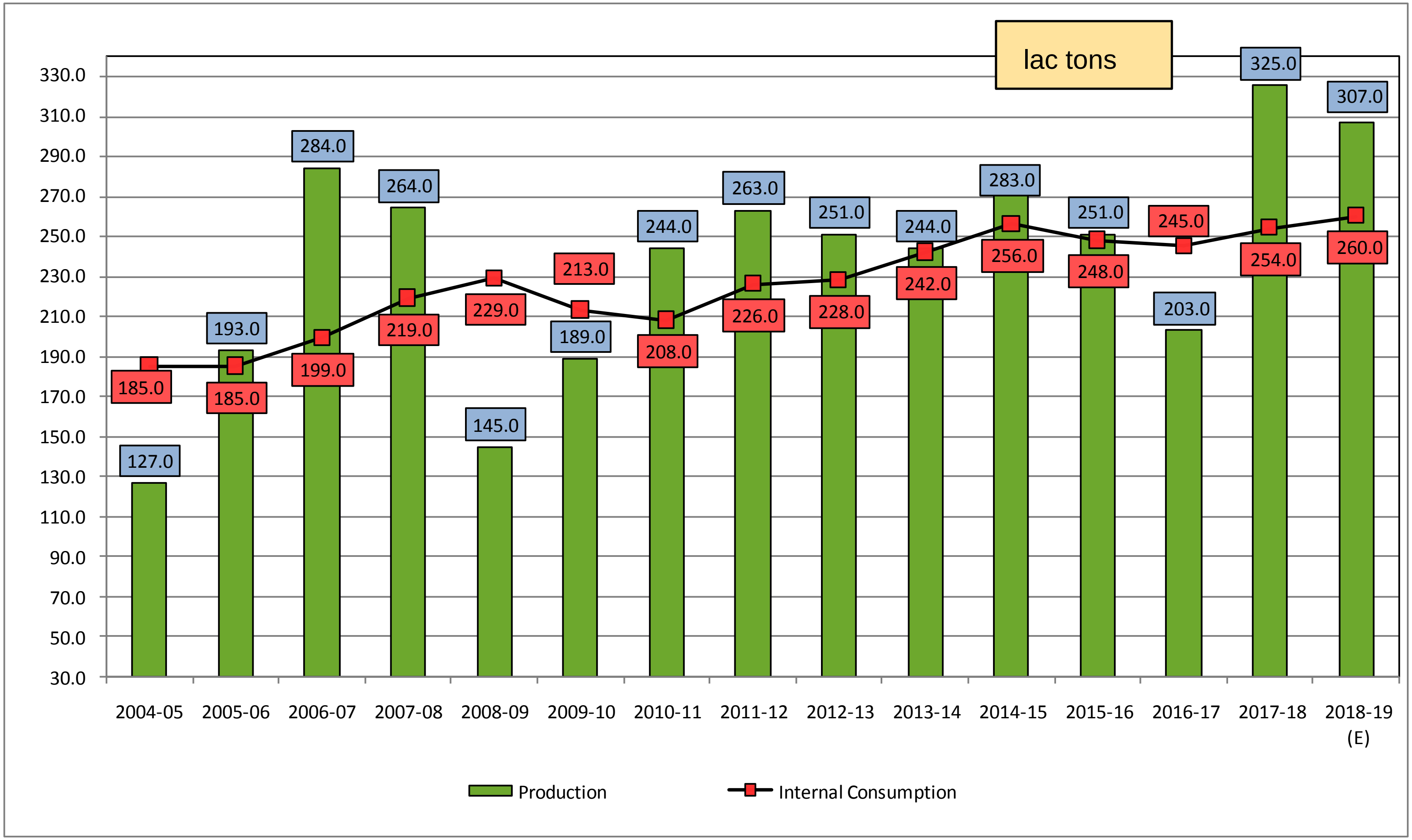
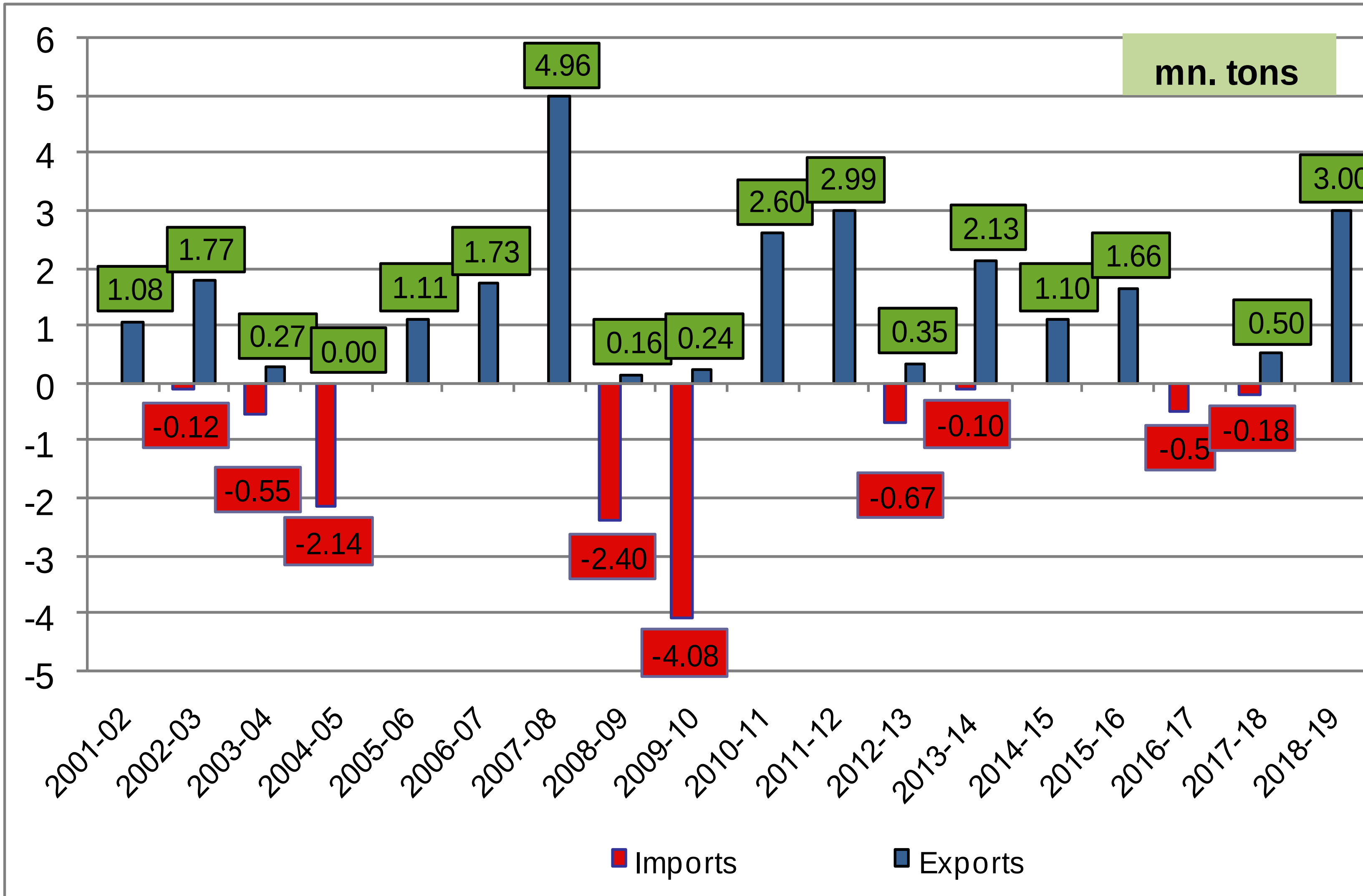
Indian production and consumption

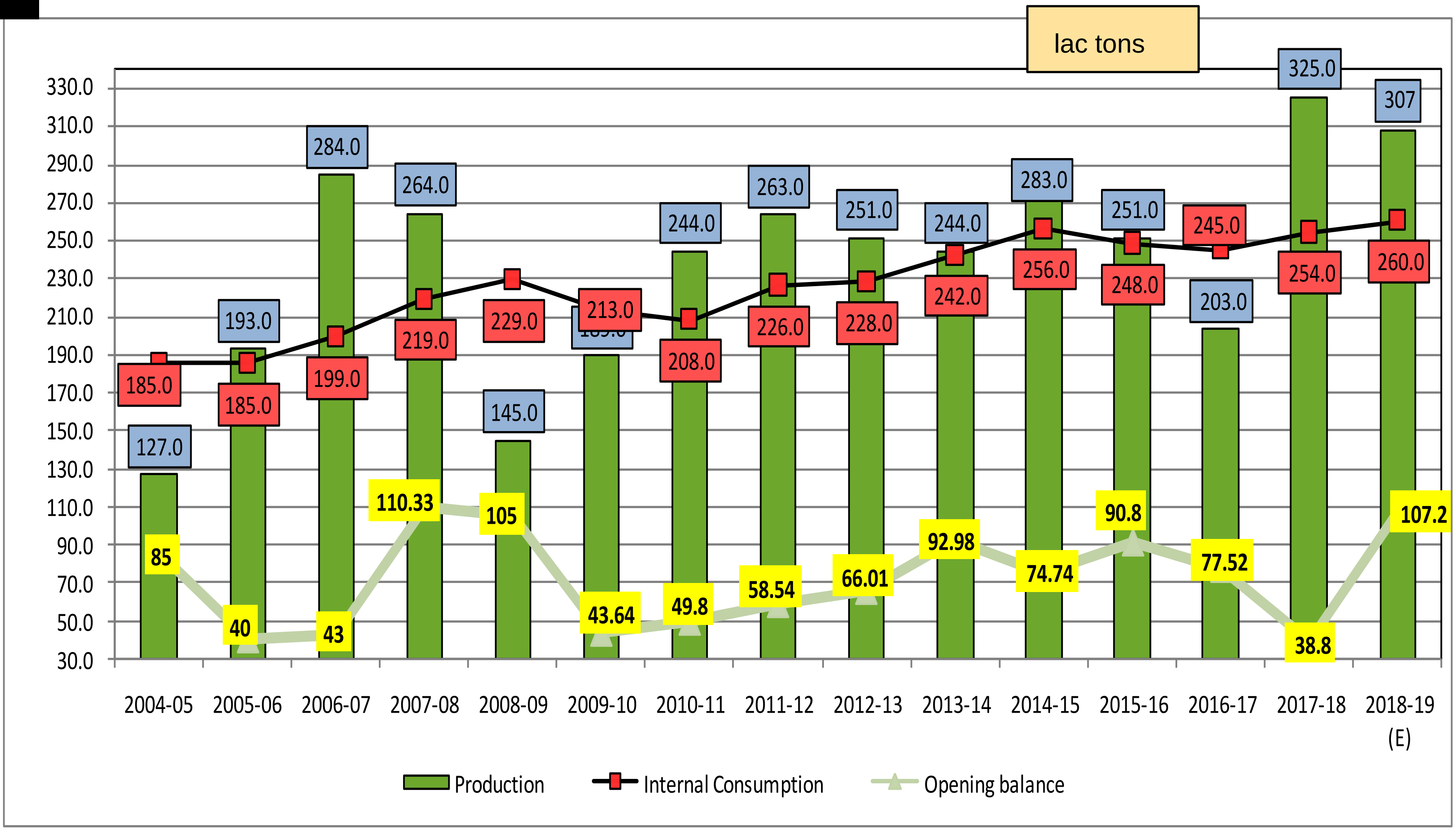


Sugar trade from & to India



Immediate and short term problems of sugar sector

Indian production, consumption and opening balance



Current year 2018-19 sugar balance sheet

Opening balance (as on 1st Oct, 2018)	107.2 lakh tons
Estimated sugar production	307.0 lakh tons
Sugar availability during the season	414.2 lakh tons
Estimated sugar consumption	260.0 lakh tons
Estimated exports	30.0 lakh tons
Closing balance (as on 30th Sept, 2019)	**124.2 lakh tons**

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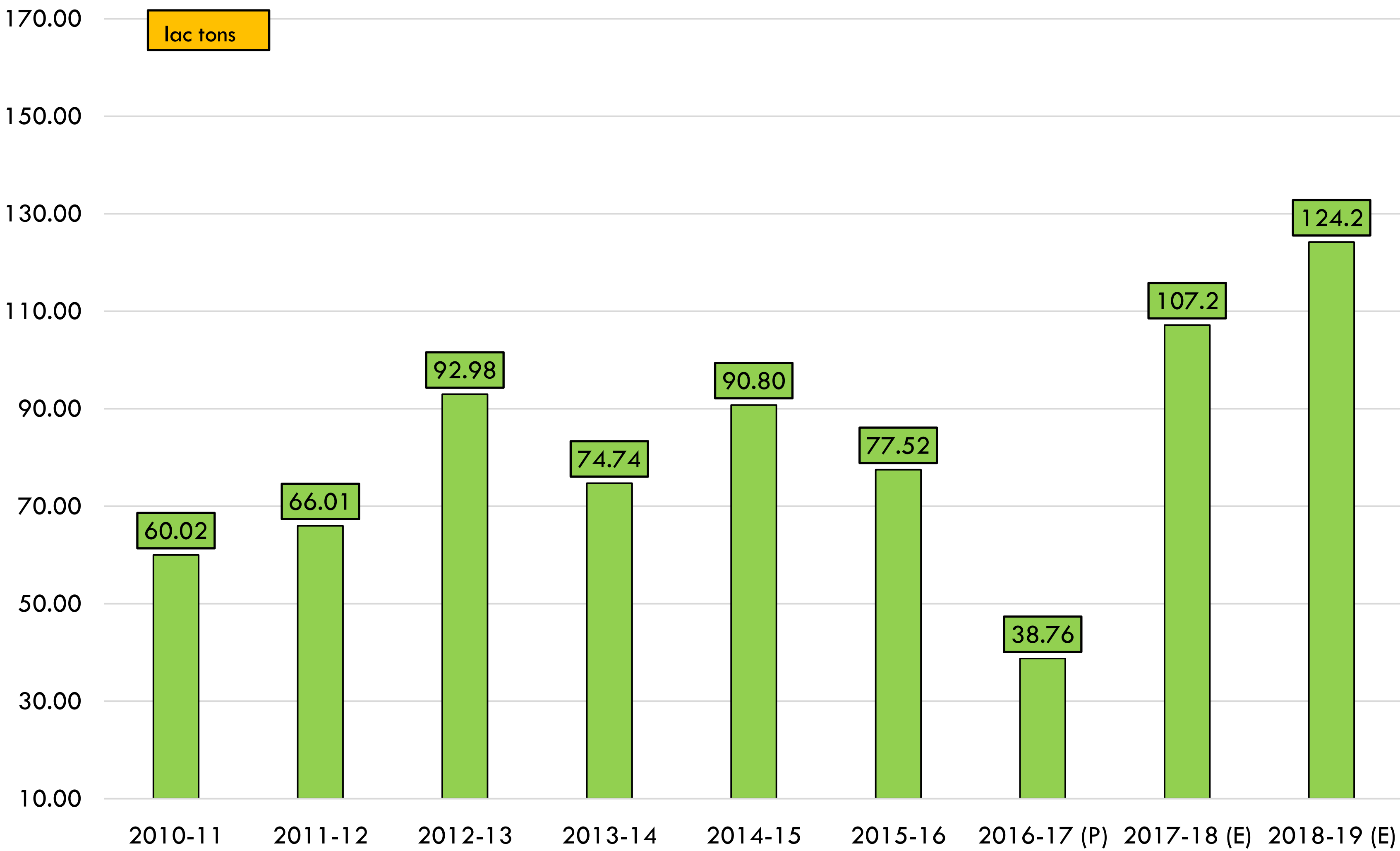
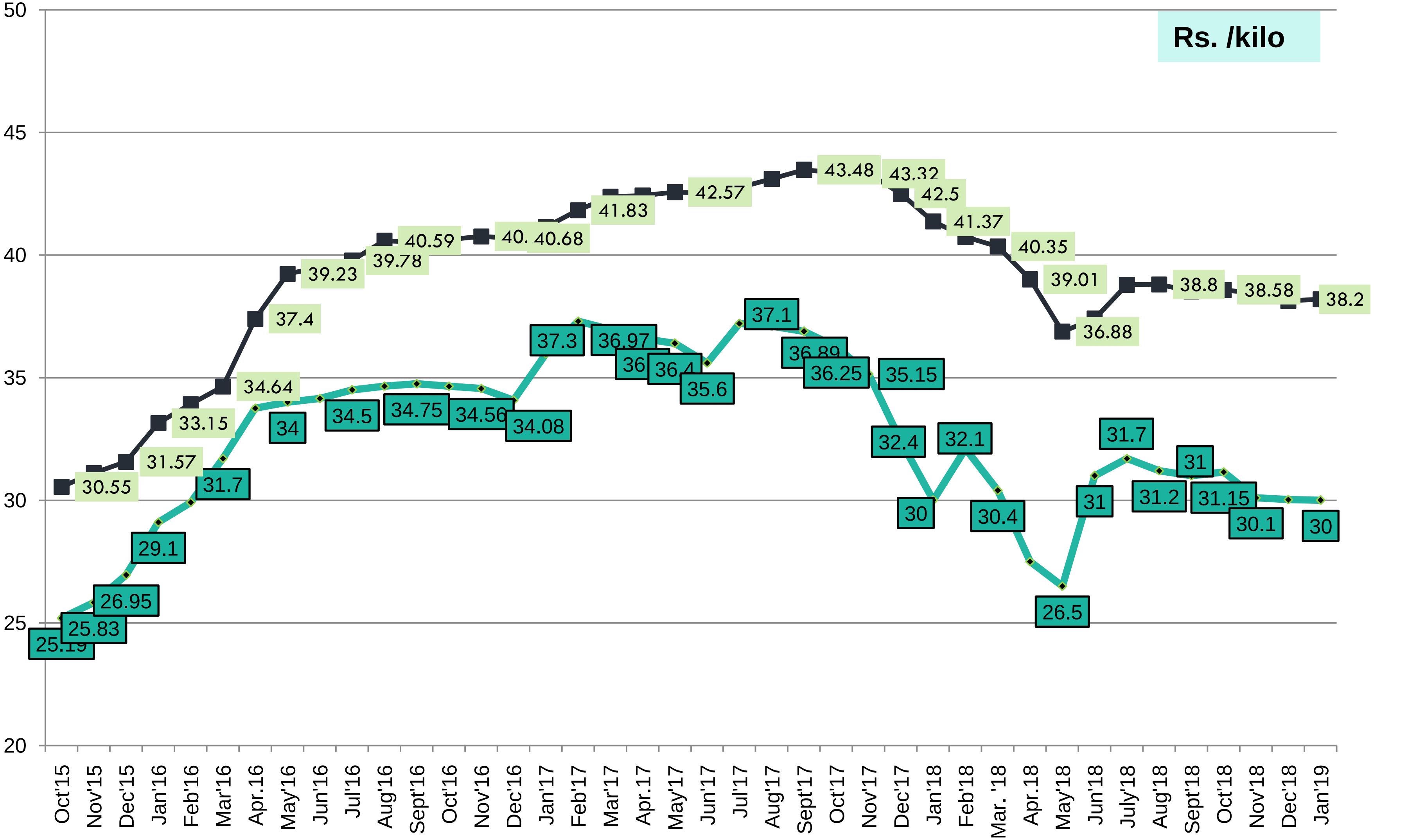
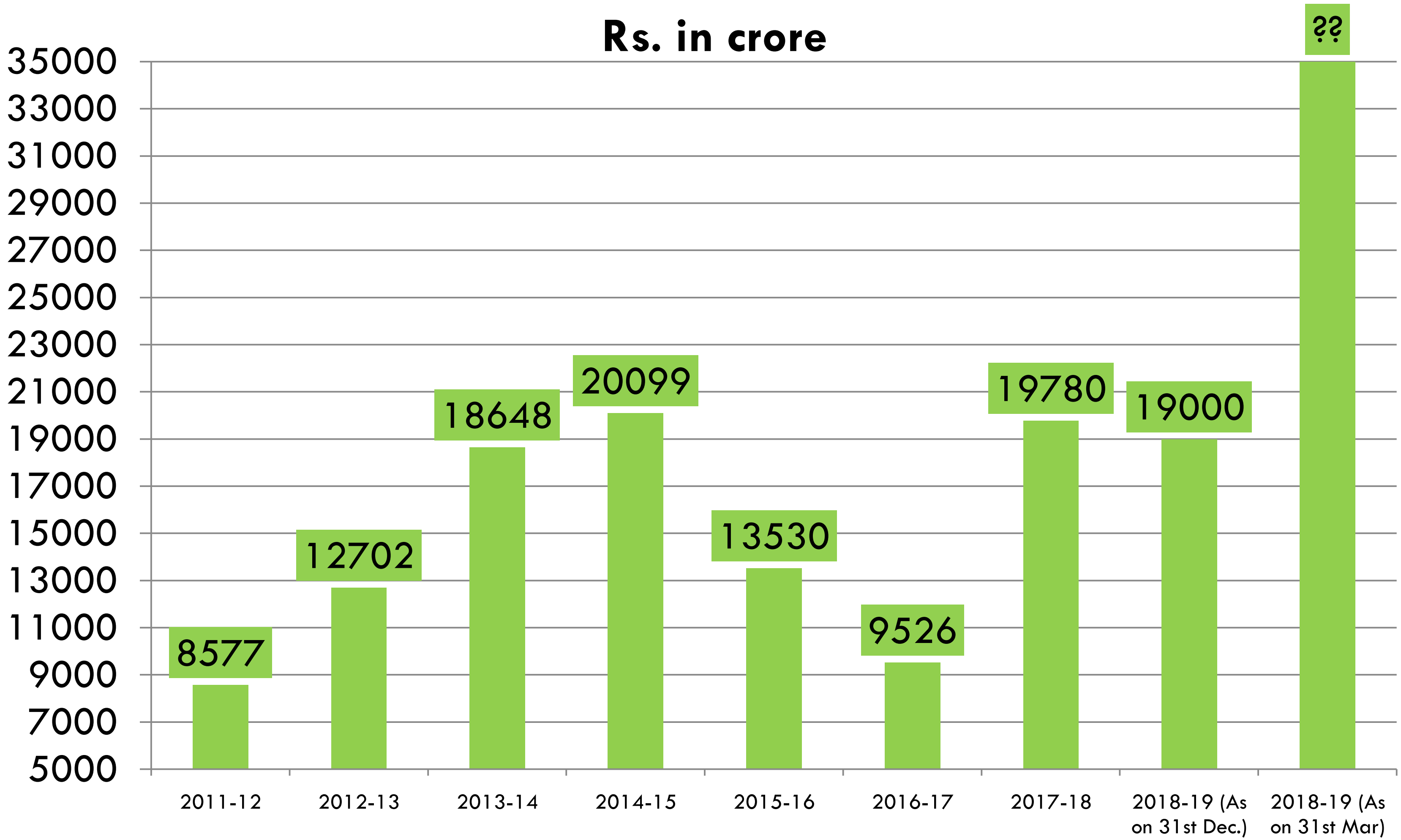
Closing Balance at end of the sugar season



All India average ex-mill sugar price & retail prices



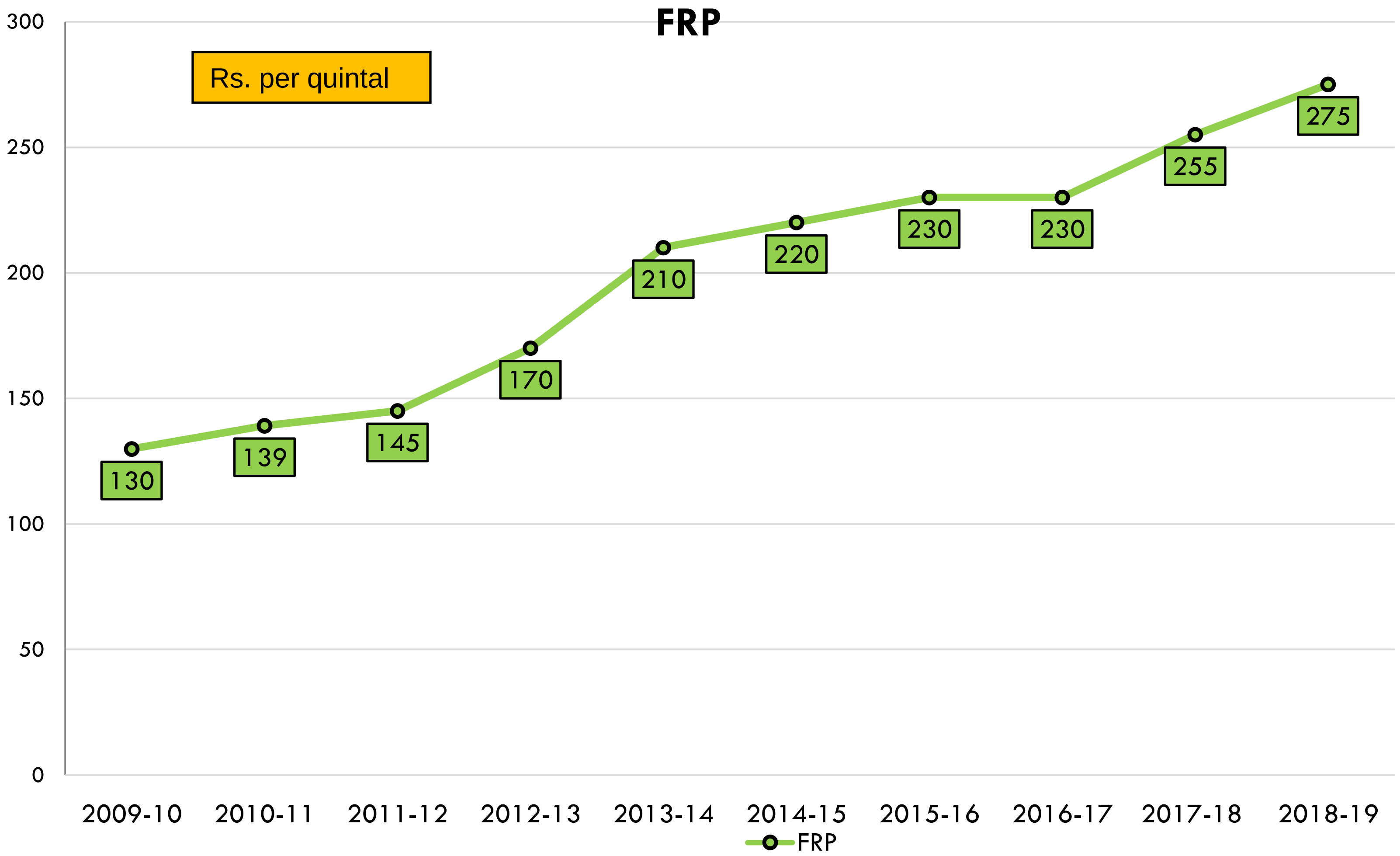
Cane arrears will reach historic levels in Mar 2019



- **In April 2018 cane price arrears reached Rs. 22,000 crore**
- **Will reach alarming levels by April, 2019**

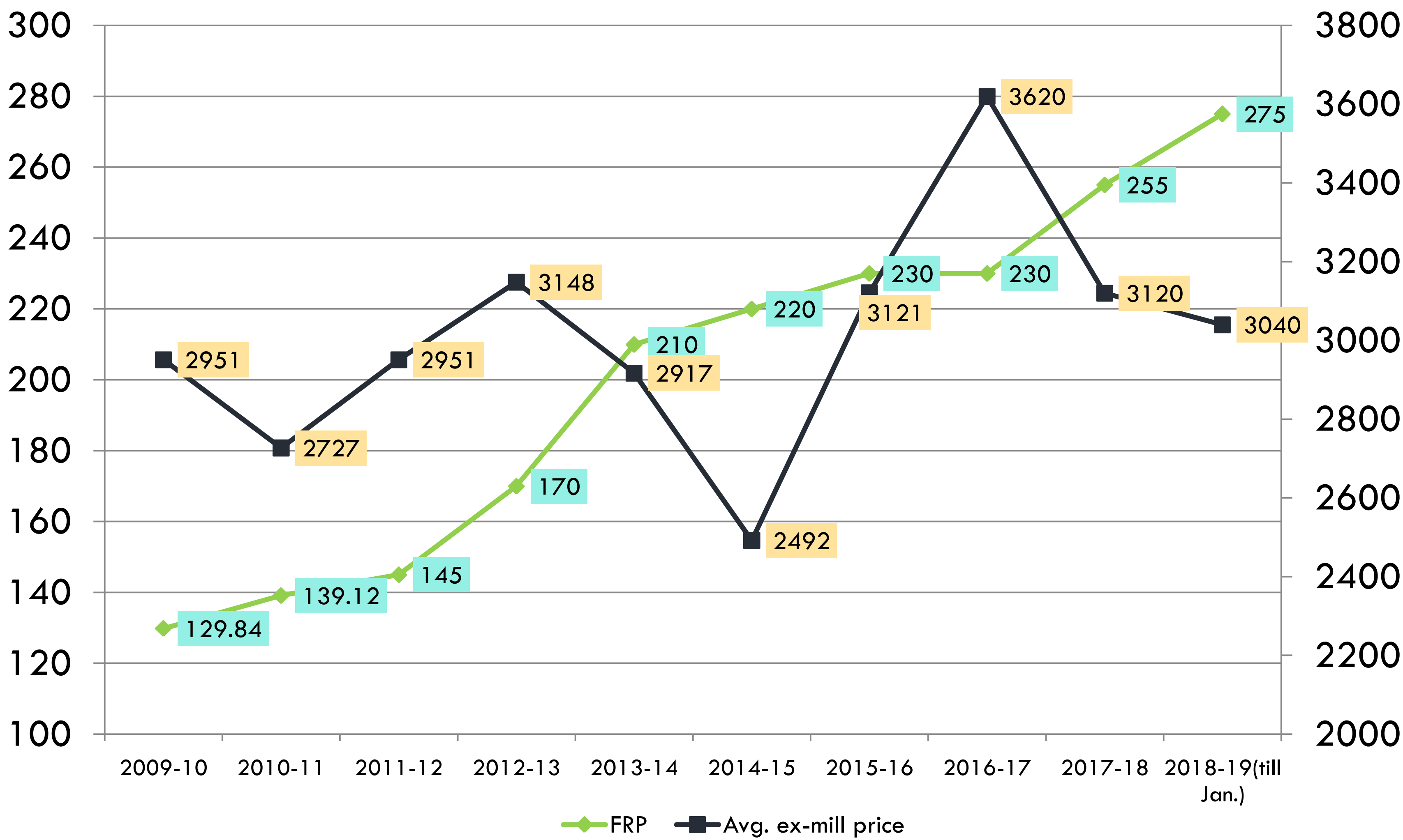
Problems mainly because of very high cane price & the mismatch with sugar price

FRP for sugarcane has increased very fast

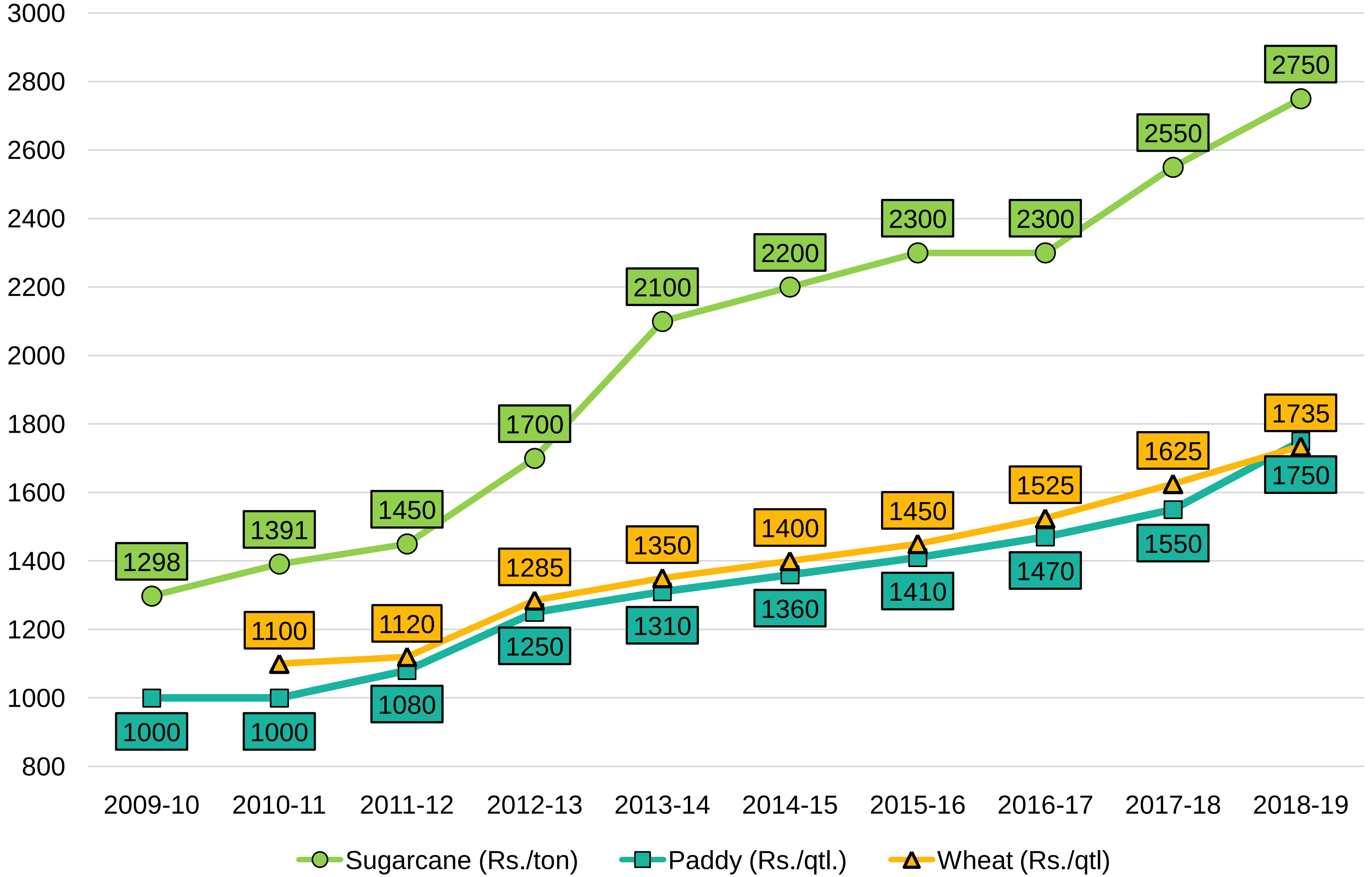


FRP has doubled in last 9 years

But ex-mill sugar prices have hardly moved up….



Revenue from sugarcane substantially higher than competing crops



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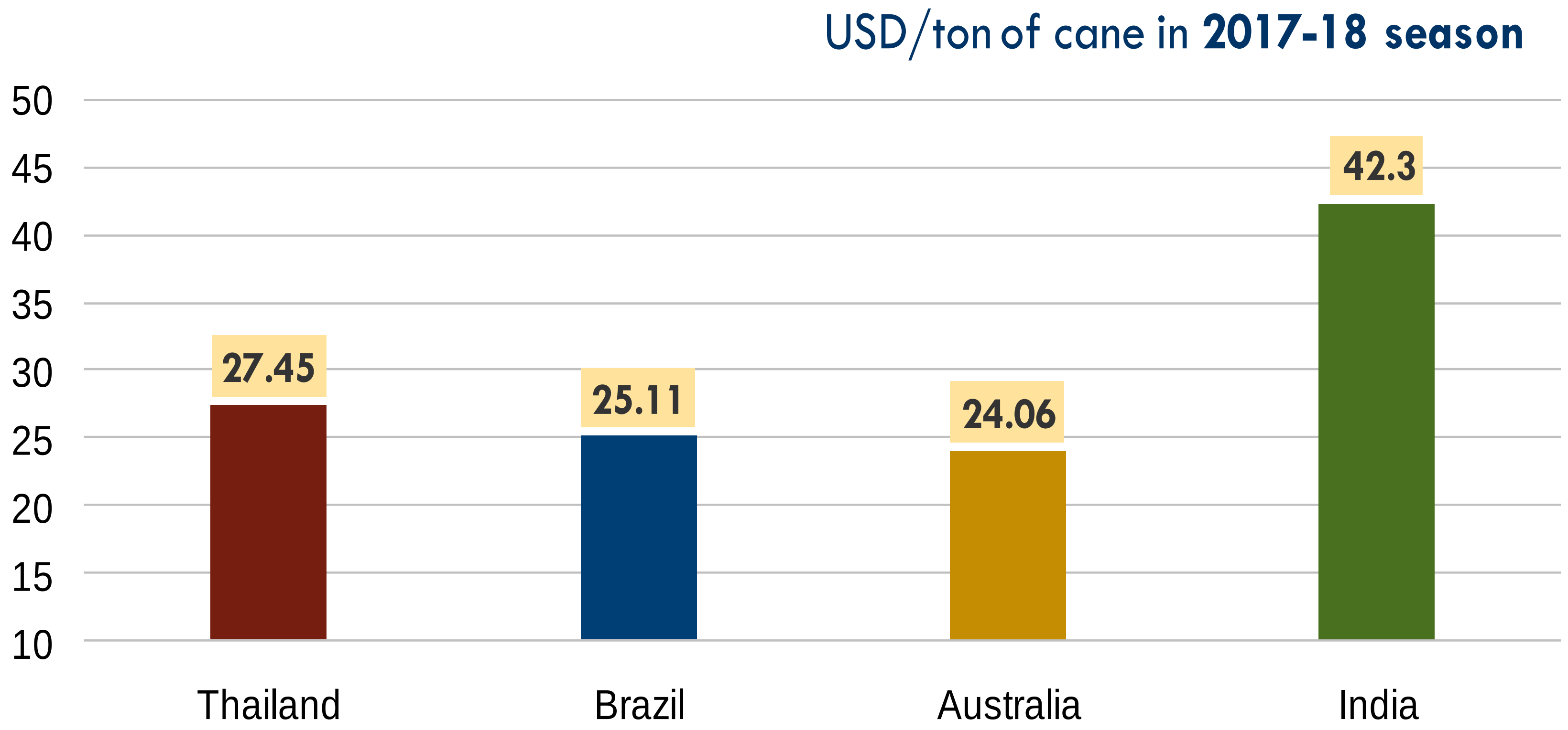
Sugarcane the most attractive crop

1. **Sturdy crop**: Can withstand weather fluctuations better than others
2. **Better remuneration**: Farmers get 50-60% higher returns from sugarcane as compared to any competing crop
3. **Assured buyer**: Each farmer is attached to a sugar mill. The mill can’t close till it crushes all sugarcane grown in its area.
4. **Assured price**: Farmer gets full cane price fixed by Central or State Govt. even if late, which is not the case for other crops
5. **No middlemen**: Cane bought directly and payment made directly into bank accounts of farmers

Amongst large producers, India pays the highest cane price

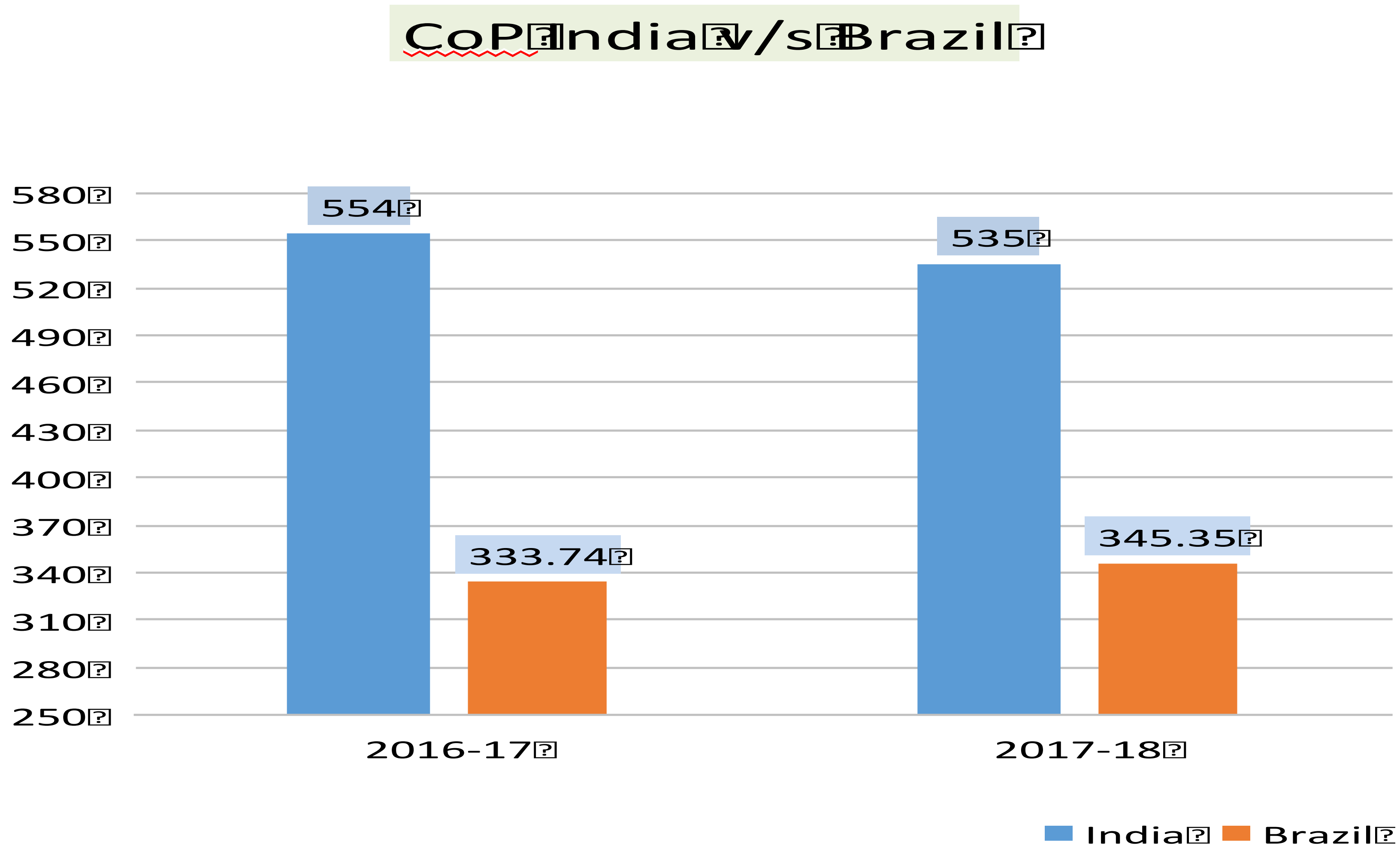


Note: Prices include cost of harvesting & transportation

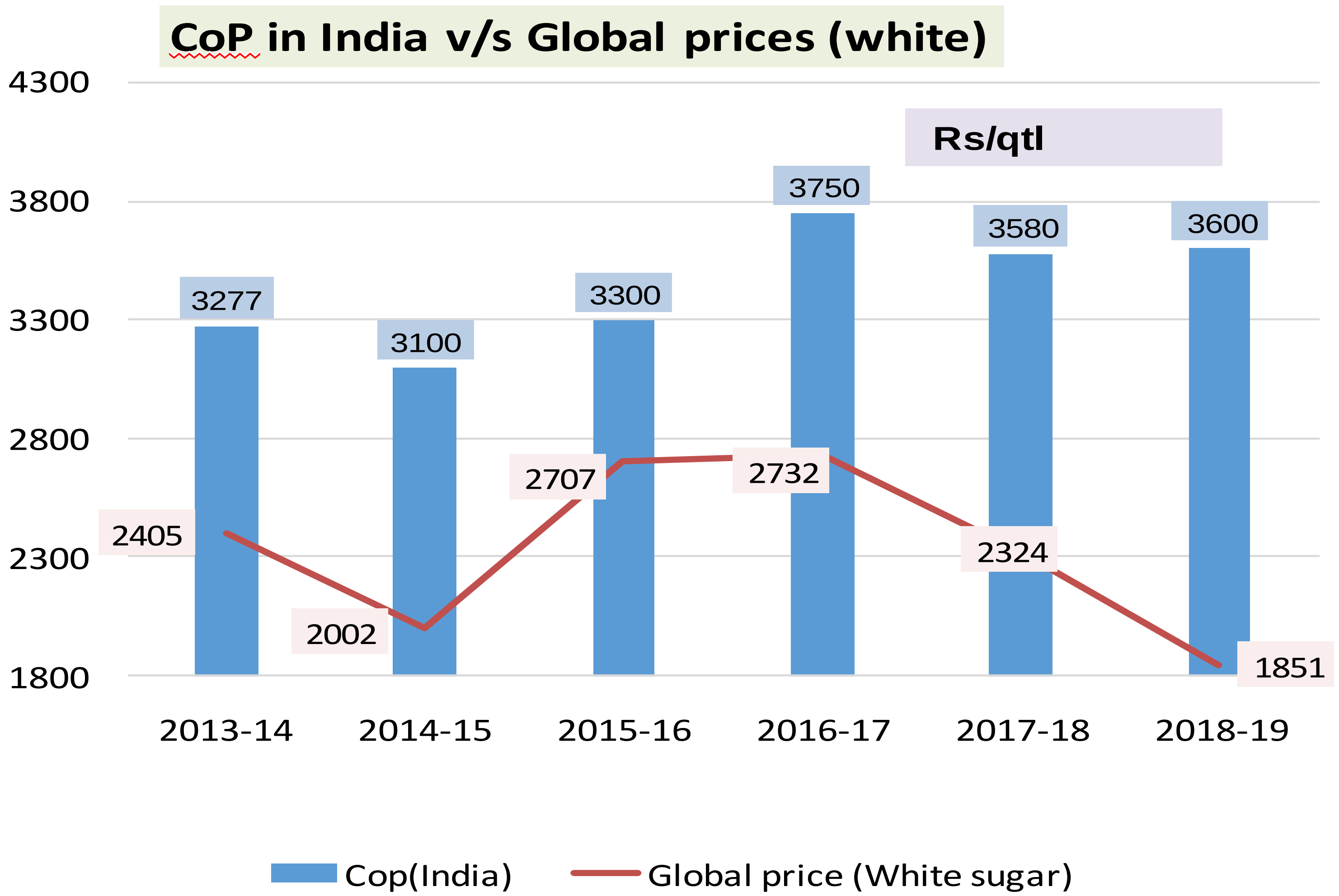
Source: Australia – Queensland Sugar Ltd.
Thailand – Office of Cane and Sugar Board
Brazil - CONSECANA
India – Average FRP at all India average recovery of 10.77%

Indian cost of sugar production is very high

USD/ton



Indian sugar has become uncompetitive



Hence, it has become almost impossible to export surplus sugar without Govt. help

Solutions: Immediate and short term

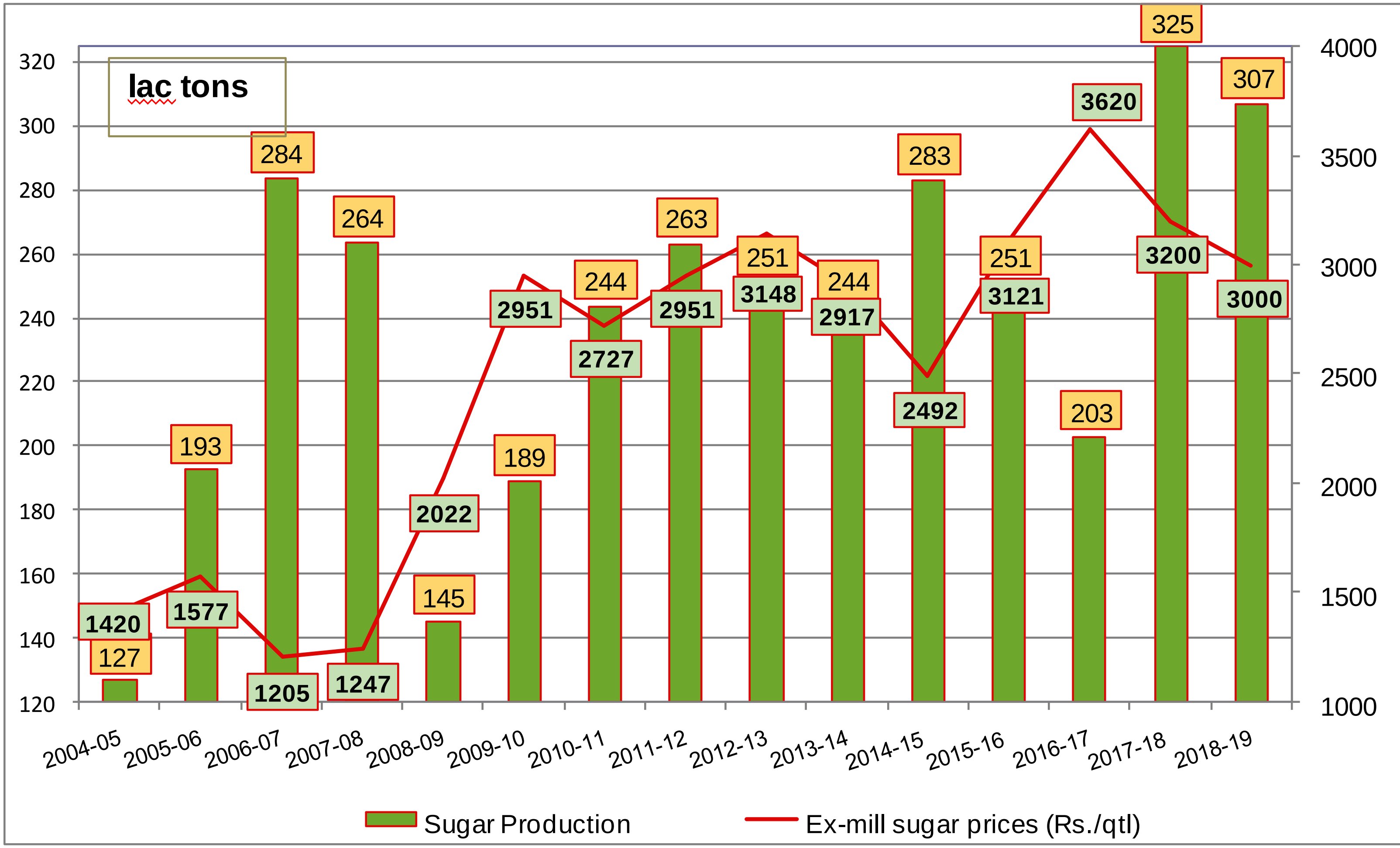
Steps taken by Govt. in last one year

- Increase in import duty from 50% to 100%
- Removal of the 20% export duty
- Stock holding limit on sugar mills in Feb and Mar 2018
- Announcement of DFIA scheme and export quotas without subsidy
- Production subsidy on cane as part of FRP in 2017-18
- Max. monthly sugar sale quota for each mill fixed by Govt. since June ‘18
- Min. ex-mill sugar sale price fixed by Govt. at Rs.29/- kg since June ‘18
- Buffer stock subsidy for 30 lakh tons
- Production subsidy, transport subsidy and 50 lakh tons export quotas

Yet record cane price arrears & sugar inventories

- The policies and incentives given by Govt. is not enough
- Clearly means that something more needed to solve problem of
  - A) Fast accumulating cane price arrears to alarming levels (reported to have already crossed Rs.19,000 crore by end Dec 2018)
  - B) High sugar inventory expected at end of this season at unprecedented record high levels of over 124 lakh tons
- **Any policy should attempt to solve both the above problems simultaneously**

Sugar Production and ex-mill prices



- **Sugar prices are inversely related to sugar production and stocks**

1. To address the problem of cane price arrears

Cash flows of sugar mills needs improvement

- Can be done by either/and:
  - Giving soft loans at zero interest rates
  - Increasing revenue realisation of sugar mills from sugar
- **Soft loans will not solve current problem**
  - Even if announced now, loan will get disbursed in at least 3-4 months
  - Max. arrears with sugar mills having distressed balance sheets, who won't get loan
- **Only way is to increase minimum sugar price to Rs.35-36/- kilo**
  - To cover the cost of production, including interest, maintenance costs etc.
  - **Sugar valuation will increase by Rs.6-7 per kilo, giving addl. Rs.20,000 crore to sugar mills from the current stocks and further productio**n

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To reduce sugar stocks

- Impactful diversion of surplus sugar into ethanol will become successful in next 2-3 years
  - More ethanol production capacities required for that success
- Currently, only way is by exports
  - Export quotas and incentives not proving enough to incentivise or force mills to export their quota
- **There is thus need to find ways to ensure mills fulfil their export quotas**
  - **Which can happen if there is some penalty for non-performing mills**

Ethanol policies: an attempt to balance sugar production

Surplus sugar to ethanol

- OMCs currently targeting 10% ethanol blending with petrol
  - **In 2017-18 (Dec-Nov), around 4.5% blending achieved**
- For 2018-19, 10% blending requires 330 crore litres
  - Contracts entered into for 260 crore litres (almost 8% blend levels)
  - Includes 50 crore litres from cane juice/ B-molasses (first time ever)
- India currently has over 70 lakh tons of surplus sugar
  - Instead of making more sugar, enormous scope to divert surplus cane

What are/were the constraints in moving forward?

- Ethanol production capacity
  - Around 300 crore litres, incl. 30 crore litres from grain based
- Inter-State movement
  - State Governments reluctant to give up control
- Storage capacities
  - Both at the distilleries as also at Oil depots
- **Reluctance on the part of automobile manufacturers**
  - **Challenge, if any, on old vehicles**

Recent steps by Govt. of India

- New Bio-fuel Policy in 2018
  - Allows sugar mills/distilleries to make ethanol from cane juice, B-molasses, foodgrains, potato etc.
- Procurement price of ethanol being fixed by Govt. since 2014
  - Price increased significantly for 2018-19
  - Premium prices for ethanol made from cane juice/B-molasses/grains
- Relevant Act amended to make ethanol movement smoother
  - States being convinced/ pursued to withdraw the controls
- **Standards fixed for 20% ethanol blended gasoline in India**
- Subsidised loans by Govt. for new/ expansion of capacities

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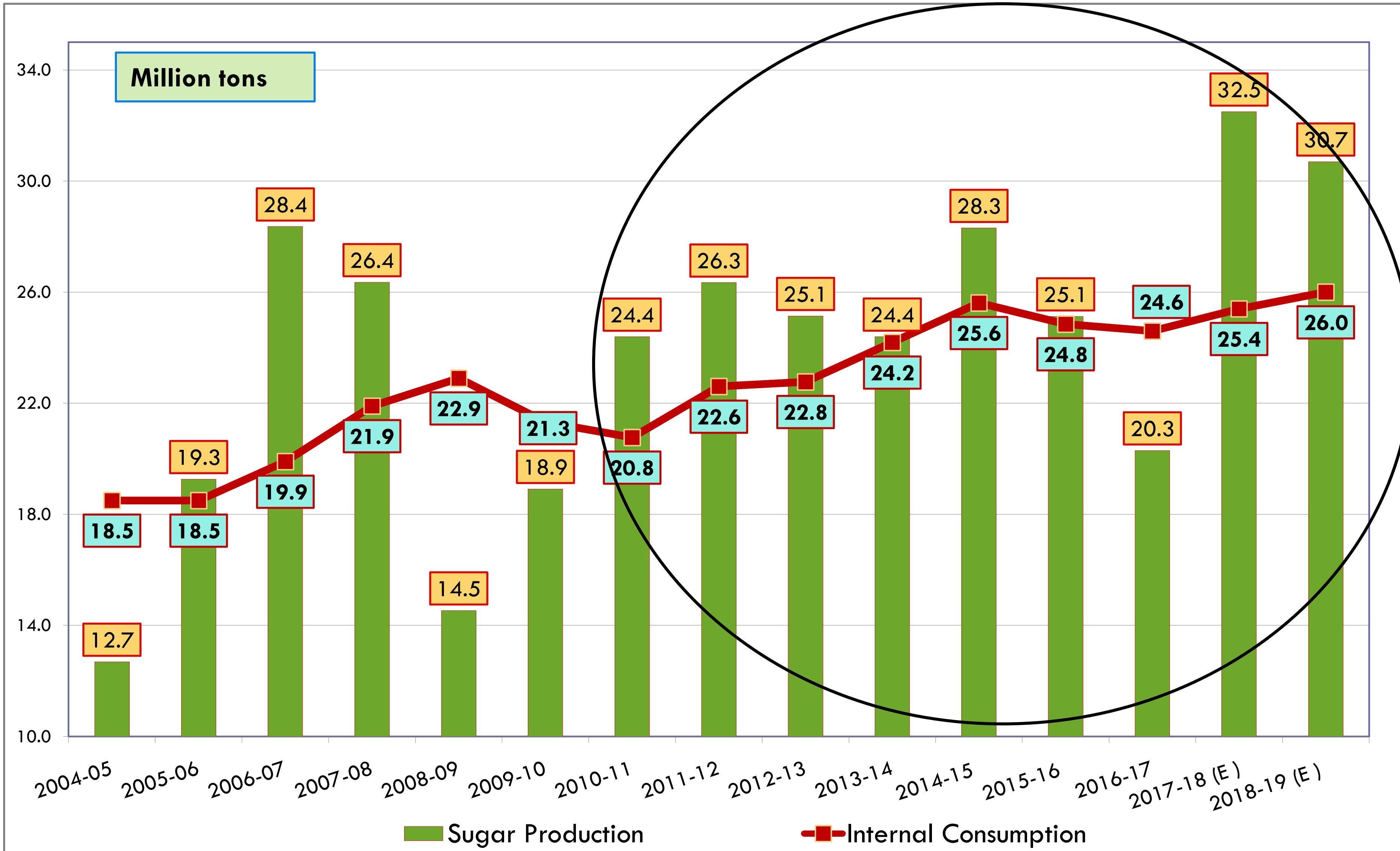
Need to implement 20% blending levels

- Govt. has already fixed ethanol blend standards at 20%
- With ethanol production capacities being set up at a great pace, we expect creation of another 200 crore litres in 2 years
- This would mean possibility of 450-500 crore litres of ethanol production by 2020-21
  - **Equivalent to over 15% blend levels**
  - **Which will only continue to increase**
- Hence, immediate need to get all stakeholders to move to 20% blend levels, starting with UP and Maharashtra in 2019-20

Long term policy directions

India a structural surplus sugar producer & exporter



Rationalisation of cane pricing policy

- International laws/practice across sugar producing nations:
  - Cane price automatically gets determined as per formula as a percentage of revenue from sugar and/or by-products
  - It varies in the range of 60-66%
  - Brazil, Thailand, Australia, EU, Mauritius, Kenya, Tanzania etc.
- If India has to export sugar, it needs to be competitive and adopt similar systems/ practice
  - Expert Committee had recommended a formula
  - Adopted in Maharashtra and Karnataka, though not properly implemented

The linkage formula …..

- Revenue sharing formula (RSF) for India
  - Based on historical data in India and international practices:
  - Cane price at 70% of revenue from sugar and primary by-products or at 75% of revenue from sugar alone (giving 5% weightage to by-products)
- CACP, for last 4 years, also recommended for RSF, as follows
  - FRP will be the minimum price the farmers will get
  - Cane price payable by mills will be as per RSF
  - If it is below FRP, gap to be filled up through a Fund created by Govt.
- **But Govt. has only been accepting the FRP, but ignoring the second part of the recommendation on RSF and Fund**

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CACP's recommendations for the Fund

- Contribution into the Fund:
  - To set MSP of sugar for consumers at certain level. When it falls below MSP, certain amount of cess can be collected from consumers.
  - During high sugar prices, part of surplus generated under RSF can be retained and deposited in PSF.
  - A committee should be constituted for creating and managing PSF.

Concluding …….

- Implement RSF with FRP and a Fund
- Create a Cane Farmers Welfare Fund (CFWF)
  - To fund the gap between what industry can pay and FRP fixed by Govt.
  - **By restricting cane price liability of millers to their paying capacity, Indian sugar will become competitive world wide**
- Payment of cane price in two instalments
- Stop State Govts. from fixing SAP for sugarcane, above FRP
  - Make them liable to pay the difference between SAP and FRP
- Continue to encourage diversion of surplus sugar to ethanol
  - Fixed pricing policy should be linked to FRP

Thank you