MEDIA RELEASE

Crisis in Indian sugar industry

NEW DELHI: 13th March, 2015: The sugar industry is facing a huge financial crisis. The sugar prices are falling continuously every month. Due to low realization from sugar, the mills are unable to recover the cost of production and generate enough cash flows. The liquidity woes of the industry are continuing, and its finding it tough to run its operations and pay the cane farmers on time. Even though the Government announced the incentive on production and export of raw sugar, the sugar prices have still been falling.

Due to the mills' inability to generate cash flow on account of low realization from sugar, the cane arrears have also risen to record levels in the current sugar season. The cane arrears across the country have already crossed Rs. 15,000 crore in February 2015 itself, which was at Rs 13,274 crores at the end of March 2014, last year.

The sugar prices are falling mainly due to an excess supply in the local market. The current sugar season of 2014-15, is the fifth year in a row of surplus sugar production. As per the Food Ministry, the sugar production is expected to touch 265 lakh tons (from the earlier estimate of 250 lakh tons), as against an estimated consumption of 248 lakh tons. As the current sugar season started with a surplus stock of almost 15 lakh tons (75 lakh tons opening balance), the total surplus sugar stock at the end of this season will be 30 lakh tons.

This unutilized surplus stock is also blocking Rs. 7500 crore. This cash would have been a big relief to the industry, which would have helped the mills to clear some of the pending cane payments to the farmers. During the last 6 months alone i.e. from the beginning of the current sugar season, the ex-mill sugar prices have fallen by almost Rs. 7000 per ton of sugar. The current ex-mill sugar prices are the lowest in the last 3 years, and are falling by almost Rs 25 per quintal on a daily basis.

This is the first time that the mills are unable to pay even the FRP, which is fixed by the Central Government. The CACP while recommending the FRP of Rs. 220 per quintal of cane, linked to 9.5% recovery, considered an ex-mill sugar price between Rs. 3000-3400 per quintal. However, in reality the average ex-mill sugar prices are much lower at around Rs. 2300 to Rs. 2500 per quintal.

A lot of sugar mills are also facing unreasonably high cane prices, both from the State Government and Centre. The State Governments in Karnataka and Maharashtra have rationalized the cane pricing policy and same should be adopted by other State Governments too, otherwise the cane price arrears will accumulate every year, and the financial condition of the industry will continue to worsen.

The banks have refused to extend further working capital loans, as they fear that the mills will not be able to repay loans on time. Several sugar mills have not received any working capital in the current season and working capital limits have been reduced for several others. The Allahabad High Court judgement of 5th September 2014, giving priority to outstanding cane price payments of farmers over the bank loan repayments, has scared the banks away from sugar, as they fear that there is no guarantee to get loan repayments from sugar mills.

SUGGESTIONS

The foremost priority is to see how the surplus sugar stock of around 30 lakh tons can be disposed of as quickly as possible. There is need to find ways to improve the liquidity of the sugar mills. Following steps are needed immediately if we wish to save the sugar industry-

1. Re-insertion of Clause 3(B) in Sugarcane Control Order

   The industry has raised the issue of insertion of Clause 3(B) for sugarcane pricing in Sugarcane Control Order, as was done in October, 2009, with the Government. In case a State Government wants to incentivise the cane farmers with a higher cane payment than the FRP, the difference should be borne by that particular State Government, and not by the sugar mills. This is what is followed in the case of paddy, wheat etc. If a State Government desires to give a bonus on wheat and paddy procurement, above the Minimum Support Price (MSP), then the difference is met from the State's budgetary allocation. The sugar industry wants a similar system to be put in place for sugarcane pricing too.

2. Creation of buffer stock for 20 lakh tons for PDS next year

   Annual requirement of sugar for PDS across the country is around 27 lakh tons. Currently, State Governments are procuring their PDS requirement by floating tenders during the season. The Government can create a buffer stock of 20 lakh tons. The advantage of this will be that around 20 lakh tons of sugar will be drawn out from the market, which is otherwise depressing the sugar prices massively. This has been used by the Government to reduce surplus sugar availability in the market in 4-5 past occasions. This sugar can be dismantled next year and used for the PDS.

3. Incentive on ethanol/Removal of excise duty on ethanol

   It is essential to encourage production and supply of fuel grade ethanol (there is still a demand-supply gap of around 100 crore litres), which can reduce some of the surplus sugar. This is a green renewable fuel, which help save foreign exchange and also reduce pollution. Better realization of revenue from ethanol means better price to farmers too. Therefore, an incentive of Rs 7-8 per litre of ethanol be given to divert surplus sugar into ethanol, which should be adequate to compensate mills for the losses in revenue from diversion of sugar to ethanol. Otherwise, the central excise duty of fuel grade ethanol should be removed. Removal of central excise from ethanol at the current ex-mill price of around Rs. 40 per litre, works out to around Rs. 5 per litre of ethanol, sufficient to encourage some conversion of surplus sugar by diverting 'B' heavy molasses into ethanol production, at least in some areas. The other products made out of molasses like rectified spirit and extra neutral alcohol do not suffer a central excise duty.

4. Restructuring of outstanding bank loans

The debt burden of the sugar mills has increased by more than 3 times in the last 5 years. From Rs. 11,443 crore at end of 2007-08 FY, the debt burden has gone upto Rs. 36,601 crore, at end of FY 2012-13. The Government restructured the debt of textile industry when it was passing through a difficult phase 3-4 years back. A similar financial restructuring should be announced for the sugar industry, which should include- re-schedulement of the period of repayment, moratorium on repayment of three years and reduction in the rate of interest for the outstanding loans, including conversion of working capital loans to term loans. In order to overcome the current liquidity problem and help in clearance of cane price arrears, the Government should extend interest free loans against excise duty as was given last year also.

5. Allow export of white sugar also

The Government has incentivized the production and export of raw sugar, but it is delayed by almost 5 months. The global prices are so low that raw sugar exports are not viable despite the incentives. In view of this and the revision in sugar production upwards by 15 lakh tons by the Government, there is need to seriously consider subsidizing white sugar exports of another 15-20 lakh tons. Since white sugar stocks will be available with mills, the time to enter into export contracts will be till September 2015 as against mid April for raw sugar exports.