CRISIS IN THE INDIAN SUGAR INDUSTRY:

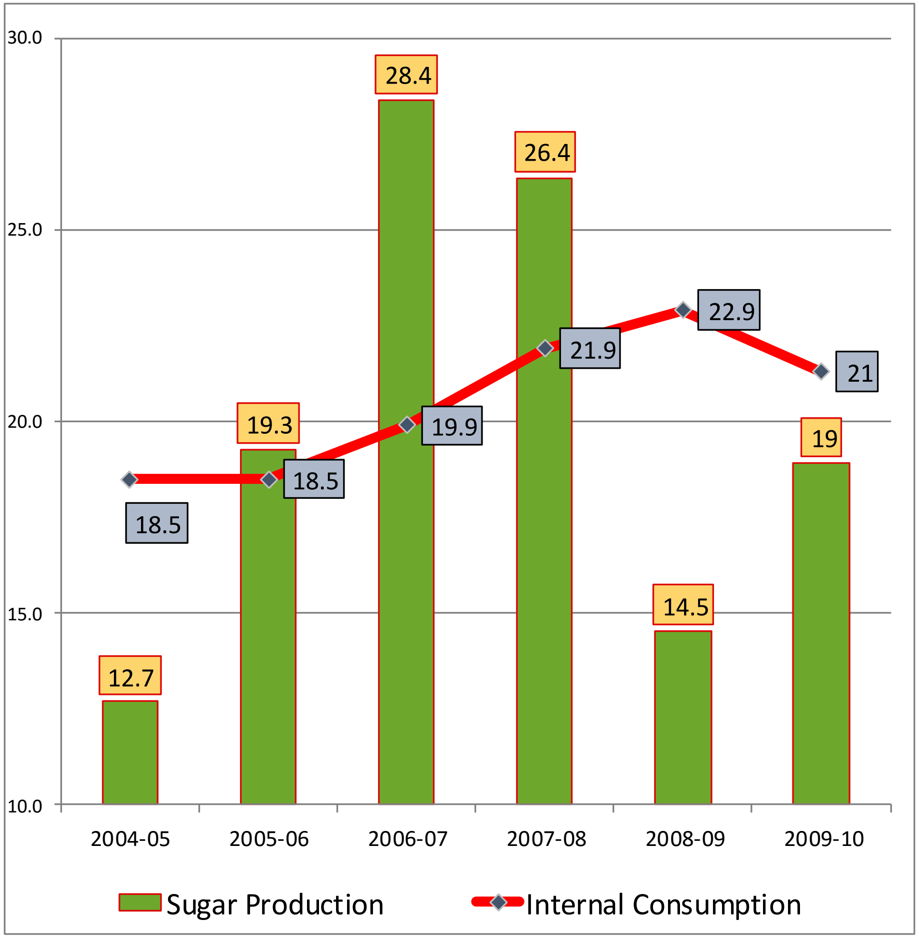
INDIAN SUGAR MILLS ASSOCIATION

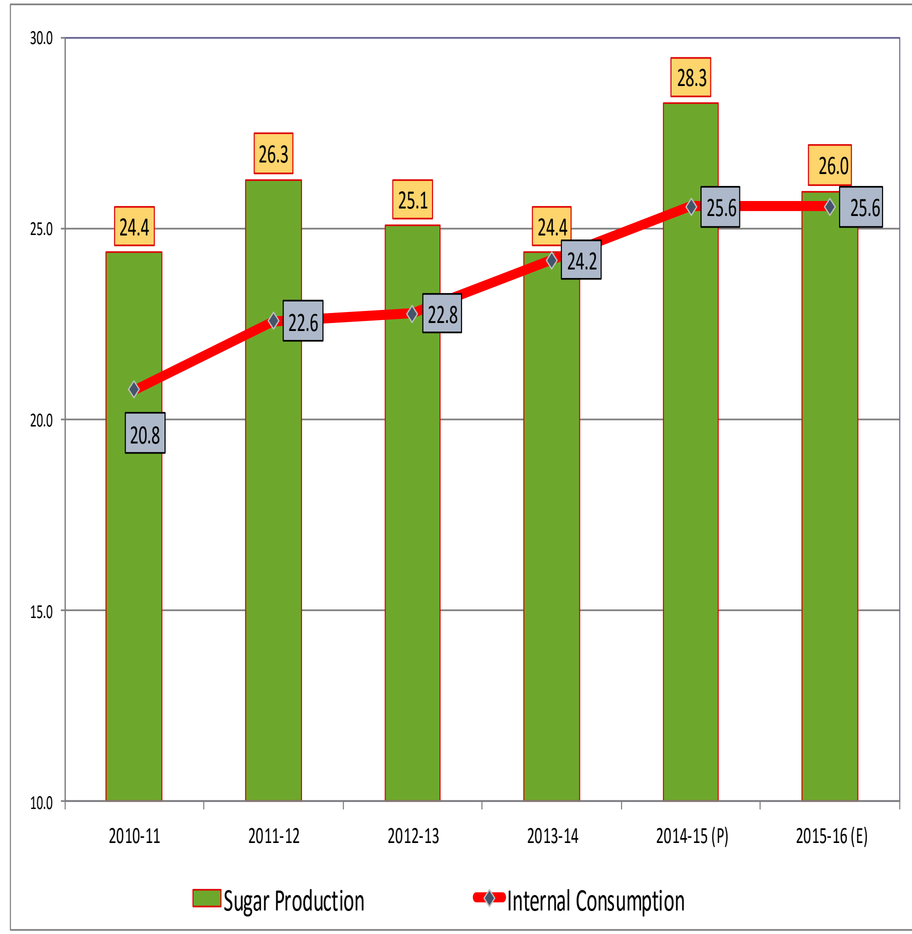
Indian sugar industry: contribution to the economy

- 5 crore farmers and their families directly dependent
  - Rs.65,000 crore of cane price annually
- Direct & indirect employment to 2 mln. people.
- Enough sugar production for domestic requirement
  - Foreign exchange earnings of USD 5000 mn in last 5 years
- Green power, surplus of 5000 MW exported to grid
- 12 mn tons molasses giving 300 cr. litres of alcohol
  - Incl. 120 cr. litres ethanol to replace 5% petrol consumption
- Direct positive impact on rural economy
- **Annual direct & indirect contribution of Rs.75,000 cr. to the Exchequer**

Sugar Production & Consumption

Million tons

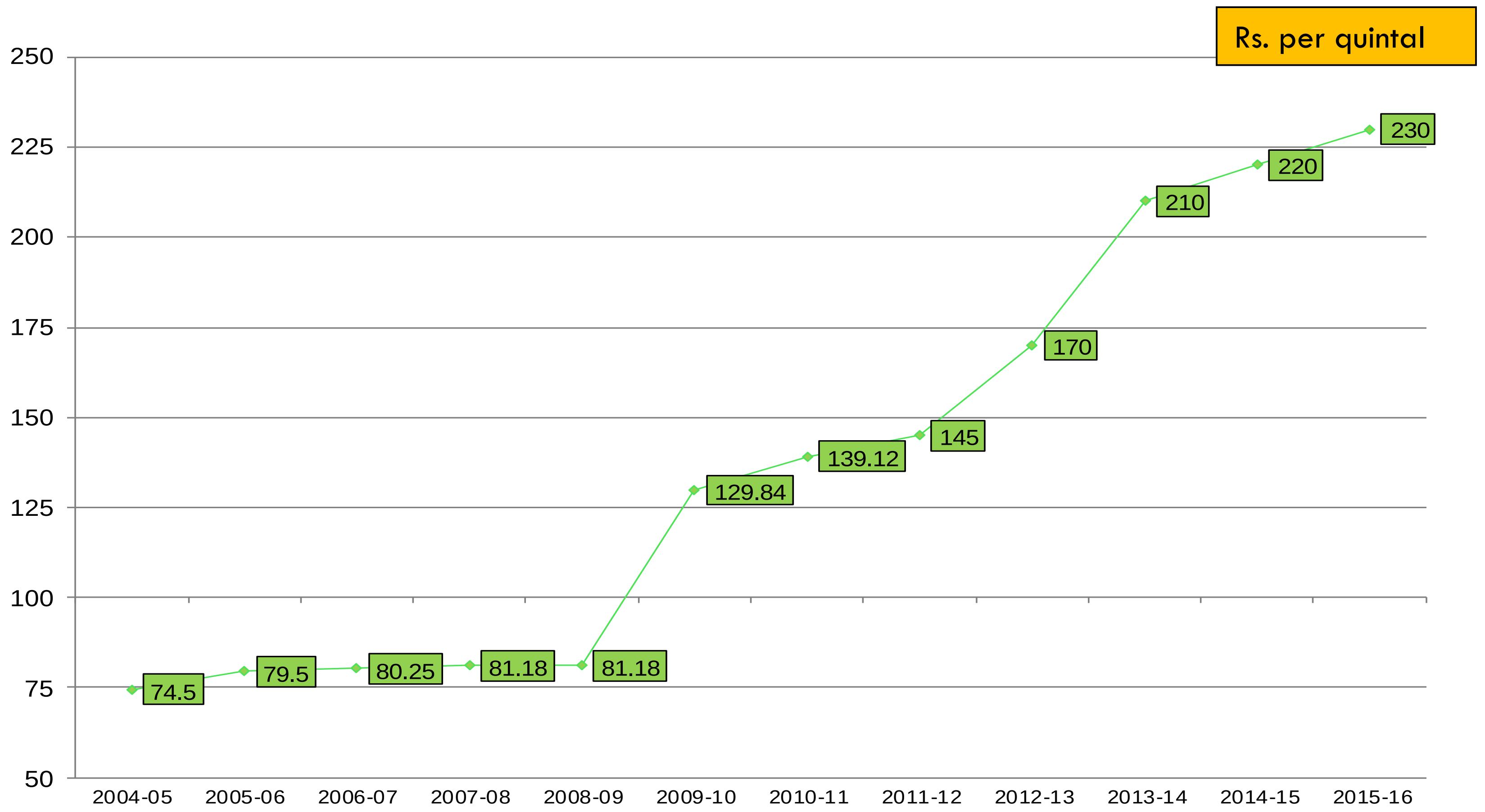




Infamous cane and sugar production cycle was a self-correcting mechanism to surplus sugar and shortages.

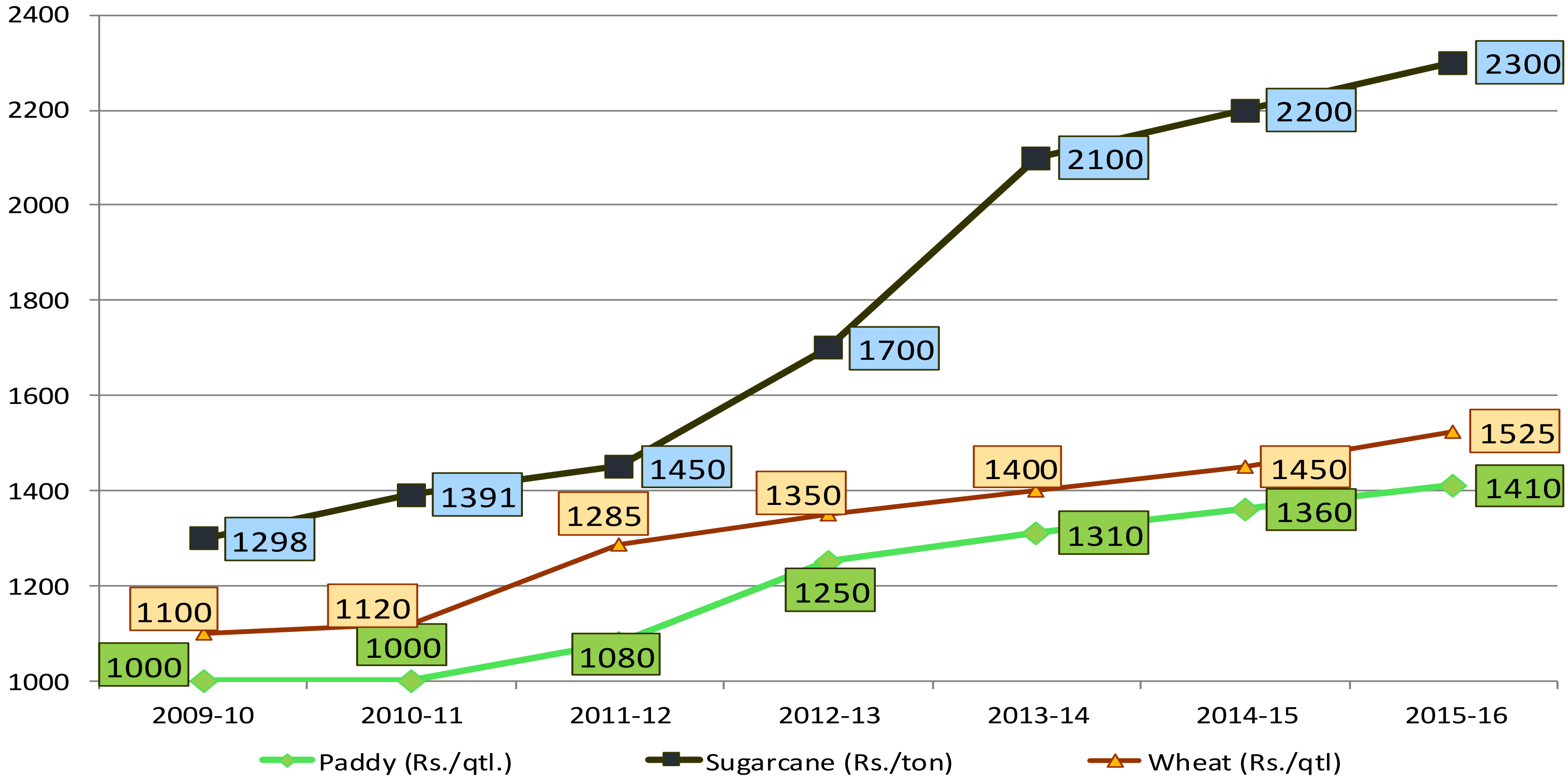
High prices of sugarcane has resulted in surplus sugarcane, which in turn, has caused continuous surplus sugar production for 6 years in a row.

Cane Price fixed by Government of India as SMP/FRP



- Steep increase in the cane price fixed by GoI from 2009-10 SS has made cane price unaffordable.
- Additionally, some State Governments fix an even higher cane price (SAP) further burdening and making the industry unviable.

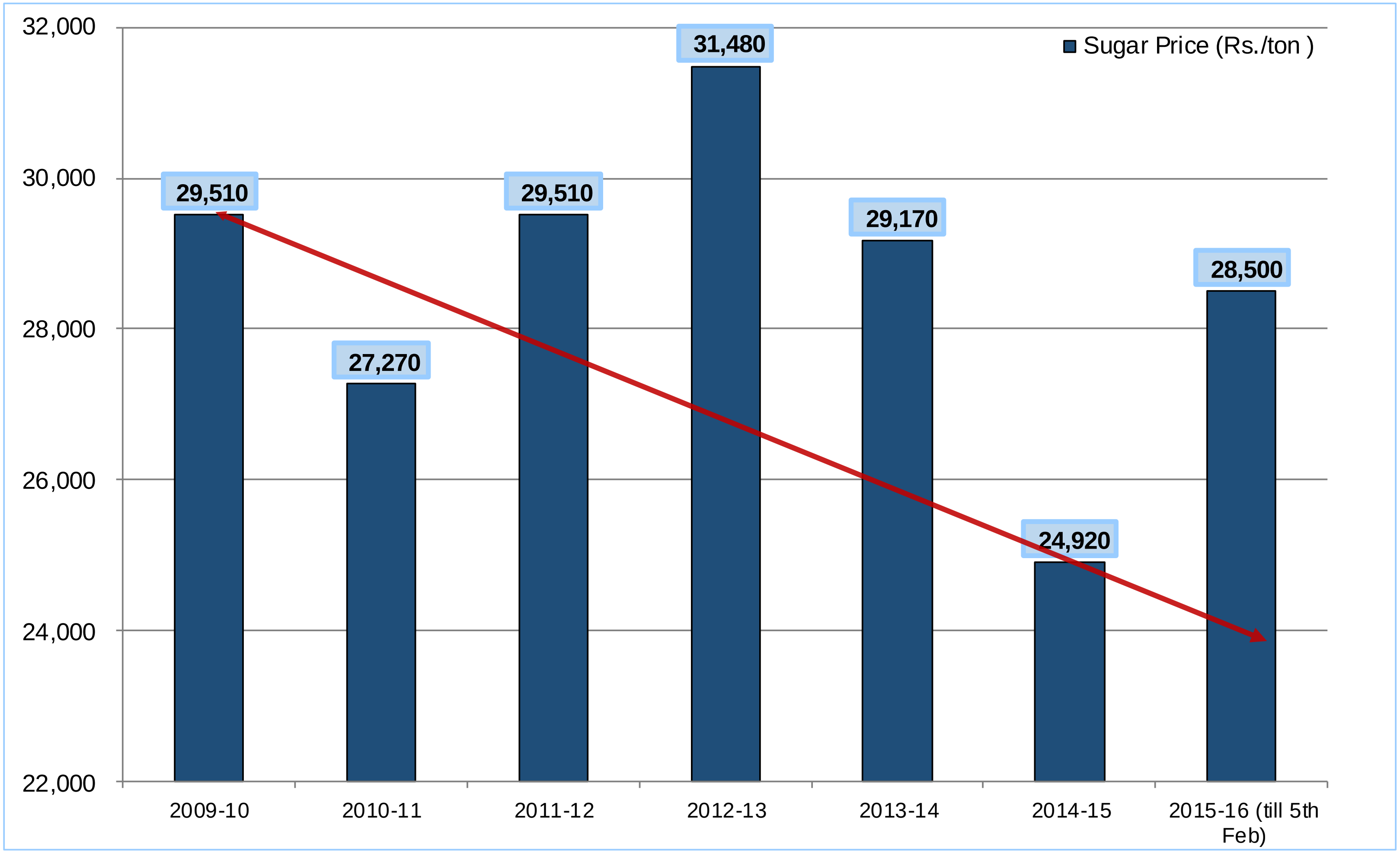
FRP of Sugarcane Vs MSP of Paddy and Wheat



The steep increase in FRP for sugarcane from 2009-10 onwards was not matched by similar increase in competing crops.

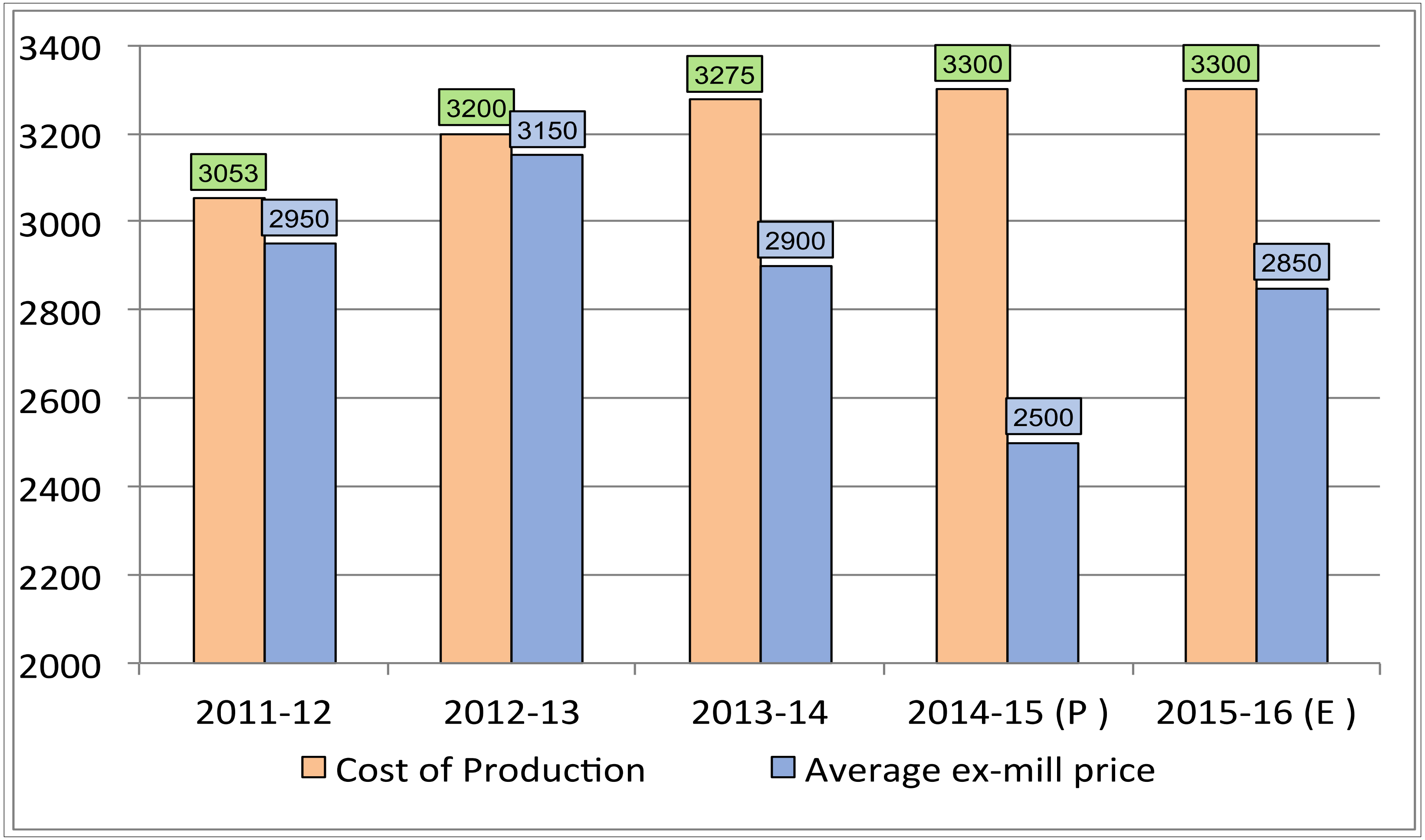
It has led to 50 to 60% higher returns from sugarcane over other crops resulting in farmers shifting hugely to sugarcane. With Governments guaranteeing price payments, farmers have not left sugarcane despite delays.

Average domestic sugar prices have been falling



Cost of production vs. Average ex-mill prices

Rs./quintal



Financial crisis in sugar industry

- Surplus sugar continuously for the 6th year depressed sugar prices
- Massive losses to sugar industry in last 3 years
  - Unable to pay cane price of farmers
  - Unable to service debt, resulting in sickness/BIFR and NPAs
- In about 5 years, the debt burden increased 4 times
  - Debt of private mills Rs.11,500 cr. in Mar’08 to Rs.40300 cr. in Oct’15
  - Incl. cooperative mills, debt burden much higher at Rs.50,000 crore,
- Concessional Soft & SEFASU loans to pay cane price helped
  - But it also increased debt by over Rs.10,000 crore in 2 years
  - Repayment due from 2016, but industry unable to repay now

Unable to pay both cane price and bank loans

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Expected cash flow for next 12 months

		Unit	Apr. to Jun	July to Sep.	Oct. to Dec	Jan to Mar	Total
1	Average sugar sales	Lac tons	66	62	65	63	256
2	Average domestic ex-mill price	Rs./ton	29000	29000	29000	29000	29000
3	Realisation from sale of sugar	Rs.Cr.	19140	17980	18850	18270	74240
4	Cane price payable to farmers (@ Rs.275 all India average and 10.3% recovery)	Rs. Cr.	17621	16553	17354	16820	68350
5*	Conversion cost @ average Rs. 3400 per ton of sugar*	Rs. Cr.	2244	2108	2210	2142	8704
6	Balance available with mills {3 minus 4 minus 5}	Rs. Cr.	-725	-681	-714	-692	-2814

Note:

* Conversion cost (excluding interest on working capital) taken as per Tariff Commission Report (2012) @ Rs. 6500/ton (deducted Rs. 3100/ton towards revenue from by products). Conversion cost includes salaries/wages, power, chemicals, repair & maintenance, factory overheads etc.)

Outstanding debt as per RBI (Scheduled and Commercial banks)

		Rs. Cr)
1	Outstanding as on 31.10.2015	35800
2	Soft loan (sanctioned upto Oct. 2015)	4500
3	Total Bank Loans	40300*
4	Outstanding cane price arrears as on 15th Jan.'16	12000
5	Total current dues of banks & farmers	52300

* Above is regarding private sugar companies. There will be additional loan of another Rs. 10,000 crore for cooperative banks etc. to cooperative sugar mills.

1 Mills have to pay the following loans:

(a) Outstanding term loans of Rs. 35800 crore

(b) Working capital loans taken with interest taken during the current 2015-16 SS

(c) SEFASU loan with interest from March/April 2016 onwards (Rs. 732 cr., Rs. 671 Cr., Rs. 655 cr. and Rs. 640 cr., respectively in 4 quarters)

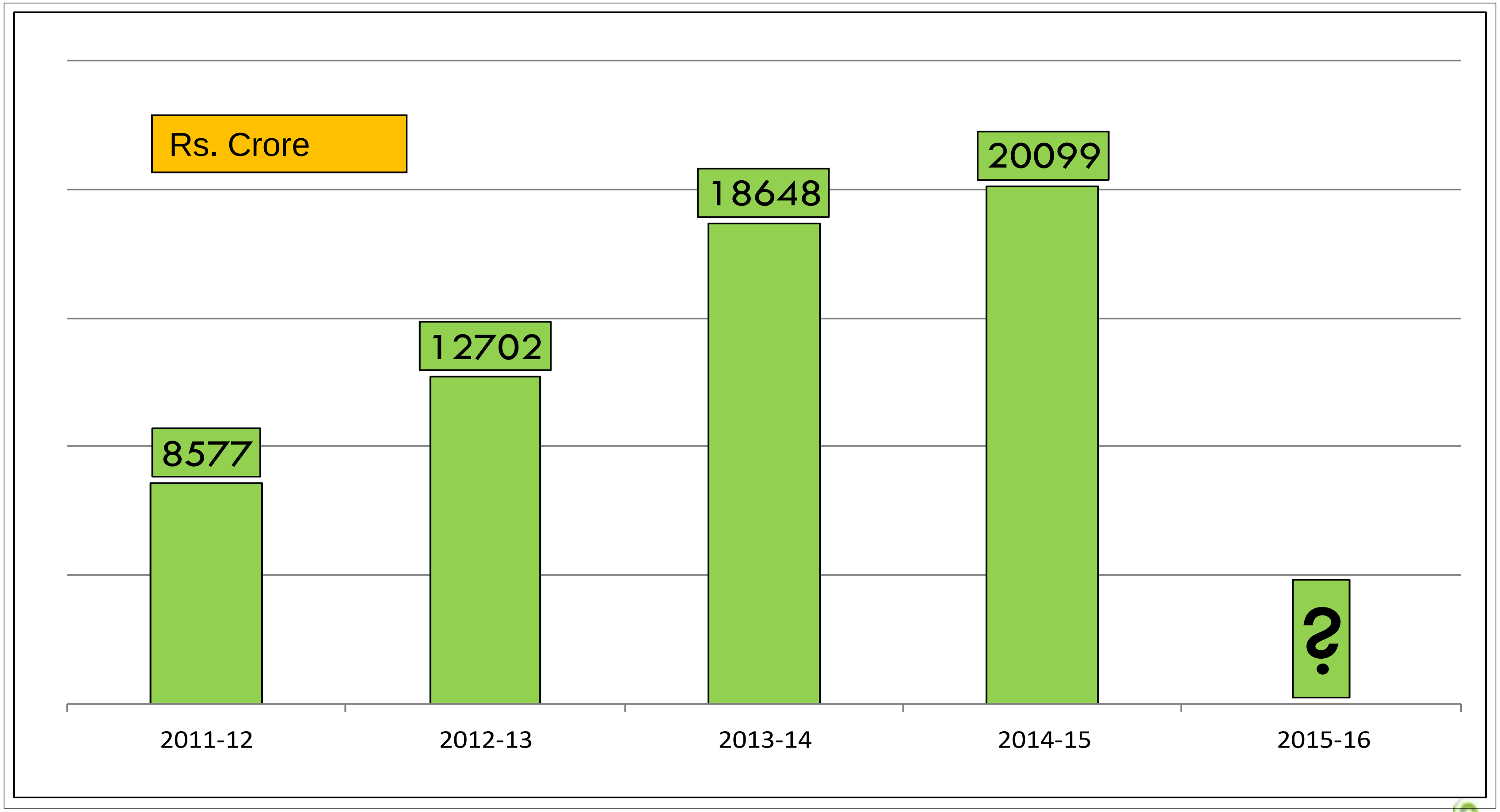
(d) Soft Loan taken in 2015 will become due from 1st October, 2016. Mills have to repay Rs. 680 cr. in Oct - Dec.'16 qtr. And Rs. 596 Cr. in Jan-Mar'17 qtr.

2 Current cane dues of Rs. 12000 crore will also need to be cleared from above cash flows only.

3 Therefore, as per row (6) of above table, mills will not have funds to service the above debts

Cane price arrears as on 31st March ……

Under current circumstances, it has become difficult to pay cane price of farmers and also service the debt



ISMA's requests

1. Financial restructuring of outstanding debt

2. Priority sector lending for bio-ethanol production

1. Financial Restructuring under 5:25 flexible structuring scheme

- Cement, steel, natural gas, coal, crude oil, fertilisers, refinery products & electricity included as "core industries"
  - On grounds that these act as catalyst for overall socio economic development of nation
- Sugar industry is the largest rural based industry
  - 5 crore farmers, incl. their families, as also employment in rural areas
  - Produces and supplies green power/electricity, fuel grade ethanol to replace petrol, organic manure
  - Catalyst for the socio-economic development of Indian villages

Include sugar under 5:25 for restructuring

- Sugar industry should justifiably be included as a core industry for 5:25 flexible structuring scheme
- However, due to the peculiarities of sugar, being an agri based foodstuff
  - Working capital should also be part of restructuring
  - Right to Recompense (ROR) may be waived
- A detailed paper on this could be presented by the sugar industry

2. Bio-ethanol has several benefits for the country

- Fuel grade ethanol is a renewable bio-fuel, made out of by-product of sugarcane viz. molasses
- Reduces environmental pollution and improves fuel mileage
  - Extra oxygen of ethanol burns petrol much better in the engine
- Better revenue from value addition to molasses results in healthier sugar industry and better remuneration to farmers
- At 5% blending, reduces net annual oil import bill by Rs.4500 cr.
- **To achieve 10% or more blending, distillation & storage capacities need augmentation**
  - **But funding not easy**

Priority Sector Lending (PSL) for bio-ethanol

- Almost all banks are unable to fulfil PSL targets every year
- Eligible categories under PSL was expanded recently
- To include ethanol projects under PSL (add another category):

a) Under Agriculture category, under sub-section 'Agri Infrastucture'
   - create a new category for bio-ethanol projects
   - remove the upper limit of Rs.100 crore bank lending to a company

b) Under MSME category, under sub-section 'Renewable Energy',
   - create a new category of bio-ethanol projects
   - increase the upper limit of Rs.15 crore to Rs.100 crore or completely remove it

Thank you