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It's a bitter pill

The UP sugar industry fights for survival as growing input costs make business unviable

The sugar industry in Uttar Pradesh is at a crossroad. The industry, which saw all major players including Balrampur Chini, Bajaj Hindusthan, Dalmia Bharat Sugar and Triveni Engineering building up capacities substantially following the incentive package announced by the then Mulayam Singh-led state government in 2004, is under tremendous pressure. In fact, their business models have gone completely awry, as the Mayawati government in June 2007 went on to scrap all the incentives announced under the UP Sugar Industry Promotion Policy 2004. Many of the sugar mills in UP (India's second largest sugar-producing state) are also contemplating relocation and consciously looking for opportunities outside the state: in Maharashtra, Karnataka and Tamil Nadu.

On one hand, the industry, which added in excess of 280,000 tcd of sugar cane crushing capacity with investments aggregating over ₹7,300 crore in the post-policy period, is struggling to get the desired supply of sugar cane for its expanded capacity and running at a much lower capacity utilisation of around 60 per cent. On the other hand, it is faced with the tough challenge of rapidly increasing prices of sugarcane without a commensurate rise in sugar prices. In fact, the state government in the last three years has hiked the state advised price (SAP) of sugarcane by 70 per cent to ₹280 per quintal from ₹165 per quintal. At present, the state hosts a total cane crushing capacity of around 721,000 tcd.

Taking a cue from the previous government, the Samajwadi Party-led state government too has tried to keep their political interest intact and increased the SAP of sugarcane for the current sugar season (starting October 2012) by 16 per cent or ₹40 a quintal across varieties to woo the state's large population of farmers who can now enjoy a new SAP of ₹280 a quintal for normal varieties and ₹290 a quintal for early varieties. As against this, states like Tamil Nadu, Haryana and Punjab, where the system of SAP prevails and the recovery level (at around 9 per cent) is quite similar to that in UP, the sugarcane prices are much lower. Mills in Haryana and Punjab are paying ₹240 for a quintal of sugarcane, while those in Tamil Nadu pay only ₹225 a quintal. Stock prices of most sugar companies with exposure in UP received a beating after the UP government hiked the SAP for sugarcane on 10 December 2012.

Experts are of the opinion that such a steep hike in SAP is rendering the state sugar mills completely unviable since their cost of production has gone up considerably without much increase in sugar prices, which in the last three years have gone up by only about 15 per cent. At the new cane prices, the cost of sugar production works out to ₹3,500-3,600 per quintal, while the current realisation is ruling at about ₹3,250 per quintal. If sugar prices remain at these levels, the UP industry is estimated to incur a loss of ₹3,000 crore in the season on an output of eight million tonnes. Last year, sugar mills had paid ₹18,200 crore to cane farmers and the same is likely to jump ₹3,000 crore to over ₹21,000 crore this season due to a higher SAP. The sugar industry in UP is already reeling under mounting cane arrears, which stands at about ₹4,000 crore.

"The sugar industry in the state is under severe pressure. There is hardly any linkage between the prices of sugarcane and the end product. While cane prices have been hiked significantly, the prices of sugar have remained steady. This has resulted in mills unable to even offset their cost of production. If nothing is done quickly, mills will have no option but to shut shop in the state," says Abinash Verma, director general, Indian Sugar Mills Association.

"It is high time that the state government looks into the plight of the industry seriously and devise a long-term policy in order to reverse the current trend and make the state a favourable destination for sugar business. In the given situation, it is practically difficult for the industry to carry on," states C.P. Patodia, chairman, UP Sugar Mills Association, which has made several representations to the state government to draw its attention to issues faced by the state industry.

For an industry that has invested such a huge amount looking at the potential of the state, which has a favourable agro-climatic condition for sugar cultivation, the current situation is quite discouraging, says G.S.C. Rao, CEO, Simbhaoli Sugars, commenting on the present scenario of the UP sugar industry. "Forget about exploring the opportunities with expanded capacity, mills are today struggling to survive in the adverse business climate. Not only are they trying hard to stay afloat, but also a sizeable portion of their capacity is lying idle for want of sugarcane, the yield of which has remained stagnant for years now." Rao is also of the view that the state has not been able to address the issues related to varietal development and improving the productivity and recovery level of sugarcane. The state has a lower yield of about 55 tonnes per hectare, as against 70 tonnes in Karnataka/Maharashtra and 80 tonnes in Tamil Nadu.

Sugar-coated

Company	Capacity (TCD)	Cost (₹ million)
Bajaj Hindusthan	74,500	13,950
Bajaj Hindusthan Sugar & Industries*	24,400	5,430
Balrampur Chini Mills	30,000	10,000
D C M Shriram Consolidated	16,000	4,500
D S M Hi-tech Products (merged)	2,500	400
Dalmia Bharat Sugar & Industries	20,000	6,800
Dhampur Sugar Mills	28,000	7,290
Dwarikesh Sugar Industries	7,500	3,000
Kesar Enterprises	700	250
Oudh Sugar Mills	7,000	3,800
Rana Sugars	10,000	4,000
Seksaria Biswan Sugar Factory	5,000	1,500
Simbhaoli Sugars	9,300	1,930
Sir Shadi Lal Enterprises	1,250	570
Triveni Engineering & Industries	37,250	6,855
Uttam Industrial Engineering	5,000	
Uttam Sugar Mills	16,500	4,046
Grand Total	2,94,900	74,320

*Bajaj Hindusthan Sugar & Industries was merged with Bajaj Hindusthan.
Capacity indicates the net expanded capacity during 2005-2012

"We were just managing to stay afloat as we have an integrated production base with distillery and co-generation capacity," says Naresh Paliwal, deputy executive director, Dalmia Bharat Sugar. "But the recent hike in SAP has dealt a severe blow to our very survival. The scrapping of the incentive package has already put a big question mark to our recent investment decision." Dalmia Bharat Sugar has invested a total sum of ₹680 crore to set up an integrated sugar manufacturing business in the state, which has a combined cane crushing capacity of 22,500 tonnes, as also 79 MW of power co-generation capacity and 80 kl per day of distillery.

Change in guard

The capex project saw Dalmia setting up two new plants of 7,500 tcd each and expanding its existing plant at Ramgarh, Sitapur district, to 7,500 tcd from 2,500 tcd, following the Mulayam Singh-led UP government's new sugar industry policy under which the state decided to offer a 10 per cent capital subsidy on investments, reimbursement of transport cost of sugar from factory up to a distance of 600 km, reimbursement of purchase tax on cane and cane society commission. Besides, remission of stamp duty and registration charges on land purchase and waivers on administrative charges were also offered. Such concessions were to be given for five years to a company investing a minimum of ₹350 crore and for 10 years in case of investment of ₹500 crore and above.

Buoyed by such incentives, sugar companies rushed to not only expand its existing capacity but also set up greenfield units and a total of 29 units with a capacity exceeding 200,000 tcd tonnes came up. However, by the time these mills started making claims, the state saw a change in guard and the new chief minister, Mayawati, discontinued the policy saying that instead of fresh investments in adding capacity, the industry should have focussed on clearing the huge cane arrears of farmers who otherwise might shift to other crops.

"We are hopeful that the new government will revive the incentive package, keeping in mind the interest of such a large industry. Moreover, the state should play a proactive role in creating an environment conducive for the industry in the longer term," says Vivek Sarogi, managing director of Balrampur Chini, which has invested a total of ₹1,173 crore in the state in recent years. The company has put up five new plants and acquired capacity (3,000 tcd) in 2008, taking its total capacity to 75,000 tcd (10 plants in state) from 43,000 tcd. Other major investments made in the state include Bajaj Hindustan's ₹1,395 crore (capacity expansion: 74,500 tcd); Triveni Engineering's ₹685 crore (cap exp: 37,250 tcd) and Dhampur Sugar Mills' ₹729 crore (28,000 tcd).

While many of these companies are hoping that the new government will step in soon to resolve this crisis-like scenario prevailing in the state, there are companies who are seriously contemplating reducing their exposure in the state in the absence of a stable policy framework. Dalmia Bharat Sugar has recently acquired 3,000 tcd sugar capacity at Kolhapur in Maharashtra which, apart from other benefits, has a favourable agro-climatic condition that offers a higher recovery level of 11.5 per cent to its sugarcane produce. Similarly, others are also exploring possibilities outside UP. "We have been facing the brunt of frequent political interventions and this may force sugar mills to bring down their exposure in the industry to a large extent in future if the situation remains unchanged. This may not augur well for a state that has been a leading producer of sugar in the country," says Verma.

No doubt, the sugar industry in UP is faced with tough conditions. The state government must take cognisance of the entire scenario and step in promptly before it becomes too late. In fact, the state government will now have to go the extra mile to win over the dwindling confidence of the industry, which invested heavily in recent years. Towards this end, it will not only have to amend some of its initiatives to rationalise the cost factor, but also implement the recommendations of the Rangarajan Committee regarding abolition of levy sugar and revision of ethanol prices.

♦ ARBIND GUPTA