COVER STORY

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idway through his address at the annual congregation of the domestic sugar industry in December 2020, Piyush Goyal, Union Minister for Commerce and Railways, said something that cast a pall of gloom on the occasion. Goyal said the industry should forget about reduction of the fair and remunerative price (FRP), the reference price set by the government every year which sugar mills are obliged to pay farmers.

The industry has been demanding for years that FRP should be linked to sugar prices that move according to demand and supply. This was advocated by the Rangarajan Committee way back in 2012. Reducing FRP, however, could mean a fall in income for farmers, something no government can afford.

"Let's be practical about it. We cannot reduce the FRP," Goyal said at the annual general meeting of industry body Indian Sugar Mills Association (ISMA). "It's an institutional mechanism that has been going on for several years." Instead, he urged the industry to look at alternatives such as ethanol, which can be blended with gasoline, to divert excess sugar production in the country. The prescription is not new. Nor is Goyal the first person to say it. His Cabinet colleague Nitin Gadkari, the Minister for Road Transport, Highways and MSME, who hails from the sugar-producing belt of Maharashtra, has been a strong proponent of blending ethanol with motor fuels. There is not a single public forum where he doesn't mention it. "Ethanol production from molasses and sugarcane juice can be easily ramped up in Uttar Pradesh and Maharashtra where we have excess sugar capacity," says Gadkari. "My dream is to take the ethanol economy from the current ₹20,000 crore to

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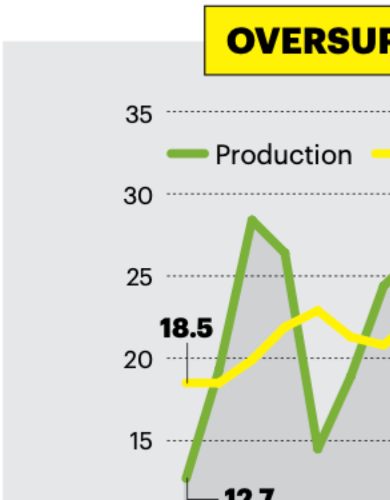

sanctioned for 70 ethanol projects (molasses-based distilleries) with a capacity of 195 crore litres. Of these, 31 projects have been completed, adding a capacity of 102 crore litres so far. In November last year, in-principle approval was granted to another 185 sugar mills and standalone distilleries to avail ₹12,500 crore of loans for capacity addition of about 468 crore litre of ethanol per annum.

The Centre also increased ethanol prices, offering a significant premium above sugar prices to incentivise the industry. It was one of the factors that acted as a stumbling block in the past. Keeping in mind the business realities of different sources of raw materials for ethanol, differential pricing was introduced in 2018. In fact, in October last year, the Cabinet Committee on Economic Affairs (CCEA) announced the steepest ever hike in prices of ethanol — ₹1.94 per litre for C-Heavy molasses, ₹3.34 per litre for B-Heavy and ₹3.17 per litre for sugarcane juice. The minimum support price for sugar, which was hiked by ₹2 per kg in February 2019, is ₹31 per kg and the market price right now is ₹33-34 per kg.

"With ethanol contributing 10-15 per cent of sugar mills' turnover, remunerative prices are expected to encourage mills to enhance the supply of ethanol for blending, thereby supporting revenues, profitability and improving their ability to pay farmers," says Sabyasachi Majumdar, Senior Vice president and Group Head, ICRA Ratings.

"Ethanol is one of the panaceas for problems in this sector. At least 6 million tonnes of sugar production will have to be diverted for 20 per cent blending," says Tarun Sawhney, Vice chairman and Managing Director, Triveni Engineering and Industries. "If realised, this can bring parity between production and demand." During the current financial year, 39 per cent of the distillation capacity at Triveni has been utilised to produce ethanol using B-Heavy molasses, while it was only 15 per cent during the corresponding period of last year. Sawhney is also setting up a distillery with a capacity of 160 KLPD (kilolitre per day) at its sugar mill in Milak Narayanpur and a smaller grain-based distillery of 40 KLPD at Muzaffarnagar, Uttar Pradesh, with a combined investment of ₹250 crore. This will enhance Triveni's capacity from 320 KLPD to 520 KLPD. It is already one of the country's largest ethanol producers.

Similarly, another major sugar producer, Dhampur Sugar Mills, is expanding its distillery capacity in Asmoli in UP from 1,50,000 to 2,50,000 LPD, which will take its overall capacity from 400 to 500 KLPD by November. It is investing ₹160 crore for the same."The ethanol-blending programme is really welcome and a key driver of sustainability in the sector," says Joint Chief Financial Officer Nalin Gupta. "The investment that the industry is required to make to expand ethanol capacity at distilleries makes sense as the price of a litre of ethanol is 1.6 times the price of every kilogram of sugar. So, there is a revenue upside to this."

Solving The Problem Of Plenty

The diversion to ethanol is expected to solve the structural and sticky issues in the sector that have undermined its growth prospects, besides ushering in discontent among the 50-million strong sugarcane farming community in the country. At the heart of it is

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