SWEET DEAL

Hike in ethanol prices to attract more investment in sugar sector

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The government's latest decision to increase ethanol prices between 4.4% and 6.1% on different varieties for supply from December 2020 has come as a shot in the arm for the sugar industry.

The move is set to encourage the sugar industry to go in for fresh investment to increase ethanol production so as to enable Oil Marketing Companies (OMCs) to achieve the target of 10% blending with petrol by 2022 and 20% by 2030.

According to Abinash Verma, Director General, Indian Sugar Mills Association (ISMA), the sugar mills are likely to invest close to Rs 19,000 crore to increase ethanol production capacity to 615 crore litres per annum from the present 425 crore litres per annum capacity. However, the actual supply of ethanol has barely touched 180 crore litres during the last sugar season, which has resulted in achieving just 6% blending with petrol.

"The distillery units are highly underutilised as they operate for 6-7 months in a year. The rise in ethanol prices will encourage them to go for round the year operations and help increase the production and supply of ethanol," Y B Ramakrishna, Member, Working Group on Bio-fuels, Ministry of Petroleum and Natural Gas told *DH*.

To achieve the 10% blending of ethanol with petrol, there is a need to supply 300 crore litres of ethanol. The blending of 10% ethanol with petrol will also enable sugar mills to achieve an additional income to the tune of Rs 24,000 crore per annum, he said. Last week, the CCEA approved an increase in ethanol price derived from different sugarcane based raw materials under the Ethanol Blended Petrol (EBP) Programme for the forthcoming ethanol supply year 2020-21 from December 2020 to November 2021. The price of ethanol from C-heavy molasses is increased from Rs 43.75/litre to Rs 45.69/litre, the price of ethanol from B-heavy molasses is increased from Rs 54.27/litre to Rs 57.61/litre and the price of ethanol from sugarcane juice is increased from Rs 59.48 per/litre to Rs 62.65/litre. "This is an excellent decision from the government to encourage ethanol production and supplies. This decision also clears the doubt that ethanol prices are not linked to crude oil prices. This will help sugar mills to produce more ethanol and help OMCs meet the 10% blending with petrol target by 2022," Abinash Verma, Director General, Indian Sugar Mills Association (ISMA) told *DH*.

He said the rise in ethanol prices will also help improve the balance sheets of sugar mills and enable investors to pump in more money towards capacity expansion. "We will come very close to achieving 10% blending target across the country by 2022," he said.

Pawan Kumar, CEO, Kakatiya Sugars said sugar mills need to invest an average Rs 100 crore for a 45 kilo litres per day ethanol capacity.

The move to hike prices is a positive for the sugar industry, both in terms of higher profitability from distillery division and reducing the sugar stocks by producing ethanol from higher sucrose content materials, Sabyasachi Majumdar, Senior Vice President & Group Head, ICRA Ratings said.

"With ethanol contributing nearly 10-15% of the sugar mills' turnover for integrated sugar mills, remunerative ethanol prices are expected to encourage sugar mills to enhance the supply of ethanol for blending, thereby supporting their revenues, profitability and improving their ability to pay sugarcane farmers," he said.