



INDIAN SUGAR GIANT: CHALLENGES AND OPPORTUNITIES

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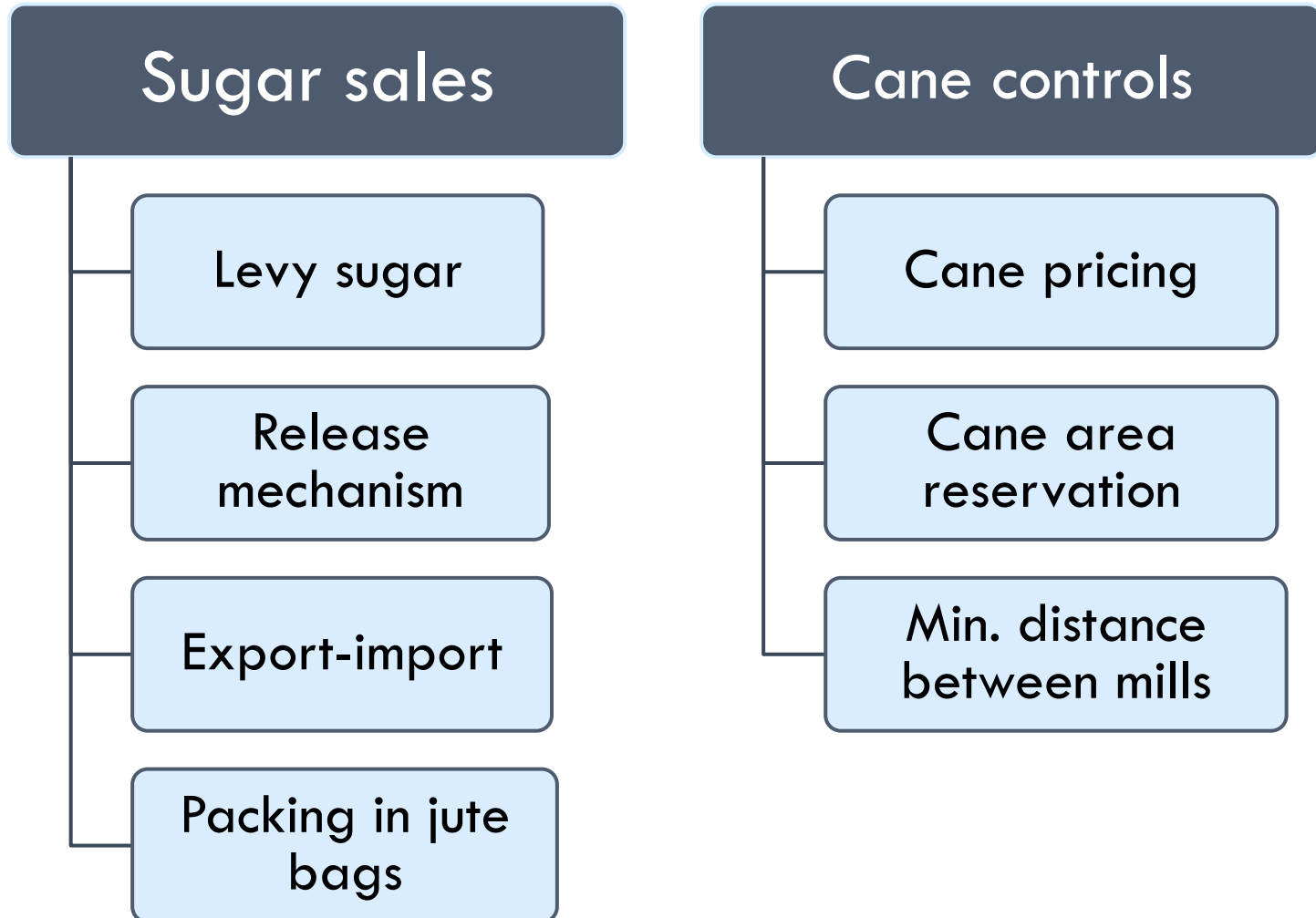
Flow of Presentation.....

- Sugar Giant in many ways
- Rangarajan Committee and Partial Control
- Challenges to be overcome
- Opportunities to be grabbed
- Way forward for the Indian sugar sector

SUGAR GIANT IN MANY WAYS

- 2nd largest sugar producer
 - Consistently producing 25 mn tons in last 3 years, as also current SS
- Largest number of cane farmers directly growing sugarcane
 - 5 million farmers and their families grow 350 million tons of cane
- Largest consumer of sugar in the world
- Highest cane price paid per ton of sugarcane
- 695 sugar mills installed in the country
- One of the largest exporters of sugar

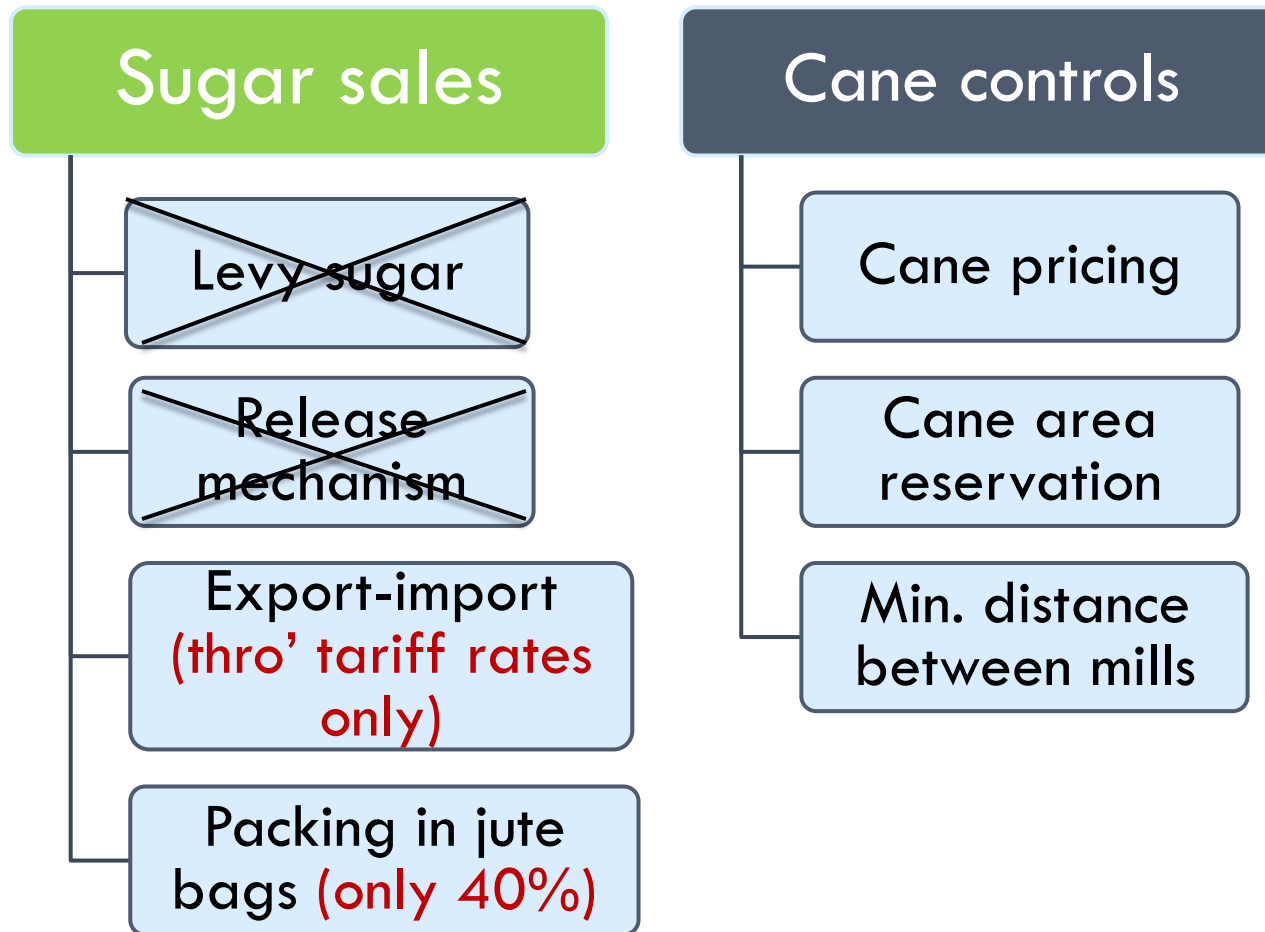
CONTROL SCENARIO BEFORE APRIL 2013



Rangarajan Committee recommendations on decontrol

- Removal of levy sugar obligation from industry
- Abolishing the regulated release mechanism for sugar sales
- Export - Import policy – no quantity and time restrictions
- Rationalisation of cane pricing policy
 - Linkage of cane price to value realised from sugar & by-products
- Phasing out cane area reservation
- Dispensing with “minimum distance criteria” between mills
- Removal of controls on molasses & free up power sales
- Removal of jute packing restrictions on sugar

PARTIAL DE-CONTROL SCENARIO (POST-APRIL 2013)



CHALLENGES

Sugarcane pricing policy

Inflation

Production Cyclicity

Varieties of sugarcane

Life without sale quota

Challenges: Sugarcane Pricing

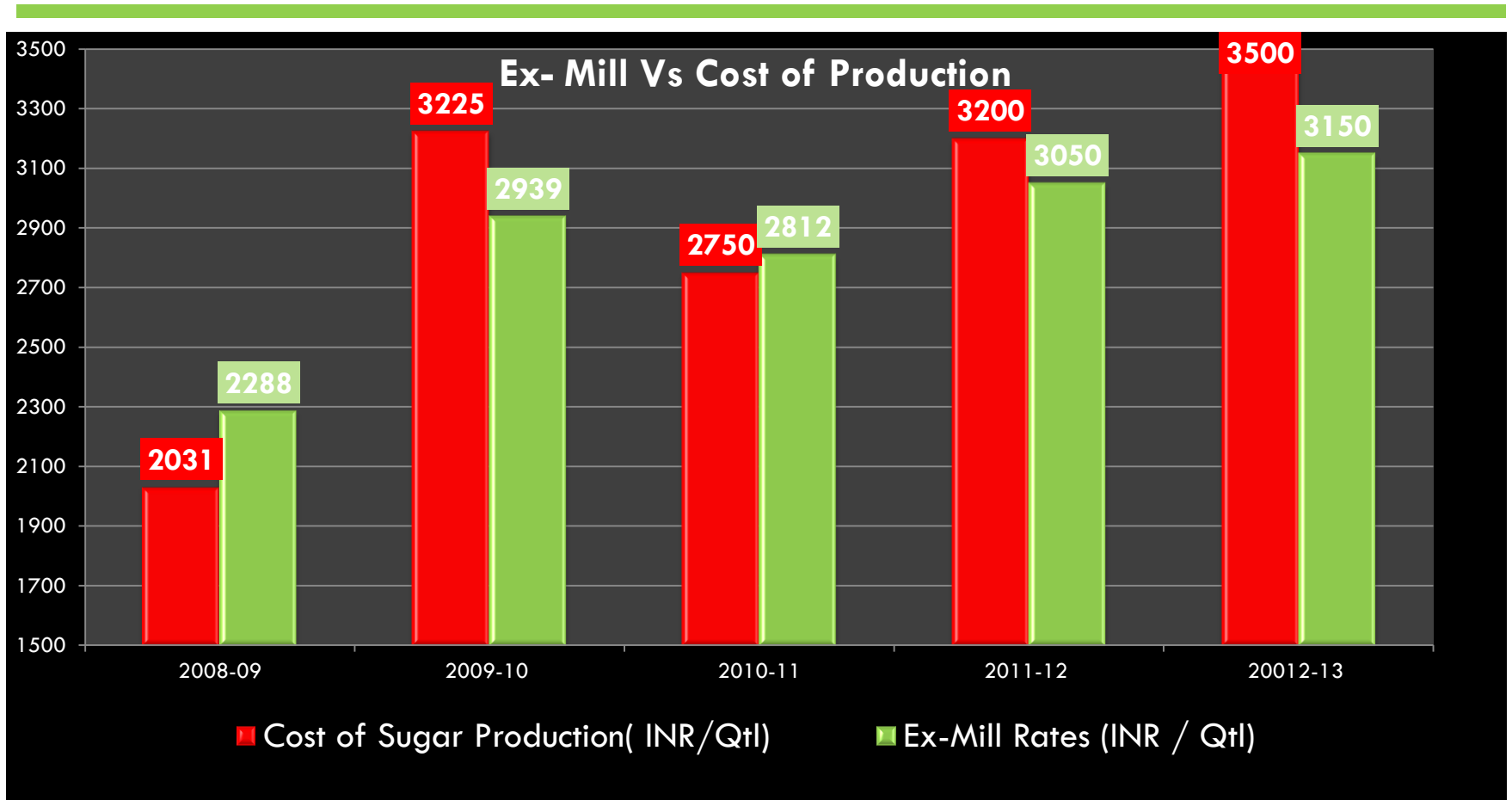
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- Influenced by politics and not by economics
 - ▣ No relationship with revenue realisation
- Results in high costs of production
 - ▣ Makes Indian sugar uncompetitive in the global market
 - ▣ Lack of margins for mills
 - ▣ Cane price arrears of farmers

Challenges: Inflationary condition

- Governments are very sensitive to price increases
- WPI inflation (Oct, 2013): 7%
- Food inflation (Oct, 2013): 18.19%
- Wholesale price index weightage:
 - Sugarcane : 0.63 %
 - Sugar : 1.73 %
 - Gur etc. : 0.07 %
 - Soft drinks & Carbonated water : 0.24 %

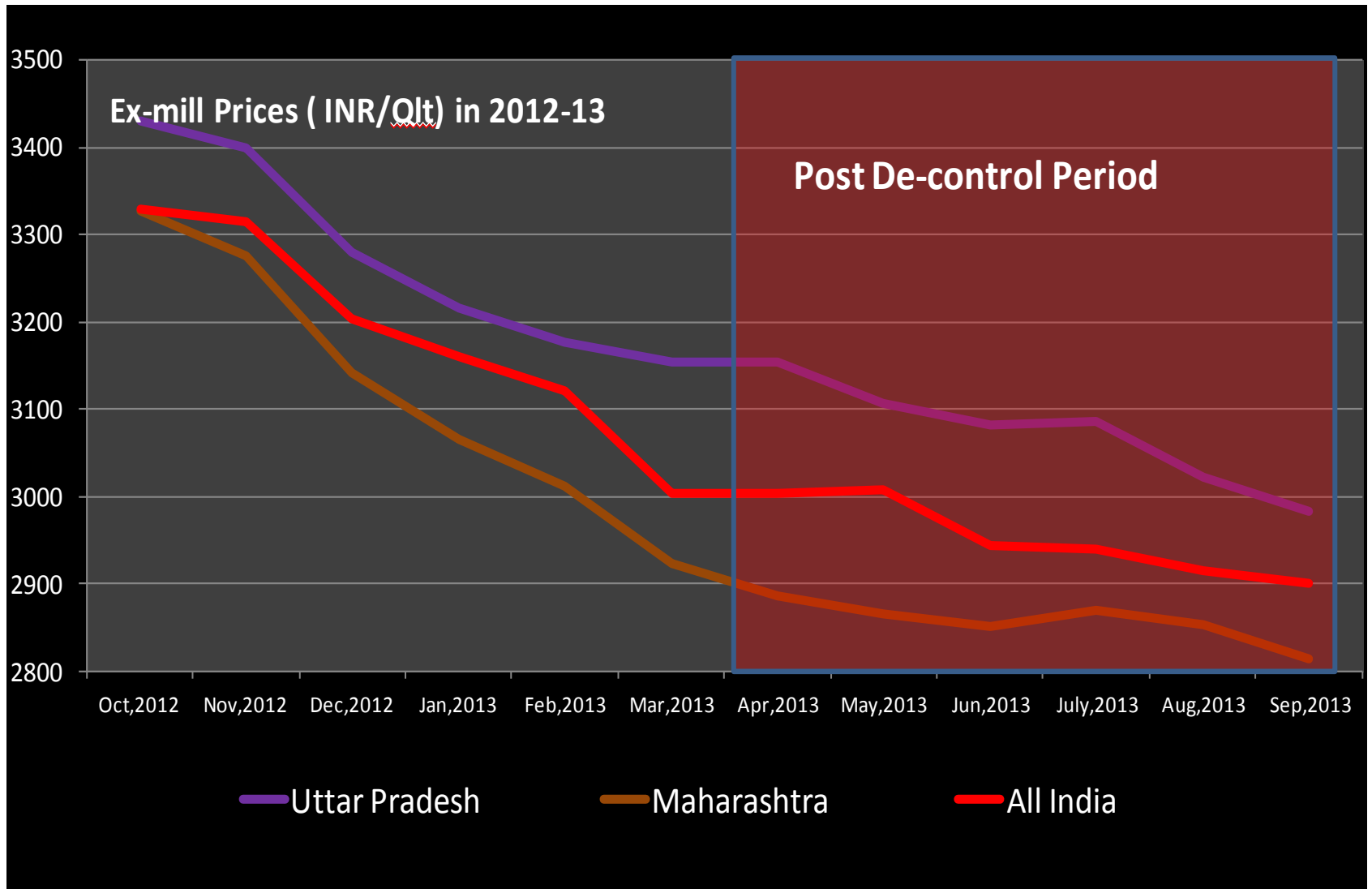
Cost of production & ex-mill sugar price (in North India)



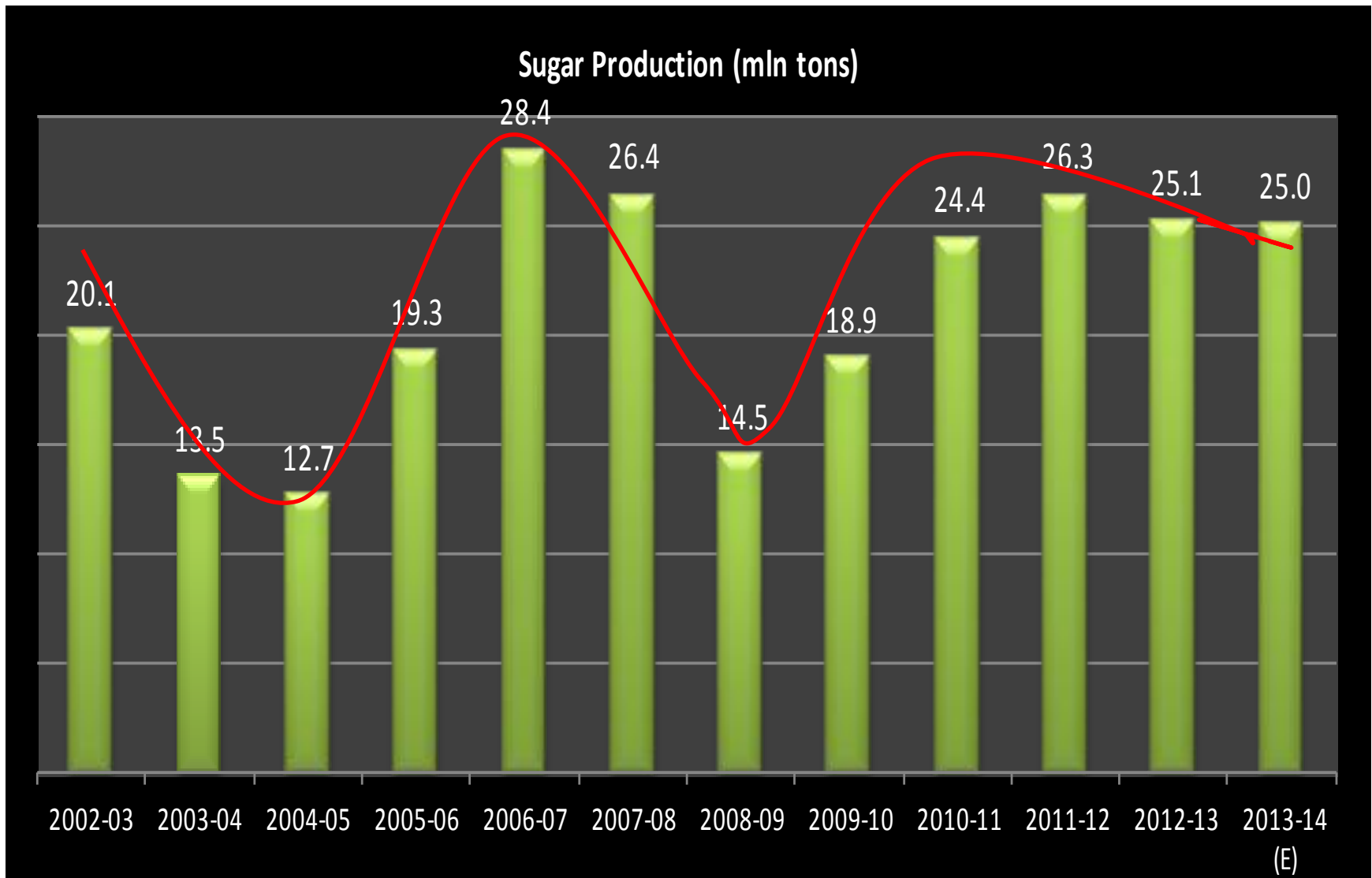
High cane price  increase in cost of production

outstripping pace of increase in ex-mill sugar price

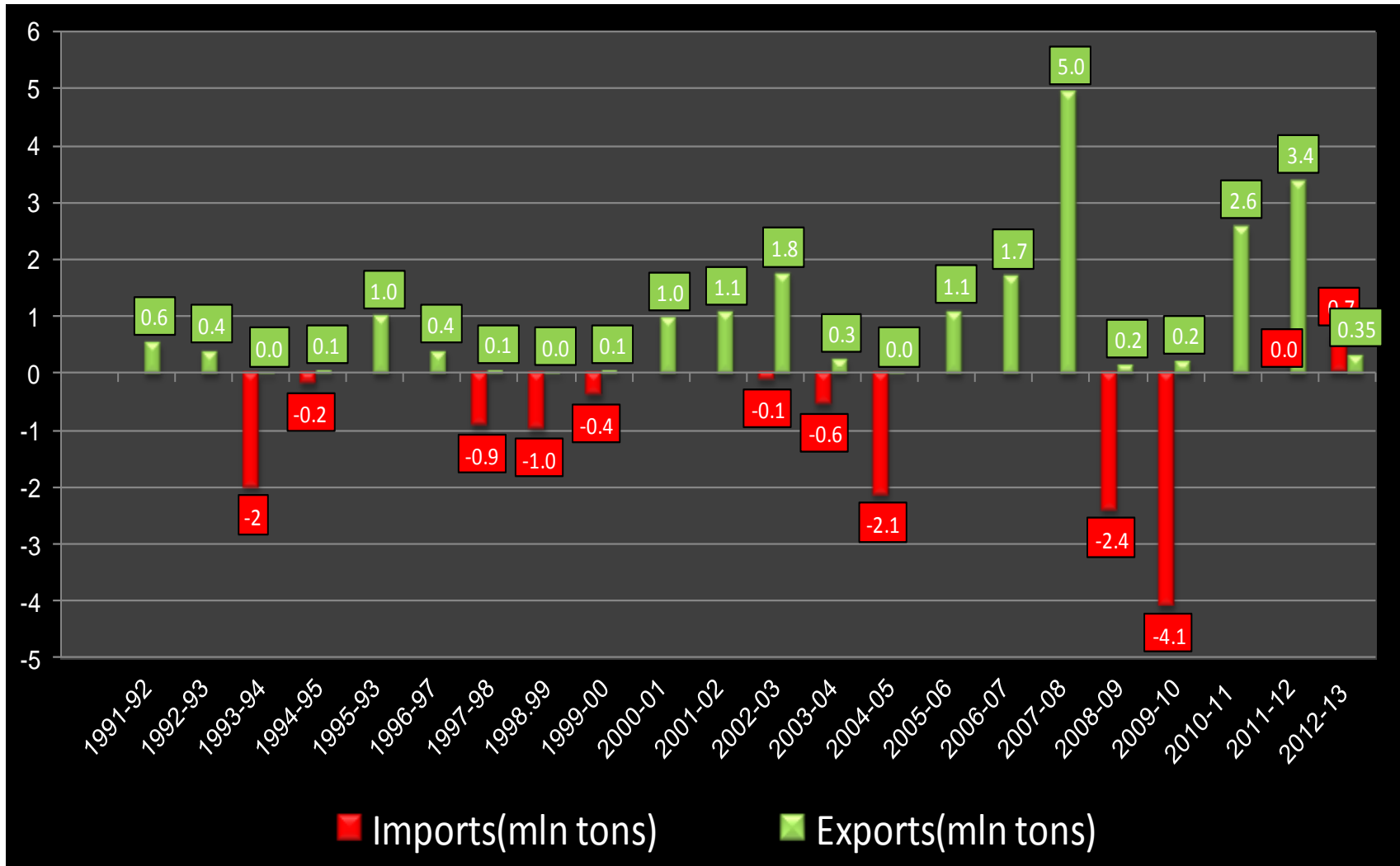
Sugar Prices in this season.....



Challenges: Cyclicity in sugar production



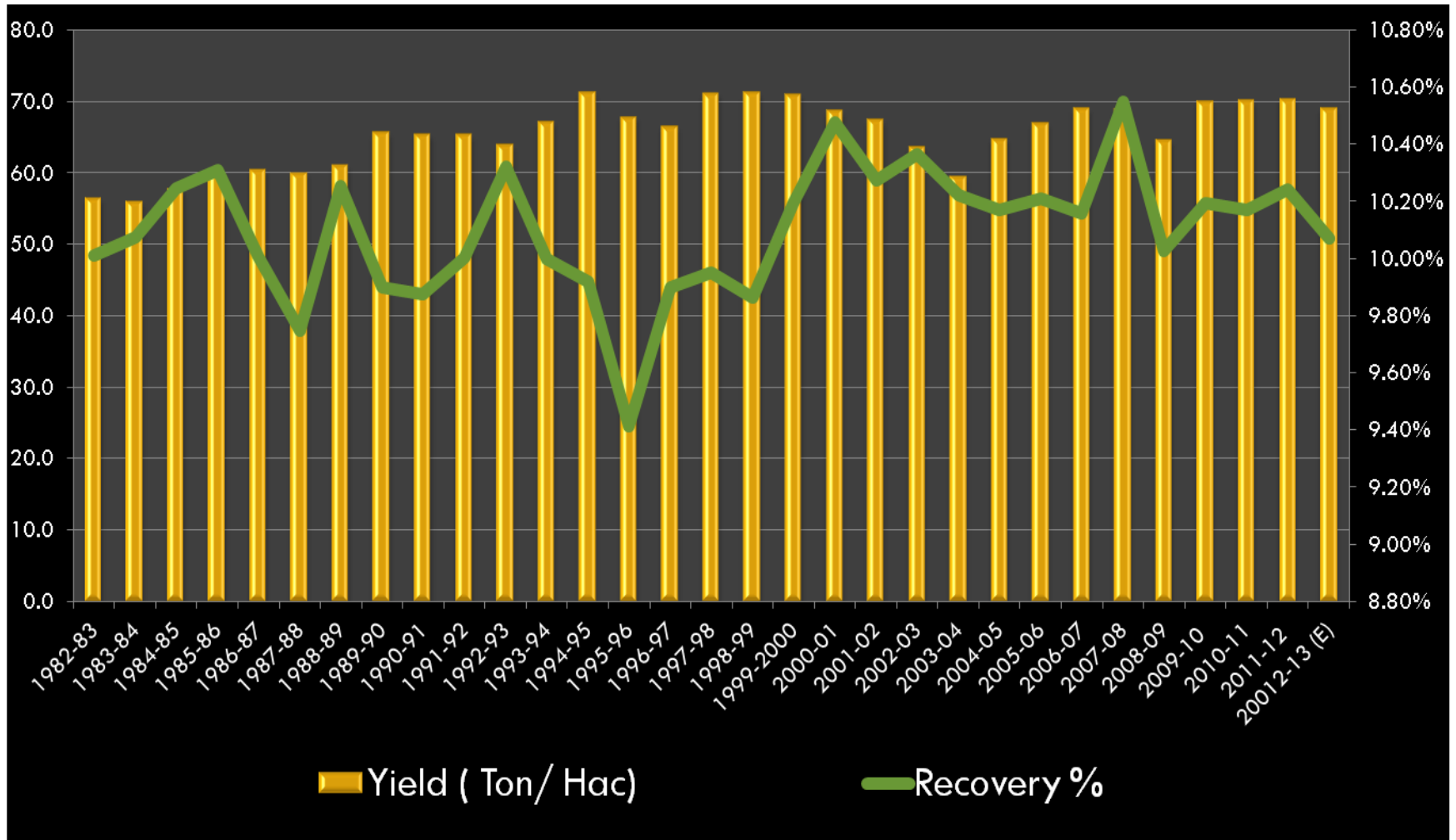
Sometimes exporter : sometimes importer



Challenges: Cane varieties

- Low cane yields and low sugar recoveries
- Identification of suitable cane varieties
- Adequate availability of varieties
- Reaching the farmers
- Convincing them to change varieties
- Mechanisation in harvesting

Stagnant cane yields & Low sugar recovery



Challenges: No assured sale quota

- No fixed monthly or quarterly sale quota for any mill
 - ▣ No assured market share
- Strong competition from within the industry
 - ▣ Efficiencies, cost saving and sugar quality will be important parameters for survival
- A fragmented sugar industry having diverse interests

OPPORTUNITIES

Domestic Demand

Rationalisation of sugarcane pricing policy

Market strategies

Potential on cane side

Ethanol blending programme

Consolidation within the industry

Opportunities: Growing domestic demand

- Per capita sugar consumption is just about 19 kilo, much below the global per capita of 24 kilo
- 2/3rd of the consumption by bulk consumers, who are themselves growing at a fast pace
- India is one of the fastest growing economies and therefore, income levels going up fast
- Domestic consumption expected at 30-31 mn tons by 2020
 - Growth rate of about 4% per annum

Opportunities: Cane pricing

- Linkage between cane price and revenue realisation
- Will give an assured return to the millers on regular basis
- Cane price arrears will get controlled
- Control cyclicity in sugar production

Opportunities: Marketing strategies

- Abolition of regulated release mechanism
- No restriction on sale quantity and its timing
 - Growth of the domestic futures market
 - Integration of Indian commodity exchanges with world markets
 - Hedging: price and currency
- Competition within the industry to grab share of the market
 - Timing of sale
 - Quality of the product

Opportunities: Potential in cane

- One of the lowest yields in the world
 - ▣ Around 65 tons per hectare with large regional variations
- One of the lowest sugar recoveries
 - ▣ Around 10% sugar recovery with large regional variations
- Varietal replacement
 - ▣ Rejected varieties
 - ▣ Potential for vertical growth
 - ▣ Higher ratoon

Opportunities: Ethanol blending

- Mandatory 5% ethanol blending with petrol
 - Demand for 1 billion litres of ethanol
 - All ethanol currently made from molasses only
- Can be used as a major tool to balance sugar production
 - Additional 5% blending would require another 1 billion litres
 - Reduce surplus sugar production by 1.7 million tons
 - Improve cash flows
- Improves returns on molasses as also sugar

The Challenges & Opportunities after decontrol

- Efficiencies would become important
- Consolidation in this very fragmented sector
- Vast potential should attract investments
- Rangarajan Committee has suggested that turnover of the industry has potential to double in next 5 years
- But, extremely important would be the rationalisation on cane pricing policy across the country

Thank you

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