Current scenario of the Indian sugar sector
Points to be covered today

- Some important characteristics of Indian Sugar Industry
- Current sugar scenario
- The Government Controls & recent decisions of Govt.
- Scenario after decontrol
- Ethanol blending with petrol
The Indian Sugar Sector

- 2nd largest producer of sugar in the world
- Around 5 million hectares of land
- Producing about 350 million tons of sugarcane
- 50 million cane farmers and dependants
- Cane payment of Rs.55,000 crore annually received directly to farmers, without middlemen.
The Indian Sugar Industry

- Annual estimated consumption of 23 million tons
- Capacity to produce over 30 million tons of sugar
- 65% of sugar consumed by bulk consumers
- Rs.80,000 crore industry
- Potential to generate 7500 MW of green power
- Producing 250 crore litres of alcohol
- Located in rural heartland, directly contributes to rural economic development & employment
The Infamous Indian Sugar Cycle

Production trend of last ten years (mln tons)
The Infamous Indian Sugar Cycle

Production- Consumption trend of last ten years

- Production (mln ton)
- Consumption (mln ton)

Year:
- 2000-01: 18.5
- 2001-02: 18.5
- 2002-03: 20.1
- 2003-04: 18.4
- 2004-05: 18.5
- 2005-06: 19.3
- 2006-07: 19.9
- 2007-08: 28.4
- 2008-09: 26.4
- 2009-10: 21.9
- 2010-11: 22.9
- 2011-12: 21.3
- 2012-13(E): 20.8

- Production (mln ton)
- Consumption (mln ton)

Year:
- 2000-01: 18.5
- 2001-02: 18.5
- 2002-03: 20.1
- 2003-04: 18.4
- 2004-05: 18.5
- 2005-06: 19.3
- 2006-07: 19.9
- 2007-08: 28.4
- 2008-09: 26.4
- 2009-10: 21.9
- 2010-11: 22.9
- 2011-12: 21.3
- 2012-13(E): 20.8
Cyclical sugar trade in last 20 years
Current sugar scenario

- Surplus domestic sugar produced 3 years in a row
- Opening balance for 2013-14 expected to be over 80 lakh tons
  - More than 4 months’ consumption requirement
- Estimated sugar production for next sugar season 2013-14 is similarly expected to be more than domestic requirement
- Ex-mill sugar prices significantly lower to cost of production
  - By around Rs.2-4 per kilo of sugar, losses to mills throughout season
Current sugar scenario ......

- Cane price arrears of Rs.12,360 crore as on 15th April, 2013
  - Highest ever in the history of the sector

- Current sugar stock balance of 160 lakh tons
  - Blocking Rs.48,000 crore of cash flows

- Globally, there is surplus sugar for a third year
  - About 10 million tons of sugar surplus this year
  - Another surplus expected next year too, though lower at about 4-5 million tons

- Global prices at its lowest in last 3 years
High cost of production: Low ex-mill price:
Two largest cane producing states

<table>
<thead>
<tr>
<th>Uttar Pradesh</th>
<th>Maharashtra</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ex-mill Prices (Rs. Per Qtl)</strong></td>
<td><strong>Ex-mill Prices (Rs. Per Qtl)</strong></td>
</tr>
<tr>
<td><strong>Cost of Production (Rs. Per Qtl)</strong></td>
<td><strong>Cost of Production (Rs. Per Qtl)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Month</th>
<th>Uttarakhand Ex-mill Price</th>
<th>Uttarakhand Cost of Production</th>
<th>Maharashtra Ex-mill Price</th>
<th>Maharashtra Cost of Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>October</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>April</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Cane Price Arrears (as on 31st March in Rs. crore)
- Cane price arrears directly related to sugar inventory which industry forced to carry
- Industry has no control on cash flows, needed to pay cane price to farmers during crushing season
Controls on Indian Sugar Sector

- Minimum Distance Criteria between mills
- Cane Area Reservation
- Dual Cane Pricing: Centre/State
- Compulsory sugar packing in jute only
- Levy Sugar Obligation on mills
- Regulated Release Mechanism
- Import and Export

State Govt. controls

Central Govt. controls
Controls after 4th April 2013 decision

- Minimum Distance Criteria between mills
- Cane Area Reservation
- Dual Cane Pricing: Centre/State
- Tariff rates on trade
- 40% sugar to be packed in jute bags only

GOVT. POLICIES

State Govt. controls
Central Govt. controls
Scenario after decontrol

- Mills free to sell sugar on own commercial considerations
- Sugar prices are range-bound
- No levy sugar obligation: savings of about Rs.2500 crore
- PDS sugar being bought by States directly through tenders
- Low import duty still allowing sugar imports
  - About 6 lakh tons of raw sugar for domestic consumption
  - About 1.25 lakh tons of white sugar from Pakistan
Sugarcane Pricing

- Central Government fixes a uniform FRP
  - FRP for 2012-13 was RS.170 per quintal
- But 5 States fix SAP (on political considerations, without any transparent laid down criteria and no relation to sugar price)
  - SAP in 12-13 in UP was Rs.280 per quintal
- Dual cane pricing distorts cane and sugar economy and is contributing majorly to cane price arrears and cyclicality
- Present system leads to major swings in cane price payments
  - Ranges between 48% to even 96% of sugar price
Sugarcane Pricing: Revenue Sharing

- Need for rationalisation of cane pricing system
- Rangarajan Committee recommended revenue sharing model
  - Cane price should be 75% of sugar price realisation
  - All major sugar producing nation have followed this successfully
  - Will give stable returns to farmers and industry
- Sharing formula the only solution to control cyclicality
- Karnataka Govt. already passed an Act for revenue sharing
- Similar model should be adopted in other States
  - Central Govt. has already written to States
Investments required in the sector

- Rangarajan Committee suggested that the sector has potential to grow to Rs.160,000 crore from Rs.80,000 crore in 5 years.
- For this large investments required both at farm & mill level.
- Considering huge opportunities and potential in Indian sugarcane sector, several investors, including foreign, watching......
- Waiting for rationalisation in the cane pricing policy.
- So, reforms on cane side is urgently awaited.
Cane price arrears during last 5 years:
Uttar Pradesh & Maharashtra (in March – Rs. crore)

- Cane arrears are higher in case of UP because of a political SAP and no relationship with returns on sugar sales
Ethanol blending with petrol

- Mandatory 5% ethanol blending with petrol
  - To be achieved by 30 June, 2013

- Requirement of 105 crore litres annually
  - Almost 35% of molasses production
  - 55 crore litres offered currently for which POs are being issued
  - Supplementary tender being floated by OMCs for balance
  - Tendered price for imported ethanol very high
Thank You