NEWS FLASH –2nd December, 2016

SUGAR

Bhopal: Sugar to cost Rs 20 per kg in public distribution system

The state government has upped the price of sugar, distributed to beneficiaries under public distribution system (PDS), from Rs 13.50 per kilogram to Rs 20 per kilogram.

The hike in price has been made considering market conditions. The eligible beneficiaries under PDS will be given sugar at the amended rates from December month. Earlier, the price of Sugar was set in year 2002.

Despite hike in sugar prices, the state government is expected to bear subsidy load of around Rs 75 crore annually in the interests of consumers in the financial year 2016-17.

(Source-http://sugarnews.in/bhopal-sugar-to-cost-rs-20-per-kg-in-public-distribution-system/, published on 30th November, 2016)

Cane arrears at Rs 1,147 crore for last two seasons

About Rs 1,147 crore is due to farmers across the country for sugarcane sold to millers in last two seasons, government said today.

The state governments have issued necessary directions to the sugar mills to clear the pending dues and in some cases they have initiated proceedings for its recovery as arrears of land revenue, it said.

"As on November 22, a total of Rs 1,147 crore is outstanding against sugar mills as sugarcane dues of farmers for the sugar season 2014-15 and 2015-16 on FRP (fair and remunerative price) basis," Minister of State for Food C R Chaudhary said in a written reply to Lok Sabha.

The central government from time to time is advising state governments at appropriate level to take "strict action" against defaulting mills, he said.

"State governments have informed that they have issued necessary notices/directions to the sugar mills to clear pending cane dues and in some cases they have initiated proceedings for its recovery as arrears of land revenue," he added.

The Sugarcane (Control) Order, 1966 stipulates payment of cane price within 14 days of supply, failing which interest at the rate of 15 per cent per annum on amount due for the delayed period beyond 14 days is payable.

The powers for enforcing this provision are delegated and vested with the state governments, the Minister said.

Responding to a query on sugar stock lying in state-run FCI, the Minister said that the FCI has stopped dealing in sugar since May 2013 after deregulation of sugar sector and introduction of a new system for distribution of sugar through the public distribution system.

Sugar production is estimated to have been lower at 25.1 million tonnes in the 2015-16 season (October-September) from 28.3 million tonnes in the previous year. The crushing operation in the current season has begun.

(Source-http://sugarnews.in/cane-arrears-at-rs-1147-crore-for-last-two-seasons/, ublished on 30th November, 2016)

Sugar firms unfazed by cash crunch

The fall of ₹700 a tonne in sugar prices in November is unlikely to hit the prospects of sugar companies as the stable cane prices would help companies protect their profitability.

After remaining stable at ₹36,000/tonne in September, sugar prices touched a five-year high at ₹36,200 ain October. Post-demonetisation, it fell marginally to ₹35,500 in November.

Domestic sugar prices have remained firm, having increased from about ₹31,500 a tonne in March to ₹36,000 in August and has maintained the firm trend ever since on the back of lower sugar production estimate this year.

Sabyasachi Majumdar, Head, Corporate Ratings, ICRA, said sugar prices may remain firm over the next three quarters as the recent government estimate pegged sugar production to fall by 10 per cent compared to last year.

This apart, he added, the moderate cane price hikes effected in most States including Uttar Pradesh bode well for the industry profitability outlook in the short-term.

While the mills in Maharashtra and Karnataka are likely to benefit from the rising sugar prices and relatively stable cane costs, several mills may see an impact on sales volume due to lower production.

"The UP government has increased the State-advised price for sugar cane to ₹305/quintal this season for normal variety. The increase in SAP this year was moderate considering sharp increase in last three years," said Majumdar.

(Source-http://sugarnews.in/sugar-firms-unfazed-by-cash-crunch/, published on 30th November, 2016)

World sugar market balance shifts, adds pressure to prices

Sugar's two-year global supply short-fall, a key factor behind blistering price rises, is expected to end in 2017/18, with rain returning to major Asian producers while European Union reforms will boost production in the trading bloc.

"The end of the deficit period is already clearly visible," F.O. Licht analyst Stefan Uhlenbrock told a two-day seminar hosted by the International Sugar Organization which concluded on Wednesday.

Raw sugar prices more than doubled to a peak of 23.90 cents a lb in October, from as low as 10.13 cents in August last year as investment funds built up a record net long position against the backdrop of shrinking supplies.

The run-up has started losing momentum however as crop news turned positive. Prices had dipped below 20 cents a lb this week as funds scaled back long positions.

“A bull needs to be fed constantly to put on weight and the same can be said for a bull market. For the time being the sugar market has run out of fresh bullish news and that is the reason for the decline we are seeing,” Uhlenbrock said.

Uhlenbrock forecast there would be a more balanced market in 2017/18 and possibly even a modest surplus after deficits of 9.9 million tonnes in 2015/16 and 6.2 million in 2016/17.

The deficits have been driven partly by an El Nino weather event that led to droughts in parts of south and south-east Asia including major producers India and Thailand.

In India, consumption is set to outstrip output for the first time in seven years in the 2016/17 season as back-to-back droughts ravaged cane crops in the top producing western state of Maharashtra.

Abinash Verma, director general of the Indian Sugar Mills Association, said on the sidelines of the seminar that rains had returned in September and production should rise in 2017/18.

“Only to talk about Maharashtra we could be talking about another five million tonnes of sugar (in 2017/18),” Plinio Nastari, president of consultants Datagro, said, adding production could rise to 10.0 million to 10.5 million tonnes from the prior season’s 5.5 million.

Nastari also said production should rise in the EU, Thailand and Brazil.

“We see the possibility of a more balanced scenario,” he said, noting there could be a modest surplus of up to 2 million tonnes or a small deficit of up to 1.5 million.

Major sugar exporter Thailand experienced its worst drought in more than two decades earlier this year because of the El Nino weather pattern.

“This year Thailand has produced 9.4 (million tonnes of sugar). Next year it could be 11.0 or 11.1 (million),” Nastari said. “These factors are conspiring against the deficit.”

EU OUTPUT RISE

EU sugar output is expected to rise following the abolition of quotas next year which will enable its most efficient producers, particularly in France and Germany, to expand.

Analysts say EU output could rise by about 3 million tonnes in 2017/18 although the head of the EU’s second-largest producer, Germany’s Nordzucker, cautioned the operational challenges could slow growth.

“I think production in Europe will go up. I don’t think it will go up to the tune that everyone talks about,” Nordzucker AG Chief Executive Hartwig Fuchs said.

Producers in Brazil are also still looking to expand despite the recent decline in dollar-denominated prices, cushioned by the weakness of its currency in the aftermath of Donald Trump’s win in the U.S. Presidential election.

"The incentive for sugar remains in spite of the fall in New York (ICE raw sugar) prices in dollar terms because of the depreciation of the real," Nastari said.

"There is a condition (profitability) for the planting of cane at this moment which could be ready for harvesting at the end of 2017," he added.

(Source-http://sugarnews.in/world-sugar-market-balance-shifts-adds-pressure-to-prices/, published on 1st December, 2016)

Sugarcane farmers to get relief as UP mills hike price by 25%

With the hike in State Advisory Price (SAP) of cane by Rs25 per quintal for the 2016-17 crushing season, over Rs22,500 crores is likely to flow into the rural economy.

This is the value of the sugarcane to be purchased by 117 sugar mills from the farmers in UP and would be 25 per cent more than the value of cane procured by these mills in the last cane crushing season 2015-16.

As per estimates, mills are likely to crush nearly 75 million tonnes (mt) and produce more than 7.60 mt of sugar in the current season, against 6.85 mt of sugar in 2015-16.

On November 18, the state government had raised the SAP of cane from Rs280 per quintal for common variety to Rs305. The SAP for the early and unapproved varieties of sugarcane was also increased to Rs315 and Rs300 per quintal respectively. The common cane variety accounts for the bulk of cane produced in UP.

The SAP had not been revised in the last three years and the last hike was in 2012-13 which put cane price at Rs240 per quintal to Rs280 per quintal.

Evan as over 100 sugar mills have commenced cane crushing , there is no relief to cane growers as mills still owe over Rscrores to them for the last season. About 27 private sugar mills in UP have arrears of about Rs1,300 crore for the last crushing season. Cane Commissioner has already issued notices and recovery certificates against the defaulting 's mills.

However, this year to provide relief to farmers and eliminate the problem of delayed payments by the mills, the state government has directed the mills to settle cane dues in a single payment unlike in instalments effected during previous years.

The part payment facility was to support the sugar sector, when it was passing through rough patch due to falling sugar prices, glut in international market and arrears.

According to UP Sugar Mills Association (UPSMA) – the body of private sugar mills, 92 private mills have paid Rs 15,014.98 crore or 93.26 per cent of the total dues and still Rs 1084.54 crore were pending of the farmers of the previous 2015-16 season. The private mills were also yet to pay Rs 46 crore of the 2014-15 seasons.

In the last season, 117 mills, including one of UP State Sugar Corporation, 24 of the Co-operative sectors, had crushed 6,456 lakh quintals of cane and produced 6.85 Million MT of sugar at 10.62 per cent recovery rate.

Of the main defaulter among the private sugar mills are Modi group with outstanding amount of Rs 335.40 crores followed by Simbhaoli of Rs 207.12 crores, Mawana group of Rs 161.18 crores and the Bajaj Group of Rs 131.19 crores.

Sugarcane is a major cash crop in UP and accounts for roughly Rs 30,000 crore worth of business for the economy. There are over 4 million rural households in UP engaged in cane farming.

There are 92 private sugar mills, 24 run by the Co-operative sector, while UP State Sugarcane Corporation is left with only one sugar mill.

(Source-http://sugarnews.in/sugarcane-farmers-to-get-relief-as-up-mills-hike-price-by-25/, published on 1st December, 2016)

COGEN

Spot power may get costly as CERC proposes hiked transmission charges

Lately, the central government has also been promoting the spot market

The Central Electricity Regulatory Commission (CERC) has proposed a hike in transmission charges by 1.35 times, which could hurt the growing market for spot or short-term transaction of power.

States and open access industrial consumers are increasingly shifting to short-term power purchase due to uncertainty in power demand. If approved, they might have to face increased charges, which would be similar to long-term power rates.

Lately, the central government has also been promoting the spot market, as increased competition reduces cost of power. While the tariff quoted in the long-term power purchase agreement has touched Rs 3.9-5.5 per unit in the past three years, the spot price has gone down to Rs 2.16 per unit during the same period.
While private players and some states have been active in the spot market, NTPC has also started selling un-requisitioned surplus power at the exchanges.

The commission is of the view that increasing short-term transaction of power is leading to congestion in the grid and also affecting the transmission planning, which is typically for long-term transactions. It has come to this conclusion after submissions from the Central Transmission Utility (CTU), also known as Power Grid Corporation of India.

The volume of short-term transactions has increased to 63.96 billion units (BUs) in 2014-15, from 24.69 BUs in 2008-09. However, the prices of electricity of short-term transactions has come down to Rs 2.5 per unit, from about Rs 7.29 per unit during 2008-09.

CERC has expressed its concerns that generators may not apply for long-term agreement (LTA) and evacuate power under short-term open access (STOA) and/or medium-term open access (MTOA). "It is likely that there are less long-term power purchase agreements, leading to lack of LTAs and inefficient transmission planning," said CERC in its draft regulations, dated October 28, 2016.

The regulations were open for comments till November 25. "There are a number of petitions and applications before the commission, wherein the generators are relinquishing their LTA quantum but at the same time evacuating power under STOA/MTOA markets. This causes burden of higher transmission charges on other long-term customers. This scenario is likely to lead to under-building of transmission capacity thereby leading to instances of congestions," CERC observed in its detailed regulations.

The power sector, which has been hailing the shift to short-term or day-ahead power market, is opposing this sudden change. The industry is of the view that in the current scenario when discoms are trying to reduce power tariff in a bid to reduce losses, the short-term market creates competition and helps in decreasing power rates.

(Source-http://www.business-standard.com/article/economy-policy/spot-power-may-get-costly-as-cerc-proposes-hiked-transmission-charges-116120200024_1.html, published on 2nd December, 2016)

Officials directed to take steps to regularise outsourcing employees

Chief Minister K. Chandrasekhar Rao has asked officials to explore the possibility of regularising the services of outsourced staff in power utilities in a phased manner.

Therefore, he asked electricity employees unions to call off their proposed strike in support of the outsourcing staff from December 6 and come to the negotiating table.

A release after a meeting convened by Mr. Rao with Telangana Generation Corporation Chairman D. Prabhakar Rao and other senior officials said the Chief Minister was of the view that the outsourcing staff should be regularised on humanitarian grounds as they had served in power utilities for several years with low salaries. He asked the officials to prepare the guidelines for the purpose.

Mr. Rao urged the unions to hold talks with Energy Minister G. Jagdish Reddy on Friday after calling off the strike. The government was favourable to the demands of outsourcing staff, having hiked in the past their remuneration and that of regular staff in power utilities.

Earlier, Mr. Prabhakar Rao and other officials explained to the Chief Minister that outsourcing employees were posted for maintenance of sub-stations, lines, power plants and offices.

(Source-http://www.thehindu.com/news/cities/Hyderabad/KCR-intervenes-to-end-power-strike/article16737990.ece, published on 1st December, 2016)

Moody's upgrades India's power sector outlook to stable

Moody's has upgraded the outlook for India's power sector to stable from negative in view of surge in domestic coal production and likely improvement in discoms' financial health due to UDAY scheme.

We have changed the outlook for the Indian power sector to stable from negative, because the increased domestic production of coal will ease constraints on fuel supply," the ratings agency said in its investors' service report 'Power Sector - Asia Pacific: 2017 Outlook - Rising Industry Challenges Are Manageable, Outlook Stable'.

In addition, the government's debt restructuring of the financially weak distribution utilities through UDAY scheme will likely improve their financial capacity to make timely payments to power generators, it said.

"In India, renewable generation could act as a complementary source of power rather than a competitor to thermal, owing to power shortages," it added.

Moody's Investors Service said the stable outlook for the power sector in Asia Pacific over the next 12-18 months is mainly underpinned by consistent regulatory returns and its expectation of manageable increases in fuel costs over the same period, as well as the absence of significant changes to regulatory environments.

"Transparent tariff-setting mechanisms will continue to benefit the regulated power utilities in Australia, Hong Kong and Singapore," Moody's Vice President and Senior Analyst Mic Kang said.

Thirty-nine (74 per cent) of Moody's-rated power companies in Asia Pacific demonstrate ratings with stable or positive outlooks, mainly reflecting broadly unchanged fundamental business conditions, financial profiles consistent with its rating expectations, and/or the positive outlook on a parent's rating.

The remaining 14 companies (26 per cent) -- a majority of which are Chinese power companies and to a lesser extent Japan's power utilities --- have ratings which carry negative outlooks or are on review for downgrade .

(Source-http://economictimes.indiatimes.com/news/politics-and-nation/moodys-upgrades-indias-power-sector-outlook-to-stable/articleshow/55726063.cms, published on 1st December, 2016)

Quote of the day

Always bear in mind that your own resolution to succeed is more important than any other.

-Abraham Lincoln