SUGAR

Crushed by the cane lobby

Data suggest that the private sector in Maharashtra is less efficient than the cooperatives

In a move that marks the reversal of a decision made on October 4, the Maharashtra State government has decided to start the sugar cane crushing season from November 5 instead of December 1 as proposed earlier. The decision was made taking into account apprehensions of weight loss due to late harvesting and of 'poaching' by millers of neighbouring Karnataka especially from the sugar cane-rich Kolhapur and Sangli belt of western Maharashtra.

Rumblings in the sugar sector

Maharashtra is the largest producer of sugar in India, contributing almost 37 per cent of the total national output. The 2016-17 sugar season is distinctly different for three reasons. First, this year marks the completion of a decade since major reforms were introduced in the Sugarcane Control (Order), 1966 via reduction of the aerial distance limit between two sugar units to 15 km from 50 km and the dropping of provision 5B, also known as "Bhargava formula"; the provision had enabled limited profit sharing out of excessive realisation from the sale of free sugar, in case of erratic cane supply, with cane farmers of the mill. Second, the estimated availability of sugar cane this year stands at 445 lakh tons, implying that the State will produce just 5 million tons (MT) of sugar as against 8.5 MT last season. With just 90 days of crushing, a large number of mills will remain shut resulting in idle machinery, extra manpower cost, and a likely default on term-loan repayment leading to non-performing assets. Third, the Raju Shetti-led Swabhimani Shetkari Sanghatana, championing the cause of sugar cane farmers for the past 15 years, is agitating for an increased cane price.

Cooperative sugar mills have contributed largely to the development of rural Maharashtra by providing consistent farm income to large shareholding members. But the ownership profile of sugar factories in the State has undergone a major change in the past decade with the amendment to Section 6A of the Sugarcane Control (Order), 1966. The change has also been accentuated by the questionable practice of lending banks, especially the Maharashtra State Cooperative Bank, taking over assets under the provisions of the SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest) Act, 2002. Data indicate that altogether 68 cooperative units were liquidated and sold later to the private sector, to entities floated by cooperative barons themselves, with a few exceptions.

The bigwigs of the sugar cooperatives, including former State cooperative ministers, floated private sugar units, in a way sowing the seeds of doubt on the working and efficacy of the cooperative model. The number of private sugar factories in Maharashtra has consistently increased from 2006-07. Almost 154 private sugar units have obtained Industrial Entrepreneur Memorandum (IEM); at present there are 78 operational private sugar mills with total crushing capacity of 2.48 lakh tons of cane per day (TCD) as against a mere 12 private units a decade ago. In comparison the number of operational cooperative units stands at 102 with a capacity of 3.52 lakh TCD. Private sector capacity gradually increased from 10 per cent of the total sugar production in the State to 45 per cent.

Cooperatives vs private mills

The natural question that arises is how the increase in private sector participation impacted the sugar cane payment and sugar recovery per ton of sugarcane crushed. The change in ownership pattern has impacted the cane price payment to the growers in the State (see graphs). To understand the payment dynamics, it is essential to understand the process of Fair and Remunerative Price (FRP), a payment model unique to Maharashtra. Unlike other cane-producing States where the farmer brings his produce to the factory for crushing, in Maharashtra it is picked up by sugar millers from the farmers' fields to ensure uninterrupted cane supply and smooth operations.

The harvesting and transportation (H&T) cost thus incurred by millers is, however, ultimately deducted from the FRP paid to the farmers. A year-on-year analysis of H&T costs incurred by cooperative and private millers illustrates the larger impact. The private units have incurred Rs.57.07, Rs.48.58 and Rs.83.14 per ton on H&T more than cooperative units in 2013-14, 2014-15 and 2015-16 respectively, implying thereby that the cane farmers are burdened by an additional Rs.477.20 crore. Likewise, the cooperative sector sugar recovery rate, which is directly linked to the FRP paid to farmers, has always been higher than that of the private sector over the same period.

The difference between cooperative and private sector in recovery when monetised, calculating on the basis of FRP fixed by the Government of India, comes to Rs.1076.10 crore. Shockingly, in some cases cooperative sugar units reported less H&T expenditure and better recovery before management was taken over by the private sector. If both H&T and recovery are put together in monetary terms, the ultimate loss is borne by sugar cane farmers due to dwindling payments under private mills.

The common belief is that the private sector is competitive, efficient and professionally managed when compared to the cooperative sector. Ironically, the private sugar sector in Maharashtra doesn't stand the test of data. How can such differences between cooperative and private sector in sugar recovery and H&T cost — which are directly related to cane payment — be explained?

Cooperative society members, with easy access to management, meetings of the board of directors and vigilance on the factory premises during and after crushing, bring in effective stakeholder participation in the overall working of mills. As a result there is better sugar recovery and considerable reduction in cost of H&T, thus financially benefitting the cane farmers. Given this backdrop, the recent trend of cooperative sugar barons opting to set up private sugar units despite overwhelming support of shareholders for the cooperative model is alarming. This, when the entire country is looking to emulate the Maharashtra sugar cooperatives' model.

Steps to control retail sugar prices — such as like putting stock limits on millers and wholesale traders, capping of retail prices, increased cess and non-payment of export incentives — succeed in providing relief to consumers even though they impact the earnings of millers. In a similar manner, identifying and effectively implementing steps to protect farmers' interests is the need of the hour. The provisions of the Maharashtra Regulation of Sugarcane Price (Supplied to Factories) Act, 2013, enacted on the recommendation of the C. Rangarajan committee, may provide an effective instrument for the administration to limit H&T cost per ton of sugar cane and dwindling sugar recovery rate of the private sector in the State.

Rajagopal Devara is serving Secretary, Government of Maharashtra, and former Sugar Commissioner, Maharashtra. Views expressed are personal.

(Source- http://sugarnews.in/crushed-by-the-cane-lobby/, published on 3rd November, 2016)

TN: Cane crushing season begins

Sugar cane crushing operations in the Salem Cooperative Sugar Mill at Mohanur for 2016-17 commenced here on Saturday.

District Collector M. Asia Mariam inaugurated the crushing by dropping a sugar cane bunch onto the conveyor belt.

MLAs K.P.P. Baskar, and K.S. Moorthy; administrative committee president M. Sivabagyam; and managing director of the mill R. Priya; were present.

Quantity

Ms. Asia Mariam said that 3.50 lakh tonnes of sugar cane obtained from 3,451 acres have been proposed to be crushed during the current season.

During 2015-16, about 3.47 lakh tonnes of sugar cane were crushed with an average sugar recovery of 8.30 per cent.

The Collector added that the payment for farmers would be credited to their bank accounts within 14 days after receiving the sugar cane. She said that the mill bagged second place at the national level for best financial management for 2015-16.

She requested the farmers to supply the much needed sugar cane to the mill so that the target is achieved.

District Revenue Officer K. Palanisamy, Aavin president Chinnasamy, officials, farmers and workers too participated.

(Source- http://sugarnews.in/tn-cane-crushing-season-begins/, published on 3rd November, 2016)

Sugar futures remain weak, shed 0.35% on higher supply

Sugar prices eased further by 0.35 per cent to Rs 3,415 per quintal in futures trade today as speculators engaged in reducing their positions amid higher supplies at spot markets.

At the National Commodity and Derivatives Exchange, sugar for delivery in December fell by Rs 12 or 0.35 per cent to Rs 3,415 per quintal with an open interest of 12,680 lots.

Analysts said offloading of positions by participants, triggered by ample stocks on higher supplies from mills in the physical market, kept sugar prices lower at futures trade.

(Source-http://www.business-standard.com/article/pti-stories/sugar-futures-remain-weak-shed-0-35-on-higher-supply-116110200299_1.html, published on 2nd November, 2016)

Co-gen/Power

Coal stocks dip in 58 power plants, govt denies shortage

Coal production was down 5.8 per cent in September, while electricity generation went up by 2.2 per cent, year-on-year

Around 40 of the 101 power plants under daily review by the Central Electricity Authority have coal stocks for less than 15 days, six plants have supply for less than seven days and 12 for less than five days. Power industry sources said the scarcity was due to a decline in coal supply and issues with operation of mines and evacuation.

"'There is no coal shortage. Stocks at two plants are super critical for different reasons," said Anil Swarup, Union coal secretary.

"The plant at Harduaganj is in this stage because coal was diverted to a more efficient plant at the request of the state government. At the Korba plant became super critical because the user agency could not arrange for its own wagon. However, both issues are being addressed,'" he added.

About the 40 plants with less than 15 days of coal, Swarup said it was due to excessive rain. Their stocks were not critical and were being made up regularly, he added.

Swarup pointed out a number of plants did not want coal. They were rationalising inventory because coal supply was more reliable now, he said.

Coal production was down by 5.8 per cent in September while electricity generation went up by 2.2 per cent, year on year.

"The April-October cumulative production of Coal India was 273.57 million tonnes against a target of 307 million tonnes. This must be causing the shortage of coal at power stations," said Debashish Mishra, partner at Deloitte Touche Tohmatsu.

Ashok Khurana, director-general of the Association of Power Producers, said these shortages did not reflect the general coal supply position. "These are project specific and there will be individual reasons," he said.

(Source- http://www.business-standard.com/article/economy-policy/coal-stocks-dip-in-58-power-plants-govt-denies-shortage-116110200495_1.html, published on 3rd November, 2016)

‘India should scale up, speed up nuke electricity programme’

Currently, India has five reactors under construction with 3,300-MWe capacity. But this is too little for a country with so many people," said Agneta Rising, director general of the World Nuclear Association.

India should scale up and pace up construction of nuclear plants to meet its insatiable power demand, renewable programme and climate change targets, the head of an international atomic body has said. “Currently, India has five reactors under construction with 3,300-MWe capacity. But this is too little for a country with so many people,” said Agneta Rising, director general of the World Nuclear Association.

India’s first nuclear electricity plant became operational in 1969. Comparatively, China has 20 reactors under construction with 22,596-MWe capacity, having had the first nuclear electricity in 1994. Oil-rich Saudi Arabia has planned 16 reactors with 17,000-MWe, with first nuclear electricity expected in 2022, according to the association’s Asia Special Update report, which listed the kingdom among the newcomers to nuclear energy.

India has the technology, expertise and skill to build its own nuclear plants, Rising said, adding there were no restriction on India importing uranium. But despite the knowledge, India takes about seven years or 84 months to complete a reactor, Rising pointed out. The world average of building a reactor was 73 months in 2015. India needs to speed up construction period for each
reactor to 73 months, she stressed.

“India has a lot of experience of nuclear science and it has all the technologies. But it must be able to scale up or ramp the nuclear electricity programme,” she said. India’s goal is to have 14.5 GWe of nuclear generating capacity online by 2024, up from 6,219 MWe at present, the report said. The government has given in principle approval for new nuclear plants at 10 sites in nine states.

“It is important to have (nuclear) infrastructure where you can build prosperity and (take care of) health of the people,” said Rising, stressing the importance of electricity supply reliability and the need to reduce pollution across the country for the people.

“India needs to get on to do it (nuclear plants) on a scale and increase the construction pace of the plants,” she said

(Source- http://indianexpress.com/article/india/india-news-india/india-should-scale-up-speed-up-nuke-electricity-programme-3732064/, published on 1st November, 2016)

India needs $100 billion more to meet Narendra Modi’s clean energy goal

Growth in the renewables business has helped India become the third-biggest power market in the world after China and the US

Prime Minister Narendra Modi needs at least $100 billion more to finance country’s goals for clean energy even after his government’s policies brought in record investment in wind and solar power stations.

That's the conclusion of a report by Bloomberg New Energy Finance, which found $10.5 billion flew into renewables in India for the fiscal year ended 31 March, almost 60% more than the $6.6 billion invested two years ago. It also said 7.3 gigawatts of clean-energy projects were built for the latest fiscal year, which is 71% higher than the previous period.

The findings represent the broadest assessment yet of the money going into India's clean-energy industry. Growth in the renewables business has helped India become the third-biggest power market in the world after China and the US, according to the BNEF report. Modi has set a goal of building 175 gigawatts of clean-energy capacity by 2022 to supply more of the 62 million households that lack access to reliable grids and feed demand for electricity that's projected to rise fourfold by 2040.

"He's taking the right steps, but the targets are quite ambitious," said Shantanu Jaiswal, the lead author of the report at BNEF. "The question is where do people get the money—$100 billion is a lot of money for this industry, especially given where we're starting from."

An investment of $100 billion is equivalent to almost 5% of all the goods and services produced annually by the nation of 1.3 billion people, according to data compiled by Bloomberg.

Diversified financing

The report, sponsored by the David and Lucile Packard Foundation, a US non-profit working to mitigate climate change with renewable energy, was released at BNEF's conference in Shanghai on Tuesday. It also found that India has installed clean-energy capacity of 42.6 gigawatts. That accounts for 14% of the nation's total generation capacity, up from 12.5% three years ago.

Jaiswal said the nation needs to diversify its sources of finances to reach the goal, bringing in big international banks to complement the lending done by India's state-backed institutions and the development banks active in the country. It also needs to reduce the cost of debt financing for solar projects, which is more than double the rate charged in China and six times interest rates available in Japan, according to the report.

State Bank of India and Punjab National Bank, along with Axis Bank Ltd and Yes Bank Ltd, have helped supply much of the finance along with non-bank lenders such as Tata Cleantech Capital Ltd and L&T Finance Ltd. Development institutions include the Indian Renewable Energy Development Agency, the World Bank's International Finance Corp., the Asian Development Bank and KFW of Germany.

The huge capital needed to meet the targets, as well as the high cost of capital, mean that fundraising from the public markets will be critically important, according to the report. Along with green bonds, India is turning to infrastructure investment trusts, which are used to free up and recycle developers' capital stuck in operational projects by securitizing the revenue streams and offering the units on the public market.

The arrangement, expected to help the inflow of foreign capital and reduce the exposure of domestic financial institutions, was approved in September 2014 by the Securities and Exchange Board of India. Infrastructure investment trusts are similar to yieldcos in helping developers combine multiple projects.

To create safeguards for investors in infrastructure investment trusts, regulators have set a requirement for a minimum number of independent directors in the investment management

firm and have also placed restrictions on transactions done between related parties, according to the report.

India also needs to improve on the management of power distribution companies, according to BNEF's Jaiswal.

"Right now, India's power distribution utilities are in huge debts, so they don't buy power even when there's demand," Jaiswal said.

Retailers held total debt of almost Rs.4.1 trillion ($60 billion) at the end of March 2015, Power Minister Piyush Goyal said in August. That leaves the country's power plants running below capacity, while one in five people go without electricity.

(Source- http://www.livemint.com/Industry/MHue4akInnr6UJ2UnPoPBO/India-needs-100-billion-more-to-meet-Narendra-Modis-clean.html, published on 2nd November)

Quote of the day

'Nothing can dim the light that shines from within'- Maya Angelou