NEWS FLASH – 6th June, 2016

SUGAR

Stockists' selling dissolves sugar

Sugar prices on the Vashi market declined by ₹ 5-10 a quintal as stockists sold old stock at lower rates. Naka and mill tender also ruled unchanged on routine activities. Arrivals to the Vashi market were at 58-60 truck loads and local dispatches were at same level. The Bombay Sugar Merchants Association's spot rates: S-grade ₹ 3,540-3,662 (3,546-3,662) and M-grade ₹ 3,612-3,766 (3,620-3,772). Naka delivery rates: S-grade ₹ 3,520-3,600 (3,520-3,600) and M-grade ₹ 3,560-3,700 (3,560-3,700).

(Source- http://sugarnews.in/stockists-selling-dissolves-sugar/, published on 4th June, 2016)

Profitability of sugar mills to remain better this year: ICRA

Profitability trend for domestic sugar mills is likely to be better during the crushing season 2015-16 on supply correction, said a recent study by the rating firm ICRA.

ICRA estimates domestic sugar production at around 25.2 million metric tonnes during the sugar year 2016 (SY2016), a decline of 11% over the previous year. Lower production along with exports of around 1.6 million tonnes is likely to bring down the closing stocks to around 7.6 million tonnes in SY2016 from around 9.5 million tonnes in SY2015.

While it is too early to estimate the sugar production for SY2017 season, based on the cane plantation and monsoon levels, the rating firm expects sugar production to decline further between 4-8% to the 23-24 million tonnes range during SY2017.

"We estimate better year-on-year profitability trends ahead for most sugar mills for the next 2-3 quarters driven mainly by improving sugar price trends seen since August 2015 and stock correction. However, the absolute profit levels and net margins would continue to be weighed down by high amounts of debt outstanding and/or cane dues incurred to cover losses in the previous sugar years," said Sabyasachi Majumdar, senior vice-president, ICRA.

The extent of profitability improvement is going to vary substantially across mills, not only from state to state, but also across mills within the same state depending upon operating and financial parameters such as sugar recovery rate, control over operating expenses, extent of forward integration into co generation and distilleries and control over interest expenses by appropriate leveraging, he added.

Meanwhile, the stock correction has also resulted in an improvement in sugar prices, have been on a rising trend since August 2015. This trend was driven by a number of factors which included: first, a government notification on mandatory exports in month of September 2015 followed by announcement of cane production subsidy in December 2015; market anticipation of supply correction driven by drought conditions in certain key growing region; and impact of global sugar deficit scenario. Thus, the prices climbed to close to Rs 34,000 a tonne level by May 2016, an almost 50% high over July 2015 lows.

"Given the supply correction which has happened in SY2016 and given the expectations of further production decline, sugar prices would remain steady in the near term. In the next 2-3 quarters, any further increase from current levels would depend upon the following factors: (i) expectations for sugar production during SY 2017; and (ii) sugar mills own actions on supplies depending upon their inventory holding capacity. On the other hand any government actions on price controls; or any significant reduction in import duties could dampen prices," said Majumdar.

With renewed focus on the ethanol blending programme and mandatory ethanol blending been revised from 5 to 10%, the new fixed pricing mechanism for ethanol supplied to oil marketing companies (OMCs) and removal of central excise duty is expected to augur well for the profitability of the industry as a whole through higher realizations for ethanol.

As far as financial performance of mills is concerned, revenues of most sugar mills increased in FY2016 on a y-o-y basis on account of higher sugar and by-product sales vis-a-vis FY15. The operating margins of most Uttar Pradesh-based mills, although still moderate, were on the higher side during FY16 on a y-o-y basis because of the increase in sugar realisations, improvement in recovery rates during Q3 FY16 and Q4 FY16, and higher inventory valuation as on March 31, 2016.

(Source- http://sugarnews.in/profitability-of-sugar-mills-to-remain-better-this-year-icra/, published on 4th June, 2016)

Zero probability of deficit monsoon: IMD

Forecasting good news for the country's economy and farmers, the India Meteorological Department (IMD) has reiterated its initial prediction of 'above normal' rainfall in this year's South-West monsoon season.

"The conditions are congenial for the onset of monsoon in the next four-five days and the rainfall quantity will pick up in the second half of June," IMD Director-General LS Rathore said at a press conference, while releasing an update for the long-range monsoon forecast (June-September) on Thursday.

The icing on the cake is the IMD ruling out a deficient monsoon. "There is a zero per cent probability that the rainfall will be deficient," Rathore said. A deficient monsoon, which means less than 90 per cent of the long-period average (LPA) rainfall, could cause severe distress to farmers, crop loss and drought.

This year's projected plentiful rainfall will bring to an end to two consecutive years of drought. Last year, the country suffered a rainfall deficit of 14 per cent, while in the previous year, the shortfall was 12 per cent.

Above average

Quantitatively, monsoon season rainfall for the country as a whole is likely to be 106 per cent of the LPA, according to the projection. The monsoon is considered to be above normal when the rainfall is between 104 per cent and 110 per cent of the LPA.

Region wise, the seasonal rainfall is likely to be 108 per cent of the LPA over North-West India, 113 per cent over both Central India and the Peninsula and 94 per cent over North-East India.

While the probability of excess rainfall (rain over 110 per cent of LPA) is 23 per cent, Rathore dismissed concerns on the possibility of floods. “Floods happen if you have continuous excessive rain within a short span. But if the distribution is good, there are no floods,” he said.

The monthly rainfall over the country is likely to be 107 per cent of its Long Period Average in July, and 104 per cent of the LPA in August, both with a model error of (+/-) 9 per cent.

La Nina may set in

The low rainfall of the last two years was mainly attributed to El Nino, an irregularly occurring series of climatic changes affecting the equatorial Pacific region, which causes drought conditions in Asia.

This year El Nino conditions have already turned to neutral after becoming moderate in April and weakening in early May, according to the IMD.

On the other side, there is a 50 per cent probability of La Nina conditions, which favour the monsoon, during the season. “When there is a La Nina condition, there is a probability of extension of rains,” Rathore said, indicating that rains could continue in October.

(Source- http://www.indiansugar.com/NewsDetails.aspx?nid=5635, published on 3rd June, 2016)

Rising prices, falling inventory will boost sugar companies’ profits: ICRA

After reeling under debt burden for long, sugar companies are expected to benefit from the rising prices amidst short supply in market. However, the absolute profit levels and net margins would continue to be weighed down by huge debt and cane dues, said ICRA.

Better days ahead

Sabyasachi Majumdar, Senior Vice-President, ICRA, said better profitability trends are ahead for most sugar mills for the next 2-3 quarters driven mainly by improving sugar price trends seen since last August and fall in inventory.

Further, he said, the extent of profitability improvement will vary substantially across mills within a State depending on their operating and financial parameters such as sugar recovery rate, control over operating expenses, extent of forward integration into cogeneration and distilleries and control over interest expenses by appropriate leveraging.

ICRA estimates domestic sugar production at about 25.2 million tonnes during the sugar year 2016 (October-September), a decline of 11 per cent over the previous year.

Lower production along with exports of about 1.6 mt, is likely to bring down the closing stocks to 7.6 mt from 9.5 mt. The rating agency expects sugar production to decline by 4-8 per cent to the 23-24 mt next season.

Up 50%

Sugar prices have risen close to ₹ 34,000 a tonne in May, almost 50 per cent higher compared to the low hit last July. While the cane prices in last sugar season were higher in Uttar Pradesh, the rise in sugar realisations is expected to improve the margins.

However, in Maharashtra and Karnataka the profit revival may be modest due to lower cane availability, coupled with the increase in cane prices.

Majumdar said the renewed focus on the ethanol blending programme and doubling of mandatory ethanol blending level to 10 per cent, increased price of ethanol and removal of central excise duty is expected to augur well for the industry as a whole.

(Source- http://www.thehindubusinessline.com/economy/agri-business/rising-prices-falling-inventory-will-boost-sugar-companies-profits-icra/article8693676.ece, published on 5th June, 2016)

Prospects turn sour for sugarcane in TN

The three continuous years of stagnant production and price are taking a toll on the sugarcane industry in the State as farmers are reluctant to expand cropping area. Sugar mills too are not keen on encouraging farmers as prevailing sugar prices cannot support a higher price for cane.

According to industry estimates, the sugarcane production for 2016-17 season (October-September) is pegged at about 150 lakh tonnes (lt) with 102 lt in the private sector and about 50 lt with the co-operative sector.

This is marginally higher than the 138 lt in the current 2015-16 season. As of April 2016, the sugar production was 9.9 lt in the current season compared with 2014-15's 9.27 lt.

Ratoon crop

One clear indication of the lack of farmers' enthusiasm is the area of the ratoon crop — the off shoot that grows after the standing sugarcane is harvested — is nearly double that of new planting.

Over the last three years, the mills have paid farmers about ₹ 2,300 plus transport cost for a tonne for cane as sugar prices have not supported a higher cane price.

Higher costs

Over the last couple of years sugar prices had dipped to lows that resulted in mills losing money on every tonne of cane crushed. With sugar prices ruling at ₹ 33/kg, sugar mill representatives say they are at just above breakeven levels.

In the current season, sugarcane harvesting costs had hit a high of about ₹ 600 a tonne which is more than 25 per cent of what the farmers get for sugarcane. Shortage of local labour resulted in mills bringing farm labourers from Karnataka and Maharashtra, where the sugarcane season ended earlier, they said. With sugar prices continuing at unviable levels, mills are also not keen on providing incentives to farmers to expand sugarcane areas. In earlier years, they have been known to distribute sugarcane setts (seedlings) free and providing cash advances.

TN scenario

As things stand, sugar industry in Tamil Nadu does not have much to look forward to in terms of a significantly higher output in the coming season given the current crop status.

However, there is scope for optimism in the 2017-18 sugar season (October-September). By October this year some clarity is expected.

For that, the monsoon should be normal and sugar prices pick up in the wake of an anticipated drop in domestic production, which will pave way for higher cane prices and spark farmers' interest in the crop.

(Source-http://www.thehindubusinessline.com/economy/prospects-turn-sour-for-sugarcane-in-tn/article8693677.ece, published on 5th June, 2016)

Co-gen/Power

Charging up the power sector

The Indian power sector has been a hotbed of activity since the NDA government took over the reins two years ago.

From providing a lifeline to the ailing state-owned power distribution utilities (discoms) in the form of UDAY (Ujwal DISCOM Assurance Yojana) to ramping up the country's traditionally neglected transmission network to boosting domestic coal supply, providing subsidised gas to stranded fuel-starved plants and introducing e-auctions for short-term power purchases by discoms, many initiatives have been introduced.

But are these measures enough to shore up the fortunes of the struggling power sector? We take stock of some of these developments.

All is not well

Today, even though domestic coal supply has improved and international coal prices have fallen, the country's power generation hasn't shown drastic improvement. Thermal power (coal and gas-based), which accounts for 70 per cent of the country's power generation, rose to 943 billion units in 2015-16, up only 5.5 per cent from the previous year. This was preceded by 8.6 per cent growth in 2014-15 and 6 per cent in 2013-14.

The country's thermal power capacity, on the other hand, has grown at a much faster clip during this period. From 1,51,490 MW, three years ago, the capacity had expanded to 2,10,675 MW by March 2016, an average 11 per cent growth every year.

This has led to falling capacity utilisation levels at power plants — the all-India thermal plant load factor has gone down from 65.6 per cent in 2013-14 to 62.3 per cent in 2015-16.

This can be seen at the company level too. Take, NTPC, for instance, which is the country's largest power producer. During 2015-16, the company produced 242 billion units of power, almost the same as in the year before. This was preceded by 3.4 per cent growth in generation in 2014-15. The company's generation capacity has been expanding but its plant load factor has been falling — it came down to 78.6 per cent in 2015-16 from 81.5 per cent in 2013-14.

So, what is holding up power generation? Insufficient purchasing power of the financially strapped state discoms.

Years of inefficiencies and subsidised tariffs have led to a situation where the discoms have accumulated loss of ₹3.8 lakh crore (as of March 2015). Given the state of affairs, the state discoms are in no position to buy electricity beyond a point and have instead been resorting to load shedding.

By lifting out the discoms from their financial mess, UDAY (discussed below) will help spur the country's electricity demand. A lot, however, hinges on the extent to which the discoms adhere to the efficiency parameters laid out under UDAY.

Apart from that, a sustained pick-up in industrial and commercial (shopping malls, theatres and big offices) growth too is equally critical. It is this segment which pays higher power tariffs and cross-subsidises the cheaper household tariffs.

A new dawn

The single biggest initiative, UDAY, the Centre's financial restructuring package for state discoms, has attracted the most publicity and rightly so since its launch in November.

States that sign up for UDAY will take over 75 per cent (50 per cent in 2015-16 and 25 per cent in 2016-17) of their discoms' debt and issue bonds to banks and other financial institutions to raise money to pay it off. The remaining 25 per cent debt will continue as a loan but with a cap on interest rates. This will bring in immediate interest cost relief to the discoms and, to that extent, improve their cash flows. ICRA estimates that this could take away interest burden of ₹30,000 crore from the books of the discoms, assuming all States except Tamil Nadu join the scheme.

In return for the financial assistance, discoms have to meet certain efficiency parameters through installation of smart meters and upgrading of transmission infrastructure and also undertake periodic tariff hikes.

To incentivise the States to join UDAY, the scheme provides for additional funding from the Centre and additional coal supplies. So far, 18 States have signed agreements or have agreed to join the scheme.

As the discoms' finances mend, they can increase their power purchases, thereby boosting power demand and the capacity utilisation levels of power generation companies. Today, 20,000 MW of generation capacity is lying idle for want of power purchase agreements with discoms.

Strengthening network

Distribution apart, the government has been working on bolstering the historically ignored power transmission sector too. Data shows that there has been an addition of about 84,000 circuit km (cKm) of transmission lines during 2012-16, the highest ever in any Five Year Plan.

According to the set target, the transmission line network will be expanded to a further 3,64,900 cKm by March 2017. Likewise, the addition of 2,49,400 MVA transformation capacity during 2012-16, too, has been the highest ever.

With the commissioning of 765 kV of transmission lines since July 2014, the power transfer capacity to the southern grid has increased from 3,450 MW to 5,900 MW. The plan is to raise it further to 18,000 MW by 2020.

Higher investments in the transmission sector should benefit Power Grid Corporation of India, the country's principal transmission utility and also other private sector players bidding for transmission projects.

Clarity on coal

After growing at a very slow pace, coal supply to the power sector rose 12.5 per cent to 388 million tonnes in 2013-14. From there, the coal supply expanded further to 455 million tonnes by 2015-16.

Expansion in the capacity of the existing mines, faster government approvals, higher railway rake availability and improved rail connectivity in coal-rich Jharkhand, Odisha and Chhattisharh have helped Coal India, the country's largest coal miner, to ramp up production.

Coal-based power accounts for 62 per cent of the country's total electricity generation.

Apart from taking steps to boost domestic coal production, one of the major initiatives by the government was the introduction of the Coal Mines (Special Provisions) Ordinance, later replaced by an Act, to bring in the much needed transparency in the sector.

The Ordinance detailed the process of auctioning/allocating coal mines, the original allocations of which were cancelled by the Supreme Court in 2014 on account of irregularities.

Nine coal mines have been auctioned to the private power sector and the winners include Essar Power, JP Power Ventures, Adani Power and CESC.

While companies have managed to bag mines, the viability of the power produced from the aggressively-bid-for mines remains to be seen.

Additionally, the government also allocated mines (as provided under the Act) to central and state public sector companies, including NTPC, Karnataka Power Corporation, West Bengal Power Development Corporation, Odisha Coal and Power and Damodar Valley Corporation.

Most recently, the Cabinet's nod for flexibility on utilisation of domestic coal by power plants bodes well for the sector. While the details are still awaited, the proposal is to allow flexibility in the use of coal among different generating stations of a power company.

This is expected to promote efficient utilisation of coal, thereby bringing down thermal power costs.

Firing up gas plants

Apart from efforts at improving the domestic supply of coal, gas (re-gassified LNG) auctions conducted by the government have helped fire up many stranded gas-based plants. So far, three auctions have been conducted.

During 2014-15, over 50 per cent of the country's gas-based capacity had no supply of domestic gas.

Under the auctions, the government has been importing RLNG for supply at subsidised rates to gas-based plants operating at very low capacity.

At the auctions, the companies asking for the lowest subsidy from the government for supplying power to the discoms are allocated gas.

During June 2015-March 2016, 16 billion units of power were generated for supply to power discoms at ₹ 4.7 (or below) a unit. Another 6.8 billion units will be produced during the six-month period ending September 2016.

Twenty-nine power plants, including those of Gujarat State Electricity, Essar Power, Torrent Power and GMR, were eligible for participation in these auctions.

Take the case of Torrent Power, which runs over 80 per cent of its power generation capacity on gas.

Helped by the supply from the RLNG auctions, three of the company's plants generated close to 7,000 million units of power in 2015-16, about 2.5 times more than in the year-ago period. This helped the company grow its revenue and operating profit at 12 per cent and 42 per cent, respectively, in 2015-16.

With international LNG prices having eased considerably, some companies may now be in a position to source imported gas for their plants.

More transparency

Another recent government initiative has been the launch of 'DEEP' — Discovery of Efficient Electricity Price — portal for compulsory purchase of short-term power (for a period of more than a day to a year) by state discoms through reverse e-auctions. Today, short-term power trades, which happen either on power exchanges or bilaterally (directly between a discom and a power producer), account for about 10 per cent of the country's power generation.

Since April 2016, all bilateral trades are being conducted on the newly launched e-auction platform.

Participation from a much wider network of players (as compared to bilateral trades) on this platform via a reverse auction methodology is expected to bring in greater transparency and thereby bring down tariffs.

This is already evident from the average winning bid tariff quoted in the auctions held for procurement of short-term power by the distribution utilities of Bihar, Kerala and Uttarakhand.

These were in the range of ₹2.59/unit–₹3.54/unit in most cases. This was lower than the average tariff of around ₹4/ unit for short-term procurement under the earlier bilateral route over the past 2-3 years.

According to estimates from ICRA, assuming that 10 per cent of the power procurement of a discom is from short-term trades, it can bring down retail power tariffs by 4-5 paise/unit.

(Source-http://www.thehindubusinessline.com/portfolio/charging-up-the-power-sector/article8693727.ece, published on 5th June, 2016)

Adani may withdraw from Australian coal mine project, citing delays: Reports

Indian conglomerate Adani Enterprise Ltd may walk away from its proposal to build one of the world's biggest coal mines in Australia , citing long delays caused by legal challenges to the project by groups concerned about the environment.

Adani is battling multiple legal challenges from green groups opposed to its $10-billion Carmichael mine, rail and port project.

The Australian on Saturday reported that the company's founder and chairman, Gautam Adani had told the newspaper the company may abandon the project because of long delays due to legal challenges.

"You can't continue just holding. I have been really disappointed that things have got too delayed," Adani told The Australian.

Australia's Queensland state government in April gave Adani permission to mine coal reserves estimated at 11 billion tonnes and to build roads, workshops, power lines and pipelines associated with the mine.

Environmentalists, however, are still fighting the approval on numerous fronts, including lobbying banks not to provide loans. They cite potential damage from port dredging, shipping and climate change stoked by coal from the mine.

Environmental groups in late April asked the Supreme Court of Queensland to review the state government's environmental approval of the mine.

With coal prices stuck near nine-year lows and demand growth uncertain as governments have committed to curb carbon emissions, analysts have said lenders will be reluctant to back Adani's mega coal project.

Adani, which aims to start building the Carmichael mine in 2017, expects to be able to go ahead eventually as most of the coal is slated to go to its own power stations in India.

(Source- http://economictimes.indiatimes.com/industry/indl-goods/svs/metals-mining/adani-may-withdraw-from-australian-coal-mine-project-citing-delays-, published on 5th June, 2016)

Thought of the day

'It's the repetition of affirmations that leads to belief. And once that belief becomes a deep conviction, things begin to happen.' -Muhammad Ali