NEWS FLASH – 09th Oct, 2015

SUGAR

Sugar stocks continue rally on shortage forecast

Domestic sugar stocks continued their rally for the third day, with select counters like KM Sugar Mills, Dwarikesh Sugar, Shree Renuka and EID Parry ending the day higher between 3 per cent and 20 per cent amid reports that a global sugar shortage will be bigger than previously forecast as the strongest El Nino in almost two decades hurts crops from India to China.

Indian Sugar Mills Association has projected the country's sugar production to drop 5 per cent this year because of insufficient monsoon rain. This should support domestic prices, which have been under pressure because of surplus production over the past five years.

Shares of Shree Renuka Sugars closed 8.4 per cent higher at Rs 10.97 continuing with the winning spree after a 14 per cent surge on Wednesday. Among others, KM Sugar Mills ended with gains of 20 per cent to Rs 3.33, Dwarikesh Sugar gained 10 per cent to Rs 44.85 and EID Parry closed 4 per cent down at Rs 144.90.

However, some other sugar stocks lost weight as the broader market weakened. Balrampur Chini closed 2 per cent down, Bajaj Hindusthan down 1 per cent and Sakthi Sugars lost 2.5 per cent. The sugar industry is also looking at better export prospects thanks to a rally in global sugar prices, with some projections pegging total exports during the year at 40 lakh tonnes. India is the world's second biggest producer of sugar.

To boost exports and cut down domestic stockpiles, the government is also working on a solution to ensure that cash-starved mills make timely payments of over Rs 12,200 crore dues to farmers. This is expected to help balance sheets of sugar companies that owe large sums to the cane growers.

Source : http://economictimes.indiatimes.com/markets/stocks/news/sugar-stocks-continue-rally-on-shortage-forecast/articleshow/49270382.cms, Dated 8th October 2015

Very few sugar units in dist to benefit from package

The state government has offered a Rs 180-crore package to the ailing sugar industry to ensure smooth beginning of the forthcoming sugarcane crushing season that will start from October 15.

The package, announced by the cabinet on Tuesday, consists of a long-term loan to the factories whose net worth is negative and also bank guarantee for the interest over the loan. According to officials at the regional deputy director of sugar commissionerate, only three or four factories in Kolhapur district would be able avail of the benefit of the package, which largely presented to support the factories in Sangli and Solapur districts and those in Marathwada.

Of the 23 factories in Kolhapur, 21 were operating in the last cane crushing season and 17 or 18 have shown their net worth positive, an official at the deputy director office said.

The office has called a meeting of the managing directors of all the factories on October 14 to take stock of the preparations for the crushing season. During the meeting, they will get a clear idea on how many factories from the district will benefit from the new package, an official said.
Source: http://timesofindia.indiatimes.com/city/kolhapur/Very-few-sugar-units-in-dist-to-benefit-from-package/articleshow/49267738.cms, Dated 8th October 2015

Firm mill rates boost sugar

Sugar prices rose by ₹20-30 a quintal at Vashi market tracking firm mill tender rates amid higher festival demand while naka rates declined by ₹30-40 as resellers offloaded fair quality at heavy discount. Prices for fine quality remained steady. Mills sold the commodity at ₹25-30 higher. Freight rates were steady. Arrivals were at 62-64 truck loads and local dispatches were 60-62 loads. On Wednesday, about 16-18 mills offered tenders and sold about 68,000-70,000 bags at ₹2,560-2,650 (2,545-2,630) for S-grade and ₹2,650-2,780 (2,625-2,750) for M-grade.

The Bombay Sugar Merchants Association's spot rates: S-grade ₹2,692-2,822 (2,680-2,782) and M-grade ₹2,792-2,942 (2,770-2,942). Naka delivery rates: S-grade ₹2,580-2,630 (2,650-2,700) and M-grade ₹2,740-2,850 (2,750-2,800).

Source: http://www.thehindubusinessline.com/economy/agri-business/firm-mill-rates-boost-sugar/article7739178.ece, Dated 8th October 2015

POWER

Maharashtra seeks to ease power open-access rules

Purchase of power in day-ahead market on exchanges likely; MERC seeks views from stakeholders on draft rules

Electricity consumers in Maharashtra might be able to buy power from sources other than distribution companies once the draft Distribution Open Access Regulations 2015 released by the Maharashtra Electricity Regulatory Commission (MERC) are notified.

The MERC has sought suggestions from stakeholders on the draft rules.

The proposals allow open access to consumers with contract demand of at least 500 KW against the current 1 MW threshold. They also permit sourcing power from multiple

sources, which is restricted at present. Consumers can buy power from the day-ahead market on power exchanges, which the current regulations do not allow.

The MERC's Distribution Open Access Regulations 2014 have been contested in the Bombay High Court by various organisations.

The draft rules propose to remove other restrictions hampering open access like mandatory reduction in contract demand for one month and procurement of power round the clock.

The state-run MahaVitaran supplies power to over 22.5 million consumers in Maharashtra, while Tata Power, Reliance Infrastructure and BrihanMumbai Electric Supply and Transport are distributors in Greater Mumbai.

"The draft regulations address various constraints to open access. Enabling industries and commercial establishments to participate in the day-ahead market and allowing consumers up to 500 KW open access are key changes," Rajesh K Mediratta, director, business development, Indian Energy Exchange, told Business Standard.

MG Raoot, managing director and chief executive officer of Power Exchange India, said the day-ahead access provided a big opportunity to consumers to source cheap power. The choice to procure power from multiple sources would help in promoting the intra-state market, he added.

Jayant Deo, former MERC member, said there was no way a distribution licensee could deny open access. "The MERC has proposed a schedule for processing applications and has ensured all information is available on its website. Banking is permitted in renewable power," he pointed out.
Source: http://www.business-standard.com/article/economy-policy/maharashtra-seeks-to-ease-power-open-access-rules-115100800669_1.html, Dated 9th October 2015

Telangana Genco commisions unit-2 of Lower Jurala project

Telangana State Power Generation Corporation Limited has announced the commissioning of the 40 MW unit-2 of the Lower Jurala Hydro Electric Project, on the river Krishna.

This is part of the 6x40 MW hydel project being implemented by TS Genco at Revulapally village, located in Mahabubnagar district of Telangana. With the

commissioning, TS Genco is now in a position to supply additional power during peak hours and when water is available.

This unit is part of the Lower Jurala Hydro Electric Project under development. Ch Venkata Rajam, Director, said in a statement that the unit commenced operations on October 5 and managed to handle an average load of 40.46 MW.

Source: http://www.thehindubusinessline.com/todays-paper/tp-others/tp-states/telangana-genco-commisions-unit2-of-lower-jurala-project/article7740232.ece, Dated 8th October 2015

Andhra Pradesh to develop 4,800 MW wind power in 5 years

The Andhra Pradesh government on Thursday outlined plans to encourage the setting up 4,800 MW of wind power capacity in the State over the next five years, with a potential investment of Rs. 30,000 crore.

At a workshop held in Vijayawada on the opportunities for growth in wind energy, organised by the Confederation of Indian Industry (CII) and Indian Wind Turbine Manufacturers Association (IWTMA), senior government officials and industry experts underlined the huge growth opportunities for developers, manufacturers and financial institutions in the sector.

Ramesh Kymal, Chairman (Renewable Energy Council), CII Godrej GBC, and Madhusudan Khemka, Chairman of Indian Wind Turbine Manufacturers Association (IWTMA), were among those who took part in the event.

Source: http://www.thehindubusinessline.com/todays-paper/tp-others/tp-states/andhra-pradesh-to-develop-4800-mw-wind-power-in-5-years/article7740231.ece, dated 8th October 2015

India's renewable energy targets may be overambitious

India has committed that 40 per cent of its total power capacity by 2030 will be based on renewable sources. As things stand today, that will be a tall order

At 37,000 Mw, renewable energy accounts for close to 15 per cent of the total power capacity in the country. It sounds impressive till it is compared to the humongous target India has committed for the Paris climate change agreement - 40 per cent of the installed capacity by 2030.

Experts within the government calculate that 300,000 to 350,000 Mw of renewable energy would have to be set up to meet this target. To put it in perspective, India is aiming to add 175,000 Mw of capacity from clean energy sources by 2022: 60 per cent from solar energy, 30 per cent from wind and the balance from biomass and small hydro.

Considering where India started from in 2010 (when the Jawaharlal Nehru National Solar Mission became active), the growth of solar power in India has been phenomenal - from 2 Mw in 2010 to 4,200 Mw at present. In wind energy, India is the world's fifth largest producer at 24,000 Mw.

The fairy tale ends here.

Losing appeal

In wind power, growth has decelerated in the past three years. Seen as a tax haven, the investment in wind dropped once the government pulled the plug on the accelerated depreciation tax benefit for the sector in 2011. It was later brought back and then another 'generation-based incentive' was also introduced.

This, however, has not excited the power producers so far. From annual addition of 3,000 Mw till 2011, it has dropped to 1,500-2,000 Mw every year. In the current fiscal, against a target of 2,400 Mw, only 644 Mw has come up so far.

Solar power may have got greater policy impetus after the National Democratic Alliance came to power but ratcheting up capacity at rates no country has done before is a tough task when seen from where India sits at present

Currently, on an average, the country is adding 1,000 Mw of solar power annually. At this rate, 100,000 Mw in six years looks farfetched even if one was to assume that India can match China which has added solar capacity at an ever increasing rate. The Union ministry of new & renewable energy pegs the annual growth of solar power at 15,000 Mw. Privately, senior officers say the country would touch 6,000 Mw by the end of this fiscal and close to 10,000 Mw by next.

Upendra Tripathy, secretary, ministry of new & renewable energy, is a confident man though. "We are on track to achieve 175,000 Mw. We are inviting investment in both generation and grid capacity addition. I can't comment on the climate change targets but as for renewable energy, we will achieve the targets we have set for the country."

"The target trajectory for renewables is stunning and could lead to a complete transformation of the energy sector in the country. Clearly, in the near term, we need to focus on the financials of the distribution companies, transmission constraints, the

ability to pass on the true cost, and consumer affordability," says Rupesh Agarwal, advisory partner and leader (energy), BDO India LLP.

Infrastructure hurdles

The target would have looked more plausible if only the evacuation infrastructure was in place. The southern region which is surplus in wind power has a transmission deficit. So is the case with Rajasthan, Jammu & Kashmir, Telangana, Madhya Pradesh and others. The ambitious 'Green Energy Corridors' project envisaged in 2011 as an alternative transmission network has been a non-starter with no major lines being built or tendered out. It's only now that the government has decided to 'nominate' state-owned Power Grid Corporation to build it with assistance from the states.

Power Grid, which designed the plan five years ago, calculated the total expenditure at Rs 40,000 crore. The cost is five-fold now with targets being revised in the same quantum.

Tripathy says his ministry is trying to avoid any mismatch between generation and transmission capacities. "We have said that the investment in generation and grid should be 1:1. Currently it is 1:0.4. We want that by the time this renewable energy capacity comes up, there is enough grid capacity."

Amid all this, the point being ignored is that renewable energy is an intermittent power source and grid-connected renewable energy would need the same amount of conventional energy as balancing power. Thus, there is equivalent coal- or gas-based capacity that needs to be built or fired along with renewable energy.

NTPC, for instance, can bundle thermal power and renewable energy and sell at an average rate. The bundling and the sale would also face tariff challenges. Solar power is priced at Rs 6-8 a unit and wind power at Rs 4 a unit. Bundled power would be Rs 3.5-4 a unit.

There are no buyers for expensive power. The financially stressed state utilities are not willing to buy even conventional power even at Rs 3 a unit. The historic drop of price for solar power to around Rs 5 is actually scaring away investors. Solar energy at that price is not viable in the country currently. Moreover, there is the absence of financing options.

"The biggest financial challenge faced by developers has been access to low-cost finance. While developers using imported components and cheaper EXIM Bank loans (10 per cent interest for 18 years) have thrived, those using indigenously manufactured equipment have had to avail costlier loans (13 per cent for 10 years). This has

diminished the confidence among the investor community," says Amit Kumar, partner (energy & utilities), PwC India.

As another officer involved in setting the climate targets puts it, "If we can do the 175,000 Mw target by 2022, reaching the 2030 target is not going to be tough. But the 2022 target was not really a bottom's up assessment - it was an ambitious round number."

Experts and investment trackers are still maintaining their stand that there are big investors betting on India's renewable energy sector but are sitting on the fence awaiting clarity on policy.

Source: http://www.business-standard.com/article/economy-policy/india-s-renewable-energy-targets-may-be-overambitious-115100801272_1.html, dated, 8th October 2015

NTPC appoints KPMG to firm up strategy in uncertain times

KPMG to revise NTPC's 2032 corporate plan, as firm faces concerns over regulatory changes, govt focus on renewables

State-owned NTPC Ltd, India's largest power producer, has appointed consultancy firm KPMG to work out a new strategy to face the challenges of an evolving energy landscape marked by regulatory changes and an increasing government focus on renewable sources of power.

As part of the exercise, KPMG will revise the NTPC Corporate Plan 2032, which lays down a roadmap for the state-owned power producer. This plan had been drawn up by Bain and Co. India Pvt. Ltd.

"The corporate plan is reviewed every five years. India's energy landscape has changed. With no immediate positives on the nuclear power front, gas being a scarce fuel and a thrust on renewables, a new strategy has to be evolved. Also, we have been impacted on the regulatory front," an NTPC executive said, requesting anonymity.

Consultants such as Bain and Co. India Pvt. Ltd, Deloitte Touche Tohmatsu India Pvt. Ltd and McKinsey and Co. were in the fray for the assignment, Mint reported on 4 March.

NTPC's worries stem from concerns over revised electricity tariff norms. The apex power sector regulator Central Electricity Regulatory Commission (CERC) had rejected NTPC's plea to revisit electricity tariff norms applicable between fiscal years 2014-15 and 2018-19.

An earlier CERC order had said incentives would be based on the plant load factor (PLF) metric and not plant availability factor (PAF), as before. PLF is based on the actual

power that is generated by a plant, whereas PAF measures the generation capacity that is available.

Effectively, CERC linked future financial incentives with the purchase of power by distribution companies. Since these utilities are strapped for funds, they are buying less power from distribution companies and PLF is often lower than PAF, which means NTPC would be entitled to fewer financial incentives.

NTPC's core business is generation and sale of power to state electricity boards (SEBs). Weak financials of the state government-owned distribution companies because of low tariff increases, slow progress in reducing losses, higher power purchase costs and crippling debt have assumed alarming proportions. SEBs with debt of Rs.3.04 trillion and losses of Rs.2.52 trillion are on the brink of financial collapse. Lower demand for power translates to a lower PLF.

NTPC's PLF, which is a measure of average capacity utilization, was 81.5% in 2013-14 against 83.08% in 2012-13 for coal-fuelled projects. Also, there are no takers for around 5,000 megawatts (MW) of electricity offered by the utility.

While queries emailed to an NTPC spokesperson remained unanswered till press time, a KPMG spokesperson, in an emailed response, said, "As per our policy we do not comment on client engagements."

NTPC has been trying to keep the tariff of power generated by its various projects to an average level of under Rs.3 a unit and to supply power at a uniform rate across the country. In the last fiscal year, the average rate of electricity sold by NTPC's coal-fuelled projects was Rs.3.25 per unit, while the tariff of power from its other projects ranged between Rs.2 and Rs.4.50 a unit.

Experts believe these are challenging times for Indian utilities.

"NTPC needs to strategize and realign its focus over the next 5-10 years with the sector dynamics changing—environment and climate change commitments, energy mix and renewable getting played up, regulatory scrutiny and performance-linked regulations, customers demanding flexible tariff structures and retail competition in the offing. The landscape will surely change. Dependence on regulated returns and taking up non-economic activities which reduce managerial bandwidth may not be useful going forward," said Sambitosh Mohapatra, who oversees the power and utilities practice at consulting firm PricewaterhouseCoopers.

This also comes at a time when NTPC has voiced its apprehensions about the lapsing of a tripartite agreement—between the Reserve Bank of India, the Union government and the state governments—which provided comfort to power producers against payment defaults by SEBs.

The agreement lapses in October 2016, with no certainty that a replacement will be ready in time. Under the existing agreement, any state defaulting on dues owed to power companies risks a deduction from its annual transfers. So far, this clause has not

been invoked as the threat of a deduction has ensured timely payment by SEBs, who are weighed down by Rs.3 trillion in accumulated losses.

Also, as part of the National Democratic Alliance government's green energy push, NTPC plans to supply electricity from 10,000MW of solar power capacity that it is setting up on its own at Rs.3.20 per unit by bundling it with unallocated power to bring tariffs down. In addition, it plans to sell electricity at around Rs.5 per unit for 15,000MW that it is buying on behalf of the ministry of new and renewable energy and earn 7 paise per unit in return.

NTPC has an installed capacity of 45,548MW and a 16.5% share in India's power generation capacity of 275,912MW. It plans to set up 10,000MW of solar power projects on its own. It is also procuring 15,000MW on behalf of the government. The utility's green power plans involve renewable energy contributing 28% of its planned capacity of 128,000MW by 2032.

Source: http://www.livemint.com/Industry/JjOHB46OQtIrRaS5Kp7G1O/NTPC-appoints-KPMG-to-firm-up-strategy-in-uncertain-times.html, dated 9th October 2015

DISTELLERY

Finmin changes mind, offers ethanol producers Cenvat relief

Excise duty paid on molasses to be Cenvatable this marketing year

After initial reluctance, the finance ministry has amended the central value-added tax (Cenvat) rules to allow the excise duty paid on molasses — meant for producing ethanol — to be Cenvatable in the current marketing year that started on October 1, in a big relief to the cash-starved sugar industry that produces ethanol. The move will enable producers to encash the full benefit of the government's earlier decision to scrap a 12.5% excise duty paid on ethanol in 2015-16.

In April, when the cabinet committee on economic affairs (CCEA) had decided to scrap the excise duty on ethanol in 2015-16, it was assumed that producers would get the full benefit of R5 per litre from such a move. However, since the revenue department was initially unwilling to allow cenvat credit against the excise duty paid on molasses, the effective gains to producers was estimated at just R2 per litre. This was because earlier producers were given Cenvat credits (effectively to the tune of R3 per litre) on molasses against the excise duty paid on ethanol. The latest Cenvat concession on molasses is meant for producing fuel ethanol to be supplied to the oil-marketing companies (OMCs) for the government's ambitious programme on ethanol blending with petrol.

Sources told FE that following the revenue department's reluctance to change the Cenvat rules, food minister Ram Vilas Paswan wrote to finance minister Arun Jaitley, saying the intent of the decision by the CCEA in April to remove the excise duty on ethanol was to provide the full benefit to producers to boost their ability to clear cane

dues. Paswan also added that even the Cabinet note —circulated before the decision in April —had stated that the full benefit to producers would be to the tune of R575 crore if they supplied 115 crore litres of ethanol to oil-marketing companies for the blending programme, the source said.
Welcoming the finance ministry decision, Indian Sugar Mills Association director-general Abinash Verma said on Thursday the move would benefit 130 ethanol-producing sugar mills in the country by way of increasing their revenue realisation on ethanol supplies. "The industry hopes that this benefit will be continued into next sugar seasons for the benefit of the ethanol supplies in the future," he added.
Recently, OMCs have invited expression of interests seeking supplies of 266 crore litres for implementing the proposed 10% ethanol blending with petrol in 2015-16. However, several other barriers are obstructing the implementation of the blending programme. The chief among them are levies imposed by various states on the inter-state movement of ethanol despite it being a central subject, mandatory requirement of various excise permits, often to be submitted manually, and fixed prices of ethanol for supplies to far-away states. The country could achieve only 1.4% ethanol blending with petrol in the last fiscal, even lower than the 2013-14 level of 2%.
The government first proposed the blending of ethanol with petrol at a 5:95 ratio in 2003 and even made it mandatory later. In December 2013, the Sharad Pawar panel mooted doubling the blending limit to 10%, which was re-iterated by the CCEA in April 2015. In August, Prime Minister Narendra Modi directed ministries concerned to look for ways to make the proposed blending programme a reality soon.
Source: http://www.financialexpress.com/article/markets/commodities/finmin-changes-mind-offers-ethanol-producers-cenvat-relief/148332, Dated 9th October 2015

Govt calls high-level meet on ethanol on October 19

The department of chemicals and petrochemicals has convened a meeting of various secretaries to the Union government as well as chief secretaries of select states on October 19 to discuss issues related to ethanol, sources said on Thursday.
Industry associations like the CII and Ficci have also been asked to join the meeting called by chemicals secretary Surjit Kumar Chaudhary, a source told FE.
The move has stoked curiosity as well as apprehensions among some stakeholders on the purpose and relevance of any such meeting convened by a department that was not part of the decision-making process of the government's programme on blending ethanol with petrol at a 10:90 ratio.
The chemicals industry had in the past objected to the government's mandatory blending programme on grounds that any large-scale diversion of molasses towards the making of fuel ethanol would drag down supplies of the cane-byproduct for competing industries, including chemical companies and pottable alcohol makers. In such a context, some ethanol producers fear the latest meeting may be another attempt to derail the blending programme, although the agenda of the meeting is still unclear.
In August, Prime Minister Narendra Modi directed ministries concerned to look for ways to make the proposed 10% blending programme a reality soon, which is aimed at

improving realisations for sugar mills that produce ethanol so that their ability to clear cane arrears improve. The govenrment is also pushing for the sale of ethanol-blended petrol to cut down on vehicular pollution.
Source: http://www.financialexpress.com/article/markets/commodities/govt-calls-high-level-meet-on-ethanol-on-october-19/148199/, Dated 9th October 2015

Sugar mills to earn Rs 5 a litre more on ethanol sale

This is second major decision in favour of sugar mills in last three weeks

In a major relief to sugar mills, the Centre has exemptedethanol produced from molasses from central value added tax (Cenvat). This will raise sugar mills' realisation by Rs five a litre to Rs 47-48 a litre. This is the second major decision in favour of sugar mills in the last three weeks, after the government allowed four million tonnes of sugar exports on September 18.

"Ethanol produced from molasses generated from cane crushed in the sugar season 2015-16 i.e. from October 1, 2015 for supply to the public sector oil marketing companies, namely, Indian Oil Corporation Ltd., Hindustan Petroleum Corporation Ltd. or Bharat Petroleum Corporation Ltd., for the purpose of blending with petrol," said a finance ministry notification.

The sugar industry has welcomed the decision. "The sugar industry welcomes the decision of the ministry of finance to extend Cenvat exemption to ethanol produced from molasses for the sugar season 2015-16. This completes the government's decision announced in April 2015, to waive off central excise duty on ethanol for the 2015-16 sugar season, and pass on the full benefit of approx Rs 5 per litre of ethanol," said Abinash Verma, director-general, Indian Sugar Mills Association.

Until now, the ethanol blending programme was not successful, as the public sector oil marketing companies (OMCs) were able to achieve only 3.5 per cent of blending of ethanol with petrol as against the government's target of 5 per cent of mandatory blending announced over two years ago. With increased focus on the green fuel, the government made 10 per cent ethanol blending mandatory.

"The Cenvat exemption will benefit the 130 ethanol producing sugar mills in the country, by way of increase in their revenue realisation on ethanol supplies. The industry hopes this benefit will be continued into next sugar seasons for the benefit of the ethanol supplies in the future," said Verma.

The move will help sugar mills get an overall benefit of Rs 896 crore considering overall installed capacity of 2,240 million litres and average utilisation of 80 per cent.

Earlier, the response of the sugar mills to the ethanol procurement tenders floated by oil companies was tepid, due to lower realisation. Mills preferred to sell molasses or divert

rectified spirit, a pre-form of ethanol, for manufacturers of industrial alcohol or chemicals for better a price.

With OMC's 1560 million litres' ethanol procurement tender is still on, experts hope for a better response this year.

Source: http://www.business-standard.com/article/economy-policy/sugar-mills-to-earn-rs-5-a-litre-more-on-ethanol-sale-115100800975_1.html, Dated 9th October 2015