NEWS FLASH –12th August, 2016

SUGAR

Sugar mill prices slip further on higher supply

The slide in sugar mills continued with prices falling by another Rs 30 per quintal at the wholesale market in the national capital today, dragged down by ample stocks on higher supplies amid muted demand from bulk consumers.

Marketmen said increased supplies from mills against slackened demand from bulk consumers such as soft-drink and ice-cream makers, mainly kept pressure on sweetener prices.Sugar mill delivery M-30 and S-30 prices dropped by Rs 30 each to end at Rs 3,610-3,700 and Rs 3,600-3,690 per per quintal, respectively.

In the millgate section, sugar Nazibabad, Ramala and Anupshaher declined by another Rs 20 each to Rs 3,610, Rs 3,620 and Rs 3,610 per quintal, respectively.

Following are today's quotations (in Rs per quintal)

Sugar retail markets – Rs 41.00-43.00 per kg.

Sugar ready: M-30 Rs 3,900-4,000, S-30 Rs 3,890-3,990.

Mill delivery: M-30 Rs 3,610-3,700, S-30 Rs 3,600-3,690.

Sugar millgate (including duty): Mawana Rs 3,660, Kinnoni Rs 3,700, Asmoli Rs 3,660, Dorala Rs 3,650, Budhana Rs 3,640, Thanabhavan Rs 3,630, Dhanora Rs 3,630, Simbholi Rs 3,690, Khatuli Rs 3,680, Dhampur Rs 3,610, Ramala Rs 3,620, Anupshaher Rs 3,610, Baghpat Rs 3,640, Morna Rs 3,640, Sakoti Rs 3,630, Chandpur Rs 3,620, Nazibabad Rs 3,610 and Malakpur Rs N.T.

(Source-http://sugarnews.in/sugar-mill-prices-slip-further-on-higher-supply/, published on 10th August, 2016)

No sweet spot for sugar factories in drought year

Three consecutive years of drought have hit the powerful sugar lobby, with the Maharashtra State Co-op Sugar Factories Federation Limited (MSCSFF) estimating that nearly 69 co-operative sugar factories of the 169 such factories in the state soon turn in to Non-Performing Assets (NPA) for banks. The factories together owe banks over Rs. 900 crore in outstanding loans.

The federation has urged the state and Union governments to restructure these loans, claiming the units are finding it difficult to pay back the loans as the price of sugar has fallen. On Wednesday, the federation said drought has affected sugarcane production. "Compared to last year, production has dropped by 68 per cent this year due to drought in 14 districts," federation president Shivajirao Nagwade said.

According to an estimate, around 99 co-operative sugar factories were functional in in 2015-16, of which barely 30 to 40 may begin the sugarcane crushing season this year due to a shortage of raw sugarcane.

During 2013-14 and 2014-15, around 134 co-operative sugar factories received loans worth Rs. 3,273 crore, and instalments on them totalling Rs. 1,000 crore is due this year. The government's decisions including capping stocks of sugar, relaxing the mandatory sugar export rule and 20 per cent export duty on sugar has led to a fall in sugar prices. "Interest on loans are piling up due to shrinking sugar sales. These factories may soon turn into NPAs," Sanjeev Babar, managing director, MSCSFF, said.

"We feel the industry must survive, and the government can take affirmative action for this. Restructuring loans will give us a one-year window to prepare for payments next year," Dilip Walse-Patil, senior politician and federation board member, said.

The factories federation claimed sugar units in Marathwada are the worst-hit as only four of 62 such factories managed to begin the sugarcane crushing season. "Sugarcane production has been negligible this year, and very few [factories] are likely to function," BJP minister Pankaja Munde, who is also on the federation's board, said.

The MSCSFF maintained that due to drought, sugar factories will not achieve their sugar export and ethanol production targets. "This means we will not get grants given by the government. We demand that the grants be in line with actual production and not the target set by the government," Mr. Babar added.

Unlike other sectors, sugar in Maharashtra has always managed to get the attention of incumbent governments due to the strong influence it wields in the corridors of power. Spearheaded by NCP chief Sharad Pawar, the powerful sugar lobby from western Maharashtra has dominated politics here since 1960. With ample water resources, this region is also the hub for co-operative sugar factories, whose administrators control local politics.

Despite several Chief Ministers hailing from Vidarbha and Marathwada, none have managed to challenge the might of western Maharashtra's sugar lobby, which had traditionally been with the Congress and is now the Nationalist Congress Party's (NCP) domain.

Bitter harvest

Sugar stock carried forward from 2014-15 : 91 lakh metric tonne (MT)

Sugar production in India (2015-16): 249 lakh MT

Sugar production in Maharashtra (2015-16): 84.01 lakh MT

Decrease in sugar production over 2014-15: 20%

Sugar prices in 2015-16 while leaving the factory: Rs. 2,863 to Rs 3,300 per quintal

Total loans given to 134 sugar factories: Rs. 3,273 crore (of this, nearly 79 are likely to turn into NPAs)

Maharashtra

Functional sugar factories (2015-16): 178

Co-operative sugar factories: 99

Expected to be operational in 2016-17: 40 to 50 (Federation's projection)

Expected to be closed in 2016-17: 30 to 40 (Federation's projection)

Marathawada

Total sugar factories: 62

Operational in 2015-16: 40

Expected to be operational in 2016-17:

(Source- http://sugarnews.in/no-sweet-spot-for-sugar-factories-in-drought-year/, published of 11th August, 2016)

Karnataka: NCDEX comes to the rescue of sugarcane farmers

After the three cooperative factories failed to offer remunerative prices to sugarcane farmers, the National Commodity and Derivatives Exchange Limited has come to the rescue of the farmers by paying them high prices.

District administration officials chose the NCDEX to sell sugar seized from sugar factories which had delayed payment of arrears to farmers in 2014 and 2015. Over 24,000 quintals was seized in 2014 and around 48,000 from five factories in 2015.

"Prices we got through NCDEX is 30-40 per cent of the rates in local markets. In fact, it is so good that by selling sugar seized in one year, we got enough money to settle arrears for two years," Anurag Tewari, deputy commissioner, said.

While local buyers were offering Rs. 2200-2500, traders in NCDEX platform offered between Rs. 3,050 and 3195. Officials sold sugar for around 22,000 quintals and got Rs. 7.5 crore in the first phase. They plan to sell the next lot of sugar on August 13. "If all goes well, we will get around Rs. 16 crore in the second round of sale," Mr. Tewari said. With this, we will not only settle the arrears of farmers, but also the labourers who the factories owe around Rs. 10 crore, he added.

The money will be deposited in the accounts of farmers soon, Eshwar Khandre, district in charge minister, said. "We have to make use of technology based institutions like NCDEX to help our farmers," he said.

Bidar is the largest sugar producing district in Karnataka, with around 25 lakh tonnes of sugarcane crushed and 28 lakh quintals of sugar produced every year. The district has the cash crop on 30,000 hectares, the fourth largest after Belagavi, Bagalkot and Mandya. Apart from the three cooperative factories, there are two private factories, with another private factory due to start crushing this year. The Department of Food counts at least ten Khandasaris (mini sugar factories). There are innumerable backyard jaggery making units, where farmers make black jaggery, that is mostly sold to distilleries and molasses processing units.

In the last three years, none of the factories could pay the fair and remunerative prices announced by the State government. The government directed district officials to seize stocks of sugar from factories that had delayed payment of sugarcane arrears and allowed Food and Civil Supply department officials to sell their goods and settle the arrears of farmers.

(Source- http://sugarnews.in/ncdex-comes-to-the-rescue-of-sugarcane-farmers/, published on 10th August, 2016)

Govt asks Sebi to ban sugar futures trading

The government has asked the Securities and Exchange Board of India (Sebi) to ban sugar futures trading as it does not want a few traders and speculators setting prices in a year when there is likely to be a shortfall of the commodity.

According to three people familiar with the development, the government is concerned that futures market aren't setting the correct price signals.

"There is an expected shortfall of sugar stocks in this financial year. There is a consensus emerging that the futures trading in sugar be banned to address the rising prices and expected sugar stock shortfall," said a financial ministry official, one of three people, on condition of anonymity.

According to the preliminary estimates of the Indian Sugar Mills Association (ISMA), national sugar output will fall to 23.26 million tonnes this financial year, down by 7.3% from a year ago.

In its preliminary estimates for the 2016-17 season, ISMA, the apex sugar industry body, has said that little less than 5 million hectares have come under sugar cane cultivation in the country. This is 5.5% less than the area under sugar cane in 2015-16—approximately 5.3 million. ISMA expects a national output of 23.26 million tonnes (mt) of sugar this season, down from 25.1 mt in 2015-16.

Sebi has replied to the ministry, saying the lack of liquidity and depth in the sugar futures market are partly due to a government rule which caps stock holding by dealers at 500 tonnes.

"The erstwhile Forward Markets Commission (FMC) and Sebi have been telling the government that the stock limit of physical market should not be made applicable to the accredited warehouses of the commodity exchanges," said the third person quoted above.

According to commodity market regulations, the position limit in near month sugar contracts is 5,000 tonnes, 10 times the government cap. After this stock limit was imposed, sugar future volumes fell from as high as 53,000 tonnes a month to an average 19,000 tonnes in May and June.

"With a stock limit of as low as 500 tones, it is natural that the market will remain shallow and the producers will find it difficult to participate in the market. Hedgers and other actual users are also not adequately participating," said the head of a commodity brokerage.

"Instead of banning the futures, the government should focus on bridging the supply and demand gap," he added, on condition of anonymity due to sensitivity of the subject.

This would be the second agricultural commodity that would face a ban due to high prices since Sebi took over as commodity regulator in September last year. Sebi in June banned Channa contracts on account of high prices of pulses.

Another head of an international commodity brokerage says that, "the price signals emanating from the futures markets help in fine tuning the policy measures. So banning them would actually give rise to more middlemen."

"Before finalizing any decision, the finance ministry may have another round of meetings with ministry of food & civil supplies, ministry of agriculture and Sebi," said the ministry official quoted earlier in the story.

The rising prices of sugar have made sugar company stocks a punter's favourite this year. Of the 100 top gainers on the BSE year-to-date (YTD), 19 are sugar stocks, and of these, 15 have more than doubled gains so far in 2016.

Futures price for sugar, set for delivery in October is 0.35% down at Rs.3,688 after opening firm at Rs.3,713 on the National Commodity and Derivatives Exchange (NCDEX). However, December sugar contract was three rupees down at Rs.3,721. Spot price for sugar in various states is currently trading between Rs. 3,500 to Rs.3,900.

Meanwhile, considering the high prices in sugar contracts the agricultural bourse,NCDEX on Wednesday increased the margin requirement.

"Additional margin of 5% [in cash] on both long and short side and a special margin of 25% [in cash] on long side [in addition to the existing special cash margin] will be imposed on all running contracts and yet to be launched contract in sugar," said NCDEX in a circular issued on Wednesday.

(Source- http://sugarnews.in/govt-asks-sebi-to-ban-sugar-futures-trading/, published on 11th August, 2016)

Co-gen/Power

Centre adding to power sector stress instead of alleviating it

The power ministry needs to create an enabling framework for states to procure stranded thermal power, or else we are likely to see larger stockpiles of Coal India coal and more plants turning NPAs.

Effecting quantum changes in policy while maintaining continuity of incumbents is one of the challenges of governance. In all key infrastructure sectors, our country has grappled with this challenge as we have moved from one generation of policy to another. In one of the recent interviews, former revenue secretary NK Singh talked about how telecom policy was migrated to revenue share in the Atal Bihari Vajpayee government. While this would solve the issue of future telecom licences, the major issue was about migrating existing licences to the revenue-sharing regime.

Singh talks how the then Attorney General and telecom minister were "morally" opposed to allow the existing licences to be migrated. PM Vajpayee, realising the magnitude of the problem, immediately ordered for the telecom minister to be changed and a new Cabinet Note to be put up. Needless to say, given the new facts and the implications of stalled telecom story—perhaps also the implication of not cooperating—the Attorney General was only too pleased to change his opinion and recommend revenue sharing. The rest, as they say, is history. All telecom licences were migrated to revenue-sharing model, and today we stand with over 1.2 billion telecom users and some of the cheapest tariffs on the planet.

The above story is not just about how policy is to be adapted to incumbents, it is also about how national interest can sometimes be served by helping incumbents come out of stress and make investments in the future. The ministry of power perhaps need to learn an important lesson from such pivotal experiences in governance. There are far too many instances where policy stagnation has resulted in stress in the power sector, and many of the incumbents are not in a position to make any further investments in capacity addition. The implication of this could be grave, and the government needs to wake up to the threat of over 50,000 MW going the NPA way.

A conventional thermal power project typically has three legs that needs to work in parallel for the plant to attain viability—coal, a power purchase agreement (PPA) and transmission. Given the breakneck capacity addition in 11th Five-Year Plan (2007-12), most of these linkages have not kept pace with the plant and these assets face the threat of turning NPA.

For instance, there is a substantial capacity in the country that has a Coal India Ltd (CIL) coal linkage and a coal mine, but does not have access to a PPA. The capacity with a CIL coal linkage without a PPA is cumulatively about 26,300 MW, and the capacity with a coal mine but without a PPA is about 4,250 MW. Unfortunately, the prerequisite for availing linkage and coal mine coal is a long-term PPA, and states appear in no mood to call for PPAs for coal-based plants. In the past two years, only Andhra Pradesh and Kerala have completed bidding for an aggregate capacity of 3,250 MW. There is no visibility of any more long-term PPA in the near time-frame. If this situation is not corrected, these projects will turn into NPAs soon. It is ironical that Jharkhand, while reneging from PPAs signed with thermal plants citing lack of demand, called for over 2,000 MW of solar bids in the last three months alone. The power ministry has to create an enabling framework for states to procure stranded thermal power, else we are likely to see larger stockpiles of CIL coal and more plants turning NPAs.

In the coal-based power sector, the Cabinet Committee on Economic Affairs approved a landmark list of 78,000 MW (scheduled for commissioning by March 2015) for obtaining coal linkage from CIL. But some of these plants have been delayed beyond their scheduled commissioning, and there are others that have been commissioned but were not a part of the original 78,000 MW. Total capacity, amounting to over 16,700 MW, is lying stranded, waiting for linkage coal to achieve operations.

In addition to the two above categories, there is about 14,600 MW of power capacity that has a PPA but no long-term coal source. There is another 9,925 MW of power capacity that has been set up with neither a coal source nor a PPA in place.

That this power capacity is becoming stranded comes in the backdrop of NTPC and state distribution companies being freely allowed to sell power from linkage coal in the spot market, and also being provided bridge linkages where their coal mine is taking time for commissioning. NTPC also enjoys the unique privilege of signing PPAs on a regulated tariff basis (without tender) with state-owned utilities long after the national tariff policy deadline of 2011 has expired.

This unequal level-playing field for NTPC is the final nail in the coffin. The fundamental issue remains that the policy for a PPA requirement for coal linkages, or an approved restrictive list of coal linkages of 78,000 MW, was drafted in the context of a coal scarcity scenario. We are in an era of coal surpluses, and CIL seems to be contemplating exports. It is imperative that such policies change and ensure that coal, whenever and wherever available, be provided to domestic plants to prevent them from turning NPAs.

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The plight of gas-based power developers is no different. The policy for gas-based power projects (providing power system development fund support) was announced with great fanfare in 2015—subsidy was announced on imported LNG, provided states agreed to buy the power. An absurd stipulation of requiring the developers to commit to "zero" return on equity was also agreed to by the industry, and bids were called. However, after the bids were completed and the states consumed the power, and after submitting the due documentation by the developer to obtain the subsidy, the government failed to release the subsidy in time. Out of the blue, and after about four months of delay in release of subsidy, in October 2015 the power ministry added additional conditions for release of subsidy. These included an approval from the state regulatory commission for the tariff provided to bidders. This new condition created a massive delay in the release of subsidy, and contributed to further deterioration of the financial health of the power plants. Due to these new conditions, the Power System Development Fund subsidy of R450 crore was delayed by over eight months and the plants had to face financial distress in the intervening period.

To make matters worse, in June 2016, the government proposed to release subsidy as per the original conditions, subject to the developer providing bank guarantee of the same amount until this fresh documentation has been completed. It is impossible to expect developers of gas-based power plants to provide such large bank guarantees, particularly when these plants have already been delayed by years and needed this scheme to start operations.

For public servants, the challenge of providing relief to incumbents is always fraught with the risk of a potential audit or enquiry. Recent judicial pronouncements (in the telecom spectrum case and coal block allotment case) confirm that a transparent auction process has to be followed to ensure equitable distribution of scarce natural resources.

However, a transparent auction process for resources always leaves incumbents on the back-foot—power plant developers have already invested thousands of crores in allied power plant infrastructure, and need coal mine/linkage/PPA to attain viability. The scenario of not winning the auction is dire—turning an NPA, enforcement of share pledges, securities and, worse, personal guarantees. With such a bleak scenario, one cannot blame developers for going aggressive on bids. In the coal block auction, such aggressive bidding has resulted in not a single coal block being operationalised, and several cases pending in courts. Particularly in the power sector where demand is stagnant and PSUs like NTPC are above all rules—particularly with respect to allotment of coal mines and linkages—a transparent auction needs to ensure a sustainable price for incumbents.

In all these cases, it appears the power policy has been either stagnant for two years or has been moving swiftly but inconsistently. Policy in this complicated sector, with several incumbents and the potential of over 50,000 MW of stressed assets, needs to be deliberated and certain concessions need to be made in the interest of viability. It is best we appreciate, sooner than later, that the power sector policy cannot and should not be handled in 140 characters.

(Source- http://www.financialexpress.com/fe-columnist/centre-adding-to-power-sector-stress-instead-of-alleviating-it/342869/, published on 10th August, 2016)

ETHANOL

Government to align ethanol price with global market

After paying a fixed price for ethanol used for doping in petrol, the government said it will move towards 'market dynamic' pricing system where rates would move in tandem with international trend.

In a bid to boost agrarian economy, the government had in December 2014 fixed a price of Rs 48.50-49.50 per litre for ethanol public sector oil companies were to buy from sugar mills for blending with petrol. This rate is about 20 per cent more than the current cost of producing petrol.

"We want to link the price to market dynamics. Government will move towards market dynamic pricing system," Oil Minister Dharmendra Pradhan said at conference on bio-fuels here.

He said at present 10 per cent sugarcane extracted ethanol is being mixed with petrol and sold in eight sugarcane producing states of Uttar Pradesh, Karnataka, Maharashtra, Andhra Pradesh, Telangana, Haryana, DELHI and Bihar.

At the remaining places, 5 per cent ethanol is being mixed in petrol.

Also, doping of non-edible oil, called bio-diesel, in diesel will begin this fiscal with 11 crore litres being contracted, he said.

Pradhan said with India's fuel demand slated to rise exponentially, ethanol and bio-diesel market of Rs 6,500 crore can jump to Rs 1 lakh crore in next few years.

By 2022, 450 crore litre of ethanol, costing about Rs 23,000 crore, and 675 crore litre of bio-diesel, worth Rs 27,000 crore, would be required considering a nominal fuel growth of 5-6 per cent, he said adding the requirement would be substantially higher if the 2014-15 and 15-16 growth average of 11-12 per cent is taken.

Pradhan said the programme to mix ethanol extracted from sugarcane molasses was started in 2003 with a view to cut India's dependent on imports to meet its oil needs as well as provide remunerative price to sugarcane farmers but it lost steam with the change in government in 2004.

Against the requirement of minimum 120 crore litre of ethanol for meeting the mandatory 5 per cent blending, only 30.6 crore litre was doped in 2011-12 which dropped to 15.4 crore litre in the following year.

While 5 per cent blending was mandatory, the programme called for raising the level to 10 per cent.

The NDA government after coming to power in 2014 decided to raise the price at which ethanol will be procured to Rs 48.5-49.5 per litre.

India consumes 2,800 crore litre of petrol and to meet 5 per cent blending would need 140 crore litre of ethanol. India consumes 8,800 crore litre of diesel annually.

(Source- http://sugarnews.in/government-to-align-ethanol-price-with-global-market/, published on 11th August, 2016)

Quote of the day

'The best preparation for good work tomorrow is to do good work today.' - Elbert Hubbard