NEWS FLASH –20th June, 2016

SUGAR

Common man pays for government flip-flop on sugar policy

Sugar companies and their shareholders have never had it so good for them in nearly a decade. Nine sugar stocks have given a 100% return in the first six months of the current calendar year. But the gvernment has decided to stop the party by imposing an export duty to check domestic prices.

With rising food inflation at the back of their mind, the government decided to put a brake on rising sugar prices. Sugar prices have had a free run since August-September 2015 when it was ruling around Rs 23 a kg to the current rate of nearly Rs 37 a kg. It was only after inflation bucked the trend and started rising that the government has decided to step in.

The rise in sugar prices was on account of deficient rains and government incentive to the sector. The bottom in sugar prices not only coincided with poor monsoon but also the government's ambitious plan to export a record 4 million tonnes of white sugar. Sugar mill owners were obviously excited over government's initiative, especially since they were being incentivised to export.

Ironically, the government set the export target in the month of September 2015, when the picture of a poor monsoon was more or less clear. By late August 2015 it was clear that Marathwada would be facing a severe drought situation. This report dated September 1, 2015, says that the Maharashtra government was contemplating banning sugar farming in drought zone. The Marathwada region is one of the prominent sugarcane growing areas in the country. If the government knew that output for the season would be affected, there was no reason to allow exports and see inventory deplete.

Over the past decade sugar companies had been in trouble with pilling inventory and low sugar prices. Sugar prices have fallen not only in India but also globally. From a peak of around 33 cents per pound in 2011 sugar prices have fallen to a low of 10.3 cents per pound in mid-August 2015. This restricted the ability of sugar mills to export their produce and was also the reason for a build-up in inventory.

Normally when an industry is witnessing a slowdown, its effect percolates down to its raw material suppliers as well. However, in the case of sugar, it was the other way around. The years of low sugar prices also coincided with that of other agriculture products. Farmers were looking for better yielding crop and sugarcane because of the strong political protection was the obvious choice.

Sugar and sugarcane are politically sensitive crops, or more correctly they have been pampered and bred to be politically sensitive. The price at which a mill purchases sugarcanes from the farmer is decided by the government. Farmer lobby and political interests align together to keep procurement price high, irrespective of the price of sugar. With safety of higher prices and protection from vagaries of market more farmers started planting sugarcane crop.

Data from Indian Sugar Mills Association (ISMA) shows that during the last six years cane acreage have increased from 4,175,000 hectares to 5,307,000 hectares. Sugarcane production during this period has increased from 2,923 lakh tonne to 3,668 lakh tonne. So while sugar prices were low, input prices and volume of sugarcane produced kept on increasing. This compounded the problem of sugar industry.

However, since September 2015, the industry has stopped complaining. Poor monsoon and depleting inventory ensured higher prices in the domestic market. Additional thrust was given from rising global prices as crops in other countries also failed. Experts say that for the first time in six years sugar is likely to see a deficit of 8 million tonnes. Sugar rally in India could however see some correction on account of the export duty and also because Brazilian harvest will start hitting the market.

In the entire bear and subsequent bull cycle of sugar what has come out clearly is the ad-hoc approach of the government in handling the situation.

Within a year of setting an ambitious export target government has now made a U-turn by restricting their exports by imposing exports duty. Rather than making the consumer pay for the political adventurism by allowing prices to fluctuate wildly government can incentivise the mills to earn their revenues from the by-products like molasses or subsidising them to produce bio-fuel. It is only the common man who ends up paying for government's flip flops.

(Source- http://sugarnews.in/common-man-pays-for-government-flip-flop-on-sugar-policy/, published on 18th June, 2016)

After five bitter years, some relief for sugar

Domestic sugar prices may continue to hold steady, thanks to lower stock levels

After five consecutive seasons of supply glut and steadily falling sugar prices, is India's sugar market finally turning the corner? The stock market certainly seems to think so, with many sugar producers' stocks recently hitting their 52-week highs after the companies reported a turnaround in their financials for the quarter ended March 2016.

Commodity price trends also hint at better fortunes for Indian sugar producers. In the domestic markets, retail sugar prices in the Mumbai market have risen from ₹ 30 a kg to ₹ 40 in the last one year. Sugar prices had last hit these levels way back in mid-2013. Wholesale prices have climbed from ₹ 2,397 to ₹ 3,691 a quintal in the same period, according to data from the Department of Consumer Affairs. The recent rise in sugar prices, producers say, has resulted in more mills attaining break-even in recent weeks. Most large sugar producers reported losses for the last two years as their ex-factory realisations on sugar dipped below production costs.

The industry body Indian Sugar Mills Association estimates domestic sugar output in the soon-to-be concluded 2015-16 crushing season at about 250 lakh tonnes, about 11 per cent lower than last year's record output of 278 lakh tonnes. Should this estimate prove correct, this would mark the first year of a decline in domestic output after five straight years of surpluses. Sharp declines in sugar output in Maharashtra and Karnataka on account of the drought, even as Tamil Nadu produced slightly more than last year, have contributed to the output falling short of initial estimates.

Given the annual consumption of about 256 lakh tonnes and exports of about 15 lakh tonnes, recent production estimates would mean that industry will flag off the new sugar season (beginning October 1, 2016) with carry-forward stocks of just 70 lakh tonnes. Not only is this substantially lower than the 91 lakh tonnes opening stock last year, this would account for just about 3-4 months' consumption. Sugar prices, in past cycles, have usually proved responsive to lower stock-to-use ratios. As the stock-to-use ratio of 27 per cent (opening stock divided by annual consumption) for the upcoming season is significantly lower than the 30-38 per cent in the preceding three seasons, domestic sugar prices look set to hold above last season's levels.

Global prices revive

Global price trends also seem to be supportive of a bull market. The benchmark sugar future contract no 11 on the ICE has shot up by nearly 75 per cent from a low of 11.3 cents per pound in August 2015 to 19.7 cents in mid-June 2016, with a 46 per cent gain in the last one year. While global prices are still far below the heady highs of over 29 cents hit in January 2011, the recent rebound from the seven-year low is offering some relief to global sugar producers after an extra-long bear market. The recent revival in global sugar prices has been prompted by predictions from forecasters such as the International Sugar Organisation that demand in the global market will run ahead of production by upwards of 5 million tonnes in the current sugar year with El Nino taking a toll on both the Indian and Thai crops. Increasing diversion of cane from sugar to ethanol in Brazil is also positive for sugar prices.

While domestic sugar prices appear set to hold firm in the next four months or so until the next crushing season begins, trends thereafter may be decided by indications about plantings and sugar yield in the 2016-17 sugar year (to begin in October). The forecast good monsoon could raise cane output from the current year's depressed levels, which can then moderate prices.

However, in this context, the Centre's move to restrict the Fair and Remunerative Price (FRP) for cane at ₹230 per quintal for 2016 could prove a dampener to higher plantings. After rising from ₹139 per quintal in 2010-11 to ₹210 per quintal in 2013-14, the FRP for sugarcane declared by the Centre has remained almost stagnant in the last three years, even as MSPs for other crops such as pulses have been pegged higher. This Government's clear intention to curb food inflation may also prevent sugar prices from pushing much higher from present levels. The recent imposition of export duty of 20 per cent on sugar is an indicator of this. However, thanks to the combination of lower procurement prices and better realisations, sugar producers may still close FY-17 with better sales and profits than the last three years.

(Source- http://www.thehindubusinessline.com/portfolio/real-assets/after-five-bitter-years-some-relief-for-sugar/article8748801.ece, published on 19th June, 2016)

Co-gen/Power

Centre to sanction Gram Jyoti scheme for Arunachal soon

Union Minister of State for Power, Mines and NRE Piyush Goel said that the Deen Dayal Upadhyaya Gram Jyoti Yojana Scheme (DDUGJY) in Arunachal Pradesh would be sanctioned soon and a formal sanction letter in this regard would be given shortly.
The union minister assured this when Power Minister T N Thongdok requested him to sanction the scheme during the two-day conference of Power, Mines and NRE Ministers of State and Union Territories here on June 16 -17.
Thongdok told the Union Minister that bids have already been invited based on assurance from the Union Ministry.

(Source- http://indianpowersector.com/2016/06/centre-to-sanction-gram-jyoti-scheme-for-arunachal-soon/, published on 18th June, 2016)

Power tariff revision unlikely to happen this year

Speculation is rife that power tariffs may not see a revision at all this year. Half the year has already passed and petitions filed by discoms BYPL, BRPL and Tata Power Delhi are yet to be admitted by Delhi Electricity Regulatory Commission (DERC).

This will take at least another 2-3 months as the regulator is still in the process of framing new multi-year tariff regulations (MYT).

Once the MYT is framed, the tariff petitions will have to be revised and filed as per the new regulations. "The MYT regulations should have been framed last year and discoms should have submitted their tariff petitions by November, 2015. The regulations have to be revised every five years. As we are in the sixth year now, the new regulations have to be framed urgently," said a source.

It will take another two months for the regulator to frame the MYT regulations. "A lot of developments have happened and we want to ensure the new regulations are comprehensive and consumer-friendly. Once they are ready, we will invite discoms to revise their tariff petitions, which will then be examined and admitted. A public hearing will be held after that," said an official.

Tariffs are generally announced 3-4 months after the public hearing. The regulator is running out of time and may not be able to announce new tariffs at all this year," said a source.

DERC chairperson Krishna Sahni declined to give a timeline on tariff announcement. "We will try and release revised tariffs as soon as possible," he said.

(Source- http://economictimes.indiatimes.com/industry/energy/power/power-tariff-revision-unlikely-to-happen-this-year/articleshow/52806275.cms, published on 18th June, 2016)

Karnataka, Goa ink pact to join UDAY scheme: Piyush Goyal

Karnataka and Goa have signed an agreement to join the UDAY scheme meant for the revival of Discoms that may result in a total gain of about Rs 4,570 crore to both the states over next 3 years.

"Karnataka signed UDAY MoU resulting in gains of around Rs 4,300 crore over the next 3 years," Power Minister Piyush Goyal said in a tweet.

The minister also said: "Goa signed UDAY MOU in presence of Goa chief minister. State stands to gain around Rs 270 crore over the next 3 years through UDAY reforms."

Goa signed UDAY MOU in presence of Goa CM . State stands to gain around Rs 270 crore over the next 3 years through UDAY reforms.

Earlier in the month, the minister had said that Assam is also keen to join the UDAY scheme, which is aimed at reviving the debt-laden power distribution companies.

The other four states that recently went to assembly polls - Kerala, Tamil Nadu, West Bengal and Puducherry - had also evinced interest to join the scheme once the elections were over, the minister had said

Government had earlier said that the Power Ministry would soon approach the Cabinet to seek approval for enabling private sector electricity distribution companies (discoms) to get operational benefits of the Ujwal DISCOM Assurance Yojana (UDAY)

Under this scheme for reviving financially stressed electricity distribution utilities, state governments takeover 75 per cent of the debt with the electricity distribution utilities. The remaining debt is issued as discom bonds, backed by state governments.

(Source- http://economictimes.indiatimes.com/industry/energy/power/karnataka-goa-ink-pact-to-join-uday-scheme-piyush-goyal/articleshow/52794409.cms, published on 18th June, 2016)

Thought of the day

'Live as if you were to die tomorrow. Learn as if you were to live forever.' -Mahatma Gandhi