NEWS FLASH –26th August, 2016

SUGAR

Sugar caught in bear grip

Sugar market continued its bearish trend as producers sold the commodity at ₹ 10-20 a quintal lower than previous day to ease stocks. Weak mill tender rates kept spot and naka rates also under pressure.

Arrivals to the Vashi spot market were limited. There were no local dispatches today. Freight rates were unchanged. Nominal spot rates:S-grade ₹ 3,650-3,750 and M-grade ₹ 3,710-3,860. Naka delivery rates: S-grade ₹ 3,610-3,680 and M-grade ₹ 3,700-3,790.

(Source-http://www.thehindubusinessline.com/markets/commodities/sugar-caught-in-bear-grip/article9032300.ece, published in Business Standard on 25th August, 2016)

Sugar mills post stellar profit growth in April-June

Average realisation from sugar up 42%

A sharp increase in the realisation from sugar and ethanol helped sugar mills post stellar profit for the April-June quarter this year. The trend is likely to continue in coming quarters as well on expectations of huge inventories of sugar and ethanol, the two sectors contributing over 90 per cent of sugar companies' turnover.

Uttar Pradesh-based Balrampur Chini posted a net profit of Rs 110.7 crore for the quarter ended June '16 compared with a net loss of Rs 70.4 crore reported in the corresponding quarter last year. Profit of Sakthi Sugars also shot up to Rs 79 crore in the April-June quarter of the current year from a loss of Rs 22.8 crore in the same period last year.

"Robust performance in the sugar companies in the Q1FY17 quarter was on the expected lines. It was due to jump in sugar realisations by over 35 per cent Y-o-Y to around Rs 35/ kg on an average plus the higher sugar recoveries in the SS15-16 also supported in the margins improvement," said Afshan Sayyad, Analyst, Dolat Capital Market.

Sugar mills have accrued an average 42 per cent increase in their average realisation from their core business i.e. sugar, which alone contributes nearly 75 per cent of their sales. The average sugar M 30 in the benchmark Vashi market jumped to trade at Rs 3,712 a quintal in April-June quarter of 2017 as compared to Rs 2,613 a quintal in the corresponding quarter last year.

SWEET DEALS

Quarterly profit of sugar companies (Net profit in ₹ cr)

	Jun '15	Sep '15	Dec '15	Mar '16	Jun'16
Balrampur Chini	-70.4	-14.4	87.8	98.0	110.7
Sakthi Sugars	-22.8	-24.6	-20.1	12.4	79.0
Dalmia Bharat	-9.6	-5.1	17.0	56.2	48.3
Dhampur Sugar	-88.1	-7.0	9.2	111.8	33.1
DCM Shriram Inds	-1.6	5.4	5.5	24.0	33.0
Dwarikesh Sugar	-56.2	39.5	2.8	52.8	31.9
EID Parry	-138.2	-37.0	-40.1	145.0	25.3
Upper Gang. Sug.	-44.8	0.4	-4.3	59.9	22.9
Oudh Sugar Mills	-61.9	-19.2	12.6	74.7	19.2
Indian Sucrose	-7.9	-10.4	-0.6	24.9	15.1
Total (36 firms)	-1,107.6	-376.5	-114.9	1,346.0	469.4

Source: Capitaline   Compiled by BS Research Bureau

A recent World Bank report said that world raw sugar prices rose by 30 per cent since mid-April, from 14.3 US c/lb to 18.8 US c/lb (basis July futures) till June, reflecting perceptions of a tightening global supply-demand balance.

While announcing the June quarter result, Ajay Shriram, Chairman, DCM Shriram Ltd, had said, "Sugar business' earnings recovered vis-a-vis last year driven by improvement in the margins. We are investing on value addition to the by-products and to increase cane availability to further strengthen this business."

The net profit of DCM Shriram jumped to Rs 33 crore for the quarter ended June 2016 as compared to Rs 1.6 crore loss in the corresponding quarter last year and Rs 24 crore profit in the March 2016 quarter.

Compared to previous quarter, however, over half of listed sugar mills posted a decline in their net profit on lesser availability of saleable stocks. It is worth mentioning that crushing season comes to an end with mills declare closure for the season in and around April resulting into manufacturing units go out of production. Since mills dispose of their inventory throughout the rest of the season till September, saleable quantity of sugar diminishes day-by-day. Also, distilleries call off the season concurrently with sugar mills due to the lack of raw material. So, production of ethanol also comes to an end.

Meanwhile, a recent study by the apex industry body Indian Sugar Mills Association (ISMA) estimates India's sugar output at 25.1 million tonnes for SS (sugar season) 2016 ending in September, 11 per cent lower than last year. Sugar output is estimated to be further lower by 8 per cent to 23.1 million tonnes for SS2017.

"July-September quarter is also expected to be good on a Y-o-Y basis due to high sugar realisations and sufficient inventories with the millers to capitalize on the same," said Sayyad.

Sabyasachi Majumdar, Senior Vice President, ICRA, expects sugar prices to remain firm for the next three - four quarters on forecast of lower production of 23-24 million tonnes in FY17 because of a decline in the availability of cane in Maharashtra and Karnataka.

(Source- http://www.business-standard.com/article/markets/sugar-mills-post-stellar-profit-growth-in-april-june-116082500958_1.html, published in Business Standard on 25th August, 2016)

Maharashtra Cooperation minister hints at major reforms in sugar sector

Maharashtra Minister for Cooperation Subhash Desh-mukh has signalled the government's readiness to usher in major reforms in the sugar industry, which could pave the way for gradual decontrol of the sector. These reforms come at a time when around 50 per cent of the sugar mills in the state are in various degrees of financial distress.

Deshmukh said the state was in favour of doing away with the renewal of crushing licenses for the mills. Crushing licenses are issued by the sugar commissionerate before the start of the crushing season, and mills that start operating without it can invite penal action.

"The need for yearly renewal of crushing licences is cumbersome and the state government is in favour of scrapping it. Mills need to send us a proposal on this and we will take it up with the Centre, to make the necessary changes in the Sugarcane Control Act," he said.

The move, Deshmukh said, was in line with the government's attempt to deregulate industries and reduce the number of licences required. He said that the government had already brought down the licences necessary for setting up of industries from 60 to 27. "Like other sectors, the sugar sector should be allowed to regulate. We are also in favour of reducing other restrictions, such as aerial distance between two mills," he said.

The proposals, he said, should come from the sector and the state would then take it up with the Centre. Last season, 177 mills had gone for crushing.

While ruling out immediate financial boosters for the mills, Deshmukh said the state would help in restructuring their loans or selling of excess land to help mills get on their feet.

By 2019, all cane fields in the state should be under drip irrigation, Deshmukh said. "During our meeting with sugar millers, it was proposed that the government and the mill owners contribute in setting up of drip facilities along with farmers. We will consider it," he said.

(Source-http://sugarnews.in/maharashtra-cooperation-minister-hints-at-major-reforms-in-sugar-sector/, published in Indian Express on 26th August, 2016)

Sebi comes to sugar's defence

Securities market regulator Sebi is trying hard to convince the government against banning sugar futures, a month after finance ministry delisted chana futures. The call for delisting sugar has come from the consumer affairs ministry on the ground that small price movements in futures were disproportionately impacting spot prices.

A top Sebi official told government functionaries days ago that stock limits on sugar had impacted participation, but despite that the futures market was generally reflecting the fundamentals, a person aware of the development told ET. If sugar futures were exempted from stock limits, that could deepen the market and prevent fewer traders from manipulating the counter.

However, another official said that the consumer and food departments were "sensitive" to the issue especially with the festive season around the corner and elections in Uttar Pradesh less than a year away.

ET could not immediately connect with the minister of Consumer Affairs, Food and Public Distribution, Ram Vilas Paswan.CR Chaudhary, minister of state for consumer affairs, also did not respond to the phone call.

The sweetener has rallied by 40% year-on-year to `. 42kg at re. 41kg tail in Delhi and by 52% to ` in Mumbai on expectations of an 11% decline in output this season to 251 lakh tonnes against consumption of 256 lakh tonnes.

However, sugar lobby ISMA director general Abinash Verma claimed that the opening balance of 91 lakh tonnes at the beginning of the current season (October 1, 2015) would more than "make up" for the shortfall and "pre-empt" runaway prices.

Officials cited earlier added that stock limits on sugar in states like Maharashtra and Uttar Pradesh, the country's largest producers, and in Delhi and Karnataka had dissuaded mills from participating on the futures market.

"One of the proposals put forward by Sebi was to exempt the futures market from the ambit of stock limits under the Essential Commodities Act (1955)," one of them said, adding that, "this could induce sugar mills with large capacity to tender delivery and prevent wild price swings."

ET VIEW

Revamp Futures Market We need to revamp the futures market for commodities, including sugar. What's needed is a vibrant market for commodity futures by, for instance, allowing institutional participation and Sebi-registered foreign investors. We also need to liberalise position limits and contract size and also revisit price and quantity controls, including for agricultural commodities. With a more complete market, the quotes in futures counter can be used for policy purposes to take corrective action on the ground.

(Source- http://sugarnews.in/sebi-comes-to-sugars-defence/, published in The Economic Times on 26th August, 2016)

Stop panicking, There's enough sugar in India

Some people are doubting the adequacy of sugar availability for our domestic needs over the next 12-18 months. A handful have even crossed sensible reasoning and are suggesting sugar imports. Their argument is not only distorted, but smacks of vested interests trying to create business for themselves, when actually there is none.

With opening balance of 73 lakh tonnes for 2016-17 sugar season (SS), and production of 233 lakh tonnes, there is more than enough sugar for the estimated domestic consumption of 260 lakh tonnes, at least for the next12-14 months. Then, why the doubt? The following should clarify .

The above leaves carry forward stocks for 2017-18 SS of 45 lakh tonnes on October 1, 2017. The question is whether this is good, and enough as opening stocks. Before we answer that, let's see why we need any opening stock at all and what should that number be.

Though the Sugar Year starts from October 1, sugar production from the new season comes into full swing from November end. Therefore, carry-over stocks are required to meet the domestic consumption needs for this intervening two months. Previously, the government had a norm of having OB of three months consumption. Why three months and not two? Under the `regulated release mechanism' of sugar sales, there was a time lag of at least 30-45 days between production and sale. Submission of production reports, compilation of data and issue of release orders accounted for lead time of 30-45 days.

On an average, India produces 1820 lakh tonnes in October-November, which under the previous regime of regulated release mecha nism, could come into the market only in December or January . After abolition of the release mechanism in 2013, sugar produced today can be sold tomorrow itself. There is no time lag. So, the 18-20 lakh tonnes produced in October-November is available for consumption in the same months. Further, country's sugar production comes in full swing from November end and from beginning of December. Therefore, when the new season's sugar is in the market from November, it makes pure economic sense to reduce the carry burden, previously of three months consumption requirement, to two months. The 45 lakh tonnes on October 1, 2017, is equivalent to two months consumption requirement, and if the 18-20 lakh tonnes produced in OctoberNovember 2017 is added, we have more than `enough'. Not only is there surplus sugar for the next 12-14 months, but enough to start the next season of 2017-18 with adequate OB for the intervening period before new season's sugar hits the market by November-end 2017. Additionally, with a surplus sugar production year expected in 2017-18 SS, there is absolutely no need to import sugar, which could burden the country , mills and farmers unnecessarily for several years.

(Source- http://www.indiansugar.com/NewsDetails.aspx?nid=5892, published in The Economic Times on 25th August, 2016)

Co-gen/Power

India inc biggies in the fray for Rajasthan's Chhabra power plant

India's biggest power producers, leading conglomerates and marquee private equity players are lining up as potential suitors for the Rajasthan state government owned Chhabra thermal power plant, sources familiar with the deal told ET NOW on the condition of anonymity.

"Adani PowerBSE -1.45 %, JSW Energy, Piramal Enterprises, a jv between Tata Power and ICICI Ventures , NTPC & Macquarie Group are amongst initial suitors that have expressed a preliminary interest in the plant during a pre-bid meeting held earlier this month which was organized by Rajasthan Rajya Vidyut Utpadan Nigam Limited," said one of the two sources cited above.

The Chhabra plant has four operational units of 250 MW each and two under construction units of 660 MW each. " Based on initial estimates, the project has an enterprise value of Rs 14,000 crores. All the necessary infrastructure is in place including fuel tie-ups and statutory clearances," added another source.

In February this year, the Rajasthan government decided to divest the Chhabra plant as well as the Kalisindhi plant in a bid to reduce losses. "The Chhabra project had incurred losses earlier but is on its way to profitability. The state government is keen to infuse higher efficiency through the divestment process", sources added.

Tata Power, ICICI Ventures, Piramal Enterprises and Macquarie declined to comment in response to queries on the proposed divestment from ET NOW. ET NOW is awaiting responses from Adani Power, JSW Energy and NTPC.

(Source- http://economictimes.indiatimes.com/industry/energy/power/india-inc-biggies-in-the-fray-for-rajasthans-chhabra-power-plant/articleshow/53875660.cms, published on 26th August, 2016)

Coal India Limited to invest Rs 7,765 crore in FY'17 for new assets in rail track, solar power and thermal plants

Coal India will invest around Rs 7,765 crore towards capital expenditure in the ongoing fiscal and Rs 5,069 crore in various projects, including railway infrastructure, super critical thermal power plant and solar power.

"The capital expenditure for the year 2016-17 has been set at Rs 7,765 crore," Coal IndiaBSE 0.45 % (CIL) said in its latest report.

In addition, an ad-hoc provision of Rs two crore has been kept for its overseas activities.

"Further, the company has planned to invest Rs 5,069 crore in various projects viz railway infrastructure, super critical thermal power plant, solar power, revival of fertiliser plants, procurement of railway wagons, CBM (CoalBed Methane) during 2016-17," the report said. CIL has envisaged a coal production of 908.10 million tonnes (MT) in 2019-20 with a CAGR of 12.98 per cent with respect to 2014-15.

In 2016-17, which is also the terminal year of 12th five-year plan, the target of coal production has been pegged at 598.61 MT with an annualised growth of about 11 per cent.
In next fiscal, the envisaged coal production projection is to the tune of 660.7 MT with a growth of about 10.5 per cent.

CIL accounts for over 80 per cent of the domestic coal production. The PSU achieved a production at 536 MT in 2015-16 and missed its output target of 550 MT.

As on April-end, CIL had 413 mines, of which 207 are underground, 176 opencast and 30 mixed mines.

(Source-http://economictimes.indiatimes.com/industry/indl-goods/svs/metals-mining/coal-india-limited-to-invest-rs-7765-crore-in-fy17-for-new-assets-in-rail-track-solar-power-and-thermal-plants/articleshow/53875018.cms, published in The Economic Times on 26th August, 2016)

ETHANOL

Govt likely to link ethanol prices with crude: Sources

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The government is likely to link ethanol prices to the price of crude. So, if oil prices fall then ethanol prices may be cut too and vice-versa. This might come as a dampaner to the sugar companies that produce ethanol, reports CNBC Awaaz's Lakshman Roy quoting sources. As of now government fixes the price of ethanol to give a boost to ethanol producing companies, so that sugar industry is encouraged to produce more ethanol and the oil marketing companies are legally bound to buy ethanol at these pre-decided prices. However, according to sources, the food and oil ministry will be preparing a new ethanol policy, which will be sent to the Cabinet. Currently, compared to the crude oil prices, ethanol prices are quite high.

(Source- http://www.moneycontrol.com/news/commodities/govt-likely-to-link-ethanol-pricescrude-sources_7353741.html, published in Moneycontrol on 26th August, 2016)

Quote of the day

"Creativity is intelligence having fun." — Albert Einstein