

## NEWS FLASH – 3<sup>rd</sup> May, 2016

### SUGAR

#### Telangana: Government is ignoring its promises: TTDP

The Telangana Telugu Desam Party has said the State Government is ignoring its promises on according priority to protecting the interests of the working class.

Participating in the May Day celebrations at the NTR Trust Bhavan, TDP's headquarters, on Sunday, TTDP working president A. Revanth Reddy recalled Chief Minister K. Chandrasekhar Rao's assurances on addressing the concerns of the sanitation workers, anganwadis and problems faced by workers of Nizam's sugar factory. The Government had ordered closure of Nizam Sugars and Sirpur Paper Mills rather than solving the problems faced by workers, he said.

A dozen workers had committed suicide since the formation of the new State and the TDP had extended Rs. 50,000 assistance to each family while the Government had remained indifferent.

"The Government remained unmoved to the plight of over 2,500 farmers who committed suicide in the last two years," he charged. The Government, he alleged, was working to protect the interests of the rich and the time had come for the working class to unite and fight against the Government's 'anti-worker policies'.

Another senior leader E. Peddi Reddy said Mr. Chandrasekhar Rao had, in the run-up to the previous elections, assured that his party would work against outsourcing of the Government jobs .

But the Government did not take any steps to regularise the services of these employees two years after coming to power.

**(Source-<http://www.thehindu.com/news/cities/Hyderabad/government-is-ignoring-its-promises-ttdp/article8545934.ece?css=print>, published on 2<sup>nd</sup> May, 2016)**

#### Sugar stocks' honeymoon may continue

We have got a few ominous signs this morning: Asian markets have been slippery and Nifty50 futures on the Singapore Stock Exchange indicate a similar fate for our market.

RBI governor Raghuram Rajan's six reasons for the NPA menace, the mother of all rallies in yen and regulatory headache for the auto sector are among the major triggers that may have changed your market over the weekend.

**Yen's world-beating rally:** The Bank of Japan's surprise decision to not infuse further stimulus in the economy has resulted in a massive rally in the yen, which has already lifted the currency some 5 per cent in two sessions. The currency, which has been the best performer in the developed world, is heading for levels of below 95, say some analysts. That would be catastrophic for an export-oriented economy like Japan. With exports turning more expensive, earnings dwindling and inflation nowhere to be seen, it's crisis time in the island nation. Nikkei's 4% plunge this morning signals tough times ahead.

**China's factory output contracts:** After a positive upturn in March, Chinese factory output contracted slightly to 50.1 in April but still expanded for the second straight month after a new-found credit binge and rising property prices supported spending. The stable results could mean that authorities could, for now, hold off on further monetary push to avoid driving up property prices further and oversupplying industry with cheaper credit. Though not that big a concern for markets just ask Carl Icahn.

**Rajan's got six reasons for NPA mess:** The RBI governor in a reply submitted to the Public Accounts Committee (PAC), which had sought the reasons for the "ballooning" of the stressed assets in the banking system, listed six reasons. These are: the current economic downturn, delays in statutory approvals for projects, aggressive lending during credit boom phase, laxity in credit risk appraisal, wilful defaults and loan frauds. The PAC also sought to know the reason for excess NPAs in PSBs compared with the private banks, which it said could not be just because of priority sector lending. With ICICI Bank's results throwing light back on NPAs, it remains to see what SBI has to offer.

**Sugar stocks' honeymoon may continue:** Recent data suggests that sugar output in India, the world's second largest sugar producer, may drop to a seven-year low of 23.5 million tonnes due to a severe drought in major sugar-producing regions. The decline in Chinese and Thai production means global output will be down for the first time in five years. The upturn in sugar prices has been touted as the biggest reason for the fire in sugar stocks which have rallied up to 90 per cent this year. It seems the rally may continue as the bull run in sugar is upon us.

**ATF price hike may dent airline stocks:** ATF prices have been hiked in Delhi NCR for the fifth time this year which may have an adverse impact on the operating costs of airline companies like SpiceJet, Jet Airways and IndiGo. One can surely brace for another correction in these stocks. However, shares of OMCs like IOC and HPCL may surge today after they hiked prices not only for ATF but also for non-subsidised LPG, kerosene, petrol and diesel.

**Oil market is feeling Deja vu:** As oil producers in the US and West Asia breathe a sigh of relief after oil prices recovered to close above the \$46 mark, some big market men are not too happy about the situation. They believe parallels between the March rally in 2015 and the current rally is uncanny and come summers, the plunge towards \$30 mark may resume. Should that happen, even the US Fed's dovishness or a 'No' vote in Brexit referendum may not save the equity markets as risk-off trade can ruin it all. Oil has been a major scarecrow for equities this year and the correlation isn't going away anytime soon.

(Source- <http://sugarnews.in/sugar-stocks-honeymoon-may-continue/>, published on 2<sup>nd</sup> May, 2016)

## Sugar rally seeing brief pause, but there's steam left

The last 10 months have seen a superb rally in sugarstocks as sugar realisations improved. The retail sugar prices have gone up almost 40% in last six months from Rs 26-27 a kg to Rs 36 a kg now. For manufacturers, rating agency ICRA data suggests that the prices that had seen three years low of about Rs 23,000 a tonne in July have improved to Rs 31,600 a tonne by end of March 2016. This is positive for the profitability of the companies and their balance sheet.

However, with the surging sugar prices, the government's concerns were bound to increase. This has pushed the government to think of some measures to control prices and thereby the rally in stocks too has taken some pause.

Most of the stocks as Balrampur Chini, EID Parry, Dhampur Sugar, etc, which had surged and hit their 52-week highs in March-April 2016, however are now trading at slightly lower levels. Nevertheless, analysts feel that though there may be a pause, there is steam left for the players. The sugar prices may not rise at the same pace as seen in past but will still remain firm.

The rise in sugar prices has taken place as estimates for sugar production in current sugar year (October-September) continuously got tweaked. The oversupply situation eased leading to a rise in sugar realisations.

As per latest ICRA estimates, domestic sugar production will be at around 25.5 million tonnes (MT) during the sugar year 2016 (SY2016; sugar year is October to September), a decline of 10% over the previous year, mainly driven by a drought Maharashtra, among the largest sugar producing states. Lower sugar production along with exports of around two MT, is likely to bring down the closing stocks to around 7.6 MT in SY2016 from around 9.5 MT in SY2015.

Thus, with the supply under check, prices are likely to remain firm and even gain a bit moving forward. The price rise however may not be very steep from here on. The government's likely intervention is one reason whereas the millers may also be keen to liquidate stocks to clear their cane arrears and reducing working capital loans by end of the year. Overall, with prices likely to remain firm the financial performance of companies will continue improving quarter after quarter.

For instance, Balrampur Chini is likely to see a 233 basis points improvement in operating margins on sequential basis for quarter ending March'16 as per IIFL. Also, for FY16 the company's earnings per share are anticipated at Rs 3.5 against loss of Rs 2.4 in FY15 and FY17 is likely to see a three-fold jump in EPS to Rs 10.3. Return ratios are also to improve.

EID Parry is also likely to see its fully diluted EPS improve 976% from Rs 1.4 in FY16 to Rs 15.5 in FY17 as per ICICI securities estimates. The return on equity will jump from 1.9% (FY16) to 19.6% in FY17. All this bodes well for stock prices too. ICICI Securities has a target price of Rs 250 for the stock trading at Rs 229 levels.

(Source- <http://sugarnews.in/sugar-rally-seeing-brief-pause-but-theres-steam-left>, Published on 2<sup>nd</sup> May, 2016)

## Drought effect: Sugar harvest may see 7-year low

India, the world's second-largest sugar producer, may harvest the smallest crop in seven years after drought cut cane planting.

Output will probably drop 7% to 23.5 million metric tonnes in the year beginning October 1, from an estimated 25.3 million tonnes this season, according to the median of estimates from seven traders, analysts and industry officials. That would be the lowest since the 18.9 million tonnes in 2009-10, Indian Sugar Mills Association data show. The government on Thursday estimated 2016-17 output at 23 million tonnes to 24 million tonnes.

The first back-to-back shortfall in monsoon rainfall in three decades has left vast tracts of India reeling under a severe drought, prompting farmers to cut cane planting to conserve water for drinking.

The decline in Indian output coincides with a shortfall in Thai and Chinese production, setting the stage for the first global deficit in five years. A 37% rally in prices in India in the past year prompted PM Narendra Modi to impose limits on amount of sugar traders can stockpile.

"India has sizable stocks and if there are sufficient stocks it will be comfortable," Michael McDougall, director at Societe Generale in New York, said. "Imports for consumption are not possible unless the unthinkable happens, which means monsoon fails." India will have 30 million tonnes to 31 million tonnes of sugar available in 2016-17, including 7.3 million tonnes of stockpiles from the previous season.

(Source- <http://sugarnews.in/drought-effect-sugar-harvest-may-see-7-year-low/>, published on 2<sup>nd</sup> May, 2016)

## In times of drought, sugar beet is economically more viable than sugarcane

Our school geography masters told all of us that there are two main sources of sugar sugarcane and sugar beet. Sugarcane was the preferred crop in India, Brazil, West Indies, and sugar beet was the preferred crop in Europe and the rest of the world. All of us thus believe that sugarcane is for us and sugar beet is some foreign crop. This thought process can be forgiven when water is plentiful, dams and irrigation canals are full, groundwater is there for the asking, aquifers are full, water table is high, electricity can be given to farmers free to let them pump out as much water as they need.

The problem with sugarcane is that it is probably the most thirsty crop in the world and the most wasteful in terms of irrigation, using perhaps 25-30 times as much water for irrigation compared to sugar beet. India must seriously think of alternatives for production of sugar when parts of India are facing severe drought, groundwater is fast depleting, dams are dry, people are dying, and farmers are committing suicide.

Sugarcane, they say, is the lazy farmers' crop. You plant the cane which takes a year to grow, you ensure the field always remains flooded, and gaze at the crop for a year. In a year or two, the ratoon crop grows and the same sequence is followed. You have flooded the fields for two years running with scarce irrigation water, much of which is wasted, to the detriment of the rest of the community and of all other crops, and your land is spoken for two years. Sugar beet, on the other hand, needs a fraction of the water used for cane, the crop ripens in four months compared to one or two years for cane, the beet has a 16 per cent sugar content compared to 11 per cent in the best cane grown in India, your land is free for at least six months to grow any other crop that brings you a profit, for example pulses which will also fix nitrogen into the soil and save foreign exchange needed to import pulses (or onions!), the spacing of the crop in the field is amenable to drip irrigation which will reduce water use even further, the leaves and residual pulp from the beet are excellent fodder for cattle. We talk about doubling farm income, and here is a method to achieve it.

I was personally involved with work on sugar beet in the early 1980s because the company I worked for, ICI, (Imperial Chemical Industries) had a serious interest in alternative sources of alcohol from distilleries not based on sugarcane, to be used as ethanol feedstock, because West Bengal had no sugarcane crop worth the name. We needed five lakh litres of alcohol per day to run our polythene plant at Rishra, West Bengal. Since alcohol is a state subject, we were dependent on the tender mercies of other states to get our feedstock. This was not always forthcoming, and we had to try and use political influence to get alcohol to keep our plant running.

At that time Ramakrishna Mission, Narendrapur, was experimenting with crops that could grow in the increasingly saline soil in parts of South 24 Parganas bordering the Sundarbans, where because of soil salinity in some areas even paddy would not grow. They hit upon sugar beet, which grew very well in this high salinity, tropical environment. ICI took up this initiative in the hope of getting a source of alcohol not based on sugarcane. With our

Managing Director Dr Subrata Ganguly's and then Chief Minister Jyoti Basu's help, the West Bengal Government set up the Sugar Beet Corporation which confirmed all these findings. However, this effort closed down because the sugar lobby in the rest of India was too powerful, too well connected politically, and felt no need to change from sugarcane because water for irrigation was not a problem. There were also no entrepreneurs in West Bengal prepared to enter this field. So, many of us Calcutta bhadralok added sweet sugar beet to our salads for many months because there was no other use for this wonder crop! Interestingly, sugar mills in Ganganagar, Rajasthan, used sugar beet for several years to extend the sugar season when sugar prices were high.

There is plenty of experience in India on sugar beet. In West Bengal we got the seeds and technical support from the Agricultural Institute at Naini in Allahabad. The Indian Sugar Mills' Association and various other sugar industry associations have done work on beet and confirmed its efficacy, but evidence indicates that perhaps the sugar lobby stopped all this work in several institutes for fear of having to venture into a new area away from their comfort zone. Is there a parallel to be drawn with the cotton mill owners in Mumbai who refused to upgrade their equipment leading to some grave consequences for them and their workers in the 1980s?

There is still a misconception in India that sugar beet is a European crop that cannot grow in India. Yet there is enough evidence on the ground that sugar beet can and is grown in parts of India. Newspaper reports suggest that India may have to import sugar next year because the shortage of water in parts of India will affect the sugarcane crop. Significantly, all this information is available with sugar institutes in India, based on the work they have already done.

The extraction of sugar from beet does not need rocket science the whole of Europe does it. It is a soft crop similar to fruit and thus easier to process than cane which requires drastic crushing. Using sugar beet, the sugar lobby and sugar mills can continue to be as powerful and influential as they are, perhaps more so because they have the option of taking sugar plus one other crop (pulses? onions?) under their wing. They say people only change when circumstances force them to do so, and the present and continuing water famine is an ideal opportunity for change.

**(Source- <http://sugarnews.in/in-times-of-drought-sugar-beet-is-economically-more-viable-than-sugarcane/>, published on 2<sup>nd</sup> May, 2016)**

## **Water crisis leads to call to stop sugarcane crop in Latur**

Latur has been facing one of its worst droughts this year. So, while the government has managed to ease the drinking water problem by introducing 'water trains' for Latur city in

addition to deploying 260 water tankers to supply water to 194 villages, the unprecedented situation has led to a call for ban on the water-guzzling sugarcane crop, which many perceive as one of the reasons for depletion of groundwater in the perennial drought-hit district. According to Groundwater Surveys and Development Agency data, there has been depletion of three metres in groundwater levels in Latur this year.

Collector of Latur district, Pandurang Pol, informed The Asian Age that the district administration has been trying to reduce land under sugarcane farming from 45,000 hectares to 7,000 hectares. "Sugarcane cultivation is one of the major issues that need to be tackled if we have to improve the water situation in Latur. Though the whole of Marathwada is drought-prone, Latur faces the worst water shortage because its river originates in Beed, which is a rain-shadow region. All other districts in the region get water from rivers that originate in western Maharashtra. For sugarcane farming, there has to be suitable land as well as well water available. In Latur, there is only 7,000 hectares of land available where both these conditions are fulfilled. Till last year, sugarcane was grown on 45,000 hectares of land. This year, the same has come down to 28,000 hectares. We need to bring it down further and for this, we also need to educate farmers. I have written personal letters to 29,000 farmers explaining the situation," said Mr Pol. The Latur collector further said that sugarcane cultivation in Latur mostly depends on borewell water, with there being 1.25 lakh wells and borewells in Latur. This year's water crisis has prompted the state government to impose a ban on digging borewells that go deeper than 200 metres.

However, this is not the first time that the state government has realised that sugarcane farming is not suitable for Marathwada. The Maharashtra Water and Irrigation Commission, in its report in 1999, had suggested putting a stop to sugarcane cultivation in Marathwada. Notwithstanding, there are 10 sugar mills in Latur alone. According to experts, a sugar mill requires 40 tonnes of sugarcane for it to remain profitable, which is why sugar mill owners encourage farmers to cultivate sugarcane even though sugarcane farming is not suitable for Marathwada. Deputy director of Maharashtra Nature Park, Avinash Kubal, is also of the view that farmers in Marathwada should cultivate crops that are suitable in dry areas. "Crops like sugarcane and banana require large quantities of water. In drought-prone Marathwada, where people are facing problems getting adequate drinking water, the use of a lot of water in farming is not advisable. Latur has two problems: One is the high rate of evaporation of water and the second is that excess water supplied to farms does not percolate into the land as the entire region sits above basaltic strata," he said.

Despite repeated calls for ban on sugarcane cultivation, the irony is that sugar factories have played an important part in Latur's rural economy. Local MLA Amit Deshmukh's family is associated with four out of the 10 sugar mills in Latur. A look at the balance sheets of these four sugar mills — Manjara, Rena, Vikas and Jagruti — shows that they paid Rs 371 crore to farmers, transporters, farm labourers, and factory workers. Of the Rs 371 crore, Rs 221 crore was paid to farmers alone and Rs 47 crore to farm labourers. In 2014-15, these factories

distributed Rs 683 crore to farmers and others. Mr Deshmukh said, "There is no doubt that we need to conserve water. Sugar factories do not need water. Now, with advanced technology, we reuse water generated from sugarcane crushing for factories. By next year, our factories will be completely self-sufficient in water supply. But there is a need to stop misuse of water in sugarcane cultivation. Lawmakers should make it mandatory for sugarcane farmers to use drip irrigation and other such techniques. Completely stopping sugarcane cultivation will have other adverse effects. One sugar mill provides direct or indirect employment to about one lakh people. We also get ethanol and generate electricity, thereby reducing the carbon footprint." Ashok Bhutada, owner of Kirti Oil Mill, the biggest producer of soya bean oil in Latur, echoed similar views. "If the government wants to discourage farmers from cultivating sugarcane, they should be given confidence that other produce will give them good returns. The fact is that farmers struggle even to recover their investment if they grow anything else," he said.

Then again, farmers themselves are now worried about the feasibility of sugarcane cultivation in Latur. Balaji Magar, a farmer from Kunki village in Jalkot taluka, which is about 90 km away from Latur city, said, "I have decided to cultivate soya bean now. Sugarcane has become unreliable. Even if it rains next year and doesn't the year after that, I will incur huge losses. Sugarcane is profitable only if you get good rain for three consecutive years." His village sarpanch, Santosh Tikde, seconded him. "We have received below-normal rainfall in the last five consecutive years. There is a growing tendency among farmers to move to other crops that do not require a lot of water. Soya bean, pulses and mustard can be grown with little water. There will be less income but farmers are also looking at stability," said Mr Tikde.

**(Source-<http://sugarnews.in/water-crisis-leads-to-call-to-stop-sugarcane-crop-in-latur/>, published on 2<sup>nd</sup> May, 2016)**

**Thought of the day**

**"Always Believe that Something Wonderful is About to Happen." –Anonymous**