NEWS FLASH – 20th April, 2016

SUGAR

Sugar stocks gain up to 82% till March, and could rise

When the market was crumbling under the pressure of external headwinds early this calendar year, sugar stocks were busy scripting a massive turnaround.

In the first three months of the year, stocks of sugar producers have soared up to 82% on the back of declining global production and rising global prices.

Many have discounted this rally as a one-off traders' rally and that things will turn for the worst for these stocks soon.

But Mehraboon Irani of Nirmal Bang Securities begs to differ. "I personally feel 4-5% of your portfolio money should go into the sugar stocks, because I have a very high conviction that the cycle for sugar has started," he said

"In case of sugar, if you ask most people, and that includes me, they would say they will ultimately turn, and you do not know whether the rally will sustain," he said. "But for the first time in a few years, I think that the new cycle for sugar may be upon us," he said. Internationally, sugar prices have soared since the International Sugar Organisation announced widening of deficit in global supplies. At home, domestic production was down 4.43% by the end of March for the season starting in October.

Globally too, production has been weak in Brazil, Thailand and Europe due to adverse weather conditions this harvesting season. In that backdrop, sugar prices climbed to their 17-month high in international futures market in Chicago.

I personally feel over the next one year there could be a shortfall as far as India goes in terms of sugar production. So the cycle has really turned for the sugar sector. The stocks have gone up, and can go up further," Irani said.

Globally though, things have changed a little bit in the past two weeks. Improving weather conditions and a falling real have raised production efforts in Brazil. Global funds have shortened their holding of sugar stocks with futures prices tumbling from their Marchend highs.

With the kind of distortions we have seen in Brazil, there is expectation of supply disruption. Even in the Indian context, you are probably looking at lesser production numbers," said Mayuresh Joshi, fund manager, Angel Broking.

"The sugar cycle moves in twoyear on-off cycle. So if one really expects the on-cycle, which is a positive cycle for the sugar industry, to start from the coming crushing season, then any substantial movement in terms of the end-realisation prices for sugar is definitely going to improve balance sheets of sugar companies," he said.

(Source-http://economictimes.indiatimes.com/markets/stocks/news/sugar-stocks-gain-up-to-82-till-march-and-could-rise/articleshow/51902214.cms, published in the The Economic Times on 20th April, 2016)

Editorial: Subsidies to farmers help agriculture? Perhaps not

With around Rs 175,000-180,000 crore of annual expenditure on agriculture subsidies, the government probably feels it is doing a lot for the farmers and, come election time, will probably boast about it to get the rural vote. Yet, as an Icrier analysis at its 'Supporting Indian farms the smart way' workshop shows, not only is the rising subsidy not helping agriculture as much as one would have hoped, it is worsening matters in various pockets in the country, and not just for the farmers.

There is, of course, the obvious problem of large leakages. In the case of fertiliser subsidies that account for over 40% of the total agriculture subsidy, at current global prices, a large chunk of subsidies actually go to inefficient local producers—at a time when global commodity prices are likely to remain low, it is important to keep this in mind. And when the fertiliser subsidy reaches the farmer, it is the larger farmers who get the bulk of it. That, of course, also applies to water and electricity subsidies that, together, add up to around 4.8% of the agriculture GDP, or around 55% of all farm subsidies. At a macro level, the problem is deeper since, at 9% of agriculture GDP, the money spent is around three times that spent on investment in the sector—so, if expenditure on subsidies was to be reduced, this would enable the government to spend more on investment.

If the expenditure on subsidies had the same impact as an increase in government investment, it wouldn't really matter. But, as the study points out, the money is better spent on investment, and by a long margin. For every million rupees spent on agriculture R&D, for instance, it finds that the number of poor would fall by 251—contrast this with a mere 11 in the case of the fertiliser subsidy and a negligible number in the case of irrigation. Every rupee spent on agriculture R&D, similarly, helps increase agriculture growth by R7.68—higher yielding seeds or, for instance, GM seeds that can withstand a flood/drought will boost farm output significantly. That same rupee, when spent on fertilisers helps raise agriculture GDP by a mere 35 paise.

The picture gets even worse when you take into account the negative impact of the subsidies. The most evocative example of this, of course, is the recent controversy over holding IPL matches in Maharashtra due to severe drought—as FE pointed out at that time, the 6 million litres of water that the IPL matches would consume was something used up in producing just 3 tonnes of sugar in the state versus the 9-10 million tonnes that is produced annually. With water available free, however, Maharashtra's farmers don't think twice about growing a crop that is mainly responsible for aggravating the crisis. Nor is Maharashtra alone—Punjab, for instance, uses more than twice the water that West Bengal does for cultivating rice, but nonetheless continues to be the biggest producer in the country. According to the Icrier study, nearly 80% of groundwater reservoirs in Punjab and 60% in Haryana are over-exploited, a direct result of the irrigation and power subsidy. Excessive use of urea, thanks to the huge subsidy on the fertiliser has, similarly, meant a massive imbalance in usage and a consequent reduction in fertility of the soil. Amazingly, despite the huge body of evidence showing the waste, successive governments have continued to push subsidies over investment—sadly, farmers seem to have fallen for the ploy.

(Source- http://www.financialexpress.com/article/fe-columnist/editorial-subsidies-vs-agriculture/239821/, published in The Financial Express on 20th April, 2016)

CO-GEN/ POWER

'Developed countries must tax coal for climate fund'

Ahead of signing the Paris climate agreement in New York later this week, Union Environment Minister Prakash Javadekar, said New Delhi would exhort developed countries to take a cue from India and impose a tax on coal production to the tune of $6 per tonne (approx. Rs 390/tonne). This would kick-start the annual $100 billion (approx. Rs 6.5 trillion) fund promised by developed nations to tackle climate change, he said.

"India has shown the way and we have imposed a tax on coal. If the West were to follow we would easily meet the $100 billion target," said Mr Javadekar, who will join representatives from 130 countries including China, Brazil and South Africa — known as the BASIC — in signing the agreement, that was negotiated upon by 195 countries last December.

The countries had then committed to ensure the globe's temperature was well below 2C higher than pre-industrial levels.

Highlighting the actions taken by India on climate change after the Paris Agreement, Mr Javadekar said 175 GigaWatt (GW) of renewable energy has been targeted by 2022, out of which 40 GW had been installed by March 2016. The government has decided to leapfrog from Bharat Stage IV (BS-IV) to Bharat Stage VI (BS-VI) emission norms by April 1, 2020, thereby skipping BS-V emission norms altogether.

Other steps included a decision to promote blending of ethanol with petrol and use it as an alternative fuel and a tax on sports utility- and-diesel vehicles, according to Mr Javadekar.

Nearly 93 million LED bulbs have been distributed till April 12, 2016, which saved nearly 33.3 million kWh every day.

130 countries are expected to sign the Paris agreement in New York later this week, which is a precursor to them ratifying — or implementing their declared plans — the agreement.

(Source-http://www.thehindu.com/news/national/developed-countries-must-tax-coal-for-climate-fund/article8495324.ece, published on 20th April, 2016)

Coal India to Hold E-Auction for Power Plants

State-run Coal India Ltd (CIL) will next week hold the first phase of a special e-auction for the ongoing fiscal year to provide coal to power producers as part of the government's efforts to ensure round-the-clock electricity to all.

The special forward e-auction for 2016-17 for power producers including captive power plants (CPP)-Phase I would be held on April 27-28, CIL said in a notice.

The reserve price for power sector consumers will remain at 10 per cent over the notified price of coal for power sector and for CPPs it will remain at 10 per cent over the notified price for non-power sector, CIL said in another notice.

"This, however, is applicable to G6 and below grades of coal," it said.

"The subsidiary coal companies shall notify the source and grade wise reserve price of coal on their respective websites and convey the same to the respective service providers," it said.

The successful quantity of the bidder will be allocated on equated monthly basis over the months from May to October, it said, adding that the payment of coal value will be made on monthly basis in two installments as per the bidder's choice.

(Source-http://indianpowersector.com/2016/04/coal-india-to-hold-e-auction-for-power-plants/,published on 19th April, 2016)

Solar helps drive £1 billion of green investment from RBS

The Royal Bank of Scotland (RBS) more than trebled its lending to solar projects in 2015 compared to the previous year as part of over £1 billion used to support sustainable energy projects.

According to figures released this morning, the bank lent more than double the amount it did in 2014 to renewables, marking a third consecutive year of growth for the sector. RBS says this was driven by significant increases in both solar and biomass projects, with lending to solar reaching more than £450 million in 2015.

Alison Rose, chief executive of commercial and private banking at RBS, said: "Our record £1 billion of lending is a huge achievement, demonstrating our unwavering commitment to the low carbon economy and the jobs, businesses and communities that rely on it. It also highlights British businesses' appetite for investing in renewable energy projects."

While a significant proportion of this investment would have been fuelled by government subsidies to promote deployment, it is unclear if the high level of solar investment will continue. However, commercial rooftop solar projects are expected to continue to grow in number regardless of reduced financial incentives, suggesting lenders like RBS will continue to garner interest.

The bank, which is now predominantly owned by the state following a £46 billion bailout in 2008 and 2009, claims to have been at the forefront of the UK solar market since 2010. In addition to direct lending over that period, it has reportedly arranged financing for £550 million worth of solar projects.

One of the latest developments to receive support from RBS was the recently completed floating solar project on Thames Water's Queen Elizabeth II Reservoir, currently the largest of its type in Europe.

(Source-http://indianpowersector.com/2016/04/solar-helps-drive-1-billion-of-green-investment-from-rbs/, published on 19th April, 2016)

ETHANOL

Govt urges industry to boost ethanol output; assures purchase

Urging the industry to boost ethanol production, the government has said it is ready to purchase the entire output.

The development comes in the wake of the government making compulsory blending 10 per cent ethanol with petrol.

"Government is ready to purchase the entire quantity of ethanol produced by the industry. It could think of ways for economically viable production of ethanol," Union Road Transport, Highways and Shipping Minister Nitin Gadkari told ethanol producers.

Chairing a meeting of Indian Federation of Green Energy, the minister said ethanol could be a game changer as it is economically viable and environment-friendly. He said the industry could find ways and means for boosting the production through molasses, bagass, corn or other means and the government was ready to buy the entire produce.
Citing the example of flex-fuel cars in Brazil, Gadkari said India was also on the way to promote such vehicles as this could minimise pollution.

Under Ethanol Blending programme (EBP), the central government has scaled up blending targets from 5 per cent to 10 per cent to promote blending of ethanol with petrol and its use as alternative fuel," the government has said last year. It has said the production cost of ethanol produced through C-heavy route from molasses is Rs 36.2 per litre.

The production of ethanol is linked to the production of molasses which is a byproduct during the production of sugar.

Parliament was recently informed that the government is also providing soft loans of up to 40 per cent of the project cost to sugar mills for setting up ethanol projects.

To augment supplies of ethanol to oil marketing companies (OMCs) under EBP, the policy for procurement of ethanol has been modified to smoothen the entire ethanol supply chain to provide remunerative price of ethanol.

(Source- http://economictimes.indiatimes.com/news/economy/agriculture/govt-urges-industry-to-boost-ethanol-output-assures-purchase/articleshow/51898296.cms, published in The Economic Times on 19th April, 2016)

Thought of the day

"A creative man is motivated by the desire to achieve, not by the desire to beat others".

-Ayn Rand