NEWS FLASH – 21st April, 2016

SUGAR

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

ICRABSE -2.32 % estimates domestic sugar production at around 25.5 million metric tonnes (MT) during the sugar year 2016 (SY2016), a decline of 10% over the previous year. This was mainly driven by a drought in the largest sugar producing state, Maharashtra, which impacted sugarcane availability. Lower sugar production along with exports of around 2 million MT, is likely to bring down the closing stocks to around 7.6 million MT in SY2016 from around 9.5 million MT in SY2015.

Sabyasachi Majumdar, senior vice-president, ICRA Limited, said "The decline in sugar stocks is a positive and has resulted in an improvement in domestic sugar realizations since August 2015. With effective cane prices (after accounting for duties and State-level subsidies) for SY2016 largely remaining unchanged over the previous year, the increase in sugar realizations is expected to improve the contribution margins for sugar in SY2016. These factors, together together with the higher recovery rates, are expected to drive a significant improvement in profitability for sugar mills based in Uttar Pradesh. Profitability improvement is likely to be moderate for mills based in Maharashtra and Karnataka, given the lower cane availability coupled with the increase in cane prices in SY2016. This apart, profitability is also likely to be supported by improved realizations for by-products. While better profitability and stock reduction are expected to result While better profitability and stock reduction are expected to result in improved liquidity and debt coverage metrics for sugar mills in the near term, the same would continue to be weighed down by high amounts of debt outstanding and/or cane dues incurred to cover losses in the previous sugar years

While international sugar prices have recovered marginally from their record lows of September 2015, they remain at modest levels. Although sugar mills will have to sell sugar at the modest global prices prevailing, ICRA expects export-linked subsidies for SY2016 and the resulting modest increase in domestic sugar realizations to offset the losses from export sales to a large extent. While the government has supported sugar mills by providing interest-free loans to clear cane dues and mandating compulsory exports to tackle the high sugar stocks in the domestic market, the primary aspect of linking sugar and by-product realizations with cane costs is yet to be fully addressed, although ICRA sees a movement towards this goal, as seen in UP.

Mr. Majumdar added "With renewed focus on the ethanol blending programme (EBP) and mandatory ethanol blending been revised from 5% to 10%, the new fixed pricing mechanism for ethanol supplied to OMCs and removal of central excise duty is expected to augur well for the profitability of the industry as a whole through higher realizations for ethanol as well as balancing of domestic sugar surplus."

(Source- economictimes.indiatimes.com/markets/commodities/sugar-output-to-be-at-25-5-mmt-in-2016/articleshow/51911853.cms, published on 20th April, 2016)

Centre empowers states to curb sugar prices

The Union government has empowered states to impose stock holding limits on sugar under the Essential Commodities Act. States have also been directed to take action against any artificial increase in price.

Prices rose as a result of rising exports after a rebound in international prices, lower than expected domestic production and summer demand from cola majors and ice-cream makers. However, soon after reports came out about possible stock limits, sugar prices on the National Commodity and Derivatives Exchange (NCDEX), a derivative exchange, fell four per cent before recovering slightly. May futures for Kolhapur delivery, however, closed 2.7 per cent lower at Rs 3422 per quintal on NCDEX.

In the Mumbai (Vashi) spot market, the medium grade went up 17 per cent from Rs 3,202 at the beginning of the calendar year to Rs 3741 on Wednesday. The spot market was not affected by reports of limits as currently supply is short and export and seasonal demand from cola majors and ice cream makers is good.

Sources said the proposal to impose stock limits was discussed at a recent meeting of the committee of government secretaries. Some officials from the food department felt that such a limit would go against the interest of growers, who after a long time were seeing good price realization.
However, consumer affairs ministry officials warned that any misstep in reading price signals could lead to a situation similar to the rise in pulses last year.

The ministry is understood to have received reports that the price spurt is because of hoarding by traders.

The industry fundamentals are improving with the international market turning hot for sugar because of lower production in other major countries like Brazil and consistent downward revision in production in India. Sugar price touched a three year-low of Rs 2,300 a quintal in July 2015.
Indian Sugar Manufacturers Association (Isma) has now said production could be well below even 26 million tonnes (mt) this season, a fall of about 10 per cent, while exports have increased and the year could end with two mt of exports.

The price spurt has benefited sugarcane growers as mills are paying arrears. According to

Isma, "as compared to the cane price arrears of 2015-16 season of over Rs 21,800 crore as on April 12, 2015, arrears during the current season are lower about Rs 13,300 crore."

Abinash Verma, director general, Isma said, "current prices in the past 15 days are just covering cost and if one looks at seasons average price of Rs 29.5-30, that is not covering cost. In the remaining season, industry needs to get average price of Rs 36-37 per kg to cover cost. Hence, controls at this stage are not required."

Sugar companies too are seeing profits, though cleaning of balance sheets may take some time as debt levels are high.
ICRA says, "Profitability improvement is likely to be moderate for mills based in Maharashtra and Karnataka, given the lower cane availability coupled with the increase in prices in 2016. This apart, profitability is also likely to be supported by improved realisations for by-products.

While better profitability and stock reduction are expected to result in improved liquidity and debt coverage metrics for sugar mills in the near term, the same would continue to be weighed down by high amounts of debt outstanding and/or dues incurred to cover losses in the previous sugar years."

(Source- http://www.business-standard.com/article/markets/centre-empowers-states-to-curb-sugar-prices-116042000477_1.html, published on 20th April, 2016)

Sugar prices cross Rs 40/kg; Centre to curb stock holding

Prices are rising on expectation of lower output, govt's order of mandatory export of 3.2 MT in 2015-16 marketing year (Oct-Sept)

With retail sugar prices crossing Rs 40 per kg level, Centre has directed state governments to impose stock holding limits on sugar traders to check hoarding and control price rise.

The stock holding limits are imposed under the Essential Commodities Act. It means traders cannot hold stocks beyond the limit specified by the state government.

"Keeping in view the sugar price trend, we have asked the state governments as a precautionary measure to impose stock holding limits on traders to check hoarding," Food Minister Ram Vilas Paswan said.

Sugar prices in retail markets have been rising since October 2015 due to estimates of lower production at 25.6 million tonnes for 2015-16 marketing year (October-September), as against 28.3 million tonnes in the previous year.

The prices crossed Rs 40 per kg since beginning of this month as compared to about Rs 30 per kg in October last year. At present, prices are ruling at Rs 44 per kg, according to the government data.

Sugar prices were depressed during 2014-15 marketing year on record production and huge carry over stock that led to sharp rise in cane arrears of about Rs 21,000 crore.

However, the prices have been inching up on expectation of lower output and the government's order of mandatory export of 3.2 million tonnes in the ongoing 2015-16 marketing year (October-September).

Mills have exported only 1.3 million tonnes of sugar so far in this marketing year and are likely to ship 7,00,000 tonnes more by September.

Sugar production fell by 8% to 24.3 million tonnes till April 15 of this marketing year.

(Source-http://www.business-standard.com/article/markets/sugar-prices-cross-rs-40-kg-centre-to-curb-stock-holding-116042001015_1.html, published on 20th April, 2016)

Return of government controls a risk for sugar shares

Maybe, the government is only sounding a warning and does not actually intend to impose stock limits. If sugar prices cool down, it may hold back. Otherwise, stock limits are just one weapon in its arsenal.

The strings attached to the government's relief measures for sugar mills are becoming visible. On Wednesday, shares of sugar mills fell after news that the government may impose stock limits. This is a regressive step, moving away from decontrol, but is not a surprise altogether.

Stock limits will mean sugar in excess of the limits will be sold, leading to more supply and lower prices. The government's concern must be rising sugar prices. But they have been rising since end-September, so why the late reaction?

The increase in recent months has been rapid. Since end-January, wholesale sugar prices are up by as much as 17%, while they are up by 39% since end-September. Globally, sugar prices have risen because of bad weather affecting the sugar cane crop in major producing countries such as India, Brazil and Thailand.

That stress is visible in India's output. Sugar production as of 15 April is down by 8% at 24.3 million tonnes (mt) from a year ago, says the Indian Sugar Mills Association (Isma).

Whether Isma's estimate of 26 mt will be met remains to be seen, as only 117 mills are operating as of 15 April, compared with 245 a year ago. Prices may keep rising, as this situation unfolds.

So what? Prices rise and fall in a free market, sugar is a decontrolled sector, and prices had been lying low for years. Why deny mills a year or two of good profit growth in a cyclical industry?

The government may think it has the moral right to keep prices in check. Sugar mills in India have wrung concessions from the government, in return for paying a higher price for sugar cane. Although the Rangarajan committee has advocated linking sugar cane purchase price to the price of sugar and by-products, major sugar producing states such as Uttar Pradesh have not implemented it.

Mills in Uttar Pradesh are forced to pay a state-determined price. In turn, they delay payments to farmers, leading to huge arrears, resulting in a confrontation between mills and state governments. Over the past few years, the Uttar Pradesh government has given some concessions to mills.

The central government too has taken a number of measures for the sector. These include levying higher import duties on sugar, making it mandatory for oil marketing companies to procure ethanol (including fixing the purchase price), soft loans and an excise duty exemption on ethanol.

The idea was to give some financial support to sugar mills, and the government even looked the other way as sugar prices rose. The government asked sugar mills to export 4 mt of sugar by September 2016. The money realized was to be used to cut down cane arrears and limit domestic supply. However, exports have been below targeted levels as domestic prices were higher. That is unlikely to have gone down well with the government.

Rising sugar prices are a bigger pain. People will complain, state elections are under way and it could push up inflation as well. Maybe, the government is only sounding a warning and does not actually intend to impose stock limits. If sugar prices cool down, it may hold back. Otherwise, stock limits are just one weapon in its arsenal.

In the past, the government has come down heavily on rising sugar prices. It can do so again. Government controls are a risk in sugar shares that investors have to now watch for.

(Source-http://sugarnews.in/return-of-government-controls-a-risk-for-sugar-shares/, published on 21st April, 2016)

CO-GEN/ POWER

UP govt drops 10% power surcharge

The drought-hit Bundelkhand got an additional benefit on Monday when UP Electricity Regulatory Commission (UPERC) decided not to impose the 10% surcharge on unmetered power consumers in the region. The commission had decided to slap 10% additional surcharge on rural unmetered consumers who despite repeated reminder failed to get a metered connection.

UPERC chairman Desh Deepak Verma said the commission has put its order of imposing the surcharge on unmetered consumers in abeyance. "This is in consideration of hardships faced by consumers in the region," he said. The regulator's fresh directive comes close on the heels of UP government deciding to increase power supply to the region hit by a severe drought.

The sop extended to Bundelkhand, said Verma, will be applicable to other districts as well. He said the regulator did not receive complaints against rural consumers of not getting meters installed. "Less metering was because of callousness of the UP Power Corporation Limited (UPPCL), so why should consumers be punished," he asked.

According to an estimate, there are 75 lakh unmetered power consumers in rural areas of the state. Of these, 65 lakh are in the light-fan category, while 10 lakhs are those with tube well connections.The commission had earlier set December 31, 2015 deadline for UPPCL to install meters in the rural areas. The deadline was extended further to March 31, 2016. But the situation did not improve. UPERC officials said though there is a rise in urban areas, rural areas remained more or less untouched.

(Source-http://timesofindia.indiatimes.com/city/lucknow/UP-govt-drops-10-power-surcharge/articleshow/51886146.cms, published on 19th April, 2016)

High industrial tariff forces buyers to purchase power through open access

A comprehensive study recently done by the Forum of Regulators (FOR) on India's present power sector says in several states tariff structure is too complex and lack transparency. Tariffs are non-cost reflective. Each consumer category is further split into many sub-categories and such structure is preventing the consumers from responding to tariff signals. Across various states, the industrial tariff has been high coupled with low-quality of supply. FOR is a representative body of the Central Electricity Regulatory Commission and the state electricity regulatory commissions.

Between 2006-07 and 2014-15, electricity procurement from utilities grew by 4.6% annually, which is lower than the 9.3% growth in captive power generation.

The analysis brought out that for various states, at the current level of transmission and distribution (T&D) losses, the average tariffs are less than the average cost of supply. Even with T&D losses considered at 10%, the average tariff in respect of several states would be less than average cost of supply," an FOR member, who did not want to be identified, told *Business Standard*. "Further, a detailed analysis across nations on parameters of GDP, tariff level and quality of supply indicates that India stands low on per capita GDP, high on industrial tariff and low on quality of supply."

He said as industrial sector contributes significantly to the GDP, further increase in industrial tariff, cross subsidy surcharge would negatively impact the GDP.

Price barriers such as high industrial tariff, high cross subsidy surcharge and non-price barriers such as low quality and erratic supply, ease of procuring power through open access has led to a shift to captive generation. As the industrial tariff crosses the limit of Rs 6 per unit, the consumers tend to move towards power procurement through open access.

FOR study shows that cross subsidy surcharges (CSS) across states varies across states and in some cases as high as Rs 3.42 per unit. As the industrial tariff crosses the limit of Rs 6 per unit, the consumers tend to move towards power procurement through Open Access. "These barriers by states have not only resulted in making open access a non-starter, but are also causing serious impediments to the "Make in India" vision of the Government," FOR says in its study.

FOR has recommended transparency & simplicity in retail electricity tariffs structure. It has cited one price in other commodities like diesel and petrol. According to FOR, too many categories and sub-Categories in electricity tariffs, makes it prone to leakages and therefore emphasized the need for cost reflective tariffs necessary for the recovery of cash strapped distribution companies.

(Source-http://www.business-standard.com/article/economy-policy/high-industrial-tariff-forces-buyers-to-purchase-power-through-open-access-116042000305_1.html, published on 20th April, 2016)

ETHANOL

After 3 years, India to achieve 5% ethanol-petrol blend target

After three years of formally mandating five per cent of petrol blended with ethanol, the country is set to achieve this target for the first time during the current sugarcane crushing season, i.e by the end of September.

To achieve this target, the three government-owned oil marketing companies (OMCs) require 1,335 million litres of ethanol every cane crushing season (October–Sept). Since the government does not allow grain-based ethanol to be produced, the OMCs are fully dependent for its procurement from sugar mills. For the latter, the green fuel is a byproduct.

The PM's personal commitment to renewables and the petroleum ministry's focus on solving price and implementation hurdles have made a huge difference on the ground. Ethanol, in fact, became a key part of the solution for the crisis in the sugarcane sector," said Narendra Murkumbi, managing director, Shree Renuka Sugars, the largest producer of ethanol.

Till last year, a lower price offer and slow pick-up of the contracted quantity by OMCs deterred supply viability from sugar mills. “OMCs have finalised contracts to procure ethanol to the tune of 1,340 million litres for the current year, exactly the five per cent blending requirement. There is now an assured buyer at a confirmed price. So, lots of sugar mills prefer to supply ethanol to OMCs rather than to industrial or potable alcohol users,” said Abinash Verma, director-general, Indian Sugar Mills Association.

The five per cent mandatory blending was approved in November 2012 by the Cabinet Committee on Economic Affairs. It was notified by the Centre, under the Motor Spirits Act, on January 2, 2013. The Act said OMCs had to record five per cent ethanol content in petrol by end-June 2013. However, with the weak supply orders on an unremunerative price offer, they've managed a maximum of 3.5 per cent so far.

While sugar mills blamed a lower price for inadequate supply offers, OMCs said the falling crude oil price was responsible for their low price quotes, as blending of ethanol could be a loss- making proposition for them at these levels. As against a maximum price fixed for ethanol supply at Rs 43 a litre for contracts finalised till December 2014, the government in January 2015 raised this to Rs 48.5–49.5 a litre, depending on proximity of the delivery station from distillery units.

(Source- http://www.business-standard.com/article/economy-policy/after-3-years-india-to-achieve-5-ethanol-petrol-blend-target-116042000808_1.html,published on 20th April, 2016)

Thought of the day

‘Life can only be understood backwards; but it must be lived forwards.’- Soren Kierkegaard