

## NEWS FLASH – 22nd April, 2016

### SUGAR

#### Drought in Maha may hit sugar production by 10 pc this year

Drought conditions in Maharashtra may hit the domestic sugar production in the sugar year 2016, which is estimated to decline by 10 per cent at around 25.5 million metric tonnes, rating agency ICRA has said.

“We estimates domestic sugar production at around 25.5 million metric tonnes (MT) during the sugar year (SY) 2016, a decline of 10 per cent over the previous year. This was mainly driven by a drought in the largest sugar producing state Maharashtra,” ICRA said in a statement here today.

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 sugar year 2016 from around 9.5 million MT in SY2015, it said.

“The decline in sugar stocks is positive and has resulted in an improvement in domestic sugar realisations since August last year.

“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 realisations is expected to improve the contribution margins for sugar in this year,” it said.

These factors, together with the higher recovery rates, are expected to drive a significant improvement in profitability for sugar mills based in Uttar Pradesh (UP), ICRA Senior Vice-President Sabyasachi Majumdar said.

Profitability improvement is likely to be moderate for mills based in Maharashtra and Karnataka. This apart, profitability is also likely to be supported by improved realisations for by-products, Majumdar said.

Although sugar mills will have to sell sugar at the modest global prices prevailing, ICRA expects export-linked subsidies for the current sugar year and the resulting modest increase in domestic sugar realisations to offset the losses from export sales to a large extent. While the Centre 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 market, the primary aspect of linking sugar and by-product realisations with cane costs is yet to be fully addressed, ICRA sees a movement towards this goal, as seen in UP.

“With renewed focus on the ethanol blending programme (EBP) and mandatory ethanol blending been revised from 5 to 10 per cent, 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 realisations for ethanol as well as balancing of domestic sugar surplus," Majumdar said.

In September 2015, the Centre had notified the minimum indicative export quota (MIEQ) for sugar mills to export 4 million MT of sugar during the ongoing sugar year.

The mills that meet a minimum of 80 per cent of the target notified under the MIEQ and under the ethanol blending programme, for those mills that have distillation capacities to produce ethanol are eligible for this subsidy, it said.

Meanwhile, sugar prices, after touching a three-year low of Rs 23,000/MT in July 2015, have been on a rising trend since August last year in anticipation of stock clearance backed by exports and lower production in Maharashtra.

The announcement of cane production subsidy in December, 2015, the expected increase in sugar exports and the likely global sugar deficit scenario have combined to cause sugar prices to firm up to Rs 31,000/MT in February 2016 and Rs 31,600/MT in March 2016, it said.

Going forward, the sustainability of the upward trend in sugar prices remains critically dependent on the sugar exports for sugar year 2016 as well as expectations on production figures for next sugar year 2017, it added.

**(Source- <http://sugarnews.in/drought-in-maha-may-hit-sugar-production-by-10-pc-this-year/>, published on 20th April, 2016)**

## **Sugar drops as demand eases**

Sugar prices declined by ₹10 a quintal at Vashi market on Thursday tracking need-based demand amid weak futures. Naka and mill tender rates were steady but the volume remained thin. Fear of stock limits also kept stockists to stay away from taking bulk buys risk. Arrivals to the Vashi market were at 58-60 truck loads and local dispatches were at about 60-62 loads. The Bombay Sugar Merchants Association's spot rates: S-grade ₹3,600-3,742 (3,600-3,742) and M-grade ₹3,656-3,812 (3,666-3,816). Naka delivery rates: S-grade ₹3,600-3,650 (3,600-3,650) and M-grade ₹3,650-3,750 (3,660-3,750).

**(Source- <http://www.thehindubusinessline.com/markets/commodities/sugar-drops-as-demand-eases/article8504403.ece>, published on 21st April, 2016)**

## **Maharashtra may insist on use of recycled water by factories**

Against the backdrop of severe drought plaguing the state, the Maharashtra government mulls bringing a law which will make it mandatory for industries to use recycled water.

In its measures to mitigate the acute water crisis, Industries Minister Subhash Desai said he has instructed authorities concerned at the Maharashtra Industries Development Corporation (MIDC) to study the feasibility of raising the height of dams, desilting and deepening of lakes under its jurisdiction as part of its watershed management plan.

"We are mulling to initiate long-term measures like increasing the height of MIDC dams and making recycled water mandatory for industries by amending the MIDC Act, 1961," Desai told PTI.

"The industry department will also undertake a project under which the height of dams will be raised and lakes, water canals will be deepened to preserve drinking water in future," he said.

Commenting on the grave water scarcity conditions in the State, specially in Marathwada, the minister said there are as many as 62 cooperative and private sugar mills in Marathwada region; besides, there are liquor distilleries in Aurangabad district.

"There are more sugar mills and distilleries in Marathwada that guzzle up more water in a region which is known to face acute water scarcity. In order to produce 1 kg of sugar, apart from sugarcane, you require 2,500 litres of water.

"When you consider lakhs of tonnes of sugar produced by these sugar mills and the lakh tonnes of produce that is exported...you are actually exporting that much lakh litres of water," Desai said.

He, however, said though drinking water is of utmost importance, industries too are vital as they generate employment for lakhs of people.

**(Source-<http://www.thehindubusinessline.com/news/national/maharashtra-may-insist-on-use-of-recycled-water-by-factories/article8505129.ece>, published on 21<sup>st</sup> April, 2016)**

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

## **Sugar futures remain weak on adequate stocks**

Sugar prices eased further by 0.45 per cent to Rs 3,574 per quintal in futures trade today as participants trimmed positions, driven by ample stocks at the spot market on higher supplies from mills.

Meanwhile, the Centre has directed state governments to impose stock holding limits on sugar traders to check hoarding and control price rise.

At the National Commodity and Derivatives Exchange, sugar for delivery in July drifted by Rs 16, or 0.45 per cent, to Rs 3,574 per quintal with an open interest of 38,910 lots. Similarly, the sweetener for delivery in May declined by Rs 12, or 0.35 per cent, to Rs 3,428 per quintal in 97,630 lots.

Market analysts said offloading of positions by traders, triggered by adequate stocks position on higher supplies from mills in the physical market mainly kept pressure on sugar prices at futures trade.

**(Source- <http://economictimes.indiatimes.com/markets/commodities/news/sugar-futures-remain-weak-on-adequate-stocks/articleshow/51924384.cms>, published on 21st April, 2016)**

## **Government mulls on law making recycled water use mandatory for factories**

Against the backdrop of severe drought plaguing the state, Maharashtra government is mulling to bring a law which will make it mandatory for industries to use recycled water.

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"We are mulling to initiate long term measures like increasing the height of MIDC dams and making recycled water mandatory for industries by amending the MIDC Act, 1961," Desai told PTI.

"The industry department will also undertake a project under which the height of dams will be raised and lakes, water canals will be deepened to preserve drinking water in future," he said.

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"There are more sugar mills and distilleries in Marathwada that guzzle up more water in a region which is known to face acute water scarcity. In order to produce 1 kg of sugar, apart from sugarcane, you require 2500 litres of water. When you consider lakhs of tonnes of sugar produced by these sugar mills and the lakh metric tonnes of produce that is exported...you are actually exporting that much lakh litres of water," Desai said.

He, however, said though drinking water is of utmost importance, industries too are vital as they generate employment for lakhs of people.

(Source- <http://www.financialexpress.com/article/india-news/government-mulls-on-law-making-recycled-water-use-mandatory-for-factories/240784/>, published on 21<sup>st</sup> April, 2016)

## Sugar exports from India dry up on robust domestic prices

**With domestic sugar prices firming up, exports of the sweetener from India have almost come to a standstill. Ex-mill sugar prices that were hovering around R33 per kg over the past week improved to touch R36-R37 per kg in Maharashtra and R36.50-R37.50 per kg in Uttar Pradesh.**

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According to the Bombay Sugar Merchants Association, 14-15 lakh tonne of sugar has been exported from India so far and chances of improvement in the situation are bleak this season. Mukesh Kuvedia, secretary general of the association, says that although international rates of the sweetener have improved to around \$470 per tonne on Monday, traders are preferring the domestic market over overseas markets.

Over the past week, international prices have been on the lower side (around \$330-\$400 per tonne) and the start of the Brazilian sugar season was also expected to impact Indian export, he said.

The government was instrumental in persuading mills to agree to a target of 32 lakh tonne of sugar exports in 2015-16. With forecasts of lower output and higher local prices, the trader sentiment is that India may not be able to meet its export target. In addition, prices of raws have also touched 15 cents from 14.2 cents. However, with the season almost ending and very few mills are in a position to take up the production of raw sugar, which is usually factored in at the start of the season despite government subsidies, Kuvedia said.

Now the mills will have to wait for the next season which begins in October and then plan for raw sugar exports since this subsidy is allowed for the 2015-16 season, Kuvedia said.

(Source- <http://www.financialexpress.com/article/markets/commodities/sugar-exports-from-india-dry-up-on-robust-domestic-prices/240458/>, published on 21<sup>st</sup> April, 2016)

## CO-GEN/ POWER

### Power transmission fails to open up arms for private investment

Last year, on several occasions, Piyush Goyal, minister of state for coal, power and renewable energy said that power transmission sector would be the next sunrise industry for private investment and the government would award projects worth Rs 1 lakh crore during 2015-16 through bidding route.

As the power sector enters new financial year with record generation capacity, both in conventional and renewable energy, investment in transmission is clearly lagging. Of the committed Rs 1 lakh crore, projects worth Rs 18,000 crore were tendered out.

Aimed at power evacuation mostly in Eastern and Southern India, these were inter-state transmission corridors in Chhattisgarh, Odisha, Andhra Pradesh, Telangana and some parts of North.

A total of 13 projects went under the TBCB (Tariff based competitive bidding) route during FY 2015-16 with cumulative estimated cost of Rs 18,300 crore. Three projects each were won by Sterlite Grid, Essel Infra, Adani Power and state owned Power Grid Corporation of India. One was won by Kalptaru Power Transmission Limited (KPTL).

(Source-<http://indianpowersector.com/2016/04/power-transmission-fails-to-open-up-arms-for-private-investment/>, published on 21st April, 2016)

### Energy PSUs to float \$1 billion masala bonds

Public sector companies including NTPC, Power Finance Corp and Rural Electrification Corp are likely to float rupee-denominated debt instruments, or masala bonds, in the UK to raise \$1 billion in next three-to-four months to fund the country's ambitious renewable energy plans.

"Companies including NTPC, Neyveli Lignite Corp, Power Finance Corp, Power Trading Corp and Rural Electrification Corp are likely to launch these masala bonds totalling \$1 billion (about Rs 6,600 crore) in the next three or four months in the UK to gauge the investor appetite," Power Minister Piyush Goyal said on Wednesday. The tenor of these bonds is likely to be limited to a band of five to seven years and these are going to be in smaller denominations ranging from \$150-250 million, or about Rs 990-1,650 crore.

These will be subject to decisions made by the boards of the PSU energy companies, he said. In addition, Energy Efficiency Services Ltd could explore issuance of green Masala Bond subject to credit rating, Goyal said at a round table on 'Financing Renewables and Energy

Efficiency' in London. Indian Renewable Energy Development Agency Ltd (IREDA) is also coordinating a \$1-billion equity fund in the renewable space.

**([http://economictimes.indiatimes.com/markets/bonds/energy-psus-to-float-1-billion-masala-bonds/articleshow/51913090.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](http://economictimes.indiatimes.com/markets/bonds/energy-psus-to-float-1-billion-masala-bonds/articleshow/51913090.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst), published on 20th April, 2016)**

### **Thought of the day**

'We are shaped by our thoughts; we become what we think. When the mind is pure, joy follows like a shadow that never leaves.' -Buddha