

NEWS FLASH – 24th March, 2016

SUGAR

The bitter fight over sugary drinks

Last month, Coca-Cola suspended bottling operations at three plants in India, including in Rajasthan. This plant has been in the eye of protests by local farmers, who complained that the company was using depleting ground water reserves in the parched north-western state. Hindustan Coca-Cola Beverages, a subsidiary of The Coca-Cola Co, however, has claimed that it was a responsible corporate citizen, harvesting rainwater and encouraging farmers to use drip irrigation, which is a more efficient method of watering crops than traditional alternatives.

While the debate over corporate ethics will continue, the country's Rs 14,000-crore soft drinks industry is facing other challenges. In the Budget for 2016-17, the Union government raised excise duty on soft drinks to 21 per cent from 18 per cent. This is the second year that the sector has faced a levy increase and, this time it will affect the price by one to two per cent, in turn hitting sales. Coca-Cola and PepsiCo, the country's two major soft drink producers, are already reeling from single-digit volume growth, with more and more customers moving to healthier drinks.

In this context, Marion Nestle's new book on how to fight the behemoth that is the soft drink industry and achieving that feat of registering a win for good health advocates is timely. The Paulette Goddard Professor of Nutrition, Food Studies and Public Health at the New York University, Ms Nestle has been at the forefront of the fight for food choice, healthy living and against obesity in the US since before publishing her breakout book, *Food Politics* (2002). Now, she focuses her attention on the despicable marketing practices soft drink companies employ to expand sales and profit at the cost of global health.

At the start of her book, Ms Nestle writes about her fascination with soft drinks, or sodas: "Sodas are astonishing products. Little more than flavoured sugar water, these drinks cost practically nothing to produce or buy, yet have turned their makers - principally Coca-Cola and PepsiCo - into multibillion-dollar industries with global recognition, distribution, and political power." She also writes about why advocacy against soft drinks is necessary: "An occasional sugary drink is hardly a health concern. But many Americans - especially those who are young, members of minority groups, and poor - habitually drink large volumes of soda on a daily basis at great harm to their health."

Soft drink companies, Ms Nestle demonstrates in her book, target these vulnerable groups. In the chapter "Starting Early: Marketing to Infants, Children, and Teens", she links the habit of TV watching and soft drink consumption by children: "Soda drinking is so closely linked to watching television that its consumption can be predicted by formula: the probability that children will consume sodas up to three times per week rises 50 per cent for every hour a day they watch television, and by 60 per cent if they are watching commercials."

Like everything else in this wonderfully erudite book, this information has been sourced from a scholarly study - one that goes on to claim: "Nine out of 10 food advertisements shown during Saturday morning children's television programming are for foods high in fat, sodium, or added sugars, or low in nutrients." But this book is also about the solutions, which, for Ms Nestle, lies in advocacy. In subsequent chapters, she outlines tried and tested tactics used by public health advocates and campaigners in the US - and can be adopted by their counterparts in the other countries.

The breadth of the book's ambition is evident in Ms Nestle incorporating voices from within the soft drink industry into conversations about how to promote healthy living. In the course of committed advocacy, it is often easier to aim one's attacks at the monoliths of corporate structures, but it is more difficult to deal with individuals. One of the most interesting individuals in Soda Politics is Dr Derek Yach, a South African health professional who supervised a 2003 consultation report for the World Health Organization (WHO) "aimed at establishing a research basis for a global strategy to reduce obesity." As expected, he ran into trouble with "big soda" and was forced to quit his job as director of non-communicable diseases at the WHO, even as his report was being published.

Then, in 2007, he joined PepsiCo as the vice-president of global health policy. Next year, he published an editorial in British journal Public Health Nutrition explaining the move, and PepsiCo Chief Executive Office Indra Nooyi explained the hiring as: "We have asked Derek to change this company; in five years we want to have most of our product line meet the international standards supporting life-long health." So how successful was Dr Yach? About 65 per cent, he claims. While he did manage to steer PepsiCo towards producing healthier alternatives for soft drinks, with the global recession impacting profits, the company had to focus more and more on its core products, even as Dr Yach left for other engagements. This incident illustrates the complexity of the battle and how people inside and outside the industry must come together to make it a success.

According to the Research Analyst Ken Research Sugar is also known as the common sweetener which is consumed in large quantities across the globe. Sugar industry constitutes one of the most important agro based industries in India. It has been witnessed that the sector supports over 50 million farmers and their families, and delivers value addition at the farm side. Sugar industry in India has been highly regulated since being declared as an essential commodity during 1995. Over the years, there have been regulations across the entire value chain land demarcation, sugarcane procurement, sugarcane price, sugar production and sale of sugar by mills in domestic and international markets. Despite various controls and regulations, the growth in the sugar industry was not hampered. India is the second largest producer of sugar in the world after Brazil.

India sugar industry has been one of the major contributors to the country's GDP and also has been providing many employment opportunities to millions of people over the years. The demand for sugar in India and worldwide has been moving at an incremental rate as the product is very essential in most of the food items. Indian sugar industry is known by seasonal raw material supply, competition from various units for raw materials and lack of control for quality and quantity for cane supply from numerous farmers. It's nearly impossible for sugar consumption in India to fall as sugar is a main ingredient in soft drinks, confectionaries and other sweet products such as dairy products and candies.

Indian sugar consumption is majorly dominated by the industrial sector followed by the household or the consumers sector. The industrial sector includes all the major factories and companies that produce products which require sugar in the production process such as confectionary, carbonated beverages, dairy processing, bakery and others. The consumer or the household sector has been further subdivided into lower and higher income group. The lower income group in the household sector consumed the maximum sugar with 3.0 million tons which is followed by the higher income group which consumed around 1.4 million tons of sugar in FY'2015.

The different types of sugar that are produced in India are White sugar, Refined Sugar and Raw Sugar. Refined sugar is considered as the high quality sugar that is produced by the sugar mills in India. It is more white and rich in color. Raw sugar is the least produced sugar in the country as it is the unprocessed sugar which cannot be directly consumed; it needs to be converted to white or refined sugar for consumption. The raw sugar is mainly imported from other countries such as Brazil and Netherlands to convert it into white sugar, then reselling it to other African countries. White sugar is the most produced sugar in India as it is primarily used in the production of various food items.

There are three identifiable structures present in the sugar Factories, which are mainly Co-operative, Private and Public. Private sugar mills have been defined as those which are fully owned and funded by a private company. The development and growth of these mills are primarily governed by the private companies whereas a public factory is fully owned by the government and its development and growth are all under consideration by the government. On the other hand, co-operative sugar mills are those which operate on a joint partnership between the private company and the government.

(Source-<http://www.indiansugar.com/NewsDetails.aspx?nid=5365>, published in the Business Standard on 23rd March, 2016)

Icra downgrades Shree Renuka's term loans

The move comes at a time when the sugar producer's Brazilian units have filed for bankruptcy protection

Rating agency firm Icra Ltd has downgraded ratings of certain term loans of Shree Renuka Sugars Ltd to 'D' owing to delays in debt servicing by the company, which is one of the largest sugar producers in the world.

Icra said it has downgraded the long-term rating of BB with negative outlook and the short-term rating of A4 to D outstanding on the bank facilities of Shree Renuka Sugars aggregating to Rs.6,513.47 crore.

The downgrade of ratings takes into account the delays in debt servicing by the company in the recent past owing to stretched liquidity position arising from adequate accruals from core operations and high debt repayment obligations, Icra said.

The downgrade comes at a time when the company's Brazilian subsidiaries had filed for bankruptcy protection and the management is currently in discussions with the lenders for restructuring of the loans on the books of the Brazilian subsidiaries.

“The depressed sugar prices prevalent during sugar year 2015 coupled with high sugarcane costs have widened the company's profit before interest and tax (PBIT)-level losses in the sugar business to Rs.210.8 crore for nine months ended FY2016 as against losses of Rs.84.4 crore for nine months ended FY2015,” it said.

A joint lenders' forum has been formed to review the company's refinancing package wherein it has sought additional term loans.

While most of the banks have approved the package, the timely disbursement of the same would remain important from a credit perspective, the rating agency said.

In September 2015, Shree Renuka Sugars said that its Brazilian units have filed for bankruptcy protection in the country.

In a filing to BSE, Shree Renuka Sugars had said its Brazilian subsidiary Shree Renuka do Brasil Participacoes Ltda (SRDBPL), together with all of its subsidiaries (collectively Renuka Brazil), has filed for protection under judicial recovery in the designated court in the capital of the state of Sao Paulo.

SRDBPL has two major subsidiaries in Brazil, Renuka do Brasil SA located in Sao Paulo and Renuka Vale do Ivaí SA in Parana, Brazil.

“The ratings continue to remain impacted by the weak consolidated financial profile of the company as poor weather conditions in Brazil and increased liabilities on dollar denominated loans due to depreciation of the Brazilian currency have affected the company's plans of turning around its Brazilian subsidiaries in the sugar business,” Icra said.

Icra, however, said it positively notes the recovery in sugar prices seen over the past four-five months supported by reduced estimates on domestic sugar production for sugar year 2016 along with the higher export quantity of 40 lakh tonnes mandated by the central government.

At the current prevailing sugar prices and cane costs, the sugar business is profitable for the company which would aid in improving its liquidity position, Icra said. Nonetheless, a prolonged period of healthy sugar realizations would remain important for a turnaround in the company's financial profile, it cautioned.

(Source-The Economic Times, 21st March, 2016)

CO-GEN/ POWER

China Feb coal imports from Australia down 20 pct y/y

China imported 4.42 million tonnes of coal from Australia, its biggest supplier, in February, down 19.82 percent from a year ago, data from the country's customs authority showed on Monday.

The data excludes low-grade lignite.

China's coal import demand has slipped as a result of weakening demand and a huge supply glut at home.

Overall imports, including lignite, fell to 13.54 million tonnes in February, down 11.3 percent from the same month last year, according to preliminary data earlier this month

(Source-<http://energy.economictimes.indiatimes.com/news/coal/china-feb-coal-imports-from-australia-down-20-pct-y/y/51507849>)

IEDC studying hybrid model to produce renewable energy

L&FS Energy Development Co. (IEDC) has embarked upon a first-of-its-kind feasibility study to examine the possibility of integrating wind and solar power production along with energy storage at a single plant. The results are expected by September.

"They can be utilised by anyone who wants to come up with hybrid tenders or demonstration hybrid projects," said Sunil Wadhwa, Managing Director. "We have also talked to the Central Electricity Regulatory Commission to consider fixing a special feed-in tariff for such projects."

IEDC, the power and infrastructure arm of IL&FS, currently operates 760 MW of wind farms across seven states and is developing one each at Ramagiri in Andhra Pradesh and Nana Layja in Gujarat. It is setting up solar parks of 5,000 MW capacity in Rajasthan in collaboration with the state government. The company is also into bagasse-based power generation and bio-mass projects.

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The study will examine what combination of wind, solar and storage at different locations is ideal from cost and generation perspectives. Sponsored by the United States Trade and Development Agency (USTDA), GE has been roped in as a consultant.

Although hybrid renewable power plants have yet to come up in India, developers realise they have numerous advantages. Both forms of energy are, by their nature, erratic, arising only when there is sunshine or high-speed wind. At a hybrid plant, solar and wind energy could counterbalance each other to provide more consistent power. Hybrid models would also reduce land costs, with solar modules being laid out in the area between wind turbines.

Most importantly, transmission lines could be utilised more efficiently. "If you have 1 MW of installed solar capacity and 1 MW of wind at the same place, your transmission cost would be about 35% lower than if you transmitted the same amount of power from two different locations," said Wadhwa.

"We are creating a platform where the first pilot project can be tested," he added. "The outcome of the study will be the design of a 1,000 MW project which will show where exactly the wind turbines should be located, where the solar panels should be and where the storage batteries, so as to get the best results possible, factoring in as many as variables as we can, such as the shadow effect, the direction the sun travels, overall radiation for the day and how much storage is required to make energy supply predictable."

If the study results are positive, IEDC might itself initiate a hybrid project at Ramagiri, where the study is being conducted. "But that is only if a reasonable feed-in tariff becomes available," said Wadhwa. "We are working on that with regulators and the government." Currently, no renewable energy plant in the country includes storage because it is highly expensive, more than doubling the cost of producing power. The plants all concentrate on evacuating the power they produce to the grid quickly. If solar and wind energy are to balance each other out at a hybrid plant, storage is vital. In any case, as renewable installed capacity grows, the grid may not be able to absorb all the power produced instantly and the need for storing it will become increasingly important.

The Solar Energy Corporation of India has announced that it will soon float a hybrid tender for 750 MW of installed capacity, which will include 100 MW of storage. Every bidder will have to include a small storage system alongside its solar plant.

Globally, companies such as Tesla Motors, Samsung SDI and Panasonic have developed storage batteries for renewable power. In India, solar developer Acme Cleantech Solutions is designing complete solar modules using lithium-ion batteries with 100 MW-hours of capacity, bought from Samsung SDI. It expects them to be ready by 2017 and has already found a European buyer.

The storage cost cannot be entirely passed on to the consumer," said Wadhwa. "There will have to be some sort of regulatory mechanism. Some viability gap funding (VGF) will have to be put in, at least to start with."

The IEDC study will include devising a VGF proposal which, if accepted by the government, will enable commercialisation of the project. "Part of the National Clean Energy Fund could go into viability gap funding of storage projects," he added.

(Source- <http://economictimes.indiatimes.com/industry/energy/power/iedc-studying-hybrid-model-to-produce-renewable-energy/articleshow/51520>, published in the Economic Times on March 23, 2016)

THOUGHT OF THE DAY:

Respect for ourselves guides our morals, respect for others guides our manners.

-Laurence Sterne