NEWS FLASH – 25th May, 2016

SUGAR

Sugar will stay firm despite ample stocks, govt control

Domestic sugar prices have surged more than 47 per cent during the current marketing season, starting October 2015. To combat this, the Union government recently imposed stock limits for traders and withdrew the production-linked subsidy for the mills against their prescribed sugar export quota.

Thus, mills are now forced to sell the sweetener in the spot market to pay farmers and avoid suspension of their crushing licence. This ensures regular supplies in the physical market, keeping prices in check.

However, prices in the international market have been improving in recent months on expectation of a global deficit for the second consecutive season, as output is expected to drop in India and Thailand. The benchmark raw sugar contract on the Intercontinental Exchange (ICE) has gained 34 per cent since February 2016. India is the second-largest producer and largest consumer, while Thailand is the second-largest exporter after Brazil.

Output decline

India's sugar production in 2016-17 is forecast to decline for a second consecutive year as thousands of sugarcane growers in major producing States — Maharashtra and Karnataka — may continue with the existing cane or ratoon crop for the next marketing year due to the first back-to-back drought in nearly three decades. The yield from the ratoon crop will be less.

The Indian Sugar Mills Association (ISMA) sees production dropping by 11.7 per cent to just about 25 million tonnes (mt) compared to last year.

Sugar availability

Thus, sugar production is going to fall below the expected consumption level of 25-26 mt for the second consecutive year. In 2015-16, ISMA predicted carry-forward stocks of 9 mt from the previous season and exports of 1.5-2 mt. Sugar mills would have carry-over stocks of 6-7 mt at the end of the current season.

The Centre is taking every possible measure to ensure adequate supply and stabilise prices in the range of Rs. 30-40 a kg in the retail market. If prices rise unusually, the government may stop exports and lower the import duty to increase domestic sugar availability.

Global scenario

The supply side in the global market is also not comfortable due to the rising pace of global consumption.

In its first forecast for 2016-17, the US Department of Agriculture (USDA) sees global stocks nearing historically low levels, at 32.8 mt.

However, the USDA forecasts that world sugar output will increase by 4.4 mt to 169.3 mt in 2016-17, well below the five-year average production of 173.7 mt. Moreover, a strong Brazilian currency is not helping world supplies either.

Outlook

As the government is trying to rein in prices, sugar may trade in the range of Rs. 3,200- 3,500 a quintal on the NCDEX until a clear picture of the South-West monsoon emerges.

Reports of a production deficit may keep traders interested in buying sugar in anticipation of a price surge.

(Source- http://www.thehindubusinessline.com/todays-paper/tp-agri-biz-and-commodity/sugar-will-stay-firm-despite-ample-stocks-govt-control/article8642152.ece, published on 25th May, 2016)

Govt may cut sugar import duty to cool prices

The government on Monday said it will consider lowering import duty on sugar and banning exports of the sweetener if prices spike further from the current level.

With retail prices crossing Rs 40/kg, the government has taken several steps, including imposition of stock holding limits on sugar traders and withdrawal of sugar output subsidy of Rs 4.50/kg to mills, in the last few weeks to check the price rise.

"We will take all measures to check price rise in sugar. If prices increase from the existing level, we will also look at the option of lowering import duty and banning exports," Food Minister Ram Vilas Paswan said while briefing media about the outcome of the state food ministers meet.

He said the price rise in sugar was justified to some extent as millers were selling the sweetener at Rs 22-23/kg in the last season as against the production cost of Rs 32-33/kg, leading to huge cane arrear of Rs 21,000 crore.

With the help of government's various measures and improvement in sugar prices, Paswan said, "The arrears have come down to Rs 800 crore for the last season."

However, he said, "We want to tell millers that we cannot allow sugar prices to rise abnormally. We will take whatever measures required if prices increase from the current level."

Asked about the ideal retail price of sugar considering the production cost of Rs 32-33/kg, Paswan said, "We don't determine the market price. Mills should keep little bit margin."

Paswan also said that he has written to Maharashtra, Uttar Pradesh, Karnataka and Tamil Nadu to keep a close watch on sugar stocks held by millers to ensure availability in the domestic market.

He also asked the states to implement the stock limits effectively.

Retail sugar prices in past two months have crossed Rs 40 per kg due to 11 per cent fall in domestic sugar output in the ongoing 2015-16 season.

Sugar production in India, the world's second largest producer, is estimated to be about 25 million tonnes in 2015-16, as against 28.3 million tonnes last year.

(Source- http://sugarnews.in/govt-may-cut-sugar-import-duty-to-cool-prices/, published on 23rd May, 2016)

Dalmia Bharat Sugar Q4 net profit up 95% at Rs 56 cr

Dalmia Bharat Sugar and Industries (DBSI) today posted nearly 95 per cent jump in standalone net profit to Rs 56.20 crore during the March quarter on higher income.

The company's net profit stood at 28.87 crore in the year-ago period.
In a BSE filing, the Delhi-based DBSI said its total income increased to Rs 331.51 crore in the January-March quarter of the 2015-16 financial year from Rs 320.26 crore a year ago.

The company's expenses remained slightly lower at Rs 265.64 crore as against Rs 269.67 crore in the said period.

For the full 2015-16 fiscal, Dalmia Bharat Sugar's consolidated net profit jumped significantly to Rs 58.20 crore from Rs 1.49 crore in the preceding year.

Net income rose to Rs 1,166.41 crore from Rs 1,150.05 crore and expenses also remained lower at Rs 1,053.07 crore as against Rs 1,087.75 crore in the said period.

DBSI said it had started the commercial production of Ninaidevi plant, which has capacity of 1,750 tonnes cane crushing per day, from November 2015 as well as 60 kilo litre per day distillery at Kolhapur from March 1, 2016.

The company has five sugar plants in Uttar Pradesh and Maharasthra with cane crushing capacity of 29,250 tonnes. Its power co-generation and distilleries capacities at these plants are 94 MW and 120 kilo litre per day.

(Source- http://sugarnews.in/dalmia-bharat-sugar-q4-net-profit-up-95-at-rs-56-cr/, published on 23rd May, 2016)

Sugar stocks under pressure; Balrampur Chini, Ugar Sugar down over 5%

Shares of sugar companies were under pressure and trading lower by up to 9% on concerns of lowering import duty on sugar and banning exports of the sweetener.

Dalmia Bharat Sugar (down 9% at Rs 85), Balrampur Chini Mills (7% at Rs 102), Thiru Arooran Sugars (7% at Rs 56), Ugar Sugar Mills (6% at Rs 28.50), Uttam Sugar Mills (6% at Rs 48.25), Oudh Sugar Mills (6% at Rs 76), Rajshree Sugars & Chemicals (6% at Rs 44) and were down more than 5% on the BSE.

At 12:38 pm, the S&P BSE Sensex was down marginally 0.02% or 6 points at 25,224.

According to PTI reports, the government said Saturday it will consider lowering import duty on sugar and banning exports of the sweetener if prices spike further from the current level.

With retail prices crossing Rs 40/kg, the government has taken several steps, including imposition of stock holding limits on sugar traders and withdrawal of sugar output subsidy of Rs 4.50/kg to mills, in the last few weeks to check the price rise, added report.

According to Reuters report, Brazil's cane harvest has got off to a flying start in predominantly favourable weather in the centre-south, auguring for ample availability of Brazilian supplies to Asian markets.

(Source- http://www.business-standard.com/article/markets/sugar-stocks-under-pressure-balrampur-chini-ugar-sugar-down-over-5-116052400332_1.html, published on 24th May, 2016)

Co-gen/Power

Regulators launch study to simplify power tariffs

Power regulators have launched an internal study to look into various options of designing ‘progressivity’ in tariffs. The trigger is the mismatch between the average tariff and cost of supply, barriers put up by states in providing open access, and high subsidy and cross subsidy.

A forum of regulators member told Business Standard that in several states, tariff structure is too complex. Each consumer category is further split into many sub-categories and such structure is preventing the consumers from responding to tariff signals. “Some electricity regulatory commissions (ERCs) have already introduced some degree of progressivity in the tariff setting. However, the actual degree of change in behaviour based on price signals given is yet to be looked into,” he said.

He explained that progressivity in power tariff rates means an increase in tariff with a higher consumption level, which helps in tariff reduction for those who are at the bottom of society.

Some ERCs are looking into an option of reduction in the several slabs within the domestic category to three slabs comprising 1-50 units, 51-100 units and 101 units and above. Such tariff structure would obviate the need for passing on the deficit between the average cost of supply and average tariff of domestic consumer category to other categories of consumers.

V Raja, former chairman of Maharashtra Electricity Regulatory Commission, said: "Competition critically is good destination to reach but that can take place only through open access. As far as designing progressive tariff for domestic consumers is concerned, it can be done through creation of balancing fund, which can be maintained at the level of power regulators."

He suggested the government would have to continue to provide subsidy for low-end consumers (those in the 0-100 unit category) and this will differ from state to state. The fine-tuning can be done by the regulators.

According to Raja, in case of agriculture tariff, the regulators can consider higher tariff for cash crops and lower for non-cash crops.

According to Deloitte Touche Tohmatsu India's Partner (Consulting) Debasish Mishra, despite the intention set out in the Electricity Act 2003 on progressive reduction of cross-subsidy, industrial, commercial and high-end residential consumers pay much higher tariffs than the cost to service them. "The quantum of subsidy and cross-subsidy that is needed for rural, residential and agriculture segment would only increase in the near future with rising universal access. This can only come from efficiency gains on the cost side such as lower transmission and distribution losses and lower fuel cost, as the tariffs in the subsidising categories cannot go up any more."

(Source- http://www.business-standard.com/article/economy-policy/regulators-launch-study-to-simplify-power-tariffs-116052301144_1.html, published on 24th May, 2016)

Tata Power Q4 net doubles to Rs 360 cr

Tata Power's net rose sharply by 126 per cent to Rs 360.25 crore for the quarter ended March 31, 2016, due to strong operational performance, against Rs 159.14 crore of the corresponding quarter last year. The company beat the Bloomberg estimate of Rs 277 crore.

Total income from operations increased by 18 per cent to Rs 9,375.16 crore against Rs 7,907.64 crore. The revenue from power business surged to Rs 7,025.14 crore against Rs

5,996.54 crore, a 17 per cent increase while the revenue from coal business increased by eight per cent to Rs 2,023.75 crore against Rs 1,873.11 crore.

The company's stock on BSE closed at 70.70, a rise of 1.87%. The board of directors has recommended dividend of Rs. 1.30 per share.

(Source- http://indianpowersector.com/2016/05/tata-power-q4-net-doubles-to-rs-360-cr/, published on 24th May, 2016)

Thought of the day

'When everything seems to be going against you, remember that the airplane takes off against the wind, not with it.' -Henry Ford