

SUGAR

Sweet surrender likely with sugar prices on the rise

Report by Rabobank predicts major shortfall in sugar production in India this financial year; confectionary, food and beverage sectors to be hit as trend affects Asia

The effects of drought in parts of the country over the past two years are set to impact prices of sugar and confectionary items, with shortfall in sugar production in India causing a demand-supply gap.

A research report by Rabobank has predicted that India would witness major a shortfall in production during this financial year and will have to import sugar, which will push prices upwards.

“India, the world's second-largest producer of sugar, will witness a fall in production by 3.7 million tonnes due to consecutive droughts in 2014-15 and 2015-16 and will become a net sugar importer in 2016-17,” Rabobank analysts Sudip Sinha and Kelvin Chow said in the report.

Since mid-April, worldwide prices of raw sugar have risen by 30 per cent as the market started factoring in potentially lower global sugar output in this year.

Domestic sugar prices across Asia also reflect the tighter supply situation.

In Mumbai, sugar is retailing at Rs. 41 per kg, and the prices have gone up by Re.1 in the past three months, mostly due to inadequate supplies. As per figures with the Indian Sugar Mills Association, production in the state has dropped in the past year.

“Higher price trend is likely to persist over the next few quarters and will have substantial impact on Asian Food & Beverage (F&B) corporate margins” The report ‘Hurry Cane: Managing Higher Sugar Prices in Asia’ said.

According its estimates, Asia is heading towards its first sugar deficit in over five years, and this is being led by India. “Sugar production in Asia is expected to be significantly lower in the 2016-2017 sugar season, as the 2015 El Niño-induced drought pulled output down to a five-year low. For 2015-16, the forecast is that Asia will witness a deficit of an estimated two million tonnes,” the report said.

While Europe and Brazil could see improved production next year, the world is expected to face a sugar deficit of 5.5 million tonnes in the next sugar season, it said.

While households will have to shell out more to meet their regular demand of sugar, that too in the upcoming festival season, prices of confectionary products and soft drinks may go up if the manufacturers decide to pass on the additional burden to consumers. The production cost of dairy items, mainly condensed milk and ice cream, will also go up, putting pressure on the manufacturers' profit margins.

The largest sugar consuming sectors are processed food-based products, confectionery and the traditional sweet-making industries, which will bear the brunt. “The twin impact of sustained

demand and lower 2015-16 production has pulled Asian sugar inventory to historic lows... sugar prices in the region have increased by 30-50 per cent since 2015," the report said.

With subdued production expected during this year and sustained growth in demand, prices would remain high until the fourth quarter of 2016. In India, domestic prices have risen over the past 6 months and if users are slow to react, it could mean ballooning costs and a squeeze on profit margins, it said.

(<http://www.thehindu.com/business/Industry/sweet-surrender-likely-with-sugar-prices-on-the-rise/article9046752.ece>, published on 30th August, 2016)

Karnataka: Sugar cane production down by 30 % in state, says minister

Minister for Co-operation and Sugar H S Mahadev Prasad, on Friday, said that the sugarcane production in the state has decreased by 30 % this year

Addressing the farmers at a meeting here, Prasad said, with the production of sugar cane coming down, sugar factories were voluntarily approaching cane growers for bulk purchase of their produce.

Pointing out that the number of jaggery producing units (ale mane) has increased across the state, the minister said that with the fall in the production of sugar cane, jaggery was fetching a good price in the market this year. The factories have come forward to fix Rs 3,000 per tonne of cane, he added.

Last year, the Centre had fixed Rs 2,350 per tonne of cane, which is same this year too. Hence, a meeting of the State Price Advisory Committee will be held soon to discuss on the price for the current year, he said.

(Source-<http://sugarnews.in/karnataka-sugar-cane-production-down-by-30-in-state-says-minister/>, published on 27th August, 2016)

Food and beverage firms exposed to high sugar price risk

Report warns food and beverage companies exposed to high sugar price risk

Sugar prices have been rising for six months and are expected to remain firm in the near to medium term, exposing food & beverage (F&B) companies to a high price risk, says a Rabobank report, issued recently.

"World raw sugar prices have risen by 30 per cent since mid-April, from 14.3 US cents per lb (pound) to 18.8 US cents per lb (basis July futures), as the market started factoring in potentially lower global sugar output in 2016-17," goes the report. Adding: "Domestic prices across Asia have also started to reflect tighter fundamentals. A higher price trend is likely to persist over the next few quarters and will have substantial impact on Asian F&B corporate margins."

At present, the global price for sugar futures is 20.61 cents a lb for benchmark futures contracts. Some Indian sugar companies and beverage & confectionery makers have discussed contractual arrangements for supply. Earlier, after the government liberalised the sugar release mechanism and partially decontrolled the industry, this opportunity was made available but the sugar market entered a bear cycle in this country and contractual

arrangements didn't pick up in a big way. With prices falling, keeping positions open was considered beneficial.

The report says Asia is to experience its first sugar deficit in a little over five years. Production in Asia is expected to be significantly lower in the 2016-17 sugar season, as the 2015 drought pulled output down to a five-year low. India, the world's second largest producer, will see a fall in production by 3.7 million tonnes (mt), due to droughts in 2014-15 and 2015-16, and will become a sugar importer in 2016-17 (the sugar season begins in October), says the study.

For 2015-16, Rabobank is forecasting an Asian deficit of two mt. On a global level, while Europe and Brazil are forecast to see improved production next year, Rabobank is expecting a world deficit of 5.5 mt in the next sugar season.

The report says soft drinks have been a critical volume driver for Asian sugar consumption. While predictions for soft drink consumption growth in Asia have been lowered, Rabobank projects growth to remain ahead of most other regions. Dairy (mainly condensed milk and ice-cream) and confectionery are other key segments and expected to grow at a stable rate in the near future.

For F&B segments with significant exposure to sweeteners, overall Asia growth was 8.5 per cent a year, versus the global growth of three per cent, between 2006 and 2015. Despite recent slowing in the Chinese F&B market, Euromonitor predicts that 40 per cent of the global volume growth during 2015-18 will come from the Asian F&B market. India is also the world's largest sugar consumer and "remains one of the fastest growing markets for non-household sugar, with confectionery and soft drinks being the two key sectors driving consumption."

As the largest consuming sectors, processed fruit-based products, confectionery and the traditional sweet-making industry will continue to drive absolute volume growth." The twin impact of sustained demand and lower 2015-16 production has pulled Asian sugar inventory to historic lows. Prices in the region have increased by 30-50 per cent from levels seen in calendar year 2015.

With subdued 2016-17 production expected and sustained growth in demand, Rabobank estimates there is enough to support current price levels till the fourth quarter of 2016, when there will be further information on the season's supplydemand balance.

Further, the report said: "In India, domestic prices have risen quickly over the past six months, and if downstream users are slow to react, it could mean a ballooning in costs and a squeeze to profit margins."

PRICE PINCH

- World raw sugar prices have risen by 30% since mid-April as the market started factoring in potentially lower global output in 2016-17
- A higher price trend is likely to persist over the next few quarters and will have substantial impact on Asian F&B corporate margins, states the report

- Asia is to experience its first sugar deficit in a little over five years; India— world's second largest producer, will see a fall in output by 3.7 mt

(Source- http://www.business-standard.com/article/markets/food-and-beverage-firms-exposed-to-high-sugar-price-risk-116082900286_1.html, published on 30th August, 2016)

Asia sugar output seen significantly lower in 2016-17

Sugar production in Asia is expected to be significantly lower in the 2016/2017 sugar season, as the 2015 El Nino-induced drought pulled output down to a five-year low, according to Rabobank's latest report 'Hurry Cane: Managing Higher Sugar Prices in Asia' released on Monday.

India, the world's second largest producer of sugar, will witness a fall in production by 3.7 million tonnes due to consecutive droughts in 2014-15 and 2015-16 and will become a net sugar importer in 2016 -17, the report adds

For 2015/2016, Rabobank is forecasting that Asia will witness its first sugar deficit year in over five years with an estimated deficit of 2 million tonnes. On a global level, while Europe and Brazil are forecast to see improved production next year, Rabobank is expecting a world sugar deficit of ~5.5 million tonnes in the next sugar season.

Rabobank says that soft drinks has been one of the most critical volume drivers for Asian sugar consumption. While predictions for soft drink consumption growth in Asia have been lowered, Rabobank projects growth to remain ahead of most other regions. Dairy - mainly condensed milk and ice cream —and confectionery are other key segments and expected to grow at a stable rate in the near future. For F&B segments with significant exposure to sweeteners, overall Asia growth was .5% versus the global growth of 3% between 2006-2015. Despite recent slowdown in Chinese F&B market, Euromonitor predicts that 40% of the global volume growth during 2015-18 will come from Asian F&B market.

Despite being the largest sugar consumer, India remains one of the fastest growing markets for non-household sugar with confectionery and soft drinks being the two key sectors driving consumption. However, as the largest consuming sectors, processed fruit-based products, confectionery and the traditional sweet-making industry will continue to drive absolute volume growth,

The twin impact of sustained demand and lower 2015-16 production has pulled Asian sugar inventory to historic lows. Depending on local supply-demand gap, sugar prices in the region has increased by 30%-50% from levels seen in CY2015. With subdued 2016-17 production expectation and sustained growth in demand, Rabobank estimates that there is enough tailwind to support current levels until Q4 -2016 until there will be further information available on the 2016-17 sugar season supply/demand balance.

At current price level industrial buyers are paying 42% higher than 2015 prices implying an additional \$3.5 billion on the regional cost of goods sold (COGS). For individual countries, the full impact will depend on the response of the local refined sugar price to the supply/demand gap. For sectors with a direct dependence on sugar (like soft drinks, rum, confectionery and

condensed milk) as a raw material, the impact will be particularly severe. For example, in India, prices have risen quickly over the past six months. And if downstream users are slow to react, it could mean ballooning in costs and a squeeze to profit margins, the report added

Meanwhile, for Indonesia and China, where sugar imports forms a huge part of local consumption, F&B corporates will face a double whammy of high domestic and wholesale prices when they buy from local sugar factories and refiners. Whereas, in markets like Thailand, where domestic wholesale prices is capped by government regulations, they will feel no difference should global sugar future prices are high.

For companies exposed to higher sugar prices, a mixture of operational and financial approaches are available to mitigate the risk and reduce pressure on business margins. Companies' risk mitigation plan should include a combination of commodity hedging and operational strategies. In specific situations, for large sugar users, vertical integration could become part of the long-term strategic sourcing plan, should valuations for mills come down to attractive levels .

(Source- <http://economictimes.indiatimes.com/markets/commodities/asia-sugar-output-seen-significantly-lower-in-2016-17/articleshow/53908870.cms>, published on 29th August, 2016)

Renuka Sugars to sell Brazil plant to pare debt

Brazilian creditors to take 70% haircut, 30% to come from the sale proceed of larger unit of the two

In a partial exit from Brazil, India's sugar and ethanol manufacturer Shree Renuka Sugars Ltd (SRSL) is all set to hive off larger of the two plants of its Brazilian subsidiary Renuka do Brasil S/A (RdB). The move aims to reduce its consolidated debt burden by almost 50 per cent.

Faced with problems in servicing the debt since SRSL acquired RdB in 2010 due to sharp decline in sugar price and subdued price trend for many years, SRSL had in September 2015 applied for reorganization of its Brazilian units. An assembly of RdB creditors (except employees, sugarcane and other essential suppliers and small and medium enterprise suppliers), however, approved the reorganization plan on August 26, 2016 with 70 per cent of haircut on overall debt.

As per the approved plan, the creditors of RdB agreed to settle their debts on receiving 30 per cent of notified value of debt plus interest from the debt of plan approval until the date of payment.

"On implementation of the plan, our group level debt would reduce significantly," said Narendra Murkumbi, Managing Director, SRSL.

According to data provided by the company, its consolidated debt level stood at Rs 9,104 crore as of March 31, 2016. This will come down by half after the exit.

As on September 28, 2015 (the date of filing the Recuperaçao Judicial), RdB's total bank debt stood at Rs 4,301.4 crore (or BRL 2,063 million) and other liabilities covered by the above plan at Rs 439.5 crore (BRL 210.8 million). With the approval of reorganization, total liability of RdB would decline by Rs 3,318.6 crore (BRL 1,592 million). A haircut of 70 per cent taken by lenders

has become possible due to the arrangement was made under chapter 11 which deals with bankruptcy.

While one of its crushing units with a 6-million-tonne annual crushing capacity - Madhu Mill - will be sold, making it debt free, a Rs 1,000 crore debt on its another unit with 4.5 million tonnes of crushing capacity will be debt free. RBDI is another Brazilian subsidiary with 3.1 million tonnes. Its debt of Rs 1,168 crore has been restructured and will come down by Rs 168 crore under a

separate restructuring plan, with the remaining Rs 1,000 crore having to be repaid in 14 years.

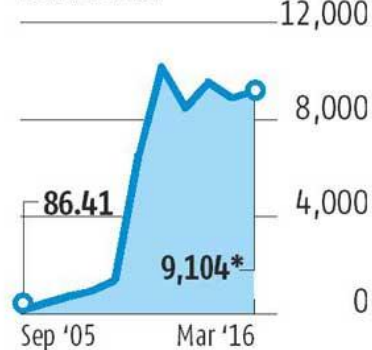
SHREE RENUKA SUGARS

(Consolidated figures in ₹ cr)

NET PROFIT



TOTAL DEBT



*It is provided by the company and standalone debt as on March 2016 is ₹3,451 crore; March 2016 data are unaudited results
Compiled by BS Research Bureau

Source: Capitaline

"While the reduction is less, the debt is restructured for 14 years. So, overall our debt reduction is dramatic. Basically, we are getting rid of all the debt," said Murkumbi.

The mill would be sold as an "independent production unit" (UPI) protected by the law from residual liabilities and contingencies.

SRSL clarified that employees, sugarcane and other essential

suppliers and small and medium enterprises (SME) suppliers will be paid from the operating cash flows of RdB over the next 12 months for Rs 87.1 crore (BRL 41.78 million), which will come from the sale of Madhu Mill. The reserved price, according to sources, is fixed at \$250 million.

Meanwhile, SRSL is not putting any new capital under this plan either as debt or equity. However, any shortfall in reaching the target value of 30 per cent (approximately Rs 1422.30 crore (BRL 682.2 million) will have to be funded by the shareholders of RdB in cash or by sale of SRSL's controlling stake in RdB.

RdB is inducting a new chief executive officer to oversee the separation of the two mills and the sale process of Madhu Mill - which is supposed to be concluded in 90-days from judicial approval. In case if deal is not concluded in 90 days, the company and lenders have to seat and work out a solution.

The SRSL stock closed with a gain of 5.63 per cent at Rs 16.90 apiece on the BSE on Monday.

(Source- http://www.business-standard.com/article/companies/shree-renuka-sugars-to-exit-brazil-partially-to-reduce-debt-116082901062_1.html, published on 30th August, 2016)

Co-gen/Power

Gujarat solar cooperative: Model for generating additional farm income, conserving ground water, says experts

Farmers of India's first solar cooperative set up in Dhundi village of Kheda district of Gujarat received their initial payments for harvesting solar power on their farms, Monday, as experts

put forth this experimental cooperative model as a effective solution for providing farmers with an additional income and conserving ground water.

Describing the solar cooperative, Dhundi Saur Urja Utpadak Sahakari Mandali, as a beginning of an "orange revolution" in a region that gave the country its first milk cooperative RS Sodhi, managing director of Gujarat Cooperative Milk Marketing Federation Limited (GCMMF) said, "If the income of farmers have to be doubled as envisaged by Prime Minister Narendra Modi, then this is one of the steps towards achieving it. The region that gave India its White Revolution is now inspiring an Orange Revolution powered by solar farmers."

(Source- <http://indianpowersector.com/2016/08/gujarat-solar-cooperative-model-for-generating-additional-farm-income-conserving-ground-water-says-experts/>, published on 30th August, 2016)

Now, plan for power for all

Many hurdles before complete electrification of India can be achieved

It would indeed be a great moment in India's history when all six lakh villages light up the evening sky. Unfortunately, this is not the case today. Around 300 million people in India's villages are still without power. That is why Prime Minister Modi was so keen to talk about the electrification of villages in his recent Independence Day speech. The truth is, like many PMs before him, Modi is trying to achieve an uphill and a very ambitious task of providing power to all, 24x7, by 2019.

If all villages had electricity, many small and micro enterprises could be started which would give jobs to their inhabitants and the urban rural divide could be lessened. Even simple crafts like pot making could be mechanised by electrically powered potter's wheel. Yet complete electrification of India has eluded us, even though on paper, India is 97 per cent electrified. Without regular power supply, India cannot advance at a fast pace, especially through IT penetration.

Even the definition of an electrified village is vague. A village is considered electrified if public places in a village and 10 per cent of its households have access to electricity. This definition has led to the NDA government showing exaggerated figures of electrified villages. According to the 2011 census, 96.7 per cent villages are connected, but 33 per cent households or 8 crore, out of 24 crore households, do not have electricity.

One of the main reasons why there is slow progress in the rural electrification programme is that the distribution of power is under the domain of the state electricity boards/discoms (power distribution companies) which are difficult to reform. The supply of fuel, logistics, generation of power and transmission, however, fall under the Central government.

Enough power is being generated by state companies like the NTPC. Power generation increased by 5.5 per cent in 2015-16. Also, due to the steep fall in oil and coal prices, the capacity of thermal power plants has increased by 11 per cent. Today, there is falling capacity utilisation of power plants and plant load factor has gone down from 65.6 per cent in 2013-14 to 62.3 per cent in 2015-10.

The distribution of power has been privatised in some big cities like Delhi through public-private partnerships. But in general, the power sector is burdened by a growing number of loss-making state discoms. This is because of the rampant theft of electricity, political interference and largesse regarding pricing of power, corruption and inefficiency.

As almost all state discoms are in financial trouble, they are in no position to increase their debts by buying more power. When their demand for power is low, villages in those states are losing out in the last mile connectivity, even though additional transmission lines have been laid extensively.

The technical and commercial losses (T&C) of state discoms are very high, around 25 per cent. The renamed Deen Dayal Upadhyaya Gram Jyoti Scheme aims at reducing T&C losses due to

illegal tapping of lines, faulty electric meters that understate actual consumption and also contribute to reduced collection of revenue.

There is need for state discoms to set progressive tariffs that reflect the true cost of power. Political largesse is one of the reasons why tariffs are set at extremely low rates, especially for agriculture, and results in huge losses to discoms. The accumulated losses of state discoms are around Rs 3 lakh crore.

Thus the idea of electrifying all villages in India by 2019 will need much more effort towards improving the health of state discoms. Already a scheme, which was in existence before, but renamed UDAY (Ujwal Discom Assurance Yojna), has been asked to buy the debts of discoms and convert them into bonds. It is a restructuring package for state discoms and UDAY will take over 75 per cent of their debt and issue bonds to banks and other financial institutions to raise money to pay it off. The remaining 25 per cent will be continued as a loan to the state discoms with a cap on interest rates. This will bring relief to discoms on interest payments and ICRA (Investment Information Credit Rating Agency) estimates the interest rate burden to be around Rs 30,000 crore, which can be taken off from their account books. Hope it works!

In return, the discoms will have to undertake reforms, like installation of smart meters, upgrade transmission infrastructure and undertake periodic tariff hikes. To attract states to join, incentives like additional coal supplies and funding have been included and 18 states have joined the scheme. With improvement in the health of discoms, the states are likely to increase their power purchase and boost the power demand and enhance the capacity utilisation of power generating companies.

To make available power 24x7, the transmission grid will have to be spread widely and efficiently from power producers to the distributors. Often, states are not able to buy cheaper power because of transmission bottlenecks. With lack of grid connectivity, states are compelled to buy power from costly, but linked-up generators in their vicinity.

From March 2011, transmission capacity has grown from 82,000 circuit km (CKM) to 129,000 CKM in 2016. According to the set target, transmission line network will be further expanded by 3,64,900 CKM by March 2017. Higher investments in the transmission sector should benefit the Power Grid Corporation of India, the country's principal transmission utility and also other private sector players bidding for transmission projects.

Thus there remain many hurdles before complete electrification of India can be achieved. More difficult would be to ensure 24x7 power supply in remote villages, because even in cities and towns, this is difficult to achieve. Due to irregular power supply, people are using UPS and DG sets to generate power in times of load shedding.

Around 10 million Indian households are using backup (UPS) storage batteries to cope with power disruptions. All UPS storage batteries have to be imported at high cost and all diesel generator sets require costly diesel. If there is regular power supply, a lot of money will be saved and businesses, educational and healthcare institutions, services of all kinds, agriculture and FDI will work better. New thinking is thus needed.

(Source- <http://www.tribuneindia.com/news/comment/now-plan-for-power-for-all/287237.html>, published on 30th August, 2016)

Quote of the day

'An investment in knowledge pays the best interest.' - Benjamin Franklin

