CHAPTER – 4

IMPACT OF DE-REGULATION ON SUGARCANE FARMERS

4.1 SUGARCANE PRICING POLICY

4.1.1 Sugarcane like sugar is an essential commodities under the Essential Commodities Act, 1955(hereinafter referred to as EC Act, 1955. In exercise of the powers conferred by Section 3 of the EC Act, 1955, the Central Government has issued the Sugarcane (Control) Order, 1966(hereinafter referred to as SCO, 1966) with a view, *inter alia*, to fix the cane prices to be received by the sugarcane farmers and to regulate distribution and movement of sugarcane.

4.1.2 Till sugarcane season 2008-09 (October to September, in tandem with the sugar year), the Central Government had been fixing the Statutory Minimum Price (SMP) of sugarcane for each sugar season on the basis of the recommendations of the Commission for Agricultural Costs and Priced (CACP) and after consulting the State Governments and associations of sugar industry and cane growers. The SMPtook into account the factors - the cost of production of sugarcane; return to the growers from alternative crops and the general trend of prices of agricultural commodities; availability of sugar to consumers at a fair price; price at which sugar produced from sugarcane is sold by sugar producers; recovery of sugar from sugarcane; and the realization made from sale of by-products viz. molasses, bagasse and press mud or their imputed value. The Statutory Minimum Price (SMP) was being fixed by the Central Government under Clause 3(1). There was also provision for payment of additional cane price out of profits generated by sugar mills under Clause 5A of SCO, 1966.

4.1.3 In view of various court matters, the Government felt that the sugarcane pricing policy needed a review and accordingly the Essential Commodities Act, 1955 and the Sugarcane (Control) Order, 1966 were amended in 2009, as per which the Central Government now fixes a Fair and Remunerative Price (FRP) for sugarcane instead of Statutory Minimum Price (SMP). Unlike the system of payment under the SMP regime, where there was a provision of sharing of profits of sugar mills at 50:50 ratio with the farmers after the end of the sugar season, under the FRP system, the farmers are not required to wait for the end of the season or for any announcement of the profits by the sugar mills or the Government. The new system also assures the margins on account of profit and risk to farmers, irrespective of the fact whether the sugar mills generate profit or not and is not dependent on the performance of any individual sugar mill. In order to ensure that higher sugar recoveries are adequately rewarded and considering variations amongst sugar mills, the FRP is linked to a basic recovery rate of sugar, with a premium payable to farmers for higher recoveries of sugar from sugarcane.The amended provisions of the Sugarcane (Control) Order, 1966 provides for fixation of fair and remunerative price (FRP) of sugarcane having regard to the following factors:-

- cost of production of sugarcane;
- return to the growers from alternative crops and the general trend of prices of agricultural commodities;
- availability of sugar to consumers at a fair price;
- price at which sugar produced from sugarcane is sold by sugar producers;
- recovery of sugar from sugarcane;
- the realization made from sale of by-products viz. molasses, bagasse and press mud or their imputed value;
- reasonable margins for the growers of sugarcane on account of risk and profits

4.1.4 A comparison of the SMP and FRP fixed by Central Government for the past few years is tabulated vide Table-4.1.

Table-4.1

SMP / FRP of Sugarcane Fixed during 2001-02 to 2013-14 Sugar Seasons

(Rs. per quintal)

Sugar season	SMP/FRP	Linked to Basic recovery rate of	Cane rate enhancement for every 0.1% increase in sugar recovery above basic recovery rate
2001-02 (SMP)	62.05	8.5%	0.73
2002-03(SMP)	69.50	8.5%	0.76
2003-04(SMP)	73.00	8.5%	0.82
2004-05(SMP)	74.50	8.5%	0.85
2005-06(SMP)	79.50	9%	0.88
2006-07(SMP)	80.25	9%	0.90
2007-08(SMP)	81.18	9%	0.90
2008-09(SMP)	81.18	9%	0.90
2009-10(SMP)	107.76	9.5%	0.90
2009-10(FRP)	129.84	9.5%	1.13
2010-11(FRP)	139.12	9.5%	1.37
2011-12 (FRP)	145.00	9.5%	1.46
2012-13 (FRP)	170.00	9.5%	1.79
2013-14 (FRP)	210.00	9.5%	2.21

Source: Department of Food and Public Distribution, GOI

4.1.5 A comparative breakup of the cost components of FRPsince its adoption is as per Table-4.2.

Table-4.2

Cost Components of FRP

(Rs. per quintal)

<table>
<tr><th>Cost component</th><th>2009-10</th><th>2010-11</th><th>2011-12</th><th>2012-13</th><th>2013-14</th></tr>
<tr><td>(a) C2 cost of sugarcane at 9.5% recovery</td><td>76.96</td><td>85.66</td><td>99.07</td><td>125.80</td><td>179.15</td></tr>
<tr><td>(b) cost of transport</td><td>13.36</td><td>13.36</td><td>13.36</td><td>14.59</td><td>14.59</td></tr>
<tr><td>(c)Insurance charges</td><td>-</td><td>1.79</td><td>2.86</td><td>3.13</td><td>3.13</td></tr>
<tr><td>(d)Margin on account of profit</td><td>13.55</td><td>15.12</td><td rowspan="2">29.71</td><td rowspan="2">27.13</td><td rowspan="2">12.72</td></tr>
<tr><td>(e) Margin on account of risk</td><td>25.97</td><td>23.19</td></tr>
<tr><td>Total FRP</td><td>129.84</td><td>139.12</td><td>145.00</td><td>170</td><td>210</td></tr>
</table>

Source: Commission for Agricultural Costs and Prices, Department of Agriculture and Cooperation, GOI

4.1.6 Further,under powers conferred by the Concurrent list (under article 246 in the 7th schedule) of Constitution of India, State Governments have also been prescribing sugarcane prices generally higher than FRP every year. In the process, in practical terms there are two cane pricing systems in vogue – State Advised Prices (SAP) and Agreed Prices among cane producing states, over and above FRP.

4.1.7 State Advised Prices (SAP)

The states of UP, Uttarakhand, Punjab, Haryana and Tamil Nadu invariably announce State Advised Prices (SAP) which are higher than FRP. State Advised Price (SP) of sugarcane is determined by the State Government of Uttar Pradesh under the powers conferred upon it by the State legislation in this regard. Some of the factors considered by the State Government of Uttar Pradesh for fixing SAP of sugarcane are as under:-

- The cost of production of sugarcane.
- The return to the grower from alternative crops & the general trend of prices of agriculture commodities.
- FRP fixed by Union Government.
- Price of sugarcane fixed by the other State Governments.
- Prevailing prices of sugar and future price trends.
- Conversion cost of sugarcane to sugar.
- The recovery of sugar from sugarcane.
- Realisation from by-products such as molasses, bagasse, pressmud, electricity etc.
- Prices at which sugarcane is being purchased by manufacturers of jaggery and Khandsari units.
- National and State sugar production.
- Possibilities of sugar export and import.
- International prices of sugar.

The issue of power of the State Government to fix State Advised Price (SAP) is under adjudication of the Apex Court and it has referred the matter to larger Bench vide Judgment dated 17th January, 2012 in Civil Appeal No. 7508 of 2005-West U.P. Sugar Mills Association Vs. State of Uttar Pradesh (2012

2SCC 773). The issue has been referred to a larger bench because of divergent judgments in similar earlier cases. Originally, it was held in Tika Ramji's case that there was no power to fix a price for sugarcane under the U.P. Sugarcane Act and Orders made there under. Whereas in a subsequent majority judgement of the Constitution in the 2004 case between UP Cooperative Cane Unions Federation vs. West UP Sugar Mills Association and others it was held that :- 'The inconsistency or repugnancy will arise if the State Government fixed a price which is lower than that fixed by the Central Government. But, if the price fixed by the State Government is higher than that fixed by the Central Government, there will be no occasion for any inconsistency or repugnancy as it is possible for both the orders to operate simultaneously and to comply with both of them. A higher price fixed by the State Government would automatically comply with the provisions of sub clause (2) of clause 3 of the 1966 Order. Therefore, any price fixed by the State Government which is higher than that fixed by the Central Government cannot lead to any kind of repugnancy".

4.1.8 Agreed Prices:In the states of Maharashtra, Gujarat and North Karnataka, the payment system for sugarcane is more or less a kind of Agreed Price System, which as the name connotes means a mutual agreement between sugar mills and sugarcane farmers. The system's genesis lies in the cooperative structure of the bulk of sugar industry in these areas, whereby sugarcane farmers are the shareholders of the sugar mill. In this system a minimum payment as per FRP is ensured and any profit over and above FRP in the sugar mill operations is shared among cane cultivators.

4.1.9A comparison of Fair and Remunerative Price (FRP)/ Agreed price and State Advised Price (SAP) during 2012-13 and 2013-14 Sugar Season is at Table-4.3.

Table-4.3
Spectrum of State-wise Cane Prices

(Rs. Per quintal)

State	Sugar Season 2013-14	Sugar Season 2012-13
Punjab	290 (Early Varieties)	250(Early Varieties)
	280 (Mid Varieties)	240(Mid Varieties)
	275 (Normal Varieties)	235(Normal Varieties)
Haryana	301 (Early Varieties)	276(Early Varieties)
	290 (Mid Varieties)	271(Mid Varieties)
	285 (Normal Varieties)	266 (Normal Varieties)
Tamil Nadu	Rs.265 per quintal linked to 9.5% with increase of Rs.2.21 for every 0.1% point increase in recovery above 9.5%. (includes Rs.10 per quintal transport	Rs.235 per quintal linked to 9.5% with increase of Rs.1.79 for every 0.1% point increase in recovery above 9.5%. (includes Rs.10 per quintal transport)
Uttar Pradesh	290(Early Varieties)	290(Early Varieties)
	280(Normal Varieties)	280(Normal Varieties)
	275(Rejected Varieties)	275(Rejected Varieties)
Uttarakhand	295 (Early Varieties)	295 Ex-mill gate (Early Varieties)
	285 (General Varieties)	285 Ex-mill gate (General Varieties)
Bihar	245(Un-recommended varieties)	245 (Un-recommended Varieties)
	255(Central Varieties)	255 (General Varieties)
	265(Early Varieties)	265 (Early Varieties)
Maharashtra	Sugar mills pay mutually agreed price with farmers of their area; final payable price not yet decided;	Kolhapur, Sangli and Satara region –Rs.250 per quintal. Ahmednagar, Pune and Solapur region-Rs 210 to 230 per quintal Marathwada and Vidarbha region Rs.190 to 220 per quintal
Gujarat	Sugar mills to pay FRP or more based on profit sharing	Sugar Mills paid FRP or more based on profit sharing.
Karnataka	South Karnataka Rs.250/- per quintal Ex-Gate. North Karnataka Rs.250/- per quintal Ex-field. Additional Rs.15 per quintal will be paid by state Govt. to the cane farmers.	Rs.240 per quintal Ex-Gate for Mandya and Shimoga mills.-Govt. undertakings. Mills in Bidar and Gulberga District – Rs.200 to 220 per quintal Other mills at Rs.250 per quintal
Andhra Pradesh	Rs.240-260 per quintal for Private mills Rs.216 per quintal for cooperative mills. This includes Rs.6 per quintal to be paid by State Govt.	The State Govt. announced the sugarcane price to be paid in the range of Rs.220 to Rs.260 per quintal based on performance of the mills inclusive of all subsidies.
All India FRP announced by the Central Government.	**Basic FRP at 9.5 % recovery Rs.210/- per quintal with additional increase of Rs.2.21 for every 0.1% point increase in the basic recovery %.**	**Basic FRP at 9.5 % recovery Rs.170.00 per quintal with additional increase of Rs.1.79 for every 0.1% point increase in the basic recovery %.**

4.1.11 The Rangarajan Committee Report[ii]discusses the system of sugarcane pricing in the country and recommends on the following lines:

3.1 Although the capacity for and production of sugar and sugarcane have increased over time, cyclicality has remained. One of the reasons appears to be the way pricing of cane is done. Currently, although an FRP is announced based on the recommendations of CACP,many State Governments announce their own SAP/negotiated price. The problem with this approach adopted at the state level is that such a price is not linked directly to the sugar price, and lacks transparency. As a result, with sugar prices varying, this sometimes leads toan abnormally high share of the sugar value as cane payments made to farmers, which mills are not able to viably finance leading to accumulation of cane arrears. In the years following such peak payment years, there is a drastic fall in farmers' share in sugar prices, going even below 50 per cent at times, which corrects the system in a very disruptive manner, making it slide from the peak like a roller-coaster and bringing it to a trough, to be again taken upon an upswing, thus leading to cycles in production, bringing greater uncertainty and risk.

The Way Forward

3.2 Therefore, there is a dire need to adopt a scientifically sound and economically fair principle to arrive at a fair determination of cane dues as a share of the total value in the sugar production chain,in line with the international practice. Further, given the limited capacity of farmers to absorb the risk of high volatility in sugar (and therefore sugarcane) price, this may be supplemented with a minimum price fixed for sugarcane(FRP).This will bring about greater certainty,

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[iii] "Report of the Committee on the Regulation of Sugar Sector in India: The Way Forward" by a high powered committee, under Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to Prime Minister, October, 2012.

much needed stability and rationality into the system and help attract greater investment, putting the sugar sector on a higher growth trajectory.

3.3 With regard to value sharing, the key question that needs to be answered is which are the productswhose value needs to be shared, and in what proportion.The value created comprises basically sugar and its principle primary products namely molasses, bagasse and press mud which are obtained in the first stage of processing. The fundamental principle underlying sharing of the value created from sugar and its by-products is that such value should be apportioned in the relative share of costs incurred by farmersand millers.

3.4 Detailed calculation done by CACP in its report show that, on an average, cane farmers would get a better deal in terms of pricing of cane in comparison to the current system and would also be more transparent and stable, benefiting both farmers and mills. An analysis of the costs incurred by sugarcane farmers and those incurred by sugar mills suggests that this value-sharing ratio between farmers and millers works out as 69:31 which, rounded off, can be taken as 70:30. The estimation made by CACP is presented in Table-3.1.

Table-3.1
Farmers' Share in Sugar Value

SN	Parameter	All India value
1	Recovery rate (%)	10.31
2	Ex-mill price of sugar (Rs./qtl.)	2825
3	Gross conversion cost (Rs./qtl. of cane)	43.50
4	Harvesting cost, if borne by millers (Rs./qtl. of cane)	3.05
5	Transportation cost (Rs./qtl. of cane)	0.66
6	Cost incurred by millers (Rs./qtl. of cane) {sum of rows 3 to 5}	47.21
7	Cost incurred by farmers (Rs./qtl. of cane)	103.91
8	Total cost of sugar produced from crushing of 1 qtl of cane (Rs.) {sum of rows 6 & 7}	151.12
9	**Cost incurred by farmers expressed as a percentage of the total cost**	**68.76**

Note: Data relates to triennium ending 2009-10 (data of sugar cane production has been taken for six states, namely Andhra Pradesh, Haryana, Karnataka, Maharashtra, U.P and Tamil Nadu, which accounted for 88% of sugarcane produced at all India level during 2009-10)

3.5 The value of sugar taken above for working out farmers' share in sugar value includes not only the cost of sugarcane and operating costs, but also capital costs, inclusive of depreciation, interest on debt, and a 12% post-tax return on the capital employed. Thus, farmers will get a share of the profits.

3.6 Over and above this share of sugar value, thesame value-sharing ratio should also apply to the value/revenue generated from saleable primary by-products of sugar production.Therefore, it is suggested that 70% of the value of all three major primary by products, namely bagasse, molasses and press mud (all at ex-mill price) including the imputed value of molasses for an integrated distillery and of bagasse for cogeneration, be fixed as cane payment due to the farmer for the sugarcane supplied.

3.7 Based on an analysis of the data available for the by-products, and by loading that on the value of sugar, the value sharing ratio for cane farmers is estimated to amount to roughly 75 per cent of the ex-mill value of sugar alone.The CACP report (Ibid.) notes that the actual prices paid to sugarcane farmers in Maharashtra and UP, on an average for the period from 2004-05 to 2011-12, works out to 75 and 72 per cent of their respective sugar prices.CACP's data in this regard is presented in Table-3.2.The advantage of the proposed cane pricing system is that rather than farmers getting a fluctuating share in the sugar value chain, with accumulation of cane arrears in years of high price, they would have stability in payment of cane duesat about 75% of the value of sugar each year.

Table-3.2

Actual Prices Received by Sugarcane Farmers and SMP/FRP as Percentage of Ex-mill Sugar Prices in Maharashtra and U.P.

(Rs./qtl., per cent)

Sugar season	Ex-mill sugar prices		Cane prices paid to farmers		Cane prices as per cent of exmill sugar prices		SMP/FRP at State-specific recovery rate		Recovery rate (%)		SMP/FRP as % of ex-mill prices at State-specific recovery rate	
	Mah.	UP	Mah.	UP	Mah.	UP	Mah.	UP	Mah.	UP	Mah.	UP
2004-05	1601.66	1674.70	130.07	104.50	81.21	48.49	99.83	85.81	11.39	9.79	62.33	51.24
2005-06	1820.42	1692.29	140.62	112.50	77.25	66.48	103.00	83.83	11.66	9.49	56.58	49.54
2006-07	1452.29	1296.75	93.92	125.00	64.67	96.39	101.56	84.62	11.39	9.49	69.93	65.25
2007-08	1317.08	1492.71	93.41	125.00	70.92	83.74	106.44	83.89	11.80	9.30	80.81	56.20
2008-09	2082.29	2161.08	158.05	140.00	75.90	64.78	103.91	81.18	11.52	8.91	49.90	37.56
2009-10	3121.67	2889.58	214.69	165.00	68.77	57.10	157.31	129.84	11.51	9.13	50.39	44.93
2010-11	2806.67	2592.96	205.00	205.00	73.04	79.06	165.77	139.12	11.32	9.16	59.06	53.65
2011-12	2720.00	2950.00	235.00	240.00	86.40	81.36	172.78	145.00	11.32	9.16	63.52	49.15
Average					**74.77**	**72.18**					61.57	50.94

3.8 States may publish half-yearly mill-wiseprices(including imputed price where applicable) and quantities of sugar and the by-products for this purpose. While scrutinizing the ex-mill sugar pricing data, the open market price of sugar, as ascertained in the process of competitive bids received while procuring sugar *for PDS (which has been recommended separately, in lieu of the present levy sugar arrangement), net of taxes, may be kept in view.*

3.9 The actual payment for cane dues would happen in two steps. The first would be payment of FRP a floor price as per extant mechanism,i.e., within 15 days of receipt of the sugarcane by a mill. Balance payment of cane dues will be done subsequent to publication of half-yearly ex-mill prices and values, on the lines indicated.

3.10 Suitable changes may be made in the relevant control orders to give effect to the recommendation outlined above.

3.11 With such a system in operation, states should not declare an SAP.

4.1.12 Due to Hon'ble Supreme Court's judgment pronouncing that the States have authority to declare sugarcane price, recommendations of Dr. C. Rangarajan Committee on Cane Pricing have not made much headway except in the Maharashtra and Karnataka States.

4.2 Cane Payment Situation during the Study Period

4.2.1 As is clear from the write up in the earlier sections of this Chapter, even though the per unit cane payment (FRP, which is based on recommendations of CACP) is statutorily dictated and has scientific basis, cane prices mandated to be paid are in general above FRP i.e. in the form of SAP or agreed prices. As the cane prices are fixed by government statutes and are to be invariably paid by sugar mills (and ir-regards of financials of sugar manufacturing) the per unit cane price received/receivable by farmers should not have been impacted by the regulation/de-regulation periodpolices The important point as far as condition of farmers in pre and post de-regulation period was concerned, should have been the swiftness with which the cane price mandated/agreed was paid by the sugar mills and were there any pains in the process. Still, considering various cane payment systems in vogue in various States, the absolute per unit price of cane paid during the study period in each state was attempted to be captured and the data is quite revealing and is given vide Table-4.4. The year end cane price arrear situation during the study period is tabulated vide Table-4.5. The Table-4.6&4.7 indicate the month wise cane arrear percentage during the pre and post de-regulation periods.

Table-4.4

Cane Price Paid by Mills (Ex-Gate) (Rs./Qtl.)

State	2012-13	2013-14
Andhra Pradesh	246	251
Haryana	271	295
Punjab	240	280
Uttarakhand	285	285
Uttar Pradesh	280	280^
Bihar	255	255
Tamil Nadu	240	240
Karnataka	275	250
Maharashtra	275	255
Gujarat	260	240

Source: State Governments and Sugar Mills

Table-4.5

Year end Cane Payment Situation

State	2012-13 Sugar Year				2013-14 Sugar Year			
	Total cane price payable#	Total cane price paid@	Cane price arrears^	% arrears $	Total cane price payable#	Total cane price paid@	Cane price arrears^	% arrears $
Andhra Pradesh	2353.09	2311.87	41.22	1.75	2417.88	2362.67	55.21	2.28
Haryana	1418.95	1418.95	0.00	0.00	1689.29	1689.29	0.00	0.00
Punjab	1162.91	1162.91	0.00	0.00	1422.89	1422.37	0.52	0.04
Uttarakhand	1042.48	903.55	138.93	13.33	909.53	693.93	215.60	23.70
Uttar Pradesh	22463.46	19984.13	2479.33	11.04	19388.04	16333.18	3054.86	15.76
Bihar	1451.64	1396.16	57.48	3.96	1632.85	1465.28	167.56	10.26
Tamil Nadu	4908.42	4623.77	284.65	5.80	4039.30	3590.22	449.08	11.12
Karnataka	7967.09	7841.36	125.73	1.58	9349.71	7546.90	1802.81	19.28
Maharashtra	14725.24	14725.24	0.00	0.00	13474.74	13413.71	61.03	0.45
Gujarat	2204.26	2169.36	34.90	1.58	2628.86	2511.06	117.80	4.48
Total	59697.54	56537.3	3162.24	5.29	56953.09	51028.61	5806.67	10.19

#Gross amount payable (Rs. In Crores) to farmers by the sugar mills for the entire sugar year for the quantity of sugarcane supplied

@ Amount paid (Rs. In Crores) to farmers by the sugar mills for the entire sugar year for the quantity of sugarcane supplied

^ Total cane price payable - Total cane price paid (Rs. In Crores)

$ Cane Price arrears / Total Cane price payable X 100

Source: Department of Food and Public Distribution, GOI

Table-4.6

Month-wise Cane Arrears Situation during Pre De-regulation Period (2012-13 sugar Year)

State	2012-13 Sugar Year — Month Ending																							
	Oct		Nov		Dec		Jan		Feb		Mar		Apr		May		Jun		Jul		Aug		Sept	
	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%
Bihar	10.99	1	0	0	0	0	324.25	40.3	408.86	35.3	431.26	31.1	332.21	23.5	242.8	16.7	150.06	10.3	102.87	7.09	75.56	5.21	57.47	3.96
Haryana	0	0	0	0	138.66	45.5	155.09	28.8	194.2	23.3	228.96	19.3	181.78	12.9	134.41	9.47	1004.6	0.71	0	0	0	0	0	0
Punjab	30.77	3.2	0	0	74.98	22.2	104.63	15.7	135.11	14.3	133.31	11.6	103.72	8.2	103.19	8.87	0	0	0	0	0	0	0	0
Uttarakhand	46.57	5.1	0	0	118.96	43.8	292.97	53.4	360.52	48.1	462.85	47.3	453.14	43.5	410.64	39.4	375.82	36	256.22	24.6	223.18	21.4	138.93	13.3
Uttar Pradesh	153.2	0.9	0	0	4610.6	76.1	5842.35	52.3	6564.23	42.3	7779.22	38.3	7087.99	31.7	5375.5	23.9	4234.6	18.9	3331.2	14.8	2595.8	11.6	2479.3	11
Andhra Pradesh	42.97	1.8	0	0	375.69	46.1	480.73	34.2	556.05	28.3	513.03	22.4	337.48	14.5	206.25	8.8	109.49	9.67	74.53	3.18	58.5	2.49	41.22	1.75
Tamil Nadu	103.5	2	125.5	39.2	349.58	35.2	470.12	27.9	574.59	23.3	684.16	21.4	668.76	17.9	526.27	13.2	501.37	12	363.29	8.17	333.26	7.04	284.64	5.8
Karnataka	40.21	0.6	952.26	53.3	1547.1	40.7	1801.4	31.7	1767.73	25	1410.43	18.2	941.37	12.1	622.02	8.02	352.69	4.55	233.01	3	202.58	2.49	125.73	1.58
Maharashtra	3.52	0	151.05	24.6	292.66	7.34	299.53	4.07	788.12	9.62	669.35	5	540.74	3.76	132.58	0.91	100.15	0.01	0	0	0	0	0	0
Gujarat	1.77	0.1	0	0	319.06	42	351.4	30.2	392.41	29.9	317.69	21.5	273.08	15.6	56.12	2.84	17.93	0.91	15.85	0.79	881.34	0.44	34.9	1.58
Total	433.5		1228.8		7827.3		10122.5		11741.82		12630.3		10920.3		7809.8		6846.7		4376.9		4370.3		3162.2	

@ Gross Cane Price Arrear amount (Rs. In Crores)

Source: Department of Food and Public Distribution, GOI

Table-4.7

Month-wise Cane Arrears Situation during Post De-regulation period (2013-14 Sugar Season)

2013-14 Sugar Year	Month Ending																							
	Oct		Nov		Dec		Jan		Feb		Mar		Apr		May		Jun		Jul		Aug		Sept	
State	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%	@	%
Bihar	44.37	3.06	0	0	0	0	451.8	66.84	605.94	57.9	662.38	46.9	676.44	42.7	596.61	36.6	460.3	28.19	355.25	21.8	240.53	14.7	167.56	10.26
Haryana	0	0	0	0	196.5	59.7	262	37.49	334.14	32.3	317.64	22.7	326.2	19.3	234.77	13.9	8.95	0.53	141.31	0.08	0	0	0	0
Punjab	0	0	42.77	96.1	157.7	36.6	235.9	28.46	319.83	27.6	314.15	24.1	270.9	19	222.22	15.6	168.52	11.84	15.26	1.07	14.5	1.02	52.2	0.04
Uttarakhand	885.3	8.47	95.99	100	183.7	79.2	317	65.58	456.21	65	508.26	57.7	432.53	47.6	387.92	42.6	279.22	30.7	279.25	30.7	232.65	25.6	215.6	23.7
Uttar Pradesh	2329	10.4	0	0	2915	81.1	6288	72.57	9312.7	70.7	10474	60.3	9661.7	50.3	8651.7	44.6	7037.8	36.3	5741.7	29.6	5062.1	26.1	3054.9	15.76
Andhra Pradesh	29.52	1.25	0	0	216.6	73.6	515	40.04	514.97	40	514.97	40	356.71	14.8	356.71	14.8	203.78	8.43	151.86	6.28	89.77	3.71	55.21	2.28
Tamil Nadu	140.2	2.86	63.56	42.5	275.4	50.2	461.5	39.48	759.79	40.4	879.96	34.1	828.42	27.5	791.23	24.5	630.75	19.22	504.39	14.4	470.72	12.4	449.08	11.12
Karnataka	50.58	0.63	712.6	74.4	2106	70.3	2594	50.72	3188.7	44.7	3367.3	38.1	3111	33.3	2193.7	23.5	1824.9	19.52	1794.7	19.2	1814.2	19.4	1802.8	19.28
Maharashtra	0	0	200.5	61.7	442.6	14.5	652.8	10.19	1391.6	14.6	910.97	7.59	590.5	4.41	245.11	1.81	126.79	0.94	71.22	0.53	61.24	0.45	61.02	0.45
Gujarat	5.93	0.26	262.5	64.7	351.9	51.3	466.9	45.34	625.73	44.9	692.6	40.7	606.26	29	374.4	17.1	310.21	14.03	256.51	11	175.73	7.45	117.8	4.48
Total	3485		1378		6846		12244		17510		18642		16861		14054		11051		9311.5		8161.5		5976.1	

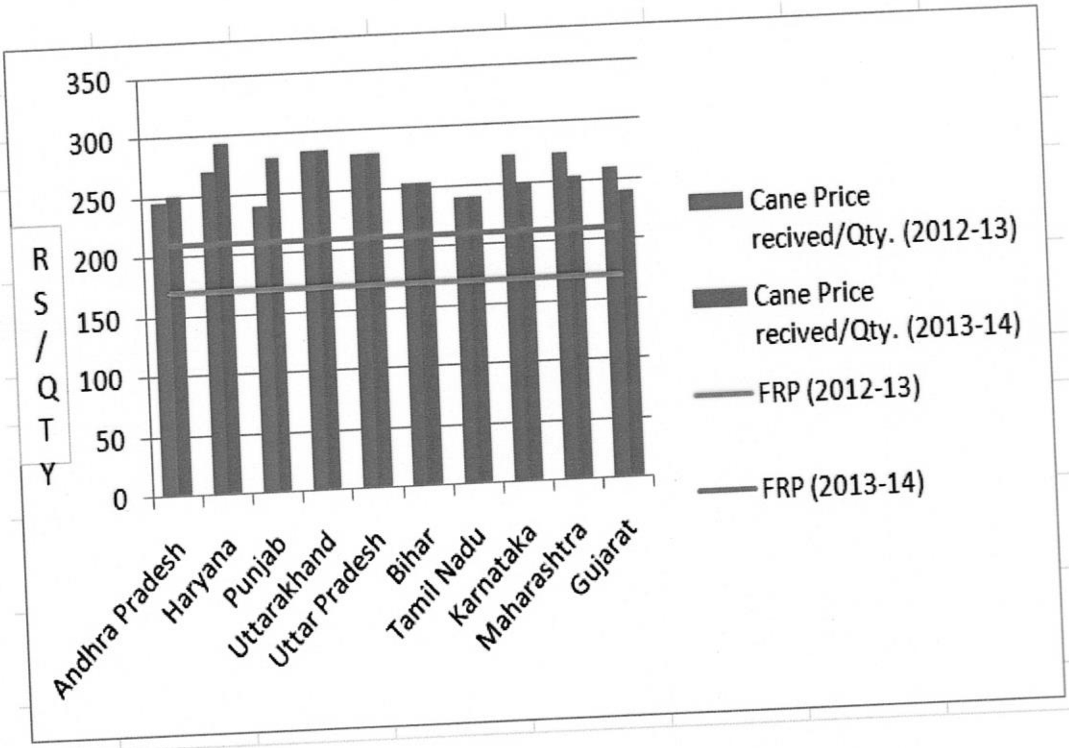
@ Gross Cane Price Arrear amount (Rs. In Crores)

Source: Department of Food and Public Distribution, GOI

4.3 Interpretation of the Situation:

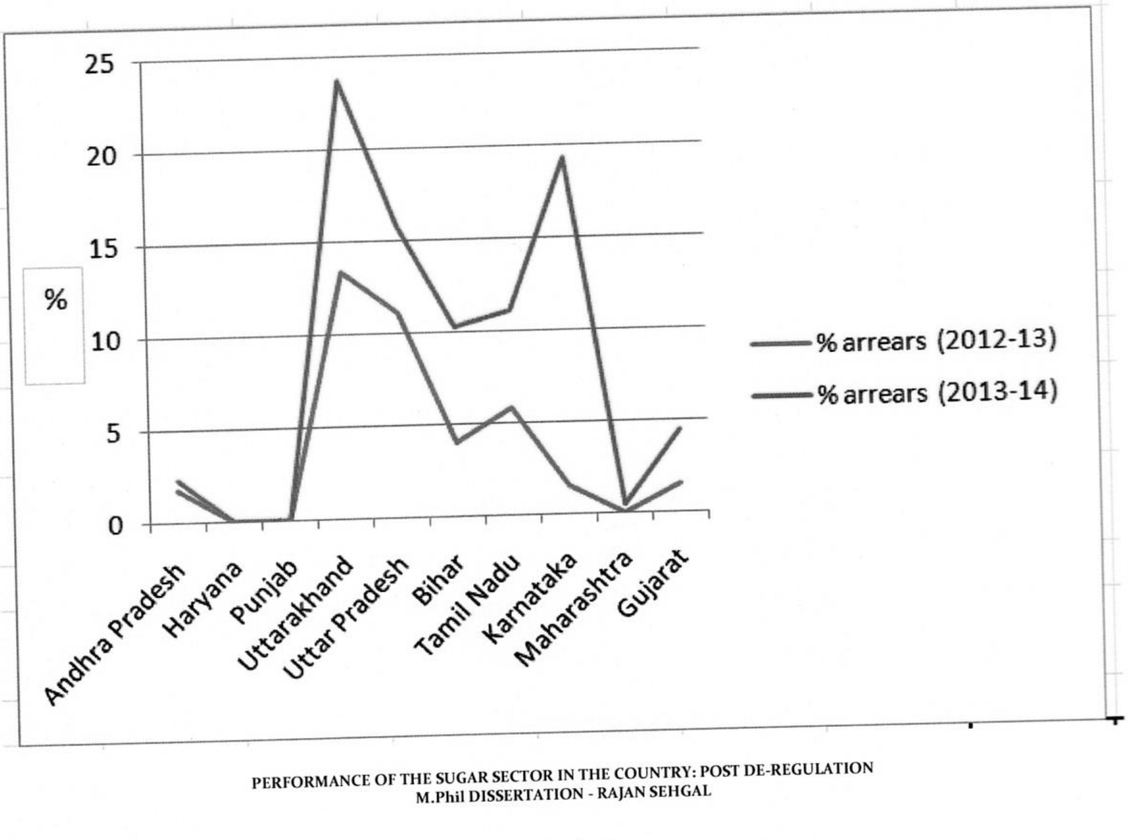
4.3.1 The cane prices per unit of cane supplied, received by farmers during 2013-14 were same as 2012-13 in four states, were lesser than 2012-13 in three states and higher than 2013-14 in three states as indicated in Fig. 4.1. Moreover the differential between the cane prices received and the FRP for the corresponding year considerably got reduced during 2013-14 in comparison to 2012-13.

Fig. 4.1 - Cane Prices Received by Farmers



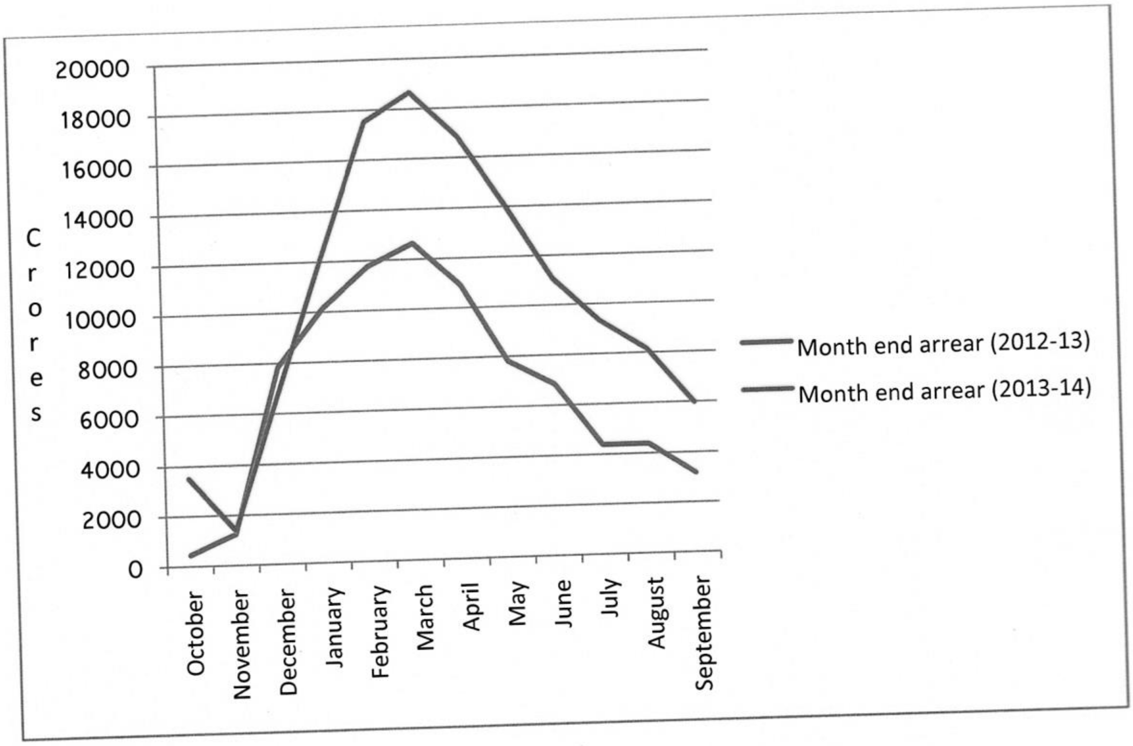
4.3.2 The annual gross cane payment due to the farmers during the pre as well as post de-regulation period was almost same i.e. Rs.59697.54 crores during 2012-13 and Rs.56953.09 during 2013-14. Without going into whether this situation was reflection of lesser cane production or lesser realization per unit of cane supplied to the sugar mills, the painful fact that emerges is that the gross income of the sugar cane farmers in the ten major sugar cane states in country remained almost constant over two years of this study period. Moreover, the cane payment arrears at the end of concerned season, which are the barometer of the liquidity position in the sector, were higher both in quantitative terms as well as in terms of percentage during 2013-14 in comparison to 2012-13. In quantitative terms, the figure was as high as Rs.5924 crores during 2013-14 against Rs.3162 crores during 2012-13. The percentage figures are also indicated in Fig. 4.2 and indicate that the percentage of the season end arrears were higher in seven out of the ten states during 2013-14 in comparison 2012-13.

Fig. 4.2 - Season Ending Cane Price Arrears (in percentage terms)Across States



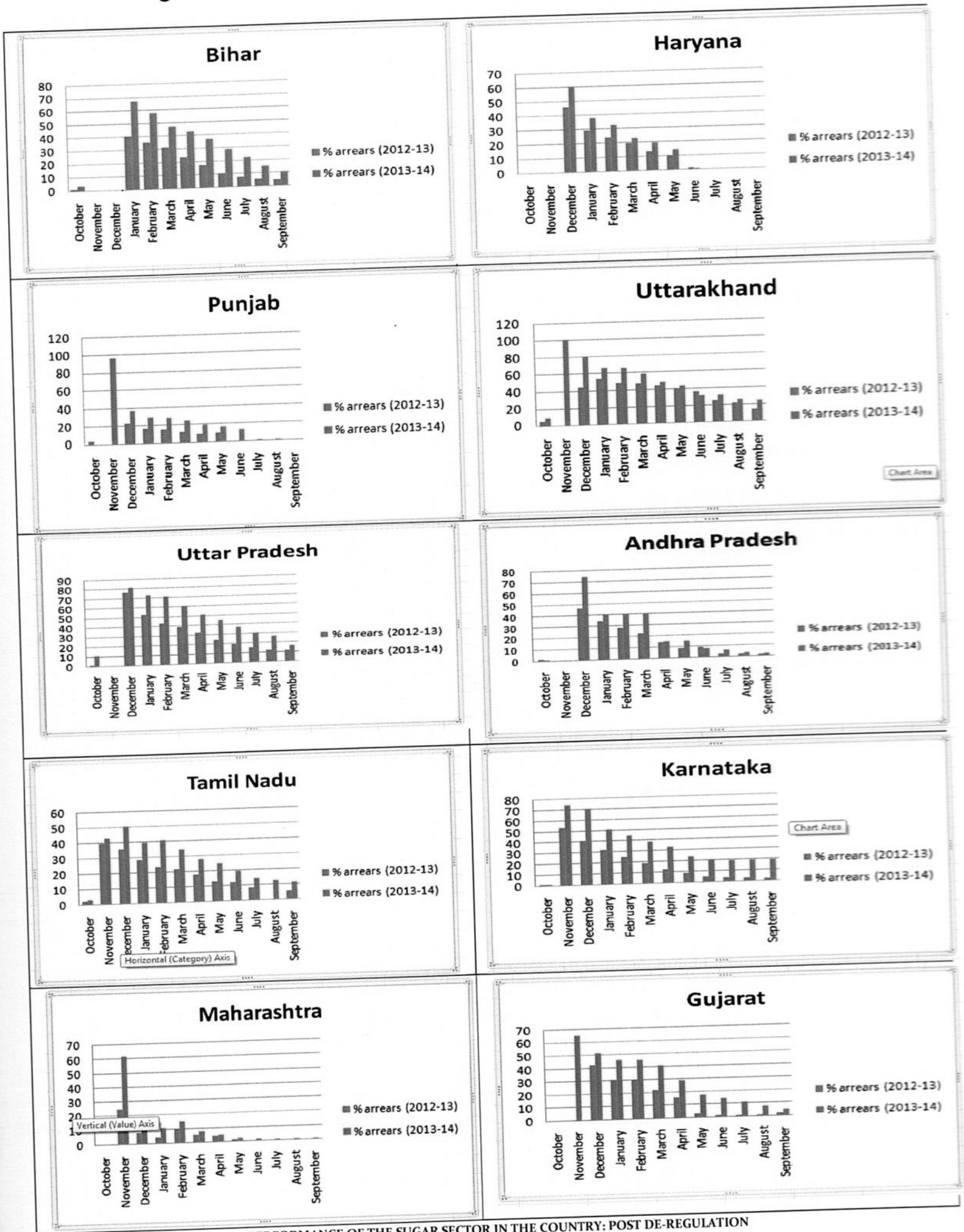
4.3.3 The post de-regulation season commenced with the gross arrears figures almost similar to the pre de-regulation phase upto December, 2014. However, subsequently the arrears started building up and were continuously higher throughout 2013-14 i.e. up to September, 2014 as evident from Fig. 4.3.

Fig. 4.3 - Month Wise Gross Arrears



4.3.4. The cane payment pattern, month wise, reflected even grimmer situation during 2013-14 as can be seen from state wise charts at fig. 4.4. The percentage arrears were higher every month and in every state during 2013-14 in comparison to 2012-13 sugar season. This means that the farmers were getting lesser cash in hand each and every month, in the post de-regulation period.

Fig. 4.4 Month WiseCane Arrears (%) in Different States



4.4 Findings

The sugar cane farmers suffered both during pre de-regulation as well as post de-regulation phase. In fact the sufferings of the farmers multiplied manifold during 2013-14. The per unit cane price received by farmers were either stagnant or only marginally better. On the top of stagnant per unit realizations, the arrears on account of cane supplies by farmers to the mills were considerably higher whether seen on monthly basis or season end basis, during post de-regulation phase.

The sorry state of affairs for sugar cane farmers has continued during 2014-15 sugar season. The all India cane price arrears stood at Rs.14,547.38 crores (39.96% of total cane price payable) as on 15-02-2015 and were about as bad as the figures as on 15-02-2014 which was Rs.15,373.86 crores (46.96% of total cane price payable). This is despite the fact that the per unit cane price to be paid to the farmers during 2014-15 has been either kept constant or has been below 2013-14 levels in major sugar producing states.

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CHAPTER - 5

IMPACT OF DE-REGULATION ON SUGAR MILLS

5.1 Financial Health of the Sugar Industry

5.1.1 A recent report[vii] summarizes the health of sugar industry in following words:

.......despite generating revenue and employment for the country, the industry is grappling with serious concerns related to sugar prices, low domestic prices of sugar, low international prices of sugar, various policies controlling the procurement and pricing of raw material and finished product .India produced excess sugar for the year ended 30th September'14 and the excess inventory of 75lakh tons before the commencement of the next sugar year is exerting pressure on the domestic ex-mill sugar prices which continue to fall over the past year. A broad comparison of the cost of producing sugar and the ex-mill sugar price realization would itself reflect the grim situation of the industry wherein significant losses have been reported by the sugar millers.

The position of the sugar mills can be analysed by taking into consideration the below mentioned financial parameters:

- *The debt position of the industry is at a level of INR 36,601 crores (2012-13), this was around INR 11,443 crores in the year 2007-08, an increase of almost 3.20 times. Due to lack of information, the outstanding debt balance of sick co-operative units have not been included in the above numbers. However, if they are added it will increase the debt burden of the sugar industry. These co-operatives were shut or sick due to the high debt burden.*

- *The debt –equity ratio for the industry is also at an alarming level. The ratio for the year 2012-13 was around 1.89:1. This ratio raises questions on the repayment capacity of the loans taken by the sugar industry.*

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vii "Review of the financial health of the Indian Sugar Mills, Grant Thornton India LLP", January 2015.

- The net profit ratio of the industry is at a level of 1% for the year 2012-13, the same was around 9% in the year 2008-09.

- The return on capital employed for the industry has also witnesses significant downfall. The ROCE for the industry for the year 2008-09 was 20% which has fallen drastically to a level of 10% for the year 2012-13.

- Interest coverage ratio for the industry is at a level of 1.05 times. The earnings of the industry are barely enough to cover up only the interest cost of the companies, let alone the principal component.

Note - The financial analysis of the companies/ co-operatives in this section is based on the sample of such companies and co-operatives. The analysis does not include the financial results of the entire population of sugar mills (whether public, private or co-operative)......

The company's information has been obtained from the financial statements of the respective companies available in public domain (ROC, websites etc.). For the co-operatives we have relied on the information obtained from NFCSF (National Federation of Co-operatives Sugar Factories Ltd.) New Delhi.

The sugar industry is in a very distressing situation. The sugar mills are stuck in the vicious cycle of increasing losses due to high cost of production and low ex-mill prices, thus leading to its inability to pay the cane price to the farmers. This has led to increased mounting arrears. Thus leading to increased borrowings to operate and finally increased debt levels.

Considering the current status of the sugar industry, it is more likely that the situation would worsen. Therefore, it is advisable that the corrective measures are taken up immediately..

The industry needs to consider some options to overcome its existing financial situation:

- Liquidation*- It is an option available which does not necessarily ensure revival of the industry. Also, it does not safeguard the interest of the lending institution and other stakeholders. However, this is a not a viable option as the industry has the potential to revive and grow.

- Cost optimization and better realization of ex-mill prices-The other solution which can be considered is looking for factors which result in decrease in cost of production of sugar and better realization for sugar produce. However, this would require Government intervention and policy formations. Also, the sugar prices are market driven and may not be feasible to control. So, this is not likely to come as an immediate relief to the industry, hence to support the industry from further deteriorating this is not a viable option at present. However, for long term, Government policies and reforms are much needed requirement.

- Stimulus form Government-This is one of the viable option for the current situation of the sugar industry. The government may consider the option for creating a corpus of funds for the sugar industry. It would be synonymous financial package.

- Debt Restructuring- The alternative which best suits the current situation the sugar industry is to offer a corporate debt restructuring scheme. It is a timely and transparent mechanism for restructuring of debts and also benefits all concerned stakeholders.

- There are multiple options available for the revival of the sugar industry, but based on our analysis and study the last two options seem to be the most viable and appropriate.

*Liquidation process is applicable only for companies not for co-operatives.

.........Financial snapshot

- The industry has a revenue of INR 77,299 crores in the year 2012-13 as compared to revenue of 68,187 crores in the year 2011-12

- To manage increased burden of losses companies resorted to the debt market which on the year stood at INR 36,601 in the year 2012-13 and INR 34,584 crores in the year 2011-12

- There are a number of co-operatives that have already gone financially sick. The outstanding debt balance of these sick co-operatives have not *been included in our sample. If the debt levels for these are also added, it will depict a much more grim picture of the sugar industry.*

Consolidated (Public, Private companies and co-operatives) in INR Crores						
INR Crores	***2012-13****	***2011-12***	***2010-11***	***2009-10***	***2008-09***	***2007-08***
Revenue	*77,299*	*68,187*	*51,751*	*38,888*	*28,367*	*18,073*
EBITDA	*9,257*	*7,737*	*5,857*	*6,366*	*7,016*	*2,578*
EBIT	*4,932*	*4,723*	*3,657*	*4,285*	*4,927*	*2,017*
PAT	*918*	*791*	*799*	*1,936*	*2,512*	*161*
Interest Expense	*4,707*	*3,677*	*2,741*	*1,815*	*1,432*	*932*
Capital Employed	*47,411*	*41,571*	*36,791*	*30,724*	*24,238*	*23,188*
Debt	***36,601***	***34,584***	***28,539***	***23,270***	***15,750***	***11,443***
Equity	*19,321*	*19,008*	*17,320*	*16,580*	*14,049*	*11,744*
Working Capital	*(2,401)*	*2,598*	*10,708*	*11,499*	*9,615*	*5,080*
Total Assets	*113,042*	*90,575*	*68,751*	*56,476*	*37,978*	*28,202*
Current Assets	*51,960*	*42,478*	*33,061*	*29,393*	*17,623*	*10,094*
Current Liabilities	*54,360*	*39,879*	*22,353*	*17,894*	*8,008*	*5,014*

**The above financial performance for FY12-13 includes financial statements of Bajaj Hindustan Ltd and Triveni Engineering Ltd for 18 months ended 31st March 2014. These companies changed their financial reporting to 18 months period in the current reporting period*

5.2 Sugar Inventory Disposal Pattern during the Study Period

5.2.1 The paucity of time and resources preclude a complete financial analysis of industry for 2013-14 on the above pattern, which could have given some pointers to the health of the industry in post de-regulation phase. Moreover, the impact of any policy change is gradual and also affected by multiplicity of factors and therefore one season data for pre and post de-regulation phases might be inadequate for holistic financial analysis. Still, since a common refrain in the controlled regime was with regards to the perceived carrying cost of sugar stocks being borne by the industry because of mandated and regulated sugar releases in the country, an analysis of the stock disposal patterns in the pre and post de-regulation phases, it was thought would be a significant pointer to the direction the things were taking. In fact, the de-regulation decisions which meant removal of sugar related controls, hitherto imposed by Govt., were with the sole objective of providing business flexibility to the industry.

5.2.2 The stock disposal of the sugar mills is largely in the form of sale for the domestic as white sugar. In addition, some quantities get exported based on international situation. Indian sugar mills prefer cash sale in bulk at the factory gates; the intermediaries are traders/ trade houses before the material reaches end destinations of domestic retail / institutional consumers/ foreign shores. The domestic market is by and large insulated from imports through tariff barriers which at the time of writing of this report isin form of the import duty of 25%. The exports are free but are dependent on export parity prices.

5.2.3 Usually, 2-3 months year ending stock of sugar is considered appropriate to meet domestic requirements during the months falling in between the close of previous year's production and commencement of next year production. The world sugar stocks carry indirect impact on Indian sugar market since very high global inventories depress international prices and make Indian exports highly un-remunerative, because of which the industry keeps on looking forward to Government for subsidies for export.

5.2.4 The Speedier disposal would obviously reduce the stock carrying costs, but with the caveat that the sale prices should remain remunerative. Through this study, an attempt has been made to analyze the dynamics of physical sales of sugar and the income realization from sales for the sugar mills located in 10 major sugar producing states of the country during pre and post de-regulation phase. In this context, the basic data regarding month-wise sugar stock inventory, its disposal and approximate valuations fetched through disposals during the entire study period for the 10 major sugar producing states is provided through Appendix –XI to Appendix-XX. The national scenario of year beginning stocks, production, disposals and year end stocks for 5 years is provided at Appendix-XXI in order to provide the Pan-India as well as historical perspective in the matter. Similarly vide Appendix XXII the world sugar balances for the past few years have been indicated as the domestic sugar prices get impacted by the combinations of global surpluses – domestic surpluses; global surpluses – domestic shortages; global shortages – domestic surpluses, etc. The parameters derived from the basic available data are discussed in the succeeding Paras.

5.2.5 The overall situation of the season wise production, consumption/disposal and season end stocks in the country during 2012-13 and 2013-14 was as given in Table-5.1.

Table-5.1

Sugar Balance Sheet

(Qty. in Lakh MT)

Period	Beginning Stock	Total production	Consumption / disposal			Season end stocks
			Domestic	Export	Total	
2012-13 (Pre deregulation)	66.96	258.58	230	3.5	233.50	91.09
2013-14 (Post deregulation)	91.09	245.54	243	22.0	265.00	72.13

5.2.6 An attempt was also made to scrutinize the cash flow pattern by looking at the trend of gross realizations;estimated cost of production each state wise and the per unit sales realization and the amount of money which remained invested in the sugar inventory vis a vis the cash realized on account of sales on monthly basis, the during the study period. The figures on those three accounts are tabulated vide Table-5.2, Table-5.3 and Table-5.4.

Table - 5.2

Trend of Gross Realization from Sugar Sale

(Figures in Crores)

State	2012-13	2013-14
	Gross Realization from sugar sales	Gross Realization from sugar sales
Uttar Pradesh	21773.95	21527.72
Bihar	1555.60	1626.52
Haryana	1501.75	1577.96
Punjab	1339.54	1254.72
Uttarakhand	795.90	1047.21
Andhra Pradesh	2051.40	1905.75
Tamil Nadu	5290.09	4413.36
Maharashtra	20262.65	23047.91
Gujarat	3248.71	3846.32
Karnataka	9448.00	10814.83

Table-5.3

Cost of Production Vs. Realization

(Fig. in Rs.)

State	Cost of Sugar Production/MT (2012-13)	Cost of Sugar Production/MT (2013-14)	Ex-Mill Sugar sales realization / MT (2012-13)	Ex-Mill Sugar sales realization / MT (2013-14)
Uttar Pradesh	35110.00	35110.00	32340.88	31415.37
Uttarakhand	35120.00	35120.00	33015.97	31250.00
Bihar	33000.00	33000.00	32623.93	31230.47
Haryana	34500.00	35800.00	32070.76	30598.54
Punjab	35000.00	35000.00	31727.25	30616.39
Andhra Pradesh	32000.00	32000.00	30945.55	29363.47
Tamil Nadu	32000.00	30880.00	30428.12	29636.86
Maharashtra	30000.00	29500.00	29609.07	26120.43
Gujarat	30000.00	30000.00	30116.80	27338.87
Karnataka	29000.00	31000.00	29262.82	25491.38

Table-5.4

Trend ofMonthly Cash Flow

(Cost figures in Crores and Qty. in Lac MT)

State	Average Quantity sold - Monthly (2012-13)	Average Quantity sold - Monthly (2013-14)	Average Monthly Sales Realization (2012-13)	Average Monthly Sales Realization (2013-14)
Uttar Pradesh	5.61	5.71	1814.50	1793.98
Bihar	0.40	0.43	129.63	135.54
Haryana	0.39	0.43	125.15	0.00
Punjab	0.35	0.34	111.63	104.56
Uttarakhand	0.20	0.28	66.33	87.27
Andhra Pradesh	0.55	0.54	170.95	158.81
Tamil Nadu	1.45	1.24	440.84	367.78
Maharashtra	5.70	7.35	1688.55	1920.66
Gujarat	0.90	1.17	270.73	320.53
Karnataka	2.69	3.54	787.33	901.24

5.2.7 The Table-5.5, captures the stock use ratio, state-wise, for the study period and also calculates the number of days required for the disposal of season end inventories at the available stock use ratio. Similar parameters for all India as well as the global sugar stocks were also calculated.

Table-5.5

Sugar Stocks Use Ratio during Study Period

(Qty. in Lac MT)

	2012-13					2013-14				
State	Beginning Stock	Total production	consumption / disposal	Stock Use Ratio *(%)	Months required for disposal of year-end inventory**	Beginning Stock	Total production	consumption / disposal	Stock Use Ratio* (%)	Days required for disposal of year-end inventory**
Uttar Pradesh	16.18	74.82	67.33	35.17	128	24.04	65.85	68.53	31.17	114
Bihar	1.33	5.05	4.77	33.83	123	1.64	5.96	5.21	45.9	168
Haryana	1.69	5.1	4.68	44.98	164	2.11	5.37	5.16	45.07	165
Punjab	1.2	4.36	4.22	31.73	116	1.34	4.73	4.1	48.13	176
Uttarakhand	1.43	3.39	2.41	99.96	365	2.4	2.98	3.35	60.32	220
Andhra Pradesh	1.81	6.97	6.63	32.39	118	2.09	6.61	6.49	34.03	124
Tamil Nadu	6.22	19.13	17.39	45.85	167	8.15	14.18	14.89	49.99	182
Maharashtra	25.24	79.44	68.43	52.97	193	36.31	75.45	88.24	26.66	97
Gujarat	2.6	11.3	10.79	28.84	105	3.46	11.78	14.07	8.31	30
Karnataka	8.28	34.65	32.29	32.97	120	10.62	41.5	42.43	22.84	83
All India	66.96	258.58	233.5	39.42	144	91.09	245.54	265	27.03	99
World	64.36	185.32	175.64	42.15	154	73.25	182.55	178.93	42.96	157

*Beginning Stock + Total Production – Total Disposal / Total Disposal X 100
** Stock Use Ratio (%) X 365

5.2.8 In order to place the figures obtained with regards to the season end stocks, stock use ratio, etc. in the perspective of seemingly reasonable sugar seasons, the appropriate parts of the 2013-14 price policy report of CACP[iii] are reproduced below:

2.3 The production of sugar in the sugar season (October to September) of 2011-12 is likely to be around 25 to 26 million tonnes. That means the extra production either will be exported or added to carry over stocks for the next season. Thus, stock-to-use ratio at the end of each season becomes an important parameter to see what is likely to happen to sugar prices in the coming season. Table-2.1 presents the demand-supply situation as well as the stock-to-use ratios at the end of each season for the last three years.

Table ....

Availability of Sugar as Percentage of its Use during 2009-10 to 2011-12

(Lakh tonnes, percent)

S.No.	Particulars	2009-10	2010-11	2011-12
1	Opening stock	35.83	51.25	67.79
2	Less-adjusted 5% due to damages/ unsalable stocks	0.00	2.56	0.00
3	Net opening stock	35.83	48.69	67.79
4	Export allowed during the previous season but physically exported during the current sugar season	0.00	0.00	4.42
5	Net Adjusted opening stock (3 minus 4)	35.83	48.69	63.37
6	Production	188.00	243.50	260.00
7	Imports	41.80	0.00	0.00
8	Estimated total availability (5+6+7)	265.63	292.19	323.37
9	Estimated releases for internal consumption	211.98	208.00	214.12
10	Export against ALS/AAS obligation and OGL /bilateral agreement with Maldives	2.40	26.00	40.00
11	Estimated non-levy sales as per court Order	0.00	0.00	8.00
12	Total estimated releases [9+10+11]	214.38	234.00	262.12
13	Estimated closing stock on 30.09.2012 (8 minus 12)	51.25	58.19	61.25
14	Stock to Use Ratio (%) {(13)/ (12)*100}	23.91	24.87	23.37

[iii] "Price Policy for Sugarcane (The 2013-14 Sugar Season)", by the Commission for Agricultural Costs and Prices (CACP), Department of Agriculture & Cooperation, Ministry of Agriculture, Government of India, August 2012.

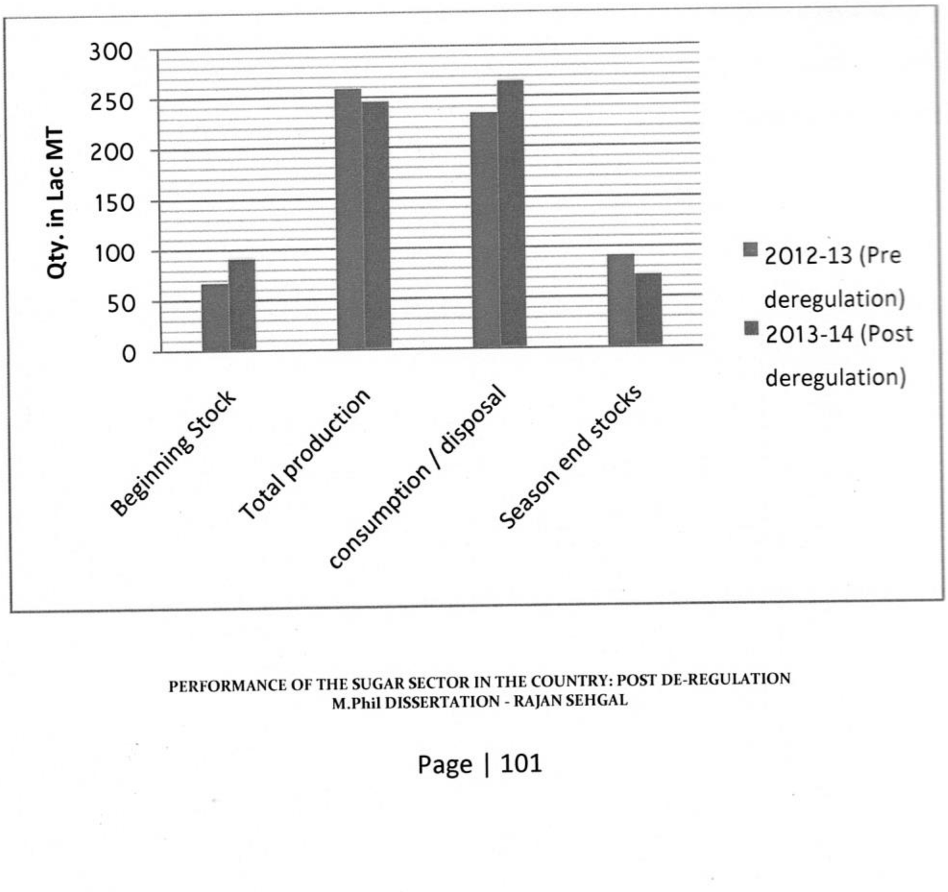
....

2.4 It may be noted that during 2011-12 sugar season, India's sugar exports are targeted to be around 4 million tonnes, which may be the highest level of exports since 2000-01, excepting 2007-08. As a result of these healthy exports, stock-to-use ratio of sugar is likely to be marginally lower at 23.4 percent at the end of 2011-12 sugar season compared to the preceding sugar season (24.9 percent).

5.3 Interpretation of the Situation

5.3.1 The production, consumption and stock position of sugar during 2012-13 and 2013-14 is graphically depicted in Fig. 5.1. The sugar season 2012-13 was a season of surplus, the disposal was limited to domestic consumption as the exports were minimal and reflected in extremely high season end sugar inventory. Thoughthe2013-14 sugar season was also a season of surpluses, a marginal dip in sugar production and increased pace of sugar disposals brought the season end sugar stocks to a reasonable levels.

Fig. 5.1 - Production, Consumption/Disposal & Stock Trends



However, the plain reading of the 2013-14 stock disposal pattern may be misleading as the continuous down slide in the sugar prices from the second half of 2012-13 which continued in the first quarter 2013-14 (price situation was analysed and explained in the part 3.4.1 and 3.4.2 of the study)compelled Central Government to help the sector by providing (i) subsidy on production and export of raw sugar and (ii) interest free loans of around Rs.6600 crores with two year moratorium and repayment from 3rd to 5th year. The liability of Central Government on these two initiatives is expected to be (i) one-time payment of around Rs.200 crores on raw sugar export subsidy and (ii) a payment of around Rs.600 crores per annum for the next five years. Further, the states governments also chipped in. The Government of UP provided a help of around Rs.11 per quintal to the sugar mills towards cane payments in the form of exemption from State level taxes. Similarly, the Government of Karnataka provided a relief amounting to Rs.15 per Quintal of cane cost. The relief amount was Rs.10 per quintal of cane cost in case of Tamil Nadu and Rs.6 per quintal of cane cost in case of Andhra Pradesh. As such the higher disposals during 2013-14 were result of concerted effort by the Government to reduce sugar inventory in the country. Still, there were cane price arrears and a number of sugar mills faced situation of short margins during 2013-14 sugar season (as analysed in part 4.3 of the study).

5.3.2 While, the overall year-end sugar stock levels on pan-India basis went down during 2013-14, the pattern was asymmetric across the states. The chart in the Fig. 5.2, depict the stock use ratio (%) across various states as well as pan-India and globally during the study period while the Fig. 5.3 depicts the days required for disposal of season end stocks if the disposal rate remains constant for the respective year.

Fig. 5.2 - Sugar Stock Use Ratio (%)

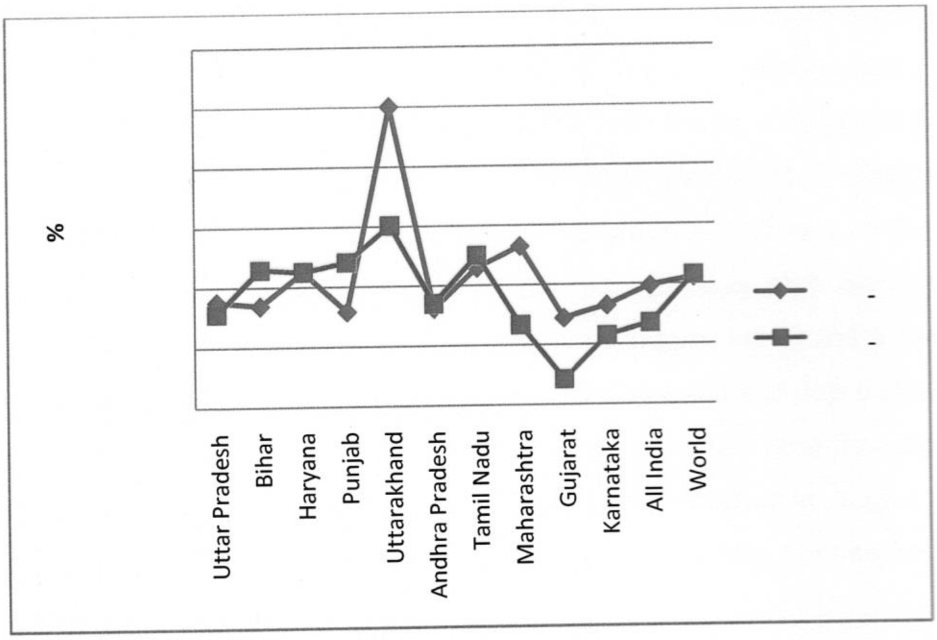
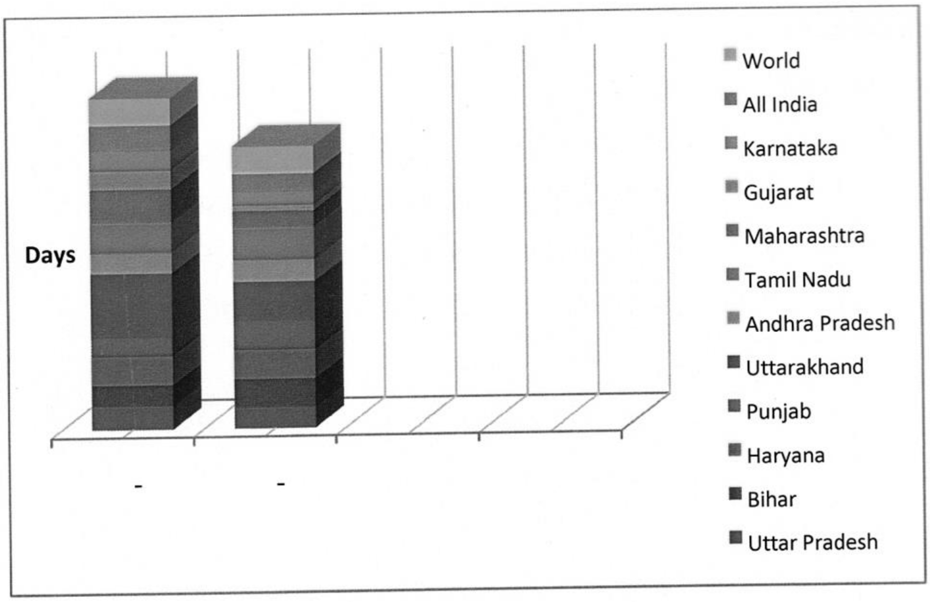


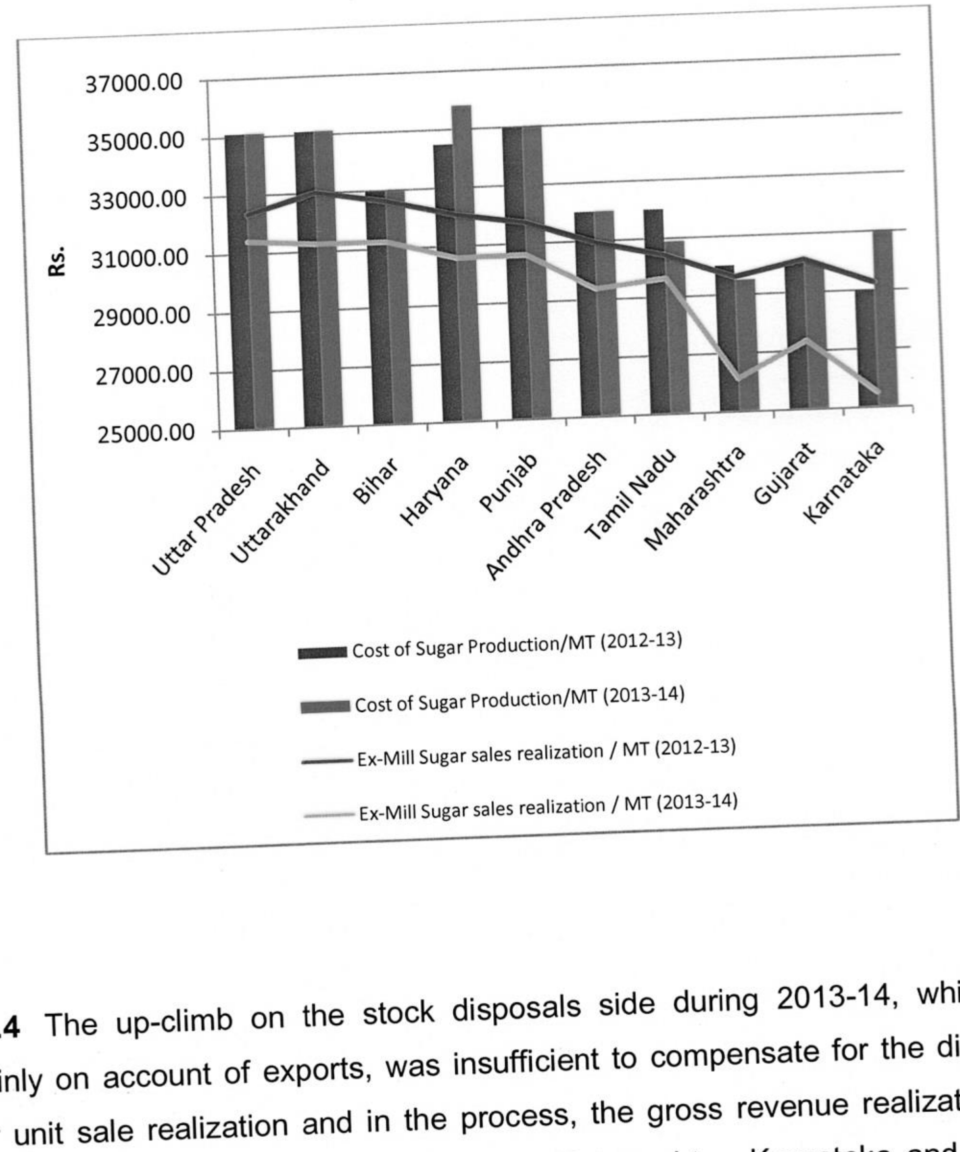
Fig. 5.3 Number of Days Required For Disposal of Season Ending Stocks



The coastal states like Maharashtra, Gujarat and Karnataka were able to dispose of considerable part of sugar inventories through exports which were aided by government subsidy, while the landlocked states continued to carry huge sugar inventories. Now, since the cross country movement of sugar is free, surplus stocks anywhere effect the market. In the process, industry in the entire country suffered since the prices remained depressed. It is also worthwhile to point out that even though the stock use ratio went down, on all India basis, as well as individually in the coastal states during 2013-14,still the pan-India stocks were sufficient for three months requirement of the country and this situationalong with surplus global stocks kept the domestic sugar prices depressed and in fact below the cost of production, as the succeeding parts would show.

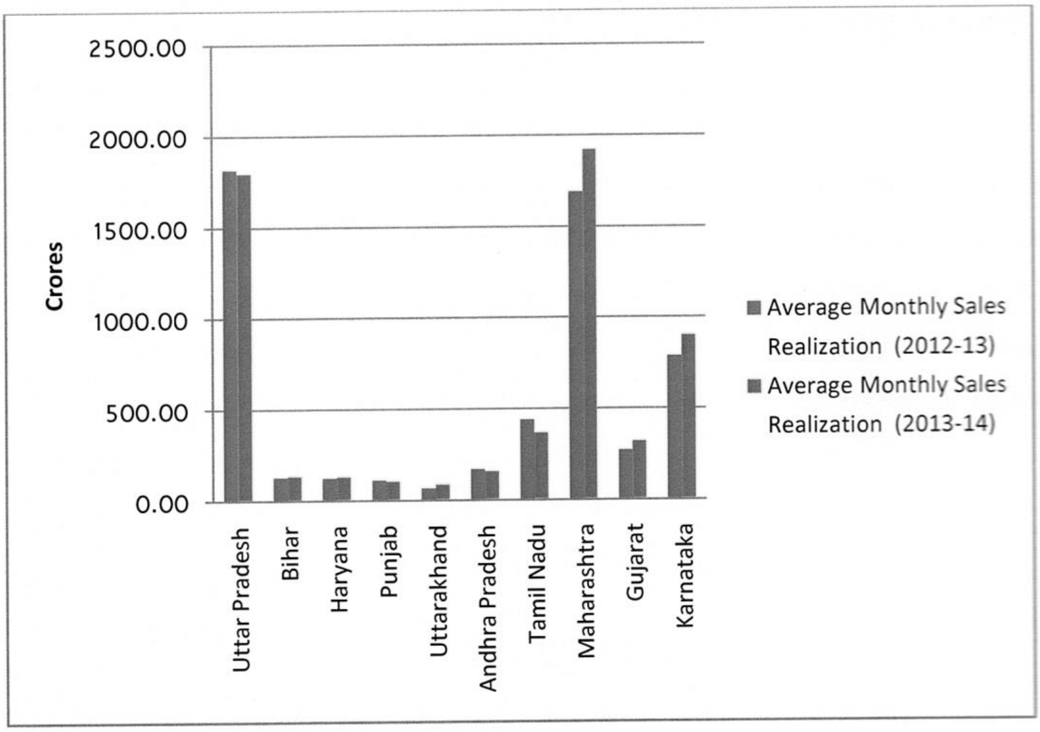
5.3.3 Considering the difficult times, the sugar mills tried to reduce production costs as can be seen from near constant production costs in six states, reduced cost in two states and marginal raise in two states during 2013-14 in comparison to 2012-13. Unfortunately, the squeeze in the production costs was almost entirely born by the sugar cane farmers (as indicated vide part 4.1 of the study). Still, the per unit realization did not match the production costsand the per unit realizations from sugar sales kept on dwindling, all through the 2013-14 sugar season in comparison to 2012-13. The situation is captured in the Fig. 5.4.

Fig. 5.4 - Cost of Production Vs. Realization



5.3.4 The up-climb on the stock disposals side during 2013-14, which was mainly on account of exports, was insufficient to compensate for the dip in the per unit sale realization and in the process, the gross revenue realization was static in 7 states. Only the 3 states i.e. Maharashtra, Karnataka and Gujarat which participated in exports had, at least, the revenue realizations higher than 2012-13 during 2013-14 sugar season. The situation is captured in the Fig.5.5.

Fig. 5.5 - Average Sales Realization from Sugar



5.4 Findings

The financials of the sugar mills turned from bad to worse in the first season post de-regulation i.e. 2013-14. Though the stock use ratio improved during 2013-14, the disturbing element was the below production cost sale realizations. The reason lay to an extent on the absence of discipline among sugar mills to plan their sales which compounded the situation of domestic as well as global surpluses.

In a nutshell, while the de-regulation of sugar disposals in the country was expected to unshackle the sugar industry from stranglehold of governmental controls; the financials of sugar mills were expected to improve; the cane payments to the farmers were expected to become swifter as well as healthier and the sugar consumers were expected to get accustomed to, may be, higher but stable sugar price regime, the situation unraveled completely contrary to expectations.

In fact, the financials of the sugar mills and the cane farmers' payment situation has become so worrisome that the Government of India has, around the time of writing of this report, announced a new subsidy package of around Rs.560 crores to facilitate export of 14 lac M.T. of sugar with cash subsidy of Rs.4000/ M.T. during 2014-15 sugar season, in order to reduce surplus sugar stocks and improve market sentiment.

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