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NOT SWEET AT ALL

THE SUGAR INDUSTRY IN UP IS STRUGGLING TO GET RID OF ITS DEBT

PHOTOGRAPHS BY VISHAL KOUL

LONG WAIT: Sugar farmers and mill owners are struggling in Uttar Pradesh

AT A GLANCE

AREA
21.32 lakh hectares

INDUSTRIAL UNITS
118

TOTAL TURNOVER
₹18,000* crore

POPULATION
19.98 crore

KEY SECTORS
Sugar, power, distillery

Source: MSME ministry (Central Government and Industry) and Uttar Pradesh Ganna Vikas Vibhag
* For all sugar mills in UP

Himanshu Kakkar

"You are doomed if you are a cane farmer – *idhar khai, udhar naala*," laments Parmanand, a sugarcane grower in Hapur district of western Uttar Pradesh (UP). While he concedes that sugarcane is the most remunerative cash crop, he also tells us how he is yet to receive full payment for the crop he sold last year to a nearby sugar mill. Similar is the plight of several other farmers in this northern state, which contributes one-fourth of the country's total sugar production.

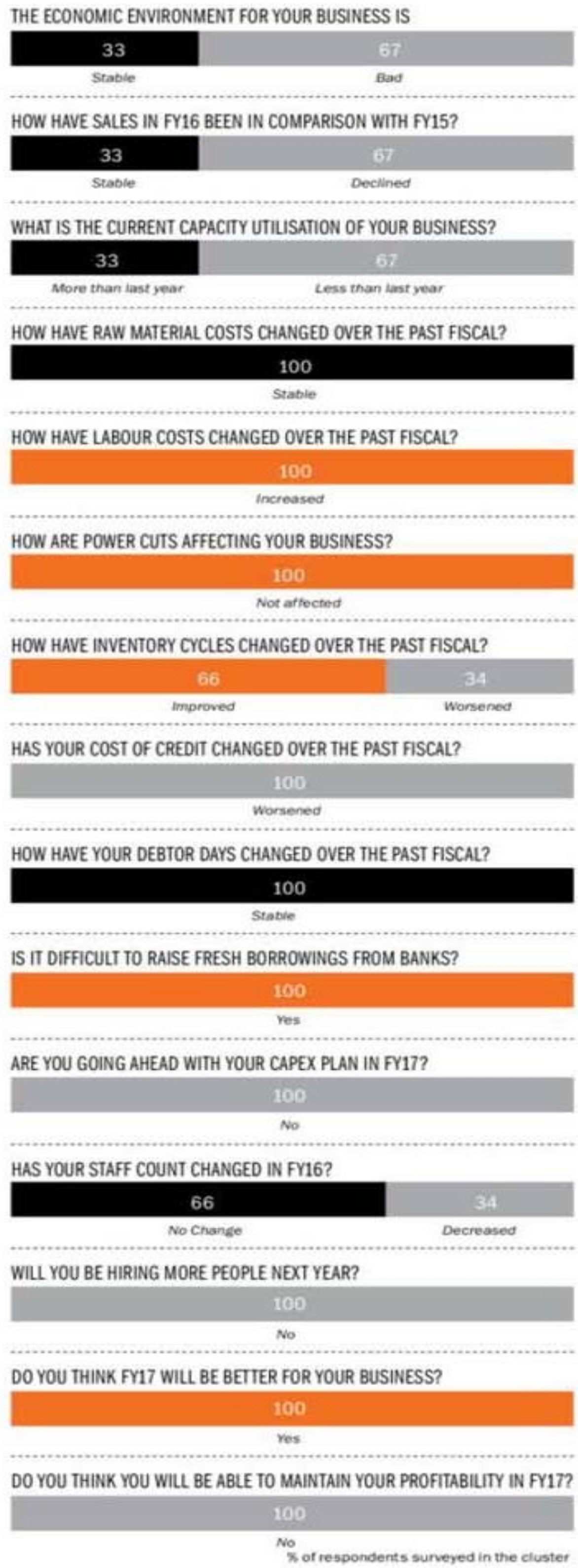
This could also be the reason why 2,500 farmers across the nation are abandoning agriculture everyday, according to the 2011 Census. However, in UP, while cane farmers are preparing for a bitter crushing season, they are also putting up a tough fight. Dharmendra Malik, general secretary of the state's Bhartiya Kisan Union (BKU) says, "We organise farmers movement at least three times a year. First, when the state government declares cane prices, then to keep the sugar mills operational and finally to retrieve farmers' dues."

He points out how the farmers are struggling with an increasing arrears list. "Mill owners owe ₹4,000 crore to the farmers for the previous year, ₹3,000 crore for the current year and ₹1,000 crore as interest," says Malik. It is this dismal state of affairs that is causing unrest within the farmer community. For instance, on February 1, the BSU called for a *chakka jaam* (road blockade) in the entire state.

While farmers are blaming mills for failing to pay them their dues, the crux of the issue is that the sugar mills aren't a profitable lot either. The sugar industry experienced a major financial crisis in 2015, especially the mills in UP. The Indian Sugar Mills Association (ISMA) and the state's mill owners are currently engaged in discussions with state authorities to revive the cluster, but no solutions have emerged yet.

FARMERS IN UTTAR PRADESH ARE PREPARING FOR A BITTER CRUSHING SEASON

HIGH DEBT OF SUGAR MILLS HAS LED TO AN INCREASE IN THE COST OF CREDIT



“It is not possible to have high cane prices, low sugar prices and a viable industry

—AJIT SHRIRAM
Joint managing director, DCM Shriram

BITTER TRUTH

Gursimran Mann, MD, Simbhaoli Sugars is trying hard to recall the last time her company was not in the red. “The last time we recorded a profit was in some quarter in 2010,” she says. The company owns three mills in UP, one each in Simbhaoli, Chilwaria and Brijnathpur. The mill sold ₹850-crore worth of sugar in FY15, but had to face several issues throughout the year. In addition to a poor balance sheet, there were reports of farmer protests and mills being sealed due to non-payment of dues. Mann claims that the same scene played out at multiple sugar mills in the state. “It is unfortunate that it came to that. It affects farmers, but coercive measures cannot result in a solution,” she reasons.

Mill owners in the state also complain about the mismatch between cane prices and sugar prices. DCM Shriram, which owns one mill in Lakhimpur Kheri and three others in Hardoi district of UP, is grappling with this price mismatch. Ajit Shriram, joint managing director, says, “The fundamental problem is that the cane prices are not correlated with market prices of sugar. It is practically not possible to have high cane prices, low sugar prices and a viable industry. The sugar price is determined by the market while we are asked to pay the state advised price (SAP) for cane, which is much higher than the fair and remunerative price (FRP) determined by the Commission for Agricultural Costs and Prices.”

The Akhilesh Yadav government has maintained SAP at ₹280 per quintal for the ongoing production season that commenced in October. Much against the wishes of the farmers, this rate has remained the same for the past three years. However, the earlier BSP government had raised SAP by ₹40 per quintal every year in its tenure. Mill owners complain that having to abide by high SAP has raised production costs. Shriram points out, “There was a time recently when just the cane cost was 120% of the selling price.” This explains why the cane arrears across the country touched an all-time high of ₹21,000 crore in April 2015. The severity of the debt burden is evident from the fact that the heads of two state-run lenders — State Bank of India and Punjab National Bank — wrote to UP’s chief secretary asking him to restore financial viability of the mills. Mann says, “Financing is not as easily available now as it was earlier.”

Mills say they used other verticals to sustain themselves. “The last profit we made was in FY09 and that too a small one. We incurred heavy losses thereafter in the sugar business,” says Shriram, adding that that other verticals were used to support its sugar business. The DCM Group has interests in urea, seeds and chloro vinyl. But even Shriram is aware that this cushion can’t work forever. “It is a matter of stability and consistency. At the end of the day, we are dealing with bankers. Nobody will lend to you when you have arrears/weak

“Government has played an important role by mandating exports of surplus sugar

—TARUN SAWHNEY
Chairman, ISMA and MD, Triveni Group

fundamentals. We need to find a long-term solution for cane pricing", he adds.

Quitting, however, is not a solution as the law doesn't allow a sugar mill to shut down without securing permission from the District Magistrate. Also, selling isn't a possibility with no buyer wanting to enter the troubled sector. Thus, mill owners like Mann believe that it bodes well to stay put, "It would be immature to exit due to policy problems. We have been in this business for the past 80 years and we believe in it."

SWEETER PROSPECTS

There are no easy solutions to revive the industry but central government initiatives such as diverting surplus sugar towards exports and increasing ethanol blending can work as much-needed catalysts. Tarun Sawhney, chairman, ISMA says, "The central government has played a very important role by mandating exports of sugar." Sawhney, who is also the MD of Triveni Group that owns seven sugar mills across UP, is hopeful about the future. "There are huge stocks of sugar across the country. Now, 3.2 million tonne have to be exported in any form. 70% of this has already been exported. Besides, drought in central and southern India has helped raise sugar prices from ₹22 per kilo in July 2015 to ₹30 currently. So, the industry's health has improved a little," he says. ISMA estimates the total sugar production in 2015-16 to be 26 million tonne. Shriram, too, welcomes the government's push for increasing the export quota, "We have sealed contracts for about two-thirds of our stock. Exporting excess sugar is a good way get the stock out of the system."

The December 2015 scheme by the government that raised the ethanol-blending target to 10% in petrol/diesel can also help elevate the burden of sugar mills besides bringing down the country's oil import bill. "With 10% set as the benchmark, you need ₹230 crore litres of sugarcane juice," says Sawhney. The oil industry was able to achieve 3% of the target last year and is expected to meet 5% this year.

Sugar mills owned by conglomerates with varied interests are wasting no time in making the most of the scheme. Simbhaoli Sugars has combined its sugar mills business with spirits business. Explaining the rationale behind this move, Mann says, "We see better synergies from a taxation and operational perspective."

In addition to these measures, monsoon, too, has aided the sugar farmers this time. "Since we have not had intermittent rains, we have managed to sow high yield variet-

TRICKLE DOWN: Farmers complain that higher recovery doesn't reach them

CANE OF PLENTY: Good monsoons have enabled high yielding varities to be sown translating to higher recoveries

ies such as 238, 288, 289. This has translated into higher recoveries this year. While the recovery was 9.5% in 2014-15, it went up to 10.3% in 2015-16," says Sawhney. A higher recovery (for the same amount of sugarcane) translates into a lower cost per kilogram of sugar produced.

But BKU's Malik complains that benefits of higher recovery don't trickle down to the farmers. "UP has surpassed Maharashtra this time in terms of recovery. But the cost of growing sugarcane has increased further for the farmer. Unfortunately, the UP government has allowed mills to pay only ₹230 of the mandated ₹280 SAP. The balance is to be paid after three months," he laments, adding that it would only add to the arrears problem.

But ISMA's Sawhney is quick to respond. "The broader section of the industry has cleared the arrears but it is the troubled mills operating under the Board for Industrial and Financial Reconstruction or corporate debt restructuring schemes that continue to have trouble clearing dues." The government has asked mills to utilise 85% of their sugar sale proceeds for payments to farmers. While Malik claims this is not followed by mills, owners deny the charge.

Amidst all this, to ease the debt burden, the state government also announced a subsidy last year for mills if the sugar prices remained within a price band. However, mill owners feel that a long-term solution would be the implementation of the C Rangarajan committee report of 2012 that favoured easing control of the sugar industry and proposed a revenue-sharing model. Shriram says, "In countries like Australia, Thailand, Brazil and South Africa, a farmer is typically paid 55-65% of the sugar value. C Rangarajan proposed increasing it to 75% and incorporating a revenue-sharing formula. Also, FRP should also be implemented with a price stabilisation fund." He also makes a case for sugar to be removed from the list of essential commodities and cutting the compulsory 10% supply quota to the public distribution system (PDS). For example, out of 100 kilos, 10 kilos must be supplied to the PDS. Of this, 65-70% is consumed by the FMCG sector and 15% by households. "Sugar accounts for 1.73% of the WPI. If you spend ₹100 on food per month, you spend ₹1.83 on sugar. Thus, the cash crop accounts for a small share of a household's expenditure," Shriram explains.

Despite the distress surrounding the sector, mill owners and farmers haven't lost all hope yet. Simbhaoli Sugars' Mann continues to remain optimistic. "The situation is better than what it was at the same time last year. The losses are declining. We should be able to break even next year," she says. A few kilometres away, standing tall against the merciless sun, a lot like the cash crop he cultivates, Parmanand says a silent prayer as he waits for the benefits of that potential break even to reach him.

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—GURSIMRAN MANN
MD, Simbhaoli Sugars

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LAST YEAR'S UNBRIDLED OPTIMISM IS WEARING THIN AT MOST INDUSTRIAL CLUSTERS

ILLUSTRATION BY MANISH MARWAH

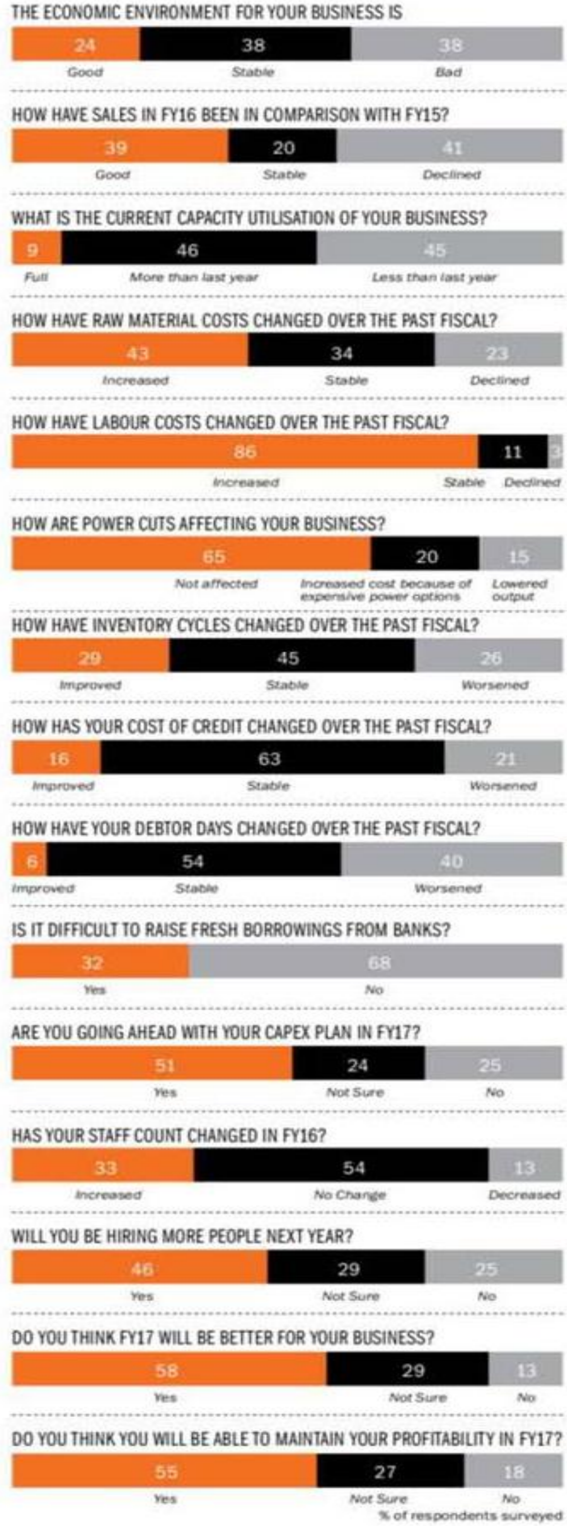
Krishna Gopalan

Every year, around the Budget, *Outlook Business* reporters visit industrial clusters across the country with the objective of ascertaining business sentiment. As is now obvious, the report card for FY16 does not look pretty, and most clusters are praying for serious respite. This was not the case last year, when optimism was the clear theme after a long period of despondency. In early February, our reporters made their way to 11 industrial clusters — Khatauli and Kanpur in Uttar Pradesh, Jagatpur in Cuttack, Vijayawada, Hyderabad, Erode, Tiruppur and Karur, Butibori in Nagpur, Pune, Surat and Sanand. Of the 112 units surveyed, 39% said business was better than the year gone by, while 20% maintained it was stable. In all, 58% said FY17 would be better for business, with 55% sure they would maintain profitability. That said, there is a caveat which we shall come to at the end. Looking back, at the beginning of FY16, 70% of the respondents had felt sales would be better or stable. Of course, that optimism was powered by the results of the general election in May 2014.

In the north, sugar mills in Khatauli and the leather cluster in Kanpur are battling tough times. The sugar industry is in dire straits, with farmers' dues not being cleared by mill owners. The mismatch between the price of cane and sugar has caused much resentment among mill owners. Some companies have been in the red for over five years and are counting on policy correction to rectify the situation. In Kanpur, home to a leather cluster, exports are in a bind as prime markets like Europe and Russia aren't buying enough. The entrepreneurs there are a harried lot, and rising raw material prices and environmental issues have added insult to injury. As many as 91% complain of declin-

SUGAR MILLS IN KHATAULI AND THE LEATHER CLUSTER IN KANPUR ARE BATTLING TOUGH TIMES

STAGNANT TOP LINE AND RISING INPUT COSTS IS THE OVERARCHING THEME



ing sales, with capacity utilisation levels for 73% being less than last year. Moving east, you see the same despondent mood in Cuttack's Jagatpur cluster: every respondent there has had a problem raising money from banks. While 75% said the environment for business was bad, 83% exhibited no confidence that profitability would be maintained. Be it power cuts, tax harassment or an ineffectual single-window clearance mechanism, Cuttack is battling all, but the real problem is a weak domestic economy.

POWER DOWN

A perverse benefit of the downturn is that most companies across clusters have stopped complaining about electricity — 65% of respondents said power cuts weren't an issue. That's clearly the result of a weak economic climate that has resulted in low capacity utilisation and reduced overall demand for power. As things stand, the global slump is causing much pain in India, thanks to Chinese dumping. Be it steel products or pharma, companies are in pain, as they are unable to withstand competition. Hyderabad, now the capital of Telangana, has seen over 100 bulk drug manufacturers shut shop as they lost orders to Chinese manufacturers. The industry has also been facing USFDA heat. Still, pharma is putting up a brave face, hiring people and working on a product pipeline. Thanks to new capital Amaravati, which is close by, businesses in Vijayawada sound a lot more cheerful. The task at hand is to bring in big-ticket investments and ensure basic infrastructure such as good roads and a large airport, so that this predominantly agri-focused region can transition to being an industrial hub. 64% of respondents there said they will hire more people in FY17.

THE GLOBAL SLUMP IS CAUSING MUCH PAIN, THANKS TO CHINESE DUMPING IN STEEL PRODUCTS AS WELL AS PHARMA

Another vibrant spot is Tiruppur, the knitwear capital of India. The cluster is now clamouring for skilled labour as business is buoyant, a sharp contrast from two years ago, when business was at its lowest ebb. Competition from Bangladesh and Pakistan had folks here crying hoarse back then, but the moolah is now back. Here, 85% of businessmen say they will invest in more capex, and 100% of respondents believe profits will grow. The story in neighbouring Karur, a big base for home textiles, also borders on optimism, with expectations of steady growth. But rising labour costs continues to be a pain point.

Over the past few years, however, businessmen across the country have reconciled to higher costs, be it labour or raw materials. This year, 86% of respondents complained that labour costs have increased. Higher labour costs did not matter very much when business was doing well, as most of it would be absorbed. With the scenario now looking less favourable, companies are looking at different ways to tackle this issue. While Erode, with its multiple industries, is insulated, in Surat, India's diamond capital, units have slashed salaries by about 30% instead of showing workers the door. Several other clusters are just chugging along, waiting for a turnaround.

WISHING, WAITING

It already seems like a long wait. In Sanand, the much touted upcoming automobile hub, a worrying 75% of respondents confess to utilisation levels being less than last year, with the sector going through a very challenging period. Sales have declined for 62% of the respondents, with the same number, not surprisingly, being unsure about business or profit looking up in the next fiscal. Ditto for Butibori in Nagpur: its steel re-rolling industry has its back to the wall, with a host of problems to contend with; Chinese dumping and low demand are the prime problems. Plants have scaled down production or have shut shop. Inventory cycles have worsened and the overall economic environment is not looking up, companies say. In Pune, a fledging industry is food processing. It has its problems but entrepreneurs here are brimming with confidence and ideas to scale up, as the market for packaged foods is growing. Now, for the caveat, while 58% of the respondents surveyed feel that FY17 will be better for business, the skew there flows from the optimism in Tiruppur- Karur, Hyderabad and Vijayawada.