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ONE-STOP DESTINATION FOR TAXMAN AND TAXPAYER

Ethanol production capacities up from 421 cr ltrs to 867 cr ltrs

By TIOL News Service

NEW DELHI, MAY 20, 2022: EXPORT of sugar in current sugar season 2021-22 is 15 times of export as compared to export in sugar season 2017-18. The major importing countries are Indonesia, Afghanistan, Sri Lanka, Bangladesh, UAE, Malaysia and African Countries.

In sugar seasons 2017-18, 2018-19 & 2019-20, about 6.2 LMT, 38 LMT & 59.60 LMT of sugar was exported. In sugar season 2020-21 against target of 60 LMT about 70 LMT have been exported. About Rs 14,456 Cr released to sugar mills in past 5 years to facilitate export of sugar & Rs. 2000 cr as carrying cost for maintaining buffer stock. Since, the international prices of sugar are in uptrend & stable, so, contracts for export of about 90 LMT have been signed to export sugar in current sugar season 2021-22 & that too without announcement of any export subsidy; out of which 75 LMT have been exported till 18.05.2022.

In order to find a permanent solution to address the problem of excess sugar, Government is encouraging sugar mills to divert excess sugarcane to ethanol. With the vision to boost agricultural economy, to reduce dependence on imported fossil fuel, to save foreign exchange on account of crude oil import bill & to reduce the air pollution, Government has fixed target of 10% blending of fuel grade ethanol with petrol by 2022 & 20% blending by 2025.

Till year 2014, ethanol distillation capacity of molasses-based distilleries was only about 215 cr litres. However, in past 8 years due to the policy changes made by the Government, the capacity of molasses-based distilleries has been increased to 569 cr litres. Capacity of grain-based distilleries which was 206 cr ltrs in 2014 has increased to 298 cr ltrs. Thus, the total ethanol production capacities have increased from 421 cr ltrs to 867 cr ltrs in just 8 years.

Supply of ethanol to OMCs was only 38 crore litres with blending levels of only 1.53 % in ethanol supply year (ESY) 2013-14. Production of fuel grade ethanol and its supply to OMCs has increased by 8 times from 2013-14 to 2020-21. In ethanol supply year 2020-21 (December - November), about 302.30 cr ltrs of ethanol has been supplied to OMCs thereby, achieving 8.1% blending levels, which is historically highest.

In the current ESY 2021-22, about 186 cr ltrs ethanol have been blended with petrol till 08.05.2022 thereby achieving 9.90% blending. It is expected that in current ethanol supply year 2021-22, we will be achieving 10% blending target.

With a view to support sugar sector and in the interest of sugarcane farmers, the Government has also allowed production of ethanol from B-Heavy Molasses, sugarcane juice, sugar syrup and sugar. Government has been fixing remunerative ex-mill price of ethanol derived from C-heavy & B-heavy molasses & ethanol derived from sugarcane juice/ sugar/ sugar syrup for ethanol season to encourage mills to divert excess sugarcane to ethanol.

In sugar seasons 2018-19 , 2019-20 & 2020-21 about 3.37, 9.26 & 22 LMT of sugar was diverted to ethanol. In sugar season 2021-22, it is likely that about 35 LMT of excess sugar would be diverted to ethanol. By 2025, it is targeted to divert more than 60 LMT of excess sugar to ethanol, which would solve the problem of high inventories of sugar, improve liquidity of mills thereby help in timely payment of cane dues of farmers.

Since, 2014 more than Rs. 64,000 cr revenue has been generated by sugar mills & distilleries from sale of ethanol to OMCs which has helped in making timely payment of dues of farmers.

In sugar season 2013-14, Fair & Remunerative Price (FRP) of sugarcane was at Rs. 210/ qtl at 9.5 % recovery. With a view to increase the income of sugarcane farmers, Government has increased FRP of sugarcane from time to time in past 8 years & has revised it to Rs. 290/ qtl for sugar season 2021-22 at 10% recovery (which translates to Rs. 275.50 / qtl at 9.5 % recovery), which is 31% higher than the FRP of sugar season 2013-14. In sugar season 2020-21, sugarcane of worth Rs. 93,000 cr was purchased by mills. In the sugar season 2021-22, sugarcane of worth Rs. 1,10,000 crore is likely to be purchased by sugar mills which is at all time high level & is the second highest next to the procurement of paddy crop at Minimum Support Price.

Prior to 2014, there was always delay in payment of cane dues of farmers & maximum percentage of cane arrears were carried forward to subsequent seasons; but due to constructive policies of the present Govt., the fundamentals & liquidity of sugar mills have improved due to which now timely payment of cane dues are being made by sugar mills to sugar cane farmers. About 99% of cane dues upto sugar seasons 2019-20 have been cleared. Even for the sugar season 2020-21, out of total cane dues payable of Rs. 92938 cr, about Rs. 92549 cr have been paid & only Rs. 389 cr are pending as on 17.05.2022; thus 99.50% cane dues have been cleared. For the current sugar season 2021-22, out of total cane dues payable of Rs. 1,06,849 cr, about Rs. 89,553 cr have been paid & only Rs. 17,296 cr are pending as on 17.05.2022; thus 84% of cane dues have been paid. The domestic ex-mill prices of sugar are also now stable & are in the range of Rs. 32 -35/ kg which would enable sugar mills to make timely payment of cane dues to farmers in current sugar season 2021-22. The average retail price of sugar in the country is about Rs. 41.50/ kg & is likely to remain in the range of Rs. 40-43/ kg in coming months which is not a cause of worry.

To increase production of fuel grade ethanol, Govt. is also encouraging distilleries to produce ethanol from maize & rice available with FCI. Government has fixed remunerative price of ethanol from maize & FCI rice.

To achieve blending targets, Government is encouraging sugar mills and distilleries to enhance their distillation capacities for which Government is facilitating them to avail loans from banks for which interest subvention @ 6% or 50% of the interest charged by the banks whichever is lower is being borne by Government. This will bring an investment of about Rs. 41,000 crores. DFPD has also opened a window for 6 months w.e.f 22.04.2022 for inviting applications from Project Proponents for enhancement of their existing ethanol distillation capacity or to set up new distillery for producing 1st Generation (1G) ethanol from feed stocks such as cereals (rice, wheat, barley, corn & sorghum), sugarcane (including sugar, sugar syrup, sugarcane juice, B-heavy molasses, C-heavy molasses), sugar beet etc.

As a result of these measures, it is likely that ethanol distillation capacities in the country would be doubled by 2025, which would ensure achievement of 20 % blending target. It will address the problem of surplus sugar & ensure timely payment of cane dues of farmers.

Due to various steps taken by the Government in past few years, fundamentals of sugar mills have improved & sugar industry has become self-sustainable which has resulted in top line & bottom line growth of the sugar companies, which is reflected from the share prices of the listed companies which have increased 4 to 5 times in past couple of years.

Impact on country's economy due to 20% blending by 2025.

- It would benefit maize & paddy farmers, would addresses surplus grain problem; about 165 lakh tons of grains will be utilized.

- Diversion of 60 lakh tons of surplus sugar would address the problem of surplus sugar, checks depressed sale of sugar, improves liquidity of sugar mills and will ensure timely payment of cane dues of farmers

- It will bring new investment opportunities as about Rs. 41,000 crore would be invested to set up new distilleries in rural areas & would result in job creation in villages.

- Would improve air quality, reduces Carbon Monoxide emission by 30-50% & Hydrocarbon by 20%.

- Would save foreign exchange of more than Rs. 40,000 cr on account of crude oil import bill and would reduce dependence on imported fossil fuel thereby would help in achieving the goal of Atmanirbhar Bharat in petroleum sector.

In normal Sugar Season (October- September), production of sugar is around 340-350 Lakh Metric Tonne (LMT) as against the domestic consumption of 270-280 LMT which results in huge carry over stock of sugar with mills. Due to excess availability of sugar in the country, the ex-mill prices of sugar remain subdued & even fell around Rs. 24-26 / kg which was even below the cost of production of sugar resulting in cash loss to sugar mills resulting in cash loss to sugar mills. This excess stock of 70 LMT also leads to blockage of funds & affects the liquidity of sugar mills resulting in accumulation of cane price arrears.

With a view to prevent cash loss to sugar mills caused due to subdued sugar prices, Government in June, 2018 has introduced the concept of Minimum Selling Price (MSP) of sugar & fixed MSP of sugar at Rs. 29/ kg which was revised to Rs. 31/ kg w.e.f 14.02.2019.

Further, to liquidate excess stocks and to improve the liquidity position of sugar mills enabling them to make timely payment of cane dues of farmers, the Government has taken various short term interventions from time to time in past 8 years viz. provided assistance to sugar mills to offset the cost of cane, extended financial assistance to sugar mills for maintenance of buffer stocks, extended financial assistance to sugar mills to facilitate export of sugar, extended soft loans to sugar mills, etc.