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Cabinet approves soft loans of about Rs.7,900-Rs.10,540 crore for sugar industry

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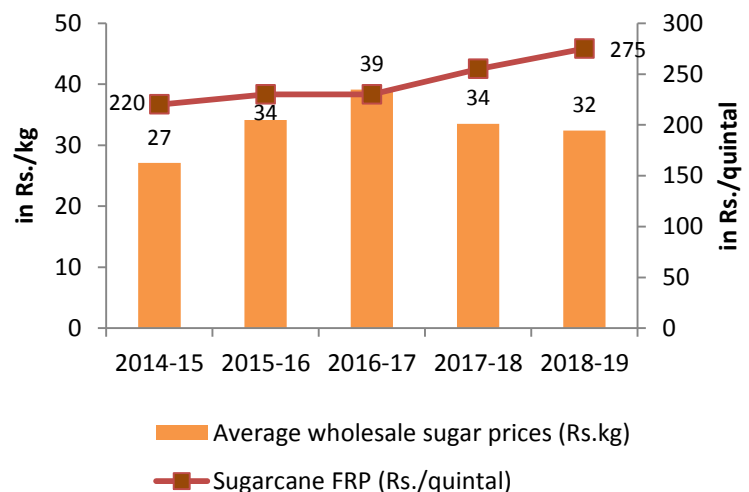
The Cabinet Committee on Economic Affairs (CCEA) approved soft loans worth Rs.7,900-Rs.10,540 crore for the sugar industry to clear sugarcane dues of the current season 2018-19 and improve liquidity situation of the industry. The government will bear the interest subvention cost at the rate of 7- 10% to the extent of Rs. 553 crore to Rs 1,054 crore for one year for the benefit of farmers. The CCEA with a view to encourage sugar mills to clear dues mentioned that the approved soft loans will be provided to those units that have already cleared at least 25% of their outstanding dues in the sugar season 2018-19.

This announcement comes in addition to the recent hike approved on sugar Minimum Support Price (MSP). On 14th February 2019, the government increased the sugar MSP to Rs.31 per kg from Rs.29 per kg earlier in order to ease the liquidity situation of sugar mills. **An increase in MSP of sugar is estimated to bring down the cane arrears by about Rs.3,400 crore for the sugar season 2018-19** assuming that the hike of Rs.2 per kg goes towards the payment of cane arrears.

This amount is based on the assumption that India would consume about 17 million tonnes of sugar during the eight months (February-September 2018) of the ongoing sugar year. Sugar consumption for the entire 2018-19 season is expected to be at around 26 million tonnes.

While the government continues to support sugar industry through various measures, the sugarcane arrears continue to remain due to a mismatch in the prices of sugar and sugarcane.

Chart 1: Trend in sugar prices and sugarcane FRP



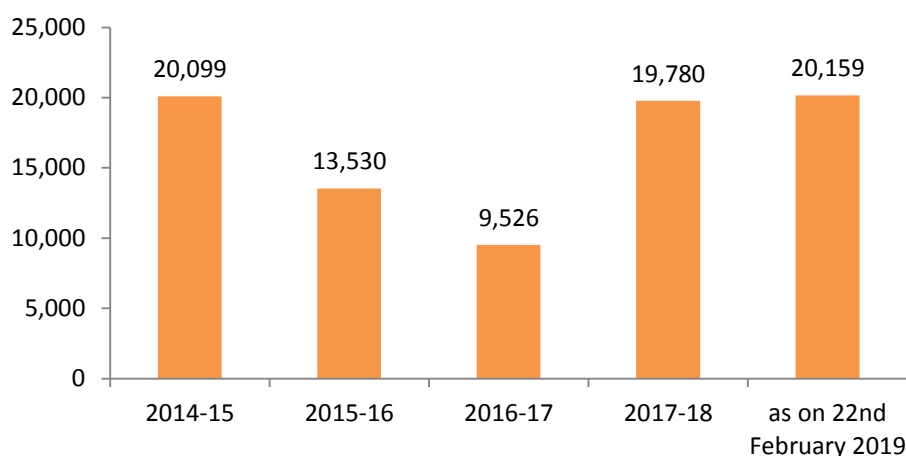
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Source: CMIE

Note: Sugar prices for 2018-19 are average prices for the period October 2018-February 2019

It can be seen that while sugarcane prices were higher for sugar season 2017-18 sugar prices declined to Rs.34 per kg on a y-o-y basis. The same trend continued in the current season as well. While the sugar prices continued the downward trend and averaged lower by 10% y-o-y to Rs.32 per kg during the period October 2018-February 2019, sugarcane prices were higher at Rs.275 per quintal. Thus a mismatch in sugar and sugarcane prices is the main reason for the rising sugarcane arrears in the country and with this trend continuing, the cane arrears have reached the levels of about Rs.20,000 crore as on 22nd February 2019.

Chart 2: All-India sugarcane price dues (in Rs. crore)



Source: ISMA

Note: Cane arrears as on 22nd February 2019 are provided by CCEA

Sugar production and stock situation

According to the Indian Sugar Mills Association (ISMA), India produced at 21.9 million tonnes of sugar during 1st October 2018 to 15th February 2019. The production was up by 7.7% compared to 20.4 million tonnes of sugar produced during the corresponding period a year ago. The increase in output is largely on account of mills in Maharashtra and Karnataka that started crushing earlier this year.

Table 1: Estimated sugar stock situation by ISMA for 2018-19 season

	(in million tonnes)
Opening stock as on 1st Oct 2018	10.7
Production	(+) 30.7
Sugar availability	41.4
Domestic Consumption	(-)26
Exports	(-) 3
Closing stock as on 30th Sep 2019	12.4

For the entire sugar year 2018-19, ISMA estimates sugar output to decline by 5.5% to 30.7 million tonnes from previous year's production of about 32.5 million tonnes.

Will approving soft loan help?

The approval of soft loans by the government will clearly provide a sigh of relief to the sugar mills as it will enable payments to the sugarcane growers. However, this measure will act as a temporary aid or comfort for the industry as the loans availed by mills will have to be repaid by them in the future. Thus the question remains for how long the government will continue to provide packages or soft loans to the industry. Therefore it becomes extremely important to work on the mismatch of sugar and sugarcane prices so that the problem of cane arrears can be solved.

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