

## Sugar Update - April 2018

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*Sugar is an essential commodity and the government thus monitors its prices regularly and undertakes various measures with an aim to keep the prices stable. This report highlights the major measures that the government had taken in 2017 and in the initial months of 2018 to keep the prices stable. While the government initiated steps to keep the prices under check, demand-supply factors continued to act major driver for prices. Resultantly, the prices remained flat in the second-half of 2017 on a y-o-y basis on account of higher production in the ongoing 2017-18 sugar year.*

*The subdued prices, in turn, impacted the industry's sales as well as profits performance during April-December 2017 on a y-o-y basis. In addition to this, the industry also witnessed a rise in sugarcane price during this period. This is expected to further aggravate the problem of sugarcane arrears in the country.*

*Further, the report also analyzes the movement in international sugar prices and the demand-supply situation of sugar globally.*

### **Measures undertaken by government to keep prices under check**

India's sugar production declined for the second year in a row during the sugar season October 2016-September 2017. The output fell by around 19% y-o-y to 20.3 million tonnes during the year. Resultantly, sugar prices averaged at Rs.37.9 per kg during 2016-17 sugar season, a rise of 14.2% on a y-o-y basis.

Sugar being an essential commodity, the government monitors its prices regularly and undertakes various measures with an aim to keep the prices stable and to ensure that there is no excess or lack of sugar supply in the country.

During April-September 2017, the government did undertake measures like allowing a fixed quantity of sugar imports, imposing stock-holding limits, increasing import duty to 50% to avoid cheaper imports to keep the price stable.

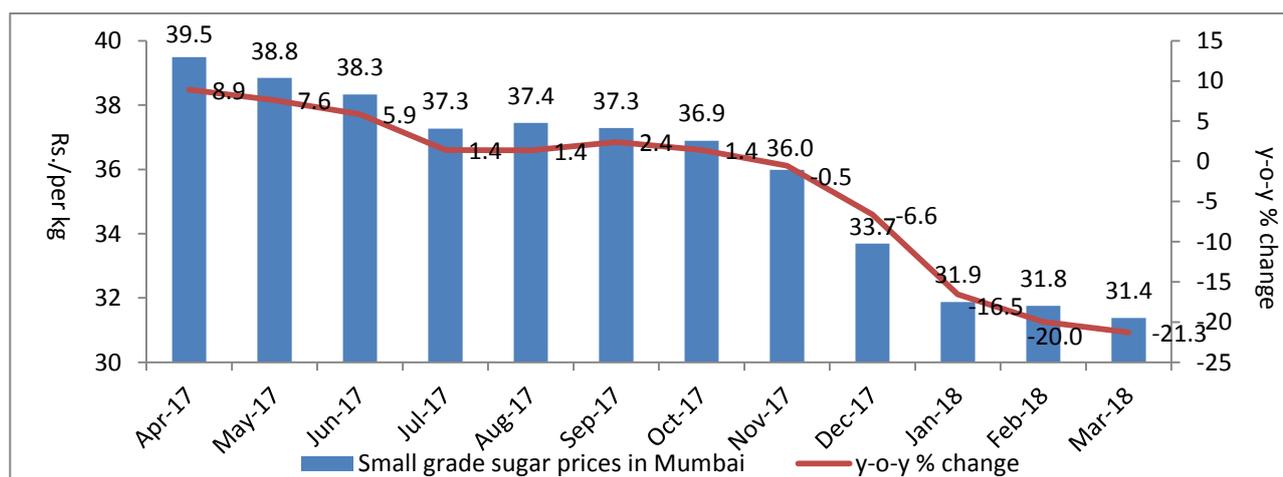
**Table 1: Major announcements made during April-September 2017**

Month of announcement	Announcements
Apr-17	Import of a restricted quantity of 5 lakh tonnes of raw sugar allowed at zero duty through open general license
Jul-17	Import duty on sugar hiked to 50% from 40%
Aug-17	The government imposed stock holding limit on sugar ahead of the festival season. With this imposition, no sugar producer was allowed to hold any stock of sugar in excess of 21% and 8% at the end of September 2017 and October 2017, respectively.
Sep-17	Import of 3 lakh tonnes of raw sugar allowed at a discounted import duty of 25%

**Movement in domestic sugar prices**

Small grade sugar prices in Mumbai remained in the range of Rs.37 per kg to Rs.39.5 per kg during April-September 2017 and grew on a y-o-y basis in each of these months. In the first month October 2017 of the ongoing sugar season 2017-18, the prices fell to Rs.36.9 per kg and declined to Rs.36 per kg in November 2017 on m-o-m basis. Prices remained lower on a y-o-y basis during November 2017-March 2018.

**Chart 1: Movement in small grade sugar prices (Mumbai)**

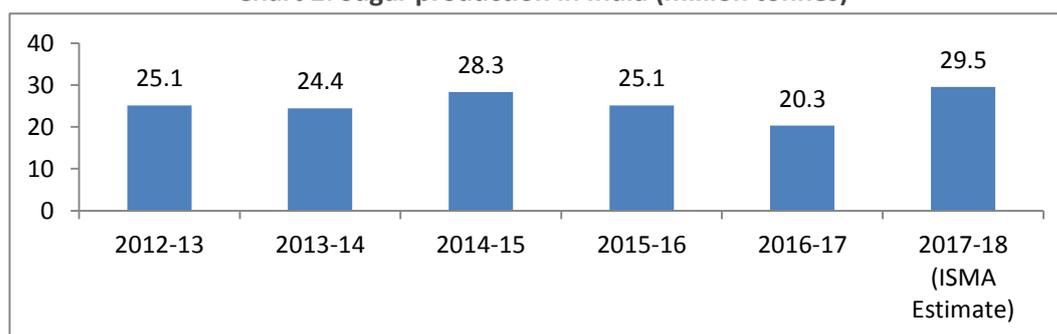


Source: CMIE

Higher sugar production is primarily responsible for the fall in prices. As per the Indian Sugar Mills Association (ISMA), sugar output surged by 49.2% y-o-y to 28.2 million tonnes during October 2017-March 2018 compared with 18.9 million tonnes of sugar produced during October 2016-March 2017 which was a y-o-y fall of 19.6%.

ISMA has upward revised the sugar production estimate for 2017-18 season in March 2018. As per ISMA, the country is expected to produce a record production of 29.5 million tonnes during 2017-18. This is a rise of 45.4% compared with the previous year's output of 20.3 million tonnes.

**Chart 2: Sugar production in India (million tonnes)**



Source: ISMA

In order to ensure that the prices do not fall further or the prices stabilise, the government continued with these measures. The stock holding limit that was imposed in August 2017 was withdrawn in December 2017 to smoothen the supply chain for easy availability of sugar in all regions. Also, withdrawal of stock holding limit was expected to aid the traders to increase the stock of sugar, in turn, increasing the demand thus supporting the prices. Further, the government doubled the import duty to 100% to avoid cheaper imports and imposed stock holding limits in February 2018 to restrict fall in prices.

**Table 2: Major announcements made during October 2017-February 2018**

Month of announcement	Announcements
Dec-17	Government withdraws stock holding limit on sugar imposed in August 2017
Feb-18	Import duty on sugar doubled to 100%
Feb-18	Imposed limit on sugar that has to be retained by producers in February 2018 and March 2018. As per this notification, by the end of February, the producers were required to retain 83% of stock they had at the end of January and by the end of March, retain 86% of the stock they had at the end of the previous month

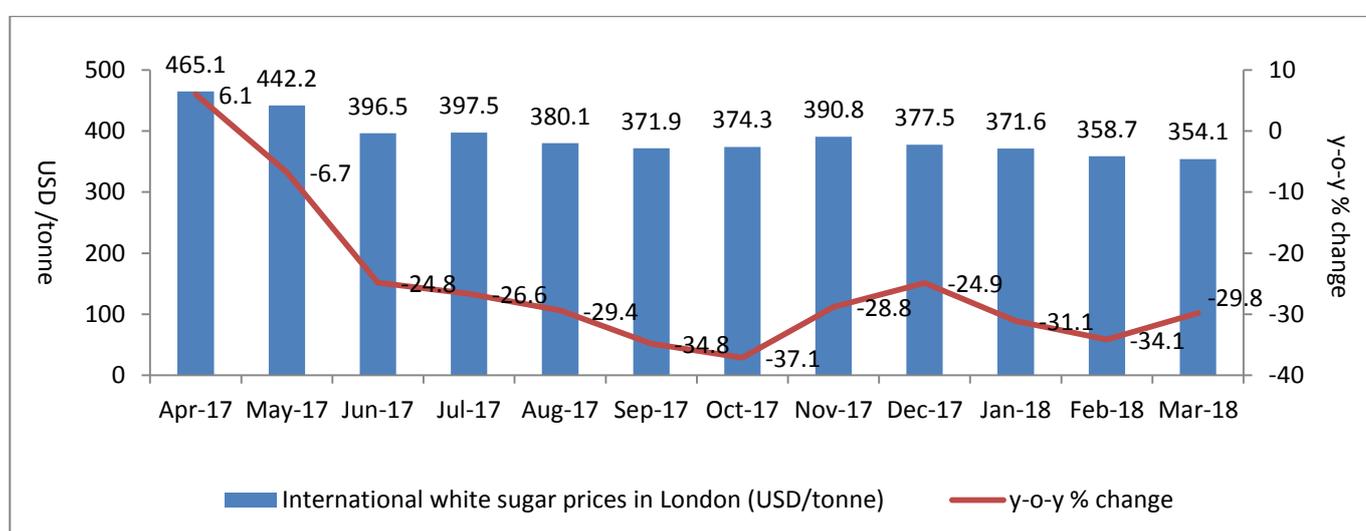
*The movement in domestic sugar prices is primarily driven by the demand-supply situation in the country and the measures taken by the government while the movement in international prices influences the domestic prices to some extent.*

The supply situation in India on the other hand has an impact on the movement of international sugar prices. Though India is not the largest sugar exporter globally, the country offloads sugar when in surplus. During this sugar year 2017-18 as well, the government has allowed 2 million tonnes of sugar export in view of 45.4% y-o-y rise anticipated in sugar production during the year. Also, sugar output from European Union, China, Thailand is expected to rise adding to global sugar supply. This is likely to create pressure on international prices in 2017-18.

**Movement in international sugar prices**

The international sugar prices that were at USD 465.1 per tonne in April 2017 declined by 23.9% to USD 354.1 per tonne in March 2018. The prices declined on a y-o-y basis in each of the months during April 2017-March 2018 except for April 2017 where they grew by 6.1% on a y-o-y basis.

**Chart 3: Movement in international white sugar prices**



Source: CMIE

Expected global sugar surplus during 2017-18 is the prime reason for the fall in prices. According to the United States Department of Agriculture (USDA) November 2017 estimates, while global sugar production is likely to stand at 184.9 million tonnes, consumption is expected to be at 174.2 million tonnes during 2017-18. This translates into a surplus of 9.8 million tonnes during the year.

Also, the International Sugar Organisation (ISO) forecasted a global sugar surplus of around 5.2 million tonnes for 2017-18 in March 2018. The ISO estimates world sugar production at 178.7 million tonnes (up by 6.2% from 168.2 million tonnes in 2016-17) and consumption at 173.6 million tonnes (higher by 1.6% compared to 170.8 million tonnes in 2016-17) during 2017-18.

While consumption is expected to grow by 1.6%, production is likely to increase by 6.2% creating a situation of excess supply during 2017-18 thus creating pressure on prices globally. A likely increase in sugar output in the European Union, India, China, Thailand is expected to result in higher global sugar production in 2017-18.

## Major global developments

The European Union (EU) had put an end to the 50 year old sugar production quota and export limits with effect from 1<sup>st</sup> October 2017. This is likely to increase sugar production from the EU by around 22% y-o-y to 20.1 million tonnes as per the USDA November 2017 estimates.

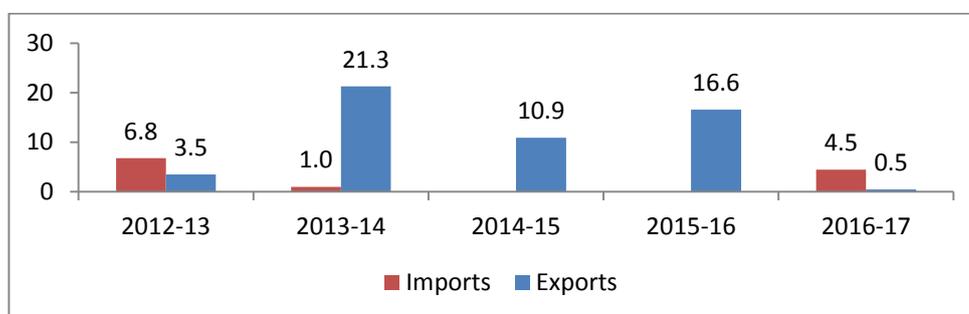
In 2017, according to the Brazilian Sugarcane Industry Association UNICA, (CTN Bio – National Biosafety Technical Commission) approved the commercial use of the first genetically-modified sugarcane (Bt Sugarcane) developed by the Brazilian sugarcane breeding and technology company CTC. This variety is resistant to main pest-sugarcane borer. This, in turn, is expected to aid the companies to reduce losses caused by these pests.

## Foreign trade

India is the largest consumer of sugar in the world. Despite this, the country does not rely on imports as domestic production is sufficient enough to meet all the internal consumption requirements. Also, India is the second largest producer of sugar in the world. However, the country is not the largest sugar exporter globally as the domestic production is used internally and only the surplus is exported.

On the trade front, the country imports sugar primarily to augment the supply in case there is shortfall and exports sugar mainly to reduce the surplus in case there is excess supply of sugar. India thus resorts to sugar imports and exports to maintain supply to avoid any deficit or surplus situation in order to keep the prices stable in the country.

**Chart 4: Sugar trade by India (in lakh tonnes)**



Source: ISMA

During the five years mentioned above, sugar imports by India remained in the range of 0.98 lakh tonnes to 6.7 lakh tonnes representing a share of 0.4%-3% in the country's consumption during these years. The country imported 4.5 lakh tonnes of sugar in 2016-17 to avoid any shortfall resulted from 19.3% fall in sugar production during 2016-17.

Sugar exports from India was in the range of 0.46 lakh tonnes to 21.3 lakh tonnes during these five years indicating a share of 0.2%-8.7% of the country's production. During 2013-14, the country exported 21.3 lakh tonnes of sugar as the country's production was anticipated to increase sharply in the next year 2014-15. India's production grew by 16% y-o-y to 28.3 million tonnes during the year.

Similarly, the country will need to export sugar during the current sugar year 2017-18 as the ISMA estimates sugar output to increase by 45.4% y-o-y to 29.5 million tonnes during the year. Also, the country has an opening stock of 3.9 million tonnes of

sugar. This will bring the domestic availability of sugar to 33.4 million tonnes to meet the internal consumption requirements of 25.2 million tonnes (assuming that the consumption would increase by 2.5% y-o-y) in 2017-18.

After meeting the domestic requirements, India will be left with around 8.2 million tonnes of sugar. This closing stock would be sufficient to meet the consumption needs of the first four months of the next sugar year. However, India generally keeps a normative requirement of three months stock. *Considering the surplus situation, the government allowed export of 2 million tonnes of sugar by end of September 2018 under Minimum Indicative Export Quota (MIEQ) on 29 March 2018. Also, export of white sugar is allowed till September 2018 under the Duty Free Import Authorisation (DFIA) scheme and the scheme is valid for imports till end of September 2021. To encourage sugar exports, the government has also scrapped the 20% export duty on raw, white or refined sugar on 20 March 2018.*

*However, the industry will need more incentives to export sugar amid depressed international sugar prices. During April 2017-March 2018, white sugar prices in London averaged at Rs.25.1 per kg (y-o-y fall of 28.9%) and raw sugar prices in New York averaged at Rs.20.6 per kg (y-o-y decline of 28%), while small grade sugar prices in Mumbai averaged at Rs.35.9 per kg (y-o-y fall of 3.3%) during this period.*

The government had provided subsidies on sugar exports during the sugar years 2013-14 and 2014-15 to offload surplus sugar. For 2013-14, the government had given a subsidy of Rs.3.3 per kg on export of raw sugar and extended subsidy to next year. During 2014-15, the incentive was increased to Rs.4 per kg on export of raw sugar up to a maximum quantity of 1.4 million tonnes. *The export of sugar unless undertaken will continue to keep the domestic sugar prices depressed.*

### Sugar industry's performance for the nine month ended April-December 2017

During April-December 2017, sales of the sugar industry grew by a slower 11% on a y-o-y basis compared to 31.1% sales growth reported by the industry during April-December 2016. Subdued sugar prices on account of an anticipated increase in sugar output for season 2017-18 were primarily responsible for a slower sales growth rate. The small grade sugar prices in Mumbai increased by a marginal 2.4% y-o-y during the period.

**Table 3: Financial performance of sugar industry**

	Apr-Dec 2015	Apr-Dec 2016	Apr-Dec 2017
Net sales (in Rs. crore)	21,265.5	27,870.3	30,935.7
y-o-y % change		31.1	11.0
Cost of services & raw materials as % of sales	45.3	48.2	49.6
Operating profit (in Rs. crore)	652.7	3,565.0	2,671.1
y-o-y % change		446.2	-25.1
Operating margin (in %)	3.1	12.8	8.6
Net profit (in Rs. crore)	-1,436.6	1,326.5	-1,910.2
y-o-y % change		NA	NA
Net margin (in %)	-6.8	4.8	-6.2

Source: Ace Equity

This is also believed to have impacted industry’s performance at the profits front. On a y-o-y basis, industry’s operating margin contracted by 420 basis points to 8.6% and registered losses amounting to 6.2% of sales compared to profits made amounting to 4.8% of sales during April-December 2016. Apart from this, the industry witnessed a rise in the prices of sugarcane, primary raw-material used in manufacturing of sugar.

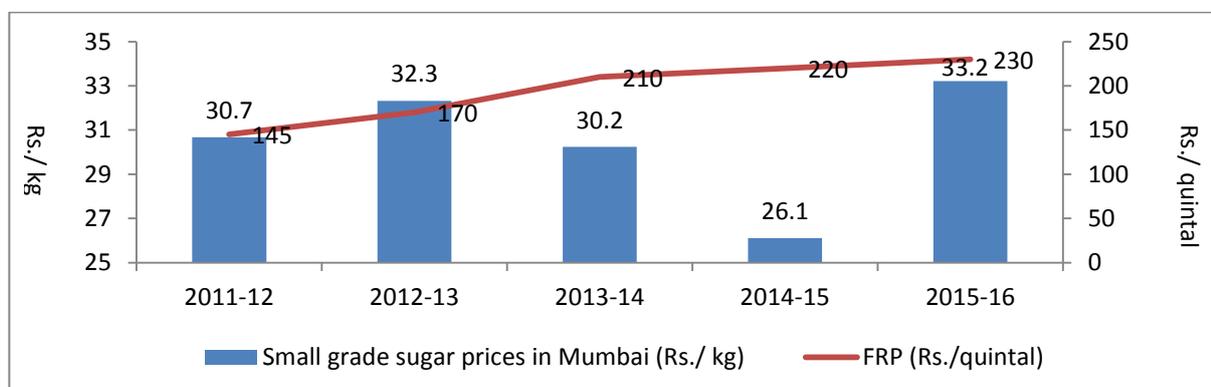
The UP government raised the State Advised Price (SAP) for sugarcane from Rs.280 per quintal to Rs.305 per quintal for sugar season 2016-17 and further increased the SAP to Rs.315 per quintal for sugar season 2017-18. Also, the central government hiked the Fair and Remunerative Price (FRP) for sugarcane to Rs.255 per quintal for sugar season 2017-18 from Rs.230 per quintal in 2016-17.

A strong increase in sugar prices had resulted in an improvement in industry’s sales and profits performance during April-December 2016 compared with the corresponding period a year ago. Small grade sugar prices in Mumbai had averaged 43% higher on y-o-y basis during April-December 2016 on account of a fall in sugar output in India during 2015-16 sugar season and an anticipated lower sugar production for 2016-17. The industry’s performance is based on a sample of 32 companies.

**Sugarcane cost and sugar prices**

Sugar prices that were at Rs.30.7 per kg during 2011-12 increased to Rs.32.3 per kg in the next year. This was followed by two consecutive years of decline in sugar prices where they touched a low of Rs.26.1 per kg during 2014-15 and then again grew to Rs.33.2 per kg in 2015-16. While the sugar prices witnessed fluctuations, the sugarcane price (FRP) continued to rise in each of the mentioned years.

**Chart 5: Sugarcane and sugar prices**



Source: CMIE

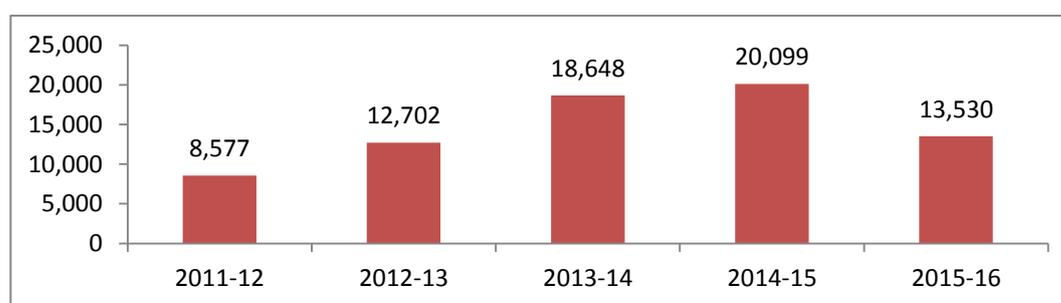
While sugar prices move according to the market forces or demand-supply situation in the country during the year, the sugarcane FRP is fixed by the central government ahead of the new sugar year which is based on the recommendations of Commission for Agricultural Costs and Prices (CACP). The CACP considers factors ranging from cost of production for sugarcane to prices of sugar and its by-product among others. However, the CACP has been recommending the revenue sharing principle or hybrid approach for pricing of cane 2013-14 season onwards.

Hybrid approach: It is a combination of Revenue Sharing Formula (RSF) based on revenue generated from sugar and primary by-products and FRP, a floor price, which needs to be adopted. *Source: CACP*

While states like Maharashtra and Karnataka have started following Revenue Sharing Formula (RSF), states like Uttar Pradesh, Uttarakhand, Punjab, Haryana have their own SAP which is generally higher than the FRP. Apart from not having a uniform pricing policy for all the states, there are also issues with respect to the payment the sugar mills make to the farmers for sugarcane. As per Sugar Control Order 1966, payments are to be made to the farmers within 14 days of the delivery of cane and if the mills fail to make the payments, they are subject to pay interest for the delayed period. However, CACP mentioned in its August 2016 issue that it is a known fact that neither the payment is being made to farmers in 14 days nor interest is being paid to them. The industry thus continues to face the problem of sugarcane arrears.

Recently, Tamil Nadu decided to switch to RSF from the SAP system for the current season 2017-18.

**Chart 6: Sugarcane arrears in March (in Rs. crore)**



*Source: ISMA*

Sugarcane arrears that were at Rs.8,577 crore during 2011-12 increased over the years to reach at Rs.20,099 crore during 2014-15 and then reduced to Rs.13,530 crore in the following year.

*It is to be noted that the sugarcane arrears increased in each of the years during 2013-15 when the sugar prices had declined on a y-o-y basis. This was coupled with a rise in sugarcane price. When the sugar prices were at low at Rs.26.1 per kg, sugarcane arrears touched a high of Rs.20,099 crore in 2014-15. In the next year, the arrears declined to Rs.13,530 crore backed by a rise in sugar prices to Rs.33.2 per kg during the year. As per ISMA, sugarcane arrears of over 14 days across India are estimated to be in the range of Rs.16,000 to Rs.17,000 crore by 31 March 2018. Of this, arrears in UP are estimated to be at Rs.7,200 crore and arrears in Maharashtra and Karnataka each are estimated at around Rs.2,500 crore.*

### Industry capex

During April-December 2017, projects worth Rs.598 crore were completed and a crushing capacity of 17,050 tcd (tonnes of cane crushed per day) was added by the industry during the period. Further, there was an addition of 54 Mw power capacity and a distillery project involving a capacity of 60 Kl per day was also installed during April-December 2017. As per CMIE, the industry's total outstanding capacity is estimated to stand at 26.2 lakh tcd as on December 2017.

**Table 4: Capital expenditure by sugar industry**

	Cost (Rs. crore)	Capacity (tonnes of cane crushed/day)
Apr-Dec 2015	959.0	21,750
Apr-Dec 2016	1,547.7	31,450
Apr-Dec 2017	598.0	17,050

Source: CMIE

Note: The capacity added do not necessarily represent the cost as not all companies have disclosed cost details.

### Concluding remarks

- The supply situation in India impacts the movement of international sugar prices. Though India is not the largest sugar exporter globally, the country offloads sugar when in surplus. During this year 2017-18 as well, the government has allowed 2 million tonnes of sugar export in view of 45.4% y-o-y rise anticipated in sugar production during the year. This is likely to create pressure on international prices in 2017-18.
- While global consumption is expected to grow by 1.6%, production is likely to increase by 6.2% as per ISO. This, in turn, will create a situation of excess supply during 2017-18 thus causing the international prices to remain subdued.
- After meeting the domestic requirements, India will have around 8.2 million tonnes of sugar as closing stock for 2017-18. This supply would be sufficient to meet the internal consumption needs of the first four months of the next sugar year. However, India generally keeps a normative requirement of three months stock. Considering the surplus situation, the government allowed export of 2 million tonnes of sugar by end of September 2018 on 29 March 2018.
- To encourage sugar exports, the government has also scrapped the 20% export duty on raw, white or refined sugar on 20 March 2018. However, these measures are not expected to result in exports as the industry would want more incentives to export sugar amid depressed international sugar prices.
- M-o-m improvement in domestic sugar prices is unlikely unless sugar exports are undertaken.
- It is to be noted that the sugarcane arrears increased in each of the years during 2013-15 when the sugar prices had declined on a y-o-y basis. This was coupled with a rise in sugarcane price. When the sugar prices were at low at Rs.26.1 per kg, sugarcane arrears had touched a high of Rs.20,099 crore in 2014-15. In the next year, the arrears declined to Rs.13,530 crore backed by a rise in sugar prices to Rs.33.2 per kg during the year.

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