

Sugar Update: February 2021

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Sugar production and stock situation

As per the second advance estimates released by the Indian Sugar Mills Association (ISMA), sugar output in India is expected to increase by 10.2% y-o-y to 30.2 million tonnes during the sugar season (October-September) 2020-21 on account of higher production in Maharashtra and Karnataka. This estimate is after excluding sugar diversion of about 2 million tonnes towards ethanol production during the year. During October 2020 – mid February 2021, sugar output in India increased by 22.9% to 20.9 million tonnes driven by 74% and 26.9% production growth in Maharashtra and Karnataka, respectively, backed by increased sugarcane area, better yields among others.

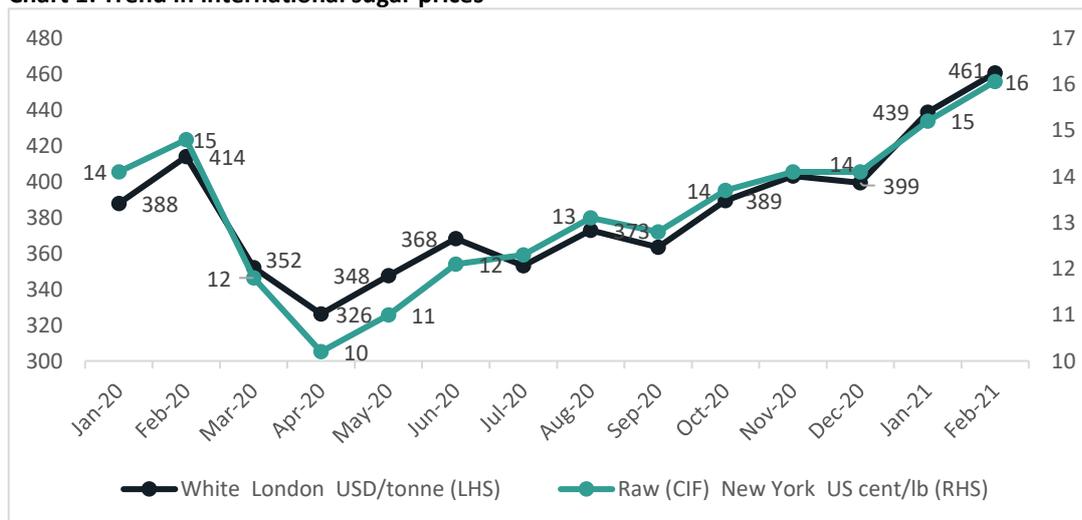
The rise in production is in addition to the opening stock of about 10.6 million tonnes for the year 2020-21 which is estimated to bring sugar availability in India to 40.8 million tonnes during the year. After considering domestic consumption of around 26 million tonnes (as per ISMA) and exports of about 6 million tonnes (target set by government), India will have closing stock of around 8.8 million tonnes for the year 2020-21. This stock again will be more than the normative requirement of 2-3 months stock for the next sugar season. Nevertheless, it will be about 17% lower than the previous year's closing stock of 10.6 million tonnes. **India however is expected to miss the export target due to several international factors which are discussed in the report.**

On 16 December 2020, the Cabinet Committee on Economic Affairs (CCEA) approved assistance of about Rs.3,500 crore towards sugar export for the sugar season 2020-21 to curtail sugar glut situation in India and to reduce the quantum of sugarcane arrears owed by the sugar industry. This subsidy aims at covering expenses on marketing costs including handling, upgrading and other processing costs and costs of international and internal transport and freight charges on export of up to 6 million tonnes of sugar limited to Maximum Admissible Export Quota (MAEQ) allocated to sugar mills for sugar season 2020-21. During the previous season, export subsidy of about Rs.6,268 crore was announced by the government.

To understand India's export scenario better, we will have a look at the movement in international sugar prices.

Movement in international sugar prices

Chart 1: Trend in international sugar prices



Source: CMIE

Note: The prices for February 2021 are considered up to 24 February 2021

The white sugar prices in London and the raw sugar prices in New York which averaged at USD 414 per tonne and US cent 15 per lb, respectively, in February 2020, fell by 16%-28% in April 2020 due to Covid-19 disruptions. Following this, the international sugar prices of both the varieties saw improvement on sequential basis in most of the months except for July 2020 where the white sugar prices in London fell by 4.1%, September 2020 where prices of both the varieties declined by 2.3%-2.5% and December 2020 where the international sugar prices remained almost flat. In the new year 2021, the international sugar prices grew by 7.8%-9.9% in January 2021 and continued to grow by 5%-5.7% in February

2021 (up to 24 February 2021) where the white sugar prices in London averaged at USD 461 per tonne and raw sugar prices in New York averaged at US 16 cent per lb.

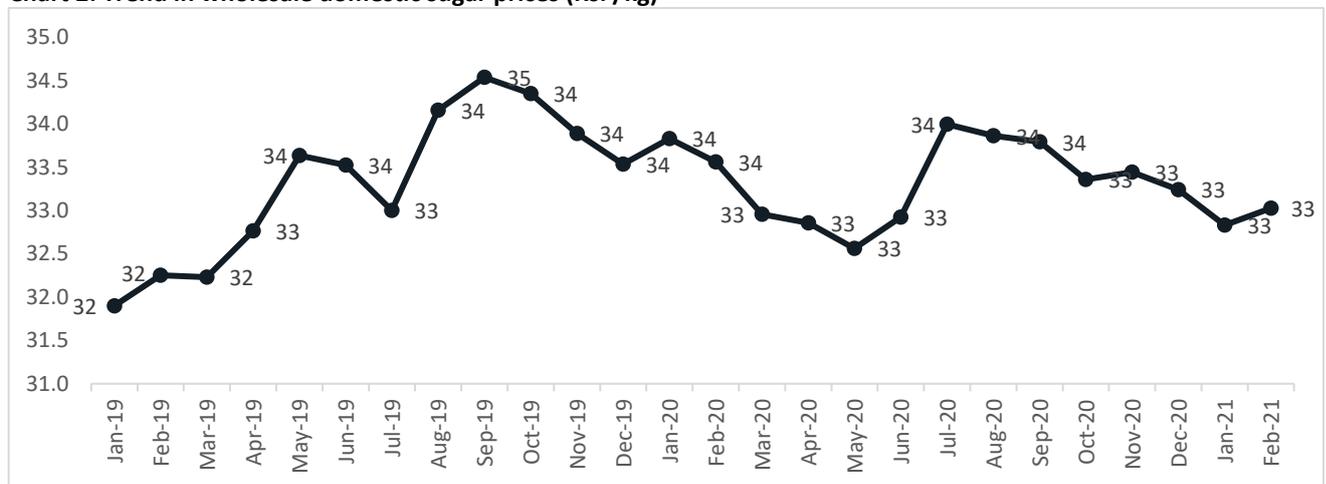
The initial growth in prices was backed by unlocking of global economies and improvement in international sugar demand. In addition to this, expected lower sugar output in the European Union (world's third largest sugar producer) and Thailand (second largest global sugar exporter) and uncertainty over Brazil's diversion of cane crop towards sugar for the sugar season 2020-21 led to the upward trend in international sugar prices moving ahead. In December 2020, the Brazilian crop agency Conab had raised the sugar production estimate for the year 2020-21 (April-March) to 41.8 million tonnes from its earlier estimate of 39.3 million tonnes in August 2020. Brazil's sugar output was 29.8 million tonnes during the year 2019-20. Moreover, a delay in export subsidy announcement by India for sugar season 2020-21 also supported the growth in international prices as it restricted the outflow of sugar from India. The export subsidy for sugar season 2019-20 was announced by the government in August 2019.

The export subsidy which was approved by the government on 16 December 2020 for the sugar year 2020-21 translated into an assistance of around Rs.5.8 per kg for sugar to be exported. Including the subsidy, white sugar prices in London and raw sugar prices in New York averaged at Rs.38.7 per kg and Rs.31 per kg, respectively, during 1 January-24 February 2021. The average wholesale sugar prices in India averaged at Rs.32.9 per kg during the same period which indicates support from the international sugar prices for Indian sugar mills to export sugar. As a result, sugar exports of about 2.5 million tonnes have been contracted with substantial amount been assigned for Indonesia. While lower exports from Thailand provides an opportunity to India to undertake sugar exports, container shortage and uncertainty of sugar exports to Iran due to Indian rupee shortage with Iran (in the previous year, sugar exports to Iran were about 1.14 million tonnes) are challenges that are expected to make difficult for India to attain the sugar export target of 6 million tonnes amid supporting international sugar prices. In addition to this, expected sugar outbound shipments from Brazil beginning April 2021 will also increase competition for sugar exports from India.

The global sugar prices are likely to stay firm and are expected to maintain the current price range till March 2021 unless sugar from Brazil for the new sugar season (April-March) 2021-22 starts coming in from April 2021 onwards. The uncertainty in Brazil over cane diversion towards sugar production is expected to continue as the prospects for fuel demand (ethanol) will guide the production of ethanol and thus sugar. Also, the pace of sugar exports from India will influence the movement in international sugar prices to an extent.

Sugar prices in India stagnates despite upward movement in international sugar prices

Chart 2: Trend in wholesale domestic sugar prices (Rs. /kg)



Source: CMIE

Note: The prices for February 2021 are considered up to 25 February 2021

It is important to note that the improvement in international sugar prices on sequential basis in most of the months April 2020 onwards did not translate into higher domestic sugar prices. The average wholesale sugar prices in India have almost stagnated and have been hovering in the range of Rs.33-Rs.34 per kg for almost 2 years now since April 2019 except for September 2019 where the prices averaged at Rs.35 per kg. The prime reason that have been restricting any major growth in domestic prices are the higher sugar inventories in India due to bumper sugar production (increase of 60.1% to 32.5 million tonnes) and minimum sugar exports during sugar season 2017-18 and subsequent 2.1% growth in sugar output during sugar season 2018-19.

The domestic sugar prices in fact have remained in the range of Rs.33-Rs.34 per kg only backed by an increase in sugar Minimum Support Price (MSP) to Rs.31 per kg in February 2019 from Rs.29 per kg announced in June 2018. Had it not been for the MSP of Rs.31 per kg, the domestic sugar prices would have fallen beyond the range of Rs.33-Rs.34 per kg during these months.

Concluding remarks

- The domestic sugar prices are unlikely to witness any major improvement amid huge carry-over stocks of about 10.6 million tonnes and an expected 10.2% growth in production to 30.2 million tonnes in the current sugar year 2020-21. Thus the prices are expected to remain largely range bound only backed by MSP of Rs.31 per kg. The domestic prices are unlikely to increase unless sugar MSP is hiked by the government.
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