

Hike in ethanol prices: Sweet tidings for sugar sector

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Propelled by tailwinds like favourable policy push with government further raising the ethanol prices post revision of fair and remunerative price (FRP) from Rs 285 to Rs 290 / quintal of sugarcane for the sugar season (SS) 2021-22, Indian sugar companies are poised to see healthy growth in distillery businesses. Government’s move to increase the ethanol prices year on year supports the framework of enhanced blending. In the SS 2021-22, diversion of 3.5 million tonnes (MT) of sugar for production of ethanol using B heavy molasses / juice / syrup is expected. The surplus sugar situation bodes well for the ethanol industry and with the government’s support in the form of various policy reforms, it is likely that 10% ethanol blending will be achieved by 2022 as envisaged in the ethanol blending program (EBP).

On the other hand, running on the highly remunerative global prices, the industry has already exported ~7.1 MT in the SS 2020-21. Furthermore, with the expected dip in the Brazilian production due to poor cane crop and reduced crushing capacity in that country, the favourable export dynamics are expected to prevail over the SS 2021-22 as well.

As envisaged in our report published in June 2021 ([Higher ethanol blending and improving export levels – two sweeteners for the sugar industry](#)), with continuous policy support, ethanol sales have been increasing. Furthermore, rising exports on the back of expected global deficit in SS 2021-22 are evening out the domestic demand-supply balance and the integrated sugar mills are poised to witness sustained increase in their cash flows.

Ethanol administered price revised upwards

The Cabinet Committee of Economic Affairs (CCEA) fixed the ex-mill price of ethanol derived out of C-grade molasses at Rs. 46.66 / litre on November 10, 2021, compared with previous price of Rs. 45.69 / litre. Ex-mill price of ethanol derived from B-grade molasses has been hiked by Rs. 1.47 per litre to Rs. 59.08 / litre from the earlier levels of Rs. 57.61 per litre and the price of ethanol extracted from direct route has been set at Rs. 63.45 per litre from Rs. 62.65 per litre for sugar year 2022 which starts from December 1, 2021.

With the revision of FRP from Rs. 285 to Rs. 290 / quintal of sugarcane for a recovery rate of 10% earlier this year, government further raised the ethanol prices to incentivise ethanol blending. Importantly, increase in the ethanol prices has been more than the increase in FRP to incentivise the millers to divert higher cane towards ethanol and increase its production.

Chart 1: With the increase in FRP, Ethanol Price Revised

Particulars (INR/Litre)	SS18	SS19	SS19	SS20	SS21	SS22	% Hike in SS21	% Hike in SS22
Conventional C Molasses	40.85	43.46	43.46	43.75	45.69	46.66	4.4%	2.1%
B Molasses	NA	47.49	52.53	54.27	57.61	59.08	6.2%	2.6%
Direct Route	NA	47.49	59.19	59.48	62.65	63.45	5.3%	1.3%
Cane FRP/Quintal		255	275	275	285	290	3.6%	1.8%

Source: Industry, CARE

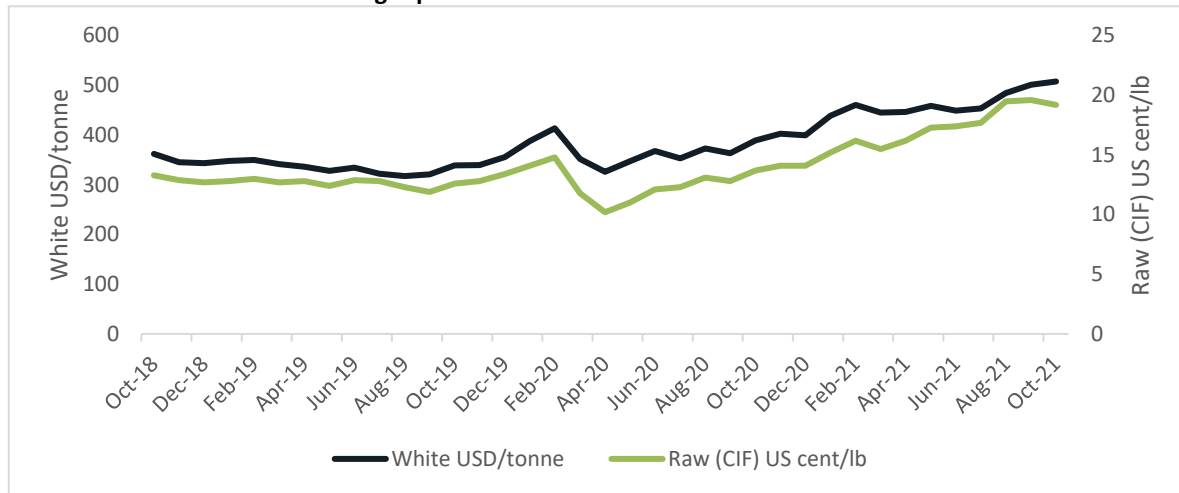
Increase in Ethanol prices were higher than the increase in FRP

Sugar prices expected to remain firm

Tight sugar supply situation in the global market pushed up the international sugar prices and resulted in 4- year high price rise. Global sugar prices (raw sugar) have moved up from the lows of 10.2 cents/lb in April 2020 to 16.5 cents/lb in May 2021. The initial growth in prices was backed by the unlocking of global economies and improvement in international sugar demand.

As per industry estimates, a global deficit for 2021-22 of 3.8 million tonnes is expected owing mainly to the decline in production in Brazil and higher diversion towards ethanol. The expectation of global deficit is reflected in the strong rally in sugar prices as can be seen in Chart 2 where white sugar prices have risen to more than 19 cent/lb currently and are trading at those levels since August 2021.

Chart 2: Trend in international sugar prices

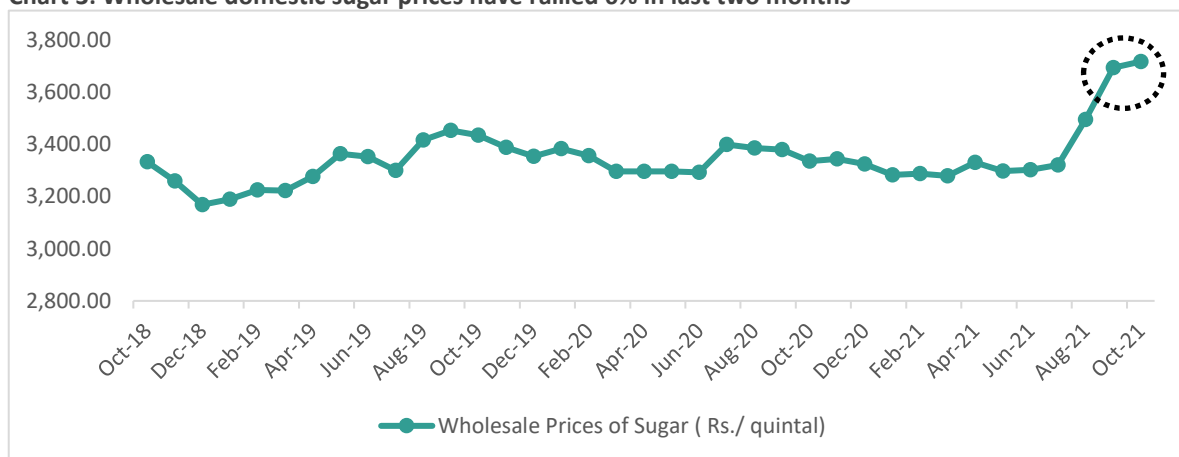


Source: CMIE & CARE

The pace of exports has been favourable enough backed by tight global supply situation which aided growth in international prices. The industry exported around 7.1 MT in the SS 2020-21 as against the targeted 6 MT quota. On the back of expected global deficit for SS 2021-22, the international prices are expected to remain firm, and the export dynamics are expected to prevail over the SS 2021-22 which shall help rationalize the domestic inventory.

Moreover, sugar prices in the domestic market have also increased. Rising raw sugar prices in global markets are supporting the domestic price trends as well. With steady rationalizing of sugar inventory and favourable global dynamics, prices are trading at around Rs. 3,600 per quintal since September 2021. While the sugar prices are currently being controlled by the government through MSP, going forward, we believe that with the continuous diversion of excess sugar towards ethanol the industry will be self-sustainable, and the improving demand-supply dynamics should keep the sugar prices firm.

Chart 3: Wholesale domestic sugar prices have rallied 6% in last two months



Source: CMIE & CARE

Key takeaways

- ✓ **Shortfall in global sugar production:** Brazil, the largest sugar producer and exporter in the world, is expected to witness lower production in the SS2021-22, given the challenges faced due to dry weather. This would result in higher opportunities for domestic exporters as the surplus inventory at the start of current season is around 8.2MT.
- ✓ **Higher global sugar prices:** Further the shortfall in global sugar production has resulted in sharp increase in global prices of sugar to > 19 cents/lb, which is likely to sustain, and players are expected to continue exports without any incentives as well.
- ✓ **Push for higher ethanol blending:** In the current SS, diversion of 3.5 million tonnes (MT) of sugar for production of ethanol using B heavy molasses / juice / syrup is expected, post which, average ethanol blending is expected to increase to around 10% by 2022. Govt plans to increase this blend rate to 20% across India by 2025, giving further momentum to the demand for ethanol. At 20% ethanol blended rate, the demand for ethanol is expected to increase to 10 billion litres. Recent move of the government to increase ethanol prices for all grades is a welcome step in supporting the ethanol blending drive.
- ✓ **Domestic sugar prices spurt in September – October' 21:** During December 2020 to March 2021, sugar prices were hovering around Rs. 3,100 – Rs. 3,200 per quintal. However, in April' 2021 the prices have risen to around Rs. 3,300/ quintal, reflecting higher demand due to summer season. With steady rationalizing of sugar inventory and favourable global dynamics, prices currently are trading at around Rs. 3,600 per quintal since September 2021.
- ✓ **Positive Outlook:** Sugar industry is well poised to benefit from domestic and global factors. Tight global demand-supply situation, favourable government policies and continuous push for higher blending will keep the inventory levels under control and sugar prices firm. Hence, we believe the dynamics of the sector are set to change in a structural manner.

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