

Domestic Sugar Prices Likely to Remain Firm in Medium Term

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Closing Sugar Stocks Hit a Low

Sugar prices in India are expected to remain firm in the medium term as closing stock for the commodity is estimated to touch its five-year low (around 7 million tonnes) at the end of the current sugar season (October 2021-September 2022). This will be despite peak sugar production of 35 million tonnes estimated for the full year. A decline in opening stock and expected record high sugar exports in sugar season 2021-22 will be the key factors in lowering the country's inventory during the year, thereby reducing the supply glut.

Demand-Supply/ Price Scenario

According to the Indian Sugar Mills Association (ISMA), sugar production in the country increased by 11.2% year on year (y-o-y) to 31 million tonnes during the first six months of the current sugar season on account of significantly higher yields per hectare and higher sugar recovery. The increase in output primarily came from Maharashtra and Karnataka, with these states producing around 11.9 million tonnes and 5.8 million tonnes, respectively, during the period. This is a significant growth atop last year's output from these states at 10 million tonnes and 4.2 million tonnes respectively for Maharashtra and Karnataka during the same period last year (first six months of the sugar season from October to March).

While India's sugar production witnessed upward momentum, the twin factors of low opening stock and strong sugar exports have played a critical role in managing India's inventory in the current season.

Table 1: Demand-supply Indicators

Particulars	2020-21 (Million Tonnes)	2021-22 (Million Tonnes)	y-o-y (%)
Opening stock (as on October 1)	10.7	8.2	-23.6
Production – 6 months (Oct – Mar)	27.9	31.0	11.2
Consumption – 4 months (Oct - Jan)	8.8	9.1	4.0
Exports – 6 months (Oct - Mar)	3.0	5.7	91.8

Source: ISMA

Note: The demand-supply figures are comparable to same period for sugar season 2020-21 and 2021-22

India started the current sugar season with a sharp 23.6% decline in opening stock at 8.2 million tonnes from 10.7 million tonnes in the previous season. This significant fall in the opening stock was primarily on account of increasing exports by India over the past few years (refer to Table 2) mainly backed by assistance from government in form of subsidies.

Table 2: Demand-supply indicators for the past 3 years (October to September)

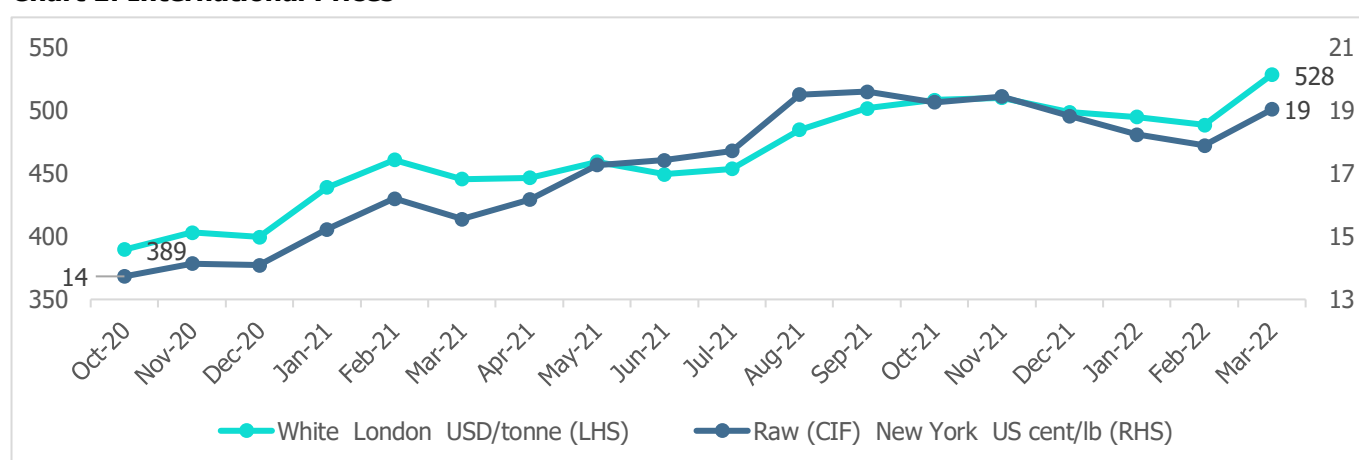
Particulars	2018-19 (Million Tonnes)	2019-20 (Million Tonnes)	2020-21 (Million Tonnes)
Opening stock (as on October 1)	10.7	14.6	10.7
Production	33.2	27.4	31.2
Consumption	25.5	25.3	26.5
Exports	3.8	6.0	7.2

Source: ISMA

In the previous sugar season of 2020-21 (starting October 2020), the exports had touched a peak of 7.2 million tonnes driven by a spike in global sugar prices. The international sugar prices had increased by 23%-30% in 2020-21 season and export subsidy of Rs.5.8 per kg despite the same being announced late in December 2020. Subsequently, the subsidy was reduced to Rs.4 per kg (from May 20, 2021) on account of high sugar exports volumes getting contracted for the season. Consequently, only 0.3 million tonnes of targeted exports were able to avail of the incentive of Rs.4 per kg and not Rs.5.8 per kg.

The uptick in global sugar prices have continued in the ongoing season of 2021-22 and the exports too have remained benign despite no export subsidy announced by the government so far. The outbound shipments surged by 91.8% to 5.7 million tonnes from October 2021 to March 2022 (refer to table 1 above). As per ISMA, around 7.4 million tonnes of export contracts have already been entered into as of April 8, 2022.

Chart 1: International Prices



Source: CMIE

The high exports in the current sugar season were led by a 19.3% and 26.7% spike in white sugar prices in London (that averaged USD 504 per tonne) and raw sugar prices in New York (that averaged US 18.8 cents per lb), respectively, during the period October 2021–March 2022. Estimated y-o-y lower output in Brazil by almost 6 million tonnes to around 36 million tonnes (as per the United States Department of Agriculture November 2021 release) during the SS 2021-22 (Brazil’s sugar season is April-March) due to dry conditions and frosts primarily triggered the spurt in prices. Brazil is the largest sugar producer in the world followed by India which is the second-largest producer.

The rise in international sugar prices and growth in exports influenced even the domestic prices to move up. As a result, the wholesale prices in India averaged higher by 7.8% to Rs.36 per kg during the period October 2021 – to March 2022. It was almost over four years back that the wholesale domestic sugar prices had last crossed the level of Rs.36 per kg (in November 2017 before the mentioned period October 2021 – March 2022).

Table 3: Average Domestic and International Prices (Oct 2021-March 2022)

	Rs./kg
Wholesale sugar (India)	36
White sugar (London)	38
Raw sugar (New York)	31

Source: CMIE

Note: The international sugar prices are converted to Rs. /kg

The prices continued the uptrend during 1 April – to 13 April 2022 as well where the international white sugar prices in London and raw sugar prices in New York averaged USD 547 per tonne and US 20 cents per lb, respectively. The domestic wholesale sugar prices in India averaged Rs.35 per kg during the period.

Another important factor for the sugar industry in India is Ethanol Blended Petrol (EBP) program that aims to reduce the sugar glut situation in India. The EBP program supports the diversion of sugarcane and surplus sugar towards the manufacturing of ethanol which has now become the key focus point for the future of the sugar industry. The Government also releases procurement prices for ethanol to divert sugarcane toward production of ethanol.

As of 31 March 2022, India on average achieved a blending percentage of 9.6% since December 2021. As of 27 March 2022, 131.7 crore litres of ethanol have been supplied against the total LOI quantity of 416.3 crore litres where the contracted quantity was 402.7 crore litres. In June 2021, the government had advanced the target of achieving 20% ethanol blending in petrol by 2025 from 2030 earlier.

Outlook

As per the ISMA, 3.4 million tonnes of sugar equivalent is estimated to be deviated towards ethanol production using diversion of sugarcane juice, sugar/sugar syrup, B-heavy molasses and C-heavy molasses. Excluding this sugar diversion towards ethanol, India is estimated to produce 35 million tonnes of sugar during SS 2021-22 (y-o-y growth of 12.2%). In addition to this, India has an opening stock of 8.2 million tonnes of sugar which is expected to increase sugar availability to 41.5 million tonnes during the year to meet the domestic requirements and also sugar exports from India.

Table 4: Demand-supply indicators for SS 2020-21 and estimates for SS 2021-22

Particulars	2020-21 (Million Tonnes)	2021-22 (Million Tonnes)	y-o-y (%)
Opening stock (as on October 1)	10.7	8.2	-23.6
Production	31.2	35.0*	12.2
Consumption	26.6	27.2*	2.4
Exports	7.2	9.0*	25

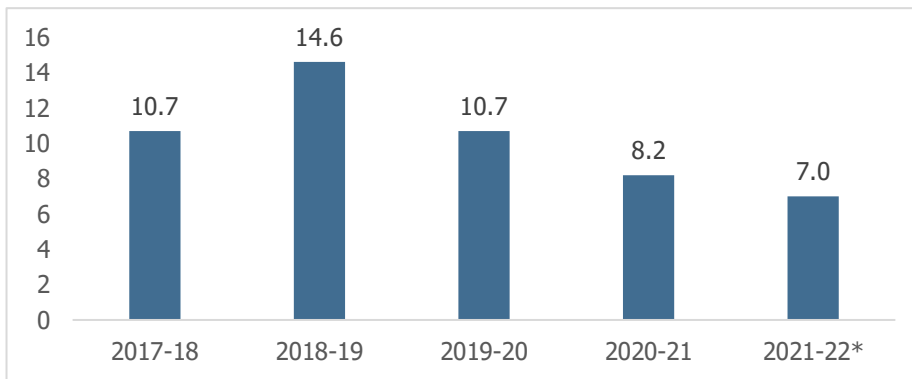
Source: Indian Sugar Mills Association (ISMA)

Note: * indicates estimates

After the expected domestic sugar consumption of 27.2 million tonnes (rise of 2.4%) is met, India is likely to have 16 million tonnes of sugar for international markets and the need of normative requirements of sugar stock for the first 3 months of the next sugar season. While ISMA estimates healthy sugar exports of over 9 million tonnes for the current sugar season on account of robust exports so far and export contracts of around 7.4 million tonnes that have already been entered into as of 8 April 2022, the outbound shipments will mainly be influenced by the movement in international sugar prices and also ethanol prices to an extent.

An increase in crude oil prices due to the Russia-Ukraine crisis is aiding an uptick in ethanol prices. This may influence the diversion of sugarcane towards ethanol and, in turn, global sugar production. However, if India offloads 9 million tonnes of sugar, the country will be left with around 7 million tonnes of closing stock for the current SS 2021-22 which will be sufficient to meet the normative requirements of India for the next sugar season.

Chart 2: Trend in India's sugar closing stock (million tonnes)



Source: ISMA

Note: * indicates estimates

It is to be noted that this closing stock will be at 5 years low and much less than the level of closing stock seen in the past three sugar seasons 2017-18 to 2019-20 where the closing stock ranged between 10 million tonnes – 15 million tonnes. The closing stock for SS 2020-21 however was lower at 8.2 million tonnes. Thus, if India ends SS 2021-22 with the reduced closing stock of around 7 million tonnes backed by high sugar exports, the domestic sugar prices are likely to get support and remain firm amid expected record-high production of 35 million tonnes of sugar during the year.

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