

India's sugar output falls by 30.2% during October-December 2019

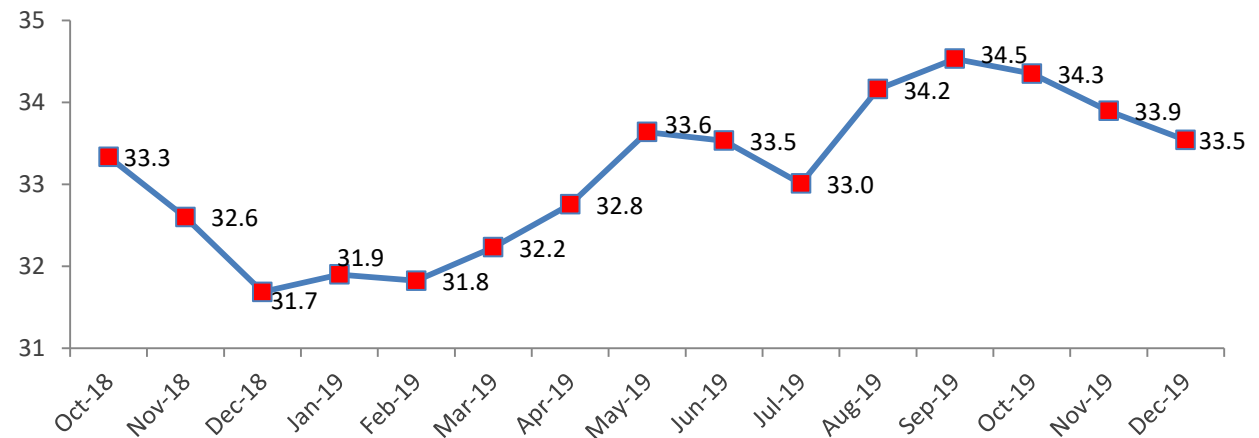
As per the Indian Sugar Mills Association (ISMA), sugar production in India fell by 30.2% to 7.8 million tonnes during the first quarter of sugar season (SS) October 2019- September 2020 compared to 11.2 million tonnes of sugar produced during the same period last year. The decline in output during October-December 2019 is driven by Maharashtra and Karnataka where the sugar production fell by 63% to 1.7 million tonnes and 22.3% to 1.6 million tonnes, respectively.

According to first advance estimates released by ISMA, sugar output is expected to be at 26 million tonnes for the complete SS 2019-20, considering the diversion of B heavy molasses/ sugarcane juice to ethanol, a y-o-y decline of 21.5%.

Trend in sugar prices

During the period October 2018-July 2019, the wholesale sugar prices remained in the range of Rs.32 per kg to Rs.34 per kg. Post this, the prices were firm and averaged between Rs.34 per kg to Rs.35 per kg in the last 5 months August-December 2019. The government had raised the Minimum Support Price (MSP) to Rs.31 per kg in February 2019 from Rs.29 per kg which supported the price rise. In addition to this, lower estimates of sugar production for SS 2019-20 also aided the growth in prices. The wholesale sugar prices increased by 4.3% y-o-y to Rs.33.9 per kg in the first quarter of SS 2019-20.

Chart 1: Movement in wholesale sugar prices (Rs./kg)



Source: CMIE

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Contact:

Madan Sabnavis

Chief Economist
<mailto:madan.sabnavis@careratings.com>
 91-22-68374433

Author

Bhagyashree C. Bhati

Deputy Manager – Industry Research
bhagyashree.bhati@careratings.com
 91- 22-68374407

Mradul Mishra (Media Contact)

mradul.mishra@careratings.com
 91-22-68274424



Further, 2.5 million tonnes of export contracts against Maximum Admissible Export Quantity (MAEQ) has taken place. This is also believed to have supported the prices. In August 2019, the CCEA announced export subsidy at Rs.10.4 per kg to sugar mills for the sugar season 2019-20. The subsidy is to be provided for expenses on marketing costs including handling, upgrading and other processing costs, costs of international and internal transport and freight charges and is applicable to export of up to 6 million tonnes of sugar limited to MAEQ allocated to sugar mills for the sugar season 2019-20.

Concluding remarks

- The sugar prices have remained firm and averaged between Rs.34 per kg to Rs.35 per kg in the last 5 months August-December 2019 backed by MSP announcement and lower sugar estimates for SS 2019-20 despite the fact that the problem of high sugar inventories continue.
- The prices are expected to remain stable and be in the range of Rs.34 per kg to Rs.35 per kg stable in the coming months as well as sugar output during SS 2019-20 is estimated to fall by 21.5%. The movement in domestic sugar prices will also depend on the pace of exports during the year.

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CORPORATE OFFICE:

CARE Ratings Ltd. CIN: L67190MH1993PLC071691

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com