

Sugar Newscast: Imports now permitted

In line with our expectations, the government allowed import of raw sugar for the sugar season 2016-17. On 5th April 2017 evening, the government announced import of a restricted quantity of only 5 lakh tonnes of raw sugar at zero duty through open general license. The imports will be allowed till 12th June.

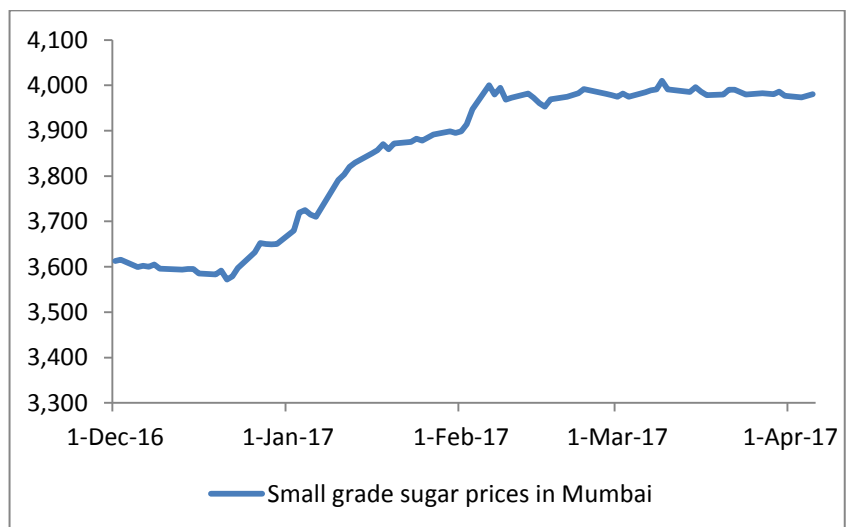
Sugar production and stock situation

According to the Indian Sugar Mills Association (ISMA), sugar production in the country declined by 18.5% to 16.2 million tonnes during the period October 2016-February 2017. During the corresponding period a year ago, sugar output in India was at 19.9 million tonnes. ISMA estimates the production to stand at 20.3 million tonnes for the current sugar year 2016-17. This is 19.4% lower compared to 25.2 million tonnes of sugar produced during 2015-16.

Considering this production figure, India will have 28 million tonnes of sugar supply for the year 2016-17. This also includes opening stock of 7.7 million tonnes for the current year.

Movement in sugar prices

Chart 1: Wholesale small grade sugar prices in Mumbai (Rs. /quintal)



Source: CMIE

From the graph it can be seen that the small grade sugar prices in Mumbai which were hovering in the range of Rs.35.5-Rs.36.5 per kg in

Contact:

Madan Sabnavis

Chief Economist

mailto:madan.sabnavis@careratings.com

91-22-67543489

Bhagyashree Bhati

Research Analyst

bhagyashree.bhati@careratings.com

91-022-67543490

Mradul Mishra (Media Contact)

mradul.mishra@careratings.com

91-22-67543515

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the month of December 2016 started showing an upward trend since the beginning of January 2017. The prices in the month of January 2017 remained in the range of Rs.37-Rs.38.9 per kg.

In the month of February and March 2017, the prices remained fairly stable but were higher compared to the prices in January 2017. Prices during February-March 2017 remained in the range of Rs.39.1-Rs.40.1 per kg. The prices had reached the level of Rs.40 per kg on 6th February 2017 and 9th March 2017. The growth in prices is mainly on account of lower sugar production in the country.

The retail sugar prices in Mumbai remained stable at Rs.44 per kg during the period January-March 2017.

Announcement on sugar imports by government

On 5th April 2017 evening, the government allowed import of a restricted quantity of only 5 lakh tonnes (0.5 million tonnes) of raw sugar at zero duty through open general license. The imports will be allowed till 12th June. This import shall be made with zonal quantity restrictions and will be available to only those millers/refiners who have their own refining capacity. The step was taken by the government to meet the regional production gaps and also to maintain domestic prices at reasonable levels.

The import quantity allowed by the government equals to 1.78% of the total supply of sugar available for 2016-17.

Is this import quantity significant

The permitted import of 0.5 million tonnes of sugar will increase the availability of sugar to 28.5 million tonnes during the year 2016-17. This supply will be sufficient to meet the expected domestic requirement of about 24.5-25 million tonnes of sugar. The consumption estimates are revised downwards compared to our earlier estimate of 25.5 million tonnes on account of lower purchases by beverage manufacturers, sweet makers etc. Thus, considering consumption, India will be left with 3.5-4 million tonnes of sugar. This stock is expected to be sufficient to meet the domestic requirement of sugar of the first two months of the next sugar year 2017-18.

It however does not meet the criteria of fulfilling the normative requirement of three months stock for the next year 2017-18. India generally keeps a normative requirement of three months to deal with supply shocks.

Concluding remarks

- *The announcement made by the government sends a signal that it may allow more import of sugar if the need be.*
- *The fall in production has kept the sugar prices up and the move made by government is expected to keep the prices stable.*
- *The expected closing stock of 3.5-4 million tonnes of sugar for the current year 2016-17 will be sufficient to meet the domestic requirement of sugar of the first two months of the next sugar year 2017-18 as against the normative requirement of three months.*

CORPORATE OFFICE:

CREDIT ANALYSIS & RESEARCH LIMITED

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 | Website: www.careratings.com

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