CARE EXPECTS PROFITABILITY PRESSURE PARTICULARLY FOR THE UTTAR PRADESH BASED SUGAR MILLS IN SUGAR SEASON (SS) 2012

The domestic sugar industry is likely to register higher production of about 26.5 million tonne (MT) in SS 2012, as against 24.3 MT in SS 2011, on the back of substantial increase in the supply of sugarcane due to higher cane acreage. With the opening stock of around 5.9 MT and estimated annual consumption of about 22.0 MT, the closing stock though expected to be higher, is likely to remain at the same level of the previous year due to allowance of exports by Government of India (GoI) and its subsequent decision to remove quantitative restriction on exports. However on the international front, sugar prices had been volatile in the last few quarters. Global sugar prices were ruling firm at a premium of US$100 per tonne vis-a-vis domestic sugar prices in January 2012. Prices slid by about US$60 per tonne to US$590 per tonne in April-May and are expected to remain subdued on account of surplus production in India, Thailand, Europe and Russia and anticipation of fresh arrival of Brazilian supplies. However, on account of recent depreciation in rupee, export realisation of domestic mills in rupee terms will be less affected from falling international prices. In the next few quarters, the domestic price of sugar is expected to remain stable in the range of Rs.29.0 – Rs.30.0 per kg on the back of stable inventory level and subdued international prices. The prices, thereafter, are likely to be governed by the future cane acreage and supply from Brazil which is again dependent on diversion of sugarcane for ethanol production.

In SS 2012, profitability margins of sugar mills especially those based in UP are likely to remain under pressure due to substantial increase in State Advised Price (SAP). Further, Supreme Court ruling to pay disputed cane dues of SS 2007 and SS 2008 would lead to substantial cash outflow of the UP mills. The Maharashtra and South India-based mills are comparatively better placed due to lower cost of production on account of relatively lower cane purchase cost.

With the setting up of Committee on decontrol of sugar headed by Dr C.Rangarajan, the industry is expecting further decontrol measures like relaxation of levy prices, and removal of monthly release mechanism. These measures if implemented, may improve the profitability of the sugar mills. Besides, the industry is also expecting further incentives in the form of increase in ethanol prices and assured power off-take by the state utilities.

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