

Sugar Update: July 2020

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The report provides details on sugar stock situation in India and how Covid-19 induced lockdown impacted sugar consumption and its prices. Also, the movement in sugar prices before lockdown and after the release of Unlock guidelines is discussed in the report.

Sugar inventories continue to remain high

The opening stock for the current sugar season (SS) 2019-20 is at an all-time high of 14.6 million tonnes. This is mainly on account of higher y-o-y sugar production in the past two sugar seasons SS 2017-18 and SS 2018-19 and minimum sugar exports in SS 2017-18 which resulted in huge carryover stocks.

Table1: Sugar stock situation for last 3 sugar seasons as per ISMA (in million tonnes)

	SS 2017-18	SS 2018-19	SS 2019-20*
Opening stock	3.9	10.7	14.6
(+) Production	32.5	33.2	27.2
(+) Imports	0.2	0.0	0.0
Total availability	36.6	43.9	41.8
(-) Internal consumption	25.4	25.5	25.0
Stock after internal consumption	11.2	18.4	16.8
(-) Exports	0.5	3.8	5.2
Closing stock	10.7	14.6	11.6

Source: CMIE

Note: * indicates estimates

Weak exports during the year 2017-18 were due to subdued international sugar prices. In the following SS 2018-19 the outbound shipments of sugar rose to 3.8 million tonnes from 0.5 million tonnes in SS 2017-18 which further increased to 5.2 million tonnes for the current SS 2019-20. This was backed by export subsidy of Rs.10.4 per kg to sugar mills provided for expenses on marketing costs including handling, upgrading and other processing costs, costs of international and internal transport and freight charges. The subsidy is applicable for export of up to 6 million tonnes of sugar limited to Maximum Admissible Export Quantity (MAEQ) allocated to sugar mills for the SS 2019-20.

Even while exports are likely to peak during the ongoing sugar season and production is estimated to decline by 18% to 27.2 million tonnes for the SS 2019-20, closing stock is expected to continue to remain higher than the normative stock requirement due to carryover stocks of previous years. In addition to this, around 2% likely fall in demand (as bulk consumption from restaurants, eateries etc. is affected due to lockdown situation in the

country on account of Covid-19) augments the size of closing stock for the year which is estimated at 11.6 million tonnes.

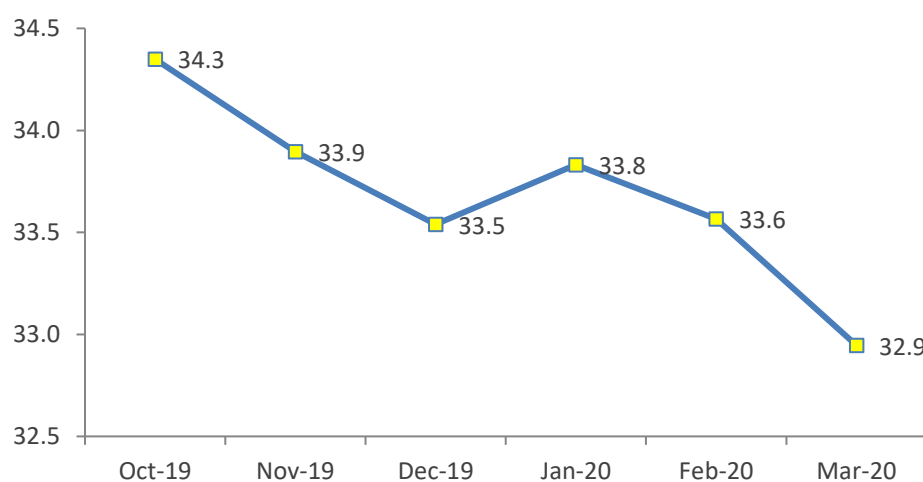
Also for the next SS 2020-21, India's sugar output is expected to increase by 17.7% y-o-y to 32 million tonnes during the year as per the preliminary estimates released by ISMA. This is likely to aggravate the already surplus sugar supply situation in India. The estimate does not include diversion of cane juice and B-molasses towards ethanol which is expected to result in 1.5 million tonnes of less sugar in sugar year 2020-21. Even after ethanol diversion is considered, the glut situation will continue to persist on account of higher production and inventories.

For the current ethanol supply year (December 2019-November 2020), 170 crore litres of ethanol supply contracts have been entered between ethanol manufacturers/sugar mills and OMCs. Of this, 92.5 crore litres of ethanol have been handed over to the OMCs during the period 1 December 2019- 22 June 2020 (that helped to achieve an average all-India blending of 5.1% with petrol). 58 crore litres of ethanol supplied to OMCs up to 22 June 2020 have been made from B-heavy molasses and sugarcane juice which have been diverted from manufacturing of sugar. Another 23 crore litres of ethanol will be made from B-heavy molasses and cane for rest of the ethanol year which will translate in overall reduction of around 0.8 million tonnes of sugar for SS 2019-20. To reduce the sugar supply glut situation, the government has been encouraging production of ethanol with an aim of increasing ethanol blend level with petrol to 7.5%-8% by 2020-21, 10% by 2022 and 20% by 2030.

Movement in domestic sugar prices

The average domestic sugar prices remained almost stable and were in the range of Rs.33 per kg – Rs.34 per kg during the period October 2019-March 2020 backed by lower sugar output and higher exports for the SS 2019-20. In addition to this, monthly sales quota and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory have also aided the stability in prices. Further, sugar MSP (Minimum Support Price) of Rs.31 per kg announced in February 2019 is also believed to have provided support to the prices.

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



Source: CMIE

The sugar prices had declined sequentially by 0.5% to 1.3% during the months October 2019-February 2020 except for the month of January 2020 where the prices improved m-o-m by 0.9%. Now, it is to be noted that the sugar prices fell by a higher 1.8% on sequential basis in March 2020 mainly due to imposition of lockdown in the last week of March 2020 which affected its demand-supply situation during the week.

Sugar prices recover with Unlock guidelines

In July 2020 sugar prices improved by 4.7% m-o-m to Rs.33.9 per kg. The prices had also increased 1.6% sequentially in June 2020 as per Wholesale Price Index (WPI). Some recovery in demand from bulk consumers such as restaurants which were allowed to operate (though with various restrictions) is believed to have resulted in the improvement in prices. Sugar prices in June 2020 (at Rs.32.3 per kg) however were 4% lower compared to the average sugar prices of Rs.33.7 per kg in the first 6 months of SS 2019-20 (prior to lockdown).

Post lockdown, sugar prices had declined by 0.3% in April 2020 and by another 0.9% in May 2020 on sequential basis as per WPI. Subdued demand from bulk consumers like restaurants, eateries, food services etc. due to imposition of lockdown on account of Covid-19 is believed to have impacted sugar prices during these two months.

Sugar prices to remain range bound going forward

- Even while prices have improved in June-July 2020, they are expected to remain range bound in coming months unless sugar MSP is hiked or export incentives are announced for SS 2020-21 by the government. This is primarily because sugar production for SS 2020-21 is estimated to increase and the problem of higher inventories persists which will restrict any major improvement in prices.
- In addition to this, sugar consumption will take some time to return to pre-Covid19 level as bans on celebrations and social gatherings continue. Further, sugar demand from bulk consumers (major segment) like restaurants and eateries remains affected as home deliveries and takeaway are preferred over dining at restaurants by some consumers and also restaurants are advised to operate with various restrictions like reduced capacities which are driven by regulations in respective locations.

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