

## Sugar Update: March 2020

March 05, 2020 | Industry Research

### ISMA releases second advance estimates for SS 2019-20

As per the second advance estimates released by the ISMA (Indian Sugar Mills Association) for SS 2019-20, the production estimates have been revised upwards to 26.5 million tonnes (y-o-y fall of 19.9%) from 26 million tonnes earlier. Sugar output was in the range of around 32-33 million tonnes in the past two sugar years. These estimates are after considering reduction of sugar due to more production of ethanol by way of diversion of B heavy molasses and sugarcane juice.

The fall in sugar output is primarily due to expected lower sugar production from Maharashtra and Karnataka by 42.2% and 25.5%, respectively, due to drought in these regions.

### Sugar stock situation

India started the SS 2019-20 with an all-time high stock of 14.5 million tonnes. Sugar availability for the season is estimated at 41 million tonnes after considering the output of 26.5 million tonnes.

**Table 1: Estimated sugar stock situation by ISMA for SS 2019-20**

	(in million tonnes)
Opening stock	14.5
Production	(+) 26.5
Sugar availability	41
Domestic consumption	(-) 26
Exports	(-) 5
Closing stock	10

This will be more than enough to meet the requirements of domestic consumption and exports thus closing the year again with an excess supply of sugar with a high stock of 10 million tonnes. It is to be noted that it will be for the third straight year that India will face sugar surplus situation and will have a closing stock of 10 million tonnes or more than 10 million tonnes.

### Trend in sugar price movements

The excess supply of sugar in India restricted the growth in prices. The prices so far (October 2019-February 2020) have remained steady at Rs.34 per kg in the current season. The prime reasons that supported the stability in sugar prices are revision in Minimum Support Price (MSP) to Rs.31 per kg in February 2019 from Rs.29 per kg in June 2018 and lower sugar production in the ongoing sugar season.

#### Contact:

**Madan Sabnavis**  
Chief Economist  
madan.sabnavis@careratings.com  
91-022-6837 4433

#### Author

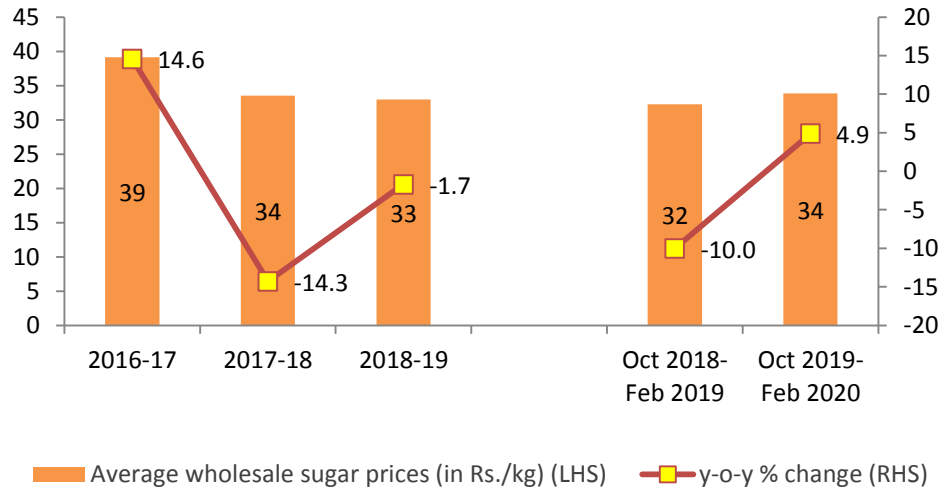
**Bhagyashree C. Bhati**  
Deputy Manager – Industry Research  
bhagyashree.bhati@careratings.com  
+91-11-4533 3306

**Mradul Mishra (Media Contact)**  
mradul.mishra@careratings.com  
91-22-6837 4424

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The wholesale sugar prices averaged at Rs.34 per kg in each of the months during the period October 2019- February 2020 thereby growing by 4.9% on a y-o-y basis. The prices had declined by 10% during the same period a year ago. In addition to this, government measures like export incentives and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory have also supported the steadiness in prices.

**Chart 1: Trend in domestic sugar prices**



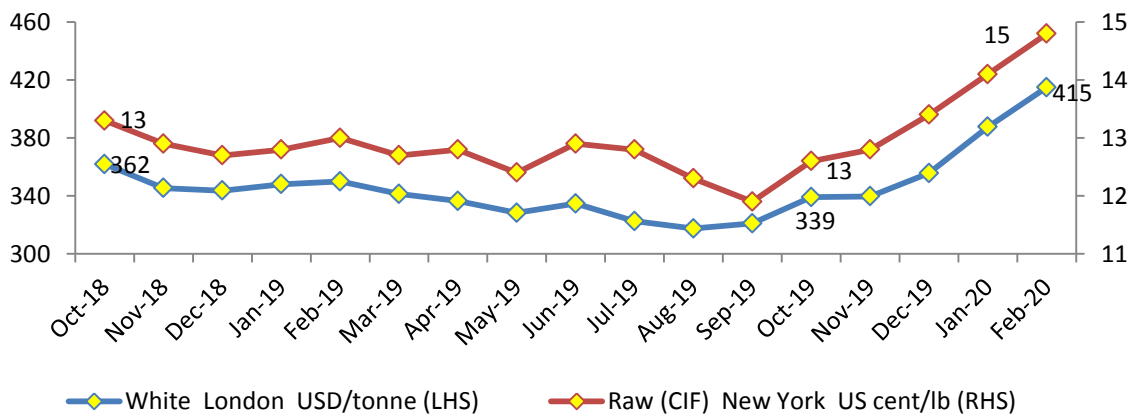
Source: CMIE

**Export incentives**

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 Maximum Admissible Export Quantity (MAEQ) allocated to sugar mills for the sugar season 2019-20. Moreover, the government is supporting those sugar mills that have plans to export sugar above their original MAEQ by reallocating the quotas of those mills that have failed to export sugar under MAEQ.

The export incentives will encourage sugar exports given the upward movement in global sugar prices. The international sugar prices increased on a sequential basis in each of the months during October 2019 to February 2020.

**Chart 2: Trend in international sugar prices**



Source: CMIE

During February 2020, the average international prices were up by 17%-22% compared to the prices in October 2019. The white sugar prices in London and the raw (CIF) sugar prices in New York that had averaged at USD 339 per tonne and US cent 12.6 per lb, respectively, in October 2019 increased and averaged at USD 415 per tonne (white sugar price in London) and US cent 14.8 per lb (raw sugar price in New York) in February 2020.

The raw sugar prices in New York averaged at (Rs.21.3 per kg plus Rs.10.4 per kg) Rs.31.7 per kg in October 2019-February 2020 in rupee terms including the export incentive of Rs.10.4 per kg for sugar exports. During this period, the prices after considering export incentives averaged higher than the MSP of Rs.31. The New York raw sugar prices inclusive of incentives have been higher than the MSP in the last 3 months in a row during December 2019 to February 2020. In the month of February 2020, the prices of raw sugar plus export incentives averaged at Rs.33.7 compared to the average price of Rs.30.1 in October 2019, a growth of 11.9%. **This rise in the international prices will augur well for sugar exports from India.** As per ISMA, contracts for exports have been made for a quantity of over 3.5 million tonnes. Of this, about 2.2-2.3 million tonnes of sugar have been moved out of mills for shipment.

The growth in international sugar prices is on account of lower sugar production in India. In addition to this, unfavourable weather conditions in Thailand is expected to affect the sugar output in the country thus impacting the global sugar production. All these factors supported the growth in international sugar prices. However it is to be noted that the movement in international sugar prices will be influenced by Brazil's diversion of sugarcane towards production of sugar rather than ethanol given the scenario of rising international sugar prices. Brazil's diversion of sugarcane towards sugar however remains to be seen. Brazil follows April-March as marketing year for sugar.

### Announcements for ethanol production

In September 2019, the Cabinet Committee on Economic Affairs (CCEA) revised the prices of ethanol for the supply year December 2019-November 2020. The primary aim behind the move is to achieve the target of 10% blending of ethanol with petrol set for the Ethanol Blended Programme (EBP).

The prices were revised for C heavy molasses, B heavy molasses and sugarcane juice from Rs.43.46 per litre to Rs.43.75 per litre, from Rs.52.43 per litre to Rs.54.27 per litre and from Rs.59.13 per litre to Rs.59.48 per litre, respectively. Also, it was for the first time that ethanol production was allowed from sugar and sugar syrup and its price was fixed at Rs.59.48 per litre and the government had allowed procurement of ethanol from B heavy molasses and sugarcane juice in June 2018 for the first time.

### Concluding remarks

- The domestic sugar prices are expected to remain stable and be in the range of Rs.34 per kg to Rs.35 per kg in the coming months backed by lower sugar production. Also the pace of sugar exports will provide support to the domestic sugar prices. The prices however are unlikely to cross the mark of Rs.35 per kg as the estimated sugar stock of 10 million tonnes will continue to weigh on prices.
- The pace of sugar exports will be dependent on the movement in international sugar prices which so far have been on a rise in the current sugar season. The global prices however will be influenced by Brazil's diversion towards

production of sugar rather than ethanol (given the upward trend in international sugar prices). The sugar season for Brazil heads near and is set to start from April 2020.

- It is to be noted that if Brazil opts for more sugar production, it will create pressure on international sugar prices thus posing a risk for sugar exports from India which, in turn, may influence the movement in domestic sugar prices.

**CARE Ratings Limited**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: [care@careratings.com](mailto:care@careratings.com) | Website: [www.careratings.com](http://www.careratings.com)

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