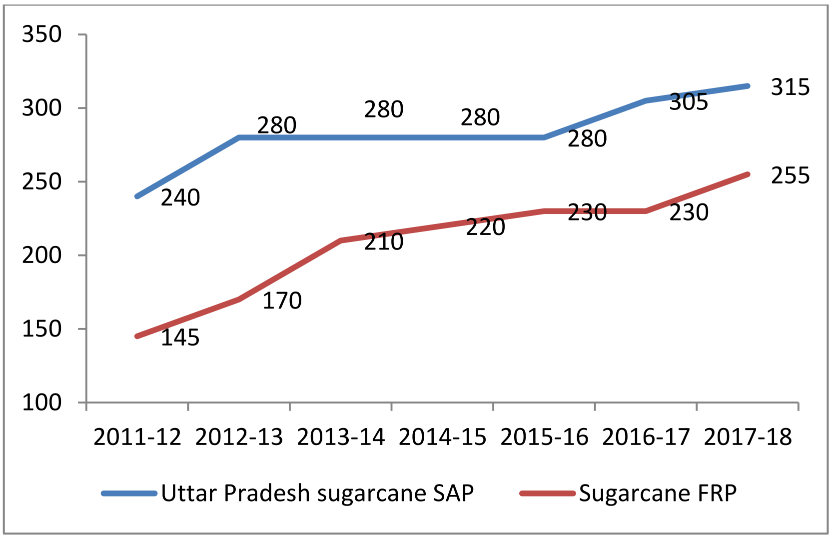
October 30, 2017 I Industry Research

UP Government hikes SAP by 3.3% to Rs.315 per quintal for 2017-18

The Uttar Pradesh government has raised the State Advised Price (SAP) of general variety of sugarcane by Rs.10 per quintal to Rs.315 per quintal for the sugar season October 2017-September 2018. This implies a y-o-y growth of 3.3%. The price hike is lower compared with 8.9% announced in 2016-17.

Chart 1: Sugarcane SAP for UP and Central Government FRP (in Rs. /quintal)



Source: CMIE

In 2016-17, the SAP was increased after a pause of 3 years. Earlier the price of sugarcane had been raised in 2012-13 by Rs.40 per quintal to Rs.280 per quintal.

For the sugar year 2017-18, the central government has fixed the Fair and Remunerative Price (FRP) for sugarcane at Rs.255 per quintal, a y-o-y growth of 10.9%. The sugarcane FRP was unchanged and kept at Rs.230 per quintal in 2016-17. The difference between the two has come down over the years – from Rs 110/quintal in 2012-13 to Rs 60 for 2017-18.

While the central government comes up with FRP, certain states like Uttar Pradesh fix their own SAP. As can be seen in the above chart, the sugarcane price in Uttar Pradesh has remained higher than that of FRP.

The rise in SAP appears to be reasonable. With the sugar prices expected to remain stable during the year and state production

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022-6754 3489

Bhagyashree C. Bhati
Research Analyst
bhagyashree.bhati@careratings.com
91-022-6754 3490

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-022-6754 3515

likely to remain higher, sugar mills in Uttar Pradesh are likely to find themselves in better position to deal with the price hike.

Sugar production and prices

Sugar production in the current sugar season 2017-18 is expected to rise by 23.8% to 25 million tonnes backed by higher sugarcane production. Consumption, on the other hand, is anticipated to remain close to 25 million tonnes during the year. *This situation, in turn, will keep the prices stable.*

The opening stock of sugar for 2017-18 is estimated at around 4 million tonnes. This will bring the availability of sugar to about 29 million tonnes assuming no sugar is imported nor exports reckoned. The closing stock for the year 2017-18 thus will be more or less in line with the closing stock for 2016-17. But, the stock however will not be sufficient to meet the three months requirements of sugar stock for the next season. *This we believe will also aid the prices to remain steady during the season 2017-18.* India generally keeps a normative requirement of three months stock for the next year.

Concluding remarks

- *The rise in SAP appears to be reasonable. With the sugar prices expected to remain stable during the year and state production likely to remain higher, sugar mills in Uttar Pradesh are likely to find themselves in better position to deal with the price hike.*
- *During 2017-18, sugar output and consumption are likely to remain the same. This situation, in turn, will keep the prices stable.*
- *The closing stock for the year 2017-18 will be more or less in line with the closing stock for 2016-17 considering that no sugar is imported or exported by India during the season 2017-18. The stock however will not be sufficient to meet the three months requirements of sugar stock for the next season*
    - *India generally keeps a normative requirement of three months stock for the next year.*

CORPORATE OFFICE:
CARE Ratings Limited
(Formerly: 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 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com