

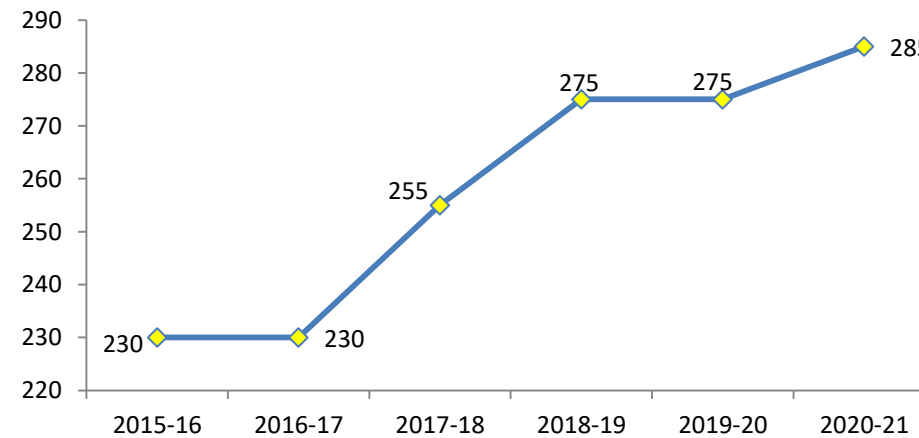
Sugar Newscast

21 August 2020

Sugarcane FRP hiked to Rs.285 per quintal for SS 2020-21

The Cabinet Committee on Economic Affairs (CCEA) announced FRP for sugarcane at Rs.285 per quintal for the sugar season (SS) 2020-21 for a basic recovery rate of 10%. This is 3.6% higher than the FRP of Rs.275 per quintal during 2019-20 when it was kept unchanged. Earlier, the FRP was increased by 7.8% to Rs.275 per quintal in 2018-19 and by 10.9% to Rs.255 per quintal in 2017-18. The FRP had remained same on a yearly basis during 2016-17 at Rs.230 per quintal.

Chart 1: Trend in Fair and Remunerative Price (FRP) of sugarcane (in Rs./quintal)



Source: ISMA

Note: FRP linked to 10% recovery rate except for 2015-16, 2016-17 and 2017-18 which is at 9.5% recovery rate

The government said that the determination of FRP will be in the interest of sugarcane growers and is announced keeping in view their entitlement to a fair and remunerative price for their produce.

Higher FRP to increase cost of sugar production

The announcement of higher FRP will result in a rise in cost of sugar production. This is explained in the table 1 below. As per a sample of 60 sugar companies for the past 5 years FY15 to FY19, the raw materials cost accounted for around 85% of the total expenses on an average, primary raw material here being sugarcane. Considering this, Table 1 is prepared which provides an idea on sugar production cost.

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Table 1: Cost of sugar production considering FRP

	(in Rs./tonne)	Total cost of cane for producing 1 tonne of sugar (in Rs.)	Sugar price (in Rs./tonne) considering raw material cost at 85% of total expenses	Cost of producing sugar (in Rs./kg)
2019-20	2,750	27,500	32,353	32.4
2020-21	2,850	28,500	33,529	33.5

From the above table it can be seen that cost of sugar production is expected to increase by 3.6% to Rs.33.5 per kg for SS 2020-21 from Rs.32.4 for SS 2019-20. The higher cost of sugar production is likely to affect the sugar mills given the current scenario of sugar industry where surplus sugar supply is already restricting any major growth in sugar prices. Moreover, weak sugar demand from bulk consumers due to Covid-19 is also adding to inventories and is impacting prices. Resultantly, the wholesale sugar prices have remained in the range of Rs.32 per kg – Rs.34 per kg in the last few months (1 June 2020 – 19 August 2020). Thus it can be said that the wholesale prices are almost at par with the cost of sugar production as can be seen from the above table.

Concluding remarks

- The cost of sugar production is expected to increase by 3.6% to Rs.33.5 per kg for SS 2020-21 from Rs.32.4 per kg for SS 2019-20.
- The wholesale sugar prices have remained rangebound in the past few months and are hovering around cost of sugar production which creates pressure on sugar industry.
- Given the announcement of higher FRP which will increase the cost of sugar production, it remains to be seen if the increase in Minimum Support Price (MSP) of sugar gets finalized which currently stands at Rs.31 per kg.

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