

INDIAN SUGAR SECTOR

**Scaling ethanol capacities to add
cheer to credit profile of integrated
sugar companies from FY2023**

JULY 2021



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ICRA's outlook on Indian sugar sector remains Stable

The Government of India's target to achieve 20% blending targets by 2025, coupled with favourable policy initiatives in the form of remunerative pricing for ethanol, interest subvention on loans and eased out inter-state ethanol movement, has enthused integrated sugar mills to set up/ expand distillery capacities.

Move will not only address the sugar surplus concerns but also bolster revenue growth with better margins, thus improving credit profile.



Sugar Production – The sugar production for SY2021 is expected at 30.9 million MT (PY: 27.4 million MT). Further, as per preliminary estimates of ISMA, the sugar production for SY2022 is expected at 31.0 million MT after adjusting for sugar sacrifices of around 3.4 million MT towards ethanol.



World sugar balance and international prices – As per USDA forecast, global sugar production is expected to grow by around 6 million MT at 186 million MT during SY2022 (sugar year) despite lower production expected from Brazil. The expansion in global production volumes is attributed to higher production expected from India, European Union (EU) and Thailand. However, volume shrinkage expectations in Brazilian sugar production has already resulted in improved international sugar prices in the recent months.



Domestic Sugar Prices – The domestic sugar prices have remained in the range of Rs. 32,000 – 32,500/MT in April–June 2021 and is estimated to remain at similar levels in July 2021 as well. The prices moderated marginally during the quarter on account of a contraction in demand from the Hotel, Restaurant and Cafe (HORECA) segment post implementation of lockdown amidst the second wave of Covid.



Ethanol – As of July 5, 2021, the country has achieved the average ethanol blending level of 7.9% with 15 states achieving higher than national average of ethanol blending. This level has been achieved despite lower offtake by oil marketing companies (OMCs) that faced storage-related issues.



Revenues and profitability– The revenues of ICRA sample in FY2022 are expected to remain at similar levels as FY2021 as benefit from higher ethanol volumes would be offset against expected reduction in export volumes with reduced subsidy. However, with sizeable ethanol capacity being commissioned in FY2022-FY2023, the revenues and operating profits are expected to grow at healthy pace in FY2023. Coverage indicators of sugar companies are expected to strengthen with growth in operating profits and cash accruals².



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