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INDIAN SUGAR SECTOR

Higher sucrose diversion towards ethanol and healthy export levels likely to support domestic demand-supply balance

DECEMBER 2021

Agenda

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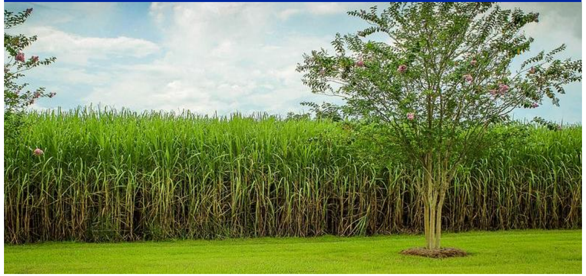
4 **Trend in Sugar Prices**

5 **Domestic Cane Production and Pricing**



6 **Forward Integration**

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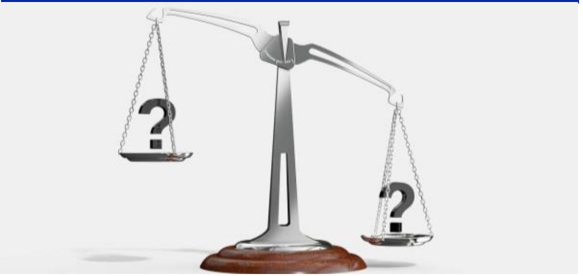

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Highlights

Firmed up international prices supporting healthy exports coupled with higher diversion of sucrose towards ethanol would allow the industry to manage its closing inventory levels.

Sugar Production – As per first advance estimates of ISMA, sugar production is expected at 30.5 million MT in SY2022 after considering sugar sacrifices of around 3.4 million MT towards ethanol production from B-heavy molasses/ sugarcane juice, driven by increased acreage in Maharashtra despite lower production from UP owing to untimely rainfall in the state.

World sugar balance and international prices – The global sugar production for SY2021/22 was expected at 181 million MT in SY2021/22 (similar to last year levels) despite lower production expected in Brazil (by around 6 million for April-mid September 2021 (ongoing sugar season). This is expected to be compensated by higher production from Thailand, India and the European Union (EU) as per USDA*. Owing to better global demand-supply sugar balance, the international prices of raw sugar improved to around US$430-435/MT in October-November 2021, against US$424-427/MT in August-September 2021. This was in continuation of the uptrend that was triggered post downward revision in Brazilian sugar production expectation in August 2021.

Domestic Sugar Prices – The domestic sugar prices remained rangebound between Rs. 31,800 and 32,500/MT during April–July 2021. However, the prices rose to around Rs. 33,500/MT in August 2021 tracking the global price increase besides limited domestic supply following the lower quota announced by the Government amidst the onset of the festive season. Further, the uptick in prices continued in September-October 2021, whereby, the prices firmed up to Rs.35,700-Rs.37,000/MT in UP. However, the prices have moderated in November 2021 to Rs. 35,600/MT and further to below Rs. 35,000/MT in December 2021 with the beginning of the ongoing crushing season.

Cane pricing – The State Advised Price in UP (UP-SAP) increased by Rs. 25/quintal for SY2022, after being stagnant for three years. The Fair and Remunerative Price (FRP) increase for SY2022 has been by Rs. 5/quintal following an annual hike of Rs. 10/ quintal per annum in the past three years. Thus, for SY2022, the UP-SAP would be Rs. 350/quintal for the early maturing variety and Rs. 340/quintal for normal variety while FRP would be Rs. 290/quintal at 10% recovery. This would result in higher sugar production cost by ~Rs. 2.18/Kg in UP and ~Rs. 0.5/Kg in FRP following states.

**USDA - US department of Agriculture; ISMA: Indian Sugar Mills Association*

Highlights

Likely reduction in inventory levels resulting in lower total debt, despite ongoing debt-funded distillery expansions in addition to expanded operating profits would support industry's credit metrics despite recent hike in cane prices.

Ethanol – India has achieved encouraging levels of average ethanol blending with petrol at 8.1% as on November 30, 2021. Further, around 14 states have achieved higher than national blending at 8-10% in the last ESY.

Revenues – The revenues of ICRA sample are expected to remain stable with 1%-3% YoY growth in FY2022 supported by firmed up domestic and international sugar prices and improved ethanol realisations in addition to expected healthy sugar export and ethanol volumes. Further, a stable revenue in FY2023 on YoY basis is projected owing to likely lower exports, despite higher volumes and realisations from the distillery division for most of the integrated sugar mills.

Profitability – With a favourable mix of ethanol towards B-heavy/juice (feedstock) coupled with higher sugar realisations; operating margins are expected at 12.5%-13.5% in FY2022 (slightly higher than FY2021 levels), moderated by the cane price hike. This indicates that with the current favourable scenario, the industry can absorb cane price hike. The margins are further expected to improve in FY2023-FY2024 to 13.0%-14.0% supported by operationalisation of ongoing distillery expansions.

Working capital and Debt – Higher diversion towards B-heavy molasses/juice – based ethanol coupled with healthy export prospects for FY2022 would result in reduced inventory days going forward from the current levels. Lessened closing inventory levels would in turn allow the borrowings of ICRA samples to reduce going forward despite ongoing debt funded capex plans (for distillery and crushing capacities) for various players. With improved operating profits and reduced debt levels, the coverage metrics and capital structure would emerge stronger.

Note: Our expectations factor in the continued Government support in form of remunerative prices for ethanol, interest subvention loan for distillery capacity expansion, and minimum support prices (MSP).

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Thank You!