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INDIAN SUGAR SECTOR

Export policy for SY2023 crucial to maintain optimum sugar balance, thus supporting domestic sugar prices

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Highlights

India may need to export 7.5-8.0 million MT of sugar for SY2023 to maintain closing stock at SY2022 levels which will support the domestic sugar prices.

Domestic sugar prices (UP) are currently trending at above Rs. 35/Kg with the onset of the festive season. However, international prices moderated further in August 2022.

Sugar Production – Domestic net sugar production stood at 35.37 million MT (till July 15, 2022) in the ongoing crushing season, however, special season in Karnataka and Tamil Nadu is still in progress. This is ~98% of the total expected sugar production for SY2022 as per the recent ISMA estimates.

Sugar demand and closing stock – As per the preliminary ISMA estimates, gross sugar production (without considering ethanol diversion) is likely to increase to 40 million MT in SY2023 in the light of ~4.5% YoY higher acreage as well as better cane yields. However, with estimated diversion of 4.5 million MT of sugar towards ethanol production, net sugar production is expected at 35.5 million MT. Considering the slight increase in sugar production, India may need to export 7.5-8.0 million MT of sugar in the next sugar year to maintain closing stocks at SY2022 levels (estimated).

World sugar balance and international prices – The global sugar production for SY2022/23 is expected at 183 million MT (slightly higher than last year) as per USDA, however, the consumption is expected to rise to a new record of 179 million MT in SY2022/23 (2% YoY growth). International prices of raw sugar moderated slightly to US$398/MT in August 2022 compared to US$404- US$435 in March – July 2022. While the prices of white sugar trended upwards during April 2022- June 2022 despite the downward trend in raw sugar prices, the former improved to US$546/MT in August 2022 compared to US$534/MT in July 2022, though remained lower than ~US$562/MT (the highest in past five years) in June 2022. With the improvement in white sugar prices, the premium between white sugar and raw sugar prices increased to US$148/MT in August 2022 compared to US$130/MT in July 2022.

Domestic sugar prices – Domestic sugar prices (UP) are currently trending at above Rs. 35/kg after being largely stable at Rs. 34-35/kg over March 2022- July 2022 with the onset of the festive season. The average domestic sugar prices for 11M SY2022 were around 8% YoY higher at ~Rs. 34.7/kg.

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

Highlights

Higher diversion towards ethanol is expected to keep inventory levels comfortable along with healthy operating profits which would allow reduced debt levels and support the industry's credit metrics going forward

Cane pricing – The sugarcane UP-SAP has been hiked by Rs. 25/quintal (unchanged during SY2018-2021) for SY2022. Thus, for SY2022, UP-SAP would be Rs. 350/quintal for the early maturing variety and Rs. 340/quintal for the normal variety. For SY2023, FRP was increased by Rs. 15 to Rs.305/quintal from Rs.290/quintal for a basic recovery rate of 10.25%. Further, this would result in higher sugar production cost by ~Rs. 0.8/kg in FRP-followed states.

Ethanol – Currently, average ethanol blending as on August 28, 2022 stood at 10.04%. Further, in YTD ESY 2023, OMCs have lifted the ethanol quantity more than the full-year quantity of ESY2022.

Revenues – The revenues of ICRA samples are expected to remain stable in FY2023 supported by elevated sugar realisations as well as ethanol realisations, in addition to expected healthy sugar export (likely to be lower than FY2022) and improved ethanol volumes for most of the integrated sugar mills. However, domestic sugar sales for few integrated mills could be lower with moderation in inventory levels. Favourable international demand for sugar exports amidst higher diversion towards ethanol or shortfall in production in Brazil for next crushing season could provide an upside to revenues and profits for the ICRA samples.

Profitability – Operating margins are likely to remain in the range of 13.0%-13.5% in FY2023 (in line with FY2022 levels) supported by elevated sugar realisations as well as ethanol realisations despite increase in FRP, which would increase production cost in FRP-followed states. Further, operating margins remain vulnerable to cane availability.

Working capital and debt – Higher sucrose diversion towards ethanol going forward, coupled with export prospects of 8.0 million MT for SY2023, are likely to keep the inventory levels comfortable for most of the integrated sugar mills. Lower closing inventory and healthy operating profits, would in turn allow the borrowings of ICRA sample to reduce going forward, despite debt-funded capex plans for various players. With healthy operating profits and reduced debt levels, the coverage metrics and capital structure would emerge stronger going forward.

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Analytical Contact Details

Sabyasachi Majumdar	**Girishkumar Kadam**	**Anupama Arora**	**Menka Sabnani**
Senior Vice-President and Group Head	*Senior Vice-President and Co-Group Head*	*Vice-President and Sector Head*	*Senior Analyst*
sabyasachi@icraindia.com	girishkumar@icraindia.com	anupama@icraindia.com	menka.sabnani@icraindia.com
0124 – 4545 304	022 – 6 114 3441	0124 – 4545 303	079 – 40271 562

Business Development/Media Contact Details

	L. Shivakumar	Jayanta Chatterjee	Naznin Prodhani
	Executive Vice-President	*Executive Vice-President*	*Head Media & Communications*
Email	shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
Phone	022- 6114 3406	080 – 4332 6401	0124 – 4545 860

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Thank You!