

INDIAN SUGAR SECTOR

Firmed-up international prices brighten prospects for sugar exports

AUGUST 2021



Highlights





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Global sugar production – The global sugar production for SY2022 is expected to grow by around 6 million MT to 186 million MT in SY2021/22 despite lower production expected in Brazil (by around 2 million MT) as per USDA* estimates released in May 2021. This is on account of the higher production expectations from India, European Union (EU) and Thailand.

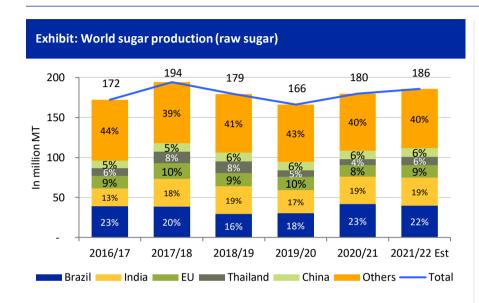
Production dip in Brazil— As per the latest release of UNICA (the Brazilian sugarcane industry association), both sugarcane and sugar production declined by 7% and 8% respectively during April-July 2021 on a YoY basis in South-Central region of Brazil (CS Brazil). CS Brazil contributed over 90% of production in the last season (2020/2021). Thus, both sugarcane and sugar production for Brazil is expected contract in ongoing sugar season (2021/2022). Although sugar production in Brazil was expected to be lower in the ongoing season on account of the drought conditions, the recent estimates peg the decline to be sharper with incidence of frost and resultant crop damage thereby resulting in balanced demand supply position for sugar.

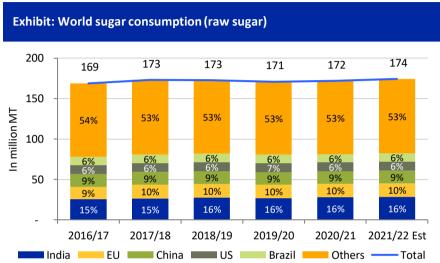
International sugar prices — Even as sugar prices have been trending higher since the beginning of calendar 2021 anticipating lower global surplus position for the commodity, the recent sugar production data for Brazil pointing to further contraction in country's volumes for the season aided in further uptick in international raw sugar prices which rose to around US\$430/MT (19-20 cents/lb) in August 2021, the highest in the past four years.

Prospects for India sugar exports — During the past three sugar seasons, the subsidy announced under the Export Policy by the GoI made sugar exports commercially viable. Supported by the higher international prices since early 2021, the industry is estimated to export around 7 million MT during SY2021, 1 million MT higher than the assigned quota of 6 million MT. The further uptick in prices in August 2021 has made exports feasible without subsidy as well, enabling the traders to sign export contracts for SY2022 in advance (even before the start of the crushing season)**

World sugar production and consumption forecast by USDA in May 2021







Source: US department of Agriculture (USDA) – May 2021

Source: USDA (May 2021)

- With an annual production of 30-40 million MT, **Brazil is traditionally the largest sugar-producing country followed by India**. As per the USDA forecast (in May 2021), global sugar production is expected to grow by around 6 million MT to 186 million MT in SY2021/22 despite lower production expected in Brazil (by around 2 million MT). This is on account of higher production expectations from India, the European Union (EU) and Thailand. As against the USDA May 2021 estimates, market participants expect the contraction in production in Brazil to be higher in light of the recent incidences of frosts even as the country continues to witness drought conditions.
- The USDA expects world's consumption to rise to a new record of 174 million MT in SY2021/22 due to higher demand in markets such as China and India.

Key sugar-producing countries: Production dynamics for 2021/2022





European Union – To rise by 7% YoY to 16 million MT with allowed usage of neonic pesticides

India – Growth of 3% YoY to 35 million MT assuming favourable weather conditions

Thailand – Expansion by 40% YoY to 11 million MT with higher sugarcane yield, increased harvested area and favourable weather

Mexico – Marginal decline likely owing to lower sugarcane yield resultant from poor soil quality and drought

Brazil – Contraction by 5% YoY to 40 million MT owing to reduced sugarcane crushing volumes, unfavorable dry weather, incidence of fire outbreak in sugarcane fields

CS Brazil contributed 93% of Brazilian sugar production in 2020/2021





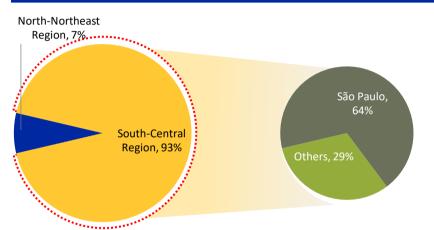
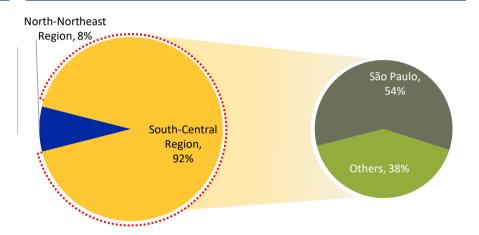


Exhibit: Region wise Brazilian Sugarcane Production in 2020/2021 (657 million MT)



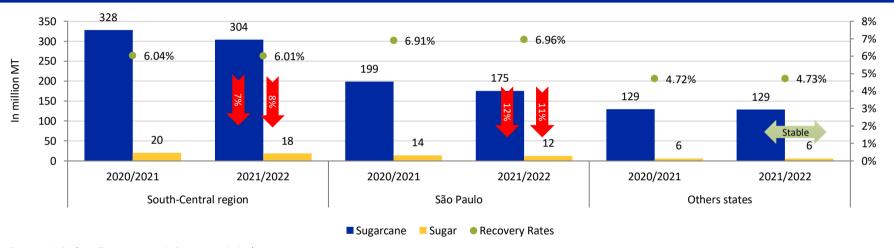
Source: UNICA (Brazilian sugarcane industry association)

• South-Central region of Brazil (CS Brazil) contributed around 93% of Brazilian sugar production and 92% of Brazilian sugarcane production in 2020/2021 (last sugar season) with around 64% of sugar and 54% of sugarcane production from São Paulo. This also indicates the higher recovery rates in São Paulo.

CS Brazil sugar production contraction in 2021/22



Exhibit: Region wise Sugarcane and Sugar Production for last and ongoing sugar season (April-July2021)



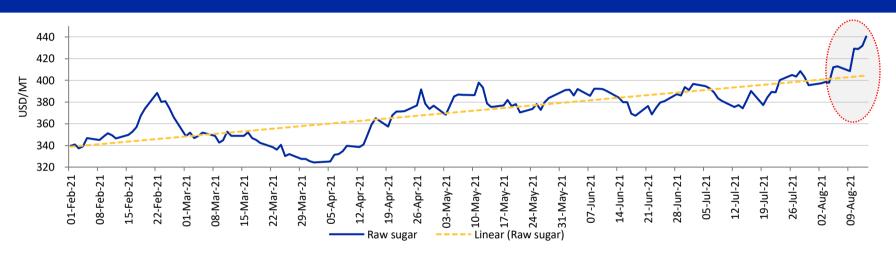
Source: UNICA (Brazilian sugarcane industry association)

- UNICA reported a decline in both sugarcane and sugar production by 7% and 8% YoY for April-July 2021 respectively in CS Brazil which contributed over 90% of production in the last season.
- Further, the contraction is sharper in São Paulo, which has relatively higher recovery rates, at 12% and 11% YoY for sugarcane and sugar production respectively.
- Hence, both sugarcane and sugar production for Brazil is expected to decline in the ongoing sugar season, which resulted in firmed up global sugar prices in the past two weeks.
- Moreover, CS Brazil produced ~52% of total sugar for 2020/2021 in April-July 2020, indicating that a large part of ongoing sugar season has ended.

Lower Brazilian sugar output triggers price rally globally





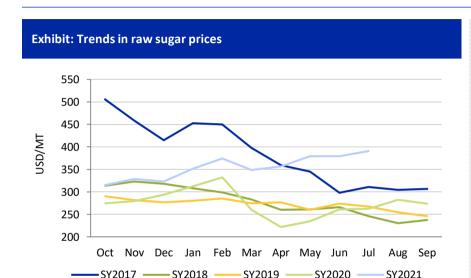


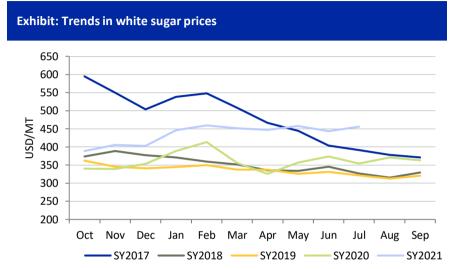
Source: International Sugar Organisation

- The international prices of raw sugar have spiraled at above US\$430/MT (19-20 cents/lb) in August 2021 compared to around US\$340/MT (15.5 cents/lb) in February 2021. These prices stood around US\$280/MT (12.8 cents/lb) in August 2020. Thus, year on year, raw sugar prices have soared by around 48%.
- The said price rally in August 2021 was triggered post release of sugar production in Brazil data by UNICA confirming a drop of 7.3% YoY at 304 million MT in CS Brazil region for the ongoing sugar season 2021/2022 (April-March).

International sugar prices at the highest in last four years







Source: USDA, ICRA research

Source: USDA, ICRA research

- The international prices of raw sugar improved to around \$391/MT in July 2021 against \$379/MT in May-June 2021 and the white sugar prices firmed up at \$456/MT in July 2021 against \$443/MT in June 2021. The premium between white sugar and raw sugar prices is around \$64-65/MT in June-July 2021. Further, the market participants expect global sugar prices to further strengthen in August 2021.
- International sugar prices firmed up in recent months to reach four year high levels.

Indian sugar export policy for past three years





Export Quantity – 5 million MT

Total Subsidy offered – ~Rs. 1375 crore

Subsidy policy – Rs. 1,000/MT for mills
located within 100 km from ports, Rs.

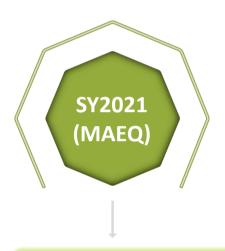
2,500 /MT for mill located beyond 100
km from the port in coastal states
and Rs. 3,000/MT/MT for other mills



Export Quota – 6 million MT

Total Subsidy offered – ~Rs. 6,268 crore

Subsidy policy – Rs. 10,448/MT of sugar exported



Export Quota – 6 million MT

Total Subsidy offered –~Rs. 3,500 crore*

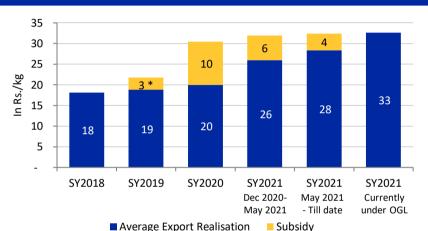
Subsidy policy – Rs. 6,000/MT of sugar contracted till May 20, 2021, Rs.

4000/MT with effect from May 2021

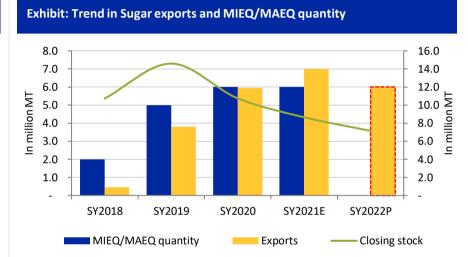
Sugar export contracts for SY2022 signed in advance







Source: CCEA, ISMA, ICRA research; * For mills located other than coastal areas



Source: CCEA, ISMA, ICRA Research



- The subsidy aided the industry to make sugar exports viable and consequently maintaining the domestic sugar demand-supply balance in addition to timely stock liquidation and improved liquidity.
- The recent firmed up global prices have made exports viable without subsidy as well. Further, traders have already signed contracts for SY2022 even before the start of the season under open general licence (OGL), as discussed with selected market participants.
- Till July 9, 2021, about 5.9 million MT has been contracted of total 6.0 million MT of MAEQ for SY2021 and about 0.4 million MT has been contracted under OGL.

Discussion with market participants





Sugar export contracts for
~ 1 million tones relating to
next crushing season
(SY2022) has already been
signed by traders to export
under OGL as against usual
practice of entering
contracts post
announcement of
export policy.

Indonesia, Middle East, South-Asian and East African countries are the major export destinations. Maharashtra mills
were aggressive in
exports under OGL.
However, UP mills that
have locational
disadvantage have also
started offering
quotes.

India is primarily expected to export raw sugar at 55-60% of total sugar exports, followed by white sugar at 35-40% and refined sugar at less than 5% for SY2021 and SY2022

Global sugar prices are expected to remain buoyant for around next 2 quarters.

Limited quantum of Brazilian sugar coupled with supply disruptions on account of port closures, container unavailability and rising freight rates offers an opportunity to Indian sugar industry to fill the gap, especially cater to requirements of many neighbouring countries who are large importers. The export prospects look promising for upcoming sugar season, even if the subsidy moderates from current levels. With exports under OGL already getting contracted, ICRA estimates India to register sugar exports of around 4-6 million MT for SY2022.





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ICRA Analytical Contact Details

	Sabyasachi Majumdar	Girishkumar Kadam	Anupama Arora	Suksham Arora
	Senior Vice-President	Senior Vice-President	Vice-President	Senior Analyst
	sabyasachi@icraindia.com	girishkumar@icraindia.com	anupama@icraindia.com	suksham.arora@icraindia.com
C	0124 – 4545 304	022 – 6 114 3441	0124 – 4545 303	0124 – 4545 300

















ICRA Business Development/Media Contact Details

	L. Shivakumar	Jayanta Chatterjee	Naznin Prodhani
	Executive Vice-President	Executive Vice-President	Head Media & Communications
<u>@</u>	shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
C	022- 6114 3406	080 – 4332 6401	0124 – 4545 860



















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