

INDIAN SUGAR SECTOR

**India restricts sugar exports to
maintain domestic availability and
price stability**

MAY 2022





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The restrictions on sugar exports aim to ensure adequate domestic sugar availability and price stability in the backdrop of record high sugar exports in SY2022. The imposition of such restrictions may limit sharp price movements in domestic market without having any major adverse impact on export volumes as well as profitability of sugar units for FY2023 as a large part of expected exports has already been contracted by now



Gol Restrictions – The GoI has imposed restrictions on sugar exports (raw, white and refined sugar) from June 1 to October 31, 2022*, with the view to maintain domestic sugar availability and price stability in the backdrop of record sugar exports in SY2022 and it plans to allow sugar export of up to 10 million MT for SY2022.



Current sugar export scenario – The sugar industry expects exports of around 9.5 million MT in SY2022, of which around 9.0 million MT has already been contracted so far. Given that likely sugar exports is lower than capped quantity, the move is not likely to have significant impact of the liquidity and profitability of the sugar mills in the ongoing fiscal.



Impact on consumers – The said move of the Government would ensure the adequate domestic sugar supply before the beginning of the next crushing season, especially, to meet sugar demand during the festive season. This also would allow some stability in prices in the domestic market.



International sugar prices – The international prices of raw sugar reached US\$410-445/MT (19-20 cents/lb) in May 2022, thereby letting Indian mills export. The firmed-up prices are supported by lower cane production as well as higher sucrose diversion towards ethanol in Brazil in the ongoing crushing season. However, as the marketing season in Brazil has just started, the ultimate cane production level and sucrose diversion would have a bearing on global sugar prices.

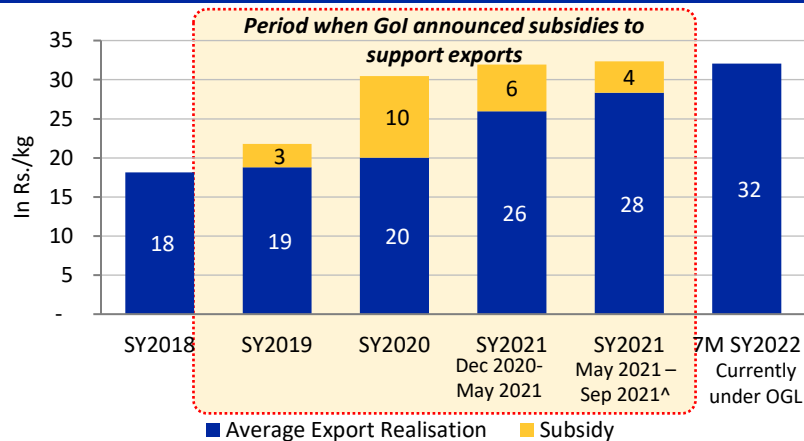


Domestic sugar prices – Domestic ex-mill sugar prices are currently at Rs. 33-36/Kg, varying from region to region with higher seasonal demand (in summers), besides closure of crushing activities by most mills for SY2022. Similarly retail sugar prices are currently around Rs. 37-44/Kg, varying across regions.

*Except for the sugar exported to EU and USA under CXL and TRQ quota

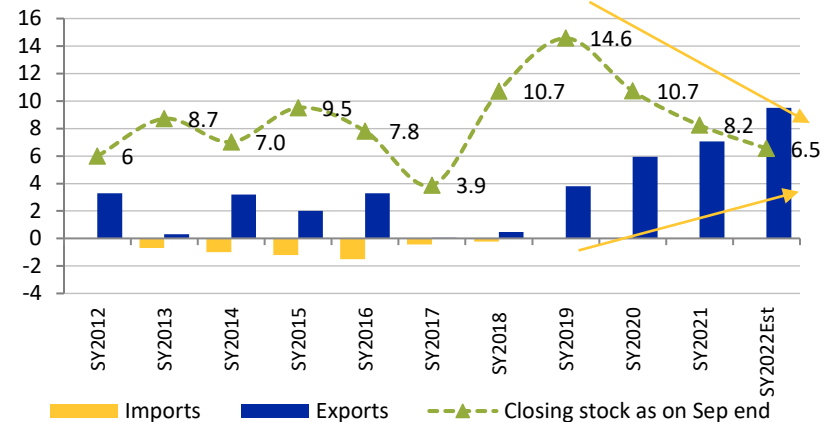
Highest exports over past two decades expected in SY2022 in light of improved global realisations

Exhibit: Export Realisation and Subsidy



Source: CCEA, ISMA, ICRA Research; * For mills located other than coastal areas, ^ quantity contracted under this scenario was very low, OGL – Open General Licence

Exhibit: Trend in Sugar international trade



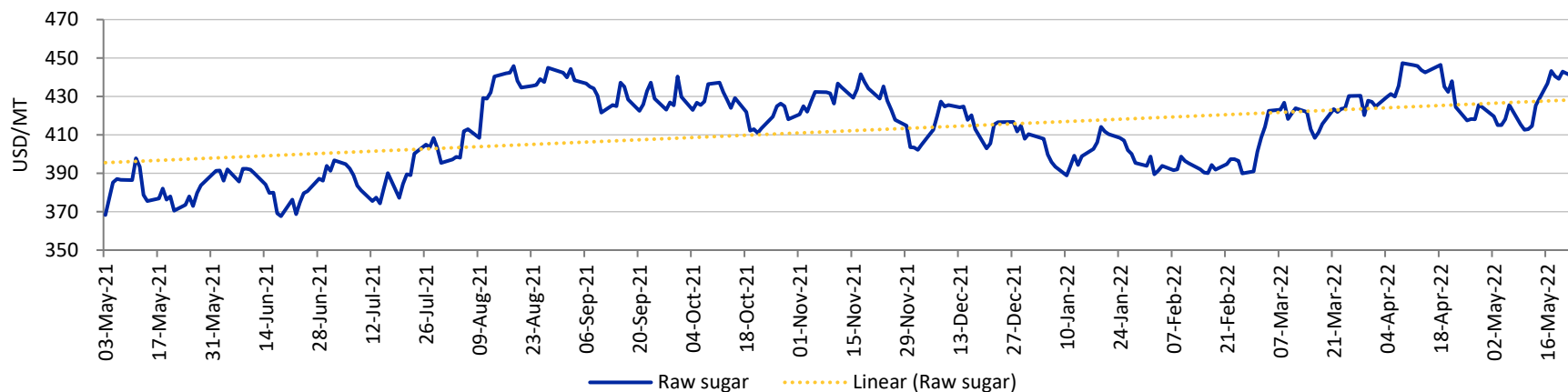
Source: CCEA, ISMA, ICRA Research



- Highest sugar exports over past two decades is likely in SY2022 of 9-9.5 million MT, given the firmed up international prices. Further, export contracts of over 9.0 million MT have already been signed by the industry so far.
- To make exports viable and consequently to maintain domestic sugar demand-supply balance in addition to timely stock liquidation and improve liquidity, the Government had announced subsidies for SY2019-SY2021. However, currently, with the firmed up international prices, the Indian sugar industry has contracted for record high exports for the ongoing sugar season without any export subsidy.

Firmed up international prices make exports lucrative for Indian mills

Exhibit: Daily trends in raw sugar prices

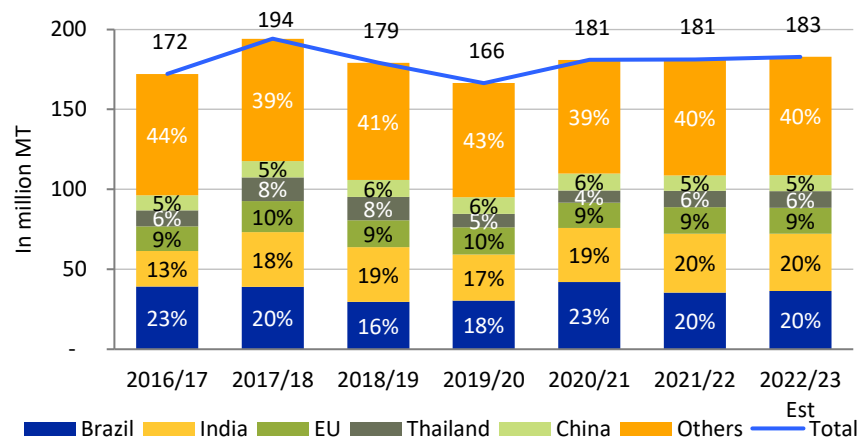


- The international prices of raw sugar reached to US\$410-445/MT (19-20 cents/lb) in May 2022, thereby being lucrative for Indian mills to export. The current international prices are supported by likely lower production at Brazil compared to traditional levels
- Considering the firmed-up global prices, the Indian sugar industry plans exports of 9-9.5 million MT in SY2022.
- However, as per recent announcements, the GoI has imposed restrictions on sugar exports* (raw, white and refined sugar) from June 1 to October 31, 2022 (or until further orders, whichever is earlier), with the view to maintaining domestic sugar availability and price stability against the backdrop of record sugar exports in SY2022. Thus, sugar exports for the said period would only be allowed on specific permissions. Further, the GoI plans to allow sugar exports up to 10 million MT for SY2022.
- The said GoI move is unlikely to impact the mills significantly as the industry-expected export levels are less than 10 million MT for SY2022.

Source: International Sugar Organisation; *Except for the sugar exported to EU and USA under CXL and TRQ quota

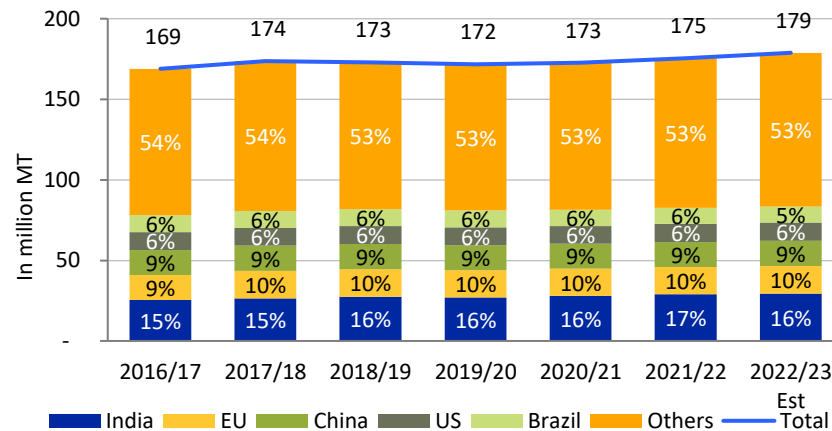
World sugar production expected to remain stable in SY2021/22

Exhibit: World sugar production (raw sugar)



Source: US department of Agriculture (USDA) – May 2022

Exhibit: World sugar consumption (raw sugar)

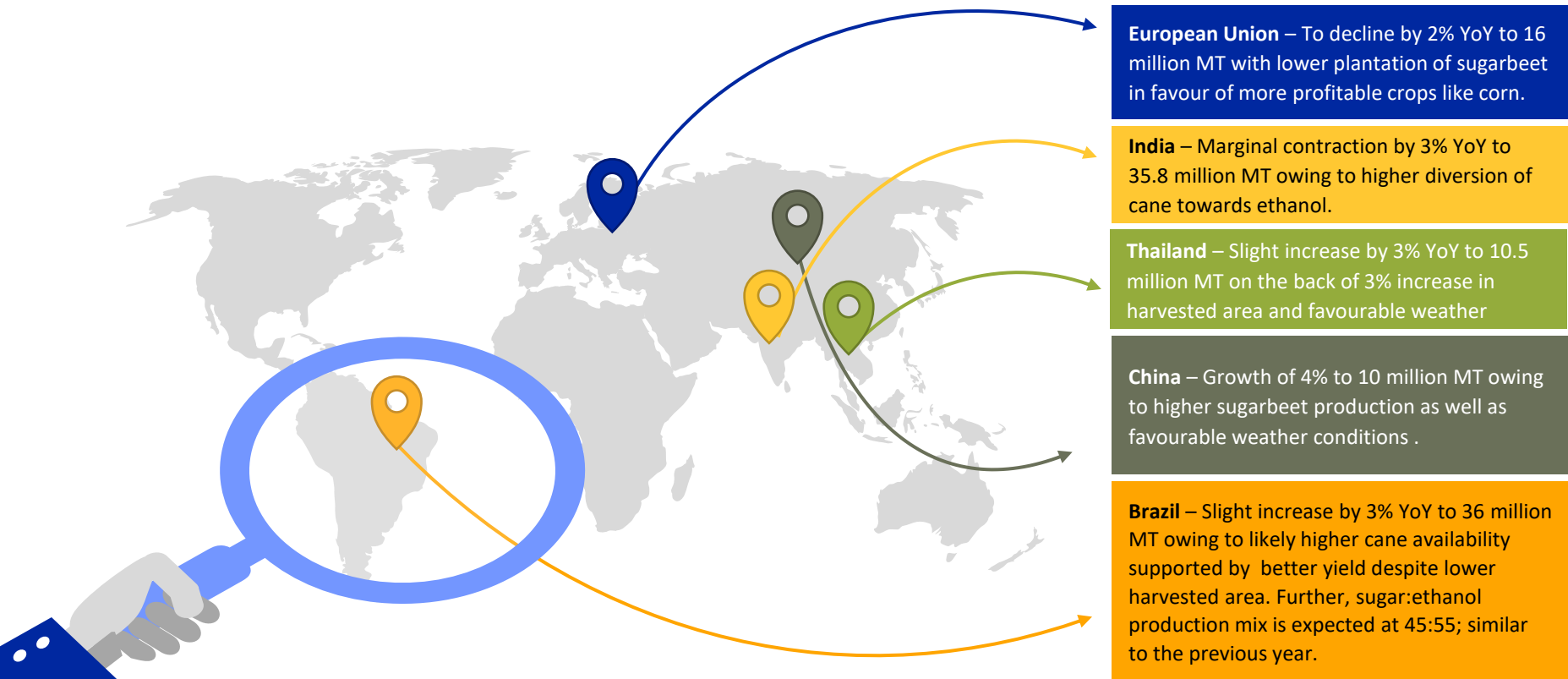


Source: USDA – May 2022

- With an annual production of 30-40 million MT, Brazil is traditionally the largest sugar-producing country followed by India. However, in 2021/22 India was the largest sugar-producer. Further, USDA forecasts global sugar production at slightly higher than previous year levels at 183 million MT in SY2022/23 supported by higher production expectations from Brazil, China and Russia, despite the decline in production from India and Ukraine.
- The USDA expects world's consumption to rise to a new record of 179 million MT in SY2022/23 (2% YoY growth) due to higher demand in markets such as India, China, Russia and Indonesia.

Note: Sugar year varies from country to country.

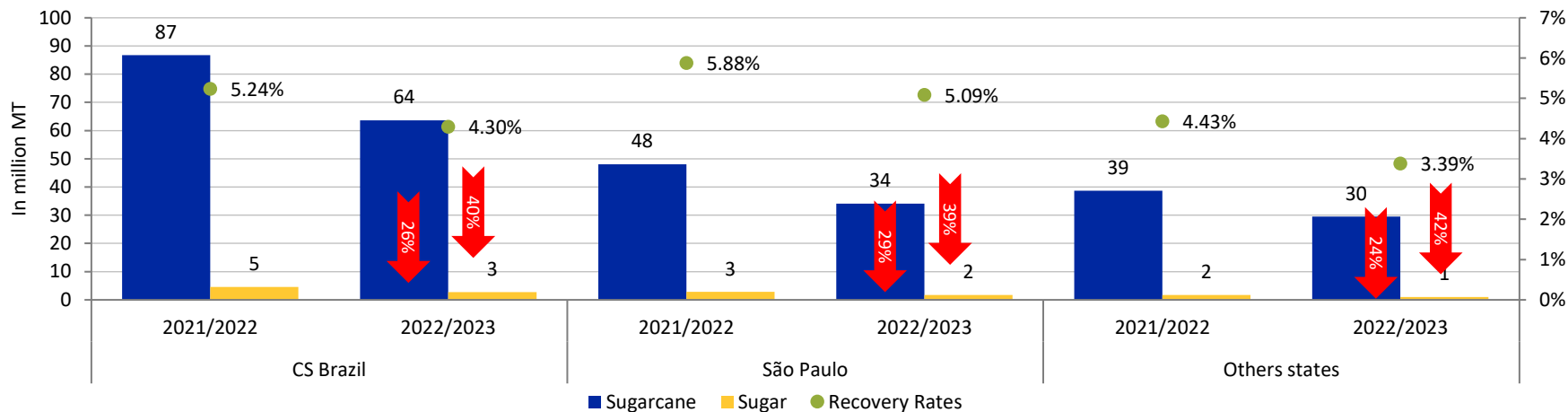
Key sugar-producing countries: Production dynamics for 2022/2023



Source: USDA (May 2022); Note: Sugar year varies from country to country.

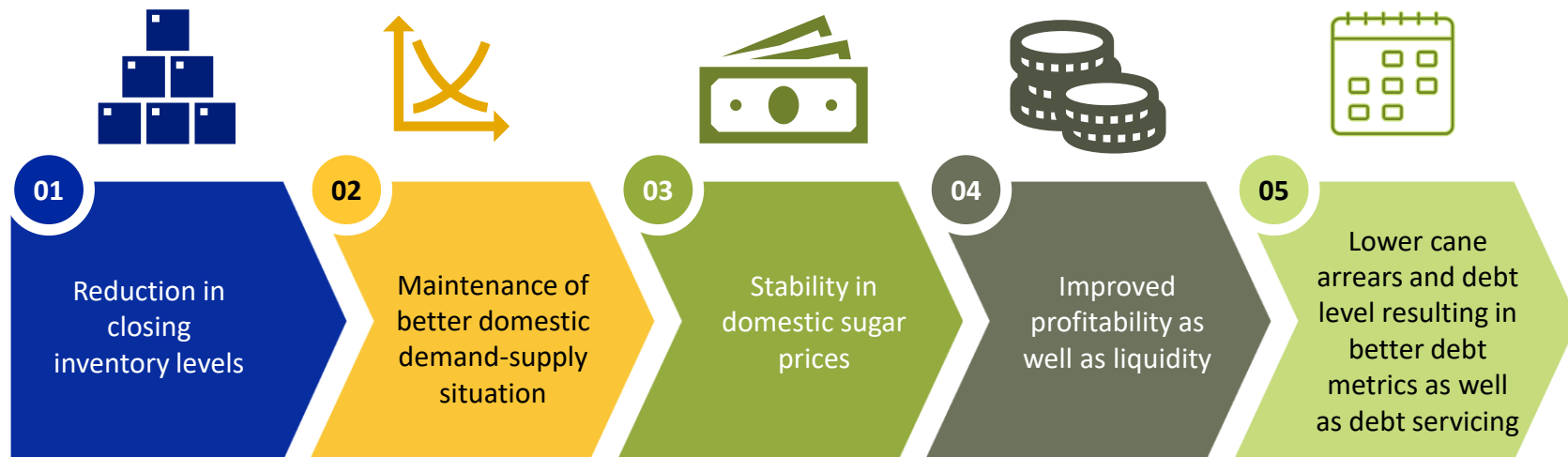
CS Brazil sugar production down in SY2022/23; global prices may remain elevated

Exhibit: Region wise Sugarcane and Sugar Production for last and ongoing sugar season (April 1 , 2022- May 16, 2022)



- UNICA reported a decline in both sugarcane and sugar production by 27% and 40% YoY for April-mid May 2022 respectively in South-Central region of Brazil (CS Brazil) which contributes over 90% of total Brazilian production. Lower sugar production in Brazil has resulted in firmed-up global sugar realisation.
- The contraction in sugar production was higher than the decline in production on account of increased diversion of sucrose towards ethanol in ongoing crushing season. The share of ethanol in CS Brazil increased to ~62% for April-mid May 2022 (PY:56%). This has also resulted in lower recovery rates of 4.3% in the current season (PY: 5.24%).
- While USDA forecasts a slight increase in Brazilian sugar production on YoY basis, the data released by UNICA for the current season till now suggests that Brazilian sugar production could be lower than the last season, which may keep the global prices at elevated levels in the near term.
- The crushing season in Brazil has just started and hence, the level of cane production as well as sucrose diversion towards ethanol going forward would have a bearing on global sugar prices.

Higher sugar exports strengthen the profitability and balance sheet of mills



India would witness sugar production higher by ~3.8 million MT in SY2022 (despite higher sucrose diversion towards ethanol) over the last season; however, increased level of exports would allow the sugar inventory to moderate from the previous season

Maharashtra and Karnataka more aggressive exporters given proximity to port

Exhibit: Comparison of current export realisations and domestic realisations in various states

Area	Current Net Export Realisation* (Rs./Quintal)	Current Domestic Realisation** (Rs./Quintal)
Uttar Pradesh	3,120-3,350	3,460 to 3,550
Maharashtra	3,320-3,520	3,310 to 3,340
Karnataka	3,320-3,520	3,315 to 3,350
Gujarat	3,320-3,520	3,371 to 3,411
Tamil Nadu	3,320-3,520	3,550 to 3,675

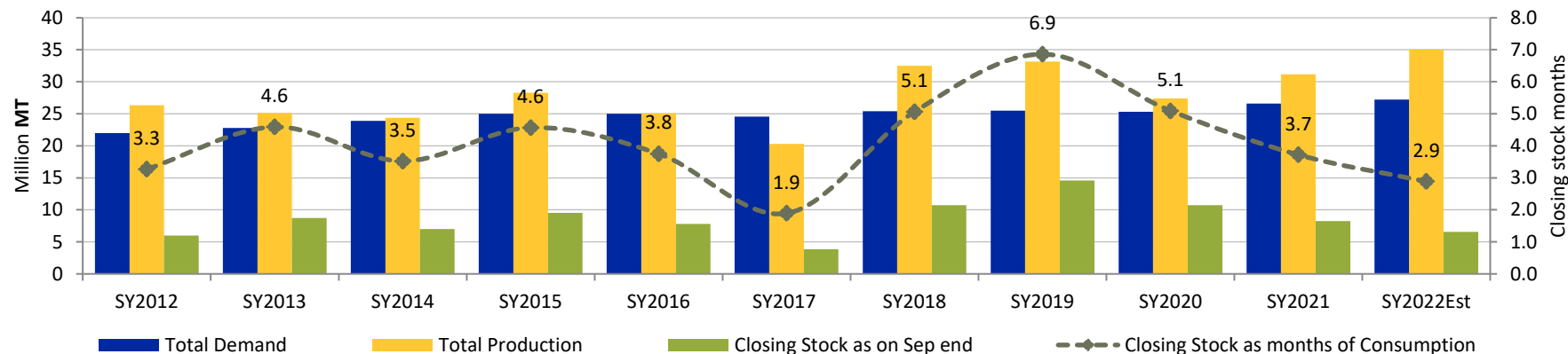
**Net of savings in production cost of raw sugar compared to domestic sugar and net of transportation cost*

*** Exclusive of GST*

The net export realisations for the sugar units are currently Rs. 1,000-2,500 per Quintal higher (net of savings in production cost of raw sugar compared to domestic sugar) than domestic realisations for mills located in Maharashtra and Karnataka, which has resulted in such high volumes being contracted for exports by mills located in these states.

Robust sugar exports to support closing inventory levels despite higher production

Exhibit: Yearly trends in sugar production, consumption and closing stock

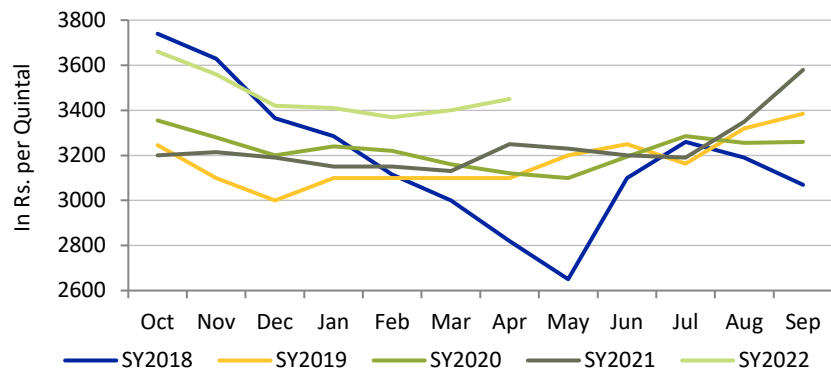


Source: ISMA, ICRA Research; SY: Sugar Year (from October 01 to September 30)

- As per recent estimates of ISMA, sugar production is estimated at around 35.0 million MT for SY2022 (PY: 31.2 million MT) after considering around 3.4 million MT (PY: 2.1 million MT) sugar sacrifices towards juice/B-heavy molasses-based ethanol (12.3% higher than SY2021 despite increased diversion towards ethanol). This is 5% higher than the last estimates of ISMA.
- With domestic consumption estimated at around 27.2 million MT (PY: 26.6 million MT) and exports expected at 9-9.5 million MT in SY2022 (PY: 7.1 million MT), the closing stock is expected at 6.5-7.0 million MT as on September 30, 2022 (PY: 8.2 million MT). This would be equivalent to 2.9-3.1 months of consumption (PY: 3.7 months), improving the domestic demand-supply balance compared to the previous season. Thus, domestic sugar prices are likely to remain firmed up in the near term.

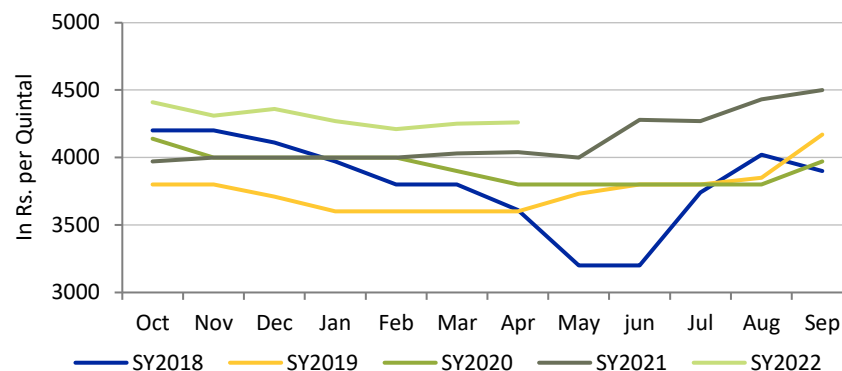
Gol restricts sugar exports to maintain domestic sugar price stability

Exhibit: Monthly trends in domestic sugar prices (UP ex-mill)



Source: ICRA Research

Exhibit: Monthly trends in domestic retail sugar prices at Allahabad

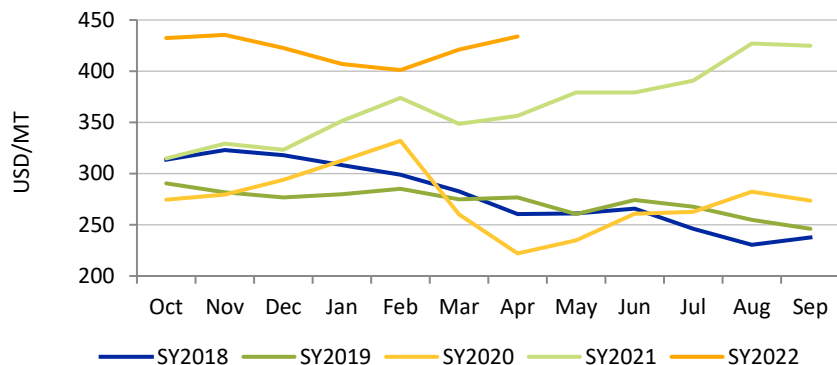


Source: ICRA Research, CMIE

- Domestic sugar prices (UP) rose to around Rs. 33.5/Kg in August 2021 (compared to ~Rs.32/Kg earlier), tracking the global price rise, besides limited domestic supply amid the onset of the festive season. Further, the uptick in prices continued during September-October 2021, when prices firmed up to Rs. 35.7-37.0/Kg in UP. However, the prices moderated in November 2021 to Rs. 35.6/Kg with the beginning of the ongoing crushing season and further declined to Rs. 33.6-34.2/Kg during December 2021- February 2022. Though, prices again improved to Rs. 34.0-34.5/Kg in March-April 2022 and are currently trending at around Rs. 35/Kg with higher seasonal demand (in summers), besides closure of crushing activities by most mills for SY2022.
- In line with the trend of UP ex-mills prices, retail prices rose in July-August 2021 and moderated during the crushing season. Currently the same is trending upwards. To maintain the sugar price stability, the Government imposed restriction on sugar sales with effect from June 1, 2022 till October 31, 2022.

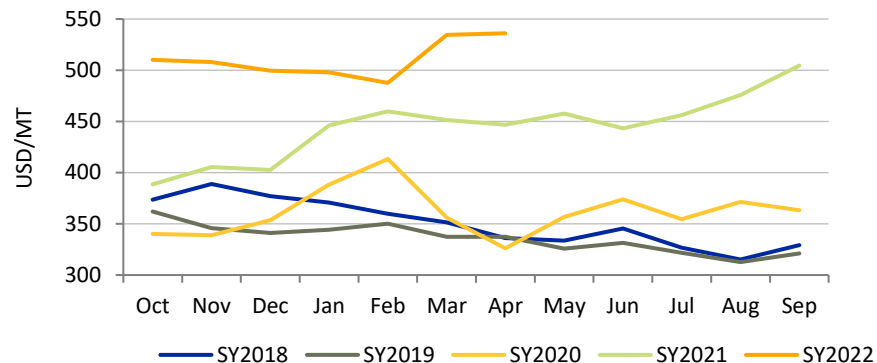
White sugar prices highest in last five years amid geo-political tensions

Exhibit: Trends in raw sugar prices



Source: USDA, ICRA Research

Exhibit: Trends in white sugar prices



Source: USDA, ICRA Research

- International prices of raw sugar firmed up to US\$434/MT in April 2022 compared to around US\$421/MT in March 2022 and US\$401-407/MT in January-February 2022, amid geo-political tensions with likely greater diversion towards ethanol in Brazil amidst high crude oil prices. Similarly, the prices of white sugar improved to ~US\$535-536/MT in March-April 2022 compared to around US\$488/MT in February 2022 and reached the highest level in the past five years.
- The premium between white sugar and raw sugar prices increased to US\$100-114/MT in March-April 2022 compared to US\$87-92/MT in January-February 2022.

Note: Average of nearest futures month prices on Intercontinental Exchange (ICE)



- While the current expectation of sugar exports is less than 10 million MT (level where GoI plans to cap), restriction on exports would ensure sufficient domestic supply of sugar till the beginning of the next crushing season
- It may limit sharp price movements in domestic market

Consumers



Sugar mills



- With large part of crushing season already over and majority of expected total exports (9-9.5 million MT) already contracted by now, this restriction on exports would not have any significant adverse impact on profitability and liquidity of sugar mills.



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