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INDIAN SUGAR SECTOR

Favourable international prices and increased diversion towards ethanol augur well for sugar industry

SEPTEMBER 2021

Agenda

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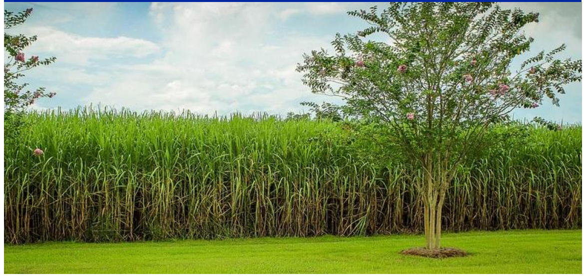

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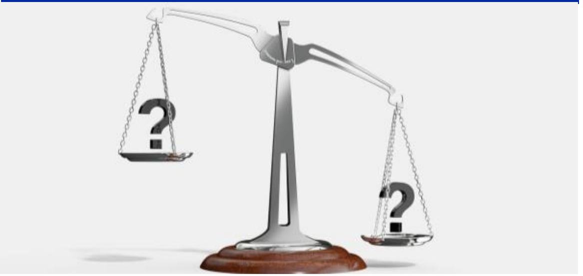

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Highlights

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

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 – The global sugar production for SY2022 was 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. However, recently UNICA reported a decline in sugarcane and sugar production in CS Brazil by 6.6% and 8.1% YoY respectively for April-mid September 2021 (ongoing sugar season). This has resulted in firming up of raw sugar prices to US$420-440/MT (19-20 cents/lb) in August-September 2021.

Domestic Sugar Prices – The domestic sugar prices remained rangebound within Rs. 31,800 – 32,500/MT during April–July 2021; however, the prices rose to around Rs. 33,500/MT in August 2021. The increase in prices can be attributed to lower domestic quota announced by the Government amid onset of the festive season. Further, the uptick in prices continued in September 2021 as well, whereby, the prices are estimated at Rs.35,000 –Rs.36,000/MT. An additional quota announcement in the last week of September 2021 is expected to have a moderating impact on prices.

Cane pricing – The sugarcane UP State Advised Price (UP-SAP) is expected to be hiked by Rs. 25/quintal while Fair and Remunerative Price (FRP) is increased by Rs. 5/quintal for SY2022. Thus, for SY2022, UP-SAP would be Rs. 350/quintal for early maturing variety and Rs. 340/quintal for normal variety while FRP would be Rs. 290/quintal. Further, this would result in higher sugar production cost by ~Rs. 2.18/Kg in UP and ~Rs. 0.5/Kg in FRP followed states.

**USDA - US department of Agriculture; The next release in expected in November 2021*
Note : The UP-SAP hike is expected on the basis of announcement by UP Chief Minister.

Highlights

Favaurable domestic and international sugar prices coupled with higher expected cane diversion towards ethanol would support the industry despite likely hike in cane prices.

Ethanol – All India average ethanol blending with petrol has slightly moderated to 7.98% as on September 19, 2021 compared to 8.06% as on August 16, 2021, however, has remained encouraging. Further, around 15 states have achieved 8-10% of ethanol blending in ongoing ESY.

Revenues – The revenues of ICRA sample are expected to grow by 5%-7% YoY in FY2022 supported by firmed up domestic and international sugar prices in addition to expected healthy sugar export and ethanol volumes. However, slight revenue de-growth is expected in FY2023 on YoY basis, owing to likely lower exports (if current global firmed up prices reverse by next fiscal coupled with low/nil government subsidy) despite higher volumes and realisations from distillery division.

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