ICRA

INDIAN SUGAR SECTOR

Increased diversion towards ethanol production and firmed up sugar realisations to boost performance of integrated mills in current fiscal

SEPTEMBER 2024

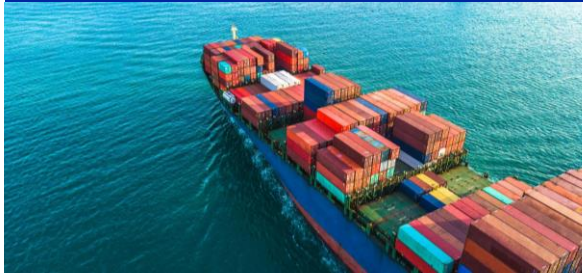
Agenda

ICRA

1 Industry Outlook

2 Domestic Demand – Supply Dynamics

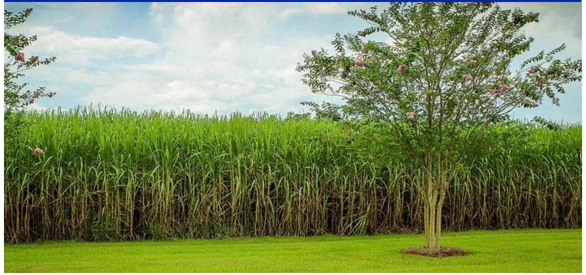
3 Indian Sugar Exports



4 World Sugar Balance

5 Trends in Sugar Prices

6 Domestic Cane Pricing



Agenda

7 Forward Integration

8 Ethanol Blending with Petrol

9 Co-generation

10 ESG Risks in Sugar Sector

11 Segment-wise Profitability Analysis

12 Projections of ICRA's sample set

Agenda

13 ICRA Ratings in the Sector

14 Peer Comparison

15 Industry Aggregates

Highlights

ICRA

Click to see full report

As per ICRA's estimate, net sugar production for SY2025 is likely to be lower than the current season, mainly due to the expected higher sugar diversion towards ethanol since the Government has removed the cap on the same; though sugar stock thereafter will remain comfortable.

Domestic prices remained in the range of Rs. 38-39/kg, with the closure of the crushing season and are expected to remain firm till the start of the next.

Sugar production – Net sugar production is expected to remain at 32.0 million MT, after diversion for SY2024*. Domestic sugar consumption is estimated at 28.5 million MT in SY2024; therefore, closing stock is expected to be around 9.0 million MT as on September 30, 2024 (significantly higher than the sugar stock of 5.6 million MT as on September 30, 2023). This would be equivalent to 3.8 months of consumption (PY: 2.4 months).

Sugar demand and closing stock – ISMA* projects gross sugar production of 33.3 million MT in SY2025 against 34 million MT in SY2024. After considering the ethanol diversion of 4 million MT since the Government has removed the cap on sugar diversion for ethanol, the net sugar production is likely to decline to 29.3 million MT. Since the closing sugar stock level is likely to remain moderately high, after diversion, the policy for allowing exports remains a key monitorable for the sector.

World sugar balance and international prices –The global production for SY2024-25 is expected to remain at 186 million MT (1% higher than last year), while the consumption is expected to remain higher at 179 million MT (1% higher than last year). International prices of raw sugar declined to $406/MT in August 2024 over $425/MT in July 2024 while prices of white sugar declined to $522/MT in August 2024 over $549/MT in July 2024. The premium between white and raw sugar stood at $116/MT in August 2024—lower than $124/MT in July 2024.

Domestic sugar prices – Domestic sugar prices (UP) have remained in the range of Rs. 38-39/kg with the closure of the crushing season and are expected to remain firm till the start of the next, mainly due to the onset of the festivities.

**ISMA: Indian Sugar Mills Association; ; SY: Sugar Year (from October 01 to September 30)*

Highlights

Operating profits in FY2025 are expected to remain comfortable supported by healthy sugar realisations, factoring in higher cane prices for SY2025. Further, removing cap on sugar diversion for ethanol production as well as allowing FCI rice for grain-based distilleries will support the margin of integrated sugar mills.

Cane pricing – For SY2024, the UP-SAP* of sugarcane increased by Rs. 20/quintal to Rs. 370/quintal from Rs. 350/quintal for the early maturing variety and Rs. 360/quintal from Rs. 340/quintal for the normal variety. For SY2024, the FRP* was increased by Rs. 10 to Rs. 315/quintal for a basic recovery rate of 10.25%. Further, for SY2025, the FRP was increased by Rs. 25 to Rs. 340/quintal for a basic recovery rate of 10.25%.

Ethanol – In July 2024, India achieved an ethanol blending ratio of 15.80% and cumulative ethanol blending during November 2023-July 2024 stood at 13.3%. For ESY2024, 647 crore litres of ethanol have been contracted, of which 461 crore litres have been supplied till July 2024.

Revenues – The revenues of ICRA's sample set are expected to show growth of around 8-10% in FY2025 supported by higher sugar sales volumes, coupled with firmed up domestic sugar prices along with higher distillery volumes.

Profitability – The operating margin for the sample set is likely to remain in the range of 11.5-12% in FY2025, slightly lower than the previous year mainly due to lower margins expected to be reported by sugar companies in H1 FY2025, though H2 FY2025 is expected to show significant improvement supported by higher distillery sales with removal of cap on sugar diversion for ethanol production as well as allowing Food Corporation of India (FCI) rice for grain-based distilleries.

Working capital and debt – With higher sugar sales volumes along with higher diversion expected towards distilleries, the closing inventory is expected to decline in FY2025. The borrowings of ICRA's sample set are likely to improve, going forward. Further, with accretion of profits along with repayments of distillery loans, the capital structure is expected to remain comfortable. With healthy operating profits and comfortable debt levels, the coverage metrics would remain satisfactory, despite increased cost of funding.

*Source: ICRA Research; Note: ICRA Sample; *UP-SAP- Uttar Pradesh State Advised Price, FRP- Fair and Remunerative Price*

Analytical Contact Details

Name	Designation	Email	Contact Number
Girishkumar Kadam	Senior Vice-President	girishkumar@icraindia.com	022 – 61143 441
Vikram V	Vice-President	vikram.v@icraindia.com	040 – 4547 4829
Rachit Mehta	Vice-President	rachit.mehta2@icraindia.com	022 – 6169 3328
Menka Sabnani	Senior Analyst	menka.sabanani@icraindia.com	079 – 6923 3003

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

ICRA

Thank You!