

INDIAN SUGAR SECTOR

Margin gains to be modest if ethanol prices remain stagnant in FY2026

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India's sugar output is expected to rebound in SY2026, driven by improved crop quality. This was supported by higher proportion of plant cane and adequate water availability.

Domestic sugar prices are expected to remain firm until the start of the next season.



Sugar production – For SY*2025, sugar production stood at 25.82 million MT till July 2025, marking a year-on-year decline of 18.38% over the corresponding period in the previous fiscal. This was mainly due to the decline in output in major sugar-producing states. Special crushing operations are currently under way in Karnataka and Tamil Nadu (June to September) and is expected to add some extra tonnes to the overall production.



Sugar demand and closing stock – As per ISMA's* preliminary estimates, gross sugar production for SY2026 is to increase by 18% at 34.9 million MT (P.Y. 29.5 million MT). Net sugar production, after estimated diversion of 4 million MT towards ethanol production, is likely to remain around 30.9 million MT. Considering the domestic consumption of 28 million MT and export of 1 million MT similar to SY2025, the closing sugar stock is projected to remain around 7.0 million MT (5.1 million MT), which is about three months of consumption, indicating a comfortable demand-supply scenario.



World sugar balance and international prices – The global production for SY2024-SY2025 is expected to remain at 189.3 million MT (5% higher than last year), while consumption is likely to remain higher at 177.9 million MT (1% higher than last year). International prices increased marginally with raw sugar prices of \$360/MT in July 2025 compared to \$357/MT in June 2025, while prices of white sugar stood at \$472/MT in July 2025 compared to \$471/MT in June 2025. The premium between white and raw sugar stood at \$112/MT in July 2025—lower than \$114/MT in June 2025.



Domestic sugar prices – Domestic sugar prices (Uttar Pradesh) remained firm at Rs. 40/kg in August 2025 improved from Rs. 39/kg in July-June 2025. Prices continue to hold steady with the expected decline in sugar production in the current season.

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

Operating profits in FY2026 are expected to improve in the range of 10-10.5% for ICRA's sample set over 9.5% in the previous year, mainly supported by likely increase in cane availability and firmed up sugar prices along with healthy performance estimated in the distillery segment.



Cane pricing – For SY2025, the FRP* was increased by Rs. 25 to Rs. 340/quintal for a basic recovery rate of 10.25% while UP-SAP* remained unchanged at Rs. 370/quintal for the early maturing variety and Rs. 360/quintal for the normal variety.



Ethanol – In 9M ESY2025*, India achieved a cumulative ethanol blending ratio of 19.1% while the July 2025 blending rate was the highest at 19.9%. For 9M ESY2025, 749 crore litres have been blended.



Revenues – The revenue growth for ICRA's sample set of integrated sugar mills is likely to show moderate revenue growth of 5-8% in FY2026 supported by higher distillery sales volumes along with firmed up domestic sugar prices.



Profitability – The operating margin for ICRA's sample set is likely to improve in FY2026 supported by higher distillery sales along with firmed up domestic sugar prices. Since cane prices have increased, ethanol price revision is warranted to maintain healthy profitability.



Working capital and debt – The borrowings of ICRA's sample set are likely to moderate in FY2026. Further, with accretion of profits along with repayments of distillery loans, the capital structure is estimated to remain comfortable. The coverage metrics of ICRA's sample set in FY2026 are expected to improve mainly due to lower interest expense along with improvement in operating profits.

Note: ICRA's sample set was considered for the analysis; * FRP – Fair and Remunerative Price; UP-SAP – Uttar Pradesh State Advised Price; ESY – Ethanol Supply Year



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