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INDUSTRY OUTLOOK

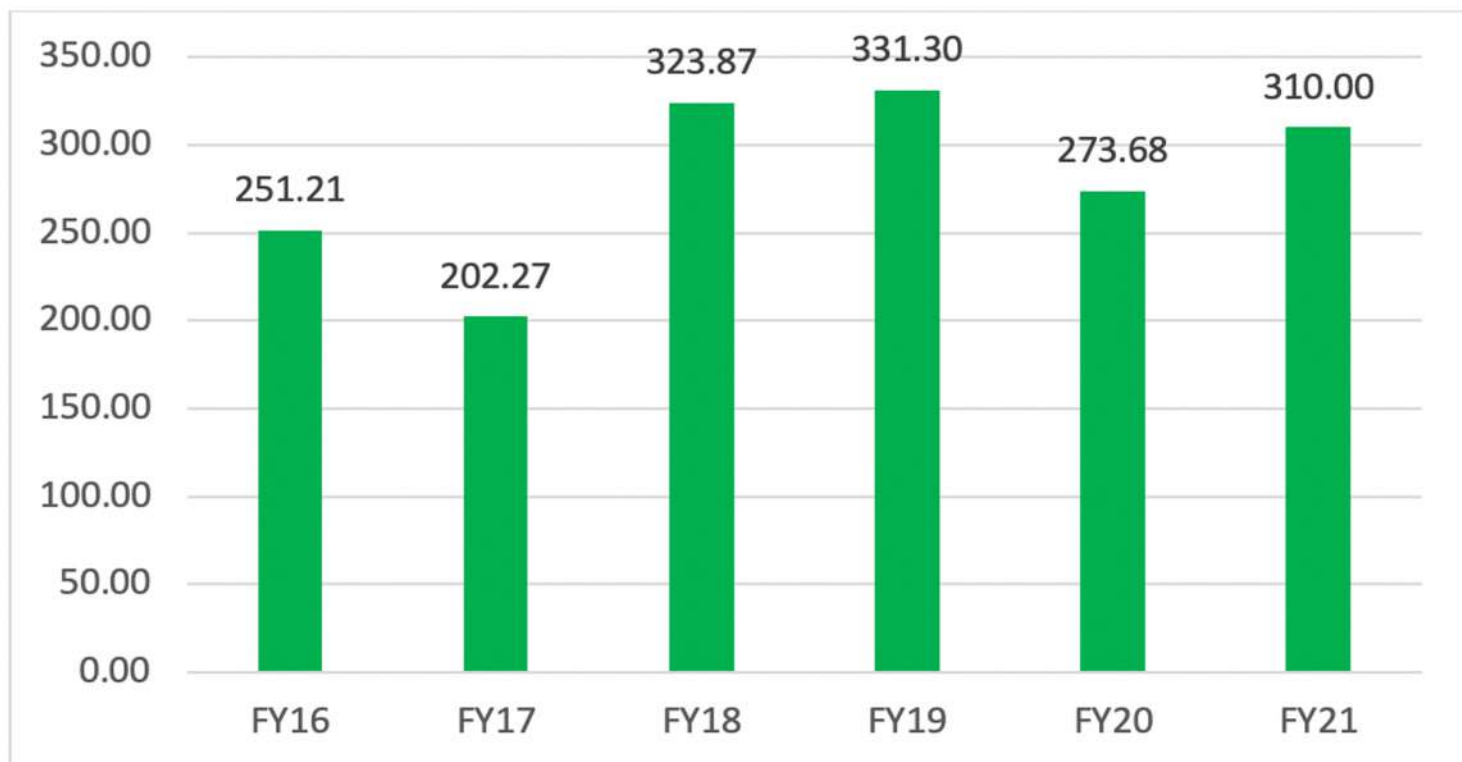
SUGAR INDUSTRY OF INDIA: OUTLOOK AND CHALLENGES

30 September 2021

Introduction

India is the largest consumer and the second largest producer of sugar in the world after Brazil. The sugar sector is an important agro-based sector that impacts the livelihood of about 5 crore sugarcane farmers and their dependents and around 5 lakh workers directly employed in sugar mills, apart from those employed in various ancillary activities including farm labour and transportation. Some recent production figures are given in the figure (Figure 1) below. The sugar production for the sugar season (SS) (calculated from Sept. – Oct.) 2021 has been 310 lakh metric tonnes (LMT) or 31 million tonnes.

Figure 1: Sugar Production (in lakh metric tonnes)



Source: Department of Food and Public Distribution, Annual Report (2020-21).
Available at <https://dfpd.gov.in/annual-report.htm>

According to the India Report (April 2021) by the Foreign Agricultural Service (FAS), USDA, India's centrifugal sugar production is estimated at 34.7 million metric tons (MMT) in marketing year (MY) 2021/2022 (October-September), increasing three percent above the previous season.

This forecast includes 600,000 metric tons (MT) of khandsari [1] and 34.1 MMT of milled sugar (equivalent to 31.8 MMT of crystal white sugar). Sugar production in Uttar Pradesh has been revised downward to 11.3 MMT from the earlier forecast of 12.3 MMT (see Table 1 below) due to reported pest and relatively higher diversion of stocks toward ethanol production. The production decline in Uttar Pradesh will be offset by gains in Maharashtra of 10.4 MMT, and Karnataka at 4.3 MMT that will maintain annual centrifugal sugar production at 31 MMT. India's on-going revival of closed and non-operational sugar mills in the states of Uttarakhand, Bihar, and Karnataka may also support additional sugar production.



Table 1: Statewise Mill Sugar Production in India, (in Million Metric Tonnes, MMT), Crystal Weight Basis

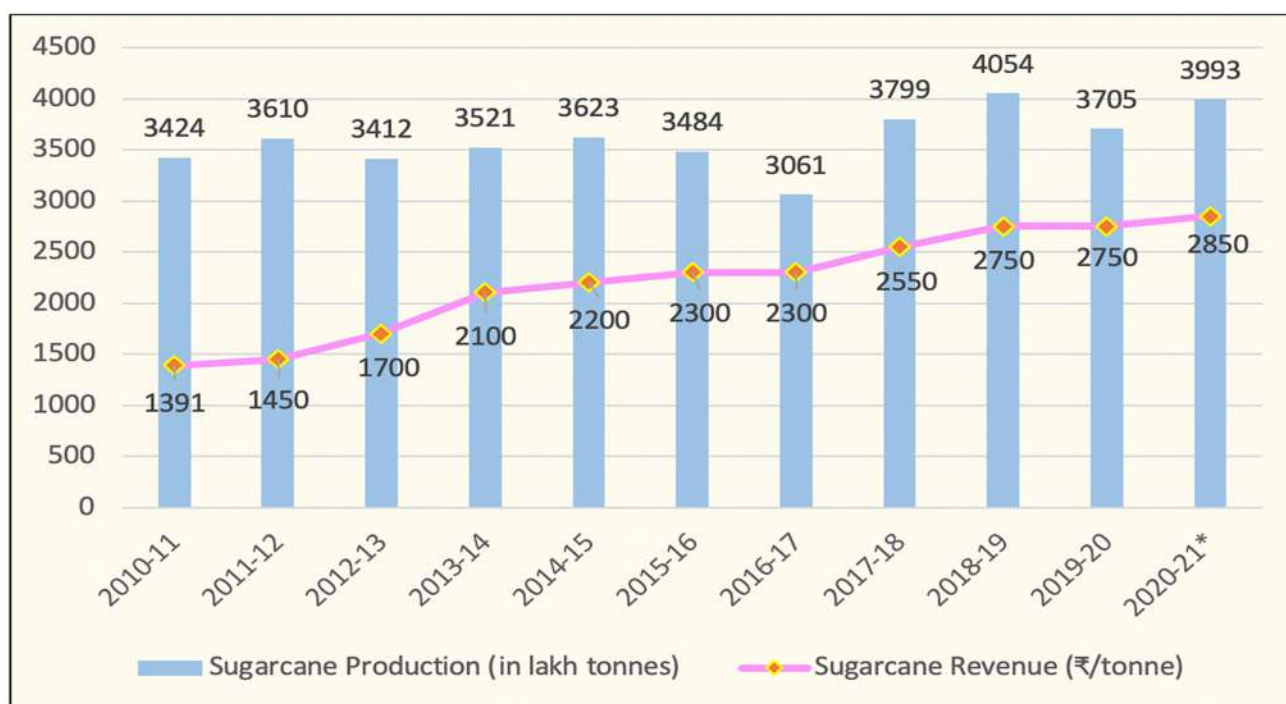
Sl No.	State	2019-20 (Revised)	2020-21 (Estimate)	2021-22 (Forecast)
1	Andhra Pradesh	0.6	0.5	0.5
2	Bihar	0.6	0.7	0.7
3	Gujarat	0.9	1.0	1.0
4	Haryana	0.7	0.6	0.5
5	Karnataka	3.3	4.3	4.4
6	Maharashtra	6.3	10.4	10.1
7	Punjab	0.8	0.6	0.5
8	Tamil Nadu	0.8	0.8	0.9
9	Uttar Pradesh	12.1	11.3	12.3
10	Others	0.9	0.8	0.9
Total		27	31	31.8

Source: Marketing Years* (MYs) 2019/20 and 2020/21, FAS/New Delhi estimate. MY 2021/22, FAS/New Delhi forecast.

(*A Marketing Year or MY is a period of one year (or sometimes less), designated for reporting and (or) analysis of production, marketing and disposition of a commodity. (Disposition of an agricultural crop might include such uses as food, animal feed, industry, seed, and export, as well as changes in stocks.)

The sugarcane production, on the other hand, has also been decent enough and constantly rose in terms of revenue. The same is depicted below (see Figure 2). As can be seen, the sugarcane revenue has more than doubled in the last decade rising from ₹1391/tonne in SS2011 to ₹2850/tonne in SS2021.

Figure 2: Sugarcane Production and Revenue for various Sugar Seasons



*Note – Fourth Advance Estimates of Production of Oilseeds and Commercial Crops for 2020-21.

Source: Directorate of Economics and Statistics, Ministry of Agriculture and Farmers Welfare.

Available at https://eands.dacnet.nic.in/Advance_Estimates.htm and Indian Sugar Mills Association (ISMA).

Export-Import Scenario

According to All India Sugar Trade Association (AISTA), mills have exported a total of 5.11 million tonnes of sugar from January 1 till August 5, 2021. Of the total exports undertaken so far, maximum exports have been undertaken to Indonesia at 1.69 million tonnes so far this year, followed by Afghanistan at 6,23,967 tonnes and the UAE at 4,60,816 tonnes and Sri Lanka at 3,78,280 tonnes. [2] Some recent figures of export-import are provided in the table below (Table 2).

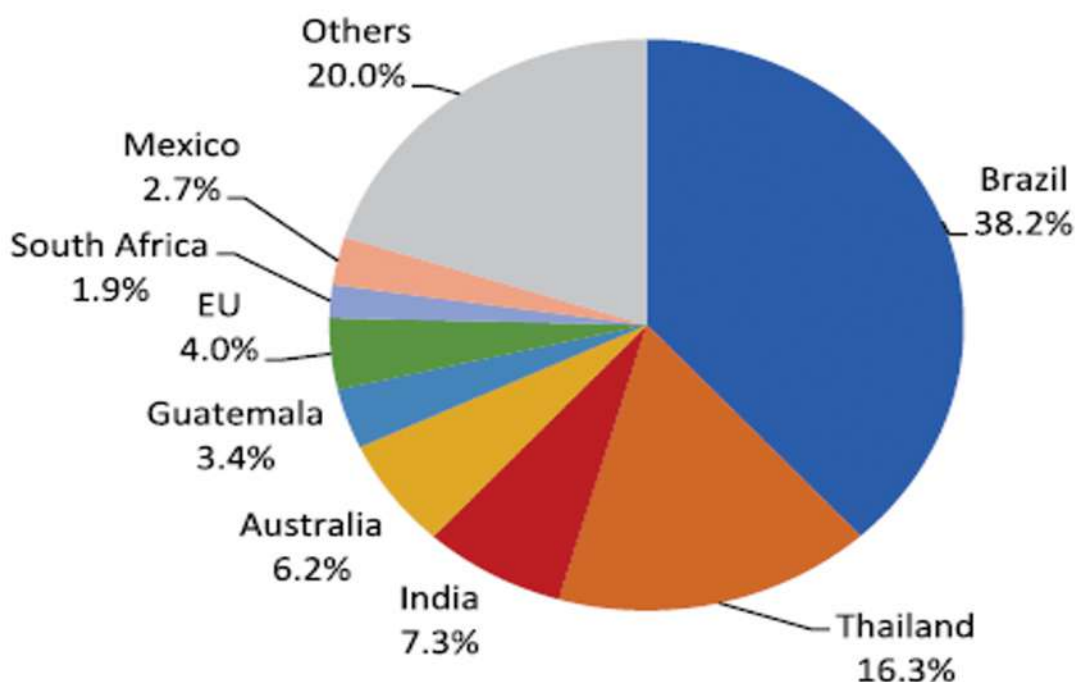
Table 2: Season-wise Export and Import of Sugar (in Lakh Metric Tonne)

Year	Export	Import
2015-16	37.98	19.06
2016-17	21.3	26.82
2017-18	20.77	20.66
2018-19	46.94	11.61
2019-20	59.58	0.07
2020-21	54.32	-

Source: Department of Food and Public Distribution. Available at <https://dfpd.gov.in/writereaddata/Portal/Magazine/Untitled202108021835556.pdf> and <https://dfpd.gov.in/writereaddata/Portal/Magazine/Untitled202108021835557.pdf>

It is also important to know the major exporting and importing nations that control the demand-supply of the world market. A snapshot of the same is given in the figures (Figure 3 & 4) below.

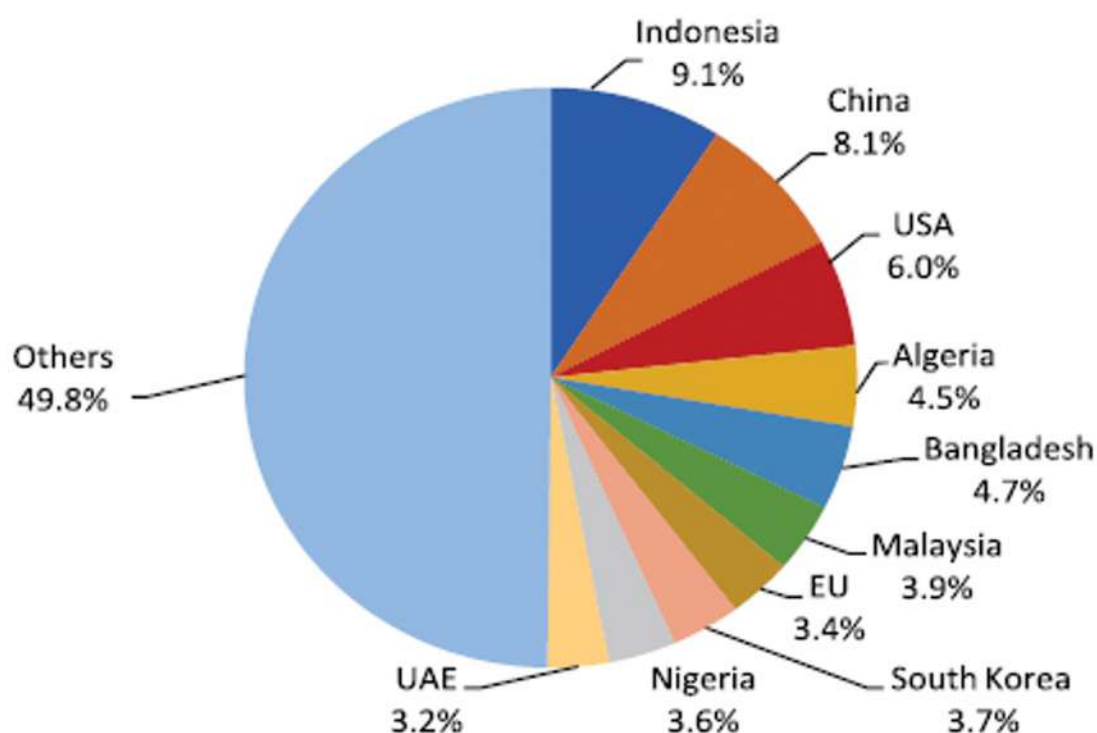
Figure 3: Major Exporters of Sugar Triennium Ending 2019-20



Source: Commission for Agricultural Costs and Prices (CACP 2021-22), Department of Agricultural Cooperation and Farmers Welfare, Ministry of Agricultural and Farmers Welfare. Available at <https://cacp.dacnet.nic.in/KeyBullets.aspx?pid=41>

Brazil exports more than one-third of the total exports of sugar to the world. India, being the second largest producer, ranks 3rd behind Thailand in share in total exports.

Figure 4: Major Importers of Sugar Triennium Ending 2019-20



Source: Commission for Agricultural Costs and Prices (CACP 2021-22), Department of Agricultural Cooperation and Farmers Welfare, Ministry of Agricultural and Farmers Welfare. Available at <https://cacp.dacnet.nic.in/KeyBullets.aspx?pid=41>

Indonesia, China, and the USA are one of the largest importers of sugar together constituting more than one-fifth of the total sugar imported.

Government Initiatives

The government has been largely supportive when it comes to the sugar industry from increasing Fair and Remunerative Price (FRP) to increasing Minimum Support Price (MSP) to promoting efficient ways of fuel production to the likes of ethanol. Some recent developments undertaken by the government include:



Sugar Export Policy for Evacuation of Surplus Stocks during Sugar Season 2020-21

With a view to facilitating export of sugar during the SS2021 thereby improving the liquidity position of sugar mills enabling them to clear cane price dues of farmers for sugar season 2020-21, the Government of India (GoI) notified a scheme for providing assistance to sugar mills for expenses on export of 60 LMT of sugar to the extent of Maximum Admissible Export Quantity (MAEQ) for SS2021. Under the scheme, the government would be providing a lump sum assistance of ₹6000 per metric tonne to sugar mills to facilitate the export for which an estimated expenditure of ₹3500 crore would be borne by government. [3]

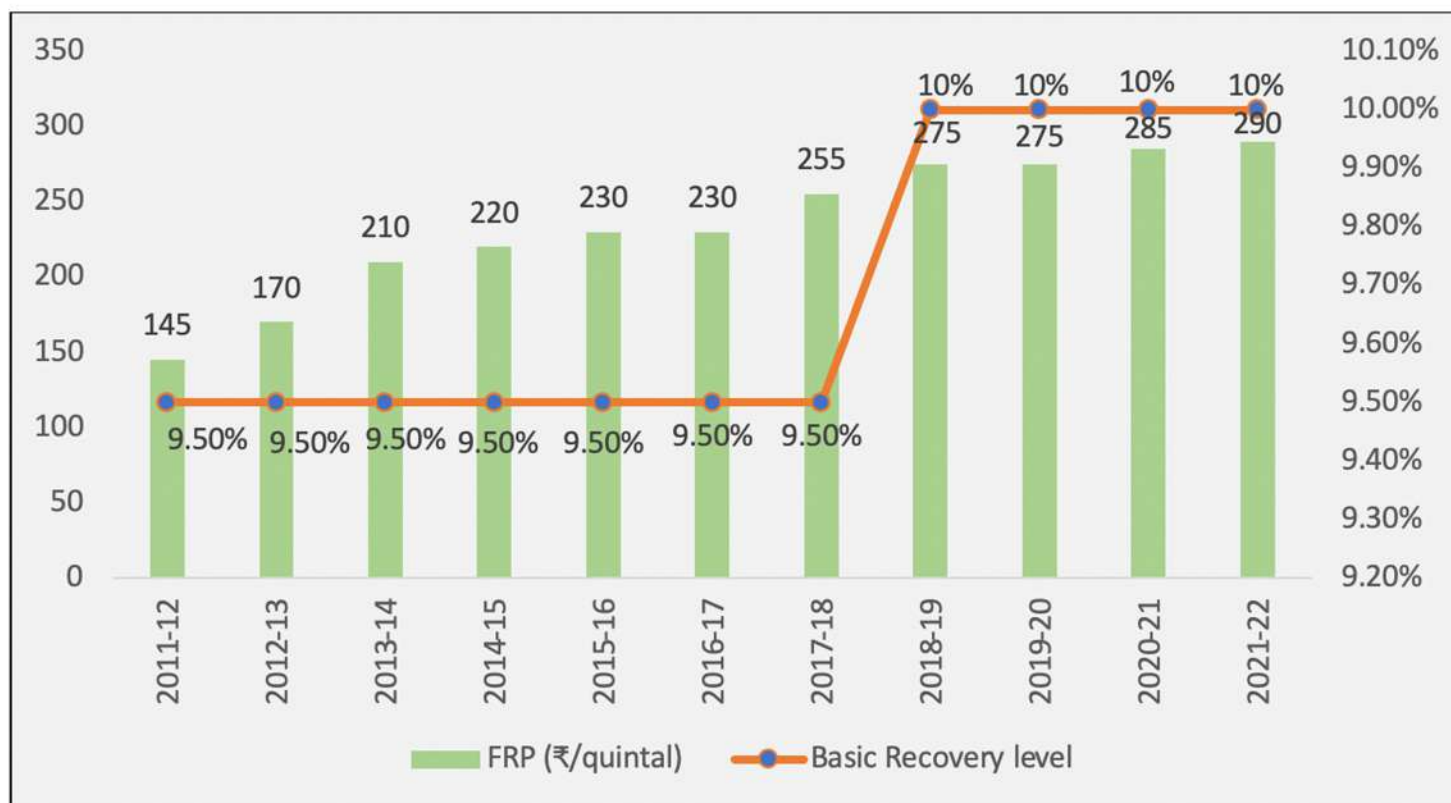
Diversion of Excess Sugar to Ethanol & Augmentation of Ethanol Production Capacity under Ethanol Blended with Petrol (EBP) Programme

With surplus stock of roughly 60 LMT since the last three sugar seasons (with production of roughly 320 LMT compared to consumption of roughly 260 LMT), the excess supply created problems for the industry and affected the liquidity position of sugar mills and consequently affected the timely payment of cane price to the farmers. The Central Government, in its National Bio-fuels Policy, 2018, mandated for 10 per cent blending of ethanol into motor fuel by 2022 and 20 per cent by 2030. Due to these interventions, ethanol supply has almost reached from 38 crore litres (with 1.53 per cent blending with petrol) in 2013-14 to 172 crore litres (with 5 per cent blending with petrol) in 2019-20.

Planning has been done to supply 325 crore litres of ethanol (with estimated 8.5 per cent blending with petrol) in 2020-21. In this vein, for the current SS2021, more than 20 LMT of sugar is likely to be diverted towards ethanol production whereas in the next SS2022, about 35 LMT of sugar is estimated to be diverted towards the same, with a plan to divert about 60 LMT of sugar by 2024-25. [4]

Fair and Remunerative Price (FRP)

FRP for sugarcane has been revised for SS2022 at ₹290/quintal for a basic recovery rate of 10 per cent, providing a premium of ₹2.90/quintal for each 0.1 per cent increase in recovery over and above 10 per cent, & reduction in FRP by ₹2.90/quintal for every 0.1 per cent corresponding decrease. No deduction is to be made in case of sugar mills where recovery is below 9.5 per cent. In such case, farmers will get ₹275.50/quintal for sugarcane in ensuing SS2022 in place of ₹270.75/quintal in current SS2021.[5] The figure below (Figure 5) gives the FRP and recovery level for various sugar seasons.



Source: https://dfpd.gov.in/gen_policy.htm

The Fair and Remunerative Price (FRP) is fixed by the Gol, based on the cost of production of sugarcane and an element of assured profit. From the above Figure (Figure 5), it can be observed that while the FRP was increased relatively substantially up to 2013-14, it has been again raised substantially from 2016-17 onwards until 2018-19, and as explained above in August 2021.

Industry Risk

Minimum Support Price (MSP) Hike

The government has taken care of the interests of the sugarcane farmers but the concerns of the sugar mills also need to be addressed. The industry body Indian Sugar Mills Association (ISMA) has been pressurizing the government to increase the MSP for sugar to possibly ₹35/kg from the current ₹31/kg. The procurement of sugarcane which contributes 70-75 per cent of sugar mills costs has seen a continuous rise in its price. On the contrary, the MSP of sugar had remained static for more than 30 months (though FRP for cane was increased by ₹10 a quintal during the SS2021).

The increase in MSP, as per ISMA, would be adequate to cover the increase in cane FRP and cost of producing sugar. [6] The table below (Table 3) lays out the details of the ex-mill price received by the industry.

Table 3: Ex-Mill and Retail Sugar Price

Year	Ex-Mill Price Range (₹/quintal)	Retail Price Range (₹/kg)
2015-16	2350-3500	31-41
2016-17	3391-3731	41-44
2017-18	2670-3660	36-43
2018-19	3050-3400	35-40
2019-20	3493-3794	38-41
2020-21	3050-3420	37-42.5

Source: Department of Food and Public Distribution.

Available at <https://dfpd.gov.in/writereaddata/Portal/Magazine/Untitled202108021835555.pdf>

Trade-off between Ethanol Blending and Price Hike

India is pushing for its cars to run on ethanol made from sugar and is planning to divert as much as 6 million tons of sugar towards it, an amount roughly equivalent to its sugar exports. A target for blending 20 per cent ethanol in gasoline by 2025 is set. The advantages range from reduced air pollution, reduced oil import bills, soaked domestic sugar glut and increased investment in rural areas. However, the government faces a risk of surge in sugar prices, thereby exacerbating inflationary pressures. India would like to avoid this situation because the macro-economy is already characterized by high inflation rates. [7]

State Advised Price (SAP) or Fair and Remunerative Price (FRP)

Some state governments announce the SAP higher than the FRP fixed by central government, which distorts sugarcane and sugar economy leading to cane price arrears. Tamil Nadu has discontinued announcing SAP from 2018-19 season whereas, Uttar Pradesh, Haryana, Punjab, and Uttarakhand announce SAP and it ranged from ₹300/quintal in Punjab to ₹335/quintal in Haryana compared to FRP of ₹275/quintal in 2019-20. The Commission for Agricultural Costs and Prices (CACP) [8] recommended doing away with the State Advised Price (SAP) by the state governments. But in case state governments continue with SAP, they should pay the difference between SAP and FRP directly to farmers through Direct Benefit Transfer. The report held: "The main reason for accumulation of cane price arrears was longer period of low and depressed sugar prices driven by subdued demand and surplus sugar stocks in both domestic and world markets. The problem is accentuated by the fact that some States announce State Advised Price (SAP), higher than FRP. The Commission recommends that the State Governments should stop fixing SAP and if some States want to continue with SAP, the respective State Government should directly transfer the difference between SAP and FRP to cane farmers through Direct Benefit Transfer (DBT)."[9]

The Commission further noted that the statutory provision of Sugarcane (Control) Order, 1966, mandates payment to the farmers within 14 days from the date of supply of sugarcane but is rarely complied by the mills as sale of sugar is spread throughout the year. The mills take loan from the banks to make payment to farmers and incur a huge interest cost. The Commission recommends amending Sugarcane (Control) Order, 1966 to allow cane payment in installments and payment of additional cane price to growers on account of interest cost saving by sugar mills.

Cane Arrears

As on March, 2021, India's cumulative arrears (debt) stood at USD 2.58 billion (₹ 190.6 billion) of which 89 percent is yet to be cleared in Marketing Year (MY)[10] 2020/21. The pending arrears for MY 2019/20 and MY 2018/19 were \$239 million and \$55 million, respectively. Uttar Pradesh, Karnataka, and Maharashtra account for 77 percent of the cumulative outstanding dues (see Table 4 below). During February 2021, the cane dues to be paid by Sugar Mills to the farmers increased by 19.27 per cent to ₹ 22,900 crore (till February of the 2020-21 season from the year ago period) due to subdued sugar prices which affected the liquidity of sugar mills. As discussed earlier, it was expected that the GoI to increase the MSP for the improvement of the revenue realisation of mills and timely payment to the farmers.

Table 4: Statewise Outstanding Cane Arrears (in ₹ crores)

State	2018-19	2019-20	2020-21	Total	Per Cent Share (%)
Uttar Pradesh	0	1406	7555	8961	47%
Karnataka	11	49	3585	3645	19%
Maharashtra	118	0	2030	2148	11%
Gujarat	0	0	1044	1044	5%
Haryana	0	4	670	674	4%
Punjab	0	137	576	713	4%
Others	281	170	1423	1874	10%
Total	410	1766	16883	19060	100%

Source: "Sugar Annual:India"(April2021)Foreign Agricultural Service, USDA;
https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Sugar%20Annual_New%20Delhi_India_04-15-2021.pdf

The Way Forward

The government has been proactive in case of the sugar industry because of its size and the number of livelihoods associated with it. We are cautiously optimistic about the future of the sugar industry but there continue to be some persisting concerns. These concerns necessitate a resolution of the vexed issues of FRP and MSP with a sense of urgency. The report suggests that recommendations of the Commission for Agricultural Costs and Prices (CACPC) need to be explored and examined by the stakeholders and the problems highlighted therein should be resolved, wherever possible taking in confidence the market players. High international prices have also helped in firming up domestic sugar prices.

Slower sales by India, which is estimated to have almost 9 million tons in reserves next month, may drive up the global market prices again, particularly in the light of the fact that after drought and frost damaged crops in top grower Brazil. This is why sugar futures recently reached a four-year high in New York.[11]

The domestic prices rose by ₹ 400-500 per quintal prior to the festive season, which was also due to increasing demand for the Indian sugar in global market. Despite some volatility, the White Sugar price Index remained range bound during 1 September to 7 September 2021.[12] Also, conventionally maximum sugar consumption is observed during August-October each year.



ENDNOTES

1. Khandsari is a domestic low-recovery sugar prepared by open-pan evaporation.
2. "India's sugar exports touch 5.11m tonnes so far this year: AISTA", The Hindu Business Line (12th August 2021). Available at <https://www.thehindubusinessline.com/markets/commodities/indias-sugar-exports-touch-511m-tonnes-so-far-this-year-aista/article35873356.ece>
3. Department of Food & Public Distribution, Ministry of Consumer Affairs, Food & Public Distribution, Annual Report (2020-21). Also see <https://pib.gov.in/PressReleasePage.aspx?PRID=1747382>
4. Ibid.
5. See <https://pib.gov.in/PressReleasePage.aspx?PRID=1748836> for details.
6. "Mills demand higher MSP for sugar", The Hindu (25th August 2021). Available at <https://www.thehindu.com/business/mills-demand-higher-msp-for-sugar/article36107474.ece> and "Indian Sugar Mills Association urges PM Modi to immediately hike sugar MSP", Financial Express (4th September 2021). Available at <https://www.financialexpress.com/market/commodities/indian-sugar-mills-association-urges-pm-modi-to-immediately-hike-sugar-msp/2323544/>
7. "India wants ethanol to fuel its cars, but food inflation is a major risk", Business Standard (6th August 2021). Available at https://www.business-standard.com/article/economy-policy/india-wants-ethanol-to-fuel-its-cars-but-food-inflation-is-a-major-risk-121080600240_1.html
8. "Price Policy for Sugarcane for Sugar Season 2021-22", Commission for Agricultural Costs and Prices, Department of Agriculture, Co-operation of Farmers Welfare, Ministry of Agriculture and Farmers Welfare.
9. "Price Policy for Sugarcane for Sugar Season 2021-22", Commission for Agricultural Costs and Prices, Department of Agriculture, Co-operation of Farmers Welfare, Ministry of Agriculture and Farmers Welfare.
10. A Marketing Year (MY) is a period of one year (or sometimes less), designated for reporting and (or) analysis of production, marketing and disposition of a commodity.
11. "India sugar mills pause export deals in bet price will rise more"- Economic Times-Sep 23, 2021.
12. See the link <https://www.isosugar.org/prices.php> accessed on 9 September 2021.



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