



INDIAN SUGAR SECTOR

**Exports remain unlikely for SY2024
as El Nino fears loom**

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Exports remain unlikely for SY2024 to maintain optimum sugar balance for domestic consumption and ethanol production from surplus sugarcane.

Domestic sugar prices (UP) stood at Rs. 36/kg in April – July 2023 which further increased to Rs. 37-39/kg in August-September 2023 supported by a balanced demand-supply situation. International prices of raw and white sugar remain elevated in April-August 2023 period compared to March 2023.



Sugar Production – Domestic sugar production stood at 32.76 million MT till September 15, 2023, for SY2023, lower than the previous season. This was mainly due to lower cane yields and uneven distribution of rainfall in Maharashtra.



Sugar demand and closing stock – As per the latest ISMA estimates for SY2023, the net sugar production is likely to remain at 32.8 million MT, post diversion of 4.0 million MT of sugar towards ethanol production. The Government allowed an export quota of 6.1 million MT for SY2023. With domestic sugar consumption expected at around 27.5 million MT and exports at 6.1 million MT in SY2023, the closing stock is expected to be at around 4.5 million MT as on September 30, 2023 (lower compared to the sugar stock of 5.3 million MT as on September 30, 2022). This would be equivalent to 2.0 months of consumption (PY: 2.3 months).



World sugar balance and international prices – The global sugar production for SY2022/23 stood at 177.3 million MT (2% lower than last year) as per USDA, however, consumption remained higher at a new record of 176 million MT in SY2022/23 (2% YoY growth). The global sugar production for SY2023/24 is expected to remain at 187.9 million MT (6% higher than last year), while the consumption is expected to remain higher at 180 million MT (2% higher than last year). International prices of raw sugar increased to \$533/MT in August 2023 compared to \$530/MT in July 2023, while prices of white sugar was up to \$696/MT in August 2023 compared to \$672/MT in July 2023. With rise in prices of raw and white sugar, the premium between white and raw sugar prices stood at \$163/MT in August 2023, slightly higher compared to \$142/MT in July 2023. This was mainly due to the deteriorating weather outlook coupled with rising demand.



Domestic sugar prices – Domestic sugar prices (UP) stood at Rs. 36/kg in April – July 2023 which further increased to Rs. 37-39/kg in August-September 2023. The domestic prices firmed up on the back of lower sugar production for SY2023. The average domestic prices for SY2023 domestic sugar prices stood at Rs. 35.6/kg, slightly higher than SY2022.

Operating profits may slightly improve in FY2024 supported by healthy sugar and ethanol realisations, even if there is increase in cane pricing.



Cane pricing – The sugarcane UP-SAP was hiked by Rs. 25/quintal (unchanged during SY2018-2021) for SY2022 and maintained at the same level in SY2023. Thus, for SY2023, UP-SAP was Rs. 350/quintal for the early maturing variety and Rs. 340/quintal for the normal variety and it had remained the same for SY2023. For SY2023, the FRP was increased by Rs. 15 to Rs.305/quintal or a basic recovery rate of 10.25%. Further, for SY2024, FRP has been increased by Rs. 10 to Rs. 315/quintal for a basic recovery rate of 10.25%.



Ethanol – Currently, average ethanol-blending as on August 27, 2023, stood at 11.72% and appears on track to reach 12% target for the ESY2023. In ESY2022, the ethanol-blending stood at 10.02%.



Revenues – The revenues of ICRA's sample set are expected to remain stable over FY2024-FY2026 supported by firmed up domestic and international sugar prices and improved ethanol realisations, in addition to healthy ethanol volumes expected, partially offset by lower sugar volumes.



Profitability – Operating margin for the sample set is likely to remain in the range of 11.0%-12.0% in FY2024 (slightly higher from FY2023 levels) supported by improved sugar and ethanol realisations, factoring in higher cane prices in SY2024.



Working capital and debt – With no export sugar sales expected for SY2024, inventory levels are expected to increase though will remain comfortable for most of the integrated sugar mills. Higher closing inventory would in turn slightly increase the borrowings of ICRA's sample set in FY2024, though comfortable operating profits along with gradual repayment of distillery loans, would reduce the borrowings going forward, despite debt-funded capex under way for few of the players. With comfortable operating profits and debt levels, the coverage metrics and capital structure would emerge stronger for the period.



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