

INDIAN SUGAR SECTOR

Firm sugar prices to support margins of the industry players; ethanol blending ratio to fall in ESY2024

DECEMBER 2023



Exports 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-November 2023, supported by a balanced demand-supply situation. Some moderation in domestic prices was seen post the order issued by the Ministry. International prices of raw and white sugar rose in April-October 2023 compared to March 2023.



- **Ethanol blending in ESY2023** – In ESY2023, India was able to achieve the blending target of 12%. For ESY2023, around 574-crore litre of ethanol has been contracted against the 570-crore-litre letter of intent (LoI) offered (i.e., ~101% of LoI has been contracted). Considering the feedstock-wise contribution, the share of sugarcane juice and B-heavy molasses, together, stood at 69% of the contracted and 73% of the receipts during the period. The diversion towards ethanol production was 3.8 million MT in SY2023.
- **Order issued by Department of Food and Public Distribution (DFPD)** – The Ministry issued an order on capping the diversion towards ethanol production at 1.7 million MT for SY2024. For this, a revised allocation of sugarcane juice and B-heavy molasses-based ethanol will be issued to each distillery for ESY2024. Further, no diversion of sugarcane juice and B-heavy molasses will be allowed for production of Rectified Spirit (RS)/Extra Neutral Alcohol (ENA).
- **Rationale for the Government order** – The gross sugar production is likely to remain at 32.0 million MT, 13% below the 36.6 million MT in SY2023, mainly due to lower cane yields and uneven distribution of rainfall in Maharashtra and Karnataka. Further, lower sugar production is expected for SY2025 and, therefore, to maintain adequate stock levels by SY2024-end, the Government has capped the diversion towards ethanol production at 1.7 million MT along with the ban on sugar exports. This is expected to also control the sharp increase in domestic sugar prices, which currently is around Rs. 39/kg.
- **Impact on ethanol blending programme** – For ESY2023, 570 crore litres of ethanol was planned for supply, out of which 506 crore litres was actually supplied and the blending target of 12.1% was achieved for the year. Considering the ethanol diversion of 1.7 million MT for ESY2024, ethanol from sugar-based feedstock (B-heavy ethanol and juice-based ethanol) is expected at around 155 crore litres. Further, the Government has still not lifted the ban on supply of FCI rice for ethanol production, which may impact supply quantity from grain-based distilleries to an extent. Therefore, the ethanol blending rate for ESY2024 is expected to drop to 9.5-10% from 12% in ESY2023.
- **Impact on sugar mills** – The recent specific development limits the upside for the sugar industry; however, the tight demand-supply situation is expected to keep the sugar prices firm and profit margins at satisfactory level. The working capital intensity is expected to rise with higher inventory holding due to lower sucrose diversion as well as the export ban, which will result in slightly higher debt levels, though with repayments of distillery loans, the coverage metrics would emerge stronger despite the increased cost of funding.



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