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INDIAN SUGAR SECTOR

Removal of cap on sugar diversion and allowance of FCI rice for ethanol to aid blending target for ESY2025

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Highlights

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Removing cap on sugar diversion along with allowing FCI rice to ethanol distilleries will lead to healthy increase in distillery volume, thereby supporting performance of integrated sugar mills in second half of the year.

ISMA has requested for increase in ethanol prices with the rise in FRP for SY2025, which will lead to higher conversion cost.

- **Sugar demand-supply balance estimates** – Indian Sugar Mill Association (ISMA) projects gross sugar production to fall to 33.3 million MT in SY2025 from 34 million MT in SY2024. After considering the ethanol diversion of 4 million MT, since the Government of India (GoI) has removed the cap on sugar diversion for ethanol, net sugar production is expected to decline to 29.3 million MT in SY2025.
- **Ethanol capacities** – For the current fiscal, ethanol production capacity has increased to 1,589 crore litres from 1,380 crore litres in ESY2023. To achieve 20% blending by 2025, ethanol production capacity of 1,700 crore litres is required to be in place by 2025, considering the plants would operate at 80% efficiency and taking into account the requirement of ethanol from other sectors.
- **Ethanol blending** – In July 2024, India achieved an ethanol blending ratio of 15.80% while the cumulative ethanol blending during November 2023-July 2024 stood at 13.3%. For ESY2024, 647 crore litres of ethanol has been contracted, of which 461 crore litres have been supplied till July 2024. Contribution from grain-based distilleries surpassed 50% of India's ethanol production for the first time in the last few months. With removal of the cap as well as allowance of FCI rice supporting ethanol capacities, the blending is likely to reach its 20% mark in ESY2025.
- **Impact on distilleries with FCI rice allowance** – The Department of Food and Public Distribution (DFPD) has allowed grain-based distilleries to participate in the e-auctions by FCI for rice procurement of up to 23 lakh MT. This will support the increase in ethanol blending, along with supporting the profitability margins of multi-feed/grain-based distilleries, since FCI rice is available at a lower rate and provides higher yield than damaged food grains (DFG) or maize.
- **Conclusion** – The recent development improves the prospects of integrated sugar mills since this will help curtail the closing sugar stock for SY2025 and maintain sugar prices at a reasonable level, thereby supporting the profitability of sugar mills and enabling timely payment to farmers. Further, allowance of FCI rice will support the increase in ethanol blending as well as profitability margins of multi-feed/grain-based distilleries. Nevertheless, key challenges like ethanol availability across states, availability of proper infrastructure as well as timely adoption of E20 compliant vehicles, will have a bearing on 20% blending targets.

Source: ICRA Research, SY: Sugar Year, ESY: Ethanol Supply Year, FCI: Food Corporation of India

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