ICRA

INDIAN SUGAR SECTOR

Domestic sugar prices remain at elevated levels in anticipation of decline in net sugar production in SY2025

MARCH 2025

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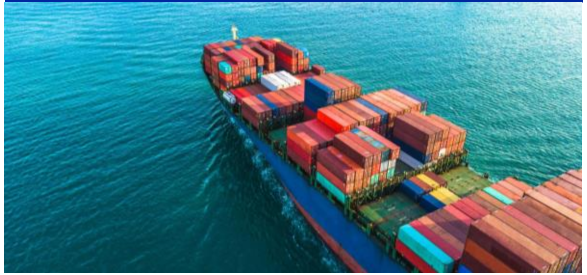

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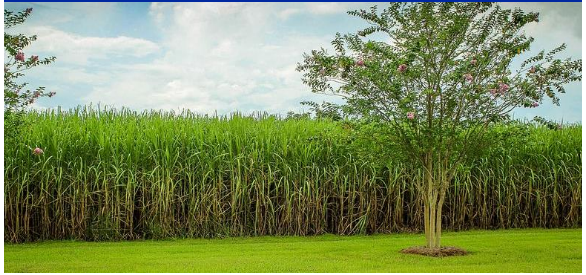

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Highlights

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Net sugar production for SY2025 is likely to be lower than SY2024, mainly due to lower cane yields across three largest sugar producing states along with the expected higher sugar diversion towards ethanol; though sugar stock thereafter will remain comfortable.

Domestic sugar prices increased sharply in January and February 2025.

Sugar production – For SY2025*, sugar production stood at 23.3 million MT till March 10, 2025, lower than the previous fiscal. This was mainly due to the decline in output in Maharashtra and Karnataka. Uttar Pradesh currently leads sugar mill operations, followed by Maharashtra and Karnataka. The number of operating sugar factories stood at 228 as of March 10, 2025.

Sugar demand and closing stock – As per ISMA's* revised estimates gross sugar production is expected to decline to 29.9 million MT in SY2025 (P.Y. 34 million MT) against the second Advance Estimates of 31 million MT, mainly due to lower cane yields across three of the largest sugar-producing states. Further, net sugar production is expected to remain at 26.4 million MT (P.Y. 32.2 million MT), post the ethanol diversion of 3.5 million MT in SY2025. The closing sugar stock, following domestic consumption of 28 million MT and exports of 1 million MT, is likely to moderate at around 5.4 million MT as on September 30, 2025 (P.Y: 8.0 million MT).

World sugar balance and international prices – The global production for SY2024-SY2025 is expected to remain at 186.6 million MT (2% higher than last year), while consumption is likely to remain higher at 179.6 million MT (1% higher than last year). International prices of raw sugar improved to $445/MT in February 2025 over $418/MT in January 2025 while prices of white sugar improved to $532/MT in February 2025 over $498/MT in January 2025. The premium between white and raw sugar stood at $87/MT in February 2025—higher than $80/MT in January 2025.

Domestic sugar prices – Domestic sugar prices (Uttar Pradesh) increased sharply in January 2025 to Rs. 38.5/kg and further increased to Rs. 39.9/kg in February 2025 and Rs. 40.2/kg in March 2025 compared to Rs. 36/kg in December 2024. This was mainly due to the expected decline in sugar production in the current season.

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

Highlights

Operating profits in FY2025 are expected to show sharp dip and remain in the range of 8-9% for ICRA's sample set against 12% in the previous year, mainly due to weak performance of sugar mills in H1 FY2025; although H2 FY2025 is likely to show improvement supported by higher distillery sales and firmed up sugar prices.

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* continued to remain unchanged at Rs. 370/quintal for the early maturing variety and Rs. 360/quintal for the normal variety.

Ethanol – In 4M ESY2025*, India achieved a cumulative ethanol blending ratio of 18% while the February 2025 blending rate stood highest at 19.7%. For 4M ESY2025, 279 crore litres of ethanol have been received, and 302.5 crore litres have been blended.

Revenues – The revenue growth for ICRA's sample set of integrated sugar mills is likely to remain flattish for FY2025 over FY2024 on account of early cessation of crushing activity and capping of sugar diversion towards ethanol in SY2024, which resulted in lower revenues for H1 FY2025; though H2 FY2025 is expected to report moderate growth. Nevertheless, moderate revenue growth of around 5% is estimated 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 remain in the range of 8-9% in FY2025, lower than the previous year on account of under-absorption of fixed costs. However, the margins are expected to show improvement in FY2026 supported by higher distillery sales with removal of cap on sugar diversion for ethanol production along with firmed up domestic sugar prices.

Working capital and debt – With an anticipated decline in closing inventory for FY2025 and FY2026, the borrowings of ICRA's sample set are likely to decline. 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 will be impacted in FY2025 mainly due to higher interest expense along with dip in operating profits. However, the coverage metrics are expected to improve in FY2026.

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

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Thank You!