



Management Discussion and Analysis



SUGAR BUSINESS

Indian Sugar Industry

Indian Sugar Industry Overview

A major industrial crop of India, sugarcane is the key source of sugar for the country. India is the largest consumer, and had, historically, been the second largest sugar producer of the world. However, in the previous sugar season, i.e. SS 2021-22, the country emerged both, the world's largest producer and consumer of sugar, as well as the world's second largest exporter of sugar. During SS 2021-22, India exported 11.1 million tonnes of sugar, which earned ~₹ 40,000 crore worth of foreign exchange for the country. The Indian sugar industry provides employment to over 50 million farmers associated and fair remuneration with a price-support system. As a crop, sugarcane is an ecologically sustainable crop that produces sugar and generates a variety of by-products, such as bagasse, molasses, filter cake (commonly known as press mud) etc., which have economic value along with the potential of being a feedstock for the production of biofuels/bioenergy such as power, bioethanol, biogas, etc.

Government initiatives have eradicated the cyclicity of the Indian sugar industry

In the last decade, various Government initiatives have led the Indian sugar industry to emerge as a self-sufficient

industry by enabling sugar mills to stand on their own, without having to depend on grants from the Government. Accordingly, during SS 2021-22 and 2022-23, sugar mills completed their export quota without any subsidy.

The cyclicity in the sugar industry in earlier years led to either surplus or short production of sugar, based on the climatic factors and on whether the payment of sugarcane price was delayed or paid in a timely manner. In the case of delayed sugarcane payments, farmers tended to move away from sugarcane crop, leading to lower sugar production in the country and high sugar prices. Improved financial condition of the sugar mills due to firm sugar prices would rectify the delays in payments, encouraging the farmers to again patronise sugarcane crop, which would gradually result in surplus sugar production accompanied with fall in sugar prices. Typically, in a period of five years, there were some years of surplus sugar production and some years of shortage. With measures such as promotion of ethanol production from B-heavy molasses / sugarcane juice, timely and well managed export schemes, sugar release quota mechanism, introduction of Minimum Selling Price of sugar (MSP) etc., the Government has been able to largely overcome the cyclicity, leading to better productivity and improved financial condition of the sugar mills.

Ethanol Blended Petrol (EBP) programme has given a further boost to the sector in the last decade

The Government launched the Ethanol Blended Petrol (EBP) programme in January 2003 for sale of 5% ethanol-blended petrol in nine States and four Union Territories. The programme, however, saw limited success. It was reinvigorated in 2014, and has been a game changer for the industry in recent years, with the nation progressively diverting more sugar to produce ethanol. The Government has been encouraging sugar mills to divert sugar to ethanol, and to export surplus sugar with a view to improving their financial health so that they are able to make timely payment of sugarcane dues to farmers. The growth of ethanol as a biofuel in recent years has amply supported the sugar sector, with the diversion of sugar for production of ethanol minimising the country's surplus sugar position.

DOMESTIC SUGAR INDUSTRY BALANCE SHEET

As per the Agriculture Department, sugarcane area increased 6% year-on-year to 59 lakh hectares during SS 2022-23.

On April 26, 2023, ISMA revised its all-India sugar production estimate for SS 2022-23 (after diversion to ethanol) to 32.8 million tonnes. This took into account the diversion of about 4.0 million tonnes of sugar equivalent

to ethanol. In the previous sugar season of SS 2021-22, India's sugar production was 35.8 million tonnes after considering diversion of 3.4 million tonnes, thus implying a decline of 8% on a net basis year-on-year.

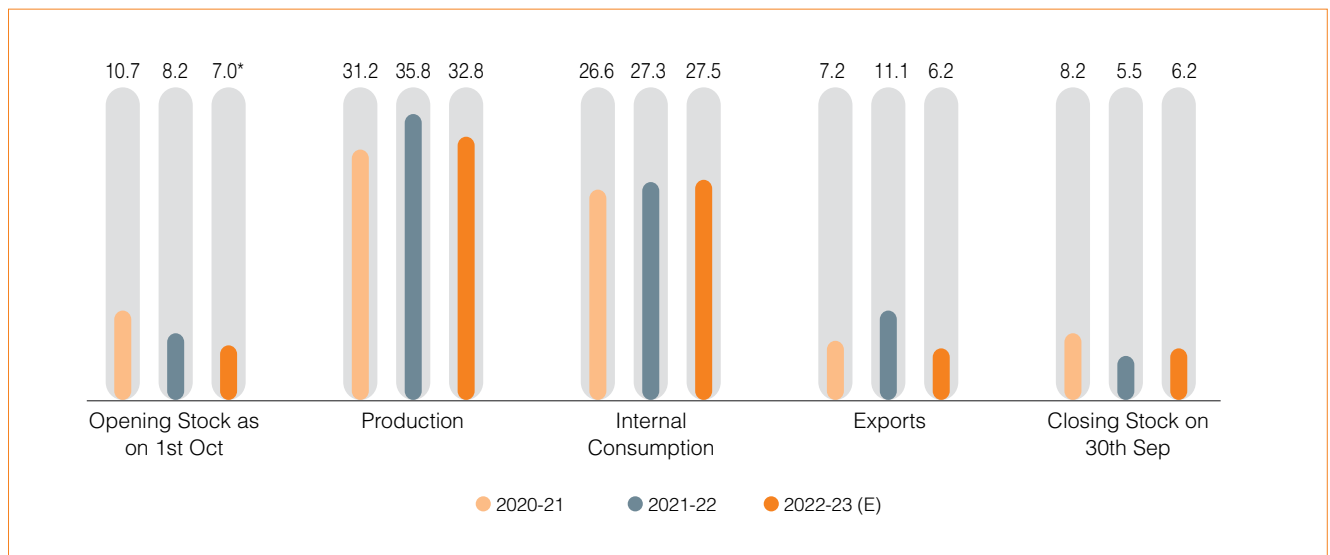
In SS 2022-23, the crushing season in Maharashtra ended at around 10.5 million tonnes, which was lower than estimates, due to unexpectedly lower sugarcane yields owing to higher ratoon crop share and uneven distribution of rainfall. These sugar production figures are after diversion of sugar to ethanol.

Sugarcane yield in Uttar Pradesh has been slightly better than expected, and the state has produced around 10.5 million tonnes of sugar after diversion towards production of ethanol. The main season in Karnataka has produced around 5.5 million tonnes. However, the special season is likely to operate in Karnataka from June/July 2023, leading to increase in the quantum.

The estimated all-India gross sugar production in SS 2022-23 of 36.8 million tonnes marks a decline of 6% from 39.2 million tonnes produced in SS 2021-22.

Accordingly, we estimate the closing stock of ~6.2 million tonnes of sugar at the end of Sugar Season 2022-23, which is sufficient to meet more than two months' consumption.

India Sugar Balance Sheet (million tonnes)



Source: Triveni Estimates
 * As per Government data



DOMESTIC SUGAR POLICY AND MARKET DEVELOPMENTS

- **Hike in Fair and Remunerative Price (FRP):**
 - The Central Government fixed the Fair and Remunerative Price (FRP) of sugarcane for SS 2022-23 at ₹ 305 per quintal, linked to a basic recovery of 10.25% and subject to a premium of ₹ 3.05 per quintal for every 0.1% increase of recovery, over and above 10.25%, and reduction in FRP at the same rate for each 0.1% decrease in the recovery rate till 9.5%. With a view to protecting the interests of farmers, the Government has decided that there shall not be any deduction where recovery is below 9.5%; such farmers will get ₹ 282.125 per quintal for sugarcane in the current season. The FRP for sugar season 2022-23 was 2.6% higher than the previous sugar season.
- **No hike announced in the State Advised Price (SAP):**
 - The Government of Uttar Pradesh did not announce any hike in the State Advised Price (SAP) for SS 2022-23 over the SS 2021-22 prices. In Uttar Pradesh, there are three varieties (categories) of sugarcane - early, ordinary (general) and rejected. Early variety constitutes 97% of the sugarcane cultivated, while 2.7% is the ordinary variety. The rejected variety constitutes only 0.3%. The SAP (for SS 2021-22 & SS 2022-23) of the early variety was ₹ 350 per quintal, while for ordinary variety it was ₹ 340 per quintal, and the SAP of the rejected variety was ₹ 335 per quintal.
- **Curbs on further sugar exports:**
 - During the year, the Directorate General of Foreign Trade (DGFT) had notified extension for the inclusion of sugar exports under 'Restricted' category up to October 31, 2023.
 - Earlier, Sugar had moved from the 'open category', which requires no government intervention, to 'restricted' category. Export of sugar was allowed only with specific permission from the Directorate of Sugar, Department of Food and Public Distribution (DFPD), Ministry of Consumer Affairs, Food & Public Distribution.
- **Exports of 6.15 million tonnes of sugar in SS 2022-23:**
 - The Government of India announces sugar exports from time to time. This is aimed at balancing the price stability of sugar and the financial positions of sugar mills in the country while ensuring availability of sufficient sugarcane to produce sufficient sugar to meet domestic consumption and molasses for ethanol production.
 - In the sugar export policy for SS 2022-23, based on initial estimates of sugarcane and sugar production, the Government, in November 2022, allowed initial export of sugar up to 6 million tonnes for the sugar season. With the announcement of additional quota of 0.15 million tonnes, total export quota approved for the season stood at 6.15 million tonnes, with option to swap export quota with other sugar mills.



- The Government had announced sugar mill-wise export quota for all sugar mills in the country, with an objective system based on average production of sugar mills and average sugar production of the country in the last three years.
- Further, to expedite the sugar exports and to ensure flexibility to sugar mills in execution of the export quota, mills had the option to decide to surrender the quota partially or fully within 60 days of the date of issue of order OR to swap the export quota with domestic quota within 60 days. This would reduce transportation costs involved in export of sugar and movement of sugar from one state to another for domestic consumption.
- This move would also protect the interest of sugarcane farmers and sugar mills, as the mills could benefit from the favourable international sugar price scenario.

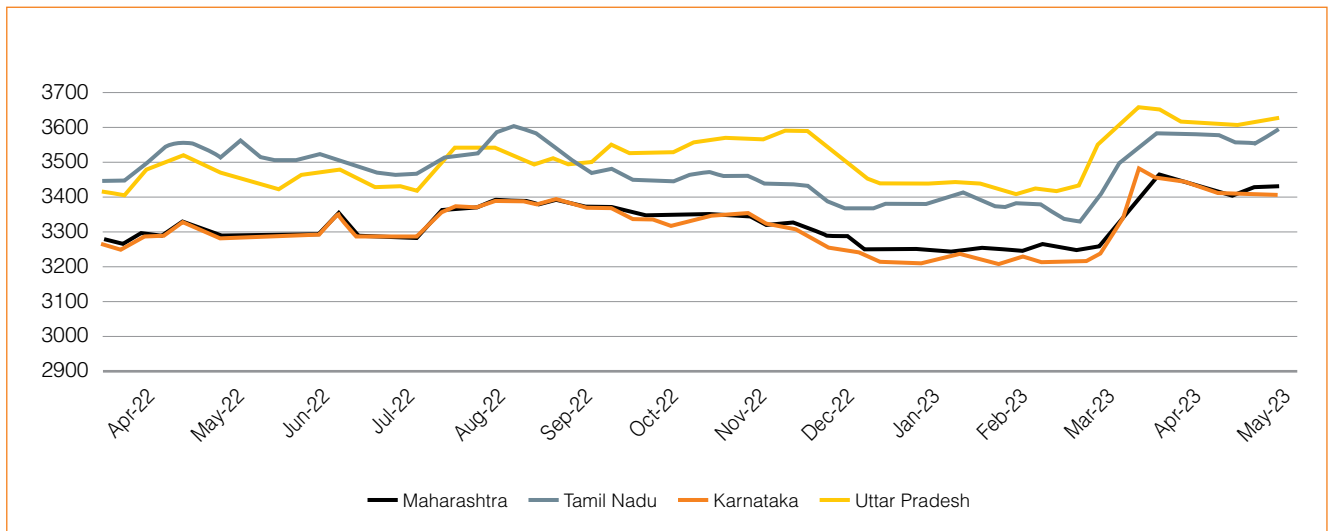
With the upcoming Lok Sabha elections in 2024, sugarcane prices may be hiked in the state of Uttar Pradesh, and it is hoped that the Government would simultaneously initiate an increase in the MSP of sugar prices adequately to mitigate the impact of the increase in sugarcane prices, if any. These measures would ensure that sugar mills are in a position to pay sugarcane dues in a timely manner as otherwise, the very purpose of increasing the sugarcane price would be defeated.

Sugar prices in India moved up by 1-2% on an average in FY 23. However, the increase has not been commensurate to the increase in the price of sugarcane, thus leading to lower profitability.

DOMESTIC SUGAR PRICES

Sugar prices in India moved up by 1-2% on an average in FY 23. However, the increase has not been commensurate to the increase in the price of sugarcane, thus leading to lower profitability. Since April 2023, the domestic prices have inched up 4-5%, given the expectations of lower sugar production and higher demand during the peak summer season.

Average Ex-Mill Sugar Prices in Major States (₹/Quintal)





GLOBAL SUGAR INDUSTRY

Global Sugar Industry Balance Sheet

According to the International Sugar Organization (ISO), in view of the global supply/demand situation, the global 2022-23 sugar balance sees a substantially reduced surplus in the current season. It anticipates a global surplus (the difference between world consumption and production) of 0.852 million tonnes in 2022-23, down from 4.151 million tonnes in February 2023. Changes were driven by increase in production in Brazil. However, the smaller increase in

Thailand and lower estimates for Indian and European production were the biggest negative contributors.

For the 2022-23 season that ended in March, the Centre-South Brazil region produced 33.73 million tonnes of sugar, up 5% from the year before. However, the outlook for 2023-24 is nearly 10% higher at 37.09 million tonnes. Production in Thailand in 2022-23 season is expected to be below expectations, at 12-13 million tonnes, due to lower than expected sugarcane yields.

Sugar Units	World Sugar Balance (October/September, in million tonnes)			
	2022-23	2021-22	Changes in million tonnes	in %
Production	177.365	172.503	4.862	2.82%
Consumption	176.513	174.773	1.740	1.00%
Surplus/Deficit	0.852	-2.270		
Import demand	63.559	63.968	-0.409	-0.64%
Export availability	63.898	64.001	-0.103	-0.16%
End Stocks	100.781	100.268	0.513	0.51%
Stocks/Consumption ratio in %	57.10%	57.37%		

Source: International Sugar Organisation, Quarterly Market Outlook, May 2023

Global Sugar Prices

Notably, the global sugar prices have rallied to record highs recently. Prices surged 15-19% in FY 23 and have continued to increase thereafter, to hit the highest level in a decade.

The 2023 NY #11 raw sugar futures nearly broke the US 27.00 cents/lb threshold, ultimately settling at US 26.99 cents/lb. This had been the highest front month price since April 2012.

The surges were driven by growing fears of a global supply shortage. The price increases intensified as the market anticipated that India, the largest exporter in the previous sugar season, is unlikely to increase exports during the current season due to lower production estimates. This, coupled with lower stockpiles in Brazil due to late commencement of harvesting caused by a significantly rainy season, and lagging supplies in Europe, Pakistan, Thailand, China and Mexico, have been creating further pressure on the sugar supplies. This has caused sugar prices to soar.

As on June 6, 2023, the New York #11 front month contract closed at US 24.58 cents/lb, an increase of 454 points since the beginning of 2023, while the London White Sugar #5 front month contract closed at USD 670.90/tonne, up USD 116.50 since the beginning of 2023.

