AGRICULTURE

12 June 2020

India's sugar demand improves post lockdown

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We recently hosted a call with Abhinash Verma, Director General of Indian Sugar Mills Association (ISMA). Following are the key takeaways:

Sugar

- Sugar production in India is expected to decline to ~27.1mn tonnes (mt) for sugar season 2019-20 from ~33mt in SS18-19, mainly due to lower output in Maharashtra and Karnataka.
- Production in SS19-20 was earlier estimated at a lower ~26.5mt but jaggery and unrefined sugar ('khandsari') players shut operations due to the lockdown and hence cane was diverted to sugar production, resulting in additional output of 0.5-0.6mt.
- Due to Covid -19, the domestic sugar industry lost sales of ~1mt in SS19-20; consumption is expected to be 25-25.2mt.
- Exports from India are projected at ~5mt in SS19-20, aided by newer markets such as Indonesia. ISMA's believes that if the government provides an export subsidy for 7mt in the upcoming season as has been demanded by the industry, exports from India could rise to ~6mt.
- Sugar closing stock in SS19-20 is expected to reduce by ~3mt to ~11.5mt.
- For SS20-21, production in the country is likely to improve primarily due to higher output in states such as Maharashtra.
- Prices have been range bound for the last few months at ~Rs 31/kg due to the lockdown but have started to move up in June and are currently at ~Rs 32/kg.
- The industry has asked the government to continue with 4mt of buffer sugar inventory, to raise sugar MSP (minimum support price) to Rs 35-36/kg from Rs 31, provide export incentives, and keep cane FRP (fair price) unchanged.

Ethanol

- Ethanol demand from OMCs remains strong with stable prices (Rs 43.75/ltr for C-heavy molasses, Rs 54.27/ltr for B-heavy molasses). Crude price has no linkage to ethanol and does not affect the government pricing formula.
- B-heavy molasses-based ethanol resulted in sugarcane diversion of 0.7-0.8mt in SS19-20. About 1.5-2mt is expected to be diverted in SS20-21.

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