

Export subsidy unlikely next sugar season

Sharp rise in prices to ensure export viability

Impact note | August 2021



Analytical contacts

Hetal Gandhi

Director, CRISIL Ltd
B: +91 22 3342 3000
hetal.gandhi@crisil.com

Pushan Sharma

Associate Director, CRISIL Ltd
B: +91 22 3342 3000
pushan.sharma@crisil.com

Niharika Gudadur

Senior Research Analyst, CRISIL Ltd
B: +91 22 3342 3000
niharika.gudadur@crisil.com

Media contacts

Saman Khan

Media Relations
CRISIL Limited
D: +91 22 3342 3895
M: +91 95940 60612
B: +91 22 3342 3000
saman.khan@crisil.com

Hiral Jani Vasani

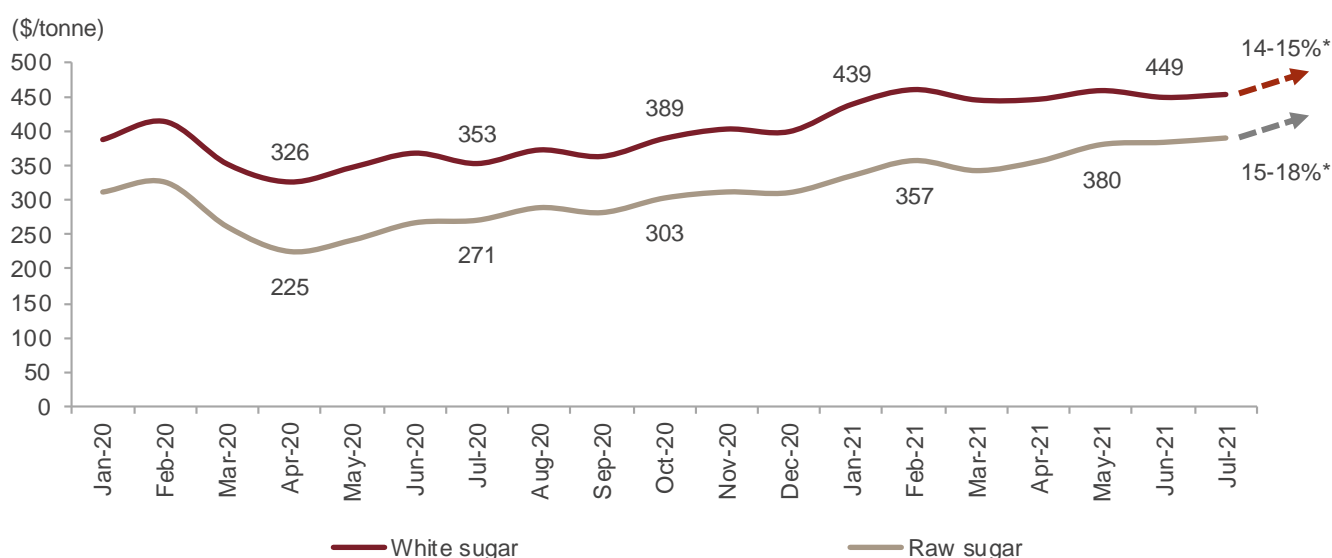
Media Relations
CRISIL Limited
D: +91 22 3342 5916
M: +91 982003 9681
B: +91 22 3342 3000
hiral.vasani@crisil.com

Low supply from Brazil gives sugar prices a rush

Global white sugar prices started rallying in the beginning of August and had reached a four-and-a-half-year high of \$504 per tonne as on 17th of the month, up 28% on-year. Inclement weather is affecting sugar production in Brazil and this, in turn, is expected to impact global supply in the upcoming sugar season (SS 2022; October 2021 to September 2022).

Brazil, the largest sugar producer in the world, is expected to produce just 29 million tonne of sugar in SS 2022 as against 41 million tonne in SS 2021.

Trajectory of sugar prices up to SS 2022



*Note: Prices growth trajectory forecast for the period August 2021 to September 2022

Source: Industry, CRISIL Research

To be sure, prices are projected to rise up to March 2022 as global sugar supplies are expected to be in deficit despite the third wave of Covid-19 gripping Australia, Europe and the US.

Prices are forecast to begin moderating from May 2022, provided better weather conditions prevail in Brazil at the start of the new SS from April 2022.

Indian exporters on a sugar high

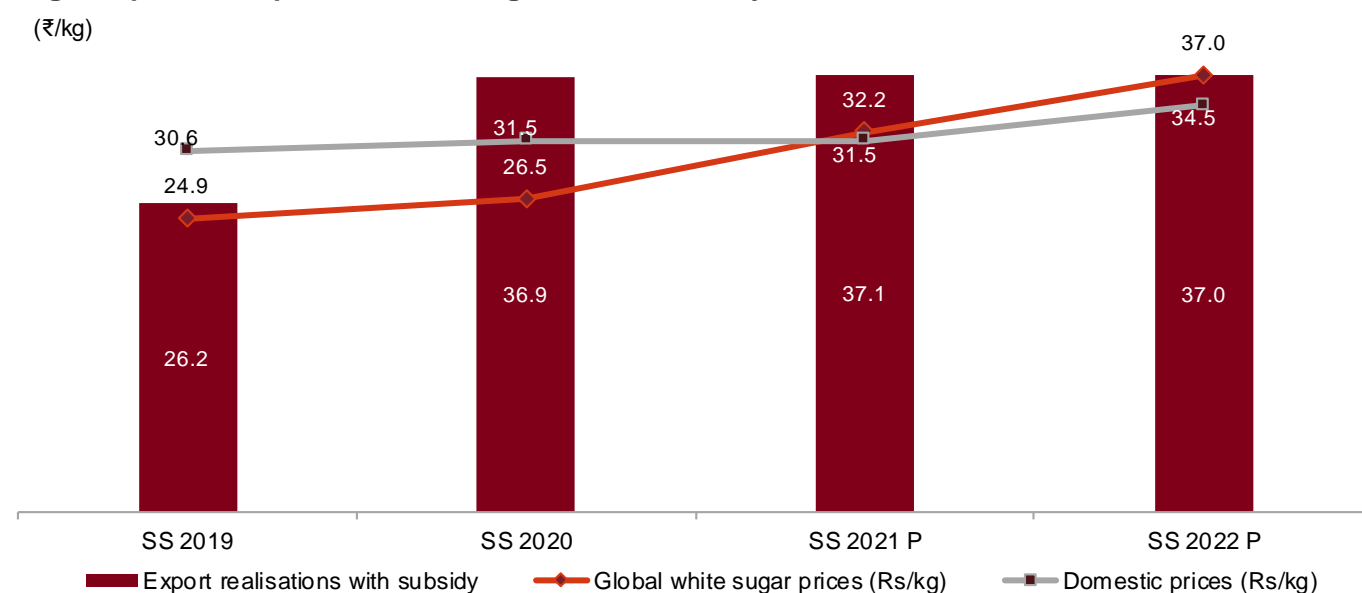
With white sugar prices reaching \$504 per tonne in August 2021, sugar exporters were able to earn Rs 37 per kg without any subsidy (as against the domestic price of Rs 31-32 per kg) That has led them to sign export contracts above the target of 6 million tonne set by the government for SS 2021, which ends in September

In fact, by end-SS 2021, India is expected to export over 7 million tonne of sugar.

Hence, there would be no subsidy provided by the government for the additional 1 million tonne.

That said, exporters have already entered into contracts to ship sugar for the next season without waiting for the announcement of government subsidy, as it is now economically viable to export sugar even without the subsidy. Hence, we do not expect the government to provide export subsidies to the sugar industry in SS 2022

Sugar exports to be profitable without government subsidy in SS 2022



P: Projected

Source: Industry, CRISIL Research

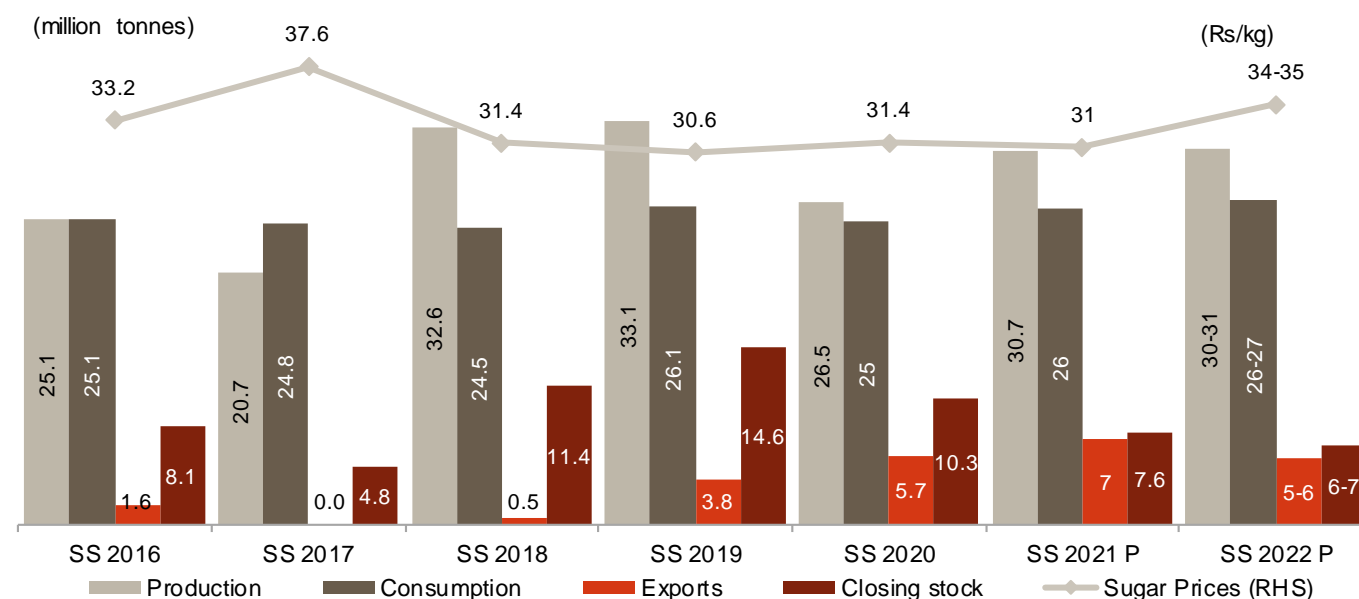
Domestic sugar prices sweeten as well

SS 2021 is expected to close with an inventory of 7-8 million tonne, lower than the five-year average of 9.8 million tonne.

In SS 2022, inventories are expected to deplete further to 6-7 million tonne as mills are expected to divert higher amount of cane towards ethanol (with the government’s push to increase blending with petrol) and export 5-6 million tonne of sugar.

This is expected to trigger ~11% on-year price rise in the domestic market in SS 2022. S-grade prices that touched Rs. 33/kg in August 2021 are expected to rise further in SS 2022. Domestic prices would also benefit on expectation of lower inventories, with significant amount of cane likely to be diverted for ethanol blending with petrol in SS2022.

Inventory depletion to lead domestic sugar prices upwards in SS 2022



P: Projected

Source: Industry, CRISIL Research

Severe weather in Maharashtra could escalate domestic prices

Rainfall in Maharashtra is a key monitorable for domestic sugar production and prices. Currently, over 20% of the area under sugarcane in Maharashtra has been affected because of heavy rainfall.

Sugarcane is a resilient crop and so farmers do not expect a sharp decline in yields. However, if heavy rainfall persists, sugarcane production in the state would plunge, further supporting the domestic price rally in SS 2022.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.

Disclaimer

CRISIL Research, a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this Report based on the information obtained by CRISIL from sources which it considers reliable (Data). However, CRISIL does not guarantee the accuracy, adequacy or completeness of the Data / Report and is not responsible for any errors or omissions or for the results obtained from the use of Data / Report. This Report is not a recommendation to invest / disinvest in any company / entity covered in the Report and no part of this report should be construed as an investment advice. CRISIL especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Report. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL's Ratings Division / CRISIL Risk and Infrastructure Solutions Limited (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL's Ratings Division / CRIS. No part of this Report may be published / reproduced in any form without CRISIL's prior written approval.