Market Intelligence & Analytics

CRISIL
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Curb on cane juice for ethanol

Sugar output lift

Impact note | December 2023

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Event

The government restricted the use of sugarcane juice and sugar syrup for ethanol production in ethanol supply year (ESY) 2023-24 (November 2023 to October 2024) on December 7th, 2023, with immediate effect. However, supply of ethanol from existing offers received by oil marketing companies from B heavy molasses, C heavy molasses and grains will continue.

Background

Production of sugarcane and sugar is projected to decline ~9% and ~3%, respectively due to scanty rainfall seen in key sugarcane producing states of Maharashtra and Karnataka.

At the end of SS 2023 (in September 2023) closing inventories of sugar were adequate to meet just 2 months' consumption as against the past 5-year average of 4 months' consumption. In light of diminished sugarcane production and sugar supplies, the government implemented several measures.

In October 2023, it extended restrictions on sugar exports beyond October 2024. In July, the Food Corporation of India stopped supplying rice for ethanol production amid supply concerns.

Impact on sugar mills in SS 2023-24

- Sugar production to decrease at a slower pace of 3-4%, against the earlier estimated 10-11%
- Ethanol production to fall 20%, which could bring ethanol blending rate to less than 10% in ESY 2023-24, against 12% in 2022-23

Prioritising sugar over ethanol amid scarce cane supply

India experienced in scanty rainfall in key sugarcane-producing states such as Maharashtra and Karnataka that received 3% and 18% lower rainfall on-year. Insufficient water availability led to lower yields. As a result, sugarcane production is expected to decrease ~9% in SS 2023-24 (October 2023 to September 2024)

Given sugarcane is a key raw material for production of both sugar and ethanol, dwindling supply is compelling producers to choose between the two.

Against the backdrop of price volatility in staples like rice, wheat, onion, tomato, and the upcoming national elections, the government has taken measures to control domestic sugar prices.

It has banned production of ethanol directly from sugarcane juice with immediate effect. However, production of ethanol from B heavy molasses and C heavy molasses is still permitted. Of the total ethanol produced in the country, ethanol from cane juice accounted for 25-30% while that from B heavy molasses accounted for over about 60-65%. Ethanol from C heavy molasses and grains accounted for the rest.

Sugar mills will now divert more sugarcane towards production of B heavy and C heavy molasses, originally intended for ethanol production from sugarcane juice. This is expected to boost sugar production by ~2.5 million tonne for SS 2023-24

Sugar production to be lower than SS 2022-23 level in SS 2023-24

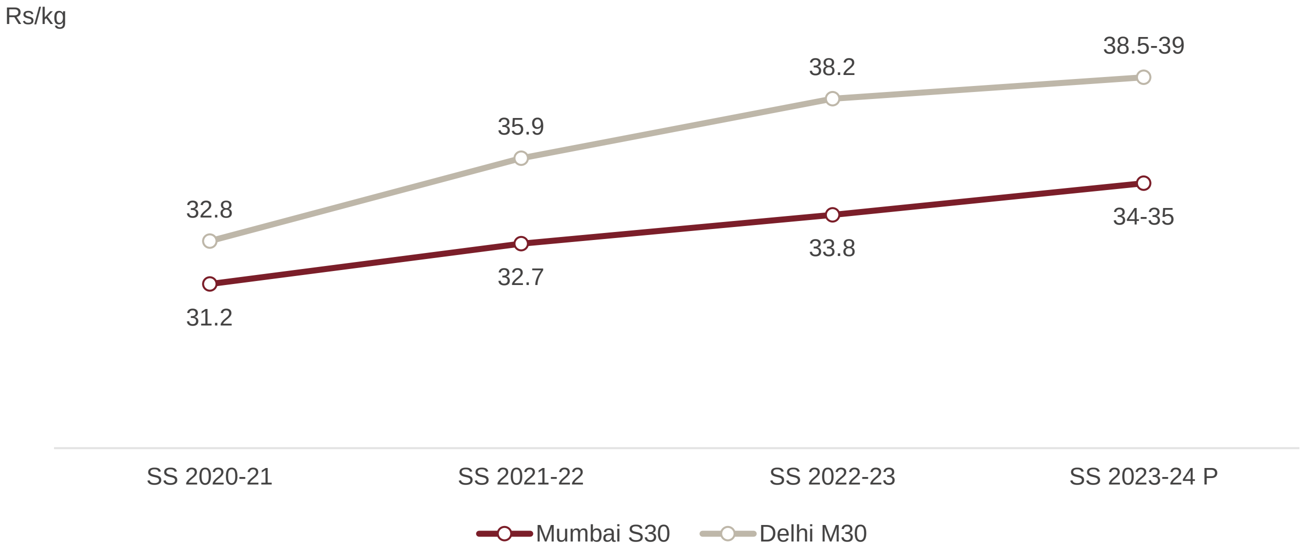
Source: Industry, CRISIL MI&A Research

Sugar prices set to ease because of improved availability

Sugar prices surged 7% and 5% in SS 2021-22 and SS 2022-23, respectively. By the end of SS 2022-23, sugar prices had crossed Rs 40 per kg in northern India, due to lower sugarcane availability and its increased diversion towards ethanol. Closing inventory stood at 2 months' consumption in SS 2022-23, versus an average of 4 months in the last 5 years.

Going forward, with sugar supply expected to rise by 2-2.5 million tonnes, prices are expected to rise a moderate 3-4% in SS 2023-24 on-year. The closing inventory would surpass 3 months' consumption, ensuring adequate supply for the country.

Sugar prices continue rising, albeit at a slower pace, in SS 2023-24



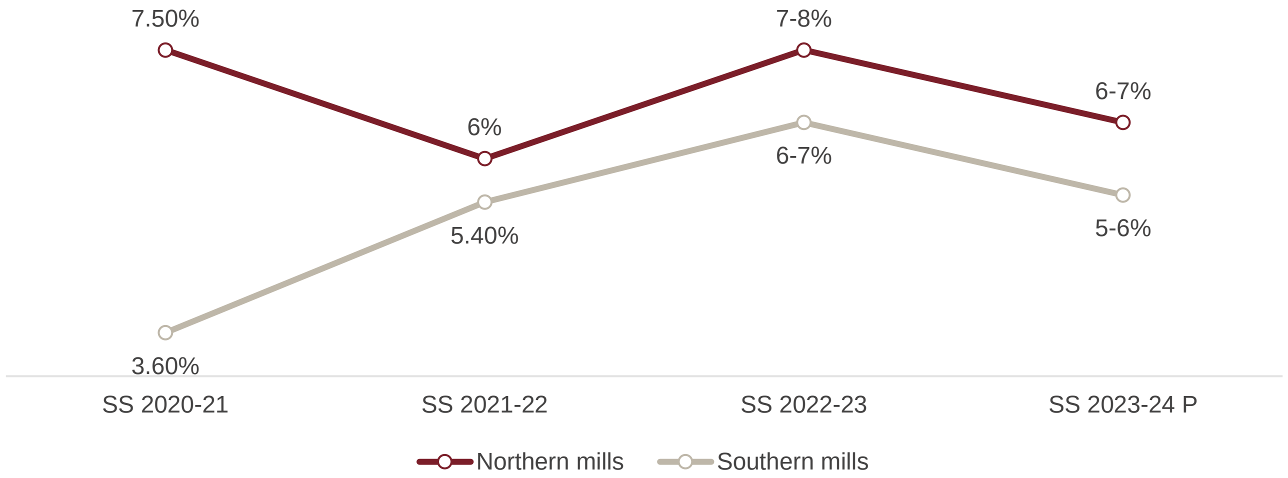
Source: Industry, CRISIL MI&A Research

Ebitda margin of integrated mills to dip as they cease ethanol production from sugarcane juice

The cessation of a substantial portion of ethanol production is expected to result in reduced Ebitda (earnings before interest, taxes, depreciation, and amortisation) margins in the distillery segment of integrated sugar mills.

Consequently, overall Ebitda margins of integrated sugar mills are projected to decline by about 100 basis points in SS 2023-24. A further fall in margins would be arrested by higher sugar prices that would lead to better profitability from the sugar segment.

Ebitda margins of integrated sugar mills



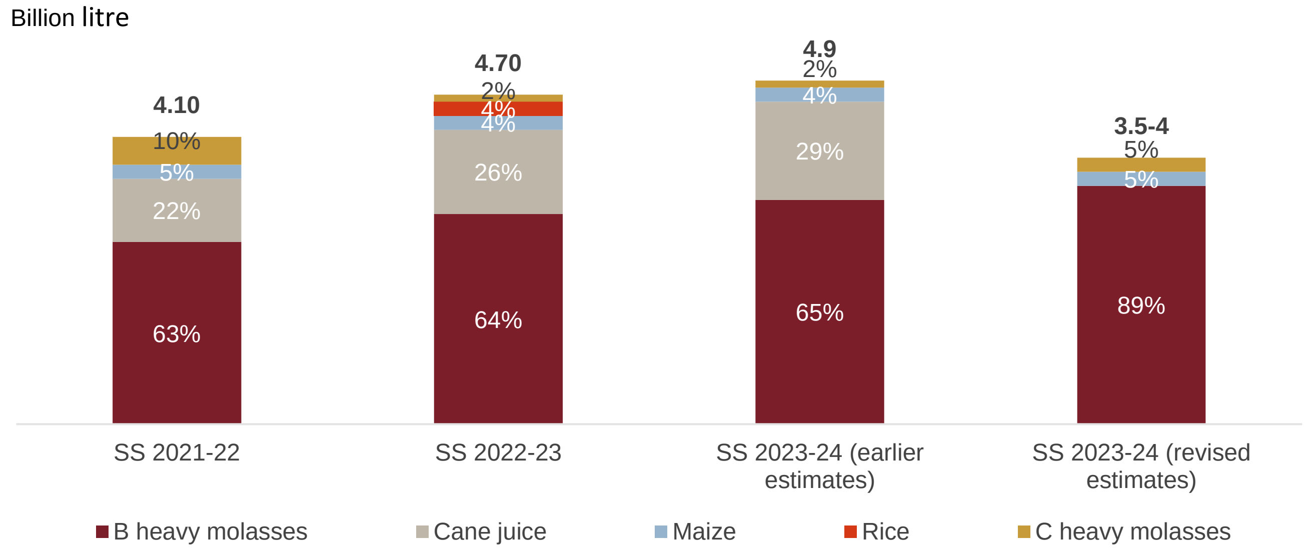
Note: Companies considered in the sample set collectively account for 30-35% of the market size:

North-based mills — Bajaj Hindusthan Ltd, Balrampur Chini Mills Ltd, Dhampur Sugar Mills Ltd, Oudh Sugar Mills Ltd, Rana Sugars Ltd, Simbhaoli Sugars Ltd, Triveni Engineering & Industries Ltd, Upper Ganges Sugar & Industries Ltd, Uttam Sugar Mills Ltd, and Dalmia Bharat Sugar & Industries Ltd

South-based mills — Bannari Amman Sugars Ltd, Dharani Sugars & Chemicals Ltd, K C P Sugar & Industries Corporation Ltd, Kothari Sugars & Chemicals Ltd, Ponni Sugars (Erode) Ltd, Rajshree Sugars & Chemicals Ltd, Sakthi Sugars Ltd, Thiru Arooran Sugars Ltd, Ugar Sugar Works Ltd, and Andhra Sugars Ltd

Source: Industry, CRISIL MI&A Research

Ethanol production to decline ~20% in SS 2023-24



Source: Industry, CRISIL MI&A Research

Petrol-ethanol blending rate to drop in SS 2023-24

The government's ambitious target of attaining 20% ethanol-blended petrol by EY 2024-25 and 30% by EY 2029-30 is likely to face setbacks due to the halt of ethanol production from sugarcane juice in EY 2023-24.

In EY 2022-23, a blending rate of 12% was achieved, and the industry had anticipated a rate of 13-15% in EY 2023-24. However, the new regulation is expected to keep the blending rate below 10% in EY 2023-24, with ethanol production projected to fall 20% and petrol consumption expected to increase 5%.

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