

Sugar exports seen up 20%, prices 8%

CRISIL Impact note

September 2019



The event

Cabinet approves Rs 6,260 crore export subsidy for sugar season 2020

The Cabinet Committee on Economic Affairs has given its approval for providing a lump sum export subsidy of Rs 10,448 per tonne of sugar to mills for sugar season (SS) 2020, or from October 2019 to September 2020.

The move entails a total estimated expenditure of Rs 6,260 crore.

The subsidy will cover expenses on marketing costs, including handling, upgrading, other processing costs, international and internal transport and freight charges, on export of up to 6 million tonne (MT) of sugar, limited to the maximum admissible export quantity allocated to sugar mills for SS 2020.

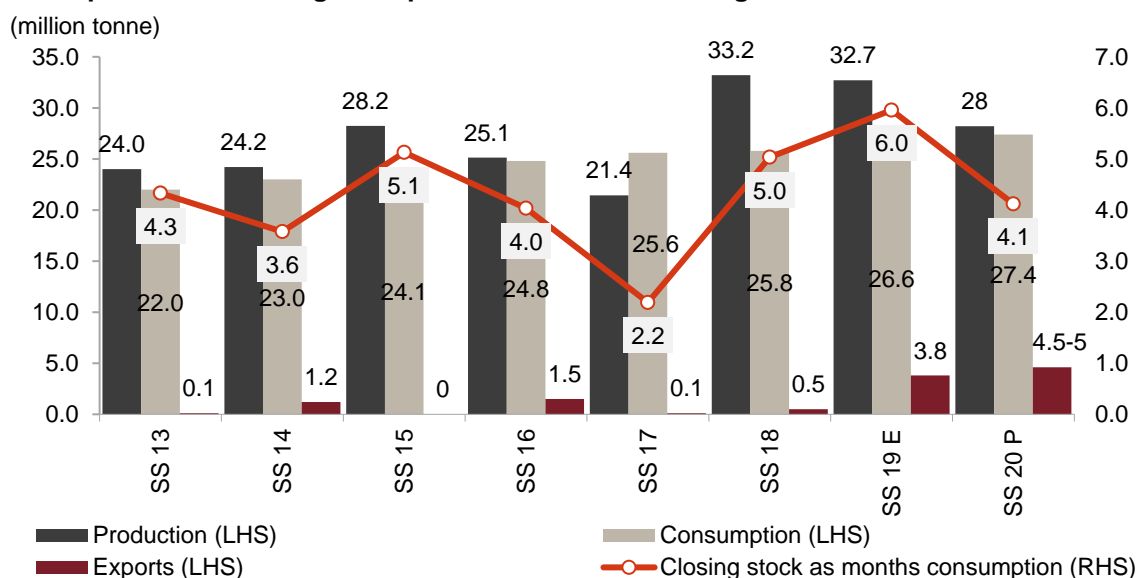
The subsidy would be credited directly into farmers' accounts on behalf of mills against cane price dues. The balance, if any, would be credited to the mills' accounts.

Background

A bumper sugarcane production for two consecutive seasons – SS 2018 and SS 2019 – has led to a huge pile-up of 12-13 MT sugar inventory.

To deal with this situation, the government, in July 2019, created buffer stock of 4 MT of sugar for one year from August 1, 2019. However, even after taking into account this buffer stocking till July 31, 2020, and likely diversion of sugar by way of production of ethanol from B-heavy molasses/cane juice during SS 2020 and requirement of normative stock for two months, there would be excess sugar stock that needs evacuation through export.

Lower production and higher exports to relieve excess sugar stock



Source: Industry, CRISIL Research

Impact

Exports to pick up 20%, clearing inventory piled up

Sugar exports, estimated at 3.8 MT for SS 2019, are expected to rise to 4.5-5 MT in SS 2020, given the lump sum export subsidy announced.

For SS 2019, the government had granted raw material subsidy of Rs 139 per tonne of sugarcane for sugar exported, along with a transport subsidy of Rs 1,000-3,000 per tonne of sugar, depending on the distance between the exporting sugar mill and the nearest port. These subsidies together worked out to Rs 2,300-4,300 per tonne of sugar exported.

The subsidy provided for SS 2020 is way higher, at a whopping 10,440 per tonne.

In spite of this, CRISIL Research believes it may be hard to achieve the export target of 6 MT as international sugar prices are expected to remain weak due to high global inventories.

Sugar prices to rise ~8% through September 2020

A decline in cane acreage due to extreme weather conditions in Maharashtra and parts of Karnataka is expected to result in a 10% decline in sugar production.

Additionally, a 20% rise in exports is expected to lead to inventories declining, triggering a rise in sugar prices. CRISIL Research expects sugar prices to rise ~8% to Rs 33-34 per kg in SS 2020 through September 2020.

Cane arrears to decline significantly

The export subsidy of Rs 6,260 crore would be credited directly to the farmers against the cane arrears owed to them by mills.

Earlier, in July 2019, the government had provided a subsidy of Rs 1,670 crore to be paid as inventory-carrying cost for a buffer stock of 4 MT. Cane arrears were at Rs 15,200 crore as of that month.

Together, these subsidies are expected to reduce cane arrears by ~40% through September 2020, if utilised to their maximum extent.

Mills to see an uptick in profitability

SS 2020 is expected to be extra sweet for sugar mills, with the overall operating margin expanding 350-450 basis points (bps), including 150-200 bps due to the export subsidy.

A spurt in ethanol sales volumes and realisations, and an expected rise of ~8% in sugar prices, would further improve mill profitability in SS 2020.

For further information,

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