

INDIAN SUGAR UPDATE REPORT



Q4 2020

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KEY FINDINGS

<p>2020/21 campaign</p> <p>India Sugar Production [Oct 20 - Dec 20] = 11 Mt Indian sugar production estimate [Oct 20 - Sep 21] = 32 Mt</p>	<p>↑ 39.4% y-o-y ↑ 14.7% y-o-y</p>
<p>Sugar exports</p> <p>[2020/21] Oct - Jan: ■ Mt [2020/21] Oct – Sept Estimate: ■ Mt</p>	<p>60% 5%</p>
<p>Domestic prices</p> <p>Domestic ex-mill sugar prices [Q4 2020]: Rs. ■ Wholesale Sugar prices [Q4 2020]: Rs ■</p>	<p>■</p>
<p>Sugar carryover stocks</p> <p>October 1st, 2020: 9.8 Mt</p>	<p>↓ 27.4% y-o-y</p>

Editor's Note: In this report, sugar volumes are expressed in tel quel value unless stated otherwise.

1 – 2020/21 SEASON

Domestic sugar output crossed the 11 million tonnes (Mt) mark on 31 December 2020 : up 39.4% from last year when sugar mills had produced nearly 8 Mt of sugar.

As illustrated on Table 1, sugar production significantly bounced back in Maharashtra (as well as Karnataka) thanks to:

- higher cane acreage (+0.3 Mha from a year ago),
- improved yields,
- additional sugar mills operating this season,
- an early start to the crush.

Overall and at this stage of the season, Maharashtra is the largest sugar producing state in the country. However, Uttar Pradesh is expected to remain the biggest sugar producing state by end-season.

Table 1 - Indian sugar production data

State	2020/21* [Mt sugar]	2019/20 [Mt sugar]	Y-o-Y variations [Mt sugar]	Y-o-Y variations [%]	2020/2021 Forecast' [Mt sugar]
Andhra Pradesh & Telangana	0.094	█	-0.002	-2	0.4
Bihar	0.188	█	-0.045	-19	0.7
Gujarat	0.335	█	0.07	+26	1
Haryana	0.195	█	0.06	+44	0.7
Karnataka	2.416	█	0.783	+48	4.5
Madhya Pradesh	0.13	█	0.03	+30	0.3
Maharashtra	3.986	█	2.268	+132	10.5
Punjab	0.12	█	-0.04	-25	0.6
Tamil Nadu	0.085	█	-0.01	-11	0.7
Uttar Pradesh	3.391	█	0.015	+0	12
Uttarakhand	0.1	█	-0.006	-6	0.4
Others	0.007	█	0.001	+17	0.2
ALL INDIA	11.047	7.923	3.124	+39	32

'*' = Estimate

Although we continue to peg the 2020/21 Indian sugar output at 32 Mt, the diversion of █ Mt sugar equivalent for ethanol (EtOH) purposes¹ could bring official figures down. In this perspective, it is interesting to

¹ Domestic Indian EtOH production originating from the processing of sugarcane is expected to reach [3.0 - 3.5] billion liters in 2020/21 [Dec – Nov basis].

highlight that sugar factories are increasingly interested in EtOH as it offers better and more immediate returns compared to sugar (Box 1).

Box 1 - Sugar and EtOH economic returns

In this illustrative example, we consider the crush of 1 t of sugarcane which – on average – allows to produce about [REDACTED] Kg of sugar and [REDACTED] liters of EtOH from C-heavy molasses.

Considering a market price of i) [REDACTED] for sugar and ii) Rs. [REDACTED] / Liter of EtOH coming from C-heavy molasses, Indian sugar mills can expect a total return of almost Rs. [REDACTED] / t cane distributed as follows:

- * Rs. [REDACTED] coming from sugar sales,
- * Rs. [REDACTED] coming from ethanol produced using C-heavy molasses.

Meanwhile, should a mill decides to divert the entire sugarcane juice extracted from 1 t of sugarcane to produce ethanol, the mill should be able to produce an average [REDACTED] Liters of EtOH. With a selling price of Rs. [REDACTED] / Liter of EtOH coming from sugarcane juice, the mill could eventually expect a total revenue of nearly Rs. [REDACTED] / t cane: up 12% (or Rs. [REDACTED] / t cane) from revenues arising from sugar and C-heavy molasses combined.

The mill would also earn indirect benefits [REDACTED]

Additionally, mills would normally receive OMC payments for the sale of EtOH before [REDACTED] days, while sugar generally results in a minimum average payment delay of [REDACTED] months therefore increasing accrued interests.

Overall, we believe that EtOH production in India could be extremely helpful for sugar mills to solution cash-liquidity problems while reducing sugar availabilities on the local market.

Unfortunately, many existing sugar mills i) are not equipped with adjacent EtOH distilleries or ii) have limited production capacities. Most importantly, financing new investments in the Indian EtOH sector is generally challenging as banks tend to reject loan applications due to a lack of guarantee on mills' ability to meet their repayment obligations.

However, the decision of the Government to step in and support EtOH investments via soft loans and financial assistance might eventually change the momentum. According to our information, [REDACTED]

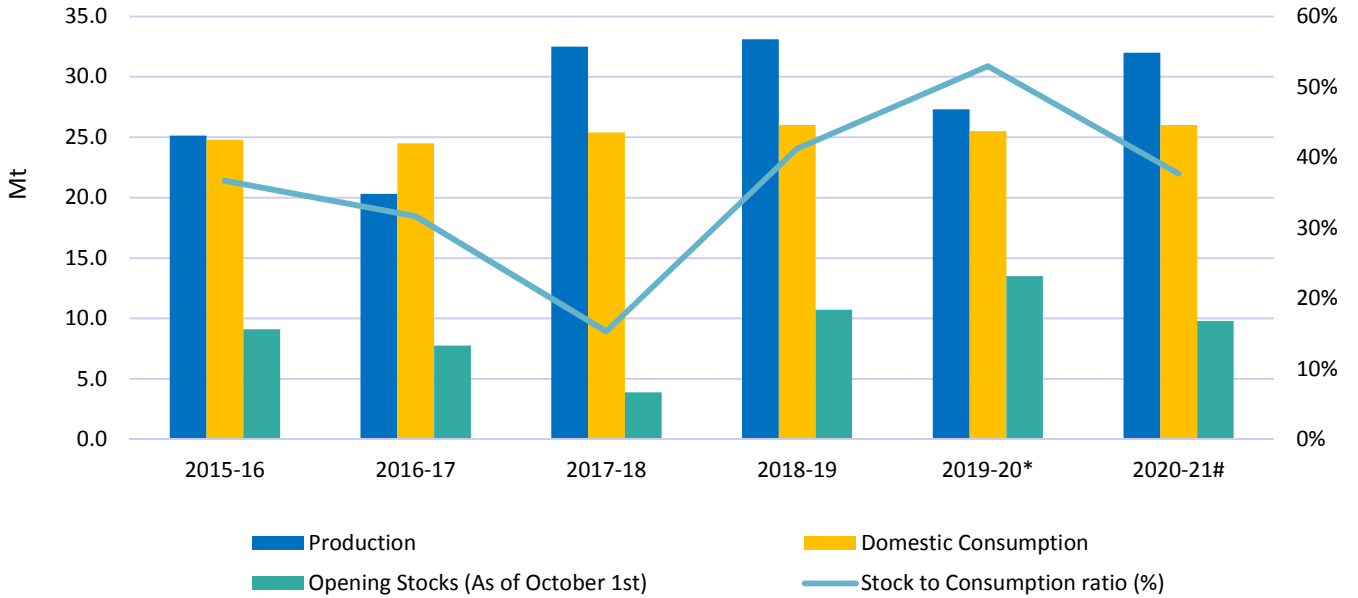
Last but not least, the recent decision from the Government to set an ambitious target of [REDACTED] [REDACTED] therefore indirectly helping investments in i) brand new distilleries and/ or ii) the expansion of existing EtOH capacities.

Overall, [REDACTED]

[REDACTED]

[REDACTED]

Graph 1 - Indian sugar production, consumption & opening stocks



'*' = Estimate

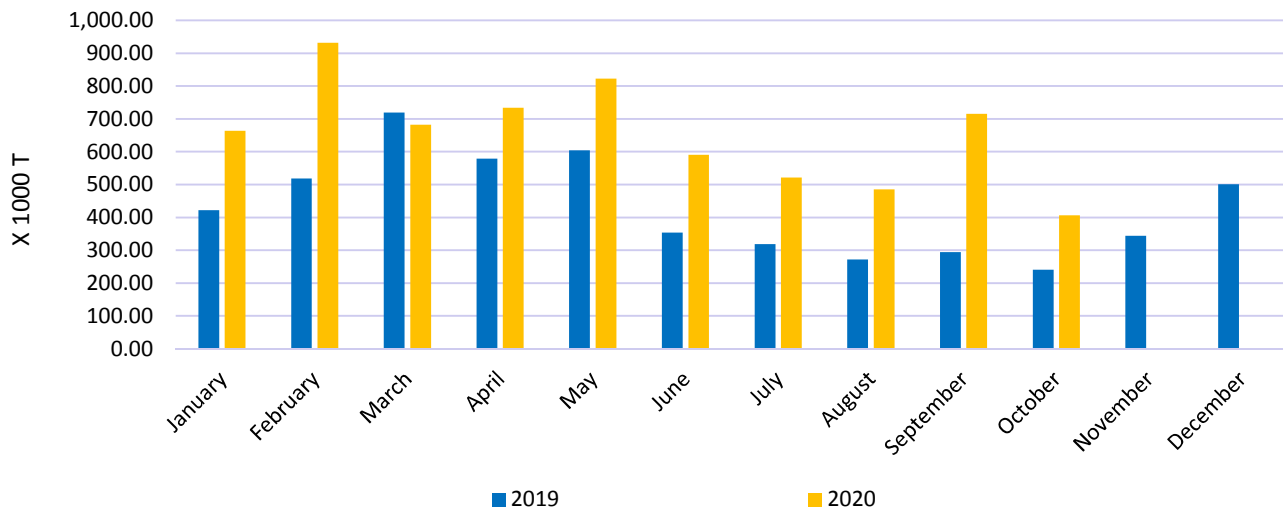
'#' = Forecast

2 – SUGAR EXPORTS

According to our information, Indian sugar export contracts over the first 3 months of 2020/21 amount to [REDACTED]

This decline is the result of [REDACTED]

Graph 2 – Indian sugar exports: monthly basis



Note: Above data does include export volumes of refined sugar resulting from “tolling” operations under the Advance Authorisation Scheme (AAS)

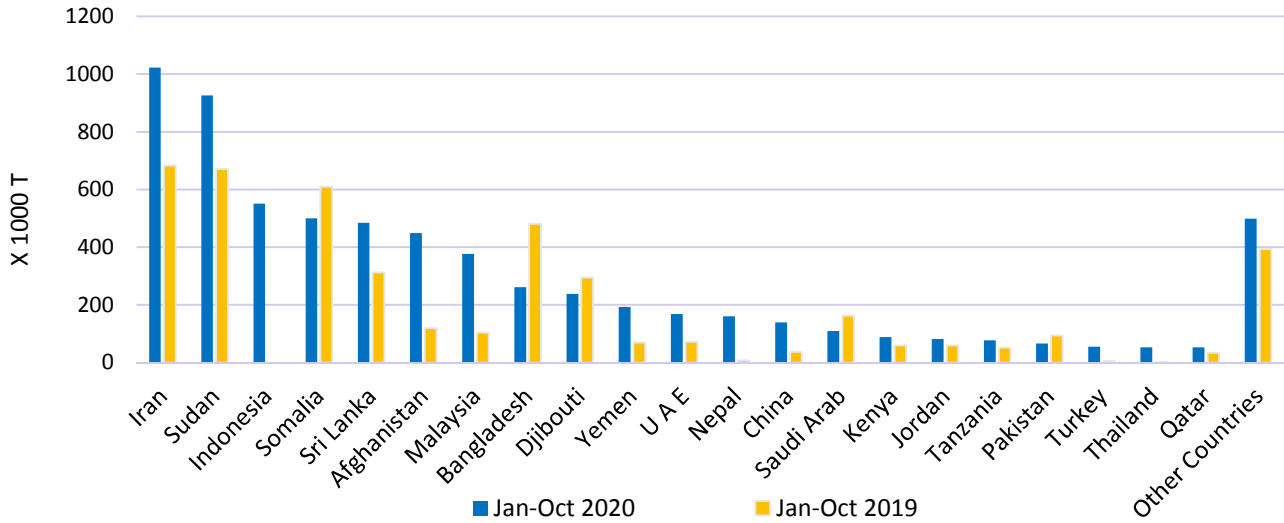
Looking at 2019/20 and although the export volume felt short of the 6 Mt target by 0.3 Mt at the end of September 2020, the decision to eventually postpone the 2019/20 export “deadline” by 3 months (i.e. up until [Dec 20]) resulted in the export quota of 6 Mt being fully utilized by local mills as they exported the remaining 0.3 Mt during [Oct 20 – Dec 20].

From a geographical point of view, 2020 exports were characterized by :

[REDACTED]

² The Government of India has approved an export subsidy of Rs 35 billion for the export for 6 Mt of sugar (for more details please refer to our Monthly Indian Sugar Report).

Graph 3 - Indian sugar export shipments by destinations: [Jan - Oct]



Note: Above data does include export volumes of refined sugar resulting from “tolling” operations under the Advance Authorisation Scheme (AAS)

As for 2020/21, Indian sugar exports are expected to significantly rise until [Apr 21] as i) the country will be left “alone” on the market while ii) international sugar prices continue to appreciate and are now above 16 cts/lb.

Overall and at this stage, India’s total sugar exports is anticipated to total [REDACTED]

3 – DOMESTIC PRICES

Domestic sugar prices declined over Q4 2020, on the back of large availabilities resulting from the start of the new 2020/21 season. [REDACTED]

While bulk purchases from industrial users [REDACTED] remained slow (traditionally the demand tends to slow down at this time of the year as cold weather negatively affects the country's consumption pattern in Oct – Jan) [REDACTED]

[REDACTED] As no major spur in industrial demand [REDACTED] is expected over Q1 2021, domestic sugar prices [REDACTED] are expected to remain under pressure over this period [REDACTED]

However, industrial demand could revive [REDACTED]

From a regional point of view (Graph 4), ex-mill sugar prices in Uttar Pradesh (M-grade) averaged Rs. [REDACTED] during Q4 2020: [REDACTED].

In Maharashtra, average SS-grade sugar prices [REDACTED] dropped down [REDACTED].

Graph 4 - Ex-mill sugar prices: [Q4 2020]

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Meanwhile:

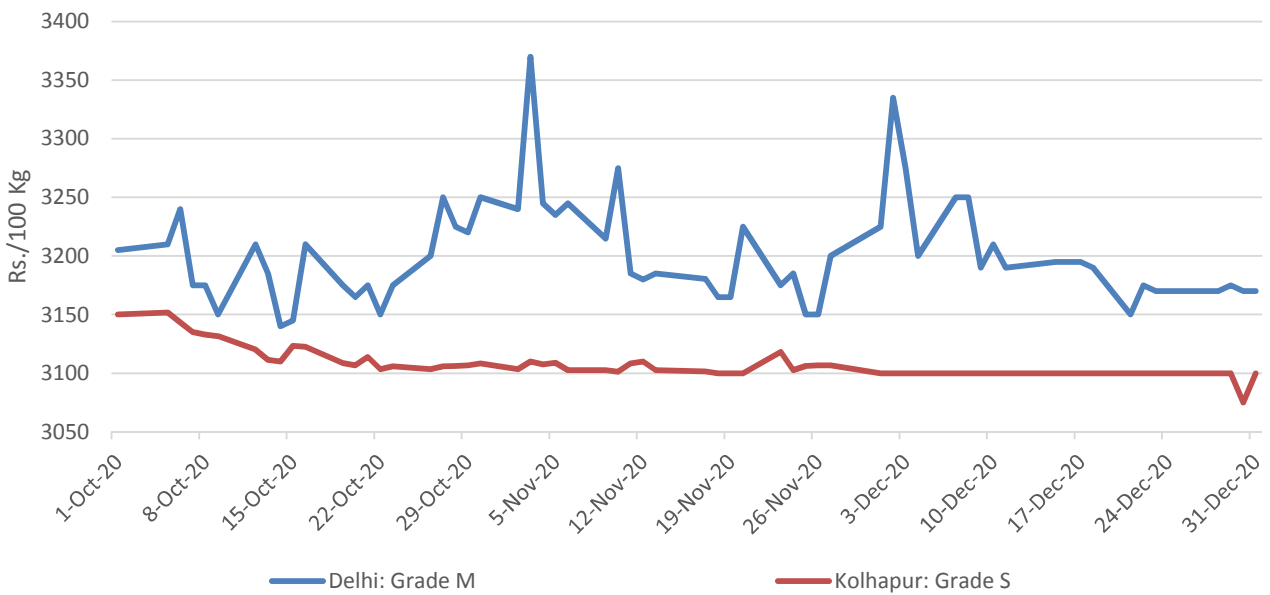
- wholesale sugar prices averaged Rs [REDACTED]
- retail sugar prices [REDACTED]

Graph 5 – Retail and Wholesale sugar prices: [Q4 2020]

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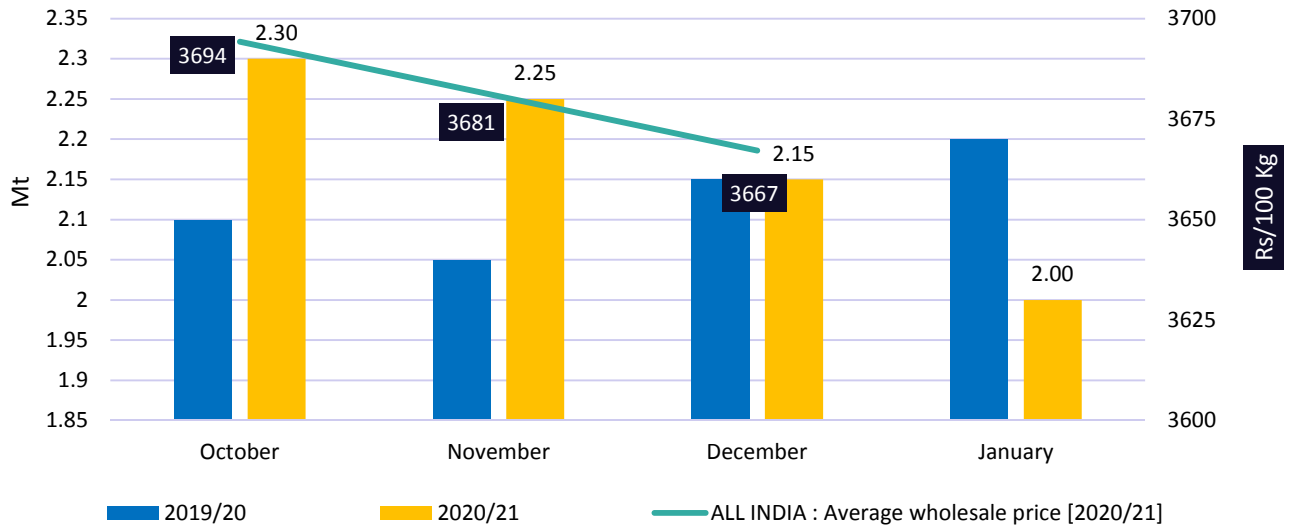
- M-grade sugar was traded at an average Rs [REDACTED] in Delhi (wholesale),
- S-grade sugar averaged Rs [REDACTED] in Kolhapur (Graph 6).

Graph 6 – Wholesale sugar price Delhi M-Grade and Kolhapur S-Grade (NCDEX Spot)



Additionally, the food ministry lowered domestic sales quota to 2 Mt for [Jan 21] to support falling local prices and control excessive sugar availabilities (Graph 7).

Graph 7 - Monthly sales quota allocations [Oct-Jan]



4 - WEATHER CONDITIONS

According to data released by the Indian Meteorological Department (IMD), India's cumulative rainfalls over [Oct 20 - Dec 20] were 1% above the Long Period Average values (LPA) and totaled 124.1 mm.

Table 2 - Seasonal Rainfall Scenario (Oct 20 - Dec 20)

Regions	Actual [mm]	Normal [mm]	Variations [%]
ALL INDIA	124.1	123.3	1%
Northwest India	33.8	55.1	-39%
Central India	84.9	75.9	12%
South Peninsula	317.9	276.6	15%
East & northeast India	142.1	166.5	-15%

Although Northwest India witnessed scanty rainfall over the post-monsoon season, other regions recorded higher than usual rainfalls.

Overall, [REDACTED] next season.

5 - IN BRIEF: GOVERNMENT AND INDUSTRY'S RECENT DECISIONS

- The Central Government of India has approved an export assistance plan of about Rs. 35 billion to export 6 Mt of sugar in 2020/21. This plan will translate into a Rs. 5.83/Kg sugar subsidy which will help sugar mills cover their handling, processing and domestic/international transportation costs under the Maximum Admissible Export Quota (MAEQ).
- Sugarcane arrears reportedly account for Rs. 80 billion in Uttar Pradesh so far this season, while Maharashtra's stands at Rs. 21.40 billion.

■ The Central Government has revised up ethanol prices for the new 2020/21 Ethanol Supply Year (ESY) which runs from 1st December 2020 to 30th November 2021. The ex-mill price of ethanol derived from i) C-heavy molasses is Rs. 45.69 per litre ii) B-heavy molasses is 57.61 per litre iii) sugarcane juice/ sugar/ sugar syrup is ■

- In 2020/21, the Indian Government has set a target of [3 - 3.5] billion litres of ethanol to be sold by sugar mills to OMCs. If the target is hit, this would result in a ■% ethanol blending rate with petrol.
- Oil marketing companies ■

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