INDIAN SUGAR UPDATE REPORT

Q1 2021

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apic Consulting

TABLE CONTENT

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KEY FINDINGS

2020/21 campaign India Sugar Production [1 Oct 20 – 15 Apr 21] = 29.10 Mt Indian sugar production estimate [Oct 20 - Sep 21] = 30.16 Mt	 ↑ 17.5% y-o-y ↑ 9.7% y-o-y
Sugar exports [2020/21] Oct - Mar: 2.5 Mt [2020/21] Oct – Sept Estimate: 6 Mt	 ↓ 1.5% y-o-y ↑ 5.3% y-o-y
Domestic prices Domestic ex-mill sugar prices [Q1 2021]: Rs. 3,201/ QTL Wholesale Sugar prices [Q1 2021]: Rs 3,543/QTL	 ↓ 1.8% y-o-y ↓ 1.5% y-o-y
Sugar carryover stocks October 1st, 2020: 8.86 Mt	 ↓ 8.7% y-o-y

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

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1 – 2020/21 SEASON

Sugar production in India totaled 29.1 million tonnes (Mt) by April 15th, 2021 : up 17.5% from last year.

However, the country's total sugar output by the end of the season is now expected to fall short of the 30.5 Mt mark due to :

- a higher proportion of sugarcane juice being "diverted" for ethanol purposes nationwide,
- a reduction of Uttar Pradesh's sugar output as sugarcane yields and recovery rates dropped while pest infestations – for which we were amongst the first to mention - were reported in the State,
- a downgrade of the sugar output increase that is now anticipated in Maharashtra and Karnataka

Overall, a majority of sugar mills are expected to close down operations by the end of [Apr 21] and we anticipate the 2020/21 Indian sugar production to total 30.16 Mttq (Table 1).

Table 1 - Indian sugar production data

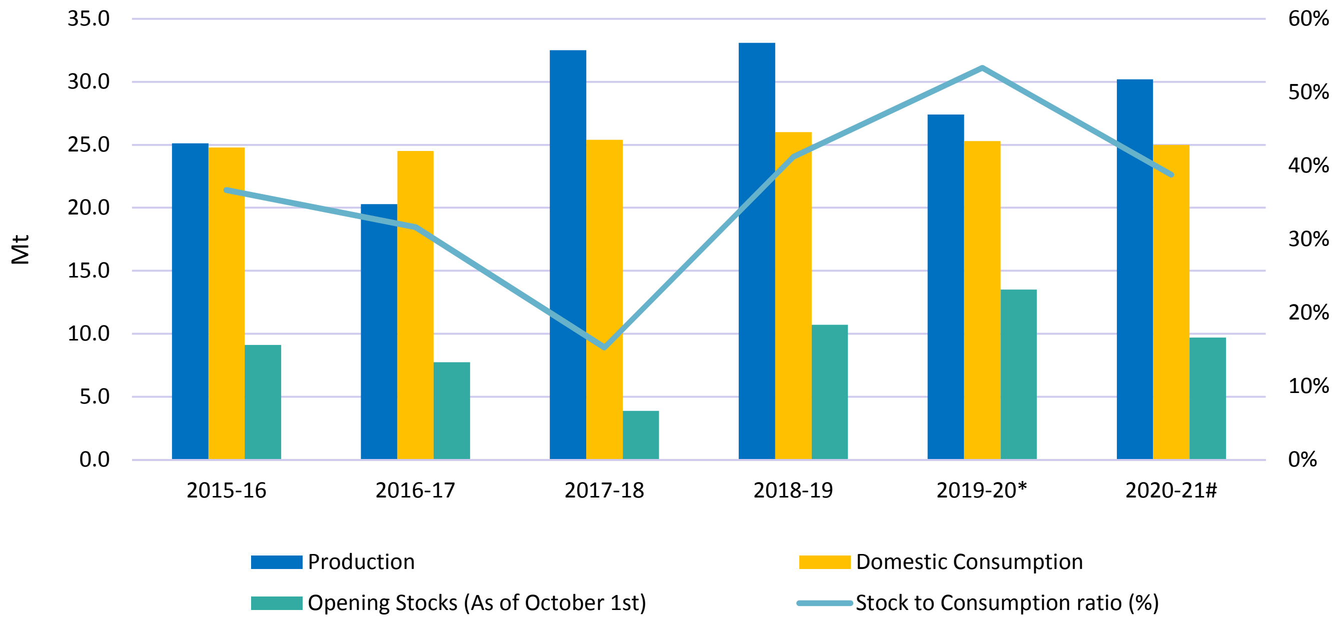
State	2020/21* [15 Apr 2021] [Mt sugar]	2019/20 [15 Apr 2020] [Mt sugar]	Y-o-Y variations [Mt sugar]	Y-o-Y variations [%]	2020/2021 [Season-end forecast] [Mt sugar]
Uttar Pradesh	10.09	10.83	- 0.74	-7	10.20
Maharashtra	10.42	6.01	4.41	+73	10.70
Karnataka	4.15	3.38	0.77	+23	4.26
Gujarat	0.95	0.88	0.07	+8	1.10
Tamil Nadu	0.59	0.50	0.09	+18	0.80
Other States	2.90	3.16	- 0.26	-8	3.10
ALL INDIA	**29.10**	**24.76**	**4.34**	**+18**	**30.16**

* = estimate

With 9.7 Mt of carryover stocks from last season and even after exporting a maximum 6 Mt of sugar this season, the country will have 33.86 Mt of sugar available to cover domestic consumption which is expected to decline as the country witnessed a sudden spike in Covid cases since March 2021. New regulations limiting weddings and public gatherings attendance, closures of hotel, restaurants and theaters are anticipated to negatively affect domestic consumption which should be closer to 25 Mt this season.

This situation should eventually lead to 8.86 Mt of sugar being carried forward onto 2021/22 by 01 October 2021: more than the 3-month inventory stock requirement traditionally set by authorities.

Graph 1 - Indian sugar production, consumption and opening stocks

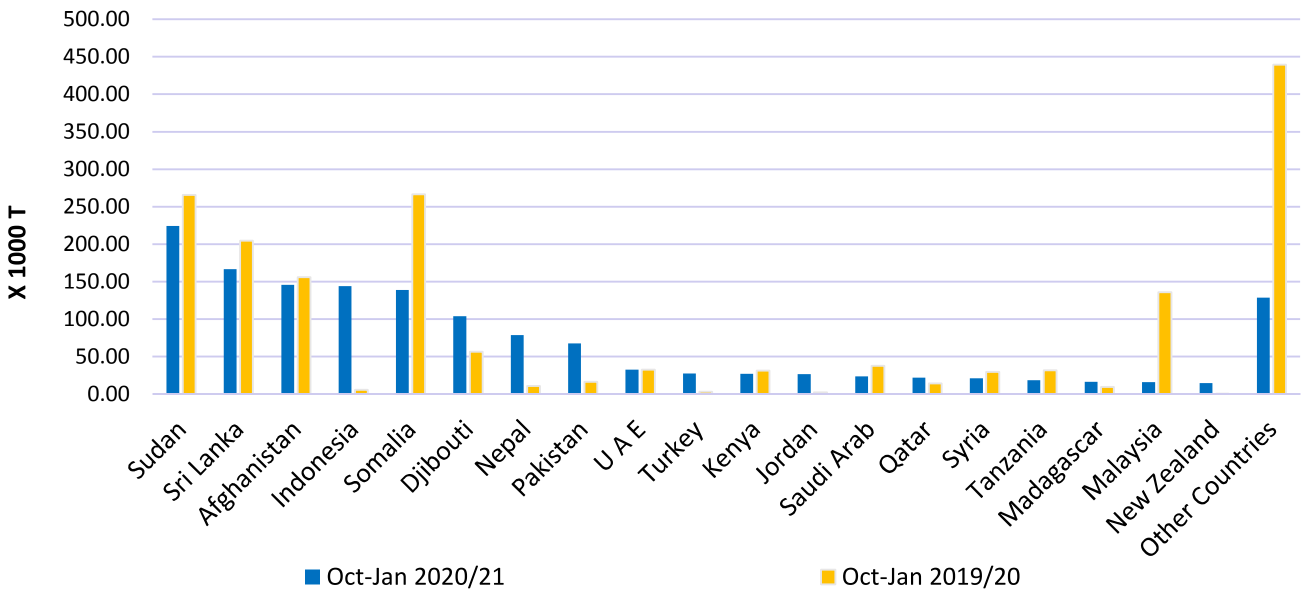

35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
Mt
60%
50%
40%
30%
20%
10%
0%
2015-16
2016-17
2017-18
2018-19
2019-20*
2020-21#
Production
Domestic Consumption
Opening Stocks (As of October 1st)
Stock to Consumption ratio (%)

2 – SUGAR EXPORTS

According to our information and at this stage of the season, Indian sugar mills contracted a total export volume of 4.5 Mt sugar this season: up from the 3.7 Mt sugar at the same time a year ago.

With international sugar prices being supportive and despite persistent container shortages over Q1 2021, domestic sugar mills may eventually fullfill their export quota which was set at 6 Mt by government.

Graph 2 – Indian sugar exports: 2020/21 [Oct – Jan]



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

From a geographical point of view, [Oct 20 - Jan 21] sugar export statistics showed that :

- Sudan has been the biggest buyer of Indian sugar (followed by Sri Lanka) so far this season,
- Sugar exports to Iran (last season's top buyer) totally stopped this season due to U.S. embargoes sanctions,
- Indonesia has become a major destination for India in 2020/21 as the country i) adjusted its ICUMSA requirements (therefore allowing Indian sugar to qualify as a potential source of imports) and ii) lowered the sugar import duty to 5% : a similar level compared to Australia and Thailand.

Meanwhile, India resumed exports to Pakistan which is facing a shortage of about 0.5 Mt this season. Even though the latest tender issued by the Trading Corporation of Pakistan (TCP) specifically mentioned that imported sugar should not originate from banned countries such as India, the reality is that Indian sugar remains the cheapest available sugar for Pakistan with possible direct land deliveries.

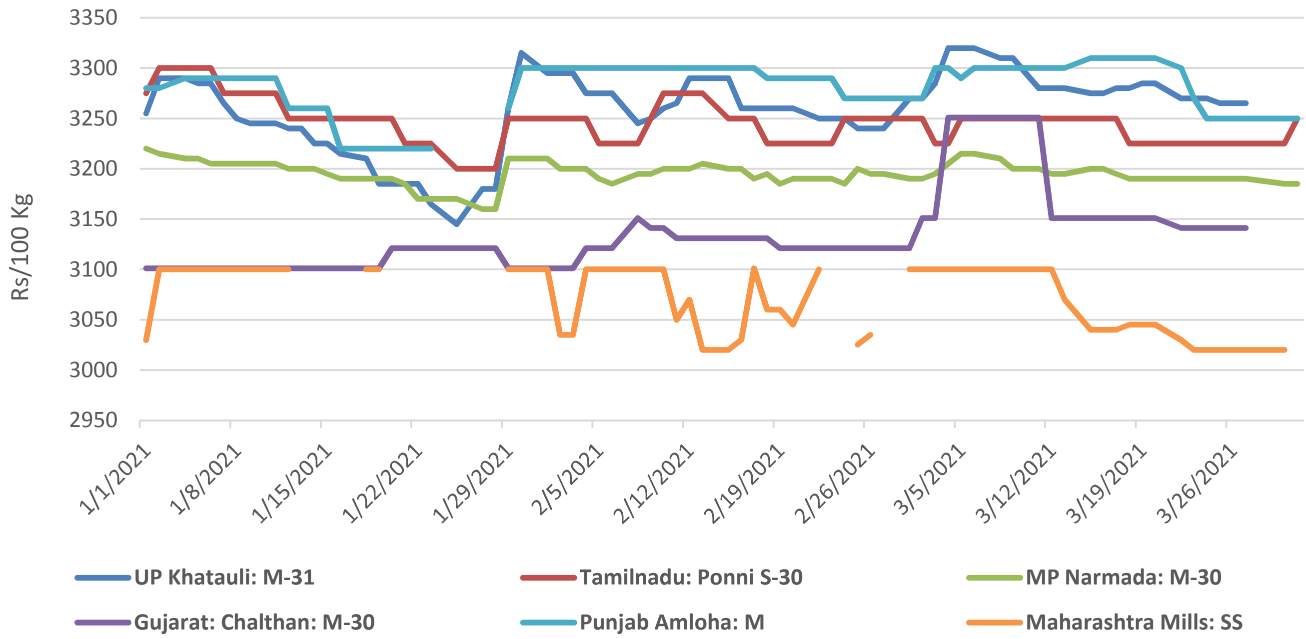
Overall, Indian sugar exports should reach the allocated Minimum Indicative Export Quota (MIEQ) of 6 Mt. Some rumours are even suggesting that authorities could add an additional 2 Mt to this existing MIEQ.

3 – Domestic Prices

Domestic sugar prices weakened throughout the first quarter of 2021 as :

- ample availabilities (on the back of an increased sugar production this season) weighted on local sugar prices,
- the emergence of a second wave of coronavirus infections (since mid-March 2021) triggered new restrictions which negatively affected domestic sugar consumption,
- mills aggressively sold their stocks to minimize storage costs and clear mounting famers' cane arrears.

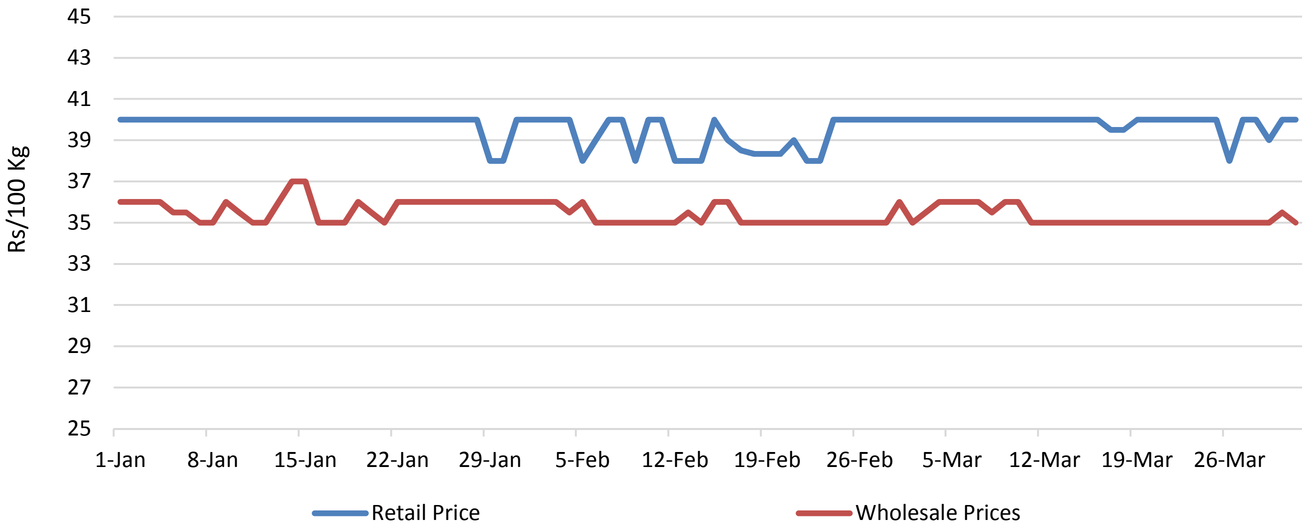
Graph 3 - Ex-mill sugar prices: [Q1 2021]



From a regional point of view (Graph 3), ex-mill sugar prices in Uttar Pradesh (M-grade) averaged Rs. 3,260/100 Kg during Q1 2021: down 2% from the previous quarter and down 1.25% from a year ago.

In Maharashtra, average SS-grade sugar prices [Rs 3,071/100 kg] dropped 2% from the previous quarter and 3% from a year ago.

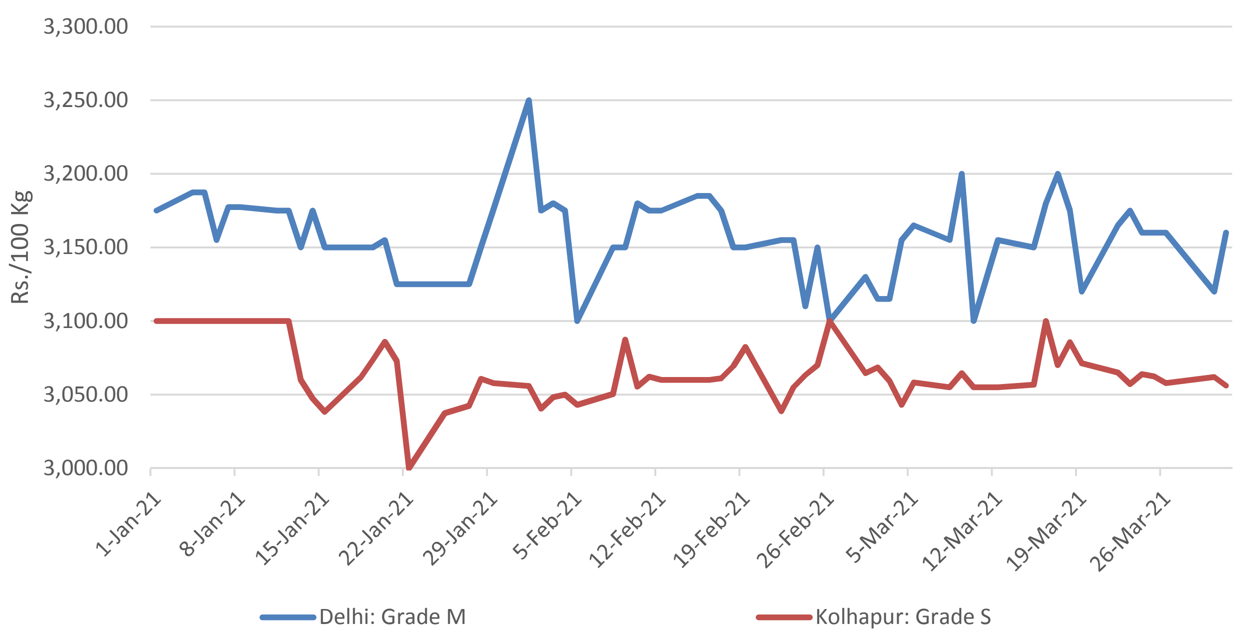
Graph 4 – Retail and Wholesale sugar prices: [Q1 2021]



Meanwhile:

- wholesale sugar prices averaged Rs 3,550/100 Kg: down i) 1.55% from the previous quarter and ii) 1.87% from a year ago,
- average retail sugar prices [Rs. 39.65 per Kg] marginally dropped from the previous quarter, as well as from last year (Graph 4).

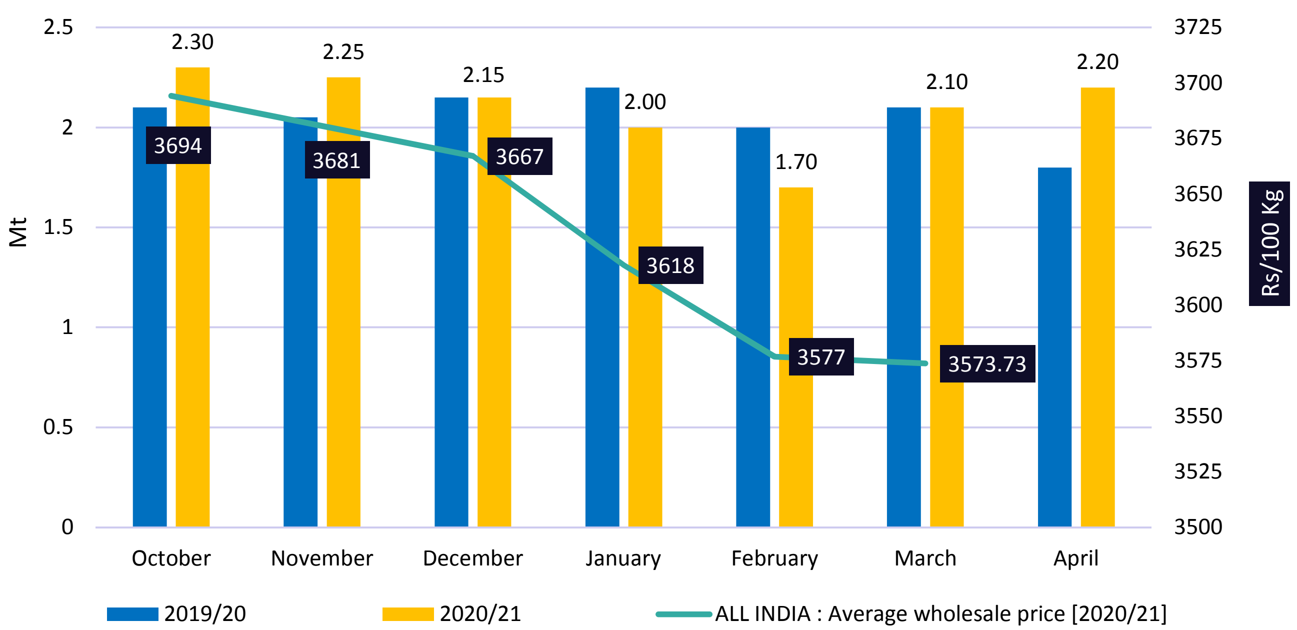
Graph 5 – Wholesale sugar price Delhi M-Grade and Kolhapur S-Grade (NCDEX Spot)



- M-grade sugar was traded at an average Rs 3,201/100 kg in Delhi (wholesale),
- S-grade sugar averaged Rs 3,108/100 kg in Kolhapur (Graph 5).

Although the food ministry increased the domestic sugar sales quota to 2.2 Mt for [Apr 21], sugar mills are still holding large stocks from previous monthly sales quota. This situation should therefore maintain a downward pressure on local sugar prices in coming months.

Graph 6 - Monthly sales quota allocations [Oct-Apr]



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4 - Weather Conditions

According to data released by the Indian Meteorological Department (IMD), India's cumulative rainfall recorded in [Mar 21] were 45% below the Long Period Average values (LPA).

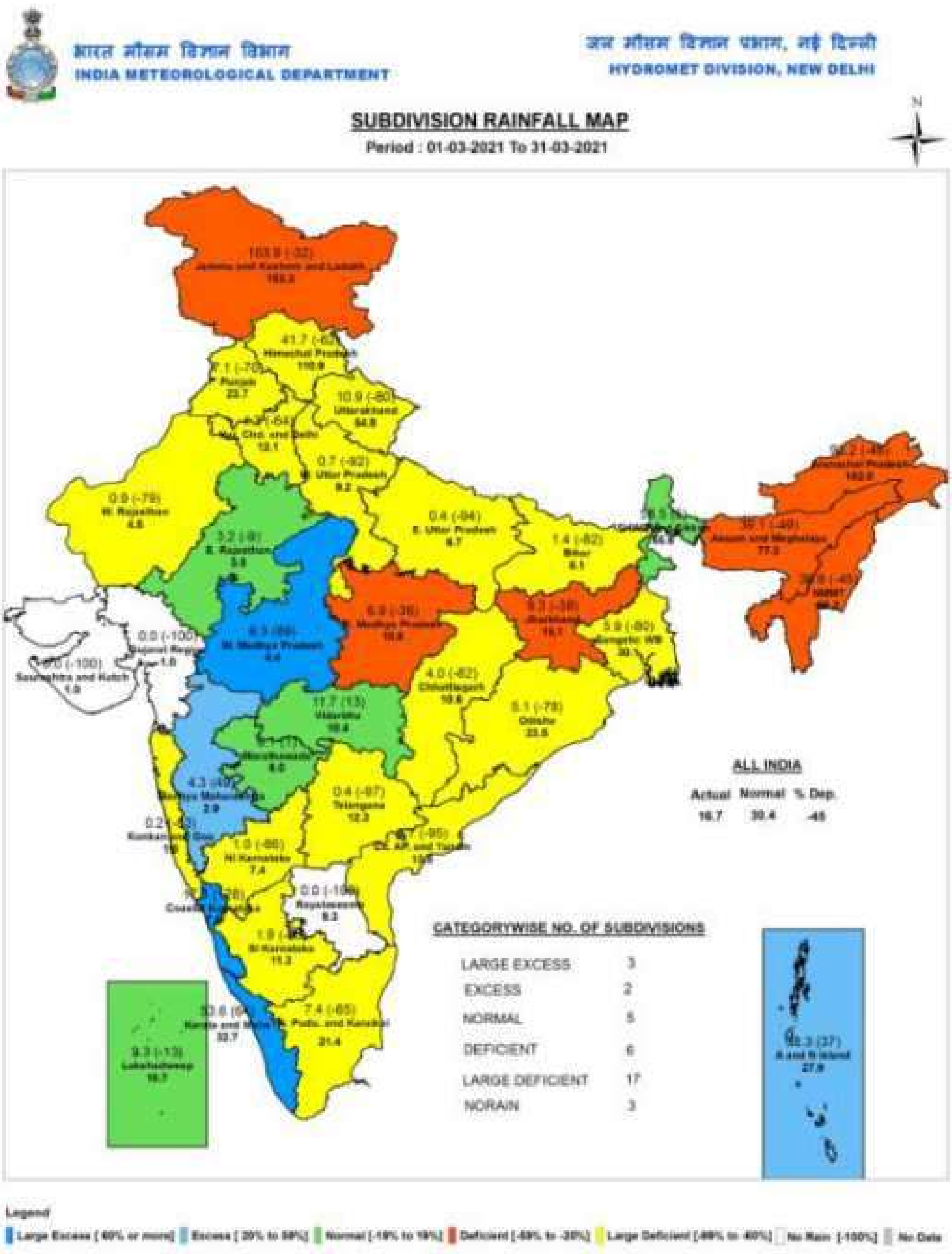
Table 2 - Seasonal Rainfall Scenario [Mar 21]

Regions	Actual [mm]	Normal [mm]	Variations [%]
ALL INDIA	**16.7**	**30.4**	**-45%**
Northwest India	27.0	47.5	**-43%**
Central India	5.2	8.4	**-38%**
South Peninsula	6.3	14.4	**-56%**
East & northeast India	33.8	63.5	**-47%**

However, according to IMD's initial estimates (IMD is expected to publish an updated forecast by the end of May 21) the 2021 southwest monsoon (which occurs from Jun to Sep) is still anticipated to be normal : rainfalls totalling 98% of the Long Period Average (LPA) with a model error of ± 5%.
As a reminder, India witnessed "normal" monsoon seasons for the past two seasons.

Table 3 - Rainfall forecasts for the 2021 southwest monsoon over the country

Category	Rainfall Range (% of LPA)	Forecast Probability (%)
Deficient	< 90	**14**
Below Normal	90 - 96	**25**
Normal	96 -104	**40**
Above Normal	104 -110	**16**
Excess	> 110	**5**



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5 - In Brief: Government and Industry's recent Decisions

- The NITI Aayog (a policy think tank of the Government of India) recommended a one-time rise of the sugar "Minimum Selling Price"(MSP) to Rs. 33 per Kg from Rs. 31/Kg. It also suggested to work on a revenue sharing formula which would "align cane and sugar prices.

- The cooperative sugar mill federation is said to have requested for the development of a "gradewise" (L, M, S and SS) MSP for sugar.

- In an attempt to resume exports to Iran, India could use other currencies to export sugar, as Iran's INR reserves depleted. India is also willing to export sugar to Pakistan, as the country allowed the import of 0.5 Mt of sugar ahead of 2020/21 Ramadan festive season.

- India's sugarcane arrears currently stand at Rs. 230 billion so far this season : Maharashtra's representing Rs. 22.66 billions and Uttar Pradesh Rs. 140 billions.

- So far this season (basis Dec – Nov for ethanol], India has managed to achieve a 7.2% ethanol blending rate with petrol under the so-called "Ethanol Blended Petrol Programme" which was originally launched in January 2003.

- Sugar mils have contracted nearly 3 billion litres of ethanol with Oil Marketing Companies (OMCs) over the first four months of the ethanol 2020/21 season.

- The government of India has set a 20% ethanol-blending target by 2025 which would result in about [10 – 11] billion liters of ethanol to be produced by that time.

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