

INDIAN SUGAR UPDATE REPORT



Q3 2021

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KEY FINDINGS

<p>2020/21 campaign</p> <p>India Sugar Production [Oct 20 – Sept 21] = 31.1 Mt Indian sugar production estimate [Oct 21 - Sep 22] = 31.5 Mt</p>	<p>↑ 14% y-o-y ↑ 1.3% y-o-y</p>
<p>Sugar exports</p> <p>[2020/21] Oct - Sept: 7.3 Mt [2021/22] Oct – Sept Estimate: [5 – 6] Mt</p>	<p>↑ 23.7% y-o-y ↓ [17.8 – 31.5]% y-o-y</p>
<p>Domestic prices</p> <p>Domestic ex-mill sugar prices [Q3 2021]: Rs. 3,461/ QTL Wholesale Sugar prices [Q3 2021]: Rs 3,725/QTL</p>	<p>↑ 3.47% y-o-y ↑ 3.38% y-o-y</p>
<p>Sugar carryover stocks</p> <p>October 1st, 2021: 7.5 Mt October 1st, 2022: 7 Mt</p>	<p>↓ 22.7% y-o-y ↓ 6.67% y-o-y</p>

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

1 – 2021/22 SEASON & INDIAN SUGAR BALANCES

After a 2020/21 season [Oct/Sep basis] which concluded with a total sugar output of 31.1 million tonnes (Mt), we expect :

- national 2021/22 sugar production to total 31.5 Mt,
- crushing operations to start on October 15th – day of the Vijayadashami festival - in major sugar producing states (namely Maharashtra and Uttar Pradesh).

According to official data, total areas grown with sugarcane represent 5.47 million hectares (Mha): up 1.65% from last year.

With all major reservoirs¹ showing ample water availability (88%) : cane productivity and production is likely to increase.

From a regional point of view, Uttar Pradesh is expected to remain the biggest sugar producing state in the country (11.5 Mt) while Maharashtra - driven by an increase in cane acreage (1.23 Mha) and productivity (90 t/ha) – should also record a substantial production increase at 11.2 Mt (Table 1).

Table 1 - Indian sugar production data

State	2020/2021*	2021/2022#	Y-o-Y variations	Y-o-Y variations
	[Mt sugar]	[Mt sugar]	[Mt sugar]	[%]
Uttar Pradesh	11.1	11.5	0.4	3.60
Maharashtra	10.64	11.2	0.56	5.26
Karnataka	4.35	4.4	0.05	1.15
Gujarat	1.03	1	-0.03	-2.91
Tamil Nadu	0.88	0.9	0.02	2.27
Other States	3.1	2.5	-0.6	-19.35
ALL INDIA	31.1	31.5	0.4	1.29

* estimate | # forecast

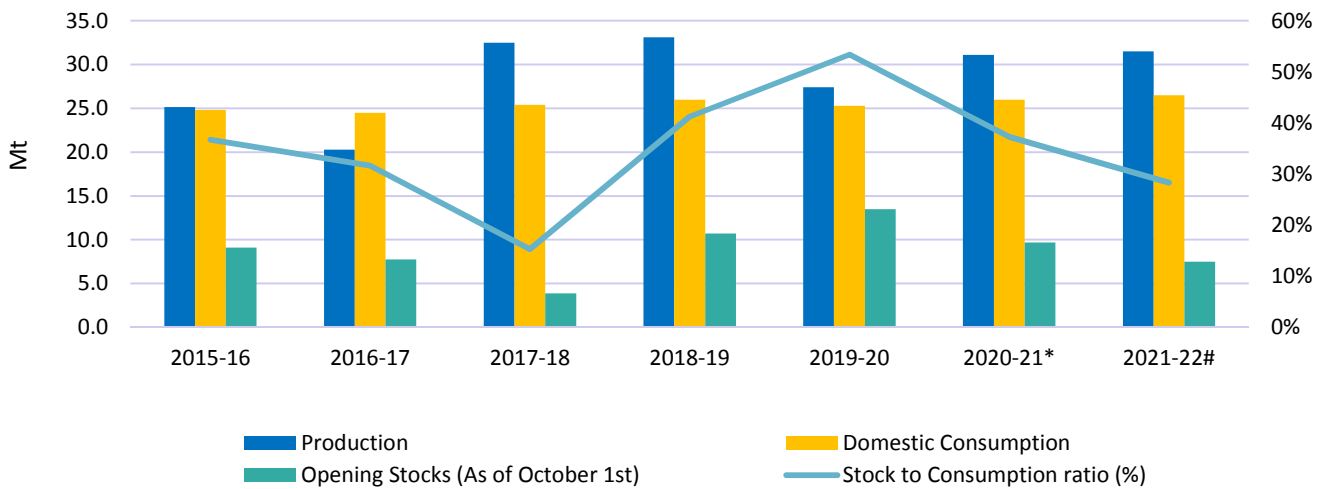
Meanwhile, cane/sugar diversion for ethanol purposes is expected to increase this season representing a sugar-equivalent volume of nearly 3.5 Mt (against 2.4 Mt in 2020/21, 0.93 MT in 2019/20 and 0.34 Mt in 2018/19).

¹ By September 30th, an estimated 138.327 billion cubic meters of water was reportedly stored in 130 reservoirs located in various parts of the country.

The Indian sugar balance at a glance

- The Indian domestic sugar consumption is likely to hit the 26.5 Mt mark (up 0.5 Mt from the previous season)
- Indian sugar exports curenly expected to total 6 Mt for the upcoming season (without any financial assistance from the GoI) with a peak demand for the period [Oct 21 – Jan 22] : before the Thai 2021/22 production as well as the next 2022/23 Brazilian sugar output can widely hit the market
- Lower ending stocks (6.5-7 Mt) forecast by [Sep 22], therefore bringing the stock-to-consumption ratio to 28% (Graph 1)

Graph 1 - Indian sugar production, consumption and opening stocks



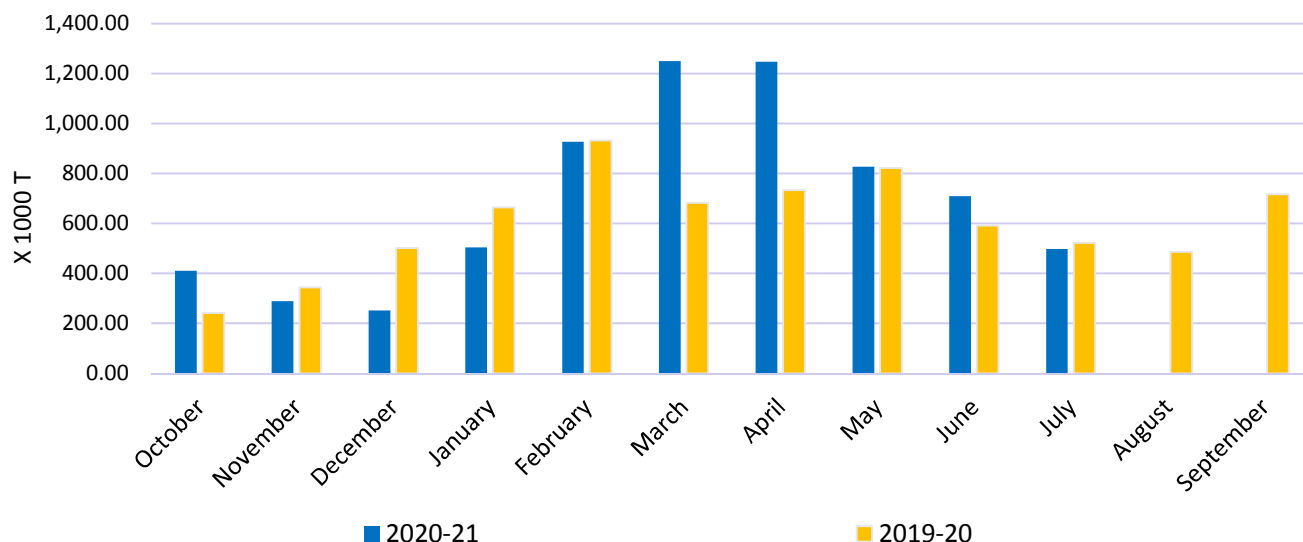
* estimate | # forecast

2 – SUGAR EXPORTS

India exported a historical record of 7.3 Mt of sugar throughout 2020/21: up from the 5.9 Mt in 2019/20.

With #5 LDN contractual prices trading higher than local ex-mill ones, Indian sugar millers received an economic incentive to export more than the official target of 6 Mt originally set by officials at the beginning of the season.

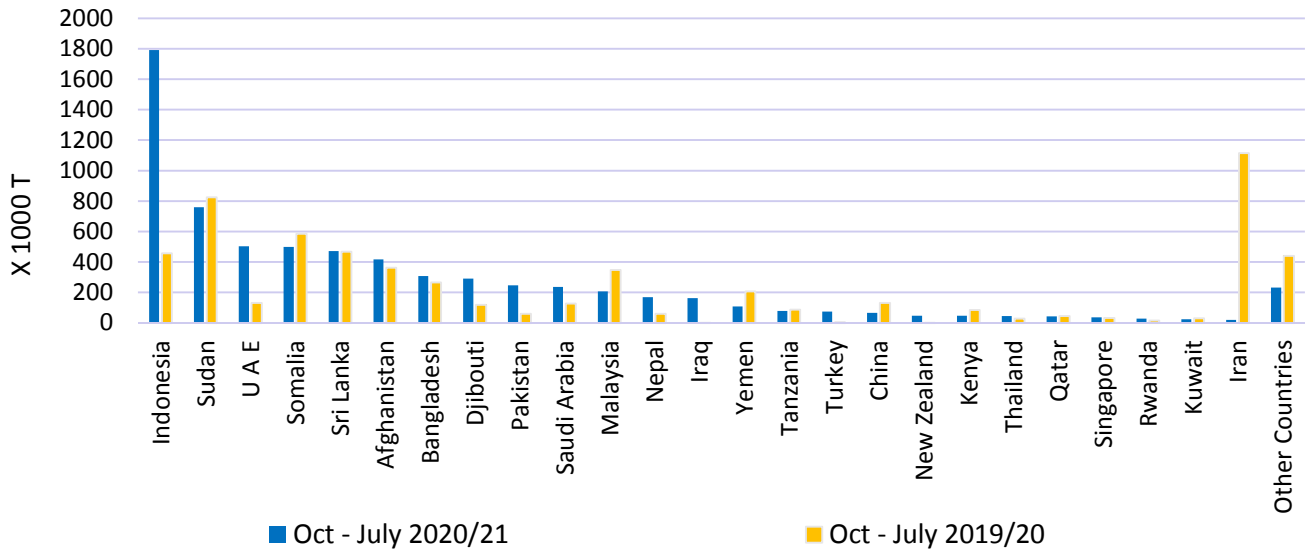
Graph 2 – Indian sugar exports by volume



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

This economic incentive was particularly important on the Asian regional market as Thailand faced another extremely disappointing year. As a result, Indonesia emerged as the largest sugar importer of Indian sugar with nearly 1.8 Mt shipped in 2020/21 (Graph 3). Traditionally relying on Thai sugar, Indonesia (as well as Malaysia) have been importing significant volumes of Indian sugar for the past two seasons.

However, last season’s major sugar importer - Iran – hardly imported any sugar in 2020/21 due to a shortage of Indian rupees. In this perspective, it is worth pointing that a similar situation may develop in Sri Lanka for this coming 2021/22 season while Afghanistan, another major sugar importer of Indian sugar, stopped all trading activities with India following the Taliban takeover.

Graph 3 – Indian sugar exports by destinations

From a geographical point of view, [Oct 20 - Jul 21] export statistics revealed that the Top 5 importers of Indian sugar in 2020/21 are Indonesia, Sudan, UAE, Somalia and Sri Lanka.

From an economic point of view and according to our calculations (Table 2), export “realisation” prices are:

- above the export parity price for Maharashtra therefore offering an economic incentive for mills located in this State to export rather than feed the domestic market,
- below the export parity price for Uttar Pradesh therefore suggesting no economic incentive for mills located in this State to export rather than feed the domestic market.

At this point, this situation has led Indian millers to sign 2021/22 sugar export forward contracts for nearly 2 Mt under the 2021/22 Open General Licence (OGL) system and without any financial assistance from the Government.

Indian Domestic and Export Parity prices		
[Rs/100 Kg]	Uttar Pradesh M30 grade	Maharashtra M30 grade
AVG Ex-mill sugar prices	3530	3450
AVG domestic sugar prices – delivered basis	3650	3530
AVG sugar prices – delivered to Harbour (FOB basis)	3710	3540
AVG export “realisation” prices	3654	3654
Premium/Discount for exports	- 56	+ 114

This situation should result in more raws for export being produced in MH while UP is likely to maximize production of white plantation sugar for domestic purposes during Q4 2021.

3 – DOMESTIC PRICES

Ex-mill sugar prices kept appreciating over Q3 2021 (Graph 4) registering a 6% increase from Q2 2021. This increase was essentially triggered by the appreciation of international sugar prices as well as the increase of domestic sugar demand due to :

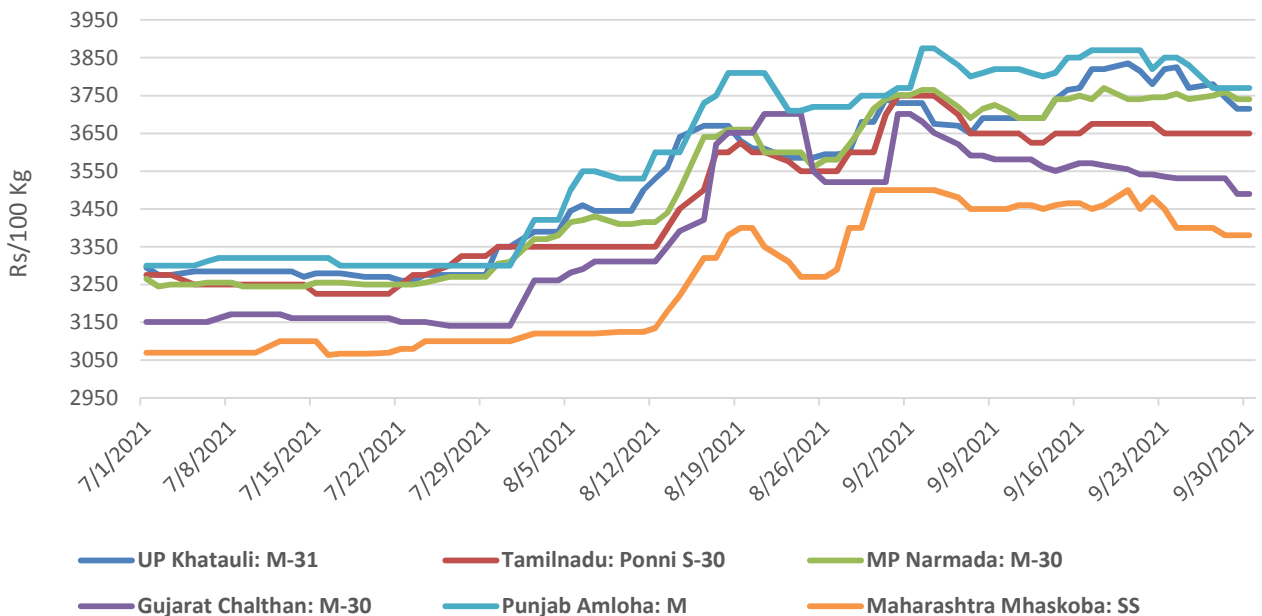
- the easing of lockdown measures,
- a traditional increase in sugar demand from August to October as this period corresponds to the festive season with Shravana and Diwali festivals down the road.

From a regional point of view (Graph 4), ex-mill sugar prices in Uttar Pradesh (M-grade) averaged Rs. 3,530/100 Kg during Q3 2021: up 5% from the previous quarter and up 9% from a year ago.

In Maharashtra, average SS-grade sugar prices [Rs 3,265/100 kg]: up 5% from the previous quarter and up 4% from a year ago.

Overall, the evolution of ex-mill sugar prices throughout Q3 2021 resulted in a 6% increase nationwide and were traded at an average rate of Rs. 3,465/100 Kg.

Graph 4 - Ex-mill sugar prices : [Q3 2021]



Similarly, domestic wholesale and retail sugar prices appreciated as :

- household and commercial demand for sugar climbed up,
- hotels and restaurants were allowed to re-open during Q3 2021.

From a quantitative point of view:

- wholesale sugar prices averaged Rs 3,725/100 Kg: down 2.5% from the previous quarter but up 3.4% from a year ago,
- average retail sugar prices were up 1% from the previous quarter (up 0.5% from last year) at Rs. 40 per Kg (Graph 5).

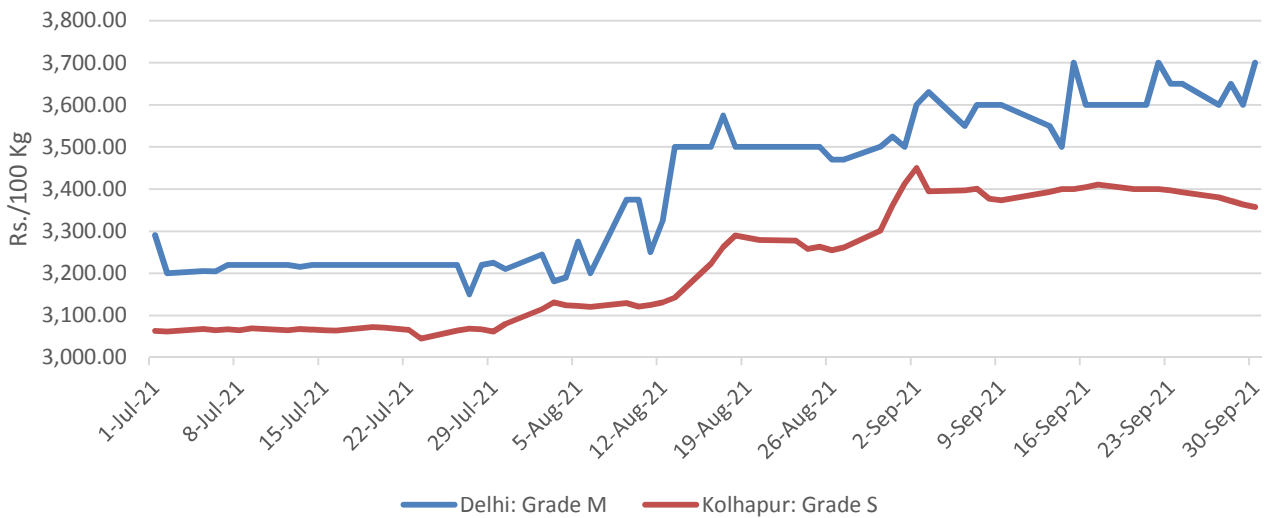
Graph 5 – Retail and Wholesale sugar prices: [Q3 2021]



Regionally :

- M-grade wholesale sugar was traded at an average Rs 3,410/100 kg in Delhi,
- S-grade wholesale sugar averaged Rs 3,220/100 kg in Kolhapur (Graph 6).

Graph 6 – Wholesale sugar prices in Delhi (M-Grade) and Kolhapur (S-Grade)



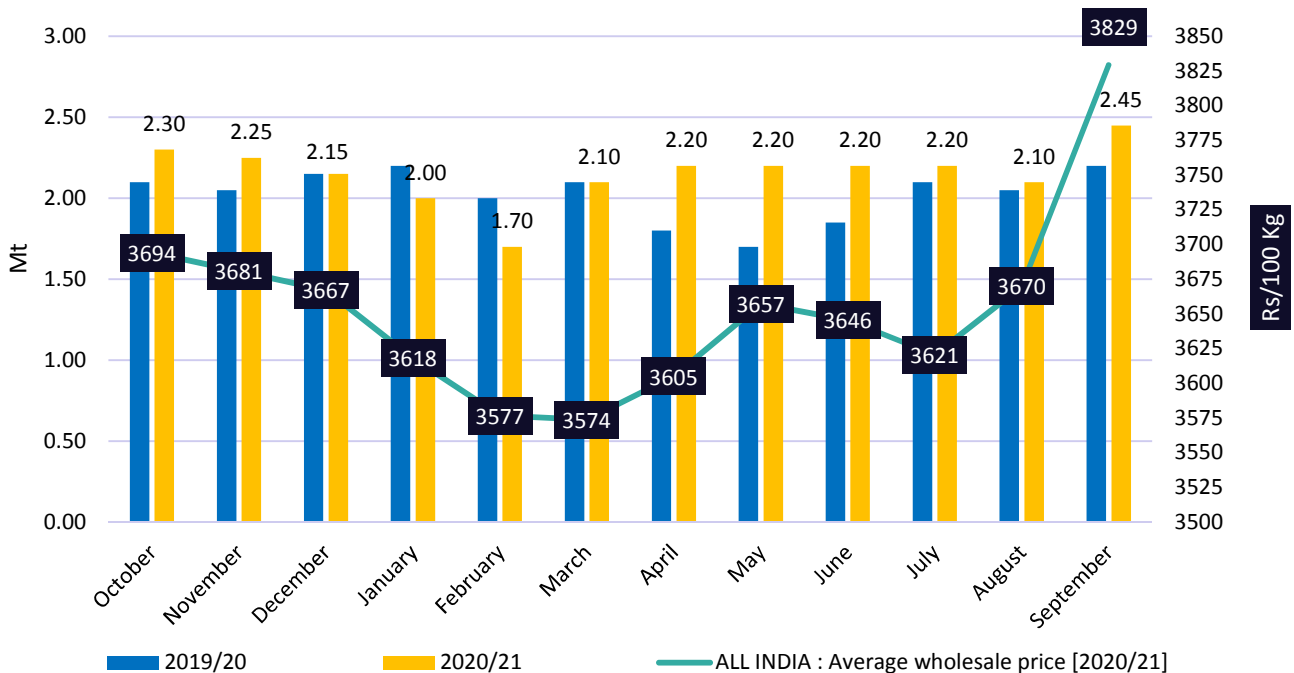
4 – DOMESTIC SUGAR SALES

Due to the festive season, the Food Ministry of India set a higher monthly sugar sales quota for :

- [Sep 21] at 2.45 Mt and,
- [Oct 21] at 2.5 Mt.

In September, after setting an initial sales quota at 2.2 MT, authorities eventually add another 0.25 MT as mills had already fulfilled the release of their quota by mid-September.

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



The further increase in [Oct 21] was certainly impacted by the official authorization for hotels, cinemas, malls and offices to reopen at full capacity, mechanically raising the prospects of a sugar boost in demand as life returns progressively to “normal”.

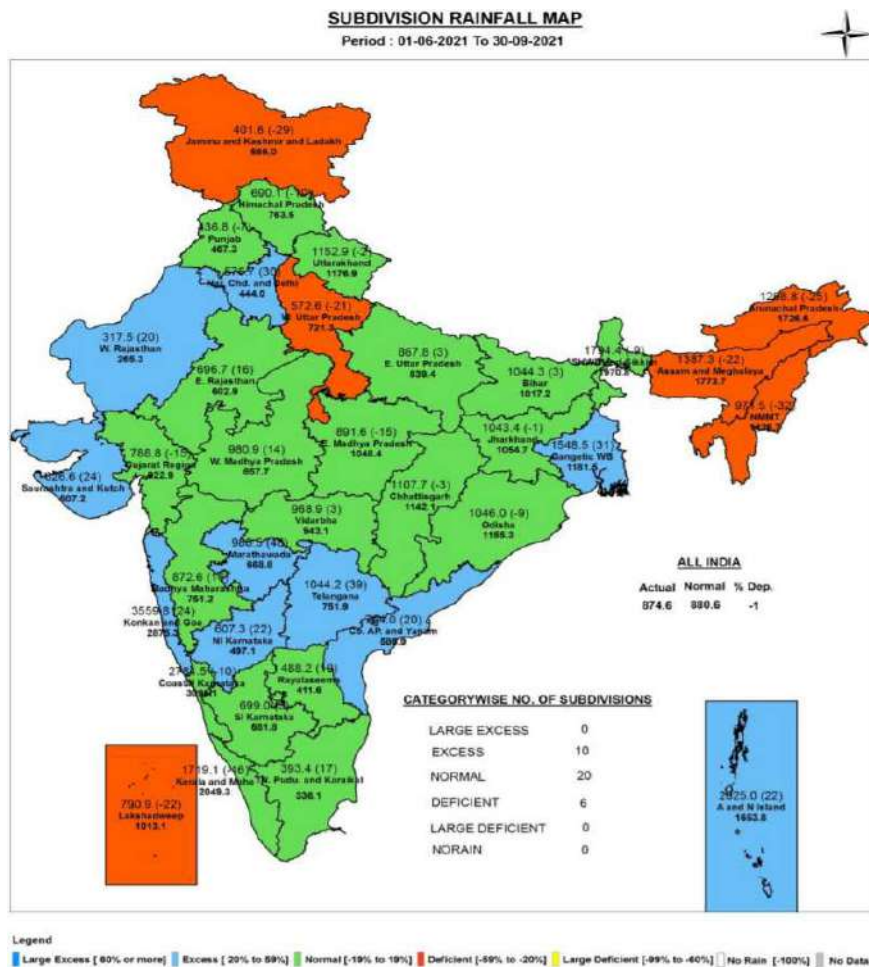
5 - WEATHER CONDITIONS

According to data released by the Indian Meteorological Department (IMD), India’s cumulative rainfalls during the “Southwest Monsoon” season - i.e. from June 2021 to September 2021 – were equivalent to 99% of the Long Period Average “normal” values (Table 2).

Table 2 - Seasonal Rainfall Scenario for Monsoon Season of 2021 [1st June – 30th Sept 2021]

Regions	Actual [mm]	Normal [mm]	Variations [%]
ALL INDIA	874.6	880.6	-0.7%
Northwest India	575.9	599.5	-3.9%
Central India	1012.5	976.6	3.7%
South Peninsula	804.2	726.2	10.7%
East & northeast India	1246.2	1410.4	-11.6%

Overall, the country witnessed “normal” weather conditions for the third consecutive season and should help cane productivity expressed on a “tonne per ha” basis.



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

- Uttar Pradesh State Governemnt announced :
 - an increase of the cane (ordinary variety) state-administered 2021/22 price (SAP) to Rs. 340 per 100 Kg from Rs. 310 per 100 Kg for the previous season,
 - fixed the price of early-maturing varieties to Rs. 350/100 Kg from Rs. 325/100 Kg in 2020/21.
- The Central Government set the 2021/22 Fair & Remunerative Price (FRP) of sugarcane to Rs. 290/100 Kg at 10% recovery : up Rs. 5/ 100 Kg from last season.
- The Indian sugar trade body requested the Government of India to increase the Minimum Selling Price (MSP) of sugar to Rs. 35 per Kg.
- Indian sugarcane arrears stood at Rs. 66.65 billion by the end of the 2020/21 season : Maharashtra accounting for nearly Rs. 2.8 billions and Uttar Pradesh for Rs. 45 billions.
- Sugar mills and distilleries contracted for nearly 3.5 billion liters² of ethanol with Oil Marketing Companies (OMCs) in 2020/21 - [Dec-Nov] basis – therefore achieving a [8 - 8.5]% ethanol blending rate.
- So far this season, Indian ethanol manufacturers have effectively supplied 2.57 billion liters of ethanol to OMCs (equivalent to a 7.89% ethanol blending rate).
- The Central Government has set a 10% ethanol blending rate for 2022 as well as a 20% target for 2025.
- The Government of India increased the economic incentive for sugar mills to diverting sugar for ethanol purposes. Earlier, Gol was adding 50% of total amount of sugar that was diverted for ethanol to the monthly sales quota : this percentage has now been increased to 100%.

²Out of total contracted ethanol:

Ethanol produced from sugarcane juice: 0.42 billion liters

Ethaol by B-heavy molasses: 2 billion liters

C-Heavy Ethanol: 0.61 billion liters

Damaged Food Grains Ethanol: : 0.44 billion liters

Surplus Rice Ethanol: 0.03 billion liters

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