

Output fall won't push sugar prices much beyond MSP



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The country's sugar production is projected to fall to below 30 million tonnes in 2019-20, the lowest in the last three years, due to drought in several key growing states.

However, even that won't be good enough to push up prices much beyond the minimum sale price of ₹31 per kilogram because of an overhang of record inventories.

From the government side, there is a move to create fresh sugar buffer stock of 5 million tonnes to absorb the surplus with an expenditure of around ₹2,100 crore for the 2019-20 season. But industry players said that too won't work and the only solution lies in subsidised exports of over 7 million tonnes by November 2019.

This could also spell bad news for farmers who are looking forward to early clearance of their sugar cane dues totalling around ₹19,000 crore as on June 18, a significant portion of which accrues to UP farmers.

"Currently, by normal demand-supply matrix, sugar sale price should be somewhere around ₹26-27 a kilogram, but because of the rule that the

sweetener can't be sold below ₹31 a kilogram, we are forced to sell above this price. The projected drop in production will only push this (demand-supply) matrix near the minimum price but not much beyond that," a senior industry official said. Madan Sabnavis, chief economist at CARE Ratings, in a research note, said the surplus situation is likely to keep domestic sugar prices under pressure.

"We expect sugar prices to remain range bound or increase moderately in the range of ₹34-₹35 per kg in the coming months," Sabnavis said. Current average sugar prices are in range of ₹33-34 a kilogram.

Officials said in October 2019, sugar mills in India would be saddled with stocks in excess of 14.5 million tonnes, which will be roughly three times more than the normal opening stock of sugar and the highest in more than nine years (see chart).

And therefore, unless big exports are facilitated in the next 3-4 months, it would be difficult to push up prices much above the minimum sale price despite an expected a drop in production in 2019-20.

In the 2018-19 season, the government had facilitated cre-

ation of a 3 million tonnes sugar buffer stock with an expenditure of around ₹1,550 crore. The validity of the buffer stock expired on June 30.

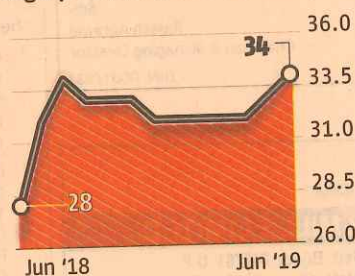
"With such high inventory levels, unless a proper WTO-compliant export package is framed, it would be difficult to generate adequate cash flows to pay off the farmers," a senior industry official said.

He said the incentive package for export should be announced quickly. Otherwise, mills would lose out on the opportunity to export sugar in the world market. The mills are demanding that the government fix an export quota of 7 million tonnes in 2019-20, against 5 million tonnes in the 2018-19 season. They also want a proper incentive package, which is compliant with the WTO.

"The world sugar market is expected to see a deficit of about 4 million tonnes after two surplus years due to shortfall in production in India, Thailand and some other countries. So, Indian sugar would be needed from November. Hence, if we miss this opportunity, it would be difficult to push exports," the official said.

UNDER PRESSURE

Sugar price movement (in ₹/kilogram)



Source: CARE Ratings

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