HIGH RESERVES: The closing stocks for SY2018 are likely to be around 4-4.5 million tonnes

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Sugar output may rise 30% to touch 26.7 million tonnes

THE production outlook for sugar appears to be bright, supported by the Indian meteorological department's prediction of a normal monsoon for a second year in row after back-to-back droughts. Rain in June was 4 per cent above normal, with most parts of the country receiving normal or excess showers. "There is an increasing probability of India's sugar production recovering to 26.7 million tonnes in 2017-18, following a good start to the monsoon season," said Andy Duff, Rabobank's global sugar strategist, in his latest report.

Domestic sugar production is estimated to go up 25-30 per cent in the 2017-18 sugar year, which begins on October 1, with higher sowing of cane and an 11 per cent rise in the minimum price to growers. But high production after a year of low output could spoil sugar mills' balancesheets with a fall in open market prices. The output is estimated to rise from 20.3 million tonnes in the season that ends in September to 26.7 million tonnes in the next one, said Rabobank. According to the agriculture ministry, sugarcane was planted on 4.75 million hectares (11.7 million acres) as on June 30, up from 4.48 million hectares a year ago.

The latest Icra sugar report, said production is set to increase by 16-20 per cent in SY2018, from 23.5 million tonnes to 24.5 million tonnes. This growth will be driven largely by the increase in sugar production in Maharashtra and Uttar Pradesh.

Maharashtra and UP could be main drivers of increase in production

SY18's closing stocks are likely to be around 4-4.5 million tonnes, which would be sufficient before the next production comes into the market, limiting the need for imports.

The Centre recently increased the import duty on sugar from 40 per cent to 50 per cent following the recent decline in the global prices and improved outlook for local output for the coming season SY18. In Icra's views, the move is likely to support local prices in the near-term.

Global prices have largely followed expectations on supplies. The lower import demand from India, coupled with an expectation of a global surplus in 2017-18 on account of increased production from Brazil and India, has resulted in a fall in prices from around \$540 -\$550 a million tonne in January-February to \$510 a million tonne in March and further down to \$445 a million tonne in May.

Earlier in April, the government had allowed 0.5 million tonnes duty-free import of raw sugar till June 12 with an aim to check the rise in domestic prices by maintaining adequate supplies. This move has had a limited impact on prices, which continued to remain firm on account of the tight stock situation in the domestic market.

"The recent hike in the import duty to 50 per cent is a positive step for the industry, which is likely to support the domestic prices in the near-term. This, in turn, will help mills clear cane arrears to farmers. Given the recent increase in the fair and remunerative cane price for the coming season, a significant fall in local prices was a possibility had further imports been allowed and the same could have adversely impacted margins and liquidity of mills," said Sabyasachi Majumdar, senior V-P and group head, Icra Ratings.

Sugar industry representatives recently met food ministry officials and proposed a higher ethanol price by OMCs, for their petrol-blending scheme. According to the industry data, the average cost of ethanol production was Rs 44.8 a litre. But the price for supplying to OMCs had been fixed at Rs 39 a litre. Thus, against the tender for procuring 2,800 million litre, mills offered only 800 million. The industry has also proposed that GST on it be cut from 18 per cent and that on molasses from 28 per cent. Other proposals made, included rescheduling of loan payments by sugar mills. This was on ground that a higher production means a lower rates at a time when the price payable to cane farmers had been raised. The ministry is said to be favourably inclined to these proposals.

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