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India

Sugar Annual

2015

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Report Highlights:

Post forecast that India will produce surplus centrifugal sugar for the sixth consecutive year. Total sugar production in marketing year (MY) 2015/16 (Oct-Sept) will reach 29 million metric tons (MMT), a marginal decrease from the current year's estimate of 29.5 MMT. Higher sugar production in Uttar Pradesh and Karnataka will be offset by lower production in Maharashtra. Assuming normal market conditions, India will likely be a net sugar exporter in MY 2015/16 and any sugar imports will be negligible.

Note: All sugar data in the report are raw value basis unless otherwise mentioned.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production:**Indian Sugar Surplus for Sixth Consecutive Year**

India will produce surplus centrifugal sugar for the sixth consecutive year. Total sugar production in MY 2015/16 is forecast to reach 29 MMT, marginally lower than the current year's estimate of 29.5 MMT. The above estimate includes 480,000 metric tons (MT) of *khandsari*, a local type of low-recovery sugar prepared by open-pan evaporation. Post anticipates that out-year (MY 2015/16) sugar production from Uttar Pradesh and Karnataka will rise by seven percent. However, production gains in these regions will be largely offset by an estimated nine-percent sugar production decline in Maharashtra.

Additionally, the average sugar recovery rate for cane (planted in both tropical and sub-tropical regions) is also expected to improve by 0.1 percent to 11.2 percent, which will contribute slightly to the anticipated centrifugal sugar production surplus. Sugar recovery rates also improved by similar proportion in MY 2014/15.

Cane supplies to local *gur* (jaggery or crude, non-centrifugal lump sugar) manufacturers, which are typically small, backyard enterprises, will resume to normal. This will be provided a moderate increase in sugarcane production in MY 2015/16. Because sugarcane farmers expect better prices for *gur* as compared to sugar, cane deliveries to sugar mills is expected to decline. *Gur* production in out-year is forecast higher at 4.8 MMT.

Currently for MY 2014/15, centrifugal sugar production is revised up by 2.2 MMT to 29.5 MMT. This increase is due to higher than anticipated current-year cane sales to sugar mills versus local *gur* manufacturers. Incidentally, current year sugar production will reach the second highest of the last decade. Maharashtra is likely to contribute 37 percent of total production, followed by Uttar Pradesh at 25 percent.

Sugarcane Planting Will Rise to 5.06 Million Hectares

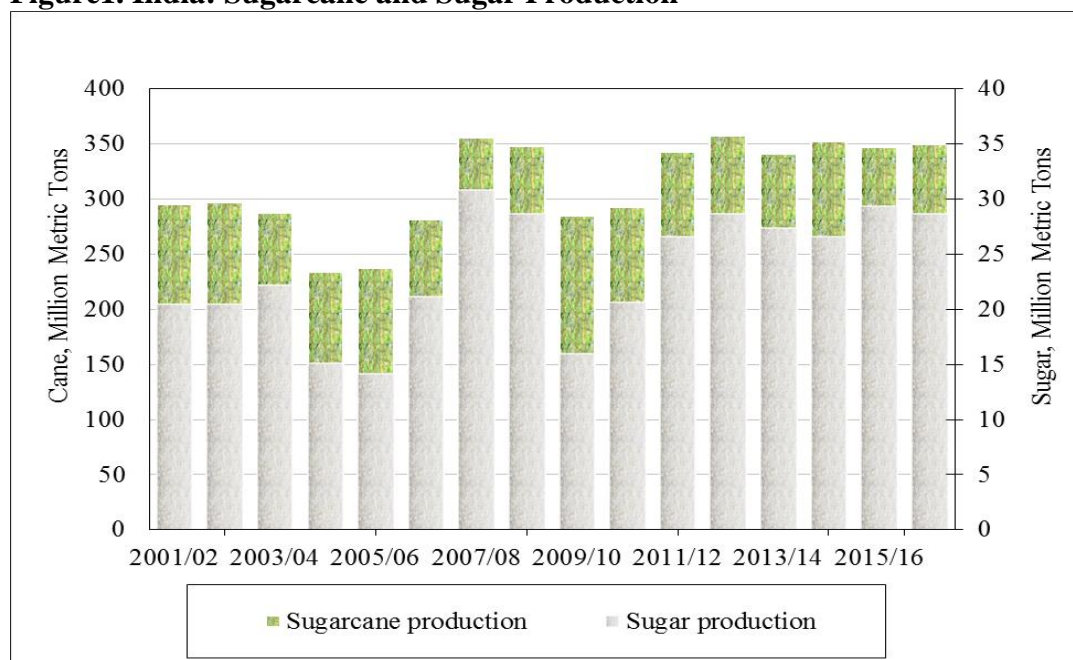
Assuming a normal 2015 southwest monsoon and favorable planting conditions, area planted for sugarcane in MY 2015/16 will rise to 5.06 million hectares (MH), a bit of an increase over the current year's 4.9 MH. Increased acreage in Uttar Pradesh and Karnataka will compensate for lower cane area planted in Maharashtra, which is facing an acute water shortage, particularly in the Marathwada region. Lately, unseasonal rains in northern India have caused significant damage to the standing crop of wheat and other winter crops. While it remains to be determined, this may incentivize some farmers to consider diverting more acreage to sugarcane in the future.

Although sugar prices are depressed, farmers will continue to plant more sugarcane as it is a sturdy crop, there are assured Government of India (GOI) price supports, and returns are still competitive with paddy and cotton. However, sugar mills continue to accumulate debt, particularly in Uttar Pradesh

where cane and sugar prices tend to be more decoupled. Uttar Pradesh produces an estimated 40 percent of total sugarcane production in India.

The [second advance estimate](#) from the Ministry the Agriculture calculates sugarcane production in MY 2014/15 at 354.95 MMT. However, Post estimates sugarcane production to be slightly lower, at 347 MMT. Sugarcane area planted area is revised up marginally to 4.9 MH. Average cane productivity is reduced to reflect the changes noted above. The ‘final’ sugarcane production estimate for MY 2013/14 is revised up from 350 MMT to 352.14 MMT while centrifugal sugar production remains unchanged at 26.6 MMT.

Figure1. India: Sugarcane and Sugar Production



Source: Industry and trade sources

Consumption:

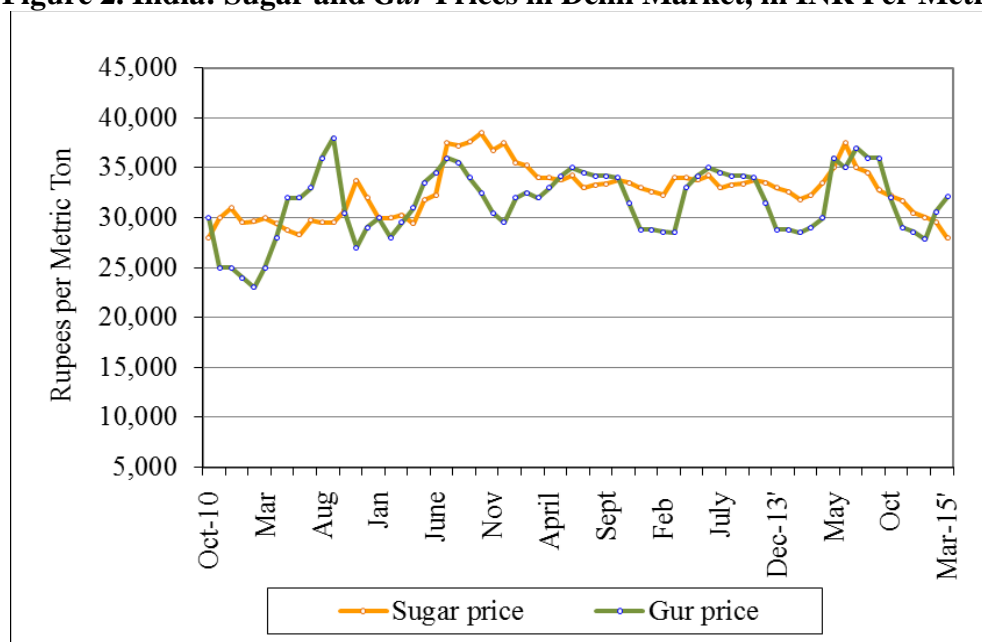
Indian sugar consumption in MY 2015/16 is forecast to rise to 28 MMT. Strong domestic demand from soft drink manufacturers, bakeries, hotels, restaurants, confectionary, and ice-cream manufacturers will support higher levels of consumption. Usually, bulk consumers account for 65 percent of the total sugar consumption in India. India’s relatively strong economic growth, stable political situation, foreign investment, rising incomes, a young population, and changing consumer consumption patterns are the key drivers encouraging higher food consumption. Most *khandsari* sugar is consumed by local sweet shops. *Gur* is mostly consumed in rural areas for household consumption and feed use.

Market Prices:

Sugar and *gur* prices reached their respective peaks in June 2014, and were driven by abnormally dry conditions. Following June, sugar and *gur* prices have gradually softened through MY 2014/15 in response to rising in supplies. However, more recently, *gur* prices have started to strengthen due to moderate availability of sugarcane for *gur* production (Figure 2). *Gur* prices will remain firm

throughout the current marketing year because of lower *gur* production. Currently, Indian wholesale sugar prices range from \$430 to \$440 per MT. Indian sugar prices are likely to remain weak due to a both domestic and global surplus. Additionally, a higher stock-to-use ratio of 39.1 percent (against the last five-year average of 30.8 percent) will keep sugar prices under check.

Figure 2. India: Sugar and Gur Prices in Delhi Market, in INR Per Metric Tons



Source: Industry and trade sources

Trade:

Assuming normal market conditions, India is likely to be a net sugar exporter in MY 2015/16. Sugar exports will be upwards of 2.1 MMT, to include 1.2 MMT of raw sugar. The remaining stocks will be mostly refined program into white sugar under the Advance License Scheme (ALS). Indian sugar will not be competitive in international market, as high input costs and poor infrastructure make sugar production in India significantly more expensive than international competitors. The GOI may extend its export subsidy for raw sugar for a third consecutive year in an attempt to remain competitive (see below for additional information). In addition to exporting, India will likely consider other mechanisms to manage its large sugar surplus, which may include building compulsory buffer stocks, increasing its ethanol blending mandate, allowing for greater flexibility for ethanol feed-stocks, restructuring miller debt, and other similar incentives. Note: Under the ALS, local sugar mills are allowed to import raw sugar at zero duty against a future export commitments.

Sudan, Sri Lanka, Somalia, UAE, Iran, South Africa, Kenya, Tanzania, Nepal, Yemen, Saudi Arabia, Nigeria, Turkey, Iraq, Indonesia, and Malaysia are key markets for Indian sugar. Indian sugar exporters prefer the lower shipping costs to the region, Southeast Asia, and Africa and there is burgeoning demand from these areas as new refineries are coming online. Imports during the out-year will be negligible.

During the current year, India will export an estimated 900,000 MT of sugar. Total exports will

comprise of 650,000 MT of refined sugar (under ALS), 100,000 MT of raw sugar and 150,000 MT of white sugar under open general licenses (OGL). Similarly, imports (mostly raw sugar) are estimated at 750,000 metric tons, mostly under ALS.

In MY 2013/14, India exported close to 2.8 MMT of sugar, of which about 2.2 MMT (1.3 MMT raw, and 920,000 MT white) was exported under the OGL. An additional 600,000 MT of refined sugar was exported under ALS. Similarly, imports are estimated at 1.06 MMT (raw sugar) of which about 1.0 MMT was under ALS, and remaining quantity under the OGL.

Trade Policy:

Imports

On August 21, 2014, the GOI raised its tariff for refined and raw sugar from 15 percent to 25 percent ([Customs Notification No.26/2014](#)). The objective of increasing the tariff was to discourage imports, prevent excessive inventory, and support local sugar prices. Prior to the August 2014 change, the tariff was last revised in July 2013 ([Customs Notification No. 34/2013](#)). The GOI may augment import duty further to support local prices and check imports.

Exports

Currently, sugar exporters require an OGL and prior registration with the Commerce Ministry's Directorate General of Foreign Trade for each consignment. On February 19, 2015, the GOI's Cabinet Committee on Economic Affairs (CCEA) extended the raw sugar export subsidy program through MY 2014/15 after a four months lapse ([GAIN IN5026](#)). The CCEA approved 1.4 MMT of raw sugar under the subsidy at the rate of \$64.25 per MT (INR 4000 per MT). Because the peak period for exporting is March, the GOI's February announcement shortened the window of opportunity for Indian exporters to ship under the subsidy by 1.5-two months in MY 2014/15. In August, 2014, the Ministry of Consumer Affairs, Food, and Public Distribution revised the raw [sugar subsidy](#) for the period of August 1-September 30 to \$55.09 (INR 3,371 per MT). For more information, see [GAIN IN4072](#).

Stocks:

Ending stocks in MY 2015/16 are forecast at 9.4 MMT, which are more than sufficient to meet India's three-month consumption requirement. Stocks for the current sugar season are revised up from 7.7 MMT to 10.6 MMT to reflect the revised estimate.

Sugarcane Production and Pricing Policy:

The GOI supports research and development, farmer training, transfer of new varieties, and improved production technologies (seed, implements, pest management) to sugarcane growers in an effort to raise yields and recovery rates. The Indian Council of Agricultural Research conducts sugarcane research and development at the national level. State agricultural universities, regional research institutions, and state agricultural extension agencies support these efforts at the regional and state levels. Central and state governments also support sugarcane growers by subsidizing credit and inputs.

To increase the area of cultivation and production in the country, the GOI has implemented the “Sustainable Development Fund of Sugarcane Based Cropping System Area under Macro Management Mode of Agriculture” program in various sugarcane growing states. Additionally, under *Rashtriya Krishi Vikas Yojana* (National Agriculture Development Program), state governments have been given flexibility to choose their priorities for the formulation of crop development projects, including sugarcane.

At the current exchange rate, the GOI collects \$3.87 (INR 240) per MT of sugar produced by mills in support of the Sugarcane Development Fund (SDF), which is used to support research, extension, and technological improvement in the sugar sector. The SDF is also used to support sugar buffer-stock operations, provide a transport subsidy for sugar exports, and provide an interest subsidy on loans for the installation of power generation and ethanol production plants. In March 2008, the GOI enacted the SDF (Amendment) Bill, 2008, enabling the government to include the use of SDF funds for debt restructuring and soft loans to sugar mills.

The GOI establishes a minimum support price (MSP) for sugarcane based on recommendations from the Commission for Agricultural Costs and Prices (CACPC), consultations with state governments, and sugar industry and cane growers’ associations. In MY 2009/10, the GOI announced a new fair and remunerative price (FRP) system that links cane prices with miller’s incomes. Several state governments augment the MSP/FRP, typically by 35-40 percent, due to political populism rather than market pricing. Sugar mills are required to pay the “state advised price” (SAP) to sugarcane farmers irrespective of market prices. A forecast of a smaller cane crop normally encourages millers to pay higher cane prices, resulting in prices which exceed the MSP/FRP in most of the growing states.

Sugar Marketing Policy:

Following the deregulation of sale of sugar in India in 2013, the GOI continued to subsidize sugar for consumers by procuring sugar from the market through open tenders. The gap between open market prices and PDS sale prices are covered by the GOI. The sugar industry will continue to be subject to production controls by state governments, including sugar industry licensing, specified cane procurement areas for sugar mills, and cane pricing. Decontrol of sugar marketing will be reviewed in two years after assessing its effect on farmers and market prices. For more information please refer to [GAIN IN4029](#).

Ethanol Program:

India’s ethanol program is based on producing ethanol from sugar molasses, a by-product of the sugar industry and not directly from sugarcane or corn as in other countries. For more on India’s ethanol program, please refer India’s Biofuel Annual 2014 GAIN report [IN4055](#).

Policy:

In December 2014, the GOI announced a price fixing scheme for fuel ethanol procurement for parastatal oil marketing companies (OMCs) to accelerate sugarcane crushing operations. The program fixes landed-ethanol prices at OMC depots from INR 48.50 to INR 49.50 per liter, a three to five percent

increase over the previous price. The program was intended to fast-track India’s ethanol blending program (EBP), infuse cash into the local sugar industry, help millers pay down debts, and curtail (by some estimates) upwards of \$750 million in crude oil imports ([GAIN IN4121](#)).

It remains to be determined whether falling crude oil prices and low global sugar prices will encourage mills to produce more sugar or ethanol. Currently, Indian banks tend to be reluctant to extend credit and millers are finding it difficult to pay farmers the minimum fair and remunerative price (FRP)/SAP for MY 2014/15. Media reports indicate that millers’ total pending arrears as of March 31, 2015 are over \$3 billion. Millers in Uttar Pradesh owe over 50 percent, similarly millers in Maharashtra owe 15 percent, and Karnataka 13 percent of total debt. The arrears for Maharashtra and Karnataka are relatively lower as these two states have rationalized their sugarcane pricing by linking it to sugar prices.

Production, Supply and Demand Data Statistics:

Table 1. India: Centrifugal Sugar (Raw Value Basis), In Thousand Tons

<i>Sugar, Centrifugal</i>	2013/2014		2014/2015		2015/2016	
<i>Market Begin Year</i>	Oct 2013		Oct 2014		Oct 2016	
<i>India</i>	USDA	New	USDA	New	USDA	New

	Official	Post	Official	Post	Official	Post
Beginning Stocks	9,373	9,373	8,018	8,227	0	10,560
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	26,605	26,605	27,250	29,483	0	29,044
Total Sugar Production	26,605	26,605	27,250	29,483	0	29,044
Raw Imports	850	1,050	1,000	750	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
Total Imports	850	1,050	1,000	750	0	0
Total Supply	36,828	37,028	36,268	38,460	0	39,604
Raw Exports	1,250	1,275	1,000	100	0	1,200
Refined Exp.(Raw Val)	1,560	1,526	500	800	0	1,000
Total Exports	2,810	2,801	1,500	900	0	2,200
Human Dom. Consumption	26,000	26,000	27,000	27,000	0	28,000
Other Disappearance	0	0	0	0	0	0
Total Use	26,000	26,000	27,000	27,000	0	28,000
Ending Stocks	8,018	8,227	7,768	10,560	0	9,404
Total Distribution	36,828	37,028	36,268	38,460	0	39,604

Table 2. India: Sugarcane, Centrifugal, Area In Thousand Hectares And Others In Thousand Tons

<i>Sugar Cane for Centrifugal</i>	2013/2014		2014/2015		2015/2016	
<i>Market Begin Year</i>	Oct 2013		Oct 2014		Oct 2016	
<i>India</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	5,030	5,012	4,870	4,900	0	5,060
Area Harvested	5,030	5,012	4,870	4,900	0	5,060
Production	350,000	352,140	346,000	347,000	0	350,000
Total Supply	350,000	352,140	346,000	347,000	0	350,000
Utilization for Sugar	234,320	234,320	240,000	258,000	0	252,000
Utilization for Alcohol	115,680	117,820	106,000	89,000	0	98,000
Total Utilization	350,000	352,140	346,000	347,000	0	350,000

Table 3. India: Sugarcane Area, Production, and Utilization

Sugar Cane	Area ¹	Yield ¹	Product ¹	Sugar ¹	Khandsari ²	Gur ²	Seed ²
	ha	MMT/ha	MMT	MMT	MMT	MMT	MMT
1985/86	2.86	60.03	171.68	68.98	10.48	71.62	20.60
1990/91	3.69	65.33	241.05	122.32	13.18	76.63	28.93
1995/96	4.15	67.97	282.09	174.76	10.00	67.27	30.06
2000/01	4.32	69.29	299.32	176.65	11.00	75.75	35.92
2001/02	4.41	67.11	295.95	180.32	10.50	69.62	35.51
2002/03	4.52	63.58	287.38	194.33	9.50	49.07	34.49
2003/04	3.94	59.36	233.86	132.51	10.00	63.29	28.06
2004/05	3.66	64.78	237.08	124.77	9.50	74.36	28.45
2005/06	4.20	66.95	281.17	188.67	8.50	50.26	33.74
2006/07	5.15	69.03	355.52	222.00	10.00	80.86	42.66
2007/08	5.06	68.81	348.18	249.91	7.00	49.49	41.78
2008/09	4.44	64.19	285.02	145.00	6.50	99.32	34.20
2009/10	4.18	69.93	292.30	185.55	6.50	65.17	35.08
2010/11	4.89	70.02	342.38	240.00	7.50	53.79	41.09
2011/12	5.08	71.07	361.03	257.00	7.00	53.70	43.32
2012/13	5.06	67.43	341.20	251.50	7.00	41.75	40.94
2013/14	5.01	70.29	352.14	234.32	8.00	67.56	42.25
2014/15	4.90	70.82	347.00	258.00	8.00	39.36	41.64
2015/16	5.06	69.17	350.00	252.00	8.00	48.00	42.00

Note: Figures for 2014/15 and 2015/16 are FAS estimates.

Source: ¹ Directorate of Economic and Statistics, Ministry of Agriculture

² FAS/New Delhi Estimate.

Table 4. India: Mill Sugar Production by State, in thousand metric tons, crystal weight basis

State / MY→	2012/13	2013/14	2014/15	2015/16
	Final	Revised	Estimate	Forecast
Andhra Pradesh	9.9	9.8	9.0	8.0
Bihar	5.0	4.4	5.3	5.7
Gujarat	11.3	11.7	12.0	11.0
Haryana	4.1	5.0	4.8	5.0
Karnataka	34.0	42.0	47.0	50.0
Maharashtra	80.0	77.1	101.0	93.0
Punjab	4.3	4.4	4.7	4.5
Tamil Nadu	19.1	17.0	12.0	11.0
Uttar Pradesh	74.7	65.0	68.0	72.0
Others	9.1	7.6	7.2	6.6
Total	251.42	244.06	270.90	266.80

Source: MYs 2012/13 and 2013/14 - Indian Sugar Mills Association; MYs 2014/15 and 2015/16 – FAS/New Delhi Estimate.

Note: Excludes Khandsari sugar, as state-wise breakout is not available.

Table 5. India: Commodity, Centrifugal Sugar, Price Table, in INR per metric ton

Year	2013	2014	2015	Percent Change
January	35,500	32,600	30,000	8
February	35,250	31,800	28,500	10
March	34,000	32,300	27,300	15
April	34,000	33,500		
May	33,800	35,000		
June	34,250	37,500		
July	33,000	35,000		
August	33,300	34,500		
September	33,400	32,800		
October	33,800	32,200		
November	33,500	31,700		
December	33,000	29,800		
Exchange Rates:	58.48	60.85	62.18	
	Local Currency INR/US \$			

Note: Exchange rates for 2013, 2014 and 2015 refer to respective Marketing Years (October–September).

Source & Contract Terms:

Indian Sugar Mills Association and NFCSF; month-end prices in the Delhi wholesale market.

Table 6. India: Commodity, Gur, Price Table
(Prices in INR per metric ton, actual weight basis)

Year	2012	2013	2014	Percent Change
January	32,000	28,800	28,000	3
February	32,500	28,500	33,000	16
March	32,000	29,000	31,000	7
April	33,000	30,000		
May	34,200	36,000		
June	35,000	35,000		
July	34,500	37,000		
August	34,200	36,000		
September	34,200	36,000		
October	34,000	32000		
November	31,500	29000		
December	28,800	27500		
Exchange Rate:	58.48	60.85	62.18	
	Local Currency INR/US \$			

Note: Exchange rates for 2013, 2014 and 2015 refer to respective Marketing Years (October–September).

Source & Contract Term:

Indian Sugar Mills Association and NFCFSF; month-end prices in the Delhi wholesale market.

Table 7. India: Comparative Commodity Support Price Table, INR per metric ton, Minimum Support Price (MSP) or Fair Remunerative Price (FRP)

Marketing Year	2011/12	2012/13	2013/14	2014/15
Wheat	12,850	13,500	14,000	14,500
Rice (Grade A)	11,100	12,800	13,450	14,000
Sugarcane	1,450	1,700 ¹	2,100	2,200
State Advised Price (SAP) for Sugarcane, by State				
Uttar Pradesh	2,350-2,500	2,750-2,900	2,750-2,900	2,750-2,900
Haryana/Punjab	2,200-2,310	2,350-2,760	2,750-3,000	2,800-3,100
Southern States ²	1,800-2,050	2,200-2,500	2,500-2,650	2,200-2650

Exchange rate:

2013/14 (April-March) 1 US\$ = 60.28 Indian Rupees

2014/15 (April-March) 1 US\$ = 61.04 Indian Rupees

¹ FRP for 2014/15 at 9.5 percent recovery, subject to a premium of INR 2.32 for every 0.1 percent increase in recovery above 9.5 percent.

²: Sugar mills pay market price. Includes INR 100 as transportation charges (for Tamil Nadu).

Source: Indian Sugar Mills Association

Note: The Commission for Agricultural Costs and Prices, GOI has recommended a FRP for sugar season 2015/16 at INR 230 per quintal at 9.5 percent recovery level. With every increase in recovery by 0.1 percentage point, the FRP will increase by Rs. 2.42/qtl. All India average recovery rate being 10.05 percent, the FRP recommended would come to Rs. 243/qtl.

Table 8. India: Import Trade Matrix, Centrifugal Sugar, MY 2013/14, In Metric Tons

Period	Raw Sugar	White Sugar	Total
October	-	31	31
November	-	22	22
December	-	36	36
January	-	51	51
February	-	28	28
March	-	10	10
April	-	24	24
May	-	18	18
June	-	92	92
July	-	58	58
August	-	31	31
September	-	180	180
Total	1,050,000^	581	1,050,581

Source: Industry and trade source.

^: Estimated. Month wise break-up data unavailable

Table 9. India: Export Trade Matrix, Centrifugal Sugar, MY 2013/14, In Metric Tons

Period	Raw Sugar	White Sugar	Total
October	-	92,875	92,875
November	-	122,110	122,110
December	-	200,542	200,542
January	-	161,762	161,762
February	-	217,950	217,950
March	-	150,427	150,427
April	-	131,237	131,237
May	-	103,597	103,597
June	-	81,483	81,483
July	-	77,866	77,866
August	-	95,874	95,874
September	-	101,203	101,203
Total	1,275,000#	1,536,926	2,811,926

Source: Industry and Trade sources.

#: Estimated. Month wise break-up data unavailable