NOTES

TALKING STOCK
WILL SUGAR TURN SWEETER IN THE COMING YEAR?

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After months of uncertainty, the sugar sector is once again looking up. Thanks to a revision in the production estimates in the current season and a positive outlook for the forthcoming one that will start in October, the sugar supply situation looks comfortable.

Trade and market sources say Sugar Year (SY) 2023-24 will end this month with closing stocks of 8-9 million tonnes, which would be significantly higher than the 2022-23 season's closing stocks of 5.7 million tonnes.

As a result, the country will start the 2024-25 sugar season with nearly 58 per cent more stocks than last year, assuming the closing stock at 9.1 million tonnes as estimated by the Indian Sugar and Bio-energy Manufacturers Association (ISMA). The stocks will be 42 per cent more than last year if the closing number estimated by the **National Federation of Cooperative Sugar Factories** is taken into consideration.

In either scenario, the 2023-24 sugar season will end up with a comfortable stock position.

Continuing comfort the country usually prefers to start a sugar season with two months of normative stocks in hand, which is estimated to be about 5.5 million tonnes. In the forthcoming sugar season (2024-25), which will start from October 1 this year, ISMA estimates gross production to be around 33.3 million tonnes. Cooperative sugar factories estimate it to be 34 million tonnes.

The expectation is that with huge opening stocks of more than 8-9 million tonnes, the total availability of sugar in 2024-25 will be about 42.35 million tonnes, once again leaving a closing stock of 7.85 million tonnes by the end of the 2024-25 season. This, too, will be more than the two-month normative requirement of 5.5 million tonnes.

In short, the sugar supply situation that has turned positive in the last few months will continue to remain comfortable next season as well.

However, just a few months ago things looked very different.

Monsoon, Election

The biggest reason for the negative sentiments back then was the perceived drop in sugar production due to uneven rains in the monsoon of 2023. Till the middle of December last year, sugar production was trailing the previous season by almost 11 per cent.

ISMA in its second advanced production estimate released on January 31 this year projected gross sugar production in 2023-24 (without accounting for division towards ethanol) at 33.05 million tonnes as against 36.6 million tonnes in the previous year.

With the 2024 parliament elections just a few month away (polling for the first phase was on April 19). The Centre went on an overdrive to ensure adequate domestic supplies and keep price under control.

In December 2023 the government barred mills from producing ethanol for 'B' heavy molasses and sugarcane juice (major ways in which the sugar industry made ethanol). Before the order on ethanol, the government had mandated all sugar wholesalers, traders, retailers, big

chain retailers and processors to declare their stock every week on a designated portal.

There was a categorical "no "to sugar exports.

Due to the ban on manufacturing ethanol for sugarcane juice and 'B' heavy molasses the total sugar diverted towards ethanol in Ethanol supply year 2023-24 according to some millers, dropped to 2.4 million tonnes from 4.5 million tonnes.

This sugar got ploughed into the overall availability.

Surplus situation

By the time March 2024 came and crushing season came to an end, much of the gloom started to disappear, ISMA in a statement issue on a April 1 said sugar production till March 2024 around 30.20 million tonnes similar to the 30.07 million tonnes the previse year

An assessment by cooperative sugar factories said the final net sugar production in the 2023-24 season was 32 million tonnes the previous year.

ISMA in a statement issued on July 3 predicted a significant surplus, "this estimate surplus accounting to 3.6 million tonnes above the normative stock of 5.5 million tonnes, can potentially lead to additional cost for the millers on account of idle inventory and carrying cost, "the statement said.

Prospects of a good monsoon in 2024 further added to the bullish sentiment for the for the coming 2024-25 (October to September) season latest data from Ministry of agriculture says sugarcane acreage is nearly a percent more than last year.

With hopes of supplies easing the central government has allowed the industry to restart manufacturing ethanol from juice and 'B' heavy molasses from ESY 2024-25 (Starting November). The order lifted sentiments of the sugar sector. Share price of sugar companies reacted positively.

They are reports that even the long pending revision on the minimum sale price of sugar from 2019 will be finally considered. A Rs. 2$ a liter

increase in the purchase price of ethanol by Oil Marketing Companies in ESY 2024-25 is also reportedly in the offing.

Amid all these another development that has woken up the industry is the amendments umbrella act of sugar Control Order 1966.

Some prevision of the draft, such as regulating the Gur and Khandsari sectors and allowing the domestic sale of raw sugar after a gap of almost six decades, have been welcomed by the industry. But But a section fears that some of the proposed changes might bring back a few of the controls that have been loosened over the years.

Prakash Naiknavare, Managing Director of the National Federation of Cooperative Sugar Factories, says revenue sources have once again opened up and in general things are looking up.

"I hope the curbs on ethanol production won't come back, but the restriction on exports will continues as the government is concerned about the success of its Ethanol Blending programme, "**Naiknavare** told Business Standard.

However, not have all a positive outlook.

Nitin Awasthi of Incred Equities says his outfit has maintained a contra-negative view of the sugar sector for some time now and is reiterating it due to low domestic sugar price, no sugar export, higher sugarcane price, which have reduced the spread.

On MSP revision, Awasthi says though the industry hopes that MSP will be raised to above Rs. 40 a kg from the current Rs. 31 a kg. The macroeconomic and political environment is not conducive, "also with eye one the forthcoming assembly elections, the demand for higher sugarcane price will start emanating and politics will over-ride policies, " he says.

The coming month will show which prognosis holds true.

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