

**IMaCS has brought out an Industry Update on the Indian Sugar Industry, December 2013.** The full report is available at <http://www.imacs.in/reports/index.php>

## EXECUTIVE SUMMARY

- **Sugarcane Production Outlook:** The production of sugar in India is dependent on the production and availability of sugarcane; and its usage towards production of sugar, gur, and khandsari. India's sugarcane production is forecast to increase 0.8% during sugar year (SY) 2014 because of a 2.8% decline in acreage accompanied by a 3.8% increase in yields.
- **Sugar Production Outlook:** Following three years of high growth from SY2010 to SY2013, India's sugar production declined 4.6% in SY2014. Production is forecast to decline around 4.5-5% during SY2014 to 24 mt primarily because of decline in cane diversion towards sugar production, and weak financial position of sugar mills. Cane diversion towards gur production could be higher because of higher growth in gur prices vis-à-vis sugar prices, stagnant product prices, higher cane arrears, and weakening financial performance of sugar mills.
- **Sugar Consumption Outlook:** In India, along with rice, wheat, and vegetable oils; sugar is an essential item of mass consumption and a significant source of energy, supplying around 9% of the daily calorie supply. Despite considerable fluctuations in domestic production and prices, India's sugar consumption has increased at an annual rate of 2% over the past decade. Driven by the continued switching from gur to sugar, rising incomes, and growing population, India's sugar consumption is projected to increase at a high rate of 2.5-3% pa in the medium term. Income increases and high-income elasticity of sugar, and the continued switch in demand from gur and khandsari to sugar are expected to drive consumption. Although gur and khandsari are still the main sugar products consumed in rural areas, demand for white sugar is expected to continue to increase both in absolute and per capita terms. Moreover, the growth of sugar demand by food industries and other non-household users, estimated to account for about 60% of total consumption, could provide additional impetus to longer-term market growth.
- **Demand-Supply Position and Trade:** India's sugar production is forecast to decline by around 1-1.2 mt during SY2014 to around 24-24.2 mt. Taking into account the carryover stocks of about 9.1 mt from SY2014, total availability of sugar in SY2014 is estimated at 33-33.3 mt. By comparison, consumption is forecast to increase to 23.4-23.5 mt. Because of India's large sugar inventory and demand in Asian and African markets, India is likely to export in a range of 1-1.5 mt during SY2014, provided Indian sugar prices become more competitive vis-à-vis the international market.
- **Domestic Prices and Profitability Outlook:** In the short term, domestic prices could tend firm to lower because of lower sugar production in SY2014 but higher carryover stocks; and lower world sugar prices. Profitability margins of sugar firms could continue to tend downwards because of higher cane costs and lower extent of pass-through to prices, lower

world sugar prices and consequently lower export realisations, likely decline in exports during 2012-14 because of lower domestic sugar production, higher energy costs, and higher margins for refining raw sugar into refined sugar (which places downward pressure on realisations for integrated sugar mills). The outlook for by-products such as fuel ethanol is uncertain given the expected decline in sugar production during 2012-14.

- **World Price Outlook:** During 2010-11 to 2013-14, world sugar production is expected to be higher than consumption, reversing the trend of 2009-10. World sugar production is expected to decline 0.7% in SY2014 to 175 mt because of lower output in India, EU, and US. However, consumption is forecast to increase 2.3% to 168.5 mt. As a result, although the global surplus could decline, it will still be around 4.5-7 mt. There are indications that the surplus phase could end in 2014-15. Although the world sugar market is expected to be in surplus during 2013-14, indications of smaller surplus than early estimates could lend support to sugar prices from mid-2014. The price declines till 2013-14 could cause sugar producers to adjust production downwards even as consumption continues to grow. Prices could as a consequence follow a moderately upward trend in 2014-16.