

India

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Underweight (no change)

Agribusiness

All is not well for sugar sector

- Notifications from Gol, first on 7th Dec and then on 15th Dec 2023, have rattled the industry. In our report, we contemplate on the impact of these notifications.
- The news about not using sugarcane juice and B-heavy molasses for making ENA could, in our view, send top IMIL makers back to the drawing board.
- We retain our pessimistic view on the sugar industry in the near term.

Notification on 7th Dec 2023 (Fig.2)

- The Government of India or Gol directed all sugar mills and distilleries in the country not to use sugarcane juice/sugar syrup for making ethanol in Ethanol Supply Year or ESY 2023-24 with immediate effect. However, the supply of ethanol made from B-heavy molasses in the case of orders already received from oil marketing companies or OMCs will continue.

Notification on 15th Dec 2023 (Fig.3)

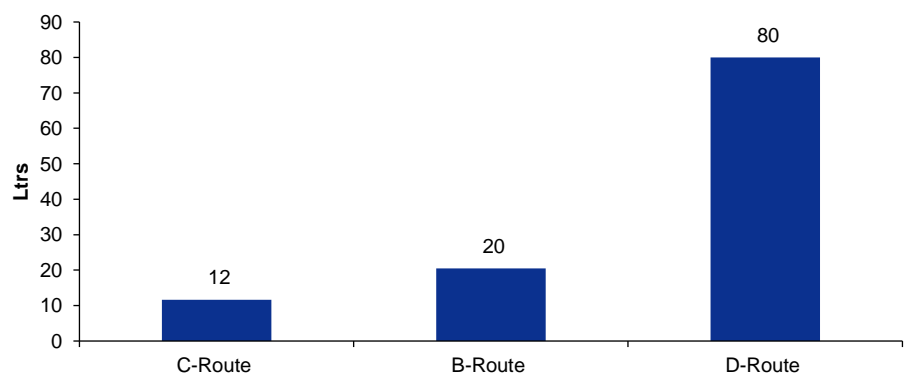
- Gol directs OMCs to reissue the orders given to sugar mills for ethanol made from sugar cane juice and B-molasses for ESY2023-24 with immediate effect.
- No diversion of sugarcane juice and B-molasses is allowed for making extra neutral alcohol or ENA.

First-order impact of these notifications

- The general opinion on the street regarding the notifications is that they fix everything, with things going back to normal. However, we vehemently disagree with this view.
- The quantum of orders received has not been disclosed by various sugar mills in respect of ethanol made from B-heavy molasses.
- While there is a general assumption that OMCs have ordered 2.5-3bnL of ethanol made via the B-molasses route, the actual figure is not officially out and we believe the allocation is for ~1.50bnL only.
- OMCs may reissue the orders for ethanol made from the sugarcane juice route but the time for making ethanol from this route is running out.

Second-order impact of these notifications

- Gol wants to rebuild sugar inventory in the country, and the same is normally determined by regulations but actually done by sugar mills. The balance sheets of sugar companies, which are lean now, will start stretching again.
- Panic in the foodgrain industry will force stocking, adding fuel to the fire and raising the prices of food grains.
- Hence, the pressure will spread to the grain distillation segment too, with a price hike required to keep the blending going.
- The Pandora's box is open on the interpretation of "no diversion of sugarcane juice and B-molasses to ENA" as top IMIL (Indian Made Indian Liquor) makers will feel the heat because of their dependence on ENA.

Figure 1: Ethanol made from 1t (tonne) of sugarcane juice as a starting point

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Figure 2: Gol notification on 7th Dec 2023

F. No. 3(2)/2023-SP
Government of India
Ministry of Consumer Affairs, Food and Public Distribution
Department of Food and Public Distribution
(Directorate of Sugar & Vegetable Oils)
Krishi Bhawan, New Delhi.
Dated: 07th December, 2023

To,

CEOs/MDs of all Sugar Mills/Distilleries.

Subject: Supply of ethanol from sugar/molasses based distilleries-reg.

Sir/Madam,

In exercise of powers conferred under the Essential Commodities Act, 1955, Department Food & Public Distribution (DFPD) monitors the production, sale and stock availability of sugar in the country to ensure sufficient availability of sugar for domestic consumption at stable prices by implementation of the Sugar (Control) Order 1966,

2. In exercise of powers conferred under clause 4 & 5 of the Sugar (Control) Order 1966, **it is directed to all sugar mills and distilleries not to use Sugar Cane Juice/Sugar Syrup for Ethanol in ESY 2023-24 with immediate effect. Supply of ethanol from existing offers received by OMCs from B-Heavy molasses will continue.**

Yours faithfully,



(Sangeet)
Director (Sugar)
Tele: 23383760

Copy to:

- 1) Secretary, Ministry of Petroleum & Natural Gas Shastri Bhawan, Dr. Rajendra Prasad Road, New Delhi - 110001. **{with a request to issue suitable directions to all the OMCs}.**
- 2) MD BPCL / MD IOCL /MD HPCL **{for compliance}.**

SOURCE: GOI

Figure 3: Gol notification on 15th Dec 2023

F. No. 3(2)/2023-SP
Government of India
Ministry of Consumer Affairs, Food and Public Distribution
Department of Food and Public Distribution
(Directorate of Sugar & Vegetable Oils)
Krishi Bhawan, New Delhi.
Dated: 15th December, 2023

To,

CEOs/MDs of all Sugar Mills/Distilleries.


Subject: Supply of ethanol from sugar/molasses based distilleries-reg.

Sir/Madam,

In continuation to the Order of even No. dated 07 December 2023, following instructions are issued in exercise of powers conferred under clause 4 & 5 of the Sugar (Control) Order 1966:

- a. OMCs will issue a revised allocation of Sugarcane Juice (SCJ) and B Heavy Molasses (BHM) based ethanol for ESY 2023-24, to each distillery, and inform DFPD after placement of revised contracts.
- b. On receipt of such communication from OMCs for the revised quantity of SCJ & BHM based ethanol as mentioned above, all sugar mills and distilleries will supply ethanol strictly as per the revised quantity of SCJ & BHM ethanol.
- c. No diversion of sugarcane juice and B Heavy molasses is allowed for production of Rectified Spirit (RS)/Extra Neutral Alcohol (ENA).
- d. All molasses based distilleries will endeavour to make ethanol from C Heavy molasses.

Yours faithfully,


(Sangeet)
Director (Sugar)
Tele: 23383760

Copy to:

**The Secretary,
Ministry of Petroleum & Natural Gas
Shastri Bhawan,
Dr. Rajendra Prasad Road,
New Delhi - 110001**

: For information with a request to issue suitable directions to all the OMCs (including Private OMCs).

SOURCE: GOI

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