

India

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**Underweight** (no change)

# Agribusiness

## Sugar Sector – Sweet dreams turn sour

- We have maintained our negative view on the sugar sector for some time now and have repeatedly communicated the same.
- Given the possible changes in policies after the recent general elections, we have examined the underlying hypothesis for our negative stance.
- The sugar sector will possibly face the worst phase going ahead, mainly because of the likely changes in Uttar Pradesh government

### Our hypothesis

The reasons for our negative stance are as follows:

- Low domestic sugar prices.
- No sugar exports.
- Higher sugarcane prices, thus reducing sugar spreads.

### Current stance - low domestic sugar prices

- Minimum selling price (MSP) of sugar was first fixed at Rs29/kg in Jun 2018 and later increased to Rs31/kg in Feb 2019.
- MSP is the ex-factory price (excluding Goods and Service Tax or GST and transportation charges) below which no mill can sell sugar in India.
- Industry hoped that MSP will be fixed at over Rs40/kg.
- However, the prevailing macroeconomic environment does not provide a conducive environment for changing the MSP.

### Current stance - no export of sugar

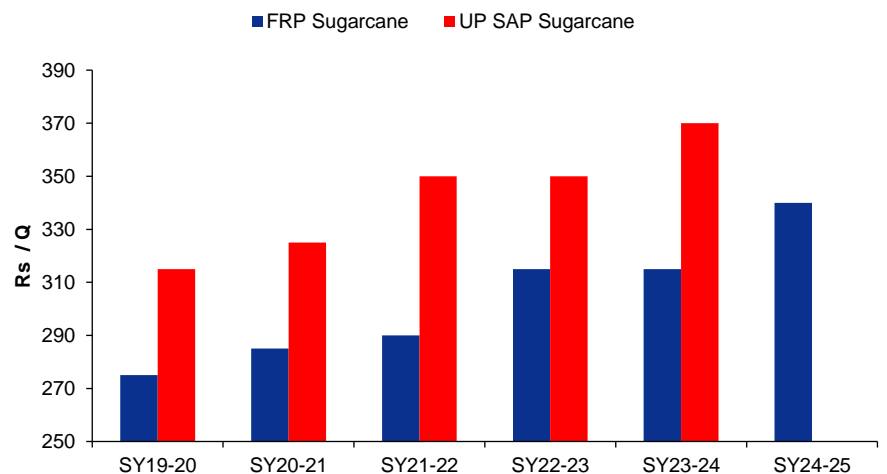
- Even if sugar export is allowed, the subsidy on exports is a thing of the past.
- Sugar prices currently do not favor exports.
- The outlook on Brazil harvest points towards lower international sugar prices.

### Current stance - higher sugarcane prices

- Sugarcane prices have been increased to unimaginable levels already by state governments.
- Uttar Pradesh sugar prices are currently at Rs370/quintal.
- With all eyes on the forthcoming Uttar Pradesh assembly elections, the demand for higher sugarcane prices is likely.

### Sugar sector – moving from the bad phase to the worst phase

- EID Parry, (Not Rated), Shree Renuka Sugar, (Not Rated), Balrampur Chini, (REDUCE Rating), Triveni Engineering Industries (REDUCE Rating), Bajaj Hindusthan, (Not Rated) and Dalmia Bharat, (Not Rated).

**Figure 1: Hike in sugarcane prices by the government**

SOURCE: GOVERNMENT OF INDIA

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