

India

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Underweight (no change)

Agribusiness

Sugar sector faces unprecedented turmoil

- Above-normal heatwaves forecast by IMD for SY26F could cut sugarcane yield further (3-9% per 2-4°C rise), worsening the sugar production crisis in India.
- To stabilize sugar stock, ethanol output from juice & B-molasses may be cut to prioritize sugar output, hurting sugar-ethanol makers & capping sugar prices.
- Investors must urgently review their sugar sector holdings and re-evaluate the risks posed by falling production, ethanol restrictions, and market volatility.

Massive cut in SY25F sugar production

- India's net sugar production in the SY25F season is now projected at around ~26mmt.
- This will lead to a closing stock of ~4mmt, a level last seen in SY17.
- The imaginary limit of 7.5mmt, as a minimum closing stock, has been breached.

Severe weather conditions threaten to devastate sugar production

- The India Meteorological Department (IMD) has forecast above-normal number of heatwave days likely over most parts of India during the summer months, with night temperatures also expected to be above-normal.
- The summer season of CY24 is already the warmest one recorded since CY1901.
- A hotter summer season negatively impacts the sugarcane crop by reducing the yield, increasing water stress, and affecting various stages of growth like germination, flowering, and maturity, potentially leading to lower sucrose content and increased fibre.
- There is also sugarcane yield reduction. Elevated temperatures can significantly reduce the yield, with studies suggesting a decline of 3-9% for every 2-4°C increase in temperature.

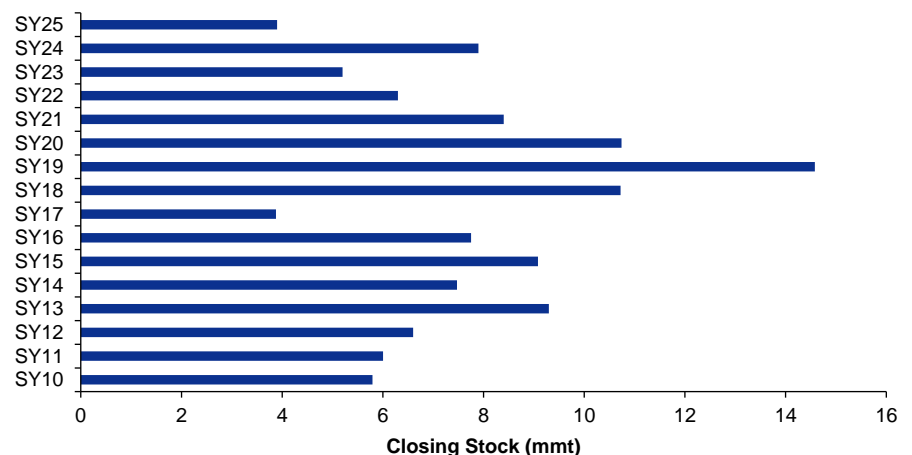
Ethanol output from juice and B-molasses at risk

- As the lower closing stock of SY25F will be followed by a terrible SY26F harvest (heatwave impact), the solutions for maintaining and increasing the closing stock are limited.
- The most likely alternative is to allow ethanol production only from C-molasses in SY26F to maximize sugar output.

Impact on sugar industry

- The impact on ethanol blending 20% (grain + sugar) would not be much as grain-based ethanol to do the heavy lifting in EY25F.
- The restrictions on juice and B-molasses will have a major impact on the ethanol business of all sugar-ethanol producing companies.
- Refilling the closing stock would result in a cap on domestic sugar prices.

Figure 1: Lowest closing stock of sugar since SY10



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.