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Why Is India's Sugar Industry Struggling?

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Sugar has a special place in India. It sweetens tea, festivals and celebrations, but behind that familiar sweetness is a complicated agricultural and industrial story. India is one of the world's largest sugar producers, and the sector supports millions of farm families and rural workers. Yet sugar mills repeatedly face low margins, surplus stocks, delayed payments and policy uncertainty. So the real question is not whether India produces enough sugar, but it is whether the sector can produce it profitably, sustainably and fairly. The Indian sugar industry is not simply "failing" in the sense of disappearing. In fact, official data show that sugarcane production has risen strongly, the government reported production of about 454.6 million tonnes in 2024–25, with the first advance estimate for 2025–26 at about 475.6 million tonnes. The sector therefore faces a different problem that needs to be discussed. A large production base does not automatically translate into healthy mills and secure farmer incomes. The structural tension is straightforward. Sugarcane is a perishable crop and farmers need a dependable buyer. Mills, meanwhile, have to buy cane at the government mandated Fair and Remunerative Price (FRP), while the price at which they can sell sugar is influenced by domestic demand, stocks, exports and government controls. NITI Aayog has identified the mismatch between rising cane prices and relatively stagnant sugar prices as a central problem for the sector.

The cane price sugar price mismatch

This is perhaps the biggest reason the industry repeatedly comes under financial pressure. Sugarcane prices are largely protected because farmers need an assured return. But sugar prices cannot always rise at the same pace because consumers are price sensitive and the government also tries to keep food inflation under control. When the cost of raw material rises faster than the value of the finished product, the mill's margin gets squeezed. NITI Aayog's Task Force noted that sugarcane prices had nearly doubled over a decade while sugar prices had risen much less, creating problems of financial viability, unsold stocks and liquidity. The result can be a chain reaction like weak mill finances lead to delayed cane payments then delayed payments hurt farmers and government intervention becomes necessary to keep the system moving.

Sugarcane arrears hurt the farmer first

For a farmer, the issue is not an abstract balance sheet. Cane is harvested after months of labour, irrigation, fertilizer and other expenses. Once the crop reaches the mill, the farmer expects payment. When that money is delayed, the next crop becomes harder to finance and household expenses can become stressful. The government has made progress in reducing arrears. A recent official update said about 98% of cane dues for the 2024–25 season had been paid, while nearly all older-season dues had been cleared. This is encouraging, but recurring arrears show why short-term financial packages alone cannot solve the underlying mismatch between cane costs and sugar-market returns.

Too much sugarcane in water-stressed regions

There is another problem that is easy to overlook because it does not appear immediately in the mill's profit-and-loss statement which is water. Sugarcane is a long-duration and water-intensive crop. In regions where groundwater is already under pressure, continued concentration of cane can compete with drinking water and other crops. NITI Aayog has described sugarcane as a water-guzzling crop and highlighted serious water pressure in states such as Maharashtra. Its report called for more efficient irrigation and alternative cropping patterns in areas where groundwater use is critical. This creates a difficult policy choice. Farmers naturally prefer a crop with an assured market and relatively predictable returns. Asking them to move away from cane without providing an equally dependable alternative is unlikely to work. Sustainable reform therefore has to make water-saving practices and crop diversification economically attractive, not merely morally desirable.

Surplus production and the stock problem

Sugar is unusual because producing more is not always good news. In a surplus year, mills have to carry large inventories. Stock ties up working capital, while warehouses, interest costs and weak selling opportunities add pressure. The mill still has to pay farmers even when its finished sugar is sitting unsold. The Economic Survey has noted that measures such as exports and diversion of excess sugarcane or sugar towards ethanol can improve mill liquidity and help clear cane arrears. More recently, the government has again highlighted the role of ethanol in absorbing surplus and improving the financial position of mills.

Dependence on policy decisions

Sugar is one of India's most regulated agricultural commodities. Government decisions influence cane pricing, sugar sales, exports and imports, and the release of stocks. The Department of Food and Public Distribution states that the government regulates production, sale, packaging and international trade of sugar, including export and import decisions and the minimum selling price. Such regulation has a purpose, it protects farmers and consumers from extreme price movements. But frequent policy changes can make long-term business planning difficult for mills. A mill may invest in a distillery, cogeneration plant or modernization project expecting a particular market environment, only to face a different policy regime later. The industry therefore needs predictable rules as much as it needs supportive rules.

Low productivity and uneven modernization

India's sugar industry is also held back by differences in productivity. Some mills have modern equipment, efficient recovery rates, integrated ethanol facilities and better energy management. Others operate with older machinery, higher processing costs and weaker access to finance. When sugar prices are low, inefficient mills are the first to struggle. Improving productivity is therefore more useful than simply expanding capacity. Better varieties, improved ratoon management, precision irrigation, mechanization, improved harvesting logistics and efficient processing can lower costs per tonne of sugar produced. Farmers and mills also need better coordination so that harvesting schedules, cane quality and factory capacity match more closely.

Climate change is making the old model riskier

Sugarcane requires a reliable supply of water and a reasonably stable growing environment. Changing rainfall patterns, heat stress, droughts and floods can disturb both cane yields and sugar recovery. The problem becomes sharper when a region is already dependent on groundwater. Recent weather conditions underline this vulnerability. In September 2026, Reuters reported that India was facing below-average rainfall after a weak monsoon period, raising concerns for crops and water availability. For sugarcane, climate resilience cannot be treated as a future issue. It is increasingly a current production and financial issue.

Can the industry be saved?

Yes but not by asking one stakeholder to carry the entire burden. Farmers need timely payment and remunerative returns. Mills need commercially viable sugar prices and predictable policies. Consumers need affordable sugar. The government needs food-price stability and rural employment. And society needs agriculture that does not exhaust scarce water. The answer lies in diversification and value addition. Ethanol has already emerged as an important additional revenue stream. The government's latest sector update notes that the ethanol programme has helped address surplus stocks and strengthen mill finances; it also reports that 97% of 2025–26 cane dues had been paid by 20 August 2026. But ethanol should be viewed as part of the solution, not a complete solution. Mills should increasingly develop multiple revenue streams from sugarcane and its by-products: ethanol, bagasse-based power, molasses-based products, compressed biogas where viable, and other value-added products. At the farm level, drip irrigation, improved varieties and location-specific crop diversification can reduce water stress and improve returns.

A more sustainable future

India does not need to abandon sugarcane. It needs to stop treating sugarcane, sugar mills and farmers as separate problems. They are three parts of the same value chain. A farmer cannot prosper if the mill is financially sick, a mill cannot survive if cane supply becomes unreliable; and neither can prosper indefinitely if the production system exhausts its water resources. The future of the industry should therefore be measured not only by tonnes of sugar produced, but by how much value is created from every tonne of cane, how quickly farmers are paid, how much water is used, how efficiently mills operate and how resilient the sector is to climate and market shocks. India's sugar industry has the scale, experience and rural importance to remain a major economic sector. What it needs now is a shift from a quantity driven model to a productivity, value and sustainability-driven model. In the end, the industry's problem is not that India has too little sugar. It is that too much of the system still depends on producing more cane and hoping the market will absorb it. A healthier sugar economy would give farmers a secure livelihood, mills a viable business and the country a more responsible use of land and water. That is the kind of sweetness worth preserving.

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