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Sugar spike puts FMCG margins under fresh pressure

Abhinaba Saha | 4 min read | 28 Aug 2026, 05:50 AM IST

The government has blamed the spike on a supply squeeze, driven by excess rainfall and crop diseases in key sugarcane-growing regions, even as a share of sugarcane continues to be diverted toward ethanol production.**(Bloomberg)**

SUMMARY

Wholesale sugar prices have surged 40% in two months, threatening to exacerbate the margin squeeze for packaged food companies already reeling from higher input costs. The bigger question is whether rising food inflation could now threaten the durability of India's consumption recovery.

Makers of packaged foods from biscuits to beverages may feel the bitter aftertaste of a sugar spike soon, just as they recover from their worst profitability crisis in at least four years.

Raw material costs jumped 20% in the June quarter at seven consumer companies with significant exposure to sugar in their food portfolios, a *Mint* analysis found. Consequently, their operating margins hit a four-year low of 22.2%, slipping below the levels at the height of the Russia-Ukraine war, while combined net profits declined 7%. Six of them, including

Britannia Industries, Nestlé India, Varun Beverages, ITC and Dabur are part of the Nifty FMCG index.

Industry experts said a spike in crude-linked raw material costs, along with a 30–40% jump in packaging costs amid supply disruptions following the West Asia war, dealt a double blow to these companies in the previous quarter.

Sugar shock

The September quarter may turn out worse, with sugar prices climbing 40% over just two months. The government has blamed the spike on a supply squeeze, driven by excess rainfall and crop diseases in key sugarcane-growing regions, even as a share of sugarcane continues to be diverted toward ethanol production.

Sugar output for 2025-26 is now expected at 30.6 million tonnes, 11% below the initial estimate of 34.3 million tonnes, according to the ministry of consumer affairs, food and public distribution data. ICRA expects inventories to fall to 4.3 million tonnes by September, from 5.3 million tonnes a year earlier, leaving less than two months of consumption cover ahead of the festive season.

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Analysts expect the supply squeeze to worsen food companies' margin woes. “We estimate 50-80 bps gross margin compression and 20-50 bps Ebitda margin pressure for the affected companies,” said Saurav Chaube, equity research analyst at Samco Securities. Ebitda stands for earnings before interest, depreciation and amortization.

However, Chaube believes companies can soften the blow by making calibrated price hikes, grammage cuts and lower advertising spends. But their ability to pass on higher costs may be limited, given that consumers have already faced price increases across several packaged food products in recent months.

According to Bizom, a consumer analytics firm, consumers paid 6-9% more year-on-year for milk-based drinks, 8-10% more for chocolates and confectionery and 4-6% more for snacks and biscuits in the June quarter.

This appears to have dampened consumer sentiment. Aggregate net sales growth for the packaged food makers analysed by *Mint* slowed to just 5% in Q1 FY27, from 13% in the same period last year. This suggests that rising food and headline **inflation** may be offsetting much of the consumption stimulus the government began rolling out in FY26.

Heat of inflation

The headline CPI inflation print for July stood at 4.5%, sharply above last year's 1.6%, as food inflation stayed above 5% for the second consecutive month.

A 35% jump in retail sugar prices in just a month, from ₹48.2 per kg on 20 July to ₹65 per kg by 27 August, along with rising onion prices, could push food inflation closer to 6% and headline inflation above 5% in August, said Madan Sabnavis, chief economist at Bank of Baroda.

Still, sugar consumption has remained largely resilient. A recent LocalCircles survey found that 48% of households were buying the same quantity, while 22% had cut purchases and 4% had switched to cheaper alternatives after the recent price spike.

“Raw sugar consumption is unlikely to fall significantly because its demand is relatively inelastic,” Sabnavis said. “But higher prices could curb discretionary spending on sweets, beverages and confectionery, with the unorganized sector likely to be hit harder during the festive season.”

He expects grammage cuts to soften the blow for listed packaged food makers, which could keep reported September-quarter volumes and headline growth optically stable, even if underlying consumer sentiment weakens. Instead of making direct price cuts to make up for increased raw material costs, manufacturers often reduce package weight, referred to as shrinkflation.

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However, an industry association has a slightly different take. “Rising sugar prices are definitely going to dent consumer sentiments and affect spending decisions during the festive season,” said Kumar Rajagopalan, chief executive officer of Retailers Association of India. “Companies might also take a margin hit as sugar prices, along with other raw materials, rise.”

The bigger risk

Experts believe sugar prices will remain high as companies gather supplies ahead of the festive season, despite fresh arrivals expected from the October-November harvest. The government has also banned exports of raw sugar and permitted duty-free imports to shore up local stocks.

Continued high prices could sour sentiment, Sabnavis cautioned. Consumer sentiment has weakened over the past four months as inflation crept back after the West Asia war, having peaked in March so far this year, according to Centre for Monitoring Indian Economy (CMIE) data.

However, some industry players are more optimistic. "The (fast-moving consumer goods) industry has (already) demonstrated its ability to navigate significant input-cost volatility," said Jeevaraj Gopal Pillai, president of flexible packaging at UFlex, a packaging solutions provider to FMCG companies. He expects strong festive-season demand for packaged food products to provide additional support to companies.

As of now, urban consumers are likely to absorb higher prices relatively better, said Chaube of Samco Securities. For rural consumers, however, smaller pack sizes could raise the effective price burden, he added.

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Indeed, consumer sentiment moved in opposite directions across rural and urban India in July, CMIE data showed. While sentiment rose 1.2% in urban India, it fell 0.3% in rural areas, where a patchy monsoon threatens farm incomes.

"With state transfers now being rationalized and inflation expected to remain elevated, the lower end of the consumer market could lose steam," said Sabnavis of Bank of Baroda.

"While underlying demand seems durable, we can't take the current consumption momentum for granted. Because, what is driven by sentiment can't be explained by fundamentals," he said.

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