

Sugar companies in a sweet cycle

Reducing inventory surplus, rising ethanol procurement, and potential for exports bode well

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With the sugar cycle turning favourable, it is not surprising that the share prices of sugar-producing companies are among the gainers. Consider this: Shares of EID-Parry, Balrampur Chini, Triveni Engineering, Dwarikesh Sugar, and Dhampur Sugar have been on an uptrend, having gained 30-58 per cent from their August lows. Among them, Balrampur Chini hit a 52-week high recently, and is trading near those levels now.

The reducing surplus and stable sugarcane procurement prices bode well for realisations and profitability of sugar producers.

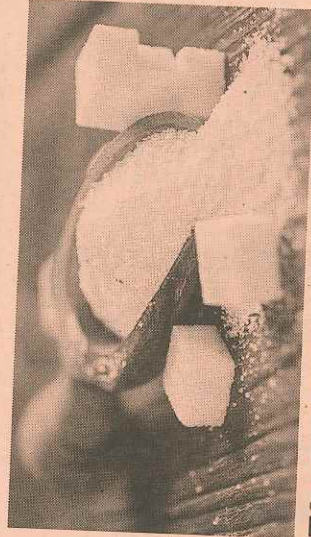
The latest release by the Indian Sugar Mills Association shows that sugar production in the current sugar season (SS 2019-20) starting October 1, 2019, is down 35 per cent year-on-year.

Except for Uttar Pradesh (UP), which is seeing higher production, Maharashtra (largest sugar producer) and Karnataka are seeing a fall in output.

Sugar production in the current season is now projected around 26.5 million tonnes (mt), which is lower than 33.1 mt produced in SS 2018-19 (October 1, 2018-September 30, 2019).

While the declining sugar production will help offset some of the surplus stocks, favourable government policies, such as allowing exports of about 6 mt of sugar, are a positive.

Higher prices for ethanol produced from sugar juices and 'B' and 'C' type of heavy molasses (lighter grades based on sugar content) for the year also augur well.



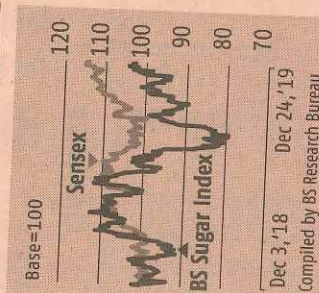
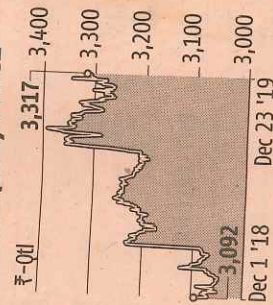
FY21 EXPECTATIONS

In ₹ crore	Balrampur Chini	Dwarikesh Sugar	Dhampur Sugar
Revenue	4,792	1,236	2,971
% change YoY	6.6	4.5	0.9
Ebitda	803	283	584
% change YoY	8.3	54.3	15.7
Net profit	531	211	362
% change YoY	9.6	77.4	27.1

E: Estimates; list includes top players tracked by brokerages
Ebitda: Earnings before interest, depreciation, tax, and amortisation

Source: Analyst reports

SUGAR (\$30) PRICE



Compiled by BS Research Bureau

balance sheets, such as Balrampur Chini, emerge top picks of most analysts; other companies also stand to gain.

More benefits could flow to UP-centric players, considering the good sugarcane yield, compared to states like Maharashtra, Karnataka, and Tamil Nadu, which are seeing lower sugarcane yields.

Analysts at ICICI Securities had said they believe UP-based sugar mills would significantly increase the supply of ethanol to OMCs this year.

Balrampur Chini's new 160,000 litres per day (LPD) distillery capacity would increase its distillery volumes from 110 million litres in 2018-19 (FY19) to 170 million litres in 2020-21 (FY21).

ICICI Securities expects a 30.6 per cent growth in distillery sales for the company during FY19-21.

Dhampur Sugar is also expected to benefit from its expanded ethanol capacities (400,000 LPD from 300,000 LPD in FY19) and is also one of the first to produce ethanol using 'B' heavy molasses, say analysts.

Dwarikesh Sugar, too, recently had commissioned a new 100,000 LPD facility. The company has a total daily production capacity of 21,500 tonnes of sugar and had reported the best sugar recovery rate in FY19.

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Notably, fresh ethanol procurement tenders by oil-marketing companies (OMCs) are also on the rise.

Analysts at Elara Capital say sugar mills and standalone distilleries have offered to supply 1,630 million litres of ethanol, and of this, the supply of ethanol from sugarcane juice and 'B' type heavy molasses of about 730 million litres is almost double last year's quantity. Thus, during the current season, analysts expect higher diversion of sugar towards ethanol production, compared to the previous season.

The other major positive for sugar realisations comes from International Sugar Association, which has revised upwards the global sugar deficit estimates due to expected change in sugar output estimates from major producing countries such as Thailand, India, Europe, Brazil, etc. While this will support domestic realisations, it will also help Indian producers on the export front.

While the cycle is favourable for sugar manufacturers, companies with stronger

Burien Standard

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