# Promising upside in sugar stocks as business prospects turn sweeter

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Sugar prices could spike globally due to supply uncertainties in India and China. Prices in India have risen appreciably over the past month or so while on the global front, they already are at multi-year highs despite hopes of strong production in Brazil.

Domestic production is estimated to fall this season — from the earlier expectation of 35.5 million tonnes (MT) to around 33 MT — due to lower yields and recovery rates, particularly in Maharashtra and Karnataka, which have been hit by unseasonal rains along with Uttar Pradesh (UP).

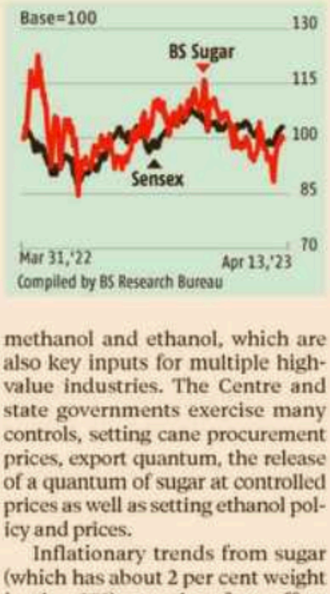
Given domestic consumption is of the order of 27.5 MT and exports or committed exports of 6 MT, the inventory could run low. Global sugar prices have rallied by over 12 per cent and domestic prices too have risen about 7- 8 per cent.

Inventory would cover between 2-3 months of consumption. The new crushing season only starts in September. Some further rise in prices is likely until the next cane crop comes in and if that is under-par, price rise could continue. Hence, if the monsoon is unusual, it will keep the industry on the edge.

Sugar is a politically sensitive commodity. It's a key cash crop in multiple states such as UP, Karnataka, Maharashtra, among others — with many livelihoods dependent on it, including agricultural labourers and farmers, to mill workers to mill owners, to cooperatives.

As such, elections can swing on the industry's fortunes. At this instance, many mills are operating at far below capacity due to under production. If mills are operating at below par, they often fail to clear procurement dues, causing upstream unhappiness since farmers and farm labour suffer a cash crunch.

In addition, the value chain extends into alcohols, including both



Compiled by BS Research Bureau

methanol and ethanol, which are also key inputs for multiple high-value industries. The Centre and state governments exercise many controls, setting cane procurement prices, export quantum, the release of a quantum of sugar at controlled prices as well as setting ethanol policy and prices.

Inflationary trends from sugar (which has about 2 per cent weight in the CPI) can therefore affect downstream high value industries such as industrial chemicals, pharmaceuticals, fuels, as well as alcohol consumption.

The Centre is targeting 12 per cent ethanol blending levels for petrol. The required quantity is 6.1 billion litres, and the government has contracted for 5.2 billion litres. The distilleries, meanwhile, had supplied 1.8-1.9 billion litres till March 2023.

The combination of right supply and soaring prices will be hard for governments to manage, despite all the controls. Exports are likely to be stopped until the situation eases.

Most listed sugar companies should see higher realisations and earnings before interest, tax, depreciation and amortisation or Ebitda/tonne.

Most analysts expect Balrampur Chini to be a big winner while other listed stocks such as Dhampur, Triveni and EID are also expected to do well. Analyst valuations indicate a potential 15-20 per cent upside.