

# Sweet '17 for sugar companies

Record profit due to bumper crop in Uttar Pradesh, price spike

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Vivek Saraogi, managing director of Balrampur Chini Mills, was pleasantly surprised this year (2016-17) by the strongest-ever performance of his company in the 30 years he has been in the business.

The company, with headquarters in Kolkata, has 10 mills. In the first nine months of FY17, its profits were nearly ₹400 crore. Its earlier highest annual profit was in FY09 — ₹226 crore. In FY16, its profit was ₹99 crore; and in FY15, it had made a loss of ₹58 crore.

Saraogi attributes this to a bumper sugarcane crop and sugar production in Uttar Pradesh. "In the rest of the country, output has gone down. The volume is on our side," he said.

This is a rare year for sugar makers. In the past three-four years, heavy losses and meagre profits made it difficult for them to even pay farmers or service debt.

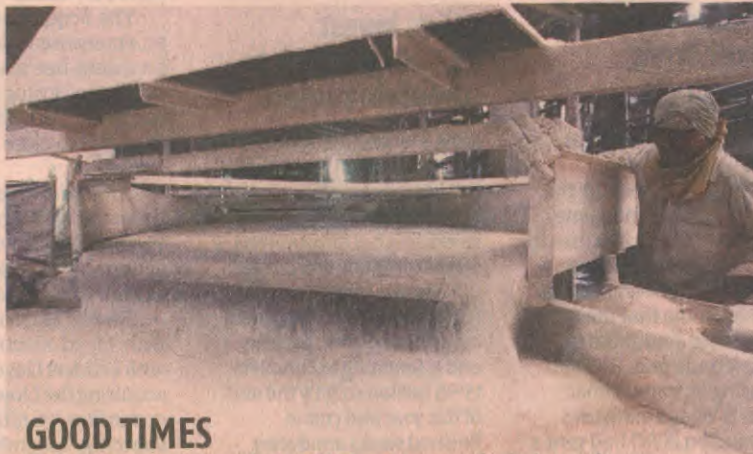
The situation was so grave that in 2014, State Bank of India Chairman Arundhati Bhattacharya had sent a letter to the chief secretary of Uttar Pradesh, complaining about debts of sugar manufacturers turning into non-performing assets.

She had identified the discrepancy between the high price of sugarcane, fixed by the state, and lower market prices of sugar as a possible culprit.

This year, however, everyone seems to be enjoying the sweet season.

Triveni Engineering and Industries, which owns seven sugar mills in Uttar Pradesh, has earned a record profit of ₹193 crore in the nine months ended December 31, 2016. This beats its previous annual record profit of ₹170 crore in FY09.

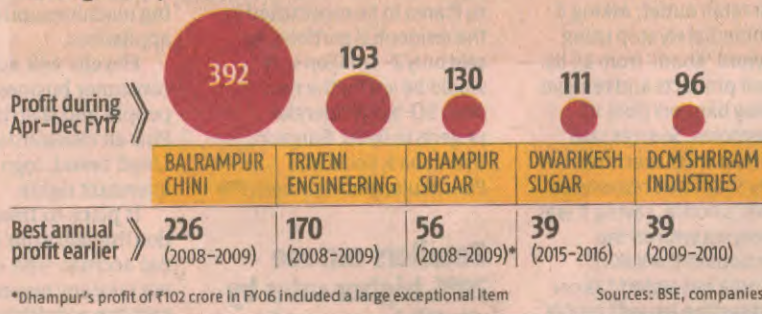
"We see a fairly sustained sugar price, at least for the next nine months. However, it is difficult to have long-term visibility in our sector, which has a host of variables such as



## GOOD TIMES

The April-December period of FY17 has been particularly good for sugar companies

Figures in ₹ crore



weather, rainfall and sugarcane prices," said Tarun Sawhney, vice-chairman and managing director.

Balrampur's average realisation on every kg of sugar rose 38 per cent in April-December of FY17 to ₹35.57. Sugar brought almost 85 per cent of the ₹2,753 crore revenue of the company during this period.

The rest came from by-products such as power and ethanol.

"Banks are now more comfortable. There was a huge build-up of debt in the sector but many companies will now reduce it. We are looking at significantly bringing down net debt from the current ₹1,000 crore," said Sawhney.

Maharashtra used to be the biggest sugar-producing state. But its production will halve to 4 million tonnes in the October 2016 to September 2017 period (sugar season) because of the drought in the previous year leading to low planting.

Now, Uttar Pradesh is the largest producer with a projected production of 8 million tonnes. Last year, its production was ₹6.9 million tonnes.

Another positive for sugar companies in Uttar Pradesh and Uttarakhand has been improving of recoveries (sugar produced from every stick of sugarcane) owing to a change in crop varieties in past two years.

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## Sweet '17 for sugar firms

Higher sugarcane crushing also translates into improved by-products such as power. The net result is visible in high double-digit Earnings before interest, taxes, depreciation and amortisation margins of companies — 22 per cent for Balrampur and 19 per cent for Triveni. The changed fundamentals are reflecting in the stock prices of sugar makers and many have rallied to their highest point in several years. Dhampur Sugar, with headquarters in Delhi, has earned a profit of ₹130 crore during the nine months ended December 31. Its previous best was ₹56 crore, in FY09 (the ₹102-crore profit in FY06 included a large exceptional item). Others such as Dwarikesh, DCM Shriram Industries and Oudh are in their most profitable year.

The Union and state governments have also been supportive. The Union government has not reduced the import duty on sugar in spite of a significant decline in domestic output this year. Production is expected to be 21 million tonnes, down about 15 per cent year-on-year.

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