Best of sugar cycle might be over

Higher output estimates will limit realisation gain, while higher cane prices will push up costs

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India's sugar production is set to rise by 16-20 per cent in the coming sugar year (SY) of 2017-18 (starting October 1 and on till September 30), to 23.5-24.5 million tonnes (mt), estimates ratings agency ICRA.

The would be around the demand, of close to 24.5 mt. As production started declining in SY16, and deficit seen in SY17 might reverse now. This means prices could see some pressure, restricting the upside to realisation of sugar manufacturers.

Stocks of Balrampur Chini, Shree Renuka, EID Parry and Bajaj Hindusthan have also seen some profit-booking from their recent peaks.

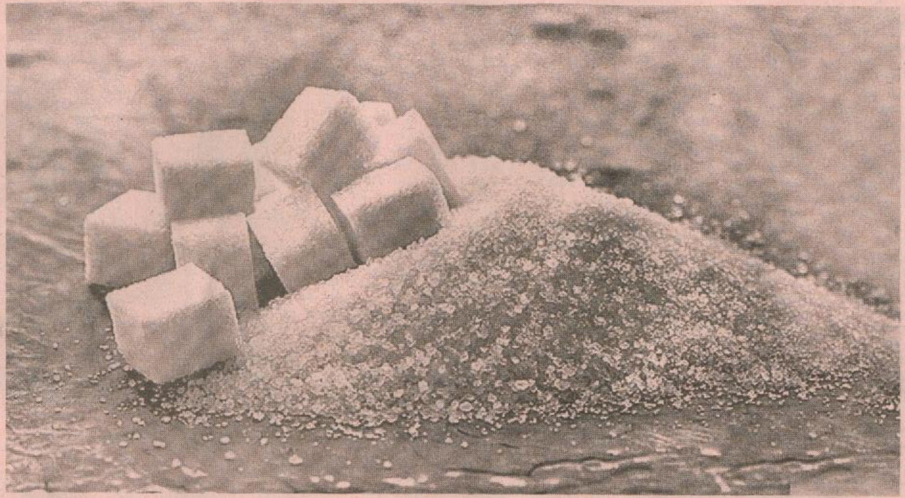
Another worry for the industry is the central government's decision to raise its recommended (adopted by some states and setting a floor for others to raise it by more) Fair and Remunerative Price (FRP) of sugarcane by nearly 11 per cent or ₹25 to ₹255 a quintal for SY18. Abinash Verma, director-general of the Indian Sugar Mills Association (Isma), says if the factory gate price of sugar falls below ₹35-36 a kg, it will be difficult to meet the rise in cane prices. The current factory gate price is ₹36-37 a kg.

Sugar prices are currently stable but might not remain so with a rise in production. Prices had increased substantially in the past 18 months, with the expected supply deficit in the country and abroad. Isma believes sugar production in SY17 is likely to be close to 20.2 mt, much lower than the 25-26 mt of SY16. Not only is output recovery seen in SY18 but the year after is thought to see even more.

All this does not augur well for profits at sugar companies, a majority of which were suffering from losses and high debt. It is only in the past one to two years that companies saw a recovery in their financials (*see table*), led by higher sugar prices, thereby leading to higher share prices.

One positive factor for manufacturers is that the government is considering an increase in import duty on sugar from the current 40 per cent to 60 per cent; after having already achieved targeted import of 500,000 tonnes to meet the deficit. International prices have fallen significantly from close to 17 cents a pound in March to under 14 cents a pound.

Overall, the best of the cycle might be over for manufacturers. Analysts at Sharekhan had said after the March quarter results of Balrampur Chini Mills that sugar prices were not expected to spike from the current levels. They expect it to remain at ₹38-40 a kg. Among the bigger companies, Balrampur Chini's stock, after seeing a high of ₹170.55 in April, continues moving sideways at ₹152.45. So, too, with the shares of other big companies, moving sideways after giving up some gains from their 2017 peaks.



SWEET SO FAR

Year ended	EID Parry	Bajaj Hindusthan	Balrampur Chini	Renuka Sugar
	Net profit *			
March '14	79	-1,620	8	-846
March '15	119	-1,196	-58	-1,813
March '16	24	-212	251	-1,809
March '17	521	-92	593	-1,040

* Adjusted profit after extra-ordinary items (rounded-off), Consolidated figures in ₹ cr
Compiled by BS Research Bureau
Source: Capitaline

SUGAR M30

Source: Sugar associations
Compiled by BS Research Bureau