

# Best may be behind for sugar stocks

## UP sugar producers better placed and will continue witnessing a stronger balance sheet on declining debt

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The government, in order to maintain the availability of sugar and keep prices under check, has again extended the stock-holding limit by six months. A few days ago, it had resorted to allowing duty-free imports, which will keep sugar prices in check. These measures suggest that a further upside in sugar prices from here on may be limited, and hence the major part of the rally in share prices of sugar companies is behind.

The uptrend in sugar prices on the back of tightening supplies has so far been the key reason for the strong rally in the share prices of sugar companies. The companies also benefitted from low opening stocks (inventories) at the start of the season. With India's sugar production declining, UP-based producers remain better-placed due to good availability of sugarcane in the northern state, as the rest of the key sugar-producing states such as Maharashtra and Karnataka saw a decline in sugar cane production and thus lower sugar production. Mill realisations had firmed up to ₹39 a kg compared to ₹36-37 in January, say analysts.

However, with government allowing duty-free imports, the move has put a check on domestic sugar prices. Though the landed cost of white sugar would still remain higher versus locally produced sugar, the imports of raw sugar remain feasible and have already started. Thus, sugar prices have corrected by ₹1-2 a kg on expectations of higher imports due to a cut in import duties, say analysts.

Going ahead, analysts

### BALRAMPUR CHINI : DECLINING MARGINS

	FY17E	FY18E
Revenues (₹ crore)	3,132	3,182
Operating margin (%)	26.9	22.4
Net profit (₹ crore)	539	434
EPS (₹)	22.9	18.5

E: Estimates Source: IIFL Research

expect improved production of sugar cane in Maharashtra and Karnataka in the next season, after poor acreage in the current sugar year ending in September. Analysts at JM Financial say that given the expectations of a revival in sugar production, especially in Maharashtra, where it had dropped from 8.4 million tonnes (mt) in Sugar Season 16 to 4.2 mt in Sugar Season 17, it is expected to revive to about 7 mt in Sugar Season 18 (Sugar Season starts on October 1 and ends on September 30).

Though the Indian Sugar Mills Association (Isma) has not given any guidance on production numbers for the next sugar season, Abinash Verma, director general, Isma, feels that sugar production in the country will improve from about 20.3 mt in the current sugar season. This bodes well for the medium-term demand-supply balance of sugar in the country and will help keep prices under check. Analysts at JM Financial say that there will not be any sharp increase in sugar prices and hence maintain their cautious stance on the performance of sugar stocks on the bourses.

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