

Sugar companies to see more gains

With firm sugar prices and better profits, the earnings of sugar producers are set to improve further

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Earlier moves to control sugar prices through export duty, concerns on cane procurement price revision, and note ban, all led to a correction in share price of sugar companies recently. However, the stocks have become attractive now, with clarity on cane costs and firm sugar prices. Meanwhile, the financial health of sugar companies has continued to improve, and is expected to turn even better with favourable sugar prices.

Sugar production is estimated to decline to 23.4 million tonnes (mt) in sugar year (SY) 2016-17 compared to 26 mt in SY15-16, says Indian Sugar Mills Association or Isma. SY is from October to September. The closing stock of around 7.7 mt as of October 1 is likely to decline further with consumption estimated at 25.5 mt, keeping prices elevated. Thus, Balrampur Chini Mills and EID-Parry, with stronger balance sheets, as also Dalmia Bharat, Dhampur Sugar Mills, among others, are well placed to gain from the favourable sugar cycle.

Uttar Pradesh government recently announced state advisory price (Sap) for cane, which was in line with expectations. This eliminates uncertainties on costs. The Sap, after three years, has been revised to ₹315 a quintal from ₹280-290 for normal and advanced varieties of cane. Isma said the cost of production, which stood at ₹33 a kg, would rise to ₹36 a kg. However, ana-



lysts at IIFL had earlier said that their estimates factored in the state price hike, which translated into multi-year high margin of 25 per cent in current financial year for Balrampur Chini.

Performance of companies is also improving. For example, Balrampur Chini has reported record profit in the first two quarters of FY17 on robust sugar and distillery realisations (up 49 and 11 per cent year over year, respectively). Volumes also surged 24 and 22 per cent, respectively, in the two segments. Distillery is where spirits are made. The company has been reducing its overall debt too. All other players have also benefited. Shree Renuka Sugars, which has been reeling from debt, reported a net profit of ₹2.5 crore in September quarter (versus loss of ₹150 crore in year-ago quarter) for Indian operations. While its net profit is estimated to grow 11 per cent in FY17, analysts at IIFL see 18 per cent growth in FY18 for Balrampur Chini. The latter's share buyback will also support its stock price, say analysts at JM Financial.