Sugar to Get Sweeter in Two Quarters

Calculus

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Sugar producers will benefit from the government-mandated compulsory blending of ethanol with petrol. This coupled with the recent decontrol measures will lead to improvement in earnings of sugar companies.

In November last year, the government issued a directive to oil marketing companies, or OMCs, for compulsory blending of 5% ethanol with petrol. Subsequently, OMCs had called for tenders for procuring 110 crore litres of ethanol. Sugar companies, who are the major suppliers of ethanol, have offered to supply it at Rs 34-36 per litre. This is 20% higher than the current selling price of Rs 27 per litre, which was fixed by the government in 2010.

Although the benefits of this initiative will start accruing form the June quarter, a meaningful improvement will be seen from the September quarter this year. According to ETIG estimates, major companies such as Balrampur Chini and Shree Renuka Sugar will see 15% and 18% rise in net profit, respectively, on a year-on-year basis in the September quarter, while Bajaj Hindusthan will see a Rs 0.5 rise in its earnings per share.

Despite the recent easing of government control over the sector, investor sentiment has been weak in major companies. This can be attributed to lower profitability from the sugar division this year due to flat sugar prices and higher cane costs.

Despite a drought in major sugar producing regions in Maharashtra and Karnataka, sugar production this season (October 2012 to September 2013) until April was 24.1 million tonnes, just 2% lower than in the same period last year.

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