

BETTER DAYS AHEAD Global factors, govt support and likely fall in local sugar production next year are all seen to be positive for domestic sugar companies

Sugar Stocks High on Supply Squeeze, More Gains Likely

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Mumbai | ET Intelligence Group: Bets on sugar stocks are turning out to be sweet deals for some investors. With sugar prices hitting close to 22-year highs in global markets, share price of most domestic sugar companies have touched a 52-week high on Tuesday. What's more encouraging is that and even though there had been a sharp rally in sugar stocks since October 2015, experts believe there's steam left in most counters.

Analysts reckon that pressure on supply in international markets will remain high after the International Sugar Organisation recently said the gap between demand and supply of global sugar had widened. On the domestic front, sugar prices have soared by nearly half between August 3, 2015 and March 3 this year.

Share price of Dwarikesh Sugar, Dalmia Bharat Sugar, Oudh Sugar Mills, Kesar Enterprises, Uttam Sugar Mills, Ugar Sugar Works and Mawana Sugars rose between 9% and 18% in a single trading session

IT ISN'T A SUGAR COAT



PABLO PICASSO, A Spanish couple in front of Inn

on the BSE on Tuesday. Among others, Rajshree Sugars, DCM Shriram Industries, Upper Ganges Sugars, Sakthi Sugars, Bannari Amman Sugars, Dhampur Sugar Mills, Balrampur Chini Mills and Dharani Sugars rose around 5-9%.

"Apart from international factors, domestic sugar mills have witnessed increased support from government leading to their rerating," said Devang Kamdar, vice-president, Sharekhan, a Mumbai-based brokerage. "Improvement in sugar prices

also ensure that most sugar companies turn EBITDA-positive and are able to service their debt."

The government has announced ₹4.5 per quintal of cane crushed production subsidy to curtail supply pressure. In Maharashtra, India's largest sugar producing state, the mills have been allowed to export 12% of current season's production with the exemption of state purchase tax on sugarcane. Mills had to pay a purchase tax of 3% on the fair and remunerative price that is ₹9 per quintal.

"Production is disturbed in Maharashtra, but in Uttar Pradesh, yields have improved due to mild winter which is conducive for sugar crops," said Daljeet Singh Kohli, head-research at India NiveshSecurities. Average yield this season is 10.5%-11% against last year's 9%, which will benefit sugar mills.

Next year, there could be further shortage of sugar domestically as local sugarcane prices have not gone up for the past 4 years leading to farmers moving away from growing the crop. This will aid sugar mills in earning higher realisations.