Costlier cane may hit sugar mills' margin, says Crisil

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DESPITE projection of higher output during the 2017-18 sugar season (Oct-Sept) the average earnings of the sugar industry is likely to decline by 200-250 bps due to higher cane prices, which would increase the cost of production, said a report by Crisil Research.

"High prices in sugar season (SS) 2016-17 and higher production in SS 2017-18 is of little cheer to mills because the difference between sugar prices and cost of cane continues to narrow. Cane costs are set to rise by 11 per cent, even as sugar prices moderate marginally in the current year," the report said. Raw material accounts for over 70 per cent of cost of sugar and impacts margins the most.

Hence, the higher gap between sugar prices and cane cost means better margin for the sugar industry.

In SS 2014-15, when the gap between cane cost and sugar prices vanished, mills couldn't make much at the operating level. However, during SS 2016-17, margins rose only by 100 bps to 9 per cent (for a set of 30 firms accounting for 80 per cent of industry revenue) despite decadal-high prices.

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