

## Govt unlikely to impose stock limits on manufacturers: Sakthi

*"The stock limits and squeezing the pipeline will only be a temporary measure," M Manickam, Executive VC of Sakthi Sugars said.*

Even as news reports are abuzz that the government may impose stock limits for sugar, a similar move is unlikely to come in for manufacturers, says M Manickam, Executive VC of Sakthi Sugars 🏭 .

"Stock limits and squeezing the pipeline will only be a temporary measure [in taming sugar prices]," he told CNBC-TV18 in an interview.

He expects sugar prices to be in the range of Rs 34-38 per kg over the next six months.

Commenting on the company's profitability in FY17, he said that Rs 34 per kg will be the breakeven for Sakthi Sugars at current sugarcane prices.

Narendra Murkumbi VC and MD of Renuka Sugars said the he believes dealers have been notified about the stock limit.

He said that the sugar inventory with dealers should not be more than one million tonne, which is 15 days worth of consumption.

***Below is the verbatim transcript of M Manickam and Narendra Murkumbi's interview with CNBC-TV18.***

**Nigel:** What exactly is the current stocking that the dealers have with them? What kind of an impact can it have on prices as well?

**Manickam:** These are fairly decent stock limits. I don't think anybody in the pipeline is tearing too much of an inventory. The general feeling is there is a shortage of sugar coming up and that is why the prices have moved up.

So, as I have been saying the stock limits and squeezing the pipeline is only going to be a temporary measure possibly you will have an impact for maybe the month - month and a half. However, the fundamentals will come into play where you have a shortage of sugar, we have a shortage production; we have a drought so we need to recognise that, that is the major problem.

**Reema: Say in the next one or two months when the stock limits are being imposed what kind of impact will it have on sugar prices? Where do they currently stand at and how much could they dip by?**

**Manickam:** They have already dip by Rs 250-200 on the news of the stock limits coming. So, I don't expect it to go down any further because that news is already been diluted by the market. It had gone up to Rs 36, now it is about to Rs 34. So, the market has already absorbed that and you have seen the impact of this stock limits already reflected in the market prices today.

**Nigel: Do you anticipate that these holding limits could also be dwindle down, may be even to manufacturers as well, now we have dealers that have stock limits do you think that it can be applied even to manufacturers at some point of time?**

**Manickam:** It can't be because the sugar is produced in four months to five months and distributed over 12 months. We don't have a problem the government will buy off the entire thing from us and hold it around our behalf that is the different issue. However, I don't think government will probably look at stock limits at manufacturer because this commodity is produced in five months and sold in 12 months. So, we actually are holding the inventory for the country.

**Reema:** So, you are saying current prices stand at Rs 34, they have already fallen from Rs 36 per kg. Over the next six months what would be your own assessment of where sugar prices will be and how they will trend?

**Manickam:** It is quite speculative to say the least. It could go in the range of Rs 34-38 but we are not really sure what kind of measures the government is going to do on in fact the rumours of export not being allowed any further. So, we are not really sure what kind of measures the government will be taking to keep these prices. Finally, the price is going to import parity, if there is a shortage you will be looking at import parity which is about Rs 34-35 even today.

**Nigel:** So you are saying that there was stock even of restriction of exports? Currently how much of your total produce are you exporting?

**Manickam:** We are not exporting anything. In fact the country had target of 4 million tonne to be exported. Fortunately, we did not export more than 1.5, so 1.5 million tonne has already been exported this year.

**Reema:** Hypothetically, if exports are stopped and 1.5 million tonne comes back into the domestic supply then what will be the impact on sugar prices?

**Manickam:** 1.5 million tonne has already gone, so it is not going to come back.

**Reema:** If the other 2.5 or 3.5 doesn't go then what will be the impact on sugar prices if hypothetically exports are not allowed?

**Manickam:** That has already been discontinued again because of the prices have risen in domestic market that is why the

exports were not going though the government was pushing for the factories to exports.

In fact even as recent as about two months back there were lot of noises about industry not performing as per the requirement of the exports and all that. So, the industry has not responded because we were anticipating a shortage though export has not happened, so all that has been discounted in the market. You are not going to see a difference in the prices any of this factors.

**Nigel:** The last time we spoke, the short while back you were telling us that you expect to report an operating profit in the coming year at what level does that become unviable? We are already at around Rs 34 when exactly does that particular assumption that FY17 will be profitable, at around Rs 32-31 or when exactly?

**Manickam:** At Rs 34 is our breakeven, I have been maintaining that for the last few years. We at the current sugar cane prices above Rs 34 will be our breakeven.

**Reema:** Food Ministry sources suggest that the dealer stock limits could be imposed today. Have you heard more on it, is it likely today and also if you could tell us what the excess inventory is, how much sugar will be released if we do get a stock limit at 500 tonnes?

**Murkumbi:** I believe that the stock limit has been notified and a limit of 500 tonnes in most states and 1,000 tonnes in Calcutta region has been notified per dealer. According to me the pipeline inventory in the trade is not much. India consumes about 2.2 million tonnes of sugar per month. Inventory with traders would not in my estimation be more than 1 million tonnes at most, which is about 15 days of consumption and this year the season is coming to a close, India should produce about 25.3 million tonnes or so and we would end with a closing inventory of about 6.57 million tonnes which is about three months of consumption.



**Nigel:** But prices have corrected in the last few days, it is around Rs 34. Could you confirm that and also you export some part of your production. So, could you tell us how that is going because there was talk that maybe there could be some restriction coming in on exports as well. So, what impact could it have on prices?

**Murkumbi:** Well we have a strange situation where the government has imposed stock limits on a commodity where it is actually encouraging exports at the same time. So, exports this season are actually crossed about 1.4 million tonnes and we do not see any export parity right now for domestic production. So, this should end at around 1.5 million tonnes or so after ongoing shipments are completed.

There is some discussion around whether the export incentive is needed to continue and probably there will be some decision on that in the very near future. As of now only this decision on stock limits has been done.

As I said since the trade inventory in my view is very small it has had some negative impact on spot markets as traders liquidate excess inventory but that should not last beyond the next 10-15 days and in fact the pipeline inventory will shrink because of stock limits and if anything the market is likely to be more bullish after May 15 as the trade inventory is going to be very minimal and there will be very strong summer demand especially in north India for May and June.

**Reema:** Have sugar prices already correct from Rs 36 per kg to Rs 34 per kg and in the next one month or in the next 15 days do you expect sugar prices to fall more as the inventory gets released?

**Murkumbi:** Well I just answered that question.

**Reema:** Yes, but how much more in the next 15 days?

**Murkumbi:** I think the fall is over frankly. The market reacted to the imminent announcement of stock limits. Now that the stock limits are a reality traders have more or less liquidated their inventory, if at most another couple of weeks.

**Nigel:** Could you tell us what exactly is your current prevailing rate in the domestic market and also could you tell us in the international market what are the prevailing prices over there?

**Murkumbi:** Currently in the Indian market ex-mill Maharashtra, Karnataka is trading around Rs 33 and North India is between Rs 35 and Rs 36 per kg ex mill. Export realisations are around between USD 460-480 per tonne which is almost the same.

**Reema:** What will be the duration of the dealer stock limits, would it be one quarter or two quarters?

**Murkumbi:** It is supposed to be for 30 days after you purchase sugar. So, you are not supposed to carry more stocks than you need for 30 days.