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Expect pressure on profit margins of sugar mills: CARE

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CARE Ratings has come out with its outlook on Sugar. As per the rating agency for integrated players the situation is expected to be relatively better with realisations from ethanol and co-generation offsetting losses from sale of sugar.

Sugar output in the current sugar season (SS 2011-12) is estimated to be about 26 million MT on account of higher sugar cane production on the back of higher cane acreage. With an opening stock of 5.6 million MT and an estimated annual domestic consumption of 22 million MT, the industry is expected to have a surplus of 9.6 million MT at the end of SS 2011-12. It will create an oversupply situation leading to moderation in sugar prices. Increase in SAP of sugarcane from Rs.205 per quintal to Rs.240 per quintal in U.P., the largest sugarcane producing state in the country, has further put pressure on the cost structure of the sugar mills, particularly the UP based mills. This coupled with high interest rates and thereby high inventory carrying cost is likely to put pressure on debt servicing capability of non-integrated sugar mills. For integrated players the situation is expected to be relatively better with realisations from ethanol and co-generation offsetting losses from sale of sugar.

On the global front, the situation is likely to remain flat with closing stock expected to remain at the same level as that of last season. Surplus production in Australia and India are likely to offset lower supply from Brazil. Despite higher output, Government of India has so far allowed export of only one million tonne of sugar. Further allowance of export by the government by two to three million tonne may ease the excess inventory situation resulting in improvement in the domestic sugar prices. Higher carry over inventory, high sugarcane prices and unattractive sugar prices is currently acting as a dampener to the industry. Thus, timely allowance of exports is critical to the performance of the sugar mills.

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