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Commodity cycle drives sugar stocks, but surplus is a concern

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With a favourable upcycle for commodities, sugar stocks have remained in the limelight. Rising global prices are providing some encouragement, besides the industry is also benefiting from other favourable developments.

The Uttar Pradesh government's decision of not raising state-advised price (SAP) for sugarcane procurement was a big positive, bringing some respite to investor concerns over UP-based producers.

"This is a bold move ahead of the Uttar Pradesh election and comes at a time when central and east Uttar Pradesh sugar mills are suffering from a virus attack on the crop, which has affected cane yields," said analysts of B&K Securities Ltd.

The virus attack is putting pressure on yields, as it has pushed up the cost of production for mills. Any upward movement in SAP would have pushed costs up further.

Not surprisingly, share prices of UP-based sugar producers such as Balrampur Chini Mills Ltd, Dhampur Sugar Mills Ltd and Dwarikesh Sugar Industries Ltd have gained 20-33% since mid-February.

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Other positives include sugar production estimates, which were revised downwards owing to the virus. Even so, there will be still be a high surplus.

Indian Sugar Mills Association has reduced its estimate of the country's sugar output to 30.2 million tonnes (mt), from an earlier estimate of 31 mt, for the ongoing SY2020-21. Sugar year or SY starts from 1 October and ends on 30 September.

SY20-21 had started with an opening inventory of 10.6 mt. With 30.2 mt to be produced in SY20-21, sugar availability in India will be at 40.8 mt. With consumption of nearly 26 mt and exports quota at 6 mt, sugar surplus will stand at 8-9 mt. This is significantly higher than the normal inventory of three months that ideally should be carried forward.

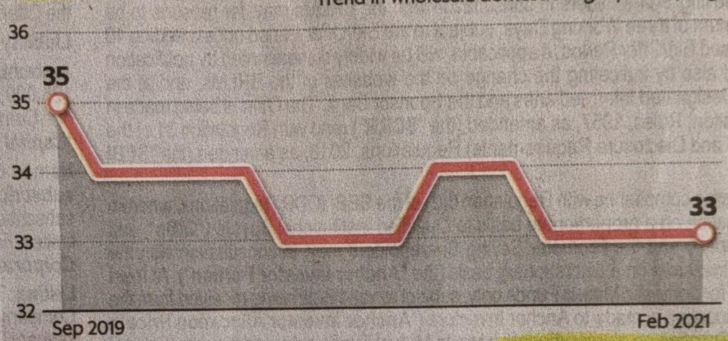
The sugar surplus will thereby keep a check on sugar prices in the country.

"The sugar prices are expected to remain largely range-bound, backed by an MSP of ₹31 per kg. Domestic prices are unlikely to increase unless sugar MSP is hiked by the government," said a CARE Ratings Ltd report.

Meanwhile, the rise in ethanol capacities is a positive. This can help resolve the sugar surplus situation to some extent with cane getting diver-ted for ethanol production.

Under pressure

Wholesale sugar prices continue to remain under pressure despite rising international rates, primarily due to oversupply in the domestic market.



Source: Care Ratings Ltd

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