

InvAsset's Voice



Sugar Sector's Sweet Spot

10th May, 2023



India's Best Performing and Most Customer Centric PMS

Company Overview

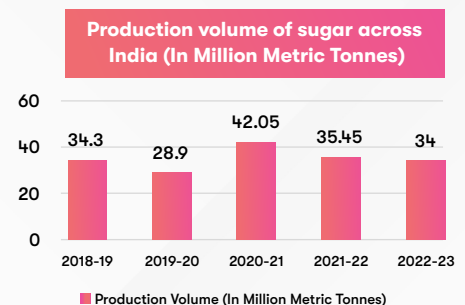
The Indian sugar sector is a crucial sector of the Indian economy, as it is one of the largest agro-based industries in the country. India is the second-largest producer of sugar in the world after Brazil, and the sector contributes significantly to the country's GDP, providing employment to millions of people across the country. However, the sugar industry in India is facing several challenges, including fluctuating sugar prices, low productivity, high input costs, and overproduction, leading to financial stress on sugar mills. This report aims to provide an overview of India's sugar sector, including its production, consumption, exports, and challenges, as well as the role of ethanol in the sector.



The sector comprises of sugarcane farmers, sugar mills, and various government and private entities that are involved in the production, processing, marketing, and distribution of sugar and its by-products. The sector also generates a significant amount of revenue for the government through taxes and duties.

Total Sugar Production

India's total sugar production for the marketing year (MY) 2022-23 is around 34 million metric tonnes (MMT), a decrease as compared to the previous year's production of 35.45 MMT. The decrease in production is mainly due to lower sugarcane availability in Maharashtra and Karnataka, which are the major sugarcane producing states in the country. The government has set a target of producing 40 MMT of sugar by 2025-26 to meet the growing demand for sugar in the country and to reduce the dependence on sugar imports.



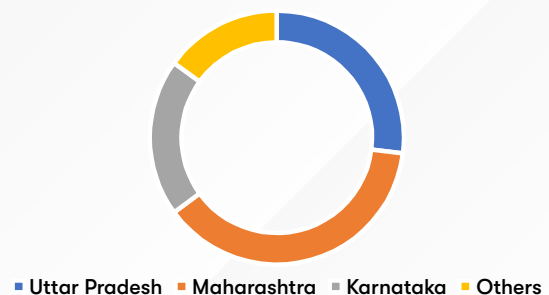
India's Production Drop Has Raised Global Sugar Costs

The prudent decision by India to restrict sugar exports is paying off. In April alone, the price of sugar increased 11.3% globally as supply concerns engulfed the market. India, the second-largest sugar exporter in the world after Brazil, looks to be the key factor fueling supply concerns. Although a little reduction in production for India during the current season, which runs from October to September, was anticipated, the numbers show a dramatic fall in recent weeks. After being diverted to ethanol, India's sugar production decreased by 3.3% as of March 31 to a little under 30 million tonnes. Even while the drop seems to be slight, there is a strong possibility that the season's production of sugar will be far lower than the predicted 34 million tonnes.

In the two weeks ending February 28, sugar production was 2.9 million tonnes, which was down from the week's 3.5 million tonnes and down 5.2% from a year earlier.

But since March, things have become worse. The total amount of sugar produced for the month was 4.2 million tonnes, a steep decrease of 26% from the previous year. Again, Maharashtra looks to be the biggest offender, as the state's sugar production is down 58.3% from a year earlier. Maharashtra anticipates a 23% decrease in sugar production this season as a result of unseasonal rainfall having an impact on yields.

Largest Sugar Producing States In India



In UP, the second-largest sugar-producing state, as of March 31, 97 mills are operational compared to 88 a year ago. But the most significant producer Maharashtra has only 18 mills operating compared to 167 a year ago.

Thus, the season's tail will see a sharp cut in output in Maharashtra, affecting overall sugar output, with production likely falling well short of the 34 million tonnes mark. If Maharashtra does produce only 10.6 million tonnes, as the TOI report mentioned, it will be 2 million tonnes short for the season. Even Karnataka and others will likely see a dip in output as more mills are shut compared to last year. All hopes rest on UP to produce more, but more is needed to offset the decline in other states.

This is one main reason why global sugar prices are up: India's output falling short means a lower-than-expected sugar surplus for importing countries. Thankfully, Thailand's sugar output has been healthy, which will cap the rise in sugar prices. Forecasts of a coming recession or a slowdown could also lead to lower sugar consumption as consumers cut back on discretionary items such as beverages. But, as of now, the futures market has pencilled in a bull case for sugar prices.



The Indian Sugar Mill Association (ISMA) has lowered its production estimate by around 7 percent to 34 million metric tonnes (earlier estimate: 36.5 MMT) for the current sugar season (October 2022 to September 2023).

After the production projection was revised lower, most sugar stocks rose on expectations that retail prices would increase (they had increased 9% over the last three weeks). In the near future, rising demand in the second half of the sugar season will probably cause a further increase in sugar prices.

In addition, prices for raw sugar worldwide have risen to an 11-year high. Because numerous other producers, like India, China, and the European Union, are having difficulties, Brazil's sugar output is more significant for the global market this year.

We could be on the verge of the sugar upcycle given the revised projections for output, rising domestic and international sugar prices, and the impetus behind the ethanol-blending scheme. Investors should monitor monsoon-related changes as well as sugar company results.

Tight Sugar Balance Sheet

With only six out of the 210 sugar mills operational, Maharashtra (the top sugar- producing state) will likely witness a sharp decline in sugar production (10.5 to 10.6 MMT vs 12 MMT) due to the low yield on account of adverse weather.

Moreover, the government had capped sugar exports to around 6 MMT in the current season, and with growing consumption and higher ethanol diversion (4.5 MMT), closing inventory is likely to be range-bound between 5.5 MMT and 6 MMT (similar to the previous season), leaving little hope for further exports.

Balrampur
Chini Mills

Dwarikesh
Sugar

EID Parry

Shree
Renuka Sugar

Peer Comparison

Particulars	Balrampur Chini	Dwarikesh Sugar	EID Parry	Shree Renuka
CMP	412	94.8	501	47.4
Market Cap (In Crs)	8322	1784	8887	10,083
High/Low	509/307	144/75	673/433	67.8/38.9
Price/Earnings	30.7	15.2	8.45	-
Price/Book	3.05	2.45	1.53	-
Price/Sales	1.87	0.87	0.26	1.14
Enterprise Value (In Crs)	8627	1704	10386	15344
Market Cap/Sales	1.87	0.87	0.26	1.14
ROCE	16.1	21	37.1	6.23
ROE	17.3	24.8	18.5	-
ROA	10.2	10.8	10.9	-1.84
Debt To Equity	0.18	0.43	0.40	-
Promoter Holding (In %)	42.4	42.1	44.5	62.5
FII Holding (In %)	13.5	4.37	11.3	4.34
DII Holding (In %)	20.9	3.27	4.92	10.1
Public Holding (In %)	22.7	38.3	39.3	23.1
Dividend Yield (In %)	0.59	2.11	2.17	0

Balrampur Chini Millis

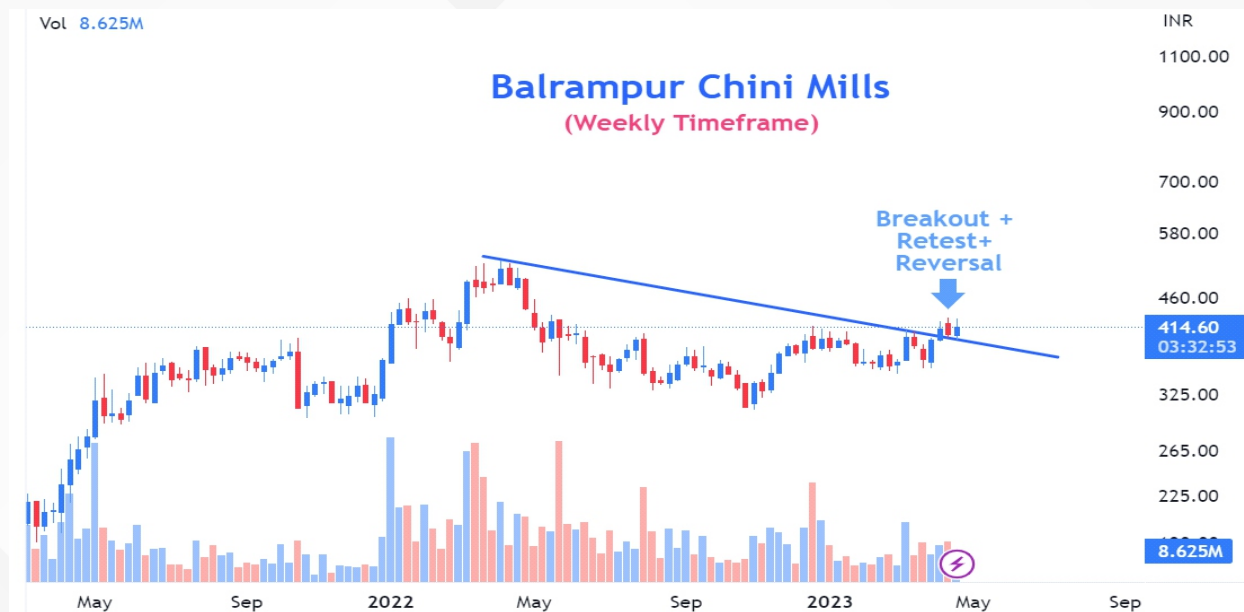
Balrampur Chini Mills Limited is a leading integrated sugar manufacturing company in India. The company was established in 1975 and is headquartered in Balrampur, Uttar Pradesh. It is a part of the Rauzagaon Chini Mills Group, which has six sugar factories located in different parts of Uttar Pradesh.

Balrampur Chini Mills is involved in the manufacturing of sugar, ethanol, and power. The company has a strong focus on sustainable development and is committed to reducing its carbon footprint. It uses bagasse, a byproduct of sugar production, as a fuel source for generating power, which reduces its dependence on fossil fuels.

In addition to sugar manufacturing, Balrampur Chini Mills is involved in the production of organic fertilizers and seeds through its subsidiary, Indo Gulf Industries Limited. The company also operates a distillery that produces industrial alcohol and fuel ethanol. Overall, Balrampur Chini Mills is a well-established and reputable sugar manufacturing company in India with a strong focus on sustainable development and diversified operations.



Balrampur Chini Mills Limited



Technical Outlook

The stock has given a breakout on weekly time frame, which is followed by a retest and a reversal, which indicates that the stock is ready to test the previous highs.

On the upper side the stock looks ready for 450 & 500 levels

On the lower side the stock can observe some weakness below 349 on closing basis

Relative Strength Index	
Daily Timeframe	62.58
Weekly Timeframe	52.3

Moving Averages (Daily TF)			
20	50	100	200
395.10	381.70	383.45	369.25

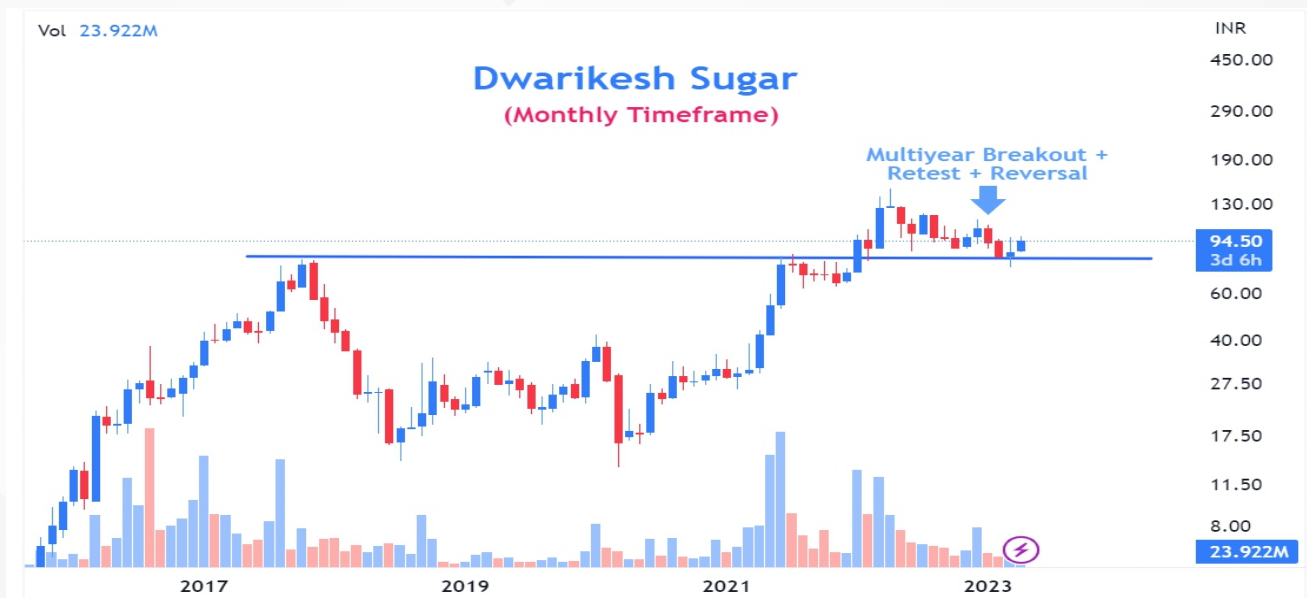
Dwarikesh Sugar

Dwarikesh Sugar Industries Limited is a leading sugar manufacturing company in India. The company was established in 1995 and is headquartered in Bareilly, Uttar Pradesh. It has five sugar mills located in Uttar Pradesh and a distillery located in Bijnor, Uttar Pradesh.

Dwarikesh Sugar Industries is involved in the production of sugar, ethanol, and power. The company has a strong focus on sustainability and uses bagasse, a byproduct of sugar production, to generate power, which reduces its carbon footprint.

In addition to sugar manufacturing, Dwarikesh Sugar Industries is involved in the production of organic fertilizers and seeds through its subsidiary, Dwarikesh Farming Limited. The company is also involved in the manufacturing of paper through its subsidiary, Dwarikesh Paper Limited.

Overall, Dwarikesh Sugar Industries is a well-established and diversified sugar manufacturing company in India with a strong focus on sustainability and diversified operations.



Technical Outlook

The stock has given a Multiyear Breakout on monthly time frame, which is followed by a retest and a reversal, which indicates that the stock is ready to test the previous highs.

On the upper side the stock looks ready for 120 & 150 levels

On the lower side the stock can observe some weakness below 75 on closing basis

Relative Strength Index	
Daily Timeframe	58.22
Weekly Timeframe	50.31

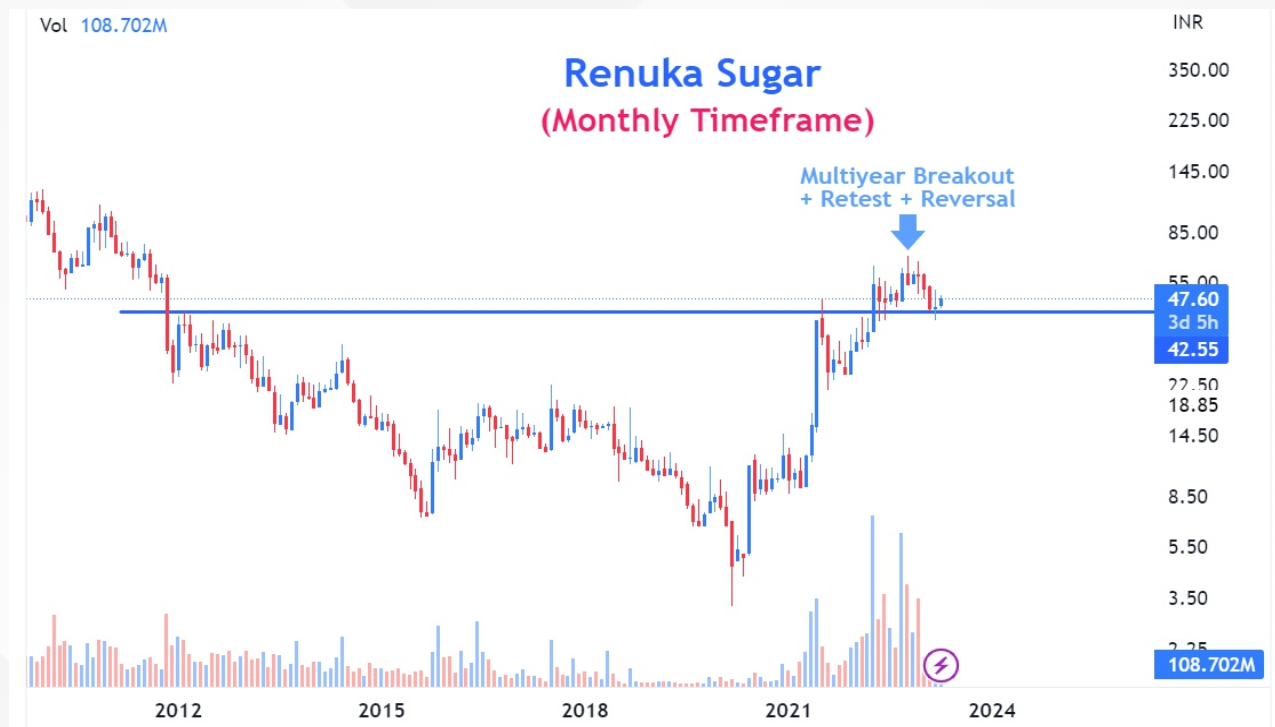
Moving Averages (Daily TF)			
20	50	100	200
92.80	98.20	93.60	93.50

Shree Renuka Sugar

Shree Renuka Sugars is an Indian multinational company that operates in the sugar and renewable energy sectors. The company was founded in 1995 and is headquartered in Mumbai, India. Shree Renuka Sugars has a strong presence in India and also operates in Brazil, one of the largest sugarcane producing countries in the world.



Shree Renuka Sugars operates in two business segments: Sugar and Renewable Energy. The sugar segment includes sugar production and refining, while the renewable energy segment includes the generation of power from bagasse, a by-product of sugar production. Shree Renuka Sugars is committed to sustainable business practices and has implemented various initiatives to reduce its environmental footprint.



Technical Outlook

The stock has given a Multiyear Breakout on monthly time frame, which is followed by a retest and a reversal, which indicates that the stock is ready to test the previous highs.

On the upper side the stock looks ready for 55 & 69 levels

On the lower side the stock can observe some weakness below 42 on closing basis

Relative Strength Index	
Daily Timeframe	57.05
Weekly Timeframe	47.45

Moving Averages (Daily TF)			
20	50	100	200
45.25	45.60	50.60	51.80

EID Parry

EID Parry is a diversified Indian company that operates in the sugar, bio-products, and nutraceuticals industries. The company is part of the Murugappa Group, a large conglomerate that has a presence in various industries, including agro-products, engineering, and financial services. EID Parry was established in 1788 and has a rich history of over 230 years. In this brief, we will discuss the company's business segments, products, operations, and financial performance.



E.I.D.- PARRY (INDIA) LIMITED

EID Parry operates in three business segments: Sugar, Bio-products, and Nutraceuticals. The sugar segment is the largest and accounts for around 90% of the company's revenue. The bio-products and nutraceuticals segments are relatively small but have high growth potential.



Technical Outlook

The stock is on the verge of a breakout on Daily Timeframe, which indicates that the stock is ready to test the previous highs.

On the upper side the stock looks ready for 550 & 630 levels

On the lower side the stock can observe some weakness below 436 on closing basis

Relative Strength Index	
Daily Timeframe	55.85
Weekly Timeframe	46.07

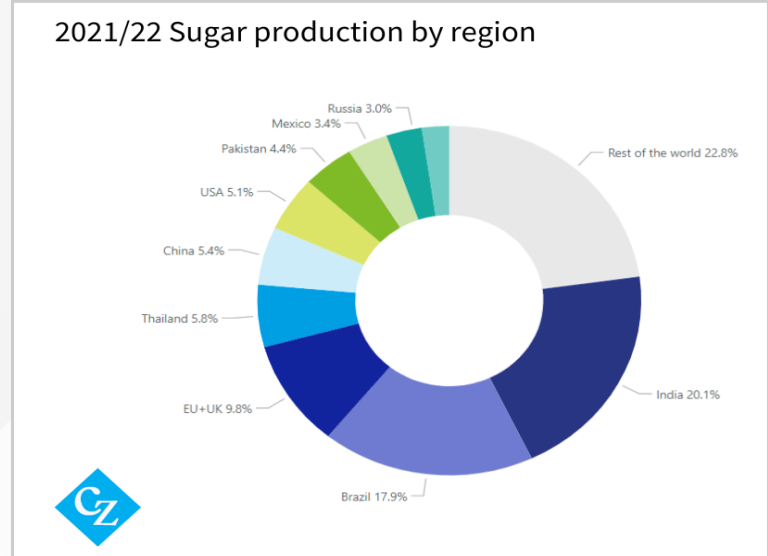
Moving Averages (Daily TF)			
20	50	100	200
489	503	533	556

Indian Sugar Production, Consumption and Export

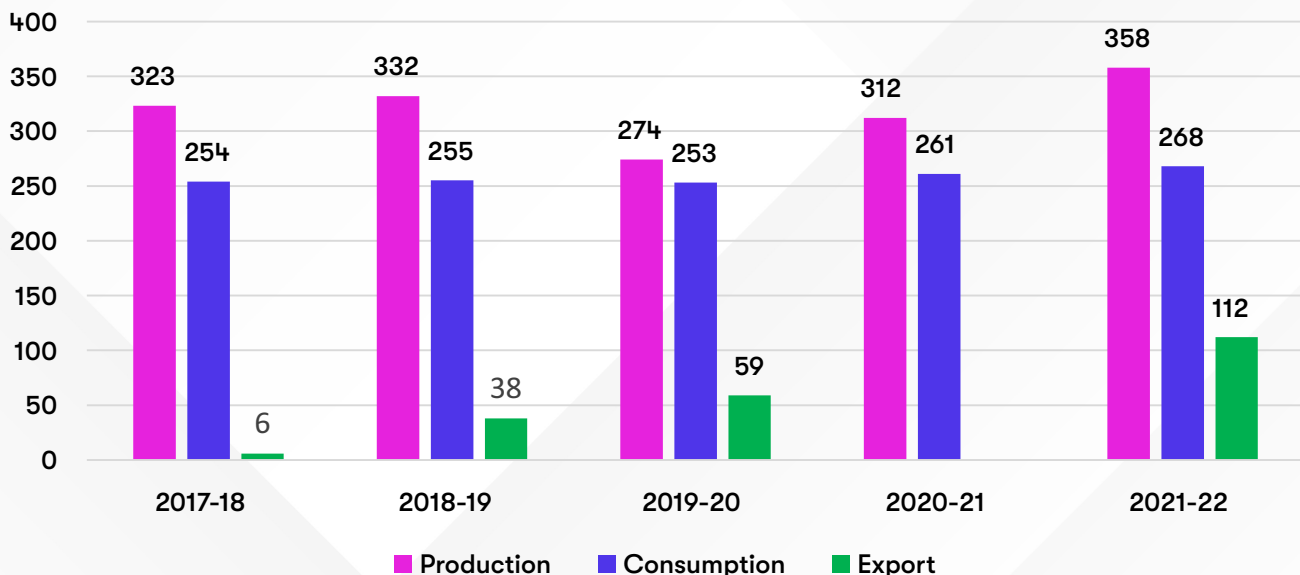
India is one of the largest producers of sugar in the world and has been a significant player in the global sugar market. Over the years, the country has emerged as a leading exporter of sugar, with the majority of the exports going to countries in the Middle East, Africa, and Southeast Asia.

The Indian sugar industry is primarily regulated by the government, which sets policies and provides subsidies to the industry. The government has been encouraging sugar exports as a means of reducing the surplus stock of sugar in the country and providing better prices to the sugar mills.

India's sugar exports have been volatile over the years, with the volumes and prices being influenced by a range of factors such as domestic demand, global prices, government policies, and weather conditions. In recent years, India's sugar exports have seen a significant increase. India has emerged as the world's largest producer and second largest exporter of sugar. In Sugar Season 2021-22, a record of more than five thousand lakh metric tons of sugarcane was produced in the country. Out of this, 35 lakh metric ton sugar was diverted to ethanol production and 359 lakh metric ton of sugar was produced by sugar mills.



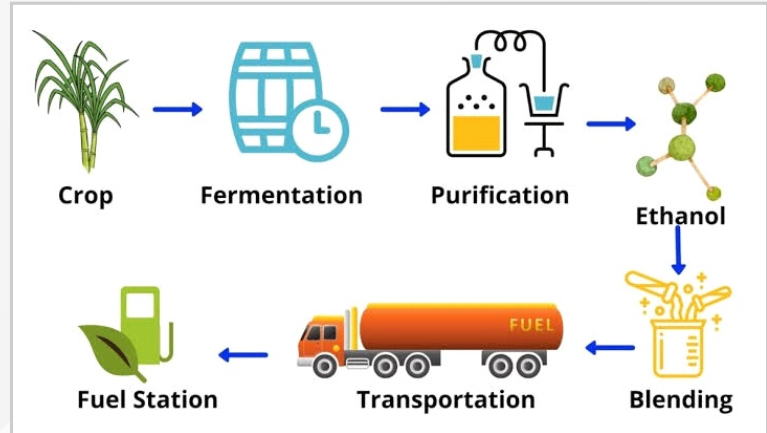
Production, Consumption & Export Trend (Lakh Tonne)



Ethanol Blending, Sweetener For Sugar Business

The supply of ethanol is anticipated to increase in the upcoming years as the government aims to reduce the cost of petrol by mixing ethanol with it. The blending percentage will probably rise from 10% to 12% this year. Over the previous few years, ethanol blending levels have been kept below 10% due to a lack of supply. By 2025, the government wants to reach a 20% blending level. To meet future demands, large sugar mills are increasing their ethanol manufacturing capabilities.

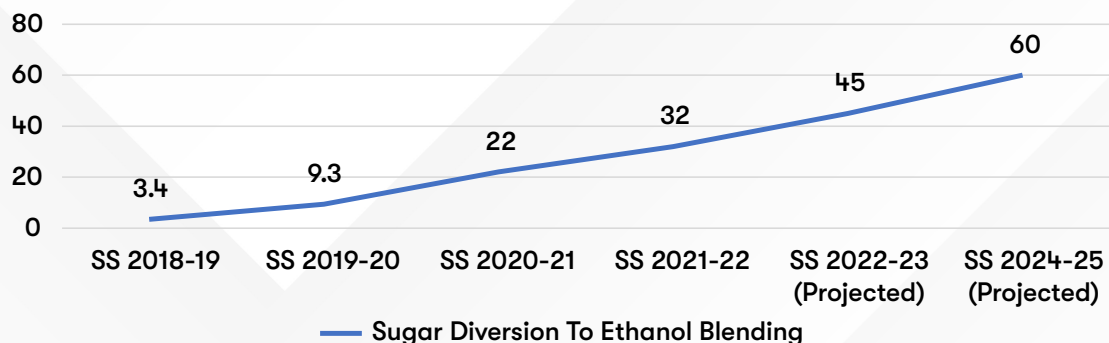
As sugar mills prepare to offer more ethanol, a byproduct of sugarcane, to oil marketing companies, a decline in sugarcane production is driving up the price of sugar. The use of sugarcane products for the production of ethanol allows sugar mills to retain a continuous income because sugar prices consistently fall below their cost of production. Although the cost of producing sugar is about Rs. 36 per kg, wholesale rates are more like Rs. 31–32 per kg. Production was predicted to decline by 5 to 10% over the previous year in 2022–2023. As a result, sugar costs have climbed from Rs 31.50 to Rs 32.50 per kg to Rs 34–36 per kg.



When sugar prices decline, mills can offset the loss by creating more ethanol, which sells for a higher price. However, when sugar prices increase, mills must find the correct balance between producing sugar and ethanol. The ethanol blending plan is appropriate for the sugar industry and will assist add value and maintain the financial stability of the sugar mills. The cost of ethanol may need to be adjusted, though. The government approved the manufacturing of ethanol from sugarcane and a byproduct called B- molasses last year. These goods contain more sucrose and are more frequently employed in the manufacturing of sugar. In other words, a mill's ability to produce sugar may suffer as a result of increasing ethanol production. Up to 2022, sugar mills produced ethanol from C-molasses with little sugar.

Most important operators across states (Balrampur Chini Mills, Dwarikesh Sugars) are expanding their ethanol manufacturing capacity as a result of increased cane production and government initiatives to promote ethanol blending. As a result, actual ethanol diversion climbed by 38% YoY to 2.6 MMT up until the middle of February 2023. On account of the reduction in production, Maharashtra may need to make up for its 132 crore litre contribution target in the current ethanol supply year (December 2022 to November 2023) according to revised estimations from cooperative and private millers.

Sugar diversion towards ethanol over the years



Despite this, ethanol blends are projected to reach 12% in 2023. The major participants in the business are establishing grain-based distilleries to make up for any shortfall in sugar output, so the industry associations are optimistic that supply concerns are on the decline.

Ethanol Blending, Sweetener For Sugar Business

In conclusion, the sugar industry has undergone significant changes in recent years, with the rise of ethanol blending and an increase in sugar prices being among the most notable. The blending of ethanol in gasoline has become a popular way to reduce greenhouse gas emissions and promote renewable energy sources. With the rise in demand for ethanol, the sugar industry has found a new market for its products, as sugar can be converted into ethanol through fermentation.

However, the industry still faces many challenges, including market volatility, trade barriers, and regulatory pressures. The implementation of sugar taxes and other measures to curb sugar consumption in developed countries has also had an impact on the sugar industry, with producers having to adapt to changing consumer demands and preferences. These challenges will continue to shape the industry in the coming years, as producers look for new ways to innovate and compete in a rapidly evolving market.

Despite these challenges, the outlook for the sugar industry remains positive. With the rise in demand for renewable energy sources and the growth of alternative sugar-based products, there are numerous opportunities for growth and expansion. The increase in sugar prices has brought a renewed sense of optimism to the industry, with producers looking to capitalize on this trend by investing in new technologies and expanding their operations. Additionally, the implementation of policies and initiatives to promote sustainable farming practices and reduce the environmental impact of sugar production will also contribute to the long-term viability of the industry.

In conclusion, the sugar industry is at a turning point, with the rise of ethanol blending and the increase in sugar prices presenting both opportunities and challenges for producers. While the industry continues to face many obstacles, there is reason to be optimistic about its future. By embracing innovation and adapting to changing market conditions, sugar producers can position themselves for success in the years ahead.

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