

August 18, 2021

Global, domestic sugar prices surging ahead

Global sugar prices have crossed US cents 20/lb while simultaneously domestic prices have also moved up to ₹ 36/kg (UP). In our July 2021 [sector report](#), we reiterated our positive stance on sugar prices, distillery capacity expansion & subsequent high earnings growth for next three years. Our view on sugar prices has been materialising. We maintain our stance that the sugar industry would be able to export 6-7 million tonnes (MT) of sugar in the 2021-22 sugar season without export subsidy given global sugar prices are higher than cost of production for Indian sugar companies. This would lead sugar inventory levels to come down to below 7 MT by September 2022, keeping sugar prices firm (₹ 34-38/kg). The progress of the ethanol blending programme is faster than our expectation. The current blending levels are closer to 8.5% while OMCs have contracted to procure 318 crore litre of ethanol between December 2020 and November 2021. We believe ethanol blending would cross 10% by November 2022 given sugar companies are increasing distillery capacity 2-3x in the next two years. With the commissioning of massive distillery capacity by November 2022, blending levels would reach 20% levels by 2025.

Sugar prices moving up to rational levels

With further clarity on Brazilian sugar production, adversely impacted by drought & frost, global raw sugar prices have moved to US cents 20.8/lb (₹ 32.5/kg ex-freight) for March 2022 contracts. We believe sugar production in South-Central-Brazil would be closer to 31 MT and 2022-23 sugar production could also be impacted by lack of water availability. This would keep global sugar prices firm above US cents 20/lb. Indian sugar millers have already contracted 1 MT (largely Maharashtra) of sugar under open general license (OGL) for the 2021-22 season. Domestic prices are following global price trend moving to a four-year high of ₹ 34/kg in Maharashtra and ₹ 36/kg in UP. We believe exports of 6-7 MT of sugar would be contracted for the 2021-22 season in the next three to four months, keeping domestic sugar prices firm at ₹ 34-38/kg. Average sugar realisation for sugar companies was ₹ 32-33/kg in the last three years. We believe margins in the sugar business would move up despite expected hike (~6%) in sugarcane prices in UP.

Strong fundamentals lead to government measure withdrawal

The government has supported the sugar industry through temporary measures (buffer subsidy, MSP, export subsidy) in the last three years. With an improvement in fundamentals due to ethanol blending programme, reduction in sugar inventories, the government has withdrawn the buffer subsidy in August 2020. Moreover, with global sugar prices inching up to above cost of production, it may not continue the export subsidy in the 2021-22 sugar season as sugar millers can export without government support. Further, we believe domestic prices would remain firm above ₹ 34/kg, which makes minimum selling price (MSP) irrelevant in present context. However, it would continue to stay as floor above cost of production level.

Distillery capex, higher sugar prices to boost profitability

Sugar companies under our coverage universe are undertaking 2-3x increase in distillery capacities, which would improve profitability given B-heavy & sugarcane juice route to produce ethanol is far more profitable compared to sugar & C-heavy ethanol at current prices (parity closer to ₹ 40/kg). Moreover, we believe the uptick in sugar prices at a rational level would add to profitability. We maintain our positive stance on the sugar sector and companies under our coverage. Sugar stocks are still trading at 6-10x FY23E PE multiples & warrant higher multiples given strong & sustainable profit growth (15-30% CAGR in FY21-24E) in the next three years.

Recent event & key risks

- Global raw sugar prices have moved above US cents 20 /lb & Sugar prices in India have inched up to ₹ 36 / kg in UP & ₹ 34 / kg in Maharashtra
- Key Risk:** (i) Any delay in distillery capacity expansion, (ii) Any irrational increase in sugarcane prices

Research Analyst

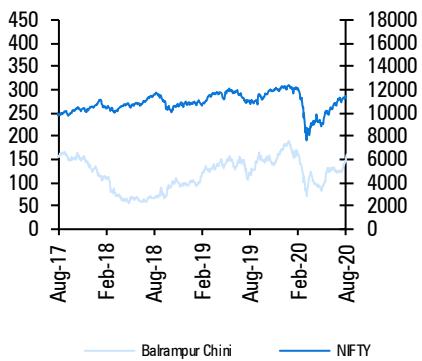
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Exhibit 1: Valuation matrix

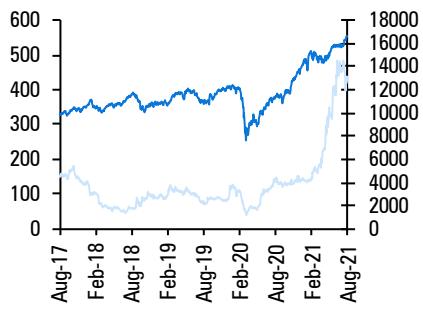
Sector / Company	CMP	TP	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)				
	(₹)	(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Balrampur Chini (BALCHI)	359	515	Buy	7,548	22.8	26.5	34.7	44.1	15.7	13.5	10.4	8.2	12.1	10.8	8.7	7.0	2.9	2.6	2.3	2.0	16.4	18.6	20.4	23.0
Dalmia Bharat Sugar (DALSUG)	428	650	Buy	3,465	33.4	39.2	46.7	55.5	12.8	10.9	9.2	7.7	9.1	7.9	6.9	5.8	1.6	1.7	1.4	1.2	13.3	14.7	15.5	16.8
Triveni Engineering (TRIENG)	179	270	Buy	4,335	12.2	16.7	21.4	24.9	14.7	10.7	8.4	7.2	9.2	8.4	6.6	5.6	2.8	2.4	2.0	1.7	19.4	19.8	23.3	25.1
Dwarikesh sugar (DWASUG)	72	110	Buy	1,348	4.9	7.0	8.5	13.0	14.7	10.2	8.5	5.5	9.4	7.2	5.9	4.0	2.3	2.0	1.7	1.3	14.4	18.7	19.6	27.2
Dhampur Sugar (DHASUG)	310	500	Buy	2,063	34.4	44.9	53.1	57.6	9.0	6.9	5.8	5.4	6.6	5.5	4.4	4.0	1.3	1.1	1.0	0.9	14.8	16.8	19.1	18.9
Avadh Sugar (AVASUG)	454	685	Buy	908	38.8	66.5	94.9	106.7	11.7	6.8	4.8	4.3	8.1	5.9	3.9	2.8	1.4	1.1	0.9	0.8	11.5	14.7	20.6	23.3

Source: Company, ICICI Direct Research

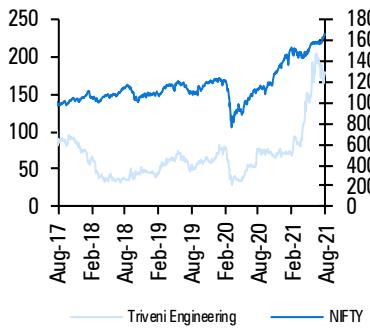
Price Chart



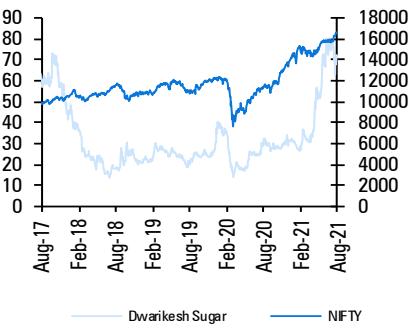
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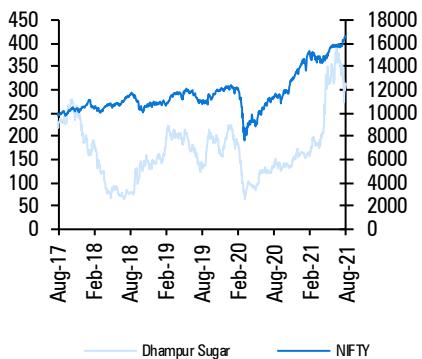
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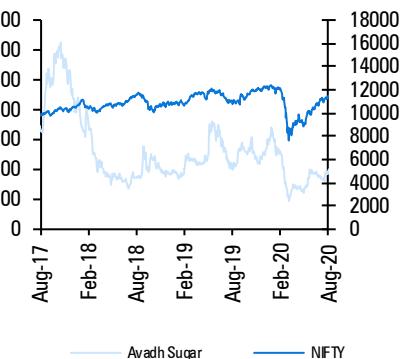
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Price Chart



Price Chart



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Sell: <-15%



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