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# Sugar Industry Outlook

## 28-09-2015

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### ● Here's what we think:

After four years of a down spiral, sugar as a commodity seems to have bottomed out globally and this augers well for the Indian Sugar industry which was reeling under rising SAP and falling sugar prices.

We expect white Sugar prices to rise moderately in the coming twelve months. This coupled with the benefit of higher realization for ethanol used for blending with petrol and falling interest rates could significantly boost the bottom line of sugar companies and recommend a BUY on the sector

### ● Here's Why:

#### **Global Sugar cycle seems to be turning:**

Global reduction in sugar production especially in Brazil due to shift to ethanol and in India due to draught conditions, is likely to lead to lowest inventory levels of around 40 million tons against 44.3 million tons last year.

#### **Improving domestic prices:**

Sugar prices improving from INR 2200 per quintal to close to INR 2800 per quintal

#### **Increase in procurement price of ethanol:**

Ethanol price was fixed at Rs27/- per litre for 3 years in 2009 now about realizations from Ethanol are about 47Rs./Litre

#### **Falling interest rates**

Most of the Sugar companies have huge debts in the balance sheet and any interest rate reduction is likely to directly go to the bottom line.

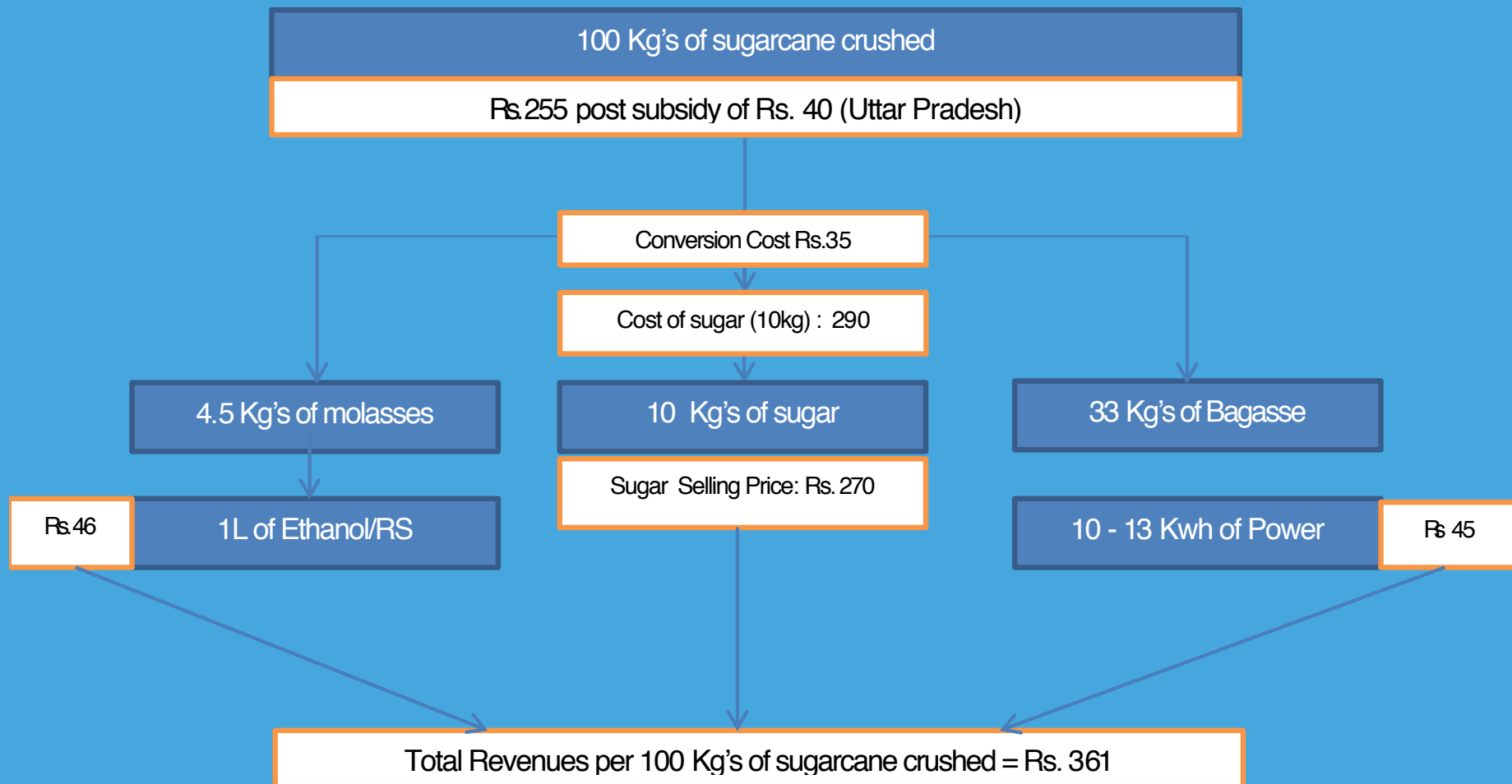
**Pankaj Mangaldas Securities Pvt. Ltd.**

Equities | Derivatives | Depository Services | SLB | IPO

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# Sugar: value chain

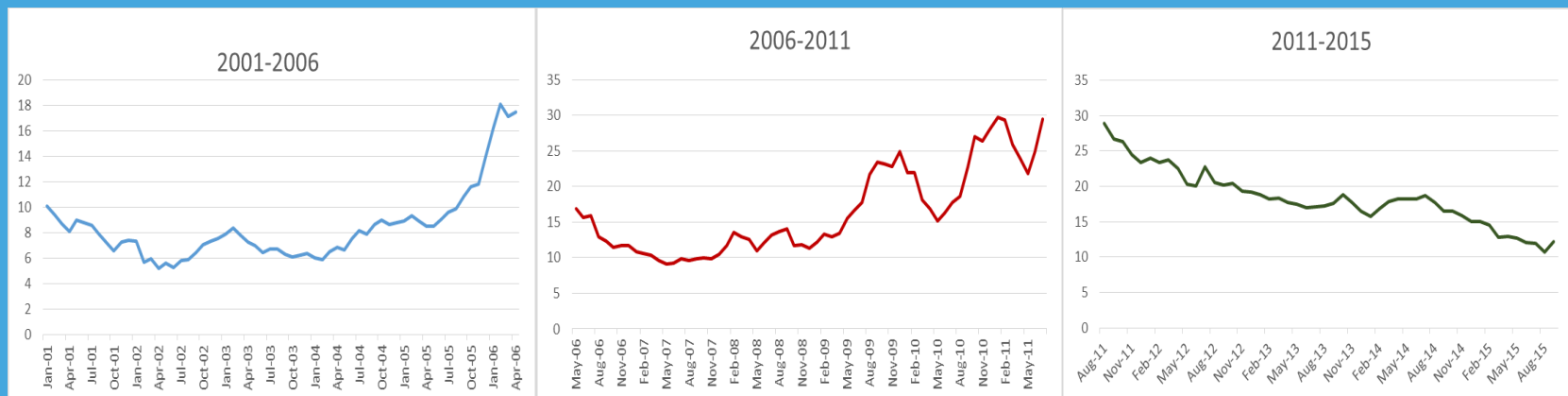
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# Sugar Scenario

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## • Sugar Price Cycles:



At current levels sugar prices internationally seem to have bottomed out.

Value Chain

**Global Inventory at a 4 year low at 40.5 Mn Tonnes**

**co-insides with sugar prices bottoming out**

**Brazil Shift to Ethanol, Irregular weather, El Nino.**

**India Import duty, Export 4mn tonnes, Marathwada rainfall.**

**Low Sucrose**

**ISO Predicts shift to deficit. (2.5mn tonnes in 15-16) (6.2 mn tonnes in 16-17)**

# Ethanol

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- Government has mandated blending of Ethanol with fuel by Oil marketing companies (OMC's) to the extent of 5%. Currently only about 2-2.5% is achieved due to unattractive pricing of ethanol
- Center has exempted ethanol produced from molasses from central value added tax (Cenvat). This will raise sugar mills' realisation by Rs five a litre to Rs 47-48 a litre
- The lucrative pricing of Ethanol and large demand, with high margins (40%-60%) to sugar industries, shall further spur profitability of sugar companies.
- Obtaining of license of ethanol supply by OMC's will reduce procedural delays.
- Prev. Years co's also made RS, Which will now be substituted by equities.

# Ethanol (cont.)

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## Benefits of Ethanol mandate to:

### Sugar Co's

Better realizations from cane crushed irrespective of sugar price volatility.

### OMC's

Benefits due Rift between petroleum prices and Ethanol prices

### Govt.

Better realizations from cane crushed irrespective of sugar price volatility.

### Farmers

Repayment of cane arrears due to cashflows to sugar companies.



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# Comparitive Data

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Company	Cane Crushing Capacity		Distillery Capacity		Sellable Power(Approx).		Debt/Equity		% Change in PBT with 1% Change in interest rate	EV in crores	EV/ Distilation capacity
	Total (TCD)	Cane Crushed / No. of shares	(KLP D)	LPD/ Share	Kwh (FY15)	Saleable power/Share	(LTD +CMLTD) / Equity	TD/Equity			
Dwarikesh Sugar Industries Ltd	21500	1.28	30	0.0018	168167676	10.3	2.61	6.01	8.3%	727	24.2
Balrampur Chini Mills Ltd	76500	0.33	320	0.0013	521979485.9	2.1	0.44	1.49	16.4%	2722	8.5
Dhampur Sugar Mills Ltd.	45500	0.78	300	0.0051	363537979.7	6.2	1.69	3.80	10.8%	2017	6.7
EID Parry India Ltd	39000	0.28	230	0.0013	289100000	1.6	0.70	2.16	11.5%	6672	29.0

## Sensitivity Analysis

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# Gross Margin Matrix

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Sugar price / Quintal	Gross Margins
2200	3.71%
2300	7.16%
2400	10.60%
2500	14.05%
2600	17.50%
2700	20.95%
2800	24.40%
2900	27.84%
3000	31.29%
3100	34.74%
3200	38.19%
3300	41.64%
3400	45.09%



# 30 year cycle

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- 5-6 Year cycle turnaround is due.



# Global Sugar Production

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## World Centrifugal Sugar 1,000 Metric Tons, Raw Value

	2010/11	2011/12	2012/13	2013/14	2014/15	May 2015/16
<b>Production</b>						
Brazil	38,350	36,150	38,600	37,800	35,850	36,000
India	26,574	28,620	27,337	26,605	29,483	29,050
European Union	15,939	18,320	16,655	16,020	16,750	15,500
Thailand	9,663	10,235	10,024	11,333	10,970	11,400
China	11,199	12,341	14,001	14,263	11,000	10,820
United States	7,104	7,700	8,148	7,676	7,735	7,665
Mexico	5,495	5,351	7,393	6,382	6,360	6,360
Pakistan	3,920	4,520	5,000	5,630	5,230	5,430
Australia	3,700	3,683	4,250	4,380	4,700	4,800
Russia	2,996	5,545	5,000	4,400	4,350	4,500
Guatemala	2,048	2,499	2,778	2,862	2,900	2,965
Philippines	2,520	2,400	2,400	2,500	2,500	2,500
Turkey	2,274	2,262	2,130	2,300	2,055	2,300
Argentina	2,030	2,150	2,300	1,780	2,150	2,250
Colombia	2,280	2,270	1,950	2,300	2,350	2,250
Indonesia	1,770	1,830	2,300	2,300	2,100	2,250
Egypt	1,830	1,980	2,000	2,013	2,067	2,125
South Africa	1,985	1,897	2,020	2,435	2,116	2,050
Vietnam	1,240	1,400	1,650	1,700	1,650	1,700
Cuba	1,150	1,400	1,525	1,600	1,650	1,665
Ukraine	1,540	2,300	2,400	1,196	2,135	1,445
Iran	1,380	1,370	1,300	1,350	1,370	1,370
Peru	1,069	1,072	1,080	1,150	1,220	1,240
Sudan	750	750	760	700	780	780
Nicaragua	506	615	712	745	728	770
Other	12,907	13,699	13,837	14,143	14,109	14,220
<b>Total</b>	<b>162,219</b>	<b>172,359</b>	<b>177,550</b>	<b>175,563</b>	<b>174,308</b>	<b>173,405</b>

# Global Sugar Consumption

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## Human Dom. Consumption

India	23,050	24,180	25,000	26,000	27,000	28,000
European Union	18,040	18,200	18,250	18,500	18,700	18,800
China	14,000	14,200	15,100	16,500	17,400	17,700
Brazil	11,455	11,500	11,200	11,260	11,300	11,400
United States	10,171	10,106	10,421	10,722	10,758	10,873
Russia	5,523	5,700	5,700	5,400	5,700	5,800
Indonesia	5,000	5,050	5,400	5,450	5,500	5,550
Pakistan	4,250	4,300	4,400	4,500	4,700	4,950
Mexico	4,187	4,384	4,544	4,184	4,505	4,505
Egypt	2,800	2,850	2,840	2,870	2,930	3,000
Iran	2,454	2,333	2,793	2,897	2,785	2,735
Thailand	2,400	2,510	2,525	2,495	2,500	2,600
Philippines	1,850	2,150	2,150	2,250	2,280	2,300
Turkey	2,291	2,300	2,300	2,300	2,300	2,300
Bangladesh	1,646	1,765	1,637	2,190	2,205	2,230
Japan	2,069	1,955	2,072	2,092	2,114	2,139
South Africa	1,660	1,810	1,850	1,890	1,900	1,900
United Arab Emirates	631	1,144	1,864	1,444	1,785	1,895
Vietnam	1,515	1,784	1,806	1,868	1,838	1,893
Malaysia	1,346	1,450	1,734	1,732	1,740	1,815
Argentina	1,780	1,800	1,820	1,840	1,840	1,810
Colombia	1,620	1,766	1,950	1,560	1,610	1,630
Ukraine	1,700	1,700	1,900	1,752	1,587	1,580
Korea, South	1,251	1,162	1,268	1,421	1,430	1,440
Sudan	1,207	1,175	1,555	1,231	1,395	1,425
Other	31,507	32,091	32,841	32,376	32,798	33,143
<b>Total</b>	<b>155,403</b>	<b>159,365</b>	<b>164,920</b>	<b>166,724</b>	<b>170,600</b>	<b>173,413</b>

# Global Sugar Inventory

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## World Centrifugal Sugar 1,000 Metric Tons, Raw Value

	2010/11	2011/12	2012/13	2013/14	2014/15	May 2015/16
<b>Ending Stocks</b>						
India	6,299	7,163	9,373	8,227	10,210	9,960
Thailand	2,983	2,810	3,616	5,254	5,724	6,224
China	1,621	4,140	6,793	8,832	7,187	5,762
United States	1,250	1,795	1,958	1,642	1,458	1,403
European Union	1,974	3,303	3,836	3,067	2,617	1,017
Pakistan	1,470	1,350	859	1,270	1,210	1,000
Philippines	934	932	942	982	947	897
Indonesia	602	409	879	1,299	949	849
Mexico	806	1,024	1,548	881	961	707
Iran	650	640	700	750	700	700
Brazil	260	260	10	350	350	600
Japan	529	543	550	560	560	560
Ukraine	212	644	901	233	649	404
Bangladesh	330	340	365	400	400	400
Chile	390	385	380	380	400	400
Malaysia	300	320	350	350	400	400
Argentina	81	232	444	141	306	396
Ecuador	222	263	328	363	398	395
Korea, South	373	358	388	390	390	390
United Arab Emirates	150	225	375	300	350	380
Sudan	230	230	340	280	315	320
Saudi Arabia	300	310	300	290	300	300
Costa Rica	166	210	262	298	306	284
Canada	235	253	260	240	280	280
Egypt	129	350	160	161	278	253
Other	7,030	6,799	6,714	7,091	6,636	6,248
<b>Total</b>	<b>29,526</b>	<b>35,288</b>	<b>42,631</b>	<b>44,031</b>	<b>44,281</b>	<b>40,529</b>