EBIDTA margins to drop by ~ 200 -250 bps for sugar millers

December 2017

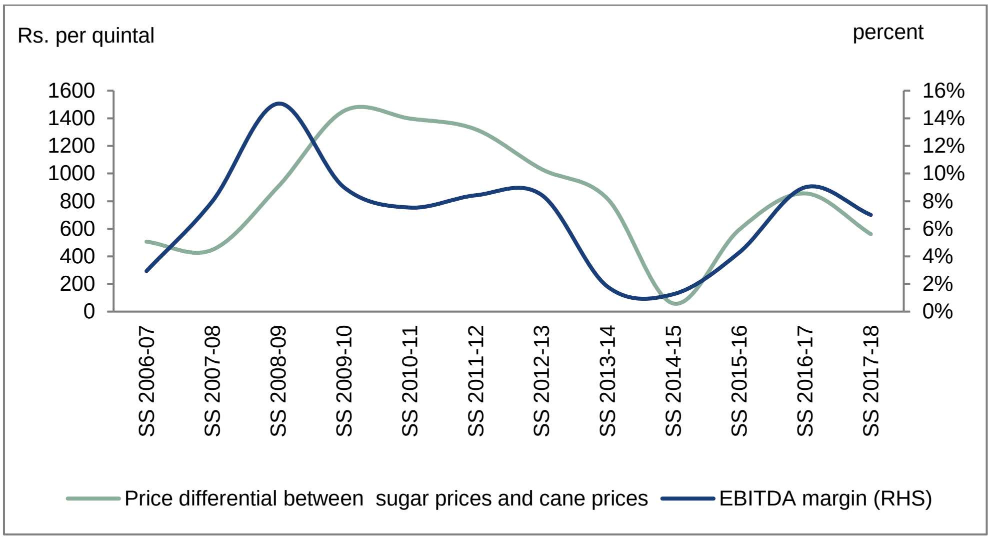
Rising sugar prices have been offset by rising cost of cane

High prices in sugar season (SS) 2016-17 and higher production in SS 2017-18 is of little cheer to mills because the differential between sugar prices and cost of cane continues to narrow. Cane cost are set to rise by 11% while sugar prices moderate marginally in SS 2017-18. As a result, CRISIL Research expects Ebidta (earnings before interest, depreciation, tax and amortisation) margins to drop 200-250 bps in SS 2017-18, despite buoyant production.

Raw material accounts for over 70% of the cost for sugar mills, and impacts margins the most. The more the gap between sugar prices and cane cost, the better is the margin for mills.

In SS 2014-15, when the gap between cane cost and sugar prices vanished, mills couldn’t make much at the operating level. Although prices have picked up since SS 2015-16 and touched a decadal high in SS 2016-17, it has remained nearly 60% lower than cane cost at Rs 856 per quintal compared with ~Rs 1,400 per quintal in the previous upcycle of SS 2009-10, which underscores little margin improvement.

EBITDA margins to contract in SS 2017-18, mostly follows sugar-cane math



Source: Industry, CRISIL Research

Note: Cane prices are taken as weighted for sugar production for top 4 states.

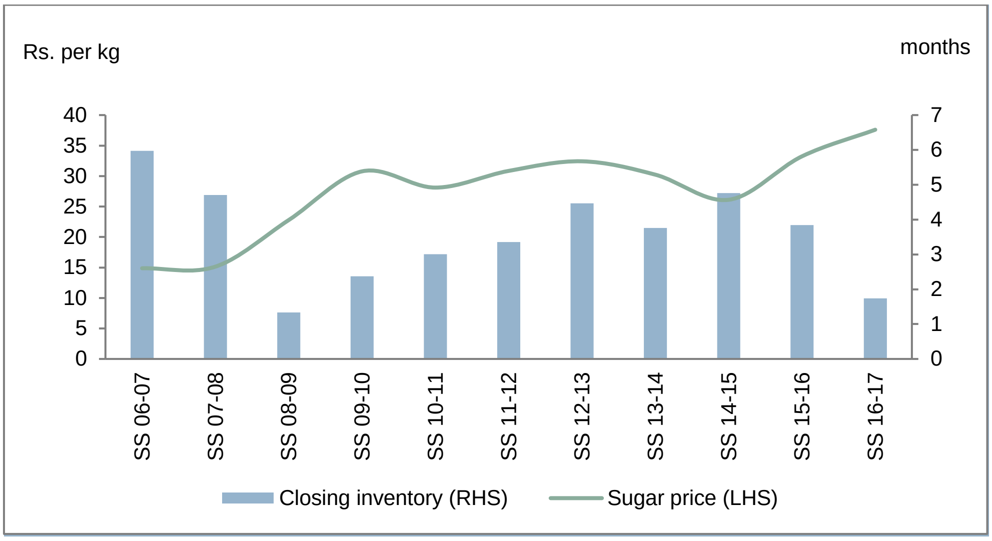
In SS 2016-17, margins rose a meagre 100 bps to 9% (for a set of 30 companies accounting for 80% of industry revenue) despite decadal-high prices. They were also 600 bps lower than the margins seen during the SS 2009-10 peak.

On a regional basis, integrated sugar mills in north India should do relatively better than those in the south. Rise in production will be limited to the southern states.

Sugar prices have risen on low inventories

Wholesale sugar prices increased 13% in SS 2016-17, hitting a peak of Rs 40 per kg in February 2017. Depleting inventory from the previous season was the main reason for the kick-up. Sugar prices and closing inventory have an inverse relationship. As inventories remain stable in SS 2017-18, sugar prices would correct only marginally.

Prices have risen amid low inventories



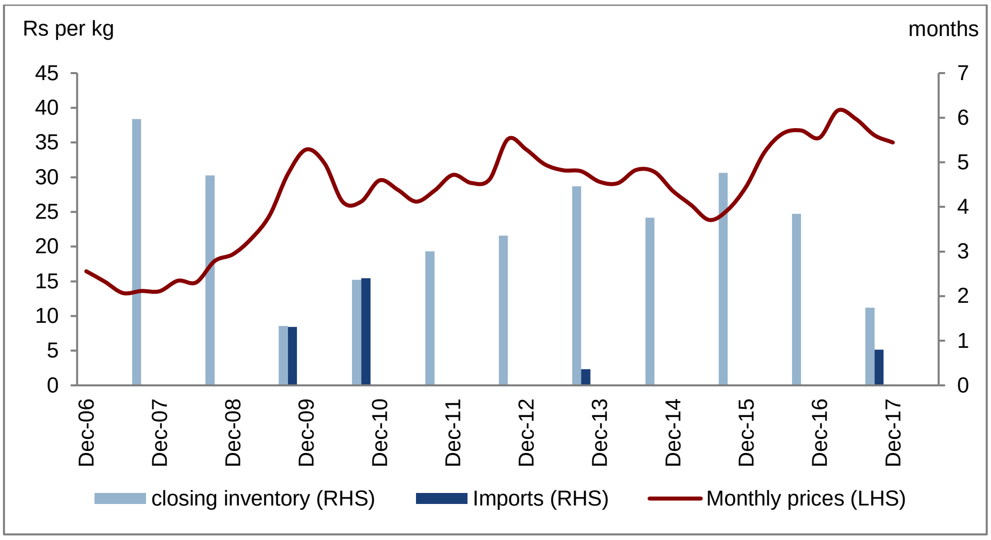
Notes: SS refers to sugar season, from October to September

Source: ISMA, CRISIL Research

India compelled to import sugar

After sugar prices peaked in February 2017, the government permitted duty-free import of 0.5 million tonne till June and another 0.3 million tonne at a concessional import duty of 25% till December. This has not only offset the production deficit, but also corrected prices.

Imports selective on price rise



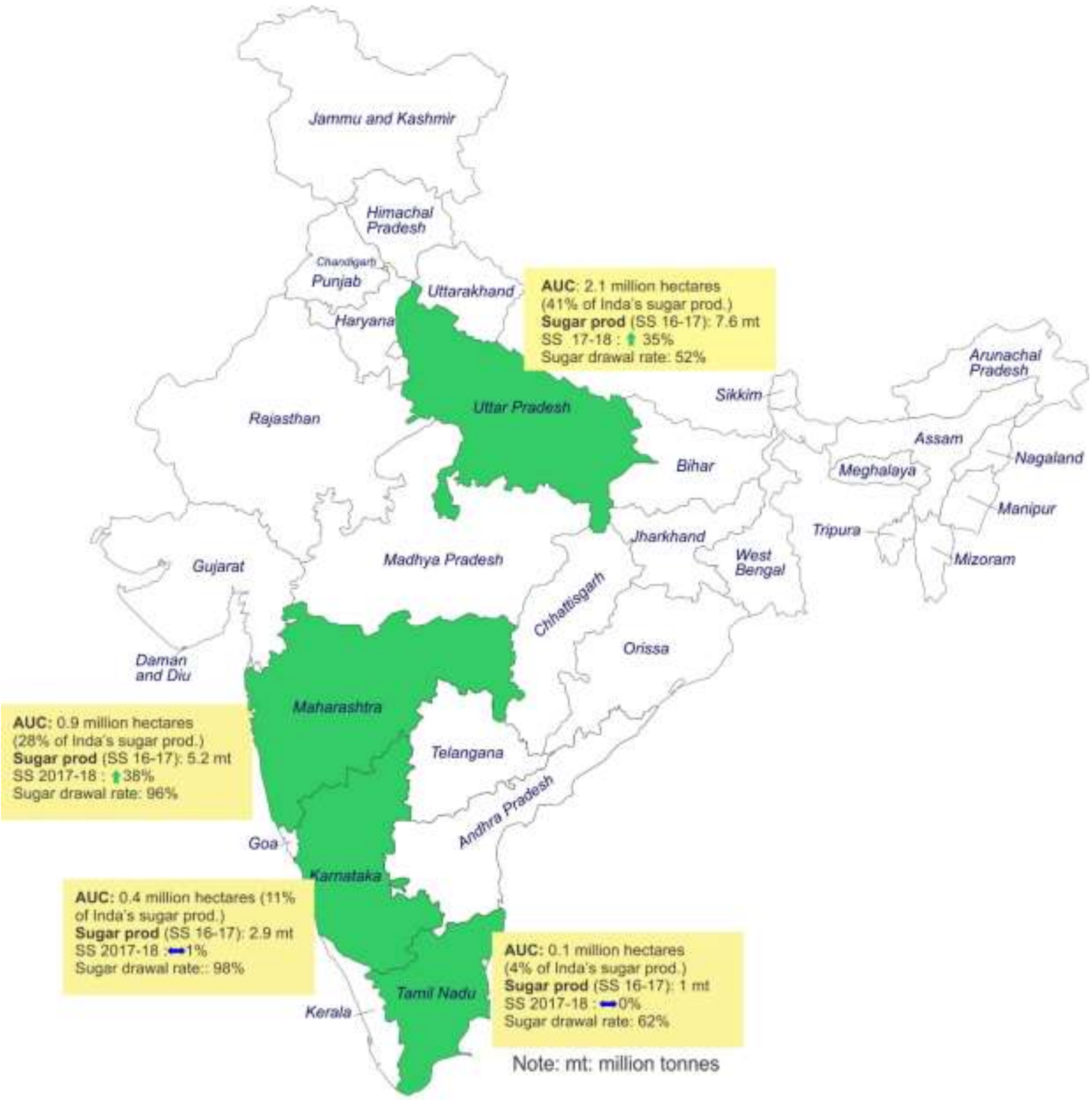
Note: Closing inventory and imports are represented in terms of months' consumption

Source: National Federation of Co-operative Sugar Factories Ltd, Industry, CRISIL Research

UP- Maharashtra to drive production recovery in SS 2017-18

Sugar inventory is a function of production in the preceding season. In SS 2016-17, production fell 16% led by Maharashtra and the southern states. In SS 2017-18, production is expected to increase by nearly 30% aided by higher production in the north and west.

Top 4 states account for about 80% of India's production



Note: AUC = Area under cultivation

Drawal rate = Percentage of sugarcane used for production of sugar (avg of past 3 years)

Source: Industry, CRISIL Research

Media contacts

Saman Khan
Media Relations
CRISIL Limited
D: +91 22 3342 3895
M: +91 95940 60612
B: +91 22 3342 3000
saman.khan@crisil.com

Shruti Muddup
Media Relations
CRISIL Limited
D: +91 22 3342 5916
M: +91 98206 51056
B: +91 22 3342 3000
shruti.muddup@crisil.com

Khushboo Bhadani
Media Relations
CRISIL Limited
D: +91 22 3342 1812
M: +91 72081 85374
B: +91 22 3342 3000
khushboo.bhadani@crisil.com

About CRISIL Limited

CRISIL is an agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists

CRISIL Privacy Notice

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit http://www.crisil.com/privacy. You can view the Company's Customer Privacy at https://www.spglobal.com/privacy.

Last updated: April 2016

Disclaimer

CRISIL Research, a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this Report based on the information obtained by CRISIL from sources which it considers reliable (Data). However, CRISIL does not guarantee the accuracy, adequacy or completeness of the Data / Report and is not responsible for any errors or omissions or for the results obtained from the use of Data / Report. This Report is not a recommendation to invest / disinvest in any company covered in the Report. CRISIL especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Report. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL's Ratings Division / CRISIL Risk and Infrastructure Solutions Limited (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL's Ratings Division / CRIS. No part of this Report may be published / reproduced in any form without CRISIL's prior written approval.