

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

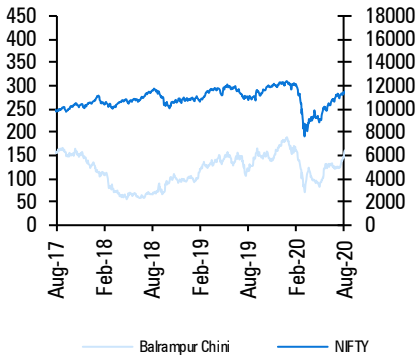
Sanjay Manyal  
sanjay.manyal@icicisecurities.com

Exhibit 1: Valuation matrix

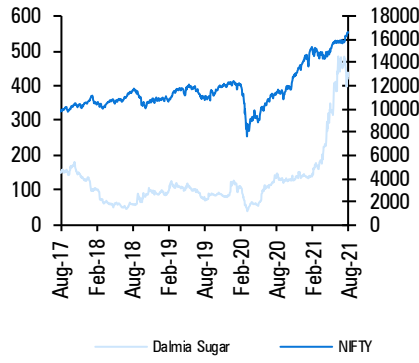
Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Balrampur Chini (BALCHI)	359	515	Buy	7,548	22.8	26.5	34.7	44.1	15.7	13.5	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
Dwarkesh 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

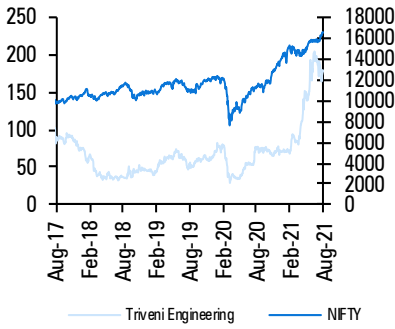
Price Chart



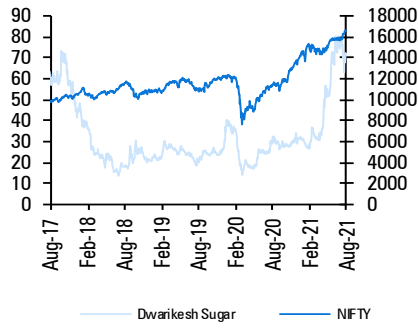
Price Chart



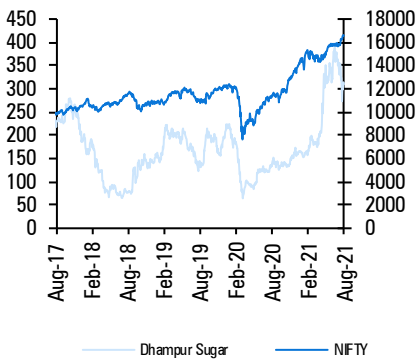
Price Chart



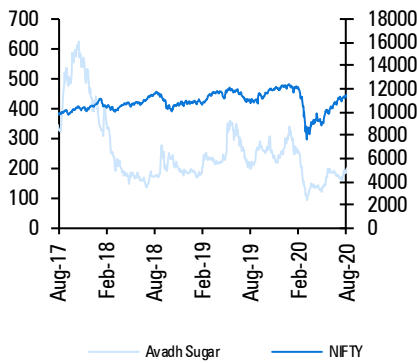
Price Chart



Price Chart



Price Chart



## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Sanjay Manyal (MBA Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavor to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.