

India

Underweight (no change)

Highlighted Companies

Balrampur Chini Mills Ltd

REDUCE, TP Rs229, Rs417 close

We adjust our PAT estimates by (30.0) % & (32.2) % for FY23F & FY24F respectively, based on the expected change in events and circumstances of the industry. We had downgraded our rating on BCML to REDUCE (from ADD earlier) with a lower target price of Rs229 (Rs443 earlier) or 10x (13x earlier) FY24F P/E.

Triveni Engineering and Industries Ltd

REDUCE, TP Rs191, Rs289 close

We adjust our PAT estimates by (0.7)% & (27.6)% for FY23F & FY24F, respectively. We had downgraded our rating on the stock to REDUCE from ADD with a lower target price of Rs191 (Rs387 earlier) or 10x (13x earlier) FY24F P/E.

Summary Valuation Metrics

P/E (x)	Mar22-A	Mar23-F	Mar24-F
Balrampur Chini Mills Ltd	21.08	46.87	18.19
Triveni Engineering and Industries Ltd	18.5	4.1	15.97
P/BV (x)	Mar22-A	Mar23-F	Mar24-F
Balrampur Chini Mills Ltd	3.08	2.9	2.52
Triveni Engineering and Industries Ltd	3.66	1.94	1.98
Dividend Yield	Mar22-A	Mar23-F	Mar24-F
Balrampur Chini Mills Ltd	0%	0.11%	0.27%
Triveni Engineering and Industries Ltd	0%	0.12%	0.33%

Agribusiness

Sugar - Learn from oil refining, stay away

- Rising global diesel spreads made us believe that oil refiners will make money, but this assertion was spoiled by government policy measures and the same will happen in sugar. Don't look at international prices and buy sugar stocks.
- Thailand government's move to raise ex-factory sugar price to US cents 25/lb gave a major impetus to global sugar prices. Please note that Thailand exports 9mt of sugar. India's move to restrict exports to 6mt only added fuel to the fire.
- We don't believe Indian government will allow domestic sugar prices to rise and it will do whatever it can to restrict the price rise like banning further exports, releasing sugar stocks, and even importing high-cost sugar to sell it at subsidized rates in the local market. Keep away from sugar stocks.

Sugar prices - don't extrapolate US\$ prices to stock prices

As we had predicted in our report in Sep 2022, global sugar prices are on fire ([IN: Agribusiness - Sugar prices all set to rise in coming weeks](#)). While sugar has been in deficit, that's not the primary reason for the price rise. As usual, it's the policy action in this highly sensitive commodity which has moved its prices. Thailand is a major sugar exporter, and a policy change led its domestic sugar prices to rise to US cents 25/lb (ex-factory), thus making global price rise imperative. Please note that Thailand exports 9mt of sugar (~5% of global demand) and hence, it's enough to boost prices. Add to it the policy uncertainty in India, and the more international sugar prices go up, the more will be the risk of Indian government banning sugar exports in the coming years and hence, more impetus to global sugar prices. Obviously, this loop cannot be ad infinitum and hence, will collapse but when and how we don't know. Meanwhile, we should learn from what happened in India's oil refining sector and extrapolate it to sugar. Sugar is a highly sensitive topic and its price rise in an election year is a recipe for disaster to the current government. The government will ban sugar exports, import high-cost sugar and sell it at subsidized rates or even stop its diversion to make ethanol. Please don't fall into the excel sheet trap, like in steel in 2021, and in oil refining in 2022. Stay away from sugar companies.

We remain underweight on India's sugar sector

India has enough sugar for domestic consumption. Sugar prices are a part of the Consumer Price Index (CPI) and hence, letting it run wild is not in the interest of the government. Before an election year, it is more likely that sugarcane price will go up rather than sugar prices. The confidence in this stand comes from the fact that the government has the release mechanism for sugar (from the stock) as a control tool. We continue to hold a negative stance on the sugar space, with a REDUCE rating on Balarampur Chini and Triveni Engineering.

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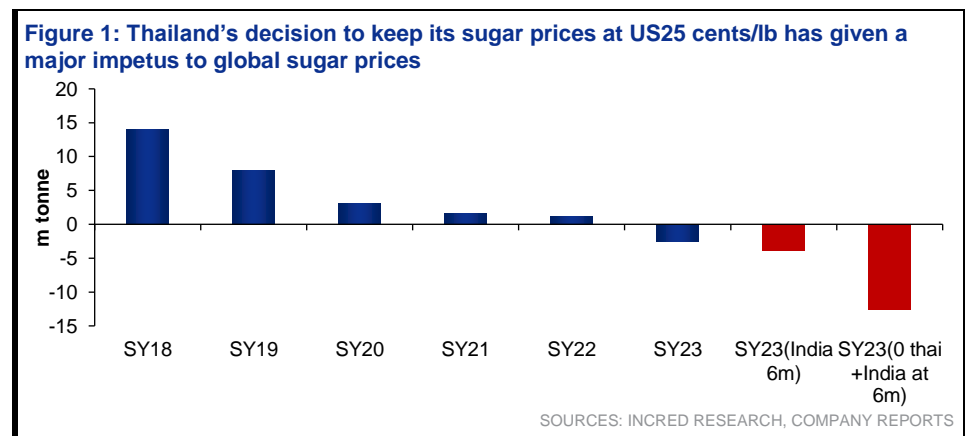
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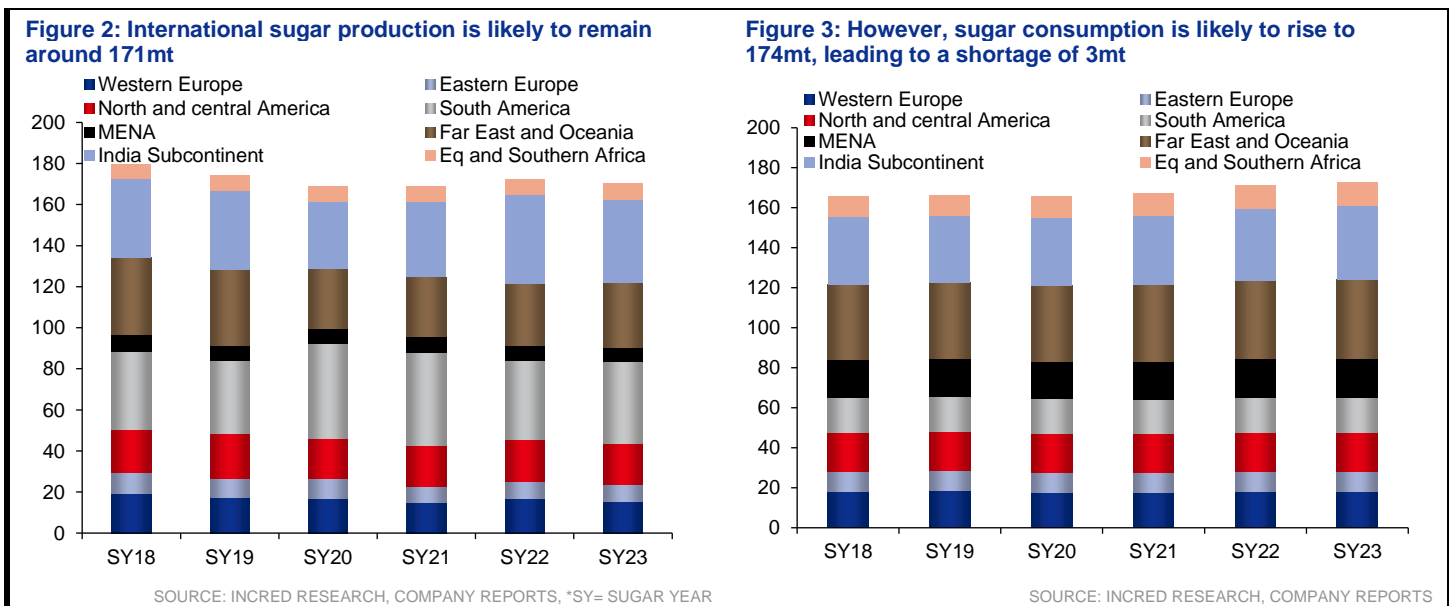
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International sugar prices to move even higher

International sugar prices will move even higher in the coming weeks as India's exports taper down. While the current year's shortfall is ~3.4mt, if we don't account for India's exports, then the deficit in global market can be 10mt.

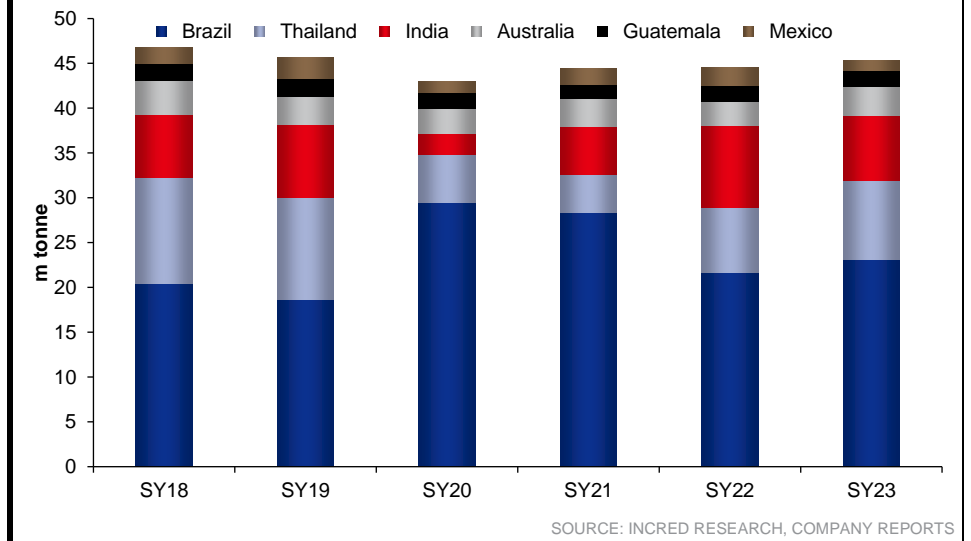
International sugar market is in deficit ➤



The reasons for lower production in Brazil, China and Pakistan have been dealt in detail in our report [.IN: Agribusiness - Sugar prices all set to rise in coming weeks](#)

Brazil and Thailand are another important countries vis-à-vis sugar production and exports

Figure 4: The chart denotes excess production sugar in key countries; these countries export sugar and hence, their export policies become important for maintaining the global sugar market balance



International sugar prices are also heavily dependent on sugar production and policies in Brazil as well as Thailand

While we expect Thailand’s sugar production to touch 11.6mt in SY23, any disruption in production as well as a change in government policies can lead to an upheaval in global sugar market.

Thailand’s sugar pricing policy has changed recently with ex-factory prices rising to US cents 25/lb

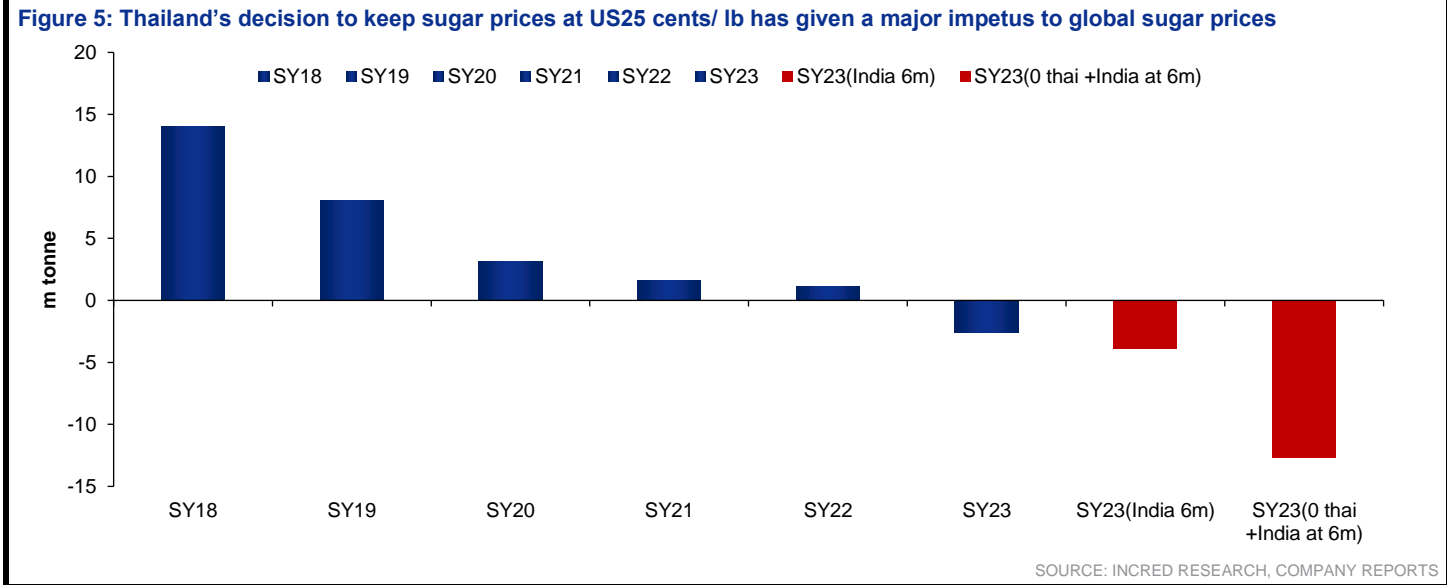
1. The new Cane and Sugar Act, B.E. 2565 (2022) was enacted on 24 Dec 2022, which aims to deregulate domestic sugar price controls and terminate the sugar sale administration (known as Quota A for domestic sales, and Quota B and Quota C for export sales). Thailand had to amend the old Cane and Sugar Act, B.E. 2527 (1984) as Brazil won its World Trade Organization case against the Thailand government’s support to its domestic sugar industry in 2016.
2. The Ministry of Industry (Mol) determined domestic sugar prices based on the combined average production cost of sugarcane and sugar, including overhead cost and profit margin. Even though the government changed the method of computation in 2018, domestic wholesale ex-factory prices of sugar remained at 17.25 baht/kg (US23 cents/lb) for white sugar until 2022.
3. However, this price was 13% lower than global sugar prices following the upward pressure on global sugar prices in 2022. The Mol decided on 20 Jan 2023 to increase domestic wholesale ex-factory prices of sugar to 19 baht/kg (US25 cents/lb), in line with world sugar prices. This is a 10% increase from 17.25 baht/kg (US23 cents/lb). The Cabinet then approved the preliminary price for sugarcane that farmers will receive in MY2022/23 at 1,080 baht per metric tonne (US\$31.6/MT), an increase of 1% from MY2021/22, on 14 Mar 2023.

Given the high importance of Thailand for global sugar market, its prices have risen

If we take Thailand out of the global market balance, then sugar will become a highly scarce commodity. Therefore, global sugar prices must match Thailand’s prices.

Global prices are rising more from policy decisions in Thailand than basic demand-supply dynamics ➤

Figure 5: Thailand's decision to keep sugar prices at US25 cents/ lb has given a major impetus to global sugar prices



Indian sugar prices will remain below international prices and the government will clamp down exports to avoid price inflation ➤

The free market concept in commodities is well over after the Covid-19 pandemic and therefore we advise investors to stop taking cues from international prices of commodities. Sugar, steel and even crude oil will be governed by local policies. Don't be gung-ho on sugar companies.

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