

India

November 28, 2023 - 7:40 AM

**Underweight** (no change)

**Highlighted Companies**

**Balrampur Chini Mills Ltd**

**REDUCE, TP Rs229, Rs461 close**

We feel the company's heavy investment in direct-route ethanol may not bear any fruit, given the current pricing of the same.

**Triveni Engineering and Industries Ltd**

**REDUCE, TP Rs191, Rs375 close**

Liquor/ENA and grain ethanol may turn the fortunes of the company for the better, but we feel its early days for these segments.

**Summary Valuation Metrics**

P/E (x)	Mar24-F	Mar25-F
Balrampur Chini Mills Ltd	18.48	20.12
Triveni Engineering and Industries Ltd	20.72	19.58
P/BV (x)	Mar24-F	Mar25-F
Balrampur Chini Mills Ltd	2.66	2.36
Triveni Engineering and Industries Ltd	2.56	2.28
Dividend Yield	Mar24-F	Mar25-F
Balrampur Chini Mills Ltd	0.27%	0.25%
Triveni Engineering and Industries Ltd	0.25%	0.26%

# Agribusiness

## Release quota short circuits sugar rally

- We had warned against betting on domestic sugar price rally in our 12 Apr 2023 & 30 Jun 2023 reports due to Indian government's monthly release quota.
- Contrary to popular belief, monthly release quota - the government's magic wand - has shattered the sweet dreams of sugar companies.
- We continue to hold our negative stance on the sugar sector, with a REDUCE rating on Balrampur Chini Mills & Triveni Engineering and Industries.

### Excess sugar in India while the rest of the world doesn't get enough

- The Government of India (GoI) banned sugar exports by its order dated 18 Oct 2023.
- Our negative stance on the sector stands vindicated.
- Currently, the domestic market is flooded with sugar stocks as export hopes have been dashed to the ground.
- Fig.1 below shows the sustained rise in monthly sugar release quota.
- The latest national average wholesale sugar price trend seems to follow our thesis, with the price on 27 Nov 2023 being Rs41.37/kg vs. Rs41.02/kg on 27 Oct 2023 and Rs 38.79/kg an year ago, on 27 Nov 2022.
- The sugar price data is from the GoI's database.
- The quota magic continues. The monthly release quota was the highest yoy in Dec 2023, with the rising quota trend commencing in Apr 2023.

### SAP (state advised prices) - the Russian roulette continues

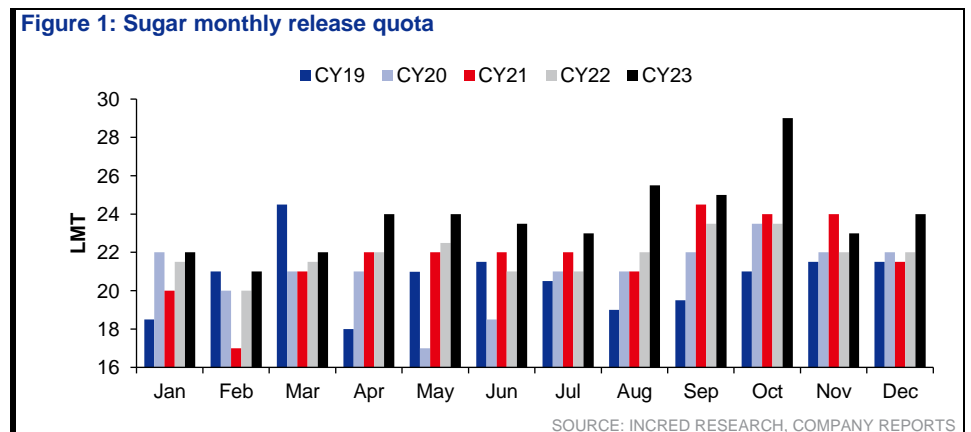
- Haryana was the first state to hike sugarcane prices to Rs386/quintal from Rs372/quintal and has promised Rs400/quintal in the next sugar year, which seems to be quite odd in the current scenario.
- Punjab was second state to promise a sugarcane price of above Rs380/quintal even as agitations continue for higher prices.
- Maharashtra has unofficially moved away from FRP (fair & remunerative price) of Rs315/quintal for sugarcane, after an increase of Rs15/quintal a few days ago to Rs330/quintal.
- Karnataka, which does follow FRP, has promised a hike, with the farmers' agitation also on for higher sugarcane prices and loan waiver.
- All eyes are now on the Uttar Pradesh government's stance on the sugarcane price front.

### Uncertainties galore

- The revised ethanol prices have not yet been announced by the government.
- The sugarcane output number has been revised downwards twice.
- In our view, the limit imposed on molasses will not offer any volume growth for ethanol production through the sugar route.
- Average yield in sugar produced from sugarcane was assumed by the street to be higher for the current sugar harvest, but it has turned out to be lower at the national level.

### Our view

- We retain our anti-consensus negative view on the sugar sector and a REDUCE rating on Balrampur Chini Mills & Triveni Engineering and Industries.



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