

Sugar Watch: Lockdown to Increase Domestic Surplus, Affect Liquidity Profile

06

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By Khushbu Lakhotia



India Ratings and Research (Ind-Ra) opines that while most sugar mills remain operational as sugar falls under essential commodities as per the Essential Commodities Act 1955, issues such as supply chain disruptions, labour shortage and reduced user industry demand will impact the sales of sugar companies. Besides, exports are hit, given the fall in international sugar prices and disruption of port operations, resulting in an increase in the oversupply situation. The increasing stocks coupled with a likely delay in payments from state discoms, with the Power Ministry providing a three-month moratorium to the latter, sugar mills are likely to face a working capital-led stretch in the liquidity position.

Operations Continue amid Challenges: Being an essential commodity, most sugar mills are continuing operations; except a few mills in the southern/western regions of the country that have reported suspension or disruption of operations (list in annexure). However, the lockdown has affected crushing operations due to shortage of labourers to harvest cane, in addition to a possible shortage of other raw materials if transportation remains disrupted. Mills in Uttar Pradesh and Bihar which are likely to continue crushing till mid-May have 8-10 days' stock of calcium, sulphur, lime and packing material.

The clarification given by the Ministry of Home Affairs, allowing transportation of all goods, should aid resumption of supplies. Lime availability could be the biggest challenge with quarries being closed due to the lockdown, though according to Indian Sugar Manufacturers Association (ISMA), the government of Rajasthan has now allowed lime quarries/kilns to operate during the lockdown period. Most other states, however, are on the verge of closing crushing

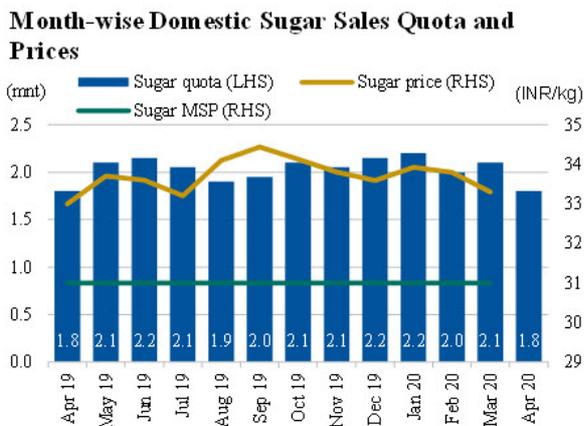
operations (271 mills in the country stopped crushing for the season as on 31 March 2020). Ind-Ra believes sugar production could be marginally lower than the earlier estimates, as constrained cane availability and a delay in crushing could lead to a decline in recovery rates by up to 20%. Sugar production stood for SS20 at 23.3mnt on 31 March 2020, down 21% yoy.

The distillery units of companies such as Balrampur Chini Mills Limited, Triveni Engineering & Industries Limited, Dhampur Sugar Mills Limited, and Avadh Sugar & Energy Limited have started manufacturing hand sanitisers. According to ISMA, 50 sugar mills have created sanitiser capacities totalling 100,000 litres per day. The production of extra neutral alcohol/ethanol would continue and sugar mills have assured raw material supply for hand sanitisers.

Demand Disruption: With institutional sales constituting around 65% of the total sugar sales in India, sugar mills face reduction in demand as most FMCG companies (including Hindustan Unilever Limited, ITC Limited, Britannia Industries Limited, Parle Products Private Limited, Nestle India Limited) are operating at reduced capacities while beverage makers such as Dabur India Limited, Varun Beverages Limited and Hindustan Coca Cola Beverages Private Limited (IND AAA/Stable) have suspended beverage operations. Consumption will also be affected due to the closure of eateries, ice-cream and confectionaries. Demand from direct consumption, however, would be by supported by the panic buying by households, though logistical challenges, particularly in movement of empty trucks to mills, need to be addressed.

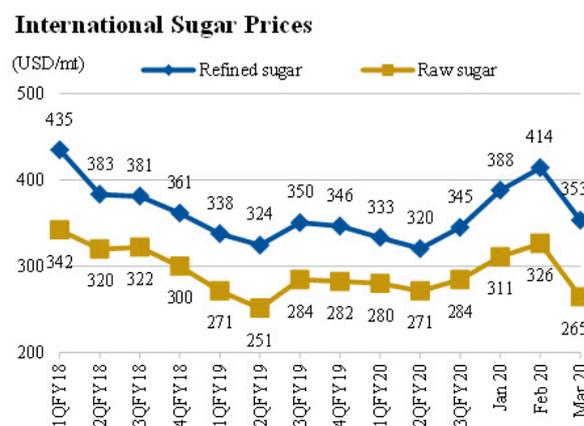
Ind-Ra believes that sugar mills may not be able to sell the allocated quota of 1.8 million tonnes (mnt) in April 2020 (April 2019: 1.8mnt), which coupled with the unsold stock from the March quota of 2.1mnt will lead to an increase in the already high inventory levels, as entities would not be able to recoup the lost volumes post normalisation. Domestic prices declined marginally to INR33.3/kg in March 2020 (February 2020: INR33.8/kg). However, the existence of minimum selling price is cushioning sugar prices amid the turbulent environment.

Figure 1



Source: CMIE, ISMA, Ind-Ra

Figure 2



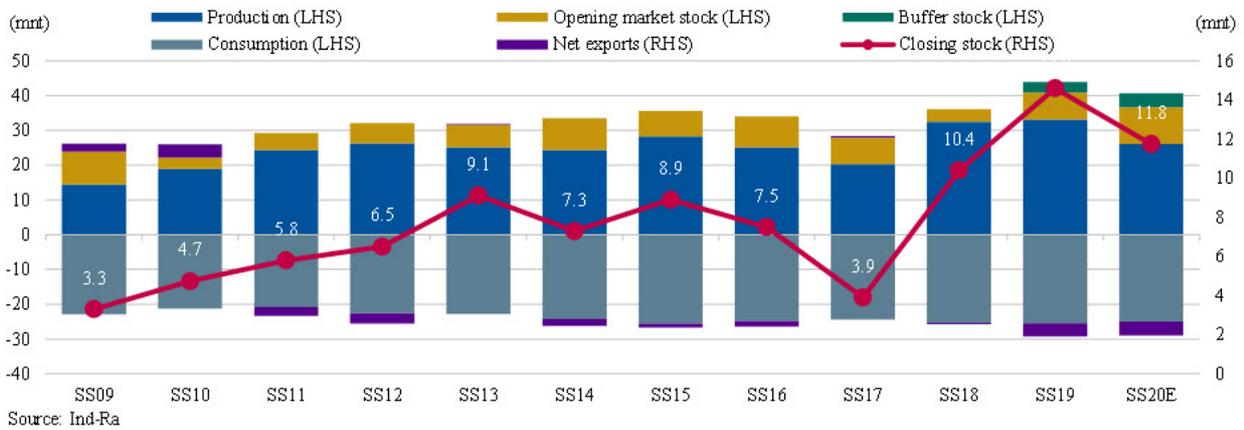
Source: CMIE, Ind-Ra

Export Volumes Hit: Most sugar companies witnessed significant growth in export volumes in 3QFY20, led by a reduction in global sugar surplus and exports from Brazil. International sugar prices that touched a two-year high in February 2020, fell around 20% mom in March 2020, as the COVID-19 outbreak affected the demand, while the fall in crude oil prices reduced the competitiveness of ethanol in Brazil. With raw sugar prices at an 18-month low of around USD250/mt, exports do not appear profitable even with the subsidy of INR10.4/kg, though it will free-up working capital and reduce the interest burden. Besides, the lockdown has led to the disruption of port operations and major ports including Krishnapatnam, Dhamra and Mundra have declared force majeure. Ind-Ra believes sugar exports would remain around 4mnt in the sugar season 2019-20 (SS20; SS19: 3.8mnt, 3.6-3.8mnt contracted for SS20 and 3mnt despatched) against the target of 6mnt, as international prices are unlikely to witness a meaningful recovery given the COVID-19 situation and low crude prices.

With a reduction in domestic consumption and lower-than-estimated exports India is likely to end SS20 with a stock of 11.5-12mnt (compared to the earlier estimates of around 10.5mnt). Any increase in the lockdown period could widen this gap.

Figure 3

Domestic Demand-Supply Position



Ethanol Offtake Impacted: Ethanol offtake by oil marketing companies (OMC) has reduced because of a decline in petrol consumption amid the lockdown. Mills have requested OMCs to reallocate ethanol volumes to the depots having sufficient a storage space. In addition, the slide in crude oil prices has reduced the competitiveness of ethanol for OMCs.

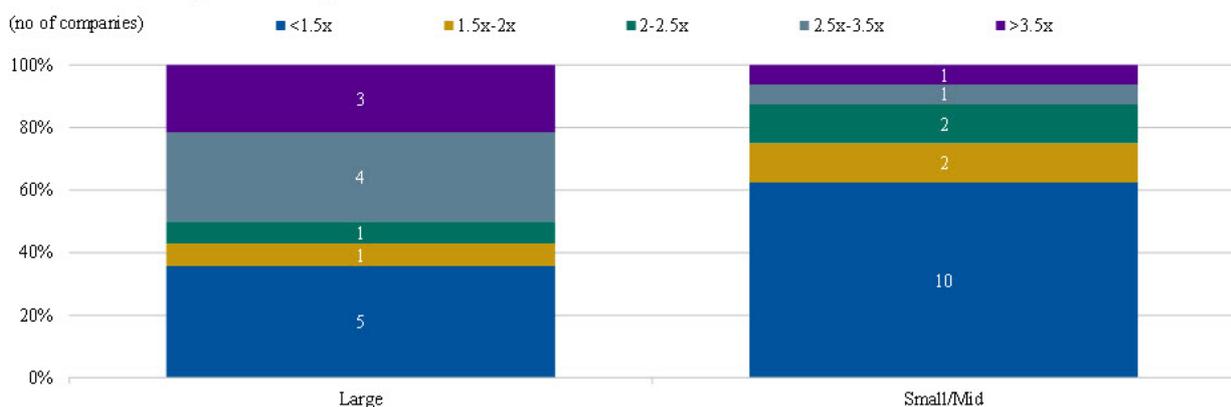
Liquidity Pressures to Mount: Ind-Ra believes that the continuation of operations during the lockdown will enable sugar companies to generate some cash flow. However, disruptions in despatches can result in the liquidity drying up quickly. The liquidity of sugar companies will be impacted particularly with the disruption in domestic sugar sales where payment realisations are the fastest.

In addition to the build-up of sugar inventory, working capital will be affected by a stretch in receivables from state discoms that have been given a three-month moratorium amid the lockdown. However, the moratorium given on debt servicing could help entities to tide over near-term liquidity challenges. Ind-Ra believes that some of the large sugar companies have robust cash balances, unused working capital lines or a strong parentage to address shortfalls.

However, the current situation could lead to an increase in cane arrears, particularly in Uttar Pradesh (end-February to March 2020: INR86 billion), where crushing is likely to continue. Also, an extension in the lockdown period could worsen the liquidity position. Most small to mid-sized companies, already in the vulnerable category, are at a heightened risk of a liquidity mismatch.

Figure 4

Interest Coverage Bucketing – 9MFY20



Ind-Ra has published the quarterly edition of its credit news digest on the sugar sector, covering the key trends in the industry. Ind-Ra’s quarterly sugar watch report highlights the segment-wise quarterly revenue and profitability trends of sugar, distillery and cogen segments, credit metrics trends, while also covering the company-wise trends of listed entities and capex plans in the sector. The report also covers the domestic demand-supply position, price spreads, export trends as well as the global demand-supply and inventory position.

ANNEXURE

Figure 5

Status of Operations of Listed Sugar Companies

Company	Location	Operations Suspended	Exchange Intimation Date
Balmrampur Chini Mills Ltd	Uttar Pradesh	No	
Dhampur Sugar Mills Ltd.	Uttar Pradesh	No	
Triveni Engineering & Industries Ltd.	Uttar Pradesh	No	
Bajaj Hindusthan Sugar Ltd.	Uttar Pradesh	No	
Bannari Amman Sugars Ltd.	Karnataka, Tamil Nadu	Yes	28 March 2020
Dalmia Bharat Sugar & Industries Ltd.	Uttar Pradesh, Maharashtra	No	
Avadh Sugar & Energy Ltd	Uttar Pradesh	No	
Magadh Sugar & Energy Ltd.	Bihar	No	
Uttam Sugar Mills Ltd	Uttar Pradesh, Uttarakhand	No	
Shree Renuka Sugars	Karnataka, Maharashtra	No	
Dwarikesh Sugar Industries Ltd.	Uttar Pradesh	No	
DCM Shriram Industries Ltd.	Uttar Pradesh	Yes	23 March 2020
Mawana Sugars Ltd.	Uttar Pradesh	No	
E.I.D. Parry (India) Ltd.	Tamil Nadu, Andhra Pradesh, Karnataka	Yes	24 March 2020
Rana Sugars Ltd.	Uttar Pradesh, Punjab	No	
The Ugar Sugar Works Ltd.	Karnataka	No	
Rajshree Sugars & Chemicals Ltd.	Tamil Nadu	No	
Sakthi Sugars Ltd.	Tamil Nadu	No	
Dharani Sugars & Chemicals Ltd.	Tamil Nadu	No	
SBEC Sugar Ltd.	Uttar Pradesh	No	
K.M.Sugar Mills Ltd.	Uttar Pradesh	No	
Indian Sucrose Ltd.	Punjab	No	
Sir Shadi Lal Enterprises Ltd.	Uttar Pradesh	No	
KCP Sugar & Industries Corporation Ltd.	Andhra Pradesh	No	
Ravalgaon Sugar Farm Ltd.	Maharashtra	Yes	26 March 2020
Gayatri Sugars Ltd.	Telangana	No	
Ponni Sugars (Erode) Ltd.	Tamil Nadu	Yes	24 March 2020
Riga Sugar Company Ltd.	Bihar	No	
Simbhaoli Sugars Ltd	Uttar Pradesh	No	

Note: as on 30 March 2020

Source: Ind-Ra

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Additional information is available at www.indiaratings.co.in.

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Applicable Criteria

Rating criteria not available.

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