NEWS FLASH – 13th June, 2016

SUGAR

Sugar cycle enters bull phase

Despite recent rally, experts advise buying shares of firms with a longer term perspective

The share prices of many sugar companies have scaled to 52-week highs on improving prospects of the industry and the companies. After a bad phase in the past few years, some companies did turn around in the March quarter. And, hopes have increased that their financial health will strengthen further, led by higher sugar prices due to a fall in production, both in India and other major producing countries.

The sugar season (SS) in India starts in October and ends in September the following year. Not only is output in SS 2015-16 estimated to fall nearly 10 per cent to 25.1 million tonnes compared to SS 2014-15 but if the government's initial estimates are anything to go by, output at 23.5 mt for SS 2016-17 will fall another six per cent year-on-year.

Industry officials fear that if yields (finished sugar output from cane) come lower than expected, production might fall further. This would help prices stay at elevated levels, which means companies will first generate a good amount of profit and cash to pay arrears and then repay debts. Not surprisingly, analysts are bullish on sugar companies from a long-term perspective. Deven Choksey, managing director, KR Choksey Shares and Securities, says: "Globally, sugar prices' forward curve indicates strength. In India, companies are holding stock which will fetch higher prices and the industry has entered a three-year bull cycle which began in January 2016. Stock prices have reflected this in advance but we see a time to buy sugar stocks with a three-year perspective." He likes south-based companies more, as their balance sheets are comparatively clear. While gains for the industry will accrue over the next three years, the sugar cycle has changed for the better, reflecting in the rise in share prices of companies.

HOW THEY STACK UP

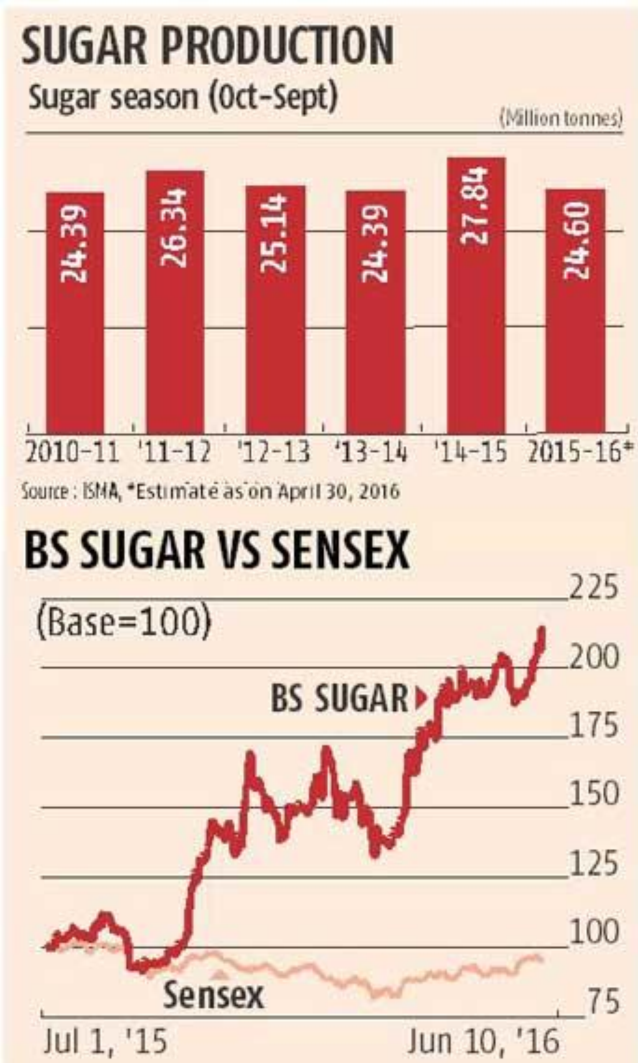
(In ₹ crore)	For year ended Mar 2016 PAT	Debt	D/E (x)	Price (₹) on 10 June
Balrampur Chini	99	1,504	1.22	123.00
Dalmia Bharat	58	962	1.88	103.25
Andhra Sugar	56	237	0.35	206.15
Dwarikesh Sugar	39	591	5.05	240.60
Dhampur Sugar	26	1,474	2.04	106.55
EID Parry	14	4,254	1.91	248.25
Mawana Sugars	1	294	-0.77	58.55
Triven.Engg.Ind.	-10	1,557	2.40	57.65
Bajaj Hindusthan	-207	6,385	3.23	21.90
Sh.Renuka Sugar	-1,803	5,701	-3.18	14.95

D/E: Debt-to-equity ratio; Profit after tax (PAT) and debt are rounded-off; Consolidated figures except for Dwarikesh Sugar; Minus figure for D/E ratio indicates negative net worth
Source: Capitaline Compiled by BS Research Bureau

Prices in the past year are up 45 per cent to levels where mills are not incurring cash losses by selling sugar. While withdrawal of the export subsidy last month has confined sugar exports to 1.6 mt as compared to the earlier mandate of four mt, it is unlikely to have a significant impact on domestic prices.

Ajit S Shriram, joint managing director of DCM Shriram, says sugar companies have started turning around. For long-term health, "there should be no cane arrears to farmers, which will be positive for all stakeholders and rural prosperity".

According to the food ministry, cane payment arrears for SS 2015-16 have come down to Rs 6,225 crore (based on fair price declared by the Centre). As on Wednesday, 87 per cent of cane dues had been paid for the season. During the corresponding period of last year, these dues were Rs 19,437 crore. The next move will be to repay bank debt. The comfort also stems from the collateral (sugar stock) with banks, whose value has risen due to higher prices.



According to the Indian Sugar Mills Association, the stock with mills as on end-May was around 15 mt, versus 18.1 mt a year before. At prices that are 45 per cent higher compared to last year, the value of stocks is higher. Notably, the road ahead in terms of prices looks favourable.

Abinash Verma, director-general of the Association, says: "Next season's production is expected to fall because of lower water availability and lower cane area. While a healthy opening balance of seven mt will help take care of the domestic requirement during 2016-17, prices are expected to be stable in the next year."

The current ex-mill price just about covers the costs and gives a margin to millers, good enough news as it follows three bad seasons. Experts suggest a global deficit in the current and next season will provide an opportunity to India to export sugar in SS 2017-18, if the need arises.

Expecting a deficit situation globally, investors have also taken long positions. Rabobank said in its sugar quarterly (released on Thursday) that long positions of funds in New York sugar futures had reached a record level, equivalent of 12 mt. It forecasts 5.5 mt of global deficit for SS 2016-17. International futures prices are flirting with a 20 cents a pound level, remunerative for Indian exporters. However, if the government imposes an export duty to ensure domestic retail prices stay around Rs 40 a kg, it could cap the gains.

(Source-http://www.business-standard.com/article/markets/sugar-cycle-enters-bull-phase-116061300017_1.html,published on 13th June, 2016)

India's plan to levy tax could hit 75,000 tonnes sugar exports, says industry official

India's plan to levy tax on sugar exports could hit nearly 75,000 tonnes of shipment heading towards Myanmar and Sri Lanka, an industry official said on Friday.

India, the world's second biggest sugar producer after Brazil and a top consumer, has so far exported 1.7 million tonnes in the marketing year that began on Oct 1, said Rahil Shaikh, managing director at ED&F Man Commodities India Pvt Ltd.

India plans to impose a 25 percent tax on sugar exports to maintain local supplies after two straight years of drought hit the crop in the South Asian nation.

Rising local sugar prices may force India to scrap tax on sugar imports, Shaikh said, adding he expects the country's sugar output in 2016/17 to be at around 23.5 million tonnes, down from 25.2 million tonnes in the previous year.

(Source- http://sugarnews.in/indias-plan-to-levy-tax-could-hit-75000-tonnes-sugar-exports-says-industry-official/, published on 10th June, 2016)

Karnataka sugar mills get Rs.300-cr purchase tax waiver

The Karnataka government's offer to waive purchase tax to sugar mills for the next two years is likely to cost about R300 crore to the state exchequer. The government last month announced a waiver of purchase tax and cess to sugar mills subject to the payment of cane arrears to farmers for the last three years. The move will offset any loss sugar mills may incur due to payment of cane arrears to farmers, industry sources said.

Between 2013-14 and 2015-16, sugar mills in Karnataka had defaulted on payment of fair and remunerative price (FRP) for purchase of cane procured from farmers. Since then, cane arrears exceed Rs. 2,300 crore.

In a notification, the government said, "In exercise of the powers conferred by sub-section (1) of Section 8-A of the Karnataka Sales Tax Act, 1957 (Karnataka Act 25 of 1957), the government of Karnataka hereby exempts with immediate effect and up to March 31, 2018, the tax and cess payable under Section 25-B by a manufacturer of sugar (including Khandasari sugar) subject to the condition of clearing of dues of the farmers relating to the financial years of 2013-14, 2014-15 and 2015-16 as per the fair and remunerative price (FRP) on or before June 30." The exemption will be applicable to those sugar mills that clear their cane dues and secure clearance certificates from the commissioner of cane development and director of sugar, government of Karnataka, in a specified format, the notification added.

"The idea behind extending purchase tax exemption to sugar mills was to enable mills clear off their cane arrears to farmers for the last three years and also to set off their losses suffered in the last three years," industry sources added.

The state government levies R45 per tonne of cane as purchase tax on sugar recovery of 10.5% and R35 per tonne for less than 10.5% recovery of sugar. For example, the state's sugar mills crushed 37.3 million tonnes (mt) of cane in 2015-16 and the average purchase tax works out to R150 crore. However, cane availability is likely to decline in the coming sugar season due to severe drought that prevailed in the state last year. As a result, a large area under sugarcane suffered shortage of water and the cane area declined drastically. The crop planted last year will mature for crushing during the next sugar season starting October this year, South Indian Sugar Mills Association (SISMA) said.

Karnataka's cane crushing declined 16.4% during the 2015-16 crushing season, while sugar production dropped 18.3% to 4 million tonnes compared 4.9 million tonnes produced in the previous year.

(Source- http://www.indiansugar.com/NewsDetails.aspx?nid=5659, published on 10th June, 2016)

Co-gen/Power

Tata Power acquires Welspun Energy's renewable assets

Tata Power Company has said its renewables arm has signed an agreement with Welspun Energy Pvt Ltd to acquire its green energy portfolio for an estimated at Rs 10,000 crore ($1.4 billion).

In a statement issued late on Sunday night, Tata Power Renewable Energy said it has signed share purchase agreement to buy Welspun Renewable Energy's 1.1 GW renewable portfolio in what would be the largest solar M&A in the country and also among the largest such renewable buyout in the whole of Asia.

Welspun Renewables is a 100 per cent subsidiary of Welspun Energy which in turn is co-owned by the listed Welspun Enterprises. BK Goenka, chairman Welspun Group and serial entrepreneur Vineet Mittal who is also the Managing Director of the business are the other key shareholders along with a clutch of foreign financial investors.

The company has about 1,140 mw of renewable power projects which includes about 990 mw solar power projects -- largest solar projects in the country -- and about 150 mw of wind power projects spread across ten states in India. Out of the 1,140 mw renewable portfolio, nearly 1,000 mw of capacity is operational and balance capacity is under advanced stages of implementation.

Even though the financial details of the transaction were not disclosed, sources in the know said, the enterprise value of the Weslpun portfolio is around Rs 1000 crore ($1.4 billion). Tatas are paying Rs 3650 cr as the equity component of the deal. The rest is the debt in the company which Tatas would look to refinance with lender approvals.

Tata Power's renewable arm currently operates 294 MW of Renewable power capacity and 500 MW of renewable assets are being carved out of Tata Power into TPREL through a court process. In addition, almost 400 MW of solar and wind power projects are under implementation. Thus, TPREL with all these assets, would have renewable assets portfolio of about 2,300 MW making it the largest renewable power company in India.

(Source- http://economictimes.indiatimes.com/industry/energy/power/tata-power-acquires-welspun-energys-renewable-assets/articleshow/52718618.cms, published on 13th June, 2016)

Thought of the day

"The world breaks everyone, and afterward, some are strong at the broken places."
- Ernest Hemingway