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Sugar mills' margins may remain under pressure in FY18 on rising cane prices

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THE MARGINS OF sugar mills are expected to come under some pressure from Q3 FY2018 onwards as the increase in cane costs for the coming crushing season will impact margins, a report said here.

It is anticipated that sugar stocks will be around 4-4.5 million tonne (MT) at the end of the forthcoming sugar season SY2018. Sugar production is likely to be around 24.5 MT in SY2018, up from 20.3 MT in SY2017.

However, despite the increase in sugar production, the stocks would be at the same level as the estimated consumption too will be around 24.5 MT in SY2018.

While this expected tight stock situation,

along with the recent increase in the import duty on sugar from 40 to 50% is likely to support the domestic sugar prices in the near term, the increase in cane costs for the coming crushing season will impact margins, the ICRA report said.

"The tight sugar stock situation in the domestic market, coupled with the hike in import duty, is likely to support the sugar prices in the near term. But increase in cane prices may result in some moderation in margins from Q3 FY2018 onwards, despite firm sugar prices.

"Under the emerging scenario, the margins and cash flow generations for most mills with efficient operations, forward integration and adequate cane availability are likely to remain satisfactory," ICRA Ratings senior vice president & group head Sabyasachi Majumdar said.

The Cabinet Committee on Economic Affairs (CCEA) has fixed the fair and remunerative price (FRP) at ₹255 per quintal for SY2018 season, an increase of around 11% compared to the previous year.