Twitter Thread by Jiten Parmar



Jiten Parmar
@jitenkparmar

Sugar Industry Insights (Feb 25, 2020)
Last few years sugar industry has been a beneficiary of government largesse.
Sugar cycle turned in 2015. Post that there has been surplus production.

Government has helped the industry by various incentives like export subsidy, ethanol blending, allowing cane juice to ethanol conversion, msp, etc. UP and Maharashtra are the 2 major states in sugarcane plantations.

The 2 largest players in the world are Brazil and India. In Brazil sugarcane is used for ethanol a lot lot more than in India. Brazil is way ahead of any country in ethanol from cane.

US is the largest producer of ethanol in the world followed by Brazil. US uses mainly corn for making ethanol.

Indian sugar scenario: Sugar still constitutes 85% of revenue in sugar companies. So, essentially it has to do well for sugar companies to be profitable. We have had record production in last couple of years. Sugar opening stock at end of last sugar year was 14.5 mt.

Indian consumption is 25-26mt. This year production will be 26-27 mt. Some of the surplus will be removed due to export (which the government is giving subsidy for). Some due to diversion to ethanol, where government has been a big enabler and provided good prices.

I expect this year to end at inventory of 9.5-10 mt. Expectations of a good crop for next year is again high due to reservoirs being full.

We have to understand that sugar story depends on government help a lot. It does remain a political commodity.

The risks to sugar story are:

1)High production next year
2)Current year production above the industry expectation of 26 mt (for UP one can get data as most are listed, but for Mah it is difficult as there are many private players and co-operatives)

3)Government doesn’t support by the way of export subsidy as expected by the industry
4)Crude falls, to let’s say, 40-50$. The whole ethanol story becomes very difficult. Brazil also starts diverting cane to sugar instead of ethanol

5)Government increases price of sugarcane, as UP elections will be in 2022
6)Government removes MSP

My view: One should not change narrative of investment reasons post entering the sector/stock. If you have invested because of sugar cycle, stay invested or exit, due to that reason only. If sugar doesn’t do well, I don’t think other ancillaries can save the pain.

Best time to enter sugar was in 2015 when cycle turn was evident. That’s when you make big returns. I got a 7x return in next 18 months. Post that in mid-cycle it has always been trading calls, where you are playing for percentage returns.

Remember: When downcycle turns into upcycle you make “X” returns, in mid-cycle you make “%age” returns.