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Key Steps taken by the Government

Hike in Ethanol Prices

The government had taken historic steps of hiking 25% in the price of ethanol production directly from the sugarcane juice for blending in the petrol as a measure to reduce surplus sugar production and reduce oil imports. The price for ethanol produced from B-heavy molasses which is also called as intermediary molasses was hiked to Rs 52.43 a litre from the current Rs 47.13 but that for ethanol produced from C-heavy molasses was reduced marginally to Rs 43.46 from Rs 43.70.

India will export to China

After a long wait of decade India will be able to export raw sugar to China. This decision was taken as a measure to shed surplus stocks that have muted prices and created financial distress in sugar mills. This measure will start from early 2019 and is also in talks to finalize exports to Indonesia and Malaysia as well. Raw Sugar is the second product after non-basmati rice that China will import from India.

Sector Outlook

Government has very rapidly taken steps to revive the ailing sugar industry. The recent news of hiking ethanol prices by steep 25% is very positive for the sector, which provides an option to produce either sugar or ethanol directly from sugarcane. Most of the companies are now looking to produce more ethanol as it is value added product and rising prices will only increase margins for the sugar companies. This will impact the sugar inventory which in-turn will lead to rise in sugar price. Also the second move of exporting raw sugar to China will benefit sugar mills as raw sugar exports from Brazil is decreasing continuously. There would be global demand supply mismatch which will be filled by Indian sugar mills which has surplus sugar inventory. We feel both the moves are very positive and if government allows sugar export to Malaysia and Indonesia as well then the entire sugar industry is set for revival.

Our view

We feel that the current steps taken by the government will positively impact the companies' in the long run as a result good quality stocks like DCM Shriram, EID Parry, Dhampur sugar should be looked upon from investment perspective.

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