Markets have given a thumbs-down to the **government's Rs 70 billion intervention package** (including Rs 4,440 crore in loans to mills to expand ethanol production) for the sugar industry to address the immediate liquidity problems of the industry.

Most stocks, such as Dwarikesh Sugar, Dhampur Sugar, EID Parry, Kesar Enterprises and Thiru Aroon Sugar are trading lower in the range of 1 per cent to 5 per cent on the BSE on Thursday – extending their Wednesday's fall of 3 per cent to 12 per cent. In comparison, the S&P BSE Sensex has gained around two per cent during this period.
Also Read: Govt plans to build stockpile of 3 mn tonnes sugar to prop up prices

Analysts say the measures are too little for the sugar companies. The focus, they say, is more on expanding ethanol production rather than addressing the issue of high cane cost and low sugar prices. The Cabinet Committee on Economic Affairs (CCEA) also fixed a minimum selling price of white (refined) sugar at Rs 29 a kg.

"The measures will not help the industry come out of the problems, especially the Uttar Pradesh (UP) – based companies. The quantum of relief is less and the focus is more on ethanol rather than standalone players. Measures also fail to address the issue of low sugar prices and high cane costs. Though the extent of losses will come down for manufacturers, they will remain under pressure due to mismatch between sugar and cane prices," explains G Chokkalingam, founder and managing director at Equinomics Research.

The 23 sugar companies that announced their financial results for the year ended March 2018 (FY18), have reported an aggregate net loss of Rs 15.34 billion. These companies had posted a combined net profit of Rs 19.59 billion in FY17.

Also Read: Renuka Sugars to use network of Adani Wilmar to revive Madhur brand

Despite a brief rally in sugar stocks (between 20 per cent to 40 per cent during May 16 – June 1) ahead of the bailout package, most counters have seen a price erosion thus far in calendar year 2018 (CY18). Dhampur Sugar, Balrampur Chini Mills, Rajshree Sugars & Chemicals, Dalmia Bharat Sugar and Industries and Mawana Sugars have tanked in the range of 50 per cent to 55 per cent on a year-to-date basis. The S&P BSE Sensex has gained 3.3 per cent during this period.

"The cost of producing sugar is around Rs 35 per kilogram (kg), whereas the government support price has been fixed at Rs 29. A price support around the manufacturing cost would have benefitted companies. That apart, the industry is in an oversupply situation. Any rally in the stocks should be used as an opportunity to exit," says A K Prabhakar, head of research at IDBI Capital.
Also Read: Sugar output likely to hit record next season as farmers stay sweet on cane

ICRA estimates the sugar production to cross 31.5 million MT, while the total demand for this season (October to September) is pegged at 27 million MT, including exports. This will leave the domestic market with an excess for the next season and with exports yet to pick up, it will put pressure on prices.

Chokkalingam agrees and expects sugar prices to rise only in the next sugar season – that is in 2019. “If investors plan to make money in these stocks, they need to wait till the next season,” he adds.