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Hope of partial decontrol pushes up sugar stocks

By Prasanna Deshpande Jul 04 2011 , Mumbai

Shares of sugar firms moved up sharply on Monday amid hopes the government may meet in the next 1-2 week to consider partial decontrol of sugar, which will allow companies to sell the commodity at market determined rates. With international sugar prices also looking higher in recent months, the recent government decision to allow higher exports is expected to fetch better returns for local sugar companies.

On BSE, shares of Dharani Sugars rose nearly 10 per cent to Rs 34.15, KM Sugar jumped 8 per cent to Rs 3.51, Shree Renuka Sugars rose 6.5 per cent to Rs 72.95 and Sakthi Sugars was up 6 per cent at Rs 36.85.

Among others, Dhampur Sugar Mills, Bajaj Hindusthan, Bannari Amman Sugars, Simbhaoli Sugars and Dwarikesh Sugar Industries also rose 2-6 per cent.

"From medium-term perspective, sugar shares look attractive and downside seems restricted. Talk of government looking to decontrol sugar has been going around for years, and if it materialises it will be beneficial for the industry. Also, international prices have been moving up and the government's decision to allow higher exports will certainly accrue well for the industry," said Sanjay Manyal, analyst with ICICI Securities.

Recently, the government allowed 5 lakh tonne of sugar exports, and the industry is expecting more exports in the next 8-10 months due to higher cane production prospects, said Manyal.

The analyst is bullish on Balrampur Chini, Shree Renuka Sugars and Dhampur Sugar Mills, but maintains sell rating on Bajaj Hindusthan because of high debt.

In the last one month, global sugar prices have moved up to 28 cents from 20 cents. In 2011, global sugar production is expected to be 168 million tonne and consumption will be 167.8 million tonne. Also, prospects of lower cane production in Brazil, the world's largest cane grower, has brightened prospects of improving international sugar prices.

Sageraj Bariya, managing partner with brokerage firm Equitorials feel that complete decontrol may not be possible given the political compulsions and the prevailing higher inflation scenario. He said arbitrage opportunity for local sugar companies is very little, as international prices have witnessed little change. Despite the government's approval for higher exports, inventory level still remains higher.

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