



**“Dwarikesh Sugar Industries Limited Q4 FY20
Earnings Conference Call”**

June 12, 2020



DOLAT CAPITAL



**MANAGEMENT: MR. VIJAY S. BANKA – MANAGING DIRECTOR,
DWARIKESH SUGAR INDUSTRIES LIMITED**

MODERATOR: MR. ARCHIT JOSHI – DOLAT CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the Dwarikesh Sugar Industries Limited Q4 FY20 Earnings Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Archit Joshi from Dolat Capital. Thank you and over to you, sir.

Archit Joshi: Thanks, Steven. Good afternoon everyone. On behalf of Dolat Capital, I welcome you all to the Q4 and FY20 conference call of Dwarikesh Sugar Industries Limited. I thank the management for giving us the opportunity of hosting this call. We have with us today, Mr. Vijay S. Banka – Managing Director of Dwarikesh Sugar Industries Limited. Without further ado, I would like to hand over the floor to Mr. Banka for his opening remarks after which we will have the floor open for the Q&A. Over to you, sir.

Vijay S. Banka: Very good afternoon and a very warm & hearty welcome to the Q4FY20 earnings call conference. Our Q4FY20 results have already been announced and I am sure you must have gone through the same. However before I touch upon the financials and the numbers, let me quickly tell you what has been happening in the industry, in the state of Uttar Pradesh, in India and then across the globe

We had this unfortunate outbreak of COVID pandemic which has unleashed problems in all walks of life. In Uttar Pradesh, we were fortunate because the government supported us and they ensured that we carried on with our crushing operations uninterrupted so that the farmers don’t have to face any hardship and their standing cane is totally harvested. Initially, we did have some problem in sourcing the intermediate inputs such as lime, sulphur, HDPE bags, etc., but these were slowly overcome. Thanks to the support of the state government, we were able to overcome all these impediments. However on demand side, there has been some disruption which some industry estimates put it at anything between 1 and 1.5 million tonnes. So, April was particularly a difficult month, May was slightly better and we expect things will get better in the month of June and here onwards. Therefore, these last two months have been months of uncertainty as fear has gripped the entire mankind. We only hope and pray that some solution is found to this pandemic at the earliest. Internationally, sugar prices have rallied - prices which had touched a low of 10 cents per pound because of tumbling crude prices have recovered and presently the international raw price is at around 12 cents per pound.

The white sugar prices are attractive at US \$395 per metric tonne. So, the recovery in price is partly on account of the clogging of the ports. Ports all over the world including Brazilian ports are facing problems and so are the Indian ports. Because of the clogging of ports export of sugar from India also received a setback. However things are limping back to normal and we hope things will get better from hereon. There has been some discussion on the increase in the MSP which is presently at Rs. 3100 per quintal. We expect the MSP could be increased by Rs. 2 per kg or so, although our request is for a larger increase. Buffer stock subsidy scheme is in

operation and will be there till July end. We expect the government to continue with the buffer stock scheme. One big challenge for all the sugar mills, particularly in UP is that we are sitting on huge stockpile of sugar. We also expect early announcement of the export policy for 2020-2021 season. Early announcement will help enable sugar mills to take the advantage of presently prevailing higher prices. We don't know how long these prices will last. So we just hope that the government announces the export policy quickly. Going forward we are cautiously optimistic, we hope things should get better from here onwards.

In this quarter, we clocked a sales of Rs. 463.21 crore and for full year we clocked a sales of Rs. 1,341.53 crore. Profit after tax was Rs. 44.27 crore vis-à-vis Rs. 32.35 crore in the corresponding quarter last year. Our full year basis PAT was Rs. 73.45 crore vis-à-vis Rs. 95.11 crore for full year 2018-19. This has been a reasonable quarter for us and during this quarter we sold 12.28 lakh quintals of sugar at an average realization of Rs. 2905 per quintal. I must clarify here that the realization appears lower because the subsidy on the sugar exported and accounted by us gets accounted as other operating income. So, if we factor for that subsidy and add it to the selling price, our realization is about Rs. 3,195 per quintal approximately. Similarly, for full year basis, 38.78 lakh quintals of sugar was sold which included 9.61 lakh quintals of export of raw sugar. Here again the realization is Rs. 2,968 per quintal and if we factor for the subsidy, the realization is Rs. 3,130 per quintal approximately. As I said, we are sitting on a huge stock. On March 30, the stock was about 29.58 lakh quintals. We do expect that there is faster liquidation of the stock hereafter.

Distillery project has been successfully commissioned. It is under stabilization. One big setback that we received at the beginning of the financial year is the reduction in the power tariff which was reduced from about Rs. 5 a unit to nearly Rs. 2.95 a unit. As a result we suffered a setback of Rs. 17.55 crore during the quarter as compared to corresponding quarter of last year and on a full year basis, the impact was Rs. 33.77 crore.

Our loan position is reasonable and all our long-term loans are at subsidized rate of interest and we have been rated A+ for our long term loans and the rating for our commercial paper program is A1+ which is the highest rating. We have made a modest beginning in our efforts to manufacture sanitizers. It actually started off as a CSR initiative but going forward, we see this transforming as reasonably good business opportunity although it is too early to be very sure about it. There will be lot of competition. So, this in nutshell how the quarter & the year was for us. I would now request you to please ask me questions. Thank you very much.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar:

I just had some broad questions on the industry, so if you could clarify my doubts on that. As far as I know that the total demand, this year is likely to be about 25 million tonnes and we will have an opening inventory of somewhere around 8 million tonnes from last year or more?

Vijay S. Banka: We began the year with the inventory of 14 million tonnes and we should end up with the inventory of about 11 million tonnes. We originally estimated that the closing inventory would be about 9 million tonnes but there has been demand disruption which is one reason why our inventory is expected to be higher and secondly the export initiative also received a bit of setback which is the reason why we now expect closing inventory to be about 11 million tonnes.

Rajesh Majumdar: 11 million tonnes and this year probably you are going to have some higher production compared to last year because last year there was disruption in Maharashtra, so may be about 30 or 31 million tonnes, so you must be looking at 42 million tonnes minus 25?

Vijay S. Banka: Yes.

Rajesh Majumdar: So what do you expect, I mean one thing is the MSP and the other thing is the export. Do you think the export subsidy will have to be enhanced further or there will be more measures, so exactly I wanted to know your thoughts on that?

Vijay S. Banka: Export subsidy – As we have experienced Government decides on the quantum of export subsidy based on parity between domestic price & international price so as to ensure that realization from export after considering the subsidy is reasonable. Realization from export may be lesser than domestic price even after considering subsidy but then the domestic market is very limited. So the quantum of subsidy will depend, based on MSP and international price of sugar. However, we do expect that there is enhancement in the target export quantity.

Rajesh Majumdar: Last year, the quota was about 5, how much did we do finally in terms of exports and what was Dwarikesh's share in that?

Vijay S. Banka: Quota was 6 million tonnes and already the contracts have been executed, (physical exports is underway) for about 4.2 million tonnes. The government's expectation and the ISMA's expectation is that we may end up with 5 million tonnes of export. There are two types of sugar mills, one those who are enthusiastic performers of exports and those which are nonperforming. There are some sugar mills which are not able to export their obligation. Already government has done two redistribution, the first redistribution was done early and the second redistribution was also done some time ago and we expect the third redistribution to happen in the first week of July. Our original quota was about 79,000 metric tonnes. In the first redistribution, we got additional quota of about 29,000 metric tonnes and in the second redistribution we got a quota of 12,000 metric tonnes. Our total export quota that we got was about 120,000 metric tonnes approximately. We have already completed export of our original quota and first redistributed quota. We are in the process of exporting quota allotted under second redistribution which is about 12,000 metric tonnes. We will complete all our exports before end of June 2020.

Rajesh Majumdar: So, normally these export subsidies are decided at the end of the fiscal year, it is not going to be now, the export subsidies are decided after the whole year, the government looks at the inventory position, etc.?

- Vijay S. Banka:** Sorry to interrupt you, export subsidy is decided upfront.
- Rajesh Majmudar:** So, it is normalized when the normal sugar policy comes when the normal like other years it has been August like the ethanol policy, all the MSP, etc. is decided. This year, I think the market is expecting it to be earlier, I don't know?
- Vijay S. Banka:** When the export quota of 6 million tonnes was announced subsidy on the same was also announced. If the same is not known upfront one would not be incentivized to export. Therefore, the quota announcement and the announcement of subsidy is done together. Companies can then make their internal calculations and take a call on exporting sugar and quickly go onto strike export deals.
- Rajesh Majmudar:** So you are expecting all this to be announced before last year time, normally it is in August if I am not mistaken, so?
- Vijay S. Banka:** Yes, it should be around August as we are already in June. We are requesting the government to announce it quickly so that we can take the advantage of the present market. Market always presents an opportunity. Sometimes when the quota is announced, the market is not favorable but then there comes a time when market moves up and down depending upon the crude prices. For example, now the crude prices have gotten better and sugar prices have moved upwards. So there is always an opportunity to be grabbed.
- Rajesh Majmudar:** And my last question is on the SAP, so there has been no change in SAP in the last 2 years, prior to elections or whatever, so is there a chance that might be revised now to the farmers?
- Vijay S. Banka:** We don't know. Good sense has prevailed with the state government, they have not revised the SAP in the last 2 years. We aren't sure whether they will announce it this year or may be next year. Next year, there is election in the state of Uttar Pradesh. It will all depend upon how the government perceives and thinks about it. The fact is that the SAP hike doesn't win anybody an election. This has been the past experience. The governments have increased the SAP and the party and the Government in power has lost the election immediately thereafter. But then, it is totally government's call.
- Rajesh Majmudar:** So according to you sir, this industry will continue to be regulated. There is no move like once upon a time there was a thought that they might be de-regulated and cane prices will move with the sugar prices MSP and within, so that is not likely now?
- Vijay S. Banka:** No, not just in India, the world over industry is regulated. The bane of this sugar industry in India is that in the past, sugarcane price was successively increased with scant respect to the economics of the sugar mill. As a result, the sugarcane crop became very attractive to the farmers and simultaneously the yield for the farmers has also gotten better because of propagation of improved and early varieties of sugarcane. So the farmer's income has definitely gone up which is the reason why he is very enthused to grow sugarcane. It also offers opportunities to the

farmers of multi-cropping. There are thus multiple benefits of growing sugarcane. The bigger question is that how do we address this larger availability of sugarcane and therefore sugar. If you have read recent newspaper reports - there was Niti Aayog recommendation that the government should try and bring down the area under sugarcane cultivation. However the implementation seems farfetched and the government is doing the right thing by trying to figure out alternative uses of sugarcane as is being done in Brazil. We need a very ambitious plan for manufacture and use of ethanol. I will give you one statistics - In Brazil last crushing season, 65% of the cane juice was used to making ethanol and only 35% of the juice was used for making sugar.

Rajesh Majmudar: What level of ethanol blending is in Brazil?

Vijay S. Banka: Last season the total blending in Brazil was 48% and here in India we are only little above 5%.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity Investment. Please go ahead.

Madhav Marda: Sir, you mentioned just couple of minutes back that the sector is fairly regulated because right from sugar price, ethanol price, power tariff, to our input everything is getting regulated right now by the government., So, I don't know if you just look ahead to take the excess sugarcane production in ethanol basically the only way out and do you think investments could step up faster in the industry which is still going on and then how do you think about it?

Vijay S. Banka: The Brazilian example proves that ethanol is a very viable option. As I mentioned a little while ago the blending in Brazil is as high as 48% and as 65% of the sugarcane juice was used for making ethanol. We therefore need a program, may be not of that scale but at least of certainly scale larger than what we are presently operating. The problem faced in India is that there are sugar companies with healthy balance sheets and there are companies with not so very healthy balance sheets. There is a government program already in place which offers loans at subsidized rate of interest to sugar mills who want to put up ethanol manufacturing units. The problem is the banks don't find proposals of such non-healthy sugar mills bankable at all. It is a catch-22 situation. There are some studies which suggest escrow mechanism, formation of SPV or some such arrangement which can offer comfort to the Banks and they can provide funds to such sugar mills.

Madhav Marda: And the ethanol pricing that will be revised at an annual basis, so in July August it will come up with the revised pricing or how does the formula work for that?

Vijay S. Banka: It is normally done effective November every year.

Madhav Marda: And the policy will be announced in August to be effective from November or when do we announce it?

- Vijay S. Banka:** No, it is not so early but yes, any time before the next bidding. They may announce before the next bidding which starts in November.
- Madhav Marda:** And the ethanol prices will be fixed on an annual basis? Can that be changed? Do you think like based upon how crude is working or do you think government will keep it at that same level and how should we think about ethanol pricing from government?
- Vijay S. Banka:** No, you raised a very valid question. The point is banks also have this question. They agree that presently the ethanol price is remunerative but are not sure of it in future. Loans are repaid over 6 to 7 years horizon and the Government policy in ethanol pricing for long term is non-existent. We, as an industry association have also been requesting the government. We are not asking for announcement of price but announcement of basis of pricing. As we have seen regardless of the fall in the price of crude, the government is very keen to accelerate this ethanol blending program because it addresses the larger issue of the farmers growing sugarcane and also the country's foreign exchange resources.
- Madhav Marda:** So you are hoping that at some point the government will come up with a long-term policy than this one-year prices right?
- Vijay S. Banka:** Yes, that has been a longstanding demand of the industry and that will help in stepping up the capacities for ethanol manufacturing. It is also because distillery plants where sugarcane juice is to be directly used are very capital intensive. So it is but natural banks would want an assurance on the pricing going forward.
- Madhav Marda:** And the sugar MSP is you have to say, now that production is going to be even higher next year, the need for MSP is not going away any time soon I would assume?
- Vijay S. Banka:** No, it wouldn't. In fact, we have been requesting and what we are hearing and are hopeful is that there could be possibly some increase in the MSP which is presently at Rs. 3100 per quintal.
- Moderator:** Thank you. The next question is from the line of Arun Gopalan from Systematix Group. Please go ahead.
- Arun Gopalan:** I am not sure if I missed the first part of your commentary, when you were talking about the inventory, so I see that the sugar inventory, the sugar stock as on 31st March was 29.58 lakh quintals, I would like to know what this is valued at as on 31st March.
- Vijay S. Banka:** It is valued at Rs. 2,890 per quintal, sir.
- Arun Gopalan:** The second question which I had was on your realization, the average realization for the quarter you are posting is Rs. 29.05 per kg?
- Vijay S. Banka:** Yes.

- Arun Gopalan:** MSP is standing at Rs. 31 per kg, so what is the reason for the realization?
- Vijay S. Banka:** I have already explained this. However, let me explain once again. The realization of Rs. 2,905 per quintal is including for the quantity that we have exported and without considering the incentive on export. So my average realization for this quarter, if we account for the export subsidy is Rs. 3195 per quintal. By a similar analogy for full year basis, what appears as Rs. 2968 per quintal is actually Rs. 3130 per quintal as subsidy gets accounted not as part of the sales but it gets accounted as other operating income.
- Arun Gopalan:** And next question I had was on the export quantity, so what your export realization was and the quantity exported?
- Vijay S. Banka:** Let me talk about the MAEQ 2019-20 for the season because during the full year in the first quarter we have also exported under the MIEQ of 2018-19. Regarding MAEQ 2019-20, we had first export obligation of about 79,000 metric tonnes of which what got exported and what got accounted before March 31st is about 60,000 metric tonnes.
- Arun Gopalan:** 60,000 was exported till which date?
- Vijay S. Banka:** By 31st of March, 59,550 metric tonnes precisely.
- Arun Gopalan:** And how much of the subsidy was booked for the current fiscal?
- Vijay S. Banka:** Rs. 62.22 crore.
- Arun Gopalan:** Rs. 62.22 crore is booked in the current fiscal?
- Vijay S. Banka:** Yes.
- Arun Gopalan:** And the rest will be for next year?
- Vijay S. Banka:** Yes, it will be in the next year.
- Arun Gopalan:** I have one more question on your co-gen?
- Vijay S. Banka:** Yes, sure.
- Arun Gopalan:** When I look at your co-gen, your co-gen quarter on quarter is higher but I guess year-on-year is a little tepid, but is it true that your co-gen has done better than the other mills in UP and if so, then what is the reason?
- Vijay S. Banka:** Basically, the co-gen's performance is the same across all mills in UP. Everybody is getting a realization of Rs. 2.95 per unit - anything ranging between Rs. 2.90 to Rs. 3 per unit. There has thus been more than 40% reduction in the selling price of power. The profit that you see in the

co-gen segment is because of the calibration of transfer pricing, which is the price at which we account for the transfer of bagasse and the price at which we transfer the power that is consumed captively. Going forward, co-gen segment is a bit of a defensive bet for us. Once we started SS 2019-20 we only did what we call as incidental co-generation. For example, in one plant if our capacity is to export 24 megawatts of power, we did only incidental co-generation which means we didn't go whole-hog in recycling of the steam. We have evacuated only about 18 megawatts instead of 24 megawatts. In the process, bagasse becomes spare because the steam consumption obviously comes down and there is no recycling happening, and the bagasse consumption comes down. We have sold bagasse and we have realized more money and are better off than what we would be if we had generated & evacuated that power. In doing so revenues are better than what it would be in evacuating power.

Moderator: Thank you. The next question is from the line of Sanjay Manyal from ICICI Direct. Please go ahead.

Sanjay Manyal: Sir, just now because entire year has been passed in the domestic quota what we receive, so I am sure you would have a good sense of what kind of annual quota we are receiving, in that sense what is expected from the FY21 levels?

Vijay S. Banka: FY21, for the three months, we have already received the quota.

Sanjay Manyal: That is 60,000.

Vijay S. Banka: Approximately 55,000 metric tonnes and we have done export of about 60,000 metric tonnes. Going forward Government should now do the recalibration of quota based on latest production numbers. We expect larger quotas in the in the coming months because the weightage of our stock vis-à-vis the country stock obviously has gone up. For us within UP also, our production has been 22% higher this season as compared to the last year which has not been the case of the other sugar mills. Therefore going forward we expect to receive larger quotas in the coming quarters. Now the numbers of crushing and production are frozen, so we expect that recalibration to be done by the government now.

Sanjay Manyal: Sir, would it be safe to assume like 30,000 per month for the domestic quota and accordingly 360,000?

Vijay S. Banka: I think yes, we must get that kind of quota, we must get.

Sanjay Manyal: And should 3.6 say on an annual basis and say 120,000 export, can we assume if the export subsidy is announced...

Vijay S. Banka: Yes, we expect larger export target for the coming season and we expect better, improved releases. We are keeping fingers crossed. We don't come to know how the quotas are allocated, but we do expect larger domestic quota as well as higher export quota and our performance on

the exports also has been good. We will export the entire quota under MAEQ allotted to us and we think these factors should weigh in and help us.

Sanjay Manyal: Sir, if in that sense, we just wanted to calculate say 3.6 plus 1.2, then ideally my sales in FY1 should be higher than the production, if I assume the similar kind of production happens?

Vijay S. Banka: We will have to wait and see. Big question or imponderable is regarding domestic quota. I have no doubt on export obligation for the coming year and it should be larger. The domestic quota by application of all logics, should be higher for us.

Sanjay Manyal: Sir, we have produced 20% more this year, obviously that would have been mainly because of higher crushing, will that trend continue next year as well or we will come back to the previous year level?

Vijay S. Banka: This season we have crushed 374 lakh quintals of sugarcane higher than original estimate, because of the COVID outbreak and consequent non-diversion of sugarcane for Jaggery and Khandsari on account of which may be about 20 lakh quintals was crushed more. 355 lakh quintals should be safe estimate for next season although as per the indications available the planting is pretty good. May be there could be a very small downside or may be the same as we crushed this season

Sanjay Manyal: And sir, our domestic realization has been somewhere around, for the full year basis, overall realization as Rs. 3130 per quintal including the Rs. 3195 per quintal in this quarter you mentioned?

Vijay S. Banka: Yes, for the quarter was Rs. 3195 per quintal and for the full year basis, it is Rs. 3130 per quintal

Sanjay Manyal: Would it be safe to assume that if there is an increase in MSP, so probably one quarter will be having aberration as far the prices are concerned

Vijay S. Banka: Yes, because of the COVID outbreak our prices were only marginally above the MSP benchmark but...

Sanjay Manyal: But rest of the year it was

Vijay S. Banka: Yes, depends on the monthly releases that the government announces. If the quota is higher, there is a little bit of pressure on the price and the prices come down a little but the prices overall as you have seen have been higher than the MSP.

Sanjay Manyal: And sir, what is our debt as on date, farmer's payment or farmer arrears and inventory as on date?

Vijay S. Banka: My inventory as on date is about 30.40 lakh quintals of sugar and considering balance dispatches for the month our inventory at the June end will be 28.95 lakh quintals approximately.

- Sanjay Manyal:** That would be by the end of June you are saying?
- Vijay S. Banka:** By the end of the June, this is our estimated inventory. As far as our long term borrowings are concerned, we have, as on 31st March, had a soft loan outstanding of Rs. 114.31 crores after which April, May, June installments have been paid. So actually out of Rs. 134.48 crores, Rs. 26 crores would get paid. The June end number, therefore of this loan, will be around Rs. 108 crores. We also have a distillery loan of Rs. 116.88 crores wherein there is no repayment obligation until the 31st of March 2021. We also have preference shares outstanding of Rs. 15 crores which is due for redemption August, 2020. Short-term borrowings depends on the stock, and presently our borrowing should be around Rs. 500 crores and we have adequate drawing power
- Sanjay Manyal:** And farmers, what is the payment is still required to be done now that the crushing is over?
- Vijay S. Banka:** We paid more than 80% of the dues to the farmers.
- Sanjay Manyal:** And sir, just one more thing, what could be our sacrifice because of the diversion towards B heavy or sanitizer or ENA, all putting together what could be your sugar sacrifice?
- Vijay S. Banka:** This was our first term with the new distillery plant. We made a beginning with the use of B heavy molasses and we sacrificed about 53,000 quintals of sugar in making ethanol from B heavy molasses. Our recovery for the entire season has been 12.26% vis-à-vis 12.31% for the last season, but if we factor for the 53,000 quintals of sugar sacrificed the recovery that we clocked is higher than in the last season
- Sanjay Manyal:** But from the next season onwards, what kind of sacrifice do you expect?
- Vijay S. Banka:** Next season, there will be larger diversion. In one plant, we will be totally doing it on B heavy basis. We estimate to produce 3.75 crores liters, of which 50% could be from B heavy, and in terms of sugar sacrificed it could be 150,000 quintals.
- Sanjay Manyal:** 15000 tonnes?
- Vijay S. Banka:** Yes metric tonnes.
- Moderator:** Thank you. The next question is from the line of Neha Gupta, an Individual Investor. Please go ahead.
- Neha Gupta:** Sir, are we using both the distilleries or sir, is only the 100 KLPD in operation?
- Vijay S. Banka:** No, at present only the 100 KLPD distillery is operational. Our 30 KLPD was already there. What was pending was the synchronization of 30 KLPD with 100 KLPD plant. We already have utilities set up for 130 KLPD. Some permissions are pending and we are therefore operating at 100 KLPD.

- Neha Gupta:** Sir, when do we expect to start using the 30 KLPD?
- Vijay S. Banka:** We expect to start soon, at least before the November we will be up and operational at expanded capacity.
- Neha Gupta:** Sir, before the next ethanol season?
- Vijay S. Banka:** Yes, certainly.
- Neha Gupta:** And sir, in our old distillery sir, do we have zero liquid discharge and the incineration boiler already in place?
- Vijay S. Banka:** No, the incineration and the CPU that we have set up for the new distillery is good enough to cater to the requirement of 130 KLPD which is for both 30 KLPD as well as for 100 KLPD. So there is no extra incineration plant or CPU plant requirement
- Neha Gupta:** No extra requirement sir?
- Vijay S. Banka:** No additional requirement.
- Neha Gupta:** So, both of them can operate at 330 days, sir?
- Vijay S. Banka:** 330 days would be little farfetched. 310 days would be a safe bet
- Neha Gupta:** And sir, how much ethanol do we expect to produce in FY21?
- Vijay S. Banka:** In FY 2020-21 we expect to produce about 3.75 crores liters.
- Neha Gupta:** And sir, I know it is a little far off but by FY22, when both the distilleries are operational, sir will we be able to do more than 4 crores liters?
- Vijay S. Banka:** Yes, we should be able to do more than 4 crores liters going forward, yes, that is our target.
- Moderator:** Thank you. The next question is from the line of S. N. Rajan, an Individual Investor. Please go ahead.
- S. N. Rajan:** Just 2-3 quick questions. My question is, can you throw some light on what is the position of the case that has been filed by the sugar manufacturers for the power tariff reduction? My personal view is, it is a losing battle because they are able to procure power at may be less than Rs. 3 also, why would they pay Rs. 6 per unit or whatever it is? And number two is, how long does it take for getting the money from the UP government for the power which is given under credit and also, does it take delay in getting the export subsidy because I am talking about receivables from state government and central government, And my last thing is, since we are into the business of sanitizers and it is an FMCG product and I hope you are doing it under our own brand name.

Would you be looking at, as a few are already having low sulphur sugar? Should we have some branded product as sugar for building on the Dwarikesh brand?

Vijay S. Banka: Well, answering your first question about the power tariff – As I had spoken in my earlier earning calls, the hypothesis of the order by which the prices were slashed is faulty. Number one, they are considering the bagasse cost at Rs. 1010 per metric tonne and in fact, they have reduced the basic price of the bagasse on the analogy that bagasse is generated by the sugar mills, so it should be compared vis-à-vis the pit head cost of the coal and not the transported cost of the coal to the plants. So the basic hypothesis is wrong. Number two, there were some technical errors also in the order. The writ that we have filed is a pretty strong on facts and also strong on the merits. We feel that jurisprudence should appreciate our point of view.

S. N. Rajan: And what is the validity of that old agreement if at all, if we win the case, all the sugar mills will get that tariff that was there?

Vijay S. Banka: No, tariff is announced once in 5 years.

S. N. Rajan: So will we have another 2 or 3 years left for that?

Vijay S. Banka: Yes, it became effective on the 1st of April 2019, so if we are getting any benefit, so it should be for 5 years period. Actually it is an administrative and a political call. We are requesting the Government to do justice. The state government has also got to look after the economic viability of the sugar mills. The viability of sugar companies would have definitely come down because of the reduction in the price of power. We are waiting as it is a three way decision, political, administrative as well as legal. And it is going to take time. We are keeping our fingers crossed. However as a measure of abundant precaution we are accounting for our power revenue based on the reduced power tariff. Your second question was on the amount receivable from the power company. As of now, we still have to get payment for the power evacuated by us in the month of March 2019. All our bills for February 2019 have been cleared and we have received some amount of payment for March 2019 also. There is thus inordinate delay but because of this largesse reportedly being doled out by the government for the DISCOM companies, we are little optimistic that maybe we should get substantial part of our power dues very shortly. However there can be slips between the lip and the cup. On the export incentives our experience is ok. We have been rather meticulous in collecting, compiling and filing all export claim documents. However there definitely is time lag. For example, under MIEQ, our obligation got completed by the month of June and got our payment not until October which actually is not very bad. However there are issues of budget allocation, etc. Under MAEQ 2019-20 for one unit we have got part payment. Budgetary allocation problem is definitely there but one should be very meticulous in compiling and filing the papers, which fortunately we have been doing it

S. N. Rajan: Sanitizer and your higher variety of sugar in premium one?

- Vijay S. Banka:** So far as sanitizers are concerned, like I mentioned earlier, we started this as a corporate social responsibility initiative because of the outbreak of pandemic as we are the natural producers of sanitizers as we produce sugar and generate molasses as byproduct from which we produce ethanol / alcohol and 80% of the feed stock of the sanitizers is the alcohol. We are thus natural producers of sanitizers and we can do it under stringent quality control environment and we use the right ingredients such that it is soft on the hands and effective on the virus. However it is early days and we are already seeing lot of competition. We feel that this business can be scaled up but we will have to wait and see. We are sure once the lockdown is lifted there is going to be huge surge in demand for sanitizer. We will establish this as a Dwarikesh brand as we are not looking to do any kind of contract manufacturing at this point in time.
- S. N. Rajan:** My question was simultaneously as co-branding, could you not look at sulphur free sugar?
- Vijay S. Banka:** We are not manufacturing sulphur free sugar sir, according to me, only Dhampur is manufacturing sulphur free sugar, rest of us are manufacturing the regular sugar, But yes, there is an opportunity for branding and selling. In fact, I was pleasantly surprised when I went to one of the shops in Bombay to see Mawana brand of sugar which is manufactured in UP. Earlier one could see only Madhur brand of sugar which is manufactured by Shree Renuka Sugar mills from its plant in Maharashtra. In other words Mawana sugar manufactured in UP has made inroads into the markets in Mumbai. Yes, we will do the needful in that direction.
- Moderator:** Thank you. We take the next question from the line of Ajay Patel, an Individual Investor. Please go ahead.
- Ajay Patel:** My question is only on the export subsidy, you have exported, and I think 9.6 lakhs tonnes totally?
- Vijay S. Banka:** Correct.
- Ajay Patel:** So export quantum of subsidy is almost 100 crores, how much you have booked in last year and how much is spillover to the next year?
- Vijay S. Banka:** Out of 9.61 metric tonnes that you are talking about export which we did, about 60,000 metric tonnes is out of the MAEQ obligation of this year. So on 60,000 metric tonnes of sugar exported export subsidy amounting to about Rs. 62.2 crores has been booked as other operating income in the current financial year. As far as MIEQ subsidy of the last year is concerned, if you recall it was production subsidy and hence it got reduced from the cost of production of sugar.
- Ajay Patel:** But then why is other operating income not showing that 60 crores?
- Vijay S. Banka:** No sir, what you are seeing in the published results is other income. There is a difference between other operating income and other income. Other income is income which is not related to the business per-se.

- Ajay Patel:** Now, my last question is, what was the valuation of inventory on 1st April 2019?
- Vijay S. Banka:** I don't recall how much it was sir.
- Ajay Patel:** Per kg, this year it is Rs. 28.9 per kg you said.
- Vijay S. Banka:** I don't recall sir, maybe I can get back to you separately on this.
- Moderator:** Thank you. The next question is from the line of Yashpal Madan, an Individual Investor. Please go ahead.
- Yashpal Madan:** I just want to know from you that if you compare the topline from last year same quarter Rs. 215 to 460 crores and previous quarter also, from Rs. 365 to 460 crores, if you can give me the comparison of year-on-year, what are the drivers for this much jump?
- Vijay S. Banka:** This year, our quota has been higher. So far as the total income is concerned for the quarter, this year our quota was better than what it was corresponding quarter last year. Secondly as mentioned we have exported 60,000 metric tonnes, Out of 12.28 lakh quintals of sugar sold in this particular quarter export is about 3.4 lakh quintals. So we had nearly 8 to 9 lakh quintals of domestic sales in this quarter, which is the reason we are having higher quarter-on-quarter sales. As far as the year on year sales is concerned, we have had more exports. The total quantity sugar sold is much larger, 38.78 lakh quintals vis-à-vis 31.77 lakh quintals. If I have to explain the profits for the last year as well as this year, last year we had the benefit of higher power tariff and then last year we had the benefit of one subsidy of Rs. 28 crores approximately which was received and accounted which actually pertained to the earlier financial year. It was announced and received in the FY 2018-19. .
- Yashpal Madan:** I am saying, if you compare in value terms year on year, how much was domestic sales and how much is this year's domestic sales in value terms?
- Vijay S. Banka:** So we have sold 38.78 lakh quintals of sugar vis-à-vis 31.7 lakh quintals in the previous financial year. Our average realization was Rs. 2968 per quintal vis-à-vis Rs. 2963 per quintal last year. Our total revenue from sale of sugar is Rs. 1151.04 crores vis-à-vis 941.29 crores last year. 29.17 lakh quintals was sold domestically in FY19-20 vis-à-vis 30.43 lakh quintal last financial year. Export sales is 9.62 lakh quintals vis-à-vis 1.34 lakh quintals in the previous financial year.
- Yashpal Madan:** Export is much higher basically?
- Vijay S. Banka:** Yes, basically export is much higher. Actually, the export policy is announced for the season as such and hence there is spillover or overlap. Not entire sugar under a particular quota is exported in the particular financial year. For example, our export quota under MAEQ 2019-20 is nearly 120,000 metric tonnes of which only 59,550 metric tonnes has gone out before 31st March and the rest of it hasn't gone out and you will find that in the results of June 2020 quarter. So there is thus an overlap, sir.

- Yashpal Madan:** And there will be even difference between both the quarters of subsidy book?
- Vijay S. Banka:** Yes, sir.
- Yashpal Madan:** So how much that will be?
- Vijay S. Banka:** Subsidy on the exported quantity, we have booked everything. I was explaining to a gentlemen a little while ago, that on 59,550 metric tonnes that we have exported Rs. 62.22 crores has been booked as other operating income. On the 9,61 lakh tonnes minus 59,550 metric tonnes, the subsidy that we have got pertained to MIEQ 2018-19 which was a production subsidy which has been reduced from the cost of production of sugar.
- Yashpal Madan:** Next question is, how had been the sale in current quarter during lockdown?
- Vijay S. Banka:** Sir, we have got a monthly quota of approximately 55,000 metric tonnes during this quarter and the entire balance export obligation will get exported in this quarter. So 55 plus 60 approximately (115,000 metric tonnes) is what should get sold in this current quarter. I was also explaining a little while ago that that the production numbers for the season 2019-20 are now frozen, the government obviously has to recalibrate and work out some increased quota for those of us who have produced more in Uttar Pradesh. So we expect higher quotas from July onwards.
- Yashpal Madan:** And how much had been the recovery for whole season?
- Vijay S. Banka:** Sir, vis-à-vis 12.31% last season. Our recovery this season is 12.26%. One may get an impression that there is a drop in the recovery but that is not the case. Nearly 53,000 quintals of sugar was sacrificed and used for making ethanol because of the B heavy route that we followed. Considering the same our SS 2019-20 recovery is close to 12.4% vis-à-vis 12.31% last year.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Vijay S. Banka for closing comments.
- Vijay S. Banka:** Thank you friends. Thank you investors. Earning call conference gives us a unique opportunity to share our thoughts with you and to answer all your questions and we are indeed grateful to you all for reposing trust and confidence in us. We will continue to do what is within our control, perform as good as possible, set exalted standards of efficiency etc. We will continue to do that and at appropriate intervals will get in touch with you with whatever developments and updates are there as far as company and industry is concerned. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Dolat Capital that concludes this conference. Thank you all for joining us and you may now disconnect your lines.