

Dwarikesh Sugar Industries Limited
Q2 FY21 Earnings Conference Call
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MANAGEMENT: MR. VIJAY S. BANKA - MANAGING DIRECTOR
DWARIKESH SUGAR INDUSTRIES LIMITED

Moderator: Ladies and gentlemen good afternoon and welcome to Q2 FY21 Earnings Conference Call of Dwarikesh Sugar Industries Limited organized by Batlivala and Karani Securities India Private Limited. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press '*' AND '1'. I would now like to turn the conference over to Mr. Anupam Goswami. Thank you and over to you sir.

Anupam Goswami: Good afternoon everyone, welcome to Q2 FY21 Earnings Conference Call of Dwarikesh Sugar Industries Limited. I will hand over the call to Mr. Vijay S. Banka, Managing Director at Dwarikesh Sugar Industries Limited for the opening remarks and then we will take Q&A, over to you Sir.

Vijay S. Banka: Very good afternoon Anupam, thanks to all the participants who have spared their valuable time and are attending this conference call. I once again welcome you all to the Q2 FY21 Earnings Call of Dwarikesh Sugar Industries Limited.

Our results have been published yesterday. I will quickly give you the snapshot of our Q2 FY21 results. In Q2, we clocked a turnover of Rs. 418.62 crores, with a profit before tax of Rs. 23.73 crore and profit after tax of Rs. 17.74 crore, as compared with the corresponding numbers of the same quarter last year where the turnover clocked was Rs. 177.12 crore, profit before tax of Rs. 3.73 crore and profit after tax of Rs. 4.73 crore. Obviously the numbers compare well. Even on half yearly basis, our performance in H1 FY21 is relatively better as compared to our performance of H1 FY20. Total income of Rs. 419 crore, an EBITDA of Rs. 47 crore and then EBDT of Rs. 34 crore, profit before tax of Rs. 24 crore and profit after tax of about Rs. 18 crore, this broadly the summary of our results of this quarter.

During this quarter, we have sold 11.32 lakh quintals of sugar, which includes exports of 1.99 lakh quintals of sugar. We exported mainly white sugar during this quarter. This is as compared to 5.22 lakhs of total sugar sold during the corresponding quarter last year. We have had no exports of sugar in the corresponding quarter last year. So in terms of volumes we have done better than last year. On a half yearly basis 23.88 lakh quintals of sugar has been sold, which includes 8.05 lakh quintals of exports corresponding to 17.29 lakh quintals and export of 3.66 lakh quintals in the previous half year last year. We have totally exported about 140,000 metric tons of sugar under the MAEQ scheme announced by the government of India. On 30th September, we have had more or less similar stock levels; 17.66 lakh quintals vis-à-vis 17.15 lakh quintals on the same day last year. We have made a small beginning in stabilizing the operations of our distillery and from hereon we should have a better run rate. During the quarter, the quantity of ethanol sold is nearly 90 lakh liters and in the half year it is 133.46 lakh liters, compared to 9.92 lakh liters and 37.92 lakh liters respectively in the corresponding periods last year. The ethanol that we sold in the quarter was totally made out of C-Heavy molasses. We have completed the expansion of our distillery capacity from 100 to 130 KLPD. Some approvals are awaited and it is just a matter of time and we should start operating at higher run rate from November-December onwards. Ethanol season typically commences on the 1st of December and ends on the 30th November. During this season, we are targeting to produce and sell about 4.5 crore liters of ethanol, all made from B-Heavy molasses. This will

be a significant step in our endeavor to improve our top line as well as the bottom line. Our loan profile is lean and trim, as it was in the earlier quarters. All the term loans that we carry are subsidized loans. We have a term loan due to the state government which is about Rs. 100 crore which bears an interest rate of 5% and we have a distillery loan of Rs. 117 crore on which the coupon rate is also subsidized. For long-term debt, rating recorded by ICRA is A+ and for short-term debt of commercial paper program, it is highest rating of A1+.

Our crushing season has commenced at two of our units in Bijnor district on the 31st of October and in the third unit which is in Bareilly district we shall be commencing crushing operations from 7th of November 2020. We expect the ensuing season to be a reasonably good season. Last season, we crushed about 374 lakh quintals of sugarcane and this season the number should be slightly higher if not the same because the area under sugarcane plantation is better. However much will depend on how the weather conditions are from here onwards and the same will determine the yield that the farmers will get at their fields and also the recovery pattern at mills. We expect the season to be good in as far as recovery is concerned. Much though I would hate to admit that we have plateaued but it seems a fact although we will continue with our efforts to improve our recovery as much as it is possible. To sum up, we are poised for a reasonable run in the future.

On the policy initiatives, there are lots of expectations from the Central government. Both the Central government and the State government have been very supportive of the industry. However some initiatives from the Central government have taken longer time than expected viz. export policy for the season 20/21 and the subsidy for the same, minimum selling price (MSP) of ex-factory price was supposed to have been increased from Rs. 3100 to Rs. 3300 a quintal which was long ago approved by the group of Ministers but has not yet seen the light of the day. We expect that it is also announced soon. Buffer stock subsidy is another important initiative for regarding which we hope the government takes action very quickly. Lastly and the most important is the early disbursal of all the subsidy claims that we have parked with the government for exporting sugar in season '19-20. All these initiatives, if taken well in time will improve our cash flows and will of course augur well for the industry as the country is still reeling under the impact of heavy stocks, (higher stocks of almost 11 million tons at the beginning of season 2020-21). So, it is very important that at least about 6 million tons of sugar is evacuated out of the country during SS 2020-21. More and more sugar mills have made a very encouraging beginning in use of B-Heavy molasses for making ethanol, as the same will result in sacrifice of sugar production in favor of ethanol. As far as the state government is concerned, we expect them to announce the SAP for season 20/21 very quickly. We are keeping our fingers crossed and awaiting early announcement of all these measures.

Thank you very much and I would request you to please ask me questions and I am ready to answer.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press '*' and then '1' on your phone and await your turn to ask the question when guided by me. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing '*' and then '1' again. We have first question from Mr. Arvind Joshi from Bateleur Advisors, Mr. Joshi you can go ahead.

Arvind Joshi: Good afternoon Sir. I just wanted to understand what would be the economics of opting for molasses B route, any additional capital expenditure will have to be incurred over the molasses C route and whether plant and machinery would be identical and can be used for molasses B route?

Vijay S. Banka: Very good afternoon, sir. There is no additional capex required for this, the plants that we have installed is good enough for C-Heavy as well as B-Heavy. On the contrary when one operates the plant with B-Heavy molasses as the feedstock the run rate is higher and one can go beyond the 100% capacity utilization. So, as the operations of the plants are concerned, B-Heavy molasses is a friendlier feedstock

Arvind Joshi: Okay and no line balancing equipment is also required for additional throughput?

Vijay S. Banka: Very little, all that has been taken care of.

Arvind Joshi: Oh great and sir also I wanted to understand are we converting our press mud to CBG because that is also opening up as a big opportunity to get rid of a large problem area of the sludge that is left behind and has to be sold as fertilizer. So are we opting to convert that into CBG too, at a later date?

Vijay S. Banka: No, not yet but we have taken another small yet significant step in our distillery. We are capturing the emission of carbon dioxide gas and the same is being sold on commercial basis. So no carbon dioxide is let out in the air and thus is an environment friendly step. The amount that will add to our top line as well as bottom line though will be miniscule but then is a welcome step nonetheless. As far as press mud is concerned, presently we are giving to our farmers. The project that you spoke about has potentially not much of value addition. I am sure things will get better and there is more clarity, we will also embark upon the same

Arvind Joshi: And sir, finally looking at the brighter days' ahead for the sugar industry, are you looking at increasing your throughput for crushing capacity, will the crushing capacity be increased over a period of time whereas increasingly it will be quite profitable to have more and more sugarcane crushed?

Vijay S. Banka: No, every off season we spend some money for enhancing efficiencies and for debottlenecking our operations. This exercise happens year after year. So, if you have seen our crush rate has already increased. For example if in a plant our capacity is 7500 TCD, earlier we may have operated at 6,500 TCD or so which has now gone up to 7,000 TCD. This is how we have improved our capacity utilization. And in so far as adding another sugar mill is concerned it is not required because in our existing plants we are trying to achieve vertical growth .

Arvind Joshi: Sir is acquiring sick mills have attractive options now?

Vijay S. Banka: Sir we do not have that appetite for that as of now.

Moderator: Thank you Mr. Joshi, sir we have our next question from Mr. Archit Joshi from Dolat Capital, Mr. Joshi you can go ahead.

Archit Joshi: Hi sir, thanks a lot for the opportunity. On the earlier comment that you made about certain actions that we are expecting from the Central government, I think on Friday we have seen our Food and Commerce Minister saying that they may not have any direct intent of extending the sugar exports subsidy for 20/21, any comments on that sir? Is that an official news or so ordinance has already been passed, what will be the impact of that?

Vijay S. Banka: Yes, this was the initial remark of the Honorable Minister but if you have seen his subsequent tweet, he has mentioned that he is in the process of evaluation of the difficulties, problems and challenges faced by the Indian sugar industry and I am sure in the process of evaluation it will definitely become very clear that the immediate problem of the industry is to evacuate the excess stock which the country is carrying. I am hopeful that some positive action will happen on this front although we had wished that this scheme was announced in September itself, so that we could all have geared up our production planning and calibrated our production processes to manufacture raw sugar because in international market raw sugar is the one which sells the most. But we can still make subtle changes in our plant operations and manufacture raw sugar as and when the policy is announced.

Archit Joshi: Right sir, just one addendum to the same question sir, if suppose the export subsidies do not come through and the opportunity that we had to offload the incremental sugar that we are producing in the exports market, will there be a revision in the monthly release quota, so that we can sell the same amount of sugar in the domestic market?

Vijay S. Banka: I think so. It would be a very natural corollary because quotas are determined based on the stocks that the sugar mills are carrying and the production of sugar, etc. Technically speaking, if the exports do not happen, which I do not think will be the case, the entire equation of releases will undergo a change because the government will release only as much quantity as the country requires and will release only as much quantity which will not induce any big drop in the sugar prices. So releases of all sugar companies will undergo a change but I hope and pray that it will not happen.

Archit Joshi: Right sir, just another clarification, you said that 4.5 crore liters is the target for the year in terms of ethanol production that we are planning to manufacture entirely from B-Heavy molasses, so my question is, is this allowed earlier I think there was an allocation for C-Heavy molasses based ethanol and B-Heavy molasses based ethanol and diversion of entire sugarcane towards manufacturing B-Heavy molasses was not allowed, please correct me if I am wrong on this part?

Vijay S. Banka: No, if you have heard the announcements coming from various government officials of food ministry, they want us to use more and more B-Heavy and even if possible, make ethanol out of sugarcane juice directly. The idea is to have lesser sugar production, so that this problem of burgeoning stock is not there on the government and also on the industry. Therefore, it should not be an issue at all

Archit Joshi: Right sir, thanks. Sir one last question, if you can give us a breakup of what the sugarcane arrears and its bifurcation in Maharashtra?

Vijay S. Banka: I do not know about Maharashtra. In UP sugarcane arrears today stand at around Rs. 6600 to 6700 crore mainly made up of dues of few select companies. As far as other companies are concerned the values are insignificant.

Moderator: Thank you Mr. Joshi. We have our next question from Mr. Gaurav Dhavel from Systematix Shares. You can go ahead.

Gaurav Dhavel: A very good afternoon sir, I have a couple of questions. First of all, I would like to know how much was the inventory in the last quarter sir and what was the valuation?

Vijay S. Banka: On 30th of September, 2020 we were carrying inventory of 17.66 lakh quintals of sugar vis-à-vis 17.15 lakh quintals of sugar that we carried on the corresponding date last year. The stock of 17.66 lakh quintals was valued at Rs. 3015 per quintal.

Gaurav Dhavel: Okay and in this current quarter have we accounted export subsidy and how much was it is?

Vijay S. Banka: We have exported about 1.99 lakh quintals in this quarter, so as much as it is related to this quantity the subsidy gets accounted.

Gaurav Dhavel: So, that is being accounted in this last quarter

Vijay S. Banka: Yes, on accrual basis. MIEQ scheme was different and sometimes was accounted by way of reduced in the cost of production and now (MAEQ subsidy), it is directly accounted as other operating income.

Gaurav Dhavel: Okay and sir my last question is do we have a plan for new ethanol plant or what do you see the future the industry?

Vijay S. Banka: Not yet. The future of ethanol though is very bright. In the coming ethanol season we will have a much better run rate than in the last ethanol season. The plan is to use more of B-Heavy molasses. Two out of our three sugar plants will be running entirely to generate B-Heavy molasses. In doing so we will sacrifice significant quantity of sugar production. Then we are left with the third plant where we will generate C-Heavy molasses. The plan to fulfill our Levy Sales obligation from the molasses generated in this unit. UP Government's policy is that 18% of the molasses generated is to be given for Country liquor purposes and 18% is to be computed on assuming molasses generation of 4.85% of the total sugarcane crushed or the actual molasses generation, whichever is higher So the plan is to fulfill levy obligation of the entire group from the molasses generated in this unit. Balance molasses will be sold. We also have an option generated B heavy molasses from this unit, if required.

Moderator: Thank you Mr. Gaurav. We have next question from Mr. Sanjay Manyal from ICICI Securities. You can go ahead sir.

Sanjay Manyal: Just wanted to know what would be the sacrifice of sugar this season when we go to B-Heavy?

Vijay S. Banka: Last season we sacrificed approximately 53,000 quintals of sugar in favor of Ethanol. Last season was just the beginning. The plan now is though subject to change if warranted by the circumstances is to run two of the plants entirely on B-Heavy molasses and if we do so we will sacrifice about 3.5 lakh quintals of sugar. So, vis-à-vis 53,000 quintals we will sacrifice approximately 3.5 lakh quintals of sugar in the coming season.

Sanjay Manyal: Right sir and what could be the crushing this season over last year we produced 4.5 lakh tons, what is the expectation this time. What kind of crushing and what would be the production of sugar this year?

Vijay S. Banka: In my introductory remark I mentioned that as against 374 lakh quintals that we crushed last season we maybe crushing marginally more sugarcane in the season 2020-2021. Assuming the same recovery rates, it is anybody's guess how much we will produce. If the numbers are same and 375 lakh quintals of sugarcane is crushed and if the recoveries are

the same and assuming sacrifice of 3.50 lakh quintals of sugar which means we will be sacrificing 3 lakh quintals, then we could produce approximately 42 lakh quintals / 4.2 lakh MTs of sugar.

Sanjay Manyal: Right sir and any plan of capacity addition from the sugarcane juice to ethanol and what is the dynamics according to the new pricing?

Vijay S. Banka: No, we don't have any plan yet. I had also mentioned in my earlier earning calls that producing ethanol from juice directly requires huge CAPEX in so far as ramping up distillery capacities are concerned. So, we will first want to optimally utilize our existing distillery capacity which is 130 KLPD and thereafter take the next logical step. For sugarcane juice usage directly for making ethanol there are no technical barriers as such but capacity will have to be ramped up.

Sanjay Manyal: Right sir and so you would be able to exhaust your entire molasses or will there be anything left that you would be selling?

Vijay S. Banka: We may have some balance, we will have to wait and see. Our idea is to run the distillery to the maximum extent possible. So, well our rated capacity is 130 KLPD and we will try and see how much we can maximize, if we can maximize our production and do better than what our targeted production and sales number is we may end up using little more molasses captively from the 3rd unit also.

Moderator: Thank you Mr. Manyal. We have next question from Mr. Ritesh from Girik Capital. Mr. Ritesh you can go ahead.

Ritesh: Sir if our opening inventory is about 11 million tons and production is somewhere 31-32 million tons, will we have another inventory going up at the close of the season if there is no exports?

Vijay S. Banka: Yes.

Ritesh: So, in that situation export subsidy has to come, otherwise sugar price cannot sustain even at the MSP level?

Vijay S. Banka: Yes, I agree with you totally.

Ritesh: Sir a few days back there was this announcement of Rs. 63 per liter from 100% juice, so I believe if it is 63, so effective sugar price is Rs. 37-38 in that case?

Vijay S. Banka: No, I haven't looked at that. We have no plans of making ethanol directly from sugarcane juice immediately and therefore I have not looked at the economics of the same. As far as B-Heavy molasses is concerned as you are aware the price has been increased by Rs. 3.34 per liter. While at the earlier price, equation was at Rs. 3100 per quintal of sugar now the increased price of ethanol will equate to as sugar price of Rs. 3300 per quintal

Ritesh: Which is the current ruling price, right?

Vijay S. Banka: Yes, current ruling price is around that much.

Ritesh: Okay when do you expect export will be allowed or this subsidy will come in again?

Vijay S. Banka: I think this has taken longer than usual. We have seen in the past. The government has been nimble-footed and they have announced policy early and well in time. Last export policy was announced in September 2019. Perhaps because of the outbreak of COVID pandemic the process is delayed. Having said that I must also say that government is also very well aware that unless sugar is evacuated out of the country, there is going to be a big problem causing strain on the industry, mores so as the same will have cascading effect. The MSP will find it difficult to hold the fort and the cane price payment will obviously get delayed. So these are the immediate consequences of exports not happening. I am sure some reconsideration and rethinking on this will happen and exports will be allowed very soon.

Ritesh: Sir, what is the farthest date for this to be done otherwise you have to put the panic button on?

Vijay S. Banka: We understand that immediately after Diwali we may expect some announcements. Although it is already late, but even now, we can make subtle adjustments in our production planning and start manufacturing raw sugar and enter into deals. The international prices also see well at this point in time. So let us wait and see.

Ritesh: Sure and sir one last question, this is going to be a problem that the sugarcane yield would be good and output also will be good because as it gives the highest profit to farmers. So what is the solution of it?

Vijay S. Banka: There are two issues; one of the short term which is the high stock levels that we are carrying. This can be addressed by incentivizing exports for at least the next two to three years. The government has very correctly identified that ethanol learning program is 'The Program' for the future and they are providing necessary impetus for this program. There will be significant increase in the ethanol supplies that we are expecting in the coming season. However this number will gradually go up. While we expect a sacrifice of 2 million tons of sugar in favor of ethanol in season 20/21, this number can be higher in the coming seasons. So, a combination of all these measures should pull the industry back on rail.

Ritesh: Sir is anyone putting 100% juice to ethanol plant?

Vijay S. Banka: Yes, of course they are doing. In Karnataka, there is a sugar mill which dedicated a portion of its crushing capacity totally for generating sugarcane juice from which they made ethanol and it was a very successful experiment.

Ritesh: So, this season we will have something from 100% juice plant?

Vijay S. Banka: Yes, more, data is available and our association comes out with the data regularly as to how much of ethanol was made from juice directly, how much from B-Heavy, how much for C-Heavy. These numbers are available in the public domain.

Ritesh: Sure and sir, anyone doing in UP?

Vijay S. Banka: I am sure people will try this time. Our first objective is to maximize and optimize our existing capacity. Once this is taken care of, we will take the next logical step.

Moderator: Thank you Mr. Ritesh. So, we have next question from Mr. Shree Shankar from Influence Capital, you can go ahead, Sir.

Shree Shankar: Good afternoon, Mr. Banka. My question is, in the global environment because of this COVID-19, how much is the sugar demand growing as per your perspective? Second is, because of the excellent monsoon that we have had, we can safely expect that sugar production in India also will be robust for next season, as such. In this environment, how do you see the global as well as the Indian environment leading towards? A lot of, or rather increasing lot of produces will be going for more of an ethanol production, if that is possible?

Vijay S. Banka: Yes absolutely it is possible. Let me explain it to you. Globally, 19/20 was a deficit season and 20/21 is expected to be again a mildly surplus season. However globally we are carrying stock equal to almost six and a half months of consumption of sugar. So that is an obviously large number. In India as you rightly said we are going to have bumper production of sugar in season 20/21 and maybe 21/22 as well. As far as demand destruction is concerned, because of the outbreak of COVID-19, we have suffered a demand destruction but the amount was not very substantial. While initially it was felt that the demand destruction could be about 1.5 million tons but eventually it was about 1 million ton or so. We are seeing India's consumption numbers being close to about 25.5 million tons to 26 million tons. Now, there is a definite requirement for us to step up our consumption. As far as our per capita consumption of sugar in India is concerned, it is about 17 kgs or so against a global average of 21 kgs, so there is huge scope for improvement in consumption of sugar. Therefore our association has launched a campaign to speak about the good effects of sugar. There has been lot of negative publicity in the past on the consumption of sugar, hence effort is made to break that myth and say that sugar consumption is after all very good. Similar efforts are being made in other countries as well. Other countries are also very enthusiastic about ethanol blending programs. May be it is not caught up in a big way in Thailand but generally the ethanol blending program is gathering momentum and I am sure in the times to come, sugar companies will be predominantly ethanol companies and also making sugar.

Shree Shankar: Like in Brazil, yes.

Vijay S. Banka: Yes absolutely. So, sugar companies deserve to be re-rated.

Shree Shankar: Sir when you mentioned 17 kgs per capita consumption, I presume this is sugar including Khandsari and Jaggery or is it only sugar?

Vijay S. Banka: It is only sugar, sir.

Shree Shankar: What is our consumption per capita including sugar, Khandsari and jaggery that we tend to consume?

Vijay S. Banka: I know that, we tend to consume that but I would not have that number with me right now but comparatively consumption of Khandsari or jaggery is much lesser. Sugar is a major sweetener consumed in the country. I do not think the Khandnsari sugar consumption and jaggery consumption is any significant at all.

Moderator: Thank you. So, we have next question from Mr. Udit Gupta, an individual investor, Mr. Gupta you can go ahead.

Udit Gupta: Good afternoon Sir. How many days is a distillery allowed to operate, the permission that we had?

Vijay S. Banka: Typically excise gives us license assuming that we will run the distillery for 350 days.

Udit Gupta: Okay sir but earlier it was 330 days, right?

Vijay S. Banka: Earlier it was lesser, I do not recall what it was earlier. But now typically the excise gives permission assuming that one would operate for 350 days which is very much possible if one uses B-Heavy molasses as the feed stock. If one uses C-Heavy molasses as feed stock then it would be difficult. Let me explain to you technically; the effluent generation is higher in case of C-Heavy molasses and therefore the slop burning, the incineration, etc. will work with higher load.. I have mentioned in my previous remark that B-Heavy molasses is the more friendly feed stock as far as the distillery is concerned.

Udit Gupta: So, if we use B-Heavy then 350 days is possible for us.

Vijay S. Banka: 350 days is possible, yes.

Udit Gupta: And sir, we are looking at doing only B-Heavy this season.

Vijay S. Banka: Yes. The plan is to do exclusively B-Heavy.

Udit Gupta: Okay and sir, you also said that the effective capacity goes up if we use 100% B-Heavy, sir then what does our effective capacity becomes, like if it is 130 KLPD?

Vijay S. Banka: No, that again is subject to the approvals from the various departments in the government but safely one can operate at 110% capacity.

Udit Gupta: And sir, this 18% of the quota that we need to give for these alcohol companies, do we give that as molasses or do we make ethanol and give it to them?

Vijay S. Banka: No, one can make ENA and give. If you supply ENA the value addition is definitely there. Else one can sell molasses for levy purpose which gets sold at approximately Rs. 120 per quintal

Udit Gupta: What other companies normally do, does it give molasses, or does it give the ENA?

Vijay S. Banka: It depends, if the companies are more focused on producing only ethanol out of B-Heavy in their distillery plant, they would rather give molasses while some produce and give ENA. So, some kind of trade off has to be arrived at.

Udit Gupta: So, there is nothing hard and fast as such.

Vijay S. Banka: No nothing.

Udit Gupta: And Sir, after this expansion is done what is the processing cost of ethanol now for us, must have fallen?

Vijay S. Banka: If we have a good run rate obviously the conversion cost will be lesser and the same can be about Rs. 10 per liter.

Udit Gupta: It can be, going forward like next season it should be around Rs. 10 per liter.

Vijay S. Banka: Yes, but if one has a checkered run rate and lower capacity utilization, obviously the cost of conversion will go up.

Udit Gupta: I get it. And sir in the off season we do some annual maintenance work, in our plants?

Vijay S. Banka: Of course, in the sugar plants, almost about five to six months are used for carrying on off season maintenance.

Udit Gupta: How much is the cost approximately for us for that sir, it would be a significant cost amount?

Vijay S. Banka: No, see it all depends on the age of the plant. Older the plant, the cost is obviously higher. If the sugar plant is younger the cost will be lower. Typically, sugar mills based on their experience in the last crushing season carry out repairs & maintenance. If in the last season they have experienced any bottlenecks or if they have faced any frequent problems the attempt is to ensure that those bottlenecks are debottlenecked in the off season, Reasons for frequent stoppages, interruptions in production any are identified and taken care of their lasting solutions are found. So, some modification jobs are also taken up based on the experience that sugar mills had in the previous season. Besides this the regular maintenance is always there.

Udit Gupta: So, sir what would be the amount that we would have just done in this off season?

Vijay S. Banka: See regular maintenance cost is about approximately Rs. 15 a quintal of bag produced. Additionally we have may identified jobs which may cost us few crore of rupees. It all depends on the experience of previous season. Plus we also take up some efficiency enhancement repairs & capex. So there is nothing definitive about how much cost is incurred.

Udit Gupta: For this year, can you tell me the figure, we would have just completed it?

Vijay S. Banka: I would not know it off hand, I can check and get back to you on that.

Udit Gupta: Okay sir and is that full amount already charged in the September quarter or does it gets carried forward?

Vijay S. Banka: Every single penny incurred has been charged.

Udit Gupta: Has already been charged in the September quarter, itself.

Vijay S. Banka: Yes, we do not carry forward any uncharged expenditure.

Moderator: Thank you Mr. Gupta. We have next question from Mr. Anupam Goswami from B&K Securities, Mr. Goswami you can go ahead.

Anupam Goswami: Given a good run rate of sugar quota during this first two quarters, what is your guidance on the rest of the six months, what are we looking at for the FY21?

Vijay S. Banka: Most important factor is the announcement of the export policy as I had explained to one of the participants. If there is no export, then obviously the entire quota which is now being allocated will undergo a redistribution. From the higher amount of stock the same

quota is to be allocated. However if export policy is announced and if we make an apple to apple comparison, we will stand to benefit in the coming season, because we will also get the benefit of predominantly using B-Heavy molasses for making ethanol. So, some weightage we will get for that and our quota can get better.

Anupam Goswami: Okay, sir my next question is on the average realization of the distillery you have achieved on this quarter, sir. And what kind of breakup or how much liters in 9 million liters that you have mentioned, how much would be for B-Heavy?

Vijay S. Banka: No, the entire quantity of ethanol that we sold was made from C-Heavy molasses and therefore the realization is around Rs. 43-44.per liter

Anupam Goswami: Okay.

Vijay S. Banka: It was manufactured from the molasses that we generated in season 2019-2020. Whatever B-Heavy molasses we generated and whatever ethanol we made out of that, was already sold in the previous quarters. So, in this quarter, whatever has been sold has been made from C-Heavy molasses.

Anupam Goswami: Okay, you mentioned there was a slight slow pickup of ethanol by the OMCs, how has that progressed now, sir?

Vijay S. Banka: No, that has become near normal now. We faced disruptions in the first quarter because our nearby depots were full and their tanks were overflowing. So there were distribution issues in the first quarter. But things have become normal and about 90 lakh liters of molasses that we have sold in Q2 bears testimony of the fact that the things are back to normal.

Anupam Goswami: Sir my last question is on your debt repayment plan in FY21 as well as in FY22?

Vijay S. Banka: See we have no plans to pre-pay our debts, for the simple reason that our term debt that we are carrying is all subsidized debt, There is one debt of about Rs. 100 crore which is from the state government which is at 5% rate of interest, The total loan amount that we availed was Rs. 134.48 crore and it was repayable in 60 monthly instalments commencing from July 2019. So all due monthly instalments were paid on time. The distillery loan is of Rs. 117 crore is repayable in 20 quarterly installments commencing from 31st March, 2021. Presently we are under moratorium period. Other than these two, we do not have any other term loan obligations.

Moderator: Thank you Mr. Goswami. We have next question from Mr. Pratik Tholiya from Elara Capital, Mr. Tholiya you can go ahead.

Pratik Tholiya: Yes, thanks for the opportunity and sir congratulations on a very strong set of numbers, even in fact on the balance sheet also I can see your healthy debt reduction, I think which is mainly coming on the back of reduction in your working capital very encouraging numbers here from your company and congratulations on that. Sir my first question was actually just the continuation of the previous say, you have mentioned that almost 9 million liters that you have sold this quarter is only C-Heavy, correct?

Vijay S. Banka: Correct.

Pratik Tholiya: Sir any idea to understand the exact reason why would you go for only C-Heavy and not?

Vijay S. Banka: Yes, the last year was our first year of operations of expanded distillery capacity to 100 KLPD, right. So we had no experience of making ethanol out of B-Heavy molasses and accordingly we had bid for smaller quantity of ethanol from B-Heavy molasses and more was from C-Heavy molasses. However with the experience that we have gained, we have become wiser and are bidding for B-Heavy molasses made ethanol. We have some stock of C-Heavy molasses that we are carrying from the last season and we will use up and make ethanol out of that. So hereafter the focus is going to be on making ethanol from B-Heavy molasses.

Pratik Tholiya: So, we can expect 80%, 85% would be from B-Heavy?

Vijay S. Banka: Even higher than that.

Pratik Tholiya: Okay understood and sir secondly on the export front, India is currently not entering export market, so what are the prevailing export prices right now, global prices of sugar?

Vijay S. Banka: 15 cents per pound. It has been oscillating between 14.5 to 15 cents.

Pratik Tholiya: That roughly would translate into somewhere around Rs. 23000 per kg.

Vijay S. Banka: It will translate to about USD 345 a metric ton, so Rs. 25,000 on FOB delivery. But you never know, once Indian government announce exports the international prices could see a big swing one way or the other.

Pratik Tholiya: Downwards.

Vijay S. Banka: Mostly downwards.

Pratik Tholiya: Sir that was my actually next question that suppose the Indian inventory does not hit the global market, so how much can these global prices go up so that our industry can directly, and at least some of the industry players can directly export at that those prices without even needing government subsidy?

Vijay S. Banka: I am not an expert to say how much the prices can reach but I have spoken to some experts who were of the opinion that if Indian government defers on announcing the export policy the international prices could touch 16 cents per pound. So maybe 1 cent more than what it is currently prevailing. It can go up a little more from these levels. . White sugar prices presently prevailing is around Rs. 400 USD per metric ton which for 45 or lower than 45 ICUMSA sugar. This price again can go up if no export policy is announced

Moderator: Thank you Mr. Tholiya. We have our next question from Mr. Jaspreet Singh from B A Capital, Mr. Singh you can go ahead.

Jaspreet Singh: Mr. Banka good evening. Sir, if I correctly understand in one of your comments, you mentioned that we can run the ethanol plant for 350 days at 110% capacity?

Vijay S. Banka: It is like this. The state excise gives us permission to run the plant for 350 days on the rated capacity. So, if my rated capacity is 130 KLPD, they give me permission to

produce ethanol up to 130 kilo liters x 350 days. Mostly plant have in-built capabilities to produce 10% more if one uses B heavy molasses. However permission is required from the state excise authority as well as the pollution control board to operate at higher capacity

Jaspreet Singh: Okay, yes. So, do we have the permissions for this?

Vijay S. Banka: No, we will be applying for it.

Jaspreet Singh: Okay, getting in this season would be easy, is it?

Vijay S. Banka: Here again there is a bit of a technicality. For excise purposes the year ending is on the 31st of March. One can always take advantage of that.

Jaspreet Singh: Okay, and sir secondly could you please briefly touch upon the ideology of converting, the method of converting B-Heavy from direct sugarcane juice into ethanol, is it, how much is the capex required and what will be the kind of days which are required for that?

Vijay S. Banka: The technology is by and large the same. If a plant is capable of using C-Heavy molasses and making ethanol out of the same, it can as well use B-Heavy molasses and also juice for making ethanol. All you need is storage tanks, pipelines, etc. for changing the feedstock. However for using juice one needs larger distillery capacity. For example if one of our plants where our distillery is located if our capacity is 6500 TCD plant and distillation capacity is 130 KLPD, and if we only have to use juice then 130 KLPD can support a crushing of only 2500 TCD per day and that again can happen only during season, If one wants to use juice for making ethanol one will need very large distillation capacity.

Moderator: Thank you Mr. Singh. Sir, we have next question from Mr. Anupam Goswami, Mr. Goswami you can go ahead.

Anupam Goswami: Hi sir, wanted to know your molasses transfer price this quarter.

Vijay S. Banka: It is the same for the entire season as such, it is Rs. 300 for C-Heavy molasses and Rs. 625 for B-Heavy molasses per quintal. So, this is based on the sugar content and it is eventually linked to the ultimate output of ethanol.

Anupam Goswami: Have you received your export subsidy for the previous quarter?

Vijay S. Banka: No, we have not, out of our claims of Rs. 145 crore of exports subsidy, and we have received only about Rs. 27 crore, Rs. 118 crore is still receivable.

Anupam Goswami: And sir, lastly on the export side what is your view, will that be announced anytime in December or if that has less chance now, given that the sugar quota is also you have mentioned and a higher sugar quota have been coming out, so what is your chance in that?

Vijay S. Banka: We hope and pray that sugar export policy is announced because that alone is the solution for evacuating surplus stock that the nation is carrying.

Anupam Goswami: Even if that is announced with subsidy like last year 10.44 per kg?

Vijay S. Banka: Well it depends, one cannot step into the shoes of the government and visualize how much subsidy they will give.

Moderator: Thank you, sir there are no questions in the queue now. Now, I would like to hand over the floor to Mr. Anupam Goswami, you can go ahead sir.

Anupam Goswami: Thank you everyone for participating in the call, I will hand over to Banka sir for the closing comments, over to you, sir.

Vijay S. Banka: Thank you everyone for participating in this call. Our company is indeed grateful to you all for providing us guidance and valuable support from time to time and also for the confidence that you have reposed in us. Sugar industry as you are all aware is a highly regulated industry, not just in India, world over it is a highly regulated industry. We are dependent on multiple policy initiatives that the government announces from time to time to prop up the fortunes of the industry so that the payment to the farmers is made on time. We on our part have control over very few things such as operating efficiency, tight fiscal control and management, which we do to the best of our abilities. Within the leeway that we enjoy, we shall strive to turn out the best possible performance. Thank you very much once again for supporting us.

Moderator: Thank you Ladies and gentlemen. This concludes your conference call for today. We thank you for your participation and for iJunxion Conference Service. You may disconnect your lines now and have a great day ahead. Thank You.