



“Dwarikesh Sugar Industries Limited Q3 FY-21 Earnings
Conference Call”

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DOLAT CAPITAL



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MODERATORS: MR. ARCHIT JOSHI – DOLAT CAPITAL MARKETS

Moderator: Ladies and gentlemen good day and welcome to the Dwarikesh Sugar Industries Limited Q3 FY21 Earnings Conference Call hosted by Dolat Capital Markets. 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 ‘*’ 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 Markets. Thank you and over to you sir.

Archit Joshi: Thanks Steven. Good afternoon everybody. On behalf of Dolat Capital, I would like to welcome you all to the 3Q FY21 earnings conference call of Dwarikesh Sugar Industries Limited. We have with us today Mr. Vijay S. Banka, the Managing Director of Dwarikesh Sugar Industries Limited. Thanks a lot sir for giving us the chance to host this call. Without further ado, I would like to hand over the floor to Mr. Banka for his opening remarks post which we will have a round Q&A session. Thanks and over to you sir.

Vijay S. Banka: A very good afternoon to you all. A very warm welcome to you all to the Q3 FY21 earnings call conference. Our results are already with you. I must confess that it has been a bit of a challenging quarter for us, although we have clocked higher total income. Our total income was Rs. 385.19 crores and for nine months period it was Rs. 1245 crores. Our PAT for the quarter of Rs. 7.47 crores compares well with the PAT we clocked in the corresponding quarter last year. On nine-month basis also, our results are better as compared with the corresponding nine months numbers of the last year. At the given numbers for the quarter the growth in the total income is 20% and the growth in the profit after tax is 65% and if you take the nine months results into consideration, the total income at Rs. 1245 crores is 42% more than the total income of the nine months period for the last year and profit of Rs. 43.31 crores is 48% more than the profit of the corresponding period last year.

ISMA has come out with the production estimate numbers just a week ago. We expect to produce in the country about 30.2 million tonnes of sugar which is after considering sacrifice of about 2 million tonnes of sugar in favor of ethanol by way of the use of B-heavy molasses as well as sugarcane juice directly. The prices of sugar have been a bit under pressure, mainly because the releases were high in the last three months. The government has tried to regulate the same by ordering lesser release for the month of February. I think the prices should get better from here onwards.

Government of India has announced export policy for the season 2020-21. They have targeted to export about 6 million tonnes of sugar. Maximum admissible export quota of ours is about 7.95 lakh quintals and we have contracted to export the entire quantity and the dispatchers are underway. The subsidy amount though, as you're all aware has been reduced from Rs. 10,448 per metric ton in the last season to Rs. 6,000 a metric ton. Considering the fact that the international prices are better, I think, all mills have a reasonably decent realization in selling sugar in the export market.

During the quarter we have sold about 10.8 lakh quintals of sugar as compared to 9.21 lakh quintals in the corresponding quarter last year which included 2.55 lakh quintals of sugar for export. Thus our sales volumes are better. In the nine months period, we have sold about 34.26 lakh quintals of sugar against 26.5 lakh quintal of sugar sold in the previous year's nine months period. As on 31/12/2020 we were carrying an inventory of 19.49 lakh quintals which is a little less than what we're carrying on the same date last year. The inventory is valued at Rs. 30,900 a metric ton. We have sold industrial alcohol of about 5,553 kilo liters. We would have liked to maintain a run rate of about 10,000 kilo liters per quarter. But there were some logistical issues with the OMCs. We were initially allotted ethanol for Delhi depot which was subsequently cancelled and we have been given allotment for some other depots. This adjustment is taking time but going forward, we should be able to maintain a decent run rate in so far as ethanol dispatchers are concerned. The 130 KLPD plant is fully operational.

As far as the loan profile is concerned, we have long term loans of about Rs. 211 crores, all of which are subsidized loans. Loan of Rs. 94 crores is due to the state government and all instalments as and when they're falling due are being paid. Rs. 117 crores is the loan which we had availed for our distillery project of which the repayment is yet to commence. We'll pay it as and when the same falls due. So far as the financial position is concerned, we are reasonably comfortably placed.

In so far as the policies are concerned, Central Government has already announced the export policy. The much awaited increase in the MSP doesn't seem to be happening because this was approved by the group of ministers long ago but it finally did not get the cabinet nod. So we are waiting and pushing for it. If it happens that will augur very well for the sugar industry. State government of Uttar Pradesh is yet to announce the sugarcane price for the season 2020-21. Perhaps the farmer's agitation in the North of India is the reason for it not being announced yet. In the interregnum, we have been asked to pay at the last season's sugarcane prices and which we are doing now.

Internationally, season 2021 is expected to be a slightly deficit year which is because of not much of production happening in Thailand. There's been generally dry weather in Brazil also. Although India's production numbers are up, internationally it's going to be a moderately deficit year.

So far as India is concerned, UP which produced a record 12 plus million ton of sugar in the last season is expected to produce less, for two reasons, number one, the yield at the farm level as well as the recovery at the mills level has come down. And number two, more and more sugar mills are generating B-heavy molasses for making ethanol. So these are big two reasons why we expect a lesser than last season's production in UP. We expect to produce as per the ISMA's estimate about 10.4 million tonnes of sugar in the ongoing season. That's about it. Thank you very much. I now invite you to ask me questions and I'll be too happy to answer them.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sanjay Manyal from ICICI Securities.

Sanjay Manyal: On the distillery front what could be the run rate for the FY22?

Vijay S. Banka: We have contracted to sell about 4 crore litres of ethanol. FY22 is too early to answer, but in so far as the ethanol year is concerned which commences from 1st of December and ends on the 30th of November we should be selling about 4 crores litres of ethanol. There are some logistical challenges. We have taken it up with the Food Ministry. We have taken it up with the oil marketing companies also. Yesterday Joint Secretary Sugar was kind enough to organize a web conference in which we participated, in which we have spelt out the problems that are being faced. We get quotas, we get allotments for particular depots and then out of blue the we are told not to dispatch, or dispatch lesser quantity or dispatch to some other far flung depots. So there are some logistics challenges, but we have all the assurance from the Central Government, from the top brass of oil marketing companies that these issues will be ironed out. So, I don't see any problem in doing about 4 crores litre of ethanol sale in the ethanol year. One must also look at it from the perspective that the target of 20% blending for which the date set was year 2030 has been advanced to year 2025. So in order to achieve that kind of a target nearly 900 crore litres of ethanol will be required. And here we are at about 300 crore litres of ethanol. So there's a lot of enthusiasm in the Government circles as well as the oil marketing companies as well as the sugar companies to step up the ethanol production & despatches.

Sanjay Manyal: And what could be the B-heavy out of these 4 crores?

- Vijay S. Banka:** The entire quantity is the B-heavy. Whatever little we had produced from C-Heavy in the beginning of the season is from C-Heavy and the rest of it all is going to be from B-Heavy. From C Heavy it is minuscule quantity.
- Sanjay Manyal:** So one can assume a realization about (+) 55?
- Vijay S. Banka:** Yes
- Sanjay Manyal:** Your peers have announced the CAPEX related to sugarcane juice to ethanol or even for that matter grain to ethanol. Is there any plan on anything under consideration?
- Vijay S. Banka:** We are also very actively evaluating the proposal and we are in talks with the equipment suppliers /manufacturers, we are in the process of identifying the layout, etc. So many loose ends need to be tied up. But we are working in that direction and as and when we have taken concrete steps we will keep everyone informed. Let me also assure you that execution will not take too long a time, once we have taken the required steps and tied up loose ends may be in 12 or 13 months we can execute the project
- Sanjay Manyal:** But any ballpark thing in the sense what could be the CAPEX or whether it will be grain base or sugarcane juice?
- Vijay S. Banka:** It will be multi feed stock based. We can cane juice directly in which case the capacity of the plant will be larger. If we use B-heavy it will be commensurately little lesser and if we use C heavy molasses it will commensurately further lesser. And then we will also have the wherewithal to use grains if required during the off season.
- Sanjay Manyal:** Just one last thing on this year's sugar production and specifically in UP when the recovery rates are lower but I think this would be the time say in January or mid of January where the plantation sugarcane generally starts. So have you seen any reduction in the plantation sugar recoveries? Also how are things and how the overall full year's scenario would be in terms of your production levels?
- Vijay S. Banka:** Let us divide this into two parts. The first is in so far as the cane availability is concerned. Second is about the recovery and therefore the production. In so far as the cane availability is concerned in case of Ratoon crop yield at the farm level has been lesser and the recovery also at the mill level has been lesser. In case of plantation crops as of now situation seems to be all right, both in so far as the yield is concerned, as well as the recovery is concerned, but going forward we will have to wait & see. Last we were all disguised beneficiaries of the COVID break down which resulted in non-

diversion of sugarcane to the khandsari and jaggery makers. So such a phenomenon will not recur this year. This year the diversion will be regular as it used to happen in the past. So, multiple factors will act namely one, the yields are lower, number two, the recovery is lower and number three, the diversion is going to be regular. From that perspective ISMA has scaled down the production estimate of UP.

Sanjay Manyal: You mentioned 10.2 or 10.5 around for the UP.

Vijay S. Banka: 10.4 to 10.5 million tons.

Sanjay Manyal: And what could be the number for the Dwarikesh this season?

Vijay S. Banka: Last season we crushed about 375 lakh quintals of sugarcane in the entire season. Our estimate this season is anything between 340 to 345 lakh quintals of sugarcane. The recovery rate drop can be about 0.2% to 0.3%. But since we are generating B-heavy molasses in two of our units, it will result in sacrifice of sugar production to the extent of 35,000 metric tonnes or so. If you consider these factors our sugar production number is going to be lesser than what it was last year.

Moderator: The next question is from the line of Anupam Goswami from B&K Securities.

Anupam Goswami: Can you please tell what is your crushing target this season and what kind of recovery that we can look at?

Vijay S. Banka: I was explaining to Sanjay a little while ago that last year the crushing numbers were higher because farm yields were better, the recoveries were better and additionally there was no diversion happening to the jaggery and khandsari manufacturers because towards the middle of March 2020 on account of outbreak of COVID pandemic, the lock down was announced. So the khandsari sugar makers as well as jaggery makers had to shut shop. So very little diversion took place. This season yields are lower as far as the Ratoon crop is concerned. In fact yields are much lower when you move towards East of UP. The impact is lesser in Western and Central UP although the recoveries of course are lower. Everyone puts the blame on the climate or weather condition. Number three, the diversion is back to being normal. So I was mentioning that as against 375 lakh quintals crushed last season, we could end up crushing anything between three 340 to 345 lakh quintals of sugarcane in this season.

Anupam Goswami: With the diversion of B-heavy, can we look at around little higher than the 10.5?

Vijay S. Banka: I think we should talk about the adjusted recovery, our adjusted recovery which factors the diversion also last season was close to 12.4%. Yes this season the recovery will be lesser in case of Ratoon crop. The drop in the recovery eventually could be about 0.3% at least. It can get better from here on because of plant cane we can recover some lost ground. So if the recovery last season was 12.4% then it could be around 12.1% this season. Another factor is that on account of generation of B-heavy molasses for making ethanol sacrifice of sugar could be about 30,000 to 35,000 metric tonnes.

Anupam Goswami: Drop in yield and lower recovery, also do we see any stronger domestic prices in the mandi?

Vijay S. Banka: This has been more than made up by improvement in crushing numbers and production numbers in Maharashtra. It is estimated that Maharashtra will also produce equal quantity of sugar that we are going to produce in UP. The overall country's production number is about 30.2 million tonnes. We started the season with about 10.3 million tonnes of sugar stock, we will produce 30.2 million tons which means sugar available will be 40.5 million tons. Let's see how much of export happens. But the most interesting & encouraging factors is the diversion happening in favour of ethanol. Last season the number was a little less than 1 million ton. This year the sacrifice of sugar in favour of ethanol is estimated to be at least 2 million tonnes and in the next year, we will find many sugar companies making ethanol directly from sugarcane juice. It's just a matter of one or two years and I think we can see a sacrifice 3 to 4 million tons of sugar in favour of ethanol. We are inching towards a balancing position where production and consumption are equal, assuming that consumption also registers a moderate growth year after year.

Anupam Goswami: My next question is on our run rate of ethanol we did around 56 lakhs litres. What happened in that, it's a bit lower?

Vijay S. Banka: Yes, it's lower. Actually our ethanol run rate should be at least a crore litres per quarter. In this quarter our plant was under shut down for various repairs and then when we enhanced our capacity to 130 KLPD it involved synchronization of 100 KLPD with 30 KLPD. When the bidding happened we bid for depots which are closer to our plant and out of blue their allotments were abruptly cancelled. So subtle adjustments had to be made in moving away to other depots and of course it takes some time. However as explained earlier the matter has been escalated to the top levels of both food ministry and petroleum ministry, as well as with the OMCs. We expect these issues to be sorted out very quickly. I don't see any problem in supplying about 4 crore litres of ethanol in

the ethanol season which is commencing from 1st December and ending on 30th November.

Anupam Goswami: So, we should normalize from the next quarter or next to next quarter itself?

Vijay S. Banka: Yes.

Anupam Goswami: One more clarification 100 KLPD will be totally used for ethanol and 30 will be for ENA?.

Vijay S. Banka: No, we are going to use the entire 130 KLPD for ethanol because we have limited capacity of 130 KLPD. We can use 100 KL for ethanol and 30 KL for ENA. However we see more value add in using the 130 KLPD for ethanol. So far as our levy obligation of molasses is concerned, we will give them molasses from one of our units, the third unit where we are not generating B heavy molasses.

Anupam Goswami: That's about 16.5%, right?

Vijay S. Banka: It's 18%, 18% on a presumptive molasses generation of about 4.85%.

Moderator: The next question is from the line of Kunal Mehta from Vallum Capital.

Kunal Mehta: We have signed up for exports we have contracted practically the entire export quota which we have got. So, could you please give us an understanding both in the order terms and booking terms, is there a pricing which we have got for this, average pricing.

Vijay S. Banka: We have done a total INR deal. We did not get into FOB contract, because FOB contract means waiting for the LCs to come and invariably deliveries going beyond March. So we did an INR transaction where the money comes upfront and we give delivery at Kandla. We did it when the raw sugar stock was quoted at around 14.6 cents per pound. Our average realization, considering the transportation costs, etc., and also factoring for the subsidy that we are going to get is about Rs 30,500 a metric ton. Now this deal has been done for raw sugar and in case of raw sugar there are inherent advantages as the recoveries get better and collectively one gets a benefit of at least about Rs 1,000 a metric ton, and not to speak about the benefit of interest costs because we will be completing our entire dispatches within February.

Kunal Mehta: To understand this, on this Rs. 30.50 our cost of production, you are saying is therefore in case of raw sugar is roughly Rs. 29.50 is this what you are trying to say?

Vijay S. Banka: Yes, whatever be the cost of regular sugar, the cost of manufacturing raw sugar is at least Rs 1,000 per metric ton lesser.

Kunal Mehta: Our cost of production this year would be per quintal?

Vijay S. Banka: We will have to wait and see how our recoveries are. It would be a little premature to talk about eventual costs because everything will depend on the recovery.

Kunal Mehta: So can you suggest for this year. For the quantity which you have contracted to export which I think you would move from our inventory, there will be some part of this year's crushing also?

Vijay S. Banka: No, it will not be from the inventory, it will be from the ongoing production.

Kunal Mehta: The next question I wanted to understand, you mentioned that on the Eastern side of UP, the yield this year is low, I'm sure you also gave the reason that the Ratoon crop this year it was a bit on the weaker side. Any reason why yields from the western side are still more fine but yield on the Eastern side is very much affected

Vijay S. Banka: The yields are lower across UP, West UP is the least impacted and Central UP is little more impacted and East UP is most impacted. There has been pest attack of red rot also there. So this is also one of the reasons for a lower yield, but generally climate plays a big role and in case of lower yield as well as lower recovery. For example, now UP in the last 10-12 days had experienced extremely cold climate conditions and there was no sunshine during the day. So, if a phenomenon like that occurs the recoveries tend to get impacted. But yields mainly in East UP was impacted more because of red rot as well as unfavourable climate conditions. Be it West UP, Central UP or East UP all are generally impacted.

Kunal Mehta: But it was a bit more on the eastern side. Because now I think Eastern yields have started to give their results and the realization there are actually very, I would say, much much lower as compared to what they were last year. For you at least it's been a lot more stable. I expect this is not something which is arising because of something which is long lasting, this is something which is maybe limited to only this season and it is not like that even for the next year we are going to see yields on the eastern side be much lower at this stage. How would you see this overall for UP also and East and West both?

Vijay S. Banka: I would call it a one-off phenomenon this season. But yes, the pest attack which has devastated crops in some areas that needs to be controlled seriously because it can

cause big damage. The remedy is that one has to uproot the clumps which are impacted by the red rot attack, bring about change in the sowing patterns, plant some other varieties. On war footing those issues have to be addressed. So, we only assume that next year the weather will not play truant and any reduction in the yield or recovery on account of weather will not be repeated. Red rot pest attack is something which can be managed and which I am sure all companies will be doing it.

Kunal Mehta: But the yield which we reached last year, I think do you say that yield is that year, that recovery and that yield amount is practically a top which we have reached in terms of the yield recovery or you say we can think or there is a possibility?

Vijay S. Banka: That can be bettered though I must confess that the recovery seems to be plateauing, but I'm sure it can be bettered. It's not that the last season was the best season for all sugar companies. It can be bettered.

Kunal Mehta: Yesterday in the budget there was this one provision if you could help me understand, because actually I'm not able to find it actually in the reported document, whatever has come out in the public domain. There was this certain thing about the blending, I'm aware of everything about the blending background and where we are on this whole thing, but there's a specific provision on blending and how the net I think I'm not able to...anything in the budget which you observed which could be beneficial for sugar companies supplying to OMCs for blending, anything, which is not..?

Vijay S. Banka: I think prior to the budget itself the government policies are tailored to encourage ethanol production and ethanol consumption. I was speaking a little while ago mentioning that the government has advanced the 20% blending target to 2025, which hitherto was for 2030. So it has been advanced by five years which is a monumental task, in the sense that we are presently at only 300 crore litres. So we will have to ramp up capacities. Government is working in all seriousness and yesterday also we had a web conference where the UP authorities were involved and we were involved and we were asked to spell out our difficulties so that the government can address them. Government is also interacting with the automobile industry very actively. Maybe next generation reform is to move to the flexi-fuel concept also.

Kunal Mehta: This is one last question from my end. Wanted to understand, in the export contracts So in terms of the contract, you mentioned that the contracts which you have signed are more or less FOB in nature, where you only have to only incur the cost to the transportation to the Kandla port, but in general in these contracts are most of the contracts on a CIF basis where the need have to incur the cost of export and if there has been how much is the cost of transportation because there even those rates have

gone up quite a lot. So how much is generally, if presently somebody is doing the contract with somebody with a supplier in Indonesia, with a buyer in Indonesia, then on an average what rates are you observing and on a net basis how much are you making considering a dollar roughly about Rs. 73.1-73.2-73.3.

Vijay S. Banka: Normally the contracts are done either on FOB basis or FOR basis, and we have done on FOR basis and contracted to give delivery at Kandla. In case of FOB you board the sugar onto the ship / vessels and you get payment in foreign currency. For example, in an FOB contract if you have done a deal with some international broking house, typically prior to moving the goods to Kandla or whichever the port be, one gets LC. Once the cargo is loaded on the vessel, then the LC is sent for collection. Normally all the logistics cost at the port, for example storage, because there is lead time between arrival of goods at Ports and the anchoring of vessel is to be borne by us. It involves unloading, storage, again loading on to trucks and then on the vessel. So we choose a simpler way out, we did not want to get into all these activities. You mentioned that the realization sometimes could have been better. The most important thing is at what rate you have entered into a contract, the rate that was quoted when one strikes a contract For example, if we have done our transaction when raw sugar was quoted at 14.6 cents a pound be it FOB or be it FOR, our realization would be better if somebody has done a transaction when raw was quoted a say 14.25 or 14.3 cents per pound. Conversely, their realization is going to much better if they're done at let's say 15 cents per pound. The international prices have moved up and down up and down and have been on rollercoaster ride. One cannot always do a transaction at the best possible prices. There will always be some element of judgment which comes into picture, sometime it goes wrong sometimes it goes right.

Kunal Mehta: So, this difference between the transportation cost is generally how much, if I have to transport sugar to Indonesia, the shipping has to be borne by the buyer himself not by exporter?

Vijay S. Banka: We are not concerned with that. When one does FOB transaction and that is how the prices are quoted one don't incur any transportation cost from port to destination.

Moderator: The next question is from the line of Nimesh Sheth from GT Advisors.

Nimesh Sheth: I just wanted to ask if the company has any dividend policy and if so what is it and if not are you planning a dividend?

Vijay S. Banka: We do not have a formal dividend policy as it is applicable to Top 500 Companies & we are not covered in that category as of now, however our aim is to reward

shareholders reasonably depending on the profits in the Company. As you have seen we use around 25% of the profits earned to reward shareholders.

Nimesh Sheth: Do you have any policy for just one final dividend this 25% includes a buy back or is this the sum that you will...?

Vijay S. Banka: This is the sum total

Nimesh Sheth: It could be in any form, dividend, interim dividend, final, buy back?

Vijay S. Banka: Yes.

Moderator: The next question is from the line of Ambar Tanuja from Geomatrix.

Ambar Tanuja: First question is what was the actual crush and recovery for Quarter 4, 2020?

Vijay S. Banka: Quarter 4 or Quarter 3?

Ambar Tanuja: Like the quarter that went by October to December quarter what was the amount of sugarcane that you crushed and what was the recovery?

Vijay S. Banka: We started crushing at two of our plants on the 31st of October and on in one plant we started crushing on 7th of November. Since the season commenced we crushed about 119.63 lakh quintals of sugar in the quarter as compared to 104.83 lakh quintals in the corresponding quarter last year. And as far as the production number is concerned we produced about 12.2 lakh quintals of sugar which includes 1.77 lakh quintals of raw sugar, as compared to 11.97 lakh quintals of sugar that we produced including 7.37 lakh quintals of raw sugar during the same quarter last year.

Ambar Tanuja: So basically your recovery has come down quite drastically?

Vijay S. Banka: No, recoveries haven't gone down drastically, we have generated lot of B-heavy molasses also and that needs to be factored

Ambar Tanuja: On the last call you had indicated that you would be looking to 4.5 crore liters and this call you are saying 4 crore liters, so is that to be explained by the lower recoveries and crush?

Vijay S. Banka: No, that is all on account of logistic challenges that we are facing with the oil marketing companies. In this quarter our run rate has been lower mainly because we were allotted depots which subsequently cancelled the allotment and we had to look around for other

depots. As a result our production also suffered a setback and the dispatches also suffered a setback. But as I mentioned in my call earlier this matter has been escalated to the top level in the food ministry, in the petroleum ministry as well as oil marketing companies. We expect these issues to be ironed out. Assuming there are no challenges in dispatches, then production is not an issue at all. We can achieve a target of 4.5 crore liters with our existing plant capacities. But since we have had these issues, to make up for the lost ground is a bit of a tall order.

Ambar Taneja: Let me ask you one question which I am not clear. So when you say that these challenges came up during the quarter, like the dispatch and the rerouting of the depots etc. So certainly if you had the production capacity then the raw material that has not been converted into final product is lying at factories

Vijay S. Banka: No, there are storage issues also. We have had limited storage capacity of ethanol as well as B-heavy ethanol. On account of storage constraints also, we have to take a hit on the production as well. Whatever run rate has been lost in the last quarter has been lost. We can definitely step up our production and instead of 1.3 lakh liters we can do little more if required. But to make up for the last round is going to be a tall order

Ambar Tanuja: The raw material inventory if you can step it up I am just trying to understand, you mean the raw material inventory is lying in your books or lying in your factories?

Vijay S. Banka: Yes.

Ambar Tanuja: So the plant came, which is as I understand which has been now coming at the end of January etc. how much could the recovery improve for the plant came? I mean just for production of ethanol, let should say the old way of counting recovery, which is only sugar assuming no B heavy molasses

Vijay S. Banka: The improvement could be about 0.1% or so. If we have lost about 0.3% or 0.4%, the improvement can be about 0.1%, but recouping more than 0.1% would be difficult.

Ambar Tanuja: So it's not much, it's just 10 bps, right?

Vijay S. Banka: Yes, 0.1% on the overall production. I am talking about the overall production. Hereon recoveries can be little bit better but overall impact could be 0.3% on cumulative basis till date. Considering improvement in recovery from hereon which is possible then the eventual drop in the recovery could be as low as 0.2% or between 0.2% and 0.3%

Ambar Tanuja: One more question, ethanol production in this quarter was you said 55 lakh liter?

- Vijay S. Banka:** That is the dispatch number.
- Ambar Tanuja:** What was the production number?
- Vijay S. Banka:** Production I wouldn't have number immediately, but I can get back to you. Production was of course higher, we are carrying stock also.
- Ambar Tanuja:** I can e-mail you for that.
- Vijay S. Banka:** Sure.
- Ambar Tanuja:** This dispatch problem that you have had which has caused quite a bit of pain, is it an industry issue or just something very specific to you?
- Vijay S. Banka:** No, it would be an industry issue but one may have got more impacted than the other. It's also a question of luck. We were being little conservative in opting for depots which are closer to our sugar mills. If we had displayed courage maybe we could have opted for depots which are little away and may be there the impact could have been lesser.
- Ambar Tanuja:** But you have to bear the transportation cost yourself, is it?
- Vijay S. Banka:** Yeah, exactly there would have been some transportation impact,
- Ambar Tanuja:** What I am trying to understand I don't know the production process fully; what I am trying to understand is that when you purchase cane and the cane goes into processing, juice and their molasses and their sugar and when you have all these problems in selling, whether the problems like you said. How feasible is it to make it up then because to the layman it sounds kind of unbelievable? Are you telling me that basically a lot of your next three quarters' profit is sitting in an inventory right now? Would that be a fair thing to say?
- Vijay S. Banka:** As far as sugar is concerned there are never an issues because every sugar company plans and builds up its godowns to accommodate any increase in the sugar inventory. So storage of sugar is seldom a problem. Sugar mills either have pukka godowns and if there is surge in production and lesser dispatches on account lower releases then one can always have makeshift godown in factory premises. So far as sugar is concerned there is never much problem because every sugar company proceeds with the mental framework that sugar is going to be stored over a period of time. In case of ethanol it is expected that there will be faster turnover of the product and money will also churn faster. When the government is spearheading a big scale project of ethanol blending

program, there are bound to be initial hiccups which are there and they will get ironed out in course of time.

Moderator: The next question is from the line of Shivani Mittal from Dalmia Securities.

Shivani Mittal: I wanted the data point on how has our ethanol processing cost been and molasses transfer price for both B-heavy and C-heavy?

Vijay S. Banka: The conversion cost is roughly Rs. 10 a liter and the transfer price for C-heavy molasses Rs. 300 a quintal and for B-heavy is Rs. 670 a quintal.

Shivani Mittal: What is your outlook exactly on the international sugar prices going forward because we know we are almost at all-time highs of 16 cents per pound?

Vijay S. Banka: Season 2020-21 is estimated to be a deficit year, with the deficit being a small quantity of about 1 million or 2 million tonnes. Deficit is expected to happen because of drought condition in Thailand and also because of dryness in weather in Brazil as well. The international prices are presently around 16 cents a pound and I think at these levels the prices should be sustainable. They could hover anything between 15 cents a pound and 16 cents a pound. Someone a little while ago wanted to know the ethanol stock we were carrying on 31st of December. We were carrying an inventory of 36.38 lakh liters.

Moderator: The next question is from the line of Senthil from ithought Financials.

Senthil: On the sugar profits for the quarter, it has come at a lower end, so could you help us with the rationale behind that?

Vijay S. Banka: Two reasons, number one the realization of sugar during this quarter as compared to the corresponding quarter last year is lower by about Rs. 80 a quintal. Number two, the recoveries are also lower by about 0.3% to 0.4%. So a combination of these two factors has resulted in the segment results not being so good.

Senthil: The ethanol, so you have mentioned there has been some cancellations to the quantities that the company was allotted, so what is the rationale behind these cancellations?

Vijay S. Banka: These are not exactly cancellations. The oil marketing companies also estimate certain demand levels. They also estimate that they will sell a particular quantity and that is how they will need to blend ethanol into it. Sometimes their estimates go haywire which is the reason why these allotments are cancelled. Contracts are not cancelled as they offer a choice of supplying to some other depot which is may be in a far-flung

area. The main reason why such problems occur is because of their estimates going haywire. A big program has been embarked upon on a very huge scale and all are in the learning process. I am sure in the times to come everything will get ironed out.

- Moderator:** The next question is from the line of Anupam Goswami from B&K Securities.
- Anupam Goswami:** What was our sale of B-heavy liters in this time?
- Vijay S. Banka:** In this quarter we have sold less of ethanol made from B-heavy molasses. If you kindly see the average realization which is Rs. 46 a little indicates that we have sold more of C-heavy molasses made ethanol
- Anupam Goswami:** What was the reason of this natural C-heavy?
- Vijay S. Banka:** We were carrying some molasses stock of the previous season which was first used and converted it into ethanol for sale. So that's the reason why our initial sales in the month of October-November was all from C-heavy molasses.
- Anupam Goswami:** Are we carrying any C-heavy molasses only?
- Vijay S. Banka:** Nothing, no more. Only B-heavy.
- Anupam Goswami:** From next quarter onwards it will be only B-heavy?
- Vijay S. Banka:** B-heavy, exactly.
- Anupam Goswami:** Can you explain a logistic problem? As for I know the freight cost would have to be spent by the OMCs for the ethanol procurement, is that right?
- Vijay S. Banka:** Yes, they are supposed to pay but they pay at a particular rate. If one goes to another depot which is far away, so they will reimburse you at a particular rate which is much less than the rate at which we are actually able to transport the material. There is some hit which one has to take but at least ethanol offtake would be brisk no matter if one has to go a little beyond your area of operation. It seems worthwhile doing so. Anyways as I have said, at a very high level the matter has been escalated and we expect resolution of the matter very quickly.
- Anupam Goswami:** You mentioned about cancellation of some allotment of tenders in ethanol. How much of that quantity would have been cancelled?

- Vijay S. Banka:** It's not cancellation. We had opted for Delhi depot because Delhi is very closer to our sugar mill. But the allotment was suspended and whatever supplies were meant for Delhi depot in the month of December got those truncated and then it took a while for them to offer us another depot and for us to sell ethanol to those depots.
- Anupam Goswami:** This rate mismatch are you talking about. What kind of a variance would it be?
- Vijay S. Banka:** Which rate mismatch?
- Anupam Goswami:** The freight rate mismatch to faraway depots?
- Vijay S. Banka:** It can be as low as Rs. 1; it can be as high as Rs. 4 also.
- Moderator:** The next question is from the line of Udit Gupta, an Individual Investor.
- Udit Gupta:** What will be our proportion of B and C ethanol from FY22?
- Vijay S. Banka:** FY21 hereafter is going to be only B-heavy. In FY 21-22 it will be only B-heavy.
- Udit Gupta:** We will not be having any balance molasses? The entire quantity will be used?
- Vijay S. Banka:** Yes, we will have, In two of our units, we are generating B-heavy molasses and in one unit we are generating regular molasses. The regular C-heavy molasses that is being generated is being used fulfill the country liquor levy requirement..
- Udit Gupta:** For that we will supply the molasses directly?
- Vijay S. Banka:** We will supply the molasses, we will not value-add it and make it into ENA and give it to them.
- Udit Gupta:** Any plans of expansion in the distillery?
- Vijay S. Banka:** Yes, I mentioned a little while ago we are examining & evaluating. Many a loose ends are yet to be tied up so we will let you know at the right time but yes it's in the anvil. We are working on it and the process of evaluation is on.
- Udit Gupta:** We are looking at juice to ethanol?
- Vijay S. Banka:** There we can use juice to ethanol, we can use B-heavy to ethanol. If we use juice, the capacity will be higher and in the same plant we will be able to manufacture more ethanol. In case of C-heavy the capacity will be lower. If it is B-heavy it will be

somewhere in between and the plant will also have the wherewithal use grains and make ethanol also. We are just evaluating, once we have taken a final call, we will keep you informed.

Udit Gupta: How many days is the distillery legally allowed to operate now?

Vijay S. Banka: It can operate for 350 days.

Udit Gupta: How many days is realistic? Can we actually operate for 350 days?

Vijay S. Banka: That's possible, unless its C-heavy, C-heavy results in lot of maintenance issues but if we are running a plant in B-heavy and juice, one can run it for 350 days.

Udit Gupta: Next year when we are planning for only B-heavy we should be able to do it 350 days.

Vijay S. Banka: Yes, there is considerably lesser load on the plant. The boilers are also operating comfortably when one is generating B-heavy molasses and using it for manufacture of ethanol

Udit Gupta: At 130 KLPD maximum capacity is 4.5 crores liter.

Vijay S. Banka: 4.5 crore litres, yes.

Udit Gupta: What is our inventory cost of sugar in the last quarter, the third quarter?

Vijay S. Banka: Closing inventory was valued at Rs. 30,900 a metric tonne

Udit Gupta: You were talking about that we have some inventory of around 36 lakh liters of ethanol. Is this quantity then sold in the next few quarters at the higher prices because the prices have now increased?

Vijay S. Banka: It's made out of the B-heavy molasses for the season 2020-21. So it will fetch the new rate announced for B heavy molasses made ethanol.

Udit Gupta: You were talking about we do not have sufficient storage for ethanol, so are we looking at getting some more?

Vijay S. Banka: We have reasonable storage space, but beyond this storing would become very difficult.

- Udit Gupta:** That means the production would have been close to what we would have done but the other part just went to the storage?
- Vijay S. Banka:** Yes, even in so far as the production is concerned, we will have to take a hit.
- Udit Gupta:** Normally these OMC make up the quantity or is it like whatever is lost is just lost?
- Vijay S. Banka:** The effort will be to make it up but it's going to be some challenge.
- Udit Gupta:** They keep having more tenders, like the second tender, third tender? So in that we can offer the balance quantity?
- Vijay S. Banka:** Yes.
- Moderator:** We take the last question from the line of Dharmesh Yadav, an Individual Investor.
- Dharmesh Yadav:** My question is regarding the sugar being the primary product of the company and primary product because everyone is now focusing on ethanol but still if you see like 80% of the revenue that comes from the sugar and it is definitely affecting the bottom line. What efforts company or mill associations they are making to convince the government to increase the MSP because that has been sidelined for quite a year now. Going forward also if the agitation from the farmer is gone and the SAP is increased it will directly affect the margin of the sugar industry again even if ethanol and cogeneration is doing good, it will affect everything. How we are looking to cope up?
- Vijay S. Banka:** In this quarter what also impacted sugar realization was the pressure on the selling price of sugar as large releases that the government had ordered in all the 3 months, the quota was higher and which is why the sugar prices were under some pressure less in the previous quarters if you have observed the sugar prices have been much better. In this quarter it is Rs. 3180 per quintal in this quarter whereas our average realization in the previous quarters been higher. One factor is that the Government has to regulate the releases properly and secondly our request for higher MSP is already with them and in times to come and I am talking purely from a long-term perspective we will witness huge sacrifices in sugar production in favor of ethanol and when the sugar balances becomes normal as we will not be carrying any abnormally high stock, then there will good support for the sugar prices at reasonable level. That is how the problem will get addressed in the times to come.
- Dharmesh Yadav:** You have to address the SAP issue? Even if it is increased by Rs. 10 how much exactly
...

- Vijay S. Banka:** It will impact but as you are aware the government considers all these factors and may accordingly take a call on the MSP as well.
- Dharmesh Yadav:** That is only for UP Government right because every other state they are paying on FRP based and it's been decided by the central government and central government has already decided that there will be no increase in MSP of the sugar. I am just trying to understand how?
- Vijay S. Banka:** They don't want to institutionalize it. Yes in the short-term as you rightly said there are challenges. One way to regulate is as a company one can respond by increasing our exports. We already sold our entire export quota and if there more redistribution of export quota we will evaluate at that point in time if it makes more sense to export more and of course going forward our product mix is going to undergo a big change as we will be making more of ethanol.
- Dharmesh Yadav:** As we are producing B-heavy molasses like definitely it will impact the recovery. Recovery will be impacted by 0.2%, If I'm not wrong.
- Vijay S. Banka:** If you talk about adjusted recovery, there is theoretically speaking no impact but otherwise the recoveries are lower by at least about 1.5%. It varies from mills to mills and the the range is 1.4% to 1.7%.
- Dharmesh Yadav:** Last year we had produced around 42 lakh quintals?
- Vijay S. Banka:** 45 lakh quintals in the last season.
- Dharmesh Yadav:** This year we are looking to produce around 40 or 38?
- Vijay S. Banka:** Anything between 38 to 40 lakh quintals. We will be sacrificing about 30,000 to 35,000 metric tonnes of sugar production because of generation & use of B heavy molasses. Secondly our recoveries are also expected to be marginally lower and then the crushing quantity is also lower.
- Dharmesh Yadav:** This 40 will be including the less crushing but also and also from the sacrificing also. Totally we will around 40?
- Vijay S. Banka:** If it is not 40, it could be 38 also. As we go forward there will be more clarity.
- Dharmesh Yadav:** 4.5 Cr of ethanol.

- Vijay S. Banka:** Yes, that's what we were targeting for this ethanol season. We may not do 4.5 crores but may do about 4 crore litres
- Dharmesh Yadav:** It will also bring up the cost of producing sugar as well or it is going to cope up?
- Vijay S. Banka:** Cost of production of sugar will go up only if there is an increase in SAP and on account of lower recovery. Diversion of B-heavy ethanol for making ethanol will not increase the cost of sugar production.
- Dharmesh Yadav:** The inventory will be almost costing at the same price?
- Vijay S. Banka:** Hope so let's wait and see.
- Dharmesh Yadav:** Apart from that how much benefit we are going to get by producing B-heavy molasses in monthly release quota?
- Vijay S. Banka:** The season has just begun, so let's see how much it definitely will result in better releases. We will have to wait & see
- Dharmesh Yadav:** This month I followed that. It is around 6000 tonnes or something, 60 quintal something, 60,000 quintal from the sacrifice of B-heavy molasses for Dwarikesh Sugar?
- Vijay S. Banka:** We will have to see how much it is.
- Dharmesh Yadav:** In a quarter even if we decrease the quota how much we are looking to sell?
- Vijay S. Banka:** Our releases are in the range of 2.5 to 3 lakh quintals a month and we will sell whatever is the quantity that we are required to sell.
- Dharmesh Yadav:** The cogen -there was a petition filed for the unit prices.
- Vijay S. Banka:** Nothing has happened so far. The matter is in court
- Dharmesh Yadav:** It can be considered that nothing will happen for that?
- Vijay S. Banka:** We proceed with the said premise. We are prepared for the worst but hope for the best.
- Dharmesh Yadav:** Any dividend expected in the month of March. Hopefully month of March will be the better?
- Vijay S. Banka:** We have not taken any call as yet.

Moderator: I now hand the conference over to the management for their closing comments.

Vijay S. Banka: Thank you friends. Thank you for reposing confidence in us, thank you for being a part of this journey with us, thanks a lot. We expect that the policy framework gets better and we are able to post better performances in the times to come. We look forward to your help and support throughout. Thank you so much.

Moderator: Thank you. Ladies and gentlemen on behalf of Dolat Capital Markets that concludes this conference. We thank you all for joining us and you may now disconnect your lines.