



“Dwarikesh Sugar Industries Limited Conference Call”

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**MANAGEMENT: MR. VIJAY S BANKA – WHOLE TIME DIRECTOR
& CHIEF FINANCIAL OFFICER**

**MODERATOR: MR. APURVA SHAH – PHILLIPCAPITAL (INDIA)
PVT. LTD. (PRIVATE CLIENT GROUP)**

- Moderator:** Ladies and Gentlemen, Good Day, and Welcome to Dwarikesh Sugar Industries Limited Conference Call, hosted by PhillipCapital (India) Pvt. Ltd. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Apurva Shah from PhillipCapital (India) Pvt. Ltd. Thank you and over to you, sir.
- Apurva Shah:** Thank you, Tanvi. Good evening, everyone. On behalf of PhillipCapital, let me welcome you to Dwarika Sugar Quarter One FY18 Conference Call. We have with us Mr. Vijay Banka – Whole Time Director & CFO of the Company. I will now hand over the call to Mr. Vijay Banka for his opening remarks. Over to you, sir.
- Vijay Banka:** Thank you, Apurva. Very good afternoon to everyone. I must take this opportunity to express my gratitude and thankfulness to you all for having extended all the support to us all the while.
- We have had a decent first quarter. Results are already available with you. We have had, I must say, an impressive top-line growth and good bottom-line growth. We did some aggressive selling of sugar selling nearly 12.76 lakh quintals of sugar during Q 1, which has helped in margins coming from sugar segment.
- The sugar season of 2016-17 this time extended during this quarter, which is why we have seen some margin coming from the power segment also. So, all in all, it has been a decent quarter. Once again, let me thank you all for extending your support and giving us all the encouragement.
- And I will leave the house open to you all for asking me any questions that you may have. Thank you.
- Moderator:** Thank you. We will now begin the question-and-answer session. We have the next question from the line of Deepak Kapoor, Individual Investor. Please go ahead.
- Deepak Kapoor:** Like you said, you were very aggressive in your selling, almost 12 lakh quintals plus
- Vijay Banka:** 12.76 quintals.
- Deepak Kapoor:** Yes, and that leaves you with about 9.7 lakh quintals, right?
- Vijay Banka:** 9.87 lakh quintals of sugar.
- Deepak Kapoor:** So, 9.87 quintals is the maximum you can sell this quarter, I just want to understand that?

- Vijay Banka:** Yes, that is the maximum.
- Deepak Kapoor:** So, there will be no crushing this quarter?
- Vijay Banka:** No, this quarter there will be absolutely no activity except for the offseason repairs and maintenance work that goes on.
- Deepak Kapoor:** Okay. Just wanted to check, like you said the crushing season extended in to Q1 this year, was it the same case last year?
- Vijay Banka:** No, unlike last year in which only one plant which crushed during April, in this year we had one of our plants crushing till the 10th of April, another one till the 17th or 18th of April and the third one went right till the end of April. Whereas last season only one plant worked and that crushed during April and that too only up to the 20th. We have produced in this quarter 4.5 lakh quintals of sugar, that number was significantly lower in the last year same quarter.
- Deepak Kapoor:** What would have been the number last year?
- Vijay Banka:** I would not remember, but it would definitely less than 1 lakh quintals.
- Deepak Kapoor:** Okay. Could you throw some light on the kind of sugarcane acreage you are seeing in the areas from where you purchased, the farmers you purchased from?
- Vijay Banka:** You see, the farmers on account of the better payment practices that prevailed in the last two seasons, were enthused to grow more and more sugarcane. So, number one, the area under sugarcane cultivation is going up; number two, the yields are getting better because the farmers are enthusiastically growing the 0238 variety, the early variety where they get better yields, the third unit of ours, which is in Barailly district, has huge command area, we expect some good crushing numbers to come from that unit as well. Here the farmers were not growing sugarcane, so we have encouraged them to grow sugarcane and we have encouraged them to grow the early variety, the better variety of sugarcane. So, we expect some impressive crushing numbers in the third unit.
- Deepak Kapoor:** So, last season you produced about 33.38 lakh quintals, that includes the 4.5 lakh of...?
- Vijay Banka:** Yes.
- Deepak Kapoor:** So, going forward, with the kind of acreage you are seeing, you think this number could go up by about 10%, 15%, 20%?

- Vijay Banka:** Yes, if you ask me, we crushed 283 lakh quintals of sugarcane last year. If I were to make an estimate, a reasonable estimate, I would say we would be able to crush at least 320 lakh quintals in the coming season.
- Deepak Kapoor:** And the average yield on this would be about 11.7 plus only?
- Vijay Banka:** Let me explain this, last year our average group recovery was 11.78%. So far as our first unit is concerned where we clocked a recovery of 12.34% we had early variety sugarcane of about 92%. So, we are increasing that number and we expect about 98% of early variety.
- Deepak Kapoor:** This is average, 98% is only that one mill or you are talking across mill?
- Vijay Banka:** I am talking mill wise. And in the second mill we had 52% of this variety, 0238, so we are taking it further up to 62%. Third mill we had about 35% of this variety, so we are increasing that number. So, you see, so far as the variety is concerned, our varietal mix will be much better in the coming season. Now, recoveries will also be on account of the climate conditions, in the last two seasons the climate was extremely conducive for sugarcane growth, we had virtually frost free winters and then there was a big swing in the day and night temperature. So, all this resulted in good recovery in the last two seasons. So, if the same climate condition continues we expect improvement in the recovery, if not, we should at least try to be closer to that number.
- Deepak Kapoor:** Okay. So, ideal climate condition you said that like a frost-free winter?
- Vijay Banka:** Yes, frost free winter and there should be big swing in the day and night temperature, Nights should be very cool and there should be some sunshine during the day.
- Deepak Kapoor:** How does monsoon affect this?
- Vijay Banka:** Monsoon, unless there are some heavy rains in the September, so far the regular monsoons are concerned, we have had adequate rains, so there has been no problem, our area has received reasonable amount of rainfall and the sugarcane growth so far, as we have seen, is pretty good. Late September rains can impact the growth, the yield for the farmers can come down there, and it would also in a way impact recovery also, but that has not been the case in the last two or three years.
- Deepak Kapoor:** Sir, last question before I come back in the queue. When do you expect the crushing to begin in this season, because it is getting earlier and earlier I think in the last two years?
- Vijay Banka:** Yes, we expect to commence the crushing season may be four or five days after Diwali, this time we have early Diwali which is on 19th, so for about four or five

days there are labor related issues, there is this Ganga Snan also happening on the fourth or fifth day after Diwali, so the laborers, the farmers are also busy during those days. So, ideally we should commence our crushing operation let's say a week after Diwali. Now, if you have seen the data of crushing, the date of commencement of crushing is getting advanced over the last two, three years, but that is not a major worry because we know we have seen more plantation of early variety sugarcane, so our recovery does not get impacted. A few years ago when one would start the crushing operations, let's say in October, there we witnessed a low recovery of 7.5 also. But that is not a phenomenon now with the spread of early variety.

- Moderator:** Thank you. Our next question is from the line of Dhimant Shah from Principal India.
- Dhimant Shah:** Sir, two or three quick questions. If you can help us understand, so this time you are guiding from the previous question if I understand correctly, the worst case will be at least a 10% kind of volume growth?
- Vijay Banka:** Yes, sir.
- Dhimant Shah:** And if the recovery helps then that will only add to the bottom-line?
- Vijay Banka:** Yes, sir.
- Dhimant Shah:** Perfect. And just tell me sir, I mean, to what extent does the early variety have a dilapidating effect, if any, in terms of early cropping mechanism? After every third or fourth year they have to take another different crop and again allow the soil to rejuvenate?
- Vijay Banka:** No, nothing of that sort. So, every variety has a shelf life of at least about 15 years to 20 years, so this is no longer the case when you have to do rotation of varieties. It is not required, this variety has been grown over the years and continues without a break.
- Dhimant Shah:** No, it is rotation with other crops so that the soil is conserved.
- Vijay Banka:** Yes, so that factor has been considered already in the numbers that we are talking about.
- Dhimant Shah:** I see. And in the other two units, the units where you are slightly lower...
- Vijay Banka:** Yes, number one and number two.
- Dhimant Shah:** No, number two and number three where you are lower than number one in terms of early variety.
- Vijay Banka:** Yes, we are lower than number one unit.

- Dhimant Shah:** So, I mean, can this be propagated at a much faster pace in the current season?
- Vijay Banka:** Yes, in the second unit, for example, in the second unit where we had a recovery of 12.11% last season, we had this 0238 variety and then we had another early variety which is 85, is also a very good variety. But in that the only problem is the fiber content is a little low, so there we get impacted on account of lower cogeneration, the fiber content is lesser so the cogeneration income gets lesser. But so far as recovery is concerned, that is I would say equally good variety, but we are trying to help farmers switch over to 0238 there also.
- Dhimant Shah:** Quickly on the distillery, if you can help us, is there any pending something from the government in terms of we complying to the requirement?
- Vijay Banka:** Whatever orders we have received, whatever contracts that we have entered into with the oil marketing companies, we are fulfilling them. There has been one encouraging development in the state of Uttar Pradesh, partially encouraging in the sense that in the molasses policy they have made one change, our requirement to give molasses for levy purposes was 25% that has now been reduced to 20%. So, it is a small change actually.
- Dhimant Shah:** I see. And lastly in terms the PPA signed, is there any meaningful difference year-on-year because we consume about, net of auxiliaries we consume about 30 megawatts and we are able to supply to the buzz bar around 56, or rather 56 is the surplus. So, how much are we able to actually supply?
- Vijay Banka:** Yes, we are able to supply, I mean, in the first and the third unit, for example in the first unit our rated capacity to export is 9 megawatt, so we are doing it completely. Second unit, our rated capacity to export is about 24 megawatts, there we are falling short by about 2 or 3 MW. And as far as our third unit is concerned, our rated capacity to export is 24 megawatts, but there is no bar on exporting more, so we do more exports there.
- Dhimant Shah:** So, on an average we are doing about 50 megawatt?
- Vijay Banka:** Yes, definitely more than 50 megawatt.
- Dhimant Shah:** And what about the rate revision from the state as far as the sugar mills go for power?
- Vijay Banka:** Sir, it works like this, there is a tariff order which is in existence which says that after every ten years ten years, the power tariff comes down because it is assumed that there is going to be no depreciation cost. So, after every ten years the tariff comes down a little and whatever the tariff is there, every year the price goes up by 10 paisa to 11 paisa. So, for example, if my average realization was Rs. 5.01 in the

last crushing season, this year it is going to be lesser because two of our plants, plant two and three where we have completed almost ten years, so the tariff is going to come down by about 20 paisa or so. So, my average realization for per unit of power sold will be anything between Rs. 4.80 to Rs. 4.85.

Dhimant Shah: So, this is 24 megawatt plus 24 megawatt, so on 48 megawatt you will get a lower realization?

Vijay Banka: Yes. But we will be able to more than compensate it, because the third plant, the configuration of the plant is such that the power evacuation is much more, our power generation is also better and our power evacuation is also better, and this year we expect to crush larger quantity there.

Dhimant Shah: So, net-net in the line income of power there would not be any substantial difference?

Vijay Banka: No, sir it is like this, number one, on account of the tariff the revenues will come down a little. But on account of larger crushing in the third unit where the power equation is much better we should have more than commensurate increase in the power income.

Dhimant Shah: So, net-net it will be more or less similar?

Vijay Banka: Similar or more, sir.

Moderator: Thank you. Our next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Sir, first of all, I congratulate you for such excellent results and for driving number one spot as far as recovery is concerned from Dalmia. Sir, do you think that UP sugar sector is going to have a very bright and stable prospect with no monsoon issue, stable cane price due to linkage and better variety of seed?

Vijay Banka: yes, sir I think the UP industry, and particularly the good sugar companies, there has been an inflection point for them. You see, sustained cane development efforts over the last many years and disciplined working not just in our case and with at least about five, six good groups that I am talking about. So, there is lot of initiative to spread the early variety of sugarcane. As far as optimization of cane variety is concerned, a lot of effort has gone in and that should start bearing fruits.

Number two, a very important thing which I would like to share with you is in the last six, seven years, forget about the last one or two years, before that all of us were bleeding, all of us were incurring losses. So, all the technological advancement, efforts and efficiency enhancement measures were not being implemented. So, here is an opportunity for us to debottleneck our operations, to increase our efficiency

which should eventually get reflected in the improvement of recovery. So, these are two issues over which, like I said, we have control.

Now, talking about the third issue of sugar pricing, over which we have no control but we see a stable regime of sugar pricing going forward, we see sugar prices to remain firm because the central government has increased the FRP so central government would not want the sugar prices to go to a level where the mills are not able to pay the FRP also. So, the government has all the tools in its hands, number one, for example if the prices are rising too fast for their comfort, they can always allow imports and they can tweak the import duty. And if the prices are, for example, falling drastically, they can always order the compulsory export, they can make export compulsory like they did two years ago. So, on the pricing front I expect stable regime to persist.

Now, comes the question of sugarcane pricing. Now, here again, both the central government and the state government they belong to the same political party affiliation, so I am sure whatever advisory the central government issues the state government will follow. Here again, though not specifically said, a couple of announcements by the Chief Minister indicates that they are not keen to increase the sugarcane price in a manner such that it would result in building up of arrears. So, the message is very clear, everybody should do well, the farmers should also do well, they should be paid a decent price and they should be paid on time, farmers should get more income by way of increase in the productivity. So, that is how it is. We therefore should see a stable period in the times to come.

Aman Sonthalia:

Sir, I was going through your balance sheet five years back and now, five years back you were having a recovery of 9.5%, crushing of around 18%, then the interest cost was Rs. 74 crores . So, I think all the sugar companies in UP have deleveraged their balance sheet as far as leverage is concerned. And at the same time, because of this new variety of seed you have increased the recovery also. So, I think these two things are also pushing the bottom-line a lot?

Vijay Banka:

Yes, you see, the effort is to deleverage the balance sheet. Now, for example, let me confess that there are so many proposals that come our way that there are units available and why don't we take it over. In the past we have operated our plants at lower than the optimum capacity, now here is an opportunity for us with the increase in sugarcane available to operate our plants at better capacity utilization. So, without any substantial money being spent, we are doing some debottlenecking operations that will require not much of CAPEX.

Aman Sonthalia:

And sir, two things regarding Dwarikesh Dham unit, as far as my information is concerned, in Bareilly I think you plant is located where the recovery is there the crushing may increase by as much as more than 60%. And number two, there is still

scope for expansion there, for next year also you may increase the capacity from 7,500 to 10,000. Is it right or my information is incorrect?

Vijay Banka: We have crushed about 94 lakh quintals of sugarcane last year and our average crushing was about 6800 metric tons to 6900 metric tons per day. So, we are expecting impressive increase in the crushing numbers there and our propagation of early variety there is also increasing. So we should see good performance of that plant. Now, how much the number is going to be, whether it is going to 130 or more we will have to wait and see, these are too early days.

Aman Sonthalia: And one more thing, why you are not setting up a distillery? Because now I think the government policy is quite clear and I think you need a distillery in Dwarikesh Dham, the same time you need to expand the capacity in Gomti unit also.

Vijay Banka: Yes, we are examining those proposals, sir, we will come back to you at the right time.

Moderator: Thank you. Our next question is from the line of Navin Kumar, individual investor. Please go ahead.

Navin Kumar: Sir, I want to understand about sugar industry macros. What will be the impact of international sugar price?

Vijay Banka: I will explain to you both. Number one, as far as domestic scenario is concerned, as per ISMA we expect the closing stock of 4 million tons at the end of the season 2016-2017. We expect a production of 25 million tons to 25.5 million tons of production in the coming season. And with the expected consumption being around 25.5 million tons, we should have a similar number so far as the closing stock of the season 2017-2018 is concerned. So, it is a evenly balanced situation, opening stock of approximately 2 months and closing stock of approximately 2 months consumption, which will mean that the sugar prices should remain stable in the coming years.

Now, talking about international market, international market, presently the raw sugar prices are around \$0.14 per pound and the white sugar price is nearly \$370 to \$380 per metric ton. Now, we expect season 2017-2018 to be a surplus year as compared to deficit previous season. The surplus can be in the range in the 3 million tons. But in a manner of speaking, we are insulated from the international trends, except that of course sugar prices internationally going up or down has a sentimental impact on the domestic sugar prices as well. But, with import duty of around 40% - 50% we have as of now no threats of imports, unless the government in anticipation of abnormal price rise, flare up of price, depletion of stock below comfortable level allows some duty-free import.

- Navin Kumar:** Yes, government is planning for further import of sugar, what are the chances of further sugar import in the current season?
- Vijay Banka:** What the grapevine says is it could be 2 lakh tons or it could be 5 lakh tons. Now if you ask me, the quantity as far as the markets of Tamil Nadu is concerned, it is perhaps a good quantity because in Tamil Nadu there has been a real shortage of sugar. But as far as total domestic scene is concerned, this quantity is not very significant, but it will definitely have some impact on the selling price of sugar, albeit temporarily
- Navin Kumar:** Sir, how many days it will take to import sugar from Brazil, 45 days or 50 days?
- Vijay Banka:** 45 days at least.
- Navin Kumar:** October 19 is Diwali, shortage is there?
- Vijay Banka:** By October, early October mills in Maharashtra we expect them to start crushing, they are ahead of our UP sugar mills by at least about 15 - 20 days, they start at least 15 - 20 prior to our starting of sugar crushing operation.
- Moderator:** Thank you. Our next question is from the line of Devansh Lakhani from NVS Brokerage. Please go ahead.
- Devansh Lakhani:** Basically, my question was regarding the remaining nine months that we have for the financial year 2018. How much are we expecting the production to be in this remaining nine months? I am asking this because as per ISMA they have changed, in fact not changed, but for season 2017-2018 they have estimated 251 lakh tons of production and last season it was 203 lakh tons. And last year we had produced something 33.4 crores kg, I am just changing the metric, but it was that much. So, we are expecting around 40 crores kg to 42 crores kg in this year total?
- Vijay Banka:** It would be difficult to prophesize a number at this point in time. Last season we should crushed 283 lakh quintals of sugarcane at a recovery of 11.78 and we produce 33.38 lakh quintals of sugar. As per available indications we expect, if not more, at least 320 lakh quintals of sugarcane crushing, so 320 lakh quintals is roughly 13% more than what we have crushed last season. If the recoveries remain same 13% increase in production, if the recoveries come down a little may be 12% increase, if the recoveries get better may be 14% increase, that is the number we estimate for the coming season.
- Moderator:** Thank you. Our next question is from the line of Sukhwinder Singh from Bajaj Holdings and Investments. Please go ahead.
- Sukhwinder Singh:** Sir, just have two, three questions. Once Rangarajan formalized a medium-term to long-term, now assuming 75% linkage with sugarcane is it fair to assume that gross

margin in the sugar segment will remain same? And which are the other areas where company will look at reducing cost so that overall EBITDA margins in the sugar segment can increase?

- Vijay Banka:** Exactly, that is how it will work.
- Sukhwinder Singh:** So, is it fair to assume that transportation cost and selling cost that can be reduced further?
- Vijay Banka:** No, what Rangarajan formula says is that 75% of the revenues that you get from sale of sugar, number one, and then basic by products which is molasses and assumed cost for molasses just in case you are captively consuming the entire molasses. And number three, bagasse, we are assuming a notional cost for bagasse. So, the margins will obviously come from the value addition that you have from cogeneration plant, from distillery, etc, which is where your margins will improve and how you compress your other cost, for example, interest cost, etc, which will also give added margins.
- Sukhwinder Singh:** And is it fair to assume that once this formula is accepted volatility in domestic sugar prices will reduce?
- Vijay Banka:** I think it will reduce, . You know we have a government here which is very agile, which is quick to tweak the import duty structure, in case whether it is threat of cheap import coming in they can increase the duty and if there is a threat of surge in domestic prices they can reduce the duty on the one hand. Number two, if we were to assume there is going to be glut in the market, if there is going to be huge surplus production of sugar in the country, then they can always go back to the tested formula of making exports compulsory. So, I think this cyclicity should be a thing of the past, here we are entering a phase where things should be evenly balanced and efficient companies will continue to do better.
- Sukhwinder Singh:** Thank you. Our next question is from the line of Abhilasha Satale from Crest Capital. Please go ahead.
- Abhilasha Satale:** Sir, you are holding this 9.7 lakh quintals of inventory, it is valued at what price?
- Vijay Banka:** Yes, we are holding 9.87 lakh quintals of sugar, it is valued at Rs. 2,917 a quintal.
- Abhilasha Satale:** Okay. And sir, with the increase in this 320 lakh tons of sugarcane which we are anticipated to crush next year, how much will be like power and distillery production we are assuming?
- Vijay Banka:** It should go up commensurately. I answered this a little while ago, you see from 283 we are going to 320 and much of the increase will come from our third plant where the power equation, the plant configuration is such that the power equation is better,

we can evacuate more power from there. So, when the crushing goes up there will be a little more than commensurate increase in the power evacuation. Distillery, of course, we have limitation on capacity so distillery we will run to its full capacity but we will have revenue coming from sale of molasses.

- Abhilasha Satale:** Okay. And sir, recently in EU this export restriction has been withdrawn, so do you see any impact of that on the global sugar prices and do you see the supply coming from EU regions in global market at lesser price?
- Vijay Banka:** No, but we have a 50% import duty here in India.
- Abhilasha Satale:** Yes, but after 50% the landed price would be around...
- Vijay Banka:** As of now, considering the international prices there is no parity at 50% duty.
- Moderator:** Thank you. Our next question is from the line of Sunil Poddar, individual investor. Please go ahead.
- Sunil Poddar:** Sir, I just wanted to understand what is your outlook on profitability and sales for March 2018 compared to March 2017?
- Vijay Banka:** Sir, a difficult question to answer but it is like this, we are going to see better production numbers, crushing numbers, we are going to start the operations a little early and we will continue to aggressively sell sugar. And we expect a stable scenario of sugar prices and we do not expect any runaway increase in the sugarcane cost, if at all a nominal increase in the sugar cane cost. All this are indicative of the fact that we should have a decent year.
- Sunil Poddar:** And the stock that you are carrying, 9 lakh and over, so that will be sold in this quarter of September?
- Vijay Banka:** Hopefully, if there is any carry over, maximum in the month of October.
- Sunil Poddar:** And what was the sale of sugar quantity in last September quarter?
- Vijay Banka:** I often do not remember, sir, I will have to check and let you know.
- Sunil Poddar:** Just on a ballpark, average?
- Vijay Banka:** It should be about 7 lakh quintals or so sir, I am not sure.
- Moderator:** Thank you. Our next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.
- Nalin Shah:** Just I wanted to ask a small question, this UP policy on linking of sugar and cane price, when do you feel that it is likely to be clear that yes it is getting implemented?

And if it is implemented, what will be the impact on our company in terms of overall profitability and margins?

Vijay Banka:

Sir, it is like this, central government has given a advisory to the state government that going forward FRP should be implemented. Now, FRP is kind of a pre-condition for the Rangarajan formula. Now, the big question before the state government would be, is a question of mathematics. Let us look at the macro picture first, if you see last year the recovery of UP sugar mills, the average recovery was 10.62%. Now, if you factor that with FRP of Rs. 255 for 9.5 recovery, this translates to Rs. 285. And last year in any case the farmers were paid Rs. 305. Which means there is still shortfall of Rs. 20. So, you cannot expect the farmers to expect a price which is less than the price of last year. So, this will take a while according to me. One way to look at it is, once the gap between FRP and SAP is narrowed, may be that will be the right time to implement FRP and the Rangarajan formula. There are ways and means which can be worked out. The government, I am sure, must be thinking of some formula by which this can be implemented straight away, but it does not look to me that it is possible to be implemented very soon,. But the best part is that the intention of the government is becoming very clear that eventually they want rationality in the sugarcane prices and no arbitrariness in the sugarcane prices.

Nalin Shah:

So, you feel that it may or may not get implemented in the next ensuing this crushing season?

Vijay Banka:

If they want they will go at it, but it will require a lot of thinking, a lot of mathematics, how to see that the farmers do not get the price less than last year. If they follow this, if my recovery is higher and my neighbors' recovery is lower so you cannot expect, in UP the farmers are not used to receiving differential price treatment. I am just taking an extreme example, for example, if my recovery is 12 and my neighbors recovery is 9.5 and the farmers are rubbing shoulders with one another on an everyday basis, one farmer cannot be expected to be receive 320 or so and another farmer cannot be expected to receive only 255. So, there are complexities, let's see how it works out.

Nalin Shah:

Okay. And how do you see the demand driver for the Indian economy, kind of GDP going up and overall prosperity increasing in rural areas also. Do you see that demand for sugar as a energy provider should increase in the times to come?

Vijay Banka:

Yes, sir, I definitely think so, I am in agreement with you.

Moderator:

Thank you. Our next question is from the line of Ashna Mishra from Cogencis. Please go ahead.

Ashna Mishra:

Sir, I wanted to know your estimate for production in UP in 2017-2018?

- Vijay Banka:** 2017-2018 we are talking of 10 million tons.
- Ashna Mishra:** So, sir the reason would again be because there are expectation of high recovery and because of the early maturing variety in next two, three years?
- Vijay Banka:** And better yield for farmers also and some more area under sugarcane cultivation.
- Ashna Mishra:** So sir, how much is the area increase?
- Vijay Banka:** Difficult to answer, but I think there has been some increase, at least 5%, it is different for different regions, for example West UP is totally saturated, you cannot expect higher cane area there. But if you travel eastwards of UP, yes there can be some increase. So, I would assume it would be about 5% or so.
- Ashna Mishra:** Alright. Also, I wanted to know that are other mills in the state also planning on early crushing, is this a state wise phenomena, early crushing this season?
- Vijay Banka:** It will be a state-wide phenomenon, actually you see UP is basically categorized into three zones, one is the western UP, the central UP and the eastern UP. So, you will find mills in west UP all starting production crushing simultaneously. For example, in our case also we are in Bijnor district, there are five to six other sugar mills in that district. So, it will be a collective decision, a day here or there all of us should start crushing.
- Ashna Mishra:** Okay, so you are looking at a week after Diwali?
- Vijay Banka:** Ideally yes, unless there are other kind of compulsions to start a little early.
- Moderator:** Thank you. Our next question is from the line of Deepak Kapoor, individual investor. Please go ahead.
- Deepak Kapoor:** Sir, just quickly want to confirm, you are on track to continue to pay down your long-term debt?
- Vijay Banka:** Yes, sir. You see, I will tell you on date my June numbers are Rs. 122 crores of long-term debt, I have already paid out of that Rs. 7.5 crores, today I am at Rs. 115 crores. We are on a accelerated mode of repayment of debt.
- Deepak Kapoor:** Sir, could you throw some light on demand for sugar consumption in this country, because from last two-year numbers it seems it is very stagnant.
- Vijay Banka:** You see why there is difficulty in estimating the demand number is because when we talk about consumption of sugar we go by the offtake of the sugar that has been sold from the sugar mills, some could be in the pipeline, there could be contraction or increase in the pipeline stock also, so which is what poses an additional difficulty in

hazarding a guess as to how much sugar is there. But if you see, post demonetization we thought there was some demand destruction but the demand has been brisk lately and we expect at least about 25.5 million tons of sugar being consumed in the next season, if not more.

Deepak Kapoor: Sir, this quarter you have been able to push out so much sugar, largely because Karnataka, Maharashtra, Tamil Nadu have not been able to supply enough to the market?

Vijay Banka: Exactly sir, because hitherto uncatered markets are now being catered to by UP sugar mills.

Deepak Kapoor: Sir, what is ISMA's estimate of Karnataka and Maharashtra situation for crushing this year?

Vijay Banka: For 2017-2018?

Deepak Kapoor: Yes.

Vijay Banka: Tamil Nadu presents a very dismal picture because the estimate is that it could be less than 1 million ton, same as last year. Karnataka can also be at best 2.5 million ton. You see, the reports that I get from that part of the country is that the water shortage is really impacting them, there has been really no adequate rainfall even this year.

Deepak Kapoor: Tamil Nadu, I know the situation, even Karnataka similar?

Vijay Banka: Also it is bad sir. It is bad even in some parts of Maharashtra, in some of the districts the rainfall is not adequate.

Deepak Kapoor: Okay, so it is unlikely that Maharashtra will go back to what they did two years back?

Vijay Banka: At least not the 2017-2018 season, 7.5 million tons is what we expect them to be.

Deepak Kapoor: Sir, just one last bookkeeping question, I do not understand, since your crushing happens over few months, a lot of your costs are incurred then and now like it is your maintenance, how do you apportion this cost over the quarter?

Vijay Banka: No, so we charge it off to the quarter in which they are incurred.

Deepak Kapoor: It is against the sale, you do not do it proportionately with sales?

Vijay Banka: No sir, for example, if in a quarter my cost incurred is x that is what gets reflected in the profit and loss account. There are a couple of sugar mills who charge off the

offseason expenditure in the last quarter, we do not do that, we charge it in the quarter in which it is incurred.

- Deepak Kapoor:** So, the crushing happened over roughly 1.5 quarters or five months?
- Vijay Banka:** So, it has the expenditure of about three months.
- Deepak Kapoor:** So, this will only reflect plant under maintenance.
- Vijay Banka:** Yes.
- Moderator:** Thank you. Our next question is from the line of Yashpal Madan, individual investor. Please go ahead.
- Yashpal Madan:** My question is frankly answered by earlier questions, but one related question is related to this FRP what is your sense, what is the probably this happening this season? Your own guess exactly, I am not asking for any direction, you are in the industry so 50% chance, 60% chance?
- Vijay Banka:** For me it looks difficult.
- Yashpal Madan:** This season looks difficult.
- Vijay Banka:** This season looks difficult, because like I explained farmers cannot be paid less than what they have been paid last year and in UP the farmers do not have that psyche, in Maharashtra yes farmers associated with one mill get more and other mill they get less, but in UP they are all used to getting the same rate whatever be the case.
- Yashpal Madan:** Overall, it looks to be quite tricky and difficult to make these farmers understand, there will be agitation from them, they will accept this kind of complex system?
- Vijay Banka:** They need to be educated actually, they need to be educated big time. Which is why the time available being short, but if the government can work out some formula, they sit across with farmers and industry I am sure some out of the box thinking can happen and some solution can emerge.
- Yashpal Madan:** On farmer side also do they have associations or unions and all where they can be handled in a collective way or they are scattered basically?
- Vijay Banka:** They are generally scattered but farmers interest is in any case taken care by the government.
- Yashpal Madan:** Sir, still as they have less or may be commercial sense so making them understand all these things may not be an easy thing?

- Vijay Banka:** There are farmer leaders, BKU is also there, there are other educated farmer leaders also, there are some farmer leaders who create nuisance also, all kinds of people you have.
- Yashpal Madan:** So, let's say if it does not happen so do you expect any necessity?
- Vijay Banka:** Yes, it should be nominal because even if you have heard or read Chief Minister Yogi Adityanath's statement, he said higher sugarcane price is not the solution to the problems of farmers. Number one, they should be paid on time; and number two, their productivity should be increased. And we have seen in the last two years their productivity has in fact increased and it can get better and better, sugar mills are helping them, encouraging them to follow modern methods of farming, deep trenching, maintaining row to row distance, right application of fertilizers and growing early variety. So, if you ask me honestly, their incomes have gone up, farmers are becoming more and more prosperous.
- Moderator:** Thank you. Our next question is from the line of Prashant Bafna, individual investor. Please go ahead.
- Prashant Bafna:** Sir, two questions. First question, last year your total finance cost was almost Rs. 42 crores, if I am not wrong. So, this financial year ending what do you think, what should be the numbers like in terms of going forward?
- Vijay Banka:** Sir, it should be substantially less. But number one, it should be less because our debt repayment plant is fast in progress. Number two, our rates of interest have also come down. And number three, it should be higher because now as per IndAS preference shares, they are being categorized as liability and dividend on them is going to be finance cost. So, there are two favorable factors, and one not so very favorable factor, but overall we expect to have a significant reduction in the finance cost.
- Prashant Bafna:** Okay. And second question is, would like to know in terms of dividend what you have declared, so going forward what should shareholders expect, the same kind of dividend or even better dividends to follow?
- Vijay Banka:** We will be very investor friendly, at this point in time I can only say that let us wait and see what kind of profits we have. For example, if you have seen, there was one advisory from investors based on which we have restricted our Managing Director's remuneration also and capped it this time. And there was another suggestion from the investors that we should pro-rata provide for all the taxation, etc, that is also being taken care this time. So, we value our investor's advice very much.
- Prashant Bafna:** Okay. So, long-term investor friendliness should definitely be maintained?

- Vijay Banka:** We will be investor friendly sir.
- Moderator:** Thank you. Our next question is from the line of Abhilasha Satale from Crest Capital. Please go ahead.
- Abhilasha Satale:** This last quarter we made around Rs. 6 per kg at EBIT level and this quarter further prices have gone up of sugar, so how much would this delta go to?
- Vijay Banka:** You are talking about quarter two?
- Abhilasha Satale:** Yes, quarter two even sugar prices have further gone up.
- Vijay Banka:** Sugar prices have gone up but we will have no absorption of overheads and so second quarter is going to be a challenging quarter. We are going to sell aggressively, we will see that our realizations are optimized, but second quarter for all sugar mills is a challenging quarter. See, typically the best quarter for sugar mills is the fourth quarter, followed by the third quarter, followed by first quarter and the last is the second quarter.
- Moderator:** Thank you. Our next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.
- Nalin Shah:** Sir, two things, one is that about three years back all the sugar mills had very, very tough times and it was a nightmare for them to keep themselves in existence. Now having that bad passed almost the entire industry for five, six years and now since the kind of cash you are oozing out, what would be the kind of strategy, would you like to do some diversification to the extent that like again if the bad time comes for the sugar industry at least you are insulated in some way and better use of this cash which we are generating right now or how would you take it?
- Vijay Banka:** Sir, like I had explained a little while ago, there are n number of proposals coming to us for takeover of units, but we are being very, very cautious, we do not want to do anything silly. Our first objective is to become long-term debt free, secondly, we are already spending money on certain debottlenecking of operations so that our average crushing per day goes up, technological advancement, whatever we were not able to do because of paucity of funds are all being executed and efficiency enhancement measures and all are being taken up. But anyways, those are all not going to cost us much more. So, our objective first is to become long-term debt free, secondly there are distillery expansions which can be taken up, and we will have friendly investor policy. As of now everything looks sustainable, we do not expect cyclicity to be repeated, we expect sustainable growth for sugar companies. So, at the opportune time we will take a call.
- Nalin Shah:** Right. So, immediately you do not feel any necessity of any diversification?

- Vijay Banka:** As of now, no.
- Moderator:** Thank you. Our next question is from the line of Karan Thakker from TM Securities. Please go ahead.
- Karan Thakker:** My question would be really simple on the lines of what you had mentioned before of two months inventory being indicated is my estimate. Based on that two months inventory estimate, what are we expecting the price to be considering all our competitors sell out of inventory during the current quarter? And going ahead what is the inventory build-up right now?
- Vijay Banka:** Sir, the lower level of inventory would perhaps indicate that prices can flare up. But like I said, the government is keenly watching and the industry is fully cooperating, all are selling briskly. So, the prices are around 3700 level which is a reasonable price for any sugar company.
- Karan Thakker:** Which you estimate to prevail for the next seasons?
- Vijay Banka:** Yes, we expect this price to prevail and we expect this price to prevail even after the crushing has commenced. May be for 15 - 20 days or a month there could be little pressure on the prices, but overall the average sugar price realization should be more than 3,600.
- Karan Thakker:** And our conserving cost which was about Rs. 4 - Rs. 4.5, with the reduction in the debt right now is expected to come down to how much lower, so right now we spoke about 2917 basically cost of inventory, so...?
- Vijay Banka:** Yes, if you see our interest cost on QoQ basis has come down by about Rs. 7 crores in Q1. So, we will see good reduction in the coming quarter as well. So, this obviously will get reflected in better margins for us.
- Karan Thakker:** So, sir will you expand the conversion cost per kg of that to come down?
- Vijay Banka:** When we talk of conversion cost we do not take into account interest cost, interest cost used to be around Rs. 2 kg for us, which now has come down to less than Rs. 1 per kg for us. There will interest cost because of working capital requirement even if we become long-term debt free. All sugar companies have peak level stock during March, April, so then the inventory build up is very high and it gradually gets reduced. If we reduce our working capital loans also then the question will come as to where do you deploy the money, because then there can arise a situation in September, October where you will have surplus cash with you.
- Karan Thakker:** And sir, as of now what is our short-term and long-term cost?

- Vijay Banka:** Sir, long-term we have, like I said, we have Rs. 115 crores of long-term debt on us, out of which Rs. 85 crores is at 9.55% rate of interest and there is Rs. 32 crores is non-interest bearing, it is a government sponsored loan. And our working capital is at 9.35% rate of interest, we are in the process of getting ourselves rated for issuance of commercial paper. So if we get a favorable rating I think the working capital cost can come down further.
- Moderator:** Thank you. We have the last question from the line of Prashant Bafna, individual investor. Please go ahead.
- Prashant Bafna:** Sir, for a retail investor, for being a long-term investor what would you say, you said that you should go up for this financial year by 10% - 15% or xyz whatever number, but if you are a long-term investor for three years, five years, how do you see this?
- Vijay Banka:** When I say 10% - 15% increase I spoke about the increase in the crushing, I did not speak about the profitability, profitability is again outcome of a number of factors. So, crushing we expect about 10% - 15% to go up. I think I have answered this question earlier also, we see a sustainable growth for the sugar industry. Policy in the past that had adversely impacted the sugar industry in the past was arbitrary increase in the sugarcane prices. Now, the focus of the government is more on increasing the productivity of the farmers and ensuring the price that is decided is paid to the farmers on time. So, one aspect being taken care and the second aspect pricing of sugar also being taken care by the government tweaking the policies every which way whenever required. So, we expect a stable regime to continue, I think this is an industry to remain, for anyone to stay invested in.
- Prashant Bafna:** Okay. I just wanted like the growth for shareholders is only if company is growing at 10% - 15% per annum. So, in terms of that the demand is not growing at that rate, demand is growing at 2%, 3% or 5%. So, how do you think that this company can grow at 15% - 20% from here on?
- Vijay Banka:** You see, within our existing units we can grow further also in the coming years, we can do capacity expansions, etc, if required. Then the next option would be of course to acquire units, maybe we will go shopping during bear phase and not during the bull run.
- Moderator:** Thank you. I now hand the conference back to Mr. Vijay Banka for closing comments.
- Vijay Banka:** Thank you very much. I am indeed grateful to all of you for having extended support to us. We have been very receptive as far as your suggestions and advices are concerned. Our promoter MD has proactively requested for capping of his remuneration to Rs. 5 crores per annum. The spike that we saw in the fourth quarter in last year is not going to be there, so we will continue to remain investor friendly,



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we are working seamlessly and tirelessly in all those areas where we have total control, for example, efficiency, production, etc, etc. And we see a stable scenario as far as sugar cane price is concerned and as far as sugar price is concerned. So, we should see a sustained growth, we do not see any adversity befalling on the sugar industry in the near future. We will continue to excel in whatever manner we can do. Thank you very much

.Moderator:

Thank you. On behalf of PhillipCapital (India) Pvt. Ltd., we conclude this conference. Thank you for joining us. And you may now disconnect your lines.