"Dwarikesh Sugar Industries Limited Q4 FY21 Results Conference Call"

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

MODERATOR: MR. ARCHIT JOSHI – DOLAT CAPITAL

Moderator: Ladies and gentlemen good day and welcome to the Dwarikesh Sugar Q4 FY21 Results and Business Outlook Conference Call hosted by Dolat Capital. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Archit Joshi from Dolat Capital. Thank you and over to you sir.

Archit Joshi: Thanks Malika. Good afternoon to everybody. Welcome to the fourth quarter and FY21 results conference call of Dwarikesh Sugar Industries Limited. We have with us today the Managing Director of Dwarikesh Sugar Industries Limited Mr. Vijay S. Banka. Without further ado I would like to hand over the conference to Mr. Banka for his opening remarks post which we can have the forum open for a Q&A round. Thanks, and over to you sir.

Vijay S. Banka: Very good afternoon friends, I am very happy to be amidst you for this Q4 FY2021 earning calls conference. We have had our board meeting on the 12th and the results are there before you. I would term the quarter as a satisfactory quarter. We have clocked a turnover of nearly Rs. 600 crores, and this is vis-à-vis Rs. 463 crores that we clocked in the corresponding quarter last year. On an annual basis our turnover has been Rs. 1846 crores vis-à-vis 1342 crores in the last year. We have had an EBITDA for a full year basis of about Rs. 208 crores vis-à-vis Rs.141 crores. Earning before tax for the full year is almost Rs. 120 crores vis-à-vis Rs. 71.5 crores last year and a profit after tax is Rs. 91.54 crores vis-à-vis Rs. 73.45 crores and total comprehensive income is Rs. 95.20 crores vis-à-vis Rs. 65.51 crores, last year. We are happy to announce the dividend at the rate of 125% which is Rs. 1.25 paisa per equity share. This being our silver jubilee year we have taken a step ahead in this direction.

The working of the quarter has been generally satisfactory and more so from the ethanol / distillery segment perspective. In the FY we have clocked a highest cane crush of 397.14 lakh quintals which is because we had early start of the season and the late closure of the previous season. So, there is an overlap of season as you will kindly understand. This is as compared to 328 lakh quintals that we crushed in the last year. We have sold sugar nearly 49.49 lakh quintals which includes exports sale of about 16 lakh quintals as compared to 38.78 lakh quintals which included 9.61 lakhs quintals of export sale. We have had closing stock of 26 lakh quintals as at the end of 31st March 2021.

Our performance in the distillery segment has been satisfactory. During the full year, in fact even in this year we have not had the full benefit of the expanded capacity, we have sold about 317 lakh litres of ethanol vis-à-vis 116 lakh litres of ethanol in the last year. So, our run rate in the quarter was decent. We sold about 1.28 crore litters of ethanol. Although at the beginning of the quarter there was little sluggishness in in so far as ethanol offtake is concerned but things are gradually got better. All our long-term loans as you would know are subsidized loans. We have a loan from the State Government which is at 5% rate of interest and we have a distillery loan which is again subsidized by the Central Government and our rating continues to be A+, although we have been continuously striving to get AA and we do hope that we will get it soon. Generally, things have been alright. I must commend the government for the encouraging ethanol policy / ethanol blending program which has resulted in sugar mills enthusiastically participating in the program and using instead of the conventional C-heavy molasses the B-heavy molasses and the juice as well. This has resulted in some sacrifice of sugar production. The season which will be getting over soon we expect that 2 million tons would have got sacrificed in favour of ethanol and this number is going to get higher and higher in the coming years. We think in the industry there is a course correction that is happening because export performance of the country has been very impressive. Out of the target of 6 million tons of export 5.4 million tons exports has already been contracted to be sold. So, we expect the entire 6 million tons to be going out of the country much before the target date of 30th of September. Our performance in the export front is good and so far as our crushing and productions is concerned, in two of our units our crushing is still on. We should be crushing the same quantity of sugarcane that we crushed on the last crushing season. However, we have been generating B-heavy molasses in two of the units of the three that we have. In a sense we are also participating in the sugar sacrifice program by enthusiastically taking up ethanol blending program which helps the sugar mills as the revenue spread becomes broad based and sugar production gets moderated.

So, all in all I would term the quarter and the year reasonably satisfactory, although there is always scope for improvement. There is always possibility of better performance. We will of course strive to achieve that. Thank you very much. I now open the house for asking any questions that you all may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anupam Goswami from B&K securities.

Anupam Goswami: My first question is on the proportion of B-heavy and C-heavy this quarter - did we sell any B-heavy or any C-heavy from our inventory from last quarter or are we carrying any inventory currently?

Vijay S. Banka: Well, the entire ethanol that we manufactured in this present quarter is from B-heavy molasses. We have not used C-heavy molasses. C-heavy molasses has been either sold to fulfil our levy sale obligations or it is sold in the open market. So, we have not used C-heavy molasses at all for ethanol manufacture. We have used only B-heavy molasses for a manufacture of ethanol and the normal stock of molasses would remain at all points in time. In fact the ethanol stock at the year-end was trim. But yes, stock of molasses whether B-heavy or the stock of ethanol they all remain in business in some measure

Anupam Goswami: My question was - last time, we had C-heavy molasses and we had to sell C-heavy ethanol due to which our margin were slightly low

Vijay S. Banka: It was only in Q3 we have sold small quantity of ethanol manufactured from C heavy molasses.

Anupam Goswami: So, we are not carrying any such large quantity right now?

Vijay S. Banka: No because the C-heavy molasses generation has come down drastically because most of the sugar mills are generating B-heavy molasses for their ethanol manufacturing purposes.

Anupam Goswami: The next question is on the interest cost, we have repaid a debt of quite a high level, but our interest cost is still higher, how has that come out?

Vijay S. Banka: There are 2-3 reasons for that:

Number one, last year we were beneficiaries, in fact the entire industry was beneficiary of a buffer stock subsidy scheme which the government operated. That was not to be in this year. It was there for a few months in the beginning of the year.

Then number two, last year we were also beneficiaries of soft loan which was given by the Central Government in which there was a subsidy of 7%. That loan got repaid on the 12th of April 2020. So, we have had no benefit of that in this financial year.

Number three, last year our distillery work was on. So, some of the interest cost that we had incurred was capitalized. This year you see the full impact of interest on the distillery loan that we took for distillery.

Number four, of course we are under regulated release mechanism, as are aware we cannot sell more than what is ordered to be sold by the department of food and public distribution.

Our crushing numbers and production numbers are also high. So, that is the reason we have been carrying more stock, although the stock as you can see when compared to last year is lesser. However all these factors contributed to higher interest cost.

Anupam Goswami: Last question is if the international prices remain high, right now like 17 to 17.56 trends, do we see any exports beyond the 6-million-ton quota as in without the subsidy can it happen and reduce the overall inventory?

Vijay S. Banka: The prices, they had touched a high of around 18 cents a day or two days ago, but they are back in the 17 cents bracket now. Yes, if the prices go beyond let us say beyond 18 cents, 18.5 or 19 cents then you may see some response from the sugar mills and they may contract to sell sugar under the OGL which would obviously be over and above the 6 million quota that the government has announced. There is definitely a possibility but we will have to wait and watch the international price movement.

Moderator: The next question is from the line of Nimish Sheth from GT Advisory.

Nimish Sheth: I have a couple of questions. One is on CAPEX, one on dividends and third is a bookkeeping question. That is on the sugar stock. You said you have 26.02 lakhs quintals, closing stock 31st March 2021. So, what is this closing stock value for kilo?

Vijay S. Banka: It is valued at Rs. 2965 per quintal.

Nimish Sheth: Second question is on dividend policy, for the past several years you have been giving Rs. 1 dividend and you have declared a similar number for this year with 25% special dividend. Basically, your dividend is Rs. 1 for the last many years. Is there some policy that you guys have in mind that based on profitability we will ratchet up or ratchet down?

Vijay S. Banka: Yeah, certainly. We have taken on record the dividend policy, but the dividend policy factors for the CAPEX program that we may have, the requirement to plough back the funds, the requirement to knock off the debt. So all these factors would be considered before declaration of dividend. So, let me assure you that there is no cap of Rs. 1 a dividend that will be given. Higher the profits and lesser the requirements of ploughing back the money into the system the dividends can always be higher.

Nimish Sheth: Last question on CAPEX, are we planning any further expansion of our distillery?

Vijay S. Banka: Yes.

Nimish Sheth: Are we planning any brownfield expansion of our sugar plants, higher TCD so that we get more molasses?

Vijay S. Banka: Yes sir. So, far as distillery capacity is concerned during the this ethanol year which commenced on 1st of November, 2020 and going up to 30th of October 2021 we are equipped to produce and sell about 4.5 crores litres of ethanol. Now with some certain changes in our plant capacities in this plant we will be able to manufacture and sell about 5.5 crores litres of ethanol. Number two, in our third unit we are evaluating. Of course this untimely second wave of COVID is unfortunate and we are waiting and watching. But the program is on the anvil and if execute the same there would be impressive increase in our ethanol production and selling capacities. And in so far as your question on the sugar capacities, yes, we have sought approval from the authorities for increasing the capacity because in one of our units we crushed for nearly 200 days and we would like to compress the number of crushing days. In the third unit where we are evaluating the distillery proposal we are also evaluating increasing the sugar crushing capacity there so that the distillery can work on full throttle basis.

Moderator: The next question is from the line of Manali Vora from Centra Advisors.

Manali Vora: My first question is - how do we see an increase in our capacity for ethanol currently?

Vijay S. Banka: I just answered that question. We are presently equipped to manufacture about 4.5 crores litres of ethanol which is going to be ramped up to 5.5 crores in the coming season in the same plant. The second is, we are evaluating putting up of another distillery. Like I said because of the unfortunate second wave of COVID, we will have to wait for a little while before we take some concrete steps. But we are actively evaluating setting up of another distillery to ramp up our capacity.

Manali Vora: One more question I would like to ask is, what was your breakeven in case if we want to export the under OGL?

Vijay S. Banka: It depends, domestically one is realizing the price of Rs. 3300 or so per quintal. It depends on what vision we have, going forward, whether we think this price will go up or it will come down? The advantage in exporting is that you will realize the money quickly, you will liquidate the stocks quickly whereas if you hold onto the stock maybe you will hold it for the next 5-7-8 months whatever it is. Then there are obviously interest costs. So, I am sure if the price is around Rs. 3100 per quintal it is worth looking into it, I mean the ex-factory realization.

Moderator: The next question is from the line of Giriraj Daga from KM Visaria Family Trust.

Giriraj Daga: My question is like what kind of volumes are we looking for FY22 in terms of ethanol?

Vijay S. Banka: Like I said the existing plant we can do about 4.5 crores in ESY, so we are already in the month of April. Coming ethanol season maybe about 5.5 crores, so if you are talking about FY22, anything upwards of 5 crores is what we are looking at.

Giriraj Daga: This year we had sold 3.17 crores, right?

Vijay S. Banka: This year, yes, we had sold, 3.17 crores litres.

Giriraj Daga: 3.17 and this our total, industrial alcohol is 5.5 crores?

Vijay S. Banka: It is 4.5 crores litres, but this capacity got created during the financial year. It was not there right from the beginning of the financial year. Now we are at 4.5 crores. We are ramping up the capacity to 5.5 crores from the same plant. Partly we will be manufacturing and selling from 4.5 crores litres capacity and partly from 5.5 crores litres per annum capacity which means upward of 5 crores each is what we think we should be able to sell in FY21-22.

Giriraj Daga: Understood, I was just looking at answer like 3.17 crores of ethanol last year and you have a total distillery sale of about 5 crores later. So, that remaining was the alcohol part, ENA and rest is alcohol?

Vijay S. Banka: No.

Giriraj Daga: Am I getting it wrong?

Vijay S. Banka: We are manufacturing only ethanol. We did not use our capacity to manufacture ENA.

Giriraj Daga: So, this 3.17 can go to 5 crores.

Vijay S. Banka: We produced about 308 lakh litres of ethanol and we have sold 317 lakh litres of ethanol.

Giriraj Daga: And this number will go to 5 crores litres?

Vijay S. Banka: 5 crores in FY21-22, yes.

Giriraj Daga: And FY23 can be (+5.5) and unless you double your capacity?

Vijay S. Banka: FY23 is too early. Like I said we are evaluating setting up of another distillery. If it fructifies then obviously the numbers will go up.

Giriraj Daga: My second question was related to that. When I look at the new capacity, any indication you can give in terms of whether it will be like, as of now the industry is going away the direct sugar syrup also. That is one aspect, new players are also contemplating it combined with the food grain as well as the sugar. Any thoughts on which side you will be tilting towards?

Vijay S. Banka: We will be using sugarcane juice and we will be using B-heavy molasses. During season we will try and use sugarcane juice and during off-season we will be using B-heavy molasses and so far as grains is concerned, you see the East and UP, the availability of grains is plentiful whereas in our area where the plant is located, there the availability of grains is not that easy and once we are in the market for purchase of grains the prices of grains will go sky high. So, which is the reason why we cannot be depending on using grains in the off-season.

Giriraj Daga: Just one clarification that is more of an academic purpose. The direct sugarcane distillery can operate for the 365 days or it can only operate during the sugar season only?

Vijay S. Banka: During the season only, although there are some technical studies that are going on to see that if the sugarcane juice can be preserved but even if it is possible to preserve the sugarcane juice, the storage will pose monumental challenges.

Moderator: The next question is from the line of Sanjay Manyal from ICICI Securities.

Sanjay Manyal: Just one question about these 5 crores liters which you have mentioned. We can assume that this entirely will be B-heavy?

Vijay S. Banka: Yes, entirely will be B-heavy.

Sanjay Manyal: Whatever the levy requirement you have, you will be doing through molasses, it is by selling molasses.

Vijay S. Banka: Yes, exactly.

Sanjay Manyal: Just one thing on the sugar recovery. What exactly is the decline in the sugar recoveries this season or what is expected in the full season, by the time we will end it?

Vijay S. Banka: This year the sugar recovery numbers are very misleading because most of the mills have used B-heavy molasses for manufacturing ethanol. They have generated B-heavy molasses and we also have generated B-heavy molasses in two of our plants. The sugar sacrifice can range from 1.3% to 1.7%-1.75%. Depending upon what kind of sacrifice one takes, that will obviously decide the recovery. Now if you ask about our recovery, we have had a gross recovery of 12.4% in the last crushing season which is season '19-20. This year our gross recovery should be down by anything between 0.10% and 0.15% which is because of the setback most of us have had during the first phase of the crushing when we were all using the ratoon crop. That drop in the recoveries stays but anyways there has been improvement in the recovery in use of plantation crop. But I am guessing most of the sugar mills will report a drop in the recovery of about 0.1% to 0.15% so far as the gross recovery is concerned. Net recovery becomes irrelevant according to me in these times and what is important is the gross recovery.

Sanjay Manyal: Specifically, about the monthly quota, if I just see in terms of the last month, I know it may not be a very right indication, but we have 2.6 lakhs tons inventory so if I just take out the domestic quota, what can we expect in the next 12 months or say for financial year 2022?

Vijay S. Banka: It is difficult to say. Actually, the formula of the quota was fixed in a manner such that for a couple of months UP sugar mills were impacted. But there has been course correction in the month of May and May quotas are really better for us. When the central government or the Department of Food and Public Distribution is deciding the quota obviously they take into consideration our production numbers as well as our stock numbers. The distribution that is done is a very fair and equitable distribution. We have been getting releases in the range like in this month our releases has been in excess of 3 lakhs quintals per month and we expect such releases to continue in the coming months as well.

Sanjay Manyal: Which means you will still require 370 to 380 thousand tons of exports in the next season as well?

Vijay S. Banka: Yes, when the exports are announced, we would want to actively participate so that we can liquidate our stock faster and someone had asked me about participation on the OGL platform. Again, we are watchful, we will see what is the price parity and accordingly we will take a call.

Moderator: The next question is from the line of Dhvaneet Savla, an Individual Investor.

Dhvaneet Savla: My first question is with regards to the impact of the second wave of COVID virus. I heard that from local restrictions being imposed in UP and has it affected any of our production? As I understand it is an off-season so it might probably not have a big impact. My second question is with regards to can you give us a distribution between how much B-heavy molasses and how much C-heavy molasses we are actually having and thirdly I wanted to know your co-generation front. Is this kind of export around 56W which we are doing? Is it sustainable or it varies season to season?

Vijay S. Banka: To answer your first question, the second wave of COVID unfortunately is spread across the country and its spread in mofussil areas and rural areas as well and we cannot say that UP sugar mills remains unaffected unlike the first wave in which there was minimal impact on the rural area. But since sugar is classified as an essential commodity, so the government provided a support to the industry when the first wave hit the country. There was restriction on the movement of goods etc. but we were exempt, and, in any case, sugarcane was allowed to be transported and allowed it to be crushed also. Similarly during the second wave, our crushing is on. Out of the three units, in one unit, our crushing got over on 24th of April. In the other two units our crushing is continuing and should get over anytime between the 15th and 20th of May. So, the crushing remains uninterrupted. The government is very clear on this because it involves the interest of the farmers so whatever standing crop is there it needs to be harvested and crushed. In so far as the sugar demand is concerned, when the first wave hit the country that time there was some demand disruption. In the second wave we are yet to feel any kind of demand disruption although the market has been slightly subdued, By and large if you ask me yes, COVID has not impacted our industry. What was your second question about?

Dhvaneet Savla: With respect to B-heavy molasses and C-heavy molasses.

Vijay S. Banka: We have generated B-heavy molasses in two of our units and as a result, we have sacrificed about 34,000 metric tons of sugar production so far in this season vis-à-vis 5300 metric tons of production that we sacrificed in the previous season. We have been using B-heavy molasses. Whatever B-heavy molasses closing stock or of C-heavy we have is the normal closing stock, nothing extraordinary, not much. Ethanol off-take again because of the second wave of COVID impact, it is slightly subdued at the moment but is expected to become normal very soon. What was your third question?

Dhvaneet Savla: My third question was actually with regards to, just wanted to understand that in the coming quarter is this kind of momentum which we are having, and is that sustainable?

Vijay S. Banka: Yes, it is sustainable. I would not be able to talk more on quarter-to-quarter basis but yes on an annual basis this momentum is sustainable.

Moderator: The next question is from the line of Ashish Agrawal from Cresita Investments.

Ashish Agrawal: My question is with respect to your, how do you see the ethanol opportunity? You have given some opening remarks but if you could just elaborate on that so your 3 to 5 years vision because there is so much that we are hearing about what the government is planning in terms of 20% blending, then E100. How do you see this space panning out and how do you see the opportunity and how do you see yourself in that opportunity?

Vijay S. Banka: Let me start by saying that yes, the two important problems that were plaguing the industry was one a short-term and another a long-term. The short-term of course is the problem of burgeoning stocks, higher stock levels, problems of liquidation of stock and secondly the continuous high production of sugar because of farmers preference to grow more and more sugarcane, it being a very remunerative crop for them. To address the short-term problems government has embarked upon the export strategy under which last year also they set a target of 6 million tons of export and this year again they set a target of 6 million tons of export which is likely to be successfully completed. This will help moderate the stock levels. So, during the season we are going to produce in the country about 30.5 million tons of sugar and with consumption being 26 million tons there is a surplus stock of 4.5 million tons and with 6 million tons going out, 1.5 million tons of stock levels get moderated. In the coming years with enthusiastic participation of the sugar mills in the Ethanol Blending Program we will see further moderation of stock. Hitherto the conventional system was to use C-heavy molasses and to make ethanol out of that but now we have seen more and more sugar mills generating B-heavy molasses for making ethanol and we are also seeing sugar mills using sugarcane juice directly for making ethanol. Now this is where this program is going to gather momentum in the times to come. Last year we sacrificed 1 million tons of sugar production, this season we expect a sacrifice 2 million tons of sugar production and this number is going to grow bigger and bigger in the times to come such that with more sugar mills participating and taking up the B-heavy molasses route and the juice route, one may see in the times, say in the couple of years from now, a sacrifice of about 4 million tons of sugar production. So, which means when this happens there may not be such a dire need to push for the export agenda. Yes there may be a surplus of above 1 million or 2 million tons of sugar and that is how the balance is expected to be restored in the country. Ethanol program is gathering momentum. Presently about 7% ethanol blending is happening, and this number is going to get better and better. Government has already set up a higher target 10% by '22-23. The prices are reasonable for selling ethanol manufactured from B-heavy molasses and for selling ethanol manufactured from juice directly. The ethanol is priced reasonably well. We will see increased participation of sugar mills and hitching the bandwagon. We are also increasing our ethanol production. We will try and sacrifice more sugar, moderate our sugar production. This is how the situation is panning out all across and which is encouraging news for the industry. We are purely seen as a commodity player. Now we have an interesting twist to the story, of the ethanol story. These things are going to get better and better in the times to come and the government is committed to the ethanol blending program for the next 8-10 years at least.

Ashish Agrawal: Other related question is, to drive such a large-scale investment in production of ethanol would require substantial CAPEX. If you can just throw some light on the kind of profitability of an ethanol plant and what does it take to set up a one and kind of payback payments?

Vijay S. Banka: Lot of companies have come forward to expand their footprint in the ethanol space and they are certainly incurring CAPEX. The problem is not so much about the good companies who are able to get the bank finance. The problem is of the companies whose numbers are not very healthy. There again the government has stepped in and has worked out a tripartite mechanism where the oil companies are one of the participants to the agreement, then there is bank and the borrower. They have ring-fenced the ethanol collection such that a portion goes to the ethanol manufacturer, a portion goes to the bank towards repayment. This is a very encouraging development. We should see a lot of ethanol capacities coming up here. Also heard there are few companies like Renuka Sugar for example, they have set up sugar mills only to manufacture ethanol and not sugar. Of course, they may have the flexibility to manufacture sugar as well, but their agenda is to manufacture presently only ethanol. You are seeing such encouraging response to the government policy. If you ask me payback period yes, payback period could be anywhere between 4 to 5 years. It all depends what kind of opportunity cost you consider for the molasses.

Moderator: The next question is from the line of Ankit Sancheti from Kotak Asset Management.

Ankit Sancheti: Can you share what are the current ex-factory realizations for sugar and how do you see it panning out over next 3-6 months?

Vijay S. Banka: Ex-factory realization let me go back a little. Ex-factory realization during the last quarter was not very impressive. It was just about Rs. 3150 per quintal or so and not much. Typically, it so happens that when the crushing season is on and when there is lot of production of sugar in Maharashtra, there is always some pressure on the prices because the sugar of Maharashtra finds inroads into the Northern states as well. Having said that, we have now seen improvement in the prices from the month of April onwards. Presently the ex-factory prices are around Rs. 3200 to 3300 per quintal and we see the prices sustaining at these levels, if not improving.

Ankit Sancheti: Because we were given to understand that ex-factory prices have been inching towards 34, around 3400?

Vijay S. Banka: What you must have heard is for the refined sugar. Yes, refined sugar is getting sold at a price Rs. 3400 per quintal. There is always a Rs. 80 to 90 per quintal premium for refined sugar. We do not manufacture refined sugar, so our realization is around Rs. 3300 per quintal.

Ankit Sancheti: Any specific reason why we do not sell refined sugar? Is there any capacity…?

Vijay S. Banka: It requires CAPEX. We have not incurred such CAPEX. There are not many mills who are manufacturing refined sugar.

Ankit Sancheti: I understand that last year you manufactured 3.17 crores, or you sold 3.17 crores liters of ethanol. As per your current capacity you can manufacture and sell around 4.5 crores liters of ethanol in FY22. But I was not able to understand how will this 4.5 is going to be ramped up to 5.5 crores liters of ethanol. Will it require further CAPEX?

Vijay S. Banka: No, there are some small subtle required in plant needing some CAPEX and there are some governmental approvals that are pending. So, once do the above our capacity will be 5.5 crores.

Ankit Sancheti: On a steady state our capacity is 5.5 crores liters of ethanol in any given ENA?

Vijay S. Banka: Yeah, from here onwards or from the month of October so when the new ethanol season commences our capacity in this plant will be 5.5 crores liters per annum.

Ankit Sancheti: You mentioned that for Unit-3, you were looking for more capacity at the sugar also. Can you say what approvals are required?

Vijay S. Banka: We need approvals from the central government as well as the state government. Lot of government approvals are required. The reason why we have sought approval is, our plant sometime is operating at or above installed capacity of 7500 TCD. Sometimes we operate beyond 7500 so it is always wiser to have certificate for a higher capacity. Besides there is a saying in the sugar industry that higher the capacity the higher will be the drawl of sugarcane as the sugarcane comes from within the same command. It will be work both ways. However we have not yet evaluated but not much of CAPEX may be required for this process. For example if we have spent Rs. 300 crores at this plant we will not require CAPEX of another Rs. 100 crores. It will not be proportionate.

Ankit Sancheti: Just trying to understand Unit-3 what is the current sugar crushing capacity?

Vijay S. Banka: Our total crushing capacity in the first unit is 6500 TCD where we have sought approval to increase to 7500 TCD. The second unit is 7500 TCD and it remains at 7500 TCD and third unit we have capacity of 7500 TCD and we have sought approvals to raise it to 10,000 TCD.

Ankit Sancheti: Typically, these approvals take very long?

Vijay S. Banka: Having said that, I must add that it does not mean that we are immediately increasing the capacity. There is no immediate plan to do any increase in the capacity as such.

Ankit Sancheti: But just trying to understand does it take a considerable lead time to get approval from the government?

Vijay S. Banka: Yes, at least about 5-6 months it takes.

Ankit Sancheti: It is not that it will take 2-3 years.

Vijay S. Banka: No, 5-6 months. There are certain approvals required from the state government. They recommend to the central government. There are of course other related approvals like drawing of the groundwater, effluent etc. these are multiple other approvals that are required.

Ankit Sancheti: At this point in time, we are looking or considering increasing capacity in Unit-3. Is that the right understanding? It will happen or not happen.

Vijay S. Banka: Not the sugar capacity. We are looking at and are evaluating setting up a distillery at the third unit.

Ankit Sancheti: What level of distillery can come up at this Unit-3?

Vijay S. Banka: At the present capacity can support a distillery which when juice is used can support a 175 KLPD distillery and if B-heavy molasses is used, it can support from 140 KLPD of distillery.

Ankit Sancheti: I was wondering one of your competitors have mentioned that as per existing Excise policy of UP State Government, the sugar mills are not allowed to manufacture ethanol from cane juice. Any thought on that, is it the same view which you have or that is why you are not setting up cane juice that ethanol capacity?

Vijay S. Banka: Let me clarify, number one there are no competitors in our business. All of us are friends. Number two, it was perhaps allowed in the year 2018, sugar mills are now allowed to use juice as a feedstock for making ethanol.

Ankit Sancheti: As per you there is no policy changes which are.

Vijay S. Banka: No policy impediments if juice is used for manufacturing ethanol.

Ankit Sancheti: Because they mentioned it in just their call to make…

Vijay S. Banka: Sometime ago…

Ankit Sancheti: Just coming back to Unit-3, 175 KLPD capacity based on C-heavy molasses, how much CAPEX?

Vijay S. Banka: Based on juice.

Ankit Sancheti: Based on juice, how much CAPEX will be required for that?

Vijay S. Banka: If we set it up, it will cost us anything between Rs. 225 to 240 crores.

Ankit Sancheti: 225-240 crores if we set up with juice-based ethanol and if we set up for B-heavy, it will be similar CAPEX?

Vijay S. Banka: No, let me clarify. There are three kinds of feedstock which can be used in distillery. One is the conventional C-heavy molasses, the second is B-heavy molasses and third is cane juice directly. The constraint or the bottleneck if you ask me is the effluent treatment facility, the boiler and other utilities. The same utilities or the effluent treatment facility is good enough for 175 KLPD of distillery if based on juice, 140 KLPD of distillery if based on B-heavy molasses and 100 KLPD of distillery if based on C-heavy molasses. What I am trying to say is, if you are using C-heavy molasses, the conventional molasses, its pollutants are toxic, and incineration is a little tedious job. However, when you use B-heavy molasses and for example if you have a 40-ton boiler it can incinerate effluent generated by 130-135 KLPD and if one uses C heavy molasses the same boiler can support effluent generated by only 100 KLPD distillery. You got my point?

Ankit Sancheti: Yes.

Vijay S. Banka: The lead time is about a year or so. Once having decided it may take a year for execution.

Ankit Sancheti: In terms of making finalizing decision on the same, do you think it will take a couple of more quarters?

Vijay S. Banka: We are waiting for this. Second wave of COVID has pushed us a little back. So, we will wait for a couple of months.

Ankit Sancheti: Let us assume if we take a decision by say Diwali of this year, so the capacity is going to be..

Vijay S. Banka: We should be able to catch up the ethanol year '22-23.

Ankit Sancheti: Next to next sugar season, not this one but next to next sugar season.

Vijay S. Banka: Yes, next season.

Moderator: The next question is from the line of Resham Jain from DSP Investments.

Resham Jain: First is on your comment on exporting under the OGL route. So, above 18.5 cents you think there is a viability of exporting because it is more than the domestic prices. Is that a fair understanding about Rs. 31?

Vijay S. Banka: No, it is definitely not more than the domestic prices. Domestic price is around Rs. 3300 per quintal. If international price is more than 18.5 cents per pound, the ex-factory realization maybe a little about Rs. 3000 per quintal. So, it can then set the thought process on. Then the sugar mills will be compelled to think if they should participate or not participate in export. Then the question is if they hold on to the stock and sell as per the monthly release mechanism they one will have to wait for some time before the sugar gets sold. If you export here there is an opportunity to quickly sell, realize the money and liquidate their stocks faster. What I am saying is that 18.5 cents per pound is kind of a threshold when the thought process would get triggered among the sugar mills. I am not saying that there is any equality with respect to the domestic selling prices.

Resham Jain: 30 and then just a sacrifice of carrying cost, which is a trade-off.

Vijay S. Banka: Then the sugar mills may perhaps think. I am not saying that they will do it. It is my feeling that sugar mills will start looking at it.

Resham Jain: My second question is on the overall closing stock for the industry. What is the current sense which you are getting on the closing stock for current year?

Vijay S. Banka: We should end up with the closing stock of little above 9 million tons. Our association's initial estimate of sugar production was 30.2 million tons and already we have crossed 30.2 million tons and we might end up with the production of about 30.6 or 30.7 million tons. We may have closing inventory in excess of 9 million tons.

Resham Jain: Given the kind of CAPEX, which is happening on the ethanol side, we will be able to sacrifice another couple of million tons of sugar next year, next sugar season?

Vijay S. Banka: I think the number will be impressive, we have seen a sacrifice over 1-million-ton last year 2 million tons this year and the next year's number would be not a plus 1 million ton, but more according to me.

Resham Jain: What according to you will be the comfortable closing stock because if it moves below a certain threshold also a different kind of measures can be brought in by government. So, what according to you will be the right kind of closing stock for the country, looking at the history?

Vijay S. Banka: Three months stocks should be a comfortable closing stock. Three months consumption is according to me an optimum stock level, which means about 6 to 7 million tons. So, if that happens nobody will lose a sleep, the government is comfortable that there cannot be a runaway increase in the sugar prices. The industry can also be comfortable as there will be no downward pressure on the selling price of sugar.

Moderator: The next question is from the line of Rushabh Doshi from Proinvest Nirmiti Advisors.

Rushabh Doshi: So, I have three questions. One is more of a bookkeeping question like it is related to those segmental results; I just wanted you to understand how their accounting works for that. My assumption is that while manufacturing ethanol sugarcane is first crushed and is boiled. So, on the expenses related to that before being volatile is there accounted in the sugar segment and the rest of it is accounted in the distillery segment. So, is that assumption, correct?

Vijay S. Banka: The cost incurred at the distillery obviously is loaded on the cost of ethanol manufactured in the distillery. As far as the molasses transfer from sugar mill to the distillery is concerned, it is done on opportunity cost basis. It depends on what is the sugar content and what is the eventual price at which the sugar that has been sacrificed will get sold, so it was a combination of factors not just one factor.

Rushabh Doshi: So, like for the last quarter sugar is not so profitable so compared to ethanol?

Vijay S. Banka: So, the interesting development in this particular quarter has been that whatever molasses that we transferred to the ethanol division, most of it got used. There was very little closing stock of molasses in the distillery segment and whatever ethanol we manufactured most of it got sold which is why you see better performance of the distillery segment. If you ask me a question as to why the margins are lower in sugar segment, sugar prices have not been all that good throughout the year more particularly in the last quarter our realization if you see our presentation has been only marginally above Rs 3100 per quintal and if you take the blended average of sugar sold domestically and sugar exported our realisations are lesser than Rs 3000 a quintal.

Rushabh Doshi: So, let just to conclude all cost for the distillery is reported in that segment one?

Vijay S. Banka: All directly attributable distillery costs are reported accordingly.

Rushabh Doshi: What is the price differential for exporting for a company who is in the UP comparing to someone doing it in Maharashtra or Karnataka?

Vijay S. Banka: No, there is not much of a difference and it is mainly in the transportation cost. For example if we transport our sugar from our plants to let us say port in Kandla, Gujarat we may incur a cost of about Rs 2000 per metric ton, and for somebody from Maharashtra they have many other port options to export. They may be incurring transport cost of Rs 1000 to Rs 1500 per metric ton.

Rushabh Doshi: My last question is like based on what I have read is that of all the current vehicles running on petrol of blending rate of around 13% to 14% this instance can take of that ethanol levels. But anything above that it would be difficult to use our current in general as there will be some issues with the fuel pump and other gaskets. So, would we have a different blend if we go at 20 levels like it is a different category of a fuel pump? How would it work in the future?

Vijay S. Banka: Any blending percentage about 20% would require some changes in the vehicle design including fuel pump etc. So as it is for 20% bending we have some distance to go. However the government, the concerned ministries they are all also working with the automobile manufacturers also on this issue that what if one must blend more than 20%. But having said that I must say there are many more years left before we reach that kind of percentage. If you see the Brazilian example, you will find that you can take your vehicle in to a fuel station and ask for whatever fuel that you want. Their vehicles are all on flexi fuel, but yes as you mentioned for beyond 20% blending in India the vehicles are not so far adequately designed.

Moderator: The next question is from the line of Mridul Shah from Aamara Capital.

Mridul Shah: Just wanted your thoughts on two things with this ethanol blending program coming into full throttle now, how do you see the composition of the three verticals of the sugar sector changing? And the reason why I am asking this is because going forward how can this sugar cycle utilize there has been wide varieties in terms of the upstream downstream. How do you see that normalizing? And with respect to there was some regulations that from 2023 the subsidies which are allowed for exports that would be removed. I think PM Modi had also gone on to record to say that we will be pulling out subsidies, so any thoughts on both these things from your end?

Vijay S. Banka: I will answer your second question first. Yes, there are some constraints in so far as subsidizing exports beyond 2023. Up to 2023 we are still a developing nation. So until 2023 the government can perhaps encourage the export by offering subsidies etc. So, with 2023 in mind the way we are going ahead is that we are trying to moderate our sugar production and increase our ethanol production. So, as I had mentioned a little while ago the sacrifice of sugar of 2 million tons should go up to 4.5 to 5 million tons about 2023 and if it happens it is very good. If the production and consumption level almost are similar and if at all there is a need to export, the need is not very high. If we are not in the export market maybe the international fuel prices will also stay put at reasonable levels and so also the domestic prices.

In the times to come we will see moderation of sugar production and increase ethanol production. With moderation of sugar production I do not see so much of downward pressure on the selling prices of sugar. Maybe there will be no need for a monthly relay mechanism as well; maybe there will be no need for the MSP support that the government is extending. So, as and when that happens there will be healthy profits also from the sugar segments and distillery segment in any case is expected to be good for the sugar companies and sustain at better levels in the times to come. Power segment, yes, we are on the defensive bet as there is nothing significant or better can be expected to happen. For sugar segment working which is rather subdued for most of us should get better once the stock levels of sugar become reasonable and we should not thereafter see any downward pressure on the selling price of sugar.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Just wanted to understand now given your sacrificing sugar production and ethanol is in a high group, so how do you see the revenue share of ethanol in overall scheme of things in maybe next 2 to 3 years?

Vijay S. Banka: No, sugar will continue to be a dominant segment and there is no doubt about it. Even in the year that has gone by our sugar segment revenues almost 80% of the total revenue. I have not examined how much low the contribution from the sugar segment can go but I do not see it immediately going below the levels of 70% or so. Distillery segment yes, it can get better and in the distillery segment the advantage is that the margins are so much better there as compared to the sugar segment. But sugar segment will continue to be dominant segment. Let me give you our example, we will be crushing about 375 lakh quintals of sugarcane this season and will be generating B-heavy molasses in two of our units and will be sacrificing sugar production of about 34000 metric tons. Which is less than 10% of our production. But yes, these numbers can undergo radical changes but, in any case, sugar segment will continue to be a dominant segment in the times to come.

Deepak Poddar: In terms of a distillery margins like 40%-41%, now when the focus is on distillery production overall for the most of the sugar mills. So, how do you see that emerging trend in the ethanol segment from this 40%?

Vijay S. Banka: No, it is not, I do not think it is 40% but if 30% to 40% varies from company to company and the way they price the transfer of B-heavy molasses or the sugar cane juice. These margins are sustainable. I do not see there to be any problem.

Deepak Poddar: Do you see also because there is a shift of processing from sugar towards a low towards ethanol as you were talking about the sacrifice overall in the industry, the margin that is 2.5% in the sugar segment. So, what is the scope there in terms of increment in that?

Vijay S. Banka: That is what I was answering a little while ago. Now the sugar prices are sustaining because of government support, because of MSP and because of monthly release mechanism. All that is being done by Government because we are still carrying overhang of stocks. So, once the overhang of stock is diminished and once the level comes down then there will not be so much of pressure on the selling price of sugar and that is when you will see some decent margins coming from the sugar segment

Moderator: The next question is from the line of Dhwanil Shah from I-Wealth Management.

Dhwanil Shah: I had couple of questions. First was on the B-heavy molasses part, so what was the quantum this year with it?

Vijay S. Banka: In two of our units where we expect to crush about 2.5 crore quintals of sugarcane. So, the B heavy molasses generation is typically is 6% which means about 15 lakh quintals which can support production of 4.5 crore litres of ethanol.

Dhwanil Shah: So, this year close to 3 crore liter we sold, out of that how much will be the B-heavy?

Vijay S. Banka: I do not have the exact number, but whatever we sold in the first two quarters was all that we made from C-heavy molasses. In the third quarter a very paltry quantity that we sold was C-heavy molasses, rest from B-heavy molasses and in the fourth quarter everything that we sold was made from B-heavy molasses.

Dhwanil Shah: What was the recovery rate this year?

Vijay S. Banka: The recovery rates have been lower this year. When the sugar mills are making ethanol by generating B-heavy molasses the net recovery rates are irrelevant. They do not offer any kind of comparison. So, gross recovery rates are what one must see. So, last season our gross recovery it was 12.4% across three units. This year our recovery rate should be lower we are yet to conclude our season and we are yet to work out our final recovery rates, but I think it should lower by at least about 10 to 15 basis points.

Dhwanil Shah: And just wanted to understand further on the segment calculation, because as you also said into the earlier participant question you were replying to that because of the different pricing, different accounting the segment profitability changes. So, now if I am just seeing yearly and I am taking a 2–3-year view so in terms of gross margin or

EBITDA margin can you just help me to understand that how directionally will we be going ahead from here?

Vijay S. Banka: I think whatever margins we are getting in the distillery segments, these margins are sustainable. If at all they come down, they come down marginally because of the adjustment on account of the transfer pricing. Otherwise, these margins are sustainable. In the power segment I do not see any of the margins undergoing a radical change as such. So, for as sugar segment is concerned as I mentioned if the sugar prices are better, if the sugar production is moderated, if there is no pressure on the selling price of sugar we should see some improvement in the margins of the sugar segment.

Dhwanil Shah: Just to sum this up, last 2-3 years whatever we saw directionally we should be heading towards better profitability in terms of our margins?

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

Dhwanil Shah: With the Brazil a lot of news about sugar crushing cane has been dropped by 30% to 35% there because of the bad weather and even the ethanol prices globally are surging. So, does that have any impact on us and overall, our ethanol prices are fixed right?

Vijay S. Banka: No, it does impact because there is lesser production of sugar in Brazil. The international prices of sugar firmed up and that has helped in the quick contracting of the export target that the government has set. Since the margins have been better the mills have been in a better position to contract the export sales as export parity is good if we consider the subsidy of Rs 6000 a metric ton. There is a possibility that the things may not have been so viable if the international prices were lower. Higher International prices support the export program and also has sentimental impact on the domestic selling price of sugar. So they do help the domestic sugar industry.

Moderator: The last question is from the line of Anshul Sehgal from Kotak PMS.

Anshul Sehgal: My question is that the existing inventory growth in the industry being high which is leading to sugar prices not going up, first is what are the inventory levels today and secondly at what inventory levels would the industry is comfortable? And given that ethanol prices are already rising, and cane is being kind of rotate through upwards ethanol production, by when do you estimate that inventory levels in industry will be trickle down to whole equilibrium?

Vijay S. Banka: Presently it is all about perception. If there is a perception that the stock levels are going to be high the pricing accordingly start behaving. The closing inventory levels for season 2021 is expected to be about 9 million tons. According to me our inventory level 6 to 7 million tons should be comfortable both for the government and for the industry. For the government because there will be not so worried that there can be a sudden or unexpected shortage in the sugar mill in the country and that there is enough supply sugar in the pipeline and for the industry because there will be no undue pressure on them to panics sell the sugar. So 6 to 7 million tons according to me is a comfortable level, though some may say that the country manage with the closing inventory of 5 million tons as well. At these levels I think both industry and the government should be comfortable and then we can see some healthy margins accruing in the sugar segment.

Anshul Saigal: In your assessment given the way ethanol production is going up by when should we be able to reach that level in the next 2 years?

Vijay S. Banka: Yes, that is what we all are targeting because beyond 2023 subsidizing export will be difficult according as the WTO norms coming into place. I think there is a sense of urgency both on the part of the government as well as on the part of the industry to see that more of sugar is sacrificed, more sugar production moderated and more ethanol is produced. As far as ethanol is concerned there is absolutely no paucity of demand because we have only reached certain percentage level and we can always strive for higher percentage. There is this urgency as collectively we are trying to address this problem and that before 2023 we should moderate our stock levels of sugar

Anshul Saigal: For the industry in the next two years by FY23 should we be producing ethanol 8 crore litres?

Vijay S. Banka: No, 8 crore litres is a very small quantity you are talking, even one company can offer that much. I think you are talking about 800 crore litres and yes I think it is possible

Moderator: Thank you. I would now like to hand the conference over to Mr. Vijay Banka for closing comments.

Vijay S. Banka: Thank you friends for your presence and participation in the conference. It has been very encouraging. Your active participation and your probing questions they help us in improvise our working. I must express our gratitude to you all for having the confidence in our company and for trusting us and believing in us. We will continue to put more and more efforts to improve our working and I am sure directionally the industry is on the right path and should get better from here onwards. Thank you very much.

Moderator: Thank you. On behalf of Dolat Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.