"Dwarikesh Sugar Industries Limited Q2 FY 2019 Earnings Conference Call"

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

MODERATORS: **MR. SAMARTH SANGHAVI -- PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Dwarikesh Sugar Industries Limited Conference Call hosted by PhillipCapital (India) Private Limited. 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.

I now hand the conference over to Mr. Samarth Sanghavi from PhillipCapital (India) Private Limited. Thank you and over to you, Sir!

Samarth Sanghavi: Thanks Liziane. Good day to all the participants and on behalf of PhillipCapital, we want to extend a warm welcome to each and every one of you. We also like to wish you a Very Happy Dhanteras on this auspicious day. We thank the management of Dwarikesh Sugar to give us an opportunity to conduct this conference call. We are joined by Mr. Vijay S. Banka, Managing Director at Dwarikesh Sugar Industries Limited from the company and we would first put the floor open for Mr. Banka's opening comments and then it would be open for Q&A Sessions.

Over to you Mr. Banka.

Vijay S. Banka: Very Good Afternoon to you all. Wish you all a Very Happy Dhanteras, I welcome you all to the Earnings Call of Dwarikesh Sugar Industries for the Q2 and H1 Results. You already have before you the Q2 results of our company.

We have earned a profit after tax of about Rs. 8 crore during this quarter. Our cumulative profit for the year is Rs. 39 crore approximately. Second quarter, as you all are aware is a slightly challenging & difficult quarter because we have no production activities during the quarter. Whatever is produced earlier is sold

In the Sugar segment, we have sold about 8.4 lakh quintals of Sugar during the quarter. Our average realization has been around Rs. 3,150 per quintal

On Q-o-Q basis there has been not only a fall in the quantity of Sugar sold but also the price realization has been lesser. On a comparative basis, we sold more Sugar in the same quarter last year and the price realization was better by nearly Rs. 525 per quintal. This explains the lesser revenue and lesser profit of sugar segment during this quarter.

As far as Distillery segment is concerned, we have had decent numbers. But in the Power segment, since there was no Power generation and Power evacuation there has been a loss during the quarter.

So, I invite you all to ask me questions, I will be pleased to answer them. Thank you very much.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Pritesh Chedda from Lucky Investments. Please go ahead.

Pritesh Chedda: I just wanted to know what is now the replacement cost for a typical integrated Sugar mill if you could give on per TCD basis?

Vijay S. Banka: Well, lately there have been no significant new capacities that have come up. Whatever little capex we have seen in the last couple of years has been basically an expansion of the existing capacities. I therefore would not be able to provide you an authentic number as to what can be a replacement cost per TCD of the plant. Besides, it will all depend on the kind of configuration that one wants to have, whether you want to have fully integrated sugar plant with power & distillery. It will all depend on that. It is therefore difficult to answer your question.

Pritesh Chedda: Okay, I will put it differently. What is the total capacity we have, total TCD we have?

Vijay S. Banka: We have 21,500 TCD capacity.

Pritesh Chedda: Right. For a 21,500 TCD your type of plant which has Distillery plant and a Power plant attached with it….

Vijay S. Banka: Yes, as far as Distillery is concerned we are not fully integrated. Power, yes, we are fully integrated.

Pritesh Chedda: Perfectly. So, generally, people are less integrated on Distillery because we use Sugar juice for Sugar production as well. So, for a 21,500 TCD your type of unit what kind of CAPEX would one spend in the current environment? If you have to replicate your plant let us say.

Vijay S. Banka: I think, it should be easily be about Rs. 1,200 crore.

Pritesh Chedda: Rs. 1,200 divided by 21,500; so it is about Rs. 5,50,000 a TCD. In any case about Rs. 4,00,000 - Rs. 4,50,000 per TCD type.

Vijay S. Banka: Yes, that is my point.

Pritesh Chedda: Okay. My second question, if you could give some assessment on the inventory, what is the outlook, production, if you could give some thoughts?

Vijay S. Banka: Sure. This quarter, of course, has been a little challenging quarter but as we go forward the kind of despondency that was prevalent in the industry a quarter ago or maybe when we are talking after our March results, intensity of the despondency has become lesser. Then we were staring at a production number of 32 million tonnes for sugar season 2017-18 which is a record high number and we were also staring at a possibility of producing 35.5 million tonnes in the crushing season 2018 - 2019. But ISMA has recently reviewed its production estimate and has come up with a number of 32 million tonnes. Now, 32 million tonnes though scary is not a very scary number …

Pritesh Chedda: This is for 2018 - 2019.

Vijay S. Banka: 2018 - 2019.

Pritesh Chedda: So, it is for the current Sugar season.

Vijay S. Banka: Yes. The current season.

Pritesh Chedda: Right, where you will now start the cane crushing, yes. Okay.

Vijay S. Banka: We will start anytime now. The downward revision in the domestic production estimate also coincides with the downward revision in the production estimates globally. Last year globally there was a surplus production of about 8 million to 10 million tonnes. Now this year the surplus is estimated to be minuscule and that also considering 34 million tonnes of Sugar production in India. So, this minuscule surplus that we are now envisaging at this point in time could turn into a negative also, as we go forward. We have learnt of lot of Sugarcane juice getting diverted in Brazil for ethanol production, the Brazilian currency has also shown signs of appreciation. All this has resulted in some improvement in the Sugar prices globally. The raw Sugar prices which had touched a low of 10 cents per pound is now hovering around 14 cents per pound and the White Sugar prices have also increased. When I am giving this global background, I am giving this because this has opened new vistas of export opportunities for the Indian Sugar industry, more so because the Government of India has also announced some export subsidies and the transport subsidy. From India, we should be able to ship out about 4 million tonnes of Sugar. The Government's target is 5 million tonnes but I think 4 million tonnes should be possible

Pritesh Chedda: So, just you were telling the figure, last year's production was 32 million tonne for the Sugar season 2017 - 2018 and inventory were what? I think about 10 million tonnes, right?

Vijay S. Banka: Inventory was about 10 million tonnes.

Pritesh Chedda: Right, this year we are again talking about 32 million tonnes.

Vijay S. Banka: 32 million tonnes….

Pritesh Chedda: And if we land up exporting that 4 million tonnes then the inventory will be about 6 million tonnes?

Vijay S. Banka: No, which is why I am saying fundamentally things have not improved drastically but things are looking better. See, we have ended up with the inventory of 10 million tonnes for the season 2017 – 2018. Now, we are going to have a production of about 32 million tonnes which makes the availability of 42 million tonnes.

Pritesh Chedda: Perfect and consumptions?

Vijay S. Banka: And consumption will be about 26 million tonnes and export of about 4 million tonnes to 5 million tonnes. So, we are back to the same number of inventory or maybe a little higher number.

Pritesh Chedda: That will be about 10 million tonnes to 12 million tonnes of inventory?

Vijay S. Banka: Absolutely. So, there has not been a fundamental or radical transformation in the fortunes of the sector but things are definitely looking not so gloomy. As we talk of production estimate of 32 tonnes, there are some experts who feel that this might again need a downward revision sometime in the future. But anyways as of now, production estimate of 32 million tonnes holds good. .

Pritesh Chedda: Okay. Just 2 questions here, on the Raw Sugar side the 14 cents and the export incentives offered, what will be the equivalent rupee price for Raw Sugar of 14 cents?

Vijay S. Banka: A lot of contracts have already been entered into as far as Raw Sugar export is concerned. The net realization for Sugar Mill in U. P. could be between Rs. 22,000 metric tonne and Rs. 24,000 a metric tonne. Add to that about 8,300 of production subsidy. So, that gives you a realization of Rs. 31,000 PMT. Additionally when you produce Raw Sugar, the cost of production is normally little lesser and there could be some saving. So, the total realization could be equivalent to Rs. 32,000 per metric tonne when compared to domestic sale.

Pritesh Chedda: Okay, perfect. And lastly, this B Heavy molasses rates which have been released by the Government what is the equivalent Sugar or whatever is the proposed rate by….

Vijay S. Banka: Rs. 32. Per kg

Pritesh Chedda: Okay, even that is Rs. 32?

Vijay S. Banka: Yes.

Moderator: Thank you. The next question is from the line of Mitul Das, an Individual Investor. Please go ahead.

Mitul Das: I have 2 questions. One on Ethanol, the Distillery business and another on the Power generation business. In your previous interviews, you have mentioned that you plan to produce roughly around 80 lakh liters of Ethanol this year. So, is this for the financial year or for the Sugar year, the upcoming Sugar year?

Vijay S. Banka: This is for the financial year. I had mentioned that we are contemplating and envisaging enhancement of the Distillery capacity. So, this 80 lakh liters that I spoke about is from the existing capacity and if we increase our capacity to let us say 100 kiloliters per day and then from the day our expanded capacity becomes operational from then we will be able to produce about 300 lakh liters of Ethanol per annum.

Mitul Das: When do you expect sir, tentative timeline for the productions to resume?

Vijay S. Banka: We have lined up our negotiations, we should be finalizing and we should be making the announcement at the earliest possible.

Mitul Das: Okay. But you do not envisage that production to be completed this financial year or is it after that

Vijay S. Banka: No, not possible. From day one, it will take about 12 months to 15 months.

Mitul Das: Okay. So, the production - currently the 80 lakh liters which you have mentioned the figure this will be C heavy molasses, right?

Vijay S. Banka: Yes, that will be C heavy molasses. Even for the expanded capacity, as of now we are not contemplating any use of B heavy molasses. With the given production that we have, with the molasses that we will generate, our expanded capacity should be good enough to take care of our entire C heavy molasses.

Mitul Das: Okay. So, no B heavy molasses conversion as of now?

Vijay S. Banka: As of now not in the plan of action, yes.

Mitul Das: Okay. And also, the realizations would be better from December, right because your rates have been revised by the Government of India which is 43…

Vijay S. Banka: The new contract will be at the revised rate, yes.

Mitul Das: Okay. So, thank you for that. My second question is, last year in the financial year, 2017 - 2018, on the cogeneration side, you had produced almost 30 crore units of power. Do you see the same figures this year or do you see an increase?

Vijay S. Banka: We had not sold 30 crore units of power. Our power sale was approximately 20 crore units. If the number of crushing days is the same we expect to sell the same quantity of power.

Mitul Das: Okay. So, you do not see any significant upward revision in the power gen?

Vijay S. Banka: No, there is no increase in the capacity so far as co-generation is concerned. Much will depend on the cane availability and the number of crushing days and cane crushed. So, if the crushing is more we will generate and sell more power if the crushing is lower the Power generation and evacuation will be commensurately lesser.

Moderator: Thank you. The next question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: Sir, I didn't follow the subsidy that you are going to get per ton on exports, so it is Rs. 11 per kg, is that total?

Vijay S. Banka: No, it is Rs. 13,88 per quintal of cane crushed. So, it will translate, based on some formula to about Rs. 8 per kg of Sugar exported.

Yash Agarwal: Okay. And Rs. 3 transport subsidy also, right?

Vijay S. Banka: Yes, so that much cost we will incur also. Deals that have been taking place on FOB basis. The price that I mentioned, 22,000 a metric tonne to 24,000 a metric tonne is all FOB prices. So, the scheme says your actual transportation cost from your mill to the port to put the Sugar on-board or Rs. 3,000 a metric tonne, whichever is lower will be reimbursed.

Yash Agarwal: Got it. So, it would be broadly profit natural, right by exports?

Vijay S. Banka: Yes, it will be profit neutral, yes. It will be on par with what presently we are realizing on domestic Sugar sales.

Yash Agarwal: Sir, the second question was on, domestic Sugar prices. So, post the festive season, what is your expectation on the domestic Sugar prices?

Vijay S. Banka: Presently domestic Sugar prices at least for us in U. P. is around Rs. 32,000 a metric tonne. We have seen a kind of a pattern in the last few months. At the start of the month the prices are little lower and then they pick-up towards the end of the month. We must understand two things. One there is festival season ahead and second the crushing will also start. Sugar mills will start crushing. So, some of the mills which are cash deprived, they will be in an urgency to sell. And then there is going to be increased demand on account of the festive season. So, one should compensate the other and we expect the prices should remain at the same levels.

Yash Agarwal: Got it. And sir, what is the cost of production of Sugar for us or the expectation at current SAP prices?

Vijay S. Banka: See, we expect an announcement on the SAP in the next 1 week or maximum about 15 days time. So, once we are aware of the State Government price then we will be able to tell you the cost of production of Sugar for the coming season.

Yash Agarwal: Sir, one final question on the global Sugar market. The deficit has been primarily led by Brazil, is it or there are any?

Vijay S. Banka: Absolutely this is led by Brazil and the European Union also.

Yash Agarwal: What was the quantum of product cuts that these 2 geographies have

Vijay S. Banka: Brazil which was 36 million tonnes last season is estimated to produce about 28 million tonnes in the season 2018 – 2019. European Union is estimated to produce anything between 12 million tonnes and 14 million tonnes. So, there again, the estimated production is lower. I am not aware of the exact number there.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir, what is happening on our Distillery expansion?

Vijay S. Banka: Yes, sir. I mentioned a little while ago, we took a little longer than all others in trying to identify perfect technology. We have done that and we are scheduling our negotiations with the suppliers, vendors, service providers, etc. within a week or 10 days from now. And then, we expect to finalize this very soon.

Ritesh Poladia: Okay. And what will be the capacity?

Vijay S. Banka: We intend to take it from 30 KLPD to 100 KLPD.

Ritesh Poladia: 30 KLPD to 100 KLPD.

Vijay S. Banka: Yes. 30 KLPD to 100 KLPD.

Ritesh Poladia: For our this 2,1000 TCD, 100 TCD would be optimum or we can still increase?

Vijay S. Banka: There is a possibility to increase it a little more, it all depends with the kind of crushing numbers we will have as we go forward.. If you look at the crushing numbers of the last season 100 KLPD maybe little less. But the crushing numbers can actually vary from season to season. So if the numbers are little less, then 100 KLPD would be sufficient to take care of the entire molasses that we generate. Additionally have a requirement to sell some levy molasses to the liquor manufactures also. So, 100 KLPD should take care of our captive molasses generation.

Ritesh Poladia: Okay. And what will be our tentative CAPEX for this 100 KLPD?

Vijay S. Banka: It will be anything between Rs. 130 crore to Rs. 150 crore.

Ritesh Poladia: Okay. And this would be C grade only?

Vijay S. Banka: Yes, C only. You see the plant is versatile. In the plant, one can use C heavy, B heavy whichever molasses you want. So, that does not make a big difference. All that is required if you are making Ethanol out of B heavy molasses is separate storage arrangement because Ethanol is eventually Ethanol. Whereas, the Ethanol made out of B heavy will fetch you a higher price. So, you will need to store separately, one has to establish corroborate the fact that one has produced the same out of B heavy molasses. All these arrangements have to be made special.

Ritesh Poladia: Okay. Sir, if this 30 KLPD to 100 KLPD you want to do at Rs. 130 crore - Rs. 140 crore with C grade. Assuming in future you want to have that B grade, what would be the incremental CAPEX?

Vijay S. Banka: There will be no substantial incremental CAPEX. Like I said, all you need is some separate storage and some support equipment.

Ritesh Poladia: Yes, that would be a material CAPEX, or it would be quite normal.

Vijay S. Banka: It will be a normal CAPEX.

Ritesh Poladia: Any additional equipments or anything**?**

Vijay S. Banka: No, normal CAPEX not more than about Rs. 10 crore or so.

Ritesh Poladia: Okay. And one final is how much it would take to set up the Distillery?

Vijay S. Banka: 12 months to 15 months.

Ritesh Poladia: 12 months to 15 months.

Vijay S. Banka: We will try and compress the timeframe**.**

Moderator: Thank you. The next question is from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.

Pritesh Chedda: Sir, just one clarification when you gave consumption of 26 million tonnes, did you include the Sugar juice which would be used for Ethanol production?

Vijay S. Banka: No, we have not. You know very small quantity is expected to be used. When we are talking of about 32 million tonnes of Sugar production if we use sugarcane juice or maybe B heavy molasses this 32 million tonnes could become 31.5 million tonnes. So, the weightage of Ethanol made from Sugarcane juice or B heavy molasses is small, it is only about 0.5 million tonne.

Pritesh Chedda: It is not a game changer in terms of inventory change.

Vijay S. Banka: Not immediately, sir. Not immediately.

Pritesh Chedda: What is the corresponding Ethanol blending in that assumption by the OMCs?

Vijay S. Banka: At 10% blending Ethanol requirement would be about 330 crore liters.

Pritesh Chedda: So, at 10% blending it is 330 crore liters, okay.

Vijay S. Banka: Already they have received bids for about 314 crore liters. So, this coming season 2018 - 2019, we should about 9% to 9.5% blending happening.

Pritesh Chedda: What was the blending then last year then, sir?

Vijay S. Banka: Last year was about 6% to 7%.

Pritesh Chedda: Okay. So, until last year, it was 6%.

Vijay S. Banka: 6% to 7%.

Pritesh Chedda: And the corresponding consumption would be something around 170 liters - 180 crore, right?

Vijay S. Banka: Yes. Around 170 crore liters - 180 crore liters

Pritesh Chedda: And in that Sugar consumption that number in the inventory of 10 million tonnes, this. 180 crore would have already got factored, right?

Vijay S. Banka: Absolutely.

Pritesh Chedda: And lastly, I want to check, what is the indicative cost of production this year for Sugar?

Vijay S. Banka: It depends from company to company, for example, our landed cost of Sugarcane last year was Rs. 335 a quintal. We had a recovery of about 11.88%. So, our Sugarcane cost per quintal of sugar produced was approximately Rs. 2,850. Add to that about conversion cost of about Rs. 4 and then you get some income by way of transfer prices of the molasses, bagasse, etc. So we are between Rs. 31 and Rs. 32 per kg

Pritesh Chedda: I missed it. So, you said first Rs. 28.5 per kg that was what? The Rs. 28.5 corresponds to what?

Vijay S. Banka: No, see my Sugarcane procurement cost is Rs. 335 per quintal

Pritesh Chedda: Perfect.

Vijay S. Banka: Our recovery was 11.88%.

Pritesh Chedda: Perfect.

Vijay S. Banka: So, my Sugarcane cost per quintal of Sugar manufactured is roughly Rs. 2,850.

Pritesh Chedda: Okay. To which you said, you added the conversion cost of Rs. 4 a kg.

Vijay S. Banka: Deduct transfer price of bagasse, molasses, etc. that you transfer to the Distillery and the co-generation.

Pritesh Chedda: Okay. The transfer price of bagasse and all. And whatever realizations you get on Distillery and whatever realizations you get on power generation that is additional?

Vijay S. Banka: Yes, that is an addition.

Moderator: Thank you. The next question is from the line of Levin Shah from ValueQuest Research. Please go ahead.

Levin Shah: If I may repeat because my line was disconnected. So, I just wanted to know sir, about the CAPEX part. You said that you are increasing your capacity from 30 KLPD to 100 KLPD, right?

Vijay S. Banka: Correct. We have scheduled our negotiations with the vendors, etc. in the next 1 week - 10 days,

Levin Shah: Okay. And sir, what will be the CAPEX that we are spending for that?

Vijay S. Banka: I mean, if we do it, it will be about Rs. 130 crore to Rs. 150 crore.

Levin Shah: Okay. But then for 70 KLPD, this is on a higher side. So, are we contemplating any different…

Vijay S. Banka: When we go from 30 KLPD when I say 100 KLPD, we will be actually going in for a brand new 100 KLPD plant. So, whatever 30 KLPD equipment that we have which can be used in the 100 KLPD, will be used, okay

Levin Shah: Okay. So, this 100 KLPD would be new capacities that we would be building and that 30 KLPD existing one?

Vijay S. Banka: It will not be 30 KLPD plus 100 KLPD, 130 KLPD. It will be 100 only. But when we talk about 100 KLPD, it could be 110 KLPD or so, okay. So, from the 30 KLPD that we have whatever equipment which can be conveniently used when we are in taking our capacity to 100 KLPD will be used.

Levin Shah: Okay. Sir, have we got approval from Government for shop loan on this CAPEX?

Vijay S. Banka: Our project has been in the approved list of the Government, yes.

Levin Shah: Okay. And who are the vendors as we are contemplating

Vijay S. Banka: It is principally approved. When I say approved, I do not mean the final approved, it has been prima facie approved.

Levin Shah: Okay. And you will be getting interest rate subvention of around 6% on this?

Vijay S. Banka: Absolutely.

Levin Shah: Right. And sir, who are….

Vijay S. Banka: Not on the entire amount. On some portion of the amount may be about half or a little more than half.

Levin Shah: Okay. So, for this let us say if you do Rs. 140 crore of CAPEX, so whatever debt will raise of this Rs. 140 crore what will be the average cost of debt?

Vijay S. Banka: Considering subvention, etc. it will be about 6% to 7% because not the entire amount will receive interest subvention. So it will be anything between 6.5% and 7%.

Levin Shah: Okay. And one more thing, sir, who are the vendors we are contemplating to buy this technology…

Vijay S. Banka: For Distillery, we are contemplating Praj and then we are contemplating, ISJEC for the incineration boiler. These are the main vendors

Levin Shah: Okay. And like you said it will take 12 months to 15 months once we decide…

Vijay S. Banka: Once we decide it will take 12 months to 15 months.

Moderator: Thank you. The next question is from the line of Mitul Das, an Individual Investor. Please go ahead.

Mitul Das: Just one thinking. I have a question on the other expenses, so compared to last quarter I mean the year 2017 - 2018, I can see that there has been a significant increase in the amount of other expenses, could you just elaborate a little bit more on that?

Vijay S. Banka: Sure. We have incurred an expenditure of Rs. 18.8 crore on fulfilling our MIEQ obligation. We participated in the previous MIEQ program of 2 million tons and whatever was our quota we traded our obligation in favor of the mills which are in the coastal area. So, whatever facilitation fee etc. that had to be paid has been factored for and accounted for. Now, the receipt of subsidy for the same is subject to fulfillment of certain covenants which we are sure, we will be able to fulfill. So we will have more or less equal amount of income coming by way of subsidy from the Government in the coming quarters.

Mitul Das: Okay. So, this one is for like for your realization of MIEQ quota for the year 2017 - 2018, right?

Vijay S. Banka: That will be facilitation fees that we have paid, commensurate to this we will receive some, maybe not of the equal amount may be little less or so. So, that subsidy when we are reasonably sure of receiving it, we will account for it.

Mitul Das: So, this is around Rs. 18.8 crore, right as you mentioned?

Vijay S. Banka: Absolutely.

Mitul Das: And the other question is that there has been in the media that there is a push of increasing by the Sugar Mill Union to increase the MSP at least in Uttar Pradesh. Do you have any update on that from currently Rs. 29 per kg to around Rs. 34 per kg - Rs. 35 per kg?

Vijay S. Banka: What we had heard last was that there was no response from the Government, our request is pending before the Government. No call has been so far taken in this matter.

Mitul Das: But are the Sugar Mill Unions active?

Vijay S. Banka: We have put forth our case before the Government and we are requesting. We are urging the Government to increase the same.

Mitul Das: Okay.

Vijay S. Banka: Because of Rs. 2,900 is certainly for sure not a breakeven price for most of us.

Mitul Das: Right.

Moderator: Thank you. The next question is from the line of Mitul Das, an Individual Investor. Please go ahead.

Mitul Das: Sir, just one more question. As you mentioned that the current CAPEX incurring for the production of Ethanol, you do not have B heavy molasses in the picture. But you are certainly open to having the B heavy molasses in the future, right, I mean in the next Sugar season?

Vijay S. Banka: Yes, yes.

Mitul Das: So, you are not totally like but currently as….

Vijay S. Banka: As I mentioned any Ethanol plants can make Ethanol out of C heavy molasses and also out of B heavy molasses. Whatever changes that are required are minimal, not very significant. What our CAPEX requirement will be to clearly demark it. Since Ethanol produced out of B heavy molasses fetches higher price. So, one will need to prove to the Government or the OMCs that the ethanol that you have made is out of B heavy molasses. So, one will need separate pipelines, separate storage places, both for molasses as well as for the finished product.

Mitul Das: Okay. But that is not significant, right for the storage and others?

Vijay S. Banka: That is not.

Mitul Das: Yes. I mean the reason I am enquiring about it and a little bit because the margins obviously of B heavy molasses to Ethanol is better.

Vijay S. Banka: But then you know when one is making Ethanol out of B heavy molasses, one is sacrificing on the Sugar recovery but gaining on the Ethanol production.

Mitul Das: Right. So, it is kind of a balanced trade-off between Sugar and…

Vijay S. Banka: Rs. 52, it should balance.

Mitul Das: Okay. And my last question on margins on the Distillery and the co-generation power, usually the margins in these 2 businesses were typically like much higher in the Sugar segment. So, do you….

Vijay S. Banka: Yes, Sugar margins vary. Co-gen margin are more or less the same in the last few years around 40% .

Mitul Das: Right. The Ethanol segment which is like very….

Vijay S. Banka: Ethanol margins have improved dramatically because of lower molasses prices that are prevalent in the last 1 year or so. So, Sugar margins obviously depend on Sugar selling price. So, Sugar selling price has been under pressure. So, the margins are also under pressure.

Mitul Das: Yes. So, sir I mean the EBITDA margin of the Ethanol segment but I do not know the actual profit margin of the Ethanol?

Vijay S. Banka: We did have an impressive EBITDA margin in the Ethanol, almost about 70% in this quarter.

Mitul Das: Yes, but it is the EBITDA, what about the profit margin, it will be a little bit less than 70%, right?

Vijay S. Banka: Yes, little lesser.

Moderator: Thank you. The next question is from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.

Pritesh Chedda: Sir, on that capacity side you said we need incremental about Rs. 130 crore liters, Rs. 120 crore liters, Rs. 130 crore liters of Ethanol. What corresponding capacity do the Sugar industry has in the system? Do they have that capacity or capacity needs to be created just like you are creating a capacity?

Vijay S. Banka: So, this 330 liters out of which 314 crore liter has been offered. So, this is obviously based on the capacities that have already been created. So in the days to come, we will see a much increased blending percentage of Ethanol.

Pritesh Chedda: Okay. So, there is already Ethanol capacity of that amount, of that number**.**

Vijay S. Banka: Yes, you see, sir it is like this. 330 crore liters is equivalent to 10% blending. They have received bids was about 314 crore liters, out of which 284 crore liters is going to be molasses based, the rest is going to be grain sprit based. We can thus safely presume that we have the molasses based distilleries of about 284 crore liters capacity to supply Ethanol.

Pritesh Chedda: Okay. And you were referring to tanks and pipes and all that, you were referring to those minor changes which this 280 crore -liters capacity needs to do.

Vijay S. Banka: Here again out of 284 crore liters that has been offered 48.5 crore liters has been offered to be manufactured from B heavy molasses and another 2 crore liters has been offered to manufactured from Sugarcane juice directly. So, these are the numbers.

Pritesh Chedda: And when you are referring to your CAPEX, it is Greenfield CAPEX which you are doing which is a part of that received bids for 314 crore liters?

Vijay S. Banka: No.

Pritesh Chedda: That is additional?

Vijay S. Banka: Yes. Unless we have the capacity, we cannot make a bid

Pritesh Chedda: Okay. So, this is additional that you are creating for the future requirement.

Vijay S. Banka: There are quite a few other projects which have been lined-up. As I mentioned earlier, we should see increased blending percentage in the coming years.

Pritesh Chedda: Okay. So, if the A plus 10 has to raise, you are making yourself ready for it.

Moderator: Thank you. The next question is from the line of Mitul Das, an Individual Investor. Please go ahead.

Mitul Das: The last question which you answered, the 330 crore liters bids which have been already been received by the OMCs, this already incorporates your 80 lakh production estimate, right for this year?

Vijay S. Banka: Yes.

Mitul Das: So, if I understand like…

Vijay S. Banka: Whatever we have done the bidding for based on our existing capacity.

Mitul Das: So, my question, if the OMCs are already able to complete the 10% blending requirement, you have been the existing capacity which is Rs. 330 crore…

Vijay S. Banka: There is always scope to go up to 20%.

Mitul Das: Okay. But the Government has not said anything about 10% hike…

Vijay S. Banka: The Government is very keen and providing all the encouragement to increase the blending percentage.

Mitul Das: So, you are saying the 10% will become 20% eventually in the years to come?

Vijay S. Banka: Yes, that is what we are targeting.

Mitul Das: Okay. And so you and as well as the companies in this are trying to increase the capacity to cater to that increase demand?

Vijay S. Banka: Yes, there are a lot of projects that have been registered with the Government. I mean, the projects which have been referred to the Government for a subsidy / for subvention purposes. All these projects will become operational in the times to come. The percentage will obviously go up, maybe 2 years or 3 years from now and we could see about 15% blending happening.

Moderator: Thank you. As there are no further questions. I now hand the conference over to Mr. Samarth Sanghavi for his closing comments.

Samarth Sanghavi: Once again, thank you very much to all the participants. And thank you very much to the management also for giving us this opportunity. We hope this conference call was fruitful for everyone. We will just hand over the floor to Mr. Banka for any closing comments.

Vijay S. Banka: Thank you, friends. Let me thank you all and express my gratitude for all the trust and confidence that you have reposed in us. We have seen some stunning changes in our fortunes in the last one year or so. Until December 2017, things were looking pretty good and then we saw the big and sudden change happening in the Q1 where most of the Sugar companies had to write down the inventory. However since then, based on various initiatives taken by the

Central and State Government's there has been some kind of turnaround. I would not say that there has been a total correction. But, things have started looking little positive now. On our part will continue to function efficiently, try and clock the best recoveries. We are now virtually debt free. So, we will ride on our strengths and we will try and post better results. Thank you very much

Moderator: Thank you. Ladies and Gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.