



“Dwarikesh Sugar Industries Limited Q3 FY2022 Earnings Conference Call”

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Dolat Capital



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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2022 earnings conference call of Dwarikesh Sugar Industries Limited 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. Thank you and over to you Sir!

Archit Joshi: Thanks Rutuja. Good evening one and all. On behalf of Dolat Capital I would like to welcome all of you to the Q3 FY2022 conference call of Dwarikesh Sugar Industries Limited. We have with us today Mr. Vijay S. Banka, Managing Director of Dwarikesh Sugar Industries Limited. Thanks a lot Sir for letting us host the call. Without any further ado, I would like to ask Mr. Banka to open the call with his introductory remarks after which we can have the floor open for Q&A round. Thanks a lot Sir and over to you!

Vijay S. Banka: Very good afternoon to everyone. We have yesterday announced our unaudited financial results for the quarter and nine months period ended on December 31, 2021. The quarter that has gone by has been reasonably satisfactory. We have clocked a total income of Rs. 602 Crores, profit before tax of Rs. 41 Crores and profit after tax of Rs. 29 Crores. So this compares well with the total income, PBT, and PAT that we have recorded in corresponding quarter last year. In nine months period, we had a total income of Rs. 1502 Crores, PBT of Rs. 133 Crores, and PAT of about Rs. 96 Crores. So if we look at the PAT number of nine months period, it is more than the PAT that we have clocked for the full year FY2021. In terms of percentage increase, the increase in the PAT figure as well as in the PBT figure as well as the total income figure is impressive as you can see.

We will now speak from the country’s production perspective. ISMA has yesterday published numbers and estimate for the production is 31.45 million tonnes. Considering the fact that Maharashtra and Karnataka are reporting good yields and good recoveries my guess is the production could touch 32 million tonnes for season 2021-22. During the Q3 FY2022 our EBITDA margin was better than what we have clocked in the corresponding quarter last year, in the nine months period also our EBITDA margin is better. During the quarter we have sold about 14.17 lakhs quintals of sugar which includes 2.50 lakhs quintals of export sugar which is as compared to 10.38 lakhs quintals of sugar that we sold in the corresponding quarter last year. In the corresponding quarter last year we did not have any export sales, all the sugar that we sold was sold in the domestic market. Sugar sold during FY2021 nine months period is 35.88 lakhs quintals of sugar which includes 2.50 lakhs quintals of sugar that we exported. So this number again compares well with what we had done in the nine months period in the previous financial year. We have carried a stock of 11.07 lakhs quintals as on December 31, 2021, which is a substantial reduction from what we had carried on corresponding date last year. Last year we carried 19.49 lakhs quintals of sugar so nearly 8 lakhs quintals of sugar stock has come down.

In so far as the distillery segment is concerned, we have sold about 3.92 Crores liters of ethanol in the nine months period, which is as compared to 1.89 Crores liters of ethanol that we had sold in the previous year nine months. Our term loan profile is lean and trim, all the loans that we carry in our books are at subsidized rate of interest and our rating continues to be A+ although ICRA has recently revised our outlook from stable to positive which means in due course we should get the much deserved upgrade in our rating. Short-term rating for the commercial papers program is A1+.

Nationally we have contracts for about 4 million tonnes of sugar exports that have been already signed, which is a good news considering the fact that there is no subsidy that is given by the government this year and we expect that 6 million tonnes of sugar will get exported. So we are looking at a very healthy sugar balance sheet for the country. We have started the year with opening stock of 8.2 million tonnes and we should end with a closing stock of nearly 6 to 7 million tonnes and thus some reduction in the closing stock level. If you look at it from the perspective that three years ago, we had an opening stock of 14 million tonnes this is substantial reduction. All credit to the government for incentivizing exports in the last two to three years and also for giving impetus to the ethanol blending policy as a result of which we are seeing increased sacrifice of sugar in favor of ethanol. While in season 2020-21 nearly 2 million tonnes of sugar was sacrificed in favor of ethanol this season the sacrifice is expected to be about 3.4 million tonnes of sugar. So this number is going to go up in the coming years. In a couple of years from now industry should witness a scenario where production will be more or less equal to the consumption and if at all there is maybe a small surplus of a million or 2 million tonnes it will be easy for the country to push it out in the export market. With the news that India is not going to have too much of surplus sugar production international prices also should get better and hence pushing out those 2 million tonnes of extra sugar should not cause any kind of a problem. We are looking at the future with a sense of optimism. Of course optimism always has to be tempered with cautiousness and we are cautiously optimistic. Government has been supportive and the economics of the sugar industry has been good in the last couple of years so we look at the future with a sense of optimism. Thank you very much. Whatever questions you have you may please ask me and I am ready to answer them.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mr. Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Good afternoon Sir. Sir couple of questions mostly book keeping kind of questions. First is on the closing stock, what is the quantum which we have at the end of the quarter?

Vijay S. Banka: 11.07 lakhs quintals.

Resham Jain: That was 19.5 last year right?

Vijay S. Banka: Correct 19.49, yes 19.5 lakhs quintals

Resham Jain: What is the value of this per kg?

- Vijay S. Banka:** It is valued at Rs.3161 per quintal
- Resham Jain:** Average realization during this quarter was around 35 odd level?
- Vijay S. Banka:** It is there in investor presentation.
- Resham Jain:** Ethanol this year end with around 5.2 to 5.3 Crores liters approximately is that a right assumption?
- Vijay S. Banka:** We have already done 3.9 Crores liters so we should do anything between 1.4 to 1.5 Crores liters in the three months period that we have now, January, February and March.
- Resham Jain:** With the new capacity we will end up with what level of production of ethanol?
- Vijay S. Banka:** So far as the ethanol season year is concerned from our Dwarikesh Nagar plant we expect to supply about 5.4 Crores liters of ethanol and the new plant which is going to come up and which will be operational in June 2022 and I forgot to mention the schedule of execution is perfectly on time and we should be able to commission the plant in June 2022. We in our Dwarikesh Dham sugar unit are producing B-heavy molasses and storing. So once the distillery plant is commissioned we should be using B-heavy molasses there and producing ethanol from there. Even if we were to assume that we will get clear three months of distillery operations there, we should be able to do about a Crore and 50 lakhs liters minimum from there so together we should be able to do about 7 Crores liters in ESY 2021-22.
- Resham Jain:** At peak it will be similar to this 5.4 Crores liters?
- Vijay S. Banka:** Once both our plants are operational, our model is going to be that in season we will be using juice for making ethanol and in off season we would be using the B-heavy molasses, which we would generate during the season. The same will be used during the offseason. So once both our plants are operational we expect to produce about 11 Crores liters of ethanol every year.
- Resham Jain:** Got it. Related to this quarter, our overall EBITDA per liter if I look at is slightly lower compared to let us say previous quarter if you can explain why it is so in the ethanol business?
- Vijay S. Banka:** Firstly I must tell you Sir it is very difficult in a sugar industry to view the segment results on a standalone basis and number two also on quarter-on-quarter basis. Q3 of this year is comparable with the Q3 of last year but not entirely. So in Q2 what ethanol we made was from the molasses that we had generated in the last season and in Q3 what we have sold ethanol is partly from molasses generated in the last season partly what we have generated in the current ongoing season. So there has been a revision in the transfer price of B-heavy molasses based on the base price of C-heavy molasses which is prevailing in the market. Because of that you will see lesser margin in the sale of ethanol in percentage terms.
- Resham Jain:** Right Sir. Thank you very much and all the best.

- Moderator:** Thank you. The next question is from the line of Anupam Goswami from B&K Securities. Please go ahead.
- Anupam Goswami:** My question is followup of previous question you mentioned about revision of transfer pricing of B-heavy molasses can you mention how much it has gone up from last quarter to this quarter?
- Vijay S. Banka:** **In case of last** quarter our ethanol produced was by using B heavy molasses generated during season 2020-21 2021 where our transfer price of B-heavy molasses was Rs.670 a quintal, which has now been revised to Rs.1030 a quintal during season 2021-22.
- Anupam Goswami:** Simultaneously you do not see that transfer pricing coming in the sugar segment?
- Vijay S. Banka:** That is what I was mentioning a little while ago it is very difficult to view the results on standalone basis even insofar as segments are concerned and also on quarter-on-quarter basis. It is very difficult to come to any kind of conclusion.
- Anupam Goswami:** Sir, Can you mention our crushing volume and recovery this quarter?
- Vijay S. Banka:** We commenced our crushing operations in two of our units on October 29, 2021 and in the third unit we commenced our crushing operations from November 9, 2021. The crushing during the quarter was 124 lakhs quintals, which is as compared to 120 lakhs quintals that we crushed in the corresponding quarter last year so about 4 lakhs quintals more and in this season we have been generating only B-heavy molasses across all three units whereas in the last year in two of the units we generated B-heavy molasses and one unit we generated C-heavy molasses.
- Anupam Goswami:** What is our recovery this time, net recovery?
- Vijay S. Banka:** I can only talk about net recovery at this point in time because the number of gross recovery would be misleading. Our net recovery is 9.79 as compared to 10.35% recovery that we had clocked in the corresponding quarter last year. I must mention a few things here number one the recovery appear to be lower because we have generated B-heavy molasses in Dwarikesh Dham unit whereas last year we were generated C-heavy molasses in that unit & hence there was no sugar sacrifice in favor of ethanol last season. Number two what happens is even while we are generating B-heavy molasses there can be more sacrifice of sugar if the in case of the B-heavy molasses that we generate, it has higher TRS content. So higher TRS content would mean that our ethanol recovery is going to be better, but at the same time our sugar recovery will suffer so this is a balancing act that we do depending upon what we think is required. Having said that, I must say that the recovery trends have been lower in the quarter for all the sugar mills in UP because we have had very severe winter condition number one & number two there was unseasonal and very heavy rainfall towards the end of September, which resulted in water logging in many parts of Uttar Pradesh including the central UP, east UP. West UP fortunately was less impacted. So that is the reason why the yield and the recovery trends have been little lower
- Anupam Goswami:** Sir going forward in the 4Q will this made up some recovery would be happening in the yield?

- Vijay S. Banka:** See the January month again has not been good in so far as the weather conditions are concerned, but we have seen good sunshine in the last three to four days so that should improve the sucrose formation in the sugar. Towards the end of January or from the beginning of February we see more of plant cane crop coming, because we have now more or less exhausted ratoon crops. In case of plant cane crop the recoveries are always better. Now let us see how much we are able to make up from the recovery that we have already lost. We have to wait and see.
- Anupam Goswami:** What is our crushing target for the season?
- Vijay S. Banka:** Crushing target. In last season we crushed about 378 lakhs quintals and my guess is we should crush at least 375 lakhs quintals this season. We were expecting to crush more this season but because of the unseasonal rainfall, water logging, the yield at the farm levels also has been lower particularly in case of ratoon crops so we will have to wait and see there could always be some late revival in recoveries in so far as yield is concerned. But in any case we should be able to do at least 375 lakhs quintals of crushing
- Anupam Goswami:** My last question on the export net realization how much are we getting?
- Vijay S. Banka:** We have exported about 25000 metric tonnes of sugars so we have contracted this at Rs.3450 a quintal delivery at Kandla and we incur transportation and other expenditure of about Rs.2200 per metric tonnes so net realization is around Rs.32300 a metric tonne.
- Anupam Goswami:** Thank you, Sir I will get back in the queue.
- Moderator:** Thank you. We will take the next question from the line of Karan Agarwal from Tusk Investment. Please go ahead.
- Karan Agarwal:** Thank you so much for taking my question. So I have two questions from my side one is I have seen in the presentation that our sugar sold volumes have considerably increased over the previous year why is that is it because we have received more quotas or because of the export component coming here in Q3 FY2022 numbers?
- Vijay S. Banka:** Number one export numbers are included in Q3 numbers, number two our quotas have been higher. Why our quotas have been higher is because we have done a lot of export in the last year and plus we have also been generating B-heavy molasses and making ethanol and supplying it to the OMCs. So due weightage has been given to both factors and hence our quotas have been higher and that is the reason why sugar sales volumes have gone up.
- Karan Agarwal:** A followup question on that Sir like you mentioned that the Q3 FY2022 volumes also constitute our export contracts and our export contracts were done at around 32.5 lakhs you mentioned in the previous answer but if I look at the average realization it is coming to 35.43 per kg?
- Vijay S. Banka:** The export sales is booked at Rs. 34500 per MT. Rs.200 to 250 per quintal is the transportation cost etc., which is contained in the other expenses.
- Karan Agarwal:** Domestic realization could be around 37 if I am correct?

- Vijay S. Banka:** Rs. 35 something I think we have given in the presentation one moment I will tell you.
- Karan Agarwal:** The overall realization number is 35.43 per kg but this also includes..
- Vijay S. Banka:** Blended average realization is Rs. 35.27 per kg and domestic realization is Rs. 35.44 per kg.
- Karan Agarwal:** Okay Sir. Thank you so much. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Rajyavardhan Sonthalia, an individual investor. Please go ahead.
- Rajyavardhan S:** Congratulations on a very good set of results. Most of my questions have already been answered. So I have a couple of basic questions going ahead since you mentioned that this year was mainly B-heavy and you guys are going to store B-heavy molasses to use in the off crushing season and during the crushing season you guys are going to primarily make ethanol from juice so my question is season runs around 9 months a year correct?
- Vijay S. Banka:** Five to six months.
- Rajyavardhan S:** So we will be doing so can I assume that we will be doing 50% if going ahead we had to project a number of how much B-heavy and how much ethanol you will be producing from juice could we say 50% from B-heavy and 50% from juice?
- Vijay S. Banka:** Yes.
- Rajyavardhan S:** We projected 8 Crores liters for next year FY2023, correct if I am not wrong?
- Vijay S. Banka:** FY we should be able to do 8 Crores, yes.
- Rajyavardhan S:** FY2023 right?
- Vijay S. Banka:** Yes and in FY2024, we will be able to do 11 Crores liters.
- Rajyavardhan S:** Out of 11 Crores liters, 5.5 Crores liters will be directly from juice and 5.5 Crores liters from B-heavy molasses?
- Vijay S. Banka:** Approximately, when we get closer to operating both the plants that is the time when we will decide on the right feedstock mix.
- Rajyavardhan S:** Sir is this because we do not have enough molasses to service the amount of capacity we have for our distillery?
- Vijay S. Banka:** With the kind of capacity that we are going to have in the times to come with the new distillery also coming up, we should be following this model - feedstock mix of juice during season and during off season B-heavy molasses. With this we will neither be having surplus molasses nor we will be required to purchase molasses from outside so we will be self-sufficient and we will be able to run both the distillery plant for about 320 days a year.

- Rajyavardhan S:** Very interesting and Sir, Do you think you will be able to export your entire excess sugar inventory apart from your buffer stock obviously within the year?
- Vijay S. Banka:** No, you see we have already exported 25000 metric tonnes of sugar. Signing of further export contracts will depend up on how the international price of sugar is, which presently is subdued. At this price we have no intention of signing any export contract. We might sign if the prices gets significantly better.
- Rajyavardhan S:** Sir my last question is how much eventually had 11 Crores liters when we will be producing a blend of B-heavy and directly from juice, what is the kind of sacrifice we will be getting on our sugar production?
- Vijay S. Banka:** We should be able to sacrifice nearly 25% to 30% sugar production.
- Rajyavardhan S:** So in terms of yield how much is that going down by?
- Vijay S. Banka:** **You mean** the recovery?
- Rajyavardhan S:** Yes.
- Vijay S. Banka:** So far as the gross recovery is concerned it would not be going down, insofar as the net recovery is concerned it will go down substantially.
- Rajyavardhan S:** So can we assume net recovery it will be around 9%?
- Vijay S. Banka:** It might be, I have not worked out those numbers yet.
- Rajyavardhan S:** Okay, sure Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nimis Sheth from G T Advisory. Please go ahead.
- Nimis Sheth:** Just a comment since most of the questions have been asked and answered. Good numbers we are at an EPS of 5 for the nine months looks like we will end the year around 7% to 7.5% so that is 50% jump you normally pay Rs.1 dividend last year you guys give 125 can we as investor expect a 50% jump in the dividend, I keep asking you the same question dividend policy but it is never addressed?
- Vijay S. Banka:** See once our year is closed once we have the numbers, once we have a total visibility insofar as the cash flow is concerned that is the time we will take a call on our dividend quantum and I can assure you that it will be good.
- Nimis Sheth:** Sir every company now especially the leading companies have started giving interim dividend in the second quarter - let us say when you are in the third quarter like all the others including Dalmia for this, has announced interim, are you considering in the future to split this up give an interim after the third and then whatever is the final 0 or extra in the last at the end of the year?

- Vijay S. Banka:** First and foremost, our priority is to commission our distillery plant.
- Nimis Sheth:** It will be done in June what you will do?
- Vijay S. Banka:** Definitely Sir we have not become debt free as such we have working capital debt most of the time. Anyways debt requirements are coming down I agree with you, but yes once our position becomes little stronger, then yes why not we will also want to remunerate our shareholders in a manner that they are happy and satisfied.
- Nimis Sheth:** Looking forward to that Sir, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ashutosh Chaubey from Centra Advisors LLP. Please go ahead.
- Ashutosh Chaubey:** Thank you for the opportunity. Sir my question is with regards to the sugar realization in the month of November, December we have seen that in UP the prices were as high as Rs.37 to 38 I just need to know why is that our sugar blended prices realization is still at Rs.35 and not a bit higher?
- Vijay S. Banka:** The realization that you are talking about those realizations are actually not on a sustained basis. If you ask me on a sustained basis, what we have got is reasonable realization. There are couple of factors which impact the realization, number one our realization could be little lower because we are in the hinterland. There are mills which are there on the highways, etc., so they always get a little better realization and the higher realization that you spoke about perhaps could also be of refined sugar whereas we do not make any refined sugar. There are various compelling factors. I would not say that our realizations are low, but yes, every effort is being made to improve our realization.
- Ashutosh Chaubey:** Sir my next question is with regards to the sugar inventory now it seems that the inventory expected to be around 31.5 million ton and there is no talks going about any export incentives from the government's end so do you still see that like you mentioned in the opening comment that we could see a 6.5 around million tonnes of exports happening this year will this sugar inventory again cause any issue to the sector?
- Vijay S. Banka:** No, already contracts of 4 million tonnes of export sugar have been signed. International sugar prices may be subdued today but there are opportunities which come when there are these occasional daily spurts in the sugar prices so that is the time when sugar mills will be looking to contract more sugar for export. We have a long way to go as we have only just we have finished January so there are few more months where there is every possibility that contracts for 2 more million tonnes of export sugar can be easily signed. Consumption numbers are also improving and we should have consumption of about 27 million tonnes. 27 million tons of consumption, opening stock of 8 million tonnes, production of 32 million tonnes and so yes, we should see inventory levels moderating from the 8.2 million tonnes level as on September 30, 2021 to about 7 million tonnes on September 30, 2022. That is a decent inventory to carry in the sense that it is

a kind of inventory where there would be no runaway increase in the sugar prices and it is also kind of an inventory which could offer reasonable prices to the sugar mills.

Ashutosh Chaubey: Sir ongoing sugar prices that are prevailing right now that are around 18.5 this should be a comfortable number for the industry right?

Vijay S. Banka: Not for us in UP and at this prices even Maharashtra mills are not signing contracts for export.

Ashutosh Chaubey: Okay so probably because we are in UP we would need Rs.1 to 1.5 of more logistic cost that is the reason right?

Vijay S. Banka: Yes at least it should be. There are multiple factors here again, number one the international prices, number two the exchange parity, higher the rupee depreciates vis-à-vis US dollar it is more attractive to the book export contracts. At this point in time, we definitely will not be able to contract.

Ashutosh Chaubey: Okay sir next question is on the debt and cash level if you could give me that number as of December 31, 2021?

Vijay S. Banka: We have had three term loans one is the soft loan which is given by the State Government of Uttar Pradesh which carries a interest of 5% per annum, the total outstanding there is Rs. 67 Crores, we have distillery loan which we had availed for our Dwarikesh Nagar distillery plant, where the loan quantum was Rs. 116.88 Crores and there the outstanding is Rs. 93.5 Crores and the new distillery which is going to come up in Dwarikesh Dham plant in Bareilly district, we have been sanctioned a term loan of Rs. 185.6 Crores and we have already availed Rs. 30 Crores of term loan by December 31, 2021. So total term loan amount is about Rs. 191 Crores as on December 31, 2021. This loan quantum is going to go up because we will be availing the entire loan that has been sanctioned to us for the distillery at Dwarikesh Dham unit. However we have been able to moderate our working capital debt because the inventory levels have come down which is reflected in the interest cost that we have incurred during the quarter.

Ashutosh Chaubey: Cash balance?

Vijay S. Banka: We do not have cash balance as we always have working capital debt. There are times in a year where we may have surplus cash, but at least during the season typically in sugar industry when the season starts the availment of working capital limit is not there or is a small amount and as the stock levels peak up around April end utilization goes up.

Ashutosh Chaubey: Okay understood, just one last question this is more of a hypothetical question long back there was a report issued by NITI Aayog saying that India would roughly require around 1200 million liters of ethanol so we are still short in terms of capacity now going forward a lot of companies in last one year have announced ethanol capacity even our company has announced we have the upcoming capacities in July so do we see a next mega growth coming in next one to one-and-a-half years, two years maybe when do we see that next because it is shortfall of the capacity on the total requirement that we want?

- Vijay S. Banka:** See most of the sugar mills are planning expansion of the distillery capacity like we have also done. There are many others who are doing. There are sugar companies whose balance sheet perhaps does not evoke much confidence so they are the ones who may be finding it difficult to get loans from the bank, but then the government is supporting them by working out this mechanism of tripartite arrangement where the sugar mill is a party, the OMCs are party and the bank is a party. So they are working it out and we should see lot of loans being sanctioned under that scheme where the standard operating procedures have also been laid out. Additionally according to my information bankers have been flooded with requests for sanction of loans for setting up of distillery based on grain. We will have to wait and see, but yes the momentum has been set and there is a lot of enthusiasm among the sugar mills also to set up capacities and besides sugar mills there are others who are wanting to set up distilleries based on grain.
- Ashutosh Chaubey:** Okay understood Sir thank you very much.
- Moderator:** Thank you. The next question is from the line of Vikram Vilas Suryavanshi from Phillip Capital India Pvt. Ltd. Please go ahead.
- Vilas Suryavanshi:** One question is that how much is the current cost of cane for us?
- Vijay S. Banka:** Sir more than 90% of our cane that we procure is of the early variety, so in case of early variety the price of cane delivered at sugar mill gate is Rs.350 a quintal and we are also required to source our sugarcane from the centers which have been set up and there is transportation cost involved there and additionally we are required to pay society commission also which is Rs.5.10 per quintal or so I am not too sure on that so that is another payment that we are required to make so Rs.350 and you can add anything between Rs.10 to 15, so Rs.360 to 365 per quintal becomes the landing cost of sugarcane.
- Vilas Suryavanshi:** One more question about we have also seen some of the report where some of the company now going for juice to ethanol or BIOSYRUP where you can store the juice with some process throughout the year so what we are seeing the kind of capacity addition we are seeing in distillery is there any scope in future to go for like juice to ethanol or BIOSYRUP ethanol or expanding distillery capacity your thought on this distillery juice to ethanol kind of opportunity?
- Vijay S. Banka:** As I have explained already our model will be to run the distilleries on sugarcane juice during season and to run the distilleries on B-heavy molasses as the feedstock during the offseason. So with the current capacity of sugar as well as distillery we will neither be required to buy molasses from outside nor will we have any surplus molasses. When I say surplus molasses I mean after meeting whatever is our levy obligation to the Government of Uttar Pradesh for country liquor purposes. So we will neither have surplus nor will we be short of molasses at the present capacity of the sugar mills as well as the distilleries. So if there has to be further increase in the molasses ethanol generation we will have to ramp up our sugar capacity. I mean do some vertical growth in our sugar plant capacity only then we will have some increase happening in the distillation capacity.

- Vilas Suryavanshi:** Just like example in season when you are saying that I will use juice to ethanol and B-heavy will be stored up for offseason so during season when you are using some juice to ethanol in that period we will also be getting C molasses then?
- Vijay S. Banka:** No we will not be generating C-heavy molasses. C-heavy molasses is history for us.
- Vilas Suryavanshi:** Okay since because you are producing B-heavy then C-heavy you will not get...
- Vijay S. Banka:** Even our country liquor requirement we will be fulfilling by supplying B-heavy molasses.
- Vilas Suryavanshi:** Understood, okay, that was helpful. Thanks.
- Moderator:** Thank you. The next question is from the line of Kunal from Vallum India. Please go ahead.
- Kunal:** Thank you for the opportunity Sir. I joined the call a bit late. Can you please tell me what was the recovery in this quarter and how do you see the recovery going ahead?
- Vijay S. Banka:** See the recovery during the quarter which relates to season 2021-22 was 9.79% as compared to 10.35% in the same quarter last year. The drop in the recovery is because of our generating B-heavy molasses from Dwarikesh Dham unit also where we were generating C-heavy molasses last season which means we have sacrificed more sugar in favor of ethanol throughout & across all our units. Then of course because of the unseasonal rainfall, late rainfall during September and also because of extremely cold climate condition the recovery trends have been relatively lower in case of ratoon crops. But now there is sunshine so that should help sucrose formation in the sugarcane While it is too early to talk about the recovery pattern for the entire season we have had some dent in the recovery so far let us see whether we will be able to make it up in the balance part of the season.
- Kunal:** Understood Sir. This quarter what is the gross recovery?
- Vijay S. Banka:** Gross recovery is also lower as compared to last year at least by about 0.2%.
- Kunal:** Understood Sir, got it.
- Moderator:** Thank you. The next question is from the line of Dhwanil Ketan Shah from I-Wealth Management Pvt. Ltd. Please go ahead.
- Dhwanil Ketan Shah:** Sir couple of questions - just wanted to understand on the recovery rate we have been reading few articles where it had mentioned that some kind of disease has kind of taken place in the UP side of it in the sugar crop just wanted to understand from you how severe this is and are we also impacted by this and hence our recovery rate is lower?
- Vijay S. Banka:** Not entirely. Let us divide UP into three parts, West UP, Central UP, and East UP so the problem of red rot is more severe, more intense in the East UP and of course in parts of Central UP. We have two of our units more or less in West UP - where the impact of the red rot is much lesser but in the third unit that we have in the Bareilly district there the intensity of the pest attack is a little

more. We are working on a program to replace the variety 0238 in a planned and phased manner. So some interesting varieties which are available such as 15023, 14021, etc.. The transition actually would take about 4 to 5 years but we are working on it and we will ensure that our crop is as robust as it should be and should not be pest prone.

Dhwanil Ketan Shah: In the third unit which is at Bareilly you are seeing this red rot impact so the production would be far lower there compared to the other two units or what is the impact of the disease?

Vijay S. Banka: So when the impact of red rot is there the yield obviously is lower, so we will have to wait and see in case of ratoon crop yes we have seen little lesser yield.

Dhwanil Ketan Shah: How much is the impact?

Vijay S. Banka: We are still three months away from total closing of the season in that unit so it will be difficult to say how much is going to be the impact. Last year for example we crushed about 120 lakhs quintals of sugarcane in that particular unit. This year we should be able to crush the same, 115 to 120 lakhs quintals of sugarcane in that unit.

Dhwanil Ketan Shah: Got it and what is the recovery we should earn this year?

Vijay S. Banka: No, net recovery obviously will be lower because we are sacrificing most of it in favor of ethanol, insofar as gross recovery is concerned like I mentioned we already suffered a dent in case of ratoon crop, but there is every possibility that we should be able to recover some lost ground in case of plant cane crop. So we will have to wait and see to assess the total impact on the recovery for the full season.

Dhwanil Ketan Shah: Good and what is the distillery volume which we would do in FY2023 I missed that number?

Vijay S. Banka: 8 Crores liters in FY2023.

Dhwanil Ketan Shah: From both the plants right Sir?

Vijay S. Banka: Yes. The second plant would be operational for part of the year and that we will not get benefit of full year operation, so we expect at least about 8 Crores liters.

Dhwanil Ketan Shah: This year around 5.3 or 5.4 Crores liters?

Vijay S. Banka: Yes.

Dhwanil Ketan Shah: In spite of sugar prices y-o-y increasing by Rs.3.5 to Rs.4 so when we see the profitability of sugar has not come?

Vijay S. Banka: That is what I was telling right at the beginning of the concall that it is very difficult to analyze segment wise results; we should see the results in totality rather than segment wise.

Dhwanil Ketan Shah: Even Sir when we see that..

- Vijay S. Banka:** Again I must mention that we should not see it on quarter-on-quarter basis, at least we should not view them in isolation. Typically for all the sugar companies the fourth quarter is the best of the lot actually I am not trying to say how good or how bad it is going to be, but typically that has been the trend.
- Dhwanil Ketan Shah:** Got it Sir. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Karan Agarwal from Tusk Investment. Please go ahead.
- Karan Agarwal:** Sir my question was that since our distillery will be up and running the first half of FY2023 what are our plans going ahead in terms of expansion because as far as I understand there are other expansions also for example we could set up a biogas unit or we can make our own IMI liquor also or this can extend into speciality chemicals so what is the vision of your company beyond that I understand it is very difficult to see now but what is your vision?
- Vijay S. Banka:** With the present distillery capacity and with the present sugar capacity complimenting one another we see possibility of no molasses surplus or no molasses deficit situation, but yes there are options available as we go forward we could expand the capacities of our existing sugar mills. We have to assess the cane availability situation, undertaken massive cane development exercise so that areas where sugarcane is not grown we must make them grow sugarcane and we could expand sugar plant capacities and when we do that obviously we will have more surplus of molasses and then distillery capacities also can be ramped up or as you said you can always use the capacity for manufacture of some specialty chemicals, etc. One area where we are lacking is refined sugar as we do not make refined sugar and that is another option which can be explored, but our present thoughts are totally on setting up the new distillery, stabilizing its operation and then step on the accelerator and go to the next level.
- Karan Agarwal:** Okay, thank you so much Sir. It answered my question.
- Moderator:** Thank you. The next question is from the line of Jalak an individual investor. Please go ahead.
- Jalak:** My question was the call that we see on q-o-q basis so the percentage of your COGS to sales was 74% in the last quarter which has increased to 80% any specific reason for that?
- Vijay S. Banka:** Actually the sugarcane prices also has gone up that is one reason. I may be repetitive but as I said we must not see the quarter results in isolation. Sugarcane prices have gone up by Rs.250 per metric tonnes.
- Jalak:** What will be the gross margin sustainable for the year if you can give guidance from that?
- Vijay S. Banka:** Madam I will not be able to give any guidance on this, but yes the fourth quarter is typically a better quarter for all of us. Based on the trends that we have seen so far in the nine months period we have already exceeded the profit for the full year of 2021. So the trend seems encouraging and we are optimistic for the fourth quarter as well. Let us wait and see.

- Jalak:** My next question was the Q3 number represented some of your export of sugar so volume for sales can be considered sustainable based on the seasonal nature I also understand the seasonal nature, but can this 14 lakhs quintals can be a proper sustainable number or we can expect a lower number because exports were included in Q3?
- Vijay S. Banka:** Absolutely you are right. At per the presently prevailing international prices I do not see any possibility of signing further export contracts unless the export prices / international prices improve significantly. Our domestic quota of sugar sales we should be getting as usual so definitely we will not be able to have the same kind of volume numbers for fourth quarter which we had in the third quarter unless we sign some export contract.
- Jalak:** Sir last question was on which are the extended capacity of distillery that we have, is that capacity fully sufficient for the sugarcane that would be crushed and recovered or even if we set up extra mill for crushing sugarcane so will this distillery capacity suffice that?
- Vijay S. Banka:** I think I have answered this question. Our distillery and sugar capacity they complement one another so with the kind of crushing capacity we have and with the kind of cane which is presently available to us we should be able to run the distillery plants both the distillery plants for at least 320 days in a year which is based on the model that during season we run it on sugarcane juice directly and during offseason we run the distilleries on B-heavy molasses. They complement one another and in a situation like this we will neither have surplus molasses nor we will be in deficit of molasses.
- Jalak:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Anupam Goswami from B&K Securities. Please go ahead.
- Anupam Goswami:** Sir any update on the new variety of cane that we were using?
- Vijay S. Banka:** We have embarked up on a program to propagate the new variety in a big way. The method is to firstly get seeds, do the multiplication of seeds, plant it in cooperation with the farmers, use the variety in some plots which are in the main roads so that they act as demonstration plots. Obviously multiplication will happen and we are sure the farmers will be able to see good results in those demonstration plots and there will be increased enthusiasm in times to come. As I mentioned it is a five-year program so we can bring about decent varietal mix in our sugarcane availability in the command area, we can have all the varieties even 238 continues to be a sturdy variety except that in East UP and parts of Central UP it has been infested with red rot otherwise in West UP we have seen no problem insofar as this variety is concerned, but yes going forward we would like to have a healthy mix of all the varieties.
- Anupam Goswami:** This new variety does not have higher recovery rate?
- Vijay S. Banka:** It better both insofar as recovery is concerned and it is also better insofar as yield is concerned.

- Anupam Goswami:** One thing you mentioned that you would be fulfilling your alcohol molasses levy by the UP government why is it with the B-heavy and not C-heavy because I am to understand you will get the same price as C-heavy molasses?
- Vijay S. Banka:** No, number one the quantity will be lesser, the formula that will be applied is for example if you C-heavy molasses obligation is “x” then the B-heavy obligation would be that “x” multiplied by 22.5 divided by 31 that is the yield that you have. Number one the quantity that we are required to give will be less and number 2 the price also as against Rs. 140 per quintal in case of C heavy molasses the price of B-heavy molasses will be Rs.210 a quintal.
- Anupam Goswami:** 210 you mentioned right?
- Vijay S. Banka:** For levy obligation purposes.
- Anupam Goswami:** What is the C-heavy earlier?
- Vijay S. Banka:** There is no fixed price as such but the indicative price is Rs.140 a quintal.
- Anupam Goswami:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of K Mohan an individual investor. Please go ahead.
- K Mohan:** Sir do you expect that with the exports being low in the fourth quarter and the production is being the highest in the fourth quarter, the export carry forward stock in the next season will be much higher than last year carry forward stock in the country as a whole?
- Vijay S. Banka:** Let me talk about our company first, on December 31, 2021 we are having stock of about 11 lakhs quintals which is 8 to 8.5 lakhs quintals less than what we were carrying on the same date last year. As it is if you see the entire country as I have already explained this already we should see some moderation in the closing stock of 2021-22 from 8.2 million tonnes it should come down to about 6.5 to 7 million tonnes of closing stock so I do not see any problem there.
- K Mohan:** You do not expect that because of the higher stock there would be price drop in the market?
- Vijay S. Banka:** No, market works on perception and the perception is that the closing inventory levels may be lower and so the prices will be reasonable. There are various phases when the prices swing either way, we have seen these winter months when the prices are on the lower side and they remain subdued and also because of the fact that Maharashtra mills have commenced production so they are a little more eager to drop prices. Just before the start of the season the prices get better and in the summer months the prices are always better. I do not see any challenge to the selling price of the sugar in the coming months.
- K Mohan:** I hear that this year again Brazil is having a drought and therefore the Brazil crop comes in only after June, July and estimate of what Brazil can supply if there is a drought again do you think international prices are going to go up from the current level of 18.5 cents to 19 cents a pound?

Vijay S. Banka: Brazil last year because of the drought season 2020-21 there was global deficit of 2.5 million tonnes. Season 2021-22 again, internationally is expected to be a deficit year with deficit of 2 million tonnes in spite of better crop and better sugar production in Thailand & India, but in rest of the world the gains are seen limited. We are seeing such deficits. So international prices had touched a high of 21.5 cents a couple of months ago, but then India participated very enthusiastically in exports maybe that has had some effect in sobering down the international prices, but then the general news is that sugar production internationally is going to be deficit so we should see some rally in the sugar prices both internationally as well as in all the domestic markets of the world.

K Mohan: Thank you Sir. That is really illuminating. Thank you.

Moderator: Thank you very much. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Vijay S. Banka: Thank you friends. Thanks a lot for being with us. It is always very interesting and very encouraging to have a conversation with you all. Thank you very much for reposing trust and confidence in us and as I keep repeating at the end of every conference call that we will try to all our best, we have been efficient in our operations insofar as recovery is concerned and even other parameters are concerned. We will continue to do so and we will try to do better and better as much as it is possible. Thank you very much. I look forward to your support and guidance for all times to come. Thanks.

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