



“Dwarikesh Sugar Q4 Financial Year 2018
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Dwarikesh Sugar Q4 FY2018 Earnings 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Afshan Sayyad from Dolat Capital. Thank you and over to you Madam!

Afshan Sayyad: Thanks Janice. Good afternoon everybody. On behalf of Dolat Capital, I welcome you all to the Q4 and FY2018 earnings con call of Dwarikesh Sugar. From the management side we have Mr. Vijay Banka, the Managing Director and CFO of the company. I would like to thank Mr. Banka for giving us the opportunity to host the Dwarikesh Sugar conference call. Would now like to hand over the call to Mr. Banka for his opening remarks on the results as well as the business outlook going forward. We will follow it up with a Q&A session. Over to you Sir.

Vijay Banka: Very good afternoon to you all. A very warm welcome to the earnings call (Q4 results and outlook) of Dwarikesh Sugar Industries Limited. We have published our results day before yesterday and the results are already with you. This has been a rather challenging and daunting quarter for us in the sense that we have incurred a loss before tax was 23 Crore and post-tax loss of 9.21 Crore. We have seen a sudden and stunning reversal in the fortune of the sugar industry and the biggest challenge that we face is the big surplus in the sugar production resulting in continued fall in the sugar prices.

When we commenced the crushing season in 2017-2018, the first estimate that we got from the satellite survey and ground level intelligence, etc. was that the sugar production will be about 25.5 million tonnes. Progressively the estimate has been revised and it has been revised upwards. As per the latest estimate we could have a production of about 32 million tonne. As on April 30, 2018 the production had already crossed 31 million tonne mark and many mills were still working. So we are staring at a possibility of almost 65 to 70 lakh tonnes of surplus sugar produced during the crushing season 2017-2018.

The main reason for all the production estimates going haywire has been the unprecedented yield the farmers have got in their farms. The area under sugarcane cultivation has been more or less same or there may have been marginal increase but the yields have been unprecedented. The farmers have got bountiful of yields resulting in higher sugarcane supply and higher sugarcane production. This has resulted in glut and the reversal in the price has been so sudden and so stunning in the sense that in the month of December 2017, we have sold sugar at price of Rs.3700 per quintal, and it is now hovering around Rs.2700 a quintal. This is mainly responsible for our sugar segment reporting negative contribution.

On the outlook perspective, well, the industry is of course worried and the government is equally worried. Government has announced a number of initiatives in the past couple of months. Some of them have proved to be not very long lasting in their impact. They introduced a reverse stock

holding limit, they raised the import duty to 100% and the abolished the export duty. All these measures had a fleeting impact on the sugar prices. They did help the industry to liquidate some of the sugar stocks but then nothing much happened on the price front. Now the government has announced compulsory export quota of two million tonnes followed by financial assistance of Rs. 5.50 per quintal of cane crushed during season 2017-18. Under the MIEQ scheme individual quotas have been determined for each sugar mills based on their sugar production in the earlier years. So we are all duty bound to export a certain quantity of sugar, which has been determined for us or we have to trade our obligation in favor of someone who is actually doing the physical export.

Once the physical export starts happening we do expect that some revival in the sugar price. The problem though is that now what can be exported is only the white sugar, because raw sugar production is now not possible. Most of the sugar that is demanded in the international market is the raw sugar. Raw sugar export can happen only in the coming season.

Government is also reaching out to Governments of various other countries so as to create some kind of export market for the Indian sugar. As and when there is some progress I am sure everybody will come to know. Couple of other initiatives the government is planning - Is the reduction in the GST on the ethanol from 18% to 12%. There is another move to produce sugar directly from B heavy molasses, which means cutting short one process so that molasses availability is more and the sugar production naturally becomes lesser. So these are various initiatives the government is working on. What is daunting though is not only the surplus production of sugar this season but prospect of higher sugar production in the coming season as well. The farmers are finding the sugarcane crop extremely remunerative mainly because of higher sugarcane price determined over the last many years. While the prospect seems daunting, but the silver lining is that the problem is so big and the stakeholders involved are so many that the government has to work out some solution which is win-win solution for all concern.

We as a company are keenly watching the unfolding of macro scenario, we have focused on improving our efficiencies, and our recoveries this year have again surpassed the recovery of the last year. Our crushing operations are still on in two of the units. We have tightened our belts, have put tight leash on our costs. Our interest costs have come down substantially, so whatever is possible internally is being done. On full year basis we have profit of about Rs. 100 Crore profit after tax which is down from 156 Crore of profit that we earned in the last year.

We had to take an inventory write down of nearly 90 Crore because the prevailing market value has been less than the cost. Sugar price realization in the Q4 were also lesser by almost about Rs.564 than what it was in the same quarter last year. So all these factors explain the difficult quarter that we have faced.

So that is it from my side. I would look forward to answering your questions. Kindly go ahead.

Moderator:

Sure. Thank you very much. Ladies and gentlemen we will begin with the question and answer session. We take the first question from the line of Aditya Deshpande from Vallum Capital.

- Aditya Deshpande:** Thanks for the opportunity. You had mentioned earlier that it is compulsory to export a certain percentage of production; I want to know what kind of percentage Dwarikesh is looking to export?
- Vijay Banka:** See we have an obligation to export 25,497 metric tonnes of sugar between three of our units. This is the quantity which we are required to export - either export or trade or obligation with someone who is actually doing the physical exports.
- Aditya Deshpande:** Okay and you had also mentioned that is possible only for the white sugar to be exported whereas the demand is for raw sugar?
- Vijay Banka:** It is possible to export two million tonnes of white sugar. Exporting larger quantity is not possible at this juncture. So government has very wisely made two million tonnes of export compulsory. Once we start the next season 2018-2019 the Government being aware of the problem facing the industry should announce larger quantity of export. We have been also urging the government that they should announce the larger export obligation before the start of next season so that raw sugar can move out and raw sugar is what the international market asks for.
- Aditya Deshpande:** Okay, I just wanted to confirm if the inventory write off was 90 Crore?
- Vijay Banka:** Yes.
- Aditya Deshpande:** Thanks a lot. That is it from my side.
- Moderator:** Thank you. We take the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund.
- Sudarshan P:** Thank you for taking my question. Sir I would like to know what is the closing inventory that we have and at what price I mean what is been the value of that inventory and how much are we taken this time?
- Vijay Banka:** We have had a closing inventory of 19.11 lakh quintals of sugar, which was valued at Rs.2604 a quintal. MIEQ obligation was a reality and our MIEQ obligations of 25,497 MT was valued at around Rs.2100 per quintal which was the international price and the rest of the inventory has been valued at Rs.2673. So our average valuation for the entire inventory is Rs.2604.
- Moderator:** Sir we lost the line for the current participant. So we take the next question from the line of Himanshu Vinai from Emkay Global. Please go ahead.
- Himanshu Vinai:** Thank you for taking my question. Sir I just wanted to understand in the opening remarks you said about the government initiative of reducing the rate in GST and the second point was I just missed that?

Vijay Banka: Sugar is made in three stages, so we extract as much sugar as is possible and after the third stage whatever is left over is the molasses it is not worthwhile to further process and take sugar out of that although molasses also has some sugar in it. In Brazil what sugar mills and the initiative that we are presently discussing is that from B heavy molasses route after the second stage further processing of sugar is abandoned. Essentially sugar is made up to second stage, we do not try to extract more sugar and at that stage whatever is the molasses, which will obviously be very high in sugar content that will be used for making ethanol. It is called B heavy molasses. Obviously the yield from B heavy molasses could be as high as 400 liters per metric tonne whereas in case of the molasses that we conventionally use the yield is only about 250 quintals per metric tonne. However in doing so our sugar recoveries will obviously go down.. For example if our recovery is 11.75% or 11.80% and after we abandon extracting sugar after B heavy stage, our sugar recoveries will come down whereas our ethanol recoveries will get better resulting in more production of ethanol and lesser production of sugar.

Himanshu Vinai: Yes, Sir, but then how this going to benefit the industry as a whole then?

Vijay Banka: What will happen is that this government is going to create an assured market for ethanol and the sugar production in the country can be lesser by say 10%-15% or 20% the sugar prices will remain better and they will remain insulated to all these extraordinary trends that we have been lately witnessing

Himanshu Vinai: Sir what was the prices of molasses for this quarter?

Vijay Banka: Molasses prices have been ridiculously low. Presently molasses price is only about Rs.4 or Rs.5 a quintal.

Himanshu Vinai: Okay and it was in Q3?

Vijay Banka: I am talking about Q4 last year is was Rs.400 a quintal, so there has been near 100% erosion in the price of molasses.

Himanshu Vinai: Thank you.

Moderator: Thank you. We take the next question from the line of Keyur Shah from Emkay Global.

Keyur Shah: Sir good afternoon. Thank you for the opportunity. Sir you mentioned about various government initiatives and is it possible to approximately quantify how much it would comfort the industry and Dwarikesh as a whole?

Vijay Banka: No it is not possible to quantify. You see the various initiatives can be categorized as the one involving financial assistance to help the sugar industry pay the sugarcane dues and the other to create a situation where the quantity of sugar available for the country is reduced (compulsory export) which will prop up the domestic sugar prices. Similarly the initiatives that I explained a little while ago of making ethanol from B Heavy molasses will also reduce the availability of

sugar in the country and help the revival of domestic sugar prices. Now this B Heavy route molasses is a little long drawn program because firstly ethanol making capacities have to be created and some capex also has to be incurred. However export is something which can be done quickly. Already two million tonnes of compulsory export has been announced and we expect the government to announce larger exports obligation for the next crushing season as well very soon.

Keyur Shah: Thank you.

Moderator: Thank you. We take the next question from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal: Good afternoon Sir. Sir actually I missed initial five ten minutes, this outlook on sugar prices?

Vijay Banka: The challenge the industry is now facing is the continuous upward revision in the production estimates. All our initial estimates on production of sugar have gone haywire. From an initial estimate of 25.5 million tonnes we are now staring at a possibility of producing more than 32 million tonnes of sugar. This has resulted in sugar prices going on downwards spiral. This imbalance needs to be corrected and towards this the government is working on initiatives of compulsory export etc., They have already announced the compulsory export of two million tonnes, we expect them to announce more compulsory exports in the ensuing season as well. They have already announced although it has not yet been notified a financial assistance of Rs.5.50 paise per quintal to be paid directly to the farmers in discharge of similar obligation of sugar mills to pay the sugarcane dues. All these measures are aimed at two things - No.1 to help liquidate the farmers dues and No.2 to prop up the sugar price which again will enable the sugar industry again to pay the sugarcane dues.

Yash Agarwal: Sir but these exports will it be profitable, the international prices are yet?

Vijay Banka: Exports will not be profitable. So there has to be some kind of subsidy. Financial assistance of Rs.5.50 per quintal is also there.

Yash Agarwal: But that is very miniscule right?

Vijay Banka: Yes, that is miniscule but we expect announcement of more such measures by the government .

Yash Agarwal: So what are the current sugar prices do you expect it to be at Rs.26 or Rs.27 per kilo?

Vijay Banka: The present sugar prices are Rs.2700 per quintal. Although compulsory exports have already been announced, once the physical exports starts happening there could be some revival in the price but it will not be significant. We are at the doorsteps of both central and state government asking for more financial assistance.

Yash Agarwal: Sir what is our costs after the return down cost of inventory?

- Vijay Banka:** Our inventory of 19.11 lakh quintals that we are carrying is at Rs.2604 per quintal. So we have taken an inventory write down of 91 Crore.
- Yash Agarwal:** We have already taken it right?
- Vijay Banka:** Yes, we have already taken.
- Yash Agarwal:** Sir next season is there any hope for sugar prices to recover?
- Vijay Banka:** Next year again is expected to be a bumper production year. As compared to this year production of about 32 million tons of sugar next year the same could be marginally high. It will all depend, on the coming monsoon as it will play a very crucial role. Given the area under sugarcane plantation better the monsoon, the yields can be much better. This year we have had a very rare phenomenon in which we witnessed very high yield, which the farmers got at their farms. In the coming season much will depend on the yield the farmers will get at their farms, higher the yield, the production could be little higher, lower the yield the production could be little lower. At this point in time we expect the production to be around the same number next season at 32 million tonnes, at the most going up to 33 million tonnes of sugar.
- Yash Agarwal:** Thanks.
- Moderator:** Thank you. We take the next question from the line of Ritesh Poladia from Girik Capital.
- Ritesh Poladia:** Thanks for the opportunity. Sir is B grade molasses allowed to be the converted ethanol as of now?
- Vijay Banka:** There are hardly one or two plants in the country. This requires two things. No.1 the policy framework No.2 incurrence of some capex. Indian sugar plants cannot produce ethanol from B heavy molasses. Capex is therefore required although the capex requirement may not be much. However capex will also be required in creating distillery capacities. Thirdly the most important thing is when you make sugar out of B heavy molasses the ethanol prices have to be better. At the currently prevailing molasses it would not make immense sense to make ethanol from B heavy grade molasses. So number one is policy framework, number two the ethanol pricing and number three the capabilities to produce that extra ethanol so these are three necessities, which have to be addressed.
- Ritesh Poladia:** Sir at Rs.27 sugar what would be trade off price for ethanol?
- Vijay Banka:** The tradeoff could be at Rs.25-Rs.26, In India unfortunately the futures market is not well developed. Unlike Indian market, Brazil market is totally export dominated market. Out of 35-36 million tonnes of sugar that they produce, they hardly consume anything and most of it is exported. So there is a well-developed futures' market in Brazil. In India most of the sugar is sold on spot market. Such problems need to be addressed. For example, let us say some people start

making ethanol from B heavy grade molasses and then the sugar prices go up and one should not be regretting the decision of having manufactured ethanol from B heavy molasses subsequently.

Ritesh Poladia: Sir, let us assume the entire industry goes for B heavy molasses to ethanol then what would be the fall in sugar production?

Vijay Banka: Well that is a difficult question to answer because firstly whether everybody have that kind of capability to make ethanol. There will be a definite drop of 2% recovery from the recoveries that we are getting presently.

Ritesh Poladia: So hypothetically 2% recovery can be reduced?

Vijay Banka: Yes. Essentially 2% recovery will get reduced on the other hand we will have higher production of ethanol.

Ritesh Poladia: Assuming policy framework in place, what is a time period you can expect that the entire industry?

Vijay Banka: If policy framework is in place, I would not see much creation of capacities in 2018-2019 season, by 2019-2020 it should be possible.

Ritesh Poladia: So this season definitely it is not possible?

Vijay Banka: Yes, it does not seem so feasible the season 2018-2019 for the simple reason that there may not be adequate ethanol making capacity.

Ritesh Poladia: Assuming sugar price remains at Rs.27, what would be the ethanol price it could be more than 45?

Vijay Banka: It should be Rs.50 at least.

Ritesh Poladia: Given that same profitability at Rs.27 of sugar.

Vijay Banka: Yes.

Ritesh Poladia: That is all from my side. Thank you Sir.

Moderator: Thank you. We take the next question from the line of Aashna Mishra from Cogencis. Please go ahead.

Aashna Mishra: Good afternoon Sir. Sir I wanted to ask like you just said that the output is more or less likely to be similar at around 32 to 33 million tonnes next year, Sir what will be the output in Uttar Pradesh per se, like Uttar Pradesh has emerged as a largest producers since last two years so will that trend continue and how much you will be produced next year?

Vijay Banka: We are likely to produce 12 million tonnes, this season. Next season we expect similar or slightly more production. In the coming season we will have more ratoon crop where the yields are not as good as what it is in case of plant crop. This will have the effect of reducing the sugarcane availability. However enthused by the good yields etc., that the farmers have got, the area under sugarcane plantation or the area under the varieties C00238 could go up which will again have the effect of improving the yields and improving the availability of sugarcane. So these are two compensating factors. In UP, there are three zones, Western UP, the Central UP and the Eastern UP. The Western UP is more or less saturated. We do not see big swings in production in Western UP. Eastern UP also we have not seen big swings but the biggest swing that we have seen this year is in Central UP. In the coming season Number 1 There is enthusiasm on the part of the farmers because they have got better yield. Number two, the Ratoon yield may be lesser. Number three, sugarcane payments are not been made as regularly as they were made in the last season so that could be a deterrent for the farmers to grow more sugarcane. So I do not visualize a situation where 12 million tonnes can become 13 million tonnes, it can at best be 12.5 million tonnes.

Aashna Mishra: Okay. Sir I just want to ask one more thing. Sir you said that you were expecting the government to announce more subsidy and you are also expecting them to announce export obligation for next year so Sir as the industry already reached out to the government in this regard?

Vijay Banka: Yes, we expect the Government to announce more subsidy. Industry interacts with government on a very regular basis. The government has already announced this financial assistance of Rs.5.50 per quintal of cane crushed for the crushing season 2017-18. This is yet to be formalized. We are also in dialogue with the state government also. The view of the central government over last many years has been that FRP is their problem and beyond FRP is state government's problem. So we are in dialogue with both of them and we are also requesting them to announce an early export quota for the next coming season. So there is talk of Rs.3 per kg of cess being levied. Though nothing concrete the indications are that the government is aware and working to address the larger problem

Aashna Mishra: Sir in what sense, are you expecting the government to announce more financial assistance?

Vijay Banka: We do not have any assurance.

Aashna Mishra: Also Sir for next year like early export quota, so will they see MIEQ, which is currently till September be extended or will it have to be brought separately?

Vijay Banka: It will have to come separately, 2 million tonnes, will not resolve the crisis, we need at least 5 million tonnes compulsory quota for the next year.

Aashna Mishra: Okay, so that will be for raw sugar.

Vijay Banka: Yes.

- Aashna Mishra:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Good afternoon Sir. Just two quick questions, one is of the two million tonnes how much you think is practically going to be exported in your opinion till September?
- Vijay Banka:** I think it should be possible for two million tonnes if not two million tonnes, at least 1.75 million ton should go out.
- Achal Lohade:** Has anything already gone out?
- Vijay Banka:** The fine print of this financial assistance has not yet come out. There is an announcement of Rs.5.50 financial assistance. It is likely that as was done last time it may be linked with the exports so once the fine print comes more and more deals will happen.
- Achal Lohade:** Right but what is the current net export realization in your view?
- Vijay Banka:** So it is around USD \$325.
- Achal Lohade:** So that is the actual realization or FOB you are talking about?
- Vijay Banka:** FOB.
- Achal Lohade:** But how much would we realize given our quality?
- Vijay Banka:** No we will not be able to physically export. We will not be able to directly export anything although there is possibility that we could export some quantities to Nepal. Nepal is closer to UP and so can be accessed. Nepal has recently increased the import duty from 15% to 30%. If it was 15% the realizations would have been worthwhile. We will obviously have to trade our obligation so we may end up paying those who are doing the physical exports may be about Rs.7000 a metric tonne of sugar.
- Achal Lohade:** Right. What I wanted to know is 325 is the FOB what would be the actual realization given the quality discount and Asia premium and so on?
- Vijay Banka:** Some exports have already happened at USD 325 per MT which amounts to about Rs. 2100 per quintal. Maharashtra sugar mills incur a cost of Rs.200 towards transportation handling cost etc., So the net realization is Rs. 1900 per quintal and add to that the MIEQ trading charges of Rs.. 700 per quintal they get closer to the price at which sugar is sold in the domestic market. - On par with the domestic prices.
- Achal Lohade:** Got it. The second question I had was with respect to the early variety. What is the mix for us in terms of our total cane crushed how much is the early variety?

- Vijay Banka:** See now Bundki unit, the Dwarikesh Nagar unit we have about 98% of early variety and now Afzalgarh unit, which is our Dwarikesh Puram unit there, we have about 92% of early variety. The third unit which is in Bareilly District, Faridpur unit or Dwarikesh Dham unit as we call it there it is 72% of the early variety.
- Achal Lohade:** Right, so overall roughly about 80% or more than that?
- Vijay Banka:** Easily, 80% or so.
- Achal Lohade:** How much would that be proportionately industry level in UP in your view Sir?
- Vijay Banka:** See last year was almost 35% and this year number I don't have it off hand but must have definitely crossed about 50% or so. This variety is phenomenal in so far as the recovery to the sugar mills is concerned and also in so far as the yield to the farmer is concerned.
- Achal Lohade:** So what is the constraint or what are the challenges you see for people to shift from the regular to the early variety?
- Vijay Banka:** There are no challenges. Historically it is just that farmer get enthused to plant a variety when he feels that the neighbor is planting it and he is happy doing so. This is how it works, by word of mouth publicity - when others demonstrate better yields etc., so the variety gets propagated.
- Achal Lohade:** So what I was hinting towards is basically if this 50% becomes 70%
- Vijay Banka:** There could be some improvements, yes.
- Achal Lohade:** So that itself can add?
- Vijay Banka:** You see like I explained little while earlier, this year the Ratoon percentage vis-à-vis the total crop availability is going to be higher and Ratoon always has lesser yield. There are lot of factors, the equation is very dynamic – more of ratoon crop with lesser yield, farmers not being paid on time, and more and more area under 238. So the production of sugar in UP can go up from 12 million tons to 12.5 million tons.
- Achal Lohade:** I was actually just playing a devil's advocate to that argument of becoming only 12.5%, I was suspecting if that can cross even 13% or 14% also given the yield mix and the recovery rate impact it has and I would imagine that all rate continue to be high?
- Vijay Banka:** Let me put your question like this. If you are trying to say that if 100% everybody grows this particular variety what can be the sugarcane available and what can be the production?
- Achal Lohade:** We can reach 80% if some of our plants are 92% and 98% and even beneficial for the farmers with no constraints as such.
- Vijay Banka:** So two things will happen the yields will go up and recoveries will also become better.

- Achal Lohade:** Exactly so I would not
- Vijay Banka:** Technically there is a possibility.
- Achal Lohade:** But have you seen I mean in the past in your experience people actually moving out of sugarcane just because of the arrears at least in UP even last few years data point?
- Vijay Banka:** Of course it should happen but we have example of some sugar mills who have not paid for one year and they are yet continuing to get the same amount of sugarcane. There is also an expectation that the government is going to announce the MSP for a couple of other products, which is going to be higher. See presently the dichotomy is that per hectare income of the farmer who is growing sugarcane and particularly of this variety 0238 is much, much more than the next alternative crop, so there is tremendous enthusiasm among the farmers to grow sugarcane and particularly this variety.
- Achal Lohade:** Got it. Just one quick question on in terms of the arrears let us say, is it the entire due of some farmers pending or some portion of each farmer is pending?
- Vijay Banka:** So it is paid date wise, sugar payments are settled chronologically in the sense that if somebody has got some arrears it means that it is for the last supplies. Let us say see an example where the mill has not paid for 30 days supplies that it has received. Sugarcane payments are settled on FIFO basis..
- Achal Lohade:** Let me ask in another fashion Sir, of the acreage the farmer has let say theoretically - A farmer has two acres does he harvest two acres in single shot or does he harvests only part of that supplies and then part of that again later?
- Vijay Banka:** No it depends on when he has done the planting. If he has done the entire planting in one go then the calendaring is so done that he will have the right to supply the cane in the given fortnight. But if he has done the planting in two different time zones then obviously we will get payments in two different time zones.
- Achal Lohade:** Got it. And just one clarification Sir, is there any miss on the acreage data as well specifically for UP?
- Vijay Banka:** No I do not think so.
- Achal Lohade:** The initial expectation was 9.5 now we are talking about...?
- Vijay Banka:** I agree with you. I do not think in terms of area under plantation the initial estimate has gone so haywire, it certainly has gone little haywire but not too much haywire, but yes on the yields front, well the ground level intelligence has definitely failed the industry estimate.
- Achal Lohade:** You are saying the yields have been exceptionally high not only in Maharashtra but also in UP?

- Vijay Banka:** Yes, even in UP.
- Achal Lohade:** Great Sir. Really appreciate answering. Thank you.
- Moderator:** Thank you. We take the next question from the line of Sameer Chedda Individual Investor. Please go ahead.
- Sameer Chedda:** Good afternoon Sir. Sir you know this distillery sale have gone down from 2.3 million versus 3.9? Am I right on that?
- Vijay Banka:** No, the quantity that we sold is lesser than what we had sold in the previous year because on the year end date we were carrying at least about 11.5 lakh quintals more of alcohol. The stock levels of alcohol was much lesser on March 31 2017 as compared to on March 31, 2018. It was higher by about 11.5 liters which is what explains the fall in the revenue of distillery.
- Sameer Chedda:** And Sir cogeneration in this quarter, we see that the power production in sale almost same but revenue is down...?
- Vijay Banka:** Yes, because our price realization has gone down by 0.20 paise per unit. The tariff is so fixed that it is assumed that after expiry of certain term costs will be lesser. In our case two of our plants have completed ten years of power generation and sale, so when that happens the tariff is revised downwards and thereafter again it keeps going up by 0.10-0.15 paise every year, so we faced this situation in two of our plants so which is why our average realization Rs.5 it become Rs.4.80 paise.
- Sameer Chedda:** So then this is fixed for every one year?
- Vijay Banka:** It revised on every April 1, but yes the tariff order is in force for four to five years. As per the last tariff order two of our plants Dwarikesh Puram and Dwarikesh Dham, completed 10 years and it was assumed that we would have recovered our interest cost and depreciation cost. So the prices take a plunge after the expiry of the 10th year and then the gain then thereafter annual increase is granted so coming year our realization would be again back to anything between Rs.4.90 to Rs.5.
- Sameer Chedda:** Okay and for the distillery what do you think the sales for the next two quarters...?
- Vijay Banka:** We should sell in the entire year about 80 lakh liters of alcohol.
- Sameer Chedda:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Sagar Shah from KSA Shares. Please go ahead.
- Sagar Shah:** I wanted to know if I am not wrong Sir what is the current selling price of your something like the sugar at which you are selling, it is 2700 per quintal Sir if I am not wrong?

- Vijay Banka:** Yes, very much.
- Sagar Shah:** So what is the cost of production roughly you can say on the gross level not on the net level, cost of production what is there?
- Vijay Banka:** Had I valued my inventory at cost on March 31, it would have been at Rs. 3077 per quintal, By valuing my 19.11 lakh quintal of inventory we taken an inventory write down of 91 Crore.
- Sagar Shah:** Due to this something they are working or getting us introduced, excess supply in the market when the prices have gone so low actually we cannot sustainable in the long run but going ahead something like in FY2019 how do you see something, as we were guiding for a higher production again in the next year so something like you are forecasting the same situation which is currently happening for the sugar industry also in the next same situation will arise?
- Vijay Banka:** Sir let us assume the worst for a moment. Let us assume that the sugar prices do not revise. What will happen this will result in buildup of huge cane arrears? Now this is a problem which the government has to address because huge cane arrears obviously will create lot of problem be it for state government be it for central government. So they have announced a lot of measures, more measures are expected to be announced which will result in the number one - financial assistance to the sugar mill which can be paid to the farmers and number two - to prop up the sugar prices. So I do not think this kind of a scenario is likely to continue for a longer duration. We expect more compulsory export announcement and more initiatives on the way of sugar industry. However assuming nothing of this will happens, yes we are staring at a difficult situation.
- Sagar Shah:** In spite of something like apart from these thousands that the sugar industry is facing government actually has reported certain sets apart from the something like the subsidy?
- Vijay Banka:** You see one has to look at it little holistically there is a talk of levying Rs.3 per kg of cess on the sugar. So obviously this fund is sought to be created or proposed to be created so as to help the sugar industry help them liquidate the sugarcane dues.
- Sagar Shah:** Because we are staring at something like election next year in the central election so I think....
- Vijay Banka:** Which is why if you see collection of Rs.3 per kg cess is going to result in decent amount, which can be used to help the industry so that they in turn can pay the farmers their dues.
- Sagar Shah:** They in turn pay the farmers. But as in something like if they pay the farmers at least what kind of amount?
- Vijay Banka:** You see whatever is going to be paid to the farmers is going to be paid in lieu of our obligation, so that will be a kind of a government grant or subsidy for us.

- Sagar Shah:** Accordingly your cost of production you are estimating, something like not as a complete approach but something like as a rough approach you can say cost of production would be less or more, liabilities would be reduced for a while?
- Vijay Banka:** Our liabilities have already reduced substantially, we have very little long term debt on our books.
- Sagar Shah:** Your short term borrowings have gone up that is why?
- Vijay Banka:** No, short-term borrowings have not gone up, our bank borrowings are in fact lesser but our cane dues are higher than what they were on the same day last year.
- Sagar Shah:** Yes, that is correct. Okay that is from my side.
- Moderator:** Thank you. We take the next question from the line of Tanmay Roy an individual investor. Please go ahead.
- Tanmay Roy:** Good evening. Thank you so much for giving this opportunity. Actually Sir most of the questions been answered, so just a clarification you said you have written off 90 Lakh tonnes of.
- Vijay Banka:** Rs. 91 Crore of inventory write down I have taken.
- Tanmay Roy:** So after that write down our current inventory you hold in you said is Rs.2600 right?
- Vijay Banka:** Correct.
- Tanmay Roy:** So first thing assuming the prices stay at Rs.2700 for next year?
- Vijay Banka:** We have positive contribution coming from the segment.
- Tanmay Roy:** So at least you will not have any inventory losses.
- Vijay Banka:** Yes.
- Tanmay Roy:** Sir one thing I did not understand distillery like this time molasses prices are down almost 100% so if that is down at least our debt realization for ethanol has to go ahead but I could not see that figure in the distillery, I did not understand exactly? So if you can explain me that?
- Vijay Banka:** If you see my Q4 margins of distillery segment it is at 76% EBITDA margin vis-à-vis 26% in the same quarter last year, so my margins in the distillery segments have obviously gotten better.
- Tanmay Roy:** I am talking about the ethanol, end products for ethanol.
- Vijay Banka:** Yes, I am talking about ethanol only, distillery produces ethanol so our margins from the distillery segment has gone up.

- Tanmay Roy:** Okay. I also reading some documents in relation to that and that is where the Brazil due to their higher production in worldwide because India is second largest producer so there the sales for the ethanol had gone up essentially so the last quarter most of the companies have shown that there was a 30% increase in sale in ethanol because there are very few companies, which is actually holding these quantities and same situation can happen in India also because I see there are very few not all the sugar companies are backward integrated there very few companies which are actually holding this ethanol capacity that we produce, right?
- Vijay Banka:** I will explain to you the difference between the Brazilian sugar industry and the Indian sugar industry. In Brazil most of the sugar that is produced is exported whereas in India most of the sugar that is produced is consumed domestically. Now in Brazil also what we are going to see in 2018-2019 is because of the international price of sugar being so low and the price of ethanol being so much better so we will see a big reduction in the production of sugar in Brazil in 2018-2019.
- Tanmay Roy:** Can you get benefit out of that because the industry can go up when we export our sugars?
- Vijay Banka:** That the production in Brazil production is going to be lower will obviously have a better positive effect on the international sugar prices. So in India since the sugar prices are low, it makes immense sense to make more ethanol so but there is shortage of production capacity. So once that is done we can also see a similar situation seen in Brazil - switch over from ethanol to sugar, sugar to ethanol and once B heavy molasses is going to be permitted to be used for making ethanol, I think then we will have a flexible model in place.
- Tanmay Roy:** See is there any talks going on right now?
- Vijay Banka:** Yes, the talks are there but there is no white paper on that as yet.
- Tanmay Roy:** Sir in last quarter you said like you are planning to increase capacity from 30 to 100 kiloliters so is there anything that?
- Vijay Banka:** We are closely watching some of the technologies that are evolving as the existing technologies that are there in the business to treat the affluent are slightly imperfect. So we are closely watching the evolution of those technologies and we foresee that technologies can achieve perfection shortly. Once we are reasonably assured that the technology is fool proof and not only is the slop be incinerated in the boiler fully but the condensate water is also fully treated and be capable of being recycled, if not the BOD & COD content should be under permissible limits. Once we are sure on this front then we will embark upon this journey.
- Tanmay Roy:** Okay but not very recently, if I would understand correctly?
- Vijay Banka:** We are keenly watching. We are concerned about the alarming fall in the sugar and molasses prices. The only thing we do not want to do is to take any step in a jiffy so as to regret later.

- Tanmay Roy:** Sir just last question, do you see this trend which has started going down for this sugarcane production and sugar production, it is continuing more than four five years from now, which is we have seen from 2008 to 2013-2014?
- Vijay Banka:** You mean the increase in sugar production ?
- Tanmay Roy:** Yes, the downtrend in the sugar prices and its consumption is less, so how do you see this trend going further two three years more?
- Vijay Banka:** It is going to be a very dynamic situation on year-on-year basis we have to see. You see last year production was less because of the unfortunate drought in Maharashtra so God forbidding if anything like that happens it could always impact the production in a negative sense. However farmers are now more enlightened, sugar mills are doing lot of cane development work as a result of which better varieties are being propagated which help the farmers get better yield and which helps the sugar mills get better recoveries. So this technological advancement is always happening. Now sugar prices have become so remunerative that the farmers seems to be growing only sugarcane so you know the government has to work on policies to encourage the farmers to grow some other crops as well, which is when the sense of balance will perhaps come.
- Tanmay Roy:** Thank you Sir. Thank you for answering all my questions. Thank you.
- Moderator:** Thank you. We take the next question from the line of Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** Thanks again Sir. Again on hypothetical basis if B grade molasses to ethanol is allowed what can be the production of ethanol industry wise?
- Vijay Banka:** I do not have the number. It can be any number depending upon what kind of plant capabilities are created.
- Ritesh Poladia:** Okay but would it be about 40-50 Crore kind of a number rough cut?
- Vijay Banka:** No. Present ethanol supply is about 140 to 150 Crore liter per annum, which is what is helping about 5% blending. If B Heavy molasses is used by many distilleries then this number of 150 Crore liter can be easily about 200-odd liters of ethanol.
- Ritesh Poladia:** Okay, so additional 50 Crore liter can come.
- Vijay Banka:** Or more also is possible depending upon what kind of plant capabilities are being created.
- Ritesh Poladia:** That is all from my side. Thank you Sir.
- Moderator:** Thank you. Well this seems to be the last question I now hand the floor over to the management for closing comments.

Vijay Banka:

Thank you very much. Thanks a lot for supporting our company thanks a lot for being with us all throughout. As I explained in my opening remarks it was a very daunting and a challenging quarter and the times are actually difficult because of production estimate have gone haywire and India is clocking a record production of sugar. We on the part of our company are remaining grounded, we have kept a tight leash on our costs, we have become largely debt free, we are clocking the best possible recovery, and we have controlled our process losses which are among the lowest. While collectively the macro problems are being addressed by the industry, at least at our company level we are addressing all the micro issues, we are trying to remain as efficient as possible, having good recoveries and keeping our cost under leash etc. We hope with the kind of initiatives that the government has already embarked upon this industry is going to bounce back and if it bounces back we obviously will be more advantageously placed than others because we are amongst the lowest cost producers of the sugar in the country. Thank you very much.

Moderator:

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