

Dwarikesh Sugar Industries Ltd.

Earnings Conference Call

August 13, 2018

- **Moderator**

- Ladies and gentlemen, good day and welcome to the Dwarikesh Sugar Industries Limited earnings conference call hosted by Prabhudas Lilladher.
- As a reminder all participant lines will be only 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 this conference, please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference is being recorded.
- And I now hand conference over to Mr. Prashant Biyani from Prabhudas Lilladher. Thank you and over to you, sir.

- **Mr. Prashant Biyani - Prabhudas Lilladher Private Limited**

- Hello, everyone on behalf of Prabhudas Lilladher, I welcome you all to Q1 FY'19 results earnings call of Dwarikesh Sugar Industries. I would like to thank the management of Dwarikesh Sugar for taking time out for today's con call. From the management side we have Mr. Vijay Banka. I would request Mr. Banka to discuss about the company's results and key industry highlights for the quarter. And then we will start with the Q &A. Before we begin I would like to mention that certain statements in this call could be forward looking in nature and are subject to risk and uncertainties which could cause actual results to differ materially from those anticipated. Such statements are based on management beliefs as well as assumptions made by the information currently available to the management. I would like to hand over the floor to the management. Thank you and over to you, sir.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- Very good afternoon friends. Warm welcome to you all to Q1 earnings call conference of FY'19. My apologies also for rescheduling the conference which was earlier scheduled on Thursday the 9th. You have with you the results of Q1 of our company. We have posted a profit of about 30 crores which of course pales in

comparison with the Q1 earnings of the last year. A significant drop, but if you compare it with the results of our Q4, FY'18 results, it is lot better. There has been remarkable recovery in the selling price of sugar mainly because of government interventions from the price at which we sold sugar in May, 2018. The government is trying to support our industry and the government is trying to ensure that the sugar prices remain at reasonable level. Well, there has been a stunning turnaround in the fortunes of this industry since January, 2018 though not for the better. In fact, the sugar prices have crashed significantly. There has been nearly Rs. 1000 per quintal fall in the price of sugar. In the month of May '2018, we have sold sugar at an average realisation of between Rs. 2600 to 2650 per quintal. Presently, because of various initiatives of the Government we are selling sugar at 3200 rupees plus. In Q1 2019 we have sold about 12.2 lakhs quintals of sugar as compared to 12.76 lakhs quintals of sugar that we sold in the corresponding quarter last year. On the price front though the realisation has dropped by nearly Rs. 770 per quintal. Our average realisation during this quarter was Rs. 2802 per quintal as compared to Rs. 3572 per quintal in the corresponding quarter last year. This explains the dramatic turnaround the industry has had, though not for the better. Presently sugar price is hovering above Rs. 3200 per quintal. Government has introduced minimum ex-factory selling price for sale of sugar. Government has introduced MIEQ (compulsory exports) and the government has also created a buffer stock of 3 million tons the cost of which will be borne by the government in terms of the subvention of the interest, etc. A lot of measures are being taken. Whether and how much the sugarcane prices are sustainable, there is a big question mark. The fundamentals don't seem good as we have seen a big increase in the production numbers of the sugar in the country. The country has produced nearly 32.2 million tons of sugar as compared to 20.3 million tons of sugar in the previous crushing season, an increase of almost 60% and a record of sorts. So, we are in fact staring at a huge surplus of sugar stocks and the coming season is also expected to see big increase in the production number. As per the estimates drawn by ISMA we are looking at a possibility of producing about 35.5 million tons of sugar in the forthcoming season. We are therefore in the midst of some very challenging times. Let's see how, how things pan out, how the government supports, how the sugar prices behaves. These are all factors which are before us to be dealt with. We are, within our capacity and within our means trying to perform as good as one can. Our efficiencies have been better; we have had another impressive crushing season so far as recovery is concerned. Our group recovery at 11.88%, is 10 basis points more than recovery that we clocked in the last crushing season. We are doing whatever is possible but let's wait and see how things pan out. The

industry is indeed in the midst of several challenges. Thank you very much, this is all from my side. I now invite questions from the participants.

- **Moderator**

- Thank you, sir. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may kindly press star and 1 on your touchtone phone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sandeep Sabarwal from ASK Investments. Please go ahead.

- **Mr. Sandeep Sabarwal – ASK Investments**

- My question is that after the new biofuel policy, are you looking to set up any new ethanol plant.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- Yes, we are actively considering. Our ethanol capacity is 30 KLPD, 30 kilo litres per day and we intend to take it to 100 KLPD. We are in the process of evaluating the vendors, technical aspects etc.

- **Mr. Sandeep Sabarwal – ASK Investments**

- So, this will be green field.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- We are presently evaluating whether we should set up another 100 KLPD plant, or we should expand the 30 KLPD plant to 100 KLPD plant. So, this is the evaluation which we need to do. We will see what is more feasible and what is more beneficial. Obviously it is going to be green field

- **Mr. Sandeep Sabarwal – ASK Investments**

- And if you decide to go in for a new 100 KLPD plant then how much that will cost.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- The cost will be between Rs. 125 and 140 crores depending on the kind of configuration, the vendors etc. There are some vendors who are supposedly very good in so far as the quality is concerned but their plants come at a premium. So,

we are in the process of evaluating. As I mentioned the project cost can be between Rs. 125 and 140 crores.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- And typically what would be the timelines in case if you decide to go in that from start to the installation.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- If we decide now, let's say in the next 15 days or in one month maximum, we will be able to commence our distillery on expanded capacity sometime in October, 2019.

- **Mr. Sandeep Sabarwal – ASK Investments**

- Okay. Thank you very much.

- **Moderator**

- Thank you. Participants who wish to ask questions kindly press star and 1. The next question is from the line of Kalpesh Parekh from Prabhudas Lilladher. Please go ahead.

- **Mr. Kalpesh Parekh – Prabhudas Lilladher**

- Yeah. Hi, sir, you gave a very frank picture of sugar price outlook. But sir, what is the way out now, how and in next 6 to 9 months what is your expectations, how prices will flare up, and what steps further you expect that the government can do to revive the industry.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- Well, let us divide the problem into two parts, one the short term and another the long term. Let me quickly recapitulate the production number and the sugar balance sheet for the season '17-18. We commenced our season with a stock of approximately 4 million tons. We produced 32.2 million tons and that makes about 36.2 million tons of sugar. And our offtake would be in the range of 25.5 to 25.6 million tons of sugar. So that leaves us with a closing balance of more than 10 million tons. As you know, compulsory export of about 2 million tons has been announced but what we expect can go out of the country before the start of the next season is only about 6 lakhs tons of sugar. Effectively we will have about 10 million tons of sugar at the start of the season 2018-19. And we are going to

produce about 35.5 million tons of sugar so that makes 45.5 million tons of sugar available. If we assume about 26 million tons of consumption and if there is no export we will end up with about 19 million tons of closing stock at the end of season '18-19, which is a very frightening number. Well, the government is very actively considering a compulsory export for the coming season also. For the season '17-18 although export of 2 million tons was announced, it was announced rather late. The policy framework took a little more time than what was expected. We expect and we desire that export policy for the season '18-19 is announced at the earliest possible, and that an announcement of about 6 to 7 million tons of compulsory export is made, in which case it is possible to push out raw sugar from India, which is what the international trade demands. So in the short term we expect that the government announces an early compulsory export for the season 2018-19. Number 2, they have already announced minimum support price, etc, minimum support price is announced at Rs. 2900 per quintal. We believe that there is room for increasing this to about Rs. 3400 to 3500. That is the kind of price at which most of the sugar mills will be able recover their cost.

- From a long term perspective the government has already announced the biofuel policy which will encourage the Brazilian practice as it will offer sugar mills flexibility to manufacture more of ethanol and reduce production of sugar, which will benefit the sugar mills from the perspective that the sugar available in the country will be lesser. So sugar will be sold at a reasonably better price. More ethanol can be offered to the oil marketing companies, and the government has already determined a reasonable price for sale of ethanol. I call this a long term measure because setting up of distillery capacities is going to take time. From the existing capacities only 5% of blending is feasible. So if we want to increase the blending percentage, more capacities have to come up and the biofuel policy announced by the government is very encouraging and we are reasonably confident that more and more capacities will come and in the long term and the surplus sugar syndrome can be addressed.
- **Mr. Sandeep Sabarwal – ASK Investments**
- For six to seven million tons, sir, has the industry made a pitch to the government, and is the government is giving you any such indication.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- We have made a pitch, we have so far not got any indication, but the numbers speak for themselves.
- **Mr. Sandeep Sabarwal – ASK Investments**

- Okay, but then in this scenario if they continue with this 2 million ton then probably should we expect prices to be subdued in the coming time.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- See the prices are presently not subdued because of the minimum selling price that the government has announced. But there can be collateral damage in the sense that while the prices may remain firm and on a higher side, the industry will have to cope up with a lot of other problems such as logistics problems. There will be serious issues regarding storage of sugar, storage of molasses, etc. All these can pose a major challenge to the industry.
- **Mr. Sandeep Sabarwal – ASK Investments**
- Has the working capital scenario changed significantly since last....
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Yes, the working capital requirement will also go up. As I mentioned there will be collateral damage, firstly sugar storage issues are likely to surface, molasses storage which was as it is a big problem last year, can become a much bigger and monumental problem. Number 3, the working capital requirements of all sugar mills / companies will go up and whether the bankers will rise to the occasion and offer all the support, that's another question. So we will be facing challenges. Therefore sugar evacuation out of the country is an absolute necessity.
- **Mr. Sandeep Sabarwal – ASK Investments**
- Sir, what will be our working capital cycle right now as on today, and how that has changed in the last one or two quarters.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Our working capital utilization has been is in line with the utilization that we had last year. There has not been any significant change in our working capital requirement, we have been selling our sugar aggressively until the reintroduction of monthly release mechanism. So our working capital requirements hasn't gone up substantially. But yes, with the restricted selling in place, our requirement of working capital funds would definitely go up. This will be not just for us, but for everyone else.
- **Mr. Sandeep Sabarwal – ASK Investments**

- Okay, sir, wish you all the best.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Thank you very much.
- **Moderator**
- Thank you. Participants to ask a question kindly press * and 1.
- The next question is from the line of Deepak Kapoor, an individual investor, please go ahead.
- **Mr. Deepak Kapoor – Individual Investor**
- Hi, good afternoon, sir.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Very good afternoon, sir.
- **Mr. Deepak Kapoor – Individual Investor**
- I wanted to check I think on the question of ethanol capacity expansion, you have been saying something similar for a few quarters, about evaluating the tech and other things. Anything in this policy makes you more excited about expanding and acting on your decision on the same.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Yes, absolutely, sir, things are a little different from what they were in the previous quarters, there were serious questions of technical feasibility of these ethanol projects. As you know disposal of effluent poses a very serious challenge. Now these issues are being gradually addressed and there are lesser challenges now. I wouldn't say there is 100% solution to the problem of effluent disposal, but things are much better than what they were when we last spoke on this subject. Additionally announcement of the biofuel policy makes it all exciting. Therefore we are very, very actively considering the project now
- **Mr. Deepak Kapoor – Individual Investor**
- You have any rough timeline in mind by which you want to freeze on the project and go ahead and start.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Yeah, we will take in a month's time, sir.
- **Mr. Deepak Kapoor - Individual Investor**
- Okay, and I suppose part of this will be debt funded and the government has announced this interest subvention scheme for ethanol expansion. Can you throw some light on what that exactly is and what benefit you get?
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- The biofuel policy has announced that any bank funding which is taken for ethanol project, 50% of the interest cost or 6% whichever is lower will be provided as subsidy by way of subvention from the central government, which means effectively if my interest cost is 9%, I will get 4.5% subsidy and if my interest cost is 12% it will be 6%, if my interest cost is 13% my subsidy will be restricted to 6% only
- **Mr. Deepak Kapoor – Individual Investor**
- This will make ethanol project a lot more attractive.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Yes, in addition there will be SDF funding available for about 40% of the cost of the project.
- **Mr. Deepak Kapoor – Individual Investor**
- What is that funding, sorry?
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- SDF has a scheme.
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, yeah, yeah.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- On distillery projects, SDF funds 40% in lieu of the company's contribution and it comes at a significantly lesser rate of interest of about 6%.

- **Mr. Deepak Kapoor – Individual Investor**
- Okay, thanks. There is also the buffer stock that the government has announced, 3 million tons, so I assume there will be a quota mill wise.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Yes, mill wise quota has been announced and we have created our quota of buffer stock which is earmarked and stored separately. So interest cost of the same not exceeding 12% per annum will be given by way of subvention by the central government. In addition the government will be reimbursing us for the insurance & storage cost also.
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, what will be Dwarikesh's buffer quota?
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Our quota in value terms is about Rs. 95 crores.
- **Mr. Deepak Kapoor – Individual Investor**
- 95 crores at Rs. 29, is it?
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- No, no, wait a moment, it is 95 crores.
- **Mr. Deepak Kapoor – Individual Investor**
- Rs. 95 crores worth at Rs.29 a kilo?
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Yes it is Rs. 95 crores
- **Mr. Deepak Kapoor – Individual Investor**
- And also the monthly release mechanism for sale, so would you have an idea of what your Q2 sale quota will be in terms of quantity.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- It has been announced month wise. In the month of July our quota was about 1.7 lakh quintals of sugar. And in the month of August the government has announced an incentive for those who have commenced exports whether directly or through a third party. There is a particular quantity which has been allotted to us for sale in August, plus 50% of the quantity that we have either directly exported or through third party will be also available to us for sale. For example if my export quota is about 25,000 tons I have actually exported about 10,000 tons, so this 10,000 tons or 1 lakh quintals will be additionally available to us for sale during August, 2018. In this way the government has incentivized the export, those who are exporting quickly will get to sell more sugar.
- **Mr. Deepak Kapoor – Individual investor**
- Okay, so the August quota plus whatever you have exported.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Whatever we have exported or 50% of our quota whichever is lower.
- **Mr. Deepak Kapoor – Individual Investor**
- Or 50% whichever is lower. Okay, so has Dwarikesh already entered into a third party agreement?
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Yes we have.
- **Mr. Deepak Kapoor – Individual Investor**
- And that loss is already accounted for?
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Sorry?
- **Mr. Deepak Kapoor – Individual Investor**
- That loss for that export is already accounted for in this quarter or last quarter, was it done?
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- In June quarter we have continued with our policy of stock valuation of March in which export quota was valued differently and same method of valuation we are continuing in June quarter. So effectively we have factored for the cost.
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, so that would be roughly at 25.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- I am sorry?
- **Mr. Deepak Kapoor – Individual Investor**
- Your March end quarter inventory was valued at about 25.5.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- My average cost was about Rs 26 per kg, In June my non-MIEQ inventory is valued at Rs. 2900 per quintal and MIEQ inventory is valued at approximately Rs. 2130 per quintal
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, so that's already been taken care of.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- It has been factored.
- **Mr. Deepak Kapoor – Individual Investor**
- Anyhow previous question you were mentioning about logistic issues, storage issues, what kind of storage issues one faces with sugar. Sorry, it is a layman question, but is it not easy to just put up some storage capacity for sugar?
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Well, there are two issues involved in storing, one is putting up storage capacities for which resources are required and number two the most important, whether one has adequate place in the factory campus to store the sugar.
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, yeah, yeah.

- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- These are the two main issues. Historically there have been occasions when we had to store sugar outside of our campus. That obviously means that there will be storage rental that we have to pay to store the sugar in CWC warehouses. Plus there will be transportation cost, double loading, double unloading and such costs..
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, okay
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- So, there is always a cost involved.
- **Mr. Deepak Kapoor – Individual Investor**
- Got it, got it. Sir, for the Q1 what is the production figure, sugar.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- In this particular quarter we produced about 9.32 lakh quintal of sugar.
- **Mr. Deepak Kapoor – Individual Investor**
- And closing inventory is how much?
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Our closing inventory is about 16.23 lakh quintals.
- **Mr. Deepak Kapoor – Individual Investor**
- Valued at 29, right.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Non MIEQ inventory is valued at Rs. 29 and MIEQ is valued at Rs. 21.30 or so. My average inventory cost is 27.70 per kg
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, okay. And what is sale quantity this quarter Q1.

- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- This quarter we have sold 12.2 lakh quintals of sugar on an average price of RS. 2802 per quintal.
- **Mr. Deepak Kapoor – Individual Investor**
- At the average price of?
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Rs. 2802 per quintal
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, okay.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- The prices were very low in the month of May.
- **Mr. Deepak Kapoor – Individual Investor**
- Initially, yeah.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- In June it rebounded. But average realisation during the month of May was very low and in fact more sugar was sold in that month. In June the quota system came into the picture. So, the prices have been better but the quantity sold in the month of June is lesser. Average realisation has thus been about Rs. 2802 per quintal.
- **Mr. Deepak Kapoor – Individual Investor**
- Okay. Sir, August you didn't mention what the quota figure is, is it mentionable?
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- I think, it's about 2 lakh quintals. I don't have the exact number now but together with export, we will have to sell more than 2 ½ lakh quintals of sugar.
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, okay. Alright, sir, I will come back in the queue if I have any question.

- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Thank you.
- **Mr. Deepak Kapoor – Individual Investor**
- Thank you, thank you.
- **Moderator**
- Thank you. The next question from the line of Jagdeep Singh from BA Capital. Please go ahead.
- **Mr. Jagdeep Singh – BA Capital**
- Mr. Banka, good evening.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Very good evening, sir.
- **Mr. Jagdeep Singh – BA Capital**
- Sir, I just wanted to understand, you mentioned about sugar and how it would be stored at CWC warehouses. How are you going to handle or the industry is going to handle the molasses over supply?
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Well, sir, last year many sugar mills had to store molasses in the open pits. But fortunately we've sold our molasses aggressively and we did not have to face this problem. But for the coming season it is going to be a serious challenge. In fact, the government of Uttar Pradesh, did relax inter-state movement but it was relaxed rather late in the day. We expect that the government allows us to sell outside the state immediately from the start of the crushing season. Last year the challenge was also because many distilleries had closed down because of the NGT order. This year we expect them to recommence their operations, number one. Number two additional distillery capacities are also coming up but nonetheless there is going to be a serious challenge on the storage of molasses
- **Mr. Jagdeep Singh – BA Capital**
- Okay, okay. So primarily it could be pushed out of UP.

- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Sir, We will make every effort to push molasses aggressively within UP, outside UP. We will do whatever is possible so that we don't face this problem. A lot of sugar mills had serious problems on this count last year. They had to store molasses in open pits which proved to be catastrophic. Molasses is a very hazardous and inflammable substance. Storing in pits is therefore a very risky proposition.
- **Mr. Jagdeep Singh – BA Capital**
- Right, sir. Thank you.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Thank you, sir.
- **Moderator**
- Thank you. The next question is from the line of Manish Agarwal from JM Financial. Please go ahead.
- **Mr. Nilesh Loware – MOSL**
- Yeah, hi, actually Loware here, sir.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Good afternoon, sir.
- **Mr. Nilesh Loware – MOSL**
- Good afternoon, sir. What I wanted to check, you just said that last year the distilleries in UP were probably closed because of NGT, have they complied with now?
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Some of them, not all
- **Mr. Nilesh Loware – MOSL**
- And these some of them would be largely private companies.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**

- Yes mainly private players.
- **Mr. Nilesh Loware – MOSL**
- Right. How about us, how much we have spent to comply with NGT?
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- We are fully compliant, sir. We are ahead of the curve is so far as complying with the effluent treatment norms are concerned. Both at sugar mill level as well as at distillery level we are fully compliant
- **Mr. Nilesh Loware – MOSL**
- And how much have we spent for this compliance?
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- In distillery we had put up an evaporation unit a couple of years ago and our composting unit is also in place.
- **Mr. Nilesh Loware – MOSL**
- Okay.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- We were compliant in distillery. We also spent about Rs. 2 to 3 crores in sugar units to be compliant with all the effluent norms. I wouldn't say that we have reached a zero discharge level but whatever water we are discharging is compliant with the pollution control norms.
- **Mr. Nilesh Loware - MOSL**
- Understood. Sorry, I joined the call a little late. In terms of the production for UP, how would you look at in the coming year what is the acreage increase and what is the variety mix at the industry level from early variety now.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- The acreage increase is estimated to be 5%. ISMA has published estimates for the season 2018-19 and these are all the very early estimates. At this point in time they may not be very authentic. ISMA has published a production estimate of 35.5 million tons for the coming season, out of which UP's number is 13 to 13.5 million tons as compared to 12 million tons of last year. This obviously is a large estimate. UP has to be further divided between West UP, central UP and east

UP, In West UP according to me the area is more or less saturated, there is not much scope for increase in area under sugarcane cultivation. Whatever increase can come in is because of switch over from the other varieties to the early varieties, such as Co 0238. I wouldn't assume this number to be very substantial. Now coming to our company two of our units are in Bijnor district where sugarcane cultivation according to me has reached a saturation point. So some improvement can come, not very significant improvement, from increased spread or increased reach of variety, 0238. But that will not be a very large number, it may be around 5%. In our third unit which is in central UP where the reach of early variety was lesser, where we now see farmers being encouraged to take up the cultivation of this particular variety and here we think about 10% increase is possible. In case with other sugar companies also, who are located in central UP can see a more than 5% increase in the cane availability and those in eastern UP again will have large scope for increase in production because there again the presence of early variety was much lesser. From 12 MT to 13 to 13.5 MT means we are estimating about 10% increase in the overall production of UP.

- **Mr. Nilesh Loware - MOSL**

- Right, and 5% is out of...

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- 5% can be because of increase in the acreage and the rest can be from the better yield on account of increased spread of early varieties.

- **Mr. Nilesh Loware - MOSL**

- Right, why I was asking was, is there any upside risk to this number.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- Sorry?

- **Mr. Nilesh Loware - MOSL**

- Is there any upside risk to these numbers, can it be 14-15 million.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- No, I don't think so. Of course, we all went horribly wrong in the last crushing season. But I really don't think there is such risk this time. Rainfall so far has been good. Much would now depend on the rainfall in the month of September. Rainfall

in late September is not good for the sugarcane crop. As of now the number 13 to 13.5 MT looks reasonable.

- **Mr. Nilesh Loware - MOSL**

- Right, understood. What is the current level of exports, I mean how much exports have already done or contracted till now.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- Roughly 4 lakh tons of export have been done.

- **Mr. Nilesh Loware - MOSL**

- 2 million tons of mandate.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- Yes, 4 lakh tons have been done.

- **Mr. Nilesh Loware - MOSL**

- So how do you look at the scenario for the next season, sir, looking at another bumper crop?

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- As I explained earlier, that there is an urgent need for the government to announce compulsory export of at least about 6 to 7 million tons of sugar, and they need to announce it early so that mills in Maharashtra can produce and push out raw sugar from the country which is what the international trade demands, International trade demands raw sugar and not much of white sugar can go out in the international trade.

- **Mr. Nilesh Loware - MOSL**

- But operationally do you think it is feasible or has it happened in the past that compulsory exports have worked out.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- It can work. ISMA has recommended that those who do not export, their stocks can be seized. A mechanism has to be worked out. It can work the way levy sale

mechanism worked in the past. Levy sale sugar was sold at a lesser price as compared to free sale sugar.

- **Mr. Nilesh Loware - MOSL**

- Maybe some government agency has to be involved.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- All it needs a proper monitoring mechanism and there has to be carrot and stick policy which the government has to follow. Those who export or trade their export obligation should be rewarded and those who don't they obviously have to be punished. The government and the Food Ministry has the powers to ensure that this happens.

- **Mr. Nilesh Loware - MOSL**

- Got it, that's all, sir, thank you so much.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- Thank you, sir.

- **Moderator**

- Thank you. The next question from the line of Yash Padmanan, an individual investor. Please go ahead.

- **Mr. Yash Padmanan – Individual Investor**

- Hello. Very good afternoon sir.

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- Good afternoon, sir, how are you.

- **Mr. Yash Padmanan – Individual Investor**

- Very well, sir, you tell me how are you?

- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**

- Absolutely fine.

- **Mr. Yash Padmanan – Individual Investor**

- Sir, I wanted to know your molasses stock position as of now means at the end of June and how much will be the production expected of ethanol in Q2.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- We are not carrying very large stock of molasses, as we have sold molasses aggressively. On 30th June we were carrying a stock of 1,35,000 quintals of molasses.
- **Mr. Yash Padmanan – Individual Investor**
- Which means hardly for a month around.
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- Yes, not much. We have been selling molasses aggressively at virtually throwaway prices. Last season we crushed about 360 lakh quintals of sugar, now if we assume about 5 to 7% increase even at best let's say at about 10% increase in the crushing number which means 400 lakh quintals of sugarcane. So the production number of molasses is indeed very scary.
- **Mr. Yash Padmanan – Individual Investor**
- Yes, sir. So now do we have options to buy from the market as it is quite lucrative price for ethanol, if you have your quota left to give it to
- **Mr. Vijay S. Banka – Dwarikesh Sugar Industries Limited**
- We are molasses surplus. My molasses production is more and my captive consumption of molasses is lesser which is why we are very keen to increase our distillation capacity.
- **Mr. Yash Padmanan – Individual Investor**
- That I know. My question is now for the current quarter most of other mills would be producing for the whole quarter. Even they have some molasses quota still quantity left for the next quarter also. So they will be able to produce ethanol.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- No, these months of August-September the distillery does not work because these are monsoon months when the distilleries are normally closed. So we will not have any significant requirement in these months and once the crushing season starts, we will have enough of molasses for my captive consumption.

- **Mr. Yash Padmanan – Individual Investor**
 - Okay. So, it means most of distilleries will be off in August, September.
 - **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
 - Yes, most of the distilleries.
 - **Mr. Yash Padmanan – Individual Investor**
 - That is not then the other mills, they are expecting...
 - **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
 - Other distilleries who have incineration plants can work for more than 300 to 330 days a year. We don't have incineration facility, so, we will have to during the monsoon months no option but to close our distilleries.
 - **Mr. Yash Padmanan – Individual Investor**
 - Okay....
 - **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
 - Those who have incineration plants and those who can burn their spent wash in combination with bagasse need not close their plants during the monsoon months.
 - **Mr. Yash Padmanan – Individual Investor**
 - Okay. I just want to reconfirm your sugar stock in month of June, it is 16.23 lakh quintal.
 - **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
 - Yes, sir, 16.23 lakh quintals
 - **Mr. Yash Padmanan – Individual Investor**
 - And how much is this out of this, is quota, export quota.
 - **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- 24599 MT.

- **Mr. Yash Padmanan – Individual Investor**
- 2.5 basically.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- 2.46 lakh quintals.
- **Mr. Yash Padmanan – Individual Investor**
- 2.46, okay. Fine sir, thank you.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Thank you, sir.
- **Moderator**
- Thank you. We have following question from Deepak Kapoor, an investor. Please go ahead.
- **Mr. Deepak Kapoor – Individual Investor**
- Hi, sir.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Hi, sir.
- **Mr. Deepak Kapoor – Individual Investor**
- Sir, I just want to check, do you see an increasing trend of you know, distilleries using more grain based alcohol rather than molasses based.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- There has been some trend for production of IMFL products
- **Mr. Deepak Kapoor – Individual Investor**
- Yeah.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- There is a tendency for them to use grain based spirit for their IMFL products. But since molasses is so abundantly available and nobody would like to use grain.

- **Mr. Deepak Kapoor – Individual Investor**
- Correct.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- In developed countries for all the liquor that is manufactured they use grain based spirit only. But in India, very sparingly and sporadically grain is used for making IMFL. But this trend can emerge in the times to come. But as of now, molasses is abundantly available, I don't think there is any incentive for them to shift to grain.
- **Mr. Deepak Kapoor – Individual Investor**
- Okay, okay, yeah. Secondly, like you explained in the previous question also, what, last year also I remember, it was already clear that molasses would be in excess in UP and the policy doesn't allow fresh season molasses to be sold outside UP, right.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Yes.
- **Mr. Deepak Kapoor – Individual Investor**
- And you had mentioned that industrial body would make an effort, is trying to make efforts with the government to allow export but doesn't look like that happened, I mean to allow it to be sold to outside states.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- It did happen but it happened rather late, number one. And number two there was a process of obtaining approval which was very rickety
- **Mr. Deepak Kapoor – Individual Investor**
- Okay. Sorry, I missed what time did it happen.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Sometimes in the month of Jan, Feb they started allowing.
- **Mr. Deepak Kapoor – Individual Investor**
- Okay.

- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- By that time enough damage was done.
- **Mr. Deepak Kapoor – Individual Investor**
- Correct. So, this year, are you optimistic that it might happen earlier.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- We are. The State government as well as the Central government are equally concerned. Because it gets reflected in the arrears to the farmers. So for the love that they have for the farmers, they will have to take steps so that the industry problems are resolved.
- **Mr. Deepak Kapoor – Individual Investor**
- Right, right. Alright sir, that's all, sir. All the best, sir.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Thank you, sir, thank you.
- **Moderator**
- Thank you. The next question is from the line of Sudhir Rajendra Salunkhe, an individual investor. Please go ahead.
- **Mr. Sudhir Rajendra Salunkhe – Individual Investor**
- Good evening, sir.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Very good evening, sir.
- **Mr. Sudhir Rajendra Salunkhe – Individual Investor**
- Sir, my question is actually regarding monsoon deficit in Maharashtra in the current season. There is lot of monsoon deficit in Maharashtra, do you think that will be an impact on sugar production in Maharashtra, this season or next season.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**

- Sir, I don't think there has been serious deficit of monsoon in Maharashtra. I think, in the month of July we had good rains in Maharashtra. In early part of July, rains were very heavy. Deficit, if any during this year will not get reflected in the sugarcane availability for this season. But it might get reflected in the sugarcane availability for the coming season. So season 2018-19 is given and in 2018-19 there will be enough sugarcane availability in Maharashtra. But deficiency if any can definitely impact the next year's sugarcane availability.
- **Mr. Sudhir Rajendra Salunkhe – Individual Investor**
- Okay, sir, thank you.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Thank you.
- **Mr. Sudhir Rajendra Salunkhe – Individual Investor**
- Sir, my next question is, ISMA recently submitted a letter to Food Ministry to increase the MSP for sugar to 36 rupees per kilogram.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Correct.
- **Mr. Sudhir Rajendra Salunkhe – Individual Investor**
- Do you think any positive means would be taken by government in this regards.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- The government has to take some steps. Number one, because this price of Rs. 2900 rupees per quintal is very much on the lower side. It is a different matter that the prices now prevailing are over Rs. 3200 rupees but at a price of Rs. 2900 I don't think sugar mills will even breakeven. Plus next year government has to ensure that there are more exports. If the industry has to become viable Rs. 3600 would be a reasonable price. The industry association is in active dialogue and is in regular interaction with the officials of the government. So, let's wait and see what happens.
- **Mr. Sudhir Rajendra Salunkhe – Individual Investor**
- Okay, sir, let's wait for the decision.

- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Yes.
- **Mr. Sudhir Rajendra Salunkhe – Individual Investor**
- Sir, I have next question there is some meeting between the UP sugar mills and the government that they wanted to give a subsidy of 40 rupees per quintal per ton. Is anything happening in that regard.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- The industry association has met the officials of the UP State government, wherein they have reiterated their request for a subsidy of 40 rupees a quintal to be given to sugar mills that this can be directly paid to the farmers on behalf of the sugar mills so that the sugarcane dues which have accumulated can be cleared. We have so far got no indication on that on what they are considering. We are actively pursuing
- **Mr. Sudhir Rajendra Salunkhe – Individual Investor**
- Okay, got it, sir. Thank you very much.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Thank you, sir.
- **Moderator**
- Thank you. Participants if you like to ask questions kindly press star 1. For questions you may press star followed by 1. Sir, there are no further questions. Now I would like to hand the conference over to the management for the closing comments.
- **Mr. Vijay Banka – Dwarikesh Sugar Industries Ltd**
- Thank you, friends. Thank you for reposing confidence in us. We are indeed grateful to you all for standing by us through thick and thin. But the times are definitely challenging. Fundamentally things don't seem to be all that great for the sugar industry because the production numbers are pretty high and consumption numbers are stagnant. But having said that, what I would like to say is that the governments, both the Central government as well as the State government of Uttar Pradesh, are actively involved and they are trying to ensure that the sugar industry is back on the recovery path and the operations of the sugar industry

becomes viable. Because that alone would help in ensuring that there are no dues to the farmers and the same are liquidated quickly. Some short term and some long term measures have already been announced and some are in the offing. As far as the short term measures are concerned we expect the government announce compulsory export of at least about 6 to 7 million tons for the coming crushing season. The biofuel policy is very encouraging because that alone can restore the balance of the sugar industry which is lesser sugar production and more ethanol production so that the sugar prices become better and the viability of the industry is established. Government is taking all measures and I wouldn't say the position is as hopeless it appears to be.

- As far as our company is concerned, we will continue our quest for excellence. We will try and maximise our efficiencies, see that the recoveries are better in the coming crushing season. As far as the financials are concerned our numbers are definitely robust as our company is largely long term debt free. Our interest costs have come down substantially. Within our means whatever is possible, is being done and we are striving to do it continuously. We hope and believe that things can definitely get better. All production estimates had gone horribly gone wrong last year. Nobody expected production of 32.2 million tons but then we have to live with the reality. With your active support and help from the Central government and State government, we are sure that the industry will bounce back to good health. Thank you very much.
- **Moderator**
- Thank you, sir. Ladies and gentlemen, on behalf of Prabhudas Lilladher that concludes the conference. Thank you for joining us. You may now disconnect your lines.