



“Dwarikesh Sugar Q3 Financial Year 2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Dwarikesh Sugar Q3 FY2018 earnings conference call hosted by Dolat capital. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case 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 Ms. Afshan Sayyad. Thank you and over to you Madam!

Afshan Sayyad: Thanks Aman. Good afternoon everyone. On behalf of the Dolat Capital, I welcome you all to the Q3 FY2018 earnings call of Dwarikesh Sugar. From the management side, we have Mr. Vijay Banka, the whole Time Director and CFO. Mr. Banka, we would like to thank you for giving us the opportunity to host the Dwarikesh earnings conference call and would like to handover the call to you for the opening remarks on the results and the outlook going forward followed by a Q and A session. Over to you, Sir!

Vijay Banka: Very good afternoon Afshan. I welcome you all to our earnings call. Thank you very much for being here. The results of this quarter are already available with you. We have had a rather lackluster Q3, but if you compare our nine months results with those of nine months from the previous year, the results seem to be reasonable. As we go forward during the conference call, I will explain to you how we have fared and what is the outlook going forward, what is the scenario of sugar price, molasses price, etc., and I will take you through all of these issues. I welcome you all once again and would request you all to please start asking me your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Good afternoon Sir. Sir, my question is that you have indicated production of around some 661 this season and I think this is just 10 to 11 lakh tonnes more than what we consumed. The prices of sugar has come down a lot because of this 10 lakh tonnes so next year the production will be much higher, as indicated by the industry sources, so what the government and ISMA doing to get rid of this problem and how the price will be get corrected or positively corrected from here onwards?

Vijay Banka: Very good afternoon Sir. ISMA has estimated a production 26.1 million tonnes for the crushing season 2017-2018, and this is an upward revision of about one million ton from the previous estimate. This is based on the latest feedback that they have got from various state associations, which now stands updated. The talk of production estimate for the season 2018-2019 at this point in time would be purely speculative. Hardly 10%-15% planting would have happened for that season and that too only in Maharashtra. It would therefore be too premature to hazard a guess on the production estimates of 2018-2019. Lot of numbers are floating around. Some estimates are between 28 and 29 million tons. One has to see how the monsoon would behave, how is it going to impact the production and so on. So there are various factors, which will come into play before

any numbers can be assigned for the season 2018-2019.

Having said that I must admit that recently there has been pressure on the sugar selling prices from a high of Rs.3700 per quintal, which prevailed just before the commencement of the season, the prices are now down to Rs.3,300 per quintal levels. Maharashtra prices could be lower. We in UP are selling at Rs.3300 a quintal. Both ISMA and the Central Government are totally seized of this problem. They are aware that this price of Rs.3300 is not only not remunerative, it perhaps is unviable price for many sugar mills. So they are sensitized that this could transform to a problem of cane price arrears in the times to come. Already in Uttar Pradesh there are cane price arrears of about Rs.1500 Crores and I am sure in Maharashtra also there must be some cane price arrears. If the trend continues the cane price arrears number can be much larger in the times to come.

Basically the problem the industry is facing is that of falling price of sugar at this point in time. The fall is unfathomable and it cannot be explained. It is just that some speculative numbers are floating around for season 2018-2019 and which has resulted into needless phobia. I would not approve of those numbers but well the market sentiment seemed to be depressed and ISMA has represented and the government is also very keen that the prices should be revived and that should be revived to reasonable levels and towards that they are already planning a series of measures. Number one being hiking of import duty. Number two, doing away with the export duty and number three and the most important is facilitating export under the MIEQ scheme which was promulgated and which worked wonderfully well two years ago. Both are working in tandem and they are working to address the issue of perceived excess production. One million tons if perhaps is evacuated out of the country immediately in the next one or two months and thereafter the plan is worked out for the export of another two or three million tonnes based on the rumored higher estimate for the next year, I am sure the prices will revive and there will be turnaround of the prices and the sugar industry should be able to withstand all the problems.

Aman Sonthalia:

Sir my suggestion is that the sugar export is one of the option and I think it is one of the most important option to get rid of the surplus production, but at this time, I think there is no much surplus despite that the prices has come down. So I think the ISMA should ask the government to re-implement the release mechanism in the old form or in any other form, otherwise this will be the problem of every season when the weakness come into the market and they will depress the price?

Vijay Banka:

So this time around the problem is not of the weakness repeating every year. With the commencement of the season there is always a little pressure on the sugar prices because, as you rightly said there are weak mills who are in a great distress and who want to liquidate their stock quickly, so as to be able to pay their cane prices. However your next suggestion that we should ask the central government to reintroduce the monthly release mechanism, I think that would be little far fetched at this point in time because you know it would tantamount to going back to the controlled era.

Aman Sonthalia:

In other words, they are coming with stock limit when there was a crisis of production, so there

was also a control also.

- Vijay Banka:** By the same token yes. India at present is carrying stock which is much lesser than the stock it carried last year on the same date. So it is mainly a problem of perception, it is mainly a problem of sentiment, which needs to be propped up and which can be propped up by even a small quantity of export and the small quantity of export will be good enough to restore the confidence of the traders and all others in the supply chain of the sugar industry. Presently supply chain is running empty and it can easily be replenished so as to give a boost to the selling price of sugar.
- Aman Sonthalia:** Okay and Sir what amount the Bagasse prices and how is the Bagasse prices right now?
- Vijay Banka:** Bagasse prices are in the region Rs.175 per quintal.
- Aman Sonthalia:** And what rate was last year?
- Vijay Banka:** It was maybe little more about. Bagasse sale price does not impact us much because we hardly have any surplus Bagasse. It is not something about which we are unduly worried. Perhaps it was little higher around the same time last year.
- Aman Sonthalia:** Okay. Do you think that this released mechanism? I think it will beat the industry and will boost in the sentiment, I have seen that whenever there was little less projects by the government, the prices used to shoot up, so I think, every season they will see this?
- Vijay Banka:** You are right. The government has been selectively practicing controls as you rightly said in the past. When the sugar prices went up they put stocking limits on the traders, so they have been doing this selectively. But while I think one should look at what you are suggesting but according to me a more workable and more viable options at this point in time is to push some quantity of sugar out of the country.
- Aman Sonthalia:** Sir, do you think that this is the best thing happened to the industry that prices have come down at this point so long-term policy may come, which will be very good for the sugar industry and they will get rid of this significant problem, which the industry is facing every time?
- Vijay Banka:** You are right actually, in every problem there lies a solution and deeper the problem better the solution. I quite agree with you, but this present crisis according to me was least expected. I would have understood the price fall had it occurred sometime in the month of July, August, when new numbers of production estimates were available to all the stakeholders, but this crisis is rather premature and not understandable according to me.
- Aman Sonthalia:** That is right. Okay Sir. Thank you.
- Moderator:** Thank you. We have the next question from the line of Siddarth Mohta from Principle India. Please go ahead.

- Siddarth Mohta:** Good afternoon Sir. Sir, my first question is with respect to export. Sir even if the government will open of Indian sugar to be exported so at the current prices of 13.57 cents per pound so whether it will be feasible to make some profit?
- Vijay Banka:** That there are two ways of looking at it. Number one, from the industry's standpoint is that many aspects of the industry has been regulated by the government. For example, the sugarcane price, both at the central government level as well as at the state government level, are regulated by the respected governments. So if the export has to happen and if there is a loss, you rightly said that at the current prices, the viability of export is suspect but well historically exports have been subsidized and there is no reason why this time around the exports should not be subsidized. So that our way of looking at it, but you also have an example of one year ago when exports were made mandatory and there was a mechanism put in place by which the exports were self-financing.
- Siddarth Mohta:** Correct, Sir but the bigger problem is it can be addressed if the government can take a bit of pain or if it can provide a bit of subsidy actually.
- Vijay Banka:** Absolutely.
- Siddarth Mohta:** Correct and Sir just a couple of points. Sir one is with respect to our taxation, so at this time we have not paid much of the tax, if you can just tell us what can be the yearly runrate for the tax? And second is what is our closing stock and at what price we have valued our closing inventory?
- Vijay Banka:** I will answer your easier question first Sir. Our closing inventory is 7.4 lakh quintals valued at Rs.3255 a quintal.
- Siddarth Mohta:** 3255 okay and 7.4 is the number.
- Vijay Banka:** Yes, 7.4 lakh quintals. Secondly on the taxation, you see in the last year, we had not provided for taxation in the first three quarters, the entire load of taxation was on the fourth quarter. This year we have been providing taxation in each of the quarters. Our tax rate would not be the total 34.706% as would be the case if the entire income were to be taxed, we will have profit from the power segment, which is exempt from tax, so our effective tax rate would be not more than 20%.
- Siddarth Mohta:** Okay that is for the entire year?
- Vijay Banka:** Yes.
- Siddarth Mohta:** Sir I know it is bit early but what rate we can assume for FY2019?
- Vijay Banka:** I would not be able to talk about it. You see the deferred tax liability is another thing where it depends on the timing difference, so that can work one way or the other, so until last year we were providing for deferred tax liability and this year we may have a situation whereby we have deferred tax asset creation. From cash flow perspective we may pay MAT, but our effective tax

rate can be lower.

Siddarth Mohta: Okay and Sir assuming the recovery rate of 11.5% for this current sugar season, so what can be the rough cost of production of sugar for this sugar season?

Vijay Banka: I will talk about the company as a whole and I will also talk from segment perspective also. You see, our landed cost of sugarcane is the state administrative price is, Rs.315 and Rs.10 extra for the early maturity cane. Now we procure almost 70% of my cane, which is early maturing variety, so our cost is nearly Rs.322 a quintal plus there is society commission charge of about Rs.5.10 paisa and there are transportation difference etc. that we are required to bear. So, the effective cost of cane procurement is anything between Rs.330 and Rs.335. So on an average 11.5% recovery, my cost of sugarcane alone is Rs.2900 a quintal approximately. Now I will talk from the point of view of company as a whole. Our conversion cost of sugar would be about Rs.450 to Rs.500 a quintal, and our revenue from sale of byproduct and value added products would also be approximately the same. Our cost of production without interest and depreciation is about Rs.2900. Our interest cost impact will be substantially less and it may be around Rs.70 per quintal thus the cash cost is Rs.2,970 per quintal. Plus considering depreciation etc. our total cost may be Rs.3100 per quintal. Our cash cost as mentioned will be approximately Rs.3000. This is from a company as a whole. Now if we look at it from the segment point of view, our sugarcane cost is the same as Rs.2,900. Our conversion cost out of that Rs.450, most of it will be on the sugar segment, so out of Rs. 450-Rs.500, approximately Rs. 400 per quintal will be on sugar segment, totaling to Rs.3300. Our realization from basic byproducts that is molasses and the Bagasse, (here I am not supposed to consider the value added products), will be about Rs.100 a quintal, or little more> So our cost for the purpose of segment will be Rs.3,200 a quintal.

Siddarth Mohta: Correct Sir. That is very helpful Sir. Thank you and best wishes for the upcoming quarters.

Vijay Banka: Thank you very much Sir.

Moderator: Thank you. We have the next question from the line of Kunal Khudania from Mirae Asset. Please go ahead.

Kunal Khudania: Good afternoon Sir. Basically like we are saying realizations have improved a little bit from the last season, but I am not fully convinced with the EBIT figures for the sugar segment, so if you could just throw some light to that?

Vijay Banka: See the problem we have in sugar industry is while we are required to follow the fiscal year for accounting purposes, a more appropriate thing would be to follow October to September year. Now more often than not what happens is, what we sell sugar sold in the first two quarters is the sugar produced in the previous fiscal. In 2016-2017, during Q3, we sold almost 3-lakh quintals of sugar, which pertained to the previous fiscal, which was produced in season 2015-2016 and before March end. So those 3 lakh quintals were valued at Rs.2644 or so. So we had a clear contribution of about Rs.650 coming from the stock that was carried forward from the previous

fiscal, which was not available at this time, number one. So that explains about a deviation of almost about Rs.19 to Rs.20 Crores. Secondly, our molasses prices have also fallen quite substantially from a high of in the last year our average realization on sale of molasses was about Rs.400 a quintal and this year it was down to about Rs.60 a quintal. During this quarter, we have sold molasses and transferred molasses to our distillery segment (and this all forms a part of the sugar segment working) at almost Rs.60 a quintal so which means lower by Rs.350 per quintal. On 2 lakhs quintal sold / transferred we lost out about Rs.7 Crore. This perhaps will help you understand the reasons why in this particular quarter sugar segment has been under stress.

Kunal Khudania: Okay. Sir what is the take on the prices going ahead?

Vijay Banka: We expect a quick turnaround of the industry. Both central government and industry association are seized of the problem and they are on war footing scheme working out scheme to facilitate export. We expect an announcement from the central government soon and it will be very helpful to prop up the market sentiments and sugar prices should see northward movements from there on. So we expect a quick turnaround. Things should get better immediately and as far as we are concerned, we have a clear delta of over our peer group companies because of our better recoveries and the same should support us in all times to come.

Kunal Khudania: Okay Sir. Thank you Sir.

Moderator: Thank you. We have the next question from the line of Shekhar Singh from Excelsior Advisor. Please go ahead.

Shekhar Singh: Sir I just want to know like on last year, you would be carrying some inventory, so when you sell this year at around Rs.3300, what was the costing that sugar, what is from last year, what is the newly produced sugar?

Vijay Banka: Are you talking about this year?

Shekhar Singh: Yes, this year?

Vijay Banka: This year in the first quarter and second quarter, we have sold the sugar inventory that was carried forward from the last fiscal. And in this quarter, we have sold a part of the inventory, which was the season 2016-2017 but not produced during the fiscal 2016-2017. Most of the sugar that we have sold is what we have produced in this current season, so obviously the cost here is higher, which is why the margins are under pressure.

Shekhar Singh: Okay. For on the rental the prices are recovered, you will report a loss even in Q4?

Vijay Banka: Two things will happen from here on. Our crushing in the March quarter will be on a full scale. We will have total crushing throughout three months and our recoveries in these three months, are exceptional. So we will have our sugar produced during these three months which will be of low cost.

- Shekhar Singh:** Okay. Sir roughly like you have 21500 TCD of sugar crushing capacity, how many days will you be running it this year?
- Vijay Banka:** Last year we produced 283 lakh quintals of sugarcane and this year we expect to crush about 320 lakh quintals of sugarcane, so which means there will be 10% to 12% or so upward revision as far as the crushing number is concerned, but we have done some debottlenecking of our operations during the off season, so our crush rate in all the plants have gone up a little, so we expect about 170 days of crushing on an average.
- Shekhar Singh:** Okay and in terms of cogen, how much will be the surplus power that you will be selling?
- Vijay Banka:** In the last fiscal, we sold power worth Rs.79 Crores, but if you talk about the season, we sold power worth Rs.90 Crores, so we should see a commensurate increase in the power generated and sold.
- Shekhar Singh:** Yes, so roughly 10% should be the increase over there?
- Vijay Banka:** It should be, the exact number will depend on the fiber content in the sugarcane. If the fiber content in sugarcane is lower the Bagasse availability and hence the cogeneration will be lesser, but if the Bagasse content in the sugar is higher obviously the cogeneration will be more.
- Shekhar Singh:** Thanks a lot Sir.
- Moderator:** Thank you. We have the next question from the line of Yashpal Madan as an individual investor. Please go ahead.
- Yashpal Madan:** Good afternoon Mr. Banka. You told comparison of profitability from last quarter to current quarters, YOY, but my query is how come there is Rs.7 loss in current quarter, okay. Now your cost of production is Rs.3200?
- Vijay Banka:** Sir, this cost of production Rs.3255 is cost of sugarcane plus directly attributable overhead Sir. In this quarter when we begin our crushing season, the recoveries are little low as compared to whatever eventual recovery that we will clock. So if you see, the real cost of production obviously during this quarter will be higher.
- Yashpal Madan:** Let me complete this one. See now let us say this Rs.3200 your cost is taking into consideration all expenses of off-season also, right?
- Vijay Banka:** Yes Sir.
- Yashpal Madan:** Because you are saying for the quarter, right. Now your average realization in this quarter had been Rs.3543, right. So it means on sales you have not lost anything. Am I right? Whatever you have sold, there is no actual cash loss, am I right?

- Vijay Banka:** No. Let me explain, Sir.
- Yashpal Madan:** My question is not complete. Let me complete that, number one. Number two, let us say even if you book your inventory basis low off either marketed or your production cost. So it means in your books you must have booked your inventory at Rs.3200 that will cost. I am talking about only sugar at this point of time. So in no way, I do not see why there should be a lost proposition for sugar. I am not able to understand, I have gone through your complete presentation numbers two times, but I failed to understand why there should be loss?
- Vijay Banka:** Let me explain to you Sir, how we compute all these things. As I was first mentioning a little while ago, we are required a follow fiscal year where there is always a overlap of two seasons, okay.
- Yashpal Madan:** But, here that is not the question.
- Vijay Banka:** Let me run through the entire process Sir, then I am sure your doubts will be put at rest. You see we have produced nearly 4.5 lakh quintals of sugar in the current fiscal, which pertains to the season 2016-2017.
- Yashpal Madan:** How much?
- Vijay Banka:** 4.5 lakh quintals, So 4.5 lakh quintals was actually, as far as season terminology is concerned pertaining to the season 2016-2017, but as far as fiscal year is concerned, it pertains to the season 2017-2018. Now on 4.5 lakh quintals produced the valuation methodology factors for overheads of the nine months, okay. So 4.5 lakh quintals then produced in the first quarter and whatever we have produced in this quarter, the total cost is worked out and on which is loaded the overheads for all the nine months. That is how we work out the closing stocks. Perhaps if we could meet we can run through the cost structure that we have, so that your questions can all be answered.
- Yashpal Madan:** So, you are saying why it is happening is because your inventory cost average of nine months basically.
- Vijay Banka:** Absolutely Sir.
- Yashpal Madan:** It is not only this month.
- Vijay Banka:** No, it is not only this month.
- Yashpal Madan:** So, now your inventory cost you told is as of now at the end of this quarter you have told how much is the now inventory cost, what you are carrying the 3255?
- Vijay Banka:** 3255.
- Yashpal Madan:** So let us say in the current quarter if your price does not go below 3300 then there is no question

of loss, right?

Vijay Banka: Yes. There should be no loss but then there are overheads etc., which are not absorbed into the cost of production for the purpose of valuation of inventory.

Yashpal Madan: Still there will be some cost?

Vijay Banka: Yes.

Yashpal Madan: But that will not bring your occasional production cost of this quarter, current quarter?

Vijay Banka: There are already there and they will continue to come in the future quarters also. You see what is considered for valuation of inventory is the nine months cane procurement cost plus the directly attributable production overheads. Selling, the administration, expenses and some other indirect production expenditure do not form a part of the cost of production for valuation of inventory.

Yashpal Madan: Okay, fine and how much sugar you sold in this quarter?

Vijay Banka: Sir I sold 6.66 lakh quintals of sugar.

Yashpal Madan: 6.66 lakh, and you have produced 4.5 lakhs?

Vijay Banka: No, 4.5 lakhs was produced in the first quarter and about 12.67 lakh quintals of sugar was produced in this quarter.

Yashpal Madan: 12.67 lakh quintals in this quarter?

Vijay Banka: Yes.

Yashpal Madan: Okay and out of that 6.66 has been sold because there was no opening inventory.

Vijay Banka: 1.39 has been sold, which was of produced during the first quarter and the rest is from the current quarter's production, so the closing stock is 7.4 lakh quintals.

Yashpal Madan: Okay. So essentially what we can say is the loss you are showing is the inventory loss, it is not a cash loss?

Vijay Banka: It is a loss in the sense it is a loss of unabsorbed overheads, let me put it like that.

Yashpal Madan: Okay. So first day there is no cash loss in this.

Vijay Banka: Yes. You are right in that sense we have.

- Yashpal Madan:** So, it is not that your production cost is higher and you are selling at lower cost, right?
- Vijay Banka:** No, fortunately we have not reached a stage where entire valuation is on the selling price.
- Yashpal Madan:** Yes that was what was worrying me basically.
- Vijay Banka:** No. Fortunately, we have not reached that stage.
- Yashpal Madan:** Right. Okay and your average recovery for this quarter had been 11.5.
- Vijay Banka:** No, for this quarter has been lesser Sir. It is 10.73. It will get progressively better as we go forward,. The trend is that when we commence a season our recoveries are lower but once we go forward it gets better. Our recovery during Q 4 and the Q 1 of 2018-19 will be much better..
- Yashpal Madan:** So, can we expect this time to touch around 13?
- Vijay Banka:** No Sir. Last year we touched 11.78, we will be very happy, we can replicate that number.
- Yashpal Madan:** It is a 12.something or 11.78 for you?
- Vijay Banka:** We reached 11.78 Sir last season.
- Yashpal Madan:** Average of number?
- Vijay Banka:** Yes, groups average.
- Yashpal Madan:** Groups average, 11.78.
- Vijay Banka:** Yes. So we are at 10.73 as on December 31, 2017, so as we go forward it gets better and better. For example, between my recoveries on December 31, 2017 was 10.73, my today's to date recovery of all three plants together is 10.94%. So there is an improvement of 21 basis points between December 31, 2017 and today.
- Moderator:** Thank you. Mr. Madhan we would request you to join the question queue for any follow-ups as we have several participants waiting for their turn. Thank you. We have the next question from the line of Tushar Sarda. He is as an individual investor. Please go ahead.
- Tushar Sarda:** Thank you for the opportunity. My question was also on similar lines because if you are valuing the closing stock at 34.5, which I assume will be your cost of production for Q3 FY2018 and selling price is 35.4, then in the segment how do you have lost in sugar?
- Vijay Banka:** Which is what I have explained.
- Tushar Sarda:** So I probably will take it offline, which is required or may be I will come and meet you.

Vijay Banka: Sure Sir.

Tushar Sarda: Right Sir. Thank you very much and what is the expected outlook for rest of the year now?

Vijay Banka: Prices have come down to the levels of 3300. As I have explained the government and ISMA is seized of this problem because they see this boomeranging into a bigger crisis in the sense that cane price arrears will pile up and no government can afford, this is in a year, which is just a year away from the election year. All are working towards it and all want to see that the market sentiments are revived immediately. Number one, they are planning do away with the export duty. Number two, they are planning to hike the import duty and number three they are wanting to facilitate the exports. So even if one million tonnes of sugar is exported out of the country in the next one and one and a half or two months that will impact the sentiments very positively.

Tushar Sarda: In terms of your plant since molasses prices have fallen so much, where does your distillery plant stand, the presentation mentions that you will expand the capacity.

Vijay Banka: We are very actively and critically evaluating the distillery proposal before us. Now let me explain to you in detail Sir, where we are. Number one, see we would not own to cast aspersion on anybody else's plant capabilities, etc., but we are on the Indo-Gangetic Plain where the effluent treatment of the distillery is the most important thing. There have been imperfect technologies in the past which are followed and which are definitely not 100% compliant. There are three issues, which are mainly involved. Number one, after treating the effluent, there is water which needs to be recycled. We call it condensate water. Now this water needs to be recycled which means it should be treated fully Firstly it is very acidic in nature and hence firstly it should be neutralized and then it should be further treated to be recycled or at least to be made so good that the BOD and COD content is lower and it can be let out for ferti-irrigation purposes. Number two, the residual sludge, flop as we call it, needs to be burnt. There is incineration technology with which you can burn it properly. Number three, once one burns the flop, the air emission norms have been recently revised and have been made more stringent should be complied with. We have zeroed down on a technology, which will take care of all these three things. We are just in the last leg and hopefully we should be doing something very soon Sir.

Tushar Sarda: So what is the capacity that you will setup and what will be the cost?

Vijay Banka: Our capacity is 30 KLPD. We plan to take it to 100 KLPD, which means an incremental 70 KLPD capacity and in this plant with the technology that we are examining we should be able to run our distillery uninterruptedly for a period of in excess of 300 days per year. When we talk about 300 days, which means we should be able to produce at least 3 Crores liters of ethanol every year.

Tushar Sarda: And what will be the cost of this Sir?

Vijay Banka: The cost of expansion as we have perceived is going to be 100 Crores, so out of which 40% is

proposed to funded by the Sugar Development Fund at 6% ROI. We will need to get project appraised from the bank since SDF does not appraise the project so we will need to take some funding from the bank as well. The mix of funding between the bank and internal accrual we will decide in due course of time Sir.

Tushar Sarda: And will this consume your entire molasses?

Vijay Banka: Most of it Sir.

Tushar Sarda: You will still be left with surplus molasses after this?

Vijay Banka: In the third unit we can always put up another distillery if required.

Tushar Sarda: Okay, so what is your current molasses production Sir?

Vijay Banka: As of now, on the expected sugarcane crushing during season 2017-2018, we will produce about 130000 quintals of molasses, out of which 30000 quintals will be captively consumed nearly a lakhs of quintals of molasses, we will have to sell outside.

Tushar Sarda: Okay. 130000 quintals. So this will be a big in terms P&L this year, right, because if the prices are fallen from 400 to 600?

Vijay Banka: Yes Sir, if you look at it from a short-term perspective, yes.

Tushar Sarda: If you put up distilleries then you will back to.

Vijay Banka: You will appreciate our efforts, once we work the plant on a technology, which is longstanding and which takes care of effluent treatment requirements today as well as tomorrow.

Tushar Sarda: Thank you very much Sir. Thank you for the details that you have given.

Moderator: Thank you. We have the next question from the line of Rajya Vardhan from Crest Capital. Please go ahead.

Rajya Vardhan: Good afternoon Sir. Sir, I had a small question, I was just wondering if you could just go through, go over your closing stock for the current quarter of 7.5 lakhs again? How did you get that? So you said you produced 6.66 lakhs of number this quarter, quarter three you sold 6.6 lakhs?

Vijay Banka: We opened the quarter with a stock of 1.39 lakh quintals and we produced about 12.67 lakh quintals in the current quarter.

Rajya Vardhan: How much sorry?

- Vijay Banka:** One moment, I will confirm the number, 12.67 lakhs quintals, Sir. So we have produced 12.67 lakhs, so out of which we have sold 6.66 lakh quintals, so we are at 7.4 lakh quintals.
- Rajya Vardhan:** Perfect. Thank you.
- Moderator:** Thank you. We have the next question from the line of Deepak Kapoor as an individual investor. Please go ahead.
- Deepak Kapoor:** Good evening Sir. Most of my questions already answered, but I just have a couple left, in distillery 100 KLPD that you are talking about, are you referring to a Greenfield or Brownfield at a current capacity?
- Vijay Banka:** We are at 30 KLPD already, so that will be a Greenfield, our expansion to 100 KLPD
- Deepak Kapoor:** Because your new 100 KLPD unit?
- Vijay Banka:** No. We will add on Sir. We will add on 70 KLPD. We will of course in the process improvise the working of 30 KLPD capability distillery also, such that there is a unified incineration plant and unified effluent treatment capability.
- Deepak Kapoor:** Okay. So this 70 is going to come at around the new plant location, not at the existing?
- Vijay Banka:** No, at the same location Sir, where we are at 30 KLPD, it will be at the same location Sir.
- Deepak Kapoor:** Okay. Secondly in terms of sense you know since there is a hit you were explaining the hit on molasses falling molasses prices there, in your accounting do you see any benefit of the fallen molasses prices into your distillery EBIT?
- Vijay Banka:** Yes, of course the distillery EBIT will get better, of course yes.
- Deepak Kapoor:** Okay, so from what you explained roughly you can use about how many 40% such as B cell molasses?
- Vijay Banka:** At the current molasses prices, distillery EBIT will be phenomenal Sir. When we were selling molasses last year at Rs.400 a quintal molasses cost per liter of on ethanol was Rs.16. So we will have additional contribution of about Rs.12 to Rs.14 because of the fall in price of molasses. The EBITDA which used to be around 30% for distillery segment will be much better because of the fall in molasses prices.
- Deepak Kapoor:** Okay. So our molasses prices still depressed in the market or it is currently sign of molasses prices falling up?
- Vijay Banka:** They are still depressed. State government is working on a couple of things. Number one they are wanting to reduce the molasses obligation of levy molasses, which is for country liquor

manufacturing. Present obligation is to give them 20%, and they are planning to reduce this to 12% or so. Hitherto molasses was not allowed to be exported out of Uttar Pradesh. No wthis will be allowed to be exported. This will revive the molasses prices to a certain extent.

Deepak Kapoor: So that is kind of confirmed that they are going to allow selling current season molasses out of easy.

Vijay Banka: Otherwise, there would not be any takers in Uttar Pradesh, there are some sugar mills who may have to truncate their crushing operation.

Deepak Kapoor: That is all for now. I will get back with you.

Moderator: Thank you. We have the next question from the line of Prashanth Basker as an Individual Investor. Please go ahead.

Prashanth Basker: There are two parts in my question. First part is that by when will you be completing the expansion of your TPD from 30 KLPD to 100 KLPD?

Vijay Banka: Sir, we are in the process. We are in the last leg of examining and coming to a decision, so which should be taken very soon and once we take a positive decision, it should be up and operational in about 10 months' time from thereon.

Prashanth Basker: Do you see the demand of the TPD of increasing it like you think that there has been demand of increasing it?

Vijay Banka: Sir as of now we are able to meet only 5% blending requirement whereas the central government is targeting 10% blending. I see no reason for the increased production of ethanol being absorbed by the oil marketing companies.

Prashanth Basker: I noticed the profit that you make on this TPD like if you have 30 TPD right now, a percent of what is a per kg profit you make?

Vijay Banka: No. Ethanol is sold at about Rs.40.85 paisa, let us for sake of prudence assume at Rs.40, per litre. At the old price of molasses, there is an EBITDA of about 30%, which means roughly Rs.12 per liter. Now since the molasses prices have fallen, additional Rs.10 EBITDA has now become available, which should translate into an EBITDA of nearly 50%. This is how it is if one looks at the opportunity cost of molasses.

Prashanth Basker: But the total cost of production just for sake for understanding right now is the ethanol current market price is Rs.40 selling price, what is your manufacturing price?

Vijay Banka: **It cost us earlier** Rs.30, per liter but will now come down to Rs.20 at the current opportunity cost of molasses at the given market molasses price.

- Prashanth Basker:** And second question is that you said that there has been lot of pressure from the state government, central government and governments will not want companies to default to the farmer, but till now exclusive government wants that the default to happen the prices have come down to as go as it what you have experienced, so I do not think the government is really taking that?
- Vijay Banka:** Let me assure you government is working on war footing on this issue. They are trying to address this problem. They are as much worried, as we are worried about the fall in sugar prices.
- Prashanth Basker:** Because last time when we had a concall that was the time when the elections throughout were happening, so everyone said that as soon as the results will come out, then they will take a complete decision, but now I think it has been a lot almost two months gone and till I do not see there has been anything?
- Vijay Banka:** Let me explain this Sir. If there are pileups of cane price arrears, there is going to be hue and cry, neither the government nor the industry can afford cane price arrears at this point in time.
- Prashanth Basker:** But do not think that elections are next year the government will also want sugar prices to be less.
- Vijay Banka:** So, there is going to be no clamor, no hue and cry if the ex mill sugar prices are Rs. 37 per kg or below 37. The Government was always very conformable with ex mill price of less than Rs.37 a kg. There is always a possibility that the prices can be revised upwards from the current levels and I see a quick turnaround in the horizon.
- Prashanth Basker:** You think in the next time when we speak up the prices would be much better?
- Vijay Banka:** I certainly hope so. Because like I explained there are companies like us who with a clear delta and with reasonably strong financed position, reasonably efficient operations, higher recoveries, may be able to liquidate our cane dues but think of the average sugar companies and think of below average companies.
- Prashanth Basker:** And why have you taken its commercial paper, Rs.50 Crores, Rs.100 Crores?
- Vijay Banka:** It is only for interest arbitrage purposes.
- Prashanth Basker:** The interest arbitrage means.
- Vijay Banka:** Cash credit, we borrow from the banks for our working capital purposes at X cost. N commercial paper are issued at lower costs and are obviously cheaper. There is no extra borrowing, it is carved out of our cash credit limits.
- Prashanth Basker:** And any dividend going forward for March?

- Vijay Banka:** Let us wait for the full results of 2017-2018. We will try be as liberal as possible, as prudent and as liberal as it is possible.
- Prashanth Basker:** Just last question like last year we closed around Rs.150 Crores of net profit on the bottomline, so what could be the numbers this year?
- Vijay Banka:** We will have to wait and see how the prices pan out in the quarter. We have 10 more days of this month and two months remaining of February and March, so we will have to wait and see. There is clear visibility of production, recoveries are expected to be good. It will eventually depend on the sugar prices, so once the turnaround on the sugar prices will happen, everything will fall in place.
- Prashanth Basker:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Prachi Raut from Prabhudas Lilladher. Please go ahead.
- Sri Sankara:** Hi. This is Sri Sankara here from Prabhudas Lilladher. Two quick questions; we have had two wonderful monsoons, so effectively what is your estimate in terms of cane production for next year?
- Vijay Banka:** You mean 2018-2019 Sir or 2017-2018?
- Sri Sankara:** 2018-2019 because already the production of the cane, the feedback that you receive is at least when you speak to a lot of Maharashtra areas is the water table is extremely good, so the production should be much better because of two years of cane productive?
- Vijay Banka:** Sir, I would not subscribe to what people have been saying about a higher production number of 2018-2019, but we will have to wait for the monsoon of the year 2018 before coming to any conclusion on the production estimates. At this point in time, I would like to reaffirm that any production estimate of 2018-2019 would be purely speculative in nature.
- Sri Sankara:** Right. Second is regarding the price of alcohol. Earlier there has been a significant amount of alcohol production used to go for portable alcohol. Now with more and more high end whiskey manufactures, etc., going towards grain alcohol, now where incrementally our alcohol as and most of the alcohol has been going into?
- Vijay Banka:** Sugar mills are actually producing more and more of ethanol, which is being used by the oil marketing companies. Most of the industrial alcohol that we have produced has been converted that into ethanol and given it to oil marketing company. We have been selling molasses to liquor manufactures and there you are very right when you say that most of the IMFL manufactures are gradually shifting over to using grain. But there is no dearth of demand for ethanol. We have recently had tendering of ethanol and indenting of about 140 Crores liters of ethanol which will take care of our 5% of blending requirement whereas the government target is to reach 10%

blending. So I do not think we are in a situation where we have to look for either alcohol for IMFL Straightaway our choice would be to go for ethanol.

Sri Sankara: Sir this has to the situation for almost 10 years that the demand has been or the government has been speaking about 5% or 10% blending and once the blending requirement comes in, the demand cannot be met by the sugar producers that is kind of scenario which has been there?

Vijay Banka: Yes, it was there last year so very much you are right Sir.

Sri Sankara: That has been for so many years, so it has never happened that way, but why do you think that this is not happening because certain kind of sentiment can build on it but it never happens 10 years almost the same story?

Vijay Banka: You are right Sir. I mean this programme is as old as 10 years, but to begin with the programme never got the impetus because of lack of seriousness on the part of oil marketing companies. There were various conflicting interest at play, sugar industry wanted ethanol to be sold and sold at a decent price, oil marketing companies were not very keen to buy ethanol and thirdly there were this chemical companies also who thought that if more and more molasses gets diverted for ethanol making, there will be deprived of their feedstock. So various factors were at play and secondly as you rightly said the production in the country also varied, from a high of 28.3 million tons in one particular year, last year we have had a production of only 20.3 million tonnes so hence availability of molasses and therefore the production of ethanol was in the lower side. But in this year when we are talking of a production of 26.1 million tonnes, we see a seasonable availability of molasses and ethanol going forward. Meeting this increased the target of 10% would be little difficult to prophesize at this point in time, but definitely more than 5% blending target can be achieved.

Sri Sankara: Sir, if it that every time when the oil prices goes up, what you call marketing companies becomes very much bullish on blending and what is the oil prices goes down, they go off that target?

Vijay Banka: Well this would be very natural if you ask me, but the government objective is very, very clear, they want to cut down on their dependence on oil imports and which is the why the government has been encouraging the production of ethanol in a big way and the fact that there is increased ethanol procurement price from Rs.39 a liter to Rs.40.85 a liter actually bears testimony of that fact.

Sri Sankara: Okay, if I can push the last question, so what is your debt outstanding at December?

Vijay Banka: December 31, 2017 my long-term debt was Rs.59.14 Crores, out of which Rs.22 Crores is noninterest bearing, so our interest bearing debt per se is only Rs.37 Crores and additionally I had some preference shares, which will be redeeming as and when they are due for redemption that is about 21 Crores.

- Sri Sankara:** Okay and working capital?
- Vijay Banka:** We had hardly very little utilization on December 31, 2017 but as we go forward as we procure more and more sugarcane and when we have to make payment for the sugarcane price, our working capital buildup will be there, typically our cash credit utilization is highest during the months of March or April.
- Sri Sankara:** That was just Rs.530 Crores at March 31?
- Vijay Banka:** March 31, our working capital utilization was Rs.357 Crores.
- Sri Sankara:** I was talked about a total debt outstanding?
- Vijay Banka:** Total debt yes. You know it appears rather skewed if you look at our debt profile during March 31.
- Sri Sankara:** Yes, I understood.
- Vijay Banka:** And if you look at my debt profile on September 30, 2017 it would appear to be rather more trimmed.
- Sri Sankara:** Okay. That is all. Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.
- Amit Kadam:** Sir my question is on the international prices for sugar, so like when we are thinking, or hoping for a release from the government that the export will be allowed, so I just want to have an understanding what is the outlook also at the global end regarding sugar and sugar prices and what is it currently trending and I just want to understand also like I understand it is like 13.57 cents for us, but how it translates into our net realization in rupee term, tomorrow if the order gets passed?
- Vijay Banka:** You see basically India as such is insulated from international trade because of the duty structure that we have in place. We already have about 50% of import duty. I will address the question one by one. Firstly let me talk about the duty structures. We are largely insulated but now when we are required to export low international prices actually are deterrent because if we have to compete, if we have to take out one million tonne of sugar from out of the country export it, we will have to be comparing favorably with the present international prices, so there is an element of loss if one were to export it directly. But we are waiting to see how the government is going to facilitate the entire process.
- Amit Kadam:** So what is the duty structure?

- Vijay Banka:** Presently the import duty is about 50% and there is export duty also, which is required to be done away with, import duty has to be raised so that there are no imports coming into the country and thirdly the export facilitation has to take place for which there has to be some kind of subsidy structure that needs to be worked out. Obviously there is going to be loss on export of sugar because somebody somewhere has to bear that loss.
- Amit Kadam:** Okay. So even though they have removed the entire export duty still the international price or exporting would not be like kind of commercial viable sense unless someone actually takes a little bit of pain?
- Vijay Banka:** That is right, very true. In our point of view is that we are paying a high sugarcane price because it is a government regulated price. It is but natural that we expect that the government subsidizes the export. Last time there was a export scheme, which was worked out, which was a self-financing scheme, where nobody incurred any losses ultimately, the consumer had to pay a marginally higher price .
- Amit Kadam:** Just like I just do not have that knowledge, but I like when this SAP prices gets set has been ever in the history that because the way globally and in the domestically things pan out, the SAP price gets revised downside?
- Vijay Banka:** No. That question never arises. The farmers will be on the road. I mean forget about midterm downward revision on year-on-year basis also there can be no downward revision.
- Amit Kadam:** Okay. So this raw material is like whatever it is a like a high over the margins, it does not come down?
- Vijay Banka:** No it does not come down. There is lot of protection given to the farmers maybe rightly so because it is a perishable commodity and the farmers interest needs to be protected. There has never been instance where in one year farmer has been paid, let us say Rs.100 as cane price and he has been now as to accept lower price in the next year.
- Amit Kadam:** Another thing what we are hoping is that import duty to be like raised so that we do not have that domestic market does not have a fear?
- Vijay Banka:** Exactly which is what is happening, last year also whenever there was any fear of price flare up the government selectively allowed imports into the country, small quantity so as to assuage the local markets, which were flaring up at that point in time.
- Amit Kadam:** But in this case if whatever the market estimates are if 27-28 million tonne of sugar actually was the production this year or this particular season and then consumption is more or less at somewhere around 26-27, then still we will be a surplus market anywhere so this import and other part hardly would not make a difference to us as a country or as the company?
- Vijay Banka:** We expect for the ongoing season 26 million tonnes of production. Our consumption is expected

to be around 25 or 25.5 million tonnes. We started the season with an opening stock of 4 million tonnes. So we will end the season with a closing stock of approximately the same quantity or little more than the quantity of opening stock, which actually translates to approximately two months of consumption. Now this stock of two months of consumption is not a very high stock. It should not have resulted in this kind of price fall and if you look at the stock that the country was carrying at this point in time this year vis-à-vis on the same date last year, it has been carrying much lesser stock, so obviously the sentiments are down for all the wrong reasons. It is needless fear or phobia that for the season 2018-2019 the production is going to be very high so the prices are being moving downwards. It should not have happened. What is required is a booster dose of confidence restoration.

Amit Kadam: Okay. Got it. It is like playing of the psychology and just killing that phobia what we have?

Vijay Banka: Absolutely.

Amit Kadam: Okay. Fine. That is all from my side.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Vijay Banka for closing comments. Thank you and over to you Sir!

Vijay Banka: Thank you all very much. I hope I have been able to answer your questions satisfactorily. We as a company are focused on enhancing our efficiencies and improving our recoveries, which is what we have been doing, conducting our operation ethically and transparently. There are few factors, which are beyond our control for example the sugar prices, etc.. We will try and maximize our revenues within the given constraints and we will try and minimize and optimize our cost within the given constraints. One area of course where there is scope of value addition, is setting up / expanding the distillery capacities, which we are very critically, and actively evaluating. We will get back to you once we have taken some decision on that. Thank you very much for having reposed confidence and trust in us. We look forward to more such interactions in the future and we look forward to repaying the faith that you are reposed in us. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Dolat Capital this concludes this conference. Thank you for joining us. You may now disconnect your lines.