



“Dwarikesh Sugar Industries Q4-FY23 Results Conference Call”

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Dolat Capital



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*Dwarikesh Sugar Industries
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Moderator: Ladies and gentlemen, good day and welcome to Dwarikesh Sugar Industries Q4 FY '23 Results Conference Call hosted by Dolat Capital.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Tejas Sonawane from Dolat Capital. Thank you, and over to you, sir.

Tejas Sonawane: Thank you, Vikram. Good afternoon, everyone. On behalf of Dolat Capital, I would like to thank the management of Dwarikesh Sugar Industries Limited for giving us the opportunity to host their Q4 FY '23 Earnings Call.

From the management team, we have with us today Mr. Vijay Banka – Managing Director; Mr. B. J. Maheshwari, Managing Director & Company Secretary Cum Chief Compliance Officer; and Ms. Priyanka Morarka, President, Corporate Affairs.

Without further ado, I would like to hand over the call to the management for their opening remarks, post which we will open the forum for a Q&A session. Thank you, and over to you, sir.

Vijay S. Banka: Very good afternoon. I welcome you all to our Q4 FY '23 Earning Call Conference. I am very happy to be back amidst you. We have announced our results yesterday. The results are already there in the public domain. I will quickly run through the same.

In this quarter, we have had a turnover of about Rs. 534 crores, which is as compared to Rs. 476 crores turnover that we clocked in the corresponding quarter last. For the full year, we have clocked a turnover of Rs. 2,117 crores vis-à-vis Rs. 1,982 crores in the last financial year.

Our profit before tax is Rs. 70 crores approximately, as compared to Rs. 86 crores in the corresponding quarter last year, and on a full year basis we have clocked profit before tax of Rs. 152.5 crores as against Rs. 218.67 crores in the pervious FY.

Profit after tax is Rs. 46.75 crores vis-à-vis Rs. 59.61 crores, and for the full year the profit after tax is Rs. 104.81 crores vis-à-vis Rs. 155 crores last year. So, you will find there is a decline in the profits in the quarter as well as in the full financial year which is mainly attributable to a couple of factors. I will now name them

The first one is because in the last financial year, we had the benefit of selling sugar which was produced in season 2020-21, wherein the SAP was Rs. 25 lesser. So, in a sense, we have had the benefit of selling sugar where the cost of goods sold was lower.

Secondly, we have had a dent in our recoveries. Our recoveries have been lesser, which is mainly because of the red rot infestation that has impacted mainly in the command area of our Faridpur unit, which is in the Bareilly District.

And thirdly, the sugar prices throughout the year remained absolutely muted. They were range bound between Rs. 3,400 and Rs. 3,500 per quintal. So, in a sense, there has been no commensurate increase in the selling price of sugar as compared to the cost of sugar sold.

ISMA has yesterday, sorry, day before yesterday come out with their latest estimate. They now estimate that the sugar production in the country is going to be approximately 32.8 million tons, which is after considering sacrifice of about 4 million tons due to ethanol. So, if we gross it up, that means the total production in the country is going to be 36.8 million tons and which is significantly lesser than what gross level production we have had in the last crushing season, which was almost 39 million tons.

The main reason for the downward revision in the estimated production is because Maharashtra and Karnataka, there the mills have concluded their crushing operations. They closed in the month of March itself, and there has been less production and lesser recovery all across.

So, I will quickly go through the numbers. Total income as I mentioned is Rs. 534 crores, EBITDA of about Rs. 88 crores vis-à-vis Rs. 103 crores in the corresponding quarter last year. On a full-year basis, our EBITDA is Rs. 229 crores vis-à-vis Rs. 294 crores. So, these are the main numbers. We have already gone through the PBT and the PAT number when I started my conversation with you.

So, well here are some highlights. During this quarter, we sold Rs. 8.75 lakh quintals of sugar, which included export of about 60,000 Quintals of sugar as compared to 10.11 lakh quintals of sugar that we sold in the corresponding quarter last year. So, in the domestic market, there has been reduction of about 2 lakh quintals of sale which is obviously because of lower releases that we have received from the government which again is attributable to the lower carried forward stock that we have had.

During the full year, we sold 42 lakh quintals of sugar, which includes export of about 10 lakh quintals, so which means in the domestic market, we sold 32 lakh quintals vis-a-vis 46 lakh quintals almost, which included 2.5 lakh quintals of sugar that we exported.

On 31st March, we were carrying a stock of 10.61 lakh quintals as compared to 19.63 lakh quintals. So, we have been able to moderate our stock by about 9 lakh quintals. And as far as industrial alcohol is concerned, we sold 2,95 crore liters in this quarter, as compared to 1.65 crores liters in the corresponding quarter last year.

On a full year basis, we have sold 8.42 crore liters vis-à-vis 5.57 crore liters that we sold in the full year last year, and nearly, out of 8.42 crores, nearly 4.6 crore liters what we sold was made from juice as the feedstock.

So, during the season 2022-23, we have been using cane juice at both our distilleries to produce ethanol. B-Heavy molasses whatever we have generated, that is being generated across all our three units. Whatever B-Heavy molasses generated is stored after fulfilling levy obligations will be used during the off season for making ethanol at two of the distilleries.

I mean, the B-Heavy molasses that we have generated have also been given for levy sale to fulfill our levy sale obligation. Both our distilleries are now optimally working at their rated capacities.

To begin with, when we started our season, when we for the first time used juice as feedstock for making ethanol, we had some teething problems, but we have overcome them all, and now the production is stabilized and we are optimally producing and getting the best efficiency parameters achieved

And during the ongoing season so far till 31st March, we crushed about 302.71 lakh quintals of sugarcane and produced 24.02 lakh quintals of sugar. So, up to 31st March, 60.69 lakh quintals of sugarcane crushed was diverted for making ethanol.

So, if you see, nearly 20% juice has been diverted for making ethanol. So, this is in addition to what B-Heavy molasses we are generating. So, in a sense, we are sacrificing sugar production there also. So, as far as our crushing at the DD plant, which is in Bareilly District, has been concluded and crushing in both the other units is going on, and we expect to crush till the third week of May, and we should have similar crushing number of around 380 lakh quintals for the full season this time.

Our cane payment track record is exemplary. We have cleared cane price payment dues up to 17th April including full and final payment for our DD cane unit. So, we are paying ahead of schedule.

This is another important thing that I would like to highlight is the year end, the final results also capture the extra cost of Rs. 8.95 crores that we incurred in respect of retrospective revision of wages payable to employees under the Wage Board. So, that has been a one-off feature for the year. We have received a quota of about 86,000 metric tons for export, out of which 50,000 metric tons we have exported. Rest we have swapped with domestic quota. We have started getting the benefit of additional releases from April onwards.

And our loan profile is lean and trim. We have term loans of Rs. 283.5 crores. All the loans have been negotiated at subsidized rates because the involvement of Government subsidies. Our long-term loans have been upgraded by ICRA as far as rating is concerned, we are now rated AA-. We were stuck at A+ for five years almost. So, our rating has received a fillip and we upgraded now at AA-.

I would also like to talk about the sugar sector scenario the, you know, how it's panning out across the globe. I am sure you must be aware that the sugar prices, international sugar prices

are at their highest now. Raw sugar prices have gone beyond 26 cents and even white sugar prices are also at an all-time high.

But the higher sugar prices internationally have found no resonance in the domestic market because of the restriction on exports. So, domestic prices were muted throughout the year, but from April onwards, there has been a rebound in the domestic price. Last, in the month of April, we have seen an average realization of Rs. 3,600 a quintal, a little more than Rs. 3,600 a quintal. And we expect that this trend should continue. We should have higher realization in the next six months at least.

To talk about the next crushing season, you know, it's too early, but we do expect that crushing numbers may not be all that big, because there is this lurking fear of El Nino factor impacting the second half of 2023. So, we will have to wait and watch. Once the Sugar Season starts, only then there will be clarity.

And so far, as UP is concerned, UP production has been steady. UP should end up with the production of 10.5 million tons for the ongoing season. So, there are lots of mills who have been using sugar cane juice to make ethanol. So, we look forward to the year 2023-24 with a sense of optimism.

Thank you very much. I would now invite questions from you. I would be very happy to answer them all.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Take our first question from the line of Rajesh Majumdar from B & K Securities. Please go ahead.

Rajesh Majumdar: So, I had some questions. I will just ask you one by one. My first question was the total sugarcane crushing volume is higher than 380 lakh quintals is about the same as last year, right? So, there is no growth in the cane volumes this year.

Vijay S. Banka: No, there has not been any growth, sir. I will tell you the exact numbers for the financial year. Last financial year 2021-22, we crushed 374 lakh quintals of sugarcane, and this financial year we crushed 382 lakh quintals of sugarcane. So, there has been about 8 lakh quintals of increase in the sugar cane crushed. I am talking about the financial year, not the season. So, that has been a 2.2 % increase in the sugarcane crushed.

Rajesh Majumdar: And what is the fall in the recovery rate, the gross recovery rate Y-o-Y also?

Vijay S. Banka: It's 2.15%. The gross recovery rate is 11.83% vis-à-vis 12.09%. So, which is about 26 bps reduction.

Rajesh Majumdar: So, sir, my follow-up question is we are looking at ISMA data saying that the UP production will be an increase over last year, but from the data that you are suggesting, if the recovery is

falling for everyone, I mean, it's much more in Maharashtra probably than in UP. But even in UP, if the gross recovery is falling and there is more diversion, how will the production in UP overall increase or is there a difference in the areas?

Vijay S. Banka: No, we will have to look at UP, all the three regions on standalone basis, West UP, Central UP and then the Eastern UP. So, there is some increase expected in some of the regions. As a result of which, the crushing numbers and therefore the production number should be a little more than what it was for the last season. So, it's not uniform across all the three regions.

Rajesh Majumdar: So, Eastern UP is where the increase is I am told. Is that correct?

Vijay S. Banka: Yes, absolutely.

Rajesh Majumdar: My last question is that in the alcohol business, what is the transfer pricing of molasses? Because we have seen a sharp jump in the numbers, but the EBIT margins have fallen sharply.

Vijay S. Banka: See, there it is like this. I mean as far as B-Heavy molasses is concerned, the transfer price that we assigned to B-Heavy molasses, which is basically a derived price, essentially derived from the price prevailing for C heavy molasses. However, in this particular quarter or at least from the start of the season, we have not been using B-Heavy molasses. Whatever B-Heavy molasses is being produced is stored for use in the off-season. As far as juice is concerned, our valuation is per quintal about Rs. 1,075 a quintal. So, essentially, it translates to a cost of around Rs. 50 a liter or so.

Rajesh Majumdar: Rs. 50 a liter? Okay.

Vijay S. Banka: Yes.

Rajesh Majumdar: So, the margin would be much lower compared to B-Heavy?

Vijay S. Banka: Absolutely. No doubt about it. But between the three, let me put it like this. The most profitable is B-Heavy molasses. The second in terms of ranking is juice, and third would be C Heavy molasses at the given prices of sugar today.

Rajesh Majumdar: So, the entire alcohol sold in the fourth quarter is from juice. Is that what you are telling me?

Vijay S. Banka: Absolutely, entire 2.95 crore liters is made from juice

Rajesh Majumdar: So, going forward we will see more B-Heavy and better margins. Is that a correct assumption?

Vijay S. Banka: Correct.

Moderator: Thank you. We take the next question from the line of Nitin Awasthi from Incred Equities. Please go ahead.

- Nitin Awasthi:** So, a few questions from my side. Firstly, what is the carrying of stock value for PC?
- Vijay S. Banka:** It's Rs. 3,172 a quintal, sir. We are carrying about; how much did I say? About 10 lakh odd quintals of sugar as on the 31st of March, 2023 and the same valued at, if you ask me per ton valuation, it is at Rs. 31,723 Per ton.
- Nitin Awasthi:** And the same figure last year? The same figure as last year?
- Moderator:** Offhand I don't remember the figure what it was, but I can get back to you quickly on that.
- Nitin Awasthi:** Was it substantially lower?
- Vijay S. Banka:** No, it wouldn't be substantially lower. It was definitely lower, but not so much lower because the recoveries have fallen in this particular financial year. So, it would definitely be lower.
- Nitin Awasthi:** Actually, presentation the sugar you have sold during the quarter, you have gotten realization of approximately Rs. 34 a Kg. Is that correct?
- Vijay S. Banka:** Yes, absolutely. Absolutely. Sugar prices are very, very muted, sir, very muted throughout the quarter.
- Nitin Awasthi:** Understood, sir. And you said in April, they were 36. Now, my question here is that we saw the government intervening in April. The government of India has releasing additional sugar into the market. Your comments on that move of the government, do you think the government is on its toes or it is not wanting the sugar prices to go up or was it a planned release that was going to happen in April anyway is because of the summer heat?
- Vijay S. Banka:** See, it's a combination of all the factors that you have spoken about. Number one, it's a hot month. So, you know, I think they had to increase the releases because the prices were going up. So, additional releases pumped into the market, it does have a dampening effect on the sentiment, but nonetheless one should look at the macro picture that we can see hereafter. We estimate the production of 32.8 million tons, opening stock of 7 million tons. This opening stock number has been recalibrated by the government. So, 7 plus 32.8 is 39.8, 6 million tons of export & 27.5 million tons of consumption.
- So, we are looking at closing stock number of only 6 million tons and, you know, all factors are in favor of price rise. Number one, the international prices seem to be very good, and there is little uncertainty over the prospects of sugarcane availability and sugar production next season as well.
- And you see, I have also said this in my earlier conferences that I don't think the price of up to Rs. 40 should be of any discomfort to the government. I mean, we have seen in 2016-17 when the prices have gone up to Rs. 38 per kg and yet there was no government intervention. Well,

measures like pumping in some additional releases into the market, they are always in the government's hand, but the macro picture states that yes, there is scope for price rise.

Nitin Awasthi:

Sir, like you mentioned about the international prices being high, there has been a revision or, you know, there was not some clarity from how much Brazil would actually produce and how much it would put out in the market. Do you have any clarity on that front, how much could be the production in Brazil and how much, what effect that would have on the international prices?

Vijay S. Banka:

See, if we talk about season 2022-23, the downward revision on the world production estimate has come mainly from the Asian countries. It's India, which has contributed largely for the downward revision. See, when the season began, it was estimated that in 2022-23, globally, there would be 4 million tons of surplus, assuming 37 million tons of production in South Brazil. But there has been a reduction in the production estimate from Asian countries, so which was brought about this lowering of the production numbers, and we now see 2022-23 being virtually balanced.

Now the talk is that the next season Brazil may see some increased production, but it's difficult to prophesize at this point in time, because it will all depend on the tax, how does Brazil taxes gasoline? Whether it makes sense for the Brazilians to move a little more towards ethanol? So, there are a host of factors which would play a critical role next season.

Nitin Awasthi:

Sir, last question from my side. As per the presentation, we have seen very low margins compared to last year in ethanol selling, and you have mentioned that this is because last year, you had ethanol, which was made from molasses, whereas this year you had ethanol made from juice.

Vijay S. Banka:

Correct.

Nitin Awasthi:

Now given that a lot of capacity of juices come up and the government did want at some point of time direct juice to become a main route and companies have also set up substantial capacity including yourself. Do you see any scope of price increase in the juice route?

Vijay S. Banka:

Yes. See, there is no denying the fact that at the given price of ethanol, it's profitable, but the margins do come under pressure. Number one.

Number two, the margins appear to be lower also because the recoveries have been lower. So, you know, eventually, it is what is the fermentable sugar content in the molasses or the juice which is what matters. So, there is lesser content of fermentable sugar, obviously the ethanol recoveries also are going to be lower.

Number three, yes, we have represented to the government in various forums, that if you want a bigger sacrifice of sugar production to happen in favor of ethanol, now this is the area which needs to be focused upon. Which is the ethanol price of using sugar cane juice as the feedstock,

that needs to be increased, and we strongly believe that our request should be considered by the government favorably.

Moderator: Thank you. We take a next question from the line of Nikhil Gada from Abacus Asset Management. Please go ahead.

Nikhil Gada: Sir, I have a couple of questions. Firstly, could you help us with the current year FY '23, how much of crushing was done through the B-Heavy and how much was done through the juice route?

Vijay S. Banka: See, the entire season, okay, let's talk about the FY.

Nikhil Gada: As well as fiscal year.

Vijay S. Banka: Yes. FY we crushed 382 lakh quintals of sugarcane. And we started making use of juice only from the current season onwards, and I had given that number 60.69 lakh quintals of sugarcane crushed juice was diverted for conversion to ethanol via the juice route. So, 382 minus 60, so which is about 322 lakh quintals was what was crushed, and on the entire 322 lakh quintals we have generated B-Heavy molasses.

Nikhil Gada: Around 16% odd, yes, 15.5%, 16%.

Vijay S. Banka: Yes. So, far as fiscal is concerned, yes, this is the number, but if you talk about the season per se up to 31st of December, we have done 20% on juice and the rest is by generating B-Heavy molasses.

Nikhil Gada: And by 31st of March, sir, then for the season?

Vijay S. Banka: Yes, I am talking about 31st of March. Sorry, up to 31st March, in this particular season, we crushed 302 lakh quintals, and we have diverted 60.69 lakh quintals of sugarcane for making ethanol, which means roughly 30%. But for the entire season, it may not be 20%. It will be lesser because our DD plant has closed crushing operations on the 14th of April where we were generating juice for making ethanol. So, whereas in the DN plant, we are still continuing. Till the end of the season, we will be using juice for making ethanol in the distillery there, but in the other two plants, I mean, in the third plant we are generating only B-Heavy molasses. So, this number of 20% would come down. It could be somewhere around 8% or so

Nikhil Gada: Sir, just an extension to this question. So, for FY '24, because now that the overall inventory that we have of sugar has seen a sizable reduction, how do you think this number will vary for us for FY '24 assuming that the government does not change the rate for juice route?

Vijay S. Banka: No, We are optimistic. We are hopeful that the government will change the rate for cane juice, but well, if your question is what if the sugar prices go very high and ethanol prices remain the same, the juice to ethanol prices remain the same, what will be our strategy?

Now in so far as season '22-'23 is concerned, it's all over. I mean, whatever because if at all there is going to be any increase in the juice to ethanol price, it will be only from the next year onwards, from November onwards. So, whatever has been done in this season has been done and is over.

Now assuming the same scenario next year that sugar prices, let's say, I assume, are more than Rs. 3,700 or Rs. 3,800 per quintal or so, whereas ethanol prices remain the same, but we would like to take a very holistic approach. We would like to go, you know, we would like to take a very macro stance on this in the sense that we would still continue with juice because if all of us think alike and stop using juice for making ethanol I think we will end up with surplus sugar production in the country and then that will trigger a downfall in the sugar prices.

Nikhil Gada: So, basically, this 18%-20% crushing through juice route is something, which we should work with.

Vijay S. Banka: Absolutely.

Nikhil Gada: My next question is in terms of the availability of B-Heavy molasses. If I compare from '23 to '24 perspective, can you help us with what kind of increase we have seen in the molasses availability and what kind of we are valuing that molasses at?

Vijay S. Banka: Sorry your question is how do we foresee for '23-24, is it?

Nikhil Gada: So, currently, sorry my question was from versus '22 to '23, how has this molasses inventory changed.

Vijay S. Banka: Molasses inventory has obviously gone up because we are generating molasses across the three units. Last year in fact, in the last crushing season we had only that much molasses generation of B-Heavy, which was required for our one distillery and for the startup of the second distillery. But now we are generating B-Heavy molasses. We had a lot of molasses stock and we were carrying a stock of nearly 7 lakh quintals of molasses. The number was significantly less on the same day last year. Now going forward, our strategy will be the same but what we do expect some changes is that as compared to 380 lakh quintals of sugar that we have crushed in the last fiscal in the coming fiscal we should be crushing more, not in '23-24 but definitely '24-25, we should be targeting a crush of about 400 to 425 lakh quintals. When we do that our B-Heavy molasses generation will also be higher and we will be instead of 320-325 days of distillery operation we should be running the distilleries for 350 days at least.

Nikhil Gada: The reason to ask that number is because I wanted to understand the change inventory just because of the molasses from '21 because that would be significant if I am not wrong.

Vijay S. Banka: I often don't have the number of molasses stock for '21-22 but I can get back to you on that correctly.

Moderator: We take the next question from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: One thing on sugar volume front, how we have done around 0.42 million tons in FY23, how would you see numbers for FY24 and '25 and where do we see growth on the volume front for sugar division?

Vijay S. Banka: '23-24 because let's talk about the fiscal, there may not be any significant increase in the number, crushing numbers and therefore since we are diverting more juice for ethanol. The production number obviously, sales and production number will come down. But '24-25 and fiscal '24-25 where we will have the benefit of larger crushing in the season '23-24 also and '24-25 also we should see increased production numbers as well as increased sugar sale number also. If we look at it for example, I'll tell you in this particular season we have up to 31st March, we have produced only 24.2 lakh quintals of sugar. We crushed 302 lakh quintals of sugar. We have produced only 24.02 lakh quintals of sugar. Obviously, progressively there is reduction in the sugar production number and hence the sugar sales number also.

Shailesh Kanani: Wouldn't our '25 estimate would be depending upon good monsoon or better yields and recovery because western UP has seen this red rot diseases and eastern UP had seen effect on that for nearly 2 years in their yields and recovery? Are we expecting better yields and recovery going ahead?

Vijay S. Banka: See my optimism comes from the fact that in our Bareilly unit where we have seen a crushing of only 110 lakh quintals in this season and the season has concluded already. Here as far as supplies are concerned, we have had more than 96% of that variety 0238, a substantial part of which was red rot infected. Obviously, farmers have also suffered as far as yield is concerned and the dent in the recovery that we have seen is also predominantly because of this reason. Now we will see this 96% number we expect and we worked on that and on the basis of the data that is already available with us we see this number coming down from 96% to about 66% to 70% maximum. We will have new varieties in place and additionally we have intensified our efforts to protect this variety. Wherever it's there we are applying some new fungicides, the benefits seem palpable, and we do expect that both in terms of yield and in terms of recovery there wouldn't be any kind of disappointment.

Shailesh Kanani: What is the time frame when you said this 96% will come down to around 66%, that is 33% that is for next year you are saying?

Vijay S. Banka: Next season supplies, I am talking about next season supplies.

Shailesh Kanani: Not for the current season, starting from October, for the next year you are saying.

Vijay S. Banka: Yes, I am talking about October 2023.

Shailesh Kanani: So, that would be a decent improvement.

Vijay S. Banka: That will be a big reduction from 96% to about 70% or 66% to 70% on one hand and secondly our efforts are on to protect these 238 varieties in whichever or whatever manner possible.

- Shailesh Kanani:** My second question was with respect to margins, when you said the profitability in B-Heavy molasses is less, can you just give us some ballpark numbers? What kind of EBIT margins we are talking about here for B-Heavy versus juice?
- Vijay S. Banka:** I would say collectively for the distillery we should have EBIT margin of around 18% to 20%. Here in juice we have had a margin of about 12%. So, there the margin is at least 23%-24%.
- Shailesh Kanani:** That should be an ideal year when we have found good recovery levels. That is what you are saying 18% to 20%?
- Vijay S. Banka:** Yes 18% to 20%. When we have recovered the lost ground then we should have 18% to 20% margin on distillery segment.
- Shailesh Kanani:** If then there is a combination between juice and B-Heavy. So, it is 18% to 20%.
- Vijay S. Banka:** Nearly it is 6 crores of juice. (+6) crores of juice and (+4) crores of B-Heavy.
- Shailesh Kanani:** So, is it fair to assume that this quarter's EBIT margins of around 10% for the distillery division is primarily due to lower recoveries as in juice per se?
- Vijay S. Banka:** Absolutely. It's absolutely because of that.
- Moderator:** We take the next question from the line of Prashant Biyani from Elara Capital.
- Prashant Biyani:** For the current crushing season till when do you think, and the crushing continue?
- Vijay S. Banka:** One unit's crushing operations already concluded on the 14th of May. The other two units in Bijnor district will continue their crushing operations till the third week, maybe around the 20th of May or so is the indicative that date that we have got when they will close the crushing operations.
- Prashant Biyani:** What would be our closing ethanol inventory at the end of FY23?
- Vijay S. Banka:** Not much. We have been going hand to mouth, selling it immediately. Less than 5 lakh quintals. You want the exact number I will tell you one moment. We will have something in the process also. If you add it all together, it will be about 10 lakh quintals.
- Prashant Biyani:** Could you repeat the number for molasses inventory?
- Vijay S. Banka:** I told you it's About 7 lakh quintals.
- Prashant Biyani:** For next year how much crushing would we be targeting? Some color can be shared on that.
- Vijay S. Banka:** Fiscal?

- Prashant Biyani:** Yes.
- Vijay S. Banka:** Fiscal should be around the same but season should be more. Fiscal '23-24 should be the same because you see we concluded our crushing operations around the same time as we have been in '21-22 season also we concluded our crushing operations sometime in the third week of May. We will have a similar date this time around. April onwards the crushing numbers will be more or less the same. From the start of the season to March 31st you get the same number of days so the same amount of crushing. But yes, there's one difference, this year we will have increased crushing capacity at our DN plant which is about 500 to 600 metric tons. We should have some improvement in the crushing numbers.
- Prashant Biyani:** 400 can be reached by next year?
- Vijay S. Banka:** Yes. Not fiscal.
- Prashant Biyani:** I mean sugar season wise.
- Vijay S. Banka:** Sugar season, yes (+400).
- Prashant Biyani:** And if we are targeting around 11 crores liters of ethanol then just for the sake of discussion, moving aside the government control on sugar export but would we be in a position to export sugar? Won't this be a position of stock out next year?
- Vijay S. Banka:** Isn't that to be a very happy position to be in?
- Prashant Biyani:** Yes, that's true.
- Vijay S. Banka:** Yes, we will have to wait and see how much the government decides. Now for example when this quota for the current season was announced of 60 lakh tons initially, we had contracted to sell about 50,000 metric tons, which we did. We produced raw sugar, and we exported it. But for the balance quantity we swapped it in favor of domestic quota. We will wait and see which is more profitable. Does one get any kind of a premium in swapping the quotas? Those are the factors, which we will see, and we will accordingly take a call.
- Prashant Biyani:** But the government typically will want companies to keep minimum quantity of sugar. What will typically happen if some companies don't have any sugar left, maybe if there is only one month?
- Vijay S. Banka:** It's not like that. They will decide on a countrywide basis. Now for example if next year we assume after diversion the production is going to be like, let me be very pessimistic in the sense let me say, after diversion for ethanol the production is only 31 million tons. Yet you have about 3.5 million tons of surplus sugar in the country. So, there is always room for export and such given small surplus coming from India international prices should be good. Whatever we export we should be able to make good money out of it.



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- Prashant Biyani:** On this juice-based ethanol over and above the transfer price of Rs. 50 per liter how much could be the conversion cost?
- Vijay S. Banka:** You see it's about Rs. 7-8 a liter. That's the conversion cost.
- Prashant Biyani:** Net-net the costing should be around 57-58 for this?
- Vijay S. Banka:** 55 optimally. 55 is what we should be targeting.
- Prashant Biyani:** Next year we should target around 11 crore liters of ethanol.
- Vijay S. Banka:** Absolutely.
- Prashant Biyani:** What would be the plans on capacity expansion and how much do we plan to invest?
- Vijay S. Banka:** No, we are already done. We are doing small CAPEXs which will result in an increase in our crushing capacity at our Dwarikesh Nagar unit. That is where we see the crushing operations going on till the end of May. We will be crushing at a faster pace. Presently we see more scope increasing the cane availability. Our target is that, for example this DD unit, Dham unit in Bareilly district, it closed crushing operations on the 14th of April. Here is where we are targeting mobilization of additional cane and here is where we think we can get more cane and we can run this unit from the present middle of April till at least the end of April or the first or the second week of May. We have capacity available at our Dwarikesh Dham unit. All we need to do is mobilize more cane for that particular unit.
- Prashant Biyani:** How much are we investing in expanding the crushing capacity at DN?
- Vijay S. Banka:** Not much. About 25-30 crores, not much.
- Prashant Biyani:** What would be the maintenance CAPEX?
- Vijay S. Banka:** Every year it's about the same actually. We end up incurring about 20-25 crores of maintenance CAPEX. You don't need to really call it maintenance CAPEX. It's mostly for enhancement of efficiencies, debottlenecking operations wherever required. The general maintenance is of course, so it's a combination of both the regular maintenance, the preventive maintenance plus the efficiency enhancement altogether about Rs. 29-30 crores or so.
- Moderator:** We take the next question from the line of Rajesh Majumdar from B&K Securities.
- Rajesh Majumdar:** Just a follow up question. Do you see the fall in the crop as a threat for the blending program? Because the government has already cut down the blending volume from 4.5 to 4 million tons. Going forward if there is an El Nino impact this year as well, is there a serious threat of the blending program and subsequent alcohol volumes for our companies thereof?

Vijay S. Banka: It's a catch-22 situation. I would not like to be in the government's shoes to visualize this kind of situation. However, in a worst situation also the production wouldn't fall substantially. Maybe a million or 2 million tons of production fall can be expected, not much. If El Nino really does impact. In fact, another meteorological department has predicted normal monsoons. Assuming the worst, there could be a reduction of about a million or 2 million tons. So, this ethanol blending program is irreversible. Once in 5 years, these kinds of downward swings are expected, and are to be factored for.

Moderator: We take the next question from the line of Sanjay Manyal from ICICI Direct.

Sanjay Manyal: Just one thing. Your current inventory is somewhere around 1,06,000. I believe from 1st April till the end of season you at best will produce somewhere around 60,000 to 70,000 odd tons. So, given the fact that your inventory would be 1,80,000 tons this is, at best you will exhaust your inventory by August or maybe mid of September. In the peak time when probably country level sugar inventory would be the lowest or the prices would be the best you might be exhaust with the inventory. Am I right in my assessment over here?

Vijay S. Banka: No. I'll tell you if there is a drag in our production and there is a drag in our inventory level obviously the releases are fixed by the government and you see the price rise, the benefit of increased price is available mostly till the month of September. There is an overhang of the crushing operation starting for the next year. Already we have seen in the past from October onwards the prices are always a little depressed and they start getting better only after the month of March. I do not think we will be in a situation where we will rue the fact that we don't have stock and the prices are very good. I do not see such a situation arising.

Sanjay Manyal: Just one more thing on the gross recovery front. What would be the, how much it is down from the peak level, if I may ask?

Vijay S. Banka: From the last fiscal to this fiscal the recovery is down by 26 basis points. We are actually working very hard on this. We are trying to see that we recover the lost ground, and we make up varietal balance is one thing which we are working upon. Therefore, I think in the next crushing season we should see some rebound.

Sanjay Manyal: Those 26-basis points are this year, but I think we lost somewhere around 15-20 basis points last year as well?

Vijay S. Banka: If you compare it with the previous financial year yes, the decline is almost 40 basis points, yes. We will not be happy with recovering only 26 basis points. We will be working towards recovering to get back to our days of glory when we clocked our best recoveries.

Sanjay Manyal: But with the change in the variety do you think that those newer varieties can match the recovery of Co 0238?

- Vijay S. Banka:** Yes absolutely. The results are fantastic. Those varieties are as good as 238 or maybe better than 238 but we are also simultaneously I explained to one of the participants that we are also working towards protecting the 238 variety. I mean it's just not that we have given it up that okay this variety is red rot infested, nothing can be done so this 66% to 70% will continue to be that variety and it will be red rot infested. We are trying to educate the farmers. We are trying to tell them to apply fertilizers in the right doses. We are trying to guide them, educate them on ratoon management. We are taking various steps to see that we recover our loss, I mean we recover our lost recovery.
- Moderator:** We take the next question from the line of Riya from Aequitas Investments.
- Riya:** My first question is with regards to ethanol. So, what would be the breakeven price that we decide for sugar versus juice?
- Vijay S. Banka:** So, what I was saying was Rs. 37 per kg is the threshold price, sugar price. The given ethanol price from juice to ethanol and anything above that, sugar is profitable, below that juice to ethanol less profitable.
- Riya:** In terms of government increasing the release quota I think for May also just 24 lakh tons. Do we expect that the consumption to be higher than 27 million tons, which is estimated in the sugar balance, sheet domestic balance sheet?
- Vijay S. Banka:** I think we should have a consumption of about 27.5 million tons. Typically, April-May-June, these are very hot months so I do not see it will have any kind of pressure on the sugar selling prices. Temporarily yes, on a sustained basis, no.
- Riya:** In terms of smaller mills and all, is it a possibility that sugar is exported to illegal mills for unorganized mills?
- Vijay S. Banka:** I am not aware of any such thing ma'am. I am not aware, so something I am not aware, I would not be able to comment.
- Riya:** In terms of number of days for crushing, this sugar season is higher as compared to last sugar season if I am not wrong?
- Vijay S. Banka:** No, it's going to be more or less the same because we are going to crush the same quantity and there has been no increase or decrease. There has been no increase actually in the crushing rate so we will have a similar number of working days.
- Riya:** In terms of the monsoon which the untimely monsoon which happened lately, what is the impact and in which parts of UP do we see this impact being more prevalent?
- Vijay S. Banka:** It's impacted the entire UP. Actually, the October rains have not been good for the sugar cane crop, which is why we have seen some drop in the yield as well as the recovery. Therefore,

unfortunately, any rain after the month of, maybe towards the end of September or in the month of October is not good. What is really good is June-July-August rains for the sugar crop.

Riya: Currently, I think even in the month of February-March there was a short span of rain. So, all of that?

Vijay S. Banka: Yes, that's good, that's encouraging actually so the right amount of moisture goes into the soil so it's generally good.

Riya: In terms of ethanol so juice based since you explained that the total cost for us on an overall basis the procurement, the transfer price plus my conversion cost is around 57. What would be the same for B-Heavy molasses, the transfer....

Vijay S. Banka: It will be less than Rs. 50 per liter. The cost, total cost would be less than Rs. 50, Rs. 48 to Rs. 50. Again it all depends upon the kind of fermentable sugar that is contained in the molasses, but it will be definitely less than Rs. 50 per liter

Riya: Based on the current prices, based on, basically Q4 what was the proportion of B-Heavy and what was proportion of juice based?

Vijay S. Banka: Everything was juice to ethanol. Like I explained the model that we follow is we do juice to ethanol during season and during the off-season we do ethanol to ethanol from B-Heavy molasses.

Riya: Crushing numbers for next year would be more or less the same, right?

Vijay S. Banka: Yes, more or less the same.

Riya: This is financial year or?

Vijay S. Banka: I am talking about financial year. The season numbers should be much better because season a part of the season is going to fall into it's going to spill over to the next financial year so there, we expect some improvement in the numbers but fiscal year yes, more or less the same numbers.

Riya: Going forward since you mentioned that the 238-cane variety would be almost around 60%. Do we see that this red rot thing would extend over the next 1-1.5 years?

Vijay S. Banka: It's already there. Red rot menace is already there. It's assumed the form of an epidemic. It's there all over and more prominently in the east and the Central UP. We have not seen the impact of red rot in our command areas of DN and DP unit, but it is very much there in the DD unit. We see it across all the supplies. We have been educating the farmers to uproot the clumps wherever there is a red rot affected cane grown. We are trying to educate them for the ratoon management. We are trying to make them use the right quantity and quality of fungicides, there are new

fungicides which have come into the market, so we are helping them apply all that and we are trying to protect variety 238 also as far as possible but the replacement plan is definitely on.

Riya: In terms of recovery next year, do you expect it to improve more than 50 basis points, which we have lost?

Vijay S. Banka: No not 50 basis points. There will be definitely improvement but we will have to wait and see. We are targeting significant improvement in the recovery, but we will have to wait and see. I cannot immediately comment on what recoveries, what improvements do we get.

Riya: In terms of international markets what is the current situation in Brazil-Thailand-Pakistan?

Vijay S. Banka: International market is very good. The prices are beyond 26 cents a pound.

Riya: Production?

Vijay S. Banka: So, well '22-23 seasons virtually balanced season with no surplus and no deficit. '23-24 is expected to be a surplus season but not a substantial surplus; if at all there is surplus, it would be around 2 million tons of surplus. Now this surplus can swing, these numbers can swing in either way. It will all depend on how much Brazil will produce and how much does India. These are the two key geographies which produce sugar. Eventual number will it's very difficult to talk about it right now. But as of now the experts, the trade houses etc. they predict an estimated surplus of about 2 million tons.

Moderator: Thank you sir. Ladies and gentlemen, we have reached the end of the question-and-answer session and I would now like to hand the conference over to Mr. Vijay Banka for closing comments. Over to you sir.

Vijay S. Banka: Thank you very much friends. Thank you for participating in this earning call conference. The questions that you have asked, it encourages us to improve our performance. We challenge ourselves to see that there is improvement so that we don't have to be on the backfoot but yes. We hope to talk more about improved recoveries etc. in the future earning calls. But I thank you very much for the trust and confidence that you are reposed in our company. We look forward to engaging with you in the times to come. I would request my colleague Mr. Maheshwari to say a few words.

B. J. Maheshwari: I thank all the participants for joining the Earning Call and then being involved in an active participation and all. We look forward to you meeting again in the next earning call. Thank you.

Vijay S. Banka: Thank you so much.

Moderator: Thank you sir. Ladies and gentlemen, on behalf of Dolat Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.