



“Dwarikesh Sugar Industries Limited
Q1 FY’24 Earnings Conference Call”

July 25, 2023



Dolat Capital



MANAGEMENT: **MR. VIJAY S. BANKA**—**MANAGING DIRECTOR – DWARIKESH SUGAR INDUSTRIES LIMITED**
MR. B. J. MAHESHWARI – **MANAGING DIRECTOR AND COMPANY SECRETARY CUM CHIEF COMPLIANCE OFFICER – DWARIKESH SUGAR INDUSTRIES LIMITED**
MS. PRIYANKA G. MORARKA – **PRESIDENT, CORPORATE AFFAIRS – DWARIKESH SUGAR INDUSTRIES LIMITED**

MODERATOR: **MR. TEJAS SONAWANE** – **DOLAT CAPITAL MARKETS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Dwarikesh Sugar Industries Q1 FY24 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Tejas Sonawane: Thank you, Lizann. 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 Q1 FY24 for earnings call. From the management team, we have with us today Mr. Vijay Banka, Managing Director, Mr. B. J. Maheshwari, Managing Director and 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 team for their opening remarks, post which we will open the forum for a Q&A session. Thank you and over to you, sir.

Vijay Banka: Yes, very good afternoon to everyone. Happy to be with you all back again with this earning call conference of our Q1 FY24 results. The results are already in public domain and I'm sure you must have gone through the same. Nonetheless, I will take this opportunity to quickly run through some of the highlights.

During this particular quarter, we had clocked profit before tax of INR59.09 crores and profit after tax of INR40.62 crores, which is marginally better when compared to the PBT of INR56.70 crores and PAT of INR39.70 crores that we had clocked in the corresponding quarter last year.

The total income during the quarter was INR572 crores, as compared to INR648 crores during the corresponding quarter last year. It's down, of course. The top line is lesser than what it was, but the bottom line is better. I've already told you what our PBT and PAT numbers are as compared to the PBT and PAT numbers of the corresponding quarter last year.

So, a few more highlights, EBITDA was INR77 crores, as against INR75 crores in the corresponding quarter last year. We've been able to compress the finance costs, which are at INR5.51 crores vis-à-vis INR7.76 crores. Our tax provision is about INR18.47 crores vis-à-vis INR17 crores. So that's mainly the financial snapshot.

I'll give you some quantitative details. During this particular quarter, we have sold 9.70 lakh quintals of sugar as compared to INR15.29 lakh quintals of sugar that we had sold in the corresponding quarter last year. INR5 lakh quintals of sugar was exported in the corresponding quarter last year. So, which means in the domestic market, we have sold about 10.29 lakhs, which number is 9.70 lakhs during the quarter just completed.

Sugar stock, we had about INR9.87 lakhs of quintals of sugar as compared to 13.30 lakhs quintals of sugar on the same date last year. We have valued, I mean, this number is a number which is of interest to all concerned. Sugar stock is valued at INR3,052 a quintal, as against INR3,179 a quintal on the same date last year.

Sugar sales, as I have mentioned earlier, was on the lower side because we got lesser releases from the government, plus we did not do any exports. As you are all aware, there is presently no export has been announced. So, in a sense, there is a virtual ban on the exports at this point in time.

Our distillery segment has performed good. We have sold 3 crores plus liters of ethanol during this quarter, which is almost double of what we had sold. It's actually 94% higher than what we had sold in the corresponding quarter last year. So, we have had an extended crushing season this time, two of our units in the Bijnor district, their crushing operations concluded on the 12th of June.

So, we have in this quarter crushed 98.51 lakh quintals of sugar as compared to 79.42 lakh quintals, which is an increase of almost about 24% and during the season 2022-23, we have crushed 4 crores quintals of sugarcane, which was 378 lakh quintals of sugarcane during the last season. So, in terms of volume, both in this quarter as well as for the season that is concluded, the crushing numbers are better.

However, we have suffered a dent in so far as the gross recovery is concerned, which is at 11.70% vis-à-vis 12.01%, a drop of almost 31 bps. So, during this quarter, we produced 8.97 lakhs of sugar, vis-a-vis 8.96 lakhs something that we have produced in the corresponding quarter last year.

During the entire season, we have produced 33 lakhs of sugar vis-à-vis 39.5 lakhs quintals that we have produced in the season 2021-2022. So, the big drop in the production number is mainly because we have diverted sugar crushing specifically for the distillery operation. So, we have diverted sugarcane juice and used the same for making ethanol in our distilleries.

So, that's the model we have followed in the season. Throughout the season, we have used sugarcane juice, converted it into syrup and then used it for producing ethanol in both the distilleries.

The recoveries are lower for a couple of reasons. Number one, there was red rot problem in the DD command area. As a result of which, the recovery in DD unit was almost 50 bps down as compared to the last season. Similarly, the DP command area also had problems of top borer and unseasonal rainfall, as a result of which the recovery there was also lower as compared to the last season.

And what accentuated the decline in the recovery was that we extended our crushing operations in the hot months of May and June. So in these months the recovery fall is actually faster than usual. So, we have to combat all these problems. We are bringing about a big

varietal change in in the command area of the DD unit where the red rot menace in that particular region, the Central UP region is much more.

Fortunately, the Bijor district is not affected by red rot menace. So, we are bringing in the -- DD command area varietal change and we should see the transformation and the recovery in the coming season.

So, like I mentioned we have diverted sugarcane juice to the distilleries. So, nearly 18.3% of the total cane that we had crushed was diverted directly to the distilleries for making ethanol from the sugarcane juice. So, we have consciously sacrificed about 1.39 lakh tons of sugar production during the season, which is what explains the lower production of sugar and higher production of ethanol.

So, our payment track record, insofar as the sugarcane payment is concerned is exemplary. We are ahead of schedule and within three days of the end of the crushing season of the respective sugar unit we made the full payment. So our cash flows have been reasonable.

Our payment record has been exemplary. And our long-term loan profile is also lean and trim. We have on the 30th June term loan outstanding of INR 271 crores. All the installments have been repaid as and when due. All the loans are at subsidized rate of interest. So, there's no real incentive to prepay any of these loans.

So that's about it from my side. Thank you very much and I invite you all to ask questions, get your doubts clarified. We are ready to answer them all. Thank you very much.

Moderator: The first question is from the line of Somnath Saha from B&K Securities, India Private Limited. Please go ahead. Mr. Somnath, your line is in the talk mode. Please go ahead. Mr. Somnath?

As there is no response from the current participant, we will move on to the next. That is on the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Yes. Good afternoon, sir. Sir, I have a couple of questions with respect to industry and couple of questions with respect to company per se. So, first sir, if you can give some update on the rains for the season or I should say excess rains in northern part of the country. So how is the crop looking for the next season?

Vijay Banka: Yes, I will talk about all our three units. You see the rainfall has been pretty good this time, which in a sense, augurs well for the growth of sugarcane. But there is one unit which is closer to a dam. So, you know there normally it so happens that, when the rainfall is heavy, they let open the gates and that inundates the some of the command area under sugarcane cultivation. Fortunately, that has not happened.

So far, the rains seem to be good and they will be conducive for good growth of sugarcane crop. We don't foresee any problem and in the command area of our DD unit where the rainfall

was scanty last time along, so there we see good rainfall and the growth of the sugarcane whatever growth we should have until this time, seems pretty good.

Shailesh Kanani: So, so in a nutshell, not only for Dwarikesh, for UP state per se and in general for country per se, we are not seeing a problem because of excess rate, right? Is that a fair assumption?

Vijay Banka: UP, definitely not much of a problem unless it rains again very heavily in the coming days. So far, it's not created any kind of a problem, but well we are hearing reports of you know some stunted growth in the crop in the states of Maharashtra and Karnataka because of excessive rainfall.

There were two problems actually. Number one, the advent of monsoon was delayed across the country, but that doesn't impact the sugarcane growth in the north because mostly the area is irrigated. But in Maharashtra and Karnataka, yes, the areas are rain fed, they are dependent on the monsoon. So late advent of monsoon did impact, did have an adverse impact and so did the late heavy rain downpour thereafter. That's what we hear, but it's too early to make any kind of estimation as to what will happen because ISMA hasn't yet come out with its estimate, first estimate of the production for season 23-24.

Shailesh Kanani: Okay. One of the reasons I asked is because the predictions are kind of flattish. There has been no decline per se in spite of less rains in Maharashtra as you rightly said in the initial part and in spite of higher diversion expected next year as compared to this season. So, I just wanted to confirm that?

Vijay Banka: Some experts are talking of a higher production season. Season 2022-2023 we have ended with a production of 32.8 million tons. I mean we will end actually because you know there are a couple of mills which have the extended season in the month of July, August. So, they are working but those numbers are kind of given and taken. So, 32.8 million tons is the production for 2022-23.

Now, some international trade houses have spoken of production of 34.2 million tons for season 23-24. Now with a diversion of about 4.7 million tons of sugar in favor of ethanol, so the, you know, last year the gross production was (32.8 and 4.1), which is 37 million tons. So, this year the gross production that has been spoken about is 39 million tons, but these are all early numbers.

Early estimates, we cannot attach much credence to this. We've seen multiple revisions happening in the estimates last season.

Shailesh Kanani: Right, fair enough. So, another question with respect to industry per se, there have been certain recent reports about inability of surplus rice from FCI for ethanol production. So, can you shed some light on this development?

Vijay Banka: No, we actually don't use grains in our distilleries. The feedstock that we use in our distilleries is only B heavy molasses and the juice. So, we have no facility for using grains and making

ethanol out of that. But we do hear that, FCI, Food Corporation of India has kind of restricted. There has been some kind of political ruckus, which has been raised about broken rice being given to the grain distilleries at a price of about INR20 a kg.

So, you know, which has perhaps put the government on the back foot, but according to me, there is no real concern on the availability of food grains. There should not be any problem at all. But as of now, yes, there is a problem the grain distilleries are facing.

Shailesh Kanani:

And I'm company specific. Sir, we have seen this rot red disease affecting the recovery levels in last season, right? So, if you can just elaborate what steps we are taking and how we are going to reduce the dependence from 0238 in next, say, two, three years down the line? What is the percentage right now? The season '23, what is the percentage of dependence? And going ahead how we are planning to reduce it?

Vijay Banka:

See, this red rot menace has been more in the Central UP and the Eastern UP area. So, we have our Bareilly unit in the Central UP area. I must admit that yes, it has impacted both availability of sugarcane and even the recovery, both of them got impacted because the farmers had lower yield in their farms. And from a company's perspective, we had lower recovery.

So, we have brought about a program whereby we're doing a lot of work on the varietal replacement. So, last season the 0238 variety which has become susceptible to this red rot problem, its supply was in excess of 95%. But in the coming season, we expect some moderation to happen. So, we expect this particular variety to constitute about 70% of the total cane supplies and we should have 30% of other varieties and which number will go up in the season thereafter.

Number two, so as to ensure that the growth of the crop is healthy, we've been doing a lot of work on the ratoon management. We've been very aggressively encouraging farmers to use pesticides and chemicals. So, Coragen is a chemical -- which is a pesticide which is very good for the growth of the sugarcane crop. Plus, there are a couple of other pesticides which are there in the market.

So, we are monitoring the end use of these pesticides and we have seen some improvement. In the coming days we will have more clarity. But as of now, if you compare the crop position as on today as compared to the last year on the same date, the crop position seems to be better. The crop seems to be more healthy.

Shailesh Kanani:

Okay, sir. That's helpful. Just a follow up on this, just to get it right, we were dependent 95% and we are going to take it in couple of years to 30%. How confident are we that we will be able to replace this 0238 from 95% to 30% in couple of years?

Vijay Banka:

95% will become 70% in the season 2023-2024 and progressively it will come down. So, we will have about 30%. But we are not just resting with replacement we are also trying to see that whatever 0238 is under plantation, farmers take good care of that and they do the right dosing of chemicals and fertilizers, so we are also ensuring that.

- Shailesh Kanani:** Okay, sir. Thanks a lot. That's all from my side.
- Moderator:** The next question is in the line of Rajesh Majumdar from B&K Securities. Please go ahead.
- Rajesh Majumdar:** Yes, good afternoon. So actually, I may have missed out a little bit of the first part, but I had a few questions, sir. One is that you are talking about lower recoveries in Eastern UP, is that correct for the sugar season 2022-23?
- Vijay Banka:** Yes. We had recovery drop of about 31 bps as compared to the last season.
- Rajesh Majumdar:** You said the bulk of the problem is in Eastern UP, but that narrative is not matching with one leading competitor of yours who has had better recoveries this year. Why is that so?
- Vijay Banka:** No, See, the lower recovery out of 31 bps, the lower recovery is for the group as a whole. In DD unit, which is in Bareilly district, the drop is about 50 bps. So, we are working on the varietal replacement there now. Now, you know, the intensity of the red rot menace can vary from command area to command area and you cannot generalize the same.
- So, somebody may have had lesser impact, however everybody is making efforts to replace and everybody is making efforts to ensure that the crop growth is better. But all cannot reflect on the recovery numbers. So, there could be various other reasons as well.
- Rajesh Majumdar:** Got it, got it. Also, sir, your quota for 1Q is about 10.16 as per our calculations, but you've sold lesser than the quotas. So, you have sold 9.7?
- Vijay Banka:** Yes, we've not been able to sell and what we have not sold, the quota has lapsed. But having said that, you know, as it is we are carrying very low inventory and the rate at which we've been receiving quotas, I think we should exhaust our stock by the end of October or so.
- Rajesh Majumdar:** But does that also mean we will get a lower quota for Q2 since we have not been able to exhaust the 1Q quota?
- Vijay Banka:** No, they calculate the quota based on the stock. So, all numbers are given to the government department. So, based on the stock availability, based on the numbers that have been provided to the government, they work out the quota that is to be given to each of the sugar mills.
- Rajesh Majumdar:** Right. And, sir, my other question was, we have been hearing that the offtake by oil companies was lower in 1Q. But as against that, you've shown a significant jump in the alcohol sold in this quarter. So, is there any difference in what we're hearing and about your alcohol sales or is it that you have been able to sell higher volumes because of the juice quota?
- Vijay Banka:** Yes, you see in the corresponding quarter last year our DD distillery was not functional. It commenced its operations in the month of July 2022. Okay. So, in the last corresponding quarter, last year, we had only sale of ethanol from our DN distillery unit. So, this year we have had production and sale of ethanol from both the units. So, when the season in those respective units was on, we produced ethanol from sugarcane juice and for the balance part of

the quarter, we produced ethanol from using B heavy molasses as a feedstock. So, but you are right, there are issues, logistic issues with the oil marketing companies. We are facing that problem in Q2.

So, while our sales and off-take from the DD distillery unit is all right, but sales and offtake from our DN distillery unit has suffered a setback in this quarter. And we may not be able to, although all efforts will be there, but we may not be able to replicate the numbers of first quarter in the second quarter.

Rajesh Majumdar: Got it. Got it. So, some people have been impacted in one queue, you're getting impacted in 2Q on the same?

Vijay Banka: Yes, However, be it Q1 or be it Q2, all are impacted. Just that the timing may have been different.

Rajesh Majumdar: Help me on this one. You have a certain target of alcohol volume for the ethanol year 22, 23, which ends in October. Now we are well short of the target as in July. Does that mean the target will not get fulfilled?

Vijay Banka: You know, every effort is made by us to see that we complete our quota. But if the off-take is not there. The depots are full, some of the depots that we had opted for, for which we received proper LOIs from the oil marketing companies. So, there the depots are full with stock, the decanting of the tankers is not happening.

So, the next step we take is we opt for depots at some far-flung location. But in the entire process time is involved and what happens is we do lose on the supply, so that's what happens but yes, every effort will be made and as of now we are we are confident that we will be able to fulfill whatever contractual obligations that we have.

Rajesh Majumdar: But sir, if your Q2 is going to be still weak and then you're only one month left to fulfill the entire quota for ethanol.

Vijay Banka: We are on target and we did estimate that the numbers, you see what happened was in Q2 and the off-take was not there, our production capacity, our storage was full, so we have a lot of ethanol stored, so that we will be able to give it to them.

Rajesh Majumdar: Okay. So, you're expecting that the oil companies will make up for this towards the latter end of the ethanol year. Is that right?

Vijay Banka: Oh yes, we do expect, we have escalated the problem to the highest levels in the oil marketing companies as well as the concerned ministries also, our food ministries and the petroleum ministry. I mean, this is a problem which the entire industry is facing. So, efforts are on and it's not that they are also not working on a resolution. They are also working; they are trying their best to see that the ethanol off-take is accelerated.

Rajesh Majumdar: Okay. Therefore, my last question was, you were talking about a SAP increase in the last qualifier if I remember correctly, which might take place this year because of the election year. So, while we saw an increase in the FRP, we have not seen an increase in the SAP yet. Is that still expected or can that still come?

Vijay Banka: See, we had a hiatus of one season. The SAP was increased the season before. So, we have not seen any SAP increase in 2022-23. The SAP was increased in 21-22. We have seen that there is kind of virtual delinking between the SAP and FRP. Our SAPs, even at these levels, is the highest in the country and they are way above the FRP.

But we must accept the reality that the election is around the corner. And there is every possibility that there could be some increase. And we only hope that the increase is reasonable, reasonable enough that we can absorb it in our economics and we also simultaneously expect that there is improvement in the sugar prices, so that the impact of the same is minimal and we expect that at least the increase in selling prices commensurate with the increase in the increase in SAP.

Rajesh Majumdar: But sir, this being an election year, the government will not allow exports at least till the first half of FY23-24, that is taken for sure by the industry now. So, if the crop is better than last year, then the prices will not go up again. Right? Is that...

Vijay Banka: No. See, I must once again admit that it is intriguing that the prices have not gone up, you know, in spite of the fact that we are looking at a season end stock of only 6 million tons, which is less than three months' consumption. But having said that, I must also say that the prices have gotten better from April onwards, otherwise, FY22-23, the prices were flattish throughout the year. But the prices have seen some revival post-April.

And we do expect that there is enough scope for improvement in the prices. And if you recall in 2016-17, the prices had gone up to INR3,800 a quintal and there was no hue and cry raised at that point in time. So, there is no reason why things should be any different this time. There is scope for increase in the price and the prices should get better here onwards.

Rajesh Majumdar: Okay, I think I'll come back and let you if I have any more questions. Thank you so much.

Moderator: The next question is from the line of Prashant Biyani from Elara Securities. Please go ahead.

Prashant Biyani: Good afternoon, sir. Yes, thanks for the opportunity. Good evening, sir. How are you? Good afternoon. Sir, typically what is the height of cane crop by this time in UP?

Vijay Banka: Sorry, I did not get your question.

Prashant Biyani: What is the height of cane crop by this time?

Vijay Banka: You mean the how tall is the sugarcane crop?

Prashant Biyani: Yes, yes, yes, yes.

- Vijay Banka:** It all depends on the variety. I mean the cane can be as tall as 15 feet also.
- Prashant Biyani:** Even by this time?
- Vijay Banka:** No, not at this point in time, when fully grown.
- Prashant Biyani:** By this time, it should be how much?
- Vijay Banka:** It should be about four or five, four feet or so.
- Prashant Biyani:** And typically, it should be same for Maharashtra and Karnataka as well?
- Vijay Banka:** No, Maharashtra I am not aware, sir. I really do not know how much, what should be the height of the cane in Maharashtra, but UP, here, four to five feet is of cane height we can see in the farm this time around.
- Prashant Biyani:** Okay and sir how much was the molasses stock at Q1 end for us?
- Vijay Banka:** One-second sir, I'll have to see the number just a second. Well, you can ask me further questions in the meantime, I will try and get the molasses stock number.
- Prashant Biyani:** Sir, second data point was production of syrup for Q1.
- Vijay Banka:** I think that has been given in our presentation. Yes. So, of the INR303.54 lakh liters of ethanol that we sold in Q1 FY '24, 113.88 lakh liters of ethanol sold which was produced from by using syrup as the raw feedstock. The rest of it was produced by using making use of BF molasses.
- Prashant Biyani:** Sir, syrup production or can we get?
- Vijay Banka:** More or less, more or less they would be the same. There wouldn't be any much difference between the two.
- Prashant Biyani:** Okay. And sir, depending on the demand supply situation and government actions, how do you see the price headed in the next three months?
- Vijay Banka:** Sugar prices should get better according to me. August is a month of festivals. So, August prices are always better. And September, October also there is rally in the prices, we should see it till the start of the next season. And by this time, of course, we will have more clarity on the production numbers of the next season. So, until then, we should see some improvement in the prices.
- Prashant Biyani:** Till what price could the government be comfortable increasing it to? I mean before which they will not interfere directly or indirectly with the prices?

- Vijay Banka:** We have seen in 2016-'17, the government did not react until the prices had touched INR3,800 or so. It's a fact that the prices subsided thereafter, but until then there was no hue & cry whatsoever.
- Prashant Biyani:** Right. Sir, how much will be the country sugar stock currently with dealer as well as with company?
- Vijay Banka:** You mean with our dealers, is it?
- Prashant Biyani:** No, I mean for country as a whole with all the dealers and all the companies.
- Vijay Banka:** No, it's expected that the year-end stock would be about 60 lakh tons. So, August and September, these two months, we are even assuming about, what about 45 lakh tons of releases for these two months. So, it must be out about 105 lakh quantities at this point in time.
- Prashant Biyani:** Okay. And sir, with regard to OMCs seeing some problem in uplifting the ethanol, what exactly is the logistical problem that they are facing? Because this is, I think, the second quarter. May not be for you, but for the industry that it is a recurring thing now.
- Vijay Banka:** No, see it's a fact that most of us we opted for depots which are close by and the OMCs also issued the LOIs also it's not that we opted the depots unilaterally, I mean that they also gave us the allotment. They issued the LOIs in our favor. But then, maybe some depots were overfed and some more depots were starved. So that they are trying to make good, they are doing the redistribution and I'm sure the problem will be resolved.
- Prashant Biyani:** Okay. and lastly sir, if the government is denying FCI rice for grain distilleries, would the sugar companies have a temporary upper hand in supplying more ethanol? Although, our molasses stock will also be limited but would we have a temporary upper hand with the grain-based players?
- Vijay Banka:** No, you see. The grain-based distilleries may not be able to fulfill their requirement. Okay, so how will it impact us? I do not think it will impact in any way. We have certain amount of stock of molasses which we will convert it to ethanol and we will sell the same. So, whether anybody is going to capitalize on the situation or not that we don't know.
- Prashant Biyani:** Right. Sir, I was waiting for the molasses.
- Vijay Banka:** Yes. Molasses stock, we have as on 30...
- B J Maheshwari:** I'll tell you, Banka Ji. It's 8,51,000 quintals.
- Vijay Banka:** Correct.
- Prashant Biyani:** Thank you, sir.
- B J Maheshwari:** Okay. Thank you.

- Vijay Banka:** Thank you so much.
- Moderator:** Thank you. The next question is in the line of Sandeep Raj from Oculus Capital Advisors LLP. Please go ahead.
- Sandeep Raj:** Sir I have a few questions. It is regarding the recent floods, which is happening in the country. So, what can be the impact of this on the industry and when can we witness this impact?
- Vijay Banka:** I think somebody else also asked this question. Now you see in UP, we have not seen any impact. The rains have been so far, well, the rains have been heavy, the downpour has been heavy, but so far it has not caused any damage to the crop. On the contrary, it has helped the crop. So I think so far the rainfall is, I would say more than adequate, but any more rainfall and incessant rainfall in the future may result inundation of some of the command area and lodging of the sugarcane and that is may impact the yield of the sugarcane in the state of UP.
- Maharashtra and Karnataka, I'm told the late arrival of monsoon stunted the growth of sugarcane and now this heavy rainfall whether it will help them or not I'm not too certain. But we have heard from some reports that the crop may not be as good as what it looked like a month and a half or two months ago before the monsoon arrived.
- Sandeep Raj:** Okay, and like will this, the flood affecting Maharashtra and Karnataka, will this lead to any price increases in the cane and therefore low margins in ethanol?
- Vijay Banka:** No. FRP for, you see, Maharashtra and Karnataka, the sugarcane prices are FRP driven. FRP for the season '23- '24 has already been announced. So, there is going to be no change in the -- there is no any likely increase in the prices on account of the floods or whatever it is, whatever it be. So, the prices are already determined. The cane price is already determined. So, it will not impact anything. I mean, the floods, what we'll eventually do is they will alter the production, estimated production number, which as of now, some international agencies are talking of about 34 million tons for season '23- '24.
- Sandeep Raj:** Okay, and will it have any impact on the exports? Like will it reduce the export quota or will it reduce, will it lead to any reduction in inventory?
- Vijay Banka:** So, the government works backwards in the sense that, you know that they target a particular closing stock number. Now the government is very comfortable with the closing stock, the season end stock of about 6 million tons, which means three months of consumption approximately, less than three months of consumption.
- Now this kind of stock will not result in any runaway inflation and at the same time sugar mills will be assured of a reasonable price for the sugar sold by them. So, what government will do is for example, next season we begin with opening stock of 6 million tons. Now assuming the production is 34 million tons, so that means the total sugar availability is 40 million tons. And 6 million tons is what they wanted to end up with. So again, we are back with 34 and if the consumption is 27.5, 28, that means there is scope for exporting 6 million tons. So, which call

the government will take closer to the start of the season, because by then they will have some clarity about the probable production number and therefore the probable closing stock number.

- Sandeep Raj:** Okay. Got it, sir. That's it from my side. Thank you.
- Vijay Banka:** Thank you, sir.
- Moderator:** Thank you. The next question is in the line of Riya Mehta from Aequitas Investments. Please go ahead.
- Riya Mehta:** Thank you for giving me an opportunity.
- Vijay Banka:** Yes, good afternoon, ma'am.
- Riya Mehta:** Good afternoon. So earlier we were discussing with other sugar companies as well. So basically syrup-based sugar is less margin accretive than B-heavy sugar or just to say making sugar itself. So why have we chosen...
- Vijay Banka:** Sorry. No, I think I have clarified this in my earlier call also. So, the most profitable thing to make is to make ethanol by using B-heavy molasses and second in priority is to make ethanol by using cane juice directly. If the price of sugar is, let us say, not more than INR3,700 a quintal, if the price of sugar is more than INR3,700 a quintal, then the question comes whether we should make ethanol from juice or not.
- Riya Mehta:** Okay. And my second question is in terms of cost of conversion with the increase in employee cost last time because of the wage revision. How is the cost structure right now happening for us and considering similar SAP increase, could you help me understand that?
- Vijay Banka:** Yes, just a moment. Yes, so in this particular quarter, our employee benefit expenditure was INR 26.78 crores, which was as compared to INR 24.11 crores in the corresponding quarter last year. So, this is mainly on account of year-on-year increase. We normally give increase of about 8% to 10% every year.
- And secondly, last year, in this quarter, the DD distillery was not operational. So, the employee cost, whatever we had incurred in the distillery during the corresponding quarter last year was capitalized. So, therefore, the increase in employee benefit expense increase, whatever you see is reasonable. And cane cost of course it's all dependent on the SAP that the government had announced.
- Riya Mehta:** Apart from the gain cost what is the cost of conversion, per quintal?
- Vijay Banka:** You are talking about sugar?
- Riya Mehta:** Sugar.
- Vijay Banka:** Sugar is approximately INR4 a kg.

- Riya Mehta:** INR4 a kg. okay. And in terms of the red rot, you said that it is predominantly in center and eastern areas. So, do you think that coming through to our catchment areas?
- Vijay Banka:** No, we already have one of our units is facing the brunt of this problem. The unit in Bareilly district. Bareilly is located in central UP. But we are already facing this problem. So, we are doing two things at a time. At the same time, number one, we are trying to bring about varietal replacement. And number two, we are trying to protect the crop. We are trying to ensure its healthy growth by encouraging the farmers to use the right dose of chemicals, fertilizers, and pesticides. So, we are doing that.
- Riya Mehta:** How much impact on recovery does it have on an aggregate basis?
- Vijay Banka:** Yes, it does have an impact. Like I had explained, the recovery in our DD unit is lower by 50 bps this season as compared to the last season. So which trend we are expecting to reverse in the coming one or two seasons. So far as the Bijnor district, our units in Bijnor district, they are concerned there is no such problem. There, whatever stray incidents of red crop that are reported, we ensure that the farmers uprooted the clumps of those plants and do the right treatment of chemicals and fertilizers was done so that it doesn't spread
- Riya Mehta:** Right and in terms of production for the next sugar season, what would you guiding for?
- Vijay Banka:** You see, we have during this season, our crushing went up by 6%. So last season we crushed 378 lakh quintals of sugarcane and this season we have crushed 401 lakh quintals. In the coming season, you know, given the same capacity, same command area, we do expect that there may not be a big improvement, but certainly 2% to 3% improvement in the crushing numbers we do expect in the coming crushing season. We have done some small capex in our units in Bijnor district, which will result in the increase in the crush rate at both the units. So, which means either we will have more cane available there or at least we should be able to compress our crushing number of days in those two units.
- And in Bareilly unit, we are trying to increase and ensure that the cane availability is more than what it was in the last crushing season. So, what was 401 lakhs quintals, last season, can be about 410 lakhs quintals or so or anything between 410 lakhs quintals to 415 lakhs quintals.
- Riya Mehta:** Got it. And in terms of lower off take from OMC, is it specific to Dwarikesh, or it is entire...
- Vijay Banka:** No. It is an industry-wide problem.
- Riya Mehta:** Even from players of Maharashtra and Karnataka?
- Vijay Banka:** I am not aware about them, but certainly all UP sugar mills are having this problem. All UP distilleries are having this problem.
- Riya Mehta:** And in terms of rainfall, which areas predominantly are facing issues in UP, right now?

- Vijay Banka:** No, the entire UP has received good amount of rainfall but at this point in time we cannot call it excessive. It is not, you know, the quantity is not such that it could cause serious damage to the crop.
- Riya Mehta:** Okay. Got it. Thank you, that's it from my side.
- Moderator:** Thank you. The next question is from the line of Nikhil Gada from Abakkus AMC. Please go ahead.
- Nikhil Gada:** Hi, sir. Thanks for the call.
- Vijay Banka:** Good afternoon, sir.
- Nikhil Gada:** Good afternoon, sir. Sir, my first question is regarding our venue mentioned, specifically regarding the molasses stock you mentioned that the closing inventory was 8.51 lakh quintal, can I get the starting inventory, please?
- Vijay Banka:** I don't have the numbers right now, wait a moment. You mean, the beginning of the quarter...
- Nikhil Gada:** Yes, end of 4Q FY '23 or beginning?
- B J Maheshwari:** We can share it later.
- Vijay Banka:** We can share it later, certainly. Yes.
- Nikhil Gada:** Okay, fair enough. And what will be the transfer pricing?
- Vijay Banka:** So, we transfer B-Heavy molasses is transferred at INR1,190 a quintal, that's the transfer price.
- Nikhil Gada:** Okay, got it. And so just as you mentioned that we are facing some amount of supply. We are not be able to do it to the OMCs as of now and which will be visible in 2Q. The full year numbers of INR11.5 crores, which we had guided for in terms of the volumes, that still stays or we feel that...
- Vijay Banka:** 11 crore liters is what we had told and that number still stays, 11 crore liters.
- Nikhil Gada:** Okay. And so just, in terms of the overall pricing on the ethanol via different routes, and you have also mentioned it a couple of times that the prices on the juice route should go on the higher side. Any updates on that? Where are we and do we see any visible increase in those prices?
- Vijay Banka:** So, we will have to wait and see. Normally, before the start of the crushing season the government announces the procurement price of ethanol as well. We have done multiple representation, given multiple representations to the government. There was a study conducted which the ISMA got it conducted by Grant Thornton, so the study report was also made available to the government. So, we do expect, the government will price the ethanol made

from juice such that, sugar mills are incentivized, more incentivized to produce ethanol from juice.

Nikhil Gada: Got it, sir. And just one last question...

Vijay Banka: Yes, so we do expect that government will announce the ethanol price from juice such that sugar mills are more incentivized to produce juice from ethanol. Because in doing so we can see larger sacrifice of sugar production.

Nikhil Gada: Got it sir. And sir one last question you mentioned about going to 30% on the new variety in the coming season. Any idea how we are going to go ahead for the next couple of seasons do we completely replace CO 0238?

Vijay Banka: No, in the coming season we will have 30% of other varieties so that CO 0238 is only 70% and the other varieties constitute 30%. However in a couple of season we will have 70% of other varieties and 30% of Co 0238. And we will make efforts to ensure that whatever 30% of this CO 0238 variety is there, it's protected from the problems of red rot.

Nikhil Gada: And this we are trying to achieve in the by sugar season '25?

Vijay Banka: So, we '23- '24, '24- '25. Yes, by '25. See next year we season '23-'24, we expect other varieties to constitute about 30%. So, this number will go up to 50% in '24- '25 and '25- '26 we can see dependence on CO 0238 only about 30%.

Nikhil Gada: Got it sir. And we are more or less, in terms of at least from the perspective of what we have understood as of now, this variety would at least not be infected from the red rod, but the yield would be very similar to CO 0238.

Vijay Banka: Yes. You see, when a variety is new, it is normally sturdy and it is only when the variety has been in existence for a long, long time, like CO 0238 has been in existence for a very long time. So, it becomes susceptible, it becomes prone to such diseases. When a variety is new it is sturdy and it can withstand all these pest attacks.

Nikhil Gada: Got it, sir. Thank you, sir, for answering all my questions and all the best.

Vijay Banka: Thank you, sir. Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: Yes, thank you for having me again, sir. I just had a strategic question, sir. On the long run, we are the country is looking at, say, a full sugar production of over 40 million tons, nearly maybe 41 million tons, 42 million tons in six years' time, with the kind of increase in prices and the area and the cultivation and the kind of change in cropping that we have seen. So structurally that would mean that we would need to divert somewhere between 6 million tons to 8 million tons, is that a correct assumption?

- Vijay Banka:** Yes, yes, of course, yes. See, we are going to reach 5 million tons of diversion in season '23-'24 itself. So, we have diverted about 4.1 million tons or 4.2 million tons of sugar for ethanol in the season which got over now. So, in the coming season, we expect...
- Rajesh Majumdar:** But the figure is 3.4 million tons. By ISMA, the figure is 3.4 million tons.
- Vijay Banka:** 3.4 million tons was for '21- '22. For '22- '23, it's 4.1 million tons or 4.2 million tons, I'm not very sure about that. And '23- '24 will be 4.7 million tons to 5.2 million tons, anything between the two.
- Rajesh Majumdar:** Right. So, in that light, since we are seeing a slowdown in the uptake of grain based or in terms of whatever difficulty, do we expect to see more capex from the sugar companies but you in the annual report have mentioned that you are going to see some consolidation in terms of your capital expenditure. So, either we do more capex or we do more payouts to shareholders in terms of a buyback. What is the company's strategy in the manner?
- Vijay Banka:** Let me answer your question. Now you see for example we have had an extended crushing season in our Bijnor units. Now we are going to watch for another season because there is another sugar mill coming up in that area. Although it is not coming up in our near vicinity,. So, when that happens, there will be some cascading effect. So, we will need to watch the situation for maybe one season. And, but see the general thumb rule in the industry, you have more capacity, you end up getting more cane. So, we'll just be a little watchful in the coming season. And if we get the right signals, right indications, we might increase the capacity of one of our units.
- Rajesh Majumdar:** So right now, there is no plan of like buyback or giving the money back to shareholder this year since there is no capex?
- Vijay Banka:** Sir, we will have to wait and watch the situation. Only if there is reasonable certainty. We have been rewarding our share orders with generous dividends. So, we will continue to do that. But yes, we will have to very judiciously keep money aside for our future endeavors.
- Rajesh Majumdar:** Right. So, we can still think that the company may do a capex in the near future, right? That can be a long term also.
- Vijay Banka:** See, this off-season, there are hardly a couple of months left, so there is nothing big planned in this off-season, but yes, next off-season, we may plan something.
- Rajesh Majumdar:** Okay, thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, we'll be taking the last question. That is on the line of Riya Mehta from Aequitas Investments. Please go ahead.
- Riya Mehta:** Hello. Thank you for the follow-up. My question was how many days before we can store ethanol in our plant, what is storage capacity? You said that ethanol we are storing...

Vijay Banka: Yes. We have 40 lakh liters in each of the locations. So, we can store about 70 lakh liters at both the locations together, 70 lakh liters to 75 lakh liters.

Riya Mehta: And how many days does this -- can be stored about?

Vijay Banka: So, we together, we produce about 3 lakh liters to 3.25 lakh liters of ethanol. So roughly about 25 days of production.

Riya Mehta: And we can keep it till as much time we want?

Vijay Banka: Yes. But why think of that? Yes, nothing happens. The quality doesn't deteriorate if you store it over a period of time because it's all, under the prescribed tank, everything is described and the quality of the tanks and all the such that it can hold ethanol for as many days as one wants.

Riya Mehta: Okay, and my second question is if the offtake from OMC is reduced, do you think the chances of ethanol price revision based on the increase in FRP are lower?

Vijay Banka: No. You see this program of ethanol blending is irreversible. So, it's just that the government is, the OMCs are facing some temporary blips. All one needs to work on is the logistics management, see that all the depots are adequately properly fed, that no depots are overfed and no depots are underfed. So, they will have to work out a proper mechanism and ensure that each of the depots receives the right quantum of ethanol.

And if going forward, for 20% blending to be achieved, what one needs is 1,200 crores litres of ethanol. So, there can definitely be, there is definitely no dearth for the requirement of ethanol. And we see no reason, we see, in fact, as I mentioned earlier, we've been asking the government to price the ethanol made from juice directly such that, sugar mills are incentivized to sacrifice more sugar production.

Riya Mehta: Right. Thank you. That's it from my side. Thank you so much.

Vijay Banka: Thank you very much.

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

Vijay Banka: Thank you, friends. Thank you all for participating in this earning call conference. Thanks for the confidence that you all repose in us. We will continue to work hard, strive to do well as good as we can under the given circumstances. And we do expect that the policy framework is right and we try and improvise our efficiencies and churn as good performance as is possible. Thank you very much.

I would now request Mr. Maheshwari and Ms. Priyanka to say a few words.

B J Maheshwari: Thanks everyone for participation and we welcome you and then possibly look forward to the next earning call for more participation.



Dwarikesh Sugar Industries Limited
July 25, 2023

Priyanka Morarka: Yes, thank you to everyone for the participation. I think Banka Ji summed it up well. And the faith that you repose in us means a lot to us and gives us a lot of confidence. Thank you.

B J Maheshwari: Thank you.

Vijay Banka: Thank you so much. Thank you.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Dolat Capital, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.