



“Dwarikesh Sugar Industries Limited
Q2 FY’24 Earnings Conference Call”

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Dolat Capital



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Moderator: Ladies and gentlemen, good day and welcome to the Dwarikesh Sugar Industries Q2 FY24 result 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this call is being recorded.

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

Tejas Sonawane: Thank you, Arshia. 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 Q2 FY24 Earnings Conference 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 for their opening remarks, post which we'll open the forum for a Q&A session.

Thank you and over to you, sir. Yes.

Vijay Banka: Very good afternoon, everyone. Welcome to you all to the Earnings Conference Call of the second quarter results of our company, second quarter and half year of FY24 results. The results are already there in the public domain.

As you can see in this particular quarter, we have had a total income of about INR449 crores. Our income is down as compared to the corresponding quarter last year. And I'll quickly take you through the highlights of our operations & also highlight of our financial results.

So, PBT is about INR15 vis-a-vis INR11 crores last year's same quarter and PAT is about INR10.26 crores vis-a-vis INR7.84 crores last year. If you take the half year into account, then our PBT is INR74 crores vis-a-vis INR67.89 crores and PAT is INR50.88 crores as compared to INR47.54 crores corresponding half year last year. So, there has been some improvement in the financial results of this particular quarter as compared to the last year's same quarter.

ISMA has come out with the production numbers. So, this number, of course, is the data which they had published a month or a month and a half ago. ISMA has estimated a production of 31.7 million tons. This is, compared to 32.8 million tons of sugar production during season 22-23. So, this estimated production factors are after considering 5 million tons of sugar sacrifice in favour of ethanol.

So, which means at gross level, we expect India to produce 36.7 million tons of sugar. But these are early numbers. So, you know, things can undergo big changes.

Weather has played a role and we have seen delayed arrival of monsoon across the country and then there were heavy rains in the months subsequently. But heavy rains in the subsequent

months doesn't much impact the growth of the crop because, you know, the crop needs rain particularly in the month of July or so. So, anyways, some trade houses, in fact, are estimating that the production number could be as low as 29 million tons, which is why, as you are aware, government of India has banned the sugar export for the time being.

They apprehend that the prices could go upwards if export is allowed. Currently, the sugar prices are hovering between INR3,800 and INR3,900 a quintal. This has been after a very long and sustained period of flattened sugar prices, which was throughout FY22-23.

We have seen a resurgence in the prices from April onwards. Gradually, the prices have gotten better and now they are hovering between INR3,800 and INR3,900. In fact, lately it has touched INR4000 a quintal also.

So, here are some of the numbers. So, EBITDA was for the quarter INR 31.9 crores and for half year it's been INR 109 crores. So, the results are marginally better as compared to the corresponding quarter and half year numbers of last year.

There are various factors which need explanation and which I will explain as we go along. So, during the second quarter of this fiscal, as we have seen, there has been a significant reduction in the total income because of lesser quantity of sugar sold. Sugar is sold based on the releases ordered by the government.

So, we have received lesser releases. So, in this particular quarter, we sold 7.19 lakh quintals of sugar vis-à-vis 11.49 lakh quintals of sugar in the corresponding quarter last year. So, you can see there has been a reduction of about 4.3 lakh quintals of sales during this quarter. Prices have been better, nearly 200 rupees per quintal more than what we realized in the corresponding quarter last year.

During the half year, we sold 16.89 lakh quintals. Last year in H1 we sold 26.78 lakh quintals which included sugar export of about 5 lakh quintals. So, half year also, if you see in terms of quantity of sugar sold, it is lesser. Now, a couple of reasons for lesser sale of sugar, number one, the releases have been less and plus, you know, we have diverted more of sugar cane for ethanol; as you know, our focus has been to produce as much more ethanol as is possible.

So, again, the price realization is almost about INR200 better in the half year as well. Sugar stock as on the 30th September was 2.68 lakh quintals as against sugar stock 1.81 lakh quintals, on same date, last year. So, sugar stock is slightly higher, which also is mainly because of lesser releases that we have had.

Stock at the end of, stock as on 30th September 2023 is valued at INR3,534 a quintal. So, we have had some good sales of industrial ethanol during this quarter. We sold about 2.87 lakh litres of ethanol. We wanted to touch the coveted mark of 3 crores litres, but we fell a little short. And during the half year, we have sold about 5.90 crores litres of ethanol. So, 5.90 crores is vis-a-vis 3.79 crores that we sold in the corresponding half year last year. So, the template that we have followed is we use sugarcane juice directly for making ethanol during

the season and during the off season, whatever B heavy molasses that we have generated is used for making ethanol. Now, we have our loan profile is lean and trim, as you can see. We have long term loans of about INR258 crores.

You know, all the loans are subsidized loans. All the repayments are happening on time. In fact, we have cash and cash equivalent of more than the loan amount on the said date.

One very important development that happened in this quarter, which unfortunately has gone against our industry in UP, is that the industry was burdened with significant increase in the molasses levy obligation. The government on the 28th of April came out with a policy where they equated B heavy molasses with C heavy molasses, disregarding the, you know, the difference in their potential output of ethanol. You know, if we use B heavy molasses, we get more than 30 litres of ethanol.

And if we use C heavy molasses, we get nearly 22 litres of ethanol. So, they disregarded that all. And this change in the policy has been in complete deviation from the policy that they had followed hitherto

So, those of us who manufactured B heavy molasses were badly impacted. This resulted in an increase in expenditure of nearly INR20 crores. We had to give additional B heavy molasses to the extent of 2 lakh quintals.

I mean, we had to earmark not necessarily give it. So, we had to earmark about 2 lakh quintals of additional B heavy molasses for heavy country liquor purposes of which nearly 1.25 lakh quintals has been already delivered. So, this had a big setback and plus it has deprived us of the opportunity of using that molasses and converting it into ethanol and earning profits out of it.

So, that has been one big setback in this particular quarter. This is a setback which is there for all the sugar companies. And we have accounted for this setback.

And, well, we are prepared to start our next crushing season. The DP -- DN our Dwarikesh Nagar and Dwarikesh Puram units will commence their crushing on the 31st of this month. And our Bareilly unit will commence crushing on the 5th of November.

We have had very unprecedented and very heavy rainfall in the month of August and September which really doesn't augur well for sugarcane crops. So, we have seen incidents of red rot in the Bijnor district where two of our units are located. So, you know, initially our cane team was very apprehensive.

They thought there could be a big reduction in the crushing numbers. But as we go along, we have seen some improvement. You know, the subsequent good weather has been very conducive for the growth of sugarcane. Yet, we don't know how much we are going to crush. Last season, we crushed about 4 crores quintals of sugarcane. So, we will have to wait and see how much we are going to crush.

If the crushing numbers are less, the impact is going to be there in the next financial year. Because, you know, the last part of the crushing happens in the subsequent financial year.

So, we will be following the same template. We will be using sugarcane juice for making ethanol in both our distilleries during the season. And we will store the B heavy molasses, whatever we generate across our three units. And we will use it for making ethanol in the off-season.

Our rating continues to be AA-. Maybe in a couple of months, we will pitch for AA. We will pitch for improvement in our rating. Our rating for the commercial program is A1+, which is the highest rating accorded by any rating agency.

Thank you very much. We will discuss a lot more as you ask me questions. I look forward to hearing from you. Please go ahead and ask your questions. Thank you very much.

Moderator: Thank you, sir. We will now begin the question-and-answer session. The first question is from the line of Mr. Dhvaneet Savla from Savla Family Office. Please go ahead.

Dhvaneet Savla: Hi, sir. First of all, all the best for the coming crushing season. And I hope we are all doing well. Yes. I had a two-part question. My first question was with regards to the co-generation front. I wanted to know whether there were any significant developments on the front. And I heard that recently we had some dispute with the UP government. What is the current status on that?

And secondly, my question was with regards to whether we can use the cane juice for production of ethanol, since this impact has come on the BIV and the CIV molasses being used to generate ethanol. And whether it was a more viable option or not.

Vijay Banka: Yes. Thank you very much. Regarding your first question on the co-generation, there has been no development so far. Prices are low as the tariff was revised sometime in 2018-19. And it was slashed by nearly 40%. So thereafter, there has been marginal increase year after year. So presently, what was then INR2.95 per unit in 2018-19 is perhaps INR3.25 per unit now. So, there has been no development insofar as the co-generation. The matter is sub-judice.

But we don't immediately expect any positive output out of that litigation. So, we are not very enthusiastic about generating more power at all. Our focus is to save on the steam, save bagasse. And whatever bagasse we save, first we use it for our distillery operations. And secondly, whatever spare bagasse we have, we sell the spare bagasse. And if you can see from our results, we have sold more bagasse during this half-year period.

So that's number one. And number two, yes, we will be using sugarcane juice for making ethanol during the season. And we will generate B heavy molasses across all our units, which will be stored and kept. And used in the off-season for generating ethanol

Now to answer your question about the viability, yes, sugar prices have recently risen very high. So, if you compare the recent high prices of sugar, yes, perhaps it would make more

sense to make sugar rather than use juice for making ethanol. But there is absolutely no assurance as to how long the prevailing prices will remain. And we will have to take a very holistic view. We will have to take a broader picture into consideration that we need to make this ethanol blending program a great success.

We will have to participate in it in a big way. Because sugar production remains high or low. The price rise that we are presently seeing could be sporadic, could be there for maybe a few months. But, you know, like I said, we must take a holistic view of the entire situation. And we must do our bit to ensure that the ethanol blending program is a great success.

Dhvaneet Savla: Sir, just a follow-up to this. Is there any particular quota which we must fulfil under the ethanol blending program? Or there is nothing, no such limits on that?

Vijay Banka: No, there is not. You can bid whatever quantity that you want. Presently, the government has, the oil marketing companies have come out with a tender for about 800 odd crores litres of ethanol. So, you can bid as much quantity as is required. So, obviously, any company would like to make the best use of the ethanol infrastructure that they have set up.

Moderator: Thank you. The next question is from the line of Mr. Rajiv from Radical Advisors, India Private Limited. Please go ahead, sir. Hello, Mr. Rajiv. Are you on the line? There is no response from the participant. We will move on to the other participant in the question queue. The next question is from the line of Mr. Sanjay Manyal from DAM Capital Advisors, Limited. Please go ahead, sir.

Sanjay Manyal: Sir, just want to understand the next year levy obligation, how the things would be? Because you have been producing ethanol through B heavy process. Now, will there be any change in that? Because next year if you supply from BV, again, you have to sort of account for the higher...

Vijay Banka: This is the dialogue that we have had with the government. Our next year the policy is expected to be rational. And, you know, B heavy obligation will be commensurately lesser as compared to C heavy obligation. So, you know, for example, I will give you an example. For example, if C heavy obligation is 20%, B heavy obligation will be 73% of that, 14.6%. So, which is kind of commensurate with their respective ethanol output. So, on the basis of our dialogue with the government on this particular subject, this is what we understand. And in a couple of days from now, the molasses policy will be out in the public domain. So, we do expect that justice will be done in the coming molasses season.

Sanjay Manyal: And other than this C heavy, B heavy change, you know, was there any increase in the levy quota obligation on a normalized basis?

Vijay Banka: I don't expect there will be any increase in the levy obligation. Because, you know, for example, this year, whatever obligation that has been cast upon us, so the ethanol molasses year will end on the 31st of October, So, on that particular day the requirement will not be as much as has been set aside by us.

So, there is going to be carry forward of that obligation in the coming year. So, that much more molasses is going to be available to the government for the next year, number one.

Number two, this year in the molasses policy, they are trying to cover the khandsari units also. So, they are also very large producers of ethanol. So, those khandsari units, which are having capacity of 1,000 TCD and more, will also be under the molasses obligation. So, I don't expect, so there will be two things. Number one, carried forward, benefit of carried forward stock. And number two, the coverage of molasses policy to the khandsari units. So, I don't expect the molasses obligation to be more than 20%. This is after considering the fact that during the election year, maybe the country liquor requirement will be more. Okay.

Sanjay Manyal:

And so, just last one, what would be the parity between the juice and the B heavy process? At what level of sugar prices, it would be more profitable to sort of do B heavy? I know you mentioned that you will be continuing with the juice part, because you need to see the holistic point of view.

Vijay Banka:

B heavy is definitely more profitable. There is no question about it. And so far as juice is concerned, there are two important developments which are awaited. Number one, the increase in the SAP and number two, the increase in the ethanol price also. So, there is going to be increase in the ethanol price. We hope the price increase in ethanol to be made from juice is going to be, it will be an alluring price so that more and more sugar companies are able to make convert juice and make ethanol out of it. So, that is the expectation.

But yes, like I said, if you take today's sugar price into consideration, maybe one could be tempted to make sugar and not ethanol, but that according to me will not be a pragmatic step. Right.

Sanjay Manyal:

Thank you very much, sir.

Vijay Banka:

Thank you, sir.

Moderator:

The next question is from the line of Mr. Marshal, who is an individual investor. Please go ahead, sir.

Marshal:

Yes. Actually, you have explained this new regulation of the UP government regarding this molasses, levy, whatever. But actually, the voice was not clear and it was very fast also. It's a very new thing for us and it's a significant amount, INR20 crores hit. So, can you please explain in detail that how does it work? We have to sign it or we have to give it to government. How does it work, please?

Vijay Banka:

Sure, sir. I'll explain to you. You see, it's like this. There is, in the state of UP, country liquor and the molasses is actually, totally governed by the state government. Whatever molasses we produce and how do you use. So, the government states that 20% of the molasses, I mean, the formula and so much of molasses is required to be given to country liquor purpose, for country liquor purposes. Now, this molasses is given at a price which is ridiculously low. This

molasses is given at a price, for example, B heavy molasses is given at a price of INR210 a quintal and C heavy molasses is given at a price of around INR150 a quintal.

Now, INR150 rupees is the price at which we are compelled to give. C heavy molasses and INR210 similarly, is the price at which we are compelled to give B heavy molasses for country liquor purposes. Whereas the market price of C heavy molasses these days in itself nearly INR 800 a quintal. Now, B heavy molasses, we in our books had valued based on the sugar content, etc., We had valued it at INR1195 a quintal.

Now, what was valued at INR1195 a quintal has now has been sold at or accounted for in books at INR 210 a quintal. INR210 or INR220, whatever it is. So, it has been sold at that price. So, there has been a nearly INR1000 reduction in the valuation of the molasses that we had sold / kept. So, in case of B heavy molasses that is the loss, that amounts to about INR19.92 crores, which is what I have stated.

And another offshoot of this particular thing is that, that B heavy molasses, had we not given it for country liquor purposes, we would have made use of that and generated, produced ethanol out of it. So, there is a loss of profit there. That is an indirect loss. But the direct loss is INR19.92 crores. I hope I am clear.

Marshal: Yes, it is very much clear. So, previously, what was the selling? How much we have to sell? 20% or it was 15%, 10%? What was the previous percentage?

Vijay Banka: No, no, it was 20%. So, you see, when you use C heavy molasses, the output of ethanol is lower. Country liquor also is lower. Ethanol is also lower, okay. Any industrial alcohol, the output is nearly 22 litres per quintal of molasses in case of C heavy molasses. Similarly, if you use B heavy molasses, per quintal, you would get more than 30 litres of ethanol, okay. So, the earlier policy was such that, if your requirement for C heavy molasses was 20%, your B heavy obligation was 73% of 20%, which is 14.6%.

Now, in this particular policy, they equated both disregarding their potential ethanol output. So, this is a big injustice which has been meted out to us. And we expect, based on whatever dialogue we have had with the government, that this will stand corrected in the coming molasses year.

Marshal: But like this, I want to mention a couple of things. I know that you are a veteran in the industry. But currently, since we have the double engine government, the central government is completely pushing for the ethanol. So, why this dilemma? And why this is number one? So, maybe you would like to take up the central government's role or whatever, sir?

Vijay Banka: No. It's a good question. Number one, the country liquor contributes to, I don't know the exact number, but maybe INR50, INR60 thousand crores to the state tax checker. So, the state government generates that kind of revenue when the country liquor gets sold. So, the state government always wants this to happen that there is maximum sale of country liquor.

The amendment which they brought in April 28, initially there was a lot of confusion. And by the time we brought it to the notice of the central government, and the central government took it up on our behalf, it was rather late. So, in fact, we went legal also. We filed a writ, aggrieved by this particular thing, we filed a writ also. But as you know, in the court, the process takes long. So, this is presently where it stands, that we have been assured that at least next year, the policy will be reasonable.

- Marshal:** Next year means like next within a year. Next year means next sugar year?
- Vijay Banka:** No, this molasses year starts from 1st of November, 1st of November to 31st of October.
- Marshal:** 1st of November to 31st of October. So, it means from coming November?
- Vijay Banka:** 23 to 24.
- Marshal:** Okay.
- Vijay Banka:** So, it will be applicable for the season, applicable for the sugar season, 2324.
- Marshal:** Okay. So, no, no, applicable means, if the reversal will be applicable, right? We have assured to take this out, or this anomaly will be just...?
- Vijay Banka:** No, no, no, whatever has happened in 22-23 is over and done. Nothing is going to be, we will have to take the hit. 23-24 is what, where we expect the rationality to prevail.
- Marshal:** Rationality to prevail. Okay, very good, sir. Thank you, sir.
- Vijay Banka:** Thank you, sir.
- Moderator:** Thank you. The next question is from the line of Mr. Rajesh Majumdar from B&K Securities, Private Limited. Please go ahead, sir.
- Rajesh Majumdar:** All good, sir. I have two questions. One is that for sugar year, 23-24, your commentary seems to be a bit muted, unlike some of the other players in UP. You were talking about a slightly better crop and even improving recoveries. So, where is the disconnect? I am not able to understand. Is there a particular reason or what is it?
- Vijay Banka:** No, it's like this. You see, Red rot attacked, we found the menace first in Eastern UP, then it spread to the Central UP, and now for the first time it spread to the Western UP. Okay, so people in Eastern UP and Central UP, they have already taken corrective measures. This came as a rather big surprise for us in the Western UP because of excessive rainfall. Had the rainfall not been there, there wouldn't have been such big Red rot problem because Red rot pest is a waterborne disease.
- So, if a particular field is impacted by Red rot and water flows from that field to another field, it spreads to another field also. So, bad weather for the first time, Red rot was seen and visible

in a big way in Western UP. But as we go along, if the weather improves, we will have to wait and see. Maybe things could improve, improve certainly. But as of now, we are a little cautious in our numbers. We are a little conservative in our estimate of numbers for the next season.

Rajesh Majumdar: So, the entire Western UP is impacted by Red rot currently, is that what you are saying?

Vijay Banka: More so the Bijnor district, more so the Bijnor district, and other districts as well.

Rajesh Majumdar: Okay. And how much of our current crop is COJ-38?

Vijay Banka: See in Western UP, it's entirely 238. We have done a big transformation in the Bareilly unit where, I'm talking about the supply. Supply would be nearly 30% of other varieties. And I mean, 65% to 70% will still continue to be 238. But we've taken a lot of care to ensure that ratoon management is better. And, we've educated the farmers. And the farmers there themselves, are very keen to replace the variety.

So, what is going to be 30% to 35% of other varieties this year will be next season nearly 70%. And here in Bijnor district kind of every sugar mill has just woken up because of the very sudden impact. So, the effort would be, number one, to control the menace of red rot, to manage it somehow. And secondly, to bring about varietal change also. So, we will have to fast-track the varietal change because that's the only viable option.

Rajesh Majumdar: Correct, sir. And, sir, my last question is, what are we going to do with our cash flows from next year? Because we don't have any kind of formal policy in terms of dividends or so. So, is there any...

Vijay Banka: No, we have a dividend policy, sir. We have paid handsome dividend of 200%. So, we were actually planning an expansion in our DN and DP unit. But since, we see the cane crops suffering there. So, we're going to be waiting. We'll wait and watch the situation.

And secondly, there is another unit which has come up in that district which is owned by the Bindal Agro Group. So, there's going to be some amount of cane diversion by all those groups in that district. So, we will wait and see. We will take appropriate call at that time.

Rajesh Majumdar: Okay. Thank you, sir.

Vijay Banka: Thank you, sir.

Moderator: Thank you. The next question is from the line of Mr. Ambar Taneja from Geomatrix. Please go ahead.

Ambar Taneja: Good evening, sir. My question is that how could this policy which came in April -- you're saying that this year they are being more rational, etcetera. But surely they knew that the impact would be huge. And like you said, that if their primary concern is with excise

collections from country liquor, then the consumption in this year, this sugar year, even in elections, etcetera, is going to be huge.

So, there is really no certainty out there that this doesn't get repeated. And in fact, it could be worse. And, to bring a little historical perspective here, I'm noticing last three years, every year there is some unexpected surprise. Last year it was the wage thing...

Vijay Banka: Wage revision, yes.

Ambar Taneja: Then there was some money that they wanted to move the molasses from one division to the other. So, looking at it a little holistically, sir, the multiple is going to stay very, very bad. So, I'm wondering, what as an industry you guys are doing about it. Because from an outsider perspective, it seems to me that they just do whatever they feel like and they see you as a cash cow. So, really, how much planning is possible? The only thing, I guess you can do is to increase your efficiencies?

Vijay Banka: Absolutely. So, you are right, sir. Actually, the coming year is an election year. So, which is why there can be heavy demand for a country liquor and therefore the country liquor molasses as well. But like I said, there are going with two positives. There will be two positive factors exactly. One is this carry forward molasses obligation of this particular year. And secondly, the Khandsari units will be brought into the realm of country liquor molasses. So, yes, we cannot deny the fact that we are a regulated industry. Something or the other keeps happening. So, our focus has to be on improvement of efficiency and enhancing our crushing. So, these are the things. So, that these reversals do not make much difference to our fortunes.

Ambar Taneja: Okay. That's it for me, sir.

Vijay Banka: Thank you, sir.

Moderator: The next question is from the line of Mr. Nikhil Gada from Abakkus Asset Manager, LLP. Please go ahead, sir.

Nikhil Gada: Good afternoon, sir. Sir, my first question is just on this calculation of INR19.99 crores. So, is it that basically they have equated, that example, I am assuming 20% C-heavy. They have equated that same 20% for B-heavy as well?

Vijay Banka: Correct.

Nikhil Gada: So, based on that assumption and the pricing you gave, and I am getting somewhere around INR11 crores- INR12 crores impact. So...

Vijay Banka: No. So, the additional obligation that was cast on us was about 2 lakh quintals approximately. Okay. Now, we had on the 30th of June valued our B-heavy molasses at INR1,195 a quintal based on the sugar content in that B-heavy molasses. So, 1,195 quintals. Now, out of 2 lakh quintals we have already given 125,000 quintals to 130,000 quintals, we have already given by way of country liquor obligation at INR210 or so per quintal.

So, there is a difference of nearly INR1,000. And the rest of it, 75,000 quintals, or maybe 70,000 quintals- 75,000 quintals, which is perhaps going to be carried forward for the next molasses season even is valued at INR210 or whatever is the price of levy molasses. So, at that price, we have valued it. So, there is nearly INR1,000 difference and the quantity involved is 2 lakh quintals. So, which is how you get that INR19.92 crores.

Nikhil Gada: So, basically, if I understand this correctly, so the impact is this additional 2 lakh quintals on which you are...

Vijay Banka: Correct.

Nikhil Gada: Because that number for me was coming...

Vijay Banka: No. It is 2 lakh quintals. Additional obligation is 2 lakh quintals.

Nikhil Gada: Okay. And this you are saying that from the coming season, that is from 1st of November, it will once again be rationalized. So, we will not see this impact?

Vijay Banka: It will be rationalized prospectively. What has happened in '22'23 has happened.

Nikhil Gada: No. I get that. But from here onwards, we will not see this impact if they rationalize?

Vijay Banka: So, that is an assurance we have got from the state government. Because in this, central government was also involved. Because let us look at it like this. From 2 lakh quintals, we could have generated about 60 lakh- 65 lakh quintals of 60 litres- 65 lakh litres of ethanol. So, there has been a setback in the ethanol blending program.

So, from the state of UP alone, several crores litres of ethanol which could have otherwise been supplied has not gotten supplied. So, obviously central government is also worried. So, it is a balance between the success of ethanol blending program on the one hand and the collection of state exchequer on the other hand for the state government.

So, since there was paucity of time, there was nothing much that could have been done. We tried the legal remedy also but nothing came out of it because the process takes time. Eventually, the case has all the merits but by the time the molasses season is over. So, the best that we have got is an assurance that in future the policy is going to be rational.

Nikhil Gada: Got it, sir. Sir, my next question is, I did not get the varietal mix change. So, I am assuming for this coming season, you are saying 30%- 35% of the overall...

Vijay Banka: In one of the units.

Nikhil Gada: Bareilly unit, right?

Vijay Banka: Bareilly unit, yes.

Nikhil Gada: So, that will be 30%- 35%, which we are expecting to go to 70% in the...

- Vijay Banka:** 70% next year, yes.
- Nikhil Gada:** Whereas in western UP...
- Vijay Banka:** Western UP, the impact has been sudden. This is the first year where the red rot has kind of impacted the crop in a big way. So, here it is going to take about three years but we do hope as the weather is improved, the crushing numbers, we get our lab results on a daily basis.
- So, we really do not see much of a difference in so far as the recoveries are concerned between last year and this year. But yes, I went around the units. I saw for myself the red rot problem was there. But within a month or so, our cane team says that the supply is going to be better than what they had assured last time.
- Nikhil Gada:** Understood. So, that was basically my last question. If you can help us, from a fiscal year 2024 perspective, what would be our crushing? I think, we did 38,21,000 odd in 2023.
- Vijay Banka:** So, '24 crushing numbers will not be low. Fiscal numbers will not be different. They could in fact be better only. Because it is Fiscal '24-25 numbers which I am worried about, the crushing numbers.
- Nikhil Gada:** Yes, but then I am assuming that a major part of the crushing will happen in the fiscal year 2024?
- Vijay Banka:** But there will be how much? We crushed about 98 lakh quintals in this fiscal year 2023- '24, which pertained to the season 2022- '23.
- Nikhil Gada:** Understood.
- Vijay Banka:** So, as far as the fiscal is concerned, our crushing numbers could be better than what they were for the last year. But for the season, yes, on the lower side. So, the cause of worry is '24-25, not '23-24.
- Nikhil Gada:** Okay, we can see a de-growth basically, you are saying?
- Vijay Banka:** We will have to wait and see. If the numbers improve, there may not be any problem. But yes, as of now, the numbers look little bleak.
- Nikhil Gada:** Got it, sir. Thank you so much. I will come back in the queue.
- Vijay Banka:** Thank you, sir.
- Moderator:** The next question is from the line of Mr. Shikhar Singh, an individual investor. Please go ahead, sir.
- Shikhar Singh:** Good afternoon, sir. With respect to the upcoming sugar season, I would like you to shed some light on the expected transfer pricing, expected cost of production. What is the expected syrup diversion?

Vijay Banka: Syrup diversion, whatever we do during the entire duration of our season, from our DN and DD unit where the distilleries are set up, we will be using sugarcane juice for making ethanol. Last year, from these three units, we did about, diverted about 76.29 lakh quintals of sugarcane for making ethanol. So, our crushing capacity in our DN unit has gotten a little better.

So, 76 lakh quintals could get, become a little better in the coming season, the diversion. And the rest of it, we will generate B-heavy molasses, whatever be the quantity. And, whatever, after providing for whatever is the country liquor obligation, will be available to us for making ethanol during the off-season.

Shikhar Singh: Sure. Okay, sir. And what is the expected transfer pricing?

Vijay Banka: Transfer price will depend, sir, on what, because SAP is not yet announced. We expect announcement of SAP quickly. This being an election year, there might be an increase in the SAP, but we do hope and we've seen the pragmatism on the part of the state government. So, there may not be any, whatever increase is there, if at all, is going to be reasonable. So, whatever is the price that will come out, depending on that, our transfer pricing will get fixed.

Shikhar Singh: Okay, sir. Thank you, sir. That's all from my side.

Vijay Banka: Thank you, sir.

Moderator: Thank you. The next question is from the line of Mr. Udit Gupta, an individual investor. Please go ahead, sir.

Udit Gupta: I'm good, sir. Sir, when do you plan to start our crushing, sir?

Vijay Banka: I mentioned it. Our units in Bijnor district will start crushing on the 31st of this month. And the Bareilly unit will start on the 5th of coming month.

Udit Gupta: Okay. And, sir, this, the pain crest, like you said, because of red rot and this new plant coming up, it could be slightly lower. And, sir, what about the recovery, sir? Is that expected to be impacted as well?

Vijay Banka: See, it does impact. Red rot impact, you know, does impact. Primarily, when red rot attacks a field, the crop of that field actually dries up completely. So, if it dries up completely, obviously, the farmers are going to uproot it and throw it away or use it for any other purposes. But sometimes what happens is, it gets mixed with the normal sugarcane that comes to us. If that happens, there could be a bit of a dent in our recovery. But we have per our lab results, as I was mentioning, indicate the same kind of recovery which we had seen the last season.

So, the recovery may not be much impacted. We will have to wait and see. We will have to be very vigilant at our cane team has to be very vigilant so that, we don't get any red rot mixed cane. Because red rot mixed cane will obviously have some weight but have no sugar in it. So, we will have to be very vigilant. And if we are vigilant, we will – and so far as the recovery is concerned, the recovery may not be impacted.

Udit Gupta: And, sir, like you were talking about the possible expansion opportunities maybe next year. So, what are the lines that we can look at, sir, in the future?

Vijay Banka: No, we were encouraged by the crushing numbers that we achieved in the last season. So, the last season we saw our units in Bijnor district running up to the 12th of June 2023. So, which was a -- we had a very, very prolonged season. So, what happens is, towards the end of the season, because we were crushing sugarcane in very hot months, the recovery suffers a blow. So, which is why we were planning expansion of at least our Dwarikesh Nagar unit, which has been, which is like 25 years, 26 years old unit for us. And that's our first unit.

So, but since we see the possibility of lower sugarcane arrival, number one, because of the rainfall and the red rot, and number two, also because of the Changipur unit, which is the Bindal Agro unit, which has come up, and they're also commencing crushing operations simultaneously. So, we'll have to wait and see for a season or so, before we embark upon steps to enhance our capacities. But it will happen in a couple of years, for sure.

Udit Gupta: And so, you just said that they are expected to start crushing along with you?

Vijay Banka: Yes. All Bijnor units will start crushing simultaneously. So, it's a basically unwritten rule. If I start, everybody else starts. If everybody else starts, I also start.

Udit Gupta: And, sir, any other concerns apart from this red rot?

Vijay Banka: No, as such, there is no concern. So, molasses policy is one thing which we are waiting and watching. So, there are three things which are, we expect the regulators to inform us. Number one is the ethanol pricing for the ethanol season '23-'24, sugarcane pricing for the SAP for the season '23-'24, and then the molasses policy for molasses year '23-'24. So, these are three very crucial and important announcements which are awaited. They could happen any time now, maybe a week from now.

Udit Gupta: And, sir, the molasses policy and the ethanol year are the same?

Vijay Banka: Yes, more or less, more or less, yes. Molasses policy, they say it's from 1st of November to 31st of October, but it really coincides with the sugar season.

Udit Gupta: Right. And, sir, the sugar prices in Uttar Pradesh for like [inaudible 0:49:27], how are they holding up and what is the trend looking like?

Vijay Banka: The prices seem to be pretty good at this moment, but we can see some sobering effect on the prices once there is arrival of new sugar from the new season. Presently, the prices are very good. I mean, few transactions have happened at more than INR3,900 a quintal, but I wouldn't say the average realization is INR3,900. What realization we had in September, it's better in October, and the government has released some advance quota for the month of November. So, whatever little sugar we have sold for the month of November, the realization is better than what we got for October.

Moderator: Thank you so much. The next question is from the line of Ms. Riya Mehta from Aequitas Investments Consultancy Private Limited. Please go ahead, ma'am.

Riya Mehta: Thank you for giving me the opportunity.

Vijay Banka: Thank you, ma'am. Thank you.

Riya Mehta: My first question is in terms of reading recent news that Karnataka and Maharashtra are because of the rainfall. Next season, probably, they are expecting around 20% to 30% lower production. So, in the state of UP, you're saying that because of the rainfall, is it fair that even UP would see a lower crushing?

Vijay Banka: No, ma'am. UP, last year, we produced about 10.6 million tons, and this year, we are expected to produce about 10.9 million tons. You see, the central and eastern UP has not had much of impact of rainfall. It's only the western UP where the rainfall was unseasonal and unprecedented and heavy. So, UP is going to see better sugar production number. But Maharashtra and Karnataka, of course, the production numbers are going to be lower.

ISMA last estimated the number to be at 31.7 million tons, but some experts are talking about 29 million tons. So, we will have to wait and see. And again, '24-'25 season is also going to be a little tight season, both internationally as well as domestically. So, UP is, if you see, kind of insulated from all the weather conditions because UP, most of the cane fields are irrigated and not rain-dependent.

Riya Mehta: Right. And my second question is, what would be the market price at which you would be equivalent to either sell sugar or produce ethanol?

Vijay Banka: Ma'am, it will depend. We will have to rework our numbers when number one, the ethanol prices are all expected to be announced. And we do expect them to be attractive

Riya Mehta: On the basis of the current prices of both molasses....

Vijay Banka: Both, I mean, you see, INR3,700, we are very happy for the sugar prices. We would be too happy to make ethanol directly from juice if the price is around INR3,700. But like I said, we cannot be governed by some high prices prevailing in one particular month, the prices are always, we have to see, what is the sustainable price over a period and then take a call. And in any case, we are all duty-bound to make the ethanol blending program a good success.

Riya Mehta: But anything beyond INR3,700, making sugar would be more profitable?

Vijay Banka: Which is for the past, based on the last season's numbers.

Riya Mehta: Yes, I understood.

Vijay Banka: Okay, and the numbers will undergo a change once the SAP fund raise is announced and once the ethanol prices are announced for the new season.

- Riya Mehta:** Right, I understand. And my last question is in regards with the new molasses policy. Just to get an understanding, the B-heavy molasses earlier used to be around 73% of the C-heavy obligation. Now they have made it equal, right?
- Vijay Banka:** Correct, for season '22-23.
- Riya Mehta:** For season '22-'23, in a retrospective manner?
- Vijay Banka:** Yes.
- Riya Mehta:** Got it. Thank you so much.
- Vijay Banka:** Thank you, ma'am. Thank you.
- Moderator:** In the interest of time, that would be the last question. I would now like to hand the conference over to Mr. Vijay Banka for closing comments. Please go ahead, sir.
- Vijay Banka:** Thank you very much, everyone. It was a very thought-provoking session that I had with you all. It was interesting to chat with you, clear your doubts, and share our perspective of how the coming season is going to be, what are the challenges before us, and how we propose to overcome them.
- I must express my gratitude for the confidence and trust that you have reposed in our company. We continue in our quest to improve our efficiencies, clock better recoveries, have the best standards, follow the loftiest standards of efficiency in our distillery operations. So, all that we propose to do. Thank you very much. I would request my colleague, Mr. Maheshwari, to say a few words.
- B. J. Maheshwari:** Yes, I thank each and every one of you for active participation in this earning call. I look forward to hearing you again in the next conference. Thank you.
- Moderator:** Thank you, sir.
- Vijay Banka:** Thank you very much.
- Moderator:** On behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
- Vijay Banka:** Thank you.