



# “Dwarikesh Sugar Industries Limited Q4 FY24 Results Conference Call”

**April 30, 2024**



**Dolat Capital**



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**MODERATOR:** **MR. NITESH DHOOT – DOLAT CAPITAL**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Dwarikesh Sugar Industries Limited Q4 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 “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitesh Dhoot from Dolat Capital. Thank you and over to you, Mr. Dhoot.

**Nitesh Dhoot:** Thank you, Manu. Good afternoon, everyone. On behalf of Dolat Capital, I would like to thank the management of Dwarikesh Sugar Industries Limited for giving us the opportunity to host their Q4 FY24 Earnings Conference Call.

From the Management Team, we have with us today Mr. Vijay S. 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 will open the forum for Q&A session. Thank you and over to you, Mr. Banka.

**Vijay S. Banka:** Very good afternoon, friends. I thank you all for joining this Q4 FY24 Earnings Conference Call.

So, during this quarter, we had an income of about Rs. 382 crores, which is significantly lower than what it was in the corresponding quarter last year, Rs. 534 crores. And similarly on a full-year basis, our income is Rs. 1,721 crores vis-a-vis Rs. 2,117 crores in the corresponding last year in FY23. PBT was Rs. 55.80 crores vis-a-vis Rs. 69.59 crores and for the full year PBT was Rs. 144 crores vis-a-vis Rs. 153 crores. PAT was Rs. 22.89 crores vis-a-vis Rs. 46.69 crores and on a full-year basis PAT is Rs. 83.52 crores vis-a-vis Rs. 104.75 crores.

The season 2023-24 is going to come to an end now. So, what we understood is that production is going to be about 32 million tons. We saw various production estimates coming in, it was basically a roller coaster ride as far as the estimates were concerned. So, production numbers got lead support from, they got support from lead revival of marks, rates,, etc., and Maharashtra and Karnataka. So, their production numbers have got support from production numbers in Maharashtra and Karnataka whereas UP production numbers are little discouraging. Sugar prices are around Rs. 3,800 a quintal.

Quickly on the numbers:

Our EBITDA for quarter is Rs. 75 crores vis-a-vis Rs. 88 crores corresponding quarter last year. On full year basis, EBITDA is about Rs. 217 crores vis-a-vis Rs. 239 crores. EBIT and PBT numbers you have already gone through. The difference in the PBT and PAT in this particular quarter is because of the extra provision of tax we have made, so as to right off the MAT entitlement which was standing in our books. It is basically a cash neutral item.

During the quarter, our sale was a little sluggish. We sold only about 5.69 lakh quintals of sugar as compared to 8.75 lakh quintals in the corresponding quarter last year. Sugar as you are aware can be sold only against releases, so releases were lower, therefore the sales was also lower. Average realization of the domestic market was about Rs. 3,763 vis-a-vis Rs. 3,410 a quintal in the corresponding quarter last year. So, there is about 10% improvement in the realization. On full year basis, we have sold 27.52 lakh quintals vis-a-vis 42 lakh quintals that we sold last full year which actually included export of about 10 lakh quintals. This year since there has been a ban on the export, there was no opportunity to export sugar.

Average realization on domestic sugar sold for the full year was 3,707 vis-a-vis 3,464 for the full year last year. As I mentioned a little while ago, the releases were lesser, so we were carrying stock of 18.31 lakh quintals on 31st March as compared to 10.61 lakh quintals, so nearly an addition of about 7 lakh quintals to our stock. Our stock is valued at Rs. 3,355 a quintal. This is vis-a-vis Rs. 3,172 a quintal last year. Industrial alcohol sold during the quarter numbers are not very impressive, but on full year basis we sold about 94,407 kilo liters vis-a-vis 84,175 kilo liters sold in the last full year. During FY24, only 20,944 kilo liters of industrial alcohol sold was made from sugarcane juice and syrup, as compared to 46,203 kilo liters sold in the corresponding period last year. So, sometime in November-December, there was a ban in the post on using of sugarcane juice for manufacture of ethanol. So, as a result we were compelled to use B-Heavy molasses which normally otherwise we would have used during half season.

Our loan profile is lean and trim. Outstanding loans of Rs. 215 crores, all are at subsidized rate of interest. All are being repaid on time as it when they fall due. Our credit rating is AA- and for the short term, it is A1+. Like I mentioned earlier, the sales were sluggish during the fourth quarter, sugar sales was nearly 3 lakh quintals lesser because of the lesser releases. And the Financial Results of the Year '24 was also impacted on account of higher levy obligation which point has already been mentioned in the earlier quarters, which resulted in an extra expenditure of Rs. 19.92 crores. And policy of molasses, again this is a repetition. Last quarter also we had brought it to your notice that now in B terms, our levy obligation is 19% of the molasses produced and in C terms it is 26%. So, that is a big hit that we have to suffer because no other state has such a high levy obligation. The government has already SAP announced for season '23-24, which is Rs. 20 higher than what it was for the previous season.

Now, coming to the crushing numbers:

During last season, we crushed Rs. 4.101 crores quintals of sugarcane achieving a recovery of 11.93, however, when we started our season straight away, we faced a lot of challenges. And in

Bijnor district, where two of our three units are located, received unprecedented rain fall, and this particular district, which was not under the impact of red rot was severely impacted. And as a result, the yield at the farm level was very low and for the full season, we have been able to crush only 268 lakh quintals. So, from 401 lakh quintals to 268 lakh quintals, we are down by nearly 33%, so crushing operations also ended early. All our plants got closed within the month of March. March and April, these are the best periods for recovery. So, we couldn't derive advantage of better recoveries plus ethanol program also, the ethanol policy which the government changed that also changed the dynamics. And obviously that resulted in underutilization of disability capacity.

Recently, the government has allowed 6.87 lakh metric tons of B-Heavy molasses, which is lying with various sugar mills to be converted into ethanol, but it is something, it is too little too late according to me. So, basically these are the season that characterized by subdued sales, lower capacity utilization, etc., but we did get support from sugar prices which were good and in fact our recovery in the last Q4 was better than the recovery in the Q4 that we had talked last year and plus we also got support because since juice was not allowed to be used for making ethanol. During this quarter, we used B-Heavy molasses for making ethanol. So, obviously when margins are better, when you use B-Heavy molasses as the feedstock.

So, we expect transformations in the coming season. Lot of work is happening. If the weather doesn't play truant, we should see significantly improved crushing numbers in the coming season. We have seen, surveyed the field, crop condition seems to be good, farmers are participative in so far as fighting the menace of red rot is concerned, variety program is going a big change. And also, we do expect that the government will resume the ethanol policy with renewed vigor. So, as a result of which whatever dent we all suffered, we will be able to come out of it. Additionally, we will have the advantage of carrying heavy stock, so we do expect that sugar prices should now revive at least from June onwards. So, once there is a revival in sugar prices, we should get the benefit of selling the sugar stock available with us. Thank you very much.

So, please go ahead and ask me questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Mr. Darshan from JM Financials. Please go ahead.

**Sudarshan:** It is Sudarshan. My question is on the ethanol side. So, on the ethanol side, I think the government has basically relaxed a bit on the B-Heavy as you had mentioned earlier, but given that, we are looking at a favorable monsoon, at least that is what the agencies are talking about and even in Brazil, until in the last week, I think the production of sugar has been pretty strong. In that context, with respect to curbs on ethanol, especially going forward, do you think the government should go back to prioritizing the ethanol blending program, which has basically been halted in last few months?

**Vijay S. Banka:** Yes, of course, we expect the government to revisit the ethanol blending program. So, what the government did is they paused the ethanol blending program. They have not truncated or stopped the ethanol blending program because sometime in the month of November or so, the sugar prices rose too high for the comfort of the government which is why and then at that point in time there were indication that the sugar production may be lesser. So, as the situation has evolved, sugar production has also gotten better, which is why they are now allowing that 6.7 lakh tons of molasses to be converted into ethanol and next season might be a little tight season. So, for government to go full throttle back on the ethanol blending program, they may wait for indications of the sugarcane availability, etc., for the next year and I am sure they will revisit with full vigour.

**Sudarshan:** Sir, my second question is on the multi-feed on ethanol, while I think on paper government has encouraged probably not using sugarcane, but other feedstock. Historically, we have seen that the Food Corporation of India is struggling to provide rice and there has always been difficulty in procuring maize, I mean the prices of raw material has been all around the place. One with respect to a policy, is there a policy which ensures like sugarcane that there can be some kind of a stability in the prices of the input? And second is with respect to the availability, has there been any direction to the Food Corporation of India to make the feed available?

**Vijay S. Banka:** So, it is like this actually, use of rice for making ethanol again there was an embargo placed on it. So, maize was the one thing which was available and now since there has been unprecedented demand for maize for use for making, converting it to ethanol, the maize prices which were steady have also risen and it was basically food versus it was a question of food security. So, all the actions that the government took according to me they were knee jerk reaction of basically to ensure that enough sugar, enough rice is available in the country. There is no runaway inflation, so all these were aimed at taking the prices lower. Maize is something which is not kind of so much edible, so much consumed. It is not an item of mass consumption. So, they allowed it and at one point in time, use of these was a profitable proposition, but in terms with the rising demand of the price of these also has gone up.

**Sudarshan:** Sir, going forward on the multi-feed, is there a proposal by ISMA or the government to revise the ethanol prices because like using cane, there is at least fixed EBITDA per kg or there is a minimum profitability that you can at least estimate, but it looks like, at least in non-cane it is very difficult to estimate that. In that context, has there been any representation by the industry body to the government?

**Vijay S. Banka:** Yes, of course, yes. For example, there was no increase in the price of ethanol made from juice and B-Heavy molasses. In fact, if you recall, we were clamoring for a much higher price of ethanol which is made from sugarcane juice because that is where the sugar sacrifices the maximum. So, the government did not grant any entry, so our industry association has made representation for increase in the price of ethanol made from both sugarcane juice and B-Heavy molasses. Government has given decent increase in the price of ethanol to be made from C heavy molasses, which is nearly Rs. 7.87 per liter and also on the grain base ethanol, so they have given

the price increase. Like I said, post elections, we expect the government to revisit all these policies.

**Moderator:** Thank you, sir. We have our next question from the line of Mr. Sanjay from DAM Capital. Please go ahead.

**Sanjay:** Just want to understand, what exactly is the new variety in our catchment area from the next season we can expect, what would be the reduction in dependency on the Co 0238 from next season?

**Vijay S. Banka:** Plant to plant, I will talk. In our DD unit, this time our supply itself of non 0238 variety was almost about 34% and next year we expect in that particular unit 238 to be less than the percentage to be in single digit. So, that is the kind of varietal change we have done. In fact in our this particular unit, although the crushing numbers were lower and we did miss the Golden recovery period, our recovery is still higher by about 20 basis points as compared to the last season. Now coming back to these two units, yes your question was also on the kind of varieties. So, you see, 15023 is an excellent variety, but we find the farmers little bit reluctant to adopt it in a big way because as of now, the density of that variety is not very high, so it is susceptible, it is vulnerable to attacks from the animals, etc., but 118 has caught up in a good way and so there is 118, there is 14021 and for low lying areas there is 94184. These are the kind of varieties that farmers have taken fancy for. In Dwarikesh Nagar and DP unit, we are a year behind so far as our varietal change program is concerned because that area was absolutely not prone to red rot attack until the last season. So, now, the good part is the farmers of this particular district are very hard working and very conscious farmers. So, they themselves are working on plant protection, they are working on the tool management, and they are also working on the varietal change. And we expect clearly not in season '24-25, '25-26 we expect new varieties to be there in a big way.

**Sanjay:** But what would the percentage, so you are saying that '24-25 percentage terms, it will be minuscule as of now in the DP?

**Vijay S. Banka:** No, in percentage terms, it could be about 10% to 15%, in supply percentage I am talking. So, it will be about 10% to 15%, but thereafter it will be more than 50%.

**Sanjay:** So, means the recovery on the crushing side in '24-25, we can expect previous high or it would be lower than that?

**Vijay S. Banka:** No, we can expect good recoveries because like I said, the big advantage with the farmers in Bijnor district, number one, they are prosperous, they are well educated and they are conscious of they have simply not like the fact that there fields were kind of dried up totally, so they are working very hard even 238 whatever is available with them they are trying to protect that variety in the best possible manner and simultaneously working on the varietal replacement also.

- Moderator:** Thank you, sir. We have our next question from the line of Somnath Saha from B&K Securities. Please go ahead.
- Somnath Saha:** Sir, I want to ask you, there is a decline in your monthly sugar quota almost 30% for the fourth quarter, any reason for that, sir?
- Vijay S. Banka:** So, we have had the benefit of higher releases in the last couple of years. So, which is why and government, DFPD has changed the computation formula, etc., which is why we are getting lesser releases, sir.
- Somnath Saha:** And sir, any guidance for growth prospects? Are you planning any CAPEX?
- Vijay S. Banka:** No, sir, not as of now. We are constantly doing all efficiently enhancement measures, steam saving where we are working on the steam saving,, etc., but nothing in terms of capacity building because this year was a year of having jolted us in the sense that our crushing numbers support a big dent. So, our first and foremost task is to and also, we got a jolt in the form of pause of the ethanol blending policy. So, we would want to first get back to normalcy and then we will take the next step ahead.
- Somnath Saha:** And lastly, as the government has allowed for production of ethanol from B-Heavy molasses from the stock as on 31st March, sir, how much intense you have in B-Heavy molasses?
- Vijay S. Banka:** On 31st March, we had about 1,68,000 quintals of B-Heavy molasses out of which about 30,000 quintals were for earmarked for levy purpose, so roughly about 1,25,000 to 1,30,000 quintals of B-Heavy molasses. So, for which, we already have, we were in the queue for the allotment of quota. So, it will not be an additional gain that will come to us actually out of this 6.7 lakh tons.
- Moderator:** Thank you so much. As there are no further question, I would like to hand the conference over to the Management for closing comments.
- Vijay S. Banka:** Thank you so much. Thank you everyone for the trust and confidence that you all have reposed in us. Thank you very much for participating in this Conference Call. I will ask my colleague, Mr. Maheshwari to say a few words if he has to say.
- B. J. Maheshwari:** Thank you very much for your active participation and we look forward for this continuity in the future also. Thank you so much.
- Moderator:** Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.