Balrampur Chini Mills Limited

Q3 & 9M FY2012 Results Conference Call

January 31, 2012

Anoop Poojari: Good afternoon everyone, and thank you for joining us on Balrampur Chini Mills' Q3 & 9M FY2012 results conference call. We have with us Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills, Mr. Kishor Shah, Director and Chief Financial Officer; and Mr. Pramod Patwari, General Manager Finance of the Company.

Before we begin, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the conference call invite sent out earlier.

We will now like to begin the call with brief opening remarks from the management following which we will have the forum open for discussion.

I would like to invite Mr. Saraogi to make his opening remarks. Over to you sir.

Vivek Saraogi: Good afternoon everyone, and thank you for joining us to discuss Balrampur Chini Mill's operating and financial performance for the third quarter and nine months ended December 31, 2011.

I would like to begin by taking you through the current developments in the sugar sector, following which; I will run you through the Company's performance during the period under review. Kishor will then take you through our financial and operating performance for the quarter and nine months ended December 31, 2011.

As you may all be aware, the Supreme Court recently ordered that the payment of sugarcane due to the farmers in the state of Uttar Pradesh for the 2006-2007 and the 2007-2008 seasons must be disbursed within the next three months. For the 2006-07 season, the Company's outstanding amount on this account was about Rs. 23 crore, for which necessary provision had already been made in the books. The outstanding liability for 2007-08 season was about Rs. 92 crore and has been provided in the P&L during this quarter's results. Further, the Supreme Court also stated that the controversy arising out of the power of the State Government to fix the cane prices be referred to a larger Bench.

Coming to the overall demand-supply scenario for the industry - sugar production should be in the range of approximately 25.5 million tonnes as against 24.2 million tonnes in the previous season. We are witnessing lower yields across the country which should marginally impact sugar production. Recoveries in U.P. have been below expectations especially in Western UP. However, we expect to see an improvement as the season progresses. Consumption should be in the range of 23 million tonnes, leaving 2-3 million tonnes in sugar surplus. In addition to the 1 million tonne exports allowed earlier, we hope to see more exports in the on-going season, which should improve the demand-supply dynamics. Here I would wish to mention that the Government is aware of the challenges that sugar companies are facing and is deliberating over key policy matters that can be altered in the mutual interest of both farmers and sugar companies. As a step in this direction, Honorable Prime Minister has announced the decision to set-up an expert committee to examine de-regulation of the sugar sector on a priority basis. De-regulation will lead to increased capital flows, augment industry scale and bring in efficiency.

Moving on to the Company's performance during the quarter - the sugar segment reported a healthy growth of ~25% in revenues on a y-o-y basis backed by strong volumes growth and stable realizations. However, higher cane costs, lower recoveries and payment of arrears added to the cost of production leading to losses in sugar segment during the quarter.

The distillery division reported notable improvement in volumes and realizations leading to encouraging growth in revenues and profitability. We expect this division to be a sustained driver of bottom-line growth in the future.

In the cogen segment, we noted higher sales and realizations subsequently leading to robust performance during the quarter. This segment has always provided a healthy cushion against the volatility of the sugar segment and we expect this to continue in the current season. Better capacity utilization owing to higher cane availability, increased realizations and improved efficiencies will contribute to enhanced results in the cogen segment.

We believe that the Company is well suited to absorb volatility in the sugar segment given our status as one of the most integrated players in the industry. Developments in the distillery and cogen segments provide a strong offset to any periodic losses in the sugar business. We believe robust production in cogen and distillery operations will facilitate higher cash flow generation going forward. As we move into the future, we are confident that the combined effect of favourable operating environment and constructive Government policies will enable us to deliver higher shareholder value. Now I will hand over the floor to Kishor.

Kishor Shah: Thank you sir. I will now briefly take you all through the Company's operating and financial performance for Q3 & 9M FY2012. In Q3 FY2012, our revenues increased by 25% to Rs. 664 crore from Rs. 532 crore in Q5

FY2011 driven by strong volumes growth registered by all businesses. EBIDTA was negative at Rs. 11 crore as compared to Rs. 72 crore in Q5 FY2011 primarily on account of the sugar segment which included a provision made for differential sugarcane price for sugar season 2007-2008 amounting to Rs. 92 crore. It was also impacted by higher cane cost and lower recovery witnessed during the period under review. During the 9M FY2012, revenues stood at Rs. 1,743 crore and operating profits stood at Rs. 52 crore.

Coming to the segmental performance of sugar; revenues increased by 25% to Rs. 614 crore during the quarter owing to higher volumes and stable realizations. We sold 19.6 lakh quintals in Q3 FY2012 and the average free sale realization came in at Rs. 29.71 per kg. The segment reported a loss of Rs. 82 crore at the PBIT level as compared to a profit of Rs. 25 crore in Q5 FY2011. As mentioned, this was primarily owing to the 2007-08 provision, higher cane cost and lower recovery. Landed cane costs for the quarter stood at Rs. 250 per quintal, significantly higher as compared to Rs. 217 per quintal in the corresponding period. And recoveries for the quarter were lower at 8.84% as against 9.05% in the corresponding period. We expect to see an improvement in recoveries as the season progresses. However higher cost of production will impact the sugar division's profitability in the comings quarters.

In the Distillery division, revenues increased by 73% during the quarter to Rs. 24 crore from Rs. 14 crore in the corresponding period. PBIT improved to Rs. 7 crore in Q3 FY2012 as against Rs. 1 crore in Q5 FY2011. Higher volumes and improved realizations contributed to greater earnings performance during the quarter. Distillery sales were higher at 6,914 KL in current quarter as compared to 4,970 KL in the corresponding period last year. During the quarter, blended realizations enhanced to Rs. 34 per BL as compared to Rs. 27 per BL in Q5 FY2011. RS and ENA were key contributors to enhanced realizations and their blended prices stood at Rs. 35 per KL during the quarter.

With regards to our Cogeneration business, revenues improved by 16% to Rs. 83 crore as compared to Rs. 72 crore in Q5 FY2011. During the quarter, we reported a notable improvement in PBIT to Rs. 45 crore from Rs. 24 crore in the corresponding period last year. The segment performed better during the quarter as we witnessed early start of operations leading to improved sales. Sales volume increased by 12% to 12.81 crore units as against 11.39 crore units in the corresponding quarter.

Interest cost for the quarter stood at Rs. 26 crore. Increase in interest cost was on account of higher working capital requirement and the current high interest rate scenario. As on 31 December, our long term debt stood at Rs. 711 crore and working capital was at Rs. 549 crore.

For Q3 FY2012 we registered a Net loss of Rs. 64 crore as compared to a profit of Rs. 23 crore in the corresponding period last year. This was owing to the losses reported in the sugar segment.

This brings us to the end of the discussion. We would now like to address any questions or queries you have in your mind. Thank you.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from Sanjaya Satapathy from Bank of America Securities - Merrill Lynch. Please go ahead.

Sanjaya Satapathy: My first question is to understand about the current health of Uttar Pradesh sugar industry, as I understand the cane cost is pretty high compared to that of sugar price. I wanted to know compared to Balrampur Chini which has a relatively healthy balance sheet, how the other mills have been able to pay their dues? Are they defaulting to the banks? Basically wanted to know how things are happening out there?

Vivek Saraogi: As per Supreme Court judgment, you have three months to pay those dues. We have accounted for in this quarter because that is a development which has substantial bearing; it's a Supreme Court order and hence we have accounted for it. But we as an industry would be filing our review for this and seeing what can be done. The only positive part of the judgment is that it has referred the matter to a larger bench, of whether this state has the power or not. However they have also while doing so, have asked us to pay our dues. With these dues, everybody has to pay this money because it is a Supreme Court order- assuming you get no favorable judgment in the review. This itself outside of the fact that cane cost is high and the fact that cane cost is high is leading to now buildup of serious arrears in U.P. So your question is arrears will build up - it has already started building up.

Sanjaya Satapathy: Is Balrampur Chini also delaying the payment or you are continuing to pay on time and only the smaller ones are delaying?

Vivek Saraogi: All would be delaying payments.

Sanjaya Satapathy: Okay and so it has become already an issue and that too when the election is on?

Vivek Saraogi: Correct. It's got nothing to do with election in our mind. It is got to do with the health and ability to pay.

Sanjaya Satapathy: Sir on the same point, just to elaborately understand this, how does it work because the industry is facing losses for some time now. It is not as if this is the first quarter and the banks are kind of forced to pay, give loan to you because it is a priority sector and is there some kind of relaxed loans available to the whole industry, which is why they have been able to pay for so far. So basically just want to know how the banking system really is working with the industry to ensure that the production continues even while the losses are mounting?

Kishor Shah: Firstly, this is not a priority sector lending by the bank and the banks are under no obligation to give loans to the sugar factories. So it's working on the financial health of an individual company.

Sanjaya Satapathy: As I understand that several of them would not be having the financial condition, but still they are continuing to crush and continuing to pay, which is why the production is growing.

Kishor Shah: Yes production is growing because farmers are supplying to the factories because the farmers have no other alternative but to supply cane.

Vivek Saraogi: The fact that bank gives you money is against your sugar stock pledging and if you do not pay the farmer, you can pledge the stock and take the money.

Sanjaya Satapathy: Yes but the amount of the pledge is lower than the price itself and even lower than the cost of cane itself.

Vivek Saraogi: Not so, Rs. 240 per quintal is the cane price. When you pledge your sugar and let us say the sugar price is Rs. 29 plus right now, so you get your money and if you are not paying the farmer, because you had the old dues etc. to pay that's why its goes on. So you should assume that it is leading to arrears.

Sanjaya Satapathy: And my next question is on this recovery, why is it low y-o-y and is that something to do with the old age of the clients or seasonal things or something which we don't really understand?

Vivek Saraogi: See the climatic conditions are one; the hit is now maximum in western UP. If you see Balrampur, our recoveries right now are doing very well compared to last year also; 9.37 our projection for the year is closer to 9.5. So we are looking at an enhanced recovery over last year for our Balrampur group.

Sanjaya Satapathy: Even though, there was a short fall in the December quarter?

Vivek Saraogi: Yes, because you see what happened, you began earlier. Earlier part recovery is low and we will run later, so we expect a peak period recovery of 9.5 for our group, which is in the recent time highest.

Sanjaya Satapathy: Okay so does this mean that it could be the positive surprise to the expectation of the sugar production of about 26 million tonnes for the whole year?

Vivek Saraogi: This is only in eastern U.P., which is a very small part of the whole country. In western U.P., the recoveries are even lower than last year and if you see U.P as an average, the recovery today is lower than last year.

Sanjaya Satapathy: And my last question is related to this ethanol part of it, basically the total sales of ethanol was very small in this December quarter, has it anything to do with the retendering or anything like that or should we expect smart recovery in the sales going forward?

Vivek Saraogi: You should expect the recovery in the sales going forward and the question is why we were able to get better realization in the distillery segment.

Kishor Shah: Because of Rectified spirits and Extra Neutral Alcohol

Vivek Saraogi: And the others were not having material. You see that being a nonproductive quarter. Others were not able to probably produce so much.

Sanjaya Satapathy: So for the whole year, we should still be able to sell about total of 65 crore plus liter and the similar amount of ethanol as that of last year?

Vivek Saraogi: 6 plus.

Kishor Shah: Around 6

Moderator: Thank you. The next question is from Nirav Shah from Antique Stock Broking Ltd. Please go ahead.

Nirav Shah: What is the year to date recovery rate in this season. For the quarter we did at around 8.84, but how has it been till even in January?

Vivek Saraogi: It is 8.84 for the quarter. And January end is gone to 9.15. We have already inched up to 9.15.

Nirav Shah: For the season?

Vivek Saraogi: Yes for the season.

Nirav Shah: Second question I was just looking at our loan balances and there has been a q-o-q increase in the term debt from around Rs. 6.3 billion to around Rs. 7.1 billion. So what is the reason for an increase in term debt?

Kishor Shah: We have raised long term fund Rs. 200 crore during this quarter.

Nirav Shah: And this is for what?

Kishor Shah: And there has been some repayment also.

Nirav Shah: The incremental raising has been for what purpose?

Kishor Shah: Rs. 711 crore

Nirav Shah: And what I am trying to say is that the incremental Rs. 80 odd crore of term debt is for what purpose?

Vivek Saraogi: See basically lets understand, we had a long term borrowing of 600 plus during the last balance sheet. Now in this period, we have a lot of repayment in hand and all these liabilities and cash flows not being too positive, one just kept a cushion of some funding to repay the loans.

Nirav Shah: And next question is in case, we have to pay within the next three months regarding the cane arrears for the 2006-07 and 2007-08 seasons. Our total outflow will be Rs. 92 crore plus the Rs. 24 crore of 2006-07, which you have provided.

Vivek Saraogi: It would be Rs. 115 crore.

Nirav Shah: Can you share details regarding the closing stock quantity and valuations for sugar molasses and distillery?

Kishor Shah: Valuations are Rs 30 per kg. Stock in molasses normal is at Rs. 200. Alcohol inventories is at Rs. 17.20.

Nirav Shah: And the quantity for these three**?**

Kishor Shah: The closing for quantity of sugar is 22.67 lakh quintals. Molasses is 12.70 lakh quintals**.** And alcohol is 4,400 KL.

Nirav Shah: So what will be the average cane cost for the season because I believe it will increase going forward once we start buying early variety cane? So what is the likely average cane cost for the season expected?

Vivek Saraogi: First of all there is no early variety which is happening in the month of January.

Nirav Shah: I am talking about the entire season.

Vivek Saraogi: It is Rs. 240 plus transport

Kishor Shah: Yes for the December quarter our landed cost stood at Rs. 252

Nirav Shah: And will it increase marginally going forward or it will remain the same for the season

Kishor Shah: It will remain the same.

Moderator: Thanks you. The next question is from Girish Achhipalia from Morgan Stanley India Co. Pvt. Ltd. Please go ahead.

Girish Achhipalia: Firstly just wanted to clarify, you said that the sugar crop is likely to be 25.5 and the recoveries would be lower, does this estimate of 25.5 factors in the lower recovery?

Vivek Saraogi: It factors in; I said recovery is lower in parts.

Girish Achhipalia: Secondly what's your best guess right now for the ratoon crop and how is the cane arrears situation on the ground for U.P.?

Vivek Saraogi: I just said that after the Supreme Court order, cane arrears have started mounting and as we see things going ahead, the arrears will increase further.

Girish Achhipalia: Then on ENA and RS, I mean the realizations have been quite surprising, what do you actually attribute the reason for this particular quarter?

Vivek Saraogi: First of all, we are talking October to December quarter, in that quarter, mills begin November end, and now for factories to have alcohol before that it is not easy. Outside of the fact that you have your own power plant etc. so we were able to supply during this lean period which many others were not able to.

Kishor Shah: Generally the prices are good, they are better than the corresponding quarter last year.

Vivek Saraogi: Because of lower availability.

Girish Achhipalia: Okay and in terms of profitability, so how does it go from here, I mean would it be fair to assume 27 kind of a stagnant level that we have seen, keeping aside with the Government?

Vivek Saraogi: It should improve. I will tell you what is happened? There has been a longstanding deliberation on the ethanol pricing and we feel that it is nearing completion - that deliberation, and we hope to see a back dated better price in ethanol. As you recall the 27 was a provisional price and linking it to retail price of petrol, you should be getting a higher price for ethanol, effective retrospectively.

Girish Achhipalia: Okay and in terms of let us say profit for the quarter, I am slightly confused, so if you can help me on that, power sold on a per unit basis we made a record profit. How sustainable is this and even distillery you know the profitability is quite good. Does it improve from these levels on a per….

Vivek Saraogi: I will explain how, see this is the costing phenomena, six months if you don't have production and you do your entire costing- you take your interest, you take your depreciation, you take your salaries, repair maintenance. Then the next six months you see power operations at full capacity. Since you already accounted for six months of costing, your costing will be lower for the quarter during which operations are on.

Girish Achhipalia: So this benefit will actually continue in the Q4.

Vivek Saraogi: Exactly, this will continue in Q4. Yes for both power and distillery is the same style.

Moderator: Thank you. The next question is from Rangan V. from Brilliant Securities. Please go ahead.

Rangan V.: You have told about the ethanol price, you are getting a revision at Rs. 27 from that with the arrears, how much we are likely to get and for how many years back this on, like we are paying for the sugarcane for FY2007-08, like that even for ethanol we are getting from which period and how much is amount?

Vivek Saraogi: The ethanol pricing would get fixed from the month of January 2010.

Rangan V.: Roughly how much price will be?

Vivek Saraogi: It is very difficult for me to predict because the formula is not in the open. However, it would be a periodic increase is my feeling, on a quarterly basis, which you link to the price of petrol. So probably Rs. 2 is the average arrear one can hope to get.

Rangan V.: Roughly how much would be the accretion for us?

Vivek Saraogi: We have not done our figures. Maybe Rs. 10 – 12 crore.

Rangan V.: What is the current estimate for that in quintals? Lastly 7.8 crore quintal. Crushing estimated for your Company?

Vivek Saraogi: About 8 crore quintals.

Rangan V.: And valuation of the sugar for the free portion, any idea, can you give me.

Vivek Saraogi: 3,000 is what we have done for this quarter.

Rangan V.: What about any sale of export entitlement, last year we got some 19 crore.

Vivek Saraogi: Yes see we have sold our entire entitlement during the season, we have already accounted for receipt of Rs. 24.5 crore, and this quarter we will account for Rs. 3.5 more.

Rangan V.: What would be the current interest out go for the whole year roughly?

Vivek Saraogi: Rs. 135 crore. For the year under question

Rangan V.: Total

Vivek Saraogi: For 2010 to 31st March, 2011.

Rangan V.: But no more expansion sir?

Vivek Saraogi: No I mean even at 8 crore, we will be at let say 80%-85% capacity utilization.

Rangan V.: Recently I read in the Financial Express, that seaweed can yield 15,00 gallons of ethanol per acre and 50% more than sugarcane and triple per acre corn, sugar is the next generation crude oil that is what they stated in that newspaper clipping, okay, it can go to fuels and chemicals. Biotech has started in California, its working to harvest seaweed for sugar and this one. In that case suppose, what is your reaction on that?

Vivek Saraogi: We have not seen anything on this.

Rangan V.: Two-three days back in Financial Express, there was a big article. Seaweed can yield 1,500 gallon of ethanol?

Vivek Saraogi: All this availability is not there in a commercial scale.

Moderator: Thank you. The next question is from Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: I think the sales volume what is mentioned in the presentation is the free sale volume? Can you give the total sales volume for sugar?

Kishor Shah: It is the total sales volume including levy.

Achal Lohade: And what is the blended realization?

Vivek Saraogi: We will get back to you.

Achal Lohade: Sure, you just answered about the export entitlement and you said 24.5 crore, just wanted to know have we booked that in the first quarter, in this third quarter FY12?

Kishor Shah: Third quarter we booked 2.5, first quarter we booked around 3 crore, thereafter is the second quarter it was 19 crore, and 2.5 crore in this quarter.

Achal Lohade: Okay

Vivek Saraogi: And 3.5 will be next quarter.

Achal Lohade: Okay.

Vivek Saraogi: The total is 28.

Achal Lohade: Sure, any idea as to what is the number for the cane arrears for U.P., at the moment, what you are hearing?

Kishor Shah: We don’t have the numbers as of now.

Vivek Saraogi: As of now we don’t have but I think in another week or 10 days we will get.

Achal Lohade: And in this 25.5 million tonnes, what is the number we have built in for U.P. and Maharashtra?

Vivek Saraogi: U.P. we are building about 68, Maharashtra 88.

Achal Lohade: Okay and on our debt side, wanted to know what is the scheduled repayment for FY12, how much is already done and how much is there for FY13?

Kishor Shah: FY12 there was a total repayment obligation of Rs. 360 crore. Of that till December 31, we have paid around Rs. 205 crore.

Achal Lohade: So Rs. 155 odd crore is still to be paid in the fourth quarter?

Kishor Shah: Right.

Achal Lohade: And for FY13?

Kishor Shah: FY13 Rs. 265 crore

Achal Lohade: Okay and how do we see that, do we need to refinance the debt, or we think that could be met through the cash flows, internal accruals?

Vivek Saraogi: See it will all depend on how the fortunes and the industry play out.

Achal Lohade: Right. And in terms of the outlook for the industry, just wanted to know your view as to how do you see the next season. I know it is too early to talk about that, but do you see that the ongoing tussle for the cane price, do you think that Rs. 240 what we are paying right now is pretty good and the farmers won't shift from the cane crop?

Vivek Saraogi: See there are two-three events waiting to happen, first is the judgment of the current year 240 hearing. We don't know we have a strong case is what we feel, so it all depends on what the court decides. If the court does a rollback, there is on scenario which improves, obviously this 240 is too high. This is the first time in 20 years that U.P. has announced a price higher than Haryana. It is very obvious that it's an election related announcement and not an economic announcement. So one is that. Two is the arrears owing to the Supreme Court order. So one does not see too much of increase from cane production in U.P. from these levels.

Achal Lohade: Right, you know the question was actually the other way round, do you see that leading to a significant fall in the area under cane?

Vivek Saraogi: Let the judgment come, let's see how the arrears behave, let's see the farmer reaction to all this, and that's when you will get to know in March-April.

Achal Lohade: And just last question on the exports. I know 1 million tonne is allowed, how much is actually exported by now, what's the latest number?

Vivek Saraogi: About 6 lakhs of release orders has been taken, so one would assume that those 6 will move out very soon. That will move out you know, no need to fine tune it is what I feel. It will move out in the next month or two.

Achal Lohade: Right and at this point in time, how lucrative it is to export, just wanted to know, I think current white sugar price is about $640 tonne, so what premium do we add to that, the Asia premium we get.

Vivek Saraogi: All that there is a Thai premium, etc. it will all depend when the next 1 million is allowed. Because we have sold our entitlement at Rs. 2.10 paisa, so next quarter it all depends, what would be the pricing the day the announcement is made.

Moderator: Thank you. The next question is from Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: How does this problem of cane arrears get resolved, like say is there a time line by which you need to make a payment? Is it just delaying of payment or can the industry get away without paying the farmers?

Vivek Saraogi: The cane arrears problem can ultimately only be resolved if the prices are charged scientifically, otherwise 24 x 7 litigation will continue. Only scientific way of fixing cane price is by linking it to sugar price as is done globally. See that is the genuinely business like scenario. If you read about this committee it has this as one of its agenda's - the new PM committee. Just to brief everyone a little bit on that. The committee has two new members, one is the CACP Chairman, Mr. Gulati who is already recommended deregulation in his report and one is Mr. Nand Kumar, who is the ex-food secretary and who was chairing the committee on cane price fixation with sugar price, cane price linkage to sugar price. So these two members coming in - one does feel a little more optimistic on the deregulation part.

Kunal Vora: In the past have all the cane arrears been cleared or there have been some write-off? Like how has it worked out because there have been some cane arrears in the past also?

Vivek Saraogi: They all have been cleared.

Moderator: Thank you. The next question is from Arya Sen from Jeffrey's. Please go ahead.

Arya Sen: Firstly on U.P. production, what is your estimate for U.P. production this year and where was it last year?

Vivek Saraogi: U.P. was about 58 lakh tonnes last year and this year's estimate is 68.

Arya Sen: Okay and what was the bottom when India produced 14.5 million.

Vivek Saraogi: 45.

Arya Sen: Okay and secondly is the arrears thing purely because of the Supreme Court verdict or even without that would the mills been able to pay the current cane price at current sugar prices?

Vivek Saraogi: Yes, its' accentuated because of Supreme Court order but even at 240, without this order, arrears would have started building up.

Moderator: Thank you. The next question is from Rajiv Agarwal from Eureka Stock Broking. Please go ahead.

Rajiv Agarwal: I want to ask what would be the average realization for distillery for FY12?

Vivek Saraogi: For nine months it is 27, so it should be 27.5-28.

Rajiv Agarwal: Could you repeat the closing stock of molasses?

Pramod Patwari: 12.70 lakh quintal.

Rajiv Agarwal: One thing, what is the arrear situation in Maharashtra?

Vivek Saraogi: Maharashtra we will get back to you because they just pay a first advance, Maharashtra never clears the full price in one go, but we will get back to you on this.

Rajiv Agarwal: Okay and how much debt we would be having at end of March 2012 on balance sheet?

Kishor Shah: Total debt will be around Rs. 2,200 crore.

Pramod Patwari: Rs. 700 crore long term and working capital Rs. 1,400-1,500 crore.

Vivek Saraogi: Working capital is backed by sugar stocks, so the main figure to see is the long term debt that is Rs. 700 crore.

Moderator: Thank you. The next question is from Ambar Taneja from Abacus Advisory. Please go ahead.

Ambar Taneja: I wanted to just clarify a couple of things, this hit of Rs. 92 crore for 2007-08, and Rs. 23 crore for 2006-07, one is a new provision and the second one was a provision already made, but actually no cash has left the system, which is going to leave now right, is that correct?

Vivek Saraogi: Absolutely correct.

Ambar Taneja: Okay so we are going to pay about Rs. 40 crore per month for three months, totaling about 115 is that right?

Kishor Shah: That would be paid within 90 days.

Ambar Taneja: Which is three months right?

Vivek Saraogi: Yes. So technically you could pay the entire amount on the 89th day.

Ambar Taneja: Okay now if this 92 crore provision had not been made, does that mean that for this year current quarter ended December 31, 2011 at both EBITDA as well as the PBT level you would have had a profit because I can see your PBT is 64 that excludes 92, you would have had about 28 right?

Vivek Saraogi: Absolutely right

Ambar Taneja: Okay so, basically that means you are the only sugar company that is making money in this stressful scenario in U.P., so from your perspective given the fact that you have said that things are going to get very tough. Is the sugar industry going to go to a CDR or what's going to happen? I don’t understand how weaker players are approaching this, I am just asking for your opinion because you are obviously.

Vivek Saraogi: See I didn’t say things are going to get tough, I said there is a committee in place, if the positive things happen, things could really improve from here. There is a Lucknow High Court judgment pending.

Ambar Taneja: When is that due?

Vivek Saraogi: That is due probably within this week itself.

Ambar Taneja: So that's very fast because the case was filed this year right?

Vivek Saraogi: Yes, so this judgment is for this year, usually these judgments come in the first month of filing.

Ambar Taneja: Mr. Saraogi, if you could take a broad guess on what the extent of the arrear could be by the end of March assuming nothing changes.

Vivek Saraogi: If nothing changes, you would have had solid arrears but you know to give you figures now would be little difficult for me.

Ambar Taneja: Okay, would be a little tough, but they will be substantial, what you are saying, right, because currently nobody has any cash?

Vivek Saraogi: I am using the word substantially yes.

Moderator: Thank you. The next question is from Rohit Sanghavi from Prime Securities. Please go ahead.

Rohit Sanghavi: I wanted to understand what's your sense of domestic sugar realization going forward, where do you see it?

Vivek Saraogi: See 1 million has been allowed. If 2 more million is allowed and I am fully certain that depending on the sugar price and arrear that would get allowed. It would be allowed, however, in tranches. The tranche if you see has moved up from 0.5 million to 1 million, so we are expecting next tranche also 1 million and the third tranche might come in let say in April-May when the entire production comes in. So these three things are happening. We see prices to improve from here.

Rohit Sanghavi: What would be current cash on the books?

Kishor Shah: We don't maintain that because being in a seasonal industry we are drawing from the banks to pay to the cane farmers. We have stopped now. We just mentioned that Rs. 549 crore is the working capital.

Rohit Sanghavi: So it is in your inventory basically right now

Moderator: Thank you. The next question is from Jignesh Kamani from Nirmal Bang. Please go ahead.

Jignesh Kamani: A follow up question from earlier question, if say Rs. 240 cane price prevail, and how is the cane expected to cover all the input cost for the farmers. How is the profitability for the farmer compare to other paddy or other crops?

Vivek Saraogi: See this is a very complex question, lot depends on weather, whether a soil of particular land can be used for everything.

Jignesh Kamani: Provided he has alternate to switchover.

Vivek Saraogi: Wheat and all at this price cane is better, but if you don't get paid for cane, cane is not better.

Jignesh Kamani: Okay

Vivek Saraogi: Right so the arrears will define a lot of this feeling of the farmer, that what you are trying to assess isn't it?

Jignesh Kamani: Yes very true.

Vivek Saraogi: Yes, so quantum of arrears will play a big role in deciding the plantation level in the farmers' mind.

Jignesh Kamani: And how is the currently Ratoon and older plants right now, percentage wise?

Vivek Saraogi: Its okay, its fine. That assessment is covered in the total production scenario.

Jignesh Kamani: How are the international Brazil and Europe and other regions, how the production has been panning right now. Is there you can say like similar production is estimated or there has been….

Vivek Saraogi: See the major producer Brazil begins its season when India ends, so that's going to be the major determinant.

Jignesh Kamani: Plantation has been robust as of now?

Vivek Saraogi: Very tough to give you their data. There is an ethanol mix, so many other things.

Jignesh Kamani: I understand because right now due to high fuel price, I think it may switch over to ethanol rather than the sugar because the Government might intervene.

Kishor Shah: But as per the newspaper, Brazil is going to report lower sugarcane.

Jignesh Kamani: Okay and last question in India, particularly the growth in U.P. and Maharashtra and Thane cyclone in South, do you think that production might be lower than 25.5.

Vivek Saraogi: No, it looks like 25.5 to me.

Moderator: Thank you. The next question is from Mohan from Principal Mutual Fund. Please go ahead.

Mohan: One question, what is your estimate of the cost of production of sugarcane from a farmer's perspective. I asked this because you know this SP manifesto recently said that they want 50% higher than cost of production as support prices, so just curious on what is your assessment of the cost of production of sugarcane?

Vivek Saraogi: See there are so many bodies which have done the assessment of costing. If you believe the body which fixes FRP, they are saying 120 is the cost. If you believe some U.P. bodies, they are saying 160. If you believe the cane price fixation committee, it will fix up one body which has 180. So you don't know. And if you asked the farmer genuinely, you will get to something like 140-150.

Mohan: I am just curious that probably this 240 that you are paying would be closure to the extreme prices in terms of even if you applied that formula theoretically.

Vivek Saraogi: Yes.

Moderator: Thank you. The next question is from Anup Ranadive from Derivium Tradition. Please go ahead.

Anup Ranadive: In the previous quarter at Rs. 250 odd of landed price, did you have any outstanding arrears to the farmers?

Vivek Saraogi: No the arrears have started beginning after this order mainly.

Anup Ranadive: If we exclude that Rs. 92 crore from the current quarter, you said our profitability would have been about Rs. 27-28 crore, is that right?

Vivek Saraogi: Yes.

Anup Ranadive: If you look at the current season and if the State Government has mandated SAP of Rs. 240 then I mean theoretically you are not making any losses.

Kishor Shah: That is not the situation because you are looking only at one quarter. You have to see the four quarters. First two quarters we only spent money and there were naked expenditure.

Vivek Saraogi: We are talking of sugar division that would still make losses. Your integrated or you are not leveraged and you are operations are so properly managed and still if you make this small money, the others are losing money isn't it.

Anup Ranadive: If I heard it right you said that even Balrampur's arrears would build up in the next coming quarters?

Vivek Saraogi: Yes it would.

Anup Ranadive: Right, I mean if you are profitable and your other divisions are making money, my question is that on what premise you are saying that the arrears will build up for Balrampur Chini?

Vivek Saraogi: The price right now is 29, not even 29.5.

Anup Ranadive: Okay but the overall profitability would still be okay?

Vivek Saraogi: Let us understand, the overall profitability cannot be defined on today's price. If I have to sell my entire sugar at 29 today, yes I would be make a loss in the sugar division, I will make money in the other two. Probably if you breakeven you have loan repayments, where do you pay from.

Anup Ranadive: So is it a given now that the arrears will build up or are there any factors which can change the dynamics in the next month or two months?

Vivek Saraogi: Any change in policy, any change in court judgment, these are the two scenarios, where I feel arrears will not buildup.

Anup Ranadive: Sir my final question pertains to the levy price. Yesterday we heard that the government has increased the levy price at about 58 paisa? So 19.1 is the levy price for the current season?

Vivek Saraogi: No ours would be 19.74.

Moderator: Thank you. The next question is from Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: I wanted to know the blended realization, what is it sir and what would be the interest outgo, what we seeing for next year? What we can build in for next year?

Vivek Saraogi: Next year prediction is tough again and the next year's interest, if rate softens who knows what will happen.

Kishor Shah: It depends on the sales policy of the Government and release mechanisms.

Achal Lohade: Right, sir how much of the benefit we have accounted for under that U.P. sugar promotion policy, which is the tax...

Kishor Shah: Yes this quarter Rs. 22 crore.

Achal Lohade: Okay and wanted to know the tax is 0 actually in this quarter, one reason I could imagine is the cane arrears what we have accounted for, is that a correct assessment and what's the tax rate going forward and till when the tax benefit for cogen is available?

Vivek Saraogi: We have a lot of carry forward provisions, etc., so we would probably be in the MAT region.

Achal Lohade: For FY13-14 as well.

Vivek Saraogi: Yes

Moderator: Thank you. The next question is from Sunny Agarwal from Aditya Birla Money. Please go ahead.

Sunny Agarwal: Want to know out of the total 1 million tonne export allowed PAN India, how much Balrampur is entitled for?

Vivek Saraogi: About 28,000-29,000 tonne.

Sunny Agarwal: And this 2.5?

Kishor Shah: 28,000 tonnes plus something

Sunny Agarwal: Okay and this 2.5 crore entire export benefit in this quarter and 3.5, it takes into account total 28,000 right?

Vivek Saraogi: Yes so its Rs. 2.10 so it amounts to Rs. 6 crore.

Moderator: Thank you. Ladies and gentlemen we will take one last question from Girish Achhipalia from Morgan Stanley

Girish Achhipalia: Firstly on the deregulation front, what's your best guess in terms of levy being removed? I mean would it be retrospective this year or would it be for this year after? The second question is on export subsidy, hypothetically if the international prices soften and we have export, etc., do you see a scenario where Government and they have done in the past where they have actually subsidized mills to allow exports. And thirdly the more accounting question, you said that inventory is valued at Rs. 30 a kg. Given realizations are below that I mean in the March quarter if everything remains same do we have an inventory write-off in that situation?

Vivek Saraogi: The levy deregulation if the Government decides to do it on a particular day, that would define the quantum required. Suppose you do it from June so then this year levy would require to 2-3% maximum. Suppose you want to do it on October then it required 4-5%. So it is that way, depending on the timing. If we want to do it from March, you required 1%-2%. Export subsidy I don't see. The easier way for Government is to waive the levy and increase the viability of mills. You know then their food subsidy program with huge food security bill, this entire levy waiver would cost them Rs. 2,500 crore and the inventory valuation, we don't see any major write-back or write-off in inventory valuation.

Moderator: Thank you very much. Sir would you like to add a few closing comments.

Vivek Saraogi: We are always very happy to answer any queries and that's all. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, that concludes this conference call.

- ENDS -

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