



Balrampur Chini Mills Limited
Q3 & 9M FY13 Results Conference Call Transcript
February 1, 2013

Moderator Ladies and gentlemen, good day and welcome to the Balrampur Chini Mills Limited's Earnings Conference Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you sir.

Anoop Poojari Thanks. Good afternoon everyone and thank you for joining us on Balrampur Chini Mills Q3 & 9M FY2013 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 this call may be forward looking in nature and disclaimer to this effect have been included in the conference call invite sent out earlier. We would now like to begin the call with the brief opening remarks from the management following which we will have the forum open for a discussion.

I would now like to invite Mr. Saraogi to make his opening remarks.

Vivek Saraogi Good afternoon everyone and thank you for joining us to discuss Balrampur Chini Mills operating and financial performance for December 31st 2012. I would like to begin by discussing the latest developments in the sugar sector followed by discussion on the performance by Kishor.

Let me start by giving an update on demand - supply scenario in the domestic market. India sugar production for the current season continues to be estimated at about 24 million tonnes as compared to 26 million tonnes last year. Though overall production is expected to be lower than last year it remains higher than domestic demand - by a little - we expect domestic demand at 230 - 235. At the state level, East UP is anticipated to report both an improved production on account of higher availability of sugarcane resulting from both increase in acreage and stable climate conditions. During the quarter ended, Balrampur Chini Mills crushed 2.27 crore quintals of cane. For the entire season we expect to crush over 9 crore quintals of cane. Recoveries have improved marginally to 9% from 8.84% in the comparative period - that is the recovery for this particular quarter.

On the international front - sugar prices have remained subdued in the past one month as a result of better than expected output in Brazil, Mexico, United States and others. Resultantly domestic prices have come under pressure in the month of January and are currently quoting at Rs. 32.5 levels as against an average realization of Rs. 34.7 during the quarter.

Moving on to the SAP - UP government recently announced SAP at Rs. 280 per quintal. This is significantly higher as compared to the previous season. In combination with the current price realizations, sustaining economically viable operations will be challenging on the sugar segment. With regards to recommendations by the Rangarajan Committee, we believe the government is considering the report in the context of sugar decontrol and we believe will come out with some decisions very soon.

I will briefly take you through the complete performance. Higher volumes and realizations in sugar division enabled us to register revenues of Rs. 921 crore marking up 51% growth over corresponding quarter of the previous year. Liquidating low cost inventory further facilitated higher PBIT at Rs. 63 crore. In Q3 FY13, ethanol sales remained muted in comparison to Q3 FY12, on delay in the ethanol tender. This led to the distillery division recording lower sales volumes for the period under review. Profitability in this segment, therefore, for the quarter has remained subdued - but I will explain it later on our strategy. Cogen division reported moderation in performance on account of again late starting of operation and the postponement of the distillery. To conclude I would like to say that our integrated models ranks among one of the best in the industry and we have been deriving the benefit of this model. Our sights are set on driving progressively better results going forward. Further an

improved operating environment will enable us to optimize our performance to a sustainable level in the long term. On this note I would like to hand the floor over 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 FY2013. In Q3 FY13 our revenues increased by 43.5% at Rs. 950 crore from Rs. 662 crore in Q3 FY12. Due to enhanced sugar sales volumes and the realizations, EBITDA was at Rs. 118 crore as compared to loss of Rs. 10 crore in Q3 FY12.

Moving on to the performance of the sugar division, revenues were higher by 50.6% at Rs. 921 crore as compared to Rs. 611 crore in the corresponding quarter. I would like to reiterate that improved sugar sales coupled with higher realizations have contributed towards the earning growth. Additionally we also sold inventory with low cost base which strengthened the profitability of this segment. In Q3 FY2013 we sold 26.5 lakhs quintals - an increase of 35.2% as compared to the corresponding quarter last year. The average free sale realization during the quarter came at Rs. 34.7 per kg as compared to Rs. 29.7 per kg in Q3 FY12. The segment reported PBIT of Rs. 63.4 crore as compared to loss of Rs. 82.1 crore in Q3 FY12. I would like to state that in Q3 FY12 the differential cane price for season 2007 - 08 of Rs. 92 crore was provided for in the PL which resulted in the lower profit for that period. Q3 FY13 witnessed higher recovery at 9% as compared to 8.84% in the corresponding period.

Moving on to the distillery division revenues during the quarter stood at Rs. 13.4 crore as compared to 23.6 crore in the corresponding period. PBIT was at Rs. 5.1 crore in Q3 FY2013 as against Rs. 6.8 crore in Q3 FY2012. I would like to make a note here that sales volume of ethanol remained subdued as there was no clarity on ethanol prices under the tender. This in turn impacted the total sales volumes while production marked a growth of 10%. Distillery sales were at 3,868 KL in the current quarter as compared to 6,914 KL in the corresponding period last year. During the quarter RS and ENA blended prices stood at Rs. 33.8 per BL, marginally lower than Rs. 33.9 per BL achieved in the last quarter.

With regards to our co-generation business revenues were at Rs. 67.9 crore as compared to Rs. 82.9 crore in Q3 FY12. During the quarter PBIT was at Rs. 33.3 crore as against Rs. 45.4 crore in Q3 FY12. For the quarter under review both production and sales volumes were subdued in comparison with the corresponding quarter. During the last season crushing had started in an earlier stage as compared to

this season. Moving ahead with higher sugarcane crushing we expect performance to improve in the co-gen segment.

Interest cost for the quarter was lower at 26.5% at 21.6 crore as compared to Q3 FY13. As on 31st December, 2012, our long term loans stood at Rs. 597 crore. For Q3 FY13, net profit was Rs. 60.2 crore as against loss of Rs. 64 crore in the corresponding period last year. Going forward, although the pace of growth will be influenced by external factors including policy changes and demand supply scenario, we are confident that a strong business model and well defined strategies will help us report enhanced performance. That's all from here. We would like to address any questions or queries you have in your mind, thank you.

- Moderator** Thank you very much sir. Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from Nirav Shah of Antique Stock broking. Please go ahead.
- Nirav Shah** First is - when is the new levy rate likely to be announced or is it that the delay is purely because it is an indication that levy mechanism may be abolished - that's on an optimistic note - but at least when is the levy rate likely to be announced?
- Vivek Saraogi** Normally the levy rate is announced during this period only. While I would not correlate the two - there is optimism on the levy abolishment front as you must have read in today's paper, the minister's statement is that we are taking this matter of levy and releases to the cabinet.
- Nirav Shah** But just separating the 2 events - if it is to be announced, what is the kind of increase that we are seeing from the 19.5 odd rupees?
- Vivek Saraogi** To about 22.
- Nirav Shah** What is the mood among the farmers to plant cane for the next season, considering the fact that on one side you have high remunerative of cane prices and on the other side we have the mills delaying the payment to the farmers. So what's your sense on that - how will the plantation be for the next season?
- Vivek Saraogi** See right now it is impossible to predict planting because that happens in March, February end to about April end. But however let me just clarify a few things. Let us begin with the raise in FRP, so first of all the raise in FRP will not induce planting because all states are paying beyond FRP.

Nirav Shah My question was SAP only.

Vivek Saraogi In UP for example and northern states you had a rise in SAP. However you rightly pointed out that there are arrears. So I think one would cancel the other. And I don't see any big euphoria in planting as we go ahead. With this you must have read yesterday again that in north Maharashtra there is a big problem regarding water. And it is reality that Maharashtra and Karnataka next year will have a big problem in production of sugar. Water situation in the reservoir is very serious and hence Maharashtra and Karnataka, one can easily predict today that it would definitely be lower than this year.

Nirav Shah What is the current ENA and rectified spirit prices and what are the likely ethanol prices - the tenders that are just been passed?

Vivek Saraogi Let me for the benefit of all participants try and address this entire issue. See we have seen in Balrampur, our distillery division A) has produced lower and B) has not even sold what it has produced. Plus the cogen division you saw, because of the late start in factories is lower than last year. Now let me clarify that since we are having a higher crushing over last year, we will be having more bagasse and more molasses. Bagasse and molasses have to work in tandem. So if I have to continue production of distillery I have to continue the power plant. Hence we are conserving our bagasse and molasses for next year. The quantum which has come in lower now will be more than made up as we move ahead into the next year. We had to do this because we, as a serious producer and second largest in the country, have quoted for a substantial amount of ethanol. Having quoted for ethanol you got to have that quantity for ethanol. Ethanol supply according to me personally would begin sometime March end beginning April. So you got to have a storage capacity in place and if you don't have storage capacity, you have to start a little late. Hence A) ethanol dispatches will begin probably in the month of March end April. Ethanol prices, everyone has quoted, you would get to hear the prices quoted in the next may be 7 days, 4 days etc. But definitely one is expecting a lot more optimism on ethanol prices based on the data we have and based on that rectified spirit and ENA which is now floating at Rs. 32 say for rectified spirit and Rs. 34 - 35 for ENA would correspondingly increase after April as soon as ethanol dispatches begin.

Nirav Shah What is the kind of inventory that we are having for alcohol and for molasses?

Vivek Saraogi We have about 71 lakh litres of inventory of alcohol since we started late. Molasses inventory 10 lakh quintal. We will continue to perform as we move ahead into April, May, June, July etc.

Moderator Thank you. Our next question is from Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda Sir levy whenever it is hiked it will be retrospective effect for the entire season or whenever it will be from the date it is announced?

Vivek Saraogi No, it is always from retrospective effect. And just to clarify the new levy which is the levy produced out of the crushing in this season would only begin from April because you have a carry over stock of levy from last year. Now assuming the levy gets discontinued in the budget for the new season, for the current season which we are crushing, there would not be any requirement to give levy sugar.

Bhavin Chheda So if post budget or so the levy is dismantled, then levy prices itself are irrelevant because it is effective from April.

Vivek Saraogi Yes it is irrelevant.

Bhavin Chheda And coming back to expectations of 24 million tonnes this sugar season how will you break it into different states like UP, Maharashtra, TN, and Karnataka?

Vivek Saraogi See Maharashtra would be probably 68, Karnataka 30, UP about 78, Tamil Nadu may be 23 and balance from other states.

Bhavin Chheda And when you are saying Maharashtra and Karnataka looks lower even next year, do you think UP can compensate further increase next year also?

Vivek Saraogi Not exactly. UP is now at its peak level. I will explain why. In west UP there are lot of organizations so that Gurgaon, Faridabad, Meerut, lot of vegetables this - that and there is a lot of line diversion to that. UP to contribute more than 5% from here, if 70 - 80 goes to 80 I cant rule it out but A) with delayed payments, B) with what I told you, I find it very difficult that UP will cross 80. Lot of competing crops.

Bhavin Chheda Okay again question on ethanol since that is very sensitive and looks very important for profitability of the mills, so you are saying all the mills have already participated in the tender been in higher price but the price itself is right now not notified. Either OMCs are not finalizing the tenders or sugar mills are not supplying ethanol. Is that the dispute and expected to be resolved soon?

Vivek Saraogi The cabinet decided that now there will be no price fixation by the cabinet. It has got to be an open tender. While doing that it said that 5% is now mandated and the 18:00 has come out. In the event, you do not get 5% from the Indian industry you have to import it and mix it. So the tender, which has been floated right now is both domestic and global tender. Now some data points from this, is the price of ethanol from the world basis according to me is in the range of Rs. 45 – 50 minimum. Now petrol parity pricing for the OMC, if they buy ethanol from us at Rs.38 - 40, they are not losing money. Having said that and having said the fact that government of India puts this 18:50 on compulsory basis they have put another clause that if you have to mandate 5%, and do 10% in certain states and zero in certain states so that you get to 5% overall in the country.

Bhavin Chheda You are saying that they can go 10% in some states and less in other?

Kishor Shah Yes overall 5% can be achieved on an all India basis.

Vivek Saraogi Now all these things lead me to believe that there will be a definitive upward revision in the ethanol pricing. Because A) you are global benchmarking, B) you have a petrol parity price.

Bhavin Chheda And is there any specific date, is the policy saying it is for fiscal 14, 5% mandatory?

Vivek Saraogi Yes it is saying that it has to begin 1st June - that's the cut-off date.

Bhavin Chheda Before that you have to award the tender.

Vivek Saraogi And probably begin as I said dispatching by 1st April.

Bhavin Chheda And when you are saying that on all India basis they have to average it to 5, so obviously in the sugar producing state they have to go more aggressively right?

Vivek Saraogi Absolutely. That's what I was trying to indicate.

Bhavin Chheda Which means the demand would be very high especially in the sugar producing states.

Vivek Saraogi Yes.

Bhavin Chheda So do you have any kind of number - this 5% blending amounts to what ethanol demand for an all India basis?

Vivek Saraogi 100 crore litre is what the OMCs would require and the tender document has put in at least 20 plus crore litre from UP.

Bhavin Chheda So this 100 crore and 20 crore litre from UP?

Vivek Saraogi Yes this is public information.

Bhavin Chheda I believe in UP right now you are mandatory selling 20% molasses in open market. So what is that policy right now? Will you continue to sell that 20% or you can now use 100% for distillery?

Vivek Saraogi See let me clarify this. This 20% is for if you sell, if you captively consume you are not required to sell anything to the country liquor segment. So if I produce 100 quintal of molasses and if I have a distillery where I consume 100 quintals of molasses I am not required to give anything to country liquor. If I have 120 quintals of molasses and I consume 100 quintals in the distillery, I would require to sell 20 in the open market. So 20x24 quintal I would have to give to the country liquor segment.

Bhavin Chheda But that is not a compulsion but historically we have seen that you have been selling some molasses because you have not been able to use it in distillery?

Vivek Saraogi Yes. You see we have Kumbhi and Guleria which is a surplus. Our entire east UP 8 mill operations, we don't sell anything. Only Kumbhi, Guleria because we are far off, power is integrated but at present we don't have a distillery there. So that is the area we sell our country liquor molasses.

Bhavin Chheda So that will continue as it has happened in the past.

Vivek Saraogi Yes but if we get visibility on this ethanol program, very quickly we are looking to set up a distillery for next year.

Bhavin Chheda Is it possible on a higher price that transportation itself will become viable or you have distillery capacity which is operating at 100%?

Vivek Saraogi Yes. I have distillery capacity so I use the molasses from the nearest area.

Bhavin Chheda So you may set up a new distillery if the ethanol program gets in?

Vivek Saraogi If it will get kicking and alive which we are very confident; we will set up one distillery amidst Kumbhi and Guleria area.

Bhavin Chheda Last question I missed out on the inventory figure which you mentioned if you can repeat it again on the sugar, bagasse, and molasses?

Kishor Shah Sugar we have 15.5 lakh quintals, alcohol is 71 lakh litres, molasses is around 10 lakh quintals.

Bhavin Chheda And what's the valuation of this inventory?

Vivek Saraogi Sugar is at Rs. 33 - yes this quarter is Rs. 33 because we did not have production but as you go ahead it will reduce.

Bhavin Chheda Sir this is at the PBIT level cost right?

Vivek Saraogi This is PBIT.

Bhavin Chheda Doesn't include interest cost in that?

Vivek Saraogi It doesn't.

Moderator Thank you. Our next question is from the line of Jehan Bhadha of Sharekhan. Please go ahead.

Jehan Bhadha My first question is on planting, that has been happening or pretty much most of it must have happened in Maharashtra, any sense on how that has panned out?

Vivek Saraogi Planting has not yet begun. Planting will begin February end and go up to April.

Jehan Bhadha Secondly on the alternative crops front, you said some crops are at par with cane. Speaking of large crops like wheat and paddy I don't think that they would be at par. So any sense on how these compete right now against cane?

Vivek Saraogi While we don't have a one to one comparison. A) All your plant can never be used for just 1 crop? There is an intercropping pattern required, So that the soil remains fertile, 1). 2) There is a lot of competition from vegetables. And it all depends on how close you are located to the cities and what you put your land to use to.

Jehan Bhadha And lastly sir beyond weather conditions is there anything else which could hit the production 1 - 2 years down the line. Any sense that you get on the production - what factors could actually lead to fall in production going ahead?

Vivek Saraogi With the current situation I explained that part of Maharashtra which is a good part of the producing area and Karnataka - yesterday there was a statement from the Maharashtra commissioner that sugar production next year could slide back 33%. This is based on the reservoir levels and the water level. Now if monsoons fails a little in that area, situation is very bad.

Moderator Thank you. Our next question is from Devang Mehta of Canararobeco Asset Management. Please go ahead.

Devang Mehta Wanted to seek more clarity on the ethanol program. As far as I know there is some restrictions on the export of alcohol or distilleries outside the states. Some duties are levied by the state, if I am right?

Vivek Saraogi In ethanol there is no restriction. You have to just take the permit. There is no restriction,

Devang Mehta So any quantity could be put up in any state?

Vivek Saraogi I can quote for Maharashtra. I wont quote because of the transport cost but for example from Balrampur we quote in UP and Delhi sometimes in Punjab, Haryana also.

Devang Mehta And another thing, is there any regulation pertaining to sugarcane not being directly used for ethanol or sugarcane can be directly used without producing sugar directly into ethanol?

Vivek Saraogi We have cost of cane and you cannot go directly. So there is no restriction but there is no viability.

Kishor Shah And the facilities are not in place.

Devang Mehta If the prices of around Rs. 35 – 36 if you can directly produce ethanol then would very well go ahead with the plan to set up a facility for ethanol plant?

Kishor Shah Sugarcane prices are quite high, it is not comparable. There is no parity with Rs. 35 – 36 to Rs. 280. As you rightly said facilities can be set up in no time.

Vivek Saraogi But they don't exist now.

Vivek Saraogi Yes.

Devang Mehta And there are no regulations as well.

Vivek Saraogi No regulations.

Devang Mehta What is the outlook on the sugar prices going forward after the crushing season?

Vivek Saraogi Basically what is happening - lets understand that how sugar prices behave. In production season they are always down. If you remember last year right now we are selling Rs. 29. That went up to Rs. 36. Why? 1) There was some drought and some failure of monsoons and Maharashtra prediction was lower which it turned out to be correct. Now if Maharashtra prediction is lower from here and you are selling at Rs. 32 half right now, there is a very good chance in all probability after the season, prices can only move north. They can only head higher. And during production season many people who don't have bank limit, sell sugar. So typically even without that Maharashtra prediction sugar prices do move up after mills shut down. Just to give you some data. Maharashtra has already produced 45 out of its 68. And yesterday 2 mills in Maharashtra, 2 in Karnataka shut down. So they begin the shut down for the season. Come February and you will see more than 50% shut down in these 2 states. And next season we will come to know before March.

Devang Mehta Can I have ballpark number of what kind of breakeven would be required for the sugar division in the sugar prices?

Vivek Saraogi Our Balance Sheet cost should be around Rs. 32.

Devang Mehta Given the impact of the current Rs. 280 cane price?

Vivek Saraogi This is after depreciation without interest.

Moderator Thank you. Our next question is from Parineeta Poddar of ICICI Direct. Please go ahead.

Parineeta Podhar You sold of some old inventory this quarter. Please may I know the price at which you valued that inventory?

Vivek Saraogi The sugar was at Rs. 33. Since these are interim production data, molasses was Rs. 250, alcohol Rs. 19.

Moderator Thank you. Our next question is from Nitin Gosar of Religare Asset Management. Please go ahead.

Nitin Gosar What kind of CAPEX we can see in the distillery space if at all things were to happen?

- Vivek Saraogi** One distillery is today of Rs. 80 – 90 crore and plus UP government has come out with some interest subvention for expansion in power and distillery. So as it is our decision will be based on economics. So we might be looking at about some power and some distillery in one of our Kumbhi unit. So it could be at Kumbi where we put up both these. So might cost Rs. 130 – 140 crore.
- Nitin Gosar** And this will give you the capacity to the tune of?
- Vivek Saraogi** 100 KL distillery and about 13 megawatts of power.
- Nitin Gosar** And just for the academic interest, what kind of capacity on India level you think needs to be put up across over next 24 months if this kind of ruling comes in?
- Vivek Saraogi** We are looking at, at least if you want to supply 50% more capacity on the ethanol side.
- Nitin Gosar** Like the distillery capacity like you are incurring on India level what could be the incremental capacity that might come in?
- Vivek Saraogi** Like we have 300 KL of distillation. If I am looking at 100 more it is with the idea that I will not have to sell any molasses even in Kumbhi, Guleria. So 25 – 30 – 40% more distillation capacity.
- Nitin Gosar** Just missed on the numbers that you mentioned on the state wise sugar production, if you can?
- Vivek Saraogi** See 68 Maharashtra, 30 Karnataka, 78 UP, and 23 Tamil Nadu.
- Moderator** Thank you. Our next question is from Girish Achhipalia of Morgan Stanley, please go ahead
- Girish Achhipalia** Firstly on imports, what is the number that you are aware of that we have imported as a country.
- Vivek Saraogi** Raw sugar imports are happening with 2 mandates - one is for re-exports and one is selling after paying 10% duty. At present what we are told is what is sold in 8 lakh imported, 1.8 or 2 lakhs in the domestic market and 6 is for the exports.
- Girish Achhipalia** There was talk about duty increase, what is the final bit on it? When can we expect some announcements on that if at all?
- Vivek Saraogi** What we are seeing now is the very active consideration on this levy and releases. So if you read what happened in the paper yesterday

and whatever our information is that this is really active and could happen very soon. So having said that, I won't expect both to happen on the same day so after this levy and releases happen probably one would look at that after one month or 2 there after.

Girish Achhipalia And sir, just in terms of Maharashtra, the state is down from 9 to 6.8 and probably down to 4 - 4.5?

Vivek Saraogi It's too early to say that but one can definitely conclude it's got to be lower then here.

Kishor Shah This is what the authorities from Maharashtra are reporting now. So it is very difficult to say.

Girish Achhipalia So the underlying assumption or hypothesis here is that with the acreage which has anyway gone up and the diversion which was higher this year and the yields which are impacted because of weather, next year even in the normal weather condition I know the water level is low, the acreage has to shift so much to have such kind of delta because anyway you are lower?

Vivek Saraogi Maharashtra has one crop which is 16 months. Planting of that has already taken place and is lower. So that 16 month crop will come up for crushing next year. Then they have the 12 months crop which is to be put in February March. Now on that planting if there is no water we read yesterday the government has said drinking water is to be given water for distilleries, etc., not to be given portable this that. So there is a very serious shortage of water. So if there is no water there can be no plantation. So yes acreage will come down and therefore the production.

Girish Achhipalia So the acreage will shift to which crop because I don't see a reason why cotton should come out dramatically because the sentiment is quite low?

Kishor Shah No other crop, basically no water so no plantation of any crop.

Girish Achhipalia So you are saying that the agri level economy in Maharashtra may suffer because of complete water shortage.

Moderator Thank you. Our next question is from Satish Mishra form HDFC securities. Please go ahead.

Satish Mishra Just to understand the arears dynamics if say we are buying from farmers at Rs. 280, so how much we pay upfront and how does this payment system works?

Vivek Saraogi In UP you have to pay one shot. For Rs. 280, you have to pay Rs. 280 when you pay the farmer.

Satish Mishra So as of now what is the situation, we are not paying or we will pay with a delay?

Vivek Saraogi No everybody is paying with the delay.

Satish Mishra For the crushing which we have already done what is the time frame?

Vivek Saraogi About a month. You have to pay within 14 days but the due in UP are about one month.

Satish Mishra I missed on the current inventory of sugar?

Vivek Saraogi 15.5 lakhs at Rs. 33.

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

Rohit Sanghavi See my question is relating to your sugar sales strategy. Last year obviously you benefited out of carrying significant inventory by selling at higher prices subsequently. Now given the fact that sugar prices are currently low and cane prices are high how do you determine your sugar sales policy, also the fact that your ethanol sales are going to be delayed, factors like planting for next year is still unclear and given that there are releases so that you have to abide by. So what goes into your strategy of sugar sales? How do you distribute that over the year?

Vivek Saraogi At best I can just give you a macro sharing on that. See distillery I explained to you. If we have quoted for ethanol we have to keep that stock with us and we are very happy to do so. Whatever you store now will sell higher whether sugar or ethanol. On sugar we know that next years production is going to be lower than this year. Our ability with our carrying cost being one of the lowest and our interest rate, we would also be holding sugar and we would after Maharashtra and UP shut it down we see a definite uptake in prices in sugar from here. So we will do the same thing as we did last year if that's what you want to know.

Rohit Sanghavi So basically, lot of your sales for ethanol as well as sugar are primarily going to come in at the second and the third quarter?

Vivek Saraogi It might begin April onwards only.

Rohit Sanghavi You mentioned something about the distillery in terms of 80 – 90 crore I just wanted to understand for what volume of capacity is that?

Vivek Saraogi 100 KL.

Moderator Thank you. Our next question is from Sunil Jain of Nirmal Bang please go ahead?

Sunil Jain One question related to what should be the international prices if it is getting imported over here, what is the landed cost of that right now?

Kishor Shah As far as white sugar is concerned it was \$500 FOB now and raw sugar FOB cost is around \$410 and 10% duty, freight, refining cost all inclusive of Rs.31.

Sunil Jain So how do you see this impacting - we may see more import in the coming period because of this? If we are expecting some price increase post this season then this equation becomes more lucrative. So this can be one of the factors which can restrict prices from going up from here?

Vivek Saraogi Let's understand that if somebody has to refine in this season, he would have already had to import sugar. That's not happened for sugar players. So only 1 – 2 refineries in the country can do it. And they have a limitation of capacity. So yes, if everything remains the same, there is a possibility that some more sugar may be half a million can come in more for sales in the domestic market. But if we are seeing a shift in production levels next year and consumption is growing, it is not worrying in my context for the price going up. See one is not looking at a tear-away run-away in prices but definitely looking at improvement from here. I won't say 32 I am looking at 32.5 going up to 40 but yes 32.5 going up to 35, 36 is very possible.

Sunil Jain Sir one more question say if you can throw some more light on the international scene on overall sugar production and how we are seeing that side of demand and supply?

Vivek Saraogi Brazil continues to be the only overhang. Now we have seen that Brazil energy prices are also raised, petro, gas and all 6%.

Kishor Shah The blending will also be increased next June from 20% to 25%. So there is an uncertainty for the Brazilian sugar production now.

Vivek Saraogi But yes, you don't see prices going down from here in a big way.

Kishor Shah Should be range bound in this range only 18 – 19 cents.

Moderator Thank you. Our next question is from Venkatraman Rangan of Brilliant Securities. Please go ahead.

V. Rangan See last year for nine months you have made a loss of about - this year it is 113 against 123 and at end of the final year you made about 6 crore profit. Total about 129 crore you made in the last quarter. Current year the price of sugar is also more. I think roughly how much you will make and naturally your realization for power will make up for the loss in sugar. Next question, working capital borrowings is about 110 long term 197, cash is 158, how much you are going to repay this year so that our cost of interest also, what is the average rate of interest we are paying now? Any expansion you are contemplating for this year?

Vivek Saraogi At present our borrowing cost on cash credit is 9.7 at the base rate for working capital. 4th quarter in our style of accounting is always the best because we account for cost when we incur it. Hence always the 4th quarter will be the best because it is backed by production other 3 quarters, 4th quarter is the highest level of production. Now even on the power front you will see the best ever volumes in the power front also. Having said that we do not usually discuss absolute numbers, we have never have done it and it is not prudent for us to do it. So we told you what we can. Repayment up to March will be Rs. 100 crore. So we will be left with long term debts which will be paid out of internal accruals, Rs. 500 crore is what we will be left with.

V. Rangan Every year what is the plan, every year you are going to pay Rs. 100 crore without any expansion? Expansion you have not said how much you are going to expand this year?

Vivek Saraogi Based on our experience in April-May which we feel will be very positive, we will be looking at setting up a distillery and power in Kumbhi.

V. Rangan How much megawatt we will add?

Vivek Saraogi 13 megawatt so that we can run the distillery full year and distillery 100 KL. Total cost of both should be around Rs. 140 crore.

V. Rangan That means now the repayment will be Rs. 100 crore and again expansion will be around Rs. 140 crore.

Vivek Saraogi See last year we began with the debt of Rs. 700 crore we repaid we came down to Rs. 500 crore. Next year Rs. 270 crore is our repayment that is '13 - 14. So even if we put in 130 there it all depends. So we will still be reducing debt and putting in assets which earn money.

V. Rangan So we are creating asset at the same time realization from that at the same time keeps on growing the top-line.

Vivek Saraogi Top and bottom because power and distillery we will have far more visibility.

V. Rangan Power - as it is now what is your ultimate growth from the power front, how much megawatts you will like to close it?

Vivek Saraogi I will explain it for this year ending. If you see our cane production is expected to go up by 10% around. So we will have more bagasse, more molasses - so you see since we had a late start we are next year April to June and next year we will have a much higher quantum of power and distillery sales. Year after that also if India's production comes down we are not looking at UP coming down or even if UP stays flat, Balrampur can grow a little. So we will be having distillery. We will be having molasses and power to be able to core down to ethanol, and run our power business absolutely profitably with volume and prices in future.

V. Rangan So all de-risking models have been set in?

Vivek Saraogi We are completely de-risked.

Moderator Thank you. Our next question is from Sunny Agrawal of Aditya Birla Money. Please go ahead.

Sunny Agrawal Sir 100 KLPD distillery and 30 megawatts of power, when will it get commissioned?

Vivek Saraogi We have not yet announced it. We haven't embarked on it otherwise we would have informed the exchange. We are saying based on our experience in April, when someone asked what is your plan, nothing is concretized right now let me repeat. We will be looking at it after April.

Sunny Agrawal And what is on paper, concrete CAPEX plan?

Vivek Saraogi Nothing as of yet.

- Sunny Agrawal** Just one clarification on levy sugar part - what you want to tell is that for the December quarter, that the quarter that has gone by, we have book levy at 19.5 and same will be for March quarter also? And incase the levy sugar quota goes off it will be applicable from April or otherwise it will be at Rs. 22?
- Vivek Saraogi** Yes see if levy quota goes away for the entire years' production you would be valuing your sugar at cost which I indicated about Rs.32. So the loss you take on provisioning of levy will not happen 10% - if levy is to go away.
- Sunny Agrawal** But it will be applicable from April right?
- Vivek Saraogi** No it will be applicable from the beginning of the season. I will try to clarify I will explain again. If you have levy sugar being sold up to March, it is out of last year's production. We are at present giving levy sugar of last year production. We have to keep that for the government allotted FCI type of people. This year sugar, if levy goes away, all will be valued at cost indication of which I have given you.
- Sunny Agrawal** If you can give the quantity of levy which will be supplied this year from September to March, I mean the quarter which has gone by and the quarter from January to March total?
- Vivek Saraogi** On last year's allotment.
- Moderator** Thank you. Our next question is from Romil Jain of Quantum Advisors. Please go ahead.
- Romil Jain** How much are the cane arrears right now?
- Vivek Saraogi** Cane arrears of UP are around 1 month.
- Romil Jain** Last 3 - 4 years we have seen consistent high production, even at high SAPs of let's say last year it was at Rs. 240 and this year it is at Rs. 280. So going forward do we see the traditional cycle which was there turning around next year or going forward and the production should come down further?
- Vivek Saraogi** It is very difficult to predict now. We only have some idea on Maharashtra based on the water level. It will be much better to discuss sometime in March and April.
- Romil Jain** And right now the release mechanism is at 6 months?
- Vivek Saraogi** Yes, it is at six months.

Romil Jain And going forward do we expect that to go to 9 months or something?

Vivek Saraogi We are looking at abolition?

Romil Jain Of course abolition but I don't know whether it will happen so fast so I just wanted your view on that?

Vivek Saraogi My view is levy and release will both go together.

Moderator Thank you. Our next question is from Ruchi Sheth of JM Financial. Please go ahead.

Ruchi Sheth Can you help me with the EBIT profit levels for different segments?

Vivek Saraogi If you see in 9 months, EBIT levels if we see cogen this year it is at 77 versus 67 which went up to 142 for the full year because this is the highest 3 months. So it is very safe to assume that kind of delta is available. Distillery from 32 went up to 51 and since we have a full quarter and we explained about our sales strategy. This will also keep increasing in a normal way and if pricing changes the whole game plan changes. This is based on current pricing and sugar you are aware depending on the prices, etc.

Moderator We will take our next question from Rahul Bhangadia of Lucky Investment Managers. Please go ahead.

Rahul Bhangadia You said that as of now cost of making sugar is about all inclusive Rs. 32, is that correct?

Vivek Saraogi Didn't say all inclusive, outside of interest.

Rahul Bhangadia But that includes appreciation right?

Vivek Saraogi Yes, after depreciation.

Rahul Bhangadia What is the credit that you take towards molasses or bagasse or how do you calculate this?

Kishor Shah Molasses carried is Rs.250 per quintal and bagasse is Rs. 400 per tonne.

Rahul Bhangadia You subtract this and then you come to Rs. 32, that I show you do it?

Kishor Shah Yeah.

Rahul Bhangadia And the present ex-mill realization?

Kishor Shah Rs. 32.5.

Moderator Thank you. Our next question is from Aman Sonthalia of Suvridhi Capital. Please go ahead.

Aman Sonthalia Sir, can you tell me what is the procurement cost of sugarcane after all the expenses like society commission, and transportation?

Vivek Saraogi Rs. 290.

Aman Sonthalia And sir do you think that 68 for Maharashtra, 30 for Karnataka, and 23 for Tamil Nadu is an achievable target?

Vivek Saraogi Which means you think it will be more or less?

Aman Sonthalia I think it will be much less than this figure.

Vivek Saraogi No I think I cannot predict one or two lakhs less in each states but I don't think it is to be much more less than that.

Aman Sonthalia Because I talked to the Maharashtra people they are expecting around 60 for Maharashtra and 28 for Karnataka, and 21 for Tamil Nadu.

Vivek Saraogi I won't agree. 1 - 2 lakh less, yes possible, but not the figures you just told me?

Aman Sonthalia And sir what is the saturation production for UP as per your view?

Kishor Shah 78 lakh tonnes.

Aman Sonthalia This is the saturation point I think going forward.

Kishor Shah But they are close to peak now. Nearly 78 goes to 80 - 81 next year but more or less this is the level.

Aman Sonthalia Sir, do you think there will be no cyclical nature of the industry as consumption is increasing every year and production is very much near to saturation point?

Vivek Saraogi See just take some data. In 2007 - 2008, UP was paying Rs. 125 and that year the production was 80 lakh plus. Now you are at Rs. 280 and have still not reached 80 plus. Maharashtra and all were also paying much lower that time down Rs. 100 or less. Whatever I don't

remember the figure exactly. That year the production was 283 lakh tonnes. After this heavy growth in cane price also you are barely this year producing what you consume or you are producing what you consume. It tells us that India's ability to constantly produce year-on-year its own requirement might not be easy because land resource has got far more allocation today than it had yesterday. Secondly, because of states like Maharashtra where water table is at 400 feet and Maharashtra is the largest producer of sugar, there is very big vulnerability of their ability to produce constantly. UP, however is getting close to its peak which tells that UP's ability to produce is much higher. In Eastern UP water table is at 100 feet or below but Western is at 200 feet. So all we know is that Eastern UP's ability to produce would be much higher. Therefore to run byproduct business here, on sustainable business is much higher and even after such rise in cane price, If cane price, etc., don't get paid on time, there is not much impetus to increase production from here. And with growing consumption we do not foresee India can produce 5 out of 5 here for its own requirement.

Aman Sonthalia That is my question sir, after 2 - 3 years because this year the consumption is around 235, next year it will be 245, thereafter 255 and most probably the saturation point for India is around 260 - 265. So next year the production will be much lower than this year. So going forward I think this cyclical nature will come to an end?

Vivek Saraogi Yes if the policies get corrected why not. I am of the same view if policies get corrected. See byproduct policies according to me with ethanol happening would get 100% corrected. If levy, etc., is to happen we feel chances of which are very high after reading Minister's statement, etc., I see a lot of sustainability in the industry.

Aman Sonthalia Yes sir but I think there should be some policy decision regarding cane pricing because year-on-year every year the government is increasing the cane price without considering the sugar prices. So there should be some rules and regulations relating to that.

Vivek Saraogi So that would be the only portion which remains unanswered. But with so many other positives if they build in, we are very certain that a big part of the uncertainty gets removed. And that is one question we will deal with. Understand one more thing, if cane prices don't get paid on time, production will not increase. Then government of India will itself have to see what it does because then sugar prices will go beyond hand in 2 years. The policy rationalization you are seeing that's why is happening fast.

Moderator Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to the management for closing comments.

Vivek Saraogi Well thank you all for participating and for any further questions me, Kishor, Pramod all are there.

Moderator Thank you very much sir. On behalf of Balrampur Chini Mills Limited that concludes this conference call.

- ENDS -

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