# Balrampur Chini Mills

## Q3 & 9M FY 2016 Earnings Conference Call Transcript
## February 9, 2016

---

**Karl Kolah** Good afternoon everyone and thank you for joining us on Balrampur Chini Mills Q3 and 9MFY16 results conference call. Today we have with us Mr. Vivek Saraogi – Managing Director of Balrampur Chini Mills and Mr. Pramod Patwari – CFO of the Company.

We will begin the call with brief opening remarks from the management following which we will have the forum open for discussions. 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 results presentation shared earlier.

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

**Vivek Saraogi** Good afternoon and thank you everyone for joining the call.

Let me begin by giving you an update on the latest developments in the sugar sector following which Pramod will take you to the financial highlights of the quarter.

Sugar production for the current season is now estimated at 26 million tonnes or slightly below from 28.3 million tonnes in the last year. Maharashtra is likely to be lower at around 8.5 million tonnes; Karnataka is expected to drop to 4.3 million tonnes and UP is expected to be at 7.1 million tonnes. In Karnataka and Maharashtra basically it is lower rainfall which has led to lower water availability which has affected yields and similarly some yields have also been effected in UP. Under the MIEQ scheme, i.e., Minimum Export Quota scheme, Mills have contracted around 1 million tonnes out of which I think more than 0.7 million tonens has already been shipped and I think that 0.3 million tonne will be shipped out before March or April. Domestic consumption is expected to be around 25.5 million tonnes. I think last year was 25.3 million tonnes.

Coming to the SAP announcement – UP Government has announced the same rate that is Rs.280 per quintal. It is to be paid in two installments, first installment of Rs.230 per quintal and the remaining within three months of closure of season. Actually UP's cane price is 280 per quintal plus taxes even last year we saw it was you got Rs.11.40 per quintal which is the taxes relief immediately and then later on we got cash reimbursement of Rs.28.60 per quintal. So this year the Government has waived the Rs.11.7 per quintal taxes immediately that is already notified and the balance cash subsidy has been reduced from Rs.28.6 to Rs.23.3 per quintal at a maximum.

So last year even if the price fell below a certain level your maximum subsidy was Rs. 28.6 per quintal. This year the maximum cash subsidy will be Rs.23.3 per quintal. This has been linked to sugar realization, molasses bagasse realization and sugar recovery.

What we have done in the current quarter and we would do even in the March quarter is we have just taken cognizance of the tax waivers which the Government has given therefore we have not accounted for taxes which are already waived; however, we have accounted for full Rs.280 per quintal in the current balance sheet. This is linked to a formula so let the formula be notified may be whatever benefits supposed are to be got in would be taken up when the final installment is paid.

On the ethanol front India is expected to meet its target of 5%, the Government as you are seeing very active pursuing in this. They have given 12.5% waiver on excise duty for ethanol produced out of the current year's molasses in the company we have begun dispatches of that new molasses where realization has improved from Rs.40 to 45 per litre from January that is in the current quarter.

We target to crush 7.10 crore quintals of cane and at present our recoveries are 10.75% at an average and we hope this year as the Company we should be able to, it's tough to say but 10.85% or 10.83 as an average looks very likely which is 1% above last year. We hope to do 10.83% this year. On date recoveries are about 11%.

The second issue is you would have seen that there is a lower production and offtake on part of the distillery as well as Cogen division. Just let me explain this to everyone, as we have begun the installation of the incineration project in our Balrampur factory we had to take one-month stoppage kind of thing or slow working on distillery in order to install the incineration boilers. It took a little 5 to 7 days extra on the trial we are happy to inform that the technology has been successful and we are now doing almost full working on the distillery. So this also helps so that in our next two projects we will not require any trial time. The molasses therefore is in the stock it would be used next year, in this quarter also we would cover up something however in the next year whatever is the molasses leftover will be used up and therefore we are hoping to make 9 crore liters of ethanol in the next season. Till now our higher ever dispatch of alcohol was 7.4 crore, we hope to do upwards of 8.5 crore litres of dispatch in balance sheet 2016-17 and we feel extremely confident of doing this owing to our pollution compliant methods or measures we have now put in.

For the Cogeneration segment the volume this year is slightly lower and next year also it will be higher than this year but it might below lower than the previous year's high owing to the fact that some bagasse would have to be diverted towards this incineration boilers, slightly inefficient but it is the cost of environment to be able to run your distillery smoothly in order to produce the quantity we have spoken about.

I would just like to take you through the measures which the Government of India has done and UP has done. If you see that the cess has been increased by Rs. 1 from 1 February. Now why the Government has done this and what is the rationale. The rationale is they have collected money from the consumer made a kitty out of it, as and when ever there is a surplus in India this MIEQ method would be followed people would be asked to export and the loss would be reimbursed. Now it's such a beautiful cash neutral measure that the Government has war chest lifelong. At 2,500 crore war chest YoY basis collecting with the Government in order to ensure that sugar prices never fall to the levels they did or remain at cost level. Now this is a self-sustaining measure where the consumer would be giving some small money in order for the farming community and the millers to keep their head above water. So this is a very permanent kind of dynamic measure. UP Government as you have seen has understood reality and in their own way has come to some kind of a price linkage idea. Last year we saw the proof I think this year again we should be able to see the proof and the fact that they have lowered their first installment by Rs. 10 per quintal over last year if you remember the first installment in the last year was Rs. 240 per quintal; this year that have come to Rs. 230 per quintal, now Rs. 230 per quintal if you see is the FRP figure so in some way or the other there is recognition and understanding of the FRP methodology and the logic on linkage.

At our end we have worked very hard on cane. It's a freak year where the nature has been extremely kind; however, I would break up the 1% increase in recovery at 50-50. 0.5% should be our permanent gain from here on owing to a lot of work being done in the varietal replacement and this varietal replacement will improve next year. So we think now Balrampur should have an average 10.3-10.4% recovery as we go ahead. This 10.85%, etc., we should see it as a one year phenomena. Therefore, what I am trying to get at is the sustainability we are now able to bring on the table would be that sugar will never lose money. Now this is the combination of the Central Government's kitty which they have to ensure that whatever surplus is exported so prices do not fall beyond a certain level, prices are at levels which can support FRP and UP Government's understanding of the linkage in its own way. So we do feel extremely confident that owing to the way things are playing out sugar should never lose money, I mean never is a very dangerous word, sugar should always be self-sustainable and that these two divisions have a lot of visibility on both the entire quantity of offtake as well as the price of offtake.

It was nice. I would like to hand over the floor to Pramod after which we will answer the questions.

**Pramod Patwari** Thank you Sir. I will now briefly take you all through the Company's operating and financial performance for the quarter under review. Overall revenue for the quarter was stable at Rs.848.9 crore as compared to Rs.841.7 crore in Q3 of financial year 2015. The net profit for the current quarter stood at Rs.87.8 crore as compared to a loss Rs.65.7 crore in the corresponding period last year. The allied business contributed positively to profitability. Revenues from the sugar segment were at Rs.785 crore in Q3 of FY16 as compared to Rs.736 crore in Q3 of FY15. The segment reported a PBIT of Rs.26 crore as compared to a loss of Rs.140.8 crore in the corresponding quarter last year. During the quarter, sales volume improved to 26.4 lakh quintals of sugar as compared to 24 lakh quintals in Q3 of FY15. In the current quarter realizations were at Rs.27.16 per kg of sugar as against Rs.28.69 per kg in Q3 of FY15. As on 31 December 2015 we are carrying sugar inventory of 15.98 lakh quintals and the same is valued at Rs.29.84 per kg.

Coming to the performance of our allied business in Q3 of FY 16 revenues from the distillery division were stable at Rs.66 crore as compared to Rs.66.5 crore in Q3 of FY 15. PBIT for the quarter was at Rs.30 crore as against Rs.31.4 crore in Q3 of FY15. Ethanol sales for the quarter improved to 15,788 KL as against 7,498 KL in Q3 of FY15. RS and ENA sales volume for the quarter stood at 1,912 KL versus 10,166 KL in Q3 FY15. Average blended realizations in Q3 of FY16 were higher at Rs.39.99 per BL as compared to Rs.39.29 per BL in Q3 of FY15.

In the Cogeneration segment revenues in the quarter were at Rs.100 crore as compared to Rs.111 crore in Q3 of FY15. Sales during the quarter were at 11.07 crore unit as compared to 13.72 crore unit in Q3 of FY15. Average realizations in Q3 of FY 16 stood at Rs.4.80 per unit. The segment reported a PBIT of Rs.43.7 crore as compared to Rs.66.6 crore in Q3 of FY15.

Interest costs for the quarter were lower at Rs.7.6 crore as compared to Rs.16.2 crore in the corresponding period last year. As on 31st December 2015 the company's long-term debt stood at Rs.637.6 crore leading to a long-term debt equity ratio of 0.56.

This brings us to the end of our opening remarks. We would now like to address any questions or queries you may have. Thank you

**Moderator**: Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Arya Sen from Jefferies India Pvt. Ltd. Please go ahead.

**Arya Sen**: Firstly I wanted to understand a little better the recovery rate improvement that you were talking about, what is the change that has happened which will lead to that and how sustainable do you think that is?

**Vivek Saraogi**: As I told you on the call it is a function of the weather and variety. The variety improvement has really picked up and as I said going ahead it has to pick up further. I tried to say that earlier, if you see the earlier records of Balrampur we used to be at 9.8% or 9.7% that was the average of the last 2-3 years, now this year it is 10.85%, so I think that 10.35-10.40% should be our permanent recovery level. This extra half percent coming our way this year could be a one-year phenomenon owing to weather conditions.

**Arya Sen**: Secondly the costing for the inventory that is at realizable value or is it at cost, what is the cost?

**Pramod Patwari**: We have valued the closing inventory at realizable value.

**Vivek Saraogi**: Because the cost for that one-month working is much higher.

**Arya Sen**: What would have been the cost?

**Pramod Patwari**: Nine-month cost is around Rs. 33.50 per kg.

**Vivek Saraogi**: Because there is hardly any working, the year cost is what you need to see, we valued inventory at Rs.29.84 per kg which is the current market price.

**Arya Sen**: For this season what would be the costing of the sugar?

**Vivek Saraogi**: We are still working on it, it could be around Rs.28.00 per kg.

**Arya Sen**: That is because of higher recovery rate.

**Vivek Saraogi**: Exactly.

**Arya Sen** Then there is a chance in the next quarter that could be bit of write down on the inventory?

**Vivek Saraogi** No, hardly.

**Pramod Patwari** Next quarter the cost of production will be much lower because in the last quarter we will get full 90 days of production, so costing will be much lower, Rs.28.00 per kg will be the year costing and quarter costing will be much lower than that.

**Arya Sen** So you will have to record inventory at lower of cost of realizable value?

**Pramod Patwari** We will have to consider the prevailing market price of sugar as on 31st of March 2016 and that has to be compared with full year costing of March 2016.

**Arya Sen** Correct if your full year cost is Rs.28 per kg and this quarter end the inventory at Rs.29.8 per kg there would be some inventory…

**Pramod Patwari** That is in respect of whatever inventory we are carrying to next quarter. In any case the inventory which is being carried at Rs.29.48 is expected to be sold out at the carrying value.

**Vivek Saraogi** There would be sales in the next quarter and whatever has been sold will be beneficial as we are already selling the opening stock which was at Rs.29.84 per kg, plus you are selling the new one. The next quarter costing could let us say be Rs.27 per kg so you are selling out of that also, last quarter is always the best quarter as you have seen. We can't get into more details, you should understand.

**Arya Sen** Thirdly just wanted to understand the sugar Cess, how does it work?

**Vivek Saraogi** Earlier Excise Duty and Cess used to total to 95 paisa per kg, they have increased it by Rs.1, now let us say the taxes on sugar let us assume for simplicity it is Rs.2 per kg earlier it used to be Rs.1 per kg, with extra Rs.1 is going into Government of India's fund which is called SDF it is being collected by the sugar development fund, now the mandate here is to use it for circumstances which occurred like this year at the beginning of the year where prices have come down, In case FRP fixed by the government of India turns out to be higher than the paying capacity owing to low sugar prices so this fund will be used to make mills export, pay them the losses so that prices do not dip below cost.

**Arya Sen** What is the current sugar realization and has it come off a bit in the last one month?

**Vivek Saraogi** Yes it has come off a bit, earlier it was around 31 per kg plus now it has come down to around Rs.29.5 per kg, but that is the phenomena of the season. During season people who do not have godowns, bank limits they liquidate sugar so this is absolutely as per seasonal behavior.

**Arya Sen** Lastly the realization for ethanol you said from January has improved to Rs. 45 a litre?

**Vivek Saraogi** Yes.

**Arya Sen** So that would be true of RS and ENA also?

**Vivek Saraogi** We are not selling RS and ENA now.

**Arya Sen** So only ethanol, so then your average realization for this quarter should be…

**Vivek Saraogi** Closer to 45 per litre because as I told you Balrampur Distillery was under commissioning so there it would probably be from 15th January to 31st March it would be 45 per litre.

**Moderator** Thank you. The next question is from the line of Ankush Mahajan from Edelweiss Securities Limited. Please go ahead.

**Ankush Mahajan** I was trying to understand the economics for sugar. What is the breakup for sap that is Rs.230 per quintal is the FRP plus Rs.23.30 per quintal is the subsidy and rest Rs.26.7 per quintal is equal to Rs. 280 per quintal, am I right?

**Vivek Saraogi** Absolutely right.

**Ankush Mahajan** So assuming we have a sugar price of Rs. 32 per kg in next year we will not get this Rs. 23.30 per quintal subsidy.

**Vivek Saraogi** Yes, We will not get it.

**Ankush Mahajan** So our SAP cost is Rs.280 per quintal.

**Vivek Saraogi** Which we have already accounted for.

**Ankush Mahajan** What is the landed cost Rs.280 per quintal plus transportation cost for us.

**Vivek Saraogi** Yes.

**Ankush Mahajan** So what is that one, Rs.280 per quintal plus transportation cost?

**Vivek Saraogi** Let us put it at Rs.280 per quintal, you are assuming price would be higher therefore you would not get any subsidy, already accounted for 280, for this season landed cost will be Rs.288 per quintal.

**Ankush Mahajan** That is the landed cost.

**Vivek Saraogi** Yes, including transport, center charges, cane development charges everything.

**Ankush Mahajan** So for this 100 kg sugarcane my landed costing is Rs.28.8 per kg.

**Vivek Saraogi** Yes.

**Ankush Mahajan** Out of this 100 kg, I am getting 10.5 kg sugar.

**Vivek Saraogi** You assume 10.85%.

**Ankush Mahajan** I am assuming 10.85%. So now Rs.288 per quintal divided by 10.85…..

**Vivek Saraogi** There is a negative adjustment to byproducts. It is not proper to do such detail costing we can give you benchmarking, let me tell you how the costing is arrived at.

Arrive at the sugar cost you are doing it correctly, Factory cost, chemicals, labour, repairs and to do a negative adjustment to byproduct which is the cost which means molasses and bagasse you are selling to the power division and the chemical division and that is the realization here, is called a negative adjustment.

**Ankush Mahajan** So how much is that cost?

**Pramod Patwari** Around Rs. 3.80 per kg of sugar.

**Ankush Mahajan** After including….

**Pramod Patwari** Molasses and bagasse.

**Ankush Mahajan** It includes that one also?

**Pramod Patwari** Yes everything Rs. 3.80 per kg is for molasses and bagasse.

**Ankush Mahajan** Rs.3.80 is the operating cost or it includes interest as well as depreciation also?

**Vivek Saraogi** Rs.3.80 is credit towards by-products.

**Ankush Mahajan** So if I consider this operating cost how much is the operating cost after deducting the depreciation also?

**Vivek Saraogi** If you want to do such detail costing I would assume that this is not the proper forum and I have given you hint we cannot get into any further details.

**Ankush Mahajan** What is the target for sugar crush for FY16?

**Vivek Saraogi** 7.1 crore, I have said in the call.

**Moderator** Thank you. The next question is from the line of Balwindar Singh from Batlivala & Karani Securities India Pvt. Ltd. Please go ahead.

**Balwindar Singh** You said that the current sugar prices are around Rs.29.50 per kg. Going forward just wanted to understand the inventory dynamics for the industry for say sugar year 2017 because I guess next year Maharashtra production is also going to be impacted, so if you can explain us the inventory dynamics for next year and what can be the sugar prices and also the exports, I think mandated exports of around 4 million metric tonnes seems a distant reality?

**Vivek Saraogi** Your questions are very valid I was wanting to get to that. Today the opening inventory is about 8.5 million tonnes. I think this year our production and consumption could balance out. My personal view is consumption could be 25.5 million tonnes to 26 million tonnes, I am just taking a 2% higher consumption therefore if we see production at sub 26 million the two could cancel out if production equal to consumption. Government has already mandated 80% that is 3.2 million tonnes personally also I do not think 3.2 million tonnes is going. My personal assumption would be a minimum of 1.5 to 2 million tonnes should be, one million tonnes is already done so let us assume just take the worst-case it goes to in my mind 1.5 million tonnes. So your inventory becomes 7 million tonens and now the moment we get next year data which to our mind Maharashtra could be 2 million tonnes lower and the Karnataka 0.5 million tones lower, your next year's production could look like, UP could improve a little, Tamil Nadu could improve, it is too early to say we will have a better time when we are planting it in April-May but could be 2 million tonnes lower let us say. And we are going to 2016-17 season could be 24-24.5 million tonnes which means the consumption could be 1.5-2 million tonnes higher. So inventory would then get down to, let us say, 5-5.5 million tonnes which is tight, which is still not shortage-shortage but it is tight. Thereby my personal construct, if I am to say so is that as we move into summer months the prices should harden based on evacuation of some surplus this year and next year's production being lower than the current year and also being lower than the consumption. So we could have a period of a year and year-and-a-half where in my view sugar prices would remain at reasonable levels.

**Balwindar Singh** Reasonable you mean around Rs.32 or 33 per kg?

**Vivek Saraogi** I can only say that the government of UP and the government of India in their cost sheets to the best of my understanding estimated cost to be around Rs.31 or 32 per kg. So getting down to cost seems definitely a reasonable proposition.

**Balwindar Singh** Correct me if I am wrong, last quarter in your concall you had highlighted that inventory in the system was around 9 to 9.5 million tonnes.

**Vivek Saraogi** I never said 9-9.5 million tonnes. I said if ISMA data is 9 MT then our data is 8.5 MT.

**Moderator** Thank you. The next question is from the line of Achal Lohade from JM Financial Institutional Securities Pvt. Ltd. Please go ahead.

**Achal Lohade** You made a comment that some amount of bagasse is getting diverted towards incineration boilers and it is slightly inefficient, if you could elaborate a little bit what exactly it is and what is the inefficiency impact?

**Vivek Saraogi** I will just give you a little bit of technical details because I guess that's what you are seeking. When you run a distillery there is something called spent wash that is the discharge, we concentrate the spent wash in evaporators, concentrate means it becomes semisolid solid, then it is sprayed onto a boiler and bagasse is added to the boiler with the slop, that concentrated spent wash is called slop, that is concentrated up to 60 bricks that is solids and then that is added with bagasse and burnt in the boiler and which generates some amount of power also but the ratio you derive from the bagasse in this is lower than you derive in a power plant. But either you run it with coal or you run it with bagasse, bagasse for us is still much cheaper, fiber there is some opportunity cost which goes by. But that is required to make the 9 crore liter which at Rs.45 per litre is extremely lucrative. Government of India in its calculations when they have given you this export/ production benefit on incentive for your exports, they have calculated all they have given you by way of SEFASU loan benefit, by way of distillery enhanced realization benefit, and then have come up with a certain figure. Last year’s losses were huge and this formula is to ensure that you do not lose money on the sugar segment for efficient millers.

**Achal Lohade** I missed that point… how is it connected with this incineration boiler?

**Vivek Saraogi** No you just asked me as to why bagasse is diverted to incineration boiler.

**Achal Lohade** That part I understood.

**Vivek Saraogi** The rest I gave you the concept on which Government of India is working on the ethanol portion. I said for me to run ethanol I need to burn this bagasse with the slop.

**Achal Lohade** We are planning to spend about Rs. 100 crore…

**Vivek Saraogi** Total three plants included 200 crore.

**Achal Lohade** And how much is it financed by SDF?

**Pramod Patwari** The contribution can be around Rs. 75 crore.

**Vivek Saraogi** All three put together.

**Achal Lohade** About 75 crore will come from SDF at 4%?

**Vivek Saraogi** I am not aware of the current rate.

**Pramod Patwari** May be 5.75%.

**Vivek Saraogi** The rate is slightly higher this time.

**Achal Lohade** What is the target volume for power for FY 16 and FY 17?

**Vivek Saraogi** For the current year 54 crore units for March 2016 and then maybe 57-58 crore as we go ahead.

**Achal Lohade** For distillery you said 8.5 or 9 crore for FY17?

**Vivek Saraogi** Should be able to produce in the range of 9 crore, dispatch in the region of 8.5 crore litres.

**Achal Lohade** It is entirely ethanol you said?

**Vivek Saraogi** 95% ethanol.

**Achal Lohade** Just last question on the macro side. if I look at the overall scheme of things it is more to do with the exports and if I look at the current sugar prices how profitable is it to export and what is the form of sugar you think we will be able to achieve in that 1.5 million tonne exports?

**Vivek Saraogi** It is not important in which form sugar goes, sugar needs to go. There is no concept of profits on export it is a proposition whereby your loss is being reimbursed by the government of India as a production subsidy.

**Achal Lohade** I am just wondering given very few mills have actually unlike ours have really taken the hit of selling our obligations, I am just trying to understand who would actually export this 1.5 million tonne?

**Vivek Saraogi** One million tonne is already gone, progressive millers have done it, I think if you take the worst-case I think Maharashtra, etc., will come forward.

| | |
|---|---|
| **Moderator** | Thank you. The next question is from the line of Nirav Shah from GeeCee Investments Ltd. Please go ahead. |
| **Nirav Shah** | You have mentioned that the maximum subsidy amount of per ton of cane depends on sugar molasses, bagasse realization and sugar recoveries, so the recoveries part will it be on a mill basis or an area basis Eastern UP, Western UP or UP as a whole basis? |
| **Vivek Saraogi** | Very good question, UP as a whole. |
| **Nirav Shah** | Then what you expect the recovery for UP state? |
| **Vivek Saraogi** | 10.15 or 10.2%, I expect it to be at these levels. |
| **Nirav Shah** | You mentioned that you accounted for subsidy part in the current numbers. |
| **Vivek Saraogi** | No subsidy accounted, only tax waivers accounted, it is full Rs.280 per quintal. |
| **Nirav Shah** | So that Rs.280 per quintal is based on this formula and assuming that Rs. 31 average for the season sugar price the subsidy will range depending on the average price of the sugar? |
| **Vivek Saraogi** | Let me just tell you the price to be reckoned with for this formula in UP is an average from 1st October to 31st of May. |
| **Nirav Shah** | At least we will benefit to the extent of 50-60 paisa, assuming even a nil subsidy at least at the PBT level we will be slightly breaking even to making some profit. |
| **Vivek Saraogi** | Hopefully. |
| **Nirav Shah** | The molasses and bagasse inventory because the production this quarter was slightly lower we built up on some inventory… |
| **Pramod Patwari** | Molasses inventory is 9.08 lakh quintals. |
| **Nirav Shah** | What will be the broad mix of sugarcane this season between ratoon cane and the first-year, the new crop compared to what it was for the last three seasons that could also lead to some improvement and recovery? |
| **Vivek Saraogi** | That is not much it is only the variety. |
| **Moderator** | Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead. |
| **Sachin Kasera** | 2-3 queries, one was regarding this Rs.200 crore that you are spending to comply with the environmental norms, just to understand the economics you said that your previous peak was around 7.4-7.5 crore liter and that will now improve to 8.5 crore liter and at Rs. 45 per litre we are basically talking of an incremental revenue of Rs. 70 crore, is that economics correct? |
| **Vivek Saraogi** | Let me explain to you, if you don't make this expenditure your distillery gets shut, if you do not do this they will shut your distillery. You have seen how active NGT has been. |

**Sachin Kasera** So it is not just for this incremental 7.5 crore litres to 9 crore litres it is a new norm to comply.

**Vivek Saraogi** One, and two, this is the side benefit, otherwise you will go to 0 at some time.

**Sachin Kasera** So it does two things it makes you comply as well as increase the production by around 2 crore litres .

**Vivek Saraogi** Absolutely.

**Sachin Kasera** You said next year we hope to go back to around 57 crore unit from the power, but there is going to be some permanent loss because you said you need more bagasse so what is that in terms of economics what would be the permanent loss?

**Vivek Saraogi** Earlier we used to sell about 61-62 crore units so 5 crore units let us say goes down the drain.

**Sachin Kasera** Second question was regarding the exports so how is this scheme exactly. Is there any penalty for non-compliance in the sense as you said some progressive mills have complied so of the overall target is there individual unit by unit target given by the Central Government and what happens in case mills do not meet the quota that is given to them and is there any linkage to this subsidy of Rs. 5 a quintal with that?

**Vivek Saraogi** I am not aware of the penalties which the Government is to come up with. Yes, they would be I do not know that. However, if you complete your quota you would get Rs. 4.5 per quintal.

**Sachin Kasera** How do we account for that? Is there any accounting that we have taken off that into consideration for the December quarter?

**Vivek Saraogi** What we are looking to do in the next quarter we would account for this Rs. 4.5 per quintal reimbursement and would debit the cost incurred.

**Sachin Kasera** So you would basically take a credit of this 4.5 per quintal…

**Vivek Saraogi** And debit the loss.

**Sachin Kasera** On the export that you have made?

**Vivek Saraogi** Yes.

**Sachin Kasera** The other question was regarding your debt if you could give us a break up of the debt between SDF and the normal debt and what is the rate of interest?

**Pramod Patwari** As on date we have a total long-term debt of Rs.637 crore out of which Rs.425 crore is interest free.

**Vivek Saraogi** That is SEFASU Government of India loan.

**Pramod Patwari** Apart from SEFASU loan and the soft loan, another Rs.32 crore is from sugar development fund which carry 4% rate of interest and the balance is normal term loan which are at around 10% rate of interest.

**Sachin Kasera** In such a scenario how do you see your interest costs for the next year because you will have to take some loan for this Rs.200 crore project also so how do you see your overall financial charges or interest cost for FY 2016-17?

**Pramod Patwari** Going forward we are expecting that there will be lower dependence of the Company on working capital, in addition to a benefit of lower interest rate regime, so whatever incremental term loan we are planning to take that will be taken care of, no additional interest impact is expected.

**Sachin Kasera** This Ccess that the Government has imposed Rs.1 per kilo you mentioned that it is primarily be used to make shortfall of the other option in exports is that the only use or is it that it can also be used for any other purpose other than in the case of for example giving any soft loan to the industry?

**Vivek Saraogi** Yes the purposes are both but the soft loan was already accounted for in that 25 paisa they used to collect, but now since the kitty is larger I think basically it is for this because the earlier kitty was taking care of the development, however if they come up with some other agenda specific to development it is open to them. But it is for the sugar industry.

**Moderator** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings Pvt. Ltd. Please go ahead.

**Bhavin Chheda** Just on the accounting you said accounting for cane has happened for Rs. 2,800 a ton, 45 central subsidy will account in the next quarter and whenever the export losses so that will be net off and accounted and there is a of 110 per tonne so you have accounted 2800 plus 110 freight? So roughly at 2900 per tonne is as of now what your accountant in books the cane cost you have not accounted for any subsidy?

**Vivek Saraogi** No subsidy accounting this time.

**Bhavin Chheda** Based on the current sugar prices as well as the yields are also much higher, so is there any possibility that the subsidy can come at the later part of the fiscal or we should ignore it?

**Vivek Saraogi** It can definitely come but that will be decided after the average realization from 1st October to 31st May**.**

**Bhavin Chheda** In the quarterly results, if I see the distillery division, you did a total of 1.6 crore liters and if I multiply by blended relations of 39.9 per litre I get 64 crore sales but in the segment wise the sales are 101 crore, so what is this difference of this 37 crore?

**Pramod Patwari** Distillery revenue for the current quarter is 66 crore only.

**Vivek Saraogi** It is 66.

**Bhavin Chheda** If I see the segment wise numbers?

**Pramod Patwari** Yes segment wise only.

**Bhavin Chheda** Ok I think I have fudged.

**Pramod Patwari** Rs.100 crore is cogeneration revenue.

**Moderator** Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

**Sachin Kasera** This subsidy from the UP government, if the realization as per the formula comes to 'x' number then you get the entire thing or is it like at one realization it is 'x' you get, say, Rs.5 revenue while then you get Rs.10, is it something like that or it is just one?

**Vivek Saraogi** They will come up something like that if required, it will be graded.

**Sachin Kasera** So is the formula already set, that will be known to the millers or is it as of now just that they have given a round figure and they will come out with the exact formula later?

**Vivek Saraogi** It is not very broad strokes are known but let us wait for it.

**Sachin Kasera** How was it worked out last year because last year also it was in practice you would have obviously have some sense on the formula headers employed last year?

**Vivek Saraogi** But let the government come out with it.

**Sachin Kasera** But as per your sense about what average realization you would most likely not be eligible, a rough range?

**Vivek Saraogi** Around if your average crosses 31 per kg, I do not think you'll be eligible.

**Sachin Kasera** So if you remain below 31 per kg you most likely get the entire amount.

**Vivek Saraogi** No, I mean let us say if the government decides that 30 or 30.5 per kg it should be between this range let us say, the formula is 30.5 or 31 let us say 31 so if your average is 30 you will get Rs. 10 out of the 23.

**Sachin Kasera** But if it is say 29 per kg you may get more.

**Vivek Saraogi** You may get full. You may get 20. But I'm guessing I don't have the data yet, if the recovery goes higher for UP it might come down a little.

**Sachin Kasera** Secondly any sense you can give us on how is the global scenario on the demand supply for the current and next sugar season especially Brazil and maybe some of the anti-consumption trend in China?

**Vivek Saraogi** China is deficit, Thailand is deficit, India will not be in great surplus, Brazil yet no surplus. I think a lot of it has got to do with the macro commodity weakness, weakening of the Real, so having seen everything right now the price is 13.5 cents very difficult to predict but I think 14 cents is a good benchmark. But it is impossible to predict, however 14 cents I think is a reasonable level.

**Sachin Kasera** This tender for Rs. 45 per litre is valid till which date?

**Vivek Saraogi** For the full year.

**Sachin Kasera** When you say for the full year you mean from….

**Vivek Saraogi** From 1st December

**Sachin Kasera** To 30th November.

**Vivek Saraogi** Yes.

**Sachin Kasera** Which means that even next year for whatever we sell from the period September to December we should get 45 per litre.

**Vivek Saraogi** Yes because you will be selling out of the molasses which are produced from the cane this year.

**Sachin Kasera** But you would also be selling something from the next year production.

**Vivek Saraogi** When you begin your mill it becomes December. Your December dispatch is from the old molasses 99%.

**Sachin Kasera** Then you again come up with the new rates.

**Vivek Saraogi** Next year unknown.

**Sachin Kasera** There has also been talks of going above from 5% to 10% blending so what is your sense of the seriousness ongoing from 5% to 10%?

**Vivek Saraogi** Government is very serious and so are we, we hope that 5 should improve to 6.5-7-7.5.

**Sachin Kasera** But two things on this, even if it becomes 6.5-7, you mention that we hit 8.5-9 next year is that is the peak or if Government goes to 6.5 or 7 we have further opportunities to increase our internal production in the next 2-3 years?

**Vivek Saraogi** To increase ethanol further our cane crushing would have to improve, so we are working on it but I cannot comment today. Our capacity after all this incineration, etc., our ability to produce as a Company would be above 10 crore.

**Sachin Kasera** How does the economics work, in the sense that government has increased the ethanol to Rs. 45 and petrol prices are almost at all-time lows for the last decade so does the economics work or it is more driven by the government commitments in terms of producing the pollution norms as communicated in the recent Paris summit, you will move by that or it is also some economic behind it?

**Vivek Saraogi** From the economics point on mixing 5% let's say oil company loses Rs.5, they charge 25 paisa to the consumer so they do not lose money and the entire agenda is to improve the economics of the mill so they have to pay lesser subsidy for this production Rs.4.5 subsidy.

**Sachin Kasera** So as per your sense the refiners are allowed to take the extra costs incurred for ethanol when they price petrol that is what the government is allowing them. So it becomes economically feasible for them the refiners and they are incentivized.

**Moderator** Thank you. The next question is from the line of Chintan Seth from SKS Capital & Research Pvt. Ltd. Please go ahead.

**Chintan Seth** I missed earlier remark, just wanted to have an update on the cane pricing and subsidy linkage which I missed out? Can you repeat it please?

**Vivek Saraogi** I just explained at which portion you want me to talk?

**Chintan Seth** Cane pricing for the current season is fixed at Rs.280 per quintal and what will be the subsidy part and the breakup of it, last year there were some tax benefit…

**Vivek Saraogi** Tax benefit is already given, notified and accounted for by us we have not taken any taxes. The rest I just gave the entire idea.

**Chintan Seth** So 23.3 per quintal is the subsidy which is linked to Rs. 31 per kg..

**Vivek Saraogi** I hope, I do not have the exact figure.

**Chintan Seth** On the Rs.200 crore CAPEX we have plan to phase it out in three phases one was in December 2015, second was for March and third was for September. So are we on track for this timeline?

**Vivek Saraogi** Yes we are on track for our commencement timeline.

**Chintan Seth** One is already being completed and complied with?

**Vivek Saraogi** Yes one is completed almost, it is in final stages but the distillery is working, one is April first week and one is October.

**Chintan Seth** And post that we will have an enhanced capacity to 9.5 to 10 crore…

**Vivek Saraogi** Yes, provided we have molasses, right now we have more molasses of 9 crore.

**Chintan Seth** Any other clause at board level wherein we want to further increase our capacity given the improvement in to the outlook both at distillery and sugar level?

**Vivek Saraogi** No we do not have cane, enough cane as I said we will be producing 9 crore litres but we have capacity to produce 10. If you need more molasses we need more cane. We are working on cane development and hopefully things on that front should also look up.

**Chintan Seth** Any new plans for diversifying yourself in other regions and acquiring few segments?

**Vivek Saraogi** Let us wait and watch, let stability come let us see what happens, but we do not believe in going and doing things which we do not understand. You'll be doing more debottlenecking may be input in power but let us see, that is the board has to decide first.

**Chintan Seth** What will be the working capital loan figure closing?

**Vivek Saraogi** 31st of December around Rs. 350 crore.

**Moderator** Thank you. The next question is from the line of Aman Sonthalia from Suvridhi Capital Markets. Please go ahead.

**Aman Sonthalia** Without taking any subsidy what will be the cost of production for the sugar?

**Vivek Saraogi** Around Rs.28 per kg approximately on the 31$^{st}$March.

**Aman Sonthalia** Without any subsidy?

**Vivek Saraogi** Without any subsidy..

**Aman Sonthalia** For this costing how much is the price for molasses and bagasse you have taken?

**Pramod Patwari** Bagasse Rs.1,000 a tonne and molasses Rs.3,000 a tonne.

**Aman Sonthalia** This is the current market price?

**Pramod Patwari** Yes it is.

**Aman Sonthalia** While talking to the people in Maharashtra and Karnataka the condition is quite bad there and since ISMA come out with a figure of 26 million tonnes but while talking to the Maharashtra people the production might come down to 72 to 75 lakh tonnes this season?

**Vivek Saraogi** No, I do not think so, taken 8.5 million tonnes.

**Aman Sonthalia** 8.5 million tonnes.

**Vivek Saraogi** Next season it will be much lower.

**Aman Sonthalia** In Karnataka it will be around 4.3 million tonnes.

**Vivek Saraogi** Yes this year.

**Aman Sonthalia** In the worst-case scenario how much incentive you will get out of this Rs. 20 per quintal?

**Vivek Saraogi** I cannot say because you do not know the price in the next three months, I think by the time they declare the final result for the year one should have a much better view.

**Moderator** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

**Vivek Saraogi** Thank you everyone. Pramod is there, we are there to answer any more queries you have.

**Pramod Patwari** Thank you.

**Moderator** Thank you very much members of the management. Ladies and gentlemen on behalf of Balrampur Chini Mills that concludes this conference call. Thank you for joining us.