Balrampur Chini Mills Limited

Q3 & 9M FY'22 Results Conference Call Transcript
03 February, 2022

Karl Kolah: Good day, everyone and thank you for joining us on Balrampur Chini Mills, Q3 and 9M FY'22 results conference call. Today we have with us Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills Mr. Pramod Patwari, Chief Financial Officer of the Company and Ms. Avantika Saraogi.

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

Before we begin, I would like to point out that some statements made in today's call maybe forward-looking in nature and a disclaimer to this effect has been included in the results presentation, which was shared with you all earlier. I would now like to invite Mr. Saraogi to make his opening remarks. Over to you Vivek.

Vivek Saraogi: Thank you. Good morning, everyone. And thank you for joining us on Balrampur's December quarter results earning call. I trust all of you and your families are keeping safe and in good health. I will initiate the call with an update on the current developments on the sugar sector followed by our company's key highlights for the period under review.

As per latest estimates from ISMA, India sugar production estimate has been revised to 31.5 million tonnes for season 21-22 against the earlier forecast of 30.5 million tonnes. This estimate is after diversion of 3.4 million tonnes of sugar towards ethanol.

U.P. is estimated to produce 10.2 million tonnes this season against 11.1 million tonnes last season due to lower cane yields and lower recoveries along with higher diversion for ethanol. U.P. is expected to divert 1.3 million tonnes of sugar towards ethanol, as compared to 0.7 million tonnes diverted last year.

On the other hand, production estimate for Maharashtra is expected to be higher at 11.7 million tonnes on account with increased area, better yields and better recoveries. Sugar mills in Maharashtra expected to divert 1.1 million tonnes for production of ethanol as compared 0.7 million tonnes. Sugar production in Karnataka is expected to be higher at 4.8 million tonnes against 4.5 million tonnes last year.

On the export front contracts of about 4.5 million tonnes have already been entered into and therefore India should be able to comfortably achieve its target of 6 million tonnes of export. Therefore, with an opening stock of 8.2 million tonnes as on 1st October 2021, domestic consumption of around 27 million tonnes, export of 6 million tonnes and estimated production of 31.5 million tonnes, the net depletion to inventory would be 1.5 million tonnes, therefore making it 6.7 million tonnes. This will be the second lowest stock we are carrying at the end of the year in the last decade. Hence, demand supply situation remains fairly balanced and we should continue to see the effect of that in form of firmer sugar realizations as the year progresses.

Coming to the ethanol segment, the Government continues to keenly drive ethanol procurement to increase blending. Country had achieved the record pan India blending of 8.4% further Government is committed to achieving a blend of 10% in the current season. In order to achieve the revised target of achieving 20% in 2025 instead of 2030, Government is working on a policy to mandate flexible engines.

Towards this goal of 20%, budget also proposes to levy excise additional duty of Rs. 2 per liter on unblended fuel. Our understanding is that if 9% blending is not done, then this Rs 2 additional excise will be attracted. So that is, unblended fuel means below 9%. We welcome this move as it reaffirms the Government's push for blended fuel which will help India reduce its fuel import bill while increasing farmer income and tackle environmental concerns.

Also, in the latest tender, the Government has given some incentives for the manufacturing and supplying in deficit areas like Chhattisgarh, Jharkhand, West Bengal and Jammu and Kashmir

So, all in all, it's showing the government's deep resolve in achieving the target of blending as we proceed.

Moving towards the company's performance, BCML recorded an encouraging performance for the quarter on account of healthy performance on both sugar and distillery divisions. Sugar segment achieved healthy performance owing to better realizations. Distillery business had a strong top line and operational performance, attributable to growing volumes and improved realization.

I am pleased to share that we have successfully expanded our distillery at Gularia by 40 KLPD expanding our overall capacity from 520 KLPD to 560 KLPD. So Gularia has gone from 160 KLPD to 200 KLPD.

Furthermore, by November 2022, we are on track to commission another 490 KLPD of our distillation, which will take our capacity to 1,050 KLPD. This is basically at 2 destinations 320 KLPD at Maizapur and 170 KLPD at Balrampur.

So, our capacity will be 35 crore liters. 2 crore liters will be devoted towards ENA, 33 crore towards Ethanol. Following the expansion, the performance of our distillery segment will further get strengthened and will be the key driver of growth for us.

To conclude, I'd like to point out that Balrampur has been delivering strong profitability, even in surplus years on the back of various structural changes in this industry. As the demand-supply situation sustainably normalizes owing to various factors including diversion to Ethanol and exports, so basically, we are playing our integrated model to ensure that in all times our company delivers and enhances value.

I'm pleased to share that the board of directors has declared an interim dividend of Rs. 2.5 per share, aggregating to a pay-out of Rs.51 crore and, now I'd like to hand over the floor to Pramod

Pramod Patwari: Thank you, sir. Good morning, everyone. As you know, a detailed presentation has already been uploaded on the stock exchange as well as the Company's website wherein all financial performance including quantitative data has been given. So, for the benefit of having a larger proportion of time at our disposal for Q&A session, we can straight away go ahead with Q&A session.

However, at the cost of repetition, we would like to say that our performance should always be seen on an annual basis. And in addition to that, our installed capacity of alcohol at all point of time will include around 2 to 2.5 crore liters of ENA production, which will hardly yield any profit. Thus, profitability of ethanol division should always be worked out on the basis of net of ENA capacity that is around 33 crore liter from FY'24 onwards. I would now request the moderator to take it further. Thank you.

Moderator: First question is from the line of Pratik Tholiya from Systematix Share. Please go ahead.

Pratik Tholiya: Yes, thanks for the opportunity. And, Firstly, at the outset, I'd like to compliment you and your entire team, especially Pramod Sir for putting up such a detailed presentation. And, I think as far as disclosures are concerned, Balrampur has set a new benchmark because not many companies are very forthcoming with a very detailed disclosures and being so transparent, especially on the cost side, there is a full slide which mentions a lot of details on the cost front and how the cost will change on quarter-on-quarter basis. So clearly, you know for your disclosure standard, Balrampur has set a new benchmark for the industry and compliments to you and Pramod Sir as well as team for doing that.

My first question is basically on the export front. We are seeing that the prices have gone below 18 cents recently. And, we still have another 1.5 - 2 million tonnes of exports pending. And with the expectation of -- doing at least 3 million to 3.5 million tonnes and more and we still don't know how much we feel, but India's also the change the production expectation of 30.5 million tonnes to 31.5.

So, clearly the deficit may not be as big as what was initially being forecasted, therefore the global price has started to soften. So, how do you see this, because we still have 2 million to 2.5 million tonnes of export still pending. Do you feel confident that this will happen? Because if it doesn't, then these 6.7 million tonnes of closing inventory that you're talking in the opening remark, you might end up with around 8.5 million to 9 million tonnes?

Vivek Saraogi: So, I'll answer one part, one Pramod, so what is your view on 4.5 million tonnes going to 6 million tonnes?

Pramod Patwari: Pratik, we don't have the listing of the total contracts, which have been executed so far. But whatever we understand from the market pulse, that 4.5 million tonnes is the conservative number. And, going forward, on the basis of this prevailing raw sugar prices, maybe raw sugar will not be a major component in terms of further export, but the white sugar, refined, low-quality white, can be a contributor.

So, what we have seen last year also, there is a perennial demand from various neighboring countries in terms of spot demand, we say. So, we don't see any challenge as far as the 6 million tonnes number is concerned. Raw sugar may not go but low-quality white and refined will definitely make it. This is our sense.

Vivek Saraogi: So, I'll just add to that, basically, if you see -- if we rewind back a year to February, last year, Pramod, I think we would have been at 3 million tonnes max, that too on today's date, I don't remember. But achieving 4.5 million tonnes now, 6 million tonnes seems to be an absolutely reasonable estimate. So, there are a lot of small contracts which go to Sri Lanka, Indonesia, etc. Having said that, even the global markets from here looks like trended up only. This is a correction definitely. But one feels that has also trended up. So, in our view, 6 million tonnes is absolutely a real possibility. This is after checking with the International Trade houses also. And hence, the depletion to inventory from 8.2 million tonnes to 6.7 million tonnes, seems an absolute reality. And just to remind everybody, 2 years back, we were 14.7 million tonnes. you're now to 6.7 million with an increased consumption base. With the 27 million tonnes plus consumption base against a 25 million tonnes consumption base, your inventory has moved from 14.7 million tonnes to 6.7 million tonnes. So, that is where our bullishness and the firmness in the price comes from.

Pratik Tholiya: Got it. Sir, secondly in the opening remark you also mentioned about this ENA contract which you have to comply. Sir, I see that the ENA realizations are also corrected. So, are these prices determined by the government on the annual basis the way ethanol moves or it is on what basis?

Vivek Saraogi: ENA as I told you. Be very clear what Pramod said, that is a cost-to-cost endeavor. That is for, it's a kind of a levy which the U.P government takes.

Pratik Tholiya: Sir, but my question was that ENA realizations are corrected by almost 20% YoY. Is this our price with which once a year by the government or this almost spot basis which changes every quarter or every month?

Vivek Saraogi: There is no price which is fixed formally for ENA. It is around that Rs. 20-21 per liter. It remains there only. There is no 20%-30% correction like that and all.

Pratik Tholiya: It was Rs.25 or Rs 24.69 per liter in FY'21. Right now, it is Rs. 19.81 per liter, that is almost of…

Pramod Patwari: So, Pratik, the current prices are around Rs.20 only ex-Tax.

Vivek Saraogi: To get that Rs.2-3 per liter correction, it's a matter of Rs.4 crore we are discussing in our balance sheet.

Pratik Tholiya: Yes. Fair point, Sir. I think that's it from my side. Thank you and wish you all the best.

Pramod Patwari: Thank you, Pratik.

Moderator: Thank you. The next question is from the line of Rajesh Majumdar from B&K securities. Please go ahead.

Rajesh Majumdar: Yes. Hi, good morning, sir. And thank you for taking my call. So, I had actually one question primarily. We have been seeing that the sugar recovery for the company has fallen in this quarter, as well over last year's Q3. And last year's Q3, you had cited the red rot disease as the reason for the fall behind the sugar recovery.

So, this year, barring the late swing, there have been no such disease related factors, so why is the yield recovery fallen, And, if you look at it over FY 2021, it is coming down from 11.93% to 11.77%. Unless if we assume that a similar kind of fall will happen this year as well, we'll end up at 11.7%, 11.65% for FY'22. So, are we to assume that the recoveries are falling in Central and Eastern U.P. on a secular basis?

Vivek Saraogi: Well, that's a very good question. So, two parts to your question, two answers. Pramod, he's talking of recoveries extrapolated on pre-diversion.

Pramod Patwari: Yes, in pre-diversion.

Vivek Saraogi: Pre-diversion. So, yes, it looks like maybe we would do 11.7% this year. The weather conditions had been very bad. Last 1 month, there is no sunlight, 30 days. As soon as sunlight comes, which we are hoping as the weather condition on the net, they show an improvement and continued sunlight from the 6th of February. So, that is the main factor this year. Disease etc., is lower. So, we are not so worried on the disease this year. But the weather conditions have been very, very bad. So, if you see maybe at the end of the year, and this is a maybe from my side, that Balrampur's fall, might be lower than everybody else's fall on a comparative basis.

Rajesh Majumdar: Right.

Vivek Saraogi: As we come to the end of the season.

Rajesh Majumdar: And my second part was that, is it a secular fall happening in the region going forward?

Vivek Saraogi: So, what I'll do, since there will be many questions on cane, so Avantika, may I request you to just brief on the efforts of the company, which is on a structural basis, on how we look to enhance quantity and quality, ensure sustained availability with better recoveries?

Avantika Saraogi: Thank you so much. So also, just to add to the part that Mr. Saraogi was addressing about the recoveries, possibly having the lowest drop in comparison to the rest, is we had already last year unleashed a very, very robust cane development program, wherein we had achieved 85% of our planting of cane in March. So, that cane is yet to be properly and fully crushed at this moment, and we should be better off than anybody else, I would think, in terms of our neighbors, of course, in terms of recovery. Once that cane comes into crush fully, again we are going to be doing this and preponing planting.

So, this gives the crop an extra one month to grow. And it saves us from these truant weather conditions that we've been dealing with this year. That's the first program. We plan to increase planting by 15-20% this year. So, area under cane, we want to increase by 10% next year. That would also consequently lead to higher crush and we have already unleashed a very, very robust again, varietal balance, wherein we are no longer going to be depending on just 1 high sugar variety, but we are going to be spreading ourselves over 4 or 5 which are all up to the mark of 0238 variety.

We should achieve this very, very soon. In fact, as also mentioned last year and repeating, I mentioned 0118 variety, it is something which we have aggressively gone towards and we are increasing that as we speak that is supposed to ensure it has higher recoveries than 0238 variety. So that is very good news. We've been able to spread it across our areas, and you should see a result of that as well.

Other than this, we have put in a state-of-the-art tissue culture lab which is going to be servicing all the ten units. Tissue culture is a way to multiply new varieties faster and also to keep them disease free. So, we are not only multiplying newer varieties, but we are keeping re-integration program for 0238 variety as well.

Other than this, we are also, so that we never fall into trap of disease and we are able to protect our crops from any problems that might occur, we are doing a seed nursery program as well, where every 2 to 3 years a crop becomes fresh in the entire catchment area of 3 to 3.3 lakh hectares. Rather than this, another thing we are focusing very much on Ratoon management. Ratoon management has historically been very, very backward in Eastern U.P. areas. Central U.P. is still all right. But Eastern U.P. areas have been backward and that's why when you see the season start, we have slightly lower recovery, slightly lower yields. We want to change that and we are putting a very, very big thrust this year on it. So again, next year, maybe even start of season should be better.

Other than this, we have also achieved the highest ever amount of autumn planting last year. We've achieved around 6% of our total area under cane at autumn planting. So, at this time where we are right now, where you're changing over from Ratoon to plant, the autumn plant cane gives us a shot in the arm, the recovery doesn't dip as much as it could have actually right now, considering the weather conditions. Without sunlight to be even getting what you're getting now is a big deal. And also, this crop tends to be disease free. And lastly, we have also raised 3 state-of-the-art soil testing labs across our unit wherein the soil will be tested from all the catchment area and fertilizers, nutrients, micronutrients will be prescribed in a tailored manner and according to the need and it should have better results with lower cost to the farmer. That's it from my side.

Vivek Saraogi: So, what we are doing as you would have heard is we are unleashing a full-fledged cane research protection growth program, if I may say so. So, this is, for example, in expansion, if you have to put up machineries and expansion is up, the investment is about Rs. 1,000 crore, you need to spend in cane to create sustainability, which is in a structured fashion. So, that is also a very big program we are taking up in the company. So, hopefully, or probably, till now because of East U.P. it has been falling short, but hopefully in the next 1 or 2 years, you should see the differentiator.

Rajesh Majumdar: Okay, so are we to assume that yields will go back to 11.9 to 12 or something which we had seen in FY'20 last, in terms of recovery?

Vivek Saraogi: That's what I said, just hopefully just wait for a year more. So, let the performance talk.

Rajesh Majumdar: Right sir, thank you. My 2nd question was an allied question that we are talking about crushing 5% to 7% more cane during the current season. Now my Q3 is already flat, which is some part of the season over. So, we'll have to crush incrementally another 9% to 10% more in Q4, and sugar season you already said that the first month has been impeded a little bit because of the lack of sunshine. So, are we still confident that we'll be able to recover in fourth quarter in terms of the crushing?

Vivek Saraogi: Yes. Fourth quarter and in April.

Pramod Patwari: Some portion will actually spill over from March.

Vivek Saraogi: Yes, that is good, till April. We are very clear on that one till now.

Pramod Patwari: So Rajesh, just to clarify, when we say 5% to 7% more, it will not be on a financial year basis but on sugar year basis.

Vivek Saraogi: Yes, on a sugar season basis.

Rajesh Majumdar: That basically means, April.

Vivek Saraogi: Yes, wait it out a bit more.

Rajesh Majumdar: Okay, thank you sir.

Vivek Saraogi: So, when the need for cane comes in with big expansion and big distillation capacity, we hope to come in with both feet in and with open arms, giving cane to the mills.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Philip Capital. Please go ahead.

Vikram Suryavanshi: Yes, good afternoon, sir. One is that about reporting structure in quarterly we have not seen the segment reporting of power, so, going ahead will we be combining with the sugar or how is our view on that?

Pramod Patwari: So, as permitted by Ind AS, the way the accounts are internally reviewed by the management, so, that becomes an operating or reportable segment. So, taking that into consideration and you are aware of the fact that Cogen is no longer operational during off-season, we operate only during the season to support our manufacturing processes and the activities. So, the Cogen activities has been combined with the sugar and the incineration activities has been combined with the distillery segment. We have just given the operational cogeneration data and financial data has been merged with the respective segments.

Vikram Suryavanshi: Got it. And in case of distillery, how much would be our capacity which will be dual feed out of the total capacity going ahead or are we still considering on that?

Pramod Patwari: We have already commissioned the expansion at Gularia distillery and post expansion our current capacity is 19 crore liter and by FY'24, it will go to 35 crore liter. Again, I would reiterate that within this 35 crore, 2 to 2.5 crore liter will be dedicated towards production of ENA, which will hardly yield any profit, and this ENA will be for discharging our U.P. state excise reservation (molasses reservation policy).

Vikram Suryavanshi: My question was on raw material side. Some of the capacity will be on grain based out of this and how much of that capacity would be so?

Pramod Patwari: Okay, out of 33 crore liter of Ethanol capacity, 5 crore will come from grains and 5 crore will come from juice and the rest will come from B Heavy route.

Vikram Suryavanshi: Right. Okay, got it. And I think what we are hearing recently is that there has been significant increase in the transfer price for the B Heavy molasses. So, what was it for us in this quarter?

Pramod Patwari: So, we increased the transfer price of B Heavy molasses from Rs.7,000 a tonne to Rs.10,300, which has become effective from 1st of October.

Vikram Suryavanshi: Okay, and was our export under any EQ or it is, without any government support and under any obligation?

Pramod Patwari: Yes, we have exported 15,000 tonnes during the quarter and this has gone without any support from the Governments.

Vikram Suryavanshi: Okay, thank you very much.

Pramod Patwari: Thank you.

Moderator: Thank you. The next question is from the line of Trilok Agarwal from Aditya Birla Capital. Please go ahead.

Trilok Agarwal: Yes. Hi, good afternoon and thanks for the opportunity. First of all, I must also reiterate the fact that the disclosure and the detailed presentation is top-class and maybe on the top quartile across sectors not only sugar. Second, I just wanted to hear your thoughts that you guys -- from a 2-year perspective, I know you've already announced your grain based in the distillery, so do we intend to sort of reconsider the plan of further expansion because nearly 50% of India's demand will be met from grain based ethanol. Just wanted to hear your thoughts on that?

Vivek Saraogi: So, basically, we are a little bit of conservative people. So, we'll first do this entire program in the year and take up based on economics, how rice comes in what's the profit there, we go in for it next year. We are actively, internally seeing that but post commissioning of all expansions in the current year.

Trilok Agarwal: Sure, and last question is with regards to the export. –Do you think, this could be the last year of probably the exports from the country given a very tight in context of demand supply after this sugar season end?

Vivek Saraogi: So, it all depends, so, therein you, yourself are building in the best case of global prices to remain strong down the years. So, Pramod, if we see India over the last 3 years.17 million tonnes have been provided by India to the world market. Assume what you said is true and there are a lot of chances that of being correct. Maybe if that happens, the world market itself can get to a level where exports and a little bit of 1 million or 2 million tonnes exports if so needed, can be a very profitable proposition if at all. So, have I made myself clear?

Trilok Agarwal: No, no. I hear you sir. Fair point.

Vivek Saraogi: And if India vanishes from the market, 6.7 million tonnes is the opening stock. Assume you produce, you know diversion is, I am just drawing a scenario next year. Pramod, diversion, 4.5 million tonnes next year. If there is a little bit of tweaking of monsoon in Maharashtra or something, and assume production comes down to 28 million tonnes, consumption production matches and you don't need to export or it just remain at 29 million tonnes. And you need to export a million or two, it should go like in a jiffy.

Trilok Agarwal: Sure. Okay. Thank you, sir. Thank you very much and all the best.

Pramod Patwari: Thank you.

Moderator: Thank you. The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: Yes, good afternoon, Sir, what would be the cost of sugar before considering interest cost for the current sugar season FY'21-'22?

Pramod Patwari: No**,** we don't give forward-looking statement. Whatever cost we have achieved for the 9 months period ended, that has been disclosed in the presentation.

Falguni Dutta: But sir, this will be known right, given that we know the sugar-cane cost and rest costs are mostly same?

Vivek Saraogi: Ma'am, recovery is not known, right?

Falguni Dutta: Okay. And what would be our expected distillery volume for FY'23?

Pramod Patwari: FY'23 may be 23 crore to 24 crore liters (capacity).

Vivek Saraogi: Because we'll get 4 months working in the expansion.

Pramod Patwari: Within that 23-24 crore liters, 2-2.5 crore liters would be ENA.

Falguni Dutta: Okay, and just to ask the other way, I mean, I'm not asking the precise cost of production. The account of the cane cost increase would have gone up by Rs. 2.5 a kg, right, this season?

Pramod Patwari: Cane cost has gone up by Rs. 25 per quintal.

Vivek Saraogi: Yes.

Falguni Dutta: Yes. So, the cost of sugar per kg would have gone up roughly by Rs.2.5 a kg, right?

Pramod Patwari: That will depend upon the recovery.

Vivek Saraogi: You kindly wait for March; you will get your answers.

Falguni Dutta: Okay, okay. Thank you.

Vivek Saraogi: So, what we are saying is, if you're talking about margin, basically if I am to see the price of sugar last year in the month of January, right? It was Rs.31.5 per kg. Pramod, do I recall correctly? So, I remember they were between Rs.31.5 per kg and Rs.32 per kg. Today it is on Rs.34.5 -35 per kg. So, you're already seeing the result of the inventory depletion which we have briefed you on the call.

Falguni Dutta: That's true.

Vivek Saraogi: We are seeing firm sugar prices and some volume improvement. So, maybe the cost will get known when it does get known but we remain buoyant as we proceed into crushing this season's realization in April, May, onwards continued from now and as we proceed into the future.

Falguni Dutta: Okay. Thank you, sir. That's helpful. That's all from my side.

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

Achal Lohade: Yes, good afternoon, sir. And thank you for the opportunity and must compliment here, with respect to the presentation. Very exhaustive and very interesting one. My first question is, in terms of the bio syrup, wanted to check your view in terms of having already tested it and if it is doable, how does that change in terms of our dependence on the grains for our Maizapur plant? And also, with respect to the capacity additions in future?

Vivek Saraogi: No. I didn't get your question at all. What you are asking is?

Achal Lohade: Storage of bio syrup, which Praj Industries is talking about.

Vivek Saraogi: We are not doing that. So why should we do that? Our capacity is built on a certain amount of cane crushing daily. So, the distillery size is at a level where, whatever I crush during the season, I can consume that in the distillery. The reason we have done that is also to test and play out this grain-based business. Off-season we will do grain-based. So had we gone in for the bio syrup technology, we could have made our distillery at 200 KL instead of 320 KL. We could have stored the syrup. So, we're not looking to do that. We're looking to use the capacity in the off-season for grains.

Achal Lohade: Fair point. That is for the current expansion plans what you have.

Vivek Saraogi: Right.

Achal Lohade: This was to be viable alternative would that mean that we will go for further distillery capacity addition? Would that be a fair assumption?

Vivek Saraogi: So, I would say that we would look at grain. Let the things play out. And we have enhanced that distillery to a level where as per the current configuration of the factories, it is now fully utilized. So, mostly I would see any more business coming could be through grain, because we won't want to sacrifice more sugar also. So, everything is doable, it depends on the economics. So, let us see the economics the way they play out.

Achal Lohade: Right. If I understand correctly, you're saying the current distillery capacities are keeping in mind the cane crushing capacities and they are kind of fully utilized. If further expansion, it will be more from grains or the way Maizapur has played. In fact, have I got it right, sir?

Vivek Saraogi: Okay, just forget all what you said and listen to me. There are three parts to this. One, how much sugar do you want to make? In bracket, how much do you want to sacrifice? So, only now if you want to sacrifice more sugar, would you put up another distillery on the juice level, right?

Achal Lohade: Right.

Vivek Saraogi: That will cause you to sacrifice the sugar, right?

Achal Lohade: Correct.

Vivek Saraogi: So, we are already reaching a very big level of sacrifice next year, because Balrampur also will be partly run-on juice. Maizapur fully run on juice, lot of B Heavy capacities available everywhere. So therefore, there is a certain level of sacrifice you'd have reached. Our view, therefore, on sugar prices from the next year onwards is also not bearish at all. So, you want to as a company produce that much of sugar, right? So therefore, more distillation capacity can be looked at, if grain business is viable.

Achal Lohade: Understood.

Vivek Saraogi: We just said being conservative, we want to let one year run and then see it.

Achal Lohade: Understood, that's very, very clear sir.

Vivek Saraogi: Thank you.

Achal Lohade: If we could help with a couple of data points in terms of what is landed cane calls for the quarter gone by?

Vivek Saraogi: That, Pramod is in charge.

Pramod Patwari: Rs.368 per quintal.

Achal Lohade: And in terms of distillery volumes, you said 23 crore liters, 23 to 24 liters crore next year. In the last one year, we talked about 16.5 or 16 crore liters thereabout for the current years. Would we be able to achieve that, or you think there could be some delay or push in the following years?

Pramod Patwari: FY'21, we achieved 16.5 crore including ENA and we're hopeful of achieving 16.5 crore to 17 crore in FY'22. We have already achieved 12.5 crore in 9 months.

Vivek Saraogi: Pramod, are you talking dispatch or production?

Pramod Patwari: Dispatch.

Vivek Saraogi: Yes, right dispatch.

Achal Lohade: Understood. And, this 16.5-17 crore liters will include 2-2.50 crore liter ENA.

Pramod Patwari: FY'22, 2 crore liters of ENA.

Achal Lohade: FY'22, 2 crore liters. Sir, can you help us understand what is this exact obligation? Is it 18% of the normative calculation?

Vivek Saraogi: Yes, yes, you got it right 18% normative.

Achal Lohade: Right. But in that case, like this number looks fairly high in the following years. So, this 2-2.5 crore liters is basis this 18% or there is a cap as this much?

Vivek Saraogi: No, no. It's 18%, our calculation is perfect.

Achal Lohade: Understood.

Vivek Saraogi: Its's south of 2 crore liters, not higher.

Achal Lohade: Understood. And, in terms of the updates for this cogeneration case, where are we and since we have kind of now reworked on the segment disclosures, does this also mean that the possibility of we having the kind of profitability contribution from Cogen is gone?

Vivek Saraogi: The case, despite our best efforts, we can't get it on hearing COVID some excuse or the other, we are trying our very best.

Pramod Patwari: Achal, as far as the profitability of the Cogeneration segment is concerned, it will continue to be there, I'm not commenting on any number. And it will get clubbed with the sugar division and the distillery division.

Vivek Saraogi: And we continue to sell bagasse to get the revenue, which is better than converting into power owing to the downward revision of the tariff.

Achal Lohade: Okay, so I just wanted to understand this bagasse selling, because what is true for us will be true for the entire state. In that case, what is the kind of demand supply we're looking at for the bagasse? Where the user industries are, what their capacity, their requirements for bagasse? How much is met by sugar industry, etc. etc.

Vivek Saraogi: We don't do so much of research in terms of this. We know our buyers are. It's basically paper and pulp units. Some of them are very close to us in terms of location, and we try and get the best price out of them. This year, we got a higher price than last year.

Achal Lohade: Right. No, where I'm coming from sir is, currently, what we are realizing probably would be between Rs. 1,700-1,800 per tonne for bagasse. Could there be a downside to that number?

Vivek Saraogi: No. Next year, we are seeing an up -- see last year, I don't remember exact figures, we are going to get a higher realization by at least Rs.200 to Rs.300 a tonne this year. And, in the next year, our Cogen business, our juice business and the grain business would require bagasse from our factories only. Therefore, having lesser quantity to sell, we should get a much better pricing.

Achal Lohade: Understood. And, just last question, in terms of you talked about 5% to 7% higher crushing for the season. But if you could help us in terms of assuming all normal for the current coming year, given our plants with respect to the varietal change, the plantation overdrive. In terms of the cane crushing, volume for FY 2022 and '23, if you could help us with that sir?

Vivek Saraogi: That Pramod has said 5% to 7%. And, next year so, Fiscal year Pramod you will…

Achal Lohade: Sir, for the Fiscal year?

Pramod Patwari: Fiscal, I don't have the figure right now.

Vivek Saraogi: He will give it to you. We talk crushing season. Next year definitely based on what Avantika told you and our very, very concentrated effort we are hoping for a much, much better, yes. So, we can have better ideas to get in August where you know the entire planting data and monsoon is largely played out.

Achal Lohade: Sure,

Vivek Saraogi: Yes, some will be available in May, in May.

Achal Lohade: May. Okay, okay. Thank you. Thank you very much. I will come back in the queue.

Vivek Saraogi: Yes.

Pramod Patwari: Thank you.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Yes, sir. Thank you for the opportunity, I have only one question, because most of the questions are already answered. The yield of ethanol production from B Heavy route for every 100 quintals of sugarcane. So, because, since we are now talking about aggressive diversion of sugarcane towards ethanol production, so that will result into impact on the overall company profitability. So, what is the movement in that space, sir? Give some indication to it.

Pramod Patwari: Will be in the region of around 31.5% to 33%. Recovery of ethanol from B Heavy molasses will depend upon the level of sugar.

Vivek Saraogi: Closer to 33%, just slightly below…

Manish Ostwal: And, in terms of you always say sir, we should look at our performance on a yearly basis. So, in terms of cost of production of ethanol, so, apart from the sugarcane, what are the other variables which move in a high volatility or such a variable?

Vivek Saraogi: Chemical.

Pramod Patwari: So, other than raw material cost, you can make some inference with the last year's number.

Manish Ostwal: Okay.

Pramod Patwari: And for the B Heavy transfer pricing, we have all already updated you that we have increased it from Rs.7,000 a tonne to Rs. 10,300 a tonne.

Manish Ostwal: Okay sir, thank you sir. Thank you.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Hi, just for a follow-up further on what Achal has asked on the bio syrup. So, what Rajesh commented that the bio syrup can be stored throughout the year with one year plus shelf life and it can be easily transported. So, assume that there is a small distillery which doesn't have the independent distillery, can convert part of the sugarcane into bio syrup, 30% to 40% will it increase the availability of bio syrup and hence, if technology is available, will you be able to use that in those distillery and run for motor, higher number of days from the sugar or bio syrup or you can increase the distillery's capacity? Will you make us understand?

Vivek Saraogi: We've answered that.

Jignesh Kamani: I’m not saying that you're increasing the consumption. If bio-syrup is available right now you’re consuming the molasses. If bio-syrup is available, can you use that to increase your capacity without increasing your sugar cane capacity or sacrificing sugar?

Pramod Patwari: Jignesh, we have already spoken about our roadmap. As of now, we are not looking at this segment.

Jignesh Kamani: Sure. Second question on Brazil. Last year, there was a heavy drought and hence production Brazil got impacted a lot. Recently there has been enough rain in Brazil, do you expect that plantation in Brazil and the sugar production will increase a lot in Brazil at least from next year onwards which will impact the global sugar supply?

Pramod Patwari: We are not expert as far as the global scenario is concerned. But whatever we understand looks like Brazil can go to a level of around 34 million tonnes of production.

Vivek Saraogi: Which is not much if India is out of the market.

Jignesh Kamani: Okay, thanks sir.

Moderator: Thank you. The next question is from the line of Anupam Goswami from B&K Securities. Please go ahead.

Anupam Goswami: Hi sir, good afternoon. So, my first question on the Maizapur unit, we have to understand details based on cane juice and grain. Only that Maizapur unit, what will be the max revenue at a full capacity operation and what could be the EBITDA of that?

Pramod Patwari: We have spoken earlier also that it will have a potential to generate around Rs. 650 crore of annual revenue.

Anupam Goswami: And of that we can we assume EBITDA margin of like 45% to 50%.

Vivek Saraogi: No, we can’t assume that.

Pramod Patwari: EBITDA margin will vary depending upon the many factors including the transfer pricing and the cost of rice as well as the cane juice. But again, I would like to say that kindly visit this topic in site where we in we have said that it will have a payback period of 3.7 years.

Vivek Saraogi: Right. Very good.

Anupam Goswami: Okay, okay. No. I'm asking from the point of view that right now what the margin is excluding the transfer pricing effect, will we dilute the margin going forward with cane juice mix and grains. Question was from that angle?

Vivek Saraogi: We don't look to put up new money in businesses which in our sector, dilute margin, so trust us on that one. That is our calculation.

Anupam Goswami: Okay sir, sir my last question on the associate that we decided to sell off our scale, how much of cashflow can generate? And what could be if there's any at all any profit from that.

Pramod Patwari: Anupam, our Board of Directors has just approved the disposal of our stake in the associate Company. So, in due course of time we will let know.

Vivek Saraogi: Yes.

Anupam Goswami: Alright, Thank you. Thank you so much. I will join back in the queue.

Pramod Patwari: Thank you.

Moderator: Thank you. The next question is from the line of Gangadhara Kini from Elara Securities. Please go ahead.

Gangadhara Kini: Yes, hello. My question is, at what price level of sugar would you consider not diverting to ethanol, because at some point sugar becomes extremely profitable, then there's no point in converting into ethanol right?

Vivek Saraogi: So, the truth is, if you don’t divert into ethanol, you will produce more sugar, which will dampen the price. So, there is a blend and a mix, which everyone decides, and we would try to create every bit the beginning of the season, a best-case blend for the company.

Gangadhara Kini: Okay, now my direct question was, let's say sugar price will go to Rs. 40 per kg. Would that motivate you to not sacrifice sugar for ethanol?

Vivek Saraogi: Okay, let me attempt to answer that directly. If everybody in the country who's having ethanol capacity sees this price of Rs. 40 per kg and stops diverting to ethanol, you will make 4.5 million tonnes of more sugar, which will ensure you don't get Rs. 40 per kg.

So, as I said, this price will be available, if there is no surplus. No surplus is going to be owing to diversion into ethanol. That ethanol price is being, I would say, to the best of my understanding, the Government of India is taking a very pragmatic view on the ethanol pricing. So, having sort of you can’t look at just one portion. That's what I was trying to explain to you. So, if sugar goes to Rs.40 per kg, everybody puts up, everybody starts making sugar and come back to Rs.35 per kg.

Gangadhara Kini: Got it. Got it. Yes, thank you.

Pramod Patwari: Thank you.

Moderator: Thank you. We take the last question from the line of Suhas Naik from Kridha Capital. Please go ahead.

Suhas Naik: Hello. Good afternoon and congratulations on a very nice presentation. I have one question, where you said you will wait for, you will be cautious and wait for a year before taking the further call on grain based. So, what are the unknown factors right now, which you are not aware right now or which can be potential risk, which is why you're planning to wait for some time before they give you a fresh call on further investments?

Vivek Saraogi: That was a good question, the whole thing is, there is a limited amount of capital, and we want to put up at a certain point of time. Having undertaken such a large expansion of sugar and distillery together. So, we just want to give it some time, one. And two, we just want to run the grain business for some time. So, like we've done sugar over years, grain we will be doing for the first time. So, it's just nothing, we just want to wait a little before spending more. There is no large variable one is grappling without uncertainty. So, it's management bandwidth, we want to take up as much as we can do very well.

Pramod Patwari: And, just to add in January ’21, we were at 360 KLPD. So, we are moving from 360 KLPD to 1,050 KLPD.

Suhas Naik: Yes, one more question, last question. In the kind of cash generations, we are looking at going forward, are you planning any related diversifications, maybe chemicals or something right now?

Vivek Saraogi: As a company one keeps evaluating various opportunities. So, as and when something comes up, everything is at the drawing board stage yet. As and when ideas fructify, the Board will deal with it, and everybody will come to know. But yes, one keeps dealing with ideas.

Suhas Naik: Many thanks. Thank you.

Vivek Saraogi: Thank you.

Moderator: Thank you very much, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments. Thank you and over to you all.

Vivek Saraogi: Thank you everyone. Thank you for being with us on this call. Any more clarifications, me and Pramod are there.

Pramod Patwari: Thank you so much.

Vivek Saraogi: Thank you.

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