Balrampur Chini Mills Limited

Q1 FY16 Results Conference Call Transcript
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Karl Kolah

Good afternoon everyone, and thank you for joining us on Balrampur Chini Mills' Q1FY16 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.

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

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

Vivek Saraogi

Good afternoon to you all. I thank you all for joining us today to discuss Balrampur Chini Mill's operating and financial performance for the first quarter ended June 30, 2015.

I would like to begin the call by discussing the latest developments in the sugar sector, following which I would like to take you through the Company's highlights for the quarter.

The Country's sugar production for the current sugar season was up by 16% at 28.3 million tonnes. The huge glut caused due to surge in production and large opening stock inventory put significant pressure on sugar prices. Current realizations have moved up in the past week and are at around Rs. 25 per kg. In addition, high sugarcane prices fixed by the State Government led to very high input costs which adversely impacted the sector.

Early estimates project sugar production for the next season at about 26.5 - 27 million tonnes but it's too early to predict. A clearer picture will emerge few months down the line. The demand on the other hand is expected to be around 25 million tonnes. So we are clearly in an oversupply situation.

Coming to some positive news from the sector, over the past few months the Central Government has taken several initiatives to protect interest of farmers improve liquidity for the mills to facilitate payment of cane arrears. We understand PMO is directly monitoring the situation. This gives us comfort and hope that significant clarity on the outlook for the sector would emerge.

Some measures which have been announced are soft loan of Rs. 6,000 crore for the industry with one year interest subvention. The Government has fixed remunerated relative prices for ethanol blending at about Rs. 48.5 to Rs. 49.5 per litre that has landed at the depot which effectively gives Rs. 40 per litre to the miller, ex-factory for ethanol.

Coming to next year, the excise duty on the ethanol also would be waived so one can safely assume that clarity emerges on that mills would get Rs. 45 per litre for their supply of ethanol produced from next year's molasses. And obviously ethanol now stands at dealings from crude or any other variable.

The government had also announced export incentive of Rs. 4,000 / MT per exports. However, what we are looking at now and what we are hearing is that the Government is looking at a permanent solution to evacuate this surplus which is lying in the system. That is what the PMO is dealing with and we are hopeful that a solution should come whereby not only should the surplus get addressed which is presently there in the system but hopefully it should give a way out and a structure for long term addressable of surplus in the future if any.

Now let me come to the Company, in the current season Balrampur crushed 7.72 crore quintals of cane against 7.82 crore quintals. The recovery for the current season is 9.82 compared to 9.78 in the previous season.

The sugar division continued to deliver negative performance on account of subdued realization, naked costs, non-productive quarter and inventory write downs. The distillery and cogent segment continue to deliver stable performance on better realization. Going forward we are hopeful of getting better volumes as well as enhanced realization from ethanol and power segment would continue to perform well.

To conclude, we remain hopeful that the Central and State Governments will address industry concerns. We believe a normalized performance from the sugar division will only be achieved if cane pricing is rationalized/linked to sugar realizations which will restore the health of the industry permanently.

I would now like to hand over the floor to Kishor.

Kishor Shah Thank you. I will now briefly take you all through the Company's operating and financial performance for Q1 FY2016.

Overall revenues stood at Rs. 636 crore against Rs. 804 crore in corresponding quarter last year. The Company reported a loss of Rs. 73 crore in Q1FY16 as compared to a loss of Rs. 4 crore in Q1FY15. Profitability was impacted due to subdued realizations, inventory writes down and naked costs incurred in a non-productive quarter.

Revenues in the sugar segment were lower by 23% at Rs. 526 crore in Q1FY16. The segment reported a PBIT loss of Rs. 119 crore as compared to a loss of Rs. 60 crore in Q1FY15. During the quarter, sales volume stood at 19.09 lakh quintals as compared to 20.18 lakh quintals in Q1FY15. Realizations for the quarter were significantly lower at Rs. 25.39 per kg as compared to Rs. 31.71 per kg in Q1FY15. As on June 30, 2015, sugar inventory stood at 41.47 lakh quintals and is valued at Rs. 24.28 per kg.

Moving on to the performance on our allied business. In Q1FY16, revenues in the distillery division were at Rs. 64 crore as compared to Rs. 69 crore in Q1FY15. PBIT for the quarter was at Rs. 34 crore as compared to Rs. 36 crore in Q1FY15. RS and ENA sales volumes for Q1FY16 stood at 1,085 KL as against 12,771 KL in Q1FY15. Ethanol sales stood at 14,384 KL in Q1FY16 as compared to 6,404 KL in Q1FY15. Average blended realizations for the quarter were higher at Rs. 39.62 per BL as against Rs. 35.26 per BL in Q1FY15

In our Co-generation business, revenues in Q1FY16 stood at Rs. 90 crore as compared to Rs. 99 crore in Q1FY15. Sales during the quarter were lower at 15.73 crore units as compared to 20.17 crore units in the corresponding quarter last year. Average realizations for the quarter were higher at Rs. 4.81 per unit as compared to Rs. 4.30 per unit in Q1FY2015. PBIT during the quarter stood at 45 crore as compared to Rs. 56 crore in Q1FY15

Interest costs for the quarter were lower at Rs. 29 crore as compared to Rs. 31 crore in Q1FY15. As on 30 June 2015, the Company's Long Term Debt stood at Rs. 492 crore leading to a long-term Debt to Equity ratio of 0.47.

This brings us to the end of my opening remarks. We would now 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.

We have the first question from the line of Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra My first question is related to sugar outlook for the next year. Definitely this year, first is how much you expect actually export to take place? And then some sense on next year sugar production?

Vivek Saraogi You are asking on next year production right?

Satish Mishra The season starting from September.

Vivek Saraogi See it is very difficult as I said in my opening remarks. All we know and very first cut is that it could be lower by about million and a half tonnes. So 27 million tonnes is the fairer estimate if one is asked to give an estimate today. On the exports, in this year about half a million tonnes has been exported and as I was saying earlier on, that the Government of India is looking at a program whereby at least 4 million tonnes should get evacuated from the system permanently. So that would definitely stabilize prices from now and future. But this is the status report as on date, we await the clarification/announcement policy initiative from Government.

Satish Mishra In UP, you mentioned in your PPT that in some areas there are talks related to increasing the ethanol blending from 5% to 10%. So how much is the current blending situation in UP and are you seeing moving OMCs towards 10% blending?

Vivek Saraogi Government has announced 10% blending compulsory but the supply side is not ready. And this is based on many factors one of them being pollution. So as you must be aware that we have initiated our Rs. 200 crore programmed CAPEX, last quarter the board cleared it, whereby owing to pollution measures pollution restraint constraint, we produced about 7.5 crore liters per year, so we are sure that when this measure gets done, these three distilleries itself would produce about 10.5 crore to 11 crore. So (a) this enhancement will come in the country with people complying with pollution, (b) enhancement supply will come through new distillations commencements. So if somebody puts up a new distillery.

Kishor Shah Sir that is a long term process.

Vivek Saraogi It will take time.

Kishor Shah It will take two years, three years this needs a lot of CAPEX from sugar sector.

Satish Mishra And sir, just last question. On the power receivables so last year there was a hike in power tariff. So is it receivables on account of that increase tariff or is it a normal phenomenon?

Vivek Saraogi No, it is a normal phenomenon. Just to clear your mind the enhanced tariff has been accepted.

Kishor Shah And we received for enhanced tariff also.

Vivek Saraogi We have received up to Feb 2015 end for our exports we have received the money.

Moderator Thank you. The next question is from the line of Arya Sen from Jefferies India Pvt. Ltd. Please go ahead.

Arya Sen Just wanted to understand at what price you think it makes sense to make only ethanol from cane, I mean because ethanol prices have gone up and sugar prices have come down. I mean at what is that point at which the two cross over?

Vivek Saraogi The two have already crossed over. But you need capacity. Let us say the ratio is 1.5, at Rs. 30 per kg, ethanol is Rs. 45 per litre, it compensates for a sugar price of Rs. 29 per kg. So sugar price is way below Rs. 29 per kg. So next year assume we will get Rs. 45 per litre your switching cost is at Rs. 29 per kg. However, we need capacity as I clarified but I am hopeful that people from Maharashtra and Karnataka would begin this exercise because their costing is lower. I am hopeful this exercise should begin next year.

Arya Sen So what sort of capacity change in the distilleries would you need for that I mean what sort of CAPEX?

Kishor Shah This requires huge capacity addition because presently we are producing close to about 250 crore liters to 275 crore liters and we are taking care of chemicals and other products also. So if we need to achieve 10% for blending purposes then this require huge CAPEX maybe Rs. 5,000 crore to Rs. 6,000 crore.

Arya Sen I am not referring to 10% blending. I am just referring to if you were to make only ethanol from cane, can you do?

Kishor Shah No, that is not possible we need sugar. We have a consumption of around 25 million tonnes and we have a production of 27.5 million tonnes. It is not that the entire sugarcane production will go into ethanol.

Arya Sen No, obviously not the entire production, but can you on the margins use some cane only for ethanol, I mean would that?

Vivek Saraogi I will tell you there is you want to get technically explained, I will try. Today ethanol is made from molasses. Molasses comes out as 5% of cane crushed. You can get molasses which is rich in the sugar which means if sacrifice a little bit of sugar production and you produce 7% molasses. The moment you produce 7% molasses, you have 40% additional raw material for your distillery with higher input, higher TRS. So that will lead to let us say 10% lower sugar production. This is something called B-heavy molasses. So in India this is the route which will happen.

Arya Sen And your existing capacity can handle this or would you need to do some CAPEX to do this?

Vivek Saraogi I will first need to do more I need to put up another distillery because for my 10.5 to 11 crore liters, I have molasses available. So if I need to go to the B-heavy route, I need to put up another distillery.

Arya Sen So if somebody does not have enough molasses and wants to go to the B route as you said and get 7% molasses, can it be done using existing capacity or does it need a different kind of capacity?

Vivek Saraogi Yes, if your question is that for making ethanol from B-heavy molasses where there is any change in the existing distillery machinery requires, the answer is no. you do not need to change.

Arya Sen And secondly if you could explain the pricing of ethanol I mean I think at the depot it is some Rs. 48 per litre?

Kishor Shah And the expected realization is around Rs. 40 to Rs. 41 per litre depending on location to location.

Vivek Saraogi Let us take an average of Rs. 40 per litre it makes it easier. Rs. 40 per litre ex-factory, Rs. 49 per litre at the depot, so one should be interested in ex-factory. So Rs. 40 per litre ex-factory and I explained that when the duty benefit kicks in, it will be around Rs. 45 per litre.

Arya Sen So that Rs. 49 per litre includes both duty and freight cost or is it?

Kishor Shah Yes, it includes duty, freight cost and other expenditure if any.

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

Achal Lohade A couple of questions. One, you talked about the Government is looking at some longer term solution, We were reading something like barter system for exports at 12% mandatory exports. Just wanted to get a color from you in terms of how feasible it is, has it done in the past ever and how the mills get compensated for the losses?

Vivek Saraogi I think the concept is around the mandatory/compulsory export concept and some compensation on that account. So that is the broad strokes on a broad structure as per the best of my information what the Government is looking at. Rest we have to await.

Kishor Shah We will get market related prices only. It is not a special price or anything.

Vivek Saraogi Yes right, barter will help you send out volume, but nobody is going to pay you like because of barter you might get some premium.

Achal Lohade What I am trying to understand is would this 4 million tonne actually happen I mean given the history of the way Government has worked, how optimistic are you about these exports?

Vivek Saraogi I am very optimistic.

Kishor Shah This can be done, in the past we have done it.

Vivek Saraogi See in 2006-07 just to give you a data point, when probably the infrastructure in Indian ports were lesser than what they are today, we have exported as a country 4.9 million tonnes.

Achal Lohade And in terms of the cane price if you could talk a little bit about what is the current status. We have accounted for about Rs. 200 crore of subsidy?

Vivek Saraogi Rs. 28.60 per quintal of cane is what we have accounted for.

Kishor Shah We have accounted to Rs. 221 crore for the season and which is receivable. Now the government is planning to pay directly to the farmers. So we had a discussion with the Government and the Government is taking the final decision. May be 10 days, 5 days they will decide and then pay directly to the farmer this entire Rs. 221 crore.

Achal Lohade What if somebody like DCM has paid off 100% what happens to the mills will get in that case?

Kishor Shah Yes, they got reimbursement of Rs. 8.60 per quintal already and rest they will get as and when the government decides.

Vivek Saraogi If the fear is whether this money is coming or not, the answer is yes, the money is coming.

Achal Lohade So if it is to be paid directly to the farmer, in that case we will reduce the liability as well.

Vivek Saraogi Exactly.

Achal Lohade Expenses?

Vivek Saraogi Yes, it will be paid on my account to the farmer kind of stuff. The cash flow Government is feeling should not come in my hand, because if Government is floating out a subsidy, the farmer should get it and there should be no pilferage on the way if I can say so.

Achal Lohade But this Rs. 221 crore which is accounted as expense that can get reversed in that case, if they pay directly to the farmer?

Vivek Saraogi No, nothing. I am going to give the banks account, you just think that the accounting is done.

Kishor Shah And liability will get reduced.

Vivek Saraogi They receive, whatever is shown, Pramod?

Pramod Patwari Receivables from UP government and payable to us.

Vivek Saraogi Yes, that entry will get nullified.

Moderator We have next question from the line of Chintan Seth from SKS Capital & Research Pvt. Ltd.. Please go ahead.

Chintan Seth Just on ethanol again. You said the duty will add Rs. 5 per liter to your ex-mill realization henceforth?

Vivek Saraogi Not henceforth probably after 1 December 2015.

Chintan Seth After 1 December 2015, so policy will come in?

Vivek Saraogi It is already announced.

Chintan Seth It is already announced and from December onwards the revision will take place?

Vivek Saraogi Yes.

Chintan Seth And you mentioned that the export of 4 million tonnes is doable given that we have done in the past also in 2006 you gave an example, but given the global scenario where there is a surplus overall and prices are at rock bottom on the global arena also. So is it is feasible to export or are there any takers of Indian sugar in the global market, that is the question basically?

Vivek Saraogi See the Government will have to adequately compensate the export and we are hopeful that that would happen.

Chintan Seth Why is our power volumes down this quarter on a YoY basis?

Vivek Saraogi See actually what has happened that we have held back some bagasse for ethanol production during the coming period. And since we will be switching from in one plant that pollution measure, the integration boiler, etc., would come into production from November so we have just kept it for the second half.

Chintan Seth And what does this mean with effect from April onwards, the transfer price of bagasse has increased from Rs. 1,000 to Rs. 600?

Kishor Shah No, Rs. 600 to Rs. 1,000.

Chintan Seth Yes, Rs. 600 to Rs.1000 so what is the implication of that?

Vivek Saraogi In the UPERC revised its tariff and revision of tariff calls for revision in input price which UPERC is also indicated, therefore we have revised it.

Chintan Seth Then going forward our EBIT will reflect a higher cost in our production?

Kishor Shah We have reflected in the accounts if you look at this profitability it is always reflected there.

Chintan Seth So it will reflect on and the Rs. 200 crore CAPEX, how are you going to spend in next two years, what will be the outgo this year and next year?

Vivek Saraogi No, we are only looking at CAPEX on this side. What we have done outside of that we are not looking at any CAPEX.

Chintan Seth So Rs. 200 crore will you spend this year?

Kishor Shah Outside it is normal CAPEX which could be Rs. 10 crore to Rs. 15 crore.

Vivek Saraogi That is balancing, etc.

Chintan Seth So this year you will be going to spend entirely on the pollution front?

Kishor Shah This year and the next year, over two years we will spend Rs. 200 crore.

Chintan Seth Over two years, but this year only Rs. 15 crore to Rs. 20 crore we are seeing?

Kishor Shah This year it is much more than Rs. 15 crore to Rs. 20 crore. Rs. 15 crore to Rs. 20 crore is the normal CAPEX.

Chintan Seth And towards that the Rs. 200 crore CAPEX?

Vivek Saraogi Major expenditure would take place by March.

Chintan Seth By March this year only?

Vivek Saraogi On this account.

Chintan Seth And for that you have tied up soft loan, in the last call you mentioned that some low cost fund will be available for it from the Sugar Board?

Vivek Saraogi Yes, there is provision for SBA or the Government is going to provide some loan out of this money from the SBA.

Chintan Seth And on our cane dues of Rs. 600 crore, this Rs. 220 odd crore of assistance has been used to repay or that is a net figure right? The assistance last Rs. 220 crore you reported which has been used to pay the cane dues and you will be borrowing another Rs. 200 odd crore to repay?

Vivek Saraogi The cane dues at Rs. 600 crore minus Rs. 220 crore.

Chintan Seth So the net effect is not reflected in the presentation?

Kishor Shah No, we are showing the liability of the Rs. 600 crore as cane dues.

Vivek Saraogi And Rs. 220 crore will be.

Kishor Shah Rs. 221 crore received from Uttar Pradesh government.

Vivek Saraogi The moment that is received and it gets paid

Kishor Shah And the net impact will be.

Vivek Saraogi Rs. 380 crore.

Chintan Seth Rs. 380 odd crore. And sir, based on the inventory we are sitting on a Rs. 1,000 odd crore of inventory at the current realization?

Vivek Saraogi And we have marked the inventory down to Rs. 24.28 per kg .

Kishor Shah But we have a working capital loan also of Rs. 750 crore as on 30th June 2015.

Vivek Saraogi Against the inventory.

Moderator Thank you. Next question is from the line of Siddharth Lawande, an individual advisor. Please go ahead.

Siddharth Lawande What is the status of the investment subsidy the company has to receive from the UP government?

Vivek Saraogi You are talking about 2004 policy?

Siddharth Lawande Yes, 2004 policy and how much is to be received?

Vivek Saraogi It is under litigation.

Kishor Shah This is still under litigation, the case is going on in Allahabad High Court and the Supreme Court.

Siddharth Lawande And what is the status of that litigation?

Kishor Shah That is around Rs. 170 crore.

Siddharth Lawande Rs. 170 crore the company has to receive?

Kishor Shah For the last two years, three years we have not been getting any benefit under that.

Siddharth Lawande And my next question, how many mills you will be able to start in the new season in UP?

Vivek Saraogi I cannot answer that question.

Moderator As there are no further questions from the participants I would now like to hand over the floor back to the management for their closing comments. Over to you, sir.

Vivek Saraogi So this is the scenario at present and seeing the great outstanding from the sector, and the understanding which now finally to our mind has permeated into the state and center. We are hoping of rationalization very soon. Thank you.

Moderator Thank you very much, sir. Ladies and gentlemen, on behalf of Balrampur Chini Mills Limited that concludes this conference call. Thank you for joining us.