Balrampur Chini Mills Limited
Q1 FY18 Earning Conference Call
August 1, 2017

Karl Kolah: Good afternoon everyone, and thank you for joining us on Balrampur Chini Mills' Q1 FY18 results conference call. Today we have with us Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills and Mr. Pramod Patwari, Chief Financial Officer 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 everyone and thank you for joining us on Balrampur Chini's Q1FY18 earnings conference call. Let me initiate this call by giving you an update on the latest developments on the sugar sector following which Pramod will take you through the Company's financial highlights.

According to the latest estimates, ISMA expects the country's sugar production for the ensuing season to be higher at 251 lakh tonnes as against 202 lakh tonnes in the previous season. This is largely on account of a rebound of production in states of Maharashtra and Karnataka and increasing production in UP. Maharashtra is expected to produce around 74 lakh tonnes from 42 lakh tonnes last year on account of higher cane acreage. U.P. sugar production is expected to grow to 100 lakh tonnes for the ensuing season as compared to 88 lakh tonnes for the earlier season on account of even higher yields and improving recoveries. Therefore, production consumption for the next year going forward seems to be well-balanced.

Government is taking several initiatives on building a healthy and sustainable environment for the sugar industry. Recently, to restrict any unwanted imports, Government has increased the import duty from 40% to 50% on refined as well as raw sugar. In addition, Central Government has also written to State Governments to do away with SAP and implement Rangarajan Formula. We believe this is the right time to have a long-term solution in place which takes care of all stakeholders including farmer, millers and consumers.

Moving to Company's Performance, we delivered healthy operational performance for the quarter. This was primarily on account of sugar segment which registered higher realization and better volumes. In June, we witnessed some pressure on sugar realization in volumes as traders were destocking on account of GST. However, the prices have bounced back and normalized, with volumes and realization picking up to the pre-GST level and at times having crossed it.

Coming to the Company's Outlook for the next season, we anticipate company to be crushing almost 10 crore quintals of cane and our recovery also will be higher. This is on the back of early variety moving from 40% to 60%. Owing to increase in percentage of early variety, we are expecting a higher recovery for our Company. Both the allied division has given a stable performance. We are targeting close to 9 crore liters of sale of Ethanol. The Cogen segment also expected to deliver healthy performance, as a result of increased cane crushing.

In conclusion, I would like to reiterate, we are poised to deliver strong operational and financial performance in the current year backed by the sugar segment and increasing contribution from our allied division. We foresee limited CAPEX and are on track to generate strong free cash flows in the coming year.

I am happy to share that the Board of Directors has declared an interim dividend of Rs.2.5 per share for the current year.

I would now request Pramod to take you through some of the financial highlights.

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 revenues in Q1FY18 were higher by 37% y-o-y at Rs. 1,136 crore. Net profit for the quarter improved by 8% y-o-y to Rs. 120 crore. This was due to healthy performance from the sugar segment and positive contribution from the Distillery and Cogeneration businesses.

Revenues from the sugar segment improved by 38% y-o-y to Rs. 1,002 crore in Q1FY18. The segment reported healthy profitability of Rs. 140 crore, up 35% y-o-y driven by higher sales volumes and realizations. Sugar sales during the quarter were higher at 24.59 lakh quintals as compared to 18.95 lakh quintals in Q1FY17. Sugar realizations improved to Rs. 36.65 per kg as against Rs. 34.56 per kg in Q1 FY17. As on June 30, sugar inventory stood at 43.73 lakh quintals valued at Rs. 31.78 per kg.

In Q1FY18, revenues from the distillery segment were at Rs. 108 crore. Segment PBIT was Rs. 34 crore. PBIT was subdued on account of lower realization due to withdrawal of excise duty relief as well as downward revision in prices of Ethanol. Average realizations for the quarter stood at Rs. 38.97 per BL as compared to Rs. 46.40 per BL during Q1FY17. Ethanol sales were at 24,323 KL as compared to 16,554 KL during Q1FY17.

In Co-generation segment, revenues for the quarter enhanced by 52% to Rs. 240 crore. The segment reported a higher PBIT of Rs. 27 crore during the quarter. Sales during the quarter were at 14.57 crore unit as compared to 10 crore unit in Q1FY17. Average realization during the quarter stood at Rs. 4.80/unit.

Interest cost for the quarter stood at Rs. 26 crore as compared to Rs.21 crore in Q1 FY17 on account of higher working capital utilization. During the quarter, we repaid Rs. 18.8 crore of long-term debt and as on 30th June, the long-term debt stood at Rs. 186 crore, out of which Rs. 130.2 crore is interest free and the balance amount carries an average interest rate of 4%. Long term debt-equity ratio stands at 0.11 on 30th June 2017.

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

Moderator: Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Nitin Gosar from Invesco Asset Management Company Ltd. Please go ahead.

Nitin Gosar: Just wanted to check on this central ministry letter which has gone to U.P. government wherein they have shared their thoughts to realign SAP and FRP pricing, and also the letter indicated that the time is right to implement Rangarajan formula for cane pricing. So it indicates that the U.P. election outcome was the last hurdle to move towards realigning the FRP and SAP pricing. Is that the thought process? So it is more on the future of sugarcane pricing?

Vivek Saraogi: I will try and answer that and I think that is interesting everybody would like to know. Basically, I think this has emanated from the fact that there is the same Government both at State and at Center and the center's thought process is very clear, and also, U.P. Government on its own, they have seen that in the past when they have resorted to a cane price which is not economically backed, they have suffered, and the end result is, you raise the price once, you cannot get it down, you end up paying from your coffers. You have seen how much U.P. Government had to pitch in, in the last 3, 4 years based on cash reimbursement as well as tax waivers. If you saw center also had to put up money, interest free loan they have to bear the burden, they give special ethanol price; they also gave money for exports. So basically the thought process is that FRP is something which is determined on a country-wide basis. Earlier, if you recall, the name was (SMP) Statutory Minimum Price, now they call it FRP which is Fair and Remunerative Price. Remunerative means that there is an element of profit added in it. So having said that and U.P.'s recovery having improved, the FRP and SAP gap in U.P. have narrowed down considerably. So seeing the narrowing down of the gap, seeing the sugar price, seeing the fact that now and long-term permanent formula needs to put in, we put in place so that tomorrow as in the next few years, the scenario which prevails in 2012 to 2015 or 2011 to 2015, that does not repeat itself. So this is a whole psychology and the thinking behind this move.

Nitin Gosar: The last shuttle was the election outcome. You think so?

Vivek Saraogi: Let me rephrase, it was not the election outcome. Assume there was a different government and not a BJP government in U.P. This letter could still have been written but that letter would not have been heeded to. It would have been put on the backburner. State Government would have said I will think of what to do. Now with the same government, the letter has a different meaning altogether. Have I explained the difference? Not because any election has happened and the next election is five years later. Because that the government is aligned and the U.P. government's CM and PM, these are people who's thought process is on the ground, they are abreast with ground reality. That is my take home.

Nitin Gosar: What is the road map like once this letter has been well accepted by the State-level Ministry, what are the additional procedures that are required to be done so that things come to the center for approving the Rangarajan Committee Report?

Vivek Saraogi: Nothing has to come to the center, only state has to do what it needs to do for which it needs to make a GO, pass in the cabinet, etc., So it is all under the State Government now. If you are asking of what documentation process needs to be followed, my understanding is state cabinet needs to do it, that is all.

Nitin Gosar: Which can be done in the immediate sitting whenever the state…?

Vivek Saraogi: Exactly.

Nitin Gosar: According to Rangarajan Committee, the pricing was linked to 70% of the remuneration?

Vivek Saraogi: No, it is 70% of all the by-products included. Or the easier method is 75% of sugar price realization.

Nitin Gosar: Does that committee also takes into account that by doing so, the Company should be in a position to at least do minimum 18%-20% ROC on sustainable basis?

Vivek Saraogi: That would again depend company-to-company, whether the Company has a by-product, what is the recovery of the company, what is the debt level of the company, what is the interest rate. There are many other factors.

Nitin Gosar: But keeping in mind, Balrampur has the benchmark for the industry on efficiency front. You see that?

Vivek Saraogi: We can only say that the sustainable level of profitability will be very pleasing to see and that will be sustainable.

Nitin Gosar: What are the arrears right now we are looking in for the sector and for the company?

Vivek Saraogi: Balrampur has nil arrears. UP State has about Rs.2,000 crore arrears.

Nitin Gosar: You mentioned about some funding coming in from State Government to support this SAP pricing, the additional methods which State Government was deploying. What was the amount to the tune of which State Government would have been required to chip in, in the last 2, 3 years?

Vivek Saraogi: We give you the data, but for example, in one year, they had given Rs. 40. So it almost came down to Rs. 3,000 crore two years back in one single year. Last year it was some waiver of tax, I do not remember the exact figure. Before that, it was again about Rs.16, Rs.15, Rs.18, so which must have been Rs.1,000 crore.

Moderator: Thank you. Next question is from the line of Sachin Kasera from Lucky Investment Managers Pvt. Ltd. Please go ahead.

Sachin Kasera: Going by the interactions you had with the State Government, what according to you is the probability as of now you see this Rangarajan formula will get implemented in U.P.?

Vivek Saraogi: As I have been trying to explain, a) my dialogue will reveal, not only mine, I mean, lot of people I met, that cane pricing will be extremely pragmatic. Now whether the formula get accepted word by word in letter and spirit in one year, two years, I cannot guarantee that. All I know is the cane pricing methodology or the cane price fixation going ahead will be based more on the fact that please pay in time. As you have seen, U.P. will do a life time record production. We have indicated 100 lakh tonnes. Farmer is interested in quick disposal of cane and being paid for the same in time. I think that would be more of a mandate rather than tinkering with the benchmark SAP. So I am making two assumptions and these are the assumptions that If SAP is to remain, FRP does not get done this year, which is possible, it might take another year or something, the increase in SAP if at all there is an increase, might be very tepid marginally. The Hon'ble CM has gone on record and said that our desire is to increase the farm income by increasing their yield, which happens to be early variety. To give you an example, in Balrampur, we are going to go from 40% to 60%. Assume we crush 10 crore quintals of cane, there are 2 crore more of early variety which means the farmer is diverting more land, 20% of the land belonging to all the 10 units of Balrampur Chini Mills to early variety which means in that 20% is income is growing. Is it not? Because that is giving far better yield. His yield is growing and I have indicated my recovery will grow. So it is a win-win.

Sachin Kasera: How much is the yield better for early variety sir?

Vivek Saraogi: 1.7 to 2x.

Sachin Kasera: Is there a major increase in cost or does it straightaway mean that this realization, total income from the same farm double between 70% to 100%, is that what you are saying?

Vivek Saraogi: What happens, if you have one acre of land let us say and the regular variety gives you 20 tonnes, let us say, so early variety can easily give 40 tonnes from one acre; however that requires more input of agri products, it requires a little more caring cropping, let us say the cost goes up by 25%, the resultant impact is 100%.

Sachin Kasera: That is still a huge gain from the farmers?

Vivek Saraogi: Huge. East UP technically is the most lazy area. Why do you think farmers have gone to from 40% to 60%, a 50% jump. We are pretty certain 60% would go to 85%. Assume you want an SS18-19 target, our internal target is 80% plus.

Sachin Kasera: While you did mention that you are looking at 60% crushing early variety, what would be the same standard for the entire U.P. as per your guesstimates?

Vivek Saraogi: We will try and get back to you on that regard. For example, I will tell you, if you see two of our factories, Kumbhi and Gularia, the early variety there is above 80%, and if you see their average recovery for the current year, it has been about 11.95% average. It shows you what 80% plus early variety can do. If 40% this year give 10.74%, that is why we are guiding that our recovery next year should be definitely higher. So let us say, goes to an 11% or something and then in following year it goes to 11.45% then our internal target of 80% plus is met.

Sachin Kasera: Which means that every year we are able to reduce our cost by 4-5%?

Vivek Saraogi: Exactly, 2-3-4% definitely, and the farmer is improving his yield.

Sachin Kasera: But does it mean that the U.P. production will go significantly higher from the 10 MT you are guiding, it could end up with 13-14 in two years and in turn that could lead to lot of pressure on the sugar prices?

Vivek Saraogi: We have given you an idea for SS17-18. That should be absolutely balanced. If you see the closing stock, it could be 3.8-4.0 MT, this year you are assuming production consumption to be balanced next year, so 3.8-4.0 MT is again your closing stock next year. I am just assuming in SS18-19, India makes 280 lakh tonnes, now your closing stock actually needs a beefing up or reinforcement of at least 1.2 to 1.3 lakh MT. So let us assume 15 lakh tonnes goes there, consumption will go up by at least 5-7 lakh tonnes, you are left with the supplies of 10 lakh tonnes. Government is very clear and we have seen the evidence. MIEQ formula where everybody is given a quota asked to export, loss is reimbursed. 10 lakh tonnes happens in jiffy. I do not see that price trajectory breaking into any kind of negative zone the kind of which we have seen in the past.

Sachin Kasera: My question is more from the perspective that since you have mentioned that the same income of a farmer goes up by almost 70-100%. Will it mean that there could be a substantial increase and the mills are bound to buy all the sugarcane as per the law, could yield to a significant level, within the sugarcane itself, huge chip into early variety and plus lot of crops switching from other varieties to sugarcane because then that will become the one of the most remunerative cane crops in U.P.

Vivek Saraogi: U.P.'s production is not going up based on area, I do not think there is much increase in acreage, and I am not thinking that acreage will go up also. That is why I have tried to tell you that SS18-19 could be 280 lakh tonnes from 251 lakh tonnes. That would cover all your thoughts on how the production can increase and there is a limit to crushing capacity in U.P. Now assuming the crushing capacity reaches up to April end, the farmers will not grow more cane. If you understand the farmer psyche, he is also an economist, he is an agri-economist who is better than you and me. He does not like his crop going into April second half. The moment he sees the mill going into that zone, he stops increasing area at all, he can reduce area. I have guided based on my best ability and have kept the yield improvement and the early variety for the state and for the Company and I have tried to answer your queries.

Sachin Kasera: Thank you very much sir for that. My second question is regarding power. Recently, there have been news on some of the SEBs trying to renegotiate the power on the renewable energy. We are also part of the exercise. Do you think today we are between Rs. 4.7 to Rs. 5. Are there any possibility to bring it down to Rs. 3.5 or Rs. 3.00 per unit.

Vivek Saraogi: The situation is that U.P. Government is trying to reduce losses of its discom. There might be a possibility. I am not saying there is, I am not saying we have any evidence yet. So let me tell you how power tariff is determined. Ours is determined through an open hearing by UPERC where not only UPPCL, but it is a public hearing, and it is a five-year tariff fixation. Very legally talking, UPPCL cannot cancel it. It is not a PPA which happened by invitation or bidding was not allowed or there was no favor done to the industry. It is based on CRP guided price of bagasse and station heat rate which is the technical part of the working. Therefore, legally, you cannot cancel it. Now coming back to UPPCL's cash flow and their tariff, they have an APPC rate which is Rs.3.8 per unit. APPC is the average power purchase price for the year. Our average price of co-generation let us say is about Rs.4.8 per unit. They get benefit of Re.1 REC on this. So we are down to Rs.3.8 per unit effective. Rs.4.8 per unit is the benchmark tariff, the DISCOM gets a Re.1 REC waiver by buying this. So the net actual cost is Rs.3.8 per unit which is coincidentally, absolutely aligned to their APPC which is the average purchase price for the year. So a), we are not in a zone where UPPCL because of us is bleeding or losing money on this segment. Having said that, I cannot tell you more than that. If there is some little bit of here and there, it is well absorbed by our volumes and increase in the sales and reduction in cost because of that.

Moderator: Thank you. We take the next question from the line of Ajay Khandelwal from BOI Axa Investment Managers. Please go ahead.

Ajay Khandelwal: There have been talks of U.P. Government starting some sugar mills. So what is the status and how will it affect the supply/demand situation then?

Vivek Saraogi: Absolutely non-event.

Ajay Khandelwal: Second question is there were talks of these hybrid seeds getting used for sugar and their yields are improving even though acreage is the same. So what is your take on that?

Vivek Saraogi: There are no hybrid seeds in U.P., there is something called early variety and we have factored that in for our next year's production of U.P.

Ajay Khandelwal: So what could be the impact in terms of production because of these?

Vivek Saraogi: As I said in the opening remarks, 88 lakhs is the current year production, next year would be 100 lakh tonnes and this is because of the early variety only.

Moderator: Thank you. We have question from the line of Sachin Kasera from Lucky Investment Managers Pvt. Ltd. Please go ahead.

Sachin Kasera: So in this case, what is the target that we are having for more distillery and power units to be reported for FY'18?

Pramod Patwari: For distillery, we have a target of around 9 crore plus liters and for Cogeneration in excess of 61 crore units.

Sachin Kasera: I believe we were doing a project for reducing compliance with environment especially on the Distillery side. Is that working properly, we got the desired results from that?

Vivek Saraogi: Yes, I think our efforts have yielded. We will be completely pollution compliant. That is our view both in Distillery and Sugar.

Sachin Kasera: Just one follow-up question on the similar question on the Distillery front also. With crude prices being low, do you think there could be some more pressure on the ethanol realizations in the Rs.39, 40 liters to turn out like Rs. 35 -36 liters or do you think these are sustainable about Rs.39, 40 liters?

Vivek Saraogi: No, I personally feel and whatever discussions we have had, we are hoping that it goes up by a rupee or two. Chances of reduction to my mind are minimal.

Sachin Kasera: My last question regarding the utilization of cash flow. I know this quarter again you have given good interim dividend. So our policy will continue to remain to consolidate and pay out the cash or are we looking at some growth strategy also now?

Vivek Saraogi: We will resort to a combination of both. As we said, we had also dialogue with the U.P. government and we have seen other means. It will all depend on the way and opportunity presents itself. If the idea and the thought process is to invest, we will do it because we feel it is going to be viable and assume the idea is not viable for the sake of investment, we do not believe in doing it. In the event, the cash flow is there with the company, you have seen our conduct in the past, and we will retain our conduct of payouts.

Moderator: Thank you. Next question is from the line of Ashan Mishra from Cogencis. Please go ahead.

Ashan Mishra: Sir, first of all, I want to know that the production number that you are giving for next year, is it your number or is it ISMA's number the 10 MT number that you are giving?

Vivek Saraogi: The 251 lakh tonnes is ISMA's number for the country, and our number we have made as an estimate which is a very early estimate, the final sowing, etc., survey you actually get to know in October.

Ashan Mishra: Also I wanted to know what is the average sugar recovery you are looking at in the state next year in the next season, because I think it was almost unchanged this year at 10.61%. Do you see it rising next year?

Vivek Saraogi: That is a very tough call to answer. May be a little bit.

Ashan Mishra: Also sir, are you planning on early crushing?

Vivek Saraogi: Yes, because of our cane availability also which is looking 15-20% higher, we definitely will start early, 10, 12, 15 days types.

Ashan Mishra: So sir, when will you start the crushing operations?

Vivek Saraogi: When the monsoon finish, etc., but somewhere first week November.

Ashan Mishra: Sir, when you are talking about the early variety which gives higher yields and subsequently higher recovery. Sir, are you talking about CO238 variety or are you talking about other varieties also?

Vivek Saraogi: CO238 and CO239.

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

Achal Lohade: More of a longer term question I had; one, if I look at the cyclicality over last whatever 10, 12 years, do you think theoretically if the linkage of sugarcane price happens, would that volatility reduce in your view or that remain?

Vivek Saraogi: Definitely reduce.

Achal Lohade: Because I was wondering, just a theoretical exercise I was trying to work on, if the sugar price goes up to Rs.40 per kg, the farmer gets more and we also get more. But if sugar price goes down, for whatever reason, the spread narrows for us, the farmer's price may not go below the FRP or the SAP. In that case, the farmer will still remain or may move out of the cane. I am just curious to understand your perspective on that.

Vivek Saraogi: Your question has complete logic. However, let me try to attempt to answer that. What happens is FRP, yes, is minimum. So FRP might stagnate for a period of time. Secondly, assume the prices go down, why would it go down because stock will be higher, production will be much higher than consumption. Yes, that is the only reason, is it not? Because we are the largest consuming country by far. At that point of time, I tried to indicate earlier, Government of India is very proactive in ensuring that that surplus is evicted immediately. If the surplus is evicted immediately, there is no reason for prices to weaken. I think the Government of India is also actively discussing another part of the CACP recommendation which is called PSF. RSF is something called Revenue Sharing Formula, that is the technical word for Rangarajan. If your FRP goes below RSF, then Government of India thinking of on actively in line with something called PSF, which is the Price Stabilization Fund recommended by CACP. That is when they would come in help you export, pay you the difference, ensure that that the inventory levels are such that prices do not break. So this is all happening. I think both the State and Centre together are abreast of the fact that the sector needs to be handled in a manner so that the farmer gets his payment in time.

Achal Lohade: Sir, the second question I had… again, I think it is a bit early to talk about it, in case of a linkage, would SAP of the current level stays or SAP will be totally dismantled and the effective cane price for the farmers goes down though his overall revenue may not go down, is that a fair assumption?

Vivek Saraogi: Very technically, if you look at FRP today, which is Rs.255 per quintal. Based on U.P.'s last year recovery, which is 10.6%, FRP for UP translates to Rs.284 per quintal. So that is a definite benchmark with SAP would not go down, you must assume. If UP's recovery picks up a little more, UP's FRP becomes Rs.305 per quintal. When that is an FRP, Government of India as I said in the beginning is duty bound to protect your price to ensure you can pay the FRP and you have seen the conduct in the past – interest free loans, ethanol prices, exports. So definitely they would resort to all the measures to ensure that FRP is immediately paid, and they have enough ammunition at their hands to be able to do it very easily. So let us not look at how cane price would gyrate over a year or two. To understand the sector and to understand the beauty of this long-term policy, is to understand that the cane price payable by the mills, would be protected in terms of the realization based on government policy, because this is a part of the CACP Report.

Achal Lohade: Second question is given our balance sheet strength, you have talked about the acquisition if at all inorganic growth opportunity, do you think if the linkage is in place, does it make sense to acquire or grow organically?

Vivek Saraogi: The answer is 'yes'. Once everything is in place and assets which have potential are available, and we are already studying the same, once the policies in place and the correct asset is available, we definitely look to it.

Achal Lohade: If I look at our production number, we are about 0.9 MT on overall India production of let us say 20 MT, roughly about 5%. What I am trying to understand, even if you double you will still be 8-9% of the overall India production. Does it really change in terms of your pricing power for the sugar prices actually?

Vivek Saraogi: Nothing. Understand one thing; this is an industry which has between 500-550 mills run in the country and there is no question of some any individual or a group holding any power. It is a free market and dealt in a most free way.

Achal Lohade: Second, in Maharashtra, there have been a lot of talk about new sugar mills coming up. Maharashtra, we are already talking about 4.2 become 7.4. Would these new mills add to more production number, just a thought from your side?

Vivek Saraogi: No question again. I do not think new mills are coming infact mills are shutting down in some areas only. If you remember, it was 8.7 million tonnes which became 4.2 million tonnes., this is going back to 7.4 million tonnes. So it is still lesser than 8.7 which was the production prior to this year which is SS15-16. So that is not a fear at all.

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

Bhavin Chheda: How much is the Ethanol tenders which already have been issued and how much Balrampur has the order book?

Vivek Saraogi: Our order book till now is about Rs. 8 crore. The new tender terms will come probably in September or October. The total tender is Rs.80 crore.

Bhavin Chheda: So this will get over by August?

Vivek Saraogi: Technically it should, but GST and all, I think it will take another month. But that supplies to begin November end. The old dispatch is valid till 1st December. The new contract supplies begin only after 1st December.

Bhavin Chheda: How much we have already completed till date out of that Rs.8 crore?

Vivek Saraogi: Rs.4.43 crore dispatched.

Moderator: Thank you. The next question is from the line of Nitin Gosar. Please go ahead.

Nitin Gosar: On the FRP pricing if one were to see, UP would stand on a better footing if FRP were to be removed and calculation that you elaborated, how effectively the FRP itself will become more remunerative if one were to look at from yield perspective? Then from that overall macro picture, where does the other states stand, are they so remunerative on the FRP pricing or they are not so effective?

Vivek Saraogi: Let me put in a different way; I think the scenario in UP as I said in the past also is the best, it would continue to remain so. You have natural advantage of the least reliance to monsoon here and you are not in a drought-hit area like either Tamil Nadu or really parts dry areas like parts of Maharashtra. If one were to study the most natural cane growing belt, on a theoretical basis by some scientists, I am sure UP would come up #1.

Nitin Gosar: So directionally, it is the UP state which will be the most efficient and will continue to improve as compared to the other states?

Vivek Saraogi: In my mind, without a doubt.

Nitin Gosar: On pricing front, just to rework on that formula if Rs. 30 per kg becomes the cane procurement price as of today, the theoretical price if one were to implement the Rangarajan Committee Report, then theoretically the price should be around Rs.41-42 per kg?

Vivek Saraogi: It also depends on recovery. If recovery is higher, then you make more sugar, is it not? So it does not need to go to Rs.41-42, Rs.38 is enough I think for a company like us.

Moderator: Thank you. The next question is from the line of Sageraj Bariya from East India Securities Limited. Please go ahead.

Sageraj Bariya: Sorry sir in case I missed it, any view sir on the sugar prices that you shared?

Vivek Saraogi: Understand a couple of things because we have been seeing and reading and getting queries. There is no shortage at all because mills will begin this time in the month of end October. So your closing stock as I said for our group which is East which begins the last. I have indicated first week November. So the closing stock of sugar which is let us say 40 lakh tons, it is as on 1st October. Assume you are consuming like 23 lakh tonnes in October and counting festival everything, you still at 17 lakh tonnes on 1st of November and that is when your production has begun kind of full swing. When I begin my factory, assume I have ten mills, I have no stock in two mills, the day I start from two days thereafter where sugar takes to come out, I can immediately start selling and dispatching, is it not? So a) there is no shortage, but the inventory scenario is just in time and to mouth. I do not see a pricing fall. A gradual uptick can definitely happen.

Sageraj Bariya: On M&A side, are the mills available for of course sales basically in UP area?

Vivek Saraogi: I said that one is looking at it. I do not think there is any clear offer as such; however, one is studying the various combinations which can be sort of various ideas which can be explored because there are a lot of issues in any kind of buyouts when you have dues. So one is looking at all possibilities and I have indicated. I do not think I can say more.

Sageraj Bariya: Just a follow-up, what are the challenges in buyout if you can highlight?

Vivek Saraogi: If there is a company with debt and cane arrears, who is to iron it out?

Sageraj Bariya: Apart from that, there is no real rules and restrictions from the government?

Vivek Saraogi: There is no restriction. I am saying the construct of the asset has to be clean. Nobody is going to buying into litigation.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: My question is that last year we have paid around Rs. 315 for the early variety. If we paid Rs.315, if we go by that price, then Rs. 39.50 will be the price so that the farmers will get the same price if we go by the Rangarajan formula?

Vivek Saraogi: I have tried to explain Rangarajan.

Aman Sonthalia: Because at Rs. 39.50 per kg, 75% is I think Rs. 315?

Vivek Saraogi: It is not that simple. If you make more sugar, your realization improves.

Aman Sonthalia: Just I wanted to know that whether the government make it sure that the price rules around Rs. 39.50 per kg so that the farmers will not complain?

Vivek Saraogi: I am not saying that Rs. 39.50 per kg, because recovery is higher, so you have more sugar available.

Aman Sonthalia: In the coming season, I think the mills will start early. Whether it will affect the recovery?

Vivek Saraogi: No, because of early variety means early maturing presence, I do not think recovery will be impacted.

Aman Sonthalia: Suppose there are two mills, one with higher recovery and one with lower recovery. So the farmers which is supplying sugarcane to the higher recovery mills will get better price against with lower recovery. So whether it will make a problem for the State Government to handle the stock?

Vivek Saraogi: These are things which are yet to be explored. You are talking of differential pricing, is it not? They all very early stages, letter has just come, dialoguing has begun and it is very difficult to answer all these questions right now.

Aman Sonthalia: Sir, I think the price increase in case happens, this is going to be the best thing happen to the UP sugar industry ever?

Vivek Saraogi: Yes, 100%.

Moderator: Thank you. The next question is from the line of Biju Somanath, individual investor. Please go ahead.

Biju Somanath: My question is connected to the GST implementation. Now we are having a tax rate of 5%. Our ex-mill price realization is also including that 5%, right?

Vivek Saraogi: No, whenever we talk of a figure, it is without GST.

Biju Somanath: That means exclusive of all of my taxes duties?

Vivek Saraogi: Yes, it is called ex-mill which means taxes are paid by the buyer.

Biju Somanath: That means nothing but the ex-factory price for our company?

Vivek Saraogi: Ex-company's realization.

Biju Somanath: That means that is exclusive of all taxes, duties there is.

Vivek Saraogi: Absolutely.

Biju Somanath: In the new regime, to what extent percentage point, our entire input tax credit can be, means we will be having lot of other input tax credit eligible, so is it much better off than the previous regime, in the new regime?

Vivek Saraogi: Absolutely, in our other businesses, since we are consuming the goods ourselves, there is no negative impact of GST on power and ethanol.

Biju Somanath: My query in the present regime in comparison to our previous regime, what will be the percentage of input tax credit we are able to avail, means are we better off in the new regime?

Vivek Saraogi: Yes, 100%.

Biju Somanath: I am having a very important query to ask, that is particularly connected with our cost structure. The reason is if we compare our cane crushing within the last two seasons, means just concluded in the previous season, we crushed almost 20% more cane. If you see the cost structure, how it is moving, of course, cane pricing, there is an increase of almost 29.5% on a landed cost basis, we are paying right now around Rs.303 on our landed cost basis. So current season and the last season if I am analyzing my cane cost is there is a hike of almost 13.5%. Now, after my crushing, of course, this year a little bit of half percentage point recovery has come down, barring that, I was able to crush almost 19% more, means my fixed cost absorption shall be on a higher side which enable me to reduce my cost of my inventory. If you are seeing the cost of inventory on 31st March vis-à-vis last year my cost of inventory there is also a sequential increase of 39.5%. This is what is not I am able to connect properly. That is to say my same cost there was an increase of almost 39.5%, my cost of inventory was also increasing exactly by that percentage points Y-O-Y. Can you please clarify?

Pramod Patwari: The cost of production for the financial year ended March '17 was around Rs. 31.30 per kg. Within that Rs. 31.30 per kg, our conversion cost was around Rs.1.20 if I remember correctly after giving credit for byproducts. In FY16, the cost of production was around Rs. 27 per kg. So the difference between FY16 and FY17 was Rs. 4. In FY16, we enjoyed certain tax waivers and also the recovery was 11.06%.

Biju Somanath: Correct, there was a reduction of 0.5% in recovery, that is the only thing.

Pramod Patwari: That was the only reason for this increase in the cost of production from Rs. 27 to Rs. 31. In FY17, we did not enjoy any tax waivers, there was an increase in cane price, there was a reduction in cane recovery.

Biju Somanath: So both put together has got this movement in cost, this is what you are trying to convey?

Pramod Patwari: Yes.

Biju Somanath: Sir, we are having interest-free loan to the extent of almost Rs.135 crore in our books. Out of that interest free loan, can you please tell me what is the repayment schedule for that?

Pramod Patwari: Rs.135 crore is payable over a period of next 21-months.

Biju Somanath: So six months gap is there for each installment payment?

Pramod Patwari: 3 months.

Biju Somanath: For enhancing the operating efficiencies, we are now going ahead with a small CAPEX nearly Rs.60-odd crore we had spent. Is it out of purely our internal accrual or any interest subvention loan are we able to avail?

Pramod Patwari: Out of internal accruals.

Biju Somanath: Is there any problem for us to do one more buyback?

Vivek Saraogi: Our idea is we have put in a trajectory last year with the dividend policy in place. I cannot say more than that. We have also indicated that we believe in payout and our conduct in the past has revealed. So I think beyond that the board answers not me.

Biju Somanath: Sir, the reason being, now our realization price is ex-mill price only. So what we are able to see is the way things are panning out because I was not able to listen fully the other part of the concall because this time also some disturbance was there, my call was disconnected initially, now I was able to reconnect, what I am thinking is given the Q1 inventory levels and the realization of around Rs.36 per kg if I am expecting, we will be ending up having a cash surplus of nearly Rs.450-500 crore up to our Q3 by liquidating all of our inventories. So we can plan to have one more buyback, sir, at least around levels of Rs. 225 , what is your take on that sir?

Vivek Saraogi: Mr. Biju, what I am saying is the decision which the board of directors take I cannot guide anyway beyond that.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Subhkam Capital Ventures Pvt. Ltd. Please go ahead.

Dikshit Mittal: My query is on this Rangarajan. Like you mentioned that possibly the realizations will be 70% of the sugar prices. So will it be correct to assume that your gross profits on sugar will be around 30% and rest of the profits will depend on how the Distillery and Power revenues pan out?

Pramod Patwari: 70% or 75% will be in the form of basic cane price. Over and above that basic cane price, we are required to incur other expenditure like transportation, labor, chemicals.

Dikshit Mittal: If I see your first quarter, you have mentioned your cost of production is around Rs.31.7 per kg and realization is around Rs. 36.5 per kg. So basically I am trying to understand that whether this Rs.5/Kg will remain intact under this new formula or will there be any like deviation impact?

Vivek Saraogi: If the cane price is already fixed, the cost is known. So whatever inventory we have on 30th June and whatever is the selling price, the difference thereof is going to come in the balance sheet only, it is not linked to any formula.

Dikshit Mittal: No, on this new formula like whenever this Rangarajan formula is implemented, so on a per Kg basis, what can be the like PBT level that you can take?

Vivek Saraogi: We will try and answer that but it depends, but all I can say is as I said before you will have a definitive plus-plus margin in all three segments.

Dikshit Mittal: So there is no such thing because government may be comfortable at particular kind of profitability for the sugar mills, right?

Vivek Saraogi: Whatever other sugar mills make and whatever is the benchmark, your company is way well positioned, we will not only get the gap which the government allows us plus our own efficiency.

Moderator: Thank you. With this, I now hand the conference over to the management for their closing comments. Over to you, sir.

Pramod Patwari: We hope we have been able to answer all your questions. If you have any further questions, we will be happy to be of assistance to you. We hope to have your valuable support on a continued basis as we move ahead. On behalf of the management, I once again thank you for taking the time to join us on this call.

Vivek Saraogi: Thank you, everyone.

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 and you may now disconnect your lines.