Balrampur Chini Mills Limited
Q1 FY22 Earnings Conference Call Transcript
August 10, 2021

Karl Kolah: Good afternoon everyone and thank you for joining us on Balrampur Chini Mills' Q1 FY22 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 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 may be forward looking in nature and a disclaimer to this effect has been included in the results presentation which has been shared with you earlier.

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

Vivek Saraogi: Thank you Karl. Good afternoon everyone for joining us on Balrampur Chini Mill's Q1 FY22 earnings conference call. I hope in the challenging times all of you and your families are keeping safe and are in good health.

I trust all of you had an opportunity to go through the extremely detailed presentation put up by Pramod and his team which provides details of the operational and financial performance. So, I will straight away begin with briefing you on the current developments in the sugar sector, following which I will take you through our Company's key highlights for the period under review.

As per ISMA's latest estimates, India's sugar production for the upcoming season 2021-22 is expected to be 31 million tonnes similar to the last year's production of 30.9 million tonnes. This is after considering a diversion of 3.4 million tonnes of sugar into ethanol which was around 2.1 million tonnes in the current season. As per early estimates, all our key sugar producing states including UP, Maharashtra, Karnataka are expected to report marginally higher sugar production.

Domestic sugar consumption on the other hand is making a smart recovery on year-on-year basis despite the second wave of the pandemic. Domestic consumption is anticipated to be about 26 million tonnes. Furthermore, the buoyant international sugar prices owing to expected lower output in Brazil has enabled India to export excess sugar. We hope that 6.8 million tonnes would be exported by the end of this sugar season which is till 30th September 2021. With this our opening stock as on 1st October would be about 8.7 million tonnes which is still higher than the normative inventory or idle inventory of about 5 million tonnes.

Moving onto an update on ethanol which is now clearly one of our key future growth drivers. Till July this year, OMCs had contracted 344 crore liters of ethanol, a sharp increase of over 80% during the last year which was at a level of 173 crore liters. Ethanol manufactured from sugarcane juice and B-heavy molasses is expected to be 42 crore liters and 197 crore liters which has indicated earlier translated into a sugar diversion of 2.1 million tonnes. So, there is some traction on the 2.1 million tones diversion, Pramod will brief you later. On an average, the country has a blending ratio of 7%, with 11 major states achieving a blending of 10%. Therefore, we are on course to meet our target of 10% blending country wide.

In this segment we have also witnessed significant positive news on account of proactive measures taken by the Central Government. On the World Environment Day in June, our Honorable Prime Minister preponed the target of 20% ethanol blended petrol by 5 years to 2025. This will not only help Government to save foreign exchange of about more than Rs.30,000 crore but will move the country toward the greener fuel. In addition, it will benefit the farmers and the sugar millers by providing a major source of sustainable alternate income. Also, on pilot basis, there are three petrol pumps that have initiated to supply 100% ethanol fuel. This will open up a much larger long-term structural opportunity for the industry.

Coming to our Company's performance, we have registered a subdued performance for the quarter on account of lower cane crush and lower sales owing to lower quotas. While this was a non-operational quarter, we have booked all our O&M expenses in the P&L. Further, as you are aware when we crushed lower cane last season the impact of that comes in April and May because crushing which does not happen. This is a one-off year when the sugar season had a short run and we are hopeful to catch up in the ensuing season and when we take you through our expansion plan, we will tell you of our cane development initiatives also. The distillery segment continues to deliver robust profits owing to high volumes.

I am happy to share that the Board of Directors has approved a fifth consecutive buyback for the Company for an amount not exceeding Rs. 215.25 crore through the open market operations through stock exchanges. This is in line with our policy of distribution of profits to the shareholders. In the past, promoters have always participated in the buyback, but under this route of buyback the promoters are not allowed to participate. Post successful completion of the buyback this would result in increase in promoter's shareholding in the Company.

The board has also accorded its approval for expansion of distillery at Balrampur from 160 to 330 KL and at Gularia from 160 to 200 KLPD which means a further augmentation of about 210 KLPD in our distillation capacity. With the Maizapur unit already under implementation, which is about 320 KLPD, so with 520 KLPD existing, 320 KLPD at Maizapur and with fresh 210 KLPD, the capacity will go to 1050 KLPD and we hope to commission all these expansions by November 2022 itself. This will result in giving us a capacity of about 35 crore liters capacity to make ethanol in the season beginning November 2022.

Consequently, this would lead to doubling our distillation capacity and we would be running all three products - Juice, B-heavy and a very little of C-heavy, thereby diverting a large portion of surplus sugar.

In addition, the Board has also approved modernization of sugar plants at all locations with setting up of refineries also at a couple of locations. This will help us to sweat our assets better, crush a higher quantum of cane in a reduced time. This will also give us the higher availability of feed stock for our distillery which is B-heavy and juice which would match the capacity being set up and help us produce our envisaged 35 crore liters. This is including the grain. This will also lead to economies of scale both in the sugar and distillery segment.

Given the positive structural changes in the industry dynamics, we continue to allocate capital judiciously, generate strong cash flows and keep rewarding all the stakeholders from time to time.

I would now like to hand over the floor to Pramod to take you through the financials.

Pramod Patwari: Thank you Sir. Good afternoon everyone. As you know a detailed presentation has already been uploaded on the stock exchanges as well as the Company's website, wherein all financial performance including the quantitative data have been given. So, for the benefit of having a larger portion of time at our disposal for Q&A session we would not like to repeat the financial numbers as such. We can straight away go ahead with the Q&A session.

I would now request the moderator to take it forward accordingly.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sanjay Manyal from ICICI Securities.

Sanjay Manyal: Just have one question; after this CAPEX would it be safe to assume that you would be able to divert 10% of your sugar cane towards the juice and probably 75% to 80% towards the B-heavy?

Pramod Patwari: After this expansion around 11% of cane is expected to be diverted through juice route.

Vivek Saraogi: And B-heavy?

Pramod Patwari: B-heavy would be around 70%.

Vivek Saraogi: Yes, you got the numbers absolutely right.

Sanjay Manyal: Okay. Also, last Concall you mentioned about the new variety you would be introducing. So, in the upcoming season what would be percentage of your catchment area or the sugar cane crushing which you envisaged will be from the new variety?

Vivek Saraogi: Since this question will arise just let me take you through both the cane and the expansion of sugar because distillery I guess is well understood. So, on the cane let us understand the route, East is in actually a disadvantaged area. We will be working double hard because we are deploying capital into machinery and refurbishments and for which we will not only be taking a variety but a large program of disease management also. So that new variety which you're talking about is one month late. There are other new varieties also coming up and gradually I think about more than one third will go to the new variety this year and it will multiply thereafter. And probably go even higher maybe 60%-70% when we begin our crushing for the expanded program. Plus, we are going to ensure that with a slew of brewery management measures whatever is there will also get managed. Our call is, we have crushed about 8.75 crore quintal. cane this year. We are targeting around 10 crore quintal. of cane next year and hopefully we would do a delta of about 10% to 15% beyond that in 2022 which will help us utilize all our assets to the fullest. In sugar, what we have done even though technically there is no expansion but there is an in-built daily crushing improvement because our three old plants were very old, and their daily crushing was not matching up to the rated capacity. We have just got the permission, we will refurbish it, so that daily crushing capacity will get to our rated capacity. Because of the three plants grinding lower year-on-year owing to machinery which needed replacement is being done at one go. So, with that we will also be unleashing measures which would improve recovery in these plants plus put up refinery which will give us a higher realization of sugar. So, if you see refined sugar sales at Rs. 75 to 80 per quintal. higher than the regular sulphitation sugar. So, we are going to ensure that we produce sugar at the lowest loss which means that the higher recovery from the factory, we sell the sugar at the highest best possible realization owing to higher percentage of refined sugar. We improved our capacity utilization on a daily basis, we work hard on cane so that our entire cane comes to a quantity which not only feed the sugar plant but give us enough byproduct for our distillery utilization. This program has been unleashed holistically together with a massive cane development program also to ensure that whatever we are doing converges at one go in November 2022. The beginning of which you would see in the ensuing season is our hope.

Sanjay Manyal: Lastly, on our overhead spends, because what I understood that from last 2 years our freight costs have been higher because of maybe the exports or probably this year because of some accounting reasons the numbers are higher. Just want to understand how the trajectory will be going ahead in terms of our freight spends or the other overhead spends?

Pramod Patwari: Sanjay, in my view this has direct connection with the export quantity. If we do not get ourselves engaged in physical export, then there will not be any incidence of transportation expenses or freight expenses as far as sugar is concerned. But since our distillery volume is going up so that transportation costs will continue to increase in accordance with the volume of alcohol. So that gets debited to the profit and loss account and whatever we get reimbursement from the oil marketing companies that gets reported under revenue from operation.

Vivek Saraogi: Just to explain this thing further, the Government if you have seen have started rationalizing the transport given to us for B ethanol. If there was a loss of Rs. 1.25 per BL from our pocket, the loss will come down to Rs. 1 per BL.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas.

Kaustubh Pawaskar: Sir considering one disruption because of the lower cane availability and the lower crushing, so what will be the overall crushing you are expecting for FY22?

Pramod Patwari: Around 9.5 crore quintal.

Vivek Saraogi: So, our target is closer to 10 crore quintal.

Pramod Patwari: For the Sugar season, 10 crore is the target, for balance sheet it is around 9.5 crore.

Kaustubh Pawaskar: For the last 4 years we have seen that the SAP prices have remained stable. So, considering we have elections next year and if there is a change in Government, do we expect SAP to go up?

Vivek Saraogi: Let me give you our expectation on the entire policy front and Pramod this is just that expectation based on Government's past conduct. I am just qualifying to everyone that this is born out of the Government's last 4-5-6 years conduct. What the Government does, I am talking about the Central Government, they take up the MAEQ which is the export quantity. They decide on the assistance to be given. So, they first decide the quantity and the assistance. Then they also decide the MSP that is the minimum selling price of sugar. Then they also decide the ethanol price based on FRP. Basically, the sense and the feelings are that with the ensuing UP elections, state Government might raise the price though in a very reasonable way and again this was born out of our honorable CMs conduct, even in the central election year he did not raise the cane price. The MSP is pending revision from over a year. We are hopeful that for the fact that they will not want sugarcane arrears over the country and in UP, we are hopeful for the revision thereof. MAEQ also we are as per past conduct hoping for a repeat of the same quantity. Depending on the export price the quantum of assistance might be lower. So, the quantity may be 6.0 million tonnes the assistance maybe lower. Overall, if there is a cost escalation our basic feeling in our sales, if there is a cost related escalation it should get covered by the improvement in realization.

Kaustubh Pawaskar: So, what is the MSP improvement you are expecting because in the presentation it has mentioned Rs. 32 to 33. So, you are expecting on that line?

Vivek Saraogi: As of today, we are selling at Rs. 34 per kg and we are hoping that going ahead we should be able to keep that price. Hopefully the price will remain stable as the current year progresses.

Kaustubh Pawaskar: My question was on MSP, what is expectation over there?

Vivek Saraogi: So, the MSP currently is Rs.31 per kg. The Government's last recomendation was about Rs. 33-34 per kg.

Kaustubh Pawaskar: Last question on the ethanol front, as you said that the production capacity is almost doubling as of November 2022. So, in that context what will be the production expectations or capacity realization from year FY23 and FY24, what would be the capacity utilization you are expecting?

Vivek Saraogi: We are hoping closer to 10 crore quintal of cane crush and hope to to cross 11-11.5 core quintal and that is where we will be able to utilize our capacity fully and that is what we are working on. 11.5 crore quintal of cane crushing. And basically, our idea as we said is to crush this 11.5 crore quintal within April so that the quantity of cane does not reduce. The moment you take farmer beyond May, he starts receding on cane plantation. So, if you crush within April you will get your best recovery, maybe first week of May at best. Our operations are therefore planned to crush that quantity. That is where the daily capacity utilization is being improved. And as promoters we have walked our talk and not participating in the buyback just to put in our little bit of confidence in this program on the table in front of everybody.

Moderator: The next question is from the line of Rajesh Majumdar from B&K Securities.

Rajesh Majumdar: I had a question regarding the cane availability, so basically all the steps that we are taking regarding our distillery expansion, etc., is contingent upon a larger amount of cane and we have already illustrated improving the cane yield and new variety of cane. However, one question always bothered me is that why is the largest player in the industry not trying to get additional cane area from standalone mills which are not able to expand distillery capacity and is content with a 4% market share? Is there something which constrains us from getting additional cane area under this method?

Vivek Saraogi: In our efforts we continue to pursue what you have said also. These are nitty gritties which hopefully you should leave to us. We are leaving no stone unturned is what we can tell everybody.

Rajesh Majumdar: Basically, we are happy with 4% market share being the largest player and I am sure there are many smaller mills they are not able to expand into distillery because of financial constraints or whatever. Are we not looking at them seriously in terms of acquisition?

Vivek Saroagi: Instead of trying to acquire somebody and crush 50-70 lakhs quintals cane in that factory we want to increase our cane by 2 crore quintals and use it in this facility only. It is like almost buying two factories. There is a program, one should wait to see how its unleashed. The rational we put threadbare on the table both in our presentation and hopefully in our talk right now. We do continue all the efforts in all directions.

Rajesh Majumdar: My other question is regarding the refinery. What we understand is that very few refineries globally are able to make money and that too we are an inland based plant and not port based. So given the dynamics of the sugar refinery business, how are you looking at that?

Vivek Saraogi: Let me explain the refinery; the refinery within the sugar factory. If you make refined sugar within your factory you sell at a higher price in India. So, there is no port base nothing, it is within Balrampur unit that refinery is been set up and another at Kumbhi . There is no movement outside the factory area to put up any assets.

Rajesh Majumdar: So, in that you have to create a new brand for ourselves in terms of refined sugar business?

Vivek Saraogi: Higher selling price is the target for the sugar mill.

Pramod Patwari: This refined sugar fetches a higher price in comparison to the normal white plantation sugar in India.

Rajesh Majumdar: So, what is the additional cost for that basically to build the brand etc., what are the kind of or return on investment that you are looking at in terms of the refined sugar business?

Vivek Saraogi: It is difficult to pick up parts and pieces. We have indicated a payback of our 3.5 year for that entire investment. Some part of it was essential for long-term fairness and viability and operational peace of mind.

Rajesh Majumdar: And on the total outlay on just the refined sugar season, how much is the total outlay on just the refine sugar part?

Vivek Saraogi: We will have to get back to you.

Moderator: The next question is from the line of Achal Lohade from JM Financials.

Achal Lohade: You said that all these expansions will be done by November 2022. So, FY23 will be like partially utilizing this but if I have to ask you for FY24 assuming everything is normal and as per the plan, with respect to external factors what would be the cane crushing and consequently the sugar production volume? How much sugar are we planning to divert eventually in FY24 and what would be the production in the distillery segment?

Vivek Saraogi: See what we have said is we want to achieve about 11.5 crore in cane crushing. 35 crore ethanol volume. That should be the sustainable model going ahead. That is the program for each which all the assets, cane development, distilleries, sugar expansion is being put up.

Achal Lohade: I mean what I am trying to figure out you did say that 11% juice divergence and 70% B-heavy. But I was simply curious to know in terms of what would be the sugar volume in that case. And how much of that would be the refined sugar so to say which can have a 75-80 paisa higher realization?

Pramod Patwari: Achal, the basis of the program which was just discussed about a while ago, we expect sugar production in our Company will be in the region of around 11 lakh tonnes. Once this 11.5 crore quintal of cane is available for crushing, we will be producing 11 lakh tonnes of sugar and 35 crore liter of ethanol including ENA.

Achal Lohade: My second question, this is a theoretical question probably be it any Company which is kind of embarking on this on an aggressive way but what is the possibility in terms of the capacity we can go up to in the distillery segment, if the policies are favorable?

Vivek Saraogi: We just told you 35 crore liters.

Achal Lohade: That is the current plant. I mean I am just saying theoretically can this become 50-55 crore liter. Is that a possibility one can look at even though the probability could be far less but still a possibility?

Vivek Saraogi: We have to put more assets for that. With the current investment this is 35 crore liter would be there. This current investment is good for the quantity of cane and the quantity of distillery which I have said. Anything more would require new investment.

Achal Lohade: New investment in the sense the cane crushing as well, right?

Vivek Saraogi: Yes. So, the feed stock I have told you is the 11.5 crore around quintal of cane. So that you can make 35 crore liters of ethanol.

Achal Lohade: Any thoughts on the grain-based ethanol and if not, could you give us a sense, your perspective on the same?

Pramod Patwari: At Maizapur we would be producing around 5 crore liter of ethanol out of grain.

Achal Lohade: Yes, I understand. I was more asking from a standalone grain-based ethanol given the possibility of Government's looking at far more aggressive expansion in that segment?

Vivek Saraogi: Having invested so much capital let us wait for the results and see how things play out and then tomorrow is open for further investment in grains if that is what you are asking.

Achal Lohade: You are not averse to grain-based ethanol so to say on a standalone basis?

Vivek Saraogi: Out of the 35 crore liter , 5 crore liter would be grain so if we were averse, we will not do it.

Achal Lohade: Fair point. Can you help us understand, currently we are bearing the extra freight cost for the ethanol that we are supplying to depos. What is the current status? Also, the Government was supposed to revert. Is there any update on that and what is the gross freight and how much are we getting reimbursed and what is the net impact?

Pramod Patwari: Achal, freight has been adequately disclosed in the presentation. The gross amount as well as the realization and the net impact. Recently, the Government policies have modified the rate, and, on that basis, we are expecting a further recovery of around Re. 0.14-0.15 paisa per liter. We are in touch with all marketing companies for further rationalization.

Moderator: The next question is from the line of Archit Joshi from Dolat Capital.

Archit Joshi: Little muddled up in my head about what you said earlier about achieving a 35 crore liter ethanol production number and the sugar production number is also not materially different from what we are producing right now. While we know that there is some amount of crushing capacity that will be provisioned for manufacturing ethanol in the new distillery, would not increasing the capacity of the distillery unit from 840 KL to 1050 KL. Would not you require more sugarcane crushing to manufacture the incremental ethanol that we are targeting which will subsequently lead to a lower sugar production from the 1.1 million tonnes that we are targeting right now. If you can just explain what kind of sugarcane crushing capacity would we have after modernization and improvement projects are done and how much will we be able to crush sugar cane only for sugar manufacturing for the 1.1 million tonnes that we have said?

Vivek Saraogi: This is a detail calculation that Pramod will have to explain to you offline. But basically understand (a) if the quantity of cane is rising, your availability of molasses is rising. (b) If you are diverting juice, you are taking a hit on the recovery, our envisaged recovery will be much higher than last year's recovery itself. So, it is a detailed calculation so what we have told you will max down.

Archit Joshi: In the presentation on slide #40, you have mentioned in the fourth row that the sugar recovery pre-B-heavy diversions it is lower than the sugar recovery that is post B-heavy diversion. Am I missing something here, usually it is the other way around, right? After you divert more molasses towards B-heavy ethanol your sugar recovery should typically drop which is not being represented over there. Please help me understand that.

Pramod Patwari: We should look at the graph which is there after two slides. The figures have been actually swapped by mistake, 3 and 4, so if you look at slide 42, pages subsequently there on slide 42 right numbers are there.

Vivek Saraogi: Slide #40 there is a mistake in the numbers.

Moderator: The next question is from the line of Manish Ostwal from Nirmal Bang.

Manish Ostwal: I have a question on our ethanol business. So, when the country reaches 25% blending, our unit profitability in ethanol will remain the same? And what are the variables to change that unit profitability?

Vivek Saraogi: I did not get your question.

Manish Ostwal: My question is when the country reaches 25% blending by 2025 our unit profitability in ethanol business, it will remain the same or it can change? If it changes what are the variables for change?

Pramod Patwari: First of all, the target as of now for 2025 is 20% not 25%. And if the country is able to produce that much for ethanol, that means there will be a significant conversion of sugar into ethanol which will take away around 6 million tonnes of sugar from the system. That itself will result into sugar prices going up so much normal level. As far as Balrampur Chini is concerned, we have indicated that post expansion of all these facilities, distilleries revenues could be in the range of 35% to 40% of overall revenue and profitability will again be going up. The proportion of profitability from distillery segment will go up.

Manish Ostwal: The second question is what is the current projection on our return on capital employed for ethanol business?

Pramod Patwari: It depends whether we use C route molasses, B route molasses or the juice route, we have given an indication that all this CAPEX will have a payback period of around 3.5 years.

Moderator: The next question is from the line of Bhavin Chheda from Enam Holdings.

Bhavin Chheda: Just on the what potential number what you spoke about, cane crushing 11.5 crore quintals which will allow you to do a distillery of 35 crore liters. Should we expect by FY24 you will be able to do it since your expansion is getting over in November 2022?

Pramod Patwari: Yes.

Bhavin Chheda: And the number which I missed out was in distillery 35 crore liters, 75% would be B-heavy and 11% would be juice based and balance C-heavy, right?

Pramod Patwari: No, that percentage was with respect to the cane. Now within 35 crore liter 5 crore liter will be out of grain based and 10 crore liter we will be out of juice. 2 - 3 crore liter out of C-heavy, rest B-heavy.

Bhavin Chheda: And when you do that, what would be the power generation number in this? It would be billion units, right? We are not doing anything on the power capacity. Previous peak power generation was 1 billion units and sales of 65-66 crore unit. What that number would be?

Pramod Patwari: That is a history now. We have taken a conscious decision not to operate our Co-gen plants during off season subsequent to the revision in the tariff.

Vivek Saraogi: We only operate off season plant to be able to run our distilleries as such. The consequent export, the power is the export.

Bhavin Chheda: So, which means the FY21 number I should take as a normal peak. You did 80 crore units generation as 40 - 42 crore units sale so that run rate would continue going into future, right?

Pramod Patwari: 2-3 crore units here and there cannot say.

Vivek Saraogi: But when Maizapur commissions, we are also commissioning a power plant in Maizapur.

Pramod Patwari: It will improve from here.

Bhavin Chheda: The 2-3 crore units here and there?

Vivek Saraogi: May be a little more, we will get back to you.

Bhavin Chheda: And what would be your CAPEX distribution between FY22 and FY23?

Pramod Patwari: Significant portion will come in FY 2023.

Vivek Saraogi: By November 2022 we would have completed the entire capex and it would come in by March-April to November would be 70%, let us say 75%.

Pramod Patwari: We are not planning to raise any debt within March 2022.

Bhavin Chheda: Annual 200-250 crore run rate?

Vivek Saraogi: Yes, I think that is a good thing.

Bhavin Chheda: Currently export subsidy is Rs. 4 per kg, right?

Vivek Saraogi: Yes.

Bhavin Chheda: That is till September 30?

Vivek Saraogi: Yes.

Bhavin Chheda: After that whatever the Government announces

Vivek Saraogi: The new policies.

Bhavin Chheda: Right. Export NY11 currently without accounting for any subsidy comes through Rs. 34 per kg.

Vivek Saraogi: No.

Pramod Patwari: At 18.50 cents for UP based mills raw sugar would be around Rs. 30-30.5 per kg.

Bhavin Chheda: In opening statement you said export NY11 Rs. 34 per kg so that is including subsidy.

Vivek Saraogi: Yes, I guess.

Moderator: The next question is from the line of Pratik Tholiya from Elara Capital.

Pratik Tholiya: Must compliment Pramod Sir and his team for a detailed presentation; after reading the presentation there are very few questions to ask but I just wanted a couple of clarification. Firstly, wanted to get your thoughts. You have mentioned in the opening comments that the MSP set for revision since last 1-year but that did not happen. And despite that the price are any ways at Rs. 34. So do you feel that Government is now kind of slowly coming out of this intervention that they had given to the industry as a support mechanism a few years back because now in export we do not need so much of Government help and even domestic prices have started to form up as the production is going down due to diversions. What are your thoughts? When do you expect that the industry will become more self-sustaining and all these Government interventions which were definitely needed 2-3 years back will not be so much significant in the coming years or the upcoming quarters? How do you look at this Government's support mechanism going forward?

Vivek Saraogi: Good question. As Pramod said at some point industry might sacrifice 5 to 6 million tonnes in sugar production. So, when your net production comes and your consumption in 2 years would grow. Our view is if consumption goes to 27.5-28.0 million tonnes and production gets there and in the next 2 years through these various mechanisms you exhaust any kind of surplus and come down to a 6 million tonnes closing stock. I think that is when the measures go off, is the anticipated view. Having said that currently one should not read into any incident to assume that the measures would go off. The price MSP etc. revision along the cards and I am hopeful, it would happen. So, let us understand if MSP means Maharashtra pricing, UP sells at least Rs. 2 per kg premium.

Pratik Tholiya: My questions was fairly longer termism only that going forward?

Vivek Saraogi: I said 2 years from now.

Pratik Tholiya: In the presentation, just one clarification. For the fourth quarter you have projected a much lower volume of ethanol to be supplied at around 2.44 crore versus contracted of 3.38 crore. Any specific reason why you would be supplying lower quantity in the fourth quarter?

Pramod Patwari: That is on the basis of the contract which we have already committed for in the ongoing season.

Vivek Saraogi: From December begins the new contract, so tender of which usually get released in September-October.

Pratik Tholiya: I did not get that.

Pramod Patwari: Quantity out of new contract will be over and above what has been stated.

Vivek Saraogi: When you start crushing in November, from December our new season's ethanol uptick begins. That is not being included by Pramod because no contract has been signed.

Pratik Tholiya: No. I am talking about the ethanol quarter only.

Pramod Patwari: If you see the quarter will end in November.

Pratik Tholiya: Quarter 4 ends in November.

Pramod Patwari: That will end in November and new contract will kick in from 1st of December.

Pratik Tholiya: That's what I am asking. Fourth quarter as per your presentation will be the September-October-November quarter. For that you have mentioned 2.44 crore liters means you have contracted of 3.38 crore. So, you are supplying lower than what you have contracted it seems.

Pramod Patwari: Yes because we have supplied early. If you see Quarter 2, we have supplied 104%

Vivek Saraogi: Yes, in the quarter gone by we have managed to increase our supply beyond the proportionate quantity. Whatever has been contracted will be supplied to just tell you that.

Pratik Tholiya: Is there any provision to exceed the contracted volumes also, if suppose whatever you contracted, can we exceed that?

Vivek Saraogi: We do not have the raw material. We do not have molasses. We have contracted for all what we have.

Moderator: The next question is from the line of Ashutosh Chaubey from Centra Advisors LLP.

Ashutosh Chaubey: I have a few basic questions. First of all, with regards to the entire sugar sector I would like to understand that this starting with the sales quota mechanism why is it usually lower in the first quarter?

Vivek Saraogi: You see it is not very easy to get into quarter and as we have said in the previous earnings calls, if we see over a year, things will play out. Since we produced lower also it is logical to get a lower comparatively. So, it is nothing wrong with that.

Ashutosh Chaubey: You are saying that usually over the four quarters that numbers would play out eventually, right?

Vivek Saraogi: Yes.

Ashutosh Chaubey: This is due to lower crushing, as crushing starts in November and it gets ended in somewhere in February-March, I guess?

Vivek Saraogi: No, last year it got ended early April so that is why if you produce a total quantity which is 100 units, and you get release of 25 units per quarter. So, if your 100 units went down by 17% your releases go down.

Ashutosh Chaubey: This could be one of the reasons why usually in the first quarter the Company reports reduced profits in the sugar and Co-gen segment, right?

Vivek Saraogi: No if you see the comparative quarter last year the profit was not lower. This year because crushing has not happened your profit is lower.

Ashutosh Chaubey: This is sort of a one-off event, right?

Vivek Saraogi: Yes. One-off. We have said that, yes. So, in the next year if you crush 10 plus you will not get this problem.

Ashutosh Chaubey: One more thing I would like to understand is the inventory movement that has happening. From the quarter ended 31st March and this quarter, I can see that in your P&L, you have an inventory movement happening of around 660 crore. I would like to understand this figure. How does this inventory movement happen?

Pramod Patwari: I think for that you need to have a separate discussion.

Moderator: The next question is from the line of Samay Sabnis from Pareto Capital.

Samay Sabnis: On slide #41 on your presentation, the cost of production in this quarter is 42.73 per kg which has risen from 30.42 kgs in the same quarter last year. And the selling prices of sugar is within Rs. 31 to 34 per kg. Are we expecting segmental losses in sugar going forward? And what is the reason for the sharp rise in the cost of production?

Pramod Patwari: This is only an accounting entry. As we have said earlier also cane crushing was on a lower side as a result of which only 5 lakh quintals of sugars was produced during this quarter as against 22 lakh quintals last year.

Vivek Saraogi: The expense gets compounded on 5 lakh bags instead of 22 lakh bags. And that is the reason for the lower profitability of the quarter.

Samay Sabnis: Then going forward what I understand is we did not expect losses in the sugar segment.

Vivek Saraogi: No question about that.

Samay Sabnis: And what are the reasons lower cane crushing because in the March quarter the crushing was fine, I believe.

Vivek Saraogi: We have explained that at length, floods, some diseases, lower yields.

Moderator: Thank you. That was the last question. I now hand the floor back to the management for closing comments. Over to you sir.

Vivek Saraogi: Thank you very much for joining us on our call. Should there be any more clarifications, we are always there. Thank you.

Pramod Patwari: Thank you.
