Balrampur Chini Mills Limited

Q4 & FY2012 Results Conference Call

May 29, 2012

Anoop Poojari: Good afternoon everyone and thank you for joining us on Balrampur Chini Mills' Q4 & FY2012 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.

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 conference call invite sent out earlier.

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.

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

Vivek Saraogi: Good afternoon everyone, and thank you for joining us to discuss Balrampur Chini Mill's operating and financial performance for the fourth quarter and full year ended March 31, 2012.

Let us begin by discussing the sugar sector followed by a discussion on the performance of the Company. Kishor will then take you through our financial and operating performance.

The sugar sector witnessed considerable developments during the year. Firstly, our Honorable Prime Minister established an expert committee under the chairmanship of Dr. C. Rangarajan to examine de-regulation of the sugar sector on a priority basis. While we are aware, that multiple committees in the past have provided their recommendations on de-regulation, this is the first time the Prime Minister has stepped in to constitute an expert committee, headed by the current Chairman of the Economic Advisory Council. We are optimistic that this committee will submit its report over the next month, probably first week of July and we are positive that the industry's suggestions on de-regulation will be taken on board. We have two parts. One is the finished product. The industry is definitely seeking de-regulation on the finished product that is levy, its exports releases. And the cane price portion can be treated separately that is linkage of cane price to sugar price.

To improve the demand-supply scenario in the Country the Government took a step in the right direction by freeing export of sugar and bringing it under Open General License (OGL), thereby ensuring that there would be no quantitative restrictions on sugar exports. This should allow liquidation of excess inventory from the system which should lead to better stability in sugar prices. We are hopeful that the Government of UP will consider implementing a rational and progressive policy that will benefit all stake holders including farmers and millers.

A negative development in UP was the recent Supreme Court order directing payment of sugarcane dues to the farmers for the 06-07 and the 07-08 seasons as per the State Advised Price. BCML has already made the necessary provision in the books and outstanding liability of about Rs. 92 crore for the season 07-08 was provided in Q3 FY2012. Moreover, the Company has paid the total amount of Rs. 115 crore during the quarter. The balance was already provided for the earlier years.

Moving onto the sugar industry dynamics; production in the current season is expected to be around 26 million tonnes led by Maharashtra and UP producing 9 and 7 million respectively. With consumption of about 23 and expected exports of about 4 million in the full year, we do not see any increase in the inventory. While global sugar prices have come off, the rupee depreciation should assist millers based in Maharashtra and Karnataka to export.

Let me now discuss the operating and financial performance of the Company. Overall performance has been stable owing to high volumes and stable realization witnessed in the key business on year-on-year basis. Sugar segment registered a crushing of 8.5 crore quintal for the 2011-12 season and production stood at 8.1 lakh tonne. Profitability in this segment continued to be under pressure owing to high cane price vis-à-vis sugar realizations. Landed cost of sugar was 252 per quintal and our average cost of production was Rs. 28.67 at the closing stock level. Average field realization stood at about Rs. 29 and the standard prices are closer to Rs. 30.

Both co-generation and distillery businesses continued to report stable profitability. Overall increase in cane crushing has assisted us in delivering improvement in production. Distillery segment produced 55,785 KL for FY2012 and co-generation division reported power generation of 7,393 lakh units during the year. Going forward, we expect both businesses to deliver growth in profitability.

To conclude I would like to say that, we are hopeful of positive changes in the sugar sector going forward, with progressive polices changes anticipated at both

Centre and State level which should help revive the sector. The importance of an integrated model was at the forefront again in FY2012, which has been a difficult year for sugar. We were one of the first believers in this model and it has helped us face challenging cycles smoothly. With the sugar sector recovering, we expect better profitability from our core sugar operations in the coming year. This combined with healthy contribution from co-generation and distillery segments should enable us to deliver superior earnings.

I now request Kishor to take you through the financial highlights.

Kishor Shah: Thank you sir. I will now briefly take you all through the Company's operating and financial performance for Q4 & FY2012. In Q4 FY2012, our revenues were higher by 23% at Rs. 578 crore from Rs. 468 crore in Q6 FY2011, primarily due to increased volumes. EBIDTA was lower at Rs.194 crore as compared to Rs. 205 crore in Q6 FY2011 due to higher cane cost witnessed in the sugar segment during the period under review. During the FY2012, revenues stood at Rs. 2,310 crore and operating profits stood at Rs. 238 crore.

Coming to the segmental performance of sugar; revenues rose by 32% to Rs. 518 crore during the quarter owing to higher volumes. We sold 15.2 lakh quintals in Q4 FY2012 and the average free sale realization during the quarter came in at Rs. 29 per kg. At the PBIT level the segment reported a profit of Rs. 80 crore as compared to Rs. 96 crore in Q6 FY2011. The cane cost was Rs. 252 per quintal as compared to Rs. 227 per quintal in the corresponding period.

Moving onto the Distillery division, revenues during the quarter were at Rs. 45 crore as compared to Rs. 51 crore in the corresponding period. PBIT improved by 7% to Rs. 22 crore in Q4 FY2012 as against Rs. 20 crore in Q6 FY2011. Distillery production was steady at 24,654 KL and sales stood at 16,841 KL during the quarter. Blended realizations stood at Rs. 26.66 per BL in Q4 FY2012 as compared to Rs. 26.16 per BL in Q6 FY2011.

With regards to our Co-generation business, revenues were higher by 5% at Rs. 131 crore as compared to Rs. 124 crore in Q6 FY2011. During the quarter, PBIT was stable at Rs. 75 crore. Sales volume increased to 22.1 crore units as against 21.8 crore units in the corresponding quarter.

Interest cost for the quarter stood at Rs. 41 crore as compared to Rs. 33 crore in the corresponding period. Increase in interest cost was due to combined effect of higher effective base rates and increased working capital requirements during the crushing season. As on 31 March, 2012 our long term loan stood at Rs. 763 crore and working capital was at Rs. 1,221 crore. For Q4 FY2012 Net Profit was higher by 16% at Rs.130 crore as compared to a profit of Rs. 113 crore in the corresponding period last year. PAT for the year stood at Rs. 6 crore and was impacted on account of provision made for differential sugarcane price for the sugar season 2007-2008 amounting to Rs. 92 crore.

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

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from Sanjaya Satapathy from Bank of America Securities - Merrill Lynch. Please go ahead.

Sanjaya Satapathy: For Q4, it has been very difficult to arrive at what would be the margins of the sugar division? Can you just explain us how do I estimate the margins during this quarter specifically?

Vivek Saraogi: Let's understand that for FY12 the costing is Rs. 28.67. So we are carrying inventory of about 63.73 lakh bags including levy carried at levy price. The free portion carried at 28.67. In the past three quarters we have already accounted for a lot of cost of production with repairs, salaries, etc. So quarter-on-quarter costing is impossible to define. So this is the balancing quarter. If you see for the full year, the segmental reporting given, sugar after taking the Rs. 92 crore hit on a pre-interest level, has recorded a loss of Rs. 22 crore. So if the hit was not taken there would have been a profit of Rs. 70 crore. However right now if we see the breakup we have a Rs. 22 crore loss in sugar, Rs. 54 crore profit in distillery, Rs. 142 crore profit in power, brings up to a total of 173 as profit pre-tax and pre-interest un-allocable. Interest net is 132, expense which is not part of costing is 33, this brings us to a net profit of 7.78 before tax. So if we see sugar, for the year, the costing is 28.67 and that is what the closing stock is being taken at. We are able to achieve this because of a very healthy recovery level of 9.54 which is one of the highest in UP, to be precise it is the second highest and with much larger volumes. That's how the efficiency has played out in achieving the costing, which we have achieved, and this is the entire explanation for the year for each segment.

Sanjaya Satapathy: The other thing that I wanted to know is that this cogen and distillery we see the volume being lower during fiscal 12 so of course because of coal and all that, so what is the outlook for production in the next year that is fiscal 13 and lastly at the current sugar price, what are the kind of profitability of the sugar division that you are intended at now?

Vivek Saraogi: This cogen volume has not been lower, it has been higher. If you see the cogen volume for the quarter from 22 crore was almost a little bit higher. So cogen volumes are not being lowered. Cogen rather performed very well and going ahead the crushing season gets concluded in March and April. So the cogen division would be working much longer in this fiscal beginning 1st April. So if at all one is to give a forward looking statement without giving a 100% accurate figure, 52.67 crore unit is what we sold during the last fiscal. There will be a definite 10 to 15% upgrade of volumes so one feels very healthy from that side. On the distillery division, Pramod give the volume.

Pramod Patwari: Volume for the full year 5.5 crore realized. Current quarter is 1.68 crore.

Vivek Saraogi: In the distillery in the past we were fighting a few cases so there was a little bit of a shutdown of the distillery division in December-January. All has been ironed out. The cases are all in order. The molasses is lying with the company so as we run power we can run the distillery together. So the distillery volume again will be much higher in the coming year. One can safely assume that it will be 20 to 25% higher.

Kishor Shah: This was one of the reasons that prices were higher in the December quarter.

Vivek Saraogi: Exactly because distilleries were shut down. Now as we move ahead we see better volumes from both because of a higher crushing and we see a better realization as we go ahead on the distillery. In the season time every tank is full. So everybody has to try and sell. We sold much more SDS because that has a ready market in UP. Now we have ample stock and ample time and ample running facility.

And this year we will not be doing coal power because that is not profitable anymore.

Sanjaya Satapathy: And lastly is the sugar segment profitability running now?

Vivek Saraogi: See you have carried stocks at Rs. 28.67. Right now the price is, let's say, Rs. 29.67, so Rs. 100 higher. It was closer to 30. As we move ahead in exports if you see, 26 million is with the production of the country, 2.5 million around is already contracted and would leave by end June. I think another million is quiet possible. We might not be able to catch the 4 million target because of some correction in the world market but which has been offset a lot by the rupee. However we don't see any addition to inventory as we move ahead into the next year. So I think giving all these developments sugar prices from here right up to the next season should see a marginal improvement as we move ahead, it should edge about to 30, get closer to 31 as we move ahead.

Sanjaya Satapathy: What percentage is levy? Is it still 10%?

Vivek Saraogi: Yes. At present it is 10%. As I said there is a Rangarajan Committee, etc., which would look at it, but at present it is 10%.

Sanjaya Satapathy: And you are getting around Rs. 19 on that.

Vivek Saraogi: To be exact Rs. 19.7 per kg.

Moderator: Thank you. The next question is from Nirav Shah from Antique Stock Broking Ltd. Please go ahead.

Nirav Shah: What are the reasons for lower power rates at Rs. 3.92 because earlier it was Rs. 4.02?

Vivek Saraogi: There is some unit, if we see certain PLF you will get a slightly lower rate. One of the units did exceed so that brought down the average by 5-6 paisa but that is the incremental part. As we go ahead into the next year as I said instead of Rs. 52 if we sell around Rs. 60 closer to Rs. 60 at least 4 might come down to 3.90.

Nirav Shah: Okay got it.

Vivek Saraogi: Then your incremental cost of production is below Re.1.

Nirav Shah: And based on whatever situation we have on the ground, what is the target crushing that we are likely to do in the next season, 2012-13?

Vivek Saraogi: Let me quickly take you through the plantation data which is available now but which is not very accurate and the yield will be determined by the monsoon. First cut review is Maharashtra and Karnataka which form about 130 lakh tonnes of production. Plantation is down by about 6 to 7%. UP plantation is up by about 7 to 8%. So if we look at next year probably the Country might produce 2 to 3 lakhs lower if at all, so one does not see next year anywhere higher than this year. Coming to UP we see in our region a 10% higher production for our company.

Nirav Shah: So overall we can assume closer to 8.8 to 8.9 million tonnes of cane crush?

Vivek Saraogi: 9.3 to 9.7, or 9.5.

Nirav Shah: Next question is even in your presentation it was mentioned that Maharashtra and Karnataka we are expecting 10% lower production. It should be compensated by UP and the southern region is the key exporter so how will the inventory move out of UP? That is the concern right now which I have, exports largely happen from south and if south is witnessing that short fall in production, UP there are some logistical issues. So how do we see that situation panning out?

Vivek Saraogi: Let us understand, whether surplus is vis-à-vis consumption in the Country. If you see the surplus vis-à-vis the consumption, the surplus itself is in Maharashtra, Karnataka and south only. UP caters to UP, Punjab, Haryana, Delhi and east, these markets. So the surplus itself is in the south only. So the south is the surplus where the sugar has to go out. UP has a ready market for sugar in the northern and the eastern belt.

Nirav Shah: And lastly if you can just share the figures of molasses inventory and cost of carrying that?

Pramod Patwari: Molasses current inventory is around 28 lakh quintals against 20 lakh quintals in March 2011.

Vivek Saraogi: Yes see that is because the distilleries ran lower, we have enough molasses.

Nirav Shah: And valued at?

Vivek Saraogi: Rs. 200 per quintal.

Nirav Shah: And distillery? Inventory of RS and ENA?

Vivek Saraogi: So you have 1.2 crore liters carried at Rs. 16.60.

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

Achal Lohade: I wanted to know the total sugar volume including levy for the quarter and for full year?

Pramod Patwari: For the quarter it is 15.24 lakh quintals and for the full year it is Rs. 67.15 lakh quintal.

Achal Lohade: Including levy?

Pramod Patwari: Including levy.

Achal Lohade: And the blended realization?

Pramod Patwari: Blended realization during the quarter 28.12 and for full year 28.06.

Achal Lohade: I was just trying to figure out for the sugar segment if I look at the opening stock it was I remember last call the sugar inventory was valued at Rs. 30 a kilo.

Vivek Saraogi: Yes.

Achal Lohade: As of December '11 and if I look at the realization it was about Rs. 28 per kg but if I try to derive the EBIT per kg, I understand, it is a crude method to actually figure out the profitability but I get a Rs. 5 per kilo of profitability. I was just trying to understand how is the inventory valuation because the inventory if it is valued at a lower price sequentially then ideally it should impact the profit negatively rather than positively?

Vivek Saraogi: First of all the inventory on December was very low for the current season. Then crushing had just begun. So you have incurred three quarters of costing. So if you see this quarters costing, it will be much lower so the entire inventory gets valued at Rs. 28.67 but January to March you produced almost the entire quantity of sugar, so 56 lakhs is the production for the quarter.

Achal Lohade: Okay.

Vivek Saraogi: Now assume that the costing of this for the quarter is Rs. 26. And the whole year costing is Rs. 28.67. So if you do the full year costing and you take out the opening stock costing, you will understand the valuation.

Achal Lohade: Basically it is a function of the better absorption of the overheads?

Vivek Saraogi: It is not a function of absorption. It is the basic function of the accounting of the costing. In three quarters you have incurred salaries, you have incurred repairs, you have incurred the depreciation everything. Here you are producing 56 lakh bags out of the total production of let's say 80 lakh bags. Now you are accounting for the full year expenses on 56 lakhs which would have actually accounted for earlier and gets absorbed now. Have I been able to clarify?

Kishor Shah: Pramod will explain in details because as you rightly said the incidence to the fixed is overhead. It is much lower in the last quarter compared to other three quarters.

Vivek Saraogi: I think that's a fair assumption on the macro point. Pramod will explain to you.

Achal Lohade: The other question is, what's the current export realization according to your calculation? Is it still profitable actually given the recent softening in the global sugar prices?

Vivek Saraogi: No. There is not much profit right now. I think basically the price down south is also lower. So in South and Maharashtra is where the surplus is. So if they have to export this inventory they save not only interest cost but also lot of other costs. So once they export now, let's say they exported one rupee below the local market. The interest cost per bag per month is almost Rs. 30. So right now if you are in the month of June and you do not sell the sugar up to October in India, the only way to avoid this cost is to export or pay Rs. 150 of interest for five months.

Achal Lohade: So actually because of their financial conditions on the interest cost probably it will still viable actually?

Vivek Saraogi: Exactly. That's why the contracts are happening with a slower pace but we had a lot of contracts and shipment happened from the first of October till now. By June end 25 lakh tonnes should leave the Country.

Achal Lohade: Okay and can you also please throw some light on the financial condition of sugar industry as such let's say for UP, I think that's an interesting angle to look at because if you have so much of arrears how do you see the cane plantation actually, yes, at this point in time the data seems to suggest that it's up 7 -8% but do you see financially mills will be able to actually make even higher price or cane payments?

Vivek Saraogi: See first of all let's understand UP average of about Rs. 32 to Rs. 33 arrear is left, which means closer to Rs. 3,000 crore is the arrear in UP right now. Personally I don't see this being paid immediately. I don't think there is ability to pay off with all mills on an immediate basis. So arrears will impact; however since farmers have got payment of the past in this year I don't think it is going to have a huge impact. While we are not seeing decrease in plantation and I am not seeing serious increase in plantation. The Government of UP is definitely more concerned. The Government is understanding industry problems, intervening and understanding all of the stake holder problems and one does definitely see a more realistic approach so we are positive that we would see some relief coming from UP. We are very hopeful. On the center we have briefed you. It is a much better working environment in UP.

Achal Lohade: What is the status on the erstwhile UP sugar promotion policy? Have you heard anything of revival or is the industry actually pushing for it, what is the status on that?

Vivek Saraogi: At present the matter is sub judice. The High Court hearing should begin very soon and I think first of all the hearing should conclude in a couple of months or three months and we should get the judgment. Outside of that as an industry we continue to make our efforts.

Achal Lohade: Okay the other question is on the debt side. What is the scheduled requirement for current year and next year, FY13 and FY14?

Pramod Patwari: Rs. 265 crore for FY13 and Rs. 258 crore for FY14.

Achal Lohade: Can you also please give some clarity in terms of the cane pricing side. I understand that the FRP has been hiked by 17% in last two days. Just wanted to know what's the view on the cane pricing front at the moment?

Vivek Saraogi: The FRP hike will lead to a levy price hike for us. So if it has gone up by Rs. 20 very simple calculation, levy price will go up by Rs. 200 per bag. That is one part of it. On the SAP, I see a much realistic policy evolving. So if probably the thinking is that if the market cannot bear the sugar price, increase in cane price might not happen.

Moderator: Thank you. The next question is from Arun Malhotra from Smith Management. Please go ahead.

Arun Malhotra: Just wanted to find out what are your realistic expectations from the Rangarajan Committee and the time line what do you expect?

Vivek Saraogi: I think it is time bound. Very realistically the reports should come out middle of July. We made the presentation, one is very clear levy should go. The PDS can remain with the Government. Levy obligation on the mill should go. With levy, release mechanism should go and exports would be handled as the macro policy and not on a daily basis which means it should get freed up. However, seeing the country's production, a quantitative ultimate restriction will be there which is balancing the production minus stock, etc.

Arun Malhotra: Do you see any linking up of the sugarcane prices with the sugar prices going forward?

Vivek Saraogi: The recommendation will definitely come. The recommendation will include the linkage also because their expert committee of Mr. Nand Kumar has dealt on it. They are members so that will also come in. But probably implementation of that might not be as fast as the levy.

Arun Malhotra: In the past also we have seen a few committees but do you see more seriousness on the part of the Government this time or is it once again just a committee and then no implementation?

Vivek Saraogi: I will tell you the difference. First of all, all other committees had been by either retired people or people of a much lower profile. This is with people who are right now actively involved in policy making, you see the members, Dr. Rangarajan, Dr. Kaushik Basu, Mr. Nand Kumar who himself gave the recommendation earlier, Mr. Ashok Gulati who is the current CACP Chairman- who again opined in the past that the regulation should happen. So these are the people who are in the thick of things and these are people who are sitting on the table right now and have not retired so one does expect very clearly this to happen. In the past whenever de-regulation was looked at, it was looked at the time of surplus. Thinking in the past was that if you de-regulate in a surplus probably free sugar prices would come crashing up. So that was one fear with the cooperative sector that went and stood against it. In the past the cooperative sector had said no to deregulations in their letters. This is the first time when all the concerned people including the Consortium of Indian Farmers Association (CIFA) have said levy should go. Cooperatives have said it should go. Private millers have said that it should go. All members are clearly of the opinion that it should go, so we see a bit of difference this time vis-à-vis the last time. We see the surplus also being in control but if we have 26 million, let's say it may go down to 25 or 25.5 another 2.5 million export should handle the surplus which over the year is a very small quantity so production demand supply is in balance. The committee's profile is different. The industry is united. The farmer is backing it so that's the difference.

Moderator: Thank you. The next question is from Kalden Lachungpa from Newswire 18. Please go ahead.

Kalden Lachungpa: I just wanted to ask you what is the Company's sugar production output of 2011-12 and have you set any targets or estimates for FY13?

Pramod Patwari: For 2011-12 it was 8.1 lakh tonnes production and 2012-13 we are estimating a crushing of 9.3 crore quintals with a recovery of around 9.6%.

Kalden Lachungpa: And, on the export front, has Balrampur Chini exported any sugar so far?

Vivek Saraogi: No. In the current year it has not exported any.

Kalden Lachungpa: Are you all expecting to export any? The Government has freed sugar export. On that have you all got any registration certificate?

Vivek Saraogi: No we are not looking at exporting. As we said the viability for exports lies with Maharashtra, Karnataka and Tamil Nadu.

Moderator: Thank you. The next question is from Avinash Agarwal from Sundaram BNP Paribas AMC Ltd. Please go ahead.

Avinash Agarwal: Just wanted an update on the ethanol pricing front. It was expected that it could be linked to the petrol prices so any move on that front?

Vivek Saraogi: Amazingly it is still pending and I again understand now with it making extreme financial sense and with the Government strained in the level of finances. I think it should see the light of the day. If you see the linkage and if you play out a formula right now ethanol price will go to straight Rs. 40. So let's assume, they raise it to 31 to 32 only, so in the interim it is good enough or a good measure. However, by even raising to 31 to 32 they will be saving a big amount in their kitty. If in the 100 crore liter they would be saving Rs. 2,000 crore. That is the oil marketing companies. Simple cash flow.

Avinash Agarwal: Okay and what is the kind of blend that is happening today sir?

Vivek Saraogi: Mandated at 5, overall at 3 – 3.5.

Avinash Agarwal: And we have seen a drop in the sales of ethanol. Was that due to the closure of distillery or overall off take is lower by the…..

Vivek Saraogi: There is no problem with the off take now. It was because of the closure.

Avinash Agarwal: Okay and are we having any payment problems from the OMCs for ethanol?

Vivek Saraogi: No it is absolutely on target.

Moderator: Thank you. The next question is from Sunil Jain from Nirmal Bang Securities Ltd. Please go ahead.

Sunil Jain: One related to international market, the prices have come off a lot in the recent past. How you see these prices? Where it is likely to move or it has come off from over 25 cents to now less than 20 cents? Do we see it is coming down even lower to around 16 -17 cents?

Vivek Saraogi: What we understand and what our experience is that the ethanol parity pricing is around 18-18.5 in Brazil. Fortunately with this large correction I don't see any more of it going up from here. I think they are at very low levels.

Sunil Jain: That could be a good reason. And second thing if we take this year production as 26 and next year again around 25 and all. This can continue over a period in the next season also because now the realization for farmers are comparatively very good as compared to the other crops so can the farmer continue to have more cultivable areas in sugarcane?

Vivek Saraogi: Yes. Basically we told you that at the current level of realization of the farmer land in other crops also, the data right now is 6-7, 7-8% lower in the south and 7-8 higher in UP. It is too early as I say again but as of now it very clearly shows that the next year it should not be higher than this year.

Sunil Jain: I am not just asking about one year going forward, can this continue for many years and we may not see what cycles we had seen earlier like cane production can continue to remain at higher levels at around 25 million.

Vivek Saraogi: In couple years your domestic consumption will touch 25 first of all. And to predict two years from now, next year's plantation I cannot give you accurate in the current season. It is thereafter and how other crops behave, how monsoon behaves. See Maharashtra and Karnataka, first understand, it is completely devoid of natural water. And the water table, etc., is a problem. Even in this year let's assume that monsoon there is a doubt I am just taking an assumption in Maharashtra and Karnataka. You can see that production has come up 20% in Maharashtra and Karnataka. It is impossible to predict anything so ahead.

Sunil Jain: Yes that is one of the reasons but if we see one of the bigger reasons for sugar plantation area coming down is mostly cane areas and this was there a lot in this year also but still the cane area has not come down.

Vivek Saraogi: In UP even though there are arrears, this is the first year that the farmer has got the payment of the past. So he is not looking at this arrear very negatively but if this continues, be rest assured that it will have a reaction. Secondly in UP if we see the configuration of East, West and Central UP, West UP production is gradually coming down. West UP is the area which is nearer to Delhi, Gurgaon, Faridabad and all those areas. So a lot of land is going into urbanization. This is another phenomenon which is catching up in areas which are closer to even the smaller cities, even Maharashtra, Karnataka, urbanization means land being used to grow vegetables. They are giving very good prices.

Further, land is yielding a much better price of sale. Basically to take sugar production higher from 26 is going to be a problem.

Sunil Jain: Okay but we may not see production coming down to the levels of less than 20 million tonnes at higher prices of cane.

Vivek Saraogi: I can only answer this by saying that when we produced 280 in 2007-2008, nobody saw it come down to 140. And if you ask me on that day how do I see it, with my 25 years of experience I would have told you I don't see it.

Moderator: Thank you. The next question is from Nillai Shah from Morgan Stanley India Co. Pvt. Ltd. Please go ahead.

Nillai Shah: Can you throw some light on the consumption numbers for sugar in India given these change in consumption that is happening. Just 1 to 2% increase, I believe in the last year there was actually a decline in sugar consumption. So can you just throw some light on what's happening on the sugar consumption front? Is ISMA getting the numbers wrong out here?

Vivek Saraogi: If you want my honest view, consumption is increasing. It is definitely increasing at a 4 to 5% level. I do not think there was a drop in consumption last year. What is happening is inventories at the level of the dealers, inventory at the level of shops has come down to zero. Everybody is now working on zero stock level at the retailer or the wholesaler level. Earlier if you remember two years back when you were moving from a surplus to a shortage, people stacked up inventory. Now when that gets unleashed you see this adjustment happening. Today the people are seeing that you are working on an absolutely stable market. The moment there is any gradual build up in the inventory- one year you will see a 10% growth in consumption. Now neither 10% will be the reality nor is this 1-2% a reality. So it is a readjustment of the stocks at the wholesaler and the retailer level.

Nillai Shah: So ISMA is then basically plugging the consumption levels to get the final closing balance in which case the closing balance itself could be understated?

Vivek Saraogi: Yes. I would personally feel the closing balance is overstated.

Nillai Shah: Perfect. The second question is on the ethanol blending part. Why is it that with crude where it is, the rupee where it is, I understand that you had a closure, etc., and hence the volumes were lower but for the industry as a whole including Maharashtra and Karnataka why is it that the ethanol price is currently so very benign as compared to where even the ethanol support prices and obviously the readiness of the oil marketing companies to blend ethanol at this point in time?

Vivek Saraogi: First let's understand when this ethanol program got restarted, it came through a cabinet decision with a Rs. 27 provisional price. The final price to be determined based on Sumitra Choudhary's Committee report which was the expert committee. But the expert committee report has been finalized almost a year back. It is very clearly linked to petrol price. As I have said in the beginning if we take a linkage and you have to do whatever the formula is the price should be Rs. 40 today. Two, the saving to the oil marketing companies today is tremendous. Now this being a small volume business for them and the Government of India's price not being revised owing to God knows whatever reason. It is a slack program. It is not receiving their attention and now very clearly with the two variables you have said and with the cash flow saving it will lead, we should see the light of the day very soon.

Nillai Shah: And in that case why is it that the overall realizations for alcohol as a segment is low specially when the chemical guys are now reliant on the domestic market for alcohol where last year they could have probably imported alcohol.

Vivek Saraogi: You are seeing the quarter realization of January to March. Now in this period each sugar factory is working for 24 hours. You are producing ethanol, you were storing in your tank. You are sending it to your distillery. You are producing alcohol. You are storing it in the tank and dispatching. You are producing and storing 70 to 80% of your year volume. So now this is the period where the price will always be the lowest. Chemical people take advantage. They wait for your tanks to fill up then they come and buy. So this is just a quarter phenomena. You will see improvement in prices as we move ahead, definitely.

Nillai Shah: Understood and just a last question is that, is it not economically viable to build storage tanks for a company like Balrampur?

Vivek Saraogi: We are gradually doing that. We are checking our balance and we will improve our storage capacities.

Nillai Shah: In the next three years do you see India becoming a structural importer of sugar?

Vivek Saraogi: I can't answer the production for next 2013-14 season. I can't answer that question. It all depends on the consumption, production, etc.

Nillai Shah: So, how would Balrampur be gearing up for that eventuality if it happens? I mean any plans on the anvils for that? Is there anything that you can do as a company for that eventuality?

Vivek Saraogi: We have built two refineries in our company which are linked with the sugar factory. To that extent if ever imports are to happen we have the ability to refine sugar in the off season. Outside of that UP as a player in import/export business will be a little more benign and a little less participative than others. Others, means other states.

Moderator: Thank you. The next question is from Arun Baid from IDBI Capital Market Services Ltd. Please go ahead.

Arun Baid: Just wanted to understand on the exports front. Currently your white sugar is trading at roughly $560 for the month of July and $540 for the month of August. If I convert $560 currently at Rs. 55, I get Rs. 30 -31 at the export prices. Now obviously you have the transportation cost and the sugar gets a discount compared to the international sugar because our grade is lower. So the dynamics I wanted to understand at what price internationally are we going to make money?

Vivek Saraogi: See again I say we export, we would not mean Balrampur, it would mean South. You have three grades of sugar which are exported-raw, the 150 ICUMSA or 100 ICUMSA regular sugar and refined sugar. Refined sugar is absolutely at this price plus and not minus. So quantity and availability of refined sugar is not with all players. But yes that does form a part of exports now. Many people in the South have made raw sugar. Tamil Nadu is continuing crushing because their season is typically a longer season so Tamil Nadu has made raw sugar and is exporting raw. Plus you have 150 ICUMSA which is a discount to the sugar. The combination of the three will allow exports to happen.

Arun Baid: Just one more thing was for example $550-560- if I had to export from South India how much will it cost?

Vivek Saraogi: I had told you three qualities. So you want the price for which quality?

Arun Baid: Because your exchange normally in ICUMSA 45 grade, right?

Vivek Saraogi: 45 will get a rate which is higher than Rs. 30.

Arun Baid: Okay.

Vivek Saraogi: Minus the cost of shipment.

Arun Baid: So that would be how much normally you are transacting?

Vivek Saraogi You will get about 29, closer to 28.5 – 29.

Arun Baid: One more thing, what was the CAPEX done in this particular year?

Pramod Patwari: Total CAPEX was Rs. 20 crore.

Arun Baid: And for next year it will be similar?

Vivek Saraogi: Yes, balancing equipment.

Moderator: Thank you. The next question is from Chetan Thacker from HSBC InvestDirect Securities (India) Ltd. Please go ahead.

Chetan Thacker: I just wanted to get a sense on the farmer economics for sugar cane in this year assuming SAP remains where it was in the sugar season 2012?

Vivek Saraogi: It all depends on the yield, etc. And it is definitely an attractive proposition in east UP but if you compare it with the vegetables it might not be so attractive. Center is also a little attractive. Now it will all depend on how other prices play out. It will also depend on monsoon. If you assume a farmer has one acre of land and let's assume the yield is 30 tonnes, his economy is different, if yield is 25 it is different, if it is 35 it is different. His economics is a function of yield. His economics of a function of what he can get for the other products. So it will all depend on how the monsoons play out and how the other crops play out and secondly when he gets paid for sugar cane. You cannot take a view now. You will have to pledge it over a year.

Chetan Thacker: Last year what would have been roughly margins on an acre which the farmer would have made on sugarcane?

Vivek Saraogi: It is very difficult.

Chetan Thacker: Because just trying to gauge given that the SP manifesto mentioned a fixed margin that they would look at for sugarcane producers and farmers. So just wanted to get a sense on where the SAP could be headed from here on?

Vivek Saraogi: I have given my view on SAP with the current state of events if the sugar prices don't change gear, I don't personally think there is ability to increase SAP.

Moderator: Thank you. The next question is from Sanjay Manyal from ICICI Securities Limited. Please go ahead.

Sanjay Manyal: Just one question about the total area which is increased now. In most of the reports it is 2% around. What I understand that because there would be a first or second ratoon the recovery rates would be lower so can we expect that the production probably will be below 24 or may be below that?

Vivek Saraogi: Every year there is a first ratoon and second ratoon with every miller. So this is nothing new. As I said plantation area is lower in Karnataka and Maharashtra which is double of UP's production together. Thirdly, any production which has to move lower now probably can only happen if the weather plays truant. Otherwise it is too early again but we have given our view that production should be between 25 and 26 next year. If I have to give you a figure today it is about 25.5 based on the planting data that we have now.

Moderator: Thank you. Ladies and gentlemen we will take one last question from Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: This is a broader question on the utilization of cash flow side. I understand that we have about Rs. 250 to 260 crore of scheduled repayment of debt. Just wanted to know would we be looking at any buyback possibility or a higher dividend discretion from the management?

Vivek Saraogi: See I will tell you how we think on dividend. We don't want any suspense on this. We always resorted to 35-40% of net profits. So if there are no net profits because of the payment of the past we won't give dividend. If in certain years you make 300 crore, 400 crore or 500 crore profits because you made higher profits one will not hold back dividend at the same percentage. So our dividend theory is very clear. It is from the last two decades we have observed the same theory. We just completed buyback last year. Every year we cannot do that.

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

Vivek Saraogi: Thank you everyone and we will be very happy to answer any questions any one has.

Moderator: Thank you very much. On behalf of Balrampur Chini Mills Limited that concludes this conference call.

- ENDS -

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