



Balrampur Chini Mills Limited
Q4 & FY2013 Results Conference Call Transcript
May 13, 2013

Moderator Ladies and gentlemen good day and welcome to the Balrampur Chini Mills Limited Earnings Conference Call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you sir.

Anoop Poojari Good afternoon everyone and thank you for joining us on Balrampur Chini Mills Limited's Q4 & FY13 Results Conference Call. We have with us Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills Limited; 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 would now begin the call with brief opening remarks from the management, following which we will have the forum open for discussion. I would now like to invite Mr. Saraogi to make his opening remarks.

Vivek Saraogi Good afternoon everyone. Thank you for joining us today to discuss Balrampur Chini Mills Limited's operational and financial performance for the period ended 31st March, 2013. I would like to begin by discussing the latest developments in the sugar sector followed by a discussion on the performance of the

company. Kishor will then take you through our financial performance.

I'm delighted to share that the sugar industry has witnessed a historic event with regards to the partial de-control of the sugar sector. Reform recommendations made by Dr. C Rangarajan related to levy obligations and release mechanism have been accepted by the government. With the much awaited 10% levy obligation eliminated, sugar mills will have the freedom to sell their entire output in the open market. State governments will purchase levy sugar for PDS from the open market at prevailing rates through tender mechanism and Central government will provide the subsidy to the State Government for the difference between PDS and the open market price. As per the notification sugar produced for the season beginning from October 2012 is not subject to any levy.

From BCML's prospective we have been supplying 10% of our production as levy. So with a base production level of around 80 lakh bags, we were selling 8 lakh bags at Rs. 20 per kg, that would now be sold in the open market.

Another important decision is with regard to the removal of release mechanism. Mill's can now sell sugar without any quantitative restriction and will be in a better position to manage open market dynamics as well as their cash flow position. This should also improve the overall operational and financial performance.

In addition to the positive structural changes in the sugar sector, the ethanol segment has also received excellent news. The Cabinet Committee on Economic Affairs has approved a policy which makes it mandatory for oil marketing companies to purchase ethanol from the sugar mills at market driven prices. On the basis of an open market tender, the benchmark rate has witnessed an increase of 30% from Rs. 27 to Rs. 35 per litre. We expect higher prices to largely flow into our distillery bottom line.

Moving on to the sugar demand supply situation – We estimate India's production for 2013 to be at 248 lakh tons or 24.8 million tons compared to 26 million tons last year. The state of UP is

expected to achieve 74.5 lakh tons in the current season against 69.7 lakh tons last year. Maharashtra is expected to produce 80 lakh tons against about 90 lakh tons last year. Overall consumption should be in the region of 235 lakh tons thereby leading to a surplus of about 10 lakh tons.

Sugar prices in the domestic markets have remained subdued. Removal of release mechanism has led to an excess supply in the short-term with mills which are looking to improve their financial position and liquidity. International prices continue to remain subdued due to higher sugar supplies from key producing areas like Brazil, Mexico and Thailand.

Coming to Balrampur's performance, in the sugar segment we crushed 8.64 crore quintals at a recovery of 9.56% and produced 82.46 lakh quintals of sugar during the season. Improved volumes enabled us to deliver healthy sales growth however profitability in the segment was impacted owing to higher costs of sugar cane and lower realizations as compared to the cost of production.

Distillery division has reported a healthy growth on the back of higher volumes and realizations. Performance of Co-Gen division has been stable as compared to the corresponding quarter and continues to provide significant contribution to the overall profitability.

To conclude, I would like to say that some restrictions related to sugar cane pricing remain a challenge to the sector but in summation we believe that the government has initiated a historic step towards deregulation of the sector and are confident that other recommendations by the committee of Dr. Rangarajan regarding cane price would also find their acceptance. Existing reforms will also have a profound impact on the operational and financial health of the industry. We are confident that Balrampur is well placed to leverage a strong position within the sector to benefit those structural changes and create a tremendous value for all stakeholders going forward.

On this optimistic note, I am handing the floor over to Kishor to take you through the financials.

Kishor Shah

I will briefly take you through the Company's operating and financial performance for Q4 & FY 2013:

Q4 FY2013 revenues were higher by 29% at Rs. 744.7 crore from Rs. 577.7 crore in Q4 FY2012. For the year, revenues improved by 42% to Rs. 3274.8 crore as compared to Rs. 2309.6 crore in FY 2012. Increased volumes and better realizations in all business segments enabled us to report an improved top line performance. EBITDA in Q4 FY2013 was at Rs. 123.7 crore as compared to Rs. 193.5 crore in Q4 FY2012. Profitability during the quarter was lower mainly attributable to a lower contribution from the sugar segment. During the FY2013 operating profits increased by 76% to Rs. 419.9 crore from Rs. 238.2 crore in FY2012.

Moving on to the performance of sugar division – revenues increased by 30.5% to Rs. 676.1 crore from Rs. 517.9 crore in the corresponding quarter. The segment reported a PBIT of Rs. 11.0 crore versus Rs. 80.3 crore in Q4 FY2012 due to significant increase in the cane cost and lower realizations as compared to the cost of production.

Coming to the distillery division – revenues during the quarters were higher by 77.2% at Rs. 80.4 crore as compared to Rs. 40.5 crore in the corresponding quarter. In Q4 FY2013, PBIT more than doubled to Rs. 45.6 crore from Rs. 21.8 crore in Q4 FY2012. The strong performance reported in this segment was driven by higher volumes and realizations. Sales volumes during the quarter were higher at 20,994 KL as compared to 16,840 KL. Q4 FY 2013 realizations were also higher at Rs. 28.89 per bulk litre as compared to Rs. 26.66 per bulk litre in the corresponding quarter. With oil marketing companies initiating the process of procuring ethanol at Rs. 35 per litre, we expect to register a healthy growth in the performance going forward.

With regard to our Co-generation business – Q4 FY 2013 revenues were stable at Rs. 134.4 crore as compared to Rs. 130.9 crore in Q4 FY2012. During the quarter PBIT increased by 3.1% at Rs. 77.4 crore as against Rs. 75.1 crore in Q4 FY2012. For the quarter under review, both production and sales volumes were marginally higher in comparison with the corresponding quarter. Co-generation division forms an important part of the

company's integral business model and continues to support the consolidated performance in varying sugar cycles.

During Q4 FY2013 interest cost was lower by 35.2% at Rs. 26.7 crore as compared to Rs. 41.2 crore in Q4 FY2012.

As on March 31, 2013 BCMLs term loan stood at Rs. 499.6 crore leading to long term debt equity ratio of 0.38. Long-term debt as of today is Rs. 373 crore. For Q4 FY2013 net profit was at Rs. 71 crore as compared to Rs. 129.9 crore in the corresponding period last year. PAT for the year stood at Rs. 162 crore.

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

Moderator Participants we will now begin with a question-and-answer session. We have the first question from the line of Nirav Shah from Antique Stock Broking Limited. Please go ahead.

Nirav Shah First question is on when the ethanol supplies are commencing? And what was the price bidded by the global players in the global tenders, is it matching or is it way higher than what the domestic tenders have quoted?

Vivek Saraogi For ethanol supplies we have already received our order at Rs. 35, this is the L1 in UP. So just to take everyone through some data points for better understanding, OMCs had bid for 110 crore litres domestically and they got a bid for 55 crore litres. The reason being the fact that they delayed this entire process for this year, people are unable to store the entire produce from molasses in their tanks during the season, hence for the first year they got a bid of 55 crore litres. Of the global tenders floated, they got a bid of around Rs. 71, so now global tenders seem to be out of the way.

Of domestic tenders in UP, they have got 20 crore litres at around Rs. 35-36, then they gave L2 option to match L1, so this L1 is around Rs. 35. So UP ethanol supply should begin from the end of this month or beginning of next month. We have already received our orders and it takes 15 days to get the permits. Maharashtra and Karnataka have quoted at Rs. 38-40, they have also been now given an option to match L1. To sum

up, Rs. 35 is here to stay. For higher price in other depots outside UP, we will have to wait and watch. Dispatches for people who have matched L1 to begin at the end of this month and as regards global tenders I have briefed you.

Nirav Shah Ok. So are we increasing our storage capacity because that would be a problem?

Vivek Saraogi Yes, we have already increased our storage capacity and we continue to do so, so that we are able to hold our distillery product in a manner to enhance realization in the best format.

Nirav Shah Ok. Now that de-control is in place, are we were planning some CAPEX at Kumbhi, is that plan finalized or we are still in the finalization stage?

Vivek Saraogi Kumbhi, power plant is finalized and regarding the distillery, we are still in the process. I think probably next quarter, we should be able to give you a better heads up on this.

Nirav Shah Ok. On the sugar front, what are the cane arrears currently and do we see anything remaining as of September 2013?

Vivek Saraogi Yes, I will take you through the cane arrears and people's fears about the next year prices. Right now in UP the cane arrears are about Rs. 6,300 crore and as of now the sugar prices are around Rs. 31.60 levels. If sugar prices do not go up, I do not see cane arrears being cleared by 30th September. That being the case, it is going to be impossible or very difficult for anybody to try and raise the cane price in a manner which they have done in the past, considering these arrears when they begin the next season.

Nirav Shah So unlike what we see in Maharashtra or even Brazil, where there are always some mills not operating during the distress time, are we seeing that kind of a situation right now that a few mills may not be operating the next season?

Vivek Saraogi I do not see that, but I see some kind of rationalization in cane prices. I am not saying that the Rangarajan formula will be accepted prior to the election, but I'm only saying that no government can handle this scenario in its state. Let me remind everybody that last year at this point of time sugar prices were

Rs. 28, then came the scare of the monsoon last year especially in the Maharashtra region and prices shot up to Rs. 36 and that is when the cane arrears got liquidated. Right now we are at Rs. 31.67 or Rs. 31.70, if there is no surge in the sugar price I do not see the cane arrears being liquidated.

Nirav Shah Ok. You mentioned the arrears of Rs. 6300 crore for UP, what is the broad figure for all India?

Vivek Saraogi All India as of now I do not remember but, for UP it is Rs. 6300 crore.

Nirav Shah Ok. In this March quarter, I assume that we have accounted for the levy inventory during the quarter. As the notification on decontrol came right now, is it true that possibly we will take the write back in the June quarter?

Vivek Saraogi I will explain the entire accounting change because that will be a concern with everybody. First of all the notification is out and the decision was out before the results also. So for the sugar produced during this crushing season which began from November, everything has been accounted for as free sugar. There were obligations on all mills across India from the past for levy, so only that portion has been accounted for as levy.

Secondly a little bit on the incentive policy accounting. The sugar incentive policy 2004 has two parts to it. One is reimbursements from the government for transport subsidy on cane and sugar etc., the other is waiver of taxes like purchase tax, society commission etc. So specifically in Balrampur's accounts for the year Rs. 45 crore was reimbursements to be received, this year we have not accounted for that in our P&L statement. However remissions were about Rs. 23 crore, since we have a court order. We are not paying that on a cash basis to the government and that has been accounted in the P&L account. If we compare apple to apple last year's accounts to this year accounts, we have not accounted for Rs. 45 crore this year in the revenue side which we had accounted for in the last year.

Nirav Shah Ok. So you have accounted for only the exemption part?

Vivek Saraogi Exactly, exemption part we have accounted. We have not accounted the reimbursement to be received from the Government of UP. So I am saying Apples to Apples policy if we compare last year, had we accounted for Rs. 45 crore our costing would have been lower or profit would have been higher. That is why you see the cost of production to have gone up disproportionately since we have not accounted for these reimbursements. Cost of sugar produced for the year without interest and corporate expense is Rs. 33.15. As per accounting standards you mark down your inventory to cost or market price whichever is lower. On that day market price was Rs. 31.55, so we accounted for the entire closing stock at Rs. 31.55.

Nirav Shah So just to sum it up, we have taken the benefit of not accounting for levy during the quarter and at the same time we have got hit from the inventory write-down?

Vivek Saraogi Absolutely.

Nirav Shah Ok. On the all India front, how much sugar was imported for domestic consumption?

Vivek Saraogi We do not have totally the exact figure but 3 lakh tons has been sold.

Nirav Shah And it is mostly in the eastern part, West Bengal region?

Vivek Saraogi Yes, Haldia distillery.

Kishor Shah That to by 30th September, it should be 5-6 lakh tons.

Nirav Shah The other income for the quarter is very high at Rs. 26 crore against Rs. 7 crore, what does it pertaining to?

Vivek Saraogi There were some write-backs on molasses cases in the past. There was a case where some administrative charges on molasses etc were to be paid, we were in the court and we won in the Supreme Court.

Kishor Shah It was pending in the Supreme Court.

Vivek Saraogi It is a regular distillery tax income of the past.

Nirav Shah Ok. That's all from my side. Thank you.

Moderator We have the next question from the line of Ravi Ratanpal pal from JP Morgan Asset Management. Please go ahead.

Ravi Ratanpal My question is on the interest component. For the full year the interest component is somewhere around Rs. 143.9 crore down 2.5%, whereas if I look at the balance sheet your long-term borrowings have come down from around Rs. 494 crore in the last year to around Rs. 226 crore in the current year. Why is that same effect not getting reflected in the interest cost?

Kishor Shah There was a requirement of higher working capital and this is the precise reason that my interest cost is not matching with the long-term loans.

Ravi Ratanpal Ok. What was the working capital requirement, how high was it from the previous year and what was the average rate of borrowing of your working capital requirement?

Kishor Shah The average working capital borrowing cost is around 10%, the requirement has gone up by almost Rs. 300 to 400 crore and this is despite the fact that there are still cane arrears dues of Rs. 500 crore.

Vivek Saraogi And secondly the long term loans are repaid during the year, it is not that they are paid on the first day of the year. Hence you will get an impact of that as you move onto the next year, you will see a bigger impact.

Ravi Ratanpal So the interest component will come down in the subsequent quarters, right?

Vivek Saraogi In the full year it would come down.

Ravi Ratanpal Ok. Thank you.

Moderator We have the next question from the line of Arya Sen from Jefferies India Private Limited. Please go ahead.

Arya Sen You talked about cane arrears but what is your sense on planting for the next season? What do you expect in UP on the planting side?

- Vivek Saraogi** That is a very good pertinent question because that will decide prices. In UP even at Rs. 280 we have surprisingly not witnessed any improvement in planting. Planting is down 5% in some areas and up 5% in some areas. The accurate data for UP cane acreage gets reflected in August and September, but preliminary data from our cane team indicates that it is flat 2 to 3% up, or 2 to 3% down. UP remains flat, Maharashtra, Karnataka remains a little lower, our initial estimate is about 8 to 10%. It is very early to project production for the next year but assuming monsoons to be normal, one would say that for 10% lower production or 7 to 8% lower. These are very initial estimates.
- Arya Sen** Right. How much quantities of ethanol have you committed to supply and over what period? You talked about the industry supplying 20 crore litres in UP, how much of that is your contribution and over what period?
- Kishor Shah** We participated for 2.5 crore litres.
- Vivek Saraogi** We have tendered for 2.5 crore, and since it is beginning late, by the end of May, probably it could spill into the next year which could be December-January.
- Arya Sen** Ok. And was your Co-generation realisation a little lower? What was the reason for that?
- Vivek Saraogi** There are some plants where there is a PLF restriction, if you cross that you get a slightly lower tariff. The average is still Rs. 4.05 but there were some plants which sold a little bit of power at Rs. 2.70, also because it is part of the tariff. Where there is an increase of 10 paise year-to-year, there are some restrictions on PLF because you have already got the tariff. Hence the average is Rs. 4.05 because some plants get a lower tariff beyond the PLF.
- Arya Sen** Ok. Have you quantified the impact of the levy sugar obligation of Q3 FY2013 in this quarter's results? Q4 FY2013 is fine because it is as per the new notification, but there would be some impact of Q3FY2013 which would have come into the Q4 FY2013 numbers because of what you have already sold in Q3 FY2013. What is the impact of that on the PLF?

Vivek Saraogi It is not a quarter-to-quarter obligation or levy, it is year-to-year. For that sugar produced in the current season there is no levy obligation, hence we have accounted for in that manner.

Arya Sen Ok. Thank you sir.

Moderator We have the next question from the line of Devang Mehta from Canara Robeco Asset Management. Please go ahead.

Devang Mehta A couple of bookkeeping questions. The cost of production of Rs. 33.15 that you mentioned is at the EBIT level, right?

Kishor Shah Yes. Only two components are there, one is interest and the other is the corporate overhead.

Devang Mehta Ok. For the ethanol division, we did not have any sales in this quarter. Is it that we were holding back on the inventory and sales are not happening, or they are not off taking?

Vivek Saraogi I will try and give a prospective on all the three divisions for the benefit of all our participants.

Distillery division, this year sold 6.62 crore litres. There was some delay in ethanol dispatches hence we held back stocks. On the distillery division as a whole, next year our target is to sell about closer to 8 crore litres. So you will see increased volume next year, increased prices and therefore the costing also will get positively impacted and the revenue because of a rise in the ethanol prices will give you the results. So for distilleries, in earlier years there were times when selling of molasses might have been more beneficial, now selling of all conversions are more beneficial. Ethanol leads the pricing discovery method in this sector because if ethanol goes at 35 and lot of quantity moves into ethanol, other chemical manufacturers willingly have to raise prices. So in the distillery division 6.62 crore litres was sold this year, next year closer to 8 crore litres will be sold, volumes are looking at a higher by 20% and realizations are looking higher by 30%. Hence it is a double kicker there and we look at this permanently in a very positive manner. As someone asked for our CAPEX, our next CAPEX would be looking at putting up a new distillery and running that, currently Balrampur is a 8 crore producer of alcohol, it could move up when we put up a new distillery.

Now coming to the power division – this year we have sold around 54 crore units and at EBIT we have got Rs. 154 crore of profit. As we have stored some bagasse to run rate distillery, this looks at going to 57-58 crore units. Realizations would move up a little bit, so we hope that we can get a 10% uptick in the net-level next year. Distillery you will see a sea change, Co-Generation you will see a normal uptick.

Now coming to sugar – there is a big change on the selling price side. My call is that if we see some medium-term or long-term prospectives, we see that a future market could get well developed in this commodity over the next 6 to 9 months. At present you have a futures market with no volumes. We are seeing a lot of interest from global players who would want to buy sugar physically in India with the millers. As we move ahead we should see a lot of activity from people outside who are buying sugar in the country right now. Who is buying sugar right now? People who consume. If you see the New York 11, who buys sugar there? Everybody else but someone who consumes. 5-7% is the delivery in NY #11 and all global funds, agri funds, millers, everywhere around the world are participating. In India with this freedom on the end product side, we will see a lot of development on the sugar buying side. Only area of concern left is the cane price. Rangarajan has written that it should be linked however I do not see that happening before 2014, but having given you a prospective of cane arrears, it is going to be impossible. There is an election next year, it will be very difficult for any government to raise cane prices, holding an arrear of 25%. That is how I see things playing out.

Devang Mehta Ok. Thank you for that useful information. Too early to comment on the next season but by what time would Maharashtra close up on the planting and what would be a fair time to see the number, would it be the next quarter?

Pramod Patwari In Maharashtra planting is already over, so I think it should be after monsoon only.

Devang Mehta Ok. Thank you Sir.

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

Satish Mishra I think you have shifted some other current assets to other non-current assets, basically there is a sharp increase in the other non-current assets. Please can you explain the same?

Vivek Saraogi It is purely shifting of the receivables of Government of UP, the nomenclature. These are the reimbursements of the past.

Satish Mishra Ok. I wanted some clarity on the 2004 policy. Till last year we used to account for both, remission and reimbursement, but for this year we are accounting only remission and not reimbursement?

Vivek Saraogi Perfect.

Satish Mishra Ok. Thank you.

Moderator We have the next question from the line of Achal Lohade from JM Financial Institutional Securities Private Limited. Please go ahead.

Achal Lohade My question is on the UP promotion policy. What I understand is that the remission is accounted for, the reimbursement is not accounted for. Is it correct that we are accounting remission because we have the court orders, since we do not have a court order we are not accounting for reimbursement?

Kishor Shah We have court orders for both but since we are getting remissions right away we are accounting for the same. For reimbursements we are waiting for quite a long time, so we decided not to account for the same.

Achal Lohade Is there any risk of whatever you have accounted for which is about Rs. 170 crore of being written-off or taking a hit in the P&L on that account?

Vivek Saraogi It is too early to say. To brief everybody, we are still very hopeful and our dialogues with the UP government and persuasion in court both are heading strong. But it is very difficult to give a view right now for what is going to happen after 12 months.

- Achal Lohade** Secondly, as mentioned, the realization on ethanol is Rs. 35 a litre. Is it at the ex-mill level or at the depot level, if it is at the depot level what is at the ex-mill level?
- Vivek Saraogi** Rs. 35 is ex- mill level, at the depot it is about Rs. 41-42.
- Achal Lohade** That is significant. In terms of the cane crushing, what would be a fair assumption? Earlier we were looking at about 9.2 to 9.4 million tons, but we have not been able to meet that guidance.
- Vivek Saraogi** Slightly lower than what we thought.
- Achal Lohade** Is it something to do with the yields or the drawl rates? How do you see the next year, you target at 9 million tons or at about 8.6 million tons?
- Vivek Saraogi** We see meeting that 9 million tons. Yield is very difficult to predict.
- Kishor Shah** It is a combination of everything.
- Vivek Saraogi** But we hope to go up 3-4%, so 9 million tons seems very achievable.
- Achal Lohade** Currently the import duty on raw and white sugar is 10%. We are reading a lot of news reports that the industry is asking for a higher import duty. Can you please give us a sense on the same?
- Vivek Saraogi** First of all the industry is asking for nothing. This is what the government owes the industry because it fixes the cane prices at levels of Rs. 280, therefore the cost is what it is. Firstly, the country is producing slightly higher than consumption, so the fundamental question is where is the need for imports? Secondly, if we are to look at sugar prices, what can take it up and what did take it up last year? Taking a cue from what happened last year, sugar prices go up with the imposition of import duty. I would not consider that sugar prices are going up, sugar is getting back to its level of cost. For any government to get cane price arrears cleared, you would have to recognize the fact that cost has to be achieved. My view is that import duty would come, I cannot predict whether it would come for 2-3 months, maybe one month. But import duty has to come

otherwise we are looking at a scenario which is going to be very chaotic next year. We have very clearly told the government that these are our cost of production, bankers are not willing to fund your losses and hence if you want cane price arrears paid which is a reality, import duty and leading to a little rise in sugar price is a must.

Achal Lohade Thank you.

Moderator We have the next question from the line of Bhavin Chheda from Enam Holdings Private Limited. Please go ahead.

Bhavin Chheda Under which head is the earlier Rs. 45 crore accounted and this year's Rs. 23 crore accounted?

Kishor Shah This Rs. 45 crore were accounted for in under various heads like freights, raw material, selling expenses etc.

Bhavin Chheda Of the UP 2004 policy, in the balance sheet how much must be standing in the receivables or other heads?

Vivek Saraogi Rs. 170 crore.

Bhavin Chheda And this is standing in which head?

Pramod Patwari Other non-current assets.

Vivek Saraogi Last year it was in current assets and this year it is in other non-current asset.

Bhavin Chheda This is entirely receivables outstanding from UP government?

Vivek Saraogi Yes, right from the beginning of the policy till date, it is a figure over five years.

Bhavin Chheda Now coming to the release mechanism. The cost of production for sugar for most of the players in UP around Rs. 34 whereas the selling price is Rs. 31.5, but there is no release mechanism which means that there would be freedom to sell sugar. Will the producers hold back till the prices go up, is there a possibility on that front or it is necessary to sell on a monthly basis so that there is no intervention from the government?

- Vivek Saraogi** Firstly, there will be no intervention from the government. Secondly, sugar prices traditionally have followed a trend. The traditional trend is sugar is produced in 5-6 months and consumed over 13-14 months, you produce more than you consume. So basically during December, that is after Diwali finishes, it catches a downtrend because production comes in. Now as we move in to May and people have liquidated whatever they produce extra for which they don't have godowns, some pressure around some liquidity, etc., the moment we move ahead, you are moving ahead into the now highest consumption months during the year, so from now on up to October-end-November is the peak consumption period for the year. I personally feel that even without import duty there will be a gradual improvement in prices but that won't take you up to a level where you can liquidate your arrears. For example this Rs. 31.50 or Rs. 31.70 can move to Rs. 32.50-Rs. 33, that would not be good enough to liquidate the arrears of UP.
- Kishor Shah** In fact what you said the millers would hold back, I don't think millers would hold back for a long run, they are selling on a continuous basis and they need money to liquidate cane dues also.
- Bhavin Chheda** Which means that considering low global prices import duty becomes much for the sugar prices to go substantially up from the current level?
- Vivek Saraogi** Yes, for the time being. India is a very sentimental market, even sugar is sentimental, so the import duty will enhance the sentiment on the sugar price.
- Bhavin Chheda** Currently it is at 0%?
- Vivek Saraogi** No, 10%.
- Bhavin Chheda** The other question is on ethanol. Maharashtra and Karnataka sugar mills have not been awarded because their quotes were higher at Rs. 38 - Rs.41. So when you say that the OMC tender was for 110 crore litres and bids came from 55 crore litres, so that includes 20 of UP and 35 from other states?
- Vivek Saraogi** Yes, absolutely right.

Bhavin Chheda So for UP entire 20, now seems to be awarded at whosoever meets the L1 rate of Rs.35 per litre?

Vivek Saraogi Absolutely correct.

Bhavin Chheda Ok. Thank you.

Moderator We have the next question from the line of Aditi Kedia from Baljeet Securities Private Limited. Please go ahead.

Aditi Kedia I would like to know about the finance cost which has decreased. Is that because only of the working capital loan or is it because of any other reason?

Vivek Saraogi You have a long-term loan for which the interest rate is fixed and for working capital if Rs. 240 cane price went to Rs. 280, you have a higher working capital requirement and higher volumes also. Small positives are building in from that side and there is some very gradual down takes on the interest rate also. Combination of both will lower our working capital average borrowing cost which we hope to get down to 9.50 - 9.75%.

Aditi Kedia I would like to know the reasons for drastic difference in tax expenses between Q4 FY2013 and Q4 FY2012?

Vivek Saraogi Basically for tax expense you need to see for the year, because if profit comes in one year and one quarter it doesn't, tax expense should be seen at PBT for the year and after that PAT.

Aditi Kedia No, if we compare only the tax expenses of the FY 2013 or the FY 2012, there is a drastic difference.

Vivek Saraogi Yes, because FY 2012 there was no profit, so you see no tax.

Aditi Kedia So only because of the profit?

Vivek Saraogi Income tax is on profit.

Kishor Shah In FY2012 tax was provided for Rs. 1.16 crore, under MAT.

Aditi Kedia What I mean to say is, was there any rebate which was given to us?

Kishor Shah The tax has to be seen for the full-year and therefore some adjustments in the quarterly results.

Aditi Kedia Ok. Thank you.

Moderator We have the next question from the line of Parineeta Poddar from ICICI Securities Limited, go ahead.

Parineeta Poddar I have a question regarding the distillery sales volume and realization, if we multiply the volumes versus the realization during the quarter than we get a difference of Rs. 20 crore, now could you just explain me why is this difference?

Vivek Saraogi The other income is on the distillery segment. So that would clarify your query.

Parineeta Poddar So you mean to say that the other income of Rs. 20 crore has been on account for in the distillery segment?

Vivek Saraogi Yes, because it is some administrative charge on molasses for the past year taken in current year.

Parineeta Poddar That is the Rs. 23 crore figure?

Vivek Saraogi Around that Rs. 20 crore mark.

Parineeta Poddar Thank you.

Moderator The next question is from the line of Chetan Thacker from HSBC InvestDirect Securities (India) Ltd. Please go ahead.

Chetan Thacker I wanted to understand the impact on yields which have been there in Maharashtra and Karnataka last year. Could you throw some light on the upcoming sugar season as well because of perennial water issues?

Vivek Saraogi The perception when we began the season was that Maharashtra would produce 70 lakh tons at best, it went on to produce 80 lakh tons, higher by 10 lakh tons. UP, etc., was 2-3 lakh tons lower than what was projected. Hence our projection for the year for production was a little lower than 240 lakh tons but the figure stands at 248 lakh tons, owing to Maharashtra and Karnataka only. Now if we go into the next year, it is very

difficult outside the fact of plantation in these two states, as the water problem including Tamil Nadu is very severe, the plantation is lower. Hence, one is looking as of now with a normal monsoon, at production levels next year of about 230-235 lakh tons. If the monsoons are to fail in these areas or be irregular then production could move down sharply.

Chetan Thacker Does the current water table have a significant impact on the sucrose content for the next year?

Vivek Saraogi I am honestly telling you, this is something which nobody in this world can answer. Cane varieties behave very differently at times in the same impetus. So, different varieties behave differently based on different soil conditions, so very difficult to predict all these.

Moderator The next question is from Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal You said you could target 8 crore litres of distillery production next year. Is this the peak production from the current capacity?

Vivek Saraogi Yes, it is peak. It would be between 7.5 crore litres and 8 crore litres to be exact. 8 crore litres is our target and is the peak without new CAPEX.

Rahul Agarwal Doesn't the refining which is happening on the East Coast impact sales into Bengal or on the east of UP?

Vivek Saraogi We not selling into East any more, that was our traditional market about five years ago, so we are in different markets now.

Rahul Agarwal I understand sugar typically is sold either in the local state or nearby areas, or is the local transport very much possible across states?

Vivek Saraogi It is sold in Bihar, it is sold into North-East. It is sold into Haryana, Punjab.

Moderator The next question is from the line of Aman Sonthalia from Suvridhi Capital Markets. Please go ahead.

Aman Sonthalia As different companies give different data, what is the actual consumption quantity of India? Somebody says it is around 220 lakh tons, somebody says around 230 lakh tons, government data says around 225 lakh tons. All this is a bit confusing?

Vivek Saraogi The data is a little inaccurate, my personal view is consumption is even higher than 230 lakh tons. Our dialogues or interactions or sales with all institutional buyers, everybody be it Britannia, Coke, Pepsi, Frooti, everybody is saying we are witnessing higher volumes, minimum 10% higher. I have even gone to the extent of speaking to some retailers like Haldiram, Cadbury, anybody, they are all consuming more. I think everybody goes down to the bare level inventory which is at the dealer's level and Pipeline is dry, so hence it seems that consumption is not what it is. The moment there is a perception of a low production which happened last year, you see, how the prices ran from Rs. 28 per kg to Rs. 36 per kg. That is because everybody had zero stock in hand and the moment anybody feels that production will be lower next year the prices jump because people want to buy sugar for consumption and a little bit for the normal storage which they like to do.

Aman Sonthalia As per the estimations what is the actual consumption?

Vivek Saraogi Very tough, my view is it is 235 lakh tons plus.

Aman Sonthalia And what is the annual growth rate?

Vivek Saraogi 3% to 5%.

Aman Sonthalia Because I have seen an article in the Business Standard which was a big article on Pepsi and Coke. They have reported around 50% jump in their sales. The government is saying the growth is around 2%, so it is actually a very contradictory view.

Vivek Saraogi I do fully agree with you, you are only saying what I'm saying, my dialogue to arrive to this assumption is not based on one constituent of consumption, it is based on various constituents which begin from a retailer who sells the loose sugar, which begins into a sweet manufacturer, which begins in to Halwai, which goes into a soft drink, biscuits or into a confectionery. We have done this personal study across the board, so my view is consumption is higher. The moment there is a change in

production pattern and one sees that production will dip a little and you don't have an alternate supply which is imports, you will see the change in pricing.

Aman Sonthalia One more thing is that since the international price is quite weak and Renuka is already importing in a big quantity and they are processing at full capacity in their Haldia plant. Don't you think that already they have flooded the Bengal and North-Eastern Orissa markets and going forward they will process big quantities of raw sugar and ultimately it will replace the domestic sugar prices?

Vivek Saraogi First of all Renuka as we see would be able to sell about 5 lakh tons in this year, it is 2% of annual consumption. Second point I would say, I find it very difficult for any government to defend that you have a higher production than consumption, you have huge cane arrears and you want to allow imports into the country so that prices don't get back to cost. You can't pay the farmer and you are trying to buy sugar from outside and pay a Brazilian farmer rather than pay your Indian farmer. Couple of months down the line I think this duty is here to come.

Aman Sonthalia Ok. Currently the price difference between UP and Maharashtra and Southern States is around Rs. 2 to Rs. 2.5? Since this year and next year too there be a definite increase in production in UP and decline in production in Maharashtra and Southern States, don't you think that the price difference between these states will be virtually abolished and in both the areas the price will be virtually same?

Vivek Saraogi Are you talking on cane pricing, isn't it?

Aman Sonthalia No, sugar prices because right now suppose the sugar price in UP is around Rs. 31.50 per kg, in Maharashtra ex-mill it is around Rs.28.75 per kg or Rs.29 per kg?

Vivek Saraogi But this difference will always stay lifelong.

Aman Sonthalia No, next year in Maharashtra and Southern states the production is expected to be very low?

Vivek Saraogi If that happens, the difference will narrow down.

Kishor Shah Because they were surplus. It is a transformation difference basically.

Aman Soanthalia I have talked with lot of people in Tamil Nadu and parts of South India and they say that particularly if you take Sakti Sugar, their plantation has gone down by around 40% to 50%. In Maharashtra their plantation has gone down by around 45%. Do you think next year in Tamil Nadu, Karnataka and Maharashtra the production will be substantially lower than this season?

Vivek Saraogi I don't trust these people, hence, I'm not giving that kind of a view. I have already said that I do see a 20 lakh lower production, so that is where we would like to keep our views right now. All are subject to rainfall or the planting data which is accurate, etc.

Moderator Participants that was the last question, I would now like to hand the floor back to the management for closing comments, over to you sir.

Vivek Saraogi Thank you everyone. Kishor, Pramod and we are all here to answer any more queries which any one would have.

Moderator Ladies and gentlemen on behalf of Balrampur Chini Mills Limited that concludes this conference call.

This is a transcription and may contain transcription errors. The Company takes no responsibility for such errors, although an effort has been made to ensure high level of accuracy.