Balrampur Chini Mills Limited

Q2 & H1 FY18 Earnings Conference Call Transcript
November 8, 2017

Karl Kolah: Good morning everyone, and thank you for joining us on Balrampur Chini Mills' Q2 & H1 FY18 results conference call. Today we have with us Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills and Mr. Pramod Patwari, Chief Financial Officer of the Company.

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

Before we begin, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the results presentation shared earlier.

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

Vivek Saraogi: Good morning everyone and thank you for joining us on Balrampur Chini's Q2 & H1FY18 earnings conference call. I will start by giving you an update on the latest developments following which Pramod will take you through the Company's financial highlights for the quarter.

According to the latest industry estimates, the country's sugar production for the upcoming season is expected to be higher at 255 lakh tonnes as against 202 lakh tonnes in the previous season. As you may be aware, the sharp increase is due to a rebound in key sugar producing states of Maharashtra, U.P. and Karnataka. Maharashtra is expected to produce around 79 lakh tonnes from 42 lakh tonnes due to increase in yield as well as cane acreage. U.P. sugar production is expected to bearound 100 lakh tonnes for the season as compared to 88 lakh tonnes for the previous season. Consumption is expected to be about 255 lakh tons, thus we expect the balance demand/supply situation in the country as the opening inventory of 39 lakh tonnes is expected to be the closing inventory also for the coming year.

Both Central and State Governments have taken several initiatives over the past few months on building a healthy and sustainable environment for the sugar industry. The UP Government announcement on SAP is one such example. The Government increased the cane price by Rs.10 for the upcoming season. The cane price for normal variety now stands at Rs.315 per quintal, up from Rs.305 per quintal and consequently, the early variety is at Rs.325 per quintal vis-à-vis Rs.315 per quintal. We feel such a price is remunerative to both farmers and millers. This will also help farmers receive payments on time and ensure that there is no build-up of arrears.

With the closing of gap between SAP and FRP, we feel the next step could be the State Government is looking to implement the Rangarajan/FRP formula in U.P. as we move ahead. This will put in place a long-term solution which is beneficial to all stakeholders, farmers, milers and end consumers.

Moving on to the Company's Performance: We delivered a stable set of financial and operational performance for the quarter and first half. This was primarily led by sugar segment. At BCML, we are on track to increase our early variety across our command area to 60% in the upcoming crushing season, up from 40% in the last season which effectively is increase of 50%.

As shared in the past, over the last few quarters, we have been working hard with the farmers in adopting with early variety cane. This along with better agriculture practice should enable us to further improve our recoveries. The adoption of new cane variety has been the game changer for the industry; we hope to achieve 11% of recovery in the coming crushing season as against 10.74% last year.

Our crushing estimates for the season '17-18 would be around 9.7 crore quintals of cane, an increase of about 15% over last year. With high crushing and expected higher recovery, we would hope to produce about 18% higher than last year, which is about 1.07 million tonnes. With the increased availability of molasses, we are targeting close to almost 9.5 crore litres of ethanol for the financial year '18-19.

Just a few days ago, the government increased the ethanol price by Rs.1.85/litre from Rs.39 per litre to Rs.40.85 per litre, applicable for dispatches beginning 1st December in the current season, i.e. for December '17 to 30th November 2018. We feel that the revised prices of ethanol are remunerative, and we see enhanced contribution from the segment in the coming season. We anticipate a notable pick up in volumes from Q3 onwards in the Distillery segment which will enable us to report strong results in comparison.

The Cogen segment is also expected to deliver healthy performance as a result of higher volume by 20% consequent to the higher crushing of cane.

To conclude, we are positive on the prospects of the company. Our favorable operating environment along with continuous focus on increasing efficiencies will help us deliver strong results during the fiscal. With strong cash flow generation and limited need of CAPEX, we will continue to reward our shareholders from time-to-time.

I would now request Pramod to take you through the "Financial Highlights." Pramod?

Pramod Patwari: Thank you and a very good morning to all of you. I will now briefly take you all through the Company's operating and financial performance for the quarter under review.

Overall revenues in Q2FY18 were higher by 32% yoy at Rs. 1,237 crore. This was due to healthy performance from the sugar segment. Net profit for the quarter stood at Rs. 82 crore.

The revenues from the Sugar segment improved by 39% YoY to Rs.1178 crore for the quarter under review. The segment reported stable profitability of Rs.120 crore during the quarter under review which was driven by higher sales volume and realization. Sugar sales during the quarter were higher at 31.07 lakh quintals versus

21.38 lakh quintals in Q2FY17. Sugar realizations marginally improved to Rs.37.28/Kg as compared to Rs.36.12/Kg in Q2 FY17. As on 30th September, Sugar inventory stood at 12.66 lakh quintals.

In Q2FY18. Revenues from the Distillery division were lower at Rs.58 crore with the PBIT of Rs.14 crore. Performance from this segment was lower on account of low volumes and lower realization due to withdrawal of excise duty relief with 5th of August 2016. Sales during the quarter stood at 14,809 KL at an average realization of Rs.38.61 per BL as compared to 21,917 KL at an average realization of Rs.43.22 per BL in Q2FY17. As on 30th September, closing stock of molasses stood at 11.93 lakh quintals, significantly higher in comparison to 6.93 lakh quintals last year. So we have healthy inventory of molasses and expect to register a healthy volume from Q3 and the Q4 onwards.

In our Co-generation business, revenues for the quarter improved by 43% to Rs. 25 crore. We sold 2.55 crore units in Q2FY18 at an average realization of Rs.4.64 per unit as compared to 1.69 crore units in Q2FY17 at an average realization of Rs.4.48 per unit.

Interest costs for the quarter was stable at Rs. 13 crore as compared to Rs. 12 crore in Q2FY17. As on 1st April our Long-term loans stood at Rs. 205 crore. Till date we have repaid Rs.43 crore and expect to repay another Rs. 36 crore till 31st March 2018. Our long-term Net Debt to Equity ratio stands at 0.10 on Sep 30, 2017.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: The first question is with regard to some book-keeping that is value of sugar by the closing inventory value. Second question is pertaining to the gap between FRP and SAP prices, where does it stand as of today, if you can help us understand what is the gap now, the gap which earlier was mentioned has shrinked further? Third is with regard to the Rangarajan Committee Report. What are the important events that need to happen so that we can progressively move towards implementing a revenue sharing model?

Vivek Saraogi: The gap between SAP and FRP as things stand today, about Rs.285 per quintal would be the average for the state, that is based on 10.61% which was U.P.'s average recovery; the center's price is 255 per quintal at 9.5%. So if you see things today at Rs.30 per quintal gap, but we are expecting an increase in recovery. Let us say there is Rs.15-20 gap in the difference between FRP and SAP. I had said that I am happy with Rs.10 increase. Technically it should have been a zero increase if we go very strictly. However, with the new government coming in for the first time after many years, I think this is the measure which they understood that they should have done zero, that is my view. So they are practically looking at alignment. In U.P. alignments like this do not happen overnight, but Center and State being the same party, I am hopeful that down the line in some way alignment should emerge. If you ask me for the details right now as to when, how, what, very difficult. All I can say is I am positively inclined to see this event happening.

Nitin Gosar: What could be the key events that we should be watching out for which can help us build our thought process that this event is now due and that is happening?

Vivek Saraogi: I would start looking at this Rs.10 per quintal increase as a beginning of that event. That is how I would see it. Probably next year is the election year. You would, I think, see much more evidence in the next year. But these are my assumptions, please do not hold me to it, this is with my experience.

Nitin Gosar: So technically on timeline, if one were to say, we could be 12-15-months away?

Vivek Saraogi: Again, it is difficult but I would say the Cane price announcement methodology which is if you go back 5-7-years, 40-40-40 per quintal, those things like that they are out of the window, 25-40, with this kind of sugar price, this increase is the most benign increase I have seen. I am operating from U.P. politician mindset. So for them this is already a beginning in that direction.

Nitin Gosar: More towards universal pricing or if they were to send SAP and move towards revenue sharing model, does U.P. government has to pass any kind of resolution in their state assembly?

Vivek Saraogi: If that is to happen, they would definitely have to do something in the assembly. But when that happens, one will see it.

Nitin Gosar: Sir, one last question was on the book-keeping inventory value on Sugar.

Pramod Patwari: To answer your query regarding the valuation of stock, first, understand that this is not a representative value as we are in the off-season and we have a practice of booking the entire off-season expenditure into the profit & loss account itself. We are still carrying certain quantity of stock which was there on the 31st of March and which has been valued at 31.29 per kg only. The stock which was produced post 31st of March or during the current year has been valued at a higher rate because of inclusion of off-season expenditure. But as the season will progress, by end of March this costing would significantly come down. This is representative for the time to come.

Nitin Gosar: This year costing could be around Rs.32.5-33 per kg, fair way to go by, we ended previous year with 31.3?

Pramod Patwari: We are expecting around 15% volume growth in Cane. We are also expecting an improvement in recovery. So even if we factor in Rs.10 per quintal increase in cane price, we are expecting almost a similar kind of cost structure for March '18.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question is on the import of sugar scenario in the country and how do you see that can impact our overall sugar realization in the market?

Vivek Saraogi: We are not looking at any import this season, imports we ruled out because you have production equal to consumption. As I said I cannot but appreciate the way imports were handled by the Government of India last year. Whatever was the minimum quantity required in the physical sort of shortage was imported. I have not seen India beginning a season with sub-40 lakh tons closing stock with a control price regime. Prices have not gone out of hand. So it has been a complete synergy and discipline on part of government and millers to be able to get through with such a marginal level of stock.

Manish Ostwal: Secondly, could you repeat again ethanol production guidance?

Vivek Saraogi: Let me clear this, because yes, there is a gap. If you see in this year 30th September stock we have 11.93 lakh quintals of molasses versus 6.93 lakh quintals of molasses in the subsequent period. What happened is owing to change in policy and change in government in U.P. there was a time where our Distilleries had to close down for some reason for a month, month and a half which does not lose production because that in October-November you barely ran in the last year, we have run full of October and November this year. So even during the year we see a higher volume, next year we see even higher volume. So next year our dispatches we are hoping in the balance sheet should be around 9.5 crore, this year we are hoping March '18 around 8.5 crore BL vis-à-vis 6.9 crore BL. Even after this gap because of the large stock and the large production capability, in FY18 we are expecting a dispatch of over 8 crore BL versus 7 crore BLand and 9-9.5 next year. So volume is growing and Rs. 1.85 per BL is the price increase; however, if we map the pricing, in FY16 it was closer to Rs. 45 per BL, then it was Rs.39 per BL, now it is Rs.41per BL. So we look ahead very positively. Yes, there is an underperformance in this quarter because of that 1.5-month shutdown as I informed you which will be made up in the next two quarters.

Manish Ostwal: Just to confirm this thing, we are saying 18% production growth and secondly the scenario in the sector in terms of production, consumption quite match, so overall pricing should be stable for the …?

Vivek Saraogi: Yes; however, usually in season the sugar price then picks up.

Moderator: Thank you. The next question is from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy: What is your operating cycle of your sugar companies, like is it from November to April or…?

Vivek Saraogi: I think crushing has begun in November and should conclude by end April approximately, we have 10-factories, so they are different, but that is the period of reckoning.

Abhishek Roy: So overall we can estimate it to be around 160-days?

Vivek Saraogi: Yes, around that period.

Abhishek Roy: What is the current Sugarcane prices going on?

Vivek Saraogi: Rs.315 per quintal for the general variety.

Abhishek Roy: What are you expecting it to be going forward because we are expecting U.P. Sugarcane production to increase to 10 mt, so do you think Sugarcane price to come down?

Vivek Saraogi: Next year's pricing I have already said in my opening remarks, there is nothing further to add at my end.

Abhishek Roy: Based on that, what will be the impact on the EPS part if there is any increase or decrease in the Sugarcane price?

Vivek Saraogi: Basically, I have indicated at the beginning of the call that owing to recovery and volume increase, the sugar price increase, the impact on costing would be very-very marginal to almost nil.

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

Dikshit Mittal: My question is on this off-season expenses. Can you elaborate like what are these expenses and what is the quantum that you have incurred during this quarter?

Pramod Patwari: Quantum could be around Rs.65-70 crore and the nature of expenditure is like salary, depreciation, significant amount on account of repairs and maintenance, power and fuel… normal factory overheads.

Vivek Saraogi: These will all be captured as a part of costing as we move ahead when production comes in.

Dikshit Mittal: If I compare QoQ profitability in the Sugar segment, in first quarter you did around 25 lakhs and this quarter you did 31 lakhs, but still like PBIT has gone down from 140-120. I was trying to understand is it due to one-off expenses or operationally it has gone down?

Vivek Saraogi: Basically certain portion of the expense incurred during June 2017 was absorbed in the inventory valuation as the Company produced around 6 lac qtls.

Dikshit Mittal: I am comparing with first quarter of this year itself?

Vivek Saraogi: Basically, even six months is the right comparison.

Pramod Patwari: Even if you compare with the first quarter also, the inventory which got sold in the first quarter was of a lower value.

Dikshit Mittal: So for the full year, the second quarter's profitability should be the right indicator, right?

Vivek Saraogi: Right, that will give you the year's profit. Let me try and explain to all the investors because this would be of interest to all of you for tracking all the sugar companies. There are companies which account for expenses, there are companies amortize the expenses over the year. We account for the expense the moment we spend it. Now, sugar factory, the best way to see a result is always for the year. That is the right way to see it because you would see quarter-to-quarter variation in various companies because of various accounting policies. However, during the year nobody can have separate accounting policies. Am I right, Pramod? So for the year, you can compare of any company and then get your right perspective.

Dikshit Mittal: Sir, like this Rs.10 per quintal hike in Sugarcane price, what is the effective price hike you will be getting some input credit also, right after GST if you compare last year?

Pramod Patwari: There is no GST; however, there was a cane purchase tax of Rs.2 per quintal which got subsumed with GST, so in effect there is an increase of Rs.8 only.

Vivek Saraogi: As Pramod told you in the beginning, let us say, Rs.10 increase and you crush 9.7 crore quintal of cane is Rs.97 crore is cost. This amount of extra cost incurred to buy the cane and the transportation cost, whatever is the increase in costing, your salary increases, any other expense increase in the company, my buzz word is look to make that up definitely with increase in recovery and volumes, that is what I have been trying to explain, there is no other tax impact, everything has been compared apples-to-apples.

Dikshit Mittal: Just to confirm you mentioned ethanol sales this year should be 9.5 crore litres, right?

Vivek Saraogi: FY18-19 balance sheet. For FY17-18 balance sheet over 8.core BL.

Dikshit Mittal: On Power exports, can you give a similar number?

Vivek Saraogi: 20% higher than last year.

Dikshit Mittal: So around 61 crore units?

Vivek Saraogi: Yes, definitely.

Moderator: Thank you. Next question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.

Nishna Biyani: Sir, just if you could give me an absolute figure of internal cane crushing target for FY'18 versus say last year we have crushed almost 8.4 crore quintals?

Vivek Saraogi: 9.7 for the full season, but balance sheet probably covers a little here and there.

Nishna Biyani: So dividing into two parts, still it is 9.7, is it?

Vivek Saraogi: In the balance sheet, it might be a little lower, 9.3, 9.4 crore quintals, it might spill over into April.

Nishna Biyani: In other words, I just wanted to understand that when you look at say 20% kind of cane crushing internal target, the volume of sugar sold this year, which will be in financial year… I am not looking at sugar calendar, is in excess or close to almost 1 mt, is that a fair assumption?

Vivek Saraogi: Yes, definitely, it might be more than that.

Nishna Biyani: Because in the last four years, when I look at Balrampur we have always been between say 0.81, 0.82 mt?

Vivek Saraogi: We should cross one.

Nishna Biyani: That is a very-very strong guidance. So the spread of say Rs.6 per kg which we have made in FY'17, even if that narrows a couple of rupees, even the earnings of sugar division can be flat considering FY'17 or '18, is it for the growth in volume?

Vivek Saraogi: It is tough for me to say, but you have all the details with you. Can I give a perspective on the sustainable business model which to my mind is very important? Then may be Rs.50 crore here and there year-on-year. What I now see with the two governments merging, means both being BJP and both leaders being complete icons in terms of thinking, perception, understanding of ground reality, I see a sustainable business model building up. If we see ethanol has been delinked from crude, the price is done on cost of production method, etc., that is why because increase in FRP, my assumption is it has gone up in this year, even crude of 30, this would be the ethanol price or if crude was 70, this is the ethanol price. So you have a clarity, sustainability, you have the way ahead to predict ethanol prices. Power in 2020 is the next tariff fixation. There was so much of hue and cry about in the middle that UP government is going to renege on the PPA, it has not, and it has given in writing that we continue to buy. So you have both the segments, you have absolute visibility on the pricing. Now, you come to sugarcane and sugar. We have seen a very understanding government in UP on the Sugarcane pricing, I have said that from the beginning. The end product price is determined by Central government policy if demand and supply were to go off-hand. So if you saw last year with such a drop in production, they only allowed import of 8 lakh tonnes. That is a strange figure. You would see 5, 10, 15, and 20. They allowed it calibrating where the shortage is. Sugar was allowed at Tamil Nadu, Tuticorin, Karnataka and Haldia, it was calibrated in a manner which is exemplary which is actually getting to the shortage. Now, when I see let us say in ’18-’19, we get into surplus, I think this government acting very fast and ensuring that the surplus is evacuated/evicted in a manner which we have evidence of the MIEQ formula last year. If that is the thinking and the surplus is not to hang over your head like it did and we saw the biggest pain point of our life five years prior to that, those things will not take five years, five months, that is my call. So you are building in a sustainable business model for even the sugar segment which will remain positive. I cannot say it will be Rs.5, Rs.6, Rs.10 per kg., Rs.9 per kg roughly is not a sustainable model; however, for sustainable model even if you get Rs.4 per kg and your volumes are growing the way they are in Balrampur, you have a very solid sustainable income ahead in all the three segments put together, you have a very solid sustainable business model in the company. I like this sustainable thinking which is emerging out of this convergence in thinking.

Nishna Biyani: Agree on that sir. The Government has come as a blessing for the sector in the last two years and they are thinking long-term. Sir, when I look at the early varieties what you were referring earlier, when I look at competition, of course, I am referring to Dwarikesh, 12, 12.5 % average yield, we still are targeting 10.7, 11%. So is there a momentum which you are seeing maybe the varieties have started to come in your factory, is this 11 can go to 11.5 and build FY’19, FY’20 on higher recoveries, is that a fair assumption?

Vivek Saraogi: It is a very valid and a very good question. This year we are looking close to 60% early variety as I said in my call, normal momentum will take you to 85% next year. So if you ask me my prediction is too tough, there are whether components in play, even this year suppose, but you have enough evidence now, 11 % can go to 11.4% definitely and we will go, that is the call; however, at 85 early variety, then, your ideas to maintain that variety. The Bijnor soil in the State of UP is the most fertile soil may be in the country. So we will not be able to match Bijnor, but definitely we will be adding upwards of 11.5% in times to come which is not times to come as a dialogue, this year 11%, if you are wanting a prediction from me next year, again 50% early variety hike, so 11.4%. We are moving in that direction.

Nishna Biyani: The NBFC arrangement which BCML is getting, I just wanted to have a fair thing of capital committed if at all you are doing this NBFC arrangement, what is the thinking of the management?

Vivek Saraogi: That is another big question. I would have answered it if nobody would ask. We are not embarrassed to say we have got lot of calls objecting to this not liking this. So I just like to put on the table. After having received all this kind of feedback, our idea is we have a lot of non-core assets in the company, non-core means we have the Khalilabad land, things like that which the company is looking to monetize like our solar investments, etc., I think this capital commitment we have made now is Rs.175 crore over five years and one can definitely breathe easy and think that after the feedback we received, the internal deliberation is we do not look to allocate more capital in this business. That is one concern people had that you have free cash, so you allocate capital in non-core businesses. What will happen? I said that is the feeling. We will not allocate more capital after this. These are all the capital we would be able to free up from selling of non-core assets. We are investing this to be able to give you a return over 5 to 7-years which I think the shareholders should be proud of if they have trust in our management. Having said that, we are also not looking to allocate further capital.

Moderator: Thank you. Next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Sir, the GST on ethanol, is it having a material impact or it will be like immaterial to the industry?

Vivek Saraogi: Our quotation is ex-factory. GST is paid by the OMC.

Vikram Suryavanshi: Can you share your views on how is the outlook for Tamil Nadu and Karnataka Sugar output?

Vivek Saraogi: This year Tamil Nadu is bad, next year I think Tamil Nadu also recovers.

Vikram Suryavanshi: Just as a technical, the production of Distillery what is given, is it like a total ethanol production or…?

Vivek Saraogi: We are into 95% or 99% ethanol.

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

Achal Lohade: Just a couple of questions; one, with respect to the UP state, what is the cane acreage, would you have that number and what is the increase you have seen on YoY basis?

Vivek Saraogi: I will have to get back, I cannot answer off hand. We said U.P. is looking over 100 lakh tonnes in production. Pramod will give that to you.

Achal Lohade: Just to be more clear on the FY'18 and '19 in terms of the cane crushing, you said 9.3, 9.4 crore quintals crushing for FY'18, is that right understanding sir?

Vivek Saraogi: No, we said 9.7 crore quintals of cane crush and one may predict for recovery is 11, if you multiply that, you will get your figure.

Achal Lohade: Distillery, we said 8.3, 8.4 crore?

Vivek Saraogi: Dispatched during this year will be over 8 crore BL and for next year expected to be 9.5 crore BL.

Achal Lohade: What is the cane crushing increase we can model for FY'19 given there will be a spillover in the next year because…?

Vivek Saraogi: I do not think so, you have one more monsoon, one more sowing season, too early to predict.

Achal Lohade: In terms of the consumption, you have said 25.5 million tonnes kind of a number for the country…?

Vivek Saraogi: I get your concern. Last year, we consumed 24.6 million tonnes around, that also had the demonetization, GST impact. If you see first half, our consumption was lower by almost 5%-6% which picked up during the second half. If I am able to extrapolate that in my way and get to some figure, the overall reduction in consumption was about 1% because of this first half especially November, December, January is very bad, after that it has picked up. So I am just saying that whatever slipped last year plus a growth of about 2.5%, bring it to 4%. So predicting 4% on around 250 is 10 lakh tons that is why we have taken 25.5 million tonnes is our assumption.

Achal Lohade: This 24.6 million tonnes is the actual dispatches you are talking about, right?

Vivek Saraogi: Yes, we think this move up by 9 lakh tonnes to 25.5 million tonnes which is around 4%.

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

Aman Sonthalia: Based on your comments, I think the industry was overhang with two negative factors – one is government intervention like stocking and cane price, all these things negatively impacting the industry and second was cyclical nature. So do you think that both is going to be positive for the industry going forward?

Vivek Saraogi: I am not seeing any government move to be negative at the moment.

Aman Sonthalia: Second is that cyclical nature of the industry is over because I think in '15-16 government has exported the surplus quantity. So going forward, government will do the same thing and cyclical nature of the industry will be over once…?

Vivek Saraogi: That is why I tried to explain in earlier questions and given a picture of the sustainability going ahead.

Aman Sonthalia: Right now, I have seen a figure of Coke. After four quarters, they have seen 6% volume growth. So do you think that the consumption will increase going forward?

Vivek Saraogi: I just said we are hoping for 25.5 million tonnes to be consumption against 24.6 million tonnes.

Aman Sonthalia: Recently, government has notified that the companies which paid in 14-days will get the transport subsidy, otherwise they will not get the transport subsidy. So do you think that in the short run there will be selling pressure from the weak mills?

Vivek Saraogi: There was a rumor that if you do not pay cane price on time, you will not get transport subsidy, but I do not think that has come in the announcement.

Aman Sonthalia: The molasses price had come down from around Rs.450/qtl. to Rs.125/qtl. to Rs.150/qtl. So does the company have surplus capacity to buy the molasses from the market and process it?

Vivek Saraogi: That is a good question; however, our Distillery capacity and with our enhanced cane crushing, we will not need anything from the market, we will be able to do it ourselves.

Aman Sonthalia: How many days the Distillery will run this season?

Vivek Saraogi: Between 300 and 330-days.

Moderator: Thank you. Next question is from the line of Himanshu Binani from B&K Securities. Please go ahead.

Himanshu Binani: Sir, how do you look at the sugar realization going forward with the new inventories coming in, in the next one or two quarters, how do we see the realizations to be around?

Vivek Saraogi: As I mentioned, with the onset of crushing all over the country, the realizations will dip. It is tough to predict but may be Rs.1.5 per kg and then gradually they would pick up after April.

Himanshu Binani: So, going forward with the increase in this cane prices as well as the realization going down, so how would this impact the margins overall?

Vivek Saraogi: I tried to explain that the Cane price increase is not something we should worry, it will get absorbed into the cost to higher recovery, and so one part is over. The lower realization, part of it will be offset by higher volume, and obviously, as I said, you cannot expect the margin of Rs.9 per kg anymore, you have higher volumes on all three segments which should help in offset the absolute gap between cost and selling price and we are looking at sustainability as we move ahead.

Moderator: Thank you. Next question is from the line of Rangan Venky from Brilliant Securities. Please go ahead.

Rangan Venky: Going forward, I would like to know, the realization you have said that Rs.6 per kg only will come, per Kg difference like that, now cost of putting a sugar plant will be very difficult, now the entry barrier will be there. Do you not think that it is better to expand volumes more that will only increase our revenue?

Vivek Saraogi: We are already expanding in our factory about debottlenecking, etc., so that is already in place, we are expanding our crushing gradually, not big but it is a 5%-odd in every factory gradually, that is how we will be able to crush this kind of Cane in the given period of time.

Rangan Venky: What about the cash conversion cycle – how much actually when you put that money and when you are getting the cash conversion number of days?

Vivek Saraogi: Very difficult to answer it, it is going to be plant wise, you are not debottlenecking, etc.,

Rangan Venky: Anyhow going it will be like this only sugar, because health conscious, volumes may not increase, so naturally realization when it is decreasing, you have to increase the production volumes and the yield, that only can increase the sustainability of the company and having said that you are also shutting out the non-core assets and distributing to shareholders, we hope definitely you will maintain that.

Vivek Saraogi: Right, okay, thank you.

Moderator: Thank you. Next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: As you mentioned that, you are expecting realization to dip till April and thereafter which you are expecting a pick up in the realizations. So does it mean for FY'18 as a whole your profit after tax might actually be lower as compared to FY'17?

Vivek Saraogi: We do not give that kind of guidance.

Shekhar Singh: Because we have some idea of the volumes, now if the magnitude of the realization fall?

Vivek Saraogi: Might be marginally lower .

Moderator: Thank you. Next question is from the line of Saurabh Basrar from Altais Advisors. Please go ahead.

Saurabh Basrar: Two questions; one is what are your CAPEX plans for this year and the next year? Secondly, in terms of we generate very good free cash flow. So any plans around that in terms of either increasing dividend or any more buyouts?

Vivek Saraogi: Yes, that will continue as we said in the opening remarks and we will distribute money to the shareholders as we have been doing in the past. Investments will be mostly some positive, crushing accretion, some efficiency, automation, pollution, that kind of stuff. So we are not doing any CAPEX in terms of large, but we continue to do where we have to increase our capacity to increase our energy saving, etc.,

Saurabh Basrar: That will be in what range let us say for this year from an estimate standpoint?

Vivek Saraogi: Could be around Rs.70-80 crore for the year.

Pramod Patwari: Thereafter Rs.30-40 crore.

Saurabh Basrar: Actually, you have touched on it before in the call, but just want to understand not from a negative standpoint, but what is the thought process in terms of investing on the education NBFC side?

Vivek Saraogi: Basically, we thought this is a sector which is going to grow in the future and the allocation of capital which we would hold 50% of the company's capital would lead to a product down the line which would be very good and that would build sort of solid return over five to seven-years. If you see the education business and if you see the mortgage business, today, it is 10x in India. If you see housing finance companies the volume is 10x, globally, the ratio is about 0.7-0.8. So there is so much scope and we thought that this would be a very-very world class product. That is the agenda.

Saurabh Basrar: You also spoke about monetizing the non-core assets. So what non-core assets do you have that over time that you would be looking at monetizing?

Vivek Saraogi: Very clearly, we have two assets -- One is this Khalilabad land, the unit we shut down last year, it is in premium locality in Gorakhpur area. The other asset is our investment into the solar thing, that is also now up for monetization. So these are the two non-core assets.

Saurabh Basrar: What again estimate are we looking at as a broad range in terms of monetization?

Vivek Saraogi: It is again very-very difficult. I have given you hint that new investment over five years will come out of this. No company's operational cash is growing if you want to look at it in that manner.

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

Biju Somanath: Reasonably good set of numbers because in the H1 current financial year there is only an erosion of 23 paise in EPS vis-à-vis last first half despite increase in Cane price. However, I do have a few queries to ask; one is can you please tell me the reason for the build-up of molasses during Q2, around 22% higher more quantities available, is it due to the lack of bagasse with us?

Vivek Saraogi: Yes, we have higher molasses available. I have given you the visibility for the ethanol production for the year. So molasses means nothing for us, it means ethanol. So if you heard me ethanol visibility, I think your question would have been answered.

Biju Somanath: So that means this entire quantity, last year whatever we had entered with OMC, even after holdings is much molasses with us at Q2. Whether we will be able to complete that of that entire quantity?

Vivek Saraogi: We did all the molasses.

Biju Somanath: Sir, coming back to this change in inventory value in the income statement to the tune of Rs.1,007 crore, I see it is due to the drawdown in our inventory to the tune of 31 lakh quintals and it has been valued at around Rs.33.73. Is it the reason that Rs.1,000 crore there?

Vivek Saraogi: There were some production in the month of April and the expense of six months have been loaded on that, it is because of that. It will all even out during the year.

Biju Somanath: This off-season expenditure, it has been…

Vivek Saraogi: I think you require detail explanation. I think Pramod will be able to give it to you.

Moderator: Thank you. Ladies and gentlemen, with this we hand over the conference back to the management for their closing comments. Over to you, sir.

Vivek Saraogi: Thank you everyone and Pramod will be happy to answer any detail queries you have.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Balrampur Chini Mills, we conclude today's conference call. Thank you for joining us.