Balrampur Chini Mills Limited

Q2 & H1 FY19 Earnings Conference Call Transcript
November 01, 2018

Moderator Ladies and Gentlemen, Good day and Welcome to the Balrampur Chini Mills Limited Results 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 after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karl Kolah from CDR India. Thank you and over to you, Sir.

Karl Kolah Thank you, Karuna. Good afternoon everyone and thank you for joining us today on Balrampur Chini Mills Q2 and H1 FY19 Results Conference Call. Today we have with us Mr. Vivek Saraogi - Managing Director of Balrampur Chini Mills and Mr. Pramod Patwari – CFO of the Company.

We would now like to begin the call with brief opening remarks from the management following which we will have the forum open for discussion. Before we begin, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the results presentation which has been shared earlier. I would now like to invite Mr. Saraogi to make his opening comments. Over to you, Vivek.

Vivek Saraogi Thank you and Good afternoon everyone for joining the Q2 & H1 FY19 Earnings Conference Call. I will begin by giving an update on the latest developments after which Pramod will take you through the financial performance of the quarter.

During the past couple of days ISMA has lowered the country's production estimate to 31.5 million tones that is 32 million tonnes minus 0.5 million tonnes on account of B-Heavy diversion. This is lower than the earlier estimate of about 35 or 35.5 million tonnes. The main reason being that the crop in UP, Maharashtra and Karnataka which contribute to 80% of sugar production has been adversely impacted due to untimely rainfall, somewhere water logging, some disease and all of which are contributing to a lower sugarcane yield. UP is now estimated at the same production as last year despite increasing acreage owing to lower yield expected. Several areas in UP have had untimely rainfall in September, longer water logging issues which have adversely affected the growth.

Crop in Maharashtra, now is expected to be 9.5 million tonnes or maybe even below, against the last year's production of 10.7 million tonnes. This is mainly due to a disease called 'White Grub', and there is something called 'Armyworm' and the rainfall in September, October has been very poor with the dams drying up. Karnataka has been reduced to 4.2 from 4.5 million tonnes earlier.

Currently realizations are in the range of Rs. 32.5 per kg . As you all are well aware, final production for the earlier period of 32.2 million tonnes leaving a carryover of approximately 10 million tonnes during this season. With an estimated target of 5 million tonnes export this season and domestic consumption being around 26 million tonnes, further addition to inventory is not expected.

As you are well aware, sometime back Government has approved subsidized interest subvention scheme for putting up new distilleries. And there was some talk of the balance distilleries also being covered. Earlier 114 distilleries were covered and 268 distilleries had applied. We are hopeful that all the distilleries who have applied for the ethanol would get covered. This is a step in the right direction in the permanent fashion of being able to reduce per year, some diversion into B-Heavy therefore if you have natural hedge mechanism for sugar production as well as it is a FOREX positive measure for the government for not importing crude.

Moving on to the company's performance:

BCML delivered a stable quarter led by healthy contribution from the distillery segment. The segmentsegment delivered strong results on account of better volumes and higher realization. With higher sugar production we are targeting more than 10 crore litres of sales of Ethanol in the current year. As shared earlier we have already started our work for the project for 160 KL in Gularia and we hope to complete that by December 2019. This will significantly enhance our production capacity.

To conclude, we would like to appreciate the efforts of Central and State Government for taking several initiatives in the past few months. And we remain hopeful that having both the governments required to contribute from their pocket, the policy on cane pricing, etc. would be far more rationale as we move ahead. The company's integrated model and robust balance sheet and continuous focus on efficiencies will continue to hold us in good stead throughout various cycles. I now request Pramod to take you through the financial highlights.

Pramod Patwari Thank you, Sir and very Good Afternoon to everyone. I will now briefly take you all through the Company's operating and financial performance for the quarter under review. Revenues for the quarter stood at Rs. 1,015 crore, profits in Q2FY2019 stood at Rs. 90 crore primarily on account of healthy performance from distillery segment.

Revenues from the sugar segment were lower by 25% Y-o-Y at Rs. 883 crore for Q2FY19 with segment PBIT at Rs. 52 crore. Sales during quarter Q2FY19 were lower at 27.36 lakh quintals as against 31.07 lakh quintals during Q2FY18. Sugar realizations for the quarter stood at Rs.32.21 per kg as compared to Rs. 37.28 per kg corresponding quarter last year. Sugar inventory at the end of Q2FY19 stood at 29.92 lakh quintals and is valued at Rs. 31.10 per kg.

In Q2FY19, Distillery segment revenues improved to Rs. 110 crore with segment PBIT at Rs. 74 crore on account of better volumes and realization. In Q2FY19, BCML sold 26,578 KL ethanol at an average realization of Rs. 40.79 per BL as compared to 14,154 KL at an average realization of Rs.39 per BL in the corresponding Q2FY18. As on 30th September, 2018 our stock of molasses stood at 12.6 lakh quintals as compared to 11.93 lakh quintals as on 30th September, 2017.

In the Cogeneration segment, revenues for Q2FY19 stood at Rs. 34 crore. The segment reported a loss of Rs. 4 crore due to non-production quarter. In Q2 FY19 we sold 4 crore units at an average realization of Rs. 4.82 per unit as compared to 2.55 crore units at an average realization of Rs. 4.64 per unit. As on 30th September, 2018, stock of bagasse stood at 0.85 lakh metric tonnes as compared to 0.81 lakh metric tonne as on 30th September, 2017.

Interest cost for the quarter was lower by 34% Y-o-Y at Rs. 8 crore. Long-term debt as on 1st April 2018 was at Rs. 124 crore out of which we repaid Rs. 41.5 crore till 30th September 2018 as per the repayment schedule. Our long-term net debt to equity ratio now stands at 0.05 as on September 30th, 2018. This brings us to the end of our opening remarks.

We would now like to address any question or queries you may 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 Sudarshan Padmanabhan from Sundaram Mutual Fund.

Sudarshan Padmanabhan Sir, I would like to understand, taking your remarks with respect to the production cuts earlier this year. With respect to the opening inventory which is a 10 million tonnes. I mean, do you further see production cuts especially in the light of post the festive season and the crushing season, means do you think that the sugar prices can actually sustain here or where do you see the sugar prices at this point of time?

Vivek Saraogi I will just get into this entire production road maps. For all the participants to understand. When we began the production estimate and put it at 35 million tonnes that was probably in the month of June-July or pre-monsoon. After that the entire monsoon, etc. has played out and our rounds plus ISMA uses satellite mapping, and we also, all of us follow this very closely. So, there are 3-4 things which have happened. One, in Maharashtra there is something called 'White Grub' as I said which lowered the yield. There has been no rainfall and Maharashtra very much depends on rainfall in September-October. In fact, the adsali plantation which is to come up for the crushing in 2019-20 that is also very minimal. So, Maharashtra is the major loser, Karnataka being the adjoining area behaves the same way. Even in UP and we have in all factories and all parts of it, the yields are much lower. So, yield is the function of many things. One definitely disease impacts it, two rainfall impacts it. So, last year was a freak yield**.** So we remember we began by predicting 26.5 million tonnes last year and it went up to 32.2 million tonnes. Estimates was raised every 15 days because the yield was a freak yield. So, when people get into predicting this year's production, they use last year's yield, which I think is a misnomer. So, combined effect of all this on production to my mind will be even lower than 31.5 million tonnes. So, that is one. Your second question was?

Sudarshan Padmanabhan Currently I mean we have just started the crushing probably and post the festive season where do you think the prices would sustain because we still have opening inventory of 10 million tonnes.

Vivek Saraogi I would also clarify the opening inventory. The Government is monitoring the release mechanism which in the current scenario is not a bad idea. Hence, there is a limited quota being released which is sort of aligned to consumption. So, everybody is asked to sell in a disciplined manner and in a proportionate manner. Hence, I do not see the prices crashing. I will not say the price would jump up. So, in my mind this Rs.32 kg range for UP seems fair because the minimum price is 29. The minimum price is price for Maharashtra. The Maharashtra sells at Rs.29 kg, U.P. very easily mills like us would continue to get Rs.32 kg. Now, if we come to inventory mapping last year, we began at 38 lakhs tonnes of sugar. Even the last year's closing inventory was as I said 10 million tonnes. This year in my personal view is below 31.5 million tonnes, let us say 31.0 million tonnes and you have a 26 million tonnes consumption and 5 million tonnes export there is no addition to inventory. We open next year which is 1st October, 2019 at again 10 million tonnes.

Now 10 million tonnes getting handled in the season thereafter does not seem to be a problem to me. India would, definitely would be lower. Ethanol movement would have reached its peak hence diversion from ethanol which is expected 0.5 million this year could be 1.5 million next year. Next year if some exports is done, I think which the global environment would be very conducive to accept it. I think, we should be back on normal inventory situation in the country. Slowly, gradually I see positivity building into the sector on the demand-supply side also. With this government policy and current level of what the regime has been built over minimum price, release mechanism, compensating you fully for your export loss. I am hopeful that we should be able to tide over this with volumes and not much of a problem.

Sudarshan Padmanabhan Sir, on the export side, I think that Rs. 5.5 of export subsidy I think there has been a lot of chatter especially if you look at any of the Brazilian sugar companies or UNICA. They have been talking about representing and taking the case in the WTO. Now, I mean would that be a negative development if probably the WTO rules out that the government should incentivize?

Vivek Saraogi No, all that I do not think is even relevant. Last year, Rs.5.5 is gone. This year is a fresh one announced, which is at a much higher level. So, therefore that compensates as I have said and repeated our entire loss and I do not foresee any problem on any front.

Sudarshan Padmanabhan Sir, with respect to our company, I mean can you talk a bit more about this ethanol because I think, Government has been talking a lot more about the direct route ethanol. I mean a bit more color specifically about Balrampur Chini. When, what is the kind of benefits that we can see and also from the industry point of view? I mean, you talked about 1.5 million tonnes moving out next year. But in terms of profitability how does this change the dynamics for the company and the industry?

Vivek Saraogi See, if I can explain at the current B-Heavy pricing your cost of production is fully met when you sacrifice that sugar into ethanol. So, assume that 15 lakh tonnes of sugar in the country has got converted into ethanol. And at Rs. 52 per litre that is equal to Rs. 32.5 per kg sugar realization. Now, what is the economics of that? The economics of that is, that you have sold your sugar in the market, or produced less. So, when you produce less you are improving your balance 28-29-30 million tonnes of production. So, you are sacrificing 1.5 million tonnes getting your full value for it and not adding to your surplus plus utilizing your distillery capacity. So, this is a complete win-win and if I see from the government's perspective at Rs.73 Dollar and at whatever $75 crude this is a boon to them both on OMC profitability as well as FOREX which is pressurizing the Rupee. So, it is beautiful combination good for the government good for the industry, trimming down surplus, good for the farmer. So, I cannot envisage a better long-term move.

Moderator Thank you. The next question is from the line of Sanjay Manyal from ICICI Direct.

Sanjay Manyal Congrats on a good set of numbers. Just wanted to understand few things. What is the sugarcane pricing for this year as I am sure you must have started crushing by now?

Vivek Saraogi No, we want to begin, UP will begin majorly after Diwali. And cane price announcement by the UP government for the current year has not yet being done.

Sanjay Manyal So, is it expected that this could be higher than the last year because general trend has been higher or if there is any trend in the past where the government has really paused on the sugarcane pricing specifically in election year?

Vivek Saraogi There has been instances during the past. I think, 2014 was the best example where they had to pause and give subsidy only. So, I personally feel with UP government again having contributed in their manner to Rs. 4.5 subsidy and 5% interest subvention on loan given by the UP Government to pay cane price. I personally do not see a lot of tinkering on the cane price.

Sanjay Manyal Sir just one more thing that on the other expenditure side, I think we have shown Rs. 18 crore kind of loss. So, is it export losses which the quota which was given to us last year?

Pramod Patwari We have already accounted for export losses to the extent of around Rs. 34 crore and our receivable on account of production subsidy will be Rs. 53 crore.

Sanjay Manyal Is it received by the government or you will you are yet to receive it?

Vivek Saraogi No, we have filed the claim, claim just got filed. It takes a little time but last year also, last time 2014 MIEQ was received promptly. So, that is yet to be received but will be received.

Sanjay Manyal And have you like contracted for the 1.8 lakh tonnes which you are supposed to export this year? Have you really contracted for it?.

Vivek Saraogi We began the contracting.

Sanjay Manyal So, you will be able to do it 1.8 lakh tonnes this year?

Vivek Saraogi Smoothly.

Sanjay Manyal And accounting will happen in the same manner means you will be booking the losses in other expenditure and probably getting the subsidy and which will be netted-off from the sugar cane pricing?

Pramod Patwari If we decide to sell MIEQ then the accounting will happen in the same manner. Otherwise whatever production subsidies you will get that will get offset with the cost of raw materials consumed and export sales will be normally booked under sales only.

Vivek Saraogi So, I think what Pramod is saying, should we sell the license then we will account in the same manner. Pramod am I right?

Pramod Patwari Yes.

Vivek Saraogi And should we physically export which we are planning to do. He is just explained the methodology.

Sanjay Manyal And the Rs. 3 transport subsidy we are getting, so is it an actual expenditure you will incur or is it more or less than the Rs. 3 per quintal?

Vivek Saraogi I think it will be absolutely matching, may be if Rs. 3,000 a tonne is given, even may be Rs. 100 a tonne here or there.

Sanjay Manyal And, as far as your ethanol capacities also as you mentioned that it will be coming in December 19, so the capacity will not be available for even next season or it will be available?

Vivek Saraogi No, fully available for next season. See this year in the opening remarks I said we are looking to contract 10 crore litres. But maybe, I mean the tendering is on, maybe the company will be able to contract 11 crore litres also. So, we have debottlenecked and gradually positives will be seen, this is all the existing capacity. And we are very hopeful that next season we will be able to bid for the Gularia distillery also.

Pramod Patwari Because the supply period is from December itself.

Vivek Saraogi December itself. You see the tender Pramod this year they have accounted for new distilleries. They have given them proportionate period of bidding.

Sanjay Manyal And sir, because I think why I am asking this question because once I think you have mentioned that this capacity will come in March rather than in December. Now you are sort of preponing the date.

Vivek Saraogi No, I think maybe they were very initial period having got closer to sticking down and the projects from everywhere December is absolutely possible.

Sanjay Manyal Sir, just one more question on the power side. I think you have done 25 crore units this year. So, for the next 2 quarters what kind of power units we will be selling and how it would change in next year?

Vivek Saraogi So going mathematically, whatever was sold after this period and the next comparative year you cannot take us on our word for it on exact number but could be in the range of around 70 crore units from 58 crore units and next year obviously will be higher.

Moderator Thank you. We move to the next question from the line of Ambar Taneja from Griffin Asset Management.

Ambar Taneja My question is, last year the government mandated 2 million tonnes on exports but less than half a million tonnes was completed. Given this, firstly if there any spill over allowed from this year's production? And secondly everybody is being talking pretty bullishly about 5 million tonnes getting out of the system this year but as we know it is dependent on so many things including the price in the international exchanges, Brazilian exchange rate, Thai exchange rate, etc. So, what is your estimate of the real exports based on the information available now and the contracting activity that you see.

Vivek Saraogi I think, it is a very valid sort of apprehension. Now just, the perspective why I am sounding pretty confident on the numbers. We have domestic refinery from Renuka and EID Parry sitting inside the country. Now what they do is they are tooling operation, they call for raw sugar from Brazil and convert it in their refinery and sells refined back in the world market. So, now we are selling our raw sugar to EID, let us say so that is counted as export. Have you understood what I am saying?

Ambar Taneja Yes, now I understand that it is going out of the system further in form of export.

Vivek Saraogi Instead of getting into huge logistic and port issues we will be in a position to supply, we mean the entire country will be in a position to supply to the domestic refiners. Now, these people also have a big advantage they do not have to spend the money on transport and LC and all the expenses and shipping from Brazil. So, again win-win situation, logistics issue gets a lot handled, world market has come to that later. So, these refineries themselves, Pramod what is that capacity annually?

Pramod Patwari Around 2-2.5 million.

Vivek Saraogi So, their annual capacity 4 million, so lot of logistics issues get resolved. Now coming to your pricing, as soon as India is lowering its estimates and I feel there is a further lowering on the way however, this is completely personal forward looking statement. Brazil we have seen what is happened. The production is coming off. The Real is appreciated with the new government there. The future next year of Brazil and the global prediction is of a world deficit as far as sugar is concerned. I see the price at the current Rupee-Dollar rate to be absolutely being able to compensate us with that subsidy which the central government is giving. Hence, I am very bullish personally on logistics, on pricing and ability of the industry to physically evacuate this sugar via domestic refiners largely.

Ambar Taneja Just a last question here. Many of the other Mills report something called off-season expenses in their notes to accounts and this number varies quite a bit. I am just wondering if you can provide that number to us for off season expenses that you have charged in this quarter?

Vivek Saraogi This is a continuous process. So, our accounting standards are whatever we incur we debit immediately and there is no amortization nothing. So, entire off season, repair, etc. I do not think it is readily available you might be able to get later. But that is our policy.

Moderator Thank you. The next question is from the line of Achal Lohade from JM Financial Securities.

Achal Lohade Just wanted to check, (a) in terms of the crushing operations. So, have the catchment area related discussion finalized or is it underway and (b) in terms of the cane crushing expectation we can keep for FY19 as well as for the sugar season 2019?

Vivek Saraogi The catchment area that is a reservation is happening as we speak. It should be completed very close to either, before or after Diwali. Crushing operations as said UP will begin largely after Diwali. What was your third question?

Achal Lohade Crane crushing for FY19 as well as sugar season 2019, what kind of increase are we looking at?

Vivek Saraogi For Balrampur, we are predicting about a 10% increase in crushing for the season. See, majority of our mills are in East UP. There is least damage in East UP, rather that crop in East UP is better than last year. Two of my mills in Central UP that is where our crushing will drop. So, overall as a company because of variety change in East UP which was not complete we are hoping for 10% extra production which will give us our entire bagasse molasses and we are expecting a better crop in East UP. But that is Balrampur Chini Mills alone, our ten factories is what I can talk about.

Achal Lohade I was asking for Balrampur Chini only, sir. 10% increase in the sugar production or the crushing volume?

Vivek Saraogi No, crushing volume and we are hoping for the recovery increase also.

Achal Lohade: And this is for the sugar season you are talking about?

Vivek Saraogi When the crushing starts 2 days, it could be here there, balance sheet figure is impossible to tell.

Achal Lohade And that should be the similar increase even for if not more for the distillery and Co-generation operation is that right, sir?

Vivek Saraogi Yes, I have indicated that a little bit in our projection when we were talking

Achal Lohade So, the 10 crore to 11 crore litres

Vivek Saraogi Yes, correct and power volumes, we have given an idea about what we are thinking. I mean you cannot hold the figures on our head but …

Achal Lohade No, I was just wondering from FY20 perspective can there be a significant delta with respect to the volume's perspective, sir?

Vivek Saraogi Definitely, if the new distillery coming in, definitely.

Achal Lohade And just one data point related question sir, if you could highlight what we have booked in terms of the incentives, if you could break it up for first half and of that how much is accounted in the second quarter?

Pramod Patwari We have accounted for total of around Rs. 34 crore on account of export loss during the half year period and during the quarter it was around Rs. 19 crore. Entire cane production subsidy to compensate with export loss has already been accounted which is around Rs. 54 crore. Rs. 48 crore was accounted during March, 2018 and the balance was accounted for in the first quarter itself.

Vivek Saraogi I think Pramod is saying that we have yet to account for Rs. 19 crore more?

Pramod Patwari Rs. 19 crore of expenses.

Vivek Saraogi Yes and we have not accounted for any subsidy, yet which has been declared by the UP government.

Achal Lohade So, you were saying total Rs. 34 crore of export losses we have accounted for? Of that Rs. 19 crore is in second quarter?

Vivek Saraogi Yes and Rs. 19 crore more is to be accounted for because total was Rs. 54 crore.

Achal Lohade Rs.19 crore more is yet to come in?

Pramod Patwari Yes.

Vivek Saraogi But that has already been factored in while giving valuation. While valuing the stock.

Pramod Patwari But while valuing the stock he has put that down in mark-to-market.

Achal Lohade So, it will not be frankly …

Pramod Patwari UP government currently has declared some incentive subsidy which we have not yet accounted for. That is a receipt yet to be accounted for.

Achal Lohade And this is for sugar season 2018, if I am not wrong?

Vivek Saraogi Yes, The season which got concluded in the month of May.

Achal Lohade And what would be the quantum in that case, sir?

Pramod Patwari Around Rs. 49 crore. to 50 crore.

Achal Lohade Which is yet to come in?

Vivek Saraogi Yes.

Achal Lohade And if you could help us understand the cost of production for the entire season now given we have finished in September. So, what is the cost of production for sugar?

Pramod Patwari Having changed our accounting year we do not maintain the cost of production, season wise.

Vivek Saraogi Even if you are looking at balance sheet cost until the cane price is declared and the recovery trend is known it is too early, better idea could be given in our next call maybe in January.

Pramod Patwari Sir for March 2018, financial year it was around Rs. 31.10 per kg .

Moderator Thank you. The next question is from the line of Chaitanya Shah from Aditya Corporation.

Chaitanya Shah: I have a few questions regarding the boarder picture of the industry. So, sir first could you please let me know what would be the replacement cost of the asset of the company?

Vivek Saraogi Replacement cost? I will have to give you a personal view, it is okay. Let me do it while we talk.

Chaitanya Shah: And sir, the reason I am asking this is because what I feel is that the industry is currently struggling to make any meaningful economic returns on its replacement cost even in the best up cycle conditions. So, sir given the situation do you foresee a consolidation in the industry going forward or shutting down of capacities especially given the current boost to the ethanol framework by the government which virtually makes non-integrated mills unviable?

Vivek Saraogi It is very difficult to answer this question on the consolidation, etc. I can give you our stand. Our stand is should we come across assets which we feel fits in to our integrated model thinking and cane area which has great potential. We would be buyer, that is provided the macro policy looks good which it is looking good. So, that is our stand. Shutting down of factories in India is very gradual. However, the production varies owing to cane plantation and yield. Yes, some consolidation but very slowly, is my answer.

Chaitanya Shah: Sir, do you think you would be if you were to get a few assets do you think you would be getting this asset like much below replacement cost in the current market condition?

Vivek Saraogi That is the only time when one will buy. Meanwhile, we have done some numbers. Balrampur's asset replacement cost approximately could be Rs.4,000 crore.

Chaitanya Shah: And sir what would be the percentage of fully integrated mills in the country today?

Vivek Saraogi Give us some time, this data needs to be taken from the association.

Chaitanya Shah: And I just have one last question. Sir, the international sugar prices have almost 30% to 35% up in Dollar terms just in the month of October. Do you see a situation where if these prices appreciate further due to the reasons that you just shared with us that exports more than the quota could happen since given the subsidy your exports would then become profitable?

Vivek Saraogi No, see for these subsidy I am saying the export is totally viable. Yes, my personal view and my reading of the global and the countries production and my market view which I again say is a personal view, I have given to all the participants. Yes, it has moved 30%-35% in the very recent time. So, market could pause here however, again I am using this, my word too many times. My view is, over a period of time I see global markets appreciating gradually. Beyond MIEQ, I do not think export is happening.

Moderator Thank you. The next question is from the line of Varinder Bansal from Panthomath Group.

Varinder Bansal Sir, If I may talk about the financial year, current year and the next year and what I understand from the earlier conversation as well. We can expect our sugar production to be nearly 110 crore quintal this year?

Vivek Saraogi Varinder, may be higher. Last year March 2018 was 100 crore quintal, sugar season was 118 crore quintal. So, 18**%** appreciation is what we are looking, 10% definite appreciation.

Varinder Bansal So, coming up distillery ethanol we did around Rs. 5.6 crore-7 crore quintal sales, total sales in first half and going by the numbers, I think for this year until Gularia does not start we expecting around Rs. 11 crore quintal, right? This year, and the next year because only one quarter will be coming, so it will be really Rs. 13 crore-13.5 crore quintal?

Vivek Saraogi In this year we are bidding hopefully for Rs. 11 crore liters, Next year one quarter of the new distillery could come in, definitely.

Varinder Bansal So, nearly 13 crore quintal?

Vivek Saraogi I mean, yes definitely.

Varinder Bansal And power you mentioned 70 crore units, right?

Vivek Saraogi In the current year.

Varinder Bansal Sir, my last question, second question is a bit macro. A lot of people have this view that the current ethanol policy by the government may be politically motivated for the upcoming UP elections according to you and your conversation with a lot of people in the industry and otherwise do you see that this could be a sustainable policy for India as a country for next 3-5-10 years?

Vivek Saraogi Yes, Varinder that is a good question because of the level of speculation should one just sit down and forget politics and I said, if I am the CEO of a company which has made this move the company being India. I am completely gung-ho on this I am saving foreign exchange, I am delivering profits to OMCs if let's us say 1.5 million tonnes is the surplus to be exported in the year 2019-2020 without the ethanol policy and I am saying by this policy that 1.5 million tonnes of sugar gets converted into ethanol. As government of India I am spending zero money on giving export subsidy, one. Two, I am converting that into petrol at Rs. 52 litre, I am saving foreign exchange. So, if anybody thinks of anything, I do not see any politics in place. The government probably is using it as a marketing tool. They have done a good job but they have done a very suave and smart financial job for the country. And yes, it is definitely positive for industry, farmers, OMC everybody.

Varinder Bansal Sir, do you get the confidence from the government authorities you speak to say in the last few months or not? Because we have been very vocal as well earlier that a lot of changes were required and thankfully that they now are getting implemented. But do you see that the government mindset is getting more long term based on this industry?

Vivek Saraogi No, Varinder I have answered the mathematic behind it. That being clear where is the doubt.

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

Dikshit Mittal Sir, my question is on this export incentive because when the government came out with this incentive the global prices were suppressed. So, now is there any possibility that looking at the current price's government may reduce the export incentives going ahead?

Vivek Saraogi I do not think so at all. Right now, it is the only time it is come on even keel. To your question my pointed answer, my view, no.

Dikshit Mittal So, even if the prices rise further, so you do not see any possibility of government?

Vivek Saraogi I do not see. 13 goes to 18, 15, 17 then I do not know but 13-14-15, nothing.

Dikshit Mittal But sir, my understanding was that subsidy was calculated based on the breakeven prices for the industry, right?

Vivek Saraogi Yes.

Dikshit Mittal So, if the industry starts making money, so government may have some thoughts of reducing …

Vivek Saraogi We are not making money, you are coming out of our mess beautifully. I do not think there will be more insistence on paying cane price timely rather than tinkering with this.

Moderator Thank you. The next question is from the line of Niraj Mansingka from Goldman Sachs.

Niraj Mansingka Sir, I just few data points, what is the transfer pricing for the molasses and bagasse?

Pramod Patwari Molasses is Rs. 150 a tonne and bagasse is Rs. 1,400 a tonne.

Niraj Mansingka And sir, can you give, I might have missed out can you just talk about how you see the ethanol scale up as an industry in the next 2 years from now? And do you see any direct sugarcane juice-based facilities coming up? And when you are, we talking of about 10.5 crore litre in FY19 how much that will go to in FY20? And would it, so implies some movement towards the B-heavy side?

Vivek Saraogi So, if we see 10% blending is at present 330 crore litres. This year the bid has been received for 315 crore litres with some disqualifications and this and that probably the country could be buying 280 crore to 300 crore of ethanol. Now, if we go to next year and the dialogue on with the auto manufacturers are everything it is very easy to be able to go to 20% with no engine change. So, if you asking me one year and 2 years and 3 years my view is ethanol could definitely contribute at least 15% of the countries petrol.

Niraj Mansingka That is 3 years from, FY sugarcane …

Vivek Saraogi 2021, Balrampur after Gularia coming in and some balancing in the further enhancement in the current distilleries. Balrampur can very easily go to above 18 crore litre in 2021. The 11 crore litre which we are bidding now approximately will easily be about 18 crore litre for Balrampur itself. Now this third one exclusive juice plant for making ethanol is also in my mind a possibility. One is studying these options and opportunities but if you ask me whether that is the possibility my answer is, yes. Too early to predict it, how much were, who will do but I am thinking that even that can happen.

Niraj Mansingka Sir and this 18 crore litre you are talking of sugarcane year 2021 you are thinking of this would be a B-molasses or C-molasses?

Vivek Saraogi See, we will have a capacity on C and B to do the same thing. So, I am saying 18 plus will be our capacity in both.

Niraj Mansingka But how would you segregate whether it is a B-heavy or C-heavy root and can you give some thoughts on the operational side and is there some issues there and has it been sorted out and does it offer flexibility to everybody in the industry to move to a B-heavy instead of C-heavy?

Vivek Saraogi Just let me explain B and C to you. B-heavy needs no new machinery. B-heavy is just molasses loaded with sugar.

Niraj Mansingka Yes, we are aware of that.

Vivek Saraogi You are aware of that, so first answer is you do not need any new machinery, right? So, logistically you have to build more tanks, more pipelines from the distillery to the sugar factory, so that the government is clear, and which is the truth because there is a differential pricing. That nobody actually is making C-molasses and tries to sell it as B-molasses because one price is Rs.43.5, our price Rs.52 litre. So, for that there are checks and balances rightly so, very strictly done by Government of India and Government of UP for which plants might just need to build in some infrastructure. Infrastructure might be some pipeline, some tanks. Assume you had made B-molasses as an input then you feed into the distillery, so the tanks have to be separate, the pipelines have to be separate. So, there is just an infrastructure requirement.

Niraj Mansingka And sir how are we ready for that like, are we invested already in the B heavy side or we need some more planning for that?

Vivek Saraogi What we have done in our Gularia distillery we will be 100% compatible on the B-heavy side with everything and in one of our existing distilleries we would also do it. So, to answer very pointedly we can bid at least 50% B heavy.

Niraj Mansingka That will be sugarcane year 2021 or even 2020?

Vivek Saraogi 2019-2020 might be 30%-35%.

Moderator Thank you. Ladies and gentlemen, this was the last question for today due to time constraints we close the call. I now hand the conference over to the management for your closing comments. Over to you, sir.

Vivek Saraogi: So, thank you everyone for joining us and all the best. Should we have more clarification, we will be happy to answer.

Moderator Thank you very much, sir. Ladies and gentlemen, on behalf of Balrampur Chini Mills Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.