Balrampur Chini Mills Limited

Q2 & H1 FY21 Earnings Conference Call

November 5, 2020

Karl Kolah: Good afternoon everyone and thank you for joining us on Balrampur Chini Mills Limited Q2 and H1 FY21 results conference call. We have with us today Mr. Vivek Saraogi – Managing Director of Balrampur Chini Mills Limited and Mr. Pramod Patwari – Chief Financial Officer of the Company.

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

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 was shared earlier.

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

Vivek Saraogi: Thank you Karl, good afternoon everyone and thank you for joining us on Balrampur Chini's Q2 and H1 FY21 Earnings Conference Call. I hope you and all your loved ones are safe and in good health.

Let me begin by giving an update on the latest developments on the sector:

According to the latest ISMA estimates, India's net sugar production is estimated to be around 31 million tonnes in the ensuing season after accounting for diversion of 2 million tonnes in ethanol using B-Heavy and sugarcane juice, which means if B-Heavy and juice were not there, it would have been 33 million tonnes.

Production of UP is expected to be lower at 12 million tonnes in 2020-21 as compared to 12.6 million tonnes. Maharashtra is likely to see a sharp increase to around 10.5 million tonnes as compared to 6.2 million tonnes and that is accounting majorly for the increase in the country's production.

Diversion of cane juice and B-Heavy into ethanol is expected to decrease sugar production by 2 million tonnes in 2021 season as compared to 0.8 million tonnes diverted in 2019-2020.

The Government has recently taken pro-active steps of hiking the price of ethanol. Focus is clearly on improving the blending ratio that will lead to improved financial position for the industry and also cut the country's oil import bill along with carbon foot print. Further the Government is looking to structurally manage the surplus situation with a plan to divert higher production of sugar to the environment friendly ethanol blending program. This will help the entire sector; farmers, millers and the environment tremendously.

We are pleased to share that the board has approved a CAPEX of approximately Rs. 320 crore for our fifth distillery of 320 KL at Maizapur unit. We propose to set up a state of art facility with full flexibility to produce ethanol from sugarcane syrup, B-Heavy route as well as to operate on multi feed grain during off season.

Our plan in the upcoming season is to divert around 65% of cane under B-Heavy route as compared to 38% diverted last year. After we commission this unit, we will look to divert 5% of our total sugarcane to the direct route which means Maizapur unit proposed distillery will ensure that Maizapur factory does not produce any sugar during the season. The entire sugarcane syrup will be used to produce ethanol. The cumulative distillery capacity will be augmented to 840 KL for the group. This investment is a major milestone for the Company and will eliminate the dependence on exports and subsidies thereon for the Company.

Moving to the Company's performance let me briefly highlight that we have reported a good performance for the quarter under review, despite the challenging environment due to outbreak of Corona virus pandemic. However, sugar segment delivered a subdued performance on account of non-production in the quarter where all the off-season expenses get accounted for and charged to the Profit & Loss Account. This is a quarter phenomenon, and we are on track to report healthy results on the full year basis. The distillery segment registered a healthy performance owing to higher volumes and better realization.

To conclude, we believe that our well-integrated operations robust cash flow improvement CAPEX investments will help us create shareholders' value in the long term.

I now hand over the call to Pramod to take you through the financials.

Pramod Patwari: Thank you Sir, good afternoon everyone. A detailed PPT presentation was uploaded on the website of the Stock Exchange as well as the Company wherein all the financial performance including the quantitative details have been provided. For the benefit of having a larger portion of time at our disposal for the Q&A session, we would not like to repeat the financial numbers as such.

So we now go ahead with the opening of forum for Q&A, Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Varun Goenka from Nippon India Mutual Fund.

Varun Goenka: Good afternoon sir and great to see such cash flows. I have two questions; one about the CAPEX that we have announced, if we could understand from you a little better in terms of the economics, what could be the payback period, what could be the impact on inventory reduction permanently going forward, that will really help us.

Vivek Saraogi: Let me begin by addressing this investment in totality and the construct and the logic why we find this a very exciting opportunity. So if you see, the Honorable Prime Minister on the Independence day speech put special emphasis on ethanol. Now I believe that when the Government goes to see as to how much ethanol can be produced in the country; the quantum required for 12% at least. 12% is the level at which the engines today are compatible with no change required. So, to address that, sugar mills' B-Heavy, even sugarcane juice might not be enough for the countrywide requirement, hence there is a fresh impetus which they have put into this grain sector. So, as we see that the grain prices last year were about Rs.47.63, which has been increased to Rs.51.55 to begin with. Price of Ethanol produced from Surplus rice has gone up to Rs.54, so there is a tailwind which they are giving on that side of the business also. Plus, the area in which we operate and Maizapur distillery where it is proposed, there is abundance of broken rice available at very good competitive rates. So the idea is, first we are going to look to set up this distillery, divert one sugar factory's juice completely to making ethanol, no sugar would be made. In the off season, this grain itself which is approximately Rs.50 crore addition to the distillery cost total, when it operates in the off season it would give very good returns. So, this, with the concept that if cane crushing increases, we can make more B-Heavy, this distillery can run on any feedstock. It can run on juice, it can run on B-Heavy, it can run on C heavy, it can run on grains. So, assuming get into a year where your sugar production recedes and sugar prices are good, one can use this for grains. So the idea that is the safety net in this distillery, secondly if we see the program ultimately in India and the desire would be that to end this export subsidy by 2023.

India's average production levels are going to be at this 31 million tonnes, pre-diversion 32-33 million tonnes. Your consumption which we have been pleasantly surprised by is close to 26 million tonnes now, in the two years to come we hope it will go to about 27 million tonnes, 27.5 million tonnes. So you have a surplus ultimately of about 5 million tonnes, structural surplus, which is about 16% of the country's production. So at Balrampur we have attempted to come up with a formula where ultimately based on this new configuration we are able to divert about 18% to 20% sugar into ethanol and become one of the largest producers of Ethanol in the country with one of the most efficient distillation capacities spread over five locations. So we are not only addressing our need and making it into an investment which will be profitable, we are also going to be looking at a proportion where the country does not need to export sugar but is able to divert enough sugar into ethanol, two to three years down the line. So I hope I have given the entire construct of the investment.

Varun Goenka: Right, and about your assessment of the payback of this investment?

Vivek Saraogi: You see we have done an internal calculation, very cursory until we come out with a proper DPR, as they are sketchy numbers. So this is just an in-principle idea and the cost, etc. Having worked three decades in the sector, one has an idea. The details we would come up to the board and then share with an open forum, but one can be very reasonably happy about this investment, as our internal calculations show that right now.

Varun Goenka: Absolutely, I think there is no doubt that the way our Company allocates capital or their efficiency measures are best in the world, you know I was trying to get a number of three to four years maybe of payback period or you know.

Vivek Saraogi: All we can tell you is we are in the belt of raw material for the grain sector and Government has very pleasantly disposed towards the grain sector based on the future ethanol requirement.

Varun Goenka: Sure, and the second part being this export subsidy issue for this year maybe eventually it will not be needed but do you see it coming or how will this be managed?

Vivek Saraogi: So basically, for the next two to three years, we will need this export subsidy and I think Government has understood that. So if you see, and the panic, there was a tweet by the Honorable Minister, giving a negative connotation on the export subsidy. I think in the next two days there was a clarification to that, so I see this coming probably I cannot give you time to perfection but probably grey areas like Bihar election, Diwali, all that kind of stuff is there. So I see this coming, definitely for the current year, so I think let us look at one year at a time; this year export subsidy is coming pretty soon, this is the best guestimate I have.

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

Pratik Tholiya: My first question is basically on this inventory log that we have seen in the sugar sector, if you could just elaborate in terms of what really has happened, just for the benefit of all.

Pramod Patwari: You are talking of sugar sacrifice loss which we are going to have, going forward?

Pratik Tholiya: No, the reason for this subdued performance in the sugar, I believe there is some inventory loss in the quarter in Q2 because of your higher cost that we have seen in the off-season expenses basically, so if you can just explain what exactly has happened, why we have this lower sugar profit?

Pramod Patwari: Okay, you must be knowing that this is a non-production quarter wherein we are required to incur a lot of expenditure towards plant repairs and maintenance in addition to the normal recurring expenditure of depreciation and salary. We have an accounting policy wherein all expenses incurred gets debited to profit and loss account on an instant basis and we do not defer anything. Now because of the very low production in this period after 31st of March, this entire expenditure whatever we have incurred was debited to the profit and loss account and it is a quarter to quarter phenomenon, nothing new which has happened. This expenditure ultimately will form a part of cost of production will get neutralized over a period of next two quarters.

Vivek Saraogi: Every year let me tell you, this happens and I have always requested all the investors to see the yearly result, also there is a little more sort of subdued performance in sugar sector because B-Heavy diversion lowers the recovery and the consequent impact is seen in the distillery segment.

Pratik Tholiya: Got it, secondly on the balance sheet; congratulations on your so strong cash flows and the way you have managed your working capital but sir obviously we know that this time the inventory liquidation was also much higher because of higher exports and divergence towards ethanol but just wanted to understand or get some sense on how this balance sheet will look by March because once the new crushing starts. So this zero short term debt that we have currently, this should go up again by March because of your working capital go up or you think that the internal accruals will be sufficient to meet your working capital demands and then there would not be any need for short term borrowing?

Pramod Patwari: Ours is a highly working capital-intensive industry but the kind of cash flows we have generated and the kind of surplus cash which we are sitting as of now, would not be requiring any incremental working capital maybe for the period up to 15th of January. So to answer your question, what would be the quantum of short term borrowing on 31st March, it is difficult to predict but definitely it will be much lower than the last year.

Pratik Tholiya: And sir lastly, this CAPEX that you have announced of Rs. 320 odd crore, if I see that Rs. 160 crore CAPEX, 160 KLPD plant that we have put up earlier, there the CAPEX was of around Rs. 200 crore. For Rs. 320 KL, you know your CAPEX is also around Rs. 320 crore, so just want to understand whether we have under budgeted or we have some additional or some existing infrastructure already is on that location so that we do not need that such CAPEX.

Vivek Saraogi: You are right, there is some infrastructure already, one and two when you go in for economies of scale, there is some saving, like a 500 KL distillery might not cost Rs. 500 crore. Slightly lower, you save on the lot of basic infrastructure, etc. KL wise it does not add up and this also includes an input for grain, that investment required to run on grain. And plus, the debt which we propose to take, 50% interest will be reimbursed by Government of India.

Pratik Tholiya: Right, and this Rs. 320 crore also includes that incremental investment on the grains infrastructure?

Vivek Saraogi: Absolutely.

Moderator: The next question is from the line of Ritesh Poladia from Girik Capital.

Ritesh Poladia: Sir just one question on Maizapur. What is the current revenue of the unit and after this big size big expansion of sugar and grain-based ethanol, what could be the revenue?

Pramod Patwari: The current capacity is around 3,000 TCD, which is ultimately running on sugar only and we are expecting a cane ability of around 55 lakh quintals in two years of time. So in the process we will be sacrificing around 60,000 tonnes to 70, 000 tonnes of sugar.

Ritesh Poladia: Okay, so current will be about 55,000 tonnes of sugar from November?

Pramod Patwari: It was around 45 lakh quintals which resulted into 12.5% of recovery, with around Rs. 180 crore odd of revenue.

Moderator: The next question is from the line of Gaurav Jhanwar from Systematix Shares.

Gaurav Jhanwar: My question is relevant to this previous participant's questions. Despite that increase in the sense of around almost 8 lakh bags, our PBIT if you look at y-o-y in basis, it is pretty less, it is what around Rs. 23.48 crore so as compared with the Rs. 90 crore in the last quarter. So I just want to know, is it because of the less recovery or any other reason, sir? Can you please throw some light on this?

Pramod Patwari: See there are two reasons behind this, number one there is a lower realization on a comparative basis, last year we made almost Rs. 4 per kg on 21 lakh bags which we sold, this quarter we sold 30 lakh bags but the profit margin was Rs. 3 per kg and on top of it we have already explained the rolling costing method that all naked expenditures got debited to profit and loss account in this quarter which gets neutralized only in the next two quarters when the new production kicks in, so it is an inventory valuation impact which has happened in this quarter.

Gaurav Jhanwar: And the CAPEX that we are doing for the fresh distillery units and the debt we are raising, what is the planned borrowing debt on that?

Pramod Patwari: We are expecting maybe around 7% and 50% of that would be reimbursed by the Government of India, so net interest cost would be around 3.5%.

Moderator: The next question is from the line Madhav Marda from Fidelity Investments.

Madhav Marda: Sir my question basically was, given that we will be switching for the new distillery capacities from selling sugar to selling ethanol, net-net is it an EBITDA accretive investment for us or does the way the pricing is done for ethanol with sugar, it will be the same EBITDA, how should we think about it?

Vivek Saraogi: It should be EBITDA accretive, see if you see currently the prices have been raised of ethanol as well as there is that grain play which is very interesting. So, as we said, let us comeback with once have something more detailed for the shareholders, but EBITDA accretive.

Madhav Marda: Okay and one other question was, given Balrampur probably will have compared to the industry much higher share of ethanol in the entire mix of things, so in case exports start coming down because of the subsidy being withdrawn or becoming lower over the years, next 2-3 years how would it work, like if we are not able to, can we bridge that 5 million tonnes gap in the next 3 years you think or it will take longer than that? I am just not very clear on that as such.

Vivek Saraogi: You see your question is very relevant and that is what I tried to address in the beginning, 5 million tonnes is a correct figure, if Balrampur would look to address it will be the fastest given the kind of push which the Government is providing and the kind of incentives that they are giving, I am confident that people will bite this and we should be able to sacrifice the excess we have in hand over 2 years.

Madhav Marda: You are saying enough ethanol capacity can come up in the next 2-3 years to divert another 3 million tonnes of sugar?

Vivek Saraogi: Yes, that is the right thing and people can leverage their current capacity more. There are three ways to do it, if you are getting into so much detail. One is expansion of your current capacity which you know de bottlenecking 20% easily can happen for people. 2) If you become pollution compliant you can run your distilleries for 10% higher number of days and 3) Is the Green Field capacities like the one we are doing.

Madhav Marda: Okay and would the industry also have scope to shift more from B-Heavy, C heavy to sugarcane juice at some additional CAPEX, so we can divert more of sugar is that also possible at the existing plant?

Vivek Saraogi: Every distillery with expenditure can process stuff, so until it is a very old distillery, for example just let me tell you Gularia tomorrow I want to go to juice or syrup, investment is not much.

Madhav Marda: Okay and would Balrampur be at a much better of situation given that say exports to be replaced with ethanol takes a bit longer than say 3 years will we be at more advantageous versus the rest of the industry given that we are investing before rest of the country and will likely save that way, given that our balance sheet is strong?

Vivek Saraogi: That is our 100% belief.

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

Achal Lohade: My first question is with respect to sugar segment, if I look at the current quarter, the volumes have grown about 44% y-o-y and it is entirely a domestic sale, so given the consumption growth is generally 2%, 3%, so how do we explain this and what is the growth or rather volumes we could have probably in FY21-22 on a sustainable basis?

Vivek Saraogi: See as you are aware Government of India runs a release mechanism you cannot predict; we have done very well with our exports and sacrifice and that is why our inventory is on the lower side.

Achal Lohade: So, basically with respect to exports we got the accelerated release orders, is that right? And is it fully consumed or there is some, if we look at the domestic sales volumes for sugar similar to last year for coming quarters?

Vivek Saraogi: Right, correct.

Pramod Patwari: See, the mandate of Government of India is to go for aggressive export and B-Heavy diversion and the people who are doing that, they get an added advantage in terms of monthly release. So, that was the reason we were getting higher release.

Achal Lohade: Okay and my second question with respect to, sorry I missed the opening remark a bit in between, what is the distillery volumes we could look at for FY21 & FY22?

Pramod Patwari: FY21 we are expecting around 17-17.5 crore litres of distillery volume and FY22 it would be 18.2 crore.

Vivek Saraogi: Post this investment, let us get back to you, when it fully comes into play.

Pramod Patwari: We will have a capacity of 29.5 crore liters including grains.

Vivek Saraogi: We could be closer to 30 crore liters but we will comeback in detail on that one as we told you in the beginning.

Achal Lohade: Sure, but for FY21 you are saying you could do about 17 crore liters?

Pramod Patwari: Yes, 17 crore liters.

Achal Lohade: That is for Financial Year basis because I see in first half the volume is?

Vivek Saraogi: Last year balance sheet was 11.8 crore liters. This year is look like 17 crore litres.

Achal Lohade: Understood and as of now if I understand correctly the, we are supposed to deliver ethanol to the depot and the transport cost is incurred by us but it is partly reimbursed at a certain slab rate. Now my question was as we expand our distillery capacity and the volumes, we will have to go farther and farther from our existing production locations, so how do you look at this transport cost angle, what is the actual transport cost we have incurred, let us say in FY20 and how much have we got reimbursed against that?

Vivek Saraogi: From last year to the current year there is some rationalization Government has done, so the loss has reduced on the amount Government pays us and the amount we actually incur. So, we will continuously work with the Government on reducing that loss more, they have begun that journey also of recognizing actual transportation cost, so this is not a concern at all in our minds.

Achal Lohade: Understood and just last question in terms of the preparation for the coming season, where are we? When do we think we can start, since we are already in the first week of November and what is the expectation on the cane price as it is not yet been announced?

Vivek Saraogi: Tough call, you know UP does it later, last year I was just checking, cane price last year was announced on 7th of December, so definitely it sems it will be done after Diwali, the cane price announcement and our factories would start after Diwali to about 23rd-24th.

Achal Lohade: I know it is tough to give any comment on the cane price but given the FRP increase could there be a possibility of any increase in the SAP or you think that is not possible given the current sugar pricing?

Vivek Saraogi: I cannot say anything but obviously when FRP increases there is some increase in SAP.

Moderator: The next question is from the line of Anupam Goswami from B&K Securities.

Anupam Goswami: Congratulations on a good set of numbers. Sir my first question would be on the new capacity expansion, when can we have a ball park figure on the commencement of this facility?

Vivek Saraogi: 24 months is the target.

Anupam Goswami: Sir is it possible to just share any idea on how much grain input would give how much of ethanol, that input and output ratio?

Vivek Saraogi: As I said what we have not we have not finalized we cannot tell the shareholders; the initial study is done we will comeback with all these details and the answers when we are ready with the DPR. We are also in the process of finalizing our own study because this is a first time for us.

Anupam Goswami: My next question is on the cost to production, we have seen around inventory valuing at Rs.31.03 per kg, what would be our overall cost to production this FY21?

Pramod Patwari: For FY21 it is expected to be around Rs. 31 per kg.

Anupam Goswami: And sir one last question on the inventories, how many months of inventories are we going to have after end of FY21 and where are we looking at right now?

Pramod Patwari: Inventory is again a function of monthly release; our endeavor is to keep lower inventory and that is possible through export and diversion into B-heavy molasses. Going forward we are reducing our dependence on exports very aggressively and we will be sacrificing much more sugar in the form of B-Heavy as well as the sugarcane juice.

Vivek Saraogi: The rates have gone up; we are going towards that direction. Two things are in our hand, let me be very clear and unfortunately, I have to face this question and I do not blame you because this happens only in the sugar industry. B-Heavy diversion is in our hand (it reduces inventory because it reduces production), gives you more than a consequent compensation via the B-Heavy route. Juice we are going ahead. Exports is in our hand based on the Government policy. So, if you see Balrampur is the most proactive in the country as far as proportion of export to production in the last year. So, we will continue to be most proactive on both these fronts. The rest of the release, etc. is in the hands of the Government but even there we get into a tailwind because the person who sacrifices sugar via both these routes gets a bump up in the release.

Moderator: The next question is from the line of Richard Dsouza from SBI Mutual Fund.

Richard Dsouza: Sorry to hop on this but you explained earlier the second quarter EBITDA margins why it declined, but could you just explicit further because what we see is your realizations have not gone down much, they have gone down by 30-40 paisa but your EBITDA margins have gone down substantially and last year same quarter your EBITDA margins were quite good. So, I am not able to get the dichotomy if you could just explain sir?

Pramod Patwari: I think we have explained this on this call for more than two times, my request would be that we talk offline on this so you have a better clarity on it, you can connect to me anytime after the call is over.

Richard Dsouza: Okay sir that will do but one thing is clear we expect the margins to comeback in the next two quarters? On annual basis, so this is just a quarterly aberration?

Pramod Patwari: Yes performance, should always be seen on an annual basis.

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

Archit Joshi: I am aware that none of the details have been finalized yet in terms of the output of grains or the ethanol that we could manufacture in the ready from sugarcane but sir I was just looking at the capacities that you have spread across the region in which the one where we are going to put up our ethanol manufacturing plant, we are having probably 3000 odd tonnes of sugarcane crushing capacity, what I wanted to understand is that why did we select this particular facility, the lowest one in the entire mix of the capacities that you have and with the number of days that we might be able to operate the capacity at could be 150-160 days, would this sugarcane crushing capacity be enough or would we require something incremental in terms of crushing per say?

Vivek Saraogi: There is an inherent assumption of, we would expand the capacity here also little bit, the cane would increase here also, plus this is the last year's highest recovery in the entire UP that is Maizapur factory. So, your cane has the highest recovery, the amount of ethanol you recover also is very high, so internal mathematics but choices are made with a lot of understanding.

Archit Joshi: Right sir, just hypothetically as you rightly said that you could even expand the capacity from hereon in the next two years, would that mean that we would require a more sugar cane crushing capacity because this particular unit has only 3000 TCD of crushing capacity as per the offset.

Vivek Saraogi: This is to follow in the two years where the capacity would get expanded that all is in the program itself.

Moderator: The next question is from the line of Manish Bhandari from Vallum Capital.

Manish Bhandari: I have a few questions. Shall we take the ISMA numbers as a conclusive because I am slightly worried on the untimely rains which has happened in some parts of India, including Maharashtra, so if you can give your comments on that?

Pramod Patwari: Yes, as of now the estimate made by ISMA of 31 million tonnes of sugar production net of sacrifice looks very realistic.

Manish Bhandari: Despite the untimely rains?

Pramod Patwari: Yes.

Manish Bhandari: Sure. My second question is all contracts of ethanol are a 5 year contract now? Ethanol Offtake contracts are these 5-year contracts now built in?

Vivek Saraogi: So basically let us understand, it is a yearly contract only, Government is saying you bid for, be ready for 5 years, pricing, quantity is done every year. So, for example the tender for the current year is already come out, the price for the current year is already come out. That tender would get finalized some time in the month of November and lifting would begin form 1st December.

Manish Bhandari: So, what would be a 5 year catch here? Are we giving a visibility of 5 years?

Pramod Patwari: That will give a lot of comfort in the minds of various stakeholders, like the bankers as well as the ethanol producers and it will also render into a lot of ease of doing business, otherwise every year the due diligence was happening and which was taking more than 1-1.5 months, once a vendor is registered it will continue to be registered as a vendor for a period of 5 years and thereafter on an annual basis, it is only the quantity which is required to be quoted.

Manish Bhandari: So, it is just the vendor registration for the 5 years?

Vivek Saraogi: Yes, it is only the vendor registration, it is giving an indication of ease of doing business and the intention of continuing this program in a very holistic and aggressive manner.

Pramod Patwari: And Government has also indicated the kind of quantity which they would be requiring over a period of next 5 years. Apart from that they have also reduced the bank guarantee margin requirement and some other charges, penalties have also been reduced drastically. The idea is to give complete impetus to this program.

Vivek Saraogi: And I hope all the investors and your share holders have adequate clarity on the linkage to crude which keeps cropping up. And I think proof enough that crude has not gone up, the price has gone up.

Manish Bhandari: Yes, you have explained on many occasions. I have another question regarding the sugar export subsidy and you did eluded about the comments made by the minister, my question was regarding that the sugar exports should start by mid-January or maybe the start of February and usually export should be of raw sugar, so do you think so we are having race against time before we can declare about the intention on the sugar subsidy. Or maybe you think that even at the last moment it would be?

Vivek Saraogi: It is okay right now, one had would been happier to plan earlier but the stage of race against time has not yet come.

Manish Bhandari: Okay and my last question is regarding this contradiction of the increase of the minimum cane prices by Centre and then it will sieve through the State prices, so if the ground table and all these arguments have to be, I mean the discussion of the excess production of sugar need to be there, so I am just wondering that why the Centre has increased the minimum support price of the cane?

Vivek Saraogi: This is a very interesting question. How do you expect me to answer that?

Manish Bhandari: I thought maybe you will have some insight on this, I am okay if you do not have any comments. Thank you.

Moderator: The next question is from Sanjay Manyal from ICICI Securities.

Sanjay Manyal: I have just two questions, one specifically you mentioned that distillery volume should be closer to 17 crore liters this year, what I understand is, if you process larger part of B-Heavy molasses then probably my production capacity can also go up, so is it possible that 17 crore liters or 18 crore liters can become even higher or more than our rated capacity in FY22?

Pramod Patwari: Our installed capacity is 18.2 crore liters as of now, so this will get fully utilized by FY22.

Sanjay Manyal: Okay but it cannot go beyond that, you are saying?

Vivek Saraogi: See instead of trying to put in pennies there, we are putting the dollar here.

Sanjay Manyal: Okay. Second thing is, on your last year number what would have been the profitability in the export of sugar, in the sense what would have been the profits which you have generated from the exporting sugar? Ideally it is considered that the subsidy would be closer to the cost, but I guess prices have moved up after announcement, so what would have bene the profitability in the exports?

Pramod Patwari: I am not having the figures readily available at this point in time but what I remember, for our initial quota we made almost Rs. 1/kg and for the additional quota we were fortunate enough to sale around Rs. 23.2/kg (net of subsidy).

Moderator: The next question is from the line of Paresh Jain from Bajaj Allianz.

Paresh Jain: You just now said that the price and the quantity of ethanol have been fixed for 1 year, now if someone is setting up a CAPEX of Rs. 100-200-300 core let us say, in your case and you do not have the visibility for the next 5-7 years, why will someone take that risk?

Vivek Saraogi: Let me explain, probably my comment was not understood properly or I did not say it properly, I am saying when somebody asks what is the 5-year program, so we said that every year they fix the price and the quantity is unlimited. The quantity is what the industry can bid. For example, this year the Government is targeting to get 7% lending. So you imagine, you can almost double your capacity for the country from here. So the tender comes out at a price, the quantity is what the industry can fulfill, so there the buyer is unlimited.

Paresh Jain: Okay, so I understand that there is no restrain in quantity and industry can supply as much as they can produce.

Vivek Saraogi: Yes.

Paresh Jain: But three years down the line, let us say, I mean I am not clear what the pricing will be, either as an equity investor or as a banker, one is not clear what the pricing of ethanol will be two years or three years down the line. So if it is a five-year program and let us say, you just now said that will take us 24 months to set up a distillery, what if the Government becomes unreasonable and does not gives a remunerative price to the industry let us say in the fourth or the fifth year?

Vivek Saraogi: Okay, just let me clarify, I mean you got it all wrong. Five year is the window they have done for the ease of businesses. Program has been initiated for life according to me, one. Two, the pricing formula is very clear over the conduct of the last few years.

Paresh Jain: And so the pricing formula is linked to what?

Pramod Patwari: FRP as well as the ex-mill sugar price. It is very clearly written in the notification.

Vivek Saraogi: More than clearly written, it means the cost has gone up and since the sugar ex-mill price has to be covered, that is why we are raising it. So the linkage is very clear know.

Paresh Jain: Okay, no because I was not aware that there is any formula which has been shared in the public domain, so that is why.

Vivek Saraogi: There is no exact formula, but the input cost has been defined, why it goes up has been defined.

Paresh Jain: Okay, right. So, saying that even if sugarcane prices increase by Rs. 20, Rs. 30 per quintal over the next three, four years, your ethanol prices will continue to increase?

Vivek Saraogi: Absolutely, they will follow it verbatim.

Moderator: The next question is from the line of Ambar Taneja from Vachi India.

Ambar Taneja: Just couple of questions; a) how easy was it to liquidate your domestic quota because I heard some rumors in September, October and also for November that it was fairly tough to get rid of all the sugar at the Rs. 32.50, Rs. 33 per kg especially because you and a few other mills had enhanced quotas and b) if the export subsidy does not come then there is a wide expectation that NY sugar will go up and domestic sugar will fall below MSP for some kind of parity. Any thoughts on that and c) for any possible M&A for sick mill which could be a faster route to increasing capacities on both sugar as well as ethanol rather than the greenfield, so just appreciate your thoughts.

Vivek Saraogi: As we said the sugar release is done by the Government, there is no other comment from our side.

Pramod Patwari: Secondly, whether all the mills are in a position to sell or not, that depends upon their internal selling policy.

Ambar Taneja: So, no carry forward on the domestic quota in September or October, right?

Pramod Patwari: Yes.

Vivek Saraogi: So the other question is very interesting that, should the export subsidy not come. Export subsidy, one is definitely not working with an assumption that it will not happen. I am pretty sure that the past conduct will play in and it will happen. Having said that, the world market with exports from India do not happen is going to go up sharply, in my view. MSP, you know technically an MSP it is not supposed to be breached but one will have to wait and see for. So if you are asking me personally, I am not seeing that scenario play out.

Ambar Taneja: Okay, got it. I wanted your personal opinion, so that is fine. And any M&A possibility. My last question?

Vivek Saraogi: At present, we are now working with our program of moving ahead with all this. So one is not, if something really interesting comes up, it is different, otherwise we are not scouting around.

Moderator: The next question is from the line of Sachin Kasera from Svan Investment.

Sachin Kasera: My question is as you mentioned that once this exports subsidy goes away, there will be a surplus of 5 million tonnes to 6 million tonnes of sugar. So can this entire 5 million tonnes, 6 million tonnes excess sugar be converted to ethanol, technically? And secondly, how much will the industry take to invest to convert these 5 million tonnes, 6 million tonnes to ethanol?

Vivek Saraogi: Very good question. The industry investment we will get back to you, industry wide. And 5 million tonnes, 6 million tonnes, can it begin, it is a big yes. And people will have to work towards it, like we are working. And I am hoping the rate by the Government and the impetus on grain, this grain thing we will have to understand is big. So if we see, why we feel so positive, East UP is full of this broken rice. So the competitive ability for us to procure and maybe somebody else, we will be much better placed. So the ethanol, if you want to sacrifice from juice, juice cannot be stored hence what do you do with the off season capacity, there comes in grain. So Government is incentivizing in grain in a big way hence the original investment becomes a big yes.

Sachin Kasera: So is the payback of this swing capacity that you are putting wherein you can use both in off season grains and season molasses, the payback of this investment because of, one it is able to function for a larger period of days and secondly because of Government incentives better than putting up only juice unit, sir?

Vivek Saraogi: Yes.

Sachin Kasera: And is there sufficient capacity to address, suppose you know the industry rises to the occasions, say that it will convert the entire 5 million tonnes, 6 million tonnes. Is there enough capacity on the engineering side to be able to put up this much capacity in the next say, 24 to 30 months?

Vivek Saraogi: That Pramod will get back to you to the investment required for the country. So if I began, others will begin or as the assumption, so it will play out. May be one year later year and there and in one-year monsoon plays to it ever again and India comes back to 27, imagine. So your one-year delay on the ethanol capacity gets absorbed there. So by and large, you are on track for a very structural change in the industry.

Sachin Kasera: And sir for our existing distilleries also, if you want to operate them to swing so that they can also process grains in off season, is that possible?

Vivek Saraogi: No, not needed know because they are 330 days already operating.

Sachin Kasera: Yes but you said that the Government appetite is unlimited, you can supply as much ethanol as you want, so in that case why not even extra export to convert?

Vivek Saraogi: We are already utilizing full capacity there, right.

Pramod Patwari: See out of 365 days, we are already operating for more than 330 days, thereafter annual shutdown maintenance is also required. So where is the scope for further utilizing those assets.

Moderator: Thank you very much, we will take that as the last question. I would now like to hand the conference back to the management team for any closing comments.

Vivek Saraogi: Thank you everyone, pleasure talking to everyone today and if you have any further questions, Pramod is there, we are there and thank you once again for joining us, Pramod on to you.

Pramod Patwari: Thank you.

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