"EID Parry Q4 FY2020 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the EID Parry Q4 FY2020 Results Conference Call hosted by Axis Capital Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara of Axis Capital. Thank you and over to you Sir!

Kashyap Pujara: Thank you Ayesha. Good afternoon everyone and thank you for standing by, hope all of you are safe and indoors both health wise and wealth wise. I will now quickly hand over the call to Mr. S. Suresh, Managing Director of EID Parry. From the management side, we have him, we have Mr. Ramesh Kumar who is the CFO, and we have Mr. Suresh Kannan who is the refinery business head. We also have Mr. Rath who is the company secretary and we have Mr. Muthu Murugappan who runs the Nutraceutical Business, so all of the entire top management team of EID Parry is here to answer all your questions across all the various divisions. Without taking much time, I hand over the floor to Mr. S. Suresh. Over to you Sir and congratulations for a reasonably decent set of numbers on operational side I think we have kind of turned around in the core sugar operation and even in the refinery so look forward to hearing from you and over to you Sir!

S. Suresh: Thank you Kashyap. Good afternoon everyone. Thank you all for joining this call and I would like to start the call by saying that as the standalone operating profit has been better than the previous year by almost Rs.20 Crores, it is almost similar level of turnover compared to the previous year and this has been made possible by better sugar realization, focus on the retail and focus on alcohol sales, selling more of value added ethanol to the market. These are the aspects, which have helped the business to really turnaround the pressure.

I will just talk about this international scenario. If you look at the international scenario as all of you are aware that this is actually coming down with increased sugar is coming from Brazil and good monsoon is projected in India and all this COVID around the consumption also is coming down. With this what we can look at is that oil prices have fallen eventually the ethanol prices also have fallen, the mills in Brazil are looking to produce more and more of sugar than of ethanol that is going to be a big issue for the overall international sugar market that is why we must have seen the world market trembling down from a very high level two to three months back to the current level now that is the situation on the international side.

If you look at the Indian scenario, the sugar year 2018-2019 we had a closing stock of almost 14.3 Million MT, which became the opening of the 2019-2020 sugar year, the production is confirmed now it is almost around 27 million tons, its total kept around 41.3 million tonne. The consumption, which was originally slated to be around 26 million tonnes for the sugar year 2019-2020, has been still down because of the COVID impact. We expect close to around two million tonnes to be impacted and also the exports were supposed to have gone to the extent of around 6 million tonnes are also expected to fall down to almost 4 to 4.5 million tonnes only. So with this once again at the end of the sugar year we will be having a closing stock of around 12 to 13 million tonnes what does that mean for the sugar industry, there is going to be continued pressure on the prices due to stock pileup and there will be pressure on liquidity for the sugar mill as well. As we see the next year the projection is very good monsoon for the country that means once again the sugar production is expected to go back to 2018-2019 levels almost around 33 million tonnes and the consumption may bounce back to the normal consumption of 2018-2019 say 26 million tonnes that means what we are looking at is per month consumption level may have to comeback, continued with the plans what they have been putting in terms of buffer stock subsidy, again they may have to look at the export quota for the mills more and more quantity need to go out of the country. The only challenge what we foresee is international prices are not that lucrative at all that is government has to look at further subsidies to the mills in order to export the sugar out of the country because there is going to be more of blending of ethanol, but once again the demand on the petroleum side is also not same as it used to be last year, but there is going to be fall on the demand, there is going to be more pressure in the surplus sugar, which is getting produced in the country.

From the industrial side we have represented to the government irrespective of the FRP I think there is minimum selling price of sugar need at least Rs.2 increase from the current level for sugar mills to cover on the cost that is the representation that has been made and I am sure that the government will continue with whatever the quality interventions they have been doing for the last one-and-a-half to two years, for the next year as well and the release quota mechanism also will continue to be that is what is my anticipation given the situation and the FRP increase we have represented that is something needs to be really looked into irrespective of that there must be increasing to happen for the mills in order to improve the liquidity positions and also cover the cost so this is overall view on the Indian scenario.

On the domestic side, the sugar side lot of good things are happening, we have been able to sell out the value added products like Amrit sugar the brown sugar in a big way that was 200 tonnes per month mark and we also launched a new product the jaggery in the powder form in the market that is another high value added product, untouched by hands has been the fact from the trusted brand of Parry. These are all going to really come out very well for the retail business as we move along. Now I would request Mr. Ramesh Kumar, our CFO to share the operating details. Over to you Ramesh!

Ramesh Kumar: Thank you Sir. Good afternoon to all for joining this conference call and I am happy to share some of the performance of the company for the year 2019-2020 and also some of the operating parameters how we have done well during this year.

I would like to remind you a small preamble, which we used to give earlier. Year 2018-2019 actually we sold off our bio division, so we have captured the information as a continuing business and discontinuing business for the purpose of people to understand compatible requirements. Bio business has been culled out as an Ind-AS requirement as a discontinued business and shown in the results separately when you see the comparison. Sugar and Nutra business are shown as a part of the continuing business. Subsequently the company had recognized last year Rs.208 Crores on account of bio pesticide division sale and Rs.35 Crores on account of investment in Parry investment as profit from discontinued operation in our previous year numbers.

Now I will take you to the current year number the financial performance of the company. The revenue of the company for the year 2019-2020 was Rs.1875 Crores, which is more by 1.6% as against the last year that is Rs.1845 Crores, is a marginal increase in revenue is predominantly on account as Suresh explained for the better realization in the sugar especially during the second half of the year and also good realization has come from the alcohol segment. We sold around 3.73 lakh metric tons of sugar as against 4.05 lakh metric tonnes in the previous year, which was sold at Rs.31.02. The revenue for the quarter ended March 31, 2020 was Rs.608 Crores as against the last year of Rs.563 Crores with a growth of 8% over last year. We had export sales during the year 2019-2020 around 81495 tonnes as against previous 46213 tonnes. The PBT for the year on a continuing basis was a loss of 20 Crores against the last year loss of Rs.22 Crores, decrease in loss was predominantly as the reason explained previously as sales realization on account of sugar and distillery. The PBT of the continuing business for the quarter ended was Rs.118 Crores profit as against Rs.166 Crores last year, the PAT of the year is Rs.1.83 Crores as against Rs.163 Crores of last year, In the last year Rs.163 Crores was mainly an account of two factors, which is the bio business sales Rs.208 Crores plus Rs.35 Crores of sales of shares in Parry America, which is total of Rs.244 Crores on account of the bio division sales profit alone sitting there in the previous year. Otherwise PAT of previous year will be in negative to that extent.

On a consolidated level, the PBT for the company was Rs.1266 Crores against the last year number of Rs.837 Crores backed by very good performance from Coromandel who declared the results 15 days back. The profit after tax for the company was Rs.889 Crores at a consolidated level as against the last year Rs.438 Crores.

Let me share with you some of the operating numbers of the business for 2019-2020. As far as the sugar is concerned, the company crushed 36.72 lakh metric tonnes as against 37.19 of last year as a crushing levels and recovery was also around 9.99% as against 10.11% of last year. The production on a full year basis was about 3.6 lakh metric tons as against the previous year of 3.76 lakh metric tonnes. The sugar sales for the year was closed about the 3.73 lakh metric tonnes as against 4.04 lakh metric tonnes, the sales volume is predominantly is governed by the release order mechanism, which came and replaced from June 2018. We also did some 0.47 lakh metric tonnes against the MAEQ, which was announced during the September and October 2019 onwards against the 72369 metric tonnes allotted to us we could do 47000 tonnes during this year. The average selling price on account of export realization during the first half was around Rs.31.5 as against the previous year number of Rs.29. The stock carried by nearly around 2.6 lakh metric tonnes as against the previous year of 2.7. The closing stock is valued around Rs.32.5 per kg; the revenue for the sugar alone is Rs.1376 Crores.

Now as far as cogen is concerned we have generated 35.72 Crores and exported 18.74 Crores units during this year, the average rate, which we realized was around Rs.3.67 per unit and we also have two units Karnataka and Andhra Pradesh are the only two states, which are in PPA, Tamil Nadu is not in PPA. We are actually selling power in Tamil Nadu through IEX mode and through some third party export, only through IEX our realization was very less, during the second half of the year we tried to move into even third party sales of power and because of which our realization has increased to 3.67 average. Cogen revenue for the year was about Rs.130 Crores as against the previous year number of Rs.125 Crores.

As far as the distillery is concerned, we have produced alcohol around 634 lakh liters and sold to the extent of about 627 lakh liters at an average price of Rs.55.65 per liter during the year. Of these 627 lakh liters ENA contributes around 450 lakh liters at an average price of around Rs.57 per liter. During this year ethanol we sold about 145 lakh liters at an average price of around Rs.49.43 per liter. Distillery revenue was close to Rs.357 Crores as against the previous year figure of Rs.317 Crores.

Now we will share some of the information on Nutra business. Nutra revenue on a consolidated business was almost in similar lines to last year close to about Rs.211 Crores and we had a loss of around Rs.6.5 Crores as against the profit of Rs.8 Crores last year. Nutra division has a lesser PBT because of drop in sales of Spirulina, due to drop in volume and pricing pressure. I am also happy to inform you that in US we launched the B2C business and our product with a brand name of “Flomentum” and we have incurred for this business a launch expense of around 1.6 million USD , had this 1.6 million dollars was not there, Nutra business will also be showing a profit as we shown in the last year.

As far as the overall capex is concerned, we have been sharing quite some time where we are very prudent in our approach. Last year we actually invested around Rs.100 Crores another Rs.58 Crores was the disclosure on account of New Ind-AS requirement of Lease accounting. The major capex will came in from incineration boiler in Sankili and some diffuser correction, we had on some cogen related around Rs.9 Crores and then we had SAP implementation during the year and also some distillery equipments, and we also added some Nutra expansion around Rs.7 Crores to Rs.8 Crores in the year. This is very important for us in terms of managing our cash flow. We continued to be very prudent in our investments of capex in the current year also and we are investing only in high return investments and for the statutory safety environment. We had already told you that during the current year 2020-2021 will be going on an expansion on two projects, one is on Bagalkot distillery project and also shifting of equipments from Tamil Nadu to a place where the more cane is available, which we will do it prudently as per the cash flow.

As far as expenses are concerned, we continue to be very tight control and we brought down the expenses on fixed cost also. I have been sharing quite a few times even in the previous quarter we focus very much in reducing the loan. As far as the loans and interest are concerned during the current quarter the loan was outstanding at Rs.543 Crores as a long-term loan as against the previous quarter of Rs.440 Crores. As far as a short-term loan is at Rs.512 crores. on an annual basis we are at Rs.1055 Crores total loans as against Rs.830 Crores over the last year. The financial cost for the year is Rs.135 Crores as against Rs.113 Crores it is predominantly on account of higher working capital requirement due to the controlled sales due to the release order mechanism and also project expansion, which we have taken up during the year. Our story on the interest and loan will continue and you have heard also from the market that recently subsequent to the balance sheet date the company had sold 5850000 shares of Coromandel shares, which we had in our books, at price of Rs.629.19 per share aggregating a value of Rs.368 Crores. The entire process of the sales will be used towards the reduction of debt, which we have been explaining all throughout our program on debt reduction and which we will continue, we will ensure that debt in the books is brought to almost 50% of the current loan level or equal to the working capital loan that is our objective and we will continue to achieve it. Thank you and I will leave it to the floor to ask questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.

Sanjay Shah: First of all, thanks for the opportunity and I appreciate the gesture of reducing stress on the balance sheet of EID Parry by selling the stake of Coromandel and receiving good dividend. Sir I would like to know the total ideology of the management going ahead, what is the comfort limit of debt would be on net level after removing the receivables and all that the company target now it will be achieved?

S. Suresh: The objective of this company is to ensure that we bring down the debt level to equalize the working capital level so that what we earn, the internal accruals would be able to repay for the business that is objective so that we need not have any long-term loans. We wanted to ensure that whatever we have equivalent to the working capital in the system only we will sufficient to that extent so that to the extent of stock we should be in a position to able to repay any loans, which is outstanding in the book, any loans outside that should be completely brought down to zero.

Sanjay Shah: So we are targeting sale of more assets, will it be possible to share something about that, are we targeting to the sell anymore assets of the company to bring down?

S. Suresh: Nothing more.

Sanjay Shah: Can you now run through the sugar that you explained very well , however the critical which we are not able to grow in spite of growing with many opportunities every year after getting approval of consolidated from US and all how do you see the picture coming after launching these B2C do you see the future of that?

S. Suresh: I request Muthu to answer this question.

Muthu Murugappan: So thanks for the question this is Muthu here. With regards to the nutraceutical business there are two products lines one is the greens product line, which is largely Spirulina and Chlorella and that will put a lot of pricing pressure that line is manufactured in India and it is mostly bulk exported. So there we are strengthening our science and strengthening our branding efforts and account management so that we will hope to see an increase in sales. I think the pandemic has of course prompted a lot of self consciousness amongst global consumers and we should see some positive impact in fact we are seeing positive impact from that. We have also restructured a little bit in terms of our cost position, manpower, so on and so forth and closure of micro-lycopene business in India, some of that pain has been taken in Q4 so going ahead I think we will be more focused on areas that we can grow on the greens segment. If you look at the US operations they have done better in the Q4 and that is largely because of the Palmetto Berry extract sales, we have a commanding position in that product line I think we are almost at about 11 to 12 million dollars of sales this year and we are looking to significantly grow that business in the coming years. It is with that same product that we have launched a consumer brand and our funding for expansion through internal accruals so I think these two areas where one is immunity and one is of health where we have a good product supply chain position. We will build with science and with marketing.

Sanjay Shah: Do we see our nutraceutical business coming back to the profit levels from current year onwards?

Muthu Murugappan: Yes that is certainly the intent. On the US side as Ramesh mentioned if you pull out the B2C business wherein we obviously have invested out of accrual, we would have been pretty profitable, but I think until that business build a certain scale we will continue to invest in it from accruals then after that we should only see a good hockey stick in India as well.

Sanjay Shah: What size of business we have seen in that B2C Sir?

Muthu Murugappan: So the B2C business is a start-up, which just started and our intent is to we have a number in mind at least for the turnover as well and we want to make that business in over four to five year period and on the green and immunity line some of restructuring to strengthen our cost position and coupled with the demand that we are seeing we are back at good profitability.

Sanjay Shah: Thanks for answering my questions and my one more question is to Mr. Kannan. Can you draw some picture on the refinery side?

Suresh Kannan: Refinery operations had a very good year in the last financial year, but we are able to improve our topline as much as 40% on the back of the sales volume improvement, so refinery as a whole sold 7.59 lakh metric tonnes during the year 2019-2020 as against 5.35 lakhs of last year and this was responsible for the increase in operating revenue for the year Rs.2009 Crores compared to Rs.1434 Crores previous year and this was primarily aided by the tightness in the global sugar market especially on the refined sugar. As you all know Thailand, which is the largest exporter of white sugar had a poor crop because of a historical drought over there and as a result of which the tightness of refined sugar especially in the second half of FY2020 had a greater demand too for refined sugar in the market, so this is despite the competition that is there in the form of low quality whites or the white sugar from the Indian mills. So on the back of this higher sales volume, which incidentally happens to be the highest ever in the history of refinery we are able to turn around on the operating side compared to 2018-2019 to 2019-2020.

Sanjay Shah: One bottomline in current year and how do you see working ahead this year?

Suresh Kannan: Sir 2019-2020 the year we closed with a loss of Rs.19 Crores as against the previous year loss of around Rs.89 Crores and most of it was due to the events in the global as well as the exchange rate situation in the last few days or the month of March. Going forward in FY2021 the demand or rather the supply tightness of the refined sugar market continues in the first half of the year, therefore there is a good traction for refined sugar in the market and same way our sales book as well. The second half of the year is a little bit early to call at this point of time depends on the Indian export policy and also the weather as far as Thailand is concerned, but on overall basis we are confident that we should be in a position to improve upon our position of 2019-2020 given the kind of customer base and the improvements in sectoral sales that what we have achieved in 2019-2020.

Sanjay Shah: We have invested heavily on refinery side and we are not able to show a performance on that side so if management has any plan to eye off the division?

Suresh Kannan: Sir bulk of the initial investments on refinery were to do with the issues of fuel and once we have been in a position to move to coal gas boiler and ramp up our operation the refinery has been scaling up well in terms of its operating performance and on the operating profitability generation has been there seeing improvement on year-on-year basis. A lot of refineries bottomline depends on the availability of spread in the global market so with the tightness in the supplied as the spreads improve the refinery with improvements it has made over the years in terms of operational performance, improvement capacity utilization, debottlenecking at lowest cost and reducing its cost structure year-on-year basis. Our management approvals have been to make it closer to the lowest cost refinery in the world so as the external situation improves we will be in a position to bring back in terms of generating profits at the higher scale so at the moment the approach of the management is to leverage the investments that have been made on operational improvement, cost improvement and the market development for a higher volume and thereby capitalize on it.

We need a little bit of help from the external side in terms of continuing availability of spreads.

S. Suresh: Suresh you can also tell them about the refinery closed across the globe and what opportunity we have also.

Suresh Kannan: During the period of 2018-2019 and the first half of 2019-2020 a lot of refineries, which had higher operating cost had to the close as they are not able to survive and the refineries who are with a higher cost structures are operating on and off basis depending on only availability of global spread, so if you look at in our case we have been able to cut our refining cost by a factor of half over the five-year period of operation so in a industry like us where cost and scale in addition to spread are critical surplus factor. We stands in good shape as a few of the last minute standing and therefore as the high cost players in which the market, there will be tightness in terms of supply and then efficient people will continue to be enjoying the benefits of the reduction in capacity of industry or rather reduction in operating capacity of the industry.

Moderator: Thank you. The next question is from the line of Kashyap Pujara. Please go ahead.

Kashyap Pujara: Sir couple of investors have asked me to check with you on clarification of debt and that is mainly related to the total sugar operations so if you can give a total sugar debt so ex-Coro consolidation so just total sugar debt broken up into the sugar operation in the standalone level and the refining operation?

S. Suresh: Absolutely no problem. The Indian standalone EID basis we have a long-term loan of Rs.543 Crores and Rs.511 Crores short-term loan in EID standalone and then Rs.200 Crores a long-term in PSRIPL that is a refinery business, the balance is on account of short-term debt.

Kashyap Pujara: The balance would be how much Rs.900 Crores?

S. Suresh: Yes Rs.986 Crores.

Kashyap Pujara: So basically long-term debt is Rs.743 odd Crores and the balance is Rs.986 plus Rs.511 Crores is the working capital loan essentially?

S. Suresh: Absolutely right.

Kashyap Pujara: Now given that we have received Rs.368 Crores from Coromandel sale and we will have Rs.200 Crores of dividend income, which is an inflow, Rs.570 Crores in hand and Coromandel is doing pretty fine and definitely we are expecting profit growth in the current year so assuming that similar dividend payout is maintained we should have at least Rs.250 Crores anywhere between Rs.200 to Rs.250 Crores of dividend, which can further accrue, so broadly speaking over Rs.570 plus another one year we can look at Rs.770 Crores of infusion so can we expect that this is entire money will go towards the debt requirement at EID level or refinery level or where will it kind of be used?

S. Suresh: Today's scenario we will first try to look at what has come to us now this Rs.368 Crores which we will reduce the debt fully now, before end of June the entire debt is brought down to the extent of Rs.368 and the next when we received the Coro dividend, which they have declared during the financial year is Rs.12 per share, which will come around Rs.200 Crores, which we will use it to further reduce the debt by another around Rs.200 Crores in EID. When the next tranche Coro is releasing as you said that they are in better performance we will try to look at it at that time and not now, so as of now we will reduce the debt to the extent of Rs.568 Crores in EID.

Kashyap Pujara: Sure great. Okay will get back in the queue for more questions.

Moderator: Thank you. The next question is from the line of H.R. Gala from Finvest Advisors. Please go ahead.

H.R. Gala: How much price we are paying for procuring cane in different markets Tamil Nadu, Karnataka, etc.,?

S. Suresh: Cane price is based on FRP in places Karnataka and for example where our recoveries are normally beyond 10% that is Rs.2750 is the base FRP based on which whatever in the recovery base the cane price will be paid, Rs.2750 is paid at a 10% rate. When it come to Tamil Nadu and Andhra where we say for example in Andhra the recovery is between 9.5% to 10% so the actual price paid will be pro rata to the actual recovery with a reference base of 10, at 10 we will pay Rs.2750, but 9.50 there will be a pro rata. In the case of Tamil Nadu the recoveries are not above 9.5 wherein we have to pay that bare minimum, which is Rs.2613 that is the money, which will be paid as the FRP. Whether the recovery is 9.5 or below 9.5 that bare minimum of Rs.2613 need to be paid to the farmers.

H.R. Gala: Sir in Tamil Nadu we will be paying additionally the transport cost?

S. Suresh: Yes that is an add on.

H.R. Gala: How much we will get?

S. Suresh: Around Rs.140 to Rs.150 per tonne.

H.R. Gala: The another question is now how much you have asked for Rs.2 extra price in sugar over Rs.31 so do you think you will be able to cover all your conversion cost, etc. and in current year probably I believe as you said the sale of ethanol also could be less so how are we going to manage the profitability in FY2021 from our core sugar business?

S. Suresh: Normally the average cost will be very depending on the mills, the Rs.2 is an average price now representing for the government as an average, yes there are range of mills depending on their level of volumes, level of their capacities and the total volume of cane what we are doing the actual cost of the mills can vary, similarly between Rs.31 to Rs.35 or something. So in Tamil Nadu the cost will be higher, Karnataka it will be lower and on average the Rs.2 because these mill based MSP incomes is not possible, so as a consensus it has been done at a Rs.2 increase is what has been this NITI Aayog has represented that. Actually from ISMA perspective we have requested for almost Rs.35 to Rs.36 what you must have seen in the news is about NITI Aayog's representation of Rs.31 becoming Rs.30. We have pushed for almost Rs.35 to Rs.36, we have to wait and see how the government is going to come out with an order at what rate this is going to be..

Moderator: Thank you. The next question is from the line of Ritesh Kaushik, an Individual Investor. Please go ahead.

Ritesh Kaushik: We had asked for final approvals for Pudukkotai and other sugar plant in Tamil Nadu and Karnataka right?

S. Suresh: Yes.

Ritesh Kaushik: So we have got all the pending approvals Tamil Nadu government for these two plants?

S. Suresh: Yes Sir we have got all the approvals required for transfer of equipments from Tamil Nadu to Karnataka units, only we are waiting for the COVID pandemic to go through.

Ritesh Kaushik: It is a very nice development. Second thing I would like to know from Muthu, which months we spend this Rs.1.5 million for B2C launch of our product in Nutra what is the sales traction right now in that particular product?

Muthu Murugappan: So Ritesh Bhai good afternoon and this quantum of money was spend throughout the year in fact because of the pandemic some of the spends have been brought down given the channel and market issues, but this was spent through the financial year. Traction is good. I would not like to share numbers yet because we only launched the product in January, traction is good. I think at the appropriate time we will share the progress of all the launches going.

Ritesh Kaushik: So this $1.6 million will be ongoing in current year also we will spend that kind of amount like what is that how it works?

Muthu Murugappan: The spend will be higher because we are launching a branded retail lines so there is a spend on the market in May so that spend will be higher, typically in a retail brand launch you will have a hockey stick kind of impact where you spend first and then you will start seeing the results towards the end of year two and year three onwards so that is how it would work, there will be a higher spend than $1.6 million this year and that spend will come out of internal accruals. Our B2B business in Valensa is on a very strong wicket on berry extract because we control of the supply chain and excellent large customers like Costco it is one of the largest retailer in U.S., so we may have good accruals from that business and we will then spend in on the B2C side to build up the brand.

Ritesh Kaushik: Second thing is can you throw some light on what competitive advantage we get by tying up with someone like Synthite and their international presence and how they can help us in renting a power and second thing in that Spirulina product I think very large portion of it is sourced in U.S. and other parts from China so this whole COVID thing and some backlash we are hearing from China led some advantage over Chinese competition in terms of price also and volume definitely so can you throw some light on this?

Muthu Murugappan: I will start with your first question on this insight joint venture. The joint venture was set up from the algal extract, the first product that we are making is a blue color extract called phycocyanin and this goes into the natural color market, natural colors, flavors and fragrances is a very largely growing segment and that is why we chose to enter it. The advantage Synthite brings to the table they are very large company more than Rs.1500 Crores, one of the largest in the extracts market globally. They bring a customer base who will obviously be absorbing this product as well. They have very good access to large customer base. They are also very, very sound and solid extraction technology, which has been very useful and it has been implemented in our JV plant as well and the results are very encouraging in terms of perfect execution fees so on and so forth so we will use these strengths to combat the Chinese and that is there I think in more segment, but we will have to use this to combat the pricing. In terms of China there is a backlash against China, but in my personal opinion I think China will continue to be strong and I think they are strengthening themselves so I think we have to also keep pushing the bar to ensure that we can fight with them in the market place. There are maybe some pockets where we could take advantage of it, but they are certainly strengthening themselves, so it will remain a tough competition. The dietary supplements category has been lifted to a different platform because of the pandemic and because of that I think we should see some positive impact on the business.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.

Bhavin Chheda: Congrats to the entire team for turnaround in making in the EID Parry seen improvement across businesses. Sir just a few questions following the earlier remarks and continuing with the earlier question. First on the sugar refinery business you mentioned short term debt figure of Rs.986 Crores so can you update what the current inventory level in the refinery business?

Muthu Murugappan: Currently the inventory levels are close to 2.5 lakh tonnes of sugar of the inventory.

Bhavin Chheda: 2.5 lakh MT of sugar and this would be valued at Sir?

S. Suresh: This will be at different value because of the fact that refinery works on a hedging model so each consignment is valued at different rates based on the prices what we hedge so you can take an average of between $300 and $310 or $320 depending upon when the hedges have been made.

Bhavin Chheda: This is Sir over and above the sugar stock of 2.6 lakhs you mentioned that 32.5 this is in standalone company right, so 2.6 is in standalone value at 32.5 and in refinery business inventory of 2.5 lakhs, which will be either in transit on site, which will be valued at $300 right?

Rameshkumar: It is not transit Sir everything will be at site only Sir.

Bhavin Chheda: Everything will be at site so what would be roughly debtors because I remember debtors were very high in the refinery business last year so what would be the debtors right now in the refinery business and if they moved down on a Y-o-Y basis?

Rameshkumar: Debtor means you want the value of inventory or you want the quantity of inventory?

Bhavin Chheda: I am saying receivables

Rameshkumar: Debtors with respect to refinery we have Rs.181 Crores and all the debts have been completely received post this balance sheet date, similarly in case of EID also subject to Rs.5 Crores to Rs.10 Crores and except the Cogen dues, which is brought down only on account of government supplies of Rs.20 Crores other than all the dues, which is there in a balance sheet have been completely received today

Bhavin Chheda: Right and Sir what would be the update on the spread right now in the refinery business, what is the widespread going of a raw, what would have been the average in FY2020 and the current spread more or less than the FY2020 spread?

S. Suresh: For the year FY2020 the average spread would be close to $44 to $45 for the financial year, the current year is also expected to be having a similar spread levels of course the second half of the year we still have to see how the market pans out, but in general yes the spreads are expected to be prevailing over FY2021 as well.

Bhavin Chheda: Okay and Sir my last question on the cane crushing guidance if something you can provide for FY2021 and how the crushing is looking at is it similar, better and how the recovery is looking at because the process has been good?

Suresh Kannan: Tamil Nadu is expected to be marginally lower than FY2019-FY2020 and Karnataka with all this monsoon and other things the volumes are expected to be definitely 5% to 10% better and Andhra will be more or less similar to the previous year, so overall we look at almost maybe 5% increase over the earlier year. We have to wait and see how the monsoon pans out.

Bhavin Chheda: Recovery would be similar?

Suresh: Yes as things stand recovery should be similar. Once again like last year if you remember the Karnataka had a huge draught in the initial month almost we have written off Karnataka and then across floods and finally Karnataka bounced back very well so we have to wait and see how this monsoon go through then it would be a better estimate.

Bhavin Chheda: Thank you Sir.

Moderator: Thank you. The next question is from the line of Kashyap Pujara. Please go ahead.

Kashyap Pujara: Sorry Sir just an extension to Bhavin's question if you basically are going to be moving plants to Karnataka from Tamil Nadu then currently those Tamil Nadu plants were not crushing then crushing go up higher than what you just mentioned and second would not that also mean that the recovery rate for the firm would move up rather than case study?

Suresh: You are talking about the movement of the plant to Karnataka and hence the volumes and recovery should be better is the question am I understanding better?

Kashyap Pujara: Yes.

Suresh : Actually the COVID scenario has put some brakes on this entire shifting that is what we have been explaining, we are not in a position to move right now the equipments from here to there, we will have to reassess the situation because we do not want the assets to be moved expenditure incur and the capital item because the season for Karnataka is hardly four months, this October mid then November, December, January, February so if you are available then we should be there during the start of the season, there is no point in shifting the assets towards the end of the season. If the Karnataka is going to get these Tamil Nadu assets then the volumes will automatically go up, your logic is correct, the recovery also should go up

Kashyap Pujara: Just one question on refinery while again an extension to Bhavin's question while we have Rs.986 Crores of working capital debt if so much working capital required in the refinery business while you said that you have lowest cost on the refinery side on global basis where are we on capital efficiency on a global basis because the country have a structurally much lower working capital than where we are may be to the extent of Rs.400 Crores and not Rs.1000 Crores, what are the thoughts on that?

Ramesh Kumar: Here from the current level as of today Rs.629 Crores they are large, Suresh Kannan Sir was explaining lot of plans are there to bring down the inventory level to the level at which we can operate at any point of time if that is a scenario the working capital what we are featuring in the books around Rs.986 Crores will come down drastically by end of year 2021 so as of now things looks better and fine, hope this year 2021 we expect to reduce by 50%

Kashyap Pujara: Basically the money that we are receiving from these states plus this compression in working capital can lead to a sizeable working debt reduction at EID parry?

Ramesh Kumar: Yes.

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

Achal Lohade: Yes thank you for the opportunity Sir. Just a clarification I was little confused with the answer on the refinery part you said so if I understand correctly for refinery business you will have to have two odd months of raw materials, two odd months of finished goods and there will be certain payables against that so help me understand what is driving the 50% reduction in the working capital for FY2021?

Suresh Kannan: See what Mr. Ramesh Kumar has been explaining with respect to the initiative for increasing the turns on the working capital side is basically from the point of view of the time taken from the time of raw material to the finished goods sales realization so we have a very short realization cycle as far as refinery is concerned, so receivables is not major part of the working capital cycle. In the last couple of years we have had some external shocks with respect to cessation of refined sugar offtake as the result of which we have to store a higher quantity of raw sugar or higher quantity of refined sugar at any given point of time so therefore it was increasing the overall inventory level and we were not able to rotate the stock as much as what he have desired, so for the last six months if you see last third and the fourth quarter of the previous financial year itself the offtake of white basically in terms of our broad ways to sale both to the trade and direct institutional accounts the flow of white sugar has also become more normal or more uniform compared to spikes as far as sale is concerned and we are doing fine tuning the raw material inventory receiving cycle and we had a little bit of issue with respect of the off crop period in Brazil even that now we are in a position to resolve by having prior contracting and arrival of vessels in a staggered basis so that is what when Ramesh is saying that objective of reducing by 50% is basically to shorten the overall cash cycle from the time that we buy from the Brazil as raw sugar and converting it into white sugar as realization.

Achal Lohade: Is there a case of viability of Indian raw sugar we will be eligible for the export subsidy so I am just trying to understand?

Suresh Kannan: Yes it is very much viable under the subsidized export scheme in fact we did procure more than two lakh tonnes of Indian sugar in the previous year that means FY2018-2019. For the current campaign of Indian exports because of some fine print in the policy there is still ambiguity in terms of applicability of the entire Rs.10448 per tonne of subsidy if the supplies were made to a refinery located in special economic zone so this matter is under advanced consideration at the Food Ministry and they have promised that they will be in a position to clarify this and put this anomaly to rest. So we are hopeful for the FY2021 we should also be in a position to source domestic sugar so that will definitely shorten the kind of time required of sourcing the sugar so that possibility definitely exists for FY2021 subject to this clarification from the Food Ministry.

Achal Lohade: Right could there be a savings in terms of the rupees for procurement cost if that is sourced from India itself?

Suresh Kannan: Yes we could have between \$5 to \$10 difference in spread if you are able to source sugar from India vis-à-vis the imports.

Achal Lohade: Understood and just last question if I make with respect to the debt part you mentioned that the dividend income plus stake sale will be used to reduce the debt, I am just curious to understand this working capital debt when you say that you want to reduce the working capital debt is there any thought process behind that because we are looking at the peak working capital debt of March so internally how we look at the working capital debt is it average of full year so that will be roughly 54% of the stake Sir?

Suresh Kannan: Correct.

Achal Lohade: Next to the cane crushing volume you have given the number for the crushing season I suppose so from fiscal year perspective what is the kind of crushing volume change we are seeing in FY2021, is it 3%-4% what you have said earlier or is it different from that?

Suresh : Yes it should be similar. I told you know this is the Karnataka is looking up, Tamil Nadu is a little down, Andhra is respectively down. For net-net it will not be a very big increase unless the monsoon is going to really give us a big change.

Moderator: Thank you. The next question is from the line of Falguni Dutta. Please go ahead.

Falguni Dutta: I just wanted to know the landed cost of cane in Tamil Nadu, Andhra Pradesh and Karnataka?

Suresh: I shared the FRP.

Falguni Dutta: What is the cost per like the sugar cost at Tamil Nadu, Andhra Pradesh and Karnataka before the interest cost let us say after considering depreciation, but before interest for FY2020?

Suresh: Before while Ramesh will take out the details I will give you the landed cost now. Karnataka is around 3060, Andhra Pradesh is 2860 and Tamil Nadu will be 2853.

Falguni Dutta: Sir what would be our ethanol cost like similarly before interest but after depreciation?

Suresh : We will come back and give you the numbers not an issue. You want our landed cost as far as the manufacturing cost of ethanol?

Falguni Dutta: For sugar and ethanol before interest.

Suresh : We will let you know.

Falguni Dutta: Thank you. That is all from my side.

Suresh: One more information since we are talking about the cane cost I would like to also say from this year onwards that is in 2018-2019 Tamil Nadu government has announced a fare of transport of around Rs.100 per tonne.

Falguni Dutta: Tamil Nadu government?

Suresh : The cane cost has come down to the extent of around Rs.100 has already factored into the P&L.

Falguni Dutta: It is already included that lower cost is included in FY2020?

Suresh : It is already included.

Falguni Dutta: Sir any cost increase that has happened this year for FY2021, FRPs have gone up?

Suresh: FRP is in line with last year only Madam.

Falguni Dutta: There is no announcement yet no, for FY2021 no announcement, yes.

Suresh: Yes no announcement has come.

Falguni Dutta: Sir one more question to how does it happen like our cane cost is all FRP in all these three states or is it different?

Suresh : I was just sharing that in the starting of the call. The FRP for Karnataka the average cost is more than 10 so 10% it is Rs.2750 any recovery that is a pro rata formula which will be paid, in Andhra it is recovery period 9.5% and any pro rata from 10 that will be pro rata deducted any recovery whether if it is 9.75% that pro rata reduction will be there from Rs.2750 and Tamil Nadu the recovery is below 9.5% in that case the flat price, FRP will be Rs.2613, irrespective of the recovery level below 9.5% Rs.2613.

Falguni Dutta: In Andhra even if the recovery is low it is adjusted for lower that is what you said?

Suresh: Yes that is because it has to be in the range of 9.5 to 10% then only it will be adjusted it is normally hovering around that range of 9.5 to 10% hence the formula will be applied.

Falguni Dutta: Okay Sir, thank you.

Moderator: Thank you. The next question is from the line of Akshay Ajmera from SR Securities. Please go ahead.

Akshay Ajmera: Thank you for taking my question Sir. Sir my question is from the refinery business, in the past we had an issue and as you mentioned right now that we get the export subsidy if we procure sugar domestically, so did you mention that the sugar millers who are supplying us the raw sugar are not getting full subsidy or it is just that the ocean freight components that they are not getting.

Suresh Kannan: You are right in the sense there is clarity on the other two other components of the subsidy because the way it is written down regarding ocean freight subsidy even though the sugar is ultimately exported by ocean route out of India after refining but a crystal clear clarity is not there so that is there why the millers are not in a position to go ahead with supply of sugar under MAEQ into the refiners.

Akshay Ajmera: This is only in MAEQ, in the MIEQ it was different.

Suresh Kannan: MAEQ in the mid, the structure of subsidy also is different there was no mention of ocean freight components.

Akshay Ajmera: Okay are we losing something if we are not able to procuring from domestic players and we are so take it from..

Suresh Kannan: It is more like we discussed in the earlier question it is a question of opportunity cost as we said between $5 to $10 there could be a possibility of saving if you are able to source it domestically.

Akshay Ajmera: Okay and what is the development right now or we confident of getting this resolved?

Suresh Kannan: I think this is more or less at the final stages because government understands that there is captive customers sitting inside the country and as the focus is now to promote the balance portion of the MAEQ with difficulties in the current environment as far as achieving the rate of exports to 86 million tonne so we are confident this matter will get resolved soon.

Akshay Ajmera: All right Sir. Thank you so much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Rithika Gupta, Individual Investor. Please go ahead.

Rithika Gupta: Hi Sir what is the role in the refinery division, what is the global industry or demand supply imbalance?

Suresh Kannan: See the global white sugar market or rather the sugar convention market is roughly around 190 million tonnes so we are basically participating in the traded sugar because globally two-third of the sugar is consumed between the region where it is produced whereas one third of the sugar is getting traded across regions or across country so we talking of a market of let us say 60, 65 million tonnes of which 60% of the trade is in the form of raw sugar where the conversion from raw sugar to refined sugar happens at the destination closer to the market and the balance let us say 25 or 27 odd million tonnes is the size of the market where refine sugar is brought as such as post refining and typically you have regions where are sugar deficits such as Eastern Africa, Western part of Africa, Middle East some part of South East Asia even China for that matter are all sugar deficit in terms of refined sugar so the size of the market that is relevant to a refinery industry is around 25 to 27 million tonnes.

Rithika Gupta: Okay and Sir what is our capacity utilization for refine sugar?

Suresh Kannan: Yes we have a possibility of producing close to 900000 tonnes in our refineries so our operating levels basically depends on availability of adequate spreads in the markets so for example last year we operated our facility at around 75% to 78% of capacity so we still have some headroom to throttle.

Rithika Gupta: Okay and Sir what is the impact of forex cost in FY2020 on our refinery business?

Suresh Kannan: Typically the forex cost does not affect us in a great way because principally we are U.S. dollar based operation, of course it gives the benefit of translation of the cost that are incurred in Indian rupees and has structurally rupee depreciates year on year but provides U.S. dollar related competitive nature to any export industry so we are not affected by it.

Ramesh Kumar: It is a natural hedging process both import and export will be there unless otherwise we will go for a local purchase we will come into the exposure.

Rithika Gupta: Sir I also want to know that what is the breakeven spread for us?

Ramesh Kumar: I think we should be in a position to do breakeven close to around $48 to $50.

Rithika Gupta: $48 to $50, okay and Sir regarding distillery I wanted to know what it is that we see a volumes in FY2021 and we see lower rates?

S. Ramesh Kumar: I am sorry the line was bit patchy; can you please repeat your question?

Rithika Gupta: Sir what would be the volume for FY2021 for distillery that we expect and that what rates have we contracted is that?

Suresh : You are talking about ethanol or overall quantity?

Rithika Gupta: Both.

Suresh : ethanol around 200 lakh litres is what we are pitching in but any of prices as per the government of fixed rates, as far as for ENA we will be in line with the last year and the prices it will be more or less in line with the last year. Already we have reached a brim I think if this price is maintained we should achieve a good numbers for this year.

Rithika Gupta: Okay and what molasses prices be higher because he would be using transfer pricing right for molasses? What would be current molasses price?

Suresh : See we have used both internal molasses as well as external molasses, external molasses we procure from UP as well as from Tamil Nadu so prices change from market to market so however we ensure that market rates is adapted as the molasses transfer price for our purpose.

Rithika Gupta: What is the current market price of molasses?

Suresh Kannan: In case of Tamil Nadu if you take it is around Rs.10000, in case of Karnataka it is around Rs.7500, Andhra we do not purchase outside, it is all in-house.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

S. Ramesh Kumar: So thank you everyone for joining this call and it has been a pleasure being connected to you again and I hope I can see you in the next quarter with good numbers.

Suresh Kannan: Thank you Sir. Thank you everybody and I request everybody to be safe on this COVID pandemic time and ensure that all the necessary guidelines given the government are strictly followed so that we all remain safe. Thank you all for the wonderful participation.

Moderator: Thank you. On behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.