



“Dwarikesh Sugar Industries Limited
Q2 FY2020 Earnings Conference Call”

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ANALYST: MR. ARCHIT JOSHI - DOLAT CAPITAL PRIVATE LIMITED

MANAGEMENT: MR. VIJAY S. BANKA – MANAGING DIRECTOR - DWARIKESH SUGAR INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Dwarikesh Sugar Industries Limited Q2 FY2020 Earnings Conference Call hosted by Dolat Capital. 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. Archit Joshi from Dolat Capital Limited. Thank you and over to you Mr. Archit Joshi!

Archit Joshi: Thank you Steven. On behalf of Dolat Capital, I welcome all participants on the 2Q FY2020 conference call of Dwarikesh Sugar Industries, and I would like to thank the management for giving us the opportunity to host the call. We have with us today Mr. Vijay S. Banka, Managing Director of Dwarikesh Sugar Industries. Without further ado, I would like to hand over the floor to Mr. Banka for his opening remarks post which we will have a Q&A round. Over to you Sir!

Vijay S. Banka: Thank you very much. Good afternoon to you all. I welcome you to the Q2 FY2020 earnings call conference. For Q2, our results have been published. We have posted total income of Rs. 177.12 Crore and we have clocked a PAT of 4.73 Crore. This is as compared to turnover of Rs. 265.59 Crore and PAT of 8.09 Crore in the corresponding quarter last year.

Second quarter typically is a challenging quarter for the sugar companies because there is no production, neither sugar is produced nor power is generated & evacuated. So in a sense, this is a challenging quarter. I must explain the reasons why there has been drop in the total income. It is mainly on account of our industry being regulated by monthly release mechanism and we are directed by the government how much we should be selling in a given month. However sugar prices look good and they are range bound between Rs. 3300 to Rs. 3350 per quintal and we expect this trend to continue. Yes, government intervention has been there and

Government has taken several policy initiatives all of which have had positive impact on the working of the sugar companies.

I now request you to ask me questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Chaitanya Shah from Aditya Corporation. Please go ahead.

Chaitanya Shah: Sir I have two questions, first I wanted to understand the status of our distillery and second is with the current a lot of distillery capacities coming up, what is the situation around molasses because I understand the prices of molasses have shot up, so are we facing any problems in procuring molasses for the distillery operations?

Vijay S. Banka: Thank you very much. Well the first question is regarding our distillery project. Execution of the distillery project is on schedule. We expect to produce ethanol during this month itself, before the end of this month. Thereafter we will need a fortnight or so for stabilizing operations and we will then go full stream in producing ethanol.

Secondly regarding molasses prices, since many distilleries have come up, molasses prices are on the rise. Having said that, I must also add that we will not be depending on molasses to be sourced from outside. Whatever is the requirement for our captive consumption, we will use C heavy molasses as well as B heavy molasses produced in our sugar mills. So we should not face any problem on this score.

Chaitanya Shah: And sir could you also tell me the ratio of B heavy and C heavy that you would be producing this season?

Vijay S. Banka: Well that call will be taken as we go ahead. In the first stage of bidding we have bid for about 3.25 Crore liters out of which roughly 1 Crore liter is to be made from B heavy molasses but these ratios can always be different

and as we go forward. There are more tenders coming up. Depending on our experience we will maximize our production from B heavy molasses.

Chaitanya Shah: So sir can I assume a ballpark range of around 33% to 40% or something for B heavy?

Vijay S. Banka: Yes absolutely.

Chaitanya Shah: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of SN Rajan, an individual investor. Please go ahead.

SN Rajan: I know it is a difficult question, if you can throw some light on whether you can share what are your interest costs for your short-term and your long-term borrowing, net of government subventions and some idea on your stocking inventory I am sure your working capital requirement is high, how do you see it going in the next six months, or nine months in terms of your working capital requirements?

Vijay S. Banka: The interest cost that we have incurred is mainly on account of the working capital interest. Our term loan borrowing - We have two term loans outstanding as on date. The first one is the soft loan, which the government of Uttar Pradesh gave to us which is at an ROI of 5%. The total soft loan amount that the government gave to us was Rs. 134 Crore and already we have commenced monthly installment repayment, which commenced in the month of July, 2019. So July, August, September, October & November installments (totaling 5) have already been paid already. The term loan interest would not be very substantial. Most of the interest cost that is incurred is on account of working capital interest. We have taken Distillery loan but whatever is the interest cost on the distillery loan is presently being capitalized. Once the distillery commences operations it will obviously be treated as a revenue cost. Our stock holding is higher so hence there is pressure on the working capital borrowing. Our interest cost

maybe higher but then we will fast track our exports and we will try and improve our cash flows to minimize our interest cost, going forward.

SN Rajan: Are you facing any difficulties in the CP borrowings?

Vijay S. Banka: We have not been able to do CP borrowings because there is hardly any interest arbitrage available. Our working capital borrowings cost is 8.75% per annum, which I suppose is a reasonable cost.

SN Rajan: Thank you.

Moderator: Thank you. The next question is from the line of Mitul Das, an individual investor. Please go ahead.

Mitul Das: Sir just I had a couple of questions from the investor presentation. Sir I see that the distillery quarterly amount of ethanol sold is quite less compared to what was in the same period last year, so can you just explain why it was flattish?

Vijay S. Banka: We had actually bid for a slightly lesser quantity because we had commenced the execution of expansion project. We were therefore apprehensive of some disruption in the production schedule, as it involved the synchronization of existing and new plant which is why we had to bid for lesser quantity. Going forward this anomaly will get addressed.

Mitul Das: Okay this was that more of a one-off thing for the year.

Vijay S. Banka: This is a one-off thing, yes.

Mitul Das: So my second question is on the update on the Bagasse based power tariff of Rs.3 can you give me some update on what is the situation on that, will it be sorted with Uttar Pradesh government?

Vijay S. Banka: Well we have moved to the court against reduction in the tariff. Court has served notice on the other party. We expect that on an optimistic side

matter getting remanded back to the UPERC for relook & reassessment. As of now there is no interim relief that has been awarded to the industry. So we continue with the practice of considering our sales at the reduced tariff.

Mitul Das: My third question is on the recent announcement by the Uttar Pradesh government to increase the reserve molasses quota from 12% to 18%; will there be an impact on Dwarikesh?

Vijay S. Banka: Yes it will impact but like I said we will have no requirement of outsourcing molasses. Yes, the quantity of molasses that we will have to offer for the country liquor manufacturer will go up. Having said that, we expect some improvement in the price of the molasses that we sell for country liquor purposes.

Mitul Das: So currently I think it is Rs.100 per quintal right.

Vijay S. Banka: Yes, so we expect at least about 50% increase in the price.

Mitul Das: But still this is very less compared to our market price?

Vijay S. Banka: Yes, if we see it in comparison with the market price of the regular molasses that we sell

Mitul Das: I mean regarding the same question, just a follow up on that. Is there any plan for establishing and going the country liquor route as a business under your Dwarikesh umbrella?

Vijay S. Banka: No sir, as of now we have not thought of. However if this kind of trend continues maybe it will definitely be a worthwhile option to explore.

Mitul Das: Because I think some of the other companies in the same industry are doing it.

Vijay S. Banka: Yes, some companies are doing it and a couple of others are also foraying in this. It will be a worthwhile option to explore.

- Mitul Das:** Balrampur yes, sir the capacity again I think in continuation of the molasses question is that if you are saying that you have a bid for 3.25 Crore for ethanol production in this year, is this the capacity or the capacity is much higher?
- Vijay S. Banka:** The capacity is about 4 Crore liters. Going forward we will have multiple opportunities to bid for more quantity. In the first phase we have bid for about 3.25 Crore liters. One more tender is likely to come in January 2020 by which time we would have completely stabilized our distillery operations. We will accordingly take a call and bid for additional quantity
- Mitul Das:** But sir in the molasses part it will be good enough because as you said that you do not plan to buy outside?
- Vijay S. Banka:** No we do not plan to; we can always tweak our sugar production such that we divert more of B heavy molasses.
- Mitul Das:** So you take a hit on the sugar?
- Vijay S. Banka:** Yes, but the present price of B heavy made ethanol is a reasonable price and it equates to more than Rs.3100 per quintal of sugar.
- Mitul Das:** Is there are any update sir, because this morning I was in the Balrampur Chini call and Mr. Vikram was saying that the government is again in a discussion phase to increase the ethanol sub lending target, are there any deals, have you heard anything on that?
- Vijay S. Banka:** Yes, yes the government is considering. The Government's target is to go beyond. Presently what is achieved is about 5.4%. So Government would want to achieve 10% blending target in the quickest possible time.
- Mitul Das:** Okay thanks if I have any questions I will get back on the queue thank you very much.

Moderator: Thank you. The next question is from the line of Kapil Jagasia from ICICI Securities. Please go ahead.

Kapil Jagasia: I have few questions, last year you sold 3.1 lakh tonnes sugar and this first half you have done somewhere around 1.7 lakh tons. What would be the quantities in the second half including the exports?

Vijay S. Banka: It is difficult to guess on how much releases we will be awarded by the government. But, having said that, I would like to point out a couple of things. Number one, the production of sugar in Maharashtra is going to be lesser. Monthly releases typically the releases are decided based on the stock level that is being carried by all sugar mills. When there will be lesser production of sugar in Maharashtra, the weightage of stock that is carried by UP sugar mills will be commensurately higher. So in such a scenario we expect larger releases than what we are presently getting. Number two, whatever quantity of MAEQ that has been awarded to us which is about 78700 we will target the entire export quantity before the financial year end is shipped out.

Kapil Jagasia: So assuming that the similar 1.7 lakh tons then you should do somewhere around 2.5 lakh tonnes in the second half?

Vijay S. Banka: Let us wait and see it is difficult at this point in time to guess.

Kapil Jagasia: And sir you have some estimate of the production numbers because considering the similar recovery rates of last year or maybe a tad bit lower you must be having the idea of what kind of production you will have

Vijay S. Banka: Sure. Are you asking about our country or about our company?

Kapil Jagasia: No, Dwarikesh.

Vijay S. Banka: Dwarikesh, last year we crushed about 306 lakh quintals of sugarcane and we produced about 37.77 lakh quintals of sugar and this year we expect our crushing to be marginally higher, may be about 315 lakh quintals and at a

similar recovery we will obviously produce more sugar than what we produced last year.

Kapil Jagasia: Then Sir just that the impact of B heavy will not be there in the sense because we still will be carrying a very high inventory?

Vijay S. Banka: Yes, you see B heavy will definitely have an impact. Let us assume that in one unit the entire sugarcane that is crushed and we do not take out any C heavy molasses and we divert the entire B heavy molasses for ethanol production. So the maximum sacrifice of sugar that can happen is about 1.5% to 1.7% of recovery. Let us say for example if our recovery is 12.25% and if we assume sacrifice of sugar is 1.75% then we will still end up with a recovery of 10.50%.

Kapil Jagasia: And Sir one thing on the distillery side you have mentioned 3.25 Crore or 3.5 Crore?

Vijay S. Banka: Yes, 3.25 Crore is what we have bid for and like I said there are always options as there will be more opportunities coming our way and we can bid in the next tenders

Kapil Jagasia: So this does not include any molasses to the country liquor or the ENA to the country liquor?

Vijay S. Banka: No.

Kapil Jagasia: And you can do 4 Crore liters of capacity?

Vijay S. Banka: Yes our plant capacity is to produce about 4 Crore liters of ethanol every year. Maybe in this ethanol season of November 2019 to October 2020 we will not be able to do 4 Crore liters but thereafter we will regularly touch 4 Crore liters mark.

Kapil Jagasia: Thank you very much.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Yes Sir. What is the update on this power realizations, which is now at about Rs. 2.90 per unit or is this now the set realization for us?

Vijay S. Banka: Sir - the matter of fact is that the power tariff stands reduced. We have litigated this reduction in the power tariff, which is obviously based on some flawed hypothesis. We think we have a good chance. However even if the matter is remanded back to the UPERC then we will have to wait and see how it pans out. As of now there is no interim relief and as of now the order of the reduced power tariff order is valid.

Pritesh Chheda: And the reduced power tariff is Rs. 2.90 per unit, right?

Vijay S. Banka: Yes.

Pritesh Chheda: My second question is with the molasses quota rising from 12% to 18% the molasses, which is sold to the liquor companies or let us say outside, even there you expect the prices to go up as you mentioned?

Vijay S. Banka: Yes, we expect the prices to get better.

Pritesh Chheda: So, it is to do with lower sugar production?

Vijay S. Banka: 18% reservation is has been worked out based on what is the total requirement of molasses for making the total country liquor requirement in the state. Government does backward working and has thus arrived at this 18%. We have been representing to the government that these country liquor manufacturers take undue advantage of their monopoly position and they try to squeeze us on the prices, which presently prevailing is around Rs.100 a quintal. We do expect some relief on this score from the State Government.

- Pritesh Chheda:** And you are saying this Rs.100 a quintal since last about 6, 8 months now right?
- Vijay S. Banka:** Yes, for the last 6 to 8 months. Last year it was throwaway price and molasses had to be given virtually free
- Pritesh Chheda:** Yes, I know lastly, Sir on the sugar season 2019-2020 if you could give your industry expectations?
- Vijay S. Banka:** We expect about 26 million tonnes of production in the country. We expect about 12 million tonnes to be produced in UP, about 6.2 million tonnes from Maharashtra and nearly 3 million tons in Karnataka. These are the major sugar producing States. Overall the industry association ISMA estimates and has already published a sugar production estimate of 26 Million tons for season 2019-20.
- Pritesh Chheda:** And this stands versus 29 million tons for sugar season 2018-2019 right?
- Vijay S. Banka:** No, 2018-2019 was 33 million tonnes.
- Pritesh Chheda:** And what is the opening inventory, opening inventory was 14 million tonne?
- Vijay S. Banka:** Yes, the opening inventory is 14.6 million tons, Broad mathematics is as follows: Production of 26 million tons will be more or less equal to estimated consumption which means we have to deal with 14.6 million tons of stock. Out of 14.6 million tons we expect at least 5 million tons will go out of country by way of exports under the 6million tons of MAEQ scheme announced by the Government. So we will be left with 9.6 million tonnes. Here again 4 million tonnes is being carried on behalf of the central government as buffer stock which is not available for sale in the market. We will thus have marketable closing stock of 5.6 million tons assuming buffer stock scheme is expended. .

Pritesh Chheda: So ideally in such a scenario you should expect sugar prices to go up, but what is the role of that buffer stock now?

Vijay S. Banka: No buffer stock is there to stabilize the sugar prices. If the Government finds that the sugar prices go beyond Rs. 36 a kg, they can always unwind the buffer stock.

Pritesh Chheda: It stands in our book, right?

Vijay S. Banka: Yes, it is carried by us. It is in our books. The interest cost of the buffer stock valued at Rs.3100 a quintal is received by way of subsidy from the government. In other words we are carrying buffer stock not at our cost but at the cost of the central government. The insurance cost is also being reimbursed by the central government.

Pritesh Chheda: Full interest cost is received as subsidy?

Vijay S. Banka: Yes absolutely up to 12% if I am paying higher then subsidy is reckoned at 12% ROI.

Pritesh Chheda: And for UP you do not expect any production cut right?

Vijay S. Banka: No, UP was 11.8 million tons last season and this year we expect 12 million tons, just about marginal improvement.

Pritesh Chheda: From where does the shrink factor from 33 to 26 which is a 7 million?

Vijay S. Banka: Comes from Maharashtra and Karnataka. I will give you Maharashtra numbers last year it was 10.7 million tonnes and this season estimate is 6.2 million tons which means 4.5 million tonnes reduction.

Pritesh Chheda: Bulk of it is in Maharashtra.

Vijay S. Banka: Yes Karnataka was 4.4 MT and the reduced number is 3 MT, nearly 1.4 million tonnes reduction in Karnataka.

- Pritesh Chheda:** Okay. Thank you very much, Sir.
- Moderator:** Thank you. The next question is from the line of Chaitanya Shah from Aditya Corporation. Please go ahead.
- Chaitanya Shah:** Sir last year, if I am not wrong, we have got around Rs. 36 Crore of subsidy from the government in form of assistance from the central and state government right?
- Vijay S. Banka:** Yes.
- Chaitanya Shah:** What is the quantum we expect this year and when will you be receiving this amount?
- Vijay S. Banka:** Our maximum admissible export quota is 78700 MTs; let us say 80000 metric tons and Rs.10448 per ton is the subsidy. The subsidy will thus be approximately Rs.80 Crore. This time around the government has made the scheme a little flexible in the sense that if we complete 50% of our quota we can go ahead to claim the subsidy for the quantity exported. The conditions earlier were very stringent as submission of BRC was mandatory. Now they have relaxed condition of submission of BRC. BRC submission is now not a precondition for release of subsidy.
- Chaitanya Shah:** So the amount should be around Rs. 80 Crore right?
- Vijay S. Banka:** Yes.
- Chaitanya Shah:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Rajan P, an individual investor. Please go ahead.
- Rajan P:** I just wanted to ask because I was going through the export quota, which is 1.68% of the total quota export obligation, which has been put by government right?

Vijay S. Banka: Yes.

Rajan P: And then we are going to receive 80 Crore if we meet our obligations?

Vijay S. Banka: Correct Sir.

Rajan P: Are we looking to do entire export or you are going to go beyond that?

Vijay S. Banka: We are looking to do entire export Sir.

Rajan P: And we have any addition that we can do more than that?

Vijay S. Banka: Perhaps the government will review this in the month of January 2020. We are required to submit to the government details of export obligations committed from time-to-time and if there are some companies, who have not proceeded ahead with the export. The government can then redistribute the quota to those who are fulfilling the export obligation.

Rajan P: And do you think that the prices in the international market is going to increase because what I see that we had many reports coming up that the production there will be deficit in the current production for the year 2019 and 2020 because Brazil has produced less, Thailand it is going down and then in India the number is definitely going to come below 26 because what I expect that 2 million tonne of those will be at least getting used in B heavy molasses since everyone has expanded and not everyone has the capacity to do it from C heavy molasses. So I expect that the year-end stock for the year 2020 for Indian sugar market should not be more than 5 or 6 million tonnes?

Vijay S. Banka: Yes you are right, but as of now we go by the numbers that are available with us. 26 million tons is estimated sugar production after considering diversion of B heavy molasses for ethanol making. If more diversion happens we will have corresponding reduction in sugar production. The number that is assigned for molasses B heavy molasses being diverted for ethanol making is not a very credible number. International prices are also

going up, as a global deficit of about 8 million tons is projected. The same is on account of diversion of more sugarcane for ethanol in Brazil as well as drag in the production estimates of sugar in India. Presently prevailing international prices for raw sugar is about 12.6 cents per pound. This number is expected to be firmed up in the times to come making export little more viable than what presently it is.

Rajan P: And if I am not wrong, last year we sold this quantity at Rs. 2300 per quintal that we still be able to maintain the margin of Rs. 3200, right?

Vijay S. Banka: No Sir this year the export realization will not equate to 3200 per quintal. Last year when we did exports dollar prices were on the higher side. The dollar has softened since then. At the given dollar price and international sugar price coupled with subsidy from the central government equates to about Rs.29500 to Rs.30000 a metric ton. However there are other collateral benefits that accrue from producing raw sugar. Firstly the recovery goes up and number two there is saving in the interest cost because we will be liquidating this stock faster. So sugar mills will be encouraged to do exports unless they have some other unknown problems.

Rajan P: Second thing Sir I wanted to know that what about the SAP for the year 2020?

Vijay S. Banka: Sir it is not yet announced but we hope and say that good sense will prevail and there will be no increase.

Rajan P: And also what I see that I would like to congratulate on the terms of reducing the working capital borrowing and I see that the long-term borrowing, which is also at the subvention of 5%, is going to help us at least relieve us from the too much of interest going towards the payment. I am expecting similar interest payment this year as we did last year. I expect by the end of September 2020 we should not have more than 10 or 9 lakh quintals of sugar inventory.

Vijay S. Banka: Yes, we also seriously believe so Sir. We think the inventory levels will now come down because as I explained in the conference earlier number one, we expect releases to be much better than what it was in the preceding few months for UP sugar mills because the weightage of the stock that the UP sugar mill will carry in terms of the overall stock in the country will be higher on account of lesser estimated production and delayed start of sugar mills in Maharashtra.. We also would want to complete our export obligation as the fast as possible. We do hope that things should get better from here on.

Rajan P: And I see that company is in better position in September 2020, is there any further capex plan?

Vijay S. Banka: No Sir as of now there are no capex plans. However we will wait and see. Ethanol is one area where one can always go for a vertical growth and just little while ago somebody suggested that we can also get into manufacture of country liquor. This also seems like a good option which one can explore.

Rajan P: Balrampur and Dhampur have already started?

Vijay S. Banka: Absolutely Sir.

Rajan P: And Sir about Bagasse power cogeneration as the margin has been definitely hit because earlier it was 40% at least on the operating profit for power production, but now there is definitely around Rs.1.9 less realization per unit. So how are going to able to compensate with the loss in this profit. Is it going to be covered by ethanol and increase in sugar price?

Vijay S. Banka: This is will get compensated by both ethanol as well as sugar. We have ramped up ethanol capacity and we should get incremental revenue and margins coming from ethanol stream which will help improve our bottom-line. Similarly sugar prices are better than what they were in the last year so we should see some improved margins coming from the sugar segment

also. We are thus hopeful of a better show from the sugar segment as well as the distillery segment. Power segment is of course hit but the next two quarters; there will be full power generation (though not full power in the third quarter). At least in the fourth quarter we expect margins full power generation & evacuation resulting in positive margins but not the kind of 40% margin, which were there earlier.

Rajan P: Sir one more thing I see our fixed asset, which is Rs. 484 Crore, Is this after the loan, which has been taken on the subsidy right?

Vijay S. Banka: Correct Sir.

Rajan P: What do you think if the revaluation of fixed assets is done, what should be our current market value?

Vijay S. Banka: So we have not done any revaluation, as of now we have not got it done so I will not be able to comment on it immediately.

Rajan P: So Sir actually what is the current rate for setting up of 21500 tonne capacity of sugar mill?

Vijay S. Banka: No big capacities have come up recently. We are seeing piecemeal capacity expansion in sugar space. Companies are expanding into ethanol space. Companies expanding of course in cogeneration is now ruled out. There are no benchmarks available to evaluate, but I am sure the number would be very attractive number and multiple times of the book value of the assets.

Rajan P: Yes because this is what I just wanted the people to understand as I see as integrated factory of ours which has all three segments and then commitment towards efficiency, commitment towards the investors, our market value could be more higher and what I estimate is at least it should be about Rs. 1500 to 1600 Crore.

Vijay S. Banka: You are absolutely correct Sir. There are no benchmarks. So for me it would be preposterous for me to make any comment on what the valuation could be.

Rajan P: I would like to say best of luck for the coming quarters and I am very honest investor at Dwarikesh and with the company for the past two three years and thank you for the dividend. Going forward I feel like we should be in the position of sharing dividend every year which will get the reward back to the investor and all.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir just on the integrated sugar mill side now what should be the replacement capex per TCD should be about 4-4.5 lakh?

Vijay S. Banka: Sir there are no latest benchmarks available, which is what I was mentioning. However let me try to guess. If it is a 5000 TCD integrated plant. Sir it should be much more than Rs. 4 lakh per metric ton of integrated, may be more than Rs. 5 lakhs per metric tons

Pritesh Chheda: This will include the distillery also?

Vijay S. Banka: Distillery also, but commensurate with the normal capacity and cogen also.

Pritesh Chheda: Cogen, distillery and sugar cost.

Vijay S. Banka: Yes it should be definitely more than 5 lakhs.

Pritesh Chheda: Thank you very much. And our capacity 38000 right?

Vijay S. Banka: No, our capacity is 21500 TCD Sir.

Pritesh Chheda: Any capacity expansion happening around us?

Vijay S. Banka: No Sir. In the command area of our sugar mill if there is more sugarcane available we can always work for more number of days and produce more sugar and the other products. Unless one goes to acquire sugar units there is no real need to expand capacities in the sugar space.

Pritesh Chheda: And we have also not expanded right?

Vijay S. Banka: No, we have not expanded. We keep doing some improvement year after year, add some balancing equipment so as to enhance efficiencies, automate the plant. We keep doing these small things now and then.

Pritesh Chheda: Thank you Sir.

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

Mitul Das: I have a few questions again. Sir, can you just let me how the inventory position is as of the quarter end date?

Vijay S. Banka: Sir our inventory that we were carrying was 17.15 lakh quintals of sugar vis-à-vis half the quantity that we were carrying on the corresponding date last year, 8.2 lakh quintals.

Mitul Das: Almost double?

Vijay S. Banka: Almost double yes.

Mitul Das: And what is the export obligation for this coming season?

Vijay S. Banka: 78754 MT

Mitul Das: Sir is there a chance for also white sugar exports?

Vijay S. Banka: Yes, some companies are doing. Our export obligation precisely is 78754 metric tons. There are companies who are doing white sugar also. White

sugar demand is for the small grains of sugar. In our case we don't produce small grain sugar. We mostly produce medium grain sugar.

Mitul Das: So it is mostly raw sugar for you?

Vijay S. Banka: Yes for us it will be entirely raw sugar. There are lot of companies and a lot of sugar mills who are also doing the regular white sugar export also.

Mitul Das: So Sir will there be a benefit of exporting more sugar than the assigned quota?

Vijay S. Banka: No, one has to be sure of getting the subsidy otherwise the export realizations are unviable as they are to be adjusted downward by Rs.10,448 per metric ton.

Mitul Das: Because you said that the total export realization at current price?

Vijay S. Banka: For example if the government assesses the situation and decides to allocate the quota of those sugar mills that are not done. If such a move is done and done early we may produce more raw sugar. Frequent switch over from raw sugar to white sugar and from white sugar to raw sugar becomes little difficult.

Mitul Das: So because last year what was the situation like where we like this sugar mills export like the ones which could not export because of various reasons?

Vijay S. Banka: Last year it was not done, last year out of 5 million tonne 3.8 million tonnes eventually got exported so roughly about 76% of the target was completed. This time the enthusiasm is much more. The Government has also realized and therefore has announced that it will assess the situation soon and will decide if there are the quota of the those mills which are not doing any export at all, it will be allocated to the performing sugar mills.

Mitul Das: So it is usually a government directive from season to season right?

- Vijay S. Banka:** Yes absolutely Sir.
- Mitul Das:** Sir another question was on the tax rates recently. Would you tell me what is your effective tax rate and would you be having any benefits from the recent tax cut announcement?
- Vijay S. Banka:** We are still under MAT and as you are aware whatever tax is paid is treated as a MAT credit entitlement so. We have a couple of years before we migrate to the full rate of tax.
- Mitul Das:** So this year the MAT will be the same?
- Vijay S. Banka:** Yes MAT credit will be applicable.
- Mitul Das:** What will be our effective tax?
- Vijay S. Banka:** It will be about 17.5%.
- Mitul Das:** Now Sir just wanted a small math on what is the usually the cost of production of raw sugar like what is the incremental difference between production of white sugar and the raw sugar?
- Vijay S. Banka:** The thumb rule is about Rs.1000 a metric ton coming from two or three factors, Number one - improvement in recovery for example if my recovery for white sugar is 10% raw sugar production recovery can be easily 10.2%. So there is a 0.2% gain in recovery. Saving accrues also on account of chemicals, etc., on the packaging medium also because we do not need to package our raw sugar in sturdy robust PP bags. We can pack them in little lower quality bags, which are obviously available at a lesser price. Saving comes from the usage of chemicals because Sulphur is not to be used for producing raw sugar. Only in case of white sugar we use Sulphur. Lime consumption also goes down substantially. In all we can assume about Rs.1000 per metric ton gain in producing raw sugar.
- Mitul Das:** So that is like Re.1 per kg right?

- Vijay S. Banka:** Yes.
- Mitul Das:** Sir also on the next because the planting has already been done for the 2021 season right?
- Vijay S. Banka:** No not in UP sir, UP will happen later.
- Mitul Das:** What is usually the math when the planting is done for the next season Sir?
- Vijay S. Banka:** It will be commence sometime in the month of March once the Ratoon crop is over after which farmers take another crop before planting sugarcane sometime in March.
- Mitul Das:** So March 2020 the planting happened for the 2021 season right?
- Vijay S. Banka:** Yes, not now. There could be some autumn planting which already may have happened. But that quantity is not very significant.
- Mitul Das:** So it will be hard to say about the next season right?
- Vijay S. Banka:** Yes, typically in Maharashtra almost about one third of the crop is the Adsali crop where the planting for the next season would have already happened.
- Mitul Das:** And what has been the update on the planting in Maharashtra would you be aware of. Is it not a good situation for the next season?
- Vijay S. Banka:** No, it is difficult. We will have some clarity about the current year's production also more clarity as we go into January & thereafter. When we are towards the end of the season we will have more clarity on the production estimates of the next season
- Mitul Das:** Sir I think my final question would be the exports again. Remember there was a directive last year by the government, which mentioned that if you were able to sell the assigned quota of sell export quota assigned to each

individual sugar mills they would be able to sell an additional amount of sugar in the next six months, so was that a one off directive?

Vijay S. Banka: It will continue. For example if we have exported the exported quantity is considered as stock for the purpose of computing the monthly release and that is an additional benefit.

Mitul Das: And Sir Do you expect any revisions to the ethanol prices in the coming season?

Vijay S. Banka: We definitely expect. Particularly there is no incentive as of now available for making ethanol directly from the cane juice. The price of Rs. 59 per liter doesn't seem ok. Cane juice has lesser shelf life and storage of the same can throw up challenges. The price needs to be better and even in case of B heavy ethanol price also needs to be little better than what it is presently.

Mitul Das: What would be the quantum that will probably incentivize the sugar millers to divert more into sugarcane juice and B heavy?

Vijay S. Banka: Sugar mills are doing B heavy ethanol, but if a distillery is to be set up on a standalone basis with only B heavy molasses as the feed stock then there are questions. Similarly for cane juice, we have not seen too much of cane juice ethanol manufacture happening. There are hardly a couple of mills who are doing it. I wouldn't know much about the economics of the ethanol from cane juice.

Mitul Das: And on the MSP side do you expect any improvement?

Vijay S. Banka: There is no increase in case of FRP and it is the same as it was last year. So by deducing the same logic we expect that there should not be any increase in the MSP.

Mitul Das: No I was not talking about FRP sir MSP of sugar?

Vijay S. Banka: No, as of now there is no talk sir.

Mitul Das: Thank you. Best wishes to you for the coming quarters. That is it from my side. Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Vijay S. Banka: Thank you friends, it has been one interesting conversation. I must say I am happy to give answers to your questions, throw some light on the industry's perspective as well as our company's perspective of how things may pan out in future. Thank you very much and I thank one and all for reposing confidence in us and trusting us. Sugar industry is operating in a regulated environment but that is how it is in most of the countries. Most countries have regulated sugar environment for sugar industry. So within the given constraints we expect to perform better, we expect to enhance our efficiencies and do as good as we can. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Dolat Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.