



“Dwarikesh Sugar Industries Limited
Q4 FY2019 Results & Business Outlook Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Dwarikesh Sugar Industries Limited Q4 FY2019 Results and Business Outlook 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 telephone. Please note that this conference is being recorded. I would now like to 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 Janice. Good afternoon everyone. On behalf of Dolat Capital, I welcome all participants to the Q4 FY2019 earnings conference call of Dwarikesh Sugar Industries. I would like to thank the management of Dwarikesh Sugar for giving us the opportunity to host the call. We have with us Mr. Vijay S. Banka, Managing Director of Dwarikesh Sugar Industries. Without further ado, I hand over the floor to Mr. Banka for his opening remarks post which we will have floor open for the Q&A round. Over to you Sir!

Vijay S. Banka: Thank you very much. Very good afternoon to you all. I welcome you to this fourth quarter and full year FY 2019 earnings conference call. We have announced our results. During the quarter, we have reported a total income of Rs.214.09 Crore and a profit after tax of Rs.32.35 Crore as compared to total income of Rs.355 Crore and a loss of Rs.9.21 Crore during the corresponding quarter last year. For the full year we have reported a total income of Rs.1,120 Crore and a profit after tax of Rs.95 Crore and this is as compared to total income of Rs.1,476 Crore and profit after tax of Rs.101 Crore during FY2018. This year has been a year of mixed bag. The government supported us throughout the year. The fundamentals of the industry as you all are aware have been rather difficult, but it is because of the government’s support that we have had a decent run. The various initiatives, which were undertaken by the government such as setting up of a minimum selling price, announcing and disbursing various subsidies etc. have helped. In this season again we have been clocking good recoveries, running our operations very efficiently. We are managing our finances also very well. We thus have decent set of results in front of us. I now invite you to ask me questions that you may have.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of S.N. Rajan, Individual Investor. Please go ahead.

S.N. Rajan: Good afternoon. Congratulations on good results under challenging circumstances. I just wanted you to throw some light on your valuation of your yearend inventory?

Vijay S. Banka: Good afternoon Sir. Thank you very much for complimenting us for the decent results during these challenging times. Yes, as on March 31, 2019 we have had inventory of nearly 28.02 lakh quintals of sugars out of which white sugar inventory was 24.36 lakh quintals which was valued at Rs.2892 per quintal.

S.N. Rajan: Thanks.

- Moderator:** Thank you. Next question is from the line of Chaitanya Shah from Aditya Birla. Please go ahead.
- Chaitanya Shah:** Good afternoon Sir. I missed the sugar inventory retails and valuations could you please repeat it Sir?
- Vijay S. Banka:** We carried sugar inventory of 28.02 lakh quintals as on March 31, 2019 and this is as against the inventory of 19.11 lakh quintals that we carried on the corresponding date last year. From the inventory of 28.02 lakh that we were carrying an inventory of 24.36 lakhs was of white sugar which has been valued at Rs.2892 per quintal, the rest was raw sugar.
- Chaitanya Shah:** Okay, alright, thank you and could you give me details about how much since your distillery expansion would come live I think in the later part of next year I am assuming, could you give me details of how much ethanol would you produce next year and what part of it, if any would be from B molasses?
- Vijay S. Banka:** Yes sure. Our project for expansion of distillery is on schedule. We expect to commence production at higher capacity, at the expanded capacity, during the month of November 2019. On a full year basis, we should be able to produce and supply about 4 Crore liters of ethanol. As of now we are able to produce and supply about 90 lakh liters of ethanol, which means an incremental 3 Crore liters of ethanol once our full capacity becomes operational on full year basis. In FY2019-2020, our expanded capacity will be available for about four months. We thus expect that in FY2019-2020 we should be able to produce and sell about 1.5 Crore litres of ethanol. On a full year basis, for 80% of our production of ethanol we will be able to use our conventional C heavy molasses and make up for the rest 20% by using B heavy molasses or choose to buy molasses from outside.
- Chaitanya Shah:** Alright and in FY2021 do you see the percentage of ethanol from B molasses going up, have you had any chance?
- Vijay S. Banka:** On a full season basis with the quantity of molasses that we generate, C heavy molasses should be able to support about 80% of the ethanol capacity, for the 20% capacity we will have to use B heavy molasses.
- Chaitanya Shah:** That is it from my side. Thank you.
- Moderator:** Thank you. We take the question from the line of Prashant Bhaskar, Individual Investor. Please go ahead.
- Prashant Bhaskar:** Good afternoon Sir. I just wanted to know that the margins are better on the B heavy molasses as compared to C heavy, so why are we doing it from C heavy?
- Vijay S. Banka:** No Sir, margins are better from C heavy molasses and not from B heavy molasses. Whatever C heavy molasses is available will be first utilized and the shortfall will be made good from B heavy molasses. At the current prices of molasses, the margins for use of C heavy molasses are

very impressive, but even assuming that the molasses prices go up to Rs.400 a quintal the margin can still be at about 50% or so. Whereas the way to look at economics of B heavy molasses is at what price it equates with the price of sugar. At the given price of B heavy molasses, which is around Rs.52 a liter, it equals to about Rs.3000 per quintal of sugar that we sell.

Prashant Bhaskar: C heavy will give more margins?

Vijay S. Banka: Obviously.

Prashant Bhaskar: What is your expectation for this year, what is the carryover stock for this year and last year it was around 14 lakhs, so what would be this year carryover stocks after taking in the production numbers for all India?

Vijay S. Banka: We expect 14.7 million tonnes to be the closing inventory as on September 30, 2019. It is estimated that for the coming season 2019-2020, on account of the drought in Maharashtra and Karnataka the production number can be less than 30 million tonnes or may be 29 million tonnes or so. From this number one will have to also deduct the sugar sacrifice that may happen in favor of ethanol which could be about 2 to 3 million tonnes. As we are sitting on a very heavy stockpile of 14.7 million tonnes and assuming a production of 27 million tonnes (after considering diversion or sacrifice of sugar in favour of ethanol) we will have about 42 million tonnes of sugar availability and from that if we deduct consumption, which is about 27 million tonne, we will still have a lot of inventory. Which is why, we look forward to another dose of MIEQ export of about 5 or 6 million tonnes. If it happens, I think the stock position will get comfortable

Prashant Bhaskar: Okay and what is your prediction on the sugar prices going forward for the next two, three quarters?

Vijay S. Banka: We are under the regulated monthly release mechanism under which government has setup a minimum selling price of Rs.3100 a quintal. Presently, these are summer months. Hence the prices that are prevailing are close to Rs.3300 per quintal, but once the summer months pass off then the prices could come down, but in any case the price will not, as we are not expected to sell sugar below Rs.3100 a quintal.

Prashant Bhaskar: Okay and also wanted to know that your cost of sugar for last year you said is around Rs.2800 something or Rs.2900, so why have we booked loss this quarter for fourth quarter?

Vijay S. Banka: In the quarter under review sale of sugar was very less. In the sugar segment we have reported loss because we have sold only about 3.83 lakh quintals of white sugar as against 9.45 lakh quintals that we sold in the corresponding quarter last year. We have also sold raw sugar of 1.34 lakh quintals sugar. So the volumes have been less. The average realization on sale of white sugar has been nearly Rs.3101 per quintal.

Prashant Bhaskar: Okay, so for this first quarter this financial year the realizations are around Rs.3200 to Rs.3300?

- Vijay S. Banka:** April average realization was still around Rs.3100, but May realization has been in excess of Rs.3200 per quintal
- Prashant Bhaskar:** Okay and are you selling more sugar or again the same sugar what you have sold in last year?
- Vijay S. Banka:** Our sales volume will be higher because the raw sugar stock that was lying at the ports has been shipped out and we have also received all export payments. The same is about 3.36 lakh quintals of sugars. Additionally, our April sales have had some carry forward quota of our monthly quota of March, which we were allowed to sell in the month of April. Considering the same we will have more quantity of sugar sold during the first quarter
- Prashant Bhaskar:** Okay and one last question what do you think on the MSP, will the MSP again be raised from the government side?
- Vijay S. Banka:** We have been requesting the government to increase the MSP, but so far there are no positive indications that it will be raised.
- Prashant Bhaskar:** Okay. Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Kunal Khudania from Mirae Asset. Please go ahead.
- Kunal Khudania:** Sir just wanted to understand like on a YOY basis the revenue from the sugar segment has declined from around Rs.354 Crore to Rs.210 Crore and on the same hand the losses have narrowed down from around Rs.73 Crore to Rs.7 Crore and in the presentation on slide 14 it is showing that the average sugar realization has come down from around Rs.3076 to Rs.2865?
- Vijay S. Banka:** Correct.
- Kunal Khudania:** So I just wanted to understand like on one hand revenue is declining and the average realization is also declining then how come the EBITDA margins are improving?
- Vijay S. Banka:** Exactly, last year if you recall in Q4 there was an inventory write down of Rs.91 Crore and we have had no such write down this quarter. The inventory write down of Rs.91 Crore was because of the falling sugar prices. There has been no such recurrence this quarter, which is why the margins are better.
- Kunal Khudania:** Got it Sir. Thank you so much Sir.
- Moderator:** Thank you. We take the next question from the line of Pritesh Chheda from Lucky Investment. Please go ahead.
- Pritesh Chheda:** What is the cost of production for you for sugar season 2019 and second what is the closing inventory for sugar?

- Vijay S. Banka:** As I have mentioned our closing inventory of sugar is about 28.02 lakh quintals as on March 31, 2019, which is as compared to inventory of 19.11 lakh quintals, which we were carrying on the same date corresponding quarter last year. The inventory has been higher because we are now not allowed to sell sugar the way we want. We are under regulated release monthly mechanism, so we get an order from the government indicating the quantity that we can sell and we can sell nothing more than that. It is good in the sense that it has allowed the sugar prices to remain firm and it has not fallen. There has been no free fall in the sugar prices, which was experienced last year. This is the reason we are carrying larger inventory and could you come back again on your first question?
- Pritesh Chheda:** The cost of production and the carrying value of this inventory.
- Vijay S. Banka:** Yes, the cost of production is around Rs.2900 a quintal for sugar. The closing inventory of white sugar is valued at Rs.2892 per quintal
- Pritesh Chheda:** On the ethanol side, when I am just looking at your presentation there is a distillery revenue for full year, does it capture any amount of ethanol and incrementally what ethanol volume number did you sell for FY2020 because I heard two numbers, I heard 90 lakhs liters and then I heard 1.5 Crore liters?
- Vijay S. Banka:** I will tell you what our numbers could be. In FY2019, we sold approximately 90 lakh liters of ethanol. Once our plant's expanded capacity becomes operational, on a full year basis we will be able to sell 4 Crore liters of ethanol. Since our plant's expanded capacity is going to be operational only from November we will not be able to reap the full benefits of the expanded capacity in FY2019-2020 as the benefit of expanded capacity will be available during only four months. Given the present capacity and availability of expanded capacity during 4 months we will be during FY2019-2020 be able to sell 1.50 Crore liters of ethanol.
- Pritesh Chheda:** The realization here will be about 42, right?
- Vijay S. Banka:** Yes.
- Pritesh Chheda:** The distillery are we utilizing fully, so this 4 Crore liter that we sold in FY2019 that is a full utilization of distillery?
- Vijay S. Banka:** No, we did not sell 4 Crore liters during FY2019, we sold only 90 lakh liters, at the given 30 KLPD capacity.
- Pritesh Chheda:** No, I am referring to total industrial alcohol including ethanol!
- Vijay S. Banka:** Our capacity presently is only 30 KLPD. We are adding 100 KLPD plant, so once the additional capacity becomes operational we will be able to, as against 90 lakhs liters presently being sold be able to produce and sell 4 Crore liters of ethanol.

- Pritesh Chheda:** Okay, so I have misread that Rs.40 is actually the realization that is what, okay, so that is the only distillery we have 90 lakh liter going to 4 Crore and so on full utilization how much of the sugarcane or sugar production will be shifted to ethanol from your side?
- Vijay S. Banka:** No, a little while ago I mentioned 80% of our production of ethanol we will be able to manufacture out of the conventional C heavy molasses that we will generate in normal course. For the balance 20% production of ethanol we will have to use B heavy molasses. The economics is as follows: As much as B heavy molasses one generates, one sacrifices on sugar production. For example the recovery can go down by about 1.5% if one takes a cut at B heavy molasses. Not only recovery of ethanol from B heavy molasses is higher but B heavy molasses quantity available is also higher.
- Pritesh Chheda:** At the net level, have you produced sugar or you produced ethanol using the B heavy molasses because that is the incremental thing?
- Vijay Banka:** Yes, correct, it will depend upon how much we produce and how much of B heavy molasses we use. If we fully utilize our distillery capacity by using B heavy molasses from one plant sugar production from that particular plant can come down by about 5% or so.
- Pritesh Chheda:** The revenue realization on conversion will be still the same right because ethanol in any case expect at 32 for the sugar, so you are cutting down on sugar right?
- Vijay Banka:** Yes.
- Pritesh Chheda:** Your revenue realization will be same whether you sell 1 tonne of sugar or whatever or 5% whatever equal in ethanol?
- Vijay Banka:** Absolutely.
- Pritesh Chheda:** Thank you.
- Moderator:** Thank you. Next question is from the line of Chaitanya Shah from Aditya Birla. Please go ahead.
- Chaitanya Shah:** Sir, again a question on ethanol, when you say that you go and produce 80% of ethanol from C heavy molasses, would it be fair to assume that we expect the price of sugar to remain close to 33-33.5 because I think then it makes more sense to use C heavy molasses certainly on economics?
- Vijay Banka:** No, we will have to take a holistic view. The reason why the prices are over and above 31 is only on account of government intervention; otherwise we are sitting on a very huge stock pile. So the way forward for the sugar industry is that more and more sacrifice happens in favor of ethanol which is sugar production is sacrificed as much as is possible in favor of ethanol. With that some kind of balance will be established and sugar is sold at a decent price with or without government interventions. For ethanol there is in any case assured off-take.

- Chaitanya Shah:** Back on this question because I just want to understand this clearly, is not it better for the company if you sacrifice the sugar production and substitute it with ethanol because anywhere you are in a quota regime right now and the sugar sales are regulated by the government and will be better if we just have more ethanol production in that case?
- Vijay Banka:** The margins are definitely better when you make ethanol out of C heavy molasses at the given current prices of molasses. However we will have to take a larger picture into account. All good progressive companies are setting up huge ethanol capacity. The idea is to use as much of C heavy molasses as is possible captively and plus use B heavy molasses if required. This will lead to a situation where the sugar production in the country will be sacrificed in favor of ethanol. The idea is to bring down the sugar production which is the long-term solution of the industry's problem. Government also envisages that sugar production from sugarcane comes down and ethanol production goes up. In the long run even without government intervention sugar prices can remain at reasonable levels and the sugar companies are able to pay the cane price on time.
- Chaitanya Shah:** Alright, I just start with question because I was on the call of Balrampur Chini. They have said that they are going to have 80% of the ethanol from B heavy molasses so just wanted to understand why?
- Vijay Banka:** No, they have created more ethanol capacity. Our ethanol capacity is such that 80% of our ethanol capacity can be met from our conventional C heavy molasses. We are adding 100 KLPD plant. If we add another plant then obviously we will use more of B heavy molasses and we will end up sacrificing more sugar production by using more B heavy molasses in favor of ethanol. Therefore it is a plant configuration and plant capacity that matters. If we go for larger capacity for making ethanol then obviously we will be using more and more of B heavy molasses.
- Chaitanya Shah:** Alright, I think that was clear. Thank you so much.
- Vijay Banka:** Basically the differentiator here is the capacity of the ethanol distillation capacity that each company has / would have.
- Chaitanya Shah:** So, what you are saying is with ethanol you can have higher contribution?
- Vijay Banka:** Yes, it is not that if Balrampur makes 80% of its ethanol from B heavy molasses it can be the same for us or for other sugar companies. It will all depend upon the distillation capacity that each company will set up.
- Balrampur:** Alright. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ritika Agarwal from Quest Investment. Please go ahead.
- Ritika Agarwal:** Sir, my first question was on the CBG the government is talking about setting up 5000 plants in the next five years on CBG, is the company also evaluating the CBG opportunity?

- Vijay Banka:** No, we are not examining any such opportunity as of now. CBG, how do you elaborate that?
- Ritika Agarwal:** Compressed biogas, which the government is talking about for sugar mills?
- Vijay Banka:** No, at the moment we are not examining, but yes, in due course of time if and when we feel there is an opportunity we will definitely look at it.
- Ritika Agarwal:** My next question is for how many days our distillery operates?
- Vijay Banka:** The new plant that we are going to set up is based on incineration technology, which means the effluent will be burnt in the boiler. So these plants can be run for all 365 days, but one has to close the plant for basic maintenance, etc. The solidified effluent that we will burn in the boilers is corrosive. So boilers need to be stopped for maintenance, etc. The plant also needs maintenance. We can run the plant typically for 310 days or more.
- Ritika Agarwal:** And our previous plants run without the incineration further?
- Vijay Banka:** That can be run for about 270 days or so, because for three months of monsoon it needs to be closed as during that period the bio-composting plant cannot be working.
- Ritika Agarwal:** Now, all our plants attach with the incineration work?
- Vijay Banka:** Yes, we will follow the incineration route.
- Ritika Agarwal:** And what is the cost of setting up this incineration set?
- Vijay Banka:** The 100 KLPD plant, which we are adding it will cost us about 145 to 146 Crore, less than 150 Crore.
- Ritika Agarwal:** Is this ZLD?
- Vijay Banka:** Absolutely, ZLD it is based on the concept of recycling the entire water and using it in the process and minimum discharge of water.
- Ritika Agarwal:** This actually ordered along with the distillery or we order it separately with new company?
- Vijay Banka:** This is ordered along with the distillery because it is an integral part of the plant; we call it waste water treatment plant. It cannot be distinct or separate from the distillery plant. It has to be ordered with the distillery plant because the effluent that the distillery will be generating will be humongous and all that needs to be treated. Most of it will be burnt in the boilers. However in evaporating the effluent the condensate needs to be captured and then it needs to be recycled for use in the distillery. Or at least bring down the BOD or COD level to below the benchmark levels so treated water can be discharged.

- Ritika Agarwal:** Sir, last question, currently by the end of the year we will be at 7.57% of blending and moving from over to 10% of each plant, what kind of capex do we see and will everything come from additional capex?
- Vijay Banka:** Yes, it has to, as many a distillery plants are under execution. I am sure we should see 10% blending happening in a year or two.
- Ritika Agarwal:** And out of these 114 applications that the government had passed, in your sense, how many plants would have been setup from those or how do you see it going forward?
- Vijay Banka:** I would not know much about how much capacities are getting added in Maharashtra, but in UP at least, we see lot of capacity coming up.
- Ritika Agarwal:** That is it from my side. Thank you so much.
- Moderator:** Thank you. Next question is from the line of Sanjay from ICICI Direct. Please go ahead.
- Sanjay:** Sir, just few questions, specifically on the realization for the quarter. It has been Rs. 2865 per quintal; does that include export realization also?
- Vijay Banka:** White sugar realization is Rs. 3101 per quintal and we have sold about 1.34 lakh quintals of raw sugar, so the average sugar price is what Rs. 2800 plus which you mentioned.
- Sanjay:** Sir, what is the reimbursement we will be getting from the government and where will it be accounted for?
- Vijay Banka:** Reimbursement will be of about Rs.8311 per metric tonne of sugar that we will export. We have, on matching concept basis accounted for the same by way of reduction in the value of sugarcane consumed.
- Sanjay:** But we have not realized it yet?
- Vijay Banka:** No, we have not realized it, but we will realize it. We have completed all our exports and we are in the process of filing our claims with the department.
- Sanjay:** One thing on the power side because now there is a possibility that there could be a reduction in the power tariffs, so you have any update on the basis whatever consultation you had with the government?
- Vijay Banka:** We have made representations and our association has also met the chief secretary and other important officers of the state. So the matter is under their active consideration. They also realize that the envisaged reduction will spell doom to the industry. So I am sure better sense will prevail. While there could be some reduction, but certainly not the kind of reduction that is talked about. The basic premise or the hypothesis on which the reduction is envisaged is full of flaws and erroneous

- Sanjay:** Sir, from FY2020 perspective what the kind of free sale sugar we are getting in the monthly mechanism, which is prevailing at this point of time you have some sense what kind of quantities would you be able to sell for the year?
- Vijay Banka:** Well, we have been getting monthly sale quotas of about 2.25 lakh quintals or so every month. Additionally whatever exports we do that will be extra. What export we have done will also find weight-age in our monthly sales quota. We expect that the government announces one more MIEQ quota for the season 2019-2020 because there still is the overhang of stock.
- Sanjay:** So, safe to assume it could be somewhere around 3 to 3.2 lakh tonne?
- Vijay Banka:** For our company?
- Sanjay:** Yes.
- Vijay Banka:** Yes, easily.
- Sanjay:** Sir, because I just heard a lot of companies on the call, what most of the companies have mentioned that the sugar price is currently prevailing at somewhere around 33 plus.
- Vijay Banka:** Correct.
- Sanjay:** But, you mentioned 32 around?
- Vijay Banka:** Well, I spoke about the average price that we realized in the month of May. To begin with, in the month of May, the price was lower, and it has gotten better progressively. Presently, sugar is sold in excess of Rs.3300 per quintal.
- Sanjay:** And you think that this will continue for some more months?
- Vijay Banka:** At least till June it will continue, as these are very hot months. The sugar consumption is obviously higher in these months.
- Sanjay:** Right Sir, one question on the recovery side, what kind of recoveries you have seen and have you got the better quality sugarcane with almost 100% of that you are crushing?
- Vijay Banka:** No, are talking about our recovery or you are talking about the yield of the farmers?
- Sanjay:** No, I am talking about the recovery rates.
- Vijay Banka:** Our recovery rates have been pretty good this season, our group's average for the season is 12.31% as against previous season's group average of 11.88%. So we have about 43 basis points increase in the recovery during SS 2018-19. However, since we already have very high recoveries I am not too sure how much improvement in recovery that can we get in the coming crushing season.

- Sanjay:** Sir that is what I was just trying to ask, if your early variety sugarcane is 100%, you are doing so then probably the recovery rates probably will go down from here?
- Vijay Banka:** No, the recovery rates will not go down, but let me tell you when I am talking about 12.31%, in one plant we have had a recovery of 12.44% and in the other two plants we have had a recovery of 12.24%. We can still expect improvement in the recovery in the other two plants. May be in the first plant the recovery may have plateaued, but in the other two plants I expect improvement in the recovery. We can thus have some further improvement in the recovery in the coming crushing season for the company as a whole, but not very substantial certainly.
- Sanjay:** Right, from the cogeneration perspective so somewhere around 18 Crore to 19 Crore units is it safe to assume that for FY2020 this number will remain same?
- Vijay Banka:** Yes, that number will remain.
- Sanjay:** Perfect Sir. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.
- Tushar Sarda:** Thank you for the opportunity. What is your debt level?
- Vijay Banka:** We have during the year availed one long-term debt of Rs. 134.48 Crore, which was given to us by the state government to liquidate the cane price arrears of season 2017-2018. This loan comes to us at a cost of 5% ROI per annum. Additionally we have been sanctioned a term loan of Rs. 116.88 Crore for the distillery project. As on March 31, 2019, out of Rs. 116.88 Crore we had availed about 19 Crore of debt. Here again this debt is also partly subsidized because the part of the loan of Rs. 73 Crore, which is the cost that has been approved by the food ministry will carry interest subvention of 50% of the rate of interest that we would pay
- Tushar Sarda:** That could be for how long, the subvention?
- Vijay Banka:** That will be for five years on diminishing balance.
- Tushar Sarda:** What is your capex for the distillery?
- Vijay Banka:** It will be about Rs. 145 Crore.
- Tushar Sarda:** For 100000 liters per day?
- Vijay Banka:** Yes, so as on date whatever long-term debt we have on our books is also in a sense subsidized debt.
- Tushar Sarda:** And you plan to add any more distilleries?

- Vijay Banka:** No, as of now we would want to run our 100 KLPD plant on full capacity and thereafter depending upon what the situation is we will envisage further capex.
- Tushar Sarda:** One last question on FY2021 when your new distillery runs on full capacity what is the kind of EBITDA one can expect given the current cost and the pricing structure?
- Vijay Banka:** That is a difficult question to answer Sir, we will have to wait and see.
- Tushar Sarda:** I am saying given the current cost and pricing.
- Vijay Banka:** I will talk about the distillery. For example, we will sell about 4 Crore liters of ethanol. Assuming realization of Rs.40 per liter we will have about 160 Crore of revenue coming from the distillery segment as against 36 Crore, which we are presently generating. Since the margins are decent you will see some incremental EBITDA coming. To sum up we expect incremental EBITDA coming from distillery. Power EBITDA will remain the same or may go down marginally because the government is considering some downward tariff revision. However that may or may not happen because I am sure that considering the larger picture of the government should not bring down the tariff. From the sugar segment in the worst case scenario there will be no profit no loss situation and in a good scenario may be there can be some margins coming from the sugar segment as well
- Tushar Sarda:** And your debt will become higher, you will draw the whole debt right of the distillery?
- Vijay Banka:** Yes, we will draw the whole debt. Now we do not envisage prepaying any of our long-term debt because all of it is subsidized and they are at a rate, which is lower than the rate that we are paying for our working capital debt.
- Tushar Sarda:** Sir, this year you have reported 165 Crore EBITDA, so one can assume around 225 Crore is what you can reach in FY2021?
- Vijay Banka:** May be yes, Sir.
- Tushar Sarda:** Thank you, Sir.
- Moderator:** Thank you. Next question is from the line of Govind Saboo from India Nivesh. Please go ahead.
- Govind Saboo:** Sir, I just wanted an outlook on your inventory reduction because inventory has piled quite a lot during FY2019?
- Vijay Banka:** Correct, Sir.
- Govind Saboo:** So, what is your outlook and how do you foresee this inventory whether it will flush out of the system or it will build on?

- Vijay Banka:** Our way of looking at it is as follows: We can certainly expect that the government will announce another MIEQ quota for season 2019-2020. If the same is announced we will definitely participate in the exports. Our experience of exporting raw sugar has been pretty good and we will participate in the raw sugar exports so that it will help us bringing the inventory down. Further in the days to come when our ethanol capacity will be fully operational we will be sacrificing some sugar production in favor of ethanol, but as of now yes, since we are under regulated release mechanism we can sell only as much as is ordered by the government and we cannot sell more than the ordered quantity
- Govind Saboo:** But are we able to recover our cost by exporting sugar from the subsidy or do we have some shortfall?
- Vijay Banka:** We are able to recover. We have sold our raw sugar at a price or at an average realization of about Rs. 2250 to 2300 per quintal and add to that the subsidy that we will get. Considering both, our realization would be in the excess of Rs. 3100 per quintal from export. Plus on an account of raw sugar production, the recoveries were a little better. So if you take all factors into consideration the realization from export is as good as Rs.3200 a quintal.
- Govind Saboo:** That is very good, actually better than the industry?
- Vijay Banka:** That is true.
- Govind Saboo:** Great Sir. Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Deepak Kapoor from Bench Mark Capital. Please go ahead.
- Deepak Kapoor:** An idea on how much cane you have crushed this season?
- Vijay Banka:** We crushed about 307 lakh quintals of cane and produced about 37.77 lakhs quintals of sugar. I am talking about the season 2018-19
- Deepak Kapoor:** So, all the crushing for the season is over?
- Vijay Banka:** Yes, it is. In one plant we closed crushing operations on April 16, 2019, in the second on the May 5, 2019 and the third plant closed crushing on May 6, 2019.
- Deepak Kapoor:** This expanded capacity of ethanol that you have to focus?
- Vijay Banka:** Yes.
- Deepak Kapoor:** That is a potential capacity and what you are saying is from your current B molasses capacities we can meet about 80% of 4 Crore, correct?
- Vijay Banka:** Correct.

- Deepak Kapoor:** What is your molasses? Is there any trade in molasses in the external market right now or what is the molasses price being booked in the books?
- Vijay Banka:** Presently we are able to use than one-third of our molasses generated. Price of molasses has gotten progressively better. We started the season with virtual zero price of molasses, but presently we are able to sell molasses at more than Rs.300 a quintal.
- Deepak Kapoor:** Other than you when a lot of other companies have been expanding capacities and will be ready in next?
- Vijay Banka:** In the days to come molasses availability will become very scarce.
- Deepak Kapoor:** Probably mills that are not expanding in ethanol and selling molasses will benefit more?
- Vijay Banka:** But, imagine if no one were to expand then what would have happen. We have to look at the holistic picture. We have to see, where our country's sugar production is heading and we need to address that. The future of the industry lies in sacrifice of as much sugar production as is possible in favor of ethanol so that sugar prices are at reasonable level. Once this issue of overhang of stock is addressed then I think the industry will be on a trajectory where it will not need much of support from the government. As of now we are totally dependent on government support. The government is also thinking about addressing the long-term problems of the industry by following aggressive ethanol blending program. Short-term solution is export. The coming season 2019-2020 is estimated to be a deficit year globally. Therefore exporting sugar would be lot more easy than what it was in the previous season
- Deepak Kapoor:** This global deficit largely from Brazil only?
- Vijay Banka:** Yes, in Brazil we are seeing a lot of diversion in favor of ethanol and lot of sacrifice of sugar production. As far as the European Union is concerned various trade houses are talking of different production numbers. Some estimate that the Global deficit could be as high as 4 million tonnes; some say it would be 2 million tonnes. We will have to wait and see.
- Deepak Kapoor:** Sir, global inventories are still higher?
- Vijay Banka:** Global inventories are higher.
- Deepak Kapoor:** 4 to 5 even 10 million deficit also does not make any difference in the price?
- Vijay Banka:** There are countries that are known to store sugar so that in a year when there is a deficit they can utilize the sugar and not be impacted by the hike in the global sugar prices.
- Deepak Kapoor:** So, global prices are still weak?
- Vijay Banka:** Yes, less than 12 cents per pound.

- Deepak Kapoor:** In spite of the broad view of the trade that there will be a global deficit?
- Vijay Banka:** It is, as you rightly said that we got to do something with the overhang of stocks.
- Deepak Kapoor:** Sir, do you have any view on all these news reports, which are coming out of Maharashtra and expected drought and that there in a lot less in planting?
- Vijay Banka:** Yes, as against 33 million tonnes that we produced this year, next year production estimate is less than 30 million tonnes and how much less one cannot pinpoint at this point in time. It will be definitely lesser and then again one has to also see how much sacrifice of sugar happens in favor of ethanol.
- Deepak Kapoor:** From cane arrears perspective in UP, things look normal?
- Vijay Banka:** They are high.
- Deepak Kapoor:** Alright, thank you.
- Moderator:** Thank you. We take the next question from the line of Nitul Das an Individual Investor. Please go ahead. As there is no response from the current participant, we take the next question from the line of S.N. Rajan an Individual Investor. Please go ahead.
- S.N. Rajan:** Two questions, one is what is your other current assets of 58 Crore, what would they comprise of and number two, how easy is it for you to raise money at the whole rates that used to on your CP borrowing?
- Vijay Banka:** There is no CP borrowing now. We have not been able to raise any money because the price CP has hardened so we have not been able to raise any money in CP market. However our regular working capital rates are pretty competitive. Our bank charges us about 8.75%, which is a decent
- S.N. Rajan:** You have normal working capital without any subvention?
- Vijay Banka:** Yes, no subvention, it is 8.75%. Even if we were to raise money on CP there would not be substantial interest arbitrage.
- S.N. Rajan:** Your costliest borrowing today would be 8.75%?
- Vijay Banka:** My costliest working capital borrowing is at 8.75%.
- S.N. Rajan:** That is brilliant, thanks and other current assets I will get back in offline.
- Moderator:** Thank you. We take the next question from the line of Sanjay M, an Individual Investor. Please go ahead.

- Sanjay M:** Just one follow-up question on the B heavy side, so as on recovery can be somewhere around 12.3 for the next season if we are assuming, but considering the 20% quantities we will be doing B heavy what would be the recovery rates over there?
- Vijay Banka:** Well, we have not worked it out yet, but for as much as quantity of B heavy molasses that we generate the recovery will be 1.50% lesser. For example if from one plant we are generating only B heavy molasses and not carrying on the process still we generate C heavy molasses, our recovery for example if it is 12.5% it will come down by 1.5% meaning about 11%.
- Sanjay M:** Even if the proportion remains 80:20, which we have mentioned?
- Vijay Banka:** Yes, in terms of quantity it will not be very substantial. I do not think we will see a big drop in our recovery and as such our collective recovery will only be marginally less.
- Sanjay M:** Thank you.
- Moderator:** Thank you. Next question is from the line of Nitul Das an Individual Investor. Please go ahead. Ladies and gentlemen, that seems to be the last question for today, I would now like to hand the conference back to Mr. Vijay Banka for closing comments. Over to you Sir!
- Vijay Banka:** Thank you very much. I would like to extend my warm greetings to all the participants, to the investor's fraternity as they have been extremely helpful and very cooperative. They have reposed trust and confidence in us. Your continued support gives us all the encouragement to perform better and better. We will try to raise the bar, we will try to improvise our performance, and we will try and post as good results as is possible. We are of course governed by a lot of regulatory frameworks, but within those frameworks we will try to optimize our operations and churn out as good performance as is possible. Thank you very much.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Dolat Capital we conclude today's conference. Thank you for joining. You may disconnect your lines now.