



“Dwarikesh Sugar Industries Limited Q2 FY 2017 Earnings Conference Call”

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MANAGEMENT: **MR. VIJAY S. BANKA – DIRECTOR AND CHIEF FINANCIAL OFFICER, DWARIKESH SUGAR INDUSTRIES LIMITED**

MODERATOR: **MR. MANISH PODDAR – RESEARCH ANALYST, RELIGARE CAPITAL MARKETS LTD.**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Dwarikesh Sugar Industries Limited Q2 FY 2017 Earnings Conference Call hosted by Religare Capital Markets Limited. This conference call may contain forward-looking statement about the Company which are based on the belief, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involved risks and uncertainties that are difficult to predict. As a remainder, 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. Manish Poddar from Religare Capital Markets. Thank you and over to you, sir!

Manish Poddar: Hi, everyone welcome to the Q2 FY 2017 Dwarikesh Sugar Industries Earnings Call hosted by Religare Capital Markets. From the management, we have with us Mr. Vijay Banka – Director and CFO. Thank you and over to you, Sir!

Vijay S. Banka: Good afternoon everyone. I welcome you all to the earnings call for Q2 FY 2017 Financial Results of our company. I hope all of you have received the Investor Presentation and Press Release and would had a chance to go through it.

I shall start by giving an industry update. Sugar prices continue to remain firm on back of lower production expected in sugar season 2016-2017 mainly in Maharashtra and Karnataka. The global supply demand misbalance is supporting sugar prices internationally. As per ISMA the crushing season is expected to see sugar production decline in India by more than 7% which is expected to keep the sugar price stable.

Last year as per ISMA we produced about 25.01 million tonnes of sugar. This year ISMA’s estimate is that we should produce about 23.37 million tonnes. These are early estimates so likely to undergo change as we go forward. The crushing season is expected to begin shortly and we in U.P. are keenly watching the SAP sugar price announcement for the season 2016-2017. Post Diwali anytime we expect the announcement to come. Last year’s increase recovery was on backdrop of supportive weather condition which will again be monitored at this level. However, we are hopeful of higher crushing quantity than last year. Last year we crushed about 210 lakh quintals, this year we expect to crush more as per the available indication we should crush about 225 lakh quintals of sugarcane.

On ethanol, just a week back we see CCEA, chaired by the PM has approve the mechanism for revision of ethanol price for supplier to sugar to oil marketing companies to carry out the Ethanol Blending Program. For sugar 2016-2017 during ethanol supply period from 1st December 2016 to 30th November 2017 the administered price for Ethanol Blending Program will be Rs. 39 a liter which is at least about Rs. 2 less than what it was in the previous season.

But anyways the government is promoting the Ethanol Blending Program in a way big way and we hope this encouragement to continue in the future as well.

I shall now discuss the individual performance of each of our segments.

During the half year, fiscal 2017 we sold about 14.51 lakh quintal of sugar. In the first quarter, we had sold about 7.92 lakh quintals and in this quarter, we have sold about 6.59 lakh quintals of sugar. So, half yearly the performance in terms of quantity the sugar sold is up by 9%. We have achieved a realization for the half year ended on 30th September of about Rs. 3,455 a quintal and during the quarter of course the realization was higher at Rs. 3,546. Since the first quarter realization was Rs. 3,380 a quintal so, the average works out to Rs. 3,455 a quintal. During the half year period, we have achieved a turnover of Rs. 516 crores and EBITDA margin has been around 20%.

On 30th September, we are carrying an inventory of 4.43 lakh quintals of sugar. We have continued our disciplined sales approach in sugar and keeping with this strategy we have also in the month of October so far already sold more than 1.5 lakh quintals of sugar and the price realization has been slightly in excess of Rs. 3,600 a quintal. So, the price seems sustainable in the times to come. We have as on date absolutely zero cane arrears, we in fact clear it long ago and we were among the first ones to clear our sugarcane dues.

Cogeneration our half yearly performance there was a revenue of Rs. 4.88 crores and a margin of 38%. As you are aware we do not operate our power plants during the off-season which is why the margins are lesser this Q2 particularly coincides with their time and the power plants are not working.

In the distillery division, also we have had the operations were on a lower scale mainly because of monsoon rains we shut our plants for annual maintenance and moreover the monsoon months are not very ideal for bio composting so, we coincide the monsoon season with a carry out of our repairs and maintenance program which is why the distillery operations are on a low key in this particular quarter.

I will now highlight the financial performance of our company.

Our revenue was Rs. 529 crores for the half year and EBITDA was Rs. 109.06 crores and PAT of about Rs. 69.03 crores. EBITDA margin achieved was about 20.7%. We provide for taxation only during the fourth quarter. So, whatever is the tax liability which in our case is going to be MAT liability we will be providing in Q4.

If you compare our Q2's performance with the corresponding quarter in the last year, the performance may appear to be a distorted that is because in the last year same quarter we had accounted for a subsidy of Rs. 46.06 crores which was the subsidy state government had given at the rate of Rs. 20 per quintal of sugarcane for the season 2014-2015. It was received in September 2015 and hence accounted for in that quarter. Now, if you knock-off that subsidy

you will find the performance of this particular quarter vastly superior as compared to in fact there would have been loss in that quarter in the last year had this subsidy not been received and accounted for. And in this quarter, we have accounted for production subsidy of Rs. 9.47 crores an income of Rs. 9.47 crores which is receivable from the central government now that there is virtual certainty on the receipt of the same in fact we have lodged our claims and all and it is a matter of time before we should get this money.

In the quarter ended 2016, we have successfully completed a QIP program in which we raised about Rs. 59.39 crores, shares were given at a price of Rs. 236.11 per share. The shares were subscribed by a marking in both domestic and international. The funds were essentially raised to strengthen the balance sheet to deleverage out balance sheet and as per our strategy we have cleared the term before the 30th September the funds received from QIP were deployed for accelerated repayment of our debt between 1st April 2016 and 30th September 2016 in the six months' period we have cleared long-term debt of about Rs. 96.05 crores and we shall continue our program to further strengthen the balance sheet quickly deleverage our company become long-term debt free as quickly as possible.

Our long-term debts now stand at about Rs. 204 crores as against Rs. 301 crores on 31st March 2016. Our debt equity ratio has improved substantially it is at 0.83 as compared to 3.33 as on 30th September 2015.

Post QIP our promoter's shareholding has come down to 41.87% our equity share capital is Rs. 1.88 crores equity shares with sales value of Rs. 10 each. Religare Capital Markets were the book running lead managers and the legal advisors for the issue were BMR Legal.

I now leave the floor open for Question-and-Answer. Please feel free to ask any questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Ravi Sundaram from Sundaram Investment. Please go ahead.

Ravi Sundaram: So, my first question was, I looked at the latest balance sheet and I noticed that both long-term and short-term debt has come down significantly and I also noted that you had mentioned that the long-term debt currently stands at around Rs. 201 crores or something.

Vijay S. Banka: Correct.

Ravi Sundaram: So, in Q1 con-call you had highlighted that the rough interest cost for this year could be around Rs. 45 crores so, is there a change in that number going forward after this quarters numbers?

Vijay S. Banka: Yes, it should be around that number or it could be a little lesser. You see much will depend on the SAP and the payment mechanism for SAP. Like last year we had the advantage of making two-tier payment, you know SAP was 280 out of which Rs. 230 per quintal was paid in the first trench and the second trench of Rs. 50 per quintal was paid three months after the

crushing season was over. Now, if of course the government comes up with a similar scheme for the coming season, the interest cost could be lesser then even Rs. 45 crores.

Ravi Sundaram: Okay. So, that my first question and my second question was your average cost of production I think it is roughly 26.05 or 26.06 do not remember the exact figure. So, I mean that is the function of realization, right, correct me if I am wrong. So, is that likely to remain in the same range for the next year also?

Vijay S. Banka: No, the average cost of production is mainly a function of the SAP government announced price for the purchase of sugarcane so, much will depend upon whatever is the... See, a couple of things will happen in the coming season. Number one, for example, our crushing is likely to be better than what it was in the last season. Like I mentioned in my opening remarks we had crushed about Rs. 210 lakh quintals so, this year as per the available indications we should more, we should crush at least about Rs. 225 lakh quintals of sugarcane. So, this can be one reason while per quintal cost of sugarcane produced can be lesser. Number two, our recovery last year was phenomenal 11.73% while we have put-in all the efforts to see that such recoveries are repeated in this coming season as well much will depend on the climatic conditions. So, far the climatic conditions seem to be all right because winter is not yet set in so, we should not expect a very severe winter. If it is a very severe winter which is what is very typical in north except for what happened in last year well, then that could impact the recoveries on the I mean it could impact the recovery adversely. But to safeguard against such a fall in recovery we have improved our varietal mix. We now in the coming season will have more of early varieties so, every effort is made to see that recoveries maintained as compared to last year and if not maintained there will be a marginal drop. Third is of course like I said SAP, SAP is very important whatever is the SAP the state government announces I will just explain it like this, for example, the SAP announced is higher by about Rs. 25 a quintal. Now you divide it by let us talk about recovery of 11.05%. So, 25 divided by 11.05% so that will be how much about...

Ravi Sundaram: It will be roughly Rs. 2.53.

Vijay S. Banka: No, 25 divided by 11.05% one moment I will tell you...so, the cost can go up by Rs. 217 a quintal.

Ravi Sundaram: Okay. So, that was my second question. And if I am allowed to ask one more question this is more on the forward-looking aspect. I think last year you had produced about 250 000 tonnes of sugar. Can I have that same number when I work out my numbers?

Vijay S. Banka: Sorry, we or the industry?

Ravi Sundaram: You, I mean I am referring to Dwarikesh.

Vijay S. Banka: Yes, so we produced about we crushed about 210 lakh quintals of sugar at a recovery of 11.73% for the group we produced 24.75 lakh quintals of sugar, okay. Now, let us take about 225 lakh

quintals and if we talk about a recovery of let us say 11.5% I could produce about 25.875 lakh quintals of sugar.

Ravi Sundaram: Okay. And the next, from your opening remarks, I also kind of assume that sugar prices are probably not going to correct significantly there might be of course market volatility in which we have no control of so, probably I can keep a number of 31-32 as a rough estimate for my next year. So, given that price if we have that...

Vijay S. Banka: sugar prices you mean

Ravi Sundaram: Yes, sugar prices.

Vijay S. Banka: No, sugar prices are currently hovering at around Rs. 3,600 and I do not see them going down in the near future at least because if at all there is going to be tightening of market condition because Maharashtra like I said they have revised their estimate downwards. Now, I will talk about the domestic sugar balance on 30th September we have a closing inventory of 7 million tonnes, assuming we produce about 23.05 million tonnes so, that makes it 30.05 million tonnes. Assuming no import, no export, out of 30.05 million tonnes let us assume the consumption is about 26 million tonnes. So, we are in a situation where there is going to be essentially a very tight situation.

Ravi Sundaram: Tight situation, prices are likely to remain firm is what you are suggesting?

Vijay S. Banka: Yes, we believe so.

Ravi Sundaram: Okay. Given this price situation plus the steps which you are taking to reduce leverage I believe next year is going to look very interesting any comments on that sir? I mean your balance sheet will look much better.

Vijay S. Banka: You see few things, what is within the realm of our control for example efficiency, for example tight finance management, etc., that we will keep doing, we will of course strive to produce sugar at the lowest possible cost in which of course we have no control what so ever on the sugarcane prices but efficiency wise yes, we will have an edge over others and yes, we will try and already we have initiated efforts and already results are palpable we are cutting down our long-term debt. So, yes, things should get better.

Moderator: Thank you. We have the next question from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Sir, I have three questions regarding the ISMA figure. ISMA they are saying about the consumption, about the production, and about the inventory. They are talking about 75 lakh tonnes of inventory as on 30th September but sir I have a big doubt on that because as on 30th September I go by the inventory of Maharashtra and Tamil Nadu it is around 32.06 and 4.03. But if I take balance part of India, if I take Telangana, Andhra, U.P., Karnataka, Gujarat, there

the inventory is not more than 20% of they have produced this season. So, if I take that figure, the closing inventory is around 67 lakh tonnes - 68 lakh tonnes not more than that, if I take a very optimistic figure because I think U.P. mills on an average our holding is more than 20% or I think it is less than 20%.

Vijay S. Banka: No, they are not, they are selling very **(Inaudible) 20.05.**

Aman Sonthalia: So, where from this 75 lakh tonnes figure has come, this is number one? And if the figure is 75 less than 75 it is around 67-68 that means definitely the consumption is much higher then they have said in their presentation that it is around 256, that means the consumption will be more than 260 or it will be around 265. So, this is one question and next question is regarding production estimate for the coming season. If I go by the ground reality the Maharashtra will produce 65 lakh tonnes less than last year, Karnataka 10 lakh tonnes less than last year, even this Gujarat, Andhra, Telangana, they will produce less than last year. As far as U.P. is concerned they will produce I think best case scenario 10% higher then last season or it may be around 5% or even same production what we have produced last year. So, if calculate all this figure it will be around 205 or less than 205. So, where this 233 lakh tonnes figure has come so, whether my calculation or whether ISMA figure is wrong?

Vijay S. Banka: You see these estimates are after all and these are initial estimates. Going forward I agree with you that there is dichotomous situation because while ISMA is talking about these kinds of numbers 23.37 lakh million tonnes of sugar there are CRISIL estimates which are talking of a lesser production 22.04 million tonnes. So, all in all it indicates a tight situation. So, I think I and you are not disagreeing on that, that the situation is going to be tight. Now talking about consumption yes, consumption numbers are typically are what is the sale factory, ex-factory sales is what. So, there could be more sugar and the pipeline might be more full then what it was earlier. So, these are the things which to have a very-very realistic estimate of all this numbers would be rather difficult at this point in time.

Aman Sonthalia: Sir, one thing, last year I have talked to stockiest last year they were holding much higher there was no stock limit there. So, during last year September they were holding much higher stock then this time so, that means it should have been in their company's factory the sugar is not there. That means the consumption is much higher because the stockiest are holding much less stock then what we were holding last year.

Vijay S. Banka: So, you and I are agreeing that the position is tight actually.

Aman Sonthalia: It is not tight, it is very tight.

Vijay S. Banka: Yes, and of course the credibility of estimates and all is something you know which they would have they do their own satellite mapping and all ISMA and all to cast expression on their estimates at this point in time is not appropriate according to me.

- Aman Sonthalia:** No, but the figure is very-very, my figure and their figure is totally different means they are talking 233 and the actual figure might be around 205. So, if that comes and there is a huge difference between their figure
- Vijay S. Banka:** No, I quite agree. Like I said, I have two estimates before me, one is of ISMA and another one of CRISIL and both are credible names ISMA because of course that is our parent association and CRISIL of course is one of the leading research agencies and I mean they have done their own satellite mapping, they have their own people on the fields they do their own service and all. But yes, all I can say at this point in time yes, the situation is tight but how much tight we would not know at this point in time.
- Moderator:** Thank you. The next question is from Satyan Wadhwa from Millennium Capital. Please go ahead.
- Satyan Wadhwa:** Could you share some light on what is the cost of ethanol would be for this year assuming flat cane pricing, if we assume Rs. 20 extra in cane pricing then what would the cost of ethanol be? And how much do we expect to produce this year?
- Vijay S. Banka:** See, ethanol cost it all depends on what is the opportunity cost of molasses because we do not buy molasses from outside, okay. So, one will have to assume the opportunity cost of molasses. What if I sell the molasses outside, okay. You know there is levy obligation, there is some quantity which we are under compulsion to give it to country liquor manufacturers which gets sold at a lower price. However, if I assume that my average selling price realizations from molasses that I sell outside is Rs. 400 a quintal my per tonne of yield from molasses is about Rs. 250 liters so, if I divide 400 by 25 so which means my molasses cost which goes into making 1 liter of ethanol is about Rs. 16 and add to that other cost of utilities, etc., and every other cost if you can take then the cost will be about Rs. 24 liter or Rs. 25 a liter.
- Satyan Wadhwa:** Rs. 24 per liter to Rs. 25 per liter, okay. And so this was assuming molasses....
- Vijay S. Banka:** Average realization at Rs. 400 a quintal or Rs. 4,000 a metric tonne.
- Satyan Wadhwa:** And you said 25 liters?
- Vijay S. Banka:** 25. 1 tonne of molasses gives about 240 liters to 250 liters of ethanol.
- Satyan Wadhwa:** Okay. And one last question from me, on power how many units of power do you expect to generate this year I mean I know it is still early days?
- Vijay S. Banka:** Our power generation will be commensurate with the crushing that we do. For example, last year we crushed about 210 lakh quintals of sugarcane which were three units let us assume, I mean I do not have the exact numbers let us say it translates to about 325 working days in the season. So, when I am going to crush instead of 210 days to 225 days which means commensurately I will be having more number of days of crushing and therefore more power

generation so, it is as simple as that. So, 225 divided by 210 multiplied by whatever I had generated in the last season, okay. So, it will be higher last year I sold power worth Rs. 64 crores of rupees so, this season I might definitely sell more.

Satyan Wadhwa: And is there a higher rate this season or same as last year?

Vijay S. Banka: There is a very marginal increase of about 10 paise to 11 paise increase every year. So, last year my average realization of power was Rs. 4.88 per unit so, it might become Rs. 4.99.

Satyan Wadhwa: And basically EBITDA would be about Rs. 4 a unit?

Vijay S. Banka: EBITDA yes, there again the only cost is that of again that is an opportunity cost of bagasse. So, yes, the EBITDA margins are pretty impressive there.

Moderator: Thank you. We have the next question from the line of Rupanjana Sur from Old Bridge Capital. Please go ahead.

Rupanjana Sur: If you could tell me how many quintals of sugar were sold in Q3 FY 2016?

Vijay S. Banka: FY 2016 Q3, okay. I will have to look at the number, I do not have the number right away, just let me see how much, I will have to pull out some of my old numbers, I will get back to you on that Q3 FY 2016 is what you asked, right?

Rupanjana Sur: Right and if you would have that number for Q3 FY 2017, if you have any....

Vijay S. Banka: No, FY 2017 I am left with a stock of 4.43 lakh quintals of sugar. So, I am going to sell the entire quantity plus some portion of whatever I will be producing during the coming season.

Moderator: Thank you. We have the next question from the line of Dikshit Mittal from Shubkam Ventures. Please go ahead.

Dikshit Mittal: Sir, in terms of ethanol impact you mentioned because of this new pricing our realization will be Rs. 2 per liter lower for the next season.

Vijay S. Banka: Rs.2 to Rs. 2.25 a liter.

Dikshit Mittal: Okay. So, in terms of profitability, if I see first-half you have done Rs. 8.5 per liter kind of EBIT margins ethanol. So, for next year should I take Rs. 6.5 or how it pans out for next year?

Vijay S. Banka: Mainly it will be in ethanol EBIT margins how much did you say last year Q3?

Dikshit Mittal: No, first-half if I see you have done Rs. 8.5 per it EBIT.

- Vijay S. Banka:** Okay. See, in first-half actually virtually three months our plant was non-operational like I said for operational reasons for carrying out repairs, etc., current picture would come in the second-half actually. Second-half is when the full plant is operational and which is when the EBIT margins will be very good and like I mentioned Rs. 39 is now the price that we are going to get on ethanol which is a reduction of Rs. 2 a liter to Rs. 2.25 a liter and there is another benefit which worked out to Rs. 5 a liter which was on account of excise duty waver that we had got which is also now been withdrawn. But I had explained the costing of ethanol a little while ago so Rs. 39 and Rs. 24 - Rs. 25 is pretty decent margin left in any case.
- Dikshit Mittal:** Okay. So in first-half sir, have we accounted for that excise benefit of Rs. 5 per liter?
- Vijay S. Banka:** What we had sold most of our quantity, you see this benefit was withdrawn sometime in the first week or second week of August so, before that we had completed most of our sales to oil marketing companies, we completed our contract execution.
- Dikshit Mittal:** Okay. So these margins are actually after taking into account this Rs. 5 withdrawal.
- Vijay S. Banka:** No, you see we have done very little quantity that is what I am trying to say...
- Dikshit Mittal:** Yes. So, first-half margins are...
- Vijay S. Banka:** Considering the waiver benefit.
- Dikshit Mittal:** Okay because you mentioned there is very small benefit right in first-half because you had already sold.
- Vijay S. Banka:** No, in the first-half our quantity was much lesser I will tell you, my alcohol sales during September was 14.29 lakh liters and I have sold about 37.22 lakh liters of ethanol during the six months' period.
- Dikshit Mittal:** Right. So, sir, if I were to project PBIT for next year so, I should reduce Rs. 2?
- Vijay S. Banka:** Rs. 2 to Rs. 2.25.
- Dikshit Mittal:** So, that is the only adjustment I have to do, right from the reported number?
- Vijay S. Banka:** Yes.
- Dikshit Mittal:** Okay. So, sir you mentioned earlier in terms of your Rs. 24 per liter pricing so, sir can you repeat that because I miss somewhere?
- Vijay S. Banka:** See, one tonne of molasses I am assuming a selling price of Rs. 4,000 per tonne of molasses because that is an opportunity cost which one has to take into account because the molasses is not outsourced we use our own molasses for making ethanol. One tonne of molasses typically

gives about 240 liters to 250 liters of ethanol from one tonne of molasses you can produce about 240 liters to 250 liters. So, assuming the cost of molasses at Rs. 4,000 a quintal the cost of molasses per liter of ethanol manufactured is about Rs. 16 or so, okay, and then you add the cost, etc., there are utilities cost, power, steam and plus small amount of expenditure on man power, etc., so, the total cost that works out is nearly about Rs. 24 a liter to Rs. 25 a liter.

Dikshit Mittal: Okay. So, even at Rs. 14 - Rs. 15 is the contribution margins.

Vijay S. Banka: Margins are decent.

Dikshit Mittal: Okay. Sir, at an industry level what is the incremental SAP that industry will be comfortable with?

Vijay S. Banka: We will be comfortable with about Rs. 20 a quintal - Rs. 25 a quintal because you see we actually believe that the farmers also should be a happy lot. The survival of the sugar industry depends on the well-being of the farmers, I mean we cannot grow in isolation and so is the case of farmers also they cannot grow in isolation. So, we work in close coordination with the farmers, we engaged with them on 365 days' basis and we try and see that there is well-being for the farmers. We have helped them with better agricultural practices see that their yields are getting better. So, we work in all those directions and according to us the price rise of about Rs. 20 to Rs. 25 will be very much appreciated even by the farmers. All I can say yes, this will be a reasonable price rise but assuming there is little higher price rise. We because of our efficiency will be in a better position to absorb it as compared to others. Others are also getting better no doubt about it.

Dikshit Mittal: Right. So, sir in terms of molasses you mentioned if you like process 100-quintal of sugarcane so, what is the molasses output out of that?

Vijay S. Banka: 4.5% to 5%.

Dikshit Mittal: Okay. And sir, finally in terms of our power do we have the long term PPA in place?

Vijay S. Banka: Yes, we have the long-term PPA in place. Just now I am not aware of years that are in balance but we are very comfortable there, there is absolutely no problem.

Dikshit Mittal: Okay. But that is a fixed cost or cost is a pass through for that?

Vijay S. Banka: No, there is a tariff revision every four years - five years the last revision took about two years ago so, once the tariff is revised still there is small very marginal increase year after year.

Moderator: Thank you. The next question is from the line of Satyan Wadhwa from Millennium Capital. Please go ahead.

Satyan Wadhwa: I have another question on the ethanol side so, compared to some of your peers your ethanol capacity per tonne of sugar is a bit lower. I am just wondering if there are any plans to augment this because it kind of de-risks the business from sugar pricing to an extent.

Vijay S. Banka: Yes, this is question which I have been often asked. Yes, we are as far as ethanol capacities are concerned when compared to our peers yes, we are slightly imbalanced we have lesser capacity. The reason why we have not grown our capacities are we wanting to be very sure on the norms that the central government and the state government and various environment monitoring agencies prescribe. There was a little confusion on what is the ideal right way to treat the affluent biocomposting was one option, incineration was another option so, there was a little lack of clarity on that and secondly there is some lack of clarity also on the technological front because we want to doubly sure before we embark upon a major capital expenditure to develop our capacity, develop or in fact we can do it a little more also so, we are just watchful the bio-methanation spent wash which we commissioned last year there again we have made some improvisation and the plant is started and we are watching its performance may be in a couple of months we will see how it functions. We want to be absolutely very sure. We are also watching the performance of our peer group companies who have set up incineration facilities, who have set up another kind of effluent treatment facilities because the execution process will not take too much of time it will be six months to seven months from conceptualization to execution.

Satyan Wadhwa: And what would be the potential CAPEX if you did this?

Vijay S. Banka: We are at 30 KLPD, from 30 KLPD to 60 KLPD if we go we have estimates which could cause us about Rs. 40 crores mainly because we will advantage of existing infrastructure, we will put it up at the same place where we have the present distillery you know power utilities, infrastructure, all common utilities infrastructure can be use of which is why our cost is going to be lesser and we can always assistance from SDR who will give about 40% of the cost of project at 5% rate of interest those are options that we have.

Satyan Wadhwa: And without this project what would be your capital expenditure for this year and how much of that would be maintenance and how much will be growth?

Vijay S. Banka: We are not planning any capital expenditure, if at all efficiency enhancement CAPEX which will not be significant other then that there are no CAPEX which are in the pipeline.

Satyan Wadhwa: Right. So, you book everything as maintenance charge during the and run it through P&L?

Vijay S. Banka: Yes, absolutely unless we incur some efficiency enhancement expenditure which is of enduring nature giving us long lasting benefits, we book every everything as repairs and maintenance which is why if you see in Q2 our repairs and maintenance expenditure has been higher. The other expenditure if you see is higher that is mainly because of repairs and maintenance expenditure that we have incurred this time.

- Satyan Wadhwa:** Right. And just one last question for me in terms of what would be the tax rate for the rest of this year and how should one think of your tax rate for FY 2018?
- Vijay S. Banka:** We are still in the MAT regime, we are at least a year or so away from migrating to the full rate of taxation so, we are in the MAT regime so, MAT of course is P&L neutral because there will be MAT credit entitlement as well and if at all MAT percentage it is about 20% to 21% effective rate and we will of course see if there are legitimate avenues for saving taxation and yes, deferred tax liability impact could also be there which is not P&L neutral but there again we will have to see the real numbers how it is and how much impact it will have.
- Moderator:** Thank you. We have the next question from the line of Parteek Singhania from Param Capital. Please go ahead.
- Parteek Singhania:** Sir, related to this tax rate so, basically you are saying that whatever 20%-22% of MAT you will be paying that entire thing will go as a credit because you have a credit to offset that in P&L, right. So, if effective tax rate on P&L will be zero?
- Vijay S. Banka:** It will be P&L neutral. There will be cash flows impact but it will be P&L neutral.
- Moderator:** Thank you. We have the next question from the line of Satyan Wadhwa from Millennium Capital. Please go ahead.
- Satyan Wadhwa:** Just one final one from me. You will have pretty strong cash flows for the year even if SAP goes up Rs. 20 - Rs. 25 so will the excess cash again be used to reduce long-term debt or are you planning to pay some dividend as well?
- Vijay S. Banka:** No, of course dividend we will of course would like to reward our shareholders there is no two questions on that we will of course be doing that. But strengthening the balance sheet is always top most in our agenda we will judiciously allocate resources between deleveraging the company and also rewarding our shareholders.
- Moderator:** Thank you. We have the next question from the line of Yuvraj Ram Chandaran, Individual Investor. Please proceed with your questions.
- Yuvraj Ram Chandaran:** So, I have a basic doubt on the liability recognition of the debt portion of the sugar companies. So, in terms of what is owed for farmers and in terms of what the farmers recognize as being recoverable from the sugar companies. Is there any discrepancy between what the sugar companies recognized vis-à-vis the farmers' receivables or both of you are aligned in terms of what is your payable and what is their outstanding?
- Vijay S. Banka:** See, there is state government which regulates the payment process so, state government keeps a record of how much is paid and their records are perfect in all respect and those records are in sync with what our records are and as of now most of the U.P. Sugar Mills have cleared debt so, there is zero liability we are actually required to obtain various certificates from the district

level cane authorities, state level cane authorities that there are no dues pending. So, when we obtain a certificate like that which means obviously we have no arrears. Now, within the state of U.P. the total arrears as on date are in the region of about Rs. 1,400 crores. Now this Rs. 1,400 crores is mainly of four groups or five groups who are in delay as far as the payment to farmers are concerned. We have cleared the dues as and when they become due in fact while making the first ranch of payment we were ahead of schedule but even the next Rs. 50 payment is concerned we were amongst the first ones to clear.

Yuvraj Ram Chandaran: Okay. That would mean that you are already in possession of the concerned certificates acknowledging the payment?

Vijay S. Banka: Absolutely.

Moderator: So, as there are no further questions, so would you like to give some closing comments?

Vijay S. Banka: I am thankful to all the participants, I guess I have been able to answer all their questions satisfactorily. We look forward to their interaction. We look forward to everyone's participant in the next quarter as well. Besides this if the participants have any questions, they can reach me out. They can reach out to our advisors, Strategic Growth Advisors, and we will be too happy to resolve their questions. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Dwarikesh Sugar Industries Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.