



“Dwarikesh Sugar Industries Limited
Q1 FY’25 Earnings Conference Call”
August 01, 2024



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MODERATOR: MR. NITESH DHOOT – DOLAT CAPITAL



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Moderator: Ladies and gentlemen, good day, and welcome to the Dwarikesh Sugar Industries Q1 FY '25 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitesh Dhoot from Dolat Capital. Thank you, and over to you, sir.

Nitesh Dhoot: Thank you, Aditya. Good afternoon, everyone. On behalf of Dolat Capital, I would like to thank the management of Dwarikesh Sugar Industries for giving us the opportunity to host their Q1 FY '25 earnings conference call. From the management team, we have with us today, Mr. Vijay S. Banka, Managing Director; and Mr. B.J. Maheshwari, Managing Director and Company Secretary cum Chief Compliance Officer.

Without further ado, I would like to hand over the call to the management for their opening remarks, post which we'll open the forum for a Q&A session. Thank you, and over to you, Mr. Banka.

Vijay S. Banka: Yes. A very good afternoon to you all, and thank you, Nitesh. I accord a warm welcome to all the participants in this conference call of Q1 FY '25. As you can see, this has been a rather challenging quarter for us. The top line has come down by about INR 230 crores, INR 571 crores was what was the corresponding number last year, and now it is INR 341 crores. So the top line has come down and commensurately loss after tax is INR 9.73 crores.

I'll quickly take you through the operations -- highlights of the operations during this quarter. We sold 6.75 lakh quintals of sugar vis-a-vis 9.70 lakh quintals in the corresponding quarter last fiscal which is about 3 lakh quintals less. On the price front, there is improvement. We sold sugar at INR3,833 per quintal. Correspondingly, it was INR3,608 per quintal in Q1 FY24. So there is a 6% increase in the prices of sugar sold.

Stock at 30th June is valued at the same rate at which the stock was valued on 31st March because we are carrying entirely the stock that was produced during FY '24. Crushing operations were not there in this quarter

Industrial alcohol also, we sold only about 123 lakh liters vis-a-vis 303 lakh liters in the commensurate -- corresponding quarter last year. So we have had setbacks there as well.

So because of the early closure of the sugar season '23-'24, sugarcane crushing activities in the first quarter were completely halted. In contrast, during the same quarter last year, we crushed 98.5 lakh quintals of sugarcane, during the corresponding quarter last year.

We have been making the cane price payment ahead of schedule. In entirety, we have cleared the dues of 2023-'24. As far as the loans are concerned, there are loans of about INR192 crores

-- INR193 crores, which is all at subsidized rate of interest. And these loans were taken for our distillery projects in DN and DD. All the outstanding loans, as I said, are at subsidized rate of interest.

Our long-term rating is AA- and the outlook is stable. For the short term, we have the highest rating of INR300 crores -- for the Commercial Paper program we have the highest rating of A1+.

During Q1 '25, we experienced subdued sales and offtake compared to the corresponding period last year. Releases saw a notable decline, as you can see, nearly 3 lakh quintals of sugar we have sold less, 6.75 lakh quintals vis-a-vis 9.70 lakh quintals. This downturn was compounded by significantly lower ethanol sales.

Production and consequently, the availability of ethanol we're offering to oil marketing companies was constrained. The reduction in ethanol production stemmed from the government restriction. The good news is that this particular notification is operational only till the 30th of September 2024, so which means our ethanol blending program will be back on track in '24-'25.

As there was no crushing activity which resulted in un-absorption of overheads over a period of over 3 months. So that was the main reason for the losses. Additionally, like I said, restrictions were placed by the government on B heavy usage and juice usage for producing ethanol

So looking ahead, in the coming season, significant transformations are expected. There are optimistic expectation. We have done a lot on the red rot management in our DN and DP unit. And a lot has been done on varietal change also. So for example, in DD unit, we should get more than 64%, 65% of non-238 variety in the season '24-'25. But we've lost some area there, s red-rot affected clumps were uprooted. So nearly 4,000 hectares of area is gone there.

So like I said, government is very positive about introduction of ethanol blending program -- reintroduction of ethanol blending program in the forthcoming season. This should bring about a major transformation in the sugar sector. Whether they will allow export or not, it's debatable because they have different numbers of production estimates as compared to what we have. ISMA, for example, has published a number of 33.3 million tons of expected production at a gross level.

So opening stock of 9 million tons, so which means 9 MMT plus what, 33.3 MMT which is 42.3 MMT. If we estimate the consumption to be around 29 million tons, so we have scope for exporting sugar. On account of ethanol we should see a sacrifice of about 4 million tons of sugar, and we should also see government taking a stand on the exports. But of course, they may not -- they will take a stand on the exports only when the production numbers become very, very clear.

So that's about it from my side. Any questions, I'm more than willing to answer.

Moderator: Our first question is from the line of Harsh from Alpha Alternatives.

Harsh: Just wanted to understand what are your thoughts on recovery in the current quarter? And what is the situation of red rot and the 238 variety. What is the mix of that variety in this year for Dwarikesh?

Vijay S. Banka: Like I said, in DD plant, we have done lot of work as that area was impacted early where as in DP and DN plants, we have done a lot of work in uprooting the clumps affected by red rot. So on the periphery of the fields, we don't see any cane affected by red rot but only when we go deep inside the fields, we will know.

And lot depends on the rainfall also because this is a waterborne disease. So if the rainfall is excessive, then it could spell problems for us. So as of now, the crop condition is very good. So which means both yield and recovery should be better than last year. But anyway, like I said, we will have to wait and see.

Harsh: What kind of variants are we getting? And what is the recovery in current...

Vijay S. Banka: Sorry?

Harsh: In the current quarter, what is the recovery rate? And what is the mix of 238...

Vijay S. Banka: No, in the first quarter, we did not have any sugar manufactured.

Harsh: Okay. Yes. But for the year, what do you think our 238 variety will be? What percentage of total variety?

Vijay S. Banka: For the entire season of 2023-24 our recovery has been 11.53%. That's because we did not crush during the golden period when the recoveries are the highest. So 11.53% is our recovery for the season. For the year, our recovery, though, is higher. It's about 11.7%. So this year, we will not see any overlap. What is there in the year will be there in the season as well.

Harsh: But do you expect recovery to improve in the current season?

Vijay S. Banka: As per the present crop condition, recovery should be better. In DD unit, particularly because in SS 24-'25, we expect about 64% of other varieties. So in DD unit we had better recovery last season as well. Unfortunately, our plant closed early.

Harsh: This is primarily...

Vijay S. Banka: Otherwise, to-date recovery till the plant was up & working was higher than what it was in the last season.

Moderator: Our next participation is from the line of Pratik from Systematic.

Pratik Tholiya: So just wanted to get some sense on the way prices are likely to move, especially if we are talking about, say, 33 million tons from ISMA's estimation, 9 million ton of carryover, arriving at 29 is the assumption, you're left with somewhere around 13 million tons. And if you divert 4, you still have around 8 million to 9 million ton of surplus. So how do you see the domestic prices trending?

And even if government allows exports, because at \$0.185, \$0.19, export also comes to around INR35, INR36, which will be below the domestic prices. So how do you think -- I mean, whether export -- even if government allows, does it make sense to export at these prices? And if you have such a good surplus, will the export price also hold up or it will go down further? So if you just share your thoughts on that.

Vijay S. Banka: Yes. Actually, the prices depend on the quantity of sugar ordered to be released for the particular month. Since in this month, the government has release of only 22 million tons, we are seeing prices going beyond Rs. 3,900 per quintal. So a few important developments are in the offing. Number one, government is likely to announce minimum MSP for the sugar.

Well, if that happens, the MSP of Maharashtra sugar mills will be the same as ours. So our realization would be at least INR200 higher than the Maharashtra sugar mills realization. So going forward for next month, there's a possibility they could give higher releases because price of Rs. 3,900 perhaps is not palatable to the government. So they might give higher releases in the coming months.

But international prices have taken a beating, so as a result of which smuggling into Bangladesh has come to a halt. Otherwise, that was one support which Indian sugar mills were getting. A lot of East-based sugar mills were able to sell sugar which found way in Bangladesh. So all in all, I feel the prices should hold good.

Pratik Tholiya: You mean to say above 39 or somewhere in this 38 to 39?

Vijay S. Banka: 38 and 39, between 38 and 39.

Pratik Tholiya: And then just again on the exports, you said that export, government can allow. But does it make sense at current prices?

Vijay S. Banka: There is a discord regarding the estimated closing stock number. So we are talking about 9 million tons, government is perhaps talking of 7.5 million tons. So 1.5 million tons is what is questionable.

But then pipeline stocks also would be there that perhaps they have not considered, now if that is to be considered as pipeline stocks will find a way into the market. So we have to wait till January, February when the government will take a call on the exports because a clearer picture on the production front will be available by then.

Moderator: Our next question is from the line of Dhvaneet from Salva Family Office.

Dhvaneet: I had a question and one little clarification I wanted. The clarification I wanted is on the tax front. I mean I can see that profit for the quarter is negative. However, we have ended up paying some part of it as taxes also. So I just wanted to understand that is this like normal corporate tax? Or is this like combination of GST and everything...

Vijay S. Banka: We believe in spreading the tax thing over the 4 quarters. So in this particular quarter, there are losses. So there is obviously commensurate credit that we have to take of DT here. So the negative contribution is mainly on account of that.

Dhvaneet: Okay. My question is with regards to the outlook for the year. I think, sir, it is fair to say that we should probably look at the numbers for the sugar business, the business which we are in, more like on year-on-year rather than quarter-on-quarter basis. I think it will actually be fair. So going by that, in spite of having a fairly weak quarter this time, does it still change the outlook which we have for the year? Or do we still think that we will probably end up on this year much higher? I know that you have discussed certain factors in your opening remarks. Just wanted you to elaborate more on that.

Vijay S. Banka: As far as the sector is concerned, it is poised to do well. As far as our company is concerned, yes, we have had challenges. We have had the biggest decline in the crushing numbers, 401 lakh quintals to 268 lakh quintals in the season. So it's been a bit of a challenge for us. But we shall overcome these problems, we shall overcome these challenges. So we will see partial recovery in this coming fiscal. And maybe complete -- we will get back to our old glory in the fiscal after that.

Dhvaneet: Sir, I just wanted to understand one thing, sir. Does this drop of actual, can it just be like a yearly thing and then we can again go back to the numbers which we had reported, like 400-odd number which...

Vijay S. Banka: Yes, because again, in the next quarter, for example, we are not going to have any production and there is no ethanol production also, although there is some amount of stock which we are carrying, and sugar rates are good. So contribution is going to come from sale of sugar and ethanol sales. But spread of overheads and all is a bit of a challenge for us in the coming quarter.

Dhvaneet: My question was with regards to that, given that -- it has not affected our total production capacity which we have, right, in any way. So the next sugar season, when it comes, we can then replant, and if all of our plants are working at optimum capacity, we can probably do the same number, which we had done previously. That's what I'm asking. There is no impact on the capacity, right?

Vijay S. Banka: Correct, we can do that. Yes we can do that. But I would add a word of caution, maybe not in the season '24-'25 but SS '25-'26 we will be back in all our glory.

Dhvaneet: I wish you all the best, and hope we come back with a bang.



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- Vijay S. Banka:** Yes, your good wishes are very important for us.
- Moderator:** If there are no further questions, then we...
- Moderator:** Our next question is from the line of Sneha Jain, SKS Capital.
- Sneha Jain:** I just wanted to ask like what is the -- I mean, in your view, what is the current stance of the government on the ethanol program? And where do you think -- like should we expect some kind of announcements or anything that government was supposed to do?
- Vijay S. Banka:** There may not be any announcement. All that is required is little directive to the OMCs. So this pause on the ethanol program was because of a notification, which is valid till 30th September 2024. So it's not likely to be extended even if we go by most conservative production estimates. So ethanol production program is kind of given thing. It's only the export on which there is not much of clarity.
- Sneha Jain:** Okay. That is why you were saying the second fiscal should look better than the first because after September we should like to get -- that pause would be over?
- Vijay S. Banka:** Yes, after September quarter
- Moderator:** As there are no further questions from the participants, I now hand the conference over to the management for closing comments.
- Vijay S. Banka:** Yes. Thank you very much. Thank you for the enlightening questions and thank you for the confidence that you all have reposed in us. I agree that this has been a rather challenging quarter, but we are putting in our best efforts to see that our performance improves going forward. So I'll request my colleague, Mr. Maheshwari, to say a few words.
- BJ Maheshwari:** I thank all the participants for their active participation and all, and we look forward for such active participation in future also. Thank you.
- Vijay S. Banka:** Thank you.
- Moderator:** Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.