



## **Balrampur Chini Mills Limited**

### **Q3 & 9M FY18 Results Conference Call**

**February 09, 2018**

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**Karl Kolah**

Good afternoon everyone, and thank you for joining us on Balrampur Chini Mills' Q3&9M FY18 results conference call. Today we have with us Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills and Mr. Pramod Patwari, Chief Financial Officer of the Company.

We will now like to begin the call with brief opening remarks from the management following which we will have the forum open for discussion.

Before we begin, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the results presentation shared earlier.

I would now like to invite Mr. Saraogi to make his opening remarks.

**Vivek Saraogi**

Good afternoon everyone and thank you for joining us on Balrampur Chini's Q3&9M FY18 earnings conference call. Let me commence the call by giving you an update on the latest developments on the sugar sector and Company highlights following which Pramod will take you through the Company's financial performance.

As per the latest estimates and this is a bit of internal estimates as well.

The sugar production in the current season should be around 27.5 million tonnes, this is higher than the earlier estimate which was about 26.0-26.5 million tonnes. This increase is mainly on account of higher than expected yields in Maharashtra, Karnataka as well as UP and may be a function of better monsoons. Consumption is expected to be in between 25.0 -25.5 million tonnes and we are hopeful that the country can export some of the additional stocks within the current season itself.

Considering the additional availability of sugar in the current season over the domestic requirement the industry has met government officials and made various proposals in order to dispose of some of the additional stocks in the current season itself which is over and above of the domestic consumption.

The news of higher production has led to significant correction in sugar price. Currently sugar prices are quoting at Rs. 32 a kg after touching a low of around Rs. 30.5 a kg. This has led to several mills coming under pressure and this could impact their ability to pay farmers on time.



We are confident that the government will take pragmatic steps for interest of all the stake holders, keeping the ecosystem sustainable for all. Just a couple of days ago, government had increased import duty to 100% and yesterday imposed a reverse stock limits on the millers for the month of February and March, which we feel is a step in the right direction.

Moving on to the company's performance:

We delivered a subdued financial performance during the quarter, owing to lower profitability witnessed in the sugar segment even as we reported healthy contribution from our allied businesses.

Profit in the sugar segment was primarily impacted due to lower sugar prices leading to inventory write downs. Coming to the distillery division the industry has committed for 140 crore liters of ethanol which is 26% higher than the best ever supplies of 111 crore liters made in 2015-2016.

To conclude, we are hopeful Central Government will proactively address the industries concern.

We have also intimated the stock exchanges that a meeting of the board for considering buy back will be held on 21<sup>st</sup> of February 2018.

I now request, Pramod to take you through the financial highlights.

**Pramod Patwari**

Thank you, Sir and a very good afternoon to everyone. I will now briefly take you all through the company's operating and financial performance for the quarter under review. Overall revenues in Q3FY18 were stable at 1,002 crore. Net profit for the quarter came lower at 61 crore on account of subdued performance in the sugar segment.

Revenues and PBIT from the sugar segments stood at 946 crore and 14 crore for the quarter under review. Sugar sales during the quarter were stable at 22.22 lakh quintals vis-à-vis 22.31 lakh quintals in Q3FY17. Sugar realization for the quarter stood at 36.39 per kg as compared to Rs 35.91 per kg in Q3FY17. As on December 31<sup>st</sup> sugar inventory was valued at Rs. 31.10 per kg which is based on cost or market price whichever is lower leading to an inventory write-down.

In Q3FY18, revenues from the Distillery division were higher at Rs. 88 crore with PBIT of Rs. 31 crore. The segment showed improved performance on account of higher volumes. We sold 22,236 KL at an average realization of Rs. 39.13 per BL as compared to 14,828 KL at an average realization of Rs. 41.01 per BL in Q3 FY17.

In the Cogen segment, revenues for the quarter improved by 33% Y-o-Y to Rs. 164 crore with PBIT of Rs.55 crore. We sold 13.86 lakh units in Q3FY18 at an average realization of Rs.4.84 per unit as compared to 13.09 lakh units in Q3FY17.

Interest costs for the quarter was lower at Rs. 81 lakh only versus Rs. 2.8 crore in Q3FY17. As on 1<sup>st</sup> April 2017 our long-term loans stood at Rs. 205 crore out of which we have already repaid Rs. 61.7 crore till day and expect to repay another Rs. 19 crore till 31<sup>st</sup> March 2018 on account of scheduled repayment. Our long-term net debt to equity ratio now stands at 0.08 only on 31<sup>st</sup> December 2017.



This brings us to an end of our opening remarks. We would now like to address any questions or queries you may have in your mind. Thank you

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of S. Padmanabhan from Sundaram Asset Management Co. Ltd. Please go ahead.

**S. Padmanabhan** My question is on the sugar volumes, if I am looking at the volumes it is flattish on a year-on-year basis. But considering that last quarter we did 300,000 odd tonnes of sales, I mean was it lower than your expectations or probably one would have expected slightly higher volumes in sugar and my second question is if I am actually coming, looking at the profitability of sugar which has substantially come off. What is the, is there any you mentioned about inventory write-off, what is the kind of inventory write-off that you have seen in the sugar segment, sir?

**Vivek Saraogi** Just to give you a sense, our quarter sales might look a little lower compare to others because our factories are in East UP, we began crushing a little late. So, since there was no production and last year's stocks were sold off by the first week of November itself, there was some period where we couldn't sell.

Your second question was regarding inventory write-off. For example, we have valued our inventory on 31<sup>st</sup> December at Rs. 31.10 per kg. Last year we had valued our inventory on 31<sup>st</sup> December 2016 at around 35.20 per kg, that is because the cost of the quarter is higher. So, the theory is cost or market whichever is lower. So, at that point of time based on the market we had written down the inventories. So, that is an additional probably negative figure you are seeing.

**S. Padmanabhan** And how much is that in absolute amount of this write down?

**Vivek Saraogi** About 47 crore during the quarter.

**S. Padmanabhan** And sir, with respect to the full year volumes, where would our sugar volumes be for this year and where do you think we should be there for next year, sir?

**Vivek Saraogi** Volume for us?

**S. Padmanabhan** For the full year where do you think FY18 we should be in sugar sales in terms of volumes and FY19 what is the kind of number we are looking at, sir?

**Vivek Saraogi** See, we keep continuously selling, you should ask more on the production. We are hoping to produce about 1.08 crore bags, that is about 4% of India's production. January, February, March sales happened I would say in a manner which is spread out over the year. And now you have the government notification also.

**S. Padmanabhan** One final question from my side is on the sugar spreads we have seen spreads going all the way in northwards Rs.6-6.5 per kg as well and sugar spreads coming less than a Rupee or so. I mean, if I am looking at probably in the next 2 years what would be a steady state in the spread which you would be believing which is sustainable for the sugar sectors?

**Vivek Saraogi** If you want to see a sustainable spread 6, I have maintained is not sustainable. If you see may be this year your spread is hardly one Rupee let's say. So, I would say a sustainable spread is between 2 and 3, Rs. 2.5 per kg should be a sustainable spread. So, if you take a 5 year average may be you will get that only.



- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital (India) Pvt. Ltd. Please go ahead
- Vikram Suryavanshi:** Basically, feels that import duty was already high and major issue is a domestic production. So how much real impact will have that increasing 100%?
- Vivek Saraogi** See, honestly this is just a sentiment building measure. There was some fears, expressed that Pakistan since they have given Rs. 11 subsidy for export. There were some feared that some Pakistani sugar might come in. So, it is maybe to protect that and secondly, it is a sentiment improving measure.
- Vikram Suryavanshi:** And just to understand from sustainability perspective, so even for say for 50% which are other countries have more competitive on cost of production apart from Brazil compared to India?
- Vivek Saraogi** Probably, Thailand I think. Yes, we will have to do a little more study because EU etc. have undergone some changes.
- Vikram Suryavanshi:** And last question sir, in terms of just to get clarity that is that direct convergence from sugar juice to ethanol is allowed or it is still not allowed, and we are allowed to only from different grade of molasses only?
- Vivek Saraogi** No, I think technically it is allowed but nobody is doing it.
- Vikram Suryavanshi:** So, major issue is I think there is ethanol prices or anything else?
- Vivek Saraogi** The ethanol compared to sugar and the planning of that prior to the season has to be made. You can do it still in the middle but if the ratio of sugar and ethanol price needs to be at least 1.6.
- Vikram Suryavanshi:** So, that is long way because I think already it is already fixed rate of around Rs. 40 something?
- Vivek Saraogi** Yes, since your ethanol is Rs.39 per litre.so, it has to be more than Rs.50 per litre.
- Moderator** Thank you. The next question is from the line of Aman Sonthalia from Suvridhi Capital Markets. Please go ahead.
- Aman Sonthalia** My question is that the industries is having seesaw performance since last many years and the way the country is producing, I think next year's production will be even higher than this year and since the government is taking step to pay to the farmers. So, definitely the farmers will plant more canes. So do you think that the government will come out with the long-term policies which can put confidence among the industry and to the investors so that this performance will be a sustainable performance in the long run?
- Vivek Saraogi** I do not know what you are meaning by long-term policy, you meaning linkage?
- Aman Sonthalia** There will be some export hopefully sales on sugar to support the export and the heavy molasses and stock limit during crushing period these are the four things I think that ...
- Vivek Saraogi** What was the last thing ?



- Aman Sonthalia** Reverse stock limit during certain period every year because of that I think most of the weak mills tend to sell lot more?
- Vivek Saraogi** Let me try and address this entire policy, I think at some point everybody would want to know. If we see the Government behavior probably the policy might not be out in the open in the manner you just sort of said it. But the conduct of the Government is where you may see the proof. They have done all the non-cash measures immediately. So, they have had improve the sentiment, import duty is a signal that the Government is not happy with the current level of prices. Reverse stock limit let me tell you is very simple. Last year there was a stock limit where the Government had consumer in mind, stocks were probably at a very low level and Government wanted nobody to keep extra stock which is absolutely reasonable. So, they did a stock limit at the point of time where the sugar stock is lowest in the country all over, that is in the month of October and November. Now with the beginning of this season and higher than estimated production coming into play the government has gone and done a reverse stock limit at the time when the production is highest in the country. This is just an effort to ward off panic sales unwanted sales.
- Panic sales leads to benefit for no one. Government fixes the price of cane. Government in some way recognizing its responsibility to maintain sugar price at a level where cane price can be paid. So, I think these are measures in this direction. We should not be seen back as controls. These are just temporary sort of measures. Now on the export front, we have exactly put forward our case what you have said - that to give an export quota with some support pick up that money with cess, etc. Government, I think will look at it, is looking at it and we are hopeful, and I can only say hopeful that we should see some export policy which is a very fundamental measure. These two till now are emotional measures showing the wish list of the Government. The export is physical evacuation of excess sugar which is actually the most fundamental measure. I think gradually as time passes we should see all of them play out. That is my hope.
- Aman Sonthalia** One more question is regarding next year, definitely production will be much higher Maharashtra as cane sowing very good. In UP, I think with the yields quite good and even the farmers are planting more cane this season also. So, next year if the government starts exporting from the very beginning of the season and this reverse stock limit which implemented in the very beginning of the season. I think the drastic fall which the industry has seen this season. I think it will not repeat again?
- Vivek Saraogi** See, our view is that the exports should start beginning with in this season itself maybe April, May, June, July. So, do move out the surplus this year and this year itself. That is our request to the government because as you correctly said we all know that there is going to be a surplus next year also which would also have had to be exported instead of bunching up exports in one period spread it out.
- Aman Sonthalia** No, sir I am talking about next year also and this year itself we have to export this season also but in the next season, if when the crushing started if the industry export from the very beginning of the crushing period, I think this drastic sugar fall will not be there?
- Vivek Saraogi** Yes, I am trying to address that question only, if the government allows export this year but obvious that they will allow next year.
- Moderator** Thank you. The next question is from the line of Achal Lohade from JM Financial Institutional Securities Pvt. Ltd. Please go ahead.



**Achal Lohade** Just wanted to understand, you said the production expectation is about 27.5 now. If you could help us understand what is the production number you expect in UP, in Maharashtra, Tamil Nadu and Karnataka, these four key states?

**Pramod Patwari** Maharashtra expectation is around 9 million tonnes, Karnataka is around 3.1 million tonnes, Tamil Nadu could be 0.6 million tonnes and UP 10.5 million tonnes.

**Achal Lohade** Are you seeing an increase because I was reading somewhere that even the states like Gujarat and all have also seen a fair amount of ramp up in the production numbers over a period of time.

**Vivek Saraogi** Gujarat would remain at 10 lakhs, I do not see much from Gujarat.

**Achal Lohade** And in terms of the cost of production as of December what would be the cost of production for us when you said we valued at Rs.31 per kg but what was the cost?

**Pramod Patwari** See, Achal you must be knowing, that on the quarterly basis cost of production moves on. So, I think we should take a stock of the correct cost of production only at the year-end.

**Achal Lohade** Let me understand, then for the year as a whole what would be the cost of production we would be probably looking at given the recovery rates?

**Pramod Patwari** Last year's cost of production for Balrampur was around Rs. 31.30 per Kg that was based on a recovery of 10.73% and cane price was Rs.305 per quintal. This year we are expecting an increase in volume as well as increase in recovery. We have also seen an increase in cane price by Rs. 10 per quintal. Our view is that considering the impact of volume growth as well as the recovery we should be in a position to maintain our last year's cost of production.

**Achal Lohade** So, in that case I do not see much of inventory loss kind of a scenario as of 31<sup>st</sup> of March?

**Vivek Saraogi** No, even we do not see that. There is evidence already prices up Rs.32 per kg again.

**Achal Lohade** Now the second question I had was with respect to the UP state. We have said in the past that we are looking at a better mix in terms of the early variety. How was it progressing and how do you see it for the state also as a whole?

**Vivek Saraogi** See, for us that is the reason we will move up in the recovery and for the state also gradually it is progressing only.

**Achal Lohade** And in term of the sugar prices sir, I was just looking at the global sugar prices and I see the net realization without any export subsidy would be substantially lower than the current sugar price? So, how do you see, you see the government would be able to kind of subsidized these or you think there could be a case one can make for these reservations, stock reservation and so on and so forth?

**Vivek Saraogi** See, I am only saying that, what we are saying to the government is FRP is fixed by you therefore the cost of production is known to you. If sugar is selling below cost on continuous basis can the industry pay the cane price. You have seen the governments thrust in the budget on rural/agri issues farmers, MSP, etc. We are hopeful that with that sensitivity and with truth being on our side that this cost is not owing to our conduct it is owing to government mandate. They should hold some





responsibility of showering up the sugar price. The only way to do that is export. Export let say that our 30% loss to cost. Can anybody bear 30%. So that is the reason we are expecting government to come forward and help.

**Moderator:** Thank you. The next question is from the line of Nitin Gosar from Invesco Asset Management Company Ltd. Please go ahead.

**Nitin Gosar** My question is more structural in nature and you would have answered it in past. Keeping in mind current FRP pricing and SAP pricing, only encouraging was the motivation level of farmer is still high on sugarcane production. So, it is a perennial situation which is still continuing and the only way out could have been the Rangarajan Committee implementation. Do you see anywhere in government corners still talking about implementing that policy or we are still not closer to it?

**Vivek Saraogi** In some indirect way this is being implemented. Cane price fixation, UP has become so much more rational. The moment there is the loss and government in the past has come up and helped exports. We are hopeful they do it again. What is Rangarajan, either you reduce cane price which I do not think any government in this state after what you are seeing in the budget is willing to do. The second way is to improve your paying capacity the answer to that is export. If the government comes forward and helps the export by funding something, so it is indirectly in some way doing that only.

**Nitin Gosar** And sir second question is with regard to the profit positioning of various other companies in this sector keeping in mind the way prices have behaved and if they continued to hold on at certain level which could be at current pricing and the profitability of the industry could come under severe pressure. Do you see that this kind of situation throws up many kind of inorganic opportunity for companies like us who has been sustainably below the overall cost of production as compared to industry?

**Vivek Saraogi** We always will be in look out for particular assets, if they come at the right price. So, if that happens we are there. The potential asset must make sense in terms of all cane availability, cane variety, integrations should such opportunity come up one is always looking at it.

**Nitin Gosar** Sir previous time when you had announced buy back that could be couple of years back, you did mention that the timing of this could have been still better ahead the sudden collapse of sugar not come into picture thereafter. We are again getting into situation just slightly similar to what happened in past somewhere in buy back was announced and then we had a good slowdown in the sugar pricing cycle. Do you think we should be still going at with the buy back or there could have been still alternate way of rewarding the shareholder?

**Vivek Saraogi** We are paying back money to the shareholder out of earnings. Last year the conduct followed was interim dividend and then buy back. The same method is being followed you would have profits you sold the past sugar. So whatever is the annual profit, expectation, etc. based on that you are paying back the shareholders. So, that is the theory.

**Moderator** Thank you. The next question is from the line of Biju Somanath, an individual investor. Please go ahead



**Biju Somanath** Sir, I do have few questions. One is regarding our other expenses in the P&L. Whether the entire off seasonal expenditure has been totally provided for as on Q3?

**Vivek Saraogi** Yes, we write-off every penny spent within the moment it is spend.

**Biju Somanath** Means entire off seasonal expenditure all for totally booked?

**Vivek Saraogi** Yes, totally booked.

**Biju Somanath** Sir, regarding the PBIT, the PBIT of the power segment, the power segment has shown good amount of traction during the Q3. So I believe there is a tax exemption available for the PBIT levels from the contribution from the power segment. So, going forward can we expect that furthermore traction will be there in the EBIT levels from the same segment? Whether my information is correct with respect to the tax exemption available because our effective rate of tax will come down because the contribution from that segment is going up, whether the information is correct?

**Vivek Saraogi** Yes, company is still liable to pay MAT?

**Biju Somanath** MAT, okay there may be a possibility this year we will be entering into MAT and there is a possibility we may have some decent asset creation also. I am not talking about that, but since the contribution level from this segment of power is going up. I feel it will be present in reduce effective rate of tax for the entity. Am I right in with my inference, this is my query?

**Pramod Patwari** Whatever be the contribution of the power division in the overall profitability of the company, we will have to provide or pay to the government on the rates as per MAT. So, to that extent we continue to have a hit on account of current taxation. Over and above that a provision is to be created for deferred taxation also. It has depends on various factors. It is very difficult predict what would be the proportion of deferred tax provision but for current tax we can always presume MAT equivalent rate which is currently at 21.34%.

**Biju Somanath** Regarding the cost of production, because this year our volume we are expecting a hike of minimum 18% to 20% more volume and the percentage recovery in Q3 is still be their shown good improvement, going forward it will be much better. So, is it safe to presume that my cost at the end of the reporting time for the financial year will it be a little bit lower than last year cost?

**Pramod Patwari** Yes, we have already addressed this question in the previous part of the concall. We are expecting similar kind of cost of production for the financial year.

**Vivek Saraogi** We are absorbing the cane price hike.

**Pramod Patwari** Yes, the hike in the cane price will be absorbed through a higher volumes as well as better recovery.

**Biju Somanath** Because of hike in cane price actually was to the tune of almost 5% point more cane price we have to pay. Given the volume hike of almost 20% can we expect with it enhance the recovery also? Can we expect that our cost at the end of the reporting time annual at the reporting date will be lesser than slightly lesser than last year cost that is my query.





**Pramod Patwari** We are not expecting the final cost of production to be lower than last year significantly. It should be in line or at par with last year's cost of production.

**Biju Somanath** Sir, my next query is on the area of our working capital and from today how much is the working capital we have availed from the banks?

**Pramod Patwari** Current working capital utilization is around Rs.600 crore through commercial papers.

**Biju Somanath** Our ratings given by credit rating agencies are quite higher. So are we getting a feel that we can bargain for a still lower rate than the last year in our working capital loan?

**Pramod Patwari** Yes, interest rate scenario has changed in the current year in comparison to the past period. Last year there was enough liquidity in the system on account of demonetization. Our current rate of borrowings is around 6.75%.

**Vivek Saraogi** Which was 6.35% or 6.4% last year, it is 6.75%. So, I do not think one can ask for more.

**Biju Somanath** Sir, regarding some debottlenecking activity, you were mentioning that will big commission around by this time Q3. How far we made progress whether we have completed that around Rs.50 crore worth of investments for getting more stream so that our operational efficiencies will be going up, have we done with that?

**Vivek Saraogi** Yes, whatever we have done the savings will come you will see a higher volumes in power.

**Biju Somanath** Due to that particular debottlenecking what we have done?

**Vivek Saraogi** Yes, it is doing well.

**Biju Somanath** Sir, then one more query, last concall you are mentioning that some monetization of asset will happen in our solar JV. How far it is made progress, any update can you please provide on that?

**Vivek Saraogi** We are waiting for a proper price otherwise the asset is paying good only. So, we will not sell in panic or distress or if we do not get our price. We are confident of getting a good price. Yes, to answer your question we are on the lookout at our price.

**Moderator:** Thank you. We move to the next question from the line of Nimesh Seth from India Independent Strategy & Research Pvt. Ltd. Please go ahead.

**Nimesh Seth:** You mentioned that you will be doing a buy back, you also mentioned that you will continue with the dividend policy, so as an investor we should expect dividends from this company going ahead, correct?

**Vivek Saraogi** We payout to the shareholders. If there is profit you should expect everything.

**Nimesh Seth:** Now, so the buyback is not in lieu of dividend?

**Vivek Saraogi** Yes, it is in kind of, is not it?



**Moderator:** Thank you. The next question is from the line of Sreesankar R. from Prabhudas Lilladher Pvt. Limited. Please go ahead.

**Sreesankar R.** Couple of questions. You see every time while UP has got a normal production which is not a joker of the pack. Maharashtra becomes the joker of the pack in terms of whether you create an excess or a short fall? Now initial indication has been closer to 4 million tonnes in terms of production which has moved to 6 and 8 now I think I heard Pramod say closer to 9 million tonnes. Do you think there is a potential for it by the time, because production in Maharashtra extends further than what you have in North. Do you think that this can even go up to about 10 million?

**Vivek Saraogi** No, we do not think that 10 million tonnes can happen in this year.

**Sreesankar. R.** So, you do not expect to happen 10 million tonnes?

**Vivek Saraogi** Not this year.

**Sreesankar. R.** Second was an extension of this in terms of you mentioned about the export of sugar. Now, can I have the logic of it please when I look at it today if I take the global sugar prices and if I import into India it probably comes at sub Rs. 20 per kg around about Rs. 19 per kg or anything. I assuming there is no duty. So, if we export it from the market realization which you are getting, I think it was Rs.31-32 your net sales realization, the kind of a loss that the industry has to incur for an export is horrendous. So, in that environment what is the kind of a subsidy level or anything that you are looking at or even for that export, is it feasible?

**Vivek Saraogi** Your point is correct, if it is not 12 it will be Rs. 10 per Kg definitely. So yes, let see this way if you are able to export in the current year 5% of your production you showed of the price of the balance 95 and government also needs to only then fund loss for the 5%. So, yes the figure is large but it is not ruled out.

**Sreesankar. R.** And third is, you also mentioned that your thoughts on Rangarajan Committee Report which will be beneficial. But the big question about Rangarajan Committee recommendation is one on cane prices which is linked to your recovery. Today FRP is at Rs.255 per quintal at 9.5% recovery. One of the bigger kicker in UP has been your recovery levels have gone up quite substantially. I am not talking about your mill perse, in general in UP. So, once it get implemented, Rangarajan Committee Report get implemented will not the cost of raw material for the sugar mills in north increase?

**Vivek Saraogi** See, there are many other aspects to Rangarajan also. There is molasses price which has gone down, etc., so, that is why I had mentioned, in UP I do not see differential cane prices between mills to be an easy idea. Indirectly as I mentioned that the governments are looking at either improving your paying capacity or not raising cane price indiscriminately. So, I think the best kind of idea is this the way I see it and I put it forward to all of you.

**Moderator** Thank you. The next question is from the line of Ayush Khetan from Prospero Finvest Ltd. Please go ahead.

**Ayush Khetan** Just two questions. Is government creating any buffer stocks and what will be the quantity for that?



**Vivek Saraogi** I do not think that the government is looking at buffer stock. I think they, if at all the timing and the quantum I do not know but I think we are going to be asking for exports. In buffer stock the sugar still remains with you.

**Ayush Khetan** And lastly will company introduced any branded sugar in small packets like Madhur by Renuka sugar, any plan for that?

**Vivek Saraogi** No, we have seen that but we do not look at that.

**Moderator** Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

**Saket Kapoor** Sir, firstly just wanted to have your understanding, I missed earlier comment sometime that what are the vagaries of the sugar sector domestically also and internationally also. What has led to this price decline over this period and what factors have actually played out and how are you seeing these reversing in the near-terms or getting more aggravated?

**Pramod Patwari** You are talking of present price correction?

**Saket Kapoor** Yes, sir I am talking about the recent price corrections, sir.

**Pramod Patwari** See, the price correction has mainly happened on account of a larger production in the next year.

**Saket Kapoor** So, other than the demand-supply gap is the one that is attributing to this call and that can only be arrested if the next season demand-supply equation changes?

**Pramod Patwari** Last year the demand or consumption was around 24.5 million tonnes. This year it could be between 25 million tonnes to 25.5 million tonnes. Before the start of the season the production in the country was expected to be around 25 million tonnes only and from that 25 million tonnes we have now come to a level of almost 27.5 million tonnes kind of a thing. So, this initially has put a pressure on the sugar realization.

**Saket Kapoor** And sir how has the improvement in yields led to this improved, is this improvement in yields only that has led to this bump up in the production level, the better yields that has been, that is the main reason for that same because the plantation acreage has not changed in that much?

**Vivek Saraogi** Acreage has gone up a little, but Maharashtra majorly yields.

**Saket Kapoor** And, this is going to be the continuity because everybody would be working on the improvement in yields therefore the pressure, the overhang is going to continue even going forward also?

**Vivek Saraogi** When there is a shortage you cannot see the surplus. When there is surplus you question why, will there be a correction. So, there is whether there is also belated to pay farmer. A farmer does not get paid he switches.

**Saket Kapoor** Sir what is your take on the molasses price and what are they trading and what is your outlook sir?



**Vivek Saraogi** See, molasses prices almost down to free of cost in UP but because of our complete integration we do not sell any molasses except to the country liquor which is the policy of the government.

**Saket Kapoor** And what is your outlook sir, how is this trend the pre-cost is definitely not going to stay longer.

**Vivek Saraogi** No, but molasses in UP will not sell at any major prices just too much of molasses. People who do not have distillery are in a problem.

**Saket Kapoor** Sir, I was talking about what quantity of molasses is freely available in the region that is leading to this decline in prices and in the UP by itself? I just wanted to understand the quantity....

**Vivek Saraogi** Sugar production in UP is gone up and 4.5% of that is molasses, 4.5% to 5%. That is the quantum available if you are asking for the entire UP. For our group I have answered that except country liquor we do not sell any molasses.

**Saket Kapoor** So, sir these price trends are therefore all the geographies?

**Vivek Saraogi** Yes, in UP it is.

**Saket Kapoor** No, other than UP the Maharashtra?

**Vivek Saraogi** I have not checked up. We will get back to you.

**Saket Kapoor** Last question is on the, there was one company Shakumbari Sugar wanted certain block an IDBI consortium was working on it for a buyer. So, did we had a look into it or are we in the race, would you like to comment in that?

**Vivek Saraogi** No, Shakumbari does not match our thought process on cane variety, size, integration.

**Saket Kapoor** And sir for M&A activity, your take is needed. For M&A activity happening at this point of the cycle, do you think anybody would be interested well the seller get a fair price that this point our because not the time for M&A activity.

**Vivek Saraogi** It is a very theoretical question, particular assets will get sold that is all I can say.

**Moderator** Thank you. The next question is from the line of Chandramouli, an Individual Investor. Please go ahead.

**Chandramouli** Sir, what is the percentage of holding that Balrampur holds in Auxilo Finserve which you have invested in the last quarter?

**Vivek Saraogi** We are yet to get RBI permission when we get it will be 50% of Auxilo's.

**Chandramouli** Then you are continued to invest more also in the future. You said that about 175 crore you want to invest.

**Vivek Saraogi** Over a 3-year to 5-year period we limited it to that.

**Chandramouli** So that even for the whole amount only or talking about 15% right?



**Vivek Saraogi** At all point of time our investment will be maintained at 50% and the peak is what we have given you.

**Chandramouli** And what about the ethanol sale in this year, sir what you can expect?

**Vivek Saraogi** Yes, we have bid very aggressively because of availability of molasses. We have almost bid closer to 10 crore liters.

**Chandramouli** You are talking about this financial year?

**Pramod Patwari** Supply period will be from December 2017 to November 2018

**Vivek Saraogi** From 1<sup>st</sup> December to 30<sup>th</sup> November, the tender is out.

**Moderator:** Thank you the next question is from the line of Abhishek Roy from SMIFS Securities Limited. Please go ahead.

**Abhishek Roy** I have only one question regarding the budget comment that has been presented by our Finance Minister on 1.5x on cost of production will be paid to the farmers. Now sir, my question is what will be the impact in your financials like once it is implemented?

**Vivek Saraogi** In sugar price fixation, I think there is the FRP, it is risk premium SAP since somewhere I think it covers the FM's wish list. We do not get the exact data but I think it covers his wish list.

**Abhishek Roy** So sir, by how much percentage will the numbers be varied?

**Vivek Saraogi** It has already been announced. There is no change in cane price.

**Abhishek Roy** So much will it impact your cost?

**Vivek Saraogi** FRP has already been announced. SAP has already been announced. So the budget announcements got nothing to do with us.

**Moderator** Thank you. The next question is from the line of Deepak Kapoor, an individual investor. Please go ahead.

**Deepak Kapoor** Just have couple of very specific question, would you have an idea of the rough break even cost of production of raw sugar by Brazil and the EU through....

**Vivek Saraogi** Brazil, etc., is very different they pay based on the market price there is no cost, EU will have to get back.

**Deepak Kapoor** Has the UP Government allowed sale of molasses from current season to other states?

**Vivek Saraogi** Yes, they are in the process, they have done it.

**Deepak Kapoor** The last question is it slightly hypothetic for this sugar season your SAP, your expected rough volumes of crushing, your power ethanol, etc. At what sugar realization would you roughly breakeven at a PBT level?



**Vivek Saraogi** We give you our cost which is be similar to last year, I think Pramod mentioned Rs.31.3 per kg.

**Deepak Kapoor** So approximately if that is your sugar realization for the whole season at a PBT level you will be roughly breakeven.

**Pramod Patwari** So that cost is inclusive of depreciation, but it does not include interest and other corporate overheads.

**Deepak Kapoor** Right, so that is why I am asking this question. Just to understand that since you have revenues from ethanol, power?

**Vivek Saraogi** You can add 1 rupee more on account of interest and other corporate overheads.

**Deepak Kapoor** So roughly a Rs.32-32.5 per kg, you will breakeven for the season at a PBT level for the whole company, right?

**Pramod Patwari:** For the sugar segment.

**Vivek Saraogi** For the sugar segment. Distillery and power profit would be separate.

**Deepak Kapoor** So beyond this the profits of ethanol and power will....

**Vivek Saraogi** Right.

**Deepak Kapoor** If I have to account for those profit then at 29.5-30 you will break even at the PBT company level 4Q?

**Vivek Saraogi** I do not think you should question mode on this it is not, I cannot be more... we gave you all data points.

**Moderator** Thank you. The next question is from the line of Yashpal Madan, an individual investor. Please go ahead.

**Yashpal Madan** I was just looking at let's say major listed companies' numbers on stock position. What I have seen is they are ideally selling 40% to 50% of the current productions basically last quarter basically. I believe for you also that should be the figure that you have been selling 40% to 50% of the production, am I right?

**Vivek Saraogi** It is going to be difficult to say that because everybody starts from different date.

**Yashpal Madan** Yes, let us say if you see overall average?

**Vivek Saraogi** I do not think will be anything wildly different.

**Yashpal Madan** So, let's say now after putting these limits everyone would be selling 17%, let's say. 83% they have to hold on.

**Vivek Saraogi** Yes, the recent reverse stock limit, yes.

**Yashpal Madan** So, 17% basically. So, it means the supply to the market is almost going to go to one third basically, two third will get constrained?





**Vivek Saraogi** Yes, indiscriminate selling will therefore come off.

**Yashpal Madan** So, the supply will get curtailed if let's say this is implemented in as it is expected, smaller mills also implemented and cooperative sectors also implemented. Where it may be a challenge for them to implement they have to pay for their cane basically if they do not get the money how they will pay them basically if they do not sell it, right. So, let say if it is done, so do you think this can bring up by March price by another Rs. 2, Rs. 1 has already gone up since yesterday, if I am correct? So, do you see price going to Rs.34-35 per kg levels because of this measure itself?

**Vivek Saraogi** See let me first clarify, it is very difficult to predict prices for me in this manner. However, having said that, I am very happy that at least in my mind and that is the best of my assumption I do not see prices is not falling off badly again that is the first good thing I see. Next, I see it should gradually move up, Rs. 2 and all I do not see at all up to March. But yes, gradual inching up and some more improvement after April but I had mentioned that one should not look in my interview in the morning with CNBC, one should not do get 36 and all again.

**Yashpal Madan** No, that is right. That will be too much of wish list basically. But I am saying let's say because of this measure in next 2 months practically you do not see even it is going up by Rs. 2 it is difficult, your view?

**Vivek Saraogi** During the crushing season Rs. 2 is more, my personal view.

**Yashpal Madan** And another thing is do you see possibility of buying molasses or bagasse from the market for your crunch season?

**Vivek Saraogi** No, we have enough of ours.

**Yashpal Madan** So you do not have excess capacity that you can buy from the market

**Vivek Saraogi** No.

**Yashpal Madan** I would like to have your inventory figures as of end of this quarter that is not mentioned I think anywhere in the presentation. So, how much inventory you are holding in terms of tonnage?

**Pramod Patwari** I think we have missed out in the presentation will get back to you.

**Yashpal Madan** I did not find this frankly i saw twice, if I am missed.

**Vivek Saraogi** We will get back.

**Yashpal Madan** And how much was opening stock in the beginning of this quarter, from the previous quarter, could you have that figure?

**Pramod Patwari** Opening stock was around 12 lakhs bags.

**Yashpal Madan** And what was the cost of that, carrying cost?

**Pramod Patwari** It was around 33.7 something.

**Vivek Saraogi** Yes, I think it is around that range.



**Yashpal Madan** Then I will wait for the inventory figure at the end of this quarter.

**Vivek Saraogi** Yes.

**Moderator:** Thank you. Ladies and gentlemen, with this I hand over the floor back to the management for their closing comments. Over to you, sir.

**Vivek Saraogi** Thank you everyone and should anybody have any more queries, Pramod will be happy to answer them and we are all there. Thank you.

**Moderator** Thank you very much, sir. Ladies and gentlemen, on behalf of Balrampur Chini Mills, that conclude this conference call. Thank you for joining us.

