



Balrampur Chini Mills Limited
Q1 FY19 Earnings Conference Call Transcript
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Karl Kolah

Good morning everyone, and thank you for joining us on Balrampur Chini Mills' Q1FY19 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 morning everyone and thank you for joining us on Balrampur Chini's Q1FY19 earnings conference call. I will begin 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.

The sugar industry is witnessing strong headwinds owing to a record domestic production of 32.2 million tonnes in current sugar season. The record production resulted in huge pile of inventories. Also the disparity in input costs and sugar realizations has resulted in huge sugarcane arrears, wherein the industry unable to pay farmers.

Over the past few months, we have seen some measures undertaken by the Government to provide assistance to the sugar sector. These include a regulated sugar release mechanism, creating a buffer stock of 3 million tonnes to reduce the sugar availability in the system. Earlier in March, the Government had mandated MIEQ quota of two million tonnes. In addition the Government also prescribed a minimum sale price of sugar at Rs. 29 per kg to arrest the sharp fall in sugar prices. The initiatives by the Central Government have had some positive impact with sugar prices recovering to around Rs. 32 per kg but arrears continue to be very high at around Rs.17,000 crore pan India and Rs.11,000 crore for the state of UP itself.

As per ISMA preliminary estimates the production for upcoming season is expected to increase to around 35.5 million tonnes. Sugar output is expected to go up because of the higher availability of cane due to an increase in acreage and higher



yields. Sugar production in UP is estimated to be 10% higher at 13 million tonnes. Maharashtra is expected to produce in excess of 11.5 million tonnes as against 10.7 tonnes whereas Karnataka is expected to rise to 4.5 million tonnes against 3.65 million tonnes. The pain in the system is still prevalent with consumption at 26 million tonnes; demand supply mismatch is likely to get worse. We are hopeful that both Center and State Governments would take up more proactive approach and initiate measures including a rational cane pricing policy.

Moving to the Company's performance; the Company's performance is in line with tough operating environment in the sugar sector. The allied businesses delivered positive results owing to high volumes and realizations.

Distillery division delivered better results on account of better volumes and increase in realization.

Mills have contracted for the supply of 1.54 billion liters of ethanol to OMC during the current marketing year. The price of ethanol produced some C-molasses has been raised by Rs. 3 to 43.7 per litre.

The government has recently allowed sugar mills to manufacture ethanol directly from sugarcane juice or B-molasses. The price of ethanol produced some B-molasses has been fixed at 47.49 per litre for the marketing year starting December 2018.

With the high sugar production, we are targeting about 10.5 crore liters of sale of ethanol. We are cognizant of the high demand and to tap the opportunity the Board of Directors in the meeting held yesterday have approved 160 KL distillery in Gularia plant at an approximate CAPEX of about Rs.207 crore. Project will be funded through a mix of debt and equity with a ratio of approximately 70-30. Part of the debt would be eligible for interest subvention under the measures announced by Government of India recently.

In conclusion I would like to state that industry is going through a challenging time. With higher production further deepening the crisis, we are hopeful that both State and Center Governments will very soon be completely abreast of the fact that this needs measures and proactively tackle the concerns. A normalized performance from the sugar division will only be achieved if sugarcane prices are linked to sugar realization. We are confident that with our integrated model, continued focus on efficiency, conservative approach and strong balance sheet we will be able to come out of this problem with flying colors.

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

Pramod Patwari

Thank you 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 during the quarter were lower at Rs. 1,002 crore on account of lower contribution from sugar segment. Profits in Q1FY19 were lower by 39% YOY at Rs.73 crore due to under performance of the sugar segment.

Revenues from the sugar segment were lower by around 16% YOY at Rs. 838 crore for the quarter under review with profitability dipping to Rs. 4 crore. Sales during Q1FY19 were higher at 26.65 lakh quintals as against 24.59 lakh quintals



during Q1 FY18. Sugar realizations for the quarter were sharply lower at Rs. 28.42 per kg as compared to Rs. 36.65 per kg in Q1 FY18. Sugar inventory as on 30th June 2018 was 57.28 lakh quintals valued at Rs. 29 per kg. It is also important to highlight that the transfer price of molasses has been revised to Rs. 150 per metric tonne as compared to Rs. 3,500 per metric tonne earlier owing to which the segment PBIT was lower by 104 crore.

In Q1FY19 revenues from Distillery division were higher at Rs. 122 crore as compared to Rs. 108 crore in Q1 FY18. Segment PBIT increased by 79% YOY to Rs. 62 crore. The improved performance of the segment was on account of higher volumes and realizations and also on account of change in transfer pricing policy of molasses which I mentioned earlier owing to which segment PBIT in the distillery was higher by Rs. 24 crore. The segment showed improved performance on account of higher volumes and realizations. In Q1 FY19, BCML sold 29,961 KL at an average realization of Rs. 40.26 per BL as compared to 24,402 KL at an average realization of Rs. 38.97 per BL in Q1 FY18.

In the Cogeneration segment, revenues for the quarter improved by 73% YOY to Rs. 164 crore as compared to Rs. 95 crore in Q1FY 18. Segment PBIT was higher by 97% YOY at Rs. 52 crore. In Q1 FY19 we sold 21.11 crore units at an average realization of Rs. 4.98 per unit as compared to 14.57 crore units at an average realization of 4.80 per unit.

Interest cost for the quarter was lower by 37% at Rs. 17 crore versus Rs. 26 crore in Q1 FY18. Long-term loans as on 1st April '18 stood at Rs.124 crore and out of which Rs 18.8 crore was paid till 30th June '18 as per the repayment schedule. Our long-term net debt to equity ratio stands at 0.06 as on 30th June 2018.

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

Moderator

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Sandeep Sabharwal from ASK. Sandeep Sabharwal please go ahead.

Sandeep Sabharwal

My question was that given the new bio-fuel policy you have announced one plant to be set up at one of your sugar factories, so do you think it provides any incentive for you to become more aggressive in setting up more ethanol plants or you will take some time to take that decision?

Vivek Saraogi

Earlier also we were in the thinking that we should set up more distilleries. However now with the cane crushing having followed you have enough molasses on your own. We were never in the concept of buying molasses and running our distilleries. So, with crushing increased now we would have enough, and this is a big distillery, it's 160 KL and that would be enough.

Moderator

We take the next question from the line of Achal Lohade from JM Financial Institutional Securities Pvt. Ltd. Please go ahead.

Achal Lohade

My first question was with respect to the sugar realization for the quarter was about Rs. 28 per kg plus, how do you see realization for rest of the year? Is it entirely a function of what the government says, or you see there could be impact with respect to the surplus on the sugar pricing?



Vivek Saraogi

On the current scenario, Rs. 29 per kg is the minimum selling price mandated by the Government. So, if Maharashtra sales at Rs. 29 and UP's range would not go below 31.5, so right now we are selling at Rs. 32 per kg. So, Rs. 32 per kg is a good enough benchmark for the time period till the government does not revise the MSP which is a minimum selling price. If you see in the paper our CM has written to the PM and ISMA and all of us have very clearly said that for next year to run smoothly and for the cane price arrear of the current year to be paid Government needs to do two things very-very effectively. One the minimum price needs to be raised to Rs.34 per kg plus that is UP CM what he has written, we have said Rs.35 per kg plus. I'm not saying that this is happening tomorrow but I'm definitely of the view that the revision of minimum price would happen beginning the next sugar season kicks in from October, so one is definitely looking at some revision then and this is my personal estimate. Secondly in order to create a balanced scenario and to correct the fundamentals you need physical export of sugar. We have said that the Government should mandate export compulsorily and if people don't export it has a right to impound sugar and export it on its own and give the realization to the mills. So, this is what we have said and I think it's a very simple two-pronged strategy, which will help maintain your domestic price. That high domestic price should be able to suffice your loss on export. I would see that in a surplus year also we can get through very well.

Achal Lohade

But on the export front what kind of quantum are you looking at and is there any demand for the quality of sugar we produce? I'm just trying to understand operational....

Vivek Saraogi

If you see next year Brazil is expected to be 7 million tonne lower production of raw sugar, which means the world market is hungry to be able to have 7 million plus of raw sugar from some other market. European Union also is now looking at a little bit of a lower production. India is the one which is looking at a higher production. I'm personally not of the view and we have seen some reports that yield might not be higher etc. but too early to call it. However, 6 million tonnes minimum export is needed in next year. Raw sugar can definitely be exported. There is a full-fledged physical market which is ready and waiting to buy the sugar. So, through a mandate as I just told you in my answer to your question, only two things required and all of these two measures have already been successfully implemented by the Government in the past also. You need to fine tune these announcements and make it more draconian and effective so that if somebody doesn't obey he is made to obey.

Achal Lohade

Does it also mean that if there are no cane arrears the cycle could get prolonged and you may not see up-cycle at least for next 2-3 years?

Vivek Saraogi

For all this to play out it will take time, so I don't see arrears getting cleared in a hurry. You are right now in August, UP have Rs.11,000 crore arrears. So, I don't see arrears getting cleared in a hurry, how I see the cycle changing the farmer is going to get into lot of problem next year. The problem is going to be more logistical then payment also. But let me explain the logistical problem. For this kind of production to happen mills have to run-up to May all over. You are seeing the level and the problem of the farm labor. The land/soil of the farmer running up to May year-on-year basis is a negative, so by way of a logistical correction he will need to plant lesser cane for future. This is pure logical stance. However, it all needs to be seen.

Achal Lohade

I see the news report saying that the Maharashtra acreage could be higher by almost 10%-11% further, is that already factored in when you said....



Vivek Saraogi Yes totally. I have seen that Marathwada rains are not so good so yields could be low, so it's too early if you honestly ask me. If you want an honest view, the first honest view you will get in the month of December end when you see the yield, actually the cane being cut in the fields and coming to the factory. That's when you get a genuine estimate of the yield.

Achal Lohade Just the other question I had pertaining to the company is on the new distillery we are talking about, what is the incentive out here with respect to from the government? And what kind of ROCEs can one look at this point in time for this new plant?

Pramod Patwari Government has already announced the higher ethanol price for the supply period beginning from December '18 of November '19 by Rs. 3 per litre and at the same time they have also announced the B-heavy prices which are higher than the C-heavy. Now as far as your specific question is concerned on the incentive, companies would be eligible to get a 50% interest subvention or 6% whichever is low on some portion of the debt. This is the only incentive available to the industry. Rest all will depend upon company to company, like utilization of molasses and we will achieve a better value addition. We get a better price of our molasses.

Vivek Saraogi Let me explain further. The current policy of the UP Government talks of captive production. So, we are able to use our molasses captively, you don't even need to give the country liquor. So, it can be a huge-huge incentive this policy itself. However, our distillery target commissioning would be sometime December '19. So, this is prevalent policy of the state and obviously the State Government will remain the same whatever the result of the national election. So, based on the current policy I think we will have a very good return on the distillery.

Achal Lohade Is there a provision for us to go for a B-Heavy molasses?

Vivek Saraogi Yes, we will have all provisions.

Achal Lohade Do you see more companies following our move or you think the balance sheets of other companies may not be really too supportive for that?

Vivek Saraogi That you will have to check with them. I can't talk about others.

Achal Lohade At this point you are not looking at a significant capacity at the industry level, is that right assessment?

Vivek Saraogi But my distillery capacity significant; this is going to be a 360 days distillery, so it's 160 KL into 360 days. So, if you see that basically it's like almost 6 crore liter more it has got. This is going to be a huge-huge distillery.

Moderator We take the next question from the line of Sunil Jain from Nirmal Bang Securities Pvt. Ltd. Please go ahead.

Sunil Jain My question is related about Government's new policy about B-Heavy. So, whatever you had planned for the CAPEX for all type of raw material, if you would have planned for C-type only like earlier how much more additional CAPEX you might have to do?

Vivek Saraogi Are you talking about the distillery?



Sunil Jain Yes distillery.

Vivek Saraogi As I explained this 160 KL should be able to handle our entire molasses.

Sunil Jain I was just talking about.... like earlier type of plant and now this with all type of raw material there must be some additional CAPEX required in this plant.

Vivek Saraogi No, additional CAPEX is not required. The additional CAPEX which we have factored into the cost will be all pollution control equipment and modern distillery. A B-Heavy is an input, what is B-Heavy; it is molasses which is richer in the sugar content. Let me explain, so cane variety of higher recovery, you don't need additional capacity of the factory. It is better quality stuff coming in. Anyhow we have planned for everything.

Sunil Jain But existing distillery can also use B-Heavy?

Vivek Saraogi Yes, everything is compatible in our company.

Sunil Jain This is what the norm is, means everywhere in all sugar company the same thing is applicable?

Vivek Saraogi Yes. I don't know about the pollution status in others. Basically, if you have distillery you can consume B-Heavy.

Sunil Jain You need to sacrifice some sugar production to have a B-Heavy molasses, so in that proportion at current price of Rs. 47 something for B-Heavy ethanol what could be the price of the sugar which you need to sacrifice?

Vivek Saraogi Approximately take a ratio of 1.6, so closer to Rs.30 per kg..

Sunil Jain So, if the prices remain over Rs.29.5 per kg you may not go for B-Heavy?

Vivek Saraogi But all depends, you have an MIEQ quota. It's a complicated idea but instead of exporting if you allow to make B-Heavy I will do it lots and lots.

Vivek Saraogi Government may say instead of performing your export quota produce less. It's the same thing, produce and throw out of the country, produce less. So, there are lot of dialogs on and if I can share the Government is already very cognizant of the fact that it needs to handle it. So, minimum price is in place, you need to change the minimum price. Concept of export is in place, you need to make it more effective. B-Heavy again the concept is in place, you need to fine tune the policy for it to take care of the export. Quota is in place, so everything has been touched upon. Now it needs to be fine-tuned and perfected for next year.

Sunil Jain So, if suppose some policy measures come for B-Heavy and if all the sugar mills start producing B-Heavy so how much sugar can reduce from the overall production?

Vivek Saraogi Let me explain; first of all mills don't have distilleries, very few have. Very few means I don't know the quantity but not more than 25% factories in India have distilleries, one. Two, all mills can't do B-Heavy like this because there is some pollution requirements storage issues; it is a logistical issue also. Having said that there is a further incentive that your export quota on the quantum, you are required



to export if that you can do through B-Heavy you will see something happened, so all combinations will play out. Government needs to clarify the policies further. And I feel reasonably confident that the way they have moved till now I don't see any reason for the State and Center not to understand the reality which is staring on their face for the next year.

Moderator We take the next question from the line of Vikram Suryavanshi from Phillip Capital (India) Pvt. Ltd. Please go ahead.

Vikram S How is the transfer pricing for distillery and sugar because I think molasses prices have come down significantly, particularly in UP?

Pramod Patwari We have changed the transfer pricing of molasses from Rs. 3,500 a tonne to Rs. 150 a tonne. So, sugar division will get a lower credit on account of this and distillery should have a better profitability because of the lower raw material cost impact. And the impact of this change has already been reflected in the press release which we have shared with the stock exchanges.

Vikram S What I understood is that next year the coming season production we can keep mostly for export because that can be sale in terms of raw sugar but already surplus what we have is mostly in white sugar format, so that probably will remain in the country and probably with this minimum support price we can regulate that supply, so is that my understanding right?

Vivek Saraogi No, you are part right. So, assume Government mandate 60 lakhs tones for next year and out of the same only 25 gets exported so the Government will extend this period and 35 would have to be exported out of the country next year.

Vikram S Is there any clarity from directly juice to ethanol conversion?

Vivek Saraogi That in India is going to be a bit of a problem because of cane price levels. So, I don't see that happening but even the B-Heavy happens it's a good beginning. B-Heavy and export, these are all very good announcements for the long-term, for the medium-term also. What's happened, what did Pramod tell you, why have you changed the transfer pricing? It was Rs. 350 a quintal; we have changed the transfer price to Rs. 15 a quintal. This transfer price market or cost whichever is lower. It shows market price of molasses is almost nothing. Rs. 15 a quintal nothing from Rs.350 per quintal. The impact he has told you is evident, so our molasses have been marked down to market. All I'm trying to say is you need to be solidly integrated, pollution compliant to be able to run you need to have Government policies which are clear and for people who don't follow in times of stress like this, what is cane price announcement, what is the Government's role? The government has to ensure that the announcement in terms of intent and content must reach the farmer, so for that and for larger public interest if the Government comes up with some policy in its right to do so.

Vikram S My only concern was that if you look at from B-molasses what I understood is that sugar production has come down by 5% to 6% so that may not be materially higher number obviously incrementally positive but to really impact the surplus issue, so that is what my concern was.

Vivek Saraogi Let's say B-Heavy results in only 10 lakh tonnes reduction of sugar, if you see it. India is a fast growing consumption nation largely. We have seen how from 28 million tonnes you came down to 20 million tonnes, you are going to 32 million



tonnes . So, I'm not saying that next year anything is going to go wrong but here after that we don't know what production will be. So, things can move very fast, B-Heavy is a tool in your hand, to constantly trim production should you need to do so. That with the export figure it is a tailwind. It's not the aircraft, it's a tailwind.

- Vikram S** What is the production estimate, mostly industries working with I know it's too early but if you can give any ballpark number for sugar production estimate for coming season?
- Vivek Saraogi** For India?
- Vikram S** India.
- Vivek Saraogi** It's too early. I have got some reports of lower yields also somewhere. I'm not sure but it won't be lesser than this year for sure.
- Moderator** We take the next question from the line of Sagar Shah from KSA Shares & Securities Pvt. Ltd. Please go ahead.
- Sagar Shah** Just wanted to clarify that when we actually produce the distillery from the molasses, actually we are producing from C grade molasses right now, right?
- Vivek Saraogi** Right.
- Sagar Shah** So, when we are producing from C grade molasses, so are we losing any sugar production in this?
- Vivek Saraogi** No, C grade you would never lose any production.
- Sagar Shah** From B grade you lose production?
- Vivek Saraogi** Yes, as per reports estimated sugar recovery by producing B-grade molasses would be close to 8.8%.
- Sagar Shah** As you told that the Government has to mandate instead of a 2 million tonnes it has to mandate at least 6 million tons of sugar for export basically. It has to carve out a new policy to support the production of sugar.
- Vivek Saraogi** To support the export of sugar.
- Sagar Shah** And that too of raw sugar?
- Vivek Saraogi** Yes white and raw will move.
- Sagar Shah** Yesterday I had read something like in export market the prices are almost 40% below our MSP actually, the international prices of sugar. So, will it be feasible for the sugar industry to export sugar at such a low price?
- Vivek Saraogi** That's what I was trying to clarify in the beginning, one, in my mind uptick in the global prices because Brazilian production may be 10.5% to 12%, etc. Secondly, we have said please raise the minimum MSP for the local sales, assume 80%-85% is your local sale and MSP is made to 34 or 35 then when you said 15%-20% at



Rs. 10 kg lower also, you lose Rs. 2 a kg on the full sugar. So, assume you're able to get 32-33 net of exports you are in a very good position. It is a price you are selling at today. So, with the tailwinds of molasses production, bagasse availability, distillery prices having gone up, ethanol, you have enough and more to sweat your power at it for people like us is something in such a troubled situation it couldn't be better off.

- Sagar Shah** According to you when will we actually start to produce ethanol from B grade molasses?
- Vivek Saraogi** It will all depend on the policy, they have to clarify certain things.
- Sagar Shah** So, you can start immediately also?
- Vivek Saraogi** Yes we can but we will wait. We will wait for clarifications before doing it.
- Sagar Shah** I have read in Maharashtra though pledged sugar whatever is being kept in the bank, the banks have started to actually demand something like the difference between the international price and the domestic MSP price, the international price if I am not wrong its 25 and the MSPs are 29, so the difference between that the Maharashtra Banks have started to demand from the sugar mills. So, is this the case some kind of in UP also?
- Vivek Saraogi** No, UP is physically not exporting. The people like us have sold our quota through Maharashtra mills and paid for the loss. Let's understand this is a pure financial banking issue. If you pledge goods at Rs. 100 and you want to unpledged those goods you have to put Rs. 100 in the bank or not?
- Sagar Shah** Yes correct.
- Vivek Saraogi** Anybody in any industry anywhere in the world this is true, so is for Maharashtra, UP, any bank will ask for the money. It's basically a finance issue.
- Sagar Shah** Are the sugar mills enough capacity actually to do it, I don't think so the condition is so stable and fruitful right now.
- Vivek Saraogi** I don't know but every company must be having a different financial. I can't answer for the others. But I think Maharashtra should be able to do it.
- Sagar Shah** So, Balrampur Chini as a whole is not facing any problem from any corporative banks as such.
- Vivek Saraogi** See understand then if you are getting to such great details. When he is giving export at Rs. 24 he is taking a check of loss or not, paying it. So, what I'm saying is he should pay the bank, matter is as simple as that.
- Moderator** We will take a next question from the line of Shreyansh Talesara from Vallum Capital Advisors Pvt. Ltd Please go ahead.
- Shreyansh Talesara** We see a substantial increase in operating profit on account of ethanol, so we would like to know how much substantial is it in the sustaining growth in future?



Vivek Saraogi We had explained that the ethanol costing has gone down because of transfer price change of molasses. If you are operating on the same standard, our profit for the quarter would also have been different. It would have been higher by 80 crore if we had not changed any policy. But since molasses market price is lower, so for any product you have to cost your market whichever is lower. Now since we don't sell molasses we mostly use our molasses, so to the user department which is the distillery we are charging a lesser price on the sugar department. We are carrying 24 lakh quintal stock of molasses which is been valued at Rs. 15 per quintal. If the earlier policy was followed it would have valued at Rs. 350 per quintal.

Moderator We take the next question from the line of Chandra Mouly, individual investor. Please go ahead.

Chandra Mouly What would be the total power sales for the whole years?

Vivek Saraogi This year our target is much higher than last year.

Chandra Mouly Any approximate range, first quarter is fantastic.

Vivek Saraogi But our internal target is 70 crore units versus 58 crore units.

Chandra Mouly The ethanol price is Rs.43.70 per litre that is only from December that's right?

Vivek Saraogi Correct, for dispatches from 1st December 2018.

Chandra Mouly This financial year for the last 4 months the PBT will be much more than that because my realization is only 40 point something.

Vivek Saraogi Correct for the next four months from 1st December in the current fiscal year you will get Rs. 3 higher.

Chandra Mouly But already you have sold 3 crore, the target is only 10.5, right? Approximately you have sold 3 crore.

Vivek Saraogi Yes. So, assume it's almost 3 crore for quarter that's 12 crore, so your last quarter plus will be at the better rate.

Moderator We take the next question from the line of Kritika Garg from Equitas Holding. Please go ahead.

Kritika Garg I wanted to clarify that our ethanol sales for FY19 would be 12 crore liters then?

Vivek Saraogi No, I was just trying to explain to him. It's between 10.5 to 11 what is our target.

Kritika Garg Yes 10.5 to 11 is what you had given last time as our target.

Vivek Saraogi I was just trying to explain for a concept.

Kritika Garg What is the cost of production of sugar this quarter?

Vivek Saraogi Cost because for the season would be Rs. 34 per kg.



Kritika Garg Do we get impacted because of this monthly quota that was imposed for each state and UP got a lower quota than Maharashtra?

Vivek Saraogi Little bit yes, but there have been some benefits announced for people who have exported so we fall in that category so we are okay.

Kritika Garg So, we didn't get much impacted?

Vivek Saraogi No.

Kritika Garg How many quintals of molasses is required to produce 1 litre of ethanol?

Vivek Saraogi 4.5 kg of molasses is required to produce 1 litre of ethanol.

Moderator We take the next question from the line of Deepak Kapoor, an Individual Investor. Please go ahead.

Deepak Kapoor I just want to understand government has said they are creating a buffer stock of 3 million tonnes and they will bear the cost for the storage. How does this mechanism work, is it clear already?

Vivek Saraogi For example, the best idea is to give you an approximate figure for our company. For our company approximately 23-24 crore is the yearly reimbursement on this account.

Deepak Kapoor You think that is sufficient to bear the cost of storage for that.

Vivek Saraogi There are various issues being played out, so we have combined each issue and as I said if the minimum price is seen realistically with export obligation it's good enough.

Deepak Kapoor Secondly, whether you use B-molasses in your current distillery, does it require any retro-fitting?

Vivek Saraogi No, no retrofitting.

Deepak Kapoor My last question is how does an OMC or a government identify that particular ethanol has come from B-molasses or C-molasses?

Vivek Saraogi That process is on the way. It is not tough. We have been asked for suggestions and we have given it.

Moderator We take the next question from the line of Harish S, an Individual Investor. Please go ahead.

Harish S Just wanted to understand you said that your cost of sugar is Rs. 34 for this quarter and you have valued the sugar at Rs. 29. So, that means the Rs. 5 we have already charged to profit and loss account as a loss this quarter?

Vivek Saraogi Yes.



Moderator We take the next question from the line of Achal Lohade from JM Financial Institutional Securities Pvt. Ltd. Please go ahead.

Achal Lohade Just one question on the cane crushing for FY19. Would it be fair to assume 10% the way it is for UP for fiscal year FY19?

Vivek Saraogi It's too early but yes, (+10%) only.

Achal Lohade In terms of the cane crushing, so the production would be even higher actually?

Vivek Saraogi Yes, and recovery we are hoping because our varietal change is further improving. We hope for a much better recovery also.

Achal Lohade Beyond 11.5%?

Vivek Saraogi No. We are 10.84, for at least UP its too early but definitely 11.2 types.

Achal Lohade In the press release I see un-allocable capital employed a (-950) crore kind of a number. Is it possible to elaborate on that?

Pramod Patwari I need to see in detail but whatever I can recollect it is because of the higher provision of taxes last year, that amount is refundable from the Government. So, that is one of the reasons that un-allocable asset has gone up.

Achal Lohade What would be the tax rate for us? Is there any benefit for the distillery with respect to tax?

Vivek Saraogi No taxation benefit.

Achal Lohade So, what would be our tax rate at the company level for FY19-20?

Pramod Patwari Around 22% i.e. MAT.

Moderator We take the next question from the line of Madhav Barda from FIL Research (India) Pvt. Ltd. Please go ahead.

Madhav Barda Just one small clarification about the education NBFC that we have planned to invest in. You have clarified it in the Annual Report about the total investments as a set up but what's the plan here in terms of profitability or cash flow, how should we think about it for the next 2-3 years?

Vivek Saraogi It's taken off well and it's too early to comment but one is looking at it very positively. It's too early; just allow it to play a little more. I will attempt to answer you in the next quarter call. There is no definitive data in my hand. As of now we are happy.

Moderator We take the next question from the line of Kritika Garg from Equitas. Please go ahead.

Kritika Garg What would be our average cost of production for the full year for sugar?



Vivek Saraogi Based on constant cane price and based on a lower credit for molasses, the positive effect which will be seen in the distillery around 32.5. These are just estimates.

Kritika Garg So, sugar will not contribute much to my EBIT then in FY19?

Vivek Saraogi Yes that EBIT is getting transferred to the distillery.

Moderator We take the next question from the line of Boris D'Souza from ICICI Lombard General Insurance Company Ltd. Please go ahead.

Boris D'Souza Just wanted to understand what is the total debt we have? Like we have disclosed about the long-term debt but what would be our working capital debt as well?

Pramod Patwari As on 30th June, the short-term debt was 814 crore.

Boris D'Souza And our long term would be then?

Vivek Saraogi 105 crore.

Moderator Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for their closing comments.

Vivek Saraogi Thank you everyone for joining us on the call. Should there be any further clarification, Pramod is there and I am there. Thank you.

Moderator Thank you very much. Ladies and gentleman, on behalf of Balrampur Chini Mills Limited we conclude today's conference. Thank you all for joining us.

