



Balrampur Chini Mills Limited

Q4 & FY18 Earnings Conference Call Transcript

May 21, 2018

Karl Kolah

Good afternoon everyone, and thank you for joining us on Balrampur Chini Mills' Q4&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 Q4&FY18 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.

Let me give you an update on the sugar production. As per ISMA, till 30th April, sugar mills have produced a record of 31 million tonnes of sugar, much higher than earlier estimates of 27.5 million tonnes. This figure is estimated to settle above 32 million tonnes for the current season i.e. the 2017-2018 crushing season. Maharashtra is expected to produce about 10.7 million tonnes as compared to 4.2 million tonnes; U.P is expected to produce 12 million tonnes compared to 8.8 million tonnes. This sharp increase has been on account of higher acreage and better cane variety resulting in higher yields and recoveries. In Karnataka, all the mills have stopped their operation. They have produced around 3.6 million tonnes of sugar. Domestic consumption on the other hand is expected to be 25.5 million tonnes.

The news of record sugar production has led to significant correction in sugar prices; currently prices are closer to Rs. 26 per kg level, which is way below even the cane cost. This high mismatch has led to several mills coming under severe pressure and has impacted their ability to pay farmers on time. Cane arrears in India have reached a level of over Rs. 22,000 crore. Central Government has recently allowed export of 2 million tonnes of sugar for the season 2017-2018 in



order to address the demand – supply mismatch. The Government has allowed export of sugar till September 2018 under DFIA i.e. Duty Free Import Authorization Scheme. The government has recently announced a production subsidy of Rs. 5.5 per quintal of cane crushed during the current season. The total outgo on this account would be around Rs. 1,540 crore. We are hopeful that Central Government will soon announce more proactive measures to restore the industry's alarming situation keeping in mind sustainability of all stakeholders.

Moving to the company's performance, Balrampur delivered a subdued financial performance during the quarter owing to losses in the sugar segment and inventory write-down even as allied businesses delivered stable contribution. Distillery division delivered better results on account of higher volumes and higher realizations. With high sugar cane crushing we are targeting more than 9 crore liter sale of ethanol at Rs. 40.85 per liter in the current season.

To conclude, I would like to say that the industry is going through an unexpected down cycle. We are hopeful that the Centre as well as State Governments will announce further measures and proactively address the industry's concerns. In the longer term our normalized performance on the sugar division will be achieved if rationality is bought into the minds of State and Centre on cane price fixation.

And I would 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.

Total comprehensive income in FY18 was lower by 63% year-on-year at Rs. 217 crore owing to lower sugar realization and inventory write-down in the sugar segment.

Revenues from the sugar segments stood at Rs. 4,164 crore for the year under review and segment PBIT stood at Rs. 139 crore as compared to Rs. 3,370 crore and segment PBIT of Rs. 558 crore achieved last year. Sales during FY18 were higher at 102.95 lakh quintals as compared to 79.74 lakh quintals in FY17. Realizations for FY18 were stable Rs. 35.56 per kg in comparison to Rs. 35.91 per kg in FY17. As on 31st of March 2018, sugar inventory was around 60 lakh quintals and was valued at an average price of Rs. 25.87 per kg, including MIEQ quota of 6.93 lakh quintals.

Revenues from the distillery segment were higher at Rs. 332 crore, with segment PBIT of Rs. 108 crore as compared to revenues of Rs. 327 crore and segment PBIT of Rs. 118 crore achieved last year. The segment delivered stable performance on account of higher volumes, though realizations were impacted owing to withdrawal of price benefits on account of excise duty relief, with effect from August 2016. In FY18, BCML sold 80,659 KL at an average realization of Rs. 39.15 per year as compared to 69,180 KL at an average realization of Rs. 42.55 per year in FY17. The procurement price of ethanol is fixed at Rs. 40.85 per BL for the period December 2017 to November 2018.

Revenues from the cogeneration segment during the year improved to Rs. 531 crore as compared to Rs. 444 crore and segment PBIT at Rs. 172 crore as compared to Rs. 158 crore. In FY18 the company sold 56.80 crore units to UPCCCL at an average realization of RS. 4.81 per unit as against 51.01 crore units during FY17.



Interest cost for the year was lower by 6% at Rs. 52 crore as against Rs. 55 crore in FY17. Long term loans as on 31st of March 2018 stands at Rs. 124 crore, out of which Rs. 114 crore scheduled repayments during the FY18–19.

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. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question is from the line of Nitin Gosar from Invesco Asset Management Company Ltd. Please go ahead.
- Nitin Gosar** Hi sir, good afternoon, just wanted to understand because of the current pricing phenomena that we are witnessing we as a company are still in a better position. But what would be the financial health of the sector and the other peer set in the sector?
- Vivek Saraogi** As I have told you in the beginning, until some really serious measures come out from the Government, the industry and the sector would definitely be in a lot of financial cash flow squeeze.
- Nitin Gosar** I got your point. The idea was more to understand the Rs.22,000 crore arrears that we are seeing right now, I believe most of the companies are not in a position to pay off this kind of number. So, are we in a stress, where in this arrears continue to stay as in arrear for a longer period of time and create lot of news?
- Vivek Saraogi** I got your question. Basically, I think you hit the nail on the head. At the current prevailing price of sugar, this arrear would remain; I cannot give you the exact figure, but a large portion of this arrear would remain un-paid even if you have to look at beginning next season, if one can assume that with this financial mess and with no resolution you can begin the season. So yes, if the prices substantially don't improve from here, if things remain where they are, I cannot talk of Rs.2,000-3,000 crore, large part of the arrear would remain.
- Nitin Gosar** And apart from this export initiative that the Government has taken steps, are there any incremental efforts which you are in talk with the Government that they can take so that we can have a lower inventory and the prices go back to at least Rs. 30 per kg where the cost is more or less on the breakeven?
- Vivek Saraogi** See all I can tell you is we are in dialogue with the State Government and the Central Government. So I think this would sort of interest all the people on the concall, so let me just take you through what we have asked the Central Government and what we have asked the State Government. To the Central Government our dialogue and request has been, the production this year is 32 million tonnes, consumption is 25.5 million tonnes, and production over consumption is 6.5 million tonnes. Assume that 2.0 million tonnes gets exported, you still have 4.5 million tonnes, 1.5 million tonnes you can use to refurbish the depleted level of inventory, which was 3.8 million tonnes, can go to 5.5 million tonnes, which is very reasonable. So it leaves you another 3.0 million tonnes, which is killing the market. So our first request is to immediately create a buffer stock of 3.0 million tonnes, by buffer stock we mean the mills would hold the sugar in their godown, it would not be allowed to be sold in the open market, the interest and the storing charges etc. i.e. the carrying cost for that 3.0 million tonnes would be borne by the Government of India. Now if this happens, basically, it leads to a demand supply correction and that in my mind would be the first step towards improving the price. There is also a dialogue on many other fronts, including, fixing



of some kind of minimum price, some kind of reverse stock limit for a bid. So, measures have to ensure that prices improve, we are in constant dialogue and the Government of India is very serious, they have understood the deep mess, one can definitely hope that the Government of India will act.

Now come back to the State Government, we have seen in the past that when prices fell below a certain level, and the State Government could not lower the SAP, they used to give a subsidy. Now that is because the price was un-payable from the revenue of all three products put together. We are back to a same scenario. Unfortunately, this scenario has emerged post season. Had this been the scenario earlier to the season this would not have been the cane price. So, having briefed them of this fact, one is definitely asking reasonably with State Government putting forward a similar subsidy for the current 2017-2018 season, so that the arrears which you mentioned in the beginning can be cleared. So we are looking for two kinds of steps; one from the Central Government, one from the State. Our point to the State is that the Central Government is intervening at States which are paying FRP; say U.P is paying Rs. 30 per quintal above FRP, so if there is such a deep mess and such a deep crises with FRP of cane price then Rs. 30 per quintal above FRP is just un-payable. So that is our presentation to the State Government.

Nitin Gosar

And now keeping in mind as we all are having or most of the cane growers are having the hybrid plantation. The yield or the overall damage output is only going to stay elevated, till the time the acreage don't really drop. So that kind of problem might continue.

Vivek Saraogi

I can try and answer your question, it is too early to predict area and yield. Let me take you through the 2016-2017 and 2017-2018 production in Maharashtra and that will give you all answers. 42 lakh tonnes went to 107 lakh tonnes I have been, in this industry all my life for 33 years and I have never seen this happen. If somebody is telling me that area from last year to this year went up 2.5X, the answer is a flat no; it is the yield. So yield can be a real joker in the pack. What we have seen last year was a freak yield on the lower side what we had seen this year to my mind is a freak yield on the higher side.

So A) the truth lies somewhere in the middle. B) Yes for today's data point one can conquer the next year's production, again I am saying it is too early but one can try and say that the next year's production cannot substantially come down. Assume its stays at the same level again you have that 6 million tonnes surplus which is generated in the system. Now the Government of India would have to allow export from day one as raw sugar. And if you see Brazil next year the sugar production probably is expected to go down by 5 million tonnes owing to ethanol switching. So that market is available to India at a price. So, should the Government understand that and should we all feel closer to September that there is another such kind of a huge surplus on the way that would be the measure for the next year.

So, let's deal this in two parts next year we come in September-October, where one would have to have a very clear visibility on what is my liability on cane and what is the Government's answer to the surplus, let's currently deal with the current year. I have told you the points which have been spoken with the Central Government and with the State Government and one is definitely hopeful of answers from both.

Nitin Gosar

Next year sugar crushing we should go with the FY18 as a number or we are planning to see any jump in the sugar crushed for the next year too?



Vivek Saraogi Too early, for the time being, one should take the same figures.

Moderator Thank you. We take the next question from the line of Trilok Agarwal from Aditya Birla Sun Life Insurance Company Limited. Please go ahead.

Trilok Agarwal Yes, good afternoon sir, can you share what is the arrears in U.P alone so far, out of the Rs.22,000 crore for the industry?

Pramod Patwari Around Rs. 13,000 crore.

Trilok Agarwal And the price Rs. 26 per kg, is that for you guys and that would be similar in the U.P right? In Maharashtra and all you will be like a little more, right?

Vivek Saraogi No Maharashtra price would be a rupee and a quarter lower and Rs. 26 per kg is probably the benchmark level for U.P.

Trilok Agarwal Okay and is largely crushing over for U.P or it is still going on there?

Vivek Saraogi It is still going on. For example, 2 of our mills are still crushing I think almost 70 mills have shut down over 40 odds are running, and I think May end; beginning June, everything should get over.

Trilok Agarwal And how hopeful, I know you are in continuous dialogue with the Governments and they must have even recognized the issue. But do you feel that this time around they will be more agile compared to what has been seen in the past?

Vivek Saraogi I don't think anybody has any option. Do you want the truth? Rs.22,000 crore is the arrears this year, next year if things don't improve, it would go to Rs.45,000 crore and half of them may not start operation. I don't think anybody in the world can handle this. The Government has 3-4 agenda in mind. One is to get the current year's cane price arrears cleared. You are aware of how the banking system is now. One cannot get any kind of excess loan etc. so it will have to come out of economics, which to my mind is a function and support both of cash subsidy from the State Government and measures to improve price from the Central Government. Secondly, if mills have to begin crushing next year they would have to exactly know what their cane liability is, nobody can take this kind of cane price liability and begin crushing until one is sure of various other things on the way. So I don't think the Government of India or the Government U.P has any time, time is not a luxury they have at their hand.

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

Achal Lohande First question I have, if I look at the cane crushing over last 4-5 years, it has now structurally seem to have gone up. Is it largely on account of the change in the variety mix or is there any acreage increase as such for ourselves?

Vivek Saraogi It is a function of both, but I think variety and yield is the much higher component.

Achal Lohande Right, how much would be the early variety for us and State as a whole?

Pramod Patwari For us it is around 60%, 59-60%.



Achal Lohande Right and the States?

Pramod Patwari States I don't have the figures right now in front of me.

Vivek Saraogi We will get back to you.

Achal Lohande Okay, so another question was on the industry. If I look at the overall industry, the delta is largely played by Maharashtra and Karnataka

Vivek Saraogi No, U.P also.

Achal Lohande U.P also this time around, so how do you see, is there a concern that for the next, at least 2-3 years the production may not materially come down from here, given the farmers who have planted last year will still want to have one or two more of Ratoon crops?

Vivek Saraogi I will tell you straight on facts, the Government of India and the Government of U.P, any Government has to forget that one, cane price is the figure which is decided, because they have a figure in mind. The figure can only come out of revenue sharing.

Achal Lohande Correct.

Vivek Saraogi The sooner people understand the more you avoid cycles and the more you rely on market prices, assume cane price is to go down, then the farmer would shift his land resource to something else which would become more attractive. And that would lead to a sugar price improvement and therefore again cane price improvement, he can come back to cane. So this is the fundamental truth of economics, the sooner the people understand the better. Otherwise if one is willing to open their chest strings from the Centre and the State they can keep on paying the difference. This is the crux of the message and I think nobody can sort of not understand this message beyond a point. I'm talking of all the Governments.

Achal Lohande Got it, just last question, in terms of the sugar cess what is the status we keep hearing that the GST council is deferring time and again, it may go through, it may not go through. What is our perspective on the same if you could help us on that?

Vivek Saraogi See the cess is a function of cash flow for the Government of India. Now that is for them to fund any cane welfare, cane subsidy they so desire. Now if they want to collect cess we are okay with that. But if they don't collect the cash has to come out because of the fact that the FRP is not payable by the industry, so this is a means to collect the cash and how they do it, when they do with, it is their option. This is not a follow-up point on our agenda.

Achal Lohande Correct, but in terms of, technically do they have to make any constitutional change or is it easy to get through or get it notified in?

Vivek Saraogi It has to be notified if one wants to make those changes, everything is doable. Again, as I said that is not a function and that is not an agenda on the priority list of the industry because that is to create a cash flow in the hands of Government of India to be able to pay if they so want to hold the FRP level. If they want to give it out of their budget, fine. They want to collect this tomorrow, today, day after their option.



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

Vikram Suryavanshi Regarding this new biofuel policy. What we heard is that sugar juice is now also allowed to be ethanol and all that. So what is the exact status and how do we see that?

Vivek Saraogi See the biofuel policy is more for the 2G ethanol or second-generation ethanol, which is not made out of molasses. This is made out of rice, corn, those kind of things. So yes, there is an impetus given. The details of what would be the higher price or tax break, etc., have not come out yet. So this is more directional and it is a step in the right direction. Now, how it will play out, we can't answer now.

Vikram Suryavanshi Okay but those also include for first generation this sugar juice or is there any clarity on that front?

Vivek Saraogi No, so that will be a part of a separate policy that is not part of National Biofuel Policy. If you're talking of ethanol conversion, from juice or B-Heavy molasses, premium on that to lower sugar production and divert some sugar into ethanol, is that what you are getting at?

Vikram Suryavanshi Yes

Vivek Saraogi That is also part of our presentation that if you don't want to export sugar, you increase the price of ethanol here for that portion which does not come out of molasses. That part is also pending with the Government, which is also part of our request.

Vikram Suryavanshi And that could be a more rational thing to do?

Vivek Saraogi I think it has to be a combination of everything. See the mess is so deep, the price correction is so sharp, and it is so quick, it is sharp, quick and deep. So I think the Governments, both I repeat both have to come out with measures which are effective and not sentimental. If cash is required cash must be cocked up if price improvement is required do whatever it takes to improve the price.

Vikram Suryavanshi Got it and what would be our ex-factory currently?

Vivek Saraogi Around Rs.26 per kg.

Vikram Suryavanshi Okay and last question sir, this 2 million export what we're looking, is it a mandatory or it is an expected export?

Vivek Saraogi See again, as of now there is no mandatory word but I can't say more than this, but I think Governments are out to also make things mandatory. Let it play out for a bit.

Moderator Thank you. We take the next question from the line of Shubham Deep from Televisory India. Please go ahead.

Shubham Deep My question is, is the company planning to cut down the production volume in 2017- 2018 sugar season as the price is expected to be lower in the upcoming year as well?



Vivek Saraogi As per the current laws of U.P, you cannot cut down production at your will. You have to exhaust the cane in your command area.

Shubham Deep So it is expected that production will remain higher in the upcoming year as well?

Vivek Saraogi No, as I mentioned, today we do not have enough evidence but if somebody asked today, one should say it could be the same.

Shubham Deep The reason is as currently international market also have excess inventory, so it is expected that the prices will remain under pressure in upcoming years and as Brazil economies trying to diversify its product from sugar to ethanol is our company also planning the same some kind of a strategy?

Vivek Saraogi At this point of time we are not planning anything till we hear from the Governments on prices on our overall program.

Moderator Thank you. We take the next question from the line of Chandramauli. J, an individual investor. Please go ahead.

Chandramauli. J Sir this is regarding the Q4 ethanol which you have sold about 19,213 KL at an average realization of Rs. 39.81 per litre. I just wanted to understand normally the government has now fixed at Rs. 40.85 per litre. So, the realization should be Rs. 40.85 per litre?

Pramod Patwari Rs. 40.85 per litre is the price which has been fixed for the current contract i.e. from December 2017 to November 2018. Earlier the price was Rs. 39.00 per litre.

Chandramauli. J Okay and do we have any cane arrears to the farmer sir?

Vivek Saraogi Yes.

Chandramauli. J And how much is it is sir?

Pramod Patwari 25%.

Chandramauli. J 25% Okay, that should be shown in the balance sheet which is payable right?

Vivek Saraogi Yes.

Chandramauli. J Okay and ethanol pricing, which Governments are talking about increasing? Is there anything sir, latest also it came 2-3 days back with that 3 million stock.

Vivek Saraogi Yes, this is part of our agenda. For next year, I think definitely one can hope for something.

Chandramauli. J Okay and the last concall you said that you might be selling about 10 crore litre of ethanol, but in the opening remark you said about 9 crore litre, is there any change?

Vivek Saraogi Next year, one can definitely expect well above 10.

Chandramauli. J Okay, so you have molasses for all those?



Vivek Saraogi Yes, molasses, capacity, everything.

Chandramauli. J And is there any improvement further in power sales and ethanol?

Vivek Saraogi Yes, all volumes would go up on both the two divisions. So next year these two divisions should do well.

Moderator Thank you. We take the next question from the line of Amar Kalkundrikar from HDFC Asset Management Co. Ltd. Please go ahead.

Amar Kalkundrikar Could you share the total inventory provision MTM provision done in this financial year in value?

Pramod Patwari Inventory was around 60 lakh quintals which was valued at Rs. 25.87 per kg and cost is around Rs. 31.07 per kg.

Amar Kalkundrikar Okay, got it sir. And lastly, you mentioned current ex-millis about Rs.26 per kg.

Pramod Patwari Correct.

Moderator Thank you. We take the next question from the line of Rajiv Agarwal from Sterling Capital. Please go ahead.

Rajiv Agarwal Any CAPEX you are planning for the distillery division or any other CAPEX you are planning for the coming financial year?

Vivek Saraogi We are doing some debottlenecking in the distillery and we hope that that would definitely improve our distillery capacity.

Rajiv Agarwal Okay so how much CAPEX would that involve?

Vivek Saraogi Very soon we will put it up.

Moderator Thank you. We take the next question from the line of Ritika Garg from Equitas Holdings. Please go ahead.

Ritika Garg Even Thailand has excess capacity, right? They are also diverting some to ethanol?

Vivek Saraogi Yes. Thailand is doing that. Next year we see Pakistan to be lower, we see India to be an exporter, we see Brazil in the world market to be a lower exporter. European Union is also reporting a slight lower estimate. But these are all very early days.

Ritika Garg So how much would be the excess in Brazil?

Pramod Patwari Brazil would be around 30 million tonnes.

Ritika Garg Brazil production would be 30 million tonnes?

Vivek Saraogi Yes, lower than 30. I think 28-29 million tonnes.

Ritika Garg And in the past season they did, how much?



Vivek Saraogi Around 36-37 million tonnes.

Ritika Garg Okay and how much is their consumption?

Vivek Saraogi Around 13-14 million tonnes, I think.

Ritika Garg And so how much of this is used for ethanol production?

Vivek Saraogi No this is the net sugar production.

Moderator Thank you. We take the next question from the line of Yashpal Madan an individual investor. Please go ahead.

Yashpal Madan Now let's say to divert to more molasses production, are your plants equipped to do that or you will have to do some technological upgradation and some investment for that?

Vivek Saraogi See if one is to go from juice, you will have to do something. But if you have to go from B-Heavy molasses you don't have to do much.

Yashpal Madan Let's see if it has to be done from juice in the government allows that so then what kind of timeframe would we require? What kind of investment may be required?

Vivek Saraogi Now we won't do from juice, you can do from B-Heavy molasses which has some sugar in it.

Yashpal Madan Then how much yield can be diverted to ethanol production in that?

Vivek Saraogi It all depends on sugar, your production, what price is given for the B-Heavy molasses, but one can assume that 5%-10 % production can be diverted.

Yashpal Madan Okay and can you give me some idea about sugar produced in current quarter till now or how much more inventory will get added because of that?

Vivek Saraogi You mean in the month of April and May?

Yashpal Madan Yeah, that is right.

Pramod Patwari Upto March 2018 we have crushed around 9 crore quintals of cane. We are expecting around 10.9 crore quintals of cane for the full season.

Vivek Saraogi So total 1.9 crore quintal of cane is going to get crushed in April-May.

Yashpal Madan And, now recovery must be falling down?

Vivek Saraogi No, in our new plants which are working now recovery is +11%.

Yashpal Madan So far, even now also?

Vivek Saraogi Even as we speak today.



Yashpal Madan So we can expect a similar recovery for this quarter, also like 10.8% is the average. So can we expect the same?

Vivek Saraogi Yes, for the entire season, the average is expected to be around 10.84%.

Yashpal Madan For the season, you are saying?

Vivek Saraogi Yes, so April-May the recovery would be better than 10.8%.

Yashpal Madan Okay, and your average production cost would be around Rs.30-31 per kg?

Vivek Saraogi Rs.31 per kg.

Yashpal Madan Okay. And in this quarter, approximately how much inventory loss has been booked?

Pramod Patwari For this quarter, only?

Yashpal Madan No let's say, balance sheet, so far how much inventory loss has been booked in terms of the number?

Pramod Patwari Around Rs. 320 crore for the full year.

Yashpal Madan And, now I believe at around Rs. 26 per kg sugar price is sustained for may be for the last 2-3 weeks if I am correct. So what is your feeling as of now crushing has stopped almost and it will completely stop in the 10-15 days. Do you see lower pricing pressure getting over and some kind of recovery can happen automatically like even if the Government doesn't do anything?

Vivek Saraogi No see, the Government has to do something that is my call. If they do, just nothing recovery is not happening.

Yashpal Madan Price recovery will not happen?

Vivek Saraogi Yes.

Yashpal Madan So overall, have you seen any drop in demand also from consumption point of view?

Vivek Saraogi No.

Yashpal Madan Your sales numbers are definitely in terms of tonnage is better than last year so far. So overall the whole industry also you are seeing the same thing?

Vivek Saraogi I don't see demand as a problem. If at all demand will go up a little bit the agenda is very high production.

Yashpal Madan That is right. But as people are becoming more and more health-conscious, sugar consumption is also at least in, upper middle-class and even higher people have stopped consuming sugar overall, basically it is coming down. Are you seeing anything in that kind of trend prevailing?



Vivek Saraogi No this is all, the points you are making is limited to big cities and a few people there.

Yashpal Madan Okay but as an overall industry it is nothing like that.

Vivek Saraogi No.

Yashpal Madan Now just one final question, as we see the overall structure of the industry. What we were seeing till let's say 2-3 quarters back say things were looking quite rosy and it was looking like that as if the industry will sail through for the next 2-3 years and a lot of structural changes happened, we were expecting formula-based cane pricing coming in U.P also now things have turned completely. So what would be your advice for the investors? How they should look at the sector? There is so much dependence on the Government; it can't be just driven in the market. So what is your view on that?

Vivek Saraogi See it is very difficult for me to give an investor review. However, I can only paint the macro. This industry cannot enjoy abnormal profits. See, I'm being very frank, I'm giving my personal view, it might be right or wrong I don't know. The abnormal profit is not to sustain. So what you saw probably was an abnormal profit of Rs. 590 crore. However, this kind of a downturn also can't sustain. So, farmer is a partner, government is a big brother sort of person who will ensure that the farmer is not left out in the open at the same time, because of the farmer interest and upcoming elections, etc., you cannot allow this to sustain also. So neither is this kind of a mess going to be the truth, nor is supernormal profits sustainability going to be the truth. The truth is somewhere in the middle and for our Company because of our very low debt, very low interest levels, very high integration into Distillery and Cogeneration. I think we are very well-positioned within the space.

Yashpal Madan And do you see any possibility of FRP being lower for the next season, for the coming season. Has that happened historically that Government has introduced the FRP and SAP lower than earlier or it has been always increased or sustained?

Vivek Saraogi If they have money to pay they need not lower the FRP. If they don't have money to pay I don't see any other option.

Yashpal Madan That willingness doesn't seem to be there because so far, whatever they have announced it has been more with whatever they can do without spending any money. Whatever sentimentally they could do they have done it hasn't helped, just Rs. 1,500 crore, so far they have allocated, that shows some where the intent of the government basically, they want to do without money whatever they want to do.

Vivek Saraogi So I am very happy if without money, the price can go up and protect the sugar, isn't it? If the price can be shored-up, you need nothing from the Government. If it can't be shored-up and if you can't pay you lower the cane price. If you don't want to do anything else, you come and run the factory. If I can wrap up by saying things are bad but I would feel things can only look up from here.

Moderator Thank you. We take the next question from the line of Arun Baid from BOB Capital Market Ltd. Please go ahead.

Arun Baid Sir, my question was more with the buffer stock. So what is the proposal, we have given, like what is the outgo the Government has to face because of this, 3 million stock if they accept that offer of ours?



Vivek Saraogi I think about Rs.1100-1200 crore.

Arun Baid So they are going to do with a loan against that or it is just the carrying cost and interest cost?

Vivek Saraogi Carrying cost will be reimbursed to the industry.

Arun Baid The industry money will still be stuck in that quantity right, there will be no cash inflow for them, it is the interest cost which will come after a period of time?

Vivek Saraogi See there are different ways, carrying cost will come surely and the bank will also not keep a margin. So the margin will also be released.

Arun Baid Say in that case, let's assume this goes through, so we are basically saying that for the next season when you're going to take in, you are going to have a huge carryover inventory?

Vivek Saraogi Yes

Arun Baid Which is all this three will come in, so then the price rise will be very massive in that case, we are prolonging that fall instead of, let's say, April-May to November-December whatever be your time period right, am I right?

Vivek Saraogi No one shouldn't look at it that way if 2 million goes out and 3 million goes into buffer and next year 6 million again goes out, the year after that my call is production definitely decreases and normally the decrease and increases don't last for one year. They last for the at least two years.

Arun Baid Okay, now, so what I understand is still this is one of the most profitable crops for the farmer, assuming he gets the money obviously. So in that case, at least from next year what you said is correct, that the production will be very high. So if you prolong this 3 million more then you're actually getting a bigger problem for the next year because we're going to export the next year we would have instead of 6 you will have $6+3=9$ to export.

Vivek Saraogi No, I don't agree with that, the thing is, if you export next year's surplus, your inventory with the buffer would be about 85 lakh tonne. Now assume 2019-2020 you dip, you can sort of eat something of this inventory and consumption is going up a little bit. In 2019-2020, 2020-2021, you will exhaust all this, and cane price is not to increase that is very clear. It has been increasing over the last 2-3 years that is giving an impetus to the farmer. Now here you are talking, if at all a decrease in the cane price, two-stage payment, three stage payment, arrears, farmers having huge trouble of supplying cane in May-June, all this is a huge deterrent plus the ratoon crop of the game which gets cut in May-June the yield is lower, so all this will correct. So this extra inventory of 3 million can very well be eaten up later. Today it will help stabilize the price.

Arun Baid Let us assume that this scenario plays out, that's 3 million is created as buffer, would the industry be happy with that move itself or is there something else to be done after that?

Vivek Saraogi No, I mean this as a measure to improve the price.



Arun Baid Because the traders will still think the same thing that this buffer is going to come so in the market because 3 million will come not now, maybe but later and the moment I just go up....

Vivek Saraogi That is not the truth. You see this is held back and therefore the surplus goes out off the minds of the millers and people don't sell and government comes up with other things which I mentioned, some minimum price, something else, so prices can very quickly move up. I'm not saying we can go back to Rs.34 per kg something, but they shouldn't stay at Rs. 26 per kg, also. All measures keep increasing the price, subsidy from the State governments, exports, etc., to give stability to the industry for now and in future.

Moderator Thank you. We take the next question from the line of Bharat Sheth from Quest Investment Advisors Pvt. Ltd. Please go ahead.

Bharat Sheth Just again on this 2G technology front, I understand that even from now Bagasse what we're producing power, whereas from Bagasse also one can really with this 2G technology produce ethanol also. Is that understanding correct?

Vivek Saraogi It is but it is very expensive and is very at the pilot stage, still.

Bharat Sheth Okay, but sir, how do we see cost economy wise also if it makes commercially, I mean producing ethanol from Bagasse rather than the power?

Vivek Saraogi No power is much better.

Bharat Sheth Power is much better. Okay, but now suppose if lot of people may not have this whole integrated plant and the way we have our ecosystem, can we think of, I mean going tomorrow. I mean if that really makes a sense, procuring the Bagasse and producing ethanol?

Vivek Saraogi No that is not a good idea because we are dependent on somebody else. We don't want to do that. We don't depend on anybody else.

Moderator Thank you. Ladies and gentlemen, that seems to be the last question. I now hand the floor back to the management for their closing comments.

Vivek Saraogi Thank you everyone and we are there for any other questions you would so have.

Moderator Thank you. Ladies and gentlemen on behalf of Balrampur Chini Mills Limited that concludes this conference. Thank you for joining us.

