



Balrampur Chini Mills Limited

Q4 & FY 2021 Earnings Call Transcript

June 02, 2021

Karl Kolah:

Good afternoon everyone and thank you for joining us on Balrampur Chini Mills' Q4 & FY21 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 would 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. Over to you.

Vivek Saraogi:

Good afternoon everyone and thank you all for joining us on Balrampur Chini Mill's Q4 & FY21 earnings conference call. I hope in these challenging times, all of you and your families are keeping safe and are in good health.

I will initiate the call with an update on the current developments in the sugar sector, post that we can open the forum for Q&A session.

I will not go through all the detail numbers because Pramod has put up a very comprehensive investor presentation, and I hope you would have had the time to go through it.

As per ISMA's latest estimates, India's sugar mills have produced 30.57 million tonnes as on 31st May, and another 1.5 to 2 lakh tonnes in the special season could come. So, you can take this year's production below 30.8 million tonnes as compared to 27 million produced in the same period last year. In UP, mills produced 11 million tonnes against 12.5 million tonnes. In addition, a majority of gur and khandsari units had to cease their operations due to lockdown limitation. And part of this cane has been diverted to the mills, extending the crushing season in the western UP beyond the expected lines. Till 31st May, Maharashtra produced higher number of 10.6 million tonnes against 6.2 million tonnes, which was envisaged. During the same period, Karnataka produced, on expected lines, 4.2 million tonnes against 3.4 million tonnes.



Coming to the global scenario:

Lower output in Brazil and Thailand could result in a global deficit. This has led to firm international prices, enabling India to export excess inventory. According to the reports, India has contracted 5.7 million tonnes in the current season and 4.5 million tonnes would physically leave India by May end, thereafter subsequently. So, just to compete this, we expect 5.7, 5.8 million tonnes to go out of the 6 million tonnes. In the current year beginning October to December, that is sugar the year, some 4.5 lakh tonnes was pending from last year which has gone out. And we are expecting some further quantity to go out in the OGL format, that is without the subsidy. So, India could actually evacuate this year 6.7 million tonnes to 6.8 million tonnes of sugar from its figure of opening stock.

With India's production expected to reach around 30.8 million tonnes, post diversion of about 2 million tonnes into Ethanol via B-heavy and juice route, and consumption of nearly 26 million tonnes and export, as I said, of 6.8 million, as we have explained just now, we expect closing inventory of about 8.8 million. And here also, actual inventory could be a little lower in our personal view.. Average sugar realizations have been around 33.5 per kg from April onwards. The industry has urged the government to hike the MSP in order to help millers clear the farmer dues, that request is still pending for final approval.

Also keeping in view, the firm global prices, the Government has reduced financial assistance on exports that is in a prospective manner by Rs. 2,000, that is Rs. 6 per kg has gone to Rs. 4 per kg. The applicable date for this is post contract executed after 20th May 2021. As a significant portion allotted quota has already been contracted, we don't foresee any problem in evacuating the quantity. And obviously, we don't see a problem because we see additional quantity going out via the OGL format.

Here I would like to add that the reduction in financial assistance for export is not applicable to the company as our entire quantity was done way earlier. So, we are eligible and others also who have done their contracts before 20th May are eligible for the entire Rs. 6 per kg subsidy on the quantity contracted.

On the Ethanol front, OMCs have contracted 321 crore of Ethanol from mills across the country. This is 70% increase over previous season's Rs. 178 crore liters. Overall, 2 million tonnes of sugar production are expected to be diverted to Ethanol via cane juice and B-Heavy molasses, as I mentioned earlier. Out of total contracted quantity of ethanol 225 crore liters is from cane juice, and B-Heavy route, which is the sugar sacrifice route, nearly representing 70% of the total contract quantity. So, out of the total contracted quantity, 70% is going via the sugar sacrifice route. On an average, the country has achieved around 7.56% Ethanol blending with 11 states achieving up to 10%. We are on course to meet our target of 10% blending country wide by 2022 against the current year blending which could hopefully be in the region of 8.5%, or it might be a little lower.

Now I hand over the floor to Pramod.

Pramod Patwari:

Good afternoon everyone. As we mentioned that results and detailed presentations are already shared with you, and we hope that you had an opportunity to glance through the same. We would request the moderator to open the forum for questions or suggestions that you may have. Thank you.

Moderator:

Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Prateek Agarwal from ASK Investment Managers. Please go ahead.

- Prateek Agarwal:** I was interested to understand the Ethanol business. Now, it seems to be significantly more profitable than sugar at current prices. Does it mean that if you do not have capacity constraints, then you would first do as much Ethanol, practically all the cane would be used for ethanol, and on the sugar prices at a higher level which makes sugar as profitable as ethanol, will you do sugar? And then associated question is, why should you not expand ethanol capacity as much as possible?
- Vivek Saraogi:** Okay. Right, we will attempt to answer that. So, let me explain to you, Maizapur distillery is an effort in that direction to maximize ethanol production. And we are also continuously now working on our ability to enhance ethanol further, so that there are internal studies etc. going on. And once we get clarity, we will be approaching the Board. So, yes, one, to answer your question specifically, there is a limited ability to put up distillation capacity, there are a lot of issues on pollution etc. We would put our best foot forward and maximize Ethanol production in the coming years.
- Prateek Agarwal:** Understood, just an add on to this. As I understand, today, there is a command area for which a sugar mill can source sugarcane. Now, there may be a possible scenario wherein you have both capacities and on a marginal basis it may be profitable to do both, Sugar, and Ethanol. And then can you go outside of your command area to get sugarcane? Because that's going to be a concern at some point in time, hypothetically speaking.
- Vivek Saraogi:** Okay. So, let me answer what we are looking at in the coming years. So, last year, we were hit by a very bad weather condition and our crushing dropped by 17%. We are hoping for a lot of it could be recovered back, means, let me not put figures, but one is hopeful of quite a big recovery in the quantity. We are working very, very, very hard on answering and sort of building our checks and balances, whatever we can. See, extreme weather nobody can be beat, but outside of that we are going ahead with varieties based on plot wise varieties, which are more prone to disease or more prone to floods, we are getting resistant varieties. So, we are hoping to increase cane substantially in our command area, with a lot of micro activities and with the farmers directly. So, we are reaching down to the farmers, and we are hoping that in the next two to three years, we will see a substantial growth in cane availability, with further improvement in variety. And therefore, we look to get back and get to a very decent quantity of cane crushing, with a very decent recovery. Both would be definitely higher than our current levels. So, we can work, and we will get more cane, that we can share very confidently as we have done very detailed research studies on this. Secondly, our ability to do the flexi business, as you are indicating, will also improve the moment we are able to share our roadmap after we internally study and get back to everyone via the Board.
- Moderator:** Thank you. The next question is from the line of Sanjay Manyal from ICICI Direct. Please go ahead.
- Sanjay Manyal:** I have a few questions, specifically, what would be now our dependency on the variety CO 0238, and is it like excessive use of the variety across state this red rod issue has occurred? Is it because of this specific variety? What would be the dependence on this and in terms of proportion how you will change it in future?
- Vivek Saraogi:** A very good question. 0238 has become prone to red rod, yes. In certain areas, again, yes. So, we are shifting our dependence to other high sucrose varieties like 118, and we are in the stage of developing some very high yielding varieties and hopefully we might get prime mover advantage, first mover. I won't name the variety but we are working on commercial launch of that variety by 2022 - 2023 in our factories. And our dependence on 0238 will keep declining. So, 118 is already picked up in a big way. The other variety would pick up by 2022 - 2023. Having said that, now since you want to do such a detailed question, I will answer. We are taking

- plot wise detail of how to not let red rod impact us. So, the plot in which 0238 was sown, that plot is very largely being abandoned by the farmer. He's going to an alternate plot of his, and putting up a different variety in that plot. So, that will again very substantially create our safety. Plus, we are going ahead with, if some farmer does not listen to any of us, which might be a small percentage, we are working with him very hard on all the factors and all the sort of agri inputs which can be used to ensure that the disease impact is very miniscule.
- Sanjay Manyal:** And this trend is changing across state? All the farmers across the state want to reduce the dependency on this or all the millers I would say, rather?
- Vivek Saraogi:** I won't be able to answer all over. But yes, definitely people who are seeing this problem would be attending to it. We won't have a very detailed rundown on this for the entire state.
- Sanjay Manyal:** Right. Sir, just one more thing on the global perspective. So, what I understand is, if prices reach 18 cents, 19 cents, the first beneficiary obviously would be the government because they will be sort of reducing the subsidy part. But at what price you think that UP millers specifically would be exporting under OGL without subsidy?
- Pramod Patwari:** See, we have indicated this point in our presentation as well. The current raw sugar international prices are around 17 cents, I think for UP based millers, for us the net sugar realization is expected to come around Rs.26.5 per kg. So, if you are asking for what prices UP sugar mills would be positioned to export without any subsidy element, I would say that ranges anything between 19 cents to 20 cents.
- Sanjay Manyal:** Right. And just one operational question. I think what you got the domestic quota for the quarter was 2.1, please correct me if I not am wrong. But I think you have sold less than that. So, is there any specific reason for that?
- Pramod Patwari:** There was some problem in the month of January and February, particularly January, and maybe a bit of December also. During that period, we could only sell lower than our quota.
- Vivek Saraogi:** And if this was a conscious decision because we didn't want to break the price beyond a certain level. And typically this happens in December, January, February part, when all the millers were selling beyond their quota etc. flooding the market. So, when we refused to sell below the price of Rs.31.5 kg. Having borrowed at 4% or below 4% for an entire cash credit in the CP form, we are hopefully going to get about Rs.33.5 kg for that sugar not sold.
- Moderator:** Thank you. The next question is from the line of Pratik Tolia from Elara Capital (India) Pvt. Ltd. Please go ahead.
- Pratik Tolia:** Sir, just one clarification, your voice was a little disturbed at the time, I could not get the export number that you gave for the industry for this year. Did you say total exports would be around 6.8 million tonnes?
- Vivek Saraogi:** Yes, yes. I am talking 1st October, 2020, to 30th September, 2021, 6.8 million tonnes.
- Pratik Tolia:** Sir, any reason for such a lower export, considering that you also spoke about Brazil being lower for at least 3 million tonnes, 4 million tonnes additional opportunity is available for the Indian millers. So, is it only on the pricing front which Pramod Sir just alluded to that at 19, 20 cents maybe we can go for the OGL? Otherwise, the exports will be mutated at around 0.8 million tonnes additional over and above 6 million tonnes?

Vivek Saraogi: This is the largest ever exports happened, 6.8 million, 68 lakhs tonnes, India has never done close to this.

Pratik Tolia: But the opportunity was also never available, right, 3 million tonnes, 4 million tonnes lower production from Brazil has opened up a big window for us to liquidate the 9 million tonne of excess inventory which you are sitting on.

Vivek Saraogi: There is a limit to physical availability of ports, physical export, raw sugar production during season, price have moved up now. I think you should see last 20 years' data and price to tell you how good the export has been.

Pratik Tolia: No, I agree on that. True. And secondly, I think two days back government has given approval for standalone distilleries, setting up standalone distilleries and without having any need to have a sugar crushing plant. So, does this benefit us also for this new plant that we are coming up or is it only for new entrants?

Vivek Saraogi: We already have all our permissions; we are not standalone. So, this is something for someone else.

Pratik Tolia: Okay. So, Sir, will this therefore mean that the first time players can also now enter into the ethanol business?

Vivek Saraogi: Yes, but it's going to be tough. I cannot imagine how they would, but yes, if somebody wants to, I guess, he can.

Pratik Tolia: Correct. Because my question was basically that if first time players enter and there may be then higher competition for sourcing of sugarcane.

Vivek Saraogi: I don't think very relevant prices will come in.

Pratik Tolia: Okay. And just lastly, Promod Sir, what was the transfer price for B-Heavy and C-Heavy for us in FY 2021 and what is expected for FY 2022?

Pramod Patwari: C-Heavy it was Rs. 3,500 a tonne, and B-Heavy is Rs. 7,000 a tonne.

Pratik Tolia: Okay. And Sir, any guidance on tax rate, because our Q4 taxes are very high. So, what could we expect for FY 2022?

Pramod Patwari: Last year, there was a write back on account of deferred taxation provision, which was created in previous years. So, this being a normal year in terms of current tax charge as well as tax you should take guidance from this year's number for going forward.

Pratik Tolia: Okay. So, around 20% to 23% should be the number.

Pramod Patwari: Yes.

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: Sir, my first question is, if I look at the crushing update, what you have reported last month, it appears that the first quarter there will be significant drop in the crushing volume. Is it fair to assume that there could be a possibility of slight early start of the crushing season in the coming season? And the fourth quarter will be peak at 100%, yet our cane crushing for FY 2022 could be down by 10% - 12%, would that be a fair assumption?

Pramod Patwari: Achal, you have picked up a very relevant point. In FY 2021, first quarter we crossed almost 2 crore quintal of cane, as against that we would be crushing only 40 lakh quintals of cane in first quarter of 2021-2022. Now, if we take the full year number of crushing, which was at 1032 lakh quintal for FY 2021, and with the expectation of early beginnings, I think we should be somewhere 7% - 8% from 1032 lac quintals.

950 lac quintals should be a reasonable estimate at this point in time.

Achal Lohade: Okay, that's very helpful. And with respect to the recovery rates, I understand it was impacted because of the bad weather and the disease. Is it fair to then assume that we go back to the normal recovery rate closer to 12% in the coming season on a normalized basis?

Pramod Patwari: Yes. As explained by Mr. Saraogi initially also, we are working very hard on the cane development front. And if you see last year's number for the season, it was 11.89%. And in spite of impact of red rod disease, we were able to close this sugar season with 11.79% recovery. So, there was a loss of only 10 basis points. Internally, we are working with a target of around 12% for the next sugar season.

Vivek Saraogi: The internal target is 12% plus, but we will tell you 12%.

Achal Lohade: Great. And just a sense on this varietal mix for us. You said we have already started the 118, so what is the mix in terms of the early varieties, 238, 118 and the others for a FY 2021? And how does it look for the FY 2022 or 2023?

Vivek Saraogi: So, all this data comes in the month of September and detail variety wide survey is done. It is too early to say, but we are aware of the roadmap and we have indicated to you. The rest, as you know, let's say operational propriety data, but we will keep briefing you on the macro.

Achal Lohade: Understood. And just last question, if I may, Sir. With respect to export, out of the current 5.7 million tonnes contracted, how much is raw, how much is white, would you have the breakup, a broad sense?

Pramod Patwari: White is around 2.2 million tonnes and balance is raw.

Vivek Saraogi: That we will get from ISMA.

Achal Lohade: Got it. And sorry, I am kind of asking one more. In terms of the sugar price, how is the current realization? What is the expectation we have? And I know it's hard to comment on the MSP, but how do we look at the sugar price or realization from hereon?

Vivek Saraogi: See, current levels, the Rs.33.5 kg around. And even when this whole pandemic actually had gone to Rs.34.5 kg which came down to Rs.33.5 kg, Rs.33.25 kg at times. So, we are hoping that it should be north of Rs.33.5 kg for the six months before season. It is a forward looking answer, so upwards of Rs.33.5 kg.

Moderator: Thank you. The next question is from the line of Rajesh Majumdar from Batlivala & Karani Securities India Pvt. Ltd. Please go ahead.

Rajesh Majumdar: Sir, some of my questions have already been answered, just a couple maybe. My first question was regarding our cane arrears. Since our payables have come off substantially in the March end quarter, I assume that a large part of the cane arrears have already been paid. So, what is your response to that in terms of cane arrears?

Vivek Saraogi: Outstanding from the government and power dues are more than our outstanding cane dues. So, actually money will come from the government and go to the farmer.

Rajesh Majumdar: I mean, in terms of scale and arrears, that you would like to share or...?

Vivek Saraogi: It is about 6% to 7%.

Pramod Patwari: Cane price due as on date is Rs. 180 crore, and receivable from UPPCL on account of power dues is around Rs. 80 crore, and from Government of India on account of export subsidies Rs. 153 crore.

Vivek Saraogi: So, Rs. 230 crore is due from government, and we have to pay Rs. 180 crore.

Rajesh Majumdar: Thanks. My second question was relating to quota, so essentially we are carrying a lot of inventory into this financial year. And because last year our focus has been high till 2Q at least and believing that the quotas will be lower till 2Q. So, once we get into crushing again for FY 2021-2022, we will be having a large opening inventory as of September. So, when can we expect the quotas for us to normalize again? Since the crushing as well as excess inventory will start playing up around the second half.

Pramod Patwari: As of 31 March 2020, we were having 6.7 lakh tonnes of sugar. As against that, this year we are carrying 6.4 lakh tonnes of sugar. In the last year first quarter, we crushed 2 crore quintal of cane, as against that in the current quarter we have crushed only 40 lakh quintals of cane. So, sugar inventory is on a downward trajectory. We don't expect a larger sugar inventory as of 30 September 2021.

Vivek Saraogi: And to add to that, the quota is already getting normalized, government has released 22 lac tonnes for the month of June. And you will see our quotas by June end, when we report next quarter. So, your question will be well answered once you see the next quarter numbers. And you can be reasonably sure of what Pramod has told you.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings Pvt. Ltd. Please go ahead.

Bhavin Chheda: First of all, I should complement for a very, very detailed presentation regarding the global and domestic sugar industry, it helps a lot. Sir, my questions on ethanol front only. So, when OMC gives tenders which is 346 crore liters, does the tender mention a quote from B-Heavy, C-Heavy, syrup or it's the individual sugar mills when they quote in the tenders they have to mention where they would supply? Because the pricing is completely different.

Vivek Saraogi: Obviously, Bhavin, you have to use a tender separately.

Bhavin Chheda: So, when the OMCs tender, they mention they require this much of B-Heavy, this much of C-Heavy, this much from syrup?

Vivek Saraogi: Yes.

Bhavin Chheda: And is the industry able to meet that?

Vivek Saraogi: No, the reverse is true. There is a tender and there are prices, you can fill up whichever portion you want to take that. So, if you want to full juice, you have the option, you want to do the full B-Heavy, you have the option. So, there is no saying specific demand on government, it is open ended.

Bhavin Chheda: Okay. So, based upon the industry how much they can do in which segment basically.

Vivek Saraogi: Right.

Bhavin Chheda: Okay. Second question is on, by 2025, everyone is talking about this 1,000 crore needed if we want to achieve 20% blending. How much is the industry readiness for the same according to you? What's in the order pipeline? How much can come? Because obviously, the demand is there, it's a supply issue and CAPEX issue and environmental issue. So, suppliers to catch up with the demand, what's your take on that?

Vivek Saraogi: Good question. This will help me classify the road map. In the last two years, unfortunately, there's been this Corona pain. So, there were times when the lifting of the OMCs for reasons beyond their control went down. So, now what the government has done, it has very clearly moved forward, and it is going to augment demand and augment it gradually so that assume my capacity is coming up next year and I have to give a much larger quantity. So, they will be building up capacities for storage, they are going to start mandating interim steps of E12, E15. I am sure governed by those very positive steps people will double speed up their investment. And as we indicated earlier, seeing the government's response, we are also trying to see what else can be done further. So, both sides will catch up, there is grain catch up to be done, there are grain capacities on the way, government is ready to buy grains, government is ready to buy B, C, anything you give. So, this further impetus from the government giving sort of small, small improvements over the next few years will ensure that. I will give an example, Pramod has said 11 states did 10%, maybe 11 states do 12% and the others also pick up, so your blending overall will go to 10%. So, that means about a 25% hike, which means if we take the 350 crore liters and then the 100 crore rise, it could be 450 crore liters. Sacrifice would go from 2 million tonnes to 3.5 million tonnes, then to 4 million tonnes then to 5 million tonnes. This coupled with the exports I think should normalize inventory over the next three years very beautifully. Over two years, I think inventory should really be in the range of what we had previously. That is another tailwind for sugar price and stability to the sector.

Bhavin Chheda: And the current Ethanol capacity would be near 450, 460 crore liters?

Vivek Saraogi: 425 crore liters. 100 crore litres is getting added this year. So, it will be above 500 crore litres.

Bhavin Chheda: So, over 425 core liters you are saying 100 crore liters will be added in this sugar season, right?

Vivek Saraogi: It is under implementation, I am not sure commissioning, how fast it will happen. But yes, over two years definitely.

Bhavin Chheda: So, still there is a long roadmap to reach 1,000 crore liters capacity, right? We are talking of almost doubling of capacity needed, and if I say this fiscal is also gone, so in next three years 500 crore liters of capacity is a very large task, right?

Vivek Saraogi: So, it's not so impossible, you will see people like, as we said, we have to wait when we are able to freeze our programs. You will be seeing that there is ability in three, four fronts. One, expansion of existing distilleries. Two, setting up of new distilleries. Three, existing distilleries going to fully juice and B-Heavy, C-Heavy will come down. Four, grain based installations. So, if you add all four, I don't rule out and call it an impossibility, though, it's going to be a little tougher, because Maharashtra has the lag effect, it is not impossible to reach, I won't say 1,000 crore liters, but 800 crore liters can happen.

Pramod Patwari: Out of 1000 crore liters, maybe 700 crore liters will be from sugar industry and 300 will be outside of sugar industry, which is grain. The government is giving too much of an encouragement for standalone distilleries as well.

Vivek Saraogi: So, government, as you see, is opening on little windows to enhance supply. And on its part, it is going to give a demand visibility stage wise. So, we stand fully committed to the program and we find the government support to be exemplary.

Bhavin Chheda: Great, that helps a lot. And just my last question on this. I read the numbers somewhere, so when we are at between 400 crore and 500 crore litres ethanol production run rate, that permanently cuts down our sugar production by 6%, 7%, roughly around 2 million tonnes?

Vivek Saraogi: Bhavin, 2 million tonnes has been sacrificed this year. 2.5x will be 5 million tonnes. If you go closer to 20%, it will be 5 million tonnes.

Bhavin Chheda: Closer to 20%, we will be almost diverting 5 million, you are saying?

Vivek Saraogi: Plus .

Bhavin Chheda: So, which also means that India sugar production, when the weather condition was supportive, I think if I am not mistaken, they normally peak out between 32 million tonnes to 34 million tonnes, that mark will come down to 30 or below, right, if there is no new land acreage which is coming for cane crushing?

Vivek Saraogi: I would put it more at 28 million tonnes. Because if I take your average of 32 million tonnes and 34 million tonnes , which is very correct, the base case is 33, let's say. Take off 5 million tonnes from it, you will do 28 million tonnes. And by that time, demand will be above 28 million tonnes. So, what I am talking about is the three, four year roadmap, where by the government's assistance you would be in a program where you don't need to get into any export subsidy kind of regime, you are a self-fulfilling sort of organization, if I may say so. Only thing, government just needs to keep buying the ethanol which they are very vehemently after. That will be the only program needed, and your inventory would normalize very fast over the next two years.

Bhavin Chheda: Sure. Which also changes the dynamics of where the global sugar price should be then because India is a swing factor?

Vivek Saraogi: And where domestic prices can also strengthen without any support from the government. So, if you want my dream, you are looking at an open economy, you don't need MSP, you don't need quota, you don't need export subsidy, you need only one thing. You need a proper ethanol program, which we are seeing is not only irreversible, but we are seeing being taken up with double gusto ahead. Plus, government is looking at giving us better transport rates, faster transport abilities, faster turnaround time for our tankers, they are going into too much details. But yes, there is government's sort of program and mindset to go all cylinders firing on this program. And the Prime Minister is directly overseeing it.

Moderator: Thank you. The next question is from the line of Shantanu Mantri from MK Ventures. Please go ahead.

Shantanu Mantri: Sir, just wanted to get some clarity over the previous question. In my understanding, 20% ethanol blending, the amount of ethanol required would be around 1,000 crore liters. So, where we are today, say, this sugar season year end, we will have around 525 crore liters of total ethanol production capacity, out of which around 350 crore liters will be available for blending, and the rest will be used by other ancillary industries. So, if we were to back calculate, if we go to around 1,000 crore liters for

blending, the total ethanol production capacity will be around 1,400 crore liters. So, it's like almost 900 liters crore incremental capacity has to come in the by 2025, and this number has been given out by various other companies and manufacturers of the ethanol component. So, am I getting the math right here?

Pramod Patwari: You are absolutely right.

Shantanu Mantri: Okay. Sir, my next question is that this 320 KLPD and Rs. 425 crore of CAPEX, if you could indicate or tell me that who is our vendor, because this multi-feed with grain in the offseason, in my view there is only one player who has the best technology. So, if you can provide any input on that, that would be setting some for us.

Vivek Saraogi: So, the orders are under finalization, once they are given we can get back to you.

Shantanu Mantri: Okay. And sir, my last question is, there is a startup scheme that government has started, where they are setting up these CBG plants, compressed biogas plants. And one of the raw material is press mud, and successfully a couple of plants have started. So, sugar industry becomes a natural player for this, so have we put any thoughts on this CBG play?

Vivek Saraogi: It's not a very serious business opportunity, we examined it. We will be doing in some of our plants, but the number wise its nothing great to report. The press mud is also a very great manure for the farmer. If you want to keep soil health and carbon of the soil going, you need press mud to be given to the farmer. So, it's not a great number, it's not great business opportunity, in our balance sheet it won't make a difference.

Moderator: Thank you. The next question is from the line of Madhav Marda from FIL Research (India) Pvt. Ltd.

Madhav Marda: Sir, I just wanted to ask you, you made a very interesting comment today that you are actually working with farmers to improve yields and productivity of cane. It's such a big change for the sector, earlier we would want lower production, but I think now we want higher production because that's the need of the hour. I just feel that the dynamics of the sector is so different now, right, versus earlier, we actually want higher production to ensure that we can blend more ethanol.

Vivek Saraogi: Absolutely. So, very good question, let me answer this very holistically. Now, assume this year we made a sacrifice of 1.7% recovery on an average for the group. If we are able to, and we hope to increase let's say 8.75 crore cane crush to 11 crore crushing, and sort of enhance our sacrifice to above 2%. So, you will not be adding very substantially to inventory, you will be adding very substantially to ethanol production. So, surplus will not result in a surplus of sugar, but a surplus of ethanol where the government is buyer for unlimited quantity. You get your economies of scale, you get your full crushing, you get good recoveries and good ethanol. So, that is the program. If you read between the lines what I am saying, that is the program, enhancing crushing, taking that enhanced crushing out of the system, maybe do 2.5% sacrifice, make huge amount of ethanol, and still ensure that you are not adding very highly to production and inventory.

Madhav Marda: And we are sort of close to 16 crore liters of ethanol in FY 2021. We also have that expansion coming up in 2022 end, so basically what as such country's ethanol production goes closer to the 1,000 per liter mark, and we are also focusing on grain based ethanol in due course of time. Is there like an internal target that our ethanol volume is 16 crore liters, this is what we want to get to in five years, given that we have the balance sheet and the cash flow to fund extensively?

Vivek Saraogi: Okay. As I began by saying, we have a very big internal study going on. And once we are able to finalize that and the board approves it, we will come to you.

Moderator: Thank you. The next question is from the line of Randhan V from Brilliant Securities Ltd. Please go ahead.

Randhan V: Good set of numbers. And I would like to ask you one question. Now you are telling the ethanol is a game changer like that, you are going on expanding like that. In case the oil comes down, whether the ethanol price also will come down, so we have to balance between the two. Now you are talking about the debt of about Rs. 220 crore you are going to take from March 2022, something like the interest subvention of 50%, can you just give more detail into that? And you say that about Rs. 600 crore will come from 2023/2024, so with a realization about Rs. 650 crore means about 14%, four years of payback is it something that you are telling. Now, is that you can confirm?

Now, the power also, the cost of that is Rs. 3.17 per unit, now what is the average realization, Rs. 3.17 per unit what is our cost? I would like to know that sir. Now, I would like to know, more command area, you can go from other areas, the other person or somebody was asking, whether you can go there. Now I got a suggestion, in order to improve the command area, within the command area itself you can start another NBFC, some finance company where you can give loan to the existing farmers who have got a track record of supplying to our company, so that they can buy more land and supply, because as a company you cannot buy more land. So, keeping in future you can have this arrangement that will be in a better interest for the stakeholders like that. Thank you.

Vivek Saraogi: Okay. Just to clarify one question. I think the controversy of crude prices and linkage to Ethanol, as I said, is beyond doubt. Crude went to zero last year in pandemic, ethanol was lifted at full quantity, full price all the time. So, even if crude goes 100 we don't benefit, if crude goes to zero we don't lose. Ethanol pricing is based on cost of production method, which we see. And MSP got raised last year, so ethanol price got raised last year, consequently to the increase in MSP. The rest of the stuff, as we said, we are working. I think we have adequately displayed ability to understand that business. We are talking with the farmers and a lot of measures which you are seeing is already under play.

Randhan V: You are talking about the 1,000 crore litres something of the ethanol capacity, what will be our market share towards that?

Vivek Saraogi: As we said, we will get back with our envisage quantities as we are able to finalize more and more ethanol diversion program.

Pramod Patwari: The current ethanol capacity after the Maizapur expansion will be around 29.5 crore liters.

Randhan V: Now this will be in a separate phase manner it will increase or only when it is completed that the March 23 something like that it will go in, or phased manner like some breakup is there?

Vivek Saraogi: No, it is not a phased manner, it is one go.

Randhan V: That means to 2023, 2024 only you are going to get about Rs. 650 crore revenue absolutely, correct?

Vivek Saraogi: The revenue figure of your is not correct, Pramod will revert.

Randhan V: But Rs. 650 crore you have stated, that's what you stated.

Pramod Patwari: Rs. 650 crore is the annual revenue potential out of the Maizapur distillery. Once we commence that distillery in December, for FY 2022, 2023 we will get four months of working.

Randhan V: Yes, that's also you we will be getting, that is a peak period, correct, like that?

Pramod Patwari: Yes.

Randhan V: So, that will be much realized. So, the payback will be much better than four years, three and a half years like that it goes, correct, that's what I feel?

Vivek Saraogi: Yes.

Randhan V: What is the cost of this power production, cost of power?

Pramod Patwari: Average realization is Rs.3.17 per unit. And cost is around Rs. Rs.2 per unit.

Vivek Saraogi: It is there in the presentation.

Moderator: Thank you so much. Next question is from the line of Ameesh Karnani from J.M. Financial Services Pvt. Ltd. Please go ahead.

Ameesh Karnani: Sir, the question is, as we have kind of crossed Ethanol PBIT at 50%, we have two routes to kind of increase the ROCE of this business is much higher than sugar, and we have two routes to kind of increase the profitability further, one is, we sacrifice more and more by shifting from C route to say B or A, versus actually going into our new ethanol capacity beyond sugar. So, sir, our strength is understanding sugar command area, and sugar farmers and the cane farmers and all. So, my question here is, based on a medium term outlook, what are we comfortable with? Are we comfortable with switching the existing capacity to more and more juice only route, or we are also looking at upgrading this capacity? Because there we can go to different geographies and we can have a benefit of geographic expansion. So, I understand you said that you are studying and you will come back to investors with the plan. But if you can give us some thoughts, that will be very useful.

Vivek Saraogi: I think as per program we should deal with it holistically at one go only. Let us wait for a bit for us to answer the questions, as we said.

Moderator: Thank you. The next question is from the line of Rushabh Doshi from Provence Niramit Investment Advisors Pvt. Ltd.. Please go ahead.

Rushabh Doshi: I was just looking at the EBITDA margins for the distillery segment, they are north of 40%. So, for the new CAPEXs which we are doing in the distillery side, assuming a full ramp up scenario, so in that juice to ethanol plant, would we be maintaining the same margins?

Pramod Patwari: We have given an indication that that project will have a payback period of less than four years. EBITDA margin in that segment will be lower than what we are having today as of now. Having said that, I would also say that profitability of the sugar company should be seen on a company basis and not on the segmental basis, because segmental profitability is a function of transfer pricing of molasses. And that differs from company to company. So, it should be seen for the company as a whole. But going forward, contribution from distillery segment will go on increasing.

Rushabh Doshi: So, is this 40% which you are earning in distillery segment, how should an investor exactly gauge what EBITDA margin a distillery is making?

Vivek Saraogi: As an investor, we should see the total profitability of the company. We will see the recovery movement, crushing movements positively, you will see divergence. So, you will see function of transfer pricing. I am giving you a scenario where you can understand you will get all your answers. Assuming transfer price of molasses of B-Heavy is made from 700 to 900. Money has not gone out of the company, you will see a fall in distillery margin, but you will see an improvement in the sugar margin. End of the year when the balance sheet is finalized you will see no difference. It will not make any different, money and nothing is leaving the company. It is within the two walls, either the distillery wall or the sugar wall. Not to worry, our investments and our entire program will be very well thought out.

Rushabh Doshi: Sir, I just was confused, like how to look at these margins which are north of 40%. That's why I asked the question. So, my second question was, my assumption is that, you can correct me if I am wrong, but the ethanol bending program is only for petrol, right?

Vivek Saraogi: Right.

Rushabh Doshi: Could you just enlighten, like for diesel is there any opportunity?

Vivek Saraogi: My god, if diesel happens God knows what will happen. But let's wait for this E20. There is study going on in diesel also. But it is being actively tracked by the government. But let's keep that for future, let's not build that in today.

Moderator: Thank you. The next question is from the line of Monish Ghodke from HDFC Asset Management Co. Ltd. Please go ahead.

Monish Ghodke: Sir, I have a small question. So, currently, the government is buying ethanol through its state-owned OMCs at predetermined prices. Tomorrow, after BPCL privatization, would it be compulsory for the new private owner to buy it at these given rates or government has to do some heavy lifting by shifting those purchases to other state owned OMCs? So, how would that function?

Vivek Saraogi: See, while we don't have BPCL documents, obviously, that you people know better. Based on whatever little information, and we can't be held to this, I think the ethanol program will be not allowed to go away.

Moderator: Thank you. The next question is from the line of Varun Goenka from Nippon India Mutual Fund. Please go ahead.

Varun Goenka: Thank you for so clearly explaining in all details, and for a very good presentation Pramod, thank you. So, I think most of the questions have been answered, just a few clarifications. Once we reach 5, 6 million tonnes of diversion in sugar, maybe around 2023, 2024, wouldn't sugar realization in some ways find an equilibrium near to the ethanol realization? So, sugar prices also move up to maybe around 38. What I am asking is not guidance, but opinion on where will sugar also settle at or that's the reasonable price? Because inventory will be low, your ethanol would have reached a certain scale.

Vivek Saraogi: So, Varun, you should be delighted with that construct and that is realism in my mind possibility, and that's what I have been trying to explain. So, if both cylinders fire, you should be delighted. And thought of capturing every little drop in one cylinder that would be given. Assume your sugar goes to Rs.35 per kg and your ethanol realization comes to Rs.34 litre, let's say, in one year sugar goes to Rs.34 kg and ethanol realization comes to Rs.35 litre, you should be delighted in capturing the best that a company can do with its own understanding in both the fronts. So, instead of choosing every little drop in that lemon, one should look to get best of

- both worlds, which we will ensure that our program explains. And that is a real possibility that sugar also be very firm as we go ahead.
- Varun Goenka:** So, what I am trying to understand is, current sugar price is probably low, one, because of excess inventory that was there and that is getting resolved, partly because of COVID related demand. And right now, the ethanol diversion has not yet begun. But three years later when things normalize, is it fair to say that current prices on the lower side, and this is not really sustainable, the equilibrium price would be much higher, which is a win-win for all?
- Pramod Patwari:** Varun, I think you yourself have answered your question. Once the inventory gets moderated, so we are talking of a situation where the sacrifice is in the region of 5 to 6 million tonnes, sugar production in the country equates to the sugar demand. And there is no baggage of extra inventory into the system. I think Mr. Saraogi also said earlier that we are not looking for any MSP regime, any quota regime, any export subsidy regime, and domestic prices will find its own way.
- Varun Goenka:** Sure. Absolutely clear. Secondly, what would be our working capital, maybe three years down the line? Because additional capacities substantially increasing and maybe the full benefit of that will be available at 2024. So, just pro forma, just to have a basic understanding, we are going from asset heavy to asset light, so what will be our working capital requirements then?
- Pramod Patwari:** Few years back we used to have a peak working capital utilization of almost Rs. 1,500 crore to Rs. 1,600 crore. This year, as of 31st of March, 2021, we had working capital utilization of Rs. 891 crore. So, we are already into downward trajectory. Having said that, though our endeavor would be to reduce a bit also in the short-term borrowing front, in addition to the long-term loan repayments, but our cost of capital for working capital is less than 4%. If there is any growth opportunity, definitely we will evaluate that before taking a plunge into reducing the working capital significantly.
- Varun Goenka:** Sure. But our sugar carrying inventory, what would be our guesstimate, where will that drop to? I mean, we used to carry sugar inventory for eight, nine months, so will it drop to close to three months or what would it be?
- Pramod Patwari:** Our endeavor would be to have sugar inventory as on 30th September 2021 in the region of 2.5 to 3 months.
- Moderator:** Thank you. The next question is from the line of Kushganger Hasmukh from CARE Portfolio Managers Pvt. Ltd. Please go ahead.
- Khush Gangar:** My question was similar to the earlier participant, with this new expansion in Maizapur, will we be able to sell all our excess sugar or in spite of that there will be some excess sugar inventory which we will have to carry? And if yes, you can quantify the quantum one month to one and a half month inventory.
- Vivek Saraogi:** It is not possible to go through such great details. It is a question of government's quota per year, your production, your diversion, how government releases, exports - how much you do, what is the future of exports. To give a broad construct, we cannot go into it, because this is beyond our control. You would have broad construct of how much ethanol will be made, that is working capital light, you will still continue making sugar. So, we have given our broad construct.
- Khush Gangar:** So, you said 30th September 2021, 2.5 to 3 months inventory you will have from this year.
- Vivek Saraogi:** Yes.

Khush Gangar: So, after this new distillery expansion, that would even fall further, right?

Vivek Saraogi: Maybe little bit, maybe not. These are things which can't be answered like this. But broad construct, you must get, that's all.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments. Over to you.

Pramod Patwari: It has been a pleasure being with all of you today. And I hope we were able to answer all your questions. If you have any further questions, we would be happy to be of assistance. We hope to have your valuable support on a continuous basis as we move ahead. On behalf of the management, I once again thank you all for taking out the time to join us on this call. Thank you so much.

Vivek Saraogi: Thank you, everyone.

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