



Balrampur Chini Mills Limited

Q4 & FY22 Earnings Conference Call Transcript

May 25, 2022

Moderator:

Ladies and gentlemen, good day, and welcome to Balrampur Chini Mills Limited Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you, and over to you, sir.

Anoop Poojari:

Thank you. Good afternoon, everyone, and thank you for joining us on Balrampur Chini Mills Q4 and FY22 Results Conference Call. We have with us Mr. Vivek Saraogi, Chairman and Managing Director of Balrampur Chini Mills, and Mr. Pramod Patwari, Chief Financial Officer of the Company. We will initiate the call with opening remarks from the Management, following which we will have the forum open for a question-and-answer session.

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

Vivek Saraogi:

Thank you, and good afternoon, everyone, and thank you for joining us on our Q4 & FY22 conference call. I will initiate the call by giving you an update on the current developments of the sector, followed by Company's key highlights for the period under review, post which we are open for a Q&A session.

On May 15, India production has grown nearly by 14% to 34.6 million tonnes up from 30.4 million tonnes in the previous year. In the current year, Maharashtra production has increased on account of abundant water availability, higher acreage, leading to higher yields. The final figure of Maharashtra has estimated at 13.8 million tonnes as compared to 10.6 million tonnes in 2021. Karnataka is going to be 6.1 million tonnes, U.P. is going to be 10.2 million tonnes, rest of India will be about 5.6 million tonnes. So, we are expecting a production of 35.5 million tonnes. This is after diversion of 3.4 million tonnes sugar into ethanol, which is also a record.

Coming to India's exports, we exported about 7.2 million tonnes, physically dispatched, and contracted about 8.5 million tonnes, some people say 9 million tonnes. So, between 8.5 million tonnes and 9 million tonnes has been contracted. 8.5 million tonnes is expected to go out by April- May. So, contract, 8.5 million tonnes, physical evacuation of 7.2 million tonnes by May is that puts, and contracts of about 9 million tonnes.

So, despite higher production, the closing stock should be lower or improved ethanol diversion, robust exports, and strong domestic consumption. This has led to firm realizations of sugar even during the season.

In terms of ethanol, against quantity of 458.60 crore liters, representing 10%, about 425.8 crore liters have been contracted so far, and 186 crore liters of ethanol have been delivered up to May 1. The sugar sector has supplied more than 88% of the contracts done so far, which has enabled India to do a 9.9 crore liters blending. So, we are hoping in the overall year, 10% blending is equal to 428 crore liters. This has led to a sizable foreign exchange savings of INR 9,000 crore. And currently, if you see the crude price, I think everybody is again in this via this program.

Moving to our Company's performance, BCM concluded the year on a healthy note assigned by high realization in our Sugar and Distillery segment. While we were expecting crushing to be higher by 5% to 7% in the season, fluent weather and probably that is the main reason that we were only able to record less than 2% increase in production. Further, the recovery is also lower owing to the climatic condition. Just to give you an idea, two of our factories received 90 inches of rainfall, where the normal figure is about 35 to 40 inches. In this condition, it is very tough to perform if we receive 90 inches of rainfall.

On the operational front, since the successful commencement of our expanded capacity of distillery at Gularia 200KLPD, which we are running at full capacity, we are on time, and we should be able to commission our Maizapur distillery and expand our Balrampur distillery, commence commercial production in both during the month of November.

On full capacity, as informed earlier, we should be able to deliver about 35 crore liters of ethanol, including 5 crore liters from grain and about 2 crore liters ENA. We are also making healthy progress in the modernization and updation of some sugar factories, and certain refineries also coming up. And all our expansion program, which were envisaged earlier are on time.

To conclude, over the past few years, we have been maintaining our profitability even in sugar surplus seasons owing to various structural changes in the industry and our integrated model. So as the demand and supply scenario improves and with growth in volumes and expansion both in sugar and distillery segments, we hope to take our performance to the next level. Thank you.

Moderator:

Ladies and gentlemen, we will now begin with a question-and-answer session. The first question is from the line of Manish Ostwal from Nirmal Bang.

Manish Ostwal:

I have one question on the recent announcement by the Government. So, I mean, what is the implication we see for the industry per se in terms of sugar realization? And secondly, in particular, Balrampur Chini. Your comment, please.

Vivek Saraogi:

Okay. So, as we said, let me put this in perspective. Government has done only one thing. They have said, you cannot export more than 10 million tonnes of sugar in this year, which begins from October 1 to September 30. Correct? They had, therefore, in order to ensure that not more than 10 million tonnes moves out, in a scenario where 9 million tonnes plus has already been contracted, laid out certain rules. So that is all they have done.



This is a move to my mind, which is very scientific and very welcomed. So, they are saying that we are comfortable till you have a closing stock of about 6 million tonnes, which as a sugar factory owner, is must. Even we all agree, and not from now from decades that minimum 2.5 months consumption should be available on October 1. The reason being, by the time new sugar comes into the market, it becomes December. Hence, the country should be able to have stocks in its go-downs, factories should have stock in their go-downs to feed the country during those festival months and those two, three months.

So, what they have also indicated to my mind, that in the coming years, the policy will be tweaked in a manner, export quantity, whereby you are required to keep about 6 million tonnes closing stock. That, to my mind, is a very transparent and a clear-cut mechanism and our communication, which is very responsible.

So, if the country has to carry 6 million tonnes and beyond that you are allowed to export, I see this as a positive. So, what I also heard is people who are reeling from this mentally from the steel duty, which came on the weekend and imagining what else can happen. So just to put it on record, there has been no cap ever put on sugar prices. There will be no cap on sugar prices is our firm view. History stands evidence to that. Cane payments have to be done. Currently, the price is around Rs.35.5/kg. Any commodity can fluctuate by 1%. If that happens, one should not read more than a normal fluctuation.

If people want to de-stock and prices come down by 1%, 1.5%, it is very possible. If you start in June, July when the prices will be higher from today, maybe yes, should be yes. So, there is no other move about which one should worry. This is a move which you are in the offering. It is rational. Had it not come within this atmosphere, I do not think there would have been so much debate about it. But there is no need to fear. Rather, there is need to rejoice with the clarity given by the Government. This is our view.

Manish Ostwal:

Yes. The second thing on the slide number 20, the group of Minister recommendation to revise MSP from Rs.31 – 33/kg is awaiting cabinet approval. Any timeframe we can expect?

Vivek Saraogi:

So obviously, that will not happen at this point of time. And if the market is at Rs.35.5-36/kg, why should we even look at it today?

Manish Ostwal:

And lastly, sir, in the Government press release, they said that they want to check the prices and the wholesale retail prices. So how do you read that thing, sir?

Vivek Saraogi

So as I told you, these are market forces. When a Government does something, when inflation is staring globally the way it is and export is sort of, they put a cap of 10 million tonnes, again, which I say very responsible, it will be accompanied with some statements. The rationale behind it is to say that India has enough stocks.

Moderator:

The next question is from the line of Parth Bala from JM Financial.

Parth Bala:

Sir, my first question is regarding the cane crushing volume. So, this year, we have seen it has been impacted due to the diseases. But it may be a little early to give any indication, but can you please elaborate a little bit more as to what is the exact issue here? Is it anything to do with the variety and probably could be a longer-term issue in nature? Or can it be reversed in the coming season itself, especially the decline in the yields in our catchment



area. And also, what measures we have taken to compensate for this? That is my first question.

Vivek Saraogi:

That is a very valid question. So, what I will do, I will hand the floor over to Avantika, and she will take you through our cane initiative on how things look today. Avantika, on to you.

Avantika Saraogi:

I just want to reiterate already what my father has mentioned that it was weather conditions this past year which has created the lesser yields in cane. It is no other reason. Rain started all the way in May and then went until October, which was unforeseen. And these rains were extremely untimely. Now 90 inches, which was mentioned is no small figures. And for us to be able to crush 8.88 crore quintal in that scenario, I think it is a very good result.

But let us talk about the coming year. I have to say that this May has been much, much better than the previous year, and it is very, very encouraging to see the monsoon predictions being normal. And in this scenario, in the coming year, we should be in a very, very good position. I have to highlight some of the key cane development activities on which we have worked. We have made herculean efforts in four areas.

Firstly, in planting, we have increased our area by 10% to 15%. This results in a total cane area increase of 6% to 7%. This is no small effort, I must add.

Secondly, the ratoon management is somewhere we have tested a lot this year. East UP growers are not accustomed to actually working on ratoon crops and this accounts for 50% of the cane crushed. Now this year, we have made huge awareness campaigns, and we have pushed this activity. Together, we have, for the first time, been able to achieve 75% of our ratoon area has come out of some ratoon management activity. This is a very big deal for any East UP region.

The third point is that our varietal balance, as we mentioned last time, is really improving. Now we have the area under 0118 has increased from 13% to 23% for the next year. 118 recovery is superior to 238. Therefore, this is very, very positive for us. Other than this, a few new pipeline varieties that are under aggressive multiplication plans. And these are top land low land areas both. So, in the next two to three years, we might see a whole new cane landscape, which is built to last through a healthy balance in our various efforts.

Lastly, I want to mention, I want to highlight this the red rot was not a major factor this year at all, as it was in the previous year. Going forward, it is becoming less and less of an affecting factor. Growers have become aware. We are working extensively on disease control in the last two years, and we continue to be very, very vigilant about it and any other disease, insect or pests that might affect us badly. So, we are looking to be in a very, very healthy position in the coming two to three years. Thank you.

Vivek Saraogi:

So basically, also, what we can say today, again, we can only give you a much greater figure by October. But as things stand today, steering and the growth is way, way better than what we have seen in the past year.

Parth Bala:

Understood, sir. And sir, so is it fair to build a similar kind of a volume what we had in FY '21 for the crushing volume as well as the recovery rate on a normalized basis?

Vivek Saraogi:

Absolutely. Again, if 90 inches comes, nothing can be committed. But if you are talking of that 1,050, we crushed, is that what you are talking about?



Parth Bala: Yes.

Vivek Saraogi: Yes. Our internal targets today are standing at those levels, definitely. For the sugar crushing season.

Pramod Patwari: Not for FY '23?

Vivek Saraogi: No, no, it cannot be, no? When we talk cane, we talk for season.

Parth Bala: Okay. Understood, sir. And lastly, sir, on the unallocable expenses, we have seen a massive jump. So, can you elaborate a little bit on that? So, is there any change in any line item or and if you can provide a breakup for the sales?

Pramod Patwari: So, in the last quarter of last year, there was gain on buyback of shares of associates. So that is the difference, Rs.7.5 crore to INR8 crore.

Parth Bala: So yes, can you quantify that again, sir? I missed that.

Pramod Patwari: Sorry.

Parth Bala: Can you quantify that again? I missed the number.

Pramod Patwari: I think it was Rs.7.9 crore something.

Parth Bala: Okay. Okay. So, this will be the run rate going forward. Is there a fair assumption again? What we have seen in Q4?

Pramod Patwari: Run rate of what, unallocable expenditures?

Parth Bala: Yes.

Pramod Patwari: Unallocable expenditure, you can assume at Rs. 75 crore. Rs.2 crore here and there.

Moderator: The next question is from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: I had a couple of questions. One on the production side, I see there has been some change in the crushing capacity as compared to last quarter disclosure from 76,500 to 77,500. Have we increased or am I missing something?

Pramod Patwari: So, we have upgraded our Maizapur sugar crushing capacity by 1,000.

Shailesh Kanani: Okay. So that has been the change since last quarter?

Pramod Patwari: Yes. That has resulted into going to 77,500 in comparison to 76,500 at a quarter.

Shailesh Kanani: Okay. Sir, I believe in the fourth quarter, financial year ending, quarter 1, we have then very high levels of operations, like more than 90% of crushing has happened. Is that on a sustainable basis? Or how would that be ahead? I am little worried about the crushing part; we have seen a decline in the last two years. Earlier, there were problems on record, last year we had seen weather issues. So, I know you have already gathered it, but can to share some light on this?

Pramod Patwari: Significant portion of crushing happens only in the last quarter. So, January to March is the period when we get entire 90 days for the crushing. As you know that last year, the crushing was lower. The spillover effect of lower



crushing will always happen in the period post March. So, if you are comparing the FY '22 with FY '21, definitely, the proportion of crushing, which happened in the last quarter will be more than 90%. There, you are right. But as we have mentioned in the call that next year onwards, we are expecting an improvement in cane availability. The same thing will happen again the next year also. The spillover effect of incremental cane availability will be seen in the first quarter of FY '24.

Shailesh Kanani:

Okay. Sir, on the margin trend, some decline. I understand that. But in general, what should be the trend for March, especially on the sugar segment?

Pramod Patwari:

So again, we have been saying this that results should always be appraised at group level, considering all the segments together, because the transfer pricing varies from period to period and company to company. Even in this adverse situation, we have been able to maintain our EBITDA margin at a group level of around 14.4%, which was same last year.

Now you are aware of the fact that there was increase in cane price by INR25 per quintal. Cane availability was lower. Recoveries are down by 31bps. So, the cumulative effect of all this is the increase in cost of production, which has resulted in lower margin.

Vivek Saraogi:

Yes. All these gets covered at the moment the cane quantity increases. So, cane quantity increases is because of increase in the little area and then majorly because of increase in yield. If yield is better, recovery is better. If your quantity is higher, you get more by-product. And you get a lesser cost of production as fixed cost gets spread over a much larger quantity.

So, the down trend is cane availability that one factor will lead to, you will see the impact. It is like an earthquake, and you see seismic zone. And here, this is a virtuous cycle. The moment it picks up, you will see benefit everywhere.

Shailesh Kanani:

Sir, just to continue on the same point. Assuming that we have a normal crushing season like we had three years back, and assuming that, of course, revenues from distillery segment move up as capacity expansion happens this year and next year, financial year, so is it safe to assume that our margin should be coming upwards?

Vivek Saraogi:

Definitely. Obviously. It is more than obvious.

Shailesh Kanani:

Sir, last question from my side. So, to your mind, do you think there are any percentages or probabilities that the Government will come out with a cap on the sugar prices perse. It has not happened, but it can happen. So, is there a possibility that Government will do it?

Vivek Saraogi:

I will try and address. Please, get me correctly. Is there a possibility an earthquake can happen tomorrow? The answer is yes, no? So, you want my thoughts, after being in this industry 35 years, I cannot say it more loudly and clearly that I do not see any chance by any standard of any move, which is negative. And trust me, I do not understand how this move is negative. It is telling you please export 10 million tonnes. So, if somebody was on the fringe and after 9.2 million tonnes he was wanting to wait, he will rush and export. If he rushes and export, your inventory decreases, your pricing, if at all, is firming up for coming years. Government wants cane payment to be done.

Now please let us understand one thing. Why is this ethanol program, why is this MSP thing, why is this quota thing, why is all this seen by the Government once a year? Because they fix the cane price, they say we want you to be in



a continent to pay it. So once they assess the cost side of your balance sheet, they look after the revenue side of your balance sheet. So, if you see B-heavy and C-Heavy juice, prices are revised the moment the price is touched. They say once we increase your input cost, we look after your output cost.

I remind people of pandemic days when we did a call and crude went to zero. I do not know how many times I had to say what I had to say. But the fact is ethanol price is fixed once a year. It will neither go up, not go down. If crude goes to Rs.200, if my cane price is raised, my ethanol price will be raised. If crude goes to zero, my ethanol price will not decrease. So, ethanol is not linked to crude even though it is mixed with petrol. So, there are two separate sources to mix at the depot.

So, assume that you are running a multi-fuel sort of retail outlet, you are allocating 10% of shelf space to one product, 90% to one product. 10% product will go up to Rs.15, Rs.17, Rs.20 in three years. The rest will come from that Rs.80. This is how this is done for the quantity. That quantity is non-negotiable.

You heard our honorable Prime Minister say from Lal Qila on 15 August is so clear on this environment. He said that even globally, you are allowed plastic straws, in India, you are not. You are seeing his thrust on environment, you are seeing his Atmanirbhar concept. Both convert so very well into ethanol, I cannot explain. To, the pricing of ethanol, the pricing of ethanol is a derivative. So, it is derived from cane price and increase in cost. So, these two increases, ethanol price will be increasing. If at all Government might provide some small impetus in ethanol pricing to incentivize further diversion because after diversion also, if you have so much of production, they would want a little more diversion, a little faster than we want. So that is very, very clear.

Shailesh Kanani:

Okay, sir. I agree with you on the quantity front. And thanks for the insight on the pricing front.

Vivek Saraogi:

Not the quantity front. I hope everyone is clear. I am willing to answer more questions. On the pricing front and quantity, both are as clear as day like.

Moderator:

The next question is from the line of Aditi Ahluwalia from Invesco Ltd.

Aditi Ahluwalia:

I just had a follow-on to that. So, the country is already at about an 8% blending. And what we are given to understand is that beyond 10-odd percent, the rubber parts and the vehicle manufacturers need to really get their act together so as to be able to blend more ethanol onto the fuel. So, the question is that growth beyond '24, maybe you've added capacities right now in '23, '24, we will have already reached that 12%, 13% blending level. So, beyond that if the quarter does not change, how will the growth come?

Vivek Saraogi:

Yes. So basically, let me explain to you. There are two sorts of fuel compatibility. One is an engine compatibility and one is material compatibility. So, engine compatibility is the big measure, permanent measures, material compatibility, the rubber parts is a smaller measure.

Up to 15%, there is no material compatibility fouling. Maybe if we have gained some rubber parts a little past transplant, Rs.5,000 a year, so be it. That is, it. Government is moving ahead very clearly internally understanding this. They have debated this around. I cannot share more than that, but it is very clearly debated.



So, we will move to 12% to 13% next year. And thereafter, those flex fuels and the other vehicles and the fact that some will do 15% some will do 25%, two-wheelers can go up to 85%. So, there is a full short program drawn out year-to-year. So next year, Pramod, 12% to 13%? 12% to 13% if we can supply, it will get picked up.

So, it is going to go in my mind, now this is Vivek Saraogi of Balrampur Chini Mills, not or anybody. So, we are saying 10% to maybe 12.5%, then 15%, then maybe 20%, or maybe 18% and 20%. So, your question, whether the car parts will be a deal breaker, the answer is no, not in the next year, not in the coming years. There is a full program charted out.

Aditi Ahluwalia:

Okay. Maybe I will check with the automakers on that, I think.

Vivek Saraogi:

Not the automakers, you check with SIAM.

Moderator:

The next question is from the line of Madhav Marda from Fidelity International.

Madhav Marda:

I just wanted to check that, I think 3.5 million tonnes is diverted towards ethanol this season. How much do we expect as the blending moves to 12.5% and then 15%? Just how much would that number be given the mix of million?

Vivek Saraogi:

4.5 million tonnes should be next year, then maybe 5.5 million tonnes. At peak about 6.5 million tonnes.

Pramod Patwari:

I would say maybe 6 million tonnes, 6.5 million tonnes.

Vivek Saraogi:

6 million tonnes plus at peak.

Madhav Marda:

At peak, 6 million tonnes, okay. And then, of course, there are incremental growth for us for the ethanol business will be more from grain-based ethanol incremental. Is that the right way to think maybe two, three, four years out?

Vivek Saraogi:

Are you talking for Balrampur?

Madhav Marda:

Yes, for Balrampur, yes.

Vivek Saraogi:

So, see, our 35 crore liters can take care of that distillation capacity. We can take care of about 11.5 crore quintals of cane easily. So, we have built our assets to handle 11.5 crore quintals to 12 crore quintals of cane. And I am very hopeful; I am getting it within 2 years from now. Next year and thereafter, we will reach our levels of what we think, and this is a bit of a forward-looking statement, if I can say so.

Having said that, our next round of growth after we sort of stitch up all what we have done should come from there only. And again, let us check out our experience of how grain behaves because we have gone a grain portion in Maizapur. We will get an experience very soon on that.

Madhav Marda:

Okay. Got it. And the second question was basically in terms of the sort of sugar price outlook from here, basically, like given inventories have come down the 6 million tonnes, 7 million tonnes.

Vivek Saraogi:

Yes. So, the outlook is positive only logically. So how can I say it. Okay, I will only say it the way I understand how to say it. If inventory depletes, please understand, fundamentally your pricing is on a firmer wicket.



Madhav Marda: Absolutely.

Vivek Saraogi: In the next 15 days, if I am to predict prices, or 10 days or 15 days or 20 days, it will be headed 1% down only. Because there is fear in the system. There will be de-stocking. By whom? By the traders.

If you understand, there is a pipeline of at least 5 lakh tonnes in the country. A pipeline means where the sugar is either on road or at the store. People have one truck on the road and a little bit of sugar in the store. So, when you go to a hand-to-mouth scare, you have one-fourth on the road and one-eight in your store.

If that happens, which will, let us say, it happens, there will be a lull in buying for a few days. But we are seeing results of our Company in a year. What is the price trajectory over a year, a quarter at least. On that front, today after this announcement, with all confidence and analysis at my command, the move today is price positive and not price negative.

Madhav Marda: That's exactly what I thought as well.

Vivek Saraogi: I am sorry I had to explain it a little vociferously because of the number of fearmongering I am hearing.

Madhav Marda: Understood. And if I can ask 1 more question. Our sugar volume sales that have come down in the last two years. I guess that is a function of our lower sort of cane availability and then some diversion to ethanol. But as we issue the red rot disease and flooding, et cetera, goes away, are -- we could be in a position where ethanol volumes and sugar volumes will both move up, right? That also could happen in the next couple of years?

Vivek Saraogi: You see ethanol is made from sugar only, no?

Madhav Marda: Yes.

Vivek Saraogi: When you crush cane, you get cane juice. You either divert it to ethanol or to sugar. So, if you sacrifice there, you will get a combination, you will get much more revenue of whatever products you make.

Madhav Marda: So, given the recovery rates and sort of cane volume crush had come down in the last couple of years, I am assuming that should bounce back, right, because we had some weather issues and sort of...

Vivek Saraogi: Pramod and Avantika, I am sure, have very clearly explained the road map till now. Let us now draw up a scenario for next year. Let us assume next year, and obviously, the production should come down from here because anybody who goes into the month of May and the ratoon is weak. I am just assuming, I am drawing up a scenario, higher volume, let us say, 32 million tonnes is the production. Let us say 28 million tonnes is the consumption. I am just trying a figure.

Your availability at hand is higher by the difference between the two is 4 million. You begin with the closing stock of, let us say, 6 million to 5 million. Government next year comes and says, okay, you cannot export more than 4 million. It is fantastic, isn't it? So, you have been told today, next year, this is how your export figure will be targeted. You will get permission to export this much is the indication from this announcement that the backward calculation only requires you to have 6 million tonnes stock.



So, I am even seeing next year. So, if I have to do a next-year contract, I will be very comfortable doing it. But assumed price goes to 22 cents. And I want to sell sugar from Balrampur, I will go ahead and do it, no? Because I know – and I have some visibility on the production.

Moderator: The next question is from the line of Bhalchandra Shinde from Kotak Life.

Bhalchandra Shinde: Sir, regarding the capacity addition, I would like to know by November '22, we will have additional capacity. Post that, if Government needs to achieve this 20% blending, there should be addition of more grain-based ethanol capacity. What are our plans beyond that means like to assume that where we see ourselves in the next two, three years?

Vivek Saraogi: As we said, one moment we put sort of stitch up all what we have let loose in terms of sugar, modernization, expansion, distillation, juice, et cetera. We will get back with further plans, maybe after next season.

Bhalchandra Shinde: Okay. And sir, one scenario I would like to know, next year because of this gap and the surplus production, if say, domestic market is available with us sugar. What kind of pricing action we can see? And what kind of profitability impact we see especially on the sugar profitability?

Vivek Saraogi: I think I have attempted to explain that already. I cannot explain more. I have given you a demand supply scenario. If all surplus is going, price will remain firm.

Bhalchandra Shinde: No, no, I am seeing same because of some worse conditions, pricing goes down. So how we see impact on the profitability because if say, pricing goes down.

Vivek Saraogi: You have to calculate, no? If you feel price will go down, you have to calculate that so much sugar has made, so much price will go down, so much profitability will reduce. We do not see prices going down much. So, we have given our trajectory, our view based on the rationale. We have said that our costing will come down. We have given our view.

Moderator: The next question is from the line of Archit Joshi from Dolat Capital.

Archit Joshi: I have a slightly elaborate question on the road map of grain-based distilleries that has been set up by the Government of India. The data what we believe that is presented by Niti Ayog, we have the distillation capacity of ethanol made from sugar. There's slightly more skewness towards the capacity from ethanol made from sugar compared to the grain-based distilleries as on today.

But as per the road map maybe three to four years later, the capacity of grain-based distilleries and the distilleries from sugar are almost at par. Given that the pricing also of procuring food grains has been quite lucrative at a 60% discount to the MSP. Given all that, the participation from the industry to voluntarily put-up grain-based distilleries seems to be quite lower. How do you see this going forward? Is the road map that has been set up by the Government in line with how the industry feels is going ahead? Or is there any diversion that you feel that you might, see? Because even for us, I mean, today, we are looking at a 35 crore liters manufacturing capability of ethanol out of which only 5 crore liters is allocated to grain-based distilleries. So overall, industry participation seems to be quite weak on that end. So, any thoughts on that, sir?



Pramod Patwari: Archit, if you see the Niti Ayog document, it clearly says that for 20% blending, 1,000 crore liter of ethanol will be required. And sugar industry is expected to supply between 5.5 to 6 million liters Rest is expected to come from grain-based only.

So, the intention of the Government at this point in time is to take care of the surplus sugar. By sacrificing 6 million tonnes of sugar, we would be in a position to meet ethanol requirement at 20% blending by the sugar industry. The rest is expected to come from the grain-based distillery only.

So as far as our surplus scenario is concerned, that will get addressed even if the blending happens, let us say, 12%. 12%, 12.5% will take care of sugar requirement of 6 million tonnes.

Vivek Saraogi: And your question that industry will participate more, we have said very clearly that our participation, we will get back after putting up so much of work which we have undertaken. Once it is commissioned, then we will give our views.

Archit Joshi: Understood, sir. So, sir, if I understand this correctly, the participation of the sugar companies in putting up grain-based distillery will be limited only, but there might be other companies who might think of putting up these kinds of capacities?

Vivek Saraogi: Yes.

Moderator: The next question is from the line of Riya Mehta from Aequitas India.

Riya Mehta: My question is based on the global sugar scenario. So basically, what is the update on the Brazil crushing?

Vivek Saraogi: So, Pramod, you want to take that, Brazil?

Pramod Patwari: So, in the sugar season '21-'22, the Brazil production came at around 32.1 million tonnes. And in the month of April, we already have seen the data that the crushing is lower, diversion towards ethanol is high because of the elevated crude prices. We are getting various reports on various agencies giving a range of 29 million tonnes of production to 34 million tonnes of production for the next year, as far as Brazil is concerned. However, at this point in time, our internal view is that we can see a production of around 33 million tonnes from Brazil in the season '22-'23.

Riya Mehta: Okay. My next question would pertain to what are our contracted export to?

Pramod Patwari: Exports?

Riya Mehta: Yes, contracted. Not physical.

Pramod Patwari: No. Whatever we have contracted, we have already exported. 50,000 tonnes is what we have done.

Riya Mehta: Okay. And as you see in the segmental results, we have clubbed cogen and sugar at this time. So, could you give us a breakup for that revenue?

Pramod Patwari: See, this has been clubbed. Operational data we have given in the presentation.

Riya Mehta: Yes. Okay. And then my last question would pertain to grain based. So basically, we have seen that lately, the grain prices have increased. So, when



distilleries were setting up, the Government had given prices of Rs. 19 per kg, now it has gone up to Rs. 28. So, what is your outlook on that?

Pramod Patwari:

Again, this ethanol based out of grain will be revisited. The price will be revisited on an annual basis.

Vivek Saraogi:

And I will again reiterate that basically; Government will be encouraging ethanol from all sources.

Riya Mehta:

Yes. I am sure. I am just talking about the dynamics of the grain-based capex, which we have done. So, the increase in the grain price increase our overall payback period?

Vivek Saraogi:

I am just giving you a figure. 5 crore BL is our grain-based production. Assume it goes up by Rs.1/BL, we make Rs.5 crore. It goes up by Rs.2/BL, we will make Rs.10 crore. And on a Rs. 425 crore payback – capacity, it helps a little bit, but it is not a game changer.

Moderator:

The next question is from the line of Nitin Awasthi from InCred Equities.

Nitin Awasthi:

I just have one question, which is really technical and something which has not been asked until now. Now you are seeing all these grain distilleries having a challenging time currently because of the power cost, which has risen, because power is an input when you have to produce grain-based ethanol, whereas for sugar companies, power is a byproduct, or let us say, fore-products.

So, where you have a distillery, like your process of oil, which will do both, grain and sugar based. Is there a very big advantage that comes because you have power, which will be used?

Vivek Saraogi:

Absolutely rational question. Sugar factories will have a much, much bigger advantage in being able to fulfill any sort of tendering process with a lot more visibility than stand-alone people. The point you are making is absolutely valid.

Nitin Awasthi:

Okay. Fair enough. I need to understand the technicalities a bit, maybe I think I will take it offline, but I understand the technicalities in detail. But that was the fundamental question that this would happen.

Vivek Saraogi:

Absolutely.

Moderator:

The next question is from the line of Prathamesh Sawant from Axis Securities.

Prathamesh Sawant:

My question is regarding this again, given that your revenues from sugar exports were INR180 crore, do you see a scenario going forward where like sugar companies have to fight out for that 10 million tonnes export space, which will affect the revenues going forward?

Pramod Patwari:

The 10 million tonnes is the limit set by the Government of India for this season '21-'22. What we believe that 9 million tonnes has already been contracted. We have already explained that by end of May, we will see around physical evacuation of 8.5 million tonnes.

As far as Balrampur Chini is concerned, we were not looking any export in the season 21-22.



Vivek Saraogi: And if there is a fight in 10 million tonnes, your domestic prices will fly, ultimately.

Prathamesh Sawant: No, sir. But because there will be fight for 10 million tonnes, the supply in the domestic would increase, right?

Vivek Saraogi: How will it increase? If you are INR100 in your pocket and you give somebody the INR50, you are left with INR50. You give INR60, you are left with INR40. So, if we export more or less with domestic or more?

Prathamesh Sawant: No. –So, to understand in a normal scenario, companies in India are planning to export less than 10 million tonnes on usual, according to your logic?

Vivek Saraogi: Yes. 10 million tonnes was never even dreamt for export.

Prathamesh Sawant: Okay. So, then this news is going to have no effect on any company at all in the Indian scenario?

Vivek Saraogi: My view is double 0.

Prathamesh Sawant: Okay. Do you see, since this move for food security, so tomorrow, if there is any chance, they limit the amount of sugar going towards ethanol as a food security concern?

Vivek Saraogi: We need 28 million tonnes. The day you do not make 28 million tonnes, these questions are valid. Let us understand one thing what this move also is. I am saying suppose tomorrow sugar went to 25 cents, certainly in three, four days. And India started exporting like mad, and you were looking to cross 10 million tonnes. Tomorrow, as I said, can there be an earthquake? The answer is yes, no?

So, in that sense, the Government has just put a marker. They have said these are the rules of the game. And it cannot be a fairer clarity and a fairer rule of the game. So, if you are playing football, there is a rule, no? Off-side goal is not allowed. It is not allowed. Simple. So, the rule to a game. The rule to the game here is 6 million tonnes closing stock, 28 million tonnes domestic consumption. Feed the two, the rest do what you want. And this is for future also. Yes, so this is the rule of the game

Moderator: Thank you. Ladies and gentlemen, which was the last question. I now hand the conference over to the Management for the closing comments.

Vivek Saraogi: Thank you, and we are always there to answer any more questions, Pramod, and me. Thank you once again for joining us.

Pramod Patwari: Thank you, everyone.

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