



“Dwarikesh Sugar Industries Limited Q2 FY18 Earnings Conference Call”

November 13, 2017



**MANAGEMENT: MR. VIJAY BANKA – WHOLE-TIME DIRECTOR &
CHIEF FINANCIAL OFFICER**

MODERATOR: MS. AFSHAN SAYYAD – DOLAT CAPITAL



*Dwarikesh Sugar Industries Limited
November 13, 2017*

Moderator: Ladies and Gentlemen, Good day. And Welcome to the Dwarikesh Sugar Q2 FY18 Earnings Conference Call, hosted by Dolat Capital. 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 this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Afshan Sayyad from Dolat Capital. Thank you and over to you, ma'am.

Afshan Sayyad: Thanks, Malika. Good afternoon, everyone. On behalf of Dolat Capital, I welcome you all to the Q2 FY18 Earnings Call of Dwarikesh Sugar. From the management side we have Mr. Vijay Banka – Whole-time Director and CFO of the company. I would now like to hand over the call to Mr. Banka for his opening remarks on the results, followed by Q&A session. Over to you, sir.

Vijay Banka: Thank you, Afshan. A very good afternoon to you all, and a very warm welcome. The Q2 results are before you. I would like to firstly thank you all for the support and encouragement that you have provided to us. It is our endeavor to continue to post good results, keep performing better and better. Q2 results as compared to the Q2 results of last year present is bit of a contrast. Firstly, because in the last corresponding quarter last year we had had income of Rs. 9.47 crores from the production subsidy that we received from the Central Government. If the same is excluded our numbers are a shade better than Q 2 numbers last year. There are various other things, which, as we progress and as you keep asking me questions I will explain.

Thank you very much, once again. I open the forum for asking questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Viraj Parekh from K R Choksey. Please go ahead.

Viraj Parekh: Sir, basically, I wanted to know a little bit of your commentary on the sugar industry currently in India, the way in which it is performing. Because considering results of other sugar producing companies as well, the industry being a cyclical one, it seems to be having a very good trend currently. So, I would like to know what is your take and the future outlook with respect to sugar industry at present?

Vijay Banka: Well, we are in the midst of a sweet spot, the last few quarters have been excellent, we have been posting good results, the entire industry has been posting good results. As we look ahead for the season 2017-2018, we see a situation wherein we are opening the season with opening stock of 3.8 million tons to 4 million tons. We are expected to have a production of 25 million tons to 25.5 million tons and consumption of similar number. So, we again expect to end the season with a closing stock of 4 million tons or so, which translates to roughly less than two months of consumption. So, we see a very finely balanced situation going forward. And this kind of a situation should provide the required impetus for the sugar prices to be maintained in the range in which they presently are, that is between Rs. 3,600 to Rs. 3,700. Well, with the

arrival of sugar in the market from the newly commenced season, there could be some blips here and there and there could be some spikes as well. Overall, we expect average sugar selling price of about Rs. 3,600 to Rs. 3,700 which augers well for the industry. So, this is the position regarding 2017-2018.

Now, going forward to the season 2018-2019, it is rather difficult to hazard a guess at this point in time. Well, there are numbers that are being tossed around, between 28 million tons, 29 million tons and so on and so forth. So, it is difficult to talk about those numbers as of now. But one thing we can be sure is that the consumption is definitely going to grow at the rate of about 2% to 2.5% or so. So, we will have to wait and see how events unfold before the commencement of season 2018-2019. At the moment, season 2017-2018 augers well for the industry, we should have good production numbers, particularly UP sugar mills should have good production numbers as we expect increased crushing numbers as compared to the past crushing season.

Viraj Parekh:

Sir, another quick question. Sir, this is pertaining to our financial statement, so when I see our half yearly performance there is tremendous improvement in the numbers and the results vis-à-vis the half year H1 of FY17. Sir, just to understand the comparison between Q1 and Q2 of FY18, sir the result being slightly subdued of the current quarter as compared to the previous quarter, so any particular reasons or some light or some flavor that you can give us with respect to that

Vijay Banka:

Certainly. Let me explain this, as I mentioned earlier, in Q2 last year we had accounted for income on account of production subsidy of Rs. 9.47 crores. Of course one can see the numbers by excluding that particular number of Rs. 9.47 crores and understand what I mean. Number two, if you have seen, we have incurred higher expenditure on repairs and maintenance, the lasting benefits of this will accrue in the months to come, so we will see better production efficiency, etc. Thirdly, regarding our employee cost, well, employee costs have gone up because of wage revision that took place in November 2016. Vis-à-vis our last year's policy we have accounted for commission, etc, in each quarter on an approximation. So, these factors explain the increase in employee cost. Profit in Q2 is mainly derived on account of liquidation of stock that we are carrying. So, the stock that we have liquidated in the current quarter is of a slightly higher cost than the stock that we had liquidated in the corresponding quarter last year, although the realizations during this year Q 2 have been better. So, this explains our Q2 numbers. But having said that, I must say that we have done brisk selling in Q1, and it is for everybody to see that our interest costs have come down substantially.

Moderator:

Thank you. Our next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia:

Sir, right now the main thing going in the mind of the investor is 2018-2019, most of the investors or analysts believe that in 2018-2019 there will be huge surplus of production and inventory in the market, and that will be lead into collapse of sugar prices. But as per our view we think that in 2015-2016 government had exported the surplus quantity and that makes the industry viable

and profitable. So, do you think that going forward also the government will do the same thing and this cyclical nature and this over production story will be over for ever and the industry will get better discounting going forward?

Vijay Banka: Yes. As I mentioned, it is very difficult to guess what the production is going to be for the season 2018-2019. Now, assuming it is 28 million tons or 29 million tons, let us look at what are the possibilities that can emerge. Firstly consumption is going to increase at the rate of 2.5% at least, so you can see consumption of about 26 million tons to 26.5 million tons. Number two, we are at a stock level of about nearly 3.8 million tons to begin with. Now, even if 2 million tons to 2.5 million tons get added to this, so it will be about 6 million tons. Now, on an increased consumption number this would again be translating to a stock of not more than 2.5 months. Number three, there will be an ongoing effort by the industry to export, for example, they can always look at the markets which are close by, like Bangladesh, Sri Lanka, etc, where they can scout for opportunities to export. Number four, assuming there is a glut like situation, the central government can always go back to the time tested formula of compulsory export, which has worked very well in the past. So, according to me what you say is very correct, the cyclical nature is a thing of the past.

Aman Sonthalia: And sir one more thing, as far as operating parameters are there or efficiency is there, I think you are the best in the industry. But only one thing is missing there that you do not have complete integration in the distillery. So, are you planning to put up a distillery in the near future?

Vijay Banka: We are examining this. We want to do a distillery project where the effluent discharge is zero, but definitely we are examining this. We have carried out certain modifications in our existing distillery plant and our distillery plant after the monsoons repairs has just commenced production. So we are certainly examining expanding of our footprint in the distillery phase.

Moderator: Thank you. We have the next question from the line of Prashant Bhaskar, who is an Individual Investor. Please go ahead.

Prashant Bhaskar: Sir, I wanted to know two parts of my question. First part being that you said that the cost of sugar in last year in the second quarter was lesser as compared to this year. So, what was the cost of sugar for this year second quarter?

Vijay Banka: So, the value of the stock that we liquidated in the second quarter last year was 2,667 and value of the stock that we liquidated in this quarter was 2,917, which is mainly on account of SAP increase that happened in the last year for the season 2016-2017. .

Prashant Bhaskar: So, last year the sap increase was Rs. 20 per kg?

Vijay Banka: Rs. 25 a quintal, and hence you can see increase in the carrying cost of inventory of about Rs. 250 per quintal

- Prashant Bhaskar:** Okay. So, this year the increase is I think Rs. 10, so it will be Rs. 100 per quintal?
- Vijay Banka:** We will have to wait & see, it need not be Rs. 100 exactly because we expect improved crushing numbers. So we should get the benefit of increased volumes and hence the production cost can come down, number one. Number two, we may see improved realizations from sale of our bi-products. So, whether it will translate into a Rs. 100 increase or not, it is little difficult to say at this point in time. We certainly believe that it may not.
- Prashant Bhaskar:** Okay. And second part of my question was, the margins are down because of the cost of sugar that was liquidated last year and this year. So, what could be the margins compared to last year for third quarter and fourth quarter, will it same or it could be down?
- Vijay Banka:** You see, now whatever sugar we are going to sell, we were carrying a very small stock at the end of Q2, we were carrying a stock of 1.39 lakh quintals of sugar which has been sold. Now, whatever sugar that is going to be sold hereafter will be from the production of the season 2017-2018. So, the cost of which will be known only in the times to come.
- Prashant Bhaskar:** Okay. So, what could be your guess, the cost would be around Rs. 2917 what you said or what it could be?
- Vijay Banka:** We expect higher crushing numbers and we are targeting to have some better recovery numbers also. Although, since we have started a little early it will be difficult to say what kind of recoveries we will have. So, we expect similar or may be, as you said, at the most another Rs. 100 increased in the cost.
- Prashant Bhaskar:** Okay. And you said in the last con-call that you are looking to become debt free. So, by when are you like looking to become debt free?
- Vijay Banka:** On account of migration to IndAS preference shares also get classified as debt. We have outstanding preference shares of about Rs. 21 crores and we have term debt of about Rs. 75 crores. Out of which Rs. 27 crores is interest free. So, the interest-bearing debt is only Rs. 48 crores. So, we will watch the situation for the next two, three months and then we will accelerate our repayments.
- Moderator:** Thank you. We have the next question from the line of Afshan Sayyad from Dolat Capital. Please go ahead.
- Afshan Sayyad:** Sir, a couple of quick questions from my side. Sir, what was the closing inventory as of Q2?
- Vijay Banka:** 139,000 quintals.
- Afshan Sayyad:** Okay. And what is the costing?

- Vijay Banka:** It is above Rs. 3,390 per quintal
- Afshan Sayyad:** Sir, secondly, considering the hike which has come in of Rs. 10 per quintal, and wanted to understand what is your breakup for the early variety and the normal variety in your crushing, in order to understand the overall cost structure?
- Vijay Banka:** It is different for different plants. Overall, you can consider on an average of about more than 70% of early variety.
- Afshan Sayyad:** Okay. And what was it last year?
- Vijay Banka:** It was lesser, like in the case of first plant our early variety was 92% so we expect it to be around 98%. In the second plant we expect it to be higher by about 10%, in the third plant we expect it to be higher by about 15% to 20%.
- Afshan Sayyad:** So, on a blended basis say 70% would be early variety share, right?
- Vijay Banka:** Yes, very true.
- Afshan Sayyad:** Okay. And so we are looking at recovery in upwards of say 11.2% - 11.3%?
- Vijay Banka:** Last year we clocked a group average recovery of 11.78%. The trends so far as are encouraging. But we will have to wait and see because we started the season a little early. So the best recoveries come towards the end of the season. We started early because we expect higher cane availability and higher crushing. Though, trend of final recovery will be available sometime in January, but the initial trends are encouraging.
- Afshan Sayyad:** So, it will be in upwards of 11.7% higher than last year or will we be seeing at around 11.7%?
- Vijay Banka:** But I think certainly it should not be less than 11.5%.
- Afshan Sayyad:** Okay. And lastly on this pricing scenario, particularly for sugarcane in UP, so are we seeing any positive trends in terms of linkage going through for the next sugar season, if that might be a reality. What is your take on that, sir?
- Vijay Banka:** Both the governments are keen that FRP should be introduced in UP and thereafter FRP linkage should happen. But a lot of ground work needs to be done because farmers in UP are not used to receiving differential pricing. What happens in FRP and linkage is that farmers attached to a mill clocking better recoveries will get better price and therefore earn more when compared to the farmers who are attached to mills clocking, lower recovery, a situation that may not be acceptable to farmers. So, a lot of deliberations must happen, counseling needs to be done with the farmers and they should be taken into confidence. Well, it is working well in other states so there is no reason why it should not work in UP. But a lot of effort has to go into this.

- Moderator:** Thank you. We have the next question from the line of Ambar Taneja from Griffin Asset Management. Please go ahead.
- Ambar Taneja:** What is your best estimate of output from Maharashtra and Karnataka?
- Vijay Banka:** For the season 2017-2018?
- Ambar Taneja:** Yes, for the upcoming season.
- Vijay Banka:** Maharashtra is about 7.5 million tons and Karnataka is 2.5 million ton. ISMA, our association has estimated a production of 25.5 million tons, the rough breakup of which is about 9.8 million tons to 10 million tons from UP, 7.5 million tons from Maharashtra and 2.5 million tons to 2.8 million tons from Karnataka.
- Ambar Taneja:** If I were to look at the previous season, the number of 20.2 which finally came about, initially nobody was talking about such a low number, it just kept going down, down, down because of negative weather surprises, etc, etc.
- Vijay Banka:** Yes, the number was revised many times.
- Ambar Taneja:** Is there a possibility of the same thing happening this year?
- Vijay Banka:** I do not think so, because the trend is by and large very well known. One factor which is not very clearly known at this point in time is the yield. So, as we go forward, and as the season advances then there will be clear indications on the yield, and similarly on the recovery numbers also. Otherwise, as far as the planting of sugarcane or area under sugarcane is concerned the numbers are well known.
- Ambar Taneja:** Second question is, if I look at your company specifically, you have had quite a bit of debt, and I am assuming decent profitability this year you will be basically be able to retire all the debt. What do you plan to do with the excess cash, I mean are you going to put it in distillery or is there a plan to return it to shareholders? Like we saw Balrampur has gone into some kind of education finance, something. I just want to know...
- Vijay Banka:** We have no plans of getting into education finance, etc, our objective will be to expand our footprint in the distillery business and then of course reward our shareholders.
- Ambar Taneja:** Okay. Are there any more thoughts on that, I mean distillery is going to be first, shareholders are going to be first, any view?
- Vijay Banka:** I think they all can happen simultaneously, I do not think that should be a problem.
- Ambar Taneja:** Okay. But this year you will become zero debt, right?

- Vijay Banka:** Yes, we can easily become zero debt. Like I explained, we have debt of about Rs. 96 crores, out of which Rs. 21 crores is preference share capital outstanding, Rs. 27.15 crores is interest free debt that we have, there is no intention to prepay that debt but we will pay it as and when the same is due. And the same is due every month and the installment that is due is paid. The other debt we will try to prepay as early as possible.
- Ambar Taneja:** Do you see any signs of consolidation at all in this industry in UP? I hear that there are still a large number of unviable mills even in this boom time scenario, and some of them are governments like cooperative mills, etc. Do you think you might get any assets, there might be sellers even in the government or in the private small space?
- Vijay Banka:** The assets definitely can be available, not just for our company for other as well As of now there is no intent to get into acquisition mode. What we and most of us are doing is that within our existing plants we are trying to improve the crush rate, debottleneck our operations, enhance efficiencies and such CAPEX we have been incurring. And we if see that encouraging trend continues, next year we may try and again look inwards and see what best can be done from our existing plants.
- Ambar Taneja:** Last question, I have seen that UP recoveries are now on par with Maharashtra, which did not used to be the case a few years back. Now, would you say that with equal recoveries technologically the UP plants, because of private sector ownership are much better run than their counterparts in Maharashtra and to some extent in Karnataka, or is that not true?
- Vijay Banka:** I strongly believe so, for the simple reason that one private sector player from UP who has forayed in Maharashtra is Dalmia and they have clocked better recoveries than many of the sugar mills there. So, I believe we are, as far as technology is concerned and as far as efficiency is concerned, we are not lagging behind in any way.
- Moderator:** Thank you. Our next question is from the line of Urmil Shah from Anvil Research. Please go ahead.
- Urmil Shah:** All my questions have been answered.
- Moderator:** Thank you. Our next question is from the line of Prashant Bhaskar, who is an individual investor. Please go ahead.
- Prashant Bhaskar:** Sir, just one more question I wanted to ask, for a retail investor what would you suggest in terms of like growth and all, if a investor who is willing to be invested for next two years, one year, so basis like in terms of the growth what do you think could happen in terms of your top-line and in terms of your bottom-line also for next two years?
- Vijay Banka:** See, I would not be able to talk about the year 2018-2019, but 2017-2018 is poised to be a good year for all sugar companies, in the sense that there will be impressive, particularly those in the

private sector and in UP as they will clock impressive crushing numbers. Assuming sugar prices remain stable or are range-bound between 3,600 to 3,700, all should be posting decent numbers. And there is every effort to see that the recovery rates are good. And among the pack, in UP we are perhaps the most efficient ones, in the sense that our recoveries have been always better than those in the peer group. So, we see no reason, we are optimistic, and we see no reason for any kind of pessimism.

Moderator: Thank you. Our next question is from the line of Himanshu Binani from B&K Securities. Please go ahead.

Himanshu Binani: Sir, I just had one doubt, I just missed the numbers. Sir, what would be the realizations for 2Q?

Vijay Banka: In Q2 my average realization is Rs. 3,677.

Himanshu Binani: And sir, versus last year?

Vijay Banka: It was Rs. 3,546.

Himanshu Binani: And sir, what would be the cost in this quarter as well as last quarter?

Vijay Banka: The value of the stock that was carried forward on 30th June, 2017, and which got sold in this quarter was Rs. 2,917, and the value of stock that was carried forward on 30th June, 2016, and which got sold in the last year same quarter was Rs. 2,663.

Himanshu Binani: Okay. So, sir, down the line in the next two quarters when the new inventory comes up, so how do we expect the sugar realizations?

Vijay Banka: Inventory coming up from the production of 2017-2018?

Himanshu Binani: Sir, what I am trying to say is, with the new productions coming in, the new inventory which is coming in the market, by this quarter as well as in the next quarter, how do we see the sugar realizations at?

Vijay Banka: We have historically seen that when the crushing commences and there is fresh arrival of sugar and there are these cases of cash deprived sugar mills who are prone to sell sugar at a lesser price. As the sugar season advances with more clarity and visibility on the sugar production and availability of sugar, sugar prices start firming up from January onwards.

Moderator: Thank you. Our next question is from the line of Gaurav Somani, who is an individual investor. Please go ahead.

Gaurav Somani: Sir, with the increased production of India this calendar year and probably next sugar cycle as well, this might put some pressure on the global sugar prices and might actually affect our

realizations going forward as well. So, just wanted your view on how will the global prices be impacted and how our realizations might get affected as well?

Vijay Banka:

Globally, raw sugar prices are in the region of 15 cents per Pound, and the white sugar price is close to US\$400. Now, whatever be the global prices, according to me, Indian market is insulated from the global market trends because of the import duty structure being in place. But having said that, I must also admit that, the market sentiments do get impacted if the prices move upwards or downwards. Let me explain this phenomenon to you, for example, in September 2016 the raw sugar prices were in excess of 22 cents per Pound, we were selling sugar even then at Rs. 3,600, and now raw sugar prices are in the range of 14 cents to 15 cents and even our domestic sugar is being sold at a price of Rs. 3,600 to Rs. 3,700. So, in a manner of speaking, we are insulated from the global price trends. Internationally the prices from a high of 22 cents to 23 cents in September 2016, the prices had come down to as low as 12 cents also a few months ago, but they have bounced back to about 15 cents per pound now. Brazilian sugar production shows many hues and colors before the final number is crystallizes. One indication that we have now is the next year is that there will be lesser sugar production and there will be a more ethanol production in Brazil. It is therefore rather difficult to talk about how the global sugar production will eventually be.

Moderator:

Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Ms. Afshan Sayyad for closing comments.

Afshan Sayyad:

Thank you so much sir for giving us the opportunity to host your call. Would you like to give some closing remarks?

Vijay Banka:

Certainly. Well, I would like to thank everybody for having reposed faith in us. I have already explained, our Q2 numbers of this year vis-à-vis the Q2 numbers of the last year, I would urge everybody to look our half year numbers which compare significantly better than the half year numbers of the last year. I would like to mention that we have been selling sugar very aggressively, we have sold lot of sugar in the last quarter which is reflected in the lower interest cost. Our interest cost during this quarter is only Rs. 4 crores vis-à-vis almost Rs. 13 crores in the same quarter last year. We have also incurred lot of expenditure on the repairs and maintenance which has been factored in our numbers for the quarter. But having said that, I must add that the lasting benefits of these numbers will be seen in the coming quarters and we are going to plucking some low hanging fruits from here on. Since we have addressed the issues, we would not be expecting any spikes in the taxation provision, etc, in the fourth quarter because we have been providing for taxation every quarter. Same is the case with managerial remuneration, which we are providing for the same every quarter. And we expect our interest cost to be lower in the coming months because we are going to be virtually debt free, as we are already substantially long-term debt free. We will continue our effort to be totally debt free as early as possible.



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Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Dolat Capital, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.