



**Balrampur Chini Mills Limited**  
**Analysts / Investors Conference Call**  
**August 04, 2008**

**Moderator:** Good afternoon Ladies and Gentlemen. I am Manjula, the moderator for this conference. Welcome to Balrampur Chini Mills conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to handover to Mr. Anoop Poojari from Citigate Dewe Rogerson. Thank you and over to you sir.

**Anoop Poojari:** Good afternoon everyone and thank you for joining us on Balrampur Chini Mills Q3 and 9M FY2008 results conference call. We have with us Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills; and Mr. Kishor Shah, Director and Chief Financial Officer of the company. We would like to begin the call with brief opening remarks from the management following which we will have the forum open for a Q&A session. I would now like to invite Mr. Saraogi to make his opening remarks.

**Vivek Saraogi:** Good afternoon everyone, and thank you for joining us to discuss Balrampur Chini Mills' operating and financial performance for the third quarter and nine month ended June 30, 2008.

I would like to begin the discussion by taking you through some of the key developments during the quarter. Let me begin by updating you on the key issue facing the sugar industry in the state of Uttar Pradesh i.e. the sugarcane pricing mechanism. The UP Sugar Mills Association has filed a Special Leave Petition in the Supreme Court against the final order from Allahabad High court; Lucknow Bench dated 7th July 2008 against the farmers' State Advised Price of Rs. 125 per quintal for the sugar season of 2007-08. We are awaiting the judgment for the same, which is expected by the end of the month. This is for the SLP which has been filed. Before this, the Lucknow Bench of Allahabad High Court in its interim order dated 15th November had directed mills in UP to pay an interim price of Rs. 110 per quintal, hence accordingly we have accounted for cane prices at Rs. 110 per quintal during this whole season. We hope that the final judgment



will come before the end of our financial year, where in we would have to account for the prices as per the final order from the Supreme Court.

I will quickly take you through the operating performance, following which Kishor will take you through the financial performance.

We started our sugar season late because of cane prices uncertainty on account of which cane crushing got delayed, which partly impacted our production. To be very honest, in Eastern UP diversion being less, it was not too much of an impact. The total amount of cane crushed stood at 806 lakhs quintals compared to 923 lakhs quintals in the corresponding season; therefore, the crushing this year was lower by 13%. We achieved good recoveries during the season Rs. 10.16 compared to Rs. 9.91 enabling us to produce around 82 lakhs bags of sugar. Further at the realization front, we are witnessing improvement given the tightness in the supply expected during the coming 2 years. During the quarter, our realization was Rs. 14.87 per kg and the current prices are ruling at around close to Rs. 17.00 per kg.

Coming to our cogeneration business, the total production during the 9 months has increased from 57 crore units to 71 crore units, showing a jump of 26%. This volume expansion was a result of capacity enhancement in the projects commissioned as well as improvements in certain of our existing facilities. Our total saleable cogen capacity stands at 126 megawatts.

Moving on to our distillery segment, the company has delivered 35% growth in production to 70,410 KL in 9 months, compared to 52,208 KL in the previous period on account of expanded capacity in Mankapur in the middle of the previous year. Production during the quarter was 23,807 KL compared to 27,766 in the corresponding quarter. We are seeing robust prices for distillery at around Rs. 26 per liter for ENA and Rs. 25 per liter for RS. I think it is slated to go up in the future. This should enable us to deliver healthy numbers from our distillery division going forward.

To end, I would like to add that we have had strong belief in our operating model that we have built over last several years and we are happy with our performance of the allied business that has provided us support in challenging market situations. We hope that the



sugar pricing issue should get resolved as soon as possible and we are confident that our integrated model has the capacity to deliver consistent and increasingly healthy performance. This brings me to the end of the operating review; I would now request Kishor to take you through the financial performance.

**Kishor Shah:** Thank you. Good afternoon everyone and thank you again for joining us on today's conference call. I am now going to discuss company's financial and operating performance for Q3 and 9M for FY2008.

Our overall revenues during Q3 and 9M of FY 2008 stood at Rs. 317 crore and Rs. 1,061 crore respectively. Revenues were lower primarily due to decline in sales volumes in the sugar segment. The operating profits for the quarter stood at Rs. 84 crore and Rs. 257 crore during the 9M period.

Moving on to the segmental financial performances, revenues for the sugar segment during Q3 FY2008 stood at Rs. 236 crore compared to Rs. 304 crore for Q3 FY2007 and for 9M FY2008, the revenues stood at Rs. 857 crore compared to Rs. 961 crore in the corresponding period. We have improved on our average realizations for this quarter marginally to Rs. 14.87 per Kg compared to Rs. 13.41 in the corresponding quarter last year. PBIT from this segment for the quarter stood at Rs. 10 crore and for the nine months under review stood at Rs. 30 crore. Improved recoveries of 10.23% and reduced cost of sugarcane at Rs. 110/- per quintal has helped us post better results for the period.

With regards to our distillery operations, the revenues for the quarter stood at Rs. 56 crore against Rs. 53 crore in Q3 FY2007 and for nine months revenues stood at Rs. 141 crore against Rs. 120 crore in the corresponding period last year. This steady increase in revenues was achieved as a result of higher sales volumes during both the periods under review. For the quarter, the operating earnings stood at Rs. 20 crore compared to Rs. 16 crore in the corresponding period last year and for the nine months period operating earnings stood at Rs. 52 crore against Rs. 40 crore in 9M FY2007..

On cogeneration business, revenues in this segment were up by 18% from Rs. 61 crore for Q3 FY2008 and by 36% to Rs. 212 crore for 9M FY2008. PBIT from this segment



has increased to Rs. 31 crore for Q3 FY2008, up from Rs. 27 crore in Q3 FY2007. For 9M financial year 2008, PBIT was at Rs. 105 crore, up from Rs. 75 crore.

Interest costs for Q3 FY2008 stood at Rs. 25 crore against Rs. 21 crore in the corresponding period last year. For the 9 months under review, interest expenses amounted to Rs. 61 crore versus Rs. 41 crore in 9M FY2007. The profit before tax for Q3 FY2008 stood at Rs. 26 crore and for 9M FY2008, it was Rs. 107 crore. Net profit for Q3 FY2008 was Rs. 17 crore and for 9M FY2008 was Rs. 82 crore. This was primarily owing to cane price being accounted for at Rs. 110/- per quintal as discussed by Mr. Saraogi earlier. In case we accounted for cane at Rs. 125 per quintals, the PAT for 9 months would have been lower by Rs. 32 crore as mentioned in our notes to profit and loss account. If required we will make necessary adjustments to our accounts in cane price after the final order from the Supreme Court.

This brings us to the end of our discussion. We would like to address any queries or concerns that you may have in your mind. Thank you.

**Moderator:** Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press \*1 now. Kindly note, participants are requested to ask 2 or 3 questions at the initial round and then come back for the follow up questions. First in line, we have Mona Newatia from Corporate Database (India)pvt ltd, please go ahead.

**Mona Newatia:** This is Mona from Corporate Database. You have mentioned in the notes that profits would be lower by Rs. 32 crore, as cane was to be accounted for Rs. 125 per quintals, but if I multiply Rs. 15 per quintal by 806 lakhs quintals which is the cane crushed, I come to an amount of Rs. 120 crore, so can you please explain the difference?

**Vivek Saraogi:** Yes. this is a very valid question. I will begin by addressing this question and a couple of other general remarks. And I think a lot of people would get their answers. See firstly this simple mathematics which you have done, Mona is very correct,



however, the way accounting procedures go, had we paid this amount, our closing stock valuation would have gone up. So we are right now at the end of this quarter carrying 52 lakhs bag, and we have retained more than 62% of our production by closing stock. We are carrying that at Rs. 13.36.per kg or Rs. 1,336 per quintal. But the cost of that would have moved up. The liability of the company is Rs. 88 crore. If we are required to pay at Rs. 125, which means between that transportation deductions at Rs. 110 is not coming but at Rs. 125, it will come. So therefore the net liability in terms of cash flow is Rs. 88 crore. Impact on the closing stock which is 60% plus is retained, hence the overall impact is only Rs. 32 crore.

**Kishor Shah:** And this is on the profits.

**Vivek Saraogi:** This is on the net profit level.

**Mona Newatia:** And up to 9 months...

**Vivek Saraogi:** Right.

**Mona Newatia:** So obviously when you would sell additionally in the next quarter...

**Vivek Saraogi:** Yes in the whole year, very simply put... the impact should be Rs. 88 crore.

**Mona Newatia:** Okay fine.

**Vivek Saraogi:** But it would not be Rs. 88 crore because at the end of the year, you also will be carrying closing stock.

**Mona Newatia:** Right, so may be over a period of time as and when the entire stock...

**Vivek Saraogi:** Actually over a period of time, the loss between the two figures is Rs. 88 crore.

**Mona Newatia:** Okay, I got it.



**Vivek Saraogi:** And that would be net of tax. So it would all depend on how much you make in the whole year. Depending on how much of closing stock you carry. And that would be net of tax over a period of 1.5 years.

**Mona Newatia:** You are saying this is net of tax?

**Vivek Saraogi:** No, I am saying this is a draft figure- this is the cash flow figure. And the impact on the accounts as I have explained would be quarter-to-quarter and yearly...

**Mona Newatia:** okay, fine.

**Vivek Saraogi:** Okay, now let us understand sugar business and the quarter accounting. We have accounted for 9 months on expenses. But we have accounted for 12 months of production; in the next quarter, there is no production.

**Mona Newatia:** Correct.

**Vivek Saraogi:** So this closing stock valuation. If you see the sugar results for a year, our costing over 12 months at pre-interest levels is expected at around Rs. 14.20. Let us say if you take Rs. 14.15 as closing stock valuation for the year.

**Mona Newatia:** Okay.

**Vivek Saraogi:** So that was with regards to the cost of production. So whatever has been sold is also reflected as a profit today. However, cost of that also gets revised. In the 9 months what has happened is, your carrying closing stock is Rs. 13.36. So if you sell for 9 months, what is our 9M average realization?

**Vivek Saraogi:** Our 9M average realization is Rs. 14.20. So we have accounted for a profit of let us say Rs. 80 or Rs. 85 per bag. If you extrapolate this for the whole year then you get the annual results. It would appear as just Rs. 10 profit.

**Mona Newatia:** Right.



**Vivek Saraogi:** Now, having said that, over the next 3 months the company is expecting a much better realization. This should move the average significantly up from there. Because of two reasons- one is that we are carrying a lot of stock so we have added back stocks, we were expecting this to happen. We are carrying stocks and over the next 3 months, the sales may be a little proportionately higher; therefore, the average for the year would move up.

**Mona Newatia:** Correct.

**Vivek Saraogi:** If you see the sugar segment over the year, we expect Rs. 14.10 to be cost and realization whatever, it moves up because of these 9 months...

**Kishor Shah:** Next 3 months.

**Vivek Saraogi:** Yes, next 3 months at higher realization and at higher volumes.

**Mona Newatia:** Right and your per year realization...

**Vivek Saraogi:** These are costing at pre-interest levels.

**Mona Newatia:** And currently, we are at around Rs. 17 per kg?

**Vivek Saraogi:** Yes, Rs. 17 per kg but that is current month August. To just give you an example July average is Rs. 15.37.

**Mona Newatia:** Okay, so this moved up substantially in August?

**Vivek Saraogi:** In August, it has moved up further. So, as we are seeing it ahead, maybe, this will get credited in the next 3M realization.

**Kishor Shah:** It is expected to be there...

**Vivek Saraogi:** Rs. 16 plus for sure.



**Mona Newatia:** Okay, fine.

**Vivek Saraogi:** Okay, this is one aspect I wanted to brief everyone. The second aspect is on the litigation. See there are going to be 2-3 litigations which are going to be clubbed into Supreme Court because they are all related issues. One is the SMP of Rs. 125. We have gone in to SLP. Supreme Court had earlier upheld the Lucknow High Court Order of 110. Other states like Uttaranchal had also done 125 so the Supreme Court had taken a view that right now the liability of the mills is 110 and it has upheld the Lucknow High Court Order against even the Uttaranchal's Order and against another Allahabad Bench Order which has gone on to say a lower price of SMP. In its interim order it has already upheld for 110 this is the technical status. However, we are going in for SLP here and our plea would be that 110 should continue.

**Mona Newatia:** Okay.

**Vivek Saraogi:** That is one part. The second part is the litigation on the overall pricing mechanism. It is well decided that the state government has the power to fix price. Our litigation is that they have the power but is the power an unfettered, unbridled power or is it a power which has to be exercised in relation to economics, sugar prices, keeping in mind cost of production of farmer, cost of production of miller, which is the method that is adopted by the Central Government. We have said that the State Government can take its data, vary it a little, but you do need to have a mechanism which is decided by an autonomous body; that is our plea/petition in the Supreme Court. So one, I repeat is last year's price; two is future pricing and how it is to be decided – we want to get the methodology and have clarity on that. So this is it.

**Mona Newatia:** Okay. Thank you.

**Moderator:** Thank you very much ma'am. Next in line we have Gaurav Garg from Enam Securities Direct Pvt. Ltd., please go ahead.

**Gaurav Garg:** Couple of questions, first thing what are our current operational capacities and any more CAPEX which has lined up?



**Vivek Saraogi:** No, CAPEX is lined up. We have 73,000 TCD...

**Gaurav Garg:** Okay, and the current debt as well as the average cost of borrowing?

**Kishor Shah:** We have Rs. 1,054 crore of long-term debt and average costing was 8.25%.

**Gaurav Garg:** Fine, sir. Thank you.

**Moderator:** Thank you very much sir. Next in line we have Nirav Shah from PINC Research, please go ahead.

**Nirav Shah:** Yes. Good afternoon sir. I have a few questions, just missed out on the working capital figure, sir, how much is that?

**Kishor Shah:** Rs. 504 crore working capital as on June 30, and our average interest cost is 8.5%.

**Nirav Shah:** Okay, thank you sir. And sir, a few operational questions, if we look at the quarterly numbers, the other expenditure has decreased, is it because of lower crushing season?

**Kishor Shah:** Lower crushing during the quarter.

**Nirav Shah:** Okay, and sir, our recovery rate was at 10.23% in your release it was mentioned and normally at the end of the season, the recovery rate drops drastically, so can you give a reason for that on 10.23% recovery rate?

**Vivek Saraogi:** Recoveries were for the quarter only.

**Nirav Shah:** Yes, quarter is ending part of the season and as you know that, during the end of the season the recovery rate drops...



**Vivek Saraogi:** That's if you are proceeding to May. So later if you are going to May, it starts dropping. Till April end, it does not drop drastically.

**Nirav Shah:** Okay, sir. And in one of the TV interviews you have mentioned that the outcome of SLP is normally within a fortnight and the High Court Order says that it has given us the 2 months' time means that would be like September 7th,

**Vivek Saraogi:** Yes, SLP should happen in August.

**Nirav Shah:** Yes, but what if the outcome of our SLP gets delayed or postponed beyond 7th September, still we have to pay the price and then again recover means how will the mechanism work then?

**Vivek Saraogi:** Normally it delays. See first of all; let's understand Supreme Court does not work as per our request. But having such a large issue on the table and having signed the SLP, one is pretty certain that some view should be taken within August.

**Nirav Shah:** Okay. And just wanted an update on any pending arrears do we have right now or have we cleared everything, since the account is clear at Rs. 110.

**Vivek Saraogi:** Everything is clear.

**Nirav Shah:** Okay and sir how much is the amount of subsidy we have accounted for the 9 month period?

**Kishor Shah:** Accounted for Rs. 40 crore.

**Nirav Shah:** And of that how much have we actually received?

**Kishor Shah:** Only waiver part which is Rs. 10 crore. .

**Nirav Shah:** So is it right to say that because of the subsidies, we will be benefiting on Rs. 1.5 per kg of sugar. Can we say that around 10% proportion is actually reimbursed



as the reimbursed part you have not received, so is it right to say that 10% does get waived?

**Kishor Shah:** The waiver part is about Rs. 10 crore. So out of Rs. 40 crore, waiver remission part is Rs. 10 crore and Rs. 30 crore is the reimbursement part.

**Vivek Saraogi:** Correct. So till this waiver is in hand, we will put order again and we have already filed our claims in the court for Rs. 30 crore.

**Nirav Shah:** So we have actually received around Rs. 10 crore which are waived?

**Vivek Saraogi:** And let me explain that Rs. 1.5 to Re. 1 per kg is on certain production; it is not on the company's total production.

**Nirav Shah:** increment production...

**Vivek Saraogi:** It is on that Akbarpur, Mankapur, Kumbhi, and Gularia.

**Nirav Shah:** Yes, increment means before the capacity means...after the new capacity.

**Vivek Saraogi:** Yes.

**Nirav Shah:** Fine, so we have actually received how much – Rs. 10 crore or Rs. 3 crore?

**Vivek Saraogi:** Rs. 10 crore.

**Nirav Shah:** And how do you see that cogen and distillery figures going forward means in this season and next season?

**Vivek Saraogi:** This year we are going to have a robust performance. You have seen the figures. Next season, obviously if India's production...I will just take you through production. See this year we produced about 26.2 million tons of sugar.. Next year, various targets are there. To tell you around 20 to 21. That being the case, we see the



largest drop in Maharashtra and southern states. In UP, the drop is expected to be around 10%-15% and owing to that, we also do expect a similar drop in our production levels at odd 10% or 12%. Therefore to that extent the byproduct business would get a lower utilization, however distilleries should run fully.

**Nirav Shah:** So 300 days odd for distillery?

**Vivek Saraogi:** Yes and in power, the duration will be lower.

**Nirav Shah:** Can we assume that 260 days, is it fair enough?

**Vivek Saraogi:** Pretty odd. 250 days should be fair enough.

**Nirav Shah:** Now that if we look at the quarterly numbers of all the sugar companies, there has been a significant drop in volumes may be because they are expecting prices to move up, so can we say that all the buffer inventory of the 2 million tons which was dismantled on say 30th April, that does not come in to the market; it has been still lying at the company's godown?

**Vivek Saraogi:** No, I don't think so; it has partially come in for people.

**Nirav Shah:** May be for south-based mills because they have exported but for north-based mills, has it come?

**Vivek Saraogi:** Every company has a different policy.

**Nirav Shah:** Okay, thanks a lot, sir.

**Moderator:** Thank you very much sir. Next in line we have Vikram Suryavanshi from Karvy Stock Broking, please go ahead.

**Vikram Suryavanshi:** Yes. Good afternoon sir. What is the amount of the transportation cost we deduct from the cane?



**Vivek Saraogi:** Rs. 5.75 per quintals on the out-center cane. That is all under litigation. Bajaj has got an order for 10.58. However, for 2007-2008, the Supreme Court has not agreed with that. From 2008-2009 onwards we hope deduction will come but at what level, how, when- this would evolve after the litigation gets settled as I briefed when I was discussing the litigation.

**Vikram Suryavanshi:** And that will be, if we pay as per SAP and if we pay Rs. 110, we will not consider that?

**Vivek Saraogi:** Okay, let me clarify. This year was an interim situation. Court has taken a view of Rs. 110 at out-center as well as gate. I don't think Rs. 110 can be disturbed, but this is for the year 2007-2008.

**Vikram Suryavanshi:** Okay.

**Vivek Saraogi:** For 2008-2009, SAP would prevail. But SAP in what fashion would prevail would evolve out of the Supreme Court's view/judgment and in that case, obviously transport would come in.

**Vikram Suryavanshi:** And out of total cane we purchase, how much would be from out-center?

**Vivek Saraogi:** Two-thirds.

**Vikram Suryavanshi:** And what is the amount of debt on balance sheet?

**Kishor Shah:** We have long-term debts of Rs. 1,050 crore.

**Vikram Suryavanshi:** Okay, sir, thank you,.

**Moderator:** Thank you very much sir.

**Vivek Saraogi:** I will brief everyone a little bit on the international and the domestic pricing. Basically one sees international prices move up. This is because Brazil was



earlier factored into, had delivered higher production which till now it has not. Brazil is making a lot of ethanol also. In India, we know that our production is also going to be lower. So coupled with international situation and domestic dynamics, one does expect a firm pricing trend as we move ahead. The display has been available over the last 2 months' prices, so one does expect that, you know, going ahead the prices will be strong, and as I repeat, the profitability, however, would remain...the clarity on profitability will emerge after the litigation. On de-control, another popular area where we had many questions, it is on the government radar. It was going ahead on the fast track but one does not know that in the current political scenario. We hear two kinds of voices. One is that the government is moving ahead with reforms. So it is lying at the highest level, so we are not very sure what view on reform would take place as far as sugar goes. But if government does move ahead with reform in the next 6 months, this is part of the reform agenda; however, it is not sure as to what view will be taken. Buffer stock stands totally dismantled now. In April it has got dismantled. In first of August, the balance has got dismantled.

**Moderator:** Thank you very much sir. Next in line we have Sanjaya Satapathy from DSP Merrill Lynch, please go ahead.

**Sanjaya Satapathy:** My question is on your production outlook for next year, you highlighted that it is going to be about 10%-15% lower, has it anything to do with the flooding situation, specifically in the east of UP or there are general declining cropping area because of certain reasons in Uttar Pradesh?

**Vivek Saraogi:** See, Eastern UP did have more than wanted rain for the month of July, but in August, we have had a good period. So I don't expect too much impact of floods so we are expecting a drop in production because of a little lower plantation to be honest.

**Sanjaya Satapathy:** The plantation area has gone down?

**Vivek Saraogi:** Yes, it has gone down.



**Sanjaya Satapathy:** And sir while you were talking about production, if you can give us some sense of FY10 figures as well, see you are saying that the production supply will be tight for the next 2 years and what is the rationale for expecting 2 consecutive years of supply tightening?

**Vivek Saraogi:** See if we go back into history and it is simple to examine through logic also. Maharashtra is expected to come down the maximum in terms of percentage. Maharashtra produced 92 last year; we are getting figures of around 60 this time. And in Maharashtra there is a little bit of draught impact also. If you see 2002-2003, Maharashtra peaked out at 62, then it came down to 37 in 2003-2004, and then it came down to 27 in 2004-2005, and then again it peaked up, so the logic for the drop is if there is a plantation which was lower last year, area is down, so you will not only have lower plant cane availability, but the ratoon for the next year is automatically down. So any fall does stay 2 years to correct minimum, so having coupled both these logics, one can safely assume that 2 years' production will be lower and hence the buoyancy in prices.

**Sanjaya Satapathy:** Sir, do you see that because of lower production, the ethanol blending program may get affected?

**Kishor Shah:** No, we do not think that. The government has mandated 5% and the government would continue with the 5% agenda for the time being.

**Sanjaya Satapathy:** So usually you don't see this going up to 10% or something like that any time sooner?

**Kishor Shah:** Not in immediate future.

**Vivek Saraogi:** Enough molasses will not be available for 10%.

**Sanjaya Satapathy:** Okay and sir while you have given a sense of how the price of sugar will be, can you give us a sense of how the price of ethanol is going to be going forward?

**Vivek Saraogi:** Ethanol: we are into past tenders so that would whatever quantity,



**Kishor Shah:** In two years tender the time left is one year..

**Vivek Saraogi:** So one year, we have...

**Kishor Shah:** And the contracted price is Rs. 21.50 per liter.

**Vivek Saraogi:** And the fresh tender when it comes in for the New Year, we definitely do expect a higher pricing than this, a reasonably higher pricing.

**Sanjaya Satapathy:** You said that already 2 years have gone and only 1 year is left?

**Vivek Saraogi:** See oil companies did a tender for 3 years. When they did it, so out of those 3 years, 2 years have already gone and 1 year is pending. So they would in the next 3-4 months, come up with fresh tender for future which we do expect at a higher price.

**Sanjaya Satapathy:** Okay, sir about ENA and other alcohol based products, what is the pricing outlook like?

**Vivek Saraogi:** It is not much higher...

**Kishor Shah:** Yes, ENA and rectified spirit prices are quite firm. We are selling rectified spirit at Rs. 25-26 and ENA at Rs. 27-28 per litre. And we expect them to remain firm for a long time basically.

**Vivek Saraogi:** With a slightly upward bias.

**Sanjaya Satapathy:** So you don't really see it is a seasonal phenomenon rather continue...sustaining for this level for some time?

**Vivek Saraogi:** Yes, I am moving up from these levels.

**Sanjaya Satapathy:** Okay, thanks a lot, sir.



**Moderator:** Thank you very much sir. Next in line we have Vinod Nevatia from Equity Investor, please go ahead.

**Vinod Nevatia:** Earlier this year sometime in February or March, Allahabad High Court had given a judgment that the government should decide the policy for future cane prices including this year in 6 months' time, what has happened to this judgment, is it now overruled by Lucknow Bench judgment or because of the case being with Supreme Court?

**Vivek Saraogi:** Correct, valid point. I should have covered that. There is a 19th December judgment of the Lucknow Bench for 2006-2007, where it said that you must maintain rationale of all the points that I have mentioned. It is covered in the judgment, but that judgment was initially stayed by the Supreme Court and then the stay was vacated. As of now, technically that judgment has to be finalized. That judgment has not been finalized. So when I mentioned that we are in court cane pricing fixing methodology, it is through this judgment only. That should get heard and once they finalize that judgment, from that judgment the future pricing mechanism will also get cleared because in that judgment it says that not only we fix the price for 2006-2007, but it says in future also please put in committee, please put in economy rationale, etc.

**Vinod Nevatia:** So the Supreme Court judgment should be covering future years also?

**Vivek Saraogi:** Yes.

**Vinod Nevatia:** Sir, when is the next hearing of Supreme Court?

**Vivek Saraogi:** Should be in August, but no date has come of now.

**Vinod Nevatia:** On ethanol pricing, the last agreement which was made for 3-year period at Rs. 21.50, I believe it gets over sometime in September-October next year, so till then will we be losing a little because of the higher prices of alcohol today in the market and in future.....is there any escalation clause in it?

**Kishor Shah:** There is no escalation clause.



**Vivek Saraogi:** There is no extension, there is no escalation.

**Vinod Nevatia:** To the extent, we are committed for ethanol, we are losers compared to today's pricing.

**Kishor Shah:** That's correct.

**Vivek Saraogi:** As of Balrampur, we have maintained our flexibility and we have not gone into committing our total ethanol capacity.

**Vinod Nevatia:** Okay, but some other mills might have committed full capacity. And sir, if the mixing does not go up from 5 to 10, then we will not be a loser in any case?

**Vivek Saraogi:** No, not at all.

**Vinod Nevatia:** And why do we still get news sometimes that in Maharashtra or some states the oil companies are not buying ethanol at Rs. 21.50 and they are looking for price of Rs. 17-18, which is ridiculous, isn't it?

**Kishor Shah:** These are because of the state restrictions to allow import of ethanol and there are some state excise duties and state taxes.

**Vinod Nevatia:** But even the imported price of ethanol is higher than Rs. 25-27, I believe it is around Rs. 30

**Vivek Saraogi:** Imports have gone up to Rs. 30. That Rs. 17-18 are just news, don't pay attention to it. Nothing like that is there.

**Kishor Shah:** As of now, the price is Rs. 21.50 per liter across India.

**Vivek Saraogi:** They are listing at this price.

**Kishor Shah:** Plus excise duty plus transportation, etc.



**Vivek Saraogi:** See they are the losers. It is finished.

**Vinod Nevatia:** Yes. Thanks.

**Moderator:** Thank you very much sir. Next in line we have Jehan Bhadha from Darashaw Broking & Investment Banking, please go ahead.

**Jehan Bhadha:** Good afternoon. Can you give me the conversion cost per liter in your distillery segment and similarly the conversion cost say per million units of power in the cogen segment?

**Kishor Shah:** In our distillery segment, the cost per liter of production is Rs. 12 per liter. After transferring molasses at Rs. 150 per quintals.

**Vivek Saraogi:** See I will tell you we have to look at this way. Probably as Kishor said Rs. 12 is the total cost out of which there is raw materials cost also. Conversion cost at the most is Rs. 4 and Rs. 3.5. This is post interest and everything. And in power I think our cost is about Rs. 1.30 per unit for the year.

**Jehan Bhadha:** Rs. 1.30 is per unit?

**Vivek Saraogi:** Yes.

**Jehan Bhadha:** Okay, fine. Thanks a lot, sir.

**Moderator:** Thank you very much sir. Next in line we have Achal Lohade from JM Financial Institutional Securities Pvt. Ltd., please go ahead.

**Achal Lohade:** Yes. Good afternoon sir. Just a couple of questions, can we get the number for gross block as of now and WIP?

**Kishor Shah:** We have Rs. 2,358 gross block. And there is hardly any WIP now. It is marginal.



**Achal Lohade:** Okay, just some time back you mentioned that current transport deduction is about Rs. 5 plus, I was just wondering about the current cost, our cost for transportation, let us say Rs. per ton kilometer?

**Kishor Shah:** Close to about Rs. 9 per quintals.

**Vivek Saraogi:** It is Rs. 9 plus. Even the out-center is higher, you are taking Rs. 9 on the total...

**Kishor Shah:** Rs. 9 on the total cane, if you take only the out-center, then it could be about Rs. 15.

**Vivek Saraogi:** Diesel cost has gone up and it is much higher.

**Achal Lohade:** Right. So if we talk about the total effective cost of raw materials, it would be closer to Rs. 125 for the year?

**Kishor Shah:** It is about Rs. 124. The first 9 months the landed price based on Rs. 110 is Rs. 124.

**Vivek Saraogi:** Right, because there are taxes and all on that.

**Kishor Shah:** We have purchased it through out Society Commissions Act.

**Achal Lohade:** Right, and just on the conversion cost for sugar, can we get a sense on that?

**Kishor Shah:** Conversion cost is Rs. 2.50 after accounting for molasses in the bagasse transfer price.

**Achal Lohade:** And how much would that be?

**Kishor Shah:** It is about Rs. 1.25.



**Achal Lohade:** Okay. Thank you very much.

**Moderator:** Thank you very much sir. Next in line we have Priyadarshan Ja from Chartered Capital, please go ahead.

**Priyadarshan Ja:** Hello. Good afternoon sir. You told that it is obviously that raw materials consumption which is responsible for profit this quarter, so can you explain the change in prices of raw materials during the last 1 year? You have profit in this quarter, so can you explain to me the change in prices of raw materials during the last one year?

**Vivek Saraogi:** No, how can they be changed...

**Kishor Shah:** No, the raw materials price is fixed for the season, for 1 year. Rs. 110 is fixed for the 2007-08 season.

**Priyadarshan Ja:** Okay. Thank you.

**Moderator:** Thank you very much sir. Next in line we have Abhilasha Satale from Techno Shares, please go ahead.

**Abhilasha Satale:** Hello, In the last quarter, your sugar sales was around Rs. 246 crore, on which you have made a profit of around Rs. 43 crore; this quarter it is Rs. 236 crore against which the profit is Rs. 9.6 crore, so the margin difference may be because of the depreciation is charged in this quarter because end of the crushing, but sir could you just explain the intricacies of that?

**Kishor Shah :** As Mr. Saraogi explained, this June quarter is basically the non-production quarter...

**Vivek Saraogi:** Little bit production.

**Kishor Shah :** But only expenditures are there. And when we see it on quarter-on-quarter basis, the sugar does not give the correct picture because the January-March



quarter is the full 90 days production, whereas April-June quarter is about 15 days production only.

**Vivek Saraogi:** Maximum 30.

**Kishor Shah :** And we take a rolling costing first 3 months and then first 6 months, and then next 9 months,; And then 12 months, so this margin calculation has to be done on a year basis.

**Vivek Saraogi:** Very tough. It should be done over the year otherwise it is very confusing.

**Abhilasha Satale:** Sir, that means in this quarter what are the additional expenses that you encumbered that is the production is different but other than that, like what is the depreciation you have added or interest in that, which you have not accounted in the last quarter?

**Vivek Saraogi:** Everything is accounted in every quarter. Last quarter there is depreciation interest. This quarter there is depreciation interest, and next quarter, there will be depreciation interest.

**Kishor Shah:** There are expenditures like repairs and maintenance, salary wages...Depreciation interest and there is no production.

**Abhilasha Satale:** Yes, okay

**Abhilasha Satale:** Sir, what is the sugar sale in this quarter?

**Kishor Shah:** Sugar sales in this quarter is Rs. 1.41 lakh tons.

**Moderator:** Thank you very much. Next in line we have Madan from CRISIL, please go ahead.



**Madan:** I would just like to understand the seasonality of your cogen business and the other ethanol business, does it also follow the sugar cycle or how is it?

**Vivek Saraogi:** Yes, the cycles are little similar because if sugarcane is less, bagasse is less, molasses is less. Which means the availability of all things being less the prices of all 3 gets pushed up.

**Madan:** Yes, if you see the quarterly sales numbers for distillery and cogen, there are actually higher when compared to the previous quarters, but the sales of sugar has come down- is it because of the increase in prices?

**Vivek Saraogi:** No, see as we mentioned that we have been able to scale up our cogen business. That is up. The electricity cannot be stored, so, there is no question of that, so whatever is produced, is sold. And as I mentioned, sales was lower as a strategy and distillery again we came in with more capacity this year so the production there and the volume there is higher.

**Madan:** Yes, and one more question, what are the prospects of our carbon traded income for the company?

**Kishor Shah:** The carbon trading basically our methodology is still pending at the UN's level. We are expecting that within 15 days or 20 days whenever this next annual meeting takes place....We will advise where we are standing.

**Madan:** Alright. And I just missed the closing stock of sugar as of date; can you just repeat that again?

**Vivek Saraogi:** 52 lakhs bags.

**Kishor Shah:** As on 30th June.

**Madan:** Yes, 52 lakhs bags valued at Rs. 13.36 per kg?

**Kishor Shah:** Right.



**Moderator:** Thank you very much sir. Next in line we have Sandeep Somani from HSBC, please go ahead.

**Sandeep Somani:** Good afternoon sir. My question is with regard to sugarcane costs, this year though there are court rulings which are going on... but with the availability of the cane going down next year, what kind of cane cost you expect in a best case scenario?

**Kishor Shah:** See the cane cost will remain the same. I mean it is yet to be decided by the State Government or else direction from the Supreme Court. Conversion costs and other costs per unit would go up.

**Sandeep Somani:** Okay, correct me if I am wrong, last time when there was lower sugarcane availability, the cane cost given to the farmers were much higher, do you expect that this kind of situation will happen say in the next 1 or 2 years?.

**Vivek Saraogi:** Yes. See basically we are in court for methodology fixation. If prices move, I will be very happy to pay higher prices... If prices do remain buoyant, we are very clear that we want higher utilization of capacity and a logic fixation of price. Having said that, obviously it will move up from Rs. 110 if prices remain in upward trajectory. And we want to be able to fix that...have that price fixation by the state under logic and under economy rationale.

**Sandeep Somani:** Okay, sir, and secondly when you said that the 2 years of production will definitely get hampered standing today, this like for 2008-2009 and 2009-2010, what could be the best case production level for India as a whole?

**Vivek Saraogi:** It is tough to get into; we can only advice ballpark figures which we get.

**Sandeep Somani:** Yes, like ballpark figures of yours, your best...

**Vivek Saraogi:** Yes, we feel 200-210 lakh tones. The year after at 180 lakh tones.



**Sandeep Somani:** So it will be lower than 2008-2009?

**Vivek Saraogi:** Yes, hopefully...one feels so. Keeping past experience in mind.

**Sandeep Somani:** Okay, thanks a lot, sir.

**Moderator:** Thank you very much sir. Next in line we have Sanjay Manyal from ICICI Direct, please go ahead.

**Sanjay Manyal:** Yes, so sir wanted to know one thing, do you see any possibility of any kind of restrictions on export as the prices are moving really very sharply now?

**Vivek Saraogi:** I don't think so. We have already more than 4 million ton export this year.

**Kishor Shah:** See the domestic prices at this point in time are more beneficial than the export prices. And because the next year cane crop estimate in domestic market is expected to remain firmer than being exported.

**Sanjay Manyal:** Okay, I was really surprised by this fact that now inflation is really going high so government must be putting some kind of restriction to tap the prices rather I would say going sharply, to Rs. 17 and so, is there any possibility of any other kind of restrictions?

**Vivek Saraogi:** See WPI in sugar, the weightage is 3.6%. If you see the ministry website, they have proposed a rejig for all commodities, sugar to be at 1.6%. That is put on their website inviting comments. That to our mind is very logical because that's how much weightage it is in compared to, probably wheat, etc., everything is looking at a change, so sugar goes there, obviously it is a less of a contributor to inflation. Secondly see I will take you back to 1996 where we were selling sugar at Rs. 13.5. In 2006-2007, again sugar was sold at Rs. 13.5. For 10 years it is a flat price. So this is nothing but a correction. It is not contributed to inflation. If you see I do not personally remember any commodity which has remained flat over a decade.



**Sanjay Manyal:** Right. Just one more thing about the sugarcane pricing, if you can brief like, if this judgment really did not come, in the next 1-2 months, then will the UP government decide sugarcane pricing for the next season and I believe you have to abide by that because until the judgment comes through, when you are expecting that next season pricing will come?

**Vivek Saraogi:** November-October end.

**Sanjay Manyal:** And one more thing, don't you think that could be, very different kind of strategy as you are expecting sugarcane prices to come down, at this time sugar prices are moving up and you are going to the court for the kind of mechanism, so if, court puts some kind of mechanism where your profits are tapped, in a scenario where sugar prices are going up, you will not be beneficiary of, moving prices really high?

**Vivek Saraogi:** The litigation is not that profits should be distributed. The litigation is that the profits must follow some trend. If it factors in sugar price, which we had wanted to too, there should be a percentage which the farmer gets. So it remains as a policy not for one year but for times to come. If there is a percentage and one knows the percentage, your conversion cost is also not....the margin will remain at a certain level all through.

**Sanjay Manyal:** Right. Okay, thanks.

**Moderator:** Thank you very much sir. Next in line we have Ashish Gupta from Kotak Securities Ltd., please go ahead.

**Ashish Gupta:** Sir, we have seen that most of the sugar companies have not sold that kind of a production or that kind of an inventory in Q3 and Q2 and since the Balrampur thing is also maintaining 50%-60% of the inventory at this point of time, so given the scenario at this point of time, increasing realizations and we have seen their price jump from Rs. 15 to Rs. 17, so how much the price you can see the stability at this point of time?



**Kishor Shah:** One point is that it is not that the companies have not sold.. All the companies have sold as per the quota given by the directorate.

**Vivek Saraogi:** The companies have sold and have exported, so do not think that India's inventory on 30th July is 60% of production...

**Ashish Gupta:** It is not that, not 60% but approximately 40%.

**Vivek Saraogi:** No, I don't agree with that, I am not trying to put a percentage to it, but to answer to the net impact of your question, one does expect price to remain firm. I don't say jumping from here on the immediate, 15-day horizon... But gradual firmness should build in now.

**Ashish Gupta:** Okay, and out of your total, currently 70% of the inventory, how much are you likely to sell in Q4?

**Vivek Saraogi:** Q4 is the next quarter...this quarter...

**Kishor Shah:** No, Q4 basically we will take a cue from the quota...As well as how to sell some part of the buffer which we will sell during this Q4. It will be in the range of....

**Ashish Gupta:** Any ballpark figure sir, any percentage?

**Vivek Saraogi:** Let us say, you know, Yes, we are looking at selling 20 lakhs bags plus.

**Ashish Gupta:** Okay, current market price is Rs. 17 that you are selling at the...?

**Vivek Saraogi:** Yes, current.

**Ashish Gupta:** Current market prices. Okay, sir.

**Moderator:** Thank you very much sir. Next in line we have Mr. Siddharth Bothra from Motilal Oswal Securities Limited, please go ahead.



**Siddharth Bothra:** Thanks. Good afternoon sir. Just wanted to check with you, is direct conversion to ethanol, like we have in Brazil allowed in India and is Balrampur Chini considering or contemplating entry into direct ethanol business?

**Vivek Saraogi:** No, I don't think direct ethanol is going to...in such shortage time, nobody can look at it.

**Kishor Shah:** No, till such time there is a cane price rationalization formula in place. I don't think it makes sense to manufacture directly from the sugarcane juice.

**Siddharth Bothra:** Right. But sir, is it allowed because I think there is some amount of confusion that we get from different people. Is it allowed in India?

**Vivek Saraogi:** Yes, it is allowed in India technically, and I think we had announced that.

**Kishor Shah:** No, it is allowed basically, but then only question that there has to be assured off-take from the oil marketing companies and the cane price formula should be in place.

**Siddharth Bothra:** Correct. Sir one more question, could you give your view on economics and viability of setting up a sugar distillery business in India?

**Vivek Saraogi:** Sugar distillery is attached to a sugar mill.

**Kishor Shah:** Refinery or..?

**Siddharth Bothra:** As a separate independent one...refinery I meant, Yes, sir.

**Vivek Saraogi:** Refinery is...no, a stand-alone refinery or a refinery....

**Siddharth Bothra:** As a stand-alone refinery.



**Kishor Shah:** No basically it all depends on what is the difference in raw sugar and white sugar and what is the export margin, so today there is a wide difference between the export raw sugar price and white sugar priceage, so it makes sense. As , there could be like cases like, where Government of India earlier allowed raw sugar import to be refined and sold in the domestic market. And on purely absolute on the stand-alone basis, I don't know whether this is viable in the long run.

**Siddharth Bothra:** Right, okay, just you know, in the previous question you were mentioning on, if this decontrol happens, what amount you pay to the farmers could be linked with the final realization of sugar, so in this case, do we also account partly for the other, you know, other by-products of sugar like distillery, power, and so on, like profits would be considered solely for sugar or would...how would the entire thing be taken into consideration because, most of the sugar companies today are integrated, so how would you when you say realizations for sugar, how would that be determined?

**Vivek Saraogi:** See, first of all, decontrol has got nothing to do with this. Decontrol which is being spoken about in the current format is just scrapping of levy and releases. Whereas it is a complete dismantling of even cane areas and de-reservation and pre-pricing of cane.. So that is not on the scanner of the government at the moment. and whatever cane price methodology or fixation, I repeat will come out of Supreme Court directions now.

**Siddharth Bothra:** Okay Right, sir, thank you so much.

**Moderator:** Thank you very much sir. Next in line we have Pramod Tiwari from B&K Securities, please go ahead.

**Pramod Tiwari:** Good afternoon sir. I would like ask why was the sales volume lower as compared to last year as well as previous quarter and second one is, is export viable for Balrampur Chini Mills in case the export market is attractive?

**Kishor Shah:** See as we mentioned that we sold sugar during this quarter as per the quota given by the directorate. And as far as export market is concerned since our factories are located in Uttar Pradesh and the transportation cost from the factories to



the port is quite high, so it is not that viable as certain southern states in the Maharashtra.

**Pramod Tiwari:** Okay, how much is the expense rolling in India if we consider northern part and southern part. You said Rs. 17 now, is it for northern and eastern part or the southern part as well...

**Kishor Shah:** Maharashtra is a bit lower but then...

**Vivek Saraogi:** Parts of southern are at Rs. 16.50-Rs. 16.80 range. But Maharashtra is a rupee lower.

**Pramod Tiwari:** And sir what kind of quantity are we going to sell due to this buffer realization?

**Vivek Saraogi:** It is very difficult to predict, but we have indicated that 20 lakhs bags plus in this quarter.

**Pramod Tiwari:** Okay, sir.

**Moderator:** Thank you very much sir. Next in line we have Rohit Kumar Singhania from DSP Merrill Lynch, please go ahead.

**Rohit Kumar Singhania:** Yes, would the cane prices for whatever reason I mean if they have fixed at Rs. 125, would that have any bearing on the output for 2009-2010 in terms of the attractiveness to farmers, would that have any bearing?

**Vivek Saraogi:** Yes I mean see it all depends. It is very difficult to answer all these at the moment but, if the Supreme Court goes and says that the State Government can do what it wants and there is no logic, then, obviously it will become attractive for the farmers.

**Rohit Kumar Singhania:** Okay, thank you.



**Moderator:** Thank you very much sir. Next in line we have Karan Vasani from CRISIL Research, please go ahead.

**Karan Vasani:** Good afternoon sir. I was just looking at some numbers which had come up from the National Federation of Cooperative Sugar Factories; based on their data, you know, it is coming out that the diversion of sugarcane to Gur and Khandsari has really fallen to say about 35 million tons in the 6-7 seasons as against you know what we are seeing about 60-85 million ton, so would this be...also now that this sugar consumption numbers are revised upwards, so would it be fair to say that the Gur and Khandsari market has been taken at an increasingly higher sales price ?

**Vivek Saraogi:** I think Gur and Khandsari all depends on their ability to take cane during the season so say sugar prices were low during the last 2 years, I see diversion increasing this year.

**Karan Vasani:** Okay. So it would go back to at about 60 millions kind of level but it went about 35...

**Vivek Saraogi:** Not to give figures, but it will be upwards...

**Kishor Shah :** It is very difficult to give numbers...

**Vivek Saraogi:** It would surely be up from the last 2 years.

**Karan Vasani:** Okay. And coming to earlier you were mentioning that the direct route you don't see that taking off in the country, but do you see scenarios where maybe some companies will divert their 5% to 10% of their primary route and use the rest for sugar.

**Vivek Saraogi:** Difficult.

**Karan Vasani:** Okay and if actually such a situation were to materialize, how would this get factored into a cane pricing formula?



**Vivek Saraogi:** All these questions...I will tell you very simply..I will tell you sugarcane is in less supply. So it is going to be lesser than your basic consumption. And I do not think anybody would as a businessman look at diverting into ethanol.

**Karan Vasani:** Okay. Fine. Thank you.

**Moderator:** Thank you very much sir. Next the last question comes from Nirmal Shah from Alchemy Share and Stock Brokers, please go ahead.

**Nirmal Shah:** Yes, sir, just wanted to check for the next season, how many number of days we are looking for crushed?

**Vivek Saraogi:** Lower....., number of days..... tougher, but...

**Kishor Shah:** No, basically the quantity as Mr. Saraogi mentioned it is about 10%-15% lower than last year. So capacity, we have 73,000 tons crushing per day. And 110, 115, 120 days... depending from factory to factory.

**Vivek Saraogi:** Yes, if you see the full capacity, I mean, if we are made to simply buy 82 lakhs bags this year, 72 in that region...

**Kishor Shah :** That's understandable.

**Nirmal Shah:** Okay, and sir when will your agreement with the UP State Electricity for the cogen going to expire....means in the near term, I mean next year or so...

**Vivek Saraogi:** Yes, it is about 3 years away.

**Nirmal Shah:** Okay, and sir, last question regarding sugar consumption in the country, currently is it plus 22 million tons or is it still 22 million or somewhere...?

**Vivek Saraogi:** Yes, certainly.

**Nirmal Shah:** Plus 22?



**Vivek Saraogi:** Yes.

**Nirmal Shah:** Okay, thank you, sir.

**Moderator:** Thank you very much sir. At this moment, I would like to hand over the floor back to Vivek Saraogi, Managing Director of Balrampur Chini Mills for final remarks.

**Vivek Saraogi:** I would like to thank all the participants for being with us, and any other questions you would have at any point of time, Kishor, myself, Mr. Pramod Patwari, they would all be happy to answer your queries. Thank you once again for being with us.

**Kishor Shah :** Thank you.

**Moderator:** Ladies and gentlemen. Thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

- ENDS -

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