



**Balrampur Chini Mills Limited**  
**Analysts / Investors Conference Call**  
**April 29, 2009**

**Anoop Poojari:** Good afternoon everyone and thank you for joining us on Balrampur Chini Mills Q2 and H1 FY2009 results conference call. We have with us Mr. Vivek Saraogi, Managing Director of Balrampur Chini Mills and Mr. Kishor Shah, Director cum Chief Financial Officer of the Company. We would like to commence the call with brief opening remarks from the management, following which we will have the forum open for discussion. I would now like to invite Mr. Saraogi to make his opening remarks.

**Vivek Saraogi:** Good afternoon and thank you for joining us to discuss Balrampur Chini's operational and financial performance for the second quarter and half year ended 31<sup>st</sup> March 09. To begin with, I would like to share my perspectives on the sector and discuss the operational performance with you, following which Kishor will take you through the financial highlights of the Company during the quarter.

The Country has seen a drastic fall in production this year, which fell from 26.3 million tonnes last year to around 14.5 million tonnes this year. Sugar-producing states saw a 40% to 45% dip in sugar production. The key reasons toward this fall are diversion of cane into other remunerative crops, adverse climatic condition, yield of sugarcane from land, as well as lower recovery. Also, another reason is in the past, there has been uncertainty on the cane pricing and mill's inability to pay prices promptly. We expect next year's crop to improve; personally I would feel to a level of about 18 million tonnes. However, it will be still lower than India's consumption. We estimate consumption to be around 22.5 to 23 million with a 2% to 3% growth annually. As a result, sugar prices have moved up and I expect it to remain firm.

The Government has allowed duty-free import of raw sugar without re-export obligation till 31<sup>st</sup> of July. We don't expect sugar manufacturers to benefit much from this during this season as bagasse availability to generate additional power for processing raw sugar is very limited. However, what I believe personally is that the country is towards embracing a structural change in sugar pricing. Let me begin by saying that sugar



consumption constitutes 30% of a household expenditure. Higher sugar prices would enable better cane realization for the farmer whose disposable income is once again channelized into the economy. As we move ahead, higher sugar, you know, consumption moves from 23 million tones to 24 million tones to 25 million tones, and I don't see India getting to those production levels very soon. This is basically in tandem with thinking that, you know, for example in Andhra if we see; paddy price is up to 1500. So, I will address that separately and how and why I see a structural change in this business.

Globally, sugar sector is also facing a supply-demand mismatch. Along with India, there has been lower production witnessed in Australia, Thailand, and Pakistan. Brazil, the largest manufacturer is facing limitations in its operational capacities on account of severe financial crisis experienced by some large sugar companies. So, international prices have also improved and are forecasted to remain firm.

Coming to Balrampur Chini's quarterly results, we have delivered a stable performance driven by the sugar sector. The sugar business reported strong earnings performance in the period under review as a result of improved realization. Average realization during the quarter was at Rs.20.3 per kg for the three months and Rs.18.7 per kg for the first six months. However, in line with the sector, we saw a notable fall in crushing and production figures. The Company crushed 483 lakh quintals of cane during the current year as compared to 806 lakh quintals last year. Given the adverse climatic conditions, recovery were lower at 9.14% this season as compared to 10.16% in the last season. Hence, we produced 44 lakh bags or quintals in the current year compared to 82 lakh bags last year.

Distillery and Cogeneration business were also impacted due to lower cane availability. Revenue in distillery segment remained separate over the quarter due to fall in distillery volumes. However, profit during the period under review was stable on account of improved realization seen as a segment.

In a similar manner, Cogeneration performance was also affected due to lower bagasse availability. Export of units in H1 FY2009 fell to 2721 lakh units or 27 crore units from 35 crore units. We have received higher realization of Rs. 4 per unit and we would be



receiving the same in the month of April and May also. UPPCL has provided higher rate for supply of power in the off season in this window.

Before I end, there are two more briefs I would like to give everyone. One is expected cane price and two is our rundown on the legal/court cases. Firstly on the court cases, we continue to be in litigation in Supreme Court on the methodology of cane price fixation. See, it has been decided that the UP Government under a certain act has the power to fix price. What we are in court for is the Allahabad High Court order which has upheld that cane price fixation has to be done commercially, keeping sugar price in mind and the two should be related and then by an autonomous/independent body. Now, that is the case which is to come up in Supreme Court very soon. That is the litigation which will decide a lot for the future of the industry in terms of methodology of cane price fixation. On the cane price, I will address this after the court case because there is going to be a lot of impact of the court case if the court case is decided in favour of the industry or the Allahabad High Court order is upheld. The cane price expectation for the next year, we also want the farmer to share the sugar price. So, if price moves up, which I feel it, will and continue to remain stable to firm and keep going up, we are always willing to give farmer a percentage of the sugar price as cane price. It will not only improve our availability, capacity utilization but go a long way in helping the byproduct business.

A little bit more comment on the byproduct business. On the cogeneration, we are very happy with this Rs.4 per unit window. We would be sort of gathering our bagasse and mostly finishing it up in the month of April and May, having used the entire window of March, April and May to get a 33% higher realization. So, April and May, we would be going full steam and selling out our power in two months at Rs.4 per unit and exhausting all our cogeneration operation. Our cogeneration operation would stand concluded in May. We would have used full April and May for these operations. Distillery, we would continue to sell the year around. Yes, there is a drop in volume, but that I think personally would be made up by realizations of the product. So, top line would fall, margins would improve, that is the sense and theme all through.

To end, we continue to remain one of the efficient and largest integrated manufacturer in the country and believe we are best placed within the industry to ride this varied sugar cycles. We expect stable performance in the second half keeping in view the current



trend in sugar sector. Presently, improved realization should offset higher cost of production. Our allied business as well would augment our performance, although as I said bagasse and molasses availability would be muted this season. Now, I will give the floor to Kishor to take you through the financial performance.

**Kishor Shah:** Thank you sir. Good afternoon everyone and thank you once again for joining us on today's conference call. I will now briefly take you through BCML's financial and operating performance for Q2 and H1 FY2009.

During the quarter, revenues stood at Rs. 357 crore as compared to Rs. 311 crore in the corresponding quarter last year, an increase of 15%. This was primarily owing to improved sugar realization. Both distillery and cogeneration businesses continued to contribute to our overall performance during the period under review, though their operational performance was subdued due to lower sugarcane availability. Operating profits were Rs. 131 crore in Q2 FY2009 as compared to Rs. 135 crore in Q2 FY2008. In H1 FY2009, operating profits increased 43% to Rs. 248 crore led by healthy performance delivered by the sugar segment.

Coming to our segment-wise performance, revenues from the sugar segment came in higher by 19% at Rs. 294 crore in Q2 FY2009 compared to Rs. 248 crore in the corresponding quarter last year. H1 FY2009 revenues stood at Rs. 673 crore as compared to Rs. 622 crore in the corresponding half year last year. Operating profits witnessed an increase and it stood at Rs. 62 crore in Q2 FY2009 and Rs. 123 crore in H1 FY2009, and increase of 41% and 508% respectively. Enhanced sugar realizations during the quarter enabled the segment to significantly improve its performance. During the Q2 FY2009, average realizations were higher at Rs. 20.30 per kg compared to Rs. 14.52 per kg in Q2 FY2008. Similarly, in H1 FY2009, average realizations were at Rs. 18.67 per kg as compared to Rs.13.95 per kg in the corresponding period last year. Sugar sales during the quarter stood at 1.24 lakh tonnes as compared to 1.34 lakh tonnes in the corresponding period.

In our distillery segment, revenues in Q2 FY2009 were at Rs. 41 crore as compared to Rs. 45 crore in Q2 FY2008. In the first half of the year, revenues from the distillery divisions were at Rs. 74 crore versus Rs. 76 crore. Operating profits in Q2 and H1



FY2009 were stable at Rs.15 crore and Rs.30 crore as compared to Rs.17 crore and 32 crore in Q2 and H1 FY2008. Performance here has been stable on account of improvement seen in realizations across distillery products, even though sales volumes came in lower during the year under review. Average realization improved to Rs. 25,144 KL in Q2 FY2009 as compared to Rs. 17,785 KL in Q2 FY2008. Distillery sales during the quarter were at 16,317 KL as compared to 24,350 KL in the corresponding period last year. We expect realizations to remain firm across products like RS and ENA in the coming quarter due to lower molasses availability.

Cogeneration's revenues were lower at Rs. 76 crore for the quarter as compared to Rs. 94 crore in the corresponding quarter last year due to lower export of units. Revenues for H1 2009 stood at Rs. 132 crore as compared to Rs. 149 crore in H1 2008. Performance here has been impacted due to lower availability of bagasse, on account of which we had to operate some of our facilities for lesser number of days. PBIT stood at Rs. 43 crore during the quarter as compared to Rs.48 crore and Rs. 68 crore in the first six months as compared to Rs.73 crores in the corresponding period respectively.

With regard to our earning in the first half, PAT improved to 79% to Rs. 170 crore as compared to Rs. 66 crore in H2 FY2008 and profits reported during the quarter was stable at Rs. 66 crores. Cash profit for H1 FY2009 stood at Rs172 crore, a growth of 42% as against Rs. 121 crores in H1 FY2008. That's all. We would now like to address any questions or concerns you may have. Thank you very much.

**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.

First in line, we have Mr. Ankit Jain from Madhav Securities. Over to you sir.

**Ankit Jain:** Hi Sir. Congratulations for good set of numbers. Sir, I just want to know that cogeneration plants, that per unit utilizations have improved to Rs. 4 per unit, sir is it temporary?



**Vivek Saraogi:** See, as of now, this window has been given for these three months. Tariff fixation is coming up. The next five years tariff fixation is due. Probably that is to also happen some time in May-June-July.

**Ankit Jain:** Okay. So, because of this, you would be procuring bagasse from other plants where you don't have cogeneration facilities because that transportation cost would be compensated by this?

**Vivek Saraogi:** Yeah, I will address this in two separate fashions. One you said, what our expectation is going ahead. So, in the tariff fixation, this move leaves me with the feeling and understanding or whatever that tariff fixation for the next five years should be in, you know, definitely enhanced from Rs. 3 and the figures we have received now look very achievable for the next five years. So, that is a very positive development in my mind. As of Balrampur's Chini operation, I had mentioned in my opening remarks that we have cogeneration facilities which are planned in such a manner that, you know, there is one cogeneration plant addresses two to three plants which are close-by, so the transportation cost is one of the lowest and we do use up that bagasse. So, we are going to finish and use up all our bagasse in April and May. And that is full of April and May.

**Ankit Jain:** So sir, this year how many units you would be generating?

**Vivek Saraogi:** I will just tell you 37 odd crores units. Basically, we have about 9 to 10 crore units left.

**Ankit Jain:** Sir, how much was the fixed cane price for the season?

**Vivek Saraogi:** See, we have paid Rs.140 per quintal.

**Kishor Shah:** Our landed cost of cane for the first six months was Rs.151 per quintal

**Ankit Jain:** Sir, this is including every taxes?

**Kishor Shah:** Yeah, all, everything.



**Vivek Saraogi:** This is cane cost to the company.

**Kishor Shah:** Cane cost and development activities, transportation, everything.

**Ankit Jain:** Sir, how much of...how much is the cost coming per kg of sugar this quarter, this season?

**Kishor Shah:** Our cost of production for the first six months was Rs.18.15 per kg pre interest and pre corporate overhead.

**Moderator:** Thank you very much sir. Next in line, we have Sanjaya Satapathy from Merrill Lynch. Over to you sir.

**Sanjaya Satapathy:** Hello sir. Sir, can you just take us through the way you liquidate your inventory, old inventory and how basically this sugar division's profitability kind of gets reported every quarter?

**Vivek Saraogi:** See, we had old inventory 31 lakh bags at the beginning of the year valued at Rs.14.50 per kg.

**Kishor Shah:** We have sold everything in these first six months.

**Vivek Saraogi:** We have almost sold everything. In the month of March, we have completed. Now, average realization of that should be taken as Rs.18.7 per kg because that is the average realization for the first six months. We have hardly sold any new inventory. So, we are having 43 lakh bags as on 31st March, valued at Rs.18.15 per kg against a production of 44 lakh bags. So, you can see that almost the entire new inventory is sitting with the Company at Rs.18.15 per kg as on 1st of April.

**Sanjaya Satapathy:** You follow FIFO principle as far as sugar sales is concerned?

**Vivek Saraogi:** Mostly, yeah.



**Sanjaya Satapathy:** And sir, as far as the second half is concerned, over and above this Rs. 18.15 per kg, that cost, what are the additional costs that you would be incurring for sale of sugars?

**Vivek Saraogi:** Basically salary and repairs.

**Kishor Shah:** And all off-season expenditures.

**Sanjaya Satapathy:** Is it possible to quantify that total quantity sir?

**Kishor Shah:** In fact, you know, our total overall cost for year up to 30th September 2009 would be about Rs. 20.50 paisa per kg pre interest and pre corporate overhead.

**Sanjaya Satapathy:** This Rs.18.15 that cost you were talking about, that amount itself will go up to Rs.20.50 by the end of the year?

**Kishor Shah:** Correct.

**Sanjaya Satapathy:** Okay. Okay sir, thanks a lot. I will come back with any questions later on sir.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Rajat Chandak from ICICI Prudential. Over to you sir.

**Rajat Chandak:** Yeah, good afternoon sir. Very good set of numbers. Most of the questions have been answered, just your view on the sugar prices. They have been, you know, subdued in the recent past, that is what I get, some view on that?

**Vivek Saraogi:** Yeah, I will give a full view on this because this should be a prominent question. See, as we went into March, you saw that the quarter realization was Rs.20.3 per kg. As we got into March, the sugar price went to about Rs.21 per kg. Now, in April, the price move within 10 days, okay, 1st April to 10th April, the price moved from Rs.21 to Rs.25 per kg. This is because production shut all over India.



Summer months, consumption time, key players sold out, 21 to 25 was the move. Naturally, even I am with the government, the price, you move into election and price goes up from Rs.21 per kg to Rs. 25 per kg, naturally the government would remain worried and undertake certain set of measures to sort of lower the price in the short term, okay. So, now price has come back temporarily, I feel, has come back from Rs. 25 per kg to Rs. 23 per kg means they have still moved up almost 10% from 31st March prices. This is after so much of action. Let's understand the sugar situation and why I feel bullish on the price. My price projection is Rs.25 per kg plus as we move ahead on the sugar unsold for sure. See, basically let's understand the issue. There is a physical mismatch of demand and supply. There is no paper shortage. There is a physical shortage. As we produce 14.2 million tonnes and I don't think refining, etc., has happened more than 0.8 million tonnes, so total availability, Kishor, 15 million tonnes? Opening stock not more than 8 million tonnes in my mind; makes it 23 million tonnes. Now, that is 22 million tonnes plus 23 million tonnes is the consumption level. As we move ahead, my price can only move up post I mean 7th of May or whatever, the price should move up drastically. And I am little scared how much it can move up.

**Rajat Chandak:** Okay.

**Vivek Saraogi:** This is on the upside, not on the downside.

**Rajat Chandak:** Okay. And just one more thing, you said that for H1, the landed cost of cane was 151 Rs. per quintal, was the price paid just, you know, at the end of the crushing season, was it significantly higher?

**Vivek Saraogi:** I will tell you, there were some plants, very few, I mean not even 5% of our total cane we paid Rs.155 per quintal. I repeat, if you call the year 2004-2005, the cane price I still remember was Rs.115 per quintal Balrampur Chini got all its cane crushed all its cane at 115 per quintal. This year, we have crushed 95% to 97% of our cane at Rs.140 per quintal. 2% to 3% of the cane at the end is bought at Rs.155 per quintal.

**Rajat Chandak:** Okay sir. Okay, thanks a lot.



**Moderator:** Thank you very much sir. Next in line, we have Mr. Arya Sen from Credit Suisse. Over to you sir.

**Arya Sen:** Good afternoon sir. On the import side, just wondering if you are planning to use this window till August 1st to import any raw sugar for the next season?

**Vivek Saraogi:** Yes, we are actively considering. We are seeing the rules. We are seeing the global markets. We are waiting for it to come down to import. What we would like to do typically is to have these sugars physically in our godown by 31st July, so that we can use this window and you know, stake benefit of this window and refine this sugar next year.

**Arya Sen:** Right. What would be the economics of conversion for this sir?

**Vivek Saraogi:** See, it will depend on what is my landed cost depending on the global price, rupee-dollar, freight cost.

**Arya Sen:** No, I meant the processing cost.

**Kishor Shah:** Processing is about Rs. 1,500 per metric tonne.

**Vivek Saraogi:** Rs.1, 500 to 2,000 per metric tonne.

**Kishor Shah:** Depending on steam availability, bagasse availability, everything.

**Vivek Saraogi:** So, if we begin from the beginning of the season, we have ample number of plants and ample, you know space to do it.

**Arya Sen:** Right. And assuming that this import of raw is without re-export obligation is extended beyond 1st of August, how much is the maximum that you can do for the next season?

**Vivek Saraogi:** We can do about 75 to 1 lakh tonnes.



**Arya Sen:** Thanks a lot sir.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Achal Lohade from JM Financial. Over to you sir.

**Achal Lohade:** Hello. Just a couple of questions. First on the cane cost, you said your average was Rs.151 per quintal. I was just wondering like have you deducted Rs. 5.75 or 11 towards the transport rebate?

**Kishor Shah:** We deducted Rs.5.75 for our centers.

**Vivek Saraogi:** We have deducted Rs. 5.75 as has everyone in UP. Nobody has deducted less or more.

**Moderator:** Mr. Achal is disconnected sir. We will take the next question from Mr. Abhijit Dey from Kotak Mahindra Mutual Fund. Over to you sir.

**Abhijit Dey:** Sir, just wanted to know what is the closing stock of sugar sir?

**Vivek Saraogi:** 43 lakh bags as on 1st of April.

**Abhijit Dey:** Okay sir. Thank you very much.

**Moderator:** Thank you very much sir. Next in line, we have a followup question from Mr. Ankit Jain from Madhav Securities. Over to you sir.

**Ankit Jain:** Sir, this Rs.18.7 per kg average cost, is it including levy price, levy sugar also?

**Vivek Saraogi:** Yes

**Ankit Jain:** Okay sir. Like on year-on-year if you see, the sugar dispatches are lower by BCML, so this is despite the government incentive to increase the dispatches during the recent two-three months, sir how is that?



**Vivek Saraogi:** See, everybody follows a certain pattern and quotas get extended. So, if March quota was extended into April, we chose to sell in April and not in March. So, that is a helpful decision.

**Kishor Shah:** Yeah. Therefore, they are marginally lower.

**Ankit Jain:** Okay. So, for the whole year, it will be more or less the same as you sold the last year?

**Vivek Saraogi:** Depending on the crushing, you know, I mean we can only sell what we have.

**Ankit Jain:** No, that much of inventory you have, so...

**Vivek Saraogi:** So, if you collate that and last year's production is much higher, so probably the sales can't be the same.

**Ankit Jain:** Sir, but your inventory you said you have 33 lakhs...

**Vivek Saraogi:** 43 lakh bags.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Tushar Manudhane from Prabhudas Lilladher. Over to you sir.

**Tushar Manudhane:** Hello sir. Seeing the sugar prices going ahead, I just would like to have your view on the alcohol prices.

**Vivek Saraogi:** I think alcohol prices also should move up.

**Kishor Shah:** They will remain firm only.

**Tushar Manudhane:** At around Rs. 25-26 per litre or...



**Vivek Saraogi:** Higher, higher.

**Kishor Shah:** Higher. We are selling rectified spirit around Rs. 30-31 per litre now.

**Tushar Manudhane:** Okay.

**Kishor Shah:** And we expect it to remain at these levels plus only.

**Vivek Saraogi:** It could go up to let us say Rs.35 per litre.

**Kishor Shah:** Yeah.

**Tushar Manudhane:** And sir, I mean in terms of like ethanol to fuel companies and alcohol, what is the breakup?

**Kishor Shah:** In ethanol we are selling about 21% to oil marketing companies,

**Tushar Manudhane:** Okay.

**Kishor Shah:** The balance is rectified spirit and ENA.

**Tushar Manudhane:** And sir, total alcohol to be available for sale this year?

**Vivek Saraogi:** We will just tell you in a minute.

**Kishor Shah:** 6 crore litre in the year.

**Tushar Manudhane:** Okay. Sir, interest cost will remain at like Rs. 100 crores for the year, just wanted to confirm.

**Kishor Shah:** It will remain around Rs. 95 crore for the year.

**Vivek Saraogi:** For the group as a whole. Not only in the sugar division.



**Kishor Shah:** Across all three segments.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Trilok Agarwal from Birla Sun Life Insurance. Over to you sir.

**Trilok Agarwal:** Good afternoon sir. Just want to check that, you know, you said that your average cost of production was Rs.18.5 per kg in the first half, so it is expected to go up to 20.5 and given the fact that you have already produced total sugar, I mean just can you explain that?

**Vivek Saraogi:** I will tell you, it is Rs.18.15 per kg. Still some costs have not been factored. Because, you know, we can only factor in the amount we have spent. See, cane price has come in. Salary has come in part. Sales have come in part. Depreciation has come in part. So, these next 6 months of netted expenditure will have no production.

**Moderator:** Thank you very much sir. Next in line, we have Swapna Kamat from Radha Madhav Advisors. Over to you ma'am.

**Swapna Kamat:** Sir, how much is the debt on books as on 31st March?

**Kishor Shah:** We have Rs. 1,020 crore long-term loan and Rs. 490 crore working capital.

**Swapna Kamat:** Alcohol production for the year?

**Kishor Shah:** 5.50 lakh litres.

**Swapna Kamat:** 5.5 lakh litres...okay. And sir, also lastly, I would like to know your view on world production and consumption, I mean the overall situation, means you said that Brazil, there is some product deficit in production in Australia, Thailand, etc. So, how do you see the world production panning out and the consumption also?



**Vivek Saraogi:** See, on the global production as I said, okay, need to address this properly. Brazil is in a real fix. Brazil is having financial problems. If one group is having 4 factories, probably 2 are running. There is no cash flow. So, their ability to produce sugar is definitely curtailed, plus they have a lot of ethanol-only facility. They have a lot of ethanol-only factories which are just technically they are set up in a way only to produce ethanol. I don't see, therefore, Brazil being able to make up the requirement generated by the subcontinent and other deficit areas of the globe, with EU Reform also kicking in. If you see India, I mean I have given you the situation this year, next year 18 million tonnes is the production and 23 million tonnes is the consumption with almost nil opening stock and a 50 lakh physical deficit again, I don't know what India requires and I don't know what is the price and the year after that if I take you, I do not see with competitive crops the way they are, I am seeing India structurally not being able to produce more than 24 -25 million tonnes in a hurry. Therefore, I don't see ourselves getting into a surplus sugar economy over a period of time and with this opening stock deficit we are carrying forward, probably there is going to be a structural change in the way sugar pricing is to be seen as we move ahead into the next year and year after next. My belief is even back by the fact that the global availability is not going to be the way people think it is because global surplus, because there is a lot of global deficit also in certain regions. There is deficit on the white front, there is deficit on the raw front, and there is a curtailed ability to produce. So, putting in all these factors together, I see a structural change in the behavior and pricing of this industry.

**Swapna Kamat:** Okay. And sir, one more thing, could you just tell me the raw-white spread, means we heard that it is somewhere 80 dollars, so could you confirm the same?

**Vivek Saraogi:** Yeah.

**Kishor Shah:** It exists today more or less in the same range.

**Swapna Kamat:** So, what should be or what should it look like going ahead?



**Kishor Shah:** It all depends on basically the Brazilian sugar production and the import by India, Pakistan, and other countries. But it should remain in these levels, about USD 80-90.

**Vivek Saraogi:** Yeah, see, if you get sugar from Thai, there is a Thai premium which is at lifetime high. So, you know, it depends, the source, which source of sugar you are buying and this is without India having physically come into the market. A Rs 50 to a dollar, if India wants to bring in sugar, Kishor what, USD 440 per tonne?

**Kishor Shah:** USD 440 per tonne landed, then plus we have countervailing duties, taxes, etc., etc.

**Vivek Saraogi:** So, even if you take USD 440 per tonne and Rs.50 to a dollar, it is Rs.22 per kg and 1%, it is 22.5 Rs. and that is for sugar which is, you know, without grain. The moment you touch it, you are hitting, according to me, 7-8% higher prices. So, I don't see imported sugar also being available, white sugar which can sell at less than Rs.24 or 25 per kg. So, that itself is setting a new benchmark.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Shweta Dewan from IDFC-SSKI Securities. Over to you ma'am.

**Shweta Dewan:** Good afternoon sir. Sir, I just wanted your view on molasses prices, we have seen some correction in Jan and Feb and again an upward movement in March. Just wanted your view on the prices in the coming quarter and the rest of the year?

**Vivek Saraogi:** It would remain up only because, you see, again you are entering a situation where there is no surplus. You have oil companies taking away X percentage. I will just give you this concept of ethanol. If ethanol is going in a lower price in market today, it is reducing the availability for the other products. So, naturally the other products are being priced much higher. With that happening, the other products, as I said, rectified spirit goes to Rs.35 per litre and you sell 80% of your produce at Rs.35 per litre and 20% at Rs.24 per litre the average, you know what it comes to. So, the ethanol carrying on can only make molasses on a shortage and more and more expensive.



**Shweta Dewan:** So sir, from the now levels of around 5,500 per tonne.

**Vivek Saraogi:** Maybe upward bound only.

**Shweta Dewan:** Okay. Any range, any estimation?

**Vivek Saraogi:** Tough to call a range. try and call a range on sugar no.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Avinash Agarwal from Sundaram BNP Paribas. Over to you sir. Mr. Avinash, please go ahead.

**Avinash Agarwal:** Good afternoon sir. You have given a guidance for India seeing 18 million tonnes. Could you give a sort of guidance for your company, how much you could crush?

**Vivek Saraogi:** Okay, yeah. We expect to crush about...we hope to crush higher by 20 odd percent and with a recovery of now we expect this year to be a freak year on the recovery front. So, we are hoping for getting almost 60 lakh bags i.e. 60 lakh quintals to make it simple against 44 lakh quintals this year.

**Avinash Agarwal:** Okay sir. And sir, just a small question, your tax rate was low this quarter, what would be the kind of tax rate can you see going forward sir for the full year?

**Promod Patwari:** Tax rate would remain, I mean the current tax would be about MAT and the total tax liability would be around 20%.

**Avinash Agarwal:** 20% for the full year. Going forward for the next couple of years, would it stand at 20% sir?

**Vivek Saraogi:** Yeah, because there is a power component also. So, 20% seems okay.



**Moderator:** Thank you very much sir. Next in line, we have Mr. Pankaj from Principal Mutual Fund. Over to you sir.

**Pankaj Tibrewal:** Good afternoon Kishor, good afternoon Mr. Saraogi.

**Vivek Saraogi:** Good afternoon.

**Kishor Shah:** Good afternoon Pankaj.

**Pankaj Tibrewal:** Good set of numbers. Just wanted to know, you seem to be sounding very bullish on sugar, but the shift which I am seeing this time as compared to a couple of years back which was you and your competitors were aggressively setting up capacity, which is absent this time probably because of the financial health of some of your competitors, can you comment how you are looking at capacity additions going forward for yourself, do you think it is sufficient enough for the next couple of years seeing lower cane procurement especially, how is the CAPEX scenario or competitive scenario panning up among UP?

**Vivek Saraogi:** I think CAPEX is zero, expected to be zero. Because there is a such a lot of overcapacity already. So, I think even in the next three years which I see the bullish trend to last...at least. Even in these three, I don't think a single new factory is to come up. (A) Lessons have been learnt. (B) Finances are where they are for people. (C) And very important and the major factor, you know is that there is no need. You already have overcapacity and if I see that, you know, I find it difficult to find cane more than 25 million tonnes for India as a whole, the capacity is over 30 millions tonnes already existing. So, there is no need.

**Pankaj Tibrewal:** Right, there is no need. So, your capacity utilization today also...

**Vivek Saraogi:** Yeah, is very low.

**Pankaj Tibrewal:** The kind of money which you have spent two years back the breakeven, even at higher prices like Rs. 24-25 per kg may have got extended?



**Vivek Saraogi:** No, see the difference...see, next year if you are asking, that is the sense I am getting the major difference is going to be recovery. See, if I move up to 10.14%, which was my average the year before. I can handle a cane cost of Rs.155 per kg on apples to apples basis. You understand me?...9 to 10 is 10%, so the cane cost going up 10%, my cost remains flat.

**Pankaj Tibrewal:** But do you see structurally your recovery, I mean is it a structural move towards lower recovery or is there a...

**Vivek Saraogi:** No, no, it is a freak weather, I mean, again if there is floods again completely, then I don't know, I am talking of not superb weather conditions, but I am talking of normal weather conditions. If we got to 10, even at 155, my cost of production of a bag of sugar not only remains same but comes down. Because my production level will be raised, my fixed cost will be spread over a higher quantum.

**Kishor Shah:** The recovery was down across all states. Even west to UP, the best launch didn't record 9%.

**Pankaj Tibrewal:** This sort of recovery, when was it seen last?

**Vivek Saraogi:** God knows. I personally, I am in this business for 23 years now. I haven't seen this.

**Pankaj Tibrewal:** Okay. The second question is also again on the competition. Because of the financial health of some of your competitors, are you seeing...still seeing that competitive pressure on cane pricing which you have to procure the last leg at say higher pricing than the SAP which the price was there say two years or three years back, still that competitive scenario is prevailing?

**Vivek Saraogi:** See, fundamentally, the competitive scenario remains. Because there is more capacity and less cane. That is the fundamental concept. Having said that, all of us, I hope should be able to, you know, work it out amongst ourselves.



**Pankaj Tibrewal:** Okay. But nothing has resulted in our benefit, all the things which you used to hear say a year back that people were not paid, farmers were not paid for months and the relationship this time of our company with the farmer community may be stronger which may help us going forward when the prices rebound or when things are scarce, nothing has helped on that front on relationship...

**Vivek Saraogi:** What happens is, you know, if farmer is also at the end of the day .if you have 2 factories,15 kilometers away from you and to suddenly come up with cash.I mean, you know, relationships and money.

**Pankaj Tibrewal:** It is a commodity

**Vivek Saraogi:** See, it is like that. We are working very hard, further we are now concentrating our activities within our command area, which is within a radius of 15 kilometers only. So, that will help a lot more.

**Pankaj Tibrewal:** Okay. And what is our debtor position as of date, 31st March?

**Vivek Saraogi:** Zero. Means, I mean regular debtors, one month power or something like that, within Rs. 30-40 crores. The sugar is sold in cash. Power remains outstanding for the month. Little bit of alcohol is sold over a month's credit.

**Pankaj Tibrewal:** And how much we have to pay to the farmer?

**Vivek Saraogi:** All zero.

**Pankaj Tibrewal:** And what sense you are getting from the government for next year, I mean it is a bit too early.

**Kishor Shah:** No, bit means it is too early.

**Pankaj Tibrewal:** I know it is a bit too early, but anything from the government sense you are getting because...



**Vivek Saraogi:** As I said in the beginning, everything will come out of the legal case in the Supreme Court. You know, that is very important.

**Pankaj Tibrewal:** And one more thing, last thing, it is more on a subjective matter. Where as an industry, the UPS sugar industry has gone wrong in managing the government, I mean off and off we see the government against the sugar industry as a whole, I mean any step forward towards the positive towards managing the policies or looking forward for a pro sugar industry policies in favor of government?

**Vivek Saraogi:** Managing policies, I am laughing while I am hearing your question.

**Pankaj Tibrewal:** Because, I mean I know, I mean it is a tough call, but as an industry we have kind of not been able to do anything, I mean in positive in terms of with the government, so where are we at the crossroads; I mean that is something.

**Vivek Saraogi:** Though it is very difficult to answer such a question, but I will try and address it. Our agenda as an industry is to try and tackle or etch out a future for ourselves through a legal forum. So, if Supreme Court, as I said, comes in and establishes a linkage between the two, which the Allahabad High Court has said, if that is upheld, a lot of problems get solved, isn't it?

**Pankaj Tibrewal:** Absolutely. So, that is the only way?

**Vivek Saraogi:** That is the only way, isn't it? Otherwise, every variable political scenarios, you know, and I am not blaming anybody. Let's take it, you know, let's put ourselves in their position, what will happen, everybody, every election, raise cane price, they have given a list when cane price was theirs, when, how, what and we try and save cane prices, the only agenda, any government who will save the cane price should never lose an election.

**Pankaj Tibrewal:** No, my only worry is that will the government let you guys make money in a good amount in a good season because ultimately it is a commodity and tomorrow, if the government says that you are making Rs.25 per kg on sugar where your cane is Rs.150 per quintal and suddenly abruptly hike again, I mean that is the only



worry that is government and the sugar industry in conjunction that okay, it is a commodity, over two-three years you make money and then you lose also.

**Vivek Saraogi:** Supreme Court.

**Pankaj Tibrewal:** That is the only way?

**Vivek Saraogi:** Yes.

**Pankaj Tibrewal:** Okay, fair enough.

**Vivek Saraogi:** I mean that is a long-term fundamental of your...that is long-term answer to your worries and my worries.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Nilang Mehta from HSBC Asset Management. Over to you sir.

**Nilang Mehta:** Thank you sir for taking my question. I had...just in case if you have already answered it, just wanted to get your views on the cane prices in context of the rising sugar prices. Do you think...the market cane prices, not something which is going to be administered by the courts or the governments, but do you think there is an upward risk to the cane price in light of the rising sugar price or the shortfall and also the overcapacity which the industry is sitting on?

**Vivek Saraogi:** The cane price is to go up next year without a doubt. What I said, even if Supreme Court links it, the linkage would be with sugar price no. If I have a personal call on sugar price which is upwards and a percentage of that, let's say globally the percentage is two-thirds, so if sugar price moves up, cane price will move up. So, cane price has to move up next year. We want it to move up next year. However, having said that in a reasonable fashion.

**Nilang Mehta:** Right sir. So, you don't see the upward movement in cane price because if it is left to market forces and with the overcapacity in the industry, the cane prices can go disproportionately higher because two years back when industry was putting up



capacity, we saw sugar mills fighting over each other to procure cane. Do you see a scenario like that panning out in light of higher sugar prices which eventually could and global shortfall in the sugar production as you had mentioned.

**Vivek Saraogi:** See, if we take the next two years, my project is 14.5 million tonnes to go to 18 million tonnes and then to 24-25 million tones. if at all you have much higher cane availability than this year. So, logically the fight cannot get worse than this year. If you have higher cane in the area over the next two years fight will be lower.

**Nilang Mehta:** Okay. No, because this year again most sugar companies were coming on the background...back of, you know, lower profits and lower cash flows historically. Now, after having a bumper year and high cash flows, the purchasing power would be much better next year, so sugar companies could push up cane prices, especially when their capacity utilizations are going to be much lower as you had mentioned.

**Vivek Saraogi:** But I said the capacity utilization will be better than this year. So, if at all, fight can be lesser than this year.

**Nilang Mehta:** Okay, okay sir. Thank you very much.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Shekhar Kedia from Barclays Wealth. Over to you sir.

**Shekhar Kedia:** Good afternoon sir. I just had one question, what would be the plantation of sugar in UP going forward next year, what would be your view on that?

**Vivek Saraogi:** It will improve. Too early to give you figures, but it will improve. We have tried and projected the national production, which, you know, I have said and that is the view we hold.

**Shekhar Kedia:** Okay. Like there were some media reports earlier that the farmers have not gotten the MSP wheat prices and therefore, they are like switching over to sugar. Do you have any idea on that?



**Vivek Saraogi:** See, everything is happening state-wise. So, state-wise, I think Rs.180 per quintal seems okay because you are going in from you see, if you want to get into details, there is a ratoon component and a plant component to the crop. So, this year plant crop was much lower. So, ratoon crop is lower for next year. So, with the higher plantation only, I am taking these projections.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Sandeep Somani from HSBC. Over to you sir.

**Sandeep Somani:** Good afternoon sir. Sir, my question is regard to the levy prices since as you are saying that the prices are going to move up drastically in the next two to three years and the cane prices also moving up. So, is there any chances of indication from the government on your expectation that the levy prices also move up?

**Vivek Saraogi:** Yeah, I think very good question. We, you know, there are a lot of cases which have happened in this matter. Well, the industry has filed a case which says that, you know, levy price can only be fixed on the actual cane price. And that has happened on the basis of a certain judgment received by a certain company. It says that the actual price of cane has to be factored in for fixing the levy price. So, I feel that, you know, there is a lot of merit in that also.

**Sandeep Somani:** But no visibility that when can it happen because last four years you have been getting a similar realization of Rs.30 per kg

**Vivek Saraogi:** Yeah, yeah, but this Supreme Court judgment has only come in about three-four months back.

**Sandeep Somani:** Right, You were talking about the Supreme Court judgment which is nearby, when it is expected, next date when you are expecting the hearing?

**Vivek Saraogi:** Dates and all, I don't know. But it is to come soon, I mean because as we see that, there is a legal process of hearing, counter-hearing. That's in a very advanced stage.



**Sandeep Somani:** Right. Sir, secondly, this year you will have an inventory reduction which will happen, which will throw away lot of cash or release lot of working capital and plus you will have a good profitability, so next year you see a drastic reduction as far as your interest cost is concerned, in a sense benefit because of cash flows coming in?

**Kishor Shah:** Yes.

**Vivek Saraogi:** Yes, yes, yes. Because there is going to be a free cash flow. There is no CAPEX and all that outside of loan repayment. The cash will remain with the Company and hence lower the interest cost.

**Sandeep Somani:** What is the repayment of the debt you have due for this year and next year?

**Pramod Patwari:** This year, it is Rs.105 crore and next year Rs.145 crore.

**Sandeep Somani:** Right. And last question is what is the commitment you have for next year as far as ethanol supply to OMCs is concerned or is it getting over by this September?

**Kishor Shah:** By this September, we need to supply about a 1 crore litre. These are the outstanding contracts we have now with oil marketing companies.

**Sandeep Somani:** Right. So, for next year, whatever quantity you have in effect, you would be selling at a much better selling price because you are not selling Rs.21.5 per litre as ethanol?

**Kishor Shah:** No, I mean the oil marketing companies are expected to float fresh tenders. And we will participate. It is all to be seen whether we will get the new revised price upward or flat price. It all depends.

**Sandeep Somani:** Right. Lastly, looking at the molasses prices at this point of time and the way you are quoting as far as ethanol is concerned, what is the tentative price which you are looking at which makes ethanol feasible at let's assume current molasses prices



or anyone who is tendering without having sugar mills or something like that, any tentative price you are looking at?

**Vivek Saraogi:** I get back to what I said earlier. You have 100% of a certain product. If 20% will go into this, 80% will give a huge premium. So, I think the average will come on market.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Mona Newatia from Corporate Database. Over to you ma'am.

**Mona Newatia:** Yeah, you mentioned that you are expecting this year the production, the all India production to be around 15 million tonnes and that includes just 0.8 million tonnes of import?

**Vivek Saraogi:** Yeah, I said production this year is 14.3-14.4 million tonnes 0.8 million tonnes import, raw sugar.

**Mona Newatia:** And also I believe that the government has allowed corporations to import white sugar and they are expecting around 1 million tonne to come from that window. So, this would take it to 16 million?

**Vivek Saraogi:** Yeah, if 1 million comes in, it will take it to 16 million.

**Mona Newatia:** And has any white sugar come in already?

**Vivek Saraogi:** Oh, no, nothing.

**Kishor Shah:** Not yet.

**Vivek Saraogi:** I don't think any huge contracts have taken place. If 1 million is to come in...on the white, global pricing, I don't know what can happen. It can go anywhere.

**Mona Newatia:** Okay. So, you are not really expecting a lot to come in, in terms of...in the form of white sugar?



**Vivek Saraogi:** Not too much, not too much.

**Mona Newatia:** And 1 million, definitely not 1 million?

**Vivek Saraogi:** I mean, if 1 million comes in, the price here will be benchmarked with that which I told you my view.

Ms. Mona Newatia: Fine. And secondly, the distillery sales you mentioned as 60,000 KL for the year?

**Kishor Shah:** Yeah, expected for the year.

**Mona Newatia:** Yeah, I mean the total distillery segment right?

**Vivek Saraogi:** Yes, yes.

**Mona Newatia:** Okay. And I am sorry, I joined in late, so probably I missed your opening remarks. You said cogeneration realization is Rs. 4 per unit for which three months sir?

**Vivek Saraogi:** March, April, May.

**Mona Newatia:** March, April, May, okay fine. That's all from my side, thank you.

**Vivek Saraogi:** Thank you.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Satish Kataria from B&K Securities. Over to you sir.

**Satish Kataria:** Good afternoon sir. Satish Kataria:Sir, actually all my questions are answered, that's all, thank you sir.



**Moderator:** Thank you very much sir. Next in line, we have Mr. Nirmal Shah from Alchemy Shares and Stock Brokers. Over to you sir.

**Nirmal Shah:** Good afternoon sir.

**Vivek Saraogi:** Good afternoon.

**Nirmal Shah:** Sir, just wanted to check, given the context of the demand-supply deficit, not for this year, even for the next one or two more years, any plans to set up the refinery on the east coast or anything?

**Vivek Saraogi:** No, no, we are not planning that.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Abhilasha Satale from Techno Shares. Over to you ma'am.

**Abhilasha Satale:** Yeah, hello sir. Sir, you said that around 20% of your distillery output goes to ethanol. Remaining 80%, how much is sold to chemical companies and how much is to liquor companies?

**Vivek Saraogi:** The chemical demand is on the lower side. Mostly rectified spirit is going to the liquor companies.

**Abhilasha Satale:** Okay. Sir, and then you have also given guidance of around Rs. 35 per litre which we saw 6 months ago in September quarter or so. Sir, what demand-supply dynamics you have put out, like on what basis?

**Vivek Saraogi:** Basis is current market price and the feeling.

**Abhilasha Satale:** Sir, in terms of demand, if you could just elaborate that, how much is demand currently or the offtake currently for rectified spirit, for liquor?

**Kishor Shah:** We don't have that kind of figure available with us.



**Vivek Saraogi:** Yeah, it is more on the liquor industry side.

**Kishor Shah:** Basically, it is the country liquor business and bottlers, they are buying quite a lot and they have a good demand for that.

**Vivek Saraogi:** BBA, United Spirits, all these people are buying.

**Abhilasha Satale:** Okay, fine. Sir, secondly, you mentioned that Rs.1,020 crore is your long-term debt. Yeah. Sir, then what is the cost of debt for this?

**Pramod Patwari:** Around 9%.

**Abhilasha Satale:** Around 9%. And sir, what is, like could you just elaborate that, how much is a term loan and what is the repayment schedule for this, like over say four-five years?

**Pramod Patwari:** Rs.1,020 is term loan only. Where we have a repayment obligation of Rs.105 crore and in the next year Rs.145 crores.

**Abhilasha Satale:** Yeah, that's it. And later sir, like how this is, are there any bullet payments after that or, you know, quarterly payments, how it has like it is scheduled?

**Pramod Patwari:** Yeah, we have some bullet repayments in 2012 only, not before that. See, 2012, we have Rs.350 crore bullet repayment.

**Abhilasha Satale:** Okay. And rest all you are talking, that is annual payment, not quarterly payment.

**Vivek Saraogi:** Annual.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Chaitanya Choksi from JM Mutual Fund. Over to you sir.



**Chaitanya Choksi:** Sir, the government has taken a number of measures recently to, you know, keep the sugar prices under check, but there have been some talks of, you know, government subsidizing also the imports. We don't know which government is going to come in at the center, but just wanted to know your views on that.

**Vivek Saraogi:** See, the current...as we understand, the current dispensation is that it is not a...it is a revenue-neutral measure by the government, I mean there is no subsidy which has been given STC, MMTC for this activity. As of now, this concept does not exist.

**Kishor Shah:** Yeah, they have been asked to import it only if commercial viability exists.

**Chaitanya Choksi:** No, I am saying in the future is there a possibility as per your, you know, your view

**Vivek Saraogi:** Again, everything will begin from the legal position and if both are to be linked, then if government wants a higher cane price, one has to look at a sugar price in a different way and sugar prices ultimately are matter of demand-supply also. I don't think there should be a subsidy on import which would damage the, you know, financials of the industry and therefore, damage the ability of the industry to buy cane at higher prices next year.

**Moderator:** Thank you very much sir. And the last question is from Mr. Darshan Dodhia from SBI Capital Securities. Over to you sir.

**Darshan Dodhia:** Thank you sir for taking my question. I just wanted to know what is the conversion cost in the distillery segment and at what price you are transferring molasses to the distillery segment?

**Pramod Patwari:** Price is Rs.200 per quintal.

**Darshan Dodhia:** This is the conversion cost?

**Pramod Patwari:** No, no, this is the molasses cost.



**Darshan Dodhia:** And what is the conversion cost?

**Kishor Shah:** Rs.4.5 Rs. per litre.

**Darshan Dodhia:** Okay, fine. Thank you sir.

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

**Vivek Saraogi:** Thank you to everyone for joining us on this call and we will be pleased to answer any questions you have; myself, Kishor, Pramod, anyone of us, and thank you so much for joining us.

- ENDS -

---

*This is a transcription and may contain transcription errors. The Company or the sender takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.*